



HARCOURT BOARDROOM RESOURCES

MAKING THE MOST OF A COMMITTEE



Boards have packed agendas and limited time. The list of mandatory items seems to be getting longer each year, the number of short-term topics for consideration higher, and the time available for discussion and long-term planning shorter. Directors are frustrated and complain that they are not discharging their duty properly. What can be done?

One way to ease the burden of the board itself is to refer specific matters to board committees for more detailed discussions and recommendations. Delegating is both convenient and efficient, and should be encouraged.

Committees prepare the decisions for the board, they do not decide themselves. They will and should come back to the board with a recommendation, but only after having clearly explained the options and the assumptions for their recommendation. There may be limited exceptions, where the board will delegate to a committee a final decision – this authority is almost always narrowly delineated. Committees that have a general delegation are often a symptom of boards that have difficulties in reaching decisions. In these cases, boards should really reflect on why they need to delegate such a wide authority to committees.

The choice of committees is essential and must be supported by both board and management. Some committees are mandated by laws and regulations. Beyond the minimum requirements, a board can do what it wants. (See “Board Committees – How Many and Which Ones?” Harcourt IGN, February 2016)

Once the board has given proper thought to what committees it requires, how will each committee best serve its purpose, and what will ensure that the board makes the most of each of them?

There are probably only three simple principles in that respect: (1) encourage open discussions, (2) staff the committee adequately, and (3) insist on detailed reports to the board.

ENCOURAGE OPEN DISCUSSIONS

The purpose of a committee is to take a “deep dive” into a technical or complex issue in order to better prepare board decisions. This assumes not only that the committees be well prepared by management, but also that there be a real discussion of the issues at hand.

Committee agendas are always very heavy. Many items are formal more than substantive, and should be quickly covered. The more important items should be given enough time for a thorough discussion. The committee can and should ask for in-depth reviews of subjects that it feels need specific board oversight, and may even ask for special meetings dedicated to a particular subject.

Whereas the board timetable should always remain relatively rigid, there can be flexibility in managing the committee’s time. Without overdoing it, a committee can very well decide to get close to the “yellow line” of board v. management prerogatives. Most managements welcome the committee’s interest and investment of time.

Despite these simple rules, an open discussion will be entirely dependent on the relationship between the committee – in reality the chair – and management, and the members of the committee itself.

STAFF THE COMMITTEE ADEQUATELY

The committee chair plays a fundamental role. He or she must understand that the role is to get a substantive discussion going, that will enable directors to understand and contribute, management to express themselves freely, and everybody to feel that they have added value as a group and individually.

The committee chair can manage the meeting agenda more freely than the board chair and, as indicated above, should manage the timing of the meeting such that important issues are properly discussed. The chair should also be attentive to the dynamics between committee members, and between them and the management and other invitees.

In most jurisdiction, directors are the only formal committee members. However, in some countries, a person who is not a director can also be a formal committee member. This may have some advantages in large groups, where central function heads can attend, and be members of, relevant committees of subsidiary companies. In certain case, a committee member may come from outside the company – however, this practice is becoming quite rare.

The question is often asked whether directors should be on one committee only or multiple committees, or if all board members should be on at least one committee. This depends of course on the size of the board and the availability of the directors. Not only is there nothing against a director being on multiple committees, or all directors being on at least one committee, but it is generally a sign of commitment and of competence. Many companies make it their practice.

A committee meeting is an opportunity for directors to be exposed to a wider selection of managers than they would otherwise see at the board. For the senior management, it is an opportunity to expose their more junior colleagues to board members. For example, it would quite normal for up to 10 or so members of management to be present for an audit committee. Obviously certain topics should be limited to the more senior members of the management teams. These questions of attendance should be agreed between the committee chair and his or her counterpart in management – CFO, head of HR, General Counsel, etc.

Finally, a CEO and committee chair should discuss whether the CEO should attend some or all of the committee meetings. The presence, or absence, of the CEO is an important message, both to the board and to the management team, particularly if it becomes systematic. For example, a CEO who only attends only remuneration committee meetings, but none of the other meetings, would be giving a strong signal in one direction – not necessarily the right one. As a general rule, a CEO should show up regularly at committees meetings at least a few times during the year. Some CEOs, even if they trust their colleagues who are the committees' principal interfaces, would not dream of not appearing at most committee meetings.

INSIST ON DETAILED BOARD REPORTS

For the committee to discharge its duty properly, it needs to report back to the board. Once again, the committee does not decide for the board, but helps the board take a more informed decision. That “information” can only be delivered by the report of the committee chair to the full board.

This may seem obvious, but committee reports are very often deficient – too short, rambling rather than to the point, obscuring issues rather than clarifying them. Sometime, it is the board’s chairman who allocates insufficient time to a committee report, or will cut the committee chair short, thereby discouraging him or her and any of his colleagues. There is little point in a committee having spent hours on discussing matters of importance, for the board to hear a recommendation that it has no other option but to follow.

The board chairman should also encourage questions to the committee and a discussion on the matters reported on by the committee chair.

A common practice is now for all committee papers and presentations to be available to all directors. Those who are interested, or want to go deeper into a subject, can always do so on their own. Any director can always ask to attend (a) particular committee meeting(s) as an invitee, and that request is – to our knowledge - always granted. It is a good practice to encourage directors to do so.

Finally, many committee chairs insist on having a draft of the minutes of the meeting by the time they report back to the board. To the extent feasible this is eminently advisable – both for the quality and for the consistency of the report.

Harcourt IGN, February 2016