NACD Private Company Directorship

How Many Committees Should Your Board Have?

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Committees are a regulated and required part of Board governance beginning in the 1940s when the SEC recommended and in the 1970s required that audit committees disclose outside directors, and in 2002 with SOX, further mandating the establishment of compensation and governance committees.

For many years thereafter, audit, compensation, and nominating & governance committees were the three standing board committees for both public and private companies. While regulated for public companies, private companies have followed suit. As other issues and challenges surfaced, such as risk, these issues were tucked into one of these committees — most frequently in audit — or these issues were handled by the full board. In the last few years, both public and private boards have formed additional committees focused on risk, compliance, and innovation. However, the number of challenges faced by boards today have increased — not only in the aforementioned areas but in a comprehensive ESG perspective including but not limited to data governance, diversity, climate, privacy, technology (digital), and international.

How many committees can a board effectively have to address these challenges? Boards are usually comprised of 5-10 directors. If every committee has three directors and some of these committees require outside directors, a board with five or more committees means directors will be sitting on at least two committees — and for smaller boards on every committee, which means full board attention. Private companies with smaller boards are even more challenged.

Boards have limited time to address their usual agenda. Do board meetings now spillover to be a multi-day affair? Directors, themselves, have a limited time commitment. If board meetings are more than a dinner and a full day of meetings, will sitting independent executives be able to commit the appropriate time? And will there be appropriate expertise on the board to be able to add value to the committee?

Additionally, while the committees provide oversight, it is management that does all the work. I've heard that management is spending a week preparing materials for the board and the standing committees. If additional committees are added, their workload increases, taking their attention away from the company's operations, and increasing overhead. Private companies are especially burdened because they tend to have a lean staff.

There are no known fixes or best practices for the dilemma of balancing the need for oversight for the many areas that boards are now expected to address and how to address this increased workload. Companies by necessity — and in particular private companies — will have to focus and set priorities for the issues and challenges that are most important to them, and decide the best way to address those needs.

One suggestion is to create a matrix of all the challenges that impact the long term, strategic intent of the company and only focus on those areas, leaving the short term, more operational areas to management, perhaps with check-in or exception reporting. Each major area can be examined as to objectives (i.e. education, monitoring, board action required), impact (reputation, strategic, $, likelihood, etc.), and reporting interval to help decide if it needs its own committee, can be part of an existing committee, or should have full board attention.

Are there other ways to address some of these areas? I am seeing internal committees/working groups being formed with one board representative. This structure has the advantage of providing a two-way line of communication between management and the board, while

For areas where information and monitoring suffice, material can be included in a pre-read and board time made available for any questions.

The areas that boards will need to address will only increase in volume and complexity. Best to address now from an overall structural perspective and develop a plan for effective oversight.

Gail F. Lieberman serves as a board director and chair or member of audit, compensation, and nominating committees for public and private companies in the technology, life sciences, manufacturing, financial services, and utilities sectors. Her current board assignments are the privately held Equilend, Thesys Group, W.L. Gore & Associates, and publicly held ICTS International.

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