A STUDY ON SEPARATION OF CHAIRMAN AND CEO AND THERE IMPACT ON RETURN ON EQUITY

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Abstract : Traditionally, in most of the companies globally, role of the CEO and chairman was played by the same individual. It was believed that the executive under such a structure would possess multiple perspectives as well as the power to quickly enact corporative initiatives. After various scams and scandals were unearthed, the regulators across the globe have recommended the separation of the position of chairman and CEO. Slowly the trend in almost all the countries is towards the separation of the role voluntarily. As critics have come to believe that not separating the role allows little transparency into CEOs actions, and as such these can go unmonitored, paving the way for conflicts of interest.

With one government holding each titles, it's been argued that the company's entire decision-making method lies in hands of 1 person, with very little within the kind of checks and balances.

Though the fact is that there is no conclusive evidence linking the separation of the position of CEO and chairman to the firms performance but few studies in the past have found that companies with separate CEOs and chairman consistently outperformedin those companies that combine their roles. The provisions in corporate under the companies act 2013 and clause 49 of the listingagreement recommended the listed companies in India to separate the role. Hopefully Indian public listed companies will take a lead to separate the role more vigorously in the near future.

***IndexTerms*:- Corporate governance CEO/chairman, Duality, return on equity**

I.INTRODUCTION

After the recent financial crisis, listed public companies globally are under pressure from activist shareholders, institutional investors, proxy advisory firms and regulators pertaining to the issue of separating the role of chairman and chief executive officer with a view to achieving independent leadership on the board. Good corporate governance encourages the separation of the role of chairman and CEO in two persons rather than one person being the chairman and chief executive of the company.

This article analyses the impact of separation of CEO and chairman in BSE500, BSE 200, BSE100, and BSE30 listed companies.

CHIEF EXECUTIVE OFFICER:

The chief executive officer has the executive responsibility for the running of the company's business. While the chairman has responsibility for running of the board, ensuring that the board meets frequently and that all the directors have access to all the information they need to make an informed contribution at the board meetings and all directors are given and opportunities to speak at board meetings the CEO manages the chair overseas management.

CHAIRMAN:

The chairman is responsible for setting board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. The chairman should also promote a culture of openness and debate by facilitating the effective contribution of non- executive directors in particular and ensuring constructive relations between executive and non-executive directors. The chairman is responsible for ensuring that the directors receive accurate, timely and clear information. The chairman should effective communication with shareholders.

II.OBJECTIVE OF THE STUDY

- Separation of Chairman and CEO and their impact on return on equity

III.REVIEW OF LITERATURE

Corporate governance is that the set of processes, customs, policies, laws, and establishments poignant the means company is directed, administered or controlled. It also includes the relationships among the stake holders involved and the goals for which the corporation is governed. In modern business firms, the most external neutral teams area unit shareholders, debenture holders, trade creditors, customers and community stricken by the corporation's activities. Internal stakeholders are the Board of directors, executives, and other employees.

Corporate governance is a multi-faceted subject. An important theme of company governance is that the nature and extent of responsibleness of explicit people within the organization, and mechanisms that try and scale back or eliminate the Principal and agent problem. A connected however separate thread of discussions focuses on the impact of a company governance system on economic potency with a robust stress on shareholders welfare.

Corporate governance models

Forms of control	**Insider control+creditors supervision**	**Control by the stock market mediated by investment funds**	**Control by block holders or family control**	**Control by long run institutions investors**
Objective for the corporation and basis of evaluation	Sustainable long run growth. Quasi-rent shared between insiders	Maximization of total return on equities in the stock market(absolute return)	High stable ROE pooled control of cash flow	Maximization of long-run total value of the firm
Structure of the board and control of managers	Domination by corporate executives mitigated by techno structure	Passive owners cum independent board members or activists on target companies depending on types of funds	Cross membership reflecting networks of financial interests or dominant shareholder	Delegated board members with a well-defined mandate and exercise of voting rights in general assembly
Modes of influence on the corporate sector	Debt-constrained long-term relations with banks	Buy and sell shares on liquid markets on liquid markets or M&A and LBO depend on types of funds	Shared interest and peer pressure insulation from stock markets	Strategic goal aware of macro externalities. Activism by voice
Types of capitalism	corporative	Dispersed ownership or predator	Financial elite or family	Universal owner

The Indian companies adopt the following corporate Governance models:
1. Shareholders Model
2. Unitary Board
3. Hybrid of Insider and Oversight Board

SHAREHOLDERS MODEL

As English Laws are the basis for Indian Laws, the Board of Directors are elected by the shareholders, even as per Indian Companies Act, 1956. India adopts Shareholders model in the governance of the companies. The Directors are elected by shareholders in Annual General Body Meeting with simple majority by passing an ordinary resolution. This gives the scope to the companies where shares are acquired by the shareholders in groups, a group which enjoys 51 per cent and above of voting rights can monopolies the entire Directorship with their representatives, leaving 49 percent of shareholders without any representation. In spite the minorities can elect the Board members through proportional representation according to Sec 265 of Companies Act, 1956; it is to be approved by Articles of Association. Virtually no company has proportional voting rights for electing the Board of Directors. Therefore the minority is bound to accept the decisions of Majority, in both Indian as well as English Law. However attempts are being expected to set right this anomaly. However, Oppression or Mismanagement of Company aggrieves the members; the Act grants a remedy to minorities either by invoking the powers of the Court or the Powers of Company Law Board for prevention of Oppression or Mismanagement of a company.

UNITARY BOARD MODEL

According to Indian Companies Act, 1956, corporates may also adopt Unitary Board Model rather than two-tier model which is adopted by many of the European Countries. In Two-tier model, the First tier being the Supervisory Board. It is constituted with the representatives of shareholders, employees. The second tier is Management Board, which is constituted by the supervisory Board. In India, the role played by the Management Board is played by the managing Director or Manager.

HYBRID OF INSIDER AND OVERSIGHT BOARD

The Companies Act, 1956, is silent relating to the nature of the Board that is ‘insider’ or ‘Over sight’ Board. It follows a contingency Approach, based on the need and requirement. The Director Can be a ‘Full time’ or ‘Part- time’, or a ‘Full-time Official’ or ‘Non-Executive or an out-side Director, of a company. Indian Boards lies between the’ Insider Board’ and ‘Over-Sight Board’. It is a Hybrid version of Inside Board and Over-Sight Board, as the director can serve the Board only or he can also work in the company in some capacity. The Indian model is similar to USA and UK. Unlike in German model, the members are not prevented in occupying the position both in Board as well as in Day-to-day administration.

OECD- Compliance of non-mandatory recommendations for listed companies

Parameters	Australia	Canada	Hong Kong	Malaysia	OECD	Singapore	UK	USA
Separation of chairman and CEO	Y	Y	N/C	Y	Encouraged	N/C	Y	N

CORPORATE GOVERNANCE NORMS IN INDIA:

CLAUSE 49 OF THE LISTING AGREEMENT

The companies ACT, 2013, Act, 2013, securities and exchange board of India(SEBI) revamped clause 49 of listing agreement in April, 2014. One of the major changes that have been incorporated under the non-mandatory requirements of clause 49 is about the separation of the posts of chairman and CEO.

NON MANDATORY PROVISIONS:

Separation posts of chairman and CEO:

The company may appoint separation persons to the post of chairman and CEO.

Companies Act, 2013

Companies act, 2013 has incorporated section 203, which provides for the separation of the role chairman and CEO.

As per section 203(1) with rule eight of corporations (appointment and remuneration of social control personnel) rules,2014, each listed company and each alternative public company having a paid share capital of ten core rupees or more shall have the following whole-time key managerial personnel's:

- Managing director, or CEO and in their absence, a whole-time director;
- Company secretary, and
- Chief financial officer provides an individual shall not be appointed or reappointed as the chairperson of the company as well as the managing director or CEO of the company at same time unless.

SHOULD THE POSITON OF CHAIRMAN CHIEF EXECUTIVE OFFICER BE COMBINED OR SEPERATED?

Few issues in corporate governance are as contentious as the question of whether the roles of chairman and CEO should be separated or combined does separating the roles really provide better governance, or it is simply window dressing for shareholders with little impact on board effectiveness

Different experts on corporate governance opinion on the separation of the position of chairman and chief executive officer. Some experts believe that separating the role of CEO and chairman will have a very positive impact on the board room performance. Their arguments are that the very existence of the board is based on the need for accountability. The board exists to keep management accountable for the vast discretionary power it wields.

In simple words the CEO runs the company and the chairman runs the board, one of whose responsibilities. if the chairman and CEO are one and same, it is hard for the board criticize the CEO or to express independent opinions, when the CEO is also the chairman there is too great a temptation to tilt things towards protecting CEOS carrier interest. Separation of the role would lead to more objective evaluation of the CEO and create environment of great accountability.

Another argument in favor of the separation of the role is that a non-executive chairman can serve as a valuable, sound board mentor and advocate to the CEO.

In brief, the roles are combined; it ensures the following positive points:

- Ensures strong and central leadership
- Unambiguous leadership
- Increases efficiency
- Superior knowledge of the organization

If the roles are not separated, it may result in the following consequences:

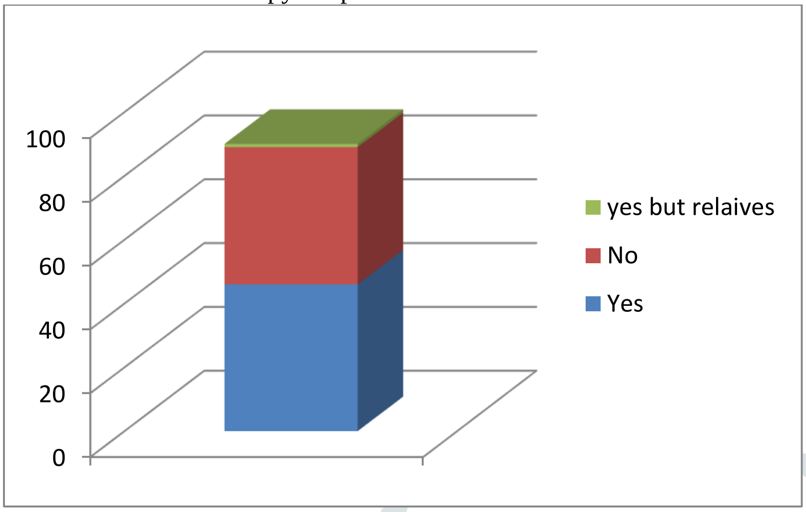
- Lack of oversight
- Unchecked power/concentration of power
- Board's role is to hire and fire the CEO. Unified role may create conflict of interest.

IV.DATA ANALYSIS

ANALYSIS OF LISTED COMPANIES IN INDIA BASED ON THE SEPERATION OF THE ROLE OF CHAIRMAN AND CEO

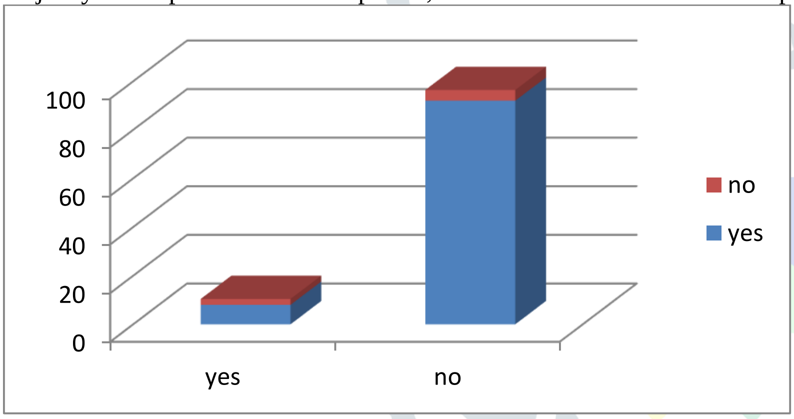
BSE 500 Companies

Analysis: Out of BSE500 companies, 48% of the companies have separated the role of chairman and CEO between two individuals, while 42% of the companies have not separated the role. Though 10% of companies have separated the role, but the two individual who occupy the position of chairman and CEO relatives.



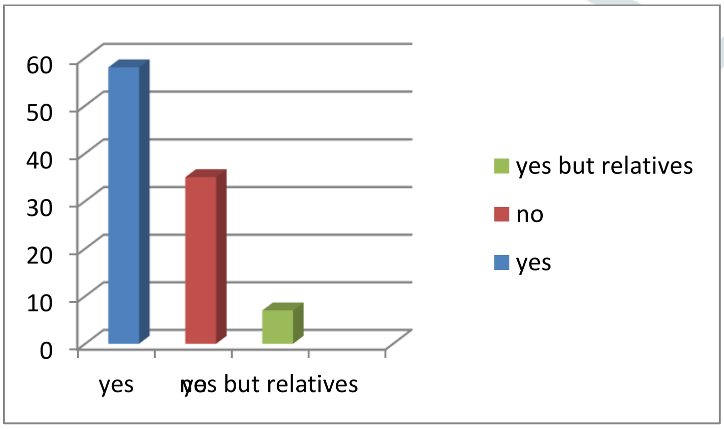
BSE 200 government companies

Analysis: Out of government companies which are among the BSE500 companies, only 11% f the companies have separated the role of chairman and CEO between two individuals, while 89% of the companies have not separated the role. This shows that the majority of the public sector companies, which listed in BSE have not separated.



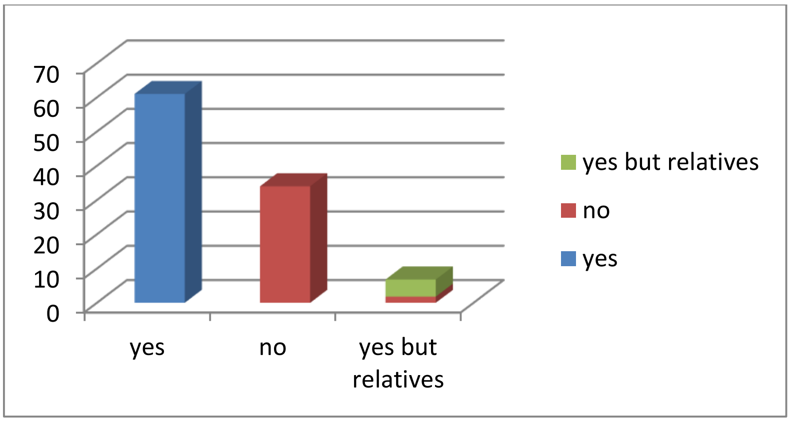
BSE200 companies

Analysis: Out of BSE 200 companies, 62% of the companies have separated the role of chairman and CEO between individuals, while 33% of the companies have not separated the role. Though 5% of companies have separated the role, but the two individual who occupy the position of chairman and CEO are relatives.



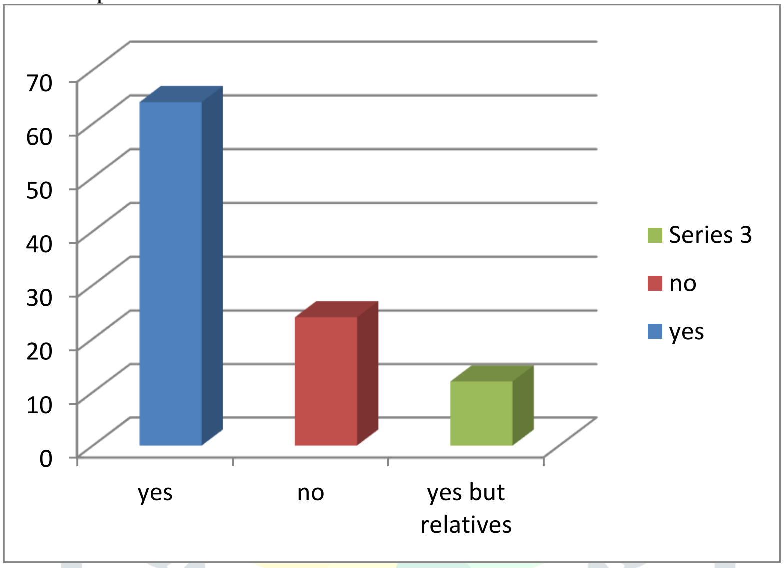
BSE100 companies

Analysis: out of BSE 100 companies, 63% of the companies have separated the role of chairman and CEO between two individuals, while 32% of the companies have not separated the role. Though 4% of the companies have separated the role, but the two individual who occupy the position of chairman and CEO relatives.



BSE 30 companies

Analysis: Out of BSE 30 companies, 65% of the companies have separated the role of chairman and CEO between two individuals, while 26% of the companies have not separated the role. Though 9% of the companies have separated the role, but two individuals who occupy the position of chairman and CEO are relatives. Comparative study of BSE500, BSE 200, BSE 100, and BSE 30 companies in terms of separation of the role of chairman and CEO.



IMPACT OF THE SEPARATION ON RETURN ON EQUITY (ROE):

To understand weather the separation of the position of chairman and CEO impacts the return on equity (ROE) The study compared the separation of the position in BSE500 Companies in the year 2009-10 with 2014-15 the study measured changes in the return on equity(ROE) of those companies which had separated the position of chairman and CEO from 2009-2010 to 2014-15.To examine the impact on ROE the following hypothesis was evaluated.

H1- There is no impact of separation of position of chairman and CEO on ROE

H0- There an impact of separation of position of chairman and CEO on ROE

The separation of CEO and chairman and their impact on return on equity (ROE) studied the position in BSE500 companies by paired sample test

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	mean	Std. deviation	Std. Error mean	95% confidence interval of the difference				
				lower	upper			
Pair 1ROE 1-ROE5	5.121	32.05	5.216	-7.01	16.210	0.812	35	0.454

RESULTS:

To evaluate the hypothesis, a paired sample T-Test was conducted. Paired sample T-test shows that the difference in ROEs between the year 2015-16 and year 2017-18 is not significantly impacted by separation of role of chairman and CEO.

V.FINDINGS

- Out of BSE 500 Companies, 40% of the companies have separated the role between individuals, while 43 of the companies have not separated the role.
- Out of BSE 500 Government companies only 8% of the companies have separated between two individuals, while 92% of the companies have not separated.
- Out of 200 companies 58% of the companies have separated the role of chairman and CEO between two individuals while 35% have not separated the role.
- Out of BSE 100 companies 61% of the companies have separated the role between two individuals 34% of the companies have not separated.
- Out BSE 30 companies 24% of the companies have not separated the role 12% have separate3d the role 64% of the companies separated between two individuals

  The present study indicates that the difference in ROEs between the year 2015-16 and year 2017-18 is not significantly impacted by separation of role of chairman and CEO.

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VI.CONCLUSION

This research has sought to provide a detailed analysis of Chairman and CEO and their impact on return on equity. Determining the relative performance of those companies by examining the results gleaned from their Annual Reports and to detect, if possible, the board of directors is responsible for setting corporate goals which are directed to realizing long term shareholder value. Further, the board is responsible for assessing the rectitude of the strategies and approaches used by management in executing the corporate goals. It is clear that the board’s role is pivotal to the success of the company. The companies around the globe have during the recent past have started separating the role either voluntarily or through shareholder activism to have a good governance with returns.

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