

Reimagining Corporate Governance: A Practitioner's Perspective



Asish K. Bhattacharyya
Management Consultant
and Distinguished Visiting
Professor in the Academy
of Continuing Education
(ACE)
Shiv Nadar Institution of
Eminence (Shiv Nadar IoE)

Abstract

Corporate governance frameworks worldwide focus on the monitoring-board model, in which independent directors oversee management and safeguard shareholders from the misuse of managerial power. Traditionally, this model protects minority shareholders' interests. However, as business dynamics have evolved—through technological innovation, geopolitical uncertainty, new workforce expectations and increased public scrutiny—the business environment has become more complex and less predictable. Simultaneously, the knowledge gap between management and non-executive directors has widened. Many effective boards now act as advisers and sounding boards, not merely as monitors. This article contends that reliance on the traditional monitoring model warrants reconsideration. Governance should emphasise director competence, transparency, independent assurance and the quality of board challenge. Mandatory quotas for independent directors need not be treated as untouchable; they can be adapted to a company's specific circumstances, provided safeguards against conflicts of interest remain strong.

1. Introduction

The Cadbury Committee provided a widely accepted definition of corporate governance: "Corporate governance is the system by which companies are directed and controlled." The fundamental question is who is responsible for directing and controlling a company, and for whose benefit. The foundations of the system that evolved over the years lie in the separation of ownership and control articulated by Berle and Means. The board of directors (board) is at the centre of governance. It is responsible for directing and

controlling the company in its best interests. Shareholders benefit when the funds entrusted to the company are used to create and protect enterprise value. The board contributes to this objective by minimising the leakage of company wealth, enabling value creation for internal stakeholders without impairing social value, and protecting the environment.

The modern governance framework grew around the monitoring board model. The board comprises directors elected by shareholders. It appoints the chief executive officer (CEO) and delegates day-to-day management authority. The board's main role is to monitor the CEO, who acts as an agent in the principal-agent relationship. Managers' interests may diverge from those of shareholders, and managers may use company resources for their own benefit at the company's expense. Empirical research shows that managers can expropriate wealth, entrench themselves and shirk responsibilities. Independent directors are therefore expected to monitor management, prevent the misuse of corporate resources and provide assurance to shareholders.

The model remains useful, but its limitations are increasingly evident: board proceedings lack transparency, assessing individual directors' contributions is difficult, and formal independence does not always translate into independent judgement. The key issue is whether the monitoring board, in its present form, remains effective.

2. The Changing Business Landscape

Companies in the contemporary business environment face continuous disruption. Geopolitical shifts reshape trade, supply chains, investment decisions and regulatory regimes. Technology is now central to strategy, operations, customer engagement and risk management. Cybersecurity, data privacy and technological obsolescence are core governance concerns.

Workforce and customer expectations have changed. Younger employees seek ethical conduct, transparency, inclusion and purpose. Gig work and flexible employment challenge traditional employment structures. Customers and employees can respond to corporate behaviour almost instantly through digital platforms.

Society increasingly expects sustainable and responsible conduct. Companies must demonstrate resilience and innovation while meeting expanding regulatory and reporting requirements. Boards must provide oversight as business models, technologies, risks and stakeholder expectations continue to evolve.

This raises a practical question: can a board that meets periodically and depends largely on information supplied by management provide effective oversight of a complex, fast-moving business?

3. The Widening Knowledge Gap

It is well established that the agent in a principal-agent relationship knows more about the business than the principal. The principal appoints the agent because the agent possesses the knowledge and capability required to manage the enterprise, while recognising the possibility of leakage of wealth. The principal therefore establishes mechanisms to minimise such leakage. In a company, shareholders, as principals, are represented by the board, which monitors management on their behalf.

A key assumption is that non-executive directors collectively have sufficient capability to monitor the CEO. In practice,

management has far deeper and more specific knowledge of the business. The gap widens as technology, regulation and industry structures become increasingly specialised.

Non-executive directors have limited time to acquire company-specific knowledge. A skills matrix may list board expertise in finance, technology or markets, but it does not show that directors understand the company deeply enough to monitor management and ask informed, probing questions. Companies are understandably reluctant to appoint executives from competing firms. Retired executives and professionals bring valuable experience, but their knowledge may not always match current operating realities.

This does not make monitoring unnecessary. It shows that independence alone does not solve the knowledge problem. A director who is independent but poorly informed cannot monitor management effectively.

4. Stewardship and Agency: Revisiting Assumptions

Agency theory focuses on the possibility of opportunistic behaviour. Real-world behaviour is more nuanced. Many managers identify strongly with the organisation and behave as stewards. The contemporary environment also imposes checks that were far weaker when the monitoring model was developed:

- Digital communication spreads news of wrongdoing rapidly and can destroy reputation and value in the executive employment market.
- Employees, customers and, in family-controlled companies, younger family members increasingly question conduct that appears unfair or unethical.
- Institutional investors, proxy advisers, regulators and the media scrutinise governance practices and can impose significant reputational and financial costs.

These checks do not eliminate opportunism. They do, however, make it unrealistic to treat every manager only as a self-interested agent. Innovation thrives in open cultures. An environment dominated by suspicion and control can discourage candour, slow decisions, and stifle creativity. The challenge is to combine accountability with trust.

The selection of CEOs and other senior executives has also become more rigorous. Search firms conduct background checks and assess candidates' professional and market reputations. This reduces, though it does not eliminate, the risk of an unsuitable appointment. Senior executives have strong reasons to protect their professional standing. Governance should recognise both agency risks and stewardship behaviour rather than assume that one explanation fits every company and every manager.

5. The Loyal Critic: Rethinking Independence

An effective independent director is a loyal critic: supportive of the company but willing to ask tough questions. Trust is essential. Management shares information more candidly with directors who understand the business and engage constructively. However, familiarity must not become dependence. Regulatory criteria, term limits and transparent appointment processes offer useful guardrails. Ultimately, though, effective independence is also a state of mind.

The quality of assurance is equally important. Independent auditors, strong audit committees, internal audit and regulatory oversight strengthen financial reporting and internal control. Indian Accounting Standards (Ind AS) promote comparability and transparency, while NFRA has intensified regulatory attention to audit quality. These mechanisms cannot replace board judgement. They can, however, reduce the extent to which stakeholders must rely on formal director independence as their principal source of assurance.

6. The Independent Board: Symbolism and Reality

In practice, boards monitor and advise. The CEO uses the board as a sounding board on strategy and critical decisions. Directors provide checks and balances, offer external perspectives, support the CEO in difficult situations, and engage intensively with management during crises. This advisory and boundary-spanning role is often where boards add the greatest value.

An "independent board" also provides symbolic assurance to stakeholders. Symbolism has value, but it should not be mistaken for effectiveness. A board may meet every formal requirement and still fail to challenge management. Conversely, a director who does not meet every formal criterion of independence may possess exceptional competence and exercise genuinely independent judgement. Governance should look beyond labels to the quality of deliberation, information and accountability.

7. Conclusion

The monitoring board model, based on agency theory, needs to be re-examined. This does not mean that monitoring or independent judgement should cease. It means that formal independence alone is not a sufficient measure of board quality. Governance frameworks should give greater weight to competence, company-specific knowledge, access to information, transparency, assurance and the capacity to challenge constructively.

Shareholder activism is an important complementary monitoring mechanism. Institutional shareholders exercise influence not only by voting at general meetings but also through private engagement with the CEO, chairperson and board. Prime Database data reported for March 2026 indicate that domestic institutional investors held 19.24% and foreign institutional investors held 16.13% of listed Indian equities—a combined institutional holding of 35.37%. Institutional ownership does not ensure effective activism, but it can strengthen shareholders' capacity and incentive to engage with companies.

It would be unwise to throw the baby out with the bathwater. Mandatory quotas for independent directors have served an important purpose, but they should be reviewed and, where appropriate, relaxed. Greater flexibility would allow companies to appoint competent individuals who may not satisfy every formal criterion of independence. Such flexibility should consider ownership concentration, institutional engagement, board competence, external assurance and safeguards against conflicts of interest.

In family-run and promoter-controlled companies, flexibility must be accompanied by strong protection for minority shareholders and rigorous oversight of conflicts and related-party transactions. The objective is not a weaker board. It is a board that is better informed, more trusted and more effective in today's world.
