

## 7 Research methods

### 7.1 Development of hypotheses

The hypotheses have emerged out of a large-scale review of around 450 articles on executive compensation and related fields, review meetings with the referees of this dissertation and my work at the multinational corporation *ABB*. Working for the head of executive remuneration, I was involved in the design and development of a group-wide Employee Share Acquisition Plan (*ABB* ESAP) at *ABB* Global Headquarters and the project manager for the implementation of this plan within *ABB Australia*. Among others, this job assignment enabled me to conduct interviews with experts in the field of executive remuneration, thus gaining a deeper understanding of the top management pay scene. I conducted interviews with Gary Steel, Head of HR, member of the Executive Committee and secretary to the Compensation Committee of *ABB*, David Tankel, Managing Director of London-based *New Bridge Street Consultants* and expert on executive remuneration, Hanspeter Fässler, member of the compensation committee of *Daetwyler*, and Prof. Dr. Rolf Dubs, chairman of the compensation committee of *Schindler* and member of the board of directors of *Julius Bär*. With the exception of the consultancy, all of these firms are included in my sample. Furthermore, I have gained insight into the processes and workings of top management teams in my current position as an assistant to the Executive Committee of *ABB Switzerland Ltd*, the *ABB Group's* Swiss country organization employing 5,

000 employees. In this position, I have regularly attended top management and board of directors meetings.

### 7.2 Sample and data

#### 7.2.1 Archival data

As the starting point of my analysis, I use data from companies listed at the Swiss stock exchange SWX in 2002 and 2003. I target all 289 firms quoted at the Swiss Exchange (SWX) by the end of 2003. The exclusion of investment companies leaves me with 235 firms. I further delete companies that have not been quoted over the sample period or

disclose insufficient information. The final sample consists of 199 firms and 398 firm-year observations.

The sample has a few note-worthy characteristics. Swiss stock-listed companies are characterized by large variations in terms of compensation structure, degree of managerial power or degree of complexity (Hengartner, 2003b). Such observable differences will make statistical tests more powerful. Second, prior research has focused on very large companies. This study comprises both larger and smaller firms providing a more balanced picture of the executive compensation landscape. It further provides a rather complete picture of executive compensation in Switzerland by potentially including all stock-listed companies.<sup>37</sup> Third, I study companies from a wide variety of industries. Prior studies have usually either excluded banks or other financial services companies from their sample, or they exclusively focused on banks. The rationale for including firms from a broad range of industries was that it will enhance the external generalizability of the study's results.

I use two years of data, although I am not especially concerned with controlling for firm-specific fixed effects over time. Rather, as Murphy (1999) proposes and the result of Balkin et al. (2000) show, the variance explained by commonly used variables may fluctuate significantly across time. Also, estimators based on panel data are quite often more accurate. Even with identical sample sizes, the use of a panel data set will often yield more efficient estimators than a series of independent cross-sections (Verbeek, 2004). The panel data approach further helps ameliorating the problem of omitted variables associated with a cross-sectional sample (Murphy, 1985).

I obtained data on the corporate governance variables executive remuneration, shareholdings, board composition and shareholder structure from companies' annual reports. Data on firm complexity variables and control variables firm internationalization, diversification, dividend yield and volatility are from the *Share Guide 2002/2003*, *Share Guide 2003/2004*, the *Share Guide 2004/2005* all published by *Finanz und Wirtschaft*, and from *Top 2002*, *Top 2003* and *Top 2004* all published by

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<sup>37</sup> I have not included privately held firms for two reasons. First, data availability is largely restricted in such firms. Second, there is evidence that privately held firms differ substantially in the compensation of their managers due to differences in corporate governance (e.g. Ke et al., 1999).