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SHORT-TERMISM: A CHINK IN INDIA'S CORPORATE GOVERNANCE ARMOUR

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Abstract

Despite possessing a comprehensive corporate governance framework, India faces a persistent challenge of short-termism, which is, the prioritization of immediate results over long-term value creation. This research paper investigates how India's regulatory architecture, contrary to its stated objectives, structurally incentivizes short-term corporate decision-making, thereby undermining sustainable growth and stakeholder welfare.

Through doctrinal analysis of statutory provisions, regulatory frameworks, and judicial pronouncements, this study identifies specific legal mechanisms that embed short-termist pressures within Indian corporate governance. The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, particularly Regulation 33's mandatory quarterly reporting within 45 days, creates systematic pressure for three-month optimization cycles—contrasting sharply with the UK and EU's semi-annual reporting regimes. Schedule V of the Companies Act, 2013 mandates disclosure of performance-linked executive compensation but conspicuously omits any temporal dimension, enabling companies to tie remuneration to quarterly targets without regulatory constraint. The Insolvency and Bankruptcy Code, 2016, paradoxically generates defensive short-termism through its low default threshold (₹1 crore under Section 4) and rigid resolution timelines (180-330 days under Section 12), creating constant insolvency anxiety that prioritizes immediate liquidity over strategic investment.

Comparative analysis with UK Section 172 (Companies Act 2006), which explicitly requires directors to consider "long-term consequences," reveals significant gaps in India's framework. The study proposes specific legislative amendments including: explicit long-term orientation in Section 166 directors' duties, transition to semi-annual reporting, flexible IBC timelines, mandatory multi-year performance metrics in Schedule V, and enhanced independent director qualifications focused on sustainability expertise.

Keywords: Short-termism, Corporate Governance, SEBI Regulations, Directors' Duties,

Quarterly Reporting, Executive Compensation, Insolvency and Bankruptcy Code, Long-term Value Creation, Stakeholder Welfare, Regulatory Reform

Introduction

In the constantly changing world of modern business, short-termism has become a lasting challenge for corporate governance systems worldwide. Short-termism means that corporate managers and investors often focus on immediate financial gains and short-term performance metrics. This focus comes at the cost of long-term value creation, innovation, and institutional sustainability.¹ This issue is a major concern in corporate governance research. It raises important questions about whether current governance systems properly connect managerial incentives with the long-term goals of companies and their stakeholders.²

Corporate governance frameworks assume that directors and managers are fiduciaries who must use their power to benefit the company.³ Section 166 of the Companies Act in India recognises this principle. It says that directors must act in good faith and work for the success of the company while also thinking about the needs of employees, shareholders, and the environment.⁴ The statutory articulation of these duties reflects a clear legislative commitment to long-term corporate stewardship.⁵

Even though there is a strong emphasis on creating long-term value, modern capital markets often create incentives that lead companies to make decisions based on short-term performance. Researchers have said that modern financial markets are more likely to reward short-term financial results than long-term strategies that will last.⁶ Investors often react strongly to quarterly earnings reports and short-term financial disclosures. These can change how managers act and how a company plans for the future.⁷ As a result, managers may feel pressure to put short-term financial indicators first in order to keep investors happy and market values high.⁸

Changes in modern financial markets can help us understand the tension between long-term

¹ Abhinav Gupta & Madeeha Arshad, Short-Termism in India: Towards a Sustainable Corporate Governance Model, 5 J. ON GOVERNANCE 45 (2023).

² William Lazonick & Mary O'Sullivan, Maximizing Shareholder Value: A New Ideology for Corporate Governance, 29 ECON. & SOC'Y 13 (2000).

³ Mihir Naniwadekar & Umakanth Varottil, Directors' Duties and Stakeholder Interests: Comparing India and the United Kingdom (Oxford Bus. L. Blog, 2016).

⁴ Companies Act, 2013, §166 (India).

⁵ Umakanth Varottil, The Evolution of Corporate Governance in India (2015).

⁶ Eugene Fama, Efficient Capital Markets: A Review of Theory and Empirical Work, 25 J. FIN. 383 (1970).

⁷ Robert C. Pozen, Institutional Investors and Corporate Short-Termism (Harv. L. Sch. Forum 2015).

⁸ CFA Institute, Short-Termism Revisited (2020).

corporate governance principles and short-term market pressures. For example, the rise of institutional investment and more open information sharing have changed how companies are owned.⁹ In an ideal world, efficient capital markets would consider both short-term and long-term information when setting stock prices. This would help to discourage strategies that could harm the long-term value of companies.¹⁰ However, several scholars have argued that market participants often demonstrate behavioural biases favouring short-term outcomes, thereby creating incentives for companies to prioritise immediate financial performance.¹¹

Within the Indian context, concerns regarding short-termism have also been recognised by regulatory authorities and corporate governance committees. The Narayana Murthy Committee on Corporate Governance (2003) highlighted the need for stronger governance frameworks that encourage companies to focus on sustainable long-term growth rather than short-term market expectations.¹² Subsequently, the Uday Kotak Committee on Corporate Governance (2017) observed that many corporate boards increasingly allocate resources toward achieving quarterly financial targets instead of pursuing long-term strategic objectives.¹³ The Committee emphasised that sustainable corporate governance requires directors to adopt a long-term stewardship perspective while balancing the interests of diverse stakeholders.¹⁴

At the same time, the broader regulatory environment governing corporations may generate structural incentives that reinforce short-term managerial behaviour. For instance, listed companies in India are required to disclose quarterly financial results under Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, which significantly increases the visibility of short-term financial performance and intensifies market scrutiny.¹⁵ Similarly, developments in insolvency law have altered the incentives of corporate management by emphasising rapid resolution of financial distress. The Insolvency and Bankruptcy Code, 2016 establishes a time-bound corporate insolvency resolution process that can displace existing management upon the commencement of insolvency proceedings.¹⁶

Judicial interpretation of the Insolvency and Bankruptcy Code has reinforced the central role of creditor interests and market efficiency in insolvency resolution.¹⁷ In *Swiss Ribbons Pvt. Ltd. v. Union of India*, the Supreme Court recognised the objective of the Code as ensuring

⁹ Matt Orsagh et al., *Short-Termism Revisited: Improvements Made and Challenges Ahead* (CFA Inst.).

¹⁰ David Katz et al., *The Long Term, the Short Term, and the Strategic Term* (Harvard Law School Forum).

¹¹ Rajat Deb, *YES Bank Fiasco: A Corporate Governance Failure*, 48 DECISION 217 (2021).

¹² SEBI, *Report of the Narayana Murthy Committee on Corporate Governance* (2003).

¹³ SEBI, *Report of the Uday Kotak Committee on Corporate Governance* (2017).

¹⁴ *Id.*

¹⁵ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Reg. 33.

¹⁶ Insolvency and Bankruptcy Code, 2016 (India).

¹⁷ Insolvency and Bankruptcy Board of India, *Behavioural Impact of IBC Report* (2020).

timely resolution of corporate insolvency while maximising the value of corporate assets.¹⁸ Similarly, in *Committee of Creditors of Essar Steel India Ltd. v. Satish Kumar Gupta*, the Court emphasised the primacy of the commercial wisdom of creditors in insolvency resolution processes.¹⁹

This study argues that although better creditor protection and discipline help strengthen the corporate insolvency laws, at the same time, such decisions also show how corporate insolvency laws might encourage firms to be preoccupied with their financial wellbeing in the short run to save themselves from being insolvent. Hence, corporate decision-makers function within a complex legal regime that not only supports the concept of long-term fiduciary obligations but also encourages short-term financial gains.

Therefore, this study focuses on viewing short-termism primarily as a matter of corporate law in terms of the interrelationship between the law of corporations, securities regulation, and corporate insolvency law in the Indian corporate governance regime. This paper is expected to use the statutory provisions, judicial pronouncements, regulations, and the existing body of literature on corporate governance to ascertain whether, even when the Indian legal system emphasizes long-term stewardship of the corporation, it unintentionally creates an incentive to behave short term.

Statement of Problem

The unprecedented growth and change in capital markets have significantly impacted business practice and corporate governance practices. Increased participation, advances in technology, globalization of financial markets, and greater activity on the part of investors have made financial markets robust and increased access to capital. However, there have also been a few negative outcomes of the developments in the area. Amongst them is the growing trend of short-termism in corporate decision-making. The term short-termism refers to a tendency in businesses and corporations whereby management and organizations focus more on short-term financial performance and results than on achieving long-term strategic goals and sustained success.

It is reflected in the problems associated with the topic in important reports on governance such as the Narayana Murthy Committee Report (2003) and the Uday Kotak Committee Report (2017). Both documents argue that the emphasis on short-term results poses significant threats

¹⁸ *Swiss Ribbons Pvt. Ltd. v. Union of India*, (2019) 4 S.C.C. 17 (India).

¹⁹ *Comm. of Creditors of Essar Steel India Ltd. v. Satish Kumar Gupta*, (2019) 15 SCC 1 (India).

to the achievement of long-term corporate governance goals. Therefore, the question of how well the existing regulatory framework fosters the idea of long-term corporate governance in India is very topical and needs discussion. Moreover, the problem is complicated by the connection between the fiduciary obligations of directors established by Section 166 of the Companies Act, 2013 and the incentives created by Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as well as the Insolvency and Bankruptcy Code, 2016. Thus, all the legislation above contributes to creating a regulation-based environment, where there might be more interest in short-term results despite the legislative intention to support long-term stewardship.

Objectives

The key objectives of the study are as follows:

- To analyse the concept of short-termism within the framework of Indian corporate governance law.
- To examine whether the existing legal and regulatory framework in India adequately addresses short-termism.
- To identify the key structural and regulatory factors contributing to short-termism in Indian corporations.
- To assess the impact of short-termism on corporate governance and stakeholder interests in India.
- To suggest legal and policy reforms to mitigate short-termism and promote long-term corporate governance.

Hypothesis

The interaction between directors' duties under the Companies Act, 2013 and regulatory mechanisms under securities and insolvency law creates incentives that prioritise short-term performance over long-term corporate value creation.

Research Questions

The research questions of the study are as follows:

- What is the concept of short-termism in India?
- Is there any evidence supporting the existence of short-termism in India?
- What factors are responsible for the presence of short-termism in India?

- What are the potential consequences of short-termism in the Indian context?
- What policy suggestions and corporate governance reforms can address and mitigate the negative effects of short-termism, fostering responsible and sustainable long-term value creation in the Indian corporate sector?

Scope

The purpose of this paper is to analyze the problem of short-termism and suggests solutions for the issue in the Indian context. This research work will focus on different aspects of the issue of short-termism such as the definition of the issue, evidence of the problem, its causes and effects in India. Statutory, judicial and regulatory aspects that determine the Indian corporate governance will be analyzed.

Research Methodology

The seminar paper is an attempt at conducting a critical review of the existing legal and regulatory regime in relation to the concept of corporate governance in India, focusing particularly on the interrelationship between corporate governance laws and the problem of corporate short-termism. In order to do so, statutory laws pertaining to corporate governance in India, such as the Companies Act, 2013 (particularly Section 166 regarding the responsibilities of the directors) as well as SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, have been considered in the light of legal provisions for share buybacks, takeover regulation, and the Insolvency and Bankruptcy Code, 2016. Legislative intentions and trends in the regulation have been traced using committee reports like the Narayana Murthy Committee Report, 2003, and the Uday Kotak Committee Report, 2017.

In addition to that, primary sources include the judicial pronouncements by the Supreme Court of India, along with decisions by the relevant tribunals, in order to provide insights into the legal interpretation of duties of directors, protection of creditors, and corporate governance. Secondary sources consist of academic literature, regulatory reports, scholarly analyses, and examples of corporate law cases.

I. Corporate Governance and Short-Termism

In this section of the paper, the convergence of the concepts of corporate governance and short-termism and the common thread running through them is discussed.

A. Corporate Governance

During the turn of the 19th century, registered firms gained the capacity to accept substantial investments with the least amount of risk to investors.²⁰ The rapid pace of globalisation and liberalisation in India has forced businesses to implement effective corporate governance practices.²¹ In order to include and guarantee accountability and responsibility in the framework, the corporate sector's evolution called for the creation of a unique team of corporate managers who were not beholden to the shareholders. High-scale firms would find management difficult to handle due to their high number of stockholders, which is why separate ownership and management became necessary.²²

Moreover, as businesses use public offerings of shares to raise money, this may result in a situation where the investors lack the knowledge and experience necessary to run a large-scale business.²³ As a result, the division between management and shareholders is what led to accountability issues and ultimately formed the basis of contemporary corporate governance.²⁴

Corporate governance is described as “a set of relationships between a company's management, its board, its shareholders, and other stakeholders and provides the structure for setting objectives, determining means of attaining them, and monitoring performance of the company” by the Organisation for Economic Co-operation and Development (“OECD”).

Thus, by guaranteeing that the management fulfils its obligations, sound corporate governance protects the interests of all parties concerned, including shareholders, creditors, customers, the government, and society at large.²⁵ It was realised that putting in place sound corporate governance may reduce the likelihood of wrongdoing, enhance accountability, and speed up internal decision-making, all of which would increase operational efficiency. Crucially, it seeks to position the company as a responsible corporate citizen by advancing the interests of numerous stakeholders using morally sound and open methods.²⁶ Whether or not this encouragement of interest results in an improvement in financial performance is immaterial.²⁷

²⁰ Shreeparna Dutta, 'Emergence and Development of Corporate Governance in UK, USA and India' (2015) 6(2) Indian Journal Of Law And Justice 72, 72

²¹ Ananyaa Jha & Aayush Kanojia, 'Globalisation and Corporate Governance in Indian Context' (2020) 3(5) Intl J. Law Man. & Human. 482, 485-486

²² Shreeparna Dutta, 'Emergence and Development of Corporate Governance in UK, USA and India' (2015) 6(2) Indian Journal Of Law And Justice 72, 72

²³ Ibid.

²⁴ Vivek Sadhale, 'Corporate Governance. The Situation in India Compared to Other Countries with Specific Reference to Corporate Governance in the UK' (2009) 2(6) International In-House Counsel Journal 675, 675

²⁵ Shreeparna Dutta, 'Emergence and Development of Corporate Governance in UK, USA and India' (2015) 6(2) Indian Journal Of Law And Justice 72, 72

²⁶ Atul Mehrotra, 'Corporate Governance, SEBI & Corporate Laws' (1997) 90(4) The Corporate Laws Weekly 157, 157

²⁷ Martono Anggusti et al., 'Corporate Governance for Employee's Welfare' (2015) 3(3) Intl Soc. Sci. Stud 257,

Stated differently, the responsibility of the board and management is to balance the interests of different stakeholders rather than to maximise profits.²⁸

Corporate social responsibility is the phrase for this concept, which is essential to corporate governance.²⁹ A sound corporate governance model can also help to prevent costly litigation by guaranteeing adherence to the relevant legal obligations.³⁰ Furthermore, corporate governance is particularly important for developing markets like India since it helps lessen financial volatility and enhance a company's reputation, which attracts investors.³¹

Clause 49 of the Listing Agreement served as the main source of corporate governance prior to the Companies Act, 2013 (“**the Act**”).³² To guarantee efficient and effective corporate governance, several rules and measures have been implemented since the Act's inception. For example, §166 of the Act codifies the responsibilities of the directors. Among the other notable adjustments are the reorganisation of the board of directors and the removal of the practice of designating nominated directors as independent directors.³³

Furthermore, the Act requires directors of a company to act in good faith in furthering the interests of the firm's stakeholders, which include the company, its shareholders, its employees, society, and the environment.³⁴

B. Short Termism

Companies that generate profits for their shareholders have generally been praised and rewarded for doing so for almost fifty years.³⁵ Nonetheless, there has been a paradigm change in the attitudes of members of the corporate sector in recent decades, with the suggestion that the company's long-term interests may be at odds with maximising profitability and profits.³⁶ Corporate short termism is described as “an excessive focus on short-term results at the expense

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²⁸ Ibid.

²⁹ Mauricio Andres Latapi Agudelo, ‘A literature review of the history and evolution of corporate social responsibility’ (2019) 4(1) Intl. J. Corporate Soc. Responsibility 1, 1-2

³⁰ Afra Afsharipour, ‘The Promise and Challenges of India's Corporate Governance Reforms’ (2010) 1 Indian Journal Of Law & Economics 33, 61

³¹ Dr. QaziMohd. Usman, ‘Corporate Governance and its Efficacy in Present Era’ (2017) 2 Jamia Law Journal 61, 62-63

³² Ibid

³³ Nishith Desai Associates, ‘Companies Act, 2013: Greater Emphasis on Governance through the Board and Board Processes’ (Lexology, 4 June 2014) <<https://www.lexology.com/library/detail.aspx?g=259ba402-8b1d-48ee-837e-63261752aef1>>

³⁴ s 166, Companies Act 2013

³⁵ David A. Katz et al., ‘The Long Term, The Short Term, and The Strategic Term’ (Harvard Law School Forum On Corporate Governance, 27 Sept. 2019) <<https://corpgov.law.harvard.edu/2019/09/27/the-long-term-the-short-term-and-the-strategic-term/>>

³⁶ Id.

of long-term interests” by the Chartered Financial Analyst Institute (“CFA”).³⁷

According to CFA's recommendations, aiming for shorter durations puts a company's strength and shareholder rewards at risk. The CFA has noted a correlation between worse returns over a period of three to five years and underinvestment in research and development in addition to other general and administrative expenses in its 2020 report, “Short-Termism Revisited.” The research advocates for corporations to embrace a long-term-focused strategy that involves adherence to environmental, social, and governance (“ESG”) criteria.³⁸

There are specific reasons to reduce short-termism. In a paper published by the Principles of Responsible Investment and the United Nations Global Compact, they noted that short-termism is not in line with the UN Sustainable Development Goals.³⁹ It also came to the conclusion that doing so may hinder innovation and reduce market prospects, as well as deflect corporate executives' focus from the fundamentals of corporate governance and, consequently, from environmental, social, and governance (ESG) issues.

II. The Existence of Short-Termism in India

Perhaps the first reliable source to draw attention to the short-termism present in the Indian corporate governance framework was the Narayana Murthy Committee Report on Corporate Governance, published in 2003.⁴⁰ Subsequently, the Uday Kotak Committee Report on Corporate Governance, 2017 (“the Report”) made more pleas about this important matter.⁴¹ According to the report, India is not an exception to the worldwide trend of placing an undue premium on a company's short-term performance at the expense of its long-term success.⁴² According to the report, rather than pursuing long-term strategy, many organisations and their boards allocate significant resources towards achieving their quarterly goals. According to the report, achieving long-term objectives is one of a company's primary responsibilities and is necessary to set up a strong corporate governance system.⁴³

³⁷ Chartered Financial Analyst Institute, ‘Report on Short Termism, CFA’ <<https://www.cfainstitute.org/en/advocacy/issues/short-termism#sort=%40pubbrowsedate%20descending>>

³⁸ Matt Orsagh et al., ‘Short Termism Revisited – Improvements Made and Challenges Ahead in Investing for the Long Term’ (Chartered Financial Analyst Institute, Sept. 2020) <<https://www.cfainstitute.org/en/advocacy/policy-positions/short-termism-revisited>>

³⁹ The United Nations, ‘Principles of Responsible Investment, Coping, Shifting, Changing 2.0’ (UN, 2017) <<https://www.unglobalcompact.org/library/5421>>

⁴⁰ Securities and Exchange Board of India, ‘Consultative Paper on Review of Corporate Governance Norms in India’ (SEBI, 21 March 2003) <https://www.sebi.gov.in/sebi_data/attachdocs/1357290354602.pdf>

⁴¹ Securities and Exchange Board of India, ‘Report of the Committee on Corporate Governance’ (SEBI, 5 Oct. 2017) <https://www.sebi.gov.in/reports/reports/oct-2017/report-of-the-committee-on-corporate-governance_36177.html>

⁴² Ibid, Page 5.

⁴³ Id, Page 6.

A. Factors for assessing short-termism

Various indices have been proposed by academics over the years to evaluate the presence and degree of corporate short-termism in the business sector. A commonly used metric is the evaluation of the evolution concerning the percentage of net corporate funds allocated to dividend payments to shareholders in comparison to the variation in the percentage allocated to the company's investments.⁴⁴ This is justified by the argument that rising dividend payout costs reflect the company's preference for short-term goal achievement above the long-term, sustainable corporate strategy suggested by investments.⁴⁵

It is crucial to remember that there is no hard cut limit that someone must meet to declare that there is an overwhelming emphasis on short-termism. Rather, the idea is assessed over time, with an increase indicating a rise in short-termism. This strategy is based on a hypothesis. Numerous academics, like William Lazonick and Mary O'Sullivan, have suggested that businesses use their net income to support their shareholders or make future investments.⁴⁶ This suggests that as shareholder payouts rise, there are fewer resources available for investment. According to Lazonick and O'Sullivan, the policy of "downsize and distribute" rather than "retain and invest" is the result of a growing fixation on shareholder value.⁴⁷ Put another way, businesses have less money available for R&D when they allocate a significant portion of their profits to dividends. Consequently, the author can see that there is a negative correlation between the amount used for investments and the amount paid out in dividends.

The corporate payouts to shareholders in the form of dividends are examined in the current study.⁴⁸ Consequently, given the foregoing reasoning, any increase in the total dividend payout would signify a reduction in the amount of money available for investments and would therefore emphasise the rise in short-termism.⁴⁹

To account for the impact of inflation and the gradual expansion of an organisation, the dividend payout is examined using ratio analysis. The dividend pay-out ratio ("DPR") is hence the foundation of the analysis.

The most popular technique for calculating DPR is to divide the total dividends paid by the

⁴⁴ Heitor Almeida et al., 'The Real Effects of Share Repurchases' (2015) 119 *Journal of Financial Economics* 168, 168-185

⁴⁵ Ibid.

⁴⁶ William Lazonick & Mary O'Sullivan, 'Maximising Shareholder Value: A New Ideology for Corporate Governance' (2000) 29(1) *Economy And Society* 13, 13-35

⁴⁷ William Lazonick, 'The US Stock Market and the Governance of Innovative Enterprise', (2007) 16(6) *Industrial And Corporate Change* 983, 983

⁴⁸ Heitor Almeida et al., *The Real Effects of Share Repurchases*, 119 *J. FIN. ECON.* 168, 170 (2015).

⁴⁹ J.W. Mason, *Disgorge the Cash: The Disconnect Between Corporate Borrowing and Investment*, Roosevelt Inst. (Feb. 25, 2015), <https://rooseveltinstitute.org/publications/disgorge-the-cash/>.

company's net revenue. However, the author has had to use a different approach to calculate DPR, which is dividing the dividends per share by the company's earnings per share, because there is not any publicly available information about the same for any of the thirty firms.

B. Findings of the study

From FY 2016–17 to FY 2020–21, it appears that there has been a rise in shareholder pay-outs, with the corporations exhibiting an upward trend. As seen in Figure 1 below, each company has individually demonstrated an increase in the DPR over time.

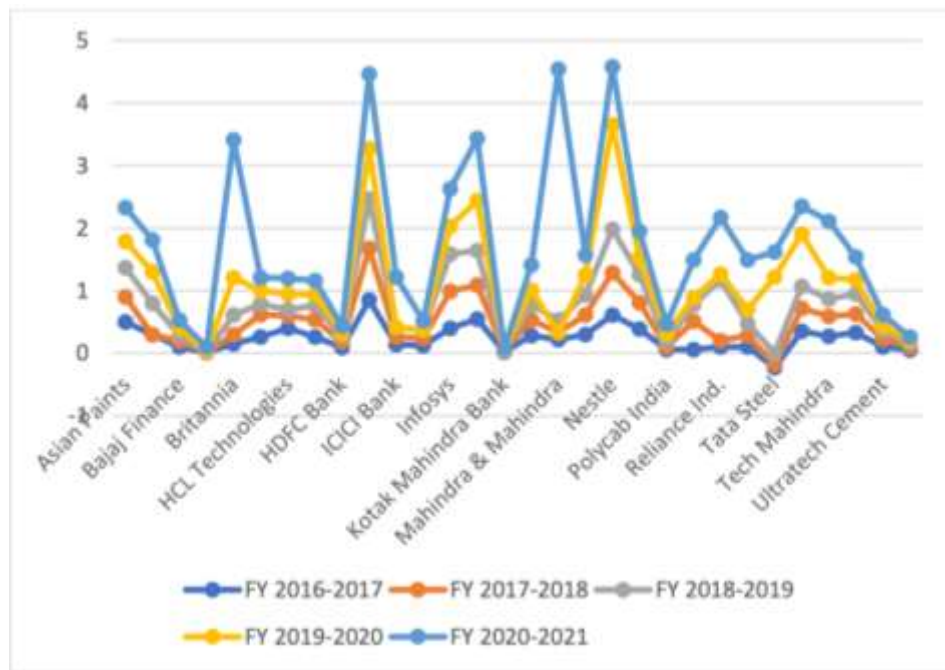


Figure 1: Company Wise DPR Growth

Apart from this specific rise, Figure 2 below illustrates the exponential growth of the overall average DPR as a percentage of revenue, which went from 23.7% in FY 2016–2017 to 61.1% in FY 2020–2021. The main causes of this expansion are the substantial increases in the DPR of a select business, like Britannia, Tech Mahindra, Reliance Ind., and Mahindra & Mahindra, to mention a few.⁵⁰ Due to the COVID-19 pandemic, which forced businesses to raise dividend payouts, there was a discernible uptick in growth for the FY 2020–2021, with the DPR rising sharply to 61.1%.⁵¹

⁵⁰ Hyun-Dong Kim et al., *Short-Term Institutional Investors and Agency Costs of Debt*, 95 EUR. FIN. MGMT. 1, 25 (2019).

⁵¹ Matt Orsagh et al., *Short-Termism Revisited: Improvements Made and Challenges Ahead in Investing for the Long Term*, CFA INST. (Sept. 2020).

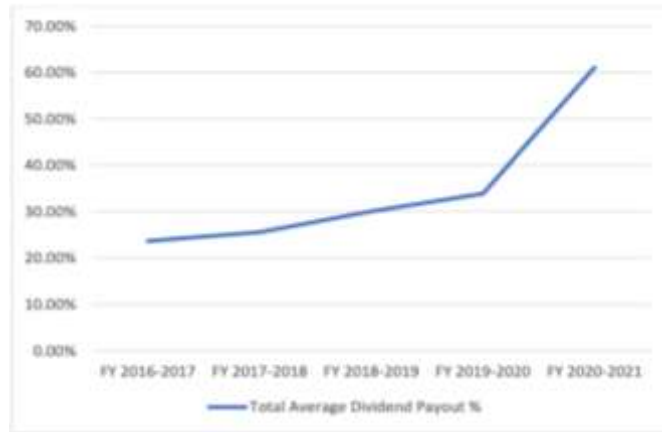


Figure 2: Growth in Total Average Dividend Payout (in percentage)

The DPR’s evolution shows that short-termism is highly prevalent among India's listed corporations. In FY 2019–2020, the DPR stabilised to some extent; however, during the pandemic in FY 2020–2021, it increased sharply once more. All industries have demonstrated an increase in the DPR over time, according to the sector-by-sector analysis carried out under Figure 3.⁵²

Notably, the DPR has increased sharply in the food and beverage, FMCG, and pharmaceutical industries. Over the past five years, the industry with the greatest consistent growth has been the food and beverage industry. Furthermore, even though the auto industry has had a sharp increase, Mahindra & Mahindra is the sole company to be blamed for this in FY 2020–2021.

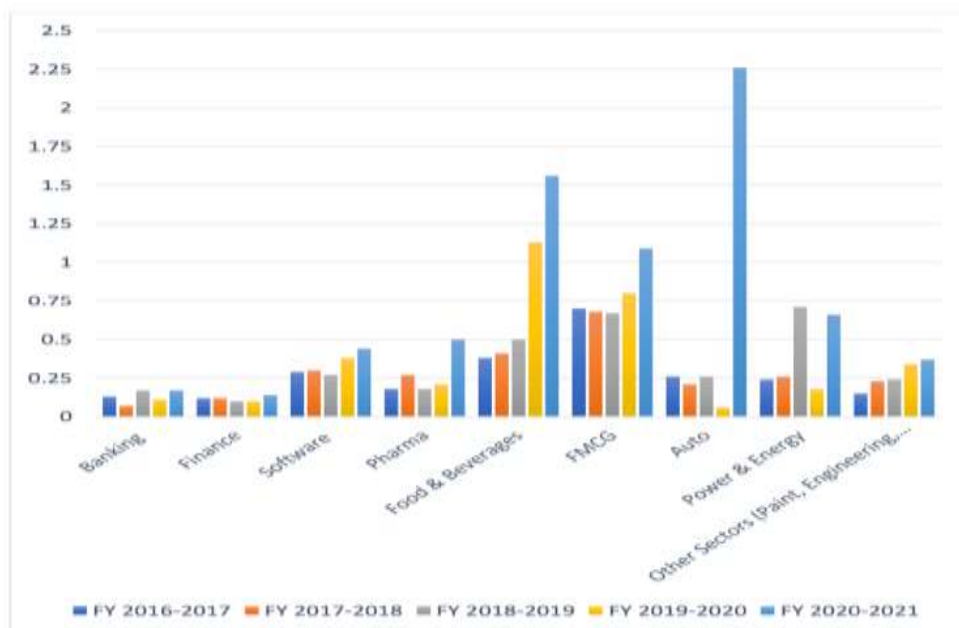


Figure 3: Sector Wise DPR Growth

⁵² SEBI, Report of the Committee on Corporate Governance (Uday Kotak Committee) (Oct. 5, 2017),

Thus, the study has demonstrated that, on average, over the previous five fiscal years, the DPR of the thirty listed businesses has increased significantly. This suggests that the corporations have less money for long-term investments, in line with the earlier premise. These indicators meet the criteria for short-termism, and the research shows a sharp rise in them.⁵³

Resultantly, rather than making logical long-term investments that support the smooth operation of corporate governance, businesses are increasingly concentrating on maximising their short-term earnings. Therefore, despite the previously mentioned limitations, our study contributes by drawing attention to the general and sectoral rise in short-termism in the Indian corporate governance framework.

C. Regulatory Architecture as a Structural Incentiviser of Short-Termism

Beyond the empirical evidence established through the DPR analysis, the structural design of India's securities regulatory framework itself generates institutional pressures that incentivise short-term corporate behaviour. In this regard, a particular noteworthy mechanism is Regulation 33 of the Securities and Exchange Board of India's Listing Obligations and Disclosure Requirements Regulations of 2015 that mandates every listed entity to publish its quarterly and annual financial results within a designated time period.⁵⁴ Although such a regulation is aimed at achieving the legitimate regulatory goal of transparency and investor protection, it also increases the prominence of short-term financial performance and adds more pressure on the market to focus on the quarterly performance indicators.

The impact of mandatory quarterly disclosures on the management's behaviour is not a new topic in the academic literature. The problem is that when corporate performance is evaluated based on quarterly results, it becomes a part of the periodic market expectations from the company. Consequently, managers face constant pressure to generate favourable short-term results, otherwise the market disappointment may lead to negative reaction, reduction in shares price, and investor discontent. Indeed, according to the study published by the CFA Institute in 2020, periods of disclosure and emphasis on short-term financial performance led to corporate short-termism because corporations start investing less into long-term strategies, such as research and development.⁵⁵

⁵³ CFA Inst., *Report on Short-Termism*, <https://www.cfainstitute.org/en/advocacy/issues/short-termism> (last visited Feb. 20, 2026).

⁵⁴ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Reg. 33 (India).

⁵⁵ Matt Orsagh et al., *Short-Termism Revisited: Improvements Made and Challenges Ahead in Investing for the Long Term*, CFA INST. (Sept. 2020), <https://www.cfainstitute.org/en/advocacy/policy-positions/short-termism-revisited>.

In the Indian case, such pressure is additionally amplified by the large importance placed on the quarterly earnings reports by institutional investors. Based on the concurrent increase in institutional ownership, the board of directors of every listed Indian company operates under constant market supervision throughout the entire year (four disclosure cycles). In essence, such structure shortens the time horizon of the management's decision-making and creates a bias towards making decisions that bring measurable short-term results rather than long-term benefits. Therefore, while being a legitimate regulatory measure, Regulation 33 of the SEBI LODR Regulations indirectly promotes short-termism among Indian corporations.⁵⁶

An additional structural incentive encouraging short-termism in the Indian governance structure can be found in the Insolvency and Bankruptcy Code, 2016. Under the Code, there is a Corporate Insolvency Resolution Process which is subject to time constraints. Specifically, when a corporate debtor fails to pay off its debts, the admission of an insolvency application results in the replacement of the management of the debtor firm by an Insolvency Resolution Professional. Therefore, once an insolvency petition has been admitted, the current directors of the company are automatically suspended from managing the affairs of the entity.

The displacement system outlined above creates strong incentives for directors and managers to focus on short-term financial gains rather than longer-term considerations. When management realizes that its continued presence is conditional on the ability of the company to meet its financial obligations, the managers will be structurally incentivized to conduct themselves in such a way that avoids triggering insolvency proceedings. In *Swiss Ribbons Pvt. Ltd. v. Union of India*,⁵⁷ the Supreme Court held that the overriding purpose of the Insolvency and Bankruptcy Code was the speedy resolution of insolvency and maximizing asset value, while prioritizing the interests of the creditor.

As a result of the creditor-focused framework of the Code, the management will face continuous threats of displacement, thus encouraging short-term practices. Indeed, although the introduction of the Insolvency and Bankruptcy Code was a major step towards enhancing corporate governance in India, the insolvency trigger of the Code adds a layer of short-term incentive structure in conjunction with Regulation 33 of the SEBI LODR Regulations.⁵⁸

⁵⁶ Abhinav Gupta & Madeeha Arshad, *Short-Termism in India: Towards a Sustainable Corporate Governance Model*, 5 J. ON GOVERNANCE 45, 56 (2023).

⁵⁷ *Swiss Ribbons Pvt. Ltd. v. Union of India*, (2019) 4 SCC 17 (India).

⁵⁸ *Comm. of Creditors of Essar Steel India Ltd. v. Satish Kumar Gupta*, (2019) 15 SCC 1 (India).

III. Consequences of Short-Termism

This section focuses on the negative effects that the company's short-term actions have on the social, economic, and environmental spheres. Consequences are emphasised here from both the Indian and global perspectives.

A. Environmental

The concept of shareholder primacy drives corporate short-termism, which makes it difficult to incorporate environmental concerns into company plans. This makes it more difficult to maintain the stability of the climate and biodiversity, which puts Earth's habitability in jeopardy. Research indicates that even in cases where laws permit ecologically responsible decision-making, boards tend to put immediate financial gain ahead of long-term sustainability.⁵⁹ As a result, sectors like hydropower, luxury goods manufacturing, and intensive agriculture are responsible for resource depletion, habitat destruction, and chemical contamination.⁶⁰ Natural habitats are threatened by intensive agricultural methods that rely on agrochemicals and land conversion, while freshwater biodiversity is disrupted by hydropower projects and water abstraction.

The ensuing deterioration of the ecosystem increases ecological instability and puts human health at risk. Additionally, forecasts suggest that by 2060, the world's use of raw materials would have roughly doubled due to economic growth and rising living standards.⁶¹ The stress on ecosystems and the shortage of resources are increased by this trajectory. To lessen these effects and make the shift to sustainable practices that put the long-term health of the environment ahead of short-term profit, immediate action is required. To solve these interrelated issues and protect the environment for coming generations, corporate governance must adopt a holistic strategy that includes environmental stewardship.⁶²

B. Social

By putting the interests of affluent shareholders first, short-termism exacerbates social inequality by creating gaps in CEO compensation and income distribution.⁶³ The top

⁵⁹ OECD, GLOBAL MATERIAL RESOURCES OUTLOOK TO 2060 (2019), <https://www.oecd.org/env/global-material-resources-outlook-to-2060-9789264307452-en.htm>.

⁶⁰ IPBES, *Intergovernmental Science- Policy Platform on Biodiversity and Ecosystem Services for Europe and Central Asia*, IPBES (2018) <https://ipbes.net/assessment-reports/eca>.

⁶¹ Ibid

⁶² OECD, G20/OECD PRINCIPLES OF CORPORATE GOVERNANCE (2015), <https://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf>.

⁶³ Thomas Clarke, *Why Shareholder Value Drives Income Inequality*, THE CONVERSATION (Jul. 26, 2018) <https://theconversation.com/why-shareholder-value-drives-income-inequality-100324>

percentile's share ownership has become more concentrated globally, especially in India where economic liberalisation has expedited this trend. The wealth gap is further widened by executive compensation that is closely linked to stock performance, as demonstrated by the large salary increases for CEOs during the epidemic despite workforce salaries remaining flat. This tendency is reflected in the expanding CEO-to-employee pay ratio, where India is ranked second only to the US. In global supply chains, cost-cutting strategies like outsourcing and labour exploitation are also driven by short-term business objectives. This is particularly evident in developing countries like India, which suffer from numerous human rights violations. Additionally, this short-sightedness of corporate culture reduces financial investment in long-term creation of value, such as training employees, which is crucial for sustainability and the progress of society.

Investing in training will not only enhance their skills but also foster competition and innovation, both of which are beneficial to society in the long run. Finally, the short-sightedness of corporate culture undermines labour rights, social inequality, and neglects to invest in the long-term, which is crucial for sustainability and the progress of society. Hence, it is imperative that we move towards sustainability by placing societal well-being ahead of profit.⁶⁴

C. Economic

Corporate boards are under pressure to put immediate market value ahead of long-term sustainability due to the prevalence of shareholder primacy and pressure from investors who are concentrated on short-term advantages. The emphasis on immediate profits frequently comes at the price of long-term success-oriented investments including capital expenditure, personnel compensation, and research and development (“R&D”).⁶⁵ This short-term thinking might occasionally prompt directors to engage in tax avoidance strategies to reduce the company's tax liability, externalising risks and placing an increased tax burden on local businesses and citizens.

This reduces government revenue and makes it more difficult to fund R&D, infrastructure, and education.⁶⁶ Disregarding planetary boundaries also exposes the corporate sector to dangers such as tighter restrictions, resource shortages, greater costs, and interruptions in the supply

⁶⁴ International Labour Organisation, *Report on World Employment and Social Outlook 2018: Greening with Jobs*, ILO (May 14, 2018) https://www.ilo.org/global/publications/books/WCMS_628654/lang--en/index.htm

⁶⁵ J.W. Mason, *Disgorge the Cash: The Disconnect Between Corporate Borrowing and Investment*, THE ROOSEVELT INSTITUTE (Feb. 25, 2015) <https://rooseveltinstitute.org/publications/disgorge-the-cash/>

⁶⁶ J.W. Mason, *Disgorge the Cash: The Disconnect Between Corporate Borrowing and Investment*, Roosevelt Inst. (Feb. 25, 2015), <https://rooseveltinstitute.org/publications/disgorge-the-cash/>.

chain. Businesses that disregard sustainability issues not only make matters more unsustainable, but they also endanger their own long-term viability and profitability. Research shows that businesses that embrace sustainability do better.

Conversely, businesses that follow short-term strategies not only contribute to unsustainability but also overlook long-term investments that are critical to their survival. Natural disasters and climate change, which are strongly associated with unsustainable activities, present serious risks to enterprises.⁶⁷ These risks could result in their failure and undermine their capacity to provide long-term value for shareholders. For businesses to stay viable, resilient, and sustainable in the face of escalating environmental and societal difficulties, they must identify and manage these risks. If this is not done, shareholder value may decline and the business may eventually dissolve.

D. Consequences for Indian Corporate Governance Law and Stakeholder Obligations

The implications of short-termism, therefore, go beyond the harm done to the environment and economic inefficiencies but instead affect the legal responsibilities that Indian corporate law places on firms in relation to their stakeholders. There are two key pieces of legislation that are rendered ineffective by short-termism.

Firstly, Section 135 of the Companies Act, 2013 requires that any firm meeting certain thresholds of net worth, turnover, or net profits allocate at least two percent of their average net profits in the last three years towards Corporate Social Responsibility.⁶⁸ This is, however, undermined by the existence of short-termism. Companies prioritising immediate shareholder returns are structurally incentivised to treat CSR expenditure as a cost to be minimised rather than a governance commitment to be fulfilled.⁶⁹ Where boards are oriented toward quarterly financial performance, CSR obligations are frequently approached in a compliance-oriented and tokenistic manner, rather than as part of a genuine long-term stakeholder strategy. This hollowing out of Section 135's intent is a direct consequence of the short-termist governance culture that this paper has identified.

Second, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 require listed entities to include a Business Responsibility and Sustainability Report under

⁶⁷ World Economic Forum, *The Global Risks Report*, WEF (Jan. 15, 2019) <https://www.weforum.org/reports/the-global-risks-report-2019>

⁶⁸ Companies Act, 2013, §135 (India).

⁶⁹ The Companies (Corporate Social Responsibility Policy) Rules, 2014, r. 4 (India).

Regulation 34, which mandates disclosure of ESG-related performance.⁷⁰ However, where management is under pressure to deliver favourable quarterly results, sustainability reporting tends to become a disclosure exercise divorced from actual corporate strategy. The governance consequence is that boards become accountable for short-term financial metrics while long-term stakeholder obligations are reduced to a formal reporting requirement. Short-termism therefore does not merely produce adverse economic and social outcomes; it actively undermines the stakeholder-protective intent of Indian corporate legislation itself.

E. Short-Termism and Governance Failure: The Yes Bank Illustration

The consequences of short-termism within the Indian corporate governance framework are perhaps most vividly illustrated by the collapse of Yes Bank. As discussed in the corporate governance literature, management at Yes Bank engaged in an aggressive lending policy with a view to growing the bank's assets rapidly and creating a positive perception regarding their operations.⁷¹ Non-performing assets at the bank were not accounted for and risk management strategies were deliberately undermined in order to ensure quarterly growth metrics remained positive and investor confidence was maintained in the short run.

The case of Yes Bank shows that the negative impact of short-termism is not just a concern regarding the nature of investments being made; rather, there are very real consequences that can arise. Management which has been induced to focus on short-term performance will inevitably be constrained in its ability to exercise the kind of independent supervision called for by Section 166 of the Companies Act, 2013. This is because the fiduciary duty owed to shareholders and other parties has been replaced by the necessity of maintaining positive quarterly results and investor confidence.⁷² The implications of the Yes Bank example are therefore clear: short-termism creates very real consequences for board accountability.⁷³

IV. Comparative Perspectives on Short-Termism

In the US, legislators, investors, and business executives have expressed concern about the issue of short-termism. Reforming regulations to encourage long-term investment is one

⁷⁰ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Reg. 34 (India).

⁷¹ Rajat Deb, *YES Bank Fiasco: A Corporate Governance Failure*, 48 DECISION 217, 219 (2021).

⁷² Khangembam Alka, *Toothless Legislation: The Gaps in Director's Duty to Promote Stakeholder Primacy*, SCC Online Blog (Dec. 13, 2024), <https://www.sconline.com/blog/post/2024/12/13/toothless-legislation-the-gaps-in-directors-duty-to-promote-stakeholder-primacy-i>.

⁷³ Mihir Naniwadekar & Umakanth Varottil, *Directors' Duties and Stakeholder Interests: Comparing India and the United Kingdom*, Oxford Bus. L. Blog (Aug. 28, 2016), <https://blogs.law.ox.ac.uk/business-law-blog/blog/2016/08/directors-duties-and-stakeholder-interests-comparing-india-and>.

noteworthy strategy. The Securities and Exchange Commission (SEC), for example, has implemented regulations mandating increased openness in executive compensation and long-term company strategy disclosure.⁷⁴ Furthermore, institutional investors are becoming more in favour of policies like doing away with quarterly profits forecasts, which can incite businesses to put short-term performance ahead of long-term value development.⁷⁵

In a similar vein, initiatives to counteract short-termism in the UK have centred on raising corporate governance standards and promoting sustainable business practices. The UK Corporate Governance Code places a strong emphasis on stakeholder involvement and long-term value creation.⁷⁶ Furthermore, the Task Force on Climate-related Financial Disclosures (TCFD) and other initiatives have played a significant role in encouraging companies to adopt more sustainable practices and take the long-term environmental impacts into account when making decisions by fostering transparency and accountability regarding climate-related risks and opportunities.⁷⁷ In addition, impact investment and socially responsible investing (SRI) have become increasingly popular as strategies for advancing long-term sustainability in both the UK and the USA.⁷⁸

Tax breaks, regulation, and other public-private collaborations have served as enablers of these initiatives, allowing governments and regulators to foster an environment where corporations would prioritize long-term value creation and address the pressing social and environmental challenges.

The experiences of the U.S. and U.K., therefore, offer valuable transplantable lessons for India. The most immediate reform is that relating to the abolishment or alteration of mandatory quarterly financial reporting for publicly-listed firms, an area where, for example, the U.K. has taken a lead, as evidenced by the Financial Reporting Council admitting that quarterly earning guidance promotes myopic corporate behaviour at the expense of long-term strategic thinking.⁷⁹

⁷⁴ Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, §951, 124 Stat. 1376, 1899 (2010) (U.S.) (requiring shareholder say-on-pay votes on executive compensation).

⁷⁵ Robert C. Pozen, *Institutional Investors and Corporate Short-Termism*, Harv. L. Sch. Forum Corp. Governance (Aug. 24, 2015), <https://corpgov.law.harvard.edu/2015/08/24/institutional-investors-and-corporate-short-termism/>.

⁷⁶ FIN. REPORTING COUNCIL, UK CORPORATE GOVERNANCE CODE (2018), <https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code>.

⁷⁷ TASK FORCE ON CLIMATE-RELATED FIN. DISCLOSURES, FINAL REPORT: RECOMMENDATIONS OF THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (2017), <https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf>.

⁷⁸ R. Boffo & R. Patalano, *ESG Investing: Practices, Progress and Challenges*, OECD (2020), <https://www.oecd.org/finance/ESG-Investing-Practices-Progress-Challenges.pdf>.

⁷⁹ FIN. REPORTING COUNCIL, UK CORPORATE GOVERNANCE CODE (2018), <https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code>.

India can follow suit by revisiting the wisdom of retaining the existing Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015,⁸⁰ regarding quarterly financial disclosures or adopting the alternative of half-yearly disclosure together with a more comprehensive requirement for narrative reporting about long-term strategy and sustainability. Another reform India could adopt from the U.K.'s experience concerns making use of the latter's corporate governance code in enforcing Section 166 of the Companies Act, 2013. Specifically, this suggestion relates to making mandatory the disclosure of how company boards have taken into consideration long-term stakeholder interests while making decisions.⁸¹ These reforms, based on the experience of foreign corporate governance and adapted to the structure of the Indian regulatory system,⁸² constitute the core suggestion made in Chapter V.

V. Suggestions to Address Short-Termism

As can be seen from the above discussion in Chapters II, III, and IV, corporate short-termism in India cannot be attributed to one specific form of governance failure but instead results from several structural incentives that have been put in place through the regulatory regime governing corporations. These structural incentives include: (i) vagueness regarding directors' responsibilities in terms of acting for the benefit of the company's long-term interests under Section 166 of the Companies Act, 2013; (ii) the need for quarterly disclosures required under Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015; (iii) managers' incentive to act short-term under the provisions of the corporate insolvency framework as provided for under the Insolvency and Bankruptcy Code, 2016; (iv) pressures from institutional investors who wish to see short-term gains in the market; and (v) board makeup and remuneration policies that focus on short-term financial success. The next section discusses how these incentives influence corporate short-termism and suggests regulatory solutions that can be implemented in India to counter this problem.

As illustrated above, the present legal and regulatory regime in India is unable to cope effectively with the problem of corporate short-termism.⁸³ While Section 166 of the Companies Act, 2013 mandates fiduciary duties for directors to act on behalf of companies for their long-term benefit, there are no guidelines on how directors can achieve this.⁸⁴ Similarly, while other

⁸⁰ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Reg. 33 (India).

⁸¹ Companies Act, 2013, §166 (India).

⁸² Afra Afsharipour, *The Promise and Challenges of India's Corporate Governance Reforms*, 1 INDIAN J.L. & ECON. 33, 55 (2010).

⁸³ Abhinav Gupta & Madeeha Arshad, *Short-Termism in India: Towards a Sustainable Corporate Governance Model*, 5 J. ON GOVERNANCE 45, 58 (2023).

⁸⁴ Companies Act, 2013, §166 (India).

regulations, including the quarterly disclosure requirements under Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015⁸⁵ and the corporate insolvency regime under the Insolvency and Bankruptcy Code, 2016,⁸⁶ are in place to ensure greater transparency and discipline within the corporation, they do not necessarily prevent corporate short-termism. This means that corporate short-termism in India results from structural incentives put in place through the regulatory regime and not individual decisions made by corporate managers.⁸⁷

A. Ambiguity in Directors' Duties under Section 166

Corporate long-termism is hampered by the Act's ambiguous requirements for directors. Directors are responsible for managing the company's affairs, but it is unclear what their primary responsibility is, which is, promoting the company's "interest."⁸⁸ In the words of the Supreme Court, board of directors are the mind and brain of a company.⁸⁹ This ambiguity frequently encourages short-term gains over long-term sustainability by equating the company's interest with shareholder primacy.⁹⁰

Moreover, the Act does not specifically address the directors' obligation to reduce the risks associated with long-term sustainability.⁹¹ While environmental preservation is mentioned,⁹² it does not effectively promote growth that is sustainable. This narrow concentration on maximising shareholder value ignores more significant effects on society and the environment. It is suggested that §166 of the Act⁹³ be amended in order to address these problems.

This amendment should clearly require directors to take into account the interests of society, the environment, and employees in addition to those of shareholders. Directors should be encouraged to think about future risks and outcomes by having this role specified over a period of five to ten years. This shift will strengthen corporate governance, improve social and

⁸⁵ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Reg. 33 (India).

⁸⁶ Insolvency and Bankruptcy Code, 2016, §17 (India).

⁸⁷ Umakanth Varottil, *The Evolution of Corporate Governance in India*, 1 INDIAN J. CORP. L. 1, 22 (2015), https://law.nus.edu.sg/wp-content/uploads/2020/04/001_2015_Umakanth_Varottil.pdf.

⁸⁸ Seema Jhingan, 'Roles and Responsibilities of a Director under the Companies Act, 2013 – Pitfalls and Safeguards' (MONDAQ, 18 July 2016) <<https://www.mondaq.com/india/directors-and-officers/510724/roles-and-responsibilities-of-a-director-under-companies-act-2013-pitfalls-and-safeguards>>

⁸⁹ *Sunil Bharti Mittal v. Central Bureau of Central Investigation*, AIR 2015 SC 923 (Ind.)

⁹⁰ A. Ramaiya, *Guide To The Companies Act*, Chapter XI, Appointment And Qualifications Of Director (Vol. 2, 19th ed. 2020)

⁹¹ Mihir Naniwadekar & Umakanth Varottil, 'Directors' Duties and Stakeholder Interests: Comparing India and the United Kingdom' (University of Oxford, Faculty of Law, 28 Aug. 2016) <<https://www.law.ox.ac.uk/business-law/blog/blog/2016/08/directors%E2%80%99-duties-and-stakeholder-interests-comparing-india-and>>

⁹² s 166(2), Companies Act 2013

⁹³ s 166, Companies Act 2013

environmental impacts, and build resilience against health crises and climate change, even though it may initially require costs and restructuring.

Raising awareness through awareness campaigns alone is unlikely to change the Indian governance culture's firmly embedded emphasis on shareholder primacy. Consequently, the adoption of legislation is suggested as a complete method to expand the responsibilities of directors and guide corporations towards long-term, sustainable growth.

B. Quarterly Disclosure Cycles and Market Short-Termism

The third factor that could make the listed companies in India vulnerable to short-termism is the structure of the disclosure regime applicable to such companies. According to Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015⁹⁴, quarterly financial results need to be disclosed. In order to achieve the intended goals of disclosure which include transparency and investor protection, this disclosure requirement makes it possible for the short-term financial performance indicators to become highly visible.⁹⁵ The requirement of quarterly financial reports makes investors expect earnings performance from the companies each quarter and makes them assess the companies based on the short-term financial measures. It means that corporate executives must give priority to the short-term financial performance to meet market expectations.⁹⁶

This pressure is further intensified by the role of market analysts, credit rating agencies, and institutional investors, all of whom closely monitor quarterly results and react swiftly to any deviation from expected performance. Even marginal underperformance in a given quarter can lead to significant fluctuations in share prices, thereby affecting the company's market valuation and investor confidence. As a result, management may adopt strategies aimed at smoothing earnings, deferring necessary expenditures, or reducing long-term investments such as research and development in order to present favourable short-term results. Over time, this creates a recurring cycle in which corporate decision-making becomes aligned with quarterly targets rather than long-term strategic objectives, thereby embedding short-termism within the governance structure of listed companies.

⁹⁴ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Reg. 33 (India).

⁹⁵ Matt Orsagh et al., *Short-Termism Revisited: Improvements Made and Challenges Ahead in Investing for the Long Term*, CFA INST. (Sept. 2020), <https://www.cfainstitute.org/en/advocacy/policy-positions/short-termism-revisited>.

⁹⁶ Ira Kay et al., *Executive Pay, Share Buybacks, and Managerial Short-Termism*, Harv. L. Sch. Forum Corp. Governance (Jan. 26, 2016), <https://corpgov.law.harvard.edu/2016/01/26/executive-pay-share-buybacks-and-managerial-short-termism/>.

C. Insolvency Risk and Managerial Incentives under the IBC

Another factor that promotes managerial short-termism is the insolvency system prescribed under the Insolvency and Bankruptcy Code, 2016. As highlighted in previous paragraphs, the filing of insolvency applications will lead to the replacement of the incumbent management with a new entity called an 'Insolvency Resolution Professional'.⁹⁷ The above consequence makes the management more inclined to maintain short-term liquidity, as insolvency triggers can cost the company dearly in terms of loss of control over operations. Moreover, judicial pronouncements made by the apex court in cases like *Swiss Ribbons Pvt. Ltd. v. Union of India*⁹⁸ and *Committee of Creditors of Essar Steel India Ltd. v. Satish Kumar Gupta*⁹⁹ underscore the importance of timely creditor repayment.

This framework creates a strong behavioural incentive for management to prioritise immediate financial stability over long-term strategic planning. Directors, aware that even a temporary inability to service debt obligations may result in loss of control, may adopt conservative financial strategies focused on preserving liquidity rather than investing in projects with longer gestation periods. This can lead to reduced capital expenditure, postponement of innovation-driven initiatives, and avoidance of calculated business risks that are otherwise necessary for sustainable growth. Additionally, the time-bound nature of the Corporate Insolvency Resolution Process further reinforces urgency in financial decision-making, often privileging short-term solvency signals over long-term value maximisation. While the IBC has significantly improved credit discipline and recovery mechanisms in India, its structural design may inadvertently encourage companies to align their strategies with short-term financial benchmarks, thereby contributing to a governance environment that favours short-termism. Furthermore, the fear of insolvency may also influence managerial reporting behaviour, leading to a preference for presenting stronger short-term financial positions to creditors and stakeholders. This may result in conservative accounting practices or delayed recognition of financial stress. In the long run, such behaviour may obscure underlying structural weaknesses within the firm and hinder timely corrective action, thereby reinforcing a cycle where short-term survival is prioritised over sustainable corporate recovery and long-term value creation.

D. Institutional Investor Pressures and Market Expectations

The authors contend that the concurrent rise in institutional investors is another factor

⁹⁷ Insolvency and Bankruptcy Code, 2016, §17 (India).

⁹⁸ *Swiss Ribbons Pvt. Ltd. v. Union of India*, (2019) 4 SCC 17 (India).

⁹⁹ *Comm. of Creditors of Essar Steel India Ltd. v. Satish Kumar Gupta*, (2019) 15 SCC 1 (India).

contributing to short-termism in India. To contextualize it, organisations that invest money in other organisations on behalf of other individuals are referred to as institutional investors. These are companies that offer pensions, insurance, and mutual funds. Large trade volumes and share holdings are typical characteristics of institutional investors, who have a significant impact on the stock market. Over the past ten years, institutional investments have increased significantly in India.¹⁰⁰ Over fifty billion dollars were invested by institutions in the first three quarters of 2021 alone, surpassing the total amount invested by these same institutions in 2020.¹⁰¹

There exists a correlation between the increasing growth in institutional investments and the concurrent development in short-termism. The short-term shareholder value is typically the primary focus of institutional investors and activist hedge fund holders.¹⁰² This is due to the fact that these activists have a short-term perspective because they only own one to two percent of the equities.¹⁰³ Thus, these activists try—and typically are successful—to gain the backing of institutional investors in order to steer the business in the direction of a short-term strategy for stock prices and shareholder value.

The board is also under pressure from the institutional investors to prioritise quarterly profits and share value maximisation over long-term, sustainable growth.¹⁰⁴ This consequently has the potential to impact long-term shareholders, the company's workforce, and society at general. The long-term sustainable operation of the company is jeopardised by institutional investors' pressure to manage it in a way that will generate short-term profits. Given this, it is suggested that governmental mechanisms be put in place to encourage shareholders to make long-term-focused investments. For example, the requirement to make quarterly disclosures under Regulation 33 of the LODR Regulations may be waived.¹⁰⁵ One potential weakness in this system is that it might have a detrimental effect on capital market operations, which could impair listed businesses' financial capabilities by reducing their liquidity and potentially even shifting their money to overseas markets.

On the other hand, if such policies were put into place, they might also promote longer

¹⁰⁰ Amiya Sahu et al., *Institutional Investments in India: A Review of Literature*, SSRN ELECTRONIC JOURNAL 1, 1-10 (2013).

¹⁰¹ Ibid.

¹⁰² Robert C. Pozen, *Institutional Investors and Corporate Short-Termism*, Harvard Law School Forum On Corporate Governance (Aug. 24, 2015) <https://corpgov.law.harvard.edu/2015/08/24/institutional-investors-and-corporate-short-termism/>

¹⁰³ Ibid.

¹⁰⁴ Hyun-Dong Kim et al., *Short-Term Institutional Investors and Agency Costs of Debt*, 95 European Financial Management Association 1, 25 (2019)

¹⁰⁵ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

shareholding periods, which would support businesses in looking beyond the near term, help them concentrate on creating long-term value, and perhaps even enhance the social aspects of their operations involving employees, suppliers, and the community. Making environmentally sustainable decisions can also benefit from the board's potential for enhanced long-term focus. All things considered, the suggested actions would create fair playing fields, support long-term value creation, foster innovation, productivity, and growth, and consequently have favourable macroeconomic effects. By giving businesses access to a more reliable pool of investors, the suggested framework would release the board from the need to produce quick profits and free them up to focus on long-term, sustainable investments and strategy. Consequently, the profitability, productivity, sustainability, and innovation of the companies would increase.

E. Board Composition and Remuneration Structures

Remuneration of the board

It is hypothesised that short-termism in India is mostly caused by the current structure of the board of directors' payment, which is inappropriate. According to Section 197 of the Act,¹⁰⁶ the board of directors' compensation is determined by the net profit the company reported for the relevant fiscal year. According to §198,¹⁰⁷ which establishes the formula for calculating net profits, the total managerial compensation in this case may exceed eleven percent. In this sense, the board may feel under pressure to maximise shareholder value and short-term profits as a result of such profit-based compensation.¹⁰⁸

The same encourages the board to focus on allocating the company's resources in a way that will boost the share price at the expense of a sustainable long-term policy.¹⁰⁹ Furthermore, it is apparent that the board of directors' compensation does not take into account non-financial sustainable indicators such meeting ESG standards or other similar criteria.

Over the past ten years, India has seen a particular increase in the promotion of ESG practices. Over 123 billion rupees were determined to be the assets under management (the entire market value of investments that a business manages on behalf of clients) for environmental, social, and governance (ESG) in 2021.¹¹⁰

¹⁰⁶ s 197, Companies Act 2013

¹⁰⁷ s 198, Companies Act 2013

¹⁰⁸ Gregg D. Polsky & Andrew C. W. Lund, *Can*

Executive Compensation Reform Cure Short-Termism, 58 *Governance Studies* 1, 1-2 (2013).

¹⁰⁹ Ira Kay et al., *Executive Pay, Share Buybacks, and Managerial Short-Termism*, Harvard Law School Forum On Corporate Governance (Jan. 26, 2016) <https://corpgov.law.harvard.edu/2016/01/26/executive-pay-share-buybacks-and-managerial-short-termism/>.

¹¹⁰ James Chen, *Assets Under Management*, INVESTOPEDIA (Oct. 6, 2020) <https://www.investopedia.com/terms/a/aum.asp>

The assets under control from the previous two years had increased by more than five times. The Act and its implementing rules and regulations include a number of mandates pertaining to the corporations' disclosure of their ESG practices.¹¹¹ Investors find it very appealing when companies implement and disclose ESG practices because it demonstrates how concerned they are about sustainability and future financial stability.¹¹² Therefore, it suggests that although the ESG practices are closely examined and disclosed by different companies in accordance with the applicable laws, they are unrelated to the compensation that the board receives.

As such, there is a disconnect between the company's long-term performance and the board compensation arrangements. Therefore, it is stated that the necessary adjustments are needed to stimulate long-term activity in light of the approaching concern surrounding the board's style of compensation. As a result, the author suggests amending §197 of the Act¹¹³ to incorporate non-financial considerations in the board's compensation structure, such as the company's sustainable goals and adherence to ESG standards.

One argument for this change is that it would encourage directors to adopt such procedures rather than receiving financial incentives, which would have a good effect on the company's ability to grow sustainably. This will draw investors and motivate directors to support innovation and a sustainable business model, which will ultimately lead to the company's financial success and the avoidance of any sustainability-related problems.

Additionally, businesses will be urged to set broad ESG goals in the social context, such as those related to customer and employee happiness and the company's influence on the neighbourhood. In terms of the environment, the amendment would guarantee that factors pertaining to climate change, ecosystem preservation, and resource efficiency are further taken into account.

Furthermore, the author does not suggest that a laxer approach to awareness campaigns will have a significant impact on the board's short-term goals or lead to a significant modification in the policy. Therefore, it is suggested that the Act's §197¹¹⁴ be changed as previously stated to give the board financial incentives to concentrate on the company's long-term development.

¹¹¹ S 134(m), The Companies Act, 2013; pt. II sec. 3(i), The Companies (Accounts) Rules, 2014; Reg 34, SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015

¹¹² R. Boffo & R. Patalano, *ESG Investing: Practices, Progress and Challenges*, OECD (2020) <https://www.oecd.org/finance/ESG-Investing-Practices-Progress-Challenges.pdf>

¹¹³ s 197, Companies Act 2013

¹¹⁴ s 197, Companies Act 2013

Composition of the Board

There is a contention that the rules governing the make-up of Indian corporations' boards of directors are not ideal for encouraging long-termism. Academics have emphasised the importance of the board's experience, diversity, and backgrounds in minimising corporate short-termism practices.¹¹⁵ Therefore, it is imperative to have a diverse board with a broad range of expertise and talents in order to challenge the status quo and challenge the management's short-term goals. In the end, this raises the worried company's economic efficiency. Data from India shows that diverse company boards must contend with harsh realities. An academic examines the makeup of the boards of more than 500 of India's leading corporations in a significant study funded by the NSE.¹¹⁶

According to the survey, management is the field with the highest percentage of directors on the boards of these companies having an educational background in banking and finance.¹¹⁷ Among the other fields in which expertise is widely held are law, administration, marketing, information technology, and accounting. As a result, the board lacks people with expertise in sustainability and ESG, and the number of directors who are solely interested in business is growing.¹¹⁸

Furthermore, it is believed that the age and gender diversity of the board members is bad for the long-term viability of the company. From 2014 to 2017, the percentage of women directors across the Select 500 corporations rose from 11.5 percent to a meagre 13.1%.¹¹⁹ The percentage of female directors in public sector organisations is 12.8%, compared to 13.8 percent in multinational corporations.

Furthermore, the executive director positions constitute a pitiful 7.3 percent of the total, which is an extremely low proportion. As a result, it is evident that there is a significant male predominance on Indian company boards, with relatively little female participation. Furthermore, it was determined that the average age of a male director was 57.8 years, whereas the average age of a female director was 52.9 years.¹²⁰

¹¹⁵ Ram Kumar Mishra & Shital Jhunjhunwala, *Diversity and the Effective Corporate Board* 3–15 (Academic Press, 1st ed. 2013).

¹¹⁶ Stakeholders Empowerment Services, *Report on Board Composition of Top 500 Companies* 1–5 (2018), https://www.sesgovernance.com/pdf/1523435610_Part-A--Board-Composition-Report.pdf.

¹¹⁷ Stakeholders Empowerment Services, *Report on Board Composition of Top 500 Companies* 41–43 (2018), https://www.sesgovernance.com/pdf/1523435610_Part-A--Board-Composition-Report.pdf.

¹¹⁸ Shikha Bhatia & Divya Marwaha, *The Influence of Board Factors and Gender Diversity on the ESG Disclosure Score: A Study on Indian Companies*, 47 *S. Asian J. Mgmt.* 1, 3–5 (2022), <https://doi.org/10.1177/09721509221132067>.

¹¹⁹ Stakeholders Empowerment Services, *Report on Board Composition of Top 500 Companies* 39–40 (2018), https://www.sesgovernance.com/pdf/1523435610_Part-A--Board-Composition-Report.pdf.

¹²⁰ Stakeholders Empowerment Services, *Report on Board Composition of Top 500 Companies* 39–42 (2018), https://www.sesgovernance.com/pdf/1523435610_Part-A--Board-Composition-Report.pdf.

This demonstrates the strict dominance of older generations in the directorship. In addition to the data highlighting the lack of diversity on Indian company boards, there is an issue with the lack of uniform legislation pertaining to the same. Regulation 17 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirement) Regulation, 2015 (the “**LODR Regulations**”) is the only regulation that addresses the makeup of the board for listed firms.¹²¹

Regarding the diversity factors discussed above, the regulation only stipulates that the boards of the listed businesses must have a minimum of one female director.¹²² The remainder of the legislation only addresses the makeup of independent and non-executive directors; this is a role-related issue unrelated to diversity.¹²³ Therefore, the apparent lack of diversity raises questions about the board of directors' capacity to adopt a measured, long-term approach and their capacity to comprehend and fully appreciate the expectations of the company's various stakeholders.

The corporate climate in India is characterised by a lack of diversity, which exacerbates the growing threat of short-termism.¹²⁴ Given the concerns about the makeup of the board, it is suggested that appropriate policy measures be put in place to help the companies attain a more diverse board composition.

As a result, it is suggested that Regulation 17 of the LODR Regulations¹²⁵ be changed to incorporate sustainability into the director appointment process.¹²⁶ Here, the necessary adjustments would be raising the minimum percentage of female directors to perhaps fifty percent and requiring the presence of at least twenty-five to thirty percent of members with experience in environmental, sustainability, and related ESG concerns.¹²⁷

Furthermore, it is suggested that Regulation 17 of the LODR Regulations¹²⁸ should include a

¹²¹ Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, reg. 17(1)(a), <https://www.sebi.gov.in/legal/regulations/jul-2024/securities-and-exchange-board-of-india-listing-obligations-and-disclosure-requirements-regulations-2015-last-amended-on-july-10-2024-84817.html>.

¹²² Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, reg. 17(1)(a).

¹²³ Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, regs. 17(1)(b)–(d).

¹²⁴ Neharika Vohra, Kashika Sud & Chayanika Bhayana, *Gender Diversity and Inclusion on Indian Boards: Post the Introduction of the Mandate in 2015 and 2019*, 22 S. Asian J. Hum. Res. Mgmt. 1, 4–7 (2024), <https://doi.org/10.1177/22785337241249557>.

¹²⁵ SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015

¹²⁶ Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, reg. 17(1)(a).

¹²⁷ Institutional Investor Advisory Services (IiAS), *Corporate India: Women on Boards* 3–6 (2022), https://www.business-standard.com/article/companies/top-500-nse-listed-companies-have-18-women-directors-reveals-study-122112200736_1.html.

¹²⁸ Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, reg. 17(1)(a).

sufficient condition for the inclusion of younger directors to create a board for the firms that is both youthful and experienced.¹²⁹ It is acknowledged that a move like this to alter the makeup of the board could increase the load on the business to meet the demands of the directors and make it more difficult for them to join.

On the other hand, it is countered that fulfilling these obligations would serve the company's long-term interests, draw in new investors, enhance the company's brand, and guarantee that the board makes informed and well-reasoned decisions about sustainability.¹³⁰ It will therefore inevitably have a favourable financial effect on the business.

VI. Conclusion and Way Forward

It is a well-known fact that corporations lack conscience. However, Henry D. Thoreau once stated, “*A corporation of conscientious men is a corporation with a conscience.*” India’s economy is currently the sixth largest in the world. We have advanced rapidly in several industries, including steel, textiles, IT, and pharmaceuticals. Resultantly, the importance of sound corporate governance has increased. It needs to be geared towards fostering corporate social responsibility, protecting the environment, and creating value for all its stakeholders.

Accordingly, corporations’ adoption of short-term policies has a negative impact on the environment, society at large, and the companies themselves. They jeopardise the long-term performance of the companies while also exacerbating social inequality and environmental deterioration. It is therefore stated that the required changes should be implemented to assist directors in recognising and reducing the sustainability risk that they confront as well as its effects on the stakeholders and operation of the firm. It is imperative that the long-term interests of the company, its employees, its supply chain, its consumers, and the local and global ecosystems be carefully balanced with those of the shareholders.

The author has examined the connection between short-termism and corporate governance in this essay. The author also found that short-termism is becoming more prevalent in India’s corporate sector at an accelerated pace. During the last five fiscal years, the Sensex 30 businesses that were selected for the study have notably increased their DPR. This demonstrates both the existence and growth of short-termism in India. Moreover, short-termism has a negative effect on the social, environmental, and economic spheres.

¹²⁹ Ram Kumar Mishra & Shital Jhunjhunwala, *Diversity and the Effective Corporate Board* 55–68 (Academic Press, 1st ed. 2013).

¹³⁰ Bhatia & Marwaha, *supra* note 4, at 6–8 (finding that board gender diversity positively influences ESG disclosure scores of Indian listed companies, which in turn attracts sustainability-focused investors).

In addition, the study identifies the underlying causes of short-termism in India and offers suggestions for resolving these problems. Suggestions regarding the role of the directors, the makeup and pay of the company's board, institutional investments in the corporate sector, and the ESG responsibilities of the companies are included here.

Less strict and forgiving regulations are also unlikely to significantly alter the present corporate practices. It is therefore claimed that the guidelines aid in striking the perfect balance between the corporations' long- and short-term interests in India. The author anticipates that this initial step towards addressing the problem of short-termism will help ignite a discussion throughout the nation's corporate community.

Confirmation of Hypothesis

The research findings have confirmed the hypothesis of the paper. It has been demonstrated that, due to the concurrent functioning of three distinct legal mechanisms, India's legal system creates structural incentives that encourage companies to focus on their short-term performance instead of striving for value creation. The first legal mechanism is related to the vague provisions of the duties of board members set out in Section 166 of the Companies Act, 2013. As a result, it provides room for prioritising shareholders' interests, focusing on short-term financial performance, which does not involve any legal responsibility for misbehaviour in the context of long-term management. The second mechanism is associated with the requirement to disclose quarterly data provided for by Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, thus imposing the need to demonstrate positive financial performance regularly. Finally, there is the displacement mechanism stipulated by the Insolvency and Bankruptcy Code, 2016. In this respect, the creditor-primacy approach established in Swiss Ribbons and Essar Steel cases makes managers interested in securing their positions from being taken away due to poor financial liquidity.

Taken together, these mechanisms reveal a deeper structural inconsistency within the Indian corporate governance framework. While the law formally emphasises long-term value creation and stakeholder interests, its operational features tend to reward short-term financial outcomes. This disconnect results in a governance environment where directors are incentivised to respond to immediate market signals rather than pursue sustainable corporate strategies. The interaction between corporate law, securities regulation, and insolvency law therefore creates overlapping pressures that narrow managerial time horizons.

Moreover, the absence of harmonisation across these regulatory regimes further exacerbates the problem. Each framework operates with distinct objectives, yet their combined effect

produces unintended consequences for corporate behaviour. This highlights the need for a more integrated regulatory approach that aligns legal incentives with long-term corporate sustainability. Without such alignment, short-termism is likely to persist as a systemic feature of Indian corporate governance rather than an isolated managerial tendency.

