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Government intervention and Corporate governance

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A. INTRODUCTION

CORPORATE governance in India has always operated within a fine equilibrium - balancing corporate independence on one hand and governmental oversight on the other. While the legislature acknowledges the autonomy of companies as separate legal entities governed by their own boards and shareholders, it simultaneously mandates that such autonomy cannot exist in isolation from public accountability and fiduciary responsibility.

The recent media based developments within the **Tata Trusts and Tata Sons**-two of India's most revered and enduring privately held institutions-have once again brought to the forefront the delicate interplay between corporate control and governance ethics. The Tata Group, long regarded as a symbol of integrity and nation-building enterprise, now finds itself at the crossroads of an internal governance debate that could shape the future contours of Indian corporate law governance. The matter reportedly involves differing viewpoints within the Trusts. While the issue has not yet culminated in formal adjudication, it is right time to go through certain legal and policy questions surrounding the scope of powers of nominee directors, the balance between controlling and minority shareholders, and the principles of fiduciary accountability that underpin India's corporate architecture.

These events have reignited a deeper policy question: to what extent can the Central Government intervene in a company's internal management when public interest is perceived to be at risk? The Companies Act, 2013 ("*Companies Act*") provides a comprehensive mechanism for such intervention, allowing the Government - through the National Company Law Tribunal (NCLT) - to step in, investigate, and even take over management in cases of oppression, mismanagement, or fraud.

Yet, this power, though statutorily sanctioned, is not without constitutional limits. It must operate within the bounds of due process, proportionality, and necessity. The debate thus shifts from whether the Government can intervene to whether it should - and to what degree - without undermining corporate autonomy and investor confidence.

B. STATUTORY FRAMEWORK FOR GOVERNMENT INTERVENTION

The Companies Act envisions several layers of oversight to ensure that companies act in a manner consistent with shareholder and public interest. The relevant provisions include:

1. Sections 241 to 246 - Prevention of Oppression and Mismanagement

- *Section 241(1): Enables members to approach the NCLT if company affairs are conducted oppressively or prejudicially.*
- *Section 241(2): Empowers the Central Government to apply directly to the Tribunal if it believes that the management of a company is being conducted in a manner prejudicial to public interest.*
- *Section 242: Authorises the Tribunal to make orders for regulating the conduct of affairs, removal of directors, or even management takeover.*

2. Section 241(3) and (4) - Government Takeover Powers

The Government, upon receiving reports from the SFIO, Registrar of Companies, or other authorities, can refer the matter to the Tribunal for removal of directors and appointment of

Government-nominated directors.

3. Sections 339, 340, 447 - Fraud, Misfeasance, and Liability

These provisions impose civil and criminal liability on officers of the company engaged in fraudulent or wrongful conduct and enable the Tribunal to pierce the corporate veil where necessary.

Collectively, these provisions represent the statutory arsenal through which the Government ensures accountability in corporate management - a mechanism designed not for routine interference, but for extraordinary circumstances where private conduct threatens public good.

C. GOVERNMENT INTERVENTION: NECESSITY VS. INTRUSION

The legal framework allows the Government to intervene in matters involving:

- Oppression of minority shareholders by majority control,
- Diversion or siphoning of funds by promoters or directors,
- Fraudulent business operations causing investor or public loss,
- Persistent negligence or mismanagement affecting public utilities or public funds, or
- Matters where national economic interest is directly implicated.

However, such intervention raises a critical jurisprudential question - to what extent should the State be allowed to penetrate the corporate veil of private enterprise?

The Companies Act, unlike its predecessor, has widened the definition of public interest, allowing for a more activist governmental role. Yet, excessive or premature intervention risks undermining the principle of corporate self-regulation and may deter foreign investment. Therefore, judicial oversight by the NCLT and NCLAT becomes indispensable to maintain this delicate equilibrium.

D. JUDICIAL PRECEDENTS DEFINING THE BOUNDARIES

1. Tata Consultancy Services Limited v. Cyrus Investments Pvt. Ltd. & Ors. (MANU/SC/0227/2021)

Interestingly, in another Tata group related judgement, the Supreme Court, while interpreting Sections 241 and 242 of the Companies Act, 2013, drew a clear distinction between legality of management action and oppression of shareholders. The Court held that the Tribunal's jurisdiction under Section 241 is not to adjudicate the validity or justification of a director's removal, but to examine whether such removal forms part of a larger pattern of oppressive or prejudicial conduct.

Even if a director's removal is found to be legally flawed or factually unjustified, it cannot automatically invite relief under Section 242 unless the act is shown to be oppressive or prejudicial to a class of members. Conversely, there may be instances where a removal perfectly complies with law but still constitutes oppression, if it is carried out as part of a sustained effort to marginalize minority shareholders.

The Court emphasized that the NCLT is not a labour court or administrative tribunal and, therefore, cannot focus solely on the legality of a director's termination. Its inquiry must remain confined to the effect of such action on the rights and interests of shareholders.

Further, the Court clarified that Sections 241 and 242 do not confer the power of reinstatement of a director, which is explicitly barred by Section 14 of the Specific Relief Act, 1963. The true object of Section 242, the Court held, is to bring to an end the matters complained of - not to substitute the board's business judgment, nor to provide a remedy worse than the alleged grievance itself. The purpose of intervention is curative, not punitive.

The Court also observed that Section 241(1)(a) is not intended for apprehended or speculative misconduct, but applies only to existing or past acts of oppression or mismanagement. Anticipatory governance disputes thus fall outside the Tribunal's scope.

2. Needle Industries (India) Ltd. & Ors. v. Needle Industries Newey (India) Ltd. & Ors. (MANU/SC/0050/1981 : (1981) 3 SCC 333)

In this seminal judgment, the Supreme Court held that the profitability or commercial success of a company does not immunize it from judicial scrutiny under oppression and mismanagement proceedings. The determining test is not whether the impugned act is lawful but whether it is oppressive in character.

The Court articulated that even where the majority exercises its powers in accordance with the letter of the law, the spirit of fairness and good faith remains the governing standard. Corporate actions, though legally valid, may still warrant intervention if they are burdensome, harsh, or wrongful to minority shareholders or contrary to equitable principles.

Closing Analysis: Case Law Principles and Their Contemporary Significance

These judicial precedents collectively reaffirm that corporate governance is not merely a question of legal form, but of substantive fairness. The Supreme Court's pronouncements in *TCS v. Cyrus Investments* establish that the threshold for government or tribunal intervention is not mere illegality or internal disagreement, but a demonstrated pattern of oppressive conduct undermining corporate probity or public interest.

By drawing a sharp line between legitimate management autonomy and actionable oppression, the Court has reinforced the doctrine that the power under Sections 241 and 242 must be exercised sparingly, with the object of restoring good governance, not supplanting it.

In essence, these judgments delineate the constitutional boundaries of state and judicial intervention - ensuring that the Companies Act remains a safeguard against abuse of power, without transforming into an instrument of executive intrusion into corporate self-regulation.

E. "PUBLIC INTEREST" AS THE CONSTITUTIONAL ANCHOR

The expression "*public interest*" in the Companies Act is not defined exhaustively, which grants flexibility but also introduces uncertainty. Judicial interpretation has generally treated public interest as that which transcends private contractual rights and affects the economic or social well-being of the community.

However, invoking public interest must not become a catch-all justification for administrative overreach. Any governmental action that supplants the authority of shareholders or directors must satisfy three cumulative conditions:

1. Existence of tangible public harm or threat,
2. Failure of internal corporate mechanisms to remedy it, and
3. Proportionality of intervention with respect to the harm caused.

This tripartite test ensures that executive discretion remains subordinate to judicial scrutiny, preserving both the autonomy of enterprise and the supremacy of law.

F. WAY FORWARD: REDEFINING ACCOUNTABILITY IN CORPORATE INDIA

1. Institutionalising Early Warning Systems

The Ministry of Corporate Affairs (MCA) should develop structured parameters for assessing red flags in corporate functioning to trigger preventive oversight before full-scale investigation.

2. Strengthening Role of Independent Directors

Independent directors must act as the first line of defence, ensuring whistleblower complaints, audit anomalies and related party transactions are addressed before reaching crisis stage.

3. Transparency in Government Action

Any exercise of takeover powers under Section 241(3) should be accompanied by a reasoned order, subject to appeal before the NCLAT, to reinforce trust in regulatory fairness.

4. Balance Between Regulation and Autonomy

The objective of the law must remain remedial, not punitive. Government intervention should aim at restoring governance, not controlling enterprise.

5. Evolving Jurisprudence on Public Interest

Courts should continue refining the contours of "*public interest*" to ensure that the term retains its constitutional sanctity and is not weaponised for administrative convenience.

G. CONCLUSION

Corporate governance, when left unchecked, can devolve into a tool for private enrichment at public expense. Yet, unchecked governmental intervention carries the equal risk of stifling entrepreneurial freedom and undermining investor faith. The Companies Act seeks to strike a constitutional balance between these extremes.

The Central Government's role as a corporate watchdog must, therefore, be exercised with restraint, transparency, and fidelity to due process. It exists not to intrude into boardrooms, but to restore integrity where governance collapses.

Ultimately, the strength of India's corporate framework lies not in how often the Government intervenes, but in how seldom it needs to!

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