Boards Are Adapting to Meet New Committee Needs

By Bill Hayes

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Technology, sustainability and talent are among the topics forcing committees to change how they do business.

Kris Pederson

In its latest report, *How Committees Are Evolving to Meet Changing Oversight Needs*, the EY Center for Board Matters explores how board committee structures and responsibilities are adapting to meet new oversight priorities. The report addresses new areas of concern for boards, such as talent and sustainability, zeroing in on whether boards are creating new committees to handle these new aspects or are simply expanding the purviews of existing committees. We spoke with Kris Pederson, leader of the EY Center for Board Matters, to get recommendations on optimal board committee structures.

***Directors & Boards*: How are boards changing their committee structures to address technology issues?**

Kris Pederson: One key change some boards are making is to establish a separate technology committee. In fact, technology committees are now slightly more common than risk committees among S&P 500 company boards. Our analysis found that the percentage of S&P 500 company boards that have a technology committee increased to 12% in 2022, up from 8% in 2019.

In sync with growing concerns about cybersecurity risk and the need for boards to set the tone at the top, most boards with a technology committee charged them with oversight of cybersecurity — sometimes in coordination with their board's audit committee. We've also seen the scope of most audit committees expand to include cybersecurity oversight. More changes in how boards assign and disclose oversight of cybersecurity matters could be forthcoming. Under the SEC's proposed rules on cybersecurity, companies would need to disclose whether the entire board, specific members or a board committee is responsible for cybersecurity oversight.

But technology committees are focused on more than technology risks; they are also focused on strategic opportunities. Currently, 77% of technology committees have oversight responsibilities related to innovation, strategy, transformation or investment based on how those responsibilities are described in proxy statements.

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***DB*: What sort of growth are we seeing in sustainability, and what responsibilities are these committees being charged with?**

KP: Nominating and governance committees continue to hold the lead role in overseeing corporate environmental and social matters, with 56% of S&P 500 companies citing environmental oversight in their nominating committee description and 41% including ESG as an area of responsibility. Sustainability, climate and social responsibility also were among the descriptive terms defining the roles of these committees.

However, some boards are adding stand-alone sustainability committees to deepen their focus on this key area of strategy and risk. The percentage of S&P 500 company boards with a separate sustainability committee increased to 11%

in 2022, up from 7% in 2019.

These committees primarily focus on environmental, social and governance risks and opportunities, as well as the broader areas of corporate citizenship or stakeholder value matters. Their establishment is most common on corporate boards in the materials, energy and consumer staples sectors.

Notably, beyond assigning primary ESG oversight responsibilities to the nominating and governance committee or creating stand-alone sustainability committees, we're also seeing boards adopt a governance model where ESG oversight is integrated across the committee structure, with different committees overseeing the aspects of ESG most relevant to their purview. For example, more companies are disclosing that their audit committees are overseeing disclosure processes and controls for sustainability reporting. In fact, our research found that the environment, ESG, sustainability and climate are topics now appearing in the descriptions of audit committee oversight responsibilities for 13% of S&P 500 companies.

***DB*: Finance, executive and compliance are still the most popular committees outside of the required three (audit, compensation and nom/gov), but they are trending down in prevalence. Why is that? Is it simply that boards are making room for other priorities?**

KP: Finance, executive and compliance committees serve important functions for corporate boards in their oversight capacity across a variety of sectors. Boards are more effective when they can delegate authority to well-run, well-functioning committees with clearly defined roles and responsibilities. What works for one board may not work for another. We counsel boards to regularly evaluate what works best for them to meet changing priorities and needs.

***DB*: Some boards are eschewing the idea of adding new committees and are broadening the purview of existing committees (for instance, having the audit committee oversee cybersecurity). What do you think are the plusses and minuses of the different approaches? Does expanding the purview of certain committees risk overtaxing them?**

KP: Again, what works for one board may not be the right approach for another. Some boards may prefer having a stand-alone committee that explicitly focuses on a key area like technology or sustainability, while other boards may find that embedding related oversight responsibilities in the core committees can better integrate those focus areas into overall governance. There is no one-size-fits-all best practice for board committee structures or division of oversight responsibilities, and what works for each board may change over time as the company’s circumstances change. We recommend that boards regularly assess what works best for them.

***DB*: What do you think the most important questions are for boards to consider as they adjust their committee structure?**
KP: I think a primary question should be, “Where does this topic fit in the context of the company’s strategy and enterprise risk management?” What is a mission-critical matter for some companies may be less material for others. Understanding how the topic fits in the company’s specific context can help the board determine the depth of attention appropriate and where the new or different oversight function is best addressed. Other key questions include, “Do we need a temporary or a more permanent solution? And would the committee’s new responsibilities overlap with the scope of other committees?” These considerations can help the board determine whether a new committee is needed and where to provide for intra-committee coordination and communication.

As we talked about in a recent report, *How to Achieve Enduring Board Effectiveness*, where we laid out our comprehensive framework for understanding and enhancing board effectiveness, the creation of additional standing committees to absorb work and/or drive focus on strategic issues should reflect a company’s changing business environment and shifting priorities. When a committee needs more resources, refreshed competencies or workload reallocation, the committee chair should report about that to the board.