

# The divided allegiance of Tata group's independent directors

Only one-third of all independent directors in the group firms were appointed during Mistry's tenure

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MUMBAI

On 24 October, Cyrus Mistry was sacked as the chairman of Tata Sons Ltd, and Ratan Tata took over as the group's interim chairman for a period of four months. Fast forward to five weeks later, and boardroom battles are far from over in the Tata group, with ongoing efforts to oust Mistry from the boards of various Tata group firms. Amidst all this, the role of independent directors on the boards of these firms is being observed with a lot of interest. An independent director is an individual who does not have a relationship with the company or its officials.

The matter has also raised questions vis-à-vis overall boardroom practices in India's large companies. A *Mint* analysis of the composition of directors using information from Prime Database throws up some interesting results.

A majority of independent directors serving on the boards of Tata group firms were appointed during Ratan Tata's tenure.

In fact, those appointed during Mistry's tenure comprise just over one-third of all independent directors in the group companies.

A comparison of independent director appointments in Tata group companies and S&P BSE 100 companies shows that the Tatas are six percentage points behind the latter in share of independent directors appointed in the past four years since Mistry took over (see charts 1 and 2).

To be sure, the lower share of independent directors in Tata group appointed under Mistry's chairmanship could also be a result of the fact that they already had a significant number of independent directors serving on their boards unlike other companies that had to appoint more of them to meet recent compliance requirements.

The new Companies Act 2013 said that at least one-third of the

Chart 1 Getting on board

Percentage-wise break-up of independent directors by years served

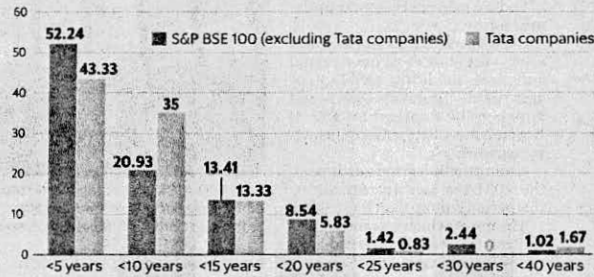


Chart 2 Appointment of independent directors

Percentage-wise break-up of independent directors based on tenure of Tata chairperson

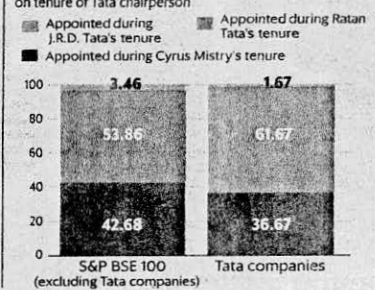
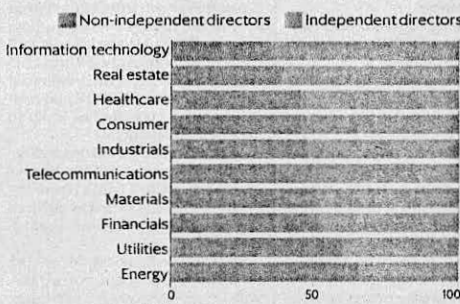


Chart 3 Which sectors have the most independent directors?



Graphic: PARAS JAIN/MINT

Chart 4 Which sectors have the greatest women's representation on company boards?



Source: Prime Database, Mint calculations

board should consist of independent directors. Another 2014 circular by the Securities and Exchange Board of India, or Sebi, increased the requirement to 50% for listed companies while allowing a company to keep it to one-third if the chairman himself was an independent director.

Does a majority of Ratan Tata-appointed independent directors mean that Mistry does not stand a chance in the ongoing tussle? Not necessarily. The boards of Indian Hotels Co. Ltd and Tata Chemicals Ltd backed Mistry despite the fact that the majority of independent directors in these firms were appointed during Tata's tenure. Even as speculation about the

loyalty of the respective boards to either Mistry or Tata continues in the media, the fact remains that Tata group firms have powerful, diverse and more educated independent directors on their boards than other corporate entities.

The share of independent directors in Tata group companies is 55% against 50% in non-Tata BSE 100 companies. Women hold 16% in the Tata group companies in comparison to 12% for the non-Tata companies. A quick look at educational qualifications also seemed to suggest that independent directors on the boards of Tata group companies are better educated—with a larger number of post-graduates than the rest.

How are other large companies doing in term of creating a strong and diverse board?

There are 1,054 director posi-

tions in all the S&P BSE 100 companies. Directors identified as independent ones occupy a total of 532 positions, which is just over 50%. But some sectors have greater representation than others. This includes information technology (IT), healthcare and consumer companies. While independent directors occupy 65% of IT company board positions, the figure for the energy sector is 33.8% (see chart 3).

Women account for just 12.8% of directors even after recent regulations requiring at least one female director on the boards of listed companies. The lowest representation is seen in the energy sector at 4.4%. Overall, 86 out of the 532 independent directors are women (see chart 4).

Is a lower share of independent directors detrimental to the inter-

ests of a company? Not necessarily, said Amit Tandon, founder and managing director of proxy advisory firm Institutional Investor Advisory Services India Ltd.

"Boards which are made up of only independent directors appointed by institutional shareholders may well have a shorter-term perspective compared to those appointed by large business-owner shareholders," Tandon said. "Owners have a tendency to take a longer-term perspective, and (taking a) generational view of the business is a big strength."

The difference between long-held generational views and the need to adapt to nearer-term challenges would be a matter that stakeholders are likely to grapple with as the Tata confrontation continues. Corporate entities would be watching closely.