



Strategic talent acquisition

Changing facet of NRC's role

Board Leadership Center (India)



In the continuously evolving world of corporate governance, the task of recruiting the right board members takes lot of experience. Nomination and Remuneration Committee (NRC), formed as a subset of a company's board of directors, stands as the cornerstone, defining the leadership landscape of a company.

NRCs play a pivotal role in shaping the composition of a company's leadership, but what exactly falls within their scope and remit remains an unsolved puzzle. There is no easy answer to this question and a large part of it can be unique to each company. Given that there can't be a single blueprint for success, the importance of well-defined company charter can hardly be overstated as it can help in outlining NRC's responsibilities, whilst recognising the collaborative nature of hiring efforts required at board and executive level. For instance, recruitment of some of the senior roles may require involvement

of other committees as well for screening the right candidates.

A robust company charter is akin to a North Star for directors and corporate leaders, outlining the NRC's remit and responsibilities with precision. It is within this charter that the extent of NRC's influence and parameters of executive talent acquisition are set, guiding the committee's strategic decisions. The NRC, therefore, becomes the architect of leadership teams, ensuring that the right talent is in place to steer the company toward its objectives.

Taking cognisance of the uniqueness of each company; this publication aims to share a broad outline of the role that NRCs can play in strategic hiring. It attempts to take a deeper dive into the multifaceted role of NRCs and its influence on all facets of hiring, from the CEO to CXOs and even the board itself.

Role of NRC

The NRC, by its very nomenclature, indicates dual responsibility, encompassing both the nominating and remunerating functions. However, for the purpose of this paper, we will focus on its 'nomination' dimension alone. NRC's responsibilities may encompass identifying and selecting of suitable candidates as well as alignment of executive remuneration with the organisation performance, market, and long-term goals. It is entrusted with the task of attracting, retaining, and incentivising top-tier talent while promoting good governance and culture. Let's explore its scope and remit:

The 'Nomination' dimension:

Board appointments: NRCs are actively engaged in the nomination and appointment of board members. This role goes beyond mere identification; it encompasses a meticulous evaluation of qualifications, alignment with the company's strategic goals, and potential contributions to the board's expertise.

Key executive hiring: NRCs play a pivotal role in the selection of key executives, including the CEO and other CXOs. They collaborate with executive search firms as well as the internal HR team/ Chief Human Resource Officer (CHRO) to curate a pool of potential candidates, evaluate their qualifications, and ensure they resonate with the organisation's culture as well as the strategic needs.

Succession planning: NRCs also actively participate in succession planning, ensuring a robust leadership pipeline is in place to meet the company's future needs or manage unforeseen circumstances. It ensures a seamless transition of power and stewardship, safeguarding the company's stability and continuity.

Onboarding of hired individuals: Beyond the aforementioned, NRCs also play a crucial role in onboarding of the hired individuals.

Catalyst for strategic talent acquisition

The synergy between CHROs and NRCs is a strategic imperative for effective talent acquisition of independent directors. This collaborative approach, blending human insights with governance acumen, not only enhances the quality of board leadership but also contributes to the long-term success and sustainability of the organisation. A suggestive model to improve this synchronisation between NRC and the management can be to encourage every member of NRC to engage with one or more functional leaders while the NRC Chair liaises with the CHRO. This critical alignment and collaboration can be a great way to bridge the chasm and create a dynamic framework that not only drives talent acquisition but also aligns strategic goals, nurtures talent pipeline, and fortifies the company's competitive edge.

Roles within the remit of NRC: Decoding CEO exclusion

Within the complex machinery of corporate governance, the NRC holds a pivotal role in steering the ship of a company's leadership. The committee operates at the intersection of strategy, oversight, and talent acquisition, wielding significant influence in shaping the composition of company's top-tier leadership, including the CEO and independent directors. However, selection, evaluation, and governance of the CEO is a process that involves nuanced measures and several variables to ensure fairness, diversity, and the long-term success of the organisation. Given the vital interests of promoters/executive directors, CEO hiring decision can be influenced by such multitude of factors; nonetheless, it is responsibility of the NRC to ensure that interests of all other stakeholders are safeguarded. For example, CEO selection in a majority controlled MNC can be a very different ballgame, where companies might be looking at their global pools first, a list which NRC may not be privy to.

Due to variables such as these, many times it is seen, that the NRCs oversee executive talent acquisition for roles positioned at CEO-1 level and Key Management Personnel (KMPs). This approach is deliberate and strategic, aiming to maintain a degree of separation between the CEO and the NRC. The exclusion of the CEO from the NRC's purview is also rooted in the principles of independence and objectivity. This ensures that the CEO, being a critical part of the executive team, doesn't influence the selection process for their immediate reports and vice-versa, fostering a fair and unbiased decision-making environment.

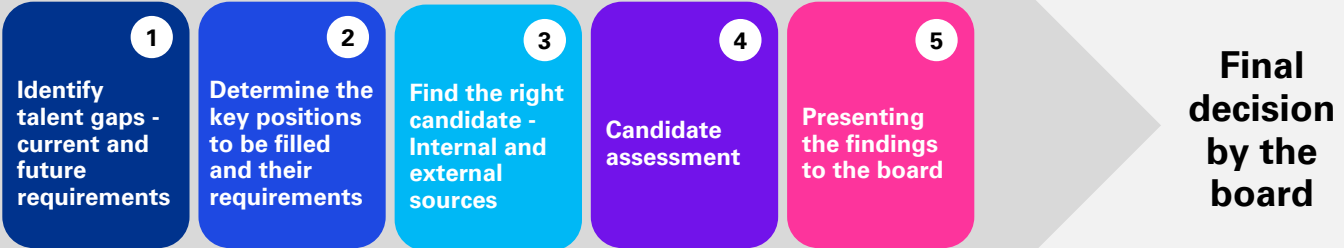
Hiring influence: A nexus of governance

The question of whether NRCs are responsible for all hiring, including the CEO, CXOs, and board members, hinges on the company charter and/or governance framework within an organisation. Their administration is carefully calibrated within the scope defined by the company's charter, bylaws, and governance structure. The NRC is often involved in executive hiring for the CEO and the CEO's direct reports in the industry.



Indicative stages of executive recruitment

NRC's involvement and oversight responsibilities across all phases



Quick tips for success



NRCs engage in a collaborative process with the company's management to establish a strategic framework for executive recruitment. However, the role of NRCs in executive hiring is nuanced, ranging from taking a 'leading role' in strategic appointments to playing a 'supporting role' and, in certain instances, being primarily 'informed of key decisions' depending on position for which hiring is being done. Recognising that the committee's engagement model is not one-size-fits-all, rather tailored to the specific needs of each executive appointment ensures that the NRC remains a strategic enabler, contributing to a leadership team that not only complements the company's goals but also navigates the complexities of the business landscape with resilience and agility. NRCs can stay engaged in various stages of hiring, which may include:

Groundwork

This foundational stage involves a comprehensive analysis of the organisation's current and future leadership requirements, with a focus on identifying gaps that demand attention. In cases where the request for hiring a board member/ executive team member has come from the executive team, the NRC evaluates the need for the role and provides their inputs on the position. The aim is to ensure that the executive hiring process is underpinned by a strategic understanding of the company's evolving needs

Collaborative vision

To achieve the efficient recruitment, NRCs engage in extensive discussions with the company's management. The aim is to align their vision for vacant position with the strategic aspirations of the organisation. These discussions lay the foundation for the creation of comprehensive job descriptions, reporting relationships and clear accountabilities

Candidate identification and rigorous evaluation

At this stage, NRCs actively engage in candidate identification and evaluation phase. They work in close collaboration with executive search firms & the internal HR team leveraging their networks and industry insights to identify a pool of potential candidates while also continuously assessing internal candidates from the succession pipeline. NRC members are often involved in conducting interviews, assessing qualifications, and scrutinising candidate backgrounds. Their active participation ensures that candidates align with the company's strategic requirements, and ensures that a consistent candidate evaluation process is followed across all candidates

Formulating the compensation strategy

One of the critical responsibilities of NRCs is to formulate the compensation strategy for the selected executive. This task involves a careful screening and consideration of industry benchmarks, market dynamics, and the company's performance. The goal is to establish a compensation package that is not only just and equitable but also aligns with the company's strategic objectives while paying close attention to governance and fairness of pay indicators such as KMP compensation to organisation's median compensation; salary levels of informal/contract workers, etc.

Continuous alignment

NRCs play an instrumental role in presenting their findings and recommendations to the entire board of directors. They provide their recommendations on the candidates to be selected and are often the final round for candidates in case of executive hiring

Who makes the hiring decision?

The primary responsibility of the NRC is to ensure that the executive appointment aligns with the organisation's goals. It's important to note that the NRC can only make recommendations, which need approval from the board and shareholders for appointments and remuneration decisions. In cases where the promoter disagrees with the NRC's recommendations, former's views may prevail. To address this, some companies appoint at least one promoter nominee as a non-executive director and member of the NRC to understand the promoter's viewpoint on personnel decisions.

2024: a year of change?

As corporate India anticipates a significant transition in April-2024 with a multitude of independent directors completing their 10-year tenure, there arises a critical need for NRCs to proactively strategise and ensure a seamless infusion of new talent into boardrooms. NRCs stand at the forefront of shaping the future board composition. By embracing diversity, prioritising strategic talent acquisition, and fostering a culture of continuous renewal, NRCs can ensure that the next generation of board members propels corporate India into a new era of governance excellence. This proactive approach will not only navigate the current transition effectively but also set the stage for sustained success in the years to come.

Consideration for NRCs

Regular communication between the NRC Chairperson and the CEO can prevent conflicts and surprises during the hiring & selection process

Articulating the role of NRC and key expectations from it at the beginning of the year can simplify the NRC's role

A strong rapport between the NRC chairperson and the CHRO can bridge information gap for the NRC

A provision to disclose reasons when the management, shareholders reject NRC recommendations

Formation of a sub-committee or a task force, including one or two industry experts may facilitate discussion on the job profile of position to be filled and facilitate efficient and quick hiring.



Questions to consider

- 01** How well does the candidate's leadership style complement the existing leadership team's dynamics and values?
- 02** What are the specific performance expectations and key performance indicators (KPIs) for this role, and how do they tie into the company's strategic plan?
- 03** What is the proposed compensation structure, including base salary, bonuses, and equity? How does it compare to industry benchmarks and median salary of the organisation?
- 04** How does this appointment align with the organisation's succession planning and leadership development strategies?
- 05** Have shareholders or major investors been consulted or provided feedback on this appointment, and if so, what are their perspectives?
- 06** What potential risks or challenges can the candidate face in the role, and how might these be mitigated or addressed?

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