Independent Directors

What is the issue?

- A major theme in corporate governance that has emerged worldwide is the institution of independent directors (IDs).
- This article deals with the roadmap for its institution.

Why was this institution created?

- The institution of IDs was created to prevent the growing incidence of promoters or management who enrich themselves at the expense of the minority shareholders.
- Therefore, if IDs were to perform their role, they were to be independent of the promoters.

What is the problem in India?

- The key problem in India has been who gets appointed as an ID.
- The regulations specify who cannot be an ID, but they don't speak about the qualifications or experience of the IDs.
- The field is wide open to the appointment of anyone - friends, relatives (not covered by definition), neighbours, etc.
- IDs are appointed and paid by the very person whose excesses they are supposed to guard against.
- Most companies have misused the requirement of women directors or performance evaluation of directors.
- But, there is no solution if our expectations from IDs continue to be misplaced.

What is needed?

- There is a need in the change of mindset so that the focus can shift to the perpetrators of fraud. Not the IDs, who are bystanders.
- Multi-pronged and harsh measures are the only ways to improve corporate governance.
- The following are some suggestions that deserve serious consideration.

What are some suggestions?

- Individuals commit frauds; companies are only vehicles.
- So, individuals, not companies, should be punished for fraud/non-compliance.
- **Severe punishments** for malpractices are the best deterrents and inducers of governance.
- Comprehensive **databases** need to build for each company of all promoters, directors and key management persons (KMPs).
- These databases should be interlinked, along with databasing all their relatives.
- There is a need to enhance surveillance and software-driven Early Warning Systems in the context of both the companies and individuals.
- The investigation function needs to be better skilled.
- Separate **securities-market courts** should be established, dedicated to faster pronouncements; cases cannot linger on for years.
- But, it would also be politically controversial to abandon the IDs institution, as it is now a universally adopted concept.

Source: Financial Express

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