

# Say-on-Pay: Is Anybody Listening?

Stephani A. Mason  
*DePaul University, USA*

Ann F. Medinets  
*Rutgers Business School, USA*

Dan Palmon\*  
*Rutgers Business School, USA*

There is an ongoing debate about whether executives receive excessive compensation, and if so, how to control it. Several countries have instituted say-on-pay rules (shareholders' right to vote on executive compensation) to reduce excessive compensation. However, determining the effectiveness of say-on-pay is difficult because its tenets vary by country due to political, institutional, cultural, economic, and social factors. Policy issues like say-on-pay are complex, ill-structured problems without definitive assumptions, theories, or solutions. Existing say-on-pay research is inconclusive, since some studies find no change in CEO compensation around its adoption, whereas other studies show that say-on-pay lowers CEO pay or changes its composition. This paper chronicles the history of say-on-pay, compares its implementation by groups (e.g. shareholders-initiated versus legislated and binding versus advisory), discusses the complexities of using say-on-pay to address excessive executive compensation, and recommends future research directions. (JEL: G380, M480)

**Keywords:** executive compensation; say-on-pay; compensation regulation; shareholder activism; shareholder proposals; corporate governance

---

\* Contact author: Dan Palmon, Rutgers Business School, 1 Washington Park, Newark, NJ 07102. Phone: 973-353-5472, Fax: 201-586-0218, E-mail: dpalmon@business.rutgers.edu  
We wish to thank Natasha Burns, Mary Ellen Carter, Fabrizio Ferri, Betsey Gordon, Udi Hoitash, Marinilka Kimbro, Kristina Minnick, Fred Sudit, Danielle Xu, Valentina Zamora, Li Zhang, and Yi Zhou for helpful comments.

(*Multinational Finance Journal*, 2016, vol. 20, no. 04, pp. 273–322)  
© *Multinational Finance Society*, a nonprofit corporation. All rights reserved.  
DOI: 10.17578/20-4-1

**Article history:** Received: 14 March 2016, Received in final revised form: 30 January 2017, Accepted: 31 January 2017, Available online: 04 July 2017

## I. Introduction

According to Peetz (2010) “Executive pay and termination packages have become a focus of public attention. Across Europe and the U.S., four fifths of people believe that business leaders in their countries are paid too much (Harris Interactive 2009; Blitz 2003). In Australia: nine in 10 adults believe that chief executive officers (CEOs) get paid too much; 79 percent believe executive salaries should be capped; four in five believe high executive salaries do not increase company performance; and almost two-thirds of people believe high executive pay leads to higher risk taking (Colmar Brunton 2009; Ferguson 2009).” Is anybody listening?

In April 2014, the European Commission (EC) proposed requiring companies listed on European stock exchanges to hold binding shareholder votes on executive compensation and to disclose how executive compensation compares to employee compensation. In a statement, the EC said, “There is an insufficient link between management pay and performance and this encourages harmful short-term tendencies.” Under the proposal, shareholders will have the right to vote every three years on company plans that outline maximum executive compensation levels, and will also be able to express their opinions in an annual vote on whether they are satisfied with how a company’s compensation policies are being applied. In the case of a negative shareholder vote, the company will need to justify its pay policy as part of the following year’s report. European Union (EU) member states will have to write additional rules outlining how companies should respond if shareholders reject the compensation plans (European Commission, 2014).

The EU proposal would overhaul existing shareholder rights and extend say-on-pay beyond many measures already announced by national governments in Europe. EU lawmakers are responding to public pressure over growing inequality, driven in part by the widening gap between the amounts that CEOs and their employees make and a sense that any positive motivation from big CEO salaries is outweighed by lower worker morale when the differentials are stretched too far. This say-on-pay proposal reflects a trend on both sides of the Atlantic, partly driven by concern over perceived excessive executive

compensation, that has persisted as wages and benefits for most employees have stagnated.

Say-on-pay is the right of shareholders to vote on the compensation of the firm's executives. Its goals are to enhance transparency, improve executives' accountability for firm performance, spur shareholder participation in corporate governance, protect shareholders' rights to the firm's residual income, limit excessive executive compensation, and reduce executives' incentives to chase short-term profits (Baird and Stowasser, 2002). It can be implemented by shareholder proposal or through legislation, and the effect of say-on-pay measures can be binding or non-binding, depending on regulatory requirements or internal corporate policy. The purpose of this study is to chronicle the history of say-on-pay in the Organisation for Economic Co-operation and Development (OECD) countries, to compare its implementation by groups, such as shareholder-initiated or legislated adoption and binding or advisory votes, to identify the issues associated with say-on-pay, and to explore the sources and possible remedies for observed deficiencies.

However, determining the effectiveness of say-on-pay is difficult because there is no single version. Successful shareholder proposals result in periodic advisory votes to accept or reject the Board's proposed executive compensation package. Mandated say-on-pay could include separate binding or advisory votes on compensation, or it might be part of the annual report with the votes applying to compensation packages, incentive plans, or other components, such as severance arrangements, non-completion clauses, pension agreements, option grants, or approval of capital authorizations required to meet obligations under share-based incentive plans. Votes can occur annually or on some other basis, may cover compensation policy, a compensation report, compensation of individual executives/directors, or specific elements of the compensation package, such as share-based compensation. They can also look forward at compensation to be set in the future or backward at compensation as executed in the past. The tenets of say-on-pay vary by country due to political, institutional, cultural, economic, and social factors that shape local governance and compensation practices. As table 1 shows, the implementation of say-on-pay varies widely across the OECD countries. Among the forty-one countries listed in the OECD Corporate Governance Factbook (2015), twenty-five require disclosure of firms' remuneration policies by law or stock exchange regulations, eight recommend such disclosure, and eight leave the matter open. For the thirty-one OECD countries with a mechanism for shareholder approval of compensation policy, fourteen are binding, eleven are

TABLE 1. OECD Countries with Say-on-Pay (from OECD Corporate Governance Factbook, 2015)

Jurisdiction	Remuneration Policy		Level/Amount of Remuneration		Shareholder Approval
	Disclosure of Policy	Shareholder Approval	Total	Disclosure of Individuals* Remuneration	
Argentina	L	SoP/AA	L	All directors	SoP/AA
Australia	L	L: Advisory	L	Top 5	
Austria	C	SoP/AA	C	All management board members	SoP/AA
Belgium	L	L: Advisory	L	L	L: Advisory
Brazil	L	L: Binding	L	Highest/lowest paid directors	L: Binding
Canada	L	C: Advisory	L	L	C: Advisory
Chile		L: Binding			L: Binding
Czech Republic	L	L: Binding	L	--	L: Binding
Denmark	C	C: Advisory*	L	--	L: Binding
Estonia	--	--	--	--	L
Finland	C	C: Binding*	C	CEO and top management	--
France	C	C: Advisory	L	L	L
Germany	C	C: Advisory	L	L	L: Total
Greece	--	L: Binding	L	--	L: Advisory
Hong Kong	R	--	R	Directors <sup>1</sup>	L: Binding
Hungary		L: Binding			--
Iceland		L: Binding		L	--
India	L/R	--			L: Binding
Indonesia	L	C: Advisory	L	L	L: Binding L: Binding C: Advisory

( Continued )

TABLE 1. (Continued)

Jurisdiction	Remuneration Policy		Level/Amount of Remuneration		Shareholder Approval
	Disclosure of Policy	Shareholder Approval	Total	Disclosure of Individuals* Remuneration	
Ireland	R	--		R	--
Israel	L	L: Binding	L	Top 5	L: Binding <sup>2</sup>
Italy	L	L: Advisory	L	L	L: Advisory
Japan	L	SoP/AA	L	Above JPY 100 million	SoP/AA
Korea	L	L: Binding	L	--	L: Total
Luxembourg		SoP/AA			SoP/AA
Mexico	L	--	L	--	L
Netherlands	L	L: Binding	L	L/C	L or AA
New Zealand	L	--	L	Anyone > NZD 100,000	
Norway	L	L: Binding*	L	--	L: Binding
Poland	--	--	L	--	--
Portugal	C	L: Binding	C		L: Binding
Saudi Arabia	L	--	L	Directors/Top 5 key execs.	--
Singapore	C	--	C	Directors/CEO/Top 5 key execs.	--
Slovak Republic	C	--	C	--	C
Slovenia	L	SoP/AA	L	L	--
Spain		L: Advisory	L	L	L: Binding
Sweden	L	L: Binding	L	All directors and CEO	L: Binding
Switzerland	R	C: Advisory	L	All directors and CEO	L: Binding

(Continued)

TABLE 1. (Continued)

Jurisdiction	Remuneration Policy		Level/Amount of Remuneration		
	Disclosure of Policy	Shareholder Approval	Total	Disclosure of Individuals* Remuneration	Shareholder Approval
United Kingdom	L	L: Binding	L	All Directors	L: Advisory
United States	L	L: Advisory	L	Directors/CEO/CFO/Top 3 execs.	L: Advisory

Key: SoP/AA = Choice of shareholder approval or articles of association  
L = Required by law or regulation \* = Required only if firm uses incentive pay  
R = Required by listing rule -- = No specific requirement or recommendation  
C = Recommended by code or principle

**Note:** <sup>1</sup> Hong Kong listing rules also require firms to disclose the aggregate compensation of the five highest paid executives, and code recommends this disclosure on an individual basis. <sup>2</sup> Israel requires binding approval for level/amount only if it is not within the remuneration policy.

advisory, and six allow firms to choose between shareholder approval of their compensation policies or including them in their articles of association (the equivalent of articles of incorporation in the U.S. and Canada). Similarly, the OECD countries differ on whether firms must disclose compensation amounts for various directors and/or managers, and whether shareholder approval for specific compensation is binding, advisory, or optional.

According to Funke (1991), policy problems are complex, ill-structured problems that do not yield sure answers and cause disputants to disagree about the appropriate assumptions, theories, or solutions, each with particular strengths and weaknesses. Say-on-pay can be considered an ill-structured problem because various parties disagree about the problem that needs to be resolved and propose vastly different resolutions. There is no clear goal, set of operations, end states, or constraints, and there is uncertainty about the preferred outcome of shareholder votes on executive compensation. In order to determine the effectiveness of say-on-pay, there must be some consensus on the nature of the problem and the desired outcome. There also has to be some consensus on what led to say-on-pay.

## **II. Background information**

### *A. Excessive compensation leads to say-on-pay*

The say-on-pay movement has been fueled by populist anger about perceived excessive executive compensation (Wilmers, 2014). A survey by Adamson and Lumm (2009) shows virtually resounding disapproval by individual investors toward executive pay. According to Gopalan (2007), when the say-on-pay movement was gathering steam in the U.S. at the beginning of 2007, “80 percent of Americans believed that executives were overpaid, and 90 percent of institutional investors believed that corporate CEOs were overcompensated. More surprisingly, even a majority of corporate directors, 61 percent, believed that executive compensation models were problematic.” An analysis by Valenti (2013) concludes that average total compensation for U.S. CEOs in S&P 500 firms increased over 725% from 1970 to 2011, compared to 5.7% growth in worker pay and 9.8% stock market growth. Average compensation for these CEOs grew to \$14.1 million in 2012, up 8.5% since 2011 and 37.4% since 2009.

However, the U.S. is not the only country where the problem is

politically and economically acute. Compensation levels around the world have risen dramatically too, and the issue of pay disparity began in these countries even before the Financial Crisis of 2007-2008 (Crisis), which only served to make it worse. CEO compensation at large U.K. firms quadrupled over the past twenty years while share prices have remained effectively flat. In 2010 alone, U.K. CEOs' median earnings increased 32%, three times the rise in share prices and well above workers' 2% average pay increase. The ratio of CEO to average worker pay was 47:1 in 1998 but had risen to 120:1 by 2010 (Groom, 2011). According to the Expert Corporate Governance Service (ECGS), after three years of decline, the average total compensation for French CAC 40 CEOs increased 34% in 2010; pay for German DAX 30 CEOs increased 14% from 2010 to 2011; and Swiss SMI and SPI CEOs' compensation increased by 60% from 2002 to 2006. CEOs at New Zealand's largest listed firms got a 14% average pay raise in 2010, whereas the average wage increase for all New Zealanders was just 1.7% and the NZX 50 had only a 2% return that year (Adams, 2011). In Australia, median CEO salary increased by 33% from 2003 to 2007, the ratio of ASX 100 CEOs to average workers' wages rose from 17:1 to 42:1 in 2009, and the top twenty Australian CEOs earned more than 100 times the average wage from 1993 to 2009 (Productivity Commission, 2009). A 2012 report by the Canadian Centre for Policy Alternatives notes that the top 100 Canadian CEOs received a 27% increase from 2009 to 2010 (Flavelle, 2012), and Swedish Trade Union Confederation data shows that average income for executives rose to forty-six times the mean industrial wage in 2010 (Pollard and Koranyi, 2013). According to data in *The State of Working America* (Mishel et al., 2012), most of the countries that eventually adopted some form of say-on-pay had a percentage change in CEO pay of more than 100% from 1988 to 2005.

Based on data collected by Bloomberg (Lu and Melin, 2016), figure 1 compares current average CEO compensation in twenty-five of the largest economies around the world. At \$16.95 million average compensation for S&P 500 CEOs, the U.S. still leads other countries in executive compensation by a significant margin, but average CEO compensation in Europe and much of Asia is substantial too.

The escalation in CEO pay has far outpaced wage gains for average workers (Conyon et al., 2011), which has exacerbated the pay disparity over time. The ratio of U.S. CEO to average worker pay was 31:1 in 1970, but increased to 263:1 by 2009, reached a high of 525:1 during the Internet bubble, then shrank to 354:1 by 2012 (Goldstein, 2013), and

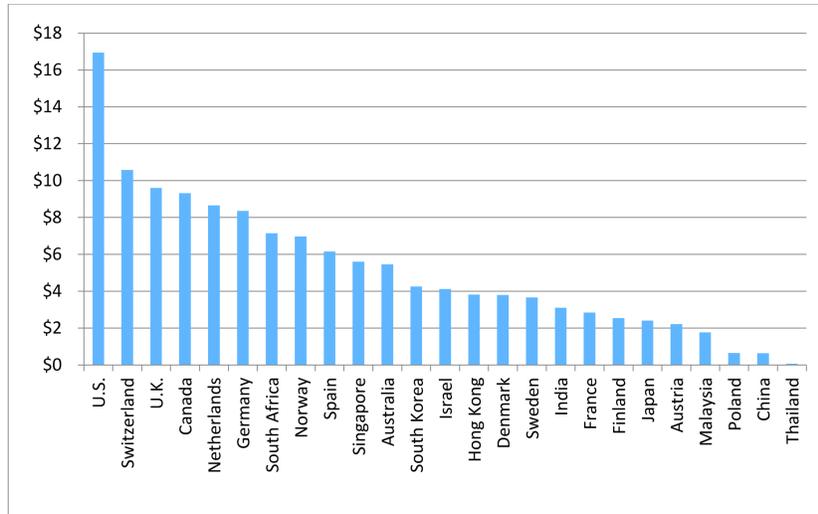


FIGURE 1.— Average CEO Pay in \$ Millions (based on Bloomberg data from Lu and Melin, 2016)

is currently 299:1 (Lu and Melin, 2016). Figure 2 shows the most recent ratios of CEO to average worker pay around the world.

Executive compensation has evolved due to complex economic and political factors, such as disclosure requirements, tax policies, accounting rules, legislation, corporate governance, general economic conditions, and political climate. Many of the changes in compensation practices can be traced directly to government responses to actual or perceived abuses, often stemming from isolated events involving a single company or industry from the U.S. crackdown on compensation for railroad executives in the early 20th century to the compensation limits imposed on bank executives during the Crisis.

There is no standard definition for “excessive” compensation. However, the issue of excessive executive compensation has been called the most egregious corporate governance failure of the 20th century, and the trend is continuing (Lavelle, 2002). This view first gained political momentum in the U.S. in the early 1990s when executive pay packages grew in excess of \$100 million at companies like Global Crossing, Qwest Communications, Hewlett-Packard, and others.

Exponentially increasing executive compensation has widened the gap between CEO and average worker pay and reduced pay-performance sensitivity. In addition, changes in the global

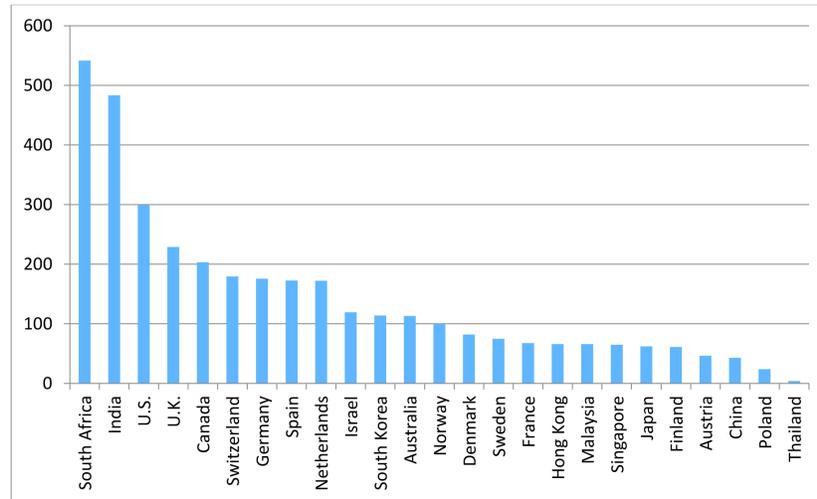


FIGURE 2.— Ratio of CEO Pay to Average Income (based on Bloomberg data from Lu and Melin, 2016)

economic environment, corporate scandals of the 1990's and 2000's, and corporate governance failures that contributed to the Crisis have increased scrutiny of executive compensation and calls for greater reform. Excessive executive compensation has galvanized investors and produced criticism of the Boards' lack of management oversight and apparent failure to tie pay to performance. The public and media have framed executive compensation as a public policy issue, pushed it to the political forefront, and spurred governmental intervention (Lewis and Einhorn, 2009; Schwarcz, 2009; Posner, 2009; Peacock, 2012).

The culture of awarding exorbitant bonuses appears to have spurred executives to take extreme risks (Balachandran, Harnal and Kogut, 2010), while the practice of giving large severance payments often rewards rather than penalizes them for such conduct (Bebchuk and Fried, 2006). Bebchuk and Spamann (2010) attribute managers' behavior to the high equity component in executive compensation. They point out that with increased executive pay sensitivity to stock price and increased stock price volatility, managers may serve the interests of shareholders through further risk-taking at the expense of other stakeholders, including bondholders, depositors, the government, and taxpayers.

Despite global efforts to empower independent Boards in the decade

leading to the Crisis, directors did little or nothing to limit risk-taking or incentivize executives to do so (Steverman and Bogoslaw, 2008). Corporate governance was routinely criticized as ineffective by the press, academics, and even top Federal Reserve officials (Becht, Bolton and Roell, 2003; Deutsch, 2003) during the corporate scandals of the 1990s and the 2000s and the bursting of the Internet bubble in 2000. In the U.S., these failures served as catalysts for regulatory changes (e.g. new governance guidelines from the NYSE and NASDAQ) and legislative changes (e.g. the Sarbanes-Oxley Act of 2002). In Europe, similar governance changes, (e.g. the Cadbury Report (1992) in the U.K., Tabaksblat Report (2003) in the Netherlands, Bouton Report (2002) in France, and Cromme Report (2002) in Germany) have followed public disquiet about incidents of actual or perceived corporate excess and an assessment that various market failures necessitate intervention. The systematic problems cited include higher cost of capital stemming from low trust in corporate reporting (Lev, 2003), short-termism in investment appraisal (Blair, 1995), and social costs arising from excessive executive salary growth (Charkham and Simpson, 1999).

Post-Enron, U.S. stock exchange rules and federal legislation were implemented requiring public companies to have Boards with a majority of independent directors (unless the company has a 50% shareholder), as well as audit and compensation committees comprised solely of independent directors. The move to independent directors began as a move toward good governance, but it has become an element of corporate law. Similar rules and best practices have been implemented in the U.K., France, the EU, and the International Corporate Governance Network.

Although the Enron-era produced sharp criticisms of executive pay, the Crisis moved executive compensation from the shareholder agenda to the regulatory agenda amid concern for financial market stability. The traditional primacy of shareholder interest in executive compensation and the link between compensation and profits/growth, however flawed in its execution, are being challenged by other stakeholders as the systemic risks from poor compensation structures have become clearer. Conventional wisdom suggests that when a bubble bursts, scandals follow, and eventually, new regulation. This has been true since the South Seas Bubble (Banner, 1997), and most major securities regulations have come after crashes. The path to say-on-pay has been no different.

*B. Theories of regulation and say-on-pay*

Regulation follows two distinct models: the public interest theory and the special interest theory (Mulherin, 2007). It may be enacted in response to a market failure (public interest theory) where it is implemented to improve public good, or in response to various political support groups (special interest theory). The public interest theory is the traditional model (Pigou, 1938), but the alternative comes from the observation that many regulations appear aimed at producer protection, rather than consumer protection (Stigler, 1971). This paper posits that say-on-pay follows the public interest theory of regulation because it has primarily been enacted in response to market failures in order to improve public good. That is, governments have mandated say-on-pay to correct excessive executive compensation.

If compensation contracts do not reflect shareholders' best interests because they are often determined under sub-optimal bargaining conditions (e.g. Jensen and Murphy, 1990; Bebchuk and Fried, 2004), then say-on-pay should alter those conditions in a way that is conducive to arms-length bargaining, resulting in more efficient contracting (Bebchuk, 2007). There are two key considerations for how much a firm benefits from say-on-pay: (1) Firms with excessive or ineffective executive compensation are more likely to benefit; and (2) Firms with shareholders willing to vote against management are more likely to see change. Of course, the composition of the shareholder base may influence shareholders' willingness to vote against management. Prior research documents that institutional investors are less apt to vote with management on governance proposals than individual investors (Gordon and Pound, 1993).

Culpepper (2012) says, "It is clear that say on pay is chosen by politicians to respond to popular outrage about perceived abuses in executive pay, and the grant of power it entails is certainly limited." While there has been a push from the public for change, not all theorists agree. Indeed, a lack of consensus among theorists that say-on-pay is needed may be a significant barrier to change. Advocates of optimal contracting theory argue that there has been little action because there is no real problem (Core and Guay, 2010). They believe that most Boards negotiate the best possible CEO compensation arrangements in order to maximize shareholder value given the underlying contracting costs. These theorists contend that the existing executive compensation system is largely working well and that little change is needed to ensure

that shareholders are getting their money's worth (Dorff, 2007).

Another issue is how to align the interests of managers and shareholders to incentivize long-term performance. Scholars who debate the normative desirability of say-on-pay disagree on whether shareholders have the capacity to use their say-on-pay votes to oversee managers and Boards effectively (Gordon, 2009; Bainbridge, 2009). There is also debate over the government's role in executive compensation. Political scientists who write about say-on-pay in the U.S. have been dismissive partly because the vote is not binding, so it is seen as symbolic politics (Suárez, 2014). Moreover, scholars note that say-on-pay does not substantially affect managers' ability to influence the composition of their own Boards, which is the core of managerial power in U.S. firms (Cioffi, 2010). Underlying these debates is the public interest theory-based notion that regulation is needed to correct inefficient or inequitable practices. This theory of economic regulation is rooted in the perception that government must regulate markets when markets are unable to regulate themselves.

### *C. Historical framework of say-on-pay*

Although the U.K. was the first to legislate say-on-pay in 2002, its origins are in the U.S. proxy rules. In 1992, the Securities and Exchange Commission (SEC) expanded the scope of allowable topics for shareholder proxy proposals to include executive compensation issues. Previously, shareholder proposals were submitted through SEC Rule 14a-8, which regulates the proposals that appear in the company's proxy statement and on the proxy ballot. Proposals that interfered with a manager's right to conduct the company's ordinary business were disallowed, so compensation proposals were rarely included because of ambiguity in the SEC's definition of "ordinary business."

As U.S. public furor over executive compensation grew in the early 1990s, a push was made for regulatory reform. When high CEO salaries became a bipartisan campaign issue in the 1992 U.S. presidential election, McCarroll (1992) called CEO pay the "populist issue that no politician can resist" (Murphy, 1997). Legislation capped the taxable amount of executive compensation, and late in the 1992 proxy season, the SEC announced that proposals on executive compensation would no longer be disallowed. This was concurrent with an expansion of proxy disclosure requirements, based on the implicit assumption that the proposal mechanism could be used to initiate change when investors were dissatisfied with the compensation policies revealed in the proxy

statement. The SEC approved new rules on executive compensation proposals and disclosure on October 15, 1992. The compensation proposals were only advisory and the probability of passage was low, but shareholders finally got the right to participate in the compensation-setting process. At the same time, massive employee downsizing by British firms with seemingly excessive compensation plus a series of corporate governance failures led to intense policy debates on governance and the appropriate role of shareholders in the process. The Cadbury Report (1992) included provisions related to the Board's compensation committee. These initiatives in the U.K. and U.S. in 1992 started the global say-on-pay movement.

Executive pay came into the spotlight again in the 2000s after the end of the Internet bubble, a series of accounting scandals in the U.S. and Europe, and the option backdating scandal. These events revived the debate over executive compensation because many of the scandal-ridden firms' executives seemed to escape with all of their compensation intact. In 2002, the U.K. introduced the Directors' Remuneration Report regulations, which require firms to submit a compensation report for an advisory shareholder vote at the annual general meeting. This was the first say-on-pay legislation.

In 2004, the EC recommended the implementation of say-on-pay by firms in its jurisdiction. The Netherlands, Sweden, Norway, and Denmark soon enacted say-on-pay legislation following similar corporate scandals and concomitant public anger. In light of the Crisis in 2009, the EC targeted directors and executives of financial institutions in a new recommendation advocating that the structure of compensation should promote corporate sustainability and tie compensation to performance by setting limits on the variable components of compensation and linking them to pre-determined, measurable financial and non-financial performance criteria. In 2014, the EC adopted measures including a proposal that shareholders of EU-listed companies be given a binding vote on executive compensation policy every three years and an annual advisory vote on how the policy has been implemented.

Australia mandated say-on-pay in 2004, and the U.S. enacted say-on-pay in 2010 as a component of the Dodd-Frank Wall Street Reform & Consumer Protection Act. South Africa, Spain, Belgium, Germany, and Italy followed with say-on-pay legislation. In 2012, the Israeli Knesset passed Amendment 20 to its Companies Law compelling companies to put their executive compensation policies up for shareholder vote every three years starting in 2013, and Swiss voters

amended their Constitution in 2013 with the Minder Initiative to mandate say-on-pay starting in 2014. Canada and Ireland allow shareholder proposals for say-on-pay, and Canada plans to change its corporate governance for TSX firms from a plurality system in which shareholders can vote “for” or “withhold” to a majority standard in which they can vote “for” or “against” a proposal (Stein, 2016). Both the U.K. and France have converted from advisory to binding shareholder votes, potentially leading other countries to change as well, and Australia has implemented a “two-strikes” rule that forces the Board to face re-election if a firm’s compensation report receives 25% or more negative votes for two consecutive years.

Although the main focus of say-on-pay is giving shareholders a voice in compensation policy, there is also some impetus behind the idea that executive compensation is simply too high. In the U.S. under Dodd-Frank, financial firms must disclose their pay ratio (the ratio of executive pay to average worker pay), but the ratio itself has no limit. In 2013, Switzerland was the first European country to propose limiting pay for bank executives to twelve times that of the company’s lowest-paid employees, but the measure was rejected. Last year, the EU Shareholder Rights Directive approved a say-on-pay vote every three years on compensation policies, but an attempt to insert a cap on pay was defeated. Israel, where one-fourth of the public companies with the highest executive pay are financial institutions, recently became the first country to pass a law specifically reducing the gap between managers’ and workers’ pay by setting a limit on bank and insurance executives’ salaries. The new maximum compensation will be the equivalent of \$652,605 per year, or up to forty-four times the salary of the lowest employee’s pay. Any additional compensation will be subject to higher taxes (Gallucci, 2016). Arlosoroff (2016) argues that the new law may make it more difficult for Israel to improve its already weak image as a place to do business and suggests that Amendment 20 of the Companies Law, which focuses on giving managers incentives to improve their company, is a better strategy.

### **III. Literature review**

#### *A. Advisory shareholder-initiated say-on-pay proposals*

Shareholders with more than a minimal investment in the firm can submit proposals to the Board, but these proposals are only advisory

since the Board can reject them even if they receive majority shareholder support (Levit and Malenko, 2011). Research by Johnson and Shackell-Dowell (1997), Johnson, Porter and Shackell-Dowell (1997), and Perry and Zenner (2001) indicates that firms receiving shareholder-initiated proposals to change executive pay do not subsequently modify their CEOs' compensation. However, Woods (1996) reports a slight increase in CEOs' cash compensation with no decrease in the value of options granted following shareholder pressure, and Thomas and Martin (1999) find that target companies increase executive compensation at lower rates than firms that did not receive these proposals in the one- and two-year periods after the shareholder vote.

More recently, Subramaniam and Wang (2009) find that firms are more likely to receive shareholder-sponsored, performance-oriented executive pay proposals when they have higher agency costs, stronger shareholder rights, or high executive compensation coupled with poor performance. They also find that CEO compensation shifts towards more equity after the proposals. Ertimur, Ferri and Muslu (2011) observe that shareholder-initiated say-on-pay proposals tend to target firms with abnormally high CEO pay, although the adoption rate is low unless the proposal receives a majority of shareholder votes. Shareholder proposals are associated with a \$2.3 million average annual reduction in CEO pay, but only when they are initiated by institutional investors.

Similarly, Burns and Minnick (2013) observe that firms with high CEO compensation, especially cash-based compensation, are most likely to receive say-on-pay proposals. They find that total compensation does not significantly change after the proposal, although firms do change the mix of compensation away from cash toward more incentive-based compensation. However, shareholder compensation proposals typically have not attracted large voting support, and their effect on compensation and firm performance has been mixed at best, according to Ferri and Sandino (2009).

#### *B. Binding shareholder votes on equity compensation plans*

In 2003, the SEC issued new rules requiring NYSE and NASDAQ firms to hold shareholder votes before adopting new equity or stock option compensation plans or materially amending existing plans. Before that, executive compensation without shareholder approval was subject to the

short swing sale prohibition under SEC rule 16b-3, which requires company insiders (officers, directors, or holders of more than 10% of the company's shares) to return any profits made from the purchase and sale of company stock if both transactions occur within a six-month period. This made non-approved plans expensive and caused most firms to seek shareholder ratification (Thomas and Martin, 1999).

Gillan (2001) shows that the average shareholder vote against authorizing shares for equity compensation plans increased from about 3% in 1988 to about 19% by 1996, a period when stock option compensation grew rapidly and many institutional investors adopted voting policies designed to limit their exposure to future share dilution. Martin and Thomas (2005) also report 19% average opposition to equity compensation plans in 1998. From 1996 to 2002, changes in SEC policy and NYSE listing requirements created a window of opportunity when firms could adopt equity-based compensation without shareholder approval. Morgan, Poulsen and Wolf (2006) find that plans in 2000-2003 received 33% average opposition when a proxy advisory service recommended that shareholders withhold approval, a much higher total than in earlier years. Circumstantial evidence suggests that many firms react to negative votes by scaling back their equity compensation plans. Since 2000, total compensation has leveled off, although a change in accounting rules to require the expensing of stock option compensation has probably influenced this trend as well (Yermack, 2010).

Several studies examine shareholder voting for management-sponsored compensation plans. Morgan and Poulsen (2001), Bethel and Gillan (2002), and Thomas and Martin (1999) find that management-sponsored pay-for-performance proposals are generally approved. Martin and Thomas (2005) re-examine the topic and find that plans with significant dilution experience negative stock price reactions. They also find a negative relationship between the percentage of votes against a proposal and the percentage change in CEO pay for the next year. Morgan, Poulsen and Wolf (2006) find that shareholders provide less support for management-sponsored plans that are more dilutive and plans that receive negative recommendations from proxy advisors. Morgan and Wolf (2007) extend that research to Canada and find many similarities between voting at Canadian and U.S. firms. However, they find few majority-approved proposals and lower overall affirmative voting returns in Canada.

Ng et al. (2011) show that after the regulatory change in 2003, the

quality of equity compensation proposals has improved, shareholders exhibit greater monitoring of executive compensation through increased voting rights, and the equity pay component of total executive compensation has declined while the cash component has increased. Armstrong, Gow and Larcker (2013) find that shareholders are more likely to vote against excessive executive pay plans, although they find no relationship between shareholder voting on compensation proposals and subsequent changes in CEO compensation.

Balachandran, Joos and Weber (2012) study the relationship between shareholders' approval of equity-based compensation plans and the firm's future financial performance with a focus on shareholder voting as a control mechanism in publicly traded corporations from 1992 to 2003 when U.S. Boards could choose whether to submit new equity compensation plans for shareholder approval. They show that firms submitting new plans for approval typically have better long run performance and stronger governance. This suggests that stock option plans implemented without seeking shareholder approval are not implemented at arm's length. Bebchuk and Fried (2004) find this result to be consistent with the idea that shareholder votes increase the efficiency of equity-based compensation plans, whereas compensation contract inefficiencies suggest a need to increase shareholders' rights.

### *C. Implementing say-on-pay in OECD countries*

The prior section focused on equity compensation in the U.S. where these votes are binding, but those findings are not necessarily generalizable to other types of say-on-pay votes because each country can structure say-on-pay according to its own political, institutional, cultural, economic, and social needs.

#### *Say-on-pay the U.K.*

The U.K. introduced the Directors' Remuneration Report in 2002, requiring listed firms to put their compensation report to a non-binding shareholder vote at their annual general meeting. This was the first enacted legislation explicitly calling for say-on-pay, and there is a growing literature dedicated to say-on-pay in the U.K. Ferri, Balachandran and Maber (2008) find that it increases the sensitivity of CEO pay to poor accounting performance, but not to stock performance. In other words, it curbs the "pay for failure" scenario. Carter and

Zamora (2007) find that shareholders disapprove of higher salaries, weak pay-performance sensitivity in bonus pay, and greater potential dilution from equity pay. They also observe that Boards respond to past negative votes by reducing excess salaries and dilution from stock options and by improving the pay-performance link. Ferri and Maber (2013) show no change in the level or growth rate of CEO pay after the adoption of the say-on-pay regulations, but they do find increased sensitivity of CEO cash and total compensation to negative operating performance, especially in firms with excessive compensation in the period before the regulations and in firms with high voting dissent.

Alissa (2015) finds that shareholders use their votes to convey dissatisfaction with excessive executive compensation, and Boards respond either by reducing the excessiveness of CEO compensation or by forcing the CEO out. Conyon and Sadler (2010) treat shareholder voting as an endogenous choice variable in their CEO pay equations and find that shareholders' votes reflect their disapproval of higher salaries, higher excess bonuses, and greater dilution from stock-based compensation, although they find no evidence that Boards respond to greater shareholder disapproval.

Gregory-Smith and Main (2014) compare a large sample of binding and non-binding votes at U.K. companies and find that moving to a binding vote is unlikely to strengthen the relationship between executive pay for performance and shareholder voting dissent since shareholders tend not to use binding votes to express disapproval of executive pay levels beyond the amounts merited by firm performance. Gregory-Smith, Thompson and Wright (2014) also show that shareholder votes are not a robust way to express dissatisfaction with pay. Using non-financial FTSE 350 companies from 1998 to 2012, they examine how CEO pay, firm performance and corporate governance characteristics influence dissent levels for say-on-pay resolutions, and confirm that shareholder voting overwhelmingly supports the status quo.

Gerner-Beuerle and Kirchmaier (2016) examine the impact of the U.K.'s 2013 enhanced executive compensation disclosure rules on shareholders' say-on-pay votes. Using pay information disclosed by FTSE 100 firms, they find that shareholders focus on top-line salaries and seem to disregard the remaining information. Analyzing the unique British feature of two votes, one forward-looking and one backward-looking, they show that shareholders differentiate between the two dimensions.

*Say-on-pay in the U.S.*

In 2007, Congressman Barney Frank sponsored H.R. 1257, the Shareholder Vote on Executive Compensation Act, which would have amended the Securities Exchange Act of 1934 to require companies to conduct a non-binding shareholder vote on executive compensation plans. The bill was passed by the House, but was never put to a Senate vote. Cai and Walkling (2011) examine the reaction to this legislation and find that the market views say-on-pay as value-creating for companies with inefficient executive compensation and relatively poor corporate governance, but value-destroying for other firms.

In 2010, say-on-pay was formally enacted in the U.S. as a component of the Dodd-Frank Act. Balsam et al. (2016) find that firms reduce executive compensation before the mandated say-on-pay vote and make it more performance-based. They also find that the percentage of votes against executive pay is lower when firms reduce executive compensation before the initial say-on-pay vote, but higher when firms have high total compensation, large increases in compensation, substantial compensation that cannot be explained by economic factors, and/or significant “other compensation” including perquisites.

Cotter, Palmiter and Thomas (2013) find that shareholders generally support managers’ pay packages unless the firm performs poorly and has excessive executive pay, low shareholder returns, and negative proxy voting recommendations. Similarly, Kimmey (2013) finds that high CEO salary, a weak pay-performance link, and high dilution from stock option grants are associated with lower say-on-pay approval. He also notes that shareholders show sophistication in their examination of CEO compensation by voting against excess compensation above the amount deserved due to performance. More recently, Conyon (2016) finds that fewer than 3% of firms fail to pass their say-on-pay proposals, but shareholder dissent is higher in firms with high CEO compensation or poor performance. However, CEO pay growth is lower in firms that previously had strong dissent, and there is less dissent in firms with better governance.

Kimbrow and Xu (2016) show that say-on-pay votes are sensitive to firm risk, excessive CEO compensation, accounting quality, and financial performance. They also find that Boards react to say-on-pay rejection votes by subsequently reducing the level of excessive compensation, and that shareholder voting rights, even when advisory, can be an effective mechanism to address management rent extraction.

Beckerman (2012) analyzes firms that fail their say-on-pay vote and finds no evidence that it corresponds to either an increase or a decrease in stock market returns. Collins, Marquardt and Niu (2016) show that shareholders tend to approve compensation packages that are more sensitive to changes in stock price (pay-performance sensitivity) and changes in stock volatility (pay-risk sensitivity), which is generally consistent with theoretical predictions that outside owners approve of equity incentives to align the interests of managers with shareholders and to mitigate potential agency costs.

Iliev and Vitanova (2013) study firms that were not required to adopt say-on-pay and find that managers do not behave strategically to avoid compliance or to influence an upcoming vote, that directors of firms that hold say-on-pay votes have increased support, and that the regulation, as implemented, does not affect the level or composition of CEO pay. Cuñat, Giné and Guadalupe (2016) explore votes on shareholder-initiated proposals in the U.S. and confirm that adopting say-on-pay has limited effects on pay levels and structure, although it does increase market value and improve long-term performance.

Zhang, Lo and Yang (2014) examine the causes and consequences of say-on-pay votes and find that shareholder disapproval increases with the amount of total and abnormal compensation, but decreases with the number of pay-restraining provisions and the quality of compensation disclosures. They also find that shareholder disapproval correlates with contemporaneous director turnover and that Boards respond to shareholder disapproval by amending compensation policies to reduce that opposition for the following year. Brunarski, Campbell and Harman (2015) investigate responses to say-on-pay votes and find that overcompensated managers with low say-on-pay support tend to react by increasing dividends, decreasing leverage, and increasing corporate investment. However, they find that these actions do not affect subsequent say-on-pay vote outcomes or change firm value. They also find that excess compensation increases for managers who were substantially overpaid prior to the say-on-pay vote, regardless of the outcome of the vote, suggesting that say-on-pay legislation has not improved executive contracting.

By contrast, Brunarski et al. (2016) find significant external labor market penalties when directors fail to oversee executive compensation. If shareholders express disapproval through low say-on-pay support, equity values decrease at firms linked by a shared director (interlocking firms), directors lose external Board seats and compensation committee

positions, and external director compensation decreases. In addition, shareholder scrutiny increases at interlocking firms because shareholders are more likely to select annual say-on-pay voting and offer low subsequent support. Behera (2015) also shows that Boards respond to say-on-pay voting outcomes. After controlling for firm performance and CEO attributes, she finds that in firms with less entrenched managers, lower shareholder support increases the likelihood of CEO turnover. However, she also finds that shareholder support is a poor predictor of future stock performance. In fact, CEOs who receive less than 75% favorable votes perform significantly better than those receiving over 91% support. This implies either that a less supportive vote is a strong motivator for CEOs, or that shareholders are myopic in assessing CEOs.

#### *Say-on-pay in other countries*

Most say-on-pay research focuses on the U.K. and the U.S., but a growing literature is examining the impact of say-on-pay in other countries, especially countries that have enacted advisory votes.

Rapp, Sperl and Wolff (2010) and Eulerich, Rapp and Wolff (2012) investigate Germany's law permitting non-binding shareholder-initiated votes and find that a firm's chance of being targeted increases with a higher free float and strong media exposure, whereas the approval rate increases with the voting power of blockholders and the introduction of a new compensation system. For 2010-2013, Powell and Rapp (2015) find that half of all German firms opted for having a vote in the first four years of the voluntary regime, and the likelihood of a vote increases with firm size, abnormal executive compensation, and free float. They also find a strong pay-performance link, especially when the effect of executive compensation is lagged over the years following the vote. A unique feature of German governance is that public firms have both a management board and a supervisory board. Tröger and Walz (2014) analyze executive compensation at twenty-five DAX firms from 2006 through 2012 and find that compensation packages for management Board members are closely linked to firm performance, whereas compensation for supervisory Boards responds to shareholder dissent. In 2010, the year that German say-on-pay was enacted, compensation was noticeably reduced, even after controlling for performance.

In Italy where ownership is concentrated, Belcredi et al. (2014) find

that shareholder dissent is smaller, but still comparable to the U.K. and the U.S. where ownership is dispersed. They also find that dissent is negatively correlated with the equity stake held by the largest shareholder, which is consistent with better monitoring and lower agency costs. Dissent is only weakly related to firm performance, but firms with larger CEO compensation have more dissent and firms with better disclosure of the components of CEO pay have less dissent. Dissent is affected by investor activism at the company level, proxied by institutional investors at the annual general meeting and by minority directors (a special feature of Italian corporate governance) on the Board of target companies. Finally, dissent is higher when the vote is non-binding, which suggests that the non-binding nature of the say-on-pay vote may not reduce its effectiveness. Bruno and Bianconi (2015) find that Italian firms are likely to change their compensation policy in the financial year after a low vote or no vote.

Sheehan (2012) evaluates say-on-pay in Australia and finds that shareholders largely support management and that executive compensation does not necessarily decrease. Clarkson, Walker and Nicholls (2011) find that increased shareholder oversight of executive compensation after enactment of say-on-pay in Australia results in a stronger pay-performance relationship and increased sensitivity of reported CEO compensation to firm performance. Monem and Ng (2013) also investigate the effect of say-on-pay on the pay-performance link in Australian firms and find that pay changes for CEOs and key executives were not significantly related to their firms' stock returns in 2011, but had improved significantly in 2012.

Under Australia's two-strikes rule, all Board members except the managing director must stand for re-election if 25% or more of votes are cast against the compensation report in two consecutive years. Mackay, Howieson and Shan (2015) examine the impact of conversion from an advisory system to a binding two-strikes system in Australia and find that the binding vote increases the number of negative say-on-pay votes, reduces CEO and director compensation, and increases the incidence of CEOs and directors leaving their firms. They also show that firm performance and firm value improve after a first strike. Their results suggest that binding say-on-pay votes do increase shareholder influence.

Faghani, Monem and Ng (2015a) analyze changes made by one-strike firms to avoid a second strike the following year and find that these firms increase the proportion of CEOs' performance-based pay, which reduces shareholder dissent. This suggests that empowering

shareholders through say-on-pay can curb excessive executive pay and improve alignment between shareholders' and managers' incentives. Faghani, Monem and Ng (2015b) find that one-strike firms tend to have higher CEO pay, lower ownership concentration, smaller firm size, higher institutional ownership, and CEO duality. However, additional analysis suggests that shareholders fail to differentiate between CEO pay that is related to the economic characteristics of a firm and the pay that is not. Grosse, Kean and Scott (2015) compare one-strike firms to matched firms with no strikes and find no association with any measure of CEO pay. However, they do find that one-strike firms have higher book-to-market and leverage ratios, which suggests that the compensation vote is not used to target excessive pay. They also find that firms respond to a strike by decreasing CEOs' discretionary bonuses and increasing compensation disclosure.

#### *Comparing say-on-pay across countries*

Since each country can implement say-on-pay in its own way (e.g. binding versus non-binding), some researchers compare the effectiveness of say-on-pay in different countries. Correa and Lel (2016) investigate say-on-pay using a large cross-country sample from 2001 to 2012 and find that say-on-pay decreases CEO compensation levels and the growth of CEO pay. They also find higher pay-performance sensitivity, higher firm value, and a smaller pay slice awarded to CEOs, suggesting that managerial pay inequality decreases within the firm's management team following the adoption of say-on-pay. While both binding and advisory votes are associated with declines in CEO pay growth, the effect is significantly greater for binding laws. By contrast, advisory laws have the advantage of decreasing pay growth rates only in firms that perform poorly, aligning pay to realized firm performance, and reducing managerial pay inequality. Balsam, Gordon and Kwack (2013) examine say-on-pay across countries and find that it does not affect the CEO compensation level, but it does increase the proportion of equity pay out of total CEO compensation. They also find that binding votes lead to larger reductions in CEO compensation.

#### *D. Factors affecting say-on-pay voting outcomes*

Bordere, Ciccotello, and Grant (2015) evaluate firms receiving a majority of negative say-on-pay votes in 2011. They find that these

firms perform poorly and have high CEO pay in the pre-vote period relative to a control group. About 20% of the rejected firms also have income-decreasing restatements that affect the five-year period before the vote, compared to only 3% for the control group. The rejected firms also have weaker internal controls and greater increases in audit fees in the year before the vote. Furthermore, over half of the restatements occur after the say-on-pay vote, suggesting that auditors should consider say-on-pay votes in their risk assessments.

Say-on-pay places more importance on the Compensation Discussion & Analysis (CD&A) in firms' proxy statements. Firms use CD&A as a tool to communicate with shareholders about their compensation programs, but Dodd-Frank lacks guidelines about CD&A disclosure. Balsam et al. (2016) find that the tone and prominence of the CD&A are associated with the vote outcome. Hemmings, Hodgkinson and Williams (2016) show that better CD&A readability weakens the link between CEO excess pay and the probability of receiving a low say-on-pay vote, which suggests that increased readability leads shareholders to place greater decision weight on arguments presented in the CD&A framed in favor of proposed pay.

In a related area, Mukhopadhyay and Shivakumar (2015) explore whether investors rely on disclosures of managerial performance measures in proxy statements for their say-on-pay decisions. They use text analysis to create a text-based score that is positively associated with the likelihood of voter approval, and their result holds even for a sub-sample of firms that receive a negative recommendation from a proxy advisor. Furthermore, firms that fail a vote tend to increase their disclosure of performance measures in the subsequent period's proxy statements, which improves the likelihood of obtaining approval in the next vote. Finally, they find that say-on-pay increases firms' responsiveness to investors' demands for compensation-related disclosures.

Hadley (2015) analyzes the effects of disclosing alternative pay measures on say-on-pay support and explores whether these disclosures are made opportunistically or informatively. Using a sample of firms that report "realized compensation" (a measure of pay actually received during the year, rather than the potential pay found in the Summary Compensation table (SCT) mandated by the SEC) or "realizable compensation" (a firm's percentile ranking among peer firms, certified by an external compensation consultant) in their 2012 proxy statements, she finds that firms choose to disclose realized or realizable pay for different reasons. Firms that opt for realized compensation have

characteristics associated with opportunistic disclosure including poor performance, low managerial ability, higher SEC-mandated SCT pay, and lower realized pay compared to similar firms. By contrast, firms that report realizable compensation seem most concerned with combating prior poor say-on-pay approval, so they respond by making positive changes to SCT pay and disclosing externally certified realizable measures. Despite these differences, results suggest that the effects of reporting realized or realizable compensation are similar: Disclosing additional information related to compensation has a significant positive impact on say-on-pay approval, but generally not enough to improve the chance of reaching the 75% approval threshold unless firms had received weak prior say-on-pay support.

The pay ratio is another type of compensation disclosure. In 2013, the SEC voted to issue a rule that would require most companies to disclose the annual total compensation of the median employee, the annual total compensation of the CEO (already available under existing compensation disclosure rules), and the ratio of CEO pay to median employee pay (*i.e.*, the pay ratio). Some companies already disclose some form of a pay ratio voluntarily, and about 10% of all U.S. firms disclose total compensation expense (Ballester, Livnat and Sinha, 2002), which can be combined with other disclosed information to estimate the pay ratio (Faleye, Reis and Venkateswaran, 2013). Crawford, Nelson and Rountree (2014) examine the relationship between pay ratios and say-on-pay votes for U.S. commercial banks and find that firms with extremely high pay ratios are riskier, have worse performance, and experience greater shareholder dissent on say-on-pay proposals than other firms.

Larcker, McCall and Ormazabal (2012) and Ertimur, Ferri and Oesch (2013) find that proxy advisory firms have a substantial impact on say-on-pay vote outcomes, and some firms change the composition of their executive compensation packages to avoid a negative recommendation. Their findings are consistent with the earlier findings of Bethel and Gillan (2002) and Morgan, Poulsen and Wolf (2006). Similarly, Malenko and Shen (2016) find that a negative recommendation from the Institutional Shareholder Services (ISS) reduces voting support by 25%, suggesting strong ISS influence over shareholder votes (see also Balsam et al., 2016). In a related area, Hooghiemstra, Kuang and Qin (2015) find that negative media coverage of firms' CEO pay packages predicts shareholder discontent over say-on-pay. When media coverage is divided into the financial/business press and general press coverage, they find that shareholders'

say-on-pay votes are mainly associated with articles from the financial/business press, suggesting that the media is not a homogeneous information source that is equally able to predict shareholders' voting behaviors.

Stathopoulos and Voulgaris (2016) posit that shareholders' investment horizons affect say-on-pay voting patterns. They show that short-term institutional investors are more likely to abstain in order to avoid incurring monitoring costs unless CEO pay is abnormally high, whereas long-term institutional investors are more likely to support the proposed compensation report. Similarly, Schwartz-Ziv and Wermers (2016) find that both mutual funds and institutional investors are more likely to vote against management on say-on-pay when they hold a smaller fraction of the outstanding shares, or when their stockholdings comprise a smaller fraction of their total portfolio, indicating that the say-on-pay vote allows many small institutional shareholders to coordinate and voice their opinions on compensation and management performance. They also find that firms with a non-insider blockholder are likely to respond to low support for the say-on-pay vote by picking more reasonable peers to benchmark executive compensation, decreasing the growth rate of excess compensation, and/or replacing the CEO.

In the U.S., shareholders also have the right to determine the frequency of say-on-pay votes. Li and Gu (2014) examine the relationship between say-on-pay voting frequency and the firm's existing corporate governance structure. They find that the market reaction is significantly positive for firms with excess CEO equity pay and for firms whose shareholders' preference for voting frequency matches the Board's recommendation. Liu (2012) shows that 60% of firms initially recommend say-on-pay voting every three years, whereas shareholders at 90% of those firms choose annual votes. Ferri and Oesch (2016) find that a management recommendation for a particular say-on-pay frequency is associated with a 26% increase in shareholder support for that frequency, suggesting that management's influence is comparable to that of proxy advisors.

Kronlund and Sandy (2016) study whether a firm's pay practices differ in years with a vote versus years with no vote. In years when the firm is expected to have a say-on-pay vote, they find that CEO salary decreases and stock awards increase, which is consistent with firms changing pay practices to reflect proxy advisory firms' guidelines, and is inconsistent with a hypothesis that say-on-pay has no effect on

executive compensation. However, deferred compensation and pension balances also increase in years with a vote, which supports the idea that say-on-pay increases the use of less transparent pay components. The net effect of these increases and decreases in CEO pay components is that overall CEO compensation actually increases and the alignment between executive compensation and performance is worse in years with say-on-pay votes compared to years without a vote.

*E. Theoretical and behavioral studies of say-on-pay*

Say-on-pay has also been analyzed theoretically and behaviorally. Göx (2012) uses theory to analyze the impact of say-on-pay on the compensation policy and level of Board dependence of a firm in which the CEO has some power over Board composition. He posits that say-on-pay could actually reduce the efficiency of a firm's compensation policy because the ability of say-on-pay to improve pay practice depends on Board independence. This gives a powerful CEO the incentive to establish a more dependent Board. In return, the new Board would offer the CEO a more generous bonus than in the absence of say-on-pay. This dynamic suggests that say-on-pay can only improve the compensation policy of a poorly governed firm if the level of board dependence cannot be adjusted and that say-on-pay can exacerbate, rather than mitigate, existing deficiencies in governance structures and compensation policies.

Krause, Whitley and Semadeni (2014) conduct experiments to simulate say-on-pay votes and find that shareholders value pay-for-performance. Bowlin, Christ and Griffith (2012) use a laboratory experiment to show that giving investors a voice in setting executive compensation improves their perceptions of the fairness of the compensation-setting procedures, which increases investors' trust in the Board and their willingness to invest. However, they find that the positive effects of say-on-pay on investor behavior is greater when Boards voluntarily give their investors a voice, rather than when they are mandated to do so.

Göx, Imhof and Kunz (2014) use a laboratory experiment to compare advisory, unconditionally binding, and conditionally binding shareholder voting rights to a baseline case in which shareholders have no say on CEO pay. They observe that advisory and conditionally binding votes do not distort CEO investment incentives, whereas unconditionally binding votes adversely affect the CEO's investment

incentives. However, unconditionally binding votes curb executive compensation, whereas advisory votes can actually increase executive compensation. Finally, many shareholders reject CEO bonus proposals whenever they have the right to do so, independent of the type of voting right.

Kaplan, Samuels and Cohen (2015) conduct an experiment to test whether social ties between the CEO and Board, the CEO's reputation for financial reporting, or investor's perception of fairness will affect their say-on-pay judgments. Results indicate that CEO social ties and reputation affect say-on-pay judgments, but investors' perceptions of procedural and distributive fairness affect their judgment too. Kaplan and Zamora (2016) also conduct an experiment on the impact of perceptions of compensation fairness. They find that exceeding analysts' expectations and the source of a firm's earnings affect the percentage of nonprofessional investors' positive say-on-pay votes and that participants' beliefs about the overall fairness of the CEO's compensation, but not their beliefs about the firm's future performance prospects, fully mediate this relationship.

#### *F. Market reaction to say-on-pay*

Giving shareholders a say in executive pay may help reduce the agency costs between executives, directors, and shareholders, resulting in more efficient compensation contracts and adding value to the firm. Deane (2007) and Davis (2007) use the alignment hypothesis to suggest that say-on-pay will better align owner-manager interests and improve governance and performance. If say-on-pay restores the alignment of owners and managers, then there should be a positive market reaction to it.

Several studies use market reaction to analyze the effectiveness of say-on-pay. Cai and Walkling (2011) find a significant, positive market reaction to passage of the first advisory say-on-pay bill in the U.S. House of Representatives in 2007 for firms with high abnormal CEO compensation, low pay-performance sensitivity, and receptivity to shareholder pressure. Upon further examination, they conclude that say-on-pay creates value for companies with inefficient compensation, but destroys value for others.

Larcker, Ormazabal and Taylor (2011) find significant, negative market reaction when several say-on-pay acts were proposed in the U.S. and that shareholders react more negatively for firms with highly paid

CEOs. They posit that the market may perceive that regulating executive compensation will result in less desirable contracts and may decrease the supply of high-quality executives. This suggests that the market assesses current pay practices to be value-maximizing. In contrast, Becker, Bergstresser and Subramanian (2013) and Cohn, Gillan and Hartzell (2016) find that the possibility of increased proxy access for shareholders in the future results in positive stock price reactions for firms where shareholders are more likely to take advantage of that access.

Iliev and Vitanova (2013) investigate firms that were not required to adopt say-on-pay and find that the market reacts positively to firms' voluntary compliance with the rule. Li and Gu (2014) examine the market reaction to the shareholders' decisions on the frequency of the vote and find that the market reaction is significantly positive for firms with excess CEO equity pay and for firms whose shareholders prefer the voting frequency recommended by the Board.

Akhigbe, Frye and Whyte (2015) examine the impact of negative say-on-pay votes on the stock prices of firms receiving the no-vote and their major competitors. Although both the targeted firms and their rivals experience significant reductions in shareholder value, the determinants of the change are different. For firms receiving the no-vote, the market reaction seems to be driven largely by investors' perceptions about the firm's compensation structure, whereas the reaction for rival firms is positively related to measures of CEO incentives that align managers' and shareholders' interests. They also find changes in compensation levels following a negative vote, especially among rival firms.

Wagner and Wenk (2015) analyze the stock market reaction to binding say-on-pay in Switzerland by studying stock price reactions around a Swiss direct democratic initiative. They find that over 70% of firms had negative abnormal returns, and the market reallocated significant value from the smallest 80% of firms to the top 20% after the initiative. Furthermore, the stock market reaction was most negative for firms with the highest-paid executives and Boards. Schrempp (2010) also observes significant negative abnormal returns around the day the initiative was announced. These results differ substantially from studies of advisory say-on-pay votes in the U.S.

Hitz and Müller-Bloch (2016) investigate the market reaction in Germany to the 2009 announcement of proposed say-on-pay regulation and find a weak negative reaction, especially for firms with high

abnormal compensation or low pay-performance sensitivity. By contrast, Trottier (2012) explores the market reaction to an announcement that Canadian banks were voluntarily adopting say-on-pay and finds a significant positive reaction.

### *G. Say-on-pay and the market for executives*

In many discussions of say-on-pay, the issue is whether CEOs are being rewarded at levels that are not commensurate with their contributions to their organizations, especially failing organizations. This has led to a populist feeling that CEOs are overpaid or that their compensation is unfair. According to Locke (2008), there is no set level of pay that is “fair” or that would make a CEO “overpaid.” Thus, there is no intrinsic amount of pay that is correct for a job because the market ultimately determines the appropriate compensation for a specific firm. The business press tends to support this view and frames it either in terms of supply and demand or risk and reward. Factors that may explain high CEO pay include firm size/scale, the ability of CEOs to create/destroy value, a lack of qualified candidates, high CEO turnover, the necessity for weak firms to pay more to attract competent CEOs, and the use of equity compensation to incentivize performance (Baldwin, 2016; Edmans and Gosling, 2016).

Kaplan (2012) considers three common perceptions of U.S. public company CEO pay and corporate governance: (1) CEOs are overpaid and their pay keeps increasing; (2) CEOs are not paid for their performance; and (3) Boards do not penalize CEOs for poor performance. He finds that average CEO pay increased substantially through the 1990s, but has declined since then. Relative to other highly paid groups, CEO pay levels are comparable to their average levels in the early 1990s, although they remain above their long-term historical average, and the ratio of large-company CEO pay to firm market value is roughly similar to its level in the late 1970s and lower than its pre-1960s levels. These patterns suggest that similar forces, likely technology and scale, have played a role in driving CEO pay and the pay of others with top incomes. He also finds that CEOs are paid for good performance and penalized for poor performance, and that Boards do monitor CEOs. Compared to the 1980s and 1990s, the rate of CEO turnover has increased and is significantly tied to poor stock performance. While corporate governance failures, pay outliers, and high average pay levels relative to typical households have contributed

to the perception that CEOs are overpaid, a meaningful part of CEO pay appears to be market-determined. Furthermore, top executive pay policies at over 98% of S&P 500 and Russell 3000 firms received majority shareholder support for their say-on-pay votes in 2011. This is consistent with evidence found in other markets with say-on-pay.

Warren Buffett famously refused to vote against Coca-Cola's pay package, despite calling it excessive, to be loyal to Coke's management. His action typifies the behavior of shareholders and Boards that are often unwilling to punish mediocre performance, and supports the notion of say-on-pay as an ill-structured problem, since parties disagree about the problem to be resolved, as well as possible solutions.

#### **IV. Discussion**

If the goals of say-on-pay are to tie accountability, transparency, and performance to executive pay, to spur shareholder participation in corporate governance, to protect the shareholders' rights to the residual income of the firm, to rein in excessive executive compensation, and to reduce executives' incentives to chase short-term profits (Baird and Stowasser, 2002), then has it been effective? The empirical evidence is mixed on whether say-on-pay reduces the level or growth rate of executive compensation, although evidence shows that the composition shifts toward a larger equity component and the sensitivity of CEO pay to poor performance increases.

In the U.K., where say-on-pay votes have been held since 2002, Ferri and Maber (2013) find that firms respond to rejection votes by scaling back CEO pay practices that rewarded failure (e.g. generous severance contracts) and increasing the sensitivity of pay to poor firm performance. In the U.S., where say-on-pay was enacted in 2010, evidence of its impact on CEO compensation is emerging. Kimbro and Xu (2016) find that Boards react to say-on-pay rejection by reducing compensation, which suggests that these votes address problems of excessive compensation packages.

In Australia, increased investor scrutiny since the Crisis combined with the two-strikes rule in say-on-pay votes have decreased average CEO fixed pay in the Top 100 companies in 2012 year-over-year (Monem and Ng, 2013). Several studies find that the effects of say-on-pay are more pronounced in firms with high voting dissent and with high excess CEO pay. Although say-on-pay might appear to be a

valuable corporate governance mechanism, it is not clear that a shareholder vote on pay leads to more efficient executive compensation packages, except in particularly egregious cases.

Shareholders allocate most decision rights to a Board (e.g. Jensen and Meckling, 1976) because making efficient decisions about most complex corporate activities requires considerable expertise, time, and company-specific information. Corporate directors have more expertise than most shareholders, as well as a wealth of company-specific information to use in their decisions. In light of these issues, individual investors, even institutional shareholders, may not take the time to become sufficiently well informed to identify deviations between a firm's existing compensation plan and the optimal plan.

A 2011 report prepared by Fariant Advisors for the Council of Institutional Investors finds that, for the 2% of firms that failed their say-on-pay vote, shareholders rejected their compensation packages due to (1) a disconnect between pay and performance; (2) bad pay practices including bonuses for weak performance, high pay benchmarks, poor performance measures, tax gross-ups, lack of clawbacks, and excessive termination packages; (3) inadequate disclosure; or (4) inappropriately large pay (Schoenthaler, 2011; see also Ferracone, 2011). According to Fabrizio Ferri, say-on-pay "has been effective in some ways, but it has not been a revolution. By and large, levels of compensation keep increasing every year, and shareholders have not — except in a very few cases — pushed back." Data compile by the Semler Brossy Consulting Group supports this view, indicating that shareholders at 94% of U.S. companies pass say-on-pay votes with over 70% approval (Bhattarai, 2013).

Increased disclosure and shareholder engagement are two key non-quantifiable benefits of say-on-pay. In many countries, say-on-pay legislation has been accompanied by an increase in required compensation disclosure. The votes are publicized and are seen as drivers of a firm's reputation, so even if they are non-binding, public embarrassment is at stake if compensation packages are voted down. The desire to have high approval ratings has influenced executives' engagement with shareholders. Companies are making a "greater effort to engage in discussions with at least their more significant shareholders to understand their views on pay and to consider such views in developing and implementing their executive pay philosophy" (Kenny, 2014).

*A. Unintended consequences of say-on-pay*

Although the goal of say-on-pay has always been to give shareholders a voice in setting executive compensation, it also has created some unintended consequences. One issue is the movement to “one size fits all” executive compensation programs. In order to minimize the potential for negative say-on-pay vote outcomes, many companies are basing their pay practices more on potential external views than on actual business needs. New compensations measures, such as total shareholder return (capital growth and dividends per share divided by share price), may not be the best ways to align a firm’s business strategy or support its need to attract, motivate, and retain highly qualified executives in cost effective ways.

Another unintended consequence of say-on-pay is that it seems to reduce the impact of economic value creation. A study by Organizational Capital Partners (2014) finds that economic value creation is not a major factor in say-on-pay voting or in the recommendations of proxy advisors. There is no material difference between the voting outcomes for firms that create economic value and those that destroy value. Specifically, the study finds that average say-on-pay support vote is 82% for thirty-two low-performing companies and 84% for thirty-two high-performing companies, and there is no meaningful difference between proxy advisor firms’ recommendations for value-destroying and value-creating companies.

A number of studies find a movement towards equity compensation and greater pay-performance sensitivity. Some of this shift has been attributed to scrutiny by proxy advisory firms. One consequence is that say-on-pay may be forcing Boards and compensation committees to substitute the perceived wisdom of proxy advisors for their own knowledge about the company. Even among firms facing little risk of opposition, Boards may act cautiously to ensure proxy advisors’ support for pay packages, regardless of whether those actions are really in the best long-term interests of the company. Larcker, McCall and Ormazabal (2012) find that the revisions that companies make to their compensation programs in an attempt to conform to proxy advisory firms’ guidelines actually produced a net cost to shareholders. Thus, proxy advisors’ policies and influence can induce companies to make compensation decisions that actually decrease shareholder value.

Reda, Schmidt and Glass (2014) analyze the top 200 public companies in the U.S. and show a steady increase in the number of

companies using either performance shares or performance share units with threshold, target, and maximum payout opportunities. They suggest that proxy advisors have influenced this shift toward performance-vested grants through their policies that assess the structure of CEO compensation because the proxy advisors' recommendations regarding say-on-pay are partly based on these considerations. That say-on-pay has helped to shape these pay changes through the unplanned empowerment of the proxy advisors is another unintended consequence.

*B. Has say-on-pay failed?*

According to a New York Times analysis, the median pay of the top 200 CEOs at public companies with at least \$1 billion in revenue rose 16% in 2013 (Morgenson, 2013). Does this mean that say-on-pay is a failure? According to Ferri and Maber (2013), "Historically, when the government tries to set limits it doesn't work very well. The flexibility of executive compensation is so enormous that it's always possible to find loopholes. It can even create distorting incentives that make the problem worse." Based on say-on-pay data and research in the U.S. and U.K., they find that say-on-pay votes have little effect on reducing CEO compensation levels. However, the votes do affect pay-performance sensitivity; CEOs of firms with negative votes face a greater penalty for poor performance than other CEOs.

Despite government intervention on behalf of the public interest, perhaps shareholders never agreed that executives are overpaid. Applying the prisoner's dilemma to the issue of executive compensation, if Firm A's shareholders try to reduce executives' pay (i.e., refuse to confess), Firm B's shareholders can attract those executives with better pay, so the rational choice is to keep endorsing high executive pay levels (Carney, 2013).

Another possible explanation for the failure of shareholders to be more assertive might be rising stock prices. This could provide a testable hypothesis because, if it is true, there should be a lot more say-on-pay rejections in the next bear market. However, Bainbridge (2009) argues that it is not simply that shareholders do not care about pay as long as the stock price goes up. Rational investors hold diversified portfolios of stocks, so they may not be interested in the details of corporate governance or executive compensation at a particular firm; they are interested in overall market performance.

Therefore, they lack the incentive to make the kind of critical judgments that say-on-pay advocates hope they would.

Rational shareholders will expend the effort to make informed decisions only if the expected benefits outweigh the costs. Given the complexity of compensation disclosures, the opportunity cost to become informed is high. In addition, most investors' holdings are too small to have a significant effect on vote outcomes, so they may be rationally apathetic. Thus, the necessary investment of time and effort to make informed voting decisions is simply not worthwhile. While it is hard to expect small non-controlling investors to be involved in attempts to curtail excessive executive compensation, there have been some initiatives from large non-controlling investors to do so. However given that their own executive compensation may be excessive, it is not surprising that these initiatives have been very limited in scope and perhaps should be viewed as lip service (see e.g. Melin, 2017)

Carney (2013) describes say-on-pay as an attempt to unwind director primacy (Bainbridge, 2009) by asking shareholders to second guess the Board. Say-on-pay may have failed not because shareholders approve of executive pay or because they are apathetic in the face of rising share prices, but because they endorse the delegation of compensation decisions to the Board. In addition, shareholders have a more powerful and less costly tool than shareholder democracy – the right to sell. Furthermore, shareholders' investment horizons are likely to have a significant impact on say-on-pay voting patterns (Stathopoulos and Voulgaris, 2016). Short-term investors are likely to avoid expressing an opinion on executive pay proposals by abstaining unless pay is egregious, and long-term investors are likely to cast favorable votes. In addition, Schwartz-Ziv and Wermers (2016) suggest that the outcome of say-on-pay voting can likely be attributed to the size of the investor's shareholding since the mutual funds and institutional investors in their sample tend to cast no votes when they have a small stake in the firm or when the stake is a small fraction of their portfolio. Collectively, the evidence suggests that both small (large) or short-term (long-term) shareholders can use the say-on-pay vote in different ways.

While a part of the way that say-on-pay has been evaluated may relate to the findings of Stathopoulos and Voulgaris (2016) or Schwartz-Ziv and Wermers (2016), another possible explanation may be found in Albuquerque, Carter and Jorgensen (2015), who find that the relationship between CEO pay and firm performance is likely to be stronger in cross-sectional aggregation than previously documented at

the firm-level. This would indicate that investors make decisions related to executive compensation across all of their investment holdings, rather than at the firm-level.

## **V. Conclusion**

In the say-on-pay debate, is anybody listening? Has say-on-pay been a success or a failure? There may be no simple answer to this question. Part of the difficulty in evaluating say-on-pay stems from the disparate forces that led to its enactment, the various forms of say-on-pay, and the variety of political, institutional, cultural, economic, and social factors that have shaped local governance and compensation practices. Say-on-pay is certainly part of a complex, ill-structured problem because of disagreement about the problem that needs to be resolved and the desired resolution. However, one consistent underpinning of the movement has been a push by legislators to correct social harms arising from exorbitant CEO compensation, such as depriving shareholders, employees, and other stakeholders of a portion of the benefits to which they are entitled. Such harm damages the social fabric to the extent that it generates widely diffused mistrust, resentment, and anger that jeopardize the political economy that produces society's wealth in the first place (Friedrichs, 2009).

If Friedrichs (2009) is correct, why have investors, regardless of country or year, overwhelmingly used their say-on-pay votes to support executive compensation? Perhaps the answer rests with the notion of the public interest theory of regulation. The usual definition of economic regulation stresses the active intervention of the government in an industry to augment social welfare. In the tradition of Pigou (1938), such intervention is usually based on identifying market failures that require the government to make policies aimed at correcting these failures. In the public interest theory of regulation, the government intervenes in the market in order to maximize social welfare, behaving like a benevolent, omniscient dictator acting on behalf of society as a whole.

The public interest approach begins with the proposition that externalities define the proper role of government and emphasizes government's role in correcting market imperfections that result from these externalities. In this view, regulatory agencies may be well intentioned, but they may or may not be well informed (Woodward,

2000). Laffont and Tirole (1991) emphasize the importance of the complexity of the issue and the resulting information asymmetries between various interest groups and the bureaucrats who decide their fate through regulatory outcomes.

Extending these studies to say-on-pay, the complexity of executive compensation and the various needs of shareholders, based on their individual investment horizon, the size of their shareholdings, and the aggregate view of their portfolios, may mean that executive compensation is best regulated by directors, not governments. In addition, perhaps the success or failure of say-on-pay is that it reaffirms director primacy. Say-on-pay tried to unwind this process by asking shareholders to second guess the Board, but shareholders refused to go along. This may be the best explanation of why say-on-pay has failed to spark a shareholder revolt. It is not that shareholders approve of executive pay, or that they are apathetic in the face of rising share prices. Rather, they endorse the delegation of executive pay decisions to the Board. In that case, the real benefit of say-on-pay may not come from controlling executive compensation, but from improving the way that firms engage with their shareholders (McGregor, 2016).

Another possible explanation may be found in Ramanna (2015), who suggests that business rules are social constructions with no absolute rights and wrongs. These rules, such as say-on-pay, are determined in “thin” political markets where public interest is diffuse, so the political process is dominated by a handful of experts. Public interest may be diffuse because an issue has a small impact on individual members of the public or because the issue is not salient in the public’s mind.

Although thin political markets occur in areas of low salience with the general public, the concept is similar to the process of regulatory capture in which a few big players, such as lobbyists, dominate the market. Regulatory capture is a threat in areas of public governance in which high public salience induces intermediaries to act in the public interest. By contrast, the existence of low salience issues in thin political markets means that there is little post-enactment monitoring of the resulting rules by public intermediaries (Ramanna, 2015). Thus, the conflicting goals, processes, and outcomes of say-on-pay rules may occur because the structure and amount of executive compensation are important, but low salience issues created in thin political markets.

## **VI. Future research directions**

The mixed results on the goals of say-on-pay, differences in its implementation in various countries, how to measure its efficiency and/or effectiveness, and whether it has been a success or a failure make it tempting to recommend additional research in these areas. However, say-on-pay cannot be understood in a vacuum. Instead, it must be analyzed as a part of corporate governance. As long as the corporate governance system as a whole does not serve shareholders' interests properly, there is little that say-on-pay can achieve. Allaire and Dauphin (2016) concluded that "Academic studies provide a mixed view at best. It seems that say-on-pay has led to more dialogue between the company and large shareholders but has not stopped the rise in executive compensation." The large shareholders they refer to are non-controlling owners, typically big mutual funds, insurance companies, and pension funds. While not offering a definitive answer to the question of whether say-on-pay should be mandatory, they emphasize the responsibility of the Board of Directors to set executive compensation policies. They argue that "When egregious pay packages are given to executives, a say-on-pay vote, compulsory or not, binding or not, will always be much less effective than a majority of votes against the election of members of the compensation committee. But that calls upon large investment funds to show fortitude and cohesiveness in the few instances of unwarranted compensation which occur every year." So far, the involvement of large investors, specifically in executive pay issues and more generally in corporate governance issues, has been minimal. Given the size and diversity of their holdings it is doubtful that this will change in the future.

The key issue is having a corporate governance system that really protects investors. Non-controlling investors are passive because they have many holdings and lack the time and expertise to be vigilant monitors. Say-on-pay is an attempt to make them more active, but it does not seem to work very well. Perhaps this should have been obvious, given the poor record of non-controlling shareholders' involvement in annual meetings. Future research needs to recognize that non-controlling investors will continue to stay passive and find ways to protect investors within that context. Thus, a part of that protection should be to minimize excess pay to executives without requiring small shareholders to become active. For example, one possible idea could be to link dividends directly to executive compensation. Overall, the

concept of say-on-pay should be reexamined in the context of the competing agendas of passive, non-controlling shareholders versus controlling shareholders and top executives.

Another issue is the trade-off between efficiency and effectiveness. Using regulations to cap executive compensation (like the laws defeated in Switzerland and the EU, but passed in Israel) is an alternative way to address the problem of excessive executive pay. Regulations that limit executive compensation directly may be a more effective way to deal with the problem, but they are not necessarily more economically efficient. That is another area for future research.

A major limitation of this paper is its inability to assess the deterrent effect of say-on-pay. Without the threat of say-on-pay, excess executive compensation might have been even higher, but that is impossible to measure. Future research could attempt to shed light on this possible effect of say-on-pay using behavioral/experimental methodologies. A good first step in that direction is a recent survey by the law firm Cleary Gottlieb (2016) in conjunction with PwC's Governance Insights Center, which finds that 66% of corporate directors do not agree that say-on-pay has resulted in a "right-sizing" of CEO compensation.

*Accepted by: Prof. D. Yermack, Guest Editor, January 2017*

*Prof. P. Theodossiou, Editor-in-Chief, January 2017*

## References

- Adams, C. 2011. Pay rises for bosses surge ahead of ordinary Kiwis. *The Business Herald* (April 30).
- Adamson, R., and Lumm, D. 2009. Shareholder democracy and the say on pay movement: Progress, but how do you define success? Unpublished manuscript. *Wake Forest Law Review*.
- Akhigbe, A.; Frye, M. B.; and Whyte, M. A. 2015. CEO incentives and the effects of negative say-on-pay votes. Working paper. Orlando: University of Central Florida.
- Albuquerque, A.; Carter, M. E.; and Jorgensen, B. 2015. Aggregate CEO compensation, aggregate performance and relative performance evaluation. Working paper. Chestnut Hill: Boston College.
- Alissa, W. 2015. Boards' response to shareholders' dissatisfaction: The case of shareholders' say on pay in the UK. *European Accounting Review* 24(4): 727-752.
- Allaire, Y., and Dauphin, F. 2016. Should say-on-pay votes be binding? Columbia Law School. *The CLS Blue Sky Blog* (September 13).

- Arlosoroff, M. 2016. In the money: Israel has gone too far in capping executive pay. *Haaretz* (March 29).
- Armstrong, C. S.; Gow, I. D.; and Larcker, D. F. 2013. The efficacy of shareholder voting: Evidence from equity compensation plans. *Journal of Accounting Research* 51(5): 909-950.
- Bainbridge, S. M. 2009. Is say on pay justified? *Regulation* 32(1): 42-47.
- Baird, J., and Stowasser, P. 2002. Executive compensation disclosure requirements: The German, UK and US approaches. PLC document 4-101-7960. *PracticalLaw.com* (September 23).
- Balachandran, S.; Harnal, H.; and Kogut, B. 2010. The probability of default, excessive risk, and executive compensation: A study of financial services firms from 1995 to 2008. Discussion paper no. SP III 2010-201. Berlin: WZB (Berlin Social Science Center).
- Balachandran, S. V.; Joos, P.; and Weber, J. 2012. Do voting rights matter? Evidence from the adoption of equity based compensation plans. *Contemporary Accounting Research* 29(4): 1204-1236.
- Baldwin, G. 2016. Is CEO compensation rational? *Futures* (July 17).
- Ballester, M.; Livnat, J.; and Sinha, N. 2002. Labor costs and investments in human capital. *Journal of Accounting, Auditing & Finance* 17(4): 351-373.
- Balsam, S.; Gordon, E.; and Kwack, S. Y. 2013. Say on pay: Binding vs. advisory. Working paper. AAA 2013 Annual Meeting.
- Balsam, S.; Boone, J.; Liu, H.; and Yin, J. 2016. The impact of say-on-pay on executive compensation. *Journal of Accounting and Public Policy* 35(2): 162-191.
- Banner, S. 1997. What causes new securities regulation? 300 years of evidence. *Washington University Law Quarterly* 75(2): 849-855.
- Bebchuk, L. A., and Fried, J. M. 2004. Pay without Performance: The Unfulfilled Promise of Executive Compensation. Cambridge: Harvard University Press.
- Bebchuk, L. A., and Fried, J. M. 2006. Pay without performance: Overview of the issues. *The Academy of Management Perspectives* 20(1): 5-24.
- Bebchuk, L. A. 2007. The myth of the shareholder franchise. *Virginia Law Review* 93(3): 675-732.
- Bebchuk, L. A., and Spamann, H. 2010. Regulating bankers' pay. *Georgetown Law Journal* 98(2): 247-288.
- Becht, M.; Bolton, P.; and Roell, A. 2003. Corporate governance and control. Chapter 1. In G. M. Constantinides, M. Harris, and R. M. Stulz (eds). *Handbook of the Economics of Finance*. Amsterdam: Elsevier.
- Becker, B.; Bergstresser, D.; and Subramanian, G. 2013. Does shareholder proxy access improve firm value? Evidence from the Business Roundtable Challenge. *Journal of Law and Economics* 56(1): 127-160.
- Beckerman, D. M. 2012. Short-term stock market response to "say on pay" failed votes. CMC Senior Theses paper no. 492. Claremont: Claremont McKenna College.

- Behera, M. 2015. Shareholder democracy: Say-on-pay and CEO turnover. Working paper. Newark: Rutgers University.
- Belcredi, M.; Bozzi, S.; Ciavarella, A.; and Novembre, V. 2014. Say-on-pay in a context of concentrated ownership. Evidence from Italy. CONSOB working paper no. 76. Rome: Commissione Nazionale per le Società e la Borsa.
- Bethel, J. E., and Gillan, S. L. 2002. The impact of the institutional and regulatory environment on shareholder voting. *Financial Management* 31(4): 29-54.
- Bhattarai, A. 2013. Under say on pay, most shareholders approve executive pay packages. *The Washington Post* (May 13).
- Blair, M. M. 1995. *Ownership and Control*. Washington, D.C.: Brookings Institution Press.
- Bordere, X. J.; Ciccotello, C. S.; and Grant, C. T. 2015. What does “say on pay” say about audit risk? *Current Issues in Auditing* 9(1): A1-A12.
- Bouton Report. 2002. Promoting Better Corporate Governance in Listed Companies, chaired by Daniel Bouton. Available at: [http://www.paris-europlace.net/files/a\\_09-23-02\\_rapport-bouton\\_uk.pdf](http://www.paris-europlace.net/files/a_09-23-02_rapport-bouton_uk.pdf).
- Bowlin, K. O.; Christ, M. H.; and Griffith, J. B. 2012. Say-on-pay and the differential effects of voluntary versus mandatory regimes on investor perceptions and behavior. Working paper. Athens: University of Georgia.
- Brunarski, K. R.; Campbell, T. C.; and Harman, Y. S. 2015. Evidence on the outcome of say-on-pay votes: How managers, directors, and shareholders respond. *Journal of Corporate Finance* 30: 132-149.
- Brunarski, K. R.; Campbell, T. C.; Harman, Y. S.; and Thompson, M. E. 2016. Do directors suffer external consequences for poor oversight of executive compensation? Evidence from say-on-pay votes. SSRN working paper no. 2826640.
- Bruno, S., and Bianconi, F. 2015. Say on pay in Italian general meetings: Results and future perspectives. SSRN working paper no. 2559070.
- Burns, N., and Minnick, K. 2013. Does say on pay matter? Evidence from say-on-pay proposals in the United States. *Financial Review* 48(2): 233-258.
- Cadbury Report. 1992. Committee on the Financial Aspects of Corporate Governance Report with Code of Best Practice. London: Gee Publishing.
- Cai, J., and Walkling, R. A. 2011. Shareholders’ say on pay: Does it create value? *Journal of Financial and Quantitative Analysis* 46(2): 299-339.
- Carney, J. 2013. Why “say on pay” failed and why that’s a good thing. CNBC (July 3).
- Carter, M. E., and Zamora, V. 2007. Shareholder remuneration votes and CEO compensation design. Working paper. AAA 2008 MAS Meeting.
- Charkham, J., and Simpson, A. 1999. *Fair Shares: The Future of Shareholder Power and Responsibility*. Oxford: Oxford University Press.
- Cioffi, J. 2010. *Public Law and Private Power: Corporate Governance Reform*

- in the United States and Germany in the Age of Finance Capitalism. Ithaca: Cornell University Press.
- Clarkson, P. M.; Walker, J.; and Nicholls, S. 2011. Disclosure, shareholder oversight and the pay-performance link. *Journal of Contemporary Accounting & Economics* 7(2): 47-64.
- Cleary Gottlieb. 2016. Boards, shareholders, and executive pay. Executive Compensation Series. PwC Governance Insight Center.
- Cohn, J. B.; Gillan, S. L.; and Hartzell, J. C. 2016. On enhancing shareholder control: A (Dodd-) frank assessment of proxy access. *The Journal of Finance* 71(4): 1623-1668.
- Collins, D.; Marquardt, B.; and Niu, X. 2016. CEO equity-based incentives and shareholder say-on-pay in the U.S. SSRN working paper no. 2803561.
- Conyon, M., and Sadler, G. 2010. Shareholder voting and directors' remuneration report legislation: Say on pay in the UK. *Corporate Governance: An International Review* 18(4): 296-312.
- Conyon, M.; Fernandes, N.; Ferreira, M.; Matos, P; and Murphy, K. 2011. The executive compensation controversy: A transatlantic analysis. Institute for Compensation Studies paper no. ICS 2011-002. Ithaca: Cornell University School of Industry and Labor Relations.
- Conyon, M. J. 2016. Shareholder dissent on say-on-pay and CEO compensation. SSRN working paper no. 2748645.
- Core, J. E., and Guay, W. R. 2010. Is CEO pay too high and are incentives too low? A wealth-based contracting framework. *Academy of Management Perspectives* 24(1): 5-19.
- Correa, R., and Lel, U. 2016. Say on pay laws, executive compensation, pay slice, and firm valuation around the world. *Journal of Financial Economics* 122(3): 500-520.
- Cotter, J. F.; Palmiter, A. R.; and Thomas, R. S. 2013. The first year of "say on pay" under Dodd-Frank: An empirical analysis and look forward. *George Washington Law Review* 81(3): 967-1011.
- Crawford, S.; Nelson, K.; and Rountree, B. 2014. The CEO-employee pay ratio. SSRN working paper no. 2529112.
- Cromme Report. 2002. Report on the German Corporate Governance Code, chaired by Gerhard Cromme. Brussels: European Corporate Governance Institute.
- Culpepper, P. D. 2012. The politics of executive pay in the United Kingdom and the United States. Working paper. Florence: European University Institute.
- Cuñat, V.; Giné, M.; and Guadalupe, M. 2016. Say pays! Shareholder voice and firm performance. *Review of Finance* 20(5): 1799-1834.
- Davis, S. 2007. Does "say on pay" work? Lessons on making CEO compensation accountable. Policy briefing no. 1. New Haven: Yale School of Management.
- Deane, S. 2007. Say on pay: Results from overseas. *The Corporate Board*

- 28(165): 11-18.
- Deutsch, C. H. 2003. The revolution that wasn't. *The New York Times* (January 26).
- Dorff, M. B. 2007. The group dynamics theory of executive compensation. *Cardozo Law Review* 28(5): 2025-2081.
- Edmans, A., and Gosling, T. 2016. Executive pay regulation backfires when it's not based on evidence. *City AM* (October 21).
- Ertimur, Y.; Ferri, F.; and Muslu, V. 2011. Shareholder activism and CEO pay. *Review of Financial Studies* 24(2): 535-592.
- Ertimur, Y.; Ferri, F.; and Oesch, D. 2013. Shareholder votes and proxy advisors: Evidence from say on pay. *Journal of Accounting Research* 51(5): 951-996.
- Eulerich, M.; Rapp, M. S.; and Wolff, M. 2012. Selected aspects of executive remuneration in listed firms: Say-on-pay votes at the annual meeting—Results of an empirical analysis from the annual meeting season 2010. HHL Center for Corporate Governance research paper no. 7. Leipzig: Leipzig Graduate School of Management.
- European Commission. 2014. European Commission proposes to strengthen shareholder engagement and introduce a "say on pay" for Europe's largest companies. European Commission press release (April 9).
- Expert Corporate Governance Service (ECGS). CEO remuneration in Europe. Available at: <http://www.ecgs.org/node/59>.
- Faghani, M.; Monem, R.; and Ng, C. 2015a. Say on pay regulation and chief executive officer pay: Evidence from Australia. *Corporate Ownership and Control* 12(3): 28-39.
- Faghani, M.; Monem, R.; and Ng, C. 2015b. Firm characteristics, shareholder sophistication and the incidence of a "first strike" under the "two strikes" rule in Australia. Working paper. AFAANZ 2015 Annual Meeting.
- Faleye, O.; Reis, E.; and Venkateswaran, A. 2013. The determinants and effects of CEO-employee pay ratios. *Journal of Banking & Finance* 37(8): 3258-3272.
- Ferracane, R. 2011. Say on pay: Why companies failed. *Forbes* (September 28).
- Ferri, F.; Balachandran, S.; and Maber, D. 2008. Solving the executive compensation problem through shareholder votes? Evidence from the UK. Unpublished research paper. American Law & Economics Association 2008 Annual Meeting.
- Ferri, F., and Sandino, T. 2009. The impact of shareholder activism on financial reporting and compensation: The case of employee stock options expensing. *The Accounting Review* 84(2): 433-466.
- Ferri, F., and Maber, D. A. 2013. Say on pay votes and CEO compensation: Evidence from the UK. *Review of Finance* 17(2): 527-563.
- Ferri, F., and Oesch, D. 2016. Management influence on investors: Evidence from shareholder votes on the frequency of say on pay. *Contemporary Accounting Research* 33(4): 1337-1374.

- Flavelle, D. 2012. Highest-paid Canadian CEOs got 27 percent pay hike. *The Star* (January 2).
- Friedrichs, D. O. 2009. Exorbitant CEO compensation: Just reward or grand theft? *Crime, Law and Social Change* 51(1): 45-72.
- Funke, J. 1991. Solving complex problems: Exploration and control of complex systems. In R. J. Sternberg and P. A. Frensch (eds). *Complex Problem Solving: Principles and Mechanisms*. New York: Psychology Press.
- Gallucci, M. 2016. Israel adopts new law to cap bank executives' salaries at less than \$1 million a year. *International Business Times* (March 29).
- Gerner-Beuerle, C., and Kirchmaier, T. 2016. Say on pay: Do shareholders care? Financial Markets Group (FMG) discussion paper no. DP751. London: London School of Economics and Political Science.
- Gillan, S. 2001. Option-based compensation: Panacea or Pandora's box? *Journal of Applied Corporate Finance* 14(2): 115-128.
- Goldstein, J. 2013. U.S. CEOs paid 354 times the average rank-and-file worker—largest pay gap in the world. AFL-CIO Press Release (April 15).
- Gopalan, S. 2007. Say on pay and the SEC disclosure rules: Expressive law and CEO compensation. *Pepperdine Law Review* 35(2): 207-246.
- Gordon, J. N. 2009. "Say on pay": Cautionary notes on the UK experience and the case for shareholder opt-in. *Harvard Journal on Legislation* 46(2): 323-367.
- Gordon, L. A., and Pound, J. 1993. Information, ownership structure, and shareholder voting: Evidence from shareholder-sponsored corporate governance proposals. *Journal of Finance* 48(2): 697-718.
- Göx, R. F. 2012. Say on pay design, executive pay, and board dependence. SSRN working paper no. 1908592. AAA 2012 Management Accounting Section (MAS) Meeting.
- Göx, R. F.; Imhof, F.; and Kunz, A. H. 2014. The enforcement of say on pay votes and CEOs' investment incentives. SSRN working paper no. 1588682.
- Gregory-Smith, I., and Main, B. G. 2014. Binding votes on executive remuneration. Working paper. Manchester: Royal Economic Society Annual Conference.
- Gregory-Smith, I.; Thompson, S.; and Wright, P. W. 2014. CEO pay and voting dissent before and after the Crisis. *The Economic Journal* 124(574): F22-F39.
- Groom, B. 2011. Increase in UK executive pay sparks anger. *The Financial Times* (May 29).
- Grosse, M.; Kean, S.; and Scott, T. 2015. Shareholder say on pay and CEO compensation: Three strikes and the board is out. *Accounting and Finance* (forthcoming). doi: 10.1111/acfi.12176.
- Hadley, B. E. 2015. Pay for performance: Is all disclosure created equal? PhD dissertation no. 3336. Knoxville: University of Tennessee.
- Hemmings, D.; Hodgkinson, L.; and Williams, G. 2016. "Plain English" and say-on-pay: Regulatory requirements vs potential behavioural consequences.

- SSRN working paper no. 2825932.
- Hitz, J. M., and Müller-Bloch, S. 2016. Why do firms go grey? Evidence on the costs of IFRS compliance and enforcement. SSRN working paper no. 2533959.
- Hooghiemstra, R.; Kuang, Y. F.; and Qin, B. 2015. Say-on-pay votes: The role of the media. *European Accounting Review* 24(4): 753-778.
- Iliev, P., and Vitanova, S. 2013. The effect of the say-on-pay vote in the U.S. SSRN working paper no. 2235064.
- Jensen, M. C., and Meckling, W. H. 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics* 3(4): 305-360.
- Jensen, M. C., and Murphy, K. J. 1990. Performance pay and top-management incentives. *Journal of Political Economy* 98(2): 225-264.
- Johnson, M. F.; Porter, S. L.; and Shackell-Dowell, M. B. 1997. Stakeholder pressure and the structure of executive compensation. SSRN working paper no. 41780.
- Johnson, M. F., and Shackell-Dowell, M. B. 1997. Shareholder proposals on executive compensation. SSRN working paper no. 121.
- Kaplan, S. N. 2012. Executive compensation and corporate governance in the US: Perceptions, facts and challenges. NBER paper no. 18395. Cambridge: National Bureau of Economic Research.
- Kaplan, S. E.; Samuels, J. A.; and Cohen, J. 2015. An examination of the effect of CEO social ties and CEO reputation on nonprofessional investors' say-on-pay judgments. *Journal of Business Ethics* 126(1): 103-117.
- Kaplan, S. E., and Zamora, V. L. 2016. The effects of current income attributes on nonprofessional investors' say-on-pay judgments: Does fairness still matter? *Journal of Business Ethics* (September): 1-19. doi: 10.1007/s10551-016-3315-3.
- Kenny, J. 2014. More insider engagement since Dodd-Frank. *Inside Counsel* (August 28).
- Kimbro, M. B., and Xu, D. 2016. Shareholders have a say in executive compensation: Evidence from say-on-pay in the United States. *Journal of Accounting and Public Policy* 35(1): 19-42.
- Kimmy, P. 2013. How do shareholders use their say-on-pay votes in the United States? Evidence from 2011 and 2012. Working paper. Claremont: Claremont McKenna College.
- Krause, R.; Whitler, K. A.; and Semadeni, M. 2014. Power to the principals! An experimental look at shareholder say-on-pay voting. *Academy of Management Journal* 57(1): 94-115.
- Kronlund, M., and Sandy, S. 2016. Does shareholder scrutiny affect executive compensation? Evidence from say-on-pay voting. SSRN working paper no. 2358696.
- Laffont, J.-J., and Tirole, J. 1991. The politics of government decision-making: A theory of regulatory capture. *The Quarterly Journal of Economics* 106(4):

- 1089-1127.
- Larcker, D. F.; Ormazabal, G.; and Taylor, D. J. 2011. The market reaction to corporate governance regulation. *Journal of Financial Economics* 101(2): 431-448.
- Larcker, D. F.; McCall, A. L.; and Ormazabal, G. 2012. The economic consequences of proxy advisor say-on-pay voting policies. Working paper no. 119. Stanford: Stanford University.
- Lavelle, L. 2002. The best & worst boards. *Bloomberg Businessweek* (October 7).
- Lev, B. 2003. Corporate earnings: Facts and fiction. *Journal of Economic Perspectives* 17(2): 27-50.
- Levit, D., and Malenko, N. 2011. Nonbinding voting for shareholder proposals. *Journal of Finance* 66(5): 1579-1614.
- Lewis, M., and Einhorn, D. 2009. The end of the financial world as we know it. *The New York Times* (January 3).
- Li, N., and Gu, D. 2014. The frequency of say-on-pay vote, shareholder value, and corporate governance: Initial evidence from the US firms. Working paper. Singapore: Singapore Management University.
- Liu, S. 2012. The impact of the Dodd-Frank Act on executive compensation. Working paper. National Conference on Undergraduate Research (NCUR) 2012.
- Locke, E. A. 2008. The immoral assault on CEO pay. *Academy of Management Perspectives* 22(3): 5-6.
- Lu, W., and Melin, A. 2016. The best and worst countries to be a rich CEO. *Bloomberg* (November 16).
- Mackay, W.; Howieson, B.; and Shan, G. 2015. The impact of binding vote “say on pay” regulations, Australian evidence. Working paper. AFAANZ 2015 Annual Meeting.
- Malenko, N., and Shen, Y. 2016. The role of proxy advisory firms: Evidence from a regression-discontinuity design. *Review of Financial Studies* 29(12): 3394-3427.
- Martin, K. J., and Thomas, R. S. 2005. When is enough, enough? Market reaction to highly dilutive stock option plans and the subsequent impact on CEO compensation. *Journal of Corporate Finance* 11(1): 61-83.
- McCarroll, T. 1992. The shareholders strike back: Executive pay. *Time* (June 24).
- McGregor, J. 2016. How much more do CEOs make than workers? *The Washington Post* (November 18).
- Melin, A. 2017. How well does running Vanguard pay? *Bloomberg Businessweek* (January 19).
- Mishel, L.; Bivens, J.; Gould, E.; and Shierholz, H. 2012. *The State of Working America*. Ithaca: Cornell University Press.
- Monem, R., and Ng, C. 2013. Australia’s “two-strikes” rule and the pay-performance link: Are shareholders judicious? *Journal of*

- Contemporary Accounting & Economics* 9(2): 237-254.
- Morgan, A. G., and Poulsen, A. B. 2001. Linking pay to performance – Compensation proposals in the S&P 500. *Journal of Financial Economics* 62(3): 489-523.
- Morgan, A. G.; Poulsen, A. B.; and Wolf, J. 2006. The evolution of shareholder voting for executive compensation schemes. *Journal of Corporate Finance* 12(4): 715-737.
- Morgan, A. G., and Wolf, J. 2007. Approval of shareholder-sponsored proposals: Evidence from Canada. *International Review of Financial Analysis* 16(2): 136-151.
- Morgenson, G. 2013. An unstoppable climb in C.E.O. pay. *The New York Times* (June 29).
- Mukhopadhyay, T., and Shivakumar, L. 2015. Do compensation disclosures matter for SoP voting? SSRN working paper no. 2718438.
- Mulherin, J. H. 2007. Measuring the costs and benefits of regulation: Conceptual issues in securities markets. *Journal of Corporate Finance* 13(2-3): 421-437.
- Murphy, K. J. 1997. Executive compensation and the modern industrial revolution. *International Journal of Industrial Organization* 15(4): 417-425.
- Ng, L.; Sibilkov, V.; Wang, Q.; and Zaiats, N. 2011. Does shareholder approval requirement of equity compensation plans matter? *Journal of Corporate Finance* 17(5): 1510-1530.
- OECD Corporate Governance Factbook. 2015. Available at: <http://www.oecd.org/daf/ca/corporate-governance-factbook.htm>.
- Organizational Capital Partners. 2014. The alignment gap between say on pay voting and creating value. New York: Investor Responsibility Research Center Institute (IRRCi).
- Peacock, L. 2012. Bosses question aims of shareholder revolution. *The Telegraph* (May 14).
- Peetz, D. 2010. Asymmetric reference points and the growth of executive remuneration. Working paper. Centre for Work, Organisation and Wellbeing. Queensland: Griffith University.
- Perry, T., and Zenner, M. 2001. Pay for performance? Government regulation and the structure of compensation contracts. *Journal of Financial Economics* 62(3): 453-488.
- Pigou, A. C. 1938. Money wages in relation to unemployment. *The Economic Journal* 48(189): 134-138.
- Pollard, N., and Koranyi, B. 2013. For Nordic bosses, joys of home trump top dollar pay. *Reuters* (March 10).
- Posner, R. A. 2009. Are American CEOs overpaid, and, if so, what if anything should be done about it? *Duke Law Journal* 58(6): 1013-1047.
- Powell, D., and Rapp, M. S. 2015. Non-mandatory say on pay votes and AGM participation: Evidence from Germany. SAFE working paper no. 107.

- Frankfurt: Goethe University.
- Productivity Commission. 2009. Executive Remuneration in Australia. Report no. 49, Final Inquiry Report. Melbourne.
- Ramanna, K. 2015. Political Standards: Corporate Interest, Ideology, and Leadership in the Shaping of Accounting Rules for the Market Economy. Chicago: University of Chicago Press.
- Rapp, M. S.; Sperling, M. O.; and Wolff, M. 2010. Who is asking the shareholders? Voting on management compensation in German listed firms—Evidence from the annual meeting season 2010. HHL Center for Corporate Governance research paper no. 2. Leipzig: Leipzig Graduate School of Management.
- Reda, J. F.; Schmidt, D. M.; and Glass, K. A. 2014. How top companies are adapting their LTI awards to say-on-pay. *Journal of Compensation and Benefits* 30(4): 15-22.
- Schoenthaler, V. 2011. The Council of Institutional Investors releases a white paper analyzing failed say-on-pay votes. *100 F Street* (September 28).
- Schrempp, O. 2010. Say-on-pay and the value of Swiss corporations. Working paper no. 7676. Zurich: University of Zurich.
- Schwarcz, S. L. 2009. Regulating complexity in financial markets. *Washington University Law Review* 87(2): 211-268.
- Schwartz-Ziv, M., and Wermers, R. 2016. Do institutional investors monitor their large vs. small investments differently? Evidence from the say-on-pay vote. Research paper no. RHS 2510442. College Park: Robert H. Smith School, University of Maryland.
- Sheehan, K. 2012. Say on pay and the outrage constraint. In R. S. Randall and J. G. Hill (eds). *Research Handbook on Executive Pay*. Cheltenham: Elgar.
- Stathopoulos, K., and Voulgaris, G. 2016. The impact of investor horizon on say-on-pay voting. *British Journal of Management* 27(4): 796–818.
- Stein, M. L. 2016. The Morning Risk Report: Canada revamping corporate governance. *Dow Jones Institutional News* (October 18).
- Steverman, B., and Bogoslaw, D. 2008. The financial crisis blame game. *Business Week* (December 10).
- Stigler, G. J. 1971. The theory of economic regulation. *The Bell Journal of Economics and Management Science* 2(1): 3-21.
- Suárez, S. L. 2014. Symbolic politics and the regulation of executive compensation: A comparison of the great depression and the great recession. *Politics & Society* 42(1): 73-105.
- Subramaniam, C., and Wang, F. 2009. Performance-oriented shareholder proposals and CEO compensation. Working paper. Austin: University of Texas.
- Tabaksblat Report. 2003. Report of the Corporate Governance Committee, chaired by Mr. Morris Tabaksblat. Amsterdam: European Corporate Governance Institute.
- Thomas, R. S., and Martin, K. J. 1999. The effect of shareholder proposals on

- executive compensation. *University of Cincinnati Law Review* 67(4): 1021-1081.
- Tröger, T. H., and Walz, U. 2014. Does sayon pay matter? Evidence from the German natural experiment. SAFE working paper. Frankfurt: Goethe University.
- Trottier, K. 2012. What does the market say about say-on-pay? A look at the Canadian bank experience. *Journal of Governance and Regulation* 1(3): 142-155.
- Valenti, A. 2013. Trends in executive compensation: CEO and CFO pay from 2006 through 2011. *Journal of Human Resources Management Research* 2013: 1-10.
- Wagner, A. F., and Wenk, C. 2015. Agency versus hold-up: On the impact of binding say-on-pay on shareholder value. Research paper no. 11-12. Geneva: Swiss Finance Institute.
- Wilmers, R. 2014. Why excessive CEO pay is bad for the economy. *The American Banker* (March 14).
- Woods, J. D. 1996. The effects of pension fund activism on corporate performance: Evidence from shareholder proposals. Working paper. College Station: Texas A&M University.
- Woodward, S. E. 2000. Regulatory capture at the U.S. Securities and Exchange Commission. In J. R. Barth, R. D. Brumbaugh, and G. Yago, G. (eds). *Restructuring Regulation and Financial Institutions*. Santa Monica: Milken Institute Press.
- Yermack, D. 2010. Shareholder voting and corporate governance. *Annual Review of Financial Economics* 2(1): 103-125.
- Zhang, J. L.; Lo, K.; and Yang, S. 2014. "Say-on-pay" votes and compensation practice. Working paper. 2014 Canadian Academic Accounting Association (CAAA) Annual Conference.