

## How Committees and Boards Interact

Effective interaction between boards and the committees that they appoint is one of the most important elements of good corporate governance. In this article, we'll look at the roles and responsibilities of different types of committees and their importance to the overall governance of a company.

## How do the responsibilities of committees differ from those of the board?

The board of directors is the ultimate authority within a company and is accountable and responsible for strategy, governance, and decision-making. Committees are formed to support the board in exercising these responsibilities, by conducting or examining research, analyzing data, providing sector or topic-specific expertise, and making recommendations for consideration by board members.

## What are the different types of committees?

There is a distinction between standing and ad hoc committees. Standing committees – which may also be called permanent committees – are formed once and then used by a company on a permanent basis.

Ad hoc committees, by contrast, are formed to address a specific, time-based need, and are dissolved once they are no longer required. The lifespan of an ad hoc committee varies based on the tasks it was formed to complete – from a few months to several years.

## What are the standard standing and ad hoc committees?

Most of the board's work involves standing committees. While the number and purpose of these committees vary between companies, commonly encountered examples include:

- **Audit Committee:** formed to oversee the selection of internal auditors, to manage the relationship between the company and external auditors, and to ensure the independence of both groups of auditors. It also supervises the work of internal auditors, reviews audit reports, and audits financial reports in general.
- **Nomination and Remuneration Committee:** formed to take responsibility for talent identification and board recruitment, onboarding, succession planning, continuing education and mentorship, and board performance assessments, as well as setting remuneration for directors and senior executives.
- **Risk Committee:** formed to identify, assess and manage potential risks to the organization including financial, operational, ESG, and strategic risks. It

is responsible for developing an effective risk management framework and regularly reporting to the board on risk.

By contrast, ad hoc committees are formed to achieve short-term goals, for example, recruiting and appointing a new CEO, amending the company bylaws, managing a relocation of the company, or launching a new subsidiary or division. They can also be used to address specific business challenges, for example, to find solutions to an increase in customer churn, or address a lack of communication between departments.

## How are committees formed?

Standing committees are usually defined in an organization's Corporate Governance Code or board charter, and exist for an open-ended period of time, although they should be reviewed regularly to ensure they are still needed, effective, and serving their purpose. Ad hoc committees may be formed by the board to address time-limited projects which require specialist attention.

If an ad hoc committee, through the course of its work, establishes that the need or challenge they have been formed to address is a longer-term issue than previously thought, it may recommend the formation of a standing committee to take over responsibility for that issue.

## How are board members appointed to committees?

Board members may be recommended to committee positions by the chairperson, by the decision of another committee, or by self-selection, and then appointed by mutual consensus of the board. Appointments can be time-limited or permanent. Prerequisites for certain committees may be in place – for example, members will need a level of financial knowledge and experience for places on the Audit Committee.

In some organizations, board members rotate their membership of different standing or ad hoc committees in order to broaden their experience and allow them to contribute to a range of different initiatives as part of a board development plan.

By contrast, some boards encourage longer-term committee membership to allow directors to develop deeper domain-specific experience which can add greater value over time.

A popular approach is a blend of the two, whereby a board member serves on one or two committees long-term to develop their focus, while also joining other committees on a short-term basis to maintain awareness of wider organizational issues and challenges. Including a proportion of independent directors in the formation of committees is important to ensure that those committees can act independently and objectively.

## How do the structure and number of committees impact the board?

The number of standing and ad hoc committees directly influences the size of the board, as each committee requires a minimum number of members to function effectively. Having a large number of standing committees, in particular, requires a larger board size to ensure responsibilities are shared, and individual members are not overburdened with too many responsibilities – which can affect their ability to focus. Smaller boards should think carefully about which committees are needed, and the number they are able to support. For example, a board of 5 members, with 3 or 4 independent directors could realistically only form two committees of three members each.

This also impacts the board's nomination and election needs – with a diverse range of committees, the selection of new board members must be guided by the expertise and skills required across the different committees. For example, the Audit Committee will require members with specific financial expertise, while the Nomination and Remuneration Committee may need members with recruitment and networking skills.

## Conclusion

Effective corporate governance relies on the work of committees to support the board in exercising its duties. Finding the right mix of standing committees to focus on specialized issues such as executive evaluation, audit,

governance, and finance, and ad hoc committees, to address specific time-based needs is crucial to business success. For board members, a combination of long-term and short-term committee memberships is important to strike a balance between focus and organizational awareness.

If you're looking for advice or guidance on forming committees in your organization, MEIoD offers a range of consultancy and capacity-building services that you may find useful. To find out more, visit [MEIoD website](http://MEIoD website) or contact [info@meiod.org](mailto:info@meiod.org)

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