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Say on Pay: do shareholders care?

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Say On Pay: Do Shareholders Care?

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Abstract

This paper examines the impact of enhanced executive remuneration disclosure rules under UK regulations introduced in 2013 on the voting pattern of shareholders. Based on a hand-collected dataset on the pay information disclosed by FTSE 100 companies, we establish that shareholders guide their vote by top line salary, and appear to disregard the remaining substantial body of information provided to them. Analyzing the unique British feature of two votes, one forward looking and one backward looking, we establish that shareholders differentiate between the two dimensions in about 23% of the cases. In contrast to the rationale of the legislation that introduced the two votes, however, differentiating voting behavior is not driven by characteristics of the executive's remuneration policy, but mainly by exceptionally positive future performance expectations.

JEL classifications: G34, G38, K22

Keywords: executive remuneration, say-on-pay, disclosure regulation, shareholder voting

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1. Introduction

In spite of numerous policy initiatives to reform executive remuneration, the compensation packages received by directors of listed companies continue to attract attention and controversy in the UK and abroad (see e.g. Kay 2012; Walker 2009). Recent reform proposals have sought to link variable components of remuneration to the long-term performance of the company by extending vesting periods or suggesting that performance shares should be held for the full duration of the executive's tenure and an additional waiting period of several years (Bhagat and Romano 2010). Others have proposed to avoid reward for failure by providing for more stringent malus and clawback provisions (European Commission 2009) and to give shareholders a wider say on executive pay (Thomas and Van der Elst 2015).

Especially the latter regulatory strategy has remained highly controversial. Nevertheless, policy-makers have moved decisively in this direction in recent years. In the United States, the Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank") introduced the requirement to give shareholders of large public companies an advisory vote on executive remuneration at least once every three years.[1] In the United Kingdom, an advisory vote has existed since 2002.[2] More recently, the UK rules have been amended and now distinguish between two parts of the directors' remuneration report, the "annual report on remuneration", which sets out the payments and benefits received by the directors in the relevant financial year, and the "directors' remuneration policy", which describes the operation of the

[1] Section 951 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, adding Section 14A to the Securities Exchange Act 1934.

[2] Companies Act 2006, s. 439(5).

individual components of the directors' remuneration package for future years. The advisory vote has been retained for the annual report on remuneration and supplemented by a binding vote on the forward-looking remuneration policy every three years.[3] In a number of other countries, we find legal requirements similar to those of the US and UK, for example Australia and Sweden, and in many countries the corporate governance code requires an advisory shareholder vote on a comply-or-explain basis. An overview of the different regulatory requirements in a cross-section of jurisdictions is given by Thomas and Van der Elst (2015).

The academic debate surrounding these regulatory initiatives can be roughly divided into three strands. First, from a theoretical angle, it has been argued that a binding shareholder vote on a proposed compensation package would significantly impede a company's ability to hire and retain highly qualified senior executives (Gordon 2005). Even an advisory vote that does not affect the director's entitlement under law is seen as problematic because of the institutional diffusion of shareholders in some jurisdictions, limiting their capacity to act collectively, and the informational disadvantage from which their decisions potentially suffer (Bainbridge 2009).

Second, some empirical studies investigating the effect that say-on-pay regulation has on compensation practices find that the level of executive pay declined in some countries after the introduction of an advisory shareholder vote (Tröger and Walz 2014) and controversial pay practices regarded as rewards for failure, such as generous termination payments, were removed in response to a high level of shareholder dissent (Ferri and Maber 2013). However, others are more cautious in their assessment of the reforms, pointing out that while markets reacted positively to

[3] Companies Act 2006, s. 439A.

the introduction of an advisory shareholder vote, activist campaigns to change remuneration policies often target firms that do not overpay their CEOs and do not suffer from weak governance. Instead, these campaigns seem to be driven by special interests or activist shareholders that have difficulties to assess whether pay levels are adequate (Caia and Walkling 2011).

Third, several studies investigate the determinants of the shareholder vote on executive pay. Not surprisingly, studies find a negative correlation between firm performance and shareholder dissent in the general meeting voting on the remuneration package (Cotter, Palmiter and Thomas 2013), and a positive correlation between the amount of CEO pay and shareholder dissent (Conyon and Sadler 2010). It has also been shown that the recommendations of proxy advisory firms have a significant impact on voting outcomes, and features of executive compensation identified as good governance by proxy advisors are accordingly taken into account when boards design compensation programs (Larcker, McCall and Ormazabal 2015).

This article is in the tradition of the third strand of research. It contributes to the literature by focusing not only on financial data that captures firm characteristics or top-line salary figures, but also exploiting the wealth of detailed information about the structure and operation of executive remuneration that listed UK companies had to disclose for the first time for financial years ending on or after 30 September 2013. Under the new regulations, annual general meetings have to pass two resolutions – the approval of the annual report on remuneration and the directors' remuneration policy. The two parts of the directors' remuneration report have to contain clearly specified, distinct sets of information. In an efficient market, we would expect the vote on the annual report on remuneration to be responsive to the information contained in that part of the remuneration report, in particular the amount of remuneration received by

executives in the past financial year, and the vote on the remuneration policy report to be responsive to differences in how the compensation package is structured and the policy intended to apply in future years. In other words, we would expect shareholders to penalize excessively high remuneration packages with the first (advisory) vote, and badly structured compensation packages, for example because they do not rein in reward for failure, with the second (binding) vote. In an efficient market, we would also expect shareholders to be able to distinguish between compensation arrangements not only based on top-line salary figures, but also narrative information that requires interpretive assessment of the item of disclosure, similar to the evaluation of governance rules.[4]

Our findings indicate, however, that this is not the case in the context of say-on-pay. Both the vote on the annual report on remuneration and the vote on the directors' remuneration policy seem to be driven by one factor: the amount of remuneration that the CEO received in the last financial year and the remuneration opportunity that the CEO has in future years, respectively. The backward-looking figure can be ascertained easily by consulting the so-called "single total figure table", which is required by regulation and must set out, in a prescribed format, the total amount of salary and fees received by the CEO, taxable benefits, bonus and long-term incentives, as well as pension entitlements.[5] Likewise, the remuneration opportunity of the CEO in future years is depicted graphically in bar charts indicating the level of remuneration that would be received by the CEO under the remuneration policy

[4] It is widely acknowledged that the market assesses and reacts to changes in governance arrangements, see for example Chhaochharia and Grinstein (2007), Durnev and Kim (2005), Klapper and Love (2004).

[5] The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Statutory Instrument 2008 No. 410, Schedule 8, paragraphs 4-7, as amended by the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations, Statutory Instrument 2013 No. 1981.

described in the annual report if the relevant performance targets were met or exceeded.[6] Again, the regulations prescribe in detail both the type of information to be disclosed and the format in which it has to be presented. In particular, the regulations provide that the bar charts must contain three separate parts representing salary, fees, benefits, and pension entitlements, short-term performance-based remuneration and payments under long-term incentive plans. Each bar must show the percentage of the total comprised by each of the parts and the total value of remuneration expected.[7] Thus, both the amount of backward-looking and forward-looking remuneration is represented by a single figure in the annual report.

The single total figure table and the scenario bar charts are embedded in a raft of additional information, which are mostly in a narrative form in the case of the policy report. We code several important structural features described in the remuneration policy report concerning the operation of long-term incentive plans (vesting period and the percentage of the total award that vests at the minimum vesting period, the length of any additional retention period and the percentage of the award subject to the additional holding period, and the sensitivity of performance measures to the profitability of the company) and reward for failure (circumstances in which the remuneration committee intends to reduce unpaid or unvested components of remuneration and claw back paid or vested components). As opposed to the single total figures, we find no evidence that any of the structural features have a significant impact on the voting decisions of shareholders, which may indicate that shareholders are less concerned about the operation of the compensation package than the top-line amount received by the CEO, or that the form in which information is presented to

[6] Ibid., paragraphs 33-35.

[7] Ibid., paragraph 34(3).

investors is a relevant factor in shareholder-decision-making on the remuneration report.

The remainder of the article is organized as follows. Section 2 gives a more detailed overview of the regulatory regime governing executive remuneration in listed companies in the UK and describes how we make use of the extensive disclosures required under the new regulations to assess differences in compensation practices. Section 3 presents our data and econometric specification. Section 4 discusses our findings, and Section 5 concludes.

2. UK Regime for Quoted Companies

In the UK, the first steps towards a comprehensive regulation of executive remuneration were taken with the Directors' Remuneration Report Regulations 2002.[8] The Regulations introduced the requirement that directors of a quoted company prepare a directors' remuneration report for each financial year and lay the report before the general meeting for shareholder approval.[9] The shareholder vote was designed as an advisory vote, and remuneration decisions were not conditional upon the resolution being passed.[10] These cautious innovations were aimed at improving shareholder engagement. They produced a number of high-profile shareholder revolts,[11] and data indicate that shareholder votes on the remuneration report regularly attract more dissent than other resolutions. However, the effectiveness of the advisory

[8] Statutory Instrument 2002 No. 1986.

[9] The obligations are now contained in ss. 420-422 and s. 439 Companies Act 2006.

[10] Companies Act 2006, s. 439(5).

[11] The first instance in which shareholders rejected the board's remuneration was GlaxoSmithKline in 2003.

vote is controversial, given that the proportion of votes rejecting the report is generally not high in absolute terms and outright rejections are rare.[12] Conyon and Sadler (2010) argue that the advisory vote has led to more shareholder involvement in the run-up to a vote, which may explain the low level of dissent in the general meeting. On the other hand, the government pointed out that management failed to respond to substantial shareholder opposition in a constructive way in a significant number of cases.[13]

In response to the perceived failure of the advisory vote to produce a tangible impact on executive remuneration, the legislator amended the relevant provisions of the Companies Act 2006 again in 2013. The Act now provides for both an advisory vote on the annual remuneration report and a binding vote on the directors' remuneration *policy*.[14] The remuneration policy, defined as "the policy of a quoted company with respect to the making of remuneration payments and payments for loss of office",[15] must be contained in a separate part of the directors' remuneration report,[16] which is now accordingly often divided into a part setting out the company's remuneration policy in relatively general terms and a part describing the implementation of the policy in the current and past years. The content of the remuneration policy is laid

[12] Conyon and Sadler (2010) find that average dissent, defined as abstention or a vote against the remuneration report resolution, was only 7-10 percent over the sample period. Ferri and Maber (2013) show that the introduction of the advisory say on pay increased the sensitivity of CEO pay to poor performance, but did not change the growth rate of CEO pay.

[13] Department for Business, Innovation & Skills (2012), p. 11, report a number of cases where opposition in excess of 30 percent did not lead to any adjustment of the remuneration packages but was rather dismissed without serious discussion by management.

[14] Companies Act 2006, s. 439A, inserted by the Enterprise and Regulatory Reform Act, 2013 c. 24, s. 79. For a discussion of the reforms see Farmer et al. (2013) and Gerner-Beuerle (2015).

[15] Companies Act 2006, s. 226A(1).

[16] Ibid., s. 421(2A).

down in considerable detail in a statutory instrument,[17] which requires that the remuneration report contain a description in tabular form of the components of the executive and non-executive directors' remuneration package, including the maximum that may be paid in respect of each component, the framework used to assess performance, and arrangements for the reduction or recovery of payments,[18] a description of the principles applicable to the recruitment of directors and the termination of the directors' employment,[19] illustrations of the application of the remuneration policy in the form of a bar chart indicating the level of remuneration received under different performance scenarios,[20] and a statement explaining how pay and employment conditions of other employees were taken into consideration when determining executive pay.[21] These rules on the content of the remuneration policy are enforced by the requirement that payments actually made to directors must be either consistent with the remuneration policy or approved separately by a resolution of the shareholders.[22] The same applies to loss of office payments.[23]

Some uncertainty exists how the new rules are to be interpreted, in particular as far as the requirement is concerned that the "extent" of any discretion of the remuneration committee with regard to the remuneration policy must be clearly set out in the policy.[24] Companies sometimes simply note that the remuneration committee will exercise judgment if necessary to achieve a stated objective, without specifying *how*

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[17] The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations, Statutory Instrument 2013 No. 1981, Part 4.

[18] Ibid., paragraphs 26-27.

[19] Ibid., paragraphs 29-32, 36-37.

[20] Ibid., paragraphs 33-35.

[21] Ibid., paragraphs 38-39.

[22] Companies Act 2006, s. 226B.

[23] Ibid., s. 226C.

[24] 2013 Regulations, supra n 17, paragraph 24.

discretion will be exercised or indicating triggering events that will lead to a particular decision.[25] In spite of these uncertainties, the regulations are useful in producing a high level of comparability of disclosures, which we utilize to develop a metric that assesses the approach companies take to structuring executive compensation.

Because of the wide discretion that the remuneration committee retains and a relatively high level of uniformity in treating particular aspects of remuneration, not all items of disclosure mentioned above are equally suitable to being included in our metric. An area where the remuneration committee retains wide discretion is the determination of recruitment remuneration and arrangements for the termination of the directors' service contracts. As required by regulation, recruitment remuneration is subject to the general maximum levels that apply under the company's remuneration policy,[26] but remuneration committees usually point out that they need to have the flexibility to offer competitive salary levels and compensate the newly appointed director for forfeited remuneration.[27] Likewise, the treatment of deferred bonus payments and conditional share awards is typically at the discretion of the remuneration committee when the director's employment is terminated. The committee will usually consider factors including the circumstances under which the director left the company, the director's performance during the performance cycle of

[25] See, for example, the provision on malus and clawback in Vodafone's remuneration policy, Annual Report 2014, p. 71: "[T]he Remuneration Committee … has full discretion to adjust the final payment or vesting downwards if they believe circumstances warrant it. In particular, the Committee may use discretion to clawback any unvested share award (or vested but unexercised options) as it sees appropriate, in which case the award may lapse wholly or in part, may vest to a lesser extent than it would otherwise have vested or vesting may be delayed."

[26] 2013 Regulations, supra n 17, paragraph 29.

[27] A typical formulation if the following from BP Annual Report 2013, p. 105: "The committee expects any new executive directors to be engaged on terms that are consistent with the policy as described on the preceding pages. The committee recognizes that it cannot always predict accurately the circumstances in which any new directors may be recruited. The committee may determine that it is in the interests of the company and shareholders to secure the services of a particular individual which may require the committee to take account of the terms of that individual's existing employment and/or their personal circumstances."

the respective award, and the proximity of the award to its maturity date.[28] Some companies use the concepts of "good leaver" and "bad leaver" to determine whether the annual bonus and incentive awards should be preserved,[29] others provide that directors forfeit any outstanding payments if their employment is terminated "for cause".[30] In their content, these approaches do not differ much, which suggests that they will be unable to explain the variation in voting outcomes on resolutions approving the remuneration report.[31] We observe the same lack of variation with regard to notice periods, with virtually all companies now providing that the directors' service contracts can be terminated by giving 12 months' notice.[32]

We do however find considerable variation in the design of incentive plans: the maximum that is available under the plan and how it compares to the director's fixed salary, the type of performance targets used by the company, vesting and retention periods, as well as the percentage of the total award vesting and having to be retained by the director. These features of the directors' remuneration policy can be coded easily since they are expressed in unambiguous terms in the so-called "future policy table" mandated by regulation.[33]

Another set of items conducive to coding are malus and clawback arrangements. While remuneration committees benefit again from overriding discretion in order to

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[28] See, for example, BP Annual Report 2013, pp. 105-106.

[29] For example, HSBC Annual Report 2013, p. 392; Tesco Annual Report 2013, p. 60; Unilever Annual Report 2013, p. 70.

[30] For example, Prudential Annual Report 2013, pp. 104-105.

[31] Compare the definition of "Bad leaver" and "Good leaver" in Glencore Xstrata Annual Report 2013, p. 101 (a director who leaves for disciplinary reasons is considered to be a bad leaver, and someone who leaves due to serious ill health or death as good leaver), with the termination payments in Wm Morrison Annual Report 2013/14, p. 66: Incentive awards lapse in circumstances described as "Resignation or gross misconduct", and they are preserved if termination is the result of "Injury, disability or death/retirement, redundancy or ill health".

[32] 2013 Regulations, supra n 17, paragraph 36.

[33] Ibid., paragraphs 25-28.

be able to react to unforeseen developments affecting the adequacy of pay levels, many companies seek to satisfy the requirement of the "say-on-pay" regulations to "clearly set out the extent of [the remuneration committee's] discretion in respect of any … variation, change or amendment" of the remuneration policy.[34] They therefore usually establish certain guidelines or expectations that sums receivable by directors will be withheld or paid sums will be recovered in specified circumstances.[35] The former is typically called a "malus" provision and the latter "clawback", although the terminology is not always consistent.[36] We can distinguish between remuneration policies containing only a malus provision (understood as relating to incentive awards not yet paid or vested, irrespective of the terminology used by the company), but no clawback, companies providing for both malus and clawback, and companies providing for neither.

We can distinguish further between companies by examining how the events put forward as typical malus or clawback scenarios are formulated. We find that all companies that use malus or clawback qualify serious misconduct of the director or material misstatements in the company's financial results as events ordinarily leading to a reduction in incentive awards, potentially to nil. We can see a certain variation in how the remuneration committee's response is defined in such circumstances, with

[34] Ibid., paragraph 24(4).

[35] In some companies, the discretion of the remuneration committee is not circumscribed further, see, e.g., Vodafone Annual Report 2014, p. 71: "[T]he Remuneration Committee reviews the incentive plan results before any payments are made to executives or any shares vest and has full discretion to adjust the final payment or vesting downwards if they believe circumstances warrant it. In particular, the Committee may use discretion to clawback any unvested share award (or vested but unexercised options) as it sees appropriate". If this is the case, we treat the company as having no malus or clawback arrangement in place, since the reference to the potential clawback of awards does not add any information beyond the default position that remuneration committees have wide discretion.

[36] Some companies use the term "clawback" to describe the power of the remuneration committee to reduce *unvested* awards or deem them to have lapsed in reaction to an event between granting and vesting, and they do not stipulate any further explicit powers to claw back vested awards, see, e.g., SEE Annual Report 2014, p. 80.

some companies merely reiterating the "ability" of the committee to determine adjustments,[37] whereas others emphasize that malus and clawback shall be confined to "exceptional situations",[38] but these differences in formulation do not change the fact that the remuneration policy gives rise to certain expectations when directors will use their discretion to adjust remuneration and when they will not do so, which we can expect shareholders to take into consideration.

Of the companies providing for well-defined malus and clawback provisions (85% and 49% of the full sample, respectively), a number go beyond applying the mechanisms in the limited circumstances described above (18% and 12%, respectively). They adopt a broader definition of the triggering event that includes detrimental developments that cannot be traced back directly to a particular illegal or (grossly) negligent action of the directors, notably negative financial performance of the company. For regulatory reasons, such a broad definition is employed mainly by credit institutions,[39] but it can also be found in the remuneration policies of

[37] Anglo American Annual Report 2013, p. 121: 'The Committee is able to reduce any unvested awards, vested awards subject to a holding period or future grants in the event of a material misstatement in the Company's results …'.

[38] Rolls-Royce Annual Report 2013, p. 57: 'Malus and/or clawback provisions may apply in exceptional cases such as: material misstatement of results; a material failure of risk management; serious reputational damage; serious individual wrongdoing such as non-compliance with the Company's Code of Conduct; or gross misconduct.'

[39] In the EU, the Capital Requirements Directive (CRD IV), Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms [2013] OJ L176/338, provides that "the total variable remuneration shall generally be considerably contracted where subdued or negative financial performance of the institution occurs, taking into account both current remuneration and reductions in payouts of amounts previously earned, including through malus or clawback arrangements. Up to 100% of the total variable remuneration shall be subject to malus or clawback arrangements. Institutions shall set specific criteria for the application of malus and clawback. Such criteria shall in particular cover situations where the staff member: (i) participated in or was responsible for conduct which resulted in significant losses to the institution; (ii) failed to meet appropriate standards of fitness and propriety", Art. 94(1)(n). These legal requirements have been implemented by credit institutions by formulating, for example, that "past performance being materially worse than originally understood" should qualify as a possible malus event (HSBC Annual Report 2013, p. 388).

nonfinancial corporations.[40] Table 1 defines the variables that we use to assess the companies' approach to remuneration.

< Table 1 about here >

3. Data and Econometric Specification

Our sample consists of all FTSE100 companies as of December 2013. The Legal variables were hand-collected from annual accounts for the first full financial year after the introduction of the new "say for pay" regulations (typically 2013) and are coded as described in Section 2 above. We are interested in understanding the determinants of the shareholder vote on the remuneration policy report and the annual report on remuneration, our two dependent variables. The shareholder vote on the remuneration policy report – labelled Votes (Policy) – sets out the remuneration strategy for the firm going forward, while the annual report on remuneration – Votes (Report) – asks shareholders to vote on the remuneration of the executive directors for the past financial year. Hence, the variables derived from the annual report on remuneration (current total remuneration, the three variables capturing the individual components of the remuneration package, and the variable labelled "Above Index") are contemporaneous, while the variables coding the information contained in the policy report (all variables in Table 1 designated as "Max … Opportunity") are forward-looking.

[40] An example is Rio Tinto's malus provision, which applies, in addition to instances of misconduct, to "exceptional events that have a materially detrimental impact on the value of any Group company" (Rio Tinto Annual Report 2013, p. 71).

Summary statistics of all compensation variables, together with financial and ownership data, are depicted in Table 2. Financials and ownership data were collected for the reporting period from CapitalIQ. Ownership variables report the stake of the particular type of investor, or the aggregate stake of the largest three shareholders as "Top3". Bank is a dummy variable that takes the value of one if the firm holds a banking license. The incorporation dummies indicate the country of incorporation, with the UK as the omitted variable. Tobin Q is calculated as market capitalization plus the difference between total assets and total equity over total assets. Values are converted at market exchange rates for those firms that do not report in GBP.

< Table 2 about here >

In Table 3, we are interested in understanding the determinants that make shareholders approve the remuneration policy report on which shareholders have to vote under the "say-for-pay" regulations. For this, we regress in the cross-section the voting outcome (Votes (Policy)) on the log of the maximum remuneration a CEO can achieve in the future, based on the assumption that the directors' remuneration policy enters into effect and all performance targets are met. Exceptional event is a dummy variable that equals one if the CEO did not receive any long-term incentive payment in the last financial year. This may be due to performance criteria not being met, the CEO forfeiting his right to performance-related pay because the company was otherwise in an exceptional situation (for example, it experienced intense public scrutiny of its remuneration practices), or the company was transitioning to a new CEO. In these cases, total remuneration of the CEO will necessarily be relatively low, but shareholders may disapprove of the remuneration report because they are influenced by the situation that resulted in the forfeiture of the incentive award.

In addition, the models include the legal pay-related variables listed in Table 1 and a vector of financial controls, as well as the bank and incorporation dummies. Table 4 includes additional ownership controls:

$$\text{Votes (policy)} = \delta_0 + \delta_1 \log(\text{Max Total Opportunity}) + \delta_2 \text{ Crisis} + \delta_3 \text{ Incorporation} + \theta_1 \text{PayComponents} + \theta_2 \text{Ownership Controls} + \theta_3 \log(\text{Financial Controls}) + \delta_3 \text{Bank} + \varepsilon$$

Tables 5 and 6 are symmetric in specification to Tables 3 and 4, only that we use the shareholder vote on the annual report on remuneration (Votes (Report)) as dependent variable. Tables 7 and 8 again take Tables 5 and 6 as a basis, but the models are modified in two respects to provide for additional robust checks. First, we run the same regressions as above, but exclude the exceptional event dummy; second, we regress the voting outcome not on the CEO's total remuneration, but on the individual components of remuneration, distinguishing between fixed salary, bonus (short-term incentive pay), and long-term incentive remuneration.

Tables 8 and 9 aim to understand the determinants of deviating voting behavior for Votes(Policy) and Votes(Report). For this we construct two dummy variables that take the value of one if the approval rating for Votes Policy and Votes Report, respectively, are half a standard deviation above the mean difference between the two. The two indicator variables are subsequently called *Vote on Report Higher* and *Vote on Policy Higher*.

To investigate the role of remuneration and firm characteristics on deviating voting behavior we estimate the following model:

$$\Pr(Y_i = 1|x_i) = \Phi(x_i\beta),$$

where Y_i is an indicator variable that takes the value of 1 if the votes on the policy or annual report were higher as described above, x_i is a vector of firm characteristics, β is a vector of parameters to be estimated, and Φ is the standardized normal cumulative distribution function (i.e. a Probit model). We do not report the estimates for the vector β; instead, we always report estimated marginal effects evaluated at the means of the data, so that the reported estimates can be readily interpreted and compared.

4. Analysis

Table 3 depicts the core results of the determinants of the shareholder vote, called "Votes (Policy)", on the remuneration policy report. We see that the total remuneration opportunity of the CEO under maximum performance level assumptions is negatively correlated with a higher vote on the remuneration policy report in the annual general meeting. This correlation, represented as an added variable plot in Graph 1, is highly significant and robust to different model specifications. It is economically meaningful with a larger beta coefficient (in absolute terms) than any other covariate apart from the exceptional event dummy. The findings are also not driven by individual observations. The observation with the largest influence is Reckitt Benckiser, where the vote on the directors' remuneration policy elicited a relatively low approval level of 80%, falling within the lowest decile of the sample. Exclusion of this observation does not change the significance level, and neither does the exclusion of any other observation that shifts the coefficient on the total remuneration opportunity by more than 0.2 standard deviations.

The only other statistically significant variables are what we call “Exceptional event” and the incorporation dummy for Switzerland. The results on incorporation in Switzerland are driven by one firm, Coca-Cola HBC AG, and can be disregarded. The highly negative and statistically significant association between the exceptional event dummy and the voting outcome indicate that shareholders disapprove of the CEO’s future remuneration for reasons that resulted in the forfeiture of the CEO’s long-term incentive pay in the last financial year. This association is somewhat surprising since the vote on the remuneration policy relates to the structure of future compensation, whereas the vote on the annual remuneration report should fully take into account past events. An explanation may be that shareholders use their vote on pay structure as an additional penalizing mechanism, because they may feel that the advisory vote on the annual remuneration report and other governance structures providing for shareholder voice are insufficient.

The main message of this table is that shareholders focus on the top-line remuneration figure when deciding how to vote at the annual general meeting and disregard the wealth of information that is provided to them under the newly adopted “say-on-pay” regulations. None of the variables that capture the various aspects of the CEO’s remuneration package seems to influence the voting behavior of shareholders significantly. This holds both for information that requires a certain degree of interpretation, for example the definition of events giving rise to malus or clawback, and information that is easily accessible and can be processed quickly because it is provided in numerical form or presented graphically, such as the comparison graphs showing historical TSR performance plotted against the performance of a peer group or the FTSE 100.

Arguably, these items of disclosure should have a higher informational value for shareholders than the bar charts depicting the CEO's remuneration opportunity, because the regulations leave companies discretion in how to calculate the remuneration opportunity, provided the basis of the calculation and the assumptions are disclosed.[41] The overall remuneration opportunity as such, therefore, is not a particularly meaningful figure. An accurate picture of the adequacy of the compensation package can only be obtained if the amount of remuneration is seen in relation to the performance targets used by the company and the likelihood that these targets will actually be achieved.

< Table 3 about here >

< Graph 1 about here >

Table 4 takes the analysis further and introduces a raft of ownership variables on top of the full specification model of Table 3. We find that our results are robust to a variety of ownership variables and are not driven by investor structure. In the full model (equation (14)), two investor types are statistically significantly associated with the voting outcome: sovereign wealth funds and government institutions owning shares directly ("Ownership (state)"). These associations are driven by individual observations (in the case of state ownership, Royal Bank of Scotland is the most important outlier, shifting the coefficient on the ownership variable by almost 7 standard deviations). Therefore, general conclusions cannot be derived from these findings.

< Table 4 about here >

[41] 2013 Regulations, supra n 17, paragraph 35.

Table 5 aims to understand the determinants of the shareholder vote for the annual report on remuneration, Votes (Report). Unlike Table 3, to which Table 5 is symmetrical, shareholders are asked to cast a vote on the annual report on remuneration for the past financial year. The results are strikingly similar to what we have observed before. Again, the total amount of remuneration is significantly and negatively associated with the level of shareholder approval of the annual report on remuneration, as is the case with the exceptional event variable. None of the structural features of the remuneration policy appears to have a significant influence on the voting outcome. This is less surprising here than in the regressions with Votes (Policy) as dependent variable, since the vote on the annual report on remuneration is intended to approve or reject the compensation awarded for past performance, and not to evaluate the structure of the directors' forward-looking remuneration policy. However, the absence of a significant association holds not only for the policy structure variables, but also the "Above Index" dummy, which is contained in the annual report on remuneration and depicts information on past firm performance.

< Table 5 about here >

The inclusion of ownership variables in Table 6 does not change the results. We find again that the significant association, here between the voting outcome and ownership by venture capitalist or private equity firms, is driven by one observation, Reckitt Benckiser, with a VC/PE stake of almost 11%.

< Table 6 about here >

As a robustness test, we run the baseline regressions without the exceptional event dummy and break the headline total remuneration figure down in its sub-components of fixed salary, bonus pay, and LTIP in Table 7 (for Votes (Policy)) and Table 8 (for

Votes (Report)). For the vote on the directors' remuneration policy, we observe that – with the exception of model 9 – our results hold, with shareholders focusing specifically on the level of the bonus opportunity.

< Table 7 about here >

On the other hand, Table 8 shows that our findings regarding the voting outcome on the annual remuneration report are sensitive to the inclusion of the exceptional event dummy. This difference to the models in Table 7 is not surprising. An affirmative vote on the remuneration report is positively correlated with the amount of long-term incentive remuneration received by the CEO, whereas an affirmative vote on the remuneration policy is negatively correlated with the CEO's LTIP opportunity under the policy, and the same holds for the voting outcomes and all other components of remuneration. The positive reaction of shareholders to high LTIP payments contradicts the finding, documented in the remaining models presented here and in other research (Conyon and Sadler 2010), that higher executive pay is associated with higher shareholder dissent. It implies that the coefficient on LTIP in the models with Votes (Report) as dependent variable picks up idiosyncratic factors (going beyond negative financial performance, for which we control independently) that result in the forfeiture of the incentive pay and influence the shareholders' decision to approve the remuneration report. In models regressing voting outcomes on current pay, it is therefore important to control for these factors.

< Table 8 about here >

In order to explore the determinants of deviating voting behavior by shareholders further, we define an indicator variable that takes the value of one if the vote on the policy report minus the vote on the annual remuneration report is greater than the

mean difference between the two votes plus half a standard deviation. We regress the dichotomous indicator on variables capturing the actual remuneration of the CEO and the CEO's remuneration opportunity, as well as the other explanatory variables from above (Table 9). The most important factor influencing the likelihood that the vote on the policy report is significantly higher than the vote on the annual remuneration report – which is the case in 13% of all votes – is the expected future financial performance of the firm, measured as Tobin's Q. Since the level of long-term performance incentive pay depends on firm performance, it is not surprising that the coefficient on LTIP opportunity is also positively associated with a higher likelihood that shareholders approve the policy report with a higher vote than the annual remuneration report.

< Table 9 about here >

Table 10 depicts results of regressions using the same model specification, but with an indicator variable taking the value of one if the approval rate for the annual remuneration report minus the approval rate for the policy report is more than half a standard deviation higher than the mean difference between the two (which we observe in 10% of all cases). The only significant result is the positive impact of dominant owners on the approval of the annual report versus the policy report. This is in line with previous findings (Tables 5 and 6) and may indicate that past remuneration payments are less strictly scrutinized if large shareholders have dominant influence in the firm.

< Table 10 about here >

5. Conclusion

In this paper, we analyze whether the mandatory remuneration disclosure requirements introduced recently in the UK affect the likely outcome of shareholder votes on the forward-looking directors' remuneration policy and the backward-looking annual remuneration report. We find that the detailed information provided to shareholders is widely disregarded, calling into question whether the additional regulatory burden imposed by the legislator, and the costs associated with it, are justified.

Disentangling a number of disclosure items and components of executive pay, we find that the only variables of importance are the amount of current pay and the level of the CEO's remuneration opportunity. The remaining items of disclosure capturing different structural features of the company's remuneration policy are all insignificant.

Uniquely in Britain, shareholders have two votes, one backward looking on the annual report, and one forward looking in the form of a vote on the remuneration policy. In analyzing deviations in voting behavior between the two votes – which is the case in 23% of all votes in aggregate – we observe that shareholders do differentiate between the votes. However, the reasons for differentiating voting behavior are not necessarily in line with the rationale of the regulations that introduced the two votes. Deviation in favor of the future remuneration policy is driven by high expectations of future financial performance, but not by the structural characteristics of executive remuneration as disclosed in the policy report. On the other hand, deviations in favor of the annual report seem to be influenced by the presence of dominant owners in the firm.

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Table 1: Legal Variables

Variable	*Description*
Votes (Policy)	Shareholder vote for the remuneration policy report (%)
Votes (Report)	Shareholder vote for the annual report on remuneration (%)
Votes on Policy Higher	=1 if the vote on the policy report minus the vote on the annual remuneration report is more than half a standard deviation greater than the average difference between the two votes.
Votes on Report Higher	=1 if the vote on the annual remuneration report minus the vote on the policy report is more than half a standard deviation greater than the average difference between the two votes.
Current Total Remuneration	Total remuneration of the CEO in million pounds sterling (fixed and variable elements and pension entitlements). Source: Annual report on remuneration, single figure table
Current Fixed Salary	Fixed salary of the CEO in million pounds sterling (base salary and benefits). Source: Annual report on remuneration, single figure table
Current Bonus	Annual bonus of the CEO in million pounds sterling (bonus payments not subject to deferral). Source: Annual report on remuneration, single figure table
Current LTIP	Entitlements under long-term incentive plans of the CEO in million pounds sterling (deferred bonus payments, matching awards, performance share plans and share option plans). Source: Annual report on remuneration, single figure table
Above Index	=1 if growth in the value of a hypothetical £1 of the company's equity over a five year period would have outperformed the comparator TSR index; =0 if performance is equal to or below comparator index performance. If the company uses both an industry-specific and a general index (e.g. FTSE100), coding is based on performance against the industry-specific index. Source: Annual report on remuneration, historical TSR performance
Max Total Opportunity	Total remuneration opportunity of the CEO in million pounds sterling under maximum performance level assumptions. Source: remuneration policy report, scenario charts
Max Fixed Opportunity	Fixed salary opportunity of the CEO in million pounds. Source: remuneration policy report, scenario charts
Max Bonus Opportunity	Annual bonus opportunity of the CEO in million pounds sterling under maximum performance level assumptions (bonus payments not subject to deferral). Source: remuneration policy report, scenario charts
Max LTIP Opportunity	Long-term incentive plan opportunity of the CEO in million pounds sterling under maximum performance level assumptions (deferred bonus, matching awards, performance share plans and share option plans). Source: remuneration policy report, scenario charts
Hard Performance Measure	Percentage of LTIP entitlements conditional on hard performance measures, defined as performance measures

	derived from market or accounting data that are sensitive to the company's profitability or industry-specific quantitative measures (EPS, TSR, ROACE, RORWA, ROE, FCF, CPS, cost-income ratio, profits). Source: remuneration policy report
LTIP Vesting Period	Vesting period in years until vesting of first tranche of long-term incentive award. Source: remuneration policy report, future remuneration policy table
LTIP Vesting Percent	Percentage of total long-term incentive award that vests at minimum vesting period (provided performance measures are met). Source: remuneration policy report, future remuneration policy table
LTIP Retention Period	Further holding period for shares in years after vesting of LTIP awards (we assume the directors' shareholding requirements have been satisfied and record only general retention periods for all long term inventive awards); =10 if the shares must be retained for the duration of the participant's employment. Source: remuneration policy report, future remuneration policy table
LTIP Retention Percent	Percentage of total long-term incentive award subject to further holding period. Source: remuneration policy report, future remuneration policy table
Misconduct Malus	=1 if reduction of unpaid bonus and/or unvested long-term incentive awards is possible in circumstances that include at least serious/significant misconduct (e.g. violation of law or code of conduct or restatement of financial results due to non-compliance with a financial reporting requirement); =0 otherwise. Source: remuneration policy report
Performance Malus	=1 if reduction of unpaid bonus and/or unvested long term incentive awards is possible in further clearly specified circumstances going beyond those listed under 'Misconduct Malus' (in particular negative financial performance not due to serious misconduct); =0 otherwise. Source: remuneration policy report
Misconduct Clawback	=1 if clawback of paid out bonus and/or vested long-term incentive awards is possible in circumstances that include at least serious/significant misconduct (e.g. violation of law or code of conduct or restatement of financial results due to non-compliance with a financial reporting requirement); =0 otherwise. Source: remuneration policy report
Performance Clawback	=1 if clawback of paid out bonus and/or vested long term incentive awards is possible in further clearly specified circumstances going beyond those listed under 'Misconduct Clawback' (in particular negative financial performance not due to serious misconduct); =0 otherwise. Source: remuneration policy report

Table 2: Summary Statistics

	Summary Statistics				
Variable	*mean*	*st. dev.*	*min*	*max*	*n*
Current Total Remuneration	4.48	3.65	0.15	29.85	100
Current Fixed Salary	0.93	0.36	0.15	2.31	100
Current Bonus	1.02	0.97	0.00	6.40	100
Current LTIP	2.18	2.88	0.00	22.70	100
Max Total Opportunity	5.79	3.36	0.39	19.26	100
Max Fixed Opportunity	1.27	0.65	0.15	4.21	100
Max Bonus Opportunity	1.62	1.03	0.00	6.29	100
Max LTIP Opportunity	2.89	2.40	0.00	13.51	100
Exceptional event	0.25	0.44	0	1	100
Above Index	0.73	0.45	0	1	100
Hard Performance Measure	87.01	19.99	0.00	100.00	96
LTIP Retention Percent	29.36	43.60	0.00	100.00	97
LTIP Retention Period	0.69	1.31	0.00	10.00	97
LTIP Vesting Percent	92.82	18.23	25.00	100.00	97
LTIP Vesting Period	3.18	0.58	1.00	5.00	97
Misconduct Clawback	0.49	0.50	0	1	99
Misconduct Malus	0.86	0.35	0	1	99
Performance Clawback	0.06	0.24	0	1	99
Performance Malus	0.15	0.36	0	1	99
Largest Stakes (Top3)	21.28	15.31	0.68	83.10	95
Ownership (banks)	3.32	2.09	0.00	12.44	95
Ownership (endowment)	0.09	0.43	0.00	2.89	95
Ownership (ESOPs)	0.67	1.27	0.00	10.25	95
Ownership (families)	0.08	0.19	0.00	0.97	95
Ownership (hedge funds)	0.35	2.91	0.00	9.87	95
Ownership (insiders)	2.94	9.69	0.00	55.74	95
Ownership (insurance)	0.14	0.23	0.00	1.20	95
Ownership (investment funds)	62.28	20.39	0.26	91.96	95
Ownership (pensions)	0.69	0.89	0.00	5.81	95
Ownership (SWF)	1.68	3.20	0.00	25.18	95
Ownership (state)	2.09	7.57	0.00	74.05	95
Ownership (VC/PE)	0.54	1.68	0.00	10.83	95
Bank	0.05	0.22	0	1	100
Incorporated - Channel Islands	0.08	0.27	0	1	100
Incorporated - Ireland	0.01	0.10	0	1	100
Incorporated - Switzerland	0.01	0.10	0	1	100
TobinQ	2.07	1.51	0.90	9.59	100
Net income	1,515	6,320	-8,597	59,254	100
Total assets	88,604	252,163	530	1,612,541	100

Note: Legal variables are hand collected from annual accounts. Financials and ownership data are from CapitalIQ. Compensation variables from Current Total Remuneration to Max LTIP Opportunity are in million GBP. Legal and compensation variables are described in detail in Table 1 above. Ownership variables report the stake of the particular type of investor, or the aggregate stake of the largest three shareholders under Top3. Exceptional event is a dummy variable that takes the value of one if the CEO did not receive any long term incentive payment in the last financial year, incorporation dummies indicate the county of incorporation where the firm is only listed but not incorporated in the United Kingdom, a above index dummy which takes the value of one if the company has outperformed the comparator TSR index. Net income and total assets are in million GBP. TobinQ is calculated as market capitalisation plus the difference between total assets and total equity over total assets. Bank is a dummy describing if the firm is a bank, and the incorporation dummies indicate the incorporation state if the firm is not incorporated in the United Kingdom.

Table 3: Votes on the Remuneration Policy Report - Core Results

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Variable					*Votes (Policy)*				
Max Total Opportunity (log)	-3.723***	-4.355***	-4.351***	-4.669***	-4.711***	-5.022***	-5.626***	-5.586***	-4.387***
	[-2.96]	[-3.34]	[-3.32]	[-3.60]	[-3.23]	[-3.66]	[-3.76]	[-3.78]	[-3.15]
Exceptional Event		-4.866**	-4.961**	-5.766**	-6.051**	-4.973*	-6.261**	-6.338**	-6.238**
		[-2.24]	[-2.20]	[-2.48]	[-2.43]	[-1.93]	[-2.26]	[-2.19]	[-2.43]
Incorporated - Channel Islands			-2.615	-2.422	-1.588	-1.951	-3.335	-3.266	-3.900
			[-0.86]	[-0.79]	[-0.44]	[-0.55]	[-0.93]	[-0.90]	[-0.81]
Incorporated - Ireland			0.856	-0.691	-1.394	0.073	0.669	0.625	1.285
			[0.76]	[-0.37]	[-0.60]	[0.03]	[0.28]	[0.25]	[0.53]
Incorporated - Switzerland			-13.234***	-12.957***	-13.447***	-17.555***	-18.415***	-18.381***	-17.723***
			[-14.80]	[-13.50]	[-11.77]	[-5.57]	[-3.97]	[-3.93]	[-3.83]
Above Index				-2.205	-2.579	-1.746	-1.885	-1.893	-0.639
				[-1.13]	[-1.23]	[-0.84]	[-0.91]	[-0.90]	[-0.30]
LTIP Vesting Period					-1.188	-0.300	-0.473	-0.466	-1.132
					[-0.96]	[-0.29]	[-0.48]	[-0.46]	[-1.26]
LTIP Vesting Percent					0.041	0.048	0.052	0.052	0.077
					[0.93]	[1.10]	[1.19]	[1.17]	[1.43]
LTIP Retention Period					-0.163	-0.305	-0.524	-0.510	-0.814
					[-0.22]	[-0.41]	[-0.70]	[-0.70]	[-1.09]
Hard Performance Measure						-0.043	-0.033	-0.032	-0.013
						[-1.24]	[-0.98]	[-0.97]	[-0.36]
Misconduct Malus							-2.053	-2.042	-0.196
							[-0.72]	[-0.68]	[-0.08]
Performance Malus							5.558**	5.085	2.504
							[2.25]	[1.36]	[0.75]
Performance Clawback								1.041	3.983

								[0.27]	[1.10]
Misconduct Clawback								-0.040	-0.508
								[-0.03]	[-0.32]
Largest Stakes (Top3)									0.062
									[0.83]
Net income (log)	-2.073	-3.580	-3.982	-3.662	-4.245	-3.676	-3.433	-3.496	-0.694
	[-0.73]	[-1.17]	[-1.28]	[-1.16]	[-1.05]	[-0.94]	[-0.97]	[-0.98]	[-0.31]
Total assets (log)	1.844***	2.123***	2.079***	1.965***	2.060**	1.980**	1.968***	1.975***	1.492**
	[2.71]	[3.00]	[2.83]	[2.77]	[2.56]	[2.53]	[2.72]	[2.68]	[2.04]
TobinQ (log)	3.590*	3.509**	3.317*	3.714**	3.540*	3.235*	3.063*	3.128*	2.021
	[1.91]	[2.02]	[1.85]	[2.03]	[1.80]	[1.69]	[1.68]	[1.67]	[1.02]
Bank	-12.008*	-12.645*	-13.032*	-12.635*	-12.261	-12.356	-13.922	-13.699	-3.246
	[-1.68]	[-1.70]	[-1.71]	[-1.70]	[-1.32]	[-1.37]	[-1.60]	[-1.48]	[-0.77]
Observations	100	100	100	100	97	96	96	96	92
Adj. R-sq	0.087	0.145	0.155	0.157	0.135	0.130	0.169	0.148	0.092

Note: The above table shows the results of cross-sectional ordinary-least square regressions of the share of votes approving the remuneration policy report Votes(Policy) on the maximum remuneration possibility of the CEO in the future, an exceptional event dummy that takes the value of one if the CEO did not receive any long term incentive payment in the last financial year, incorporation dummies if the firm is only listed but not incorporated in the United Kingdom, an above index dummy which takes the value of one if the company has outperformed the comparator TSR index, a set of performance variables that are disclosed in the annual report and described in detail in Table 1, the log of net income and total assets, and the log of TobinQ, which is calculated as market capitalisation plus the difference between total assets and total equity over total assets. Bank is a dummy variable that takes the value of one if the firm has a banking license. The standard errors are heteroskedasticity robust. T-statistics are shown in brackets.

*** Significant at the 1 percent level.

** Significant at the 5 percent level.

* Significant at the 10 percent level.

Table 4: Votes on the Remuneration Policy Report - Ownership Controls

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
							Votes (Policy)							
Max Total Opportunity (log)	-4.387***	-4.424***	-4.188***	-4.078***	-4.545***	-4.556***	-4.193***	-4.535***	-4.513***	-4.539***	-5.172***	-4.337***	-4.709***	-3.714***
	[-3.15]	[-3.09]	[-3.00]	[-2.94]	[-3.19]	[-3.15]	[-2.78]	[-3.18]	[-3.15]	[-3.12]	[-3.71]	[-3.07]	[-3.26]	[-2.97]
Exceptional Event	-6.238**	-6.461** [-	-5.969** [-	-5.926** [-	-6.066** [-	-5.321** [-	-6.431** [-	-6.238** [-	-6.281** [-	-6.278** [-	-5.798** [-	-6.381** [-	-5.945** [-	-3.049
	[-2.43]	2.44]	2.36]	2.12]	2.30]	2.08]	2.38]	2.36]	2.39]	2.38]	2.11]	2.37]	2.25]	[-1.15]
Largest Stakes (Top3)	0.062													0.129
	[0.83]													[1.41]
Ownership (investment funds)		0.058												0.049
		[1.01]												[0.70]
Ownership (hedge funds)			0.399											0.328
			[1.61]											[1.24]
Ownership (vc/pe)				-0.497										-0.752
				[-0.75]										[-1.03]
Ownership (pensions)					0.467									0.438
					[0.79]									[0.74]
Ownership (SWF)						0.442*								0.738**
						[1.86]								[2.06]
Ownership (endowment)							1.090							2.029
							[1.10]							[1.54]
Ownership (insurance)								0.350						3.601
								[0.12]						[1.36]
Ownership (banks)									-0.003					-0.327
									[-0.01]					[-0.67]
Ownership (families)										0.820				-5.592
										[0.19]				[-1.16]
Ownership (insiders)											-0.134			-0.223*
											[-1.44]			[-1.94]
Ownership (esops)												0.276		0.428
												[0.55]		[0.77]
Ownership (state)													0.257***	0.244**
													[2.83]	[2.00]

Policy variable controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Financial controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Incorporation controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	92	92	92	92	92	92	92	92	92	92	92	92	92	92
Adj. R-sq	0.092	0.099	0.095	0.088	0.082	0.114	0.083	0.078	0.078	0.079	0.111	0.081	0.111	0.176

Note: The above table shows the results of cross-sectional ordinary-least square regressions of the share of votes approving the remuneration policy report Votes(Policy) on the maximum remuneration possibility of the CEO in the future, an exceptional event dummy that takes the value of one if the CEO did not receive any long term incentive payment in the last financial year, and a set of ownership variables. Largest stakes is the sum of the ownership stakes of the three largest owners, followed by the sum of ownership stakes by type. SWF stands for sovereign wealth fund. In addition, the full set of policy, financial and incorporation controls described in Table 3 are included. The standard errors are heteroskedasticity robust. T-statistics are shown in brackets.

*** Significant at the 1 percent level.

** Significant at the 5 percent level.

* Significant at the 10 percent level.

Table 5: Votes on the Annual Report on Remuneration - Core Results

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
					Votes (Report)				
Current Total Remuneration	-0.551	-3.746**	-4.282**	-4.233** [-	-4.612** [-	-4.600** [-	-4.644** [-	-4.632** [-	-4.200*
	[-0.32]	[-2.03]	[-2.19]	2.17]	2.11]	2.08]	2.05]	2.00]	[-1.91]
Exceptional Event		-8.515***	-9.310***	-8.231***	-8.492**	-8.619**	-9.250**	-9.460**	-8.794**
		[-2.69]	[-2.80]	[-2.65]	[-2.35]	[-2.26]	[-2.27]	[-2.31]	[-2.19]
Incorporated - Channel Islands			2.689	2.451	2.016	2.118	1.954	2.110	-0.922
			[1.18]	[1.08]	[0.72]	[0.76]	[0.60]	[0.67]	[-0.21]
Incorporated - Ireland			0.728	2.958	3.340	3.429	3.530	3.732	4.332
			[0.54]	[1.41]	[1.18]	[1.09]	[1.09]	[1.11]	[1.26]
Incorporated - Switzerland			-12.560***	-12.956***	-14.165***	-14.941***	-17.052***	-17.011***	-22.564***
			[-6.70]	[-6.72]	[-7.59]	[-3.20]	[-3.02]	[-2.85]	[-3.32]
Above Index				3.054	2.678	2.651	2.559	2.490	3.664
				[1.39]	[1.09]	[1.05]	[1.02]	[0.96]	[1.30]
LTIP Vesting Period					0.491	0.363	0.377	0.409	0.609
					[0.36]	[0.23]	[0.23]	[0.24]	[0.34]
LTIP Vesting Percent					0.115	0.114	0.110	0.111	0.155
					[1.25]	[1.22]	[1.14]	[1.14]	[1.48]
LTIP Retention Period					-0.981	-0.992	-0.956	-0.950	-0.608
					[-1.00]	[-0.99]	[-0.88]	[-0.87]	[-0.55]
Hard Performance Measure						-0.009	-0.006	-0.007	0.007
						[-0.16]	[-0.11]	[-0.11]	[0.11]
Misconduct Malus							-2.712	-2.841	-3.108
							[-1.09]	[-1.06]	[-1.16]
Performance Malus							1.567	0.239	1.809
							[0.37]	[0.04]	[0.29]
Performance Clawback								2.839	1.562
								[0.39]	[0.19]
Misconduct Clawback								0.349	-0.029
								[0.14]	[-0.01]
Largest Stakes (Top3)									0.215**
									[2.16]

Net income (log)	-2.385	-3.382	-2.982	-3.237	-3.041	-3.041	-3.631	-3.730	-1.921

	[-0.98]	[-1.28]	[-1.08]	[-1.23]	[-0.89]	[-0.88]	[-1.09]	[-1.06]	[-0.71]
Total assets (log)	-0.282	0.663	0.690	0.931	1.297	1.301	1.352	1.384	1.252
	[-0.34]	[0.91]	[0.93]	[1.30]	[1.38]	[1.38]	[1.47]	[1.52]	[1.26]
TobinQ (log)	-3.631	-1.914	-1.781	-2.202	-1.729	-1.718	-1.722	-1.504	-3.114
	[-1.50]	[-0.94]	[-0.87]	[-1.01]	[-0.69]	[-0.68]	[-0.68]	[-0.59]	[-1.01]
Bank	-6.455	-8.650**	-8.346**	-8.863**	-7.495	-7.490	-8.922	-7.979	-13.721*
	[-1.43]	[-2.24]	[-2.12]	[-2.26]	[-1.26]	[-1.25]	[-1.41]	[-1.31]	[-1.80]
Observations	100	100	100	100	97	96	96	96	92
Adj. R-sq	-0.006	0.064	0.055	0.058	0.067	0.053	0.038	0.017	0.068

Note: Table 5 is symmetric to Table 3, however here we use as the dependent variable the shareholder approval of the annual report on remuneration. In detail, we show in this table the results of cross-sectional ordinary-least square regressions of the share of approval of the annual report on remuneration Votes(Report) on the total remuneration received by the CEO in the last financial year, an exceptional event dummy that takes the value of one if the CEO did not receive any long term incentive payment in the last financial year, incorporation dummies if the firm is only listed but not incorporated in the United Kingdom, an above index dummy which takes the value of one if the company has outperformed the comparator TSR index, a set of legal variables that are disclosed in the annual report and described in detail in Table 1, the log of net income and total assets, and the log of TobinQ, which is calculated as market capitalisation plus the difference between total assets and total equity over total assets. Bank is a dummy variable that takes the value of one if the firm has a banking license. The standard errors are heteroskedasticity robust. T-statistics are shown in brackets.

*** Significant at the 1 percent level.

** Significant at the 5 percent level.

* Significant at the 10 percent level.

Table 6: Votes on the Annual Report on Remuneration – Ownership Controls

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Variable							*Votes (Report)*							
Current Total Remuneration	-4.200* [-1.91]	-4.626* [-1.84]	-4.510* [-1.89]	-4.678** [-2.11]	-4.570* [-1.91]	-4.470* [-1.84]	-4.147 [-1.64]	-4.311* [-1.77]	-4.843* [-1.89]	-4.684* [-1.94]	-4.214* [-1.80]	-4.292* [-1.80]	-4.435* [-1.86]	-6.332** [-2.20]
Exceptional Event	-8.794** [-2.19]	-9.143** [-2.20]	-9.032** [-2.17]	-7.841** [-2.21]	-8.608** [-2.08]	-8.735** [-2.07]	-9.068** [-2.19]	-9.297** [-2.22]	-9.816** [-2.32]	-9.274** [-2.23]	-9.153** [-2.18]	-9.395** [-2.28]	-8.638** [-2.09]	-7.671* [-1.88]
Largest Stakes (Top3)	0.215** [2.16]													0.246* [1.84]
Ownership (investment funds)		-0.048 [-0.57]												-0.027 [-0.27]
Ownership (hedge funds)			0.317 [0.76]											0.617 [1.28]
Ownership (vc/pe)				-2.762*** [-3.44]										-2.951*** [-3.34]
Ownership (pensions)					1.358 [1.50]									1.129 [1.28]
Ownership (sovereign wealth funds)						0.186 [0.49]								0.340 [0.80]
Ownership (endowment)							1.375 [1.16]							0.676 [0.40]
Ownership (insurance)								-2.431 [-0.43]						4.405 [1.15]
Ownership (banks)									-0.706 [-0.90]					-1.212 [-1.42]
Ownership (families)										7.142 [1.34]				4.908 [0.89]
Ownership (insiders)											0.062 [0.55]			-0.217 [-1.48]
Ownership (esops)												0.912 [1.16]		1.228* [1.73]
Ownership (state)													0.323*** [2.69]	0.088 [0.53]

Policy variable controls	No	No	No	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Financial controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Incorporation controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	92	92	92	92	92	92	92	92	92	92	92	92	92	92
Adj. R-sq	0.068	-0.001	-0.003	0.140	0.006	-0.005	-0.004	-0.006	0.009	0.009	-0.005	0.006	0.016	0.186

Note: Table 6 is symmetric to Table 4, however here we use as the dependent variable the shareholder approval of the annual report on remuneration. In detail, we show in this table the results of cross-sectional ordinary-least square regressions of the share of approval of the annual report on remuneration Votes(Report) on the total remuneration received by the CEO in the last financial year, an exceptional event dummy that takes the value of one if the CEO did not receive any long term incentive payment in the last financial year, and a set of ownership variables. Largest stakes is the sum of the ownership stakes of the three largest owners, followed by the sum of ownership stakes by type. SWF stands for sovereign wealth fund. In addition, the full set of policy, financial and incorporation controls described in Table 4 are included. The standard errors are heteroskedasticity robust. T-statistics are shown in brackets.

*** Significant at the 1 percent level.

** Significant at the 5 percent level.

* Significant at the 10 percent level.

Table 7: Votes on the Remuneration Policy Report – Robustness Test

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Variable					*Votes (Policy)*				
Max Total Opportunity (log)	-3.707***	-4.970*** [-	-3.565*** [-						
	[-2.94]	3.07]	2.81]						
Max Fixed Opportunity (log)				-10.517**	-14.285**	-12.324**	-7.028	-7.505	-8.561
				[-2.10]	[-2.57]	[-2.36]	[-1.55]	[-0.97]	[-1.20]
Max Bonus Opportunity (log)							-7.988**	-9.334***	-4.092
							[-2.37]	[-2.78]	[-1.41]
Max LTIP Opportunity (log)							0.990	0.706	0.143
							[0.45]	[0.25]	[0.06]
Exceptional Event				-4.181*	-5.948**	-2.861	-5.098**	-5.894**	-2.940
				[-1.88]	[-2.09]	[-1.04]	[-2.23]	[-2.08]	[-1.08]
Ownership controls	No	No	Yes	No	No	Yes	No	No	Yes
Policy variable controls	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes
Financial controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Incorporation controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	100	96	92	100	96	92	100	96	92
Adj. R-sq	0.093	0.073	0.215	0.138	0.138	0.242	0.206	0.216	0.235

Note: In this table we show the results of cross-sectional ordinary-least square regressions of the share of votes approving the remuneration policy report Votes(Policy) on various measures of remuneration opportunities for the CEO, an exceptional event dummy that takes the value of one if the CEO did not receive any long-term incentive payment in the last financial year, and a vector of ownership, policy, financial and incorporation controls as described in Tables 5 and 6. The standard errors are heteroskedasticity robust. T-statistics are shown in brackets.
*** Significant at the 1 percent level.
** Significant at the 5 percent level.
* Significant at the 10 percent level.

Table 8: Votes on the Annual Report on Remuneration – Robustness Test

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Variable					*Votes (Report)*				
Current Total Rem. (log)	-0.696	-1.816	-4.485*						
	[-0.40]	[-0.89]	[-1.74]						
Current Fixed Salary (log)				-6.230**	-7.877*	-6.504	-5.957**	-7.279*	-4.008
				[-2.15]	[-1.94]	[-1.35]	[-2.11]	[-1.71]	[-0.90]
Current Bonus (log)							-0.156	-0.171	-0.371
							[-0.59]	[-0.55]	[-1.21]
Current LTIP (log)							-0.121	-0.370	-2.152
							[-0.07]	[-0.19]	[-0.85]
Exceptional Event				-5.316*	-6.045*	-3.207	-7.723	-12.076	-34.677
				[-1.92]	[-1.78]	[-0.84]	[-0.30]	[-0.44]	[-0.99]
Ownership controls	No	No	Yes	No	No	Yes	No	No	Yes
Policy variable controls	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes
Financial controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Incorporation controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	100	96	92	100	96	92	100	96	92
Adj. R-sq	-0.030	-0.049	0.160	0.054	0.026	0.122	0.037	0.005	0.140

Note: In this table we show the results of cross-sectional ordinary-least square regressions of the share of approval of the annual report on remuneration Votes(Report) on various measures of current executive remuneration for the CEO, an exceptional event dummy that takes the value of one if the CEO did not receive any long-term incentive payment in the last financial year, and a vector of ownership, policy, financial and incorporation controls as described in Tables 5 and 6. The standard errors are heteroskedasticity robust. T-statistics are shown in brackets.
*** Significant at the 1 percent level.
** Significant at the 5 percent level.
* Significant at the 10 percent level.

Table 9: Understanding Differentiating Voting Behavior - Votes on Policy Report Higher

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
VARIABLES						*Votes on Policy Higher*						
Max Fixed Opportunity (log)	0.208	-0.490	-2.174*	-2.305	-2.201	-1.927	-2.153	-2.320	-1.559	-1.419	-1.408	0.706
	[0.26]	[-0.53]	[-1.95]	[-1.51]	[-1.41]	[-1.24]	[-1.26]	[-1.28]	[-0.73]	[-0.72]	[-0.71]	[0.44]
Max Bonus Opportunity (log)		0.967*	0.858	0.845*	0.638	0.580	0.645	0.810	0.728	0.911	0.883	2.465***
		[1.72]	[1.62]	[1.65]	[1.02]	[0.92]	[0.97]	[1.25]	[0.85]	[1.10]	[1.07]	[3.14]
Max LTIP Opportunity (log)			1.402***	1.387***	1.425***	1.334***	1.393**	1.336**	1.594**	1.752**	1.736**	1.490*
			[2.67]	[2.69]	[2.82]	[2.64]	[2.45]	[2.39]	[2.34]	[2.36]	[2.36]	[1.78]
Current Fixed Salary (log)				0.100	-0.128	-0.070	0.002	0.187	-0.009	-0.204	-0.197	-1.044*
				[0.15]	[-0.17]	[-0.09]	[0.00]	[0.22]	[-0.01]	[-0.25]	[-0.24]	[-1.73]
Current Bonus (log)					0.049	0.066	0.067	0.040	0.020	0.015	0.017	0.049
					[0.68]	[0.91]	[0.92]	[0.63]	[0.33]	[0.26]	[0.28]	[0.83]
Current LTIP (log)						-0.045	-0.286	-0.293	-0.248	-0.246	-0.248	-0.376
						[-1.48]	[-0.82]	[-0.79]	[-0.62]	[-0.59]	[-0.59]	[-0.94]
Exceptional Event							-3.546	-3.787	-3.387	-3.414	-3.460	-5.630
							[-0.69]	[-0.70]	[-0.59]	[-0.56]	[-0.57]	[-0.97]
Above Index								-0.619	-0.747	-0.695	-0.700	-0.776
								[-1.35]	[-1.47]	[-1.43]	[-1.43]	[-1.58]
LTIP Vesting Period									-0.778	-0.861*	-0.866*	-1.573**
									[-1.57]	[-1.84]	[-1.83]	[-2.18]
LTIP Vesting Percent									0.010	0.010	0.010	0.020
									[0.62]	[0.61]	[0.60]	[1.00]
LTIP Retention Period									0.158	0.167	0.158	0.126
									[0.84]	[0.87]	[0.82]	[0.60]
Hard Performance Measure										-0.013	-0.013	-0.010
										[-1.44]	[-1.45]	[-0.95]
Performance Malus											0.043	0.058
											[0.25]	[0.30]
Largest Stakes (Top3)												-0.015
												[-0.68]
Net income (log)	0.433	0.194	0.081	0.087	0.011	0.253	0.295	0.378	-0.093	-0.219	-0.198	-0.241

[1.03]	[0.33]	[0.18]	[0.19]	[0.02]	[0.54]	[0.59]	[0.67]	[-0.11]	[-0.24]	[-0.21]	[-0.14]

Total assets (log)	0.235	0.234	0.005	0.003	0.044	0.018	0.068	-0.061	-0.200	-0.258	-0.265	-0.376
	[1.47]	[1.43]	[0.03]	[0.02]	[0.25]	[0.10]	[0.35]	[-0.29]	[-0.77]	[-0.95]	[-0.99]	[-1.15]
TobinQ (log)	1.518***	1.476***	1.240***	1.246***	1.324***	1.429***	1.673***	1.631***	1.432***	1.303**	1.297**	1.206**
	[3.30]	[3.31]	[2.75]	[2.74]	[2.91]	[2.79]	[3.47]	[3.45]	[2.69]	[2.47]	[2.48]	[2.25]
Bank	0.993	1.156	2.979***	3.035***	3.173***	3.215***	3.297***	3.625***	3.549**	3.552**	3.630**	4.419***
	[1.08]	[1.22]	[2.91]	[2.61]	[2.85]	[2.78]	[2.76]	[2.74]	[2.34]	[2.35]	[2.39]	[3.28]
Observations	100	100	100	100	100	100	100	100	97	96	96	92

Note: In this table we show the results of a marginal probit regressions of a dummy variable that took the value of one if the approval for the annual report was half a standard deviation higher than the of approval of the corresponding policy report, on various measures of current executive remuneration for the CEO, an exceptional event dummy that takes the value of one if the CEO did not receive any long-term incentive payment in the last financial year, and a vector of ownership, policy, financial and incorporation controls as described in Tables 3, 4 and 7. The standard errors are heteroskedasticity robust. Z-statistics are shown in brackets.

*** Significant at the 1 percent level.

** Significant at the 5 percent level.

* Significant at the 10 percent level.

Table 10: Understanding Differentiating Voting Behavior - Votes on the Annual Report Higher

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
						Votes on Report Higher						
Max Fixed Opportunity (log)	-0.366	-0.293	-0.319	-0.091	-0.236	-0.193	-0.193	-0.159	0.034	-0.055	-0.245	-2.045
	[-0.36]	[-0.33]	[-0.35]	[-0.09]	[-0.21]	[-0.17]	[-0.16]	[-0.14]	[0.02]	[-0.03]	[-0.15]	[-0.81]
Max Bonus Opportunity (log)		-0.097	-0.128	-0.117	-0.040	-0.004	-0.004	0.021	-0.054	0.028	0.162	-0.548
		[-0.21]	[-0.24]	[-0.24]	[-0.07]	[-0.01]	[-0.01]	[0.04]	[-0.08]	[0.04]	[0.18]	[-0.52]
Max LTIP Opportunity (log)			0.084	0.092	0.098	0.097	0.126	0.185	0.055	0.089	0.127	-0.136
			[0.24]	[0.25]	[0.27]	[0.26]	[0.33]	[0.53]	[0.13]	[0.21]	[0.30]	[-0.27]
Current Fixed Salary (log)				-0.146	-0.061	-0.053	-0.050	-0.061	0.250	0.350	0.413	2.430
				[-0.21]	[-0.09]	[-0.08]	[-0.07]	[-0.09]	[0.33]	[0.42]	[0.48]	[1.63]
Current Bonus (log)					-0.017	-0.006	-0.008	-0.008	-0.018	-0.042	-0.043	-0.066
					[-0.39]	[-0.13]	[-0.19]	[-0.19]	[-0.44]	[-1.15]	[-1.14]	[-1.47]
Current LTIP (log)						-0.019	-0.205	-0.207	-0.270	-0.302	-0.317	-0.480
						[-0.76]	[-0.81]	[-0.84]	[-1.04]	[-1.16]	[-1.18]	[-1.57]
Firm Crisis							-2.696	-2.637	-3.322	-4.159	-4.334	-6.418
							[-0.74]	[-0.75]	[-0.90]	[-1.12]	[-1.14]	[-1.47]
Above Index								0.380	0.684	0.449	0.542	0.526
								[0.82]	[1.41]	[0.96]	[1.21]	[0.86]
LTIP Vesting Period									0.412*	0.194	0.241	0.366
									[1.71]	[0.87]	[1.03]	[1.33]
LTIP Vesting Percent									-0.000	-0.002	-0.003	-0.002
									[-0.02]	[-0.34]	[-0.37]	[-0.20]
LTIP Retention Period									0.120	0.155	0.201	0.346*
									[0.68]	[0.85]	[1.06]	[1.85]
Hard Performance Measure										0.013	0.014*	0.018**
										[1.54]	[1.85]	[2.02]
Performance Malus											-0.188	-0.226
											[-1.06]	[-1.22]
Largest Stakes (Top3)												0.039***
												[2.68]
Net income (log)	0.912*	0.928*	0.915*	0.904**	0.943**	0.997**	1.075**	0.963*	0.783	0.702	0.482	0.970

[1.95]	[1.91]	[1.93]	[1.96]	[2.03]	[2.00]	[1.98]	[1.72]	[1.32]	[1.16]	[0.81]	[1.12]

Total assets (log)	-0.363	-0.360	-0.377	-0.368	-0.377	-0.393	-0.352	-0.316	-0.301	-0.256	-0.237	-0.243
	[-1.59]	[-1.57]	[-1.47]	[-1.51]	[-1.51]	[-1.48]	[-1.37]	[-1.21]	[-1.18]	[-1.04]	[-0.98]	[-0.75]
TobinQ (log)	-0.574	-0.566	-0.594	-0.588	-0.577	-0.567	-0.432	-0.518	-0.456	-0.295	-0.313	-0.256
	[-0.98]	[-0.95]	[-0.97]	[-0.98]	[-0.99]	[-0.95]	[-0.68]	[-0.82]	[-0.65]	[-0.43]	[-0.45]	[-0.28]
Bank	2.860**	2.838**	2.902**	2.779***	2.827***	2.871***	2.781***	2.630**	1.862*	1.820*	1.615	0.707
	[2.44]	[2.47]	[2.30]	[2.65]	[2.66]	[2.60]	[2.60]	[2.47]	[1.75]	[1.72]	[1.61]	[0.50]
Observations	100	100	100	100	100	100	100	100	97	96	96	92

Note: In this table we show the results of a marginal probit regressions of a dummy variable that took the value of one if the approval for the annual report was half a standard deviation higher than the of approval of the corresponding policy report, on various measures of current executive remuneration for the CEO, an exceptional event dummy that takes the value of one if the CEO did not receive any long-term incentive payment in the last financial year, and a vector of ownership, policy, financial and incorporation controls as described in Tables 5, 6 and 8. The standard errors are heteroskedasticity robust. Z-statistics are shown in brackets.

*** Significant at the 1 percent level.

** Significant at the 5 percent level.

* Significant at the 10 percent level.

Graph 1: Maximum Total Opportunity vs. Votes on Policy Report