

Independent Directors may Start Quitting

Sachin Dave & Rica Bhattacharyya

Mumbai: An independent director on the board of a multinational pharma company, and at least four other top Indian companies, will now have no option but to resign from two of the companies.

"I have already conveyed my intention to the CEO in one case and the chairman in another," a non-executive director in both the companies said. The director, regarded an industry expert in corporate governance and also part of at least one government committee recently, the reputational risks were way too high.

"The penalties for independent directors in case of a problem in a company are too high. And the remuneration is definitely not worth it," he said.

With the government-appointed panel coming out with the amended Companies Act recently, with absolutely no relaxations to independent directors, many resignations may just start trickling in. Many industry trackers, especially those who are on the board of many companies as independent directors, expected that there could be some relaxations, mostly around responsibilities and penalties. While the committee did look at all the issues raised, they refused to offer any leeway.

In the next six months, many Indian companies could see mass resignations from independent directors as the directors' remuneration is capped, but they could be jailed for something as unrelated as a bounced cheque (of the company) or the company flouting pollution norms on a day.

"Directors' duties have become extremely onerous under the Companies Act and there has been a clamour for instituting architecture to compensate non-executive directors accordingly," said Ketan Dalal, managing partner (West), PwC.

Industry trackers say that many independent directors are also concerned about the remuneration part. The first to resign would be directors in loss-making companies, including those owned by conglomerates, where the directors' income is impacted because of the inability to earn compensation on profits.