Executive Compensation, Corporate Governance, and Say on Pay

Other titles in Foundations and Trends® in Accounting

The Role of Stakeholders in Corporate Governance: A View from Accounting Research
Gaizka Ormazabal
ISBN: 978-1-68083-396-6

Financial Analysts and Their Contribution to Well-Functioning Capital Markets
Mark Bradshaw, Yonca Ertimur and Patricia O'Brien
ISBN: 978-1-68083-354-6

Rethinking Financial Reporting: Standards, Norms and Institutions
Shyam Sunder
ISBN: 978-1-68083-144-3

Executive Compensation, Corporate Governance, and Say on Pay

Fabrizio Ferri
Columbia University, USA
ff2270@gsb.columbia.edu

Robert F. Göx
University of Zurich
robert.goex@business.uzh.ch

the essence of knowledge
Boston — Delft

Foundations and Trends® in Accounting

Published, sold and distributed by:
now Publishers Inc.
PO Box 1024
Hanover, MA 02339
United States
Tel. +1-781-985-4510
www.nowpublishers.com
sales@nowpublishers.com

Outside North America:
now Publishers Inc.
PO Box 179
2600 AD Delft
The Netherlands
Tel. +31-6-51115274

The preferred citation for this publication is

F. Ferri and R. F. Göx. *Executive Compensation, Corporate Governance, and Say on Pay*. Foundations and Trends® in Accounting, vol. 12, no. 1, pp. 1–103, 2018.

ISBN: 978-1-68083-421-5

Foundations and Trends® in Accounting

Volume 12, Issue 1, 2018

Editorial Board

Editorial Scope

Topics

Foundations and Trends® in Accounting publishes survey and tutorial articles in the following topics:

- Auditing
- Corporate Governance
- Cost Management
- Disclosure
- Event Studies/Market Efficiency Studies
- Executive Compensation
- Financial Reporting
- Management Control
- Performance Measurement
- Taxation

Information for Librarians

Foundations and Trends® in Accounting, 2018, Volume 12, 4 issues. ISSN paper version 1554-0642. ISSN online version 1554-0650. Also available as a combined paper and online subscription.

Contents

1 Introduction **2**

2 Executive Pay and Corporate Governance **8**
2.1 Executive pay as a moral hazard problem 11
2.2 Contracting with unconstrained wealth transfers 14
2.3 Contracting with limited liability 17
2.4 Contracting with other constraints 21
2.5 Is weak governance always harmful for shareholders? . . . 31
2.6 Discussion 37

3 The Economics of Say on Pay **39**
3.1 The advisory Say on Pay model 42
3.2 A retroactive binding Say on Pay model 48
3.3 A prospective binding Say on Pay model 51
3.4 Discussion 53

4 Empirical Evidence: Fifty Shades of Say on Pay **57**
4.1 A brief history of Say on Pay 57
4.2 The effect of advisory Say on Pay on executive compensation 62
4.3 The effect of advisory Say on Pay on firm value 72
4.4 Binding Say on Pay: Preliminary evidence 79
4.5 Other evidence on Say on Pay 80

5 Final Thoughts and Suggestions **84**
5.1 Lessons learned 84
5.2 The road ahead 88

Acknowledgements **90**

Appendices **91**

A Proofs **92**

References **95**

Executive Compensation, Corporate Governance, and Say on Pay

Fabrizio Ferri[1] and Robert F. Göx[2]

[1] *Columbia University, USA; ff2270@gsb.columbia.edu*
[2] *University of Zurich; robert.goex@business.uzh.ch*

ABSTRACT

This monograph explores the relation between corporate governance and executive compensation and evaluates the conditions under which shareholders can benefit from the right to interfere with the pay setting process by voting on the compensation proposed by the board of directors (Say on Pay). The first part of the monograph lays out the theoretical framework. The second part provides an overview of the origins and country-specific differences in Say on Pay regulation and a detailed summary and evaluation of the empirical literature on the subject.

Fabrizio Ferri and Robert F. Göx (2018), "Executive Compensation, Corporate Governance, and Say on Pay", Foundations and Trends® in Accounting: Vol. 12, No. 1, pp 1–103. DOI: 10.1561/1400000043.

1

Introduction

The continuous growth of executive pay since the early nineties has triggered an intensive academic and public debate about the possible reasons of growing executive pay levels. On the one hand, the shareholder value (or efficient contracting) approach views executive pay in public firms as a means to mitigate an agency problem between shareholders and managers, with pay levels driven by labor market forces. On the other hand, the so-called managerial power approach views the pay-setting process as an agency problem on its own and suggests that weak boards tend to shift rents to the CEO at the cost of shareholders by implementing inefficient compensation arrangements.

In a response to the public concerns about executive pay, regulators have adopted a number of measures to improve the governance and transparency of the pay-setting process, and shareholder rights to influence such process. A key development in this context was the introduction of shareholder votes on the compensation of executives, also referred to as "Say on Pay." Since its first introduction in the United Kingdom (UK) in 2002, many other countries have adopted different forms of mandatory Say on Pay rules for shareholders of public firms that differ in many details such as their enforceability, the timing and the subject of the vote.

In this monograph, we provide a comprehensive summary and survey of the theoretical and empirical literature on Say on Pay. In the first part of the monograph, we study theoretically how a poor governance structure affects the level and structure of executive pay and identify conditions under which Say and Pay could help shareholders to improve it. In the second part of this monograph, we explain the origins and the cross-country differences in Say on Pay regulation and provide a detailed summary and evaluation of the empirical evidence on the subject. Finally, we also discuss potential improvements and point out some fruitful avenues for future empirical and theoretical research.

The core issue among the proponents of the shareholder value view and the managerial power approach is the question of whether executive pay in public firms represents arm's-length bargaining between managers and shareholders or rent seeking by powerful CEOs. Yet, formal models of executive pay are typically based on the shareholder value view and only a few of them explicitly study the consequences of the firm's governance structure on its compensation decisions. In Section 2, we propose a framework that allows us to formalize the consequences of a poor governance structure on the board's compensation decisions and to compare the properties of the contract proposed by a weak board to the optimal contract designed in the best interest of shareholders. This framework serves as a benchmark for studying the economic consequences of Say on Pay in Section 3.

We portray the agency problem between shareholders and managers as a problem of moral hazard. Different from the standard model, we assume that the firm's compensation decisions are taken by the board of directors and not by the firm's shareholders. We consider two different approaches to represent the preferences of a board with imperfectly aligned preferences. In our model, either the board maximizes a weighted average of the firm's expected profit and the agent's expected utility or the agent's compensation is determined by Nash bargaining.

We study the optimal compensation contract for both approaches under various restrictions faced by the board when setting the agent's compensation and compare the solutions with the contract that maximizes shareholder value. In Section 2.2, we first show that a weak governance structure does not affect the performance-based part of the agent's pay (and thereby his equilibrium effort) if wealth transfers between the principal and the agent are unrestricted. However, we find that a more management-friendly board optimally transfers a non-decreasing part of the total surplus to the agent by adjusting the lump-sum transfer. Since the agent is risk neutral, the optimal contract is a lease contract so that a weak governance translates into a non-decreasing lease payment. In Section 2.3, we study the optimal contract structure for the case where the agent is protected by limited liability. Here, the fixed contractual payment takes its lowest possible value, whereas the bonus is non-decreasing in the management-friendliness of the board and/or the CEO's bargaining power whenever the limited liability constraint is binding.

In Section 2.4, we study the consequences of two possible forms of an "outrage constraint" in the spirit of Bebchuk and Fried (2004). These authors consider this constraint as a natural limit to excessive compensation arrangements without specifying its details. If the outrage constraint takes the form of a self-restraint in setting the agent's total pay, the board does not adjust the fixed pay component but limits the agent's bonus to meet the constraint. If the outrage cost takes the form of a disutility if the agent's pay exceeds a certain limit, its consequences for the individual pay components also depend on their perceived marginal cost. Particularly, if performance-based pay triggers less outrage than raising the salary, the board offers the agent a contract with a lower salary and a higher bonus in response to the outrage constraint.

A legal reason for a differential treatment of individual pay components is the "million dollar tax cap" of the Internal Revenue Code, Section 162(m). This tax cap limits the tax-deductibility of non-performance-based compensation components to \$1 million per year. Drawing on an earlier result in Göx (2008), we demonstrate that this rule could induce a management-friendly board to reward the agent for luck. Interestingly, this outcome would not be optimal in the absence of the tax cap even if the board maximizes the CEO's utility and completely ignores the interests of shareholders.

Even though a management-friendly board always inflates the CEO's compensation level in our model, shareholders must not necessarily suffer from this policy. In Section 2.5, we present two formal arguments that challenge this overly simplistic view. First, we show that shareholders strictly benefit from a moderately management-friendly board if it has superior information about the agent's marginal contribution to firm value. In such a case, delegating the compensation decision to an informed incumbent board that favors the CEO can yield a higher shareholder value than an uninformed replacement with perfectly aligned interests. Second, drawing on Laux and Mittendorf (2011), we also demonstrate that the need to provide the CEO with incentives for the search of profitable investment projects can render a management-friendly board beneficial to shareholders.

The analysis of Section 2 shows that the pay-setting process is a complex problem that depends on a large number of observable and unobservable factors. A sound understanding of these factors and their interplay with the board's compensation decisions is important for shareholders and other outside parties seeking to evaluate the efficiency and desirability of real-world compensation arrangements.

In Section 3, we extend the core model from Section 2 to study the economic consequences of Say on Pay. In Section 3.1, we begin the analysis with the advisory Say on Pay model as it is used in the Anglo-Saxon countries. We show that an advisory Say on Pay can be a powerful instrument for shareholders to interfere with the compensation policy of the board. Its effectiveness critically depends on the consequences of a negative shareholder vote faced by the board of directors. The stricter the regulatory environment, the higher the willingness of the board to limit the agent's compensation to avoid a negative voting outcome. However, this mechanism is only unambiguously desirable from a shareholder perspective if they posses the relevant information to determine the efficient compensation level. Otherwise, shareholders run the risk to distort erroneously the compensation policy of a board acting in their own best interest.

In Sections 3.2 and 3.3, we study the consequences of two forms of the binding Say on Pay model as used in some European countries. We first study the case where the binding Say on Pay vote is retroactive and show that it creates a hold-up problem on the part of shareholders that could destroy shareholder value if the contractual obligations from the compensation contract are subject to shareholder approval. The reason is that short-term oriented shareholders have a strict incentive to disapprove all bonus payments once the CEO has supplied his effort level. If the CEO anticipates this outcome, he will have insufficient effort incentives in the first place.

Next, we study the case where the binding Say on Pay vote is prospective and show that the hold-up problem can be avoided if the shareholders must approve the agent's compensation contract before he chooses his effort level. However, we also find that the threat of disapproving the agent's compensation ex ante is only effective if the shareholders do not have full control over the pay level proposed by the board. Otherwise, the threat to disapprove the compensation contract proposed by a management-friendly board is empty because there is always a contract that yields the same shareholder value without destroying the agent's effort incentives.

In sum, the analysis of Section 3 suggests that Say on Pay is a complex and powerful instrument in the hands of shareholders to influence the board's compensation decisions. Its effectiveness and desirability from a shareholder perspective critically depend on the incentives and the information of the parties involved in the pay-setting process as well as on the organization and the legal and economic consequences of the vote.

In Section 4, we provide an overview of the empirical research on the subject. Section 4.1 provides a brief history of Say on Pay, placing it in the broader context of the trend toward greater shareholder democracy. Sections 4.2 and 4.3 review the empirical evidence on the effect of advisory Say on Pay votes, respectively, on executive pay and firm value, both in the United States (US) and in other countries. Section 4.4 reviews the corresponding evidence regarding binding Say on Pay regimes and Section 4.5 discusses other issues related to Say on Pay votes. Overall, across various countries adopting Say on Pay, a few common findings emerge.

First, failed Say on Pay votes are rare, though cases of significant voting dissent are not uncommon (and are generally more frequent than on other items voted upon at annual meetings). This may indicate that executive pay problems may not be as widespread or that a large fraction of investors are reluctant to interfere with and micromanage the pay-setting process. Voting dissent appears to be higher at firms with excess CEO pay (i.e., high pay and poor performance) and firms with compensation provisions viewed as reducing pay-for-performance. In many countries, proxy advisors play an important role in shaping shareholders' votes.

Second, with respect to its effect on executive pay, the adoption of Say on Pay and adverse Say on Pay votes are followed by an increase in pay-for-performance sensitivity, while pay levels do not seem to be much affected (though there is some evidence of a decline in the growth rate of pay levels). Firms often directly respond to adverse votes by engaging with institutional investors and changing compensation contracts to remove those controversial provisions that caused the adverse vote (the specific provisions vary across countries, but the common trait is that they are viewed as weakening the pay-for-performance link).

Third, with respect to the effect on firm value, most studies document a positive stock price reaction to events suggesting the future adoption of Say on Pay (at the country- or firm-level), though the stock price reaction to Say on Pay-induced actual compensation changes is either negative or insignificant. One possibility for these apparently conflicting findings is that investors' (positive) expectations of the effects of the Say on Pay regime have not materialized. Another potential explanation is that those expectations were not driven by anticipated improvements to compensation contracts but other anticipated side benefits of Say on Pay (e.g., greater pressure on management to perform well to avoid an adverse vote; better communication between boards and management).

In Section 5, we close this monograph with some conclusions and suggestions for future research. Finally, we need to add a few caveats: first, the research on Say on Pay continues to grow as more data become available over time and across countries. Thus, some of the studies cited here are in the form of working papers and their findings should be viewed as preliminary. Second, while we tried do perform a comprehensive review, it is possible we missed some studies. Finally, we apologize if we do not discuss in equal depth all the studies and tend to focus instead on the work (and journals) we are more familiar with, including our own.

References

Adams, R. and D. Ferreira (2007). "A theory of friendly boards". *Journal of Finance*. 62: 217–250.

Alissa, W. (2015). "Boards' response to shareholders' dissatisfaction: The case of shareholders' Say on Pay in the UK". *European Accounting Review*. 24: 727–752.

Associated Press (2007). "Administration Opposes Say on Pay Bill". April 19.

Bainbridge, S. (2008). "Remarks on Say on Pay: An Unjustified Incursion on Director Authority". UCLA School of Law, Research Paper No. 08–06.

Baldenius, T., N. Melumad, and X. Meng (2014). "Board composition and CEO power". *Journal of Financial Economics*. 112(1): 53–68.

Balkenborg, D. (2001). "How liable should a lender be? The case of judgment-proof firms and environmental risk: Comment". *American Economic Review*. 91(3): 731–738.

Balsam, S., J. Boone, H. Liu, and J. Yin (2016). "The impact of Say-on-Pay on executive compensation". *Journal of Accounting and Public Policy*. 35: 162–191.

Banker, R. and S. Datar (1989). "Sensitivity, precision, and linear aggregation of signals for performance evaluation". *Journal of Accounting Research*. 27(1): 21–39.

Bebchuk, L. (2005). “The case for increasing shareholder power”. *Harvard Law Review*. 118: 833–917.

Bebchuk, L. (2007). “Written testimony submitted before the Committee on Financial Services, United States House of Representatives, Hearing on Empowering Shareholders on Executive Compensation”.

Bebchuk, L., A. Cohen, and A. Ferrell (2009). “What matters in corporate governance?” *Review of Financial Studies*. 22: 783–827.

Bebchuk, L. and J. Fried (2003). “Executive compensation as an agency problem”. *Journal of Economic Perspectives*. 17: 71–92.

Bebchuk, L. and J. Fried (2004). *Pay without Performance — The unfulfilled Promise of Executive Compensation*. Cambridge, MA and London: Harvard University Press.

Bebchuk, L. and J. Fried (2005). “Pay without performance: Overview of the issues”. *Journal of Applied Corporate Finance*. 17(4): 8–23.

Bebchuk, L., J. Fried, and D. Walker (2002). “Managerial power and rent extraction in the design of executive compensation”. *The University of Chicago Law Review*. 69: 751–846.

Bebchuk, L. and Y. Grinstein (2005). “The growth of executive Pay”. *Oxford Review of Economic Policy*. 21(2): 283–303.

Belcredi, M., S. Bozzi, A. Ciavarella, and V. Novembre (2014). “Say-on-Pay in a Context of Concentrated Ownership”. Evidence from Italy. CONSOB, Working Paper.

Berle, A. and G. Means (1932). *The Modern Corporation and Private Property*. New York: Macmillan Publishing Co.

Bertrand, M. and S. Mullainathan (2001). “Are CEOs rewarded for luck? The ones without principals are”. *The Quarterly Journal of Economics*. 116(3): 901–932.

Bolton, P. and M. Dewatripoint (2005). *Contract Theory*. Cambridge: MIT Press.

Brunarski, K., T. Campbell, Y. Harman, and M. Thompson (2016). “Do Directors Suffer External Consequences for Poor Oversight of Executive Compensation?” Evidence from Say-on-Pay Votes. Miami University of Ohio, Working Paper.

Bugeia, M., R. da Silva Rosa, Y. Shan, T. Walter, and D. Yermack (2016). “Life after a shareholder pay “strike”: Consequences for ASX-listed Firms”. University of Technology Sydney, Working Paper.

Burns, N. and K. Minnick (2013). “Does Say-on-Pay matter? Evidence from Say-on-Pay proposals in the United Stated”. *Financial Review*. 48: 233–258.

Business Wire (2017). “Segal Marco Advisors Corporate Governance News: 146 Companies Move from Triennial to Annual Say-on-Pay Votes in 2017”. Available at: http://www.businesswire.com/news/home/20170808006082/en/Segal-Marco-Advisors-Corporate-Governance-News-146. August 8.

Cai, J., J. Garner, and R. Walkling (2009). “Electing directors”. *Journal of Finance*. 64: 2387–2419.

Cai, J. and R. Walkling (2011). “Shareholders’ Say on Pay: Does it create value?” *Journal of Financial and Quantitative Analysis*. 46: 299–339.

Carter, M. and V. Zamora (2008). “Shareholder remuneration votes and CEO compensation design”. Boston College and Seattle University. Working paper.

Clarkson, P., J. Walker, and S. Nicholls (2011). “Disclosure, shareholder oversight and the pay- performance link”. *Journal of Contemporary Accounting & Economics*. 7: 47–64.

Collins, D., B. Marquardt, and X. Niu (2017). “CEO Equity-Based Incentives and Shareholder Say-on-Pay in the U.S. Texas Tech University”. Working Paper.

Conyon, M. (2016). “Shareholder Dissent on Say-on-Pay and CEO Compensation”. Lancaster University, Working Paper.

Conyon, M. and G. Sadler (2010). “Shareholder voting and directors’ remuneration report legislation: Say on Pay in the UK”. *Corporate Governance: An International Review*. 18: 296–312.

Core, J. and W. Guay (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 U. Lel (2013). “Say on Pay laws, executive compensation, Pay slice and firm valuation around the World”. *Journal of Financial Economics*. 122: 500–520.

Cuñat, V., M. Gine, and M. Guadalupe (2012). “The vote is cast: The effect of corporate governance on shareholder value”. *Journal of Finance*. 67: 1943–1977.

Cuñat, V., M. Gine, and M. Guadalupe (2016). "Say Pays! shareholder voice and firm performance". *Review of Finance*. 20: 1799–1834.

Del Guercio, D., L. Seery, and T. Woidtke (2008). "Do boards Pay attention when institutional investors 'just vote no'?" *Journal of Financial Economics*. 90: 84–103.

Demougin, D. and C. Helm (2006). "Moral hazard and bargaining power". *German Economic Review*. 7(4): 463–470.

Downs, A. (1957). *An Economic Theory of Democracy*. New York: Harper and Row.

Drymiotes, G. (2007). "The monitoring role of insiders". *Journal of Accounting and Economics*. 44(3): 359–377.

Ertimur, Y., F. Ferri, and V. Muslu (2011). "Shareholder activism and CEO Pay". *Review of Financial Studies*. 24: 535–592.

Ertimur, Y., F. Ferri, and D. Oesch (2013). "Shareholder votes and proxy advisors: Evidence from Say on Pay". *Journal of Accounting Research*. 51(5): 951–996.

Ertimur, Y., F. Ferri, and D. Oesch (2015). "Does the director election system matter? Evidence from majority voting". *Review of Accounting Studies*. 20: 1–41.

Ertimur, Y., F. Ferri, and S. Stubben (2010). "Board of directors' responsiveness to shareholders: Evidence from shareholder proposals". *Journal of Corporate Finance*. 16: 53–72.

Ethos (2016). "Proxy Voting Guidelines and Corporate Governance Principles". Available at www.ethosfund.ch, last accessed January 23, 2017.

European Commission (2010). "Report on the Application by Member States of the EU of the Commission 2009/385/EC Recommendation, Commission Staff Working Document". Available at: http://ec.europa.eu/internal_market/company/docs/-directors-remun/sec-2010-670-2_en.pdf, last accessed January 23, 2017.

Ferri, F. (2012). "Low-Cost Shareholder Activism: A Review of the Evidence". In: *Research Handbook on the Economics of Corporate Law*. Ed. by C. Hill and B. McDonnell. Cheltenham, UK and Northampton, MA, USA: Edward Elgar Publishing.

Ferri, F. (2015). "Research Handbook on Shareholder Power". In: ed. by J. Hill and R. Thomas. Northampton: Edward Elgar.

Ferri, F. and D. Maber (2013). "Say on pay votes and CEO compensation: Evidence from the UK". *Review of Finance*. 17: 527–563.

Ferri, F. and D. Oesch (2016). "Management influence on investors: Evidence from shareholder votes on the frequency of Say on Pay". *Contemporary Accounting Research*. 33: 1337–1374.

Ferri, F. and T. Sandino (2009). "The impact of shareholder activism on financial reporting and compensation: The case of employee stock options expensing". *The Accounting Review*. 84: 433–466.

Ferri, F. and J. Weber (2009). "AFSCME vs. Mozilo ... and 'Say on Pay' for All (A)". Harvard Business School Case 109-009.

Frydman, C. and D. Jenter (2010). "CEO compensation". *Annual Review of Financial Economics*. 2: 75–102.

Fudenberg, D. and J. Tirole (1991). *Game Theory*. Cambridge, MA and London: MIT Press.

Gerner-Beuerle, C. and T. Kirchmaier (2016). "Say on Pay: Do Shareholders Care? London School of Economics and Political Science". Working Paper.

Glass Lewis (2017). "Proxy Paper, Guidelines Switzerland, 2016". Available at: www.glasslewis.com, last accessed January 23.

Gompers, P., J. Ishii, and A. Metrick (2003). "Corporate governance and equity prices". *Quarterly Journal of Economics*. 118: 107–155.

Gordon, J. (2009). "Say on Pay; Cautionary notes on the U.K. experience and the case for shareholder opt-in". *Harvard Journal on Legislation*. 46: 323–367.

Göx, R. (2004). "Erfolgsabhängige Gehälter, Belohnung für den Zufall und der Einfluss des Managements auf die Gestaltung seines eigenen Vergütungssystems". *Schmalenbachs Zeitschrift für betriebswirtschaftliche Forschung,* Special Issue. 51: 27–55.

Göx, R. (2008). "Tax incentives for inefficient executive Pay and reward for luck". *Review of Accounting Studies*. 13(4): 452–478.

Göx, R. (2013). "Say on Pay, Executive Pay, and Board Dependence. AAA 2012 Management Accounting Section (MAS) Meeting Paper". Available at https://ssrn.com/abstract=1908592, last accessed January 23, 2017.

Göx, R. (2016). "Say on Pay, Governance Quality, and Shareholder Pressure". Working paper, Zurich.

Göx, R., F. Imhof, and A. Kunz (2014). "The enforcement of Say on Pay votes and CEOs' investment incentives". Working paper. Available at http://ssrn.com/abstract=1588682, last accessed January 23, 2017.

Göx, R. and A. Kunz (2012). "Say on Pay: Ein Überblick über Gestaltungsoptionen, ökonomische Konsequenzen und Erkenntnisse aus Empirie und Laborexperimenten". *Zeitschrift für Betriebswirtschaft,* Special Issue. 5: 123–151.

Grosse, M., S. Keane, and T. Scott (2015). "Shareholder Say on Pay and CEO compensation: Three strikes and the board is out". *Accounting and Finance*: 1–25.

Halperin, R., Y. Kwon, and S. Rhoades-Catanach (2001). "The impact of deductibility limits on compensation contracts: A theoretical investigation". *Journal of the American Taxation Association*. 23: 52–65.

Hermalin, B. and M. Weisbach (1998). "Endogenously chosen boards of directors and their monitoring of the CEO". *American Economic Review*. 88: 96–118.

Holmstrom, B. (1979). "Moral hazard and observability". *The Bell Journal of Economics*. 10(1): 74–91.

Holmstrom, B. and P. Milgrom (1987). "Aggregation and linearity in the provision of intertemporal incentives". *Econometrica*. 55(2): 303–328.

Iliev, P. and S. Vitanova (2015). "The Effect of the Say-on-Pay Vote in the U.S. Pennsylvania State University". Working Paper.

Innes, R. (1990). "Limited liability and incentive contracting with exante action choices". *Journal of Economic Theory*. 52(1): 45–67.

Jensen, M. and W. Meckling (1976). "Theory of the firm: Managerial behavior, agency costs, and ownership structure". *Journal of Financial Economics*. 3(4): 305–360.

Kaplan, S. (2007). "Testimony of Steven N. Kaplan on Empowering Shareholders on Executive Compensation and H.R. 1257, the Shareholder Vote on Executive Compensation Act, before the Committee on Financial Services, United States House of Representatives".

Kimbro, M. and D. Xu (2016). “Shareholders have a say in executive compensation: Evidence from Say-on-Pay in the United States”. *Journal of Accounting and Public Policy*. 35: 19–42.

Kumar, P. and K. Sivaramakrishnan (2008). “Who monitors the monitor? The effect of board independence on executive compensation and firm value”. *Review of Financial Studies*. 21: 1371–1401.

Larcker, D., A. McCall, and G. Ormazabal (2015). “Outsourcing shareholder voting to proxy advisory firms”. *Journal of Law and Economics*. 58(1): 173–204.

Larcker, D., G. Ormazabal, and D. Taylor (2011). “The market reaction to corporate governance regulation”. *Journal of Financial Economics*. 101: 431–448.

Laux, C. and V. Laux (2009). “Board committees, CEO compensation and earnings management”. *The Accounting Review*. 84(3): 869–891.

Laux, V. (2008). “Board independence and CEO turnover”. *Journal of Accounting Research*. 46(1): 137–171.

Laux, V. (2014). “Corporate governance, board oversight, and CEO turnover”. *Trends and Foundations in Accounting*. 8(1): 1–73.

Laux, V. and B. Mittendorf (2011). “Board independence, executive pay and the adoption of pet projects”. *Contemporary Accounting Research*. 28(5): 1467–1483.

Levit, D. and N. Malenko (2011). “Non-binding voting for shareholder proposals”. *Journal of Finance*. 66: 1579–1614.

Lo, K., J. L. Zhang, and S. Yang (2014). “‘Say-on-Pay’ Votes and Compensation Practices”. University of British Columbia, Working Paper.

Malenko, A. and N. Malenko (2018). “Proxy advisory firms: The economics of selling information to voters”. Working paper, 2017. Available at: http://ssrn.com/abstract=2757597, last accessed January 29.

Matsusaka, J. and O. Ozbas (2017). “A theory of shareholder approval and proposal rights”. *The Journal of Law, Economics, and Organization*. 33: 377–411.

Mishel, L. and N. Sabadish (2012). “How Executive Compensation and Financial-Sector Pay Have Fueled Income Inequality”. Issue Brief #331, Economic Policy Institute.

Monem, R. and C. Ng (2013). “Australia’s ‘two-strikes’ rule and the pay-performance link: Are shareholders judicious?” *Journal of Contemporary Accounting and Economics*. 9: 237–254.

Murphy, K. (2012). “The Politics of Pay: A Legislative History of Executive Compensation”. In: *Research Handbook on Executive Pay*. Ed. by J. Hill and R. Thomas. Cheltenham, UK and Northampton, MA, USA: Edward Elgar Publishing. 11–40.

New York Times (2007). “House Votes to Give Investors Say On Executive Pay”.

Powel, D. and M. Rapp (2015). “Non-Mandatory Say on Pay Votes and AGM Participation: Evidence from Germany”. University of Marburg, Working Paper.

Rappaport, A. (1986). *Creating Shareholder Value*. New York: The Free Press.

Sappington, D. (1983). “Limited liability contracts between principal and agent”. *Journal of Economic Theory*. 29(1): 1–21.

Sheehan, K. (2007). “Is the Outrage Constraint an Effective Constraint on Executive Remuneration? Evidence from the UK and Preliminary Results from Australia”. University of Sydney, Working Paper.

Sheehan, K. (2012). “Say on Pay and the Outrage Constraint”. In: *Research Handbook on Executive Pay*. Ed. by J. Hill and R. Thomas. Cheltenham, UK and Northampton, MA, USA: Edward Elgar Publishing. 255–283.

Stathopoulos, K. and G. Voulgaris (2016). “The importance of shareholder activism: The case of Say on Pay”. *Corporate Governance: An International Review*. 24: 359–370.

Stendhal, M. (2012). “Say-On-Pay Gets A Lift As Citigroup CEO Steps Down. Law 360.com”. Available at: https://www.law360.com/articles/387192/say-on-pay-gets-a-lift-as-citigroup-ceo-steps-down.

Thomas, R. and J. Cotter (2007). “Shareholder proposals in the new millennium: Shareholder support, board response and market reaction”. *Journal of Corporate Finance*. 13: 368–391.

Thomas, R., A. Palmiter, and J. Cotter (2012). “Dodd-Frank’s Say on Pay: Will it lead to a greater role for shareholders in corporate governance?” *Cornell Law Review*. 97: 1213–1266.

Thomas, R. and C. Van der Elst (2015). “Say on Pay around the World”. *The Washington University Law Review*: 92.

Tirole, J. (2006). *The Theory of Corporate Finance*. Princeton: Princeton University Press.

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: 142–155.

Wagner, A. and C. Wenk (2017). “Agency versus Hold-up: Benefits and Costs of Shareholder Rights”. Swiss Finance Institute Working Paper.