DIRECTORS' REMUNERATION AND CORPORATE SOCIAL RESPONSIBILITY: POST CRISIS HORIZONS

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The economic crisis has exposed huge flaws in the modern financial system. One of them is connected with compensation practices to the directors of the board in banks. The debatable areas here are as following: compliance of the compensation practices with social expectations and regulation of this sphere in different countries.

Today the system of banks' compensation practices threatens to undermine confidence in the banking system and cause a new wave of banking crises. The wave of public indignation concerning disproportionately high level of bankers' income forced governments of several countries to limit the size of bank bonuses and make them dependent from the bank performance. However, such restrictions are meaningful only if they operate on an international level.

Despite the crisis and the need to reduce costs, many banks were not going to save money on payment to their governance staff. Bank authorities treat such practices as means of keeping and motivating valuable professionals. It is noteworthy that such a concern for employees is typical, especially for large banks that have received solid crisis rescue packages from budget funds.

Banking managers made unacceptably high risky operations that led to catastrophic financial consequences. Such managerial actions in most cases were supported and even encouraged by shareholders. At the same time the majority of large and prosperous banks publicly stated their compliance with the concept of corporate social responsibility.

However the question of compensation being either a reason or a cause of crisis is still debatable enough. The most common view, however, seems to be that directors' compensation at large financial institutions was simply one of many factors contributing to the global financial crisis, albeit a particularly important one. For instance, in June 2009, Timothy Geithner, current United States Secretary of the Treasury and former President of the Federal Reserve Bank of New York, expressed the view that perverse incentives for short-term gain in compensation contracts "overwhelmed the checks and balances" designed to address the risk of excessive leverage. The Financial Stability Board has also stated that compensation practices at large financial institutions contributed to the global financial crisis, by providing perverse incentives for risk-taking.

At the same time in many banking institutions that received huge loses members of the board get enormous bonuses. To the community's point of view such cases were bright examples of bank's social irresponsibility as financial institutions redistributed to bonuses billions of the state financial support. The abovementioned financial institutions widely proclaimed their compliance with corporate social responsibility and crisis events raises question about reality of such proclamations.

As the response to the negative consequences of the global financial crisis, inter alia unexpectedly high bonuses paid to the bankers of unsuccessful financial institutions, the remuneration issue and social responsibility of the companies attracted even more attention of the regulators.

These regulations around the world had several similar characteristics. Among them were limitation of the bankers' bonuses or complete their ban for banks that received state financial support. In European countries bonuses were tied to long-term effects of the financial institution and paid with a 3-year delay.

The FSA stated that it is "mindful that to be effective action on this subject needs to be taken internationally", and that regulatory success depends on its ability "to gain international agreement to enforce similar principles in all major financial markets". There are a number of current global initiatives. The FSF Principles for Sound Compensation Practices, for example, have been strongly endorsed by the G20. The FSB has proposed that implementation of its remuneration principles should be advanced by the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO).

As we can see from abovementioned the problem of banks' compensation schemes raised many questions about social concerns of the banks in crisis and post crisis period, that requires synergetic reaction from the responsible bodies an on the national so on the international levels of financial regulation.

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