India Inc Backs Promoters in Exec Role

Sebi move to extend deadline for top listed cos to make the post of chairperson a non-executive one and split roles of chairman & MD has led to industry leaders such as Rishad Premji & Anand Mahindra holding on to executive positions

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Mumbai: Rishad Premji, who was to be the non-executive chairman of Wipro from January this year, will now continue to hold his executive role. Anand Mahindra, too, last week reverted to his executive post at Mahindra & Mahindra.

Their decisions come after the market regulator extended the deadline for top listed companies to make the post of chairperson a non-executive one and split roles of chairman and managing director.

While investor activists have been critical of the trend of promoters staying in control in an executive role, India Inc top guns are backing promoters on this one.

"Promoters have their skin in the game and so they want to be in an executive role to directly influence outcomes and have greater control of the money flowing through," Institutional Investor Advisory Services (IIAS) MD Amit Tandon said.

Mahindra's current 5-year term as the executive chairman is slated to end in November 2021. But as a consequence of the Securities and Exchange Board of India regulations stipulating a non-executive capacity for the chairman after March 2020, Mahindra had announced in December that he would relinquish his executive role in April 2020.

The nominations committee had undertaken an extensive exercise to identify successors to Anand Mahindra as well as (MD) Pawan Goenka. The succession process was meticulously planned so that the transition to a new leadership would take place under Mr. Mahindra's watch and would be well in place at the time of his retirement from an executive role in November 2021. Hence, there is no question of a desire by the promoter to remain in the driver's seat, a company spokesperson said.

In January, Sebi notified that the deadline to implement its directive was extended and as announced earlier, Rishad Premji will continue as the executive chairman, a Wipro spokesperson said.

As per Sebi's listing obligations and disclosure regulations with regard to separation of roles, the people holding the responsibilities of chairman and managing director should also not be related to each other. The rules also mandate that the posts be demarcated from one another.

The proposal to split the post of chairman and managing director was first mooted by the Uday Kotak panel. It had suggested that only a non-executive director be allowed to become chairman. This would eventually lead to a split in the posts of chairman and MD.

"Given that the regulatory authorities have extended the deadline, we will find promoters continuing to remain in an executive role. It would be good to see companies transitioning into the new role rather than waiting till the end," said Pranav Haldea, managing director of Prime Database.

The Sebi rule applies to the top 500 listed Indian companies. Data from NSEResearch.com, which is run by PRIME Database, show that of the top 500 companies by market capitalisation as on March 31, 2015, in as many as 169 companies the chairperson and MD/CEO were the same. In a further 37 companies, the chairperson and MD/CEO were related, and of the NSE's 600 companies, 246 had executive chairpersons.

Kavil Ramachandran, professor and executive director, Thomas Schmidheiny Centre for Family Enterprise at Indian School of Business, said for Indian promoters, succession was for the "outsiders." "They hardly imagine a scenario when they are not there. Also, since in most cases, the family leader is the most influential in the family, nobody questions their relevance or allows courage to discuss retirement. Most CMDs do not have any other major passion to shift their interests completely," he said.

They find it difficult to relinquish their fiefdom, said Shirish Subramanian, managing director of Bengaluru-based proxy advisory firm InGoverns.

In Mahindra's case, when Sebi deferred the implementation of the regulations, the company's board requested him to stay with the original plan of transition.

Mahindra is a very talented entrepreneur and it is said for the company to lose his business acumen, Ficci president Sangita Reddy said. Mahindra complied with the law, and when the law allowed, the board called him back, added Reddy.

Promoters are qualified professionals who want the best for their company give a sense of security and want to be in the driving position, the Ficci president said.

Promoters have a generational view of business and some have the ability to take risk. Having said so, this ability to bet the house is what often damages the balance sheet, LS Tandon said. Anecdotal evidence in developed countries suggests that companies with separation of roles have enhanced performance. That was the basis of the Kotak committee recommendations, too, said Subramanian of InGoverns.