India Inc old brigade marches out

Directors aged 75 or more resign from over 200 firms as new Sebi rules kicked in on April 1

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Septuagenarian and octogenarian directors on the boards of India Inc were seen hitting the exit door before the Securities and Exchange Board of India's (Sebi's) new corporate governance regulations kicked in on April 1.

INDIA INC BOARDROOM SCORECARD ON CORPORATE GOVERNANCE P6

Directors who have turned 75 or more have resigned from at least 228 companies in the past few months. Among them, 34 stated upfront that they were stepping down to comply with the new Sebi regulations. Others cited personal reasons and ailing health, while many quit without giving any reason.

Experts said most of the exits were linked to the new corporate governance code, which restricts the age limit for non-executive directors at 75 years unless backed by a special resolution in favour of the director's continuation. More directors could step down when their tenure ends and they are due for reappointment, experts added.

AGE VERSUS EXPERIENCE

- Special resolution for appointment of non-executive directors who are 75-year-old or more
- Special resolution requires 75% shareholders' votes
- Many directors of older age have quit citing Sebi rule
- Move sparks debate on whether age can be a ground for stepping down

Starting April 1, a non-executive director of 75 years or more can be appointed or re-appointed only by way of a special resolution, which requires 75 per cent 'for' votes. Moreover, an explanatory statement indicating the justification for appointing needs has to be given by the company.

The new regulation is based on the recommendations made by the Kotak committee on corporate governance. The rule under the Companies Act that requires a special resolution for the appointment of executive directors above the age of 70 was the reference point for the recommendation.

GVK Power, Indiabulls Ventures, Godrej Properties and J&K Bank are among the companies whose non-executive directors have quit citing regulatory compliance as a reason for their cessation. There is a long list of prominent independent directors who have 'retired' or stepped down from their directorship, citing the Sebi regulation. These include noted economist Y K Alagh, Y H Malegham, R A Mashlekar, Vijay Kelkar, and Anil Dharker.

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Corporate India's old brigade marches out

The move has sparked a debate on whether age should be a ground for a director to step down. While some believe it will help induct younger generation, others say it could impact the company's skills or ethos.

"It is an ongoing process on the part of companies to ramp up their boards and bring in directors with the right kind of skills and diversity, while also being sensitive to the culture and ethos of the company," said Sai Venkateshwaran, partner, KPMG

"When the average employee age in many companies is late-20s and early-30s, I don't see any rationale in the directors above 75 continuing on boards," said Shriram Subramanian, MD, InGovern.

In its observations, the Kotak panel had said: "While age itself may not be a determinant of efficiency or capability of a person or the basis for disqualification of a director, a higher level of shareholder endorsement may be required for directors to continue in their position beyond a certain age."

The committee further noted that non-executive roles on board also needed significant commitment of time, and hence checks and balances should be considered in connection with the age of non-executive directors similar to the provisions of the Companies Act for executive directors.

"Age is a very subjective issue. So in order not have a rule on age, it is better to have a benchmark, and once the benchmark is crossed, there should a little bit more scrutiny for continuation," said J N Gupta, MD, Stakeholder Empowerment Services (SES).

Last year, the reappointment process of Deepak Parekh as non-executive chairman of HDFC had put a spotlight on the issue of average board age and number of directorships.

Nearly a quarter of shareholders had voted against Parekh's reappointment after certain overseas proxy firms recommended shareholders to vote against the resolution citing its directorship in eight boards. Some experts had also raised concerns over the high average age of the directors at the mortgage lender.