

The unsung heroes of high-performing boards

Board committees represent the ‘engine of the board’ and play a crucial role in its ability to excel for shareholders, employees and stakeholders.

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A wise board chair once said to me that the real secret to the success of the best boards he has served on were exceptional, hard-working board committees who did the heavy lifting for the board. This work was undertaken quietly in the background, enabling the board to be highly strategic and excel for its shareholders, employees and stakeholders.

A key part of our board evaluation work is looking at the board committees. In recent years, we have seen the workload of committees increase significantly to the stage where many board directors spend considerably more time in committee meetings than board meetings. Boards are being challenged to increase their focus on key and emerging priorities such as culture, disruptive technologies like artificial intelligence, cybersecurity, **ESG** and employee engagement. This expansion translates to the board committees stepping up to oversee and support the executive team in these areas.

Meanwhile the audit and remuneration committees have long been in a very bright spotlight as high-profile failures in financial oversight and scrutiny of executive pay continue to be focus areas for shareholders, employees, regulators and stakeholders.

The raison d'être of board committees

At the core of the board and committee structure is the authority and delegation of responsibilities to the committees to conduct detailed work on behalf of the board. These are laid out in the committee terms of reference. Each board committee, which comprises a subset of the **NEDs**, focuses on a specific area, which allows it to implement the detailed and sophisticated oversight appropriate to the scale and nature of the organisation. In addition, the committees are well placed to provide support to the members of the executive team who are actively engaged in those areas.

Decisions about which committees are needed to support the board are important. The majority of corporate and large organisations would typically have a core set of audit/risk, remuneration and nominations/governance committees reporting into the main board. Depending on the sector, there may also be additional committees such as investment committees, an ESG committee or a clinical governance committee.

A key tenet of corporate governance is that while significant responsibilities have been delegated by the board to its committees, the ultimate legal decision-

making authority rests with the main board of directors. This means that board directors who are not on a specific committee need to ensure that they understand, keep on top of, and, where appropriate, constructively challenge key recommendations from a committee.

In a number of cases, we see boards that are over-reliant on guidance or recommendations from their committees and which fail to challenge them constructively. In many corporate and board scandals, a critical committee – such as the audit and risk committee – is found to have failed in its duties. In some cases, the boards had blindly accepted assurances and recommendations which, in hindsight, proved to be fundamentally flawed. In many high-profile corporate failures such as Carillion and Wirecard, audit and risk committees lost their way badly, and contributed significantly to the board's overall failures.

Composition of a committee

In reality, a committee is a smaller version of the board and thereby critically depends on the calibre, skillsets, judgement and work-ethic of the board directors appointed to it. Due to the technical nature and critical importance of the audit committee in overseeing the financial health of the organisation, the majority of governance codes and regulatory environments impose strict requirements – at least one member should have an accountancy or financial qualification and current financial sector expertise, for example. For other committees, the board chair would normally work with the nominations or governance committee to select members.

While the importance of diversity is normally centred on the board, diversity in committees is also important. It is healthy for committee effectiveness to have a range of perspectives brought about by having a vibrant mix of genders, ages, professional backgrounds and ethnic and cognitive styles.



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No matter how strong a board committee, it can lose its way

Groupthink problems can occur just as easily in a committee as they can in a board. For this reason, the board directors not on the committee need to be vigilant – and challenge, where appropriate, key material guidance and recommendations from a committee.

Another important benefit of the committee structure is that it enables an external expert to be co-opted onto the committee to address skillset gaps. In recent years, many board committees have struggled to acquire the necessary skillsets to deal with new areas of responsibility including ESG, cybersecurity and new technologies. The co-option of external experts has played a critical role in plugging these gaps and I would encourage more committees to look at this option.

Leadership of the committee chair

Just like the board chair, the committee chair has a critical leadership role in enabling a highly effective committee that adds significant value to the board. They set the bar for the committee members and executive teams supporting the committee. Working closely with the company secretary and lead responsible executive, they design the agenda and overall annual work plan to ensure that the committee discharges its oversight role as well as supporting the executive team. The committee chair's partnership model with the lead executive, for example the **CFO** or **CPO**, sets the tone for a healthy engagement model in the committee.

Committee dynamics

While the work of a committee is more technical in nature than that of the board, healthy team dynamics are just as important. In the best committees there is a virtuous cycle of challenge, debate, respect and trust. Committees where robust intelligent challenge and oversight flourish, and all committee and executive team members are committed to getting the best out of each other, tend to be the ones that are most effective.

By the very nature of a committee's work, executive team members and their staff will be subject to more detailed questioning than is often possible at a board meeting. 'The devil is in the detail' is an apt phrase for committee work and the reality is that for committee members to discharge their legal and fiduciary responsibilities, they must get 'under the bonnet'. If either they or the board have serious concerns, the committee needs to get to the bottom of them.

An interesting phenomenon we see from time to time is where the board chair and non-committee members turn up at either all, or a significant number of, committee meetings. While this sounds beneficial in terms of the non-committee members being up to speed, it is a practice that we discourage as it can impact committee team dynamics and weaken the ability of the board to challenge key guidance and recommendations from that committee.

Engagement with the board

The quality of committee reporting to the board is critical: it enables the board to understand the main focus areas of the committee, the background to its guidance and recommendations and, importantly, what keeps the committee awake at night. Standard practice is for committee reporting packs, developed by the executive team, to be shared with all board directors – with appropriate treatment for sensitivities around remuneration and nominations committee packs. The reality is that in many listed and corporate boards, particularly those that are regulated, the size of the committee packs themselves can run to several hundred pages. The result is that non-committee members can struggle to review these in depth.

While we are very conscious of the workload placed on busy committees, we recommend a high-quality executive summary from the committee chair to the board. This summary should highlight the critical focus areas and priorities of the committee and spotlight priority areas of

the committee packs for the board members to review. This can be challenging when the board and committee meetings are held on the same or consecutive days and in that case, the committee chair can provide a verbal update to the board with a similar structure to a written executive summary report.

The three-lines-of-defence model

While all board committees have an important role, a particular mention must be given to the most important committee of all, the audit and risk committee. At the core of the responsibilities entrusted by shareholders and stakeholders to board directors is oversight of the financial health of the organisation. This includes ensuring that a modern, robust internal controls framework is in place to minimise the potential for fraud or false accounting – and ensure that the organisation is, at all times, able to accurately report its financial position to its shareholders, stakeholders and regulators.

The pressure and workload on audit and risk committees have never been greater. They play a crucial role in the three-lines-of-defence model, alongside management itself and the compliance functions. While post-mortems on many board and corporate scandals across the world have pinpointed audit and risk committees that failed in their duties, this needs to be seen in the light of the relentless increase in complexity of the financial ecosystem in which these committees operate.

This ecosystem includes, among other things, finance teams, internal auditors, external auditors, regulators and international accountancy rules. In recent years, new responsibilities such as cybersecurity oversight and IT governance have been added to the audit and risk committee's long list of responsibilities. All boards need their audit and risk committee to be highly capable, with strong current accountancy and financial expertise, on their toes and at the top of their game.

The engine of the board

Board committees represent the foundation layer of a high-performing board. The trojan work that strong board committees put in enables the board to focus its attention on the 'vital few that move the needle for the organisation'. Board committees are teams in their own right. While smaller than the board, they have very much the same challenges. Team dynamics, getting the balance right between intelligent robust challenge, debate and oversight, and providing high-quality support and encouragement to

the corresponding executive team members are all issues that are common to boards and committees.

High-performing boards also realise that, no matter how strong a board committee is, they can also lose their way, experience groupthink, or get too close to the executive team members they support. There are times when for materially important decisions or concerns the non-committee members must constructively challenge a committee. The selection of committee chairs is crucial and, given the relentless increase in workload and importance of board committees, far greater attention is now being focused on board director recruitment in terms of their ability to lead and contribute to the committees' work.

They truly are the 'engine of the board'.

Kieran Moynihan is the managing partner of Board Excellence (board-excellence.com) – supporting boards and directors in the UK, Ireland and internationally excel in effectiveness, performance and corporate governance.

Good practices

In high-performing board committees, we see a common pattern of good practices including:

- annual review of the committee terms of reference
- annual work planner developed that maps to the terms of reference
- annual evaluation of the committee's effectiveness
- annual review of the committee's composition and diversity, feeding into the overall board composition, diversity and succession planning
- an excellent committee chair getting the very best of out of the committee members and supporting executive team
- the board chair working with the committee chairs to ensure appropriate cross-pollination between the committees and co-operation between committees
- openness by the committee to co-opt external experts where there are genuine gaps impacting on the committee's ability to excel
- high-quality reporting to the board that gives non-committee members insights into the logic underpinning the guidance and recommendations of the committee