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Independent Directors in India, UK and USA: An International Study

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ABSTRACT

The objective of this paper is to do a comparative analysis of independent directors of companies in India, UK and USA. For the study, the countries chosen are all common law countries. For India, Indian Companies Act, 2013 has envisaged independent directors as the pivot for improvements in corporate governance practices in Indian companies. Recent governance issues and frauds that surfaced in some leading company boards unfortunately however, belie that expectation. Similarly, the regulations in UK and USA envisage independent directors as the backbone of corporate governance mechanism. This research employs qualitative research methodology, and the authors have conducted a comparative study by referring to the legal position of independent directors in all the three countries. The study also collects data on independent directors from the annual reports / SEC filings of the companies. The findings indicate that the number, proportion and the importance of independent directors has been increasing over the years in all three countries. While it is true that the no. of independent directors has gone up, yet when measured with international yardsticks, still the number and proportion of independent directors in India is significantly less than the respective figures of UK and USA. Even in UK companies, the proportion of independent directors is significantly less than the U.S. companies. The findings are important for regulators, policy makers and the corporations in general, both for Indian companies and U.K. companies. This study extends the literature on international comparison of corporate governance practices of countries, specifically the independent directors.

1. INTRODUCTION

This paper does an international comparison of regulations and practices pertaining to independent directors in India, UK and USA. The area of independent directors falls within the ambit of corporate governance practices. So before studying the topic of

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independent directors, we summarise some of the recent studies on corporate governance, both internationally and nationally in India.

Shleifer and Vishny (1997) did an extensive survey on corporate governance. La Porta et al (1997) was the first paper that did an international study of 49 countries on legal determinants of external finance while La Porta et al (2000) examined corporate governance and investor protection. Their seminal paper led to a flurry of research papers in the area of corporate governance mixing various disciplines such as law, finance, management, organization behavior and social sciences and several international studies were conducted in the area. In terms of recent studies that do an international comparison of India, UK and USA, Pareek and Pasumarti (2021) study the ESG Reporting Practices in India, UK and USA. In another study, Pareek and Pasumarti (2021) study corporate governance regulations in India, UK and USA with case studies and lessons learnt from them. Further, in yet another study Pareek and Pasumarti (2021) also do an international comparative study of women directors in India, UK and USA and find that no. of women directors is on the rise in all three countries but still there is a long way to go.

In terms of recent corporate governance studies nationally in India, Chandra, Veni and Pasumarti (2020) study the influence of socio-economic profile of bank executives on the corporate governance initiatives in urban cooperative banks in India. Batth, Nayak and Pasumarti (2016) study the effect of independent directors on corporate governance practices in India and in another study Batth, Nayak and Pasumarti (2016) study the effect of independent directors in changing business scenarios in India. Pasumarti and Aruna Jyothi (2013) study the problems, procedures and practices in implementing Corporate Governance in Indian SMEs. Pasumarti (2020) studied the contribution of selected PSU in discharging their social responsibilities and further better corporate governance in a state in India.

Having reviewed the literature briefly including some recent studies in the area, let us try to understand why independent directors are important and why independence is needed.

The rest of the paper is organized as follows. Section 2 explains the concept of independent directors and why are they really needed. Section 3 develops the hypothesis while Sections 4, 5, and 6 respectively present the regulations pertaining to and results of the studies for India, UK and USA respectively. Section 7 does a comparative analysis of the results of the 3 countries while Section 8 concludes the discussion.

2. WHY INDEPENDENT DIRECTORS MATTER AND WHY INDEPENDENCE MATTERS

The term "independent director" refers to a director other than the managing director or executive directors who is unrelated to the management and can exercise decision making independently in the best interests of the shareholders. Jensen and Meckling (1976) in their classic paper explained the agency problem associated with corporations and how the management may not necessarily act in the best interest of the owners

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(shareholders). Many of the frauds in corporate world in India, UK and USA (e.g. Satyam scandal, Wordlcom, Enron, Tesco scandal) were result of greed of the CEO or the management. So, if such frauds are to be prevented, then independent directors are needed to act as watchdogs. So, they are required to be independent of the organization and management. They serve as guardians for shareholders (owners), which ensures they are expected to be properly mindful of the actions and to take a stand if they see any violation of regulations or ethics. Their responsibilities include, in general, strengthening corporate credibility and governance practices and playing an important role in risk management. Independent directors participate actively in numerous committees established by the organization to ensure good governance.

Independence of the Directors:

The term independence refers to a person's current and previous monitoring arrangement with an organization, its executives, and its executive directors. This is primarily to describe the non-executive directors' reliance on the corporation and the potential impact of that relationship on the director's decision-making capacity. If the directors have to discharge their obligations effectively and ensure good corporate governance, then independence is a must. Else the best interest of the organization will be compromised.

3. HYPOTHESIS DEVELOPMENT

Given the number of frauds and other scams as cited earlier, increasing the representation of independent directors on corporate boards is quite important and the topic has sparked intense discussion around the world and regulations in different countries are changing to emphasise the importance and greater role of independent directors in the Board.

This leads us to our hypothesis as under:

Hypothesis 1: India

Null Hypothesis: There is no difference in proportion of independent directors from 2016 to 2020 in India.

Alternative Hypothesis: There is difference in proportion of independent directors from 2016 to 2020.

Hypothesis 2: UK

Null Hypothesis: There is no difference in proportion of independent directors from 2016 to 2020 in UK.

Alternative Hypothesis: There is difference in proportion of independent directors from 2013 to 2020.

Hypothesis 3: USA

Null Hypothesis: There is no difference in proportion of independent directors from 2016 to 2020 in USA.

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Alternative Hypothesis: There is difference in proportion of independent directors from 2016 to 2020.
Since La Porta et. al. (1997) and La Porta et. al. (2000) show that corporate governance mechanisms in advanced economies such as USA and UK are far more developed than corporate governance mechanisms in developing economies, so this leads us to our next hypothesis.

Hypothesis 4: Comparative Analysis of India vis a vis UK and USA
Null Hypothesis: The number and proportion of independent directors in India is same as compared to USA and UK
Alternative Hypothesis: The number and proportion of indpendent directors in India is lesser as compared to USA and UK which are far more advanced countries.
Having developed the aforesaid hypothesis, we evaluate the data for each of the countries in the next 3 sections before doing a comparative analysis of countries and concluding the paper.

4. ANALYSIS OF INDEPENDENT DIRECTORS FOR INDIA:

The roles and tasks, rules, and other responsibilities of an Independent Director are detailed in Schedule IV of the Companies Act, 2013.
The code establishes several important functions such as safeguarding the interests of all stakeholders, assessing management efficiency, mediating in circumstances such as conflicts between management and the interests of shareholders, especially minority shareholders, harmonizing the interests of stakeholders, and so on. The independent directors are also required to stay informed of what is going on with the organization and to attend the company's general meetings.
In India, as per the Report of the CII Taskforce on Corporate Governance (2009), the Naresh Chandra Committee stated that directors are fiduciaries of owners, not management, and should be required to exercise “Independent Oversight Judgment.” Even a similar role was envisaged for them as per the recommendation of the Narayan Murthy Committee in 2003. As per SEBI website, which lists Clause 49 of the Listing Agreement, an ‘independent director' is a non-executive director of the firm who:

a) Apart from gaining the director's remuneration, has no material pecuniary relationships or dealings with the firm, its owners, its executives, its senior management, or its holding company, branches, or associates that could jeopardize the director's freedom.
b) Is unrelated to sponsors or individuals holding executive roles on the board or at a level below the board;
c) Has not served as a business executive in the three years preceding the current fiscal year;
d) Is not a partner or executive, or was not a partner or executive in the previous three years, of any of the following:

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- The regulatory accounting service or internal audit firm working with the company; and
- The law firm(s) and advisory firm(s) with a material relationship with the company.
- Is not a supply source, service provider, or client of the firm, or a lessor or lessee of the business, and may jeopardize the director's freedom.
- Is not a significant shareholder in the firm, having two percent or so of the voting stock.
- Is not under the age of 21.

In this study, the 2021 NSE - NIFTY 30 listed Indian companies were surveyed on whether they appoint the number of Independent Directors as per the act or not from 2016-2020. The data on directors and independent directors was obtained from annual reports of companies that were collected for the period 2016 to 2020. The study results are as follows:

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Table 1: Analysis of Percentage of Independent directors in Top 30 NSE listed Indian companies

S. No.	Name of the company	2015-16		2016-17		2017-18		2018-19		2019-20	
		Independent Directors	Total Directors	Independent Directors	Total Directors	Independent Directors	Total Directors	Independent Directors	Total Directors	Independent Directors	Total Directors
1.	Tata Consultancy Services (TCS)	0	11	0	11	6	10	7	11	3	9
2.	Reliance Industries Ltd.	3	8	5	14	8	14	8	14	8	14
3.	HDFC Bank Ltd.	4	12	6	12	3	10	2	10	4	10
4.	Hindustan Unilever Limited (HUL)	5	9	5	10	5	9	6	9	6	10
5.	Housing Development Finance Corporation	4	12	3	11	5	13	4	10	4	10
6.	Infosys Ltd.	6	9	6	10	5	9	5	9	5	9
7.	Indian Tobacco Corporation (ITC)	8	16	8	15	8	13	8	13	8	14
8.	Kotak Mahindra Bank	4	10	4	10	4	10	4	8	4	10
9.	ICICI Bank	7	13	7	12	5	10	7	13	6	12
10.	State Bank of India	3	14	3	12	3	12	3	14	3	14
11.	Bajaj Finance Ltd.	7	13	7	13	7	13	9	15	7	13
12.	Larsen & Toubro (L&T)	12	21	11	20	11	22	10	22	8	18
13.	Maruti Suzuki	5	12	5	12	5	12	5	12	5	13
14.	Bharti Airtel (known as Airtel)	6	12	6	12	6	12	6	11	6	11
15.	Axis Bank	5	15	5	15	5	15	5	14	5	11
16.	Oil and Natural Gas Corporation (ONGC)	1	12	1	16	1	16	1	18	1	10
17.	Asian Paints	7	14	7	15	7	14	7	14	7	14
18.	Wipro	7	10	7	10	7	10	7	11	6	9
19.	HCL Technologies	5	11	8	14	8	14	7	13	6	12
20.	Coal India Ltd.	3	12	3	12	0	11	7	14	7	17
21.	Indian Oil Corporation Ltd. (IOCL)	0	12	0	7	0	6	6	14	7	14
22.	National Thermal Power Corporation Ltd.	3	11	3	11	2	18	2	17	2	14
23.	Bajaj Financial Services	8	13	8	13	8	13	8	13	9	14
24.	Ultra Tech Cements	8	15	8	15	6	12	6	12	4	9
25.	Power Grid Corporation	4	8	4	9	4	12	4	12	4	11
26.	Sun Pharma Industries	3	9	3	10	3	10	3	8	3	8
27.	IndusInd Bank	3	10	3	10	3	9	3	11	3	9
28.	Titan Company	6	13	6	11	6	11	6	12	6	13
29.	Bajaj Auto	8	11	8	18	8	16	8	19	8	17
30.	Bharat Petroleum Corporation Limited	0	16	4	15	7	19	8	17	5	13
	Total	145	354	154	366	157	365	172	381	160	360
	Percentage (%)	41%		42.1%		43%		45.1%		44.4%	

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The above table shows that the number of Independent Directors have increased only slightly over the years. So, in 2015-16, the percentage of Independent Directors was 41%, which increased to 42.1% in 2016-17, 43% in 2017-18, 45% in 2018-19 and 44.4% in 2019-20 respectively.

However, in testing the hypothesis for difference from 2015-16 to 2019-20, the t-value is -0.80119, the p-value is 0.426291 and result is not significant.

So, we cannot reject the null hypothesis of no change in percentage of independent directors in India during this period.

An interesting observation is that from 2019 to 2020, for all public sector undertakings, the no. of independent directors was same (except Indian Oil Corporation for which it went up by 1 from 6 to 7 while for Bharat Petroleum, the number went down from 8 to **5.** So, overall for public sector undertakings, the total no. of independent directors went down by 2 and shows the laxity of these corporations in appointment of independent directors specially in a country as big as India where certainly there is no dearth of qualified people.

5. ANALYSIS OF INDEPENDENT DIRECTORS FOR UK:

Non-executive directors have traditionally been selected to the boards of UK-listed corporations. Their position is normally supervisory, and they are not expected to be directly involved in the company's day-to-day management. Non-executive directors have an impartial, independent, and positive perspective on the executive board's strategies and decisions. As a result, non-executive directors are often selected for their depth of expertise in a specific sector or industry, and they are required to play a valuable role in overseeing the executive board's performance, assessing acceptable levels of executive remuneration, and consulting on succession planning.

In recent years, the tradition of appointing non-executive directors to the board of directors has expanded in larger private corporations where there might be a conflict of interest between the directors and the owners. The position and expectations of private company directors are usually based on those of public company directors but are diluted to account for the private company status and the fact that they are not legally subject to the UK Corporate Governance Code. Cadbury Committee (1992) was possibly one of the first reports that set the foundation for the UK Corporate Governance Code. The contribution to the corporation could be significant: a non-executive director of an owner-managed company could provide a new and more impartial perspective to the board. If the company expands, the number of non-executive directors will continue to be increased. In the form of private equity or venture capital, it is common for the investor to gain protection for its investment by insisting on the right to name one or more non-executive directors to the board of the investee firm.

The United Kingdom's Corporate Governance Code provides a range of useful guidelines for protecting the accountability of those non-executive directors.

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According to the Code, a company's board of directors should recognize each non-executive director it finds to be autonomous in its annual report. The Code contains examples of what is called non-independence. For instance, a director who has been an employee of the company during the last five years; or has had a direct or indirect material business relationship with the company or its officers; or has received remuneration, rather than a director's fee, from a company's employee or pension scheme; or has close family ties with the company's advisers, directors, or senior employees; or holds cross directorships or has links with the company's advisers, directors, or senior employees; or Inclusion of such an individual as a non-executive would be in violation of the Code and would necessitate justification by the Board.

This section analyzes the FTSE100 index listed top 30 companies (by market capitalization) in the United Kingdom in March 2021. The data on directors and independent directors was obtained from annual reports of companies that were collected for the period 2016 to 2020. The data collection was aimed at whether they appoint adequate independent directors in their companies. The study results are as follows:

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Table 2: Analysis of Percentage of Independent Directors in FTSE 100 Index Listed 30 UK Companies, 2021

. o.	Name of the company	2016		2017		2018		2019		2020	
		Independent Directors	Total Directors	Independent Directors	Total Directors	Independent Directors	Total Directors	Independent Directors	Total Directors	Independent Directors	Total Directors
1.	Unilever	11	14	11	14	10	13	10	13	8	11
2.	BHP Group	11	12	11	12	9	10	10	11	1	12
3.	Royal Dutch Shell	9	12	10	13	9	12	9	12	10	13
4.	Rio Tinto	12	17	8	14	8	11	9	12	8	10
5.	AstraZeneca	9	12	7	10	9	12	9	12	11	14
6.	HSBC	18	22	17	21	15	18	11	14	12	15
7.	Diageo	9	12	10	13	8	11	8	11	8	11
8.	Glaxo Smith Kline (GSK)	12	15	10	13	10	13	9	12	10	13
9.	British Petroleum (BP)	11	16	10	15	9	14	8	12	9	13
10.	British American Tobacco	10	11	10	11	12	13	10	11	10	11
11.	London Stock Exchange	8	11	8	11	8	11	10	13	11	14
12.	Reckitt Benckiser (RB)	12	15	11	14	9	11	7	10	9	12
13.	Glencore	6	8	8	10	9	11	8	10	9	11
14.	Anglo American	8	12	6	10	8	12	8	12	8	12
15.	Prudential	10	17	10	16	10	16	10	16	10	16
16.	Vodafone	10	13	9	12	9	12	9	12	9	12
17.	RELX Group	9	10	9	10	9	11	9	11	9	11
18.	National Grid	10	13	9	12	10	13	9	12	9	12
19.	Barclays	10	14	10	14	11	15	12	16	9	13
20.	Lloyds Banking Group	9	14	9	14	9	13	9	13	9	13
21.	Compass Group	7	14	7	13	7	12	7	12	7	12
22.	CRH	8	12	8	12	8	11	9	13	8	12
23.	Flutter Entertainment	7	10	6	9	6	9	8	11	8	13
24.	NatWest Group	9	12	11	14	4	8	8	12	5	8
25.	Experian	6	12	6	10	6	10	6	12	6	9
26.	Ferguson	6	10	7	11	5	9	7	12	6	9
27.	Associated British Foods	6	10	6	9	6	10	6	9	6	8
28.	Antofagasta PLC	5	11	5	11	5	10	6	10	6	10
29.	Ashtead Group	5	10	4	9	4	9	4	7	5	8
30.	Tesco	12	14	9	11	9	11	11	13	12	14
	Total	266	385	247	338	251	361	256	366	247	352
	Percentage (%)	69.1%		73.1%		69.5%		69.9%		70.1%	

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The above table shows that the percentage of Independent Directors' have remained in the range of 70% over the years. So, in 2016, it was at 69.1% and remained in similar range at 73.1% in 2017, 69.5% in 2018, 69.9% in 2019 and 70.1% in 2020 respectively. The fact that the number itself is very high indicates that UK companies give importance to having more Independent Directors.

However, the rise from 2016 to 2020 is not significant and for the differences in means, the t-value is 1.38375, the p-value is .171737 and the result is not significant at even 10% level. So the null hypothesis 2 could not be rejected.

6. ANALYSIS OF INDEPENDENT DIRECTORS FOR USA:

Between 1950 and 2005, the structure of major public sector boards changed significantly toward independent directors, increasing from roughly 20% to 75%. Over time, the expectations for individuality grew more stringent. There is no compelling justification for this transition related to statistical data available. The explanations are two interconnected trends in the US political economy: first, the transition to shareholder valuation as the main corporate objective; and second, the increased informativeness of stock exchange prices. The overarching effect is to dedicate the company to optimizing shareholder equity as determined by stock market results. Independent directors are more important than insiders in this scenario. They have a lower level of commitment to management and its vision. Instead, they look to outside output signals and are less influenced by the internal outlook, which becomes less important as asset markets become more insightful.

Independent directors, on the other hand, can have valuable friction in the operation of control markets. Legal standards can also more easily mobilize independent directors to help deliver the public goods of more timely transparency (which increases stock market informativeness) and greater compliance with the rules. In the United States, autonomous directors have evolved into a complementary institution to a business economy centered on maximizing shareholder value. As a result, the proliferation of independent executives, as well as the related corporate governance model, should be assessed in light of this overarching vision of how to optimize social welfare.

The SEC website (www.sec.gov), the Sarbanes Oxley Act (2002) (www.soxlaw.com) and The NYSE Stock Exchange laws (www.nyse.com) are some of the key sources that describe the freedom of directors in the United States. According to the SEC-approved NYSE Corporate Governance Rules, listed firms must have independent directors. The laws continue with a more stringent concept of directors' freedom, as follows:

a) A Director does not have a material association with the listed firm, either personally or as a partner, shareholder, or office of a company-related entity.

b) A Director or any of his or her immediate family members should not be an employee or an executive officer, or should not have been employed or served as

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an executive officer, for at least three years after the conclusion of the work arrangement.

c) A Director or an immediate family member who receives more than US$ 100,000 per year in direct payments from the listed entity, rather than Director / Committee fees and pension, or any other deferred compensation for prior service, is not an individual until three years after he or she ceases to obtain such compensation.

d) A director or an immediate family member of such a director who is associated with or hired in a professional capacity by a company's current or former internal or external auditor is not autonomous until three years after the association, work, or auditing arrangement ends.

e) A Director or an immediate family member of such a Director who is serving as an executive officer of another company and all of the listed company's current executives serve on the company's pay committee is not considered "neutral" until three years after the completion of such service or the employment relationship.

f) A Director or an immediate family member of such a Director who is an executive officer of a company that makes or receives payments from the listed company for property or services in an amount that exceeds the greater of US$ 1 million or 2% of such other company's consolidated gross revenues in any single fiscal year is not considered "Independent" until three years after falling below such a threshold.

The Sarbanes-Oxley Act of 2002 (www.soxlaw.com) has additional provisions prohibiting Audit Committee members from becoming independent:

- Accepts every consultancy, advice, or other compensatory charges from the issuer; or
- Is an associate of the issuer or any subsidiary thereof.

This section analyzes the 30 USA Dow-Jones Companies, 2021 which were surveyed on whether they appoint adequate independent directors in their companies from 2016-2020. The data on directors and independent directors was obtained from annual reports of companies that were collected for the period 2016 to 2020 and from the SEC Filings (Edgar). The study results are as follows:

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Table 3: Analysis of Percentages of Independent Directors in USA: DOW 30 Companies, 2021

S. No.	Nam of the Company	2016		2017		2018		2019		2020	
		Independent Directors	Total Directors	Independent Directors	Total Directors	Independent Directors	Total Directors	Independent Directors	Total Directors	Independent Directors	Total Directors
1.	Apple	7	8	7	8	7	8	7	8	6	7
2.	Microsoft	10	11	12	14	12	17	12	12	12	12
3.	Visa	9	11	8	10	8	10	9	11	10	12
4.	JPMorgan Chase & Co.	9	12	10	13	9	12	8	11	18	20
5.	Johnson & Johnson	7	10	7	10	7	11	10	13	10	14
6.	Walmart	11	15	10	12	7	10	10	12	10	12
7.	United Health Group	10	13	11	14	9	12	10	13	9	12
8.	Procter & Gamble	9	11	10	13	10	13	10	13	10	13
9.	Walt Disney	10	11	10	11	9	10	9	10	9	10
10.	Home Depot	12	13	11	12	11	12	11	12	11	12
11.	Verizon Communications Inc.	12	13	11	12	8	9	10	11	8	9
12.	Intel Corporation	8	10	8	10	8	10	8	10	9	11
13.	Nike Inc.	9	12	9	12	9	12	9	12	10	13
14.	Merck & Co.	15	18	11	14	11	14	11	14	11	14
15.	Coca-Cola	11	12	11	12	11	13	11	12	11	13
16.	Salesforce.com Inc.	10	12	10	12	10	12	10	11	10	11
17.	Cisco	10	12	9	11	9	11	9	10	9	10
18.	Chevron	10	12	11	12	10	11	10	12	10	12
19.	McDonald’s	11	13	11	13	11	12	11	12	11	12
20.	Honeywell	11	12	11	12	11	12	11	12	11	12
21.	Amgen	11	12	13	14	11	12	11	12	11	12
22.	Boeing	11	12	12	15	11	13	8	10	8	10
23.	IBM	9	10	11	12	13	14	11	12	11	12
24.	Caterpillar	12	13	10	11	10	11	10	11	10	11
25.	Goldman Sachs	10	13	10	11	11	12	12	14	11	12
26.	American Express	13	14	15	16	10	11	15	16	15	16
27.	3M	11	12	11	12	11	12	11	12	11	12
28.	Dow	12	14	10	11	10	11	10	11	10	11
29.	Walgreens Boots Alliance	9	10	10	11	11	12	11	12	11	12
30.	Travelers Companies Inc.	12	13	10	11	11	12	10	11	10	11
	Total	311	356	310	361	297	351	305	354	313	350
	Percentage (%)	87.4%		85.9%		84.6%		86.2%		89.4%	

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The above table depicts that the number of Independent Director's appointment has increased from 2016 to 2020. While in 2016, the percentage of independent directors was at 87.4%, it reached 85.9% in 2017, 84.6% in 2018, 86.2% in 2019, and 89.4% in 2020 respectively. However, the average percentage of close to 90% shows that overall US companies gave importance to the contribution of Independent Directors.

The difference in means from 2016 to 2020 shows significance at 10% level (as t value is -0.13559 while p value is .0892618) though it is not significant at 1% level or 5% level.

The next section explains the comparative analysis of the Independent Directors percentage in the selected three countries companies.

7. COMPARATIVE ANALYSIS OF INDEPENDENT DIRECTORS FOR INDIA, UK AND USA:

This section presents the comparative analysis of percentage of Independent Directors in the selected three countries i.e. India, UK, USA. The study results are as follows:

Table 4: Comparative analysis of Percentage of Independent Directors in 3 countries

S. No.	Name of the Country	Percentage of Independent Directors in Total Directors year wise				
	UK, USA	2016	2017	2018	2019	2020
	India	(2015-16)	(2016-17)	(2017-18)	(2018-19)	(2019-20)
1.	India	40.0%	41.5%	42.5%	44.8%	44.7%
2.	United Kingdom (UK)	69.1%	73.1%	69.5%	69.9%	70.1%
3.	United States of America (USA)	87.4%	85.9%	84.6%	86.2%	89.4%

In all three countries, the Independent directors are appointed as per their respective company laws and related regulations. But when compared to UK and USA, India has a much lesser proportion of Independent Directors. In 2016, Indian companies only had 40% independent directors which is very less compared to corresponding figures of 69.1% in UK companies and 87.4% in U.S companies. Similarly, in 2017 Indian companies only had 41.5% independent directors which is very less compared to corresponding figures of 73.1% in UK companies and 85.9% in U.S. companies. Similarly, in 2018 Indian companies only had 42.5% independent directors which is very less compared to corresponding figures of 69.5% in UK companies and 84.6% in U.S. companies. Similarly, in 2019 Indian companies only had 44.8% independent directors which is very less compared to corresponding figures of 69.9% in UK companies and 86.2% in U.S. companies. Finally, in 2020 Indian companies only had 44.7% independent directors which is very less compared to corresponding figures of 70.1% in UK companies and 89.4% in U.S. companies.

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So, the percentage in U.S. companies (almost 90%) was significantly higher than percentage in U.K. companies (around 70%) which was significantly higher than the percentage in Indian companies. The results of differences in these percentages across countries are significant at 1% level and the null hypothesis of no difference in the 3 countries is rejected as the percentage of Independent directors in Indian companies is significantly less compared to UK and US companies. Even the differences of UK companies with US companies was significant at 1% level. Hence, primarily Indian companies but even U.K. companies have scope to increase the percentage of independent directors, which can help control frauds and safeguard the stakeholders' interests.

8. CONCLUSION AND RECOMMENDATION

As regards the first three hypothesis, for India and UK, the null hypothesis of no change in no. and proportion of independent directors over the years could not be rejected. However, for US companies, the increase in percentage of directors over the years was significant at 10% level (though not at 1% level or even at 5% level).

As regards the fourth hypothesis, results indicated that number and proportion of independent directors in Indian companies is significantly lesser compared to UK companies and U.S. companies, which is understandable given that they are far more advanced countries and economies with better corporate governance mechanisms.

An interesting observation is that for India, the total number of independent directors for public sector undertaking has decreased in 2020 as compared to 2019, which is a cause for concern. From 2019 to 2020, for all public sector undertakings, the no. of independent directors was same (except Indian Oil Corporation for which it went up by 1 from 6 to 7) but for Bharat Petroleum, the number went down from 8 to 5. So, overall for public sector undertakings, the total no. of independent directors went down by 2 and shows the laxity of these corporations in appointment of independent directors specially in a country as big as India where certainly there is no dearth of qualified people.

The theoretical foundations of independent directors and the rationale for their emergence in corporate systems are inextricably linked to the manager-shareholder agency problem in those systems (Jensen and Meckling, 1976). A review of the empirical studies and the anecdotal evidence and the number of frauds that keep appearing in media does not instill confidence in the effectiveness of independent director functioning in all the three nations.

What is required therefore is an overhaul of the corporate governance norms so as to embolden the independent directors. While the study also dealt with the effectiveness of independent directors from different systems of the U.S. and the U.K. and India, it also sought to provide general guidance on the types of issues that may arise in the implementation of the concept in other corporate systems.

This study and more generally the research on independent directors on corporate boards is an important tool, not only for making an academic contribution, but also to provide the basis for change, for a more effective board and to ensure better decision-making in the corporate world.

The findings of this study are important for regulators, policy makers and the corporations in

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general. If companies want to have better functioning boards, then the importance of independent directors cannot be over-stressed. This study also extends the literature on international comparison of corporate governance practices of countries, specifically the independent directors at workplace.

Of course, further research will help verify whether the conclusions in this study are universal across all insider systems or whether they are due to factors that specifically at a particular country.

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