Is say on pay working? Evidence from the UK

Radha K Shiwakoti+

Brunel Business School, Brunel University London, Uxbridge, UB8 3PH

Email: radha.shiwakoti@brunel.ac.uk

Abdullah Iqbal

Kent Business School, University of Kent, CT2 7PE, UK

Email: A.Iqbal@kent.ac.uk

Robin Jarvis

Brunel Business School, Brunel University London, Uxbridge, UB8 3PH

Email: Robin.Jarvis@brunel.ac.uk

+Corresponding author. Telephone 01895 268299

JEL Classification: G34, G38, J33, J38, M12

Acknowledgement: Radha K Shiwakoti and Robin Jarvis gratefully acknowledge the financial support from The British Academy for this study (Grant number: SG163484).

Abstract

Directors' remuneration has remained a hotly debated issue and many countries have enacted rules and regulations to address the concerns on directors' remuneration. This paper examines the effectiveness of one of the important regulations, which is the binding "say on pay (SOP)" which became effective in 2013 in the UK. We examined SOP around this binding vote regime from 2009 to 2017 and found that overall shareholders' dissent on directors' remuneration is relatively low in the UK. This study shows that the directors of the firms with high dissent votes responded to the shareholders dissent by changing the remuneration practices in the years following the SOP vote. We also found that pay-performance sensitivity increased since the introduction of binding SOP vote. Overall, the first binding SOP vote has appeared successful in achieving the intended objective of 'linking the pay and performance' for most of the FTSE 350 firms.

JEL Classification: G34, G38, J33, J38, M12

Keywords: Corporate Governance, Say-on-pay, CEO Compensation

Is say on pay working? Evidence from the UK

1. Introduction

Directors' remuneration has been a contentious issue in the UK, USA and other developed economies. Barely days goes without the headline news on the level of executive remuneration and has become the subject of public outcry. In recent years, the financial newspapers regularly report on how many days it takes to earn the annual salary of an employee at the beginning of each year. For example, this year The Financial Times reported that just two and half days of the remuneration of the CEO of a FTSE 100 company was equal to the average annual salary of an employee (FT). From many corners, such high executive remuneration prompted debate on how such high executive remuneration can be justified especially when many people are struggling to barely make ends meet. To address this continuing issue, several efforts have been made by the government and regulatory bodies. For example, in the UK, shareholders have been given 'say on pay'[1] (SOP here after) since 2002. At that time the vote was only advisory. In recent years, SOP is also adopted in other countries. For example, in the US, SOP was introduced in 2010 in the Dodd-Frank Act and became effective from January 2011. SOP was also introduced in new EU directive which will take effect in 2019. However, many European countries have already introduced SOP locally[2].

This issue was further fuelled in the recent financial crisis and served as a reminder of the further need to address directors' generous remuneration packages. It is worth noting that there is no cap on how much directors should be paid though sometime politicians threaten to put limit if directors' remuneration are not linked to the performance of the company. In the UK, efforts are mainly focused on how the reporting of executive remuneration could be effective to build trust between the companies and their shareholders and stresses the importance of full disclosure of the directors' remuneration. Such disclosure will attract public scrutiny to the companies and directors may change their approach and increase their engagement with the shareholders. Because of this belief, new regulations focus on transparency in reporting, increases shareholders accountability, and links between the pay and performance. This issue was further addressed by simplifying the remuneration report where companies are required to publish a single figure for remuneration.

[1] The term 'Say on pay' is referred to shareholders votes on directors' remuneration. The UK was the first country for mandatory shareholders votes on directors' remuneration. It started in 2002 as non-binding advisory votes and was made binding in 2013. The provisions on non-binding and binding votes are incorporated in the Companies Act 2006, amended in 2013 to incorporate new provisions through the Enterprise and Regulatory Reform Act 2013. Non-binding vote became effective for fiscal years ending on or after 31 December 2002 and the binding vote became effective from October 2013. In recent years, many countries have introduced say on pay on directors' remuneration for the listed companies.

[2] Please see Ferri and Göx (2018) for the history of mandatory or binding votes in different countries. New EU Directive leaves it at the choice of the member state whether the votes should be advisory or binding.

In addition, responding to the public concern and continued media coverage, the Government also increased shareholders responsibility for directors' remuneration plans, making voting on remuneration policies binding since 1 October 2013[3]. Such empowerment to shareholders is expected to enforce companies to engage with the shareholders on directors' remuneration. This will also increase the accountability of shareholders on the directors' remuneration. The new rules require companies to present forward looking remuneration policies to shareholders for approval at least once every three years. Such requirement will also make remuneration more transparent. In addition, it is expected that the need of shareholder approval on remuneration policies will enhance the linkages between the remuneration and the performance of the company. It is yet to be seen whether these rules have the desired impact on directors' remuneration, as well as directors' response to such demands. This study aims to assess whether these rules have resulted in a positive impact, as desired by regulators and policy makers. This objective will be achieved by studying the changes in the remuneration practices and level of total remuneration of FTSE 350 companies from 2009 to 2017 (four years before and four years after the first binding SOP vote).

Moreover, the recent shareholder rebellion over directors' remuneration does show a continued gap between directors and shareholders. This also indicates the shareholders' active involvement in the process of determining directors' remuneration. In the context of increased shareholder activism, changing attitudes of the directors themselves on executive remuneration policy, it is critical to examine how companies have changed their remuneration policy. For example, recently (2016) referring to Britain's most high-profile bosses, the BBC reported that executive pay in the UK is not "fit for purpose'' and that executive pay is eroding public confidence in financial institutions. Some previous studies in the UK (see for example, Conyon and Sadler, 2010) and Ferri and Maber, 2012) have provided initial evidence on non-binding SOP vote. Since these studies, some of the pay practices, for example generous severance contracts to the directors', is not a problem anymore in the UK as most of the firms have reduced severance payments to no longer than one year. Ferri and Gox (2018) have acknowledged that most of the research cited in their monograph are working papers and advise that their findings are preliminary. They further predict that "SOP research continues to grow as more data become available''. Most prior studies (see for example, Larcker et al., 2011)) focus on the firms' stock price reactions on the announcement of inclusion of SOP in Dodd-Frank Act in the USA. They found negative stock price reaction on the announcement indicating that SOP regulation will be ineffective on compensation contracts.

[3] Remuneration report as per the new regulations has three parts (annual statement; directors' remuneration policy; and annual report on remuneration, but remuneration policy will be required to be included only in every third years i.e. when the binding vote on remuneration policy is sought. Annual implementation report will be presented annually and it has only an advisory shareholder vote.

Brunarski et al. (2015) provided evidence on the US regulation where the outcome of the vote was non-binding and concluded that SOP legislation did not achieve the intended result on executive compensation. They consider this important because of non-binding nature of the shareholders' vote where responses to SOP vote are the discretion of management and board of directors. Very recently, the CEO of Persimmon plc, a FTSE 100 company was forced out from his post over his pay despite the firm exceeding the performance target. News coverage of his excess pay was considered a distraction and reputational damage to the company. In this context, it is necessary to investigate how well SOP system is working. Thus far the academic literature has not examined the impact of SOP regime in the UK from 2013, when SOP became binding. Brunarski et al. (2015) argue that management responses to the SOP vote may not fully reflect if the study consider only shorter sample period. To address this gap this paper has the following objectives:

1. To investigate whether the binding vote on remuneration policy has forced companies to alter the structure and level of remuneration packages for company executives.
2. To establish whether the pay structures became more aligned with firms' long-term performance since the adoption of binding voting on remuneration policy.

Above objectives will be achieved through the study of voting behaviour in FTSE 350 companies over a nine-year period from 2009-17. We investigate whether the voting dissent is widespread or this dissent widened once voting became binding. It is also possible that shareholders are reluctant to involve in the pay-setting process. It would be interesting to know, in the above context, whether the voting behaviour changed over the period.

This study makes several contributions to the literature. For example, this study would be one of the first to examine the binding SOP vote regime in the UK since it became effective in October 2013. Next it examines at least the first two policy SOP votes covering a period of 2013-17. No previous studies have covered this long period in either advisory and/or binding vote regimes. The result will help the regulators and policy makers to determine whether the SOP on directors' remuneration is working or not. Third, we consider all of the different figures reported as the remuneration for the CEO. These consists of 'total remuneration received by the CEO in the year', 'total remuneration based on face value' and 'fair value'. We have also considered 'total single figure' which became mandatory in the UK since 2013. Fourth, this study considers the impact of SOP on remuneration practices of firms. For this, we examine both level and structure of CEO remuneration. Ferri and Maber (2012) also considered compensation practices but their findings are based on only two financial years and at that time voting was only advisory. Similarly remuneration practices have changed substantially since their study. During their study period they report that ''two-thirds of

CEO total pay'' is the cash compensation (p. 551). We have shown later that in recent years share-based compensation represents a larger part of total remuneration. They find that shareholders' use SOP ''to pressure firms to remove controversial pay practices'' and concluded that SOP was successful to change the compensation contracts (p 530). Since then voting has been made binding in 2013 and raises questions on the effectiveness of advisory SOP and needs further investigation. There are also differences in governance mechanism in the UK and elsewhere. For example in the US, shareholders put proposals on remuneration related matters and if they win they will force management to implement the proposal (see, Ertimur et al., 2011). In the UK, we did not find any proposals put forward by the shareholders from financial years 2013 to 2017. This shows the need for the further investigation on the effectiveness of binding SOP in the UK and this study contributes to the literature by providing new evidence in the changed environment.

The next section reviews prior literature. Section 3 discusses sample, methodology and variables. Section 4 presents empirical results and Section 5 concludes the study.

2. Literature review

Agency theory, according to which the shareholders are the principal and managers are the agents, is the most widely used theory on executive remuneration. This separation leads to the agency problem and since the mid-1990s executive remuneration, particularly share based payments, is considered a solution to minimise the agency problem by aligning the interests of shareholders with those of the managers. However this is challenged by many researchers (see for example, Bebchuk and Fried, 2004, 2005). In recent years, focus has been on the effectiveness of corporate governance in pay setting process within an organisation. It is believed that poor or weak governance structure affects the level of directors' remuneration. To address this concern, regulators are encouraging shareholders to take active part in the remuneration setting process. Some argue that pay level is determined by labour market forces. 'Rent seeking' by directors is also widely discussed in the setting of pay level. Referring to Bebchuk and Fried (2004), Ferri and Gox (2018) state that ''weak boards tend to shift rents to the CEO at the cost of shareholders'' and consider this as an agency problem on pay setting process which will lead to ''inefficient compensation arrangement'' because of managerial power in the weak board (p. 10). It can also be argued that increased responsibility to the shareholders will force the board to restrain directors' remuneration. Recently, The Financial Times has reported that the largest fund managers in the UK are voting against the re-election of directors who are responsible to set directors' remuneration. In theory, SOP provides a significant power to the shareholders to curb the excesses in executive remuneration and a major tool to

influence the decision on directors' remuneration. This suggests that the boards have incentives and powers to limit directors' remuneration to the level which is not perceived 'excessive' by the shareholders. Prior research is sparse on the effectiveness of this new power to the shareholders and most of the earlier studies cover relatively shorter short time period around each vote.

Ferri and Göx (2018) argue that ''shareholders could benefit from a more effective voting regime if the vote is prospective'' and ''destroy shareholder value if the voting is retroactive'' (i.e. voting on the annual remuneration report) (p. 44). Their analysis mainly focuses on value creation and destruction from the both prospective and retroactive SOP. There is a debate on whether advisory SOP will be as effective as binding given that directors' could disregard even majority dissent vote on remuneration as this vote is not a binding vote. However, the evidence (see for example Ferri and Maber, 2013) suggests that if the dissent vote is large, the board will take the dissent vote seriously and make changes to their remuneration policy. That said, we could expect that binding vote will increase the effectiveness of SOP because shareholders know that voting results must be acted upon. Some other argued that shareholders should not be involved in the pay setting process as they might not hold enough information about the efficient pay level to the CEO. Citing Göx (2016), Ferri and Göx (2018) report that "SOP can destroy shareholder value at good governed firms'' if shareholders have imperfect information (p. 46). Ferri and Maber (2013) investigate the impact of SOP on the level of CEO pay two years before and two years after the introduction of advisory SOP and found no effect of SOP on CEO pay level. Their study covers only two years period when the non-binding advisory vote was introduced. However, this finding is not surprising and is similar to some other UK studies (see for example, Alissa, 2015; Conyon and Sandler, 2010).

In the US, Cuñat et al. (2016) also did not find any changes in the level and composition of CEO pay after the adoption of SOP. Correa and Lel (2016) conducted a cross-country study and reported limited impact of SOP on CEO pay. They documented increased pay-performance sensitivity and decrease in the growth rate of CEO pay after the adoption of the SOP. However, CEO pay levels rose continuously in their study period. Their study covered a relatively large sample but only limited countries adopted had SOP as either advisory or binding in their study period. Clarkson et al. (2011) reported increased pay-performance sensitivity around the adoption of SOP vote. Sheehan's (2012) findings for Australian companies show limited impact on the changes in the remuneration after the SOP vote. She studied the voting pattern over the three years after the adoption of advisory SOP and reported that only a small number of companies' have high percentage of dissent. These studies have shown no meaningful changes in the level of CEO remuneration after the adoption of SOP and that the percentage of high dissent vote is relatively small. Due to the lack of response from the

management, some countries, for example Australia, adopted the ''two-strike rule''[4]. This rule is expected to improve the responsiveness from the directors. Most of existing studies are based on advisory votes where management is not forced to respond to the dissent votes. However, in a binding vote environment, management must respond to the voting dissent and it is still to be seen as to how the management have responded to the dissent vote.

The UK and some other countries (for example, Switzerland) have adopted binding votes. Ferri and Gox (2018) conjecture that binding votes on SOP should reduce agency costs. Wagner and Wenk (2017) have examined binding votes in Switzerland on SOP but the Swiss system is different from that of UK binding votes. Swiss firms vote on remuneration report (i.e. remuneration amount) but in the UK shareholders vote on both remuneration policies (i.e. prospective remuneration) and the remuneration amount (retroactive). The vote on remuneration report is advisory and not binding. In the UK, Gerner-Beuerle and Kirchmaier (2016) providing preliminary evidence have cast doubt on the effectiveness of binding vote where they doubted the ability of shareholders to distinguish the nature of vote i.e. prospective (forward looking board pay for future financial years) and retroactive (backward looking board pay in the year being reported i.e. implementation report). Correa and Lel (2016) reported that the adoption of non-binding SOP impacted the firms' growth rates as well as sensitivity of CEO pay and that the firms' performance improved. Their sample mainly consisted of small sized companies and their sample period ended in 2012 (see p. 503). In most of the countries, as stated above, SOP was not binding and evidence has shown that advisory law/regulation had minimal impact.

Main objective of SOP is to empower shareholders and in binding vote regime, dissent vote must be recognised and responded. One can expect that it will limit the perceived excesses on CEO pay levels. It is also expected that such voting will increase the link between pay and performance. However, referring to several previous studies, Correa and Lel (2016) posit that SOP laws could lead to suboptimal pay practices because "some shareholders are not sophisticated enough to evaluate executive compensation policies'' (p. 502). Brunarski et al. (2015) find no impact of SOP vote in their study of S&P firms where SOP vote is advisory. Grundfest (1993) consider that a board cannot ignore even the advisory vote because of negative publicity ensuing from the shareholders' dissent on executive remuneration. Some researchers (see for example Cai and Walking, 2011 and Larcker et al., 2011) focused on the impact on share prices around the SOP votes. Overall, findings on the

[4] In the ''two-strike rule'' if dissent vote is greater than 25% management should report what actions they have taken in the remuneration report in the following year. If the dissent vote in the second year is also higher than 25% management other than CEO should put them for re-election. It is to be noted that the UK corporate governance code requires all new appointed directors to stand for re-election after their first appointment and a third of the directors also need to stand for re-election each year i.e. directors must be re-elected in every three years.

effectiveness of non-binding vote at best are mixed. For example, Ertimur et al., (2010) report that boards are responding to the majority non-binding vote but Levit and Malenko (2011) found a limited response from the board. Above mixed and sometime conflicting findings clearly suggest a further study on this topic.

3. Sample, methodology and variables

3.1 Sample

This study conducts a thorough analysis of the remuneration structures/plans and a number of other variables of firms that were part of FTSE 350 Index from 2013 to 2017 and held at least two binding SOP votes during this period. Results will be compared for firms with high 'SOP' approval and high 'SOP' dissent votes in addition to examining these variables across their first and second policy votes. In the UK, focus has always been on transparency and disclosure of the directors' remuneration. However, binding vote goes further than this and aims that binding vote will improve managements' engagement with the shareholders and empowers shareholders on directors' remuneration. The UK was the first country which enacted advisory votes on SOP in 2002 and this became binding in October 2013 (for detail, see footnote 2 of Correa and Lel, 2016). This study covers a longer window of four years on either side of the first binding vote (which became effective in October 2013) enabling us to examine the voting pattern and its impact on remuneration policy. Our sample period also covers first two binding votes on remuneration policy and would be enough to see the impact as most of the equity based payments usually have a cycle of three years. SOP has been a burning issue for particularly large companies and we are considering the FTSE 350 companies which are the largest UK 350 companies based on the market capitalisation. Table 1 shows the frequency of firms and the number of binding policy votes they held during this period. For this study, we require that each firm must have held at least two policy votes, thus we exclude firms that had only one policy vote during the sample period of 2013-17. However, if a firm had more than two policy votes during this period, we only consider their first two votes. Thus, our final sample consists of a consistent 424 FTSE 350 companies that had at least two policy votes during the period 2013 to 2017.

Insert Table 1 about here

3.2 Variables

Unlike many other studies, for example, Obermann (2018) who have considered only compensation structure, in this study we have considered both the level and the structure of compensation. In the

UK, many commentators have reported that since SOP became binding, there are changes in the compensation structure and a large increase in the fixed component of the remuneration i.e. salary and bonuses. We include profitability variables such as return on assets (ROA) and return on equity (ROE) to measure the performance of the firm, as voting dissent (VD here after) might be related to the performance of the firm. VD is expected to be high if the performance is below the expected level and the dissent is expected to be low if the performance is above the expected level. In the UK, the changes in voting from advisory to binding is to develop the link between pay and performance of companies. Both ROA and REO measures are widely used in the UK by the remuneration committee while setting the directors remuneration. We also consider year on year dividend growth as another performance measure (Burnarski et al., 2015). The natural logarithm of total sales is used as size control variable as larger firms are on more public scrutiny. We also consider the natural logarithm of market value of common equity and of total assets as alternative size measures. The leverage and growth of our sample firms is reported using long term debt to book value of common equity and the ratio of market value to book value of common equity.

In this study, we consider the total CEO remuneration as the CEO remuneration is much higher than any other director/executive. We have considered four different remuneration figures. First, how much remuneration CEO actually received in a particular year. This amount considers fixed remuneration, bonuses, and value of vested shares in that year. Second we considered fixed remuneration, bonuses, and shares awarded during the year measured at face value. Third, similar to second but measured at fair value (expected value). Fourth, we considered a single figure for remuneration. Since 1 October 2013, UK Companies Act required companies to report single total remuneration figure but most of the companies started reporting this figure much earlier than 2013 in their annual reports and accounts. When FRC publishes report on a single figure for remuneration referring to investors, they report that ''investors also want companies to report separately the most recent awards relating to long term incentives, including performance shares and options, which may vest in the future'' (FRC P N 365). Definitions of all variables used in the study are provided in Appendix 1. The remuneration and voting data used in this study is obtained from Manifest (now know an as Minerva Analytics) and the financial and governance data is sourced from Bloomberg.

3.3 Methodology

SOP VD is the vote against the proposal on directors' remuneration policy. We have considered both the 'vote against the proposal' and 'abstentions' as VD. This is consistent with prior studies (for example Correa and Lel, 2016; Obermann, 2018; Ferri and Maber, 2013). In addition, in the UK

context, Ferri and Maber (2013) notes that "in the UK, institutional investors use abstention votes to signal dissent and indicate that, in the absence of action, they will vote against the remuneration report at subsequent meetings'' (p. 535). VD percentage is calculated by dividing the dissent vote by voting base. Voting base is the total of for, against, and abstain votes. To be consistent with prior literature and for the purpose of analysis, firms with VD higher than 20% are classified as high dissent (HD hereafter) firms and firms with VD lower than 5% as low dissent (LD hereafter) firms. We perform both univariate and regression analysis to answer our research questions. After reporting descriptive statistics of the variables used in our study, we compare the mean and median values of these variables of HD and LD firms across both first and second policy votes. Next, we compare the mean and medians of variables across their first and second policy vote for the firms that had high VD at their first policy vote. We also compare the mean and medians of variables during three years before to three years after the first policy vote for both HD and LD firms. Finally, we report year-on-year mean and median values of variables in event time around the first policy vote for the HD and LD firms.

We also use a regression, consistent with Correa and Lel (2016), to formally test the SOP vote. For this, we consider two different total remuneration figures as the dependent variables: the single figure as reported by the firm and the total remuneration received by the CEO, which includes salary, bonuses, pensions, benefits and share based payments. We use the natural logarithm of each of the total CEO compensation measure for firm *i* in year *t*. In each regression, we conjecture that the total compensation of CEO depends on different performance (ROA and ROE) and some other variables. Both current and lagged performance variables are used in each model, as year *t*'s compensation may be linked to the performance in year *t* (the current) and *t-1* (the previous) years. This is consistent with the previous literature (for example see Correa and Lel, 2016). Prepostdum is a dummy variable which takes a value of zero for three years pre-1st policy vote and one for three post-1st policy vote years to capture the change in the CEO compensation from pre- to the post- 1st policy vote period. The other variables include natural logarithm of sales revenue (LNSR) to control for size; the number of directors on the board (BSZ) and the proportion of independent directors on the board (BInd) to consider the impact of governance measures; market to book value of equity (MTBV) to capture growth; and the proportion of equity owned by the CEO. We have also included year dummies to see the impact of time on the level of CEO remuneration over the sample period. In sum, to investigate the determinants of the SOP vote (of a low support vote), we estimate the following regression:

$$Remuneration_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 ROA_{it-1} + \beta_3 ROE_{it} + \beta_4 ROE_{it-1} + \beta_5 LNSR_{it} + \beta_6 BSZ_{it} + \beta_7 BInd_{it} + \beta_8 MTBV_{it} + \beta_9 CEOwn_{it} + \beta_{10} Prepostdum_t + \delta_t Year\ Dummies_t + \varepsilon_{it} \quad \text{..... (1)}$$

4. Results and Discussion

4.1 Descriptive results

We begin with some summary statistics for voting resolution on remuneration policy between 2013 and 2017. Table 2 reports descriptive statistics for firms that had two (Panel A), three (Panel B) and four or more (Panel C) policy votes during this period. The statistics for our final sample of 424 FTSE 350 firms are reported in Panel D[5]. This sample covers the first and second binding votes on firms' remuneration policy for the directors' of the company. Panel D shows that the mean VD at the very first binding vote on remuneration policy is only 6.81% and this increased marginally at the second policy vote to 7.59%. However the number of firms with VD higher than 20% increased from 30 firms at first policy vote to 46 firms at their second policy vote. Following the literature (see for example Ferri and Maber, 2013 for UK, and Correa and Lel, 2016), we considered more than 20% against vote as a high dissent (HD here after) vote. Interestingly, Panel A shows that the companies which had HD in the first policy vote experienced a significant reduction at their second policy vote by an average of 24.40% and only three of these firms still had VD higher than 20% at their second policy vote. This dissent percentage (greater than 20%) is comparable to the VD at the first non-binding vote as reported by Ferri and Maber (2013) for 2003 and 2004 financial years.

INSERT TABLE 2 ABOUT HERE

This result suggests that the management (board) is reacting to the shareholders' concern and such responses to the HD vote has resulted in a lower dissent (LD hereafter) in the subsequent policy vote but this needs further investigation to find the reasons as to why the dissent had decreased. Ferri and Maber (2012) found that HD firms changed their pay practices particularly by reducing the notice periods in the contracts of CEOs. They concluded that notice periods longer than 12 months were the most affected ones by the SOP votes. We also find that just under 25% of companies have put remuneration policy to shareholders three times (Panel B, Table 2) and about 6% of companies four or more times (Panel C, Table 2) between 2013 and 2017[6]. Both average VD and higher VD (greater than 20% dissent) are slightly higher for those companies who put policy voting for three times between 2013 and 2017 (see Table 1 panel B) but average VD is the lowest for companies who put policy voting more frequently (four times or more). Brunarski et al. (2015) document that the

[5] Effective, Panel D combines the data across Panels A to C and considers only the first two policy votes for firms from Panels B and C.

[6] It is to be noted that companies are required to put remuneration policies before shareholders at least once in a three years or more frequently if they made changes in the remuneration policy.

management of high SOP firms tend to react to shareholders' dissent by increasing dividends, decreasing leverage, and increasing corporate investment. We examine some of these changes on low dissent (LD) votes in subsequent policy vote for HD firms. We have also reported the median percentage of VD for all policy votes.

Table 3 provides descriptive statistics of key variables classified into different group such as performance, size, value and leverage, remuneration, and governance for the full sample of 424 FTSE firms. We begin by analysing VD. Table 3 shows that the mean (median) VD is 6.81% (3.6%) at first and 7.59% (3.65%) at second policy vote for our sample firms. These figures are much smaller than those of previous studies (see for example Ferri and Maber, 2013) where they have reported 14% and 10.9% for the first two years when non-binding voting was introduced in the UK.

INSERT TABLE 3 ABOUT HERE

Table 3 also shows that dissent has marginally increased around the second policy vote and performance and dividend growth variables has slightly gone down. Firms' size measures also increase marginally at their second policy vote, however their leverage levels remain unchanged. Brunarski et al. (2015) report that HD firms decrease their leverage levels, in their evidence on SOP vote outcome in the US. Interestingly, mean total remuneration has gone down around the second policy vote. Generally, it was expected that fixed components of salary will increase and variable components will decrease in the post-SOP period because of more scrutiny from the shareholders and our preliminary results presented in Table 3 confirm this. The table also shows a substantial increase in the benefits payment, however, higher standard deviation for this measure suggests large variation across our sample firms. Overall, total CEO remuneration based on total remuneration valued at face value; total single figure ; and total amount received in that year are very similar. Average total remuneration received by the CEO of the FTSE 350 companies is around £2.7 million. These largely unchanged remuneration figures may support the unchanged VD in two policy votes. Ferri and Maber (2013) report that at the time when the first non-binding vote on remuneration was mandated in 2002, average total remuneration was £835,000.

We have also reported some corporate governance variables in the table, which shows slight reduction in the mean CEO ownership. However the board has more independent members compared to the first policy vote period. Size of the board remain unchanged. This table only shows how shareholders have responded overall to their new power on policy vote. In the next section, we split our firms into HD (high dissent i.e. VD>20%) and LD (low dissent i.e. VD<5%) firms and discuss some main results.

4.2 Comparison between HD (>20%) firms and LD (<5%) firms around the first and second policy vote

We compare the characteristics of HD firms with the LD firms to identify the possible reasons for high dissent. HD can be the result of the CEO of the HD firms getting excessive compensation and/or experiencing lower performance as compared to the LD firms. In Table 4, we compare the performance and other variables including the components as well as the total remuneration of HD and LD firms around both the policy votes. The number of HD firms is quite small (only 30 firms and 7% of the overall sample) that has VD greater than 20%. This number is substantially lower than 75 HD firms reported by Ferri and Maber (2013) at the very first SOP vote in 2002 when SOP vote was non-binding in the UK. This may indicate that SOP vote is working in the UK. The table shows that median (mean) dissent for LD firms is 2.02% (2.13%) compared to the median (mean) of HD firms of 29.01% (32.50%) around the first policy vote (mean values reported in Appendix 2). None of the median value of the variables are significantly different across the HD and LD firms. That said, some interesting differences can be seen particularly on the performance and dividend growth variables. The table shows that performance and dividend growth variables of LD firms are superior but not significantly different from those of HD firms at the first policy vote however these figures reverse at their second policy vote. Both groups of firms are largely similar in size measured by market value, total assets, and sales but LD firms appear more levered. Results show that LD firms pay slightly higher salary (fixed payment) than those by HD firms. Pension is also higher for LD firms but this is not surprising as pension relates to the salary. The table also shows that HD firms have substantially higher variable components of the total remuneration. The HD firms are paying higher benefits. In corporate governance variables, we find that HD firms have larger boards and have higher percentage of independent board members.

Table 4 also shows the results around the second policy vote. We can see some changes around the second vote indicating that SOP is working.

INSERT TABLE 4 ABOUT HERE

It shows that dissent has gone down for both groups but differences on dissent remained very similar between two groups. We can see deteriorating ROE for both groups around the second vote but ROA is higher for the HD groups. Interestingly HD firms increased their dividend in this period. The LD firms became marginally larger in all size variable measures. We find complete reversal in the variable part of the remuneration and total remuneration of the CEOs in this period. The CEOs of the LD firms have higher total remuneration including all components except benefit payment in this period. We also computed mean value and the picture is quite different suggesting that some HD

firms are paying large remuneration to the CEOs (see Appendix 2). The above discussion suggests that SOP has some impact on CEO remuneration. But it is to be seen whether this is the result of binding vote on SOP or gradual changes in the remuneration. In Table 2, we have shown that the dissent has substantially gone down for the HD firms in the second policy vote. Next we compare the performance and other variables at the first and second policy vote for firms which were identified as HD firms at their first policy vote in Table 5.

INSERT TABLE 5 ABOUT HERE

Table 5 shows VD has significantly gone down from the first policy vote to the second policy vote either using the mean or median tests. None of the other variables are significantly different using both mean and median tests. All components of remuneration including the total remuneration measured in single figure, received figure, fair value figure and face value figure in both mean and median have gone up around the second policy vote. Some contradicting results can be seen in mean and the median tests. For example, mean ROA decreased around the second policy vote but median remained the same. The mean ROE increased substantially but median ROE decreased around the second policy vote. Surprisingly, almost all components and all total remuneration amounts went up around the second policy vote. Median dividend growth also went up. These preliminary results do not explain clearly as to why VD has gone down significantly in the second policy vote when total remuneration went up while there is no significant change in the performance of the firms. Later we will examine the determinants of remuneration using the regression analysis and any changes over the sample period.

Next, in Table 6, we analyse the mean and median values of performance and other variables during the pre- (three years before) and post- (during the years after) 1st policy vote. We have examined year on year mean and median values in time series (in event time) for both HD and LD groups (mean value report in Appendix 3).

INSERT TABLE 6 ABOUT HERE

When we consider a longer (three years pre-1st policy voting) period, we find different pictures for HD and LD firms. Both mean and median tests show that these two groups of firms are significantly different for a number of variables. Three years prior to the first SOP policy vote, HD firms had higher ROA but LD firms have higher ROE for both mean and the median value. Dividend growth is significantly higher for the HD firms. HD appear marginally larger compared to LD firms. In addition, LD firms were paying higher fixed salary three years before the first SOP vote but the variable components and the total remuneration is significantly higher for HD firms. The only other

significant difference in this period is the board independence where HD firms have higher percentage of independent board members in the board. Table 6 also reports how both groups of firms have changed three years after the first SOP vote. It shows significant gaps between HD and LD groups in the post-1st SOP period. Performance variables (ROA, ROE) are down for both groups in this period but deterioration is significantly higher for the HD firms, which have significantly reduced their debt level and this result is consistent with the findings of Brunarski et al. (2015) for the US firms. Surprisingly with the exception of pension component, all other components (both fixed and variable components of remuneration) are significantly higher for the HD firms. This preliminary result shows that there is no link between pay and performance. CEO ownership in the firm has gone down. This is surprising considering that many firms are attempting to align the interest of the CEO to the interest of the shareholders by increasing the percentage of share-based payments in the total remuneration and forcing them to defer such payment for longer periods. The result discussed above raises a serious question about the effectiveness of the binding SOP vote in the UK. The results indicate that binding vote did not have significant impact on the response of the managers to the shareholders SOP. For a clearer picture, we have shown some key median performance and remuneration components percentage in the figure 1 for both HD and LD firms.

INSERT FIGURE 1 ABOUT HERE

4.3 Impact of SOP on level and composition of pay package:

Table 2 showed that firms that had HD at first policy vote were no longer HD firms at their second policy vote. In this section, we analyse why shareholders changed their voting behaviour. There is a possibility that the firms changed their remuneration practices after the first policy vote or that the performances have improved for HD firms. It is also interesting to see the impact of SOP regulations on both level and structure of remuneration for other firms as well. We have seen earlier that (Table 2) both HD percentage and number of HD firms increased around second policy vote. Some studies (see for example Obermann, 2018) postulated that ''high VD leads to reduced bonus payments in the following year'' and ''high VD leads to increased equity payments in the following year'' (p. 1622). We did not find any support for this in our univariate analysis. In Table 7, we report median values in time series (mean value reported in Appendix 3) for level and structure of remuneration and other performance, size, and corporate governance variables. Analysis of both level and structure will capture the full impact of SOP on remuneration practices. That said, both single figure remuneration and total received figure substantially increased after the first SOP vote for the HD firms but we did not find such trend for the LD firms. We also report year on year values in event time of some key median performance and remuneration components (in percentage) in Figure 1 for

both HD and LD firms. It shows that the salary and bonus component of HD firms have gradually gone down in the post-1st policy vote whereas these figures stay stable for LD firm. However, LD firms have gradually increased the share-based payments component from the pre to the post-1st policy era.

INSERT TABLE 7 ABOUT HERE

4.4 Impact of SOP vote on the determinants of total CEO pay

This section reports the changes in the determinants of CEO pay over the binding voting regime. Regression results are reported in Table 8, which shows how CEO remuneration is determined and whether it has changed since the binding vote was introduced in 2013. This approach is similar to the approach used in prior studies (see for example, Conyon and Sadler, 2010; Ferri and Maber, 2013; and Brunarski et al., 2015). We begin with the determinants of CEO remuneration for the full sample from 2009 to 2017 i.e. three years before and three years after the first SOP binding vote. We have estimated fixed effect panel regression coefficients on several independent variables following prior literature. Independent variables include current and lagged performance measures as well as size, growth, and governance variables, which are as defined in Appendix 1. Total CEO remuneration and size variables are measured in natural logarithm (LN) form. We also used year dummies and pre-post SOP vote dummy (Prepostdum) in the regression model to capture the impact of binding SOP regulation in the determinants of the CEO compensation.

INSERT TABLE 8 ABOUT HERE

Table 8 shows that the Prepostdum is positive and significant suggesting that total remuneration significantly improved after the first binding SOP vote. Results also show that the coefficients of post-SOP vote year dummies are negative while coefficients of pre-SOP vote dummies are positive and significant for some years. This result clearly suggests some changes in the total remuneration over the period. Both ROA and ROE for current years are positive and significant for the first regression model suggesting that single figure remuneration is aligned with the performance. Both lagged performance variables are positive but insignificant. This is not surprising as we have shown earlier that especially after the binding SOP vote, firms are increasing the fixed component of the remuneration. These regression result are different from our univariate results reported for HD firms. This may be due to the small number of the HD firms (30 firms) around the first policy vote. From these regression results, we can say that remuneration is aligned to the performance and in recent years remuneration is going down for the FTSE 350 firms. We can conclude that the first binding SOP vote had some desired impact on both performance and the total CEO remuneration.

This result is consistent with the views of the UK shareholders and the UK politicians. They do not oppose the higher remuneration as long as they are linked to the performance. Similar views are expressed for their results by Ferri and Maber (2013) for the non-binding SOP votes in the UK.

Conclusion:

This study has investigated the impact of SOP regulation in the UK covering first ever binding voting regime. The voting pattern has been studied for over seven financial years and examined the performance and CEO remuneration of FTSE 350 firms around their first two policy votes. We also looked at the determinants of CEO remuneration. We found modest voting dissent compared to the previous UK studies (see for example Ferri and Maber, 2013 and Conyon and Sadler, 2010). The results show that despite the modest dissent, managers are responding to the shareholders concerns. Generally CEO remuneration is more aligned to the performance for both LD and HD firms around the binding SOP votes. To get a clearer picture, we have considered at least two cycles of SOP votes in this study. Overall, the finding shows that SOP regulation appeared to have the intended impact on linking the pay and performance for most of the FTSE 350 firms. Results also confirm changes in the remuneration practices by the UK FTSE 350 companies. We also find that HD firms reduced their overall total remuneration paid to the CEO but the first SOP binding vote has limited impact compared to other LD FTSE 350 firms despite the dissent has gone down for HD firms.

References:

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

Bebchuk, L., and Fried, J. (2003). ''Executive compensation as an agency problem'', journal of Economic Perspectives, 17, pp71-92

Bebchuk, L., and Fried, J. (2004). ''Pay without performance – the unfulfilled promise of executive compensation, Cambridge, MA and London, Harvard University Press

Brunarski, K. R., Campbell, T. C., Harman, Y. S. (2015). Evidence on the outcome of say-on-pay votes: How managers, directors, and shareholders respond, *Journal of Corporate Finance*, 30, pp 132-149.

Cai, J. and Walking, R. (2011). ''Shareholders' say on pay: Does it create value? Journal of Financial and Quantitative Analysis, 46, pp 299-339.

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

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, pp 296.312.

Core, J.E., Guay, W., and Larcker, D.F., (2008). ''The power of the pen and executive compensation''. Journal of Financial Economics, 88 pp1-25.

Correa, R. and Lel, U. (2013). ''Say on Pay Laws, Executive Compensation, Pay Slice and Firm Valuation Around the World''. Journal of Financial Economics, 122: 500.520.

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, pp 500-520.

Cuñat, V., Gine, M. and Guadalupe, M. (2016). ''Say Pays! Shareholder Voice and Firm Performance''. Review of Finance 20: 1799-1834.

Ertimur, Y., Ferri, F., Muslu, V. (2011). ''Shareholder activism and CEO pay'', Review of Financial Studies, 24, pp535-592.

Ertimur, Y., Ferri, F., Stubben, S. (2010). ''Board of Directors' responsiveness to shareholders: Evidence from shareholder proposals, Journal of Corporate Finance, 16, pp53-72.

Ferri, F., and Gök, R. F., (2018). ''Executive compensation, corporate governance, and say on pay, Foundations and Trends® in Accounting: Vol 12: No. 1, pp1-103. (available on https://www0.gsb.columbia.edu/mygsb/faculty/research/pubfiles/25655/Final%20version%20plan%20format%20for%20ssrn%20with%20suggested%20citation.pdf assessed on 09/10/2018)

Ferri, F. and Maber, D. (2013). ''Say on pay votes and CEO compensation: evidence from the UK'', Review of Finance, 17, pp 527-563.

FRC (2012). ''FRC publishes report on 'a single figure for remuneration'', Financial Reporting Council, FRC PN 365 https://www.frc.org.uk/news/june-2012/frc-publishes-report-on-a-single-figure-for-remun

Accessed on 07/12/2018)

Gox. R (2016). ''Say on Pay, governance quality, and shareholder pressure''. Working paper, Zurich.

Gerner-Beuerle, C. and Kirchmaier, T. (2016). ''Say on Pay: Do Shareholders Care?'' London School of Economics and Political Science, Working Paper.

Grundfest, J.A. (1993). ''Just vote no: a minimalist strategy for dealing with barbarians inside the gates'', Stanford Law Review, pp857-937.

Larcker, D., Ormazabal, G., and Taylor, D. (2011). ''The market reaction to corporate governance regulation'', Journal of Financial Economics, 101, pp431-448.

Levit, D. and Malenko, N. (2011). ''Non-binding voting for shareholder proposals'', Journal of Finance, 66, pp 1579-1614.

Obermann, J. (2018). ''Can management- sponsored non-binding remuneration votes shape the executive compensation structure? Evidence from say-on-pay votes in Germany'', The European Journal of Finance, 24, 17 pp1609-1630.

Sheehan, K. (2012). ''Say on Pay and the Outrage Constraint''. In J. Hill and R. Thomas, eds., Research Handbook on Executive Pay, Cheltenham, UK and Northampton, MA, USA: Edward Elgar Publishing, 255-283.

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

Table 1: Frequency of remuneration policy vote during 2013-17 financial years

Number of policy votes	No of firms	Firm years
One (excluded from analysis)	86	86
Two	331	662
Three	77	231
Four	15	60
Five	5	25
Six	1	6
Missing data (with two policy votes - excluded)	2	4
Missing data (with three policy votes - excluded)	4	12
Missing data (with four policy votes - excluded)	2	8

The table reports the number of policy votes held by FTSE 350 firms during the period 2013-17. Our sample includes firms that had at least two votes during this period.

Table 2: The outcome of voting on directors' remuneration - policy (overall) during financial years 2013-2017

Panel A: Two votes during 2013-17	1st policy vote	2nd policy vote		
VD mean % (st. dev. %)	6.60 (8.97)	7.34 (9.52)		
VD median % (count)	3.61 (331)	3.56 (331)		
Number (%) of firms with VD > 50%	1 (0.30%)	1 (0.30%)		
Number (%) of firms with VD > 20%	22 (6.67%)	35 (10.61%)		
From firms with VD > 20%				
Number of firms with decrease in VD next time	20 of 22			
Mean decrease in VD next time	24.4% (from 32.28% to 8.24%)			
Number of firms with VD > 20% next time	3 of 22			
Panel B: Three votes during 2013-17	1st policy vote	2nd policy vote	3rd policy vote	
VD mean % (st. dev. %)	8.06 (9.27)	9.18 (10.75)	8.68 (12.90)	
VD median (count)	4.04 (77)	5.11 (77)	4.28 (77)	
Number (%) of firms with VD > 50%	0	1 (1.30%)	1 (1.30%)	
Number (%) of firms with VD > 20%	8 (10.39%)	10 (12.99%)	9 (11.69%)	
From firms with VD > 20%				
Number of firms with decrease in VD next time	6 of 8	9 of 10		
Mean decrease in VD next time	24.00% (from 30.00% to 6.00%)	25.57% (from 32.46% to 6.89%)		
Number of firms with VD > 20% next time	2 of 8	1 of 10		
Panel C: Four votes during 2013-17	1st policy vote	2nd policy vote	3rd policy vote	4th policy vote
VD mean % (st. dev. %)	5.00 (9.83)	6.43 (15.78)	5.15 (5.92)	6.47 (11.74)
VD median (count)	1.52 (21)	2.23 (21)	2.41 (21)	1.24 (21)
Number (%) of firms with VD > 50%	0	1 (4.76%)	0	1 (4.76%)
Number (%) of firms with VD > 20%	1 (4.76%)	1 (4.76%)	0	1 (4.76%)
From firms with VD > 20%				
Number of firms with decrease in VD next time	1 of 1	1 of 1	0	NA
Mean decrease in VD next time	42.60% (from 45.21% to 2.61%)	68.14% (from 73.53% to 5.39%)	0	NA
Number of firms with VD > 20% next time	0 of 1	0 of 1	0	NA

Panel D: First two policy votes during 2013-17	1st policy vote	2nd policy vote		
VD mean % (st. dev. %)	6.81 (9.11)	7.59 (10.17)		
VD median % (count)	3.61 (424)	3.65 (424)		
Number (%) of firms with VD > 20%	30 (7.08%)	46 (10.85%)		
From firms with VD > 20%				
Mean (Median) VD	32.50 (29.01)	31.98 (28.51)		
Number of firms with decrease in VD next time	26 of 30			
Mean decrease in VD next time	22.68% (from 32.28% to 9.60%)			
Number of firms with VD > 20% next time	5 of 30			

Table 3: Descriptive statistics of the full sample around the first two policy votes during financial years 2013-2017

	First policy vote				Second policy vote			
	Mean	**Median**	**St Dev**	**Count**	**Mean**	**Median**	**St Dev**	**Count**
Voting Dissent	6.81%	3.61%	9.11%	424	7.59%	3.65%	10.17%	424
Performance:								
ROA	9.75%	8.07%	19.18%	335	8.60%	7.34%	20.85%	335
ROE	22.19%	20.76%	71.33%	335	21.58%	18.49%	41.03%	335
DivGrowth	9.78%	8.40%	50.15%	245	9.75%	7.66%	42.60%	262
Size:								
LNTA	7.51	7.23	1.88	360	7.65	7.45	1.84	360
LNMV	7.32	7.22	1.61	324	7.44	7.28	1.58	354
LNSales	6.9	6.79	1.93	357	6.96	6.83	1.78	357
Value and Leverage:								
MTBV	3.69	2.06	14.09	324	5.02	2.27	32.38	354
LTDEQ	1.0367	0.51	1.82	289	0.99	0.53	1.59	293
Remuneration:								
Salary	576871	506875	276078	350	607414	558500	250308	358
Bonuses	635544	422171	999413	350	609382	403026	707666	358
Benefits	48606	22421	121640	350	80451	24000	250017	358
Share Based Pmts	1241511	196315	3051764	350	1111852	175815	3906432	358
Pension	166626	102095	372575	350	136566	96000	151963	358
Tot Rem Rcvd	2669157	1622630	3640466	350	2545666	1630431	4423430	358
Single Figure	2685242	1824700	3083305	340	2682448	1762150	3889527	346
Tot Rem Face val	2952072	2034496	3250068	350	2944638	2258752	3235719	358
Tot Rem Fair val	2592383	1940895	2308140	350	2675593	2100940	2360498	358
Governance:								
Board Size	9.03	9	2.47	312	9	9	2.24	334
Board Indep	58.05%	59.17%	12%	304	62.24%	62.50%	13%	333
CEO Own	1.69%	0.14%	6.06%	276	1.51%	0.10%	5.80%	271

The table reports mean, median, standard deviation and count for the sample of 424 FTSE 350 firms at the time of their first and second binding remuneration policy vote. Voting dissent is the sum against and abstained votes as a proportion of total casted votes. The rest of the variables are as defined in Appendix 1.

Table 4: Comparison of *median* values between HD (>20%) and LD (<5%) firms at their first and second policy vote

	First policy vote						Second policy vote					
	LD Firms		HD Firms		Diff in Medians		LD Firms		HD Firms		Diff in Medians	
	Median	Obs	Median	Obs	z-stat	p-value	Median	Obs	Median	Obs	z-stat	p-value
Voting dissent	2.02%	256	29.01%	30	-8.96	0	1.69%	250	28.51%	46	-10.78	0
ROA	8.58%	191	6.91%	26	0.76	0.45	6.64%	186	7.36%	42	-0.42	0.67
ROE	21.40%	191	20.21%	26	-0.80	0.43	15.94%	186	17.37%	42	-0.06	0.95
DivGrowth	9.69%	138	6.67%	21	1.56	0.12	8.17%	136	7.10%	28	0.10	0.92
LNTA	7.10	206	7.65	29	-0.49	0.62	7.36	196	7.18	43	0.97	0.33
LNMV	7.07	182	7.40	29	-0.08	0.94	7.20	192	6.92	43	1.40	0.16
LNSales	6.70	204	6.95	28	-1.04	0.30	6.77	194	6.63	43	0.25	0.80
MTBV	2.14	182	1.44	29	0.63	0.53	2.14	192	2.26	43	-0.12	0.90
LTDEQ	0.5286	165	0.46	19	0.35	0.73	0.52	159	0.55	33	0.36	0.72
Salary	496000	200	450000	29	0.66	0.51	555000	191	550000	45	0.69	0.49
Bonuses	354660	200	422100	29	-0.95	0.34	394000	191	340000	45	0.12	0.91
Benefits	22000	200	26000	29	-1.50	0.13	23000	191	27000	45	-0.31	0.76
Share Based Pmts	97268	200	0	29	-0.25	0.81	274411	191	0	45	2.10	0.04
Pension	100233	200	65765	29	0.43	0.67	103468	191	80000	45	0.99	0.32
Tot Rem Rcvd	1443065	200	1786409	29	-1.12	0.26	1586722	191	1166105	45	0.97	0.33
Single Figure	1542500	194	1603707	27	-0.66	0.51	1808600	185	1481625	42	1.11	0.27
Tot Rem Face val	1841543	200	1920859	29	-0.49	0.63	2188705	191	2121400	45	0.07	0.94
Tot Rem Fair val	1789542	200	1920859	29	-0.62	0.53	2033254	191	1981122	45	0.00	1.00
Board Size	8	176	9	25	-0.99	0.32	9	182	9	37	-0.03	0.98
Board Indep	57.14%	169	62.50%	25	-1.088	0.28	62.50%	181	60.00%	37	-0.79	0.43
CEO Own	0.13%	161	0.15%	19	0.459	0.65	0.11%	143	0.17%	28	-0.26	0.80

The table reports median value of all variables (as defined in Appendix 1) for HD and LD FTSE 350 firms at their first and second policy vote during financial years 2013-17. HD (high dissent) and LD (low dissent) firms are defined as firms with voting dissent of more than 20% (less than 5%). It also compares these medians and reports z-stats and p-values using non-parametric Wilcoxon-Mann-Whitney test.

Table 5: Comparison of mean and median of variables for HD (>20% at first vote) firms across their first and second policy vote

	1st policy vote			2nd policy vote			Diff in mean		Diff in median	
	Mean	**Median**	**Obs**	**Mean**	**Median**	**Obs**	**z-stat**	**p-value**	**z-stat**	**p-value**
Voting dissent	32.50%	29.01%	30	9.60%	5.47%	30	7.04	0.00	5.37	0.00
ROA	7.88%	6.91%	26	5.75%	6.92%	26	0.80	0.43	0.68	0.50
ROE	4.05%	20.21%	26	15.62%	15.99%	26	0.68	0.50	0.40	0.69
DivGrowth	1.64%	6.67%	21	0.85%	7.27%	20	0.08	0.94	-0.43	0.67
LNTA	7.76	7.65	29	7.87	8.07	29	0.16	0.88	-0.23	0.82
LNMV	7.39	7.40	29	7.41	7.58	29	0.03	0.98	-0.32	0.75
LNSales	7.24	6.95	28	7.18	7.15	28	0.12	0.91	-0.02	0.99
MTBV	2.69	1.44	29	2.17	1.69	29	0.93	0.36	0.29	0.77
LTDEQ	0.65	0.46	19	0.66	0.53	21	0.06	0.95	-0.12	0.90
Salary	562317	450000	29	626443	567500	28	0.81	0.42	-1.07	0.28
Bonuses	789288	422100	29	977300	675342	28	0.63	0.53	-0.92	0.36
Benefits	149422	26000	29	310301	23500	28	1.18	0.24	0.14	0.89
Share Based Pmts	1429005	0	29	3523492	188901	28	0.93	0.35	-0.42	0.68
Pension	137815	65765	29	147725	73112	28	0.22	0.82	-0.24	0.81
Tot Rem Rcvd	3067847	1786409	29	5585261	2455142	28	1.00	0.32	-1.05	0.29
Single Figure	3505412	1603707	27	6255490	2052000	28	1.21	0.23	-0.47	0.64
Tot Rem Face val	4299823	1920859	29	5208307	3263364	28	0.43	0.67	-0.72	0.47
Tot Rem Fair val	3428945	1920859	29	4264686	3241861	28	0.67	0.50	-0.80	0.42
Board Size	10	9	25	10	9	25	0.08	0.94	-0.05	0.96
Board Indep	60.21%	62.50%	25	64.53%	62.50%	25	1.22	0.23	-1.22	0.22
CEO Own	1.26%	0.15%	19	1.22%	0.17%	20	0.03	0.98	-0.37	0.71

The table reports mean and median value of all variables (as defined in Appendix 1) at their first and second policy vote for firms which were identified as HD firms at their first policy vote during financial years 2013-17. HD (LD) firms are defined as firms with voting dissent of more than 20% (less than 5%). It also compares the means and medians and reports relevant statistics using two sample *t*-test and Wilcoxon-Mann-Whitney test.

Table 6: Comparison of mean and median values during pre- and post-1st policy vote for key variables for LD and HD firms

	Pre-1st Policy Vote from -3 to -1 for variables (Obs: 206-123 for LD and 29-15 for HD firms)						Post-1st Policy Vote from +1 to +3 for variables (Obs: 207-145 for LD and 30-19 for HD firms)					
	Mean		p-value	Median		p-value	Mean		p-value	Median		p-value
	LD Firms	HD Firms	Diff in mean	LD Firms	HD Firms	Diff in median	LD Firms	HD Firms	Diff in mean	LD Firms	HD Firms	Diff in median
ROA	11.32%	11.78%	0.72	9.20%	10.02%	0.28	10.45%	6.99%	0.04	7.97%	7.13%	0.18
ROE	34.99%	27.30%	0.37	24.49%	23.06%	0.98	24.79%	14.84%	0.02	19.16%	19.67%	0.23
DivGrowth	17.09%	20.02%	0.62	10.03%	15.16%	0.03	12.51%	10.99%	0.87	7.57%	7.06%	0.33
LNTA	7.25	7.61	0.22	6.99	7.49	0.72	7.45	7.80	0.24	7.24	7.77	0.40
LNMV	6.96	7.30	0.15	6.86	6.96	0.66	7.35	7.48	0.60	7.21	7.51	0.59
LNSales	6.72	6.99	0.27	6.61	6.71	0.30	6.83	7.19	0.15	6.76	6.98	0.12
MTBV	3.60	2.80	0.24	1.97	1.57	0.97	6.94	3.65	0.15	2.50	1.77	0.02
LTDEQ	1.28	0.99	0.22	0.50	0.56	0.84	1.02	0.64	0.00	0.51	0.44	0.48
Salary	543731	520252	0.43	480000	472700	0.25	579744	614900	0.30	530000	561000	0.72
Bonuses	420500	790279	0.00	331250	353100	0.11	495561	962103	0.00	357864	565000	0.00
Benefits	38948	80861	0.03	22928	20000	0.90	48410	270654	0.00	23000	24000	0.24
Share Based Pmts	569984	1203394	0.13	0	19775	0.48	852388	2768523	0.04	185411	201446	0.35
Pension	221911	141856	0.04	101990	59000	0.00	137703	145085	0.73	95000	72477	0.47
Tot Rem Rcvd	1795075	2736642	0.05	1248308	1356000	0.34	2113804	4761266	0.01	1455502	2442110	0.00
Single Figure	2111400	3705914	0.01	1477804	1809322	0.06	2081570	5520985	0.00	1520624	2687500	0.00
Tot Rem Face val	2433304	4037315	0.03	1769913	1869952	0.23	2465859	5117069	0.00	1998141	2953681	0.00
Tot Rem Fair val	2147562	3089724	0.01	1603429	1757528	0.16	2272613	4157432	0.00	1821796	2723830	0.00
Board Size	9	10	0.02	9	9	0.14	9	9.95	0.00	9	9	0.05
Board Indep	54.61%	57.81%	0.03	55.56%	60.00%	0.03	60.74%	63.09%	0.14	62.50%	63.64%	0.12
CEO Own	2.00%	2.27%	0.75	0.12%	0.12%	0.36	1.69%	1.24%	0.46	0.09%	0.17%	0.15

The table reports mean and median value of all variables (as defined in Appendix 1) for HD and LD FTSE 350 firms during the three years before and three years after the first policy vote. HD (high dissent) and LD (low dissent) firms are defined as firms with voting dissent of more than 20% (less than 5%). It also compares the means and medians and reports relevant statistics using two sample *t*-test and Wilcoxon-Mann-Whitney test.

Table 7: *Median* values of performance and remuneration variables in event time

Event year	-3	-2	-1	0	1	2	3
LD Firms (Obs):	(187-123)	(204-133)	(206-141)	(206-138)	(207-155)	(207-149)	(207-145)
ROA	9.68%	9.07%	9.12%	8.58%	8.92%	7.78%	7.35%
ROE	25.77%	24.88%	22.52%	21.40%	20.94%	18.75%	16.44%
Salary	475000	489000	480000	496000	503000	531000	546000
Bonuses	332018	331750	329723	354660	351500	359000	375195
Benefits	22772	22928	22500	22000	22300	24000	22950
Share Based Pmts	25115	0	0	97268	144777	208128	179414
Pension	95625	110313	103800	100233	90688	96219	100000
Tot Rem Rcvd	1112221	1226683	1353937	1443065	1416494	1586722	1437424
Single Figure	1390000	1410785	1640895	1542500	1461423	1616000	1591769
Tot Rem Face val	1741898	1760080	1903259	1841543	1904387	2004758	2001280
Tot Rem Fair val	1500884	1608649	1638360	1789542	1738506	1833727	1881450
Salary %	43.67%	41.96%	38.88%	41.22%	37.87%	39.51%	41.49%
Bonus %	27.95%	25.22%	23.28%	23.41%	21.71%	22.52%	22.77%
Benefits %	1.83%	1.64%	1.48%	1.50%	1.57%	1.61%	1.72%
Share Pmts %	1.79%	0.00%	0.00%	8.97%	9.76%	12.37%	15.75%
Pensions %	9.44%	8.29%	7.62%	7.70%	6.89%	6.46%	6.69%
HD Firms (Obs):	(29-15)	(29-19)	(29-19)	(29-19)	(30-19)	(29-21)	(29-19)
ROA	11.52%	10.65%	7.53%	6.91%	7.23%	7.10%	7.14%
ROE	24.48%	24.19%	19.50%	20.21%	19.67%	18.85%	20.75%
Salary	459350	483116	478000	450000	499172.5	549750	642913
Bonuses	337032	374022	352000	422100	460347	768000	528097
Benefits	12500	20013	24601	26000	25645	22218	24000
Share Based Pmts	163075	9888	0	0	180925	0	284781
Pension	60000	49500	63349	65765	67500	71000	80612
Tot Rem Rcvd	1318025	1336596	1479613	1786409	2158017	2227620	2615908
Single Figure	1796000	1454000	1925539	1603707	2453500	2944500	2760000
Tot Rem Face val	2361092	1964883	1755444	1920859	2841150	2688634	3299466
Tot Rem Fair val	2010244	1811533	1668473	1920859	2590308	2651292	3299466
Salary %	38.75%	39.88%	33.16%	30.26%	24.87%	30.26%	22.87%
Bonus %	30.33%	31.89%	24.20%	26.46%	20.47%	24.91%	20.95%
Benefits %	1.14%	1.84%	1.53%	1.58%	1.70%	1.19%	1.19%
Share Pmts %	16.46%	0.40%	0.00%	0.00%	19.25%	0.00%	24.76%
Pensions %	5.51%	6.18%	5.79%	4.47%	6.06%	3.65%	4.33%

The table reports median value of all variables (as defined in Appendix 1) for HD and LD FTSE 350 firms in event time (in time series) from year -3 to +3 as compared to the first binding policy vote year 0. HD (high dissent) and LD (low dissent) firms are defined as firms with voting dissent of more than 20% (less than 5%). It also reports the maximum and minimum number of firm year observations available for each event year.

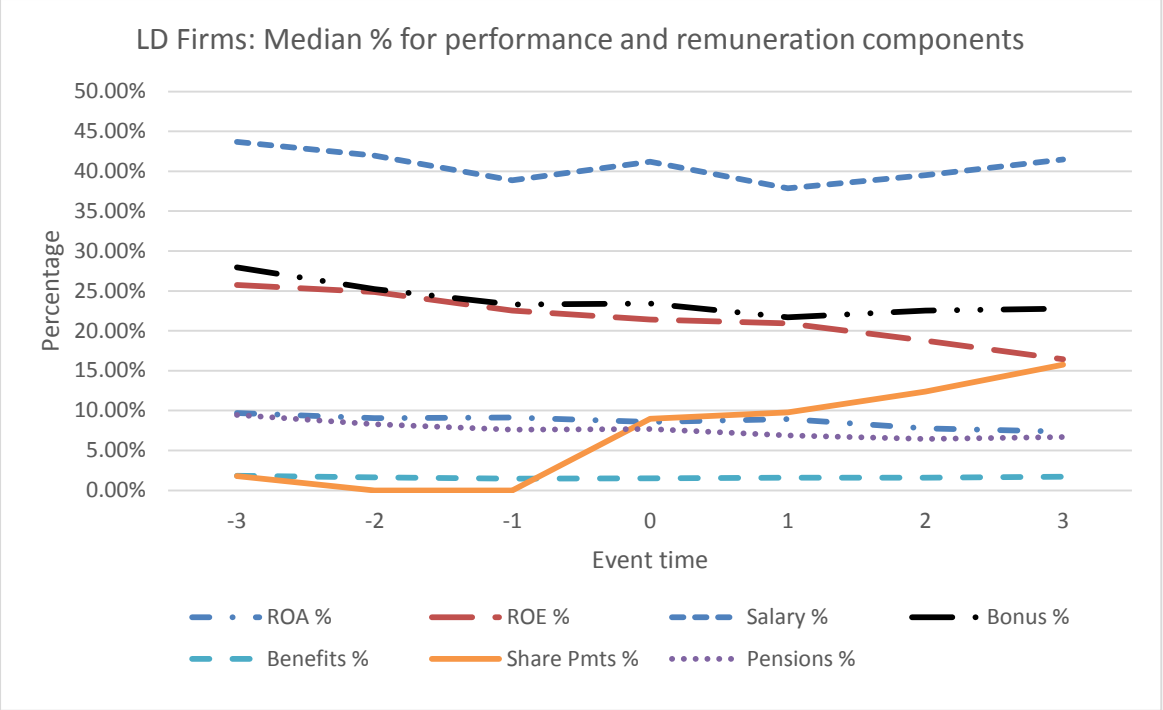
Table 8: Fixed effects regression results

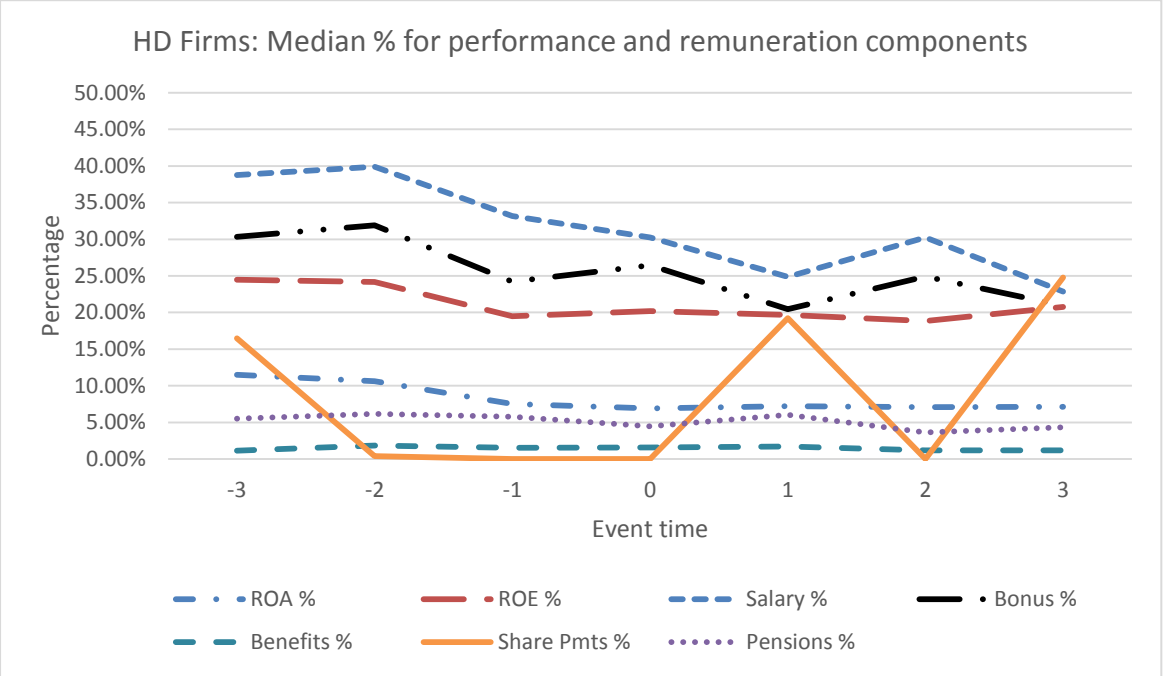
$$Remuneration_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 ROA_{it-1} + \beta_3 ROE_{it} + \beta_4 ROE_{it-1} + \beta_5 LNSR_{it} + \beta_6 BSZ_{it} + \beta_7 BInd_{it} + \beta_8 MTBV_{it} + \beta_9 CEOwn_{it} + \beta_{10} Prepostdum_t + \delta_t Year\ Dummies_t + \varepsilon_{it}$$

	Ln Single Figure			Ln Total Received		
	Coeff.	R.S.E	p-value	Coeff.	R.S.E	p-value
Intercept	14.133	0.579	0.000	12.416	0.586	0.000
ROA_t	1.462	0.437	0.001	0.879	0.284	0.002
ROA_{t-1}	0.170	0.293	0.562	0.291	0.206	0.160
ROE_t	0.112	0.041	0.007	0.053	0.034	0.123
ROE_{t-1}	0.021	0.025	0.411	0.045	0.029	0.122
LNSales	0.072	0.078	0.360	0.253	0.078	0.001
BSZ	-0.026	0.018	0.137	0.005	0.017	0.750
BInd	-0.003	0.003	0.360	-0.002	0.003	0.455
MTBV	-0.004	0.001	0.007	-0.001	0.001	0.082
Own	-0.028	0.012	0.025	-0.007	0.010	0.443
Prepostdum	0.228	0.076	0.003	0.220	0.066	0.001
YearDum1	0.100	0.050	0.047	0.094	0.046	0.044
YearDum2	0.132	0.055	0.017	0.090	0.052	0.087
YearDum3	0.555	0.378	0.143	-0.065	0.187	0.729
YearDum4	-0.139	0.066	0.037	-0.065	0.059	0.269
YearDum5	-0.083	0.059	0.165	0.020	0.051	0.693
YearDum6	-0.091	0.044	0.039	-0.013	0.040	0.755
No of observations	1,401			1,467		
No of groups	277			281		
F-stat (p-value)	3.82 (0.00)			7.11 (0.00)		
R-squared-overall	7.00%			19.95%		

This table reports coefficients, robust standard errors (R.S.E) and p-values using two fixed effect regressions. The dependent variable in each regression is either the natural logarithm of CEO Single Figure or the natural logarithm of the total remuneration paid to the CEO by a firm. Prepostdum is a dummy variable which captures pre- and post-1st policy vote years (as compared to the policy-vote year defined as 0). The models also include year dummies to control for time effects. The rest of the independent variables are as defined in Appendix 1. The subscript *i* represent each firm, *t* a given year, and *t-1* the lagged year.

Figure 1: Median percentages for performance (ROA and ROE) and remuneration components (as a percentage of total remuneration received) in event time





Appendix 1: Definition of variables used in the analysis

Variable	Definition
	Data source: Bloomberg
ROA	Earnings before interest and taxes (EBIT) divided by start of year total assets. Subscripts *t* and *t-1* represent their values for current and lagged year.
ROE	EBIT divided by start of year book value of ordinary (common) equity share. Subscripts *t* and *t-1* represent their values for current and lagged year.
DivGrowth	Dividend growth at the start of the years calculated as year-on-year growth.
LNTA	The natural logarithm of start of year total assets.
LNMV	The natural logarithm of start of year market value of equity.
LNSales	The natural logarithm of start of year annual sales revenue.
MTBV	The start of year ratio of market to book value of equity.
LTDEQ	The start of year ratio of long term debt to book value of equity
Board Size (BSZ)	The start of the year total size of the board of directors.
Board Indep (BInd)	The start of the year percentage of independent directors on the board of directors.
	Data source: Manifest (Minerva-analytics)
Salary	The total annual salary component paid by the firm to the CEO.
Bonuses	Total annual bonus component calculated as the sum of 'cash and vested bonus' and 'deferred bonus notional gain' paid by the firm to the CEO.
Benefits	Total annual other benefits component amount reported by the firm for the CEO.
Share Based Pmts	Total annual share-based-payments component calculated as the sum of 'options notional gain' and 'share awards notional gain' as reported by the firm for the CEO.
Pension	Total annual pension component paid by the firm to the CEO.
Rcvd Calculation	Sum of salary, bonuses, benefits, share based pmts and pension paid by the firm to the CEO.
Single Figure	Annual Single Figure remuneration for CEO as reported by the firm.
Tot Rem Face val	Total annual remuneration for CEO at face value.
Tot Rem Fair val	Total annual remuneration for CEO at fair value
CEO Own	The start of the year percentage of the firms' equity owned by the CEO.
Salary %	Salary component as a percentage of 'Rcvd calculation'
Bonus %	Bonus component as a percentage of 'Rcvd calculation'.
Benefits %	Benefits component as a percentage of 'Rcvd calculation'
Share Pmts %	Share based payments component as a percentage of 'Rcvd calculation'
Pensions %	Pensions component as a percentage of 'Rcvd calculation'.

Appendix 2: Comparison of *mean* between HD (>20%) and LD (<5%) firms at first and the second policy vote

	First policy vote						Second policy vote					
	LD Firms		HD Firms		Diff in mean		LD Firms		HD Firms		Diff in mean	
	Mean	Obs	Mean	Obs	t-stat	p-value	Mean	Obs	Mean	Obs	t-stat	p-value
Voting dissent	2.13%	256	32.50%	30	-11.84	0.00	1.93%	250	31.98%	46	-18.98	0.00
ROA	10.46%	191	7.88%	26	0.59	0.56	9.20%	186	5.99%	42	0.77	0.44
ROE	25.66%	191	4.05%	26	0.42	0.68	22.79%	186	17.12%	42	0.73	0.46
DivGrowth	11.83%	138	1.64%	21	0.87	0.38	14.11%	136	12.08%	28	0.21	0.84
LNTA	7.34	206	7.76	29	-0.84	0.41	7.58	196	7.18	43	1.29	0.20
LNMV	7.20	182	7.39	29	-0.44	0.66	7.34	192	6.94	43	1.47	0.14
LNSales	6.74	204	7.24	28	-1.24	0.21	6.83	194	6.75	43	0.27	0.79
MTBV	4.59	182	2.69	29	0.59	0.56	6.33	192	3.05	43	0.49	0.63
LTDEQ	1.10	165	0.65	19	0.73	0.46	1.14	159	0.82	33	0.80	0.42
Salary	562618	200	562317	29	0.01	1.00	601192	191	556891	45	1.08	0.28
Bonuses	484628	200	789288	29	-1.52	0.14	525139	191	684570	45	-1.13	0.26
Benefits	36351	200	149422	29	-1.78	0.09	73935	191	79673	45	-0.15	0.88
Share Based Pmts	1049622	200	1429005	29	-0.64	0.52	955294	191	929223	45	0.07	0.94
Pension	163552	200	137815	29	0.35	0.73	135549	191	108386	45	1.06	0.29
Tot Rem Rcvd	2296771	200	3067847	29	-1.17	0.25	2291109	191	2358742	45	-0.15	0.88
Single Figure	2316285	194	3505412	27	-1.07	0.29	2320492	185	2741251	42	-0.84	0.40
Tot Rem Face val	2424480	200	4299823	29	-1.46	0.16	2598776	191	3357984	45	-1.36	0.18
Tot Rem Fair val	2203834	200	3428945	29	-1.54	0.13	2407634	191	2691700	45	-0.80	0.42
Board Size	9	176	10	25	-1.40	0.17	9	182	9	37	0.19	0.85
Board Indep	57.37%	169	60.21%	25	-1.07	0.29	61.05%	181	63.13%	37	-0.90	0.37
CEO Own	1.86%	161	1.26%	19	0.39	0.70	1.50%	143	1.27%	28	0.21	0.84

The table reports mean values of all variables (as defined in Appendix 1) for HD and LD FTSE 350 firms at their first and second policy vote during financial years 2013-17. HD (high dissent) and LD (low dissent) firms are defined as firms with voting dissent of more than 20% (less than 5%). It also compares these means and reports t-stats and p-values using two sample t-test.

Appendix 3: *Mean* values of performance and remuneration variables in event time

Event year	-3	-2	-1	0	1	2	3
LD Firms (Obs):	(187-123)	(204-133)	(206-141)	(206-138)	(207-155)	(207-149)	(207-145)
ROA	12.14%	10.66%	11.23%	10.46%	11.15%	10.76%	9.45%
ROE	34.51%	34.44%	35.97%	25.66%	23.90%	26.45%	24.03%
Salary	528312	549616	552718	562618	556909	581045	601593
Bonuses	413467	407488	439951	484628	484641	524752	476872
Benefits	37605	42484	36774	36351	38991	55432	50806
Share Based Pmts	411783	625377	667057	1049622	888369	944356	722071
Pension	194293	258479	212552	163552	132976	148629	131356
Tot Rem Rcvd	1585459	1883444	1909051	2296771	2101886	2254214	1982697
Single Figure	1871626	2255508	2193007	2316285	2095578	2090751	2057449
Tot Rem Face val	2428603	2491033	2381338	2424480	2253319	2547340	2598468
Tot Rem Fair val	2210815	2206079	2029858	2203834	2093434	2317587	2408597
Salary %	44.61%	42.10%	42.21%	41.00%	42.07%	41.04%	43.78%
Bonus %	26.71%	25.12%	24.45%	24.38%	23.87%	23.51%	23.42%
Benefits %	2.89%	2.51%	2.39%	2.27%	2.46%	2.69%	2.59%
Share Pmts %	13.04%	18.34%	20.01%	23.79%	23.89%	25.29%	22.44%
Pensions %	12.75%	11.93%	10.93%	8.56%	7.71%	7.47%	7.77%
HD Firms (Obs):	(29-15)	(29-19)	(29-19)	(29-19)	(30-19)	(29-21)	(29-19)
ROA	13.32%	12.36%	9.66%	7.88%	6.24%	8.38%	6.35%
ROE	30.21%	32.10%	19.58%	4.05%	14.87%	14.21%	15.45%
Salary	526728	517312	516839	562317	561371	615327	676190
Bonuses	911208	780605	682860	789288	952494	1027270	900505
Benefits	85844	54803	101209	149422	263979	260739	289415
Share Based Pmts	1109504	662313	1816468	1429005	1856580	2673614	3926626
Pension	166557	114992	143945	137815	149836	143047	141876
Tot Rem Rcvd	2799842	2130024	3261321	3067847	3784260	4719997	5934612
Single Figure	3626215	3306858	4166256	3505412	4387357	6251599	5955001
Tot Rem Face val	4245956	4263309	3617668	4299823	4567089	5750709	5044908
Tot Rem Fair val	3363701	3094249	2820826	3428945	3622139	4753373	4110373
Salary %	37.52%	41.24%	40.11%	36.64%	33.47%	35.61%	33.98%
Bonus %	31.54%	31.79%	26.00%	26.62%	27.18%	26.41%	24.29%
Benefits %	2.61%	3.19%	3.47%	4.69%	5.86%	5.76%	5.78%
Share Pmts %	21.78%	17.14%	23.75%	26.03%	27.62%	27.05%	31.44%
Pensions %	6.54%	6.64%	6.67%	6.02%	5.87%	5.17%	4.51%

The table reports mean value of all variables (as defined in Appendix 1) for HD and LD FTSE 350 firms in event time (in time series) from year -3 to +3 as compared to the first binding policy vote year 0. HD (high dissent) and LD (low dissent) firms are defined as firms with voting dissent of more than 20% (less than 5%). It also reports the maximum and minimum number of firm year observations available for each event year.