DOES INSTITUTIONAL HOLDERS' APPROVAL REALLY MATTER? AN EXAMINATION OF ISRAEL'S BINDING VOTE ON CEO COMPENSATION, FROM DIRECTORS' POINT OF VIEW

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Abstract

This study examines the implications of mandatory shareholder approval for chief executive officer (CEO) compensation in Israel, following the "say-on-pay" (SOP) framework. Through the utilization of a binding voting framework, shareholders evaluate the effectiveness of CEO compensation structures. A survey involving 106 Israeli directors occupying diverse board positions, including external, independent, regular, and chair positions, reveals that external directors demonstrate a greater appreciation for institutional votes. This highlights their acknowledgment of institutional perspectives and underscores the critical significance of fostering effective communication between boards and institutional stakeholders to strengthen corporate governance frameworks. The study emphasizes the pivotal role of dialogue in enhancing governance structures through a nuanced examination of challenges in executive compensation governance.

Keywords: CEO Compensation, Corporate Governance, Institutional Holders, Say-on-Pay, External Directors, Gender

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1. INTRODUCTION

The determination of chief executive officer (CEO) pay is a contentious issue that has long sparked debate among scholars, practitioners, and policymakers. At the heart of this debate lies the question of whether shareholders, as the ultimate owners of companies, should have a say in determining the compensation of their CEO. In an effort to address this issue, Israel introduced Amendment 20 to the Companies Law in 2012. This landmark reform established a unique dual-majority voting requirement for CEO pay packages. Specifically, Amendment 20 mandated approval not only from the majority of shareholders but also from the majority of minority shareholders. This requirement aimed to strengthen corporate governance in Israel by ensuring that both controlling and minority shareholders have a voice in CEO compensation decisions. The Israeli CEO compensation mechanism differs from the U.S. "say-on-pay" (SOP) system by emphasizing binding decisions. Shareholders' approval is a prerequisite for CEO compensation to take effect, aligning with a shift towards making the SOP mandatory rather than advisory. In rare instances, the compensation committee retains the authority to overrule shareholder decisions, although such occurrences are infrequent. Stathopoulos and

Voulgaris (2016), discuss the need to change the nature of the SOP from advisory to binding, as the degree of its effectiveness and the dynamics of the voting process.

Of particular significance, the majority of minority shareholders can be composed of institutional investors. These investors, which may include pension funds, mutual funds, and hedge funds, often hold a substantial portion of a company's shares but are not allowed to be in a position of controlling ownership. The dual-majority voting requirement ensures that institutional investors, with their significant financial stake in the company, have a direct say in CEO pay decisions, potentially acting as a counterbalance to the interests of controlling shareholders.

In the last year alone, in Israel, there have been two high-profile cases where boards overruled the general meeting votes on CEO pay, igniting significant public interest and media scrutiny. These cases reignited the debate about the effectiveness of Israel's binding shareholder approval mechanism and highlighted the ongoing tension between board discretion and shareholder authority in executive compensation decisions. Also, the number of times boards overruled CEO pay decisions increased from four in 2022 to six in 2023.

This study examines the effectiveness of the binding vote mechanism in controlling CEO pay and explores the perspectives of Israeli directors on its implementation, with a particular focus on the role of external directors on both the board and the compensation committee. Prior to Amendment 20, the process of CEO pay determination in Israel was largely unregulated. The board of directors held primary authority over setting executive compensation, with limited shareholder oversight. This approach raised concerns about potential agency problems, where the interests of the CEO might diverge from those of shareholders. Amendment 20 and the requirement for a majority of external directors on the compensation committee aimed to address these concerns by empowering both majority and minority shareholders with a direct voice in CEO pay decisions through a dual-majority voting requirement. Also, strengthening the independence of external directors, who are the majority of the compensation committee and expected to provide more objective oversight in the boardroom.

The dual-majority voting mechanism requires approval of CEO pay packages from both the majority of shareholders and the majority of minority shareholders in companies with a controlling shareholder (which is relevant in companies with a controlling shareholder). This approach aligns with the principles of corporate governance, which emphasize accountability and transparency in decision-making, while also seeking to protect the interests of minority shareholders, particularly those represented by institutional investors. However, the effectiveness of this mechanism, particularly in light of recent controversies surrounding overruled general meeting votes within the last year, remains a subject of debate.

To gain insights into the effectiveness of the binding vote mechanism and the perspectives of Israeli directors on its implementation, we conducted a survey of 106 directors serving in Israeli public companies. The survey included a diverse type of directors, encompassing externals, independents, regulars, and chairmen. The findings of the survey provide valuable insights into the practical implications of the binding vote mechanism and the perspectives of those directly involved in its implementation.

Our study contributes to the existing literature on executive compensation and corporate governance by providing a comprehensive examination of Israel's unique dual-majority voting requirement for CEO pay approval. The findings suggest that the binding vote mechanism has been more effective than an advisory approach in controlling CEO pay, but there remains room for improvement. Additionally, the study highlights the importance of enhanced communication between boards and institutional investors to ensure alignment on executive compensation matters.

The remainder of this paper is structured as follows. Section 2 provides a literature review on CEO compensation and corporate governance mechanisms and develops the hypotheses. Section 3 presents the methodology. Section 4 describes the results and Section 5 discusses the main findings. Finally, Section 6 concludes the paper, highlighting the key findings, implications, and directions for future research.

2. LITERATURE REVIEW AND HYPOTHESES DESIGN

The issue of CEO compensation has sparked intense debate due to its impact on corporate governance, income inequality, and ethical considerations surrounding executive pay practices. At the heart of this discussion lies the question of whether CEO pay packages are justified and aligned with performance and long-term shareholder value creation.

2.1. Theoretical foundations and agency problems

The CEO compensation discourse is rooted in the concept of the agency problem, a core principle identified by Jensen and Meckling (1976) and Shleifer and Vishny (1989). This problem arises when shareholders (principals) delegate decision-making to CEOs (agents), potentially leading to conflicts of interest. CEOs may prioritize personal wealth or power over shareholder interests, manifesting in behaviors like empire-building, excessive perks, or negotiating inflated compensation packages. Powerful CEOs can unduly influence boards, compromising their independence and ability to objectively evaluate performance and set appropriate pay levels.

2.2. Mitigating agency concerns: Institutional investors, external directors, and shareholder activism

While shareholder activism and the presence of independent directors are crucial tools for mitigating agency concerns related to CEO compensation, their effectiveness can be limited by certain factors. Firstly, concerns exist regarding potential conflicts of interest that may compromise the objectivity of independent directors. Bebchuk and Fried (2004) highlight the issue of social ties and implicit contracts, where directors may be reluctant to challenge CEO pay due to personal relationships or the potential for future career opportunities with the company or within the industry.

The impartiality of independent directors may be compromised by cognitive biases, leading to deviations from rational decision-making. For instance, the status quo bias can result in a hesitation to challenge existing norms, potentially perpetuating high levels of CEO compensation. Similarly, the anchoring bias causes individuals to heavily rely on initial information, possibly causing directors to accept previous compensation packages as the norm rather than objectively reassessing appropriate pay levels. These subconscious cognitive biases can hinder independent directors from fulfilling their role as unbiased decision-makers, underscoring the importance of recognizing and addressing these biases through heightened awareness and debiasing strategies.

2.3. Wage gap and income inequality implications

The widening gap between CEO compensation and worker wages, as illustrated by Mishel and Wolfe (2019), underscores the societal ramifications of income inequality and highlights the call for policies promoting shared prosperity and equitable compensation practices. The vast disparity between executive remuneration and stagnant wages of average workers has fueled concerns about fair labor practices, social mobility, and a decline in public trust in corporations.

2.4. Regulatory approaches and governance innovations

In concentrated ownership environments like Israel, the implementation of a dual-majority voting system for CEO compensation (Amendment 20 to the Companies Law) represents a unique regulatory approach. This system empowers institutional investors, particularly the majority of minority shareholders, to influence CEO compensation decisions. Bebchuk et al. (2011) suggest a potential moderation in CEO pay packages due to this innovative governance mechanism.

However, Dressler's (2020) examination reveals intriguing patterns: institutional shareholders with stronger voting power are less likely to vote against management proposals. Counterintuitively, they may vote in favor, potentially due to pre-vote negotiations or a "counting on my vote not counting" strategy. Powerful shareholders may refrain from voting against management, anticipating the proposal's passage regardless.

These findings underscore the complex dynamics in concentrated ownership structures and the limitations of governance mechanisms relying solely on shareholder voting power.

2.5. Moving forward: A holistic approach

Addressing the multifaceted challenges surrounding CEO compensation necessitates a holistic approach encompassing robust governance mechanisms, shareholder empowerment, a renewed commitment to ethical and equitable compensation practices, and consideration of the impact of globalization on CEO pay. Researchers and policymakers must continue exploring innovative solutions that balance attracting and retaining top talent with ensuring accountability, alignment with long-term value creation, and a more equitable distribution of corporate wealth.

2.6. A holistic framework for fair CEO compensation

Eklund (2020) proposes a holistic framework for CEO compensation that considers not just shareholder value but also social and ethical factors. This framework emphasizes fairness, transparency, and a long-term perspective on value creation. It suggests moving away from short-term metrics and focusing on CEO performance that benefits all stakeholders, including employees, customers, and the community.

2.7. Research hypotheses

Drawing on the existing literature and the unique features of Israel's dual-majority voting system, this study formulates hypotheses regarding the dynamics surrounding CEO compensation governance. These hypotheses examine various factors, including the influence of external directors, gender differences in voting behavior, the repercussions of overruling shareholder votes, and the understanding of institutional investors. Together, these hypotheses provide a framework for analyzing survey data and exploring the perspectives of directors of publicly traded companies in Israel on the governance of CEO compensation.

The first hypothesis suggests the following:

H1: External directors, acting as advocates for minority shareholder interests, will show less endorsement for overruling general meeting decisions on CEO compensation compared to directors from other backgrounds.

Building on this, the second hypothesis proposes:

H2: Female directors will demonstrate a reduced inclination towards supporting overruling votes compared to their male counterparts, indicating a preference for collaborative decision-making strategies.

The third hypothesis anticipated the following:

H3: Directors, particularly those in external roles, will approach measures that could potentially jeopardize their position after overruled CEO compensation decisions with caution, reflecting a vigilant approach to governance matters.

Furthermore, the fourth hypothesis delves into the varying levels of awareness among directors:

H4: Levels of awareness among directors regarding the impact and involvement of institutional investors in CEO compensation decisions, may potentially shape the overall governance landscape.

Lastly, drawing from Masulis et al.'s (2023) research, the fifth hypothesis posits the following:

H5: Older directors, despite facing challenges like diminished board oversight and increased board aging, will exhibit a heightened resistance towards overruling decisions on CEO compensation.

This resistance is underpinned by the value attributed to their specialized experience and advisory capabilities in driving strategic decision-making processes within the governance sphere.

3. RESEARCH METHODOLOGY

3.1. Sampling and participant selection

The study employed a targeted sampling strategy by inviting directors of publicly traded companies in Israel to participate in an online survey conducted through Google Forms in April 2024 (see Appendix A). Participants were selected based on their expertise and experience in corporate governance, ensuring a well-rounded sample of corporate directors. The survey link was shared within directors' professional groups to maximize participation and gather a broad range of insights.

3.2. Survey administration and data collection

The survey was administered online via Google Forms to offer convenient access and response submission. The link was distributed among targeted director groups in Israel, and upon accessing the survey, participants were guided through a series of 11 questions that addressed key issues related to CEO compensation oversight and governance. The survey aimed to capture directors' perspectives on the binding vote mechanism and shareholder authority over CEO pay.

The sample comprised 106 directors from publicly traded companies in Israel, representing a diverse range of industries (banking, insurance, real estate, or retail). The sample included external directors, independent directors, regular directors, and chairpersons. One key distinction in the Israeli context is that institutional shareholders hold considerable influence over independent directors, particularly in determining whether they remain on the board when compensation decisions are overruled. This aspect is crucial in understanding the broader governance implications explored in this paper.

3.3. Survey instrument and variables

Key variables examined included director characteristics (e.g., gender, age, tenure), views on board discretion versus shareholder authority, and perspectives on CEO compensation oversight. The gender breakdown was 45.71% female and 54.29% male directors, a notable feature given that women typically represent a smaller percentage of directors in the broader Israeli corporate landscape.

The questions aimed to gather insights into how directors view institutional investors' involvement in CEO compensation decisions and the overall governance process. A key aspect of this study is understanding the role of institutional investors in the re-election of independent directors, as institutional votes can determine the future of these directors in cases where compensation committee decisions are overruled.

3.4. Data analysis and ethical considerations

Survey responses were analyzed using both quantitative and qualitative techniques, including descriptive statistics and thematic analysis, to extract key trends and differences in director perspectives. Ethical considerations were prioritized, with participants providing informed consent and confidentiality being assured throughout the process. All survey data was collected in compliance with data protection regulations.

The findings from the survey provide a unique lens into how directors of publicly traded companies in Israel perceive the binding vote mechanism and the significant role of institutional shareholders in influencing CEO compensation and board dynamics. The results will be discussed in detail in the subsequent sections.

4. RESEARCH RESULTS

This study conducted a survey involving 106 Israeli directors from publicly traded companies to explore their perspectives on shareholder voting, specifically focusing on SOP practices regarding CEO compensation. The sample encompassed a diverse range of characteristics, as outlined in Table 1. The majority of directors (77.3%) fell within the age range of 41 years old to 70 years old, with a relatively even distribution across age groups. In terms of gender representation, the sample demonstrated near gender parity, with 54.29% men and 45.71% women, although it's important to acknowledge that this may not align with the overall gender distribution of Israeli directors, which typically includes a lower proportion of women (approximately 33%). This gender distribution discrepancy could be due to the survey's anonymous nature, potentially leading to increased participation from women's professional networks. Regarding experience, a significant portion of directors (50.95%) reported serving for more than 10 years, indicating a well-established and experienced directorship within the Israeli corporate landscape. Additionally, 41% of directors held board seats in five or more companies, showcasing a diverse and multifaceted directorial portfolio (see Table 1).

Table 1. Profile of the respondents

Category	*Percentage*	*N*
Type of directors		
External director	64.20%	68
Independent director	5.70%	6
Regular director	20.85%	22
Chairman	9.25%	10
Age		
Under 40 years old	0.90%	1
41–50 years old	12.30%	13
51–60 years old	41.50%	44
61–70 years old	35.80%	38
71 years old and above	9.40%	10
Gender		
Male	54.29%	58
Female	45.71%	48
Tenure		
Less than 3 years	14.15%	15
3–6 years	14.15%	15
7–10 years	20.75%	22
More than 10 years	50.95%	54
Director's employment		
1 company	15.20%	16
2 companies	21.90%	24
3 companies	12.40%	13
4 companies	9.50%	10
5 companies and more	41.00%	43
Total	**100%**	**106**

The study proceeded to examine a series of hypotheses regarding the complex dynamics of CEO compensation governance in Israeli publicly traded companies. Table 1 details the breakdown of director types among the surveyed directors, with 64.20% serving as external directors, 5.70% as independent directors, 20.85% as regular directors, and 9.25% as chairpersons.

H1 suggests that external directors are likely to demonstrate lower support for overruling general meeting decisions on CEO compensation compared to other director types. Figure 1, responding to the question "*Are you in favor of the board overruling the vote of institutional holders in case of CEO compensation?*", illustrates the perspectives of 106 directors who responded to the survey. Overall, 51% support the option of overruling institutional holders' decisions. However, a closer analysis reveals notable differences based on the directors' roles and gender (*H2*). Among external directors, 50% of male directors oppose overruling the general meeting, while a larger percentage of female external directors, 58.54%, also oppose it. This gender-based discrepancy among external directors highlights varying attitudes toward respecting institutional holders' votes on CEO compensation, suggesting a nuanced view within the boardroom.

Figure 1. Overruling the general meeting votes of the survey

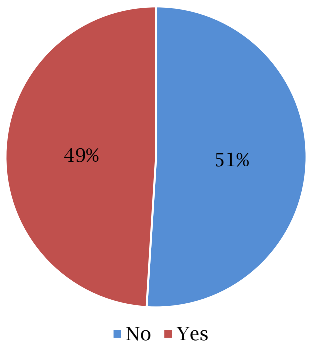

Table 2. Respondents' responses to the question: "Are you in favor of institutional holders voting against the re-election of external directors that participate in overruling?"

Response	*Percentage*
Yes	22.60%
No	53.80%
I have no conclusive answer	23.600%
Total	100.00%

Table 3. Statistics of respondents' responses to the question: "Are you in favor of the compensation committee overruling institutional investors' votes in the case of CEO compensation?"

Category	*Obs.*	*Against overruling*	*In favor of overruling*	*Didn't answer the question*
Gender				
Male	58	50.00%	50.00%	1
Female	48	53.20%	46.80%	0
Type of the director				
External	68	56.92%	43.08%	3
Other type	38	40.54%	59.46%	1
Age				
Less than 60 years old	58	47.27%	52.73%	3
61 years old and over	48	55.32%	44.68%	1

Table 4. Statistics of respondents' responses to the question: "Are you in favor of institutional holders voting against the re-election of external directors that participate in overruling?"

Category	*Obs.*	*Yes*	*No*	*No conclusive answer*	*Didn't answer the question*
Gender					
Male	58	23.21%	50.00%	26.79%	3
Female	48	20.83%	60.42%	18.75%	0
Type of the director					
External	68	23.52%	50.00%	26.47%	0
Other type	38	21.05%	60.52%	18.42%	0
Age					
Less than 60 years old	58	22.41%	50.00%	27.59%	0
61 years old and over	48	22.92%	58.33%	18.75%	0

Table 1 presents demographic statistics, highlighting that a significant proportion of directors fall within the 51–60-year-old age group (41.50%) and the 61–70-year-old age group (35.80%). *H3* anticipates that directors, particularly those in external roles, will approach post-overruled CEO compensation decisions cautiously, reflecting a vigilant approach to governance matters.

Moreover, *H4* examines directors' awareness of institutional investors' impact. Table 4 indicates that 50.00% of directors consider expert proxy advisors' votes significant in CEO compensation decisions.

Lastly, *H5* investigates the resistance shown by older directors towards overruling CEO compensation decisions. The age-based analysis in Tables 3 and 4 suggests varying viewpoints, with 47.27% of directors under 60 years old opposing overruling decisions, compared to 55.32% of directors aged 61 years old and above.

Table 5. Respondents' responses to the question: "Do you give weight to the fact that institutional investors' votes are supported by expert proxy advisors?"

Response	*Percentage*
Yes	50.00%
No	31.70%
I'm not sure	18.30%
Total	100.00%

5. DISCUSSION

In 2023, there were six cases of overruling in Israel, marking a notable increase from the four cases reported in 2022. It is noteworthy that these six instances of overruling represent just 1% of the publicly traded companies in Israel. This data underscores the infrequency of overruling events within the Israeli corporate landscape. Despite the rise in cases in 2023, the limited prevalence of overruling continues to emphasize the strength and effectiveness of the Israeli mechanism for CEO compensation. This trend highlights a steadfast commitment to upholding shareholder-approved compensation decisions, contributing to a robust framework that prioritizes corporate governance integrity and safeguards shareholder interests.

Recent developments within the Israeli corporate landscape have brought to light the critical importance of CEO compensation governance. Two distinct high-profile cases emerged in different publicly traded companies, capturing significant media attention and public scrutiny. These instances not only underscore the relevance of executive compensation practices but also emphasize the necessity for robust governance mechanisms to address potential conflicts and ensure transparency. The media coverage of these cases further accentuates the intricate dynamics between boards, shareholders, and executive remuneration decisions, underscoring the broader significance of regulatory frameworks such as Amendment 20 in fostering accountability and bolstering shareholder trust.

Institutional investors, as key stakeholders, not only demand robust governance mechanisms but also expect directors who are experienced yet not overextended by multiple commitments. This aligns with findings from Bar-Hava et al. (2020), where investors favored directors with sufficient expertise and capacity to ensure focused and effective decision-making. Investors are aware that while experience is crucial, directors who are too busy with other board roles may be unable to dedicate the necessary time and attention to governance issues such as CEO compensation. Thus, institutional investors' preferences for directors who are experienced but not overloaded with directorships are key to ensuring effective corporate governance.

Furthermore, institutional investors today expect independent directors to be active and assertive in governance roles, rather than adopting a passive or silent approach. As demonstrated in Bar-Hava et al. (2021), institutional investors are increasingly dissatisfied with directors who fail to speak out against governance failures or problematic compensation practices. They prefer directors who actively participate in decision-making and are willing to challenge the board when necessary. This shift highlights the growing importance of assertive governance in maintaining the integrity of corporate leadership and preventing agency problems.

These findings, coupled with the importance of external directors in the Israeli governance framework, suggest that boards must carefully balance director experience with availability and assertiveness. Ensuring that directors are not only capable of making informed decisions but also willing to actively engage in governance matters is key to maintaining robust corporate governance, particularly in contentious areas like CEO compensation.

6. CONCLUSION

This study investigated the effectiveness of Israel's mandatory shareholder vote on CEO compensation (Amendment 20). The findings suggest that a binding vote offers a potentially more effective mechanism for controlling CEO pay compared to advisory models. However, the research also highlights areas for improvement in corporate governance practices.

A key takeaway is the divergence in perspectives between external directors and other board members. External directors representing minority shareholders showed an enhanced appreciation for the crucial expertise and significance that institutional shareholders bring to CEO compensation determinations. This underscores the potential for agency problems within boards, where directors' interests might not always align with those of shareholders.

The research emphasizes the need for enhanced communication and collaboration between boards and institutional investors. Open dialogue can foster transparency and accountability in the CEO compensation process, building trust with shareholders and minimizing the need for override situations. Additionally, aligning the interests of all stakeholders — including shareholders, management, and employees — is crucial. When institutional investors vote against CEO compensation, it serves as a clear indication for the board of directors to reassess the issue.

While this study provides valuable insights, several limitations merit consideration. First, the sample size of 106 directors from publicly traded companies in Israel, although diverse in board positions, may not fully represent all corporate governance dynamics within Israel or globally. The reliance on survey responses introduces the possibility of self-reporting bias and limits the depth of the data in capturing the complexities of director viewpoints. Additionally, the exclusive focus on Israeli directors may restrict the transferability of the findings to other regions. Future research should aim to expand the participant pool, incorporate qualitative methods for deeper insights, and explore governance dynamics in other countries for a more comprehensive understanding of CEO compensation governance.

In conclusion, achieving effective CEO pay governance requires a multi-faceted approach. By fostering communication and collaboration among stakeholders, prioritizing transparency and accountability, and aligning interests across the board, companies can establish a more balanced and sustainable approach to executive compensation.

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APPENDIX A. KEY DIFFERENCES BETWEEN SOP IN THE U.S. AND AMENDMENT 20 TO THE ISRAELI COMPANIES LAW

	"Say-on-pay"	***Amendment 20 to the Israeli Company Law***
Focus	Shareholders vote on executive compensation packages.	Regulation of compensation policy for company officers.
Approval process	Non-binding vote by shareholders after compensation is set.	Mandatory approval by shareholders (say on pay) before compensation takes effect.
Binding nature	Board of directors can disregard negative votes.	A negative vote requires the board to reconsider the compensation policy.
Additional requirements	No specific requirements for compensation policy.	Requires policy to consider factors like officer qualifications, employee pay ratios, and long-term company goals.
Focus on CEO	May or may not include the CEO specifically.	Requires shareholder approval for CEO compensation along with overall policy.

APPENDIX B. OVERRULING OF THE BOARD ON CEO COMPENSATION AND THE IMPLICATIONS FOR APPOINTING EXTERNAL DIRECTORS

Recently, we were exposed to the non-renewal of an external director's tenure at the "big" company due to the compensation committee and board of directors overruling the negative votes of institutional investors at general meetings regarding the CEO's compensation. This survey aims to assess the impact of institutional activism in Israel on the growing phenomenon of institutional investors opposing decisions made by the compensation committee and board of directors, particularly regarding CEO compensation decisions.

Your responses will be kept confidential and used for research purposes only.

Instructions: Please select the response that best reflects your experience or opinion.

Characteristics information:

1. Age:

☐ Under 40 years old ☐ 41–50 years old ☐ 51–60 years old ☐ 61–70 years old ☐ Over 70 years old

2. Gender:

☐ Male ☐ Female

3. Number of years serving as a director:

☐ Less than 3 years ☐ 3–6 years ☐ 7–10 years ☐ Over 10 years

4. What is the equity capital of the company you serve on? If you serve on multiple companies, please answer based on the largest company.

☐ Up to 100,000,000 NIS ☐ 300,001,000–1,200,000,000 NIS
☐ 100,001,000–300,000,000 NIS ☐ Over 1,200,001,000 NIS

5. How many boards of publicly traded companies do you currently serve on?

☐ 1 company ☐ 2 companies ☐ 3 companies ☐ 4 companies ☐ 5 or more companies

6. Are you in favor of the compensation committee overruling institutional investors' votes in the case of CEO compensation?

☐ Yes ☐ No

7. Do you support the institutional investors' decision to vote against renewing the external director's tenure in light of the compensation committee and board's overruling?

☐ Yes ☐ No ☐ I don't have a definitive answer

8. Do you give weight to the fact that most minority shareholders who voted against the CEO's compensation are institutional investors who rely on experts to determine their votes?

☐ Yes ☐ No ☐ Not sure

9. Have you been on a board that overruled institutional investors' opposition to CEO compensation?

☐ Yes ☐ No

10. Have you been on a board that considered overruling institutional investors' opposition but decided not to?

☐ We did not have such a case ☐ Yes, there was a case where we reduced the CEO's compensation after institutional investors' opposition

11. This is an open-ended question. According to the law, overruling CEO compensation can only be done in special cases. If you are in favor of the overruling process, please explain what those special cases are.

APPENDIX C. ANSWER OPTIONS FOR QUESTION 11 OF THE QUESTIONNAIRE

Answers (Sample)	
1	"I am against overruling".
2	"Against".
3	"The institutional decisions are made automatically according to the recommendation of external advisors who also do not have discretion since they operate according to arbitrary definitions set by the institutions in a general manner and not specifically for the case in question. As a result, the recommendation of the advisors and the voting of the institutions are determined arbitrarily, which does not necessarily reflect the best interests of the company, current market conditions, and so on".
4	"In my opinion, the institutions are thus acting in a manner that does not conform with the responsibility required of them as substantial shareholders, and therefore, the directors must make decisions lawfully and as required of them in fulfilling their role, even if they contradict the position of the institutions (which, as mentioned above, does not necessarily reflect the best interests of the company).
5	"In the case of a CEO whom the company desperately needs and whose replacement would cause damage — this is just like buying insurance against an exceptional event".
6	"If the overruling is for the benefit of the company, if the decision is objective, if it corrects a wrong (as was the case with Bezeq). When the board of directors is convinced that retaining the CEO is an essential human resource for the benefit of the company, in terms of leadership and that no other CEO would be able to fill their shoes without causing greater damage to the company than the slightly higher cost of the current CEO In my opinion, the law should be changed altogether and it should be decided that the CEO's salary is within the authority of the board of directors after the approval of the relevant committees".
7	"In my view, there is no room for an overruling process at all. For example, when there is a shareholders' agreement and there is a veto right on certain matters. Also, when there is an unreasonable increase that does not match the salary market, or conversely, an excessively low salary that needs to be corrected in order to improve the company's performance as well".
8	"In general, my position is that in business management, the board of directors should not and must not, for the benefit of the company, reach a conflict with the general meeting. With proper discretion and proper conduct of the board of directors in the daily life with the CEO and the shareholders. From experience, this can be done".
9	"A very special and exceptional case, there may be very special circumstances in which the entire board of directors, without any disagreement or external influences or pressures, and is convinced that it is acting in a prudent, skilled, and informed manner, and through its direct and indirect familiarity with the company's business, is convinced that the decision of the institutions would significantly harm the company's interests, optimize its profitability, and thereby harm the central interests of all the institutional shareholders in the company".
10	"Sometimes the voting policy of institutional investors is uniform and rigid and does not suit every company. Sometimes, because of a minor and trivial matter that does not comply with the voting policy, the institutional investor opposes the entire compensation terms".
11	"There are justified cases for overruling, and there are cases where overruling allowed for the granting of unreasonable compensation. Therefore, the "broad punishment" of directors personally, which does not make this distinction between justified and unreasonable reasons, harms the independence of the board of directors and the company, beyond the personal harm to the position of the directors and their good name".
12	"Yes, when the terms deviate from the standard accepted in the market for CEO positions. In my estimation, a situation should not arise where there is a chance that the general meeting will not approve the board's recommendation. Therefore, moderation should be exercised".
13	"This provision should be used sparingly Only in cases where there is abuse by shareholders that will intentionally harm the company. Overruling should be done in extreme cases and sparingly, taking into account the overall considerations".
14	"On the issue of the CEO's salary (an employee, not a related party to the controlling shareholder), the Israeli legislator (alone!) gave the minority an unreasonable power which sometimes harms the rights of all shareholders and the company. The minority-majority can be 15–20% of the shareholders in the company, and their considerations are diverse".
15	"The director owes a duty of loyalty to the company alone and must consider its best interests alone. The discretion of the board of directors should be respected because there are additional managerial considerations and substantial unreasonableness. Non-compliance with the established compensation plan".
16	"Sometimes it seems that the institutions, relying on experts, vote on the matter of compensation based on broad considerations, which sometimes lead to distortions in specific cases. The board of directors knows the company and the CEO better, and if the board does overruling, then it seems that sometimes there is something to it. I am against it".

	Answers (Sample)
17	"Yes, in the case of limiting executive compensation, the best interests of the company are what should guide, and no one case is like another. The board of directors is the one that knows the best interests of the company in the best way possible. Special cases may be in the form of specific reasons for the need to retain management at the time of the decision. Alternatively, a compensation structure that suits the company's growth or an international benchmark, I am against overruling only in very extreme cases A conflict between past and present controlling shareholders that leads to illogical voting results, a discussion of the institutions with the company, when the board of directors is convinced that not granting compensation to the CEO will harm the company".
18	"Only in cases where the CEO is developing the company beyond the defined core business, in a case where the Chairman is not dominant in business development, in a case of temporary dependence of the company, in a case of a wrong benchmark, and other niche cases".
19	"A case where the compensation terms, according to a rigid formula, did not foresee a possibility that the financial statements would not reflect good annual results that are not reflected in the report I don't have a short answer to give…"
20	"Need to read all the material, consult and discuss the issue".
21	"Only if the CEO finds himself caught in a feud between the institutions and the shareholders in the company, and he is a kind of hostage".
22	"If the compensation is high and not in line with the company's results and the compensation is morally excessive in its scope".
23	"I oppose approving such compensation I am fundamentally against overruling".
24	"The whole matter is justified in my opinion and there is no single solution — it all depends on the circumstances! This is the reason I did not answer whether I am for or against".
25	"In my opinion, an additional possible answer must appear: "Depending on the circumstances". It depends on whether the CEO is also the controlling shareholder. When the compensation is low compared to the peer group, when it is intended to retain the CEO".
26	"In cases where it is clear that the meeting does not have the necessary information or the aligned interests to make an informed decision without a conflict of interest. Since I do not think that a CEO's compensation is a situation in which the controlling shareholder has a personal interest on its face, initially there should not have been a need for an approval by the general meeting by a majority of the minority. Therefore, the test is when, on the face of it, there is a personal interest for the controlling shareholder; when there is not — overruling can be done I am against excessive compensation and against overruling Extreme cases only".
27	"In cases where the institutions' decision at the meeting is tainted by non-substantive elements cases of significant deviation from the benchmark".
28	"The survey did not describe the circumstances of the CEO's pay raise. Ostensibly, one should rely on the judgment of the external director, but in the case of Bezeq and Matrix, the circumstances of the CEO's pay raise are not legitimate, harm the shareholders, and do not justify performing an overruling of the general meeting. Additionally, the survey did not take into account the "herd effect" in which an external director seeks to ingratiate themselves with the CEO and the board of directors, fear being in the minority, and get carried away by them in their decisions. (Regarding the first question: I serve/have served as a regular director/external director and also as chairman — the questionnaire does not allow such a choice) I do not support the claim that institutional bodies and their advisors have more understanding to make the right decision than shareholders or other directors if they had all the information available to the institutional bodies. Institutional bodies, which are financial bodies by definition, have advanced corporate governance principles and good analysis capabilities, which they must make available to the organs in every company in which the institutional body invests in order to contribute to the level of management and decision-making ability of every organ, and thereby increase the value of the company in which they invest along with smaller investors".
29	"A private shareholder manages their private investment themselves, as opposed to people whose investments are managed by an institutional body. An institutional body managing OPM [other people's money] has broader management duties, investment regulations and stringent regulation, but that does not mean that only the institutional body can make a good decision. Another point relates to the degree of familiarity of the institutional body with the company in which it invests. Do the representatives of the institutional body know the company to the same degree of familiarity as the company's board of directors?"