

The Relationship Between Board Composition and Firm Performance: A Study of Indian Companies

Abstract

Corporate governance issues have succeeded in attracting a good deal of public interest because of their apparent importance for the economic health of corporations and society in general, especially after the plethora of corporate scams and debacles in recent times. USA, UK, Canada, other European countries, East Asian Countries and even India for that matter have witnessed collapse or severe pressure on their economies as well as grave problems and even the demise of leading companies in the last two decades or so. Corporate governance issues flow from the concept of accountability for the safety and performance of assets and resources entrusted to the operating team and these issues of accountability and governance assume greater significance and magnitude in case of corporate form of organization where the ownership and management of organizations are distanced and it is in this context the pivotal role played by the board of directors in maintaining an effective organization assumes much importance. To have a board of directors is a legal requirement mandated by statute for all incorporated entities. The Cadbury Report (1992) placed the corporate board at the center stage of the governance system that it described as one by which companies are directed and governed. A major part of the debate on corporate governance centers around the company directors individually and collectively as the board, their relation with the executive, their roles, responsibilities and rewards, their expertise, independence, and will to act in the larger interests of the company, all its shareholders and other stakeholders. The SEBI Guidelines on Corporate Governance based on the report of Kumar Mangalam Birla

Committee and recommendations of subsequent committees namely the Naresh Chandra Committee, N.R. Narayana Murthy Committee and very recently the J.J Irani Committee have mandated a minimum number of independent directors and have given guidelines on board composition. But does the board composition really matter in the sense is there a relationship between board composition and the firm's performance. The study has examined this question and has come out with very significant findings.