

# India Inc Showing Better Compliance on Appointing Independent Directors

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## Our Bureau

**Mumbai:** Indian companies' compliance with the independent director requirement is showing signs of improvement.

According to a report published by Excellence Enablers — a governance firm owned by former Sebi chairman M Damodaran — only one firm out of the Nifty 100 companies in FY22 did not comply with the requirements. In FY21, there were 17 non-compliant companies, while in FY20, the count was 14.

According to the Securities and Exchange Board of India (Sebi) rules, in companies where the chairperson of the board is a non-executive director, one-third of the bo-



ard should comprise independent directors. If the same company does not have a regular non-executive chairperson, independent directors must constitute at least half of the board.

Due to the stricter corporate governance rules, the average tenure of independent directors has seen a decline. As on March 31, 2022, the average tenure of an independent director was 6.63 years against 7.65 years in FY21, data showed.

“The legal provision of two terms, with a maximum of five years in each term, satisfactorily addresses the issue of tenure of independent directors,” said the report.

The report observed that several leading listed companies are yet to separate the posts of chairperson and managing director. According to data, 66 companies had separate chairpersons and managing directors in FY22, while 34 companies did not have such a se-

paration of powers.

The report said the role of the chairperson is to chair the board, while a managing director is the chief executive officer of the company.

“Combining these two roles in one person runs counter to the basic principle of corporate governance which is that the management, headed by the managing director, shall be answerable to the board headed by the chairperson,” the report said “If both the chairperson and the managing director have executive responsibilities, the requirement of corporate governance does not get adequately addressed. It is unfortunate that this separation has been made non-mandatory.”

Data also showed that the majority of the companies have exceeded the regulatory requirement of conducting a minimum of four board meetings every year. Of the 100 companies, 25 conducted more than 10 board meetings during FY22 while 31 companies held 7-9 meetings during the year while 37 others held 5-6 board meetings.