

Corporate Governance Codes in India and the UK: A Comparative Analysis of Compliance and Enforcement Mechanisms

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Abstract—Corporate governance is essential for ensuring transparency, accountability, and proper management of companies. Different countries follow different approaches to corporate governance based on their legal systems and market conditions. This project makes a comparative study of corporate governance codes in India and the United Kingdom, focusing on their compliance and enforcement mechanisms. In India, corporate governance is mainly governed by the Companies Act, 2013 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, which prescribe mandatory rules and are strictly enforced by regulatory authorities. On the other hand, the United Kingdom follows a principles-based approach through the UK Corporate Governance Code, which works on the "comply or explain" system, allowing companies flexibility while ensuring transparency through disclosure. This study highlights the differences between the rule-based Indian model and the flexible UK model and examines their effectiveness. The project concludes that both systems have their strengths, and a balanced approach combining strict regulation and flexible principles can lead to better corporate governance.

Keywords—Corporate Governance; Compliance; Enforcement; SEBI Regulations; UK Corporate Governance Code; Comparative Study.

I. INTRODUCTION

In India, corporate governance has evolved significantly over the years, particularly after economic liberalisation and market reforms. The enactment of the Companies Act, 2013 and the introduction of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 have strengthened governance norms for companies, especially listed entities. The Indian model largely follows a rules-based approach, where compliance with prescribed governance standards is mandatory and enforced through regulatory authorities and legal sanctions.

In contrast, the United Kingdom follows a principles-based approach to corporate governance through the UK Corporate Governance Code. The UK model operates on the "comply or explain" principle, which allows companies flexibility to deviate from certain governance provisions provided they offer proper explanations to shareholders. This approach emphasizes market discipline, transparency, and shareholder engagement rather than strict legal enforcement.

II. REVIEW OF LITERATURE

Indian Studies

1. Umakanth Varottil (2015), *Corporate Governance Reforms in India*: Varottil examines the transformation of corporate governance in India after the Companies Act, 2013. The study focuses on regulatory compliance, the role of SEBI, and enforcement challenges arising from promoter-controlled companies.

2. Afra Afsharipour (2014), *Convergence of Indian Corporate Governance with Global Standards*: This work analyses India's efforts to align its governance framework with international best practices. It highlights gaps between legal compliance and actual enforcement of governance norms.

3. Balasubramanian, Black & Khanna (2010), *The Relation Between Firm-Level Corporate Governance and Market Value in India*: The authors study the impact of corporate governance compliance on firm performance in India and conclude that enforcement quality varies despite strong legal rules.

4. J.J. Irani Committee (2005), *Company Law Reform and Corporate Governance in India*: The Committee Report discusses governance reforms, board structure, and regulatory enforcement mechanisms, forming the basis for later statutory reforms.

5. Singh & Zammit (2006), *Corporate Governance, Crony Capitalism and Economic Growth in India*: This study evaluates governance enforcement in emerging economies, including India, and highlights weaknesses in compliance due to concentrated ownership structures.

UK Studies

6. Sir Adrian Cadbury (1992), *The Financial Aspects of Corporate Governance (Cadbury Report)*: The report introduces the principles-based corporate governance framework in the UK and establishes the "comply or explain" mechanism.

7. Armour, Hansmann & Kraakman (2009), *What Is Corporate Governance?*: This study analyses corporate governance systems in common law countries, including the UK, emphasizing market-based enforcement and shareholder oversight.

8. Financial Reporting Council (2018), *UK Corporate Governance Code*: The Code outlines governance principles, compliance requirements, and disclosure obligations, reinforcing non-statutory enforcement through investor scrutiny.

9. Keay, Andrew (2017), *Comply or Explain in UK Corporate Governance*: Keay critically assesses the effectiveness of the UK's compliance model, noting limitations in enforcement due to weak explanations and passive shareholders.

10. Davies Review (2011), *Women on Boards and Corporate Governance in the UK*: The Review examines board effectiveness and diversity within the UK governance framework and supports the role of disclosure and market pressure as enforcement tools.

III. METHODOLOGY

This study adopts a doctrinal and comparative research methodology based on secondary sources such as statutes, corporate governance codes, regulations, committee reports, and scholarly articles. It compares the corporate governance frameworks of India and the UK to analyse their compliance and enforcement mechanisms, with a focus on listed companies.

CHAPTER I: THE JURISPRUDENTIAL BASIS OF GOVERNANCE

1.1. The Concept of the Corporate Persona

The foundation of corporate governance lies in the legal fiction of "Separate Corporate Personality," as established in the seminal case of *Salomon v. A Salomon & Co Ltd [1897]*. However, the modern 2026 landscape has shifted from viewing the corporation as a mere vehicle for shareholder profit to a "social institution."

In the UK, the jurisprudence follows the **Enlightened Shareholder Value (ESV)** model. In contrast, India has moved toward a **Pluralist/Stakeholder** model. This chapter explores how these two different legal philosophies dictate the compliance and enforcement mechanisms that follow.

1.2. Theoretical Foundations: Agency, Stewardship, and Beyond

1.2.1. Agency Theory and the UK Model

The UK Corporate Governance Code is built upon **Agency Theory**. In a market characterized by dispersed ownership (where no single shareholder owns a controlling stake), the primary legal problem is the "Agency Gap" between the owners (Shareholders) and the managers (Directors).

The Problem: Information asymmetry, where managers know more than owners.

The Legal Solution: The UK Code uses the "Comply or Explain" mechanism to bridge this gap without the rigidity of statutory law, allowing shareholders to act as the ultimate "principals" who monitor their "agents."

1.2.2. Stewardship Theory and the Indian "Promoter" Conflict

India's market is characterized by **Concentrated Ownership**, where "Promoters" (founding families) typically hold 50% or more of the equity. Here, the Agency Theory fails. The conflict is not between "Managers and Shareholders," but between **"Controlling Shareholders (Promoters) and Minority Shareholders."**

The Problem: "Tunneling"—the practice where promoters divert company assets for personal gain or to other private group companies.

The Legal Solution: Because the market (minority shareholders) is often too weak to challenge powerful promoters, the Indian state adopts a Paternalistic/Rule-Based approach. Jurisprudential weight is shifted to Independent Directors and SEBI as a "public watchdog" to protect the vulnerable minority.

1.3. Statutory Mandates vs. Soft Law

1.3.1. The UK: The Power of "Soft Law"

The UK Code is technically "Soft Law"—it is not a statute passed by Parliament but a set of principles issued by the Financial Reporting Council (FRC). Its authority comes from the **Listing Rules** of the Financial Conduct Authority (FCA).

Jurisprudential Argument: The UK believes that "culture cannot be legislated." By using a code rather than a law, the UK encourages a "substance over form" approach, where boards must demonstrate their commitment to governance principles rather than just ticking boxes.

1.3.2. India: The Codification of Ethics

India has taken the opposite path by embedding governance directly into **The Companies Act, 2013**. Section 166 (Duties of Directors) and Section 135 (CSR) are "Hard Law."

Jurisprudential Argument: In a developing economy with historical instances of mass corporate fraud (e.g., Satyam), the Indian legislature concluded that voluntary codes lack the "deterrent effect" necessary to ensure market integrity. Thus, ethics in India is not a choice; it is a statutory mandate.

1.4. *Comparative Jurisprudence: Section 172 (UK) vs. Section 166 (India)*

The true divergence is seen in how each country defines the "Best Interests of the Company."

UK Section 172 (CA 2006): A director must act to promote the success of the company for the benefit of its members, having "regard" for employees, suppliers, and the environment. The primary duty remains to the Shareholders.

India Section 166(2) (CA 2013): A director shall act in the best interests of the company, its employees, the shareholders, the community, and for the protection of the environment.

CHAPTER II: COMPLIANCE ARCHITECTURES

In the comparative study of corporate governance, the Compliance Architecture refers to the structural framework—committees, director classifications, and internal controls—that ensures a company adheres to the law. As of 2026, both India and the UK have undergone significant "Architectural Renovations" to address systemic risks.

2.1. *Board Composition: The Independent Sentinel*

The primary architect of compliance is the Board of Directors. However, the two nations define "independence" and "diversity" with differing degrees of rigidity.

2.1.1. *India: Statutory Rigidity*

Under **Section 149 of the Companies Act, 2013** and **Regulation 17 of SEBI (LODR):**

Independent Directors (IDs): If the Chairperson is a regular non-executive director, at least one-third of the board must be IDs. If the Chairperson is an executive or related to the promoter, half the board must be IDs.

Diversity: Every listed company must have at least one woman director. For the top 1,000 entities, this must be an Independent Woman Director.

The 2026 Shift: SEBI has introduced a "Gatekeeper" mechanism where IDs must be registered on a central data bank and pass an online proficiency self-assessment test.

2.1.2. *UK: Principles-Based Flexibility*

The **UK Corporate Governance Code (2024)**, effective for 2026 reporting cycles, focuses on "Composition and Evaluation":

The "Half" Rule: At least half the board, excluding the Chair, should be non-executive directors whom the board considers to be independent.

Diversity Beyond Gender: The UK Code 2024 emphasizes Cognitive and Social Diversity. While gender targets (40% women on boards) are monitored by the FCA, the Code itself focuses on diversity of thought and "over-boarding" (limiting the number of directorships to ensure enough time for oversight).

2.2. *The Internal Control Revolution (2025–2026)*

The most dramatic divergence in 2026 compliance lies in how boards attest to their internal safety nets.

2.2.1. *The UK: Provision 29 and the "Declaration of Effectiveness"*

A landmark change in the UK Code is **Provision 29 (effective January 1, 2026)**.

The Mandate: For the first time, UK boards must provide an explicit declaration in the annual report stating that their material internal controls (financial, operational, reporting, and compliance) were effective as of the balance sheet date.

Significance: This moves the UK closer to a "UK-SOX" (Sarbanes-Oxley) style regime, ending the era of vague governance statements.

2.2.2. *India: The CEO/CFO Certification*

India's architecture is more "Top-Down." Under **Regulation 17(8) of SEBI LODR**:

- The CEO and CFO must personally certify the effectiveness of internal control systems for financial reporting.
- **The 2026 Shift:** SEBI now requires BRSR Core (Business Responsibility and Sustainability Reporting) assurance. For the Top 500 entities in FY 2025–26, "Reasonable Assurance" on ESG internal controls is mandatory, making India a global leader in audited sustainability data.

2.3. *Audit and Risk Committees: The Engine Rooms*

Both nations utilize committees to filter complex data, but their powers differ.

Feature	India (SEBI LODR)	United Kingdom (UK Code 2024)
Audit Committee	Min. 3 directors; 2/3rd must be IDs. Chairperson must be an ID.	Should consist of at least 3 (or 2 for smaller) IDs. The Chair of the Board cannot chair this committee.
Risk Management	Mandatory for Top 1,000 listed entities. Includes cyber-risk.	Recommended for all; often merged as "Audit & Risk Committee."
RPT Approval	Prior approval of Audit Committee is statutory. Only IDs can vote.	Requires "Comply or Explain" disclosure; shareholders vote on material transactions.

2.4. *Emerging 2026 Compliance: The "Value Chain" Mandate*

In 2026, compliance no longer stops at the company gate.

India: The Top 250 listed entities must now provide disclosures and obtain assurance for their Value Chain partners (suppliers/distributors) on a "Comply or Explain" basis.

UK: The focus is on Section 172 Reporting, where companies must explain how they have engaged with their workforce and suppliers to ensure the long-term sustainability of the business model.

CHAPTER III: ENFORCEMENT AND LIABILITY

3.1. *Enforcement Regimes: Public vs. Private*

3.1.1. *India: The "Regulator-First" Model*

In India, enforcement is centralized under the **Securities and Exchange Board of India (SEBI)**. Unlike the UK, where the market often dictates consequences, SEBI acts as a proactive enforcer with quasi-judicial powers.

System-Driven Disclosures: By 2026, SEBI has fully operationalized its AI-powered surveillance system to detect anomalies in Related Party Transactions (RPTs) and insider trading.

Automatic Penalties: Under the 2026 Master Circular on LODR, stock exchanges are empowered to impose automatic financial penalties for reporting delays. If non-compliance persists, SEBI can:

- **Freeze Promoter Shareholding:** Preventing the controlling family from exiting or voting.
- **Debarment:** Banning individuals from holding directorships or accessing the capital markets for up to 5–10 years.

NFRA Oversight: The National Financial Reporting Authority (NFRA) now actively prosecutes audit firms, imposing multi-crore fines and debarring auditors for "professional misconduct" in governance oversight.

3.1.2. UK: The "Criminalization and Market" Model

The UK's enforcement landscape in 2026 is defined by a major legislative shift. While the government did not proceed with the ARGA (Audit, Reporting and Governance Authority) statutory transition, it empowered the Financial Reporting Council (FRC) through different means.

Failure to Prevent Fraud: Under the Economic Crime and Corporate Transparency Act 2023 (fully operational by 2025/26), a new criminal offence exists: "Failure to Prevent Fraud." Large organizations are now criminally liable if a "relevant person" commits fraud for the company's benefit, unless the company can prove it had "reasonable procedures" in place.

Public Sanctions: The FRC utilizes "Public Censures" and "Name and Shame" tactics. For listed companies, the FCA can suspend listing or levy fines, but the primary deterrent remains Shareholder Activism.

Shareholder Revolts: Under Provision 4 of the 2024 Code, if 20% or more of shareholders vote against a board recommendation (e.g., executive pay), the company must consult and publish a "response statement" within six months.

3.2. Personal Liability of Directors

The "Corporate Shield" is increasingly thin in 2026 for directors in both jurisdictions.

3.2.1. The "Duty of Care" vs. "Statutory Liability"

In India: Under Section 166 of the Companies Act 2013, directors face personal liability (fines and imprisonment) for breach of duties. Crucially, Independent Directors (IDs) are only liable for acts of omission or commission if they had "knowledge" and failed to act "diligently." However, the burden of proving "due diligence" has become significantly higher in 2026 following SEBI's strict stance on RPT oversight.

In the UK: Liability is primarily civil (damages), but the Economic Crime and Corporate Transparency Act 2023 introduced mandatory Identity Verification for all directors. Failure to verify identity by 2026 is a criminal offence, potentially leading to disqualification or unlimited fines.

3.3. Comparison of Sanctions (2026 Data)

Sanction Type	India (SEBI/MCA)	United Kingdom (FRC/FCA/Companies House)
Financial Fines	High; often tied to the "quantum of ill-gotten gains" (Section 15HA of SEBI Act).	Varying; FCA fines can be massive, but FRC fines are usually directed at auditors.

Sanction Type	India (SEBI/MCA)	United Kingdom (FRC/FCA/Companies House)
Criminal Charges	Serious (Fraud/Misstatement); Cognizable under PMLA (Money Laundering).	New "Failure to Prevent Fraud" offence for the corporate entity.
Director Removal	SEBI/NCLT can order removal and "fit and proper" debarment.	Disqualification orders (up to 15 years) managed by the Insolvency Service.
Administrative	Freezing of assets; Suspension of trading.	Striking off from the Register (Companies House) for non-verification.

CHAPTER IV: COMPARATIVE ANALYSIS OF INTERNAL CONTROLS (THE 2026 FRONTIER)

As of 2026, the focus of corporate governance in both India and the UK has shifted from high-level board structure to the "engine room" of the corporation: Internal Controls. The year 2026 marks a historic convergence where the UK has adopted a more rigorous, "declaration-based" approach, while India has expanded its "statutory assurance" model to include non-financial data.

4.1. The UK's "Provision 29" Revolution

For UK-listed companies, the most significant change in decades became effective on **January 1, 2026**.

4.1.1. The Shift from Monitoring to Declaration

Under the previous 2018 Code, boards were only required to *monitor* and *review* their control systems. The **2024 UK Corporate Governance Code (Provision 29)** now mandates:

The Declaration: Boards must provide an explicit statement in the annual report on whether their material controls were effective as of the balance sheet date.

Materiality Defined by the Board: The FRC has deliberately avoided a rigid definition of "material," allowing boards to determine what is critical based on their specific business model and risk profile.

Scope: This is not limited to financial controls; it covers operational, compliance, and reporting controls (including the systems producing ESG data).

4.1.2. Addressing Ineffectiveness

If a control is found to be ineffective, the board cannot simply stay silent. They must disclose:

- Which material controls were ineffective.
- The actions taken (or planned) to remediate the weakness.
- The status of any previously reported issues.

4.2. India's "Statutory Assurance" Model

While the UK moves toward self-declaration, India's 2026 landscape is characterized by External Verification and Granular Statutory Mandates.

4.2.1. Section 134(5)(e) and the "Director's Responsibility Statement"

In India, the Internal Financial Controls (IFC) framework is codified. Directors of listed companies must state that they have laid down internal financial controls that are "adequate and operating effectively." Unlike the UK (where external audit of the governance statement is not mandatory), **Section 143(3)(i)** of the Indian Companies Act requires Statutory Auditors to issue a separate opinion on the adequacy and operating effectiveness of IFC.

4.2.2. The 2026 Expansion: BRSR Core and Non-Financial Controls

The "2026 Frontier" in India is the assurance of ESG controls.

Reasonable Assurance: For the top 1,000 listed entities, the Business Responsibility and Sustainability Report (BRSR) Core now requires external assurance.

Significance: This means that the internal controls governing carbon emissions, water consumption, and supply chain ethics are now subject to the same level of scrutiny as financial ledgers.

4.3. Comparative Analysis: Declaration vs. Audit

Feature	United Kingdom (2026)	India (2026)
Primary Driver	Board Judgment (Provision 29)	Statutory Mandate (Sec 134/143)
Audit Requirement	No mandatory external audit of the control declaration (market-led).	Mandatory external auditor's report on IFC effectiveness.
Definition of Control	Holistic: Operational, Compliance, and Reporting.	Focused: Primarily Financial, now expanding to ESG via BRSR.
Philosophy	"Substance over Form": Avoids a tick-box approach to encourage board ownership.	"Compliance by Assurance": Relies on independent verification to prevent fraud.

IV. CONCLUSION AND SUGGESTIONS

4.1. Conclusion

The comparative analysis of corporate governance in India and the UK reveals a fundamental divergence in regulatory philosophy necessitated by their unique market structures. While the UK continues to champion the "Comply or Explain" model, its 2026 transition toward mandatory internal control declarations signifies a growing recognition that principle-based flexibility must be anchored by rigorous accountability. Conversely, India's prescriptive, "Rule-Based" approach remains an essential safeguard in a promoter-dominated landscape, where statutory mandates provide the necessary deterrent against the marginalization of minority shareholders. Despite these differing paths, both nations are converging on a "Governance of Truth," where the transparency of non-financial ESG data and the integrity of internal control systems are now as legally significant as traditional financial reporting. Ultimately, the effectiveness of these codes in 2026 depends less on their black-letter law and more on the ability of regulators like SEBI and the FRC to foster a corporate culture that values the spirit of governance over mere technical compliance.

4.2. Suggestions

For India: It is suggested that the regulator introduces a Graduated Compliance Tier to relieve small-cap companies of "compliance fatigue," while simultaneously strengthening the independence of directors through a "Majority-of-the-Minority" voting mechanism to curb promoter interference.

For the UK: The FRC should transition from a monitor to an enforcer with the statutory power to reject boilerplate "Explanations," and should mandate limited external assurance for the new 2026 Internal Control declarations to ensure they are not merely "optimistic" self-assessments.

For Both: There is a pressing need to codify "Algorithmic Governance," requiring boards to provide oversight of AI-driven decision-making processes to prevent systemic biases and ensure ethical technological deployment.

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