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On the 2023 Governance, Nomination & Remuneration Committee Agenda

KPMG Nigeria Board Governance Centre

January 2023

Business leaders are predicting and preparing for the possibility of a recession. The economic outlook looks likely to add an additional dimension to the already heavy workload of the committee as they review remuneration policies, balance this economic uncertainty with the need to retain the key talent required to navigate the business through these challenging times, particularly when the ability to retain and recruit senior talent remains a challenge. Business recovery, growth, inadequate access to key resources and the long-term effects of the pandemic are likely to continue to test the skills and experience of board members. The board needs to review and potentially reshape the board composition to support new strategic imperatives, review succession planning, and create an environment for fairness, equality and opportunity allowing talented people to succeed. We highlight five issues for governance, nomination and remuneration committees to keep in mind as they consider and carry out their 2023 agendas.

Based on our recent engagement with board members and members of remuneration committees across different industries, we have highlighted a number of areas to keep in mind as governance, nomination & remuneration committees consider and carry out their 2023 agendas.

Board and Management Composition & Diversity

Aligning boardroom talent with the company's strategy is a key driver of many boards' increasing focus on board composition and succession planning today. Indeed, talent in the boardroom is also front and centre for investors, regulators, and the media. The question being asked is: does the board have the skills and expertise as well as the diversity and variety of perspectives that are essential to being effective in their oversight role - and to contribute to the long-term success of the company?

Given the demands of today's business and risk environment - not to mention increasing scrutiny by investors, regulators, and the media—a critical priority for almost every board is to align boardroom talent with company strategy, both for the short-term and the long-term as the strategy evolves. The related reasons for this intense focus on board composition, include the need for greater diversity, and the need for directors with an understanding of the competitive environment, the pace of technology change, and the potential disruptors of the company's business model.

In KPMG Nigeria Board Governance Centres (BGC's) Boardroom Diversity Survey report of 2022 titled **'Poised for Change?'** 47 percent of directors polled say they are moderately concerned that the lack of diverse views in their boardroom hampers insightful discussions or identification of blind spots or important issues, 24 percent say they are extremely concerned and 29 percent are not concerned.

The ability to challenge long-held assumptions; understand megatrends; and effectively calibrate strategy, risk, and talent in the context of heightened stakeholder expectations puts a premium on thinking differently.

Board composition, diversity, and renewal should remain a key area of board focus in 2023 to fundamentally position the board strategically for the future even as boards are now realising that diverse perspectives create long-term value for the organisation.

Gender diversity on boards in Nigeria continues to be a key area of focus given the statistics. A survey conducted by KPMG Nigeria BGC and **Women Corporate Directors Foundation Nigeria (WCD) in 2022** shows that of the 342 board seats on the NGX 30 index companies, only 89 are females. Of the 30 board chairs, only 4 are females while only 2 out of the 30 CEOs are females.

Beyond gender and ethnic diversity, diversity in skills, thought, experience, age and background are critical.

Board composition should evolve to reflect the changing business and societal environment if the board is going to be effective in its role.

The committee should consider the following activities as it sets its goals for the year:

- Construct a board skills and attributes matrix that considers multiple dimensions of diversity e.g. expertise and experience, decision-making style, and behavioural attributes, etc
- Establish board diversity target relating to the composition of the board and senior management
- Develop pathways for the board to tap into new, diverse networks of qualified board candidates
- Routinely review an organisational diversity scorecard
- Develop and welcome an inclusive culture

Director remuneration

The cost-of-living crisis has undoubtedly been the headline from a people perspective over the large part of 2022. With inflation and interest rates still predicted to remain at unusually high levels for much of 2023, this will continue to feature in 2023. We have seen business respond to the impact on the workforce with different measures, including targeted pay rises for certain employee groups or advancing the normal annual pay round.

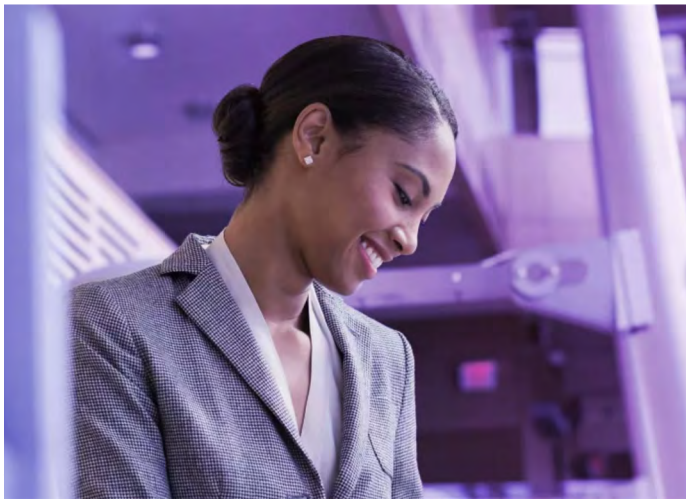
With many executive pay reviews taking place for the first time in this high-inflation environment, investors have called for caution in executive director salary increases – not least because of the 'multiplier effect' that salary has on other variable elements of pay. Where salary increases are necessary, remuneration committees have been asked to consider affordability as well as percentage increases below the rate of salary increases given to employees, given that the impact of the current economic impact on cost of living is felt much less by those on larger salaries.

Recently, it has been noted that Non-executive director fees have fallen behind a level which is commensurate with the role. It is without doubt that the role and responsibilities of Non-executive directors has increased significantly over recent years and there is recognition that individuals need to be appropriately remunerated for their duties. The committee needs to review the process for the increase and ensure that it is transparent, conduct a benchmark of director remuneration with industry and peers and decide on acceptable increase that is in line with market realities and affordable by the company.

Succession planning

The Nigerian Code of Corporate Governance 2018 requires the governance, nomination and remuneration committee to ensure the company has a succession policy and plan in place for the board, executive management and senior management positions to ensure leadership continuity. However, many companies lack vibrant and up-to-date succession plans. In a number of cases, nominees who meet the pre-defined skills and attributes profile are not identified and where identified, there are no planned developmental interventions put in place to ensure they are ready for the roles should it become vacant.

The committee needs to provide adequate oversight on succession plans this year considering the quantum of key talents that have been lost due to 'the Great Resignations movement otherwise tagged in local parlance 'Japa'



to the talent pipeline in the tiers below the board that are ready for development and succession planning.

Similarly, succession planning at the board level is also very important and needs to be looked into by the committee. Currently, many AGM notices relating to the re-election of directors simply cross-refer to the biographies included within the annual report and say nothing about how they contribute to the long-term success of the business. The more informative notices had detailed biographies and briefly explained why each director should be re-elected. The best clearly outlined the reasons for an individual's re-election, specifically linking their contributions to company strategy and risks.

If recent times have taught us anything it is that having robust succession plans for times of stress as well as more benign times is critical.

Successors may be identified from 'rising stars' who have dealt with the impacts of the crisis and those that sit on multiple boards who can share insights from other organisations. The trend for boards to identify talented individuals to become 'board apprentices' to observe the boardroom and provide independent feedback, as well as gain valuable training to reach board level is increasing.

On a related note, governance, nomination and remuneration committees should, as far as possible, seek to preserve stability at the top of the organisation by avoiding appointing the Chair and CEO in quick succession. Similarly, governance, nomination and

remuneration committees should, as far as possible, manage the retirement of board members so as to avoid losing too much 'corporate memory' in one go.

Continued focus on the ESG agenda

The focus on ESG has continued to gain traction, with an increasing number of companies having an element of their long-term or short-term incentives subject to some measurement against ESG metrics. The most interesting development for 2023 seems to be the weight which investors are now putting behind this important area.

Cevian Capital, a Swedish 'activist' investor which has made material investments in a number of well-known blue-chip companies was one of the early movers in this area, but recent events has made it clear that ESG will form a much greater part of investors' focus.

Tell the company's diversity and inclusion story in detail. An honest picture of the company's goals and progress towards achieving them is important in terms of credibility and confidence.

The way boards communicate, engage and report on diversity will be critical going forward. Businesses that create frameworks that are transparent on the steps being taken to understand the issue within an organisation, deliver a plan and regularly report on the outcome will signal to employees and customers, their commitment to change and improve.

A number of global asset management companies globally such as LGIM, have gone further by announcing that from 2025 they will expect to see climate targets in all long-term incentive plans specific sectors, including automotive, banking & insurance, mining, oil & Gas, REITs, technology, telecoms and utilities. The Basel Committee has also recommended that banks consider amending their compensation policies to take into account climate risk. The adoption of such targets will need to be more than just a 'box ticking' exercise. ESG metrics will need to be designed around the specific circumstances of each company, the rationale disclosed and, as with any performance condition, the targets should be quantifiable and appropriately stretching.

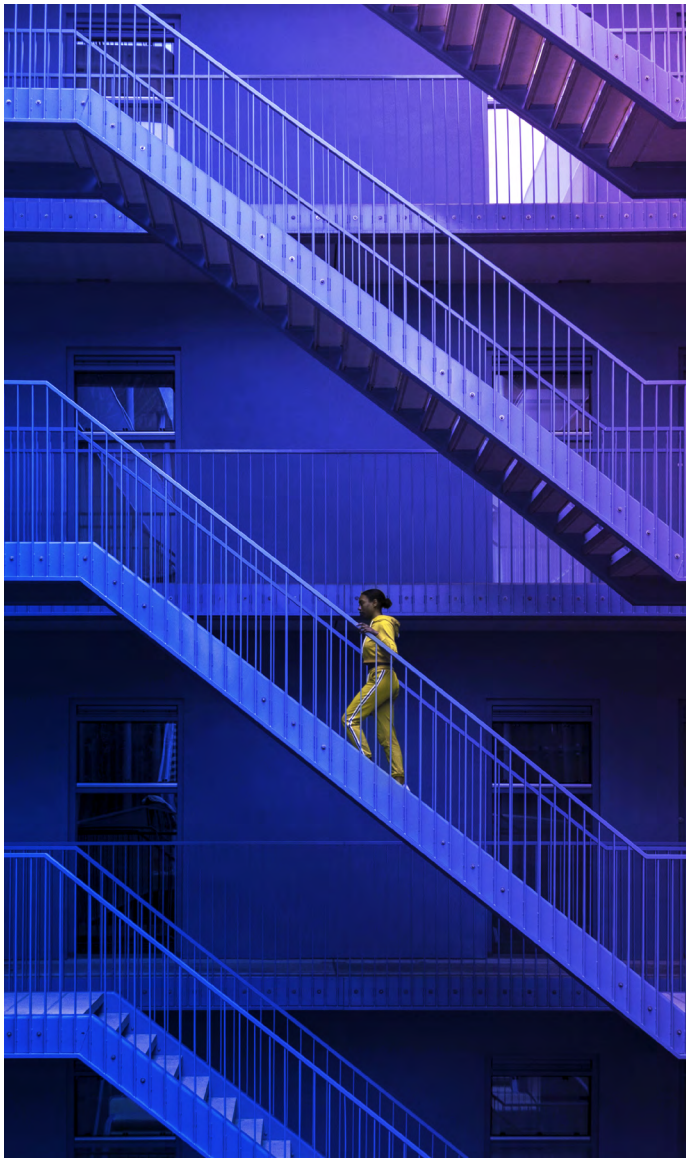
Planning for increasingly active investors

In an environment where company directors face annual election, institutional investors are increasingly using targeted voting practices to register their displeasure at the board, voting against re-election of directors who are perceived as ineffective, do not attend meetings, have overstayed their time on the board or board and committee chairs who preside over a period of irregularities.

ESG has now become a factor too with major investment houses going on record to say they would take voting action against directors at companies that were laggards based on their ESG scores and that could not articulate how they planned to improve their ESG metrics.

Furthermore, large institutional investors have for some years been using their voting powers to reduce the number of over-boarded directors on boards, often through specific policy choices. The trend seems to be towards a recommendation of four or, at the very most, five mandates, with the board chair counting as three and committee chairs counting as two; and further reinforcement of the general principle that executives should have no more than one external role.

The governance, nomination and remuneration committee chair in particular should be wary of non-adherence to best practice, and can expect to be voted against if: the roles of the chief executive and chair have not been split; a senior independent director has not been appointed; the board has not conducted an externally facilitated evaluation of its effectiveness within the past three years; or an individual who has a significant conflict of interest, or whose past actions demonstrated a lack of integrity or inability to represent shareholder interests is nominated (or re-nominated) to the board.



About the KPMG Board Governance Centre

The KPMG Board Governance Centre (BGC) is a dedicated forum that provides Board members with insights and resources to keep abreast of current and emerging governance issues.

The KPMG BGC offer thought leadership and timely resources including periodic seminars and round tables to host the exchange of views and support Board members (including Board sub-committee members) in clarifying and enhancing their governance practices amid rapidly evolving corporate governance landscape in Nigeria.

Learn more: ***http://bit.ly/board-governance-centre***

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