



# Economic Times

## **Cos may have to split chairman, CEO roles**

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## Sebi Panel Considers Demarcation Of Roles To Ensure Balance Of Power And Corp Governance



MUMBAI: A committee constituted by India's securities market regulator, the Securities and Exchange Board of India, or Sebi, is considering a proposal to separate the role of chairman and managing director (MD) or CEO of listed companies to prevent concentration of management powers in the hands of one individual.

Several firms, especially state-owned enterprises, have the same person holding the post of both chairman as well as MD. The issue has been discussed by the Primary Market Advisory Committee, or PMAC, formed by Sebi, but the proposal is still at an early stage. Although industry and legal experts have backed the proposal, they caution that translating it into rules will lead to a major overhaul of the board structure of most listed companies in India.

"A separate chairman will be a more effective channel for the board to express its views on the management, and also provide proper guidance to the CEO," says Akil Hirani, managing partner, of law firm Majmudar & Co. "Separating the role will help create an effective feedback mechanism for the CEO. A separate chairman will also help the board more effectively fulfil its regulatory requirements," he said.



In countries, like the US, UK and France, the role of a chairman is distinct from that of a CEO. However, in India, it's up to companies to decide on whether the role needs to be separated. According to rules framed by Sebi, if the chairman of a board is a non-executive director, at least one-third of the board should comprise independent directors. If he is an executive director, at least half the board should comprise independent directors.

**Shailesh Haribhakti, chairman, BDO India, too, favours segregating the roles of chairman and MD or CEO.**

**"Otherwise, it's like an individual evaluating himself. Separating the roles will bring in more accountability," Mr Haribhakti said.**

According to the voluntary guidelines on corporate governance issued by the Ministry of Corporate Affairs for public companies and large private firms, there should be a clear demarcation of roles and responsibilities of the chairman of the board and that of the MD or CEO to ensure balance of power.

A report by the Organisation for Economic Co-operation and Development (OECD) mentions that when the roles of the CEO and the chair are not separated, it is important in larger and complex companies to explain the measures that have been taken to avoid conflict of interests and to ensure the integrity of the chairman's function.

Suhail Nathani, partner, Economic Laws Practice, feels that there could be a lot of resistance initially to the proposal to separate the role of a chairman and MD or CEO. Some family-owned companies could even circumvent the rule by giving one of the two posts to a member of the family. "But in the long term, it will help all stakeholders of the company," says Mr Nathani.

Mr Hirani said that the segregation of roles may not be a solution to address all corporate governance issues, given the peculiarities of the Indian corporate landscape. Most of them are owned or controlled by business families, and if role demarcation becomes the norm, a fallout could be the need for an overhaul of the board structure of most companies.

There have also been suggestions to consider an independent body to appoint independent directors on the board of companies. However, this could not be taken up by PMAC, since it doesn't fall under the purview of the capital market regulator.

Mr Hirani said having 50% of the board as independent directors doesn't materially improve the quality of corporate governance, unless the appointment of the independent directors is transparent.