Separation of Powers in Corporate India

What is the issue?

- The Securities and Exchange Board of India (SEBI) has ordered to make it mandatory for the top 500 listed entities to appoint a non-executive director as chairman by April 1, 2020.
- Further, the chairman should not be related to the MD or CEO.

Is there any contention?

- A section of corporate India is against the idea of separating the positions of Chairman and Managing Director (MD)/Chief Executive Officer (CEO).
- They are also against appointing a non-executive director as Chairman of the board.
- Since SEBI's mandate, more than two-thirds of India's top publicly traded companies have separated the positions.
- The SEBI introduced these changes broadly in line with the recommendations of the Uday Kotak Committee.

What were the recommendations of Uday Kotak Committee?

- The committee made recommendations **on corporate governance** and submitted its report in October 2017.
- It noted the separation was seen to provide a more balanced structure of governance.
- This will enable the board to act with more independence and reduce the excessive concentration of powers.
- The issue is still being debated in many countries.
- For instance, there is considerable pressure from shareholders in the US to separate the two and companies are moving in that direction.

What are the benefits?

- The underlying idea behind the rules framed by SEBI is **to improve governance.**
- Adhering to the higher standards of governance would **benefit both the promoters and minority shareholders.**
- If the chairman is also the MD, he or she could be tempted to ignore the failures of the management.

- By separating them, a company can clearly **distinguish management authority from board authority**.
- It can also empower the chairman and CEO to pursue their respective duties without concern that interests in one position might negatively influence the other.

What are important issues at a broader level?

- The separation of positions is **not to undermine promoters**.
- Because it wouldn't stop them from running the business or making decisions in the interest of the company and creating wealth for shareholders at large.
- The reduction in the concentration of powers would lead to better decision-making, assuming both the MD and chairman have their roles clearly defined and are well qualified to hold the respective positions.
- From the regulatory standpoint, **rules by themselves are unlikely to change things as desired**.
- There have been a number of cases where the presence of independent directors didn't stop the management from taking decisions that weren't in the best interests of either the company or minority shareholders.

What could be done?

- It's important for the SEBI to improve disclosure norms and develop capabilities to make sure that listed companies follow regulations.
- While improving regulatory capability is an ongoing process, separating the position of chairman and MD/CEO is likely to improve supervision at the company level itself and lead to better governance.
- Higher standards of corporate governance will help attract more risk capital and augment overall economic growth.

Source: The Hindu