SUERF & CNMV Conference: “Corporate governance, executive compensation and ESG goals”. Opening speech

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Good afternoon, and good morning and good evening to those of you that are joining us from different time zones, and thanks for joining this SUERF/CNMV Conference on “Corporate Governance, executive compensation and ESG goals”.

I would like to thank all the practitioners, academics, representatives of institutional investors and members of different regulatory bodies for joining us in this conference with the goal to advance our collective thinking on the relationship between executive compensation and ESG goals. This is perhaps one of the most pressing and challenging issues around corporate governance that firms face today.
The support from investors for ESG goals has become increasingly strong, embracing the idea that business should be part of the solution for the environmental and social challenges and not just part of the problem.

Of course, as long as business can follow Benjamin Franklin’s advice and “do well by doing good”, profits and social welfare are in synchrony. When profits can be increased by reducing pollution or by improving employee satisfaction, ESG goals are welcome by all stakeholders. However, we should be concerned about those situations where managers must make a choice, situations where doing good won't necessarily lead to doing well. What happens when competitors can offer lower prices by saving on labour costs or profiting from more lenient environmental rules? Back in 1970 Milton Friedman’s advice was that in these situations doing well should prevail because the crucial social responsibility of business is to increase its profits. Is this still true in today’s world? I don’t think so. Will ESG goals have to yield when they are in conflict with profitability?

In a global competitive environment, we cannot take for granted that a focus on ESG will be a winning strategy unless we find a way to ensure that managers will have the right incentives to pursue long term social goals when the going gets rough. This is why the focus of this conference is so relevant for listed firms that want to promote ESG goals and for us, CNMV as the institution charged with the protection of investors. The design of incentives and compensation for top management that is aligned with long term ESG goals is therefore a compelling priority.

From a regulatory perspective, over the last decade we have made significant improvements in ensuring the transparency of managerial compensation and in making boards accountable for its design. In particular, to ensure transparency, all Spanish listed firms are required to disclose annually a comprehensive report with the details of the remuneration of all their board members. Accountability has also been a major concern for us and, since 2014, all listed firms in Spain must have a

Nomination and Compensation Committee with a majority of expert and independent directors and we at CNMV have developed specific recommendations and guidelines for those committees on how to operate and improve their effectiveness.

However, there is still a lot to do. Current remuneration practices are not yet aligned with the pursuit of ESG goals. Moreover, we know that compensation packages for top management are vulnerable to distortions from imbalances in control, information, and expertise.

The devil is then in the details of designing compensation based on measures of sustainability and progress in ESG issues. Developing these measures and integrating them in compensation packages is a great challenge that is only now starting to become apparent.

Yesterday we gained a deeper perspective on these problems with different contributions from the angle of financial institutions, fund managers and both large and small firms. In particular we heard about challenges faced by large investors in trying to combine the goal of offering the best opportunities in terms of return to their investors while pursuing socially demanded goals. We also had the opportunity of learning how the European Banking Authority is integrating these goals through its scheme of prudential regulation.

And, last but not least, in the more academic side, the study of the impact of good governance and implementation of social goals on performance has progressed significantly, as we also had the opportunity of witnessing yesterday. On this second day of the conference, mostly devoted to the academic research side, we have ahead of us contributions which promise to be at least as engaging and interesting.

Let me finish by thanking SUERF for providing this forum for research and debate on these crucial topics. Special thanks go, of course, to the organizing committee for designing this high-quality program and on bringing together an outstanding group of speakers.

Thank you.