

INTERNATIONAL JOURNAL FOR LEGAL RESEARCH AND ANALYSIS



Open Access, Refereed Journal Multi-Disciplinary
Peer Reviewed

www.ijlra.com

DISCLAIMER

No part of this publication may be reproduced, stored, transmitted, or distributed in any form or by any means, whether electronic, mechanical, photocopying, recording, or otherwise, without prior written permission of the Managing Editor of the *International Journal for Legal Research & Analysis (IJLRA)*.

The views, opinions, interpretations, and conclusions expressed in the articles published in this journal are solely those of the respective authors. They do not necessarily reflect the views of the Editorial Board, Editors, Reviewers, Advisors, or the Publisher of IJLRA.

Although every reasonable effort has been made to ensure the accuracy, authenticity, and proper citation of the content published in this journal, neither the Editorial Board nor IJLRA shall be held liable or responsible, in any manner whatsoever, for any loss, damage, or consequence arising from the use, reliance upon, or interpretation of the information contained in this publication.

The content published herein is intended solely for academic and informational purposes and shall not be construed as legal advice or professional opinion.

**Copyright © International Journal for Legal Research & Analysis.
All rights reserved.**

ABOUT US

The *International Journal for Legal Research & Analysis (IJLRA)* (ISSN: 2582-6433) is a peer-reviewed, academic, online journal published on a monthly basis. The journal aims to provide a comprehensive and interactive platform for the publication of original and high-quality legal research.

IJLRA publishes Short Articles, Long Articles, Research Papers, Case Comments, Book Reviews, Essays, and interdisciplinary studies in the field of law and allied disciplines. The journal seeks to promote critical analysis and informed discourse on contemporary legal, social, and policy issues.

The primary objective of IJLRA is to enhance academic engagement and scholarly dialogue among law students, researchers, academicians, legal professionals, and members of the Bar and Bench. The journal endeavours to establish itself as a credible and widely cited academic publication through the publication of original, well-researched, and analytically sound contributions.

IJLRA welcomes submissions from all branches of law, provided the work is original, unpublished, and submitted in accordance with the prescribed submission guidelines. All manuscripts are subject to a rigorous peer-review process to ensure academic quality, originality, and relevance.

Through its publications, the *International Journal for Legal Research & Analysis* aspires to contribute meaningfully to legal scholarship and the development of law as an instrument of justice and social progress.

PUBLICATION ETHICS, COPYRIGHT & AUTHOR RESPONSIBILITY STATEMENT

The *International Journal for Legal Research and Analysis (IJLRA)* is committed to upholding the highest standards of publication ethics and academic integrity. All manuscripts submitted to the journal must be original, unpublished, and free from plagiarism, data fabrication, falsification, or any form of unethical research or publication practice. Authors are solely responsible for the accuracy, originality, legality, and ethical compliance of their work and must ensure that all sources are properly cited and that necessary permissions for any third-party copyrighted material have been duly obtained prior to submission. Copyright in all published articles vests with IJLRA, unless otherwise expressly stated, and authors grant the journal the irrevocable right to publish, reproduce, distribute, and archive their work in print and electronic formats. The views and opinions expressed in the articles are those of the authors alone and do not reflect the views of the Editors, Editorial Board, Reviewers, or Publisher. IJLRA shall not be liable for any loss, damage, claim, or legal consequence arising from the use, reliance upon, or interpretation of the content published. By submitting a manuscript, the author(s) agree to fully indemnify and hold harmless the journal, its Editor-in-Chief, Editors, Editorial Board, Reviewers, Advisors, Publisher, and Management against any claims, liabilities, or legal proceedings arising out of plagiarism, copyright infringement, defamation, breach of confidentiality, or violation of third-party rights. The journal reserves the absolute right to reject, withdraw, retract, or remove any manuscript or published article in case of ethical or legal violations, without incurring any liability.

ROLE OF INDEPENDENT DIRECTORS IN INDIAN COMPANIES PERFORMANCE THIER WATCHDOG **ROLE IN PRACTICE**

AUTHORED BY - VENNILA R

Hindustan Institute of Technology And Science

LLM Corporate Law - 1st Year

ABSTRACT

In India, the function of independent directors has grown in significance for enhancing corporate governance and business performance. Independent directors are supposed to serve as impartial supervisors who keep an eye on management's activities and make sure businesses operate in an open and responsible manner. Independent directors are chosen in accordance with the Companies Act, 2013 and SEBI regulations to safeguard minority shareholders' interests and stop promoters from abusing their position of authority. However, in reality, their efficacy as "watchdogs" has frequently been questioned.

Recent events in Indian corporations demonstrate that promoter control, knowledge gaps, and fear of legal liability can make it challenging for independent directors to carry out their oversight responsibilities. For instance, investor trust was impacted by HDFC Bank's governance issues following the resignation of its non-executive chairman due to ethical disagreements with management. Similar concerns regarding board governance were raised when independent directors at Gensol Engineering resigned following regulatory investigations into financial issues. In a another instance, independent directors left PTC India Financial Services due to their incapacity to uphold appropriate governance norms and their lack of independence. These events demonstrate that while independent directors are supposed to serve as watchdogs, their actual role is frequently restricted.

This study analyses the role of independent directors in the performance of Indian companies by examining recent case studies and legal provisions. The research evaluates whether independent directors truly function as effective watchdogs and suggests reforms to strengthen their independence, accountability, and contribution to better corporate performance in India.

Keywords: Independent Directors, Corporate Governance, Company Performance, Watchdog Role, Board of Directors

CHAPTER 1 INTRODUCTION

Meaning of Independent Directors

An independent director is a member of the board who, aside from sitting fees, has no material or financial ties to the company. Section 149 of the Corporations Act of 2013 requires independent directors in certain classes of corporations to ensure accountability, transparency, and equity. They safeguard the interests of stakeholders and minority shareholders while serving as impartial decision-makers.¹

Importance of Corporate Governance

Corporate governance is the process of directing and managing businesses. Good government ensures transparency, accountability, and moral leadership. Independent directors enhance governance by monitoring management decisions. The Securities and Exchange Board of India requires listed companies to select independent directors in order to boost board independence². Strong corporate governance improves investor confidence, public trust, and company performance.

Review of Literature

- Independent directors are essential to maintaining responsibility and openness in businesses, according to studies on corporate governance. In order to strengthen board independence and safeguard minority shareholders, the Companies Act of 2013 made their appointment essential³.
- The SEBI Committee on Corporate Governance observed that lack of independent oversight was one of the major reasons for corporate scandals in India and recommended strengthening the role of independent directors in listed companies.⁴

¹ Companies Act, No. 18 of 2013, § 149 (India).

² Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

³ Companies Act, No. 18 of 2013, § 149 (India).

⁴ Securities and Exchange Board of India, Report of the Kumar Mangalam Birla Committee on Corporate Governance (2000).

- The OECD Principles of Corporate Governance state that independent directors enhance business performance and investor trust by keeping an eye on management and avoiding conflicts of interest.⁵
- The effectiveness of independent directors as watchdogs is impacted by issues including promoter dominance, ignorance, and fear of legal liability, according to research on Indian corporate boards.⁶
- In order for independent directors to carry out their responsibilities efficiently, the J.J. Irani Committee Report recommended that they be granted appropriate authority, training, and protection from needless liability.⁷

Objectives of the Study

This study's primary goal is to analyze independent directors' roles in Indian corporations and determine whether or not they actually carry out their watchdog duties. The study's objective is to assess the SEBI regulations and the Companies Act of 2013's requirements pertaining to independent directors. In order to comprehend how independent directors affect business success, it also focuses on analyzing recent firm situations. Determining the difficulties independent directors have, such as promoter influence and a lack of independence, is another goal. The study's ultimate goal is to make recommendations for changes that would improve corporate governance and increase the efficacy of independent directors in India.

Research Methodology

- The nature of this research is doctrinal.
- Statutes, books, journals, case laws, and reports are the sources of data.
- The Companies Act, SEBI rules, and court rulings are examples of primary sources.
- Research papers, articles, and commentary are examples of secondary sources.

⁵ Organisation for Economic Co-operation and Development, OECD Principles of Corporate Governance (2015).

⁶ Umakanth Varottil, Independent Directors and Corporate Governance in India, 6 Indian J. Corp. L. 45 (2014).

⁷ Ministry of Corporate Affairs, Government of India, Report of the J.J. Irani Committee on Company Law (2005).

CHAPTER 2

LEGAL FRAMEWORK GOVERNING INDEPENDENT DIRECTORS IN INDIA

The Companies Act of 2013 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations of 2015 constitute the majority of the legislative framework that governs independent directors in India. These regulations were put in place to improve corporate governance and guarantee openness in business administration.

Listed public corporations are required under Section 149 of the corporations Act, 2013 to appoint independent directors to their boards⁸. An independent director is defined by the Act as an individual who has no material or financial relationship with the business, its promoters, or its management.⁹ The Act also establishes a Code for Independent Directors in Schedule IV, which outlines their obligations, duties, and professional conduct. Independent directors are supposed to act impartially and protect the interests of minority shareholders.¹⁰

In order to ensure impartial decision-making, listed companies are required by the SEBI (LODR) Regulations, 2015 to maintain a proper balance of executive and non-executive directors, including independent directors¹¹. To enhance accountability, these regulations also mandate that independent directors participate in key committees like the Audit Committee, Nomination and Remuneration Committee, and Stakeholders Relationship Committee.¹²

Due diligence, acting in good faith, and making sure the business conforms with the law are all obligations of independent directors. They are shielded from accountability for actions taken in good faith at the same time.¹³ The Act's Section 149(12) restricts their culpability to acts of commission or omission committed with their knowledge or assent. As a result, the Indian legal system seeks to establish independent directors as powerful watchdogs for improved corporate governance.

⁸ Companies Act, No. 18 of 2013, 149(4)

⁹ Companies Act, No. 18 of 2013, 149(6).

¹⁰ Companies Act, No. 18 of 2013 sched. IV.

¹¹ Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, reg. 17

¹² Companies Act, No. 18 of 2013, regs. 18–20.

¹³ Companies Act, No. 18 of 2013, 149(12)

CHAPTER 3

ROLE OF INDEPENDENT DIRECTORS IN COMPANY PERFORMANCE

By guaranteeing accountability, openness, and sound decision-making, independent directors significantly contribute to the performance improvement of Indian businesses. Independent directors are appointed under the Companies Act of 2013 to oversee management's operations and offer unbiased opinion. Their inclusion on the board improves corporate governance and boosts investor trust.¹⁴

By ensuring that business decisions are made with the best interests of the firm and its shareholders in mind, independent directors improve financial success. They oversee audits, examine financial statements, and guard against fraud and poor management. Effective financial activity monitoring contributes to increased productivity and profitability¹⁵.

Another crucial duty of independent directors is to safeguard minority shareholders. Promoters have dominant control in many Indian businesses, which can result in power abuse. As impartial board members, independent directors make guarantee that minority shareholders' interests are respected.¹⁶

In board committees including the Audit Committee, Nomination and Remuneration Committee, and Stakeholders Relationship Committee, independent directors are also crucial. To guarantee equity and openness in decision-making, the Securities and Exchange Board of India mandates that listed businesses have independent directors on these committees.¹⁷ These committees oversee financial reporting, director appointments, and investor grievances.

Independent directors serve as watchdogs in decision-making and oversight by challenging management practices and guaranteeing legal compliance. They must act diligently and in good faith. The Act's Section 149(12) encourages them to carry out their responsibilities fearlessly by limiting their liability to actions taken with knowledge or consent¹⁸.

¹⁴ Companies Act, No. 18 of 2013, 149 (India).

¹⁵ Companies Act, No. 18 of 2013, 134. (India).

¹⁶ Companies Act, No. 18 of 2013, 166.

¹⁷ Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, regs. 18–20.

¹⁸ Companies Act, No. 18 of 2013, 149(12).

As a result, independent directors are essential to enhancing business success and upholding sound corporate governance.

CHAPTER 4

WATCHDOG ROLE IN PRACTICE: CASE STUDY ANALYSIS

It is anticipated that independent directors will serve as watchdogs to guarantee responsibility and openness in business administration. However, recent instances in India demonstrate that management influence, information gaps, and governance disputes frequently limit their practical role.

Atanu Chakraborty, an independent director and part-time chairman at HDFC Bank, resigned in 2026, raising questions about board independence. He resigned, claiming disagreements over the bank's ethics and ideals, which raised questions about internal supervision and governance. This instance demonstrates that independent directors may struggle to maintain efficient supervision even in well-established businesses.

Independent directors at Gensol Engineering resigned when the Securities and Exchange Board of India (SEBI) was looking into claims of fund diversion and governance violations. Concerns over financial choices and excessive debt levels were voiced by one director, suggesting that the board's oversight of management actions was lacking. This example demonstrates the difficulties independent directors encounter when promoters have significant decision-making authority.

Similar to this, three independent directors at PTC India Financial Services resigned, citing problems with corporate governance and inadequate management information. Their resignation undermined the board and cast doubt on the company's oversight procedures' efficacy and independence.¹⁹

CHAPTER 5

ISSUES AND CHALLENGES FACED BY INDEPENDENT DIRECTORS

Although independent directors are crucial to corporate governance, they really encounter a number of difficulties that limit their capacity to carry out their watchdog duties. Promoter

¹⁹ Companies Act, No. 18 of 2013, § 149 (India).

dominance is one of the main problems. Promoters own the majority of the shares in many Indian businesses and have significant board influence. As a result, independent directors might not be able to freely make judgments or disagree with management's opinions. Although independence is required under the Companies Act of 2013, promoters frequently have an impact on the selection and retention of independent directors.²⁰

The absence of true independence is another problem. Independent directors may have personal or professional ties to management or promoters, despite the fact that they are supposed to be impartial. These connections may compromise their impartiality and diminish their ability to keep an eye on business matters. Although the legislation stipulates requirements for independence, its actual implementation is occasionally lax.²¹

Another major worry is the possibility of legal culpability. Even though they are not directly involved, independent directors worry about being held accountable for corporate malfeasance or poor management. Directors frequently quit to avoid legal issues, even though Section 149(12) of the Act restricts their culpability to conduct done with knowledge or permission²². This concern deters seasoned experts from taking board posts.

Another challenge independent directors confront is limited access to information. For internal records, financial reports, and firm data, they rely on management. They cannot effectively oversee the business if full information is not given. Proper disclosure is required under the Securities and Exchange Board of India regulations, but their implementation is not always successful²³.

These issues impair corporate governance in India and limit independent directors' capacity to serve as true watchdogs.

²⁰ Companies Act, No. 18 of 2013, 149 (India).

²¹ companies Act, No. 18 of 2013, 149(6)

²² companies Act, No. 18 of 2013, 149(12)

²³ Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, reg. 17.

CHAPTER 6

CASE STUDY

Although independent directors are supposed to serve as watchdogs, a number of Indian business instances demonstrate how difficult it is to carry out this responsibility. Independent directors in the Satyam Computer Services Scam Case were unable to identify the promoters' financial malfeasance. The board's approval of fraudulent financial statements cast doubt on the efficacy of independent scrutiny. The Companies Act of 2013 now has more robust corporate governance requirements as a result of this lawsuit.²⁴

The failure of Infrastructure Leasing & Financial Services in the IL&FS Financial Crisis Case revealed inadequate oversight by the board, including independent directors. The public and investors suffered enormous losses as a result of the directors' failure to challenge unsafe financial decisions, according to investigations.²⁵

Tata Sons v. Cyrus Mistry is another significant case in which the Supreme Court addressed concerns about minority shareholder protection and board independence. The case made clear how crucial independent directors are to upholding justice and sound corporate governance.²⁶

Independent directors in the PTC India Financial Services Governance Issue resigned, citing management's lack of cooperation and transparency. Concerns regarding independent directors' actual freedom of action in Indian firms were highlighted by their resignation²⁷.

These instances demonstrate the importance of independent directors for sound governance, but their watchdog function requires true independence, accurate information, and robust legal enforcement.

CHAPTER 7

CONCLUSION, FINDINGS AND SUGGESTIONS

In this study, the watchdog function of independent directors in Indian corporations was analyzed. According to the research, independent directors are a crucial component of

²⁴ Serious Fraud Investigation Office, Report on Satyam Computer Services Ltd. (2009).

²⁵ Union of India v. Infrastructure Leasing & Financial Services Ltd., NCLT Mumbai, 2018.

²⁶ Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd., (2021) 9 SCC 449 (India).

²⁷ Securities and Exchange Board of India, Order in the matter of PTC India Financial Services Ltd. (2023).

corporate governance and are meant to provide accountability, openness, and the defense of stakeholder interests. In order to preserve board independence, some firms are required under the firms Act of 2013 and SEBI requirements to nominate independent directors. Independent directors do not, however, always operate effectively in practice.

Independent directors frequently deal with issues including promoter dominance, a lack of true independence, fear of legal liability, and restricted access to information, according to case study analyses of businesses like Satyam, IL&FS, PTC India Financial Services, and others. These issues often make it impossible for independent directors to carry out their responsibility as genuine watchdogs. Sometimes they leave the board rather than challenge management choices, which undermines corporate governance.

According to the study, corporate governance laws need to be enforced more strictly. A clear and impartial procedure should be used to choose independent directors. To help them understand their roles and responsibilities, appropriate training programs should be implemented. They should also have legal protection so they can make judgments without worrying about needless liabilities. Strict adherence to transparency and governance regulations is required by regulators such as the Securities and Exchange Board of India.

In conclusion, only when they are genuinely independent, knowledgeable, and backed by robust legal and regulatory frameworks can independent directors enhance business performance and governance.