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IMPORTANCE OF INDEPENDENT DIRECTORS IN CORPORATE GOVERNANCE: ENSURING ACCOUNTABILITY AND TRANSPARENCY

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ABSTRACT

Corporate governance plays a very important role in the success of the company. Independent director is an important constituent of corporate governance. These are those directors who have no material or financial ties with the company and are not part of its management team. Independent directors' role in corporate governance is to ensure that the board acts in the organization's and its shareholders' best interests.

This paper discusses the relevance of independent directors in corporate governance and how they might be proved useful in ensuring accountability and transparency. The evolution and the function of independent directors are also discussed thoroughly.

The work also looks at some of the difficulties independent directors encounter, including conflicts of interest and the requirement to balance various stakeholders' interests. The article's overall message emphasizes the crucial part that independent directors play in guaranteeing the long-term performance of corporations as well as the significance of corporate governance in fostering accountability and transparency.

Key Words: Corporate governance, Accountability and transparency, Shareholders, Independent director, Company

INTRODUCTION

It is impossible to exaggerate the value of independent directors in corporate governance.

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Independent directors ensure that the firm is run in the best interests of all stakeholders by acting as a check and balance on management power. They oversee making sure the business operates transparently and with accountability.

Keeping vigil is an important responsibility of the independent director in corporate governance. It keeps an eye on the business activities, audits the book, and ensures compliance with rules and regulations. In addition to this, they keep checks on risk management and ensure that the company has effective control over it.

Providing strategic direction is also one of the essential responsibilities which are fulfilled by independent directors. It provides the board with the expertise and knowledge to spot potential possibilities and issues. They also provide the solutions for this in implementing the strategic strategies. Independent directors ensure the company's accountability towards its decision.

Corporate governance requires fairness in the company's administration, and independent directors play a crucial role in ensuring that the decisions are just and equitable for all its stakeholders. They investigate the conflict of interest if any and make sure the transparency in the decision-making process.

Therefore, independent directors are an essential part of good corporate governance. They provide oversight, strategic guidance, accountability, and fairness, and ensure a competent and diverse board of directors. Hence, there is a need for a thorough study of the role of independent directors in promoting corporate governance.

OBJECTIVES & METHODOLOGY OF THE STUDY

The study is conducted with the following objectives:

- To study the origin and the history of independent directors.
- To examine the importance of independent directors in promoting corporate governance.
- To examine the provisions of the Companies Act, 2013 regarding independent directors ensuring accountability and transparency.
- To examine the lacuna in the present framework of independent directors.
- To suggest possible changes in the present framework of independent directors for ensuring accountability and transparency.

To achieve the above objectives, the research is conducted with the Doctrinal Method of the research methodology. Here the various sources like statutes, case laws, reports of the various committees, books, research articles, etc. have been examined with the analytical method of the study to reach the conclusion.

CORPORATE GOVERNANCE

As per Patnaik, "corporate governance potentially covers the entire gamut of activities having direct or indirect influence on the financial health of the corporation."[2] It covers an expansive scope of spheres, from financial aspects and the board to law and bookkeeping, & consequently fluctuates relying upon the specific core interest.

The starting point of the word "governance" can be traced in Latin, where "gubernare" signifies to control or to command. As per J. Wolfenshon, "Corporate governance is about promoting fairness, transparency and accountability" (Quoted in

2. Priyabrata Patnaik, Power Sector Reform – A New Way of Corporate Governance (A Case Study of Orissa), (2010), (Unpublished Ph.D. thesis, Utkal University), available at: https://vdocuments.net/power-sector-reform-a-new-way-of-corporate-governance-a-thesis-submitted.html (March 26, 2023).

Financial Times, June 21, 1999)[3]. In the procedures of the "Silver Jubilee National Convention of ICSI", we see that: "Corporate governance is not just corporate management; it is something much broader to include a fair, efficient, and transparent administration to meet certain well-defined objectives. It is a system of structuring, operating, and controlling a company with a view to achieving long-term strategic goals to satisfy shareholders, creditors, employees, customers, and suppliers and complying with the legal and regulatory requirements, apart from meeting environmental and local community needs. When it is practiced under a well laid out system, it leads to the building of a legal, commercial, and institutional framework and demarcates the boundaries within which these functions are performed".[4]

"Kumar Mangalam Birla Committee" suggest that: "It stretches out past corporate laws. Its focal point isn't simply satisfying to the prerequisite of law assuring the board's obligation in the business of the organization in a straightforward path for augmenting long haul investor esteem'."[5]

The discussion on corporate governance rises above the domain of financial political and social conditions. "Sir Adrian Cadbury" exhorts Indian business pioneers 'not to import frameworks of corporate governance but rather to adjust globally perceived standards to suit the country's prerequisites since administration frameworks are not exportable.'[6]

Definition of Corporate Governance

It was Milton Friedman, the famous financial expert, and Nobel laureate, who gave the earliest definition of the term corporate governance.[7]

As indicated by Friedman, "Corporate Governance is to conduct the business in accordance with the owner's or shareholders' desires, which generally will be to make as much money as possible, while conforming to the basic rules of the society embodied in law and local customs." Friedman's concept is limited in the context of today. The definition of corporate governance has expanded over a period. The interests of the investors and several partners are currently incorporated.

Maybe the least difficult and most regular definition has been given by Sir Adrian Cadbury, who characterizes it as "a system by which businesses are directed and controlled."[8]

- **'Chandratre (2000)**,[9] has clarified the idea as:

"Corporate governance is the expression which is not capable of being precisely defined. However, broadly speaking, corporate governance denotes direction and control of affairs of the company. The role of corporate governance is to ensure that the directors of company are subject to their duties, obligations, and responsibilities to act in the best

3. Corporate Governance Definitions, available at: http://www.heritageinstitute.com/governance/definitions.htm (last visited on March 26, 2023).
4. "The proceedings of the Silver Jubilee National Convention of ICSI", Chartered Secretary, October 1997
5. Shri Kumar Mangalam Birla "Report of the Kumar Mangalam Birla Committee on Corporate Governance", (SEBI, 2000), available at: https://www.nfcg.in/UserFiles/kumarmbirla1999.pdf (last visited on March 26, 2023).
6. Madhav Godbole, "Corporate Governance: Myth and Reality", 37 Economic and Political Weekly 3094(2002), available at: https://www.jstor.org/stable/4412405?seq=1#metadata_info_tab_contents (last visited on March 28, 2023).
7. Priyanka Kaushik Sharma, Corporate Governance Practices in India, 12 (Palgrave Macmillan, London, 2015), available at: https://link.springer.com/book/10.1057/9781137519368 (last visited on March 28, 2023).
8. Sir Adrian Cadbury, "The report of the Committee on the Financial Aspects of Corporate Governance", (Financial Reporting Council, the Stock Exchange, and the Accountancy Profession, 1992), available at: http://cadbury.cjbs.archios.info/report (last visited on April 01, 2023).
9. Priyanka Kaushik Sharma, Corporate Governance Practices in India, 12 (Palgrave Macmillan, London, 2015), available at: https://link.springer.com/book/10.1057/9781137519368 (last visited on April 01, 2023).

interest of their company, to give direction and to remain accountable to their shareholders and other beneficiaries for their actions".

- **Iskander, Meyerman, Fray**, and **Hagan** define it as "Corporate governance is the system of directing and controlling the affairs of a corporation. It refers to the framework of rules and regulations that enable the stakeholders to exercise appropriate oversight of a company to maximize its value and to obtain a return on their holding."[10]
- **Cochran and Wartick** express that, "Corporate governance is an umbrella term that covers numerous angles identified with ideas, hypotheses, and practices of sheets of managers and their executive & non-executive directors. It is a sphere that focuses on the connection between sheets, investors, top administration, controllers, inspectors, and different partners."[11]

A connected meaning of this concept comes from Monks and Minow. These experts propose that "Corporate governance is the relationship among different members deciding the way and execution of organizations."[12] The OECD defined the concept as[13], "Involves a set of relationships between a company's management, its board, its shareholders, and other stakeholders."

As per Prabhdeep Singh Sandhu and Manjit Kaur Sandhu (2003),[14] "corporate governance is the structure and process of:

a. Monitoring executive performance.

b. Ensuring accountability of management to shareholders.

c. Motivating the board towards making an incentive for investors.

d. Securing interests of other partners including the local community."

- **Calpers** express that, "Corporate Governance is the relationship among different members deciding the way and execution of enterprises. The essential members are investors; the organization the board (driven by the CEO); and the governing body."[15]

The Corporate Governance Forum of Japan, 1997, characterizes it subsequently: "Corporate governance by definition rests with the directorate, who are picked for the investors."[16]

Requirements & Significance

The first requirement of corporate governance emerged from the division of possession & control. The question of the division was perceived path, harking back to the 18th century by Adam Smith in his original work, "the Wealth of Nations". The heads of such organizations, nonetheless, being directors of other people groups cash than of their own, it

10. Magdi Iskander, Gerald Meyerman, Dale F. Fray, and Sean Hagan "Corporate Restructuring and Governance in East India", Finance and Development, March (1992) available at: https://www.imf.org/external/pubs/ft/fandd/1999/03/pdf/iskander.pdf (last visited on April 02, 2023).
11. Philip L Cochran; Steven Leslie Wartick; Financial Executives Research Foundation. "Corporate Governance : A Review of The Literature", available at: https://maastrichtuniversity.on.worldcat.org/oclc/19101676 (last visited on April 02, 2023).
12. Robert A. G. Monks and Nell Minow, Corporate Governance, (John Wiley & Sons, 5th edn. 2011).
13. Organisation For Economic Co-Operation And Development, OECD Principles of Corporate Governance (OECD Publications Service, 2004), available at: https://www.oecd-ilibrary.org/docserver/9789264015999-en.pdf?expires=1619425922&id=id&accname=guest&checksum=D927B4B4B3A612E73CB04B02134BB966(ast visited on April 03, 2023).
14. *Supra note 8.*
15. The California Public Employees' Retirement System (Calpers), Global Governance Principles,(2015), available at: https://www.calpers.ca.gov/docs/forms-publications/global-principles-corporate-governance.pdf (last visited on April 03, 2023).
16. *Supra note 8.*

can't well be considered typical that they should look after it with a similar restless cautiousness with which the accomplices in a private co-partner regularly look after their own.

However, for Fernando, "the requirement of corporate governance in creating, arising & change economies stretches out a long way past settling issues coming from the partition of possession and control. Creating and arising economies are continually defied with issues, for example, absence of property rights, the maltreatment of minority investors, contract infringement, and resource stripping and self-managing."[17]

As indicated by **Pandey and Prabhakar (2003),** "the developing job of the market on the planet, i.e., the market-arranged economy in the later piece of the twentieth century has prompted the spread of free enterprise, globalization, advancement, privatization, requesting proficiency, corporate culture, and model implicit rules and business morals for the actual endurance of the corporate world."[18]

"The quantities of frauds and scams that have surfaced during the most recent thirty years have shaken the certainty of the financial backers; for instance, the Enron discussion of understanding the liabilities in their accounting report &, most as of late, the Satyam Fiasco. Consider the outcomes from a McKinsey overview (led after the Enron, Tyco, Adelphia, Swissair, & Daewoo outrages)", where board managers remarked on the expected inadequacies & trouble spots:[19]

- 21 percent had no components for getting to leader pay rehearses or monetary/working dangers and a further 30 percent felt their instruments were incapable.
- 37 percent had no CEO progression plan set up, and a further 27 percent felt their arrangement was insufficient.
- 19 percent had no proper arrangement for managing chances, and another 24% felt their arrangement was incapable.
- 45 percent felt their organizations ought to, yet didn't, have a yearly director's re-appointment measure.
- 60 percent felt their organizations ought to, yet didn't, have board assessments, and 66 percent figured they ought to have formal chief assessments.
- 42 percent of chiefs felt they had just 'a few' information on how the organization's business made worth,
- 36% felt they had just 'a little' information on the significant dangers confronting the organization, and
- 47 percent felt they had just 'a few' information on rivalry and the system.
- 60% of chiefs didn't freely notice the exercises of the organization's central danger official, 39% didn't notice interior inspectors, and 28 percent didn't notice boss lawful advice.
- 43 percent of directors were disappointed with board oversight of outer direction.
- 25 percent of directors would decrease to serve again due to obligation concerns.

Hence from the above research, we get the result that for the prevention of corporate fraud, we need to establish corporate governance standards.

According to Cadbury (1998),[20] as the world has contracted, big corporate financial backers

17. A. C. Fernando, Business Ethics and Corporate Governance, (Pearson India, 2nd edn., 2012).
18. *Supra note 8.*
19. *Ibid.*
20. *Ibid, at 16.*

have moved past their homegrown business sectors looking for appealing speculation openings abroad and furthermore hope to spread their dangers geologically. As they do as such, they request high and steady norms as far as both monetary announcing and treatment of investor interests, & principles of corporate governance are a worldwide issue.

CORPORATE GOVERNANCE AND INDEPENDENT DIRECTORS

History Behind Independent Directors

The concept of corporate governance has been around for centuries, but its modern form emerged in the late 20th century. The historical background of corporate governance can be traced back to the early 17th century when the Dutch East India Company was established. It had a board of directors in charge of running the business, but it also had a system of checks and balances to guarantee the protection of shareholders' interests.

Several high-profile corporate scandals, such as the demise of the Penn Central Railroad and the bankruptcy of the energy giant Enron, occurred in the 1970s and 1980s. These crises created a need for enhanced accountability and transparency as well as heightened scrutiny of corporate governance procedures. In response to these scandals, organizations such as the OECD, the World Bank, and the International Monetary Fund began to promote best practices for corporate governance. These practices included the need for independent directors, greater transparency, and better risk management.

In, India various committees had made recommendations regarding independent directors from time to time which are as follows:

Confederation of Indian Industry

India has taken many initiatives on Corporate Governance since the 1990s. However, the first-ever non-governmental institutional initiative of its kind was started in the year 1996 when one of the largest associations for business named Confederation of Indian Industry, to promote the practice of effective corporate governance standard came forward with the aim of promoting a code all the Indian companies were expected to adopt and follow. CII formed a committee under Mr. Rahul Bajaj in the year 1996[21] which gave its recommendations in 1997. The committee was of the view that India should persist with a single board instead of following the German system of two-tier boards. It was if it's viewed that recommendation would serve the purpose of every listed company with a yearly business above 100 crores[22].

An organization should have independent directors who are expertly capable and ought to establish at any rate 30% of the board if the organization's administrator is a non-executive director and at any rate fifty percent of the board if the overseeing manager and director of the organization is a similar individual. The committee was additionally of the view that no individual should hold directorships in more than the 10 listed organizations as directorships in numerous organizations would make it exceptionally hard for a person to make viable commitments and guarantee great administration but release his trustee duties towards all[23].

Kumar Mangalam Committee

This was formed for giving suggestions for improving the corporate governance standards having a constitution of eighteen members and a chairman, by SEBI in the year 1999. Shri Kumar Mangalam Birla was the chairman of this committee

21. "Desirable Corporate Governance A Code", available at: https://ecgi.global/sites/default/files/codes/documents/desirable_corporate_governance240902.pdf (last visited on April 04, 2023).
22. A C Fernando, K P Muralidheeran, Business Ethics: An Indian Perspective (Pearson Education, 3rd edn., 2019).
23. *Ibid.*

and was also a member of SEBI's board. It is appropriate to take note that the desirable code drafted by the Confederation of Indian Industry received a good response from many progressive companies and was adopted by them. "Kumar Mangalam Committee" in its report incorporated many of the standards advocated by CII and the suggestions of this committee led to the insertion of a new clause known as "Clause 49" in the Listing agreement of stock exchanges. It emphasized on statutory code than a voluntary code which was promoted by CII[24].

The committee made both mandatory and non-mandatory recommendations[25]. It considered mandatory recommendations for listed companies[26]. The committee, while making recommendations, focused more on the inclusion of independent directors on the board.

The committee made recommendations regarding the constitution of the board. As per the recommendations, a minimum of fifty percent of the board must consist of non-executive directors[27]. The number of independent directors that should be on the board will be determined after considering whether the chairman of the board is an executive or non-executive. Independent directors must make up one-third of the board if the chairman of the firm is a non-executive, and at least half of the board if the chairman is an executive.

Naresh Chandra Committee

While efforts were being made for introducing a new structure of corporate governance among listed corporates, one more initiative was taken by the "Department of Company Affairs (DCA)" for examining various issues of corporate governance by forming a high-powered committee called "Naresh Chandra Committee" on August 21st, 2002[28]. The committee gave its report on August 23, 2003.

While it is important that the board of the company which has sought money from the public distinguishes itself from its promoter's and managers' interests and independent directors are a means to do so, it certainly begs the question as to who is to be regarded as independent. To define and identify an independent director, recommendations were made by the committee. According to it, an independent director is one who is a non-executive director in a company having no other relationship nor having any interest in the company's pecuniary matters or any company that is associated with it, other than taking remuneration. In a crux for his work a director, such non-executive director[29]:-

- "Other than getting director compensation, doesn't have any material financial connections or exchanges with the organization, its promoters, its senior administration or its holding organization, its auxiliaries, and related organizations.
- is not identified with promoters or the executives at the board level or at one level beneath the board.
- has not been a director of the corporation in the quick going before 3 financial years. is not an accomplice or a leader of the legal audit firm or the internal audit firm that is related to the corporation and has not been an accomplice or a chief of any such firm for the past three years. This will likewise apply to legitimate firm(s) and counseling firms

24. Anil Kumar, Corporate Governance: Theory and Practice (International Book House, 2012).
25. Vasudha Joshi, Corporate Governance: The Indian Scenario (Cambridge University Press India Pvt. Ltd., 1st edn., 2004).
26. Shri Kumar Mangalam Birla "Report of the Kumar Mangalam Birla Committee on Corporate Governance", (SEBI, 2000), available at: https://www.nfcg.in/UserFiles/kumarmbirla1999.pdf (last visited on April 05, 2023).
27. *Ibid.*
28. Kesho Prasad, Corporate Governance (PHI Learning, 3rd edn., 2014).
29. S Singh, Corporate Governance: Global Concepts and Practices (Excel Books, New Delhi, 1st edn., 2005).

that have a material relationship with the substance.

- is not a provider, specialist co-op, or client of the company. This ought to incorporate lessor-tenant sort connections additionally; and
- is not a considerable investor of the company, for example claiming 2% or a greater amount of the square of casting ballot shares".

The committee suggested for fifty percent of the board's strength of a listed public corporation shall consist of independent directors[30]. Listed corporations with a paid-up share capital and free reserves of rupees ten crores and more, or turnover of rupees 50 crores must have a minimum of four independent directors out of the total of seven directors as recommended by the committee in its report[31].

Independent Directors in Audit Committee

The committee was of the view that if the audit committee must be autonomous, then, only independent directors should be present in the committee. Hence, it suggested that in all audit committees, the membership comprises only independent directors i.e., in all listed companies. This applies to all those companies which have Rs. 50 crore or above turnover and Rs. 10 crores or above free reserves and a paid-up share capital.

Training Of Independent Directors

The requirement for the training of independent directors can be observed from the recommendations provided by the "Narayana Murthy Committee". It was of the view that if directors can be compensated well by companies, then they should also be trained well by the companies. A special role could be played by the "Department of Company Affairs" in encouraging reputable institutions to train directors. Institutions must be encouraged by DCA (Department of Company Affairs) to conduct regular courses and training programs required for the development of skills in independent directors. As training is absolutely essential, a minimum of one course should be made compulsory for independent directors to attend before they assume their roles as independent directors. An independent director who is not trained in his view ought to come under disqualification as provided in section 274(1) (g) of the Companies Act, 1956.

Independent Directors' Exemption from Liabilities

"The Naresh Chandra Committee" also came forward with its recommendations to eliminate fear from the hearts of those who hesitate to accept their position as independent directors on grounds of potential liability by exempting them from such liability[32]. It felt the necessity of their exemption from civil and criminal liability under various acts like the Companies Act, ESI Act, Negotiable Instruments Act, Industrial Disputes Act, Provident Fund Act, and Electricity Supply Act to attract highly qualified independent directors.

Remuneration

The Committee recommended reviewing the limit provided by the statute on remuneration in the form of sitting fees and the Committee also stated that any matter as to the remuneration should be sorted out between the stakeholders and the administration. When it comes to remuneration of independent directors, it suggested that DCA (Department of Company Affairs) should allow payment by those companies which are in normal circumstances at a loss to pay special fees to independent directors so that people with great

30. "Naresh Chandra Committee report on Corporate Governance", available at: https://www.mycii.in/KmResourceApplication/E000000056.2400.naresh%20chandra%20report.pdf (last visited on April 05, 2023).
31. *Ibid.*
32. *Supra note 21.*

skills and knowledge are attracted towards the board as independent directors.

Narayana Murthy Committee[33]

In alignment with the needs of a dynamic market, SEBI took one more initiative to set up this committee to develop the standards of corporate governance. N.R. Narayana Murthy was the chairman of this committee which was constituted in 2002 to ensure effective corporate governance and its report was submitted in the year 2003.

The committee felt the need of clarifying the definition of independent directors[34]. "Naresh Chandra Committee's" definition of independent directors was adopted by this committee. The only thing which is not included in it was the duration for which the person who had already served for more than three years as a director or independent director in a company should not be regarded as an independent director. The Committee made recommendations for not regarding nominee directors as independent directors as the committee was of the view that no responsibility could be given to the nominee directors, who will tend to favor only those institutions which are represented by them, and this will be having the potential of resulting in a conflict of interest[35].

Cap on Remuneration to Independent Directors

The committee held deliberations on deciding the independent director's compensation and made certain recommendations regarding it. Deliberations were held to determine the limits on independent directors' compensation[36]. As per the recommendations, the board of directors should fix the non-executive director's compensation, and approval of shareholders in the general meeting should be required for that. There should be a limit prescribed for granting stock options to non-executive directors during a financial year. After one year of retirement of non-executive directors from the company's board, granted stock options shall vest in them. The compensation philosophy of the companies and a statement relating to the compensation, and entitlements to non-executive directors shall be published in the annual report, which in addition may be disclosed on the website of the company. There is a requirement for disclosure of stock holdings by non-executive directors in a listed company in which they hold directorship. Such a director's notice of appointment should be accompanied by these details.

Dr. Jamshed J. Irani Committee

The committee was established to provide government advice on suggested changes to the Companies Act of 1956. This committee was formed in December 2004 with Dr. JJ Irani as its chairman[37].

The committee studied the Companies Act, of 1956 and reviewed it in the light of new circumstances. Good corporate governance will be ensured by the presence of independent directors in the organization. From the committee's point of view, independent directors' presence on the board would ensure the effective functioning of the board. This species is important for companies that belong to the public sector. Independent directors should be defined by legislation along with their obligations, credentials, and roles. The committee has suggested that independent directors make

33. "The Report of Shri N R Narayana Murthy Committee on Corporate Governance", available at: https://www.sebi.gov.in/reports/reports/mar-2003/the-report-of-shri-n-r-narayana-murthy-committee-on-corporate-governance-for-public-comments-_12986.html (last visited on April 06, 2023).

34. "An Analysis of Revised Clause 49 of the Listing Agreement", available at: http://www.maheshwariandco.com/pdf/Articles/an-analysis-of-revised-clause-49-of-the-listing-agreement.pdf (last visited on April 06, 2023).

35. *Ibid, at 20.*

36. *Ibid, at 19.*

37. A. C. Fernando, Business Ethics and Corporate Governance, (Pearson India, 2nd edn., 2012).

up at least one-third of the board strength of listed companies[38].

Determination Of Managerial Remuneration

Decisions on director's remuneration should be left to the company and not based on prior Government approval[39]. The decision of the company should be based on accountability, reasonableness, and fairness. If the company's profits are insufficient, it should be permitted to pay the committee's suggested compensation[40].

Liabilities Of the Non-Executive and Independent Directors

As per the committee liabilities of non-executive directors, independent directors or otherwise, should only be in the matters in which they have taken part, or which is done with their knowledge or when they have given their consent for the act done. Any mistakes by such independent directors should be documented in the board meeting minutes. In its view making non-executive directors, especially independent directors, liable for acts to which they were neither party nor aware would act as a strong disincentive to be on board of a company one does not control and would act as a dampener to the attraction of outside talent on board.

Rights Of Independent or Non-Executive Directors

In the Committee's view, for effective participation and guidance of non-executive directors, they should have the right to examine the companies' records and to call the board to take a professional opinion. Further, if they disagree in any way with the majority, they ought to record their demur in the company's minutes. The examination of records of the company of course shall be subject to their duty to avoid conflict of interest. They have a duty to have their demur recorded in the minutes as that would be a message to shareholders as well.

Corporate Governance Voluntary Guidelines 2009[41]

Good corporate governance practices are essential for the long-term sustainability of the business as their main objective is to enhance shareholders' value in the long term.

To encourage the best practices of corporate governance and strengthen its framework, the Ministry of Corporate Affairs drafted voluntary guidelines which were supposed to help corporate sectors in governing themselves in accordance with the highest standards of corporate governance[42].

When it comes to independent directors, guidelines provide that a policy to specify independent directors' positive attributes such as expertise, integrity, foresight, experience, and their ability in understanding the statements of finance shall be framed by the board. The Board shall, in its report to shareholders, disclose its policy, and then shareholders' approval for such disclosure is necessary. At the time of appointment of independent directors, a detailed certificate in relation to their independence shall be provided thereafter annually. Then, the company should place this letter on its website if it is a listed company and on the stock exchange's website where the company's securities are listed. It is also suggested that options should be available for independent directors to interact with the management of the company annually, to enable effective performance by such directors. An independent director's tenure

38. A.C. Fernando, Business Environment (Pearson Education, New Delhi, 1st edn., 2011).
39. "Ethics, Governance And Sustainability", available at: https://www.icsi.edu/media/webmodules/publications/Full_Book_of_PP_EGAS_2017.pdf (last visited on April 07, 2023).
40. *Ibid.*
41. "Corporate Governance Voluntary Guidelines 2009", available at: https://ecgi.global/sites/default/files/codes/documents/cg_voluntary_guidelines_2009_india_24dec2009_en.pdf (last visited on April 07, 2023).
42. *Ibid, at 05.*

ought to be six years. To re-induct such independent directors into the same company, a three-year period should first elapse. The limit on the number of companies in which an individual who is a public company's whole time or managing director serves as an independent director or non-executive director be limited to seven.

Remuneration

A company can be successful only if a good contribution has been made to it by highly qualified directors. Hence, independent directors must be attracted, retained, and motivated to make a significant contribution to the company by providing adequate remuneration. The company should also design incentive schemes and reward them if they are responsible for any material improvement in the company.

Guidelines regarding non-executive directors are that there should be an option for companies to give fixed contractual remuneration to non-executive directors, without linking it to profits[43]. There should also be an option for companies to give non-executive directors a fixed contractual remuneration within limits after considering the size of the company and an option to pay them an appropriate percentage of the company's net profits. No distinction should be made between non-executive directors by paying fixed remuneration to some and profit-linked remuneration to others. If non-executive directors are granted stock options as their payment, then the concerned director should hold them until three years of his exit from the Board[44].

It is also provided that independent directors be motivated and attracted to make a good contribution to the company with adequate sitting fees depending on the company's turnover and net worth. Stock options or any commission based on profit should not be paid to independent directors so that the independence of these directors is not compromised[45].

INDEPENDENT DIRECTORS UNDER THE COMPANIES ACT, 2013

The independence of a director is a key parameter of Board structure. The independence of the board of directors means the ability of the board to take independent decisions without being influenced by the management or controlled by shareholders. Independence is very much needed for the effective functioning of the BOD and the main aim of which is to form risk management policies, control the management of a company and act in the interest of shareholders[46]. The right mix of executive and non-executive directors, including independent directors among non-executive directors, who may act impartially on topics relevant to the company's business, is necessary for good governance of a firm. Independent directors play a critical role in the board's and the company's ability to operate efficiently. Since independent directors act unbiasedly, independence is an important prerequisite for the board to fulfil its objective i.e., to protect the interests of minority shareholders and act in the interest of the company by managing its affairs.

The need for the protection of legitimate rights and interests of the shareholders gives rise to the appointment of an outside independent director in a company. Therefore, the appointment of independent directors is necessary as they contribute to better corporate governance with their expertise and knowledge and help the company

43. Madan Lal Bhasin, "Survey of Appropriate Skills Required by Forensic Accountants: Empirical Evidence from a Developing Economy" 1(2) IJAES 53 (2013), available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2676512 (last visited on April 07, 2023).
44. *Ibid, at 14.*
45. *Ibid.*
46. See ICSI, "Corporate Governance Modules of Best Practices", at 255 (2006).

with business strategies, thereby contributing to the development of the company.

An Independent director[47]:

- "Counterbalances the weakness in the company's existing management in a company.
- ensures legal and ethical behavior at the company, while strengthening accounting controls.
- extends the "reach" of a company through contacts, expertise, and access to debt and equity capital by being a source of well-conceived, binding, long-term decisions for a company.
- helps a company survive, grow, and prosper over time through improved succession planning through membership in the nomination committee, etc.".

The Act requires that there should be at least one-third of the Board of Directors of every listed company comprised of an independent director[48]. It is further provided that the following class of companies should have at least two independent directors on its Board[49]:

- First class is of the public companies having a paid-up share capital of Rs.100 million,
- Second class is of companies having a yearly business of Rs. 1 billion, and
- The third one is the public companies having in aggregate, outstanding loans, debentures, and deposits of more than Rs. 500 million.

The meaning concept of independent director provided by the Companies Act, 2013 incorporates most of its characteristics from the listing agreement. It provides that "an independent director should be a person the high integrity and relevant expertise & experience. It requires that the independent director shall not have any pecuniary relationship with the company, its promoters, directors, and subsidiaries"[50]. Hence it is expected that the independent directors should not have any pecuniary interest in the company or its associate company. Independent directors' involvement in any of the relationships discussed in section 149(6) of the Act gives rise to their disqualification. The Act has provided strict criteria regarding disqualifications for appointments as independent directors. It requires directors not to be involved in any organization with which the company maintains its business transactions at the time of its appointment or in any relationship with the company. It not only requires the non-involvement of independent directors in any pecuniary relationship with the company but also his relatives to be not involved in such relationships. The Companies Act 1956 failed to include these criteria and now this has been included for the effective functioning of the board. The objective behind making these kinds of strict provisions is to take unbiased decisions in the company's interest and make them perform their duties without being partial because they tend to be biased when they have a close relationship with the company resulting in poor corporate governance. Hence it is very important that these strict provisions be followed in the appointment and their disqualification to bring out effective corporate governance. It is further provided that an independent director cannot hold the office for more than two consecutive terms for every 5 years[51].

47. "Dipen Chatterjee : Independent Directors – An Indian Legal Perspective", available at: https://poseidon01.ssrn.com/delivery.php?I (last visited on April 08, 2023).
48. *Supra note 21.*
49. See ICSI, "Corporate Governance Modules of Best Practices", at 255 (2006).
50. *Ibid, r.5.*
51. V. Balachandran, V. Chandrasekaran, Corporate Governance, Ethics and Social Responsibility (PHI Learning Pvt. Ltd., New Delhi, 1st edn., 2011).

"The Act, 2013 necessitates that each independent director ought to at the 1st meeting of the Board where he takes part as a director and from there on at the 1st meeting of the Board in each financial year or at whatever point there is any adjustment of the conditions which may influence his status as an independent director, give a statement that he meets the measures of autonomy"[52].

"The Act makes the provision that the companies can choose the independent director from a data bank which is maintained by an association, body, or institute or as per the specification of the Central government. The MCA issued a notification on October 22, 2019, which requires that the person willing to be an independent director should have passed an online proficiency self-assessment test conducted by the 'Indian Institute of Corporate Affairs at Manesar'"[53].

To improve the quality of the Board, high-quality independent directors should be attracted. This objective can be reached by providing good remuneration and compensation to the independent directors. Recommendations about remuneration were provided by the Naresh Chandra Committee which recommended reviewing the limit provided by the statute on remuneration in the form of sitting fees and the committee also stated that any matter as to the remuneration should be sorted out between the shareholders and the management[54]. When it comes to the remuneration of independent directors, it suggested that DCA (Department of Company Affairs) should allow those companies which are at a loss to pay special fees to them, so that independent directors with great skills and knowledge will be attracted to the board[55].

However, the independent director shall not be eligible to hold any stock in the company[56]. In accordance with the 2013 Act, the new clause 49 of the Listing Agreement makes it clear that independent directors are not eligible for compensation in the form of the award of stock options due to the potential conflict of interest presented by such options. If stock options are offered to independent directors, not only will they have a financial stake in the company that will influence their independence, but their opinions will also be obscured by the need to make the options work, which can only be tied to stock price.

Role Of Independent Directors

An independent director is a skilled individual who supports other directors on the Board in managing the business of the company. Their primary responsibility is to monitor the Board and represent the company's interests. They also solve the problems of expropriation in a company by supervising management's behaviour and preventing the misuse of the company's assets by controlling shareholders[57]. Hence, the role of independent directors has been emphasized in the Act[58]. Since independent directors are usually experienced persons, they advise on matters relating to the affairs of the company. The Act also

52. *Ibid, s. 197(7).*
53. *Supra note 54, r. 6.*
54. Tina Edwin, Limit on Independent Directors' Salary May Go, ECONOMIC TIMES, January22, 2003, available at: https://economictimes.indiatimes.com/news/economy/policy/limit-on-independent-directors-salary-may-go/articleshow/35104121.cms (last visited on April 08, 2023).
55. *Ibid.*
56. *Ibid, s. 149(9).*
57. Vikramaditya S. Khanna And Shaun J. Mathew, "The Role Of Independent Directors In Controlled Firms In India: Preliminary Interview Evidence" 22(1) National Law School of India Review 35 (2010) , available at: https://poseidon01.ssrn.com/delivery.php? (last visited on April 08, 2023).
58. Arvind Giriraj, "Corporate Governance: Examining India as a Financial Democracy and Legal Framework of Corporate Governance", available at: http://skoch.org/14/ArvindGiririraj.pdf.

clearly provides guidelines as to their professional conduct, role, functions, duties, resignation or removal, appointment, and re-appointment which were not the case in the earlier 1956 Act. Although there were provisions regarding independent directors in clause 49 of the Listing Agreement and briefly in the 1956 Act, they failed to explain their role and duties towards companies. Hence, the need for this provision came in the form of Schedule IV under the 2013 Act to ensure effective corporate governance.

Here are some of the key roles and responsibilities of independent directors in corporate governance:

- **Provide objective oversight:** Independent directors are expected to provide objective and unbiased oversight of the company's management and operations. They must ensure that the company's strategies and policies align with its long-term goals and objectives.
- **Monitor financial performance:** Independent directors oversee keeping tabs on the business's finances and making sure that its financial reporting is truthful and open. Additionally, they must guarantee that the business complies with all applicable rules and regulations.
- **Appoint and evaluate senior management**: Senior management, including the CEO, is chosen by, and evaluated by independent directors. They must make sure the organization has the proper leadership in place for its strategic goals.
- **Promoting accountability and transparency in corporate governance:** Through a variety of tasks and obligations, independent directors provide responsibility and openness in corporate governance, including:
  a. **Reviewing and approving financial reports**: To ensure truth and openness, independent directors examine and approve the company's financial reports. They make sure that the account reports are prepared by following the accounting and regulatory requirements.
  b. **Monitoring risk management:** Independent directors investigate the company's risk management procedures and ensure to identify the risks and reduce them appropriately.
  c. **Evaluating management performance**: Independent directors evaluate the performance of the CEO and other senior executives of the company. They make sure that the management of the company is acting in the organization's best interests and in accordance with its strategy and goals.
  d. **Providing oversight of corporate governance:** Independent directors are responsible for the corporation's corporate governance procedures and policies. They make sure that the company is adhering to the best practices and that the interests of stakeholders are secured.
  e. **Promoting transparency:** Independent directors are responsible for promoting transparency by making sure that interested parties are properly informed of the company's decisions and actions.

In crux, the independent directors are important constituents for maintaining corporate governance's accountability and transparency.

- **Promote ethical behavior:** Independent directors are required to work for encouraging moral conduct in the company business and make sure the business is run in a way that is socially responsible. Additionally, they need to make sure that the company's culture reflects its goals and objectives.

Overall, as they contribute a variety of perspectives and skills to the decision-making process, independent directors are crucial to corporate governance. Their unbiased oversight assists in ensuring that businesses function in the interests of all stakeholders, which ultimately helps the company succeed in the long run.

Code For Independent Directors

The independent directors must adhere to the code of conduct set forth in Section 149(8) read together with Schedule IV. It includes the standards for conduct, obligations, and responsibilities in the workplace. It has the features listed below[59]:

- "Guidelines of professional conduct,
- Role and functions,
- Duties,
- Manner of appointments,
- Re-appointment,
- Resignation or removal,
- Separate meetings,
- Evaluation mechanism".

Liabilities of independent director:

It is the duty of every director to exercise due diligence and act in good faith because of their fiduciary relationship with the company. Like any other director, even non-executive and independent directors maintain this relationship with the company and owe the same duties as those executive directors, though they do not engage in day-to-day business activities. When they fail to perform such duties like any other director, they are responsible for any wrong acts in the company and then they are made liable for such acts. A director's liability has always been a major issue. Will they be liable for all the acts or omissions, this is a question here. In KK Ahuja v. VK Vora[60], it was found by the Supreme Court that the person responsible for the conduct of the business of the corporation should be made liable. The court held that directors should be made liable because they oversee the company and are responsible for governing the affairs of the company. Any good law would not impose liability on the director if he has acted diligently and reasonably[61]. It would not make them liable for any unfavourable consequences arising out of their acts for which they have acted in good faith. However, CII recommends that non-executive directors should not be liable for any misfeasance of the company unless they have the knowledge and participated in the non-compliance of the company[62]. The Act provides that since the independent director is not the promoter or key managerial personnel, he will not be liable for any act of the company other than which is done with his knowledge, attribute, his consent, or where he had not acted diligently[63].

Challenges Faced by Independent Directors

To perform their duties in corporate governance, independent directors must overcome several obstacles. Some of the typical difficulties include:

Conflicts of interest: Due to their personal or professional connections with the company, its management, or other stakeholders, independent directors may encounter conflicts of interest. Because of this, it may be

59. V. Balachandran, V. Chandrasekaran, Corporate Governance, Ethics and Social Responsibility (PHI Learning Pvt. Ltd., New Delhi, 1st edn., 2011).
60. K.K. Vohra v. V.K.Vohra, Civil Appeal No. 1130-31 0f 2003 (SC).
61. Shinoj Koshy, Preetha S and Vandana V, "The Responsibilities, Rewards and Liabilities of Independent Directors Will Be Transformed By The New Companies Act", 7 (6) IBLJ 25 (2013), available at: https://nishithdesai.com/fileadmin/user_upload/pdfs/Research%20Articles/New_directions.pdf (last visited on April 09, 2023).
62. Arvind Giriraj, "Corporate Governance: Examining India as a Financial Democracy and Legal Framework of Corporate Governance", available at: http://skoch.org/14/ArvindGiriraj.pdf.
63. *Supra note 64.*

challenging for them to operate impartially and in the interests of all parties involved.

Limited access to information: Especially if the company's management is opaque or the information is confidential, independent directors might not have access to all the information they need to make wise decisions. They may find it difficult to exercise effective oversight as a result.

Time constraints: Independent directors could only have a small amount of time to dedicate to their job, especially if they also have other obligations. Because of this, it may be challenging for them to completely comprehend the business's activities and to exercise efficient oversight.

Lack of expertise: It's possible that independent directors lack experience in all fields crucial to the business's operations, such as finance, law, or technology. This can make it difficult for them to properly comprehend the company's dangers and prospects.

Legal and regulatory risks: If they breach their fiduciary obligations or are held responsible for the acts or decisions of the company, independent directors may be subject to legal and regulatory consequences.

Overall, independent directors have a difficult time performing their corporate governance duties. However, they may contribute to ensuring that the business runs in a responsible and sustainable manner by being independent, staying educated, and acting in the best interests of all stakeholders.

CLAUSE 49 OF THE LISTING AGREEMENT[64]

To bring more transparency to boards of listed companies and place clause 49 of the listing agreement in line with provisions of the Companies Act 2013, a consultative paper including stringent guidelines was issued by SEBI in January 2013 which will be effective from October 1, 2014. The consultative paper contained various proposals for addressing various challenges of corporate governance that would arise from dominating shareholders' presence in Indian business organizations. The key aspects of the Clause include conferring responsibility and greater power on independent directors on matters relating to corporate governance. If the company's chairman is a non-executive director, clause 49 still requires that they make up a minimum of thirty percent of the board; if there is no regular non-executive chairman in the company, they should make up a minimum of fifty percent of the board.[65]. According to the new Clause 49, a non-executive director is referred to as an independent director. He must also be a person of integrity, possess the necessary experience and expertise, and have no connection to the company's promoters, associated companies, or holdings to qualify as an independent director. The clause does not regard nominee directors to be independent directors. The important criteria specified under the Clause are that he must not be a person who has a pecuniary interest in the company or has any relationship with the associated company. Further, it also provides that suitable training be provided by the company to independent directors to make them familiar with the nature of the company and contribute accordingly to its success, and details regarding such training shall be provided in the Annual report of the company. When it comes to the tenure of independent directors new Clause 49 limits their tenure by restricting them to hold

64. "Corporate Governance in listed entities - Amendments to Clauses 35B and 49 of the Equity Listing Agreement", available at: https://www.sebi.gov.in/legal/circulars/apr-2014/corporate-governance-in-listed-entities-amendments-to-clauses-35b-and-49-of-the-equity-listing-agreement_26674.html (last visited on April 07, 2023).

65. *Ibid.*

office only for a maximum of two years up to five consecutive years. Further, it provides that he can be reappointed but only after a period of three years. The Clause also makes stringent laws by restricting independent directors to serve only on seven boards in listed companies and whole-time directors to serve on not more than three boards of listed companies.

Satyam: Failure of Corporate Governance and Role of Independent Directors

The Satyam scam is one of the biggest governance disasters because it failed to prevent fraud in the company, even though it had outwardly adopted best practices regarding transparency and audit. The question arises whether independent directors on the Satyam board had discharged their duties properly. It is also important to know if the independent directors had complied with rules and regulations while performing their duties, especially in a company like Satyam which was world-renowned for its excellence in corporate governance and having been rewarded with the Golden Peacock Award. Independent directors are expected to add value to the shareholders. Satyam board and its five independent directors had decided to acquire two companies called Maytas Properties and Maytas Infra Limited owned by Raju's family by investing $ 1.6 billion without the approval of shareholders.

An important point to be noted here is how the board consisting of independent directors approved the acquisition of Maytas Properties and Maytas Infra Limited without the approval of shareholders. Since it was owned by the sons of Ramalinga Raju, the acquisition was not a normal one as it conflicted with Arm's Length Principle. Independent directors were Mangalam Srinivasan (US academician), Vinod K Dham (famously known as the father of the Pentium and an ex-Intel employee), M Rammohan Rao (Dean of the renowned Indian School of Business), Krishna Palepu (professor at Harvard Business School) Soon after the acquisition of Maytas, it was opposed by investors and prices came down by 55%, three of the independent directors made an announcement of their withdrawal being concerned about the governance of the company, but this action of independent directors was too late[66]. The proposal to invest such a huge amount of $ 1.6 billion was like transferring money into his personal account because the company whose acquisition they approved had Mr. Raju's sons as their major shareholders. This was evidently in moral conflict with the Arm's Length Principle though Mr. Raju did not participate in the meeting which took the decision.

In fact, one of the directors called Krishna Palepu, advised about the advantages of investing in a real estate company[67]. They proceeded with the decision, merely posing technical and procedural queries regarding the requirements of SEBI and the assessment of the Maytas enterprises[68].

The independent directors ought to have questioned why the business had so much cash on hand. However, the independent directors did not fulfil their obligations to the corporation. Prima facie it appears from the facts that independent directors did not discharge their duty by not raising their voices against the corrupt practices of the company[69]. They remained silent for years about the wrongdoings in their company which hurt the interest of shareholders. They did not act on the critical information they had, which ought to have raised suspicion about the possibility of there being something wrong with the financial affairs of the company before it completely collapsed.

However, an independent director alone cannot make the boarding process effective. Even

66. "Prof J P Sharma-What Went Wrong With Satyam", available at: https://www.coursehero.com/file/25078281/Prof-J-P-Sharma-What-Went-Wrong-With-Satyampdf/ (last visited on April 07, 2023).

67. *Ibid.*

68. *Ibid.*

69. *Ibid.*

if he makes all efforts, he can make in fulfilling his role and does notice any activities, that are not in the interest of the company, he can only discuss those activities, but it would be difficult for him to act alone and stop it. He cannot even whistle blow outside the boardroom as it is his duty to maintain secrecy and confidentiality regarding board proceedings or any information to which he has access to as a board member. It would be best for independent directors to act collectively to stop such activities, or any decisions being taken against the interest of the company. No doubt, Satyam had on its board well-experienced and highly reputed independent directors, but still, the company failed. As independent directors do not oversee the daily workings of the company like other directors, they cannot be expected to completely prevent fraud in the company. Also, one must consider that independent directors generally make decisions based on the information given to them by the management.

The effectiveness and independence of the corporate governance institutions determine an independent director's capacity to carry out his duties and guarantee the board functions effectively. Independent directors are expected to act diligently and use their experience to identify whether there may be any ongoing fraud in the company, though they may not be able to put to all fraudulent activities. The question is, do the independent directors of the Satyam audit committee exercise due diligence and act with care while performing their duty? As it was their duty to oversee the management and apply their skills and identify if there was any fraud in the accounts managed in the company. The independent director's prima facie failed to exercise due diligence, which facilitated Mr. Raju in manipulating accounts. This shows a lack of commitment of independent directors toward the board.

Thus, the Satyam scam was one of the biggest governance disasters and reflected the failure of the structure of corporate governance. The main role of an independent director should be to bring objectivity to the functioning of the Board, which the independent directors mentioned in Satyam's case prima facie failed to do. Independent directors should serve as watchdogs, act in the interest of the company, protect shareholders' interests, and not hinder them. Independent directors on the Satyam board failed to protect shareholders and did not act in the interest of the company when they acquiesced in the unanimous decision to approve investment in a real estate company which was in a completely different business from that of what Satyam had the competence to do.

However, it is hard to find a solution for this because if independent directors are not held liable for negligence in the performance of their duties, by the authorities, then it would fail corporate governance and if they are held liable for corporate fraud and laid huge penalties, it would be difficult for companies to attract high-quality people as independent directors and companies will be deprived of people who can bring a change in the performance of the company.

CONCLUSION AND SUGGESTIONS

The concept of corporate governance in India has received attention because of economic liberalization, major business failures & the demand for new stringent laws to replace the old ones. The increased number of frauds in the companies resulted in eroding the confidence of investors and great financial losses in India as well as across the world, demanding effective laws to be enforced to bring out effective governance in the corporate world. In this context, the liability of directors including independent directors has come into sharp focus in companies that hold large stakes. As discussed earlier in the paper, the concept of independent directors originated when clause 49 was incorporated in the year 2000 by SEBI on recommendations made by the "Kumar Mangalam Birla Committee Report". The committee while making its recommendations emphasized on inclusion of independent directors as they contribute to better corporate governance with their expertise and knowledge and help the company with business strategies, thereby contributing to the development of the company. Thus, the committee aimed to promote a code for raising the corporate governance standards which it believed to be a base for enhancement of the construction of corporate governance in the future due to the rapidly growing economy. Various other committees also gave importance to the concept of independent directors by giving broad definitions of independent directors and making recommendations for their inclusion on the board. It was hoped that they would go far in giving a framework of great corporate governance.

But the concept of independent directors received more attention when Satyam, one of the top companies failed despite having the best independent directors and adopting the best transparent practices as understood from the facts of the case discussed earlier. It is perhaps difficult to effectively meet the objectives of corporate governance if independent directors and the other elements of corporate governance are not included in the larger scheme of things. In the context of the growing economy of India, it becomes even more compelling due to the flow of unprecedented amounts of funds from within and outside the country. Thus, the need to increase the role and duties of independent directors and other relevant elements became a matter of concern due to which the Companies Act, 2013 came into existence increasing the role and duties of independent directors, especially designing a code for independent directors, and incorporating other few provisions which were absent in the earlier Acts.

The Act has also prescribed minimum tenure requirements to independent directors, and they could hold the office of the independent director maximum of 2 years in 5 consecutive years. Some of the limitations on the effectiveness of independent directors can also be observed from the recommendations of the committees and voluntary guidelines drafted by the Ministry of Company Affairs in 2009 as discussed earlier. Nonetheless, the 2013 Act restricts the payments payable to independent directors and gives the compensation just through sitting charges or coincidental costs for going to executive gatherings or commissions out of net benefits just if the investors endorse it. Stock options are not made available to independent directors under the Act. The Act additionally gives punishment to any negation by independent directors; however, they will be made at risk just for those fake exchanges for which their assent is given or where it tends to be exhibited that they have not acted in a persevering way. Under this Act, Independent directors are supposed to work in the greatest interest of shareholders and the company. However, to protect the interests of minority shareholders against the majority, a formal acknowledgment is necessary for the role to be played by independent directors as minority shareholders' guardians. For this purpose, there should be some change made in fundamental provisions of the law so that the procedure of election and nomination gives prime importance to minority shareholders. While independent directors are expected to give a good performance, it can be stressed that equal protection and proper incentives be provided to them. Good remuneration and adequate compensation should be provided to independent directors to attract highly qualified personnel. The remuneration of the independent directors should be based upon their effort and time spent towards the development of the company.

By adopting the following strategies in their administration, the Companies can effectively use the knowledge and perceptions of independent directors to improve the scale of corporate governance:

- **Selection of independent directors:** Independent directors should be selected based on their qualifications, experience, and relevant knowledge. Additionally, the diversity of experience amongst the independent directors on the board must be ensured.

- **Orientation and training:** To effectively use the independent directors for the benefit of the company, training regarding the company's business, operations, and industry must be provided. This would result in their effective participation in the board's decision-making process.

Clear roles and responsibilities: There should be clear guidelines regarding the roles and responsibilities of independent directors. This would lead to a greater awareness of their obligations, commitments, and power.

- **Board committees:** The independent directors should be appointed to the board committees, such as the governance, remuneration, and audit committees.
- **Regular communication:** There should be regular communication amongst the board and all other stakeholders. As a result, independent directors will be better equipped to provide effective oversight by staying educated about the business' operations, risks, and opportunities.
- **Performance evaluation:** To make sure independent directors are performing their duties well, companies should routinely assess their performance. As a result, the business will be able to pinpoint areas for improvement and give input to independent directors to assist them contribute more to the board.

In general, businesses can improve their corporate governance and encourage long-term sustainable growth by wisely utilising the knowledge and perspectives of independent directors.