Comment to
„Verringern Management-Entlohnungssysteme die Agency-Kosten?"
("Do Remuneration Schemes Reduce Agency Costs?")

By Mogens Dilling-Hansen*

The paper looks at a very interesting and relevant problem: Is there a positive relation between corporate performance and managerial remuneration?

In order to answer this question the paper analyses the relation between top executive compensation schemes and

1. "traditional" factors (company size, value creation, industry effects, etc.);

2. blockholder and market oriented corporate governance systems.

The UK is characterized by a market oriented system with few large shareholders. Spain, on the other hand, has a relatively higher share holding concentration. Although it is not possible to attribute governance systems to countries on a one-to-one basis, the setup can give valuable insight in the relation between remuneration and the ownership control.

However, the performance of the estimated models in general is not very convincing (the overall level of explanatory power is not convincing), and only significant (positive) relation is found between remuneration on the one hand and corporate size, return on assets and share price return on the other.

Hence, in order to improve the results in general and especially to be able to find significant differences between the two countries, the following comments could be considered

1. Comparing UK and Spain will as a minimum require that the collected data are comparable. For the UK the remuneration is measured as the remuneration of the highest paid director while in the case of Spain it is measured by the CEO's (cash-based?) remuneration.

2. The sample method in the two countries is different. In the UK-case a sample of 250 listed companies for the period 1988 to 1993 is selected. The basis for the sample of 113 Spanish companies is — apart for the companies with missing observations — all companies in Spain.

3. The estimates are in general significant, but the overall level of explanation is rather low and the significance of the estimated coefficients is in general low. Other methods to estimate the relations could be considered — for example a level-based estimation model (i.e. without first difference) and a model using ordered logit (with the remuneration in a number of groups) could be considered.

4. Introducing (lagged) return on assets improves the overall level of explanation for the models using Spanish data compared to the UK case. Is this result a consequence of the way the explained remuneration-variable is measured?

5. Is the capital gearing in UK (33.61) comparable to the figure for Spain (0.465)?

6. The average sale is on average three times larger for the UK case. The models find a strong relation between remuneration and company size and therefore it could be relevant to control for size in the estimated models in tables 3 and 4.

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