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Board Independence and Internal Committees in the BRICs

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To be successful in global markets, companies from the emerging countries need the approval of foreign investors and other stakeholders. In this regard, Brazil, Russia, India, and China (BRIC) have progressively strengthened their corporate governance rules to help their companies overcome the competitors from the old industrialized countries. Directors' non-executive qualification, independence, and professional expertise represent basic requirements for effective corporate governance, so they should be carefully considered to guarantee a proper board composition and an adequate establishment of internal committees in listed companies. The paper intends to compare the legislative and regulatory frameworks adopted by the four countries; then it aims at answering to the following research questions by means of an empirical investigation: Have BRIC companies appointed non-executive and independent board members? What do BRIC companies do in order to assure an effective participation of non-executive and independent board members to corporate governance activities? Have BRIC companies established internal committees? The research examines the appointment of non-executive directors and independent directors to the boards of 100 BRIC leading firms, as well as their involvement in internal committees focused on matters requiring motivated and impartial opinions. Although the laws and recommendations seem to favor a general convergence of corporate governance principles among the four BRIC and towards the international best practices, some differences and peculiarities emerge from a firm-level perspective. Indeed, the Indian and the Chinese companies analyzed appear more inclined than the Brazilian and the Russian ones to reassure their international stakeholders about board independence and effective committees.

Keywords: corporate governance, globalization, convergence, BRICs, independence, board committees

Introduction

Globalization is significantly modifying the ways companies compete in international markets. Nowadays competition is also played in relation to corporate governance, especially for firms of emerging countries, which need foreign investors and other stakeholders' trust to build and develop successful long-term relationships (Salvioni, 2005).

Brazil, Russia, India, and China—also known as the BRICs—have progressively strengthened their national laws and regulations on corporate governance, by adopting principles and rules that have characterized the old industrialized countries for nearly two decades.

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This paper investigates the existence and role of non-executive directors and independent directors in the boards of a sample of BRIC listed companies. In particular, the paper is focused on the supporting and controlling functions such directors should carry out as members of the board and its internal committees.

Firms operating in emerging economies can benefit from the appointment of non-executive and independent directors to the board. Indeed, these members can effectively monitor both the decision-making process and the behavior of managing directors, who frequently represent and act in the interest of majority shareholders of large family holdings and state-owned companies dominating the BRIC economic scenario.

Due to their personal condition marked by neutrality, objectivity, and professional expertise, non-executive and independent directors are also often selected to form board committees entrusted with instituting the board's proceedings, making suggestions and supervising the company's activities.

Since the presence of non-executive and independent directors should increase the protection of outside investors and other stakeholders, including the foreign ones, it can prove valuable to consensus generation in global markets.

This research aims at exploring the topic from both theoretical and empirical perspectives and the paper is organized as follows. The second section presents the scientific background, summarizing the literature on independent board members and internal committees. The third section introduces the legislative and regulatory framework on independence and committees in BRIC. The fourth section describes the methodology and discusses the results of an empirical investigation based on 100 BRIC companies. The fifth section contains some concluding remarks, limitations of the study, and future research direction.

Literature Review

Independent Board Members

Companies usually appoint non-executive and, among them, independent directors considering the contribution they can offer to the improvement of the board's activities. A number of studies have underlined that the board has two main functions, the development of which can take advantage from the presence of non-executive and independent directors. Such functions consist in monitoring tasks and service or advisory tasks (Zahra & Pearce, 1989; Forbes & Milliken, 1999; Zattoni & Cuomo, 2010).

According to the agency theory (Fama, 1980; Fama & Jensen, 1983), companies are characterized by a principal-agent problem between shareholders and managers (García-Ramos & Olalla, 2012), which determines the risk that managers might decide and operate for their own interests, instead of maximizing corporate value for shareholders. For that reason, the agency theory attributes control tasks to the board of directors: in this view, the board is understood as a group of independent directors who must monitor and supervise the managers in order to protect the shareholders' expectations (Fama & Jensen, 1983; McNulty & Pettigrew, 1999; Golden & Zajac, 2001).

In this regard, Luan and Tang (2007) underlined the mixed composition of the board, which often includes two types of members: the inside directors or executive directors, who work as company officers, and the outside directors or non-executive directors, who do not develop any managerial functions (Peng, 2004). Due to their different involvement in corporate affairs, the interests of the former are aligned with those of the management, while the role of the latter should consist in controlling the management and counterbalancing the weight of inside directors in decision-making, to guarantee an adequate representation of all shareholders' interests (Luan & Tang, 2007).

Alongside with monitoring tasks, the board also has a service function towards the management, as stated in the resource dependence theory (Pfeffer & Salancik, 1978). According to this perspective, the board has the duty to advise the management and support them in strategic decision-making process; in this sense, the board members provide their experience and expertise to the managers (Helland & Sykuta, 2004; Hillman & Dalziel, 2003). Moreover, the board intervention should help the company in obtaining external legitimacy and developing networking relations (Daily & Dalton, 1994; Stiles & Taylor, 2001; Huse, 2005; Luan & Tang, 2007). In particular, this function is considered as a typical task of non-executive directors, whose appointment usually helps the firm enter a networking structure based on the linkages between each outside director and other companies. As obvious, belonging to a networking structure can facilitate the raising of funds and other resources.

The literature also comprises a number of studies considering the definition of independent director. According to a "Note" published in the Harvard Law Review (2006), definitions of independent director may fall into three categories: the "disinterested outsider", the "objective monitor", and the "unaffiliated professional director".

In the disinterested outsider model, directors are independent when they are not involved in company's management and they have no financial interest in a particular transaction, or an excessive financial interest in the firm's business more generally, which should help the directors fulfill their fiduciary duties to the shareholders. This definition of independence is usually adopted by policy makers and regulators, such as stock exchanges and securities and exchange commissions, which have also introduced quantitative parameters representing the maximum financial interest permitted.

The definition of independent director as an objective monitor of corporate decision-making stresses the loyalty of such a board member towards the company's shareholders. Indeed, independent directors control executives and managers from inside the board, acting as substitutes for shareholders, on behalf of these latter.

In the unaffiliated professional director model, independent directors are defined as experts whose knowledge and skills support the advisory function and supervision they develop over the board, providing a different point of view from the executives (Roberts, McNulty, & Stiles, 2005) and improving the quality of decisions (Carter & Lorsch, 2004). According to such considerations, some studies have also suggested that independent directors should be full-time experts paid by investors to serve on more boards (Gilson & Kraakman, 1991), assisted by their own staff particularly in the activity of collecting and evaluating corporate information (Brudney, 1982).

Other definitions of independence have been proposed in the literature (Zattoni & Cuomo, 2010), as well as in laws, regulations, and self-discipline all over the world. In particular, independent board members should be free of financial, employment and family ties with the company's owners, executive directors, and officers, because such relationships may provoke a conflict of interest with the firm (Brudney, 1982; Borowski, 1984; Dalton, Daily, Ellstrand, & Johnson, 1998).

Finally, previous researches have investigated the role of outside independent directors for effective corporate governance. Most studies have considered the link between board independence (i.e., the presence and portion of independent directors within the board) and firm performance. However, the results are far from conclusive: for example, some scholars state a positive relationship (Chen & Jaggi, 2000; Anderson & Reeb, 2004; Chen & Hsu, 2009; Hutchinson & Gull, 2004), while others have discovered a negative link (Agrawal & Knoeber, 1996; Lawrence & Stapledon, 1999; Mishra, Randoy, & Jenssen, 2001) or even a non-significant one

(Hermalin & Weisbach, 1991; Villalonga & Amit, 2006; Prabowo & Simpson, 2011).

Board Committees

A number of papers are focused on internal committees set up by the board to perform specific tasks. According to Spira and Bender (2004) “the establishment of board sub-committees has been strongly recommended as a suitable mechanism for improving corporate governance, by delegating specific tasks from the main board to a smaller group and harnessing the contribution of non-executive directors”.

Scholars have particularly analyzed the audit committee, the remuneration committee, and the nomination committee, which are subject of laws, regulations or recommendations all over the world.

The audit committee has been widely investigated with reference to its composition comprising accounting financial experts (Krishnan & Lee, 2009) and its contribution to implement and monitor corporate governance best practices (Agarwal, 2006; Puri, Trehan, & Kakkar, 2010). Other researchers have considered the role of the audit committee in preventing earnings management and improving financial reporting quality, even if with non-conclusive results (Dechow, Sloan, & Sweeney, 1996; Beasley, Carcello, Hermanson, & Lapides, 2000; Jeon, Choi, & Park, 2004; Piot & Janin, 2007; Baxter & Cotter, 2009).

Some studies have discovered a positive relationship between firm size and the number of audit committee’s meetings (Sharma, Naiker, & Lee, 2009), between audit committee independence, meetings and attendance and firm performance (Saibaba & Ansari, 2011), and between auditor independence and audit committee meetings (Sori, Mohamad, & Saad, 2008).

As concerns the remuneration committee, this has been described as a mechanism for minimizing the risk of managers determining their own payment, which can be effective if the committee includes non-executive directors (Carson, 2002). Some studies have investigated the relationship between remuneration committee quality (measured in terms of independence) and compensation practices adopted by firms (Anderson & Bizjak, 2003), while others have discovered the effect of remuneration committee quality on the relation between CEO payment and firm performance (Vafeas, 2003). Moreover, Sun and Cahan (2009) found that the remuneration committee quality varies depending on the committee size and other characteristics, such as the presence of CEO, senior directors, and CEO-appointed directors within the committee.

Finally, the nomination committee is considered as an institutional mechanism for improving director appointment (Ruigrok, Peck, Tacheva, Greve, & Hu, 2006) by suggesting board candidates or defining their profiles (Eminet & Guedri, 2010).

According to empirical evidence, both the establishment of a nomination committee and its independence are inversely related to the firm’s level of inside ownership; moreover, the nomination committee can influence the independence of outside directors, but not their number (Vafeas, 1999).

The literature has stressed the role of the nomination committee in corporate governance. Recent studies indicate that the nomination committee composition is a pre-requisite for gender (Grosvold, 2011) and nationality diversity, and that the presence of the CEO on the committee reduces board cohesiveness (Kaczmarek, Kimino, & Pye, 2012). Furthermore, companies with a nomination committee dominated by non-executive directors or which excludes the CEO usually select candidates to the board who have strong reputation as supervisors over management (Eminet & Guedri, 2010).

Corporate Governance in the BRICs

Some studies have already investigated the corporate governance systems implemented in the BRICs, but

their attention is mainly focused on a specific national environment (Yan-Leung, Jiang, Limpaphayon, & Lu, 2010; Székely-Doby, 2011; Braga-Alves & Shastri, 2011; Black, Gledson de Carvalho, & Sampaio, 2012), or particular topics (e.g., the relation between corporate governance and company's value, and the effectiveness of corporate governance in emerging markets with reference to the CEO turnover) (Gibson, 2002; Belikov, 2004; Singh & Gaur, 2009; Ararat & Dallas, 2011).

Other studies have also analyzed the corporate governance of emerging markets according to the different ownership patterns across the countries (Aguilera, Kabbach-Castro, Ho Lee, & You, 2012); besides, some scholars have investigated how better corporate governance frameworks benefit firms through greater access to financing, lower cost of capital, better performance, and more favorable treatment for all stakeholders (Claessens & Yurtoglu, 2013).

However, the existing literature seems to be lacking in detailed comparisons among all four countries as regards independence of board members and internal committees; hence, the paper is expected to contribute by presenting a comparative analysis of laws, regulations, and recommendations on these subjects in all the BRICs, supplemented by an empirical verification.

Legislative and Regulatory Framework

The BRICs have similarly improved their corporate governance systems in recent past. In all four countries, the national corporate governance framework is based on the companies' law, supplemented or specified through regulations and recommendations issued by stock exchanges, securities and exchange commissions or other institutions. For the purposes of this research, the corporate governance frameworks of BRIC are summarized in Table 1.

Table 1

Corporate Governance Framework

Country	Provision
Brazil	Corporation law (Law No. 6404 of December 15, 1976) (LAW)* Recommendations on corporate governance (2002), issued by the Securities and Exchange Commission of Brazil (SECB)* Code of best practice of corporate governance (2009), issued by the Brazilian Institute of Corporate Governance (CODE)*
Russia	Companies law (Federal Law of the Russia Federation No. 208—FZ of December 26, 1995) (LAW)* Corporate governance code (2002), issued by the Federal Commission for the Securities Market (CODE)*
India	Companies act (1956), as amended (LAW)* Clause 49 of the listing agreement, introduced by the Securities and Exchange Board of India in 2000 and repeatedly revised until 2008 (CLAUSE 49)* Corporate governance voluntary guidelines (2009), issued by the Ministry of Corporate Affairs (GUIDELINES)*
China	Companies Law of the People's Republic of China (in force since 1 January, 2006) (LAW)* Code of corporate governance for listed companies in China, issued by the China Securities Regulatory Commission (CSRC) and the State Economic and Trade Commission, 2001 (in force since 2002) (CODE)* Establishment of independent director system by listed companies guiding opinion, issued by the CSRC, 2001 (CSRC)* Code on corporate governance practices, Appendix 14 of the Hong Kong Stock Exchange's Listing Rules (HKEX)*

Note. In the next tables, each provision will be mentioned through the abbreviated form marked with *.

In this section the research is focused on the main rules concerning independence and internal committees in the four countries, in order to emphasize similarities and distinctiveness.

Independent Board Members

Since the beginning of this century the BRICs have updated their legislative and regulatory framework by adopting rules on independence of board members. All the BRICs have introduced the concept of independence

and listed either the requirements directors have to satisfy in order to be considered independent or the posts that are incompatible with this kind of position (see Table 2).

Table 2

Board Independence

Brazil	Russia	India	China
Independence definition and criteria			
<p>CODE:</p> <ul style="list-style-type: none"> no family ties with the firm's controlling owner, officers or managers no economic ties with the firm or previous relationships as employee or officer no commercial relationships with the firm 	<p>LAW:</p> <p>also in one preceding year:</p> <ul style="list-style-type: none"> no executive or management positions in the firm no family relationships with executives or managers of the firms no affiliates or directors of the firm <p>CODE:</p> <ul style="list-style-type: none"> no membership of the managerial board independence from the company, its officers and their affiliated persons and from major business partners of the company over the last three years, no position of officer or employee of the company, or of the managing organization of the company no position of officer in other firms where any of the officers of the company is a member of the nomination and remuneration committee no contractual relationships with the company that produces value in excess of 10% of the person's aggregate annual income, other than through normal remuneration for operating as a board member no major business partner of the company (i.e., with an annual value of transactions with the company in excess of 10% of the asset value of the company) no government representative 	<p>CLAUSE 49:</p> <ul style="list-style-type: none"> no pecuniary or other relationships or transactions with the company, its promoters, directors, senior management or holding company, subsidiaries and associates, as well as no supply relationships with the firm that may affect independence no position as executive of the company in the preceding three years also in the preceding three years, no positions as partner or executive in the statutory audit firm or the internal audit firm of the company, and in legal and consulting firms with a material association with the company maximum shareholding: 2% of the block of voting shares in the company 	<p>CODE and CSRC:</p> <ul style="list-style-type: none"> no positions in the firm apart from the one of independent director no relationships with the company and major shareholders that could hinder objective judgments <p>CSRC:</p> <ul style="list-style-type: none"> also in the previous year: <ul style="list-style-type: none"> no family relationships with the firm or its subsidiaries no persons holding 1% or more of the shares of the company or ranking in the top-10 company's shareholders no persons holding positions in entities that directly or indirectly hold 5% or more of the company or ranking in the top-5 company's shareholders no relatives of the persons listed in the preceding two categories no financial, legal or consultancy relationships with the company or its subsidiaries
Independent board members			
<p>SECB:</p> <p>as many as possible</p> <p>CODE:</p> <p>all external and independent directors</p>	<p>CODE:</p> <p>at least 1/4 of the board, which should have at least three independent directors</p>	<p>CLAUSE 49:</p> <ul style="list-style-type: none"> 1/2 of the board, if the chairman is executive 1/3, if the chairman is non-executive 1/2, if the non-executive chairman is a promoter (or related to a promoter) 	<p>CSRC:</p> <p>at least 1/3 of the board (including at least one professional accountant)</p> <p>HKEX:</p> <p>at least three independent members</p>

(Table 2 continued)

Brazil	Russia	India	China
Independent board members' term of office			
-	-	<p>CLAUSE 49: up to nine years, in the aggregate (non-mandatory requirement)</p> <p>GUIDELINES:</p> <ul style="list-style-type: none"> • six years, followed by a period of three years before obtaining any further position in the company • no more than three tenures as independent director 	<p>CSRC: • no more than three tenures as independent director</p>
Limits to simultaneous positions			
<p>CODE: no more than five simultaneous positions in boards and committees (with shareholder meeting's approval)</p>	-	<p>GUIDELINES:</p> <ul style="list-style-type: none"> • limit for managing directors: seven positions of non-executive or independent director in other companies • limit for all directors: seven positions of independent board member 	<p>CSRC: no more than five positions of independent director in listed companies</p>
Executive sessions of independent directors			
<p>CODE: regular</p>	-	-	<p>HKEX: at least one annual meeting of the chairman with all non-executive directors</p>
Remuneration			
-	-	<p>CLAUSE 49: all non-executive directors' fees shall be fixed by the board and approved by the shareholder meeting that shall also specify the maximum number of stock options</p> <p>GUIDELINES:</p> <ul style="list-style-type: none"> • option to pay only fixed contractual remuneration to non-executive directors, or also a percentage of the net profits: fixed component should not exceed 1/3 of the total package; variable component should be based on meeting attendance (sitting fees) and chairperson positions in the board or committees. Stock options can be granted to non-executive directors • compensation of independent directors depending on net worth and turnover; stock options or profit-based commissions cannot be granted to independent directors 	-

Even if independence's criteria or incompatibilities have different degree of detail in the four countries' legislation and regulation, they can be summarized as follows:

- Controlling shareholders appointed as directors are not independent; to be independent, a director should not hold company's shares exceeding a fixed, very low percentage threshold;
- Independent directors should not have any managerial, business, contractual or consultancy relations with the company, or work as employees of the company;
- Independent directors should not have any family relationships with executive directors, officers, and controlling owners of the company;
- To be independent, a director should comply with the above-mentioned requirements not only in respect to the company where they hold such a position, but also in respect to controlling and controlled firms and their executive directors, officers, and owners;
- Some requirements (e.g., not being a company's executive director or employee) should also be checked in respect to one or more previous years.

On the whole, complying with the summarized criteria should guarantee that the directors formulate unbiased judgment and assessment as concerns the resolutions proposed or taken by the executive directors and the non-executive but non-independent ones.

In all the BRICs there are rules issued by the stock exchanges or recommendations contained in the corporate governance codes that require the presence of independent members within the board. While Brazilian companies are requested to appoint as many independent board members as possible, even the totality, the other BRICs provide rules on the board composition as regards the minimum portion of independent members, from at least one fourth in Russia to one half in India when the chairperson is an executive director or a non-executive promoter of the company. In such a situation independent directors are expected to counterbalance and control the executive chairperson in the development of their functions.

India and China have also limited the independent board members' term of office and defined the maximum number of tenures, with the purpose of promoting a real separation of the independent directors from the company's management and owners.

In order to assure that independent directors spend reasonable time in supporting decision-making and monitoring the company's activities properly and objectively, all the BRICs except Russia have introduced restrictions to the number of posts they can simultaneously hold in other firms.

Moreover, regular meetings reserved to non-executive and independent directors are required to Brazilian and Chinese listed firms: indeed, the absence of executive members and officers should favor impartial debate and neutral judgment in the interest of the company's minority shareholders and other stakeholders.

To preserve independent directors' neutrality in expressing judgment on the company's strategies, policies and performance, the international best practices usually consist in paying them a fixed contractual remuneration, which takes into consideration chairperson positions in the board as well as internal committees' membership. In addition, independent directors are usually entitled to sitting fees linked to their meeting attendance. On the contrary, the international best practices tend to exclude variable compensation for independent board members, due to the risk that a performance-based remuneration system could stimulate them to be involved in operational activities, so compromising their objectivity in assessment and control. As concerns the BRICs, strangely enough the Indian recommendations on corporate governance permit assigning compensation to the independent directors depending on the company's net worth and

turnover.

Internal Committees

According to the corporate governance system adopted in each country analyzed, specialized committees can be set up within the board of directors (in the Indian one-tier model), the supervisory board (in the Brazilian and the Russian two-tier model), or both of them (in the Chinese two-board horizontal model) (Salvioni, Almici, & Bosetti, 2012).

The nomination committee is recommended by only India and China, while Russia and Brazil provide no regulation about this body (see Table 3). With reference to the composition, both India and China require a majority of independent directors, including the chairperson, while Brazil and Russia do not regulate this aspect. Furthermore, only China explains the committee's roles and powers, such as the recruitment of board candidates and the formulation of election procedures. None of the BRICs consider the quality of non-executive director.

Table 3

Nomination Committee

Brazil	Russia	India	China
Establishment			
-	-	GUIDELINES: the company may have a nomination committee	CODE: the board of directors may establish a nomination committee
Composition			
-	-	GUIDELINES: • majority of independent directors • independent chairperson	CODE: • only directors, in majority independent • independent chairperson
Powers			
-	-	-	CODE: • to formulate standards, procedures and recommendation for the election of directors • to extensively seek, review and recommend qualified candidates for directorship and management

The establishment of the remuneration committee (called human resources committee in Brazil) is recommended in all the BRICs (and also prescribed by Clause 49 of the Indian Listing Agreement); however, only India and China regulate the composition of the body (see Table 4). In particular, China requires a majority of independent directors, including the chairperson, while India regulates the composition less strictly than China, by requiring at least three directors, all non-executive and comprising an independent chairperson, according to Clause 49. With reference to the committee's role, all the BRICs underline the following main powers:

- to study and review the remuneration policies and make recommendations;
- to develop the company's remuneration policies;
- to manage and solve problems relating to succession, compensation and people development;
- to define the appraisal standard for directors.

Table 4

Remuneration Committee

Brazil	Russia	India	China
Establishment			
CODE: the board may set up a human resources committee	CODE: the board may set up a human resources and remuneration committee	CLAUSE 49: the board may set up a remuneration committee (non-mandatory requirement) GUIDELINES: the board should have a remuneration committee	CODE: the board of directors may establish a remuneration and appraisal committee
Composition			
-	-	CLAUSE 49: • at least three directors, all non-executive • independent chairperson (non-mandatory requirement) GUIDELINES: • at least three directors, in majority non-executive, with at least one independent	CODE: • only directors, in majority independent • independent chairperson
Powers			
CODE: to instruct proceedings relating to succession, compensation and people development	CODE: to develop the company's remuneration policy	CLAUSE 49 and GUIDELINES: to determine the company's policy on specific remuneration packages for executive directors and senior management, including pension rights and any compensation payment, such as retirement benefits or stock options (non-mandatory requirement)	CODE: • to study the appraisal standard for directors and management personnel, to conduct appraisal and to make recommendations • to study and review the remuneration policies and schemes for directors and senior management personnel, and make recommendations

All the BRICs require the establishment of the audit committee, according to the law (in India), the code of best practices (in Russia), or the Securities and Exchange Commission's regulations (in China and Brazil) (see Table 5). However, only Brazil and Russia prescribe the presence of solely independent directors, while China and India admit also non-independent members (but no more than one half and one third, respectively). The committee's role is specified by all the BRICs, which identify the main powers in overseeing the company's financial reporting, ensuring that the management develop reliable internal controls and comply with both the law and the code of best practices, and developing recommendations for the selection of independent auditors.

Alongside with the nomination, remuneration, and audit committees, listed firms may introduce further specialized committees for the resolution of specific matters requiring neutral judgment, such as ethics issues, risk management, strategy, and external or internal disputes (see Table 6). Such committees should prepare proposals on their specific subjects and submit them for discussion and vote by the board.

Table 5

Audit Committee

Brazil	Russia	India	China
Establishment			
SECB: an audit committee should supervise the relationship with the auditor	CODE: the board of directors should create an audit committee that provides for control over the financial and business operations	LAW: Public company having paid-up capital of not less than five crores of rupees (50 million rupees) shall constitute an audit committee CLAUSE 49: A qualified and independent audit committee shall be set up	CODE: The board of directors may establish an audit committee
Composition			
SECB: only directors, with one member representing minority shareholders. CODE: only directors, preferably independent	CODE: only independent directors; if this is impossible, the audit committee should be headed by an independent director and its members should be independent and non-executive directors	CLAUSE 49: <ul style="list-style-type: none"> • at least three directors; two thirds shall be independent • independent chairperson • all financially literate members • at least one member with accounting or financial expertise GUIDELINES: <ul style="list-style-type: none"> • at least three directors, in majority independent • independent chairperson • all members with knowledge of financial management, audit or account 	CODE: <ul style="list-style-type: none"> • only directors, in majority independent • independent chairperson • at least one independent member with accounting expertise
Powers			
CODE: <ul style="list-style-type: none"> • to review the financial statements • to supervise and promote financial area accountability • to ensure that management develop reliable internal controls • to ensure compliance with the firm's code of conduct 	CODE: to make recommendations for the selection of an independent audit firm	CLAUSE 49, LAW, and GUIDELINES: <ul style="list-style-type: none"> • to investigate and seek information from employees • to oversee the company's financial reporting and to review the financial statements • to recommend the appointment, replacement or removal and the remuneration of the statutory auditor and the chief internal auditor • to review the performance of statutory and internal auditors and the adequacy of all internal controls • to review the findings of internal audit activities and investigation, and follow up there on • to review the management discussion and analysis, the statement of related party transactions and the reports on internal control weaknesses 	CODE: <ul style="list-style-type: none"> • to recommend the engagement or replacement of the external auditors • to review the internal audit system • to oversee the interaction between internal and external auditors • to inspect financial information and disclosure • to monitor the internal control system

Table 6

Other Specialized Committees

Brazil	Russia	India	China
SECB: • related party transactions CODE: • finance • governance	CODE: • ethics • risk management • strategic planning • corporate conflicts resolution	CLAUSE 49: • shareholder/investor grievance	CODE: • corporate strategy

These committees are voluntary, or sometimes recommended by the stock exchange's regulations and the corporate governance codes.

Among the BRICs, Russia has the most complete and severe self-discipline with reference to voluntary internal committees. Indeed, the Russian corporate governance code suggests the establishment of:

- An ethics committee, entrusted with ensuring the company's compliance with ethical standards and contributing to the creation of an atmosphere of trust within the company;
- A risk management committee, in charge of analyzing, discussing, improving, and monitoring the efficiency and effectiveness of the internal risk management policies adopted by the executive directors and officers;
- A strategic planning committee, which should advise the board on strategic goals, investments, and priority areas of operation, evaluate long-term productivity and market position, and develop recommendations on the company's dividend payment policy;
- A corporate conflicts resolution committee, responsible for preventing or, if necessary, effectively solving the disputes arising between the company and the shareholders or inside the company.

Due to the importance of the motivated, reasonable, and impartial opinions the above-mentioned committees are expected to express, they should be composed of at least a portion of independent members, even if their presence is plainly requested only to the corporate conflicts resolution committee.

Indian listed companies are invited to set up a shareholder/investor grievance committee, which should specifically handle the complaints of shareholders and investors concerning transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends, etc.. This Indian committee is similar to the Russian corporate resolution committee and, in compliance with the national stock exchange's regulations, it should have a non-executive chairperson. However, the nature of its activity may justify the presence of independent members, even if they are not recommended by the regulators.

As regards China, the corporate governance code suggests introducing a corporate strategy committee responsible for conducting research and making proposals on long-term strategic development plans and major investment decisions. The code does not specify rules on the committee's composition, but the involvement of non-executive and independent directors should be useful to ensure the objectivity of resolutions.

In Brazil, self-discipline only considers the opportunity to adopt a finance committee, a governance committee, and a related party transactions committee, without describing their composition and tasks. Nevertheless, according to the international best practices, a finance committee should constantly monitor and review the company's budget and expenditure, checking their consistency with the long-term plans. In this regard, a finance committee is comparable to a strategic committee, so it should comprise one or more independent directors to balance the presence of executive members. In the same way, the board should select

independent members to form its governance committee and related party transactions committee: indeed, the former should guarantee equality and effectiveness of decision-making affecting the rights and expectations of different categories of shareholders (e.g., controlling shareholders and minority shareholders), and the latter should impartially face the matters involving the interests of insiders or connected parties (for example, when the board has to decide about signing a commercial agreement in which the CEO is the counterparty).

Empirical Research

Purposes and Methodology

Based on the provisions summarized in the previous section, an empirical research has been developed in order to verify the actual corporate governance choices of a selected sample of companies from BRIC, in relation to board independence and internal committees. In this regard, the research questions were the following:

- Have BRIC companies appointed non-executive and independent board members?
- What do BRIC companies do in order to assure an effective participation of non-executive and independent board members to corporate governance activities?
- Have BRIC companies established internal committees? Which ones? What are their characteristics?

The investigation considered 100 companies, more exactly the top-25 firms from BRIC that were included in Forbes Global 2000 list of April 2011, a well-known list containing the most important firms worldwide, ordered through an index combining sales, profits, assets, and market value. All the 100 companies extracted from Forbes list resulted to be traded on one or more stock exchanges, so being required to adhere to specific governance rules.

The investigation consisted in a content analysis (Weber, 1990; Neuendorf, 2002; Krippendorff, 2004) of the most recent disclosure on corporate governance divulged by the companies through their websites within April 2012.

Items to be checked were identified in accordance with the above described legislative and regulatory framework and referred to:

- presence of non-executive and independent board members and their meetings;
- establishment of board committees and their composition, meetings, attendance rate, functions, and activities carried out in actual fact.

Information was collected from corporate governance and investor relations pages of the firms' websites and the documents attached therein, such as the latest annual report on corporate governance (referred to 2011 or 2010/11 financial year), the board and committees' charters and the company's statute. To facilitate data-processing, all significant findings were registered in an Excel database.

Results

This section contains the results of the empirical investigation. The data contained in Tables 7-11 summarize how many companies from each country divulged information on the items investigated.

Data refer to 94 firms: one Chinese and five Brazilian companies were excluded, because they did not have either a website or its English translation at the time of the investigation, or had not updated information for long.

Despite the existence of national provisions requiring or recommending the appointment of independent members to the supervisory board of Brazilian and Russian listed companies and to the board of directors of Indian and Chinese ones, it was sometimes difficult to check the compliance with such rules. While all the Indian firms analyzed (25) and almost all the Chinese ones (23 out of 24) detailed the presence of independent members within the board of directors in their web-based disclosure, only 13 Brazilian and five Russian companies disseminated this type of information with reference to the supervisory board (see Table 7).

Table 7

Non-executive/Independent Members

	Brazil-SB	Russia-SB	India-BoDs	China-BoDs
Independent members	13	5	25	23
Executive sessions of non-executive or independent members	0	0	4	1

Note. SB: supervisory board; BoDs: board of directors.

The higher care of the Indian and the Chinese firms for independence was confirmed by the clear classification they gave for each board member as executive, non-executive (but not independent) or independent. That permitted determining the average composition of the boards analyzed: in China, within a board formed by 13.5 members on average, 37.8% of the members were independent, 33.3% were non-executive, and 28.9% were executive; the results for India showed an average dimension of the board equal to 13 members, 48.8% of whom were independent, 22.3% were non-executive, and 28.8% were executive.

On the other hand, scarce transparency used to characterize the communication of the whole sample of firms in respect to non-executive and independent members' executive sessions: information about their meetings in the absence of managing directors and officers was divulged by only four Indian companies and a Chinese one, but by none of the Brazilian and Russian firms investigated.

Focusing on the Indian context, the research also revealed a significant adoption of incentive-based remuneration systems for non-executive directors, including the independent ones: 11 firms of the sample emphasized the payment of commissions to their non-executive directors, i.e., variable compensation usually not higher than 1% of the net profits, in addition or in alternative to sitting fees.

None of the Brazilian companies analyzed had a nomination committee; conversely, this body existed in some Russian, Indian, and Chinese firms (see Table 8). The committee was usually composed of independent directors in India and China, while no detail—except for the number of members—was disseminated by the Russian companies. Disclosure on the committee's role, activities, frequency of meetings, and attendance rate was more complete for the Indian and the Chinese committees than for the Russian ones.

The remuneration committee had been mainly established in the Indian, the Chinese, and the Russian companies, while it existed in only 16% of the Brazilian firms analyzed (see Table 9). With reference to the composition, the committee was totally independent in only seven companies (three Chinese, three Indian, and one Russian). Little disclosure was given by the Brazilian and the Russian firms relating to the attendance rate, while in the Indian and the Chinese ones such a rate was often 100%. The Brazilian firms' communication was the least transparent about the committee's role and activities carried out.

Table 8

Nomination Committee

	Brazil-SB	Russia-SB	India-BoDs	China	
				BoDs	SB
Establishment of the committee	0	11	13	20	6
Composition	-	8	13	17	2
Number or frequency of meetings	-	1	12	16	1
Attendance rate	-	1	10	14	0
Powers and functions	-	7	11	16	2
Activities carried out in actual fact	-	4	2	13	1

Table 9

Remuneration Committee

	Brazil-SB	Russia-SB	India-BoDs	China	
				BoDs	SB
Establishment of the committee	4	19	23	23	2
Composition	2	17	23	19	0
Number or frequency of meetings	0	5	22	19	0
Attendance rate	0	3	19	15	0
Powers and functions	3	14	18	17	0
Activities carried out in actual fact	1	11	2	16	0

The audit committee had been set up in the most part of the companies investigated (64% in Brazil, 96% in Russia, 100% in India, and 92% in China) and it often comprised a majority of independent directors (see Table 10). Transparency on the meetings held by the committee was greater in the Indian and the Chinese firms, while the disclosure on powers and functions was good in almost all the BRICs.

Table 10

Audit Committee

	Brazil-SB	Russia-SB	India-BoDs	China-BoDs
Establishment of the committee	16	24	25	23
Composition	12	24	25	19
Number or frequency of meetings	0	8	25	19
Attendance rate	0	3	24	16
Powers and functions	15	23	24	16
Activities carried out in actual fact	4	12	5	19

The research also verified the existence of other specialized committees (see Table 11), first of all considering the ones recommended by the national corporate governance codes and stock exchange's regulations. However, the content analysis revealed that a number of companies had voluntarily established further committees, even if they were neither requested nor recommended in their countries.

Before 2011 none of the Brazilian companies investigated had introduced the committees suggested by their national frameworks, such as the related party transactions committee, the finance committee, and the governance committee. In Russia, 13 firms had complied with the recommendation of having a strategic committee, but only one had set up a corporate conflicts resolution committee, while none had neither set up an ethics committee nor a risk management committee. In India, all the 25 companies had established a

shareholder/investor grievance committee, as required by the stock exchange's regulations. In China, 18 out of 23 firms had introduced the recommended corporate strategy committee.

Table 11

Other Committees

	Brazil-SB	Russia-SB	India-BoDs	China	
				BoDs	SB
Ethics—CSR	1	0	9	1	-
Environmental issues	2	1	5	3	-
Risk management	3	0	10	13	-
Related party transactions	0	1	0	8	-
Strategy	4	13	0	18	-
Shareholder/investor grievance	0	0	25	0	-
Corporate conflicts resolution	0	1	0	0	-
Shareholder relations	4	0	0	0	-
Supervision	-	-	-	-	8
Performance and due diligence	-	-	-	-	4
Others	10	9	17	4	-

Generally speaking, the Indian and the Chinese firms resulted the most inclined to introduce voluntary-based internal committees. Risk management committees had been set up by 10 Indian companies and 13 Chinese ones, but also by three Brazilian firms. Social matters and environmental issues were covered in India by nine and five specialized committees respectively, while eight committees had been formed in China to handle related party transactions. In Brazil, four committees were responsible for shareholder relations.

Finally, some Chinese firms had established specialized committees not only within the board of directors, but also the supervisory board, in particular, eight supervisory board's committees were in charge of monitoring the activity of the entire body, while four were responsible for performance evaluation and due diligence.

Conclusions, Limitations, and Future Research Directions

The review of the BRICs' legislative and regulatory framework on independence and board committees demonstrates the existence of comprehensive institutional convergence among the four countries, as well as towards the international best practices of corporate governance. Indeed, all the BRICs have adopted criteria of independence according to which the condition of independent director is incompatible with family, business, consultancy, and ownership relationships with the company that could jeopardize objectivity of judgment.

As stated by the agency theory, the appointment of independent board members is a commonly accepted solution for protecting minority shareholders who do not take part in firm's decision-making and operations, and consequently need neutral supervision on management. This situation, which is typical of all listed companies where large inside ownership coexists with small outside shareholding, is growing in importance in the BRICs, the companies of which represent interesting targets for foreign investors.

As concerns internal committees, all the BRICs require or recommend the establishment of a remuneration committee and an audit committee, similarly to the international best practices. Differences exist among the four countries in relation to the composition, even if laws and recommendations usually provide for the

presence of independent members.

In line with what happens in other countries marked by high concentration of ownership, also in the BRICs the nomination committee seems to be less important than the audit and the remuneration ones. On the other hand, further committees are required or suggested in order to help the board handle specific issues (such as risk management, ethics, strategic planning, finance, and corporate conflicts) with professional competence and skills. Hence, the selection of non-executive and independent directors to compose at least a part of such committees can be interpreted in the light of the resource dependence theory, given the expertise such directors can offer to the board.

The study has also produced evidence from a firm-level perspective, although the shortage of transparency in corporate governance disclosure hampered the development of conclusive remarks. However, the Indian and the Chinese companies investigated seemed to be more inclined than the Russian and the Brazilian ones to divulge information on the board independence and the role of internal committees with reference to topics requiring impartial judgment.

The empirical findings obviously suffer of the innate limitation of all content analyses that is to be based only on external communication. To overcome this limitation, the research could be repeated by contacting the companies to obtain the missing information. This solution could also permit supplementing the study by investigating further aspects, for example, the impact of independence on firm performance.

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