



# On the NRC agenda 2024

Board Leadership Center (India)



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# Introduction

In current times, expectations of management and boards continue to increase significantly as companies contend with uncertainty and disruption as well as demands for increased transparency amid new regulations and heightened stakeholder expectations around climate change, cybersecurity, human capital management (HCM), artificial intelligence (AI) among other issues. Considering this, nomination, and remuneration (NRC) committees would benefit from reevaluating the appropriate director skill sets and committee

structures to oversee the company's strategy, risks, and opportunities. The NRC will need to work with board leadership to establish and maintain a culture where the ability to adapt and the robustness of disclosures are viewed as vital to effective governance in today's high-speed world. The Board will also need to guide the management in developing a compensation and workforce strategy that drives a strong corporate culture and motivates executives and employees to achieve corporate goals, whilst imbibing good governance practices.

## Seven topics that NRCs need to keep in mind for their 2024 agenda



Strengthen  
board  
resilience

01



Enhance  
committee focus  
on composition

02



Optimise  
compensation  
strategy

03



Review committee  
structure and  
workload

04



Enhance director  
effectiveness  
standards

05



Foster  
leadership tone

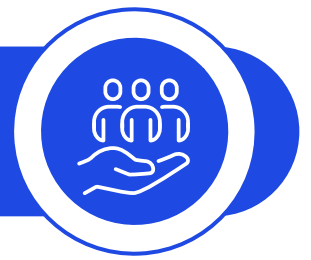
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Evaluate NRC's  
Compensation  
Decisions

07

# 1. Strengthen board resilience



The business environment in 2024 is poised for continued geopolitical, economic, and societal risk and uncertainty. Domestically, the elections in India and key states will heighten the already intense level of focus on policy and future direction. Internationally, as existing wars continue and the threat of new and escalating conflicts are ever-present, companies are assessing the impact on their business operations globally.

Those companies that do business in Europe and the US are preparing to comply with a growing patchwork of regulations related to cybersecurity, data privacy, climate change, and human capital. The potential for persistently high interest rates and changing dynamics in global economic growth, the focus on sustainability, and advances in AI will further complicate the business environment in the year ahead. Continual reassessment of the company's strategic direction and risk profile will be key to maintaining resiliency, and boards should be mindful not to let risk overshadow opportunity.

We encourage NRCs to approach 2024 with a focus on board resilience—composition, structure, and

mindset. To excel, boards should be prepared to pivot in sync with a rapidly changing business environment to guide management in making well-founded decisions, and to serve as a steadying force for young management teams lacking historical context. NRC should establish a board culture that embraces dynamism and raises the bar for both individual director and collective board performance. This may require greater board turnover to make room for directors with different skill sets, the need for greater access to external expertise, and more advanced continuing education for board members as new issues arise and existing issues evolve. More frequent board meetings, committee meetings, or updates from management between board meetings may also be required. And rigour will be needed to keep agendas focused on what's important. All of this indicates that NRCs should not wait until an annual evaluation process to assess board effectiveness—rather, resilience, coupled with constant calibration and adaptation, are the watchwords for 2024.





## 2. Enhance committee focus on composition



Take a fresh look at structuring oversight of evolving issues. NRC committee chairs surveyed by an Executive Search Firm in 2023 identified board composition as their committee's number one area of focus<sup>1</sup>. Evolving business needs and expectations require board members who are capable of asking informed questions, assessing management's answers, and offering guidance as companies navigate these issues and as new issues emerge.

**NRCs should consider the following questions:**

Do we need to add a board member with direct experience in a key strategic area?

If so, where will we find candidates with the right experience who are also strong business leaders?

If not, what alternative means will we use to provide effective oversight, such as intensive board education, hiring a third-party expert, or forming an advisory board?

How will we communicate our decisions to our investors? Addressed in this way, the question of whether to recruit for specific expertise can be approached strategically in the context of the company's overall needs.



In reading recent annual reports, there is a marked increase in directors disclosing experience in areas such as ESG or technology. While to some extent it may simply indicate a shift in the experience directors and their companies choose to emphasise in their disclosures, it serves as a reminder that traditional board skill sets, such as strategy, industry expertise, financial acumen, and governance should not only be present but should also be disclosed.

Harness the power of diversity. Getting the right mix of traditional and forward-looking experience on the board is no easy feat, and NRC that extend their searches to diverse networks increase their odds of finding extraordinary candidates. The NRC while it needs to account for gender diversity also needs to look at aligning the interests of the wider stakeholder base and creating a 'diverse' board.

1. Nominating/Governance Chair Survey 2023, SpencerStuart, July 2023

## 3. Optimise compensation strategy

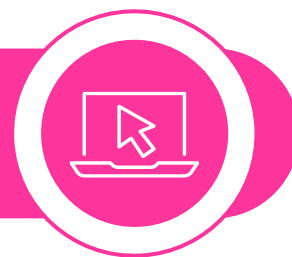


It is imperative that the committee stays focused on its fundamental purpose: to develop an effective CEO & CXO compensation plan that appropriately incentivises execution of strategic goals to drive long-term sustainable value and to ensure the compensation strategy for other executives and employees is aligned. In addition, the committee must responsibly oversee the use of equity in incentive compensation to help ensure it is used to align the interests of executives to those of shareholders. Selecting the right performance

measures and targets for the CEO and other executive incentive plans is challenging in the best of times—and even more so in these times of uncertainty. Compensation committees should continue to seek outside expert advice and consider the concerns of shareholders and other stakeholders. CEO-to-median-employee pay ratios are also under greater scrutiny, as average CEO total compensation remains high amid layoffs and stagnating employee pay.



## 4. Review committee structure and workload



As the board's responsibilities expand, NRCs must lead the charge in determining how the board, through its committee structure, will oversee emerging issues in addition to the more traditional work of the board. NRCs should review annually the key strategic issues and risks that the company and board are facing, mapping them to the appropriate committees. For 2024, special attention should be devoted to how the board will oversee the following areas:

### Sustainability

New laws, potential regulations, and enforcement related to climate change (with stringent monitoring of Net 0, emissions etc.) will up the ante on disclosure of metrics and risk-related governance.

- NRCs should consider how to optimise oversight through a structure that enables attention not only to compliance but also to sustainability-related value creation. While the ideal structure will vary by company, a good starting point is to consider the following:

Consider which committees will monitor stakeholder perspectives, assess risk, and oversee climate goals and the path to achieve them;

- Oversee climate-related disclosures and controls around such disclosures in the audit committee
- Oversee diversity, equity, and inclusion (DEI) and other HCM practices in the compensation committee
- Integrate sustainability considerations into enterprise strategy at the full board.

### Cybersecurity

The NRC should ensure that cybersecurity oversight has a designated home, in a committee or the full board, with sufficient expertise and bandwidth to provide appropriate oversight. The NRC should work with the identified committee to assess its capacity, particularly as cybersecurity becomes more intertwined with broader aspects of technology such as AI. Does the committee have the time and the expertise, and if not, where can the work be better accommodated? If oversight resides somewhere other than the identified committee, does the identified committee drill down on cybersecurity-related disclosures and controls?

### Human Capital Management (HCM)

As HCM issues continue to rise in strategic importance, compensation committees have widened their remits to incorporate oversight of corporate culture, employee engagement, DEI, and/or talent. NRCs should consider whether the board's oversight of HCM is sufficiently broad and properly documented in a committee name and charter.

### Technology

Given the rapid developments in technology, particularly generative AI, boards need to better position themselves to provide effective oversight for strategy in this area. What are the most impactful technology developments—e.g., AI, robotics, cloud computing, blockchain, e-commerce, social media—the company is facing, and how are financial and human capital being allocated accordingly? NRCs should determine the right home for oversight, whether at the full board, a standing committee, or a new committee. To the extent that it touches multiple committees, the NRCs should foster coordination.





## 5. Enhance director effectiveness standards



NRCs should work with board leadership to make clear that directors are expected to add value from the day they join the board to the day they leave. This begins up front, with the NRC chair and board chair/ lead director setting expectations about the desired levels of individual director contribution and continuing education and communicating clearly that renomination decisions will be based on how individual performance, experience, and skill set align with the board's current and future needs. A well-thought-out onboarding programme is helpful for any new director and is particularly valuable for helping first-time directors as they work to get up to speed quickly.

When a board is committed to continuous learning, expectations for individual director onboarding seamlessly evolve into ongoing expectations for director education. To help establish a board culture of continuous learning, the committee should assess

where there are gaps in the board's knowledge with respect to both external issues and areas of the business, and consider:

- In what areas should individual directors be encouraged to seek out training to address known gaps and generally to help the board stay current?
- Is the company paying for memberships and training consistent with the needs of the board?
- When individual directors obtain training on a topic, how are they expected to bring the information back to benefit the full board?
- Are directors' commitments to education evaluated in individual director and full-board evaluations?
- How is the NRC publicly disclosing the board's endeavours around continuing education?



## 6. Foster leadership tone



The NRC needs to align succession planning to the organisational strategy and culture. It is important for the NRCs to align successors for key positions including but beyond the CEO. Consider the following questions for board leader succession planning in 2024:

- What are the key positions that require succession planning for the organisation? (Leadership positions, positions adding significant strategic heft, competitive advantage to the organisation)
- What leadership characteristics should the board chair/lead director/committee chairs possess to facilitate inclusive and innovative discussion?
- How do the organisational values and culture percolate across levels in the organisation, is there a uniform culture – what are key elements and attributes that define it?
- How often are leadership positions refreshed to maintain independent thinking and keep skill sets current?
- Do board leaders approach board succession with open minds and access diverse networks?
- Which board leadership structure best suits the board's and company's evolving needs (e.g., an independent chair, combined chair/CEO with a lead independent director, executive chair who is not the CEO)?
- How is the board's leadership structure communicated to, and perceived by, the company's largest shareholders?
- What culture and values does the board aim to foster and promote in 2024? What is working well? What isn't?





## 7. Evaluate NRC's compensation decisions



In addition to traditional executive and equity compensation responsibilities, expectations have increased for board oversight of broader human resources policies and practices affecting the entire workforce.

### NRC chairs may consider asking the following questions:

- Do we receive regular reports from the company's top human resources executive?
- Is the top human resources executive a member of the C-suite (i.e., CHRO) with an opportunity to participate in strategic discussions and capital allocation decisions? Do they have the right skills and experience to contribute at this level?
- Do the workforce metrics we receive provide a comprehensive understanding of how the company's resources are invested in the workforce (e.g., training and development programmes) and whether those investments are generating the expected return?
- Do we feel comfortable that we understand employee engagement and satisfaction, as well as employee turnover at various levels in the company?
- Do we receive sufficient information on the diversity of the company's workforce—at all levels—to hold management accountable for hiring and developing the right talent?
- Have we considered what portion of work is done by contingent or part-time employees and the potential impact on workforce engagement, productivity, and overall costs?
- Are we comfortable that management is considering the long-term implications of layoffs and increased use of technology to accomplish tasks currently done by people?
- Are we having regular discussions about the company's approach to where and how work is done (i.e., return to office/work from home) to ensure that management's approach is sufficiently responsive to evolving desires of current and future employees, competitive, and positions the company for cost-effective productivity over the long term?
- Do we review data on pay equity throughout the company and have oversight of any related internal and external disclosures?



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