THE ECONOMIC TIMES | News
English Edition ▾ | 11 October, 2022, 01:51 AM IST | Today's Paper

Succession plans in focus as firms lose key executives

Synopsis
This toll includes only the list of key managerial personnel, whose deaths must be disclosed by listed companies under corporate governance rules. Industry insiders say several top executives, who were not part of key managerial personnel and yet worked in crucial positions, have also died in the last few weeks.

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At least 20 listed companies in India have lost key, board-level functionaries and top executives since early March, and these untimely deaths have put the spotlight on the need for well-defined succession plans.

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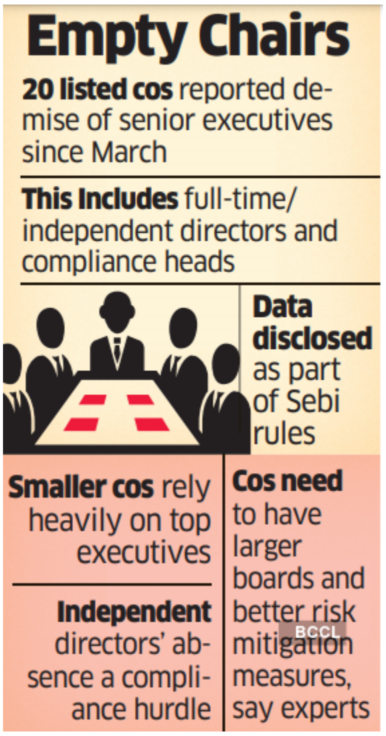

"Companies resumed in a significant way after November as it seemed that Covid-19 was behind us. They started calling their staff back to offices and top officials were working very actively," said a chartered accountant on the board of a leading financial services company. "It has something to do with age as well, since board members in most cases are older than 60."

These unfortunate and untimely deaths have put several listed companies in a tricky spot. Also, smaller companies tend to rely more heavily on their top executives for several important tasks, especially if the company is a family promoted business.

Series of Untimely Deaths

Commercial relationships at some companies — with suppliers, distributors or creditors — are largely centred around promoter groups. Hence, untimely deaths and the lack of proper succession planning could affect these companies.

Furthermore, shareholders are also concerned about these deaths and their impact on company performance.

"For listed companies, what is important is how the information of any unfortunate event and risk mitigation measures is communicated to shareholders. This can avoid any panic-related impact," said Moin Ladha, partner, Khaitan & Co.

The series of untimely deaths began with the demise of MG George Muthoot, chairman and whole-time director of Muthoot Finance, in March. Engineering company ABB lost compliance officer B Gururaj early in April. Bharat P Dave, chief financial officer of Gujarat Apollo Industries, and Dinesh Ranjan Mishra, compliance officer of Mangalore Refinery and Petrochemicals, also died recently.

Several companies have lost independent directors too, including Partho Datta of Endurance Technologies, Premesh Kumar Jain of Mahanagar Gas and Ravinder Nagpal of Sandhar Technologies.

Companies are not required to disclose the causes behind the deaths.

Contingency Measures

Governance experts say this trend should serve as a wake-up call for Indian Inc boards to put in place proper succession plans. They also recommend that the boards be larger so that even in the absence of one member, the company can function smoothly.

Experts cite the well-known example of the sudden demise of a top executive at an Indian automaker in 2014, which left a void for several months.

"Companies should plan for expected and unexpected departures and have contingency plans for the departure of any executive at a CXO level overnight. They need not announce that succession plan, but the board should be aware who can take on which role," said Shriram Subramanian, founder and managing director of InGovern Research Services, a proxy advisory firm.

Separately, the loss of independent directors is also causing problems, say experts. Their role has been enhanced significantly over the past few years by the Securities and Exchange Board of India (Sebi).

“Listed companies are facing a lot of difficulties due to the absence of directors, either due to quarantine for Covid-19 or deaths. Board meetings and audit committee meetings are being rescheduled,” said Gaurav Pingle, founder of Pingle & Associates, a company secretary firm. “Certain decisions are also not taken within the pre-decided timelines due to the non-availability of independent directors.”