

Award Ceremony of the II Edition of the "Jaime Fernández de Araoz Corporate Finance" Award.

**Speech of Alejandro Fernández de Araoz
Madrid, 29th May 2007**

Your Royal Highness, Secretary of State, Madam President of the Community of Madrid, dear Luisa, dear friends:

A few months after Jaime left us, we lit the flame of a project born out of the desire and the need to keep his memory alive. For this reason, we launched an initiative with a double aim: something useful for society and linked to Jaime's professional activity.

With the support, affection and encouragement you gave us, and the particular backing of HRH the Prince of Asturias, this project came into being 2 years ago, the I Edition Award being won by professors Arturo Bris and Christos Cabolis for an extraordinary piece of work on the value of investor protection. This work was reviewed in the Financial Times and will shortly be published in a prestigious finance journal with international circulation.

The excellent welcome that the initiative was given and the great show of support we received gave us a boost. We soon realised that what had started out as a purely family project and a way of sharing the memory of Jaime with those who knew him could become something more. We realised that the Award could be a meeting point where, every two years, Corporate Finance experts, businessmen, regulators, investment banks and other collectives in the field could get together to debate, rigorously but with realism, the most burning issues in the world of corporate finance. In sum, it was a question of trying to give the Award continuity and a more institutional character.

Today, thanks to the extraordinary support given on this occasion by Banco Santander and Universia, we can once again share with you this project that my nephews call "dad's award". And we share it with the great satisfaction of seeing this Edition close with the Award going to another magnificent work by two young Spanish professors.

Aside from the technical areas and the specific and doubtless fascinating questions raised by Corporate Finance, we have an underlying and more general concern: that Corporate Finance cannot, and should not, exist in a bubble that ignores external reality.

For this reason, we were quite clear that issues affecting our markets, their

oversight, their regulatory framework and the structure and operation of our major companies, also end up directly affecting our society and the people who are part of it. It seems obvious that efficient markets and well managed companies will have a direct effect on greater creation of wealth, which enables a greater number of citizens to have access to increasingly higher levels of welfare.

So, many months of effort have been put in, and having received numerous papers from around 30 authors covering highly diverse topics (takeover bids, business cluster localisation, company valuation, corporate governance, family businesses), the Jury decided to give the award to Professors Vicente Cuñat, of Pompeu Fabra University, and María Guadalupe, of the Columbia University in New York, for their joint paper:

“Globalisation and the provision of incentives within the company: the effect of international competition”.

María Guadalupe has a Degree in Economics from the University of Barcelona, a Doctorate in Economics from the London School of Economics, has worked as a researcher in the MIT and is currently a finance lecturer in the Business School of the University of Columbia. Her fields of research cover labour relations economics, company organisation, executive remuneration and corporate governance.

Vicente Cuñat has a Degree in Economics from the University of Valencia (with distinction), a Doctorate in Economics from the London School of Economics and is a Professor of Finance at the Pompeu Fabra University. His fields of research cover corporate governance, company financing and company insolvency economics. He will be leaving us next year to lecture at the London School of Economics.

For such young researchers both have an impressive number of publications under their belts.

The Jury has judged that Vicente Cuñat and María Guadalupe have dealt with a topic, the remuneration of company senior executives and administrators, which is of huge current relevance. And they have done so with great vigour and depth, providing us with insight into some of the key factors linking globalisation and the increasing incidence of variable, performance related remuneration for managers.

María, Vicente, many congratulations for a major piece of work!

1) Firstly, the globalisation and competitiveness of our companies: the battle for talent. It is not news that market globalisation creates great opportunities for our companies as well as major challenges and demands for their competitiveness.

There is no doubt that Spain has talented company managers, well able to lead their companies in the increasingly complex global economy. But understanding the challenges and demands that crop up, for example the Chinese or Indian markets, or assessing the technological and cultural requirements needed successfully to penetrate the North American or Japanese markets, is no easy task.

We have magnificent Spanish footballers, yet our League has some of the world's best foreign footballers. So, my thoughts are these: are we able to create the best objective conditions for attracting the world's best talent into our companies? Do

we understand the remuneration structures that executives with this talent receive from companies abroad and, if so, are we prepared to offer these remunerations?

However, the battle for talent is not only at the highest organisational levels, but also at middle management levels. Are we transferring the salaries schemes of senior management to middle management? It would be advantageous for our society to overcome the cultural, historical and other barriers that prevent adapting to the new patterns. The remuneration of our executives must continue increasing in line with the increase in value that they create for their shareholders, particularly as regards the proportion of remuneration that is performance-linked. And by offering higher salaries, we will manage to attract better talent so that our companies are even better managed.

2) Secondly, what the fundamental imperatives of the salary scheme are: transparency and the bringing into line of executive salaries with creation of value.

Everybody knows that any market - and this includes financial, capital or stock markets - must abide by certain rules if it is to function properly. Among these rules, those pertaining to justice and efficiency stand out.

Among other things, globalisation is teaching us to get used to the idea that if we want the best managers we must pay them a lot of money, because if we do not then somebody else will.

But just as there is an obvious cultural hurdle that we must overcome, there is also an underlying question concerning to what extent there are abuses and if massive differences in salaries are ethical or not.

Therefore, from a very practical viewpoint, think about such basic questions as: is it ethical for an executive to be paid over 400 times what his secretary or office messenger are paid? Under what circumstances? And is paying a chief executive huge amounts of money efficient? Under what circumstances? Is the scandal around our executives' salaries justified, when no one says a word about what top level footballers or artists get paid?

How can shareholder interests, the owners of the company, be brought into line with the interests of company managers?

There is no easy answer to these questions, and I do not claim to answer them, certainly not within this presentation, but I do feel that there are two paths to be considered in parallel.

Firstly, there must be transparency in these salaries, which means keeping both shareholders and markets fully informed. The cause of the unease, if not downright indignation, is that the content of the contracts and other obligations acquired with the executives is not explicit. Let me offer an example: the project which won the Award today used information held in North American databases; if the winning researchers had wished to do the basic research in this country, they would have found that the information they needed to carry out this type of study in Spain is not available. It is true that we have come a long way in the right direction; since 2003, when it became obligatory to publish annual reports on corporate governance, there is now more detailed information on executive and senior management salaries. But we must continue in this direction, for opacity creates the feeling that there is something to hide; with openness and proper records, I am certain that salaries in line with the market, however high they may be, would not cause problems.

Secondly, it is essential to establish the mechanisms for performance related pay for executives. What irritates the investor beyond measure, and scandalises society, is executives being paid when they manage badly and lose astronomical sums. I am

convinced that when both areas are linked, nobody has a problem with an executive who creates high value being paid a high salary.

3) Lastly, when will our most capable civil servants receive appropriate salaries?

When we talk about financial and stock markets, of stock exchange listed companies, of takeover bids, of mergers and acquisitions, we are also talking about the regulatory bodies charged with looking after public interests, such as the National Securities Market Commission, the Competition Court, the National Energy Commission, the Directorate General of Insurance, or the Bank of Spain. And about courts of law, who are responsible for applying laws and for ensuring effective legal remedy for citizens and companies.

In definitive terms, these are civil or public servants from very different bodies who are responsible for making decisions that are technically very complex, on which companies risk millions of euros, and that often must be made to very short deadlines.

Consider, for example, the complexity of having to assess, from the perspective of competition law, the impact of a major companies merger in the space of 60 days, or a court having just a few days to assess whether or not to apply protective measures to a merger or takeover bid...

Over the last 15 years Spain has undergone unprecedented economic growth and huge creation of wealth. A vital component of our financial system's gearing and good operation is that the supervisory organisation functions with technical solvency, swiftness and impartiality. From my own experience, I can confirm the capability and dedication of many of the individuals working within these organisations. But are we paying these qualified civil servants in keeping with our demands of them? How can it be that a magistrate with years of experience, or a director of a division of the National Securities Market Commission, earns the same as a young person with 5 years' experience in a good firm of lawyers in Madrid? Can we continue to guarantee levels of quality in our regulators when the salary gap with the private sector is getting wider and wider? Of course, money isn't everything and the public service vocation is a determining factor for many of the individuals who work in these organisations. So, the reflection I share with you today is the following one: the public sector linked to Corporate Finance must be better paid. They are what guarantees good operation of the financial system and better pay is appropriate to what we ask of them and to the increasing competition from the private sector poaching qualified civil servants with experience in administration.

I have nearly finished.. the great thinker Isaiah Berlin, whom I especially admire, once said that philosophers are adults who persist in asking childish questions([1](#)). I assure you that in this Award we are not aiming to be philosophers of Corporate Finance, and I trust that you have not found my thoughts excessively childish. What I will say is that our small contribution to the debate is intended to promote the coming together of researchers, regulators, politicians and businessmen to attempt to identify some of the key elements for making better companies in a better Spain.

I do not wish to finish my speech without expressing gratitude, on my family's and my own behalf:

- *For the words of enormous affection and admiration that we have received, and continue to receive from you all, for Jaime, which mean so much to us and which have been at the forefront of our minds when organising this Award.*
- *To HRH the Prince of Asturias for again honouring us with his presence here today. I can confirm that he does so out of the great affection that he felt for Jaime and for this, I thank him especially.*
- *To Banco Santander and especially to Juan Rodríguez Inciarte, for the care, enthusiasm and dedication that they have given to this project.*
- *To Universia for its extraordinary support and excellent advice.*
- *To the Mutua Madrileña and particularly its President José María Rodríguez Pomatta for allowing us to use this splendid auditorium.*
- *To all the Jury members for their time, good judgment and invaluable advice, and particularly to professors Rafael Repullo and Manolo Campo, members of our technical committee, for their extraordinary dedication and enthusiasm.*
- *To the General Secretary of the Award, Elena López-Henares, for the sterling work she has done.*
- *To all the author who have presented projects involving commendable effort and dedication.*
- *To all the friends who are attending this ceremony, and to those who were not able to attend, but who have called to let us know they are here in spirit.*
- *And to Luisa, for just about everything and particularly for your love, participation and the great care you have taken with all the details, and for your ability always to find the positive way to remember Jaimón.*

Many thanks to you all, and we'll see you, God willing, at the III Edition to be held in 2009!

(1) Philosophers are adults who persist in asking childish questions." — Isaiah Berlin, quoted in [The Listener](#), 1978.