



**Is there a relationship between  
executive compensation and company  
performance?**

*- A study of the four Swedish major  
banks*

**Bachelor Thesis**

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Department of Business Administration  
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Thank you,

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## **Abstract**

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- Authors:** Lucas Örn, Martin Konkell
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- Title:** Is there a relationship between executive compensation and company performance? - A study of the four Swedish major banks.
- Key words:** Compensation, Remuneration, Incentive program, CEO, Chairman of the Board, Banks,
- Background & Problem:** Executive compensation has for a long time been a topic of a heated debate, and the public criticism has further intensified as a consequence of all corporate governance scandals that have been revealed in media lately. The emergence of the discussion has its foundation in the fact that companies are under-performing and share prices are trailing simultaneously as Chief Executive Officers (CEOs) receive higher compensations despite the prevailing economic crisis.
- Purpose:** The purpose of this thesis is to make a comparison of companies within the Swedish bank sector in order to observe whether there is a correlation between paid compensations and profitability.
- Methodology & Delimitations:** We chose to study four banks that all have significant shares of the Swedish market. Their annual reports have been used as the major instrument to gather information. We have limited the study to the period 1998-2008 since this period involves recessions as well as upswings. The access to electronically published annual reports was also considered as good for these years.
- Result & Conclusion:** The result from the empirical findings showed a significant correlation between paid compensations and financial performances. Some exemptions and differences were however seen between the banks and the years.
- Further Research:** A study within the respected area, including both primary and secondary data is to be considered as a thesis of great interest. This would give a better overall and more complete overview of the entire compensation issue.

## ***Definitions:***

### ***Return on equity, R/E***

Profit for the financial year allocated to shareholders in relation to average shareholders' equity.<sup>1</sup>

### ***Risk-weighted asset***

The book value of the assets as per the balance sheet and the off balance-sheet commitments are valued in accordance with the capital adequacy rules.<sup>2</sup>

### ***Core capital ratio***

Core capital as a percentage of the risk-weighted assets. Core capital consists of shareholders' equity, adjusted according to the capital adequacy rules.<sup>3</sup>

### ***Cost/Income-ratio, C/I***

Total operating expenses divided by total operating income.<sup>4</sup>

### ***Compensation***

Compensation is used a generic expression for all types of paid compensations

### ***Incentive Program***

Incentive program is used a generic name for all types of flexible compensation

### ***Remuneration***

By remuneration, compensation directed only to the Chairman is intended.

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<sup>1</sup> Swedbank Annual Report 2008, p.131

<sup>2</sup> SEB Annual Report 2008, p.131

<sup>3</sup> SEB Annual Report 2008, p.131

<sup>4</sup> SEB Annual Report 2008, p.131

# Table of Contents

<b>Abstract .....</b>	<b>3</b>
<b>1. Introduction .....</b>	<b>7</b>
1.1 Background .....	7
1.2 Previous Research .....	8
1.3 Problem discussion.....	10
1.4 Definition of the problem .....	11
1.5 Purpose .....	11
1.6 Delimitations .....	11
1.7 Disposition.....	12
<b>2. Method.....</b>	<b>13</b>
2.1 Choice of Topic .....	13
2.2 Selection of Companies Studied.....	13
2.3 Data Collection and Sources of Data.....	14
2.4 Annual Reports.....	15
2.5 Inductive and deductive methods .....	15
2.6 Reliability & Validity .....	15
<b>3. Theory.....</b>	<b>17</b>
3.1 Purpose of Compensations .....	17
3.2 Forms of Compensations and Incentive programs .....	17
3.2.1 Monetary Compensations.....	18
3.2.2 Equity based Compensations.....	19
3.3 Compensation models .....	20
3.4 Principal – Agent Theory .....	21
3.5 Shareholder- and Stakeholder perspective .....	22
3.6 Swedish corporate governance .....	24
3.7 Corporate governance of banks .....	25
<b>4. Empirical findings.....</b>	<b>26</b>
4.1 <b>SEB</b> .....	26
4.1.1 Determination of Compensations .....	26
4.1.2 Financial goals.....	27
4.1.3 Structure of Compensation .....	27
4.1.4 Profits and Profitability .....	29
4.2 <b>Swedbank</b> .....	30
4.2.1 Determination of Compensations .....	30
4.2.2 Financial Goals.....	31
4.2.3 Structure of Compensation .....	31
4.2.4 Profits and profitability.....	33
4.3 <b>Handelsbanken</b> .....	34
4.3.1 Determination of Compensations .....	35
4.3.2 Financial Goals.....	35
4.3.3 Structure of Compensation .....	35
4.3.4 Profits & profitability .....	36

4.4	<b>Nordea</b> .....	38
4.4.1	Determination of Compensations .....	38
4.4.2	Financial Goals .....	39
4.4.3	Structure of Compensation .....	39
4.4.4	Profits and profitability.....	41
<b>5.</b>	<b><i>Analysis</i></b> .....	<b>43</b>
5.1	Pay/Performance relationship.....	43
5.1.1	SEB.....	43
5.1.2	Swedbank .....	44
5.1.3	Handelsbanken .....	45
5.1.4	Nordea .....	46
5.2	Comparison of the banks .....	46
5.3	Application of theories .....	47
<b>6.</b>	<b><i>Conclusion and suggestions for further research</i></b> .....	<b>49</b>
6.1	Conclusion.....	49
6.2	Suggestions for further research.....	49
	<b><i>References</i></b> .....	<b>50</b>
	Literature .....	50
	Electronical References.....	50
	Articles .....	52
	Printed Material.....	53
	Annual Reports.....	53
	<b><i>Appendices</i></b> .....	<b>54</b>
	Appendix A - SEB .....	54
	Appendix B – Swedbank.....	56
	Appendix C – Handelsbanken.....	58
	Appendix D – Nordea .....	60

## **1. Introduction**

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*The first chapter describes the background of compensations and gives the reader a general idea of the study. Furthermore, it presents the aim and purpose of this thesis.*

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### **1.1 Background**

Executive compensation has for a long time been a topic of a heated debate, and the public criticism has further intensified as a consequence of all corporate governance scandals that have been revealed in media lately. The emergence of the discussion has its foundation in the fact that companies are under-performing and share prices are trailing simultaneously as Chief Executive Officers (CEOs) receive higher compensations despite the prevailing economic crisis.

In the past, the question has been raised whether there is any relationship between executive compensation and company success at all? Numerous studies with conflicting conclusions have been made on the topic, and uncertainty occurs among shareholders as well. This was confirmed in a web survey that was launched by the Swedish Shareholders' Association<sup>5</sup> (SSA), where almost 80 percent of the asked participants thought that CEOs do not have reasonable compensations in terms of salaries, pensions and flexible compensations. Therefore, the SSA has decided to oppose all motions concerning any implementation of programs with no upper limits. Johan Flodström, who recently was elected as Chairman of the organization, commented the prevailing debate by saying:

*- "Incentive programs should belong to the history because of the prevailing economic crisis, which in itself can be considered as the greatest recession within living memory".<sup>6</sup>*

The Swedish bank sector, including the four major banks: Skandinaviska Enskilda Banken (SEB), Nordea, Swedbank and Handelsbanken, has been the centre of attention in this debate lately. Media has published articles and studies revealing that some of the Swedish banks are constrained by massive credit losses, simultaneously as huge flexible compensations are still to be paid for 2009.<sup>7</sup> The Minister of Finance, Mats Odell, has also paid attention to executives of the major banks in Sweden. Large salaries and bonuses are contributory causes to the prevailing economic crisis, according to Odell<sup>8</sup>.

In the case of SEB, the Board of Directors wanted to implement an incentive program to the executives worth 102 million for 2009. No dividends to the shareholders of SEB will however be paid in 2009, and furthermore, the shareholders have to contribute with SEK 15 billion in a new issue of shares in order to strengthen the finances and cover the credit losses in the Baltic countries which have escalated lately<sup>9</sup>. SEB's CEO, Annika Falkengren, was assessed at almost 25 million SEK in 2007, which made her to one of the best paid CEO's in Sweden. However, by the turn of the year 2008 and 2009, the management of SEB announced that they will abolish all short-term flexible compensation.<sup>10</sup>

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<sup>5</sup> SSA is an independent organization working in the interests of private individuals who invest in stocks, mutual funds and other stock related securities

<sup>6</sup> Aktiespararna, (2008) Webbfrågan: Vad anser du om bonusprogrammen?

<sup>7</sup> E24, Bransch, (2009) Bank & Finans, Kritik mot bankernas bonusmiljarder

<sup>8</sup> Dagens Nyheter, (2008) Ekonomi, Finanskrisen, Löne- och bonusfest i statens bank

<sup>9</sup> Aktiespararna, Läs Artiklar, (2008) "SEB-bonus inte rimlig"

<sup>10</sup> Dagens Nyheter, (2008) Ekonomi, Finanskrisen, Löne- och bonusfest i statens bank

In the case of Nordea, the Swedish State has promised to contribute with SEK 5 billion in Nordea's new issue of shares in 2009, simultaneously as the executives of Nordea have the most generous incentive programs within the Swedish bank sector. The CEO of Nordea, Christian Clausen, received compensations worth twice as much as the CEOs of Swedbank and Handelsbanken in 2007. However, in the end of January 2008 Nordea's Chairman of the Board, Hans Dalborg, announced that Clausen and four other top-executives are to be rejecting all kind of flexible compensation during the period January – April 2009<sup>11</sup>.

Swedbank was pointed out in a study made by the investment-bank Keefe, Bruyette & Woods as one of six major banks in Europe that runs a great risk to force oneself to borrow money from their shareholders in the near future<sup>12</sup>. Swedbank also disclosed massive losses in Ukraine and in the Baltic countries, and furthermore, wrote down the value of their bank with one and a half billion SEK in 2008 in Ukraine. Despite this, the executives in Ukraine received 35 million in bonuses and the executives of the Swedish operations received SEK 335 million in flexible compensation. In an article published by Svenska Dagbladet in Mars 2009, commented the Chief Communicative Officer (CCO) of Swedbank Thomas Backteman the bonus payments as followed:

*-“Our incentive program should have been designed differently”.*<sup>13</sup>

Handelsbanken is the only bank that is exempted from the application of flexible compensation. Their policy regarding compensation to executives is that compensations shall only be paid in the form of a fixed salary and standard benefits and no flexible compensation is to be paid in the form of bonuses. The CEO of Handelsbanken, Pär Boman, has also the lowest compensation among the Swedish banks.<sup>14</sup>

## **1.2 Previous Research**

Conflicting conclusions regarding the pay for performance issue have been presented in prior studies. According to several researchers, compensation to executives bears a little or no relation to a firm's success. Others however, argue that CEO's are paid in accordance with their firm's performance. In the banking industry, several studies can be found that provide conflicting conclusions. The studies given below are presented to give the reader a broader perspective on the subject.

### **▪ Mishra and Nielsen (2000)**

Mishra and Nielsen aimed to investigate incentive alignment through CEO compensation contracts of large bank holding companies. Their conclusion was that under average performance conditions, there is no need to increase the alignment of compensation contracts of bank CEOs with the interests of shareholders. The internal monitoring, which is supplied by the Board and its outside directors, is generally effective enough. On the other hand, when the financial performance of a large bank holding company is poor, incentive alignment through CEO compensation contracts becomes necessary.<sup>15</sup>

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<sup>11</sup> Privata Affärer, Nyheter, (2009) Nordea: Hela koncernledningen avstår bonus 2009 - media

<sup>12</sup> Dagens Nyheter, (2009) Ekonomi, Swedbank i topp på krislista

<sup>13</sup> Svenska Dagbladet, (2009) Näringsliv, Bonus till chefer trots miljardsmäll

<sup>14</sup> Dagens Nyheter, (2008) Ekonomi, Deras miljoner - dina räntekronor

<sup>15</sup> Mishra, Chandra S. & Nielsen, James F. (2000) *Financial Management*, p.51



- **Crawford, Ezzel & Miles (1995)**

Crawford, Ezzel & Miles examined a study of the commercial banks in the US after the deregulation in 1981, which increased the managerial discretion. Their result showed a significantly stronger relationship between CEO pay and performance. Prior to the deregulation, no relationship was found in terms of CEO option wealth and salary with performance. They also concluded that most components of bank CEOs' compensations are still relatively fixed.<sup>16</sup>

- **Barro and Barro (1990)**

Barro and Barro examined the pay for performance relationship in large US banks over the period 1982-1987, and concluded that CEO compensation is highly sensitive to performance. Two measures of performance were found to be significantly positively related to changes in CEO compensation: the rate of return to shareholders based on stock-market prices and dividend yields, and the accounting based return.<sup>17</sup>

- **Redling (1981)**

Redling examined the relation between CEO pay and company performance, by comparing the CEO salary growth and performance (earnings and r/e) growth over a period of 5 years. The result showed a vague relationship between paid compensations and performance, and furthermore, compensations to CEOs in the banking industry in the US had a significant vague relationship to performance, where 90 % of the CEOs got raises during the period of study.<sup>18</sup>

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<sup>16</sup> Tripp, James D., & Kenny, Peppi M., (1995) *CEO Pay and Corporate performance in the Commercial Banking Industry*

<sup>17</sup> Barro, Jason, R., & Barro, Robert J., (1990) *Pay, Performance, and Turnover of Bank CEOs*, p. 448-481

<sup>18</sup> Redling, Edward T., (Fourth Quarter 1981) *Myth vs. Reality: the Relationship Between Top Executive Pay and Corporate Performance*. pp.16-24

### 1.3 Problem discussion

Based upon the background of this study, our objective with this section is to further define the issues involved in compensations as well as identifying the focus of this study. Figure 1.1 illustrates how we structure the problem discussion:

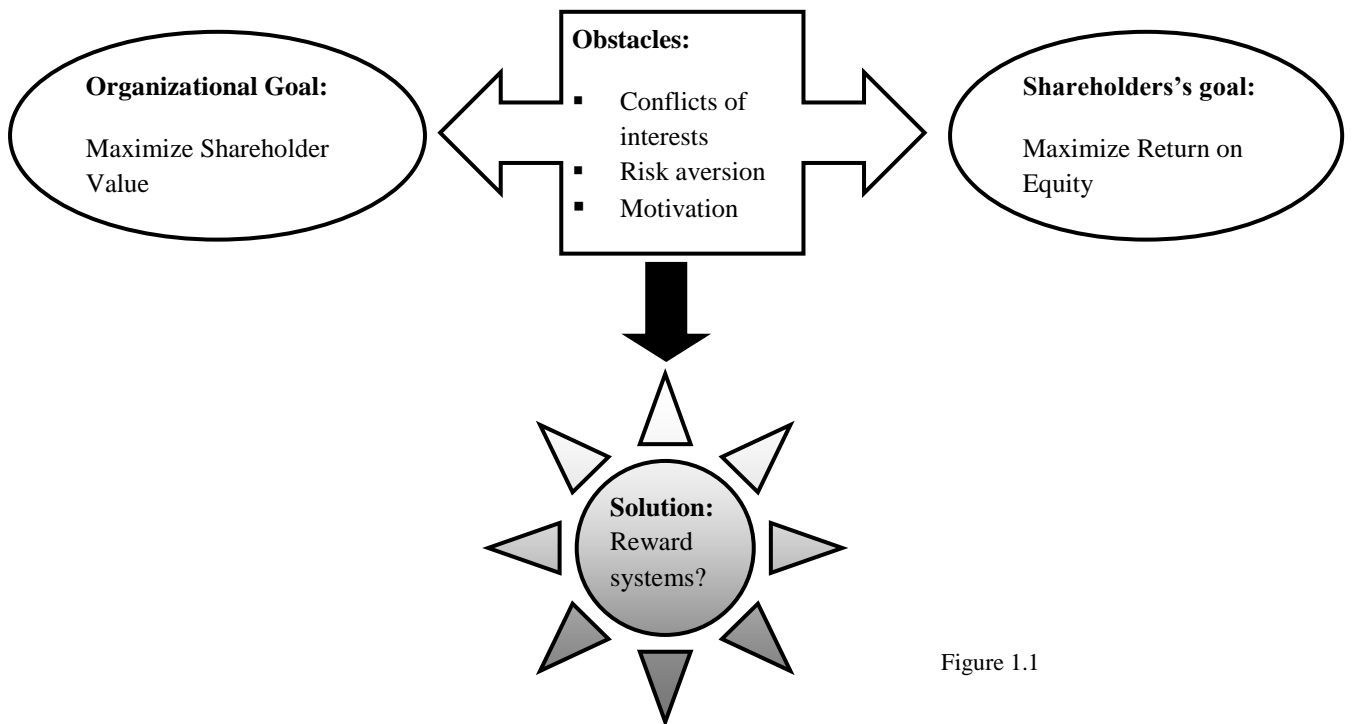


Figure 1.1

The goal of any corporation, excluding non-profit corporations, is to maximize its shareholders' value<sup>19</sup>. This could be illustrated by a simple example of a small company where the CEO is also the owner. If the owner's main objective is to maximize wealth, maximizing the value of the company is therefore synonymous with maximizing the owner's wealth. This example in which the owner also runs the company illuminates why the main objective of the company is value maximization.

However, the modern company is not often run by the owners themselves but by an elected professional group nowadays, which has transferred the control of firms from owners to managers. Furthermore, the objectives of managers may, in some situations, differ from those of the company's shareholders. Thus, despite that the principle of shareholder value maximization provides a rational guide for running a corporation, many obstacles such as conflicts of interests, managers' aversion to risk, and means of motivation occur and hinder that the particular objective to be fulfilled.

According to Jensen & Meckling's (1976) *Agency theory*, the primary device to achieve alignment between owners and management, and thus fulfill maximization of shareholder value, is by linking compensations (i.e., salary, bonus and stock options) to the economic performance of the firm.<sup>20</sup> Although, do such alignments really generate greater returns on equity? It would have been in everyone's interest to implement such systems if they generated

<sup>19</sup> Shareholder value is the estimation of the economic value of an investment by discounting forecasted cash flow by the cost of capital. These cash flows, in turn, serve as the foundation for shareholder returns from dividends and share price estimation."

<sup>20</sup> Jensen, Michael C. & Meckling, (1976) William H., *Theory of the firm: Managerial Behaviour, agency costs and ownership structure*, p.305

significantly higher returns to shareholders, but numerous studies present conflicting conclusions of the relation between company performance and the use of incentive programs - Who is right?

Incentive programs can be constructed differently and vary between organizations. Within the Swedish bank-sector they come under headings such as Performance share systems, ITP2009, STI- and LTI programs and Oktogonen. There are obviously differences in headings, but are there any differences in the design of them? And more importantly, can any significant difference be seen in the relationship of company performance and paid compensations between the companies?

SEB, Swedbank, Nordea and Handelsbanken are more or less operating under the same conditions with the same objectives. But since there is a difference in design of the incentive programs between the chosen banks as well as the conflicting conclusions from prior studies presented above, we believe it is of great interest to perform a comparison between the banks in this thesis in order to further investigate these issues.

#### ***1.4 Definition of the problem***

- Is there a correlation between paid compensations and company performances in the companies studied? Can any significant differences be seen between the companies?
- How are compensation packages to CEOs and Chairmen of the Board designed and applied in the companies studied?
- What motives do shareholders as well as managers have in terms of implementing incentive programs?

#### ***1.5 Purpose***

The purpose of this thesis is primarily to make a comparison of companies within the Swedish bank sector in order to observe whether there is a correlation between paid compensations and company performances. Our objective is to critically examine the chosen banks and conclude whether banks with certain compensation policies have a significantly better development in terms of value than others. By terms of value, return on equity and profits are intended. Our intention is also to further investigate how compensation packages are designed in the companies studied and discuss what reasons each privy have to accept these programs.

#### ***1.6 Delimitations***

The study is limited to solely make a comparison of companies within the Swedish bank sector, which are all listed on the “Most traded list” on the Stockholm Stock Exchange. We will focus on the CEOs’ compensation packages as well as on remunerations addressed to the Chairmen of the Boards. The major cause for these selections is due to that the banks studied, do not publish other details in their annual reports.

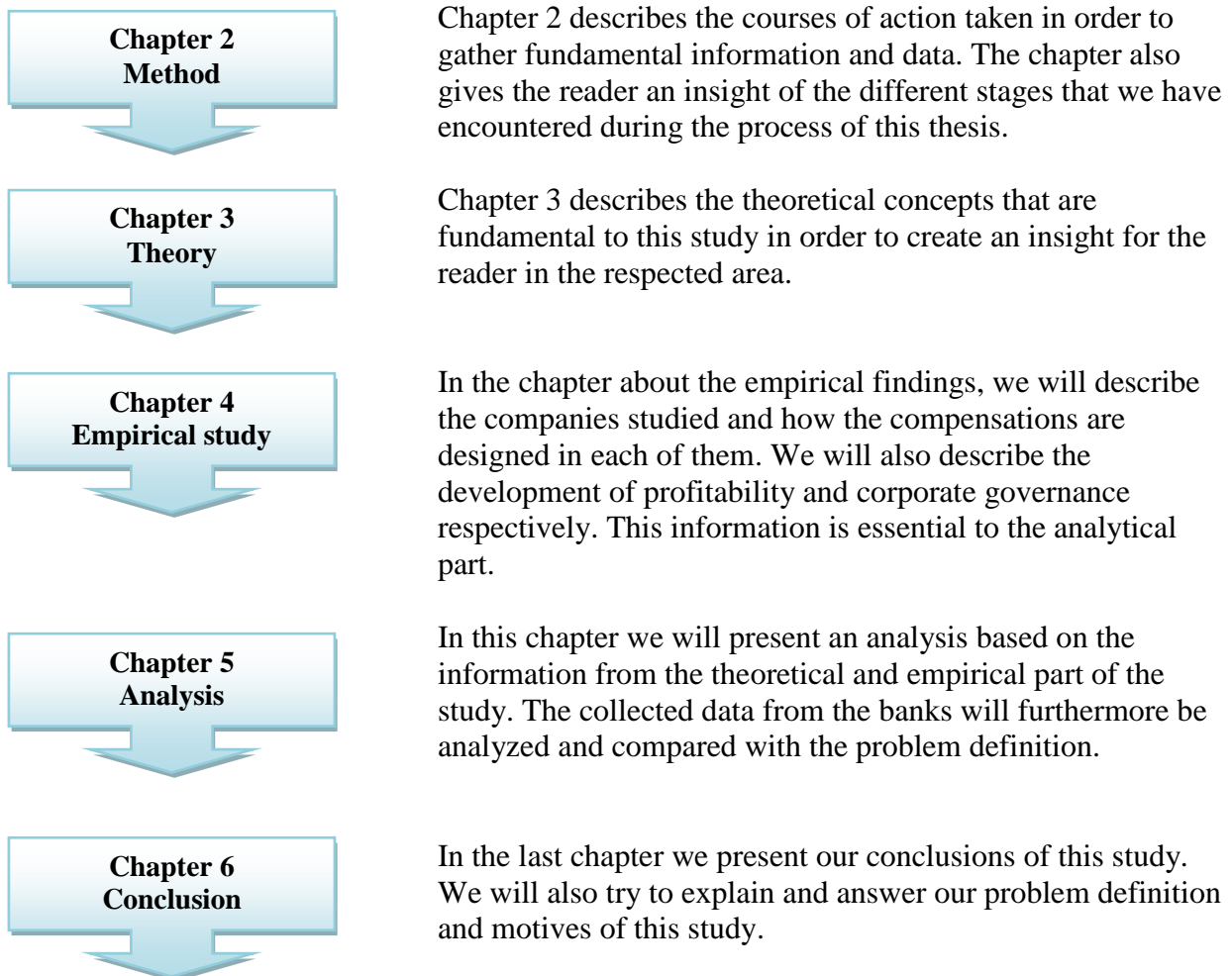
We have limited the study to only concern the years between 1998 and 2008. The reason for this choice is due to the fact that the period studied involves recessions as well as upswings. Furthermore, access to electronically published annual reports is considered as good for these years.

Furthermore, it is important to highlight that the financial information concerning both compensations as well as financial performances is mostly taken from the companies' annual reports, and not from independent databases. Therefore, biases such as “*Income Smoothings*” and “*Big Bath accountings*”, may occur. However, the annual reports have been examined and accepted by accredited accountants. Therefore, we have made the assumption that the presented figures are accurate and true.

Finally, we would like to inform the reader that some sessions of this thesis have been translated from Swedish to English by authors of this thesis. Therefore, faultiness in some translations may occur.

### **1.7 Disposition**

The thesis has the following disposition:



## **2. Method**

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*This chapter describes the courses of action taken in order to gather fundamental information and data. It also consists of information concerning the choice of sources, companies studied and methods for conducting a conclusion. Last, the reliability and validity of the study is discussed.*

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### **2.1 Choice of Topic**

During 2008 and the first part of 2009, the debate concerning compensations and incentive programs in Swedish companies have been a major topic in media. The debate mainly consists of the question whether the compensations to CEO and executives are reasonable or not. The fact that CEOs and executives receive bonuses or compensations based on company performance despite low company performance has led to massive critique in media. By following and studying articles and debates in this area, a large interest grew which we wanted to develop further. Our first step was to study the topic closer in order to formulate a problem definition that summarizes the questions that we wanted to answer:

- Is there a correlation between paid compensations and company performances in the companies studied? Can any significant differences be seen between the companies?
- How are compensation packages to CEOs and Chairmen of the Board designed and applied in the companies studied?
- What motives do shareholders as well as managers have in terms of implementing incentive programs?

Initially we used news-websites, for example di.se (Dagens Industri) and cnn.com (CNN News), to search for general information about the topic in order to create an overview. This was necessary to know that the topic was appropriate in terms of what we wanted to achieve. We realized that the topic has been well discussed, not only in times of economic crisis, but also in times of prosperity. We saw this as a positive indicator to that the supply of material, data and information on the topic was extensive. We chose to narrow our study to examine how well incentive programs correlate with corporate performance in four Swedish banks, SEB, Handelsbanken, Swedbank and Nordea that have different policies concerning incentive programs. However, there are similarities as well that we wanted to further investigate.

### **2.2 Selection of Companies Studied**

We chose to study four companies, SEB, Handelsbanken, Swedbank and Nordea, that are all active in the bank sector and listed at the Swedish stock market. Each of them also has a significant share of the Swedish market and represents their own policy concerning incentive programs to CEO and executives. At first, we did not include Swedbank in our study, because we wanted to emphasize the qualitative working method and use relatively few research units. However, after discussion with our tutor, we agreed that it was appropriate to also include Swedbank since we would then cover the four largest banks in Sweden. Our interest in corporate incentive programs was established through the present debate concerning the topic. SEB is one company that has been widely discussed because of (as media describes it) the scandal of SEB's CEO Annika Falkengren and therefore became an appropriate target company for us. Our goal was to examine similar companies that have different incentive program policies and see if/how their performance was affected by their choice of policy. SEB has both fixed compensation and flexible long-term incentive program to CEO and

executives. Handelsbanken has in contrast to SEB no flexible compensations at all, but only fixed compensation and regular salary benefits. Nordea has had a shifting policy concerning incentive programs during the last 10 years, although today they have both fixed compensation and flexible long-term incentive programs. In comparison, Swedbank introduced their long-term incentive program in 2000, but as for today they do not use any long-term incentive programs. Thus, our choice to study these four companies was mainly because of their differentiated view of compensations and their significant importance to the Swedish bank sector. Another criterion of what companies to study was that they were listed at the Swedish stock market. This because of the importance to get hold of necessary information through well developed annual reports. Since the listed companies are obligated to follow certain regulations that are stricter than for unlisted companies, their annual reports often contain more relevant information.

### ***2.3 Data Collection and Sources of Data***

There are two different methods to use when collecting data, a qualitative and a quantitative method. Qualitative methods strive to gather much information about few research units. The result of a qualitative method is significantly more detailed than a quantitative method where you gather less information, but out of a larger number of research units. The quantitative research method provided us with a wide range of results while the qualitative results would be rather deep.<sup>21</sup>

Our choice to study the four Swedish banks means that we have chosen to study a relatively low number of research units. The motive to this choice was that we wanted to get hold of deep information about the companies in order to get a well-depicted picture of each bank. Therefore, our study is more qualitative in its form, although inputs of quantitative segment occur as well. Since the number of research units is low and we want to gather qualitative and deep information, we considered it necessary to study the companies during the last 10 years.

According to Holme & Solvang (1991), there are two different sources of data and information; secondary and primary sources. The secondary source provides us with data and information that is already published, for example newspaper articles, scientific researches and other studies. A primary source provides us with primary data through for example an interview. This data is often classified as more reliable, because secondary data can be biased and does not come directly from the concerned object.<sup>22</sup>

We chose to use majorly secondary data in terms of literature, articles, annual reports and website information. Our major source for the empirical part was annual reports from the companies' websites. For the theoretical part we used literature from the Economic library at Handelshögskolan and articles mediated through Gothenburg University's website to several international databases. We have also used similar previous theses as inspiration. Our intention was initially to gather primary data by interviewing executives at all the companies studied. However, soon we realized that executives at Swedish banks are not very interested in discussing compensations and especially not flexible compensations today. Since we understand that this is a sensitive subject to discuss in their positions, we changed direction and chose instead to base our study on secondary data only.

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<sup>21</sup> Holme & Solvang (1991), *Forskningsmetodik: Om kvalitativa och kvantitativa metoder.*, p.14, 91

<sup>22</sup> Holme & Solvang (1991), *Forskningsmetodik: Om kvalitativa och kvantitativa metoder.*, p.147

## **2.4 Annual Reports**

The annual reports of the selected companies have been of major importance in our research for data and information. We have studied each company from 1998 to 2008 and used the annual reports for these years as foundation. The annual reports were downloaded from the companies' websites respectively. The information have been gathered mainly from the "Report of the Directors" and the notes, but also other parts of the reports. The sections concerning compensation to CEO, executives and Chairman of the Board, are sections that have been studied closely in all companies' annual reports. Generally the annual reports have provided us with satisfying information and data. However, using Nordea's annual report has been slightly difficult, since they presented their compensations to CEO, executives and Chairman of the Board in different currencies during the period studied. This is due to the fact that the company experienced a major corporate change when MeritaNordbanken and Unidanmark merged in 1999. The base salaries also included different components during the period studied. For example, the presented numbers of base salary to CEO included benefits in some reports and not in others, which made the disbursement of compensations between different years difficult to compare.

## **2.5 Inductive and deductive methods**

Conducting conclusions of research results is often referred to two different methods, inductive and deductive methods.

The inductive method is based on that you make general conclusions from empirical facts and use the reality as foundation for the conclusions. By using empirical facts as foundation, the researcher can obtain knowledge to prove, reject or develop a theory. It is important to know that the research is based on empirical facts that do not always include complete information, which makes the conclusion slightly uncertain.<sup>23</sup>

The deductive method has its base in existing theories and uses these to describe the results. Thus, the empirical consequences derived from these theories are then compared with the actual conditions in reality.<sup>24</sup>

In our study, we have chosen to use both the inductive and the deductive method, although the emphasis has been on the inductive method. We have majorly used the empirical facts and information presented in the companies' annual reports as base when conducting our conclusion. By making an empirical study we intended to see how compensations are used in companies and critically examine and develop available theories.

## **2.6 Reliability & Validity**

In the research process it is important to have in mind that the sources provide you with information that has high reliability and validity.

High reliability means that the measures are made correctly. If the same examination is made several times and the results are very close each other every time, the reliability of the examination is high.

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<sup>23</sup> Patel, Runa; Davidson, Bo, (1993) Forskningsmetodikens grunder, p.23

<sup>24</sup> Denscombe, Martyn, (2000) Forskningshandboken, p.22

Validity refers to how well the chosen objects that are examined correspond to what you intend to examine. Validity can also be divided into external and internal validity. The external validity refers to if the instruments used for the examination are appropriate for the examined object. The internal validity refers to how well an examination describes what it is intended to describe.<sup>25</sup>

We consider the reliability high in this thesis because the companies are required to present both the fixed and the flexible compensations to CEO and Chairman of the Board in their annual reports. The gathering and calculations of data have also been done accurately, which contributes to a high reliability. The fact that the content of the annual reports is strictly regulated also means that the external validity is high, because there is a very high probability that the instruments used for the examination are valid. However, there can emerge doubts about the internal validity, since the companies, despite the regulations, still are able to direct their presentation of numbers in more favorable ways.

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<sup>25</sup> Eriksson, Lars T. & Wiedersheim-Paul, Finn, (2006) Att utreda forska och rapportera, p.60



### **3. Theory**

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*Based upon our problem discussion, the theories that we find most essential in order to move on with our problem are presented in this chapter. The chapter will start by giving a general explanation of the purpose of compensations followed by a detailed description of different forms and models of compensations. The Principal – Agent theory and the Shareholder-/Stakeholder perspective are then presented in order to further clarify the relation between all concerned stakeholders of companies. To get an insight in how banks deal with these issues, the chapter is closed by giving a presentation of corporate governance and its complexity regarding the design of compensations in banks.*

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#### **3.1 Purpose of Compensations**

The purpose of compensations is primarily to attract and keep skilled labor. It also encourages employees to act in accordance with all stakeholders' desire, and thus, reduce possible conflicts of interests within organizations. Compensations should be designed in a way that affects employees positively, and according to Kaplan and Atkinson (1989) shall three criteria be fulfilled in order to achieve these positive effects:

- Compensations should be competitive in terms of size in order to attract and keep the best employees.
- Incentive programs shall communicate and strengthen the main objectives of the company by attaching flexible compensation to performance.
- Flexible compensations shall encourage a performance oriented corporate climate by observing and rewarding good performances<sup>26</sup>

However, the possibility of influencing the size of compensation through the work contribution is according to Merchant and Van der Stede (2007) a fundamental prerequisite in order to have an effective incentive program in terms of motivation, which according to the researchers is the central purpose of incentive programs.<sup>27</sup> Furthermore, preferences of individuals regarding risk taking have to be considered. Managers with flexible compensations put a risk in not get any or at least reduced compensation compared to fixed compensations, and consequently tend risk willing people to prefer flexible compensation.<sup>28</sup>

Moreover, compensations shall be restricted by lower and upper boundaries in order to avoid that compensations are paid for mediocre performances as well as to prevent that huge sums are paid, and thus, increase the gap of compensations between managers and other employees. In the event of no upper limits, managers may also try to increase their compensation in the short run at the expense of the long-run health of the company.<sup>29</sup>

#### **3.2 Forms of Compensations and Incentive programs**

There are three different types of compensations that can be paid to an individual: non-monetary, monetary and equity rights. Non-monetary compensations are for example: benefits, increased responsibility, new assignments and educations that improve one's competences. Monetary compensations are for example: salaries, tantiems, bonuses, pensions and profit sharing foundations. Equity rights are for example: shares, convertible securities

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<sup>26</sup> Kaplan, Robert S. & Atkinson Anthony A. (1989) Advanced Management Accounting, p.719

<sup>27</sup> Merchant, Kenneth A. & Van der Stede, Wim A., (2007) Management Control Systems, p.394

<sup>28</sup> Wilson, Thomas B (2003) Innovative reward systems for the changing workplace, p.12

<sup>29</sup> Merchant, Kenneth A. & Van der Stede, Wim A., (2007) Management Control Systems, p.402

and options.<sup>30</sup> We will solely focus on monetary compensations as well as on equity rights in this study.

### ***3.2.1 Monetary Compensations***

Monetary compensations to CEOs and executives in large companies often consist of a fixed part and a flexible part that is depending on the performance of the company. The flexible part can also be divided into a short term and a long term part. Incentive programs are examples of long term flexible compensations that provide CEOs and executives with payment based on performance for a designated time period. They should not be seen as a pay rise, but rather as a part of the total yearly compensation.<sup>31</sup> The most common monetary compensations are further described below:

#### ***Tantiems and Bonuses***

Tantiems are flexible compensations that are tied to outcomes relative financial goals, which are set in advance out of various parameters. Tantiems do not often occur among employees, but more often among the Board of Directors.<sup>32</sup>

Bonuses are often used as motivational incentives when companies have short term goals and need to enhance i.e. incomes in the short perspective. Goals that are related to bonuses do not necessarily have to be set in monetary terms, but can for example be in fields of customer satisfaction and increased goodwill. The Board of Directors normally set these goals and determines what variables to be measured.<sup>33</sup> Bonuses do not have to be paid if the goals are not achieved, and furthermore, bonuses are an income that is hardly ever entitled to pensions.<sup>34</sup>

#### ***Profit Sharing Foundations***

Profit sharing foundation is a simple system to award employees' for jointly performed work. Such foundations are common in companies with large number of employees at several levels. The purpose of profit sharing foundations is to motivate the employees by offering shares of the profit. The system is based on that the company should allocate capital from their profit to a foundation that manages the employees' profit shares. The aim is to manage the capital with emphasis on long-term value enhancement. Every employee has the right to his or her certain share of the value depending on, for example, number of years worked within the company. The disbursement of the profit shares varies between companies, but the employees can usually choose between withdrawing everything at once or split up the disbursements during an interval of time. A successful example of a company that uses a profit sharing foundation is Handelsbanken. They have a foundation called Oktogonen, which was implemented in 1973. The yearly allocation to Oktogonen is based on the company's result in comparison to other Swedish banks. If Handelsbanken's result is higher than the competitors within the Swedish bank sector, one third of that surplus is directly allocated to Oktogonen. The underlying argument behind this system is that the performed results that exceed the competitors' are due to the employees' hard work.<sup>35</sup>

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30 Arvidsson, Per, (2004). Styrning med belöningsystem. I Samuelsson, Lars A (red.), Controllerhandboken, p.153

31 Wilson, Thomas B (2003) Innovative reward systems for the changing workplace, p.12

32 Arvidsson, Per, (2004). Styrning med belöningsystem. I Samuelsson, Lars A (red.), Controllerhandboken, p.155

33 Smitt R., (2002) Belöningsystem - nyckel till framgång, p.73, 234

34 Duggan B. Rawlings M. Snow T. (2007) What's in it for me, Supply Management, p. 7

35 Arvidsson, Per, (2004). Styrning med belöningsystem. I Samuelsson, Lars A (red.), Controllerhandboken, p.157

### ***3.2.2 Equity based Compensations***

Research has shown that monetary based compensations not necessarily have enhanced shareholder value, and rather resulted in short term thinking among managers. Therefore, many companies have implemented stock related incentive programs or options because they have high correlation between performance measure and shareholder value. An option means that the employee is offered to buy a certain amount of shares of the company at a certain time. At maturity, the employee can choose to exercise the option or not. Examples of incentive programs based on stocks are convertible securities, warrants, call options and synthetic options.<sup>36</sup>

#### ***Convertible Securities***

Convertible securities, also called convertibles, mean that companies borrow money from their employees, who receive a security in exchange. The holder of the security then has the right to convert this security into shares of the company at expiration date. Thus, the security is converted into equity and the security holder becomes a shareholder. If the security holder instead chooses not to exercise his or her convertible, he or she will retrieve the money from the company. By implementing convertibles as incentive program the employees will have the opportunity to buy shares at a price lower than the market price, without risking losing the money up to that date. Companies also benefit from using this type of program since they get hold of liquid assets. However, it is important to know that the employees risk losing money if the company goes bankrupt.<sup>37</sup>

#### ***Warrants***

Warrants are the most common used option programs in Swedish companies. They are similar to convertibles in terms of that the company borrows money from their employees, who receive a security in exchange. However, warrants are in contrast to convertibles tied to a right of option for a future new share issue in the company. Thus, a warrant gives its holder the right to subscribe for an issue of new shares at an advanced set price. If the holder of the warrant chooses to exercise the option, newly issued shares will be subscribed, which means that existing shareholders' share of the stock capital will be diluted.<sup>38</sup>

#### ***Call Options***

Call options are another common type of incentive programs that became popular in the late 1980s and they are usually aimed for top managers within the company. The holder of a call option has the right to buy existing shares of the company to an in advanced set price in the future. The holder of the call option is not obligated to exercise the option and will only do so if the value of the share is higher than the in advanced set price. The holder of the call option will not notice any difference compared to if they would had used a warrant, and since a call option concerns acquisitions of existing shares, dilution of the stock capital will be avoided.<sup>39</sup>

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<sup>36</sup> Arvidsson, Per, (2004). Styrning med belöningsystem. I Samuelsson, Lars A (red.), Controllerhandboken, p.158

<sup>37</sup> Arvidsson, Per, (2004). Styrning med belöningsystem. I Samuelsson, Lars A (red.), Controllerhandboken, p.158

<sup>38</sup> Arvidsson, Per, (2004). Styrning med belöningsystem. I Samuelsson, Lars A (red.), Controllerhandboken, p.160

<sup>39</sup> Arvidsson, Per, (2004). Styrning med belöningsystem. I Samuelsson, Lars A (red.), Controllerhandboken, p.160

### *Synthetic Options*

Synthetic options is a relatively new phenomenon in Sweden but are suitable in companies where the owners do not want to risk losing control over the shares of the company. A synthetic option is based on a specific – synthetic – value and does not correspond to any existing financial instrument. The difference between synthetic options and call options is that the employee receives cash payments at the expiration date of the option, instead of a share. The amount received corresponds to the difference between the market share value at expiration date and the share value that was decided at the date of issuance.<sup>40</sup> According to Smitt (2002) are all kinds of options to be considered as deferred bonuses related to development of the share price.<sup>41</sup>

### *3.3 Compensation models*

Swedish CEOs argue that their compensations are relatively low compared to international compensations. Several studies have been conducted in order to further investigate these assertions, and the common question that has been raised is whether CEOs are overpaid or not? According to Bo Persson (1995) can the level of compensations to CEOs be explained by two theories: *The Market salary model* and *the Equality salary model*.

The Market salary model justifies the discussion of high fixed salaries and soaring compensations, where high salaries are motivated by saying that compensations are adapted to existing market levels. The Efficiency salary model form an integral part of the Market salary model, which means that a wage earner that receives a compensation above market level will work more effectively and give reasons for the additional cost.

In the case of CEO compensations, the CEO shall get a higher compensation compared to other comparable CEOs within the same sector in order to make the CEO work harder and create more value to its shareholders. By putting this theory in to practice, then CEO compensations will grow larger and larger<sup>42</sup>. Hence, shareholders are not advocates of the Market salary model because of the fact that compensations are not tied to their required return on equity.

The Equality model can be said to be the Swedish model in setting compensations. The model evaluates existing compensation levels in order to balance compensations within nations and companies. That is to say, the differences between managers and employees shall not be too large. However, advocates of this theory do not call for an international leveling of compensations.<sup>43</sup>

Large CEO compensations have also been explained by several neoclassical researchers that have concluded that the size of the compensation depends on primarily three things:

- The size of the company
- Performance of the company
- The variable of human capital

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<sup>40</sup> Arvidsson, Per, (2004). Styrning med belöningsystem. I Samuelsson, Lars A (red.), Controllerhandboken, p.161

<sup>41</sup> Smitt R., (2002) Belöningsystem - nyckel till framgång, p.73, 234

<sup>42</sup> Persson, Bo. (1995). *Vad är det för fel på direktörernas löner*. Stockholm: SNS Förlag – (p.46)

<sup>43</sup> Persson, Bo. (1995). *Vad är det för fel på direktörernas löner*. Stockholm: SNS Förlag – (p.22-30)

According to the neoclassical theory, companies attempt to maintain proper differences between managers and other employees. This in its turn means that larger companies with more manager levels have larger gaps between high-income and low-income earners than smaller companies do. A CEO of a larger company also faces more complex assignments and responsibility and shall be paid accordingly. Compensations have to be competitive in order to attract and employ a competent CEO, and therefore are compensations addressed to CEOs escalating<sup>44</sup>. However, conflicting conclusions of the relationship between size of compensations and size of companies have been presented by several researchers<sup>45</sup>.

The second determining component to the magnitude of CEO compensations is the performance of the company. According to the Neoclassical Theory is the task of a CEO primarily to maximize the economical value of a company. CEOs that succeed with this certain assignment should be rewarded accordingly and obviously receive a larger compensation than an underachieving CEO. By implementing a flexible part of the compensation (i.e. options and bonuses), a higher motivation is also expected. However, several researchers have argued that the relationship between compensations and performance has been weak within the bank sector in particular<sup>46</sup>.

The third determining component is the variable of human capital, which can be composed of the age of the CEO, educational background and prior work experiences, and time of employment within the same company etc. These components are assumed to be influencing the compensations since they may be skills that can be used in the running of a company.<sup>47</sup>

### **3.4 Principal – Agent Theory**

Already in 1776 Adam Smith discussed the idea of conflicts of interests within companies in his book *Wealth of Nations*. Smith said that managers think and act differently when they handle the company's money than if the money was their own. According to Smith, a control system is necessary in order to make managers act in the interest of shareholders.<sup>48</sup> In 1976, Jensen & Meckling developed this theory further to the Agency Theory.

A large business can be very difficult to manage without separating the ownership and management because they often have thousands of shareholders and it is impossible for all of them to be actively involved in the management. The authority is therefore often delegated to professional managers, hired by the firm. The Principal – Agent Theory is based on the relationship between shareholder and management, in which the shareholder employs the managers to perform a task.

*“We define an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf*

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<sup>44</sup> Gomez-Mejia, Henry & Hinkin, (1987) *Managerial Control, Performance, and Executive Compensation*, p. 51-70

<sup>45</sup> Stanwick and Stanwick, *CEO compensation: Does it pay to be green?*, 2001

<sup>46</sup> Tripp, James D., & Kenny, Peppi M., (1995) *CEO Pay and Corporate performance in the Commercial Banking Industry*

<sup>47</sup> Stanwick, Peter A., & Stanwick Sarah D., (2001) *CEO Compensation: Does it pay to be green?*, p. 176-182.

<sup>48</sup> Smith, Adam, (1776) *The Wealth of Nations*

*which involves delegating some decision making authority to the agent.*"<sup>49</sup>

The separation of ownership and management creates a clear advantage because the share ownership is allowed to change without interfering with the operations of the business<sup>50</sup>.

However, it can also result in problems. According to Jensen and Meckling (1976), members of the management team are the agents and equity investors (shareholders) are the principals, who may have different motives to run the company. It is assumed that if the agents and principals are left alone, there is a good probability that each of them will prefer to act in his or her self-interest. In a corporate environment, shareholders want managers to increase the value of the firm, but managers may strive to maximize their own value at the shareholders' expense<sup>51</sup>. They can also have different attitudes towards risk, which means that they may prefer different actions because of different preferences of risk. Conflicts between shareholders' and managers' objectives are referred as principal – agent problems.<sup>52</sup> In order to reduce divergences of interests, shareholders can establish appropriate incentives for the managers and then monitor their behavior. A well-established incentive program can motivate managers to satisfy the shareholders' interest. The disadvantage of this is that creating incentives and monitoring managers is very complicated and costly. These costs are often referred as agency costs and consist of the sum of the monitoring costs of the shareholders and the costs of implementing control devices. In a corporate environment, managers and shareholders also have different information available. This means that there are information asymmetries that need to be recognized in order to resolve a principal – agent problem. However, principal – agent problems can never be solved perfectly, which means that shareholders will always experience some losses. These losses are called residual losses.<sup>53</sup>

### ***3.5 Shareholder- and Stakeholder perspective***

A common discussed question in today's corporate world is the purpose of businesses. The answer to this question is not obvious and depends on the perspective you look from. During the last few decades the "*shareholder perspective*" has had a dominant role. This perspective says that a business' main purpose is to manage the capital raised by the shareholders and enhance value of the business. This can be reached by managing the company to generate profits, which can be distributed to the shareholders through dividends or reinvested in the business. This in its turn raises the expectations of future profits and consequently enhances the shareholder value. The emphasis on shareholder value is the primary goal mainly because most large companies today are managed by hired professional managers, while the shareholders often have more reserved positions, if any at all. The importance is then to make sure that the managers act in the shareholder's interest.<sup>54</sup>

Using stock options as an example of long-term incentive program, the shareholders generally encourage the company to use this form of motivation instrument because the manager only

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<sup>49</sup> Jensen, Michael C. & Meckling, (1976) William H., Theory of the firm: Managerial Behaviour, agency costs and ownership structure, p.308

<sup>50</sup> Brealey, R., Myers, S. (2003). *Principles of Corporate Finance*. p.

<sup>51</sup> Jensen, Michael C. & Meckling, (1976) William H., Theory of the firm: Managerial Behaviour, agency costs and ownership structure, p.308

<sup>52</sup> Brealey Brealey, Richard A., Myers, Steward C. & Allen, Frank. (2007) *Principles of Corporate Finance*. p.

<sup>53</sup> Ross, Stephen A, Westerfield, Randolph W & Jaffe, Jeffrey (2002). *Corporate finance*. New York: McGraw-Hill/Irwin. pp.14-16

<sup>54</sup> de Geer, Hans (2004). *Företagsetik*. I Samuelsson, Lars A (red.), *Controllerhandboken*, pp.188-191

benefit when the shareholder benefit. The fact that managers become owners of a certain number of shares if he/she exercises the option, encourages managers to take appropriate risks that are best suited for the company in the long-term. Options do not affect the company result negatively since they do not cost the company anything, which is also a motive for the shareholders to support stock options.<sup>55</sup>

On the other hand, stock options can have negative effects for shareholders since they dilute earnings per share. According to Aboody and Kasznik, another common negative phenomenon from a shareholder perspective is when senior executives release bad news before grants to lower the stock price and then release good news afterwards in order to increase the stock price.<sup>56</sup>

Businesses can also be viewed from the perspective of the individuals that work within the organization. The business has another value in their eyes since its existence is a necessity to earn money and socialize. They will probably not see enhanced shareholder value as their main objective, but rather the ambition to perform well and produce a good product to the customers. Thus, there is a divergence between what the theory says and what occurs in reality, which means that there are several interpretations of the company in context.<sup>57</sup>

The criticism against the shareholder perspective primarily concerns the firm's external relations and proposes instead focus on a "*stakeholder perspective*". This perspective focuses on who is bearing the risk. There is no obvious answer to this question but it is generally assumed that shareholders bear the largest risk since they invest their own capital. However, the shareholders can at any time sell their shares and immediately invest them in something else. Hired employees are on the other hand more dependent on the business since it provides them with means of living. This does not imply that employees bear the largest risk, but rather that there are several privies that are highly dependent of the business and they can vary from business to business.<sup>58</sup> de Geer (2004) illustrates the business - stakeholder relationship through the "*stakeholder model*":

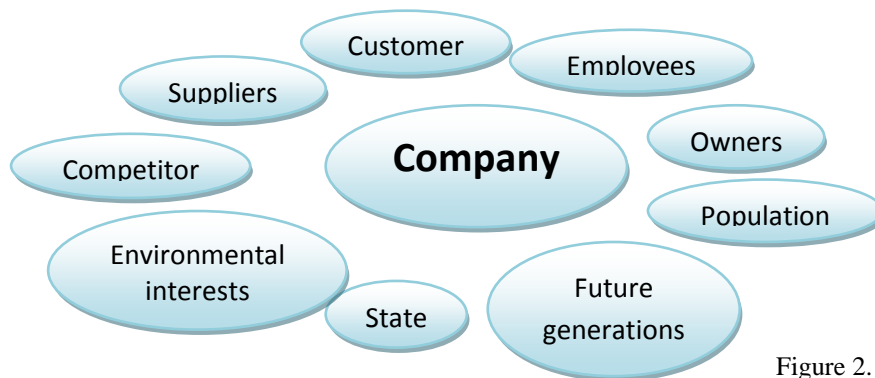


Figure 2.1<sup>59</sup>

<sup>55</sup> Grossman, W., & Hoskisson, R. E. (1998) CEO pay at the crossroads of Wall Street and Main: Toward the strategic design of executive compensation.

<sup>56</sup> Aboody, D., & Kasznik, R. (2000) CEO stock option awards and the timing of corporate voluntary disclosures. pp.73-100

<sup>57</sup> de Geer, Hans (2004). Företagsetik. I Samuelsson, Lars A (red.), Controllerhandboken, pp.188-191

<sup>58</sup> de Geer, Hans (2004). Företagsetik. I Samuelsson, Lars A (red.), Controllerhandboken, pp.188-191

<sup>59</sup> de Geer, Hans (2004). Företagsetik. I Samuelsson, Lars A (red.), Controllerhandboken, p.190

### 3.6 Swedish corporate governance

The theory of possible conflicts of interests between agents and principals is the underlying reason behind the concept of corporate governance. However, there appears no universally accepted definition of corporate governance, but a commonly used definition is:

*“Corporate governance is the framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in the firm's relationship with its stakeholders (financiers, customers, management, employees, government, and the community)”*<sup>60</sup>.

According to Skog (2005), corporate governance is about ensuring that a framework of rules and practices is implemented and designed in a way that eliminates conflicts of interests between agents and principals. Thus, it is about ensuring that the managers work in line of the shareholders' interests. The Swedish model of corporate governance is defined by laws, self-regulations and practices. The laws are the Companies Act, the Accounting Act and the Annual Accounts Act.<sup>61</sup>

Several self-regulating policies in addition to the laws can also be found. The Swedish Code of Corporate Governance (The Code) is one of them, and its purpose is to improve the corporate governance and increase the shareholders' information, both when it comes to quality and quantity.<sup>62</sup> Another aim with the code is to secure companies' governance and make sure profits are in line with investors' expectation of return on investment. Companies will be contributing to the society's economy effectiveness and growth if they pursue the Swedish code properly.<sup>63</sup>

According to the code shall the board of directors have a formal and clearly stated process for deciding on compensations to executive managers. The board shall also establish a remuneration committee with the task of preparing proposals on compensations and other terms of employment for the executive management. The chair of the board may also chair the remuneration committee. The other members of the committee are to be independent of the company and its executive management. If the board of directors feels it is more appropriate, the entire board may perform the remuneration committee's tasks, on condition that no director who is also a member of the executive management participates in this work.

The AGM decides on all share- and share-price-related incentive schemes that are addressed to executive managers, and members of the board shall not participate in share and share-price related incentive schemes designed for executive management or other employees of the company. If such a scheme is designed solely for the board, it must be approved by the AGM. The chairman of the board has to explain the proposals accurately for such schemes and even report the estimated cost to the company and the possible dilution factor for the shareholders. Thus, the material is to be clear and simple enough to allow shareholders to form an opinion on the reasons for the scheme and take a decision which includes all the principle terms of the scheme. The remuneration of the Board shall be determined at the AGM.

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<sup>60</sup> Business Dictionary, (2009) Search: “corporate governance”

<sup>61</sup> Skog, R. (2005). En svensk kod för bolagsstyrning – vad är det för något och vad innebär den?, p. 12

<sup>62</sup> Kollegiet för Svensk Bolagsstyrning, (2004) Koden, Ersättningar till ledande befattningshavare

<sup>63</sup> Thorell, P. & Molin, H., (2006) Bolagsstyrningskoden, Skriftserie bolagsstyrning, Ernst & Young.



### **3.7 Corporate governance of banks**

The functioning of banks has great ramifications for the operations of firms and the prosperity of nations since they provide financing for enterprises and basic financial services to the population. Moreover, if bank managers practice proper governance, then the more likely is it that they will allocate capital efficiently and exert effective corporate governance over the firms they fund. On the contrary, bank managers who act in their own interests rather than in the interests of shareholders and debt holders, then banks will be equally less likely to allocate society's savings efficiently and exert proper governance over firms.<sup>64</sup>

However, banks have two characteristics that bring more complexity into the concept of corporate governance:

Firstly, information asymmetries exist in all sectors, but banks are generally more opaque than nonfinancial firms. Therefore, the monitoring of bank managers for equity and debt holders is more difficult, due to the greater informational asymmetries between the insiders and outsiders of the bank. In terms of incentive programs, a greater information asymmetry makes it more difficult to design incentive programs that align managers' interests with the interests of bank equity and debt holders'. This could easily be illustrated by an example in which bankers are interested in boosting their own compensation in the short run. They could then give a high interest loan to a borrower in trouble and thereby boosting interest income of the bank. And since managers frequently control the boards of directors that write the incentive contracts, the compensation packages of opaque banks can often be designed to allow managers benefiting from the short run results at the expense of the long-run health of the bank.<sup>65</sup>

Secondly, banks are heavily regulated and governments often impose a highly structured collection of regulations on banks. At the extreme, governments own banks. An explosion of international standards has been set through the OECD, the IMF, and World Bank, which virtually assures government involvement in the banking industry. The Basel Committee published in July 2005 complementary guidelines, in response to requests of a development of the OECD principles which were published in 2004. Guidelines were for example given regarding the design of compensation packages and processes for determination upon compensations.<sup>66</sup>

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<sup>64</sup> Levine, Ross, (2003) *The Corporate Governance of Banks: A Concise Discussion of Concepts and Evidence*.

<sup>65</sup> Furfine, C.H. (2001) *Banks as monitors of other banks: Evidence from the Overnight Federal Funds*, pp.33-57

<sup>66</sup> Furfine, C.H. (2001) *Banks as monitors of other banks: Evidence from the Overnight Federal Funds*, pp.33-57

## **4. Empirical findings**

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*This chapter is about the empirical collection of data from the banks studied. We will give a short presentation of the banks, followed by a detailed description of each bank's process when determining upon levels of compensation respectively. We will also describe the development of profitability. The information given in this chapter is essential for the analytical part.*

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### **4.1 SEB**

SEB was founded in 1856 and is one of Northern Europe's leading financial Groups. They have over 21,000 employees in 21 countries and 660 branch offices, of which 26 percent are located in Sweden, another 26 per cent in Germany and the rest in the most important financial centres of the world.<sup>67</sup>

SEB's business idea is to provide financial services and to manage financial risks and transactions for companies and private individuals in such a way that their customers are satisfied and their shareholders receive a competitive yield. Their vision is to be ranked as number one among their customers within their chosen markets in Northern Europe and to be leading in terms of profitability.<sup>68</sup>

#### **4.1.1 Determination of Compensations**

SEB adheres to the Swedish Code of Corporate Governance. SEB had a Compensation Committee within the Board which was expanded into a Compensation and Human Resources Committee in 2005. The Committee prepares, for approval by the Annual General Meeting (AGM) and the Board, respectively, a proposal for compensation principles applicable to certain senior officers as well as a proposal for compensation to the CEO. Furthermore, the Committee prepares conditions regarding incentive programmes and pension plans, monitors the pension commitments of the executive management as well as monitors, together with the Risk and Capital Committee of the Board, all measures taken to secure the pension commitments of the executive management including the development of the Bank's pension foundations. The compensation of the CEO is always benchmarked against the Swedish and international market.<sup>69</sup>

In accordance with the Swedish corporate governance code, the Board members as well as the Chairman of the Board are appointed by the shareholders at the Annual General Meeting for a term of office that lasts until the next AGM. Their compensations are also set at the AGM. The Committee consists of three members, none of whom is in the employ of the Group. The Committee forms a quorum whenever minimum two members are present, including the Chairman of the Committee.<sup>70</sup>

Prior to 2004, a pure Compensation Committee within the board of directors existed, which presented proposals to the board itself. The Board then fixed the salary of the CEO as well as presented the principles regarding the compensation to certain senior managers. The Board was elected at the AGM and their remuneration level was also set at the AGM. However, the Compensation Committee met once a year and no approval from the AGM was needed in order to implement the suggested compensation levels to the CEO.<sup>71</sup>

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<sup>67</sup> SEB, Om SEB, Snabba Fakta

<sup>68</sup> SEB Annual Report 1998-2008

<sup>69</sup> SEB Annual Report 1998-2008

<sup>70</sup> SEB Annual Report 2008

<sup>71</sup> SEB Annual Report 1998-2004

#### **4.1.2 Financial goals**

SEB's financial goals consist of goals regarding return on equity, net profit growth, core capital ratio, Cost/Income ratio and dividend to shareholders. During the period of this study, 1998-2008, the levels of financial goals in SEB have been changed and new goals have been implemented. In 1998, SEB's major financial goal was to achieve a long-term return on equity of 15 % after tax and the emphasis on profitability was higher than volume.<sup>72</sup> The target level of the core capital ratio was below 7 %.

SEB's dividend policy for 1998 said that the dividends should correspond to between 30 and 50 % of earnings per share<sup>73</sup>. This level was more specified to 40 percent of earnings per share in 2001.<sup>74</sup> During the autumn of 2001, SEB launched a cost-reduction programme and in 2002 they implemented a new long-term financial goal of Cost/Income ratio to be improved to 0,6. Before 2002 this ratio was yearly calculated but no clearly defined target level was set.<sup>75</sup>

These goals were used continuously until 2006, when two major changes were made regarding the financial goals. The return on equity should from 2006 be above peer average and simultaneously deliver a sustainable profitable growth instead of corresponding to a specified number that was previously used. As from 2006 the target level of the Cost/Income ratio was set to be below 0,6 in 2008.<sup>76</sup> SEB's target level of core capital ratio has not been changed until 2008, when a new long-term target level of 10% was set since the Basel II framework was fully implemented and no transitional floors occurred. Some changes regarding how the capital base is calculated was introduced through the implementation of Basel II in Sweden in 2007. However, this had only minor impact on SEB.<sup>77</sup> The dividend policy has been stable since 2001, when the target was specified to 40 percent. However, due to the prevailing economic crisis, no dividend for 2008 was proposed.

#### **4.1.3 Structure of Compensation**

SEB's compensation packages may include five components: base salary, benefits, short-term compensation, long-term incentive compensation to key employees and pension.

The remuneration to the Chairman of the board during the studied period has been uncomplicated and consists of only a directors fee. The size of remunerations was relatively steady during 1998-2004 with only a small raise in 2002. However, during the period 2004-2008 the increase has been significant. Chairman of the board during the studied period have been Jacob Wallenberg (1998-2005) and Marcus Wallenberg (2005-).<sup>78</sup>

The base salary differs from each employee and is based on experience, competence, job complexity, work performance and individual responsibility<sup>79</sup>. The base salary to CEO, Lars H. Thunell (1998-2005) and Annika Falkengren (2005-), has had a steadily increasing pattern during the studied period. However, the increase is significantly steeper after the shift of CEO in 2005. By studying SEB's annual reports we saw that the base salary and the value of

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<sup>72</sup> SEB Annual Report 1998, p.24

<sup>73</sup> SEB Annual Report 1998, p.10

<sup>74</sup> SEB Annual Report 2001, p.10

<sup>75</sup> SEB Annual Report 2002, p.8

<sup>76</sup> SEB Annual Report 2005, p.5

<sup>77</sup> SEB Annual Report 2007, p.4, 5

<sup>78</sup> SEB Annual Report 1998-2008

<sup>79</sup> SEB Annual Report 2008

benefits to CEO were not divided in the 1998-2001 annual reports.<sup>80</sup> In order to compare the compensations over time, we chose to look at the merged numbers. It is often difficult to separate the benefits from the base salary, since they are included in the base salary in some annual reports and not in other. Therefore, we chose to include the benefits in the base salaries in all our calculations.

The majority of SEB’s employees have the opportunity to obtain a short-term compensation, which is based upon achievement of certain in advanced determined goals. The goals can be individual or general, qualitative or quantitative and usually set for one year at a time and are maximized to a certain percentage of the base salary.

SEB introduced their first long-term incentive program for CEO and the other members of the Group Executive Committee in 1999, and additional programs have been introduced yearly during 2000-2008. Between 1999 and 2004, the long-term incentive programs were based on employee stock option programs. These programs have a maximum term of seven years, a vesting period of three years and an exercise period of four years, and contain the right to buy SEB Class A-shares at expiration date. The long-term incentive programs launched during 2005-2008 have a different structure and are based on performance shares. They are comparable to the programs launched in 1999-2004 in terms of that they have the same maximum term, vesting and exercise periods. However, the performance shares that can be exercised are depending on the real increase in earnings per share and the total shareholder return compared to SEB’s competitors. It is important to know that a performance share is not a security and cannot be sold, pledged or transferred. In 2008, additionally two long-term incentive programs were launched, one share savings program for all employees and a share matching program specified for a few highly performed employees.<sup>81</sup>

By comparing the pension agreements of the two CEOs of SEB during the studied period, we can see that Annika Falkengren’s (2005-) pension is payable from the age of 60. The size of pension is based on 65 % of the pensionable income, which consists of base salary and 50% of the average variable salary during the last three years.<sup>82</sup> Instead looking at Lars H. Thunell’s (1998-2005) pension agreement, we can see that his pension is payable from the age of 58. The size of pension is based on 65% of the pensionable income until the age of 65. After the age of 65 the size of pension will be lowered to 55% of pensionable income.<sup>83</sup>

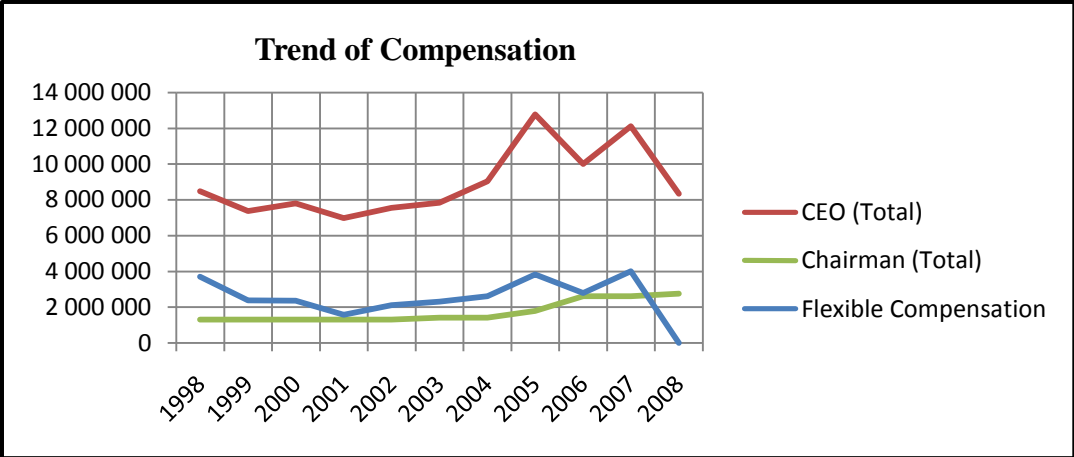


Figure 4.1

<sup>80</sup> SEB Annual Report 1998-2001  
<sup>81</sup> SEB Annual Report 1998-2008  
<sup>82</sup> SEB Annual Report 2007, p.78  
<sup>83</sup> SEB Annual Report 2002, p.61

#### 4.1.4 Profits and Profitability

SEB experienced their worst year in terms of net profits in 2001 over the studied period. The Chairman of the Board, Jakob Wallenberg, commented the situation in the annual report of 2001 by saying that the world economy was suffering from a general uncertainty after the terror attacks in New York, and the Swedish economy was particularly pressured due to its high exposure on the crisis sectors telecommunications and IT and its extensive export industry.<sup>84</sup> The following years turned out better and five out of six divisions of the concern presented their best results ever in 2004. Lars H. Thunell, the CEO of SEB (2004), explained the success by pointing out the new strategy as the major reason behind the improved results.<sup>85</sup> By focusing more strongly on the customers, improve the internal co-operation and reduce costs, they achieved higher profits.

SEB's paid dividends have corresponded to their policy during the studied period, although 2008 was one exemption. No dividends were paid to the shareholders of SEB in 2008, which was explained by Marcus Wallenberg (Chairman) in the annual report as a safety measure that primarily should be seen as a precautionary step, aiming to enhance a capital base in excess of regulatory requirements by a comfortable margin.<sup>86</sup>

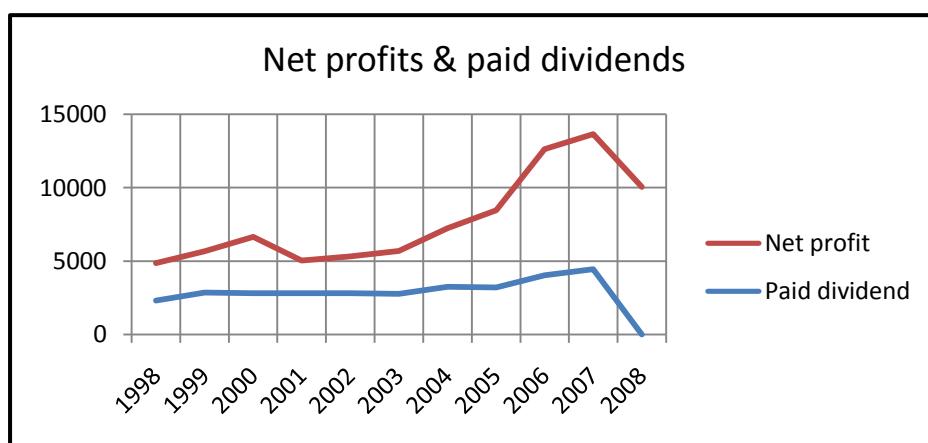


Figure 4.2

SEB's long term goal of having a return on equity of 15 percent has not been totally achieved. Their worst quoted return on equity was in 2001 (11,9 %), which was explained by the same statements as for the low net profit described above. However, their goal has most closely been achieved on average (14,97 %) over the studied period.

<sup>84</sup> SEB Annual Report 2001, p.2

<sup>85</sup> SEB Annual Report 2004, p.3

<sup>86</sup> SEB Annual Report 2008, p.2

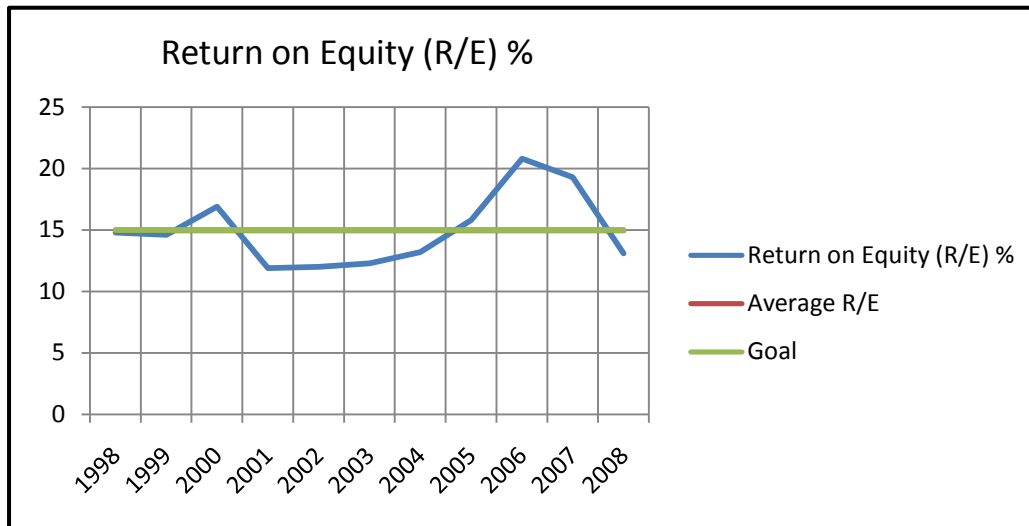


Figure 4.3

## 4.2 *Swedbank*

Swedbank was founded in 1820 and became Sweden's first savings bank. Over the years, there have been many mergers and acquisitions that have resulted in the bank's current structure and name. Swedbank has approximately 20,700 employees and 9, 4 million customers worldwide in all their businesses. Swedbank's business idea is to offer the best financial solutions and thereby help their customers to improve their quality of life. Their vision is to be the leading financial institution in the markets they are present. By leading they mean:<sup>87</sup>

- The highest customer satisfaction
- The best profitability
- The most attractive employer

### 4.2.1 *Determination of Compensations*

Swedbank applies the Swedish code of corporate governance and the Board shall each year, based on the Remuneration Committee's proposal, propose a compensation policy and guidelines to the annual general meeting for approval, which shall apply until the next AGM. Based on the principles set out in the compensation policy, the board shall annually decide on the compensation levels for each and every Swedbank top-executive. The CEO is responsible for ensuring that the decision-making bodies in each subsidiary establish rules in accordance with the guidelines. The guidelines cover the compensation agreements with Swedbank's CEO and Group Executive Management (The executives reporting to the CEO).

The Board may, under special circumstances, deviate from the policy in individual cases. However, all fixed compensation are paid out by the bank in accordance with pre-agreed terms, but payments of variable compensations shall be approved by the board with respect to each programme.<sup>88</sup>

Swedbank's principles for incentive programmes are primarily focusing on the company's long-term interests. The individual's interests shall always be subordinate to those of the

<sup>87</sup> Swedbank, Om Swedbank

<sup>88</sup> Swedbank Annual Report 1998-2008

company in the context of the incentive programmes approved from time to time. Their incentive programme policy assumes that there is an absolute level for the variable compensation that specified goals are objective and quantifiable, and that the results are based on actual performance.<sup>89</sup>

#### **4.2.2 Financial Goals**

Swedbank's financial goals consist of objectives concerning return on equity, core capital ratio, Cost/Income ratio, dividend to shareholders and earnings per share. During the period of this study, some of the target levels of the financial objectives have varied due to changes in regulation and market situations.<sup>90</sup>

Swedbank's objective regarding profitability between 1998 and 2008 has been to have a higher return on equity than comparable banks. Although, the definition of comparable banks has changed from involving only Swedish banks to involving all listed large banks in the Nordic countries. In 2003, it was decided that the return on equity should also be at least 20% higher than the long-term risk-free rate of interest plus a normal risk premium<sup>91</sup>. In order to create value for their shareholders, Swedbank has had a dividend policy to distribute minimum 30% of after-tax profit. This goal was enhanced to 40% in 2003.<sup>92</sup>

In 1998, the objective concerning the core capital ratio was settled between 6,5 and 8,5% with 7,5% as target<sup>93</sup>. In 1999 the upper limit was lowered to 7,5% and in 2003 the objective was more accurately defined to 7%<sup>94</sup>. In 2006, it was further lowered to 6,5% and in 2008 the new transitional rules in the capital adequacy regulation were implemented, which induced Swedbank to define a new long-term objective interval of 8,5-9%<sup>95</sup>.

The operational efficiency objective is measured by the Cost/Income ratio, which means the relation between the costs and income. Swedbank's long-term objective was before 2003 to have a C/I-ratio below 0,5 after loan losses. In 2003 this was revised to 0,5 before loan losses.<sup>96</sup>

Swedbank had no objective concerning earnings per share until 2006 when the board decided about an objective that the earnings per share should exceed their peers in the industry.<sup>97</sup>

#### **4.2.3 Structure of Compensation**

Swedbank's compensation packages for senior executives may include five components: base salary, benefits, short-term incentive compensation, long-term incentive compensation and pensions<sup>98</sup>.

The size of remuneration to the Chairman of the Board in Swedbank has increased annually since 1998. Important to notice is that the remuneration to Carl Eric Stålberg, who had the

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<sup>89</sup> Swedbank Annual Report 1998-2008

<sup>90</sup> Swedbank Annual Report 1998-2008

<sup>91</sup> Swedbank Annual Report 2003, p.13

<sup>92</sup> Swedbank Annual Report 2003, p.13

<sup>93</sup> Swedbank Annual Report 1998, p.10

<sup>94</sup> Swedbank Annual Report 1999, p.8, 2003, p.13

<sup>95</sup> Swedbank Annual Report 2006, p.9, 2008, p.10

<sup>96</sup> Swedbank Annual Report 2003, p.13

<sup>97</sup> Swedbank Annual Report 2006, p.10

<sup>98</sup> Swedbank Annual Report 2008, p.47

position of Chairman of the Board between 2003 and 2008, was significantly higher than the remuneration to Göran Collert, who had the position from 1998 to 2002.<sup>99</sup>

During the first three years of the period studied, Swedbank had three different CEOs, which makes the disbursement of base salary slightly complex. After investigation of the disbursement of base salary to CEO during 2001-2008, we can see that it has increased annually, except for one year in 2002. However, it is important to notice that the flexible compensation has varied significantly over the years. This is mostly due to the fact that Jan Lidén's contract (2004-2008) did not include any flexible compensation components.<sup>100</sup> Furthermore, Swedbank's total compensation cost for the CEO including annual costs for base salary, STI, LTI, benefits and pension, shall not exceed 400 income base amounts<sup>101</sup>.

Generally, short-term compensations to senior executives of Swedbank are based on the bank's general policy for incentive programs. Performance is measured by comparing it with relevant pre-decided goals that promote the interest of the shareholders and the bank. They are usually measured by performance during a financial year. The short-term incentive programs are also limited to a maximum percentage of the base salary, normally 25%. An example of short-term incentive compensation is *tantiem*, which was frequently used during Birgitta Johansson-Hedberg's years as CEO.

In 2000, Swedbank introduced a long-term incentive program which included an option program that gave the employees and the members of the board the opportunity to buy warrants in Swedbank. These warrants expired in September 2005 and 2'502'100 shares were exercised to subscribe for an equal number of shares.<sup>102</sup> The purpose of this option program was to increase the involvement of the employees in the appreciation in value. According to Swedbank, this will increase the employees' motivation and commitment, which will gain value to the bank and the shareholders<sup>103</sup>. During the following years between 2005 and 2008, Swedbank did not adopt any long-term incentive programs.

Swedbank introduced a profit-sharing system for the employees within the group in 1998. The system was based on the principle that if the return on equity exceeds the weighted average return for comparable banks, the bank allocates funds to a foundation. The foundation then manages the funds in the best interest of the employees in order to be dividend to the employees in the future. In 2002, a new restriction was implemented in the profit-sharing system. This restriction limited the allocation to the foundation, saying that in addition to the objective of return on equity above a weighted average of comparable banks, the bank also has to achieve a return on equity of 10%. In order to achieve full allocation to the foundation for the employees, the board decided in 2004 that the market share objective for new sales of saving products was lowered from 25 to 21%.<sup>104</sup>

By comparing the pension agreements of the different CEOs at Swedbank, we can see that they vary during the studied period. Reinhold Geijer's (1998-1999) pension is payable from the age of 56 and is based on 75% of pensionable salary.<sup>105</sup> In contrast, Göran Ahlstöm (1999-2000) has a pension from previous employment and therefore has a pension of only 35% of

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<sup>99</sup> Swedbank Annual Report 1998-2008

<sup>100</sup> Swedbank Annual Report 1998-2008

<sup>101</sup> The income base amounts is SEK 50 900 for the income year 2009

<sup>102</sup> Swedbank Annual Report 2000, p.14 & 2005, p.14

<sup>103</sup> Swedbank Annual Report 2000, p.65

<sup>104</sup> Swedbank Annual Report 1998-2008

<sup>105</sup> Swedbank Annual Report 1998, p.73



pensionable salary.<sup>106</sup> Birgitta Johansson-Hedberg's (2000-2004) pension is payable from the age of 60 and is based on 70% of pensionable salary until the age of 65. Following years, after the age of 65, this share is lowered to 45%.<sup>107</sup> Jan Lidén's (2004-2008) pension agreement differs from the previous CEOs in terms of that he has a pre-decided annual premium of SEK 3.5 instead of a certain percentage of pensionable salary. His retirement age is 60.<sup>108</sup>

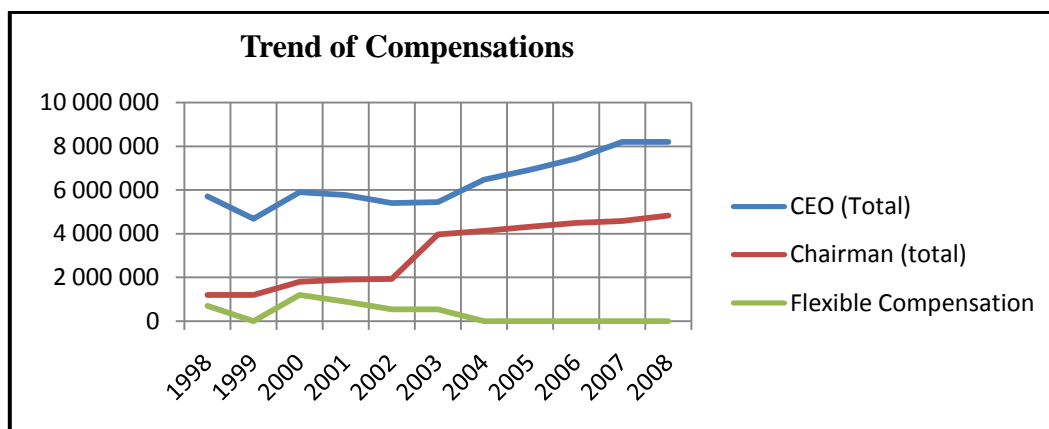


Figure 4.4

#### 4.2.4 Profits and profitability

Swedbank experienced their worst year in terms net profits in 2002. The decline of 21 percent was explained by the fact that the major decline of the stock market as a whole, affected Swedish investors and similarly affected the Swedbank's brokerage revenues. However, Swedbank has showed a significant positive trend in net profits since then, with two exemptions: 2006 and 2008.

Increased expenses (7 percent or SEK 983 million to SEK 15,139 million) in order to accommodate strong market growth in Estonia, Latvia and Lithuania were given as explanations in 2006. Expenses also grew in Swedbank Markets, mainly due to First Securities. However, expenses decreased in the Swedish divisions.

The decline in 2008 was primarily explained in the annual report by the fact that Swedbank has the largest customer base in Sweden and to some extent came to symbolize the general crisis of confidence that followed the continued financial crisis in Sweden. They found themselves at the centre of the media attention. Consequently, this raised questions about the bank and its reliability and many concerned customers withdraw their savings and re-directed them into other financial institutions and banks.

The growth of dividends has not corresponded perfectly well, neither to their financial goals nor to their curve of the growth in profits. Prior to 2003, the goal was however achieved every year, but the goal has only been achieved once (2008) since then.

<sup>106</sup> Swedbank Annual Report 1999, p.71

<sup>107</sup> Swedbank Annual Report 2003, p.76

<sup>108</sup> Swedbank Annual Report 2008, p. 71

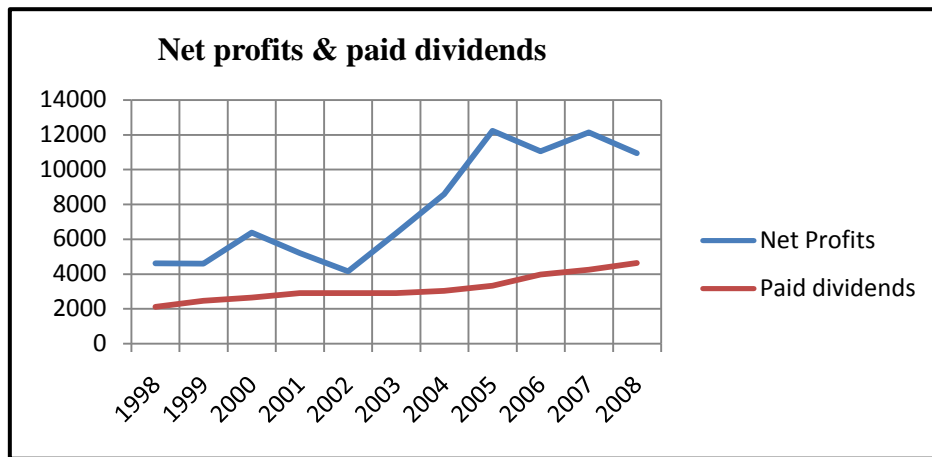


Figure 4.5

Swedbank’s return on equity has varied between 11, 2 % (2002) and 24,6 % (2005) over the period of study, and thus, not corresponded to their statement of financial goals. The goal of having a yearly return on equity of 20% has obviously not been achieved, however, their average R/E ratio (17,68) over the studied period is competitive in comparison to the other banks. Handelsbanken has provided the highest return on equity to its shareholders over the period studied.<sup>109</sup>

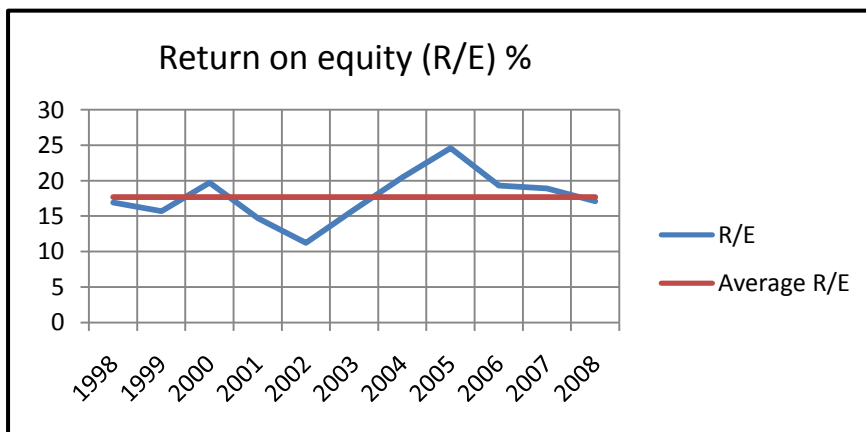


Figure 4.6

### 4.3 Handelsbanken

Handelsbanken began its operations on 1 July 1871 in rented offices located in the Old Town district of Stockholm, and was initially called “Stockholms Handelsbank”. Handelsbanken is operating within 461 branches (31 December 2008), where the Swedish market is the strongest. Handelsbanken's goal is to have higher profitability than the average for its competitors, which shall be achieved by having more satisfied customers and lower costs than its competitors.<sup>110</sup>

<sup>109</sup> Swedbank Annual Report 2006

<sup>110</sup> Handelsbanken, (2009) Om Handelsbanken

### **4.3.1 Determination of Compensations**

Handelsbanken applies the Swedish code of corporate governance. A remuneration committee continually monitors and evaluates the development of the employment conditions for the bank's senior management and prepares proposals to the board regarding adjustments in compensations and benefits to the Chairman of the Board. Starting from autumn 2005, the remuneration committee also has the task of preparing the board's proposals for approval at the annual general meeting concerning principles for remuneration to the Bank's management. The remuneration committee consists of the board chairman and two members appointed by the board. The committee also establishes the principles and overall policy for the salaries, benefits and pensions, and reports annually on the results of its work to the board. The Board fees are annually set at the AGM.

Prior to 2005, the principles for remuneration of the bank's senior management and chairman of the board were however annually developed by a Compensation committee which was composed of two board members and one of whom was appointed chairman of the committee. The Committee was appointed by the Board. The board set the remunerations for the CEO and the remunerations did not have to be approved at the AGM. The remuneration to the chairman was however set at the AGM.

### **4.3.2 Financial Goals**

Handelsbanken's financial goals consist of goals regarding the return on equity, Cost/Income ratio, core capital ratio and dividends to shareholders. During the period of this study, Handelsbanken's financial goals have not experienced any major changes. Handelsbanken's profitability goal has traditionally been to have a higher return on equity than the average for banks in the Nordic Countries and Great Britain. The profitability is always given higher priority than the volume since the profitability is a necessity in order to provide the shareholders with higher dividend than the average of dividend for other comparable banks. Also the cost-effectiveness, measured in a Cost/Income ratio, is aimed to be higher than in comparable banks.<sup>111</sup> Looking at the core capital ratio, Handelsbanken had no target levels or goals defined until 2007 when the board of the bank established a target interval of this measure. It was decided that the core capital ratio should be above 6 % in accordance with Basel II. When the restrictions of Basel II do not apply anymore, the core capital ratio should be between 9 % and 11 %.<sup>112</sup>

### **4.3.3 Structure of Compensation**

Normally, compensations to CEOs and other senior managers in listed companies consist of a base salary, a flexible salary, pension provisions and other benefits. However, the main principle regarding compensation packages in Handelsbanken is that no compensation is paid in the form of flexible bonuses, but only in the form of fixed salary and benefits.<sup>113</sup> However, in 1999 the CEO and other senior managers were offered to buy synthetic options with Handelsbanken's class A shares as the underlying instrument. Initially in 1999, the options were subscribed for SEK 11 and have varied between SEK 13 and 30 in price since then. The options expired in November 2004 and were unconditional from the outset.<sup>114</sup>

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<sup>111</sup> Svenska Handelsbanken Annual Report 1998-2008

<sup>112</sup> Svenska Handelsbanken Annual Report 2007, p.7

<sup>113</sup> Svenska Handelsbanken Annual Report 2008

<sup>114</sup> Svenska Handelsbanken Annual Report 2003, p.12

Handelsbanken's major goal is to have a higher performance and profitability than comparable banks. According to Handelsbanken, this means that the employees must outperform their colleagues in competing companies and therefore should receive a share of the profit. Handelsbanken implemented a profit-sharing foundation called Oktogonen in 1973, in which parts of the extra profit were allocated and managed for the employees. However, an absolute condition for this allocation is that the company has a higher profitability than the average of comparable banks. One third of the surplus can then be allocated to the foundation. A major difference from other long-term incentive programs is that all employees receive an equal part of the allocated amount. When an employee turns 60, an amount is disbursed depending on number of years worked in the company. A fundamental idea of this foundation is that the majority of capital should be invested in Handelsbanken shares.<sup>115</sup>

After investigation of the retirement pensions to the CEO of Handelsbanken, we found that they have been slightly different during the period of this study. Arne Mårtensson (1998-2000) had a retirement age of 55, which is relatively low. This was a deliberately made choice since they preferred young individuals at the position as CEO. His retirement pension between the ages 55 and 64 was 75% of his pensionable salary and from the age of 65 was it 65%.<sup>116</sup> Lars O Grönstedt (2001-2006) had a retirement age of 60 and a retirement pension of 75% of his pensionable salary until the age of 65. After the age of 65 the retirement pension was lowered to 65%.<sup>117</sup> Pär Boman (2006-) has a retirement age of 58 and a retirement pension of 65% of the pensionable salary, on the condition that he remains as CEO until this age.<sup>118</sup>

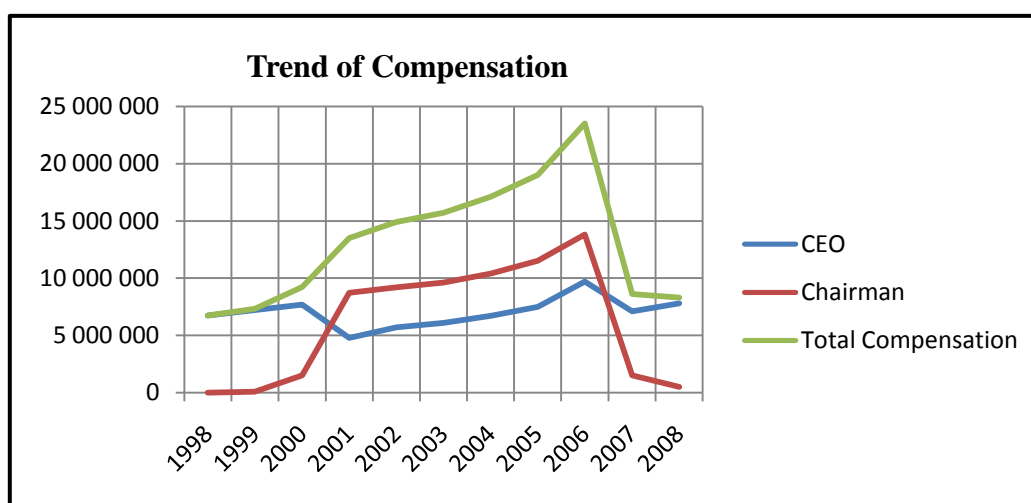


Figure 4.7

#### 4.3.4 Profits & profitability

Handelsbanken showed a net profit of 9 105 million SEK and a return on equity of 22.2% in 2000, which according to the annual report signified that Handelsbanken achieved higher return on equity than the average of the other Swedish and Nordic banks for the twenty-ninth consecutive year. Major reductions of costs from the acquisition of Stadshypotek, a successful and further intensified expansion in the Nordic countries as well as a new entrance in UK, were given as explanations behind the successful year. The result fall back in 2001, which

<sup>115</sup> Svenska Handelsbanken Annual Report 2003, p.19

<sup>116</sup> Svenska Handelsbanken Annual Report 2000, p.54

<sup>117</sup> Svenska Handelsbanken Annual Report 2005, p.56

<sup>118</sup> Svenska Handelsbanken Annual Report 2008, p.60

was explained by the acquisition of the Norwegian bank Midtbank A/S, the purchase of SPP and negative development of exchange rates.

Handelsbanken showed their lowest result of the studied period in 2002, but nothing was stated concerning the great recession and terror attacks in New York in the annual report. The lowered net profit was instead explained by the consolidation of last year's acquisition. However, there has been a positive trend in terms of net profits between 2003 and 2007, and they showed the best profit in the bank's history in 2007, which was explained by their overall strategy including reduction of expenses and increased incomes. They have also actively worked hard with decreasing their credit losses.

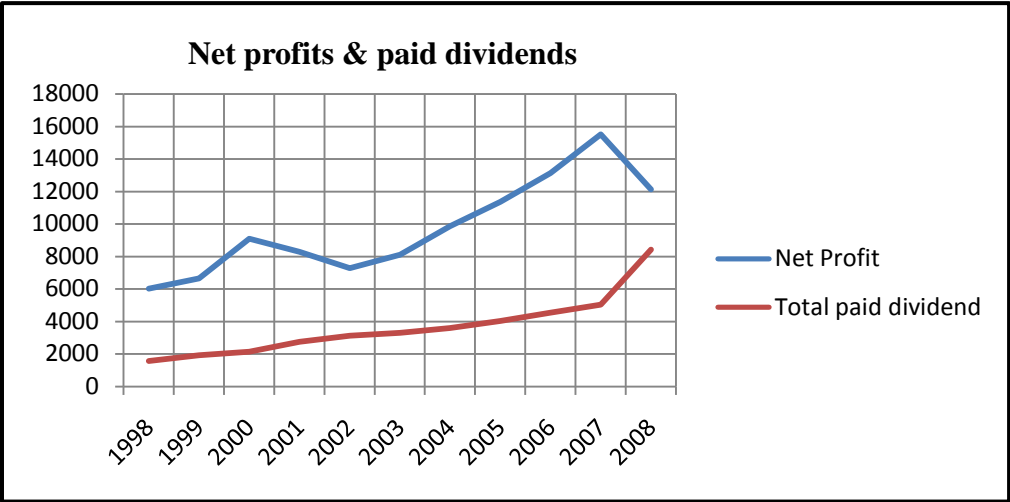


Figure 4.8

Handelsbanken's financial outcomes in terms of dividends and return on equity have corresponded well to their financial goals. The average return on equity (17.94) is significantly higher than the other banks, and the development of dividends is positive. However, many parts of the financial market experienced great difficulties in 2002 and the Stockholm Stock Exchange fell by 37%, which was one of the steepest drops in the world. The severe fall on the stock market, combined with low inflation that gave low nominal interest rates, undermined the assets of insurance companies and Handelsbanken had their first year with a demutualised life insurance company, Handelsbanken Liv, in the concern. Handelsbanken Liv showed a negative result of SEK 159 million in 2002, mainly because of their policy to be liable for the guaranteed return if the investment does not achieve the guaranteed amount. This did not only affect the net profit but also the return on equity.<sup>119</sup>

However, the return on equity was still in accordance with their financial goal in 2002 and the demutualisation was not a one-year commitment, which was seen in the following years that were characterized by a steady growth of return on equity. Noticeable in Handelsbanken's dividend policy is that if no dividend is paid or reduced, no allocation is done to the Oktogonen profit sharing foundation. This was the scenario in 2008.

<sup>119</sup> Svesnka Handelsbanken Annual Report 1998-2008

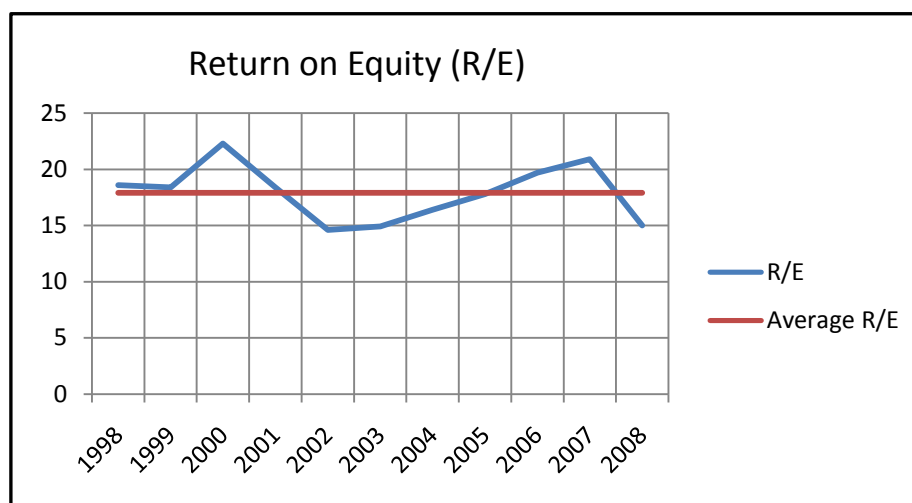


Figure 4.9

#### 4.4 *Nordea*

The first and oldest member of the Nordea concern was “*Sparekassen for Kjøbenhavn og Omegn*”, which was founded in 1820 in Copenhagen. Since then, approximately 250 banks have been incorporated into the concern. The total number of employees in Nordea was 34,684 in 1 January 2007 and they have around 10 million customers in total. Their vision is to be the leading Nordic bank, acknowledged for its people and creation of superior value for its customers and shareholders.

##### 4.4.1 *Determination of Compensations*

Nordea follows generally adopted principles of corporate governance including the rules and principles set in the Swedish code of corporate governance since 2005. A Remuneration Committee is responsible for preparing and presenting proposals to the Board of Directors on compensation issues. This includes proposals regarding the Company’s policy on compensation and other terms of employment for the GEM and the CEO. The committee is comprised of four members, whereof three are independent of the company and the executive management of the company. The CEO participates in the meetings without the right to vote and does not participate in considerations regarding his own employment terms and conditions. The AGM annually approves the principles for compensation and other terms of employment to the GEM and the CEO.

Prior to 2005, the salary terms for the CEO and the GEM were determined by a Remuneration and Human Resources Committee comprised of seven Board members. The Committee prepared and presented proposals regarding the CEO’s and GEM’s terms of employment for resolution by the Board of Directors. The shareholders of Nordea annually elect the members of the Board at the AGM, and the fees to be paid to the Board members are set at the AGM as well, after proposal from a Nomination Committee.<sup>120</sup>

Nordea’s overall remuneration policy is that compensation levels and other conditions needed to recruit and retain members of GEM with competence and capacity to deliver according to Group targets should be maintained. Compensations that are in line with market levels are thus the overall principle executives’ compensation.

<sup>120</sup> Nordea Annual Report 2005, p.47

#### **4.4.2 Financial Goals**

Nordea's financial goals include objectives concerning return on equity, core capital ratio, Cost/Income ratio and dividend to shareholders. During the period studied between 1998 and 2008 the levels of the objectives have not changed significantly, although some variations have occurred.<sup>121</sup>

In terms of profitability, Nordea's objective in 1998 was a return on equity of at least 15% over a business cycle<sup>122</sup>. In 1999, this objective was revised and should from then be above the average zero-risk interest in Finland and Sweden, plus 8 percentage points<sup>123</sup>. In 2004, Nordea temporarily went back to a specified objective of 15% and in 2006 they stated that the return on equity should lie in line with top Nordic peers.

The objective of core capital ratio has been stable at 6, 5% during the period studied. Only one change have occurred when Nordea adapted this objective to the new regulations of Basel II and enhanced it to 9%.<sup>124</sup>

During the first years studied, the objective concerning cost effectiveness measured in Cost/Income ratio was not to exceed 0,55 before losses. This level was less specified from 2004 and the objective stated instead that the ratio should follow a continuously improved pattern.<sup>125</sup>

Nordea's dividend policy has been relatively stable and the objective for 1998 was to disburse 30-40% of net profit for the year<sup>126</sup>. The interval was revised to 40-60% in 1999 and further revised to always account above 40% of net profit for the year in 2000.<sup>127</sup>

#### **4.4.3 Structure of Compensation**

Nordea's basic policy concerning compensation to their employees is that they should be adjusted to the conditions of the market in order to retain and attract new competence. Nordea's compensation package includes base salary, benefits, flexible compensations and pensions.

The base salary is disbursed to the employees after fully performed work. The Chairman of the Board at Nordea normally receives a fixed fee and do not have any flexible compensation included in their agreement. However, it is important to notice that the Chairman of the Board can have other assignments within the organization as well, for which they receive compensation. The development of the fixed fee to the Chairman of the Board at Nordea has increased in a steady pattern for the studied period. The base salaries to the CEOs at Nordea are hard to specify and compare over the studied period since they are presented differently in the annual reports. Between 1998 and 2002, the base salary did not include benefits and these were not separately specified, which renders the comparability more difficult. Examples of benefits are car and housing benefits.<sup>128</sup>

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<sup>121</sup> Nordea Annual Report 1998-2008

<sup>122</sup> Nordea Annual Report 1998, p.15

<sup>123</sup> Nordea Annual Report 1999, p.14

<sup>124</sup> Nordea Annual Report 1998-2008

<sup>125</sup> Nordea Annual Report 1998-2008

<sup>126</sup> Nordea Annual Report 1998, p.15

<sup>127</sup> Nordea Annual Report 1999, p.14, 2000, p.22

<sup>128</sup> Nordea Annual Report 1998-2002

Nordea clearly states that extra high performance in relation to the pre-decided financial goals should be rewarded in terms of flexible compensation. Although, the flexible compensation is limited to a maximum percentage of the base salary, which depends on the position the concerning person possesses. In 2001, an incentive program comprising approximately 300 senior executives at Nordea was implemented. This incentive program consisted of a two-year synthetic share program tied to Total Shareholder Return (TSR) and said that the annual TSR has to account above 7,2% in order to give any compensation to the executives. A major benefit with this type of program is that it does not dilute existing shares.<sup>129</sup> Unfortunately there was no payout based on this program at the end on 2002 due to the shortfall of shareholder return.<sup>130</sup> In 2003, a temporary variable salary system was implemented comprising 350 executives. This system was based on pre-determined performance measures related to economic profit and return on equity, and the potential payout was limited to 12% of the participant's salary.<sup>131</sup> This form of incentive system has frequently been used in Nordea during the studied period. However, the versions concerning threshold, maximum payout etc. have varied. Also profit-sharing systems for all employees have frequently been used in Nordea. In 2007 the Board decided to implement a new share and performance based long-term incentive program comprising 400 executives and key employees. The program gives the executives the right to acquire shares in Nordea to a significantly lower price than the market price. This occurs under the condition that they remained employed within the group during the initial two years vesting period and that the shares were kept during this period.<sup>132</sup>

Nordea's CEO from 1998 to 2008, Hans Dalberg, has a retirement agreement that gives him a pension equal to 75% of pensionable salary from the age of 65. Thereafter, the percentage ratio will be lowered to 65%.<sup>133</sup> Thorleif Krarup's (2001-2002) retirement agreement says that his pension is payable from the age of 62 and equal to 60% of pensionable salary.<sup>134</sup> Lars G Nordström (2002-2006) receives a pension of 70% of pensionable salary from the age of 62. However, from the age of 67 his pension is arranged in accordance with the Occupational Pension Scheme of Swedish banks.<sup>135</sup> Present CEO at Nordea is Christian Clausen who has a retirement agreement that will provide him with 50% of pensionable salary from the age of 60.<sup>136</sup>

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<sup>129</sup> Nordea Annual Report 2000, p.78

<sup>130</sup> Nordea Annual Report 2002, p.12

<sup>131</sup> Nordea Annual Report 2003, p.17

<sup>132</sup> Nordea Annual Report 2008, p.97

<sup>133</sup> Nordea Annual Report 1998, p.70

<sup>134</sup> Nordea Annual Report 2001, p.109

<sup>135</sup> Nordea Annual Report 2003, p.50

<sup>136</sup> Nordea Annual Report 2007, p.105



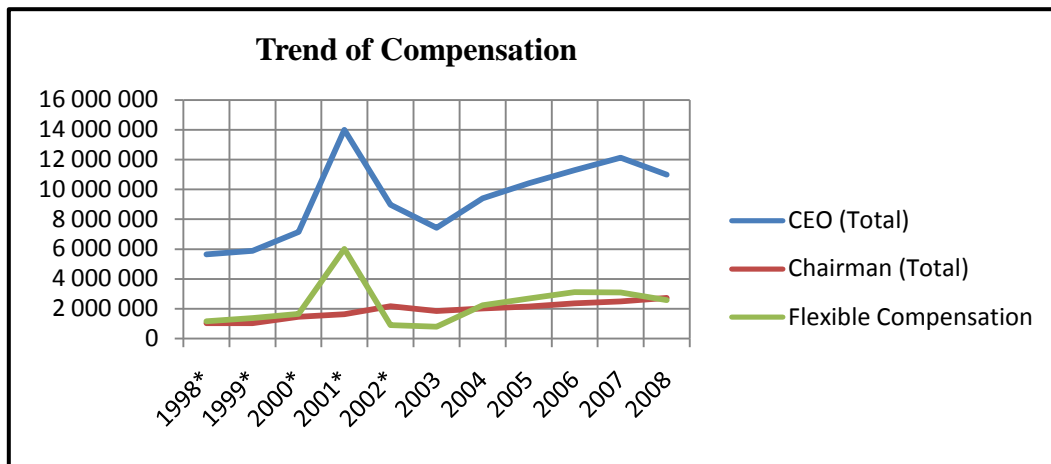


Figure 4.10

#### 4.4.4 Profits and profitability

Nordea experienced a considerable downturn in terms of profits in 2002. The decreased earnings were explained by falling equity-related revenues and exceptionally low interest rates and their impact on deposit margins. Their loan losses were slightly increased and falling equity markets affected their investment earnings. Nordea has however had a significant positive trend in terms of net profits since then.

Nordea's dividend goal of providing an annually disbursement of 40% of the net profit has on average been achieved over the period studied. They have on average disbursed 41% of their net profits. However, a tendency can be seen in an increasing gap between the curve of net profits and the curve of paid dividends, which also explains why the goal was not totally achieved in the period between 2004 and 2006. In 2002 however, Nordea kept a constant level of paid dividends despite the major recession in that year.

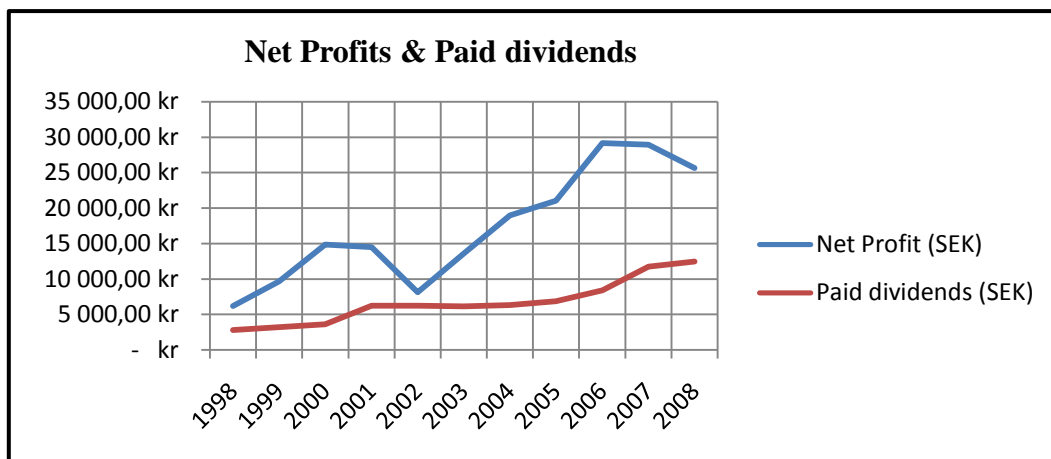


Figure 4.11

Nordea's return on equity goal of providing a ratio of 15% to its shareholders has on average been achieved over the studied period. Their R/E ratio has been 16,3% on average. The major deviation below the average line was explained by the same reasons as mentioned above, and the major deviation above the line in 2006 (22,9%) was explained by the CEO in the annual report of 2006, by saying that the process of turning four major banks from four different markets into one well-functioning bank was finally achieved. The merger gave Nordea a unique starting point for capturing revenue growth across the Nordic region.

Although, the merger was also associated with excessive costs. Therefore, a solid work of establishing a strict cost management culture as well as a constant work with reducing the complexity in all operations and streamlining processes, was needed in order to reduce costs and become more profitable. However, this was achieved in 2006, which explains why Nordea showed their best net profit ever in 2006.

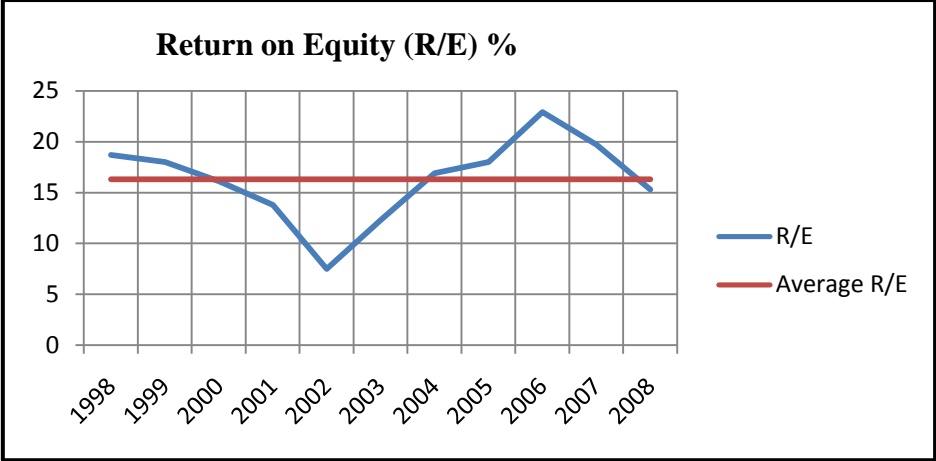


Figure 4.12

## 5. Analysis

In this chapter we will present an analysis based on the information from the theoretical and empirical part of the study. The collected data from the banks will further more be analyzed and compared with the problem definition.

### 5.1 Pay/Performance relationship

Our main objective with this thesis was to examine whether any correspondence of compensations and company performance could be seen in the banks studied. The pay/performance diagrams presented in this chapter will illustrate this issue. With pay, the development of compensations to CEO's and Chairmen is intended, and with performance, the development of net profits and return on equity is intended. Furthermore, the relationship is studied from year to year in order to observe deviations in the correspondence of the curves from year to year.

#### 5.1.1 SEB

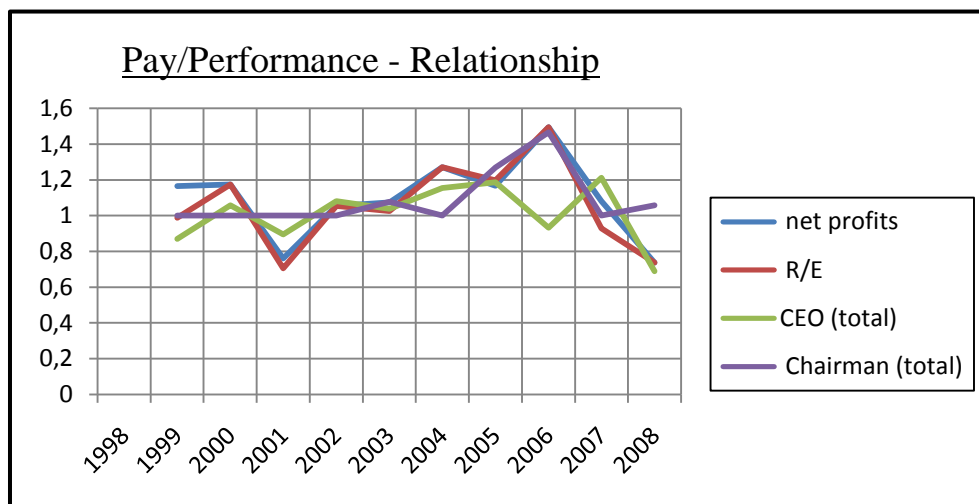


Figure 5.1

The pay and compensation curves present (Fig. 5.1) a significant correlation over the period studied. However, the greatest deviation was seen in 2006, where a significant increase in net profits and chairman compensation occurred simultaneously as a significant decline of 7% in CEO compensation can be observed. No explanation was given in the annual report. However, we find two possible explanations:

1. The compensation of the CEO shall be benchmarked against the Swedish and International market level according to SEB's compensation policy. 2006 was Annika Falkengren's first whole year as the CEO of SEB, and thus, her compensation level was compared to the prevailing market conditions in 2006 before entering the position. A possible explanation can consequently be that the prior level of compensation that was paid to Lars H Thunell was above market conditions.
2. The second explanation may be that the annual general meeting in 2006 decided upon launching a seven-year running long term incentive programme with a new structure compared to the programmes of previous years. This implied a slightly lower flexible cost than previous incentive programs, and Falkengren received SEK 2 778 750 in 2006 compared to Thunell who received SEK 2 900 000 in 2005.

The greatest deviation of the Chairman’s remuneration from the other curves was in 2004/2005, in which year Marcus Wallenberg succeeded Jacob Wallenberg as Chairman of the Board at the Annual General Meeting, and to whom a significant higher level of compensation was paid. However, Marcus waived all fees for his committee assignments, and furthermore, the Board of Directors adopted a Share Ownership Policy for the Board, after recommendation from the Nomination Committee of SEB. The policy recommendation, which still follows, is that each Board member shall use the net after tax of 25 percent of the annual remuneration (excluding remuneration for committee work) distributed to said Board member to acquire shares in SEB.

**5.1.2 Swedbank**

As shown in figure 5.1, Swedbank’s relationship between the units of measurement is significantly strong. However, a dramatic deviation from the other curves appeared in remuneration to the Chairman in 2003. Göran Collert, to whom SEK 1 940 000 was paid in 2002, was succeeded by Carl Eric Stålberg in 2003. Stålberg received SEK 3 965 000 in 2003, which represented an increase by 104 percent.

No distinctive explanation was given in the annual report, but remunerations shall be in line with prevailing market conditions according to Swedbank’s remuneration policy. Swedbank also strives to offer its employees competitive rate of remunerations, and Stålberg had a solid background of work experiences (former CEO of JM)<sup>137</sup> which certainly entitled him to a competitive compensation.

Noticeable is the compensation to the CEO and the flat leaning of that curve. This is a result of Swedbank’s slightly conservative compensation policy in terms flexible compensation. The present CEO, Jan Lidèn, has a no flexible compensation agreement and their policy when determining STI and LTI programmes respectively, is to establish relevant performance goals (individual, general, qualitative and quantitative) in advance. The goals shall always promote the bank’s and its shareholders' interests.

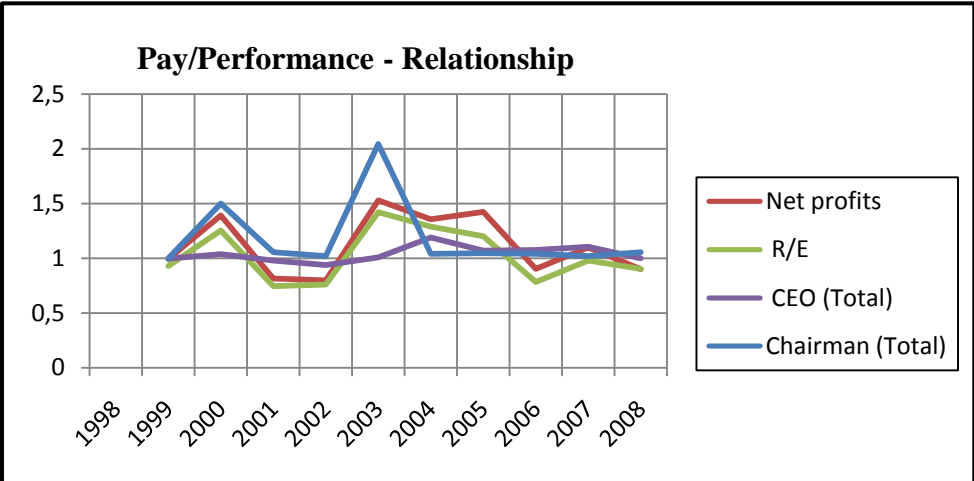


Figure 5.2

<sup>137</sup> Newsdesk, Swedbank, (2009) Nominering till styrelsen i Swedbank 2009

### 5.1.3 Handelsbanken

In the case of Handelsbanken, there has been a strong correlation between the both units of profitability. Their relationship to the CEO compensation curve has however been slightly poorer. In 2001 and 2006, the greatest deviations occurred, which possibly could be explained by the new appointments of CEOs at both occasions. In 2001, Tom Hedelius was succeeded by Arne Mårtensson, and Mårtensson was later on replaced by Lars O Grönstedt in 2006. According to the compensation policy of Handelsbanken shall the remunerations be on market terms, which may be the underlying reason to the large differences that occurred between those years. Seen over the entire period, the CEO compensation has however corresponded relatively well to the profitability of the bank, which may be a consequence of their restrained flexible compensation policy.

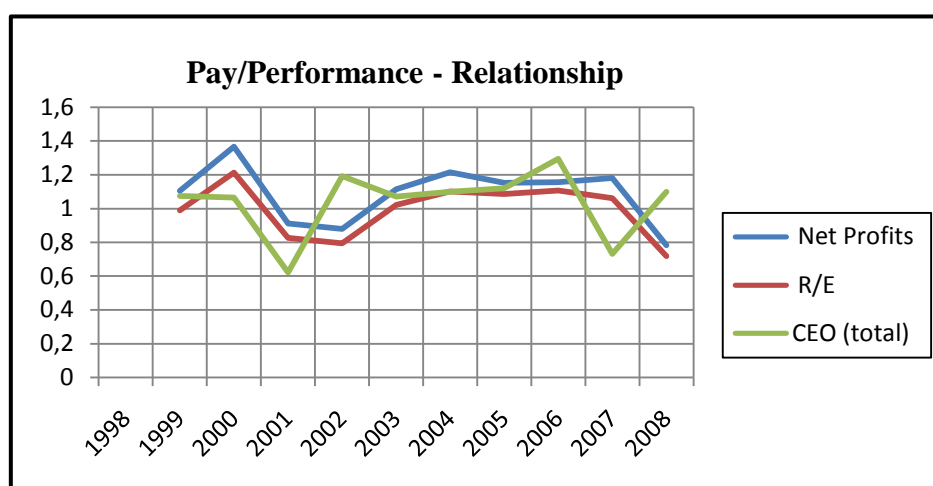


Figure 5.3

The reason why we have excluded the Chairman's compensation trend is due to the large deviations between the different Chairmen and their compensation packages. "The pittance" to Hedelius depended on an agreement which implied that he could not serve as a director on any other boards than those desired by Handelsbanken, and that fees for such employments were paid to the bank. In return, Tom Hedelius received a fee during the period of the agreement which represented the difference between the pension and the remuneration prior to retirement. This fee is however too complicated to further investigate.

Arne Mårtensson, who also was the CEO until 2000, had an agreement that was entered when he became CEO in 1991. The agreement implied that if Arne Mårtensson was not re-elected as CEO, up to and including the fifth shareholders' meeting thereafter, he was to be offered other work and to be paid as if he had been the CEO. However, if Arne Mårtensson took up employment outside Handelsbanken, no compensation was paid to him. This agreement explains his significantly higher level of compensation compared to Hedelius.<sup>138</sup>

Lars O Grönstedt stood down as group chief executive at the AGM in April 2006 and was simultaneously appointed chairman of the board of the Bank. In addition to the board assignment at Handelsbanken, Lars O Grönstedt was employed by the pension foundation and received remuneration accordingly until 1 May 2007. Lars O Grönstedt was only employed by the pension foundation since then, but is now replaced by Hans Larsson. The remuneration paid from the pension foundation (Oktogonen) is too complicated to further investigate.<sup>139</sup>

<sup>138</sup> Svenska Handelsbanken Annual Report 1999, p.61

<sup>139</sup> Svenska Handelsbanken Annual Report 1998-2008

### 5.1.4 Nordea

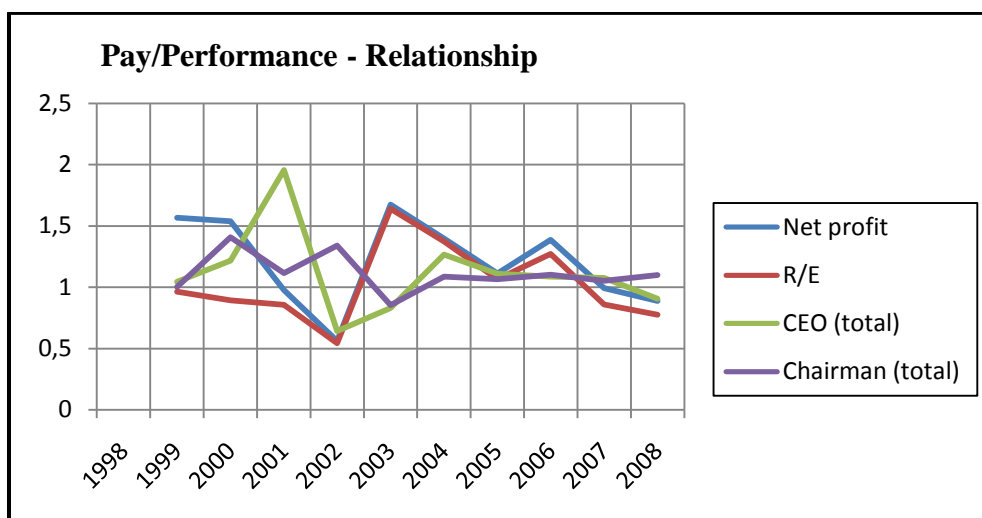


Figure 5.4

In the case of Nordea, the Pay and Performance curves show a weaker correlation than the curves of the other banks. The greatest deviation in compensation to the CEO can be found in 2001, which was signified by a major increase in compensation. This can however be explained by the fact that the CEO of that time, Thorleif Krarup, was allocated with synthetic options amounted to SEK 6 013 540. The options were however tied to the Total Shareholder Return (TSR), which had to have an annual growth of 7,2% or more to give any return to the CEO. An upper limit was set to two annual salaries, which was achieved at a total TSR growth of 30% or more per annum.

All curves experienced a decline in growth in the following year except from the remuneration to the Chairman curve. In this year, Vesa Vainio was succeeded by Hans Dalborg at the position of Chairman of the Board. Dalborg's remuneration in the first year at the position was approximately 15% above the level of Vainio's in his last year. Hans Dalborg was the CEO of Nordea between the years 1998 and 2008 and had been a Board member since 1998.

### 5.2 Comparison of the banks

Concerning the structure of compensation in the banks studied, we found that they differ in several ways. SEB has fixed compensations, flexible short-term compensations and flexible long-term incentive programs to the CEO. By studying the disbursements of flexible compensations in SEB, we found that a large share of the total compensations to the CEO have consisted of monetary flexible short-term compensations during the period studied. In contrast, Handelsbanken has no flexible compensations at all, but only fixed compensation and regular salary benefits. However, they have significantly more emphasis on their long-term profit sharing foundation Oktogonen. This means that they have a very different policy concerning flexible compensations than SEB.

Both Nordea's and Swedbank's policies concerning compensations to the CEO have shifted during the period studied. The usage of long-term compensation programs in Nordea has shifted, but as for today they use a new share and performance based long-term incentive program. The short-term compensations have been disbursed frequently to the CEO and our interpretation is that Nordea

consider short-term compensations as a valuable tool to motivate their managers. One example of this is their frequently implemented variable salary system. Swedbank implemented a long-term incentive program in 2000, but did not implement a new one after its expiration in 2005. Short-term flexible compensations were paid to CEO until 2003 (not in 1999 and 2000). Following years, no flexible compensation to the CEO has been disbursed at all. This means that Swedbank, as for today, has a similar compensation policy as Handelsbanken. However, this concerns only compensations to the CEOs.

All four banks studied experienced poor results in terms of net profits in 2001 and 2002. SEB commented this by saying that the world economy was suffering from a general uncertainty after the terror attacks in New York. The other banks had partly different explanations for the poor results, but they all agreed that the uncertain market situation had a significant effect on their performance. Our interpretation is that the world economy downfall in the IT-industry affected Swedish economy particularly since this industry is of certain importance to the Swedish export market. All companies recovered soon after this downfall and have generally performed well since then, with a few exceptions.

By studying the banks' achievements of financial goals, we found that SEB has not achieved their long-term return on equity objective. They did not handle the crisis in 2001 very well in terms of return on equity either. Swedbank's return on equity has varied significantly over the studied period and does not correspond to their financial goal. However, their average ratio is still competitive to other banks. Handelsbanken's financial outcomes in terms of return on equity have corresponded well to their financial goals and their average return on equity is significantly higher than comparable banks.

When analyzing the achievements of financial goals in relation to the banks' different compensation policies, we found that banks that suffer worst from an economic crisis are the ones that use flexible compensations. SEB, Swedbank and Nordea, that all used flexible compensations in large extent during the economic crisis in 2001 and 2002, presented a very low return on equity ratio in those years. In contrast, Handelsbanken that used only fixed compensations presented a relatively high return on equity. Therefore, it remains to be proved whether the same pattern can be seen in the prevailing economic crisis.

### **5.3 *Application of theories***

All the banks studied in this thesis apply the Swedish Code of Corporate Governance, which forms a framework of rules and practices that ensures an alignment between shareholders and managers. This in its turn means that each party's interests are considered respectively. The code was implemented in 2005 after approval at the annual general meetings in all of the banks.

With regard to Furfine's theory (2001), our interpretation is that it is particularly important with such frameworks within the bank sector due to the large extent of opaqueness. The code ensures that opinions of shareholders are considered, and thus, possible conflicts of interests between shareholders and managers can be reduced within the issue of compensations. Furthermore, no compensations shall be set at the expense of the long-term survival of the companies, which eliminates the risk, that incentive programs are designed on a short-term basis (see the example given in theoretical part).

According to the compensation policies of the banks, shall all paid compensations communicate and strengthen the main objectives of the banks, which also is in accordance with Kaplan & Atkinson's theory of purposes with compensations (1989). The policies of Nordea and Swedbank regarding compensations have however been shifting during the period studied, which we find as confusing rather than a solid way of communicating the main objectives. SEB and Handelsbanken have more or less kept the same policies during the entire period of the study, which communicate consistency to its shareholders respectively.

Merchant and Van der Stede's (2007) theory regarding the prerequisite of providing a compensation package that is designed in a way that CEOs have the opportunity to influence the size of compensation through their work contribution, cannot be applied at each bank. Handelsbanken have no flexible compensation for example. However, their view of risk taking as a whole is slightly conservative, which certainly also motivates the design of the incentive programs as well.<sup>140</sup>

The stakeholder perspective focuses on who is bearing the risk in a company, the manager (employee) or the shareholder. By using this perspective when comparing SEB and Handelsbanken, we consider the shareholder as the major risk-taker in Handelsbanken. This is because their invested capital can be lost if the stock rate decreases while the managers cannot miss out on salary since it is fixed. In contrast, SEB's managers bear a major risk when they have a partly flexible compensation, which make them significantly more risky than in Handelsbanken. The shareholders are of course high risk-takers in SEB as well. The managers themselves are certainly aware of this, and according to Merchant and Van der Stede's theory tend risk willing people to prefer flexible compensation. Our interpretation is consequently that SEB generally have less risk-averse managers than Handelsbanken, or simply speaking, more risk-willing CEOs than in Handelsbanken.

In all the banks studied, a tendency of large deviations in the trend of compensation can be seen when new CEOs and Chairmen are appointed. The deviations are signified in all scenarios by large increases in compensations. According to the Market salary model, companies are entitled to offer competitive compensations in order to attract and motivate CEOs to increase value for its shareholders. According to neoclassical theories may such increases also be motivated by the variable of human capital. In the case of SEB for example, Marcus Wallenberg received a significantly higher level of compensation than the prior Chairman, Jakob Wallenberg. In addition to these certain theories, our interpretation is that inflation is considered when determining compensations, which is one more contributory cause to the large gaps in compensations after successions. However, in times of depression we find these theories unethical and inappropriate, since no significant profitability difference among the banks has been seen after the successions.

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<sup>140</sup> Svenska Handelsbanken Annual Report 2008, p.5



## **6. Conclusion and suggestions for further research**

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*In this chapter we will present our conclusion of the study based upon the problem formulations. The theoretical parts as well as the analysis parts are considered.*

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### **6.1 Conclusion**

The purpose of this thesis has primarily been to examine whether paid compensations correlate to financial performances within the Swedish bank sector. We have studied the development of compensations addressed to Chairmen and CEO's, as well as the development of return on equity and net profits of the banks in order to find out whether this correlation exists or not. The period of study concerned the years between 1998 and 2008.

The result of the study showed a significant relationship between paid compensations and financial outcomes, although with some exemptions. This undermines the public criticism that has been directed towards Swedish banks as a whole, although only in the matter of the relationship between paid compensations and performances. People are however still allowed to criticize the level of compensations since CEOs are extremely well-paid compared to other employees.

Our conclusion is that in all the banks studied, a significant correlation between paid compensations and financial performances can be seen. However, when observing the debate out of an ethical perspective, CEO compensations and remunerations to Chairmen are outrageously high.

### **6.2 Suggestions for further research**

Throughout the duration of this Bachelor Thesis we have encountered different ideas and interesting views on other possible areas to study within CEO compensation and company performance. Firstly, our study solely consists of secondary data and it would be of great interest to include primary sources in order get a better insight in the structure of the banks' compensation packages. This would give a better overall and more complete overview of the entire compensation paid out to the CEOs.

Furthermore, it could be of great interest to perform a qualitative study on all stakeholders, in order to find out about their view on the compensation issue, but also to find out to whom compensations are most beneficial.

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Nordea Annual Report 1998-2008

## Appendices

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### Appendix A - SEB

<b><u>Compensation Package to CEO (SEK)</u></b>			
<b>Year</b>	<b>Base Salary (incl. Benefits)</b>	<b>Flexible Compensation</b>	<b>Total Compensation</b>
<b>1998</b>	4 799 930	3 690 000	8 489 930
<b>1999</b>	5 005 754	2 375 000	7 380 754
<b>2000</b>	5 434 906	2 362 500	7 797 406
<b>2001</b>	5 406 360	1 575 000	6 981 360
<b>2002</b>	5 447 675	2 100 000	7 547 675
<b>2003</b>	5 530 542	2 300 000	7 830 542
<b>2004</b>	6 434 099	2 602 200	9 036 299
<b>2005 (1 Jan-9 Nov)</b>	5 763 543	2 900 000	8 663 543
<b>2005 (10 Nov-31 Dec)</b>	1 136 211	916 667	2 052 878
<b>2006</b>	7 218 069	2 778 750	9 996 819
<b>2007</b>	8 106 016	4 000 000	12 106 016
<b>2008</b>	8 341 351	0	8 341 351

**Lars H. Thunell**

**Annika Falkengren**

### **Compensation to Chairman of the Board**

<b>Year</b>	<b>Remuneration</b>	
<b>1998</b>	1 300 000,0	<b>Jacob Wallenberg</b>
<b>1999</b>	1 300 000,0	
<b>2000</b>	1 300 000,0	
<b>2001</b>	1 300 000,0	
<b>2002</b>	1 300 000,0	
<b>2003</b>	1 400 000,0	
<b>2004</b>	1 400 000,0	
<b>2005</b>	1 775 000,0	<b>Marcus Wallenberg</b>
<b>2006</b>	2 600 000,0	
<b>2007</b>	2 600 000,0	
<b>2008</b>	2 750 000,00	

<b>Year</b>	<b>Return on Equity (R/E) %</b>	<b>Net profit</b>	<b>Dividend/Net Profit</b>	<b>Paid dividends</b>
<b>1998</b>	14,8	4867	47,6	2316,692
<b>1999</b>	14,6	5665	50,3	2849,495
<b>2000</b>	16,9	6642	42,4	2816,208
<b>2001</b>	11,9	5051	55,8	2818,458
<b>2002</b>	12	5318	52,7	2802,586
<b>2003</b>	12,3	5704	48,6	2772,144
<b>2004</b>	13,2	7247	44,9	3253,903
<b>2005</b>	15,8	8453	37,8	3195,234
<b>2006</b>	20,8	12623	32	4039,36
<b>2007</b>	19,3	13642	32,6	4447,292
<b>2008</b>	13,1	10050	0	0
Average R/E 14,97272727				

<b>Year</b>	<b>Growth of net profits</b>	<b>Growth of R/E</b>	<b>Growth of CEO Compensation</b>	<b>Growth of Chairman Compensation</b>
<b>1998</b>				
<b>1999</b>	1,163961373	0,986486486	0,869353929	1
<b>2000</b>	1,172462489	1,172462489	1,056451143	1
<b>2001</b>	0,760463716	0,704142012	0,895343913	1
<b>2002</b>	1,05286082	1,05286082	1,081118149	1
<b>2003</b>	1,072583678	1,025	1,037477369	1,076923077
<b>2004</b>	1,270511921	1,270511921	1,153981295	1
<b>2005</b>	1,166413688	1,196969697	1,185930324	1,267857143
<b>2006</b>	1,493315982	1,493315982	0,932850529	1,464788732
<b>2007</b>	1,08072566	0,927884615	1,210986815	1
<b>2008</b>	0,736695499	0,736695499	0,689025275	1,057692308

*Appendix B – Swedbank*

<b><u>Compensation Package to CEO (SEK)</u></b>				
<b>Year</b>	<b>Base Salary (incl. Benefits)</b>	<b>Flexible Compensation</b>	<b>Total Compensation</b>	
<b>1998</b>	5 006 000	700 000	5 706 000	<b>Reinhold Geijer</b>
<b>1999 (1 Jan-5 Oct)</b>	3 915 000	0	3 915 000	
<b>1999 (5 Oct-31 Dec)</b>	771 000	0	771 000	<b>Göran Ahlström</b>
<b>2000 (1 Jan-11 Apr)</b>	1 204 000	0	1 204 000	
<b>2000 (12 Apr-31 Dec)</b>	3 496 000	1 200 000	4 696 000	<b>Birgitta J Hedberg</b>
<b>2001</b>	4 871 000	900 000	5 771 000	
<b>2002</b>	4 863 000	545 000	5 408 000	
<b>2003</b>	4 896 000	545 000	5 441 000	
<b>2004 (1 Jan-31 Jan)</b>	406 000	0	406 000	
<b>2004 (31 Jan-31 Dec)</b>	6 060 000	0	6 060 000	<b>Jan Lidén</b>
<b>2005</b>	6 917 000	0	6 917 000	
<b>2006</b>	7 433 000	0	7 433 000	
<b>2007</b>	8 194 000	0	8 194 000	
<b>2008</b>	8 189 000	0	8 189 000	

**Compensation to Chairman of the Board**

<b>Year</b>	<b>Remuneration</b>	
<b>1998</b>	1 200 000	<b>Göran Collert</b>
<b>1999</b>	1 200 000	
<b>2000</b>	1 800 000	
<b>2001</b>	1 900 000	
<b>2002</b>	1 940 000	
<b>2003</b>	3 965 000	<b>Carl Eric Stålberg</b>
<b>2004</b>	4 129 000	
<b>2005</b>	4 322 000	
<b>2006</b>	4 499 000	
<b>2007</b>	4 585 000	
<b>2008</b>	4 835 000	



År	R/E	Net Profits	Dividends/net profit	Paid dividends
1998	16,9	4619	0,45702533	2111
1999	15,7	4592	0,536367596	2463
2000	19,7	6384	0,413377193	2639
2001	14,7	5201	0,558161892	2903
2002	11,2	4152	0,699181118	2903
2003	15,9	6343	0,457669872	2903
2004	20,5	8592	0,353235568	3035
2005	24,6	12229	0,272630632	3334
2006	19,3	11052	0,359391965	3972
2007	18,9	12136	0,350362558	4252
2008	17,1	10939	0,423987567	4638

År	Growth of net profits	Growth of R/E	Growth of CEO's compensation	Growth of Chairman's compensation
1998				
1999	0,994154579	0,928994083	0,996494918	1
2000	1,390243902	1,25477707	1,0376363	1,5
2001	0,814692982	0,746192893	0,978135593	1,055555556
2002	0,798308018	0,761904762	0,93709929	1,021052632
2003	1,527697495	1,419642857	1,006102071	2,043814433
2004	1,354564086	1,289308176	1,188384488	1,041361917
2005	1,423300745	1,2	1,069749459	1,046742553
2006	0,903753373	0,784552846	1,074598815	1,040953262
2007	1,098081795	0,979274611	1,102381273	1,019115359
2008	0,901367831	0,904761905	0,999389797	1,054525627

*Appendix C – Handelsbanken*

**Compensation Package to CEO (SEK)**

<b>Year</b>	<b>Base Salary (incl. Benefits)</b>	<b>Flexible Compensation</b>	<b>Total Compensation</b>	
<b>1998</b>	6 728 426	0	6 728 426	<b>Arne Mårtensson</b>
<b>1999</b>	7 228 638	0	7 228 638	
<b>2000</b>	7 698 902	0	7 698 902	
<b>2001</b>	4 786 602	0	4 786 602	<b>Lars O Grönstedt</b>
<b>2002</b>	5 700 000	0	5 700 000	
<b>2003</b>	6 100 000	0	6 100 000	
<b>2004</b>	6 700 000	0	6 700 000	
<b>2005</b>	7 500 000	0	7 500 000	
<b>2006 (1 Jan-1 April)</b>	3 700 000*	0	3 700 000*	
<b>2006 (2 April- 31 Dec)</b>	6 000 000	0	6 000 000	<b>Pär Boman</b>
<b>2007</b>	7 100 000	0	7 100 000	
<b>2008</b>	7 800 000	0	7 800 000	

**Compensation to Chairman of the Board**

<b>Year</b>	<b>Remuneration</b>	
<b>1998</b>	0	<b>Tom Hedelius</b>
<b>1999</b>	97 546	
<b>2000</b>	1 513 829	
<b>2001</b>	8 718 216	<b>Arne Mårtensson</b>
<b>2002</b>	9 200 000	
<b>2003</b>	9 600 000	
<b>2004</b>	10 400 000	
<b>2005</b>	11 500 000	
<b>2006</b>	10 100 000	
<b>2006</b>	3 700 000*	<b>Lars O Grönstedt</b>
<b>2007</b>	1 500 000	
<b>2008</b>	500 000	

\*This remuneration refers to salary and benefits for the part of the year Lars O Grönstedt was group chief executive of the Bank and the fee for his services as chairman of the board.

<b>Year</b>	<b>R/E</b>	<b>Net Profit</b>	<b>Paid dividend</b>	<b>Dividend/Net Profit</b>
<b>1998</b>	18,6	6027	1565	0,259664842
<b>1999</b>	18,4	6663	1922	0,288458652
<b>2000</b>	22,3	9105	2144	0,235475014
<b>2001</b>	18,4	8290	2751	0,331845597
<b>2002</b>	14,6	7282	3120	0,428453722
<b>2003</b>	14,9	8116	3294	0,405864958
<b>2004</b>	16,4	9860	3602	0,365314402
<b>2005</b>	17,8	11354	4018	0,353884094
<b>2006</b>	19,7	13128	4543	0,346054235
<b>2007</b>	20,9	15508	5022	0,32383286
<b>2008</b>	15	12131	8416	0,693759789
<b>Average</b>	17,90909			

<b>Year</b>	<b>Growth of Net Profits</b>	<b>Growth of CEO's Compensation</b>	<b>Growth of R/E</b>
<b>1998</b>			
<b>1999</b>	1,105525137	1,074343093	0,989247312
<b>2000</b>	1,366501576	1,065055685	1,211956522
<b>2001</b>	0,910488742	0,62172528	0,825112108
<b>2002</b>	0,87840772	1,190823887	0,793478261
<b>2003</b>	1,114528976	1,070175439	1,020547945
<b>2004</b>	1,214884179	1,098360656	1,100671141
<b>2005</b>	1,151521298	1,119402985	1,085365854
<b>2006</b>	1,156244495	1,293333333	1,106741573
<b>2007</b>	1,181291895	0,731958763	1,060913706
<b>2008</b>	0,782241424	1,098591549	0,717703349

*Appendix D – Nordea*

<b><u>Compensation Package to CEO (SEK)</u></b>					
<b>Year</b>	<b>Base Salary (incl. Benefits)</b>	<b>Flexible Compensation</b>	<b>Total Compensation</b>	<b>Exchange Rate (EUR/SEK)</b>	<b>CEO</b>
<b>1998*</b>	4 491 042	1 149 812	5 640 854	8,9306	Hans Dalberg
<b>1999*</b>	4 497 037	1 382 837	5 879 874	8,8076	
<b>2000*</b>	5 490 014	1 661 731	7 151 744	8,4465	
<b>2001*</b>	7 970 910	6 013 540	13 984 450	9,2516	Thorleif Krarup
<b>2002 (1 Jan-25Aug)*</b>	5 889 417	902 389	6 791 806	9,1627	
<b>2002 (25 Aug-31 Dec)*</b>	2 169 013	0	2 169 013	9,1627	Lars G Nordström
<b>2003</b>	6 633 464	792 698	7 426 162	9,125	
<b>2004</b>	7 163 498	2 226 054	9 389 551	9,1268	
<b>2005</b>	7 717 878	2 680 811	10 398 689	9,2849	
<b>2006</b>	8 175 186	3 113 210	11 288 396	9,2549	
<b>2007</b>	9 027 154	3 096 329	12 123 482	9,2481	Christian Clausen
<b>2008</b>	8 395 658	2 584 610	10 980 268	9,6055	

\*The Base Salaries of 1998 – 2002 do not include benefits

**Compensation to Chairman of the Board**

<b>Year</b>	<b>Remuneration</b>	<b>Exchange Rate</b>	<b>Chairman of the Board</b>
<b>1998</b>	1 036 000	1 FIM=1,48 SEK	Vesa Vainio
<b>1999</b>	1 036 936	1 EUR=8,8076 SEK	Jacob Palmstierna
<b>2000</b>	237 490	8,4465	
<b>2000</b>	1 221 693	8,4465	Vesa Vainio
<b>2001</b>	1 623 693	9,2516	
<b>2002 (1 Jan-AGM**)</b>	450 072	9,1627	
<b>2002 (AGM**-31 Dec)</b>	1 725 437	9,1627	Hans Dalborg
<b>2003</b>	1 853 835	9,125	
<b>2004</b>	2 012 697	9,1268	
<b>2005</b>	2 142 779	9,2849	
<b>2006</b>	2 360 499	9,2549	
<b>2007</b>	2 479 943	9,2481	
<b>2008</b>	2 720 393	9,6055	

\*The dispersed salary to Vesa Vainio for 2000 also includes salary for his work as Vice CEO.

Nordea	Year	R/E	Average R/E	Net profit	Paid dividends
	1998	18,7	16,29091	4 178,00 FIM	1 913,00 FIM
	1999	18	16,29091	9 676,00 kr	3 235,00 kr
	2000	16,1	16,29091	14 864,00 kr	3 659,00 kr
	2001	13,8	16,29091	1 568,00 €	675,00 €
	2002	7,5	16,29091	887,00 €	682,00 €
	2003	12,3	16,29091	1 490,00 €	673,00 €
	2004	16,9	16,29091	2 078,00 €	696,00 €
	2005	18	16,29091	2 269,00 €	740,00 €
	2006	22,9	16,29091	3 153,00 €	908,00 €
	2007	19,7	16,29091	3 130,00 €	1 271,00 €
	2008	15,3	16,29091	2 672,00 €	1 297,00 €

Exchange Rate (EUR/SEK)	Net Profit (SEK)	Paid dividends (SEK)	Dividend/Net profit
8,9306	6 183,44 kr	2 831,24 kr	46%
8,8076	9 676,00 kr	3 235,00 kr	33%
8,4465	14 864,00 kr	3 659,00 kr	25%
9,2516	14 506,51 kr	6 244,83 kr	43%
9,1627	8 127,31 kr	6 248,96 kr	77%
9,125	13 596,25 kr	6 141,13 kr	45%
9,1268	18 965,49 kr	6 352,25 kr	33%
9,2849	21 067,44 kr	6 870,83 kr	33%
9,2549	29 180,70 kr	8 403,45 kr	29%
9,2481	28 946,55 kr	11 754,34 kr	41%
9,6055	25 665,90 kr	12 458,33 kr	49%

Average 41%

Nordea	Year	Net profit Growth	R/E Growth	CEO (total) Growth	Chairman (total) Growth
	1998				
	1999	1,564824758	0,962566845	1,042373017	1,000903825
	2000	1,536171972	0,894444444	1,216309136	1,407206163
	2001	0,975949193	0,857142857	1,955390092	1,112740855
	2002	0,560252988	0,543478261	0,640770169	1,339852475
	2003	1,672907986	1,64	0,82873704	0,85213858
	2004	1,394905978	1,37398374	1,264388136	1,085693547
	2005	1,110830126	1,065088757	1,107474495	1,064630607
	2006	1,385109075	1,272222222	1,08555955	1,101606749
	2007	0,991975974	0,860262009	1,073977418	1,050600942
	2008	0,88666502	0,776649746	0,905702482	1,096957929