
IMPACT OF MERGERS AND ACQUISITIONS IN CORPORATE GOVERNANCE

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Abstract

It examines how Mergers and Acquisitions activities influence board composition, shareholder rights, transparency, and managerial accountability. The research highlights that while Mergers and Acquisitions can direct to improved governance through enhanced oversight and resource consolidation, they may also pose challenges such as conflicts of interest and integration difficulties. By analysing various case studies and empirical data, the study provides insights into how effective governance mechanisms can be designed to optimize value creation post-merger. The findings underscore the importance of aligning corporate governance frameworks with strategic objectives to ensure sustainable growth and stakeholder confidence in merged entities. Acquirer and shareholder together targets effects are positive. Targeted growth is realized in certain cases only. The target shareholders gain efficiently while the acquirer shareholders may even loose. Small targets lead to big gains in the future for target shareholders. Mergers and acquisition's role in corporate governance is either value creating or of about less value when the target is huge. Smaller firms, smaller targets are more likely to result in gains such as empire building and benefit towards the larger firms acquiring them.

KEYWORDS: Mergers and Acquisitions, Corporate Governance

INTRODUCTION

Mergers and acquisitions (M&As) are powerful tools for rebuilding companies, growing in a thoughtful way, and strengthening positions in the market. Since the Indian economy started opening up in the early 1990s. This has changed the way businesses operate and how decisions are made in various industries. Even though companies often look for M&As to gain financially, gain a competitive edge, and add value for shareholders, these activities have deep

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and complex effects on how a company is governed. Corporate governance includes the rules and practices that guide how a company runs, covering the relationships between the board of directors, management, shareholders, and other important people. In India, corporate governance is based on laws like the Companies Act of 2013 and SEBI's Listing Obligations and Disclosure Requirement, as well as other voluntary best practices. There is a close connection between M&A activities and corporate governance, which brings both opportunities and challenges. This pushes companies to review their internal structures, board makeup, and how they connect with stakeholders. When two companies merge or acquire another company, the board restructures to fit the new ownership and strategic goals. This might involve adding independent directors, representatives from the acquiring company, or outside experts to ensure balanced decision-making. In India, where many companies are led by promoters, these changes can alter power dynamics and affect how independent the board is, which is vital for good governance.

Combining different corporate cultures, operating systems, and compliance processes can bring new risks, such as regulatory problems, loss of reputation, or financial mistakes. Good governance requires companies to identify and handle these risks through strong internal audits, clear reporting, and better oversight by audit committees. The Securities and Exchange Board of India (SEBI) has increasingly stressed the importance of governance in protecting investors during M&A, especially for publicly listed companies. Another important point is shareholder activism. M&As can lead to disagreements among minority shareholders, especially if the deal is seen as unfair, unclear, or harmful to their interests. In India, the rise of institutional investors and proxy advisory firms has led to more scrutiny of M&A deals, pushing companies to adopt more inclusive and transparent governance practices. Getting shareholder approval, providing detailed information, and ensuring fair valuations are now key parts of M&A governance, showing a commitment to fair treatment.

The role of gatekeepers—like legal advisors, auditors, and regulatory agencies—becomes even more important during M&A deals.

These groups help maintain governance standards by making sure the transactions follow legal rules, ethical rules, and duties of care. In India, agencies like the Competition Commission of India (CCI), SEBI, and the Ministry of Corporate Affairs (MCA) are key in reviewing M&A proposals to check their effects on market competition and enforcing governance protections.

Their involvement shows how essential governance is for keeping the market fair and building investor trust.

However, governance issues linked to M&As go beyond just following the rules. The process of integrating after a merger or acquisition often brings challenges in aligning leadership, merging cultures, and communicating with stakeholders. Companies need to approach these challenges carefully and thoughtfully, embedding governance principles into every part of the integration process. Failure to do so can lead to indifferent importance, uninterested employees and legal concerns. In conclusion, M&As are not just about money; they are important events that change how companies are governed. In India, the changing corporate world, the success of an M&A depends not only on strategic fit and financial results but also on how strong the governance practices are. As Indian companies continue to grow through mergers and acquisitions, the need for strong, clear, and inclusive governance becomes more and more important. When M&As are done with good governance as a base, they can drive sustainable growth, build trust with stakeholders, and create long-term value.

STATEMENT OF THE PROBLEM

Management or board members may pursue deals that benefit them rather than the shareholders. Merger and Acquisitions (M & As) have, however, become a strategic tool for corporate growth and reconfiguring and also remain a means of competitive advantage for firms in the Indian business environment, particularly after the liberalization of the economy in early 1990s. While the major reasons for pursuing M&As are financial and expansionary, and for shareholder value addition, there are also significant implications for corporate governance both from the acquirer and the target perspective. Governance embodies the framework of rules and relations by which companies are managed and controlled.

RESEARCH QUESTION

What about the effect of also mergers and acquisitions on corporate governance in Indian companies and what is the role of regulated frameworks and stakeholders on the transparency, accountability and board working in such transactions?

OBJECTIVE

The focus of this article is to examine the impact of Companies Act, 2013 on certain issues which are potential triggers.

HYPOTHESIS

Implementation of Companies Act, 2013 in respect of certain issues related to governance of companies sector led to increased issues.

METHODOLOGY

Mixed method or empirical research approach is adopted to understand the problem and lead to conclusions.

LITERATURE REVIEW

Since the economic liberalization of the post-1990s, the Indian M&A environment has evolved—giving rise to more robust corporate governance frameworks based on changing legislation and judicial precedents. The Companies Act, 2013 brought in institutionalized processes for mergers, such as Sections 230–232 (Schemes of Arrangement), fast-track mergers (Section 233), and cross-border mergers (Section 234), in addition to minority shareholder protection (Section 235) and squeeze-out (Section 236). Following corporate crises like the Satyam scandal (2009), governance overhaul became imperative. A task force instituted post-Satyam recommended disclosure enhancements and board reforms—such as mandatory audit and nomination committees, separation of CEO/Chairman roles, whistle-blower policies, and inclusion of independent directors—later reinforced by SEBI's revised Clause 49 and Companies (Amendment) Act 2017

Judicial Oversight and Shareholder Protection

Indian courts have tended to observe a market-oriented philosophy in regulating M&A, stepping in only if fairness or due process is threatened. *Miheer H. Mafatlal v. Mafatlal Industries* (1996) reaffirmed minimal judicial intervention if schemes that are approved by the majority are legal and procedurally justifiable. *Hindustan Lever Employees' Union v. Hindustan Lever* (1995) reiterated that courts have to see to it that merger schemes are "fair and reasonable," in accordance with public policy. *Sesa v. Kirloskar* (2009) reaffirmed independent expert valuation and majority sanctioning, restricting judicial second-guessing unless tainted by fraud.

Vodafone v. Union of India (2012), even though largely a tax matter, had critical implications for cross-border M&A regulation and led to legislative reconsideration. All these cases in aggregate emphasize that Indian legal case law prefers regulation via mandated procedure and

expert valuations, as opposed to generalized judicial intervention. Tribunal Standards and Procedural Fairness, NCLT played the crucial role in examining M&A plans for procedural fairness: *Ajanta Pharma v. Gabs Investment*: The merger was refused due to the tax avoidance design at the cost of public interest.

G.V. Films v. Metage Fund: Publication of a merger notice in the vernacular language only did not legally inform all the shareholders — defective communication rendered the approval nugatory.

Miheer H. Mafatlal guidelines, as formulated by NCLT and reinforced by SC, re-emphasize statutory compliance requirements, bona fide intention, documentation, and fair treatment of all the stakeholders—minority and creditors.

Governance Challenges Beyond Legal Formalities, Although the formal structure is strong, subtleties of board independence, transparency, and cultural integration continue to influence governance outcomes after M&A transitions: Board Composition and Integration: Successful post-merger governance is built around a well-tuned board. Independent directors improve objectivity, but their contributions depend on genuine independence and institutional backing. Post-merger Documentation: Documenting a detailed record of board-level discussion—even informal ones—is instrumental for accountability and future dispute resolution.

Constrained Judicial Definition of Directors' Obligations: In contrast to Western jurisdictions, Indian law has fewer express definitions of directors' obligations. Consequently, directors' duties tend to be more dependent on judicial precedents, which are weaker. Corporate Control and Minority Rights, The Tata–Mistry saga (2016–2021), while not an M&A in itself, is relevant to an understanding of governance dynamics in control changes. The case revolved around minority shareholder oppression and board power under the Companies Act (Sections 241–242). The Supreme Court ultimately confirmed board power, elucidating that removing an executive chairperson, if consistent with company articles, does not amount to oppression—despite minority shareholder objections. The case confirmed the dominance of contractual governance and board prerogative, raising a high threshold for oppression claims.

Regulatory Control: CCI, SEBI, and Criminal Responsibility, The Competition Commission of India (CCI) has a vital role to play in maintaining competitive markets in M&A. Deal-value levels and cross-industry scrutiny, particularly in the digital and high-value deal space, are increasingly applied. SEBI Regulations encompass compulsory open offers (in case of

shareholding crossing 25%), increased disclosures, and fair treatment in related-party mergers, further adding to minority protections.

In *Religare Finvest Ltd. v. State of NCT* (2021), the Supreme Court held that criminal liability of the antecedent officers cannot shift automatically to the merged entity. This shuts down abuse of M&A arrangements for avoiding accountability and asserts that governance integrity has to continue after the merger. *Mahindra Satyam–Tech Mahindra* (2013 Merger): The Satyam scandal followed a court-sanctioned merger with Tech Mahindra. Major lessons of governance were drawn on protection of stakeholders (creditors, regulators), judicial oversight, and quick restoration of confidence by properly structured governance changes. *NSEL–FTIL Merger* (2016): The Supreme Court struck down an involuntary government-directed merger—drawing lines around recourse to public interest to change corporate structure without stakeholder agreement. *JSW Steel–Bhushan Power*: A 2025 SC judgment set aside a completed M&A procured under insolvency resolution on grounds of procedural and fairness deficiency—reflecting changing higher judicial oversight in insolvency-facilitated purchases. *Blu-smart Insolvency*: While non-M&A, governance lapses (misappropriation of funds, audit defaults) led to insolvency proceedings—highlighting that flawed governance can upset even pre-Mergers and Acquisition.

M&A regulation in India is overseen by a web of legislations (Companies Act, SEBI, CCI, IBC) and judicial rulings that together safeguard fairness, openness, and stakeholder protection. Courts and tribunals tend to uphold majority-accredited schemes, intervening primarily where there's procedural misconduct, unfairness, or majority-benefiting schemes intended to oppress or cheat. Robust governance is not just legislative, it depends on board composition, independent oversight, process documentation, and cultural integration post-merger. Cases like *Tata–Mistry* show courts expect contractual clarity and reservation of rights but they also set a high threshold for claims of oppression.

Regulation isn't static. Adaptation is ongoing. The legal ecosystem continues to evolve. Company law amendments, CCI's increasing authority over digital deals, and judicial pronouncements around insolvency-acquisitions (*JSW Steel*) indicate increasing sophistication.

Channelling Accountability Post-Merger such as avoidance of abuse—like evasion of criminal liability through corporate restructuring—is emerging as a governance issue, as in *Religare's* criminal-liability ruling.

Impact of Companies Act, 2013

The Companies Act, 2013 was a sea change in Indian corporate law, replacing the ancient 1956 Act and equating governance practices to global best standards. It transformed the legal framework for Mergers & Acquisitions and introduced rigorous mechanisms for corporate governance, transparency, and stakeholder protection. A detailed description of how the Act has reconfigured M&A governance in India is as under:

Strengthening the Legal Framework for M&A's

The Act introduced certain provisions Sections 230–240 under Chapter XV for amalgamations, arrangements, and compromises, including mergers, demergers, acquisitions, and cross-border amalgamations.

Procedures of transparency by way of compulsory notices, disclosures, and approvals. Fairness and transparency of valuation reports and creditor approval as protections. NCLT monitoring replaces the High Court for efficient and expert settlement of M&M schemes.

Increased focus on protecting stakeholders, such as minority shareholders, lenders, and employees. Board Structure and Independent Directors (Sections 149–152)

The Act mandated minimum 1/3rd board in listed companies as independent directors. Majority independent directors in audit committee, nomination committee, and remuneration committee.

M&A's now require independent and objective decision-making, especially in the case of transactions involving promoters or related parties. It provides that conflict of interest especially in promoter-dominated companies be addressed through independent supervision.

Enhanced Role of the Audit Committee (Section 177), this act makes the Audit Committee a significant gatekeeper of financial oversight, approving related party transactions, and supplying internal control.

The effect on M&A results in due diligence being robust and independent, monitors are subject to the threat of fraud or financial misreporting hazards in M&A consolidation.

Minority Shareholder Protection (Sections 235–236); Section 235, it facilitates acquirers with shares of 90%+, to compulsorily acquire** outstanding shares (squeeze-out).

Section 236, it Enables minority shareholders to exit when majority owners take control in the hands. This affects the mechanisms of minority shareholder offers to exit and also stimulates less litigation since it offers structured solutions for presumed unfair treatment.

Cross-Border Mergers under Section 234 which provides that the act makes provision for mergers between Indian and foreign companies with the RBI and MCA permission.

Government implication results in imposition of additional layers of compliance for cross-border transactions and also requires companies to adhere to international norms of governance, e.g., GDPR, FCPA, and SOX for global MNCs.

Tough Disclosure and Reporting Standards under Section 134 & 129.

Board's Report under section 134 notifies that it will encompass risk management, internal controls, and details of financial statements.

Financial Statements (Section 129) specifies that it will adhere to Indian Accounting Standards (Ind-AS).

The merged firm must disclose how governance, risks, and finances have changed after the merger.

Fosters transparency and stakeholder trust, especially in the period of integration.

Corporate Social Responsibility (CSR) – Section 135

Forces companies above certain limits to spend 2% of profits on CSR.

Indirect Impact on M&A

Firms contemplating M&A targets have to consider CSR liabilities. CSR obligations of both merging companies can be consolidated and revaluated following the merger.

Related Party Transactions under Section 188 mentions that:

The Act demands shareholder and board sanctions on significant related party transactions.

The mergers and acquisitions implications results in avoiding promoter-led exploitation in group restructurings or intra-group mergers. Related entity transactions are kept under closer monitoring to preserve fairness.

Role of NCLT & NCLAT is covered under Section 408 onwards.

Companies Act established the ****National Company Law Tribunal (NCLT)** and the Appellate Tribunal (NCLAT).

This results in speeding up M&A approvals compared to previous High Court procedures.

Guarantees resolution of governance disputes, shareholder petitions, and takeovers.

Whistleblower Mechanism under Section 177 which reads that it calls for establishing a vigil mechanism for directors and employees for reporting unethical activities. Enables target firm employees and acquirer employees to report discrepancies, fraud, and conflict of interest during mergers. Acts as an in-house monitor against failure of governance following the acquisition.

Satyam–Tech Mahindra Merger (2013)

Though initiated under the 1956 Act, the backlash of the Satyam scandal influenced several provisions of the 2013 Act.

After revelation of massive fraud, Satyam was taken over by Tech Mahindra under government-supervised bidding. The case accordingly led to enhanced auditing, disclosure, and board independence requirements in the new law.

The Tata Sons vs. Cyrus Mistry case was a case of boardroom battles, minority oppression, and the position of independent directors. The 2021 Supreme Court ruling emphasized primacy of Articles of Association, but also demanded that boards be accountable and transparent.

The case reaffirmed Section 241–242 protections against mismanagement or oppression under M&A or in changes in corporate control.

Impact of SEBI

The role of the Securities and Exchange Board of India (SEBI) is central to determining the corporate governance agenda in mergers and acquisitions (M&As) in India, particularly for listed companies. SEBI ensures M&A deals are transparent, equitable, and in the interest of shareholders, most notably minority investors. It does so through requirements like the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 and the Listing Obligations and Disclosure Requirements (LODR), 2015. SEBI requires exhaustive disclosures, third-party valuations, and shareholder approvals for large acquisitions and related-party transactions. These requirements keep the promoters from abusing power and safeguard against unfair structuring of deals. SEBI also requires listed companies to maintain a well-functioning board with independent directors, active audit committees, and robust

internal controls, especially during M&A integrations, where governance risks can be heightened. Moreover, with the rise of institutional investors and proxy advisory firms, SEBI's regulations have empowered shareholders to question, vote, and challenge decisions that may undermine their interests. SEBI's intervention in landmark M&A deals—by insisting on open offers, enhanced disclosures, and fair pricing mechanisms—has significantly improved transparency and accountability. Overall, SEBI acts as a gatekeeper, ensuring that M&As do not compromise governance standards but rather uphold integrity, protect investor rights, and promote long-term value creation in the Indian capital market.

The Securities and Exchange Board of India (SEBI) has profoundly shaped the corporate governance landscape of M&A transactions in India, particularly for publicly listed entities. At the heart of SEBI's influence lies the Takeover Code—officially known as the SEBI (c) Regulations, 2011—which has established a rigorous and transparent framework governing acquisitions and control changes in listed companies. Under such a regime, anyone or any institution wishing to acquire a significant holding (generally more than 25%) in a business must make an open offer, offering minority shareholders a chance to exit at a reasonable, benchmarked price. Such requirements are crucial in preventing minority shareholder interests from being disregarded during control transitions and ensuring that standards of governance are not compromised.

Complementing the Takeover Code, SEBI's Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015 codified stringent governance standards for listed companies. These regulations reinforce board effectiveness through minimum thresholds for independent directors, separate leadership roles for CEO and Chairperson, and the establishment of critical board committees such as audit, nomination, and stakeholder relationship committees.

At the time of M&A deal-making, these forms act as critical brakes on controlling promoter power, such that decisions are tested on a dispassionate and in the larger interest of all interested parties.

SEBI has also strengthened connected party transaction (RPT) rules, mandating elaborate disclosures, audit checks, and in certain instances, shareholder approval, especially when the transactions cross specified thresholds. This level of surveillance is especially important in mergers and acquisitions because RPTs have the potential to hide value movements or result in preferential treatment. New proposals to institute turnover-linked thresholds to subject RPTs to

scrutiny seek to align compliance cost with firm size, simplifying procedural impediments for large conglomerates without sacrificing governance.

A pillar of SEBI's governance push has been enhanced transparency. The LODR framework mandates regular disclosure of material events—including board decisions, M&A announcements, voting outcomes, and financial reporting—with additional requirements for ESG reporting through Business Responsibility and Sustainability Reporting (BRSR) for top listed firms.

Such transparency during M&A not only aids informed decision-making by shareholders but also builds trust through accountability of the acquirer and target.

Market watch and regulatory enforcement mechanism further support M&A oversight. SEBI maintains compliance through stringent penalties for infractions such as insider trading or false disclosures. In 2024, it standardized its surveillance rules through a master circular addressing aspects applicable to M&A such as shareholding disclosure and market manipulation (including the dissemination of risky market communication).

Moreover, SEBI is further streamlining board evaluation processes, requiring boards to be reviewed annually on their performance. Although many firms treat compliance as a ritual, these evaluations taken seriously can strengthen board resilience, monitoring, and strategic alignment in long-drawn M&A integrations.

Along with challenges, SEBI also undertakes ongoing reform. In 2025, it appointed an expert committee to re-examine conflict-of-interest standards for its own members and officials—an internal governance move that not only enhances the credibility of SEBI but also serves as a role model for the boards that it oversees.

along with, suggested revisions to the block deal architecture seek to enhance transparency in big institutional trades, which can have heavy influence during share movements related to M&A.

A real-world illustration of SEBI's role in safeguarding M&A governance is evident in the Sun Pharmaceutical–Ranbaxy merger (2014), one of the largest in India's pharma sector. The transaction involved compliance with the Takeover Code—mandating an open offer and equitable pricing—demonstrating how SEBI's pricing guidelines and disclosure norms function in practical, high-stake scenarios.

In sector-wide governance, SEBI's transition in the post-Satyam era shifted its governance posture from voluntary guidelines under Clause 49 to mandatory comprehensive regulations under LODR. This evolution has notably strengthened the independence of directors and audit committees, risk oversight, whistleblower mechanisms, and board evaluation processes—all of which directly influence the governance rigour of M&A deals.

CONCLUSIONS AND SUGGESTIONS

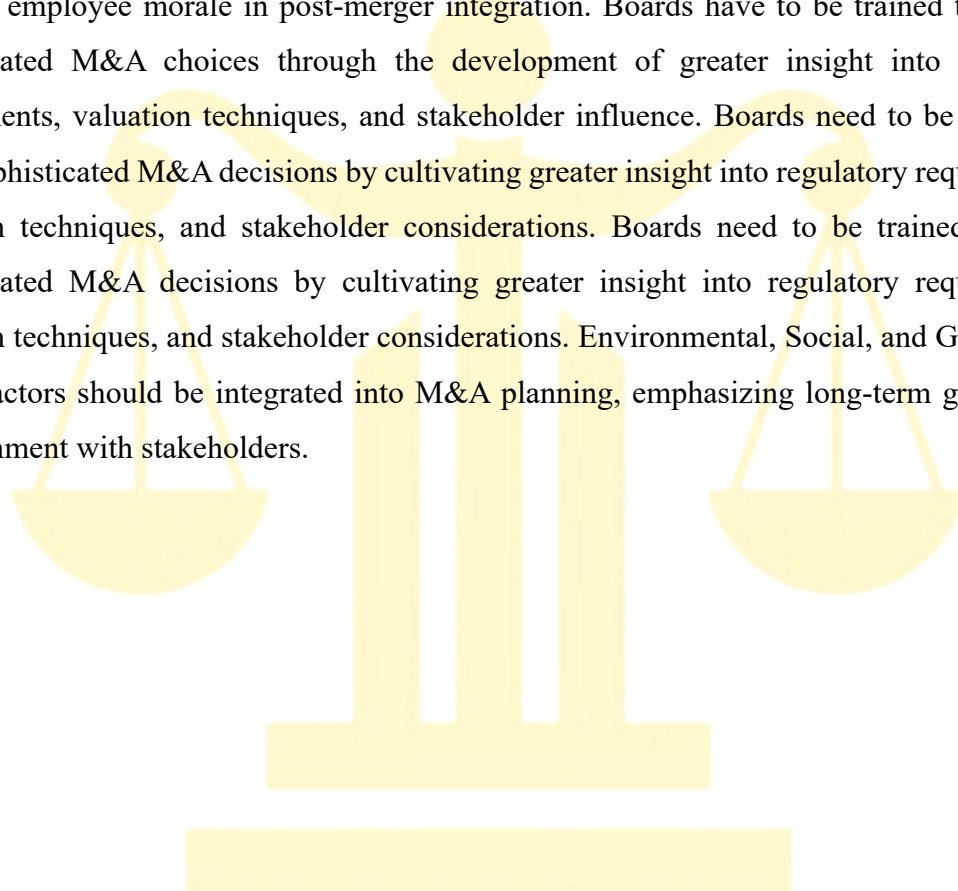
Mergers and acquisitions (M&As) are now a strategic necessity for business growth, market consolidation, and gaining competitive advantage in India's changing economic landscape. The effects of M&As, though, reach far beyond the bottom line—it significantly affects the corporate governance structure of acquiring and target companies. When companies merge, they typically struggle with coordinating board structures, corporate cultures, compliance infrastructures, and stakeholder expectations. In India, where many firms are promoter-driven, M&As often shift power dynamics, raising concerns over board independence, minority shareholder rights, and transparency. Regulatory frameworks like the Companies Act, 2013 and SEBI's LODR & Takeover Regulations have played a vital role in enforcing accountability, fairness, and disclosure throughout the M&A process. Additionally, organizations like SEBI, CCI, and NCLT have also served as vital gatekeepers in ensuring that M&A transactions are following ethical and governance norms. Essentially, today's success of M&As is no longer just gauged by post-merger financial performance but by how well governance norms are sustained or enhanced throughout the deal cycle.

Mergers and acquisitions (M&As) are increasingly becoming a business strategy for expansion, market consolidation, and competitiveness in India's changing economic scenario. But the effects of M&As extend far beyond the financial realm—it profoundly impacts the corporate governance model of both the acquiring and target firms. When companies merge, they typically struggle to integrate board compositions, corporate cultures, compliance regimes, and stakeholder demands. In India, where many firms are promoter-driven, M&As often shift power dynamics, raising concerns over board independence, minority shareholder rights, and transparency. Regulatory frameworks like the Companies Act, 2013 and SEBI's LODR & Takeover Regulations have played a vital role in enforcing accountability, fairness, and disclosure throughout the M&A process. In addition, organizations like SEBI, CCI, and NCLT have played the role of key gatekeepers in ensuring that M&A deals adhere to ethical and governance standards. Essentially, the success of M&As today is not marked by post-merger

fiscal metrics alone but by how well governance standards are sustained or enhanced through the deal cycle. In addition to financial due diligence, the acquirers need to undertake governance audits to evaluate board practices, compliance culture, and stakeholder alignment of the target.

Timely, transparent, and inclusive communication with minority shareholders should be a top priority before, during, and after M&As to establish trust and prevent litigation.

These committees must be at the forefront in evaluating M&A proposals, particularly related-party or promoter-initiated restructuring. Businesses must create a formal plan to harmonize leadership styles, norms of compliance, and ethical practices, minimizing resistance and boosting employee morale in post-merger integration. Boards have to be trained to manage sophisticated M&A choices through the development of greater insight into regulatory requirements, valuation techniques, and stakeholder influence. Boards need to be trained to make sophisticated M&A decisions by cultivating greater insight into regulatory requirements, valuation techniques, and stakeholder considerations. Boards need to be trained to make sophisticated M&A decisions by cultivating greater insight into regulatory requirements, valuation techniques, and stakeholder considerations. Environmental, Social, and Governance (ESG) factors should be integrated into M&A planning, emphasizing long-term governance and alignment with stakeholders.



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