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PERSISTENT VIOLATIONS AND INEFFECTIVE DETERRENTS: A STUDY OF CORPORATE ETHICS IN INDIA

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ABSTRACT
This paper looks at recent trends in corporate ethical violations in India, focusing on the types of offenses, the amount and collection of financial penalties, and their impact on corporate governance and stakeholder trust. Even with stricter regulations by authorities like SEBI, RBI, CCI, ED, and NCLT, many major companies are still involved in unethical practices such as fraud, insider trading, money laundering, and false financial reporting. Although there has been an increase in regulatory action and ESG reporting requirements, data shows that many penalties are either not paid or are delayed. This raises questions about whether these fines are actually effective in stopping such behavior. Using key case studies like the Adani coal issue, Rose Valley scam, NSEL fraud, and Belekeri iron-ore scam, the paper highlights common patterns across sectors and gaps in the enforcement system. The findings suggest that while financial penalties are important, they alone are not enough. Stronger transparency, faster enforcement, and better accountability are also needed to reduce unethical conduct in companies.

INTRODUCTION
Corporate ethics are the values and rules that guide how a company and its people behave. These are expected to be followed by everyone from top management to junior staff. But today, many companies are seen breaking these ethics for personal gain like avoiding taxes or misusing power.In India, bodies like SEBI, RBI, CCI, ED, and NCLT are there to handle such matters. They look into frauds, financial crimes, and corporate misconduct, and take action to make companies accountable.Now, companies are also judged through ESG — Environmental, Social and Governance which checks how responsible a company is, not just how much profit it makes. ESG reports help show transparency and build trust with investors.

Still, even with all these systems in place, ethical violations continue. This paper will study recent trends in such cases in India, the financial penalties given, and whether these penalties are enough to bring real ethical change in companies.

LITERATURE REVIEW
Ethical violations are not new in Developing country like India where laws are just made but hard to enforce upon and control the financial frauds, Insider trading, money laundering and more serious crimes. The common man, employees environment and the stakeholders are the most affected due to the frauds and compensation paid is never able to return the hard earned money they lost.

We have regulations and acts to punish the people doing wrong acts but the question here is are those financial penalties enough to stop the companies from doing the same thing again?

Thus many researchers, surveys have tried to study the trends. KPMG is a global firm that does surveys to study fraud in Indian companies in their report of 2022 they said that 79% of the companies still face the risk of fraud even after more strict regulations and compliance have been imposed Companies still find many ways to do frauds like fake invoices, making of shell companies, avoiding filing of returns etc. for personal gain.

The culture of ethics is still weak inside the organisation as somewhere or other the greedy nature of Human beings make them want for more money.

The top level management itself is the biggest cause for happening of frauds and scams as they want to deceive the public Rules are not enough there is need for more strict value systems SEBI which is the security market regulator in India stated in its annual report of 2023-24 that it had collected over 75 crore in fines and penalties for crime such as insider trading, misrepresentation of books of accounts, and non transparent practices of the company Bombay Stock Exchange and the Multi Commodity Exchange is also were fined 25 lakh for not following proper norms. The BRSR Mandate by SEBI also enables companies to report on how they treat the employees, manage environmental impact, follow corporate Governance practices and handle social responsibility. This helps to increase transparency to stop violations Companies who do greenwashing or lie in such reports then they can be questioned by SEBI Forensic audit is a deep check in the companies books of accounts to detect fraud In 2023-24 SEBI hired 9 tops firms like Deloitte, KPMG, BDO to carry out such audits

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Forensic audit is different then the regular Statutory audit done as it demands reasons for fake bills or invoices, stole or misused company money , gave bribe or secret payment, evasion of taxes and tampering with financial reports.

RESEARCH METHODOLOGY

The research done in this paper is based on Secondary Data which includes various articles and references and the same will be available in bibliography

OBJECTIVES OF THE STUDY

1. To identify the most common types of ethical violations happening in Indian companies.
2. To study the financial penalties imposed by regulatory bodies like SEBI, CCI, RBI, and NCLT over the past decade.
3. To analyze trends in ethical violations sector-wise and over time.
4. To understand how penalties affect company behaviour, reputation, and compliance.
5. To explore whether financial punishment alone is enough to reduce unethical practices.
6. To suggest practical, student-based recommendations to strengthen ethical governance in Indian businesses.

DATA ANALYSIS

SEBI is getting stricter on insider trading, fraud, and poor disclosures. In 2023–24, it collected ₹74.88 crore in penalties and ₹125.56 crore in settlements. But over ₹76,000 crore in fines are still unpaid, showing many companies delay or avoid payment, reducing SEBI’s impact.

CCI looks into unfair practices like market dominance and cartels. In the last five years, it imposed ₹4,369 crore in fines but recovered less than ₹200 crore just 4.5%. It fined Amazon ₹2,044 crore and Google ₹2.02 crore, but most of the money is still unpaid. This shows strong action on paper, but weak results in reality. RBI mainly steps in when financial institutions fail on governance or risk. It took action against Reliance Capital by removing its board due to defaults and mismanagement. This led to the company being pushed into insolvency. RBI’s role is more about supervision and clean-up than fines but it plays a big part in holding NBFCs and banks accountable. NCLT handles insolvency and legal action against poorly managed companies. In cases like Bhushan Power & Steel, the ED attached ₹4,025 crore worth of assets under NCLT. It helps hold companies accountable through legal restructuring, not just fines.

CASE STUDIES

1. Adani Coal Grade Scam

Between January and October 2014, the OCCRP revealed that the Adani Group had sold approximately 3,500 kcal/kg low-grade Indonesian coal to TANGEDCO, Tamil Nadu’s power utility, while billing it as 6,000 kcal/kg high-grade coal. Around 1.5 million tonnes—i.e., a minimum of 22 shipments—followed this pattern. The practice was unethical due to three main reasons: corruption, environmental damage, and misleading practices. Adani deliberately mislabelled the coal to make it appear of superior value. Whistleblowers alleged that TANGEDCO officials had colluded with Adani to manipulate approvals and tenders. The burning of low-grade coal led to higher toxic emissions, adversely affecting public health. Moreover, the overpayment by TANGEDCO contributed to increased electricity tariffs. The use of inferior coal also worsened air pollution, increasing health risks in an already pollution-prone region.

Quantitative Analysis: The company faced a major financial loss of over ₹6,100 crore, and consumers indirectly bore the burden through tariff hikes.

Impact: Public health was negatively affected, and consumers had to pay increased tariffs. However, Adani has rejected all allegations of wrongdoing, citing third-party testing. The case remains under investigation, with no final verdict yet.

2. Rose Valley Chit Fund Scam

The Rose Valley Group, led by Gautam Kundu and Shibamoy Dutta, ran a Ponzi-style chit fund scheme between 2014–2015 across eastern India in states like Tripura, West Bengal, Odisha, and Assam. The group collected around ₹17,000 crore from small investors over a decade. The scheme promised high returns through timeshares, real estate, and investment deals but eventually collapsed, leaving ₹6,666 crore unpaid and many investors in financial ruin. The promoters acted unethically, siphoning investor funds into thousands of bank accounts and laundering money through illegal properties and fixed deposits.

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This scam had a devastating effect on economically weaker individuals who were lured in with unrealistic promises. The scheme operated without regulatory oversight and was later declared illegal by SEBI as an unregistered collective investment scheme.

Financial Damage: ₹17,520 crore was mobilized, with ₹6,666 crore unpaid. Around 31 lakh investors registered claims with the Asset Disposal Committee (ADC), and about 7.5 lakh were found eligible for restitution. In October 2014, restitution began, and the first batch of 7,346 investors received ₹10,200 each, totalling ₹5.12 crore. The Enforcement Directorate filed a PMLA charge sheet in 2016 and attached assets worth ₹332–₹494 crore. In January 2025, a special PMLA court framed formal charges against Kundu and Dutta in Odisha, opening the door for asset restitution. By March 14, 2025, the court approved the release of ₹450 crore. In mid-April 2025, the government handed over ₹515.31 crore to the committee, raising secured restitution funds to over ₹537 crore. Additional assets worth ₹1,172–₹2,000 crore remain attached and await liquidation for future compensation (as of April 2025).

Despite extensive legal action—including asset seizure, charge framing, and initial compensation—a significant portion of investor losses remains unrecovered, as liquidation continues.

3. National Spot Exchange Limited (NSEL) Scam

The NSEL scam surfaced in 2013 and became one of India's largest financial frauds, involving an estimated ₹5,600 crore and affecting over 13,000 investors across the country. NSEL, established in 2008, was intended to facilitate spot trading in agricultural and industrial commodities but later introduced controversial "paired contracts." These allowed investors to buy and sell commodities with a fixed return over 25–30 days. However, these contracts were often not backed by actual commodities. Later inspections revealed that the goods were either missing or of poor quality. Many borrowers on the platform were shell entities or financially weak companies that used investor funds without collateral or repayment plans. Though marketed as risk-free, collateral-backed trades, the transactions were essentially unregulated loans, violating the FCRA Act and NSEL's licensing terms.The scam involved multiple unethical practices, including breach of fiduciary duty, investor misrepresentation, and complicity by corporate entities. Financial Technologies India Ltd (now 63 Moons Technologies), the parent company, failed to enforce internal controls despite knowledge of the fraud. Brokers encouraged clients to invest without proper disclosures or due diligence. The scandal led to massive financial losses and shook investor confidence in India's financial markets. It also exposed flaws in India's regulatory framework, especially concerning hybrid financial instruments. In its aftermath, several agencies took legal action: the Economic Offences Wing of Mumbai Police filed a supplementary charge sheet in 2018 against 27 individuals and 36 entities, including brokers, defaulting borrowers, and NSEL and FTIL executives. The Enforcement Directorate attached assets worth hundreds of crores under PMLA. SEBI also declared 63 Moons Technologies "not fit and proper" to operate in capital markets due to their involvement in the fraud. The case highlighted critical lapses in corporate governance and the need for tighter market regulation.

4. Belekeri Port Iron Ore Scam

Between 2009–2010, around 3.5 million tonnes of seized iron ore, owned by powerful mining interests in Karnataka, were illegally exported from Belekeri Port near Karwar.

Although the ore had been legally confiscated by the forest department, a large portion vanished and was exported abroad using forged documents and fake permits. The scam was unethical due to its environmental damage, governance failure, and loss of state revenue. It bypassed royalty payments and other government charges, causing an estimated loss of ₹16,099 crore in unpaid royalties. The broader Bellary mining scandal involved alleged losses of up to ₹60,000 crore. The operation was supported by a network of corrupt port officials, customs agents, forest officers, mining regulators, and political figures connected to the mining mafia. Companies involved included Shree Malikarjun Shipping Pvt. Ltd., Adani Enterprises, Salgaonkar Mining, Dream Logistics, Raj Mahal Silks, and others. In May 2010, about 8 lakh tonnes of ore worth ₹250 crore were seized, although most of the stock disappeared under suspicious circumstances. In September 2012, the CBI registered multiple FIRs related to the illegal export of nearly 5 million tonnes worth ₹2,500 crore and conducted raids in Bellary, Goa, Karwar, and Bengaluru. In October and November 2024, MLA Satish Krishna Sail was sentenced to seven years of rigorous imprisonment and fined ₹44 crore. However, the Karnataka High Court later stayed the sentence temporarily, allowing bail on the condition that 25% of the fine be deposited within six weeks. The broader Impact included significant economic losses, environmental damage, and administrative failure. Excessive mining activity and ore transport led to hundreds of fatal accidents and road infrastructure degradation.

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CONCLUSION

Ethical misconduct continues to affect Indian corporates despite stronger regulations and rising penalties. While regulators like SEBI, CCI, RBI, and NCLT have increased actions such as heavy fines, forensic audits, and asset attachments penalty collection remains low, and legal delays reduce deterrence. Cases in mining, finance, and infrastructure reveal both a disregard for norms by some companies and the difficulty regulators face in enforcing accountability. For many firms, fines are treated as a business expense rather than a warning.

This suggests that financial penalties alone are not enough. Stronger internal ethics systems, faster legal processes, public reporting, and incentive-linked compliance are needed. A mix of strict enforcement and governance reforms will be essential to build corporate trust, investor confidence, and long-term sustainability.

RECOMMENDATIONS

1. Set a Time Limit and Add Interest on Unpaid Fines

In many cases like NSE and Rose Valley, companies didn’t pay their penalties for years. There should be a strict deadline like 90 or 120 days to clear dues. If they don’t pay on time, interest should be added automatically every month, just like GST or income tax rules. This will stop companies from ignoring fines or treating them like they don’t matter.

2. Make a Public List of Companies with Pending Fines

Just like banks have defaulter lists, SEBI or MCA should put out a public list of companies who haven’t paid their fines or have repeated violations. This creates public pressure and also helps investors and customers know who they’re dealing with.

3. Link the Fine Amount to the Size of the Company

A ₹10 crore fine might be huge for a small firm but barely affects a company like NSE or Adani. Fines should be based on turnover or profit — like 0.5% for the first offence and more for repeat ones. This way, big companies feel the impact properly, and the punishment feels fair.

4. Speed Up Case Resolution Through Fast-Track Benches

A major issue seen in cases like NSE, NSEL, and Bhushan Steel is the delay — some took 7–10 years just to reach judgment. Ethics and financial violation cases should be fast-tracked and ideally closed within a year. Delays reduce the seriousness of the action.

5. Start a Government-Run Whistleblower Platform

In many big scams, insiders were the ones who exposed the truth. But most people don’t report things due to fear. There should be a proper, secure online system run by SEBI or MCA where employees, vendors, or even customers can report wrongdoing anonymously.

6. Make Ethics Reporting Compulsory Every Year

Companies submit financial and ESG reports, but they rarely talk about internal complaints or ethical issues. A yearly “Ethics and Compliance Report” should be made compulsory — covering whistleblower complaints, actions taken, and any board-level issues. This builds trust and keeps the company accountable.

7. Link Ethics Score to Government Benefits

Some companies with poor ethics records still win government contracts or get loans. A simple ethics score system should be introduced. If a company scores low, it should be blocked from applying for tenders or getting easy loans until it improves. This will push them to act more responsibly.

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