

INTERNATIONAL JOURNAL FOR LEGAL RESEARCH AND ANALYSIS



Open Access, Refereed Journal Multi-Disciplinary
Peer Reviewed

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A CRIMINAL LIABILITY OF CORPORATE BODIES IN INDIA: AN ANALYTICAL STUDY

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ABSTRACT

Over the past 200 years, large corporations have emerged all over the world because of increased industrialization and globalization. These days, multinational corporations have a big influence on practically every facet of human life. Even though a corporation is regarded as a person under the law, it is evident that natural individuals commit crimes because they are both physically and mentally capable of doing so. Under common law, businesses were held accountable for crimes like theft, burglary, kidnapping, murder, and assault, with certain exclusions. In this sense, a mental state was not necessary, and corporations were only subject to fines. The process for handling the accused company is outlined in Section 305 of the Criminal Procedure Code; however, when the law stipulates a minimum sentence of imprisonment, the difficult topic of punishment arises.

In India, where the fast expansion of the corporate sector has occurred with an increase in corporate misconduct cases, corporate criminal liability has grown to be a major area of concern. This study provides a thorough examination of corporate criminal liability in India, looking at its legal foundation, real-world applications, and implementation difficulties. It explores the background and development of corporate criminal liability in India, emphasizing significant judicial rulings and legislative changes that have influenced the country's current state. It examines the fundamental ideas of corporate criminal liability, going over the theories and arguments that support this legal idea. With an emphasis on the Companies Act, 2013 and other relevant laws, the study explores the statutory provisions that control corporate criminal liability in India. It investigates the kinds of corporate violations that result in criminal liability, focusing on how they affect both the business community and society at large.

KEYWORDS-

Corporate Criminal Liability, Corporate Governance, Companies Act, Corporate Fraud.

INTRODUCTION-

Companies have a great deal of power and influence in the modern corporate world, which has an impact on both the welfare of society and the state of the economy. Holding corporations accountable for their misdeeds is crucial because this authority also entails a greater responsibility. Corporate criminal liability (CCL) is a legal concept that addresses a company's criminal liability for acts committed by its officers, employees, or agents while carrying out their corporate duties. Understanding the particulars of CCL is crucial in the current Indian legal system because it upholds the rule of law, encourages ethical business practices, and safeguards public interests.

The company environment in India, one of the world's biggest and fastest-growing economies, that has significantly expanded and changed in recent times. This rise has brought with it both opportunities and concerns, especially about corporate wrongdoing. A wide range of crimes, including fraud, violations of product safety regulations, environmental infractions, and more, can be committed by corporate entities. As a result, it is crucial to consider corporate criminal responsibility within the context of Indian law. In this day of heightened scrutiny, it is imperative that businesses, lawyers, and legislators comprehend the intricate relationships between business entities and the law.

This analysis of corporate criminal responsibility under Indian law will clarify the legal framework in place to hold companies accountable for their actions, ensuring that justice is served and public trust in the corporate sector is maintained. The Indian legal system has undergone significant changes in recent years about legislative and judicial interpretation of corporate criminal liability, or CCL. The Indian legal system has recognized the importance of holding businesses accountable for their actions, especially when those actions result in criminal misconduct.

The primary law governing CCL in India is the Companies Act, 201, which creates the legal framework for the establishment, administration, and dissolution of businesses. Furthermore, this law contains provisions that make companies liable for a variety of offenses, such as fraud, false claims, and noncompliance with financial reporting rules. These provisions are crucial for holding companies responsible for their actions and ensuring that they act in a way that benefits both the public and their shareholders.

Generally, criminal accountability is linked to acts that violate the law; that is, liability cannot be imposed for such conduct or omissions unless they are forbidden and punished by the country's penal law. The Latin phrase "actus non facit reum, nisi mens sit rea" serves as the foundation for criminal responsibility. This suggests that to hold someone accountable, it must be demonstrated that they committed an unlawful act or omission with the knowledge or intent to violate the law.

Furthermore, the structure of CCL has been greatly influenced by decisions made by Indian courts. Judges have been forced to consider whether it is appropriate to hold companies criminally accountable for the actions of their leaders and employees considering well-known cases like the Volkswagen emission crisis and the Satyam scam. These cases have led to a closer examination of the concepts of attribution, mens rea, and corporate purpose—all essential in determining corporate criminal liability. One of the main challenges facing CCL is striking the correct balance between punishment and reform. Holding companies responsible for their misdeeds is just as important as promoting compliance and moral behaviour.

LITERATURE REVIEW

Aishwarya Pandey, An Analytical Study of Corporate Crime and Penal Policy in India

The article presents a thorough examination of Indian penal policy and corporate crime. To combat corporate crime, the author emphasizes the need for a more proactive judiciary, effective enforcement, and preventative measures. The article also gives a summary of the main laws that control corporate crime in India, such as the Securities and Exchange Board of India Act of 1992, The Prevention of Money Laundering Act, 2002 and The Companies Act, 2013. The author highlights several problems with corporate crime and India's penal code. One of the primary problems, according to the author, is the lack of preventive measures.

Celia Wells, Corporations and Criminal Responsibility (1993)

Two separate components emerged from the author's argument in this book regarding the appropriate foundation for corporate criminal behaviour. One-line looks for corporate traits that might be connected to the essence of personal responsibility by equating the business with the human being. Additionally, the other exploits the differences between individual and group membership.

Volume 3, "Corporate Criminal Liability in India: Some Reflections," by Kumar Askand Pandey Cases involving corporate law.

Even current laws and regulations pertaining to economic offenses do not contain specific provisions to facilitate the imposition of penal liability on corporations, and this needs to be addressed immediately. The author has suggested in this article that the Parliament of India be aware of the scandals and issues surrounding corporate criminal liability. The idea of corporate criminal liability seems to be well-established in India, but the conflict between the legislative and judicial branches seems to be far from resolved, particularly considering the ruling in the Standard Chartered Bank case by the Supreme Court.

OBJECTIVE OF THE STUDY

This study's main goal is to thoroughly investigate corporate criminal liability (CCL) within the context of Indian law. Understanding the legal mechanisms, their practical implications, and their broader impact on corporate governance, business ethics, and public welfare will be the main goals of the study. The goal of this study is to increase our knowledge of how India handles corporate misconduct, promotes accountability, and finds a balance between economic growth and the defence of public interests.

CONCEPTUAL ANALYSIS OF CORPORATE CRIMINAL LIABILITY

It has been recognized that a company and its stockholders are two distinct legal entities. It can be understood to represent a group of people working toward a common objective rather than having a precise legal or technical meaning. It is recognized that criminal culpability follows a violation of the criminal code. The Latin maxim *Actus non facit reum mens sit rea*, which states that in order to hold someone or anything else accountable, it must be demonstrated that they committed an act or omission that is forbidden by law and that they have *mens rea*, which is defined as having a guilty mindset for legal purposes, is the source of any act's criminal culpability. The list of white-collar crimes includes it.

Corporate criminal liability is defined as a crime committed by an individual or group of individuals who, in the course of their employment, commit illegal and malicious acts or omissions that benefit the business or any individual within the group of individuals, or who do so for the purpose of a shared objective or financial gain. Prior to the introduction of the concept of holding a corporation accountable, there were numerous situations in which no corporation was held responsible for any criminal act because it was an artificial legal person and could not be imprisoned; additionally, given that it was not a natural person, there was no *mens rea*.

(A) Development of the concept of Corporate Criminal Liability

Corporate crimes are defined as offenses committed by businesses or corporate members for which they are legally responsible for their actions or inactions. In the case of Zed Telefilms Ltd. v. Sahara India Co. Corp. Ltd¹, a company was released from defamation liability because there was no mens rea, which is regarded as an implicit prerequisite that is legally required in State of Maharashtra v. Syndicate², the High Court decided that a business could not be prosecuted for crimes involving imprisonment or corporal punishment. No order could have been implemented even though a company charged with such offenses would have been found guilty at trial. However, the Supreme Court adopted a different position in the case of Iridium v. Motorola³, holding that a company could be held liable for both common law and statutory violations, including those requiring mens rea.

Modus Operandi of Corporate Crimes: There are numerous ways to commit corporate crimes. Fraud, including insurance scams, master card fraud, and check fraud, is one of the crimes that businesses commit today. When stolen money is moved to financial institutions, asset management firms, etc. to conceal its actual source, this is known as money laundering and corruption in which public employees dishonestly give excessive assistance through illegal means and abuse their positions by accepting gifts, Insider Trade in the Financial Markets: Companies may understate their transactions to avoid paying taxes to the government when money market shares are exchanged privately.

(B) Concept of Corporate Criminal Liability in India

Over the time, the question of whether corporate criminal liability is necessary has been brought up. This issue has no universally accepted answer. Corporate criminal liability must be examined and evaluated in each case before a decision is made. The corporate criminal liability concept, according to its critics, is inadequate for two reasons:

First, they think that criminal activity is committed by individuals rather than businesses. Second, most of the retributive effects fall on investors and consumers. It implies that the burden of corporate criminal fines and consequences resulting from corporate actions falls on shareholders and consumers. The extent to which a business, as a legal entity, can be held accountable for the criminal acts and omissions of the natural person it employs is explained

¹ Zee telefilms v Sahara India Commercial Corporation limited (2001) 1 CALLT 262 HC.

² State of Maharashtra v. Messrs Syndicate Transport Co. (P) Ltd and others, AIR 1964 Bom 195.

³ Iridium India Telecom Ltd v. Motorola Inc, (2011) 1 SCC 74.

by corporate responsibility in criminal law. It is regarded as a form of vicarious criminal responsibility.

Given that, companies were fictional legal entities that could not be physically brought into court, Indian courts did not punish them prior to the development of the theory of corporate criminal liability on the grounds that they lacked the required element, mens rea. However, this idea gave rise to several legal problems, as the Law Commission of India pointed out in its 41st report. Although a bill to amend section 62 of the IPC was proposed, it was never passed. However, the well-known case of *Standard Chartered Bank and Ors. v. Directorate of Enforcement*⁴, in which the bank was prosecuted for violating the Foreign Exchange Regulation Act, 1973, changed how courts perceived this idea.

Since the Indian Penal Code prohibits punishing or prosecuting corporations for crimes involving imprisonment, the companies involved in *Assistant Commissioner v. Velliappa Textiles Ltd*⁵. cannot be imprisoned. The Companies Act established the concept of corporate criminal responsibility. Directors' liability was increased by the Companies Act of 2013, which replaced the Companies Act of 1956.

(C) Nature and Types of Corporate Criminal Liability

Corporate crimes are regarded as common types of white-collar crimes, and they are also recognized as active crimes. Vocational crimes are committed by individual employees against the company, while corporate crimes are crimes committed by corporate managers for the company's benefit.

Everyone recognize that crimes committed by companies are not the same as regular crimes committed by individuals. As a result, the crimes committed by the companies do not have their own branch. There are various types of corporate crimes. The most prevalent types of corporate crime include insider trading, blackmail, fraud, forgery, counterfeiting, and corruption. Businesses can commit a wide range of crimes, including those that result in physical harm, such as industrial disasters, hazardous jobs, producing hazardous products, producing industrial pollution that degrades the environment, and violating human rights.

Companies are found to be involved in a new kind of illegality known as organized crime or transnational crime. Corporate crimes include money laundering, extortion, cybercrimes,

⁴ *Standard Chartered Bank v. Directorate of Enforcement*, AIR 2005 SC 2622.

⁵ *Asst. Commissioner, Assessment II, Bangalore v. Velliappa Textiles Ltd*, (2004) 1 Comp LJ 21 (SC): AIR 2004 SC 86 (2004) Cri: LJ 1221.

terrorist financing, drug smuggling, and human trafficking. Occupational illnesses have long-term effects because workers in dangerous industries are killed and injured at work. Currently, most corporate entities or companies do not exercise due diligence when conducting commercial activities and disregard numerous labour legislation norms and regulations. Large corporations often avoid criminal liability, which is a serious problem, even after a number of catastrophic events, like the Bhopal gas tragedy and the Satyam case.

Environmental crimes and pollution are two forms of violence that people face today. Although there are many kinds of environmental crimes, they all harm the environment and are done for financial gain. Even though the government has laws and regulations (such as the Environment Protection Act of 1986) to address such issues, corporations usually evade punishment or criminal liability. Although there are specific mechanisms or regulations in India that originate under the "environment protection act 1986," the multinational corporations that enjoy a culture of corruption have avoided any criminal liabilities while continuing to be involved in significant environmental damage.

(D) Necessary Requirements for determining Corporate Criminal Liability

A few situations must be met for a company to be held criminally liable. Here are a few instances:

- a. The intentional act must occur during employment:** The first requirement is that the offending employee must act within the parameters of his employment. He must be performing duties that his employer has authorized.
- b. That behaviour must be in the best interests of the company:** The second requirement is that the employee's actions or behaviours benefit the company. If an employee performs a selfless act without intending to gain or benefit himself, it doesn't matter.

(E) Theories of Corporate Criminal Liability

There are two ways that a corporate entity can commit a crime: 1. When a crime does not require a purpose, such as when it involves actions or inactions that lead to tortious responsibility, like food adulteration, pollution, and many other crimes. Crimes requiring a purpose include all types of property-related offenses.

- 1. Theory of Identification-** This theory was specifically designed to hold corporations responsible for crimes requiring mens rea. This theory holds that a company's actions

and mental state that are present in the directors' or employees' action stage should be considered the corporation's own actions and mental state. In the "Tesco Supermarkets Ltd v. Nattrass"⁶ case, Lord Reid declared that the individual acting does not speak on behalf of the company. He is acting in the same way as the company, and the way he thinks dictates how he behaves. If the mindset is one of guilt, then the company is responsible for that guilt. This theory is also known as the directing mind and will hypothesis and the alter ego theory.

2. **Aggregation Theory-** With the creation of the aggregation theory, the American federal court system significantly advanced the field of corporate criminality. In some circumstances, a corporate wrong may arise from the culpable personalities of numerous individuals. In certain cases, a group of guilty minds may be responsible for a company's misconduct. By combining the actions of two or more people, the actus-reus and mens rea can be extracted from the behaviour and comprehension of multiple individuals.
3. **Respondent Superior Theory-** A company's liability for the conduct of its agents has been upheld by the courts on a number of grounds. A company may be held accountable for the actions of its employees.
 - who engage in illegal activity.
 - while performing their duties
 - with the intention of benefiting the business.

PUNISHMENTS FOR CORPORATIONS FOR CRIMINAL ACTS IN INDIA

The type of punishment to be imposed off to the company must be decided upon after guilt has been established. However, the conviction itself is a stigma that hurts a company's capacity to make money, and the goals of criminal justice can only be fulfilled by applying appropriate penalties. The question of why the company should be penalized will be brought up. Even in the case of a corporation, the criminal justice system's objective would require the conviction of the offender. Even though imprisonment is not an option, there are requirements for

⁶ Tesco Super Market Ltd, v. Nattrass, (1971) 2 AII ER 127: 1972 AC 153: (1971) 2 WLR 1 1166 (HL).

punishing corporations once they are seen as distinct from individual people within themselves and behave differently from their executives. This has been a challenge in determining the criminal liability of corporations.

(A) Theories of Crime

Retribution, deterrence, prevention, and reformatory theory are some of the theories and concepts of punishment that address different facets of crimes and offenders. Wiseman notes that corporate punishment is supported by expressive retribution. Declaring moral truth in the face of rejection is the goal of the expressive retributivist. The idea of deterrence holds that a much harsher punishment is necessary to deter future criminal activity by the offender and potential offenders. Additionally, there are a number of deterrent strategies that can be applied when dealing with companies, even though corporate punishment isn't really possible in this situation.

Although it has been noted that the deterrent fines imposed on corporations would hurt a lot of innocent employees, shareholders, or members of the public, this should not be used as an excuse because there are instances where corporations profit from criminal activity and have a culture of impunity.

About the preventive theory of punishment, which has typically been applied to render criminal's incapable of committing new crimes, it is unclear to what degree and under what conditions this theory can be applied to the decision-making and punishment of corporations. Since corporate criminals' illegal behaviour is predicated on their capacity to maintain respectability in structured positions within the industry, prevention is far more successful with them.

(B) Corporate Sentencing policy in India

Even though corporate crimes are among the most controversial subjects, corporate sanctions and punishments are typically punished under both civil and administrative law. Since Section 11 of the IPC, 1860 and Section 2 of Bharatiya Nyaya Sanhita, 2023 defined a "person" as any corporation, association, or group of persons, whether incorporated or not, criminal liability of corporations has been recognized by Indian law. The judiciary has also recognized the illegality of companies as separate entities.

In the case of "Assistant Velliappa Textiles Ltd. and Ors.," the topic of punishment was examined. The court determined that if the offense's penalty specifically calls for

imprisonment, the company's criminal liability cannot be enforced. In its 41st, and 47th reports, the Law Commission of India did suggest punitive measures for corporate criminal liability, which are either imprisonment or a fine because, in most cases, corporations should be fined for white collar crimes.

The main problem that exists today is that corporations are not allowed to be imprisoned and are instead subject to penalties in the form of fines and compensation, which may be the simplest way to avoid criminal liability or imprisonment. Even though it has a negative impact on society, it is not much to pay fines or compensation to companies or corporations that are economically and financially strong when they violate the law.

However, the Apex court overruled the Velliappa ruling in "Standard Chartered Bank v. Directorate of Enforcement⁷" and came to the conclusion that the court could only impose a fine in these situations. India still lacks an appropriate sentencing strategy, despite the Supreme Court's ruling that companies can be tried and found guilty of crimes carrying jail time and fines.

JUDICIAL APPROACH TO CORPORATE CRIMINAL LIABILITY IN INDIA

Over the past few years, the concept of corporate criminal liability has been developing in India. Authorities are realizing that stricter and more precise laws and regulations are required to deter corporations from committing corporate crimes and defaults as these crimes take on increasingly complex forms. Furthermore, courts are starting to expand corporate criminal liability beyond its initial, limited bounds and adopt a harsher stance.

In addition to the Indian Penal Code of 1860, the concept of corporate criminal responsibility is found in a number of laws and regulations. Since its inception, the concept of corporate criminal culpability has continued to evolve. Many typical problems with its application in practical settings have been resolved. The court plays a significant role in determining corporate criminal liability because the following cases are being critically examined and provide specific examples of the problems and observations the judiciary encountered when determining corporate criminal liability.

The framework for resolving corporate misgovernance issues, which have devastated millions of unsuspecting investors and their households, has been established by the court rulings. The

⁷Standard Chartered Bank v. Directorate of Enforcement (2005) 4 SCC 530.

courts have ruled that the public must be protected from numerous financing companies. As a result, the Supreme Court ruled that "the state has a constitutional obligation to protect socially and economically marginalized sections of society against exploitative practices by corporations." The judiciary is also aware of the power that large corporations hold and how to best utilize it for the benefit of society.

One of the primary issues was what kind of fines and penalties might be imposed on a corporation for violating the law that need to be settled. It was necessary to look into alternative options because a company is a virtual legal entity that cannot be imprisoned. The issue at hand concerned whether the courts could replace the legally mandated term with penalties. There are additional effects of this issue in India.

The case Standard Chartered Bank and Ors. V. Directorate of Enforcement and Ors. overturned previous rulings on corporate criminal liability and provided a new perspective on the concept. In this case, Standard Chartered Bank was being tried for breaking multiple provisions of the Foreign Exchange Regulation Act of 1973. "FERA"). According to the Supreme Court, no organization is exempt from criminal prosecution simply because the prosecution requests a mandatory sentence. The Supreme Court ruled that businesses must be penalized when both imprisonment and punishment are required.

The courts have attempted to clarify the legal definition and ramifications of corporate criminal culpability in the two most recent cases, Sunil Bharti Mittal v. Central Bureau of Investigation ("CBI") and others and Iridium India Telecom Ltd v. Motorola Incorporated and others. Similar to an individual, a corporation may be found guilty of both common law and statutory offenses, including those requiring mens rea. A corporation is held criminally liable when a person or group in charge of its affairs commits an offense pertaining to the company's operations.

CONCLUSION

In India, the concept of corporate criminal liability is still relatively new. Despite efforts to reduce corporate crime through laws like the Companies Act of 2013, the concept and definition of corporate criminal culpability are still in their early years. The Indian government is making a lot of effort to fight corruption, which is a constant threat. Both civil and criminal liability are shared by people and companies in these types of crimes. It is still uncertain to what degree rules and regulations can effectively control business activity. Most courts are trying to find the best practical decision given the circumstances because they are unable to

use a traditional methodology.

The current legal requirements are still insufficient to effectively control many corporate crimes. As crimes evolve, determining corporate criminal responsibility becomes increasingly crucial. As of right now, it has been observed that most circumstances do not subject corporations to criminal liability. The Companies Act 2013 is an admirable attempt to improve corporate governance practices and increase corporations' accountability and responsibility. Although there is undoubtedly more work to be done in this area, the advancements made thus far should not be discounted.

Provisions must be made to avoid misconceptions regarding corporate criminal responsibility and how it impacts businesses. Business scandals are having a detrimental effect in India. However, given India's development and accomplishments, businesses are not held criminally responsible, and if they were, the only punishment would be fines. Many people have criticized the current standards used to assess a company's criminal liability, calling them illogical and inconsistent with the fundamental tenets of the criminal code.

The court should have the power to select a suitable person or people to write a report on a company that requires a professional assessment. In addition to or instead of a fine, a company that has been sentenced should issue a few orders in a manner that it believes will achieve the sentencing objectives. It is necessary to impose harsher sanctions, like corporate dissolution, which would give the courts the authority to decide whether a penalized company can reorganize or not.

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