

# Directors Duties towards Stakeholders in India

Draft paper for discussion at the 2025  
Asian Corporate Law Forum at Chulalongkorn  
University

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# Introduction

- Objective: To analyze the impact and enforceability of Section 166(2)
- Key Question: Does Section 166(2) promote stakeholder inclusion or is it merely symbolic?
- Significance: Shift from shareholder primacy to stakeholder inclusion

# Historical Background – Pre-2013

**GANDHI'S TRUSTEESHIP MODEL:** WEALTH AS A TRUST FOR SOCIETAL BENEFIT



**COMPANIES ACT, 1956:** SHAREHOLDER-CENTRIC WITH LIMITED STAKEHOLDER PROTECTIONS



**SATYAM SCANDAL (2009):** TRIGGER FOR STRONGER CORPORATE GOVERNANCE NORMS



**CSR & VOLUNTARY GUIDELINES (2009):** INITIAL STEPS TOWARD STAKEHOLDER INCLUSION



# Notable Case Law on Directors Duties pre 2013

*Lakshmanaswami Mudaliar v LIC* – emphasis on transparency, accountability, and director liability in corporate governance standards.



*Nanala Zaver v. Bombay Life Insurance Company* – stressing on vigilance, loyalty, and care



*National Textiles Workers Union v. P.R. Ramakrishnan* – highlights the obligation of directors to balance the interests of several stakeholders, including employees.



# Section 166(2) – A Paradigm Shift?


**Legal Provision:** Directors must act in the best interests of the company, members and its stakeholders



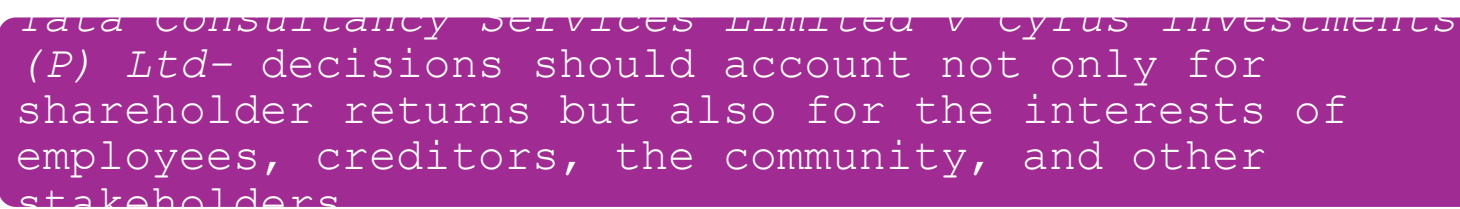
**Stakeholders Recognized:** Shareholders, employees, community, environment



**Potential Shift:** From shareholder primacy to a pluralistic governance model



*Latia Consultancy Services Limited v Cyrus Investments (P) Ltd*- decisions should account not only for shareholder returns but also for the interests of employees, creditors, the community, and other stakeholders



# Challenges in Implementation

01

**ABSENCE OF  
HIERARCHICAL  
GUIDELINES:** NO  
CLEAR  
PRIORITIZATION  
BETWEEN  
STAKEHOLDERS

02

**INTERPRETATION  
OF 'BEST  
INTERESTS':**  
VAGUE LANGUAGE  
ALLOWS  
SUBJECTIVE  
DECISION-MAKING

03

**CONCENTRATED  
SHAREHOLDING IN  
INDIA:** MAJORITY  
SHAREHOLDERS  
OFTEN CONTROL  
BOARD DECISIONS

04

**ENFORCEMENT  
ISSUES:** NO CLEAR  
PENALTY OR  
MECHANISM FOR  
STAKEHOLDER  
ENFORCEMENT

# Conclusion

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- In its present form, Section 166(2) is unlikely to have any real or meaningful impact
  - Possible next steps
    - Develop clearer guidelines and best practices that can provide directors with the tools they need to make balanced decisions
    - Judicial interpretations like in Tata v Cyrus may further clarify the contours of directors' duties