

India Inc witnessed fall in cases of independent directors tendering resignations citing no reason

In the previous two financial years, eight companies continued to have at least 1 of their IDs on all five committees.

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In 2018-19, 24% of IDs had resigned mentioning personal reasons. (Reuters)

Indian companies are witnessing a gradual fall in cases in which independent directors are tendering their resignations from the boards citing no reason for resignations.

According to the second edition of the survey on Corporate Governance and Business Responsibility Report, published by Excellence Enablers, during the financial year 2017-18, 76% of the independent directors had resigned from the board without citing any reason. And, in the last fiscal only 22% of the independent directors tendered their resignation citing no reason. Notably, out of 100 independent directors (IDs), 34 persons had resigned without mentioning a reason in the financial year 2019-20.

Interestingly, during the last fiscal, 17% of the IDs had resigned from the companies' board citing "personal reasons", while this figure was 10% in 2019-20. In 2018-19, 24% of IDs had resigned mentioning personal reasons. Moreover, 24% of the IDs tendered resignation from the board citing pre-occupation with other assignments in FY19, while in the last fiscal 26% of the IDs revealed the same reason for their resignation.

"When an ID steps off a board during his/her term, it is necessary for all stakeholders to understand the real reasons why the ID is leaving the board. If dissatisfaction with how the company is being run is a major reason for resignation, stakeholders could raise issues and draw appropriate conclusions. "Personal reasons" and "pre-occupation with other assignments" often do not reveal the real reason for resignation," said the survey of Excellence Enabler. M. Damodaran, former chairman of capital market regulator Sebi, is the chairperson of Excellence Enablers.

As per the Securities and Exchange Board of India (Sebi) regulations, disclosures shall be made in the section on the corporate governance of the annual report of a company on detailed reasons for the resignation of an independent director who resigns before the expiry of his tenure along with a confirmation by such director that there are no other material reasons other than those provided (w.e.f April 1, 2019).

On the distribution of committee membership among independent directors, the survey said in the previous two financial years, 26 companies continued to have one or more of their IDs on no committees. This could be a major contributory factor to inter see information asymmetry among IDs. In the previous two financial years, eight companies continued to have at least 1 of their IDs on all five committees.

“With in-depth discussion being possible at the committee level, rather than the board level, it is necessary to ensure that all IDs are members of one or more board committees. If one or more IDs choose(s) to stay away from the membership of board committees, the information asymmetry among IDs would be significant, compounding the existing problem of information asymmetry among executive directors (EDs) and non-executive directors (NEDs),” the survey added.

Source: <https://www.financialexpress.com/industry/india-inc-witnessed-fall-in-cases-of-independent-directors-tendering-resignations-citing-no-reason/2454630/>