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CEO-DUALITY IN INDIA: PRIVATE SECTOR COMPANIES VS PUBLIC SECTOR UNDERTAKINGS

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ABSTRACT
CEO duality is defined as a situation when the same person holds the position of chairman and CEO of the board simultaneously. This research paper attempts to review and combine literatures and regulations on the topic pertinent to CEO duality. Although empirical studies need to be conducted time to time which would help the regulators to form policies accordingly. Developed countries like US, UK and France segregated the role of chairman and CEO. In India, capital market regulator SEBI has not mandated it and permitted companies to voluntarily adopt whatever approach feasible to them. As a part of suggestion it advised that segregating the post would help in enhancing good governance practice. It can be concluded from the findings of the paper that there is full presence of CEO-duality in all the public sector units and banks listed on BSE Sensex. On the other hand, few private sector companies are still following CEO-duality while majority of them have segregated the position of chairman and CEO/MD.

KEYWORDS:CEO-duality, Chairman, Board, SEBI, corporate governance, Indian companies.

INTRODUCTION:

CEO duality is defined as a situation when the same person holds the position of chairman and CEO of the board simultaneously. Chairman and board of directors monitor the management of the company on behalf of the shareholders. Management is headed by CEO. Managementmembers are appointed to run the company and therefore, always accountable for its functioning. CEO is the highest executive position of the management and if this position is combined with the chairman then it wouldn't look logical that he/she measuring his/her own performance. It will create a condition called 'conflict of interest'. As CEO-duality is allowing this chance, therefore many scholars gave mixed opinion pertinent to CEO-duality.

LITERATURE REVIEW

Kang and Zardkoohi (2005) illustrated that if the corporation has adopted CEO-duality approach due to the influence of a powerful CEO then it is very obvious that the top executives would keep their self-interest on the top rather than the real goal of shareholder's wealth maximization.

Ruigrok et al. (2006) stated that CEO-duality provides a clear cut leadership which further removes any ambiguity pertinent to accountability and responsibility for the performance of the firm. This also helps a company to make fast decisions in a situation of crisis.

Various scholars showed that the relationship between CEO duality and firm performance around the world is mix and consensus on one relationship is not there i.e. positive or negative or neutral.

CEO-DUALITY APPROACH- VIEWS BY TWO SCHOOL OF THOUGHTS

1.Agency theory and
2.Stewardship theory
1.Agency theory

According to economist Eugene Fama agency theory elucidates the role of board in controlling the behavior of management to ensure that their actions are for the interest of the shareholders, hence it favours the segregation of the two positions i.e. chairman and CEO/MD.

2. Stewardship theory

This theory justify the benefits of duality for the corporate performance and assumes that managers are good stewards of the corporation rather than self-interest seekers. CEO-duality reduces the chances of potential rivalry between the CEO and chairman and enhances a clear cut strategic leadership during crises.

UNIVERSAL APPROACHES USED BY REGULATORS TO IMPLEMENT THEIR RULES

COMPLY-OR-ELSE APPROACH	COMPLY-OR-EXPLAIN APPROACH
Comply-or-else or 'one size fits all' approach specifies that the set of rules prescribed by the regulators must be followed by all companies. They are 'uniform standards'. They ought to comply with it otherwise liable to be penalized by the regulators as these rules are the outcome of legal statutes. Penalties ranges from levied of fines on the directors or the company to imprisonment of accountable officers.	Comply-or-explain approach specifies that the codes and principles prescribed by the regulators as a guidelines are only recommendatory in nature and their compliance is not mandatory. Though, if a company decides to differ from any specific code or principle it must offer an explanation for the non-compliance. The explanation must be justifiable otherwise regulator imposes penalties.

According to many scholars, comply-or-explain approach provides flexibility to a company to adopt the governance structure appropriated for its operation which ultimately helps in better governance outcomes. India follows comply-or-else approach, in which options of mandatory compliance and non-mandatory compliance are given. As the name suggests mandatory compliance must be followed by the listed companies without any option to avoid it while non-mandatory compliance is at the discretion of the company. However, companies are encouraged to adopt non-mandatory compliance as a part of good governance practices.

CEO-DUALIY IN INDIA

CEO-duality or independent chairman is one of the much debated issues of corporate governance. Clause 49 of the Listing Agreement of SEBI does not mandate CEO non-duality. Global best governance practices advocate the separation of roles. Regulators also favor that the CEO-duality should be avoided as far as possible. On the recommendation of SEBI's Primary Market Advisory Committee (PMAC), the regulator proposed that separate positions for the chairman and MD/CEO may not be mandated. It further recommended that as a good governance practice, the separation of the post of Chairman and MD/CEO may be implemented by companies. It also incorporated the provision that boards which do not have a regular non-executive chairman shall have at least half of the board as independent. As a part of banking sector reform the RBI and Finance Ministry segregated the post of chairman cum MD/CEO in 2014. It also said that chairman (not be an executive chairman) of all public sector banks (PSBs) will also be a part time board member to preside over board meetings under the new format of 2015. SBI is an exception to this as it will not follow this.

OBJECTIVE

To understand how listed companies of public and private sectors have adopted the CEO-duality approach in India.

RESEARCH METHODOLOGY

This paper used descriptive research design. This study is based on secondary data. Extensive literature review was done and data were collected from various sources like, annual reports of the companies and their websites, research papers, newspaper articles, media reports and websites of RBI, SEBI, BSE to develop this theoretical study. All thirty companies of BSE Sensex were analysed to present this study on CEO-duality.

FINDINGS

This paper analyzed all thirty companies of S& P BSE Sensex and their interpretations are given below-

Three out of Twenty i.e. 15% private sector companies have non-executive chairman in their board and the day to day operations of the companies are managed by the CEOs/MDs. Companies having non-executive chairman are-

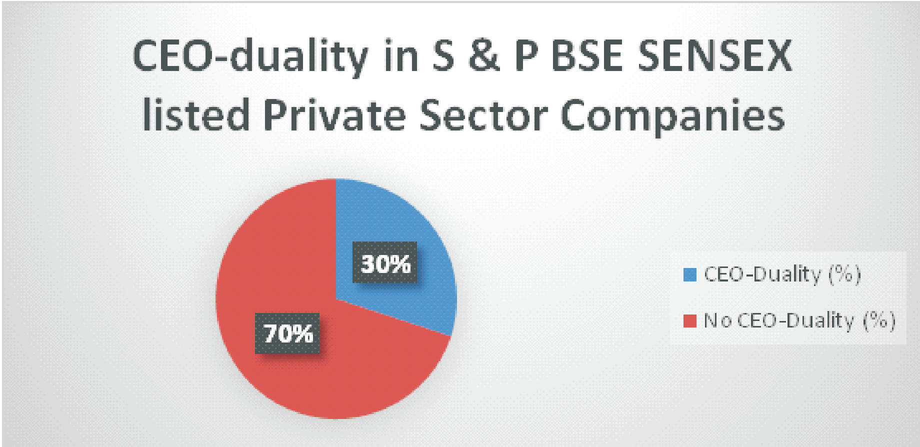
1.Infosys Ltd.
2.Hindustan Unilever Ltd.
3.Asian Paints Ltd.

Five out of five Public Sector Units (PSUs) and one out of one Public Sector Bank (PSB) are headed by single individuals in the name of executive chairman or chairman cum managing directors (CMDs). It means 100% of listed PSUs and PSB have CEO-duality. List including those PSUs and PSB is given below-

1.Bharat Heavy Electricals Ltd
2.Oil and Natural Gas Corporation Ltd
3.Coal India Ltd.
4.GAIL (India) Ltd.
5.NTPC Ltd.
6.State Bank of India (SBI)

It also reveals that the position of chairman and CEO/MD has been segregated in 70% cases in the private sector companies while in 30% of cases the companies are still following chairman-CEO duality. List of private sector companies with CEO-duality are given below-

1.ITC Ltd.
2.Reliance Industries Ltd.
3.Larsen & Toubro Ltd.
4.Mahindra & Mahindra Ltd.
5.Hero Motocorp Ltd., and
6.Adani Ports and Special Economic Zone Ltd.



Source: Researcher's calculation from data collected from BSE India

List of private sector companies with no CEO-duality are given below-

1.Maruti Suzuki India Ltd.
2.Lupin Ltd.
3.Tata Motors Ltd.
4.Tata Consultancy Services Ltd.
5.Infosys Ltd.
6.Dr.Reddy's Laboratories Ltd.
7.Sun Pharmaceutical Industries Ltd.
8.Bharti Airtel Ltd.
9.Cipla Ltd.
10.Hindustan Unilever Ltd.
11.Wipro Ltd.
12.Asian Paints Ltd.
13.Adani Ports And Special Economic Zone Ltd.
14.Bajaj Auto Ltd.

All private sector banks and Financial Institutions (FIs) have no CEO-duality. List is given below-
1.ICICI Bank Ltd.
2.Axis Bank Ltd.
3.HDFC Bank Ltd.
4.Housing Development Finance Corp.Ltd.

CONCLUSION

The SEBI's Primary Market Advisory Committee (PMAC) observed that the question of mandatory separation of chairman and CEO posts was not settled at global level yet. However it is an open question as to whether or to what degree non-duality is a good indicator of independence, given the fact that the boards can still be effectively controlled by the management or minority owners even without the exercise of duality. In most public sector enterprisesthe posts of chairman and managing director i.e. CMDare held by the same person. There is full presence of CEO-duality in all the public sector units and banks listed on BSE Sensex. On the other hand, few private sector companies are still following CEO-duality while majority of them have segregated the position of chairman and CEO/MD. Although there are not sufficient evidences to blame CEO-duality for the failure and the poor performance of firms. Therefore empirical studies need to be conducted to check which approach (CEO-duality or chairman independence) is best in Indian context.

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