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IMPACT OF CORPORATE GOVERNANCE ON THE ESTABLISHMENT OF THE RISK MANAGEMENT COMMITTEE SETUP: PERSPECTIVE OF AN EMERGING ECONOMY

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Abstract

The trend of the formation of a risk management committee (RMC) is increasing. In India, after the revision in clause 49 of SEBI's listing obligation, the formation of RMC became mandatory for top 100 companies by its market capitalisation. A surprising increase in RMCs is observed thereafter and plunged from 4% to 60% (approx). Therefore, it is interesting to study the presence of the risk management committee as a separate entity vis-à-vis a combined entity. This paper attempts to investigate the determinants of governance for the establishment of a risk management committee, both in combined set up and a separate setup. The sample of this study is all the stocks which are constituents of Nifty 200 index from 2013 to 2018. I have used logistic regression to identify significant governance factors contributing to the establishments of risk management committee setups as a separate committee or combined with other committee. This paper firmly connects a link between governance and RMC set up. I find that a larger board size prefers combined risk management committee over a separate risk management committee. A larger board brings good monitoring, knowledge base, experience, and diversity. Firms with these characteristics of boards encourages combined RMC. The experienced board could understand the time and efforts saved in combined RMC. The results suggests that larger boards discourages the formation of SRMC. Despite being in large numbers, directors are reluctant to form a separate RMC and prefer RMC_C. Further, proportion of independent directors in the board doesn't have any say about SRMC, but does encourage the existence of combined RMC. Since these directors don't have any hidden incentives to be biased, and therefor perform for the betterment of the company. Here again, the combined formation of an RMC is looked better for the firm, and hence encouraged more over SRMC by them. Paper also concludes the negative impact of diligent board and busy directorships on RMC_C. Since, diligent boards are occupied with excessive meeting, they are already exhausted with the work they have and are not motivated to take more responsibilities. Similarly, busy directors also contribute negatively to the presence of the combined risk management committee.

Keywords: Governance, Separate Risk Management Committee, Combined Risk Management Committee.