

Topic: Corporate governance

Role of Independent Directors

1) Introduction

- An independent director (ID) is defined as a director on a company's Board other than a managing director, whole-time director or a nominee director.
- They are required to take an autonomous view of the on-goings in a company while overseeing its management.
- An ID should not be a promoter or related to promoter of the company, its subsidiary or associates.
- An ID must not have been an employee of the company
- An ID should also not have had any pecuniary relationship with the company in the two preceding financial years or in the current year.

2) Role of IDs

- The ID is envisaged as a watchdog on the Board to ensure good governance.
- SEBI brought in the concept of IDs through clause 49 of the Listing Agreement, 2000, which deals with corporate governance norms for listed companies.
- IDs act as the connecting link between the management of the company and its many diverse stakeholders.
- They are required to play moderator to the conflicting interests that arise in these relationships.
- Recent instances such as the Tata-Mistry spat or the Infosys Board shake-up show that more needs to be done.
- IDs are designed to act as trustees of shareholders, especially minority shareholders.
- They are expected to take an outsider's view and ensure checks and balances in areas such as strategy, performance, key appointments, remuneration, etc.

3) Why are IDs Required?

- The presence of Independent directors on the Board of a Company would improve corporate governance.
- Higher corporate governance standards make investors more comfortable.
- Enhanced governance may positively impact credit rating of the company, helping lower its borrowing costs.
- This is important for public companies or companies with a significant public interest.
- IDs would be able to bring an element of objectivity to Board process in the general interests of the company.

4) Uday Kotak panel on Corporate Governance

- The Uday Kotak panel on corporate governance has sought more active role and greater autonomy for independent directors and more transparency in their appointment and separation.
- At least half of the board of a listed entity be constituted of independent directors.
- There should be minimum of six independent directors on the board of every listed entity, with at least one woman independent director.
- Companies must list the competencies of every director present on the board.
- Split the roles of Chairman, MD and CEO of the listed firms which would enable better and effective supervision of the management.

- Keep relatives out from occupying the place of independent directors.
- These reforms must strengthen India's corporate governance and increase international investment prospects.

5) What will happen when IDs fail?

- When IDs fail in their duty or when conflicts arise between the IDs and the management/ founders/promoters, shares of the company will be badly affected.
- Therefore, the credible IDs in the company boards is in the interest of the shareholders.

6) Way Forward

- A committee of IDs should meet regularly, and bring to the board instances of violations of law and ethics in corporate affairs.
- Any payment and benefit to IDs should be strictly in accordance with the law. It must be transparent and the information should be available to the public
- Shareholder activism must improve. Currently, most shareholders are silent spectators to happenings in corporations
- The corporation should emerge as a social institution, with the directors having duties and responsibilities towards society, observing not only the letter of the law but also the spirit of ethics.

