

"A man is
great by
deeds, not by
birth"
-Chanakya

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Board or Board committees? What matters in emerging countries

Nemiraja Jادیyappa ¹

Veena K ²

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¹ Associate Professor, Finance, Accounting and Control Area, Indian Institute of Management Kozhikode, IIMK Campus PO, Kunnamangalam, Kozhikode, Kerala 673 570, India; Email - nemiraja@iimk.ac.in, Phone Number - 0495-2809446.

² Research Scholar, Indian Institute of Management Kozhikode, IIMK Campus PO, Kunnamangalam, Kozhikode, Kerala 673 570, India.

Board or Board committees? What matters in emerging countries

Abstract:

This study explores two primary questions: first, whether corporate boards can effectively fulfill their governance responsibilities without board committees by assessing how capital markets value both corporate boards and board committees; and second, the mechanisms through which these entities influence firm value. Utilizing data from Indian firms, our analysis demonstrates that an increased number of board committees (NC) positively contributes to a firm's market value, particularly among companies affiliated with business groups. Moreover, in our channel analysis, we find that firms with a higher NC exhibit reduced volatility in stock returns, with a notable decrease in idiosyncratic volatility. Additionally, we also examine the impact of internal busyness (IB)—defined as the average number of board committee memberships per director—on firm value and idiosyncratic risk. Our findings indicate that higher IB correlates with enhanced firm value primarily through its mitigating effect on idiosyncratic stock return volatility. Collectively, these results suggest that corporate governance is predominantly exercised at the committee level rather than by the board as a whole. Our conclusions are consistent with global trends advocating for the establishment of additional board committees.



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Research Office
Indian Institute of Management Kozhikode
IIMK Campus P. O.,
Kozhikode, Kerala, India,
PIN - 673 570
Phone: +91-495-2809237/ 238
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