Proficiency of independent directors: an Indian corporate governance perspective

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Abstract
Purpose – Independent directors (IDs) in India are required to qualify for the online proficiency self-assessment test to acquire or retain their position on the corporate boards. The purpose of this paper was to examine the perceived positive and negative aspects of the new mandate for the overall quality of corporate boards in India.

Design/methodology/approach – This study used a qualitative methodology and applied the interpretative phenomenological analysis approach. Data was collected from board members using semi-structured interviews.

Findings – This study revealed the positive and negative perceived aspects of the mandatory policy prescription of proficiency test for IDs. It was found that the participants emphasized training and mentoring programs for the IDs.

Practical implications – Drawing upon the actual board experiences of the participants, this study has the potential to assist policymakers in making regulations that are more effective in enhancing the quality of corporate boards. The example of action taken as well as the criticism or positive aspects pointed out can generate interest in other legislators.

Originality/value – The concept of proficiency test for IDs is unique to India. A review of literature did not reveal the existence of any regulatory provisions for a mandatory uniform test for examining the proficiency of IDs, in any corporate law jurisdiction apart from India.

Keywords Independent directors, Resource dependence theory, Corporate governance, Agency theory, Boards of directors

1. Introduction
The role of board of directors in improving corporate governance has assumed an important place in the practitioner and academic deliberations on good governance practices, in recent years. Many governance reforms have been introduced to ensure that boards of directors are effective in their task of governance (Gull et al., 2022; Mumu et al., 2021). Corporate governance codes in many countries, including both developed and developing nations call for more independent directors (IDs) on boards (Salehi et al., 2023; Arianpoor and Efazati, 2023). Governance reforms in recent years have increasingly focused on the role and responsibility of IDs to ensure effective governance in the companies (Mihail and Dumitrescu, 2021; Salehi et al., 2020; Bhagat and Bolton, 2019) and for the protection of

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shareholders’ interests (Grosman et al., 2019). IDs perform a monitoring role in corporate boardrooms and contribute to objective, unbiased and transparent decision-making (Saravanan et al., 2022). IDs are believed to improve the integrity of financial reporting by the companies and are linked with a lesser possibility of accounting fraud (Nasir et al., 2019).

Along with the independence of the boards, there has been an ongoing discussion about the credentials and competence of IDs. The board must comprise directors who possess the appropriate combination of skills to effectively fulfill their duties and responsibilities. Researchers have emphasized that IDs must possess vocational expertise and practical experience (Ullah et al., 2022; Liang et al., 2020). Dube and Pakhia (2019) underscored the significance of personal attributes in enabling IDs to carry out their roles efficiently. Grove and Clouse (2017) put forth a set of guidelines for independent and competent directors, which include possessing a diverse range of skills and expertise. The Chinese Government has stipulated that IDs must possess a range of skills, including familiarity with company operations, an understanding of capital markets and knowledge of law and economics. In situations where the supply of director candidates from the industry is insufficient and growing at a sluggish pace, organizations seek out other qualified candidates (Pang et al., 2020). Al-Saidi (2021) suggested that government regulators should place greater emphasis on board independence and provide more comprehensive information regarding their qualifications and nomination processes. The challenge, however, is that although some emerging economies possess a surplus of unskilled labor, there remains a scarcity of managerial talent (Giannetti et al., 2015). Fan et al. (2020) also highlighted the shortage of qualified IDs to take up board positions.

In the previous two decades, the significance of emerging markets in the global economy has experienced a notable increase as they have been swiftly integrating themselves into the global trade and finance networks. Coinciding with these developments, there has been a substantial expansion in research on corporate governance in emerging markets, especially in Asia, accompanied by an enhanced recognition of its global significance (Ararat et al., 2021). The research setting for this paper is India, as it is one of the fastest growing emerging markets. Also, India has introduced several governance reforms in the past decade (Guha et al., 2019). The Companies Act in India recognizes the pivotal role of IDs (Black et al., 2019) and mandates a minimum proportion, that is, at least one-third of the total board strength to comprise IDs on the corporate boards (Kapoor and Goel, 2019). The definition of IDs, according to the Indian Companies Act 2013, says that an “independent director is a director who in the opinion of the Board, is a person of integrity and possesses relevant expertise and experience”. The definition does not mention any type of qualification or experience to be possessed by the person before appointment to be able to discharge the responsibilities of the director effectively. This might encourage companies to appoint persons who fulfill the formal criterion of independence but who might not possess knowledge about the business, its legal environment or corporate governance norms that they should ensure are complied with. In India, controlling shareholders tend to appoint IDs who are their friends or acquaintances, whom they trust to support their decisions on the board. In some cases, IDs were appointed based on their political positions (Hu et al., 2020). Such directors cannot be expected to discipline the controlling shareholder.

In a further endeavor to enhance the standards of corporate governance in India and to strengthen the institution of IDs, the Indian Government notified new rules in 2019. According to the new framework, an individual willing to be appointed as an ID must fulfill two criteria – first, find a place on the databank of IDs. Second, they must qualify for the “online proficiency self-assessment test” (hereafter referred to as “the proficiency test”) to get into or retain their position as IDs on the Boards of companies within two years of being
added to the databank. The motivation behind the unique concept of proficiency test was to strengthen the institution of IDs and to enhance its effectiveness by creating a pool of skilled professionals to assume the role of IDs. The objective of creating the databank was to impanel the existing directors and to create an eco-system of professionals looking for opportunities and companies searching for skilled IDs. This novel and unique governance policy of assessing the proficiency of IDs through a mandatory test has been the subject of discussion and debate in the Indian corporate sector.

Despite its emergence, empirical investigations examining the “proficiency test” remain scarce in the existing literature. To address this gap, the current paper used interpretative phenomenological analysis (IPA) as a qualitative research approach that explored the perceived positive and negative aspects of the proficiency test for the overall quality of corporate boards in India. IPA has gained prominence as a robust and insightful methodology for exploring individuals’ lived experiences in various contexts (Smith et al., 2009). In the domain of corporate governance, IPA presents a valuable lens through which to delve into the perceptions, experiences and interpretations of corporate board members, particularly IDs, regarding proficiency tests. Through IPA, this study seeks to uncover the multifaceted dimensions surrounding proficiency tests as experienced and understood by IDs operating within Indian listed companies. By examining how Indian legislators are trying to mitigate the problems of hiring IDs and the lack of skills needed for the position, the paper contributes to the subject area and body of knowledge in corporate governance. This research makes a pioneering effort in unravelling the unexplored terrain of proficiency tests for IDs within Indian listed companies. The distinctiveness of this study lies in its comprehensive examination of the perceived positive and negative dimensions of proficiency tests, shedding light on their impact on the overall quality and effectiveness of corporate boards in India. This study is specific to India, but the innovative exploration of proficiency tests extends beyond the immediate purview of Indian corporate governance, carrying implications for global corporate practices. The insights derived from this study could potentially serve as a blueprint for other countries grappling with similar governance reform initiatives aimed to ensure that individuals are proficient in certain areas of governance and possess the necessary skill sets that will enable them to sit on corporate boards.

The paper is organized as follows: Section 2 elucidates the policy framework in India, and Sections 3 and 4, respectively, present the theoretical background and literature review. Section 5 explains the methodology, Section 6 presents the findings and Section 7 comprises the discussion and implications. The last section covers the conclusion and scope of future research.

2. Policy framework in India
The Indian Company law regime has recognized that the presence of IDs on the Board of a company would improve its corporate governance. It requires the listed corporate entities to have at least one-third of the total board strength to comprise IDs. The law prescribes various criteria for the independence of directors. In furtherance of its agenda to improve the quality of corporate governance, the Indian Government in 2019 mandated that IDs will have to qualify for the proficiency test to get into or retain their position as IDs on the Boards of companies. According to the new framework, an individual willing to be appointed as an ID has to fulfill two criteria – first, find a place on the databank of IDs. Second, they have to qualify for the proficiency test within two years of being added to the databank.

Indian Government relaxed the norms for the proficiency test subsequently. Currently, an individual whose name is included in the databank of IDs can pass the test within two
years from the date of inclusion of his/her name in the databank. The criterion for passing the test is 50%. Specific exemptions have been provided to certain categories of individuals. Now, an individual shall not be required to pass the proficiency test when he has served as director or key managerial personnel in a company for a period of at least three years. The rules also provide exemption to senior government officials in the pay scale of Director or equivalent or above in any ministry or department of the Central or State Government, experienced in matters relating to commerce, corporate affairs, finance, industry or public enterprises. The exemption is also available to professionals practicing as an advocate of a court or a chartered accountant or a company secretary or a cost accountant. The test is based on all the relevant topics for the functioning of an ID, such as company law, securities laws, corporate governance, basic accountancy, financial ratios and corporate social responsibility.

3. **Theoretical background**

Researchers have used various well-developed theoretical perspectives to help them explore the issues of corporate governance. These theories include – agency theory, stewardship theory and resource dependence theory. However, corporate governance research is primarily dominated by agency theory and its emphasis on board monitoring tasks (Salehi et al., 2022; Haldar et al., 2018). According to the agency theory, most of the governance codes worldwide focus on board composition and structure (Vig and Datta, 2018) and emphasize non-executive/outsider directors’ independence as an apposite and adequate proxy for the effectiveness of the corporate boards (Lartey et al., 2020). The analysis of the literature revealed that most of the scholars have cited Jensen and Meckling (1976) and Fama and Jensen (1983) in their corporate governance research to study agency problems in governance.

Following the agency theory, agents are opportunistic and motivated to take profit from the information asymmetry between them and their principals. The monitoring task entrusted to the IDs includes a set of different activities, such as the control of firm performance and the monitoring of the firm’s activities (Bonini et al., 2022; Aluchna et al., 2020). Agency scholars argue that non-executive IDs are usually expert monitors, as poor performance in this area may damage their reputation and future careers. Agency scholars have focused more on the board structure, composition and demography, specifically the presence of non-executive IDs on the boards. The competencies of these directors have not been emphasized (Zattoni and Cuomo, 2010). However, investors and regulators still consider the appropriate board composition to be important, as these characteristics are visible from a distance and form the essential conditions for board effectiveness (Carter and Lorsch, 2003).

Another important theory in the corporate governance literature is the resource-dependency theory. It asserts that the board acts as a link between the company and the external resources (Ng and Khodakarami, 2022; Al-Matari, 2020). Thus, directors are one of the several resources (Oliveira et al., 2022) that contribute to the firm performance such as economic capital (Burt, 1983), a network of suppliers (Banerji and Sambharya, 1996), customers (Frooman, 1999) and other significant stakeholders (Freeman and Evan, 1990). Based on this theory, many studies focused on the board structure, composition and personal attributes of the directors, such as qualifications, experience, competencies, network connections and personal characteristics and the influence of such attributes on the company’s value and performance (Ferreira, 2010; Berezinets et al., 2016). Hillman and Dalziel (2003) were among the first ones to study the board characteristics from a resource perspective and to mention the concept of “the capital of members of the board of directors,”
which includes human capital and social capital. Their study showed that the directors’ human capital such as knowledge, skills, experience and education is critical for the fulfilment of their role of monitoring and providing access to resources. They also discussed the social capital of the directors, comprising their social connections and networks with the external environment, that helps to access valuable resources and create safeguards against adverse external changes (Riana, 2008).

Through the lenses of agency theory and resource dependence theory, it is evident that IDs have an important role to play in the overall corporate governance of any company. According to these theories, qualified directors are more accomplished in enhancing the efficiency of the organization through their precise acumen in managing operations and attaining high-quality work (Al-Matari, 2020). Theoretical foundations of IDs are closely linked to their main role of monitoring and advising. IDs are also vital for a company, as they provide access to outside resources through their connections and linkages.

4. Literature review
An independent board is an essential requisite for good corporate governance (Vig, 2023; Aluchna et al., 2020; Singla and Singh, 2019). As non-executive (outsider) directors are independent of the CEO and the promoters, they are expected to monitor the management better than the inside directors (Salehi et al., 2023; Saravanan et al., 2022) and reduce potential agency conflicts (Vig and Datta, 2021). IDs bring several benefits to the business – widens the strategic outlook of boards, improves a company’s reputation and makes the board more aware of the external environment and public expectations (Clarke, 2004). Several scholars investigated the relationship between board capital and firm performance (Yousaf et al., 2022), innovation (Wang, 2022) and appreciation in shareholder wealth (Cavaco et al., 2017).

Given the important role played by IDs, there has been widespread concern about their proficiency, qualifications, experience and expertise (Ullah et al., 2022; Amorelli and García-Sánchez, 2020). Regulators in some countries recommended that directors should possess knowledge and expertise in areas of business management, accounting, finance, public policy and technology (Petra, 2005). To be effective, directors should possess both – functional and firm-specific knowledge (Masulis and Zhang, 2019). The knowledge of directors should not only be in finance and accounting (Mousavi et al., 2022; Abubakar et al., 2018) but in other areas as well, like law, technology and strategic management (Aldhamari et al., 2020) and international orientation (Dobija et al., 2023). Competencies and firm-specific skills of IDs are important, as, without an understanding of the firm and its business, it shall not be possible for directors to contribute to decision-making and monitoring (Ferreira, 2010). IDs with accounting expertise are expected to be better able to monitor management, because of well-developed and knowledge-based skills with which they can exhaustively evaluate managers’ actions and manipulations (Krishnan and Visvanathan, 2009). IDs with financial expertise have turned out to be more effective in mitigating earnings manipulation relative to non-financial experts (Carcello et al., 2006). Attitude, motivation and commitment are also significant factors in board effectiveness (Coulson-Thomas, 2007). Directors are also required to be team players and their attributes must complement the qualities of other board members.

Wagner (2011) examined the concept of board independence and competence as two separate, yet interconnected elements of board efficacy. Proficient directors contribute to the enhancement of shareholder value because of their enhanced knowledge regarding the caliber of projects. Although the CEO prioritizes shareholder value, he also desires the loyalty of the board in terms of approving projects that yield personal advantages for him. The acquisition of
loyalty is inherently easier when the board lacks competence (Wagner, 2011). The potential for IDs to display loyalty toward the CEO is conceivably quite elevated in India, where approximately 33% of boards are characterized by CEO duality (where the roles of CEO and chairman are held by the same individual) and 50% have company executives fulfilling the role of chairman (Haldar et al., 2018). Within the Indian context, there exists a preference for engaging external directors with company promoters who possess a “comfort level” or are considered “well-known personalities” who can augment the board’s credibility. This phenomenon holds significant implications for governance. Thus, the role of competent IDs is even more important in controlling conflicts of interest.

The review of the literature does not reveal the existence of any regulatory provisions for a uniform test for examining the proficiency of outsider directors, in any other corporate law jurisdiction. The mandatory provision of a proficiency test for IDs raises the question of whether all the qualities, qualifications, competencies and knowledge vouched for by governance scholars can be assessed through this single test. Thus, by examining this new phenomenon, this study makes a unique contribution and adds to the corporate governance literature.

4.1 Research questions
Based on the preceding discussion, three research questions for this study are:

*RQ1*. What are the perceived positive aspects of the proficiency test?
*RQ2*. What are the perceived negative aspects of the proficiency test?
*RQ3*. Which are the possible alternatives to the proficiency test?

5. Research methodology
This study used a qualitative methodology to explore the efficacy of policy prescription in corporate governance and understand the phenomenon of proficiency tests for IDs. This approach was chosen because of the absence of prior studies on this topic, aiming to gain in-depth insights and understand the lived experiences of research participants (McNulty et al., 2013). This study follows the IPA approach. As a qualitative research approach, IPA allows the researcher to understand the lived experiences of research participants (Smith et al., 2009; Alase, 2017). IPA offers a unique platform to unravel the subjective realities and underlying meanings attached to the implementation of proficiency tests. Moreover, given the absence of prior studies on the topic of proficiency tests for IDs, IPA provides an ideal framework to elicit rich, context-specific insights.

The participants for this study comprised individuals holding the position of IDs on the corporate boards in Indian listed companies, as they had experience in corporate governance practices. The participant directors were selected through purposive sampling (Kerlinger, 1986) and snowballing. The IDs with more than three years of experience on the boards were selected, as they were exempted from the proficiency test. The IDs with less than three years’ experience were not included in the study, as they were likely to have a perceived bias in the responses depending on how they performed in the test. As the researcher did not have access to the proficiency test scores of the IDs, hence, this bias could not have been controlled. Initially, 12 directors were selected for interviews, which expanded through referrals, ultimately resulting in 37 participants. (Silverman and Marvasti, 2008). The interviews were discontinued after reaching a saturation point of 37 participants, as it was realized that extending the process beyond 37 participants would not provide any new
insight on the subject (Merriam, 1998). Though there were 37 participants, 21 of them held multiple directorship positions in different companies. Therefore, this study was able to capture the insights of directors based on their experiences in 59 companies.

Primary data was collected through semi-structured interviews with corporate board members serving as IDs in Indian companies. This interview technique helps to control the direction of the discussion while allowing flexibility for open-ended questions, enabling the collection of personal insights without being confined to fixed-response questions (Arksey and Knight, 1999). The interviews were conducted telephonically because of the COVID-19 protocol, as the data was collected during the calendar year 2021 when India was witnessing the pandemic. The participants were assured that their names would not be used to maintain their confidentiality. The duration of interviews ranged between 1 h and 1.5 h. The interviews were simultaneously transcribed in written form. Interviews started with demographic and board experience inquiries, followed by semi-structured questions aligned with the research objectives. The transcripts were analyzed using thematic analysis to identify the emerging themes from the interviews (Rebeiz, 2018). Following Patton (2002), the transcribed data was first coded using the key themes related to the main research questions of this study.

6. Analysis and findings
Three themes emerged from the analysis of the interviews conducted using the IPA technique. Each of these is discussed in this section. The conceptual model developed based on analysis is presented in Figure 1. The participants were asked their views on the implementation of the mandatory proficiency test for directors. They were asked whether and how the proficiency test would help in improving the efficiency of directors and the overall governance quality of corporate boards. Whether the experience and competence of directors can be assessed through the proficiency test?

6.1 Theme 1 – perceived positive aspects of proficiency test
As discussed above, previous studies agree with the need for professionally qualified and financially literate IDs for the efficient functioning of the boards, but nothing is known about such proficiency tests for evaluating the qualification of directors. The initiative of the Indian policymakers to create a databank of IDs and to conduct a proficiency test was appreciated by some participants. The aspects of the proficiency test that were perceived to be positive by the participants were the availability of qualified directors, familiarity with law and professionalism.

6.1.1 Availability of qualified directors. Most of the participants observed that the number of IDs required in the corporate sector has increased tremendously. The duties and the liabilities of the directors under company law also continue to increase. Moreover, it is not easy for the companies to identify qualified IDs because of the limited availability of such directors and then to expect them to commit to the governance role. The existence of a databank would make it convenient for the companies to select a suitable candidate for the position of ID based on their expertise and qualifications and the needs of the company. On the other hand, it would also increase the opportunities for individuals desirous to assume the role of IDs. The following quotes are examples of how the directors think that the proficiency test and databank will help the corporate sector:
Figure 1. Conceptual framework

Source: Created by author
Participant 1: “The companies will have a databank of independent directors which will help them to identify qualified candidates. It is a welcome move for improving the quality of corporate governance standards in India”.

Participant 10: “It will help to overcome the shortage of good independent directors”.

Participants highlighted that companies appoint persons who fulfil the formal criterion of independence but who might not be suitable for the position of a board member. Some participants observed that the appointment of IDs is made by controlling shareholders, who are generally friends or relatives of the founders of the company. In some cases, it was also noticed that IDs were appointed based on their political positions. Thus, these directors only play an inactive role on the corporate boards. One of the participants stated:

Participant 17: “Independent Directors are generally appointed by the promoters. Policymakers should understand that these directors will not go against the promoters in board decisions”.

Some participants expected that because of the requirement of the proficiency test, the promoters would no longer be able to appoint their friends and relatives as board members. Other participants commented that the proficiency test might assure the companies that the individuals in the databank would be familiar with the roles and responsibilities of IDs before taking up such positions on corporate boards:

Participant 26: “Proficiency test can ensure to some extent that non-qualified persons are not appointed on boards”.

6.1.2 Familiarity with law and accounting concepts. Passing the mandatory test might ensure that the person has reasonable competence and familiarity with corporate laws and accounting concepts to discharge the responsibilities of an ID. Such a person also cannot plead ignorance if any irregularities take place in the future on the Board. Thus, such IDs will be more cautious in the discharge of their duties and less prone to be influenced by the insiders on the Board. It can be expected that it will help in bringing more vigilance and accountability on the part of IDs:

Participant 19: “An independent director who has qualified for the test, will be familiar with the applicable company and securities laws. He/she will not be able to deny their responsibility taking the excuse of ignorance”.

6.1.3 Professionalism. Regulation provides an exemption to certain professionals from taking the proficiency test to get into or retain their positions as IDs in companies. This exemption is available to professionals who have been in practice as an advocate of a court, a chartered accountant, a company secretary or a cost accountant:

Respondent 2: “The decision to give exemption from proficiency test and allow chartered accountants, company secretaries, and advocates with more than 10 years’ experience, to be appointed as independent directors is a welcome step. It will encourage more professionals to take up director positions”.

Respondent 7: “Exemption will help the companies to engage experienced professionals who are best placed to serve as independent directors, based on their expertise and experience”.

6.2 Theme 2 – perceived negative aspects of proficiency test
From the information shared by the participants, it was observed that the participants’ perception of the proficiency test was largely negative. Participants explained that the test
could not measure or ensure the competence, industry-specific knowledge, experience or commitment of the IDs. Moreover, the test would discourage some individuals from taking up positions on the Boards.

6.2.1 Lack of competence. Participants explained that IDs should be competent and possess operational knowledge and prior board experience. They stated that a proficiency test cannot assess these qualities of directors:

Participant 4: “This test cannot evaluate the directors. If a director is not able to qualify for the test it does not mean that he/she is not a competent member of the board”.

Participant 32: “As an engineer, I may not be able to qualify the test but it does not mean that I do not contribute to the board’s decisions. I am an expert in my field of knowledge”.

6.2.2 Personal attributes. Participants explained that qualifying for the test cannot ensure that the institution of IDs will become stronger and more effective:

Participant 25: “There have been many cases of corporate governance failures in the past in India where the companies had the most reputed and competent independent directors on their boards. Yet those companies faced corporate frauds. We need to understand the real reasons for such failures”.

The comments of the participants highlighted that the governance problem can be related to the personal attributes, ethics and moral values of the directors, instead of their qualifications and knowledge. Though these findings may not be applicable in all scenarios, they support the research of scholars who propose that good corporate governance depends on the personal characteristics and willingness of board members to maintain high standards and principles of governance and ethical practices (Qiao et al., 2018).

6.2.3 Lack of industry experience. IDs are individually responsible for attending the board meetings diligently, understanding audits, performing the supervisory role and exercising independent judgment. Prior experience in the same industry helps the IDs to better understand the unique challenges, opportunities and operating environment of a company. One of the participants stated:

Participant 8: “It is not compulsory that the level of professional knowledge and the skills of such directors will meet the expectations of the board. Independent directors should have knowledge of the industry; without which they cannot make useful inputs to the Board”.

The directors who qualify for the test might not even possess the requisite knowledge about the business and its operating environment.

6.2.4 Lack of commitment. A standardized test for the IDs cannot ensure informed objectivity and determined commitment to add value to the company. A mandatory standardized test cannot measure the commitment of IDs:

Respondent 13: “Proficiency test cannot be an alternate for actual skills, experience, and commitment of a director, that is required to deal with real situations arising in the companies”.

Another participant responded:

Respondent 3: “Qualifying the test cannot guarantee the commitment and accountability of a director towards a company”.

6.2.5 Discouragement of independent directors. Participants commented that the requirements for the test are stringent, and some directors may find it difficult to comply with the mandate within the time limit allowed for this transition. This may lead to some IDs becoming disqualified or vacating their office. Thus, the test may fail to achieve its intended
objective. Rather it may, on the contrary, reduce the number of IDs available. As stated by several participants:

Respondent 11: “It made me realize that being an independent director for approximately four years was not adequate enough”.

Respondent 15: “Not everybody would want to study and appear for the exam, after having long professional experience”.

Respondent 9: “The test is based on accounting standards, financial ratios, company law, securities laws, etc. It will be difficult for me to qualify as I have an information technology (IT) background”.

6.3 Theme 3 – alternatives to the proficiency test
Some of the participants who showed negative perceptions about the proficiency test also made suggestions for enhancing the efficiency of the boards. Two second-order themes emerged under this theme – training and mentoring.

6.3.1 Training. Training programs can help the IDs develop insights into corporate governance practices and improve their coherence in business strategy and decision-making. As a participant suggested:

Participant 18: “Regulators could have emphasized more on the training and capacity building, instead of subjecting us to a mandatory test”.

The emergent view in governance scholarship underlines that effective boards do not require an increase in the number of IDs, as recommended by the corporate governance codes (Shen, 2005). Rather, they require good governance practices such as training activities for IDs and regular peer review. Directors should also be provided training on managing issues of ethics and integrity.

6.3.2 Mentoring. Some participants had a different perspective. They suggested mentoring can help increase the efficiency of first-time directors:

Participant 24: “There is a need for mentoring programs (for first-time independent directors), where they can learn from experienced directors. They may be excellent professionals, but they would need additional skills to contribute to board discussions and to work with other directors”.

This lends support to the literature that holds that board effectiveness could be increased by learning from the approaches of more successful peers and through developmental activities (Coulson-Thomas, 2009). IDs cannot be expected to be experts in all domains, mentoring programs can help them familiarize themselves with a variety of new concepts to enable them to apply professional judgment to decision-making on the boards.

7. Discussion
7.1 Discussion of results
Although the role of the board in the governance of the companies has received considerable research and policy attention, most of the research focuses on board independence. The role of their human capital in terms of their knowledge and experience has been largely ignored. Mandatory Proficiency test for IDs in India is a step in this direction to ensure that only well-qualified individuals hold board positions. The analysis aimed to find the perceived positive and negative aspects of the Proficiency Test. The thematic analysis revealed the emerging themes from the interviews. It was found that the participating IDs believed that the
The proficiency test might assure the companies that the qualified individuals would be familiar with the roles and responsibilities of IDs before taking up such positions on corporate boards. The test will assess the directors’ familiarity with essential aspects of company law, securities law, basic accountancy, corporate governance and other relevant areas that are pertinent to the functioning of an ID. Thus, it might be expected that it would help in enhancing the level of monitoring and advisory roles played by the IDs (Ferreira, 2010). The regulation has provided exemptions to professionals such as chartered accountants and lawyers. This provision of exemption will allow companies to appoint professionals who have relevant financial or legal expertise. Their expertise is indisputable as they have already qualified for exams of professional bodies. Their presence on the boards might also ensure higher reporting quality and better monitoring. This lends support to governance scholars who highlighted the importance of the professional experience of directors in fulfilling their governance duties (Qiao et al., 2018; Kim et al., 2013). The findings also support the resource dependence perspective, which not only draws attention to the existence of outside directors but also explores the importance of human and relational capital such as knowledge, experience and expertise (Ullah et al., 2022). These elements play a crucial role in safeguarding the interests of stakeholders through the provision of valuable resources. Also, the passing of mandatory tests might ensure that the person has reasonable competence and familiarity with corporate laws and accounting concepts to discharge the responsibilities of an ID. Such a person also cannot plead ignorance if any irregularities take place in the future on the Board. Thus, such IDs will be more cautious in the discharge of their duties and less prone to be influenced by the insiders on the Board. It can be expected that it will help in bringing more vigilance and accountability on the part of IDs.

The findings also revealed some negative perceived aspects of the Proficiency Test. Participants emphasized that huge scams like the Satyam Computers case (Pandey, 2022) were perpetrated for years, despite the long presence of experienced persons serving their boards as IDs. Thus, the actual problem did not relate to the competence of IDs in most cases. The comments of the participants highlighted that the governance problem can be related to the personal attributes, ethics and moral values of the directors, instead of their qualifications and knowledge. Though these findings may not be applicable in all scenarios they support the research of scholars who propose that good corporate governance depends on the personal characteristics and willingness of board members to maintain high standards and principles of governance and ethical practices (Qiao et al., 2018; Grant and McGhee, 2017). The board requirements of a company differ from industry to industry. IDs are individually responsible for attending the board meetings diligently, understanding audits, performing the supervisory role and exercising independent judgment (Lin et al., 2014). Hence, prior experience in the same industry helps the IDs to better understand the unique challenges, opportunities and operating environment of a company. It aids in better decision-making and potentially enhances the ability of IDs to effectively perform their monitoring function (Wang et al., 2015). Mire (2016) identified three types of expertise for the directors – “domain-specific, firm-specific, and director-craft expertise”. Domain-specific expertise is related to the business of the company, firm-specific expertise helps the directors to understand the context of their decisions and director-craft expertise refers to the responsibilities and role of the board. However, a major shortcoming of the test, as explained by participants, was that it cannot evaluate the candidates for their industry-specific experience. Moreover, the test would evaluate the directors once; it cannot be a test for the actual performance and commitment of the directors. To be valuable to a company, the IDs should display board commitment (Masulis and Zhang, 2019).
Based on the above discussion of the perceived positive and negative aspects of a proficiency test for IDs in India, the findings of the study do not instill confidence in the effectiveness of proficiency tests for IDs functioning in India. As it is a new regulation, its impact on the overall quality of boards and corporate governance in India remains to be seen in the future. However, it was found that participants believed that the training and mentoring programs for the newer and less experienced IDs could help in improving the overall governance in the companies. Scholars in this area have also found that training programs can make IDs effective (Varotttil, 2010) and make a real difference in their performance (Stiles and Taylor, 2001).

7.2 Implications
This study has several policy implications. By drawing from the actual board experiences of the participants, this study has the potential to assist policymakers in making regulations that are more effective in enhancing the quality of corporate boards and emphasizing training and mentoring programs for IDs. This calls for attention to all the factors discussed above, which can help in identifying suitable candidates for ID positions and in turn, improving the functioning of boards. The findings can facilitate the identification of more useful criteria for the selection and appointment of IDs. The example of action taken as well as the criticism or positive aspects pointed out can generate interest in other legislators. This study has implications for research, as it paves the way for further research avenues exploring the nuanced aspects of proficiency tests for IDs. Future studies could delve deeper into specific skill domains, the efficacy of different proficiency test models and longitudinal assessments of their impact on board effectiveness. This study also has implications for society as implementing proficiency tests can bolster board accountability and transparency, thereby fostering increased investor and stakeholder trust in corporate decision-making processes. This study also bridges the gap between theory and practice. Through the IPA approach, this study captures the lived experiences and perceptions of corporate board members, particularly IDs, regarding proficiency tests. This approach helps translate theoretical constructs into practical insights, revealing how these concepts are understood, experienced and implemented in the corporate setting. By exploring the perceived positive and negative aspects of proficiency tests, it uncovers practical challenges faced in implementing these measures. This identification of challenges contributes to the practical understanding of governance reforms and provides potential solutions or recommendations for enhancing the effectiveness of proficiency tests in practice.

8. Conclusion
In conclusion, this study delved into the underexplored realm of proficiency tests for IDs in Indian corporate governance, using IPA as a qualitative research approach. The findings revealed multifaceted dimensions surrounding the implementation of proficiency tests, shedding light on both the positive and negative aspects affecting the overall quality and efficacy of corporate boards in India. Through in-depth exploration and analysis of perceptions, experiences and interpretations of board members, particularly IDs, this research uncovered critical insights into how proficiency tests contribute to shaping board independence, objectivity and transparency in decision-making processes.

IDs are considered the most important pillar of corporate governance. Corporate governance scams unraveled in India raised questions on the role and effectiveness of the ID system in Indian companies. Hence, Indian policymakers have been making efforts to raise the standards of corporate governance in India. The board must comprise directors who possess the appropriate combination of skills to effectively fulfill their duties and
responsibilities. The proficiency test is one such deliberate effort made by policymakers to promote corporate literacy among IDs by conducting a proficiency test. However, the test has introduced greater rigidity in the selection of IDs and might discourage competent individuals from taking up the positions of IDs. This paper highlighted the perceived positive and negative aspects of the new regime for IDs in India. The findings have important implications for ID selection and capacity building and can be useful for policymakers to set guidelines that are more effective in enhancing the quality of boards. By examining how Indian legislators are trying to mitigate the problems of hiring IDs and the lack of skills needed for the position, this paper contributes to the subject area and body of knowledge in corporate governance in terms of how the proficiency of IDs can contribute to the independence of the board by making objective, unbiased and transparent decisions. This study’s implications transcend the academic realm, extending to practical applications within corporate settings. As corporate governance standards continue to evolve, the insights gathered from this study provide an outline for policymakers, corporate entities and stakeholders to deliberate upon and enact measures aimed at enhancing board quality and independence.

This study has some limitations. The findings of this qualitative study cannot be generalized. The mandatory proficiency test for IDs is a new phenomenon and is in a nascent state in India. Further research could explore whether and how the selection of IDs is affected by proficiency tests. Further quantitative research may also help to verify whether the proficiency test has any impact on the effectiveness of IDs in India in the long run and whether it will achieve its intended objective of improving the quality of corporate governance in India. Future studies might also investigate whether the current attributes and skill sets contributed to how IDs performed in the test.

References


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Further reading

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