NOMINATION AND REMUNERATION COMMITTEES: BALANCING STAKEHOLDER INTEREST AND DIRECTOR AUTONOMY

Kashish Sharma, IILM University, Gurugram [1]

ABSTRACT

Nomination and Remuneration Committees (NRCs) play a pivotal role in ensuring transparency, independence, and accountability in corporate governance by overseeing board appointments, performance evaluation, and executive remuneration. In India, NRCs are statutorily mandated under Section 178 of the Companies Act, 2013 and Regulation 19 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, reflecting a stakeholder-oriented governance approach. Despite this framework, concerns persist regarding promoter influence, limited disclosures, and a compliance-driven functioning of NRCs.

This paper examines whether NRCs in India effectively balance stakeholder expectations with the autonomy required for sound board decision-making. Using a doctrinal and analytical approach informed by agency and stakeholder theories, the study evaluates statutory provisions, judicial interpretations, and regulatory practices, supplemented by comparative insights from the UK Corporate Governance Code and OECD Principles. The paper argues that strengthening independence, disclosure norms, and performance-linked remuneration mechanisms is essential to enhance NRC effectiveness and long-term governance outcomes.

[1] Student at IILM University, Gurugram

INTRODUCTION:

Corporate governance today serves as a fundamental mechanism through which companies are supervised, directed, and held accountable. It provides the normative and institutional framework that regulates the exercise of corporate power and ensures that managerial decisions align with principles of transparency, fairness, and ethical conduct. Modern governance discourse recognises that corporations operate within a network of stakeholder relationships, extending beyond shareholders to include employees, consumers, creditors, regulators, and the community. Within this wider governance architecture, the Nomination and Remuneration Committee (NRC) has become one of the most influential board committees tasked with upholding the integrity and independence of the company's leadership structure[2].

The importance of the NRC lies in its mandate to recommend appointments to the board and senior management, undertake performance evaluation, and formulate remuneration policies that correspond with merit, responsibility, and long-term organisational goals[3]. These responsibilities directly influence the competence, independence, and ethical orientation of the board. A well-functioning NRC ensures that leadership appointments are made on objective criteria and that compensation is linked to performance rather than personal or promoter-driven considerations[4]. By shaping the processes that govern who leads the organisation and how they are rewarded, the NRC acts as a critical link between internal governance mechanisms and stakeholder expectations.

However, the practical functioning of NRCs in India often reflects a delicate balance. On one hand, stakeholders seek transparent appointment processes, equitable remuneration structures, and assurances that decisions are made in the long-term interest of the company. On the other hand, directors require sufficient autonomy to exercise judgment free from external pressures. If stakeholder or promoter influence becomes excessive, it may compromise board independence; conversely, unchecked managerial discretion can result in conflicts of interest, inflated executive pay, or governance failures[5]. This underlying tension underscores the central research concern: whether the NRC effectively mediates these competing expectations.

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[2] Companies Act, 2013, s. 178

[3] Adrian Cadbury, Report of the Committee on the Financial Aspects of Corporate Governance (Gee Publishing 1992)

[4] SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, reg. 19.

[5] OECD, *Principles of Corporate Governance* (2015).

In India, this balance is statutorily framed by Section 178 of the Companies Act, 2013, which mandates NRCs for specified companies, and Regulation 19 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, which further strengthens requirements for listed entities. These provisions prescribe the composition of NRCs, typically dominated by independent directors, and elaborate on their responsibilities relating to nomination, performance evaluation, and remuneration. Despite this detailed legislative architecture, practical issues persist, particularly in promoter-controlled companies where informal influence may dilute committee independence. Questions have also been raised regarding the sufficiency of remuneration disclosures and the effectiveness of performance-linked pay in fostering long-term value[6].

This research paper investigates the extent to which NRCs in India succeed in balancing stakeholder expectations with the autonomy required for effective board functioning. Drawing upon agency theory, stakeholder theory, and corporate governance principles, the study adopts a doctrinal and analytical approach supplemented by comparative insights from global governance standards such as the UK Corporate Governance Code and OECD Principles[7]. Through this examination, the paper aims to assess the strengths and limitations of the existing framework and offer policy-oriented recommendations to enhance the transparency, independence, and accountability of NRCs in India[8].

LITERATURE REVIEW

The scholarship on Nomination and Remuneration Committees (NRCs) draws from broader debates on corporate governance, board independence, managerial accountability, and stakeholder protection. Academic literature consistently emphasises that the effectiveness of corporate governance depends not merely on statutory requirements but on the manner in which board-level committees exercise judgement, maintain transparency, and align leadership incentives with long-term organisational interests.

Early theoretical work on corporate governance, such as Jensen and Meckling's agency theory, highlights the natural misalignment between managers and shareholders, making independent monitoring structures essential for reducing opportunistic behaviour and excessive

[6] ICSI, *Guidance Note on Board Committees* (2021).
[7] Umakanth Varottil, 'Evolution and Effectiveness of Independent Directors in Indian Corporate Governance' (2010) 6(2) National Law School of India Review 281.
[8] UK Financial Reporting Council, *UK Corporate Governance Code* (2024).

compensation.[9] This foundational theory has informed subsequent research stressing the importance of independent directors and specialised committees, particularly NRCs, in maintaining the integrity of board decisions relating to recruitment, evaluation, and remuneration.

A second strand of literature focuses on the evolution of board nomination practices and the need for diversity, independence, and professional competence. Scholars argue that the composition of the board significantly influences the quality of governance outcomes.[10] Studies on board nomination processes observe that without structured mechanisms, appointments may reflect personal networks, familial ties, or dominant shareholder influence, ultimately undermining the independence of the board.[11] The NRC is therefore viewed as a corrective institutional structure that reduces discretionary or biased appointments by introducing criteria-based selection and transparent evaluation procedures.

In the Indian context, several commentators analyse the transformative impact of the Companies Act, 2013, particularly Section 178, which mandates the constitution of NRCs for prescribed classes of companies.[12] Research on Indian corporate governance reforms notes that the NRC framework aims to professionalise board appointments, introduce objective performance metrics, and design remuneration policies aligned with statutory and ethical standards.[13] Despite these reforms, scholars point out that implementation gaps persist in areas such as disclosure quality, genuine independence of committee members, and the substantive evaluation of directors.[14]

A further body of literature addresses executive remuneration and its relationship with firm performance. Empirical studies frequently debate whether performance-linked pay effectively aligns managerial incentives with long-term goals.[15] While some research suggests that well-structured compensation packages contribute to improved accountability, other scholars

[9] Jensen MC and Meckling WH, "Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure" *Journal of Financial Economics* (1976).
[10] Carter DA, Simkins BJ and Simpson WG, "Corporate Governance, Board Diversity, and Firm Value" *Financial Review* (2003).
[11] Adams RB and Ferreira D, "Women in the Boardroom and Their Impact on Governance and Performance" *Journal of Financial Economics* (2009).
[12] Companies Act 2013, s 178.
[13] Varottil U, "Evolution of Independent Directors in India" *National Law School of India Review* (2015).
[14] Balasubramanian N, "Corporate Governance in India: Progress Within Limits" *Economic and Political Weekly* (2012).
[15] Murphy KJ, "Executive Compensation" *Handbook of Labor Economics* (1999).

caution that poorly designed incentives can encourage short-term risk-taking or inflated pay levels without corresponding value creation.[16] For this reason, the NRC's role in developing balanced remuneration policies is considered central to maintaining ethical and sustainable corporate governance.

Emerging scholarship also examines the stakeholder-centric approach in modern governance, arguing that NRCs must balance the expectations of shareholders, employees, consumers, regulators, and civil society.[17] This broader perspective reflects the increasing recognition that corporate leadership decisions, particularly regarding appointments and remuneration impact not only financial performance but also organisational culture, public trust, and socio-economic welfare.

Taken together, the literature establishes that NRCs are a crucial institutional mechanism for ensuring transparent leadership selection, fair remuneration practices, and genuine board independence. However, researchers consistently emphasise that the effectiveness of these committees depends on their autonomy, expertise, and willingness to uphold governance norms in practice. This tension between regulatory compliance and substantive accountability forms the backdrop for the present analysis on how NRCs mediate stakeholder interests while preserving director autonomy.

ANALYSIS

The Nomination and Remuneration Committee (NRC) in Indian companies operates at the critical interface between stakeholder accountability and director autonomy. While the legal framework under Section 178 of the Companies Act, 2013 mandates NRCs to safeguard independence and fairness, the real test lies in whether NRCs exercise genuine discretion in practice rather than merely serving as a rubber stamp.

One core issue is fiduciary duty and the independence of directors. The Supreme Court in Sangramsinh P. Gaekwad & Ors. v. Shantadevi P. Gaekwad held that directors owe their primary duty to the company, not to individual shareholders[18]. This principle underscores the

[16] Bebchuk LA and Fried JM, *Pay Without Performance: The Unfulfilled Promise of Executive Compensation* (Harvard University Press 2004).
[17] Freeman RE, *Strategic Management: A Stakeholder Approach* (Pitman 1984).
[18] Sangramsinh P. Gaekwad & Ors. v. Shantadevi P. Gaekwad, (2005) 11 SCC 314, available at https://indiankanoon.org/doc/497296/ (last visited 16 November 2025).

role of NRCs: since directors do not inherently owe a duty to shareholders, NRCs must ensure that appointments and remuneration align with the company's best interests, not just founder or promoter preferences.

Another relevant precedent is Miheer H. Mafatlal v. Mafatlal Industries Ltd. (AIR 1997 SC 506, (1997) 1 SCC 579), where the Supreme Court, in sanctioning a scheme of amalgamation, emphasised the need for full disclosure of directors' interests and cautioned against decisions where conflict of interest is not transparently managed[19].This case illustrates how NRCs should act: they must independently evaluate proposals affecting directors or stakeholders, rather than simply approving related-party transactions.

From a regulatory compliance standpoint, recent enforcement action shows that failure to constitute an NRC is not merely symbolic. In the case of Khed Developers Limited, the Regional Director (Western Region) upheld a ₹12 lakh penalty on the company and its defaulting directors for violating Section 178. This demonstrates that regulators take NRC obligations seriously and expect committees to be genuinely functional.[20]

Moreover, remuneration governance remains a pressing issue: Section 197 and Schedule V of the Act regulate pay, but independent directors' compensation in cases of inadequate profits was limited until the March 2021 amendment[21]. Without strong NRC oversight, there is a risk that remuneration becomes disconnected from performance.

Finally, NRCs also mediate appointment and valuation challenges. In the Mafatlal case, the Court noted that valuation is a complex exercise and must often rely on experts; yet it also warned against treating NRC or board approval as a mere formality[22]. Well-functioning NRCs should thus interrogate valuation processes and ensure that directors' interests are aligned with company value, not just board convenience.

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[19] Miheer H. Mafatlal v. Mafatlal Industries Ltd., AIR 1997 SC 506; (1997) 1 SCC 579, available at https://indiankanoon.org/doc/614844/ (last visited 16 November 2025).

[20] Khed Developers Ltd. – Penalty for Non-Constitution of NRC, TaxGuru, available at https://taxguru.in/company-law/penalty-upheld-non-constitution-nomination-remuneration-committee.html (last visited 16 November 2025).

[21] "Remuneration Payable to Independent Directors in Case of Inadequate Profits," TaxGuru, available at https://taxguru.in/company-law/remuneration-payable-independent-directors-case-absence-inadequacy-profits.html(last visited 16 November 2025).

[22] Miheer H. Mafatlal v. Mafatlal Industries Ltd. – Valuation Judgement," Casemine, available at https://www.casemine.com/search/in/miheer%2Bmafatlal%2Bvaluation (last visited 16 November 2025).

In the UK, the UK Corporate Governance Code (2024) requires that remuneration committees consist entirely of independent non-executive directors, ensuring that no director participates in determining their own pay.[23] The Code emphasises long-term value creation, linking pay to sustained performance and explicitly incorporating ESG-related metrics. Importantly, it mandates "malus and clawback" provisions, enabling committees to withhold or recover remuneration in cases of misconduct or performance failure. This framework provides a structurally independent, forward-looking model of remuneration oversight.

Similarly, the OECD Principles of Corporate Governance stress the need for independent board committees, transparent remuneration policies, and performance-linked compensation that promotes long-term organisational value[24]. While India's NRC structure mirrors these principles in law, practical implementation often falls short: disclosures remain limited, long-term incentive plans are less common, and corrective mechanisms such as clawbacks are rarely used.

Operationally, many Indian NRCs continue to follow a compliance-oriented approach, fulfilling statutory requirements without exercising substantive evaluative discretion. Weak enforcement and limited shareholder activism further reduce the committee's influence. Strengthening SEBI's mandatory disclosures, especially concerning remuneration metrics, long-term incentive structures, and clawback policies, would more closely align Indian practice with UK and OECD standards. Moreover, clearer accountability norms for independent directors could enhance their willingness to interrogate nominations and executive pay decisions more rigorously.

In sum, while India's regulatory framework mandates NRCs to balance independence and accountability, the effectiveness of these committees in practice depends on their willingness to exercise independent judgment supported by a clear governance culture, robust disclosures, and external accountability.

CONCLUSION

The role of Nomination and Remuneration Committees has become fundamental to

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[23] UK Financial Reporting Council, UK Corporate Governance Code 2024, available at https://www.frc.org.uk (last visited 16 November 2025).
[24] OECD, Principles of Corporate Governance (2015), available at https://www.oecd.org (last visited 16 November 2025).

strengthening corporate governance in India, particularly as companies navigate increasing scrutiny from regulators, investors, and the public. While the statutory framework under the Companies Act, 2013, and the SEBI (LODR) Regulations, 2015, provides a clear structure for NRC functioning, its real effectiveness depends on the independence, judgment, and integrity of committee members. Judicial decisions have consistently reinforced the expectation that board processes must adhere to transparency, fairness, and fiduciary responsibility.

However, challenges persist. Instances of promoter dominance, non-transparent remuneration policies, and inadequately reasoned appointment decisions highlight the gap between regulatory design and actual practice. The analysis demonstrates that NRCs serve as a critical balancing mechanism protecting stakeholder interests without undermining the board's operational autonomy. Strengthening disclosure standards, ensuring genuine independence in appointments, and fostering a culture of principled decision-making are necessary steps to enhance NRC effectiveness.

Ultimately, a robust, independent, and well-functioning NRC not only improves governance outcomes but also builds trust, accountability, and long-term value within India's corporate landscape.