

## 8 Research results

### 8.1 Descriptive statistics

#### 8.1.1 Overview of the Swiss pay scene

Before turning to a detailed analysis of the influence of managerial power and complexity on executive compensation, I first examine the descriptive properties of executive compensation in Switzerland.

##### CEO compensation

I present summary statistics on CEO compensation in Table 7. On average, the CEO received total compensation of 2.0 MCHF in 2002, 2.1 MCHF in 2003 and 2.5 MCHF in 2004. The corresponding median values are 700,000 CHF, 800,000 CHF and 1.0 MCHF. This shows a clear trend of increasing CEO compensation between 2002 and 2004. Total compensation values for my sample are smaller than those usually found in US samples. For instance, Ryan and Wiggins (2001) report mean and median CEO compensation of 3.6 MUSD and 1.9 MUSD respectively in 1997. Large standard deviations indicate that there is large variability in the compensation of CEOs in Switzerland. The minimum total CEO compensation in my sample in 2002 was 180,000 CHF and the highest was 23.3 MCHF.

CEOs received average (median) cash compensation of 1.3 (0.6) MCHF in 2002, 1.2 (0.7) MCHF in 2003 and 1.6 (0.9) MCHF in 2004. On average, CEOs received company stock options with a Black-Scholes value of 520,000 CHF in 2002, 440,000 CHF in 2003 and 450,000 CHF in 2004. However, these values are extremely skewed, and the median CEO does not receive any company stock options. The average CEO further received shares with a market value of 260,000 CHF, 400,000 CHF and 550,000 CHF in the years investigated. Again, the median CEO was not awarded company shares in any of these years. This suggests that equity-based pay is used for only a relatively small group of highly paid CEOs. The numbers further suggest that boards replaced option-based compensation with direct shares awards and higher cash compensation between 2002 and 2004. The increase in share compensation thereby more than offset the decrease in option-based compensation.

**Table 7: Descriptive statistics on CEO compensation.**

Variable	Year	N <sup>a</sup>	Mean	Median	Standard deviation
Cash compensation	2002	121	1,260,044	637,617	1,609,458
	2003	129	1,227,617	741,000	1,525,951
	2004	109	1,607,924	890,000	1,981,428
Stock-option compensation	2002	121	520,298	0	1,974,959
	2003	129	436,159	0	2,125,366
	2004	109	448,758	0	2,104,171
Shares compensation	2002	121	258,061	0	1,204,300
	2003	129	396,260	0	1,757,818
	2004	109	549,032	0	2,155,043
Total compensation	2002	121	2,037,228	736,114	3,724,888
	2003	129	2,059,523	804,000	4,209,201
	2004	109	2,507,946	971,104	4,207,720
Equity-based compensation as percent of total compensation	2002	121	13.2	2.0	21.4
	2003	129	13.9	0	21.0
	2004	109	13.9	2.7	21.4

<sup>a</sup>This table includes observations where the highest paid director variable is higher than the average compensation for TMT members.

The average proportion of equity-based pay out of total pay was 13.2% in 2002 and slightly increased to 13.9% in 2004. Reliance on equity-based compensation is substantially lower than in the UK, where cash compensation totals around 65% of total compensation, with option grants and Long-term Incentive Plans (LTIPs) amounting to 18% each on average (Conyon et al., 2000). The median value is almost 100% cash compensation. In the US, salary only constitutes one-third of average total CEO compensation (Khan et al., 2005).

### **Top management compensation**

Table 8 shows the compensation received by the top executives of my sample companies. On average, an executive sitting on a company's top management team received a total compensation of 828,000 CHF in 2002 increasing to 842,000 CHF in 2003 and 980,000 CHF in 2004. Average cash compensation amounted to 610,000 CHF in 2002, 630,000 CHF in 2003 and 720,000 CHF in 2004. The figures further show a clear trend for companies to replace stock option compensation with direct share grants in 2003. While the average Black-Scholes value of stock options granted in 2002 was 150,000 CHF, it sharply decreased to 85,000 CHF in 2004. However, companies simultaneously increased the value of shares granted from an average of 72,000 CHF in