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The Role of Independent Directors under the Companies Act, 2013

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Introduction

Corporate governance has become one of the most important aspects of company law in the last few decades. A company may have strong financial performance and a successful business model, but without transparency, accountability, and ethical decision-making, its long-term sustainability can be seriously affected. Several corporate scandals across the world have shown that concentrating power in the hands of a few individuals often results in misuse of authority, financial manipulation, and loss of investor confidence. India has also witnessed such failures, the most notable being the **Satyam Computer Services scandal**, which exposed serious weaknesses in board oversight and corporate governance.

One of the major reforms introduced through the **Companies Act, 2013** was the strengthening of the institution of **Independent Directors**. Unlike executive directors, independent directors are expected to function without being influenced by the company's management or promoters. Their presence on the Board is intended to bring an objective and unbiased perspective while taking important corporate decisions. They serve as guardians of good governance by ensuring that the interests of shareholders, employees, creditors, and other stakeholders are not ignored in pursuit of short-term profits.

The idea behind appointing independent directors is not merely to satisfy a legal requirement. Instead, it is to create a system where decisions are examined from different viewpoints and where management remains accountable for its actions. Independent directors are expected to question decisions whenever necessary, monitor conflicts of interest, supervise financial reporting, and encourage ethical business practices. Their role has become even more significant in listed companies where public investment and shareholder confidence are directly linked to the quality of corporate governance.

The Companies Act, 2013, together with the **SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**, provides a comprehensive legal framework governing the appointment, qualifications, duties, and responsibilities of independent directors. At the same time, several corporate failures in recent years, including the **IL&FS crisis**, have raised important questions about whether independent directors are able to perform their functions effectively in practice. This makes the topic both legally and practically significant.

This article examines the role of independent directors under the Companies Act, 2013 by analysing the statutory provisions, judicial developments, and practical challenges surrounding their position. It also evaluates whether the present legal framework has succeeded in strengthening corporate governance in India and suggests reforms that could improve the effectiveness of independent directors in the future.[1]

Meaning and Concept of Independent Directors

The concept of an independent director is based on a simple but important idea. A company's Board of Directors should not consist entirely of individuals who are involved in the day-to-day management or who are closely connected with the promoters. There should also be members who can assess business decisions objectively and independently.

Under **Section 149(6) of the Companies Act, 2013**, an independent director is a director who satisfies certain statutory conditions ensuring independence from the company's management[2]. These conditions require that the person should possess integrity, relevant expertise and experience, and should not have any material pecuniary relationship with the company, its holding, subsidiary, or associate company that could affect independent judgment. The provision also places restrictions on employment relationships, shareholding, and close family connections with promoters and key managerial personnel.

The purpose of these eligibility requirements is to minimise the possibility of bias. An independent director should be capable of evaluating proposals solely on the basis of what is legally correct and beneficial for the company rather than personal relationships or financial interests.

Unlike executive directors, independent directors are generally not involved in the everyday management of the company. They do not supervise routine operations or make operational decisions. Their primary responsibility is oversight. They participate in Board meetings, review strategic decisions, evaluate risks, monitor compliance with law, and ensure that the management remains accountable to shareholders.

Another distinguishing feature of independent directors is that they represent the interests of all stakeholders instead of only the promoters. While promoters naturally focus on ownership and business growth, independent directors are expected to maintain a balance between

[1] Jaya Mathew & Warada Bhagwat, Role of Independent Directors under Companies Act, 2013: Will it lead to better Corporate Governance in India?, GST Journal of Law and Social Sciences (JLSS) November 2025 (Volume 4, article number 19(2025))

[2] Companies Act, No. 18 of 2013, Section 149(6), India Code (2013)

profitability and fairness. This balance becomes particularly important where minority shareholders may otherwise have little influence over corporate decisions.

Independent directors also contribute professional expertise to the Board. Many of them possess experience in fields such as law, finance, economics, public administration, management, or accounting. Their diverse backgrounds improve the quality of discussions and help companies make informed decisions after considering legal, financial, and ethical implications.

The Companies Act recognises that independence is not merely about the absence of financial relationships. It also requires independent directors to maintain independence of judgment throughout their tenure. This expectation is reflected in **Schedule IV** of the Act, which prescribes a detailed **Code for Independent Directors**. The Code requires them to uphold ethical standards, exercise objective judgment, devote sufficient time to Board responsibilities, safeguard confidential information, and report concerns regarding unethical behaviour whenever necessary.[3]

In practice, however, independence is often tested by commercial realities. Independent directors are usually appointed through the recommendation of the company's promoters or existing Board. This raises an important question: can a person who owes their appointment to the controlling shareholders remain completely independent while evaluating their decisions? Although the law establishes objective qualifications, genuine independence ultimately depends on the individual's integrity, professional ethics, and willingness to question management when circumstances require.[4]

Legislative Background

The introduction of independent directors under the Companies Act, 2013 did not happen in isolation. It was the result of several years of corporate governance reforms that gradually recognised the need for greater Board independence.

Before the enactment of the Companies Act, 2013, the Companies Act, 1956 contained only limited provisions relating to Board composition and did not provide a detailed statutory framework for independent directors. Their appointment was largely governed by Clause 49 of the Listing Agreement issued by the Securities and Exchange Board of India (SEBI), which applied mainly to listed companies. While Clause 49 introduced important governance standards, its scope remained confined to companies listed on stock exchanges and lacked comprehensive statutory backing.

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[3] Companies Act, No. 18 of 2013, sch. IV, India Code (2013)

[4] Jaya Mathew & Warada Bhagwat, Role of Independent Directors under Companies Act, 2013: Will it lead to better Corporate Governance in India?, GST Journal of Law and Social Sciences (JLSS) November 2025 (Volume 4, article number 19(2025))

The demand for stronger regulation became more evident after a series of international corporate scandals such as **Enron** in the United States and **WorldCom**, both of which highlighted the consequences of ineffective Board supervision. India experienced a similar crisis in 2009 when the founder of **Satyam Computer Services Limited**, B. Ramalinga Raju, admitted to manipulating the company's financial statements by inflating profits and assets over several years. The scandal caused enormous losses to investors and severely damaged confidence in India's corporate governance framework.

One of the major criticisms following the Satyam episode was that the Board, including its independent directors, had failed to identify serious financial irregularities despite being responsible for supervising management. The incident demonstrated that merely appointing independent directors was not enough; there also had to be clearly defined duties, responsibilities, accountability mechanisms, and standards of conduct.

These concerns influenced the recommendations of several expert committees, particularly the **Kumar Mangalam Birla Committee (1999)** and the **Naresh Chandra Committee (2002)**, both of which emphasised stronger corporate governance practices and greater Board independence. Their recommendations later shaped both the Companies Act, 2013 and SEBI's corporate governance framework.

As a result, the Companies Act, 2013 introduced an entirely new statutory regime governing independent directors. It defined who qualifies as an independent director, prescribed eligibility criteria, specified their duties through Schedule IV, regulated appointment and tenure, and assigned them significant responsibilities in Board committees such as the Audit Committee and the Nomination and Remuneration Committee. These provisions were further strengthened through the **SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**, which continue to play an important role in ensuring effective corporate governance among listed entities.

The legislative shift reflects an important change in philosophy. Independent directors are no longer viewed as symbolic members of the Board. Instead, they are recognised as active participants responsible for protecting corporate integrity, ensuring accountability, and strengthening investor confidence.[5]

Legal Framework under the Companies Act, 2013

The Companies Act, 2013 was enacted with the objective of improving transparency, accountability, and responsible corporate governance. One of its significant contributions was giving statutory recognition to the institution of independent directors. Earlier, the requirement largely existed through SEBI's corporate governance norms applicable to listed companies. By incorporating detailed provisions within the Act itself, Parliament intended to make

[5] Jaya Mathew & Warada Bhagwat, Role of Independent Directors under Companies Act, 2013: Will it lead to better Corporate Governance in India?, GST Journal of Law and Social Sciences (JLSS) November 2025 (Volume 4, article number 19(2025))

independent directors an essential part of corporate governance rather than merely a regulatory formality.

The principal provision governing independent directors is **Section 149**, which lays down the requirement for certain classes of companies to appoint independent directors and specifies the conditions they must satisfy to be regarded as independent. Along with Section 149, **Schedule IV** provides a detailed Code for Independent Directors, prescribing their professional conduct, duties, responsibilities, and the manner in which they should perform their role.[6]

The framework is further strengthened by other provisions of the Act. **Section 150** provides that independent directors shall be selected from a databank maintained by an institute notified by the Central Government, although subsequent amendments have modified the manner in which the databank operates. The objective is to ensure that companies have access to individuals possessing the required competence and integrity.[7]

Section 152 regulates the appointment of directors through shareholder approval in the general meeting, thereby giving shareholders an opportunity to participate in the composition of the Board. **Section 161** permits the appointment of additional directors by the Board under specified circumstances, although such appointments remain subject to the provisions governing independent directors wherever applicable.[8]

The Act also recognises that every director, whether executive or independent, owes fiduciary obligations to the company. These duties are codified under **Section 166**, which requires directors to act in good faith, exercise due care, avoid conflicts of interest, and act in the best interests of the company, its employees, shareholders, the community, and the environment. Although these duties apply to all directors, they carry particular importance for independent directors because they are expected to provide unbiased supervision over management[9].

Independent directors also play a central role in Board committees established under the Act. **Section 177** deals with the Audit Committee, while **Section 178** provides for the Nomination and Remuneration Committee and the Stakeholders Relationship Committee. These committees are expected to function with substantial participation from independent directors to ensure impartial decision-making in areas such as financial reporting, executive remuneration, and Board appointments.[10]

The Companies Act does not work in isolation. For listed companies, the provisions of the Act operate alongside the **SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**, particularly Regulation 17, which prescribes the composition of the Board and the minimum number of independent directors required for listed entities. Together, these

[6] Companies Act, No. 18 of 2013, Section 149, India Code (2013)
[7] Companies Act, No. 18 of 2013, sch. IV, India Code (2013)
[8] Companies Act, No. 18 of 2013, Section 150, India Code (2013)
[9] Companies Act, No. 18 of 2013, Section 152, India Code (2013)
[10] Companies Act, No. 18 of 2013, Section 161, India Code (2013)

laws create a comprehensive governance framework aimed at protecting investors and strengthening confidence in corporate management.

Appointment of Independent Directors

The appointment of independent directors is not left entirely to the discretion of company management. The Companies Act prescribes a structured procedure intended to ensure transparency and shareholder participation.

Section 149 requires every listed public company to appoint at least one-third of its total number of directors as independent directors. Certain classes of unlisted public companies are also required to appoint independent directors in accordance with the Companies (Appointment and Qualification of Directors) Rules, 2014, based on prescribed thresholds relating to paid-up share capital, turnover, or outstanding borrowings.[11]

The appointment must be approved by shareholders in a general meeting. This requirement serves an important purpose. Since independent directors are expected to safeguard shareholder interests, their appointment should receive the confidence of those shareholders rather than being exclusively controlled by promoters.

Before appointment, the Board must satisfy itself that the proposed individual possesses integrity, relevant expertise, experience, and fulfils all the conditions prescribed under Section 149(6). The explanatory statement accompanying the notice of the general meeting should also justify why the proposed individual is suitable for appointment as an independent director. This encourages greater transparency in the selection process.[12]

Independent directors are appointed for a term of up to **five consecutive years**. They may be reappointed for one additional term through a special resolution passed by shareholders and after disclosure in the Board's report. After completing two consecutive terms, they become subject to a **cooling-off period of three years**, during which they cannot be associated with the company in specified capacities. The purpose of this restriction is to preserve independence by preventing long-term associations that may affect objective judgment.[13]

Another safeguard introduced by the Act is the requirement for independent directors to declare annually that they continue to satisfy the statutory criteria of independence. This ensures that independence is not merely assessed at the time of appointment but remains a continuing obligation throughout their tenure.

Although the statutory procedure appears comprehensive, practical concerns remain. In reality, promoters or controlling shareholders often have significant influence over the selection process. As a result, individuals who are professionally qualified may still feel reluctant to

[11] Companies Act, No. 18 of 2013, Section 166, India Code (2013)
[12] Companies Act, No. 18 of 2013, Section 177-178, India Code (2013)
[13] Companies Act, No. 18 of 2013, Section 149(4), India Code (2013)

openly challenge the management that facilitated their appointment. This practical limitation continues to be one of the major criticisms of the present framework.[14]

Qualifications and Eligibility

The credibility of an independent director depends largely upon genuine independence. Recognising this, the Companies Act lays down detailed eligibility requirements under Section 149(6).

The law first requires the individual to possess **integrity** and relevant expertise or experience in fields such as law, finance, management, economics, administration, accounting, or any other discipline useful to the company's functioning. Unlike executive directors, independent directors contribute primarily through their professional judgment rather than operational management.

The Act also imposes several disqualifications to eliminate potential conflicts of interest. An independent director should not be a promoter of the company, its holding company, subsidiary, or associate company. Nor should the individual be related to promoters or directors of these entities.[15]

Financial independence is equally important. The Act restricts material pecuniary relationships between the independent director and the company. It also places limitations on significant shareholding and prohibits recent employment relationships with the company or its associated entities in specified circumstances. These safeguards attempt to ensure that personal financial interests do not influence Board decisions.

Another significant development is the creation of the **Independent Directors' Databank**, administered through the Indian Institute of Corporate Affairs (IICA). Individuals seeking appointment as independent directors are generally required to register in the databank and, unless exempted, qualify in the prescribed online proficiency self-assessment test. The objective is to improve the quality of independent directors by ensuring a minimum level of legal and governance knowledge.[16]

These statutory qualifications indicate that independence is not confined to financial neutrality alone. Professional competence, ethical conduct, objective judgment, and freedom from undue influence together form the foundation of an effective independent director.

Duties and Responsibilities of Independent Directors

[14] Companies Act, No. 18 of 2013, Section 149(6), India Code (2013)
[15] Companies Act, No. 18 of 2013, Section 149(10)-(11), India Code (2013)
[16] Companies Act, No. 18 of 2013, Section 149(7), India Code (2013)

The Companies Act assigns responsibilities to independent directors that extend far beyond attending Board meetings. They are expected to actively contribute towards good governance while exercising independent judgment in all significant corporate decisions.

Schedule IV of the Companies Act contains a comprehensive **Code for Independent Directors**, which outlines the standards of professional conduct expected from them. According to the Code, independent directors should uphold ethical standards, act objectively, devote sufficient time to Board responsibilities, scrutinise management performance, satisfy themselves regarding the integrity of financial information, and protect the legitimate interests of all stakeholders.[17]

These responsibilities are reinforced by **Section 166**, which imposes fiduciary duties upon every director. Directors must act in good faith to promote the company's objectives while exercising reasonable care, skill, diligence, and independent judgment. They are also prohibited from placing themselves in situations involving conflicts of interest.[18]

One of the most significant responsibilities of independent directors is **monitoring management decisions**. Since they are not involved in daily operations, they can objectively evaluate proposals relating to mergers, acquisitions, major investments, borrowing, executive remuneration, and related-party transactions. Their role is not to obstruct business decisions but to ensure that decisions are legally compliant, commercially reasonable, and consistent with shareholder interests.

Independent directors are also expected to identify potential risks before they develop into larger corporate failures. Risk management today extends beyond financial matters and includes regulatory compliance, cybersecurity, environmental obligations, and reputational concerns. A vigilant Board often prevents governance failures before they occur.

Another important responsibility is ensuring the reliability of financial statements. Independent directors, particularly those serving on Audit Committees, examine internal controls, auditor reports, and financial disclosures. Although they are not expected to detect every instance of fraud personally, they are expected to ask difficult questions whenever inconsistencies arise.

The Supreme Court has recognised that liability cannot automatically be imposed upon independent directors merely because they are members of the Board. In **Sunil Bharti Mittal v. Central Bureau of Investigation**, the Court emphasised that criminal liability generally requires specific statutory provisions or evidence showing the individual's active role in the alleged offence rather than mere designation as a director. This principle has provided important protection to independent directors acting honestly and diligently[19].

[17] Companies Act, No. 18 of 2013, Section 149(6)(a), India Code (2013)
[18] Companies Act, No. 18 of 2013, Section 149(6)(b)-(e), India Code (2013)
[19] Sunil Bharti Mittal v. Central Bureau of Investigation, (2015) 4 SCC 609

At the same time, the protection available to independent directors should not be misunderstood as immunity. Where there is evidence of negligence, conscious inaction, or participation in wrongful conduct, they may still incur civil or criminal liability under applicable law.

Role of Independent Directors in Corporate Governance

Corporate governance is often described as the system through which companies are directed and controlled. While management is responsible for running the company's day-to-day affairs, the Board of Directors provides supervision and strategic guidance. Independent directors occupy a unique position within this framework because they are expected to evaluate management decisions objectively and without personal bias.

One of their most important contributions is bringing an external and impartial perspective to Board discussions. Executive directors may naturally focus on operational success or business expansion, whereas independent directors are expected to examine whether proposed decisions comply with the law, protect shareholder interests, and maintain ethical standards. Their participation encourages more balanced decision-making and reduces the possibility of unchecked managerial power.

Independent directors also strengthen transparency by insisting on accurate financial reporting and proper disclosure practices. Investors, creditors, and regulators depend on reliable financial information while making important decisions. If financial statements fail to present the true financial position of a company, public confidence quickly declines. Independent directors therefore play a significant role in reviewing financial disclosures before they are approved by the Board.

Risk management is another area where independent directors contribute meaningfully. Business risks today extend beyond financial losses and include environmental compliance, data privacy, cybersecurity, competition law, and reputational concerns. A proactive Board that carefully evaluates these risks is more likely to prevent future disputes than one that merely reacts after problems arise.

At the same time, corporate governance is ultimately built on accountability. Independent directors encourage accountability by questioning management decisions whenever necessary, demanding adequate explanations, and ensuring that important corporate actions are supported by proper documentation and legal compliance. Their presence reassures investors that corporate decisions are not being taken solely for the benefit of promoters or controlling shareholders.[20]

[20] Jaya Mathew & Warada Bhagwat, Role of Independent Directors under Companies Act, 2013: Will it lead to better Corporate Governance in India?, GST Journal of Law and Social Sciences (JLSS) November 2025 (Volume 4, article number 19(2025))

Protection of Minority Shareholders

One of the strongest justifications for appointing independent directors is the protection of minority shareholders. In many Indian companies, ownership remains concentrated in the hands of promoter families or controlling groups. While this ownership structure has certain advantages, it also creates the possibility that decisions benefiting the majority may adversely affect minority investors.

Independent directors are expected to act as a safeguard against such situations. Since they do not represent promoter interests, they are better positioned to evaluate whether corporate decisions treat all shareholders fairly.

This responsibility becomes particularly important in matters involving:

- Related-party transactions.
- Mergers and acquisitions.
- Sale of major corporate assets.
- Executive compensation.
- Preferential allotment of shares.
- Corporate restructuring.

For example, if a company proposes entering into a high-value transaction with another company owned by its promoters, independent directors are expected to examine whether the transaction is genuinely beneficial to the company or merely serves promoter interests. Their independent assessment reduces the possibility of abuse of corporate power.

Another practical contribution of independent directors lies in encouraging greater disclosure. Minority shareholders often lack direct access to company information. Independent directors help bridge this gap by insisting upon transparent reporting and compliance with disclosure requirements prescribed under company law and SEBI regulations.

Although independent directors cannot eliminate every conflict between majority and minority shareholders, their presence provides an important institutional safeguard within the corporate governance framework.[21]

Role in Audit Committee and Nomination & Remuneration Committee

[21] Jaya Mathew & Warada Bhagwat, Role of Independent Directors under Companies Act, 2013: Will it lead to better Corporate Governance in India?, GST Journal of Law and Social Sciences (JLSS) November 2025 (Volume 4, article number 19(2025))

The effectiveness of independent directors becomes most visible through their participation in Board committees. The Companies Act assigns them a leading role in committees responsible for financial oversight, Board appointments, and executive remuneration.

Audit Committee

Section 177 of the Companies Act, 2013 requires specified companies to constitute an Audit Committee, with a majority of its members being independent directors.

The Audit Committee performs several important functions, including:

- Reviewing financial statements before Board approval.
- Supervising internal financial controls.
- Monitoring statutory audit and internal audit processes.
- Examining related-party transactions.
- Overseeing whistle-blower mechanisms.
- Evaluating compliance with legal requirements.

Because independent directors constitute the majority of this committee, they serve as an important check against financial irregularities. Their objective scrutiny improves the credibility of financial reporting and strengthens investor confidence.

The significance of an effective Audit Committee became evident after the **Satyam Computer Services scandal**. Despite the existence of governance mechanisms, fabricated accounts remained undetected for years. The incident demonstrated that merely establishing committees is insufficient unless independent directors actively question management and critically examine financial information.

Nomination and Remuneration Committee

Section 178 provides for the constitution of the Nomination and Remuneration Committee, which is also required to consist largely of independent directors.

Its responsibilities include:

- Identifying suitable candidates for directorship.
- Recommending Board appointments.
- Evaluating director performance.
- Developing remuneration policies.
- Ensuring executive compensation reflects long-term corporate objectives rather than short-term financial performance.

The committee plays an important role in preventing arbitrary appointments and excessive executive remuneration. Independent directors help ensure that appointments are based on merit, competence, and integrity rather than personal relationships or promoter influence.[22]

Judicial Interpretation and Corporate Governance Developments

1. Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.

One of the most significant corporate governance decisions in recent years is **Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.**

Facts

The dispute arose after Cyrus Mistry was removed as Executive Chairman of Tata Sons. Minority shareholders challenged the decision, alleging oppression, mismanagement, and failure of corporate governance standards.

Issue

The Supreme Court considered whether the removal of Cyrus Mistry constituted oppression of minority shareholders and whether corporate governance principles had been violated.

Judgement

The Court ultimately upheld the decision of the Tata Sons Board and concluded that the facts did not establish oppression under the Companies Act. However, while deciding the dispute, the Court discussed the importance of Board governance, fiduciary duties, and independent decision-making.

Relevance to Independent directors

Although the judgment did not directly redefine the legal position of independent directors, it highlighted the importance of a properly functioning Board and reaffirmed that directors must exercise independent judgment while acting in the company's best interests rather than pursuing personal or factional interests[23].

2. Satyam Computer Services Corporate Governance Crisis

[22] Jaya Mathew & Warada Bhagwat, Role of Independent Directors under Companies Act, 2013: Will it lead to better Corporate Governance in India?, GST Journal of Law and Social Sciences (JLSS) November 2025 (Volume 4, article number 19(2025))

[23] Tata Consultancy Services ltd. v. Cyrus Investments Pvt. Ltd., (2021) 9 SCC 449

The Satyam scandal is not remembered primarily because of litigation but because it fundamentally changed India's corporate governance landscape.

Facts

In January 2009, Chairman **B. Ramalinga Raju** confessed to manipulating the company's financial statements by overstating profits and assets for several year.

Governance Issues

The scandal exposed failures relating to:

- ineffective Board supervision;
- inadequate financial oversight;
- weak internal controls;
- insufficient questioning by independent directors; and
- over-reliance on information provided by management.

Relevance

The incident directly influenced the enactment of stronger provisions under the Companies Act, 2013 relating to independent directors, Board committees, director duties, and financial accountability. It demonstrated that independence should involve active participation rather than symbolic presence.

3. IL&FS Corporate Governance Crisis

The collapse of **Infrastructure Leasing & Financial Services (IL&FS)** in 2018 once again raised concerns regarding the practical effectiveness of independent directors.

Although the company had several experienced directors and governance mechanisms, serious financial difficulties remained undisclosed until the crisis became severe. Questions were raised regarding whether the Board, including independent directors, had exercised adequate oversight over risk management and financial reporting.

The IL&FS episode illustrated that professional qualifications alone cannot guarantee effective governance. Independent directors must possess both competence and the willingness to challenge management whenever warning signs emerge.

Critical Analysis

The Companies Act, 2013 undoubtedly strengthened the legal position of independent directors. The Act clearly defines eligibility requirements, prescribes duties, establishes Board committees, and introduces standards of professional conduct through Schedule IV. On paper, India's framework compares favourably with several international governance models.

Despite these improvements, important practical challenges remain.

One concern is the appointment process itself. Independent directors are generally selected through mechanisms heavily influenced by promoters or existing Boards. Even though shareholders formally approve appointments, controlling shareholders often possess sufficient voting power to determine the outcome. This naturally creates concerns regarding genuine independence.

Another difficulty relates to information asymmetry. Independent directors generally meet only during Board or committee meetings and depend significantly upon information supplied by management. If management withholds important information, independent directors may find it difficult to detect irregularities despite acting honestly.

Fear of legal liability has also emerged as a practical concern. Following several corporate scandals, regulatory investigations increasingly examined the conduct of independent directors. While accountability is necessary, excessive personal liability may discourage competent professionals from accepting Board positions.

Another issue involves time commitment. Many independent directors simultaneously serve on multiple Boards. Although legally permissible within prescribed limits, excessive commitments may reduce the amount of attention devoted to each company.

These practical realities suggest that independence cannot be achieved solely through statutory qualifications. It also depends upon institutional culture, ethical leadership, access to information, and the willingness to express dissent when necessary.

Suggestions and Reforms

Although the present legal framework is considerably stronger than its predecessor, certain reforms could improve the effectiveness of independent directors.

First, the appointment process should become more transparent. Greater involvement of minority shareholders or independent nomination committees may reduce promoter influence during appointments.

Second, newly appointed independent directors should receive structured training in corporate governance, financial reporting, risk management, ESG compliance, and evolving regulatory requirements. Continuous professional education would enable them to discharge their responsibilities more effectively.

Third, independent directors should receive timely access to complete corporate information. Their ability to exercise independent judgment depends largely upon the quality and accuracy of information made available by management.

Another useful reform would involve strengthening Board evaluation mechanisms. Periodic assessments conducted by external professionals could identify weaknesses in Board functioning and improve accountability.

Finally, legal protection should continue to distinguish between directors who honestly exercise due diligence and those who knowingly participate in corporate misconduct. Such a balanced approach would encourage competent professionals to accept independent directorships while ensuring accountability where genuine negligence exists.

Conclusion

The introduction of independent directors under the Companies Act, 2013 marked a significant step towards improving corporate governance in India. The law recognises that sustainable business growth depends not only on profitability but also on transparency, accountability, ethical conduct, and responsible decision-making. Independent directors were introduced to strengthen these values by bringing objective judgment into Board deliberations and protecting the interests of shareholders and other stakeholders.

Experience over the past decade shows that the legal framework has certainly improved corporate governance standards. Detailed eligibility criteria, statutory duties, mandatory Board committees, and enhanced disclosure requirements have made the role of independent directors far more meaningful than it was under the earlier regime.

At the same time, legislation alone cannot guarantee genuine independence. Corporate governance ultimately depends upon the integrity of individuals, institutional culture, and the willingness of directors to question management whenever necessary. The experiences of Satyam and IL&FS clearly demonstrate that merely appointing independent directors is insufficient if they remain passive observers.

Looking ahead, India's corporate governance framework should focus not only on increasing the number of independent directors but also on improving their effectiveness. Transparent appointments, better training, timely access to information, and balanced accountability can help independent directors perform the role originally envisioned by the Companies Act, 2013. If these improvements continue, independent directors will remain one of the strongest pillars supporting responsible corporate governance in India.[24]

[24] Jaya Mathew & Warada Bhagwat, Role of Independent Directors under Companies Act, 2013: Will it lead to better Corporate Governance in India?, GST Journal of Law and Social Sciences (JLSS) November 2025 (Volume 4, article number 19(2025))