SCHOOL OF ECONOMICS
AND MANAGEMENT
Lund University

13833

Faculty of Business Administration **Spring semester 2009**

Master thesis BUSP30/FEKP01

Rewarding key personnel:

Incentive programs in companies listed on the Stockholm Stock Exchange's Large-cap list

Authors:
Eric Lindholm
Gustav Kinnander

Supervisor:
Per-Magnus Andersson

Acknowledgements

The authors would first and foremost take this opportunity to thank our supervisor, Per-Magnus Andersson, for his guidance and advice throughout the working process, without him this study would not have been possible. We would also like to thank each other for good cooperation.

Eric Lindholm

Gustav Kinnander

Abstract

Title:	Rewarding key personnel: incentive programs in companies listed on the Stockholm Stock Exchange's Large-cap list
Seminar date:	2009-06-11
Course:	BUSP30/FEKP01
Authors:	Eric Lindholm and Gustav Kinnander
Supervisor:	Per-Magnus Andersson
Key words:	Incentive programs, Remuneration, Share based, Top Management, Board of Directors,

Purpose: The purpose of this thesis is to map the remuneration schemes to the top management and the board of directors in the companies listed on the Large-cap list at the Stockholm Stock Exchange as well as analyze if any trends in the design of incentive plans can be deduced.

Methodology: A quantitative methodology has been used together with an abductive and descriptive approach. This has been carried out through a study of the annual reports and notifications to the AGMs of the companies listed on the Large-cap list at the Stockholm Stock Exchange.

Theoretical perspectives: The thesis first explains the Agency theory in order to describe why incentive programs are a necessity in large corporations. Furthermore, a description of different incentive programs, both short-term and long-term, is provided. Finally a brief overview of the relevant financial reporting framework is presented.

Empirical foundation: The empirical foundation consisted of a study of the 2008 annual reports of all the concerned companies as well as the 2005 annual reports and notifications for the 2009 AGMs for a sample of companies selected for a comparative study.

Conclusions: Incentive plans are common in the observed companies with over three quarters using some form of long-term incentive program. The most common types of incentive programs are share-based programs and option programs. There is also a connection between company size and the incentive programs used with share-based programs being somewhat more common in larger companies and option programs being slightly more common in smaller companies. No observable connection between industry belonging and use of incentive program have been found.

Regarding fixed compensation there is a limited correlation between company size and the salary offered to CEOs and the board of directors. In addition salaries have increased quite substantially since 2005.

During the last few years, the number of incentive programs in said companies appears to have increased. The proposed incentive programs for 2009 are nearly identical to the programs used in 2008.

Abbreviations

AGM	Annual general meeting
CEO	Chief Executive Officer
CL	Convertible loan
CO	Call option
EU	European Union
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard(s)
LTVS	Long-term variable salary
PeS	Performance share
PhS	Phantom share
PS	Profit sharing
R&D	Research and development
SEK	Swedish krona
StO	Stock Option
STVS	Short-term variable salary
SyO	Synthetic option
SS	Share saving

Table of contents

List of tables

List of charts

Chapter 1 - Introduction

1.1 Background

With the meltdown of the American mortgage market and the subsequent collapse of the large American investment bank Lehman Brothers in September 2008 the fact that the world faced a major financial crisis was obvious. However, the consequences of the crisis have not been limited to the financial sector. With banks being more restrictive in their lending, several other industries are facing hard times with their financing abilities being severely restricted. The result has been a global recession with falling stock markets, layoffs and decreased consumer spending.

Sweden has also felt the consequences of the current crisis. Between July 2007 and October 2008 the Stockholm Stock Exchange fell by over 50 per cent[1] eradicating values exceeding 1.200 billion SEK[2]. The labor market has also taken a turn for the worse and the Swedish National Institute of Economic Research predicts that 250.000 jobs will disappear until 2010 making unemployment rates reach levels around ten to eleven per cent.[3]

To aid the banks in their ability to loan money, consequently facilitating for households and companies to loan money from the banks, the Swedish government instituted a government assurance program. Under this program, the government commits itself to paying debts which participating banks and credit institutions cannot pay themselves. However the participation in the assurance program is conjoined with certain conditions. One of these conditions are limitations in the remuneration to senior executives, especially with regards to performance-related compensation.[4]

SEB, one of the major Swedish banks did not at first participate in the assurance program but after further deterioration in the conjuncture the bank decided to participate in April of 2009. As a consequence the variable remuneration to the bank's CEO was put in the spotlight and the

[1] E24.se (1)
[2] E24.se (2)
[3] Konjunkturinstitutet
[4] Regeringskansliet

generous remuneration created a debate concerning top management incentives and compensation during times of economic difficulties.[5]

However, debates concerning executive remuneration and bonuses are not a new phenomenon in Swedish media. Other noted cases include, among others, ABB in 2002, Skandia in 2003 and AMF Pension and Volvo in 2009. All of which spurred massive debates on the generous compensation schemes offered to top executives.

In this debate the large variable compensation schemes to top executives is often referred to as "bonuses" without any further description of the details of such programs. For a deeper understanding of the remuneration to top executives it is of interest to further investigate the nature of such incentive plans and to clarify any differences between different types of incentive plans. This is especially the case for the largest listed public companies in Sweden since they have the largest number of shareholders and employees thus having a large impact of the Swedish economy as a whole. Furthermore it is of interest to observe any potential trends over time considering the fact that the bonus and remuneration debate now is a recurring question.

1.2 Problem Description

The cases noted above have received much media attention and have therefore been scrutinized and in the light of the ongoing financial crisis they have received much criticism. However, almost 300 companies are listed on the Stockholm Stock Exchange and it is assumed that a majority of these have different types of incentive programs for management executives and the directors of the boards. The companies with the greatest number of shareholders which receive the most media attention are the ones listed on the Large-cap list at the Stockholm Stock Exchange. Therefore, it is of interest to map what types of incentive programs these companies employ. This leads to this thesis' first question formulation:

- What different incentive programs are used by companies listed on the Stockholm Stock Exchange's Large-cap list?

[5] Dagens Nyheter

Apart from incentive programs, fixed and variable salary are also important components in any remuneration plan. Just as important as mapping incentive programs, a survey on the fixed and variable salary is of interest to anyone seeking better understanding of the remuneration to listed companies' top executives and board of directors. Additionally the long-term incentives programs aimed at top management may differ from those offered to the board of directors. With regards to the above stated this thesis' second and third question formulations are:

- What level of fixed and variable salary is offered to top executives and board of directors in companies listed on the Large-cap list at the Stockholm Stock Exchange?
- In what way, if any, does incentive plans aimed at top management differ from those offered to the board of directors?

Although traded on the same list at the stock exchange, the concerned companies do not constitute an entirely homogenous group but differ in the type of industry they are operating in. Furthermore, even though the study focuses on the Large-cap list and therefore contains the largest listed company on the Stockholm stock exchange the companies vary in their respective sizes. It is therefore of interest to study if the incentive programs utilized by the concerned companies differ according to industry belonging and with regards to size. With regards to these factors, the thesis' fourth question formulation is:

- Does the type of incentive programs employed differ between companies with regards to the type of industry they are operating in or with regards to their respective size?

Lastly, different types of incentive programs can be assumed to vary in popularity over time. What is therefore interesting to examine is if the characteristics of the incentive programs in listed companies are changing over time? In 2005 the use of International Financial reporting Standards was made mandatory for all companies listed on stock exchanges within the European Union. It has now been approximately four years since the concerned companies had to disclose top management and board remuneration according to this reporting framework. This leads to the thesis' final question formulation:

- Since the mandatory appliance of IFRS in 2005, can any trends in the use of incentive programs be observed?

1.3 Purpose

The purpose of this thesis is to map the remuneration schemes to top management and the board of directors in the companies listed on the Large-cap list at the Stockholm Stock Exchange as well as analyze if any trends in the design of incentive plans can be deduced.

1.4 Delimitations

As stated above the main delimitation of the thesis is the focus on the Large-cap list rather than all the companies listed on the Stockholm Stock Exchange. Given the limitations in time devoted to this thesis a total survey was deemed to be too extensive. In addition, since said companies are the largest of the public listed companies in Sweden thus having the largest number of shareholders, employees and other stakeholders they are assumed to be the most interesting companies to observe.

Second, it is assumed that the majority of the programs are aimed at top management and the board of directors. The incentive plans aimed at these recipients are furthermore the ones receiving the most media attention. Therefore, the study will focus on remuneration to top management, including CEOs, and the board of directors. No study on remuneration to middle management or other categories of recipients will be conducted.

Third, the study will focus on remuneration in the form of fixed and variable salary as well as long-term incentive plans in said companies. No attention will be given to other forms of remuneration such as other benefits and pension schemes. In the case of “other benefits” these vary greatly among concerned companies and are therefore difficult to compare, both in terms of the actual benefits offered as well as the economic value of each such benefits. Further, pension schemes valuation, calculation and the concerned reporting regulations is a rather exhaustive topic which easily could fill a thesis paper on its own. Therefore no study on this particular topic will be conducted within the scope of this thesis.

Finally, with regards to the comparative study which aims to observe trends in remuneration over time, the study is limited to past financial reporting on the subject to 2005 due to the fact that reporting according to IFRS was made mandatory in that year. It is assumed that the

financial reporting and disclosure in accordance with the same reporting framework will be required in order to make qualified and reliable comparisons over time.

1.5 Disposition

Methodology

Chapter 2
The research approach used in this thesis is described together with a discussion of the thesis's trustworthiness.

Theory

Chapter 3
The chapter describes the Agency theory as well as presents critique aimed at that theory

Chapter 4
The chapter lists the grounds on which rewards can be based and describes a number of different incentive programs

Chapter 5
The chapter describes the relevant reporting standards regarding remuneration found in IFRS

Empirics

Chapter 6
The chapter presents the thesis' overall findings as well as the findings according to industry and company size

Chapter 7
The chapter presents the findings according to the recipient of the incentive programs.

Chapter 8
The chapter describes trends in incentive programs in 2005, 2008 and 2009

Analysis

Chapter 9
The chapter contains the author's analysis of the thesis' findings

Conclusions

Chapter 10
The conclusions drawn from the thesis' analysis are presented together with suggestions for future research.

Chapter 2 - Methodology

2.1 Executive summary – Choosing approach

In order to map the incentive plans in the concerned companies the annual reports for 2008 were examined. Since information concerning remuneration to senior executive officers is mandatory according to IFRS the annual reports were seen as the best source of information on this matter. Apart from the financial information and the notes to the balance sheet and income statement the corporate governance report included in the annual reports was examined for further information. The study of the annual reports encompassed all 57 companies listed on the Large-cap list.

The incentive programs found in each respective company were classified in accordance with the different types of programs described in the theoretical framework of this thesis. Thus the nature and features, and not the labeling found in the annual reports, of the incentive programs determined the classification of the program in the empirical research of this thesis.

2.2 Research approach

2.2.1 Deductive and Inductive Methodology

When conducting research according to the inductive approach, generalized conclusions can be made based on observations and studies. This is put in relation to the deductive approach where a hypothesis is made and thereafter tested empirically based on existing theories.[6] However, these two methods can be combined resulting in an abductive method. When using this type of approach the empirical purview is developed gradually while simultaneously adjusting the theoretical foundation. As opposed to inductive and deductive methodology, abductive methodology also comprises understanding. When using an abductive approach the analysis of the empirical findings is combined with studies of relevant theories in order to gain a deeper understanding of the subject.[7]

[6] Bryman & Bel pp. 23-25
[7] Alvesson och Sköldberg sid. 42-44

This thesis can be considered, in varying degrees, to follow both the deductive and the inductive method, resulting in an abductive approach. The deductive method is used when mapping the companies' incentive plans, where the thesis first makes a thorough examination of theories, models and frameworks regarding incentive plans and based on these a mapping scheme is developed. However, no hypothesis is developed and tested based on empirical study. The thesis then turn to an inductive approach where focus on analyzing and explaining the results and patterns found in the mapping, falls into theories and conclusions, based on the empirical study.

2.2.2 Quantitative and Qualitative Methodology

The quantitative approach in research can be considered to be an approach that stresses quantification of the collection and analysis of the data,[8] and the approach is essentially based on numerical measurements of data, with the purpose to describe or explain a situation or a phenomena.[9] On the other hand a qualitative approach can be exerted, which is more focused on words than on numbers and measurement.[10] The objects studied in a qualitative approach are individuals, groups of individuals and their surrounding environments. This type of study is often performed through interviews.[11]

Considering this thesis' aim to map and analyze trends in incentive plans used among the companies listed at the Large-cap list, the quantitative approach have been used when measuring and collecting numerical data to draw conclusions when analyzing both historical and future trends. Of course, a qualitative study could have been conducted where information on the incentive programs in the concerned companies would have been gathered through interviews. Given the number of companies (57) that were to be observed this would have been a rather ominous task which would have required a timeframe far more extensive than what was available for this study. A smaller sample of companies from the Large-cap list would have defeated the purpose of this thesis since it aims at providing a total mapping of the incentive programs in the concerned companies. Another possible data-gathering method could have been a survey using questionnaires to gather information from said companies. One of the

[8] Ibid p. 40
[9] Lundahl & Skärvad p. 94
[10] Bryman & Bell, p. 297
[11] Lundahl & Skärvad p. 101

limitations with such a study is that complete answers from the selected study objects is not guaranteed which could result in nonrespones biasing the estimates. The fact that the required information was available for the entire population through the companies' annual reports made a quantitative study of these the most obvious choice.

2.3 Annual reports - Data gathering and selection

Since the population of companies that were to be examined amounted to 57 in totals there was no need to make a sample selection. Hence, a total survey was undertaken in order to map the incentive programs in the companies listed on the Large-cap list. A total survey is of course beneficial since it provides more precise results compared to a sample survey.[12] However it could be argued that the Large-cap list itself is a sample of the total number of listed companies in Sweden. Even so, the Large-cap list does not make up a random sample but contains a fairly homogenous group of companies which leave minimal risk of sample or measurement errors in the main study. The year 2008 was chosen as the studied time period since it contains the newest information available. Although information in the annual reports of 2008 is already out of date no comprehensive information on the incentive programs used in 2009 is available given the chosen research approach, which consisted of examining annual reports. One company, Elekta, had a fiscal year which did not constitute a calendar year. Therefore, Elekta's annual report covered the period May 2007 to April 2008 and subsequently contain information which is slightly older than is the case in the other companies.

For the comparative study, which was aimed at comparing differences in the design of incentive programs over time, a total survey was deemed impractical due to time restraints. Therefore, a sample selection from the total population was needed to perform the study. Since the incentive plans in the concerned companies differed with a few companies having several incentive programs, many having one type of program and some having no incentive program at all a random sample could well have resulted in a sample that did not correspond with the total population with regards to the number of incentive programs in the observed companies. In order to control "chance" to some extent a stratified sample was deemed the most suitable since it allows for a more corresponding sample selection compared to the total population.[13]

[12] Svenning p. 94
[13] Dahmström pp. 215-216

The stratifying variable chosen was the number of incentive programs in each respective company. This resulted in the total population being divided into four strata; each containing companies having three, two, one or no incentive program respectively.

From each stratum two sample companies were chosen at random. The annual reports of 2005 as well as the notifications for the AGMs of 2009 for these eight selected companies were studied to observe differences in incentive programs over time. Since one of the aims of the comparative study was to observe differences between companies with varying numbers of incentive schemes it was deemed best to select the same number of observations from each stratum even though the strata contained varying number of companies. An alternative to this would have been to allocate the sample between the strata according to each stratum's relative proportion of the total population. However this would have created a sample weighted toward companies with only one type of incentive program and since a broader scope containing companies with varying numbers of programs was desired this method was considered inferior compared to the one which was chosen.

2.4 Categorizations of data

For the part of the study which aimed at analyzing trends in incentive plans between companies in different types of industries an allocation of the companies into different categories according to the type of industry in which they are operating was necessary. It was deemed most suitable, with regards to both time and existing knowledge on industry belonging, to make use of an existing established classification rather than produce a new categorization for the sole purpose of this thesis. The categorization chosen is the one found in the Swedish daily economic newspaper Dagens Industri. It is the authors' opinion that Dagens Industri is a credible source and that its categorization is both reliable and accurate.

Another part of the empirical study was aimed at mapping incentive programs in the concerned companies and comparing these with regards to the relative sizes of the companies. A number of variables could have been chosen in order to determine the "size" of each company, such as; stock market value or net sale. With the recent turmoil on the world's stock markets, including the Stockholm Stock Exchange, stock market value was deemed to be too volatile to be used as criterion for said purpose. The criterion chosen to rank the companies according to size was net

sales. Although not a perfect measurement, it was deemed to be more accurate and stable compared to stock market value. Worth mentioning is that three companies, Industrivärden, Investor and Melker Schörling, have had their net sales considerably affected by changes in the value of their respective stock portfolios. This is because their main area of business is portfolio management which has been severely affected by the current financial crisis. Their respective net sales figures might therefore be lower than usual. However, if exclusion of changes in value of their respective portfolios were to be eliminated from net sales they would still be allocated within their respective current net sales intervals. Therefore this does not affect the classification of companies done in this thesis according to net sales.

When it came to studying the remuneration to top management the issue of determining which persons would be categorized as belonging to top management surfaced. The most apparent solution to this problem was to simply use the same categorization as each respective company did in their annual report. This is both practical and reliable from a comparative point of view since all of the concerned companies follow the same rules on disclosure of compensation to top management. The regulations on these disclosures are found in IAS 24 *Related party disclosures* and requires, among other things, companies to disclose any transactions with "key management personnel" as well as provides guidance on whom may be considered to belong to said category of personnel. Thus, a ready-made categorization of top management was available and used in this thesis.

2.5 Classification of data

Before the data gathering began, literature on the topic of remuneration and incentive programs was studied in order to build a more solid understanding on the subject. This type of information is labeled secondary data and consists of information which the researcher has not produced himself.[14] The benefits of such data is that it is already compiled and organized which subsequently makes gathering information on a given subject less time- and resource-demanding.[15] However this type of information brings with it certain limitations, namely that the data material is not known from the beginning which demands that the researcher commits

[14] Bryman & Bell p. 230
[15] Ibid p. 231

considerable time to gain an adequate understanding of it.[16] Aside from the study of literature a study on relevant regulation on reporting disclosures in listed companies was conducted. This consisted of relevant standards found in the International Financial reporting Standards, as adopted by the European Union.

After this initial study on the subject the actual data gathering began. This consisted of the 2008 annual reports of the 57 concerned companies plus the 2005 annual reports and notifications for the 2009 AGMs for the eight companies selected for the comparative study. It should however be noted that annual reports, as well as any other form of documentation produced by companies, are not seen as primary sources as they were not originally intended for a specific type of study such as the research of this thesis.[17]

2.6 Reliability and validity

2.6.1 Reliability

High reliability implies absence of random measurements errors and that the measurement is not affected by circumstances present when it is performed.[18] If the population sample is the same, a measurement study done twice with the same purpose and methods would produce the same result.[19] Consequently, the measurements or observations must be trustworthy to be considered to possess high reliability.

In the sample studied, a small number of the companies' annual reports have not been prepared according to IFRS. The fact that different reporting frameworks have been applied by the studied companies can imply that different disclosure might have been required. Therefore there is a risk, which could affect the reliability, when comparing and drawing conclusions based on companies using different frameworks. This could mean that one company has not reported certain transactions that other companies have been required to disclose, which might affect the reliability in comparisons and conclusions.

[16] Ibid p. 235
[17] Lundahl & Skärvad pp. 132-134
[18] Ibid p. 152
[19] Svenning p. 64

The effects on reliability caused by different reporting frameworks are however limited to three companies, which are ABB group, Autoliv and Lundin Mining. These companies have reported according Swizz GAAP, US GAAP and Canadian GAPP respectively. The impairment of reliability is therefore limited concerning the fact that only three companies have reported in accordance to other reporting frameworks, which have little impact on the conclusions and generalizations made. In addition the financial statements in some of the annual reports studied were expressed in other currencies than SEK. In order to be able compare figures expressed in different currencies re-calculations of these figures were necessary. This could of course have an effect on the thesis' reliability since exchange rate fluctuates, especially in view of the current financial crisis. The exchange rates chosen for these re-calculations were the yearly average exchange rates of 2008 which were obtained from the Swedish Riksbank[20] and must therefore be considered to be both accurate and reliable. Information on which companies expressed their financial statements in foreign currencies can be found in appendix 1.

A second risk concerning this thesis' reliability concerns the sample chosen when analyzing trends and patterns over time. The sample of companies that comprise this study is a selection of eight companies from the Large-cap list. The result might have been different if other companies had been chosen, or if the sample had been larger in this second empirical study whereby generalizations and conclusions in the analysis must be carefully considered. The reliability might therefore be affected considering the trend generalizations are based on a measured and studied sample with eight out of 57 companies. These eight companies' annual reports have all been prepared according to IFRS. With no possible differences in disclosure requirements, the risk of lessened reliability is non-existent.

2.6.2 Validity

Reliability is necessary to achieve validity in an observation or a measurement study. Even perfect measurement instruments can be ineffective if they are applied negligent.[21] Validity is a desirable attribute in a measurement since a high degree of validity implicate that what is aimed

[20] Riksbanken
[21] Lundahl & Skärvad p. 152

to be measured or studied actually is measured and studied. The used measurement variable should be relevant and ensure that the right data is collected.[22]

The variables this thesis has measured are non-changing variables. This thesis must be regarded to possess high validity considering the same variables are measured in each annual report examined. However, the fact that three companies are reporting according to other reporting frameworks than IFRS, certain disclosures might be missing, leading to a minimal impairment of validity. This validity impairment is insignificant and should therefore not affect the generalizations made in the analysis.

2.7 Criticism of sources

The primary data sources in this thesis have been the annual reports of the concerned companies as well the notifications for AGMs of 2009 for the eight companies selected for the comparative study. These are published by the companies themselves and may therefore contain some bias as the companies to some extent are able to control the information contained within these reports. However, since the information contained in the annual reports is regulated by both company law and normative accounting rules in the form of International Financial Reporting Standards it is deemed that the information contained within is truthful and accurate. Furthermore the financial statements of the concerned companies have all been audited and approved by certified public accountants, furthering the assumption that the information is accurate. However it cannot be unconditionally assumed that the information contained within the financial statements is wholly accurate since errors in financial statements have occurred in the past, and probably will continue to do so from time to time in the future. With the limitations on time devoted to this thesis the alternative source of information, interviewing all 57 concerned companies, cannot be seen as a realistic alternative therefore the annual report were the only feasible source available.

Concerning the literature on theory relating to the subject, it is deemed to be written by credible sources thus containing a minimum of bias. Articles from daily newspapers have been used solely in the introductory chapter of the thesis and the possible bias contained within have very limited, if any, impact on the results of this study.

[22] Dahmström p. 263

Chapter 3 – Theoretical frame of reference

This chapter's purpose is to increase the knowledge of theories surrounding the use of incentive plans. The purpose is also aimed at describing the underlying assumptions, to explain why incentives are needed to motivate employees and in what ways this theory can be questioned. First, this chapter explains the Agency theory and why incentives are needed followed by critique aimed towards this theory. Even though the critique is not directly touched upon in the empirical study, it helps give a better understanding of the use or absence of incentive plans. The chapter ends with theories of how to create and design ideal incentive contracts for the most effective ways of motivate employees. Further on this chapter helps this thesis in analyzing the underlying reasons for certain findings in the empirical study.

3.1 The Agency Theory

The Agency theory, also called the principle-agent theory, is often used to analyze and explain situations, in particular in economic organizations, where the interests of one part are dependent of another parts action.[23]

The Agency theory explains how contracts and incentives can be formed to motivate individuals and employees to act according a firm's goal and achieve goal congruence. The Agency theory consists of two parts, the principle and the agent, and exists whenever the former, hires the latter part. In a corporation, shareholders are principles and the CEO and top management are their agents. Briefly explained the shareholders hire the CEO as their agent and expect that he or she will act according to the shareholders interest.[24] The principle-agent relation occurs because the agent often possesses skills and qualities necessary to perform certain activities and tasks in an effective way. The principles often lack these qualities and therefore would fulfill these less effective than the agent.[25]

[23] Langeland p. 38
[24] Anthony & Govindirajan p. 530
[25] Langeland pp. 38-39

These two actors commit to a long lasting contractual relationship and the main issue is the relation between these two parts and how the principle can motivate the agent to act in the principles best interest. The relation between these two starts with a binding contract that aims to control and shape future situations.[26]

The shareholders cannot monitor the agent daily to ensure that he or she is working in the shareholders best interest, and must therefore design a system able to assure that the agent acts to fulfill the shareholders goals and interests. The Agency theory assumes that all individuals act within their own self-interest and that agents not only receive satisfaction from financial compensation. Leisure time, working conditions and flexible working hours are important as well. The principles on the other hand, are assumed to be interested only in the financial returns origin from their investments.[27] However there are a few aspects and problems in the principle-agent theory that is of importance to mention and explain considering the principle and agent often has different interests that contradict with each other. Two important dilemmas between the principle and agent are information asymmetry and risk preferences, which we will explain short down under.

3.1.1 Information Asymmetry

Apart from motivation, the agency theory aims at explaining the problems that can arise in a principle-agent situation. One problem that often arises is incomplete and skew information between the agent and the principal. This problem emerges when a) there is a goal conflict between the principle and the agent and b) when it is costly and difficult to monitor the agent's efforts and actions. The principles are rarely in the position to daily monitor the agent's efforts and activities and because of this the principals has inadequate information about the agents' performance and can therefore never be certain how the agents' efforts have contributed to the firms actual results. Without monitoring, only the agent knows if he or she has performed according to the principles best interests and goals. This situation is referred to as information asymmetry.[28] Further on, the Agency theory does not only presuppose the actors in the theory

[26] Ibid pp. 38-39
[27] Anthony & Govindarajan p. 531
[28] Ibid p. 531

to be rational and to follow their own self interests but also that they further their self interests with deceptive methods also called “self interest seeking with guile”.

The agent may possess more knowledge about the daily situations and tasks that are performed and the principle usually wants the agent to use information that is not available to the principle. This is one of the basic reasons for the principle to delegate responsibility and assignments to the agent. The agency problem can therefore be viewed as an incentive problem caused by the unsuccessful goal congruence or the incomplete and skew information that arise with the agent’s superior knowledge. The agent can be motivated by incentives to act in the principles interest but the monitoring problem remains because of hidden information that only the agent has access to.[29] The problem of the agent misrepresenting the information to the principles for own self-interest causes is of such general nature that the name *moral hazard* has been given to the situation.[30]

3.1.2 Preferences in risk taking

The second problem the agency theory aims to explain are the differences in risk preferences that often exist between the agent and the principle. The two actors in the Agency theory choose different actions due to dissimilar risk preferences. The principle-agent relationship involves sharing the decision power and therefore the risks tied to the decisions. The agent makes decisions for the principle but without bearing the full economical risk of these decisions. This creates reasons for the principles to construct incentives to make sure the agent operate according to the principles interests and goals. The problem is to find a reasonable balance between motivation and risks which is therefore central in forming an incentive program.[31]

The Agency theory assumes that managers prefer more wealth to less, but the marginal utility and satisfaction decreases as more wealth is accumulated. Agents usually have much of their own wealth tied up in the fortunes and survival of the company. The agents often has much vested in the companies since they are evaluated based on the companies performances which makes them risk unenthusiastic. The agent values the increases of wealth from a risky

[29] Langeland p. 41
[30] Anthony & Govindirajan p. 531
[31] Langeland p. 41

investment less than the expected value of the investment. [32] This problem must, just as the problem with information asymmetry, be solved. The principles must make sure to design an effective incentive plan that provides the agent with incentives enough to perform according the principles interest to reduce the information asymmetry and the risk preference barrier.

3.2 Critique of the Agency Theory

An incentive plan is often more difficult to design than the Agency theory proclaim and many firms and corporations spend large amounts of resources on designing these incentive plans. Incentive plans are however not always as effective as they may appear and different forms of criticism has been directed towards the Agency theory and its usefulness.

Some of the critique that has been aimed towards the Agency theory focuses on the lack of noticeable practical influence on the management control process. Critics suggest that there has been no "payoff" meaning that principals are not using the ideas in the Agency theory to create and develop better compensation and incentive plans. The Agency theory further on implies that agents in governmental and non-profit organizations, who cannot receive incentive compensation, will inherently lack the motivation necessary for goal congruence. This kind of reasoning is widely criticized since people are also driven by other motivational factors aside from money.[33]

The Agency theory has also been criticized for shortcomings and limitations, especially from a psychological view for leaving out cognitive aspects, such as conditional and associative learning. It has also received criticism for neglecting social relations. The criticism against the Agency theory can be divided into three groups, which are; criticism from an economical, psychological and a sociological viewpoint.[34]

3.2.1 Critique from an economical viewpoint

[32] Anthony & Govindirajan p. 531
[33] Anthony & Govindirajan pp. 533-534
[34] Langeland p. 46

The relation between the principle and the agent is often more complicated than it appears from economical models such as the Agency theory. Langeland discusses Arrows' three economical limitations of the Agency theory.

- *Communication costs* – This refers to the problems and the costs of designing, implementing and following up on the incentive contracts in the complex relation between the principle and the agent.
- *Monitoring problems* – This refers to the fact that the valuation of the agent's efforts can not always be based on recurrent and unbiased observations. Variations and weaknesses in the monitoring can result in compensation not being as precise as the theory postulate.
- *Social rewards* – The third drawback is that the Agency theory is based on a limited system of rewards and punishments. It focuses almost exclusively on materialistic rewards and compensations and neglects the sociological rewards, which are essential in realistic relations between the principle and the agent.[35]

3.2.2 Critique from a psychological viewpoint

In the usage of incentives there is a risk of emerging reversed incentive effects, where incentives can be perceived as rewards for performing less attractive activities. The notion in this criticism is that the value of an activity is dependent and affected by the price affiliated to the effort. The greater the reward for an activity, the greater is the possibility that those efforts are unattractive or unpleasant to perform. Consequently, the greater the incentives are, the greater the chance that they lower the perceived value of performing the rewarded activities. The incentives can therefore form the character of exterior motivation which can be necessary in solitary occasions to achieve higher temporary efforts, but can also prove to be less effective to change behavior in the long run. To regulate employees' behavior and motivation with incentives can therefore, at worst, lead employees and agents to loose interest and motivation.[36]

[35] Langeland pp. 46-47
[36] Ibid p. 47

3.2.3 Critique from a sociological viewpoint

Regarding the sociological view, there has been many debates and an eager interest to try to explain how social relations affect behavior and institutions such as a company.[37] This expected correlation between social relations and behavior is to be considered as a major part of the criticism towards the Agency theory.

According to the critique, economical actors such as top executives are individuals who are included in social networks which will affect their behavior. Even an institution's shaping and way of working will be affected by contracts between owners and top executives and between top executives and other employees. This will affect the social relationships in the whole company. The fact that behavior and institutions are rooted in social relations, known as "social emeddedness" is considered to been neglected in economical theory according to the sociological criticism.[38]

3.3 Incentive Compensation Contracts

When the principle hires the agent to perform tasks in the principles interest, it is of great importance that the principle designs an incentive plan in the form of the most cost-effective compensation contracts. However, this can be difficult to achieve in practice because of the sometimes weak link between reward and desired behavior.[39]

When creating a contract for incentive compensation, or creating an incentive plan, there are three primary elements. First, different definitions of one or more measures, such as financial measures, must be determined to measure the goal achievement. Second, a standard, e.g. a budget, should be used to measure the degree of success in reaching the predetermined goals.

[37] Langeland p. 48
[38] Ibid p. 48
[39] Sandell p. 40

Third, a description of how the outcome should be linked to the incentive plan must be designed.[40]

In an incentive plan there is normally a top limit on compensation. One of the most common reasons for this is that the agent cannot be seen to deserve an incentive compensation that exceeds a certain predetermined sum. An extremely high outcome is most reasonable a result from uncontrollable factors, rather than the result of the agent's efforts. Furthermore an upper limit of incentive plans and compensation communicates that the company values stability rather than non-stable growth and profitability. A top limit also achieves even compensation over time and that branch, industry and society praxis are followed. The top limit can be said to reduce the company's risk of paying out excessive compensation and helps to achieve legitimacy in the external communication.[41]

However, Merchant and Jensen argue, that a top limit should be avoided and that agents should always be compensated for higher and better outcomes. The costs a top limit can entail in form of lost motivation is high and the risk for outcome and profitability manipulation is great. Such limits give agents incentives to account for reduced profits during a year with high profitability because the high profits would not lead to higher incentive compensation that year. The existance of top limits in incentive plans is something that usually must be adjusted to the norms and values of society.[42]

3.3.1 The Ideal Incentive Compensation Contract

Sandell sums up Merchant and Jensen's six criteria's for creating the ideal incentive compensation contract:

- The contract must include performance measures that are in accordance with the company's overall objectives, which according to Merchant and Jensen, should work in supposition to maximize stockowner value. Such conformity is necessary to motivate the agent to perform in the company's best interest.

[40] Ibid p. 42
[41] Sandell p. 44
[42] Ibid. p. 44

- The measures for incentive compensation used in an ideal contract should be controllable. If the measures used are to great extent affected by uncontrollable factors the less informative they are of the agent's achievements and performance. At the same time the agent's motivation would diminish if he or she would be held responsible for circumstances which he or she cannot control.
- The measures used must be exact and precise and should in a correct way reflect what is supposed to be measured. They must be verifiable and independent of who is measuring, given the same measuring method is used.
- The designed contract must contain predetermined and challenging goals. The reason for this is that most individuals are goal oriented and try to reach predetermined goals and objectives. To set too low predetermined requisite levels sually leads to under performance.
- The rewards and compensation for achieving predetermined goals and objectives should be set to be meaningful and at the same time cost effective for the company. For the company the utility of the agent's performance should exceed the compensation cost.
- The sixth and last criteria focus on the contract being written in a simple way and that it only describes which outcomes the board of directors strive for and which compensation the agent shall receive at a certain outcome. This criterion stresses simple and effective communication to reduce the risk of too many measurements, which can stand in conflict to each other. [43]

All these criteria's should be seen as guidance when designing an ideal incentive compensation contract. Earlier case studies, of companies that have been identified as successful, has shown that simplicity, distinctiveness and not letting the measurement of performance become self-fulfilling are important factors when creating an effective incentive compensation contract or when designing incentive plans as a whole.[44]

[43] Sandell pp. 44-46
[44] Ibid. p. 44-46

Chapter 4 – Designing an incentive plan

The purpose of this chapter is to provide the reader with an overview of the different components of an incentive program. The reason for this is to provide a frame of reference to the reader in order to facilitate understanding of our empirical findings. First, this chapter describes the grounds on which compensation and rewards can be based. Although this is not directly touched upon in the empirical research it is of general interest to someone who is searching for a deeper understanding of incentive programs. Second, a classification of different types of incentive programs is presented. This classification both lists the different types of incentives found in the empirical study and provides a brief explanation of the nature of each type of program. The types of programs listed in this chapter covers those found in the empirical research, thus other types of programs may be in existence in other companies. However, since a description of such programs would not contribute to the understanding of the thesis' empirical findings they are not presented nor described.

4.1 Grounds for Rewards

Rewards within an incentive program are usually based on financial objectives and measurements although non-financial objectives are gaining grounds through e.g. balanced scorecards. The basic premise is that actions which are rewarded are the ones being carried out within an organization. The ground rule is that if one wishes to stimulate a certain behavior among the members of an organization, the rewards should be based on measurements of that behavior.[45]

4.1.1 Rewards based on financial objectives

Traditionally companies have utilized financial performance measurements to reward individuals within the organization. Examples of such performance measurements, on which bonuses and other rewards are based, are return on equity, return on (total) capital and return on

[45] Arvidsson p. 146

capital employed, only to name a few. However, these performance measurements are problematic since they, according to critics, have a tendency to focus only on short-term performance and that there is no clear correlation between short-term earnings capacity and long term increases in shareholder value.[46] Incentive plans designed for CEO:s are often tied to the market value of the company stock. However, an important question is to what extent a CEO can affect the market value of the stock? Market values can sometimes be very volatile and can therefore give rise to significant changes in the amounts rewarded to top management. A study performed at the Royal Institute of Technology (KTH) in Stockholm showed no significant relationship between the increase in the market value of stock and incentive plans in 27 of the most traded companies on the Stockholm Stock Exchange. [47]

4.1.2 Rewards based on non-financial objectives

The use of purely financial measurements as a base for rewarding individuals within an organization has been subjected for lengthy criticism. The critics' focal point has been that financial measurements seem to promote short-sightedness and that individuals within an organization tend to sacrifice long-term investments and performances in order to maximize their bonuses. To come to terms with these problems models combining short-term as well as long-term incentives are being increasingly utilized. Performances are rewarded by using a mix of financial measurements and non-financial measurements such as quality of products, customer satisfaction and level of innovation. One way of doing this is by implementing a balanced scorecard which weighs together these different types of measurements which then are used to asses performance and rewarding individuals.[48] Further, the balanced scorecard is said to foster a balance among different strategic measures in order to achieve goal congruence in an organization. The balanced scorecard assists the company in keeping its focus, improving communication within the organization, setting its organizational objectives and providing feedback on strategy. The following four perspectives are usually included in a balanced scorecard:[49]

- Financial

[46] Arvidsson p. 149
[47] Ibid. p. 147
[48] Ibid. pp. 147-148
[49] Anthony & Govindarajan p. 463

- Customer
- Internal business
- Innovation and learning

4.2 Other components of incentive Plans

As well as the grounds on which rewards are based, the time frame is a key component of an incentive plan. A division between short-term and long-term plans is possible with the former being based on performance in the current year and the latter tying compensation to accomplishments over a longer period of time as well as, in the case of listed companies, being related to the market value of the company stock.[50] However, each system is not perfect and comes with its share of flaws. Classical examples of the problems with too much emphasis on short-term objectives are unmotivated downsizing and arbitrary increases in R&D spending, just to name a few. The problems with long-term plans include the actual possibility to, in reality, connect the rewards with strategic factors. It could for example be difficult to evaluate and reward the performance of a manager if he/she changes position within the company.[51]

4.3 Types of Incentive Programs

Below, a number of different types of incentive programs are listed. They are classified either as short-term plans or long-term plans. Apart from these, there are of course several other ways in which an organization can reward its members such as pension plans and non-monetary rewards such as promotions and recognition. For the purpose of this thesis these have been excluded and the list compiles the types of incentives that are found in the empirical research as stated in chapter one.

4.4 Short-term Incentive Plans

4.4.1 Fixed Individual Salary

[50] Anthony & Govindarajan p. 515
[51] Arvidsson p. 148

The fixed salary is often viewed as the company's main motivational factor. The most common way of setting a fixed salary for privately employed office-holders is by determining the salary by the amount of time worked, usually by a monthly basis. In today's market salary and other forms of compensation is largely determined by individual contracts which are based on achieved results. In a modern salary formation, competence and performance is in the spotlight and in a business oriented organization the salary formation must also support the company's business concept. This means that the salary formation is supposed to create commitment and motivation with the employee in order to promote behavior that supports the company's business concept.[52]

4.4.2 Bonus and performance-related salary

The term bonus is derived from the Latin word for "good" and implies a reward of some sort. Usually it refers to a salary increment when certain organizational objectives have been met or surpassed. Bonuses are usually connected to short-term performance measurements such as the result of the previous fiscal year. Bonuses can either be based on individual performances or collective achievements.[53]

The amount of bonus that is to be paid to employees in a given year is referred to as the total bonus pool. The amount is calculated using a pre-determined formula approved by the shareholders. There are many different ways of determining the formula of which the simplest is to plainly make the bonus pool equal to a percentage of the profits. Although simple, this method has the obvious disadvantage of paying bonuses even if profits are low. Further it neglects the impact of investments on profits and consequently bonuses. An increase in profits with a subsequent increase in bonuses may well be attributed to previous investments even though the overall performance of the company may be less desirable. Therefore the bonus pool is often calculated using formulas that require a certain return on capital.[54]

4.4.3 Tantième

[52] Arvidsson pp. 153-154
[53] Ibid. pp. 155-156
[54] Anthony Govindarajan pp. 515-516

Tantième is a reward in the form of salary increment and is usually reserved for a company's top management and the directors of the board. Tantième is typically determined by pre-determined results such as a share of the profit, turnover or some other financial measurement.[55]

4.4.4 Carryovers

The amount calculated through the bonus formula described above does not necessarily have to be paid out all at once. Instead a part of the bonus pool may be deferred as a carryover for subsequent years. The board of directors decide either how much of the bonus pool that is to be carried over or how much of the accumulated carryover to use if the current year's profit is not enough to allow for full bonuses to be paid out. This allows for more flexibility when paying out bonuses as the board is given an opportunity to exercise its judgment. In addition it smoothes out fluctuations in the bonus payments. The apparent disadvantage of carryovers is that the connection between current performances and rewards is weakened.[56]

4.4.5 Deferred compensation

As an alternative to the total bonus pool and carryovers companies may employ a system of deferred compensation. The formula for calculating the annual bonus amount is the same as for the bonus pool but payments are spread out over several years. The receiver of the bonus earns the total amount in one year but receives only a part of it, e.g. one fifth of the amount, the year during which it is earned. The remaining amount is paid out over the next few years, e.g. one fifth of the amount during each of the following four years. As with the system of carryovers, deferred compensation smoothes over eventual peaks and dips in bonuses due to volatility in profits and allows for the receiver to accurately estimate future income. Deferred compensation also encourages the receiver to think long-term, however since bonuses are not entirely related to the current year's performance it may act as less of an incentive.[57]

[55] Arvidsson p. 155
[56] Anthony & Govindarajan p. 517
[57] Ibid. p. 517

4.5 Long-term incentive Plans

The common denominator for long-term incentive plans is that nearly all are related to the value of the company stock, with the exception being profit sharing programs. An increase in the market value of the stock increases the value of the incentive plans and vice versa. The popularity of the different types of long-term plans has varied and is affected by changes in tax law and accounting treatment.[58] Listed below are the most common types of long-term incentive plans.

4.5.1 Option plans

An option (in a financial context) involves an opportunity, but not an obligation, to buy company stock in the future at a pre-determined price. The options are signed for during a period of time under which the future price of the stock is also determined. The future price of the stock, the "strike price", is usually set at the current market value of the stock plus an increase which varies between 30 to 40 percent. The price of the options varies. Some are wholly subsidized by the issuing company and some are paid for. At the expiration date the holder of the option decides whether or not to exercise the option of buying stock.[59]

There are different types of option plans but they all encompass a contract between the issuer and the holder which states the price at which the holder in the future can by one share. This opportunity has a value which is known as "the premium". Listed below are the main categories of option plans along with description of their respective nature.

4.5.1.1 Employee options

Employee options or restricted stock options are a common component of incentive plans in Swedish companies. The term employee option should however raise some concerns since there is no generally accepted definition of this type of security. It is not uncommon to use the

[58] Ibid. p. 518
[59] Arvidsson p. 159

term as an all-encompassing denomination for all types of options that company employees can acquire. From a legal standpoint this must be considered incorrect or at least rather unfortunate. This is because the term "employee option/restricted stock option" is a term used within the context of tax law and there is no corresponding term in neither civil nor company law. Thus, there is no distinction between e.g. stock options and call options on one side and employee options on the other.[60]

The main purpose of employee options is to postpone the time of taxation for the employee to the date when the option is used or sold. What separates the employee options from other securities options is that under Swedish tax law the former is taxed as ordinary income and the latter as capital gain.[61] Employee options are characterized by limitations in the holder's right of disposition and by long terms to maturity. It is also common that the option cease to exist if the employee decides to leave the company. For the option to be treated as an employee option for taxation purposes three criteria have to be met[62]:

- The option is a result of employment
- The option represents a right to buy stock in the future at a pre-determined price or on other favorable terms.
- From a taxation point of view, the option must not be classified as a security. In short, this relates to the limitations in the holder's right of disposition and normally entails contractual restrictions which state that the holder is prohibited from selling the option or using it as pledge.[63]

As a way of closely tying the employees to the company employee option plans are more effective than other option plans. This is a result of the limitations in the right of disposition and the employment requirement that Swedish tax law pose for the option to be classified as an employee option. On the other hand, this is of course negative from the employee's perspective compared to other types of option plans. However, the employee options are taxed when the employee exercises his/her right to use acquire stock and not when the option is issued, as is the case with other types of options. This reduces the employee's risk of being subjected to negative and unforeseen taxation which must bee seen as advantageous for the employee. For

[60] Borg pp.41-42
[61] Arvidsson p. 161
[62] Borg pp. 41-44
[63] Ibid. pp. 41-44

the issuing company the employee option is subject to employment tax which may cause negative tax effects since the taxation may be higher for employee options than for other types of options.[64]

Since the term employee option is a fiscal and not a legal term, employee options are therefore in reality either a stock or a call option from a judicial point of view. For this reason, employee options have been re-classified in this thesis, on the basis of their respective natures, as either stock or call options.

4.5.1.2 Stock options

Stock options consist of an instrument of debt as proof of a loan from the employee to the issuing company as well as an option to by stock in the future. The instrument of debt is a hindrance when stock option plans are used as incentives since the company's objective is not to loan money from the employee but rather to create beneficial incentives. Under Swedish conditions the instrument of debt is only issued because of requirements under Swedish company law. The instrument of debt is combined with an option to sign for newly issued shares in the company.[65] Usually the instrument of debt and the stock option is issued to a subsidiary of the issuing company rather than directly to the employee. The options are then separated from the instrument of debt by the subsidiary and after a symbolic period of time the loan is repaid leaving the subsidiary with the options only. These are then awarded to the concerned employees who are then able to sign for stock at the expiration date. This solution enables the employing company to more effectively use the stock options as components of an incentive plan since the employees are not at all concerned with the instrument of debt.[66]

If the right to sign for the designated stock is exercised the issuing company issues new shares to be signed by the holder of the option which consequently results in a reduction in the proportion of stock held by existing shareholders, also known as stock dilution.[67]

In terms of making employees long-lasting owners of the issuing company, stock options plans are a well fit form of incentive programs. If the purpose of the program is to enable the option

[64] Borg pp. 45-47
[65] Borg pp. 75-76
[66] Ibid. pp. 75-76
[67] Arvidsson p. 160

holder to realize eventual increases in value of the newly issued stock an actual possibility to sell the stock on the market must exist. For the latter purpose, stock option plans are better suited for listed companies. Apart from dilution another negative feature of stock option plans is that the holder exercises no influence (in terms of voting rights at the shareholders' meeting) over the company, which shareholders do, until he/she actually owns the stock.[68]

4.5.1.3 Call options

The main difference between a stock option plan and a call option plan is that the latter does not require the company in matter to issue new shares. The employees are instead given a right to, in the future and at a pre-determined price, buy stock in the issuing company which the company itself has previously bought. Since the mid 1980's call option plans has become more widely used.[69]

Under Swedish company law it was previously prohibited for a company to acquire its own shares which produced a structure where the main owner of a company issued the call option to the employee and put up its own shares as security. However, since of March 2000 Swedish companies are allowed to acquire a limited share of its own stock, greatly facilitating the use of call options as incentive plans. The increase in the popularity of call option plans can partially be explained by the fact that these plans relate to already issued shares which evades the problems associated with stock option plans, such as signing precedence and stock dilution.[70]

4.5.2 Synthetic programs

4.5.2.1 Synthetic options

Synthetic options differ from other options plans considering that the value of the incentive plan is not formally based on any existing security such as stock. The value of the option is instead based on a constructed "synthetic" value.[71] Since this type of incentive plan is not a "pure" option plan, synthetic options are described under a separate heading for the purpose of

[68] Borg pp. 78-79
[69] Arvidsson pp. 160-161
[70] Borg p. 48-49
[71] Arvidsson p. 161

this thesis. Nevertheless, they bear a great resemblance to call options and the value of the options is in reality highly connected to the value of the company stock.

Instead of a right to acquire company stock in the future, the holder of synthetic options is entitled to a cash settlement at the expiration date of the plan. The option holder also has a right to settle before the expiration date with the subsequent cash settlement being the value of the option at the date of the settlement. The cash settlement, regardless of the date at which the option right is exercised, is the difference in the market value of the company stock and a pre-determined strike price. Therefore the value of the option is referred to as "synthetic". Normally the employee has to pay a premium in order to participate in the plan. Other than the constructed value, the synthetic option bears much resemblance to call options. However, synthetic options are not covered by either civil or company law and is therefore seen as a contractual agreement between two parties, consequently leaving much room for the parties to determine the conditions of the contract.[72]

The main advantage of synthetic options, from the employee's perspective, is that the arrangement itself contains a clear exit possibility. Since synthetic options only involves a cash settlement, and no actual stock, there is neither a need for an additional payment at the expiration date, nor a need to find a buyer in order to realize the increase in value of the options. On the other hand, the employee is not given the possibility to become a shareholder of the company which is often one of the purposes of incentive plans. From the company's perspective the main advantage is that synthetic options do not result in stock dilution, however the cash settlement will have a negative impact of the company's profit.[73]

4.5.2.2 Phantom Shares

A modification of synthetic options is phantom shares. These are awarded to the employee for bookkeeping purposes but do not involve any real stock or options. At the expiration date the holder of the phantom shares is given either a cash amount equal to the appreciation of the

[72] Borg pp. 105-106
[73] Smitt et. al. pp. 63-64

phantom shares or stock equaling that amount. As with synthetic options, phantom shares do not have any transaction costs.[74]

4.5.3 Convertible loans

The use of convertible loans as incentive plans involves the employee lending the employing company a sum of money which, at a pre-determined later date, can be converted into stock. The convertible loan shares many similarities with a stock option plan and apart from being an incentive plan it can also serve as a mean for the company to raise funds.[75]

Convertible loans as a form of incentive plan is mainly a Swedish phenomenon which primarily has to do with Swedish tax law.[76] During the 1980's convertible loans as components of incentive plans were common but during the last decades its popularity has dropped as varying forms of option plans have gained ground. The main explanation for this is that convertible loans require the employee to loan money to the employing company.[77] Since the employee has to have available funds in order to participate in a convertible loan program there is a natural restriction in its usefulness as an incentive plan. The fact that the employing company becomes the employee's debtor also raises some concerns. Should the company run into insolvency problems other loans are prioritized over the convertible loan and if worse comes to worse the employee might not only loose the employment but also the money he/she has lent the company. Another problematic issue concerning convertibles is related to the fact that the current shareholders' ownership is diluted when the convertibles are converted into stock through the issuing of new company stock.[78]

The positive aspects of convertibles are mainly related to the issuing company as away of raising capital. For the holder of the convertible, the main advantage of this type of incentive is the interest received until the time of conversion into stock.[79]

[74] Anthony & Govindarajan p. 519
[75] Arvidsson p. 158
[76] Borg p. 100
[77] Ibid. p. 99
[78] Borg p.100
[79] Ibid. p. 100

4.5.4 Profit sharing

Profit sharing through a trust fund occurs in major corporations with a large number of employees. This type of incentive program is a simple way of rewarding the common efforts of all the employees[80], thus it is not reserved for top management as is the case with many other incentive programs. It is however important to distinguish profit sharing through trust funds from bonuses related to the performance of the company as the latter is determined by the relation between the actual performance of the company compared to pre-determined measurements.[81]

The trust is separated from the company in question and administers its own capital. Each year the trust receives a portion of the company's profits and is designated to administer these funds on behalf of the employees. Each employee is entitled to a portion of the trust's capital based on e.g. the number of years of service.[82] Since the employee's portion of the trust is often based on many years of service and is usually not paid out on an annual basis, profit sharing programs have been classified as a long-term incentive program in this thesis.

4.5.5 Share-based programs

4.5.5.1 Performance shares

When specific long-term goals, usually related to the financial performance of the employing company, have been met, the employee is awarded a number of shares called performance shares. The goal is often to achieve a certain percentage growth of earnings per share over a period of three- to five-year. Since the objective is to achieve growth in earnings this type of incentive plan is not dependent on the price of the stock although the price per share is likely to increase if earnings per share increases. Another benefit is that this type of reward is linked to a factor that the employee, usually a in a management position, can exercise a degree of control over, enhancing the link between performance and reward. A major limitation with performance shares is that "earnings per share" is an accounting measurement thus making the reward dependent on accounting measures of performance. Some actions that management

[80] Arvidsson p. 157
[81] Svensson p. 35
[82] Arvidsson p. 157

takes may well be beneficial to the firm but will not affect earnings per share directly and are therefore not rewarded.[83]

4.5.5.2 Share savings program

In order to participate in a share savings program, the employees of a company are required to invest in company shares offered by the company at market value. After a pre-determined period of time the employee, given that he or she is still employed by the company, is given an opportunity to acquire additional shares often called matching shares. These can be wholly subsidized by the employing company or offered to the employee at a discounted price. The subsequent shares can be combined with pre-determined performance requirements or they may be offered without any additional conditions other than the initial investment.[84]

4.6 Closing remarks

The incentive programs described in this chapter has, as previously stated, been used in order to develop a classification scheme for the thesis' empirical research. This chapter, as well as the classification scheme, was developed throughout the process of the empirical research as well as during the study of literature on the subject. In other words, the selection of incentive programs presented here is a result of our empirical findings and not something that was decided upon before the empirical data was collected.

[83] Anthony & Govindarajan pp. 519-520
[84] Öhrlings PriceWaterhouseCoopers p. 19

Chapter 5 – Reporting framework

This chapter intends to create a deeper understanding for this thesis readers regarding the different incentive programs studied and mapped. It is important to understand how the different incentive programs are treated and how they, in different ways, affect the companies financial statement and balance sheets. It is also important to understand the reporting framework to minimize measurement errors and making sure that the information in the annual reports is understood correctly so it is classified into the right incentive program. The chapter first deals with the standard IFRS 2, which regulates option programs, share programs and synthetic programs. Second it explains the rules in IAS 19 regulating profit sharing and short-term bonuses. Third, the chapter ends with a brief overview of the disclosure requirements on transactions with related parties, found in IAS 24, containing important classifications used throughout the thesis.

5.1 IFRS 2 Share-based Payment

When a company hires employees a contract is designed which regulates the compensation for the services purchased from the employees. The majority of these contracts compensate the employees in form of cash salary. However the company can, as explained above, also compensate the employees for the services purchased with different forms of equity instruments. Certain difficulties surfaces when dealing with the latter form of compensation and two main questions arise; 1) is it a cost for the company to pay compensation in form of the

company's own stocks? And 2) if it is a cost, how should it be calculated? These are the questions that are specified in IFRS 2 – Share Based Payments. [85]

Irrespective if the employee will receive compensation for services in cash or in equity instruments the company will receive the same amount of services from the employee. Therefore the view in IFRS 2 is that the compensation will be accounted for as a cost irrespective of the type of the compensation.[86]

Consequently the objective of IFRS 2 is to specify the financial reporting by an entity when it commence a share based transaction and it requires an entity to reflect the effects of share based payments in its profits and loss account and the effect on its financial position. This also includes expenses affected by transactions of share options granted to employees.[87] There are two main reasons for compensating employees through equity instruments instead of cash salary:

1. One objective is to converge the employee's incentives with the owner's objectives and goals. The employee will receive more compensation if the stock price goes up which will result in harder efforts. This will enhance the probability that the stock will gain in value and the stock owners will receive higher returns.

2. The second commonly seen reason for the use of share based payments is when a negative cash flow can be identified resulting in difficulties in payments of cash salaries. Instead equity instruments are used giving the employees the opportunity of higher compensation in the long run. An example of this is that stock options were commonly used in newly started American dotcom companies.[88]

5.2 Valuation and Reporting according to IFRS 2

[85] Falkman et al. p.46
[86] Ibid. p.46
[87] International Accounting Standards Committee Foundation
[88] Falkman et al. pp.46-47

Even though share based payments most commonly are used in incentive plans for employees, IFRS 2 regulates further transactions where goods are paid with equity instruments.[89] In this thesis the main focus is on the regulations on share based payments with equity instruments towards employees and the compensation for their services provided.

When accounting for share based payments three main questions arise, which are regulated in IFRS 2.

1. The first question is how the transaction should be dealt with at the allotment point.
2. The second question concerns during which time period the financial statements should be affected.
3. The third question concerns how changes in stock value after the allotment point should be treated in the financial reporting.[90]

5.2.1 How to Deal With the Transaction

Regarding the first question, IFRS 2 specifies which side of the transaction that should be valued based on what parts involved. As table 5.1 below indicates, the company can either account for the value based on the equity instruments issued, which is always the case in transactions with employees, or account for the value of the goods or services obtained, which often is the case when obtaining these from outside the company. When it comes to the valuation of services provided by employees it is considered difficult to establish a credible and fair value of those specific services fulfilled, which instead leads to the valuation being based on the equity instruments issued. Goods and services purchased and obtained externally from the company should only be used as valuation base when this can be done in a credible way.[91]

Table 5.1 [92] How to deal with the transaction

	Valuation of purchased service or good	Valuation of issued equity instruments

[89] Ibid. p.47
[90] Falkmanet et al. p.50
[91] Ibid. pp.50-51
[92] Ibid. p.50

Transactions with parties other than employees	Yes, when the transaction involves goods or services seen as normal.	Only if the good or service obtained can not be reliably valued.
Transactions with employees		Always

As stated above, IFRS 2 requires that equity instruments issued as compensation in incentive plans are valued at fair value instead of valuating the services provided from employees. IASB came to this conclusion because it would be difficult to distinguish which part of the employee's services that are compensated with cash salary and which services are compensated with equity instruments.[93]

When using share-based payments through equity instruments the company must immediately value the payment based on the obtained goods and services to the real value. If this valuation is not possible to perform in a reliable way, which is often the case, the value shall be calculated indirectly by reference to the fair value of the issued equity instruments used as payment. The fair value of these equity instruments shall be calculated at the allotment point (IFRS 2 §10-11).

Paragraph 12 follows up on this and states that stocks, stock options and other equity instruments are usually allotted to employees as a part of their compensation program, alongside with cash salary and other fringe benefits. Commonly it is not possible to value the services provided for the whole compensation program separately, without directly calculating the fair value of the issued equity instruments. Further, stock and stock options are at times allotted as a part of an incentive program, rather than a part of the cash salary. By issuing and allotting stock or stock options, beside other compensation, the company pays for additional services from the employees. The fair value of these additional services the company receive are difficult to calculate in a reliable way. Because of these difficulties, the company shall calculate the fair value of the services provided on the basis of the fair value of the issued equity instruments.[94]

5.2.2 The affected time period

[93] Ibid. p.51
[94] IFRS 2, p 12

The question of when and during which time period the cost of the transaction should be accounted for, is also regulated in IFRS 2. The cost of equity instruments awarded to employees shall be accounted for during the time the stock options are earned, which is considered to be from the allotment point up until the expiration date of the equity instruments. In other words, the cost of stock or stock options should be accounted for between the time of the agreement to the point in time when the employees hold the right to receive the stock or the stock options. If these two different points in time coincide, the whole cost will be accounted for immediately at the allotment.[95]

5.2.3 Changes in stock value over time

IFRS 2 sets out measurement and principles for three different types of share-based payment transactions. How the value of the share based payment should be calculated is determined by the type of share-based payment used: [96]

- Equity settled share-based payments are payments whereby the company receives services in exchange for equity instruments from the company. This includes stock option, call options, performance shares, share savings and convertible loans.

- Cash settled share-based payments are payments whereby the company acquires services by incurring liabilities to the provider of the services for amounts that are based on the value or the price of the company's shares. This includes synthetic options and phantom shares.

- Transaction where either the company or the supplier of the services provided can decide if the transaction should be settled in equity or in cash.

If the stock value changes after the agreement with the employee, the value of the service obtained is considered to be the same. Given that the basic assumption is that the value of the transaction is based on the value of the services provided by the employee. Changes in market values of the equity instruments used as payment for these services should therefore not affect

[95] Falkman et al. pp.51-52
[96] International Accounting Standards Committee Foundation

the accounting treatment of the transaction. Consequently, it is not relevant to account for the change in value, which means that no changes in market conditions will affect the financial reporting. However changes in earning conditions, such as employees leaving the company before the expiration date, shall be regarded and reported for because the company's cost will decrease.[97]

Cash settled share-based payments are remunerations that are connected to the company's stock price. The employees receive the remuneration in cash and not in actual stocks, however the size of the compensation is bound to the stock price. The most essential difference between the reporting of equity and cash settled share-based payments is that the later requires listed companies to report changes in the stock value when closing the books quarterly and adjustment of the equity instruments shall be done onwards.[98]

An important difference between these two categories is that cash settled share-based payment is an actual payment, which will affect the company's cash flow. This payment will correspond to the fair value of the equity instruments. Equity settled share based payments are however not a payment that affect the actual cash flow. It is merely a change in equity where an adjustment takes place from retained earnings to other contributed capital.[99]

5.3 IAS 19 – Employment Benefits

The purpose of IAS 19 is to specify how compensation to employees shall be reported for and what disclosures are required. IAS 19 affects this thesis because it regulates, among other incentive programs, profit sharing and short-term bonuses. By explaining certain specific incentive programs regulated in IAS 19, this thesis will provide a deeper understanding of the different components in incentive plans. How the accounting treatment of these incentive programs will also be explained.

These programs are designed to motivate employees to reach certain goal and objectives and different key ratios are used to determine the extra compensation in excess of the fixed cash

[97] Falkman et al. pp.52-53
[98] Falkman et al. p.55
[99] Falkman et al. pp. 212-213

salary.[100] The reporting of short-term compensation such as profit sharing and short-term bonuses are in general uncomplicated because they do not require any accrual assumptions to calculate the cost or commitment made because there is no possibility that these programs will affect profit and loss once they have been initially accounted for. IAS 19 does not require the company to calculate profit sharing or short-term bonuses using discounted figures (IAS 19 §9). According to IAS 19 §17, the company is neither required to account for the expected bonus or profit sharing cost unless it has a legal or informal obligation to do so and a reliable calculation of this cost can be made. Even if the company does not have a legal obligation to compensate employees with a bonus, it can in some cases be regarded as praxis. In a situation where bonus is considered as praxis, the company is considered to have an informal obligation to report the estimated cost (§19). If the calculated profit sharing or bonus is not due for payment within twelve months, the cost shall be reported as long-term remuneration, which requires different reporting with more details and calculations, such as interest (§22).

5.4 IAS 24 – Related Party Disclosures

IAS 24 concerns related party disclosures and regulates certain aspects important for this thesis. As this standard, among other things, regulates disclosures surrounding transactions with related parties, such as certain employees, existing classifications and definitions found in the standard have been used in this thesis.

According to this standard a related party constitutes, among others, a member of the key management personnel of the entity or its parent. Further, it is stated that the definition of key management personnel are those persons having authority and responsibility of planning, directing and controlling the activities of the entity, directly or indirectly, including any members of the board of directors (§ 9).

The reporting company shall furthermore disclose compensation to key management personnel in total and for each of the following categories (§ 9).

a) Short-term employee compensation
b) Post-employment compensation

[100] Ibid. pp. 212-213

c) Other long-term compensation
d) Termination compensation
e) Share-based payments

This thesis has used the classifications found in this standard as well as definitions and categorization of key management personnel due to the fact that the observedy companies are obligated to report disclosures according to this standard.

Chapter 6 – Remuneration according to company size and industry

The first empirical findings of this thesis will be presented in this chapter. In order to present the information in a comprehensible manner and thus facilitating the reader's understanding of the findings the empirical findings have been separated into three parts. Hopefully this will provide a clear illustration of the incentive plans in the concerned companies. First, a general mapping of the different plans will be presented in order to give a brief overview of the thesis' findings. Subsequently a mapping on the incentive programs in observed companies with regards to the relative sizes of the companies will be presented. Finally, to observe if any trends with regards to industry belonging are present, the incentive plans found in the varying categories of industries will be presented.

6.1 Total number of incentive plans

Table 6.1 presents the total number of long-term incentive plans found in the observed companies divided into the different program categories. There were a total of 64 programs in place in the 57 companies. Fourteen companies had no form of long-term incentive programs in place during 2008. As a result the 64 programs were distributed between 43 different companies. Some companies had several types of programs in use while others had none.
For more details on each company the reader is referred to appendix 1.

In chart 6.1 the programs have been grouped into categories according to the similarities found between different types of programs. Consequently call and stock option programs have been unitized into “option programs” due to the fact that the underlying feature of both is an option to buy stock in the future. Synthetic options and phantom shares have been paired into “synthetic programs” since neither of these involve any real underlying security. Share bonus and share saving programs have been grouped into “share-based programs” due to the fact that the values of both are based on the company stock, without any involvement of options for that matter. Lastly, convertible loans and profit sharing constitute two separate categories since neither bears much resemblance to either of the other programs.

Chart 6.1 provides a clear picture of the popularity of the different types of programs in the concerned companies. Cleary share-based programs are the most utilized programs closely followed by option programs. Synthetic programs and profit sharing are less common and convertible loans are almost nonexistent with only one such program in place.

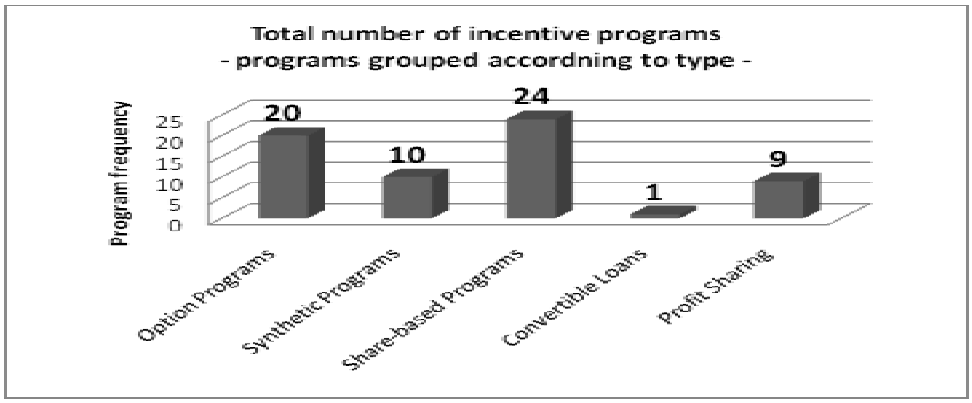


Chart 6.1

Chart 6.2 is more specific than chart 6.1 and presents the different programs separately. It shows that among the programs, share savings programs are the most common and convertible loans the least common. It shows that of the share-based programs, share savings are slightly more frequent compared to performance shares. Among the option programs, which is the second most popular category, call options are somewhat more frequent compared to stock options. In the category containing synthetic programs, there is little difference in the frequency of synthetic options and phantom shares. Profit sharing, which makes up a category of its own, now rivals the other programs in popularity as they are presented separately. Again, convertible loans are almost non-existent.

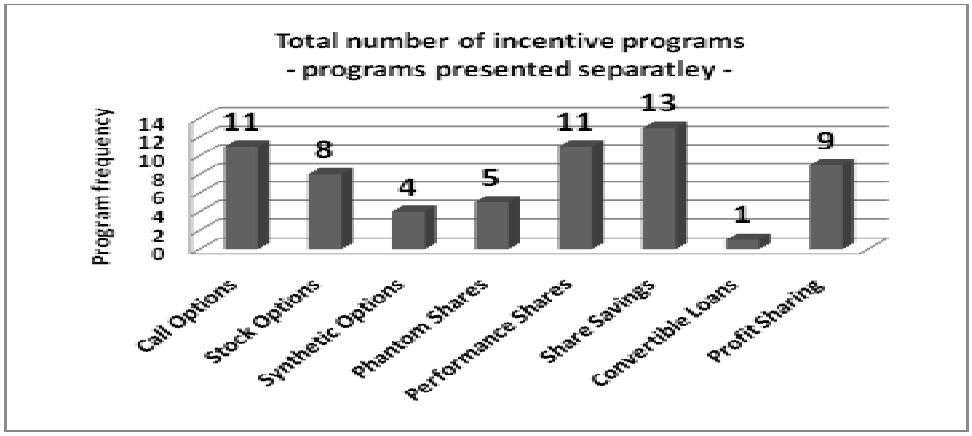


Chart 6.2

6.2 Incentive plans according to company size

The companies examined were classified according to their net sales and were divided into three categories. By doing so eventual patterns, based on the companies' size, in incentive programs used are mapped. The frequency of the different incentive programs are shown in percentage to show differences or similarities in the use of different incentive programs between the net sales intervals. Because the intervals contain varying numbers of companies a percentage of incentive program use will better illustrate a comparable use of incentive programs. 36 companies are located in the interval ranging from 0-49 billion SEK in net sales. Eleven companies are located in the interval ranging from 50-99 billion SEK and ten companies are found in the interval exceeding 100 billion SEK in net sales. The results from the companies studied are presented in chart 6.3 and table 6.1.

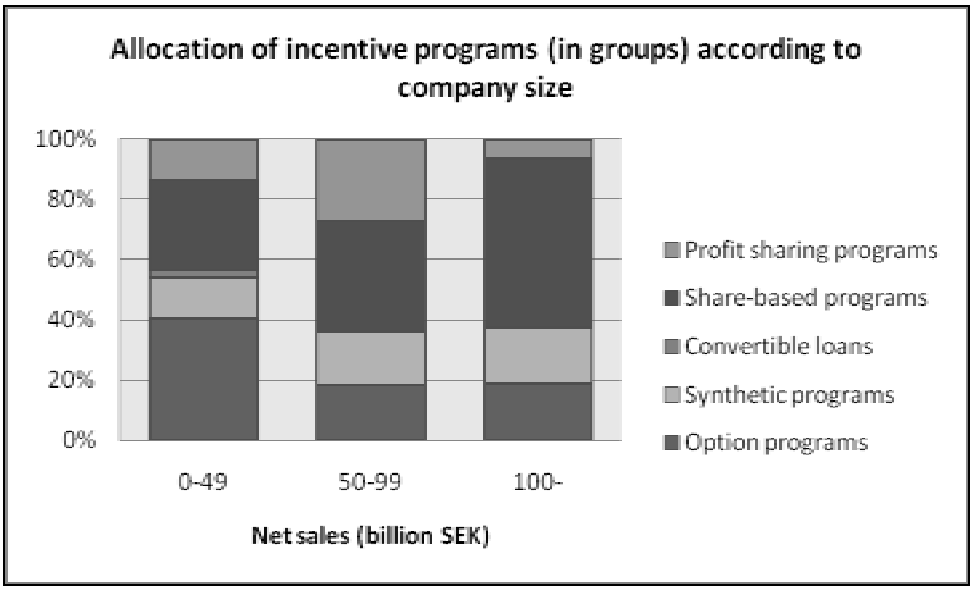


Chart 6.3

Table 6.1 Allocation of incentive programs (in groups) according to company size

	Type of program									
Interval (billion SEK)	Profit sharing		Share-based		Conv. loan		Synthetic		Option	
	%	No.	%	No.	%	No.	%	No.	%	No.
0-49	13,5	5	29,7	11	2,7	1	13,5	5	40,5	15
50-99	27,3	3	36,4	4	0	0	18,2	2	18,2	2
100-	6,2	1	56,3	9	0	0	18,8	3	18,8	3

After mapping the results from the study, several patterns are observable. First, it clearly appears that companies in the interval exceeding 100 billion SEK in net sales to a higher degree use of one or more incentive program in their incentive plans for top-executives. The share of companies not using any incentive plan is about a quarter in the first two intervals compared to one fifth in the interval containing the largest companies.

The second pattern that is observable is that the employment of share programs increases with size of the company. In the first interval share programs constitute 29,7 per cent of the total number of incentive programs used, in the second interval they constitute 36,4 per cent and in the last interval the corresponding figure is 56,3 per cent. This clearly points to the fact that share-based programs are a fundamental part of incentive plans in the larger companies.

A third pattern that can be observed from the chart and table above is how the use of option programs tends to differ between the intervals. In the first interval option programs constitute

40,5 per cent of all incentive programs. In the second and third intervals the corresponding figure is 18,2 and 18,8 per cent respectively. It appears that option programs are more common in the smaller companies observed in this study and that this type of program tends to decrease in frequency as the companies size increases. Lastly, synthetic programs tend to increase slightly in relation to company size.

However some patterns of these programs used in the companies incentive plans can be more thoroughly explained by showing the different programs separately without combining them into groups as was done above. This is shown in chart 6.4.

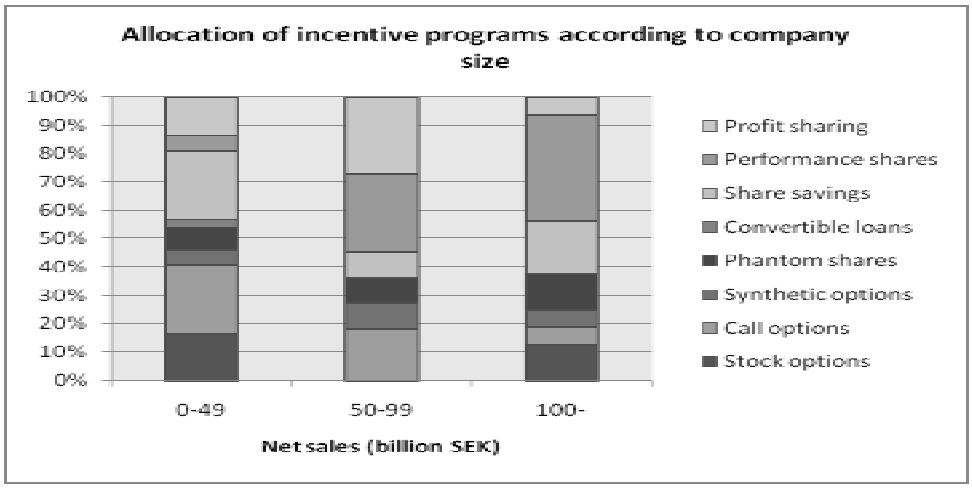


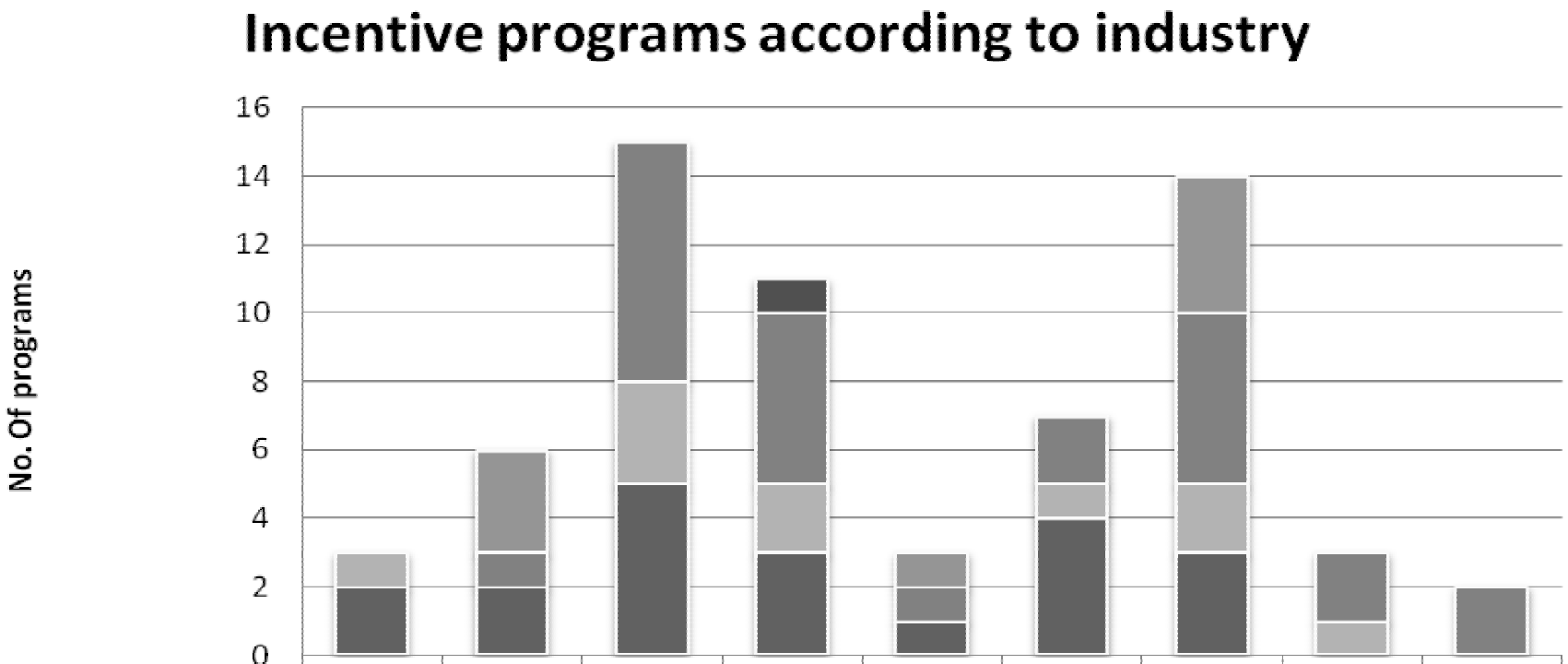
Chart 6.4

The chart shows that the decrease in the use of option programs in the third interval is explained by the fact that the use of call options is reduced in these companies. Regarding the use of share-based programs, the use of share saving programs remains largely the same across the three intervals while the use of performance shares increases with the size of the companies. This is explains the high degree of share programs among the largest companies. The observed increase in synthetic programs through the intervals is explained mainly by the fact that that the use of phantom shares tend to increase slightly in relation to company size.

6.3 Incentive plans according to industry

By classifying the companies by line of trade, comparisons and conclusions can be made on how the incentive plan structure might differ across industries. The companies listed on the Large-cap list can be divided and categorized into nine industries (See appendix 3 for industry

classification). The categories contain different number of companies, which makes the ability to make comparisons limited as some categories contain very few companies. However, as four of the categories contain almost three quarters of the total number of companies, it was deemed interesting to at least compare these four industries. The remaining five categories have also been examined, although the results from these observations are limited in their generalizability. When analyzing the data gathered and mapping the incentive plans, programs for both the board of directors and top management have been included. However, incentive plans in this section exclude fixed salary and short-term variable bonus and only concerns different specific long-term incentive programs. The results from this study are illustrated in chart 6.5.



	Energy	Material	Industry	Commo-dities	Consumer Goods	Health-care	Finance	IT	Telecom.
Profit sharings	0	3	0	0	1	0	4	0	0
Convertible loans	0	0	0	1	0	0	0	0	0
Sharebased programs	0	1	7	5	1	2	5	2	2
Synthetic programs	1	0	3	2	0	1	2	1	0
Option programs	2	2	5	3	1	4	3	0	0

Chart 6.5

6.3.1 Energy

Of the companies selected in for this research, three companies belong to the energy industry. Out of a large group of companies this is a small industry where the information gathered must be generalized with care.

Of the three of the companies examined in this industry, two are using option programs in their incentive programs and both of these option plans are stock option plans. The company not using option programs is instead using a synthetic program as their incentive plan. However, with the relatively small number of companies found in this industry, no concrete patterns can be established.

6.3.2 Material

The material industry compiles six companies in this study with a variety of incentive programs used. Out of the six companies studied one company is using more than one incentive program and one company does not have any long-term incentive program whatsoever.

The tendency found in the material industry is that profit sharing is the most frequently used incentive program, utilized by three companies. The second most common category of incentive programs used is options, used by two companies. One company used share-based programs in their incentive plans and this share-based program was used in combination with a profit sharing program. Profit sharing programs can, according to this limited study, be considered to be the most common incentive used in the material industry.

6.3.3 Industry

The industry business consists of 16 companies. Out of these 16 companies, three use more than one program in their designed incentive plan. More than one third of the companies in this category (37,5%) have chosen not to use any form of long-term incentive program. As

can be seen in table 6.5 there is a limited variety of incentive programs used in the different companies with share-based, option and synthetic programs being the only types of incentives used in this industry. In total there are seven share-based programs in place and five option programs. Synthetic programs constitute the smallest category with three such programs in place and these where used combined with other forms of programs. The trend in the industry business is therefore clear; the companies having incentive plans use either share-based programs or option programs, which correspond with the overall trend on the Large-cap list. However a larger proportion, compared to the total number of studied companies, of the companies in this type of industry are not using incentive programs at all.

6.3.4 Commodities

The commodity industry consists of six companies and all of them employ at least one incentive plan. All companies but one is employing share-based programs and the only company not using a share-based program is instead using an option program. All other companies are using option programs, synthetic programs or convertible loan in combination with share programs. Only one company in the entire study is using convertible loan as an incentive, and can therefore be seen as an exemption.

The pattern in this industry implies that the use of share programs, with option or synthetic programs in combination with these is the most common type. It is also clear that the use of incentive programs in general is popular within the industry as all companies in this category have one or more programs in place.

6.3.5 Consumer Goods

The consumer goods industry consists of three companies.. Out of these three companies no conclusions or pattern can be made as the number of companies in this industry is small and the programs used are widely spread. The study found that one company does not use an incentive plan while option programs and profit sharing where used by the second company and share programs where used by the third company.

6.3.6 Healthcare

The healthcare industry includes four companies who all are using of incentive plans. Out of these four companies three are using option programs, and one of these companies is using both stock and call option programs. Share programs however are used by two companies where one of them is using the share program solely and the other company in combination with its option programs. Only one of the companies is employing synthetic options, and it is used in combination with an option program. The pattern found in, with reservations in the generalization due to the small number of companies in this category, is that option programs are the most commonly used programs.

6.3.7 Finance

The listed finance industry contains 14 companies. A uniform structure or pattern in this industry's incentive plans is at first sight hart to establish. All forms of incentive programs, except convertible loans, are found. Five companies are not employing any incentive program which is a rather large proportion (35,7%) compared to the total number of companies observed (24,5%). The pattern observed in these companies is that share-based and profit programs are the most commonly, followed by option programs. Synthetic programs are combined either with option or share programs. Regarding profit sharing programs there are two companies using these solely in their incentive plans while the other two have combined profit sharing with share-based programs.

6.3.8 Information/Technology

The Large-Cap list only represents two companies from this industry, which leaves little room for generalizations with substance. Both companies are using share-based programs where one of the companies has combined it with synthetic options.

6.3.9 Telecommunication

The telecommunication industry consists of only three companies. As stated above this should insinuate caution when generalizing patterns for the industry. In the telecommunication industry two out of the three companies employ share programs and one company do not use any type of incentive plan. Combined with certain industry similarities with the IT indsury, a generalization can be made that share program is the most common incentive program in these two industries

6.4 Closing remarks

When studying the usage of incentive plans in relation to the industry belonging a wide spread of the different incentive programs where found. In four of the industries, share-based programs were the most commonly used, while option programs were most common in two industries and the two were equally frequent in one industry. Option programs were used in seven of the nine industries and share-based programs in eight of the nine industries.

Synthetic programs were used in of six industries although not especially frequently in any of those, but rather in combination with other incentive programs. Profit sharing on the other hand was used in four of the nine industries and most frequently in the material and finance industries. The study established that patterns of incentive plans specific connected to a certain industry were difficult to find. Many of the different incentive programs were used in several industries and even though some were varying in frequency across industries, the differences where not especially apparent.

Chapter 7 – Remuneration according to recipient

In this chapter the remuneration in the observed companies will be presented according to the recipient of the various incentive programs. These have been categorized into four broad categories: CEO, other senior executives, chairman of the board of directors and lastly the board of directors. As stated in chapter five, IAS 24 demands disclosure of transactions with key management personnel including said categories. The categorization of recipients has therefore been made in accordance with the disclosure requirements in said standard.

7.1 Fixed compensation to top management

Fixed individual salary is an important component in the total remuneration of a company's top management. In this section a mapping of fixed compensation in the concerned companies will be presented. There was however limitations in this mapping resulting from the data observed. First, data on fixed compensation for senior executives other than the CEO was largely unavailable. In the annual reports such compensation was often presented as a lump sum and since the number of "other senior executives" varied from company to company no reliable information could be extracted from the data material. Second, it is assumed that not all senior executives in one particular company enjoys the same level of fixed compensation which makes gathering reliable information even more difficult. Thus mapping of fixed compensation was only possible in the case of the CEO whose salary is reported separately in the annual report. The aim was to present the CEO's fixed compensation excluding eventual benefits such as a company car or subsidized housing etcetera. However, four of the concerned companies did not report the CEO's salary and benefits separately but rather as a lump sum making those observations misleading. Thus, these four observations are not included when statistical calculations were performed.

7.1.2 Fixed compensation to the CEO

Fixed individual salary to the CEOs in the concerned companies ranged from just under 2MSEK to just under 16MSEK. Ericsson is at the top of the list, offering 15.750.000 SEK to its CEO and P A Resources is at the bottom of the list with its CEO receiving 1.837.000 SEK

on an annual basis. As can be seen in table 7.1 the mean salary for a CEO in the concerned companies was 7.114.000 SEK and the median salary was 6.991.000 SEK.

Table 7.1 – Fixed salary CEO

Unit of Measurement	SEK
Mean	7.114.000
Median	6.991.000
Maximum	15.750.000
Minimum	1.837.000

Chart 7.1 shows the allocation of the concerned companies in intervals based on their respective fixed CEO salary. The spread is rather broad but a large proportion are located in the two intervals ranging from 4.000.000 SEK to 7.999.999 SEK which corrsponds well to the mean and median salary presented above. Almost twice as many companies (19), or one third of the total, are located in the intervals exceeding 7.999.999 SEK compared to those that are located in the intervals falling short of 4.000.000 MSEK (10).

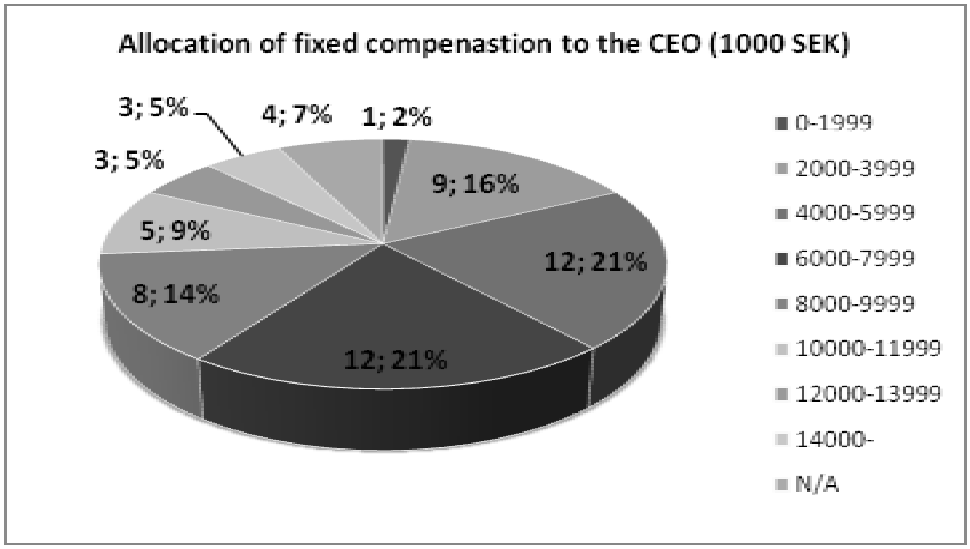


Chart 7.1
Companies for which there was no reliable available information included: H&M, Holmen, Hufvudstaden and Oriflame

It was also deemed interesting to study if the size of the fixed compensation to CEOs could be linked to the relative size of each respective company. Chart 7.2 shows the relationship between the fixed salaries offered to the CEO and the size of each company measured as the reported net sale figure. As can be seen from said table there is a certain degree of correlation

between company size and the salary offered to the CEO, however the link is rather weak with many observations deviating from this pattern.

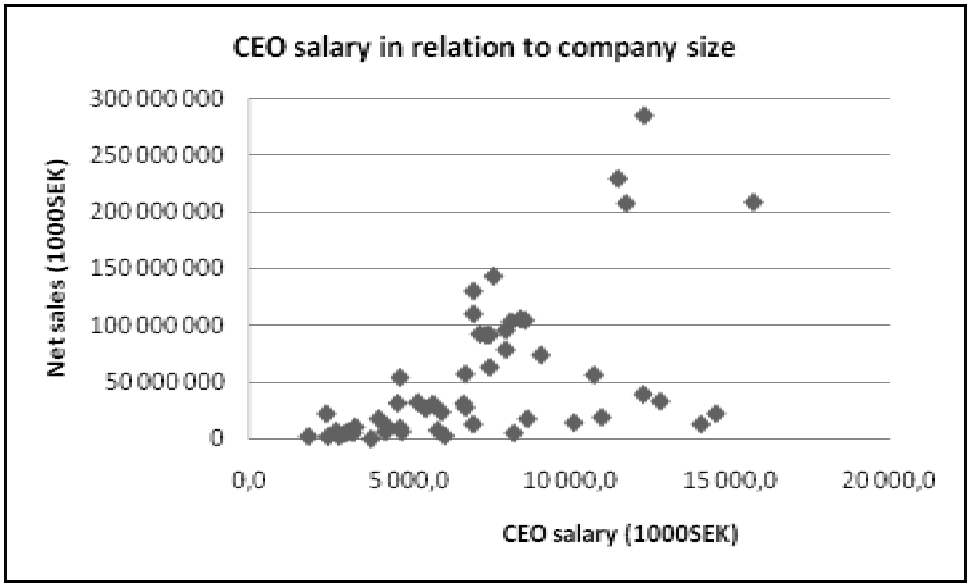


Chart 7.2

7.2 Variable short-term compensation to top management: bonus and tantième

As described in chapter four of this thesis, bonuses and tantième refers to short term salary increments based on pre-determined measurements. They are usually paid out when such performance-related objectives are either met or surpassed. When compiling the retrieved data bonus and tantième were unitized into one category labeled "short-term variable salary, abbreviated STVS". What distinguishes this category from the below described category "LTVS" is that it is paid out over the course of one year rather than over several years.

Apart from solely mapping if any STVS-plans were in place in the concerned companies a study on the "caps" on the respective STVS-plans was also conduced. A cap refers to the maximum amount of variable salary a company is offering to the concerned employee and is measured as a percentage of the fixed salary offered to that person. E.g. a cap of 50 per cent implies that apart from the fixed salary, the employee may be entitled to a variable salary that at most could amount to half of the fixed annual salary.

The grounds on which STVS was determined were numerous and included, among other factors, a percentage of the company's profit, growth in turnover, return on investments and several other measurements. However, the information provided on this mattered differed greatly in quality from one company to another and some did not provide any information at all on the grounds for STVS. Thus, a mapping of such grounds would have provided very little information and was subsequently left out of this thesis.

7.2.1 Short-term variable salary for the CEO

In total, 50 of the 57 companies studied offered STVS to their CEO. Chart 7.3 shows the allocation of these STVS plans in intervals based on the maximum STVS offered. Seven companies did not offer STVS and nine companies did not disclose the cap on the STVS consequently labeling tem as "not available" in the chart. A majority (52%) of those companies offering STVS are located in the two intervals with caps ranging from 50 to 99 per cent of the fixed salary. There are more than three times as many companies (19) in the intervals exceeding a 99 per cent cap than there are in the intervals falling short of 50 per cent (5). The company with the "highest" cap was Elekta and the company with the "lowest" cap was Hufvudstaden, with caps of 160 and 16 per cent respectively.

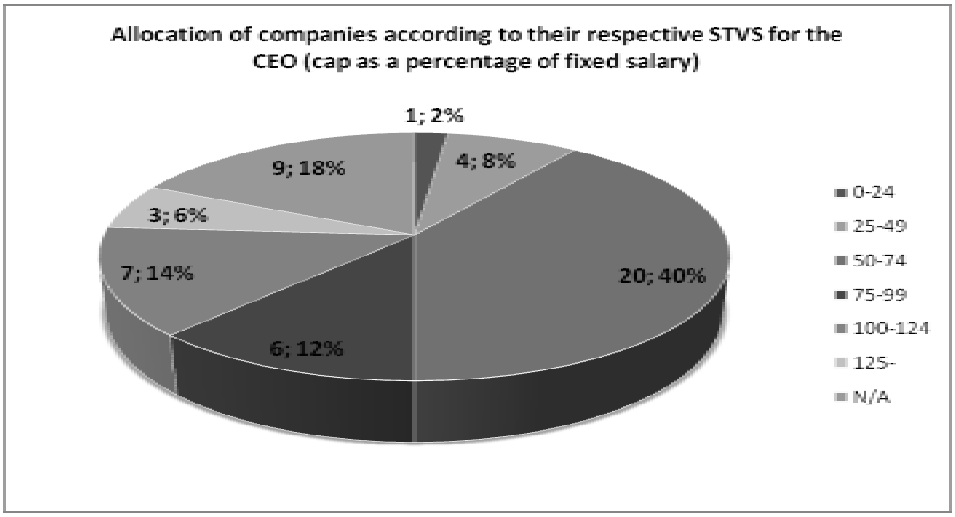


Chart 7.3
Companies with no STVS for CEO:s included: Fabege, Holmen, Melker Schörling, PA Resources, Ratos, SHB and Swedbank
Companies not disclosing the cap on the STVS for the CEO included: Astra Zeneca, Autoliv, Ericsson, Hexagon, Lundin Mining, Meda, Millicom, SEB and SKF.

7.2.2 Short-term variable salary for other senior executives

Slightly more companies offered STVS to its senior executives compared to those that offered STVS to their CEO. Of the 57 companies observed, 51 had STVS-plans for its senior executives, excluding the CEO. Of these 51 companies 13 did not disclose any eventual caps on the STVS consequently labeling them as "not available" in chart 7.4 presented below. The chart allocates the companies in intervals according to their respective cap on STVS for senior executives. The spread of the companies between the intervals is more even than in the corresponding chart for STVS for CEO:s and no clear trend can be observed. The company with the "highest" cap was Securitas and the company with the "lowest" cap was Swedbank, with caps of 200 and 25 per cent of fixed salary respectively.

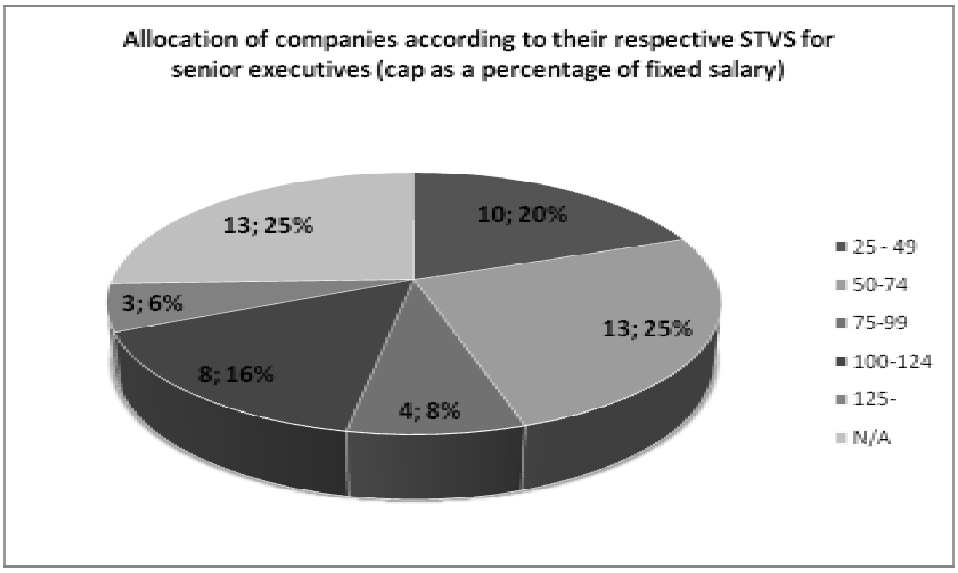


Chart 7.4
Companies with no STVS for senior executives included: Fabege, Holmen, Melker Schörling, PA Resources, Ratos and SHB
Companies not disclosing the cap on the STVS for senior executives included: Astra Zeneca, Autoliv, Ericsson, Getinge Hexagon, Hufvudstaden, Lundbergföretagen, Lundin Mining, Meda, Millicom, SEB, Skanska and SKF

7.3 Variable long-term compensation to top management: deferred compensation and carryovers

As stated above and in chapter four of this thesis, deferred compensation and carryovers differ from bonus and tantième with regards to the time period of their payment to the employee.

While the two latter are paid out all at once within a year from the time during which they were earned, deferred compensation and carryovers are disbursed over the course of several years. For the purpose of mapping this type of compensation in the concerned companies the two types were unitized into one category labeled “long-term variable salary”, abbreviated LTVS.

As with STVS the grounds on which LTVS was based, differed greatly among the companies or were not disclosed at all. Therefore these will not be presented in this thesis. For the same reason the caps on the respective LTVS plans will not be presented either. Therefore, the mapping of LTVS plans is simply one that presents if this type of program was present or not in the observed companies. As there were very few companies which had LTVS-plans which included senior executives, but excluded the CEO no division of LTVS-plans into two categories (CEO and senior executives), was made as was the case with STVS-plans.

As can bee observed from chart 7.5 a large majority of the observed companies did not have any form of LTVS plan. Only 12 out of the 57 companies had such a plan in place, making them far less common than STVS plans. Two of the companies with LTVS plans, Assa Abloy and Securitas, excluded the CEO from their respective plan consequently making LTVS plans for CEOs less common than LTVS plans for senior executives.

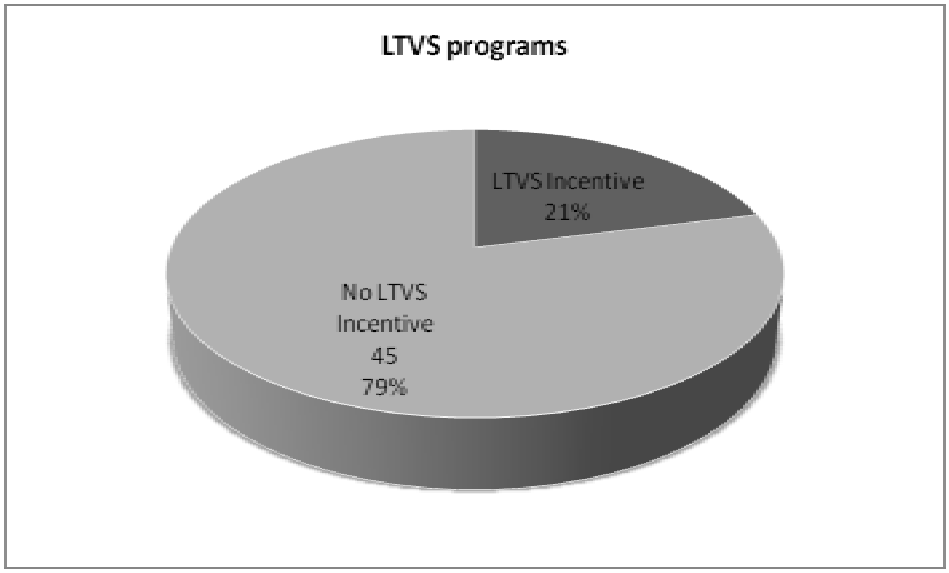


Chart 7.5
Companies with LTVS programs included: Alfa Laval, Assa Abloy, Elekta, Lindab, PA Resources, Ratos, Sandvik, SCA, Skania, Seco, Securitas and Trelleborg

7.4 Incentive programs aimed at the top management

After compiling the data retrieved from the observed companies it became apparent that there was no significant difference in the incentive plans offered to CEO:s compared to those offered to other senior executives. That is to say, if a company offered one type of incentive plan to its top management it was almost without exception offered to both the CEO and to other senior executives. One company, Melker Schörling, deviated from this pattern by offering a call options plan solely to the CEO and not to other senior executives.

Due to these circumstances, presenting a chart of the incentive plans offered to top management is clearly redundant as it would provide very little additional information other than that which can be retrieved from table 6.2. The reader is however urged to observe the fact that table 6.2 contains information on incentive plans aimed at both top management and the board of directors. If the plans aimed at the board of directors were to be excluded from said chart (thus creating a chart that could possibly have been included in this section of the thesis) the only difference would have been that the number of Phantom Share programs would have been one.

7.5 Fixed compensation to the Board of Directors

When analyzing the data gathered it is clear that the main way of rewarding the board of directors is through fixed individual salaries. The vast majority, 48 companies, rewarded the board of directors with fixed salaries only. The sizes of the salaries varied greatly as can be seen in table 7.2. The ABB Group has the most generous salaries for its board members with each receiving 1.818.000 SEK in annual compensation. Melker Schörling has the lowest level of compensation for its board members with each member being compensated with 100.000 SEK annually. The mean salary for a board member in 2008 was 413.500 SEK with the median salary being 375.000 SEK. The figures observed were fixed salaries only and do not contain the compensation board members receive for being part of different board committees such as the audit committee or the remuneration committee. The reason for the exclusion of such compensation is that not all board members are part of such committees which would make the data presented misleading as it aims at presenting the fixed compensation for board members in the concerned companies. For ten of the 57 companies studied, no accurate data

on the fixed compensation for the board members could be retrieved. There are several reasons for this. The main reason is that the fixed compensation and the compensation for committee engagements were presented as a lump sum which made inclusion on the premises described here impossible. Other reasons include that the salaries were not presented at all or that the total compensation to the entire board was presented but not the compensation to the individual board members.

Table 7.2 – Fixed salaries Board of Directors

Unit of Measurement	SEK
Mean	413.500
Median	375.000
Maximum	1.818.000
Minimum	100.000

Chart 7.6 shows the allocation of the fixed compensation to the board of directors in intervals of 100.000 SEK. Of the companies from which reliable data could be retrieved (47), a great proportion of the salaries are allocated in the two intervals ranging from 300.000 to 499.000 SEK. Given the mean and median salary presented above this appears rather reasonable. There are fewer companies (8) allocated in the three intervals with salaries exceeding 499.000 SEK than in the intervals that fall short of 300.000 SEK (13).

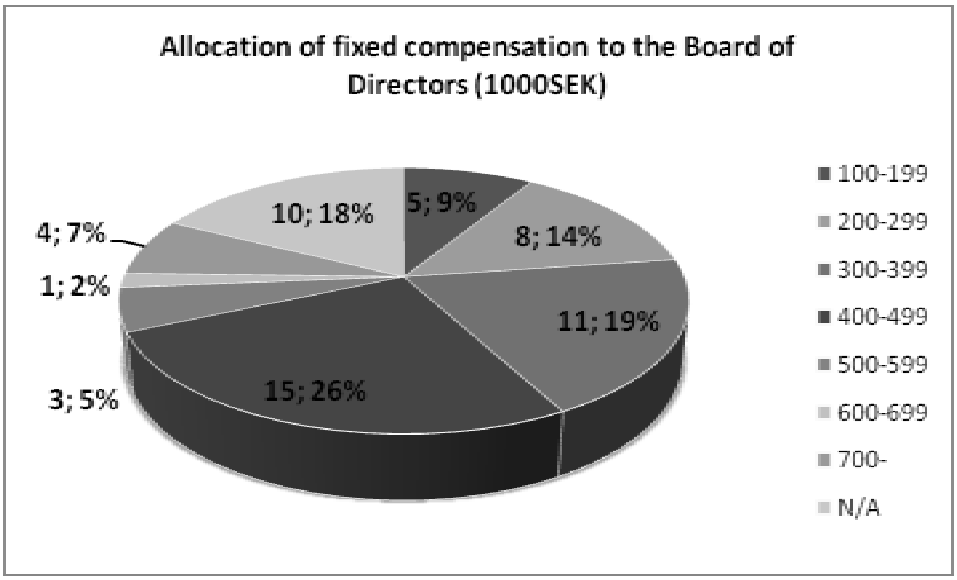


Chart 7.6
Companies for which there was no reliable available information included: Astra Zeneca, Electrolux, JM, Kinnevik, Lundin Petroleum, Millicom, MTG, Ratos, SHB and Stora Enso,

As with the salaries offered to CEOs the fixed compensation offered to the board of directors in each respective company was compared with the size of the company in terms of net sales to see if any correlation between company size and board member remuneration existed. This is illustrated in chart 7.7 and as can be seen, there is a degree of correlation, although the link appears to be rather weak.

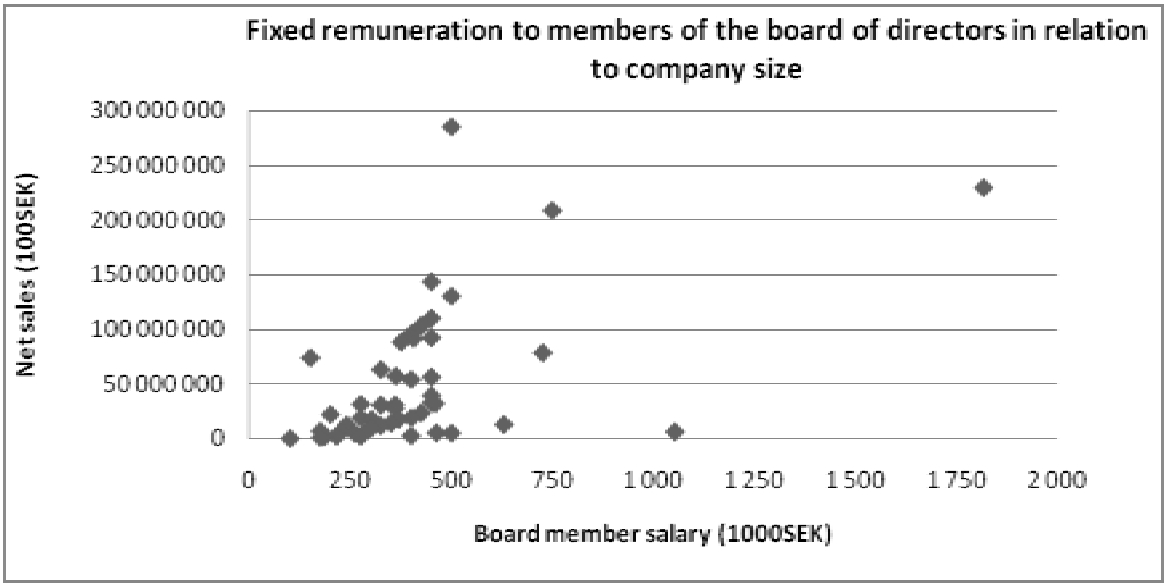


Chart 7.7

7.5.1 Fixed compensation to the Chairman of the Board of Directors

As with the members of the board of directors, the fixed compensation to the chairmen of the boards in the observed companies also varied greatly. The companies with the highest and the lowest compensation to the chairman of the board are ABB and Melker Schörling, paying 7.270.000 and 100.000 SEK respectively. It is not surprising, compared to the data presented above, that these two companies are in the top and in the bottom given their remuneration to the other board members. As can be seen from table 7.3 the mean salary for the chairmen of the boards were 1.253.700 SEK and the median salary was 1.000.000 SEK. As with the figures for board member remuneration the compensation presented here excludes committee remuneration for the same reasons as stated above. Unlike the compensation for board members relevant data was retrieved from all 57 companies which make the figures presented here more accurate than those for other board members

Table 7.3 – Fixed Salaries Chairman of the Board of Directors

Unit of Measurement	SEK
Mean	1.253.700
Median	1.000.000
Maximum	7.270.000
Minimum	100.000

Evident from chart 7.8, the vast majority (67%) of salaries offered to the chairmen are found in the two intervals ranging from 500.000 to 1.499.000 SEK. Of the 19 companies not found in these two intervals more (12) are allocated in the three intervals exceeding 1.499.000 SEK than in the two that fall short of 500.000 SEK (7).

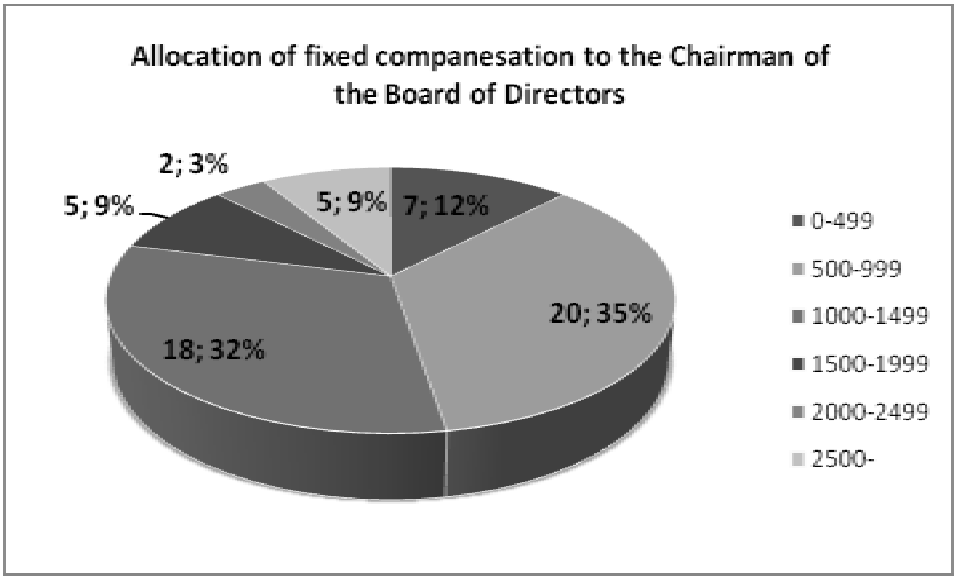


Chart 7.8

As with CEO and board member compensation, the fixed salary offered to the chairmen of the board of directors was compared to company size in order to determine if any connection between the two variables could be identified. As is the case with CEO and board member compensation, there is a rather weak link between the two variables which is illustrated in chart 7.9.

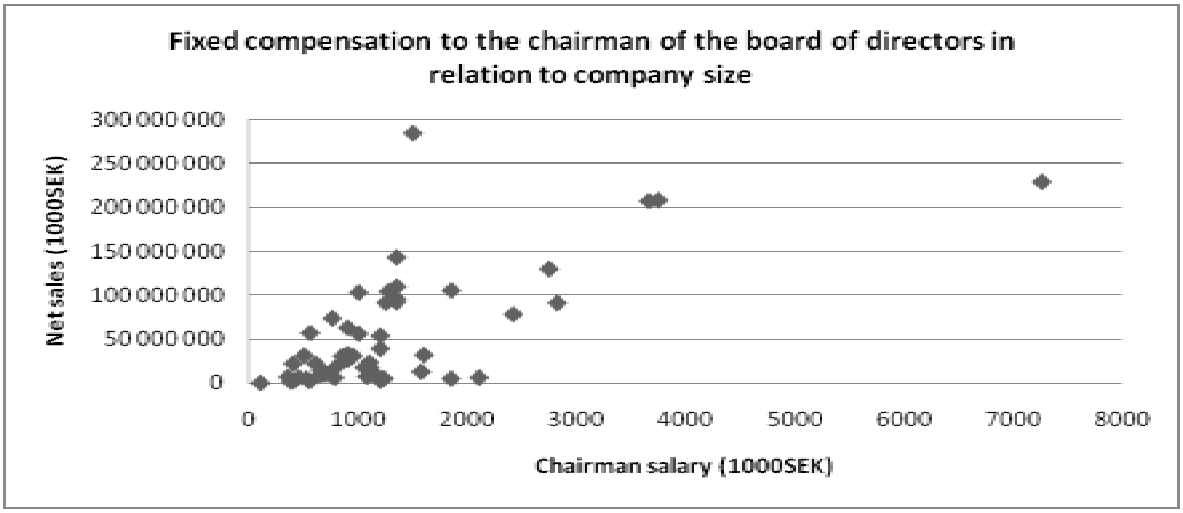


Chart 7.9

7.6 Incentive programs aimed at the Board of Directors

As stated above, fixed compensation is by far the most common way of remunerating the board of directors in the companies studied. Only nine out of the 57 companies observed had other forms of compensation, other than fixed salaries, aimed at the board of directors. The companies and their respective incentive plans aimed at the board of directors are listed in table 7.4.

Table 7.4 – Incentive plans aimed at the board of directors.

Company	Incentive plan(s)
Atlas Copco	Phantom Shares
Electrolux	Phantom Shares
Ericsson	Phantom Shares
Husqvarna	Phantom Shares
Investor	Phantom Share
Millicom	Performance Shares
P A Resources	Stock Options
Ratos	Call Options & Synthetic Options
West Siberian Resources	Stock Options

Evident in table 7.4 is that Phantom Shares is the most common incentive plan with regards to remunerating the board of directors. Solitary cases of other incentive plans are found but none are nearly as common as Phantom Shares. It should however be noted that in the case of P A Resources, the stock options offered are only aimed at the chairman of the board and not to the board as a whole

Chapter 8 - Remuneration in 2005, 2008 and 2009

A limited comparative study of eight of the 57 companies was conducted in order to eaximine if any trends over time in the shaping of the incentive plans could be observed. In order to achieve an acceptable level of distribution of the companies selected for this comparative study the original 57 companies were divided into four groups according to the number of incentive programs in place in 2008. Four groups were established. One group consisted of companies with three incentive programs in place, one with companies having two incentive programs, one with companies having one incentive program and finally one containing companies with no incentive program. From each group two companies were selected at random totaling a sample of eight companies for the comparative study.

The 2005 annual reports of these eight companies were examined in order to observe the type of incentive programs in place as well as fixed and variable salaries for that year. The aim was to observe differences in the shaping of incentive plans from a longer perspective. Since reporting in accordance with IFRS became mandatory for listed companies in 2005 that year was the most distant year which could be studied without differences in accounting and reporting regulating obstructing comparisons.

As well as looking backwards on past incentive programs a limited study of future programs was also conducted for said companies. This was carried out through studying the notifications for the AGM in each of the eight selected companies. In the notifications, the respective board's proposal for remuneration in 2009 is presented and gives an insight into what the incentive plans will look like for the current fiscal year.

The companies randomly selected were; JM, Investor, Electrolux, Ericsson, SKF, Scania, NCC and Alfa Laval. In this chapter a selected number of tables containing information on these observations will be presented and commented. A table containing comprehensive comparative data can be found in appendix 4.

8.1 Salary trends 2005 and 2008

8.1.1 Fixed salary

Table 8.1 shows the salaries of the chairman of the board of directors, board members and the CEO respectively. The table shows the fixed annual salary for 2005 and 2008 as well as the percental change in salary for each type of receiver.

Evidently, the salary for each category of receiver has increased in all eight cases and many increases are quite substantial. With a few exceptions the increases are double-digit and many are well over 20 per cent for this four-year period. The mean increase in fixed salary was 28,3 per cent for board chairmen, 26,9 for board members and 22,8 per cent for CEOs.

Table 8.1 – Fixed compensation 2005 and 2008

Company	Receiver	2005 (SEK)	2008 (SEK)	Change (%)
JM	Chairman	500.000	688.000	37,6
	Board member	225.000	325.000	44,2
	CEO	3.209.000	4.248.000	32,4
Investor	Chairman	1.500.000	1.850.000	23,3
	Board member	400.000	500.000	25,0
	CEO	6.949.000	8.254.000	18,8
Electrolux	Chairman	1.200.000	1.275.000	6,3
	Board member	350.000	475.000	35,7
	CEO	7.850.000	8.600.000	9,6
Ericsson	Chairman	3.000.000	3.750.000	25,0
	Board member	600.000	750.000	25,0
	CEO	14.572.000	15.750.000	8,1
SKF	Chairman	700.000	900.000	28,6
	Board member	275.000	325.000	18,2
	CEO	5.750.000	7.500.000	30,4
Scania	Chairman	1.000.000	1.250.000	25,0
	Board member	325.000	406.000	24,9
	CEO	6.500.000	7.500.000	15,4
NCC	Chairman	500.000	555.000	11,0
	Board member	325.000	362.000	11,4
	CEO	5.888.000	6.743.000	14,5
Alfa Laval	Chairman	675.000	900.000	33,3
	Board member	275.000	360.000	30,9
	CEO	4.400.000	6.750.000	53,4

8.1.2 Variable salary

No specific trends in the variable salary offered to each category of receiver can be observed from the sample population. No single company had variable short-term salaries for the board of directors in either 2005 or in 2008. All eight companies had short-term variable salary plans for senior executive officers and the CEO in 2005 and the same plans were essentially in place in 2008. A few of the sample companies (5) has raised the cap on the variable salary while one has lowered the cap. Two company, Scania and Alfa Laval, had long-term variable salary programs. In Scania's case, this was in effect in both 2005 and 2008 without any significant differences in caps for the respective years. The LTVS-program in Alfa Laval was only in effect in 2008.

8.2 Trends in incentive plans, 2005 and 2008

Table 8.2 lists the incentive plans in the eight observed companies for 2005 and 2008 respectively. Since the sample is rather small compared to the total population, generalizations based on the comparison between 2005 and 2008 should be made with caution. However a few observable trends are noticeable and are consequently commented on. First of all the total number of incentive programs in the eight selected companies have increased during the time period 2005-2008. In 2005 a total of seven incentive programs were in place distributed between the different categories as follows: option programs (1), share-based programs (4), synthetic programs (1) and profit sharing (1). In 2008 there were a total of twelve incentive programs in the observed companies and these were distributed in between the groups as follows: option program (1), share-based programs (6), synthetic programs (3), convertible loan program (1) and profit sharing (1).

Aside from a total increase in the number of incentive programs there are also tendencies that the total increase is the result of increase in two particular programs, namely share-based programs and synthetic programs. These are the two types of programs which have increased in numbers when comparing the incentive plans of 2005 and 2008.

The synthetic programs consisted of phantom share programs and were entirely aimed at the board of the directors in both 2005 and in 2008. The share-based programs consisted of performance shares and share savings programs and were entirely reserved for senior executives in both 2005 and in 2008.

Table 8.2 – Incentive plans in 2005 and 2008

Company name	Recipient	Incentive Plan 2005	Incentive Plan 2008
JM	Board	None	None
	Senior Executives	None	StO, CL, SS
Investor	Board	None	PhS
	Senior Executives	CO, PeS, PrS	SS, PrS
Electrolux	Board	None	PhS
	Senior Executives	SB	SB
Ericsson	Board	None	PhS
	Senior Executives	SS	SS
SKF	Board	PhS	None
	Senior Executives	None	SB
Scania	Board	None	None
	Senior Executives	PeS	PeS
NCC	Board	None	None
	Senior Executives	None	None
Alfa Laval	Board	None	None
	Senior Executives	None	None

Abbreviations: CL = Convertible loan, CO = Call option, PhS = Phantom shares, PrS = Profit sharing, PeS = Performance shares and SS = Share saving

It should also be noted that there was one more convertible loan program in place in 2008 compared to 2005. However, when looking at the total 57 companies, this is the only convertible loan program which leaves little, if any, room for generalizations regarding trends for that type of incentive program. Lastly it should be noted that the two companies which hade no incentive plans in place during 2005 (NCC and Alfa Laval) had not implemented any programs in 2008 either.

8.3 Suggested incentive plans for 2009

Table 8.3 – Suggested incentive plans for 2009

Company Name	Recipient	Incentive program(s) 2008	Proposed Incentive program(s) 2009
JM	Board of directors Senior executive officers	None CL, StO, SS	None CL, StO, SS
Investor	Board of directors Senior executive officers	PhS SS	PhS SS
Electrolux	Board of directors Senior executive officers	PhS SB	PhS SB
Ericsson	Board of directors Senior executive officers	PhS SS	PhS SS
SKF	Board of directors Senior executive officers	None SB	PhS SB
Scania	Board of directors Senior executive officers	None SB	None SB
NCC	Board of directors Senior executive officers	None None	None None
Alfa Laval	Board of directors Senior executive officers	None None	None None

Abbreviations: CL = Convertible loan, CO = Call option, PhS = Phantom shares, PrS = Profit sharing, PeS = Performance Shares and SS = Share saving

As can be seen in table 8.3 nearly all of the companies selected for the comparative study are proposing identical incentive programs for 2009 compared to 2008 with share-based programs being the most common for senior executives and synthetic programs being more common for the board of directors. The only exception is SKF which is adding a phantom share program for its board of directors making synthetic programs more common compared to 2008. Not included in the chart are the proposed guidelines for variable salaries in each respective company. The reason for this is that no significant changes in variable remuneration have been observed in the selected companies, giving an inclusion of a chart (or similar illustration) little significance.

Chapter 9 – Analysis

9.1 Incentive programs in general

Apparent from the empirical findings is that a majority of the observed companies have some form of incentive program in place. The fact that more than three quarters of the concerned companies have decided to use such programs can be seen as evidence of the problems emphasized in the Agency theory. As described in chapter three of this thesis, the problems associated with information asymmetry and differences in risk preferences can to some extent be countered with incentive programs aimed at the agents and apparently the principals of the observed companies have felt a need to do so in most of the cases.

This fact becomes even more evident when looking at the number of companies which offer variable salary as a component of the compensation package to its top management. With 50 out of 57 companies having variable salary programs in place, an apparent need to link performance with compensation appears to exist.

A possible explanation for the high number of incentive programs found in the observed companies could be the fact that all are comparatively large and listed on the Stockholm Stock Exchange. This usually implies a dispersed ownership which consequently means that the principals have little insight in the daily activities of management which results in a large number of incentive programs in order to come to terms with problems of information asymmetry, goal incongruence and differences in risk preferences.

When analyzing the frequency of the different forms of incentive programs found, a few clear tendencies can be observed. The first is the apparent domination of share programs and option programs among the concerned companies with share programs being slightly more frequent compared to option programs. This could be attributed to the fact that said types of programs involve a closer link between the shareholder value and the possible compensation to the agent.

Share-based programs, which include performance shares and share savings, are often based upon measures such as growth in earnings per share, a measurement over which management often can exercise some level of control enforcing the link between performance and reward. In addition, an increase in earnings per share usually has a positive impact on stock market value of the company consequently bridging the gap in goal congruence between principals and agents. Within the share-based program category there is no real difference in frequency between performance share-based program and share saving programs though the latter is slightly more popular than the former, perhaps a result of share savings programs involving more risk taking on behalf of management thus enforcing the goal congruence between agent and principal.

Option programs are the second most frequent category of incentive programs. In terms of risk taking on behalf of the agent they are less uncertain than share programs but still require a larger degree of risk taking compared to the other categories; synthetic programs, convertible loans and profit sharing. Within the category, call option programs are more common than stock option plans, perhaps due to the problems associated with signing precedence and stock dilution in latter type.

Lastly, convertible loans are a rarity with only one such program in place in the 57 observed companies. As stated in chapter four, convertible loans peaked in popularity in the 1980's but have since dropped in frequency as other forms of incentive programs have gained ground so the almost total absence of this type of program in the concerned companies is not surprising. The fact that the convertible loan programs require the recipient to tie up large sums of money in loans to the employing company might well be the main reason for the rarity of such programs.

9.2 Incentive programs and company size

After mapping the incentive plans among all the companies listed at the Stockholm Stock Exchange's Large-cap list, this thesis ranked the companies according to net sales. Net sales are considered to mirror the size of a company and were used to examine if any connections or patterns between company size and the incentive programs used could be observed. Certain

patterns and conclusions could be made after comparing the companies' incentive plans and their respective size.

The study of the connection between the companies' size and the incentive plans used shows three patterns. The first pattern that could be found is that the use of incentive plans is more common among larger companies than among smaller ones. Three querters of companies with net sales below 100 billion SEK use incentive programs compared to four fifths of companies with net sales exceeding 100 billion SEK. One reasonable conclusion is that companies of greater size also have more resources to employ incentive plans. Many of the largest companies in also employ more than one incentive plan, which further strengthen the this assumption.

The second pattern found indicates that share-based programs are a popular component in incentive plans used in companies belonging to the category of companies with net sales exceeding 100 billion SEK. The use of share-based programs increases with the size of the company. Furthermore, if the number of share-based programs is divided into specific programs, namely performance shares and share savings, it is apparent that share savings remain on approximately the same level across the different intervals. However, the use of performance shares programs was found to increase quite substantially in relation company size. Considering all companies listed at the Large-cap list have been examined this pattern can be assumed to be reliable.

The third pattern found in the study concerns the use of option programs. The pattern shows that the use of option programs is more common among the smaller companies compared to the companies in the mid- and top intervals. The use of option programs is nearly halved in the latter two intervals compared to the former. Divided in to type of options, this trend is mainly explained by a decrease in the use of call option programs in the two upper mid- and top intervals.

As been described in chapter four, call option programs involve the holder of the option buying shares from the employing company while performance shares are awarded to the employee free of charge. This makes the latter more expensive to use as an incentive for the employing company. This could explain the fact that larger companies with more resources apply the use of performance shares and to a lesser extent use option programs.

Regarding profit sharing and synthetic programs no clear patterns could be detected concerning the relationship between company size and frequency in these incentive programs. Both types of programs are used in companies in all of the three intervals but do not vary enough to make any general assumption. Regarding convertible loans, only one company listed on the Large-cap list used this type of incentive. Based on this, no conclusions can be made about the use of convertible loans in relation to company size.

9.3 Incentive programs across industries

Considering all the examined companies from the Large-cap list belongs to different lines of businesses, they were classified according to their respective industry when analyzing patterns of the use of incentive plans put in relation to what industry beloning.

When the different industries were examined separately, some of these showed tendencies in the incentive programs used. However, most categories contained a small number of observations leaving little room for generalizations. Across all industries, option and share-based programs are dominant being found in seven and eight types of industries respectively. This corresponds with the overall study of all the companies where these two programs were found to be the most common. With regards to profit sharing, this type of incentive is almost exclusively found in the finance and material categories.

Although the classification into industries separately showed some trends, no clear new patterns could be detected. When analyzing the incentive programs used across industries, option programs and share programs are the most commonly used, something that had already been concluded from the overall study..

9.4 Remuneration to top management

9.4.1 Fixed compensation to the CEO

Fixed compensation to CEOs varies substantially among the observed companies which is not entirely surprising. Even though all 57 companies have listing on the Large-cap list in

common, the range in size from the smallest to the largest company is rather large. However, there appears to be a slight tendency that salary varies with the relative size of the company, in this case the companies' respective net sales. That is to say, there appears to be a positive relationship between higher sales and higher fixed compensation to the CEO although this pattern is not entirely conclusive.

Another trend, observed in the comparative analysis of the eight randomly selected companies, is that is that CEO salary has increased rather substantially. The increase is close to 23% over a four-year period and with a current mean CEO salary of 6,99 MSEK it would imply a mean increase in salary of more than 1,3 MSEK over said time period.

9.4.2 Variable compensation to top management

Short-term variable salary to both CEO and other senior executives was common in the observed companies with almost 90 per cent of the companies employing such compensation programs. As with incentive programs, a need to create a link between performance and compensation seems to be apparent in said companies which could be linked to the problems of goal incongruence associated with the agency theory. As for CEOs, a majority of such plans had caps on the maximum variable salary possible ranging from 50 to 100 per cent of fixed salary. For other senior executives, there were no clear trends in the level of caps in place. Regarding trends over time, no apparent differences in the variable salary schemes were found with all eight selected companies having short-term variable salary programs in both 2005 and in 2008. However, five of these eight companies had raised their respective caps on the variable salary in 2008 compared to 2005.

Long term variable salary programs are much less common compared to short-term programs. This could be attributed to the fact that incentive programs, such as option programs or share programs, are preferred over long-term variable salary for the purpose of creating long term goal congruence.

9.4.3 Incentive programs aimed at top management

There were no apparent differences in incentive programs aimed at the CEO compared to those aimed at top management. The general trend in incentive programs described above is consequently indicative for incentive programs aimed at top management. There is however one exception to this and it concerns synthetic programs. These are mainly aimed at the board of directors and not at top management. Therefore share programs and option programs are proportionally even more common with regards to incentive programs aimed at CEOs and other senior executives.

9.5 Remuneration to the board of directors

9.5.1 Fixed compensation

As with fixed compensation to CEOs there is a large spread in the amount of fixed compensation offered to the chairmen and members of the board of directors. There is a weak link between the fixed compensation to chairmen and members of the board of directors on one hand and company size on the other. With regards to the comparative study, fixed compensation to both chairmen and members of the board of directors has increased quite substantially since 2005, 28,3 and 26,9 per cent respectively.

9.5.2 Variable compensation

Among observed companies, none offered variable salary to the board of directors. Since the management of the company to a large extent is left to the CEO and other senior executives, performance related salary might not be deemed suitable for the board of directors since they have less influence on the daily activities and performance of their respective company.

9.5.3 Incentive programs aimed at the board of directors

Although far less common compared to top management, a few cases of incentive programs aimed at the board of directors were found. Clear among those cases is that phantom shares are bay far the most frequently used incentive program in the case of programs aimed at the

board of directors. Since the board of directors is appointed directly by the shareholders of each respective company and many times consists of shareholders with a large number of shares, it may need less of an incentive, compared to top management, to act in the best interest of the shareholders. Without the need to make the board of directors owners of the companies, share- or option programs are redundant as an incentive. However tying the compensation to the companies' performance without making the board of directors shareholders themselves might be beneficial, something that would favor the use of synthetic programs such as phantom shares.

9.6 Trends over time

Initially it must be pointed out that the comparative analysis, which studied the incentive programs in place in eight randomly selected companies has its limitations. The sample is rather small, leaving room for statistical errors. However, there seems to be a few observable trends.

First, the total numbers of programs have increased in 2008 compared to 2005. There was also a slight increase in the incentive programs suggested in the notifications to the annual general meetings of 2009 compared to the number of programs in place during 2008. It could therefore be argued that the recent financial turmoil and the debate on remuneration to top management which has taken place during the last six months in Sweden have had little, if any, effect on the incentive programs used in large listed companies. Clearly, incentive programs are still a desirable component in the total remuneration package offered to CEOs and other senior executives.

The increase in the total number of incentive programs is mainly explained by increases in share-based programs, such as performance shares and share savings programs, offered to top management and synthetic programs, such as phantom shares, offered to the board of directors. As discussed above it might be of greater importance to make management owners of the companies, thereby bridging the gap in goal congruence between management and owners, rather than making the board of directors shareholders.

Clearly the financial crisis has not had a great effect on the shareholders willingness to offer incentive programs to top management and board of directors. It might even be the case that incentive programs are beneficial during periods of economic downturn. As the total compensation to management decreases, the motivation to make additional efforts to enhance company performance might be greater if management themselves are rewarded for such behavior by increases in the value of e.g. their stock.

Chapter 10 – Conclusions

10.1 Results

Using long-term incentive programs are common among the companies listed on the Large-cap list at the Stockholm Stock Exchange. In total, three quarters of the companies observed had one or several incentive programs in use during 2008.

Five main categories of long-term incentive programs are found in the observed companies; share-based programs, option programs, synthetic programs, profit sharing programs and convertible loan programs. Of these five types of incentive programs share-based programs and option programs are by far the most common types of incentives found in the observed companies constituting more than two thirds of the total number of programs identified. Profit sharing programs and synthetic programs were less common. Noteworthy is that more than half of the synthetic programs identified were aimed towards the board of directors. The last category, convertible loan programs, are almost none-existent in the observed companies and have apparently dropped quite considerably in popularity since the 1980's when they were common.

Two main tendencies found with regard to company size could be identified. Share-based programs are more common in the larger companies listed on the Large-cap list while option programs are more common among the smaller companies listed at said list.

Concerning industry belonging, no clear trends among the companies belonging to varying business categories on the Large-cap were found. Share-based programs and option programs were the most common types of programs across the different industries. However, this

conclusion can be reached by simply studying the total number of programs in use making industry a variable which does not explain eventual preferences in incentive programs.

Fixed salaries offered to both CEOs and the board of directors has increased quite substantially since 2005. There is also a positive, although rather weak, correlation between the salaries offered to these recipients and company size. Short-term variable salary, such as bonuses and tantième, is a common component of remuneration schemes in the observed companies but long-term variable salary, such as deferred compensation or carryovers, is much less frequently used. Furthermore, all variable salary schemes were aimed at the CEOs and senior executives in the observed companies but never to the board of directors.

Based on the limited comparative study conducted, the number of incentive programs in companies listed on the Large-cap list appears to have increased since 2005. This increase is mainly explained by an increase in the number of share-based programs. As for the suggested incentive programs for 2009 a small increase can be observed but the programs used in 2008 remain largely unchanged suggesting that the current financial crisis and the recent debate on compensation to corporate executives have had little negative impact on the incentive programs in the largest listed companies in Sweden.

10.2 Concluding remarks and suggestions for future research

The purpose of this thesis was to map incentive programs in the companies listed on the Large-cap list at the Stockholm Stock Exchange as well as to analyze potential trends in incentive plans could be observed. It is the authors' opinions that this purpose has been accomplished throughout the thesis and that the questions asked in the introductory chapter have been answered. When conducting the empirical research the information available in the annual reports of the observed companies proved to vary in quality. Most of the studied companies provided very detailed and informative disclosures but there were exceptions to this. A handful of companies provided disclosures which barely met the minimum requirements in the reporting framework which put limitations on the mapping of incentive programs in these companies. A handful of companies provided annual reports which had been prepared according to other reporting frameworks than IFRS which also impacted on the quality of the results. If no restraints in time had existed the above mentioned problems could

have been dealt with through more in-depth information gathering, through e.g. interviews or surveys, from the companies which provided limited information in their annual report which of course would have given the thesis's results a more solid foundation.

Hopefully, this thesis main contribution is a lucid presentation of the varying incentive programs found in the companies listed on the Large-cap list. For anyone who wishes a deeper understanding of how major corporations reward its top management and its board of directors, the results presented in this thesis might provide an easily accessible source of information. In addition, although to a lesser extent, the thesis provides information of the recent years' trends in the use of incentive programs. However, one of the limitations with this thesis is that it is purely descriptive in its nature meaning that it only presents what the current situation looks like but provides no explanatory reasons as to why this is the case.

Due to this limitation an interesting topic for future research would be a more in-depth study of why some forms of incentive programs are more popular than others or why incentive programs vary in popularity over time. This would of course require a different approach than the one used in this thesis with a focus on qualitative research. Although the studied companies are numerous they still make up a limited part of the total number of listed companies on the Stockholm Stock Exchange. Another suggestion for future research, given that the researcher has considerable more time available, would be a study on incentive programs in all listed Swedish companies. This would enable an analysis of trends and differences in incentive programs between different lists as well as provide a more solid sample of companies for a study of differences across industries.

Lastly, it would of course be interesting to re-perform the same research in a few years to see if the trends observed in this thesis continue or if different types of incentive programs dominate the incentive plans in the future?

List of references

Published works

Alvesson, M. och Sköldberg, K. *Tolkning och reflektion – Vetenskapsfilosofi och kvalitativ metod.* 1994 Lund, Studentlitteratur

Anthony R & Govindarajan V, *Management control systems*, 2007, 12th edition, Singapore, McGraw-Hill Education

Arvidsson P, Styrning med belöningssystem. In Samuelsson L (ed.), *Controllerhandboken* (pp. 135-173), 2004, 8th edition, Uppsala, Industrilitteratur

Borg M, *Aktierelaterade incitamentsprogram – en civilrättslig studie,* 2003, Stockholm, Jure Förlag

Bryman A & Bell E, *Företagsekonomiska forskningsmetoder*, 2005, edition 1:1, Malmö, Liber Ekonomi

Dahmström K, *Från datainsamling till rapport,* 2000, 3rd edition, Lund, Studentlitteratur

Falkman J, Lumsden M, Marton J, Pettersson A-K & Rimmel G, *IFRS – i teori och praktik,* 2008, 1st edition, Sundbyberg, Bonniers Utbildning

Langeland O, *Kompensasjon og motivasjon,* 1999, Oslo, Forskningsstiftelsen Fafo

Lundahl U & Skärvad P-H, *Undersökningsmetodik för samhällsvetare och ekonomer,* 2008, edition 3:9, Malmö, Holmbers i Malmö AB

Sandell N, *Redovisningsmått, påkopplade system och ekonomiska konsekvenser,* 2006, Lund, Lund business press

Smitt R, Wiberg L, Olwig B, Reignell G & Sjöstrand M, *Belöningssystem – nyckeln till framgång*, 2002, edition 1:1, Stockholm, Norstedts Juridik AB

Svenning, C. *Metodboken* 2003, 1st edition, Eslöv, Lorentz Förlag

Svensson A, *Belöningssystem*, 2001, Stockholm, KFS företagsservice

Öhrlings PriceWaterhouseCoopers *Aktiebaserade incitamentsprogram i noterade bolag*, 2008

Articles and other electronic sources

Dagens Nyheter. *SEB backar om höjda löner till ledningen.* Published: 2009-03-13. Downloaded: 2009-05-15 from:
http://www.dn.se/ekonomi/seb-backar-om-hojda-loner-till-ledningen-1.821167

E24.se (1) *Halva börsen är borta*. Published: 2008-10-10. Downloaded: 2009-05-15 from:
http://www.e24.se/branscher/bankfinans/artikel_779689.e24

E24.se (2) *1200 börsmiljarder borta.* Published: 2008-09-30. Downloaded: 2009-05-15 from:
http://www.e24.se/branscher/bankfinans/artikel_748141.e24

International Accounting Standards Committee Foundation, *Technical Summary of IFRS 2 Share-based payment.* Downloaded: 2009-04-20 from:
http://www.iasb.org/NR/rdonlyres/B18E5BAE-9934-4BB4-868B-DC08F4696FDE/0/IFRS2.pdf

Konjunkturinstitutet. *Lågkonjunkturen fördjupas – 250 000 färre job 2010.* Published: 2009-03-31. Downloaded 2009-05-15 from:
http://www.konj.se/arkiv/konjunkturlaget/konjunkturlaget/lagkonjunkturenfordjupas250000farrejobb2010.5.75aa40e311fe8049dfc800018963.html

Regeringskansliet. *Garantiprogram till banker och andra finansinstitut.*
Published: 2009-02-09. Downloaded: 2009-05-15 from:
http://www.regeringen.se/sb/d/11586/a/120185

Riksbanken, *Årsgenomsnitt på valutakurser.* Downloaded from:
http://www.riksbank.se/templates/stat.aspx?id=16749

Reporting Framework

IAS 19 Employment benefits*

IAS 24 Related party disclosures*

IFRS 2 Share-based payment*

*as endorsed by the European Union.

Annual Reports 2008 – collected from each company's respective webpage
ABB Group
Alfa Laval
Assa Abloy
Astra Zeneca
Atlas Copco
Autoliv
Axfood
Boliden
Castellum
Electrolux
Elekta
Ericsson
Fabege
Getinge
H&M
Hexagon
Holmen
Hufvudstaden
Husqvarna
Industrivärlden
Investor
JM
Kinnevik
Latour
Lindab
Lundbergföretagen
Lundin Mining
Lundin Petroleum
Meda
Melker Schörling
Millicom
MTG
NCC
Nordea
Oriflame
PA Resources
Ratos
Saab
Sandvik
SCA
Scania

SEB
Seco
Securitas
SHB
Skanska
SKF
SSAB
Stora Enso
Swedbank
Swedish Match
Tele2
TeliaSonera
Tieto Corp.
Trelleborg
West Siberian Resources
Volvo

Annual Reports 2005 – collected from each company's respective webpage
Alfa Laval
Electrolux
Ericsson
Investor
JM
NCC
Scania
SKF

Notifications to AGMs 2009 – collected from each company's respective webpage
Alfa Laval
Electrolux
Ericsson
Investor
JM
NCC
Scania
SKF

Appendix

Appendix 1 – Summary of incentives in all observed companies

Company	Reciever	Salary	STVS	Cap %	LTVS	Cap %	Incentive
ABB Ltd.	Chairman	7 270	No		No		None
	Board of directors	1 818	No		No		None
	CEO	11 511	Yes	150	No		StO, SyO, PeS
	Other Senior	N/A	Yes	100	No		StO, SyO, Pes
Company	**Reciever**	**Salary**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive**
Alfa Laval	Chairman	900	No		No		None
	Board of directors	360	No		No		None
	CEO	6 750	Yes	60	Yes	17	None
	Other Senior	N/A	Yes	40	Yes	17	None
Company	**Reciever**	**Salary**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive**
Assa Abloy	Chairman	900	No		No		None
	Board of directors	450	No		No		None
	CEO	12 831	Yes	75	No		None
	Other Senior	N/A	Yes	75	Yes	N/A	None
Company	**Reciever**	**Salary**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive**
Astra Zeneca	Chairman	3 664	No		No		None
	Board of directors	N/A	No		No		None
	CEO	11 765	Yes	N/A	No		StO, CO, PeS
	Other Senior	N/A	Yes	N/A	No		StO, CO, PeS
Company	**Reciever**	**Salary**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive**
Atlas Copco	Chairman	759	No		No		PhS
	Board of directors	150	No		No		PhS

	Board of directors	150	No		No		PhS
	CEO	9 100	Yes	70	No		CO, SyO
	Other Senior Executives	N/A	Yes	50	No		Co, SyO
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Autoliv	Chairman	2 106	No		No		None
(US$)	Board of directors	1 053	No		No		None
	CEO	4 757	Yes	N/A	No		CO
	Other Senior Executives	N/A	Yes	N/A	No		CO

Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Axfood	Chairman	500	No		No		None
	Board of directors	275	No		No		None
	CEO	4 626	Yes	70	No		None
	Other Senior Executives	N/A	Yes	55	No		None
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Boliden	Chairman	850	No		No		None
	Board of directors	325	No		No		None
	CEO	5 734	Yes	50	No		PrS
	Other Senior Executives	N/A	Yes	40	No		PrS
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Castellum	Chairman	400	No		No		None
	Board of directors	215	No		No		None
	CEO	2 800	Yes	100	No		None
	Other Senior Executives	N/A	Yes	100	No		None
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Electrolux	Chairman	1 275	No		No		PhS
	Board of directors	N/A	No		No		PhS
	CEO	8 600	Yes	110	No		PeS
	Other Senior Executives	N/A	Yes	100	No		PeS
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Elekta	Chairman	520	No		No		None
	Board of directors	260	No		No		None
	CEO	2 983	Yes	160	Yes	N/A	SS
	Other Senior Executives	N/A	Yes	160	Yes	N/A	SS
Company		**Salary**					**Incentive**

name		(kSEK)					program(s)
Ericsson	Chairman	3 750	No		No		PhS
	Board of directors	750	No		No		PhS
	CEO	15 750	Yes	N/A	No		SS
	Other Senior Executives	N/A	Yes	N/A	No		SS
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Fabege	Chairman	375	No		No		None
	Board of directors	185	No		No		None
	CEO	2 448	No		No		PrS
	Other Senior Executives	N/A	No		No		PrS

Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Getinge	Chairman	800	No		No		None
	Board of directors	400	No		No		None
	CEO	11 000	Yes	80	No		CO
	Other Senior Executives	N/A	Yes	N/A	No		CO
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
H&M	Chairman	1 350	No		No		No
	Board of directors	375	No		No		No
	CEO	N/A	Yes	30	No		PeS
	Other Senior Executives	N/A	Yes	30	No		PeS
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Hexagon	Chairman	650	No		No		None
	Board of directors	350	No		No		None
	CEO	10 135	Yes	N/A	No		CO
	Other Senior Executives	N/A	Yes	N/A	No		CO
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Holmen	Chairman	550	No		No		None
	Board of directors	275	No		No		None
	CEO	N/A	No		No		CO
	Other Senior Executives	N/A	No		No		CO
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Hufvudstaden	Chairman	350	No		No		None
	Board of directors	175	No		No		None
	CEO	N/A	Yes	16	No		None
	Other Senior Executives	N/A	Yes	N/A	No		None
Company		**Salary**					**Incentive**

name		(kSEK)					program(s)
Husqvarna	Chairman	1 600	No		No		PhS
	Board of directors	460	No		No		PhS
	CEO	5 253	Yes	100	No		CO, SS
	Other Senior Executives	N/A	Yes	100	No		CO, SS
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Industrivärlden	Chairman	1 200	No		No		None
	Board of directors	400	No		No		None
	CEO	6 100	Yes	50	No		CO
	Other Senior Executives	N/A	Yes	50	No		CO

Company name	Reciever	Salary (kSEK)	STVS	Cap %	LTVS	Cap %	Incentive program(s)
Investor	Chairman	1 850	No		No		PhS
	Board of directors	500	No		No		PhS
	CEO	8 254	Yes	40	No		SS, PrS
	Other Senior Executives	N/A	Yes	80	No		SS, PrS
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
JM	Chairman	688	No		No		None
	Board of directors	325	No		No		None
	CEO	4 248	Yes	60	No		StO, CL, SS
	Other Senior Executives	N/A	Yes	60	No		StO, CL, SS
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Kinnevik	Chairman	1 075	No		No		None
	Board of directors	N/A	No		No		None
	CEO	5 882	Yes		No		SS
	Other Senior Executives	N/A	Yes		No		SS
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Latour	Chairman	350	No		No		None
	Board of directors	175	No		No		None
	CEO	2 700	Yes	75	No		None
	Other Senior Executives	N/A	Yes	100	No		None
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Lindab	Chairman	650	No		No		None
	Board of directors	300	No		No		None
	CEO	4 700	Yes	75	Yes	40	StO, PrS
	Other Senior Executives	N/A	Yes	40	Yes	40	StO, PrS
		Salary					**Incentive**

		(kSEK)					program(s)
Lundbergföretagen	Chairman	400	No		No		None
	Board of directors	200	No		No		None
	CEO	2 400	Yes	25	No		None
	Other Senior Executives	N/A	Yes	N/A	No		None
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Lundin Mining	Chairman	1 234	No		No		None
(CA$)	Board of directors	463	No		No		None
	CEO	3 237	Yes	N/A	No		StO
	Other Senior Executives	N/A	Yes	N/A	No		StO

Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Lundin Petroleum	Chairman	779	No		No		None
	Board of directors	N/A	No		No		None
	CEO	4 242	Yes	80	No		PhS
	Other Senior Executives	N/A	Yes	80	No		PhS
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Meda	Chairman	700	No		No		None
	Board of directors	300	No		No		None
	CEO	3 300	Yes	N/A	No		StO, SyO
	Other Senior Executives	N/A	Yes	N/A	No		StO, SyO
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Melker Schörling	Chairman	100	No		No		None
	Board of directors	100	No		No		None
	CEO	3 800	No		No		CO
	Other Senior Executives	N/A	No		No		None
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Millicom	Chairman	606	No		No		PeS
(US$)	Board of directors	N/A	No		No		PeS
	CEO	14 576	Yes	N/A	No		PeS
	Other Senior Executives	N/A	Yes	N/A	No		PeS
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
MTG	Chairman	1 125	No		No		None
	Board of directors	N/A	No		No		None
	CEO	14 107	Yes	50	No		SS
	Other Senior						

	Executives						
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
NCC	Chairman	555	No		No		None
	Board of directors	362	No		No		None
	CEO	6 743	Yes	50	No		None
	Other Senior Executives	N/A	Yes	50	No		None
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Nordea	Chairman	2 421	No		No		None
(€)	Board of directors	762	No		No		None
	CEO	8 001	Yes	35	No		SS, PrS
	Other Senior Executives	N/A	Yes	35	No		SS, PrS

Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Oriflame	Chairman	600	No		No		None
(€)	Board of directors	240	No		No		None
	CEO	N/A	Yes	100	No		SS
	Other Senior Executives	N/A	Yes	100	No		SS
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
PA Resources	Chairman	550	No		No		StO
	Board of directors	275	No		No		None
	CEO	1 837	No		Yes	133	StO
	Other Senior Executives	N/A	No		Yes	133	StO
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Ratos	Chairman	900	No		No		CO, SyO
	Board of directors	N/A	No		No		None
	CEO	5 500	No		Yes	N/A	CO, SyO
	Other Senior Executives	N/A	No		Yes	N/A	CO, SyO
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Saab	Chairman	1 100	No		No		None
	Board of directors	425	No		No		None
	CEO	5 998	Yes	50	No		SS
	Other Senior Executives	N/A	Yes	35	No		SS
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Sandvik	Chairman	1 350	No		No		None
	Board of directors	450	No		No		None
	CEO	7 200	Yes	75			CO
	Other Senior						

	Executives						
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
SCA	Chairman	1 350	No		No		None
	Board of directors	450	No		No		None
	CEO	7 000	Yes	50	Yes	35	None
	Other Senior Executives	N/A	Yes	40	Yes	35	None
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Scania	Chairman	1 250	No		No		None
	Board of directors	406	No		No		None
	CEO	7 500	Yes	150	Yes	80	PeS
	Other Senior Executives	N/A	Yes	150	Yes	80	PeS

Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
SEB	Chairman	2 750	No		No		None
	Board of directors	500	No		No		None
	CEO	7 000	Yes	N/A	No		SS, PeS
	Other Senior Executives	N/A	Yes	N/A	No		SS, PeS
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Seco Tools	Chairman	450	No		No		None
	Board of directors	225	No		No		None
	CEO	3 088	Yes	60	Yes	60	None
	Other Senior Executives	N/A	Yes	40	Yes	40	None
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Securitas	Chairman	N/A	No		No		None
	Board of directors	N/A	No		No		None
	CEO	10 763	Yes	50	No		None
	Other Senior Executives	N/A	Yes	200	Yes	100	None
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
SHB	Chairman	2 825	No		No		None
	Board of directors	N/A	No		No		None
	CEO	7 400	No		No		PrS
	Other Senior Executives	N/A	No		No		PrS
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Skanska	Chairman	1 350	No		No		None
	Board of directors	450	No		No		None
	CEO	7 618	Yes	50	No		SS
	Other Senior						

	Executives						
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
SKF	Chairman	900	No		No		None
	Board of directors	325	No		No		None
	CEO	7 500	Yes	N/A	No		PeS
	Other Senior Executives	N/A	Yes	N/A	No		PeS
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
SSAB	Chairman	1 200	No		No		No
	Board of directors	400	No		No		No
	CEO	4 700	Yes	50	No		PrS
	Other Senior Executives	N/A	Yes	50	No		PrS

Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Stora Enso	Chairman	1 852	No		No		None
(€)	Board of directors	N/A	No		No		None
	CEO	8 453	Yes	50	No		PeS, PrS
	Other Senior Executives	N/A	Yes	50	No		PeS, PrS
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Swedbank	Chairman	1 350	No		No		None
	Board of directors	400	No		No		None
	CEO	8 000	No		No		None
	Other Senior Executives	N/A	Yes	25	No		None
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Swedish Match	Chairman	1 575	No		No		None
	Board of directors	630	No		No		None
	CEO	6 991	Yes	50	No		CO, PrS
	Other Senior Executives	N/A	Yes	40	No		CO, PrS
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Tele2	Chairman	1 200	No		No		None
	Board of directors	450	No		No		None
	CEO	12 300	Yes	120	No		SS
	Other Senior Executives	N/A	Yes	120	No		SS
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
TeliaSonera	Chairman	1 000	No		No		None
	Board of directors	425	No		No		None
	CEO	8 160	Yes	50	No		None
	Other Senior						

	Executives						
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Tieto Corporation	Chairman	1 052	No		No		None
(€)	Board of directors	369	No		No		None
	CEO	4 034	Yes	100	No		PeS
	Other Senior Executives	N/A	Yes	60	No		PeS
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Trelleborg	Chairman	950	No		No		None
	Board of directors	360	No		No		None
	CEO	6 693	Yes	65	Yes	25	None
	Other Senior Executives	N/A	Yes	65	Yes	25	None

Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
West Siberian Res.	Chairman	1 105	No		No		StO
(US$)	Board of directors	309	No		No		StO
	CEO	8 674	Yes	100	No		StO
	Other Senior Executives	N/A	Yes	100	No		StO
Company name	**Reciever**	**Salary (kSEK)**	**STVS**	**Cap %**	**LTVS**	**Cap %**	**Incentive program(s)**
Volvo	Chairman	1 500	No		No		None
	Board of directors	500	No		No		None
	CEO	12 331	Yes	65	No		PeS
	Other Senior Executives	N/A	Yes	50	No		PeS

Appendix 2 – Observed companies listed according to net sales

Net sales (kSEK)	Company
285 405 000	Volvo
229 748 889	ABB Group
208 930 000	Ericsson
207 959 860	Astra Zeneca
143 674 000	Skanska
130 543 000	SEB
110 449 000	SCA
105 937 138	Stora Enso
104 792 000	Electrolux
103 585 000	Telia Sonera
95 983 000	Swedbank
92 654 000	Sandvik
91 924 000	Scania
91 610 000	SHB
88 532 000	H&M

78 765 100	Nordea
74 177 000	Atlas Copco
63 361 000	SKF
57 465 000	NCC
56 571 600	Securitas
54 329 000	SSAB
39 505 000	Tele2
33 350 000	Assa Abloy
32 342 000	Husqvarna
31 663 000	Axfood
31 263 000	Trelleborg
30 987 000	Boliden
27 850 000	Alfa Laval
26 836 000	Ratos
23 796 000	Saab
22 456 190	Millicom
22 350 000	Lundbergföretagen
19 334 000	Holmen

19 272 000	Getinge
17 920 981	Tieto Corporation
17 910 074	West Siberian
14 479 000	Hexagon
13 166 000	MTG
13 162 000	Swedish Match
12 766 641	Oriflame
12 229 000	JM
10 675 000	Meda
9 840 000	Lindab
7 719 000	Kinnevik
7 071 000	Latour
6 536 000	Seco Tools
6 473 200	Autoliv
6 393 737	Lundin Petroleum
5 496 902	Lundin Mining
5 320 000	Investor
5 081 000	Elekta
2 918 000	Industrivärden
2 501 000	Castellum
2 419 863	PA Resources
2 214 000	Fabege
1 347 600	Hufvudstaden
335 000	Melker Schörling

Appendix 3 – Observed companies listed according to industry

Energy	Lundin Petroleum
	PA Resources
	West Siberian

Material	Boliden
	Holmen
	Lundin Mining
	SCA
	SSAB
	Sora Enso
Commodities	Autoliv
	Electrolux
	H&M
	Husqvarna
	JM
	MTG
Consumer Goods	Axfood
	Oriflame
	Swedish Match
Healthcare	Astra Zeneca
	Elekta
	Getinge
	Meda

Industry	ABB Group
	Alfa Laval
	Assa Abloy
	Atlas Copco
	Hexagon
	Lindab
	NCC
	Saab
	Sandvik
	Scania
	Seco
	Securitas
	Skanska
	SKF
	Trelleborg
	Volvo
Finance	Castellum
	Fabege
	Hufvudstaden
	Industrivärden
	Investor
	Kinnevik
	Latour
	Lundbergföretagen
	Melker Schörling
	Nordea
	Ratos
	SEB
	SHB
	Swedbank

Info/Technology	Ericsson
	Tieto
Telecommunication	Millicom
	Tele2
	TeliaSonera

Appendix 4 – Remuneration in 2005 and 2008

Company name	Reciever	Salary (kSEK)	STVS	Cap %	LTVS	Cap %	Incentive program(s)
JM - 2008	Chairman	688	No		No		None
	Board of directors	325	No		No		None
	CEO	4 248	Yes	60	No		StO, CL, SS
	Other Senior Executives	N/A	Yes	60	No		StO, CL, SS
JM - 2005	Chairman	500,0	No		No		None
	Board of directors	225,0	No		No		None
	CEO	3 209,0	Yes	50	No		None
	Other Senior Executives	N/A	Yes	60	No		None
Investor - 2008	Chairman	1 850	No		No		PhS
	Board of directors	500	No		No		PhS
	CEO	8 254	Yes	40	No		SS, PrS
	Other Senior Executives	N/A	Yes	80	No		SS, PrS
Investor - 2005	Chairman	1 500,0	No		No		None
	Board of directors	400,0	No		No		None
	CEO	6 949,0	Yes	60	No		CO, SB, PrS
	Other Senior Executives	x	Yes	80	No		CO, SB, PrS
Electrolux - 2008	Chairman	1 275	No		No		PhS
	Board of directors	475	No		No		PhS
	CEO	8 600	Yes	110	No		SB

	Other Senior Executives	N/A	Yes	100	No		SB
Electrolux - 2005	Chairman	1 200,0	No		No		No
	Board of directors	350,0	No		No		No
	CEO	7 850	Yes	60	No		SB
	Other Senior Executives	x	Yes	80	No		SB
Ericsson - 2008	Chairman	3 750	No		No		PhS
	Board of directors	750	No		No		PhS
	CEO	15 750	Yes	40	No		SS
	Other Senior Executives	N/A	Yes	40	No		SS
Ericsson - 2005	Chairman	3 000,0	No		No		None
	Board of directors	600,0	No		No		None
	CEO	14 572	Yes	N/A	No		SS
	Other Senior Executives	N/A	Yes	N/A	No		SS
SKF - 2008	Chairman	900	No		No		None
	Board of directors	325	No		No		None
	CEO	7 500	Yes	70	No		SB
	Other Senior Executives	N/A	Yes	70	No		SB
SKF - 2005	Chairman	700,0	No		No		PhS
	Board of directors	275,0	No		No		PhS
	CEO	5 750	Yes	80	No		None
	Other Senior Executives	x	Yes	80	No		None
Scania - 2008	Chairman	1 250	No		No		None
	Board of directors	406	No		No		None
	CEO	7 500	Yes	150	Yes	80	SB
	Other Senior Executives	N/A	Yes	150	Yes	80	SB
Scania - 2005	Chairman	1 000	No		No		None
	Board of directors	325	No		No		None
	CEO	6 500	Yes	150	Yes	75	SB
	Other Senior Executives	N/A	Yes	150	Yes	75	SB
NCC - 2008	Chairman	555	No		No		None
	Board of directors	362	No		No		None
	CEO	6 743	Yes	50	No		None
	Other Senior Executives	N/A	Yes	50	No		None
NCC - 2005	Chairman	500,0	No		No		None

	Board of directors	325,0	No		No		None
	CEO	5 888,0	Yes	50	No		None
	Other Senior Executives	x	Yes	50	No		None
Alfa Laval - 2008	Chairman	900	No		No		None
	Board of directors	360	No		No		None
	CEO	6 750	Yes	60	Yes	17	None
	Other Senior Executives	N/A	Yes	40	Yes	17	None
Alfa Laval - 2005	Chairman	675,0	No	No	No		None
	Board of directors	275,0	No	No	No		None
	CEO	4 400,0	Yes	50	No		None
	Other Senior Executives	N/A	Yes	30	No		None