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DOES SIZE MATTER? BOARD SIZE TREND IN INDIAN COMPANIES

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ABSTRACT:

Companies in an economy are different from each other in many respect, therefore board of each company is also different. This supports the concept that 'one size doesn't fit all', now assuming it to be true the question arises that how a company will decide its board size. This paper tries to delineate the concept of optimum board size and examines the board size trend in Indian listed companies. For this purpose different survey reports and articles related to board size are studied and along with that thirty BSE Sensex companies for the period of 2013-2014 are observed. It is concluded from the findings that one size does not fit all. Each board needs to define its optimal capacity at any given time.

KEY WORDS: Board, Board Size, Companies Act' 2013, BSE .

INTRODUCTION:

Companies in an economy are different from each other in many respect, therefore board of each company is also different. This support the concept that 'one size doesn't fit all', now assuming it to be true the question arises that how a company will decide its board size. Decisions are taken by board in a corporation. As board is a group and humans are involved in group decision-making, quality of the decision also depends on the size of the group along with other factors. There are various pros and cons of small and large group. A company needs to define right board size or in other words the optimum size of the board. A new company should try to start with a small board and expand it with as the business grows accordingly. Corporate library's study stated the average board size as 9.2 while the range varies from three to thirty-one board members. However, the average board size only represents what exist in reality, it should not be considered as a recommended norm. Some analysts who are working on optimum size recommended the size to be seven. As there is no universally accepted optimum board size, a board needs to examine its situation carefully to determine its optimum size.

ADVANTAGES OF LARGE BOARDS

• A larger board size helps people in managing the board's work load easily.
• A large board brings well diversified perspectives in decision-making.

DISADVANTAGES OF LARGE BOARDS

• Large boards may not be able to involve participation of all board members in a meaningful activity which ultimately results into apathy and loss of interest.
• Regular Meetings are difficult to schedule.
• It will be expensive for the company to hire and maintain a large board.
• Overall group cohesiveness will be in danger as chances of various clique formation increases.
• It may be difficult to create environment for planning, work-coordination and decision-making for interactive discussions.

ADVANTAGES OF SMALL BOARDS

• Small boards may be able to involve participation of all board members as it is easier to communicate and interact.
• Member's participation will enhance their satisfaction from service provided by them as their involvement is constant and meaningful.

DISADVANTAGES OF SMALL BOARDS

• Heavy work load may create exhaustion as same members will be involved in various decision makings and will be a part of different committees.
• There are chances that important opinions might not be well represented.

LITERATURE REVIEW

There are scant researches available that studied the board size effect on firm performance. However, scholars have shown that board size and performance of the firm are related.

Lipton and Lorsch (1992) stated that preferred board size should be ten, they recommended that board size should not exceed ten. Increasing size and making it large will make the decision-making less effective as in such cases directors used to agree with the policies of top management without suggesting any change.

The Cadbury Committee (Cadbury, 1992) recommended that the ideal board size could be between eight and ten and also there has to be one executive director for every non-executive director.

Jensen (1993) suggested that larger groups are less effective. As size increases problems related to coordination and process also increases which subside the advantages gained from board diversity. Also group consisting of seven or eight or less is easier to control and more likely to function effectively. Hermalin and Weisbach (2003) argued that large size of board may increase agency problems which makes the board less effective as compared to small board.

Dalton and Dalton (2005) supported the concept of large board as very small boards is deprived of having ample of expert advice and opinion that is easily available if the board is large. Larger board brings board diversity that enhances the effectiveness of decision-making.

A new study by governance researchers GMI Ratings prepared for The Wall Street Journal analyzed that large U.S. corporates with small boards realize considerably greater rewards for their investors as it foster deeper debates and quick decision-making.

OBJECTIVES

1.To study the concept of optimum board size.
2. To study the trend of board size in Indian companies.

RESEARCH METHODLOGY

The study used descriptive research design and based on secondary data sources. The main sources of data are audited published annual reports of selected companies, prowess database, websites, journals and newspaper articles. Thirty listed companies from BSE Sensex were selected and observed for the year 2013 and 2014.

BOARD SIZE UNDER COMPANIES ACT 2013

The Companies Act, 2013 (section 149 (1)), prescribes the board size between a minimum of three and maximum of fifteen. However, there is a provision that number of directors on boards can be increased to more than fifteen by passing a special resolution. Most of the company's board strength are either small or large as compared to the company size and locations which create hindrances in control and governance. There are several top Indian companies that failed to comply with the Companies Act, 2013. A study on 100 companies was conducted by a proxy advisory firm, InGovern (published a detailed report in 2012). It observed that 10% of the companies are having either more than sixteen or less than seven directors on the boards.

The India Board Report-2011 commonly known as IBR-2011 (third edition) conducted a definitive survey on board composition, effectiveness and best practices to highlight the functioning of corporate boards in India. The survey used the medium of in-depth surveys and questionnaires.

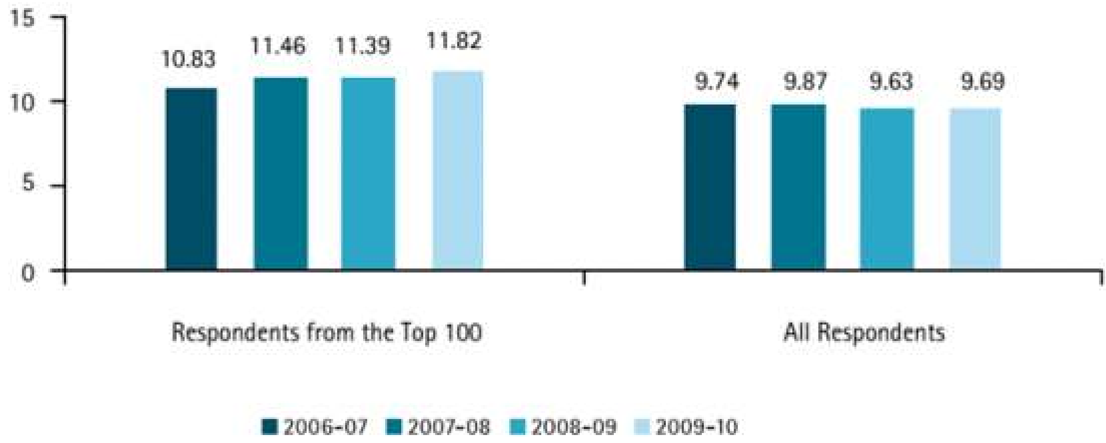

Fig-A showing Average Board Size
Source: The India Board Report-2011

The above chart shows that the average board size of the top 100 companies segment increased from 10.83 (2006-07) to 11.82 (2009-10).

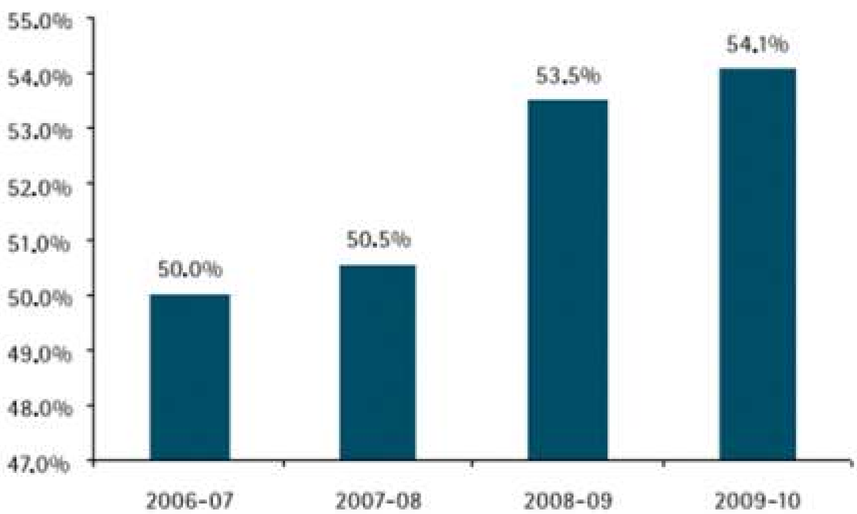

Fig-B showing percentage of Independent Directors on a board
Source: The India Board Report-2011

According to report, an increase in average number of independent directors on a company's board is seen i.e. 5.2 in 2009-10 and 4.8 in 2006-07. Therefore, it is clear from the chart that the average percentage of independent directors have increased as compared to previous years. This rise could be more but various scams resulted in the resignation of thousands of independent directors that slow down its increase.

InGovern (September, 2013), in its another survey on 100 companies observed 11 as the average board size of the top 100 Indian companies and the number of directors on Indian boards varies from 4-19.

FINDINGS

Board size of all thirty companies listed on S & P BSE Sensex is observed for the year 2013 and 2014. The findings are given below-

All twenty Private Sector Companies comprised of board size in both single and double digit ranged between 08 and 25. Sun Pharmaceutical Industries Ltd. comprised of board size 08 and 09 in the year 2013 and 2014 respectively. On the other hand Bharti Airtel Ltd. comprised of maximum board size of 25 in the year 2014.

S.N.	Private Sector Companies (Sensex)	2014	2013
1.	Wipro Ltd.	14	13
2.	Vedanta Ltd.	15	07
3.	Tata Power Co. Ltd.	14	15
4.	Tata Motors Ltd.	13	16
5.	Tata Steel Ltd.	15	14
6.	Tata Consultancy Services Ltd.	11	14
7.	Sun Pharmaceutical Industries Ltd.	09	08
8.	Reliance Industries Ltd.	14	13
9.	Maruti Suzuki India Ltd.	16	13
10.	Mahindra & Mahindra Ltd.	15	14
11.	Larsen & Toubro Ltd.	15	19
12.	I T C Ltd.	22	23
13.	Infosys Ltd.	18	15
14	Hindustan Unilever Ltd.	11	10
15.	Hindalco Industries Ltd.	12	11
16.	Hero Motocorp Ltd.	11	12
17.	Dr. Reddy's Laboratories Ltd.	10	11
18.	Cipla Ltd.	14	09
19.	Bajaj Auto Ltd.	16	16
20.	Bharti Airtel Ltd.	25	19

Source: Prowess database

All Private Sector Banks and Financial Institution comprised of double digit board size ranged between 12 and 17.

S.N.	Private Sector Banks (Sensex)	2014	2013
1.	Axis Bank Ltd.	15	17
2.	HDFC Bank Ltd.	12	12
3.	ICICI Bank Ltd.	14	12
4.	Housing Development Finance Corporation Ltd.	14	14

Source: Prowess database

All six Public Sector Units & Banks comprised of double digit board size ranged between 14 and 22.

S.N.	Public Sector Units & Banks (Sensex)	2014	2013
1.	Oil & Natural Gas Corpn. Ltd.	18	21
2.	NTPC Ltd.	22	20
3.	GAIL (India) Ltd.	15	16
4.	Coal India Ltd.	19	15
5.	Bharat Heavy Electricals Ltd.	14	15
6.	State Bank Of India	20	21

Source: Prowess database

CONCLUSION

One size does not fit all. Each board needs to define its optimal capacity at any given time. The current study only describes the existing scenario. With the proper implementation of Companies Act, 2013 a significant trend can be seen in future. There are very few researches pertinent to the relationship between board size and effective decision making. Effectiveness of decision-making can be measured through firm performance or growth rate. Therefore empirical study should be conducted to establish an optimum board size in relation to company size, performance and rate of growth.

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