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Review of the literature on board committees: taking stock and looking ahead

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Abstract:

Committees on a board of directors are now subject to recommendations by regulations in practically all jurisdictions. At the same time, scholarly work on the topic has escalated since the mid-1990s. In this review article, we examine relevant literature on board committees of audit, compensation and nomination, as part of corporate governance research in general, over the period of 1988 to 2011. We observed an exponential growth in contributions over time, the majority of which can be attributed to management and accounting scholars. The audit committee is the most researched of all three committees, with the nomination committee being the least researched. An analysis of the literature generated a picture that included the following features: 1) the dominance of the agency theory; 2) a lack of other unifying theoretical frameworks; 3) a strong US-centrism; 4) the prevalence of quantitative research methods.

Keywords:

agency theory; board committees; corporate governance; literature review.

Biographical notes:

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1 Introduction

It has been more than 20 years since the publication of the Cadbury Report (1992). Since then, we have observed a notable increase in contributions to corporate governance literature (Durisin and Puzone, 2009; Filatotchev and Boyd, 2009; cf., Hamidi and Gabrielsson, 2014; Steger, 2014). At the same time, the regulators have increasingly recommended the establishment of three board committees; namely audit, compensation and remuneration (e.g., UK Corporate Governance Code, 2014). This was accompanied by the commencement of academic work devoted to examining the functioning of these committees (e.g., Bilimoria and Piderit, 1994; Daily et al., 1998; Kesner, 1988).

The idea behind the establishment of these board committees is additional delegation, and the strengthening and specialisation of processes that the board of directors perform. In a nutshell, audit committees are entrusted with the task of providing accurate and high quality financial information. Compensation committees are responsible for devising well-constructed incentive plans for managers. Finally, nomination committees optimise the director nomination and selection process. All committees constitute sub-sets of directors of the composition of the entire corporate board. Their remit is codified in the regulatory documents, such as the UK Corporate Governance Code (2014).

In this work, we undertook the task of reviewing the extant sub-strand of corporate governance literature on board committees over the period of 1988 to 2011. Based on Durisin and Puzone (2009), we selected 17 management, accounting and finance/economics journals, and performed a search for contributions on board committees. Our search procedure resulted in 90 relevant academic articles from 12 journals, which we then analysed and coded. The main coding themes were 'theory' and 'methodology'.

The research findings indicated an exponential growth of contributions over time. Until the mid-1990s, contributions had been extremely rare, whereas in the last sub-period of 2004 to 2011, two-thirds of the reviewed articles were published. The audit committee, as the most mature institutional arrangement, proved the most popular of all three committees in terms of research carried out, whilst on the other hand, there was a scarcity of scholarly work on the nomination committee (cf., Carson, 2002). The number of contributions on the compensation committee is placed in-between. The majority of the reviewed articles came from the management and accounting disciplines, and the finance/economics field of study was least represented.

Analysis of the reviewed articles yielded a pattern of results which resembled those in the corporate governance literature, in general. There was a prevalence of contributions based on the agency theory or such pieces of work which are de facto 'atheoretical'. We detected a strong US-centrism in board committee research, and in broader terms, a concentration of articles on the Anglo-Saxon capitalist countries. There was a paucity of research on countries outside of North America and Europe. Finally, the majority of contributions adopted quantitative research methods and regression analysis. Only around 20% embraced the qualitative approach in their methodologies. Amongst studies based on the quantitative research methods, a substantial share of them scrutinised the longitudinal dimension of their dataset and undertook panel data analysis, which demonstrates a reasonable advancement in the adopted methodologies.

As can be inferred from the academic literature and the regulatory documents, board committees play an increasing role in the corporate governance architecture. More and more tasks are streamlined through the committee work as opposed to the general board proceedings. Hence, it is critically important for corporate governance scholars to stay abreast of the developments in this sub-field of the corporate governance research stream. Therefore, the review undertaken in this work was conceived as a contribution to help scholars better follow the developments in the academic work on board committees. It is also meant to aid with the consolidation, regrouping and setting the research agenda for the future with regards to board committee work. For example, upcoming issues, such as the agency theory domination or the scarcity of contributions from the finance/economics field, indicate that there is ample room for instilling insights to board committee research informed by other theories and being looked at from a rigorous financial/economic perspective. Agency theory domination reduces the focus to economic incentives and means of control of the agent directors, whereas the entire human and behavioural side of governance is left out (Daily et al., 2003; Huse, 2005; Huse et al., 2011; Pettigrew, 1992; Viganò et al., 2011). A financial/economic perspective, in turn, if adopted, could be a source of rigorous modelling and predictions that would enrich those present in the management and accounting literature on board committees.

The review article is structured as follows. First, the theoretical backdrop is outlined in terms of the literature on corporate governance in general, board of directors, and board committees. Next, the methodology is explained and the research findings presented. The discussion section, together with limitations and ideas for future research, concludes the paper.

2 Corporate governance literature: board committees

Corporate governance literature dates back to the dialogue between Berle and Means (1932). However, the event that gave it strong impetus was the Cadbury Committee (1992) in the UK, from which time we observed an actual lift-off of academic contributions to that stream of research. In 1993 Corporate Governance: An International Review, a specialty journal, was established. In 1998, the first UK corporate governance code was released (Combined Code, 1998). These dynamic developments, since the early 1990s, are reflected in the fact that some scholars recognise corporate governance research as an autonomous field of study now, which reveals features of a separate discipline (Durisin and Puzone, 2009; Filatotchev and Boyd, 2009).

Daily et al. (2003, p.371) define governance as “the determination of the broad uses to which organizational resources will be deployed and the resolution of conflicts among the myriad participants in organizations”. In a similar vein, following Aoki (2001), Filatotchev and Boyd (2009) view corporate governance as “a structure of rights and responsibilities among the parties with a stake in the firm”. Contrary to Shleifer and Vishny’s (1997) definition, both aforementioned definitions reach out beyond the shareholder-manager dyad and encompass other stakeholders. Shleifer and Vishny (1997) point out that corporate governance is about how shareholders get a return on their investment.

The board of directors is a central corporate governance mechanism. It represents an internal institutional solution which is meant to bridge the relationship between shareholders and executive managers. Boards encompass the committees within their structure, so the analysis of committees’ structure, remit and functions is inextricably linked to the board of directors in general. So, in what follows we first depict the board types, roles and structures and against this backdrop, we consider the presence of the three main board committees in corporate governance literature: audit, compensation and nomination. This sub-strand of corporate governance literature can be traced back to the seminal contribution by Kesner (1988). However, similar to the entire field of study, it experienced intensification of efforts in the aftermath of the Cadbury Report (1992), as evidenced later in our literature review.

A board of directors

Corporate boards represent a somewhat central internal mechanism of corporate governance, because they are located within an organisational structure of a corporation and incorporate an interface between managers and non-executive directors. The latter protect shareholders' interests. Other institutions of governance encompass regulatory framework, ownership structure, incentivisation of managers, managerial labour market, takeover activity, and product market competition (Daily et al., 2003; Hermalin and Weisbach, 2003; Ricketts, 2002). This heightened research interest in boards of directors is well reflected in Durisin and Puzone's (2009) bibliometric analysis of corporate governance literature. They identified strands of work on board structure and composition, as well as board members' characteristics, as one of the dominant streams of research in this literature with a substantial number of contributions.

There are two main types of boards. In Anglo-Saxon capitalism there is a unitary/monistic board structure, where both the executive and non-executive segments are combined. In Rhine capitalism, there is typically a two-tier board structure installed, with a separate management/executive board and a supervisory/non-executive board. The Anglo-Saxon model is based on the common law system in which a controlling shareholder appoints both executive and non-executive directors. The investor protection is comparably strong through the majoritarian electoral mechanism. The fluid capital investment system focuses on shareholder value, and hence this model is referred to as market-oriented. The Rhine model of corporate governance, in turn, is network-oriented and based on the civil law system. The proportional electoral mechanism tends to lend support to employment as opposed to shareholder protection. The dedicated capital investment system, with a particular role for banks and other financial institutions, focuses on stakeholder rather than shareholder value. Whereas in the Anglo-Saxon model with one-tier boards committees are clearly structurally subjected to them, in the Rhine model they are tied to the supervisory/non-executive segment only (Albert, 1993; Collier and Zaman, 2005; Demb and Neubauer, 1992; Kwee et al., 2011; La Porta et al., 1998).

Integrating the agency and resource-dependence theories, Hillman and Dalziel (2003) distinguish between the monitoring and resource-provision functions of the board of directors. The former consists in controlling and the provision of checks and balances to the management by non-executive directors. The latter signifies the mechanism of provision of resources to the focal company through external professional networks of board members. The alternative taxonomies of board functions indicate, additionally, the service and strategy-consulting/making roles (cf., Johnson et al., 1996; Minichilli et al., 2009; Zahra and Pearce, 1989).

The three main board committees

In line with the provisions of corporate governance codes, boards of directors increasingly delegate duties to the sub-sets of their members, called board committees. There are typically three main board committees distinguished: audit, compensation and nomination. However, at times, companies install modified and/or different/additional committees, such as corporate governance, corporate social responsibility or technology committees (this list is by no means exhaustive). The idea behind this institutional solution is further delegation and specialisation of processes for which the board is responsible. The audit committee provides accurate and high quality financial information, the compensation committee generates well-designed incentive plans for managers and the nomination committee is responsible for the optimisation of the director nomination and selection process. The regulator recommends that, as a rule, all three committees are composed of independent, non-executive directors (e.g., Conyon and Mallin, 1997; Sarbanes-Oxley Act (SOX), 2002; UK Corporate Governance Code, 2014).

Initially, the board committees rarely featured in scholarly work. Until the mid-1990s, there were only a handful of contributions, which mainly examined the composition aspects of the board committee structure, e.g., the presence and the role of women on board committees (e.g., Bilimoria and Piderit, 1994; Kesner, 1988). Since the mid-1990s, we have observed a proper lift-off of contributions on board committees in the corporate governance literature, which in large part scrutinised the different aspects of the newly enacted regulations, such as the Cadbury Report (1992) or the Combined Code (1998) in the UK and the Sarbanes-Oxley Act (2002) in the US. This was frequently combined with the analysis of corporate governance problems that were highlighted by the prominent scandals at the turn of the century, such as Enron, Tyco, or Parmalat. Such an approach is particularly visible in the accounting literature with regard to the audit committees. In the end, in the final period of the time frame of our study, i.e., in the years 2004–2011, there are the echoes of the financial crisis of 2007–2008 present in the literature and the related analysis of the role that the board committees should play in the corporate governance architecture. There was a generally high level of consensus in the sample of the reviewed articles with regard to the remit and functions of particular committees. In addition, some contributions looked at the origins, evolution and current customary practices of the board committees (e.g., Adut et al., 2003; Bebchuk et al., 2010; Carcello and Neal, 2000, 2003; Conyon and Peck, 1998; Daily et al., 1998; Eminet and Guedri, 2010; Ruigrok et al., 2006; Spira, 1998, 2003; Turley and Zaman, 2004).

Since the UK regulatory framework in the area of corporate governance traditionally serves as a landmark for other jurisdictions, in what follows we provide an in-depth description of the structure, remit and functions of board committees based on the UK regulatory context.

Audit committee

The origins of audit committees can be traced back to the 1940s in the US and early 1990s in Europe. They had been extremely rare before the early 1990s in continental Europe, as they are primarily an institution of Anglo-Saxon capitalism. Audit committees are nevertheless, comparably, the most established and mature out of all board committees. They are entrusted with the task of ensuring high standards in financial reporting that underpin confidence in financial markets (Carson, 2002; Collier and Zaman, 2005; European Commission, 2003; Habbash, 2013).

More specifically, in the UK, it is recommended that the audit committee should comprise of at least three members, and in the case of small companies (not in the FTSE 350 index), two members. At least one member should possess recent and relevant financial experience (cf., SOX, 2002; Security Exchange Commission (SEC), 1999; cf., McDaniel et al., 2002). Audit committees should monitor the integrity of financial statements and any formal announcements pertaining to the focal company's financial performance. Moreover, they are meant to review the company's internal financial controls, as well as risk management systems, unless the latter is addressed explicitly by a separate risk committee or by the board itself. Finally, their duties also encompass monitoring and review of the company's internal audit function, recommendations to shareholders regarding the external auditor (appointment and remuneration), review and monitoring of the external auditor's independence and objectivity, and the development and implementation of the policy on the engagement of the external auditor to supply non-audit services (UK Corporate Governance Code, 2014).

The role of the audit committees in discharging their responsibilities should be described in a separate section of the company's annual report. Such an account of the audit committee work should outline any significant issues that arise in committee consideration with regard to financial statements, information on the external audit process (appointment, tenure), and an explanation of how auditor objectivity and independence are safeguarded, if the external auditor provides non-audit services (Collier and Zaman, 2005; Habbash, 2013; UK Corporate Governance Code, 2014; cf., Bart, 2010).

Compensation committee

Similarly to the audit committees, compensation committees had been known in the US long before the European countries. They are described as a developing and maturing structure, contrary to audit committees, which are a well-established institution. The remit of compensation committees is to manage corporate executive annual incentive compensation plans. In broader terms, they are designed to review the terms and conditions of employment of senior management (Adut et al., 2003; Carson, 2002; Conyon and Peck, 1998; cf., Conyon and Mallin, 1997).

Following the UK corporate governance code, the board should call into existence a compensation committee of at least three, and in case of non-FTSE 350 companies, two independent non-executive directors. The committee has a responsibility for setting remuneration of the chairman and all executive directors, inclusive of pension rights and any potential compensation payments. The level and structure of remuneration for senior management, which is typically the first layer of management below the board level, should be also recommended and monitored by the committee. The compensation committee should be responsible for managing any potential conflicts of interest when receiving views from executive directors or senior management. Finally, it is also responsible for appointing any remuneration consultants with regards to the executive director remuneration, and should make sure that the committee chairman maintains contact with its principal shareholders about remuneration as required (UK Corporate Governance Code, 2014).

The compensation committee should exercise judgment regarding the positioning of their company, relative to other firms. This should be done with caution, however, in order to avoid the risk of an upward movement in remuneration levels with no corresponding improvement in corporate and individual performance. The compensation committee should make available its terms of reference, explaining its role and the authority assigned to it by the board. If remuneration consultants are appointed, it should provide a separate statement in the annual report to identify them and to indicate whether they have any material connection with the focal company (UK Corporate Governance Code, 2014; cf., Conyon and Peck, 1998; Ezzamel and Watson, 1998).

Nomination committee

Nomination committees are comparably the youngest board institution, and hence are described as relatively immature. Their remit is two-fold, namely the professionalisation of the director selection process and optimisation of director selection decisions, and secondly, regular review of board performance. Ultimately, they should aim to improve board effectiveness by managing its composition, i.e., selecting directors with required qualification profiles and raising board independence (Carson, 2002; Eminet and Guedri, 2010; Ruigrok et al., 2006; Walther and Morner, 2014).

The UK corporate governance code stipulates that a majority of the nomination committee members should be independent non-executive directors. The board chairman or an independent non-executive director should be leading the committee, with the exception of instances where it is dealing with the succession in board chairmanship. The procedure for appointment of new directors to the board should be formal, rigorous and transparent. There should be a search for board candidates, with appointments made on merit and against objective criteria, with appropriate regard for the benefits of (gender) diversity on the board. The entire process should ideally result in the maintenance of an appropriate balance of skills and experience within the company and on the board, and ensuring progressive refreshment of board composition. Nomination committees are responsible for leading that process and making recommendations to the board. Finally, they are also responsible for the evaluation of the balance of skills, experience, independence and knowledge on the board (UK Corporate Governance Code, 2014).

The nomination committee should make available its terms of reference, that is to explain its role and the authority assigned to it by the board. The work of the nomination committee, including the process it has launched for board appointments, should be described in a separate section of the annual report. This should also incorporate the board's policy on (gender) diversity, inclusive of any quantifiable objectives that were set for that policy implementation, as well as any progress made towards achieving those objectives. If neither an external search consultancy, nor open advertising has been used for the appointment of a chairman or a non-executive director, an explanation should be provided. Finally, in a similar vein, if an external search consultancy has been used, it has to be identified in the annual report and a statement provided as to whether this consultancy has any material connection with the focal company (UK Corporate Governance Code, 2014; cf., Eminet and Guedri, 2010; Ruigrok et al., 2006; Walther and Morner, 2014).

3 Methodology

For the purpose of this literature review, 17 journals have been identified. They encompass management, finance/economics, and accounting journals. The journal selection is based on Durisin and Puzone's (2009) study, which has provided one of the most comprehensive bibliometric analyses of the corporate governance field to date. The chosen journals have been identified as leading and influential outlets in the respective fields of management, finance/economics, and accounting (e.g., Alexander and Mabry, 1994; Borokhovich et al., 2000; Podsakoff et al., 2005; Reinstein and Calderon, 2006; Schwartz et al., 2005; Tahai and Meyer, 1999). Accordingly, the journals studied were Academy of Management Review (AMR), Academy of Management Journal (AMJ), Accounting Review (AR), Administrative Science Quarterly (ASQ), Corporate Governance: An International Review (CGIR), International Journal of Accounting (IJA), Journal of Accounting and Economics (JAE), Journal of Accounting Research (JAR), Journal of Business (JB), Journal of Finance (JF), Journal of Financial Economics (JFE), Journal of Management and Governance (JMG), Management Science (MS), Organization Science (OS), Review of Economic Studies (RES), Review of Financial Studies (RFS), Strategic Management Journal (SMJ).

These journals were searched for the period of 1988 to 2011. The starting date of 1988 was selected based upon the fact that it is the year of publication of the paper by Kesner (1988). This is the seminal contribution on board committees to which the following articles refer (e.g., Bilimoria and Piderit, 1994). The year 2011 was selected as the end date because that is when this research started. So, altogether, there are 24 years of issues of the identified 17 journals, and these were searched for the occurrence of articles on the three types of board committees; audit, compensation, and nomination. The search phrase used was the word 'committee', which was looked for in either the title or the abstract of the papers. This procedure resulted in 95 articles which fulfilled the search criterion. Then, the generated articles were scrutinised from the point of view of their usability in this research. Contributions on committees from not-for-profit companies were excluded, and so were shorter article review papers that did not constitute fully-fledged academic articles. This elimination procedure produced the final sample of 90 academic papers from 12 journals. For five journals, the number of articles returned was zero, and therefore they did not enter the data analysis: AMR, JB, MS, OS, and RES. The breakdown of the number of contributions for each of the remaining 12 journals is presented in Table 1.

Table 1 - A number of contributions on board committees per journal

No.	*Academic Journal*	*Number of contributions in the period 1988-2011*
1	Academy of Management Journal (AMJ)	9
2	Accounting Review (AR)	20
3	Administrative Science Quarterly (ASQ)	1
4	Corporate Governance: An International Review (CGIR)	28
5	International Journal of Accounting (IJA)	3
6	Journal of Accounting and Economics (JAE)	5
7	Journal of Accounting Research (JAR)	6
8	Journal of Finance (JF)	3
9	Journal of Financial Economics (JFE)	2
10	Journal of Management and Governance (JMG)	7
11	Review of Financial Studies (RFS)	2
12	Strategic Management Journal (SMJ)	4
	TOTAL	**90**

The identified articles were read, summarised and coded with regard to the following review themes: 'theoretical background', 'methodology', 'sample' (country; longitudinal versus cross-sectional), 'board committee covered', 'main findings', and 'managerial implications'. The coding categories were not prepared in advance and they were applied on an ad-hoc basis, given the variety and multi-disciplinarity of the analysed contributions. Two researchers read the papers and did the coding. There was a very high inter-rater agreement (about 90%) on assigning the reviewed papers to the particular coding categories within the identified review themes.

Table 2 - A number of contributions on board committees per discipline

	Discipline in management and economics science		
	Management	Finance and economics	Accounting
	AMJ, ASQ, CGIR, JMG, SMJ	JF, JFE, RFS	AR, IJA, JAE, JAR
Number of contributions (1988-2011)	49	7	34

4 Research findings

Distribution of contributions

As can be identified from Table 1, the greatest number of contributions comes from CGIR (28), since this journal is specifically devoted to matters of corporate governance. The next journal that is most abundant with papers on board committees is AR (20). The number of contributions in each of the remaining journals does not exceed ten, whereby AMJ with nine and JMG with seven occupy the following places in terms of the number of identified studies. The distribution of the sample articles by journal also reflects the breakdown of articles by discipline of study, i.e., management, finance/economics, and accounting, which is illustrated in Table 2.

The greatest number of contributions (49) is published in the management journals (AMJ, ASQ, CGIR, JMG, and SMJ), which is then followed by accounting contributions

(34) in the respective journals (AR, IJA, JAE and JAR). By far, the lowest number of articles (7) on board committees comes from the finance/economics discipline (JF, JFE and RFS). Therefore, the management and accounting discipline combined, account for over 90% of all sample articles. Accordingly, there appears ample room for a higher number of contributions from the finance/economics perspective to board committee research. The financial/economics perspective could be a source of rigorous modelling and insights that would enrich and counter-balance those present in the management and accounting literature on board committees.

An interesting insight arises when the breakdown of contributions is analysed by a sub-period of study. We divided the period of study into three equal sub-periods of eight years (Table 3). The first sub-period pre-dates publication of the UK Cadbury Report (1992) and encompasses a few years following this landmark event in the corporate governance field. The middle sub-period is set prior to the enactment of the US SOX Act (2002) and also incorporates one year thereafter. The end of this sub-period is also known for the emergence of significant corporate governance scandals, such as Enron, Tyco, Worldcom or Parmalat, as well as the dot.com bubble. Finally, the most recent sub-period comprises the financial crisis of 2007–2008 as a mid-point.

Table 3 - A number of contributions on board committees per study period

	A study period broken up in three		
	1988-1995: 'Cadbury Time'	1996-2003: 'SOX time'	2004-2011: 'Most recent'
Number of contributions	4	26	60

This analysis demonstrates a clear increase in the number of contributions by a factor of six between the first and second sub-period, which represents exponential growth. The increase between sub-period two and three is by a factor of two. Accordingly, we observed that contributions on board committees had been extremely rare before the mid-1990s (cf., Daily et al., 1998). In the aftermath of the Cadbury Report (1992), and the immediate years following, we can see a proper lift-off of this literature. This signals an increasing awareness of its importance in the corporate governance community of scholars. Finally, in the most recent sub-period, the number of contributions is doubled compared to the preceding sub-period, and this demonstrates that the ample scope for contributions to the stream of board committee research has started to be embraced in academic literature. Sixty journal articles spanning a period of eight years, in 12 journals, may well indicate that this stream of literature has begun to mature and saturate.

However, on the other hand, this exponential growth in terms of contributions on board committees may be partly attributed to the fact that new journals were established in the analysed period, such as CGIR in 1993, and that journals were publishing more articles over the years. We therefore checked CGIR as a specialty corporate governance journal for the distribution of articles on board committees between the three distinguished sub-periods and for the number of articles published at the beginning of each sub-period. We found that that there were no articles on board committees published in the first sub-period (1988–1995), six appeared in the second sub-period (1996–2003), and 22 were issued in the third sub-period (2004–2011). At the same time, the table of contents indicated the presence of 11 items in 1993, nine items in 1996 and 15 items in 2004. So, we can conclude that the introduction of the specialty corporate governance journal certainly had a profound effect on our results. The number of articles in the table of contents displays a changeable pattern, so it is difficult to conclude that our findings are affected by the increases in the number of published articles per volume by journals. So, overall, we are entitled to state that the identified exponential growth in terms of the number of articles on board committees published in the three identified sub-periods is still largely explained by the increasing relative attention of scholars to this topical area.

Finally, the analysis of contributions by a particular board committee demonstrates that the remarks by Carson (2002), on the maturity of the respective committee, are well reflected in the board committee research (Table 4). By far, the greatest number of contributions is on the audit committees, which is the oldest and most established out of all committees. Additionally, since the accounting discipline is the second biggest contributor to board committee research, it would naturally follow that a significant number of accounting papers would focus on audit committees, which touches upon the nature of this profession. Only half of the number of reviewed articles on audit committees covers compensation committees, which is described by Carson (2002) as a maturing board institution. At the other end of the spectrum, we have nomination committees with the most modest number of contributions, which constitutes slightly more than half of the contributions on compensation committees. Again, nomination committees are referred to as relatively immature by Carson (2002). Finally, it is worth noting that committees other than the main three committees analysed in this paper, such as governance, public affairs, or risk management committee, featured 19 times in the sample of reviewed articles. They constitute important parts of the corporate architecture, however they are not encountered as frequently as the three main committees that are an object of focus in this paper. This analysis demonstrates that the greatest room for contributions is in the area of nomination committees, which are by far the least researched out of all three committees.

Audit committees are considered in conjunction with the quality of financial reporting, internal control function, or the provision of audit and non-audit consulting services, among others. There are also contributions on the development of this corporate governance institution over the years and certain 'ritual' practices that can be identified in its operations. As mentioned before, audit committees are especially popular in accounting literature, therefore in AR, IJA, JAE and JAR (e.g., Abbott et al., 2007; Agoglia et al., 2011; Arthaud-Day et al., 2006; Carcello and Neal, 2000, 2003; Spira, 1998, 2003; Turley and Zaman, 2004).

Remuneration committees predominantly feature in research on the Chief Executive Officer (CEO)/executive compensation and the related processes. This research considers, for example, board and/or compensation committee composition and its impact on the CEO/executive compensation, the role of the compensation committee in establishing it, or the bidding up/social comparison processes. Research on compensation committees is equally likely to appear in management, accounting and financial/economics journals (e.g., Adut et al., 2003; Bebchuk et al., 2010; Belliveau et al., 1996; Cheng, 2004; Conyon and Peck, 1998; Daily et al., 1998; Ezzamel and Watson, 1998; O'Reilly et al., 1988).

Finally, the least represented nomination committees are typically scrutinised with regard to the director nomination and selection process. Specifically, this research touches upon the influence of the nomination committee composition in terms of the independent directors and/or CEOs on the board member selection decisions, as well as the nomination committee's role in constructing a value-creating and well-composed board of directors. The research on board committees is well represented in the management and financial/economics journals, but less so in the accounting journals (Eminet and Guedri, 2010; Ruigrok et al., 2006; Shivdasani and Yermack, 1999; Zhang, 2008).

Table 4 - A number of contributions on particular board committees[1]

	Board Committee[2]		
	Audit	*Compensation*	*Nomination*
Number of contributions	66	33	19

Notes: [1] *Since there are studies covering more than one board committee, the number of contributions in total does not add up to the number of articles reviewed (90).*

[2] *Other committees covered in the reviewed articles include: committee with a stakeholder orientation (e.g., public policy, social responsibility, contributions), corporate governance, environmental, executive, finance, governance, public affairs, risk, risk management, technology. Altogether 'other' committees featured 19 times in the reviewed articles.*

Theory

No matter the extant criticism (Daily et al., 2003; Huse et al., 2011; Pettigrew, 1992; Viganò et al., 2011), the agency theory remains the dominant theoretical lens in the corporate governance scholarship (Durisin and Puzone, 2009; Filatotchev and Boyd, 2009). The principal-agent problem, resulting from separation of ownership and control in the modern corporation, makes agents and principals inclined to invest in information systems and control mechanisms to alleviate the information asymmetry between the managers operating as agents and the shareholders as principals, respectively. Whereas decision management is delegated to the top management team, the decision control remains in the remit of the board of directors (Eisenhardt, 1989; Fama and Jensen, 1983; Jensen and Meckling, 1976; Tengamnuay and Stapleton, 2009).

Equally, it is also the most utilised theory in board committee research. The underlying rationale is that board committees, as units specialising in matters of audit, compensation policy and director selection, can further reduce those information asymmetries between principals and agents. However, at the same time, on the cost side, an additional layer of agency relationship is created between the entire board and the respective committee. This is because a particular board committee is accountable to the entire board for its actions. To complicate matters further, one has to recognise that, in terms of their composition, board committees represent sub-sets of the whole board of directors, so particular directors feature on both sides of this relationship. This configurative property may lead to some additional complexities in the way particular board and board committee roles are executed. For example, a non-executive director as a member of any of the three committees is obliged to report, together with her/his board committee fellows, to the entire board, of which s/he is also a member. Such a situation is true for all the directors involved in the committee work on a given board. As a result, the lines of accountability among particular board members cross in a multiple way, creating a complex map of agency relationships. This engenders a situation in which directors on the board have multiple, potentially conflicting identities; acting at the same time as a member of the entire board and as a member of a particular committee.

More than one-third of the reviewed articles (34) utilised the agency theory in its theoretical underpinnings. No other theory came close to that number. In some cases, the agency theory was part of the multi-theoretical approach in which it was used together with other theories. The multi-theoretical approach was adopted in 11 papers. In addition to the agency theory, 13 theoretical perspectives were applied in the sampled articles:

1. resource-dependence theory (Hillman et al., 2000; Pfeffer, 1972; Pfeffer and Salancik, 1978)
2. legitimacy (Suchman, 1995)
3. (neo-) institutional theory (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Scott, 1995)
4. social psychology (human capital, social capital, social comparison, social influence, reciprocity) (Becker, 1964; Burt, 1992; Coleman, 1988; O'Reilly et al., 1988; Westphal and Milton, 2000)
5. stewardship theory (Davis et al., 1997; Muth and Donaldson, 1998)
6. labour market theory (Fama, 1980)
7. cognitive dissonance theory (Tversky and Kahneman, 1974)
8. stakeholder theory (Freeman and Evan, 1990; Mitchell et al., 1997)
9. judgment and decision-making (Anderson, 2000; Castellan, 1993; Yates, 1990)
10. tournament theory (Lazear and Rosen, 1981; Rosen, 1986)
11. bargaining theory (Hermalin and Weisbach, 2003; Ryan and Wiggins, 2004)
12. group effectiveness/diversity literature (Milliken and Martins, 1996; Williams and O'Reilly, 1998)
13. actor-network theory (Callon, 1986; Law, 1992).

Of these, none were featured more than four times and some of them were referred to on just one occasion.

Table 5 - A number of contributions in the breakdown by theories used[1]

	Theory		
	Agency theory	*Multi-theoretical approach*	*'Atheoretical': no theoretical foundation used*
Number of contributions	34	11	47

Note: [1] Since there are studies covering more than one theory in the multi-theoretical category, the number of contributions in total does not add up to the number of articles reviewed (90).

Although the rationale for the establishment of board committees is generally accepted as the delegation and specialisation of the respective processes for which the board is responsible, in terms of audit, corporate incentive plans and director nomination and selection, many of the analysed contributions are simply 'atheoretical'. Almost half of the reviewed articles (47) did not adopt a single theoretical perspective for laying out its arguments. Sometimes, in the case of the review articles, this is understandable. However, generally speaking, this result is surprising. The breakdown of articles in terms of the theories used is presented in Table 5.

It seems therefore, that with the exception of the agency theory, with which the existence and functioning of board committees can be broadly explained, there is no unifying theoretical framework that could be applied in the board committee research. This sub-field of corporate governance literature suffers from the lack of theory; the perspective that would explain why we have these three committees of audit, compensation, and nomination, and elucidate their composition, remit, and functions. What is even more intriguing is that although some of the reviewed papers attempt to provide such an explanation with the use of the agency theory, practically none of them identifies that problem. Only a handful of studies provided an original theoretical model explaining the mechanics of board committee work [e.g., Kornish and Levine (2004) for audit committees, or Laux and Laux (2009) for audit and compensation committees].

So, similarly to the entire field of corporate governance, board committee research should seek to break out beyond the confines of the principal-agent theorising with its rigid economic incentives and control mechanisms. There is ample scope for perspectives that would delve into the mechanics, composition and dynamics of work on board committees. In other words, there is a need to open the black box of board committee work (Daily et al., 2003; Huse et al., 2011; Pettigrew, 1992; Viganò et al., 2011). Critics may say that board committees meet only several times a year. Nevertheless, as the regulatory and academic work indicates, their role and importance is increasing (SOX, 2002; UK Corporate Governance Code, 2014). This is, therefore, probably the most significant deficiency of board committee literature, and in line with this, the most pressing need identified by this review paper, i.e., to start developing the theoretical foundation for board committee work.

One exemplification of theory that could be conceivably applied to board committee research is the behavioural theory of corporate governance. This perspective builds on the meta-theoretical differences between the agency theory and the behavioural view of the firm and infuses the agency relationships with a social context. Accordingly, corporate board members are assumed not to act in the social vacuum and the analysis of their actions is enriched with the social fabric of norms, values and beliefs. Therefore, the socio-cognitive aspects in the individual's decision-making are accentuated. This theory holds promise for scrutinising the behavioural or human side of corporate governance in relation to the board committee work (Huse, 2007; Westphal and Zajac, 2013).

Etymology of data and method of analysis

The analysis of the geographic scope of the sample articles indicated the dominance of the Anglo-Saxon capitalist/common-law countries (La Porta et al., 1998). Among those contributions, we furthermore observed strong US-centrism in research, since over a half of the papers reviewed (48) draw their samples from the population of US companies. Together with studies on UK (8) and Australian (4) firms, they amount to 60 contributions. So, two-thirds of research papers are devoted to Anglo-Saxon/common-law countries. There are altogether 15 contributions based on other country settings. However, only those on China and Spain reach beyond just one article, but at the same time, they do not exceed the number of four reviewed papers. The other countries with just one contribution include Canada, France, Italy, Malaysia, Saudi Arabia, South Africa, Sweden, Switzerland and Thailand. There is, therefore, ample scope for research on civil-law countries, and within those, on countries belonging to the Germanic, Roman and Scandinavian legal families (La Porta et al., 1998), as well as for studies on countries from continents other than North America and Europe. Against this backdrop, four studies on China, Malaysia and Thailand, and one research paper on South Africa, represent modest, albeit important, seeds from which to develop and grow the number of contributions on Asian and African countries respectively. Finally, two studies adopted a multi-country setting; one encompassing G8 countries (Australia, Canada, France, Germany, Italy, Japan, UK and USA), and the other drawing a sample of companies from 37 countries listed on the New York Stock Exchange. An illustration of the distribution of the review articles by country is included in Table 6.

Table 6 - A number of contributions in the breakdown by country[1]

	Country[2]		
	USA	*UK*	*Other countries*
Number of contributions	48	8	19

Notes: [1] Since some of the studies constitute entirely theoretical and/or review papers, the number of contributions in total does not add up to the number of articles reviewed (90).

[2] Two studies adopted a multi-country setting; one comprising G8 countries (Australia, Canada, France, Germany, Italy, Japan, UK and USA), and the other drawing a sample of companies from 37 countries listed on the New York Stock Exchange.

An investigation into the method of analysis indicated strong prevalence of quantitative research methods, with almost 80% of contributions (70). The remaining 20% were either based on qualitative research methods (11), or constituted articles with experimental evidence, theory-building or literature review/research paper discussion (9). Eight studies reported explicit use of the survey/interview instrument. Accordingly, there is substantial scope for contributions based on qualitative evidence, which would delve into the details of composition and the dynamics of board committee work. An illustration of the breakdown of contributions by the type of the methodology used is presented in Table 7.

Table 7 - A number of contributions in the breakdown by the type of methodology used

	Methodology		
	Quantitative	*Qualitative*	*Other*[1]
Number of contributions	70	11	9

Note: [1] *The category 'other' comprises studies that are based on experimental evidence, contain theory-building or literature reviews/research paper discussions.*

Amongst the articles based on the quantitative research methods, the use of regression analysis was the most dominant. The logistic/logit regression estimation technique is by far the most popular, with 30 contributions applying it. This is most likely due to the fact that this method is used for dichotomous dependent variables, with which, for instance, the variable of existence of a board committee can be captured. The traditional ordinary least squares (OLS) estimation is adopted in 19 articles, whereby in some instances it is a pooled OLS method where the panel of data is analysed. In the case of seven articles, the event study methodology, with cumulative abnormal returns, was employed. Finally, there is a vast array of other quantitative methods used. However, their occurrences typically do not exceed five research papers. They include, amongst others, the Tobit model, probit or maximum likelihood estimation, structural equation modelling, factor analysis, cluster analysis, hierarchical regression model, simultaneous regression model, 2- and 3-stage least squares estimation (SLS), binomial regression, Poisson model, generalised method of moments (GMM) (Arellano and Bond, 1991) or instrumental variable (IV) regression (cf., Gujarati, 2008; Kennedy, 2008). In 14 papers, either no regression analysis was undertaken or the estimation technique was not reported, however, in many articles, more than one econometric technique was used. Identified in six research papers, the problem of endogeneity (reverse causality) is accounted for with the 2/3-SLS, IV or GMM model (Brown et al., 2011). In eight articles, the multiple moderated regression model (MMR) is adopted (Aiken and West, 1991). Accordingly, there remains increasing opportunities for introducing more advanced econometric estimation techniques than the OLS or logistic regression, as they do not feature in more than 10% of the 70 contributions based on the quantitative research methods.

Half of the studies that are based on quantitative research methods have a longitudinal dimension (35), which is a strong result in terms of compiling datasets that go beyond the mere cross-section of observations. In 21 cases, the explicit use of a panel data analysis is reported, whereby in 14 instances a firm's fixed-effects estimation is adopted. This again shows notable advancement in board committee research, where panels of data are analysed, increasing the validity and rigour of this research. However, the analysis in the other 35 papers is still based on a cross-section of observations only, leaving ample scope for improvement in terms of providing board committee research with a time dimension. Finally, the sample size in the reviewed papers that were based on quantitative research methods, in cases where it could be established, ranged from 46 to 10,654 firms. This demonstrates a large spread of datasets, whereby the majority of contributions employed a sample of 100 to 300 companies.

Overall, this review of adopted methodologies in the analysed articles demonstrates strong domination of studies based on quantitative research methods in the US context. Among them, the traditional OLS and logistic regression are the most popular estimation techniques. A good share of the research papers have a longitudinal dimension whereby the analysis of panels of data is also reasonably employed. There is still scope for adoption of more advanced econometric techniques than the OLS and the logistic regression, especially given that the problem of endogeneity is accounted for in only about 10% of contributions based on quantitative research methods. However, the sheer spread of the adopted econometric techniques in the reviewed sample of articles, some being very advanced, such as 2-3 SLS or GMM, indicates clearly that indeed the strand of board committee research is, if not maturing, at least developing and gaining momentum, as is reflected in the number of contributions published in the most recent sub-period of 2004 to 2011. The scarcity of research with regards to qualitative evidence, as well as theoretical/review papers, is in line with the findings on the theoretical aspects of the reviewed articles. This means there is scope for uncovering the black box of board committee work, their composition, dynamics and functions, ideally leading to a solid theoretical foundation in this strand of corporate governance literature.

5 Discussion and conclusions

The picture that emerges from this literature review of academic work on board committees reflects the trends and patterns identified in corporate governance literature, in general:

1. the prevalence of the agency theory

2. the lack of other unifying theoretical framework

3. strong US-centrism

4. the dominance of quantitative research methods (Daily et al., 2003; Durisin and Puzone, 2009; Filatotchev and Boyd, 2009; Huse et al., 2011; Pettigrew, 1992; Viganò et al., 2011).

The majority of contributions come from the management and accounting perspectives. The intensity of research represents the following gradation, in descending order: audit, compensation and nomination committee. Finally, the greatest number of reviewed articles in the most recent sub-period of 2004 to 2011 (60) reveals signs of the maturation, and possibly saturation, of this sub-strand of corporate governance literature.

These research findings demonstrate the increasing importance of this topical area in scholarly work on corporate governance. The remit of board committees is well defined in the regulatory documents, such as the UK Corporate Governance Code (2014). However, board committees are still nothing else than sub-sets of composition of the entire board, which makes their analysis significantly more complex than if this were not the case. Moreover, the nature of each committee's work is quite different. Audit committees are to ensure the provision of accurate and high quality financial information. Compensation committees are responsible for the generation of well-designed incentive plans for managers. Finally, nomination committees are entrusted with the task of optimising the director nomination and selection process. Therefore, it is difficult to bring all these functions under the roof of one integrative theoretical framework. However, these complexities notwithstanding, there is a pressing need for a solid theoretical foundation in academic work on board committees. The community of scholars has to extend its scope beyond the confines of the agency theory and delve into the details of board committee work, composition, dynamics and functions. Uncovering the black box of this board institutional arrangement holds promise for the advancement of this sub- field of study, and ultimately, in overcoming the situation in which so many contributions appear as 'atheoretical'. This somewhat echoes the calls in the corporate governance literature, in general, with regard to the entire corporate boards, to dismantle the fortresses of the agency theory domination (Daily et al., 2003; Huse et al., 2011; Pettigrew, 1992; Viganò et al., 2011).

Strong US-centrism is another feature of academic work on board committees. The contributions on the UK, which is the second most represented country in the studied sample of articles, are smaller than those on the US by a factor of six. Accordingly, there is an urgent need to change the geography of academic work on board committees. Other countries' contexts are very modestly represented, including the European countries from areas other than the Anglo-Saxon legal families, i.e., Germanic, Roman and Scandinavian (La Porta et al., 1998). Similarly, countries from continents other than North America and Europe, except for Australia, are poorly represented. There is, therefore, ample scope for scholars from under-represented countries to provide evidence on board committees in their jurisdictions, especially in Central and Eastern Europe, Asia, Africa and South America. Otherwise, the generalisability of findings in the extant literature would remain limited and confined mainly to the context of the Anglo-Saxon capitalism. For example, it would be interesting to see how the committee work would unfold in Germany, where there is a dual board structure with significant representation of trade unions, in line with the co-determination principle (Demb and Neubauer, 1992). It is clear there are many opportunities in terms of the geographical scope of board committee research that should ideally be addressed in the years to come.

Research based on quantitative methods is by far the most popular (70 articles). Amongst research papers based on the quantitative methods, there is a good share of articles (35) that have a longitudinal dimension, which demonstrates that this sub-field of corporate governance research is reasonably advanced, as the trends and patterns are identified over time. There is, however, significant scope for alternative research methods that can be employed in academic work on board committees. Qualitative evidence would be advantageous in addressing the identified complexities of board committee structure as sub-sets of the entire corporate board, and the different remit and functions of audit, compensation, and nomination committees. It also has potential for advancements in theorising, and therefore contributing to a unifying theoretical framework in this sub- strand of corporate governance literature. Moreover, it is important as a research triangulation strategy, so that the findings generated through quantitative studies can be cross-checked and validated with qualitative evidence.

Finally, there is ample scope for contributions from the finance and economics perspective, in particular. To date, the majority of contributions, over 90%, can be attributed to management and accounting scholars. It is conceivable that contributions from the disciplines of finance and economics can help shed new light on the theoretical efforts in board committee work and ultimately aid scholars in arriving at a unifying theoretical framework. Furthermore, they may increase the share of articles on the nomination and compensation committees, which lag behind the more mature audit committees (Carson, 2002). This is particularly promising as the number of contributions overall has been exponentially rising, with a handful of contributions before the mid-1990s, and two-thirds of them published in the last sub-period of 2004 to 2011.

Overall, this research aimed to unravel certain regularities and patterns in academic work on board committees. Since the mid-1990s, board committees have become an inextricable element of the corporate landscape and hence an object of research interest in corporate governance literature to date. There has not been a review of scholarly work on board committees as yet, except for Ghafran and O'Sullivan (2013), who have scrutinised papers on audit committees for a period of only ten years. We, in turn, looked at the three main board committees of audit, compensation and nomination over a period of almost a quarter of a century. The fact that our search for articles generated 90 contributions testifies to the fact that there has emerged a substantial sub-strand of corporate governance literature which warrants further attention.

We identified several deficiencies in the literature on board committees, which if addressed, are likely to lead to a number of contributions in the future. They include the identification of an alternative to the agency theory theoretical perspective, increasing contributions from the finance and economics disciplines, carrying out more work on nomination and compensation committees, widening the geographic scope of board committee work, and generating more qualitative evidence in this stream of research.

There is, therefore, significant potential for this sub-strand of corporate governance literature to develop further and ultimately mature and saturate. It is hoped that scholars will respond to these challenges and work to progress the literature in order that the emergent picture of the typical academic work on board committees based on the agency theory, quantitative research methods and US-based evidence is changed to encompass other theories, qualitative evidence and other countries' contexts.

Finally, this review aims to regroup and consolidate the body of knowledge on board committees. Their increasing importance, as reflected in this literature review, merits such a contribution with the view of taking stock of the extant literature and setting the research agenda for the future. Based on the work carried out in this article, we may conclude that the stream of research on board committees constitutes an important theme in the corporate governance literature which will develop even further in the years to come.

Limitations and future research directions

Future reviews of board committee literature can focus on a different selection of journals. They may also examine a different timespan than the one we have chosen and establish different patterns and trends, such as Ghafran and O'Sullivan (2013), for the decade of work on audit committees. Review work on particular committees, rather than all three of them together, would be advantageous in disentangling the intricacies of their functioning in more detail than is the case in this paper. Future research may also concentrate on the other types of board committees rather than the standard three of audit, compensation and nomination, especially since these new types of committees, such as governance, public affairs, or risk management committee, are more and more frequently encountered. Future review work on board committees may also adopt different review themes than theory and methodology to come up with other interesting findings and predictions. They could include, for instance, the analysis of theoretical and empirical contributions of articles on board committees. Finally, the analysis of this sub-strand of corporate governance literature could be undertaken against the backdrop of the entire corporate governance research in a bibliometric study, such as the one by Durisin and Puzone (2009). Overall, since this is one of the first reviews of this stream of research on board committees, there is ample scope for different designs and configurations in which to conduct this type of study in the future. If this potential is realised, many new predictions and findings could emerge to enrich the body of knowledge currently available on this research stream in scholarly work.

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