Private lives, public markets

Health issues, divorce, protracted battles with siblings, moral turpitude, regulatory misdemeanours etc. can all distract the CEO and impinge on a company's performance. So, how much of a CEO's private life should a company disclose?

Gautam Singhania recently put out a statement announcing his decision to divorce Nawaz, his wife of 32 years. Given the "unsubstantiated rumor mongering and gossip" that preceded this announcement, he requested that this personal decision be respected, allowing the family the privacy needed to sort through the various issues. We will do so.

His announcement, however, is an opportunity to raise questions regarding how 'private' the lives of listed company CEOs ought to be, as well as what companies should disclose and when.

A CEO's divorce can affect the company in many ways. First, a divorce may impact the CEOs efficiency, focus, and energy level. There is a growing body of work that suggests that family conflict often spills onto the workplace. And because separation may be long- drawn, the negative consequences may manifest even prior to the formal termination of the marriage and endure for some time, thereafter. However, CEOs benefit from managerial support which can mitigate any adverse effects resulting from a divorce.

Second, is the impact on ownership. A CEO holding a substantial ownership stake in a company may need to sell or transfer a portion of this stake to meet the conditions outlined in a divorce settlement.

David F. Larcker, Allan L. McCall, and Brian Tayan noted that when Rupert Murdoch, the Chairman and CEO of News Corp, disclosed that he and his second wife Wendi Deng were initiating divorce proceedings, after 14 years of marriage, the share price did not react. In contrast the authors found that Continental Resources share price drops on news of its chairman and CEO Harold Hamm's divorce because "Hamm could have to sell a significant amount of his stock to pay a divorce settlement, or he could be forced to hand some of his stock over to his ex-wife. We believe both of these would result in a substantial overhang on the stock and could result in Hamm losing majority control," noted RBC Capital.

In Kings of Capital, a book about Blackstone, the authors have said that Stephen Schwarzman in part is believed sold his shares in Blackrock to help defray the cost of his divorce (- he later described this sale as his "heroic" mistake).

Money is wiser after the first marriage: Rupert Murdoch in his second marriage had a prenuptial agreement, Hamm and Schwarzman, in their first, did not.

While anecdotal evidence suggests spouses are more likely to receive cash and other assets, it is not always so. Mackenzie Bezos got to keep her 4% stake then valued at US$35.6 bn, leaving Jeff Bezos holding 12% in Amazon. Mackenzie Bezos however transferred her voting rights to her husband.

This lower wealth may result in a change in the risk appetite of the CEO, leading to either becoming too conservative or dialling up risk. This has consequences on the company.

Current Indian boards deal less with divorces and possibly a bit more with disclosures regarding health issues of their CEO. Boards generally offer two explanations for remaining silent on their CEOs illness. First, the trade-off between an individual's privacy and the company's disclosure obligations. In the absence of regulations regarding what and when to disclose, companies have preferred to remain silent. The other is that companies do not view this as material information – unlike order wins or a factory fire which can be baked into a spreadsheet.

In the US, disclosures regarding a CEO's health fall along a continuum. From full briefings early in the cycle as seen with Berkshire Hathway announcing that Warren Buffett will have prostate cancer surgery, to partial ('CEO is hospitalized'), to keeping silent.

Disclosures on both health and personal relationships are rare in India. HDFC Bank's is one of the few instances of a company making a disclosure regarding its CEO's' heart operation. SKS Microfinance had disclosed matters relating to its founder's divorce in its offering circular. Such disclosures remain uncommon.

Most disclosure requirements are regarding the firm and very few relate to its leadership team. This is despite CEOs' personal brand sometimes becoming as powerful as the companies that they manage. Investors, however, expect that boards will be kept in the know. This is even more critical when it comes to the CEO's illness and health. Rather than waiting for the CEO to inform the board about her health, the board can demand that such disclosures be made mandatory. This will enable the board to assess the severity and plan ahead.

Health and divorce are not the only elements that affect the CEO. Protracted battles with siblings, moral turpitude, regulatory misdemeanours, and the like, can all distract the CEO and impinge on a company's performance.

For now, boards must demand disclosures regarding the current situation from the CEO, based on which the board should take a call regarding the materiality of the event. Appropriate disclosures must follow.

A modified version of this blog was published in Business Standard on 21 November 2023. Its subscribers can access the blog by clicking this link or typing the following url: https://www.business-standard.com/opinion/columns/private-lives-public-markets-123112001152_1.html

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