



## **International comparison of the remuneration system disclosure**

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### **Abstract**

This research is aimed at assessing whether rules and recommendations adopted in European Countries (France; Germany; Italy; Spain; United Kingdom) and non-European Countries (Canada; Japan; Russia; United States) enable companies to have a regulatory framework as a guarantee of information completeness, so that anyone can, on the one hand, assess if the company is transparency-oriented and, on the other, to facilitate the comparison of remuneration systems with other companies in other European contexts or non-European Countries. Finally, this paper aims to examine how the listed companies, operating in the public utilities sector, have implemented remuneration systems disclosure in the corporate behaviour in order to assess if, European and non-European listed companies surveyed behave in conformity with transparency provisions and assure stakeholders, information completeness.

**Keywords:** Executive remuneration, Disclosure, Public utilities sector.

### **1. Introduction**

The effectiveness of disclosure of remuneration mechanisms is directly related to substantial, comprehensive, fair and exhaustive answers to the cognitive demands arising from different social players.

Information transparency on remuneration systems should facilitate the understanding of:

- the policies adopted to motivate executive directors, on which basis, a noteworthy part of remuneration might be correlated to the achievement of specific corporate or individual objectives, that is the criteria directors' remuneration systems are based on providing for a coherent relation between remuneration and specific objectives/parameters to achieve;
- the wealth generated by the corporate business and its allocation among who manage the company, to the end to check the effective costs and benefits obtained by performance, that is, the value of remuneration paid to executive directors and its effects on corporate economic results.

Adequate remuneration paid for the implemented business activity, on the basis of professional skills and performance, is the main source of consensus among corporate managers.

The remuneration system is not the only factor, but it definitely has a decisive impact, both on motivation to better performance and on the development of a performance-oriented culture



based on the ability to attract and retain the best resources.

Remuneration systems concur in orienting behaviour and meeting the expectations of directors and managers and induce, as incentive, effectiveness implementation of governance systems to the end of value generation and sustainable development in the long term.

Meanwhile, the fact that remuneration systems influence corporate behaviour significantly implies some risks that could have important consequences on corporate effectiveness: executive directors, in order to reach their goals, could act favouring short term results by maximizing turnover and revenues, that is, behave in an opportunistic way in relation to stock option plans by manipulating shares' values.

In order to limit significantly the risk directors may expose companies to, by manipulating information at their own advantage, the existence of a disclosure system of remuneration, able to ensure the implementation of fair remuneration practices, is particularly important.

Top managers should display transparency as far as the disclosure of remuneration by specifying its entity and elements, so as to enable shareholders and other investors to control the destination of the value generated by the company.

The importance of the topic on remuneration and disclosure tools is also shown by several interventions by international organizations such as: OECD, UN, IOSCO etc. and European institutions, in particular, the EU intervened with Recommendation 2004/913/EC.

Therefore, in this paper, the following research questions will be addressed:

RQ1: What are the main results coming out from the comparison of remuneration systems disclosure by rules, regulations and recommendation provided in the Countries considered (Canada, France, Germany, Japan, Italy, Russia, Spain, United Kingdom, United States) and the level of disclosure conformity and alignment to facilitate information accessibility and comparability to stakeholders?

RQ2: How have the listed companies operating in the public utilities sector implemented remuneration systems disclosure in the corporate behaviour in order to assess if the companies surveyed behave in conformity with transparency provisions and assure information completeness?

## **2. Theoretical framework**

The research was based on the analysis of the mandatory and voluntary regulations on disclosure of remuneration systems in the in the major industrial Countries – G8 Countries whose remuneration and governance systems are presumed among the most developed in the world (Canada, France, Germany, Japan, Italy, Russia, United Kingdom, United States) and Spain (considering its late economic growth) – on the purpose to assess the dominant trend in each of these Countries.

The comparison was developed by setting appropriate framework, which items were defined



considering the European Recommendation 2004/913/EC, and then, grouped under the following subjects: remuneration policies and executive directors' remuneration.

The analysis clearly shows that the United Kingdom is the European Country with the widest range of regulations on directors' remuneration, substantially in line with the provisions of the European Recommendation. Even before the European recommendation, since 1995 with the Greenbury Code, based on the principle comply or explain, and later, through a specific law in 2002 "Directors' Remuneration Report Regulations" on the purpose to amend the Companies

Act 1985, the United Kingdom had a set of rules aimed at promoting the disclosure of remuneration systems by listed companies, both as regards the policy of remuneration definition and total/individual remuneration of executive directors, non-executive directors and top managers.

Undoubtedly, the discrepancies found in the regulatory approaches reflect the different ownership structures: the problem of remuneration is, in fact, definitely more relevant within the systems where ownership is fragmented.

However, the results also highlight that the differences, within the changed international scenario, are getting increasingly dwindled.

In particular, Spain, after the revision of its own Code, published in 2006, seems to have accepted a large part of the contents of the European recommendation. It cannot be stated the same regarding Germany and Italy. These countries revised their codes, however, without neither particular reference to the Commission's directions nor any motivation about their non-complying with the European provisions. With particular reference to Italy, after the Consob's last provision on transparency about stock option plans, it would be opportune a regulatory intervention or a set of provisions as regards the disclosure of remuneration policies and a process of simplifying and reducing current information fragmentation.

As regards Germany, a more consistent regulatory framework would be opportune (voluntary or mandatory) as far as remuneration policies and annual general meeting resolutions about stock option plans. In the end, the degree of transposition of the European recommendation in the French system can be considered good.

As regards the four non-European Countries (Canada, Japan, Russia, United States), the research highlights, in the first place, a strong difference in the type of rules adopted concerning the disclosure of remuneration systems: on the one hand, a substantial and articulated regulation adopted by the Supervisory Exchange Commission of the United States and Canada (SEC and Canadian Securities Administrators), with particular attention to equity-based incentive plans; on the other, a definitely more limited regulation in force in the other two Countries, Japan and Russia. Regulations in the United States and Canada require that listed companies provide the market with detailed information on the remuneration of executive officers and directors, in tabular and descriptive form; on the contrary, the provisions in force in Japan and Russia require from listed companies summary information and do not provide for a model of reference on disclosure for companies to comply with.



In general, it seems possible to assert the existence of a common approach between the regulatory framework in the American Countries and the contents of the European recommendation 2004/913/EC, but not in the provisions of the remaining Countries, Japan and Russia.

From the analysis of regulations in the Countries mentioned above the first aggregated groups are based on the rules consistency level:

- United States, Canada and United Kingdom have adopted “strict” rules;
- Germany, Japan and Russia have provided for “general” instructions;
- Spain, France and Italy are in an intermediate position.

In the Anglo-Saxon world (United States, Canada and United Kingdom) the practice of adopting transparent remuneration systems undoubtedly derives from the typical features of the outsider system, in which there is a net separation between ownership and company control: the former is fractioned and widespread, the latter is held by managers. The foundation of public companies in United Kingdom and big corporations in the United States has also stressed the necessity of protection of shareholders and stakeholders’ interests related to corporate performance.

In Germany and Japan, the great importance investing majority shareholders, along with the absence of a solid board of directors, has generated scarce attention to performance and effective remuneration systems disclosure. This is ultimately proved by the fact that, both in Germany and Japan, stock options were considered illegal until the end of the ‘90s. Russia’s situation, pursuant to privatization, is marked by companies that are mostly controlled by an only shareholder or a little group of shareholders.

As far as Latin Countries are concerned, based on insider systems, financial markets are less active or developing, ownership is concentrated and stable, and there are impressive equity and financial connections between companies and banks.

The greatest risk in these environments regards minority shareholders: top managers pursue and defend, first of all, and, often acting partially, the interests of majority members. Appropriate information disclosure can obviously strengthen the protection of minority groups, enhancing investor confidence and market forces. France, Spain and Italy belong to this category as well, and, as a response to requirements of greater information transparency imposed by internationalisation processes, are getting more and more involved in enlarging their provisions about disclosure and satisfying, like this, stakeholders’ assessment needs.



### 3. Methodology and Research Design

This research, carried out on a group of listed companies in European and non-European markets, is intended to review at what level companies, operating in the public utilities sector, behave in conformity with transparency rules and assure completeness of information, regardless the regulations.

The decision of focusing on companies operating in the public utilities services is based on the importance of disclosure in this sector: the protection of public interests related to the nature of the services they offer and the owners’ position, from the one hand; the entrepreneurial independence and the ability to create value in the interest of the totality of stakeholders, from the other. On the whole, there are 70 listed companies taken under examination in this survey, selected with reference to the existence of a segment or Stock Exchange index dedicated to public utilities or to energy, gas and water sectors in the 9 Countries considered: Canada, France, Germany, Japan, Italy, Russia, Spain, United Kingdom and United States.

Tab. 1 – European Companies Surveyed - 2007

Country	Company	Total
France	<i>Areva, Chauff.Urb, Edf, Edf Energies Nouvelles, Gaz de France, GPE Group, Rubis, Sechiellinne Sidec, Suez, Theolia, Veolia Environnement.</i>	11
Germany	<i>EnBW, E.ON, MVV Energie, RWE.</i>	4
Italy	<i>Acea, Acegas, Acque, ACSM, Actelios, AEM (A2A since 2008), Ascopiave, ASM (A2A since 2008), Edison, Enel, Enertad, Eni, Enia, Gas Plus, Gruppo Hera, Iride, Mediterranee, Snam Rete Gas, Terna.</i>	18
Spain	<i>Agbar, Enagas, Endesa, Enersis, Fersa, Gas Natural, Iberdrola, Red Eléctrica, Union Fenosa.</i>	9
United Kingdom	<i>Centrica, Dee Valley, British Energy, Drax, International Power, Novera, Kelda, National Grid, Northumbrian water, Pennon Group, Severn Trent.</i>	12
<b>Total</b>		<b>54</b>

Tab. 2 – Non-European Companies Surveyed - 2007

Country	Company	Total
Canada	<i>Cnrl (Canadian Natural Resources Limited), Encana, Nexen, Talisman Energy.</i>	4
Japan	<i>Chubu Electric Power, Okinawa Electric, Osaka, Tokio Gas.</i>	4
Russia	<i>GazProm, Lukoil, Surgutneftegas, Tataneft.</i>	4
United States	<i>Central Vermont, Northeast Utilities, Peoples Energy, Wisconsin.</i>	4
<b>Total</b>		<b>16</b>

In particular, the analysis has taken under examination 54 European companies representing all the listed companies with reference to the Stock Exchange segment of “Public utility” based in the European Countries surveyed: the remaining 16 companies have been selected random among the ones belonging to the Stock Exchange segment of “Electricity, gas, waters and multi- utilities” in each of the non-European Countries: Canada, Japan, Russia and United States.



The research method adopted is empirical/inductive and is based on the analysis of mandatory documents (balance sheet, consolidated financial statements and notes, annual reports, proxy and circular statements, report on operations, corporate governance report, remuneration report, etc.) and voluntary documents (social and environmental report, etc.) available on the official websites of the respective companies surveyed, where relevant elements for reviewing the effectiveness of remuneration systems disclosure can be found. This analysis is, therefore, carried out with reference to corporate documents, available on their official websites, over the period of September – November 2007.

The comparison has been made by presetting appropriate tables, whose items have been defined considering the rules, codes and guidelines issued by each Country on remuneration disclosure, and then grouped on the basis of the following subject: remuneration policy and executive directors' remuneration.

The aim of this survey is to examine the adjustment level of the companies to specific reference rules and offer an overview of the main results coming out from the research, by comparing, at a general level, the different procedures of remuneration systems disclosure adopted by the 54 European companies versus the ones adopted by the other 16 non-European companies surveyed.

Besides, the comparison is made on the basis of further aggregation, pursuant to the provisions consistency level and the reference context, grouping the companies taken under examination in the following categories: “Anglo-Saxon” companies (Canada, United Kingdom and United States, equal to 20), “German-Japanese and Russian” companies (Germany, Japan and Russia, equal to 12) and “Latin” companies (France, Italy and Spain, equal to 38).

#### **4. Discussion of Findings**

Considering the survey items, some noteworthy elements concerning the following areas are to be underlined:

- a) remuneration policy;
- b) executive directors' remuneration.

##### *a) Remuneration policy*

From the overall analysis carried out on remuneration policy statements in listed companies, this practice is effective only for a definitely low percentage of companies: in fact, only 28,57% (table 3) of the companies considered disclose their remuneration policies by means of an “independent” statement or part of other documents, such as: the corporate governance report, the annual report, the annual information circular, etc.

By distinguishing companies according to their reference context, it clearly comes out that companies presetting a remuneration statement, both European or non-European, belong only to the Anglo-Saxon world (table 4).



Tab.3 – Remuneration statement

	European companies		non-European companies		Total	
	n	%	n	%	n	%
Existence of a remuneration statement	12	22,22	8	50,00	20	28,57

Tab.4 – Remuneration statement

	„Anglo-Saxon” companies		„German-Japanese and Russian” companies		„Latin” companies		Total	
	n	%	n	%	n	%	n	%
Existence of a remuneration statement	20	100,00	0	0,00	0	0,00	20	28,57

The information confirm once again that the Anglo-Saxon system is the only one, at present, offering the most structured information system.

In this regard, it is opportune to underline that transparency oriented remuneration systems, although affected by the typical features of the outsider system, are based anyway on broad and detailed regulations on this subject. This statement is confirmed by the results deriving from the analysis concerning the other Countries, where companies, in absence of specific regulations, pay no attention to their own remuneration policy disclosure.

*b) Executive directors’ remuneration*

As far as disclosure of the individual executive directors’ remuneration is concerned, the overall data show that 60% of the companies surveyed make a similar complete report available. The data represent the general context and differ very little among European and non-European companies (table 5).

Once again, Anglo-Saxon companies are the only ones fully satisfying regulation requirements: in fact, all the companies surveyed provide for a remuneration report (table 6).

Tab.5 – Remuneration Report

	European companies		non-European companies		Total	
	n	%	n	%	n	%
Existence of a Remuneration Report	32	59,26	10	62,50	42	60,00

Tab.6 – Remuneration Report

	„Anglo-Saxon” companies		„German-Japanese and Russian” companies		„Latin” companies		Total	
	n	%	n	%	n	%	n	%
Existence of a Remuneration Report	20	100,00	6	50,00	16	42,11	42	60,00

As far as the report contents and the information reported in the analysed documents (table 7) are concerned, the overall results coming out from the survey show that most of the companies under



examination specify individual executive director’s remuneration and its related elements (78,57%). Definitely lower is the number of companies providing with a remuneration comparison over different fiscal years (44,29%) and even lower is the percentage of companies specifying the criteria used to determine the variable part of performance-based remuneration (35,71%) and the performance indicators values (12,86%).

In particular, all the Anglo-Saxon companies surveyed offer highly detailed information regarding executive directors’ remuneration, specifying individual remuneration and its elements and comparing remuneration paid over different financial years (table 8).

Tab.7 – Contents of Directors’ remuneration Report

	European companies		non-European companies		Total	
	n	%	n	%	n	%
Individual executive directors’ remuneration	47	87,04	8	50,00	55	78,57
Elements of executive directors’ remuneration (fixed and variable components, benefits, ...)	47	87,04	8	50,00	55	78,57
Comparative table on remuneration over consequent financial years	23	42,59	8	50,00	31	44,29
Adopted criteria in defining variable performance-based remuneration	17	31,48	8	50,00	25	35,71
Specification of performance indicators values in order to easily understand paid variable remuneration	6	11,11	3	18,75	9	12,86

Tab.8 – Contents of Directors’ remuneration Report

	„Anglo-Saxon” companies		„German-Japanese and Russian” companies		„Latin” companies		Total	
	n	%	n	%	n	%	n	%
Individual executive directors’ remuneration	20	100,00	4	33,33	31	81,58	55	78,57
Elements of executive directors’ remuneration (fixed and variable components, benefits,...)	20	100,00	4	33,33	31	81,58	55	78,57
Elements: Table on remuneration over consequent financial years.	20	100,00	4	33,33	7	18,42	31	44,29
Adopted criteria in defining variable performance-based remuneration	19	95,00	2	16,67	4	10,53	25	35,71
Specification of performance indicators values in order to easily understand paid variable remuneration	9	45,00	0	0,00	0	0,00	9	12,86





Yet, it is to be remarked how, although 95% of Anglo-Saxon companies disclose the criteria used to determine variable remuneration, only 45% of these companies specify the performance indicators values. Outcome values are only related to the achieved outcome, without providing for the forecasted results.

The percentage of companies belonging respectively to the “German-Japanese and Russian” group and to the “Latin” one, offering such information details, is definitely lower and variable depending on the elements considered.

### **5. Conclusion**

From this analysis it firmly stands out that the level of corporate remuneration systems disclosure, strictly connected to the provisions system in force is more satisfying where the rules are structured and detailed. In fact, with reference to several elements analysed, where specific legal provisions are lacking, information provided by companies is brief or even missing.

This leads to ponder about the importance of adequate regulations, able to assure an effective response to transparency needs and protection to all stakeholders, in light of the present global arena, as well. Promoting the culture of transparency is, thus, a “compulsory” step to take in order to regain disclosure effectiveness, so that to guide the selection of information concerning their own utility, yet in the respect of the principles of completeness and neutrality.

It is, therefore, desirable the achievement, at an international level, of representation models containing uniform and comparable information, both in form (tabular and narrative), and contents. Besides, it is evident the need for easily accessible information, avoiding its fragmentation in different documents and concentrating it in a specific report, or report section on corporate governance.

Anyway, regardless mandatory provisions, it is to be remarked that accessibility of the necessary information about the policy adopted by the company to motivate executive directors and top managers is of fundamental importance to stakeholders in order to understand the measure of correlation between director remuneration and company goals and results achieved or individual objectives.

In short, stakeholders should own sufficient information to be able to appropriately assess costs and benefits and the relation between company performance, on the one hand and the level of executive remuneration, on the other. In this respect, disclosure of executive directors’ remuneration allows stakeholders to assess the fairness of individual remuneration considering liability and/or performance of directors and to facilitate the comparison of remuneration systems with other companies.

In this way, disclosure of executive remuneration can positively influence the achievement of stakeholders’ consents concerning the mechanisms through which companies pursue the harmonization of different interests, ethical and not opportunistic behavior and the research towards development and business continuity.



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