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AUDIT COMMITTEE SIZE AND FIRM PERFORMANCE: A SECTORAL STUDY OF FMCG COMPANIES

Nivedita BK
Assistant Professor, BLDEA's SBS College, Vijayapura
Department of Master of Commerce

Abstract

The effectiveness of corporate governance mechanisms significantly influences a firm's financial performance. Among these, the audit committee plays a pivotal role in enhancing transparency, accountability, and investor confidence. This study investigates the relationship between audit committee size and firm performance within the context of NSE-listed FMCG companies in India. Using secondary data from annual reports of six leading FMCG firms, the paper analyses whether the size of the audit committee contributes meaningfully to financial outcomes. The research adopts a conceptual framework supported by real data analysis. The findings are expected to offer insights for corporate governance reforms and strategic board structuring in the FMCG sector.

Keywords: Audit committee size, corporate governance, firm performance, FMCG sector, NSE, India

1. Introduction

Corporate governance is a cornerstone of a well-functioning financial system and a determinant of sustainable economic growth. In recent years, the role of audit committees has attracted increasing academic and regulatory interest, particularly in emerging economies like India. The audit committee serves as a critical oversight mechanism within a company's board, primarily responsible for monitoring financial reporting, internal control systems, and audit practices.

In the Indian corporate landscape, the Fast-Moving Consumer Goods (FMCG) sector holds strategic importance due to its high market penetration and influence on consumer behavior. Among these mechanisms, the size of the audit committee—i.e., the number of members serving on it—has been theorized to influence its effectiveness. This study aims to explore how audit committee size correlates with firm performance, using selected FMCG companies listed on the National Stock Exchange (NSE) as a sample.

2. Literature Review

Prior research shows that audit committee characteristics, including size, impact firm outcomes. Klein (2002) found that independent and well-sized audit committees reduce earnings manipulation. Anderson et al. (2004) observed that strong audit committees can lower a firm's cost of capital. In the Indian context, Kumar and Singh (2013) linked board structure, including committee size, with improved firm value.

While Abbott et al. (2004) noted that larger committees could offer better oversight, Yermack (1996) argued that overly large groups could hinder decision-making. Few Indian studies have focused exclusively on FMCG firms—an industry where governance practices directly impact brand trust and profitability.

3. **Research Gap**

Most corporate governance studies in India are cross-sectoral. There is a notable lack of focused research on how audit committee size affects financial performance in the FMCG sector, especially using recent NSE-listed firm data. This study addresses this gap through a sectoral analysis.

4. Objectives

- To analyze the audit committee size in selected FMCG firms.
- To evaluate their financial performance using ROA, ROE, and NPM.
- To observe descriptive relationships between audit committee size and firm performance.
- To contribute practical insights into governance structuring in FMCG firms.

5. Hypothesis

H_0: There is no significant relationship between audit committee size and firm performance in FMCG companies.
H_1: There is a significant relationship between audit committee size and firm performance in FMCG companies.

6. Research Methodology

- Design: Descriptive, conceptual study using secondary data.
- Sample: 6 NSE-listed FMCG firms
- Data Source: Annual reports, financial statements (FY 2022–2023)
- Variables:
  - Independent: Audit Committee Size
  - Dependent: ROA (%), ROE (%), Net Profit Margin (%)
- Analysis: Descriptive statistics

7. Data Analysis and Interpretation

Company	Audit Committee Size	ROA (%)	ROE (%)	Net Profit Margin (%)
Hindustan Unilever Ltd (HUL)	4	18.3	29.2	15.7
ITC Ltd	5	16.8	25.4	23.5
Nestlé India Ltd	3	21.1	35.3	17.0
Britannia Industries Ltd	4	15.4	27.0	13.4
Dabur India Ltd	4	13.7	22.1	12.1
Godrej Consumer Products Ltd (GCPL)	3	12.9	20.4	10.8

Observation:

Companies with moderate audit committee size (3–4 members) show strong financial performance. ITC, with the largest committee, has the highest Net Profit Margin, suggesting that larger committees may be more effective in profit monitoring.

However, companies like Nestlé and HUL show strong ROA and ROE with smaller committees. Therefore, while size contributes, effectiveness depends on quality, not just quantity.

8. Conclusion

This study concludes that audit committee size plays a supportive role in firm performance but is not the sole determinant. A well-structured committee with the right number of members enhances oversight and governance efficiency, especially in the FMCG sector where operational agility is high. The findings support regulatory emphasis on balanced governance structures, but further studies should explore dimensions like member independence, expertise, and frequency of meetings for deeper insight.

9. References

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