

# Role of Independent Directors

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01

**Role of creative and critical  
thinking**

# Why Independent Director's should have critical and creative thinking?

1. *Mandatory compliance requirement - (personal liability, governance pressure etc.)*
2. *Rise in stakeholder expectations*
3. *Wave of Corporate Frauds & Scandals*
4. *Changing business landscape - technology evolution, mergers and acquisitions, globalization etc.*
5. *To play a strategic role - to provide input on strategic calls like business growth and expansion, product diversification etc.*



# How should Independent Director's develop critical and creative thinking?

## *Keys to critical and creative thinking*

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Share and implement experience and best practice used by other boards

Putting oneself as representative of various stakeholders

Enhance ability to draw conclusions/inferences

Recognize relationships

Deal in business context

Recognize Assumptions  
- ability to separate fact from opinion

Use the art of evaluating arguments

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*Independent directors can rely on a few well established and proven techniques to develop develop critical and creative thinking*

1. Six Thinking Hats Approach
2. Pearson's RED Critical Thinking Model
3. Paul-Elder Critical Thinking

# 02 Business ethics



# Business ethics & Independent Directors

“Ethics & Corporate Governance” are not just **Moral or Compliance Issues**. In the long term they are **Essential Behavioural Traits** for the Organisation, that strengthen the Organisation’s “**Brand Equity**” and help ensure **Stable Sustainable Growth**. Independent Directors & Promoters need to come together to Build a strong Ethical Culture for the Company, that would ensure **Correct Behaviour/ the Right Behaviour**, **when policies are either unwritten, unclear or are unenforced**.

Often independent directors are held under the scanner and questioned with respect to their contribution towards business ethics awareness and monitoring. Business ethics dilemma include:

1. Do independent directors quit when they are most needed (at the time of poor business performance, scandals, litigation by shareholders etc.)?
2. Do independent directors take the extra load of transforming company/reshaping the company or they want to be visiting guests, restricting themselves to select meetings?
3. Can independent directors who are related parties, business associates, have personal relationship with individuals in organization or are drawing benefits like loans and advance etc. which are over and above the remuneration, contribute towards establishing and nurturing business ethics culture?

# Business ethics & Independent Directors

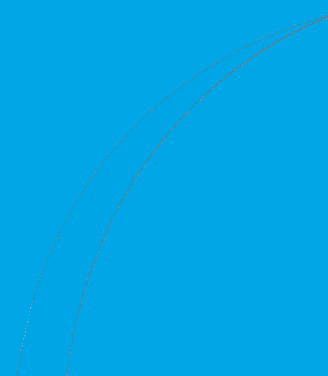
*How would an independent director contribute towards business ethics?*

- Do not hide from debate
- Welcome alternative suggestions
- Believe institutional sustainability comes first
- Foster a climate of trust and candor
- Establish board room relationships based on integrity
- Establish individual accountability



03

Strategy to develop reports & presentations



# Why Independent Directors need a strategy to develop reports & presentations?

*“An independent director can be defined as a third-party personnel, who apart from receiving director’s remuneration, do not have any other material pecuniary relationship or transactions with the company, its promoters, its management or its subsidiaries, which in judgment of the board may affect independence of judgment of the directors. (S)He plays the role of a watchdog.”*

Limited Time

Bag full of information

Many hats to wear

Might not have detailed business context

*Limitations of independent director*

Reports and Presentations

Independent Director

*Accurate, specific and timely reports/presentations act as interface between independent director and (her)his limitations, resulting in higher contribution and successful role play*

# Independent Director's strategy to develop reports & presentations

## Questions that a strategy addresses

What tools to use to create the report?

Who creates the reports?

To whom should reports be made available?

What are the timelines set for such reporting?

How to implement the strategy?

## Keys to developing reports & presentation

Purpose of developing each report & presentation

Availability and timeliness of data

Existing and anticipated technology assets for development of report & presentation

Organizations Current skill sets for development of report & presentation

## Results

Overall Control over business

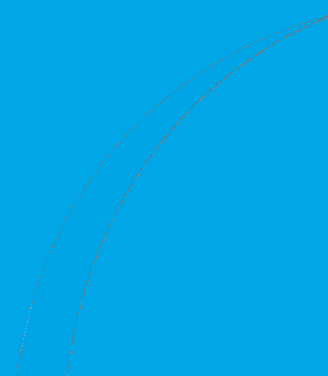
Simplifying complicated landscape

The ability to extract data from transactional systems to make it comprehensible

Aid to Decision making

Follow up on the progress levels

# 04 Communication process

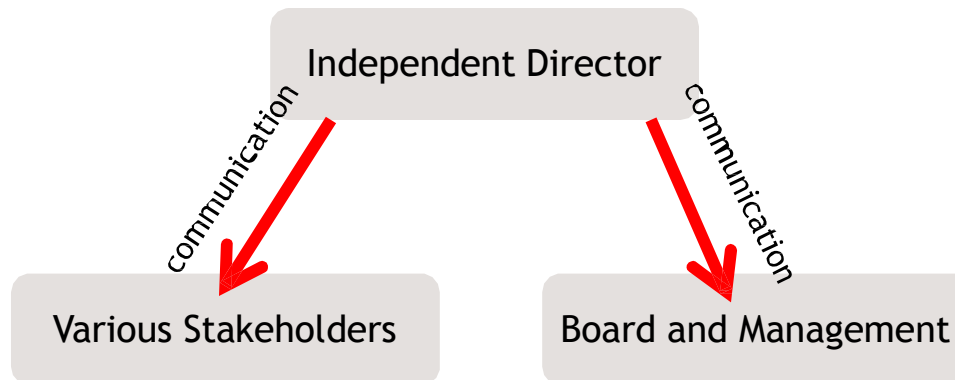


# Independent Directors and communication process

As per the latest amendments in Clause 49 and the new companies Act 2013, the role of an independent director can be segregated in 2 broad areas.

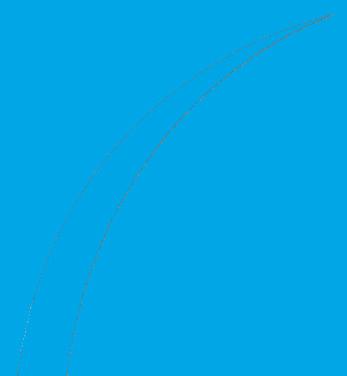
1. Interface and guardian of various stake holders, in the organization i.e.
  - Safeguarding the interest of all stakeholders, particularly the minority holders
  - Harmonizing the conflicting interest of the stakeholders
  - Analyzing the performance of management
  - Mediating in situations like conflict between management and the shareholder's interest etc.
2. The role they play in a company, for the company, broadly includes improving corporate credibility, governance standards, and the risk management of the company.

Hence accurate and timely communication and participation in key communication process, by independent directors, is inevitable.



05

# Art of Boardroom communication



# Independent Directors and art of boardroom communication

*“Independent Directors often face the challenge of (a) how to successfully obtain support for the decisions they have taken, (b) the ability to influence those around them and (c) to successfully negotiate with those who resist supporting their decisions.*

*The challenge is equally as difficult to bring senior support staff on the same page , who work closely with their immediate boardroom members and carry responsibility for ensuring the implementation of these decisions.*

**Boardroom Dynamics making communication a key factor for independent directors**

## Culture of the Boardroom

Every organization has a way in its it's boardroom meetings takes place. The presenter has to understand boardroom is a place where management and executives go to mull over and deliberate on burning issues and hard realities . Hence the play of offence and defense starts within the attendees.

## Existing Power Play

There is always a power position at the table. Even at King Arthur's round table the strongest positions were those closest to Arthur. In the boardroom Independent Directors have to read through the signal of power play to seek maximum support to mobilize tougher decision and ensure last level implementation.

## Historical influence

Members who are relatively old in to the board meeting may play their seniority card against people who are relatively new to the board meeting. For example bringing up past issues, insider jokes or unwritten rules that put new member down. These things divert attention from critical issues

# Independent Directors and art of boardroom communication

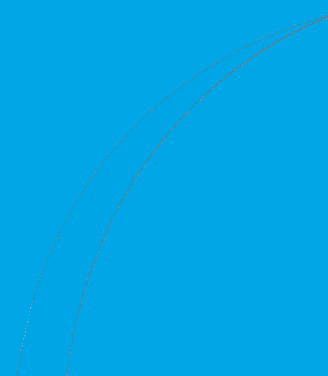
1. *Understanding how to navigate the power play that occurs in most boardrooms*
2. *Developing influencing skills to build solid interpersonal relationships*
3. *Maintain confidentiality while sharing information on best practice, market developments and experience attained by attending board meetings of other organizations*
4. *Building a strong level of negotiation skills to assist their strategy*
5. *The ability to counter resistance effectively thereby adding value to the organizational objectives*
6. *Understand what motivates their fellow board members*
7. *Build strategy that taps into the deeper dynamic of interpersonal transactions within the board*





06

Conducting press conference



# Independent Directors - conducting press conferences

*Independent Directors in the due course of discharge of duties, have to use methods to communicate to all stakeholders in the company. Conducting Press Conferences is one of them. A press conference is mostly held for dissemination of communication about major events or announcements about the Company.*

*Independent directors represent practice of Good Governance. Presence of Independent Director in the Press Conference bring forth confidence for the investors and the shareholders.*

## When to hold a press conference

When communication involves all stakeholders internal and external both

When you have significant announcement to make

When you have to reach to large number in a short time

## How do you hold a press conference

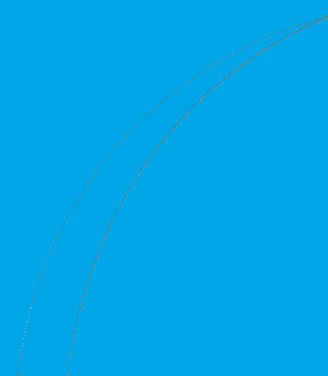
Define the key message(s)

Fix up a schedule

Pick up the site/venue

Involve media partners

# 07 Handling Whistle Blowing



# Handling whistle blowers and establishing vigil mechanism

*As per Companies Act, 2013 Section 177(9) All the listed companies, Companies which accept deposits from the public and Companies which have borrowed money from Banks and PFI in excess of Rs.50 crores. Companies which required to constitute an audit committee shall operate the VIGIL MECHANISM through audit committee for others board of directors shall nominate a director to play the role of audit committee.*

## *Why Whistle Blowing or Establishing Vigil Mechanism*

- *To encourage employees to report legal and ethical violation*
- *To reduce companies exposure to the damage in cases of internal frauds*
- *To set the tone about adherence to code of conduct*

# Vigil mechanism and Independent Directors



As per *Schedule IV to the Companies Act 2013 Section 148(8) "Code for Independent Directors"* it is Independent Directors duty to:

- ✓ "Ascertain and ensure that the company has an **adequate and functional vigil mechanism** and to ensure that the interests of a person who uses such mechanism are not prejudicially affected on account of such use".
- ✓ "Also **report concerns** about unethical behaviour, actual or suspected fraud or violation of the company's code of conduct or ethics policy."
- ✓ "Act within authority, assist in **protecting** the legitimate interests of the company, shareholders and its employees."

# Handling whistle blowing

## *How an independent director should handle Whistle Blowing?*

- Timely review of process, system and controls applicable
- Ensure that “whistleblower” is protected
- Maintaining anonymity of the “whistleblower”
- Separate genuine grievances from the malicious or frivolous complaints.
- Unbiased and fair analysis of complaints
- Detailed tracking of the grievances
- Monitoring progress of complaints

Thank You