

Chapter 10

The Remuneration Policy and CSR With an Emphasis on Human Rights: Case of Slovenia

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ABSTRACT

This chapter explores the transformative impact of the shift towards corporate social responsibility (CSR) and environmental, social, and governance (ESG) principles on contemporary business operations. Tracing the evolution from CSR to ESG and its integration into European and national corporate practices, the study delves into the altered responsibilities of governance and oversight bodies. Studies on ESG/CSR standards' impact on governance and oversight body remuneration highlight a multifaceted relationship, emphasizing the importance of harmonizing investor interests, stakeholder relationships, and social responsibility. The chapter establishes a critical link between CSR/ESG concepts and human rights, highlighting human rights' intrinsic role. Chapters on remuneration policy origins, CSR/ESG standards in corporations, and ESG integration into remuneration policies stress their mutual interdependence. Additionally, addressing the Slovenian corporate governance landscape, the article advocates for transparent legislation of remuneration policies and sustainability concepts.

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INTRODUCTION

In the new millennium, there is a growing emphasis on corporate social responsibility in the business operations of economic entities. The evolution of this idea has progressed from the concept of Corporate Social Responsibility (CSR) to Environmental, Social, Governance (ESG). (Nakielski, 2023). This transformation is evident in corporate practices and legislation at both the European and national levels. Consequently, guidelines related to ESG have been integrated into the responsibilities and tasks of governance and oversight bodies within companies, resulting in a fresh perspective on performing these functions and their associated responsibilities. This, in turn, has directly impacted the compensation of governance and oversight bodies, making it inevitable for non-financial (CSR/ESG) goals to find their place in.

Historically, remuneration policy was initially tied to the performance of companies, which, during the financial crisis, led to moral hazard¹ and restrictions on payouts based solely on performance. This prompted the introduction of so-called clawback clauses² for manager payouts. (Tomić, 2018).

However, as mentioned above, the recent trend in the performance of companies is increasingly associated with “pay-for-performance” (Hassen & Ghardadou, 2020), which involves considering and implementing CSR/ESG standards. In this context, the success of a company’s operations is no longer solely linked to profitability and increased value for capital investors, mitigating the moral hazard of managers. Instead, the success of business operations is now also linked to compliance with different non-financial and more sustainability-oriented goals.

In the new millennium, numerous studies and comparisons (Hassen & Ghardadou, 2020) explore the dependencies and impacts of ESG/CSR standards on the remuneration of governance and oversight body members, and vice versa. These studies yield interesting findings, ranging from direct correlations and dependencies on the performance of companies to instances of no correlation. (Giannarakis et al, 2016) (Maqbool & Zameer, 2018). However, most highlight that achieving success in business operations requires establishing a harmonious relationship between investors and stakeholders and implementing social responsibility (Lim & Greenwood, 2017).

In light of the aforementioned dilemmas and inquiries, this contribution delves into a comprehensive exploration of the intricate interplay between CSR/ESG principles and Human Rights. It underscores the intrinsic significance of human rights in shaping the core essence of these principles. Following the introductory and second chapter, the third chapter elucidates the landscape of the remuneration policy in general, tracing its origins and delineating its most pivotal components.

Venturing into the fourth chapter, our analysis elaborates on the imperative need for the assimilation of CSR/ESG standards within corporate frameworks. Furthermore, authors advocate for the subsequent integration of ESG standards into

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