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Board Committees: The Foundation for Building Effective Boards

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Enlightened governance is the pathway toward improving boardroom effectiveness, and building sustainable long-term shareholder value. While boardroom effectiveness is influenced by many factors, such as governance leadership and director alignment, board committee structure and selection processes are important considerations as well.

While some standing committees are required, all board committees can play a critical role in assisting the full board in executing its responsibilities to its shareowners. The key to a successful committee is identifying and selecting the most appropriate directors to serve on the right committees.

Much of today's board work is completed by standing committees, such as Audit, Compensation, and Corporate Governance & Nominating (CGN), which are mandated by the Securities and Exchange Commission (SEC) and major listing organizations like the NYSE Euronext and NASDAQ. In addition, most boards have at least one or two additional committees, such as Science and Technology, Finance, Strategy, etc. According to the Spencer Stuart US Board Index 2010, the average board, among the S&P 500, has five standing committees.

One of the most important responsibilities that a board has to manage is determining the standing committees to establish. Of course, once the board has established the desired standing committees, it must determine which directors will be selected to serve on each one. After the committee members are assigned the board needs to select the chairperson for each committee. On the surface, this may seem like a simple process. However, when done effectively, it is a very difficult process.

The CGN committee will usually lead this process for the board. The first necessary step in the process is to ensure the committee has a clear understanding of the committee charters that have been approved by the board. The next step is assessing the criteria for committee membership followed by a review of the directors' skills and experiences.

The chair of the CGN, board chair, or a member of the CGN should have a meaningful discussion with each director to understand his or her interest in committee work. After gathering the appropriate data, the CGN committee, on behalf of the board, has to develop a recommendation for the board to elect the directors to the committees. To be effective, the committee must make its decisions based on equity. That suggests they attempt to balance the board and committee work load reasonably evenly across all directors. The chair has to also balance the needs of the committee with the needs of the directors.

To be effective the process should be based on the following three basic fundamentals. Each director selected to serve on a particular committee should: 1.) Be selected based on his or her ability to add substantial value to the assigned committee, 2.) Demonstrate a strong interest in serving in this particular area of board oversight, 3.) Have the capacity, time and energy, to fully participate in all committee meetings.

These fundamental requirements are critical to how a committee works and plays an important role in determining the board's effectiveness. Therefore, boards should be exceptionally thoughtful when selecting committee members. When done effectively, the director selection process will enhance the performance of the committee, the board and the collegiality among all board members.

At XCEO, we help directors and boards reach higher levels of effectiveness. We believe that building effective board committees is a major part of the process. Our experience suggests that, like most boards, committees are likely to believe their performance is better than what it really is. Our recently announced Board Leadership Effectiveness (BELIEF) Analysis is designed to assist boards in measuring their real effectiveness, versus their perceived views of reality. This analysis, designed for the CGN chair, provides him or her exciting and relevant tools to lead this effort on behalf of the board.

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