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SAY ON PAY AND EXECUTIVE COMPENSATION: A SYSTEMATIC REVIEW AND SUGGESTIONS FOR DEVELOPING THE FIELD

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ABSTRACT

Say on pay (SOP) is a form of shareholder activism where shareholders express their opinions on executive compensation by casting a vote in the annual general meeting. To date, although a large variety of results, antecedents and outcomes have been mentioned and discussed, knowledge about SOP is still limited. This study, through a systematic literature review of 44 articles on SOP published between 2010 and 2018 in finance and management journals, aims to explore our understanding of SOP effectiveness by analyzing its conceptualization, theoretical foundations, methodological issues, antecedents and derived outcomes. After identifying some common patterns in SOP effectiveness that reflect a specific governance contextualization, we provide a guide to develop future research in the field, highlighting key implications for human resource management academics and practitioners.

Keywords:

Say on pay effectiveness, executive compensation, systematic literature review, SOP antecedents and outcomes, SOP effectiveness, CATPCA analysis

1.- INTRODUCTION

Say on pay (SOP) is a vote in the annual general meeting where shareholders express their opinions on executive compensation (Conyon and Sadler 2010). It is a mechanism that presumably complements the board of directors' monitoring role (Core, Holthausen, & Larcker, 1999) and other mechanisms of shareholder activism (e.g., compensation-related shareholder proposals and just vote no campaigns) through which shareholders may influence the decisions of executives (Hirschman, 1970; Mangen & Magnan, 2012). SOP empowers shareholders to increase their control over executive compensation, potentially contributing to a reduction in the classic agency conflicts inherent to large listed corporations (Alissa, 2015; Brunarski, Campbell, & Harman, 2015; Cai & Walkling, 2011; Kimbro & Xu, 2016), which, in turn, may contribute to the improvement of the management, responsibility and transparency of companies.

SOP is an initiative launched by the United Kingdom (UK) in 2002 because of the public outcry regarding large increases in executive compensation, lack of transparency and the weak pay-for-performance link (Conyon and Sadler 2010). Since then, the spread of SOP has been spectacular, particularly since the most recent financial crisis (Gregory-Smith, Thompson, & Wright, 2014). This initiative has been extended to other countries, including the Netherlands (2004), Australia (2005), the United States (US) (2011), Italy (2011), Spain (2011), Belgium (2012) and France (2014) (Stathopoulos & Voulgaris, 2016b), with very different characteristics, depending on whether the voting is voluntary or compulsory and whether the voting results are advisory or binding for companies (Sanchez-Marin, Lozano-Reina, Baixauli-Soler, & Lucas-Perez, 2017; Stathopoulos & Voulgaris, 2016b).

The significance and relevance of SOP, together with the need to design executive compensation that is more aligned with stakeholder and company interests (Murphy, 2013), have motivated several scholars to start a deeper exploration on this topic. Despite the significant number of studies in this field, the evidence regarding SOP effectiveness – which is mainly defined as the ability of this voting to align executive compensation with shareholders' interest (Correa & Lel, 2016), that is, if a firm's response to the vote results really encourages an improvement in executive compensation (Ferri & Oesch, 2016) – is not clear yet, not only because of the different ways in which SOP is implemented in the various corporate governance contexts but also because of variations in the antecedents or outcomes related to SOP that have been examined. For example, regarding SOP outcomes, while some research indicates that SOP is an effective mechanism for aligning executive compensation levels (e.g., Ferri and Maber 2013; Balsam et al. 2016; Correa and Lel 2016; Kimbro and Xu 2016), other studies find no clear effects of SOP on executive pay (e.g., Conyon and Sadler 2010; Armstrong, Gow, and Larcker 2013; Cuñat, Giné, and Guadalupe 2016), and some others even highlight reverse effects, finding an institutionalization effect of SOP on excessive or misaligned executive compensation (Brunarski et al., 2015; Sanchez-Marin et al., 2017). There is also mixed evidence in relation to other outcomes (e.g., governance effectiveness, market reactions, and stakeholder acceptance) as well as antecedents (e.g., governance mechanisms, firm demography characteristics, and individual characteristics of executives) that suggest that further explorations of such topics are needed.

In this vein, the reviews by Stathopoulos and Voulgaris (2016b) and Obermann and Velte (2018) have tried to clarify some important aspects related to SOP antecedents and effectiveness. Specifically, Stathopoulos and Voulgaris (2016b) analyze the effectiveness of SOP, focusing mainly on the comparison between voluntary and mandatory SOP, and conclude that the evidence on SOP effectiveness remains unclear and that this mechanism is not a panacea for all corporate problems related to inefficient pay. The review by Obermann and Velte (2018), which analyzes the main antecedents and outcomes of SOP – together with other types of shareholder activism related to compensation –, identifies five important groups of SOP determining factors. Additionally, they indicate that the key assumptions of neoclassical principal agent theory are not always consistent with the empirical evidence.

Since we still do not know enough about SOP effectiveness, it becomes particularly important to more deeply understand in what contexts, conditions and environments SOP works more effectively. Therefore, our aim is to identify common patterns to increase our knowledge on SOP effectiveness as a corporate governance mechanism oriented towards the alignment of executive compensation with corporate performance in listed companies. To address this issue, we conduct a systematic literature review of the forty-four articles published in peer-reviewed journals related to SOP. The following research questions guide our review and coincide with the main sections of this paper: (1) *How has SOP been conceptualized and studied?* (2) *What do we know about the factors influencing SOP and the outcomes related to SOP?* (3) *Are there common patterns of SOP effectiveness?* and (4) *What areas and lines of research need to be explored to advance our knowledge about the impact of SOP?* These research questions are intended to address three specific objectives. First, we carry out an analysis of SOP conceptualization and methodologies, as well as the theoretical basis used in previous studies to construct and explain their arguments and hypotheses. Second, after describing the main antecedents and consequences of this voting, we establish common patterns where SOP is more effective in the design of executive compensation. Finally, we propose future research directions that will allow progress in this area, with a view to intensify the knowledge and provide more information about the real effects of SOP (Booth, Papaioannou, & Sutton, 2011; Jesson, Matheson, & Lacey, 2011).

This paper contributes to the literature in four different ways. First, it complements the reviews of Stathopoulos and Voulgaris (2016b) and Obermann and Velte (2018), identifying and synthesizing issues of conceptualization, theoretical frameworks and methodologies related to SOP. Additionally, this study enriches the knowledge on the current state of SOP-related research, including an overview of the main mediating and moderating factors in the relationships between antecedents and SOP results and between SOP voting results and outcomes. Second, since the literature to date has shown a large discrepancy regarding SOP effectiveness (Sanchez-Marin et al., 2017; Stathopoulos & Voulgaris, 2016b), this paper contributes to increasing our knowledge about the functioning and effectiveness of SOP as a mechanism of governance and optimization of executive compensation. Third, this study advances the identification of common patterns in SOP effectiveness and the contexts and conditions in which SOP works best. In particular, it highlights the relationships between corporate governance contexts and SOP regulations from the perspective of SOP effectiveness, balancing recommendations and normative obligations and their influence on SOP effectiveness. Finally, it identifies research gaps and proposes some promising avenues for future research, which may encourage human resource management academic and professional progress in this area. These future challenges, which focus on both theoretical and methodological areas of research, may help to develop new knowledge to better understand SOP as a governance mechanism.

2.- REVIEW SCOPE AND CODING INFORMATION

The systematic literature review (SLR) employs a specific methodology to locate research, to select and evaluate the contributions made by each study and analyze and synthesize the data. Then, through the analysis and synthesis of data, evidence is reported to clarify the conclusions reached about what is and is not known (Denyer & Tranfield, 2009). Contrary to a traditional literature review, systematic reviews are characterized by methodological rigor and thoroughness (Sageder, Mitter, and Feldbauer-Durstmuller 2018) and require reviewers to summarize all available information about an event in a thorough and unbiased manner (Denyer & Tranfield, 2009). This approach is a replicable, scientific, explicit and transparent method to locate, assess and synthesize previous literature (Booth et al., 2011; Fink, 2010).

In conducting the SLR, we followed the five stages suggested by Denyer and Tranfield (2009) as follows: Stage I establishes the focus of the SLR through our research questions. Stage II locates and selects the literature that is relevant to the particular research questions. Stage III includes the set of explicit selection criteria to assess the relevance of each study found (see Table 1). Stage IV consists in breaking down research into relevant parts and making associations between these parts identified. Stage V includes a summary and the report of the review.

Table 1: Criteria for inclusion

Characteristics	**Inclusion criteria**
Publication medium	Scientific, peer-reviewed journals that meet the following quality threshold: We included articles listed in the Journal Citation Report (JCR) and/or Scimago Journal Rank (SJR) Books, conference papers and working papers are excluded
Language	English
Period	From 2002 to 2018 (inclusive)
Research design	Empirical or conceptual
Content	Studies connected to the research questions that analyze SOP legal articles are excluded
Source	Databases:
	Business Source Premier-EBSCO, EconLit-EBSCO, Emerald Fulltext, Science Direct-Elsevier, Scopus-Elsevier, Web of Science-ISI, Wiley Online Library, Sage Journals, ProQuest, and Google Scholar
Method	Boolean search in the title of the publication, abstract and keywords

After defining the research questions (Stage I), Stage II identifies the keywords and search terms connected with the research questions, which must be carefully selected and combined to identify the most relevant articles within our research field. We followed the recommendations of Ortenblad (2010) and incorporated terms similar to SOP to offer flexibility and capture the relevant literature, regardless of whether SOP was explicitly mentioned or not. Using these search terms, scientific databases from business and social science were used to identify the papers for this review (see Table 1). Following Wang and Chugh (2014), we searched the title, abstract and keywords using the defined Boolean search terms. The database search resulted in 100 articles.

Next, in Stage III, these sources were screened for the fit of their research objectives with the selection criteria (publication medium, language, cover period, research design and content), as reflected in Table 1. Specifically, the articles were checked for their *publication media* after removing duplicates, and the search was focused on scientific journals with peer-review processes. To provide a quality threshold, we only included articles listed in the Journal Citation Report (JCR) and/or Scimago Journal Rank (SJR)[1]. Conference and working papers are excluded due to the limited peer review process (Nolan & Garavan, 2016; Sageder et al., 2018). Next, the *language* of the article was determined, and only articles in English were used in this review (Sageder et al., 2018). The *cover period* is from 2002 to 2018. Concerning the *research design*, both conceptual and empirical articles are included because this SLR is intended to provide a comprehensive global overview (Hakala, 2011). Finally, the papers and their *contents* were screened for their fit with our research questions, and articles that were exclusively focused on the legal aspects were excluded.

[1] These indicators are usually used to assess the quality of papers based on their impact factor through specific algorithms (Durach, Wieland, & Machuca, 2015; Keupp & Gassmann, 2009; Martineau & Pastoriza, 2016). In particular, the Journal Citation Reports (JCR) is an index that allows journals to be assessed and compared based on impact factors using the citation data drawn from scholarly and technical journals contained in the Web of Science (Clarivate Analytics). The Scimago Journal Rank (SJR), which is a publicly available portal that includes the journals from the information contained in the Scopus database (Elsevier B.V.), also uses a similar methodology to assess and compare the journals.

In this review, we only incorporate those publications that meet all the inclusion criteria and which manifest none of the exclusion criteria. As decisions regarding inclusion and exclusion are often subjective, they are conducted by two reviewers (Tranfield, Denyer, & Smart, 2003), and they are based on the procedures used in previous studies (Gregoire, Corbett, & McMullen, 2011; Nolan & Garavan, 2016; Sageder et al., 2018). The final list of papers included 36 articles. As suggested by Fink (2010), with the aim of reducing the risk of losing relevant papers, the references included in these selected publications were assessed using the inclusion and exclusion criteria defined. This additional search resulted in 8 articles, which were included in the SLR. In the end, 44 articles were included in the subsequent analysis[2].

In Stage IV, we follow the procedure of Feliu and Botero (2016) to code the information related to the background data, SOP conceptualizations and measurements, theoretical frameworks, and empirical findings. In this way, two researchers, who continuously discussed the meaning of the texts, independently coded each article to ensure consistency in the coding of information (Bouncken, Gast, Kraus, & Bogers, 2015; Yin, 2014). We then compared the codes completed by the researchers and, when inconsistencies arose, the coders made a joint determination (Feliu & Botero, 2016). Following this, Stage V is developed in the next sections.

3.- RESULTS

3.1.- General sample characteristics

SOP is a young field of research, and the first papers to explore this topic appeared in 2010 (Conyon and Sadler 2010; Yermack 2010), and approximately 60% of the studies

[2] The full appendix containing the complete summary of sources used in this review is available from the authors upon request.

were published between 2015 and 2018. Although SOP came into force in 2002 in the UK, the first articles do not appear until 2010 for the following two main reasons: (1) insufficient data in the first years; and (2) it is from 2010 onwards that SOP was implemented in most countries. Most of the studies were published in finance and accounting journals (N=28), while business and management journals included another 10 articles. Only four studies were published in economics journals, and two studies were published in the business ethics category.

Most studies take a quantitative approach (N=39, 88%) and a few take a conceptual approach (N=5, 12%). Among the quantitative studies, 34 analyze archival data, and most deal with stock-listed companies (e.g., S&P 1500, S&P 500, FTSE 350 or Russell 3000 index), three give a descriptive picture of SOP (Conyon 2014; Bordere, Ciccotello, and Grant 2015; Van der Elst and Lafarre 2017), and four studies follow an experimental approach, drawing their conclusions from research designs with MBA students (Krause, Whitler, and Semadeni 2014; Kaplan, Samuels, and Cohen 2015; Kaplan and Zamora 2018; Liang, Moroney, and Rankin 2018). In addition, most studies are cross-sectional, and longitudinal research is scarce because only a few studies analyze SOP effectiveness over time (N=5) (Conyon and Sadler 2010; Correa and Lel 2016; De Falco et al. 2016; Stathopoulos and Voulgaris 2016a; Borthwick et al. 2018).

Most studies (N=38[3]) investigate antecedents (N=31, 82%) and outcomes (N=22, 58%) related to SOP, highlighting the influence of this mechanism on executive compensation design. Moreover, most studies focused on the pay of the CEO (N=33), while a few studies focused on other executives or employees (N=3). For example, Burns

[3] The total number of publications is not equal to the sum of publications from each subset (antecedents and outcomes), because one study may address both the antecedents and outcomes of SOP. The same is true in relation to the theoretical frameworks and dimensions related to the antecedents and outcomes of SOP. The percentages related to empirical characteristics are calculated for the total of the empirical articles.

and Minnick (2013) focused on other executives and directors, Conyon (2014) focused on non-CEO executives, and Hitz and Müller-Bloch (2015) focused on other executives and employees.

Finally, in relation to geographical regions, the UK and the US are the countries with the most research activity (N=26, 68%; 7 studies used samples from the UK and 18 from the US). However, it is paradoxical that, while SOP was introduced in the UK eight years earlier than in the US, the number of studies carried out in the US is almost three times that for the UK. The remaining studies are based in Australia, the Netherlands, Germany and Spain (N=10; 26%). In addition, three studies use a cross-country approach, which encompasses information about many countries (Correa and Lel 2016; De Falco et al. 2016; Hitz and Lehmann 2018).

3.2.- SOP conceptualization

The conceptualization of SOP used by most authors is quite similar; they define it as a vote where shareholders can vote (for, against or abstain) on executive compensation. In general, when shareholders are not satisfied with executive compensation, they cast a negative vote or an abstention (Hooghiemstra, Kuang, & Qin, 2015). Some of the literature also considers SOP more broadly, viewing it as a mechanism that allows shareholders to express their views on company management, beyond expressing their satisfaction with executive compensation (Armstrong et al., 2013; Gregory-Smith et al., 2014).

The SOP typology and its measurement differ from study to study. First, the nature of SOP is not the same in all countries, so different types can be distinguished as follows: the conduct of the vote may be *voluntary* or *mandatory* and the SOP results can be *binding* or *advisory* (Stathopoulos & Voulgaris, 2016b). In our review, SOP is mandatory and advisory in most studies (N=22) (studies focused on the UK and the US). In 5 studies, SOP is voluntary because they focus on Germany (Eulerich, Kalinichenko, and Theis 2014; Hitz and Müller-Bloch 2015) or because these papers analyze SOP proposals just before SOP legislation came into force (Burns & Minnick, 2013; Cai & Walkling, 2011; Cuñat et al., 2016). Finally, SOP is mandatory and binding in three studies because one focuses on the Netherlands (Van der Elst & Lafarre, 2017) and the others analyze the shareholder votes on equity-based compensation plans (Armstrong et al., 2013; Balachandran, Joos, & Weber, 2012). In addition, some countries have incorporated specific rules related to SOP. For example, Australia introduced the "two-strikes" rule in 2011 (N=5) (Borthwick et al., 2018; Faghani, Monem, & Ng, 2015; Grosse, Kean, & Scott, 2017; Liang et al., 2018; Monem & Ng, 2013), and the UK transformed the non-binding nature of SOP to binding in 2013 (Stathopoulos & Voulgaris, 2016b).

Second, regarding SOP measurement, most studies operationalize SOP by percentage of votes (for, against or abstention) over total (N=26). Specifically, the "SOP dissent" measure is used by 17 studies, which equals to the percentage of votes against (sometimes including abstentions) scaled by total votes cast, while 9 studies used the "SOP support" measure, which equals the percentage of votes in favor over the total. In addition, SOP is also measured using dummy variables (N=12), such as "high dissent" (Correa & Lel, 2016; Hooghiemstra et al., 2015; Stathopoulos & Voulgaris, 2016a) and "high support" (Hadley, 2017).

Moreover, regarding theoretical frameworks, as shown in Table 2, SOP has been studied from different theoretical perspectives. *Agency theory* has been the main theoretical framework employed (Jensen & Meckling, 1976) (N=42), from which two different visions can be distinguished. The research focusing on a *positive view* (linked to power approach) (N=42) is based on a perception of SOP as a mechanism to reduce agency conflicts and enhance shareholder wealth by increasing the alignment of interests between principals and agents, in addition to ensuring that more efficient (performance based) compensation arrangements are in place (Alissa, 2015; Brunarski et al., 2015; Hooghiemstra, Kuang, & Qin, 2017; Kimbro & Xu, 2016; Liang et al., 2018; Sanchez-Marin et al., 2017). On the other hand, articles based on a *negative view* (linked to the optimal contracting approach) (N=16) argue that SOP may be ineffective because companies that receive low SOP support occasionally try to placate shareholders through impression management or symbolic compliance policies (Brunarski et al., 2015; Mangen & Magnan, 2012; Sanchez-Marin et al., 2017). In addition, it is possible that SOP can generate division or be influenced by special interests (Mangen & Magnan, 2012) or that some shareholders are not able to properly assess executive compensation packages (Sanchez-Marin et al., 2017).

Table 2: Main theoretical frameworks in SOP research

Theory	Target	Number of studies	References
Agency theory	Positive view: SOP reduces agency costs and encourages efficient compensation designs.	42	E.g., Cai and Walkling (2011); Mangen and Magnan (2012); Burns and Minnick (2013); Monem and Ng (2013); Alissa (2015); Brunarski et al. (2015); Kimbro and Xu (2016); Hadley (2017); Sanchez-Marin et al. (2017); Liang et al. (2018)
	Negative view: companies can use "impression management" when they face high SOP dissent. Moreover, shareholders cannot have enough incentive and knowledge to vote on CEO compensation.	16	E.g., Levit and Malenko (2011); Alissa (2015); Brunarski et al. (2015); Hooghiemstra, Kuang, and Qin (2017); Sanchez-Marin et al. (2017)
Prospect theory	Shareholders adjust their voting behavior according to a reference framework (based on CEO compensation and business performance).	2	Krause et al. (2014); Liang et al. (2018)
Organizational justice theory	The perception of the fairness of a compensation package has an influence on the SOP results, i.e., the SOP results vary depending on the shareholder perceptions about executive pay.	2	Kaplan et al. (2015); Kaplan and Zamora (2018)
Institutional			

theory	Positive view: SOP modifies the current compensation to adopt new efficient designs.	1	Mangen and Magnan (2012)
	Negative view: when shareholders cast a huge approval for suboptimal compensation, they are legitimizing that compensation.	3	Mangen and Magnan (2012); Brunarski et al. (2015); Sanchez-Marin et al. (2017)
Stakeholder theory	SOP favors the commitment of the boards towards a more efficient compensation design that takes into consideration all stakeholders.	2	Mangen and Magnan (2012); Kaplan and Zamora (2018)

Prospect theory (Kahneman & Tversky, 1979) has also been used to understand the shareholders' voting behavior (N=2). This theory relaxes the assumption of rational utility maximization and states that shareholders adjust their voting behavior to a reference framework (Krause et al., 2014; Liang et al., 2018). In particular, Krause et al. (2014) note that this reference framework is based on CEO compensation and business performance (Krause et al., 2014), where it is expected that shareholders show their approval in the SOP when they vote from a "gain position", while their disapproval is expected when voting from a "loss position". A "loss position" is concerned with situations in which, simultaneously, the CEO received high compensation and business performance is low; and a "gain position" is when business performance is high, regardless of CEO compensation (Krause et al., 2014). In a similar vein, Liang et al. (2018) studied whether a strike in the previous year, combined with current pay levels, impact the shareholders' voting behavior.

Kaplan et al. (2015) and Kaplan and Zamora (2018) used the *organizational justice theory* (Colquitt, Conlon, Wesson, Porter, & Ng, 2001) to explain SOP and the shareholders' voting behavior. These authors indicate that perceptions of the fairness of compensation packages have an influence on the SOP results. In this theoretical framework, stakeholders take action to punish the company when they perceive that their company has treated them unfairly, while stakeholders take action to support the company when they perceive that their company has treated them fairly (Kaplan and Zamora 2018).

Another theoretical framework is *institutional theory* (Oliver, 1992) (N=3). Two different views are distinguished. The *positive view* (N=1) predicts that, with SOP implementation, de-institutionalization is a way to modify the current compensation design to adopt new and more efficient designs when shareholders vote against the current compensation (Mangen & Magnan, 2012). Other articles base their SOP conceptualizations on the *negative view* (N=3), which suggests that shareholders cast a huge vote of approval for sub-optimal compensation (Brunarski et al., 2015; Mangen & Magnan, 2012; Sanchez-Marin et al., 2017). In such cases, executive compensation is institutionalized when shareholders legitimize it with their favorable votes (Dacin, Goodstein, & Scott, 2002), making it difficult to change and requiring high social, functional and political pressure to alter it in the future (Mangen & Magnan, 2012; Morgan, Poulsen, & Wolf, 2006).

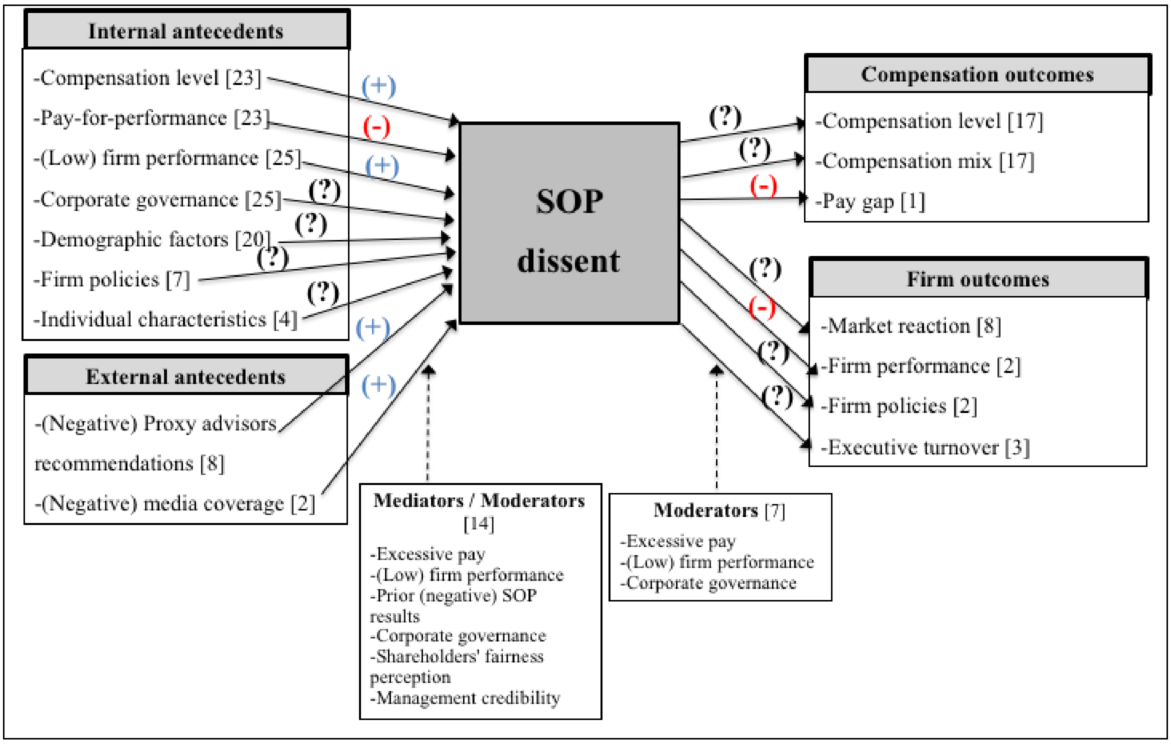
Finally, *stakeholder theory* (Freeman & Reed, 1983) has been useful for the understanding of SOP consequences by some researchers (N=2). The firms' decision making should take stakeholder preferences and interests into account. From a stakeholder perspective, executive pay is optimal when the board considers the interests of all stakeholders during pay setting – rather than those of shareholders alone – (Mangen & Magnan, 2012). SOP encourages boards to commit to more efficient compensation designs that take into consideration all parties involved (Mangen and Magnan 2012; Kaplan and Zamora 2018). In this theoretical framework, minority shareholders and employees might also benefit because it is unusual to take them into account when executive compensation is designed.

In summary, in spite of the homogeneity in the definition of SOP, the typologies and measures of this mechanism have been framed very differently in different studies, which can impact its effectiveness and functioning. Furthermore, the literature reports the use of many theoretical frameworks to analyze the impact and effectiveness of SOP. Although agency theory is the main theoretical framework used, there is an increasing tendency to use new and emerging theories (such as prospect theory, stakeholder theory and organizational justice theory). This proliferation of sociological and psychological theories emphasizes the shareholders' voting behavior and allows the main factors that shareholders consider when casting their votes to be identified. In addition, these theories may explain why the executive decisions after the SOP results vary among companies and contexts and on what basis boards modify business policies.

3.3.- SOP antecedents and outcomes

The main antecedents, outcomes and mediating and moderating effects related to SOP are shown in Figure 1. SOP antecedents (N=29; 81%) can be classified into the following two major groups: internal and external. The SOP outcomes (N=21; 58%) can be classified into the following two groups: compensation outcomes and firm outcomes.

Figure 1: Antecedents and outcomes of SOP



Note: this figure represents the direct effects (continuous line) and the indirect and interactive effects (dashed line).

The number of studies that analyze each relationship is indicated after the name of each antecedent and outcome. Additionally, regarding the direct effects, above each arrow, whether the literature has generally found a positive effect (+), a negative effect (-) or if the effect is not clear (?) are indicated.

Internal antecedents (N=29). These factors relate to compensation and firm performance and are very important, and the literature has paid them close attention. First, related to *compensation characteristics* (N=23), the literature notes that high levels of executive compensation – especially, excessive compensation – and misaligned compensation imply less likelihood of obtaining a favorable SOP result (e.g., Conyon and Sadler 2010; Cai and Walkling 2011; Alissa 2015; Kimbro and Xu 2016; Cullinan et al. 2017; Liang et al. 2018). Second, in relation to *firm performance characteristics* (N=25), companies with better performance indicators (such as, firm performance, ROA or stock returns) are more likely to receive SOP approval and they tend to be less attractive to activists (e.g., Ertimur et al. 2013; Krause et al. 2014; Alissa 2015; Bordere et al. 2015; Brunarski et al. 2015; Balsam et al. 2016; Kimbro and Xu 2016). However, high leverage, as well as a greater uncertainty or volatility in performance indicators, increase SOP dissent (Grosse et al., 2017; Kimbro & Xu, 2016).

Third, *firm governance characteristics* (N=25) are extensively examined. Regarding ownership characteristics (N=21), SOP dissent is reduced when ownership concentration increases (Conyon and Sadler 2010), especially when insider ownership is greater (Cullinan et al., 2017; Ertimur et al., 2013; Malenko & Shen, 2016), when board ownership increases (Conyon and Sadler 2010; Hooghiemstra et al. 2015) and when the stock holding of outside directors grows (Cai & Walkling, 2011; Cullinan et al., 2017). However, the majority presence of independent owners increases executive pay monitoring and the likelihood of high SOP dissent (Cai & Walkling, 2011). In relation to board monitoring (N=10), board size is positively related with SOP approval (Cai & Walkling, 2011), while board independence is associated with a greater likelihood of dissent in SOP (Larcker, McCall, & Ormazabal, 2015). Finally, SOP support is negatively related to duality (the same person being chair of the board and chief executive) (Faghani et al., 2015; Larcker et al., 2015).

Fourth, among *firm demographic characteristics* (N=20), firm size has received the most attention (N=17) but has not produced any clear evidence of a relationship. Some authors find a positive impact on SOP support (e.g., Ertimur et al. 2013; Larcker et al. 2015) while others have found no significant (e.g., Conyon and Sadler 2010; Alissa 2015) or negative impact (e.g., Kimbro and Xu 2016; Hooghiemstra et al. 2017). Fifth, little attention has been given to *firm policies* (N=7). For example, Brunarski et al. (2015) find that increases in leverage may favor a subsequent favorable vote by shareholders. Conyon and Sadler (2010) and Ferri and Oesch (2016) note that the recommendations of managers influence SOP results, and Cullinan et al. (2017) state that corporate social responsibility (CSR) policies (specifically, CSR strengths) are positively associated with a favorable SOP.

Finally, *individual characteristics* have only been included in a few studies (N=4), among which is the study of Kaplan et al. (2015), which concludes that there is less support for CEO compensation in companies when there are social ties between the CEO and other members of the compensation committee and when the CEO has a poor reputation because shareholders have less confidence in the him or her.

<u>External antecedents</u> (N=10). Only the factors related to proxy advisors and media coverage have been analyzed. The recommendations of proxy advisors (N=8) in companies have a significant impact on voting behavior, i.e., there is a negative association between the proxy advisors' recommendations to vote against and shareholder approval (e.g., Ertimur et al. 2013; Larcker et al. 2015; Balsam et al. 2016; Malenko and Shen 2016; Hitz and Lehmann 2018). Hooghiemstra et al. (2015) and

Hooghiemstra et al. (2017) analyze the impact of media coverage on SOP (N=2), indicating that more negative votes are received after negative coverage, especially when this negative coverage is from the financial and business press.

Compensation outcomes (N=17). The evidence is mixed, with three different streams of results. Most studies (N=10) find that SOP enhances the process of executive monitoring and has a positive impact on executive pay, reducing pay levels and increasing linkages with business performance (e.g., Clarkson, Walker, and Nicholls 2011; Ferri and Maber 2013; Alissa 2015; Correa and Lel 2016; Kimbro and Xu, 2016). A few researchers (N=3) do not find a significant impact of SOP on compensation designs (either positive or negative) (Conyon and Sadler 2010; Armstrong et al. 2013; Cuñat et al. 2016). For example, Conyon & Sadler (2010) do not find that executive compensation is associated with prior SOP results, and Cuñat et al. (2016) do not detect any change in the compensation mix and level after implementing this vote. Finally, a number of studies (N=5) find a negative impact of SOP on executive compensation alignment. For example, Gregory-Smith et al. (2014) indicate that moderate levels of SOP dissent act as a stimulus to increase executive compensation, and high levels of dissent are needed if SOP is to be effective (Gregory-Smith et al., 2014), which is consistent with the argument of Bebchuk & Fried (2004) regarding the threshold of "public outrage". Brunarski et al. (2015) and Sanchez-Marin et al. (2017) note that in companies with overpaid CEOs who receive huge SOP support, this inefficient compensation is legitimized (Brunarski et al., 2015; Sanchez-Marin et al., 2017). On the other hand, related to the pay gap (N=1), Correa & Lel (2016) note that SOP favors the reduction in the pay dispersion between CEOs and executives – in particular, they note a reduction in the pay gap of approximately 10%.

Firm outcomes (N=12). First, with regard to *market reaction* (N=8), the evidence is also mixed. While some research finds a positive market reaction to SOP implementation (Cai & Walkling, 2011; Correa & Lel, 2016; Cuñat et al., 2016; Ferri & Maber, 2013), other authors find a negative market reaction (Brunarski et al. 2015; Hitz and Müller-Bloch 2015; Larcker et al. 2015) or even no market reaction (Ertimur et al., 2013). Second, SOP influences the *firm performance* (N=2) because an SOP approval leads to improvements in long-term profitability and performance (Balachandran et al., 2012; Cuñat et al., 2016), so companies with favorable SOP results experience higher overall yields. Third, *firm policies* (N=2) have rarely been examined to date, even though companies may undertake many changes after a SOP vote. For example, Brunarski et al. (2015) find that when firms receive low SOP support due to the presence of excessive compensation, managers tend to increase dividends per share and decrease leverage, and Grosse et al. (2017) find that a company increases its compensation disclosure when it receives a "strike". Finally, other studies point to the impact of SOP on *executive turnover* (N=3), but only the study by Alissa (2015) finds that the probability of CEO turnover is greater when shareholders are unsatisfied and that the impact is greater when companies are going through consecutive years of poor performance (Alissa, 2015).

Mediating and moderating effects related to antecedents (N=14) *and outcomes* (N=7). Regarding some antecedents, some moderating factors are found (N=10). For example, Brunarski et al. (2015) find moderating effects of ROA and stock returns on the relationship between CEO pay and SOP dissent. Stathopoulos and Voulgaris (2016a) state an increase in favorable votes in companies with a high proportion of long-term investors because long-term investment is negatively associated with cases of abnormal pay. Ferri and Oesch (2016) find that the impact of management recommendations on SOP results is greater when management credibility increases. Additionally, the influence of the proxy advisors' recommendations is affected by the presence of institutional investors that have less incentive to make their own judgements (Ertimur et al., 2013;

Larcker et al., 2015; Malenko & Shen, 2016), by the standards of investor protection and by the level of corporate governance (Hitz and Lehmann 2018). The main mediating factor (N=4) is the shareholders' perception of fairness, which mediates the relationship between some internal factors and the likelihood of approving the compensation (Krause et al. 2014; Kaplan et al. 2015; Kaplan & Zamora 2018).

Related to the moderating effects in the relationship between SOP and its outcomes (N=6), the literature shows that the impact of SOP on CEO compensation is greater in firms with poor performance (Correa & Lel, 2016), in companies with weak corporate governance mechanisms in the pre-SOP period (Correa & Lel, 2016), and in companies with more independent boards and non-duality structures (Sanchez-Marin et al., 2017). In terms of market reaction (N=4), SOP creates more value in firms with weak corporate governance mechanisms and weak penalties in cases of low performance (Cai & Walkling, 2011; Ferri & Maber, 2013). However, Brunarski et al. (2015) find a negative market reaction in companies whose CEOs are overcompensated and have shareholders that legitimize their compensation with high SOP support.

In summary, the main SOP antecedents are related to compensation, firm performance and corporate governance. While there is relatively broad agreement on the impact of compensation and firm performance on SOP voting results, there is less agreement about corporate governance characteristics, which may be because most of these characteristics are studied in isolation and there is some disagreement (e.g., the impact of institutional investors or CEO ownership). Related to SOP outcomes, the voting impact on subsequent compensation designs is highlighted, although the evidence is still inconclusive. In addition, there are other important outcomes, such as market reaction, where the evidence is mixed and unclear, or firm performance, where some studies indicate that SOP favors financial indicators, although this evidence is still sporadic and partial.

4.- SOP EFFECTIVENESS: SOME COMMON PATTERNS

The lack of conclusive results regarding SOP effectiveness stimulates examination of which typologies, models and contexts increase this effectiveness. For this purpose, we analyze papers selected in our SLR using a methodology based on a Categorical Principal Components Analysis (CATPCA)[4] (Linting, Meulman, Groenen, & Van der Koojj, 2007; Meulman, Van der Kooij, & Heiser, 2004). This analysis is very useful for interpreting the data through the reduction of a broad set of categorical variables into a smaller set of components (Meulman et al., 2004), which is ultimately interpreted as specific clusters that identify different SOP behaviors (Correia, do Valle, & Moco, 2007; Kneebone, Fielding, & Smith, 2018; Pendleton & Robinson, 2010; Siu, 2008).

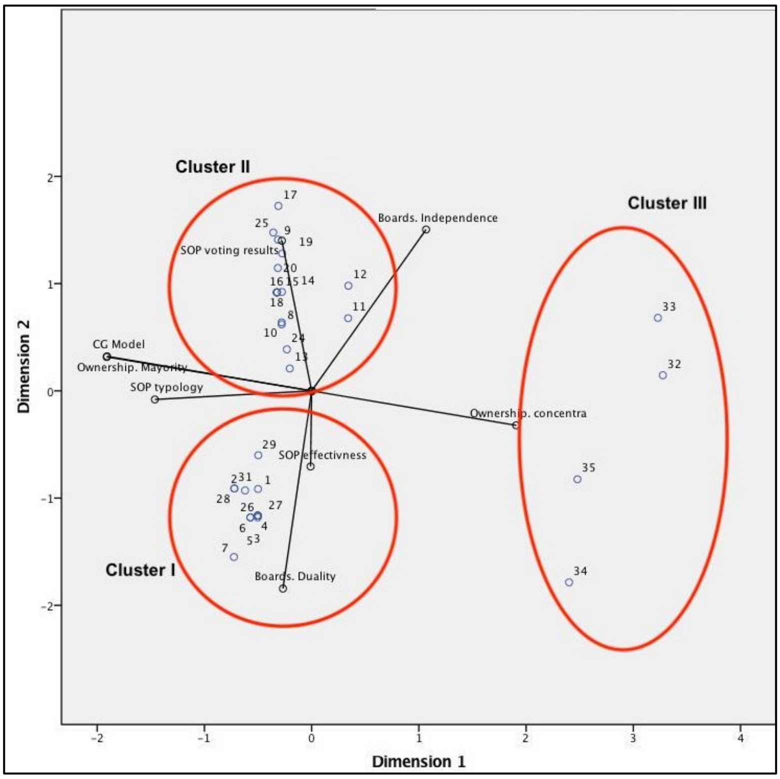
The main strengths of this analysis – compared to other techniques for reducing data – are as follows (Linting et al., 2007; Meulman et al., 2004): (i) CATPCA allows the inclusion of categorical variables, which is particularly relevant in our case; (ii) in addition to its ability to deal with nominal, ordinal or numeral variables, all of them can be handled at the same time without requiring recoding prior to analysis; (iii) in contrast to other techniques of principal component analysis, a specific scaling may be assigned to individual variables; (iv) CATPCA allows the non-linear relationships between variables to be discovered and handled; and (v) CATPCA is able to explain a higher

[4] To perform this analysis, the sample is comprised of 35 studies because 9 papers are excluded – 6 theoretical papers and 3 cross-country studies because of the difficulty of isolating the effectiveness of SOP in each of the countries. In addition, the following two variables groups are used in this analysis: *institutional variables* – which are related to SOP typology and corporate governance – and *firm variables* – which includes SOP results and SOP effectiveness. These variables are operationalized through dummy variables. In particular, to code the SOP typology, voting results and SOP effectiveness, we used the studies included in our SLR (e.g., Alissa, 2015; Brunarski et al., 2015; M. Conyon & Sadler, 2010; Kimbro & Xu, 2016). To code the corporate governance models and the variables related to the ownership structure and boards, different studies and report were used (e.g., Aguilera et al., 2006; La Porta et al., 1999; OECD, 2017). The full appendix containing the CATPCA analysis is available from the authors upon request.

variance in the data than other techniques for reducing data. Based on these strengths, this analysis fits very well to our purpose of studying the relevant relation between the institutional and governance contexts and SOP characteristics and effectiveness, with the aim of determining under what conditions the SOP promotes a greater pay alignment.

Through the CATPCA analysis, we obtain, as shown in Figure 2, three main clusters of studies that have particular characteristics regarding variations of SOP effectiveness. In particular, the first cluster of articles includes studies from the UK and Australia (N=11), which are *common law countries* and their corporate governance system is *Anglo-Saxon* (La Porta, Lopez-De-Silanes, & Shleifer, 1999). At an institutional level, SOP initially arises with a mandatory and advisory nature, but subsequently, this voting is toughened in both countries, as noted above. Regarding SOP effectiveness, the studies in this cluster show dissent levels below 10% (Conyon and Sadler 2010; Ferri and Maber 2013; Hooghiemstra et al. 2017) that lead to an unsystematic – or selective – reactions after SOP implementation in UK companies (Conyon and Sadler 2010), resulting in a greater benefit for companies with more scope for improvement – for example, firms whose performance is low or companies with controversial compensation practices and low penalties in the case of poor performance – (Alissa, 2015; Ferri & Maber, 2013; Gregory-Smith et al., 2014). Similarly, Australian companies improve their pay-for-performance mainly when they receive a first "strike" and they wish to avoid a second one (Grosse et al., 2017; Monem & Ng, 2013).

Figure 2.- Two-dimensional CATPCA solution



The <u>second cluster</u> includes all studies conducted in the US (N=18), which is also a *common law country* and its corporate governance system is *Anglo-Saxon* (La Porta et al., 1999). At an institutional level, SOP has been mandatory but not binding in nature because its implementation in 2010. Regarding SOP effectiveness, studies in this cluster find, as in the UK and Australia, dissent levels of approximately 10%, (Balsam et al., 2016; Cullinan et al., 2017) and higher (Brunarski et al., 2015; Hadley, 2017; Kimbro & Xu, 2016). These dissent levels are related to a more general improvement in the pay-for-performance executive compensation (Balsam et al., 2016; Burns & Minnick, 2013; Kimbro & Xu, 2016), partially due to the added influence of proxy advisors' recommendations (Ertimur et al., 2013; Larcker et al., 2015).

The <u>third cluster</u> includes studies performed in Germany, Spain and the Netherlands (N=4), which are characterized by the *civil law system* and their corporate governance system is *Continental* (La Porta et al., 1999). At an institutional level, there are a variety of SOP typologies within this cluster, i.e., this vote is voluntary in Germany, is mandatory but not binding in Spain, and is mandatory and binding in the Netherlands. Regarding SOP effectiveness, the average dissent in these countries is usually not higher than 10% (Eulerich et al., 2014; Sanchez-Marin et al., 2017; Van der Elst & Lafarre, 2017), which is related differently with compensation and firm outcomes depending on the national context. For example, in the Spanish context, Sanchez-Marin et al. (2017) show a double face of SOP related to compensation design (one more positive and one more negative), and Van der Elst and Lafarre (2017) state that SOP in the Netherlands enhances the influence and dialogue between shareholders and boards, which promotes more effective compensation designs.

In summary, although SOP legislation has been gradually strengthening in the UK and Australia (Cluster 1), the response of companies to SOP is systematically more effective (homogeneous) in US firms (Cluster 2), while it is more selective in the UK and Australia. There may be some reasons related to the corporate governance environment that can explain these responses. First, the greater level of ownership dispersion in the US increases the interaction and power of minority shareholders, whose role becomes more active and their impact on executive compensation alignment is increased (Aguilera, Williams, Conley, & Rupp, 2006). Second, board regulations in the US – unlike in the UK and Australia – require that more than half the directors are independents (OECD, 2017), which guarantees a greater representation of minority shareholders who can have a positive influence on SOP effectiveness. Thus, SOP effectiveness is more clearly related to the existence of an independent and balanced corporate governance structure than more restrictive SOP legislation.

5.- DIRECTIONS FOR FUTURE RESEARCH

There are some undeveloped areas regarding conceptual, theoretical, or methodological issues, whose development by future studies may help to provide a better explanation of some unknown and inconclusive evidence regarding SOP effectiveness. Among them, we are focused on the following priority areas:

Theoretical frameworks explaining SOP. Although most SOP-related literature is based on firm-level agency theory (Obermann & Velte, 2018; Stathopoulos & Voulgaris, 2016b), other theoretical frameworks that are adopting new perspectives – such as prospect theory and institutional theory – are emerging in this field (Krause et al., 2014; Sanchez-Marin et al., 2017). Future research analyzing SOP should, thus, integrate economic theories, to focus on the macroeconomic or enterprise levels (e.g., agency or institutional theory), with sociological and psychological theories, to focus on the group or individual levels (e.g., prospect, organizational justice or stakeholder theories). These integrative frameworks may be useful to better explain the functioning and effectiveness of SOP, to enrich the theoretical foundations of this field, and to study other external, organizational and individual factors regarding the SOP (such as institutional context, stakeholder pressure activism, human resource management (HRM) policies, CSR policies, legitimacy, managerial power or risk behavior). For example, institutional theory is an appropriate theoretical framework to study the potential de-institutionalization of misaligned compensation as a result of changes in the rules, norms and beliefs regarding executive pay (Mangen & Magnan, 2012; Oliver, 1992). Prospect theory helps us to clarify the reference frames that determine the shareholders' voting behavior as well as the taking into account the SOP results (Krause et al., 2014). Stakeholder theory can contribute to explaining in depth how to achieve a balance between the SOP's policies and the interests of all interested parties within a company (Mangen & Magnan, 2012). Since SOP is a governance mechanism affecting several levels in the organization, these mentioned theoretical frameworks can be useful for expanding our knowledge about this vote.

SOP regulation, institutional context and corporate governance. The SOP voting process is not a standard mechanism since it is closely linked to national regulatory policies. Thus different typologies are distinguished among different contexts (Stathopoulos & Voulgaris, 2016b). The differences arising from these regulations are important in terms of SOP effectiveness since they determine whether the conduct of the SOP is compulsory or not and whether SOP results are binding for companies or not (Sanchez-Marin et al., 2017). While SOP regulation has been strengthened in countries such as the UK and Australia with the aim to increase its effectiveness, our results show that SOP effectiveness is more related to the existence of balanced corporate governance structures in companies – as is the case of the US. Thus, this issue must be addressed in the future research, and corporate governance characteristics and SOP regulations should be clearly integrated. For example, the analysis of the new binding SOP in the UK is particularly interesting since the latest research in this context still analyzes the advisory SOP period (Hooghiemstra et al., 2017).

Since SOP regulations are determined by institutional contexts, future studies should analyze how institutional contexts influence the SOP results and its effectiveness. Institutionalism seeks to regulate the behavior of individuals, with rules, norms and beliefs as the main institutions that govern social and economic relations (Oliver, 1992). These main institutions result in normative, mimetic and coercive pressures, which may have an impact on pay designs and, in fact, on SOP effectiveness (La Porta et al., 1999; Mangen & Magnan, 2012; Sanchez-Marin et al., 2017). In addition, the effectiveness of corporate governance, which is directly affected by the normative and economic aspects surrounding the firm, is another important antecedent of the SOP results to be considered. Future research should study both internal and external governance mechanisms from the viewpoint of institutional specificities affecting the SOP results and effectiveness. In particular, further efforts are necessary regarding several aspect related to the internal mechanisms that have not been sufficiently addressed by SOP literature, as follows: how different ownership structures affect the alignment of executive pay, the role of external consultants and independent directors within boards and compensation committees, and the effect of the presence of family versus non-family owners, among others. Moreover, external governance mechanisms, such as labor markets characteristics or corporate control markets peculiarities, should be integrated in the analysis of SOP (Cai & Walkling, 2011; Ertimur et al., 2013; Larcker et al., 2015).

Longitudinal and cross-country studies. Most SOP-related studies are cross-sectional (Alissa, 2015; Armstrong et al., 2013; Balsam et al., 2016; Brunarski et al., 2015; Ferri & Maber, 2013; Kimbro & Xu, 2016), making it difficult to establish cause-effect relationships or to analyze incidence levels (Bowen & Wiersema, 1999; Lindell & Whitney, 2001). The mixed results obtained by the prior literature may be influenced by the cross-sectional nature of these studies since the SOP's nature is essentially dynamic. Addressing these problems requires longitudinal designs that establish the long-term effects of SOP voting on the alignment of executive compensation. An effort should be made to conduct longitudinal studies to obtain a more realistic picture of SOP effectiveness over time, analyzing the capacity of SOP to adjust executive compensation, which is essentially the purpose of the SOP mechanism.

Furthermore, most of the SOP-related literature has focused on a single country (e.g., Alissa, 2015; Balsam et al., 2016; Ferri & Maber, 2013; Hooghiemstra et al., 2017; Kimbro & Xu, 2016), which limits the extension of results to other not homogeneous contexts. As Correa and Lel (2016) suggest, new cross-country studies may be useful to highlight differences related to SOP effectiveness between contexts with and without

SOP legislation, and between contexts with different SOP typologies – voluntary versus mandatory, and advisory versus binding. Cross-country studies will allow researchers to delve into the specificities related to each context (Xavier, 2014) and understand how differences among institutional and cultural contexts, regulatory policies and corporate governance mechanisms impact SOP effectiveness.

Executive compensation schemes. There are three main challenges regarding this topic. First, while it is clear that executive compensation is an important antecedent of SOP voting, future research must seek to determine the longer-term effects of SOP effectiveness as an outcome on executive pay, both in level and mix. In this sense, as indicated above, longitudinal studies may be an appropriate research design to address this issue. Second, other compensation schemes beyond pay level (e.g., pension schemes, equity compensation plans, or severance pay received by executives after leaving the company) should also be analyzed considering the potential effect of SOP in restructuring the pay mix. Third, future research should test in which contexts companies respond systematically or selectively to SOP results when executive compensation is designed. A systematic response occurs when, after receiving an unfavorable SOP, most companies undertake changes in their pay policies to align them to business interests, while a selective response occurs when a group of companies (e.g., companies with poor performance, companies with misaligned compensation, companies with poor corporate governance mechanisms, etc.) makes changes in pay policies before the SOP results. In this way, although our results indicate that while companies tend to respond selectively in the UK and systematically in the US, new research is required to obtain more conclusive results.

Managerial discretion. The study of managerial discretion, which is regarded as the latitude of action available to senior managers in strategic decision-making (Hambrick

& Finkelstein, 1987; Wangrow, Schepker, & Barker, 2015), is really interesting because the effectiveness of SOP is increased or decreased depending on how discretion is used by executives. In addition, many firm policies (in particular, pay polices) are often influenced by discretion issues (Finkelstein & Boyd, 1998). In this way, managerial discretion offers a transversal approach of individual, organizational and external items that integrate many factors (objective and subjective) that summarize the influence of executives on the SOP – in particular, their power, discretion and constraints –, both in terms of antecedents and outcomes. This transversal approach could explain the non-significance obtained in relation to some of these factors individually tested. For example, despite its relevance (Grabke-Rundell & Gomez-Mejia, 2002), the literature has not found a conclusive impact of executive power (through its ownership) (Cai & Walkling, 2011; Kimbro & Xu, 2016). This might also be influenced because three quarters of the current SOP-related literature has focused on the CEO; thus, future multilevel studies are also necessary to focus on directors or other executives (apart from the CEO). In particular, the study of top management team (TMT) compensation is relevant given its high impact on business performance (Balkin & Swift, 2006). Thus, future research should study, from this transversal approach, the role of individual, organizational and environmental discretion in shareholders' voting behavior as well as in its effectiveness.

HRM policies (recruitment, retention, and extinction). Several HRM policies can be affected by the likelihood of obtaining unfavorable SOP results, which may have negative consequences for executives (e.g., loss of reputation or wage cuts) in addition to being a handicap to selecting or retaining executives – in particular, in contexts where the voting is binding. Future studies should check to what extent recruitment and retention policies are influenced in addition to defining specific actions to avoid these unfavorable consequences because it is necessary to make these policies more attractive for executives, especially in companies with greater risk of receiving unfavorable SOP results. Moreover, extinction policies are also impacted by SOP implementation because, after several negative SOP results, executives can be forced to leave the company. A few studies have analyzed the impact of SOP on CEO turnover (Alissa, 2015; Armstrong et al., 2013; Cuñat et al., 2016), but have produced limited evidence. New efforts are necessary in this line to check how extinction policies are impacted by SOP results and, in particular, to differentiate between voluntary and forced turnover, also analyzing whether severance pay varies depending on the reasons for exit.

CSR policies. SOP may influence firm policies since companies often undertake changes in these policies as a response to negative or unexpected SOP voting results. Particularly, little attention has been paid to policies related to CSR. Cullinan et al. (2017) state that CSR policies positively impact the SOP results. After receiving an unfavorable SOP, firms may seek an increase in their reputation and social legitimacy through active CSR policies oriented to a better alignment of the executive compensation. However, Brunarski *et al*. (2015) finds that the changes undertaken by firms are merely window dressing because they do not make substantive changes to the firm; thus, they are not meant to rectify the anomalous situation (i.e., CEOs who have misaligned compensations may try to pacify shareholders by superficial acts that do not really involve changes that affect their wealth or the firm's value). Therefore, future research should address this lack of clear evidence by analyzing whether companies mostly use these policies appropriately or as an artifice to avoid obtaining an unfavorable SOP result or to avoid restructuring executive compensation after receiving an SOP dissent. For example, the existence and consequences of practices related to "window dressing", symbolic compliance and other efforts to mask an unfavorable business situation, which may imply "changes to the firm's capital structure and/or its distribution of corporate profits" (Brunarski et al., 2015, p.

135), are especially interesting for subsequent investigations.

Shareholder activism and proxy advisors. A recent article in the *Financial Times* shows that the UK's largest companies have doubled their shareholder rebellions in recent times as a result of high executive pay; thus companies are taking steps by restructuring executive compensation (Mooney, 2018). In particular, shareholder activism increases SOP dissent, and this is positively related to the design of more aligned compensation after receiving the SOP results. Based on this, new efforts are necessary to determine the role played by compensation activism (Cullinan et al., 2017; Ertimur et al., 2013). This activism may be very important in shaping voting results; in some cases, a strong shareholder activism can increase the awareness of shareholders to assess executive compensation and, based on this assessment, cast a rational vote; and, in other cases, because of the passivity of many shareholders (Alissa, 2015; Sanchez-Marin et al., 2017), they can simply vote in the same way as in previous years, or their decision is strongly influenced by trade unions.

On the other hand, the role of proxy advisors is key in the result and effectiveness of SOP (e.g., Barr, 2018). A large majority of shareholders and investors use the services of proxy advisors in forming their own views due to the proxy advisors' accurate analyzes that they perform before issuing their recommendation. Thus, the proxy advisors' recommendations are usually reliable and valid for the shareholders that mostly base their vote decision on them (Ertimur et al., 2013; Larcker et al., 2015). In this way, it is important to analyze the impact of these recommendations on SOP effectiveness since the few studies that have analyzed this issue (e.g., Ertimur et al., 2013; Larcker et al., 2015; Malenko & Shen, 2016) have mainly focused on the impact of the proxy advisor's recommendations on SOP voting results, and the following challenges must be addressed: to delve into the magnitude of votes that are influenced by proxy advisors, to explore how business decisions are influenced by these intermediaries, and to understand how governance mechanisms work within this field. Moreover, most evidence regarding proxy advisors is from the US, and only Hitz and Lehmann (2018) analyze their impact in Europe; thus, future studies should focus on European contexts to strengthen our knowledge about proxy advisors, checking whether these recommendations modify executive compensation before the voting takes place, and what their impact is after voting results.

6.- CONCLUDING REMARKS AND HRM IMPLICATIONS

This research provides an extensive review of what we know to date about the SOP research and how we could usefully develop this topic in the coming years. It also identifies some common patterns of SOP effectiveness. As SOP is increasingly attracting attention in the literature on executive compensation and corporate governance, the review is timely and provides a comprehensive picture of how scholars have defined and studied SOP, the main methodological considerations, the main areas of research related to the SOP (antecedents, outcomes, and moderating and mediating effects), and the common patterns that can be seen in SOP effectiveness. Based on this, some insights and guidelines for future research have also been provided. In addition, this study provides the interesting conclusion that SOP effectiveness can be more influenced by the strength of corporate governance systems than SOP legislation.

In summary, based on the answer to our four research questions, this review can provide academics with the specific knowledge about SOP antecedents and outcomes, outlining numerous and interesting research possibilities for developing the field. Specifically, researchers might test the effects of SOP more globally and longitudinally, using emerging theoretical frameworks and a multilevel analysis. Additionally, the research should consider the role of regulation policies, institutional contexts and corporate governance because they are some of the important antecedents of SOP results as well as its effectiveness (e.g., some potential challenges are to study whether SOP legislation has a significant impact on SOP effectiveness and to analyze whether the existence of a strong corporate governance structure is more important). Future research should also consider some controversial compensation issues, especially the long-term effects of SOP on compensation design as well as whether the firm's response is systematic or selective. Moreover, other important factors that determine the SOP results and affect its effectiveness are the HRM policies, CSR policies and managerial discretion. Finally, the study of shareholder activism and the role of proxy advisors may be of particular interest within this field.

Our contributions also provide valuable suggestions for HRM practitioners. This review offers a better understanding of SOP and may help companies to design aligned and optimal compensation for executives from the viewpoint of shareholder and stakeholder value, which should ultimately lead to better firm performance. Based on this, companies should pay close attention to compensation designs since the evidence has clearly shown that executive compensation is a very important antecedent to SOP results. Thus, if a firm wants to avoid an unfavorable result, it has to implement efficient pay designs. Human resources departments and boards of directors play a particularly important role in achieving compensation designs aligned to shareholder interests. Linked with the above implication, transparency and pay information become more important since the implementation of SOP because companies place more emphasis on these aspects to achieve greater agreement of their shareholders. Moreover, when companies receive an unfavorable result in the SOP, it is very important to analyze the cause of this dissent and undertake necessary restructuring in compensation designs as well as other changes in other corporate policies that may also be affected by SOP. For example, recruitment and retention policies as well as policies on employee termination must be carefully analyzed because, after SOP implementation, they can be substantially affected, as indicated above. In this sense, these policies should pay attention to the boards' decisions since they are responsible for proposing pay designs.

For policy makers, this review shows the need for governments to continue working to improve their normative and legislation regarding compensation designs and corporate governance. Additionally, they should encourage balanced corporate governance systems, given that they play a very important role in complementing the SOP and in achieving greater SOP effectiveness. Going further, supranational institutions, such as the European Union, are encouraging their members to adopt SOP legislation, and each country is free to choose the specific typology of SOP that best suits their needs. On the other hand, the evidence is not clear on the need or not to strengthen SOP legislation; thus, it is necessary to wait until future research shows more conclusive results in this sense.

Despite our efforts to identify the publications to include in this review to provide a comprehensive picture of SOP and to adopt a rigorous methodology and approach to the analysis of these papers, there are several limitations. First, our literature search may not have captured all the sources that address the subject of this review since we only included sources at the JCR – SJR threshold. Therefore, this review may suffer from a general limitation of SLRs, which is the exclusion of relevant studies, conference papers and book chapters due to the rigorous inclusion and exclusion criteria established, and that might limit creativity and innovation (Nolan & Garavan, 2016; Wang & Chugh, 2014). Second, in this review, two independent coders carefully clustered the findings of the analyzed studies, although other authors might have organized factors differently.

Third, although we opted to exclude legal articles because they are not directly linked to our research questions, some of them might make important contributions to this research field. Despite these limitations, this paper is a first attempt to provide a global picture of SOP, and its antecedents, effectiveness and implications.

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