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# On the 2024 Governance, Nomination & Remuneration Committee Agenda

**KPMG Nigeria Board Governance Centre**

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**In the face of disruption and uncertainty – a turbulent economic and geopolitical environment, surging inflation, high interest rates, ESG commitments, talent management and dramatic changes in the business and risk environment, companies must navigate these challenges with the skills and experience of board members continuously tested. Drawing on our research, insights, and interactions with directors and business leaders, we highlight five issues for governance, nomination and remuneration committees to bear in mind as they consider and carry out their 2024 agendas.**

## Enriching board decisions through visible and invisible diversity

Boards, investors, regulators, and other stakeholders are increasingly focused on the alignment of board composition with the company's strategy - with diversity being at the front and center. 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.

Boards are encouraged to examine diversity in their composition along the lines of visible and invisible diversity. Visible diversity connotes easily identifiable characteristics that may affect the initial impressions or stereotypes formed about a director. They include geographic origins, gender, discipline, etc.

In KPMG Nigeria Board Governance Centre (BGC's) Boardroom Diversity Survey report of 2022 titled 'Poised for Change?', 42 percent of directors polled said geographic diversity is represented on their boards whilst 24 percent deem geographic diversity as not relevant. Despite what spectrum one stands, in the debate for inclusion and diversity, acknowledging and being deliberate in ensuring adequate geographical representation on the board is essential for fostering inclusive environments.

Gender diversity on boards in Nigeria continues to be a key area of focus given the level of progress made. The disclosure requirements of gender diversity in annual reports has put more spotlight on this with more gains recorded on gender diversity in the banking sector when compared to other sectors in Nigeria. This is largely due to the very specific disclosure requirements introduced by the CBN's Nigerian Sustainable Banking Principles in 2012 and cited by the Corporate Governance Guidelines for Commercial, Merchant, Non-Interest and Payment Service Banks in Nigeria in 2023.

Other regulations such as the Nigerian Code of Corporate Governance, 2018 and the Nigerian Communications Commission Guidelines on Corporate Governance 2023 require committees responsible for nomination to ensure an appropriate balance of gender diversity on the board.

Furthermore, with the responsibility for overseeing organisational risks in a volatile, uncertain, complex and ambiguous (VUCA) environment, boards should consider the disciplines or fields of knowledge of directors. Diversity of disciplines fosters creativity and a combination of insights from different fields can lead to novel solutions and strategies.

On the other hand, invisible diversity encompasses attributes that may not be immediately apparent and may require continued interactions to uncover. They include cognitive and generational diversity among others.

Cognitive diversity and behavioural diversity is also an understudied and complex area, which affects the board room and the Company as a whole. To incorporate cognitive and behavioural diversity in the appointment of directors, the Committee should consider the following:

- Appointment criteria: It is important to identify what skills are 'really' essential to the board. If the appointment criteria are too rigid, one might limit cognitive diversity and attract limited suitable candidates.

- Diverse professional experiences: It is worthwhile to examine where candidates gained their professional expertise; those with a background in various industries or roles may bring a different approach to problem solving.
- What director behavioural type do you need around the boardroom table?
  - Risk cautious vs risk adventurous?
  - Idea initiators vs Idea executors?
  - Diplomatic vs forthright?
  - Task oriented vs people oriented?
  - Detailed thinking vs strategic thinking/seeing the bigger picture?
  - Collaborative vs autonomous?
  - Logical vs emotional?

When recruiting new directors, the committee may consider conducting an analysis of director behavioural types as this may help the board function as an effective decision-making body.

Owing to the increase in the earning power and entrance of Generation 'Z' (Gen Z) into the labour market, boards should consider including or increasing, as the case may be, generational influences in its decision-making. Also, generative diversity offers fresh insights, technological fluency, and innovative ideas.

Board composition, diversity, and renewal should remain a key area of board focus in fundamentally positioning the board strategically for the future. To maximise benefits from strategic and operating skills, boards are now realising that diverse perspectives create long-term value for the organisation. Hence, the growing trend of more women on boards along with opportunities for people from diverse backgrounds, age, geography, race etc. Board composition should evolve to reflect the changing business and societal environment if the board is going to be effective in its role.

To enhance boardroom diversity, boards should:

- Use company strategies and stakeholders' lenses to establish board diversity goals
- Construct a board diversity matrix that considers multiple dimensions of diversity e.g., skill sets, background and decision-making style.
- Routinely review an organisational diversity scorecard
- Create networking opportunities for directors to tap into new, diverse networks of qualified board candidates
- Exercise inclusive leadership to harness the full collective intelligence of the Board.

## Board skills required to support growth

The continuing priority is to ensure that talent, in the boardroom and in the pipeline, is aligned to strategy – even where that strategy has changed significantly in reaction to the events of the last two years.

Demand for experience in business transformation, growth, technology and restructuring is likely to continue. Leadership styles have pivoted towards empathetic leadership, a broader understanding of issues affecting the workforce and wellbeing issues remain high on the agenda.

The key questions the Governance, Nomination & Remuneration Committee or its equivalent should ask include: What steps is the committee taking to ensure the board, leadership and senior management team are fit for purpose and well placed to support sustainable growth? Does the committee have a good understanding of the company's talent strategy and its alignment with the company's broader strategy and forecast needs for the short and long term?

Digitalisation, cybersecurity and innovative technology are increasingly important components of many corporate strategies. Individuals with deep technological expertise can be hired at an executive level but board members still need to be able to 'ask the right questions' and just as important, 'understand the answers', to be capable of contributing across the range of issues the board faces. Have the risks around inexperience been historically overstated? If not, have they now been surpassed by the potentially higher risk associated with a board lacking in technology literacy?

The committee should consider looking beyond the 'usual suspects' to find people with different experiences and backgrounds -including those who have not served on a listed company board. With appropriate induction, mentoring and coaching, new directors should be able to adapt reasonably quickly.

Finally, courage, integrity and the emotional intelligence to provide a balance of perspectives should not be underestimated as key requirements to help the CEO and organisation recover and support continual growth.

## Skillsets to expand and enhance ESG oversight

Environmental, Social and Governance (ESG) continues to be a critical consideration for businesses, investors and shareholders across all sectors. Whilst sustainability/climate change remains front and centre, some of the challenges within the 'S' of ESG have rapidly risen up the agenda.

Oversight of sustainability/climate change related risks, opportunities and reporting - including regulatory requirements, new metrics and stakeholder pressure to 'get it right' - starts with an ESG competent board. Boards need to understand ESG risks and have its impact on long-term value creation, top of mind. This will include an understanding of which issues are of greatest risk or strategic significance to the company, how they are embedded into the company's core business activities, and whether there is strong executive leadership behind the company's response to ESG matters.

Oversight of these risks and opportunities is a significant challenge, involving the full board and potentially multiple board committees. The key questions the committee should ask include: how is the nomination committee ensuring that the board and senior executive team have the appropriate skills? Is this addressed head-on as part of the annual board evaluation exercise? Do the succession plans explicitly address ESG competency?

## Succession planning

The Nigerian Code of Corporate Governance 2018 requires the committee to ensure a succession policy and plan in place for board members and key principal officers of the company to ensure continuity in leadership. It further requires succession planning be reviewed periodically, and provision made for succession in emergency situations as well as long-term vacancies.

Successors may be identified from 'rising stars' who have dealt with crises, those that sit on multiple boards who can share insights from other organisations or have expertise in tech innovation. Potential candidates should be assessed to provide reassurance that they have demonstrated ethical behaviours – the frequency of stories related to various forms of harassment and personal relationships are increasing. In addition to being aware of the organisations code of conduct and policy on ethical behaviours, boards should also review their due diligence requirements when appointing new members.

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

The Committee should also provide adequate oversight on key staff succession plans considering the continued exodus of key talents due to 'the Great Resignations movement locally tagged as 'Japa'. The Committee should ensure that talent pipeline for critical roles in

the company are continually developed for succession planning.

## Cost of living crisis and Non-Executive Director fees

"At a time when many employees face a cost-of-living crisis, many employers also face a 'cost of doing business' crisis, limiting the aid they can offer", said Charles Cotton, senior reward adviser for the Chartered Institute of Personnel and Development, UK. Companies will therefore need to optimise their pay spend through a targeted strategy and ensure their pay decisions are neutral from a Diversity and Inclusion lens. They should also ensure management commence or continue to assess Employee Value Proposition including their benefits and wellness offerings, particularly given the ongoing focus on emotional, physical and financial employee wellbeing.

Regarding the role of a non-executive director, it is widely recognised that the complexity and time requirements of the role have increased. This is likely to exert upward pressure on fees and a renewed interest in the level of NED fees in 2024.

# 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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