

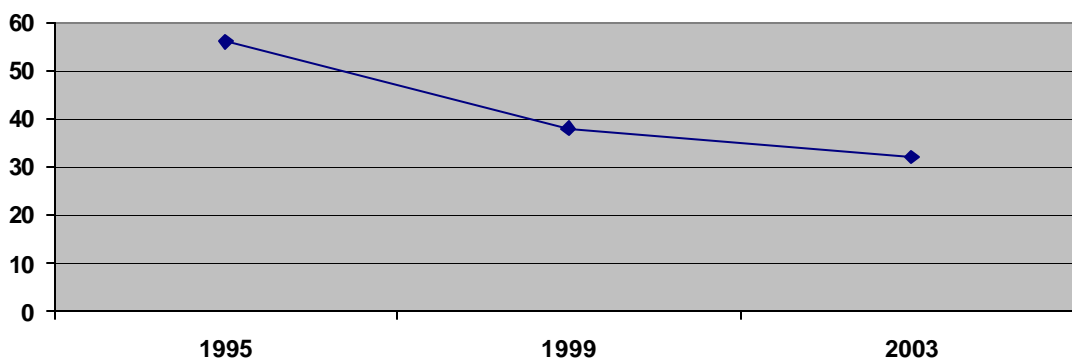
October 2003

EXECUTIVE COMMITTEES

FROM THE DESK OF THE EDITOR

One of the biggest changes in the boardroom in the past few years is a significant drop-off in the use of Executive Committees (see chart, below).

Canadian Boards With Executive Committees



The Conference Board of Canada, Canadian Directorship Practices, (published every two years: Ottawa)

Over the past six years, Executive Committees have gone from being the second most common board committee (after Audit Committees) to a distant fourth (after Compensation/HR and Governance/ Nominating). Yet, almost one-third of boards continue to rely on them. And, in the co-operative sector, Executive Committees are in place at 80 per cent of the co-ops that responded to the Conference Board of Canada's *Canadian Directorship Practices* survey. Why are Executive Committees losing popularity in the corporate world? Why are co-operatives not following the trend? Is there still a place for them?

In this issue of *Governance Matters*, we will take a look at Executive Committees, their benefits and disadvantages. I hope you will find this e-newsletter helpful and thought-provoking, and I look forward to hearing from you — whatever your board decides to do!

Debra L. Brown
(Write to Governance Matters)

THE CASE FOR EXECUTIVE COMMITTEES

Executive Committees have always been a class apart. They generally have features that differentiate them from all other committees of the board:

- Executive Committees typically have decision-making authority — most committees deliberate but then make recommendations to the full board for its decision;

- Executive Committees meet between board meetings, and often cover many of the same agenda items;
- Executive Committees often include management (particularly the CEO) in their membership — most other board committees do not have management representation.

"Our Executive Committee is mainly used to make decisions when we can't get the full board together," says Mary Nirlungayuk of Arctic Co-operatives Ltd. "Our Board meets four times a year, and even though our directors are spread out over a wide area, all directors attend the board meetings."

Arctic Co-ops is, however, careful not to give its Executive Committee *carte blanche*: "The Executive Committee does not have the authority to make major decisions," Ms. Nirlungayuk adds. "For example, the CEO's evaluation and compensation is dealt with by the full board, not by committee. The directors meet in camera. This is considered a major decision."

"Executive Committees were such a convention that they never even used to be raised for discussion," points out Mark Goldblatt of the Canadian Worker Co-operative Federation. "We used to think the Executive Committee was indispensable, but now we are taking a hard look at the unique value added."

Where do Executive Committees add value? "Sensitive matters like personnel and compensation are easier to deal with in a smaller group," Mr. Goldblatt has found. "And as boards grow larger, it becomes administratively more difficult for them to operate and deliberate. In this case, Executive Committees can play a useful role."

Serving on three tiers of co-operative boards, Valerie Gauvin has a unique perspective. "All of the boards I serve on have Executive Committees, although Credit Union Central of British Columbia is winding down the use of the Executive Committee as it works towards reducing the size of the Board of Directors."

Ms. Gauvin says Terrace & District Credit Union has found at least three uses for the Executive Committee:

- The CEO can gain an informal sense of the board before raising a new issue or idea. The Executive Committee acts as an informal sampling.
- The CEO's evaluation: it is easier for a smaller group to look at these issues in detail, and then have the Executive Committee recommend in summary form to the full board.
- The Executive Committee acts as a Conduct Review Committee: it reviews and recommends conduct and conflict issues to the full board, but does not have approval or decision-making authority in this area.

"It's sometimes difficult to get a large board together, especially volunteer directors," Ms. Gauvin concludes.

THE CASE AGAINST EXECUTIVE COMMITTEES

"Calgary Co-op dissolved its Executive Committee two years ago with no apparent effect except that it saved 24 hours a year of CEO time, reduced meeting fees, and resulted in fewer board officer meetings," reports Barry Ashton of Calgary Co-operative Association Ltd. "Executive Committees

create two classes of directors — the *in group* and the *out group*, which works against board cohesion. The other factor for not having them is largely legal. Directors do not lose their potential liability when authority is delegated to an Executive Committee."

Ashton's solution: "It's far better to have all directors play a role in decision-making — this results in better decisions and a greater sense of commitment to the decisions. With communication what it is today, there is little problem in consulting directors or in taking secretarial decisions when a board is not in session."

Harry Joosten of St. Willibrord Credit Union agrees. "I don't know if we're way ahead of the trend, or way behind it," jokes Mr. Joosten. "We've never had an Executive Committee! Our board size is nine, and our view is that unless you need a large board for some reason, you should avoid Executive Committees. If it is given the powers of the board, there is a risk of it becoming a de facto board."

How does St. Willibrord deal with matters that might otherwise come before an Executive Committee? "We use other special purpose committees to deal with specific issues. Personnel, for example, deals with the CEO's performance evaluation. And with today's technology, it's easy to arrange a conference call with board members, and have them deal with an urgent matter."

More and more co-operatives are taking a hard look at their Executive Committees. "We took a by-law change to our members two years ago to eliminate the Executive Committee," says Sheryl Wherry of Niagara Credit Union. "When we reviewed and redefined our roles and responsibilities, we found the board should be dealing with issues that the Executive Committee was."

"There was an air of elitiness to it," Ms. Wherry adds. "We do use a Governance Committee to deal with certain issues, like the CEO's salary and performance, which the Executive Committee of the past would have dealt with."

Until three years ago, The CUMIS Group Ltd. had a large Executive Committee, comprising almost half the board members. "We recognized we were falling into the trap of a two tier structure," reports Jim Barr. "With the thrust towards boards taking responsibility and accountability for governance and strategic leadership, CUMIS' board unanimously approved our Governance Task Force's recommendation to do away with the Executive Committee."

"Packaged with that," Mr. Barr adds, "was rightsizing the board. We went from a board of 20 to one of 13."

John Carver, creator of the Policy Governance Model, is well-known for his warnings against Executive Committees: "In our experience, executive committees are typically put in place either because the full board is too large or because the time demanded by board service is too great for some directors. The solution to the former circumstance is to reduce the board's size. The solution to the latter may in part be more appropriate director recruitment." (John Carver and Caroline Oliver, *Corporate Boards That Create Value*, John Wiley & Sons, 2002: San Francisco)

ACTION STEPS AND CLOSING THOUGHTS

Is an Executive Committees right for your co-op or credit union? Carver notwithstanding, like many corporate governance questions, there is no absolute right answer. It depends on your own

circumstances, on the governance theory your co-operative or credit union has chosen to adopt, and on how you put your governance principles and values into practice.

Here are some steps you can take to help make an informed decision:

Undertake a broad **review of the governance** of your co-operative or credit union, paying particular attention to your underlying governance theory (see *Governance Matters* e-newsletters [Autumn 2002](#) and [Winter 2003](#)), and the right balance of roles and responsibilities.

Take a close look at the four areas of responsibility that Executive Committees are often involved in and ask yourself what is the appropriate place for these in your organization:

1. **Transactional** role: are there approvals that need to be made between board meetings that are over the CEO's authority level? How often? How practically difficult is it to get the full board together by teleconference or in person? Is the CEO's authority level high enough?
2. **Governance** role: is the board so large, or distant, that effective engagement in, and deliberation of, strategic direction and control matters is a challenge? Does the organization follow the stakeholder theory of governance? If you do, the board may not have the time or ability to effectively govern — you may need an Executive Committee. Is the board the right size? Are board members sufficiently engaged and committed?
3. **Priorities** role: does your co-operative or credit union need a board-management group to set priorities for the board and management to deal with? Is it useful to have such a group vet ideas from management before they go to the board? Do you have a CEO who values having such an informal sounding board? Is this best done by an Executive Committee that includes other directors besides the Chair (President) and CEO (General Manager or Executive Director)?
4. **Coaching** role: is your CEO new or inexperienced in certain areas? Does s/he benefit from having a small group of key board members act in a closer advisory role? Is the Executive Committee the best place for this?

Here are some closing thoughts to consider:

- What specific **powers will you delegate** to the Executive Committee? If you are going to have an Executive Committee, have a really clear description of what it is doing. "Executive Committees have their uses," Valerie Gauvin concludes, "but I don't think they should have all the powers of the board — the board should be careful to delegate specific areas and be clear on reporting back."
- How can you make sure that the **rest of the board** members do not feel disenfranchised and unempowered? "Avoid duplication of board areas of responsibility at the Executive Committee," Mark Goldblatt cautions. "At its weakest, an Executive Committee rehashes issues going before the full board, and even comes to the board with preconceptions."
- What does your **CEO think**? At the end of the day, an Executive Committee may not make decisions or govern on behalf of the board, but it may help the CEO vet ideas and develop skills. I always ask the CEO if s/he thinks the Executive Committee is a net benefit (and why!).

CORPORATE SECRETARIES FORUM TO FOCUS ON GOVERNANCE

The 2004 *Co-operative Corporate Governance Conference* for Corporate Secretaries will be held from May 6 to 7 in Toronto, ON. The forum will begin with a group dinner on May 6th, and the next day address such issues as Board Committees — Trends and Practices; Stakeholder Engagement Practices — Accountability and Representation; Director Competencies; and Electronic Voting.

This conference is being organized by Carol Hunter, Director Member Services, Canadian Co-operative Association (CCA); Carmel Bellamy, Director Corporate Governance & Co-operative Relations, The Co-operators Group Ltd; and Betty Davey, Executive Assistant, Corporate Services, CCA. Registration is \$700 and materials will be sent out in late January 2004.

For further information contact Carol Hunter at (613)238-6711 ext. 237.

CONFERENCE BOARD/SPENCER STUART 2004 NATIONAL AWARDS IN GOVERNANCE

Entries are invited for the *2004 National Awards in Governance*, presented by the Conference Board of Canada and Spencer Stuart in Toronto on January 28, 2004. Awards are presented for examples of governance innovations that: represent enhanced governance practices (improvement); have yielded tangible results for the organization (measurable) or that can be applied by other organizations to good effect (transferable). Awards will be presented in the public, private, and not-for-profit sectors. An Intent to Enter/Nomination Form must be completed by **October 31, 2003**. Please visit the Conference Board website for more details at www.conferenceboard.ca/GCSR/awards/default.htm

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Carol Hunter, CCA's Director, Member Services, oversees the newsletter with the able assistance and active participation of the Advisory Committee on Co-operative Governance.

We encourage you to submit articles, case studies, links or other resources for future newsletters. Please contact Carol Hunter, (613)238-6711 ext 237.

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