

Nomination & Remuneration Committee (NRC): Insights from Mehta & Mehta Webinar

The Nomination & Remuneration Committee (NRC) plays a central role in shaping board composition, ensuring leadership continuity, and strengthening corporate governance. In a recent Mehta & Mehta webinar, experts shared practical insights, case studies, and real-world challenges that companies face while implementing Section 178 of the Companies Act, 2013 and Regulation 19 of SEBI LODR.

The session highlighted how the effectiveness of the NRC directly influences board quality, performance evaluation, succession planning, and even crisis management.

1. NRC – Why It Matters Today

NRC is responsible for identifying and recommending individuals for the board and senior management, ensuring that their skills, integrity, and experience align with organisational needs.

Key corporate governance issues discussed:

India's boardrooms are still dominated by promoter influence; many independent directors function merely on paper.

NRC must ensure that directors not only meet statutory "independence" criteria but also demonstrate independent thinking.

2. Evolution of NRC – How the Law Developed

The concept of NRC has evolved significantly:

Pre-2000s: No formal requirement; directors' remuneration and appointments were board- or shareholder-driven.

2002–03 (Naresh Chandra & Narayana Murthy Committees): Recommended voluntary Remuneration Committees.

Companies Act, 2013: First statutory mandate for NRC.

SEBI LODR 2015: Strengthened norms for listed entities higher independence thresholds, mandatory disclosures, and detailed responsibilities.

This transition underscores the shift from a voluntary governance practice to a statutory governance pillar.

3. Applicability – When Companies Must Constitute the NRC

Under the Companies Act, 2013

Mandatory for:

- All listed companies

- Unlisted public companies meeting any of the following:
 - ⇒ Paid-up share capital \geq ₹10 crore
 - ⇒ Turnover \geq ₹100 crore
 - ⇒ Outstanding loans/borrowing/deposits \geq ₹50 crore

Exemptions include:

- ⇒ Section 8 companies
- ⇒ IFSC public companies
- ⇒ Government companies (partial exemption)

Private companies need an NRC only if required by sectoral regulators like RBI/NHB (e.g., NBFC-CICs).

4. Composition – What the Law Requires

Companies Act

- ⇒ Minimum 3 non-executive directors
- ⇒ At least half must be independent directors
- ⇒ Chairperson of the company may be a member, but cannot chair the NRC

SEBI LODR (Stricter Norms)

- ⇒ Minimum 3 directors
- ⇒ Two-thirds must be independent
- ⇒ Chairperson must be independent
- ⇒ Chairperson of the company may be a member, but cannot chair

Experts noted the rationale: the Chairman may provide organisational insight, but independence in chairing NRC must be preserved.

5. Key Functions of NRC

A. Appointment & Removal

- ⇒ Identify qualified persons for directorship and senior management.
- ⇒ Evaluate candidates for skills, experience, cultural fit, temperament, and alignment with company values.
- ⇒ Consider diversity skill, experience, and gender.

Experts emphasised that external search firms may assist, but NRC must apply its independent judgment.

B. Remuneration Policy

NRC must ensure:

- ⇒ Remuneration is reasonable, sufficient, and performance-linked
- ⇒ Balance between fixed and variable components
- ⇒ Variable pay tied to measurable KPIs
- ⇒ Transparent disclosure to shareholders

Proxy advisory firms scrutinise remuneration resolutions heavily. Several companies (e.g., Zee Telefilms, Lupin, Bajaj Group entities) have seen remuneration proposals defeated due to NRC shortcomings.

C. Performance Evaluation

NRC formulates criteria for evaluating:

- ⇒ Individual directors
- ⇒ Committee effectiveness
- ⇒ Overall board functioning
- ⇒ Independent directors
- ⇒ Chairperson's leadership

Best practices shared:

- ⇒ Include self-evaluation along with peer evaluation
- ⇒ Conduct evaluation annually with structured criteria
- ⇒ Map board skill sets and identify gaps
- ⇒ Use external agencies if required
- ⇒ Senior management
- ⇒ Independent directors
- ⇒ Chairperson and Committee heads

6. Proxy Advisory Firms – Watching NRC Closely

Proxy advisory firms (e.g., SES, IiAS) scrutinise:

- ⇒ ID appointments
- ⇒ Remuneration structures
- ⇒ Succession planning

⇒ Board evaluation quality

If NRC proposals fail scrutiny, they may be rejected by shareholders. Companies increasingly review proxy advisory guidelines **before** drafting resolutions.

7. Best Practices Suggested in the Webinar

- ⇒ Transparent disclosures in resolutions and annual reports
- ⇒ Early setting of KPIs and alignment with strategic goals
- ⇒ Continuous interaction between NRC Chair and CHRO
- ⇒ Skill matrix updates annually
- ⇒ Avoid “tick-box” evaluations
- ⇒ Maintain independence and objectivity in recommendations
- ⇒ Document NRC deliberations carefully
- ⇒ Ensure cultural fit and integrity checks while appointing IDs

Conclusion

The Nomination & Remuneration Committee is not just a statutory requirement it is the guardian of board integrity. Its effectiveness determines:

- ⇒ Quality of leadership
- ⇒ Board independence
- ⇒ Ethical compensation practices
- ⇒ Crisis resilience
- ⇒ Long-term governance culture

To stay informed or access the webinar recording, visit the YouTube channel:

 **"Decoding Corporate Laws with Mehta & Mehta"**