Chapter 3
Corporate Governance Role of the Board Committees in India

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ABSTRACT

The establishment of board sub-committees has been strongly recommended as a suitable mechanism for improving corporate governance by delegating specific tasks from the main board to a smaller group and harnessing the contribution of non-executive directors. This chapter discusses the constitution of board committees in Indian context, their composition, processes, and their role in promoting good corporate governance. India has constantly made efforts to update its corporate governance regulations in line with the international best practices. This chapter will help the readers to understand the corporate governance scenario in India with special reference to the board committees and will have implications for the regulators, policymakers, corporate governance practitioners, researchers, and academicians in the developing countries.

DOI: 10.4018/978-1-5225-9607-3.ch003

INTRODUCTION

The establishment of board sub-committees has been strongly recommended as a suitable mechanism for improving corporate governance, by delegating specific tasks from the main board to a smaller group and harnessing the contribution of non-executive directors. The effectiveness of the board depends on its composition and size and also its internal administrative structure (John & Senbet, 1998). Constitution of board committees leads to the division of responsibilities within the board and shows a systematic approach to handle issues on the agenda. Board decisions initially originate in the board committees. Hence, it is expected that the effective use of committees by the board shall have a positive effect on firm performance (Vig & Datta, 2018). As each committee functions only for a specific issue and the expertise and professions of the independent directors on different committees are varied, they can contribute to the performance of the company from different dimensions. For a Board of Directors, its committee structure symbolizes its method of operation.

Harrison (1987) makes an analysis of the roles of board sub-committees and recognises them as strategic tools, fulfilling board responsibilities of maintaining corporate legitimacy, protecting directors from excessive exposure to liability and contributing to the formation of corporate strategy. He argued that audit and remuneration committees, with a monitoring and oversight brief, contributed to the first – establishing and maintaining organisational legitimacy in the eyes of external resource providers. Some other scholars identify a corporate strategy role for the board committees (Andrews, 1981).

The Anglo-Saxon model of governance (adopted by UK, USA and also India) has recognised the importance of the unitary board structure, while providing for boards sub-committees to focus on specific aspects of governance which have been identified as important but difficult, such as financial reporting quality, directors' remuneration and board appointments. The codes of governance all over the world have recommended the establishment of audit, remuneration and nomination committees for improving corporate governance standards. There is ample literature in the area of corporate governance where various researchers have conducted studies on these Board committees mainly required to be constituted by various corporate governance codes.

Role of Board Committees

Committees appointed by the Board focus on specific areas and are intended to take informed decisions within the framework of delegated authority. They enable better and more focused attention on the company affairs and review items in great detail before it is placed before the Board for its consideration. These committees prepare

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