

# The Executive Committee: Roles, Uses, and Abuses

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“Our board’s executive committee is critical to its success. It gives me a small, cohesive group of our board’s leaders that I as CEO can go to for quick feedback on matters that aren’t ready for formal, full board deliberation. It also serves as our governance and executive compensation committee. We wouldn’t do without it.”

—CEO, *Hospital A*

“We used to have an executive committee. The other board members resented that an in-group knew more than they did; all decisions appeared to have been cooked at the executive committee before the board got them. The other board members felt like second-class citizens. The board abolished it and has said, ‘Never again.’”

—CEO, *Hospital B*

**T**HESE TWO WIDELY DIVERGENT views illustrate the different experiences with executive committees that exist among hospitals and health systems—and other organizations as well. To paraphrase Shakespeare, some praise it, others would bury it.

Executive committees are a subset of the board that generally includes the board’s officers and sometimes the chairs of its standing committees. Used appropriately, they enable a board to conduct urgent business when a regular meeting isn’t scheduled and the full board can’t readily be convened, and they provide the CEO with a confidential sounding board for insights and advice from trusted leaders.

At the same time, executive committees are intrinsically exclusionary and, as such, they can devolve into a powerful clique that makes other trustees feel like second-class citizens.

## Meeting As Needed or Regularly

Generally speaking, there are two different types of executive committees: those that meet only as needed, and those that meet frequently, often on a regular schedule. The right model depends on a variety of factors:

- **Frequency of regularly scheduled board meetings.** The more often a full board meets, the less it needs an executive committee that meets regularly. Boards that meet monthly generally don’t need executive committees to meet regularly between meetings—doing so

allows a small group to supplant the full board’s role. Conversely, boards that meet less often, especially quarterly, may benefit from an executive committee to handle routine business, exercise oversight, and engage with senior management in months when the full board doesn’t convene.

- **Size of the board.** As a board’s size increases, it becomes more difficult to schedule unplanned meetings on urgent matters on short notice. This can delay important, unexpected matters. Larger boards also tend to have less interaction at full board meetings and rely on working committees. Larger boards may not be good forums for early stage discussion of certain issues such as mergers and acquisitions. Such matters cut across committee lines and require confidentiality, so an executive committee that includes the board officers and the chairs of the finance, strategic planning, and quality committees could give broader-based counsel to the executive team than any single committee could. Executive committees can also increase the efficiency of the full board by handling routine matters that take up time on the full board’s agenda.
- **Geographic dispersion.** Boards whose members live across a region, the country, or internationally tend to meet less frequently and can’t convene unplanned meetings in person quickly, so they are likelier candidates for an executive committee that meets regularly between board meetings.

- **History and culture.** If a board or community has an unhappy history of small elites controlling the hospital and perhaps other local institutions, then trustees may have a well-founded aversion to a powerful, active executive committee. However, taken too far, a rigid “no executive committee” posture may prevent a board from making appropriate use of an executive committee in specific circumstances.

For a typical community hospital or health system board (13–15 members) that meets at least six times per year, and whose members live close enough together to convene quickly on an urgent matter, the executive committee usually can just meet on an “as needed” basis. Boards with approximately 16 to 20 members fall in a grey area where multiple factors must be considered in deciding how to use an executive committee.

The Governance Institute’s latest research (2009) on the prevalence of executive committees sheds some light on their use (see Table 1). The “as needed” model is the most prevalent. Some 58.7 percent of executive committees meet as needed, 25.2 percent meet monthly, 6.9 percent meet bimonthly, 5.6 percent quarterly, and remainder just once or twice a year. However, most common doesn’t mean best for all. Boards should pick the model that fits their principles of good governance.

**Table 1. How Often Does the Executive Committee Meet?**

Executive Committee	Overall	Systems	Independent	Subsidiaries	Government-sponsored
<b>Total responses</b>	740	126	301	133	180
<i>Respondents with this committee</i>	552	105	250	101	96
Monthly	25.2%	17.1%	27.2%	14.9%	39.6%
Bimonthly	6.9%	11.5%	4.0%	14.9%	1.0%
Quarterly	5.6%	6.6%	5.6%	5.0%	5.2%
Semi-annually	2.3%	4.8%	1.6%	1.9%	2.1%
Annually	1.3%	1.0%	1.2%	1.9%	1.0%
As needed	58.7%	59.0%	60.4%	61.4%	51.1%
<b>Respondents with this committee</b>	74.6%	83.3%	83.1%	75.9%	53.3%

Source: 2009 Biennial Survey of Hospitals and Health Systems, The Governance Institute (forthcoming, November 2009).

**Table 2. Responsibilities and Authority of Executive Committees**

Total Responses	Overall	Systems	Independent	Subsidiaries	Government-sponsored
	740	126	301	133	180
<b>Respondents with this committee</b>	74.6%	83.3%	83.1%	75.9%	53.3%
<b>Responsibilities/authorities of the executive committee</b>					
<i>Total responding in each category</i>	552	105	250	101	94
Executive compensation	41.3%	22.9%	50.8%	31.7%	47.9%
Board member nominations	19.7%	10.5%	16.4%	39.6%	18.1%
Board member selection	11.6%	7.6%	10.8%	21.8%	7.4%
Advising the CEO	67.2%	61.0%	70.4%	63.4%	71.3%
Emergency decision making	77.9%	81.0%	80.0%	77.2%	71.3%
Decision making authority between full board meetings	74.1%	82.9%	76.0%	82.2%	51.1%
Other	8.0%	12.4%	6.0%	10.9%	5.3%
<b>What level of authority does the executive committee have?</b>					
<i>Total responding in each category</i>	539	104	244	100	91
Full authority: the executive committee can act of behalf of the board on all issues	51.0%	55.8%	53.3%	57.0%	33.0%
Some authority: the executive committee can act on behalf of the board on some issues (e.g., executive compensation), but not all issues	25.6%	32.7%	21.3%	30.0%	24.1%
All executive committee decisions must be ratified by the full board	23.4%	11.5%	25.4%	13.0%	42.9%

Source: 2009 Biennial Survey of Hospitals and Health Systems, The Governance Institute (forthcoming, November 2009).

## Authority and Responsibility of Executive Committees

As Table 2 shows, about half of executive committees have the authority to take final action on behalf of the full board, but this doesn't mean they necessarily exert that power

regularly. Some possess but never or rarely use this authority.

About a quarter of executive committees may take final action only when the full board cannot be convened on an urgent matter between scheduled board meetings. About a

quarter may take action subject to ratification by the full board at its next regular meeting.

Some executive committees may act on any matter with the full authority of the board. Others are restricted by their bylaws from taking final action on certain matters such as

changes of ownership of the organization or subsidiaries, acquisitions, facility closures, election and removal of directors, CEO removal and selection, and amending the bylaws.<sup>1</sup>

About two of three executive committees have the informal responsibility of serving as sounding boards for their CEOs. Some CEOs use the executive committee extensively for this counsel; others rarely convene it.

About four of 10 executive committees also function as an executive compensation committee, and about one in five serves as the nominating committee and as a formal or *de facto* governance committee.

For some boards—and this is not a prescription for all—the executive committee meets shortly before regular board meetings. Its purpose is to help organize the full board meeting agenda and it may even handle routine business that then goes to the board in the form of a consent agenda. It may provide informal feedback to the CEO. Some boards that meet every other month have an executive committee meeting in some or all interim months. Some boards find these approaches enhance the full board’s efficiency. However, as already noted, they can also create an “in-group” that diminishes the full board’s engagement, effectiveness, and enthusiasm.

Some boards have eliminated a strategic planning committee, instead making strategic planning a full board responsibility. With this structure, there may be concern that oversight of progress against strategic plan goals would either bog down full board meetings in details, or alternatively, be lost altogether amidst the full board’s agendas. So these boards use their executive committee as a quarterly “strategic plan update committee.” In such circumstances, the committee must take care to limit its work to oversight, bring major variances or other issues to the full board’s attention, but not usurp the strategy setting and evaluation roles of the full board and senior management, working together.

1 Because this level of detail may have been onerous for some respondents, The Governance Institute’s survey did not ask about these limitations.

The most critical thing a board should do is to clearly define in the bylaws and board policy exactly what the executive committee’s authority is, its relationship to the full board, and when it may take final action or only discuss and make recommendations. Ambiguity leads to dysfunctionality.

## Good Governance Guidelines

Though one model of executive committee doesn’t fit all boards, the following guidelines can be used to optimize the use of an executive committee.

1. **Avoid the elitism pitfall.** The biggest misuse of executive committees occurs when they become too powerful. This can happen when a critical mass of board members meets regularly and often, and thus becomes the primary place where the CEO takes everything important. When issues and decisions come to the full board, other members think these are “pre-cooked”—and they are expected to be rubber stamps. This dynamic can destroy the commitment and engagement that should come from *all* board members. To avoid inadvertently allowing the executive committee to take on too much responsibility, the board should use the self-assessment process as a check and balance, asking if members are satisfied with the role and reporting of the executive committee. In addition, the executive committee itself needs to be sensitive to the risks of becoming an in-group.
2. **Committee charter.** All board committees should have charters that describe their responsibilities, membership, meeting frequency, and the information they regularly review. Often, the executive committee is overlooked; it either has no separate charter, or the charter just restates the bylaws, leaving a full explanation of the committee’s role ambiguous. If the executive committee has some specific roles, such as serving as the CEO’s sounding board on certain matters, acting as the

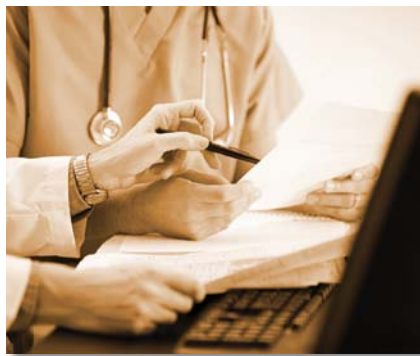
governance committee, or recommending executive compensation, these responsibilities should be specified in its charter. Any limits on its authority also should be specified.<sup>2</sup>

3. **Scheduled meetings for specific functions.** If an executive committee meets only as needed between board meetings, but is also responsible for executive evaluation and compensation, or for governance and nominations, or both, it should have a minimum number of scheduled meetings for those purposes. These are important functions with foreseeable, critical actions to be taken each year. For example, executive evaluation and compensation responsibilities often require the committee to: 1) evaluate the CEO’s performance, 2) approve/update the senior executive compensation philosophy and plan for submission to the full board, 3) meet with the external compensation consultant, 4) approve the CEO’s incentive compensation based on prior year’s goals, 5) approve the CEO’s prospective goals and incentive plan, and 6) review the CEO and senior management succession plan. Similarly, the governance and nominating committee is typically responsible for bylaws and policy review, board education, board self-evaluation, and board succession planning. The schedule for these important functions should be set in advance for several meetings annually—not called on the spur of moment.
4. **Committee makeup.** At one time the typical executive committee included just the officers of the board: chair, vice chair(s), secretary, and treasurer. However, if the committee has authority to make important decisions because the full board cannot convene, or serves as a sounding board for the CEO, it is preferable to include a broader cross-section of the board’s leaders—for example, the officers

2 For a sample executive committee charter, see *Elements of Governance®: Board Job Descriptions & Committee Charters*, 2nd Edition, The Governance Institute, 2009.

plus the chairs of key committees such as finance, quality, and governance. Some executive committees also elect one or two at-large members in order to include a trustee with particular knowledge or skills who isn't an officer or committee chair.

5. **CEO membership on the executive committee.** The CEO should be on the executive committee, except where prohibited by law. The CEO is the board's leader in residence and, therefore, the CEO should be a voting member of the executive committee. Of course, the CEO is excused when the committee performs its executive evaluation and compensation functions. The CEO should respect the committee's need for independence. To get the most benefit from an executive committee, a CEO should be careful not to dominate it, but rather, to practice candor, transparency, and good listening skills.
6. **Physicians on the executive committee.** Should physicians from the active staff of the hospital be on the executive committee, where permitted by law? That is a good



question, because physician participation on a hospital or health system is widely regarded as beneficial for many reasons. Once again, one size doesn't fit all situations. The concern usually voiced about physician participation on the executive committee is that independent physicians could have conflicts of interest, be competitors, or be unable to maintain confidentiality. Therefore, they could jeopardize the executive committee's independence and candor when serving as a sounding board on sensitive strategic matters (such as mergers or acquisition of physician

practices) or performing the executive evaluation function. Similar conflict-of-interest concerns apply to employed or other closely aligned physicians, who could be perceived as too loyal to management to be objective. These are potentially legitimate concerns, and they ought to be considered seriously before a physician even is elected to the board or the executive committee. Active staff physicians should not be involved in the executive evaluation and compensation process because the perception of a conflict of interest is too strong to meet the test of independence.

7. **Self-assessment.** Finally, as part of the board self-assessment process, the board should evaluate its executive committee and make adjustments if necessary. The sidebar below shows some questions that may be asked to assess the role and performance of an executive committee.

### Executive Committee Self-Assessment Questionnaire

#### General Questions

1. Is the committee charged with doing "the right work?" Does the committee's charter include a clear, complete description of the committee's responsibilities? If not, what changes are needed?
2. Is the committee receiving all the information it needs to fulfill its responsibilities, in easily understood formats? Is background information distributed sufficiently before the meeting?
3. How effective are management's reports to the committee, in terms of length, timeliness, and clarity?
4. Does the committee have an appropriate mix of skills and backgrounds to meet its responsibilities? Should this committee actively seek new members with additional skills or backgrounds?
5. How effective are committee meetings? Is the meeting frequency and length appropriate? Does the committee have sufficient input into agenda setting? Is there enough time for discussion?
6. What issues should this committee focus on for the coming year? Define and prioritize specific goals.

#### Specific Questions

1. Has the board delegated appropriate responsibilities to this committee? Does the allocation of responsibilities strike an appropriate balance between using the executive committee to make the

- board's work more efficient, and not usurping work that should be properly done by the full board?
2. Do the bylaws and the committee charter clearly define the circumstances in which the executive committee is authorized to act on behalf of the board?
3. Do the bylaws and the committee charter clearly state whether the board must ratify executive committee actions or just be informed about them?
4. If the committee meets regularly, does this have an unintended effect of creating an "in-group or clique" of board members who process too much information and leave other board members feeling disengaged?
5. If the executive committee has authority to act on behalf of the full board, does the committee include a critical mass of experienced, knowledgeable board leaders who should be delegated such authority?
6. Does the CEO make effective use of this committee as a sounding board for emerging issues and sensitive matters? If not, is this an appropriate role for the committee?

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