

An Insight into Independent Directors And Their Roles in Corporate Governance

Independent Directors play a pivotal role in strengthening corporate governance by bringing objectivity, professional scepticism, and balanced judgment to board deliberations. In a recent knowledge-sharing webinar organised by **Mehta & Mehta**, senior professionals deliberated on the statutory framework, practical challenges, and evolving expectations placed on Independent Directors in today's regulatory and stakeholder-driven environment.

With increasing regulatory scrutiny, accountability for board decisions, and heightened stakeholder expectations, the role of Independent Directors has evolved from a formal compliance requirement to a substantive governance function.

Evolution of the Independent Director Framework in India

The concept of Independent Directors in India emerged in response to corporate governance failures, promoter dominance, and inadequate protection of minority shareholders. Initially introduced through committee recommendations, the framework gained statutory force with the enactment of the Companies Act, 2013, supported by enhanced disclosure and governance norms under SEBI LODR Regulations.

Over time, the responsibilities of Independent Directors have expanded significantly, positioning them as key contributors to board effectiveness, transparency, and ethical decision-making.

Statutory Framework Governing Independent Directors

The primary legal framework governing Independent Directors includes:

- ⇒ Section 149 and Schedule IV of the Companies Act, 2013
- ⇒ Relevant rules relating to appointment, remuneration, and evaluation
- ⇒ Regulation 16 and Regulation 25 of SEBI LODR Regulations

Applicability

Independent Directors are mandatorily required in:

- ⇒ All listed companies; and
- ⇒ Certain public companies meeting prescribed thresholds of paid-up capital, turnover, or outstanding borrowings.

Applicability is determined based on audited financial statements, and once triggered, compliance must be continued for the prescribed period even if thresholds are not met subsequently. Voluntary appointment of Independent Directors, even where exemptions apply, was highlighted as a governance best practice.

Eligibility, Independence and Appointment Process

To qualify as an Independent Director, an individual must meet stringent independence and integrity criteria, including absence of pecuniary relationships with the company, its promoters, or management, and possession of appropriate expertise and experience.

The webinar highlighted the importance of registration in the Independent Directors' Data Bank maintained by IICA, compliance with proficiency requirements, and timely renewal of registration. Robust due diligence covering regulatory records, public domain checks, and declarations was emphasised as a critical safeguard in the appointment process.

Role and Responsibilities of Independent Directors

Independent Directors are entrusted with key responsibilities, including:

- ⇒ Upholding high standards of corporate governance and ethical conduct;
- ⇒ Bringing independent judgment to strategy, performance, and risk oversight;
- ⇒ Protecting the interests of minority shareholders and other stakeholders;
- ⇒ Scrutinising management performance and key decisions;
- ⇒ Ensuring integrity of financial information and adequacy of internal controls;
- ⇒ Overseeing transparency in related party transactions and significant approvals.

The session emphasised that independence must be exercised on a continuous basis, extending well beyond the point of appointment.

Participation of Independent Directors in Board Committees

Independent Directors play a central role across key Board Committees, including:

- ⇒ **Audit Committee**, where they provide financial and governance oversight;
- ⇒ **Nomination and Remuneration Committee**, ensuring objective selection and evaluation of directors and senior management;
- ⇒ **Risk Management Committee**, overseeing enterprise risk frameworks;
- ⇒ **Stakeholders' Relationship Committee**, safeguarding shareholder and investor interests.

Committee roles were highlighted as carrying enhanced responsibility, particularly where Independent Directors exercise approval or recommendation powers.

Practical Governance Considerations

The webinar highlighted several practical considerations for Independent Directors, including the need for adequate time commitment, thorough review of board papers, and active participation in discussions. Independent Directors were encouraged to seek clarifications, insist on adequate disclosures, and ensure that dissent, where necessary, is appropriately recorded.

The importance of maintaining professional independence, resisting undue influence, and aligning board decisions with long-term stakeholder interests was emphasised as essential for effective governance.

Conclusion

Independent Directors today serve as a cornerstone of board independence and corporate governance. Their role extends beyond statutory compliance to ensuring transparency, accountability, and ethical leadership within organisations.

As regulatory expectations intensify and governance standards evolve, Independent Directors must continue to act as vigilant custodians of stakeholder trust, contributing meaningfully to sustainable value creation and resilient corporate governance frameworks.

To stay informed or access the webinar recording, visit the YouTube channel:

 **"Decoding Corporate Laws with Mehta & Mehta"**