

**A study on the Determinants of Executives' Remuneration Before and After  
Demutualisation of Building Societies in the UK.**

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# **A study on the Determinants of Executives' Remuneration Before and After Demutualisation of Building Societies in the UK.**

## **Abstract**

Interest in the ramifications of building societies conversion from a mutual to stock form of ownership has grown in recent years. Several reasons are provided for such conversions. One of a number of possible explanations underlying the building society conversion is the motivation of increased remuneration. In this study, we have examined the determinants of compensation changes before and after conversion of the converted and matching building societies. Empirical tests show that compensation awarded after demutualisation to the chief executive was substantial. Interestingly, the results show that the pay of chief executives within mutual building societies appear to have a far stronger relationship with firm size and performance, then do converted building societies particularly after the conversion from mutual to plc status.

## **1. Introduction**

Since the conversion of Abbey National in 1989, which was the first building society demutualisation in the UK, 9 other building societies have also converted from mutual ownership form. Following these conversion events which occurred throughout the 1990s, claims that these events were also driven by senior management's desire for higher remuneration in the form of share and options have persisted. For example it has been claimed (Financial Times, 1995) that the chief executive of the Cheltenham and Gloucester building society received share options worth £1.4m when the Lloyds bank acquired the society. Similar findings have been noted by Barnes and Ward (1999) for Abbey National conversion. They report that the annual cost of Abbey National's directors increased from £1 164 000 in 1989 to £2 371 000 in 1995. The directors of Abbey National also profited considerably from being awarded share options on the conversion of the society. For instance, by 1 January 1994, the chief executive of Abbey National owned 111 980 shares and 323 808 options to buy shares. Concurrent with this rise in directors' compensation, was a parallel fall in the performance of the Abbey National's financial performance relative to mutually owned building societies during the years 1991-1995 (Barnes and Ward 1999). It is to be seen whether the directors of subsequent converting building societies have also followed the same trend as the earlier conversion.

In the context of heightening concerns in both media and academic as to the executive pay increases this paper addresses concerns, as to the benefits CEOs from building societies have gained when their societies have converted from mutual ownership form. Central to these concerns have been the size of increase in CEOs remuneration and the substantial levels of remuneration awarded in the form of share options after conversion events. To provide answers to these research questions of both public and academic interest, the determinants of CEOs compensation will be empirically quantified for both mutual and converted building societies. Following such an examination, conclusions will be drawn as to the 'justification' of substantial pay rises for the CEOs of converted societies, in terms of improved firm performance. By undertaking a comparison of the relative performance and remuneration of mutual and proprietary companies further insight may also be gauged as to the importance of ownership form in the determination of CEO remuneration, and the position of mutual ownership in the ongoing debate on executive pay levels.

To achieve these goals the paper is divided into a number of sections. In Section 2, a brief review of different theories and empirical evidence of executive compensation is provided. The data and the sample of the study are discussed in section 3 and variables and model specification are described in section 4. Section 5 presents the empirical results of the study and a summary of paper and concluding remarks are forwarded in section 6.

## **2. Theories of Managerial Compensation**

In this section, different theories for the determination of managerial pay are outlined. Such a theory will assist in the development of our empirical model in accordance with the principal themes of this academic literature. Secondly, this review describes different justifications for executive pay. Within this study we will identify if changes in the determinants of executive pay have occurred over the sample period and if the institutions with different ownership forms adopt, different payment strategies. Equally, this assessment will enable us to observe if building society conversions has resulted to some degree from how the chief executives in these institutions are remunerated. Economic literature has identified many factors which are thought to be critical in determining executive compensation. Four theories included in the literature are corporate growth, human capital, tournament pay, and social comparison. Further interpretation of agency theory will also be forwarded to summarise as to how the form of ownership can influence executive remuneration.

### **2.1 Theories of Executive Remuneration**

In the corporate growth model, the size of the firm is seen as the primary determinant of executive compensation and this perspective is supported by many empirical studies (see Gomez-Mejia and Wiseman, 1997, for a review of such literature). Managerialists support the corporate growth (growth in size i.e. measured by either sales or assets) model of executive compensation. Another model of executive compensation is the human capital model (Becker, 1975). This model suggests that the personal attributes of executives such as age, training, qualifications and experience have a positive relationship with the level of executive remuneration.

However findings are mixed on the role of personal characteristics (see Ingham and Thompson, 1995; Deckop, 1988).

Tournament based pay models indicate the remuneration of an executive is determined not through aspects such as firm performance or human capital but through the position of the executive within the firm hierarchy. It is expected that disproportionate pay differentials between employees at difference levels within the firm hierarchy provide incentives for individual employees to compete for promotions (Lazear and Rosen, 1981). As such, the compensation of the chief executive should reflect more than the duties such a position demands and also acts as a 'prize' which stimulates lower level employees to compete for promotion. Festinger (1954) proposed a social comparison theory for executive pay determination. This model indicates that the setting of executives' compensation is strongly associated with the levels of compensation provided to comparable executives in other firms. It is expected that this method of pay determination is reinforced by the use of appointed remuneration committees and outside pay consultants, which may make their judgements through reference to pay levels of other comparable executives. Executive pay is thus, not to be associated with factors such as performance, and is expected to be related to industry 'norms' and the size of the firm.

## **2.2 Agency Theory Perspectives of Executive Compensation Determination**

In the wider literature, executive compensation has received a great deal of attention from academics employing agency theory. Following such a viewpoint, in order to align the interest of director's to the owners of the firm, compensation should be related to firm performance. The agency theory/principal-agent model of executive compensation suggests that by tying the compensation of executives to performance, firm owners will ensure their own interests are maximised by the actions of executives. As such, the link between firm performance and executive compensation is central and an optimal outcome for managerial remuneration. Despite the theoretical benefits of such an optimal outcome, much empirical evidence (see Gomez-Meija and Wiseman 1997 and Jensen and Murphy 1990) has indicated such a link is at best weak, if present at all.

A related aspect of agency theory considers the importance of firm ownership in the determination of executive pay. It may be argued that as different forms of ownership allocate property rights to the firm in different ways, the level of monitoring over executives should also differ. For example, a proprietary company allocates ownership through publicly tradable shares in the firm. Each of these shares in turn provides a vote over some matters of executive decision-making and through concentration of share ownership a substantial monitoring influence could (hypothetically) be imposed. By contrast the mutual firm is owned by its members, which all have individual and limited voting rights over the decisions of the firm whatever their individual investment in the building society. As such it could be expected that mutual building societies, therefore, have a far more dispersed ownership structure and as a result may monitor the decisions of the executives less stringently (see Rasmusen, 1988, for further discussion). Consequently, if the monitoring of executives declines it is expected that the executive will place self-interest at the expense of the firm owners' interest in decision making, in turn justifying large pay increases among other improved managerial benefits.

This study attempts to test if differences exist in terms of the relationship between executive pay and the performance of firms with different ownership forms. Considering the range of opinions relating to executive pay determination a variety of outcomes could be expected. Initially, following the agency theory interpretation of executive pay determination, it may be expected that mutual firms have less incentives or ability to monitor executives' behaviour. In turn the link between firm performance and executive pay should be weaker for mutual firms and stronger for proprietary firms. Equally, the conversion of building societies, to a proprietary form could have heralded a change in the firm strategy in how it remunerates its executives, or could have even altered the 'reference' or 'peer' group relative to which executives pay is linked. These issues will be explored in the following sections.

### **3. Sample and Data**

The data used in this study, relates to the event of one year, 1997, in which four major building society conversions were undertaken including the, Alliance and Leicester, Halifax, Northern Rock and Woolwich. This year is of substantial importance for the UK financial services sector as in this year around 60 per cent of all building society

assets changed from a mutual form of ownership into proprietary banks and this sample constitute about 57 per cent of that 60 per cent. This sample selection is justified as of the 10 building society conversions in the UK to date, only 6 have involved the conversion of the building society into an independent bank and 4 building societies were acquired by retail banks or other proprietary institutions during this period. Two of the independent conversions, of Abbey National, in 1989, and the latest building society conversion of the Bradford and Bingley, in December 2000, occurred at a distinct time from the other conversion events and are not included in the analysis. As previously stated the performance of these converted institutions will be compared with a sample of 15 building societies, which retained their mutual status throughout the sample period 1993-2000. A list of these mutual institutions is presented in appendix 1.

Data on the level of CEO compensation and other selected variables were collected for the four converted and fifteen mutual building societies for 8 years between 1993 and 2000. The primary data sources for this study were the Annual Reports and Accounts of both the converted and mutual societies, providing data on a yearly basis. Collected data on CEO compensation, includes six components of the final remuneration package: the level of annual salary, annual bonuses, medium term bonuses, long term incentive plans (LTIPS), employee share options (ESOs), the relevant option exercise price, and other benefits such as health insurance, and the available contributions for cars. All monetary amounts are expressed in 2000 prices and are inflated by annual Retail Price Index (RPI). Additionally, when CEO were appointed during the financial year and detailed information on their remuneration was not provided their salary was prorated, following the approach suggested by Wolfram (1998).

Share options are valued following the modified Black-Scholes (1973) approach suggested by Franz et al. (1998) and Craford *et al* (1997). LTIPS was valued as suggested by Westphal and Zajac (1994) and amended for UK accounting practices in the same manner as used by commercial consulting firms e.g. Towers Perrin.

#### 4. Variable Definition and Model Specification

Remuneration of executives is determined by many factors, a situation reflected in the wide array of variables employed by academic studies investigating the determinants of executive pay (see Gomez-Majia and Wiseman 1997 for a review of such studies). In this study performance is quantified using accounting ratios. This decision on variable selection is made as all firms in the sample at some point during the sample period were mutually owned and did not issue shares. The accounting measures of firm performance used in this study include return on assets, asset growth and profit growth to quantify both absolute and relative measures of performance. The use of growth figures on our measures of performance is undertaken to reduce problems of multicollinearity with the size of individual firms in our sample, used as performance variables. In addition to defining the specific character or attributes of executives and measuring firm performance the executive compensation literature has also documented the association between executive pay and firm size (Ciscell and Carroll 1980). Following Wolfram (1998) and Joskow *et al* (1993), we include a measure of firm size, denoted as the logarithm of total assets, as a ‘control’ variable to curb the influence of this factor in our examination of executive pay determinants.

In order to empirically quantify the determinants of executive compensation, a number of related regression models are compared. In particular through considering the model fit of regression models, estimated with ordinary least squares, measurements of the explanatory power of different combination of explanatory variables, including time, performance and firm size may be investigate for individual types of firm and different time periods. In total three related regression models will be estimated, which incorporate the variables previously defined. Initially, a ‘baseline’ regression model (termed model I) will be estimated. This model includes only years or time dummies as explanatory variables for executive compensation. The model is defined as:

$$LnCompensation_{jt} = \alpha_0 + \gamma_t + e_{jt} \quad (1)$$

For  $j = 4$  converting societies and 15 building societies and  $t = 8$  for 1993-2000, where  $LnCompensation$  represents the natural log of total compensation received by the chief executive in company  $j$  and at year  $t$ .  $\gamma_t$  is a year specific effect. This model



aims to provide an indication of the influence time and exogenous events, has upon compensation, in isolation from firm performance and size variables. This indication is gained through examining the model fit of this regression, in terms of the diagnostic statistics and statistical significance of coefficient values, where the greater the model fit the greater the degree of influence time and exogenous effects has over the explanation of executive compensation.

Secondly, a regression model (termed model II) is estimated, which contains only performance and firm size variables as explanatory factors or independent variable. This model may be written as:

$$\text{LnCompensation}_{jt} = \alpha_0 + \beta_1 \text{Ln Firm Size}_{jt} + \beta_k \text{Performance}_{jt} + e_{jt} \quad (2)$$

For  $j = 4$  converting societies and 15 building societies, and  $t = 8$  for 1993-2000. *LnCompensation* represents the natural log of total compensation received by the chief executive in company  $j$  and at year  $t$ .  $\beta_1$  is the coefficient representing asset size,  $e_{jt}$  is a random error term and  $\beta_k$  is the coefficient of the three different performance variables. These performance variables include the return on assets, assets growth and profit growth. The purpose of this regression model is to provide an indication of the influence firm performance and firm size has over executive compensation in the absence of time effects through the model fit of this regression model.

The third regression model (termed model III) used to estimate the determinants of executive compensation, takes the following form:

$$\text{LnCompensation}_{jt} = \alpha_0 + \beta_1 \text{Ln Firm Size}_{jt} + \beta_k \text{Performance}_{jt} + \gamma_t + e_{jt} \quad (3)$$

For  $j = 4$  converting societies and 15 building societies,  $k = 3$ , and  $t = 8$  for 1993-2000. *LnCompensation* represents the natural log of total compensation received by the chief executive in company  $j$  and at year  $t$ .  $\gamma_t$  is a year specific effect,  $\beta_1$  is the coefficient representing asset size,  $e_{jt}$  is a random error term and  $\beta_k$  is the coefficient

of the three different performance variables. This regression model includes time, performance and firm size variables as independent variables. Through examining the model fit of this regression model, an indication of the association between executive compensation and time, firm performance and size is provided.

These three regression models are estimated using pooled cross-section and time-series observations. Estimation is made for all three-regression models for three time periods, they are:

- 1) the overall time period between 1993-2000,
- 2) the pre-conversion period between 1993-96, and
- 3) the post conversion period between 1998-2000.

These three regression models, for the three time periods are also estimated for both converted building societies and mutual building societies separately. Additionally, to enable examination of the effect of ESOs and LTIPS, separate regression models will be estimated for converted building societies, both including and excluding these elements of remuneration within the figure for total chief executive compensation. It is deemed necessary to estimate models for compensation figures including and excluding LTIPS and ESOs, for the converted societies for a number of reasons. Initially, mutually owned building societies may not offer ESOs and LTIPs, as they do not issue shares. These forms of executive remuneration are therefore new to the converting societies, and little is known as to how these payment instruments have been employed. Equally, LTIPs and ESO are risk-based forms of executive payment, and rely on the chief executive achieving certain types of goals, such as an improved company performance or share price. To accommodate the effect of these distinct forms of executive payment the models are estimated both including and excluding this element of executive pay.

In total 27 regression models will be estimated. Through comparison of the model fit of different regression models, defined by diagnostic statistics and the statistical significance of coefficient estimates, potential determinants of executive compensation are identified, both in different time periods and for different types of institution may be observed.

## 5. Empirical Results

We start our analysis from the descriptive statistics as shown in Table 1.

INSERT TABLE 1

From the descriptive statistics, we can observe that the rate of growth in average compensation for chief executives differ markedly between mutually owned building societies and converted societies. For example, considering the growth in compensation, not including ESOs and LTIPS, the rate of growth in compensation for mutual societies is slightly greater than 7 per cent per year, while the corresponding figure for converted building societies is nearly 20 per cent per year. Secondly, the levels of chief executive remuneration also differ greatly between mutual owned building societies and, albeit larger, converted building societies. Over the sample period the average level of chief executive remuneration for converted societies is over twice the average value of remuneration for chief executives in the sample of mutual societies. Lastly, it may be observed that the proportion of remuneration for converted building society chief executives, which consists of ESOs and LTIPS, is substantial i.e. around 120 per cent increase comparing to 61 per cent without including the ESOs and LTIPS over the period of 1993-96 to 1997-2000 period.

The estimates from the three regression models in the pre, post and overall sample periods for mutual building societies are displayed in Table 2. Estimates for the three regressions for the same time periods for converted building societies excluding the value of LTIPS and ESOs within the total compensation figure are displayed in Table 3. The same permutation of regression models for converted building societies including the value of LTIPS and ESOs within the total compensation figure is displayed in Table 4. The results from these tables will be considered in turn.

INSERT TABLE 2

As previously stated within Table 2, nine regression models are presented which relate to chief executive compensation within UK mutually owned building societies. Three regression models include as independent variables, (I) the effect of time, (II) the effect of firm size and firm performance, and (III) the effect of time, firm size and performance. In turn these models are estimated for three periods, of time, initially

over the entire sample period 1993-2000, for the pre-conversion period, 1993-96 and the post conversion period 1997-2000. As we have already outlined, the analysis of the determinants of executive pay within this study, rests on the comparison of the three different regression models.

Interesting results can be observed from the comparison of three regression models as reported in Table 2. Initially, considering the entire sample period, it may be observed that for model I, the adjusted  $R^2$  statistic is very low (0.07). This indicates that only 7 per cent of all variation in the dependent variable (*Ln Compensation*) is 'explained' by variation in the independent variables represented by time variables in this module. Within the model, coefficients representing 5 of the 7-year variables estimated are statistically significant, and a relatively low F value is recorded suggesting a low overall significance of this regression model. It is considered these finding indicates that year or time variables alone have little influence in 'explaining' in executive compensation, over the entire sample period for matching building societies.

Conversely, model II, is estimated including just firm size and performance as independent variables, and without the influence of time. Measures of model fit, including the adjusted  $R^2$  statistic, the number of statistically significant coefficient estimates and the F value, for this model, are far higher than the previous model. For example the adjusted  $R^2$  statistic indicates that 72.6 per cent of all variation in the natural logarithm of compensation are explained by variation in firm size and performance variables.

Model III is a regression model which includes time or year effects and firm size and performance as independent variables. Considering the three measures for model fit, the adjusted  $R^2$  statistic, the statistical significance of coefficient estimates and the F value, it may be stated that model fit for model III is far greater than that observed for model I, yet slightly lower than the model fit observed for model II. It is therefore considered that firm size and performance has a far greater influence on executive compensation than time effects, which should also capture other time related exogenous influences. As such we may suggested that throughout the entire sample period, the executive compensation of building society chief executives is positively related to the size and performance of mutual building societies.

The other empirical results from Table 2 include the regression models, which related to the pre-conversion period, 1993-96 and the post conversion period, 1997-2000. It may be observed that despite the overall levels of model fit being lower in these six models, relative to the overall sample models previously discussed, similar observations may be made. For both sample periods, the model fit for model I is very low indicating that year effects alone have little influence in explaining the compensation of chief executives. Similarly the model fit findings for model II are far higher than those for model I indicating a positive association between executive compensation and firm size and performance may exist. A variation from the results for the entire sample, exist when we consider model III which includes both time and firm size and performance as independent variables. Within this model marginally high levels of model fit are reported with some diagnostic statistics, indicating that in combination both time and firm size and performance may have additional explanatory properties for explaining executive compensation. This said, there appear to be few differences of any magnitude, between the regression models for the pre- and post conversion periods, indicating the determinants of executive compensation over these two periods, do not appear to have altered.

The three regression models are also estimated for converted building societies. Table 3 displays the regression results excluding the LTIPS and ESOs, in executive compensation, and including the value of the LTIPS and ESOs, are displayed in Table 4.

#### INSERT TABLE 3

In Table three, the results from nine regression models are presented for converted building societies, where chief executive remuneration excludes ESOs and LTIPS. Initially considering regression results for the entire sample period, substantial differences may be observed with the estimates for mutually owned building societies in Table 2. Initially, in model I, for the overall sample period, it is indicated that time appears to be a substantial explanatory factor in executive compensation. Conversely considering model II, it is observed when firm size and performance are independent variables far lower levels of model fit are recorded. These findings may be adversely influenced by a degree of autocorrelation. In model III, when firm size and performance and time effects are all included as independent variables, higher levels

of model fit are recorded, indicating that both time and firm specific factors influence executive compensation. This said, the findings from all three models are indicative of time effects having a relatively larger influence in explaining executive compensation (excluding ESOs and LTIPS) than firm size and performance, over the entire sample period. As such it may be indicated for executive compensation excluding LTIPs and ESOs, mutual societies' remuneration appears to be more closely associated with firm performance and size, than converted building societies over the entire sample period.

Considering the pre- and post-conversion period for converted societies, and executive compensation, excluding LTIPS and ESOs, differences to the remuneration of chief executive of mutually owned building societies are identified. The result shows that in the pre conversion period, a higher proportion of executive compensation appears to be explained by firm size and performance than in the post conversion period. Similarly, if we compare this result with the whole period clearly it shows that before conversion performance and control variable (size) has significant effect on the determination of the executive compensation. However, this has completely changed after demutualisation. Regression model which was significant for both whole period and pre demutualisation period became insignificant for post-conversion period. In the post conversion period, firm size, performance and time effect all appear to have had only a limited association with executive compensation indicating perhaps that the strategy adopted for allocating chief executive pay may have altered since conversion.

In Table four, the compensation of converted building society chief executives, including ESOs and LTIPS is examined.

#### INSERT TABLE 4

Due to the inclusion within the remuneration package of performance related compensation in the form of LTIPS and ESOs, it may be expected that the relationship between compensation and performance may be increased, especially over the results reported in Table 3, which examined executive compensation of converted building societies, without these performance related elements of compensation. This said, the series of nine regression model estimates presented in

Table 4 provides a number of surprising findings. Initially considering the overall sample period, it may be observed, through comparing models I and II, that time effects appear to have a stronger association with executive compensation than firm size and performance effects. Again, when both firm size and performance and time effect are considered jointly in model III, model fit rises again, although the distribution of statistically significant coefficient estimates indicates the effects of time may be dominant in this model.

Considering the pre- and post-conversion periods, the problem of low model fit exists. This said, differences do appear to exist between the model estimates for the two time periods. For example it is observed that firm size and performance have a far stronger relationship in the pre-conversion period than in the post-conversion period. This observation raises a number of questions, as to if the remuneration strategy or justification for executive compensation has altered since the conversion event. Of equal note is the apparently poor association of performance-based elements of the total remuneration package (ESOs and LTIPS) with the level of firm performance. It could be stated that since the adoption of ESOs and LTIPS into the remuneration packages of converted building societies chief executives, the relationship between executive pay and firm performance appears to have actually fallen quite sharply.

## **6. Summary and Conclusions**

In this paper, we examined the pay performance relationship and determinants of executive compensation in two different organisational forms and results were compared with matching mutuas. From the empirical analysis we found that compensation awarded after demutualisation to the chief executives were substantial. Prior demutualisations both converting and matching mutuas were mutual institutions and we found some similarity in the compensation determination and it has changed across periods. Performance and size variables were of minor importance in explaining the changes of executive compensation for converted building societies. Any relationship of executive pay with performance and size before demutualisation has diminished after conversion. In summary, it may be posited that since conversion converted building societies appear to alter, their remuneration strategy of linking chief executive pay with the size and performance of the firm. Of equal concern, is that although performance related elements of compensation have been introduced

into the overall remuneration package, these measures appear to ineffectual in linking pay with performance as ESOs and LTIPS, are being used to raise total compensation, Lastly, it can be indicated that the pay of chief executives within mutual building societies appear to have a far stronger positive relationship with firm size and performance, than do converted building societies, particularly after the conversion from mutual form took place. As such, this statement is indicative that differences may exist in the strategies for remunerating staff or the degree of firm monitoring due to ownership form in the UK building society sector.



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## **Appendix 1**

### **Name of Fifteen Building Societies:**

Nationwide Building society

Britannia Building society

Yorkshire Building society

Portman Building society

Coventry Building society

Chelsea Building society

Leeds& Holbeck Building society

West Bormwich Building society

Cheshire Building society

Norwich and Peterborough Building society

Newcastle Building society

Dunferline Building society

Nottingham Building society

Staffordshire Building society

Stroud and Swindon Building society

Table one Average Compensation for Chief Executives in Converted and Mutual Building Societies.

£'000's

Year	Chief Executive from a Converted Building Society with Options and LTIPS	Chief Executive from a Converted Building Society without Options and LTIPS	Chief Executive from a Mutual Building Society
1993	296.54	296.54	172.36
1994	372.56	372.56	192
1995	394.21	394.21	212.76
1996	507.29	507.29	228.8
1997	718.06	599.31	237.17
1998	794.76	645.01	254.8
1999	761.92	579.93	260.21
2000	1166.25	710.25	284.6
1993-96	392.65	392.65	201.48
1997-2000	860.25	633.62	259.19
1993-2000	626.45	513.14	230.34

**TABLE TWO: Mutual Building Societies**

Variables	FOR THE WHOLE PERIOD			PRE DEMUTUALISATION (1993-1996)			POST DEMUTUALISATION (1997-2000)		
	I	II	III	I	II	III	I	II	III
Constant	5.103 (50.628)***	2.741 (10.498)***	1.937 (6.186)***	5.103 (53.533)***	2.784 (6.673)***	1.844 (3.985)***	5.397 (50.925)***	2.570 (8.193)***	2.327 (5.752)
Log of Assets		0.319 (17.365)***	0.310 (18.666)***		0.287 (10.269)***	0.286 (11.481)***		0.355 (14.822)***	0.333 (14.752)***
Profit Growth		0.001 (1.132)	0.001 (2.207)**		0.0002 (0.313)	0.000 (1.361)		0.0017 (1.724)*	0.002 (1.862)*
Asset Growth		0.008 (2.499)**	0.008 (2.539)**		0.00720 (1.206)	0.010 (1.805)*		0.0054 (1.536)	0.006 (1.772)*
Return on Assets		-0.011 (-0.337)	0.094 (2.376)**		0.01667 (0.338)	0.136 (2.408)**		0.0109 (0.280)	0.047 (0.836)
Year effects									
1994	0.073 (0.513)		0.134 (1.834)*	0.073 (0.543)		0.154 (1.916)*			
1995	0.191 (1.340)		0.205 (2.881)***	0.191 (1.417)		0.207 (2.736)***			
1996	0.265 (1.856)*		0.369 (4.271)***	0.265 (1.962)**		0.405 (4.015)***			
1997	0.294 (2.063)**		0.293 (3.758)***						
1998	0.357 (2.505)**		0.265 (3.711)***				0.063 (0.420)		-0.012 (-0.156)
1999	0.350 (2.457)**		0.383 (4.275)***				0.056 (0.374)		0.055 (0.740)
2000	0.458 (3.216)***		0.421 (5.176)***				0.164 (1.096)		0.111 (1.678)*
No of Observations	120	120	120	60	60	60	60	60	60
Adjusted R <sup>2</sup>	0.07	0.726	0.780	0.027	0.635	0.712	-0.031	0.806	.808
F Value	2.311	79.922	39.323	1.538	26.639	21.854	0.417	62.256	36.371
Durbin Watson	1.358	2.046	2.582	1.181	1.925	2.340	1.345	2.718	2.919

Significant at 90percent level, \*\* significant at 95 percent level and \*\*\* significant at 99 percent level

**TABLE THREE: Converted building societies excluding the value of LTIPS and ESOs**

Variables	FOR THE WHOLE PERIOD			PRE DEMUTUALISATION (1993-1996)			POST DEMUTUALISATION (1997-2000)		
	I	II	III	I	II	III	I	II	III
Constant	5.686 (50.772)***	5.064 (3.821)** *	6.654 (4.350)***	5.686 (52.168)***	6.486 (7.756)***	7.763 (4.059)***	6.370 (55.438)***	6.169 (3.101)**	19.099 (5.596)***
Log of Assets		0.157 (1.949)*	0.047 (0.676)		0.105 (1.923)*	0.083 (1.240)		0.061 (0.500)	-0.604 (-3.368)***
Profit Growth		-0.005 (-1.859)*	-0.001 (-0.499)		-0.0033 (-1.319)	-0.002 (-0.719)		-0.000 (-0.121)	0.004 (1.773)
Asset Growth		-0.005 (-0.763)	-0.004 (-0.777)		-0.0038 (-1.011)	-0.006 (-1.307)		0.005 (0.379)	-0.008 (-0.920)
Return on Assets		-0.065 (-0.619)	-0.204 (-1.562)		-0.247 (-2.875)**	-0.410 (-1.934)*		-0.071 (-0.528)	-1.041 (-4.098)***
Year effects									
1994	0.228 (1.439)		0.091 (0.571)	0.228 (1.478)		-0.053 (-0.297)			
1995	0.286 (1.809)*		0.192 (1.241)	0.286 (1.858)*		0.083 (0.522)			
1996	0.492 (3.105)***		0.164 (0.708)	0.492 (3.190)***		-0.182 (-0.549)			
1997	0.684 (4.322)***		0.529 (3.414)***						
1998	0.747 (4.718)***		0.736 (4.891)***				0.063 (0.386)		0.907 (3.892)***
1999	0.670 (4.233)***		0.384 (1.911)*				-0.014 (-0.087)		-0.354 (-2.548)**
2000	0.870 (5.493)***		0.622 (3.287)***				0.185 (1.141)		0.148 (1.178)
No of Observations	32	32	32	16	16	16	16	16	16
Adjusted R <sup>2</sup>	0.583	0.251	0.681	0.328	0.660	0.615	-0.081	-0.079	0.568
F Value	7.184	3.603	7.008	3.444	8.265	4.428	0.627	0.726	3.822
Durbin Watson	1.744	1.185	2.077	1.510	1.284	1.861	1.951	1.953	2.203

\* Significant at 90percent level, \*\* significant at 95 percent level and \*\*\* significant at 99 percent level

**TABLE FOUR: Converted Building Societies including the value of LTIPS and ESOs**

Variables	FOR THE WHOLE PERIOD			PRE DEMUTUALISATION (1993-1996)			POST DEMUTUALISATION (1997-2000)		
	I	II	III	I	II	III	I	II	III
Constant	5.686 (41.262)***	4.914 (2.484)**	6.873 (3.268)***	5.686 (52.168)***	6.486 (7.756)***	7.763 (4.059)***	6.497 (40.222)***	6.821 (2.045)*	21.803 (3.680)***
Log of Assets		0.176 (1.460)	0.025 (0.259)		0.105 (1.923)*	0.083 (1.240)		0.0489 (0.240)	-0.741 (-2.381)**
Profit Growth		-0.008 (-2.091)**	-0.001 (-0.475)		-0.0033 (-1.319)	-0.002 (-0.719)		-0.0029 (-0.651)	0.005 (1.436)
Asset Growth		-0.011 (-1.099)	-0.008 (-1.222)		-0.0038 (-1.011)	-0.006 (-1.307)		-0.0143 (-0.665)	-0.039 (-2.538)**
Return on Assets		-0.031 (-0.197)	-0.195 (-1.084)		-0.247 (-2.875)**	-0.410 (-1.934)*		-0.0763 (-0.341)	-1.189 (-2.696)**
Year effects									
1994	0.228 (1.169)		0.116 (0.524)	0.228 (1.478)		-0.053 (-0.297)			
1995	0.286 (1.470)		0.214 (1.006)	0.286 (1.858)*		0.083 (0.522)			
1996	0.492 (2.523)**		0.184 (0.580)	0.492 (3.190)***		-0.182 (-0.549)			
1997	0.812 (4.1666)***		0.662 (3.104)***						
1998	0.973 (4.992)***		0.967 (4.676)***				0.161 (0.705)		1.198 (2.962)**
1999	0.921 (4.725)***		0.640 (2.318)**				0.109 (0.477)		-0.240 (-0.995)
2000	1.343 (6.891)***		1.111 (4.269)***				0.531 (2.324)**		0.626 (2.868)**
No of Observations	32	32	32	16	16	16	16	16	16
Adjusted R <sup>2</sup>	0.689	0.180	0.703	0.328	0.660	0.615	0.172	-0.176	0.496
F Value	10.829	2.699	7.680	3.444	8.265	4.428	2.036	0.438	3.105
Durbin Watson	1.519	.911	1.561	1.510	1.284	1.861	1.520	1.392	1.976

\* Significant at 90percent level, \*\* significant at 95 percent level and \*\*\* significant at 99 percent level