Università
Ca'Foscari
Venezia

Master's Degree

in Global Development and Entrepreneurship

Final Thesis

Executives remuneration

An insight into structures

and legislations around the world

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Academic Year
2020 / 2021

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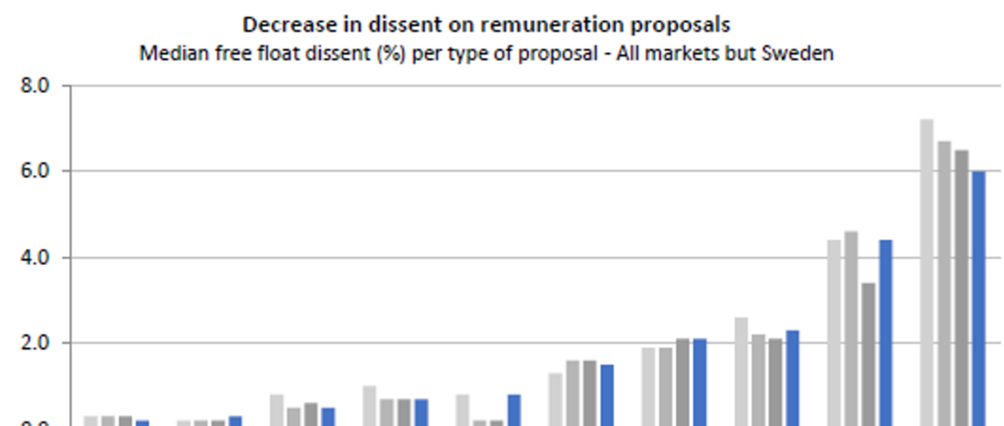
Introduction

The purpose of a company creation is for it to last potentially indefinitely. In order to do so, it has to create value to self-sustain and for those investing in the business: the higher the value it's able to create, the easier is to attract further capital. Directors and executives put great efforts in drawing new funds and investing them in the most efficient way. Ideally, the better they are in doing so, the higher should be their reward in term of remuneration. According to the OECD Principles of Corporate Governance (1999), "corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the boards, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and means of attaining those objectives and monitoring performance". This definition underlines the critical role that this system has in all types of companies and in the global economy, and how's in everybody interest for it to work at its best. Criticisms upon executives remuneration have been raised upon their amounts, their performance alignment, and their disclosure and transparency. Indeed, while some executives had a high remuneration for high performance-alignment (Biondi, 2019)(Francis & Wu, 2020), others were protagonist of corporate scandals: Enron in 2001, Parmalat in 2003, Ahold in 2004, Bayou in 2005, Samsung in 2007, Deutsche Bank in 2009, Barclays in 2012, Volkswagen in 2015 and many other more. Nevertheless, corporate governance is becoming more and more monitored, smoothened and enhanced in its legal structure, as the latest EU's BRIS (Commission Implementing Regulation (EU) 2020/2244) and Directive 2019/1151/EU. Additionally, companies are increasing their pay-for-performance alignment, as well as embracing the new ESG metrics trends. This company awareness leads to a decrease in shareholders dissent in executives' compensation proposals (Figure 1).

This master's degree thesis will analyse executives remuneration across the most prominent economic regions with the purpose of better understanding the elements influencing its formulation process, the worldwide standards and regulations applied, as well as the new incentives indicators. Specifically, the first chapter will examine executives and directors in small and medium enterprises. In this section it's given great space to the formality feature in the governance structure of the company and its consequential rigidness in facing changes in the business environment, despite the higher raise of funds power and talent attraction. Moreover, it will be examined the differences in compensation in family-run and non-family-run companies, with details upon familial CEO and family board of directors, as well as the effects of the HR department presence. The second chapter will dwell upon the agency issue between executives and shareholders. In particular, there will be explained the regulatory and governance strategies that can be implemented in order to minimize this issue, as well as the legal enforcers that help in ensuring so. Additionally, it's analysed how a higher disclosure level, high corporate debt amount, meaningful operating free cash flow benchmarks, low parental-altruism, high scrutiny levels, and low rationalization and socialization techniques are able to decrease agency problems. The third chapter will analyse the ten economically strongest legislations in the first months of 2020, prior the Covid-19 pandemic outbreak, besides the corresponding best performer country in Oceania and Africa. For each country or region, there will be enounced the main Codes and Acts related to the remuneration of executives and directors by dwelling on their compositions, requirements and limitations. The final chapter explains the essential role that proxy advisors play in the corporate governance world of listed companies. This section will focus on the proxy advisory corporation that holds 60% of the global market share: the Institutional Shareholder Services (ISS). This section will explain how the executives' remuneration recommendations are issued, with a detailed analysis of the pay structures. It will also include the ISS's executives compensation analysis of 2020 Eni's documents, as well as a report of the 2021 proxy season in the Southern European market.



	Bylaws	Annual rep. & profit alloc.	Auditor	Other	Transac-tions	Nomina-tions	Discharge	Capital	Share plans	Remune-rations
2017	0.3	0.2	0.8	1.0	0.8	1.3	1.9	2.6	4.4	7.2
2018	0.3	0.2	0.5	0.7	0.2	1.6	1.9	2.2	4.6	6.7
2019	0.3	0.2	0.6	0.7	0.2	1.6	2.1	2.1	3.4	6.5
2020	0.2	0.3	0.5	0.7	0.8	1.5	2.1	2.3	4.4	6.0

Figure 1- Source: ISS Analytics, https://www.issgovernance.com/solutions/iss-analytics/execcomp-analytics/

Chapter 1 - Executives in the SMEs framework

There is a wide range of executives' compensation packages that can be provided according to the size, the turnover, the balance sheet total, the location, the ownership structure and the sector of business of the company. This heterogeneity is due to market practices that have been established along the millennia and as a result of the more recent governmental and supranational laws. Specifically, the remuneration structure increases its complexity as the company grows in size, as well as its amount. Indeed, Lokman and Tareh (2020) pointed out as directors who manage big companies should generally need unique knowledge, skills and experience in order to deal with role complexities. As a consequence, these companies should offer greater compensation packages for attracting and retaining talents. Indeed, the more complex the decision making process is, with higher responsibilities and complications arising, the greater the executives' expectations are in terms of overall remuneration. For this analysis purpose it's essential to better understand what differentiates a small company from a big one. Nevertheless, the definition varies enormously according to the provisions applied in each country. SMEs definition, indeed, besides providing a legislative framework, gives a clear view of what genre of companies have a simplified regime and have less strict norms, for instance in terms of monitoring and transparency. Accordingly, the so-created SMEs' business environment reflects the lower value and simpler structure of executives' remunerations.

Definitions across the world

The only basis for the qualification of the SMEs (Small and Medium Enterprises) at European level, which is still active in today's legal framework, is the 2003/361/EC recommendation promulgated by the European Commission and published in the Official Journal of the European Union L 124 of 20 May 2003. The need to apply a common European SME definition is to "ensure that support measures are granted only to those enterprises that genuinely need them", as stated in the 2020 user guide of the European Union SME definition. Specifically, according to the EU Commission, the market failures and structural barriers that small and medium enterprises face are sensibly higher: being unable to access to finance or investing in research and innovation, lack of the resources to comply with environmental regulations, lack of management and technical skills, rigidities in labour markets and limited knowledge of opportunities for international expansion.

The European definition generates three SMEs company categories: Micro, Small and Medium-sized. Micro-enterprises are described as firms that employ fewer than 10 people (annual work unit) and whose annual turnover or annual balance sheet total does not exceed EUR 2 million; small enterprises are marked as companies that employ fewer than 50 people ad whose annual turnover or annual balance sheet total does not exceed EUR 10 million; finally, medium-sized enterprises are defined as firms that count with fewer than 250 people and either have an annual turnover that does not exceed EUR 50 million, or an annual balance sheet not exceeding EUR 43 million. The annual work unit criterion (or staff headcount) covers full-time, part-time, temporary and seasonal staff and includes: employees, people working for the enterprise who have been seconded to it and are considered to be employees under their national law, owner-managers and partners engaged in regular activity in the enterprise and deriving financial advantages from the enterprise. The annual turnover is determined by calculating the income that an enterprise receives during the year in question from the sale of products and provision of services falling within the company's ordinary activities, after deducting any rebates. Finally, the annual balance sheet total refers to the value of a company's main assets. Italy has ratified the 2003/361/EC on 18 April 2005.

Within the United States of America legal framework, there is no universally accepted definition: the U.S. Department of Commerce (Commerce), the U.S. Small Business Administration (SBA) and the U.S. Department of Agriculture (USDA) employ different subdivisions and explanations. However, the most straightforward definition of the SME is the one written by the SBA Advocacy which includes all enterprises with fewer than 500 employees. The SBA implemented also a formal distinction according to the sector in which the firm operates: wholesale trade in durable and nondurable goods; finance and insurance as credit intermediation, securities, commodity contracts, funds; professional, scientific and legal services; architecture; engineering, advertising; public relations; and, computer system design. Besides the sector, some SMEs can be considered as such also according to the amount of revenues achieved: technical consulting firms that have a value under USD 7 million annual revenue are to be considered SMEs; computer services businesses, because of their higher revenues, and despite their small number of employees, are defined as SMEs if their annual revenue has a USD 25 million cap (United States International Trade Commission, 2010).

Finally, moving away from the western-world definitions, the Chinese legal description of SME differs enormously according to the sector of interest, to the employees working in the firm and the revenues generated. In particular, in the software and IT service industries, if there are less than 300 employees or the revenue is less than RMB 100 million, then the company can be considered a SME. The situation is completely different if the manufacturing industry is analysed: the number of employees must be under 1,000 or the revenues originated have a cap of RMB 400 million. In addition, different criteria values are also implemented for the wholesale and the retail sector (Prange & Zhao, 2018). It is important to remark that the Chinese SMEs law have higher numbers both in term of employees and in term of annual revenues, with respect to the U.S. and the European legislative framework. Prange & Zhao (2018) pointed out that the reason for this mismatch is related to the relatively low Chinese labour costs for which it makes more prone the companies to employ more people and boost the production plans' efficiency.

1.2. **Remuneration composition in SMEs**

The compensation system relates to all the settlements an enterprise has to make in terms of workers' payments as to say pay levels, pay structure, pay mixes and pay raises. In particular, pay level is defined by the comparison of the firm's salaries and the wages applied in the external market; pay structure concerns fixed and variable remunerations, benefits and additional incentives in the overall pay package; pay structure is the pay rate hierarchy among different responsibility levels inside the company; finally, pay raises refers to the administrative steps of the pay increases inside the enterprise. Given these definitions, however, it's important to underline that most of SMEs often focus more on pay mix and on variable pay incentives, rather than a weighted and balanced compensation system practice. A variable salary scheme gives the possibility to deploy a greater flexibility to the company by lowering the fixed wage importance and sharing the risk, hence helping the enterprise to face the market volatility. Entrepreneurial firms, indeed, are more inclined to have more fluid workers, less amount of resources to evaluate workers' performance and an extensive amount of performance-related incentives and benefits.

Among the different typologies of the variable remuneration system, pay incentives can be regrouped into short-term and long-term benefits. In SMEs, short-term variable compensations often include a profit sharing and stock sharing programme: the worker's bonus is assigned only when specific present targets in profits or production are met. On the other hand, long-term variable compensations are more focused on retention tool such as shares, stock options and bonuses related on the shares performance (Cardon & Stevens, 2004). This pay mix is largely implemented into high-technology organizations, where executives and employees are more likely to have a wide part of their salary based on the achievement of technological targets. By boosting the motivation to reach company performance milestone, the agency problematics (discussed in Chapter 2) can be incredibly lowered by creating a risk sharing system: having a sensible financial interest in the company hinders executives and workers' egoistic behaviours and facilitates acting in the enterprise's best interests.

SMEs pay raises differs incredibly from large organizations due to the fact that automatic annual fixed remuneration increases tends to be too expensive for the firm. The absence of certainties of mechanical increase of profits and sales at a rate greater than workers' compensation, obstructs the possibility to implement an fixed annual pay raises. Consequently, bonuses and lump sum remuneration increases are the most used tools in rewarding performance achievements and increasing company's profitability.

In addition, perquisites in SMEs often differ from those in large companies, both in terms of the overall amount and typologies. Accordingly, company-funded pension plans or life insurance schemes, which have a long-term view, have tough implementation possibilities due to the high failure rates of new and small companies. In fact, in fast-growing enterprises, the most expensive perquisite, the retirement scheme, is largely funded by a profit-sharing plan (Cardon & Stevens, 2004). A further benefit employed in small firms is the employee stock ownership plan (ESOPs) for which workers have the possibility to buy company's shares at discount: with this mechanism, the organization has the perk of saving money by making the employee pay for the asset instead of receiving it for free. Finally, many SMEs deploy a set of education benefits such as travel, trainings and tuition in order to keep up with the changing environment of the organization as it grows over the years. As a matter of fact, formal trainings in SMEs generally rely upon in-house trainings, trade associations and short college seminars. This approach provides more hands-on greatly interactive learning possibilities to employees, by avoiding processes and formalized systems usually implemented in large companies. This suggests a presence of both informal and formal learning procedures inside SMEs, including knowledge transfer within the enterprise, retention of knowledge and learning-by-doing. Informal training processes embodies as well the socialization processes that occur inside the organization. In SMEs, the socialization processes happen more quickly than those in large and bureaucratic companies: new employees are more promptly included into meetings and social events, are not isolated from executives' work and have more meaningful tasks. This quick incorporation makes the newcomers more productive and with a higher job satisfaction than in big organizations, where highly formalized and structured training events usually occur.

1.3. **Formality in the compensation system**

Even among SMEs, it is possible to notice a clear gap between the family run companies and the non-family ones. In particular, it has been noticed (Michiels, 2017) that in a family owned business, most of the time, there is a complete lack of formality in the compensation plan, both for the owners and the employees sides. However, it is important to underline that this deficiency is mainly related to the compensation function itself and not to the payroll amounts of workers and executives. The "formality" principle stands for continuously applying best practices and procedure and the preparation of all documentation needed. Nevertheless, the formality issue on the compensation scheme plays a vital role in attracting talented people and in giving a considerable comparative advantage to large and international enterprises. In fact, in order to improve the commitment to the business, a structured compensation practice that creates a feeling of consistency and integrity among the employees is required. This is proved even though it might hinder the possibility of potential benefits and wages negotiations and the performance perks of working into a culturally informal firm. In addition, a weak company remuneration policy faces resistance in attracting debt capital from financial institutions (Nguyen & Bryant, 2004).

An important factor, in deciding whether to implement a formal compensation structure or not, is the CEO identity. In particular, the CEO can be a family member or an external director. This substantial difference creates a path for disparate performance and business strategies: the family-run companies have an higher probability to adopt a professional management scheme (Sonfield & Lussier, 2009). The employment of an external manager as CEO, in fact, proved to facilitate the achievement of higher financial results in comparison to the internal family CEO, as a result of a higher capability, acquaintance and proficiency in administrating the enterprise. Anyhow, it must be highlighted that in family run companies, the incentive to create a professional compensation practice is lower. Family members, in fact, are generally more keen to create a methodical remuneration policy when an external CEO is employed, in order to diminish the possible agency costs and information asymmetries. The agency costs, however, can also be present in the family managed firm, especially because of the free riding implications and asymmetric altruism: the non-family employees generally receive a lower salary than the family ones. According to Michiels (2017), there are some items that are common in all the businesses that are implementing a formal compensation practices as: the presence of an HR officer; the existence of a written compensation policy (based on a documented compensation strategy both for managers and for employees); benchmarking activities through a peer group; the board's approval for sensible variation in the executives' compensation; the presence of a compensation committee which advises the board in relation to senior management compensation issues; and, finally, for family companies, the existence of a family meetings and a family code of conduct. Moreover, HR managers have less chance (47%) of being appointed into a SME if the CEO is a family member, with a 30% probability of having a written compensation policy. In addition, family run companies use benchmarking significantly less (29% less), discuss broad compensation issues in the board of directors fewer times (23% less) and establish a compensation committee sensibly fewer times (22% less), (Nulla, 2015). On the other hand, Cardon & Stevens (2004) pointed out that SMEs have greater difficulties in managing downturns than large companies due to the lean structure, the scarce resources available and exclusive core competences focus. This organizational system makes it difficult for the executives to make employees redundant, given the high integration between subordinates and managers.

Additionally, it's essential to highlighted that the seniority of the CEO position was found to be positively related with the remuneration amount, although weakening over time (Nulla, 2015). In fact, despite the raise applied according to the executives' age, the marginal remuneration increases in less than proportional way until about 59 years old: after this threshold, the marginal CEO's pay progressively decreases until his retirement age.

1.4. **Performance measures in SMEs executives' compensation**

Pay-for-performance is the most used method to face agency problems concerning the management of the firm (paragraph 2.1.2. – governance strategies) and to attract lenders and investors by giving a sign of professionalism. However, given the heterogeneity of the governance structure in private small and medium enterprises, the effectiveness of such incentives varies according to the type and level of family involvement inside the company. In fact, the utilization of performance measurements has more positive effects whenever the ownership is rather concentrated and in the early stages of the firm's life-cycle (Michiels et al., 2012). In this occasion, agency costs are mainly related to parental altruism and self-control, rather than the result of an inefficient implementation of a corporate governance mechanism (board of director) and family governance (family council). Small enterprises rely more heavily on accounting-based company performance measures in determining their executives' remuneration. In particular, if executives' total remuneration contains only fixed salary, there is often no significant relation between firm performance and managers compensation. Accordingly, a remuneration contract with a high percentage of variable pay has a strong performance-related characteristics. Sales level is the variable most used in determining the compensation amount in SMEs; in fact, the preferred ratio is the total asset turnover ratio (sales divided by total assets). In particular, compensation sensitivity of the sales-to-assets measurement is sensibly higher in non-family run businesses and in those companies where the manager is not a shareholder (Michiels, 2017). The second most used ratio in SMEs is the Return on Assets, or ROA (net income divided by total assets). However, these performance evaluation methods result insignificant if the SME operates in the insurance industry: the preferred monitoring method, in this case, it would be by direct observation and subjective performance metrics (Farrell & Winters, 2008). In industries such as public utilities, transportation and retail trade, CEOs are found to earn less than the same level executives in other fields (Michiels et al.,2012).

Nulla (2015) has analysed the positive relationship between company turnover and CEO's compensation. In particular, by looking at financially distressed SMEs, the outsider replacement CEOs are paid sensibly more than their precursors ($ 335,360 more) while the insider replacement CEOs are paid sensibly less (only $ 136,156 more than the precursors). Additionally, Michiels et al. (2012) states that CEOs in high credit risk companies are generally paid significantly less than executives in the low credit risk ones.

Moreover, the taxation system influences the adequacy of both the total asset turnover and the ROA in being linked to the executives' compensation. In particular, if the company executives have a tax benefit in deferring taxes on the income retained in the business, the relation of total asset turnover and executives' salaries is weaker. This is true especially if the company has a family ownership value greater than fifty percent while it becomes more sensitive if the company is owner managed. However, it's been noticed (Farrell & Winters, 2008), that if the enterprise has the possibility of being organized through a tax deferral system or be taxed on capital gains, the executives' remunerations are sensibly higher.

Finkelstein & Hambrick (1988) studies have pointed out that CEO stock ownership and CEO remuneration have an U-shaped inverted relation: the highest total compensation is received whenever the CEO's stock ownership is at medium extent. The first reason behind this praxis lays on the CEO's tax preference of incurring capital gains over dividends, for which, once the stock ownership reaches about 9 percent in the first 18 years, the remuneration starts to decline. The second reason is mainly related to the decrease in mobility in the managerial labour market: as the tenure increases, younger and new high priced executives will substitute the CEO in his functions. The same result is achieved every time companies implement a high option based emolument or have fewer external stakeholders.

Even among SMEs, an high growth opportunity it's been associated with a strong pay-performance relation (Gaver & Gaver, 1993). Similarly to the growth opportunity criterion, the risk of the underlying assets influences the monitoring managers' activities which it makes easier to observe and to measure their performance in a more stable, hence less risky, firm.

1.5. **The importance of the Board of Directors in SMEs**

The equity ownership configuration inside a company impacts sensibly on the level of the CEO's compensation (Nulla, 2015). This arise because of the presence of a shareholder who owns more than 5% of the outstanding shares, reducing considerably the CEO's remuneration. Precisely, the higher monitoring activity diminishes agency costs, hence excessive compensations, creating a negative correlation between the CEOs' pays and the presence of shareholders owning more than 5% of the company. Generally, these types of shareholders are institutional investors or outside dominant investors, as usually happens in externally controlled corporations. Furthermore, enterprises in which this 5% external shareholder threshold is not present tend to assign a "luck based pay" to the CEO. These "luck based pays" stand for remunerations which are fully generated by outer factors, rather than by the executive's performance. Nevertheless, this condition doesn't affect solely large firms: Jensen & Murphy (1990) pointed out that even in small and medium size companies a high percentage of external stakeholders ownerships makes the non-fixed compensation decrease by 12% to 14%. In fact, CEOs who own a disproportionated amount of their companies have more chance to control board's decisions, as well as operating decisions, hence having the power to essentially shape their own remunerations. Moreover, the external investors, such as business angels and venture capitalist, can influence the executives' compensations: the more pressure-sensitive an institutional investor is, the lower is the CEO's pay. However, this goal becomes particularly complicated whenever there's a small firm: in large firms, the CEO usually owns a smaller part of the company (through share participation) compared to the total corporate value and has less remuneration based incentives than in small enterprises (Jensen & Murphy, 1990). From these findings, it's clear that the board is accountable for the CEOs' fixed remuneration and an unreasonable executives salary has to be adjusted through a redesignation of the compensation system, by strongly and objectively linking the remuneration with the company performance. This improvement can be reached by increasing the independence of the compensation committee and the board of directors, by strengthening the company investors' right to elect directors and to share their views on the remuneration system and by discouraging agency costs through an alignment of company and executives' goals.

1.6. **HR influence in organizational effectiveness**

Human Capital is defined as "individual capabilities, knowledge, skills and experience of the company's employees and managers" (Dess & Lumpkin, 2003). Human Resource department plays a strategically fundamental role in attracting and retaining talents either employees or executives, as to say in creating and sustaining competitive advantage. Hence, the importance of creating a solid and well-functioning HRM (Human Resource Management) is essential. During every company life-cycle (start-up, growth maturity, decline), unique issues raise and each one is associated with different stages. For example, in the start-up and high-growing stages, the most prominent issues are related to external financing, internal financial management, trainings, general management, product development, economic environment, regulatory environment, sales/marketing and production. Other issues, as human resource management and obtaining external funding are more pronounced in the maturity phase. The Human Resource problem results to be less significant in low-growing companies (1%-5% growth) for which they're able to efficiently face the issue. Beyond this range of growth, the problem level quickly escalates, needing a thorough monitoring system. In a high-growing company the HRM process is ranked in a scale of importance sensibly higher than those enterprises that are not growing (McCann, Leon-Cuerrero & Hailey Jr, 2001). However, Hess (1987) carried out a study in which emerged that SME owners position HRM as the second most important management activity, after the general management and organizational tasks. This is the reason why the most important HRM activities have to be continuously enhanced in order to improve the company's human capital: recruitment and selection of executives and employees, training activities (strengthen employee involvement and carrying out performance assessment), and retention of the personnel (creation of a fast-paced working environment and a competitive compensation system).

However, the lack of boundaries on workers' multiple roles and job responsibilities, the scarce material and financial resources and the lack of legitimacy of the owner (mainly due to the culture and working environment) make the recruiting system very problematic in SMEs, regardless its prominent importance. In fact, even though SMEs have to acquire additional work force in order to boost the their growth, most of the time the hiring process is sporadic and ad-hoc-based. This strategy undermines the company's legitimacy from a potential candidate's point of view and, thus, it decreases the possibilities of hiring qualified candidates. On the other hand, due to the infrequent specialized HR activities, the costs for employing high qualified HR professionals can be exorbitant. As a result, especially during the start-up phase, the HRM activity is mainly informal and usually becomes a responsibility of company's executives, rather than HR experts. Moreover, at this stage, the HR issues are focused on a narrow range of activities, largely related to hiring and firing. As the high-growth phase approaches, the demand for employment into the company increases, making it arduous to manage the demand effectively. This communication issue is the reason why a creation of a more formal structure and the employment of professionals as HR managers is needed.

Moving away from the start-up phase, the primary HRM activities in a high-growth company move from hiring and attracting talents, to developing these employees and taking care of the employment paperwork, benefits and remuneration payrolls. Therefore, the personnel specialization function, and related issues, is associated in particular to the maturity phase. The age of the firm, on the other hand, tends not to be significant in the decision of the organizational structure of a company (Rutherford, Buller & McMullen, 2004).

As mentioned in the paragraph 1.3., the more a company increases in size, the more it implements more formal processes. However, even though almost all emerging companies at the beginning of their life-cycle are small, not all small enterprises are emerging. In this context, the main problematics of these firms are more focused on resource constrains rather than deficiencies in the company expertise and legitimacy. It must be clarified that the smallness and newness issues might not be correlated to the ones typical of the company organization structure: some companies start their life-cycle as small and then, as they become more established in the market, they grow, while other small companies might be well-established and still stay small during their all life. Baron & Hannan (2002) analysed how changes in the organizational structure lead to weakening the firm, especially low-level financial performance, employee turnover and, finally, the company stability. Therefore, applying the right HRM structure since the inception of the company plays a crucial role in its life-cycle prosperity. As regards as the hiring and attraction process of potential candidates, small companies are progressively adopting a questionnaire procedure for job analysis, drug test and application blanks while adopting a more refined benefit package and performance evaluation as they grow in size. Nevertheless the company growth capability is linked to the managerial ability to deal with communication problems, partly associated with giving trainings to an increasing number of employees (Barringer, Jones & Lewis, 1998). However, a retention issue that firms have to take into account comes up whenever the company decreases its growth opportunity, which increases the propensity from structured employees to get bored in less dynamic working environments. On the other hand, high-growing enterprises face one of the lowest retention problems during the firm life-cycle. In particular, these environments have the capability to attract a large number of potential employees who are willing to accept a lower compensation in order to be involved in the company. Nevertheless, even in these cases, if the working environment is not enough stimulating for the employees, the trade-off between a substantial workload and little benefits won't be valid anymore (Kanungo & Mendonca, 1992). As regards as the employees training issues, the low-growing companies are the ones that can better handle the problem, followed by the no-growing firms and the high-growing ones. On the other hand, in a high-growing company the issues related to the compensation policy are generally the lowest ones, while the recruiting problems are mainly associated with the no-growing phase. More generally, as the enterprise changes its growth capabilities, the issues that it has to face regarding the management of human capital change as well, hence, requiring a proportional development in the firm organizational structure.

In SMEs, executives often concentrate more on matching potential employees competencies to the overall organization necessities. This consolidated approach underlines how essential is linking the applicant skills with company values and culture, instead of aligning the minimum qualification and required abilities for the task to be carried out. A possible way for attracting new talents is through the imitation of standard forms of job advertisement which helps candidates to understand the job notice and improve the legitimacy of the company (Cardon & Stevens, 2004). On the other hand, the uniqueness of an enterprise recruitment policy might bring to the organization a real competitive advantage in selecting new talents. Instead of imitation tactics, in fact, the firm can deliberately adopt policies that are markedly different from the industry norms. Additionally, companies can enhance their organizational effectiveness by employing contingent labour, as independent contractors, interns, consultants and temporary workers. The contingent work force helps in decreasing the firm cost structure and in reacting more quickly to shifts in market conditions.

Chapter 2 - Agency problem

2.1. **Legal strategies**

In 2000, according to the 1500 companies from ExecuComp dataset analysed by Balsam (2002), the CEO's remuneration was 7.89 percent of the firm profits, averagely speaking. Often, in many contractual relationships, whenever a party (called "agent") promises performance to another one (called "principal"), there is a possibility that they're facing agency problems. This clash arises as a consequence of the rational, risk adverse and inclination towards profit maximization of all individuals (Jensen & Meckling, 1976). According to Armour et al. (2009) there are three different agency issues in companies. The first one involves the owner (the principal) and the managers (the agents); the latter, potentially engages in opportunistic behaviours which don't necessarily coincide with the best interest of the firm and, thus, shareholders. The second agency problematic happens between the owner (the agent), possessing a controlling stake in the company, and a non-controlling owner (the principal). In particular, this issue relates to the expropriation of the non-controlling, or minority, shareholders by the controlling, or majority, shareholders. The final agency problem involves the tensions between the enterprise and the third parties, such as employees, creditors and customers: the exploitation of workers, the misleadingness of customers and the expropriation of creditors. This challenge becomes the greater the more principals there are. This multitude of heterogeneous preferences leads to high coordination costs, in particular because of corresponding delegation and monitoring increases.

These conflicts underline the importance of a cohesive corporate law, in particular through provisions in the articles of association signed by the company's owners (Armour et al., 2009), besides from governmental regulations. Specifically, the legal strategies that can be implemented through the deployment of considerable laws play a fundamental role in softening the exposition of the principal to the utilitarianism of its agents. As a consequence, many provisions are issued as legal strategies, which can be a default, or mandatory rules, or one among a range of alternative rules. In particular, these legal approach can be divided into "regulatory strategies", by directly hindering the terms of the relationship between principal and agent, and the "governance strategies", by helping the principal in monitoring the agent's behaviour. The success of the governance strategy heavily relies on the capability of the principal to implement his due monitoring rights. Moreover, over the years it became incredibly more demanding to control the agents, as to say by monitoring the righteousness of their actions, and to determine the sanctions amount in case of non-performance whenever the coordination costs between principals are high. As a consequence, governance strategies become less efficient in controlling agents if there're substantial coordination costs, thus the attractiveness for regulatory strategies tend to increase. The strengths of regulatory strategies, indeed, are influenced on the success of the capabilities of external authorities, such as a regulatory body or a court, for stating the compliance of agents with a specific prescription. In particular, it becomes essential the integrity and expertise of regulatory institutions, hence their quality level, and the successfulness of the demanded disclosure mechanisms for verifying the veracity of the information about the actions of the agents. On the other hand, as regards as any governance strategy, minor information are enough since the only requirement relates to the mere principal to be able to monitor the actions carried out by the agent. Maher and Andersson (1999) underline as the system of corporate governance is important for the information distribution and shareholders protection. Specifically, the so-called "outsider" system, generally implemented in the U.S. and U.K., typically have a greatly dispersed share ownership and hight turnovers, with a more even information distribution, higher minority shareholder protection, and relatively high disclosure requirements. Opposite to this, the "insider" systems, generally implemented in continental Europe and Japan, typically have a more concentrating voting power and ownership with a substantial amount of inter-companies relationships and firm holdings. Indeed, in this system banks, holding firms, familial monitoring and non-financial companies are substantially more important, while mutual funds, pension funds, and insurance corporations are significantly less prominent.

According to Armour et al. (2009) it's possible to implement ten legal strategies, four kind of regulatory ones and six types of governance ones, in order to overcome agency problems. These approaches can be applied to any rage of principal-agent relationship, not merely to the corporate environment. It must be pointed out that sometimes those policies might overlap and their implementation could be ex-ant or ex-post. In fact, ex-ante actions have the peculiarity of making full effect before agents undertake any action. On the other hand, ex-post strategies potentially focus mainly on the quality of actions perpetrated by agents. In line with the possibilities of policies overlap, even for the ex-ante and ex-post characteristics there's no a clear distinction as far as the regulatory and governance strategies are concerned (Ladegaard, 2001).

Moreover, the implementation of legal strategies applies solely in certain regulatory events. Specifically, during ordinary business decisions and transactions the most used legal strategies are the governance ones. These strategies also applies whenever the company is insolvent while in a creditor protection and company debt relationship context usually the regulatory strategies are more frequent. Moreover, the enforcement techniques and related legal strategies for controlling agency costs have encountered substantial differences among jurisdictions. Specifically, whenever there's a high share ownership structure, the legal strategies that majorly focus on monitoring executives agency costs tend to be rather low. This relationship is based on the linkage existing between the success of the governance policy and the efficacy of principals' coordination. It's important to underline that a small number of shareholders, both institutional investors and families, usually hold the ownership of shares in listed companies in the majority of the world jurisdictions. In this business environment, in fact, the executives' performance control focuses on governance strategies since the coordination costs tend to be lower. On the other hand, governance strategies are less applied, because less successful, whenever the ownership structure of share is more disperse, leaving the space to the regulatory policies (as better discussed in the paragraph 2.8. - ownership dispersion). Furthermore, besides the previously cited relationship, it must be added the linkage between the legal strategies and the enforcement institutions' sophistication and variety. Specifically, enforcement institutions have a primary role in monitoring the agents' compliance, in the event of business environments that substantially depend on regulatory strategies, rather than relying on principals' intervention. In particular, as regards as specific regulatory strategies, the business environment is complemented and assisted by a variety of enforcement institutions. Moreover, regulatory strategies must have a quick and sophisticated reaction in setting the rules, otherwise they increase the possible obstruction among parties. On the other hand, standards if they're not successfully arranged, they need refined and independent lawyers and courts. The degree of the deployment of specific legal strategies determine the extent of the needed obligations for continuing disclosures. For instance, in countries that majorly implement regulatory strategies, such as the U.S., the usage of self-dealing transactions is heavily applied for continuing disclosures, besides the more formal enforcement techniques. On the other hand, in countries that heavily rely on governance strategies, such as the European ones, the board of directors composition is the core focus for all disclosures requirements. Surely, the level of disclosures differs greatly according to the ownership structure. However, a continuing disclosure is less vital for monitoring executives whenever owners are heavily coordinated; in fact, since owners have higher chances of finding the best information by themselves, the implementation of governance mechanisms have the characteristic to boost a substantial amount of information. Yet, in an organization with coordinated actors successful and good enforced obligations of disclosure are needed. In fact, the selective disclosure issue is closely linked to the agency problem, that is the reason why it's important to make sure that the kind of information transmitted to the owners and the process by which the owners implement their monitors right, reaches all owners by the same amount. The effectiveness between institutions and a combination of strategies implemented in order to monitor the agency costs it might be identical. Nevertheless, the existence of certain institutions is fundamental in all jurisdictions. In fact, those institutions enforcing the disclosure, such as through a sophisticated accounting method and successful securities regulation, have a primary importance in hindering the company's agency problems, given the connection between disclosure and governance and regulatory strategies.

2.1.1. Regulatory strategies

Among various regulatory countermeasures, the most efficient ones relate to the constraints imposed to agents. In particular, the lawmakers could prohibit or require a certain behaviour or to state the specific amount of compliance after the act. The former direct policies are called "rules" while the latter are called "standards". The ex-ante function of rules is often implemented in the corporate environment in order to safeguard public investors and company's creditors: rules could hinder a range of self-dealing transactions immediately. The most common regulations used are the minimum capitalization requirement, constraint actions after a substantial capital loos and dividend restrictions. Indeed, in the capital market environment, proxy voting and tender offers are incredibly frequent. On the other hand, the usage of rules strategies it's not often implemented by jurisdictions due to their difficulty in regulating for intrinsic rigidities and loophole codifications. This is the reason why, many times, self-dealing contracts are commonly defined by open standards, thus leaving the discretion to decide ex-post any possible violation. Thus, in the case of self-dealing transactions, the utilization of standards implies that the deal will be evaluated ex-post. Nevertheless, according to the OECD principles (2015), the standards and voluntary codes could increase the uncertainty of corporate governance arrangements implementation and their statues. This is the reason why it's advised to complement them with regulatory or legal provisions, in order to strengthen their credibility and coverage. In addition, the usage of standards in the contracts it's important for underling the "good faith" of executives' actions or for instructing self-dealing transactions in order to be "entirely fair", other than for protecting creditors and public investors (Nestor & Thompson, 2001). The success of both regulations varies according to the entity of their enforcement. In fact, if rules are well-draft, they can be enforced in a mechanic way, making it more effective. On the other hand, standards need courts in order to shape ex-post firm decisions, making them substantially less effective. In addition, the variety of corporate law systems and securities monitoring have played an meaningful role for better understanding the differences between control environments and national ownership. Indeed, the impact on the governance structure changes enormously between civil law countries and the common law ones. In civil law countries, the stricter statutory rights lead to a more rigid forms in economic decision making. On the other hand, in common law countries, companies can make agreements out of the majority legal regulations. Nevertheless, according to the G20/OECD principles of corporate governance redacted in 2015, the creation of further regulations and laws should be made efficiently and evenly by taking in account the possible market imperfections. This is possible though thorough government and regulatory authorities consultations with companies and their stakeholders. In support of this principle, it's also stated the necessity to protect corporate rights by unenforceable laws and over-regulation which might distort the business environment. On this matter the enforcement and sanctioning powers of public authorities should be a milestone for preventing dishonest behaviours, besides private action parties interventions.

Finally, it's possible to implement legal strategies by acting on the affiliation between principals and agents. Specifically, they could demand the terms of entry, such as forcing the agents to disclose information regarding the quality of their work prior engaging with principals. On the other hand, it's also possible for principals to exploit exit opportunities dictated by law, for instance by giving the right to shareholders to sell their shares or to call a loan for creditors. In public capital markets entry strategies are a milestone for screening out opportunistic agents. Indeed, public investors, as outside investors, demand a mechanic disclosure of the needed information which would otherwise systematically lacking. This disclosure requirement is a legal rule that exemplifies an entry strategy, since shares are unsellable if no information prerequisite is provided by the company itself. Another tighter entry strategy is the threshold purchase requirement for a special kind of securities through specific parameters of financial sophistication or net worth. Contrary to entry strategies, the exit strategies are concerned more with the possibility to avoid opportunistic agents. On this matter, an executive can exercise his right to withdraw from his investment, for example. This clause it's useful in some jurisdictions whenever a merger, or a specific major transaction, is disapproved by shareholders. Indeed, it becomes useful to award them with an evaluation right: the value applied to the shares is the one prior to the merger, hence it avoids a possible future loss of a value-reducing event. The other exist strategy that could be implemented is the right of transfer, as to say the prospect of selling shares in the market. Unfortunately, the mere transfer right implies less safeguard than the withdrawal right, since the former seize the prospective value losses from opportunism or mismanagement. However, the transfer right provides more effectiveness in monitoring the company's executives with the replacement of principals. Indeed, the usage, or the threat of using ,the transfer right can be very successful in disciplining the executives' work. This right allows to empower disaggregated shareholders, through an ongoing assessment of executive performance according to share price movements. The efficacy of the terms of exit, as the appraisal right for example, can be assessed only until after the quality of the agent's performance is evaluated, through the response enacted by the principal. Contrarily, the terms of entry, for instance the mandatory disclosure, are set on a mandatory level only before agents and principals relationship takes place.

2.1.2. Governance strategies

Oppositely from the regulatory strategies, the governance ones focus on the hierarchical position between principals and agents. Among these techniques, the appointment rights plays a fundamental role with the possibility for selecting and removing directors or other executives. In particular, the appointment right is important both for hindering agency issues between executives and shareholder and for stopping the agency problems between controlling shareholders and minority shareholders, apart from the existing relationship between shareholders and employees. In addition, the appointment right provides the tool for screening agents' loyalty ex-ante. On the other hand, the removal right grants the punishment of the agents' disloyalty ex-post.

Moreover, there are the decision rights that increase the intensity by which the principle has the possibility to step-in in the management of the company. The decision rights allow the principal to initiate or ratify the decisions of executives. This technique is less implemented than the appointment rights due the intrinsic structure of the company, which delegates the managerial power and directorship to the Board of Directors. In fact, solely in mergers and charter amendments, or any key decisions, shareholders have the possibility of ratification, and yet in any case no jurisdiction allows them to start any managerial decisions on their own. As regards as ex-ante and ex-post actions in a crucial corporate transaction or merger, shareholders might have some restrictions in ratifying the merge motion or they could also have the power to initiate it.

Instead of increasing the authority of the principal, it's also possible to change the incentive scheme. Among all different incentive strategies, the most common one is the reward strategy. This technique relies on compensating agents according to their efficacy in putting the principals' interests first. The most common mechanisms utilized in corporate law rewarding is the "sharing rule" and the "pay-for-performance" method. As regards as the sharing rule, this techniques helps in linking the monetary gains of agents directly to the principals' ones, hence increasing their loyalty. A striking example is the strictly pro-rata temporis dividend distribution. With this method, the agent, such as the controlling shareholders, tries to maximize as much as possible the return of the principal, such as the company's minority shareholders. The minimum goal, in this case, is the equality between the company returns and its corresponding pay-out as dividends. The second most used mechanism of reward is based, as mentioned above, on the pay-for-performance method. In this case, the agent is rewarded according to the efficacy in carry through the principal's return, instead of sharing his return. In particular legal norms usually help in discouraging or facilitating a substantial amount of these kind of incentives, although there aren't any jurisdictions that force this mechanism on shareholders. Besides the reward mechanisms, the other incentive strategy is the trusteeship strategy. This mechanism works in a ex-ante manner, for which it grants that agents don't receive personal gains by harming their principals, in this way hindering any possible conflict of interest. This strategy lays it's efficacy on the "low-powered" incentives, such as reputation, pride and conscience, rather than focusing on the "high-powered" incentives. Indeed, "High-powered" incentives usually let agents behave more opportunistically: in this way the possibility to manage the interest of principals increases substantially. For instance, the "independent director" strategy focuses on the directors' conscience and reputation while making decision. This technique doesn't make agents personally gaining from decisions that benefits the company's controlling shareholders or managers, especially in a disproportional way. This strategy is mainly used in jurisdictions for approving self-dealing transactions. Another example of trusteeship comes with the confidence on auditors for approving some company transactions and financial statements, if auditors are focused mainly on reputational matters. The trusteeship strategy constitutes an ex-ante techniques since the negative interests of the agents' appointment by the principal is offset. On the other hand, the majority of reward strategies are based on a gain linked to an unpredictable future result. Indeed, rewards techniques haven't a specified characteristic before the agent's action takes place. This unknown feature puts them as ex-post strategies.

2.2 **Legal enforcement**

The rigour by which agents comply to the legal strategies is immensely relevant (Armour et al., 2009). Specifically, the compliance varies according to the level of enforcement of the legal clauses by legal institutions like regulators, courts and procedural rules. The legal enforcement is particularly relevant for regulatory strategies, since they act to restrict the behaviours of agents and their credibility lies on the assurance of being imposed. Thus, the importance of an efficient enforcement institution has to be assisted with a well-structured incentive scheme. On the other hand, as regards as the governance strategies, they focus on the principals' monitoring activity in order to grant the agents' compliance. The capability of implementing and coordinating at low cost constitutes a milestone in obtaining the agents' compliance whenever the right appointment of agents and their gain scheme is implemented through a consistent threats of removal or a successful decision-making structure. Moreover, governance strategies focus on choosing the fittest decision-making authority for the company actors, hence focusing on the background legal rules to assist their decisions. In addition, in order to make the authorities' guidelines more effective, a legal enforcement institution is needed. Nevertheless, contrary to the agents' compliance enforcement in regulatory strategies, the governance norms don't need much information and high sophistication on the regulators and courts side. As a consequence, according to Armour et al. (2009), in governance strategies the enforcement institutions have a second-order importance, while in the regulatory ones they are fundamental. According to the modalities of law enforcement it's possible to create three categorizations based on the agents' perception of the law reinforcement: public officials, interested private parties and gatekeepers.

2.2.1. *Public officials*

The whole range of regulatory and legal operations carried out by the organs of the state are part of the public enforcement. Among these techniques there're civil suits, carried out by agencies and public officials, and public actors' ex-ante approval rights, like securities offering statements. Besides these formal actions, public officials can implement reputational sanctions related to the disclosure requirement for firms that are under investigation for criminal fraud. States bodies that can initiate the public enforcement are part of the national regulatory authorities. These agencies are charged of the control of the key actions perpetrated by corporations in real time and of the prevention of breaches, such as CONSOB does in Italy and SEC in U.S., as well as other local prosecutors' offices. Apart from national regulatory authorities, there can be some self-regulatory authorities, as the Financial Reporting Council in U.K. that counts for public enforcers. In fact, these bodies are able to induce compliance with ex-ante rules and to impose ex-post sanctions for contractual, reputational or civil breaches. Specifically, a self-regulatory authority can be named as public enforcers whenever their regulatory successfulness consists in a believable threat of intervention by the State. If this characteristic doesn't exist, then instead of being a public franchisees, it can be viewed as a purely private organization. Finally, public actors can also take part into governance interventions in the case in which the State is a meaningful shareholder. This case applies in countries as China where is very common for listed companies to have controlling shares owned by the State: the governance agencies are charged of undertaking decisions on all governance interventions (paragraph 3.2. – China legislation).

2.2.2. *Interested private parties*

All civil lawsuits that are carried out by private parties are part of the "private enforcement" category, as class actions and shareholder derivative suits. Nevertheless, it's important to underline that reputational sanctions decided by private parties are part of this group too as, for example, a decrease in social standing, an inferior share prices or a individual sense of shame. In fact, any wrongdoing done by company actors might correspond to a private parties informal sanctions. A great variety of institutions are needed for implement public enforcements. In particular, a substantial institutional and legal infrastructure is needed for derivative suits and class actions in form of cooperative judges, plaintiffs' bar and advantageous procedural law such as legal fees and discovery rights. On the other hand, as regards as the market reputation, the technique that can be implemented can solely penalize the company's misconduct. However, the publication of information about a wrongdoing, if the company operates in a well-functioning market, creates less advantageous terms in any contract. Contrary to the public enforcement, in the event of the private impositions it can be applied an ex-post deterrence process as a consequence of the wrongdoing. Nevertheless, in UK's mechanism, it's also possible to have a private enforcement in a ex-ante manner as, for example, the "scheme of arrangement": a corporation could ask for a court approval for a key restructuring transaction after having reached the shareholders' minimum vote requirement. On this matter, a scrutiny on the process and consequent sanctions can only be taken ex-ante. Moreover, in order to force the agents' compliance, private actors too take part into ex-ante governance interventions.

2.2.3. Strategically placed private parties

Besides public and private enforcement, even some strategically placed private parties, or "gatekeepers" can intervene in determining the behaviours of company actors, as lawyers and accountants. In fact, threats of sanctions to the gatekeepers are usually implemented in order to hinder the co-participation in the company misbehaviour if they don't try to disclose or prevent the wrongdoings. Gatekeepers involvement is usually needed in order to finalize a company transaction and for amplifying the enforcement process, both from a law and praxis perspective. This gatekeeper control represents a great incentive in preventing any misconducts. The peculiarity of these strategic parties enforcement lays on the delegated power associated to the gatekeepers, who monitor the agents on behalf of the principals. In addition, since this enforcement applies through a constraints process, the compliance is viewed as an ex-ante technique, rather than an ex-post ones, for example with the rejection of publishing an unqualified report. Surely, the creation of a new agency conflict arise because of the delegation process between principals and gatekeepers; and yet, the implementation of legal strategies such as trusteeship and standards helps in overcome it.

2.3. **The disclosure feature**

In order to hinder as much as possible the agency costs, the disclosure element represents a milestone in executives' contracts policy. In fact, the requirement of disclosure obliges all agents to give to possible principals all information about: the terms for entering into the company as an owner; ad hoc disclosure and periodic financial disclosure in order to remain an owner; and to exit from the company. Apart from these disclosures, a more auxiliary continuing disclosure is present in order to support other strategies. As regards as the enforcement of regulatory strategies, the importance of a good disclosure helps in finding out those information useful in transactions that might represent a dilemma and bringing them to the court. On the other hand, in governance strategies, the disclosure element has mainly three goals: first, principals can implement the most effective intervention techniques if the right disclosure of the governance policy terms is provided; second, more informed principals' decisions for their right to vote for or against a possible transaction; and finally, the success in monitoring the agents is enforced through the disclosure of gatekeepers to increase their reputation and track record. The objectives, however, can change drastically if the periodic disclosure obligations are taken into consideration for granting the agents' compliance. In particular, the "known unknowns", as to say the periodic disclosure of yet unknown information, don't require any further compliance processes besides the publication of an expected public disclosure. As a matter of fact, whenever an expected periodic information is not eventually disclosed, the absence of it pushes principals to react and impose sanctions or penalties. Thus, the main importance of periodic disclosure compliance lays mostly on the quality of the disclosure itself; for assuring a superior disclosed information, indeed, auditors assist in providing the data through the trusteeship strategy. Finally, there are the "unknow unknowns", as to say the ad hoc disclosures, for which principals don't envisage any prior disclosure, in this event, the compliance is granted with just the legal enforcement (Armour et al., 2009). Many legislations across the world have established disclosure compliance as the Greenbury Report (1995) in the UK, discussed in paragraph 3.7.1. '90s Codes, which had the objective of imposing relevant information publications on British listed corporations in their annual report: the total compensation value and its components would thereby be limited and justified in its amount. Indeed, according to Harvey (2019), the logic behind disclosure is to create a solid and efficient strategy that can divert any criticism, stimulating support and establishing rightfulness.

2.4. **Agency costs in detail**

Executives, being agents, are certainly motivated by self-interest, leading the way to opportunistic actions that might not include goals as those of shareholders. To bring an example: if the CEO's pay is linked to the firm size, the owner might undertake vigorous mergers and acquisitions, despite the modest or even negative shareholders' return. This is the reason why Murphy (1986) claimed that executives' remunerations have to partly be dependent on company performance, in order to act in the stakeholder's best interest. A "regulatory strategy", in this case, will therefore link the executives' expected utility to the internal stakeholders' wealth by setting objective performance benchmarks and, thus, maximizing the shareholder value. On the other hand, with a "governance strategy" approach, the remunerations of executives are not a mere potential instrument for obstructing the agency issue but they're also part of the agency problem itself. Indeed, managers' influence leads the way to substantially impose further costs on shareholders' back aside from the higher remuneration that executives receive: it distorts and dilutes directors incentives and, thus, it undermines company performance. An effective arm's-length negotiation between executives and the board might lead to an optimal remuneration policy; however, even market constraints, without the arm's length bargaining, can encourage both parties in supporting these type of contracts. Bebchuk & Fried (2003) pointed out that in 2001 in the biggest U.S. companies the average executive remuneration was $152,626. In addition to an appealing salary, the executive's position gives the possibility to reach prestige and social and business connections. Since the CEO role is fundamental in appointing executives to the board of directors, they indeed have the impulse to favour the CEO. In particular, because of the considerable influence that the CEO has over the nomination procedure, executives have the incentive to agree with the CEO's remuneration policy if within the range of what can be justified and defended. As regards as "regulatory strategies", the executives' markets (corporate control, capital and labour) establish some restrictions on what directors are going to agree to and what managers are going to ask them to approve. However, these regulations are not tight enough and they allow to do substantial deviations from an optimal remuneration policy. If the corporate control market is taken into consideration, there are significant defences against the threat of hostile takeovers, as having a staggered board. In this example, this type of board organization hinders the speed rate at which an hostile acquirer is able to gain control to two annual elections and, hence, giving the possibility to incumber managers to block bids that are potentially attractive to shareholders. On the other hand, according to the findings of Bebchuk & Fried (2003) an hostile bidder can overcome this opposition by paying a significant premium price: from 1950 to 2000, for example, the average premium paid was 40 percent. In addition to the premium, the corporate control market can be threatened by the existence of the so-called "golden parachutes" and other benefits related to the acquisition that the target managers generally receive on these occasions. All these weakening provisions gives managers a substantial leverage in extracting private benefits from the company control market. Indeed, CEOs of companies with a large takeover protection usually benefit from a remuneration package that is higher and less performance sensitive. This, on the other hand, can be hindered by requiring to buy, for example, more shares in order to restore the initial CEO's incentive to maximize shareholder value. In any case, these are the reasons why the corporate control market should impose costs on those managers who are aggressive in extracting rents, even though, generally speaking, it fails to do so.

An important milestone of the power that executives have is related to the "outrage" costs and their limitations. The rigorousness of these limitations depends, in fact, on the level of "outrage" that a policy is expected to cause among important outsiders. As a matter of fact, the outrage has the power to create reputational harm or embarrassment to executives, thus having the possibility of reducing shareholders' willingness to protect incumbents during a proxy process or a takeover bid. Generally speaking, every time a remuneration package is suboptimal for shareholders, even though favourable for managers and directors, the possibility of being implemented depends on how it's perceived by outsiders. During the 1990s, in companies where the executives' remuneration package has been criticized as an agency issue, in the subsequent two years the annual compensation had been reduced by an average of $2.7 million (Bebchuk & Fried, 2003). As a consequence, executives try to minimize the outrage from the rent extraction recognition by trying to legitimize or to obscure their real rent extraction. The higher is the willingness to hide this practice, the more an inefficient remuneration structure is adopted, which will hurt executives' incentives and, thus, company performance. To sum up, the perception of the executives' remuneration policy implies that the disclosure and the transparency heavily matters in this environment. Thus, linking the compensation package to the performance attainment clearly helps in limiting outrage, especially through equity-based remunerations. However, it's important to underline that the stocks received, in order to be effective, should link the compensation to the manager's own efforts and performance, rather than receiving and extra-pay solely thanks to sector and market trends beyond their control. As a consequence, executives could be able to capture a more cost-effective and efficient equity plan rather than merely obtaining larger gains. On the other hand, prior the 2008 crisis and in particular during the 1990s, directors remuneration had historically been heavily correlated to market capitalization. This explains the difficulty in applying the outrage constraints during market boom periods.

The implementation of "governance strategy" power approach impacts the remuneration by making it sensibly higher and less sensitive to company performance whenever executives have relatively more power. In particular, ceteris paribus, executives tend to have more power when: the board of director is relatively ineffectual or weak; few institutional shareholders are present in the company, if the business relationship involves only the company's share value; executives are protected by antitakeover agreements; whenever the board of directors is large, making it more challenging to organize an opposition to the CEO; whenever the CEO has appointed more of the outside directors, because to the associated sense of obligation and gratitude they'll have; whenever executives are part of three or more board, given an higher chance of being distracted; and, finally, the absence of a large outside shareholder who can give a close monitoring over compensations, hence, giving the possibility to increase non-salary benefits by 12-14 percent if the external ownership doubles (Cyert et al., 2002). In particular, in companies where there's deficiency of a 5 percent outside shareholder, there is an abundance of a "luck-based" remuneration (Bertrand & Mullainathan, 2000): a pay linked to increase in profits that are fully generated by outside factors, rather than by executives' efforts (eg. exchange rates and oil prices). Additionally, according to Cyert et al. (2002), the CEO remuneration is between 20 and 40 percent higher if the CEO is also the chairman in the board of directors and, by multiplying by two the compensation committee ownership, the non-salary compensation generally is reduced by 4-5 percent.

The assistance of compensation consultants helps in providing useful information and supplying expertise on the creation of the remuneration packages under an optimal contracting framework. However, consultants could help, and not hinder, the camouflaging of executives' rents. In particular, incentives in the consultants' compensation shows that, most of the times, they work for justifying executives' remuneration rather than optimizing it. For example, compensation consultants might favour the CEO by supplying data with the sole objective of justifying a high level of pay. Boyt et al. (2001), argued that consultants are focused on a remuneration that must reflect performance in a way of making it higher than the average of the industry and those CEOs that perform poorly. On the other hand, whenever corporations perform poorly, consultants tend to focus more on peer groups remunerations rather than on performance data, underlying that the pay should be higher in order to reflect the general industry levels.

In addition, there are many benefits that CEOs often get when leaving the company that are completely gratuitous, as to say that they're not agreed under the terms of their remuneration contract. These gratuitous goodbyes are used even though the CEO has performed so poorly that the board of directors has to substitute him. That said, the goodbye benefit sends a mixed-signal to the next CEO: performing well is not needed to in order to have gains (Cyert et al., 2002). It must be said that executives prefer to accompany the replacement of the CEO with a goodbye payment in any event in order to reduce the discomfort they feel by firing him and making the layoff less contentious and more pleasant. However, in every case, executives' willingness to make gratuitous payments to the CEO, even if poorly performing, is a result of the level of relationship that they've established.

2.4.1 Options

The significant part of remuneration that doesn't involve equity has long been criticized to be poorly tied to executives performance. Murphy (1999) pointed out the insignificant correlation between the industry-adjusted performance and the CEO's fixed pay and bonuses. In addition, whenever company profits increase for causes that are not correlated with managers' efforts, the cash compensation rises too. Executives get significant non-equity remuneration also through agreements as loans (incredibly common in the banking industry), deferred payments and pensions schemes which are commonly insensitive to executives' own performance. As a consequence, during the 1990s, national and supernational regulators and institutional investors have encouraged the usage of equity-based compensations and, in particular of stock options. However, executives have been able throughout the years to exploit their influence in order to obtain option plans that sensibly favours managers and deviating from the optimal contract policy. For instance, this is the reason behind the implementation in the U.S. of the "reduced-windfall" provision in option plans. This clause, eliminated in 2021, filters out all or part of the share price increase that is unrelated to executives' own performance in the company (CRS Report, 2021). Nevertheless, it's been experienced a real lack of these constrains implementation in favour of the more common and generally accepted conventional options, the indexing and other kind of reduced-windfall options. This results in all companies having option plans significantly consistent with the executives power approach. One way to overcome this obstacle is by giving more out-of-the-money options than at-the-money options for every dollar of expected value. In fact, with an out-of-the-money option, the company can increase the executives' incentives to perform particularly well and it offers an higher pay-for-performance sensitivity than a conventional option. Indeed, Habib & Ljungqvist (2000) showed evidence that assigning out-of-the-money options in the remuneration policy, rather than at-the-money, would generally boost the company value. As a consequence, the usage of at-the-money options are far from an optimal contracting; while in-the-money options have the possibility to originate a significant windfall thus generating some outrage costs too. However, since in-the-money options are more costly or difficult to legitimate, the at-the-money options are the best type of option benefit, from an executive perspective. In this case, it's economically favourable for the executives and it remains in the range of possibilities that can be introduced and being consistent with the managerial power approach. Furthermore, in order to create an optimal contract, it's useful to make the vesting date (or maturity date) and the cash-out date (when the executive actually get the money) different from each other. This practice it's called lock-up period. However, the maturity date and the exercisable date often coincide in many remuneration policies. Some companies, on this matter, have implemented the so-called "target ownership plans" which require executives to hold a certain amount of shares for a pre-determined period. Nevertheless, the targets tend to be rather low and, most of the times, there's no punishment if they aren't met. In addition, typically executives have the freedom to decide the precise time of unwinding. In fact, liquidity need and diversification processes are unlikely to arise suddenly one day. As a consequence, companies might demand to carry out sales in a gradually manner over a specified period or according to a pre-determined plan. Additionally, companies might decrease executives' possibility to profit from their informational advantage by demanding to publicly disclose in advance their intended trades. Moreover, since firms could be held responsible if they miss to take actions in order to prevent insider trading by its employees, may companies have implemented "blackout periods" and "trading windows". These clauses have the power to restrict the time across a year when executives can buy or sell shares. Nonetheless, many companies don't implement these restrictions either. And, if they do, executives, who have undisclosed bad internal information, during trading windows have the opportunity to get rid of a consistent amount of their holdings. Bar-Gill and Bebchuk (2003) findings showed that executives have little incentives to increase companies performance if the payoff isn't recognized by the market whenever they want to unwind their share or option positions. Moreover, these executives have more motivation in misreporting company performance and, hence, silencing bad news. In particular, it's common to pick up those projects that lack in transparency or to decrease the transparency of the existing ones. The benefits from these distortions have the potentiality to be higher, by a big margin, than the liquidity benefit that executives are able to achieve from cashing out shares and options at will.

2.5. **Corporate debt policy**

The company debt amount plays a fundamental role in determining its executives' compensations. Specifically, bondholders have no incentive in bearing risks beyond necessary, thus the designed remuneration policy represents an effective and efficient vehicle for them to monitor all executives' risk orientation. As cited in the previous paragraph, there's indeed a positive correlation between the options amount held by executives and the company's risk taking behaviour. This relationship is amplified during research and development processes and investment decisions. Nevertheless, if financial leverage is taken into consideration, all corporations bear a wide variety of risks, thus changing the financial constraints and the composition of shareholders with voting rights. This is the reason why bondholders are incredibly important in high leveraged companies. Specifically, it becomes vital for these firms to create a CEO remuneration with higher option rights and, consequently, having a lower reward with higher monitoring. In addition, all highly leveraged companies face a substantial sensitivity of their debt value according to their volatility, thus making bondholders more vulnerable to risks. In this scenario, bondholders indeed usually require a compensation package with high bonds and less sensitivity. In fact, often in case of unfavourable scenarios, the debt amount is increased in order to rise the company's conservationism and controlling process (Yang et al., 2020): direct control will increase through tightening and restricting covenants on investment and financial policies in private lending events. As a consequence, a high share sensitivity is associated with low leverage, hence low profitability (price-to-strike ratio). Thus, a firm can expectedly be highly profitable in the future years whenever the prices-to-strike ratios are high as well. Indeed, solely a profitable company is able to undertake further debt and utilize the associated interest expenses to maintaining its profitability. As a consequence, with an inefficient corporation, hence low leverage and low profitability, it's recommended to increase the executives' portfolio sensitivity in order to motivate them to undertake riskier projects and increase the rewards. Additionally, leverage usually have a poor negative correlation with a company's profitability and size, as to say that profitable corporations often haven't enough leverage to exploit the tax shield. On the other hand, Yang et al. (2020) showed how increase in share price correspond to a negative change in leverage. Indeed, generally executives who have a low tolerance to risk, don't undertake a high amount of debt if they have a great amount of incentives based on share price. Furthermore, often long-term debt is usually borrowed by higher risk-adverse executives since interest rates related to long-run risk premiums are created without a thorough continued monitoring of the company. On the other hand, whenever executives equate the debt risk, as bondholders usually do, and perceive the higher bank control as useful for their performance, executives with high share price package will tend to prefer short-term debt. In this sense, a high share price remuneration is positively linked to short-run debt proportion (Yang et al., 2020). Contrary to that, the share volatility and the proportion of short-term debt are positively correlated while the share volatility and the long-term debt proportion are negatively associated. In fact, in companies with a high share volatility, as to say where monitoring is most needed, tough short-maturity lending creditors are able to efficiently monitor executives' work. This is possible by rolling-over the short-term debt period by period and, thus, exercising a more intensive control. In particular, options highly in-the-money, with a high share volatility, often prevent companies to contract new debt which might jeopardize their already-owned options with unnecessary risk. In fact, executives generally undertake undiversified investments while shareholders face a more diversified risk. These characteristics make executives more risk-adverse since they will consequently face a higher company's idiosyncratic risk exposure. For instance, even some investments that bear a positive net present value could be discharged by executives because outside of their risk tolerance. Nevertheless, Yang et al. (2020) showed that in the event of a remuneration package with a substantial share volatility, executives usually face a higher risk level upon corporate policies with higher R&D investments, lower expenditures in property, plants and equipment and higher leverage. Finally, the techniques that can be implemented in relation to the debt portion haven't showed any qualitative difference between the pre-2007 period and the post-2006 period.

2.6. **Free Cash Flows**

In the previous paragraphs, it's explained the importance of stock prices, stock variability and other accounting numbers in the evaluation of executives' performances. Nevertheless, earnings and cash flows from operations proved to be useful in the creation of pay package contracts, by the thorough information they provide about executives' sustainable economic value creation, the risk-sharing implications and the performance evaluating precision (Akono, 2016). The usage of FCF to base fiscal awards has increased its importance since the 2008 crisis in order to verify the company's ability in generating cash as well as the income with EBIT (earnings before interest and taxes). Nonetheless, even in 1999 there were corporations which were already setting pre-specified FCF targets as part of the incentive compensation package. This is the case of the U.S. company Primedia Inc. which CEO's pay was awarded with 22.5% of free cash flow indicators achievement and, specifically, with benchmarks and maximum amounts on changes in FCF margins. Free cash flow captures the residual cash flow that a company can utilize for processes such as debt repayment, share repurchases, investments, acquisitions and other operating activities that widens the firm value. Since 2008 the trend of establishing remuneration contracts with respect to this metrics shows the awareness that boards of directors had in viewing it as a core performance indicator and the representation of the real shareholders' value. This is also the case of M&A evaluation methods implementation which first understood the economic potential of companies. Akono (2016) underlined as, since 1992, the adoption of observable performance indicators linked to shareholder value increased extensively across many firms. As a consequence, a higher weight is given on free cash flows whenever shareholders' value is responsive to FCF, as the share price measure and company's operating departments achievements. Moreover, FCFs are able to show the energy that executives commit to investments and working-capital management in order to create superior cash flow. Indeed, a better accomplishing executive has more possibilities in investing company's resources and identifying projects with higher FCF generation than an average executive. With this analysis it's possible to compute the projects financings and selections, other than understanding company flexibility. Corporation agency costs, in fact, are hindered by the free cash flow flexibility, especially when external funds are involved. As a consequence, this valuation is able to demonstrate the credit capacity and liquidity policies, besides representing a tool of internal financing. FCF, in fact, it's a low-cost funding source for value-increasing processes like share-repurchases, positive NPV investments and debt retirements. This funding system helps corporations in dodging information asymmetry costs and constraints related to external capital, repurchase pay-put policies and transactions costs whenever debt or equity are issued. Companies that undertake a great amount of repurchase operations can, as previously mentioned, enhance internal liquidity. For instance, according to the business requirement for flexibility, the excess cash generated can be distributed through repurchase or dividend. Specifically, the compensation policy related to dividends bears an important issue intrinsic of its nature: once the commitment of dividend payment is made, it becomes incredibly difficult to withdraw it. Contrary to that, with a repurchase program, shareholders respond less negatively to repurchase revocation and avoid cash pay-outs. As a consequence, corporations that set a greater part of their pay-out cash in the capital market repurchase, instead as dividends, require more financial flexibility; this financial flexibility could be given by creating executives' pay contracts that set higher importance to free cash flow. Furthermore, the relevance that FCF has in remuneration contracts depend heavily on the context that produce the internal demand for free cash flow, which changes enormously across companies. Moreover, it must be underlined that the linkage with executive remuneration pays is positively related to total emoluments in variable and cash compensations. The executives compensations varies according to changes in free cash flows and, in particular, to: the sensitivity of shifts in FCF and shareholder value, the expenditure flexibility required by the company, and the FCF mistreatment focus by executives. Indeed, the role of free cash flows in the pay package is positively linked to the shareholders value sensitivity to FCF: the higher the sensitivity, the greater the importance. The variability of shareholders' value creation to performance benchmarks represents a milestone in the impact valuations of performance in pay contracts. However, this relationship is valid only for CEO cash remuneration packages and not for the CEO total compensation. As regards as the expenditure flexibility, Akono (2016) demonstrated how corporations that apply a greater contracting weight on free cash flows are also the ones that for their internally generated funding system require a higher spending flexibility. For instance, the relationship between FCF importance in pay package and the demanded spending flexibility is proven to be positively linked. Specifically, share repurchase is tied in a positive manner to the importance of FCF in total remuneration, even though the impact in the FCF relevance in the mere cash remuneration is almost meaningless. On the other hand, by looking at the external financing constraints, the weight of free cash flows is substantially greater in the sole cash pay contracts while it becomes almost null in total remunerations. The implementation of free cash flows in the pay packages, however, leads the way to a egoistic and self-serving behaviour among executives and the consequent mistreatment of this measure. Indeed, the significance of FCF in remuneration contracts is negatively linked to the mistreatment of free cash flow and, as a consequence, to the FCF agency costs. For instance, shareholders will be more inclined in drawing less attention to free cash flow in remuneration policies if there are insufficient protections against FCF agency costs and due to the awareness of FCF incentive mistreatments. Shareholders pay-outs could, indeed, be made throughout perquisites, external acquisitions or holds for future investments; and, whenever a great inefficient scope of FCF measure is implemented, executives corrode the available internal fundings on value-decreasing operations. Thus, in this event, executives will be more inclined in avoiding contracts with FCF, knowing the implied agency costs of free cash flow. Surely, as described in the other executives compensation focuses, in order to create the most efficient and successful pay package, even in the FCF evaluation case there are two main solutions for overcoming agency costs: the effective control over executives' actions and the alignment of incentives between shareholders and executives. Indeed, whenever the monitoring activities towards executives are more thorough and the interests alignment is greater, the usage of FCF as a measure for contracting tends to be higher too. In particular, linking executives' remuneration with equity portion amounts is useful to set the same goals between shareholders and managers and, thus, to decrease the possibility of FCF waste: the FCF metric will be used for a maximization of the company value instead of focusing on perquisites. For instance, if the implementation of FCF indicator is optimal, with less opportunities for mistreatment, a rational shareholder will be more incentivized in deploying this measures. By looking at the effectiveness of control techniques it's possible to understand the FCF issues magnitude: the more effective the control is, the less FCF problems there are. The ownership concentration represents another variable in considering the creation of the executives compensation (paragraph 2.8. - ownership dispersion). Particularly, companies that have an average proportion of internal ownership and more alignment in incentive structures, they set a higher importance to FCF both in total remuneration and cash compensation. While, corporations with a great concentration of institutional investors put a higher FCF weight in total compensation but not in cash compensation as well. Even though the actions undertaken by executives are commonly viewed as linked to share price changes, this measure is not directly tied to changes in free cash flow. Indeed, executives could not have any immediate control over the performance of share prices due to the systemic fluctuations in the capital markets, thus making them a noisy variable. Additionally, the effects of executives' actions in share price variations are difficult to ascribe precisely. For instance, even though executives are able to enhance operating cash flows, share prices could decline anyways because of unexpected news related to external stakeholder that impact the company. Analogously, an unrelated increase in share price could disguise the negative effects performed by executives. Opposite to this, executives do have immediate control over changes in free cash flow through credit-management, marketing and operational decisions, which is also portrayed in FCF analysis. In fact, in order to keep the business at a sustainable peace, the cash-generating capacity must be beyond what is actually needed. Companies indeed try to highlight FCF with the purpose to dodge or decrease implied external fundings' agency costs and exploiting expenditure flexibility during decisions. As a consequence, the purchase level expenditure discretion and cost savings that free cash flow gives represent a peculiar feature in company performance, which earnings and share price are not able to provide. By analysing 1,403 U.S. companies from 1995 to 2006 and excluding financial firms, Akono (2016) showed how the cash compensation mean, such as salary and bonuses, accounted for $1.06 million while the total compensation average was 4.2 million, such as cash compensation, long-term incentives, restricted stock and options awards. Specifically, the average FCF for the analysis represented 3.4 percent of company total assets, the mean internal ownership was 3 percent while the institutional one was 63 percent.

2.7. **Family Companies**

The owner-manager agency conflict relationship have been seen to be widespread in many family companies whenever control and ownership are distinct, as to say, when a non-family CEO manages the firm. In this case, even though its organizational governance form is the most efficient possible, due to the ownership concentration, it also implies a substantial agency benefit. In particular, among the self-interest acts, a mitigation process can be introduced by altruism and kinship (Schulze et al., 2003). Altruism increases the communication and cooperation within the family company, by reducing the information asymmetry, the basis of the major agency issues. On the other hand, kinship mitigates the egoistic acts with feeling of commitment and loyalty to the company and the family. These rewards, together with loyalty, stability and family ties, have the power of setting incentives for efficient investments and lengthening the decision making horizon in family companies. The lack of related agency costs means that in privately-held family companies the performance-based remuneration is not needed since the aim of pay-for-performance policy is to decrease the agency costs. Furthermore, in privately-held family firm, shareholders have a higher possibility (due to better access points) and a higher incentive (high ownership concentration) to closely control the CEO's performance than in listed firm. Thus, this circumstance doesn't creates the need to design a CEO remuneration linked on firm performance as a priority. However, even though altruism and self-control have the potential to hinder the agency costs issue, they don't make a perfect agent of a manger. In fact, altruism, for example, could encourage agency costs created by moral hazard practices as shirking, free riding or consuming perquisites (Karra et al., 2006). In addition, altruism could led to harmful potential employees selection in the labour market by hiring family member with poor qualifications or to put up with executives' decisions and changes that badly affect their interests. Furthermore, family ties can badly impact with the effectiveness of the monitoring process in family companies since the executives will inevitably distort their judgments on the suitability of their decisions and actions. As a consequence, as regards as agency issues, family executives too have the potential to act as agents in privately-held family firm, not only the non-family ones (Chrisman et al. 2007). Lubatkin et al. (2005), in fact, pointed out that privately-held companies do have agency problem but of a different type. For instance, family agents, in a parental altruism event, face difficulties in applying disciplining actions as a consequence to potential free riding behaviour of other family members. The solution of agency issues is to link a part of the family agent's remuneration to an outcome that can be, in fact, be monitored, as the company performance. Thus, a family agents performance-based remuneration fulfils a dual purpose: it hinders the potential behaviour of moral hazard of family agents and it decreases the probability for the agent to undertake non-economic and altruistic efforts that endanger his and the other employees' welfares.

2.8. **Ownership dispersion**

Moreover, ownership dispersion has a lasting impact on the more "traditional" agency costs, linked with different interests between shareholders and executives, and on the agency costs related with parental altruism and self-control. Whenever a single owner is present, the "traditional" agency costs tend to be minimal while the latter are expected to be significant. On the other hand, as the ownership increases its dispersion, such as when the family owner is assisted by other owners of the same nuclear family, the effects of the two agency costs doesn't substantially change: the probability of agency issues because of conflicts of interest is minimal whether the risk of agency issues because of parental altruism and self-control are rather substantial. Nevertheless, agency costs could be diminished by lowering possible conflicts of interest between minority shareholders and controlling owners. In fact, an increase of dispersion that goes beyond the nuclear family could substantially modify the nature of altruism and clearly separate controlling owners from other family owners (Lubatkin et al, 2005). Moreover, the existence of passive family shareholders increases as the ownership becomes more disperse and, as a consequence, the conflict of interests between these passive family shareholders and the controlling owners increases as well.

Anyhow, the ownership dispersion and the subsequent agency costs are closely related to the stage in which the company is situated in, the so-called "generational stage". In fact, the stages of ownership can be regrouped into three main generations: the monitoring-owner phase, where the founder implements also monitoring activities; the sibling partnership, where the ownership is focused on many members of a single generation; and, the cousin consortium where the ownership is divided even further with third and later generations involvement (Gersick et at., 1997). The parental altruism has repercussion over the monitoring-owner phase because of the potential free riding and moral hazard behaviour among family members on the monitoring owner's shares. Even though sibling ownership still faces this type of agency issues, a larger sibling ownership will inevitably envisage the unhealthy effects of altruism. After this phase, the unhealthy effects will tend to decrease in the cousin consortium stage due to the entrance of outside family members in the company ownership, behaving as a rational diversified investor.

The "family control incentive alignment hypothesis" analysed by McConaughy (2000) explained as family CEOs do have a higher incentive in maximizing company value than non-family CEOs, hence their remuneration incentives don't require to be aligned with the company ones. However, Chrisman et al. (2007) pointed out as a substantial amount of family businesses' executives are compensated, in part, with cash bonuses. This remuneration benefit is linked to the existence of agency costs in private family firms related to altruism (adverse selection and hold-up) and problems of self-control, contrary to the traditional agency theory. For instance, family executives are more prone to bear a substantial risk while operating for preventing losses of their socioemotional wealth. Thus, it's useful for the other family shareholders to tie a portion of the CEO's remuneration to the company performance with the aim to decrease the subsequent negative effects on the business performance. Additionally, by linking company performance to the CEO and other executives' pays, the image of the professionalism of the business governance increases too and boosts its attractiveness towards banks, private equity funds, individual investors and other lenders (Chrisman et al.,2007). Moreover, performance-based remuneration could have a significant impact on the amount of cash available for the family CEOs to spend, providing that their wealth often it's composed by share ownership, hence very illiquid.

2.9. **Non-family CEOs**

On the other hand, whenever the CEO is not a family member, the agency costs tends to increase substantially. In fact, usually non-family CEOs have little or no ownership inside the company, so that their personal wealth is not radically linked to company value. Surely non-family CEOs, being an agent, are thought to be risk-adverse and, hence, more reluctant on pay-on-performance policies. Nevertheless, since they have less influence on the remuneration-setting process than the other family executives, they are counted to have less power in the company and less willingness to reach compromises in their positions. Furthermore, non-family members CEOs could also be in favour of some types of pay-on-performance remuneration if the key indicators are linked to a short-term perspective, as most of the time happened prior-2008. This short-termism is due to the consolidated working period of non-family member CEOs who usually change more than one company throughout their careers. This practice makes essential for them to maximize their track record as leaving the firm with a successful short-term performance. Consequently, tying remuneration with short-term company performance becomes consistent with the usually-applied short-term focus. Contrary to the non-family CEOs' short-term focus, family CEOs normally focus on the long-term view due the existence of loyalty, family ties and stability which lengthen their investment horizon. On the other hand, the shorter the CEOs' horizon is, the higher the agency costs are (Antia, et al., 2010). Thus, the relationship that occurs between the company performance short-termism and the CEO's remuneration is expected to be stronger for non-family CEOs rather than in family CEOs.

2.10. **Public scrutiny importance**

Since the 2008 financial crisis, it's been put great attention to the substantial and excessive risk-taking behaviour embraced by executives in financial institutions due to the wrong structure of the compensation packages (paragraph 2.5. – corporate debt policy). This led to the desire of reducing as much as possible the agency issues and linking executives' interests with the shareholders' ones. Indeed, as a consequence of the financial crisis, the thorough scrutiny of executives' remuneration is emphasized. For instance, in response to this requirement, on 3rd October 2008 the U.S. Congress passed the Emergency Economic Stabilization Act (EESA) which was designed in order to prevent the final collapse of the country's financial system due to the substantial contraction of liquidity in credit markets worldwide (see paragraph 3.1. – United States legislation). As described by Carrothers (2019), before the 2008 crisis the changes in the CEO wages between those twelve corporations and the companies that were subject to the TARP restrictions were rather similar. On the other hand, both the companies subject to TARP restrictions and the companies that haven't seek for TARP funds had a CEOs' wage level almost equal. As a consequence, prior the crisis CEO's remunerations were higher in those twelve companies in comparison to the companies who haven't applied for TRAP contributions. Indeed, from the 2006's $23.9 million, the mean wage in the previously cited twelve companies dropped to $8.1 million in 2009 and raise again to $16.1 million in 2012. For corporations restricted by the TARP provisions, in 2006 their CEO wages were $10.7 million, then decreased to $4.7 million before growing again to $8.3 million in 2012. Finally, those companies that haven't applied for TARP funds in 2006 they had a $9.4 million CEO wage, then in 2008 had a small decrease to $9.2 million before enlarging to $10.6 million in 2012. Additionally to the monetary wages, the perks as well are important in executives' remunerations, particularly on the psychological level: they can amplify certain type of behaviours even though they often count as less than 1% of wages (Carrothers, 2019). The public and political concern regarding using taxpayers' money in order to bailout companies with a unreasonable remuneration scheme pushed the TARP legislation, as mentioned above, in creating pay package restrictions. Indeed, the act helped in making the banks lose some tax benefits and limited their executives remuneration package. Moreover, the establishment of an oversight board played a fundamental role in guaranteeing that treasury secretaries wouldn't be able to work in an arbitrary way, besides of granting inspections for protecting against fraud, waste and abuse. The massive decrease in equity values, the company's decline in liquidity impacting wages and job securities, and the influence on savings and investments caused by the 2008 financial crisis have increased public scrutiny of businesses: the impact of such crisis on public, individuals and media was tremendous. In particular, contrary to the corporations that haven't received government support, those companies that have utilized TARP incentives were important for evaluating the public scrutiny impact and emanated restrictions on CEO's remunerations. Specifically, the latter had to be publicly scrutinized because of the government resources, apart from having to decrease executives' remuneration and to comply with the legislated disclosure on their luxury spending. On the other hand, businesses that have received TARP fundings and returned them before 2010 are meaningful merely because of the thorough public scrutiny; indeed, they had a significant attention linked to the government bailout resources and yet had a larger financial liberty than other TARP: they rose capital to pay back the fundings very quickly and, thus, they were able to bypass remuneration restrictions. This prioritized the CEOs' pay level increases on a more efficient contracting level in the labour market; in fact, it was given more importance to the executive rent extraction and the creation of remuneration contracts with an at-risk incentive compensation with proportionally increase in levels. Moreover, whenever shareholders granted more rights to the board of directors, the CEO salary resulted in being higher. Indeed, corporations that haven't received TARP fundings had a perceived cost of the widen scrutiny that alone wasn't able to make companies to cut CEO's wage. Specifically, with a governance perspective, public scrutiny represents the control and examination of a company by a substantial amount of population with the purpose of increasing its business performance (Carrothers, 2019). Surely, public scrutiny counts for all media, politicians, government entities and shareholders. Indeed, Carrothers (2019) explained how the mere government and media's scrutiny of the revision of some options pushed companies to undertake remedial operations in order to manifest the willingness to solve the issues to shareholders. Specifically, public scrutiny, especially the media channel, forces companies in the securities industry to improve their self-regulatory enforcement, the corporate social responsibility and, ultimately, shareholders' value. In fact, the economic and legal costs related to the results of public scrutiny are generally higher than acting properly in the first place. This is true because of the government regulations' compliance expenses, the costs due to the negative media attention and the expenses of dealing with particular interest groups. The disproportional executives' remuneration during the financial crisis made the public, the media and the governments eager to make managers accountable for their misconducts, subsequent bailout funds and consequential wrongdoings to taxpayers resources. According to Carrothers (2019) public trust decreased substantially in relation to those companies whom was granted government support during the financial crisis. Specifically, those firms applying a strong amount of executive's non-monetary incentives were the ones most badly judged because of the controversial luxury and exclusivity of the majority of perks. As a consequence, since perks stand out more than monetary compensations, public scrutiny in those firms generates more pronounced and lasting effects. For instance, the impact on the company reputation due to media scrutiny has a long-term effect and its magnitude varies according to the public reaction of the news. The higher scrutiny created by the investigative or sensationalism reportage, pushes the board of directors to implement corrective actions. As regards as the perquisite amounts, between 2006 and 2012 in corporations participating in the TARP they were cut from $119,683 to $41.416, in companies that retuned the incentives the perks dropped from $207,880 to $137,474 and in business that haven't applied for the incentives the decline was from $89,886 to $84,756 (Carrothers, 2019). This shows that the impact of TARP legislation had a wider effect on perks, besides wages: they have been cut in response to the public scrutiny but kept after the crisis as well, having a more lasting. This characteristic also applied for companies that returned the funds by making lighter and later cuts, while companies that haven't use TARP funds had only a small decline even under scrutiny. The differences in the effects created by wages and perquisites drops are linked in particular by the sensationalism that high perks get rather than CEO wages. This dissimilarity makes the board of directors more prone to apply more lasting changes in the perks amounts over the whole remuneration package due to the implicit public scrutiny costs. Nevertheless, all companies experienced a switch in the nature of individual perquisites. In particular, it has been demonstrated (Carrothers, 2019) a significant lasting focused decrease in vacation pay-out expenses, company-paid club memberships, car and driver services, securities, company aircrafts and financial services. This permanent change indicates how the board of directors perceived the level of those perquisites: inappropriate and excessive. It's important to point out that this cuts have different shades according to the type of the firm. In fact, for those perks, companies that haven't applied for TARP and the ones that paid it back in one year, tended to have a similar level of spending as regards as securities, aircrafts and financial services at the end of the crisis, even though the latter companies have showed an increase in car and driver services. This increment was mainly due to the benefit that these perks provide in metropolis. However, benefits that are thought to give common values, have increased in spite of public scrutiny. Specifically, these perks were: healthcare and insurance expenses, charitable gift matching, other corporate social responsibility benefits and executives' well-being. In particular, corporations that applied for TARP funds have showed, besides the previously cited perks, an increase in cost of living allowances due to the importance of international assignments in a career advancement in multinational firms. A peculiarity of these companies lays on the "other" perks which have experienced a substantial cut after 2008 by making them almost null. In fact, they became more prone in controlling the luxury perquisite expenditures and increase the transparency image by cancelling perks branded as "miscellaneous".

2.11. **Parmalat scandal**

One of the most famous fraud scandals involving executives concerns the corporation Parmalat SpA. Parmalat's fraud started in 1990 and lasted until 2003. In particular, when the company started to enter in financial distress in 1990, the executives decided to camouflage the results throughout collusion and fraud, rather than solving the issues. In the subsequent thirteen years, Parmalat executives put in places an extended range of unethical processes to extend the fraud. Indeed, with the implementation of fake transactions through a double-billing scheme, they were able to inflate the revenues. With these fakes sales, they used the corresponding receivables as collaterals in order to get more borrowed money from banks. The reported assets were inflated by the creation of fake assets and took on legitimate debt hidden from investors. Additionally, the company operated with investment bankers through financial engineering, and in particular for moving debt off balance sheet or disguising it as equity on the balance sheet. Finally, they colluded with third-party auditors and bankers in order to finance the fraud as much as possible. Issues at Parmalat started to become public in mid-2002. In particular, between July and December, the company's credit spreads increased by 250 to 300 basis points mainly due to the credit conditions tightening in South America and to the industry rival Cirio's default. In December 2002, the investment management company Merrill Lynch became worried about Parmalat's ability and willingness to issue debt capital in the public markets, so it downgraded the company to a "sell" rating. The concern was in particular due to the ongoing reliance on fundings from debt markets in spite of having a substantial amount of cash on the balance sheet (a year before the fraud was discovered). In fact, holding large cash balances that paid little interests while also holding a great amount of debt with related higher interest payments was an inefficient balance sheet management. It was later showed that Parmalat's reported cash balances were fraudulently inflated and its debts were massively understated. However, among 29 reports issued by analysts on Parmalat in 2002, only Merill Lynch team issued a "sell" rating, 7 issued a "hold" rating while 21 issued a "buy" rating (Rimkus, 2016). However, the market became suspicious about the company and, between November 2002 and February 2003, share price fell by almost 40 percent. Indeed, in January 2003 the CFO Fausto Tonna announced a bond issuance of €300 million and, since the CEO Calisto Tanzi was not informed of its issuance, after firing Mr. Tonna, he withdrew the bond offering, making the share price decreasing by 30 percent.

Despite the rumours more and more insisting on accounting irregularities, Tanzi moved on an offensive position by accusing the investment bank Lehman Brothers of falsely stating that Parmalat was improperly carrying out its accountings. In addition, in March 2003, the company created a forged verification letter on Bank of America in which it "validated" the account and submitted the latter to the requesting auditor for a phantom €4 billion in cash. The first fracture occurred on 11 November 2003 when the audit firm Deloitte refused to sign off half-year Parmalat's financial statement: the main issue was a doubtful €135 million gain on a derivatives contract owned by company's Cayman Island hedge fund subsidiary. After that, on 8 December 2003, Parmalat defaulted on €150 million Eurobond insolvent payment (which should have been done by Parmalat itself) even though it reported €4 billion in cash and short-term assets. The previously-written forged verification letter in the end became the main point of the controversy when Bank of America stated that on 13 December 2003 a company's bank account in the Cayman Island didn't exist. After that, on 19 December, the company publicly stated that €3.95 billion in cash was missing, sending the Parmalat share price close to zero. At this moment, the company executives tried to hide the documents related to all off-balance-sheet transactions and destroyed computers. Finally, on 27 December 2003, Parmalat was declared insolvent and the CEO Tanzi was arrested for fraud. Eventually, PWC established that Parmalat's financial statement have been forged since at least 1990, uncovering that the company has lost money in 12 out of 13 years of fraud. In particular, PWC underlined that the fraud originally begun as an attempt to cover losses at the South American branch. However, this isn't unusual. Many frauds started as a desperate attempt to hide losses (Rimkus, 2016) and the process of trying to "save" the company with the help of illicit means transforms it from a legitimate business into an illegitimate one. The executives usually involved are generally trying to protect the image and avoiding in reporting sensible losses.

The characters participating to the fraud consisted also in external companies. In fact, in 1997, the lead auditor firm Grant Thornton International (GTI) observed a gap of €5 billion in Parmalat's book. Once asked for further explanations to the CEO Tanzi, the company helped in disguising the fraud in 1999 from Deloitte & Touche, the new lead auditor company. Furthermore, the Italian head of corporate credit Bank of America, Luca Sala, admitted to have received $27 million from Parmalat for hiding the fraud. In fact, Sala helped in organizing bond placements for Parmalat with the collaboration of outside brokers managing risks such as currency fluctuations. These brokers, would eventually split fees with Sala so that Parmalat company would always turn to those brokers for those purposes. In addition, according to the Art. 160, comma 1-ter of TUIF, listed companies were required to switch auditors every nine years and, according to Art. 159, comma 4 of TUIF, it was required a three cooling-off years. Providing these Italian law articles, even though Parmalat brought in Deloitte & Touche in 1999 as its principal auditor, it kept GTI, its previous one, for managing its international subsidiaries, hence avoiding the Italian law requirements. Indeed, GTI admitted to have worked with the intent to hide Parmalat's problems from Deloitte & Touche, by actively participating in the fraud and creating a forged €300 million sale in powdered milk to the Cuban government. On December 2002, the company reported a total debit of €1.8 billion on its balance sheet. However, once PWC had carried out its inspection after Parmalat's bankruptcy, it found out that the company actually had €17 billion in debt. This meant that there were €15 billion in debt hidden off balance sheet. As a consequence, it becomes clear that the Parmalat fraud history it relates also to the failure of the gatekeepers within the financial supply chain (such as investment banks, auditors, commercial banks etc.) and within the company, who had the possibility to act in supporting only the verifiable information. Indeed, others red flags were raised on the point that: in 2002 derived only 15% of the reported EBITDA from the principal operating company Parmalat SpA; and, the business was able to achieve twice the industry average margins without a reasonable and rational competitive advantage. In order for a firm to be an attractive investment, the financials have to tie with the story of the business, hence the red flags existence about the fraud. Thus, the ability of Parmalat to misplace so much money lies on the creation of a complex ownership structure that focused on Special Purpose Entities to create illicit transactions and hide debt and payment to external companies to perpetrate the fraudulent scheme. In total, Parmalat hid €12 billion of debt and kept it off balance.

Finally, it was brought to light that the CEO Tanzi and sixteen other executives have stolen over €1 billion for personal benefit out of the fraud. After the bankruptcy, Parmalat filed suit against 45 banks, which the firm had done business with, by stating that these banks helped Parmalat in hiding losses from investors. In June 2008, the company reached a settlement with UBS and Swiss Bank for a total of €1 billion, though no bank acknowledged any wrongdoing (Sole 24 Ore, 8 December 2018). All the other suits were dismissed. The post-bankruptcy CEO Enrico Bondi was able to keep the company afloat but in 2011 Parmalat was eventually acquired by the corporation Lactalis. With Jean-Marc Bernier as CEO, the acquisition took place though a takeover bid of €4 billion for a 80 percent ownership, and subsequent acquisitions for the remaining parts.

2.12. **Rationalization and socialization tactics**

The magnitude of Parmalat's fraud involved the contribution from many parties, besides the previously mentioned external institutions. Indeed, according to an employee, Claudio Pessina, at least 300 employees were aware of the ongoing fraud (Rimkus, 2016). This statement underlines another powerful example of authority influence inside the company. In fact, whenever a person in a position of power, say an executive, pushes a business to undertake unethical actions, many employees cooperate in the wrongdoing, primarily because they project the blame on the authority for their own participation in unethical activities. These actions engaged by the employees can be divided into two categories, according to Vikas et al. (2005): rationalization tactics and socialization practices. The rationalization tactics are the description of actions in a manner that doesn't appear unethical, according to a forestall guilt, before the act, or retrospectively, after the act. In particular, employees believe they don't have any other choice but to cooperate in such actions, in what is called "denial of responsibility". Additionally, rationalization practices account also for the "denial of injury", for which a given action is made less offensive through a comparison it with more extreme acts, and for the "denial of victim", in which the violated party is depersonalized. A striking example of this practice is the Ford Pinto's petrol tank that, due to a manufacturing defect, tended to explode; and yet, for the Ford company, the cost-benefit of having to pay for damages to clients was higher than not producing the car model at all. Moreover, other actions that are engaged in the rationalization tactics are regrouped into the "social weighting" area, which follows the statement of "if a law is wrong, is not unethical to contravene it". Additionally, there's the "appearing to higher loyalties" actions which puts into the foreground the goal of a single group. Finally, the last rationalization practice involves the authorization of undertaking a improper behaviour due to the accrued credit, time and efforts, for the carried out work. The socialization practices, on the other hand, relate to the acceptance of corrupt practices by the newcomers. In particular, in this group can be analysed: co-optation actions, which provide rewards in order to induce an unethical behaviour attitude change; the incrementalism practice, which lies on the performance on a slightly improper actions and, once accepted by the newcomer, induced into a more corrupt act; and, the compromising act, implemented also in the Parmalat scandal, which attempts to solve urgent dilemmas, unmanageable problems and role conflicts.

Rationalization and socialization are enabled by several elements and actions that facilitate the implementation of these unethical behaviours (Vikas et al., 2005). For example, , a compartmentalization tactic can be adopted because of the group attractiveness, by creating a micro culture within a group that differentiate itself from the norms applied by the society or the wider organization. In particular, the eagerness of blending strengthens the likelihood of blind acceptance of the organization's rules and changes people's attitude according to the context. Thus, while "veterans", the incumbent employees, model the unethical behaviour, the newcomers are stimulated to emulate them in order to bond with them. Another facilitator consists in the mutual reinforcement of rationalization and socialization, according to which employees and executives become more and more accepting of the improper behaviour as the time passes by. Finally, the usage of an euphemistic language, such as describing the unethical actions in a manner that appears to be inoffensive, enhances the socialization acts. These are the principal reasons why, although more than 300 employees were aware of the fraudulent actions implemented by the Parmalat's executives, nobody in over 12 years had reported them to the authorities.

Vikas et al. (2005) suggested how it's possible to overcome the rationalization and socialization behaviours. Particularly, he recommended to pay attention on the prevention of such acts by: fostering awareness among employees with, for example, introspection days on the implications of these actions; implementing performance indicators that go beyond the numbers, as to say to include the conduct applied in meeting the targets; encouraging an ethical environment inside the company through the creation of a Ombudsperson Office for discussing anonymously all ethical worries and implementing a code-compliance for key activities; and, finally, making the executives as role models by acting directly against dubious practices. To conclude, once a corrupted act is been discovered, it's important for the executives and the employees to avoid denial and move quickly, without looking for scapegoating. Furthermore, it's essential to involve external change agents who have more possibility to be successful in reversing the company corruption. In particular, external agents: make employees more willing to cooperate in adopting ethical behaviour and making all the necessary changes required; they give a different and fresh perspective on the business environment; and, they represent and provide a different kind of network that accentuates the capability to question the previously implemented organizational practices.

Chapter 3 - International legislations

In this chapter it will be given a thorough insight into the major economies' legislations on directors and executives' remunerations matter. Specifically, it will start from the 2020's largest country by economic power, such as the U.S.A., then moving towards China, the European Union, India, the United Kingdom, Brazil, Russia, Australia and Nigeria. The choice to regroup all the European Union countries under one umbrella cluster was taken because of the common applied Regulations and ratified Directives, which make the executives' remuneration framework rather similar. The same argument occurs for Canada. Indeed, this country tends to have quite congruous laws as the U.S. (McGinty, 2021; Cohen 2011; OSLER's pensions and benefits law blog). The Australian legislation was added in the examination because it's the first Oceanian country by economic-strength, and the thirteenth at global level. Finally, Nigeria's legislation was analysed being the 2020 first African country, twenty-fifth worldwide precisely, according to its economic power.

3.1. **United States legislation**

The United States of America have focused their excessive executives' remuneration solution effort, contrary to the European legislations, to reform the tax incentive scheme. Specifically, there are two type of interventions that can be undertaken on this matter: the first relates to compensation levels increase of low-ranked employees; the second focus on the variations in the CEO-to-employee compensation ratios. As regards as the former measure that can be implemented, however, as stated by Baker et al. (2019), become effective only if the cost of shifting the corporate tax rate is null. The former measure, however, becomes effective solely if shareholders are empowered enough to oblige CEOs in minimizing their taxes. In both cases it's essential to create effective and compelling policies. For this purpose, since 1993 the U.S. have passed a tax bill that stopped the possibility of tax deduction for those directors' compensation who had a pay non-linked to performance higher than $1 million. However, this provision led only to a general variation in the CEO compensation structure, rather than of the CEO compensation amount level. On this matter, in 2014 a provision was issued for the health insurance industry for modifying the CEO's tax treatment called "Affordable Care Act" (ACA). With this new legislation, all compensations higher than $500,000 wouldn't be able to get any tax deductibility, even if the pay is performance-linked. In addition, the 280G and 4999 sections of the U.S. Code stopped the deductibility of payments related to changes in control if the remuneration is equal or greater than three times the director's average remuneration in the previous five years. Nevertheless, even in this case the results showed a general acceptance of bearing additional costs from this new tax provision, rather than decreasing CEO compensation (Schieder & Baker, 2018). The same outcome is given by the 2017 Tax Cut and Jobs Act provision (TCJA). Contrary to these ineffective legislation, in 2010 it was established a clause that, instead of acting directly on CEO's pay, it focused on giving more power and importance to shareholders. Indeed the Dodd-Frank Wall Street Reform and Consumer Protection Act helped shareholders in exercising control over directors' compensation. The provision allowed to have a "say-on-pay" company vote every three years in which shareholders have the power to take a position on the compensation that will and has be paid to directors. However, as happened in the U.K. legislation say-on-pay, the non-binding characteristic of the vote and the high presence of passive mutual funds and asset management companies make the effectiveness of this provision rather dim. Indeed, for this reason in 2018 it was proposed the Accountable Capitalism Act that gives the power to the board of directors of diminishing the CEO's compensation. This provision hinders the possibility of CEOs to sell the compensations received in form of shares with holding periods and other limits imposed after the share buybacks. Indeed, the law helps in stopping the gains of CEOs coming from short-term luck operations. As regards as the non-competition clause, in the United States the provision is limited to specific corporations' circumstances and for a length that goes from six months to five years. Specifically, in some States, as Massachusetts, in 2018 a law has passed about the non-competition clause which limits it to a maximum of 12 months period with the duty, in the meantime, to give 50% of the former employee' wage. On the contrary, other American states like New Hampshire, Maryland, Maine and Oregon have banned all non-compete clauses below a specific threshold. Totally different is the case of the California state, where non-competition clauses are commonly unenforceable provided that there isn't been any acquisition of a company which director is also an owner (Albano & Rozenblit, 2020). Furthermore, in the U.S. the sales and offers of securities have to be registered with the SEC, according to the Securities Act of 1933. Indeed, for non-U.S. and for U.S. listed companies in the U.S. stock exchanges, the registration is required. Nevertheless, there are two exemptions for it: the first relates to the exemption of sales coming from an employee's benefit plan upon an extensive disclosure and involving more than $10 million; the second related to a number of private placement exoneration as, for instance, directors who are accredited investors or special requirements of form-filing with holding periods.

Additionally, in 2012 the Security Act Rule was issued. For this purpose, whenever a directors' remuneration plan includes rewards to a great number of employees, less than 2,000 and up to 500 of non-accredited investors, the company may not register itself as listed business with the SEC. As regards as the disclosure, according to the Regulation S-K Item 402, all U.S. listed companies need to give a thorough annual public disclosure regarding the remuneration of five of the top senior executives with specification of all elements and amounts. In addition, contrary to the European requirements, U.S. public companies should also disclose the median of all employees' annual total remuneration, excluding the CEO, with related ratios. Other provisions demanded by SEC include: the date on which it will be carried out restatement procedures with the aggregate excess amount to be given back; and the disclosure of the top executive remuneration comparison to total shareholder return with focus on the pay-for-performance relationship, even with a peer group comparison. Furthermore, since 2011, every large listed company has to outstand to shareholders' non-binding votes upon the remuneration decisions for senior executives. The frequency changes up to the organization's decisions, even though it usually takes place during the annual general meeting. For this purpose, the say-on-pay vote depends on the work of many proxy advisory companies, such as Institutional Shareholder Services and Glass Lewis & Company, which generally manage the remuneration analysis and issue a proxy statement upon it (Chapter 4).

Another important measure implemented by the U.S. Government is the previously cited TARP (paragraph 2.10. - public scrutiny importance). The Troubled Asset Relief Program (TARP) was established in 2008 in order to protect the ability of businesses and consumers to secure credit and to raise confidence in the credit market after the 2008 crisis. This confidence could be reached through the purchase of illiquid assets by the Treasury Department and, thus, helping financial institutions to extend credit. As a consequence, EESA granted a gradual release of funds: $250 billion authorized immediately; $100 billion authorized by the U.S. president, if needed; and a final $350 billion authorized by both the president and the Congress, if needed. In particular, TARP was an umbrella project that counts on six variety of divisions (Nolen, 2008): Investment in AIG, Executive Compensation, Credit Market Programs, Bank Investment Programs, Auto Industry and Housing. The investment in AIG was established in order to hinder the substantial risk created in the financial system because of the credit default swap positions: AIG was the financial corporation that owned the biggest amount of credit default swaps. TARP's Executive Compensation Program division created constraints to the recipients' executives remunerations whenever they had outstanding TARP obligations. Specifically, the legislation was able, among others, to: hinder the application of golden parachutes by creating clawbacks requirement, such as demanding to return all unearned bonuses of departing executives if proved to be objectively inaccurate according to gains, earnings or other criteria; applying on such bonuses an upper limit of 300% of average taxable remuneration of the previous five years; and, the limit of the internal revenues service tax deductibility moved from $1,000,000 to $500,000. With this provisions, le legislation helped to reduce those incentives of financial institutions executives by stopping them to have a unbearable financial risk exposure. For instance, companies looking for TARP capital needed to restrict their executives' remuneration and, additionally, the AIG managers and financial employees hadn't had any bonuses as a consequence of the US Treasury Department intervention. The restrictions demanded by the TARP provisions affected: the amount of bonuses on the total remuneration figure which was set at a maximum of 33% and exposed to clawback provisions; the interdiction for specific executives to obtain change in control cash inflows and severances; the superior disclosure requirement for those luxury expenses policies adopted by some companies; the tax gross-up payments ban; the creation of an independent remuneration committee; and, a non-binding "say on pay" annual voting right given to shareholders. As regards as the Bank Investment Programs, all interventions were implemented in order to stabilize as much as possible the American banking system during the crisis. This division counted with the largest TARP initiative as regards as the public funding point of view, as to say the Capital Purchase Program (CPP), by dispensing preferred stocks and warrants to viable institutions. The initiatives in the Auto Industry, especially investments in the General Motors and Chrysler equities, due to the potential harm that would hit American and worldwide citizens due to the U.S. automobile manufacturing industry collapse. By looking at the S&P500, 34 out of 500 companies, mainly insurance and finance ones, have received fundings from TARP (TARP Reports, 2014). The monitoring and legislative activities undertaken by the U.S government granted: a better regulation, especially for the executive remunerations' biggest companies, by enhancing board of directors responsibility for all remuneration contracts; encouraging banks' monitoring and containing executives' remuneration; stimulating prohibition on strategies that prefer short-term risk-taking over the long-term ones, thus decreasing the company value. Moreover, the EESA included some provisions in regards to preventing bank executives from unjustly enriching themselves (TARP Reports, 2014). It's important to underline that among the TARP recipients in the S&P500, 12 of them were able to pay back all its TARP obligations before 2010 making themselves effectively bypass all restrictions imposed on executives' remunerations. In particular, these companies have paid back the TARP principal in 2009 for a total amount of $138.3 billion and related $12.9 billion earnings to the Treasury Department (TARP Reports, 2014).

In Spring 2016, the Dodd-Frank Act, which hasn't been so successful at the time of its proposal, has be re-introduced for hindering all remunerations based on incentives that would increase company risk, thus the possibilities of financial losses, of financial institutions. Indeed, the new provisions required to: deferring at least 50% of the incentive remuneration for at least three years for all executives of financial institutions with more than $50 billion of total consolidated assets; stopping the remuneration arrangements that would push improper risk taking activities; implementing clawback provisions for covered institutions for taking back all variable remunerations after seven years from the end of the vesting period if misconduct, substantial reputational or financial harm, fraud or deliberate distortion of information occur; creating policies and processes for variable remuneration agreements proportionate to the complexity and size of the organization, with the goal of enhancing their compliance with all requirements; and, finally, redacting an annual report on the structure of the variable compensation to a particular U.S. regulator.

Given the great importance that these companies have on all listed company, in July 2020 SEC published a final rule in order to clarify the effects of proxy voting advices. Specifically, an exemption would be applied for all proxy advisory companies' statements every time that: the proxy advisor publishes information that creates conflicts of interest; or, if the proxy advisor undertakes written policies and procedures that result in providing the advice at a later date than the one in which shareholders are able to gather the information by themselves; or, finally, if shareholders have a information mechanism that allows them to obtain such advices prior any corporations' annual general meetings. These provisions, however, do not apply whenever the proxy voting advice relates to a custom policy or to a specific merger and acquisition transaction as a non-exempt solicitation (Securities Exchange Act, Rule 14a and Rule 14b). Moreover, from

1st December 2021 it will become effective for all proxy advisory companies to stop in making solicitations based on misleading or false statements. Finally, in the latest period, there has been a great focus upon the Environmental, Social and Cultural problems relating U.S. corporate governance. This made SEC to amend the disclosure provisions by adding requirements upon details on human capital resources, besides the measures applied for attracting and retaining a more diverse board of directors. For instance, in the California state it's mandatory for all companies' headquarters to have at least three female directors in a more-than-six boards by 2021, besides having a member from a underrepresented community.

As a consequence of the Covid-19 pandemic, and the related income inequality increased, the U.S. government is now looking to implement the bill for the "Tax Excessive CEO Pay Act", which was originally discussed on 13th November 2019. This Bill focuses on the link between the corporate tax rate and the stated CEO-to-median employee pay ratio. Indeed, the Act, if approved, would increase enormously corporate taxes: +0.5% if the ratio is 50:1, and +5% if the ratio is 500:1.

3.2. **China legislation**

Until 1978 the People's Republic of China (PRC) had a rather Soviet-style centrally planned kind of economy. Indeed, the pay-for-performance remuneration structure was poorly tied. During this period, directors were chosen by the government along with their compensation amount and structure. Specifically, equity-based remuneration incentives didn't exist while the salary was the predominant part of it (Lin, 2014). Nevertheless, since 1978, with the "Opening-up" policy, there has been a trend toward a modernization of state-owned companies, enhancement of private business, incentivization of bonuses and other variable components usage. The 1979 Regulation demanded to create bonuses from the obtained profit, as well as aiming to boost a raise in the gap between the senior managers' remunerations and the ordinary employees' ones up to three times (The Law of the People's Republic of China on Industrial Enterprises owned by the whole people, art.2). In 1997, the article 1 of the Shenzhen Temporary Regulations linked the performance to the CEO's pay remuneration. In addition, in 2003 the executives' pay was reformed from scratch in order to separate it from the ordinary employees' one, with the establishment of the State-owned Asset Supervision and Administration Commission of the State Council (SASAC). Indeed, this reform stated since 2001 with the adoption of a more

Anglo-Saxon type of internal governance, as the issuance of "Guideline to the Establishment of Independent Directors' System"; with this provision it was required that all listed companies should have at least one third of independent directors in the board of directors. In 2002 it was published the "Code of Corporate Governance for Listed Companies in China" which explained all requirements and benchmarks for listed companies in relation to the shareholders-directors relationship and the variable remuneration composition. These provisions led to the global highest executives' compensations increase since 2001 to 2012 of 57.15% while countries as U.S. it was only 27.77% (Conyon, 2012). Moreover, the disclosure upon directors remuneration is weaker than more capitalistic countries, even though since 2001 it's demanded for all public companies to issue an annual statement with the total sum of the three highest-paid directors' total remuneration, as well as the three highest-paid board members' one. The individual disclosure of executives' remuneration became mandatory after 2005 with the new provisions of the China Securities Regulatory Commission (2005). Specifically, since 2006 listed companies had to provide full disclosure on the remuneration elements and amounts (fixed compensation, bonuses and perks), besides having the possibility to issue equity incentive plans, as well as stock option and restricted stock incentives. In addition, contrary to the Western economies, the corporate ownership structure is substantially different in China. Indeed, in a meaningful amount of listed companies, the Chinese state is the controlling shareholder, with an ownership of between 40% and 50%, and, thus, making the holding structure, rather concentrated. Prior 2005, in a case of a state-owned enterprise (SOE), once it's been listed, just a restrict part is left to private shareholders, while the state-owned shares are commonly non-tradable. On the contrary, after the Reform it became possible to negotiate also with the non-tradable shares in order to offset the so-created dilution through a suitable compensation. As regards as the ownership concentration, Xu (2010) found out that generally the majority shareholder holds 43% of the company's shares, while the second greater shareholder holds about 9% and the third about 4%. This high concentration is able to grant a substantial importance and power to the controlling shareholders and to the strategically and operative decisions taken.

The executive compensation structure had been formed through provisions mainly contained in the P.R.C. Company Law (2006) and the P.R.C. Corporate Governance Code (2002), written by the National People's Congress, also known as the "Standing Committee". Specifically, with these laws the board of directors has the power to decide the appointment, the termination and the remuneration of companies' managers. Indeed, all directors' pays need to be approved in the annual shareholder meeting, even though the vote doesn't comprise with individual packages, but an aggregate amount. More in particular, contrary to the European Union countries, the U.S.A. or the U.K., the say-on-pay provision upon the directors' remuneration doesn't exist in China. Moreover, the Chinese State Council has the power to issue further regulations such as the previously mentioned China Securities Regulatory Commission (CSRC), as well as the Administrative Measures for the Issuance of Securities by Listed Companies (2006). Finally, even in China are present some self-regulating provisions established by stock exchanges, among others the Listing Rules of Shanghai Stock Exchanges and the Listing Rules of Shenzhen Stock Exchange. In addition, the P.R.C. Corporate Governance Code legislated upon the possibility of creating an appraisal and remuneration committee, giving the right to shareholders to establish it after a positive vote at the annual general meeting, rather than make it mandatory as happens in U.E. and U.S.A.. Specifically, the appraisal and remuneration committee, if created, is in charge of evaluating the performances achieved by all managers and directors. For what concerns the SOEs, their compensations and supervision is managed by the Chinese government, and, after 2008, more limitations are placed on their generally overcompensated directors. Indeed, in 2009 the government published guidelines on the matter, demanding Central SOEs' executive remuneration not to be higher than thirty times the last financial year average employee's compensation. In addition, in 2013 a new provision is issued by the State Council for which the SOEs' executive remuneration growth rate should be lower than the pay of the average company employee. Indeed, Lin (2014) shows how the executives' pays have a lower level in China than in the Western countries, in U.E. and U.S., and that listed companies on the Shanghai Stock Exchange and on the Shenzhen Stock Exchange have a small average compensation than the Hong Kong Stock Exchange ones. Indeed, the tighter regulation by the Chinese government makes the Central SOEs' executives to gain one of the lowest compensations of the global industry. Indeed, the major part of the directors' remuneration, in Chinese listed companies, is made out of non-equity packages: fixed pays and annual bonuses. Specifically, an analysis of ASEAN Corporate Governance Scorecard (2014) points out that among the 100 biggest companies listed both in the Shanghai Stock Exchange and Shenzhen Stock Exchange, merely 26 have implemented an equity-based compensation package for their directors, and solely 13 have created a share ownership plan for their employees. Indeed, given the SOEs directors nature for being government-assigned and re-assigned in a short-term manner, also the executives' incentives tend to be given with a short-term perspective, rather than a long one. The Scorecard (2014) indeed showed how in 2011 the equity-based remuneration packages was granted just to 18 among all state-owned listed enterprises. This scarcity in share-based pay lies on the tight requirements needed in order to embrace it: firstly, informing the CSRC and other local authorities about the equity compensation structure; secondly, the corporate governance has to be changed by appointing only outside directors to the remuneration committee and at least half of outside directors for the board of directors; finally, the authorization should be granted before the submission to the annual general meeting's shareholders' approval. Additionally, corporations are able to repurchase a maximum of 5% of stocks from workers in order to approve new share-based packages for employees. This amount is even lower, about 1%, for all those state-owned public enterprises that for the first time provide equity-based packages to executive, which are now allowed to issue both stocks and stock options. Furthermore, as Xu (2010) pointed out, given the low disclosure level, typical of Chinese companies, in this country has become substantially meaningful the so-called "grey income". This pay-out typology relates to concealed compensations, extra bonuses and subsidies: from housing allowances to travel expenses, shopping vouchers, entertainment fees, communication expenditures and overseas conference fees. The secretness is enhanced in SOEs because of the closeness to the Organization Department of the Communist Party of Chinese Central Committee, which appoints all seniors executives in state-owned companies and sees their pays as highly sensitive. In addition, given the ceiling imposed on the total remuneration, SOEs' executives generally undertake other governmental positions in order to get higher incentives. The safe-position that executives have because of the government interference makes agency issues even higher than the ones existing in Western countries. However, even the arm's-length technique is rather pointless in this environment. Indeed, even though the P.R.C. Company Law states that during the shareholders' annual general meeting it's possible to appoint directors, the same provision doesn't give any further detail about how the vote can be carried out, leaving the matter to each company articles of association (Article 47). Specifically, some articles exist in order to grant controlling shareholders the right to monitor directors' appointments. This is the case of the CSRC Opinion that gives the power to shareholders, the board of directors and the supervisory board to nominate all independent directors if they have more than 1% of the company ownership, separately or collectively. The same is true for the P.R.C. Company Law that allows shareholders with an individual or collective company ownership of more than 3% the eligibility to appoint directors: the nomination is valid if more than half of the shareholdings with voting rights vote in favour (Article 103). Moreover, even as regards as the directors' appointment by shareholders, there's no Chinese law that states the disclosure procedures about the nomination and the negotiation system. Specifically, executives in Chinese companies, especially the state-owned ones, have the power to apply meaningful influence on their own compensation package structure since there's no obligation about the separation of the chairman and CEO positions inside the board. Furthermore, the role and structure of the appraisal and remuneration committee, contrary to the major Western countries, is limited under the P.R.C. Corporate Governance Code to just: monitor directors and managements' standard assessment and to make recommendations on the matter; and to design all compensation policies and structures about top managers and directors (Article 56). Indeed, there's no mention about any performance linkage about the remuneration, any clawback measures and severance provisions. Moreover, even though the creation of the equity-based remuneration is left to the remuneration committee role by the CSRC, the approval right is still given solely to the board of directors. The same thought is true as regards as the independence of the committee, for which the mere "majority" of independent directors isn't enough to actually guarantee a real independence of the body. This impasse, plus the confined role the committee has in executives' pay packages designation, only enhances the agency problems: the remuneration committee has only the power to advise on compensation issues, without being able to materially intervene. Meanwhile, if the structure and processes of directors' remuneration packages have harmed some shareholders, they have the possibility to implement direct or indirect actions with a sort of clawback mechanism. However, even in this case, the P.R.C. Company Law doesn't provide any further detail over the loyalty and diligence duty of executives, by solely proving a list of forbidden acts for the former, and general definitions for the latter. Indeed, these explanations are rather approximative and don't give enough indications about the real breach of duty events. In addition, the Chinese supervisory board, unlike Western countries counterparts, doesn't have any decisional authority on company operations, as well as no power of nominating, appointing and removing directors and their compensation packages amounts. Chinese companies, moreover, are not legally required of having remuneration consultants. Indeed, CSRC provisions vaguely say that listed enterprises could appoint financial advisers about the equity-based compensation package. Nevertheless, Lin (2014) pointed out that it's highly possible that Chinese listed enterprise and particularly the SEOs might be more prone in moving towards the appointment of professional consultants for teaching the remuneration committee and, thus, improving transparency and fairness in redacting executives' compensations.

3.3. **European Union legislation**

Since 2003, the European Commission has constantly worked to address the issue of corporate governance schemes and company laws with the purpose of strengthening its economy competitiveness and efficiency, and by protecting shareholders' rights and third parties. The first action undertaken was the "Action Plan for Modernizing company Law and corporate governance in the European Union" which, during the years has been improved and refined. The EU pointed out the origin of the problem as the agency conflict both in SMEs and listed companies (Chapter 1) and identified transparency procedures and reasonable remuneration as a key to overcome it. In particular, it was decisive the understanding of the crucial role played by non-executives directors, independent directors and shareholders and the higher power that should be given to them. This objective could have been achieved through the introduction of a greater number of independent directors to the board or of a remuneration committee and a nomination committee, or else through operating with an independent consultant or granting voting rights to shareholders at each AGM (Provasi & Riva, 2016). However, plenty of European jurisdictions have regulated over this matter. For instance, Italy established that the directors' compensation should be decided once appointed or through shareholders' meeting with paragraph 1 of art. 2389 in the Civil Code. Moreover, German law demanded a supervisory board which would create the total directors' compensation packages at a fair level according to performance achievements and responsibilities (87-1 AktG). And, finally, France excluded the possibility for listed companies to remunerates their directors if not through their performance achievement (L.225-42-1, co.2, Code de Commerce). Nevertheless, data manipulation, poor performance indicators, passive independent directors and agency problems still remained, despite the better EU share ownership structure than the U.S. ones. As a consequence, in response to the previously mentioned dilemmas, the meaningful expansion of executives' variable compensation throughout all Europe and the general investment short-termism, in 2003 the Commission issued a communication with the intention to initiate the homogenization process of all national European provisions related to listed companies directors' compensations (Modernizing company Law and corporate governance in the European Union. A plan to move forward, 2003). As a consequence, the Commission in 2004 has issues a Recommendation. An European recommendation is a mandatory value act for each member of the EU which indicated the policy objectives intended to pursue and promote from a legislative point of view through ad hoc measure and spontaneous adaptation by the member state.

3.3.1. Recommendation 2004/913/EC

This Community Recommendation was published in the Official Journal of the European Union on 29th December 2004 and it gave a variety of possibilities for modernizing the board of directors and strengthening shareholders' rights. It encouraged the implementation of a more efficient regulatory scheme in each member state in order to stop any conflicts of interest through a fair governance monitoring system and information requirements. Specifically, the Recommendation concerned the compensation of directors in listed companies regulates in the European market and it encouraged all member states to introduce it by 30 June 2006. The advices that were granted were: a set of disclosure obligations that had the purpose of enhancing transparency and extending them even to other positions in the administration department, like general managers; and the utilization of equity incentives as part of compensations. In particular, as regards as the disclosure element, all listed corporations were asked to create and publish a compensation report on annual basis, besides the annual report, for stating the remuneration policy adopted by the company and the one that will be implemented in the following next years. This disclosure had to contain fixed components, annual bonuses, non-cash remuneration, LTIPs, severances, equity incentives vested and granted and perks received for belonging to the same corporation, as well as special personal services. Additionally, the Recommendation asked each member to issue a provision according to which all share remuneration elements could be implemented only with the shareholders' vote at the annual general meeting, as already legislated in the U.S. market. The shareholders' vote suggestion should also apply to each further long-term incentive plan created for directors. The remuneration statement, according to the Commission, has to include besides the fixed and variable elements, the criteria upon which variable components are granted and its relation with company performance. Additionally, the key determinants of annual bonuses and non-cash perks should be pointed out, as well as the pension plan and supplementary insurance scheme. In the remuneration statement was also essential to underline the role undertaken by the company's Compensation Committee, the external consultants and the shareholders during the annual general meetings, besides the most important terms of the remuneration contracts like notice periods, termination payments and duration. As regards as the validity of shareholders' vote, each member state could have decided if making its results mandatory or advisory and stating a minimum quorum of those present or represented. The peculiarity reserved to the share-based compensation policy involves, specifically, the indication of the key conditions upon changing in the exercise price and other term, and maximum amount that could be granted and exercised. Moreover, a deadline should be established for the Remuneration Committee's decisions on directors' equity awarding and discounted option arrangements by the annual general meeting. Finally, in order to enhance as much as possible the corporate transparency, the European Commission asked for publishing all information about the Remuneration Statements on the company's website.

3.3.2. Recommendation 2005/162/EC

The second Recommendation published on 25th February 2005 on the Official Journal of the European Union concerned the independent directors' role according to the corporate governance in listed companies. Specifically, it was given great value to the organizational operations for creating compensations for directors, both for executives and non-executives or supervisory ones. The role played by independent directors is crucial either in companies with concentrated ownership or with disperse ownership structures in order to protect shareholders and stakeholders' interests. Indeed, in company highly concentrated, with a majority shareholder, independent directors ensure that the interest of minority shareholders are taken into consideration during operations. Conversely, in companies with a highly dispersed structure, their role focuses on enhancing managers' accountability while protecting shareholders from third parties. The independence, in fact, is one way to diminish as much as possible the intrinsic conflict of interests inside the company Board. In particular the most important role is the supervisory tasks of supervisory directors, or non-executives, with accounts mansions such as remuneration of directors, nomination of directors and audit. For this purpose, the European Commission recommended the Member countries to establish a legislation for the creation of the Nomination Committee, the Remuneration Committee and the Audit Committee, within the board of directors or the supervisory board. The key mansion of these bodies is to enhance the board's efficiency by preparing and organizing the information required in order to take decisions without any conflicts of interest. Specifically, the Remuneration Committee's members, according to the Commission, should be only of non-executive type and that the independent directors should be at least the majority. Additionally, this Committee should make proposals, which would then be approved by the board, upon the compensation policy for all managing directors and executives. The compensation policy should contain all elements for each director according to the fixed pay, variable pay, severances, perks and pension plans. Specifically, even this new Recommendation underlines the importance in stating the criteria to evaluating the directors' performance and their alignment with the shareholders' long-run interests. In addition, the 2005/162/EC Recommendation pointed out that the Committee should propose the compensation contracts encompassing the total remuneration that directors get from other subsidiaries or other companies connected to the group. Other roles engaged by the Committee concern the advice on the most appropriate contract form and the supervision over disclosure provisions and other obligations. A careful attention should be given to the equity-based and option incentives in the annual report according to the general policies implemented, information reviews and special decisions on granting them. Finally, at the Remuneration Committee was granted the possibility to work with the help of external consultants upon further information needed and market benchmarks, and to receive fundings by the company for appointing them (2005/162/EC).

3.3.3. Recommendation 2009/385/EC

The European Commission, on 13th July 2009, published a Recommendation for complementing the 2004/913/EC and the 2005/162/EC on the directors' remuneration in listed firms. In addition, this revision proposal had the specific purpose of protecting the financial system by improving risk management and aligning incentives with sustainability in credit institutions and investment companies. Certainly, the compensation practices in the majority of the financial service industry ,about focusing on short-term high rewards for high risk, represented one of the causes of the 2008 crisis. As a consequence, a reliable update upon the legislation on compensation policies was required. The first step was taken in April 2009 with the "High-level Principles for Remuneration Policies" published by the Committee of European Banking Supervisors (CEBS). The second step, involved the adoption of the 2009/385/EC in order to oblige financial firms in adopting compensation policies proportioned with a sound risk management a long-term perspective and to implement the required tools for helping the Authorities' supervision over the risk-taking activities and pay-for-performance alignment. The proposal applied to authorized investment companies that have a level head office in a Member state and its effects would should impact all individual firms inside the group, even the offshore ones. As regards as the remuneration structure, the Recommendation underlines the suitable proportion of fixed and variable elements in the total compensation in order to keep a flexible remuneration policy. Specifically, the variable part shouldn't be higher than the already-decided maximum amount of the fixed component and in the event of a loss or of financial distress, the company should have the possibility not to pay any bonuses to directors. Finally, the proposal granted the right to the company to enact a clawback mechanism upon bonus paid: the employee has to return it if the results is due to performance achievement proved to be "manifestly" wrong (2009/385/EC). In relation to the bonus payment, if it's a meaningful amount, the Commission advised to defer it. In particular, its biggest part should be postponed in payment according to other performance target achievement over the medium-long run. Moreover, the payment should be granted by taking into account the tied associated risk and could be liquidated through shares, stock options and other financial instruments. Furthermore, the Recommendation stated also the parameters that should be utilized in order to assess the single unit performance or the individual one. In fact, the advice is to implement both financial and non-financial (qualitative) criteria as to say, for example, the level of compliance with internal procedures and company policies or the customer satisfaction level. Other parameters to be considered in bonus payment relates to the cost of capital used, the liquidity related to the performance achievement and the current and future risk. The outcome of such key indicators, in addition, have to be analysed over the years in order to ensure that the company long-run objectives are reached too. For this purpose the European Commission advises to set an assessment period from three to five years. Moreover, the Recommendation pointed out that the golden parachutes, as to say severances granted to employees for contracts termination, should be conceded upon positive performance during the employment period and not just as a due termination payment, as usually happens (see paragraph 3.7.2. – the new millennium codes). As regards as the remuneration policy creation, at the board of directors now is given only a supervisory role with the approval of the compensation contracts. Indeed, the remuneration committee, the human resources department and other external experts, as to say all bodies charged of designing the pay policy, should be independent from the business units on which they're working on and should have the skills required for their task. Besides from being independent from the operating units control, these bodies should also be paid without any performance achievement criteria and the implementation of their policy should be subjected to an annual independent and central review.

In relation to the remuneration policy proposed and applied, the Commission recommended to ensure the highest transparency and disclosure possible. Indeed directors should have access to the documents and they should know in advance which are the key indicators of their remuneration, as well as the tasks played by all parties involved and the performance targets that should be achieved.

3.3.4. Other European Union legislations

On 7th July 2010, , the European Parliament adopted the P7_TA(2010)0265 Resolution, which gives the power to supervisory authorities to undertake restrictive measures from a qualitative point of view (e.g. diminishing the risk of investment firms activities) and quantitative point of view (e.g. holding more funds to cover their risks), apart from imposing financial and non-financial sanctions. The 45 sections of the resolution proposed that the magnitude of the remuneration should be in proportion to the size, complexity and organization of the company and that the compensation policies should be established with the consultation of the risk Committee. These considerations have been introduced with the Directive 2010/76/EC of 24th November 2010 for underlining the importance of compensation policies that are consistent with an accurate risk management and potentially hindering the disadvantageous effects of a poor remuneration policy. Furthermore, on 5th April 2011, the European Commission published a Green Paper on corporate governance in the European Union system for modernizing and improving the corporate governance structure of European listed firms. As a results of this publishing, a consultation was lunched until the 15th November 2011, when there were found three main points to start the consultation with: the board of directors, shareholders, and the comply or explain technique. Specifically, the disclosure feature of the directors' remuneration policy was declared essential for comparing the information given by all companies across the European Union, hence balancing off the variety of National legislations.

On 12th December 2012 it was published the "Action Plan: European company law and corporate governance – a modern legal framework to shareholders more engaged and sustainable companies". The first objective perpetrated by the Commission was to enhance the transparency of institutional investors and listed companies through compulsory measures, such as: creating a clear report on the adopted policies, boosting the board of directors' diversity, non-financial risk evaluation of directors, obligations introductions upon voting policies and voting reports, and company identification of shareholders at European level. In addition, in order to improve shareholders' rights, the Commission has proposed the introduction of an obligatory assembly vote upon compensation policies, on its implementation and the elements of each directors' contract, as well as introducing provisions on the advisors' activity transparency and conflict of interests.

Furthermore, on 26th June 2013, the Directive 2013/36/EU was issued by the European Parliament and the Council with the intention to undertake all needed measures for creating a cross-border transactions legal framework, hence encouraging compensation policies that are consistent with an adequate risk management. Specifically, all credit institutions were advised to stating in the compensation policy the risk propensity alignment, the risk values and their long-term interest, as well as specifying the fixed and the variable component both monetary and non-monetary. Finally, following the provisions of the 2009/385/EC Directive, even the 2013/36/EU focused on the maximum ratio between fixed and total compensation and the periodical revision of the policy in order to protect financial stability and shareholders' rights.

Finally, on 17th May 2017, the Parliament and the Council published the Directive 2017/828/EU in order to enhance shareholders' rights of listed companies. Indeed, it was introduced the voting right to the shareholders over the directors' remuneration policy, for the first time at European level. The directive still pressured listed companies to publish remuneration policies that should contain comparable, comprehensive and transparent information, as well as their implementing procedures. Nevertheless, it didn't focus on a general cap on directors' pay amount, but rather on a shareholders' binding vote on the remuneration policy and on the maximum amount of each director' compensation. Finally, the corporation should also disclose the ratio between director remuneration and employees' pays, the working condition and the wages of the employees, as well as the long-term sustainability possibility of the compensation policy in relation to the corporation' total strategy.

3.3.5. EBA/GL/2015/22

Even the European Banking Authority has intervened in ruling over directors' remuneration. Indeed, on 2nd July 2021 it published the final report on the "Guidelines on sound remuneration policies under Directive 2013/36/EU" (EBA/GL/2015/22). They constitute an amendment of the first version of 2015 guidelines, published in December of that year and became effective from 1st January 2017. These guidelines will be exercised by all institutions on a individual, sub-consolidated and consolidated level across all the European Union, with the sole special case of financial institutions, which need to apply their specific compensation rules. In particular, the EBA's guidelines will become effective from 31st December 2021. According to Mendel et al. (2021) even though the 2021 guidelines need to be implemented by the European Union countries, hence not covering the United Kingdom, the real possibilities that the country will be asked to ratify them anyway is still rather relevant. Indeed, the United Kingdom, although in it's post-Brexit phase, is still part of G20 and of the Financial Stability Board, thus it should implement all international standards related to the financial services sectors and its compensation regulation. The first topic that the EBA wanted to point out is the gender-neutrality principal. In order to monitor the actual male and female equal pay, it is required to implement a job classification scheme, for determining the role positions that are perceived to have identical value. Moreover, the Banking Authority admitted that it is surely easier to implement its guidelines whenever collective bargaining in remunerations are applied, rather than with individually agreed contracts. In any case, it will be asked to include in all central and independent internal reviews also an analysis on the achievement of a suitable gender-neutral policies. Member State's institutions, on their behalf, need to control whether the country complies in different company's categories and to intervene if the gap remains too large. In addition, the 2021 EBA's guidelines focus their attention to the grey areas exploited in the past by many institution for dodging compensation requirements. For instance, retention bonuses from 31st December need to be accompanied by the reason or the event that made essential the rewarding bonus for each beneficiary, besides explaining the performance criteria, the restrictions, the retention length and the efficacy deadline. Specifically, the EBA specified all the elements that need to be observed for granting the retention bonus, in particular about the amount and the appropriateness of the reward and the importance that this grant can be to the organization as a whole. Indeed, contrary to the 2015 guidelines, now the EBA sets stricter measures on the documentation process and on the appropriateness to grant such bonuses from the firm's point of view. Another important point dealt by the guidelines relates to the severance payments and the consequential creation of an exhaustive list on the matter. For instance, rewards given in order to settle an actual labour dispute and that can result in actions in front of courts, now they are the only allowed circumstances to grant such payments. Indeed, if the labour dispute is just a potential situation, without certainty, the severance pay shouldn't be given. Moreover, in the event of an early retirement of an employee, the discretionary pension benefits can't be considered severance payments anymore. Besides that, deferrals, rewards with instruments and variable compensation ratio are not considered for the calculation of the fixed component of the severance pay. Indeed, for the latter, the 2021 guidelines focused more on the reason of the severance and its appropriateness. Severances will not be subjected to the deferral and pay ratio rules whenever: it's been legislated so according to national labour laws under a "statutory redundancy payment" or after a court's decision; are computed through a relevant pre-fixed generic formula defined in the compensation policy or corresponding to a non-competition clause additional payment; or, whenever the company is able to prove to the national authority the appropriateness and reason for the severance payment and its amount. As regards as the non-competition clause, on its amount has to be set a ceiling of a fixed compensation that would have been received if the employee had kept working in the company; additionally, it's mandatory for the organization to prove the appropriateness and the reason of the severance payment amount, provided that it cannot possibly exceed the ratio calculation, even though the non-competition clause is included in the employment contract. Furthermore, the 2021 EBA's new guidelines provide new requirements for remunerations at group level. Specifically, these provisions have to apply to all parent and subsidiary companies, even those subsidiaries that are generally not subjected to any Directives on capital requirements. This is true apart from those ancillary companies that have to obey to a special compensation requirements like Investment Firms Directives, Undertaking for Collective Investment in Transferable Securities Directives, and Alternative Investment Fund Managers Directives. For this purpose, the EBA guidelines must be applied on consolidated basis whenever the consolidating institution is located in a Member state. Specifically, the provisions must be respected also by the staff that have an actual impact on the whole corporation's risk profile, even though they're not subjected to the capital requirements' Directives. In like manner, those ancillary companies that must obey to the capital requirements' Directives should also observe the relevant provisions for their staff under national law, even for those who apply a stricter requirement at consolidated level. Furthermore, the 2021 guidelines gives further information about the application of waivers. Specifically, now they are subjected to different legislations according to the total assets of institutions, with a ceiling of €15 billion, even below the amount decided by each Member state, and for staff that earn a relatively low variable compensation for which waivers shouldn't constitute more than one-third of their total annual compensation of

€50,000 or below. Moreover, EBA applied other amendments to its guidelines as the minimum deferral period that now it's set to five years in order to align as much as possible the risk-taking activities of directors. Moreover, it's been now given the solution to listed institution to implement a share-linked type of instrument for their compensation package in order to lower the intrinsic costs of paying out the required compensations with shares. A substantial change created with the new guidelines comes from the new requirements for the companies' long-term objectives for which the EBA demand the introduction of ESG (Environmental, Social and Governance) requirements consistency risks during strategical and operative decisions. Finally, the ultimate amendment involves the Remuneration Committee composition for which now it only requires the presence of a majority of independent members, apart from the independence of the chairman. This applied for the G-SIIs (Global Systemically Important Institutions) and O-SIIs (Other Systemically Important Institutions). Specifically, for the latter it's only demanded to have a "sufficient" amount of independent members, without any specific requirement for the chairman, which independence changes according to the national law.

3.4. **Italian compliance with the European legislation**

All standards for good practices relating to the corporate governance, established by the Parliament and Council of the European Union, have pushed Italy to implement the European Directives upon directors' remuneration of listed firms since the 22nd December 2010. In this period, in fact, the Italian Council of Minister approved the Legislative Decree 259/2010. The decree ratified the Recommendations 2004/913 and 2009/385 of the European Commission and was enforced since 2012. Specifically, this decree obliges listed companies to disclose the remuneration policy and the compensation report twenty-one days before the annual shareholders meeting by publishing on its website.

In addition, in 2011 Borsa Italiana, Abi, Ania, Assogestioni, Assonime and Confidustria cooperated for creating the Corporate Governance Committee in order to promote the Corporate Governance Code. Indeed, this Code advocate body had the objective of supporting structured and continuous procedures for controlling the standards implementation by listed companies in Italy. For this purpose, the Committee monitors all compensation problems enounced in the Corporate Governance Code and issues, among others, some recommendation on the topic. For instance, some advises have been provided regarding the delineation of what constitute a variable element in the directors' compensation, the need for a cap on this component (Recommendations 25-27 of Corporate Governance Code), as well as indemnities about early termination or non-renewal of directors' contracts (Recommendation 31 of Corporate Governance Code). Additionally, the Compensation Report should mandatorily contain information on individual basis for directors of "non-small" companies, besides details on managers' pay if their total remuneration is higher than the maximum compensation paid to other corporate bodies or top managers (Scheme 7-bis, Annex 3A, Consob). Surely, this event occurs in special situation as a contract termination with severance payment. Nevertheless, the Report contains information about the adoption of ex-ante and ex-post measures. Following 2011, subsequent versions of the Corporate Governance Code have been issued in July 2014, July 2015, July 2018 and January 2020.

The Assonime association, in February 2015, published the annual survey results regarding the 230 Italian listed companies compliance with the Corporate Governance Code issued in Italy ("Corporate Governance in Italy: Compliance, Remunerations and Quality of the Comply-or-Explain"). Specifically, the analysis is divided in two parts: the first one related to the 2014 directors' compensation and statutory auditors information, and the second one on the implementation of the comply-or-explain practice. As regards as the Remuneration Report, even in the Italian case, the first part contains the corporation compensation policies, both as a process and as an application point of view, and subordinated to a non-binding vote at the AGM, while the second part contains the directors, statutory auditors and top managers' real paid compensations coming from the parent company and its subsidiaries. In particular, the disclosure orientation varies enormously from one company to another, depending on the nature of its business and the complexity of the incentives. In fact, many companies can also state that they don't apply specific procedures upon certain elements and they delegate the decision to the board according to the each case. An important element about the remuneration disclosure relates to the establishment of benchmarks in order to evaluate the companies' performance. Indeed, in 2014 only 77% of the surveyed businesses have provided this information and, worse, only 43% have showed the criteria applied to set benchmarks, as to say by utilizing peer group valuations. On this purpose, only 6% have enumerated the peer group's company name, increasing doubts over the veracity of benchmarks' amounts and criteria. Even though the situation is improving, there are still concerns about this lack even in other European countries (paragraph 4.1. - proxy advisory firms). As a consequence, the survey put great stress on the consistency of companies in setting the remuneration policy and providing the remuneration report's explicit information. It must be underlined that the AGM vote on the matter is non-binding, with the exception of the financial sector companies (Directive 2013/36/EU explained in the previous paragraph). According to the report, however, solely 32% of companies explained the compliance achievement level, even though it was still higher than the 21% of the previous year. In addition, the first part of the Compensation Report should contain the aims of the implemented compensation policies, as well as their principles and changes intercurred from one year to another. According to the Assonime's report, in 2014 there's been a decrease in those companies explicitly disclosing a change in the remuneration policy, from 22% to 17%, with a substantial incidence among bigger companies, from 34% to 19%, and of investment firms, from 44% to 17%. On the other hand, as regards as the linkage between directors and key mangers' remunerations and performance, the relationship remains rather stronger, with 76% of companies applying the Code in 2014, contrary to the 74% in 2013. In particular, this figure varies enormously according to the company size: the connection is the highest, with 94%, for listed companies, then decreases to 88% for medium enterprises and reaches its lowest level with small firms, 71%. However, the report pointed out that such discrepancy is accentuated by the lack of a variable remuneration for directors in medium and mostly small size companies. Furthermore, the Corporate Governance Code issued a great number of recommendations related to the actual structure of the variable part in the compensation system. In particular, according to the ratified Directive of 2013, Consob pointed out the necessity to balance out the amounts of fixed and variable elements and to put a cap to the maximum variable component, as well as to create a linkage with performance and shareholders' value creation in the medium-long term by deferring it and setting a ceiling for early termination payments. Details on the performance parameters implemented in variable component are usually provided, even though the quality of the chosen criteria might be questionable (Figure 8, paragraph 4.3.7. - Eni's 2020 executive remuneration analysis). Indeed, according to the Assonime survey, where directors received variable remunerations, the disclosure reached a peak of 95% in 2014, a 3% increase from the previous year. Specifically, 93% of companies utilized accounting criteria such as EBITDA, profit, EBIT and EVA, while 42% indicated "business targets" in order to evaluate performances. Share market values like share-based incentive plans, option-based or phantom plans (which payment occurs both in share and cash) accounted for only 38% of total companies, while it became more recurrent in FTSE Mib corporation with 65% of disclosures. However it's important to point out that share-based incentive plans are experiencing a substantial decrease over the years: in 2012 it accounted to 50% of shares' market value while in 2013 was 46%. Finally, the report showed as 89% of companies set a ceiling on directors' variable compensation and 72% provided indicators about the weights applied to fixed and variable elements in the remunerations. Among the latter figure, the disclosure is proved to be higher for financial companies, in the 85% of the times, while it decreases to 70% for other industries' businesses. As regards as the remuneration structure, short-term variable components (MBO or Management-By-Objectives) were applied in 89% of companies, an increased in value of 7% from 2013. The Corporate Governance Code, in its recommendations, specified the need to link MBO performances to the medium-long term, yet without providing any further detail on the timing and performance targets advised. On the other hand, long-term incentive plans disclosures in 2014 accounted for 75% of companies, while in 2013 was only 67%. Nevertheless, this component is more frequently used among financial companies, 80% of the times, and among bigger businesses; indeed listed companies disclosed long-term incentive plans in the 94% of cases, while in medium and small size companies the amount drops at respectively 80% and 65%. Furthermore, the Assonime's report showed that 25% of all companies applied a ceiling for severance payment in their policy, which is very low even though the percentage was higher among listed companies with 47% of the cases. For this purpose, the most used praxis was to implement a maximum amount of two years total remuneration. Nevertheless, there were some cases where companies set a lower ceiling, between three months and one year, or a higher amount, between two years and a half and three years of total compensation, until even six years. Usually companies referred to the global remuneration as a basis for the computation, hence fixed and variable components, but there were some that applied only the fixed element, eventually tied to the gross annual salary. Additionally, sometimes companies disclose a fixed remuneration payment belonging to an actual more complex type of compensation structure; for instance the sum of a fixed element and another amount tied to an already-received variable compensation, or a severance amount tied to the mandate length period or to the remaining part of the employment contract. As regards as these type of payments, it was often underlined by the companies themselves that the policies applied constituted the general rule and if exceptional circumstances happen, these indemnities would not apply. On the other hand, other corporations stated that the board of directors had the faculty of granting these payments. It is however possible that the indemnities were not planned if they weren't part of the law prescribed for the role of both manager and director. Furthermore, the Assonime's report provided information about the compensation that was actually paid to directors in 2014, still pointing out that there were not meaningful changes over time. In particular, the mean of the analysed directors' compensation amounted to €229,000. This figure, however, differs substantially in relation to the company size: the lower average pay belonged to the small-sized companies, with €142,000, which corresponded to almost 2.8 times less than the average pay encountered in the Milan's listed companies, with €403,000. Moreover, it was noticed that a substantial amount share-based incentives' beneficiaries directors were allocated to the operating costs of the companies, as stated on the international financial year's reporting standards (Provasi & Riva, 2016). In addition, only 3% of the directors analysed obtained a partial or total equity remuneration payment which proved to be a rather stable trend over time even though variating in relation to the company size. In any case, these rewards accounted for a meaningful amount, as almost two time the general cash compensation, for an average figure of €515,000. Finally, the report showed some irregularities related to the attendance tokens issued for those directors to took part to annual general meetings. Indeed, even though some directors haven't attended any meetings during the year, only few of them haven't actually received the attendance tokens and, in addition, it was granted a compensation of circa €10,000 for their time spent in office. Furthermore, as it due, the average compensation amount changes greatly according to the role fulfilled by the person. Indeed, the best remunerated function belonged to the managing directors, who typical received €846,000 as average compensation, and, on the second position, the executive chairmen, with €645,000. That figure accounted for a lower compensation of about 25%, even though the compensations tended to decrease more drastically as the functions diminish in responsibilities. For instance, executive directors often got 60% less of the managing directors' compensation, with an amount of €499,000. After these positions, the non-executive chairmen got €302,000 while deputy-chairmen got €257,000. Moreover, €83,000 usually were given to the non-executive roles in the executive committee while €76,000 were given to other non-executive and €54,000 to independent directors. On this matter, even the configuration of the compensations changed in relation to the function fulfilled. Indeed, on average, managing directors were able to get 55% of the total remuneration as fixed pay, 24% as annual bonuses, and 11% as subsidiaries' compensations. On the other hand, executives chairmen's contracts presented a greater fixed pay, usually 68%, while the annual bonuses accounted for only 5%, even though the subsidiaries' rewards still remained 11%. Moreover, other executives directors got 39% of the remuneration as fixed component and 31% coming from subsidiaries. Contrary to that, non-executive chairmen, with their 84% of total remuneration, it's clear that they received almost all fixed pays while the variable remuneration tended to be much more rare and of little entity. Finally, non-executive directors received 31% of the remuneration from subsidiaries, as happens for other-executives, for an average amount of €23,000. As regards as independent directors' remuneration, Provasi and Riva (2016) noticed that they changed as the size of the company changes as well. Indeed, for the biggest companies, the listed ones, their compensation often was higher than €100,000, while in the medium-size firms it averagely became €51,000 and €30,000 for the small ones (Assonime Report). The great difference among these figures, by halving and more than halving, surely was caused by the unique problems existing in specific firm sizes, and yet also by a disparate degree of the Corporate Governance Code application. Moreover, independent directors received further compensations for their committees' belonging, even though it was not substantial, €16,000; and it tended to be quite stable over time although without equity remunerations. The final part of the Assonime's report analysed the age of the companies' directors and found a relevant discrepancy according to the role they fulfil. Indeed, the youngest rank belonged to the managing directors and other executives, which both had 56 years old as average age. By moving to other non-executives directors, the age started to increase with 56.5, followed by other independents with 59. The oldest categories were made of deputy chairmen with 62 years old, the non-executive chairmen with 68 years old, and, finally, the executive chairmen with 71 years old. The 2014 Report, in the end, pointed out that the disclosure situation in Italy was satisfactory, even though in need of improving margins, especially for the second sections of the Remuneration Reports about ex-post information on the compensations truly paid to directors.

3.5. **Japan legislation**

In Japan the remuneration about directors is generally administered by the Companies Act. In addition, each listed company should prepare an annual security report with certain specified details upon executives' compensation required by the Financial Instruments and Exchange Act (FIEA). Specifically, a taxation is applied to employees and individual executives according to an Income Tax Act, while another is implemented to companies by the Corporate Tax Act according to executives remuneration packages and granted employees benefits. In order to enforce these provisions, the Japanese government can rely on the Financial Service Agency and the Tokyo Stock Exchange. In particular, according to the corporate governance requirements, there are specific kinds of benefits and compensations rules. Indeed, for corporations with auditors, which is the most common governance structure, all types of remuneration need to be approved during the general meeting of shareholders and company auditors are charged of monitoring directors. On the other hand, for corporations with three committee, a governance structure created in 2003, there's no need for shareholders' approval. Indeed, the remuneration committee should decide upon all type of directors' compensation. Specifically, directors are charged of carrying out operating activities who, on the other hand, are monitored by three committees (compensation committee, nominating committee and audit committee) and the board of directors. Each of the three committees should have more than half of outside directors as members, and composed by at least three directors. Finally, another type of corporate governance structure is the presence of an audit committee inside the company. Even in this case the directors' remuneration packages are voted by shareholders and executives are charged of operative activities. The difference lies in the audit committee, which has to monitor directors' works. Specifically, the committee should be composed of more than half of outside investors and by at least three directors. As regards as the required disclosure, all companies need to provide information every fiscal year in a annual report about the remunerations amount of executives. Moreover, listed companies, according to the FIEA, also need to give more details about the compensation policy and the singular amounts received for each executive whom remuneration is higher than ¥100 million (art. 200, FIEA). All these information should be contained in the annual security report redacted by the company and its structure might change depending on the stock exchange applied rules. The remuneration structure and its amount, according to the Japanese legislation, has no limits. Nevertheless, according to the art. 34 of Corporation Tax Act, a performance-based remuneration can be deducted in the event that: the company is public; all executives get a profit-based remuneration according to operating and managing activities; the total compensation, according to size and efforts, is considered acceptable; the pay-out will be carried out one month after the amount decision; and, the pay-out is registered as an accounting expense. Another requirement for executives to deduct their pay is possible if: it's been redacted according to an index upon securities statements profits, or stock prices, or securities statements sales; there's a ceiling for the total amount; the approval procedures have been respected; and, the securities statement reports the methodology used. In addition the Japanese Labour Standards Act allows executives to defer variables rewards while there aren't any government provisions regarding clawback clauses (Article 89). Anyhow, a substantial amount of Japanese financial organizations have adopted repayment incentives as a consequence of the 2009 Principles for Sound Compensation Practices and Implementation Standards redacted by the Financial Stability Board. As regards as the equity-based remuneration rewards, there isn't any standard vesting period, even though usually it's been used in substitution of the executives' retirement allowances, thus setting the vesting in an after date of the retirement one. Specifically, the Companies Act regulates the required terms and processes for all stock options, yet granting companies the discretion of deciding their structure and specificities. The most common used equity-based remuneration involves the usage of restricted stocks and stock options (Matsumura & Ueno, 2017). For what concerns the executives' termination of employment, they can be laid off following a shareholders' general meeting or by a board of directors' resolution, if it's the case of a corporation with three committee structure. According to Japanese legislation, if the resolution is achieved, then there's no need of "good cause" (art 145-ii, Companies Act). Nevertheless, executives have the possibility to ask for damages whenever the termination occurred without justifiable grounds, such as violation of regulations, laws and articles of incorporations, as well as physical or mental disorder and removal of the division or department of working (art. 339, Companies Act). In addition, if the severance, following the termination is unfairly high, the Corporate Tax Code states that the enterprise can't handle it as deductible expenses. On the other hand, there's no minimum amount for the termination payment and post-employment perks at statutory level. According to Article 403 of the Companies Act, the corporation has to take into account three elements for determining the fair severance payment: the first relates to the years worked inside the company; the second concerns the specific reason of the retirement; and, the third relates to the average allowance granted by comparable enterprises. The termination payment should be approved by the shareholders' general meeting or by the compensation committee, under the Companies Act. Moreover, waivers are commonly allowed upon termination. In any case for the termination of executives is permitted upon a special resolution of the shareholders' general meeting with a maximum amount computed with a Companies Act's metric. The waiver can also be granted to the board of directors upon a specific clause in the articles of incorporation, with the Companies Act's metric and the exclusion of liabilities caused by negligence or wilful misconduct (Article 358). Finally, those directors that don't carry out operating activities can have a waiver according to articles of incorporation requirements and its amount is the greatest between the one stated in the articles of incorporation and the one computed with the Companies Act's metric. Even in the latter case all liabilities that can be created upon wilful misconduct and high negligence won't be waived. As far as the post-employment limiting clauses are concerned, there are no specific standards for the limiting period, even though it can't be higher than what an executive can fairly and necessarily expect. Given the vague definition, there are some restriction on the applicability of the non-competition clauses (Article 594, Companies Act). Specifically, the courts state that the fair and necessity of the clause is reasonable by looking at the length period, the geographical reach, the targeted business activity restriction, the position upheld by the executive and the compensatory measure granted. In Japan, executives don't commonly receive pension plans from the companies, leaving the major part of the task to the welfare pension insurance, according to the Welfare Pension Insurance Act. Nevertheless, even though executives generally utilized the welfare pension plans, they can also enjoy a number of retirement allowances and benefits after the termination of the employment contract. In particular, regarding these perks, executives will be taxed only on half of the termination allowances for retirement whenever the latter consists in a lump-sum amount or if the working period inside the company is greater than five years (art. 145 and following, Corporate Tax Act). The same effects will be applied on stock options and stock compensation with trusts within ten days after the retirement. From the company point of view, the deductibility is allowed if the executives' allowances are considered reasonable, given the contributions brought into the company, and that these amounts are not tied to any performance requirements. For any other further retirement perks, according the Companies Act, it's needed the approval of the shareholders' general meeting or the remuneration committee (Article 425.2). Moreover, an executive can be granted some indemnification by the company in the event of false, wilful misconduct accusations or gross negligence allegations. On this matter the board of directors can decide whether giving the indemnification or not. On the other hand, for what concerns the insurance, specifically for the officers and directors' liability insurance, the possibility of granting it depends on the approval of the board of directors for the enterprise to take on the insurance premium; additionally, the elements of the insurance should be monitored by all outside directors or a committee which more than half of its components are outside directors. In the event of change in control, in Japan the retention of previously engaged executives' agreements is not very common. Nevertheless, if the acquirer desires to do so, the executives will be needed to sing the acceptance letter (Article 637). In any case, there are some limitation on the cashing-out equity awards regarding the process prerequisite of share repurchase written in the Companies Act, besides further inside trading requirements if it's a listed company.

3.6. **India legislation**

In India, the main regulations regarding executives' remuneration can be mostly traced starting from 2009 with the Ministry of Corporate Affair issuance of the Voluntary Guidelines for Corporate Governance in the Clause 49. Furthermore, in 2010 the Reserve Bank of India published the Guidelines on Compensation of Whole Time Directors/Chief Executive Officers / Risk takers and Control Function Staff. Nevertheless, the first corporate governance regulation in India was set in 2000 with the intervention of the Securities and Exchange Board of India (SEBI) through the introduction of the most important Indian businessmen' guidelines and recommendations. The most important element that was added prior 2009 was the 2006's incorporation to the Clause 49 of recommendations following the Enron scandal. On the contrary, before this date, the application of international best practices was rather poor (Chakrabarti et al., 2011). Nevertheless, the Clause 49 administers the executives' remunerations mainly in regards to annual disclosure requirements in the business's annual statement. Specifically, all details and characteristics of executives and directors' remuneration packages should be disclosed in the annual statement in the Section IV(E) according to their fixed and variable compensations, pension plans and other perks. Great focus should be given to the linkage to performance criteria, as well as the exercisable period and particularities of the granted stock options. Even in relation to the non-executives' compensation information, all companies should provide all details regarding the transactions intercurred between them and all criteria and elements of composition. Finally, Clause 49 points out the importance of the board of directors in determining executives, non-executives and independent directors' remuneration which should be voted at the annual general meeting by shareholders. Even though the 2009 Voluntary Guidelines for Corporate Governance are not legally binding, they induce companies to implement them according to the technique "comply-or-explain". Additionally, these Guidelines provide information about the remuneration in detail, separating fixed compensation with the short-term and long-term ones and their performance linkage. For designing the remuneration package, the 2009 Guidelines recommend as well to create a compensation committee made out of non-executives and independent directors (Clause 2). This committee has the duty of structuring the criteria of the corporation' compensation policy and the implemented remuneration packages of all directors. In addition, in response to the 2009 G-20's FSF's Principles for Sound Compensation Practices, in 2010 the RBI published its set of Guidelines with the objective of creating a sound policy for credit institutions working in Indian territory. These Guidelines, contrary to the 2006 previous ones, focus their attention on the monitoring activities over the excessive executives' risk taking operations and the compensation policy designing process. Specifically, it's pointed out the importance of enlarging the variable remuneration in respect to the fixed component, in order to enhance the performance-based link, and to apply clawback mechanisms. Specifically, according to the RBI's Guidelines, the annual percentage increase of the fixed remuneration shouldn't be bigger than 15% (Clause 2.1.1). Moreover, there have been recommended other provisions in relation to the anti-hedging policies so that executives couldn't avoid the pay-for-performance methodology (Clause 2.1.5). In order to ensure compliance, enterprises should report the requirements to the SEBI on quarterly-basis. The enforcement authority that SEBI can exercise upon companies, under the 2004 Securities Laws (Amendment) Act, can be granted thanks to the imposed fines on non-compliant companies.

3.7. **United Kingdom legislation**

3.7.1. '90s Codes

The basis of corporate governance regulation system in the United Kingdom was set in 1992 when the Cadbury Report was issued (Committee on the Financial Aspects of Corporate Governance, 1992). This report was created as a consequence of the widespread custom perpetrated by executives of falsifying accounts and hiding information over several years, as happed in the Commerce International and Bank of Credit. These events raise concerns regarding the audit processes quality and, thus, the efficiency of their annual reports and the accounting profession. In the wake of this uncertainty, in May 1991 the Cadbury committee was established with the purpose of presenting standards and policies for companies which result analysis were in line with their forecasts. Later on, in November 1991, its objective shifted to defining responsibilities and composition of boards. This report was the country first recommendation of separating the function of corporate president and chief executive, or in alternative, of creating a strong and independent component on the board of directors, with the purpose of avoiding to give unlimited power to a sole person and limiting the self-amplifying acting of executives. Moreover, it was suggested: to appoint outside directors as a majority proportion in the board; the introduction of more than fifty percent of the remuneration committee of the board formed by non-executive directors (NEDs), so that they wouldn't be involved in decisions regarding their own pay packages; and, an audit committee should have been created by the board, whom three members, at least, have to be non-executives. The compliance to the Cadbury Report was on voluntary basis code enhanced by disclosure, as to say a code of best practice backed by the possible inference of legislation. Yet, it was given statutory authority by the London Stock Exchanges (LSE) for all listed companies for which it was demanded to "comply or explain" their observance of the Code. Specifically, it was required to conform to it and, if not, to justify it. The "comply or explain" principle became one of the milestones of the British corporate governance policies, along with the procedural transparency, officer accountability and disclosure information. Indeed, the corporate governance code in U.K. is an additive variety of principals which represent a system of self-regulation implemented by corporations (Harvey et al., 2019).

Subsequently to the Cadbury Report, the most important corporate governance report is the Greenbury one (Greenbury Committee, 1995). The Greenbury Report was established by the Confederation of British Industry (CBI) and the President of the Board of Trade with the intent of hindering the common praxis of excessively increasing executive remuneration levels. Specifically at that time there was a great increase in the level of criticism towards public utilities CEOs due to the exponential rise of their compensations as a consequence of privatization: for instance, the British Gas CEO had a wage increase of 75%, equivalent of 47 times the average compensation of his employees (Harvey, 2019). The result of such situation made the British government asking to Sir Richard Greenbury and his Study Group to strengthen the Cadbury code, hence to propose actions for reforming, without regulating. The Group consisted in eleven members and five adviser joined by the experience and knowledge of the corporate environment, small and institutional shareholders, the City, pension funds and the investment community. In particular, the Code amplified the importance of the existing link between company performance and executives' compensation, by setting a level able to attract, retain and motivate the best talents while not being excessive, and required more focus on the establishment of the Cadbury's remuneration committees for the listed firms on the LSE. What differentiate Cadbury report from the latter one, is the new role that the remuneration committee has such as determining the fit-for-purpose award packages for the most important executives and the disclosing requirements of relevant information through the corporations' annual reports (Chapter 2). Specifically, all corporations' remuneration committees each year must: publish their approach to the executives compensations in a full report; disclosing all features of the pay packages of each directors; listing the characteristics and amounts of each individual executive compensation pay; and, all listed corporations must comply with the code. As the Cadbury Code, the Greenbury Report as well had among its objectives the strengthen of accountability, full disclosure, responsibility, improved businesses performance, and alignment between executives and shareholders performance. The increased transparency created by the full and truthful disclosure about fixed salaries, variable compensations and perquisites put shareholders in a position to hinder the unjust compensations. In fact, by increasing the visibility of executives awards, Greenbury committee thought that these provisions would strengthen shareholders' monitoring ability and holding executives more accountable, while executives would achieve better results for their interests alignment. Even the Greenbury Report compliance was on voluntary basis with the hope that this self-regulatory system would suffice to improve the remuneration situation. Indeed, it was explained as shareholders were not shocked by the high compensation packages provided that their pay-outs were closely linked to company performance. Harvey (2019) pointed out that the Greenbury committee was overoptimistic about business response; indeed, since shareholders considered the magnitude of the awards generally unimportant if the returns were acceptable: a high average salary lose importance if the value added provided to the company is larger. However, in 1995, the study group issued its recommendations which were added by the British government to the norms followed by the London Stock Exchange listed businesses. In particular, it demanded a detailed report of all executives' compensation packages according to the already established "comply or explain" mechanism enforcement. As a consequence, all information about executives remunerations were for the first time publicly available as a formal compliance requisite. The implicit goal of the remuneration committee according to Greenbury code is to handle all executives contracts with their financial incentives, to penalize poor achievements and give awards for successful operations, hence enhancing British companies accountability. Additionally, the main novelties introduced by the Greenbury Code were added to the British combined code of corporate governance, and kept for all the following volumes. It must be underlined that a meaningful amount of Commonwealth countries has been affected by the Greenbury Code due to the tight relations between the London governance rules and the British domain. Moreover, in 2013 the Greenbury Code was added to the British statute with the Regulations of Large and Medium-sized Companies and Groups (Accounts and Reports)(Amendment)(2013). Greenbury Code resembles the policy structures already implemented for twenty years in the United States, such as LTIPs (Long-Term Incentive Plans) and remuneration committees. The American model, specifically, was based upon four assumptions: the independence of the remuneration committee for creating pay packages was indisputable; the disclosure would help institutional investors in heavily monitoring the compensation; the compensation would, indeed, be impacted by the information disclosure applied; and, of course, that the most efficient remuneration contract is the once that ties company performance with the executives' compensations.

As regards as the remuneration committee, its members should all be non-executive independent directors, according to Greenbury code, and having an arm's-length power towards top executives' business operations. In fact, whenever helped by expert advisers, the member of a remuneration committee has the critical range of influence useful for creating and monitoring compensation contracts, while enhancing business operation success and correctly award senior executives. However, the common information asymmetry perpetrated by executives has been exploited by them in order to reach arrangements that don't set the right incentives. With this attitude, executives were and are able to get higher awards through performance manipulation. This underlines the importance of the arm's-length bargaining, which should be independent and objective, in order to avoid executives' rent extractions, as often happens with LTIPs' exploitation of the systemic share price increases. As a consequence, if the remuneration contract is characterized by a pay without performance, it indicates that the principals, as to say shareholders, have lost the company control over the agents, as to say executives. In fact, whenever there's a powerful CEO, the remuneration committee is inevitably under his control and, thus, is not indicated anymore for creating the remuneration contracts since it wouldn't be able to align company performance with the executive' compensation (Sapp, 2008). However, Harvey (2019) underlined as, beside the power separation, a crucial role in raising the LTIPs bonuses is often played by the independent directors, rather than from the CEO himself, with the purpose of acquiring higher control over the senior executives. Indeed, the alignment of future performance and incentives can be reached whenever a quality remuneration committee is present, as to say whenever it can strengthen itself from seniority, collective experience and network centrality of its members. This independence provides the authority and power to, in fact, bargaining at arm's-length with top managers about their pays. However, even in this event, these executives will inevitably exercise their agency powers in the compensation designing processes. The insufficient bargaining abilities, information and expertise for facing top executives, in fact, make the remuneration committee most of the time dependent from them and with a trying-to-please behaviour.

As regards as the power that institutional investors exercise due to the information disclosure upon the executives compensation it helps them in enhancing their monitoring activities. Indeed asset management companies and pension funds have more possibilities of confronting the operations made by the firm's board of directors. Specifically, whenever there are few dominant institutional shareholders there's also a greater level of sensitivity in compensation to performance changes: the alignment between executives and large shareholders happens very quickly. Nevertheless, a meaningful amount of companies show that the existing link between institutional shareholders and top executives tends to fade if the ownership dispersion is high. In particular, this situation is due as a consequence to the approach that these institutional investors (namely asset managers, pension funds, mutual funds and hedge funds) have in investing, as to say in holding positions, into a great number of companies: this makes the control activity costly and difficult. This is the reason why many of them entrust proxy advisors in voting at annual general meetings instead of directly handling with the great number of invested companies (paragraph 4.1. – proxy advisory firms). Additionally, the holding times in the Anglo-Saxon financial market is decreasing, making institutional investors keeping shares for months rather than years, in order to maximize their financial outcomes. Moreover, share ownership chain has increase its duration because of the increased number of intermediaries between shareholders and executives (Sapp, 2008). This is the situation when there's a delegation to a further chain of outsider relationships such as fund managers, investment consultants and actuaries. Unfortunately, this lengthening of the chain makes the institutional investors' influence in the company governance scheme decreasing, thus granting top executives with a greater power. Nevertheless, the interference of long-term institutional investors tends to be higher and more continuous than the short-term ones during corporate governance policy creation, strategy decisions and executives' pay contracts; moreover, 60% of them continuously delegates their decisions to proxy advisors for resolutions voting and news on portfolio companies. In any case, high portfolio turnover rates, monitoring costs and legal concerns hinder the institutional investors engagement with shareholders. Specifically, a limited pay and a focus on pay-to-performance sensitivity contracts are mostly used for engaged institutional investors. On the other hand, whenever the institutional investors is disengaged, their presence has an almost null impact. Indeed, Harvey (2019) pointed out that in a British pension funds study, only few showed an ownership engagement on internally managed and well-resourced funds. In particular, these funds, from 2002 to 2007, have voted against or abstained to the executives remuneration report only 10% of them and the number is continuously declining.

The third assumption of the Greenbury Code relates to the easier monitoring control activity that shareholders can impress towards executives due to the disclosure upon their remunerations, thus sanctioning their behaviours. However, it's important to underline that the market of top executives, and its variables, differs enormously from the one of executives from small and medium sized companies. Specifically, in an executive labour market with efficient information, variations in the top executives remuneration contracts wont' be directly tied to the corporation performance indicators. Instead, the pay contracts are mainly based on recruitment, retention and motivational purposes in order to make sure that these top managers receive the standard applied rate or the amounts usually given to similar position workers in comparable companies. In particular, remuneration anomalies are very common whenever, in relation to the disclosure activity, an underpaid top executive is given an rising pay adjustments, thus amplifying their remuneration package growth. This statement is also supported by Hayes and Schaefer (2009) who pointed out that companies don't want to be seen in paying their CEOs less than the market average because it would mean that they're behind the industry predictions. Thus, to sum up, the escalation of executives' compensation is due to the initial relative underpayment and to the consequential tendency to pay them above the average. Indeed, one of the positions that are more liable of the remuneration increase is the remuneration consultant, especially if LTIPs represents the biggest part of the total remuneration in the client company. Specifically, according to their point of view, if the remuneration package is set from 50^{th} percentile to 75^{th} percentile, the CEO function is labelled as competitive, while a compensation situated below the 50^{th} percentile is considered below market; this makes consultants to advise a pay degree higher than other corporations. Furthermore, even in this event agency issues are still present, with a subsequent remuneration amplification: compensation consultants are generally appointed by top executives, rather than from compensation committees, hence advising upon pay packages of the people who employed them. Specifically, whenever more services are provided to the client company, as to say cross-selling activity, the remuneration packages inflation tends to be higher as well.

Finally, the Greenbury Code pointed out the already-spoken importance of the interests alignment between top executives and shareholders in order to monitor their behaviours in the best manner. Indeed, the maximization of the company's owners returns can be achieved through a combination of LTIPs, annual bonuses and base salaries as incentives. As a consequence, the achievement of business success should be translated into a pay award while poor outcomes upon the set objectives should be sanctioned, as to say to proportionally increase top executives pay according to their performance. In fact, the optimal contracting characteristics the possible agency problems that can arise between shareholders, as principals, and executives, as agents, become almost negligible. Nevertheless, this linkage shows some discrepancies as far as the long-term incentive plans are concerned; in particular, after 1995, the year in which they were introduced, it's been noticed that they decrease total shareholder returns sensitivity instead of enhancing it. Indeed, when share returns are low, the remuneration package is less sensitive to the company performance, while when share returns are high, the remuneration package becomes proportionally sensitive to the firm's outcomes (Li & Young, 2016). In addition, from 2003 to 2014 the median CEO's total remuneration return increased by 82%; yet, by sectioning the time from 2003 to 2009, FTSE-350 companies (the primary listing in the LSE) generally have little performance achievements even though the market kept increasing vigorously, while from 2010 these corporations achieved less than 1% of outcome on invested capital per year despite their performance improvements. This means that the linkage between value creation and remuneration level have a low positive association even though governments and regulators continuously ruled for aligning performance and managers' compensations. This situation undermines the Greenbury assumption of setting incentives only if performance criteria are achieved. In fact, the distortion of information, targets and reporting returns perpetrated by some executives jeopardize the effectiveness of such hypothesis. Specifically, LTIPs often are not in line with the goals of top executives from an effectiveness and efficiency point of view based on probability assessment methods, uncertainty responses, temporal effects evaluations, value perceptions and operation choices. Indeed, behaviours that unleash return for executives are often caused by a widening of financial incentives which doesn't correspond to value creation: a greater degree of share options for executives, in fact, amplifies the possibilities of company financial manipulations. The Enron scandal is a striking example: the top executives' total remuneration was the result of a high level of financial options and the heavily manipulated reported earnings and accounted for $380,000 annually (Abelson, 2001).

To conclude, the Greenbury Code, even though it has uncovered corporate governance policy liabilities, it hasn't hindered the amplification of senior executives' remunerations. Indeed, institutional investors, remuneration committees, regulation pressure, disclosure, the companies' competition upon higher CEOs pays and the shareholders passivity have help in pushing the escalation of executives' compensation even further, expanding the differences in wealth and income. Surely, increasing the institutional investors' accountability for their actions could help in mitigating this situation but the rising self-interest behaviour and the will to enhance their portfolio turnovers to increase funds' performance remain still very present. As Harvey (2019) underlined, this acting system is not the result of the lessening in power that investors have in relation to senior executives. In fact, the short-termism is the key cause of the agency problem in so created by creating disengaged investors with very superficial negotiation abilities between executives and shareholders.

The importance given to the disclosure characteristics by the Greenbury Code, according to Li and Young (2016), lays on the logic to create a solid and efficient strategy that can divert any criticism, stimulating support and establishing the rightfulness. Specifically, the goal is to promote criticism diversion concerned in finding a reason why the level of remuneration is high, hence in seeking a justification for it. The Greenbury Code, on this account, had to be the only possible solution in hindering the uncontrolled growth of the executives remunerations, thus not leaving the task to the government besides granting the threat of intervention. Moreover, the transparency so-created upon remunerations by the disclosure, brought an array of best practice, fairness and openness which enhances the self-regulation capabilities. Specifically, it was understood that the best way for lessening the conflict of interests between principals and agents could be achieved through an optimal contracting process which, as a consequence, would bring higher performance. As a result, the high compensation per se is not a practice to condemn, as many times happened by remuneration committees, but only if it's linked to a proportionate performance achievement (Harvey, 2019). The logic of establishing rightfulness is based on the fact that the study group created by Richard Greenbury was composed by the top executives of the biggest British companies. The presence of these honourable business leader made it difficult to object their statements, especially if the selection has been carried out by Richard Greenbury himself, who had an enormous reputation in the business industry. However, as regards as the efficacy of the disclosure, there are still some doubts, mainly because of the chain effect that this new transparency brings: once an executive's remuneration is exposed, the news causes the envy of those executives, from other companies as well, that earn less, thus pushing them in asking for more bonuses or adopting fraudulent behaviours. As a consequence to this behaviour, the executive remuneration level has generally increased over the years (Tremblay, 2012).

The executives accountability feature of the disclosure, urged by the Greenbury Code, was supported by three main factors. The first relates to the need to give a report about the results of the tasks that an executive had been working on. However, even in this case, it applies the general shareholders' reaction of not disagreeing to the level of executives' pay as long as they can grant them a positive outcome, no matter how much. Additionally, a great variety of information contained on the annual report documents might cause disengagement among shareholders and lack of interest. The second factor upon the liability publicized by the disclosure states that the more details upon a certain topic, inevitably leads to an enhancement of accountability. Indeed, the accountability, by providing more information throughout new channels, expands the transparency of a company, thus allowing to create a efficient debate among all stakeholders' views. Nevertheless, this perk that can be achieved if information provided are actually useful. This accountability limit involves, in fact, the duty to consider all disclosure costs, hence understanding whether they're worth the willingness to increment the executives' remuneration disclosure. Furthermore, more details upon the compensation isn't necessarily tied to a higher accountability, since information could be misleading. This underlines the importance of understanding in what manner information helps in better evaluating mangers' performance and what features are disclosed. For this purpose, the annual reports are many times accused of hiding rather than explaining some details due to the length of the documents and to the array of contained negligible information. This is the result of the great variety of mandatory information disclosure that has to be given (Tremblay, 2012). The third factor of accountability relates to the lack of a collective punishment when executives are overpaid if there are no criminal records or economic losses for years. Indeed, institutional investors usually don't intervene in an executive remuneration overpayment if the performance is within a targeted level; this behaviour, however, decreases systematically the probability of undertaking a collective action towards the higher pays. Moreover, controlling and involvement costs have been the cause in part for the diminishing capacity to hold responsible the executives' work by the public. This is also supported by the UK Office for National Statistics (2012) which published a report that showed that the ownership of British shares accounted for 21.7% for pension funds in 1998; while, this figure dropped to 4.7% in 2010. This abrupt change was connected to the needed greater work of examining the top managers compensation contracts and consequently undertake voting actions. Thus, in more than ten years, due to the application of Greenbury Code, the ownership inside companies by pension funds has lowered its concentration and made more diverse. The fourth, and final, factor of accountability depends on the sanctions that should be undertaken whenever pre-agreed standards and metrics are not met, leading to underperformance. On this matter, in a remuneration environment with high pays, the lack of targets achievement should, indeed, lead to a stock option revoke, cancellation of bonuses or loss of office. Indeed, the pre-agreement on the level of an acceptable executive performance sets the basis for a rescission justification. However, even though shareholders vote against a compensation policy, most of the times the remuneration committee changes partly the contracts that are more in line with stakeholders' view through revised packages. Furthermore, often shareholders haven't utilized the tactic of selling large portions of shares as a sign of disapproval towards top managers' compensations. This amorphism is the result of the absence of motivation and ability of shareholders to carry out collective actions on the excessive remuneration contracts.

On this matter, on January 1998 the Hampel Committee published its Code which contained updates and amendments to the Cadbury and Greenbury codes. Specifically, differently from the previous two Codes, Hampel code focused its attention to other executives directors other than the CEO who usually had the greatest and the sole attention in the remuneration policy control. With the purpose of decreasing the agency costs, it has been pointed out the importance of, for example, the finance director who has to be able to judge every problem comping to the board of directors in the company interests and appointed as a reward for the positive performance. Additionally, the Code modified the importance and the role of the remuneration committee inside all listed companies. In particular, besides what stated in the Greenbury code, here the unique responsibility of discharging certain functions on behalf of the board of directors is shifted toward to the compensation committee. As a consequence, the compensation packages of top managers have to be determined by the remuneration committee and yet not the whole remuneration policy is delegated to this committee. For this purpose the creation of executives' compensation contracts and their amounts is a responsibility of the board of directors ("full board") with the advice of the remuneration committee (Committee on corporate governance: final report, 1998). The Cadbury Report, the Greenbury Report and the Hampel Code were merged in the Combined Code on Corporate Governance, now called UK Corporate Governance Code.

3.7.2. The new millennium Codes

The shareholder approval requirements and mandatory specific disclosures stated in the UK Corporate Governance Code unfortunately were soft law, of non-binding effect, subjected on the comply-or-explain scheme. Those regulations, as explain in the previous paragraph, didn't brought the expected results either in term of information disclosed or of remuneration committee composition and role. As a result, the executives compensation provisions were enhanced to a statutory degree by the Directors' Remuneration Report Regulations 2002, issued by the Department for Business Innovation & Skills. Indeed, a top managers' compensation report was forced to be created by all listed companied of Great Britain for each financial year, utilizing some already-existing Listing Rules provisions. Specifically, the report provided further information upon the membership and role of the remuneration committee and an exposition of the detailed corporation' executives compensation policy. This policy explanation has to discuss: all allocations of stock options and long-maturity incentive plans with their vesting capacity and exercisability, termination agreements, notice periods, executives' contracts, a thorough compensation of each top manager over the previous year, and payments granted to former managers. Additionally, all shareholders have the duty and the opportunity to non-bindingly vote upon the managers' compensation report with a say-on-pay resolution; the mere difference from the UK Corporate Governance Code and this provision, lays on the periodical obligation of the board to confer the right to shareholders to provide their views on managers' remuneration. Nevertheless, the 2002 Regulations hasn't been able to hinder the remuneration rise and the performance alignment. Indeed, even in this case, the higher mandatory disclosure caused the excessive compensation legitimization and increase of managers' pays. Just since

2012, according to Petrin (2015), shareholders at their annual general meetings have started to actively use their right of advisory vote towards mangers' compensations, even though lower than 2002's level: 11.7% in 2012, contrary to 9.6% in 2011, and yet lower than 16% in 2002. Additionally, the results were generally from small and medium enterprises with heavy executives' agency issues besides their remuneration level. However, despite the lack of positive effect on the average CEO's compensation level, from 2002 to 2005 the say-on-pay provision helped in stopping excessive remunerations or high severance pay-outs in underperforming firms. Additionally, generally rejection votes produced a board of directors' reaction of decreasing exceptional remuneration levels or other wrongful corporate governance operations.

The last British prominent reaction in regulating compensation regimes has been taken with the 2013 Reforms as a consequence of the relation between the almost collapse of the financial industry in the 2008 crisis, executive remuneration policies, and risk-taking. In particular, tougher legislative intervention were implemented also because of the excessive complex and lengthy compensation disclosure documents. The new reform of British incorporated listed businesses was established on 1st October 2013 with four main objectives: to decrease the awards in the event of failures; to make corporation accountable through shareholders' empowerment with binding votes; to raise the importance of the relation between performance and compensation; and, to enhance an active cooperation between shareholders and corporations. More specifically, in order to reach these objective, it became mandatory to issue a binding shareholder vote at least one out of three years for an annual managerial compensation upon corporation's general policy. Additionally to this, it was also demanded to the company to undertake a shareholder non-binding advisory vote on annual basis in relation to the implementation achievement of the managerial compensation policy. Finally, people who received or authorized unapproved payment, under the 2013 Reforms, would face civil consequences, besides the enhancement of company compensation disclosure prerequisite and shareholder active participation. As regards as the managers' compensation report, shareholders were required to vote upon two out of three separate parts. The first part of the managers' compensation report had to include the annual statement created by the remuneration committee's chairman or, if not present, another manger nominated by the board of directors. This sections needed to summarize the most important choices regarding managers' compensation for the pertinent financial year and all relevant variations for the previous year. Moreover, all variations needed to be explained according to the context and the subsequent reactions taken. The second part of the compensation report regarded the annual report on remuneration. This section involved the implementation of the managers' compensation policy in lieu of all pay-outs conceded in the financial year. On this matter, shareholders had an annual advisor vote, thus not producing any effects, on the compensations paid to managers. Indeed, the objective of this vote laid on providing to shareholders the possibility to express their view on the implementation of the compensation policy. Particularly, this section should showed an unambiguous total compensation amount for each manager for the previous and current financial year in a form of a table that must include: fixed remuneration, fees, perquisites, cash or assets (shares and options) granted according to some performance targets and indicators achievement during the financial year, pension plans, annual bonuses, LTIPs, pay-outs to former managers, severances and managers' shareholdings with their interests. As regards as the link between remuneration and performance, the 2013 Reforms required that this sections had to include a graphic comparison between the share performance of the corporation and a broader index, besides a table comparing CEOs' remunerations in ten-year period with annual changes in relation to total compensation, and the real towards maximum opportunity achievement of annual bonuses and LTIPs. This level and detail of disclosure helped in underline the at the time generally established high gap between ordinary employees and executives. This section should have included a table with the percentage variation of the CEO's fixed remuneration, taxable perks, and annual bonus from the previous financial year and the percentage variation of these sums from the previous financial year according to the corporation's employees. Additionally, the second part should have included the real spending of the company, and the variation in expenditure from the previous year, in a graph with all compensations of corporation's employees, dividends and share buybacks to shareholders, and other important payments. Besides that, this section must have explained the approved directors' remuneration implementation policy of the following year. The third sections of the compensation report regarded the managers' compensation policy. Specifically, the 2013 Reforms demanded that companies could adopt specific remuneration provisions only with a binding shareholders' approval. Indeed, from the 1st October 2013, shareholders have the right to vote at annual general meetings upon managers' remuneration policies. These policies should face the shareholder approval by law every three years or less if amended by company' wishes. If the new policy, positioned in the second part of the compensation report, is not approved at the annual general meeting vote, then the remuneration policy has to be modified and re-submitted at the following year's AGM or at an extraordinary general meeting called for that purpose. Contrarily, the corporation could keep the effectiveness of the already-approved latter compensation policy, and ask for shareholders' positive vote on specific expenditures that diverge from the approved compensation policy. Specifically, the third section involved the creation of the managerial compensation expenditure and spending for loss of office and a table with the future policy. The future policy had to contain all elements of the compensation package for each manager, the director future appointment compensation process, the explanation of all present and future directors' obligations and the degree of implementation of the approved policy. Finally, it had to contain a thorough explanation of the context of the employees' working conditions and shareholders' view in deciding the directors' remuneration policy.

One of the most important innovation established by the 2013 Reforms is the approval of the directors' remuneration policy by shareholders. Indeed, if the binding vote result is negative and the company still pays some compensation, the company is in breach of the remuneration policy unless a memorandum authorized by shareholders is issued with all details and amounts of the proposed payment. If failed to do so, these expenditure obligations become ineffective. Specifically, if a loss is obtained due to managers breaching the directors' remuneration policy, then mangers who permitted the spending become liable to indemnify the corporation. Additionally, a specific control transaction exist for every payment related to loss of office to a director of a listed firm in breach of the approved mangers' compensation policy. This related to the transfer of share in the corporation or in its subsidiary through a takeover bid for which the payment has to be borne by the beneficiary for the people who have sold their stocks because of the bid. Indeed, the beneficiary's spending for allocating these amounts have to be held by himself. Furthermore, the say-on-pay provision, together with the right to dismiss and appoint managers, as in the previous Reforms, still helps in influencing and diminishing one by one all exorbitant compensations, even though it still doesn't impact the total degree of compensations (Petrin, 2015). Additionally, the issue related to the agency conflicts and general passivity of institutional investors isn't changed by the new 2013 Reforms, making individual investors unarmed by the information asymmetries and lack of collective action possibilities.

Despite the new established provisions and the 2016 Corporate Governance Reform Green Paper, Hildyard (2018) underlined the failure of these British policies by citing numerous bribery scandals, market manipulation, pension plan deficits, mis-selling scandals and increasing levels of executives' compensations. In 2018, for instance the construction company Carillion and the financial business Conviviality collapsed, WPP's CEO was expulsed due to misconducts and an excessive incentive payments of eight and nine figures was granted to Persimmon's managers. These occurrence made trust in business drop to 43% and CEOs' credibility to 42% according to Edelman Trust Barometer survey (2018). Specifically, the fall in trust in business, according to that survey, was mainly related to the lack of paying the fair amount of tax (56% of answers), and the thought that directors were excessively paid as compared to ordinary employees (58% of answers). For example, in top directors of Persimmon in 2018 received a £500 million bonus pool, among which £110 million was granted to the sole CEO, due to the increased performance achieved thanks to the British government's "help to buy" operation that heavily increased its sales. Moreover, the construction corporation Carillion in 2016 gave to its CEO £1.5 million total year remuneration while the company was collapsing, and a £660,000 severance in 2018 while an average full time British employee generally received a £28,000 total yearly remuneration. Additionally, other examples can be found in bailed-out companies as the BG Group which paid £5.5 million fixed pay and £10 million share award its chief executive or BP Group which granted $20 million in compensation to its chief executive while registering a substantial business loss. Hildyard (2018) pointed out that the weak oversight of the committee members are the first to be blamed rather than the Government's past Reforms. Specifically, the individual decisions taken had repercussions on public trust perception and all stakeholders' view upon income inequality towards performance achievements.

3.8. **Brazil legislation**

Brazil enacted corporate governance regulation since 2013 with the Clean Company Act (Federal Law, nr.12, 846 of 2013) which objective was to enhance prevention and compliance with anti-corruption practices, business risk management, codes of conduct and disclosure mechanisms. The legal framework is made out of: the Civil Code, which focuses on limited liability companies; the Corporation Act, which concentrates on the subsidiary implementation in the article of association; the Brazilian Securities and Exchanges Commission (CVM) regulations about the Corporate Governance Code for listed companies; and the Brazilian Stock Exchange (BM&F Bovespa) which created corporate governance practices, as well as other transparency obligations. Nevertheless, the most important and comprehensive code in Brazil is the Code of

Best Practices in Corporate Governance (IBGC Code) first redacted in 2009. This regulation contains recommendation and best practices in order to avoid any conflicts of interest and misuses of resources. However, the IBGC Code requires compliance on voluntary-basis, without any penalties for breaches. On the other hand, the Corporate Governance Code for Publicly Held Corporations (Corporate Governance Code) requires compliance in order to avoid any penalty issued by the BM&F Bovespa. This Code has the objective to standardize and enforce the implementation of the key self-regulatory bodies' recommendations for listed companies, especially the "comply-or-explain" mechanism. As regards as the remuneration designation, according to the Corporations Act, the shareholders' annual general meeting will decide the individual and total compensation of directors, comprehensive of allowances and perks by considering the responsibilities borne by managers, the working times, the skills, the reputation and the general market practices. Furthermore, the CVM demands detailed disclosure for the listed companies of the greatest and littlest remuneration amounts of directors. In addition, the Corporate Governance Code requires supplementary disclosure if a different compensation policy is applied inside the board or directors and if there are any attendance tokens and short-term incentives. However, it's not mandatory to disclose each directors' remuneration amounts and components, even though an increasing number of listed companies are starting in doing so. In any case, both listed and private companies should register the minutes of shareholders' meeting while approving the directors' remunerations. Nevertheless, besides these measures, in Brazil there's a substantial lack of regulations on this topic. For instance, the Corporate Governance Code and the IBGC Code provide only general and vague recommendation on how to design the best directors' remuneration policy and terms. Specifically, the suggestion relates to the creation of two separate compensation structures for officers and directors and, for the latter, the variable pay should consist only in long-term incentives tied to company performance. Furthermore, directors have the obligation to disclose information policies regulated by the Corporation Act and the CVM, besides from the duty to prevent any conflicts of interest with the company and be held liable of fault, negligence or wilful misconduct upon the law or the enterprise's bye-laws (art. 157 and following, Corporation Act). In these events, directors' liability can't be restricted. Nevertheless, the enterprise could decide to indemnify the directors by contractually providing Directors' and Officers' insurance (D&O insurance). Furthermore, there are some limitations concerning the purchase or sale of companies shares and securities, as the right of first refusal and the imposition of lock-up period in the contract. In particular, for limited liabilities companies, the approval of at least 25% of shareholders is needed in order to transfer shares to third parties (art. 202, paragraph 2, Corporation Act). On the contrary, in listed companies directors can't transfer any type of securities if no disclosure is provided about that transaction and about the quarterly and annual statement results. Moreover, Corporation Act, Civil Code and CVM regulations impose for directors to provide supplementary disclosure information according to the type of company. Specifically, for limited liability companies a thorough disclosure should be given in relation to balance sheets and accounts, as well as minutes of corporate resolutions, articles of associations and publishing in the press documents affecting creditors (art. 298, Corporate Governance Code). On the other hand, directors in corporations need to provide the financial statement, minutes of a meeting and any other information involving shareholders and affecting third parties (art. 176 and following, Corporate Governance Code). Finally, directors of listed companies should disclose corporate documents on ordinary and extraordinary-basis, all financial information, reference forms upon corporate's business and operation, and registration form showing the corporate's basic information.

3.9. **Russia legislation**

Corporate governance in Russia is regulated and enforced by the Central Bank of the Russian Federation. Indeed, the Central Bank on 21st March 2014 published the newest edition of the Corporate Governance Code. These provisions are set on voluntary-basis and are addressed to both private and listed companies, even though public companies need to comply with them eventually because of the stock exchanges requirements. The Corporate Governance Code legislates on different topics, such as shareholders' rights, the board of directors, the corporate secretary, incentive arrangements for directors, risk management, disclosure requirements and specificities for extraordinary activities. Listed companies should publicly uncover business information and their compliance to the Code on quarterly-basis, according to the "comply or explain" provision. It must be underlined that, however, contrary to the Western countries, there's no disclosure requirements in the social, environmental and ethical problems, but only recommendations. According to the Federal Commercial Law, the minimum amount of directors in Russian listed companies is five, while there are no limitation for private ones (art. 66, Law on Joint-Stock Companies). Moreover, members of the board of directors don't need to be employees of the enterprise besides the CEO and the management board if the company is listed. In addition, shareholders with more than 25% of shares have the power to inspect the service contracts of directors in public companies (art. 5, Federal Commercial Law). As regards as the creation of directors' remunerations, under the Russian Labour Code their salary should be proportional to the qualification, task difficulty and the quality and time of work undertaken, besides not being less than the statutory minimum of wage of 11,163 rubles (Article 133). The decision on the amount and structure of the CEO and managers' remunerations are left to either the board of directors or the shareholders. Specifically, the total amount of the CEO, managers and board of directors must be disclosed in the annual statement and, for state-owned enterprises there's the legal duty of uncover compensation information about each director (Russian Corporate Governance Code, section 4). In particular the guidelines provided by the Code focus more on annual payments and long-term incentives rather than attendance token payments and short-term variable packages. It's important to underline that disclosure is legally required only for listed companies (Article 3). In particular, CEOs should provide information regarding connected people, and significant events and facts in a quarterly and annual report, besides shareholders' meetings, board meetings, purchase of shares and controlling and controlled entities (Bank of Russia's Decree nr. 454). In addition, the Bank of Russia, in case of loss, still allows shareholders during the general meeting of listed companies to grant compensation to the board of directors' members. Directors in Russia generally receive a fixed compensation with a further pay for participating to the committee as a Chairman position. Other companies, grants attendance fees of annual bonuses in addition to non-executives directors. On the other hand, executives usually get a fixed remuneration, annual awards, management board's membership fees, and, in few cases, reimbursement payments. In the 2019 Deloitte Russia report, it's pointed out as listed companies, or in general companies with a Great Cap, the variable compensation is about two third of the total remuneration, while in Small Cap companies, the variable pay decreases to 40% of the total. In the event of theft, fraud and bribery, directors, the CEO and the entire company is criminally liable. Any damage caused to the company or fine paid can be transmitted to the individual director. Furthermore, directors are usually not liable under the Russian anti-trust laws or for the company's legislation breaches. In addition, directors can get insurance over personal liabilities and it can be paid by the company. Nevertheless, the CEO can incur in administrative fines and criminal liability for cartel agreement or for breaches of law and regulations that caused company' damages (art. 14, Federal Commercial Law).

3.10. **Australia legislation**

Australian executive remuneration provisions are disciplined in the national legislation and common law employment agreements. Specifically, the disclosure requirements and limitations upon the termination benefits are contained in the 2001 Corporations Act (Commonwealth Act), while the minimum workplace entitlements and anti-discrimination laws are contained in the 2009 Fair Work Act (Commonwealth Act). Finally, the recruitment process and the related possible wrongful conduct provisions are contained in the 2010 Competition and Consumer Act (Commonwealth Act). Additionally, the country's corporate, markets and financial regulator is the Australian Securities and Investment Commission, while the agencies concerned in enforcing the minimum employment standards are the Fair Work Ombudsman and the Fair Work Commission. According to the Chapter 1.208D any financial benefits granted to executives require the board of directors members' approval, besides arm's-length monitoring measures. The Chapter 2D of Corporations Act demands an annual publication of the directors' remuneration report with the amount and nature of the compensations for each member, with information about performance conditions and option granted. Additionally, all information that impacts the company's security price or value needs a continue disclosure to the Australian Securities Exchange (ASX), as the arrangements and terms for the appointment of executives. General limitations applied on executives' compensations relates to the adoption of the remuneration report, which is subject to the shareholders vote at AGMs. Indeed, a 25% contrary vote affects the adoption of the remuneration policy (249L Corporations Act). Moreover, Chapter 6D of the Corporations Act states that securities offer has to be reported in a disclosed document, besides passing the information to the Australian Taxation Office each financial year. An exception to this rule applies to senior managers company's offers and specific small-scale offers. The general benefits granted to executives are the fixed compensation, bonuses, termination benefits, and superannuations, as to say continued payments towards a pension fund. Non-monetary benefits included in the pay-package regard usually: company mobile phones, company vehicles, health insurance premiums, housing allowances, and school fees for the executive's family. As far as the termination of employment is concerned, the statutory minimum notice period that has to be granted depends on the length of service, according to the Chapter 11D, even in case of without-cause terminations. In addition, the statutory severance payment for executives is capped to a maximum 12 months of the "base salary" and, whenever the key director has worked for more than three years, it's based on the three last average annual "base salaries". If these termination benefits exceed the cap, the shareholder approval is required (Chapter 206B of Corporations Act). According to the 2D.2.01 of the Corporations Regulations of 2001, the previously cited "base salary" contains all non-performance-based benefits, superannuations, time-based share pay-outs, and any fringe benefit liability. Furthermore, gardening leave clauses are generally applied in the Australian termination contracts; these provisions consist in the interruption of remuneration pay-outs during the notice period. Furthermore, the typical post-employment limitations are the non-competition, the non-dealing, and the non-solicitation (Chapter 2D.2, Corporations Act 2001). An important feature in the executive's termination provision is the statutory retirement benefit payment as a consequence of superannuations (Chapter 200B of Corporations Act 2001). However, additionally to the superannuation contributions, it's possible to include a supplementary retirement benefit with the shareholders' approval whenever it exceed the base salary cap. As regards to the change-in-control agreements, in Australia is not common to utilize executive retention provisions, even though according to the Fair Work Act the transfer of employment generally occurs upon renegotiation (Chapter 2-8).

3.11. **Nigeria legislation**

The key regulation about executives' remuneration in Nigeria is provided by the Companies and Allied Matters Act Cap c20 included in the 2004 Law of the Federation of Nigeria (CAMA). Additionally, there are some provisions specific of a certain industry as the Code of Corporate Governance for Banks and Discount Houses (CBN Code), the Code of Corporate Governance for Public Companies (SEC Code), the Code of Corporate Governance for the Insurance Industry (NAICOM), the Code of Corporate Governance for licensed pension operators (PENCOM Code) and the Code of Corporate Governance for the Telecommunication Industry (NCC Code). Under the CAMA regulation, the designation of the executives' remuneration is carried out by shareholders (CAMA, section 267(1)). In addition, the same law limits the praxis of granting severance for retirement unless its terms and amounts are approved by the corporation (CAMA, section 271). Other specific requirements are demanded by the CBN and the SEC Codes for executives' stock options which limit the possibility of selling them at discount without the SEC authorization and the shareholders' approval. In addition, according to the CAMA (section 267), if the directors' compensation is written in the articles of association, all changes must be accepted by shareholders with a special resolution, hence 75% of favourable votes. Section 270 of CAMA, limited also the power of enterprises to provide loans or guarantees to directors, aside from the ordinary business operations, while the section 269 demands that stock options can't be exercised before one year of the expiration date. On the other hand, the treatment of non-executives' remuneration is rather different, from the executive' one. Indeed, it involves the reimbursement of all expenses related to the attendance and return from directors and shareholders' meetings, as well as directors' fees and sitting allowances. However, their remuneration, according to SEC Code (section 267(2)), is designed by the board and approved during the shareholders' meeting, proportionally to the commitment, time and responsibility borne, without any perks in cash or kind. As regards as the disclosure requirements, listed companies in Nigeria should provide on annual-basis the compensation policies and details on the compensation granted to directors, comprehensive of benefits. Specifically, Nigerian directors have greater perks than ordinary employees, such as: company cars, bonuses, tick allowances, equity-based remuneration and entertainment allowances. For all these benefits, CAMA requires that a personal income tax will be applied (section 31, CAMA). Moreover, it's possible to terminate the executive's employment as long as a notice period is provided, even without good cause by solely giving a reason for the laid off. A peculiarity in the termination system exists when an executive is also a directors (section 182(2), CAMA). Indeed, in this case the executive still remains in charge as a director if not being removed by shareholders' ordinary resolution with a special notice of 28 days (section 262, CAMA). There's no minimum level for severance payments, which usually are computed as a multiple of the directors' fixed remuneration. In addition, in Nigeria it's very common to include in the employment contract the gardening leave, as the Australian system, in order to hinder the directors' influence in the company (Nnah Ugoani, 2017). Furthermore, limiting post-employment covenants are possible for maximum twelve months, and they specifically focus on non-competition clauses, non-solicitation of costumers provisions and non-solicitation of employees clauses (section 169, CAMA). Nevertheless, regarding the non-competition clauses, their validity is subordinated by the closeness to the business nature, the position held and the geographical area. In Nigeria, besides the mandatory pension contribution dictated by the Pension Reform Act, it's rather common to grant stock options to exiting executives. Further retirement perks are always allowed by law if previously contractually agreed between the company and the executive. Moreover, the company can indemnify its executives except in the event of default or breach of trust and negligence (section 272, CAMA). On the occasion of a change in control situation, in

Nigeria commonly applied the retention of previously-agreed executives' arrangements, especially in acquiring private equity companies. Additionally, in a change in control event restriction on the exercise of stock options still remains for one year following the expiration date of the director's tenure, according to the SEC and CBN Codes. Finally, generally the executives' employment contracts are regulated by Nigerian law, even though the choice-of-law clauses are commonly respected.

Chapter 4 - Institutional Shareholder Services

4.1. **Proxy advisory firms**

The relationship that shareholders bring to a corporation is based on the provided assets to the company, as to say to the purchase of shares. This stock ownership brings obligations and rights to the corporation, as well as to shareholders. Specifically, for shareholders these rights relate to the monitoring and management of the company through the right to vote. However, as stated in Chapter 2, shareholders can't implement directly their control right in listed companies but only though decisions undertaken during the general meetings. These votes have a variety of functions, among others the appointment and dismissal of directors, as well as amending company's policies. Surely, the influence of the vote for each shareholders varies according to the number of shares held and by the amount of stock with voting rights or with preference rights over the ordinary ones. The voting procedure has changes enormously over the years; indeed, in 1602, with the creation of the Dutch East India Company, the first public company, the most effective and only way for managing the corporation was possible thought the physical presence of shareholders during the general meetings (Petram, 2014). Nevertheless, in the last decades the material presence of all shareholders during the meetings has become very difficult since it's possible to purchase stocks without a minimum required amount and the buyers are spread all over the world, making the geographical dispersion count. Additionally, the substantial amount of issued shares in public corporations increases the costs and the difficulty of gathering all the holders, as well as diminishing the probabilities of having informed shareholders (Ramirez Reyes, 2017). As a consequence, for transaction and other operations to be decided during general meetings, those shareholders who are unable to physically participate appoint agents representing them and their interests. This representation during the voting procedure, in the last decade has become widely used by a procuracy document called "proxy": a shareholder who appoint another person in order to vote at a shareholder general meeting on his behalf. The proxy voting is allowed by various legislation worldwide, so that shareholders have the possibility of exercising their right through a third person for a particular meeting or as a common unrestricted proxy: the European Directive 2017/828, the Proxy Voting Scheme issued by the UK Parliament in 2021, and the H. Res. 965 of 2020 in the U.S.A.. Without any doubt, the possibility of creating a proxy system for voting, especially during the Covid-19 pandemic, has helped the management of corporations and simplified the procedures. The proxy voting techniques are normally triggered by the notice of meeting issued by the board of directors in which it's always attached a proxy request for the shareholders to be signed. In the last few decades, it's been experienced a substantial development of the corporate voting system with the rising influence of new entities that offer corporate consultation, and the introduction of new products for corporate's services. Indeed, a new specialized entities were created in order to advice shareholders upon companies' corporate governance. These new firms, called "proxy advisors" or "proxy firms", have the objective of voting stocks on behalf of shareholders and institutional investors by giving advises upon researches on how to vote in the general meeting. Specifically, these advisory companies issue recommendations "for" or "against" according to each shareholders' voting matter. The advises help in particular those minority shareholders in taking the due decisions which, otherwise, would be difficult to undertake because of the amount of information and money needed in order to find the best options to vote in listed companies. These proxy companies are hired by shareholders in order to counsel and advice for them, without any power to independently taking the initiative. The proxy advisory industry has always been quite concentrated with a small group of companies that control the great majority of the market. Indeed, essentially two American corporations accounts for almost all the global market: Institutional Shareholder Services (ISS), with 61% of the worldwide market, and Glass Lewis & Co., with 37% of the worldwide market. Additionally, given the heavy reliance of institutional investors into proxy advisors, their influence public corporation increased substantially over the years. Indeed, the need of the provided consultations is the starting point for their economic importance while, at the same time, the companies save costs and time.

Given the striking importance gained by the proxy advisors, in the latest years some regulations have been issued around the world in order to define the conflict of interest that could insurge because of the non-independent advice that these companies could give to their clients and the variety of services they offer. Indeed, the issued reports, if followed by shareholders, have a direct and great impact over the local and international market and on the corporations' value; while, on the other hand, they provide both advices for shareholders upon the boards of directors, and to directors for enhancing their corporate governance efficiency. As a consequence, a meaningful criticism has risen upon the general absence of accountability of these proxy advisory companies. For instance, at the European Union level, on April 2011 the ESMA (European Securities and Market Authority) published a discussion paper upon the needed enhancement of the proxy advisory industry in Europe by looking at additional inputs coming from the market participants which mainly were: not taking any EU actions; or stimulating member states in developing standards; or creating regulatory instruments at European level; or designing binding legislative instruments (ESMA/2012/212). Eventually, on 18th December 2015 ESMA issued the Best Practice Principles for Providers of Shareholders Voting Research and Analysis. These principles created a self-regulatory code of conduct with more transparency as a consequence of the increased concern over the reliability and accuracy of the proxy advisors' recommendations (ESMA/2015/1887). Finally, the EU Shareholder Rights Directive revision (SRD II) was published with the needed partial implementation in member countries on 10th June 2019 and the most important provisions on 3rd September 2020. The requirements so-established relates, among others, to the adherence of proxy advisory companies to a code of conduct, the information disclosure on the processes of their voting recommendations, and their reliance and accuracy. Specifically, they are required to state the Code application while the parts that differ from the measures actually undertaken have to be explained on their adoption. Additionally, proxy advisors have to provide information disclosures on their methodologies, models, information sources and resources, and the voting recommendation results by underlining potential and actual conflicts of interests. Furthermore, by looking at the U.S. market, the Security Stock Exchange Commission tightened the proxy voting advices of proxy companies on 22nd July 2020 and applied in the 2022 proxy season (17 CFR Part 240). Specifically, the SEC enhanced the disclosure requirements by demanding: the issuance of all information related to the relationships, transactions and interest required in order to provide the proxy voting advice; the disclosure of any processes and policies in order to avoid or take care of potential conflict of interests; and, finally, the explicit acknowledgement of the internal utilization only of the proxy voting advices and prohibiting any external distribution. In addition, a notice of proxy voting advice need to be provided to the client company before that the proxy recommendation is given to other client companies and a forty-days deadline should be imposed for the proxy advisor to give the recommendations in timely manner to its clients. Finally, it's been granted two safe harbours to proxy advisors for which they can provide their voting advices through the electronic client platform of via other electronic means, as emails.

4.2. **ISS background**

The Institutional Shareholder Services Inc. company was founded on 17th March 1985 in Rockville, a city in the eastern part of the United States of America. The company is largely owned by the Deutsche Bourse Group and accounts with 2,200 employees worldwide in twenty-nine different locations and fifteen countries. In addition, the company accounts for 3,100 clients worldwide, from public companies to institutional investors. This proxy advisor has several businesses on which it's specialized, such as: proxy voting experience, ESG solutions, market intelligence, transaction cost analysis, fund services, securities class action services, media, economic value added, and corporate solutions. Governance services relate to the provision of recommendations through an objective governance research and end-to-end proxy voting solutions. Indeed, ISS covers almost 45,000 meetings and 115 different markets with a met best practice disclosure and transparency requirement, the utilization of key performance indicators (KPI), SSAE 18 certifications and daily audits (ISS website, about). The ESG solutions grant the possibility to integrate and develop a responsible practices and policies, as well as undertaking responsible investments. This department analyses and reports climate information, advisory services upon climate-related risks and analytics. Specifically, the ISS gives to clients: ESG corporate compliance rating and ESG country rating by gathering information though public sources, media, shareholders and country policies and regulations; environmental and social disclosure quality score, though a comparison with industry peers; governance quality score among portfolio companies, historical data and trends; climate-related companies' performance with a present and future industry-specific carbon risk rating, and energy and extractive screening; the custom rating solutions thought which clients can identify and rate the best investment according to the ESG guidelines though a provided DataDesk platform; and, finally, assessment and management of cyber risks in ESG investments in order to make sure about their long-term viability and cyber resiliency. The ISS's market intelligence department grants workflow solutions, insights and critical data to insurance companies and asset managers. This service is possible to accommodate thought in-depth worldwide researches and utilization of data platforms, such as Financial Clarity, BrightScope, Flowspring, Mortgage Clarity, SimFund and Local Market Share, besides advisory solutions and global research with Investor Economics, 529 & Able Solutions, Global Research & Advisory Solutions, Plan For Life and Market Metrics. With these instruments and teams ISS is able to cover almost 99,000 funds, 200,000 share classes and 42 trillion of assets under management. The transaction cost analysis business grants analysis, management and control of trading costs, as well as market abuses findings and quality execution of analysis services. This department relates both to the buy and sell sides, as well as 260 exchanges and regulators analysis, compliance tools and reports. The fund services business provides up-to-date, transparent and fund information in 34,700 share classes and 1,500 data records thought the FWW fund data distributor and disseminator. The securities class action services (SCAS) business provides a total end-to-end claims filing solution and litigation research regarding fixed income securities and equities. ISS nowadays has 12,000 cases worldwide and 124,000 unique security identifiers through recoveries via platforms, as Recovermax, product solutions and specialized teams. The company's media solutions business is able to grant digital assets, publications, researches and conference business related to retirement plans. The media solutions provided are: the PlanSponsor, which presents strategies and designs of retirement plans for employees; the PlanAdviser, which presents tactics and strategies for U.S. retirement benefits plans; and the Chief Investment Officer, which grants insights into the world's corporate and public pensions, endowments and foundations, sovereign wealth funds, healthcare organization, insurance funds and family officers. The Economic Value Added (EVA) ISS business is focused on issuing EVA measures, an established international standard, for projecting, analysing, valuing and discounting more than 21,000 public companies' values. Indeed, an EVA platform is provided to clients who have the possibility of screening corporations in various part of the world and to compare their accounts though adjustments and systematic analysis. The four key metrics displayed in the ISS research reports are: the EVA Margin, the EVA Spread, the EVA Momentum vs. Sales, and the EVA Momentum vs. Capital. Finally, the ISS corporate solutions (ICS) accommodates companies on the management and designing their corporate governance, specifically their executives compensations, as well as their sustainability projects and risk reduction. The ICS serves more than 1,300 corporate clients by providing solutions and end-to-end support in strategy settings, planning and benchmarking, metrics and goals plan designing, disclosure enhancement, project execution, and shareholders engagement improvements. Specifically ICS examines more than 2,500 say-on-pay advices and focuses on those recommendation voted "against" in order to help in avoiding remuneration discussion and analysis mistakes, in particular avoiding: the lack of rigor in incentives targets; low performance objectives and metrics disclosures; substantial non-performance rewards; problems in the employment contracts related to taxes, severances and change in control clauses;

poor remuneration benchmarking practices; inefficient or passive remuneration committee activity; and different rewards related to the same performance indicators.

4.2.1. Proxy voting workflow

As mentioned in the previous paragraph, the Institutional Shareholder Services takes the corporate governance documents that will be discussed at the annual general meeting and, based on their analysis, will issue a proxy vote. Indeed, firstly the Data Management in Voting Operations receives client holdings, thought data feed, SWIFT and Broadridge, which overall determines the ISS coverage universe of general shareholders meetings. After these data have been collected, the coding process starts. At this time, each agenda item for the GMS is tagged with one of the 500 internal codes. These codes indicate a variety of issues or the nature of the item, in order to facilitate the application of the voting policies. For instance, in the Southern European market, specifically, have different codes: 507 indicates the issuance of a regular share plans for executives, 535 concerns the creation of an annual executive bonus, 501 indicates the issuance of a stock option plan for executives, 550 indicates all payments and policies concerning the previous year, and 570 underlines all payments and policies that will be applied or granted in the future years. After this process, the ISS standard research team provides vote recommendation according to the ISS policy guidelines, which have to be published in its website for disclosure purposes. There are different standard research teams covering each market. For instance, in Europe there are: the Southern European market that covers Italy, Spain, Portugal, Malta, Cyprus, Greece, and Turkey; the Western European Market that accounts for France, Luxembourg, Belgium and the Netherlands; the Germanic market that covers, Germany, Austria, and Switzerland, the U.K. and Irish market; the Nordic market which also accounts for the Baltic region; and the Eastern European Market. Besides these recommendations, there are other advices issued by the ISS Speciality Research team which issues the Socially Responsible Investment Policies (SRI), the Sustainability Policies, and the Taft-Hartley Policies for the U.S. market. Finally, the Custom Research team gives vote recommendations according to each client's policy guidelines. Even the Custom Research department is divided into different teams that cover multiple markets, according to the clients' portfolios composition. In particular, the policy creation process starts with the provision of information about each client's voting universe, in which they discuss their philosophy on voting and corporate governance. At this point the ISS custom analyst creates an easy-to-read template that outlines the client's policy into different markets served. Additionally, during the policy update process, the custom research team usually provides back testing which underlines possible changes that might be applied to the client policy and subsequent variation in the voting patterns. Besides for this dynamic analysis, the custom research analysts look also at the historical voting patterns which is the first step toward the custom policy analysis.

4.3. **Executives' remuneration analysis**

One of the most important and profitable businesses of the Institutional Shareholder Services relates to the assessment of the directors, specifically of the executives, compensations and their fairness according to the companies' performance. The proxy advice looked at by investors relates indeed to a comprehensive and clear remuneration disclosure, as well as a pay-for-performance alignment with long-term shareholders value. All remuneration documents of listed companies are published on annual basis, usually a month before the decided annual general meeting in the "governance" or "investors relation" section of the corporation's website. Nevertheless, some companies prefer to firstly disclose their compensation documents in other verified websites, as 1Info and Emarketstorage for Italy, or CNMV for Spain, or even KAP for Turkey. As far as the Italian market is concerned, companies are obliged to publish their public documentations at least twenty-one days before their AGM (art.154-ter del D. Lgs. 58/1998, TUF). Moreover, generally these websites are even updated before the companies disclose the information on their websites. The length of the remuneration documents varies enormously across regions; indeed, as far as Europe is concern, the shortest ones are the ones of the Nordic countries, with an average of twenty pages for both the policy and reports while, among the longest ones, Spain counts with a remuneration policy of averagely a hundred pages and a compensation report of a hundred pages as well (in the Spanish market companies keep policies and reports in two distinct documents). Indeed, even though the higher disclosure is applied the better, the methodology of explaining and reporting information and the way in which companies dwell on each topic vary as well. Anyhow, usually the structure of the pay package doesn't vary much between one region to another, while it tends to differ substantially among sectors of business. The main elements of the executives' remuneration are: the base salary, benefits, short-term incentives (STI), long-term incentives (LTI), benefits, and other compensations. According to the ISS total compensation package pay mix, the base salary averagely accounts for 40% of the total pay, the short-term incentives for almost 26%, the long-term incentives for 17%, benefits for 13% and other compensations for 4%. The base salary is the fixed remuneration that is periodically granted to the executives and corresponds to the minimum payable amount, without any benefits or bonuses. In continental Europe, contrary to U.S. and U.K., this component is still meaningfully important on in the executive remuneration package, especially in the Southern European market, in spite of the substantial importance gained by variable pays (Swagerman & Terpstra, 2019). In addition, given the structure of the STIs, LTIs and pension benefit plans, which are generally linked to the base salary, a rise in the fixed component directly rises the incentives plans as well. The first function of the fixed remuneration element, indeed, is to attract and retain directors and executives. Short-term incentive plains, or annual bonuses, are commonly subjected to performance conditions such as revenue growth , EBITDA and Net Income (NI).

4.3.1. Short-term incentive plan

The main components of the STIP are the performance period, which usually has the duration of a full financial year, the clawback clauses, which are used to recover already granted money without a cause, and the malus clauses, for reducing the risk priorly a bonus is paid out if the company is not able to do so. Generally, annual bonus plans are paid in cash amounts with an "at target" reward as a function of the base salary for reaching a specific performance objective, a "minimum" reward for reaching a performance threshold, and a "maximum" reward for capping the total pay-out amount. This range, from the minimum to the maximum reward is called by Jensen and Murphy (1990) the "incentive zone", for which the reward rises as the performance achievement rises as well, proportionally speaking. Nevertheless, there are also different type of bonus plans that reward a fixed amount for each achieved performance slot, or through a standard profit sharing mechanism. Additionally to this, there are also discretionary annual bonuses granted generally to executives, directors, and supervisory board members, usually restricted on individual-basis or from a qualitative point of views.

4.3.2. Long-term incentive plan

Contrary to the short-term incentive plans, the LTIPs focus on analysing multiple years. Indeed, it's essential for the board of directors, and especially for the shareholders, to create a compensation structure than pushes executives in having long-term interests of the company's value development and performance alignment. The general component of a long-term incentive plans are: the vehicle, which could be performance shares, restricted shares, stock options or cash; performance targets and their vesting period; holding or lock-up period; and clawback and malus clauses. Performance share incentives are generally part of a performance share plan or a performance unit plan, which utilizes also options or cash. Indeed a performance share plan grants some conditional shares that will vest after a pre-defined period of performance, which usually is three-years. The performance criteria usually utilized for this incentive are operating performance criteria, such as return on assets (ROA) and earnings per share (EPS), as well as market performance indicators, such as total shareholder return (TSR) according to a peer group or on absolute basis. Contrary to a cash or restrictive incentive instrument, the performance share reward values changes as the performance relative to the target or to the share price changes as well. Grants relative to this incentive can be given on annual basis, by overlapping them, or at the end of the period, so every three years. Once reached the maturity date, the performance shares might have a lock-up period before they're given to the legitimate owner. This incentive is one of the best ones that aligns interests between executives and shareholders (Center On Executive Compensation, Executive Compensation Plan Design). Restricted stock are an incentive given to employees and executives upon some ownership restriction, such as vesting period or performance condition, in order to get fully ownership control of the shares. Generally, the time-based restricted stocks are the most implemented for retaining executives. Indeed, they represent a full value award, meaning that they don't have any share price appreciation or performance target achievement in order for them to be granted. Additionally, restricted stocks are often utilized in order to recruit new employees or executives, or for corporate turnaround operations. On the other hand, stock option incentive plans grant the purchase of company shares for a period of time, often ten years, at a specific price. This price usually coincides to the one on the date in which the option plan was granted, as to say at their market value on the grant date. Market conditions influence the sensitivity of stock options, thus aligning executives' remuneration with shareholders' interests. It's common practice (Swagerman & Terpstra, 2019) to have an additional time-based vesting period between one and five years, in order for the options to be exercised. Nevertheless, since these incentives are not usually a performance-based plan, the implementation of stock options in the LTIPs are decreasing their importance, giving more power to performance shares and performance units. On the other hand, stock options, are often utilized whenever the company can't currently afford to grant competitive base salaries to new hires or to retain its personnel. The main difference between stock options and restricted shares lies on the stock options being a right to buy company's share and their value is based on a higher stock value than the option price at the vesting date, while restricted stocks are and award of shares and they generally always bring value to the owner, even if the stock price drops at the award date. Other type of long-term incentive plans are, for instance, cash bonus plans which vesting period are greater than one year, generally three years. These incentive plans are remarkably utilized in smaller companies, decreasing importance as the business grows or if the industry becomes more sophisticated, as the banking and credit industry is. The most utilized performance metric for this incentives is the total shareholders return, yet generally it's accompanied by more qualitative indicators. Other long-term incentive plans which are less used in the European countries are: the stock appreciation rights, that have the same features of a stock option plan with a cash payment; and one-off grant of options or shares, as sign-on bonuses, even though they're granted in extraordinary circumstances, both at individual-basis and company-basis.

4.3.3. Other compensations

Besides these variable incentive plans, there are also other types of remuneration incentives such as the very common sign-on bonuses and the "golden hello" which are one-off items granted to executives in order to welcome them from another rival company. The company golden hellos vary from industry to industry and according to companies' sizes. Indeed, sectors such as finance, technology and consulting services are generally granting sign-on bonuses. Nevertheless, after the 2008's financial crisis, all companies have downsized these types of payments. Another kind of compensation is the transaction bonus which accounts as compensatory payments resulting in the accomplishment of an acquisition transactions. Moreover, other discretionary compensations are special bonuses, one-time bonuses and retention bonuses, which are always applied as a result of a meaningful positive performance during a fiscal year at individual or at business unit level.

4.3.4. Termination payments

An important role in the executive compensation is played by the termination payments, also known as "golden parachutes" or "severances" which can also apply in case of change-in-control agreements. These payments are granted to executives and other key individuals for terminating the employment contract in order to preserve the interests of the corporation, as well as an attractive incentive for the already-existing roles. Additionally, those types of payments are greatly utilized as a consequence of the imposition of non-competition, non-solicitation and non-disparagement clauses. On the other hand, change-in-control clauses linked to executives' termination payments are generally a consequence of acquisitions, mergers or divestitures. These types of payments are commonly more lucrative than the usual severance arrangements. The common praxis, on this matter, is to design a "double trigger" change-in-control arrangement, which is triggered whenever a change in business happens and the executive is laid off. This makes the top executive, according to the Center of Executive Compensation, more prone in looking for merger opportunities or trade sales, which have the perk of incrementing shareholders value while diminishing the probability of losing his position. Nevertheless, being a one-off item, this payment need a thorough disclosure about the criteria and the trigger events. Generally, these compensations are computed as a multiplication of a specific basis, such as base salary or a base salary with bonuses; nevertheless, they could be expressed by a certain already pre-defined formula, or else a discretionary payment by the Board of Directors or Supervisory Board, or even a prolonged instalment payment until the retirement age.

4.3.5. Perquisites

A specific type of remuneration or benefit that are granted to executives are the perquisites, or "perks", which they are generally not conceded to all the other employees. These benefits are non-cash income factors not related to the base salary, and yet directly connected to it in value. Some of them, as explained in Chapter 1, are introduced in order to increase the efficiency of the executive work timings as the driver service in order to move to work, but also: the installation of health insurance, sickness benefits, home communication systems, financial planning, lump-sum death, housing allowances, company aircraft, annual physicals and relocation allowances. Sometimes perks are also designed for the specificity of the executive's position, as the insurance and security services for the CEO and his family on daily-basis and for work journey. Surely in the past years they've declined in amount and in numbers due to the perceived excessiveness by the public, rather than as productivity enhancement tool (Swagerman & Terpstra, 2019). Nevertheless, it's common in the banking industry to still offer personal loans to their key directors and top executives. Furthermore, other benefits that might be granted to executives are the pension plans which, however, change enormously from country to country in importance and in amounts. For instance, countries like Italy accounts only with few companies that concede retirements benefits in their remuneration policy, while in Spain, it's substantially implemented across all industries. Nevertheless, by generalising, at European level there could be found two basic kind of pension plans, such as a defined benefit plan, based on the average remuneration amount or on the last compensation level, and a defined contribution plan.

4.3.6. Quantum of pays

In order to better measure the executives' compensations among listed companies, it becomes essential to have a clear view of the remuneration definition, as well creating the most efficient and effective benchmarking process, with the peer selection. The Institutional Shareholder Services works with three different models in order to assess the pay-for-performance relationship: the relative degree of alignment (RDA), the multiple of median (MOM), and the pay TSR alignment (PTA). Indeed, the 2016 ISS Policy Survey indicated that the P4P (pay-for-performance) should be a contributing factor to the ISS recommendation according to 81% of respondents, while the 15% accounted for a salutary importance, and only 7% as an unimportant matter. One of the main differences that can be underlined are the granted remuneration and the realized remuneration. The granted compensation relates to the value of the reward at the grant date; its value is generally decided by the corporation to be the target value, hence not guaranteed. On the other hand, the realized pay relates to the reward at the acquisition date, at the end of the period, based on the performance conditions realizations. The other essential element for analysing an executive's remuneration package is the peer group benchmarking. Indeed, the peer group consists in organizations or other individuals that share a variety of similarities, hence easing the comparison analysis as a group. In the ISS company, peers are selected according to: the industry or sector; the size in terms of revenues, assets and market capitalization; and the "country band", according to similar remuneration levels. For instance, the European "country bands" divide the U.K., Ireland and Jersey in a group; Germany and Switzerland in another; Belgium, Denmark, France, Italy, the Netherlands, Sweden and Spain in another group; and finally Austria, Finland, Greece, Luxembourg, Norway and Portugal in another one. Nevertheless, corporations often select and disclose peers according to the industry criterion. Figure 2 is a striking example of how peer groups might differ from ISS to the corporations' points of view. In the European models and in the U.S. ones, the minimum number of peers is twelve until a maximum of twenty-four. ISS's compensation data sample accounts for almost 1,800 European companies' total remuneration of the past three or five years. The ISS pay-for-performance valuation, in addition, places great importance to the measurement of the pay and the performance alignment over a specific time period. In order to do so, Institutional Shareholder Services computes a quantitative assessment both with absolute and relative P4P valuations. An absolute measure implemented by ISS is the pay-TSR alignment (PTA) which compares the CEO's annual remuneration trends and the value over the previous five-year period of time of a 100€ investment inside the company. The decision to put TRS as a measure of corporate performance lies on the fact that it still remains one of the most transparent and popular measures utilized by ISS's clients and, for instance, by the S.E.C.. On the other hand, the relative measures as the multiple of median (MOM) is computed as the CEO's remuneration of the previous year expressed as a multiple of the median pay of the company's peer group for the same time-period. The final relative measure utilized by ISS is the relative degree of alignment (RDA); this indicator relates to the TSR performance and its company position as a percentile rank with the CEO's remuneration position in the company, expressed in percentile rank as well. These ranks are computed over three-years period of time and are created based on the same companies which are selected according to their size and industry. The range is from -100 to +100, with -100 representing an high remuneration for a low performance achievement, zero representing a great level of alignment, and +100 representing low remuneration level for high performance achievement. If an analysed company doesn't have three years' worth of data, this measure is run in two or one year time-frame, according to the amount of data that the company has available and its trading history.

ISS AND COMPANY DISCLOSED PEER GROUPS

ISS-Selected Peers	Assicurazioni Generali SpA Credit Agricole SA	CNP Assurances SA Royal Bank of Scotland Group Plc
Shared Peers	Barclays Plc Deutsche Bank AG ING Groep NV Lloyds Banking Group Plc UBS Group AG	BNP Paribas SA HSBC Holdings Plc Intesa Sanpaolo SpA Societe Generale SA UniCredit SpA
Company-Disclosed Peers	Banco Bilbao Vizcaya Argentaria SA Citigroup Inc. JPMorgan Chase & Co. Wells Fargo & Co.	Bank of America Corp. Itau Unibanco Holding SA Standard Chartered Plc

Figure 2 - Banco Santander Peer Group. Source: 2021 ISS internship presentation

4.3.7. Eni's 2020 executives remuneration analysis

The board of directors' structure in the Italian S.p.A.s can be according to the traditional system, in which during the shareholders' meetings are appointed the management body (board of directors or sole director) and the panel of statutory auditors, for ensuring the compliance of the company's management with the law, by-laws and standards. Nevertheless, if specific conditions are met, the statutory auditor committee could necessitate to undertake accounting control activities. If not, the shareholder's meeting should appoint an external auditing body as well (section 2409-bis, Italian Civil Code). Besides from the traditional system, in Italy is possible to have a two-tier structure, according to the 2409-octies of the Italian Civil Code. In this case, during the shareholders' meeting, an external auditing body and a supervisory board are appointed. The latter will be charged of controlling the company's compliance to the law, by-laws and standards, as well as appointing the management board. The management board, according to section 2409-ter of the Italian Civil Code, will be responsible of the day-by-day-management operations of the company. Finally, according to the 2409-sexiesdecies of the Italian Civil Code, the board structure can also be a one-tier structure. In this event, during the shareholders' meeting, the external auditing body and the board of directors are appointed. The latter will be responsible of managing the company. Additionally, within its members, the board appoints a controlling body. To better explain the ISS's procedures for analysing executives' remuneration, the Eni S.p.A. company is taken into consideration, which headquarters are in Rome in Italy. The company is a multinational oil and gas corporation which operates in sixty-six countries and had a market capitalization at the end of the FY2020 of US$36.08 billion. The decision of taking this company as a model relates to the relative dynamic remuneration structure of the board of directors and a good disclosure degree. As far as the Eni analysis is concerned, the company is structured according to the traditional system. Firstly, it's necessary to understand who is or are the executives inside the companies. In order to do so, the reports on the remuneration policy and the remuneration paid provide all the information, usually in a table with the period in which the position of each director was held and its expiration (Figure 3). The downside of this disclosure lies on the fact that certain companies might not consider some directors as executives, even though their compensation amount or their compensation structure is very similar to the executives' ones and significantly different from the other members. In this case ISS needs to treat these data as executive-related: Eni's mangers with strategic responsibilities, Massimo Mondazzi and Alessandro Puliti, have the same CEO's remuneration structure, thus needed to be analysed as executives (Figure 3). Additionally, for certain companies that don't have a clear disclosure, their executives' incentive plan could be excluded from the pay-for-performance ISS analysis. Indeed, unclear instruments of the incentive plan, as well as poor disclosure of grant or vesting dates, beneficiaries of the plan, performance time and conditions exercise prices lead to the inclusion of the company in the "Exclusion List", for that particularly section. Nevertheless, by looking at the Figure 3, it's possible to notice that the fixed remuneration of the CEO, the only executives according to Eni company, in 2020 amounted to 1,600,000€. However it's important to distinguish between the various pay components: Mr. Descalzi has received 600,000€ for the role of CEO and 1,000,000€ as a general manager. Under the "non-monetary benefits" are included the perquisites paid amount which in the CEO case were equal to 40,000€ and related to the insurance premium, welfare coverage, complementary pensions, and car usage for both business and personal reasons. As mentioned in the previous paragraphs, generally Italian companies don't design a company-based pension plan. As a consequence, in order to provide a better visualization, in the Figure 4 are reported the paid pension plan of the Spanish Endesa S.A., the second largest Spanish company by capitalization in 2020. Indeed, Figure 4 shows the changes in pension benefits in terms of contribution received by the company's CEO from 2019 to 2020, as well as the accrued funds. Returning to the Eni's paid remunerations, the "all other compensation" category is created in order to include all payments that don't fit into any other group, such as board fees, attendance fees, committee fees, payments from subsidiaries, and severance payments. In certain circumstances even LTIPs are included in this section whenever the company erases the incentive plan so that a fixed amount without performance or service conditions is granted to executives. In Eni's case, only Mr. Mondazzi received "other compensation" as a severance payment, for an amount of 10,209,000€, as a consequence of the national collective bargaining agreements, company policies and non-competition agreements. As far as the short-term variable compensation is concerned, in every analysis it must be included the total annual bonus earned in the last financial year, counting also any bonuses deferred without further performance conditions, and the total annual bonus paid during the last financial year. In this section there will be analysed also the deferred and share bonuses which are made out of: an upfront part in cash and/or shares paid after one year from the grant date, if certain performance conditions are met, and a deferred part in cash and/or shares which is pay-out in the future. As the common bonus, even deferred bonuses can be performance based, as it generally happens in the Italian market, or service based, meaning that the beneficiaries have to remain employed for the entire duration of the plan in order to receive the payment. For instance, Eni's CEO during the FY2020 has received 3,702,000€ from 2,153,000€ upfront of the 2020 annual bonus and 1,549,000€ as the payable 2018 short-term deferred bonus (Figure 5), while 3,293,000€ coming from the 2019,2020 and 2021 annual bonuses remained still deferred. As regards as the long-term remuneration, companies can issue non-equity incentives in terms of cash-settled LTIPs, even though they're not very common in the Southern European market. These type of compensation is based on previous company/individual performance and comprehend: phantom shares, which payment is both in cash and in shares; virtual shares, based on the beneficiary's proportion of the company's purchase price; synthetic shares, as to say different instruments that account for the same payoff as a share investment; and stock appreciation rights (SAR) which consist in an amount equal to the increase in share price or accrued dividend, without paying any exercise price. As regards as the awarding of restricted shares, a substantial amount of companies, not just the Southern European ones, tend to not make any distinction between vesting period and performance period. The vesting period relates to the amount of time required for the award to vest while the performance period relates on the amount of time in which performance is measured. Indeed, since both type of periods happen at the same time, this could be an explanation on the general confusion between the two terms. As Figure 6 shows, in 2020 Eni's report, the CEO got 139,241 shares paid for a price of 11.16€. The price can be found on Yahoo Finance website under the closing price of 28th February 2020, three years later than the granting date of 28th February 2017. An important part in the ISS's P4P analysis is the comparison with equivalent peer group companies. In Eni's case, as displayed in Figure 7, the company chose as a peer group all leading Oil&Gas competitors: Exxon Mobil, Royal Dutch Shell, Chevron, Total, BP, Equinor, ConocoPhillips, Occidental, Apache, and Marathon Oil. Furthermore, in the analysis it has to be examined every long-term and short-term incentives plan that has been granted during the previous financial year. Eni, during 2020, has granted a long-term rolling incentive plan based on shares with a performance and vesting period of three years with three annual awards. Specifically, a rolling plan has a planning-wave process, for which, after one year of performance of the long-term incentive, another three-years incentive performance period starts. In this case the plan starts in 2020 and actually finishes in 2025. The beneficiary of the plan is the CEO and "any other general manager" than could be appointed by the board of directors. Other parts that should be uncovered in all LTI plans are, for instance: the existence of a maximum granted award at individual basis, in Eni's case 150% of the fixed remuneration; the origin of the granted shares and their dilution effect on the voting rights, in this case a repurchase of treasury shares for a maximum dilution amount of 0.6%; any clawback and malus mechanism, in this incentive plan whenever "data proved to be mistreated or wilful alteration, or in violation of law and/or regulations". However, a negative side of this incentive plan, is mentioned in paragraph 4.5 of the paid remuneration report, when it's stated that the recoupment is possible if "verification are made within three years of payment in cases of error, and within five years in cases of deliberate intent to defraud". This clause could potentially diminish shareholders value. Moreover, in case of change in control, according to paragraph 4.8 of the 2020 long-term incentive plan, shares will vest as pro-rata temporis, meaning that the number of shares conceded accounts for a proportion corresponding to the period of time that the executive, in this case the CEO is employed in the company. As fare as the performance objectives are concerned, the 2020 LTIP has set a number of different metrics with associated weights: 25% for market objectives, 20% for industrial objectives, 20% for economic-financial objectives, 15% for decarbonisation objectives, 10% for energy transition objectives and 10% for circular economy objectives. The first two performance indicators are relative parameters, which have to be compared with the chosen peer group, in this case made of: Apache, BP, Chevron, ConocoPhillips, Equinor, ExxonMobil, Marathon Oil, Occidental, Shell and Total. The market objective, according to Eni, can be achieved by reaching the 6th position in the peer group for the amount resulting "as a difference between the Total Shareholder Return of Eni and the TSR of the FTSE Mib Index". As far as the industrial objectives are concerned, these can be paid if the company reaches the 6th position in relation to the its peer group according to the resulting "unit value of the Net present Value of Proven Reserves". Once the 6th position is achieved for both performance indicators, 80% of the awarded shares will be granted. Additionally, the absolute objectives chosen by Eni relate to: the economic-financial sphere with the organic free cash flows; the decarbonisation process, measured in CO2eq emissions in the upstream production; the energy transition target which concerns the installed capacity of power generation from renewable sources; and the circular economy target that includes the progress of the Crescentino bioethanol plant, the Eni Rewind waste to fuel plant and the zero palm oil charge at Gela and Venice refineries. At paragraph 4.6 of the Eni's long-term incentive plan it's stated that 50% of granted shares are subjected to a one-year lock-up period. Indeed, as it was stated previously, the Eni's "long-term incentive plan 2020-2022" represents a good disclosure for the amounts of information provided to shareholders. An example of an inconsistent disclosure could be found in the SABAF S.p.A.'s 2021 Stock Grant Plan, as it's possible to see in Figure 8. This plan doesn't show any specific performance threshold, target or maximum for the plan's beneficiaries, leaving the matter to a general discretion of the board of directors in a later period. This inconsistency in disclosure information increases the possibilities for the executives to receive the award or to receive an unjustly higher amount of it.

Apart from the remuneration actually paid to the executives, ISS needs to analyse the designed compensation policy. In the Italian market, the art. 123.3 ter of TUF underlines the possibility for corporations to design "at least every three years" a new remuneration policy, even though it leaves great discretion for shortening its duration. Specifically, apart from analysing all incentive structures on short and long-term-basis and their deferrals, sometimes the remuneration policy displays also the proportion of the CEO's salary that is subjected to share ownership requirements, as usually happens in the markets of Australia, Belgium, Ireland, the Netherlands, New Zealand, United Kingdom, United States and Spain. Additionally, in a well-disclosed remuneration policy there should be written also severance and change-in-control payments that could be granted to executives based on: salary and target bonuses; salary and average bonuses; salary and most recent bonuses; salary and maximum bonuses; salary only; and salary and the highest paid annual bonus. In the case of the latest Eni's remuneration policy, for instance the 2020-2023 one, the severance correspond to "two years of fixed remuneration plus short-term incentive… for a maximum of three years of total actual remuneration". As regards as the non-competition clauses, each company can decide whether to implement them or not. In the Eni's case, the 2020-2023 remuneration policy states that it corresponds to a fixed payment "determined in relation to the obligation established under the agreement" and a variable component related to the performance of the previous term STIP up to a maximum of 1,000,000€, while it's set a cap of 300,000€ to the option rights.

TABLE 1 – REMUNERATION PAID TO DIRECTORS, STATUTORY AUDITORS, TO THE CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER, TO CHIEF OPERATING OFFICERS AND TO OTHER MANAGERS WITH STRATEGIC RESPONSIBILITIES (amounts in euro thousands)

Name	Note	Position	Period for which the position was held	Expiration of office(*)	Fixed remuneration	Remuneration for participation in Committees	Variable non-equity remuneration: Bonuses and other incentives	Variable non-equity remuneration: Profit sharing	Non-monetary benefits	Other remuneration	Total	Fair value of equity-based remuneration	Severance indemnity for end of office or termination of employment
Board of Directors													
Emma Marcegaglia	(1)	Chairwoman	01.01 - 05.13	2020	185[a]						185		
Lucia Calvosa	(2)	Chairwoman	05.13 - 12.31	2023	316[a]					14[b]	330		
Claudio Descalzi	(3)	CEO/General manager	01.01 - 12.31	2023	1,600[a]		3,702[b]		40[c]		5,342	690	
Managers with strategic responsibilities(**)													
Massimo Mondazzi	(24)	Chief Operating Officer Energy Evolution	07.01 - 12.31		893[a]		556[b]		13[c]	50	1,512	128	10,209[d]
Alessandro Puliti	(25)	Chief Operating Officer Natural Resources	07.01 - 12.31		714[a]		813[b]		11[c]		1,538	79	

(3) Claudio Descalzi - Chief Executive Officer and General Manager
(a) The amount includes: i) the fixed remuneration for the position of Chief Executive Officer for the 2017-2020 term and confirmed for the 2020-2023 term equal to €600 thousand; ii) the fixed remuneration for the position of General Manager set for the 2017-2020 term and confirmed for the 2020-2023 term, equal to €1,000 thousand.
To this amounts are to be added the indemnities due for transfers, in Italy and abroad, in line with the provisions of the relevant national collective labour agreement for senior managers and the Company's complementary agreements for an amount of €13.5 thousand.
(b) The amount includes: i) the annual portion of the STI plan 2021 earned in 2020 in the amount of €2,153 thousand, for Eni performance verified in 2020, whose payment shall be deferred to 2022 for a portion of 25%; ii) the deferred portion of the STI plan awarded in 2018 and earned in 2020 for an amount of €1,549 thousand for Eni performance in the 2018-2020 period, whose payment shall be further deferred in 2022 for a portion of 50%.
(c) The amount includes the taxable value of insurance and welfare coverage, complementary pensions and the car for business and personal use.

(24) Massimo Mondazzi - Chief Operating Officer Energy Evolution
(a) The amount corresponds to Gross Annual Salary including both the pro-rated remuneration for the periods in which he served as COO and CFO. The amount is supplemented by the indemnities owed for transfers, in Italy and abroad, in line with the provisions of of the relevant national collective labour agreement and with the Company's additional agreements, as well as other indemnities related to employment for a total of €1.3 thousand.
(b) The amount corresponds to the total amount paid for the reduced portions of the deferred incentives, provided for by the Plan Regulations in cases of consensual termination of the employment.
(c) The amount includes the taxable value of insurance and welfare coverage, complementary pensions and the car for business and personal use.
(d) The amount includes: i) the agreed severance treatment provided for by Eni policies in compliance with the protections of the national collective bargaining agreement (which provide for up to a maximum of 3 years of total remuneration including fixed remuneration, short and long term variable incentives and benefits) for an amount of € 7,137 thousand determined on the basis of fixed remuneration and only the short-term variable remuneration paid in 2020; ii) severance indemnities provided for by law or by the national collective bargaining agreement for a total amount of €692 thousand; iii) the amounts allocated for non-compete agreements, with a maximum duration of one year, for a total amount of €2,380 thousand, payable only following verification of compliance with the obligations set out therein.

(25) Alessandro Puliti - Chief Operating Officer Natural Resources
(a) The amount corresponds to Gross Annual Salary including both the pro-rated remuneration for the periods in which he served as COO Natural Resources and COO Upstream. The amount is supplemented by the indemnities owed for transfers, in Italy and abroad, in line with the provisions of of the relevant national collective labour agreement and with the Company's additional agreements, as well as other indemnities related to employment for a total of €9.5 thousand.
(b) The amount includes: i) the annual portion of the 2021 STI Plan earned in 2020 in the amount of €649 thousand, based on the assumption of individual performance at target level in 2020, (given the unavailability of verified performance data at the date of approval of the Report), whose payment shall be deferred in 2022 for a portion of 25%; ii) the deferred portion of the STI Plan awarded in 2018 and earned in 2020 for a total amount of €164 thousand, based on Eni performance in the 2018-2020 vesting period, whose payment shall be further deferred in 2022 for a portion of 50%.
(c) The amount includes the taxable value of insurance and welfare coverage, complementary pensions and the car for business and personal use.

Figure 3- Source: Table 1 of 2020 Eni's paid remuneration report. Focus: CEO's position period, total compensation of managers with strategic responsibilities and compensation structures

iii) Long-term savings schemes

Name	Remuneration from vesting of rights to savings schemes
Mr JOSÉ DAMIAN BOGAS GALVEZ	485

Name	Contribution for the year by the company (thousands of euros): Savings schemes with vested economic rights 2020	2019	Contribution: Savings schemes with non-vested economic rights 2020	2019	Amount of accrued funds (thousands of euros): Savings schemes with vested economic rights 2020	2019	Amount of accrued funds: Savings schemes with non-vested economic rights 2020	2019
Mr JOSÉ DAMIAN BOGAS GALVEZ	485	364			12,906	12,271		

Figure 4 – Source: 2020 Endesa S.A. paid remuneration report. Focus: long-term savings schemes

TABLE 2 – MONETARY INCENTIVE PLANS FOR THE CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER, FOR CHIEF OPERATING OFFICERS AND FOR OTHER MANAGERS WITH STRATEGIC RESPONSIBILITIES (amount in euro thousands)

			Bonus for the year			Bonus for previous years			
Name	Position	Plan	payable/ paid	deferred	deferral period	no longer payable	payable/ paid[(1)]	still deferred	Other bonuses
Claudio Descalzi	Chief Executive Officer and General Manager	2021 Short-Term Incentive Plan - Paid amount BoD March 18, 2021	2,153[(1)]						
		2021 Short-Term Incentive Plan - Deferred portion BoD March 18, 2021		1,159	3 years				
		2020 Short-Term Incentive Plan - Deferred portion BoD March 18, 2020						1,067	
		2019 Short-Term Incentive Plan - Deferred portion Bod March 14, 2019						1,067	
		2018 Short-Term Incentive Plan - Deferred portion BoD March 15, 2018					1,549[(2)]		
Total			**2,153**	**1,159**			**1,549**	**2,134**	

Figure 5 – Source: Table 2 of 2020 Eni's paid remuneration report. Focus: CEO's annual bonuses

TABLE 3 – INCENTIVE PLANS BASED OF FINANCIAL INSTRUMENTS, OTHER THAN STOCK OPTIONS, FOR THE CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER, FOR CHIEF OPERATING OFFICERS AND FOR OTHER MANAGERS WITH STRATEGIC RESPONSIBILITIES

			Financial instruments awarded in previous years and not vested during the year		Financial instruments awarded during the year					Financial instruments vested during the year and not assignable	Financial instruments vested during the year and assignable		Financial instruments for the year
Name	Position	Plan	Number of Eni shares	Vesting period	Number of Eni shares	Fair value at assignment date (thousands of euros)	Vesting period	Assignment date	Market price on assignment (euro)	Number of Eni shares	Number of Eni shares	Value at date of vesting	Fair value (thousands of euros)
Claudio Descalzi	Chief Executive Officer and General Manager	2020 Equity-based Long-Term Incentive Plan BoD October 28, 2019			292,451	991	3 years	28/10/2020	5.885				28
		2019 Equity-based Long-Term Incentive Plan BoD October 24, 2019	171,114	3 years									564
		2018 Equity-based Long-Term Incentive Plan BoD October 25, 2019								10,481	139,241		489
Total					**292,451**	**991**				**10,481**			**1,081**

Figure 6 – Source: Table 3 of 2020 Eni's paid remuneration report. Focus: CEO's vested and assignable instruments

Table 6 shows the composition of the Peer Group, made up of Eni's leading Oil & Gas competitors operating mainly in the upstream segment, given the greater weight of that sector in Eni's operations, the size characteristics and related differences with Eni.

Characteristics of Peer Group

TABLE 6 – PEER GROUP

	Company	Average capitalisation in 2017-2019 (Bln €)	2019 Production (Mln boed)	2019 Reserves (Bln BOE)	Value of reserves 2019 (Bln €)	Depreciation of reserves	Compensation Peer	Performance Peer
1.	Exxon Mobil	270	4.1	22.4	80.1	√	√	√
2.	Royal Dutch Shell	218	3.8	11.1	69.2	√	√	√
3.	Chevron	193	3.1	11.4	89.5	√	√	√
4.	Total	123	3.0	12.7	59.2	√	√	√
5.	BP	113	3.9	19.3	86.0	√	√	√
6.	Equinor	60	1.9	6.0	31.7	√	√	√
7.	ConocoPhillips	61	1.4	5.3	30.8	√	√	√
8.	Occidental[a]	40	n.a.	3.8	24.9	√	√	√
9.	Apache	10	0.5	1.0	8.8	√	√	√
10.	Marathon Oil	11	0.4	1.2	9.6	√	√	√

Figure 7 – Source: Table 6 of Eni's disclosed peer group in 2020 paid remuneration report

The Financial Performance Targets, consisting of EBITDA and ROI, have an overall weight of 75% of the Options assigned to each Beneficiary, distributed as follows:

a) EBITDA, with a weight equal to 40% of the Options assigned to each Beneficiary;

b) ROI, with a weight equal to 35% of the Options assigned to each Beneficiary.

The non-financial Performance Targets have an overall weight of 25% of the Options assigned to each Beneficiary and consist of:

a) a training and growth target, with a weighting of 5%, aimed at the social sustainability of the Group's activities and the enhancement of internal skills. The target is measured in average hours of training per capita at Group level according to the Business Plan forecasts;

b) an occupational safety target, with a weighting of 5%, aimed at the social sustainability of the Group's activities and at protecting the health of its employees. The target is measured on the injury rate at Group level in relation to hours worked, again in relation to the forecasts of the Business Plan;

c) an environmental target, with a weight of 15%, aimed at environmental sustainability with a view to reducing CO2 emissions. The target is measured on the rate of CO2 emissions within the Group's industrial activity, in relation to the Group's turnover, again in relation to the forecasts of the Business Plan.

The specific Business Targets will be concretely determined, with regard to each Reference Period for Performance Targets, by the Board of Directors, on the basis of the Business Plan.

Figure 8 – Source: SABAF's 2021 Stock Grant Plan. Focus: financial performance targets disclosure

4.4. **2021 Proxy season in the Southern European Market**

As regards as the proxy season in the Southern European Market, in 2021 it started from week 8, at the end of February, and ended in week 18, the first week of May. Specifically, the first substantial amount of companies to disclose their information belonged to the Turkish market, with its peak in the first three weeks. Nevertheless, as it's possible to see from Table 1, the majority of the corporations to be analysed were part of the Italian market, with 254 companies, significantly more than the second and the third largest markets of Turkey and Spain. Indeed, Italian corporations started to enter in the queue for being analysed in the first week of March, with the last biggest amount of due dates in the first week of April. It's however essential to underline that the hours required to scrutinize one Italian or Spanish company is of four hours, in case of a non-complex disclosure, while for one Turkish company, the it's only needed half an hour, because of the littler amount of information to be verified. A negative side of the disclosure timing relates to the passiveness of some companies in providing public information in congruous timing. Indeed, it often happened that corporation with the due date on the same day, hadn't published any document yet. Nevertheless, in the prioritization process, if the company with the earliest due date hasn't disclose its material, the corporation with the greatest number of clients has the precedence over the others. Additionally, not all companies ask for a complete analysis, which consists in: detailed executives remuneration, burn rate and dilution, new incentive plans details, executive compensation policies, Quality Score and P4P analysis. As a consequence, with companies having equal due dates, it must be prioritized those ones which agreed to a greater and more thorough analysis. After this profiling process, the standard research team proceeds to the analysis of the meeting and to the provision of vote recommendation according to the ISS voting guidelines. Indeed, in the final report given to the client company, for each agenda item it's showed: a summary of the voting recommendation, with the vote recommendation itself; the discussion section, where there are explained all details on the matter; and the analysis section in which it's made a comparison between the voting guidelines and the actual policies implemented by the company. Finally, in each report there's a Quality Score overview that quickly recaps the governance, the environmental and social performances of the company. The scores indicate a decile rank relative to an index or a specific region in which the company operates: a decile score of 1 indicates low risk, while a 10 indicates higher risk of non-compliance (Figure 9). ISS policies guidelines, as mentioned in the previous paragraph, change according to the markets or geographical areas. These are created through an annual policy formulation process which scrapes together feedbacks from a variety of market participants with different channels. The Institutional Shareholder Services utilizes these inputs for updating its policy guidelines each year. Specifically, before finalizing these updates, the proxy advisor publishes daft updates for an open review and comment period. As a consequence, the final updates are published in November ready for being applied to the general meetings in February of the next year.

Week	Date Range	Cyprus	Greece	Italy	Malta	Portugal	Spain	Turkey
Week 8	2/15 - 2/19	1		4			9	18
Week 9	2/22 - 2/26	2	1	8		1	9	29
Week 10	3/1 - 3/5		1	24		1	7	34
Week 11	3/8 - 3/12		2	36		1	6	19
Week 12	3/15 - 3/19			51	1	6	4	12
Week 13	3/22 - 3/26	1	3	35		3	10	15
Week 14	3/29 - 4/2	2	1	35	2	3	7	9
Week 15	4/5 - 4/11	1	1	25	1	2	6	11
Week 16	4/12 - 4/18	1		17	1	1	5	9
Week 17	4/19 - 4/25		5	3			9	7
Week 18	4/26 - 5/2	2	1	3		6	8	3
Week 19	5/3 - 5/9	1	1	4	1		6	1
Week 20	5/10 - 5/16	2	6	2			9	4
Week 21	5/17 - 5/23	3	5	1			5	3
Week 22	5/24 - 5/30	3	1	4			11	3
Week 23	5/31 - 6/6	1	10				1	
Week 24	6/7 - 6/13		2	2			1	
	Total	**20**	**40**	**254**	**6**	**24**	**113**	**177**

Table 1 – Source: 2021 Southern European market proxy season internship presentation. Focus: companies due dates by country

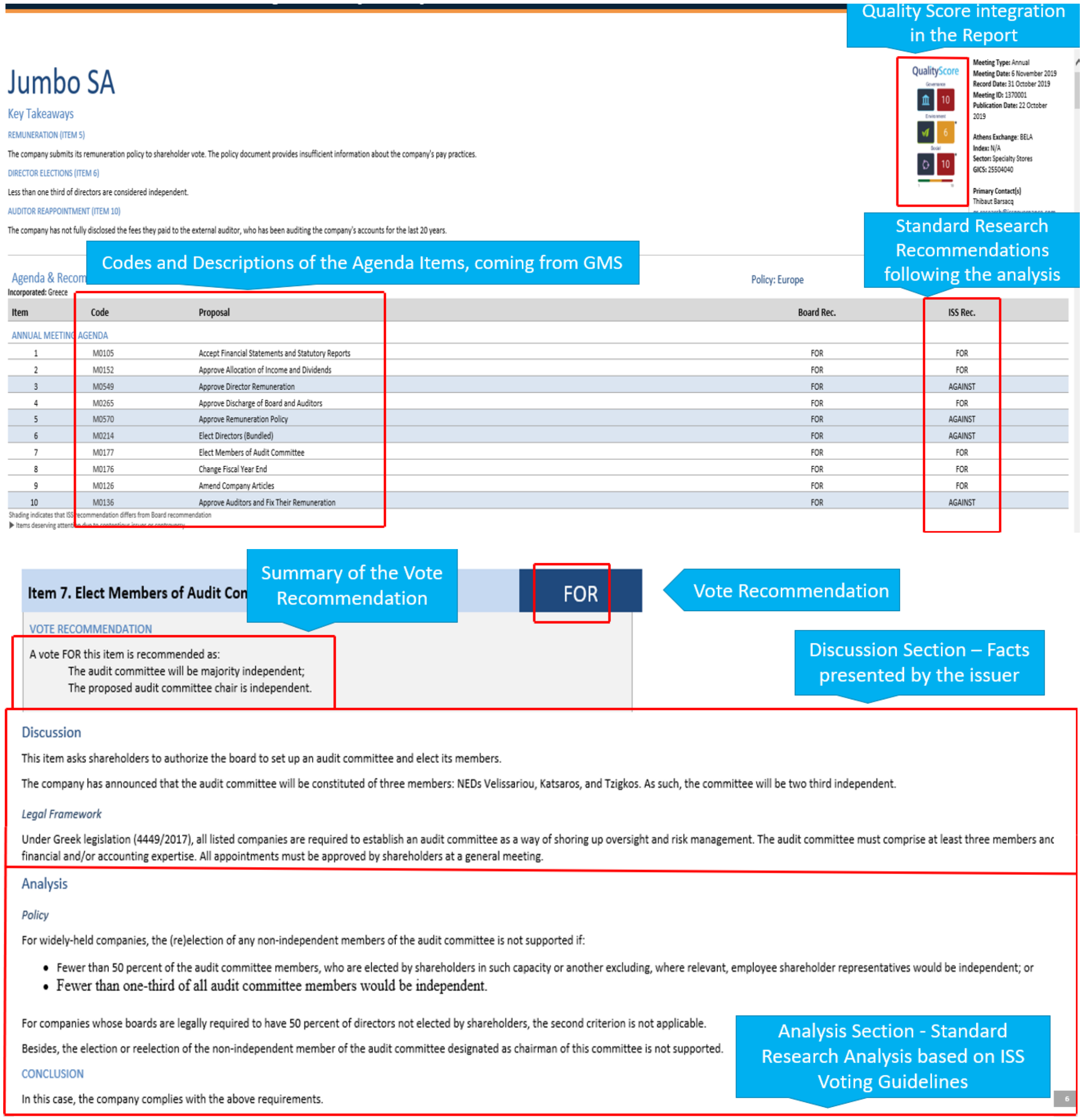


Figure 9 – Source: 2019 Jumbo S.A. ISS final report. Focus: agenda items, vote recommendation, QS integration, vote recommendation summary on Item 7, discussion section, and analysis section

4.5. **ESG Governance Quality Score**

The ISS's ESG Governance Quality Score (GQS) is a screening solution created in order to provide to clients a complete monitoring over the governance of portfolio companies. Specifically, this analysis covers the board of directors structure, the applied compensation, the shareholder rights and the audit and risk oversights. These sections are utilized in order to state the quality of the related governance of each company. Indeed, as the interest in stewardship and engagement by investors grow, as well as the worldwide standards and best practices, the governance feature is becoming more and more important for investment decisions. Specifically, on ISS's Governance Quality Score there are more than 230 elements analysed for each operating region. This section underlines all potentially adverse practices of shareholders inside the company and it mitigates elements with the aim of enhancing a more efficient information disclosure. The related dataset is updated regularly whenever a company disclosure becomes available. For the board structure category, ISS analyses: the number of directors in the board, the percentage of their independence according to ISS and to their local market, the number of outside directors, the presence of an statutory auditor and an independent board chair, the closeness of board members with majority shareholders or the presence of familial relationships, and information on the key committee composition. Additionally, this category also contains the board commitments and best practices related to the number of executives that serve in an excessive amount of outside boards, the attendance disclosure, the quorum required for all meetings, third-party transactions, as well as the diversity and inclusion degree. As regards as the remuneration sections, the elements included regard the pay-for-performance characteristics, such as the presence of an incentive ceiling, the deferral compensation possibility, and the alignment with shareholders interest. Additionally, the ISS ESG analyses also the non-performance-based remuneration, such as the presence of guaranteed bonuses, loans, and one-offs, as well as equity plan restrictions, such as the share recycling or repricing prohibition, change-in-control provisions, evergreen plans, clawbacks or malus clauses, termination payments, and other remuneration and disclosure practices. The shareholders rights and takeover defences category, on the other hand, analyses the presence of shares with different voting rights or non-voting shares, as well as voting right ceilings. In addition, this section contains also takeover defences implemented by companies, such has pre-emptive rights for existing-shareholders in the European market or the poison pill for the U.S. market. Moreover, the shareholder rights accounts also for litigation rights analysis and the analysis on the body bearing the power of modifying the company's equity capital structure. The final role played by the audit and risk oversight category involved the scrutinization of the external auditors characteristics, as well as the audit and accounting controversies, and the information security risk oversight and management.

All information displayed in the Governance Quality Score comes from the wide range of annual filing of companies' proxies, circulars, annual reports, and other publicly disclosed documents of the AGMs. Indeed, while companies during the financial year have the possibility of apporting changes to the GQS answers, during the proxy season their profiles remain frozen, in order to diminish as much as possible the distortion effects. In addition, the company level decile score, from 1 to 10, meaning from higher quality to a lower quality, provides a striking view of individual company's governance risk according to their index and region. The major worldwide indices utilized for the analysis are: S&P 500, Russell 3000, S&P/TSX Composite, STOXX600, ASX 300, NZX 50, Nikkei 400, and local European market indices including the U.K. FTSE All-Share (ex-investment trusts). Whether, the regional approach permits a company-level comparison inside the market where corporate governance practices tend to be quite similar. Finally, the ISS's Governance Quality Score analysis process enhanced its reach in 2017, with the creation of 30 global core factors that are applicable across all markets. These elements grant more data available to benchmark and a more efficient governance profiling mechanism.

ESG indicators are continuously increasing their importance across all sectors and industries. Indeed, these metrics are starting to be heavily included in all executives and key managers' remuneration incentives and enlarging its weight. However, the ESG inclusion doesn't stop here. The increasing shareholders' concerns over the environmental, social and corporate governance problems lead to a companies' reaction as a consequence of this criticism. A striking example is the oil company Exxon Mobil Corp's new board of directors composition. On 26th May 2021, during the company's annual general meeting, three independent directors have been appointed to the twelve-members board of directors due to their experience in profitable and successful energy industry transformation and climate experience. These directors have been nominated by the investment firm Engine No.1 which has only the 0.02% of the company ownership and it has been trying to convince Exxon to adhere to carbon neutrality by 2050. Thanks to the support from major pension funds shareholders, as CalPERS, the New York State Common Retirement Fund and CalSTRS, and the proxy advisory firms ISS and Glass Lewis, Engine No.1 has been able to accomplish the oxymoron of an oil company with three green activist directors. This event underlines how the worldwide corporate governance is continually changing towards a greener energy incentives while creating long-term shareholders value (Hiller & Herbst-Bayliss, 2021).

Conclusion

In this dissertation it's been examined how corporate governance concerns policies set ups, monitoring and procedures of policies, as well as the creation of decision-making mechanism and the establishment of a best-practice framework for maximizing the company's value in a long-term perspective. In order to do so, executives and board of directors' members have to act in the corporation's interest. This can be achieved by complying to all regulatory provisions in which the company operates and to all implemented governance strategies, by increasing disclosure, operating free cash flow benchmarks, debt amounts, HR influence and board independence, and by simultaneously diminishing rationalization and socialization tactics, and familial interference. Nevertheless, besides sustainable financial results, good governance should also focus on increasing the market confidence level in the organization for, ultimately, boosting profitability. The alignment of executives' remunerations with corporate performance is crucial on this matter. Additionally, an increased awareness by the general public spurs corporations on to care for the social system and peoples' concerns. This is the reason why the executives' compensation structure has become more timely-transparent and a considerable amount of companies are applying governance guidelines and standards, as well as including social responsibility objectives. However, the majority of shareholders doesn't have the knowledge, time and funds to effectively monitor companies compliance. As a consequence, proxy advisors issue voting recommendations on directors and executives' remuneration policies. Indeed, as the corporate governance environment efficiency, accountability, and transparency increases, investors' trust is enhanced, leading to long-term investments. This domino effect diminishes governance scandals, and boosts financial stability and business integrity, ensuring a durable growth and a highly inclusive society. Finally, as regards are future trends, in the next years it will surely given more importance in clawback and malus mechanisms, with particular focus to long-term pay-for-performance incentive structures and ESG metrics. An interesting fact is the South Korea advancement among the best world economies at the beginning of 2021, becoming the tenth at global level. Nevertheless, this position has been gain to the detriment of Brazil and Russia, which suffered more form the Covid-19 economic contraction. It would be interesting in the future to verify if this ranking gain can be maintain by South Korea, as the IMF predicts (International Monetary Fund. Asia and Pacific Dept, 2021) or not, with further analysis on its executives remuneration structures and provisions.

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