14

The Exco and Its Challenges and Relevance

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Of the several board committees within a company, the executive committee, or Exco, stands out: both for its influence and the conspicuous absence of guidelines regarding its governance.

Though the Exco's composition tends to be relatively similar across companies – it is usually chaired by the board chairman, and its members comprise executive directors (who have greater availability given their full-time commitment to the company) and senior members of the board (such as the chairmen of board committees) – its powers and responsibilities can vary considerably. This state of affairs reflects the diversity and complexity of needs that boards face. While the Code of Corporate Governance encourages the formation of, and provides guidance on the audit, remuneration, nominating and board risk committees, there is no mention of the Exco.

WHY AN EXCO?

Traditionally, Excos were established to enhance the capabilities of the board with transactions approval, crisis management, executive coaching, and performance monitoring.

Significant transactions such as major asset acquisitions, capital expenditure and employee incentives, or a crisis, invariably require focused and close involvement by the directors. However, it is usually not practical to convene board meetings frequently and at short notice. This is where the Exco steps in: a small group of directors who work closely together to recommend proposals to the board for expedited approval, while alleviating the board's workload.

In fact, the Exco works more closely with the CEO and management than the other board committees because it provides a useful sounding board to them on matters such as strategy and conflict resolution between members of management. The Exco also typically ensures that the company's key strategic and operational matters are in order. Instead of involving the full board, the Exco can review these matters more expeditiously and at a greater level of detail, including more involved discussions with management before making recommendations to the board.

Excos typically meet between board meetings so that they can deal with matters expeditiously without waiting for the next board meeting.

CONCERNS OVER EXCOS

Anecdotal evidence suggests that not all Excos work well with the other directors, and with management.

For starters, there is a very real risk that an Exco can become "a board within a board": an over-concentration of power in an in-group of directors that makes other directors feel extraneous, and reduces their sense of responsibility. This occurs when the Exco meets regularly and often, and becomes the primary place in which the CEO makes every important decision, so that what gets to the board becomes "by way of information" only. Worse, the regular board is reduced to the function of being a mere rubber stamp of Exco decisions.

There is also the risk that the Exco becomes too executive, in the sense that it moves from being a governance body that is a coach and sounding board of the CEO, to a body that effectively micro-manages the business. These concerns can be mitigated by having clear terms of reference that require the Exco to have sufficient independent members and transparency in its proceedings. It should report to the board in a timely way, and ensure that the whole board is the ultimate authority on all decisions.

RELEVANCE OF THE EXCO

Notwithstanding such mitigating measures, there remains a question as to whether Excos can continue to be relevant in today's digital age.

The SID-SGX *Singapore Board of Directors Survey 2015* shows that one third of boards have Excos, an ipso facto indication perhaps that they are of value. That said, there are companies that are discontinuing with their Excos.

Given how connected modern communications are, many of the practical challenges boards once faced in being informed and consulted have largely gone away. The Internet, personal computers and mobile devices keep directors connected wherever in the world they may be. Virtual attendances at board meetings are widely accepted. Board portals and cloud storage enable directors to retrieve electronic documents and interactively mark-up at the tap of a screen.

With technology used so pervasively to conduct board affairs, directors are now in a position to be more involved in the affairs of a company than ever before. In fact, many traditional Exco functions are being made redundant. Although some functions such as evaluating major transactions and crisis management are best done by a small and focused group of directors, it is becoming increasingly clear that they can also be done by special purpose ad hoc board committees that are set up for those purposes, rather than by a standing committee such as the Exco.

Given the availability of empowering technology, and balanced against the risk of an over-concentration of power in the Exco, many companies have thus chosen not to have an Exco or discontinue with having an Exco if they had one.

Yet, some companies, especially the more complex ones see a real need for the Exco. Each company therefore needs to find its own sustainable set of checks and balances to put in place. The key fundamentals of transparency, diversity, and inclusion that should be part of every company's drive towards greater performance and accountability remain the same regardless of the existence or absence of an Exco. ■