

## The Origin and Need for Independent Directors:

The origin of independent directors should be discussed from the ownership of company vis-à-vis Management. The Board is a group of individuals appointed by the owners of the company to run the company in the interest of the stake holders. A company is a combination of various stake holders such as investors, employees, vendors, customers, governments and society at large. The management of the daily affairs of the company is given to the Board of Directors.

The representatives on the Board should run the affairs in a transparent manner to all its stakeholders. This is the triggering point for independent behaviour of the people on the Board for the common good. Globally, many times in the past, it has been observed that the members of the Board have taken decisions prejudicial to the interests of the stakeholders at large and ran the corporations for the material benefits of the few. This called for independent members on the Board in the process of adopting fair and transparent business practices.

## Meaning of Independent Director:

A Director who is free from the influence / guidance / control of another person or environment and who is self-reliant for the

judgment and opinions he makes.

## Who are Independent Directors?

1. The *Inclusive definition* given to the Independent Directors' in Indian scenario means, directors who:

Apart from receiving director's remuneration, do not have any other material pecuniary relationship or transactions with:

- ✓ The Company
- ✓ Promoters or its management;
- ✓ Its subsidiaries or affiliates

*Here, the intension of the Regulator is to protect the "Independence and Judgment" of the Independent Directors' on the Board of any Listed Company and ensure that the same is not adversely affected by virtue of the above said relationship.*

2. Independent Director has to be a non-executive member on the Board
3. The Nominee Directors appointed by the Institutions that have Invested or Lent money to the Company deemed to be Independent Directors.

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**Applicability:**

Appointment of Independent Directors is applicable to the Companies listed on Stock Exchange

**Disqualifications to become Independent Director:**

1. Share Holder with 2% or more of Equity Stake in the company.
2. Partner of Legal or Audit or Consulting Firm, rendering professional services to the company during the tenure of such appointment or has rendered services any time in the past 3 years can not become Independent Directors of such company.
3. Former Executive who left the company less than 3 Years ago.
4. Material Suppliers, Service Providers and the Customers of the company are disqualified to become Independent Directors on the board of such company.
5. Relative of a Promoter or Member holding Management position at the Board Level or one level below the Board.
6. Executive Director
7. Senior Executive one level below an Executive Director of the company
8. Any person having materially significant relationship with

the company can not become Independent Director.

9. A person who has not completed the age of 21 Years as on the date of appointment.

**Closing remarks:****Can Regulatory policies ensure independent behaviour of Directors?**

Independence is a matter of behaviour / attitude and not merely physical attendance of the so called "Independent Directors" at the Board Meetings. No amount of regulation can ensure how an "Independent Director" should behave at the Board Meetings. Only a person, who respects his conscious about his responsibilities, will always raise right questions at every forum, whether or not he holds the independent status by definition.

**The missing Links of Independence...**

Today it is a matter of open debate as to what happens to the decisions taken and implemented by the board subsequently found actually not independent...Ultimately it is the Intent of the person at the helm of affairs and not the rules which bind him in being fair and transparent of the transactions.

*It is the primary duty of each such Independent Director to question from "WITHIN" as to "HOW INDEPENDENT" they actually are...? And how much value they add to the stake holders they represent.* ■