1 – Introduction to committees

Introduction

All large companies have a responsibility, and in some cases a legal requirement, to delegate some authority from the board to a committee implemented with specific terms of reference. Indeed, without these committees taking responsibility for certain aspects of a company's governance, it is difficult to see how a board can be effective and a robust governance framework be evidenced.

Equally, smaller companies and those acting in specific sectors see the benefit of implementing a committee structure, with either permanent or time-limited committees to support the board and ensure effectiveness of the business.

Committees give a board the opportunity to delegate lengthy or technical discussions, decisions and oversight to a subset of the board with the addition of committee members with specific relevant expertise. They can also support the board's effectiveness by delegating agreed matters to this alternative forum, thus enabling the board to utilise their time on other subjects with a higher priority need for their time and expertise. From this perspective, all boards would benefit from at least considering the creation of at least one committee to benefit themselves and their organisation.

In fact, committee structures and their implementation can be invaluable, as long as their remit is clear and their deliverables are monitored.

Benefits

In large companies, fully functioning individual committees add significant value and under certain legislation they are a mandated requirement or defined best practice. In smaller companies, committees are often combined to cover multi-functions such as an audit and risk committee or remuneration and nomination committee. Except in certain circumstances, there are no hard and fast rules on what committees should be implemented. Logically it is those areas of sufficient requirement that cannot be covered by the board as a group due to time constraints, expertise, breadth of the topic, importance for the particular business. Boards of directors choose to set up a committee to support them in being more effective.

The implementation of committees also has some beneficial side effects that a business may benefit from including identifying and testing board candidates for the future, developing staff in governance matters, drawing expert advice from external third parties, promoting the substance of a robust governance framework within a business and demonstrating that the board recognises and values the contribution of those outside the boardroom. The benefit of utilising a committee should not only be seen as the ability of the board to delegate, the add-on benefits in generating engagement from, and contribution by, the wider business should also be accepted, encouraged and embraced.

Legal requirements

Under the Code, specific committees for audit, risk, remuneration and nomination are recommended with an expectation that they will be established in all large listed companies as well as those acting within the financial services sector. In November 2009, the Walker Review of Corporate Governance in the UK Banking Industry gave detailed recommendations on the requirements of audit, risk, remuneration and nomination committees reflecting the importance these committees have in the financial sector.

Under the FCA Handbook (recommendation 2.4A) the management body of the relevant company must:

(a) define and oversee the implementation of governance arrangements that ensure the effective and prudent management of the [company] in a manner which promotes the integrity of the market, which at least must include the:
   (i) segregation of duties in the organisation; and
   (ii) prevention of conflicts of interest;
(b) monitor and periodically assess the effectiveness of the [company's] governance arrangements; and
(c) take appropriate steps to address any deficiencies found as a result of the monitoring under paragraph (b).

Where the company is significant, a nomination committee must be implemented unless it is prevented by law from selecting and appointing its own members. This nomination committee must engage a broad set of qualities and competences when recruiting persons to the management body, and for that purpose, must have a policy promoting diversity on the management body. (Further details of these requirements are included in Chapter 9, Nomination Committee.)

The Charity Commission, in its guidance for larger charities, references the implementation of risk, audit and nomination committees to support the effective governance of the charity by the board. Charities may also implement a funding committee with specific focus on generating funding within their charitable sector, although it should be noted that larger charities may also constitute this as a separate legal entity with a funding board specifically focused on identifying and generating additional opportunities for revenue generation to support the aims of the charity.

Although not legally required, smaller companies may benefit from delegating discussions and decision making to a committee or alternative forum either on a permanent basis, for a specific time period or to deliver on a specific topic. This can be particularly beneficial when senior input would be useful, but the company does not want to increase the membership of its board, either for cost or practical reasons. By delegating to a committee, experts can be co-opted as committee members to share their expertise without the legal responsibilities of becoming a director. This often takes the form of a management committee, similar in nature to an executive committee, which takes responsibility for operational aspects of the company (see Chapter 5).

Advisers

As with boards, committee meetings may welcome attendance by experts and advisors to specific meetings to contribute to specific discussions. For example, if a topic is to be discussed at one meeting but is not part of the standing agenda items, having an expert present, to be available for the discussion and questions is invaluable and further enhances the expertise already within the committee.

This also gives advisers a way of understanding their clients' business better, using their time spent working with and presenting to the committee as a way of generating a productive and knowledge-based client relationship. Committee presentations or attendance can sit alongside the adviser's work with the company but, it should be noted that the company should not use this as an alternative way to gain knowledge that should otherwise be contracted or received as formal advice that can be relied on at a later date.

As an example, a legal adviser may attend a committee meeting to introduce the concept of new legislation, such as may have been the case when GDPR legislation was introduced. This would take the form of generic guidance, however, if specific advice on its implementation by the business is required, the expectation would be that this would be in the form of formal legal advice, paid for by the company.

Partners at audit firms would expect to be invited to relevant audit committee meetings to enable them to answer questions or explain matters in more detail. However, they should not expect to attend all meetings in full or be a committee member given their relationship to the company as a service provider.

Diversity and committee dynamics

As with the board, committee composition is an opportunity to engender diversity within its membership, bringing different experience, knowledge and outlook from members to each discussion. Differences in professional experience, knowledge and understanding is key to ensuring that discussion topics cover as wide a view as possible before decisions are made. Equally having diverse backgrounds will energise discussion, bring differing viewpoints and identify a broader outlook for the committee.

Members of a committee may reflect the existing or target diversity of a company or its board. It may also create an opportunity to bring fresh viewpoints and ideas.

Diverse membership may also create an opportunity to mirror a company's customer, community or market. In particular, a markets committee focused on identifying and developing new products would benefit from having representation of the target market in its membership or, as a minimum, as committee advisers. There are many examples of organisations that include representatives of their customers or markets on their board or committees, from social housing organisations having residents within their membership to membership bodies having members on their boards or committees to consumer goods companies utilising customer feedback forums to develop existing and new products.

Increased diversity within a committee brings new dynamics to meeting discussions. Embracing and enhancing this new dynamic is crucial to being able to benefit from diverse membership. New or inexperienced committee members should be mentored, respected for their views, be proactively provided with opportunities to contribute and, above all else, should be respectfully listened to. Without this, the benefit of incorporating diversity into committee membership is completely negated and it has the risk of merely delivering a good metric or soundbite without adding the real value.

Values and culture

Committees have delegated responsibilities from the board and have an equal requirement in the leadership of a business or organisation. The values and culture of an organisation are set by the board and the leadership team through their actions and example. Committees should reflect the same values and culture ensuring that their behaviour, both in committee meetings and outside of formal forums, reflects the same values. Being a committee member is a position of responsibility both in the actions that are undertaken within the committee and also in the interactions with all members of the wider organisation as well as other stakeholders.

Development

In addition to the support a committee gives to board members, it can also be a useful forum to support the learning and development of individuals within a business. Becoming a member of a specifically tasked committee gives an individual exposure to the formal workings of a group of experts with a defined purpose. It is a forum where an individual can find their voice through engagement and discussion on a topic in which they are an expert, by sharing knowledge, understanding the purpose of the committee, receiving committee packs with a broader content than their specific knowledge and engaging in discussion in a productive and positive manner with fellow committee members. Where an individual has previously provided information for board or committee meetings, this is the opportunity to understand the value of a good meeting pack and the benefit of having clear content.

In an ideal scenario, HR teams should incorporate committee attendance and membership as part of a development programme for staff members identified as having the potential to lead the business in the future. Committees are invaluable on-the-job training forums where confidence can be gained in a collegiate and supportive forum attended by colleagues. In this respect, HR teams should discuss this aspect with relevant board members, or members of the nomination committee if there is one and they have responsibility for committee membership.

Internal governance audit for the board

Effective committees can also act as an internal check of board delivery, either directly or indirectly. With actions delegated from the board to a committee, the residual work undertaken by the board can become more effective. Committee board reports should be clear and concise identifying areas for board decision or contribution. All other content should be limited to a brief update which evidences that the committee is effectively delivering against its terms of reference without encouraging board debate of the same topics as this would replicate considerations, negate committee benefit and evidence poor delegation.

If the board continues to own, discuss and review actions delegated to a committee, the perception is that the wider remit of the board is being neglected or avoided. It may also imply that the board is unable to delegate, they have been unclear on the requirements and deliverables within the terms of reference of the committee or have appointed ineffective committee members. In most of these cases, the resultant negativity, disillusionment or frustration that will be created in the wider company due to lack of delivery or wasted time and effort, will be directed at the board, not the committee or its members. Hence the committee will be ineffective and respect for the board will be diminished with reduced morale across the company due to governance inadequacies.

As an example, if the production, review and monitoring of a risk register are formally delegated to a risk committee, any excessive time spent reviewing the risk register in minute detail by the board is negating the work of the committee, undermining their expertise and results in the board duplicating effort. It also takes time away from board meetings that should be spent on other board discussions.

As a minimum, implementation of committees should reduce micromanagement by the board as a whole and by individual directors. Although, if a director is also a member of the committee, this trait may merely be moved down the organisational chain, in which case review of the committee membership would be sensible.

One way to evidence board and committee effectiveness is to undertake an audit of the two forums through review of meeting packs, agendas and minutes. If the time spent by the board remains the same, or increases, after a committee is formed, its benefit is not being evidenced. In this case, either the committee has not been effectively incorporated with clear delegation or the board is unwilling or unable to delegate the topic. Either way, it needs to be addressed or the committee may as well be terminated, although this is not an option if its existence is a legal requirement.

Conclusion

Creating a committee enables a topic that is extensive, or requires specific knowledge, to be discussed in more detail outside, and on behalf of, the board. They are not implemented as a substitute for the board, to work in isolation or conflict with the board. It should be remembered that the committee is set up by, and for, the board. Effective use of committees is empowering to a board, ineffective use of committees can have the opposite effect.

If care is taken to define the purpose of a committee prior to its implementation, with continued support, it can be a powerful support for the board and solution for the company in terms of resource and time utilisation.