
REDEFINING GOVERNANCE IN INDIAN LAW FIRMS: A CASE FOR STRUCTURAL REFORM AND INSTITUTIONAL ACCOUNTABILITY

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ABSTRACT

In the rapidly evolving legal landscape, Indian law firms stand at crossroad, struggling to keep up with the complexity and demands of modern practice. While these firms advise billion-dollar transactions, global corporations and shape policy, their internal structure remains rooted in old, informal patterns of governance. This article argues for the necessity of reshaping corporate governance in Indian law firms to enhance transparency, accountability and ethical practice. Comparing Indian experience with global templates, such as the UK and Australia's acceptance of non-lawyer ownership and public listings, the article details how India's regulatory framework is insufficient to cope with the cutting-edge challenges that confront law firms today. Spanning from transparent partner promotion to lack of conflict management systems, these structural flaws leave firms exposed to ethical disasters and client loss. The split of a major law firm in 2015, demonstrates the price of governance complacency, showing how internal conflict can topple even the most high-profile organizations. Based on an analysis of the regulatory environment, structural inefficiency and benefits of adopting corporate governance models, this article makes a compelling case for reform. By proposing a comprehensive model that involves mandatory conflict checks, financial disclosure and independent monitoring, it aims to bring Indian law firms into alignment with global best practice, promising long-term sustainability, integrity and growth.

At the heart of this article, lies the question: Why do Indian law firms require structured corporate governance and what risks arise in its absence?

Introduction:

The modern legal profession has moved past the old-fashioned chambers and courtrooms; it is now a vast, high-stakes business that advises billion-dollar multinationals, shapes public policy and plays a pivotal role in global deals. Despite such developments, Indian law firms' internal affairs are largely unregulated, impenetrable and solidly rooted in outmoded structures. Unlike their international counterparts, Indian law firms lack entrenched governance systems, independent regulatory institutions or operational conflict resolution systems. This article explores the imperative call for corporate governance in the Indian legal profession, examines the limitations of traditional partnership arrangements in the face of the sophisticated legal landscape of the times and draws upon international experience and homegrown examples, such as, the segmentation of India's largest law firm to make the case for structural reforms. Through an examination of legal structures, internal checks, the viability of public listings and creative internal mechanisms, this writing makes a case for a new governance model that aligns the legal profession with the imperatives of accountability, transparency and sustainability, and at par with evolving standards.

Understanding Corporate Governance in the Legal Sector:

Corporate governance in the legal profession is about more than internal management; it's about ensuring that law firms adhere to ethical standards, transparency and client protection through established, formal practices.

Corporate governance is the system of rules, practices and procedures by which an organization is guided and controlled. In legal practice, it involves protections that shield partners, associates, clients and third parties from harm through fair, honest and effective decision-making.

Even though traditionally linked with public companies, corporate governance also matters for law firms. As firm sizes expand, hierarchies become more complicated and operations become more globalized, law firms need to transcend partner-based, informal methods to more institutionalized models of governance. These can include managing partners, executive committees, audit and ethics committees, succession planning and client risk policies. Effective governance reconciles internal cohesion with external accountability, raising operational excellence and ethical reputation.

The Legal Framework Regulating Indian Law Firms:

To understand why reform is needed, it's crucial to examine the regulatory landscape under which Indian law firms operate and how it often falls short in ensuring effective governance.

To discern the governance deficit, one has to see the legislative environment in which Indian law firms are organized. A majority of them are organized in the form of traditional partnerships under the Indian Partnership Act, 1932 or in the form of Limited Liability Partnerships (LLPs) under the LLP Act, 2008. None of these acts had in mind the unique sensitivities of legal services. The industry still continues to be governed mainly under the Advocates Act, 1961 and the Bar Council of India (BCI) Rules.

These rules specifically limit law firms from organizing themselves under the Companies Act, 2013 or from allowing ownership or investment by non-license lawyers. In addition, they bar lawyers from advertising their services, dividing financial rewards with non-lawyers or engaging in occupations incompatible with the practice of law. While these requirements have their foundation in the maxim of upholding professional ethics and autonomy, they have led to an outdated regulatory mechanism that is not suited for modern institutional needs.

Structural Limitations in the Current Scenario:

The current regulatory environment imposes several limitations that hinder transparency, accountability and ethical practice within law firms, exacerbating internal inefficiencies and risks. India's legal limitations are contained in four major structural imperfections.

- First, Indian law firms have no real-time external regulatory control. Unlike other professions; Accounting (Institute of Chartered Accountants of India), Medicine (National Medical Council) or Capital Markets (Securities and Exchange Board of India, Reserve Bank of India, etc). There is no regulatory body which has an active oversight over internal governance in law firms. The BCI is concerned with discipline in case of professional misconduct and not with proactive regulation.
- Second, law firms are not required to disclose their finances. There is no legislative requirement for audited accounts, even for LLPs of the scale of mid-sized corporations. This transparency does not extend to profit sharing, equity arrangements and revenue

apportionment.

- Third, the process of admitting and promoting partners is often opaque and seems to be arbitrary. Without set governance policies, senior partners have unfettered discretion on recruitment, promotions and financial decisions, thus creating power imbalances within firms.
- Fourth, most significantly, the system for handling conflicts of interest is flawed. Indian law firms do not have to implement institutional conflict-check systems because of this. As a result, conflicts are generally handled informally or manually, creating ethical concerns and increasing exposure to liability.

Global Outlook on Corporate Governance in Law Firms:

The global scenario for corporate governance in law firms has evolved significantly, especially in jurisdictions where legal services are treated as both professional and commercial enterprises.

- UK & Australia lead with reforms allowing non-lawyer ownership and public listing (e.g. Slater & Gordon) requiring formal boards, compliance officers and ethical oversight.
- US remains conservative, with most states barring non-lawyer investment, though some (e.g. Utah, Arizona) are testing reforms.

Why is Corporate Governance Framework Necessary for Indian Law Firms?

Corporate governance is an issue of paramount concern for Indian law firms in modern times because it defines their professional identity in the internationalized and complex legal environment. Indian law firms have traditionally existed in the form of partnerships under the Advocates Act, 1961 and registered under the Indian Partnership Act, 1932 or the LLP Act, 2008. Notably, these organizations have been exempted from the provisions of corporate governance contained in the Companies Act of 2013 specifically designed for commercial enterprise. The said legal forms were never imagined with the vision of managing institutions now advising on billions of dollars' worth of transactions, international legal disputes and public policy issues. As a result, law firms have exceeded the regulation boundaries defined by their governing legislation, which led to a severe institutional lack of control.

- First, the absence of present regulatory frameworks has led to the absence of standard internal governance procedures. Unlike corporations, law firms do not have to have audit committees, risk management systems, internal compliance processes or whistleblower protection policies. This is particularly troublesome in the legal profession, where fiduciary responsibilities are of the utmost importance. The absence of codified rules concerning conflicts of interest or centralized due diligence systems makes it more likely that ethical violations will occur and clients will be harmed. Conflicts are usually handled informally or manually, depending on individual judgment rather than formal institutional practices, in many firms. This practice erodes the integrity of legal services and betrays client trust.

In several cases globally e.g. Dewey & LeBoeuf's collapse in the U.S. where the firm allegedly misrepresented their financial health, causing disruption to ongoing client matters. Disclosing basic financial information helps build institutional resilience and reduce client exposure to abrupt collapse or fraud.

- Second, the internal operations of the majority of Indian law firms are opaque. The decision-making authority lies in the hands of a few senior partners and there are no established procedures for admitting partners, sharing profits or granting promotions. This provides scope for arbitrary practices to prevail, which undermines transparency and merit-based promotion. Consequently, junior lawyers and lawyers from marginalized groups experience unequal career mobility and firm leadership. In contrast to organizations of today that institutionalize diversity, accountability and inclusion in their governance mechanisms, the majority of Indian firms being informal and hierarchal with minimal regulatory pressure to reform.

The Protection of Women from Sexual Harassment (POSH) Act, 2013 mandated Internal Complaints Committee (ICC) is designed to handle a broader spectrum of firm-level concerns. Having internal governance structures (e.g. ethics or grievance committees) complements workplace laws like POSH. It provides a multi-layered accountability system, which is especially important in high-pressure, hierarchical environments like law firms, where fear of retaliation or loss of career opportunity often deters open reporting.

- Third, Indian law firms lack a central or standalone body that rates, ranks or benchmarks

Indian law firms. Without a regulatory body such as a legal services board, nobody compares firms on objective measures like quality of governance, compliance systems or client results. Law firms are ranked informally, however, by pedigree, reputation in the press and powerful contacts. Such a reputation-driven system rewards firms on reputation and not on performance or ethics. Thus, well-governed but low-profile firms may miss out and highly visible but low-quality firms may get away. Together, our deficiencies highlight the need for widespread governance reform tailored precisely for the legal profession. A properly structured corporate governance framework for Indian law firms should include minimum standards for leadership roles in medium and large practices, such as defined leadership roles, conflict management systems, financial reporting requirements and diversity policies. In addition, the creation of a central regulatory body is necessary to enforce compliance with these standards, conduct governance audits and institute a clear, evidence-based tier classification system. Incorporating corporate governance into the core functioning of Indian law firms ensures more than the mere modernization of management, it is crucial for upholding the integrity, ethical conduct and long-term viability of our profession.

- Fourth, while handling partners and senior lawyers in a firm might ultimately do everything at once, including financial management, compliance and policymaking, their dual role as practitioner and internal governor creates a conflict of interest. Their first priority must be legal practice and client service, not institution governance, which is specialist and resource-intensive.
 - i. First, requiring the same individuals to perform compliance, audit, conflict checks, partner review and business continuity without independent scrutiny, concentrates untrammelled power and heightens risks of failure of oversight.
 - ii. Second, without segregation of tasks, objectivity is hard to maintain. For instance, a managing partner examining conflicts of interest in a matter in which they have an interest cannot assert institutional impartiality.
 - iii. Third, corporate governance is not a question of keeping internal order, it is a question of constructing systems of accountability, transparency and resilience capable of withstanding reputational, financial or ethical shock. That needs structures such as independent audit machinery, risk committees and compliance officers, tasks that

lawyers, by training and ability, are not positioned to perform by themselves. Therefore, while lawyer-managers are essential to firm leadership, they must be contained within a wider governance structure consisting of independent or at least functionally independent mechanisms. Only then are law firms in a position to satisfy the expectations of accountability now placed upon high-stakes professional institutions.

- Fifth, public listing involves a company issuing its shares to the general public on a stock exchange. This strategic move allows companies to raise large amounts of financial capital, enhance their market visibility and gain credibility. Publicly listed companies are also subject to greater regulatory scrutiny, which has the effect of leading to better transparency and governance practices.

Governance Lessons from the Division of Amarchand & Mangaldas & Suresh A. Shroff & Co.:

One significant case in the Indian legal sector was in 2015, when the high-profile break-up in Amarchand & Mangaldas & Suresh A. Shroff & Co., as India's largest and most elite law firm, occurred. The management of the firm had been in the hands of the Shroff brothers, Cyril and Shardul Shroff. Following the death of their mother and retirement of their father, Suresh Shroff. The disagreement arose regarding sharing control and succession, eventually spilling over to litigation between the brothers and their respective teams of family.

The internal structure of the firm had lacked a specific succession plan, a written partnership deed or a conflict-resolution process, thus allowing the matter to spiral. Following court action and mediation interventions, the firm was eventually split into Cyril Amarchand Mangaldas (CAM), managed by Cyril Shroff in Mumbai and Shardul Amarchand Mangaldas (SAM), managed by Shardul Shroff in Delhi. The break-up served to emphasize the vulnerability of Indian law firm governance, particularly by firms working on informal partnership agreement arrangements without the institutional cover in place. It illustrated how conflict between people, when not contained by internal governance tools, can disrupt even the most robust firms; derailing reputations, impacting clients and provoking instability among staff. The case is a stark reminder of the imperative for Indian law firms to have formal governance structures in place to properly manage succession, partner conflict and internal accountability.

Emerging Internal Governance Mechanisms in Indian Law Firms:

As Indian law firms grow in size and complexity, more are beginning to implement internal governance mechanisms.

- **The role of Managing Partners and Senior Partners:** In most of these firms, these individuals end up shouldering multiple responsibilities, they oversee legal work, business development and firm administration. They will establish internal policies, deal with serious conflicts and advise strategic choices. But this focus of roles generally does not carry institutional checks oversight.
- **HR and Operations Teams:** Larger firms now typically have professional human resource departments that are responsible for handling recruitment, initial grievance redressal and certain aspects of partner evaluation. However, these activities tend to be devoid of defined and codified governance policies, with the ultimate authority of human resources circumscribed by the partners' discretion.
- **Compliance and Risk Teams:** A number of the top firms, including Cyril Amarchand Mangaldas, Shardul Amarchand Mangaldas and Khaitan & Co., have started to hire Chief Compliance Officers, risk units or in-house ethics committees but these are mainly internal protocols, with no outside reporting requirements and no sector standard for benchmarking.
- **Conflict Check Systems:** Most firms do, of course, have conflict check processes, but they differ in quality. Some employ spreadsheets, others custom databases or simple legal tech solutions. There is no industry standard, obligatory conflict management process and no independent review of conflict decisions in most cases.
- **Auditing and Financial Oversight:** Law firms, even the big ones, don't have to put out audited financials. Internal audits, when they occur at all, are for tax and business efficiency, not ethical obligation or financial disclosure to clients or junior partners.

While some of the top Indian law firms have undertaken the implementation of internal processes relating to compliance, conflict analysis and risk management, these undertakings remain voluntary and absent of uniformity within the profession. In the absence of an

overarching regulatory architecture, these measures tend to vary, be less transparent and highly subject to the firm's management and organizational dynamics. Hence, these endeavours are subject to revision or outright abandonment with managerial changes. In order to sustain accountability and assure professional standards in all instances, these internal attempts must be buttressed by an official governance model that applies universally to the profession irrespective of firm size or profile.

Conclusion:

The need for effective corporate governance in Indian law firms has grown exponentially. As the practice of law adapts to global pressures and rising complexity, informal governance is no longer sufficient. Without institutionalized in-house structures like audit committees and risk management mechanisms, the sustainability of such firms is undermined and the risk of ethics breaches rises. The case of Amarchand & Mangaldas & Suresh A. Shroff & Co. is a reminder of the consequences of ignoring governance in such situations.

A number of India's leading law firms have now begun to establish compliance and risk management committee, these, however, are voluntary and ad hoc. Uniform legislation like in accounting and healthcare now has to be put in place in order to bring uniformity and accountability to the legal profession, remove arbitrary practices and ensure adoption of the best practices enhancing integrity. There is now a need for a formal regulatory framework to overcome the existing governance weaknesses. In the absence of this, law firms are exposed to power imbalances, ethical lapses and poor oversight. Poor governance may lead to conflict of interest, lack of transparency and poor diversity in decision-making. Adopting a corporate governance model aligns firms with today's professionalism standards, hence safeguarding clients and ensuring sustainability. There is a need for this framework to prevent conflicts and maintain integrity in legal services, ultimately maintaining the international reputation of the Indian legal profession.