INDEPENDENT DIRECTORS UNDER THE INDIAN COMPANIES ACT: COST AND MANAGEMENT ACCOUNTANTS VALUE ADDITION TO STAKEHOLDERS

Abstract

The Companies Act, 2013 elevated Independent Directors (IDs) as key guardians of governance and stakeholder trust. This article argues that Cost and Management Accountants (CMAs), with their expertise in cost management, risk oversight, Analytical skills and ESG integration, are uniquely suited for ID roles. Sectoral case studies show CMAs driving efficiency, transparency, and sustainable value creation, positioning them as vital assets to modern corporate boards.

CMA Venkata Ramesh Tumu
Practicing Cost Accountant and Virtual CFO
Thane
ramesh.tv@gmail.com

CMA Malathi Sriram
Virtual CFO
Thane
malathisriraam@gmail.com

The Indian Companies Act, 2013 introduced a paradigm shift in corporate governance by mandating the appointment of Independent Directors (IDs) on the boards of listed and certain public companies. This article explores the statutory framework, the multifaceted value addition of IDs to diverse stakeholders, and argues that qualified Cost and Management Accountants from the Institute of Cost Accountants of India (ICMAI) are uniquely positioned to excel as Independent Directors. Their expertise in cost management, financial analysis, risk oversight, and compliance equips them to bridge governance with sustainable value creation.

Introduction

Corporate governance in India has evolved from a compliance-driven exercise to a strategic imperative. The Companies Act, 2013, reinforced by SEBI's Listing Obligations and Disclosure Requirements (LODR), institutionalized the role of Independent Directors to safeguard stakeholder interests. Independent Directors are entrusted with the responsibility of bringing impartial perspective, sound professional judgment and upholding ethical standards for all boardroom deliberations."This article examines:

- The statutory requirements for IDs under the Companies Act.
- The value addition IDs provide to shareholders, employees, creditors, regulators and society.

- The suitability of Cost and Management Accountants as IDs, given their professional training and governance orientation.

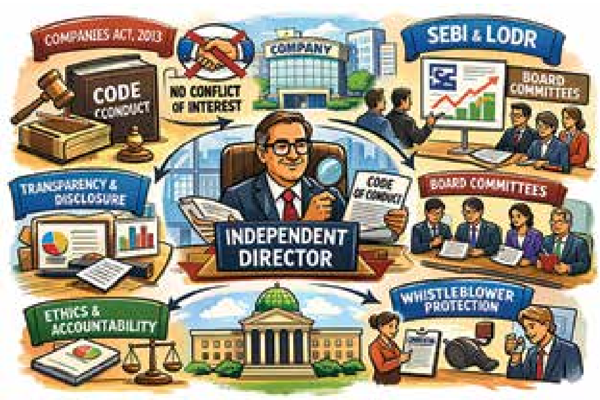
Statutory Framework for Independent Directors

1. Companies Act, 2013 Provisions

- **Section 149(4):** Mandates at least one-third of the board of listed companies to be Independent Directors.
- **Schedule IV:** Lays down the Code for Independent Directors, emphasizing integrity, impartiality, and accountability.
- **Eligibility:** IDs must not have pecuniary relationships with the company, apart from sitting fees and profit-related commission if any.

2. SEBI LODR Regulations

- Strengthen disclosure norms.
- Require IDs to chair audit, nomination and remuneration committees.
- Mandate performance evaluation of IDs.



Value Addition by Independent Directors

Independent Directors contribute to governance in ways that extend beyond compliance. Their value creation can be analyzed stakeholder-wise:

1. Shareholders

- **Protection of Minority Interests:** IDs prevent dominance by promoters.
- **Transparency:** Ensure fair disclosures in financial statements.
- **Long-Term Value:** Advocate sustainable strategies over short-term gains.

2. Employees

- **Ethical Oversight:** Safeguard against exploitative practices.
- **Whistleblower Protection:** IDs often chair committees that handle grievances.
- **Culture Building:** Promote fairness and meritocracy.

3. Creditors and Investors

- **Risk Management:** IDs scrutinize leverage, liquidity, and solvency risks.
- **Due Diligence:** Ensure integrity in fundraising and debt issuance.
- **Trust Building:** Enhance credibility with banks and institutional investors.

4. Regulators

- **Compliance Assurance:** IDs oversee adherence to statutory norms.
- **Bridge Role:** Act as intermediaries between regulators and management.
- **Policy Influence:** IDs often shape governance practices that align with national priorities.

5. Society and Community

- **ESG Advocacy:** IDs push for environmental, social, and governance integration.
- **Corporate Citizenship:** Encourage CSR initiatives aligned with community needs.
- **Ethical Standards:** Reinforce accountability to society at large.

Cost and Management Accountants as Independent Directors

1. Professional Competence

Cost and Management Accountants are trained in:

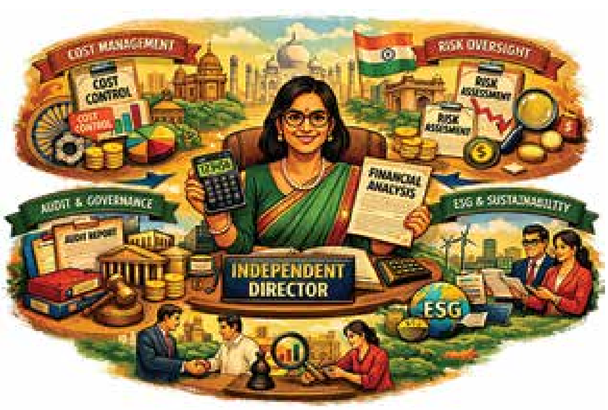
- **Strategic Cost Management** – vital for efficiency and competitiveness.
- **Financial Analysis** – interpreting complex data for decision-making.
- **Risk Assessment** – identifying operational and financial risks.
- **Compliance & Governance** – expertise in statutory frameworks.

2. Alignment with ID Responsibilities

- **Audit Committee Leadership:** CMAs excel in financial scrutiny.
- **Risk Oversight:** Their background in enterprise risk management aligns with board needs.
- **ESG Integration:** CMAs' exposure to sustainability reporting enhances governance.
- **Due Diligence:** Their analytical rigor strengthens M&A evaluations.

3. Comparative Advantage

Unlike generalist professionals, Cost and Management Accountants combine **financial acumen , operational proficiency** and governance orientation With these breadth of skills CMAs as Independent Directors are well posited to challenge management assumptions, strengthen board deliberations and provide insights to balance short-term profitability need with long-term sustainabile solutions.



Case Studies and Illustrations

1. Healthcare Sector

Independent Directors with CMA background have guided hospitals in cost optimization while ensuring patient safety.

They have introduced **activity-based costing models** to identify inefficiencies in clinical operations and reduce wastage. Additionally, their oversight has ensured **transparent pricing structures**, balancing affordability for patients with financial sustainability for the institution

2. Manufacturing Sector

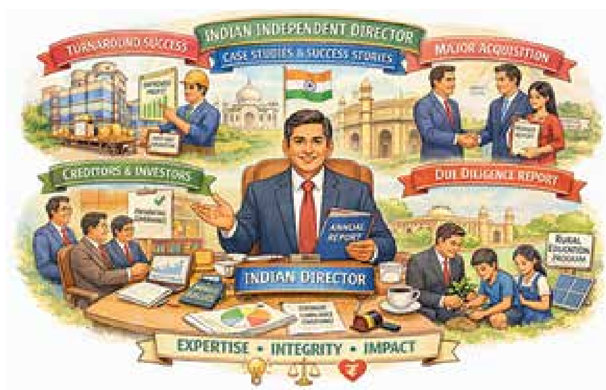
CMAs as Independent Directors having the background of cost accounting and management accounting have influenced capital allocation, balancing shareholder returns with long-term R&D investment.

They have applied variance analysis and lean costing techniques to streamline production processes and improve margins. Moreover, their governance role has helped align supply chain strategies with ESG goals, ensuring compliance with environmental standards while maintaining competitiveness.

3. BFSI Sector

CMAs as Independent Directors have strengthened risk committees, ensuring compliance with RBI and SEBI norms.

They have contributed to **stress testing frameworks** that evaluate resilience under adverse market conditions. In addition, their expertise in **cost-to-income ratio analysis** has guided banks and NBFCs toward sustainable profitability while safeguarding depositor interests.



Challenges and Expectations

1. Challenges

- **Independence vs. Familiarity:** Maintaining objectivity despite industry networks.

- **Time Commitment:** IDs must devote significant time to board duties.
- **Continuous Learning:** Keeping pace with evolving ESG and AI governance.

2. Expectations

- **Ethical Leadership:** Uphold integrity in all decisions.
- **Stakeholder Balance:** Navigate conflicting interests.
- **Strategic Insight:** Contribute beyond compliance to value creation.

Policy Implications

- **Regulatory Recognition:** SEBI and MCA could highlight CMAs being strong candidates for ID roles.
- **Awareness Campaigns:** Encourage listed companies to consider CMAs for Independent Director roles, highlighting their dual expertise in finance and operations.
- **Continuous Capacity Building:** ICMAI should expand trainings on board governance.
- **Global Benchmarking:** Align Indian ID practices with OECD principles of corporate governance.

Conclusion

Recognizing CMAs in this capacity will strengthen corporate boards, enhance stakeholder trust and align India's governance framework with global best practices.. Their role transcends compliance adding tangible value to shareholders, employees, creditors, regulators, and society. CMAs, with their unique blend of financial, operational and governance expertise are exceptionally suited to serve as Independent Directors. By combining analytical rigor with ethical oversight, CMAs can transform boards into engines of sustainable value creation. MA

References (Indicative)

1. *Companies Act, 2013 – Section 149 & Schedule IV.*
2. *SEBI (LODR) Regulations, 2015.*
3. *OECD Principles of Corporate Governance.*
4. *ICMAI publications on governance and sustainability.*
5. *Academic literature on board independence and stakeholder theory.*

At the Helm!!!

CMA (Dr.) Ranjay Choudhary

Heartiest Congratulations to CMA (Dr.) Ranjay Choudhary, who has joined IRFC as Director (Finance) on 30.06.2026.

He is a finance professional with over 29 years of multifaceted experience spanning the full spectrum of finance and accounts, loan appraisal, lending policy, corporate financial management, treasury management, fund raising and implementation of Government of India policy initiatives in Central Public Sector Enterprises. He has held key roles across reputed organisations including Power Finance Corporation Limited (PFC), NTPC, Food Corporation of India (FCI).

Dr. Choudhary holds a Bachelor of Commerce (Honours) and a Master of Commerce from Ranchi University, Ranchi. He is a qualified Cost Accountant and holds a Doctor of Philosophy (PhD) in Finance from Ranchi University. Prior to his appointment to the Board, Dr. Choudhary was serving as Chief General Manager, Entity Appraisal, at PFC. His areas of expertise also include RBI regulatory compliance, tariff order analysis, borrower rating, financial concurrence of projects and stressed asset resolution. He also holds position of Secretary of Power Foundation of India, an autonomous society of CPSUs under Ministry of Power.

We wish CMA (Dr.) Ranjay Choudhary the very best for all his future endeavours