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Remuneration of directors and executives: transparency, fear and shame

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One of the most morbid aspects of the international economic recession is the remuneration received by board members and senior executives. Some social partners have recently criticised the "disproportionate remunerations" paid to the upper echelons of the financial sector, qualifying them as the "antithesis of what is socially responsible". **(Consult dossier here)**.

After overcoming the occultism and secrecy for the sake of good governance, there was a sweetener phase. But now we are in the age of fear and shame.

The markets, so abusively criticised and often considered evil, have forced companies to explain their situation and plans clearly and remuneration is no exception. Any companies that have failed to give that explanation, or have not given enough detail, have been condemned. The market questions and withdraws its confidence from any that default their duty of transparency. Without confidence there are no clients, investors.... and perhaps company.

In the era of rational management, where decisions are based on efficiency and return and any cost is measured in relation to its effectiveness, we must be very careful to give an adequate explanation of the returns on our remuneration expense and the criteria on which it is based. That must be done with our sights set on both the market and the public opinion, measuring also the reputational effect, without fear or shame, considering that we are acting correctly and in accordance with the strictest demands.

Professor Christopher A. Bartlett from the Harvard Business School assures that the current economy is based on knowledge and, therefore, people's talent to innovate and generate wealth. That is precisely the great value contributed by directors and executives to their companies and their fixed and variable remuneration is justified by:

- Their qualifications
- Their management capacity
- Improved productivity
- Meeting quantitative and qualitative targets
- Increased earnings
- The creation of value for shareholders

When those targets are met, neither companies nor executives should feel any shame, modesty or fear when announcing a remuneration that is fair, in keeping with the size of the company and prevailing market conditions and in proportion to their knowledge, capacity, devotion, loyalty, contribution to growth and creation of value.

> "Remuneration based on short-term, unstable profit went out with the crisis. But we still regret the condemnation of the public opinion for sins in the past, or perhaps we failed in the explanation due to fear or shame"

Making a comparison with sport, very few members would question the earnings of Leo Messi or Cristiano Ronaldo in a season in which their performance is excellent and, as a result thereof, their clubs win important competitions. In the business world, the remuneration of Steve Jobs was not questioned either when he was president of Apple, or that received by Bill Gates as president of Microsoft, or those of the founders of Google, Larry Page and Sergey Brin. Moreover, their contributions to those organisations has been and is so vital that some time ago some of them self-imposed a salary of one dollar and the remainder of their remunerations is now received in shares in the company and similar instruments.

Obviously, it is impossible for all executives' pay to be adjusted to those parameters, but similar philosophies and salary ethics are becoming increasingly common among companies, adapting to the size of each company and its financial situation.

Remuneration based on short-term, unstable profit went out with the crisis. Now, many companies establish their executives' incentives based on meeting medium and long-term targets, their prestige within the company and the establishment of strategies seeking stable, lasting results. But we still regret the condemnation of the public opinion for sins in the past, or perhaps we failed in the explanation due to fear or shame. We must put that behind us and reflect on the positive effect that a good communication of our remuneration policy for directors and senior executives has on the market. It might be advisable to be more active in defending and promoting it, moving away from simplistic, emotional and reductionist arguments.

A good executive or director for a company has a more or less reasonable cost that nobody is going to dispute, based on the return he provides and his contribution and conforming to what are considered good practices on the market. We should stress that it is important to retain that talent and that the cost of losing it might be much greater, even jeopardising survival of the company.

But above all, we must be careful in how we say and do things. The public opinion vents its anger not so much over the quantity and details as the manner in which it has been designed and executed.

>> **Juan Rivera** Partner and Senior Director of LLORENTE & CUENCA at the Madrid office heading up the Financial Communication division. With more than 15 years' professional experience he has counselled over 100 companies on questions of corporate communication, including M&A and IPOs.

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