INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, IT & MANAGEMENT

IJRCM

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

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   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

   It should be in a 8 point Calibri Font, single spaced and justified. The manuscript should preferably not exceed ***5000 WORDS***.

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BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

JOURNAL AND OTHER ARTICLES

- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

INDEPENDENT DIRECTORS IN LISTED INDIAN PUBLIC SECTOR ENTERPRISES: AN ANALYTICAL STUDY

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ABSTRACT

Board of Directors in a company comprise of executive and non-executive directors. Executive directors are full-time employees of the company. They are responsible for managing the affairs of the company. However, given the day to day pressures it can be sometimes extremely difficult for executive directors to remain independent and ensure necessary accountability. Non-executive directors on the other hand bring balance and credibility to the management decisions. The attributes of a non-executive director are independence of mind, integrity and the courage to question the executive members. Non-executive directors can add value to the Boards of companies of all size by ensuring transparency in the operations of a company, maintaining independent checks and balances on the authority of executive directors and CEO, bringing in specific skills and expertise, providing strategic vision, participating in the Audit and Nomination Committees and carrying out other responsibilities assigned from time to time. In order to objectively monitor, non-executive directors must be independent. This implies that non-executive directors are not connected with the company or its promoters or directors on the basis of family relationship and do not have any other relationship, whether pecuniary or otherwise, with the company or its directors or related parties. To be able to effectively monitor, it is imperative that independent directors are given significant representation on the Board.

KEYWORDS

Checks and Balances, Fair Boardroom Practice, , Investor Protection , Transparency & Watchdog.

1. INTRODUCTION

The subject of Corporate Governance has drawn a considerable amount of attention and interest in the recent times both in India as well as all over the globe. The concept primarily rests on basic principles of corporate governance i.e. fairness, integrity, transparency and accountability of the management with an increased focus on investor protection and maximizing of shareholders' wealth.

The acid test of good governance lies in managing a company in a transparent manner ensuring investor protection and maximizing long-term worth of the investments. A key element of good governance remains in maintaining transparency which incorporates a system of checks and balances between key players like Boards, Management, Auditors, investors and other prominent stakeholders.

In this context, the role of Independent Directors has come to be viewed as significant since they are expected to bring an element of objectivity and independence in the boardroom practices and management decisions. The subject of Independent Directors has shot into prominence ever since the courts in India ruled in Satyam saga that the Independent Directors are equally to share the burden of negligence of duties[4] same as for the functional directors. .

2. A BRIEF REVIEW

BOARD OF DIRECTORS

i. Board of Directors is a team of professionals at the highest level of hierarchy in a company, working full time or part time and entrusted to make business decisions with a view to ensure that the company succeeds in achieving its predetermined goals while surviving and prospering as a perpetual entity.

ii. Directors comprise the Board as its members. They are trustee managers of a company who are entrusted to keep the business going with a view to ensure that the outfit survives to stay in business and grows to prosper and diversify to succeed in the long run to accomplish the goals set by the promoters. Section 2(13) of the Companies Act, 1956[5], defines a Director as "any person, occupying the position of Director, by whatever name called. They are professional men, hired by the company to direct its affairs. But, they are not the servants of the company. They are rather the officers of the company". The Directors are of two types-

a. Executive Directors also called Functional / Full time Directors.

b. Non-Executive Directors are also called Non-functional / Part time Directors. In the corporate circles such individuals are termed as "Independent Directors"[6] if they are not nominated by FIIs and do not have any other relationship with the company or any member of its management. The officers in the Ministries concerned nominated by the Government on the Board of the listed PSEs as well as the listed Joint Ventures under the administrative control of the respective Ministries are not to be considered as Independent Directors.

INDEPENDENT DIRECTORS

The term 'Independent Directors' became a part of the Indian corporate glossary subsequent to release of the Kumar Mangalam Birla Committee Report[6] in 2000 which resulted in introduction of the concept. Three years later the Naresh Chandra Committee[8] gave governance further thought. Finally, in 2004 the Narayana Murthy Committee[9] recommendations lead to inclusion of clause 49 in the listing agreement[10]. As at present, the existing company law does not mention the term "independent directors".

IDs are appointed with an objective to bring a fresh and independent orientation coupled with transparency in the decision making by the board. Further, this is done with a view to ensure investor protection as well as taking the business forward. The guidelines[10] on the subject prescribe that a company headed by an executive chairman shall have not less than 50% independent directors. A company with a non-executive Chairman should have 1/3 rd of its Board constituted of independent directors.

The Independent Directors are looked upon as agents of change in the field of corporate governance and considered to be cornerstones of good governance[14]. The institution of Independent Director seeks to bring credibility to the Board of directors. The attributes of IDs are independence of mind, integrity and the courage to question the decisions in the broader interest of stakeholders and the company itself[16].

As per the recent guidelines[15] released by the Department of Public Enterprises, Government of India it is mandatory to have 50% of the Board strength constituted by Independent Directors for a public sector company to be classified as Maharatna i.e. the top rank in the classification for the PSEs.

3. STATEMENT OF THE PROBLEM

It is to be examined whether the much hyped institution of Independent Directors has been able to deliver any value both to the corporate hiring them and to the common investors by bringing about a sense of investor protection. For the common investors good governance lies in ensuring transparency, investor protection and maximizing long-term worth of their investments. Have the IDs made any difference in the scenario?

4. AN ANALYTICAL STUDY

I. OBJECTIVES OF THE STUDY

i. The study has been carried out to delve deeper into the psyche of a key segment of stakeholders with a view to get a broader perspective on the Independent Directors, their appointments, qualifications, training, role, functioning, compensation, and value addition in raising the level of corporate governance.

ii. To make suitable recommendations to bridge the shortcomings with a view to enhance the value addition by the Independent Directors.

II. RESEARCH METHODOLOGY

a) Data Collection: A structured questionnaire was designed incorporating issues relevant to appointment and functioning of Independent Directors. The responses were obtained accordingly.

b) Sample: CPSEs i.e. Public Sector companies owned and managed by the Government of India and listed under NIFTY-50[11] in the National Stock Exchange were chosen as the target sample for the study. The respondents were chosen at random. Since the total population of stakeholders of these companies could run into a huge figure, only a sample of 75 individuals who are employees cum shareholders and working in the corporate offices of these companies based in the National Capital Region(NCR) of Delhi were administered the questionnaire. Only 40 valid responses were received back which makes a 53.33%.

c) Target Respondents: It was felt that the employees cum shareholders employed in the NCR based corporate offices of the PSUs covered in the sample are in a good stead to give a realistic picture on the functioning of IDs. Accordingly, they were approached to respond to fill up the questionnaires.

5. DATA COLLECTED

Sr No	Statement	SA	A	NC	D	SD	Total
A.	**Appointments**						
1	IDs are appointed purely on professional considerations	2	4	6	13	15	40
2	Persons appointed IDs are not relatives or friends of promoters	3	3	10	9	15	40
3	Women get a fair representation in appointment of IDs	1	1	1	12	25	40
4	Individuals appointed as IDs are not too old for the Job	12	13	5	5	5	40
5	After the vacancy arises, IDs are appointed without much of a delay	3	7	6	11	13	40
6	Independent Directors should be appointed for a fixed tenure	26	12	2	0	0	40
7	50% of Board should comprise of IDs like in Maharatna PSEs	8	8	8	8	8	40
B.	**Qualifications**						
8	IDs should possess a certain minimum qualifications	15	13	9	2	1	40
9	No of directorships held by one individual should be restricted	29	8	2	1	0	40
10	Suitably qualified & experienced professionals are appointed as IDs	9	7	6	9	9	40
11	IDs possess integrity and do not seek any favors to endorse decisions	8	8	8	8	8	40
C.	**Training**						
12	IDs do not take too long and start appreciating the nuances of business	2	2	8	14	14	40
13	Independent Directors should be imparted appropriate training.	16	16	4	2	2	40
D.	**Role**						
14	IDs bring definite value addition to decision making in the Board	16	11	8	3	2	40
15	IDs help improve networking with various stakeholders	20	10	5	4	1	40
16	Presence of IDs leads to accuracy & timeliness of disclosures	5	6	9	8	12	40
17	Presence of IDs encourages well deliberated decisions by the Board	3	4	4	12	17	40
18	Legal compliances by the company improve with IDs on the board	7	4	5	8	16	40
19	Presence of IDs makes a company more sensitive to environmental issues	2	3	8	12	15	40
20	Companies with IDs do not conceal material information	3	3	4	10	20	40
21	IDs regularly seek information on reasons of non-performance	5	2	9	12	12	40
22	IDs devote sufficient and quality time to company matters	3	4	8	11	14	40
23	IDs should share the onus for failures with other directors	13	11	9	5	2	40
E.	**Compensation**						
24	Present rate of compensation to IDs is quite reasonable.	20	10	5	4	1	40
25	Compensation to IDs from one single company should be restricted	27	11	2	0	0	40
F.	**Contribution**						
26	IDs on the board of a company enhance its corporate image	13	12	8	5	2	40
27	Corporate Governance improves substantially with IDs on the board	10	10	12	5	3	40

6. ANALYSIS AND DISCUSSIONS

Abbreviations: SA- Strongly Agree, A=Agree, NC-No Comments, D-Disagree, SD-Strongly Disagree.

A. Appointments

S.No	Statement	SA	A	NC	D	SD	Total
1	**IDs are appointed purely on professional considerations**	**2**	**4**	**6**	**13**	**15**	**40**
Explanation: 70% of the respondents have answered in negative. About 15 % are non-committal on the subject. About 15% agree with the statement. The pre-dominant negative response supports the common belief amongst the investors that IDs are appointed by promoters merely with the objective to comply with the statutory definition of independence. This contention is also supported by Market analyst Prithvi Haldea[2] in his paper titled "Independent directors or insiders?"							
2	**Persons appointed IDs are not relatives or friends of promoters**	**3**	**3**	**10**	**9**	**15**	**40**
Explanation: 61% of the respondents have rejected the statement. 25% opinions are neutral. Only 14% agree with the statement. It is practically seen over the years that even in the highly rated professional managed companies IDs are appointed from among acquaintances especially from among the acquaintances of the promoters. This trend has been deliberated at length by Haldea[3] in his article on the subject							
3	**Women get a fair representation in appointment of IDs.**	**1**	**1**	**1**	**12**	**25**	**40**
Explanation: Only 4% agree while 3% are non-committal. 93% have rejected the contention. In this regard data available from secondary sources[13] shows that the representation of women as IDs is extremely low and merely 2.5% of the total.							

4	**Individuals appointed as IDs are not too old for the Job**	12	13	5	5	5	40
	Explanation: 62% of the respondents support the statement and find that the IDs appointed are not too old for the job. 26% disagree with the statement. 12% refuse to commit their views on the subject. There appears to be a conflicting situation in this context as the secondary data[13] reveals that 48% of total Independent Directors in India are above the age of 60, 1380 above 70, 199 are above 80 and 8 are even above 90 years.						
5	**After the vacancy arises, IDs are appointed without a delay**	3	7	6	11	13	40
	Explanation: Only 26% respondents agree to the statement. 59% have negated the same. 15% offer no comments on the subject. Guidelines[10] on the subject provide 180 days to fill up a vacancy which is rather too long a period and there is a possibility of exploiting the gap.						
6	**Independent Directors should be appointed for a fixed tenure.**	26	12	2	0	0	40
	Explanation: As many as 95% believe that Independent Directors should have a defined tenure in the Board. The remaining 5% have taken neutral stance. Some argue that IDs should retire after a reasonably long period say 6 or 9 years as by then too much familiarity may starts creating ineffectiveness. As per indications available from the Ministry of Corporate Affairs[12] (MOCA), the new companies' bill is likely to restrict the appointment period to 6 years.						
7	**50% of Board should comprise of IDs, as in Maharatna PSEs**	8	8	8	8	8	40
	Explanation: 40% agree, 40% disagree and 20% take a neutral stance on whether the IDs should comprise half strength of the Board like it is mandatory for being recognized as a Maharatna[15] PSE. Not surprisingly, the Boards of Maharatna PSEs have been empowered by the Government of India with greater autonomy in decision making as compared to other PSUs.						

B. Qualifications

8	**IDs should possess a certain minimum qualifications.**	15	13	9	2	1	40
	Explanation: 69% recommend that Independent Directors should possess a certain minimum qualifications for the task whereas 23% take a neutral stance. In this context Indian Institute of Corporate Governance under MOCA can take a positive initiative. The Institute of Company Secretaries of India (ICSI) and Indira Gandhi National Open University (IGNOU) jointly started a PG Diploma course in Corporate Governance sometime back.						
9	**No of directorships held by one individual should be restricted.**	29	8	2	1	0	40
	Explanation: 92% respondents feel that the number of directorships held by any one individual should be restricted. 5% are neutral on this. With a view to increase the effectiveness it is being proposed in the new Companies Bill that the number of directorship should be restricted[11] to a maximum of three as the IDs have a huge responsibility on their shoulders.						
10	**Suitably qualified & experienced professionals are appointed as IDs**	9	7	6	9	9	40
	Explanation: Opinion is quite divided here with 40% responding in affirmative while 45% disagree. 15% have not committed and do not offer comments. SEBI has issued only non-mandatory guideline stating that IDs should have the requisite qualifications and experience. Some minimum qualifications and experience are yet to be prescribed on mandatory basis. As per data available[13], it is seen in Indian context that as many as 198 of them are non-graduates, of which nearly 75% have not gone beyond schooling, About 3,500 are only graduates.						
11	**IDs possess integrity and do not seek return favors to endorse decisions**	8	8	8	8	8	40
	Explanation: 40% agree, 40% disagree and 20% take a neutral stance on whether the IDs possess integrity and do not seek favors to endorse decisions. The opinion is evenly divided.						

C. Training

12	**IDs do not take too long and start appreciating the nuances of business**	2	2	8	14	14	40
	Explanation: 70% respondents rejected that IDs start appreciating the nuances of business soon. 20% have no comments. Only 10% agree to the idea. It is fairly well known that each business has its own intricacies and the IDs suffer from lack of technical expertise in the specialized activity. It definitely takes a lot of interest and time of an individual to start understanding specialized business activities.						
13	**Independent Directors should be imparted appropriate training.**	16	16	4	2	2	40
	Explanation: 80% respondents have endorsed that Independent Directors should be given related training on their appointment while 10% are non committal. While 10% disagree in varying degrees. It is imperative that at least those IDs who are not qualified professionals e.g. CA, CS should undergo proper training before they assume the responsibilities. IICG, ICSI, ICAI, ICWA etc could take a lead in this direction.						

D. Role

14	**IDs bring definite value addition to decision making in the Board.**	16	11	8	3	2	40
	Explanation: About 67% respondents find definite value coming from the Independent Directors in the Board decisions. 20% are neutral on this aspect. In a redeeming feature, more than 2/3rd respondents find value coming from the Independent Directors in the management decisions. At the same time 20% are not very sure on this aspect. This could construe that IDs do participate actively in decision making once they are available for the board meetings.						
15	**IDs help improve networking with various stakeholders.**	20	10	5	4	1	40
	Explanation: A majority of 75% find it rewarding for the companies to have IDs on the boards for their networking capabilities. 12% preferred a neutral stance. 13% do not agree. With the celebrity directors it is networking that comes in as strength and it is not surprising to see that even PSU majors also have celebrities as IDs on the Board.						
16	**Presence of IDs leads to accuracy & timeliness of disclosures.**	5	6	9	8	12	40
	Explanation: Only 27% agree that the presence of Independent Directors improves the frequency and accuracy of information disclosures; interestingly 50% have rejected the contention and about 23% are non-committal in this regard.						
17	**Presence of IDs encourages well deliberated decisions by the Board.**	3	4	4	12	17	40

<table>
<tr><td colspan="8">Explanation: About 73% respondents disagree to the statement. Only about 17% agree while 10% are non-committal to this prime reason for appointment of IDs. This negative result may be an outcome of the perceived shortage of time spent by IDs in official engagements of a company.</td></tr>
<tr><td>18</td><td>Legal compliances by the company improve with IDs on the board.</td><td>7</td><td>4</td><td>5</td><td>8</td><td>16</td><td>40</td></tr>
<tr><td colspan="8">Explanation: 27% respondents find that the presence of IDs help ensure compliance of the legal requirements. As many as 60% rejected the statement. It is sometimes argued that they hardly get the time to look into compliances since they barely get the time for details beyond the Board and Committee meetings.</td></tr>
<tr><td>19</td><td>Presence of IDs makes a company more sensitive to environment.</td><td>2</td><td>3</td><td>8</td><td>12</td><td>15</td><td>40</td></tr>
<tr><td colspan="8">Explanation: 12% respondents find that presence of IDs make a company environment sensitive. While a majority of 68% have rejected this and 20% have no comments to offer. In this regard it would indeed be interesting to carry out a specific study of different companies for their comparative environmental sensitiveness.</td></tr>
<tr><td>20</td><td>Companies with IDs do not conceal material information.</td><td>3</td><td>3</td><td>4</td><td>10</td><td>20</td><td>40</td></tr>
<tr><td colspan="8">Explanation: Only 15% respondents agree that with IDs around, the companies do not conceal material information. 75% have rejected this idea. It is argued sometimes that IDs should have access to all information rather than what is provided to them in the well planned Folders.</td></tr>
<tr><td>21</td><td>IDs regularly seek information on reasons of non-performance.</td><td>5</td><td>2</td><td>9</td><td>12</td><td>12</td><td>40</td></tr>
<tr><td colspan="8">Explanation: 60% respondents do not agree to this. Only 17% agree and 23% are neutral. This, once again, appears to be dependent on the time available with IDs for a particular company.</td></tr>
<tr><td>22</td><td>IDs devote sufficient and quality time on company matters</td><td>3</td><td>4</td><td>8</td><td>11</td><td>14</td><td>40</td></tr>
<tr><td colspan="8">Explanation: Only 17% respondents find that the IDs spend sufficient and quality time on the company matters. 63% disagree with the statement. 20% have preferred no comments. In this context, SEC Chairman in US Arthur Leavitt, cautioned the IDs against shortage of time[4] "I don't care how talented you are, you can't be a good watchdog if you're only on patrol three times a year" he is quoted to have said.</td></tr>
<tr><td>23</td><td>IDs should share the onus for failures with other directors.</td><td>13</td><td>11</td><td>9</td><td>5</td><td>2</td><td>40</td></tr>
<tr><td colspan="8">Explanation: About 59% of the respondents agree that IDs should share the burden of corporate failures along with the full time directors. This appears to be the influence in the aftermath of the court directions[1] in Satyam case. 18% disagree with the statement while 23% do not wish to commit themselves.</td></tr>
</table>

E. Compensation

<table>
<tr><td>24</td><td>Present rate of compensation to IDs is fairly reasonable.</td><td>20</td><td>10</td><td>5</td><td>4</td><td>1</td><td>40</td></tr>
<tr><td colspan="8">Explanation: A majority of 75% respondents find the present structure of remuneration fairly reasonable. Only 13% disagree while 12% offer no comments on the subject.</td></tr>
<tr><td>25</td><td>Compensation to IDs from one single company should be restricted.</td><td>27</td><td>11</td><td>2</td><td>0</td><td>0</td><td>40</td></tr>
<tr><td colspan="8">Explanation: A majority of 95% respondents agree that compensation paid to IDs from one company should be limited. The remaining 5% have taken a neutral stance on this statement. Prithvi Haldea[3] in his article on the subject has opined that a cap on remuneration may not be a good idea, and should be left to each case. However, remuneration earned by an ID from any single company should not exceed a basic percentage say 15% to 20% of his income, in order to reduce individual's dependence on the company.</td></tr>
</table>

F. Contribution

<table>
<tr><td>26</td><td>IDs on the Board of a company enhance its corporate image</td><td>13</td><td>12</td><td>8</td><td>5</td><td>2</td><td>40</td></tr>
<tr><td colspan="8">Explanation: In an approval of sorts 62% respondents opined that IDs on the board of a company enhance its corporate image. 20% responses are non-committal while 18% have disagreed to the statement.</td></tr>
<tr><td>27</td><td>Corporate Governance improves substantially with IDs on Board.</td><td>10</td><td>10</td><td>12</td><td>5</td><td>3</td><td>40</td></tr>
<tr><td colspan="8">Explanation: 50% respondents have opined that the corporate governance improves with IDs on the Board. 30% non-committal. About 20% do not agree with the statement. This response, by and large, points to the present level of acceptance of the concept of IDs in Indian companies.</td></tr>
</table>

Abbreviations: SA- Strongly Agree, A=Agree, NC-No Comments, D-Disagree, SD-Strongly Disagree.

7. LIMITATIONS OF THE STUDY

i. The subject of research is in a preliminary stage and the concept itself is rather new to the Indian industry.
ii. There is a paucity of previous research and references for any valid comparisons.
iii The sample taken is very small.

8. RECOMMENDATIONS

On the basis of the findings it is recommended that-

i. A certain minimum age, qualifications and experience should be prescribed as eligibility conditions for appointment of Independent Directors.

ii. Keeping into consideration the crucial role of IDs for transparency, investor protection and professionalization of management, it is recommended that an independent agency like Indian Institute of Corporate Governance (IICG) should set up and maintain a pool of suitable candidates for appointment as Independent Directors. This shall facilitate suitable and timely appointments.

9. CONCLUSION

Based on the responses to the questionnaire and their analysis this study concludes that the functioning of IDs in the Indian companies has a long way to go. The findings from the study reveal that the concept is still in a nascent stage after more than a decade of the seeding. In fact the results of this study in a way seem to reinforce the findings of an earlier study by Umakanth Varottil[17] in his research paper entitled "Evolution and Effectiveness of Independent Directors in Indian Corporate Governance". Varottil had come out in his study that the concept of IDs was originally ushered in countries with diffused ownership structures in order to operate as a monitoring mechanism over managers in the interest of large number of shareholders. However, a transplantation of the concept in India with insider ownership structure without factoring the prevalent corporate structures and other associated factors is not likely to yield the same results.

10. SCOPE FOR FURTHER RESEARCH

The mandated role of Independence Directors is under the prying watch of billions of investors, both prospective and present employees and several other key stake holders. Further dedicated research could be taken up on how the induction of IDs shall make a difference and add value to the companies, investors and different stakeholders and benefit economic development of a resurgent economy like India on a sustainable basis.

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