

College of Europe
Bruges
Economic Department

**Management Compensation in Large Finnish
and Spanish Companies:
A Comparison between the North and the South**

Supervisor: Prof. Christoph van der Elst

Thesis presented by

Tomi Tervo

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Abstract

The thesis focuses on factors that determine compensation to the board, executives and top managers in large companies in Finland and in Spain. The thesis also tries to find out whether compensation is different between the two countries. Compensation is measured on total level and on director level.

The literature is heavily anchored in principal-agent theory and the pioneering works of Jensen (1976), Fama (1980) Shleifer and Shleifer and Vishny (1997), and also Babchuk & Fried (2003) for more recent insights. There are further important works addressing the specific circumstances in Spain and in Finland. For the part of Finland, Maury & Pajuste (2005) is used to gain insights on corporate governance in Finland and Holopainen (2010) on the determinants of CEO compensation. For the part of Spain, research performed by Sánchez-Marína et al. (2010 and Crespi-Cladera et al. (2003) on board compensation and Santana-Martin (2007) on corporate governance in Spain are important sources. For methodology, Gujarati (2003) has been a useful source.

The thesis is structured in eight chapters. After introduction in chapter 1, chapter 2 presents the theoretical backbone for management compensation, and is based on agent theory and corporate governance codes. Chapter 3 will focus on remuneration itself. Chapter 4 presents the factors that are assumed to be correlated to remuneration, and why they do so. Chapter 5 presents some previous research relevant to the topic. The empirical part starts in chapter 6 with a review on methods, hypothesis, selected variables and expected correlations. Chapter 6 also includes a presentation of my data. Chapter 7 presents a summary of the results and the analysis of the study as well as an analysis of potential problems in the study. Finally, chapter 8 presents the conclusions and some suggestions for further research.

There are five central results. Firstly, turnover is the most influential variable determining management compensation. Secondly, neither company ownership nor company performance seems to have any effect on compensation. Thirdly, the degree of board independence has a positive relationship with compensation to independent directors but a negative relationship with other compensation to company executives. Fourthly, Spanish companies pay more to their managers than Finnish companies, but this is due to the larger number of directors in Spanish boards rather than higher pay on director level. Finally, the variables employed to explain management compensation could fairly well explain compensation to executives, independent directors and the synthetic “Consejos” used in this study for comparison purposes, but could neither explain compensation paid to non-board top level managers nor the proportional share of fixed compensation.