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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: THE STRATEGIC NEXUS OF RISK MANAGEMENT, INNOVATION, AND ETHICAL INTEGRITY

AUTHORED BY - DHRUV SINGH CHAUHAN & ARNAV NEHRA¹

Risk-taking drives corporations to push ahead and make steep gains. Yet, the changing landscape of risk is creating a global conversation about how principles for corporate governance need to evolve to respond more appropriately to understanding the role of risk management in corporate governance.

The world's corporations are keeping a keen eye on how large corporations manage and respond to risk failures to avoid the same mistakes. They're learning that companies tend to underestimate the cost of risk failures internally and externally. In many cases, corporations also underestimate the cost of time managers need to address damage control.² As the conversation around risk intensifies, corporations are taking a broader-based approach toward corporate governance principles to account for more diverse risk types.³

To help you adopt a broader approach to risk management, this research paper will explain-

Risk management is central to corporate governance. Over the years, the corporate world has taken note of risk failures. The financial crisis of 2008 and following technological advances created unprecedented opportunities and massive risks. Corporations responded by adopting new, more transparent practices to manage risk. These practices encompass what we now know as governance, risk and compliance.⁴ As such, the role of risk management in corporate governance is to inform how corporations and their board operate concerning risk. It's about considering the risk exposure of every business activity, then implementing practices like due

¹ This paper is Authored by Dhruv Singh Chauhan (Sushant University) and Arnav Nehra (Jindal Global Law School)

² *Institute of Chartered Accountants of India (ICAI) – Guidance Note on Risk Management* recommends continuous improvement and monitoring of risk responses and internal controls, based on lessons from earlier failures.

³ *National Guidelines on Responsible Business Conduct (NGRBC), 2019*, Principle 1 & 4 emphasize ethical governance and proactive identification of risk factors (environmental, social, economic) affecting business.

⁴ *SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Regulation 4(2)(f)(i)* mandates listed entities to have a risk management policy, including identification, assessment, and mitigation of risks.

diligence, internal controls, and more to manage risk proactively.⁵

THE ROLE OF CORPORATE GOVERNANCE IN RISK MANAGEMENT PRACTICES

Corporate governance plays a crucial role in shaping and overseeing risk management practices within organizations, ensuring that risks are identified, assessed, and managed effectively to safeguard the interests of stakeholders and protect the long-term viability of the company.⁶

Setting the Tone at the Top Corporate governance establishes the tone at the top by defining the organization's risk culture, values, and principles. Boards of directors, as custodians of corporate governance, are responsible for articulating the company's risk appetite and tolerance levels. By setting clear expectations regarding risk-taking behaviours and accountability, corporate governance provides a foundation for effective risk management throughout the organization. Establishing Risk Management Frameworks Corporate governance frameworks provide the structure and guidelines for implementing risk management practices. These frameworks encompass policies, procedures, and controls designed to identify, assess, prioritize, and mitigate risks across all levels of the organization.⁷ By establishing robust risk management frameworks, corporate governance ensures that risk management becomes an integral part of the company's operations and decision-making processes.

Oversight and Monitoring One of the primary roles of corporate governance is to provide oversight and monitoring of risk management practices. Boards of directors are responsible for overseeing the effectiveness of risk management processes and ensuring that appropriate controls are in place to mitigate risks.⁸ Through regular reviews, risk assessments, and reporting mechanisms, corporate governance mechanisms provide the board with the necessary information to make informed decisions about risk management strategies and resource allocation. Promoting Transparency and Accountability Effective corporate governance

⁵ Reserve Bank of India (RBI) Guidelines on Corporate Governance for NBFCs and Banks emphasize the need for integrated risk management systems, particularly post-2008 financial crisis.

⁶ Tricker, B. (2019). *Corporate Governance: Principles, Policies, and Practices* (4th ed.). Oxford University Press.

OECD. (2015). *G20/OECD Principles of Corporate Governance*.

⁷ Institute of Risk Management (IRM). (2018). *A Risk Practitioner's Guide to ISO 31000:2018*.

⁸ Solomon, J. (2020). *Corporate Governance and Accountability* (5th ed.). Wiley. Institute of Internal Auditors (IIA). (2013). *The Three Lines of Defense in Effective Risk Management and Control*.

promotes transparency and accountability in risk management practices.⁹ By establishing clear reporting lines, disclosure requirements, and communication channels, corporate governance ensures that risks are identified, assessed, and communicated to stakeholders in a timely and transparent manner. This transparency not only builds trust and confidence among stakeholders but also enables informed decision-making and proactive risk mitigation strategies.

Aligning Risk Management with Strategic Objectives: Corporate governance ensures that risk management practices are aligned with the company's strategic objectives and business priorities. By integrating risk management into strategic planning processes, resource allocation decisions, and performance management frameworks, corporate governance ensures that risk considerations are embedded into the company's DNA¹⁰. This alignment enables the organization to anticipate and respond effectively to risks while seizing opportunities for growth and innovation¹¹.

Ensuring Compliance and Regulatory Adherence: Corporate governance mechanisms play a critical role in ensuring that risk management practices comply with applicable laws, regulations, and industry standards. By establishing compliance frameworks, conducting regular risk assessments, and monitoring regulatory developments, corporate governance helps mitigate regulatory risks and ensure adherence to legal requirements. This proactive approach not only minimizes legal exposure but also enhances the company's reputation and credibility in the marketplace.

WHY IS RISK MANAGEMENT IMPORTANT IN CORPORATE GOVERNANCE

Risk management is integral to corporate governance as it forms the foundation upon which responsible decision-making, sustainable growth, and stakeholder trust are built. At its essence, risk management within the framework of corporate governance is about identifying, assessing, and mitigating potential threats and opportunities that could impact the achievement of organizational objectives. Several key reasons underscore the importance of risk management in corporate governance:

⁹ <https://www.oecd.org/corporate/principles-corporate-governance.htm>

¹⁰ Section 134(5)(f) requires directors to ensure compliance with applicable laws.

¹¹ Reserve Bank of India (RBI). (2020). *Guidelines on Governance in Commercial Banks*, emphasizing board-level oversight of risk and compliance.

Firstly, risk management is essential for protecting the interests of stakeholders. Corporate governance frameworks are designed to ensure that companies operate in the best interests of shareholders, employees, customers, and other stakeholders. By identifying and mitigating risks that could jeopardize the organization's financial stability, reputation, or regulatory compliance, risk management safeguards stakeholders' investments, jobs, and relationships with the company. This proactive approach to risk management enhances stakeholder confidence, fosters trust, and strengthens the overall governance structure of the organization.

Secondly, risk management is crucial for preserving long-term value and sustainability. Corporate governance is not solely concerned with short-term profitability but also with the organization's ability to create value over the long term. Effective risk management practices enable companies to anticipate and navigate potential challenges, seize opportunities, and adapt to changing market conditions.¹² By addressing risks related to strategic, operational, financial, and compliance aspects of the business, risk management enhances the company's resilience, agility, and ability to weather uncertainties, thereby safeguarding its long-term viability and competitiveness.¹³

Moreover, risk management is essential for promoting ethical behaviour and responsible decision-making. Corporate governance principles emphasize the importance of ethical conduct, integrity, and accountability in business operations. Effective risk management helps identify risks associated with unethical behaviour, regulatory non-compliance, or conflicts of interest, enabling companies to implement controls and safeguards to prevent misconduct and ensure compliance with legal and ethical standards.¹⁴ By fostering a culture of transparency, integrity, and accountability, risk management reinforces the ethical foundation of corporate governance and helps build a reputation for ethical leadership and corporate citizenship. Furthermore, risk management is critical for regulatory compliance and corporate accountability. Corporate governance frameworks are designed to ensure that companies comply with applicable laws, regulations, and industry standards. Effective risk management practices help companies identify and address regulatory risks, anticipate changes in the

¹² Cadbury Committee. (1992). *Report of the Committee on the Financial Aspects of Corporate Governance* (Cadbury Report).

¹³ Bebchuk, L. A., & Weisbach, M. S. (2010). The State of Corporate Governance Research. *Review of Financial Studies*, 23(3), 939–961.

¹⁴ Afra Afsharipour & Manali Paranjpe, *The Evolution of Risk Management Oversight by Indian Boards*, Oxford Business Law Blog (June 18, 2021).

regulatory landscape, and demonstrate compliance with legal requirements. By implementing robust controls, monitoring mechanisms, and reporting systems, risk management enhances corporate transparency, accountability, and governance effectiveness, thereby reducing the risk of regulatory violations, fines, and reputational damage.¹⁵

Additionally, risk management is important for fostering innovation and seizing strategic opportunities. While risk management is often associated with mitigating downside risks, it also plays a crucial role in identifying and exploiting opportunities for growth and innovation. By encouraging a balanced approach to risk-taking and innovation, risk management enables companies to explore new markets, develop new products, and pursue strategic partnerships while managing associated risks effectively. This proactive approach to risk management not only stimulates innovation but also enhances the company's competitive advantage and value creation capabilities.¹⁶

THE BOARD'S RESPONSIBILITY IN RISK MANAGEMENT AND CORPORATE GOVERNANCE

The board doesn't necessarily manage risk in corporate governance they oversee it. The board is responsible for identifying the business's risks and how to maximize returns while minimizing loss. Executive leadership and management teams will ultimately look to the board for guidance on where to focus their risk management activities. Those leaders will then implement a risk management strategy and internal controls system that aligns with the board's priorities. In addition to overseeing the organization's risk landscape, the board will also want visibility into risk management reporting. Most boards delegate oversight to the audit and/or risk committee, which need accurate risk insights to help the board make more informed decisions.

GOVERNANCE PRINCIPLES THAT WILL HELP BOARDS STAY HEAD OF RISKS BIG AND SMALL

Updating reward structures Existing reward structures for corporate executives tend to correspond to how well they manage financial risk as it relates to internal controls and audit

¹⁵ MCA (Ministry of Corporate Affairs), *Corporate Governance Crucial for Curbing Fraud*, *Economic Times*(May 17, 2025)

¹⁶ Shital Jhunjunwala & Shweta Sharda, *Corporate Governance, Innovation and Firm Performance: Evidence from India*, *Int'l J. Bus. Innov. & Res.* 226 (2023)

functions. The new standard for reward structures may include not only rewarding the success of businesses but also rewarding managers for having a keen awareness of risk management. This means that corporations may begin reducing financial incentives, such as stock options, for managers who regularly engage in excessive risk-taking. Companies may also factor in how well managers pay attention to reputational risk, financial risk, and how strategic risks manifest as operational risks.

Standardize risk language Corporate executives are considering forming guidelines as basic steps to new approaches to managing risk. Many executives are encouraging their companies to establish some common risk language they can use throughout the company. Using commonly accepted terms for risk management will aid them as they set new standards for risk management.¹⁷ In turn, new risk management standards will help them balance qualitative and quantitative perspectives as they devise standards for measuring risk.¹⁸

Expand the scope of risk management The future of corporate governance may move toward a broader perspective of standards that are more practical and useful for all types of businesses, including banks and other financial institutions. Such issues as outsourcing and supplier-related risks are examples of risks that apply to most businesses that haven't been addressed very much in governance in the past¹⁹. Additionally, future corporate governance may place a heavier emphasis on catastrophic risk even when the risk is low. Just because the probability of a catastrophic loss is low doesn't mean a catastrophe won't happen. Good corporate governance principles may account for standing ready to manage any potential catastrophe at any given time.²⁰

RISK MANAGEMENT AS A PILLAR OF CORPORATE GOVERNANCE

Business complexity seems to be ever expanding, so it's important to understand the role that corporate governance plays in ensuring effective management and sustainability of

¹⁷ Gupta, P. K. (2011). Enterprise-wide risk management and corporate governance. *The Chartered Accountant*, 59(12), 1775–1783.

¹⁸ Securities and Exchange Board of India (SEBI) Clause 49 of the Listing Agreement: Corporate Governance Norms.

¹⁹ Ministry of Corporate Affairs (MCA). (2011). *National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business*.

Retrieved from

²⁰ <https://keio.elsevierpure.com/en/publications/systemic-risk-management-in-india-an-analytics-perspective>

organisations. Risk Management is central to this concept and is well accepted as a critical element of corporate governance. As we all know, Risk Management involves identifying, assessing, and mitigating potential risks, both threats and opportunities, that could impact an organisation's achievement of its objectives. In this blog, we look at the relationship between Risk Management and governance, highlighting the interconnectedness and the benefits of integrating robust risk management practices into the governance framework.

UNDERSTANDING CORPORATE GOVERNANCE

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It involves the interaction among various stakeholders, including shareholders, management, customers, suppliers, financiers, government, and the community.²¹ The primary objective of corporate governance is to ensure that an organisation's resources are used efficiently and effectively to achieve its goals while maintaining ethical and legal standards. This includes promoting transparency, accountability, fairness, and the protection of shareholders' interests.²²

A key challenge in corporate governance is the potential misalignment of interests among stakeholders. Managers may prioritise short-term gains over long-term sustainability, leading to decisions that might not be in the best interest of the company as a whole²³. To address this challenge, corporate governance frameworks are established to define the roles, responsibilities, and relationships among stakeholders, ultimately fostering a balance between risk-taking and value creation.

THE EVOLUTION OF RISK MANAGEMENT

Risk Management has evolved from being a mere compliance exercise to a strategic imperative for organisations.²⁴ Historically, businesses viewed risk management as a siloed activity confined to specific departments, often associated with insurance and financial risk.²⁵

²¹ Pai, A.U. (2025, June 15). *Corporate Governance – Study of Indian Law and Policy*. SSRN. <https://ssrn.com/abstract=5296009>

²² Thapar, M., & Sharma, A. (2017, March). *Corporate Governance in India: An Analysis*. *Journal of Economic and Social Development*, 4(1).

²³ Yadav, A. (2024, February). *Corporate Governance: Ensuring Transparency and Accountability*. *IJARST*, 4(1).

²⁴ Afsharipour, A., & Paranjpe, M. (2021, April 28). *The Evolution of Risk Management Oversight by Indian Boards*. *NLSIR*. SSRN.

²⁵ Marsh India & RIMS. (2018). *State of Risk Management in India*. Marsh & RIMS Report.

However, with the increasing complexity of business operations, technological advancements, globalisation, and regulatory changes, the scope of risk management has broadened significantly. Modern Risk Management encompasses a comprehensive approach that involves identifying various types of risks, assessing their potential impact, and proactively developing strategies to mitigate or respond to them. These risks can range from financial risks (e.g., market volatility, credit risk) to operational risks (e.g., supply chain disruptions, IT failures), compliance risks (e.g., regulatory violations, legal actions), reputational risks (e.g., public perception, brand damage), and strategic risks (e.g., competition, innovation).

ELEVATING CORPORATE GOVERNANCE THROUGH EFFECTIVE RISK MANAGEMENT

The effectiveness of corporate governance can be significantly enhanced through the implementation of a strong Risk Management Framework. This begins with identifying and assessing both internal and external risks recognizing that risks can represent both threats and opportunities.²⁶ Understanding their potential impact allows organizations to prioritize and respond appropriately. A well-defined risk governance structure is essential, with clear roles, responsibilities, and reporting lines to ensure accountability. Additionally, defining the organization's risk appetite and tolerance levels helps guide strategic decision-making and ensures alignment with broader objectives.²⁷ Developing appropriate mitigation strategies, such as internal controls, insurance, diversification, and contingency planning, is key to managing these risks effectively.²⁸

Equally important is integrating risk management into the strategic planning process so that it becomes an ongoing element of organizational decision-making. Transparent communication and regular reporting to stakeholders, including the board, management, employees, and shareholders builds trust and keeps everyone informed of the organization's risk exposure and mitigation efforts. Finally, continuous monitoring and improvement are essential, as the risk landscape is constantly evolving. By regularly evaluating and updating risk management practices, organizations can maintain resilience, adapt to change, and enhance long-term sustainability and value creation.

²⁶ Kumar, S. (2022, June 20). *Risk Management Framework*. SSRN. <https://ssrn.com/abstract=4141546>

²⁷ Chethan Jayantha. (2018, November). *COSO Enterprise Risk Management Framework and a Study of ERM in Indian Context*. *The Chartered Accountant*, 82–83.

²⁸ PwC India. (2023). *From Threat to Opportunity: Global Risk Survey India Highlights*.

CASES OF FRAUD IN CORPORATION

The Enron

We have chosen the case of Enron, because it was one of the global leading power, energy and utilities companies employing around 20,000 staff before bankruptcy in December 2001. It was “A” rated and one of Fortune’s Top 10 companies working in America in 2000. Creative accountant Chairman Ken Lay, CEO Jeff Skilling and CFO Andrew Fastow placed liabilities in shell companies not showing in books. Fraudulent deals also led to demise of Arthur Andersen and partly led to break of Sarbanes Oxley Act of 2002 (Public Company Accounting and Investor Protection Act) - Corporate Governance rules – brought responsibility of directors and criminal penalties etc. The failure of Enron was nothing but failure of corporate governance. Enron insiders including three current audit committee members sold 17.3 million worthy shares for \$1.1 billion to an unsuspecting public while issued financial statements were later revealed to be pure fake²⁹. The CEO had the audacity to make the following comment: “We believe that the information we have made available addresses a number of the concerns that have been raised by our shareholders and the SEC about these matters. We will continue our efforts to respond to investor requests for information about our operational and financial condition so they can evaluate, appreciate and appropriately value the strength of our core businesses”. Governance experts say the audit committee's lack of independence made it less inclined to question management. The Enron debacle led to the enactment of Sarbanes Oxley the most stringent corporate governance regulation on disclosure³⁰.

The Satyam

The fraud committed by Ramalinga Raju in Satyam computers is the biggest corporate fraud in India and it is also a case of failure of corporate governance.³¹ On 24th June 1987, Satyam Computer Services Ltd (popularly known as Satyam) was incorporated by the two brothers, B Rama Raju and B Ramalinga Raju, as a private limited company with just 20 employees for providing software development and consultancy services to large corporations (the company got converted into public in 1991). During the year 1996, company promoted three more subsidiaries including Satyam Renaissance Consulting Ltd, Satyam Enterprise Solutions Pvt.

²⁹ Harvard Law School Forum on Corporate Governance. (2021, April 5). *Twenty Years Later: The Lasting Lessons of Enron*.

³⁰ Twenty Years Later: The Lasting Lessons of Enron, Harvard Law Sch. F. on Corporate Gov. (Apr. 5, 2021).

³¹ Gurung, V., & Gupta, C. (2019, June 11). *A Review on Satyam Computer Failure Lessons for Corporate Governance and World*. SSRN.

Ltd., and Satyam Infoway Pvt. Ltd. In 1997³², Satyam Computer Services Ltd was selected by the Switzerland-based World Economic Forum and World L in Magazine as one of India's most remarkable and rapidly growing entrepreneurial companies. Satyam Info way (Sify), a wholly owned subsidiary of Satyam Computer Services Ltd, was the first Indian Internet Company listed on NASDAQ. Mr. B. Ramalinga Raju, Chairman of Satyam, was awarded the IT Man of the Year 2000 by Dataquest. In 2001, Satyam became world's first ISO 9001:2000 company certified by BVQI. In 2003, Satyam started providing IT services to World Bank and signed up a long-term contract with it. In 2005, Satyam was ranked 3rd in Corporate Governance Survey by Global Institutional Investors. Suddenly in January 7, 2009, B. Ramalinga Raju announced confession of over Rupees 7800 crore financial fraud and he resigned as chairman of Satyam.³³

His emotionally charged four and half page letter of startling revelations shook the entire corporate world when he admitted of cooking the account and inflating the figure by Rupees 5040 crores. He committed this fraud and tried to hush it up by an abortive bid to purchase Maytas Infra, a company created by him and run by his son Teja Raju. A week after Satyam founder B Ramalinga Raju's scandalous confession, Satyam's auditors Price Waterhouse finally admitted that its audit report was wrong as it was based on wrong financial statements provided by Satyam's management. On January 22, 2009, Satyam's CFO Srinivas Vadlamani confessed to having inflated the number of employees by 10,000. He told CID officials interrogating him that this helped in drawing around Rs 20 crore per month from the related but fictitious salary accounts. Satyam had inflated the revenue of the company by infusing false and fictitious sales invoices and shown the amount received and deposited as fixed deposits in various scheduled banks.

According to the Institute of Directors, the following corporate governance norms were flouted leading to the collapse of Satyam

- Satyam's unethical work culture - its corporate culture; bribery, corruption and exchange of favours within and outside the company appear to have occurred frequently;
- Both CEO and CFO have been charged putting self-interests ahead of the company's

³² Wharton Knowledge. (2009, January 9). *Scandal at Satyam: Truth, Lies and Corporate Governance*

³³ Bhasin, M. L. (2013). *Corporate Accounting Fraud: A Case Study of Satyam. Open Journal of Accounting.*

interests.

- The internal control appears not to have detected the fraudulent activities for an extended period of time;
- A case of false books and bogus accounting;
- The Satyam Board was composed of “Chairman-friendly” directors who failed to question management's strategy.

The Board ignored or failed to act on critical information related to financial wrongdoings; The Satyam episode has brought out the failure of the present corporate governance structure that hinges on the independent directors;

QUESTIONABLE ROLE OF AUDIT COMMITTEE

A company's system of internal control reflects its control environment and should be capable of responding quickly to evolving risks to the business arising from factors within the company and to changes in the business environment. Internal controls are the core of a company's corporate governance practice and the main means of controlling, offsetting and mitigating most types of risk, specially, those associated with reckless and fraudulent financial decisions. This is highlighted by the Cadbury Report in 1992³⁴ which states that “having a Code such as ours been in existence in the past. We believe that a number of the recent examples of unexpected company failures and cases of fraud would have received attention earlier.³⁵”

Corporate governance emphasizes the use of systemic methods for monitoring the performance of a company on an ongoing basis. In contradistinction, compliance is viewed as a continuous obligation to achieve some defined ends, namely, certifying the identified regulatory³⁶ requirements, legal specifications, industry standards or company commitments. For example, the board of directors and senior management must make compliance and accountability matters so that management must map out the company's future by seeing that daily decisions and actions steer in the right direction and compliance is simply a part of the overall corporate governance process. In some jurisdictions such as the UK, companies are obliged to include in their annual report a statement as to whether or not the company has complied throughout the accounting period. Recently, the new NYSE (New York Stock Exchange) rules for corporate

³⁴ Cadbury Committee. (1992). *The financial aspects of corporate governance* (Cadbury Report). Committee on the Financial Aspects of Corporate Governance.

³⁵ FRC. (n.d.). *Corporate Governance Overview*. Financial Reporting Council.

³⁶ FRC. (n.d.). *Corporate Governance Overview*. Financial Reporting Council.

governance require the audit committee to discuss and review the firm's risk assessment and hedging strategies. They also put additional requirements for the composition and the financial knowledge of the directors sitting on the board and on the audit committee.

The reports from management to the board should, in relation to the areas covered by them, provide a balanced assessment of the significant risks and the effectiveness of the system of internal control in managing those risks.³⁷ Any significant control failings or weaknesses identified should be discussed in the reports, including the impact that they have had, or may have, on the company and the actions being taken to rectify them. All employees have some responsibility for internal control as part of their accountability for achieving objectives. They, collectively, should have the necessary knowledge, skills, information, and authority to establish, operate and monitor the system of internal control.³⁸

CORPORATE GOVERNANCE

Corporate Governance is a concept and administrative framework to introduce basic directions and viewpoints for managing a business unit with best interest. It shows and determines a new and creative vision of business, where a set of core values, better managerial control, compassing human rights, making better coordination between business and society may be possible. It is concerned with holding the balance between social and economic goals and between individual and communal goals. It is also a conscious, deliberate and sustained system to make a judicious balance between its own interest and the interest of various constituents in the environment in which it is operating. The Cadbury Report which was released in the UK in 1991 outlined that “Corporate governance is the system by which businesses are directed and controlled. The concept of corporate governance is gaining momentum because of various factors as well as the dynamic business environment.”³⁹

The principles of good governance are as old as good behavior, which needs no formal definition. However, in reference to the corporate world, it has been defined by various persons, some of whom is described below just in order to satisfy that the vital details and spirit of the

³⁷ Financial Reporting Council (FRC). (n.d.). *UK Corporate Governance Code Guidance*: Sections on board review of internal control, risk, and reporting boards should report “significant areas for improvement.”

³⁸ Id. ¶ 290 (describing the board's requirement to declare effectiveness of internal controls, oversight processes, and disclosure expectations)

³⁹ A. K. Singhanian & N. M. Panda, *Influence of Audit Committee Effectiveness on Firm Performance: Empirical Evidence from India*, *IUP J. Accounting Research & Audit Practice* 22:4 (2023)

term are not missed out. Good governance is integral to the very existence of a company. It inspires and strengthens investor's confidence by ensuring company's commitment to higher growth and profits corporate governance refers to the accountability of the Board of Directors to all stakeholders of the corporation i.e., shareholders, employees, suppliers, customers and society in general; towards giving the corporation a fair, efficient and transparent administration. Corporate governance refers to a code of conduct; the Board of Directors must abide by; while running the corporate enterprise. Corporate governance refers to a set of systems, procedures and practices which ensure that the company is managed in the best interest of all corporate stakeholders.⁴⁰

NEED FOR REGULATION, EVOLUTION, SCOPE AND RELEVANCE

Corporate governance is the corner stone of any good business. It encompasses the processes, practices and policies that a company relies on to make formal decisions and to manage the company. Good corporate governance will ensure that the board of directors meet regularly, retain control over the business and are clear in the division of their responsibilities, as well as maintaining a system of risk management The company secretary will be responsible for duties such as ensuring that board procedures are followed and that all pertinent rules and regulations are abided by⁴¹. Corporate governance can encompass many more duties, although the system of governance will often vary from company to company. To re-finance or even sell the company, investors and buyers will look for a well-organized business model. A company without up-to-date books and registers is unlikely to attract the finest buyers. Additionally, companies are becoming increasingly aware of their public image and the need to behave ethically. By employing good corporate governance, holding board meetings and making decisions as a board, these goals can be kept in mind.⁴²

CORPORATE GOVERNANCE ON INNOVATION OF COMPANY

Corporate governance exerts a profound influence on the innovation endeavours of a company, sculpting its strategic vision, risk management practices, and decision-making processes. Within the corporate governance framework, the board of directors assumes a pivotal role in charting the course for innovation. Through setting strategic objectives and overseeing

⁴⁰ Law Blend. (2025). *Corporate governance in India: Evolution, regulatory framework, and emerging trends*.

⁴¹ IJLSS. (n.d.). *Strategic Compliance and Corporate Governance under the Companies Act, 2013*.

⁴² *Evolution of Corporate Governance in India: A Legal Perspective*, Reflections.Live (covering statutory reforms and governance committees).

management, the board establishes a culture that either fosters or stifles innovation within the organization. A board committed to long-term growth and innovation is more likely to allocate resources, endorse risk-taking, and provide unwavering support for innovative initiatives, thus nurturing a fertile environment for creativity and experimentation.⁴³

Executive compensation structures embedded within corporate governance mechanisms serve as potent catalysts for innovation. By aligning executive remuneration with innovation-related performance metrics such as patents filed, new product launches, or revenue derived from innovative products, corporate governance incentivizes top-tier management to prioritize and champion innovative endeavours. This alignment ensures that innovation remains a cornerstone of the company's strategic agenda, compelling executives to allocate resources and focus efforts towards driving creativity and technological advancement.⁴⁴

Moreover, corporate governance frameworks dictate decision-making processes, profoundly shaping how companies approach innovation. Companies with agile governance structures or decentralized decision-making frameworks are better equipped to respond swiftly to market dynamics, seize emerging opportunities, and adapt to evolving customer preferences. Such flexibility empowers employees at all levels to contribute ideas, experiment with novel approaches, and spearhead innovation initiatives, fostering a culture of entrepreneurialism and ingenuity within the organization. Effective corporate governance also fosters robust stakeholder engagement, which is instrumental in driving innovation. By cultivating positive relationships with employees, customers, suppliers, and investors, companies can harness the collective wisdom, resources, and support of their stakeholders to fuel innovation efforts. Engaged stakeholders are more likely to contribute insights, offer feedback, and champion innovative solutions, thereby enriching the innovation ecosystem and propelling the company towards sustained growth and competitiveness.⁴⁵

Transparency and accountability, core tenets of corporate governance, play a pivotal role in nurturing a conducive environment for innovation. Transparent communication about

⁴³ Jhunjhunwala, S., & Sharda, S. (2023). *Corporate governance, innovation and firm performance: Evidence from India*. *International Journal of Business Innovation & Research*, 32(2), 226–251.

⁴⁴ Thomas, A. E., Bhaumik, A., & Aruja, J. M. (2023). *The Impact of Corporate Governance Practices on Firm-Level Innovations and Their Market Value: Empirical Evidence from India*. *Indian Journal of Finance*, 17(11), 26–39.

⁴⁵ Sridhar, I., & Jasrotia, S. S. (2021). CEO compensation and shareholder value creation: Impact on corporate governance in India. *International Journal of Business Innovation & Research*, 11(1), 504–516.

innovation strategies, progress, and outcomes fosters trust and confidence among stakeholders, garnering widespread support for innovative endeavours. Moreover, robust accountability mechanisms ensure that resources allocated for innovation are utilized effectively and that outcomes are aligned with strategic objectives, thereby minimizing the risks associated with innovation and maximizing returns on investment.

Furthermore, access to capital a crucial enabler of innovation is intricately linked to corporate governance practices. Companies with transparent governance structures and a track record of prudent risk management are more likely to attract investment, as investors perceive them as reliable stewards of capital. Access to capital facilitates investment in research and development, technological infrastructure, and talent acquisition key drivers of innovation thereby empowering companies to pursue ambitious innovation agendas and maintain a competitive edge in dynamic market landscapes.

In essence, corporate governance serves as the cornerstone upon which a company's innovation endeavours are built. By sculpting strategic direction, incentivizing executives, guiding decision-making processes, fostering stakeholder engagement, promoting transparency and accountability, facilitating access to capital, and ensuring regulatory compliance, effective corporate governance lays the groundwork for sustained innovation and long-term success. Companies that prioritize sound governance practices are better positioned to navigate the complexities of the innovation landscape, unleash the full creative potential of their workforce, and pioneer ground-breaking solutions that drive progress and prosperity.

CORPORATE GOVERNANCE ON RISK MANAGEMENT OF COMPANY

Corporate governance is intricately intertwined with risk management within a company, serving as the guiding framework for identifying, assessing, and mitigating risks across all levels of operations. At its core, corporate governance establishes the policies, processes, and oversight mechanisms necessary to safeguard the interests of stakeholders and uphold the long-term viability of the organization.⁴⁶ Within this framework, the board of directors assumes a pivotal role in overseeing risk management practices, setting risk appetite, and ensuring that adequate controls are in place to mitigate risks effectively⁴⁷.

⁴⁶ GST Guntur. (n.d.). *Legislative framework of corporate governance in India: CS Professional study material*.

⁴⁷ Bhatt & Joshi Associates. (n.d.). *SEBI LODR Regulations 2015: Ensuring corporate transparency and governance*.

One of the primary functions of corporate governance in risk management is to establish a robust risk management framework that aligns with the company's strategic objectives and core values. This framework encompasses the identification, assessment, prioritization, and mitigation of risks across various dimensions, including strategic, operational, financial, compliance, and reputational risks. By defining clear roles, responsibilities, and reporting lines, corporate governance ensures that risk management becomes an integral part of the company's decision-making processes and organizational culture.⁴⁸

Moreover, corporate governance mechanisms play a critical role in setting risk appetite and tolerance levels, thereby providing guidance on the acceptable level of risk-taking within the organization. Through strategic oversight and regular risk assessments, the board of directors articulates the company's risk appetite, taking into account its financial strength, market position, competitive landscape, and regulatory environment. By defining clear boundaries for risk-taking, corporate governance helps align risk management practices with the company's broader strategic goals and risk appetite, ensuring that risk-taking activities are aligned with the company's risk tolerance levels and overall business objectives.⁴⁹ Furthermore, effective corporate governance fosters transparency and accountability in risk management practices, ensuring that risks are identified, assessed, and addressed in a timely and transparent manner. By promoting open communication, robust reporting mechanisms, and regular risk disclosures, corporate governance enhances stakeholders' understanding of the company's risk profile and its approach to risk management. This transparency not only builds trust and confidence among stakeholders but also enables informed decision-making and proactive risk mitigation strategies.

In addition, corporate governance plays a crucial role in aligning risk management practices with regulatory requirements and industry best practices. By establishing compliance frameworks, conducting regular risk assessments, and monitoring regulatory developments, corporate governance ensures that the company remains vigilant in identifying and addressing regulatory risks. Moreover, by benchmarking risk management practices against industry peers and global standards, corporate governance helps drive continuous improvement and resilience

⁴⁸ Mint/Livemint. (2023). *Risk managers in high demand as SEBI wants another 1,000 companies to tighten control.*

⁴⁹ Economic Times / Live Mint. (2025, Apr. 10). *India cenbank deputy urges NBFCs to bolster risk controls, board oversight.*

in the face of emerging risks and uncertainties. Furthermore, corporate governance mechanisms are instrumental in ensuring that risk management practices are integrated into the company's strategic planning and performance management processes. By linking risk management to strategic objectives, resource allocation, and performance metrics, corporate governance ensures that risk considerations are embedded into decision-making processes at all levels of the organization. This integration not only enhances the company's ability to anticipate and respond to risks but also enables it to seize opportunities and create long-term value for stakeholders.

MAINTAINING BUSINESS ETHICS IN CORPORATION HELP TO MITIGATE THE RISK IN COMPANIES

Maintaining business ethics within corporations is not just a moral imperative; it's also a strategic imperative that helps mitigate various risks and ensures the long-term sustainability and success of the company. Ethical conduct serves as a guiding principle for decision-making at all levels of the organization and helps foster a culture of integrity, trust, and accountability. Several key aspects of maintaining business ethics contribute to mitigating risks within companies:

Firstly, promoting a culture of ethics and integrity from the top down is essential. Corporate leaders, including the board of directors, executives, and senior management, must set the tone by exemplifying ethical behaviour and demonstrating a commitment to upholding the company's values and principles. By articulating clear expectations regarding ethical conduct, establishing codes of conduct, and providing ethics training and guidance, corporate leaders create a framework within which employees can make ethical decisions and conduct themselves with integrity⁵⁰. A strong ethical culture not only reduces the likelihood of unethical behaviour but also enhances transparency, employee morale, and stakeholder trust, thereby mitigating risks associated with misconduct, fraud, and reputational damage⁵¹.

Secondly, integrating ethics into corporate governance frameworks is crucial for effective risk management. Corporate governance mechanisms, such as board oversight, risk management processes, and compliance frameworks, should incorporate ethical considerations and ensure

⁵⁰ Nishith Desai Associates. (2024, April 19). *Whistleblowing dynamics in India's governance landscape*. Nishith Desai Associates Governance Insights.

⁵¹ LawAsia. (2025, June). *Ethics risk mapping for legal departments in India*. LawAsia.

that ethical principles are embedded into decision-making processes and organizational policies. By aligning corporate governance practices with ethical standards and regulatory requirements, companies can mitigate legal and regulatory risks, enhance compliance, and demonstrate a commitment to ethical leadership and corporate citizenship. Moreover, robust governance structures help ensure accountability, transparency, and integrity in the company's operations, reducing the risk of conflicts of interest, improper conduct, and governance failures.⁵²

Moreover, fostering open communication and transparency is essential for maintaining business ethics and mitigating risks. Companies should encourage employees to speak up about ethical concerns, report misconduct or violations of company policies, and seek guidance or support when faced with ethical dilemmas. By establishing whistleblower protection mechanisms, anonymous reporting channels, and non-retaliation policies, companies create a safe and supportive environment where employees feel empowered to raise concerns without fear of reprisal. Open communication not only helps detect and address ethical lapses early but also promotes a culture of accountability, trust, and ethical awareness throughout the organization, reducing the risk of unethical behaviour and corporate misconduct.

Promoting stakeholder engagement and accountability is critical for upholding business ethics and mitigating risks. Companies should actively engage with stakeholders, including shareholders, employees, customers, suppliers, and communities, to understand their expectations, concerns, and interests regarding ethical conduct and corporate responsibility. By soliciting feedback, addressing stakeholders' needs, and involving them in decision-making processes, companies can build trust, foster mutually beneficial relationships, and enhance their reputation and credibility⁵³. Moreover, holding stakeholders, including executives and employees, accountable for ethical conduct and performance reinforces the company's commitment to ethical leadership and governance, reducing the risk of reputational damage, litigation, and stakeholder activism.⁵⁴

⁵² P. S. Aithal. (2024, July 12). *Achieving Business Excellence through Ethical Business Model: A Success Story of Tata Group, India*. Poornaprajna Institute Management Review.

⁵³ A. Verma & R. Singh. (2016). *Fostering stakeholder trust through CSR reporting: An analytical focus*. *Journal of Business Ethics*.

⁵⁴ *Redefining Corporate Governance: ESG's Role, Evolution & BRSR Code in India*, (2025) (explaining stakeholder-centric governance via BRSR alignment)

Additionally, implementing robust compliance and ethics programs is essential for maintaining business ethics and mitigating risks effectively. Companies should develop comprehensive policies, procedures, and controls to ensure compliance with legal requirements, industry standards, and ethical principles. By conducting regular risk assessments, internal audits, and compliance reviews, companies can identify potential risks, gaps, and vulnerabilities in their operations and take proactive measures to address them.⁵⁵ Moreover, providing ethics training and education to employees, conducting ethics awareness campaigns, and offering guidance on ethical decision-making empower employees to navigate ethical challenges and make principled choices in their day-to-day work. Comprehensive compliance and ethics programs not only mitigate legal and regulatory risks but also reinforce the company's commitment to ethical conduct, integrity, and corporate citizenship.⁵⁶

CONCLUSION

Maintaining business ethics within corporations is essential for mitigating risks, ensuring compliance, and safeguarding the long-term sustainability and success of the company. By promoting a culture of ethics and integrity, integrating ethics into corporate governance frameworks, fostering open communication and transparency, promoting stakeholder engagement and accountability, and implementing robust compliance and ethics programs, companies can create an environment where ethical behaviour is valued, supported, and rewarded. By upholding high ethical standards and demonstrating a commitment to integrity and corporate responsibility, companies can mitigate various risks, enhance their reputation and credibility, and create value for all stakeholders in the long run.

⁵⁵ Financial Insights. (2025). *Corporate Governance in India: The Importance of Ethics and Transparency*.

⁵⁶ Ministry of Corporate Affairs. (2011). *National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business (NVGs)*.