

NRC's role in the ESG agenda

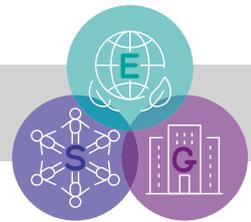
Board Leadership Center



Businesses and their stakeholders alike are looking to drive meaningful conversations and alignment between organisational priorities and ESG goals. For businesses to drive long term sustainable growth, the board and its committees need to rise up to the occasion and identify

the opportunities and risks that ESG brings forth. The Nomination and Remuneration Committee (NRC) being responsible for the selection, performance evaluation and remuneration of the key executives, can help businesses turn their ESG strategies to action.

What does ESG really mean to the NRC?



ESG covers a wide range of topics which merit the attention of the board. With varied backgrounds and experiences present across boards, ESG could mean different things to different people, ranging from governance, sustainability to pay equity. In the current scenario, the board's alignment and consensus on what organisations need to focus with respect to ESG is still developing.

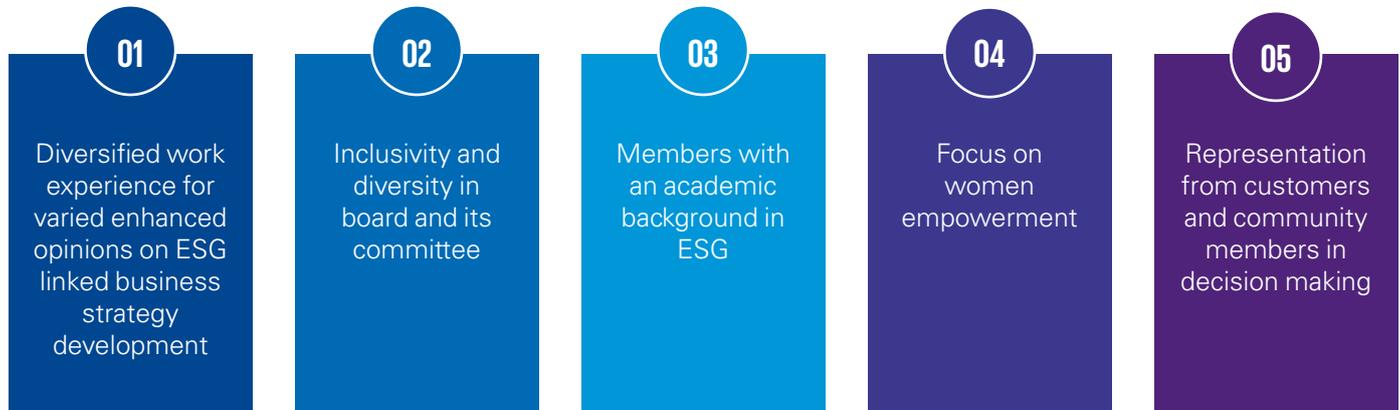
The NRC can look to include elements of ESG across its current charter of responsibilities from director selection to executive remuneration. However, many aspects across the ESG agenda comprise core operations, business strategy and policy interventions which require the involvement of the entire board and cannot be owned or driven solely by the NRC.



Bring the skillsets to make informed decisions on the ESG agenda



The focus on ESG can be driven by the NRC through multiple outcomes such as:



The NRC can work towards strengthening review mechanisms to guide successful implementation of diversity in skill sets and backgrounds in the annual board evaluation exercise. The NRC as part of their existing charter of responsibilities can assist in creating a cadre of capable ESG professionals and promote a culture which is sensitive to environment and society. The NRC may also choose to invite industry experts and consultants to

the meetings to share insights on the latest trends in the ESG space.

Additionally, the NRC can work with the HR team on integrating ESG competencies across succession planning, encouraging a strong pipeline of diverse talent. The proficiency levels across these competencies can be accentuated through refreshers, trainings and periodic assessments.

Money speaks – Linking executive performance and remuneration with ESG



For ESG to be adopted, in both letter and spirit, businesses need to be aligned on the long-term value creation through ESG or be coerced through regulatory action. Moreover, organisations should focus on augmenting ESG awareness and engagement, enhancing momentum towards linking ESG goals to executive performance and remuneration. Clearly defined ESG performance metrics can be linked to the business' scorecards and value created through ESG-oriented action could be measured as business performance. With ESG metrics intertwined with the executive and function heads scorecards, generating buy-in on ESG becomes easier. However, the challenge of measuring year-on-year ESG performance through a standardised long-term lens remains. A survey¹ conducted by Willis Towers Watson concluded that 45 per cent of the FTSE 100 companies include ESG measures in their executive's pay scale and 78 per cent of board members and senior leadership have agreed to the fact that strong ESG performance contributes to their organisation's values and overall financial performance.

To align the executive compensation programme, requires coordination among the company's legal, finance, investor relations, and communications teams. Along with alignment to ESG goals, there is the additional element of fixing the right quantum of pay for executives. An article dated February 2022 from Times of India highlights a large disparity in the CEO to the median employee pay across 42 Nifty 50 companies for FY 19-20 at 1:259. This implies that CEOs earn close to 260X the median pay in their organisations. The need for reporting the executive to median worker pay in disclosures, leads stakeholders to scrutinise executive pay and drive transparency between pay and organisational performance. The NRC, subject to the maturity of the business, can bring in specific attributes for performance assessment of the executives such as multilateral thinking or systems thinking as well as the agility with which the executive management responds to the changing needs of the business in a sustainable manner.

1. ESG Incentive Metrics, Willis Towers Watson's Global Executive Compensation Analysis Team, 2020

Focus on the 'social' part of ESG

While the environmental part is relatively easy to observe and monitor and the governance part to some extent can be driven through regulations, the 'social impact' is where the NRC can look to drive effectiveness within organisations. The social aspect includes the organisation's relationships with its employees, suppliers, customers, other stakeholders, and the community at large. The NRC can work with departments across the organisation to ensure fair remuneration across employee categories as well as dignified working conditions. NRC

can play a key role in encouraging the adoption of ESG parameters by suppliers among other points to build a sustainability focus within organisations.

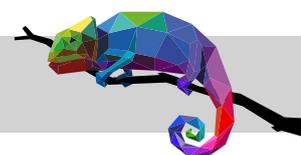
The NRC can look at the inclusion and diversity strategy at the board level and how it cascades across the organisation to support responsible composition across levels and in succession planning. The NRC can also work with the CSR committee to help devise strategies for families of the blue collared and contractual workforce employed by the company to improve their quality of life.



Adapting to the changing preference of customers and employees

Millennials are demonstrating greater consciousness in what they purchase, who they purchase from and where they work? For organisations to engage, attract and retain millennials, they need to be seen as enhancing the environmental and social impact of their business.

Millennials are increasingly allocating their 'share of wallet' towards businesses that 'walk the talk' on their plans on environmental protection and social equity. Competing for talent in a volatile talent market to attract millennials, necessitates that organisations emphasise the preferences of the target customers and employees.



One size may not fit all

While implementing ESG initiatives, it is important for organisations to tailor their initiatives to business context. While it is important to look at the leading practices in the market, the notion that practices can be entirely replicated as-is may not be correct. The ESG strategies need to address sectoral risks, meet stakeholder expectations, and

most importantly, drive behavioural changes in the organisation. The focus should be on the ability to deliver real impact and have these initiatives endorsed and driven by the top management. The frameworks and the guidelines created should be flexible to adapt to the evolving trends in the ESG environment but also comply with the changing regulatory requirements.



Questions for the NRC:



01

What steps should the NRC follow for creating a ESG skills charter that is relevant to the organisation, industry, and the stakeholders?

02

How does the NRC ensure sufficient viewpoints (point vs. counter point) across the ESG agenda items within the board?

03

How does the NRC determine and attribute CXO performance?

04

How to align performance and executive remuneration for CXOs with whom interactions may be limited?

05

How does the NRC drive robust disclosures on diversity?

06

How does the NRC influence fair and equitable remuneration levels across contractors, third parties and keeping in mind the inflationary pressures to maintain a baseline standard of living?

We would like to extend our gratitude towards the NRC Council members for their valuable time, insights and perspectives that have contributed towards the development of this document.

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