

# Leveraging Committees to enhance Board Effectiveness



\*Jyotin Mehta, B.Com., FCA, FCMA, FCS

In recent times, Board of Directors and Directors have been under greater scrutiny against the backdrop of a string of corporate failures in India and overseas. This has translated in immense pressure on the directors to display commitment to highest standards of governance. Regulators have responded as expected with plethora of guidelines that often border on micromanagement.

Whilst ethical breaches must be dealt with strictly, operating issues can be managed a lot better if boards reflect on some of these failures and make the committee framework more effective so as to help the Board focus on strategic issues rather than get burdened with functional issues. Committees help Boards to bring specialization to the fore by inducting the right members in relevant committees, defining comprehensive terms of reference for each committee and the reporting process into the Board so that critical matters get due attention.

The intent of this article is to be reflective rather than touching upon the statutory and regulatory aspects of the Board Committee Framework. The statutes and regulators have mandated the committees that need to be constituted, the terms of reference and at times, the frequency and composition of these committees. Obviously, the regulated entities must adopt this structure.

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Let me touch upon some of the committees that form pillars of support for board governance.

The **Audit Committee** has been one of the most 'stretched' committees with regards to the burden of compliance (and corresponding risks that go hand in hand). Financial statements, accounting policies, internal control framework, reviewing performance of statutory and internal auditors, oversight of related party transactions and prevention of insider trading. This list may not be exhaustive and, if the regulators and legislators could, they more to the overflowing plate.

So, how do we get the Audit Committee handle these responsibilities? Schedule additional meetings, have knowledgeable members and an effective Chair, have special meetings that focus on important matters like taxation, accounting policies, benchmarking, review of internal audit findings and action taken reports and getting subject matter experts to interact with the Committee periodically to familiarize the members with newer developments in Finance and accounting. With increase in incidents of corporate frauds, the Committee may well equip itself to recommend preventive and remedial actions to the Board. Number of meetings in a year could range between 6 - 8, such that all matters get the attention that they merit.

The next on my list is the **Nomination and Remuneration Committee**. I certainly believe that a seasoned HR professional

can be an asset on this committee. The Committee should focus on remuneration structure including stock-based remuneration for CEO and senior management, succession planning for board and senior management, guiding the Board on matters of ethics and conflict of interest at senior management and board level. I also believe that the Committee should comprehensively review the human resource function with a focus on talent development and retention and well-being of employees. Another area where this Committee can play an active role is the evaluation of Board, committees and individual directors. Depending on the position on the maturity curve, engagement of external experts to strengthen or even execute this task would be a great service to the Board.

**Stakeholders Relationship Committee** remains highly 'under-utilized' – this committee can be pro-active in fostering stakeholder relations at all levels but is often reduced to reviewing litigation cases for transfer/transmission of shares and reports from registrars and secretarial auditors with total time allocated being just about an hour or two annually!

**Corporate Social Responsibility (CSR) Committee** oversees funding and execution of the CSR activities – this was made mandatory not too long ago; in fact, the regulations for CSR seem to be evolving. Whilst review and monitoring of compliance is a must, the CSR committee should strive to get the company develop a vision for its CSR activities and guide in effective execution aligned with this vision. Mere reporting on projects and allocation of budget may make this Committee lose its core purpose.

**Risk Management Committee (RMC)** is not mandated for all companies; yet companies can gain significantly by have a RMC in place – more importantly, the committee should meet frequently enough to ensure that risk management does not get reduced to list management. The Risk Register is a means and not an end in itself! Obviously, the members have to be a mix of experienced industry and finance professionals with addition of technology expert with increased deployment of technology in all areas. Having a legal professional as a member is also worth considering.

There are a couple of committees like Customer Service, Compliance and IT Strategy that have been mandated by regulators in certain sectors. Some companies also have a Business Strategy Committee to support the board by having detailed discussions with management on business plans, new ventures and products, new geographies etc.

I believe having a board level committee for customer engagement rather than customer service is a proposition worth considering. The Committee could focus on customer onboarding, engagement, development from customer to partner and oversight of customer service and customer

delight initiatives. Mere reporting of complaint handling and call centre statistics makes this Committee waste time of mundane issues that at best could only result in tactical remedial action.

**IT Strategy Committee** can work wonders for a company aggressively pursuing technology deployment and digitization issues. The Committee would need to align with other committees – Audit Committee for financial systems and automated controls as also information security matters, Business Strategy Committee for ensuring robust IT support for business initiatives and mergers, NRC for supporting HR and performance management initiatives and Customer Engagement Committee for technology deployment encompassing customer relations.

Having shared my thoughts on how committees could focus on specific areas for helping Board in its effective functioning, I would also like to share a few suggestions on how the committee framework can work optimally:

1. Number of Committees should be optimal and based on immediate and future business growth, unless required mandatorily.
2. Membership of committees should strictly be based on experience and functional knowledge of the members and not as a matter of entitlement or allocation of portfolios.
3. Membership and Chair position should be rotated at least once in three years.
4. Invite key management executives to the meetings to share information and address questions from the committees.
5. It is better not to clutter all committee meetings around the Board schedule just for convenience of logistics. Fortunately, the pandemic has proved that videoconferencing presence at board and committee meetings is a great option to overcome this.
6. Ensure adequate time is budgeted for each meeting of the committees as also over the year.
7. Give five to ten minutes for each committee Chair to brief the Board at the Board meetings. Circulation of minutes of committee meetings is a legal requirement but is far from adequate for ensuring that all board members are aware of committee proceedings.
8. Chair of each committee should annually submit a one pager summary for performance during the year and plan for the next year for enhancing support to the Board.

I am sure, we can add a few more but this can be a good start.

To conclude, the committee framework is a great option for enhancing the board functioning and to make this happen, the

Chairman should lead from the front. Team performance should exceed the aggregate of individual performance in case of corporate boards as well. Only then shall the symphony flowing from the harmony will become audible to the investors, the regulators and the society.

**\*Mr. Jyotin Mehta, B.Com., FCA, FCMA, FCS** is an Independent Director and Chairman - Audit Committee, Member - Nomination & Remuneration Committee, Risk Committee and Stakeholders' Relations Committee at Linde India Limited.

He also serves as an Independent Director and member of various Committees on the Boards of multiple companies including ICICI Prudential Trust Company Limited, Suryoday Small Finance Bank Ltd., JSW Ispat Special Products Ltd. (formerly Monnet Ispat & Energy Limited), ICICI Prudential Pension Funds Management Company Limited, Mahindra Rural Housing Finance Limited, Mahindra Insurance Broking Limited, among others.

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