Chapter 4

Board Committees and Issues in Corporate Governance

Chapter 4

Board Committees and Issues in Corporate Governance

The previous chapter was devoted to the analysis of board structure and the process of appointment of directors with other demographics and cognitive aspects. This chapter expounds some other aspects of board structure and control. Specifically, this chapter delineates the history of presence of board committees in Indian corporates, its importance and structure in section one. A special reference has been made about the chairman of the board committees and his demographics so as to find out his capabilities to work in an independent objective manner. Section two is devoted to the analysis of the thorny issues concerning the exercise of control, effect of CEO duality and multiple board and board committee memberships alongwith the analysis of role of nominee directors.

4.1 Board Committees

Kumar Mangalam Birla Committee (KBC) sought to introduce the corporate governance system by retaining single tier board in India, as is prevalent today, through the mode of appointment of various committees of board. Board of directors can delegate its authority to committees constituted of board members. The existence of board committee is a central element to corporate governance and hence to board functioning. The functions generally performed by the audit, compensation, and nomination committees are central to effective corporate governance. The composition of the audit committee is based on the fundamental premise of independence and expertise. Boards working as a whole on important strategic issues allow the corporation to take advantage of the collective wisdom of the board. However, large publicly owned companies operate with a committee structure to permit the board to address certain key areas in more depth that may not be possible in a full board meeting. The type and number of committees will vary from corporation to corporation. The three most commonly advocated board committees for good corporate governance are the audit committee, nomination committee and the remuneration committee, and in case of India the shareholders/ investors grievance committee too.

Importance of Board Committees

The empirical evidences support that companies that had audit committees comprised of more members with financial management experience and formal qualifications in accounting or auditing are less likely to experience financial reporting irregularities. Additionally, frequently held audit committee meetings are associated with lower incidence of financial reporting scams. This supports the role of audit committees in corporate governance, especially in relation to financial reporting and external auditing and elimination of fraud. In case of absence of an independent remuneration committee managers could appear to write their own contracts with one hand and sign them with the other (Williamson, 1985). Therefore, the constitution and composition of these committees has become very important.

Pursuant to Cl. 49 formation of audit committee[1] and shareholders grievance committee have become mandatory. But, the remuneration committee has remained as a non-mandatory requirement under the said clause. Board level committees that are mandated for PSBs are risk management committee, asset liability management committee (ALCO), etc. Companies have freedom to constitute any other committees, to render help to the board.

Board committees help improvement in governance system by appointing qualified and expert board members on it. It is the best method for internal controls, expediting the work, and to keep an eye on the management function. All corporate governance committees worldwide shared a common vision of maximization of shareholder value since the *raison d'etre* of corporate governance are shareholders, however, they failed to address the main issue of shareholder grievances and formation of a mandatory shareholders/ investors

[1] Audit Committee is also mandatory under section 292-A of Companies (Amendment) Act, 2000.

grievance committee. However, in India, the share transfer committee exists since the year 1960 that was supposed to look after shareholder grievances about the share transfers. The said share transfer committees were rechristened in the name of shareholders grievance committees pursuant to Cl. 49 in many companies.

4.1.1 History of Board Committees in India

New York Stock Exchange required all listed companies to have audit committees composed solely of independent directors since 1978.. In 1987, the American Treadway Commission suggested that audit committees had a critical role to play in ensuring the integrity of the U.S. companies' financial reports. Main & Johnston (1993) found presence of remuneration committee more common among higher turnover firms[2]. In India, board committees' existence has gained the momentum since CII report in the year 1997 though many companies had audit committees apart from some other board committees even prior to 1997. Compensation committee is a must for the companies that offer ESOS for administration and superintendence of the ESOS under SEBI ESOPs/ ESPS Guidelines, 1999. Its' only after the listing agreement requirements and mandatory legal provisions for audit committee under s.292-A of the Companies (Amendment) Act, 2000, that companies gathered momentum in setting up of board committees as part of governance system. While tracing out the history of existence of board committees we depended on the responses by respondents and disclosures in the annual reports. Table 4.1 presents the analysis of available data of 393 board committees of 113 surveyed companies.

The table indicates that during time period 1955-65 only 5 board committees (2- share transfer committees (recently reconstituted as shareholders' grievance committee), 1- nomination/ recruitment committee and 1- other committee) could be traced. During the

[2] Since they found strong relationship between sales and top executive pay.

period 1965-75, 3 other companies established 3 board committees (i.e., 2-share transfer committees and 1-other committee).

Table 4.1: Frequency Distribution of Board Committees on the Basis of Category of Existence of Year

Existence since which year (Category)	Category of Board Committees Formed in Each Period/Year						Total BCs	Cumulative Frequencies
	Audit	Share-holders Grievance	Remuneration/ Compensation	Share Transfer	Nomination/ Recruitment committee	Others		
1955-65	-	2[3]	-	-	1[4]	2[5]	5	5
1965-75	-	-	-	2	-	1	3	8
1975-85	1[6]	4	1[7]	2	1	6	15	23
1985-95	22	9	7	9	2	18	67	90
1995	5	1	2	-	-	4	12	102
1996	5	3	1	2	-	3	14	116
1997	3	4	2	2	-	10	21	137
1998	8	2	4	1	2	13	30	167
1999	4	1	1	1	1	5	13	180
2000	33	35	20	3	1	4	96	276
2001	15	29	5	-	-	2	51	327
After Mar-2001	3	1	1	-	-	1	6	333
Sub-total	99	91	44	22	8	69	333	
Information not available*	12	11	9	4	2	22	60	
Total	111	102	53	26	10	91	393	

* Information about the date/ year of existence not given by companies but they were in existence during FY2000-01.

All shareholders grievance committees whose establishment period is shown during the period 1955-1995 were established as share transfer committee, however, they were reconstituted as shareholders grievance committee after mandatory requirements under the listing agreement. The first remuneration committee and the first audit committee were formally set up in the year 1981 and 1983 respectively. During the period 1985-95 there were maximum board committees formed by companies and there was a steep increase in the number of board committees from 15 to 67 (i.e., 4.5 times). Out of 111 audit committees

[3] Hindalco Industries Ltd. had share transfer committee since 1960 which has been reconstituted in January 2001 and The Associated Cement Companies Ltd. had share transfer committee since 1962 which has been reconstituted after the listing agreement requirement of having shareholders' grievance committee.

[4] Gujarat State Fertilizers and Chemical Ltd. had personnel committee since 1962 to review manpower, succession planning, promotion, etc.

[5] State Bank of India has executive committee of central board since year 1955 and Gujarat State Fertilizers and Chemical Ltd. has planning and projects committee since year 1962.

[6] Indo Gulf Corporation Ltd has audit committee since year 1983.

[7] Larsen & Toubro Ltd. has remuneration committee since year 1981.

19.8% (i.e., 22) were formed during the time period of 1985-95 when it was not mandatory to have an audit committee. After CII recommendations on board committees in the year 1997, 7.63% board committees (30 out of 393) were established.

Due to mandatory requirement of the listing agreement a sudden growth of board committees took place and 147 board committees out of 393 board committees (i.e., 37.4%) were established during the FY2000-01. Out of 147 board committees established during the FY2000-01, 32.7% were audit committees, 43.5% were shareholders grievance committees, and 17% were remuneration committees. Since many companies already set up audit committees prior to the FY2000-01, the rest of companies complied with the mandatory requirements. Shareholders grievance committees though were in existence prior to the FY2000-01, there were not many shareholders grievance committee and because of sudden mandatory requirements 64 respondent companies formed shareholders grievance committee. As remuneration committee was a non-mandatory requirement, there were only 25 respondents companies that formed remuneration committee during the FY2000-01.

However, the final tally at the end of March 2001 shows that out of 113 respondent companies, 98.2% had audit committee, 90.2% had shareholders grievance committee, 46.9% had remuneration/ compensation committee, 23% had share transfer committees, and only 8.8% had nomination/ recruitment committee. Out of 393 board committees, 23.2% (i.e., 91) were the other board committees that were instituted for oversight, and internal controls of specific functions of companies. Companies under each sector were governed by different rules and regulations and thus they constituted various types of board committees apart from mandatory requirement of listing agreement. In 113 companies there existed 393 total board committees. Table 4.2 shows the presence of number of board committees in companies on the basis of sector they belong to. The table shows that number of board committees in different companies varied from minimum 1 to maximum 12.

Table 4.2: Sectorwise Frequency Distribution Number of Board Committees in Companies for the FY2000-01

No of Board Committees	Sector			No of Cos.
	Joint	Private	Public	
1	-	2	-	2
2	3	24	4	31
3	-	34	6	40
4	-	13	4	17
5	-	9	2	11
6 to 12	0	9	3	12
Total	3	91	19	113
Average Board Committees per Co.	2	3.41	4	3.48

Average number of board committee in joint sector was 2, in private sector it was 3.41, in public sector it was 4 and overall average in all companies was 3.48 (i.e., 393 board committee in 113 Companies). Majority of companies (70.8% i.e., 80 out of 113 companies) had number of board committees equal to or above 3 and that 12 companies had board committees more than 5. After discussing the historicity of board committees following will show the sectorwise and BSE groupwise analysis of the number of category of board committees.

Table 4.3: Sectorwise and BSE Groupwise Frequency Distribution of Board Committees For the FY2000-01

Category of BC	Sector			BSE Group		Total Cos
	Joint	Private	Public	A	B1	
Audit Committee	3	89	19	93	18	111
Shareholders Grievance Committee	1	83	18	90	12	102
Remuneration/Compensation Committee	-	50	3	51	2	53
Share Transfer Committee	1	17	8	20	6	26
Nomination/Recruitment Committee	-	7	3	9	1	10
Others	1	65	25	80	11	91
Total Cos.	3	91	19	93	20	113

For the analysis purpose data was available for 393 board committees of 113 companies. BSE groupwise analysis (table 4.3) shows that 100% 'A' group companies on whom Cl. 49 of listing agreement was applicable by 31-3-2001, had audit committees and the shareholders grievance committees and that 3 'A' group companies and few companies in 'B1' group did on whom Cl. 49 was not applicable as on 31-3-2001 did not form audit and shareholders grievance committee. Maximum numbers of remuneration committees were observed under private sector. That apart from having shareholders grievance committee, 23% companies also had share transfer committees. Even though compensation/ remuneration in public sector was decided by the Government remuneration/ compensation committees could be observed in 15.79% PSUs.

4.1.2 Structure of Board Committees

Composition of board committees is as important as the composition of the board itself. The professionalism and independence is exercised in the board committees expectedly improves the board process. Kesner (1988) was of the view that despite there has been an increase in research concerning the composition and structure of corporate boards of directors, very little is known about the composition of board committees. Therefore, vital features of board committees are the independence and necessary expertise to take up the responsibilities of the respective committees. Hereunder an analysis has been done of the size and the structure of board committees.

Size of Board Committees

Minimum size of audit committee has been recommended under the listing agreement with a membership of 3 directors. However, in case of other board committees minimum size has not been mandated. Table 4.4 shows the frequency distribution of available data of 368 board committees of 113 companies on the basis of number of members in each board committee.

The table reveals that the strength of member in board committee ranged from minimum 1 to maximum 15. The most preferred strength of board committee was 3 and followed by 4 members in all types of board committees. An overall average strength of 368 board committee of 113 companies was 4 (i.e., 3.69). Audit committee's strength of members ranged from minimum 3 to maximum 6 and that in shareholders grievance committee - strength of members varied from 2 to 7 with an average of 5.

Table 4.4 : Frequency Distribution on the Basis of Number of Members in Each Board Committee

No of Members in each committee	Category of BCs						Total BCs
	Audit	Share-holders Grievance	Remuneration/ Compensation	Share Transfer	Nomination/ Recruitment	Others	
Upto 2	-	13	2	4	-	4	23
3	68	52	27	15	2	21	185
4	30	24	16	1	4	20	95
5	9	6	4	2	1	17	39
6	1	4	1	1	1	9	17
More than 6	-	1	1	-	1	6	9
Total	108	100	51	23	9	77	368
Average Members per BC	3.47	4 89	4.48	3.57	3 13	3.39	3 69

Also that the average strength of remuneration committee was 5 (actual average of 4.48 of remuneration committee is less than the actual average of 4.89 of shareholders grievance committee).

Alongwith the strength of board committee, the recommendations of KBC stressed upon the members of particular type of directorship and it also suggested their proportion especially in case of audit committee. Table 4.5 discloses the type of directorship and their proportion in the composition of 393 board committees.

Table 4.5 : Category of Board Committee vs. Board Committee Composition

Category of Committees	**Average Members**					**Number of Companies**			
	ED%	NED%	IND%	%Total	Total	ED	NED	IND	Total
Audit	5	30	65	100	3 47	16	56	87	108
Shareholders' Grievance	23	36	41	100	4 89	75	53	70	100
Remuneration/Compensation	49	25	26	100	4.48	13	23	43	51
Share Transfer	8	23	69	100	3.57	22	11	9	23
Nomination/Recruitment	60	22	18	100	3 13	7	5	4	9
Others	36	24	40	100	3 39	37	23	22	77
Total	28	26	46	100	3.69	93	78	89	110

The table shows that the INDs dominated the audit committee and share transfer committees with 65% and 69% respectively. However, nomination/ recruitment committees and remuneration committees were dominated by EDs with 60% and 49% respectively. It is to be noted that 19.4% (i.e., 21 out of 108) companies had no independent (IND) directors in the audit committee and they were comprised of NEDs and EDs[8] only. That 14.8% (i.e., 16 out of 108) companies had executive directors (ED) in the audit committee. In the shareholders grievance committee 75% companies, in remuneration /compensation committee 25.5% and in nomination/ recruitment committees 77.7% companies had executive directors as board committee members. Rather, they should comprise of non-executive directors (including independent directors) only.

In the case of an audit committee, it is important to be separate from management in order to let the audit committee effectively discharge its responsibilities. The audit committee's responsibilities revolve around oversight of control over management actions – overseeing the internal control system and ensuring statutory audit so as to ensure transparent financial reporting. Section 292-A[9] requires that 2/3rd of audit committee members should be other than MD or WTDs implying thereby that 1/3rd of members can be MD or WTDs. Whereas the Cl. 49 mandates NED and IND members only for the composition of audit committee and excludes WTDs absolutely. Therefore, the listing agreement and the Companies (Amendment) Act, 2000 are at variance on this issue. Analysis of the composition revealed that in case of 16 companies, the audit committee membership was held by executive directors, which violated provisions of listing agreement but was within the legal framework of the Companies Act. For the oversight function to be effective, audit committee should not have included executive board members and for them accounting and financial expertise was equally important. Unfortunately, existing requirements tend to focus on the independence of these committees, and not on the expertise or qualification of audit committee members[10]. The same is the case with the remuneration committee and the

[8] Despite that it is a mandatory requirement of the listing agreement that the audit committee members shall be NED and the Chairman be IND.

[9] Companies (Amendment) Act, 2000.

[10] Listing agreement mandates that one of the member of audit committee should have knowledge of finance and accounting, however, no prescription has been given that what constitutes the knowledge in finance and accounting (i.e., by qualification or by experience or by both).

shareholders grievance committee wherein the members should absolutely be independent and that they should know their job.

4.1.3 Chairman of Board Committee

Chairman of board committee has an important role to play because skillful application of wisdom can really bring in the effectiveness in functioning of the board committee. Committees on corporate governance across globe recommended for an independent chairman of the board committees for an independent objective surveillance of the management. Chairmanship of a committee held by a non-executive director is legally accepted proposition[11]. Executive director, if holding the position of a chairman of a board committee, particularly audit committee, raises the doubt about the quality of the surveillance function expected to be exercised[12]. To this end, an analysis was done to examine the type of directorship held by the chairman of various board committees.

On the Basis of Type of Directorship

Analysis of available data of 369 board committee chairman of 111 companies on the basis of the type of directorship held by a director occupying the position of chairman of the board committee is given at table 4.6.

Table 4.6 : Board Committee vs. Type of Directorship of Board Committee Chairman

Category of Committees	Directorship of BC Chairman			No. of BC
	ED	NED	IND	
Audit	2	34	73	109
Shareholders Grievance	8	36	54	98
Remuneration/Compensation	6	15	31	52
Nomination/Recruitment	3	3	3	9
Share Transfer	14	5	4	23
Others	38	17	23	78
No of BCs	71	110	188	369
No. of Companies	41	56	77	111

11 In India, NED Chairmen are either promoters or single largest shareholders who may collude with the management for the expropriation of minority shareholders therefore their presence on BC as a Chairman will lead to concentration and abuse of power.

12 The meetings of audit committee becomes invalid when the CMD of the company also becomes Chairman of the audit committee – alleged by all nominee directors of Daewoo Motors India Ltd. – (2002), *The Financial Express*, Mumbai, p. 1.

In majority of cases chairman of audit committees were independent directors (i.e., 67% companies) followed by NED in 31.2% companies (i.e., 34 out of 109) and that 2 EDs (one from BSE 'A' group and one from BSE 'B1' group) were the chairmen of the audit committees. In shareholders grievance committee the majority of chairman were INDs, i.e., in 55.1% companies (54 out of 98), followed by NED in 36.7% companies (i.e., 36 out of 98) and that in 8 companies chairman of the shareholders grievance committees (six from BSE 'A' group and two from BSE 'B1' group) were EDs. That the majority of chairman of remuneration/ compensation committee were INDs in 59.6% companies (i.e., 31 out of 52) followed by NED in 28.8% companies (i.e., 15 out of 52) and that in 6 companies (all from BSE 'A' group) EDs were the chairmen of the remuneration/compensation committees. Considering all board committees together, the table shows that 19.24% board committee chairmen (i.e., 71 out of 369 board committees) of 36.9% companies (i.e., 41 out of 111 companies) were EDs. Under such circumstances the ED chairman of the remuneration/ compensation committee write their own remuneration contracts. It was required under the listing agreement to have independent chairman of board committee related to audit committee. For remuneration committee a chairman should be a NED since the committee decides the remuneration of EDs.

On the Basis of Designation

Board committee members are drawn from the existing board members. The type of designation of a board committee chairman on the board has an impact on the functioning and powers of board committee. To find out whether there existed unfettered concentration of power in a single person it was tried to find out the position of a board committee chairman on the board on the basis of his designation.

The analysis of available data of 364 board committee chairmanships of surveyed 109 companies at table 4.7 shows that the majority of chairman of audit committee, shareholders grievance committee, remuneration/ compensation, nomination/ recruitment, and "Other" board committees were ordinary directors (217 board committee of 98 Companies) followed by chairman of the company (65 board committee of 38 Companies).

Table 4.7: Frequency Distribution on the Basis of Designation of Board Committee Chairman

Designation of Chairman of BC	Category of (BC)						Total BCs	Total Cos.
	Audit	Shareholders Grievance	Remuneration/ Compensation	Nomination/ Recruitment	Share Transfer	Others		
Chairman	11	16	10	3	6	19	65	38
CMD	-	5	4	1	7	17	34	18
MD/CEO	-	2	-	1	3	8	14	10
MD (Functional)	-	-	-	-	-	1	1	1
WTD	2	2	2	-	4	6	16	10
Ordinary Directors	89	66	30	3	3	26	217	98
Additional Director	-	1	1	-	-	-	2	2
Casual Director	1	2	1	-	-	-	4	3
Nominee	4	2	3	1	-	1	11	9
Total Cos.	107	96	51	9	23	78	364	109

Chairmen of majority of share transfer committees were either leader of the company (i.e., Chairman, CMD) or MD/CEO or the WTD. In India, the leader of the company (i.e., Chairman or CMD) was the chairman of one or the other board committees in 51.4% (56 out of 109) companies.

On the Basis of the Area of Expertise

Though, listing agreement does not provide for the stringent provisions on the area of expertise of board committee chairmen, it is essential that the board committee chairman must have expertise in areas of related functions of board committees. Following is an effort to find out the area of expertise of board committee chairman. Analysis of available data of 305 board committee chairmen of surveyed 109 companies on the basis of area of expertise of the board committee chairman is presented at table 4.8.

The table shows that the chairmen of board committees had different areas of expertise. The chairman of audit committee should have the literacy in accounting and finance as per law, however, the ground reality was that chairmen of the audit committee were even undergraduate but industrialists who did not attain any formal degree but were men of "business experience".

Table 4.8 : Frequency Distribution of Area of Expertise of Board Committee Chairman

Area of expertise	Category of BCs						Total BC	Total Cos.
	Audit	Shareholders Grievance	Remuneration/ Compensation	Nomination/ Recruitment	Share Transfer	Others		
Accountant	22	17	6	-	6	11	62	37
Arts	1	4	3	-	-	2	10	8
Commerce	5	6	2	-	3	5	21	15
Economist	8	6	4	-	1	4	23	17
Engineer	6	12	5	4	4	11	42	25
Graduate	1	1	1	-	-	-	3	2
IAS	13	7	3	2	1	3	29	16
Industrialist	2	2	2	-	-	-	6	4
Law	7	6	1	-	1	4	19	15
Management	4	4	4	-	2	7	21	13
Medicine	-	-	-	-	-	1	1	1
PhD	8	5	3	-	1	5	22	14
Post Graduate	1	1	1	-	1	3	7	5
Science	5	6	1	1	2	5	20	15
Technocrat	2	3	4	1	-	9	19	9
Total	85	80	40	8	22	70	305	109

However, the over all picture shows that the chairman of the board committee could be anyone right from chartered accountants, IAS officers, Ph.Ds., management professionals, technocrats, engineers to undergraduate industrialists or merely graduate of Arts, Commerce, Science, etc. The table also reveals the fact that maximum frequency of expertise for the chairmen of all categories of board committee was chartered accountant (62) followed by engineers (42). It is interesting to note that the chairmen of remuneration/ compensation and nomination/ recruitment committees were other persons than the qualified management experts. These two committees were looking after very specialized functions that were very important from the governance point of view. Out of 51 remuneration/ compensation committees, only 4 committees had management experts as their chairmen (i.e., only 7.84%).

On the Basis of the Business Relationship With the Company

It is equally important to know that whether the chairmen of board committee were affiliated directors in any manner to the company other than their directorships. A seat on the board, business relationship with the company and board committee chairmanship of an important board committee, in a single person indicates at the unfettered concentration of power in him and this will lead to abuse of power vitiating the basic norms of delegation of power to board committees for the best surveillance and oversight. However, the following table shows that there exists an enormous concentration of power in few hands in many companies.

Table 4.9 : Frequency Distribution of Board Committee Chairman on the Basis of Business Relationship With the Company

Business Relationship with the Co	Category of (BC)						No of BC	No. of Cos
	Audit	Shareholders Grievance	Remuneration/ Compensation	Nomination/ Recruitment	Share Transfer	Others		
Promoter	3	13	8	1	6	12	43	29
Advisor/ Auditors/ Consultants/Solicitors	2	3	-	-	-	-	5	4
FI Nominee	3	1	2	-	-	-	6	6
Govt. Nominee	2	6	1	3	1	8	21	8
Other Nominee	1	1	1	1	-	2	6	4
Sub-total (Busi. Relation)	11	24	12	5	7	22	81	46
No Busi. Relationship	98	74	40	4	16	56	288	65
Total BCs	109	98	52	9	23	78	369	111

Analysis of available data of 369 board committee chairman of surveyed 111 companies (table 4.9) shows that 78% chairmen of board committee (i.e., 288 out of 369) did not have any business relationship with the company. That the board committee chairmen of 46 out of 111 (i.e., 41.4%) companies had business relationships with their respective companies. In 29 out of 111 companies (i.e., 26.1%) chairmen of 43 board committees were promoters of the company. It is interesting to note that in 2 audit committees the auditors of the company were sitting as chairman of the audit committee which will render the said chairman as an interested person while deciding auditor's remuneration and commenting upon the work of the statutory auditors. In case of 13 shareholders grievance committee the chairmen were promoters themselves. This could be a pity situation where the minority shareholder has to complaint about the majority shareholder to himself. Again, promoters sitting as board committee chairman of remuneration/ compensation and nomination/ recruitment committee will bring the problems of handpicked directors to square one which was intended to be solved by the presence of independent board committees for the said purpose.

Attendance Record of Board Committee Chairman

Board committee chairman is required to give the answers of queries raised by the shareholders in AGM. On the other hand being the chairman of the board committee he shoulders a greater responsibility of surveillance and oversight function with respect to his respective board committee function and to fulfill that responsibility he has to attend the board committee meetings regularly. Attendance at AGM is required to fulfill his accountability to the shareholders and on the other hand regular attendance at board committee meetings is required to fulfill his responsibility towards the company concerning the area of board committee which he chairs. For that it was attempted to find out the attendance records of board committee chairmen on the basis of attendance at the last AGM and attendance at the board committee meetings, the results of which are given in table 4.10.

Table 4.10: Frequency Distribution of Attendance Record of Board Committee Chairmen

A. At the Last AGM

Last AGM Attended	Category of Committees						Total BC Chairmen	% of Total
	Audit	Shareholders Grievance	Remuneration/ Compensation	Share Transfer	Nomination/ Recruitment	Others		
Yes	73	70	41	21	6	63	274	79.65
No	25	21	9	2	2	11	70	20.35
Total BCs	98	91	50	23	8	74	344	100

B. At the BC Meetings

Attendance Category	Category of Committees						Total BCs	% of Total
	Audit	Shareholders Grievance	Remuneration/ Compensation	Share Transfer	Nomination/ Recruitment	Others		
0%	4	6	-	-	1	5	16	5.28
0-25%	1	3	-	-	-	-	4	1.32
25-50%	-	-	2	-	-	1	3	0.99
50-75%	12	8	8	2	1	1	32	10.56
75-100%	17	14	8	3	-	12	54	17.82
100%	56	54	24	14	5	41	194	64.03
Total	90	85	42	19	7	60	303	100

The table shows that 79.65% board committee chairmen (i.e., 274 out of 344) attended the last AGM of their respective companies whereas 20.35% (i.e., 70 out of 344) did not attend the same. The three important board committees, i.e., audit committee, shareholders grievance committee and remuneration/ compensation committee chairmen were required to attend the last AGM. However, 25.51% audit committee chairmen (i.e., 25 out of 98); 23.07% shareholders grievance committee chairmen (i.e., 21 out of 91) and 18% remuneration/ compensation committee chairmen (i.e., 9 out of 50) did not attend the last AGM.

Table 4.10B shows the attendance record at board committee meetings. The overall attendance of board committee chairmen shows that the 100% attendance has been met by 64.03% board committee chairmen (i.e., 194 out of 303) and that 7.59% board committee chairmen (i.e., 23 out of 303) attended 0% to less than 50% board committee meetings. The table also reveals that 5.55% audit committee chairmen (i.e., 5 out of 90); 10.58% shareholders grievance committee chairmen (i.e., 9 out of 85); and 4.76% remuneration/ compensation committee chairmen (i.e., 2 out of 42) attended 0% to less than 50% board committee meetings. It is interesting to note that only 62.22% audit committee chairman (i.e., 56 out of 90); 63.53% shareholders grievance committee chairman (i.e., 54 out of 85); and 57.14% remuneration/ compensation committee chairmen (i.e., 24 out of 42) attended 100% board committee meetings. As far as Other board committees are concerned 10.44% board committee chairmen (i.e., 7 out of 67) did not attend even a single board committee meeting and that 69.77% board committee chairmen (i.e., 60 out of 86) attended 100% board committee meetings.

4.1.4 Frequency and Quorum of Board Committee Meeting

Frequency of Board Committee Meetings

Frequency of holding a meeting is an indicative of not only the volume of issues to be transacted but also the urgency of the matters which require speedy disposal, besides indicating the concern of committee members to impart systemic resilience to the governance system[13]. It is in this context that an attempt has been made to analyse the frequency of 332 different board committee meetings of 107 companies (table 4.11).

It is revealed from the table that share transfer committee meetings were held most frequently (i.e., on an average of 18.7 in a year) and the least frequent meetings were held for remuneration/ compensation committee and nomination/recruitment committee, i.e., 2.6 and 2.9 respectively (approximately 3 for both of them). The frequency of board committee meeting ranged from minimum 1, i.e., (yearly) to as many as above 52 (i.e., weekly) and that preferred frequency range was 3 to 6 board committee meetings per year. In vast majority of the companies (83%) frequency of audit committee meeting was approximately 4 in a year (with an average meeting of 3.5) and that in 17% companies it was less than 3 meeting per year (below mandatory requirement) because those board committees were newly formed during the FY2000-01.

Table 4.11 : Frequency Distribution of Frequency of Board Committee Meetings

Category of Freq. Of meeting	Category of BCs						Total BC
	Audit	Shareholders Grievance	Remuneration / Compensation	Nomination/ Recruitment	Share Transfer	Others	
Yearly	12	17	17	2	1	3	52
Half Yearly	6	10	8	4	-	10	38
Thrice a Year	34	8	7	-	-	7	56
Quarterly	38	13	9	1	1	7	69
Bimonthly	16	9	2	2	-	16	45
Monthly	-	13	1	-	8	10	32
Fortnightly	-	12	-	-	10	6	28
Weekly	-	2	-	-	1	3	6
Other*	-	-	2**	-	-	4**	6**
Total nos. of BCs meetings	374	715	114	26	393	588	2210
Total BCs	106	84	46	9	21	66	332
Average meetings per BC	3.5	8.5	2.5	2.9	18.7	8.9	6.7

* Other - i.e., as and when required or meeting by circulation.

** was considered for finding out the average in case of remuneration/ compensation committee and in case of other committees.

In majority of companies, i.e., 58.3% (49 out of 84) the frequency of shareholders grievance committee meeting was more than 4 per annum whereas in remuneration committee it is less

13 Importance of frequency of board committee meetings can be predicated from the finding of Beasley *et al.* that audit committee in fraud companies met less frequently than in non-fraud companies.

than 2 in 54.3% of companies (i.e., 25 out of 46 companies). It was found that shareholders grievance committee and share transfer committee meetings took place quite frequently than any other board committees. Despite management in several organizations did not consider it necessary to have remuneration committee, it was evidenced by the fact that only a few organizations regularly held remuneration committee meetings. In many organizations share transfer committee's function was clubbed with the shareholders grievance committee, while few others preferred to separate the two committees. The Companies Act, 1956, requires two-thirds directors to be retired by rotation, of whom one-third to be retire every year, implying thereby that nomination of directors is a continuous and regular function which underscores the significance of the nomination process. This seems to be reason why in the U.K. and elsewhere institution of nomination committee is considered to be important part of the board structure. Surprisingly, in case of India data of sample companies revealed that recruitment/ nomination committee were separated only in case of 10 companies.

It is important to note that since the present data pertains to FY2000-01, it did not permit generalization of evaluation of effectiveness of frequency of board committee meetings over a period of time. This is so because listing agreement has staggered the institutionalization of these committees.

Quorum

Listing agreement and Companies Act, 1956 provides for $1/3^{rd}$ quorum or 2 members whichever is higher. As per listing agreement's non-mandatory requirement, the quorum of remuneration committee shall be 100% since it has to meet only once in a year to fix up the remuneration of the directors. Analysis of data of 380 board committees of 113 companies is given in the table 4.12 for quorum of board committee meeting. The table shows that most of the companies (i.e., 88% companies) had quorum of 2 for board committee meeting and in

9.2% companies the quorum was 3 and that in 1.05% surveyed companies (i.e., 4 companies) minimum quorum noted was 1.

Table 4.12 : Frequency Distribution of Quorum of Board Committee Meeting

Quorum	Category of BC						Total BCs
	Audit	Shareholders Grievance	Remuneration/ Compensation	Share Transfer	Nomination/ Recruitment	Other	
1	-	-	-	-	-	4	4
2	104	96	45	24	8	58	335
3	6	5	8	1	1	14	35
4	-	-	-	-	1	5	6
Total BCs	110	101	53	25	10	81	380

In 1.71% surveyed companies (i.e., 6 companies) maximum quorum noted was 4. There was no respondent who stated that the quorum is equal to 100% of members of the board committee. For one board committee the meeting took place through the circulation where no quorum was required at a time.

Despite the board committee meetings take place and required quorum is made, one can judge the performance of board committee by analyzing the cases where the board committee members really perspire the management to get the things right, seek more information and raise exceptional matters of performance in related fields.

4.1.5 Exceptional Matters Raised by Board Committees

Exceptional matters of performance regarding management of the company raised by the board committees not only supplements the governance functions but keeps the management people on their toes. Such matters if raised well in time help control the executives. To investigate this it was tried to ascertain whether the board committees raise such matters? If, yes then what are such matters.

Audit Committee

From Cadbury (1992) in the U.K. to the KBC (2000) in India stressed upon having an independent audit committee to have further check on the accounting standards and statements of the company. Thus the role of audit committee became critical in the interest of the investors.

36 respondents stated that their audit committees raised exceptional matters of performance such as: review of the audit reports and quarterly results, benchmarking and system development, adoption of formal written charter, changes in accounting policies, provisions for doubtful debts/ NPAs and other extraordinary items, implementation of recommendations of the internal as well as external auditors, format of reporting or special notes on accounts suggested, risk management, perpetual inventory analysis, productivity vs. plant capacities, procedure for selection of capital equipment leading to purchase orders, steps suggested for improving profitability, investment guidelines & legal reporting compliances, project appraisal, remuneration and increments to statutory auditors. However, newly formed audit committees did not raise any exceptional matters of performance of the management till date of enquiry.

Remuneration Committee

Formation of remuneration committee is sought for the executive pay and performance rationalization, however, it has been complained by many shareholder groups that remuneration committees, rather than strengthening the pay-performance relationship, have the effect of bidding up executive pay[14]. In case of Indian companies remuneration/ compensation committee deliberated on issues such as: formalisation of process for appointment and remuneration of directors, revised guidelines on remuneration at par with multinationals based on performance, supervision of the performance of directors, revising salary scale for the directors, such as, the whole remuneration, commission and stock option.

[14] Ezzamel and Watson (1997) found that there were asymmetric adjustments in executive pay levels after formation of the remuneration committee i.e., executives that were relatively underpaid in the previous period received pay increases, whereas executives who were overpaid were not subjected to downward adjustments.

In one case the remuneration committee stagnated salaries of EDs for 2 years because the Company was not making adequate profits.

Shareholders Grievance Committees

Exceptional matters of performance of the company management raised by the shareholders grievance committee were: asking for more information on grievances and number of dematerialisation of shares, bench marking on the settlement of investors' complaints, generation of new certificates directly, directly settling claims without court intervention by shareholder relation process, follow-up for unclaimed dividend cases of past years, investors' meet in cities with major shareholders population, stoppage of fraudulent encashment on dividend warrants, monitoring the share transfer and grievances, more disclosures in transfer registers and complaint status list, reviewing repetitive queries and SEBI complaints and also DCA complaints, establishment of norms for share transfer, etc.

Nomination Committees

To bring in objectivity in the nomination process of ED, NED and INDs, nomination committee gained much importance to guard against nepotism in nomination process. Only two companies responded for this question. However, the exceptional matters of performance of the company management raised by the nomination/ recruitment committee were mentioned by them were not exceptional in reality since the responses were: It exists only to complete legal formalities; they do selection of WTD and from the year 2002 the committee will select even NEDs.

Share Transfer Committee

Only three responses were received for this board committee and the responses were: Dematerialization of shares has rendered share transfer committee's function redundant, ensuring transfer of shares within a fortnight and questioning the management on pending complaints.

Other Board Committees

Exceptional matters of performance of the company of management raised by other board committees were: approval of quarterly results, suggestions on initiatives to promote and protect environment, modernization of project for better utilization of existing operational facilities, laying down policy framework for deployment of funds, review of capital expenditure into other companies and investments, questioning of highly technical matters, direction on new projects and R&D of new products, matters related to creation of charge on properties while taking the loans and stress on timely decisions.

4.2 Issues of Corporate Governance

Notwithstanding, the foregoing analysis and descriptions on governance structure and composition there are some issues that are in the centre of debate for the legislators, market regulators, business world and academia. Those issues need a special attention. Therefore, this section enquires into important issues related to shareholding pattern and control, CEO duality, multiple directorships and role of nominee directors.

4.2.1 Shareholding Pattern and Control

It is an established fact in case of India that the company's largest shareholder has the most influential control over the management and the resources of the company and the control exceeds the size of their shareholding in the company. The control is exercised through camouflaged complex corporate cross-holdings of the trusts or associate companies, in pyramidal form of organization, which belong to the largest shareholders[15]. A firm with high

[15] In many Asian countries, corporations are characterized by family ownership (*e.g.*, Korean *chaebols*) or by a parent-subsidiary structure using cross-shareholding among conglomerate members (*e.g.*, Japanese *keiretsu*). Government ownership of large blocks of shares, even after privatization, can also be found in a number of companies irrespective of geographic continental differences.

ownership concentration is not likely to be taken over, and hence ownership concentration might be said to substitute for the threat of take over as a governance device (Redikar & Seth, 1995).

Apart from the weaknesses, there are certain advantages of concentrated shareholding, viz., it overcomes the problem of agency by having strong monitoring that leads to better performance by the management. Controlling shareholders, who may be individuals, family holdings, bloc alliances, or other corporations acting through a holding company or cross shareholdings, can significantly influence corporate behaviour (OECD, 1998) or control over the corporate's inside system. On the other hand the system of controlling group and management is not disturbed by the financial institutions, despite they have substantial holding, even in the case of gross mis-governance and under performance. Therefore, an extensive enquiry has been made into the matters of influence of shareholding pattern on various structural and performance related aspects of corporate governance.

Overall Shareholding Pattern

In the presence of single largest block equityholder, the control is perceived to be resting with him and in case of dispersed shareownership the control is perceived to be lying with the management. While this may hold true in majority cases, many a times even a small concentrated shareholder has been seen in the control. However, in case of Indian companies it is quite imperative to explore the shareholding pattern before rallying over to the other issues related to the structure and performance.

For the analysis purpose those companies were included whose data was available for all the parameters to be studied alongwith the shareholding pattern for the FY2000-01. The frequency distribution of 102 companies showing their shareholding pattern is given in table 4.13 which reveals that overall average of promoter/ directors had highest equity shareholding (24.5%) followed by public shareholding (20.6%) and FI equity shareholding (15.4%) at the third position.

Table 4.13 : Frequency Distribution of Shareholding Pattern

Range of % shareholding	Director Holding	Public Holding	Corporate Holding	FI Holding	Government Holding	Foreign Holding	Others holding
0%	25	-	8	4	72	6	96
0-10%	23	18	64	37	8	51	6
10-20%	2	36	12	32	2	17	-
20-30%	10	30	4	18	-	15	-
30-40%	12	12	3	8	2	4	-
40-50%	7	4	4	1	1	4	-
above 50%	23	2	7	2	17	5	-
Total No. of Cos	102	102	102	102	102	102	102
% overall Average	24.5%	20.6%	12.3%	15 4%	13.4%	13.7%	0 1%

There were 53% companies (i.e., 54 out of 102) with concentrated majority shareholding (i.e., single shareholder holding shares above 50% of total equity) and 2 companies where the majority shareholding is with the public (dispersed) hence not considered for counting the largest shareholding. Where the shareholding is dispersed, the single largest shareholding is less than 50%. Further, in 24.51% companies (i.e., 25 out of 102) the promoter/ director shareholding was nil and also that corporate holding, financial institution holding and foreign holding existed almost in all companies (i.e., in 92.1%, 96.1% and 94.1% companies respectively). That the government did not hold any shares in 70.6% companies and in 16.7% companies it was holding more than 50% equity (those were termed as public sector undertakings) and in 3 companies government holding was more than 30% but less than 50% (these were referred as joint sector companies). Foregoing discussion brings out the fact that most of the listed companies lack majority shareownership with the public.

Shareholding Pattern vs. Performance of the Company

Shareholding pattern determines the governing pattern of the company owing to the fact that who exercises the control. In order to determine whether the shareholding pattern makes any difference on the performance of the company, analysis of data of 93 surveyed companies for which data was available for both shareholding pattern and the performance category was made. On the basis of category of shareholding of each shareholder category, the frequency distribution of performance category is shown at table 4.14.

Table 4.14 : Shareholding Pattern vs. Performance of the Company

Range of % shareholding	Director Holding			Public Holding			Corporate Holding			FI Holding			Government Holding			Foreign Holding			Others holding		
	Performance Category			Performance Category			Performance Category			Performance Category			Performance Category			Performance Category			Performance Category		
	I	II	III	I	II	III	I	II	III	I	II	III	I	II	III	I	II	III	I	II	III
0%	5	11	8	-	-	-	3	4	1	-	2	2	29	16	19	2	1	3	34	26	27
0-10%	10	6	7	8	5	3	24	16	19	16	7	9	1	4	2	14	18	12	2	3	1
10-20%	1	-	1	15	7	9	3	3	4	14	11	3	1	-	1	7	2	8	-	-	-
20-30%	5	1	4	9	12	8	1	2	-	4	6	8	-	-	-	7	5	2	-	-	-
30-40%	2	4	4	2	4	5	-	2	1	1	2	5	-	1	1	3	-	-	-	-	-
40-50%	2	2	2	1	1	2	2	1	1	-	1	-	-	1	-	1	2	1	-	-	-
above 50%	11	5	2	1	-	1	3	1	2	1	-	1	5	7	5	2	1	2	-	-	-

It can be noted from the above table that 45% companies were outperforming where the government holding was zero. Out of total companies wherein government held majority shares (i.e., more than 50%) 29% of companies were outperforming. In those companies where the director holding was above 50%, therein 61% companies were performing under category I. Out of total companies where corporate holding and financial institution holdings were in majority, respectively, 50% companies were performing the best under each shareholder category. However, to test the null hypothesis that 'shareholding pattern did not influence performance of the company', linear regression analysis of performance index vs. percentage of director holding, public holding, corporate holding, FI holding, government holding and foreign holding was performed separately for those companies in which these holdings were present (refer appendix 4.1). The definition of the linear model is:

$$y = \beta_0 + \beta_1 X + \varepsilon$$

It was found that none of the shareholding category was significant in explaining the performance of the company (p-value > 0.05, in each individual case). Thus, shareholding pattern was not found to be influencing the performance of the company. This is consistent with the finding of Mehran (1995) and McConnell & Servaes (1990) who did not find any relationship between firm performance and blockholders' stockholdings.

Shareholding Pattern vs. Board Size

Board size is yet another parameter that determines the control. Though, it has been observed that board size to a large extent depends on the social, economic and legal differences[16], the possibility of influence of the majority shareholder cannot be denied. Therefore, with a view to determine relationship between shareholding pattern and the board size, valid data of 102 companies was analyzed.

To test the null hypothesis that shareholding pattern did not influence the board size of the company, linear regression analysis of board size vs. director holding, public holding, corporate holding, FI holding, government holding and foreign holding was performed separately for those companies in where such holdings were present (refer appendix 4.2). The definition of the linear model is:

$$y = \beta_0 + \beta_1 X + \varepsilon.$$

In the regression analysis of board size vs. director holding, it was found that the linear model was significant (p-value < 0.05 and adj. R^2 = 8.4%) which shows that variation in the board size can be explained significantly by percentage of director holding but, in a negative direction (i.e., effect of director holding is negative on the board size). Similarly, in the linear regression analysis of board size vs. FI holding it was found that the relationship was significant (p-value < 0.05 and adj. R^2 = 10.9%) which shows that variation in the board size can be explained significantly by percentage of FI holding in a positive direction (i.e., effect of FI holding is positive). The other holdings, viz., public, corporate, foreign and government holdings were not found to be significant in explaining the variation in the board

[16] See chapter 3 for details.

size. Thus, it can be concluded that the percentage of director holding affects board size negatively while percentage of FI holding affects board size positively.

Shareholding Pattern vs. Board Composition

After examining the relationship between the board size and shareholding pattern, it was quite obvious to explore whether there existed any relationship between the board composition on the basis of insider/ outsider and the shareholding pattern. Determination of ownership and board structures is a more dynamic process than previously understood (Denis & Sarin, 1999). It has also been argued that the composition of board has no relation with the shareholding pattern of the company (Kole & Lehn, 1997). Analysis of valid data of 102 companies on the basis of percentage of shareholding and board composition in terms of proportion of insider was considered. The data is summerised at table 4.15.

Table 4.15 : Shareholding Pattern vs. Average Proportion of Insiders

(Figures in %)

Range of % shareholding	Director Holding	Public Holding	Corporate Holding	FI Holding	Government Holding	Foreign Holding	Others holding
0%	44.0		49.6	83.9	54.1	50 7	51.5
0-10%	52.9	52.5	52.2	57.1	50.3	53.7	64.0
10-20%	34.5	45.5	48.4	50.0	47.7	61.9	-
20-30%	46.5	58.1	40.0	50 3	-	43.5	-
30-40%	57.0	60.1	50.2	39.8	51.3	41.2	-
40-50%	57.0	35.9	68.9	27.3	18.2	42.1	-
above 50%	60.6	68.6	60.6	14 6	47.9	48.9	-
Total insiders	52.2	52.2	52.2	52 2	52.2	52.2	52.2

To test the null hypothesis that 'shareholding pattern of the company did not influence proportion of insiders on the board', linear regression analysis of proportion of insiders vs. percentage of director holding, public holding, corporate holding, FI holding, government holding and foreign holding was performed separately for those companies in which these holdings were present (refer appendix 4.3). The definition of the linear model is:

$$y = \beta_0 + \beta_1 X + \varepsilon.$$

It was found that in the case of percentage of FI holding, linear model was significant (*p*-value < 0.05 and adj. R^2 = 8.5%) which lead to inference that proportion of insiders is significantly influenced by FI holdings in negative direction. Therefore, it can be concluded that more FI holding will lead to less proportion of insiders and 8.5% of the variation in proportion of insiders can be attributed to percentage of FI holding through linear model. The other holdings, viz., director holding, public holding, corporate holding, government holding and foreign holding were not found significant in explaining the variation in the proportion of insiders.

4.2.2 CEO Duality

When the CEO of a company also occupies the position of a Chairman of the board in a company it leads to CEO duality. It is argued that a person cannot be a better judge of his own deeds (Finkelstein & D'Aveni, 1994) leading to compromised effectiveness of the board in monitoring the investment decisions of the CEO (Jensen, 1993; Pi and Timme, 1993). Proponents of unity of command in CEO duality under orgnisational theories (Barnard, 1938; Fayol, 1949; Pfeffer, 1981a) and entrenchment avoidance of the CEO under Agency Theory (Fama & Jensen, 1983; Morck, et al., 1988) could not conclusively establish its link either with the firm performance (Chaganti, *et al.*, 1985), or with the overall well-being of the stakeholders including the sustainability of the organization itself[17]. Cadbury Code (1992) stated that there has to be balance of power and authority and there should not be unfettered powers of decision in any one individual but based on practical experience. However, its successor, the Hampel Committee suggested that companies may have the option of combining the two positions but the reasons for doing so need to be disclosed in the annual report to the shareholders. Earlier, Massie (1965) opined that CEO duality provides a clear and unambiguous authority over subordinates that comes from a unity of command[18]. Another point of view in favour of CEO duality is raised by majority members of the

---

17 Compaq's success was credited to the Corporate Governance structure where the CEO and Chairman roles were distinct (Burke, 1993) whreas GM's failure was credited to dual capacities of Chairman and CEO that restricted board oversight and the adoption of strategies appropriate to the changing environment (Baliga, *et al.*, 1996).

18 Requote from Finkelstein & D'Aveni, 1994.

Business Roundtable (BRT-US) (1997) who believed their corporations were generally well served by a structure in which the CEO also served as chairman of the board. They also believed that the CEO should set the agenda and the priorities for the board and for management and should serve as the bridge between management and the board, ensuring that management and the board are acting for common purpose.

Yet another question relates to the type of director is that 'who should occupy the chair?' Cadbury and KBC held the view that the non-executive director should be the chairman. In Indian situation chairman to be NED is not a major problem owing to financial structure and shareholding pattern. In India, the promoter who promotes the company does investment in the group companies. This particular pattern and restrictions by law will not permit a person to remain as a WTD on many boards. Therefore, the promoter holds a NED chairman position with almost all powers of controlling the management and company resources. The analysis, at table 4.16, of the type of chairman a company had shows that one-third of the surveyed companies (i.e., 40 out of 116 companies) had CEO duality.

Table 4.16 : Sectorwise Frequency Distribution on the Basis of Type of Chairman of the Company

Type of Chairman	Sector			Total Cos.
	Joint	Private	Public	
CMD (CEO Duality)		26	14	40
Chairman - ED		13	2	15
Chairman - IND		9		9
Chairman - NED	3	45	3	51
Chairman does not exist		1		1[19]
Total Cos.	3	94	19	116

In as many as two-thirds of the companies, the position of chairman and managing directors were separate (i.e., 76 out of 116 companies). Sectorwise analysis shows that in 73.7% public sector companies the CEO duality existed and that in other PSUs where CEO duality did not exist the chairman was either ED or NED. Whereas the majority of private sector companies (i.e., 72.3%) had separate positions of chairman and managing director and that

[19] ICICI Bank Limited does not have a fixed position of a Chairman and the Chairman is selected for each board meeting.

almost two-thirds of whom were NED chairmen (i.e., 45 out of 68). In surveyed 3 joint sector companies all (i.e., 100%) chairmen were NEDs. Almost the similar position existed over the period of analysis, i.e., FY1997-98 through FY2000-01. Thus, CEO duality was the typical phenomenon of PSUs.

In order to investigate the reasons for preferred CEO duality, a question for supporting the CEO duality was asked. 10 out of 33 respondents opined in favour of CEO duality. The reasons assigned for preferring CEO duality were the consistently good performance, better control over decision making process and avoidance of cost of two positions to the organisation. Further, if the personality of the CMD is such that he can play both the roles independent of each other, there is no need that the company shall have two persons for two position.

23 out of 33 respondents did not prefer CEO duality for the reasons of independence, professionalism, sophistication and complexity of business. These reasons impelled them to say that for better corporate governance and separation of administration from governance, the chairman should be independent of the board, therefore, CEO and chairman's position should be bifurcated.

Though, the opinions were divided with respect to separation of two positions or combination thereof we need to further investigate the duality with respect to shareholding pattern and performance.

CEO Duality/ Other Types of Chairman vs. Shareholding Pattern

We analysed whether the CEO duality or type of chairman depended on the shareholding pattern of the company. For this, shareholding of the single largest shareholder, irrespective of the percentage of shareholding held by the said shareholder, was considered. Type of chairman was first divided into 4 categories, viz., CMD, ED, IND and NED.

Using single largest shareholder as a determinant of CEO duality, no clear pattern was evident from table 4.17 and that various types of largest shareholder/s had various types of chairman. However, in Government holding companies (i.e., in PSUs) maximum frequency observed for the type of chairman was CMD.

Table 4.17 : Type of Chairman vs. Shareholding Pattern

Single Largest Shareholder	Type of Chairman				Total Cos.
	CMD	ED	IND	NED	
Corporate Holding	3	1	1	7	12
Director Holding	14	5	5	20	44
FI Holding	2	-	-	3	5
Foreign holding	3	4	2	2	11
Government Holding	13	2	-	4	19
Public Holding	1	1	1	8	11
Total Cos.	36	13	9	44	102

CEO duality was preferred in approx. 50% (17 out of 36) cases where the concentrated holding by directors and corporates was present. While non-executive (NED) chairmen were preferred in 27 out of 44 cases. 27 cases (out of 102) accounted for 26% NEDs that were preferred to be chairman as compared to 15% of CEO duality. But, to some extent it depended on the sector to which company belonged. Therefore, the ambivalence with respect to clear-cut choice still continues.

CEO Duality vs. Performance

Any chairman of the board gets evaluated on the basis of how much assets have grown under management during his tenure. There are diverse views of researchers on CEO performance. Lieberson and O'connor (1972) were of the view that leaders have little impact on organizational performance and that the leaders are constraint by situational factors and Thomas (1988) concluded that leadership has little impact on performance at the aggregate level but a substantial one at the level of the individual firm.

Therefore, an enquiry was made to find out the association between the performance of the company on the basis of type of chairman of the company to determine whether CEO duality affects the performance of the company and also to determine which type of Chairman performs better? In this regard, performance category of 106 out of 116 companies was available. Out of these 106 companies one company[20] did not have a chairman therefore the data was analysed for 105 companies with type of the chairman and category of performance and that the analysis is summerised at table 4.18.

Table 4.18 : CEO Duality vs. Non-Duality and Performance

Type of Chairman	Category of Performance			Total Cos.
	I	II	III	
CMD (CEO Duality)	16	11	9	36
CEO Non-duality	25	21	23	69
Total Cos.	41	32	32	105

Analysis of available data of surveyed 105 companies at table 4.18 shows that the performance in case of CEO duality (i.e., CMD) 44.4% companies (i.e., 16 out of 36 companies) were performing the best (i.e., in category I). Whereas 36.2% companies (i.e., 25 out of 69 companies) having separate CEO and Chairman were performing the best (i.e., category I) which is percentage wise less than of CEO duality (i.e., 44.4%). The chi-square test for association between the CEO-duality/ non-duality and performance was performed to test the null hypothesis that 'CEO duality did not influence performance of the company significantly'. Observed value of $\chi^2 = 0.95$ was not found significant (p-value > 0.05). It shows no significant association between CEO duality and non-duality vs. performance category. Therefore, it can be concluded that CEO duality or non-duality does not influence the performance of the company. This finding is consistent with Chaganti *et al.* (1985) and Daily & Dalton (1992).

In case of separate Chairman and CEO, data at table 4.19 reveals that 55.1% companies under the leadership of executive chairman (including CMD) performed in the category I and 25% companies performed in category I under the leadership of non-executive chairmen (including IND).

[20] ICICI Ltd.

Table 4.19 : Chairman – ED vs. Chairman – NED and Performance

Type of Chairman	Category of Performance			Total Cos
	I	II	III	
Executive Chairman – (including CMD)	27	12	10	49
Non-executive Chairman (including IND)	14	20	22	56
Total Cos.	41	32	32	105

This shows that one out of two executive chairman (including CMD) was performing the best whereas one out of 4 non-executive chairman (including IND) was performing the best. Chi-square test for association between the performance of the company and the type of executive chairman and non-executive chairman was performed to test the null hypothesis that 'type of chairman does not influence performance of the company significantly'. The observed value of $\chi 2 = 10.20$ was found significant at 5% level of significance (p-value < 0.05) inferring that there is a significant difference in the performance of two types of chairmen, i.e., executive and non-executive. Further, the null hypothesis that 'proportion of executive chairman was significantly higher than the proportion of non-executive chairman in case of performance category – I' was tested by z-test. The observed value of z was 3.2847 with p-value < 0.05. Therefore, it can be concluded that the probability of better performance of the company with executive chairman (including CMD) was more than the companies with the non-executive chairman (including IND).

4.2.3 Role of Nominee Directors

Internationally, there is an ongoing debate on the role, power, responsibility, and accountability of institutional investors towards corporate governance. Large pension funds, such as the CalPERS, in the United States wield enormous influence in pushing corporations to initiate governance improvements that would lead to improved financial performance. FI nominee directors can play major role in changing the 'control' and their role becomes pivotal when the financial institutions are holding crucial percentage of equity that can turn the table on either side with their selling the equities held by them[21]. Financial institutions can demand a professional management at board as a condition to provide financial assistance[22]. Despite many scholars had concluded that actions by institutional investors do not influence management performance in meaningful ways, Caton *et al.* (2001)[23] concluded that institutional activism can be effective but only for those companies with necessary tools[24] to respond to the challenge to improve performance.

In India, too, presence of nominee director of banks used to be an exception rather than routine until 1970. It was only after the Industrial Licensing Policy Enquiry Committee, 1969[25] that the role of financial institutions in private sector companies' governance has become important, the reason being that the said committee provided for representation of the financial institutions on the board and conversion of loan/ debenture into equity. However, unlike their counterparts in the U.S., the financial institution nominees in India remained dormant and could not achieve the activist's role. However, there occurred some exceptional cases of financial institutions role in changing the control and the CEO[26].

Financial institutions[27] do contribute a major portion in the capital through stock holdings in the companies. The moot questions under such stock holdings are: Whether the financial institutions influence the corporate governance of the company? And how the institutional activism can be effective in enhancing the corporate governance practices? Since the

---

21 (2001), *The Financial Express*, Mumbai, July 24th, p.1.

22 In Malavika Steel Co. FIs while providing for financial restructuring demanded a seat on board and induction of professional experts on the board and prohibited promoters to be part of the new board. – (2001), *The Economics Times*, Ahmedabad, July 24th, p.9.

23 Caton, Gary L., Jeremy Goh, and Jeffrey Donaldson (2001), "The Effectiveness of Institutional Activism", *Financial Analysts Journal*, vol. 57, no.4, July-August, pp. 21-26.

24 Tools necessary to improve performance may be competitive positioning, cost advantage, and growth opportunities.

25 Popularly known as the Dutt Committee Report.

26 Here the example of Modi Rubber Ltd. is worth quoting wherein the total FI holding was 44% i.e., more than the total promoters holding of around 23%. The FIs' nominee questioned the powers and management style of CEO and other top officials for their conduct and for working against its directions. – (2001), "MRL board For Handing Over Reins to VK Modi Camp", *The Financial Express*, Mumbai, June 29th, p.1. FIs reconstituted the board of directors of Modi Rubber Ltd. on grounds of mismanagement and removed Dr. B.K. Modi, the MD who was also a promoter – (2002), "VK Modi Agrees to Exit Modi Rubber", *The Financial Express*, Mumbai, January 3rd, p.1.

27 e.g. insurance companies, mutual funds, pension funds, banks.

introduction of institutional investors on the board of companies, it has been noted that the institutional investors have remained passive in their governance role. A nominee director is expected to bear in mind that he is a company director and that he is expected to work in overall interests of the company with regard to canons of public policy. A nominee director has scope and opportunity to make contributions to the company's performance. Unless the nominee director commands respect by dint of his personality and status, he will be in minority and management proposals will be carried out with out any hitch.

In past, when the company used to go underperforming route the financial institutions used to adopt the exit route, however, in the present situation the financial institutions cannot afford to sell the stock of under performing companies, because of their large holdings, rather they have to incur the cost of monitoring the performance of the company and get rid of the under performing management by using its voting power[28]. Financial institutions can also nominate the director/s on the board of the company[29]. In case of takeover bids, the financial institutions can play a major role in the sense that they can off load their shares in favour of the bidder if the management is not functioning properly. And at times financial institutions can overturn the bidders' plan in favour of the efficient management.

Institutional shareholders have acquired large stakes in the equity share capital of listed Indian companies. They have or are in the process of becoming majority shareholders in many listed companies and own shares largely on behalf of the retail investors. They thus have a special responsibility given the weightage of their votes and have a bigger role to play in corporate governance as retail investors look upon them for positive use of their voting rights. – KBC

---

[28] Gupta, L.C. (1997), *Corporate boards and Nominee Directors*, Oxford University Press, Delhi.

[29] Assisted company when the company has taken a loan or the company wherein financial institutions hold a major stock.

During the course of discussion, a company secretary observed that financial institution nominees do not speak much in the board meetings until they are regularly getting their repayment of loan installments. Rather they were not at all involved in the decision making process. They were viewed as an unnecessary burden if they raise any questions in the board meetings. Nominee directors of financial institutions have no personal incentive to monitor companies. They are neither rewarded for good monitoring nor punished for non-performance. Nominee directors ought to be far more powerful than the disinterested non-executive directors. Consequently, the institutions which could have played the most proactive role in corporate governance - India's largest concentrated shareholders have not done so.

Notwithstanding the Dutt Committee recommendation that financial institution nominees on the board of the loan-recipient company or as a shareholder must take active participation in the management of the organization, financial institution nominees are still dormant about use of their powers in correcting the management. It was tried to find out the correct position of the nominee directors as far as their participation in governance is concerned. As far as financial institutional holding is concern it represented on an average 15.40% shareholdings (see table 4.20) which was third highest amongst all the shareholders' category following directors' holding of 24.50% and public holding of 20.60% in the sample companies.

Table 4.20 : Overall Percentagewise Shareholding Pattern

Shareholders	% shareholding	No. of Cos.
Director's Holding	24.50	77
Public Holding	20.60	102
Fin.Institutional Holding	**15.40**	**98**
Corporate Holding	12.30	94
Goverment Holding	13.40	30
Foreign Holding	13.70	96
Other Holding	0.10	6
Total	100	102

Despite there was substantial shareholding of financial institutions there were only 59 FI - nominees in 33 companies.

The effectiveness of the role played by the nominee directors can be gauged by the frequency of attendance at the board and board committee meetings and the items of agenda concentrated and deliberated upon. Table 4.21 shows the attendance record of nominee directors at AGM, board meetings, and board committee meetings.

Table 4.21 : Attendance Records of 59 Nominee Directors

Category of Meeting	Average Attendance (%)	No. of Nominees Directors
Last AGM	44 00%	59
board Meetings	62 00%	59
BC Meetings	69.33%	33

The average attendance of nominees at the last AGM remained at 44%, at board meetings– 62% and at board committee meetings – 69.33%. It is evident from the above table that the nominee directors were not very regular in their attendance, specifically at the AGM and generally in all meetings where they could deliberate upon the important and serious matters of governance and put discerning questions to the management on their performance and proposals. Poor attendance record rendered them to the status of absentee directors.

In such a scenario an inquiry was made to ascertain whether the financial institution nominees had opportunity to influence companies on various matters concerning governance. The question was asked to seek the opinion of respondents on 'whether financial institutions have opportunity to influence companies on various matters?' For this 6 items were suggested to them. Table 4.22 reveals the analysis of the data. Out of 91 respondents 45% of respondents were of the opinion that financial institution nominees did not have any opportunity to influence companies on any matter.

That the financial institution nominees had major impact on 'use of funds' (55%) followed by 'management performance' (48.3%). And that the financial institution nominees had less impact on matters like, 'standard of conduct' (31.9%), 'management of conflict' (26.4%), 'appointment of new directors' (36.3%), and 'strategy' (40.7%).

Table 4.22 : Sectorwise Frequency Distribution of Affirmation on Opportunities to Financial Institutions to Influence Companies on Various Matters

Impact of financial institution on	Sector			Total Cos.
	Joint	Private	Public	
Use of funds	2	39	9	50
Management Performance	2	35	7	44
Strategy	2	26	9	37
Appointment of new Directors	2	25	6	33
Standard of conduct	1	22	6	29
Management of conflict	2	18	4	24
Any other	1	7	5	13

One of the typical remarks of some respondents was that "they have influence on controlling their own interest, in the matter of investment, and monitoring of monthly and quarterly performance of projects". Respondents also appended that the influence depends upon the shareholding pattern of the company[30]; agreement clause for loans (and that as an investor they do not have much influence); the director nominated by the financial institutions (may or may not influence); the stake of financial institutions in the company; guts of the nominated director. An interesting remark made by one respondent was that the nominee directors have opportunity but do not utilize the same the way they should be. In a restructuring plan to rehabilitate the ailing company, the financial institution once gets largest shareholding will have control over the management and can change it in due course[31]. Like other parts of the globe, in India too, institutional investors have tended to be passive and the market for corporate control remained weak. Financial institutions activism can be used in influencing the investment policy of the company[32].

4.2.4 Multiple Directorships and Board Committee Membership

Theories of interlocking of directors have depicted boards as the focal points in organizational networks, where directors with multiple board memberships promote the

[30] FIs when have substantial stake can turned down the promoters proposals e.g. FI turned down the promoters' proposal to induct V.K. Modi's son as MRL's CEO and could discipline the promoters to wrest management control – (2001), *The Economic Times*, Ahmedabad, September 4th, p.8.

[31] (2001), *The Financial Express*, Mumbai, September 14th, p.4.

[32] In case of Nagarjuna Fertiliser & Chemicals, FIs asked the company to stop further investments in two group companies by diversifying the funds of the company. – (2001), "FIs Tell Nagarjuna Fertilizer not to Fund 2 Group Subsidiaries", *The Economic Times*, Ahmedabad, September 22nd, p.7.

informal coordination of corporate activities and transactions (Kosnik, 1987) that lead to informal intercorporate reciprocity arrangements. The evil of interlocking of directorships can create vested interest of directors, therefore, lesser number of directorships, hopefully, can solve the problem by increasing the independence. Core *et al.* (1999) suggested that directors with many directorships are less likely to engage in significant managerial monitoring than other directors who serve on fewer boards[33]. Institutional investors and shareholder activists question the effectiveness of directors who serve on many boards (Shivdasani & Yermack, 1999). The Peters committee (Netherlands) advocated that the number of supervisory board memberships which one person can hold in (listed) companies and the workload should be limited so as to guarantee a proper performance of duties. A recent study of directorships in the United States placed the average directorship per director between 2 and 3 directorships. The Vienot Committee report on Corporate Governance in France indicates three directorships as the preferred maximum.

The Number of Directorship in Other Companies

KBC recommended that the maximum limit for holding maximum directorship should not exceed 15. Companies (Amendment) Act, 2000 brought down the maximum directorship from 20 to 15 that can be held by any person across all companies. With regard to board committee membership, listing agreement puts the upper limit to the memberships of 10 board committees or Chairmanship of not more than 5 board committees. In this context, it was tried to find out how many other directorships a person held and which category of directors held how many directorship. For this the data was available for 1075 directors spread over 116 companies. Analysis of data (table 4.23) reveals that the average directorship per director was 6 and that average directorship held by an IND was highest i.e., 7 followed by NED with 6 and the lowest being with ED i.e., 5 directorships.

[33] Core, Holthausen, and Larcker (1999) referred directors with many directorships as "busy" if they serve on three or more other boards if they are employed, and six or more boards if they are retired.

Table 4.23 : Frequency Distribution for the Number of Directorship in Other Companies

A. On the Basis of Type of Directorship

Category of Directorship	Number of other directorships held					Total Directors	Total other directorship	Average directorships
	0	1-5	6-10	11-15	Above 15			
ED	71	143	58	35	3	310	1349	4.4
IND	48	146	100	83	16	393	2598	6.6
NED	74	143	72	74	9	372	2121	5.7
Total	193	432	230	192	28	1075	6068	5.6
% of Total	17.9%	40.2%	21.4%	17.9%	2.6%	100%		

B. On the Basis of Designation

Category of Designation	Number of other directorships held					Total Directors	Total directorship	Average directorship per director
	0	1-5	6-10	11-15	Above 15			
Chairman	8	27	19	30	5	89	719	8.1
CMD	6	17	10	6	1	40	229	5.7
MD/CEO	12	32	17	11	-	72	336	4.7
MD(Functional)	5	6	1	2	-	14	52	3.7
WTD	45	82	26	11	3	167	629	3.8
Ordinary Directors	93	215	131	118	16	573	3522	6.1
Additional Director	4	5	3	3	-	15	83	5.5
Alternate Director	5	8	3	2	-	18	66	3.7
Casual Director	1	4	2	-	-	7	31	4.4
Nominee	14	36	18	9	3	80	401	5.0
Total Directors	193	432	230	192	28	1075	6068	5.6
% of Total	18%	40.1%	21.4%	17.9%	2.6%	100%		

That 17.9% directors (193 out of 1075 directors) did not have any other directorships. Further, 82.1% directors had other directorships in the range of 1 to above 15 and that 40.2% directors had 1-5 other directorships. Designationwise analysis shows that the chairmen had highest number of directorships accounting for an average of 8. It was interesting to note that directors in the whole time employment of their respective companies i.e., EDs (e.g. WTDs, CMD, MD/CEO, MD-Functional) had average directorship 4 but lesser than INDs. Nominee directors (including government nominees, FI nominees and other nominees) had an average other directorship equal to 5. Surprisingly, 28 directors were reported to be holding more than 15 board directorships in the FY2000-01.

Total Board Committee Chairmanships Held Across All Companies

Being a Chairman of a board committee, a person is responsible for oversight of a specific function that has been delegated to his respective board committee by the board. KBC restricted the number of board committee chairmanship up to 5, a person can held at a time across all companies. It was tried to find out the number of board committee chairmanships held by directors on the basis of type of directorship and on the basis of designation of the board committee Chairman. Findings in this behalf are given in table 4.24.

Table 4.24 : Frequency Distribution for the Total Board Committee Chairmanships Held Across All Companies

A. On the Basis of Type of Directorship

Type of Directorship	Total BC Chairmanships held							Total Directors	Total BC Chairmanships
	0	1	2	3	4	5	Above 5		
ED	286	32	16	4	1	1	1	341	91
IND	227	81	51	23	20	16	10	428	479
NED	278	63	22	12	4	6	4	389	215
Total Dirs.	791	176	89	39	25	23	15	1158	785
% of Total	68.30	15.20	7.70	3.40	2.10	2.00	1.30	100	

B. On the Basis of Designation of Directors

Category of Designation	Total BC Chairmanships held							Total Directors	Total BC Chairmanships
	0	1	2	3	4	5	Above 5		
Chairman	47	23	5	8	2	2	5	92	106
CMD	26	7	8	1	1	1	-	44	35
MD/CEO	69	8	2	2	-	-	-	81	18
MD(Functional)	11	1	2	-	-	-	-	14	5
WTD	165	12	4	-	-	-	-	181	20
Ordinary Directors	363	111	61	26	21	19	9	610	551
Additional Director	17	1	3	-	1	-	-	22	11
Alternate Director	21	1	-	-	-	-	-	22	1
Casual Director	3	2	2	-				7	6
Nominee	69	10	2	2		1	1	85	32
Total	791	176	89	39	25	23	15	1158	785
Total %	68.3%	15.2%	7.7%	3.4%	2.2%	2 0%	1 3%	100%	

Analysis of available data of 1158 out of 1229 directors of surveyed 116 companies for total board committee Chairmanships across all companies shows that 791 out of 1158 directors i.e., 68.3% (just above 2/3rd of total directors) did not have any board committee chairmanship in one or other company. That 367 out of 1158 directors i.e., 31.7 % (just below 1/3rd of total directors) had total board committee chairmanship equal to 785 with the frequency of minimum 1 to above 5. Therefore, it can be concluded that board committee chairmanship was in the hands of only one-third of directors and they had at least one board committee chairmanship in one or other company. It was also noted that one executive director and one nominee director possessed more than 5 board committee chairmanships. There were 15 directors holding more than 5 board committee chairmanship. Chairman of company on an average held more than one board committee chairmanship whereas CMDs, ordinary directors and casual directors held approximately one board committee chairmanship per director.

Total Number of Board Committee Memberships Held Across All Companies

Equal importance is that of board committee members vis-à-vis the board committee chairman. Though, the final decisions are taken by the board committee chairman, board committee members are required to deliberate upon the board committee's task with the due care and diligent. Therefore, the extent of engagement of a director in number of board committees, as a member, was explored on the basis of type of directorship and on the basis of category of designation. Valid data was available for 1158 out of 1229 directors spread over 116 companies. Table 4.25 presents the analysis of the data.

The tables reveals that 447 out of 1158 directors (i.e., 38.6%) did not have any board committee membership in one or other company and those 61.4% directors had board committee membership in the range of 1 to above 10. The average board committee membership across all companies per director was 2. That INDs had highest board committee membership (more than 2 per director) followed by NEDs (less than 2 per director) and the lowest being with EDs (i.e., nearly 1 per director).

Table 4.25 : Frequency Distribution of Total Number of Board Committee Memberships Held Across All Companies

A. On the Basis of Type of Directorship

Type of Directorship	Number of BC memberships				Total Directors	Total No. of BC memberships	Average BC membership
	0	1-5	6-10	Above 10			
ED	158	171	9	3	341	443	1.29
IND	121	265	38	4	428	936	2.19
NED	168	193	26	2	389	618	1.59
Total Directors	447	629	73	9	1158	1997	1.72
% of Total	38.6%	54.3%	6.3%	0.8%	100%		

B. On the Basis of Category of Designation

Category of Designation	Number of BC memberships				Total Directors	Total BC memberships
	0	1-5	6-10	Above 10		
Chairman	42	47	2	1	92	146
CMD	26	17	1	-	44	39
MD/CEO	31	46	4	-	81	119
MD(Functional)	7	7	-	-	14	12
WTD	80	93	4	4	181	270
Ordinary Directors	203	349	55	3	610	1209
Additional Director	11	10	1	-	22	28
Alternate Director	11	10	1	-	22	19
Casual Director	2	5	-	-	7	13
Nominee	34	45	5	1	85	142
Total Directors	447	629	73	9	1158	1997
% of Total	38.6%	54.3%	6.3%	0.8%	100%	

One out of two chairmen, MD/CEO and WTD of company were also members of board committee in one or the other company in the range of 1 to above 10. And that 51 nominee directors were holding 142 board committee memberships, i.e., nearly 3 board committee memberships per director. There were 9 directors holding more than 10 board committee memberships across all companies.

After an analysis of individual data of total board committee chairmanship and total board committee membership it was attempted to know the total memberships including board committee chairmanships held across all companies.

Total Board Committee Memberships Including Board Committee Chairmanships Held Across All Companies

Analysis of available data of 1158 out of 1229 directors of surveyed 116 companies for total board committee memberships including chairmanships across all companies is given in table 4.26. The table reveals that there were 3 ordinary directors (one NED and two INDs) who were holding more than 15 board committee memberships including chairmanship across all companies. 363 out of 1158 directors (i.e., 31.3%) did not have any board committee membership including chairmanship in one or the other company.

Table 4.26: Frequency Distribution of Total Board Committee Memberships Including Board Committee Chairmanships Held Across All Companies

A. On the Basis of Type of Directorship

Type of Directorship	Total BC membership including BC Chairmanship					Total directors	Total BC membership
	0	1-5	6-10	11-15	Above 15		
ED	126	196	15	4	-	341	588
IND	98	231	79	18	2	428	1432
NED	139	199	39	11	1	389	865
Total directors	363	626	133	33	3	1158	2885
% of total dirs.	31.3	54.1	11 5	2.8	0.3	100	

B. On the Basis of Category of Designation

Category of designation	Total BC membership including BC Chairmanship					Total Dirs.	Total BC membership
	0	1-5	6-10	11-15	Above 15		
Chairman	29	47	13	3	-	92	262
CMD	13	28	3	-	-	44	86
MD/CEO	27	49	4	1	-	81	143
MD(Functional)	4	10	-	-	-	14	20
WTD	72	99	6	4	-	181	317
Ordinary Directors	165	329	89	24	3	610	1786
Additional Director	12	6	4	-	-	22	44
Alternate Director	11	10	1	-	-	22	18
Casual Director	1	5	1	-	-	7	19
Nominee	29	43	12	1	-	85	190
Total	363	626	133	33	3	1158	2885
Total %	31.3	54	11.5	2.8	0.25	100	

On an average EDs held 2 board committee memberships including chairmanships whereas an independent director (IND) and non-executive director (NED) held an average board committee memberships of 4 and 3 including board committee chairmanship across all companies respectively. INDs held the maximum number of board committee memberships (including board committee chairmanships) across all companies. As far as designations are concerned ordinary directors and chairman were holding more than the overall average of total board committee memberships across all companies, i.e., approx. 3 and alternate directors held the lowest number of total board committee memberships across all companies including chairmanships. Nominee directors also held an average total board committee memberships of more than 2 per director.

Conclusion

Mandatory requirements under listing agreement not only forced the reconstitution of the board with more number of independent directors and do more disclosure on corporate governance but also forced to form the mandatory board committees. An average of 4 board committees per company existed with an average strength of 4 members per committee in the financial year 2000-01. Quorum and frequency of board committee meetings were mostly in line with legal requirements. Though the type of directorship held by members of board committees was within the purview of the Companies (Amendment) Act, 2000, there were cases of breaching the legal requirements of listing agreement by appointing executive directors on the board committees, in some cases even as a chairman of the board committee, viz., audit and remuneration committees. Average proportion of EDs on nomination and remuneration committees were more than the proportion of NEDs and INDs. Chairmen of the board were also the chairmen of the board committees in one out of four committees. Rarely it was found that the FI nominees were the chairman of board committee/s. Qualification and area of expertise of chairmen of the board committees were not in line with the function of the respective board committees. One out of every five chairmen of the board committees remained absent in the AGM. Few board committee chairmen also did not attend even a single board committee meetings of their respective board committees.

In India, one out of two companies had majority concentrated shareholding with a single largest shareholder who owned above 50% of total equity. One out of four companies had promoter/ director shareholding as zero. Shareholding pattern was not found to have any significant relationship with the performance of the company. However, shareholding pattern had significant influence on the board size, composition of the board as insiders and outsiders.

CEO duality was more prominent in public sector companies, however, the clear-cut choice of CEO duality and type of chairman of the board was not evident with the category of single largest shareholder in private sector companies. The performance of the company was not found to be significantly affected by the presence of CEO duality. However, the performance of the company gets affected by the type of chairman, i.e., executive/ non-executive. Respondents favoured CEO duality in view of unity of command and removal of conflicts of roles while CEO non-duality was favoured in view of professionalism, independence, and bigger organisations and complex business activities.

The proportion of FI nominees on the board was far less than their shareholding in the companies. FI nominees were found to be absentee directors but having major influence over matter like 'use of funds' only and less on other governance matters.

An average other directorships held by a director found to be 6 with just 1075 directors holding total 6068 other directorships in the financial year 2000-01. Independent directors' and the chairman of the board had highest number of other directorships, board committee chairmanships, board committee memberships and board committee memberships (including chairmanships) across all companies.

Appendix 4.1

Performance Index vs. Shareholding Pattern

Regression of Performance Index vs. Director Holding

Descriptive

	Mean	Std. Dev.	N
Performance	8 718	2 275	71
Director	31.391	25 720	71

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	4.577	1	4.577	.883	.351
	Residual	357.789	69	5.185		
	Total	362.366	70			

R Square = 0.013 Adj R Square = -.002 Std. Error = 2.2771

Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	p-value
1	(Constant)	8.406	.428		19.631	.000
	Director Holding	9.942E-03	.011	.112	.940	351

Regression of Performance Index vs. Public Holding

Descriptive

	Mea	Std Dev	N
Performance	8 600	2.176	90
Public	21 308	12 312	90

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	16.617	1	16.617	3.611	.061
	Residual	404.983	88	4 602		
	Total	421.600	89			

R Square = 0.039 Adj R Square = -.028 Std. Error = 2.1452

Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	p-value
1	(Constant)	9.348	.454		20.595	.000
	Public Holding	-3.51E-02	.018	-.199	-1 900	.061

Regression of Performance Index vs. Corporate Holding

Descriptive

	Mea	Std. Dev.	N
Performance	8.494	2.276	85
CORP_H	13.181	19 310	85

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	.106	1	.106	.020	.887
	Residual	435.141	83	5.243		
	Total	435.247	84			

R Square = 0.000 Adj R Square = -.012 Std. Error = 2.2897

Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	p-value
1	(Constant)	8.470	301		28.115	.000
	Corporate Holding	1.841E-03	.013	.016	.142	.887

Regression of Performance Index vs. FI Holding

Descriptive

	Mea	Std Dev.	N
Performance	8 550	2 246	89
FI	16 739	13.259	89

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	9.739	1	9.739	1.951	.166
	Residual	434.284	87	4.992		
	Total	444.022	88			

R Square = 0.022 Adj R Square = -.011 Std. Error = 2.2342

Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	p-value
1	(Constant)	8.971	.383		23.438	.000
	FI Holding	-2.51E-02	.018	-.148	-1.397	166

Regression of Performance Index vs Government Holding

Descriptive

	Mea	Std Dev.	N
Performance	8.115	1 904	26
Government	45.619	30 884	26

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	.171	1	.171	.045	.833
	Residual	90.483	24	3.770		
	Total	90.654	25			

R Square = 0.002 Adj R Square = -.040 Std. Error = 1.9417

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	p-value
		B	Std. Error	Beta		
1	(Constant)	8.238	.688		11.965	.000
	Government Holding	-2.68E-03	.013	-.043	-.213	833

Regression of Performance Index vs Foreign Holding

Descriptive

	Mea	Std. Dev	N
Performance	8.300	2.211	60
Foreign	13 498	15 577	60

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	2.870	1	2 870	.583	.448
	Residual	285.730	58	4.926		
	Total	288.600	59			

R Square = 0.010 Adj R Square = -.007 Std. Error = 2.2195

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	p-value
		B	Std. Error	Beta		
1	(Constant)	8.109	.381		21.310	000
	Foreign Holding	1 416E-02	.019	.100	.763	.448

Appendix 4.2

Board Size vs. Shareholding Pattern

Regression of Board Size vs. Director Holding

Descriptive

	Mea	Std. Dev.	N
Board	10.558	3 262	77
Director	32 449	25 169	77

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	67.766	1	67.766	6.857	.011
	Residual	741.221	75	9.883		
	Total	808.987	76			

R Square = 0.084 Adj R Square = -.072 Std. Error = 3.1437

Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	p-value
1	(Constant)	11.776	.587		20.06	000
	Director Holding	-3.75E-02	.014	- 289	-2.619	.011

Regression of Board Size vs. Public Holding

Descriptive Statistics

	Mean	Std. Dev.	N
Board Size	10.6275	3.2728	102
Public Holding	20.5903	12.0237	102

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	1 691	1	1.691	.157	.693
	Residual	1080.152	100	10 802		
	Total	1081 843	101			

R Square = 0.002 Adj R Square = -.008 Std. Error = 3.2866

Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	p-value
1	(Constant)	10.406	.648		16.066	000
	Public Holding	1.076E-02	.027	.040	.396	.693

Regression of Board Size vs. Corporate Holding

Descriptive

	Mea	Std. Dev.	N
Board	10 606	3 266	94
Corporat Holdın	13 342	19.314	94

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	14.186	1	14.186	1.334	.251
	Residual	978.250	92	10.633		
	Total	992.436	93			

R Square = 0.014 Adj R Square = -.004 Std. Error = 3.2609

Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	p-value
1	(Constant)	10.876	.409		26.56	.000
	Corporate Holding	-2.02E-02	.018	-.120	-1 155	.251

Regression of Board Size vs. FI Holding

Descriptive Statistics

	Mean	Std. Deviation	N
Board Size	10.6531	3.3340	98
FI Holding	16.0204	12 9617	98

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	117.566	1	117.566	11 75	.001
	Residual	960.639	96	10.007		
	Total	1078.204	97			

R Square = 0.109 Adj R Square = -.100 Std. Error = 3.1633

Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std Error	Beta	t	p-value
1	(Constant)	9.292	.510		18.234	.000
	FI Holding	8.49E-02	.025	.330	3.428	.001

Regression of Board Size vs. Government Holding

Descriptive

	Mea	Std. Dev.	N
Board	10.833	. 3 174	30
Government	45.565	31 124	30

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	4.166E-02	1	4.166E-02	.004	.950
	Residual	292.125	28	10.433		
	Total	292.167	29			

R Square = 0.000 Adj R Square = -.036 Std. Error = 3.2300

Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std Error	Beta	t	p-value
1	(Constant)	10.778	1.058		10 190	.000
	Government Holding	1.218E-03	.019	012	.063	.950

Regression of Board Size vs. Foreign Holding

Descriptive

	Mea	Std Dev	N
Board	10.697	3 312	96
Foreign	14 546	15 727	96

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	22.376	1	22.376	2.062	.154
	Residual	1019.864	94	10.850		
	Total	1042.240	95			

R Square = 0.021 Adj R Square = -.011 Std. Error = 3.2939

Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	p-value
1	(Constant)	10.249	459		22.327	.000
	Foreign Holding	3.09E-02	.021	.147	1.436	.154

Regression Board Size vs. Shareholding Pattern

Descriptive Statistics

	Mean	Std. Dev.	N
Board Size	10.6275	3.2728	102
Director Holding	24.4961	25.9505	102
Corporate Holding	12.2964	18.8812	102
FI_Holding	15.3922	13.0812	102

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	160.431	3	53.477	5.688	.001
	Residual	921.412	98	9.402		
	Total	1081.843	101			

R Square = .148   Adj. R Square = .122   Std. Error = 3.0663

Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	p-value
1	(Constant)	10.650	.779		13.668	.000
	Director Holding	-2.77E-02	.013	-.220	-2.082	.040
	Corporate Holding	-2.40E-02	018	-.139	-1.318	190
	FI_Holding	6.184E-02	.025	.247	2.434	.017

Appendix 4.3

Regression of Proportions of Insiders vs. Shareholding Pattern

Regression of Insider vs Director Holding

Descriptive Statistics

	Mean	Std. Dev.	N
Insiders	.5490	.2283	77
Director Holding	32.4494	25.1690	77

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	7.920E-02	1	7.920E-02	1 530	.220
	Residual	3.882	75	5.175E-02		
	Total	3 961	76			

R Square = 0.020 Adj R Square = .007 Std. Error = .2275

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	p-value
		B	Std. Error	Beta		
1	(Constant)	.507	.042		11.945	.000
	Director Holding	1.283E-03	.001	.141	1.237	.220

Regression of Insider vs. Public Holding

Descriptive Statistics

	Mean	Std. Dev.	N
Insiders	.5222	.2286	102
Public Holding	20.5903	12.0237	102

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	6.180E-02	1	6.180E-02	1.184	.279
	Residual	5.218	100	5 218E-02		
	Total	5.280	101			

R Square = 0.012 Adj R Square = -.002 Std. Error = .2284

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	p-value
		B	Std. Error	Beta		
1	(Constant)	.480	.045		10.658	000
	Public Holding	2.057E-03	.002	.108	1.088	.279

Regression of Insider vs. Corporate Holding

Descriptive Statistics

	Mean	Std. Dev.	N
Insiders	.5245	.2321	94
Corporate Holding	13.3429	19.3146	94

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	9.074E-02	1	9 074E-02	1.697	.196
	Residual	4.920	92	5 348E-02		
	Total	5.011	93			

R Square = 0.018 Adj R Square = .007 Std. Error = .2313

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	p-value
		B	Std. Error	Beta		
1	(Constant)	.503	.029		17.317	.000
	Corporate Holding	1.617E-03	.001	.135	1.303	.196

Regression of Insider vs. FI Holding

Descriptive Statistics

	Mean	Std. Dev.	N
Insiders	.5093	.2192	98
FI Holding	16.0204	12.9617	98

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-vlaue
1	Regression	438	1	.438	9.961	002
	Residual	4.221	96	4.397E-02		
	Total	4.659	97			

R Square = 0.094 Adj R Square = .085 Std. Error = .2097

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	p-value
		B	Std. Error	Beta		
1	(Constant)	.592	.034		17.535	.000
	FI Holding	-5.18E-03	.002	- 307	-3.156	002

Regression of Insider vs. Government Holding

Descriptive Statistics

	Mean	Std. Dev.	N
Insiders	.4777	2015	30
Government Holding	45.5659	31.1248	30

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	8.217E-04	1	8.217E-04	.020	.890
	Residual	1.176	28	4.201E-02		
	Total	1.177	29			

R Square = 0.001 Adj R Square = -.035 Std. Error = .2050

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	p-value
		B	Std Error	Beta		
1	(Constant)	.470	.067		7.000	000
	Government Holding	1.710E-04	.001	.026	.140	.890

Regression of Insider vs. Foreign Holding

Descriptive Statistics

	Mean	Std. Dev.	N
Insiders	.5231	.2226	96
Foreign Holding	14 5465	15.7272	96

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	.138	1	.138	2.848	.095
	Residual	4.569	94	4.861E-02		
	Total	4.708	95			

R Square = 0.029 Adj R Square = .019 Std. Error = .2205

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	p-value
		B	Std. Error	Beta		
1	(Constant)	.558	.031		18.175	.000
	Foreign Holding	-2.43E-03	.001	-.171	-1 688	.095