Is more always better?

Governance professionals should apply their judgement when considering the benefits of new board committees.

Bernadette Young FCG

The UK Corporate Governance Code has long required companies which follow its principles and provisions to establish three board committees covering audit, remuneration and nominations. This committee triumvirate has been emulated, in full or in part, by many other jurisdictions and sector-specific codes to provide a structure to facilitate robust governance oversight.

The use of such committees offers two advantages. First, it enables a decent amount of time to be set aside for scrutiny and exploration of important matters outside of the main board meeting. Second, it enables decision-making on certain items to be removed from the executive directors to avoid conflicts of interest and provide assurance that oversight is being conducted independent of management.

Committee expectations have been tweaked over time, for example through an increased emphasis on risk within the remit of the audit committee or the extension of the remuneration committee's oversight to cover wider workforce pay. Despite these changes, the format has remained largely stable and has offered a well-accepted arrangement for effective governance for many years.

In more recent times, however, there has been a marked acceleration in the use of additional committees. This is linked, in many respects, to the increasingly detailed and specialist areas about which boards are now expected to develop strategic views and over which to exercise control. Separate risk committees were, perhaps, the first trend in this direction, starting with banks and financial institutions in response to the recommendations of the Walker Review. But for many organisations, the list of additional committees can now also include committees dedicated to **ESG**, ethics, cybersecurity and **AI**, for example.

While the use of committees has been demonstrated to be a useful device to help boards discharge their duties effectively and provide assurance to investors and other stakeholders, could we be in danger of diluting the effectiveness of this mechanism through over-use?

Non-executive directors are already expected to devote a substantial number of hours to their board and committee roles, to take on considerable responsibilities and to expose themselves to potentially large personal and reputational risks if things go wrong. The addition of a proliferation of further committee roles could easily start to overstretch the willingness of non-executives to take on such appointments. Or it may lead to a swelling of the non-executive ranks in order to have sufficient directors to populate all the new committees without over-burdening individual **NEDs**, resulting in a very different boardroom balance in the process.

Effective strategic decision-making nowadays often requires boards to have knowledge of matters that may be beyond directors' natural fields of expertise. Accordingly, providing NEDs with an opportunity in a specialist committee to delve a little further into the detail may be a good way of addressing the executive/non-executive information gap and ensuring that directors have sufficient insight to contribute effectively to important board decisions. That said, there are other ways of bringing directors up to speed, and ever-more narrowly focused committees may start to stray from oversight and strategic direction into detailed management, thus compromising the very independence that our governance system values so highly in non-executives.

Whether or not to form further single-topic committees is a conundrum that requires some careful thought. Committees are a valuable governance tool but perhaps their creation should be a little more restrained. There are arguments in favour of suggesting that boards and governance professionals should be somewhat guided in this respect by the wisdom of 'less is more'.

CGIUKI's recent report, available online, poses the question of whether a dedicated committee is the right solution to governing sustainability.

Bernadette Young, FCG

IS DIRECTOR OF CONSULTANCY, INDIGO INDEPENDENT GOVERNANCE LTD