

# Independent directors must be sackable

June 13, 2017, 12:18 AM IST ET Edit in ET Editorials | Companies, Edit Page,India | ET

Sebi's wants the government to tighten rules relating to the removal of independent directors in companies. This is not a good idea. Tougher exit rules — replacing an ordinary resolution, which calls for a simple majority, with a special resolution, which calls for 75% support, to remove an independent director — will tilt selection towards pliant individuals guaranteed to make no trouble. This would defeat the very purpose of having an independent director, which is to look after the interests of all classes, and not just minority shareholders.

The debate over the actual role of independent directors has raged for long, and has come into focus again after the boardroom coup at Tata Sons. Both the Naresh Chandra and the Narayana Murthy panels had envisaged a greater role for independent directors.



Nevertheless, there is a perception that many independent directors assume a passive role, merely reacting to ideas conceived by controlling shareholder or their appointees. This is not misplaced. Sebi reckons that the remedy is to align rules for removal of an

independent director with those for reappointment — a special resolution is needed for a second term. But this ignores existing protection: removal of a director would have to be explained to shareholders.

Former Sebi chairman M Damodaran warns against the assumption that all managements are scheming manipulators and independent directors, zealous guardians of the public good. Things could be the other way round, too. Making it impossible to remove a rogue independent director would help no one. Having empowered independent directors under the Companies Act, the need is to initiate steps to make independent directors more effective, both through better remuneration for good work and mechanisms to hold them to accou