

10 Conclusions

10.1 Contributions to the literature

This paper has broadened the usual empirical approach to the study of executive compensation. In the first place, a broad concept of complexity and power has been developed and their influence on executive compensation has been tested. Prior research has never tested how the concept of complexity influences compensation contracts despite strong theoretical ground and compensation consultants' inclusion of complexity in job evaluation work. Suggested more than 15 years ago as a potentially important determinant of executive pay (Finkelstein and Hambrick, 1989), the complexity-pay relation has received very little attention ever since and operationalization of complexity has by and large been limited to single sources of complexity such as firm diversification (Finkelstein and Hambrick, 1989) and internationalization (Sanders and Carpenter, 1998). By building and testing a multidimensional framework of complexity, this work shows the large explanatory power of complexity in explaining top management pay levels and structure. Two of the analyzed dimensions of complexity – market uncertainty and politicized environment – have not received any attention in prior research. Although power has attracted much more attention from compensation researchers, empirical results are often inconsistent and ambiguous. Therefore, Finkelstein and Hambrick (1996) suggest that a formal test of the power hypothesis is needed, one that incorporates multiple aspects of executive power and allows for a more definitive statement about the effects of power on executive compensation. In this paper I have developed and tested a framework of executive power that incorporates multiple dimensions. In short, this study offers some insight into methodological issues surrounding the study of complexity and managerial power. In particular, it provides a strong argument for future researchers to consider using multiple indicators when examining complexity and power.

A second major innovation of this work is the identification of more subtle power and complexity variables through means of a questionnaire survey. My results provide first-time evidence that the compensation setting process provides different degrees of power for CEO to influence their compensation. I also find evidence that subjective judgments of complexity affect top management compensation. In general, the results of this work

contribute to our understanding of the determinants of compensation levels and structure. Power and complexity have been established as multi-faceted concepts, which also need to be met with corresponding methodological sophistication. To reflect a multi-faceted construct, a large number of variables may need to be included. And to capture the nuances of these potentially highly correlated variables, factor analysis has been suggested as an important method to achieve a more definite statement on the complexity-pay relation and the power-pay relation. In general, the right way forward appears to be to try to capture potentially multi-faceted constructs such as power or complexity with adequate methods such as principal component analysis to obtain a more complete picture of power.

Third, this work has provided an in-depth and updated literature review on the determinants and consequences of executive pay. Good general reviews of the literature were written in the 1990s (e.g. Murphy, 1999; Gomez-Mejia and Wiseman, 1997; Finkelstein and Hambrick, 1996). Since then, a large volume of theoretical and empirical research has been published. Chapters 3 through 6 have provided an update of the accumulated knowledge about executive compensation.

10.2 Summary of results

10.2.1 Overview of executive and director compensation

In 2004, the average (median) CEO in Swiss stock-listed companies received total compensation of 2.5 (1.0) MCHF. There is large variation in compensation levels. The minimum total CEO compensation in my sample in 2004 was 180,000 CHF and the highest was 23.3 MCHF. CEOs further received average (median) cash compensation of 1.6 (0.9) MCHF in the same year. On average, CEOs received company stock options with a Black-Scholes value of 450,000 CHF. However, the median CEO did not receive any company stock options. On top of that, the average CEO further received shares with a market value of 550,000 CHF. Again, the median CEO was not awarded company shares. This suggests that equity-based pay is used for only a relatively small group of highly paid CEOs. The average proportion of equity-based pay out of total pay was 13.9%.

The compensation of members of the top management team is substantially lower. Average and median total compensation values are 980,000 CHF and 560,000 CHF respectively. Average (median) cash compensation amounted to 720,000 CHF (500,000