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THE ADOPTION OF VOLUNTARY SAY-ON-PAY: THE CANADIAN EXPERIENCE

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ABSTRACT:

Say-on-Pay (SOP) gives shareholders the right to vote on executive compensation. Unlike in a number of other western countries, SOP is not prescribed by regulation in Canada, although more and more firms are now adopting this practice voluntarily. We take advantage of this legal context to first examine the characteristics of firms that have voluntarily adopted SOP. Secondly, we examine whether shareholders' votes are linked to the extent and specifics of the compensation granted; and thirdly, we determine whether the votes cast affect executive compensation growth in the next year. The statistical analyses are based on a sample of 744 observations

covering the years from 2013 to 2017. Results suggest that the firms that have voluntarily adopted SOP differ significantly in several ways from those that have not. SOP vote results appear to be negatively related to the level and growth of total CEO compensation and its components involving immediate cash outflows. The vote does not seem to impact executive compensation and its components in the following year.

KEYWORDS:

Say-on-Pay, CEO compensation, shareholder democracy, corporate governance, regulation.

1. INTRODUCTION

Like in many other countries, CEO compensation in Canada has been escalating for a number of years, raising many questions about equality. According to Macdonald (2020), Canada's top 100 chief executives made a record average of CAN\$11.8 million in 2018, 227 times the country's average annual individual income. From 2008 to 2018, their salaries grew by 61%, in contrast to the average worker's pay, which increased by 20% (Macdonald, 2020). Concern about executive pay is a far from recent trend, as reflected by the long history of research on CEO compensation (Finkelstein and Boyd, 1998).

Since firms' board members are responsible for monitoring and establishing CEO compensation schemes, it is up to them to align executives' actions and shareholders' interests (Lo and Wu, 2016). Unlike shareholders, directors have access to private information and knowledge about executive actions like strategic planning and innovation developments that impact firms over the long term (Lo and Wu, 2016). Nonetheless, boards have long been faulted for failing to fulfil their role. According to Bedchuk and Fried (2005), excessive CEO compensation is not a result of temporary

mistakes or lapses of judgment by boards of directors, but rather of defects in the underlying governance structure that enable executives to exert considerable influence over their board. SOP is a governance tool that was introduced in many countries in the early 2000s to offset, at least in part, these structural defects.

SOP grants shareholders the right to express their opinion on CEO compensation and to vote on the amount of compensation packages and/or their components at a firm's annual general meeting (AGM)¹. The vote, which determines whether shareholders approve the proposed compensation plan, may be advisory (non-binding) and simply allow shareholders to express their opinion. In this instance, it is symbolic and reflects shareholders' discomfort or comfort with the form or extent of the compensation awarded. However, it may also be binding and compel board members to ensure that the new CEO compensation schemes they propose are compatible with shareholder expectations.

SOP can also be a tool directors can use to deter excessive executive compensation demands. The fact that a firm's directors have voluntarily chosen to introduce an advisory vote on executive compensation sends a clear signal to its executives about the limits of their compensation and the form it can take. If executives' demands become extreme, the directors have the leverage to point out that these demands will have to be submitted to a SOP vote at the annual general meeting. The executives would then have to publicly deal with the negative consequences of an unfavorable shareholder vote on their compensation.

Over the last two decades, many countries (e.g., the United Kingdom, the United States, Australia, Norway, the Netherlands, Sweden, and Switzerland) have made SOP compulsory. However,

¹ Although SOP votes are generally annual, they can be held every two or four years. They can also be held when firms grant golden parachutes or make arrangement for mergers. However, votes on executive compensation are far less frequent and few studies have so far examined this type of vote.

since Canada has not taken this route, the firms listed on the Toronto Stock Exchange are not subject to SOP regulation. In other words, a board's decision to apply SOP is voluntary, giving board members the opportunity to use it to discourage disproportionate executive compensation demands. In this context, our study has the following three objectives. First, it attempts to determine whether firms that have adopted SOP differ from those that have not. Second, it examines whether the votes cast by shareholders are related to CEO compensation levels and growth. And third, it aims to determine whether these votes influence CEO compensation growth the following year.

Our results indicate that SOP is significantly and voluntarily adopted by larger firms with lower revenue growth and a lower Tobin's Q, higher executive compensation, and a greater percentage of independent directors. Vote results are negatively and significantly related to total compensation and total compensation growth, but do not appear to affect executive compensation growth in the following year.

This study makes several contributions. Our findings corroborate those of past studies carried out in different contexts (Serret *et al.*, 2016; Obermann, 2018), especially those examining (1) the characteristics of firms that voluntarily adopt SOP, (2) the negative relationship between the SOP vote and compensation level and growth, and (3) the lack of the votes' impact on the next year's executive compensation growth (Brunarski *et al.*, 2015; Sanchez-Marín *et al.*, 2017). The results respecting the characteristics of the firms that voluntarily adopt SOP tend to support the managerial power theory. Boards of directors appear to use SOP in situations where performance is low and compensation high, indicating that SOP is adopted by firms with characteristics where it can be useful. Findings on the negative relationship between the SOP vote and compensation level and growth confirm that shareholders' use their votes to communicate their expectations.

The results relating to the lack of impact the votes have on the next year's executive compensation growth raise questions about directors' real intentions in using SOP.

Since the board does not appear to follow up on the shareholders' votes the next year, the hypothesis that SOP is used as a tactic to legitimize the compensation awarded by directors can be put forward in a context of voluntary SOP adoption. Brunarski *et al.* (2015) reached a similar conclusion in a context of mandatory SOP adoption. These findings seem indicate that both voluntary and mandatory SOP can be insufficient to serve shareholders' interests if the vote is non-binding. This is an important conclusion for regulatory bodies intent on more effectively monitoring executive compensation.

This article consists of four sections: the literature review; research design, sample and data collection; study results; and a conclusion which presents the study's limitations and potential avenues for future research.

2. LITERATURE REVIEW

2.1 CEO compensation

The agency theory explains the origins of the relatively long-standing problem of escalating CEO compensation. Firms' growth needs to be financed and this financing can be procured through issuing shares. This means that many investors own a firm and cannot collectively make the day-to-day decisions needed to operate it; hence the need for competent managers (Kim *et al.*, 2010). This situation leads to the separation of ownership and control (Berle and Means, 1932). In many instances, shareholders are passive and lack the time or desire to get involved in running the firm. They have also put in place a board of directors to

monitor management. As for executives, because their actions are not always observable, they could be tempted to use the firm's assets for their own well-being at the shareholders' expense (Kim *et al.*, 2010), creating a problem of moral hazard. To reduce potential conflicting objectives, executive compensation has long been recognized as a key variable that can be used to align CEO and shareholder interests (Holmstrom, 1979; Shleifer and Vishny, 1997). Accordingly, the problem then moves on to compensation schemes and levels.

The literature confirms the growth of executive pay in all countries (Murphy, 2013). From 1980 to 2003, Gabaix and Landier (2008) noted a sixfold increase in CEOs' salaries, which could be explained by globalization, growing risk and firm size. A similar trend has been observed in the Canadian context. In a study covering 1971 to 2008, G elinas and Baillargeon (2013) found that increased executive compensation was closely linked to the increase in the quantity of information available to the board. This trend intensified in 1994 when legislation made information about CEO compensation public (Craighead *et al.*, 2004). Contrary to their objective to limit executive compensation by making the related information public, these regulations have led to ever higher levels of compensation (Bijzak *et al.*, 2008; Hermalin and Weisbach, 2012). One reason for this is that the executives most sought after on the labor market use publicly disclosed standards to negotiate higher pay (Murphy and Sandino, 2010).

Many studies have addressed executive compensation schemes and levels. Compensation can be broken down into three main components: fixed, variable and market-related compensation. While fixed compensation is independent of a firm's performance, variable compensation (e.g., bonus) is generally based on accounting performance and the achievement of short-term objectives. Lastly, a market-related component of compensation is determined by the firm's market performance (distribution of stock

options, allocation of shares). Other elements such as severance arrangements, pension plans and other job-related benefits can also be added to try to encourage executive retention.

Furthermore, pay-performance linkage has been the focus of numerous studies, which have mainly characterized this connection as weak (Murphy, 1985; Jensen and Murphy, 1990; Core *et al.*, 2003; Leone *et al.*, 2006; Garvey and Milbourn, 2006). However, longer-term studies have shown that compensation is becoming increasingly performance sensitive (Frydman and Saks, 2010; Kaplan and Rauth, 2010). A disconnect between these two variables can reflect a board's ineffectiveness in defending shareholder interests (Bebchuk and Fried, 2003; 2005).

2.2 Board effectiveness and Say-on-Pay

Boards of directors are recognized as the most important means of mitigating the problem of moral hazard that can exist between shareholders and executives. With the agency theory, a board² can establish an optimal compensation contract that closely aligns both executives' and shareholders' interests (Van Essen *et al.*, 2015). However, numerous studies on executive compensation have so far failed to determine the components and form of this optimal compensation contract. According to Bebchuk and Fried

² Most Canadian firms delegate some of the work on executive compensation to a board sub-committee composed of two to five directors. This compensation committee reports on the work carried out and recommends the best executive compensation approaches to the other board members. Canadian regulation respecting this committee is not particularly restrictive. The National Instrument 58-101 requires listed firms to: a) describe the process by which the board determines the compensation; b) disclose whether or not the board has a compensation committee composed entirely of independent directors (if the board does not have a compensation committee composed entirely of independent directors, describe what steps the board takes to ensure an objective process for determining such compensation); c) if the board has a compensation committee, describe its responsibilities, powers and operation; and d) if a compensation consultant been retained to assist in determining compensation for the directors and executives, disclose the identity of the consultant and briefly summarize the mandate for which they have been retained. If the consultant has been retained to perform any other work for the issuer, state that fact and briefly describe the nature of the work.

(2004), this failure can be explained by the specific structural and social-psychological mechanisms that operate between the board and the executives.

These explanations form the basis of the managerial power theory. Bebchuk and Fried (2004) argued that the mechanisms create few incentives for directors to challenge compensation arrangements that favor the interests of executives over those of shareholders (higher levels of compensation and less performance-sensitive compensation) (Van Essen *et al.*, 2015). Obstacles to the directors' "freedom of speech" include their desire to retain their seats on the board, their ties to the CEO and their dependence on the quality of the information available to them (Mangen and Magnan, 2012). Even when firms' directors are competent, executives can still constitute a powerful force because of their prestige, expertise and experience, social network and alliances for instance (Finkelstein, 1992). Bebchuk *et al.* (2002) found that executives can have sufficient power to influence their own compensation and wield this power to generate excessive pay at the expense of shareholder value (Scott, 2012).

To limit this power, directors can hire a compensation consultant and/or tie total compensation to a peer group of similar companies (Scott, 2012). SOP can be seen as another way to curb executive power since it is the executives who have to face the negative consequences of the outcome of the vote at the annual meeting. Furthermore, directors share their executive compensation responsibilities with shareholders. Mangen and Magnan (2012) confirm that SOP gives shareholders additional structural power. Before its adoption, the main mechanisms available to shareholders to express dissatisfaction with executive compensation were "Vote No" campaigns, voting in director elections or selling shares (Mangen and Magnan, 2012). With SOP, they can explicitly express their opinions on CEO compensation. These mechanisms

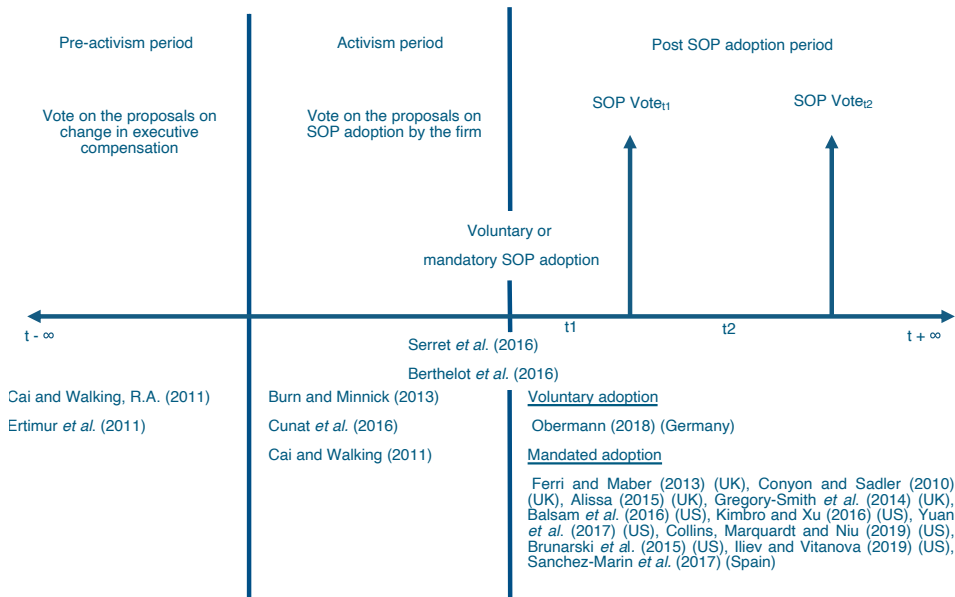
should thus promote closer alignment between executives' and shareholders' interests.

2.3 Shareholder activism and Say-on-Pay studies

The studies that assess the utility of SOP mainly focus on the British and American markets (Stathopoulos and Voulgaris, 2016). SOP has been implemented in the United Kingdom since August 1, 2002 in the form of Directors' Remuneration Report Regulations and in the United States since January 21, 2011 with Section 951 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111-203, H.R. 4173; the "Act"), which amended the Securities Exchange Act of 1934 (Armstrong *et al.*, 2013). Before these regulations, the situation in the United Kingdom and the United States was comparable to that in Canada, with only some firms adopting SOP.

Figure 1 presents the evolution over time of the events leading to firms' voluntary or mandatory adoption of SOP and its subsequent use. Early studies tended to address shareholder proposals on executive compensation schemes rather than specifically focus on proposals to adopt SOP. One example is a study by Ertimur *et al.* (2011) that examined shareholder proposals on executive compensation between 1997 and 2007.

Figure 1: Evolution of the events leading to firms' voluntary or mandatory adoption of SOP



They observed that while activists target firms with high executive pay (whether excessive or not), the shareholder vote is higher only at firms with excess executive pay. Cai and Walkling (2011) noted similar results when they examined shareholder votes on management proposals for approval of incentive compensation at shareholder meetings from 2003 to 2008. They found that shareholder support of such proposals is lower when CEO compensation is abnormally high and CEO pay-for-performance sensitivity is low.

Shareholder proposals on the adoption of SOP subsequently began to appear. Cai and Walkling (2011) observed that the companies targeted by activist shareholders (mainly labor unions with very small stock holdings in these companies) are larger firms rather than companies likely to benefit from SOP. They also noted that labor union proposals received less support from shareholders than non-union-sponsored proposals. Serret *et al.*

(2016) examined the factors underlying voluntary SOP adoption by Canadian firms. Their results show that voluntary adoption seems to be influenced by shareholder activism, firm size and dual listing, rather than by executive compensation.

Studies by Burns and Minnick (2013), Cunat *et al.* (2016) and Berthelot *et al.* (2015) explored the impact of SOP adoption proposals on executive compensation schemes and levels. Burns and Minnick (2013) investigated the effect of proposals put forward to adopt SOP on changes in executive compensation at annual meetings. The results of their study show that CEO total compensation does not significantly change after such proposals. However, the bonus portion of total compensation packages seems to decrease in favor of stock option distribution (Burns and Minnick, 2013). Cunat *et al.* (2016) also examined the effect of adopting SOP proposals on compensation measures. Their overall results show that these proposals have no systematic effect on CEO compensation. Berthelot *et al.* (2015) reached similar conclusions in the Canadian context. Based on a sample of 45 Canadian firms targeted by shareholder activists, their results indicate that the adoption of SOP does not improve the pay-performance relationship or lead to lower executive total compensation. The dissuasive effect of the adoption of SOP on executive compensation growth thus does not appear to be supported by prior research.

Some countries, led by the United Kingdom and then the United States and several European countries, subsequently passed regulations requiring listed firms to adopt SOP. Apart from work by Obermann (2018), who examined the impact of the voluntary adoption of SOP, most studies on the impact of SOP votes on executive compensation schemes and size were conducted in countries where SOP is mandatory (the United Kingdom, the United States and some European countries).

Ferri and Maber (2013), for example, studied the relationship between shareholder voting and CEO pay in the UK during the first years in which SOP was introduced by regulation (2003-2004). They observed not only a low dissident vote rate, but also that firms respond to a high rate of dissident votes by eliminating controversial compensation issues and improving the sensitivity of CEO pay to poor performance. This trend applied particularly to those firms that experienced a higher dissident vote the first year of voting and those where CEO pay was excessive before the regulation. Canyon and Sadler (2010) reached the opposite conclusion, noting that less than 10% of shareholders abstain or vote against mandated SOP and that the percentage is falling over time. As for the impact of the votes, no relationship was noted between the votes expressed on SOP and the level of subsequent CEO compensation. Their study also addressed British firms, covering the years from 2002 to 2007.

Basing their analysis on the companies listed on the FTSE 350 from 2003 to 2012, Gregory-Smith *et al.* (2014) found a small positive correlation between executive remuneration and dissent vote on the remuneration committee report. They concluded that dissent votes can play a role in moderating future executive compensation levels, although the effect observed seems limited to levels of dissent above 10%, and primarily acts upon the higher quantile rewards. Alissa (2015) also analyzed FTSE 350 firms over the period 2002 to 2012, concluding that the board appears to respond to shareholder dissatisfaction selectively rather than systematically by reducing excessive CEO compensation when performance is poor. He also observed that the probability of CEO turnover increases with shareholder dissatisfaction.

Balsam *et al.* (2016) examined the impact of the first year of mandated SOP in the United States. They found evidence that firms modified their CEO compensation packages prior to the initial 2011 vote with an eye to winning shareholder approval.

They concluded that shareholder voting on SOP is not random but is systematically tied to compensation practices. Kimbro and Xu (2016) and Yuan *et al.* (2017) reached similar conclusions. SOP votes of discontented shareholders are associated with high or excessive CEO compensation. In addition, boards seem to respond to SOP dissident votes by reducing the growth of CEO compensation. Collins *et al.* (2019) found that shareholders tend to approve compensation packages that are more sensitive to changes in stock price. In addition, future changes to equity-based incentives are related to SOP voting outcomes. From another perspective, Brunarski *et al.* (2015) studied management's reaction to SOP voting (in the United States), noting that overcompensated managers with low SOP vote support tend to react by increasing dividends, decreasing leverage and increasing corporate investment. Contrary to Kimbro and Xu (2016) and Yuan *et al.* (2017), they observed that excess compensation increases for managers who were substantially overpaid prior to the SOP vote, regardless of the outcome of the vote.

Iliev and Vitanova (2019) also observed that the regulation in the United States increases the level of CEO pay and the fraction of performance-linked compensation in the companies required to comply with this new obligation. The noted increase was larger for the CEOs with higher ownership and longer tenure. However, according to Iliev and Vitanova (2019), the market reacted negatively to the exemption of certain firms from the SOP rule, showing general support for SOP.

Other researchers have addressed the issue in other countries. Sanchez-Marin *et al.* (2017) carried out a study in Spain, where SOP has also become mandatory. The results of their analyses show that while SOP increases the alignment of CEO compensation to shareholders interests, it seems to be less effective in certain companies with overcompensated CEOs. In fact, in some firms, the overcompensated executives receive a high level of SOP support.

Thus, in these cases, shareholders seem to legitimize suboptimal compensation arrangements. According to Sanchez-Marin *et al.* (2017), the firms in this scenario appear to take symbolic rather than substantive action on executive compensation. Overall, the empirical results respecting the impact of mandatory SOP on executive compensation schemes and levels are currently mixed.

Obermann (2018) examined the application of voluntary SOP adoption in Germany. His findings tend to show that although shareholders favor long-term stock and stock option plans, they oppose short-term cash-bonus payments. He also found that investors who are discontent with bonus payments vote less in favor of directors' being in charge of executive compensation.³ In addition, he noted that boards seem to react by reducing bonuses and increasing equity payments in the following year, although the total compensation remains unaffected.

This study aims to complement these studies by investigating the situation in Canada, a country where SOP has not yet been legislated. In relation to Obermann's research (2018), it should be pointed out that Germany and Canada have very different governance models, as well as very different financial and legal systems. Germany's financial systems are based more on banking finance, while Canada's tend to be more financial-market based. Germany's legal system is founded on code law, in contrast to Canada's, which is founded on common law. Furthermore, the German governance model is more of a stakeholder governance model, while Canada's is more oriented towards shareholder governance (Zogning, 2017). All these differences and the mixed results of prior research make it difficult to reach generalizable conclusions. Our study's objective is to provide empirical

³ In the German governance system, shareholders vote on the board's work at annual general meetings (Obermann, 2018).

observations on SOP in a voluntary context that is relatively different from the context examined by Obermann (2018).

2.4 The Canadian context

The Canadian context provides the opportunity to study voluntary SOP adoption and operation. As mentioned above, in 2011, the Ontario Securities Commission issued a Notice (OSC STAFF NOTICE 54-701 – Regulatory Developments Regarding Shareholder Democracy Issues) requesting comments on the desirability of mandated shareholder advisory votes on executive compensation. Essentially, its statement can be summed up as follows:

“Over the past few years, securities regulators have focused on improving executive compensation disclosure to provide shareholders with meaningful information to exercise their voting rights. However, we have also been monitoring international developments in respect of SOP and are considering whether securities regulators should consider introducing mandatory SOP” (OSC Staff Notice 54-701 – Regulatory Developments Regarding Shareholder Democracy Issues, 2011).

In the wake of comments submitted by various financial market stakeholders, the Ontario Securities Commission did not follow up on its statement, thus adopting a position contrary to that of a number of other countries that made SOP compulsory. According to Mason *et al.* (2016), these countries mandated SOP in response to market failure in order to improve the public good. This explanation derives from the public interest theory. Executive compensation was excessive, and the regulation was primarily enacted in response to market failures (Mason *et al.* 2016). However, for others, politicians made SOP compulsory to respond to popular outrage about perceived abuses in executive pay (Culpepper, 2012; Mason *et al.*, 2016). Lastly, advocates

of the agency theory and the optimal compensation contract contend that the existing executive compensation system is generally working well and that little change is needed to ensure that shareholders obtain their return (Dorff, 2007; Mason *et al.*, 2016).

This is the approach favored by the Canadian Securities Administrators. Canada is not yet experiencing the problem of excessively high compensation or golden parachutes and its approach is intended to minimize the costs for firms. In leaving the choice up to each company, the Canadian Securities Administrators do not require all listed firms to incur these costs. This approach also shows that they have confidence in the ability of boards to control CEO compensation. Moreover, recent amendments to the Canadian Business Corporations Act were proposed to include dispositions on holding a non-binding SOP vote at firms' annual meetings. The corporations affected, which will be prescribed by regulation, are not yet known and no date has yet been set for when the amendments will come into force (Tuzyk and Davis, 2019).

At first glance, history seems to justify the Canadian Securities Administrators' position. Although adopting SOP has remained at firms' discretion, more than 100 firms listed on the Toronto Exchange have voluntarily adopted it since 2009. As previously mentioned, Serret *et al.* (2016) have shown that these firms are targeted by activism, are larger, and are often listed on US stock exchanges. They also constitute a sizeable portion of the firms included in the TSE S&P composite index. This context provides the opportunity to examine the evolution of SOP practices where the regulator does not intervene. Given the effort and cost involved for both firms and regulators to hold SOP votes, this study aims to examine: (1) the difference between firms that have voluntarily adopted SOP and those that have not, (2) the relationship between the SOP vote cast and executive compensation level and

growth, and (3) the impact of the votes and the rise in executive pay the following year. The findings of our analyses hence provide empirical observations on the regulators' decision in Canada compared to countries where SOP is mandatory, as is the case in many Western nations.

3. SAMPLE AND DATA COLLECTION

Firms included in the sample are listed on the S&P Composite Index of the Toronto Stock Exchange. Within this list, we identified those firms that were reported as having adopted the advisory vote on the website of the Shareholder Association for Research and Education (SHARE.ca). This association encourages and helps institutional investors maximize long-term financial returns by promoting good corporate governance. With an average of 240 firms making up the index, and over a four-year period, the number of observations totaled 960. Two hundred and sixteen observations were eliminated from the sample, mainly those that were income trusts, but also those that had their headquarters outside Canada or reported a change in their capital structure (negative equity) or CEO during the period under study. In addition, data were missing or abnormal for some firms. Of the 744 observations from which all the data were collected, 192 apply to 2013, 188 to 2014, 183 to 2015 and 181 to 2016. Of these, 418 observations represent firms that have adopted SOP.

Table 1 presents the distribution of firms by sector, defined according to the American Standard Industrial Classification (SIC) codes. The oil and gas sector is over-represented in the sample (20.0%), followed by finance, insurance, real estate (16.8%); mining and metals (16.7%); manufacturing (16.3%); and transportation and public utilities (15.6%). In terms of the most important sectors, the frequency of firms using SOP appears to

be higher in mining and metals (66.1%); transportation and public utilities (63.8%); and finance, insurance, real estate (60.0%).

Table 1: Descriptive statistics per sector

Sectors	Number	%	SOP Number	SOP %
Oil and Gas	149	20,03%	67	44,97%
Mining and Metals	124	16,67%	82	66,13%
Manufacturing	121	16,26%	62	51,24%
Transportation and Public Utilities	116	15,59%	74	63,79%
Finance, Insurance, Real Estate	125	16,80%	75	60,00%
Retail Trade	40	5,38%	17	42,50%
Services	45	6,05%	20	44,44%
Wholesale Trade	20	2,69%	18	90%
Construction	4	0,54%	3	75%
Total	744		418	56,24%

The accounting data for the analyses were extracted from the Capital IQ database, while the data on executive compensation and corporate governance practices were collected manually from the management proxy circular available in the Sedar.com database.⁴ All the variables used in the analyses are summarized in the Appendix. Data from 2013 and 2016 inclusively were collected to obtain a number of observations of firms using SOP (and not simply having voted to adopt it at their annual general meeting) large enough to carry out multivariate analyses.

It should be noted that the SOP vote is held at the annual general meeting that takes place no longer than six months after the end of the firm's fiscal year (year t). At this time, the terms and the amount of the executive compensation have already been determined and have been submitted to the shareholders in the proxy circular inviting them to the annual meeting. The SOP proposals are also included in the circular. Most of them are worded as follows:

⁴ Sedar.com is the official site developed by the Canadian Securities Administrators that provides access to public securities documents and information filed by public companies and investment funds.

RESOLVED, on an advisory basis and not to diminish the role and responsibilities of the Board of Directors that the shareholders accept the approach to executive compensation as disclosed in this Circular in advance of the Meeting.

Shareholders can vote for or against the proposal but cannot abstain. The percentage of in-favor votes is based on the total number of votes cast. The vote cannot legally bind the directors to amend the terms and amount of the compensation for the fiscal year (year t) in which the annual meeting takes place. However, if they so wish, the directors could amend the terms and amounts the next year (year $t+1$).

4. RESULTS

4.1 Descriptive statistics

Table 2 presents descriptive statistics of the variables relating to the firms in the sample. As expected, these firms are relatively large, with average total sales ($SALE_{it}$) of close to \$CAN 5,9 billion (median = \$1,814 billion). The average stock return of the firms ($RETURN_{it}$) included in the sample is 9.5% and the median is 9.1%. The average revenue growth ($GROW_{it}$) amounts to 9.0% (median = 4.7%), while the mean return on equity (ROE_{it}) is 2.1% (median = 6.6%) and the mean Tobin's Q ratio⁵ ($TOBINQ_{it}$) is 0.870 (median = 0.678). As for the governance variables ($CHBOARD_{it}$ and $INDP_{it}$) (dummy variable), 121 CEOs included in the 744 (16.3%) observations also serve as chair of the board ($CHBOARD_{it}$) and the mean of the percentage of independent directors ($INDP_{it}$) is 78.3% (median = 80%).

⁵ Operationalized as in Elsayed and Elbardan (2018).

The CEOs of the firms included in the sample have a mean total compensation ($TCOMP_{it}$) of close to \$CAN4.5 million (median = 3.24 million). This figure breaks down as follows: mean base salary ($BSCOMP_{it}$) = \$CAN790,000 (median = 720,000); mean bonus⁶ ($BOCOMP_{it}$) = \$CAN1.162 million (median = 0,715 million); mean long-term compensation⁷ ($LTCOMP_{it}$) = \$CAN2.188 million (median = 1.475 million). In respect of CEO compensation growth, the mean total compensation growth ($\Delta TCOMP_{it}$) is 14.0% (median = 3.3%), the mean base salary growth ($\Delta BSCOMP_{it}$) is 12.0% (median = 1.9%), the mean bonus compensation growth ($\Delta BOCOMP_{it}$) is 13.7% (median = 0.0%), and the mean long-term compensation growth ($\Delta LTCOMP_{it}$) is 25.2% (median = 0.0%).

Lastly, the mean percentage of SOP votes is 92.2% (median = 92.2%). Although high, this figure is comparable to those noted in prior research (Brunarski *et al.*, 2015; Sanchez-Marin *et al.*, 2017; Obermann, 2018).

6 The bonus is a compensation component generally based on accounting performance and the achievement of short-term objectives. It is generally paid shortly after the end of the fiscal year.

7 The long-term compensation component is based on the share price. It is paid in the form of grants of performance share units, stock options or deferred share units. Executives collect the cash only when they sell the related shares, which is usually a few years after they have been awarded since they may not usually be sold for a predetermined period of time. In the case of deferred share unit plans, the executives do not own the shares but are entitled to an amount equal to the value of the shares and dividends paid according to the timeframe specified in the plan.

Table 2: Descriptive statistics

Variables	N	Mean	Standard deviation	Median	Minimum	Maximum
SALE _{it} ¹	744	5,858	10,130	1,814	0,017	53,203
RETURN _{it}	744	0.095	0.404	0.091	-0.885	1.953
GROW _{it}	744	0.090	0.378	0.047	-0.975	3.517
ROE _{it}	744	0.021	0.242	0.066	-1.697	0.825
TOBINO _{it}	744	0.870	0.735	0.678	0.032	5.212
INDP _{it}	744	0.783	0.128	0.800	0.333	1.000
TCOMP _{it} ^{1,2}	744	4.517	4.746	3.242	0.108	85.317
BSCOMP _{it} ¹	744	0.790	0.534	0.720	0.000	6.442
BOCOMP _{it} ¹	744	1.162	1.789	0.715	0.000	24.434
LTCOMP _{it} ¹	744	2.188	3.021	1.475	0.000	59.584
CACOMP _{it} ¹	744	1.953	2.030	1.442	0.000	25.734
ΔTCOMP _{it}	743	0.140	0.628	0.033	-0.960	5.415
ΔBSCOMP _{it}	743	0.120	0.863	0.019	-1.000	15.159
ΔBOCOMP _{it}	703	0.137	0.935	0.000	-1.000	12.466
ΔLTCOMP _{it}	719	0.252	1.513	0.000	-1.000	22.726
ΔCACOMP _{it}	740	0.176	0.994	0.020	-1.000	15.159
%VOTE _{it}	418	0.922	0.092	0.951	0.266	0.999

1 In millions of Canadian dollars.

2 The difference between the sum of all the components and the total compensation is due to the other compensation component, which includes various elements such as life insurance, interest-free loans, company vehicles, pension plans, etc.

4.2 Characteristics of the firms that have and have not adopted SOP

To examine the difference between the firms that have voluntarily adopted SOP and those that have not, a mean test and a median test (nonparametric Kolmogorov-Smirnov test) were carried out comparing all the compensation components and the financial variables of each group. The results are set out in Table 3 below.

Table 3: Average comparisons for the firms that have and have not adopted SOP

Variables	SOP adopted	SOP not adopted	Mean Test	Median Test
SALE _{it} ¹	6,456.456	5,090.640	*	***
RETURN _{it}	0.089	0.104		
GROW _{it}	0.058	0.132	***	***
ROE _{it}	0.016	0.026		
TOBINQ _{it}	0.773	0.995	***	***
INDP _{it}	0.828	0.724	***	***
TCOMP _{it} ¹	5.104	3.765	***	***
BSCOMP _{it} ¹	0.868	0.690	***	***
BOCOMP _{it} ¹	1.239	1.064		***
LTCOMP _{it} ¹	2.619	1.635	***	***
CACOMP _{it} ¹	2.107	1.754	**	***
ΔTCOMP _{it}	0.086	0.210	**	**
ΔBSCOMP _{it}	0.145	0.089		
ΔBOCOMP _{it}	0.157	0.112		**
ΔLTCOMP _{it}	0.170	0.358	*	
ΔCACOMP _{it}	0.200	0.146		

, **, * indicate the significance level at 10, 5, and 1%, respectively (two-tailed test).*

1 In millions of Canadian dollars.

These results tend to show that the companies that have adopted SOP are likely to be those that can derive more benefit from it. Moreover, the analyses indicate that the firms that have adopted SOP have considerably larger sales (SALE_{it}) (mean = \$CAN6,456 million) than those that have not (mean = \$CAN5,090 million). The difference is marginally significant ($p < 0.1$). Revenue growth (GROW_{it}) and the Tobin's Q (TOBINQ_{it}) are lower for firms that have adopted SOP (5.8% and 0.773) than for those that have not (13.2% and 0.995). These differences are also significant ($p < 0.05$). The percentage of independent directors (INDP_{it}) is significantly higher for the firms that have implemented SOP (82.8%) than for those that have not (72.4%). It thus seems that the greater the number of independent directors on the board, the more likely the firm is to adopt SOP, suggesting that SOP is a useful tool for independent directors.

Lastly, the results indicate that CEO salaries ($TCOMP_{it}$) are significantly higher in firms that have adopted SOP (mean = \$CAN5.104 million) than in those that have not (mean = \$CAN3.765 million). As Table 3 illustrates, this difference also applies to and is significant for base salary ($BSCOMP_{it}$) and long-term equity-based compensation ($LTCOMP_{it}$), and significant (only with the median test) for the bonus component ($BOCOMP_{it}$). In relation to total compensation, the proportion of the long-term equity-based component is also larger, which seems to indicate that these compensation schemes have a greater shareholder orientation. In growth terms, the findings indicate that only the total compensation growth of the firm's CEO ($\Delta TCOMP_{it}$) is significantly lower in firms that have adopted SOP (mean = 8.6%) than in those that have not (mean = 21.0%). In contrast, the bonus component growth is significantly (only with median test) higher for these firms (mean = 14.5 %). The two groups do not seem to differ significantly as concerns the other variables ($RETURN_{it}$, ROE_{it} , $\Delta BSCOMP_{it}$, and $\Delta LTCOMP_{it}$). These results thus appear to indicate that the firms that have adopted SOP are large firms with lower sales growth and higher CEO salaries. These are the firms that would therefore appear to benefit from adopting SOP to limit the growth of their CEOs' compensation. Furthermore, the 21% average total compensation growth of executives of firms that have not adopted SOP compared to the 8.6% reported for the firms that have adopted it could be a legitimate reason for its introduction. However, our results for the years from 2013 to 2016 do not support this argument.

4.3 Link between SOP vote and executive compensation level and growth

To examine the relationships between SOP votes and CEO compensation level and growth, we drew on an empirical model that included several underlying corporate governance

characteristics as well as other variables that can affect CEO compensation, based on studies by Conyon and Sadler (2010), Ferry and Maber (2013), Gregory-Smith *et al.* (2014), Brunarski *et al.* (2015) and Kimbro and Xu (2016), and taking into account the availability of data in the Canadian context. The OLS regression model is expressed as follows:

$$\begin{aligned} \text{COMP}_{it} = & \alpha_0 + \alpha_1 \% \text{VOTE}_{it} + \alpha_2 \text{SALE}_{it} + \alpha_3 \text{RETURN}_{it} + \alpha_4 \text{GROW}_{it} + & (1) \\ & \alpha_5 \text{ROE}_{it} + \alpha_6 \text{TOBINQ}_{it} + \alpha_7 \text{INDP}_{it} + \alpha_8 \text{CHBOARD}_{it} + \alpha_9 \text{IND}_{it} + \\ & \alpha_{14-16} \text{YEARS}_{it} + \varepsilon_{it} \end{aligned}$$

where,

COMP_{it} is “CEO compensation variables” for the year t ; $\% \text{VOTE}_{it}$ is the SOP vote results for the year t ; SALE_{it} is the corporate logarithm of the total sales for the year t ; RETURN_{it} is the stock return for the year t ; GROW_{it} is the revenue growth for the year t ([total revenue at the end of year t minus total revenue at the end of previous year]/total revenue at the end of previous year); ROE_{it} is the return on equity for the year t ; TOBINQ_{it} is the Tobin’s Q ratio of firm i at the end of year t ; INDP_{it} is the percentage of independent directors on the board of firm i at the end of year t ; CHBOARD_{it} is a dummy variable equal to 1 if the CEO is chair of the board at the end of the year t , and 0 otherwise; INDOG_{it} is a dummy variable equal to 1 if the firm sector is oil and gas and 0 otherwise; INDMM_{it} is a dummy variable equal to 1 if the firm sector is mining and metals and 0 otherwise; INDMAN_{it} is a dummy variable equal to 1 if the firm sector is manufacturing and 0 otherwise; INDFIN_{it} is a dummy variable equal to 1 if the firm sector is finance, insurance and real estate and 0 otherwise; INDTRP_{it} is a dummy variable equal to 1 if the firm sector is transportation and public utilities and 0 otherwise; YEARS13_{it} , YEARS14_{it} and YEARS15_{it} are dummy variables associated with fiscal years 2013, 2014 and 2015 respectively (equal to 1 if the observation is for the year and 0 otherwise)⁸; and ε_{it} is the error term. Since SOP votes are intended to communicate shareholder satisfaction with CEO

compensation (lower) and thus limit excessive executive pay, we expected the coefficients (α_1) associated with the %VOTE of each model run to be negative and significant.

Tables 4 and 5 present the results of the regression analysis. We ran ordinary least squares regressions. The multicollinearity between the independent variables does not seem to be problematic. In fact, the variance inflation factor (VIF) obtained by the collinearity diagnostic for the independent variables (%VOTE_{it}, LnSALE_{it}, RETURN_{it}, GROW_{it}, ROE_{it}, TOBINQ_{it}, INDP_{it}, CHBOARD_{it}) and sector variables is within the prescribed threshold of [1, 10] proposed by Hair *et al.* (2009). In addition, we ran the Durbin Watson statistic for autocorrelation problems. The Durbin Watson obtained for all models was close to 2, indicating that autocorrelation does not seem to be problematic.

Table 4 presents the results of the regression analysis of CEO compensation and its components with the results of the SOP vote (%VOTE_{it})⁹. Our sample is limited to 418 observations representing firms that have adopted SOP. Note that the percentage of the SOP vote is high, with a mean of 92.2% and a median of 95.1%. These results are consistent with past studies (Conyon and Sadler, 2010; Ferri and Maber, 2013; Gregory-Smith *et al.*, 2014; Brunarski *et al.*, 2015; Iliev and Vitanova, 2019). Except for model 4 (which has long-term compensation as a dependent variable), our analysis points out that, as expected, the coefficient associated with the SOP vote results (%VOTE_{it}) is negative and significant (p-value ≤ 0.05), with base (BSCOMP_{it}), bonus (BOCOMP_{it}) and cash components of compensation (CACOMP_{it}) and total compensation as dependent variables (TCOMP_{it}). This result indicates that shareholders vote in favor of the compensation when the base (BSCOMP_{it}), bonus (BOCOMP_{it}), cash components (CACOMP_{it}) and total compensation are lower.

8 These variables serve to control the differences due to unknown phenomena that could occur from one year to the next in the dependent variables tied to CEO compensation.

9 None of the observations of the regression analyses performed in any of the tables have a Cook's D greater than 1.

The explanatory threshold of the variance of the model with total compensation as dependent variable is 58.4% (adjusted R^2) and those with the base salary component and cash compensation as dependent variables are respectively 43.5% and 49.8%. In addition to the significant results respecting the SOP vote, the coefficients associated with sales (LnSALE_{it}), sales growth (GROW_{it}), return on equity (ROE_{it}) and Tobin's Q (TOBINQ_{it}) are also significant in several models, indicating that these variables are associated with total compensation and some of its components.

It should be noted that the variable representing the percentage of independent directors (INDP_{it}) is positively and significantly tied to total compensation and each of its components. These results thus tend to show that the greater the number of independent directors on a board, the higher the CEO's compensation. The coefficient of the variable representing the fact that the CEO is chair of the board (CHBOARD_{it}) is positive and significantly related to the base salary component (LnBSCOMP_{it}) and negatively and significantly related to the long-term compensation component of the firm's CEO (LnLTCOMP_{it}). It can thus be assumed that when the CEO is also chair of the board, his or her compensation depends more on base salary than on long-term compensation. Base salaries constitute an immediate source of funds for the CEO, while the long-term component is tied to the firm's share price, which constitutes a greater risk. In addition, the coefficients associated with the dichotomous variables representing certain sectors are positive and significant in oil and gas (INDOG_{it}), mining and metals (INDMM_{it}), finance, insurance and real estate (INDFIN_{it}), and transportation and public utilities (INDTRP_{it}), signaling that executive compensation is also tied to industry sector. These results can be explained by various elements specific to the sector, such as the widespread use of consultants who carry out analyses and demonstrate where a client firm is positioned relative to other similarly situated peers in the overall CEO pay distribution. This practice tends to standardize the compensation granted in certain sectors (Conyon, Peck and Sadler, 2011). Accordingly, executive

compensation practices may significantly differ from one sector to another. Lastly, the coefficients associated with the variables presenting the years ($YEARS13_{it}$, $YEARS14_{it}$ and $YEARS15_{it}$) are not significant, indicating that there do not seem to be any unknown phenomena that can affect the dependent variables in the years covered by the study.

Table 4: Results of the regression analysis of compensation level with $\%VOTE_{it}$

Variables	M1 $LnTCOMP_{it}$	M2 $LnBSCOMP_{it}$	M3 $LnBOCOMP_{it}$	M4 $LnLTCOMP_{it}$	M5 $LnCACOMP_{it}$
$\%VOTE_{it}$	-1.494***(.254)	-0.715***(.202)	-5.434**(.2126)	1.271 (1.606)	-1.574***(.271)
$LnSALE_{it}$	0.361***(.020)	0.195***(.016)	0.220 (.167)	0.199 (.126)	0.287***(.021)
$RETURN_{it}$	0.005 (.071)	-0.122**(.056)	0.544 (.592)	-0.737*(.447)	0.044 (.075)
$GROW_{it}$	0.184***(.071)	0.052 (.057)	0.860 (.596)	0.020 (.450)	0.188**(.076)
ROE_{it}	0.174 (.113)	0.097 (.090)	2.673***(.945)	-0.268 (.714)	0.338***(.120)
$TOBINQ_{it}$	0.144***(.041)	0.033 (.033)	0.449 (.344)	0.012 (.260)	0.165***(.044)
$INDP_{it}$	1.038***(.214)	0.526***(.169)	4.396***(1.785)	3.958***(.1.349)	0.840***(.228)
$CHBOARD_{it}$	0.009 (.103)	0.212***(.082)	0.915 (.859)	-1.575***(.649)	0.296***(.109)
$INDOG_{it}$	0.242***(.088)	-0.097 (.070)	0.959 (.735)	0.352 (.555)	-0.055 (.094)
$INDMM_{it}$	0.443***(.086)	0.321***(.068)	0.259 (.715)	0.393 (.540)	0.339***(.091)
$INDMAN_{it}$	0.093 (.083)	0.101 (.066)	-0.384 (.697)	-0.714 (.527)	-0.053 (.089)
$INDFIN_{it}$	0.233***(.085)	0.045 (.067)	0.557 (.708)	0.335 (.535)	0.077 (.090)
$INDTRP_{it}$	0.249***(.080)	0.213***(.064)	1.341**(.673)	0.237 (.508)	0.201**(.086)
$YEARS13_{it}$	0.008 (.066)	-0.026 (.053)	0.223 (.555)	0.014 (.420)	0.008 (.071)
$YEARS14_{it}$	-0.054 (.069)	-0.106*(.055)	-0.137 (.575)	-0.073 (.435)	-0.080 (.073)
$YEARS15_{it}$	-0.069 (.068)	-0.065 (.054)	-0.958 (.570)	-0.311 (.431)	-0.078 (.073)
Intercept	12.543***(.352)	12.150***(.279)	11.368***(.2.940)	7.984***(.2.222)	12.574***(.375)
Adjusted R ²	0.584	0.435	0.100	0.040	0.498
F-value	37.546***	21.026***	3.894***	2.092***	26.880***
N	418	418	418	418	418

Standard errors are in parentheses.

*, **, *** indicate the significance level at 10, 5, and 1%, respectively (two-tailed test).

Table 5: Results of the regression analysis of compensation growth with %VOTE_{it}

Variables	M6 ΔTCOMP_{it}	M7 ΔBSCOMP_{it}	M8 ΔBOCOMP_{it}	M9 ΔLTCOMP_{it}	M10 ΔCACOMP_{it}
%VOTE _{it}	-0.717***(.264)	-0.089 (.577)	-0.795 (.615)	0.249 (.806)	-1.111*(.628)
LnSALE _{it}	0.004 (.021)	0.027 (.045)	-0.035 (.046)	-0.089 (.064)	0.065 (.049)
RETURN _{it}	0.142*(.073)	-0.101 (.161)	0.428***(.166)	-0.119 (.226)	0.110 (.175)
GROW _{it}	0.305***(.074)	0.221 (.162)	0.191 (.160)	0.179 (.224)	0.253 (.176)
ROE _{it}	0.207*(.117)	0.160 (.257)	0.385 (.299)	0.209 (.363)	0.002 (.279)
TOBINQ _{it}	-0.010 (.043)	-0.100 (.094)	-0.049 (.095)	-0.057 (.133)	-0.047 (.102)
INDPit	-0.209 (.222)	-1.868***(.485)	-1.246**(.487)	-0.292 (.681)	-2.095***(.528)
CHBOARD _{it}	-0.275***(.107)	-0.142 (.233)	-0.139 (.231)	-0.402 (.324)	-0.313 (.254)
INDOG _{it}	0.069 (.091)	-0.445**(.200)	0.104 (.202)	-0.024 (.279)	-0.356*(.217)
INDMM _{it}	0.069 (.089)	-0.351*(.194)	-0.027 (.197)	-0.294 (.273)	-0.180 (.211)
INDMAN _{it}	0.068 (.087)	-0.326*(.189)	-0.011 (.197)	-0.147 (.266)	-0.085 (.206)
INDFIN _{it}	-0.083 (.088)	-0.355*(.192)	-0.028 (.193)	-0.193 (.271)	-0.319 (.209)
INDTRP _{it}	0.050 (.084)	-0.381**(.183)	0.169 (.184)	-0.153 (.257)	-0.220 (.199)
YEARS13 _{it}	-0.085 (.069)	-0.050 (.151)	-0.201 (.154)	-0.235 (.212)	-0.191 (.164)
YEARS14 _{it}	0.037 (.071)	-0.001 (.156)	-0.084 (.159)	0.145 (.219)	-0.081 (.170)
YEARS15 _{it}	-0.032 (.071)	0.271*(.155)	0.013 (.157)	-0.179 (.216)	0.085 (.168)
Intercept	0.867**(.365)	1.897**(.798)	2.212***(.815)	1.156 (1.118)	2.716***(.869)
Adjusted R ²	0.081	0.042	0.025	0.00	0.031
F-value	3.294***	2.134***	1.633*	0.708	1.847**
N	418	418	395	408	418

Standard errors are in parentheses.

*, **, *** indicate the significance level at 10, 5, and 1%, respectively (two-tailed test).

Table 5 presents the results of the regression analysis of compensation growth with the percentage of SOP vote results (%VOTE_{it}). Models 6 and 10 show that the coefficient of the SOP vote results (%VOTE_{it}) is negatively and significantly ($p\text{-value} \leq 0.05$) associated with CEO total compensation growth (ΔTCOMP_{it}) and marginally associated with cash components growth (ΔCACOMP_{it}). These results indicate that when the executive total compensation growth is 0.717% lower, the SOP vote is 1% higher. For the other models, the coefficient of the SOP vote results is not significant. In model 6, the coefficient for revenue

growth ($GROW_{it}$) is positive and significant, signaling that a 1% increase in the firm's revenue is reflected by an average increase of 3.05% in CEO total compensation growth.

Furthermore, the coefficient of the variable controlling the fact that the CEO is chair of the board ($CHBOARD_{it}$) is negative and significant; indicating that total compensation growth is less when the CEO is also chair of the board. The coefficients of the variable representing the percentage of independent directors ($INDP_{it}$) are negative and significantly related to the growth of compensation components involving immediate cash outflows ($\Delta BSCOMP_{it}$, $\Delta BOCOMP_{it}$, $\Delta CACOMP_{it}$). These results indicate that independent directors seem, to a certain extent, to limit the growth of CEO cash-compensation components. The explanatory thresholds of the variance of the dependent variables are 0.0 % for model 9 and 8.1% for model 6.

In summary, the findings presented in Tables 4 and 5 show that shareholders use SOP to convey their dissatisfaction with total executive compensation levels and its cash components (base salary, bonus). However, they do not appear to be concerned about the level of the long-term compensation component. Similar conclusions can be drawn from the analyses of the growth of compensation and its components. Dissident votes are expressed when the cash component growth is higher (the relationship is negative). It should be noted that the long-term component is usually in the form of stock options or other elements based on the price of the firm's shares, which align the interests of managers with those of shareholders. This component does not involve short-term cash outflows.

4.4 Link between SOP vote and executive compensation growth the following year

The final objective of this study is to examine whether shareholders' votes, in the Canadian context where they are non-binding, impact CEO compensation growth in the following year. We thus ran a regression analysis of the compensation growth variable of the next year with the percentage of vote (%VOTE_{it}). The results set out in Table 6 are not significant for all models.

Table 6: Results of the regression analysis of compensation growth variables of the next year with %VOTE_{it}

Variables	M11 ΔTCOMP _{it}	M12 ΔBOCOMP _{it}	M13 ΔCACOMP _{it}	M14 ΔBOCOMP _{it}	M15 ΔBOCOMP _{it}
%VOTE _{it}	-0.043 (.366)	-0.168 (.235)	0.559 (.453)	-0.177 (.887)	0.179 (.342)
LnSALE _{it+1}	0.012 (.029)	-0.021 (.019)	-0.041 (.036)	-0.090 (.071)	-0.004 (.027)
RETURN _{it+1}	0.112 (.071)	-0.070 (.046)	0.138 (.088)	-0.026 (.174)	-0.005 (.066)
GROW _{it+1}	0.241***(.101)	0.088 (.065)	0.233*(.123)	0.020 (.246)	0.155 (.094)
ROE _{it+1}	-0.140 (.192)	0.098 (.123)	0.297 (.236)	0.054 (.469)	0.205 (.179)
TOBINO _{it+1}	-0.038 (.059)	-0.019 (.038)	-0.075 (.073)	-0.074 (.147)	-0.060 (.055)
INDP _{it+1}	-0.498 (.361)	-0.251 (.232)	0.061 (.448)	-0.697 (.895)	-0.207 (.337)
CHBOARD _{it+1}	-0.226 (.170)	-0.052 (.109)	-0.079 (.207)	-0.291 (.411)	-0.197 (.159)
INDOG _{it}	-0.242*(.133)	0.032 (.085)	0.137 (.165)	-0.188 (.325)	0.066 (.124)
INDMM _{it}	-0.189 (.127)	-0.003 (.081)	-0.105 (.159)	-0.519*(.310)	0.148 (.118)
INDMAN _{it}	0.125 (.124)	0.053 (.080)	0.200 (.157)	0.026 (.308)	0.205*(.116)
INDFIN _{it}	-0.255*(.123)	0.047 (.079)	-0.085 (.153)	-0.341 (.305)	-0.033 (.115)
INDTRP _{it}	-0.159 (.118)	-0.015 (.076)	0.000 (.147)	-0.334 (.291)	-0.013 (.110)
YEARS13 _{it}	0.131 (.093)	-0.069 (.060)	-0.152 (.115)	0.310 (.228)	-0.046 (.087)
YEARS14 _{it}	-0.165*(.095)	0.003 (.061)	-0.200*(.116)	-0.153 (.231)	-0.101 (.088)
YEARS15 _{it}	-0.087 (.092)	-0.033 (.059)	0.108 (.115)	-0.063 (.226)	0.124 (.086)
Intercept	0.707 (.540)	0.621 (.347)	-0.035 (.667)	2.041 (1.328)	0.144 (.504)
Adjusted R ²	0.056	0.000	0.040	0.00	0.016
F-value	2.498***	0.764	2.005**	0.758	1.399
N	404	404	384	394	404

Standard errors are in parentheses.

*, **, *** indicate the significance level at 10, 5, and 1%, respectively (two-tailed test).

The growth of total compensation the following year, its components or components involving cash outflows do not appear to be impacted by SOP votes of the year. Only the coefficients associated with revenue growth ($GROW_{it}$) and the finance, insurance and real estate sectors ($INDFIN_{it}$) are significant at an error threshold of 5% in the model where the dependent variable is the total compensation growth of the next year ($\Delta TCOMP_{it+1}$). This model (M11) shows an explanation threshold for the variance (adjusted R2) of 5.6%. Lastly, we calculated the Pearson correlation coefficients between the votes cast and the total compensation, its components and components involving cash outflows. None of the correlations are significant. The results are constant. The SOP votes do not affect CEO compensation growth the following year.

On the whole, all our findings show that the firms where CEO compensation is high tend to voluntarily adopt SOP. Shareholders' SOP votes are negatively associated with total compensation and with its components involving immediate cash flows. Similar results were noted for total compensation and cash-compensation growth. Yet despite investors' disapproval, the growth of executive compensation is not affected the following year. These results are consistent with findings by Brunarski *et al.* (2015) in a context where SOP is mandatory. Non-binding SOP does not seem to be sufficiently forceful to push board members to limit executive compensation growth. These results suggest that voluntary SOP adoption seems to be part of a legitimization strategy. Boards seek to change shareholders' perception of their lack of commitment to controlling executive compensation by adopting SOP and allowing shareholders to voice their opinion. Nonetheless, adopting SOP does not reflect a truly significant change in executive compensation practices.

CONCLUSION

The aim of this study is to examine (1) the difference between firms that have voluntarily adopted SOP and those that have not. (2) the relationship between the SOP vote and executive compensation level/growth and, (3) the impact of the votes and growth of executive pay the following year. The results tend to show that firms that voluntarily adopt SOP are significantly larger and post lower revenue growth. They are also less well perceived by investors and their CEOs' pay is appreciably higher, particularly in terms of base salary and long-term equity-based compensation. Overall, the adoption of SOP seems to enable shareholders to convey their dissent with higher executive total compensation, higher cash-compensation components (i.e. base salary and bonus) and higher total and cash compensation growth. The expression of their dissent does not impact executive compensation growth the next year.

Unlike mandated SOP, the voluntary approach Canada has adopted so far has the advantage of not engendering SOP implementation costs for firms, including those firms that have no problems with excessive CEO compensation. However, this study reaches the same conclusion as studies on mandated SOP (Brunarski *et al.*, 2015). The limited impact of shareholders' dissenting votes on executive compensation is presumably because the vote is non-binding. In line with the managerial power theory, in a number of firms the power relationships between CEOs and directors seem likely to advantage CEOs. The study results highlight the importance of conducting other studies in countries where SOP regulation is binding, as it is in Australia, Denmark, the United Kingdom, Switzerland, Norway, Sweden, Spain and the Netherlands. Has SOP in these countries helped limited the growth of executive compensation?

This study has certain limitations. For instance, some variables that can have a significant impact on CEO compensation may not have been taken into account. Much research remains to be done before we can understand all the details of how executives' salaries are determined and can accurately predict their level. The data collected however focuses on the variables recognized to date as being most likely to be tied to the size of executive compensation. The observations are also limited to the Canadian context. As well, many boards of directors work with consultants to establish the terms of senior executives' compensation schemes. This variable, which was not taken into consideration, could possibly affect investor perceptions at voting time. Lastly, although the sample constitutes a significant percentage of the firms listed on the Toronto Stock Exchange, the number of observations in the sample represents only relatively large firms.

The findings of this study open up various paths for future research. It would be interesting for example to examine the impact of SOP votes on executive compensation growth where the SOP vote is binding. It could also be of interest to further explore the legitimization strategies deployed by boards of directors to encourage investors' approval of the executive compensation granted. These strategies include employing reputable consultants or using the explanation justifying the remuneration presented in the firms' official documents.

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APPENDIX: DEFINITION OF VARIABLES USED IN REGRESSIONS MODELS

$\%VOTE_{it}$	SOP vote results for the firm i the year t . ¹
$SALE_{it}$	Total revenue of firm i for the year t in millions of \$CAN. ²
$RETURN_{it}$	Stock return of firm i for the year t (stock price at the end of fiscal year + annual dividend per share - stock price at the beginning of fiscal year) / stock price at the beginning of fiscal year). ²
$GROW_{it}$	Revenue growth of firm i for the year t $((SALE_{it} - SALE_{it-1}) / SALE_{it-1})$. ²
ROE_{it}	Return on equity of firm i for the year t . ²
$TOBINQ_{it}$	Tobin's Q ratio of firm i at the end of year t (Total market value / Total Asset value). ²
$INDP_{it}$	Percentage of independent directors on the board of firm i at the end of year t . ¹
$TCOMP_{it}$	Total compensation of the firm's CEO for the year t in millions of \$CAN. ¹
$BSCOMP_{it}$	Base salary of the firm's CEO for the year t in millions of \$CAN. ¹
$BOCOMP_{it}$	Bonus component of the compensation of the firm's CEO for the year t in millions of \$CAN. ¹
$LTCOMP_{it}$	Long-term compensation of the firm's CEO for the year t in millions of \$CAN. ¹
$CACOMP_{it}$	Cash compensation of the firm's CEO for the year t is equal to $(BSCOMP_{it} + BOCOMP_{it})$ in millions of \$CAN. ¹
$\Delta TCOMP_{it}$	Is equal to $((TCOMP_{it} - TCOMP_{it-1}) / TCOMP_{it-1})$. ¹
$\Delta BSCOMP_{it}$	Is equal to $((BSCOMP_{it} - BSCOMP_{it-1}) / BSCOMP_{it-1})$. ¹
$\Delta BOCOMP_{it}$	Is equal to $((BOCOMP_{it} - BOCOMP_{it-1}) / BOCOMP_{it-1})$. ¹
$\Delta LTCOMP_{it}$	Is equal to $((LTCOMP_{it} - LTCOMP_{it-1}) / LTCOMP_{it-1})$. ¹
$\Delta CACOMP_{it}$	Is equal to $((CACOMP_{it} - CACOMP_{it-1}) / CACOMP_{it-1})$. ¹
$CHBOARD_{it}$	Dummy variable equal to 1 if the CEO is chairman of the board at the end of the year t and 0 otherwise. ¹
$INDOG_{it}$	Dummy variable equal to 1 if the firm sector is oil and gas and 0 otherwise. ²
$INDMM_{it}$	Dummy variable equal to 1 if the firm sector is mining and metals and 0 otherwise. ²
$INDMAN_{it}$	Dummy variable equal to 1 if the firm sector is manufacturing and 0 otherwise. ²
$INDFIN_{it}$	Dummy variable equal to 1 if the firm sector is finance, insurance and real estate and 0 otherwise. ²
$INDTRP_{it}$	Dummy variable equal to 1 if the firm sector is transportation and public utilities and 0 otherwise. ²
$YEARS13_{it}$	Dummy variable equal to 1 if the firm fiscal year is 2013 and 0 otherwise.
$YEARS14_{it}$	Dummy variable equal to 1 if the firm fiscal year is 2014 and 0 otherwise.
$YEARS15_{it}$	Dummy variable equal to 1 if the firm fiscal year is 2015 and 0 otherwise.

¹ Collected manually from the management proxy circular available in the Sedar.com database.

² Extracted from the Capital IQ database.