THE LINK BETWEEN SAY-ON-PAY VOTE AND SHARE PERFORMANCE

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Abstract

This paper examines the relation between corporate voting on say-on-pay and variation of stock market pricing. While say-on-pay votes are the expression of shareholder views on company executives' compensation plan, vote on management remuneration can often be indicative of shareholders' broader level of satisfaction on governance, strategy, and performance. Further, empirical data indicate that companies that fail the say-on-pay vote are more likely to underperform their market index in the subsequent twelve months.

From a theoretical point of view, this paper aims to make a contribution to the topic of the centrality of the say-on-pay and its correlation with company value. From a practical point of view, our findings may be beneficial in contributing to the identification of warning flags both for issuers and investors.

In order to verify the link between say-on-pay failures and relative share price underperformance, we screened a significant basis of data with respect to companies which failed to pass the say-on-pay vote and we compared their share value with the performance of their market index in the twelve months prior and after the say-on-pay vote.

Besides, say-on-pay failure being a highly influential signal to a board to increase the quality of its executives' compensation policies and practices, empirical data seems to indirectly confirm the relationship between say-on-pay and company's performance, as evidence has shown a tendency for companies failing say-on-pay results to underperform

their market index. Preliminary findings suggest a further extend of the analysis, e.g., to companies who succeeded by a narrow vote and to companies which would have failed the say-on-pay vote unless helped by the voting power of their main/controlling shareholder.

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