

## 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