CURRENT TRENDS IN EXECUTIVE COMPENSATION. INCREASED TRANSPARENCY IN SPAIN THANKS TO THE ANNUAL REMUNERATION REPORT

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Abstract

Executive compensation has been one of the most controversial topics in recent years. There are two unstoppable trends in this field. On the one hand, the incentives design is evolving from models that consider only financial objectives towards a broader approach influenced by the Corporate Social Responsibility framework that takes into account environmental and social measures. On the other hand, and as a consequence of the new theoretic

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framework, all recent Codes of Conduct are enforcing the need for transparency. In this article, we analyze the path towards transparency in the case of Spain and the new Annual Remuneration Report that has been approved for all public listed companies.

Key words: Remuneration; Executive Compensation; Transparency; Annual Remuneration Report; Corporate Social Responsibility; CSR.

Resumen

La retribución de la Alta Dirección de las empresas ha sido uno de los temas más controvertidos de los últimos años. Existen dos tendencias imparables en este campo. Por una parte, el diseño de los planes de incentivos está evolucionando desde un modelo con objetivos meramente financieros hacia un enfoque más amplio, bajo la influencia del movimiento de Responsabilidad Social Corporativa, que incluye otros aspectos como los medioambientales y sociales. Por otra parte, y como consecuencia de este nuevo marco teórico, todos los códigos de conducta recientes están impulsando la transparencia en materia de retribución. En concreto, analizaremos el camino hacia la transparencia y el nuevo Informe Anual de Retribuciones que se ha aprobado en España.

Palabras clave: Retribución; Alta Dirección; Transparencia; Informe Anual de Retribuciones; Responsabilidad Social Corporativa; RSC.

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1. INTRODUCTION

Executive compensation has been one of the most controversial issues in recent years for researchers, human resources professionals and media all around the world. Research on this subject is wide and accumulates more than 300 investigations (Gomez-Mejia and Wiseman, 1997). In particular, as we have seen in the recent economic crisis, there is a widespread debate about the lack of alignment of the remuneration of the Management Team with the company results. Various scandals that have received wide coverage in the media have put Compensation on the spot.

In this article, we will review the two main trends that are transforming the way we understand Executive Compensation.

On the one hand, the evolution from theoretic models based only on financial metrics towards a more complex and comprehensive body of theories that take into account non-economic factors, such as environmental and social hence linked with Corporate Social Responsibility (CSR). First, we will briefly explain the classic Agency theory, and then we will review its critics and weaknesses that have led to new theoretic developments. Afterwards, we will describe the Stakeholder theory and the way it is transforming the design of Management incentives and how this links with the Corporate Social Responsibility approach.

On the other hand, there is a demand for transparency in Executive Compensation in line with the recent theoretic frameworks and Codes of Conduct issued in many different countries that recommend a clear explanation of how Board Members are remunerated. We will review the arguments in favour of greater transparency in the Executive Compensation area and focus on the new legislation that has been approved in Spain. As a result of these changes, we will present the main features of the new standard Annual Remuneration Report that has been introduced in Spain for all public listed companies.

2. EXECUTIVE COMPENSATION DESIGN

There are three main elements that have to be decided upon in any compensation plan design: the role of the professional that we want to incentivize, the metrics we are going to use to assess Management performance and the reward formula. Regarding the role, in this paper we are only looking at the Management Team, so we understand that they have an overall responsibility over the company and their objectives should be clearly aligned with the company overall objectives. The reward formula will not be analyzed in this paper. We shall focus on the objectives, that is, how to measure Management performance. We shall start by outlining the traditional Agency theory that sets the ground for the existence of incentives at the Management level.

2.1. The Agency theory

The neoclassical model provides a complete framework that explains the behavior of economic agents under the standard neoclassical assumptions of competitive markets, perfect information and the agents´ objectives of maximizing profit and utility. Following that model, the Agency theory was the dominant paradigm in the financial economics literature for many years (Hill et al., 1992).

In this model, any salary level is determined by the intersection between the supply and demand in the job market (Roberts, 1959). According to this model, the scarcity in the Management job market defines the levels of remuneration

that we observe today. In this theory, the remuneration is positively correlated with results, the size of the firm and the lack of alternative candidates.

The predominant theory in the neoclassical view paves the way to the Agency approach, which maintains the neoclassical premises although it relaxes the assumption of perfect information by introducing uncertainty and therefore, asymmetric information. The origins of this theory can already be found in the classical work of Adam Smith, *The wealth of nations*, (Smith, 1776: 699) where he wrote: "The directors … being the managers rather of other people's money rather than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which [they would] watch over their own".

This theory is based on the premise that managers have their own objectives, which may be different from the objectives of the owners of the company. As defined in the classic article *Theory of the firm* (Jensen and Meckling, 1976), an agency relationship occurs when one or more persons, the *principal*, hires another person, *the agent*, to perform an activity on their behalf that involves delegating some decision making authority to the agent. Under these assumptions, there are good reasons to believe that the agent will not always act in the best interest of the principal. The principal can limit the differences between his interests and the ones of the agent by establishing appropriate incentives which aligns the objectives of the agent with his own (Fama, 1980). However, due to asymmetric information, in practice, it is impossible for the principal to fully ensure that the agent will take optimal decisions from his point of view.

The assumptions of the agency approach reflect better the reality of companies in which there is a dispersed ownership structure, and therefore, a real separation between the ownership and the Management Team of the company (Berle and Means, 1932).

As a consequence, the Agency theory explains why there is a need for an appropriate incentive plan for the Management Team that aligns its interests with the company objectives. The key for this alignment is that the measures included in the incentive plans properly reflect the interest of the shareholders.

Under the neo-classical economic perspective, the corporate objective is unique and only maximizes the benefits for the shareholders and the social role of the company is ignored. The Nobel Prize in economics, Milton Friedman, is the best example of this assertion, being categorical about the social function of the company: "there is one and only one social responsibility of business: use its resources and engage in activities designed to increase the benefits" (Friedman, 1970: 32).

Thus, to ensure that the objective of profit maximization is achieved, remuneration packages include short term and medium term financial criteria that focus on performance measures. Indeed, there are studies that demonstrate that financial criteria dominate the remuneration plans of the Board Directors (Mur-

phy, 2000). These plans rarely contain criteria that consider the interests of other groups of interest (or stakeholders), criteria such as relations with employees, environmental performance, occupational diversity and other social aspects whose relationship with the financial results can be ambiguous. Given the objective of maximizing the benefits of the company, any financial or investment decision that does not result in an increase of the company's value for shareholders is not acceptable.

Nevertheless, recent studies have raised doubts and increasing criticism has arisen about the effectiveness in the short and medium term of linking Management remuneration exclusively to financial and economic results. The main reason is that the neoclassical theory does not consider the interests of other groups who are not shareholders, which have great importance for the survival of the company in the long term, such as employees, society, environment, etc. Paying attention to these groups, can give an increase value for shareholders in the long term.

Several theories have been developed contributing to the knowledge in this field and addressing the weaknesses of the Agency theory; the theory of Cost of transaction (Williamson, 1983), the Stewardship Theory (Muth y Donaldson, 1998) the Institutional approach (DiMaggio y Powell, 1983; Scott, 1995), etc. As we mentioned before, there is a wide range of research in this field.

Currently, the incentive systems for Board Members do not normally include explicitly social criteria (Berrone and Gómez-Mejía, 2009). This is a source of uncertainty for managers since they do not know whether or not they will be compensated for a good corporate social performance, which is clearly a disincentive for embarking on initiatives of social content. On the other hand, there is a growing feeling that companies should not consider a unique financial objective neglecting all other stakeholders and interests.

The theory that is becoming more influential in corporations in recent years is the Stakeholders approach that we discuss in the following chapter.

2.2. The Stakeholders Approach

The book *Strategic Management: A Stakeholder Approach* (Freeman, 1984), lays the foundation of what is today known as the *Stakeholder* theory. Freeman´s thesis is that the Executive is responsible for the *stakeholders*, that is, any group or individual who can affect or is affected by the achievement of corporate objectives. Consequently, the *stakeholders* include not only shareholders but also employees, customers, the community, government agencies and the environment.

One of the clearest differences between neoclassical approach and the S*takeholder* theory is that the latter rejects the idea of a single objective criticized by many authors (Barkema et al, 1998). The *Stakeholder* perspective does not

depend on a single prescribed target that guides all management decisions, as it emphasizes the management task of balancing and integrating relationships and multiple objectives. In the long term, these two approaches' aim is not that different, as taking care of all stakeholders should contribute to the long term value of the company.

Nevertheless, when we deal with performance measures that are non-financial, we might wonder whether we can establish non-financial objectives. A challenge for researchers in support of the Stakeholder theory is to identify valid measures of the quality of environmental and social management systems (Chatterji et al., 2007). Given the range of stakeholders and their different interests, a company faces the challenge of choosing metrics adequate to assess multiple types of non-financial benefits as well as adopting a method of calculus to combine them in a balanced way.

It is argued that a drawback of social criteria is the difficulty to define objectives that are measurable, because many of these metrics are hard to quantify (Deckop et al., 2006). The neoclassical authors are criticizing the Stakeholder approach for the lack of quantifiable and auditable measures that can be used for Executive Compensation purposes.

Generally speaking, there are two types of metrics:

1. External Metrics or linked to an Index: There are several agencies that rank companies based on the social performance. These rating agencies can examine past environmental and social performance and related management activities. They can also consider the future outlook by analyzing their management plans and investments to enhance future behavior. All this results in a determined value of an Index. In this context, Management may be measured against the performance of the company in that Index. For instance, being in some percentile or improving the position in the Index, such as the Dow Jones Sustainability Index. The advantages are that it covers a wide range of topics and it is measured by an independent body. The disadvantage is that even if you have an improved performance you might lose positions in the ranking because it is relative to other peers.
2. Internal Metrics: In this case, companies establish objectives that they can measure and that are auditable. It is a challenge to find measures and combine them so they represent a balanced view of all stakeholders´ interests. A wide variety of metrics can be used. In the environment front, carbon dioxide emissions are one of the most frequently used. There are also metrics linked to health and well-being programs; labour measures, linked to diversity and workforce satisfaction; social impact of the company´s activities; existence of reporting of specific topics; how suppliers and partners are following determined principles, etc.

In a nutshell, although selecting the metrics is a challenge, it is not a show stopper, and companies are finding ways to compensate their Management Team on both financial and non-financial objectives. In many cases an evaluation committee is established to ensure that the right balance between quantitative and qualitative metrics is taken into account. The trend towards remuneration systems that consider all company dimensions in line with the stakeholders approach is unstoppable. The increasing demand for expanded responsibilities for business is accelerating this trend, as governments and non-governmental organizations are unable to deal with all social, labour and environmental problems without the collaboration of the private sector (Hillman and Keim, 2001).

The increasing pressure towards a broader view of the Executive Compensation is becoming evident with the growing importance of Corporate Social Responsibility. We will review this trend in the following chapter.

2.3. Corporate Social Responsibility (CSR)

The Stakeholder approach is closely linked to the concept of Corporate Social Responsibility (CSR) and the notion of corporate social performance. Companies serving the needs of customers, employees, Governments and other groups within society are considered as behaving in a socially responsible manner.

The CSR concept started with the discussions in the seminal book *Social Responsibilities of the Businessman* (Bowen, 1953). Later, in the 1970s significant social legislation was published coinciding with an explosion of studies on various business related social problems. Some authors established this decade as the turning point for CSR (Carrol, 1991). For instance, in the US, the message was sent very clear during these years as a result of the creation of the Environmental Protection Agency (EPA), the Equal Employment Opportunity Commission (EEOC), the Occupational Safety and Health Administration (OSHA) and the Consumer Product Safety Commission (CPSC).

Some authors have linked CSR and globalization. As the occidental economy, looking for cheaper production costs, moved the low value added production processes to foreign countries, multinational corporations established the goal of maintaining an homogeneous standard of conduct in their activities in social, labor and environmental matters, The reality is that most companies are embracing the notion of CSR. But before we go further, what is Corporate Social Responsibility?

Despite all research in this field, there is not a unique definition of CSR as it depends on the culture and traditions of the society involved; there has been a great proliferation of theories, approaches and terminologies (Garriga and Melé, 2004). In this context of lack of consensus for a definition, the UE strategy 2011-2014 for Corporate Social Responsibility defines CSR as "a concept whereby

companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (European Commission, 2011).

While CSR is a concept very linked to the business model, one of the most visible elements of CSR is philanthropy. It is so visible at times that there are pundits who believe that CSR is mainly perceived as an activity associated with philanthropy and not as an activity focused on the long term added value for shareholders by taking advantage of the opportunities that provide the management of the social and environmental risks of the corporations. To clarify this situation, different names have been proposed to distinguish the philanthropy only approach or a broader one (Andreu and Fernández, 2011).

Leaving the naming question aside, why is CSR important? The European Commission has stressed, in the above mentioned strategy report, that CSR is increasingly important to the competitiveness of enterprises as they can benefit in terms of risk management, cost savings, access to capital, customer relationships, human resource management and innovation capacity. The report mentions: "Because CSR requires engagement with internal and external stakeholders, it enables enterprises to better anticipate and take advantage of fast changing societal expectations and operating conditions. It can therefore drive the development of new markets and create opportunities for growth. By addressing their social responsibility enterprises can build long-term employee, consumer and citizen trust as a basis for sustainable business models. Higher levels of trust in turn help to create an environment in which enterprises can innovate and grow" (European Commission, 2011: 3).

There is no discussion that an increasing number of companies are making CSR part of their strategy, once they have overcome the rejection, ignorance or compliance phase and then decide to make a proactive investment in this area, adopting strong ethical practices, promoting sustainability values and influencing other market players (Ganescu, 2012).

There are several studies that explain the business-case arguments for CSR practices (Carrol and Shabana, 2010), amongst others:

1. Cost and risk reduction, as the demands of stakeholders present potential threats to the viability of the organizations and that corporate economic interests are served by mitigating the threats through a threshold level of social or environmental performance (Kurucz et al. 2008).
2. Developing reputation and legitimacy, improving the generalized perception that the actions of an entity are desirable and appropriate. This attracts consumers, investors and employees. Ratings of Corporations´ environmental activities and capabilities influence billions of dollars of socially responsible investment (Chatterji et al., 2007).

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3. Seeking win-win outcomes through synergistic value creation, seeking opportunities that reconcile the different stakeholders' demands.

Corporate Social Responsibility is seen as a source of competitive advantage because when the company meets the needs of a wide variety of *stakeholders* it increases its reputation, it strengthens the cooperation and trust in their relations, it has access to better resources, reduces their exposure to the risk, and increases its legitimacy within the society. It is expected that all these elements combined, contribute to the economic results of the company (Hillman and Keim, 2001).

While the relationship between Corporate Social Responsibility and financial performance is open to debate, recent reviews indicate there is a positive relationship. In an article that reviewed the analysis in this field, 109 of the 127 studies predicted a positive relationship and only seven found a negative one. The rest reported non-significant relationships or a mixed set of findings (Margolis and Walsh, 2003). Even most academic skeptics acknowledge that CSR may have a positive impact in the economic benefits of enterprises, particularly in the long term.

Consequently, if Corporate Social Responsibility is a measure of the overall result of the company and is expected to improve the value of the company in the long term, it should be considered among the criteria when defining the Management Team´s remuneration.

In a nutshell, it has become apparent during the last decades, particularly through social activism and regulatory activity, that social expectations of business have outstripped the old simplistic view of doing business. Corporate Social Responsibility, or the lack thereof, has become a vital interest to corporate survival (Wood, 1991).

In one of his most celebrated book, Peter Drucker said:"Social responsibility cannot be evaded. It is not only that the public demands it and that society needs it (…). If manager do not take responsibility for the common good, no one else can or will." (Drucker, 1973:325). He could have ended by saying that Executives should be paid on it.

Nevertheless, as concerns of society on business issues, like clean air, fair employment and honesty packaging, are growing with intensity, it is not easy for corporations to integrate responses to these demands into their regular operating procedures (Ackerman, 1973).

As mentioned before, the trend towards a remuneration system that takes into account all company dimensions in line with the Stakeholders approach is unstoppable. There are calls for expanded responsibilities for business as governments and non-governmental organizations are unable to deal with all social, labor and environmental problems without the collaboration of the private sector (Hillman and Keim, 2001). Remuneration of the Management Team should

encourage the achievement of the long term objectives of the firm, and as the social and environmental objectives are added to the economic ones, this will be reflected in their incentives plans.

In its purest form, CSR is supported for its own sake because it is a noble way for corporations to behave (Mintzberg, 1983).

2.4. The Triple Bottom Line: People, Planet and Profit

One of the most advanced practices related to the area of remuneration taking into consideration CSR, is to have a Triple Annual Account or Triple Bottom Line (TBL). John Elkington was the first to defend that a sustainable company should achieve a triple objective, be economically viable, socially beneficial and environmentally responsible (Vanclay, 2003). The term Triple Bottom Line was allegedly coined by Elkington in 1995 (Sarre & Treuren 2001). This approach, also known as the Triple "P" or People, Planet and Profit, focuses corporations not just on the economic value they add in the short and medium term, but also on the environmental and social value they add—and destroy. At its narrowest, the term Triple Annual Account is used as a framework for measuring and reporting corporate performance against economic, social and environmental parameters. At its broadest, the term is used to capture the whole set of values, issues and processes that companies must address in order to minimize any harm resulting from their activities and to create economic, social and environmental value. This involves being clear about the company's purpose and taking into consideration the needs of all the company's stakeholders (shareholders, customers, employees, business partners, governments, local communities and the public).

As Arnold mentions in his *Non-financial Performance Metrics for Corporate Responsibility Reporting revisited,* the academic debate around the principle of TBL has reached a plateau, with acceptance of the overall need (Arnold, 2008).

3. THE PATH TOWARDS TRANSPARENCY

We have mentioned how important the behavior of the public listed companies is for society. In addition, we have seen how the design of the incentive plans of their Management Teams is evolving towards a stakeholder approach that ensures the alignment of remuneration towards the long term objectives of the company. Against this background, transparency is a topic of key importance.

The Agency Theory already establishes the logic for remuneration transparency, as the shareholders need to know how the Management Team is being incentivized towards the company goals, and the corresponding value creation for them. In addition, if we think of the shareholders with a minority stake in the

corporation, transparency is a requirement that protects their interest and that is normally legally enforced by the administrations. However, there may be the case for some degree of secrecy about executive compensation in the interest of the company and the shareholders (Frantz et al, 2013).

In the current financial environment, institutional investors (organizations which pool large sums of money) and proxy advisors are playing a key role in encouraging transparency. Proxy advisors are firms hired by shareholders of public companies to recommend votes on their behalf. As a result of the increasing importance of these two stakeholders, more shareholders are moving from a passive to an active role, and their demand for transparency is gaining importance in all stock markets.

In this chapter, we will review the trend towards transparency and analyze in detail the new Annual Remuneration Report that has been approved in Spain.

3.1. Transparency in Spain

The interest of public administrations in corporate transparency can be confirmed through the different codes of conduct and legislation that has been published in recent years. The first Code of corporate governance was issued in the United Kingdom in 1992, the so called Cadbury Report that has sparked a big number of codes in other countries. In recent years a multitude of codes of good governance have been issued in order to strengthen management systems, and the control of enterprises, making them more transparent, efficient and democratic. Since 1992, and according to the European Corporate Governance Institute, there are more than 73 countries that have published a code, principles or some kind of recommendations around this topic (Puentes et al, 2009).

In Spain, the first published Code was the *Olivencia* Code in 1998, which was followed by the *Aldama* Code in 2003. These recommendations were brought together in the Unified Code of good governance or *Conthe* Code published in 2006. The path towards transparency started considering that aggregate information about Board Member compensation would be enough (Sánchez-Calero, 2007) but the recent recommendations are stressing the need for individualized information. Therefore, the recent legislative changes are pointing into this direction.

The Conthe Code introduced some new topics and recommendations such as the ones linked to gender diversity. This is another evidence of the influence of the Corporate Social Responsibility. The objective is that employees, Management and Boards of the corporations should reflect the diversity of the markets where they operate. This diversity should cover all aspects, such as gender, age, different abilities, race, etc.

At the beginning, there was a tendency to consider the recommendations as voluntary for the Companies. Later, the Law 26/2003 introduced the mandatory Annual Report of Corporate Governance (IAGC) that established a standard

format for the public listed companies. While the *Olivencia* Code recommended to "comply or explain" in a free format, the *Aldama* Code recommended the establishment of a standard report. Later, the *Conthe* Code was issued pushing for a compulsory report (Ferruz et al, 2008).

3.2. The New Annual Remuneration Report in Spain

The Spanish Sustainable Economy Law (Law No. 2/2011 of March 4, 2011), included reform measures in line with international best practices to increase transparency in the Board Members´ Compensation of listed companies in Spain. One of the key accomplishments of this law is the introduction of a compulsory standard Annual Remuneration Report for all Board Members of listed corporations and Board Members or Supervisory Board Members of the savings banks ("*Cajas de Ahorro*") that issue any kind of securities listed on official stock markets. Pursuant to this Law, on March 20th 2011, the ECC/461/2013 Order was issued, approving the content and structure of the Annual Remuneration Report and attributing to the Spanish agency responsible for the financial regulation of the securities markets in Spain CNMV ("*Comisión Nacional del Mercado de Valores*") the authority to develop the details of the standard report. The CNMV is an independent agency that falls under the Ministry of Economy and Finance of the Spanish Government.

Against this background, the CNMV issued a new standard report that was made official on June 24th, 2013 and is in force since January 1st, 2014 so applicable to all general shareholders meetings held during 2014.

The structure of the Annual Remuneration Report is divided in four chapters, as follows:

a) Remuneration Policy of the company for the financial year.
b) Remuneration Policy expected for future years.
c) Summary of how the Remuneration Policy was applied during the ending period.
d) Details of individual remuneration earned by each one of the Board Members.

The information to be provided is very comprehensive including the following concepts:

– Remuneration Policy detailing principles and criteria.
– Information about the preparatory works, the decision making process, the role of the different committees and control bodies, visibility of the Board Members that have taken part in the discussions and if external advisors have been participated in the process.

- Fixed remuneration, individual compensation for their supervisory and executive role if applicable, the details and criteria behind the fixed component.
- Variable remuneration, characteristics of the variable compensation plans including: start and end date, performance metrics, reward formula, an estimate of the cost in the various performance scenarios and the estimated total cost of the plan and other key features to understand the detail of how the plan works. In the case of share based schemes or stock options, the plan description should include the exercise price or financial instruments linked to the plan. Any profit sharing plan should also be explained in detail.
- Remuneration mix or the relative importance of variable remuneration versus the fixed components and criteria used.
- Long term saving plans, including pension and life insurances, both internal and external and partially or totally financed by the company estimating the annual allowance or equivalent, and indicating all characteristics of the plan.
- Severance payments agreed or paid when the Board Members end their responsibilities.
- Contract conditions of Board Members that have executive responsibilities, including duration, severance payments, notice periods, payments in lieu of notice, non-compete agreements, exclusivity agreements, continuity premiums or early termination conditions.
- Any other type of benefit or compensation received by the Board Members and not included in the previous points, such as car, medical insurance, health insurance, loans, credits, guarantees or benefits. etc.

In summary, the Report demands an individual detailed description of any remuneration component for the Board Members, including the Executive ones.

In addition, the Annual Report requires the disclosure of any system that has the objective of reducing the risk exposure of the company or aligning the Board Members with the long term objectives of the company, including claw back clauses to ensure that variable remuneration is returned when payment is made upon results that are proven to be inaccurate.

One of the main improvements of this Report is that the amounts of remuneration for each individual are to be provided in standard tables that allow an easy comparison among companies.

In addition, detailed instructions are given so there is little room for misinterpretation on how to fill the tables in. I would like to highlight that in the instructions, there are definitions about variable remuneration and it is specifically stressed that qualitative objectives can be defined, so the report officially recognizes the market practice and need to establish goals that are not only based on financial performance.

4. DISCUSSION AND CONCLUSION

To sum up, the recent theoretic framework of the Stakeholder approach emphasizes the impact of corporations in society in a wide range of areas, social, labor, environmental, etc. that, in addition to financial performance, are also important to the long term success of the company. Hence, a broader view to the role of corporations in society is being encouraged and it can be seen that all major corporations are taking Corporate Social Responsibility very seriously. Nowadays, it is widely believed that the private sector cannot neglect its comprehensive role in the community and locations where they do business.

Against this background, companies are adopting the Triple Bottom Line approach; *Profit, People and Planet*. On the *People* or labor front, companies looking for workforce diversity will increase its attractiveness and ability to recruit in the markets where they operate.

On the environmental front, there is a widely spread belief that business activities should lead to a sustainable development, as the *Brundtland Commission* of the United Nations on March 20, 1987 defined: "sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

As a result, Executive compensation design is incorporating non-financial objectives to the incentives design to ensure that management remuneration is aligned to the long term objectives of the company. Despite the fact that empirical research is not fully conclusive around the positive relationship between Corporate Social Responsibility and financial results, there is a broad consensus that all stakeholders influence the long term performance of the corporations.

In line with this new train of thought, all stakeholders are demanding transparency on Board Member´s remuneration in public listed companies. In particular, all recently published Codes of Conduct are demanding increased transparency all around the world.

In the case of Spain, there have been significant improvements in recent years, and the approval of a compulsory standard Annual Remuneration Report represents a major step forward in the establishment of clear and transparent rules that make our market more attractive to investors. The report containing standard tables along with the explanations allow an easy analysis and direct comparison among companies.

Future lines of research remain very extensive as this topic will continue to be relevant and controversial in the coming years. If we focus in the case of Spain, after the establishment of the Annual Remuneration Report, we would like to highlight the following potential areas of investigation.

First of all, it is important to analyze if companies comply with the new legislation. In other words, studies will be necessary to check if the information disclosed allows the stakeholders to really understand how the Board Members are incentivized to meet the company objectives.

Secondly, it is going to be interesting to have all the compensation data available to make quantitative research, to assess the link between compensation and company results. The detailed explanations and individual data should be enough to study correlations. To achieve significant results, the reports of a number of years will be needed to perform a robust analysis.

Thirdly, research on qualitative metrics and their link to Corporate Social Responsibility can be carried out to establish to what extend non-financial measures are being used in the Spanish Corporations.

Finally, cross countries investigations can be performed to analyze the situation in Span in comparison with the European neighbors and other international markets. In the current globalized economy, this comparison is very relevant as Management Teams are fully international and the benchmark of Executive Compensations is done increasingly on an international basis.

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