Modern Governance: The Future of Board Committees

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A joint initiative of Best in Governance Inc. (BIG) and

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Introduction

It is without a doubt that the world's increasing complexities and uncertainties are amplifying the responsibilities of directors. The nexus of growing demands, such as social issues, fiscal challenges, environmental and geopolitical impacts, increased regulatory and legislative disclosures, stakeholder engagement, and the evolving workforce are just some of the many factors that are bubbling up at the board level and adding to their ever-growing agenda. Many boards are struggling to find flexible ways to manage their growing workloads while continuing to operate at a high level and focus on broad, strategic matters. As such, all eyes are turning towards the future of the board's committees.

This paper, a collaboration between the Governance Professionals of Canada (GPC) and Best in Governance Inc. (BIG), examines the future of modern governance with a view to modern board committees, evolving boardroom practices, and the impacts of emerging trends in governance structures.

This report has been developed using a transparent, accountable, and inclusive process including in-depth interviews, surveys, and desktop research leveraging the expertise from over 200 governance professionals, directors, industry academic associations and regulatory and legislative bodies from Canada and around the world. The genesis of this report stems from the GPC and BIG's stated intention to uphold best practices in governance by influencing and promoting leading governance practices and establishing the highest standards in corporate governance in Canada.

The paper provides powerful insights that will enable governance professionals and directors to understand modern considerations for developing and evolving and board committees to address the requirements of modern governance.

This report and any related recommendations, discussions, presentations, and advice are not intended to be, and should not be construed to be, legal advice.

Best in Governance Inc. would like to thank the Governance Professionals of Canada for their meaningful and constructive collaboration in undertaking this paper. The BIG team is also grateful to the 200 global contributors from the governance sector who shared their insights and expertise.

"There may not be a one-size-fits-all solution to today's governance challenges, but through diversity of thought and perspective, we can all become equipped to lead the way to the future of modern, sustainable governance."
~ Ivy Lumia, CEO & Founder, BIG.

Evolving Board Committee Structures

Choosing wisely: Establish a new committee or add to an existing one?

Committees are a practical way to help the board handle certain specialized responsibilities by arranging for a narrowed group of directors, management, and experts to undertake a deeper dive on specific board accountabilities and provide guidance based on the ensuing research and discussion. However, many organizations have inherited legacy governance structures that may not be as effective as they once were. Now is the time for boards to review their overarching governance structures and ask:

How do we modernize our committees to better support board work?
Do we have the right committees to support us?
Have we imparted our committees with the appropriate responsibilities?

There are many factors to take into consideration when determining if a new committee should be established or if emerging accountabilities can be added to an existing group. To start the conversation, many modern boards begin by defining what the future state of the Board (Board 2.0) should be, keeping in mind a holistic view of their governance structure to redefine and clarify the underlying needs of the board. These mindful and deliberate conversations consider the new and emerging risks on the horizon and examine how they might impact the transition from traditional governance to sustainable governance.

As organizations begin to mindfully consider how they can position themselves to be resilient amidst future risks and impacts, defining precisely what risks they can expect will be key. However, in our research, board leaders told us that it’s a challenge to anticipate future events because the risk landscape is changing rapidly. While black swan events (unpredictable occurrences that are beyond what is normally expected) used to be rare, they are now seeping into boardrooms constantly. Meanwhile, grey rhinos (big issues you know are coming but don’t know when) and white elephants (assets that are not performing or costly to upkeep) are also contributing to the pace of change. Amidst so much turmoil and uncertainty, boards are challenged to keep up. Directors need to take more care and lean in topics so that their organizations do not succumb to unwelcome transitory situations.

“*The pace of change that boards are experiencing today is the slowest they will ever be.*” ~ Thom Dennis, CEO, Serenity in Leadership, UK

Defining the key risks to address is the board’s first step in modernizing their governance. Determining how—that is, via which committees—is a practical next step to define priorities and ensure the organization is prepared for whatever animal comes its way.

As per Corporate Board Member and Diligent Institute’s 2023 publication, *What Directors Think*, “With the roles and responsibilities of the board having greatly expanded over the past decades, directors find themselves divided over whether traditional board structures still align with today's increasing areas of risks and opportunities... **43% percent believe those structures remain adequate, but a full third question their relevance—and nearly one quarter believe they need to be revisited.**"[1]

As new accountabilities become significant, there may be a need to establish a separate committee with specific expertise on key topics that present significant risks and opportunities for the organization. Within these new committees, directors can lean in and provide attention where focus is most needed.

However, implementation requires reflective contemplation. New committees add complexity to an organization's governance structure. When creating a new committee, membership selection is typically selected from the existing roster of directors, who may not possess the skills, knowledge, or background required. There is also a risk of duplication of effort. Topics can be so fundamentally inter-related that it can be challenging to separate them from discussions at other committees. Accountability for decisions may also get muddied as mandates bleed and work overlaps.

For example, a board may create a digital oversight committee, only to realize its members don't possess the necessary digital expertise. To compound issues, your existing Risk Committee may still feel accountable for oversight of cybersecurity, AI, or other related risks, so the board receives differing guidance on the same topic from two different committees.

There are also cost and time factors to consider when more meetings are being scheduled. Not only is there an incremental cost increase if directors are paid per committee and/or meeting attendance, but post-Covid, the cost of meetings (hospitality and travel) has nearly doubled. Finding time for additional committee meetings is also a consideration, recognizing the already packed schedules of many directors.

Successfully adding a new committee will require a strong chair and governance professional who can review the governance structure holistically, assess the gaps, and create a clear mandate, while at the same time updating existing mandates to ensure clarity of accountabilities. They will also determine the membership based on required skills, resources and any additional structures required to ensure transparency. For instance, to ensure open communication in the example above, it may be determined that either the chair of the new committee must also be a member of the risk committee or the two committees must be required to host joint meetings from time to time.

> *"There may be a temptation to create a new committee to handle the latest hot topic, but that may not always be the best approach. For some matters, such as AI, it needs to be a consideration across many topics on the board's agenda. The decision must be mindful."*
> ~ Mary Anne Wiley, Director, Canada

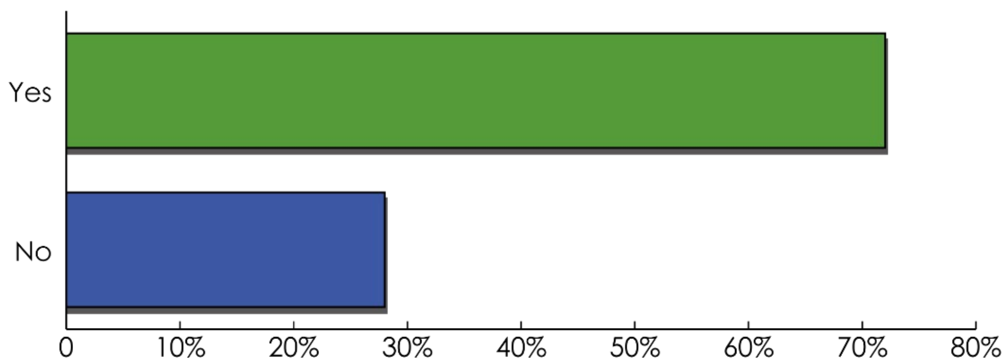
[1] https://boardinstitute.wpenginepowered.com/wp-content/uploads/2023/01/What-Directors-Think-2023.pdf

Adding new or emerging topics to an existing committee may make sense from a governance structure point of view, but directors are becomingly increasingly stretched thin with rapidly arising and frequently competing priorities. The expectation to take on more may be challenging for board members who carry an already heavily burdened mandate, such as members of the audit committee, which holds an ever-growing portfolio of responsibilities. The decision facing leaders is whether to set up a separate committee or distribute new accountabilities across existing committees.

The Middle Ground: Ad Hoc and Single-Purpose Committees

The ethos that one-size-does-not-fit-all rings true for most organizations and rather than reinvent the committee structure every time there is a new topic, consideration may be given to the ability to pivot quickly and embed arising matters into already existing work. A possible middle ground to consider may be the introduction of an ad-hoc, single purpose or short-term committee with specific expertise. Such a body can provide the board with the opportunity to lean in for a specific period of time to fulfill a specific mandate and get a better understanding of the impact and risk to the organization. If the mandate of this committee becomes business as usual, the board can have a deliberate discussion about transitioning oversight of the issue to an existing committee or committees, or—if appropriate—cementing the ad-hoc group as a standing committee.

72% of survey respondents believe that Directors' responsibilities have increased in the last 24 months and will continue to do so.



Source: Best in Governance Inc., "The Future of Board Committees Survey" 2023

Allocating/Re-allocating Committee Responsibilities:

Regardless of whether an organization chooses to strike a new committee or add to the old, a board's decision must be mindful and account for a variety of factors. So, what are some practical guidelines for an organization to determine who gets what role?

1) **Leverage the existing roles on the board.** The allocation and/or re-allocation of responsibilities is a heavy burden. Kickstart the conversation by employing the insights and expertise of the board/committee chairs, governance professional, CEO, and management to identify the needs of the corporation and determine how best to align them with the functionality of the governance structure.
2) **A clear, concise, and current mandate is essential.** Create an enforce a disciplined process for reviewing all mandates annually, assessing arising items (adding, updating, and/or removing), and ensuring they are backed up with the skills, resources, and measurable work plans to deliver.

3) **An effective board evaluation process** can be one of the board's greatest assets as an agent of change. It can provide a critical opportunity for picking up on pain points (such as identifying significant differences between the board and executive through candid interviews) which may prompt consideration of governance changes. An evaluation is also an excellent opportunity to identify skills and showcase what your board can do. (Note: independent evaluations will garner more insight).
4) **Leverage external governance advisors** and legal counsel who understand fit-to-purpose options, best practices, and emerging trends from peers, competitors. A strong governance professional will understand what works, and what doesn't in the context of your organization and industry.
5) **Enable a disciplined and transparent workflow**, that balances the work of the committees, outlines the delegation of authority and the decision-making process, and ensures accountability and follow-through.
6) **Allocate adequate budget.** There is a cost of doing business and the board should be no exception. Whether you're facing a consuming strategic priority (such as M&A), an arising black swan, or business as usual, committees and directors should be appropriately resourced and compensated to engage, as required.
7) **Ask for help.** Leverage the board's network and governance associations to talk to people who have navigated a similar transition and are familiar with current governance trends.
8) **Don't "set it and forget it."** One of the most critical factors impacting boards right now is the pace of change and the amplification of responsibilities. Based on your organization's risk management framework and (most likely) annually reviewed corporate strategy, the need for committees, as well as their responsibilities, should be reviewed regularly and aligned.

Committee Composition

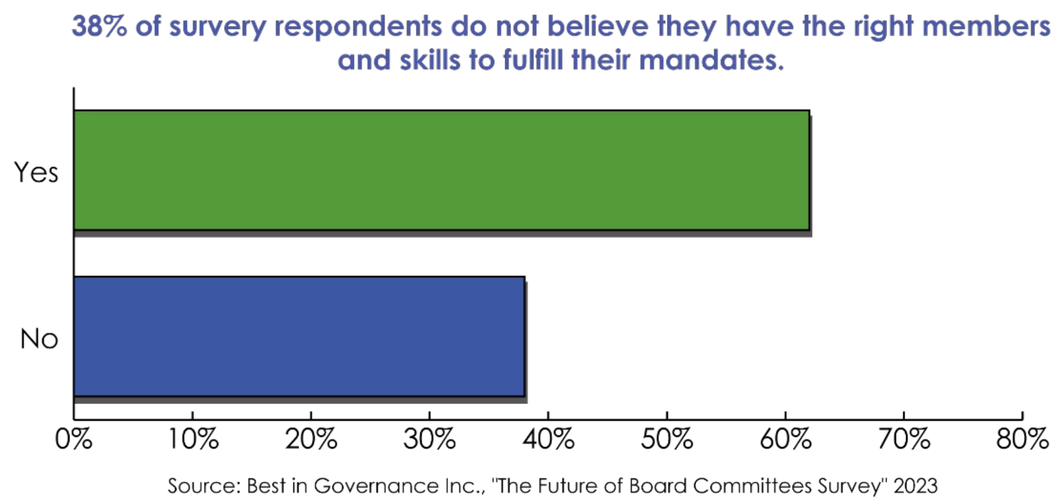
Deliberate Diversity

The importance of enabling balanced diversity on committees has become a vital requirement as organizations commit to reflecting and representing their stakeholders. Although some organizations have made progress towards gender diversity (women now hold almost 30% of all board seats among TSX-listed companies[2]), diversity is far wider than just gender. Concentration on only one form of diversity is not enough and it has become both a societal and strategic imperative to address and balance social (gender, ethnicity, race, orientation, age, disability, etc.), professional (skills, tenure, work experience) and character (lived experience, values, and behaviours) diversity on boards.

However, the push towards deliberate diversity has become increasingly complicated to define as social issues continue to evolve, social constructs emerge such as unconscious bias and tokenism, and the term "diversity" evokes different meanings within different

[2] https://www.osler.com/en/resources/governance/2023/report-2023-diversity-disclosure-practices-diversity-and-leadership-at-canadian-public-companies

nations, industries, and sectors. For example, diversity on a federal government board may include regional representation and bilingualism in addition to race, ethnicity, orientation, disability, and experience. Moreover, diversity is also increasingly challenging to address because traditional "tick the box" approaches such as skills matrices fall short. Often, these measures of diversity are subjective and may not be immediately evident. The disclosure of personal, less visible traits also requires sensitivity due to privacy and human rights. Recognizing these concerns, it will be essential for the board and the HR, nominations and/or governance committees to engage in regular, ongoing discussions about what deliberate diversity means to ensure there are appropriate tools and policy in place to support it.



The move away from the homogenous vantage towards a diverse, transparent, measurable representation of all stakeholders, is fast becoming a critical component of governance structures as well as regulatory disclosure. In September 2023, the Canadian Securities Administrators requested comments regarding proposed amendments to corporate governance disclosure requirements and guidelines with an intention to: i) increase transparency about diversity, including diversity beyond gender on boards and in executive officer positions; ii) provide investors with decision-useful information that enables them to better understand how diversity ties into an issuer's strategic decisions; and iii) provide guidance to issuers on corporate governance practices related to board nominations, board renewal, and diversity[3]. Organizations must quickly determine how to address these disclosures and acknowledge that the committees of tomorrow will not look like the committees of today.

The Keyhole of Skills and Experience

Committee membership must be buttressed by conscious discussion and an active process. As many boards still do not have established protocol for deep recruitment, many times it is still left to directors to draw from their own ecosystems of like-minded professionals, practice which is not likely to provide the required diversity. Directors who brought on specifically for their individualism or special skills, such as digital experts, also run the risk of becoming overburdened. Tech-savvy directors have become a critical resource in today's environment, as there are very few business matters that do not have a digital impact. Research indicates a decline in directors with business strategy skills,

[3] https://www.osc.ca/sites/default/files/2023-04/csa_20230413_58-101_58-201_corporate-governance-rfc.pdf

even though it is one of the most critical skills required by boards[4] and only 8% of S&P 500 Boards have a current or former Chief of Human Resources on their board today[5].

Recognizing the fierce competition for talent in every industry, human capital has never been more important. With human resource committee mandates expanding to include the oversight of corporate talent strategies, more companies are considering adding the capabilities and expertise of human resources executives to their boards. Moreover, the ability to understand the complexities and sensitivities of social diversity is imperative, so how the committee address composition via policy and practice to create and maintain a fair work environment and high performing board is critical. Recent trends point to a new board candidate voluntary disclosure forms, which includes information that may be self-disclosed if the director chooses to share it.

"Board development and diversity is critical to building great committees. If directors are regularly engaged to assess their interests and skills, this will enable the ability to keep rotating committee membership, which not only refreshes the Committees but also provides Directors with opportunities to learn and grow."
~ Deborah Rosati, Founder & CEO, Women Get on Board, Canada

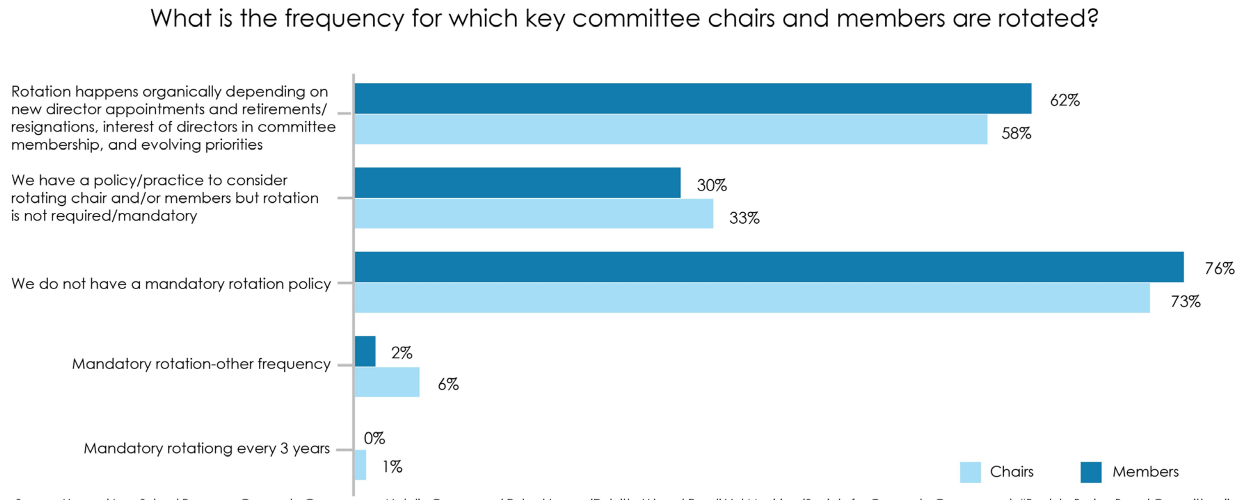
Should a committee have only one director with a certain-skill prowess (ex. AI), that sole director will not only become stretched thin as they are tasked to weigh in on so many matters, but this circumstance poses a decision-making risk for the organisation. As the sole director with subject matter expertise may be the only one to really understand the complexities of the decision in many cases, it's a serious concern that they only have one vote and may be outvoted. Moreover, their frequent requirement to weigh in on matters may sway business decisions, jeopardizing the principles of equal diversity of thought and perspective.

Similar issues arise with recruitment based on a narrowed view of work experience, such as only looking at directors with CEO or prior director experience, or practicing the emerging trend of Goldilocks ageism (the perceived sweet spot of the right age) — eliminating candidates who are seen as either too young or too old. By 2030, 75% of the workforce will be Next-Gen (Millennial, Z or Alpha)[6]. Knowing this key statistic has implications for every committee, as it will shape the future of consumerism, operations, finance, talent, and much more. Narrowing the skills, generations, and work experience of committee members may lead to missed opportunities to think outside the box while addressing emerging issues or challenging periods. Consider focusing on life stage, not generation, and adding members who have unique skills but may be new to the world of boards. This practice may provide new perspectives to decision making and challenge legacy governance processes.

Committee rotation (the process to re-elect, move to another committee, or thank and kindly discharge) and succession planning are key tools for enabling the viability of a

[4] https://corpgov.law.harvard.edu/2022/06/14/diversity-experience-and-effectiveness-in-board-composition/
[5] https://semlerbrossy.com/insights/do-you-need-a-chief-human-resources-officer-on-your-board/
[6] https://www150.statcan.gc.ca

committee. These practices provide an opportunity to reshape the committee and review members at regular intervals to enable diversity, prevent stagnation and burnout, provide seamless leadership changes, and actively contribute to the organization's overall success in achieving its objective.



Source: Harvard Law School Forum on Corporate Governance, Natalie Cooper and Robert Lamm (Deloitte LL) and Randi Val Morrision (Society for Corporate Governance), "Back to Basics: Board Committees", August 2022

The Job Description of a Director

With the increase in the responsibilities and skills required, the expansion of time commitments, the deepening of the recruitment process, and the emergence of disclosure requirements, the role of a director has become more than an appointment—it is a job. Committees increasingly require directors that are less generalist (possessing general knowledge of the committee's mandate) and more specialist (hold more specialized expertise and deeper insights into issues). While building membership, it's critical to establish an understanding of the skills and experience existing around the table and what is missing. Prospective members should be offered a very clear job description outlining what will be required of them and the mandate of the committee they are joining. A detailed job description and mandate will enable candidates to understand the strategic direction of the organization and the workplan of the committee, allowing them to ensure that their abilities align and they have sufficient time to commit. Members also need to be recognized for their value, compensated appropriately, and adequately supported to fulfill their role and stay current.

Source: Best in Governance Inc. (BIG)

A directors skills assessment, undertaken annually, is an important process to identify skill gaps, but self-assessments can be subjective as directors must try to provide an honest assessment of their abilities based on clear, accountable, and appropriate definitions and measurements. A skills assessment should also be based on the risks of the organization and align with the future strategic direction of the corporation. For example, if the organization plans to develop a new sustainability strategy, what directors and executives do you need in the pipeline? There will need to be members that have the right expertise and commitment to provide valuable insights and advice. A skills assessment exercise also does not end there; it should be followed up with bespoke development plans, ongoing one-on-one discussions with the chair, education and training, and performance evaluation.

A strong chair and governance professional will play a vital role in developing and facilitating a robust skills assessment process annually. The engagement of an independent third party at least once every three years will also provide the impartiality required to accurately identify any gaps in skills, as well as a comprehensive plan for moving forward. These unbiased professionals have a distinct advantage of understanding the bigger strategic picture, emerging trends, and best practices to facilitate healthy dialogues, conduct quantitative and qualitative assessments, and determine if the right competencies are present to handle committee business.

A Room Full of Alphas

Diversity is also evolving beyond social considerations and professional experience. Highly functioning committees are not just based on policy or compliance requirements but are capturing a balanced mix of character (behaviours, values, attitudes, and belief systems) around the table to enable acceptance of different ways of doing things. This provides an important level of stress necessary to challenge decisions and direction. Much like with a bridge where a certain amount of stress is required to provide the strength it needs to uphold its loads, committees require the same stress for decision making to underpin robust discussion and ensure they arrive at a solid position.

Consider a room full of alphas. No matter how deliberately diverse your committee is, the ability to move forward and enable different perspectives in decision-making may be hampered. It is important to make the distinction that these members should all share the same vision for the direction of the organization—but the personalities in the room should be well-balanced to avoid groupthink and work toward that shared vision.

"Legal governance structures may be satisfactory, but boards are struggling and looking for ways to figure out how to do their work better, more efficiently. They need to come to terms that directorships are more work than they used to be. They are not a cushy role as a reward for a successful executive career. It's a job. Directors should be spending one week per month for each board they sit on. Because of this time commitment, pay directors well; and in turn, directors must keep up to date and turn up ready."
~ Dr. Peter Crow, Director, New Zealand

Optimizing Effectiveness, Performance & Engagement

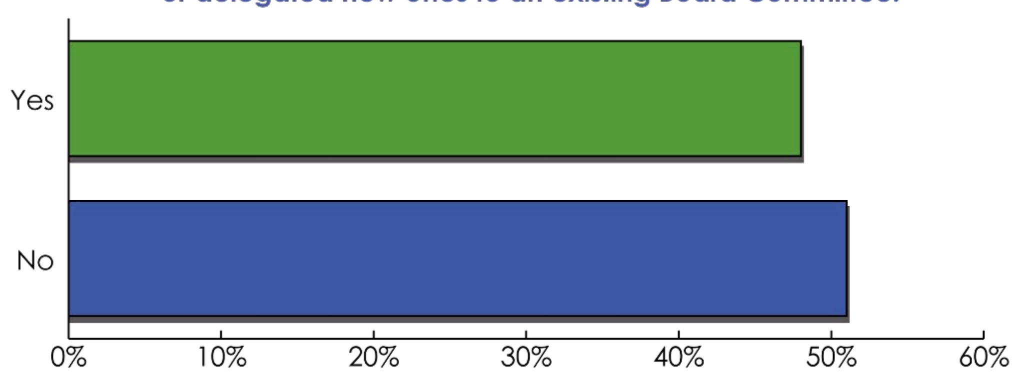
The Mighty Mandate

Throughout our research, one factor that was emphasized a certainty for the future of committees—no matter whether you're creating a new committee or improving an existing one—was that all committees must have a clear, current, and concise mandate that sets out its responsibilities and expectations from the board.

"Board committees need to recognize that evolution is part of their mandate... Many mandates are a "crutch", regurgitated annually with a bare minimum review or a rubber stamp. They need to be broken down by the committees and rebuilt in conjunction with management and external expertise who can provide a fulsome version of the truth, apply best practices, and codify the responsibilities as they change."
~ Jasmin Jabri, Executive Director, Canada

The mandate is critical for the codification of all responsibilities. Committee mandates should be reviewed annually to ensure that they are reflective of the work the committee is undertaking and to account for any changes or new responsibilities that must be added, amended, or withdrawn. A thorough review should include mindful discussions at the committee level to ensure that an arising responsibility is within scope, the workload is manageable, the responsibilities are aligned with the board's delegation, and that there is no overlap or duplication between other committees. Together with the governance professional, members need to ensure accountabilities are fulfilled via agendas, workplans, and action tracking processes. The mandate may also be positioned in a way that addresses hindsight, oversight, and foresight. This is a valuable method for determining the priorities for the committee.

48% of survey respondents have re-allocated existing responsibilities or delegated new ones to an existing Board Committee.



Source: Best in Governance Inc., "The Future of Board Committees Survey" 2023

Clear, concise mandates are also a signal to stakeholders of good risk control and can be used as a tool for evidence of oversight of specific areas. Creating a new committee can effectively convey the board's attentiveness and commitment to addressing the concerns of highly engaged key stakeholders seeking action on a particular issue. As such, mandates are trending towards more specificity, rather than implied responsibilities. It may be challenging to create a new mandate or add new responsibilities if there is insufficient expertise to address the topic; engaging an external advisor may provide insights into stakeholder expectations.

Courageous Buy-In and Agility

Modern committees are recognizing that agility is critical. Existing governance structures and processes may no longer be relevant, and directors need to gather the courage to buy in and accept the new realities of a changing world and—in some cases—perhaps even step aside if they recognize that they no longer provide value.

> *"Boards today are a frog in a pot and the water is getting hotter. They are getting uncomfortable but don't understand how to take a step back and assess what they need to do. If directors are cloistered in their own bubble of reality, rarely seen, or heard from, and have an inflated sense of the value they bring as they are relying on the knowledge learned years ago, their complacency and/or unwillingness to ask the questions because they don't understand is problematic. They need to set aside what they've learned in the past and include new perspectives not coloured by their own understanding."* ~ Dr. Denis Mowbray, Gryphon Management Consultants, New Zealand

The average board has increased by at least one member in 2022[7] and this trend is expected to continue. While the reason for the increase is varied, many organizations are establishing new committees and seeking to gather more diversity, skills, and expertise to help manage the increase in responsibilities. However, this move raises a powerful concern: are boards adding members to avoid the challenge of board refreshment and the complexities of dealing with members who are no longer fit-to-purpose? Research indicates that committees should be focusing on renewal, yet how organizations are addressing it is controversial as the subject of term limits arises over and over again.

One interviewee revealed that "the board turned a blind eye towards tenure and age limits because they did not want to lose their handsomely compensated seats to make room for more diversity." Term limits may not be in the interest of some existing directors, but they may assist in inviting fresh, new perspectives and experience. The Singapore Exchange Regulation has limited the tenure of independent directors to serving on board of listed issuers for 9 years, while other global governance bodies note that after a certain period, directors are no longer considered independent and that acts as a "de facto" ceiling on tenure.

In juxtaposition, a well functioning committee also requires a certain degree of tenure to enable the continuum of business. So how does one balance these opposing positions? Committees may benefit from moving directors around rather than keeping them on the same committee throughout their tenure. The chair and the GP will play a critical role in regularly engaging with committee members to gauge interest, assess skills, provide development opportunities, and rotate membership.

[7] https://corpgov.law.harvard.edu/2022/06/14/diversity-experience-and-effectiveness-in-board-composition/

The concept of overboarding (when a director belongs on too many boards, thereby diluting their availability or running the risk of conflict of interest or regulatory issues) is also an emerging priority. Due to the increased responsibilities of boards—and, by extension, committees—and the complexities they face, organizations are considering what requirements for directors are reasonable given the future strategic direction of the organization and competing conflicts of interest.

“Addressing overboarding should be an important consideration for organizations. With the increased workload for most directors, especially audit committee chairs, managing more than four total commitments may be over-taxing.” ~ Michael Vogele, Managing Director, Alliance Advisors, USA

Practical considerations go back to governance due diligence and honest reflection. In a world where changes are happening quickly, the courage to honestly answer these questions will provide the agility to stay on top of issues and enable the right committee structures to accommodate future needs.

What are my motivations for joining the committee? Is it just an income source, or do I have a genuine desire to contribute?
What is the committee’s mandate for the next one to two years? Will there be a strategic imperative that has a heavy time commitment?
What is the composition around the table? Do my skills and attributes contribute?

Harnessing the Power of Accountability

Evidence of accountability is emerging as a top priority for stakeholders. Historically in Canada, there have been a miniscule number of directors who have been held accountable for decision failures. However, that’s beginning to change as eyes turn toward corporate statute requirements for directors to discharge their fiduciary duty “with a view to the best interests of the corporation”[8] and be held accountable for their companies’ promises related to corporate purpose.

Committees can play a key role in creating accountability by recording evidence of decision making and ensuring there are transparent and disciplined documentation processes. Such evidence may include sufficient time scheduled on agendas, clearly outlined and accountable delegation of authority, regular committee reports to the board, workplan tracking, skills assessments, and action item tracking. New trends also suggest that an organization’s board portal is providing evidence to regulators and auditors that committees are fulfilling their due diligence by reviewing meeting materials and policy.

A key tool for committee accountability is the annual board evaluation, which, in addition to assessment of the full board, should also evaluate the committee’s performance, effectiveness, and culture. An evaluation annually provides committees with an opportunity to evolve their standards of governance and assess their own performance

[8] https://laws-lois.justice.gc.ca/eng/acts/c-44/page-14.html?wbdisable=true

and skills. Results of the process help to identify existing strengths, note areas for further development, and provide a comparable benchmark for year-over-year improvement. There is an increased expectation from stakeholders that organizations undertake an independent third-party assessment at least once every three years to foster continuous advancement and benefit from the learnings from impartial, external governance experts.

In addition to annual evaluation, another opportunity for committees to demonstrate their accountability is via an independent governance assessment/review. This review is based on the organization's voluntary commitment to identify governance risks and areas in which it can bolster its governance framework to ensure that its governance structure, practices, and policies operate effectively and provide the organization with oversight over key activities. Although not mandated by regulation in Canada, this is fast becoming a best practice that organizations are baking into the board mandate to be undertaken periodically (i.e., setting a specified period, such as at least every five years). It should be noted that potential governance risks and associated opportunities to implement enhancements (recommendations) should be fit-for-purpose, evidence-based, and aligned with best practices, standards, and policies as denoted by regulatory and legislative bodies, academic associations, and standards-based organizations (ex. International Organization for Standardization (ISO) or ESG-related reporting standards). By undertaking a comprehensive review, an organization is signalling to stakeholders that it upholds responsible governance principles and practices. The review demonstrates a values-based commitment to success by enabling strong oversight and accountability and signals to stakeholders your commitment to governance.

> *"What concerns me the most, is board complacency. Boards need to steward the present but also work as agents of change for a better future. With so many concurrent changes coming at a speed not seen before, if we don't have boards and their committees purposefully thinking long-term, they will miss the mark on both risks and opportunities. There needs to be a call to action, measurable, prescriptive benchmarks and considered, but swift action."* ~ Connie Caras, Director, Canada

How Does Culture Fit?

To those in governance, it comes as no surprise that culture starts at the top. So, how can committees enhance a culture set by the board? Similar to balancing a mix of independent character traits on committees, the coming together of these individuals will culminate in the shaping of committee culture. The alignment of purpose, vision, and core standards anchored in basic principles will enable committees to develop orientation and guidelines that will help them achieve their mandates.

The committee chair and CEO (or executive leadership person dedicated to the committee) will play an integral part in setting the cultural tone. If they are not aligned with the corporation's purpose for long-term value creation or model appropriate leadership, then the committee's culture may veer from the culture of the full board. Succession planning and robust performance evaluations are both critical tools to enable this cultural continuum. Moreover, committees and executive leadership cannot operate independently of one another. A supportive, transparent, and communicative relationship, coupled with tangible performance evaluation, is imperative to emulate a committee's culture of accountability they want to see in their workforce.

Committees also have culture-supporting responsibilities. A prime example is the nominating committee's responsibility to enable diversity. When new nominees are brought forward, this committee must act as gatekeeper and intentionally consider the stated goals of board diversity. One interviewee shared, "In Singapore, there is a small, collegial circle of who's who. This, coupled with the traditional Asian culture of 'do not speak up to rock the boat', comes at a cost." Policies are also tools to support culture. It's critical that policies such as anti-harassment, conflict of interest, and ethics are reviewed and acknowledged annually to ensure the maintenance of a healthy corporate culture.

In October 2023, the Canadian Office of the Superintendent of Financial Institutions ("OSFI") issued a draft Integrity and Security Guideline to require federally regulated financial institutions to "have and adhere to adequate policies and procedures to protect themselves from threats to their integrity and security, including foreign interference".[9] These guidelines include ten principles including expectations regarding character, culture, governance, compliance, and people.

"There are emerging trends to assess the integrity of leadership and stakeholders with a view to identify influence, political or other. Views are influential and may be a risk, so how and where do you draw the line? Since there is no rule book for black swan events, how does the Board find its way in unchartered territory to protect the business and moreover, protect its directors." ~ Daryl Yeo, Director, Canada

Building on the case for culture, committee members have the duty to push back against groupthink and be advocates for change, which should be encouraged through healthy challenge, stress testing, and building trust. By identifying what is material to your organization, this will lend itself to building a focused inventory of financial *and* non-financial measures to enable accountability and provide the cultural building blocks.

As committee meetings can sometimes be less formal than board meetings, expectations for the rules of decorum and healthy engagement should be established. From time to time, joint committee meetings, such as a meeting between audit and HR, should be arranged to ensure alignment. This practice serves a second purpose, driving consistency of culture between committees. Some questions which may help committees build culture include:

Do we champion and uphold the board's culture and lower its risks?
Have we adhered to the aspirational behaviors that drive high committee performance?
Are all our discussions and actions aligned with our mandate and values?

[9] https://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gl-ld/Pages/is-si.aspx

Education, Education, Education

Robust director education stands out as one of the single most important factors in bolstering a directors' ability to effectively fulfill their responsibilities. Continuing education, training, and development to address the rapidly evolving needs of modern business has become such a cornerstone of effective corporate governance that the requirement is surfacing in mandates, policy, and even regulation. An example of this is the Singapore Exchange Regulation, which has mandated sustainability training for all board directors of equity listed companies, signifying the critical importance they place on directors being well-versed in sustainability matters as they direct companies' long-term strategy and corporate governance[10].

However, the onus of director education extends beyond compliance; it encompasses a proactive and mindful approach. Committees must not only focus on the here and now but also peer into the future, staying attuned to emerging trends as a lack of director education and continuing professional development can leave boards ill-prepared to confront future risk. As per the Institute of Corporate Directors and TMX Group Limited Report, *Charting the Future of Canadian Governance*, *"Every board must keep building on its ability to do two things well: tackle the complexities of constant change and disruption and meet the challenges of society's rising expectations as it broadens its responsibilities beyond shareholders. This includes continuous learning about the company, the industry it operates in, and relevant changes in the external environment.*[11]*"* Continuous education requires a collective commitment from everyone. In addition to providing education to the full board for big-picture matters, it should also be provided to the committees and individual directors, to develop the insight necessary to fulfill a committee's deep-dive commitments.

Organizations should consider engaging advisors and external experts to enhance committee ability to effectively navigate the rapidly changing business landscape. Bringing in external experts can help directors stay current and prepared to navigate the complex terrain of modern corporate governance.

The approach to education should be fit-to-purpose and include:
1) **identifying competency gaps**: skills assessments, committee evaluations, ongoing, candid discussions, recruitment process, and governance reviews.
2) **developing robust and disciplined continuing education processes**: formalizing requirements in mandates/policy; investment (resources, budget, time), committee workplans, director development plans; and robust orientation and onboarding.
3) **measurable performance indicators:** post-training feedback, score cards, and public disclosures of processes, which also serves as evidence to stakeholders of engagement and commitment to education.

The Hot Debate: Strategic Responsibilities or No?

An expectation that appears to be emerging is that boards should spend 80% of their time on insight and foresight and only 20% on oversight and hindsight; but this goal can only be realized if their house is in order. Committee work can address the deep dives of

[10] https://www.sgxgroup.com/media-centre/20220317-sgx-regco-announces-start-sustainability-training-company-directors
[11] https://chartthefuture.ca/assets/uploads/img/22-3325-Committee-Report-Dec2022_EN.pdf

hindsight and oversight matters to free up the greater board for the big-picture strategic discussions. However, as it is widely accepted that the strategy is owned by the board and operationalized by management, where and how does committee work factor in?

Committees are not accountable for strategy, other than indirectly. There may be some elements that the board delegates to the committees for a deeper dive that may result in recommendations back. Elements such as risk appetite at the risk committee, an ad hoc investment committee as part of the corporation's strategy to grow by acquisition, or compensation strategies to attract new talent at the HR Committee are woven into strategy; however, the responsibility of the strategy ultimately rests with the board. Nevertheless, committees, as bodies sometimes seen as the gatekeepers between board and management, should feel empowered to challenge what is best for the corporation and be able to ask "what are we missing"?

VS

A future-focused committee can be a strategic catalyst for change.
An emerging trend is the need to "re-group" in order to determine the best approach for moving forward in a new world and consider innovative, forward-thinking strategy. These organizations are establishing a Foresight Committee with the mandate to shift the organization's focus to foresight and agility by exploring long-term viability as well as short-term risks to balance foresight versus oversight. By creating a committee with the diversity and skills required to deep dive into the future and consider strategic imperatives, there may be more opportunities to figure out where the business should be… or needs to be, to undertake transformational direction.

Move Over Shareholders, Stakeholders are Coming to Town

In a new era of modern, sustainable governance, the need for organizations to commit to stakeholder engagement is becoming a strategic imperative. Traditionally, businesses made decisions exclusively through the lens of profit maximization (total shareholder return) for the benefit of the shareholders. Today, proponents believe that stakeholder capitalism (a form of capitalism in which companies seek long-term value creation by taking into account the needs of all their stakeholders, and society at large) should replace shareholder primacy as a principle of corporate governance. As such, board decisions are more and more integrating stakeholder priorities and risks, to help them understand critical priorities and orient the organization towards a resilient future.

Stakeholder engagement demonstrates that a company is committed and accountable to creating lasting value, credibility, and trust amongst all stakeholders. As the demand for greater transparency, accountability and inclusivity rises, this leaves organizations to wonder where and how to address stakeholder issues and risk? Effective organizations need to review their governance infrastructure to see how best they can address stakeholder engagement.

Some organizations have embedded the responsibility into their ESG/sustainability committee, as stakeholder engagement is foundational to a successful sustainability strategy. But for other organizations who do not have such a committee, they may distribute the responsibilities across existing committees (i.e. investor relations in audit, employee engagement in HR, government relations in with compliance (risk), which provides an integrated and holistic oversight of stakeholder issues within the existing governance framework. However, this practice does not necessarily ensure that stakeholders have a seat at the table or that their contributions of insight, expertise, and evidence are being used optimally. There may be value in an organization considering a stakeholder engagement advisory committee which focuses the need for accountability and expertise. As stakeholders are an important influential resource, they should be considered as a potential source of risk and moreover, opportunity. Organizations must determine how stakeholder insights and perspectives fit into the overall governance structure and which committees will formalize engagement in their mandates.

Key considerations to kick off the conversation:

1) **Know your stakeholders (KYS).** A formal process helps to identify and prioritize stakeholders to determine scalability of influence (impacts) and interest (importance).
2) **Understand your stakeholders' critical priorities.** Chances are their risks are yours and as such, should be integrated into your risk management framework and addressed via robust process and mandates.
3) **Balance the needs of all stakeholders.** There's no one-size-fits-all approach. There will always be competing stakeholder priorities, but by actively engaging in open dialogue and regular risk assessments to determine what's most material to the viability of your company—as well as your stakeholders—you will be able to better maintain a balance.
4) **Enable on-going, targeted communications strategies** for each stakeholder group and supplement your communications with data, training and measurable actions that demonstrate commitment to support stakeholder issues.
5) **Transparency is essential.** Tell your story and ensure that communications tools (proxies, mandates, sustainability reports) are easy to read and accountable.
6) **If not, why not?** There will be times when you cannot address all stakeholder needs, but by actively engaging in regular discussions, you can demonstrate that they have been heard.

Leveraging Leading & Support Roles

The success of the Board and Committees will be largely dependant upon the roles that support them, such as the chairs, the governance professional (corporate secretary), CEO and other members of executive management, and external experts or consultants. These roles are critical to enabling the communication and collaboration necessary for optimizing performance, effectiveness, and engagement.

The Committee Chair

It should be no surprise that committee chairs play an important role in the success of a committee. However, the extent of the ever-growing list of issues that committees are expected to effectively manage is causing many to consider how chairs can maintain and enhance their effectiveness.

A theme that arose repeatedly in the survey and interviews was the need for the committee chairs to "step it up" as champions for enhanced open, transparent, and accountable communication between committee members, between the board and committee chairs, and with executive management. By enabling more opportunities for dialogue and flow of information, the chair can build trust and enhance decision-making.

Chairs must also ensure roles and responsibilities are assigned appropriately, balance the right level of stress testing, manage diverging views, mitigate blindsiding or siloed work, and rise to the challenge of evolving committee mandates and overloaded directors. To manage these duties effectively, chairs should be open to change and critique, and possess the courage to determine whether they have the right skills and spirit to push the committee forward.

Practical ways for the chair to boost communication includes:

1) **Establish formal and informal meetings of the board and committee chairs:**
    i) A touchpoint at the onset of the year to look at the overall governance framework holistically and align the board's annual workplan to committee workplans.
    ii) A touchpoint following the approval or annual review of the strategic plan to align imperatives or other transformational events (ex. new CEO transition, black swans, etc.).
    iii) Regular touchpoints before every board meeting cycle to review the agendas holistically to mitigate duplication of effort, ensure that everyone "stay in their lane", share information, or determine the need for a joint committee meetings.
    iv) Enable a culture where informal meetings are the norm and encouraged.
2) **Act as key liaison for key management roles:**
    Regular informal and formal touchpoints, such as in-camera meetings, agenda reviews, proposed changes to committee mandates, and committee-specific public disclosures.
3) **Challenge what you're fed:**
    Some chairs accept whatever agendas, workplans, minutes, reports, mandates, and recommendations are provided. These materials are fundamental to supporting communication and effective committee accountability; therefore, they require the chair to thoughtfully review and challenge management where appropriate.
4) **Advocate for Continuing Education**:
    Continuing education is particularly important for helping the chair and directors stay current and fully engaged on emerging trends and risks.

Governance Professionals

The governance professional and/or corporate secretary (GP) plays a critical role in the functioning of the committees and the board as a whole. They are the trusted advisors, guiding the organization towards best practices in governance and "holding the pen" on governance documents, policies, and processes. However, the role of the GP has evolved considerably in recent years due to increased expectations to advise on a myriad of issues, such as regulatory compliance, ESG and technology. At the same time, GPs are expected to address evolving governance headwinds such as inadequate board composition, insufficient time to provide guidance on existing and emerging issues, fiduciary responsibilities, risk management and stakeholder engagement. In short, the GP is now maestro for so much more than administrative support. Particularly when contemplating adding a new committee or evolving and existing one, management needs to ensure that these pressures are understood, and that the GP has the resources required to support the board and its committees.

Practical ways for the GP to be supported, thereby supporting the committees includes:

1) **Enhance communication between the chairs and management:**
   i) Enable regularly scheduled, ongoing touchpoints between the chairs and key members of executive management to help align workflow and ensure that materials and policies are appropriately documented and accountable.
   ii) Recommend an appropriate meeting schedule based on the state of affairs and associated budget required.
   iii) Enable robust decision-making (ex. when there is a large matter to be addressed, provide adequate information without overwhelming the committee and ensure adequate time on agendas to work through the issue).
2) **Reinforcing the role:**
   Ensure that the job description of the GP adequately reflects the work and is compensated accordingly. Much of this role is self driven and GPs must possess the fortitude and professionalism to have candid conversations with the leadership to push committees forward and demonstrate the value a GP can provide committees. A Report of the Governance Professional is an excellent tool to elevate the role and provide insights to the governance committee.
3) **Advocate for continuing education**:
   i) Provide adequate budget for the GP to obtain the education necessary to fulfill their role (i.e. Governance Professionals of Canada designation GPC.D) and keep current with emerging trends. As developing and crafting policy typically falls to the role of the GP, it is vital to ensure that they possess the expertise necessary.
   ii) Enable access to legal counsel and/or external advisors to provide independent advice and support.
   iii) Enable access to relevant industry articles or educational papers to help committees and themselves remain current. Note: GPs should use judgement to ensure only topical papers of significance are provided to avoid inundating directors.
4) **Optimize meeting materials:**
   i) Streamline and distill reporting to mitigate massive board books via dashboard reporting, easy to understand graphics (ex. traffic lights to indicate areas of concern), standardized presentation templates and executive summary cover memos with only necessary detail provided.
   ii) Re-structure agendas into categories, beginning with strategic discussions to ensure there is enough time (other categories may include operations, regulatory, talent, other business, consent and in camera) to ensure the appropriate allocation collection of time spent annually.
   iii) Plan agendas for the year but enable the ability to stay fluid to allow for on-going changes based on current events and emerging topics.
   iv) Include more transparency in minutes to ensure they are not pared back without colour.

5) **Leverage measurable evaluation and evidence-based tools:**
   i) Technical resources such as board portals can optimize efficiency and mitigate cyber-risk (digital voting resolutions, meeting materials, committee evaluations, policy/minute repositories, annual attestations, etc.). While digital technology may be deemed as too expensive, it may offer the added benefits of transparency and digital evidence of director engagement.
   ii) Measurable tools such as annual committee evaluations, independent third-party governance reviews, action tracking, and digital delegation of authority can be extremely effective in managing and providing evidence of successful governance practices.
   iii) Operationalizing the committee's mandate by translating its responsibilities into a structured compliance workplan. The workplan may include category tracking such as sightline (hindsight, oversight, or foresight), timing, recommendation to the board (yes/no), and the management role responsible.

CEO & Executive Management

A strong committee has an open and honest relationship with the CEO and the executive leadership that supports them (ex. chief financial officer and the audit committee, chief risk officer and the risk committee, etc.). Although the concept of “noses in, fingers out” remains a distinct ethos, given the evolution in governance (fiduciary duties, stakeholder engagement, emerging issues and their impacts, etc.), in some cases there has been a convergence in duties between strategy and operational direction. For example, during the Covid-19 pandemic, enhanced committee involvement was required on traditional operational processes and decisions. Building trust, enhancing communication practices, and a clear delineation of roles, responsibilities, and committee mandates, enables committees to better stay in their lane and determine if, when and how to challenge and engage with Management.

Practical ways for the CEO and Management to support the Committees includes:

1) **Enhanced communication:**
   i) Enable regularly scheduled, formal and informal touchpoints (ex. standing in-camera sessions and off-cycle meetings) to help align workflow and mitigate risk of overstep and “surprises” (which can result in rifts, breakdown of trust, inability for business to move forward and inadequate decision-making).
   ii) Set clear guidelines for healthy engagement (conduct, constructive participation and commitment) to build relationships, mitigate feelings of dissent or discord, and determine which matters should be escalated and to whom.
2) **Reinforce the role:**
   Ensure that there is a named executive responsible to whom the committee can with, bring forward recommendations, and be held accountable.
3) **Advocate for continuing education**:
   i) Provide adequate budget for management to obtain the education necessary to fulfill their role (ex. Institute of Corporate Directors designation ICD.D or relative accreditation for their role).
   ii) Enable access to external advisors to provide independent advice and support.

4) **Leverage measurable evaluation and evidence-based tools**
Ensure that materials and policies are appropriate and reflective of the business in which you operate (ex. dashboard reporting is an effective hindsight and oversight tool to make more time for deep dive discussion).

External Consultants

A topic that came up repeatedly in interviews, surveys and research was the critical need to leverage independent external consultants and educators to provide expertise on specific topics and help committees stay on top of increasingly complex and emerging matters. Leveraging external consultant also offers committees interim, long-term and cost-effective solutions in the absence of having existing directors with the specific skills or expertise.

Practical ways to leverage external consultants to support the Committees includes:

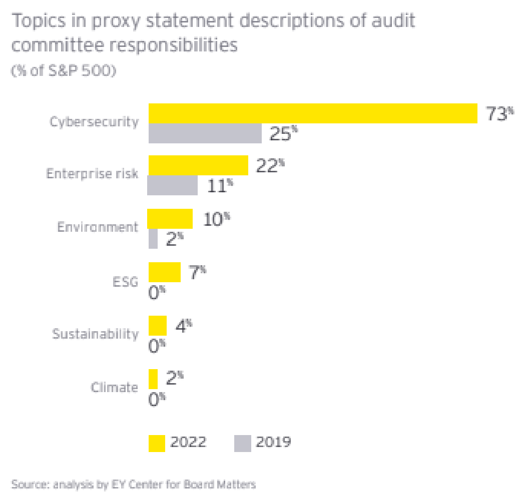
1) **Enabling disciplined, robust continuing education:**
   i) Committee schedules should include regular, ongoing education sessions which provide enough background for the committees to ask meaningful questions and effectively challenge management. (ex. Every member of the board does not need to be an Artificial Intelligence (AI) specialist, but the technology committee (or other as appropriate) would benefit from a presentation on key AI risks and opportunities in the industry.)
   ii) Identify an evergreen list of reflective current and emerging trends and risk topics for which committees would benefit from external expertise. Leverage the annual committee evaluation and governance assessment to help identify these topics.
2) **Assessment and evidence of the current state of governance:**
Independent review of a board structure and practices (evaluation and effectiveness/structure review) can be an extremely helpful practice, particularly if organizations are contemplating changes to their governance structure and framework. Independent experts can give examples of how peers and competition are coping and provide industry insights, questions to consider and best practices, such as sample mandates for a prospective new committee. This process also provides evidence of accountability to stakeholders demonstrating that the organization upholds and prioritizes responsible governance principles and practices.

Evolution of Existing Committees

Existing board committees are undergoing significant evolution in response to the shifting landscape of modern business. The traditional board committee structure is challenged by the need for more effective governance in an ever-changing environment.

The Super Massive, Enormous, Gigantic Audit Committee

As the nerve center of an organization, the audit committee holds an increased burden of responsibilities as it finds itself at the crossroads of fiscal oversight and broader governance concerns in today's multifaceted business environment. In some cases, organizations frequently constrained by resource limitations are entrusting risk oversight, regulatory compliance, environmental, social, and governance (ESG) considerations, and technology risk to the audit committee's mandate, intensifying the complexity of its role. The committee's status as a permanent and (dependent on the nature of the organization) regulated committee, (sometimes reflected in additional director remuneration), adds to its credibility and prominence within organizations. However, in practice, this committee often becomes a de facto repository for all responsibilities with fiscal components, a trend that cannot be sustained indefinitely.

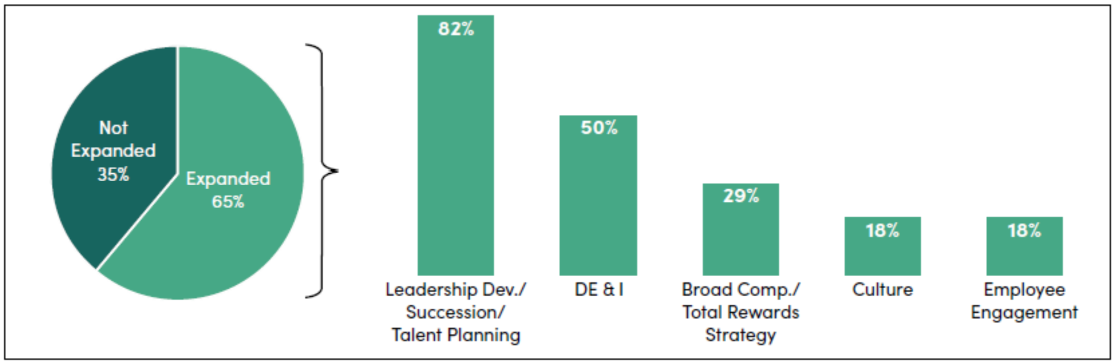


To reflect the evolving landscape of modern corporate governance, the committee's role extends far beyond financial expertise and reading financial statements. The current landscape requires the audit committee's involvement in discussions on cost savings, the rising cost of debt, more restrictive funding options, and critical decisions regarding expenditure and cost-cutting. As these conversations expand to address the fiscal implications across corporate initiatives, the expertise and commitments required from audit committee members extends far beyond the traditional mandate. The ongoing challenge is to strike a balance between expanding responsibilities and ensure that the committee remains committed to ensuring fiscal integrity and reliability within the organization, while still addressing traditional and emerging responsibilities.

The complexities of the committee's responsibilities are challenging; overloading it can set unrealistic expectations for its members. Furthermore, committee members often rely on executive management to identify and report risks, a dynamic that can be further worsened when member capacity is overloaded. Some organizations are heeding the financial industry's example and separating risk from audit committees, with the risk committee taking on a more holistic focus on risk management. This separation is particularly crucial to help balance the workload and oversight, particularly for organizations that have not adopted dedicated committees for ESG and technology.

The New and Improved Human Resources and Compensation Committee

Figure 1: S&P 500 Compensation Committee Charter Responsibilities



Source: Semler Brossy, The Compensation Committee's Evolving Role in Human Capital Management, 2022

As of 2022, 40% of S&P 500 companies have broadened the mandates of their existing compensation committees and renamed them "human capital committees"[12]. Companies are beginning to rethink the importance of managing talent effectively and broadening the scope of the traditional HR and compensation committee mandate to more than CEO-centric and operational talent requirements. As people are an organization's greatest asset, boards and committees are becoming more invested in understanding how talent strategies work and how they affect business performance.

To compete in the modern market for talent, organizations must have oversight of the broadening area of human capital including evolving total compensation & reward strategies, talent acquisition and retention, leadership development and succession planning, diversity in the workforce, pay equity, employee engagement, corporate culture, health and safety including mental wellness, and the impacts of labour relations. They are also expanding their mandate to address the "S" in ESG including equity, diversity and inclusion, sustainability-tied incentives in executive compensation, modern slavery, and Indigenous reconciliation.

Addressing all of these matters poses a challenge for the evolving HC committee; however, there is a tremendous opportunity to leverage existing or recruited HR expertise. The addition of a current or former chief human resources officer(s) to your HC committee can provide a holistic view of human capital across an enterprise to identify gaps, opportunities, processes, and expenses, as well as support for human-related strategic planning and tactical initiatives. For example, if your organization's goal is to make 75% of your workforce NextGen by 2030, it must be aligned with the board's strategic priorities. Adding this expertise will also enable the committee to understand and mitigate risks based on human capital metrics, track compliance and liability, and ensure that adequate information and reporting is elevated to the board for important strategic discussions.

The Governance Committee

As boards face growing complexities and accountabilities, the role of the governance committee is growing in importance. Many organizations have governance frameworks that

[12] https://semlerbrossy.com/insights/the-compensation-committees-evolving-role-in-human-capital-management/

were developed in a time before hybrid work, cyber security, data management, and ESG (to name a few changes). These frameworks have been passed down without asking the most relevant question:

If we built our governance framework today, would it look the same?

To ensure the organization is prepared to meet future challenges, the governance committee must move beyond the traditional review of mandates and policy and take a step back to examine their governance frameworks holistically. It is their responsibility to support the board in a deep dive challenge of the existing structure and determine whether it positions the organization to remain sustainable and resilient long term.

When addressing the traditional elements of governance such as board diversity and composition, compensation, compliance, risk, and data privacy, there may already be systems and policies in place to tackle these traditional topics. However, it’s worthwhile to ensure that these systems are up-to-date and adequate to address volatility with defensive and offensive governance.

Generally, committees address nomination activities on an ad hoc basis. However, best practices are turning towards more future-forward considerations to ensure that nominees align with corporate strategy and that mindful discussions consider enhanced, robust, and transparent succession, recruitment, and nomination strategies.

The holistic approach to the overall governance framework also includes attention to clarifying roles and accountabilities, with particular attention paid to emerging topics. An example of this is the addition of ESG or sustainability to the governance committee’s mandate. As portrayed in this image, it must be recognized that governance is often not a stand-alone responsibility of reporting and disclosure but instead the evolution of governance, overall as organizations begin to transform the traditional concept of governance to a modern, sustainable governance approach.

Sustainable governance is defined as the foundational system, culture, and principles enacted by the highest governing body, that consider environmental, social, and economic factors, to uphold, defend, and maintain decision-making and oversight, consistently over time, for the benefit and resiliency of the organization as well as the needs of its stakeholders.

Governance Factors
Purpose, Vision, Values
Board diversity, independence
Structure & Leadership
Conduct, Ethics & Integrity
Transparency & Accountability
Stakeholder Engagement & Rights
Compensation
Effectiveness
Compliance & Risk Management
Privacy & Data Management

Emerging Committees

Sustainability / ESG Committee

As businesses increasingly recognize the importance of ESG matters, the integration of specialized committees to oversee these issues are emerging. Investors and stakeholders are placing more of an emphasis on ESG performance, driving boards to contemplate whether to establish dedicated ESG committees or to distribute ESG responsibilities across existing committees, such as the governance committee.

The argument for a specialized ESG committee stems from the need for focused accountability and expertise. It is essential to ensure that ESG strategies are not an afterthought, but rather a core component woven seamlessly into the organization's overarching strategy. This is particularly important in sectors where environmental-related litigation is prominent, necessitating meticulous oversight that typically falls within the purview of audit and risk committees.

Conversely, organizations may distribute ESG responsibilities across existing committees which allows for a more integrated and holistic oversight of ESG issues within the existing governance framework. By assigning the 'environmental' aspects to the risk and/or audit committees, 'social' components to human capital, and 'governance' aspects to the governance committee, organizations can ensure that ESG considerations are embedded in all facets of their decision-making processes. However, this also presents challenges when integrating metrics and the convergence of responsibilities between committees. For example, executive compensation plans are often managed by the human capital committee, but it may be the audit committee that assures the integrity of the claim.

Prominent proxy advisory advocates for clear designations of committee responsibilities for the oversight of environmental and social issues. As ESG becomes embedded in corporate ethos, the way forward is for boards to refrain from overpromising and instead commit to measurable and accountable benchmarks. Ultimately, the ‘fit for purpose’ approach underscores that no two businesses are the same, and sustainability strategies must be tailored to the specific context and needs of each organization. The emergence of sustainability committees is not merely a trend but a reflection of the evolving business landscape where sustainability and social responsibility are indispensable to corporate decision-making.

Technology/Digital Governance Committee

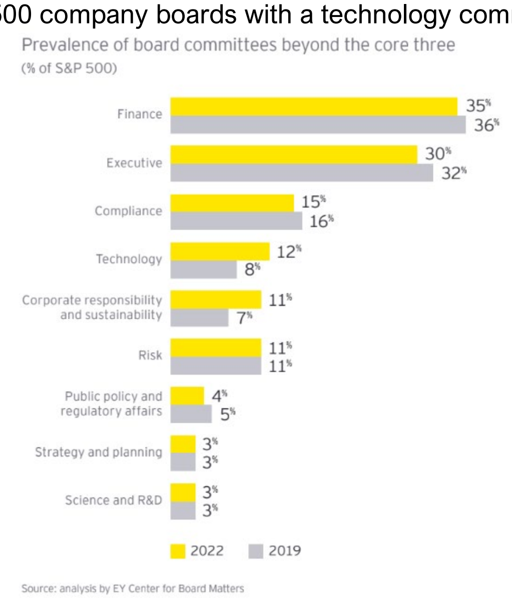
In an era in which technology is deeply linked to all aspects of business, the competence of corporate boards in digital governance has become paramount. The rapid advancement of technologies such as artificial intelligence (AI), blockchain technology, and biotechnology has introduced new dimensions to board oversight, making technical expertise within boards not just desirable, but essential.

The current landscape often positions directors at a disadvantage, with many lacking the technical knowledge necessary to handle the digital domain. Boards are now faced with the dual challenge of ensuring they keep up with the pace of technological change while also avoiding the pitfall of an overburdened mandate that loses focus. Additionally, regulatory bodies have identified new risk areas in cyber and IT and are introducing new requirements for disclosures in response. Boards must adapt quickly and ensure they are not overly reliant on management without sufficient understanding or questioning.

As organizations grapple with the increasingly complex digital landscape, the creation of a technology / digital governance committee may serve as a critical response by providing oversight of technology, assessing risks, and posing challenging questions. The formation of a technology committee can also fill a gap in the board's technical expertise, particularly in AI and cybersecurity.

With organizations moving towards an AI world without adequate risk management frameworks, such a committee becomes essential to understand the use cases, data, and operational capabilities, as well as to develop the necessary governance mechanisms to navigate and govern the evolving technological landscape responsibly. To this end, the technology committee must be an integral part of the board's structure, evolving with changing scopes, such as the current focus shift from blockchain to AI. The committee's current role is to ensure that, like ESG, technology is seen as an instrument of change, fully integrated into the strategic framework of the business.

Percentage of S&P 500 company boards with a technology committee jumped to 12% in 2022.



Conclusion

Over the past few decades, the global landscape has transformed substantially, and so must governance. Not only do boards possess a larger scope of responsibilities than ever before, but the issues they must address have become thornier and more complicated. Social issues, fiscal challenges, environmental and geopolitical impacts, increased regulatory and legislative disclosures, stakeholder engagement, and the evolving workforce are just some of the many factors that are not only impacting the bottom line, but are increasingly demanding scrutiny as they continue to dominate board and committee meeting agendas.

The decisions that boards make will have an impact on the organization, its stakeholders, and its reputation for decades to come. However, there is no uniform approach to addressing dynamic matters and strategic risk imperatives. Organizations are prompted to reassess their governance framework and determine the future of their committees based on a unique fit-for-purpose approach to ensure alignment with the evolving responsibilities and priorities of their board. Considerations such as shifting committee structures and composition, the optimization of committee effectiveness, performance, and engagement, and changing and emerging committee mandates, will be critical for boards to determine the optimal governance approach. Modern, sustainable governance can ensure that organizations fulfill their stewardship commitments to address these new imperatives and position their committees for a sustainable and resilient future.

Thank you for reading our report. Should you have any questions, comments or would like to join our community of forward-thinking leaders, subscribe to BIG insights to receive the latest updates on modern governance practices and become a member of the Governance Professionals of Canada (GPC) today!