

Structure & Rationale of Committees

How directors can understand the strengths and weaknesses of their board's committee system and use committees to advance company goals.

On July 15, Egon Zehnder held the latest event in the Directors Development Program series, imparting lessons on how directors can be more effective members of their boards. Moderated by Egon Zehnder's Darpan Kalra, this entry in the series was titled "Structure and Rationale of Committees," and it focused on how directors can understand the strengths and weaknesses of their board's committee system and use committees to advance company goals.

Keep Committees Focused and Lean

Discussion on board committees opened with words of caution: Committees can be effective sources of problem-solving and insight-gathering, but only if they are led and structured with a clear agenda.

"I feel the committee is as effective as the chairperson of the committee wants it to be," said Neelam Dhawan, a veteran IT industry leader who now sits on the boards of ICICI Bank, Skylo Technologies Inc, and others. "We may tend to go on a tangent very easily or spend a lot of time on a very minor issue. However, if the chairperson feels

responsible for the agenda which has been put up to the committee, he or she then has to bring it back to track.”

Dhawan emphasized the committees should be kept lean, without too many members, so that conversations can be meaningful and precise. This is vital on committees that enlist both executives and non-executives, as bridging these two sides in an engaging discussion can lead to wholesale company strategy changes if conducted effectively.

“More work gets done at the committee level than at the board level,” Dhawan concluded.

Trust Is Essential

As members of a board, most directors probably feel comfortable knowing they are granted an uninhibited oversight of the company they serve, with visibility into its various components. But that might not be the case when oversight or decision-making becomes spread across committees. This dispersion of responsibilities means “you have to trust each other,” according to Sumit Bose, who served in several government finance positions and now acts as an independent director for various companies.

“In committees, trust is even more important because everyone cannot be on every committee,” Bose said. “So you might feel that you’re blindsided as members of the board regarding a committee on which you are not a member.” Bose said that committee chairs should consider it their duty to explain their committee’s function to the rest of the board, so that trust can be sustained between members and non-members.

Voluntary participation in committees—ensuring that directors can join the committee that interests them—can also sustain that trust. Although, Bose noted that some regulations or laws may restrict who can join certain committees, especially on bank boards.

Trust can be built outside of the office as well. Neelam Dhawan relayed that before meetings on boards she’s served on, directors would meet informally over dinner with executives and management—a practice that has unfortunately slowed due to

the pandemic. “Hopefully it’ll start again,” she said. “I found that quarterly meeting over dinner was a very helpful way of just talking to each other, getting to know each other, as well as getting a relationship and trust built.”

Who Should Serve on Specific Committees?

The optimal composition of board committees was a much-discussed topic.

“I think the committees should be driven by the functional head who will very clearly be accountable for that,” said Kewal Handa, who serves as chairman at Clariant Chemicals and as a board director at several other companies. “For example, if it’s a risk committee, the risk head should be there. If it’s a customer service committee, the customer service head should be driving it. There is no compromise there.”

Handa continued that business unit heads and others with expertise related to the committee’s purpose should be included. But it doesn’t stop at the company.

“You need to have experts from outside,” said Handa. “And pay them well—there’s nothing stopping you from paying for external experts.”

Making the Most Out of Committee Conversation

Once the committee’s composition is finalized and roles established, how should things operate in the actual meetings?

Neelam Dhawan brought up a strategy she learned from an earlier board role, in which at the end of each meeting, the board chair would ask each director in the room to give feedback on the topic at hand. “I realized that brought out everyone’s thoughts that they had in that session,” she said. “And it also added value to the executives, because they were also looking for feedback.”

Sumit Bose echoed this idea: “The idea is the chairman of that committee should try to get as many people as possible to contribute.” But he also reminded the audience of the potential drawbacks in committees that are too large: “In smaller committees this is not a problem, but when we are seeing committees of the size of seven or eight, there will be a problem.”

Trying to solicit maximum member feedback can backfire for other reasons, Neelam Dhawan cautioned. “I normally find board members are not shy in contributing to the discussion in the committee—especially those who have just become board members after finishing their executive life,” she said. “Sometimes they feel they can do better than the executives. So they start saying, ‘Well, I would have done this better’ or ‘Have you looked at this?’ The way they ask a question is like telling the executive they’ve not done a good job.”

This runs counter to the board’s purpose, which Dhawan described as having a conversation and asking questions in a way that makes management and executives think on particular lines. And in committees, which are frequently made up of people who are not positioned at the company’s highest levels, such domineering attitudes can devalue the experience.

Kewal Handa agreed, and referred to the “pecking order” which may inhibit lower-level members from contributing their thoughts. “You need to break that pecking order,” he said. “And it is the leaders’ responsibility to bring that culture of transparency and openness. That’s how the engagement improves.”

Evaluating the Committee’s Performance

Just as how at the board level, directors are evaluated and feedback is given, at some point, a committee needs to be judged for the insights and work it has done. “But I’m afraid that at the committee level there is no such evaluation,” said Kewal Handa. “Who will evaluate the committee? It’s a very critical point.”

Handa recommend that boards establish a formal process to evaluate their committees. As part of this, he noted that in a previous role, the minutes of committee cataloguing their various deliberations were not delivered to the larger board. “So as a good practice, what we did was we changed that and said that discussion and deliberation had to be presented by the chairman of the committee to the board,” said Handa.

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