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Shareholder activism in listed family firms: Exploring the effectiveness of say-on-pay on CEO compensation

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Abstract

The widespread critical evidence surrounding executive compensation of listed corporations has boosted shareholder activism in recent decades. The say-on-pay (SOP) mechanism—a vote in which shareholders express their (dis)agreement with executive pay designs—is one of the corporate governance mechanisms that has led to this activism among listed firms. Merging agency and socioemotional wealth (SEW) arguments, this paper analyzes how effective SOP voting results are among listed family firms in terms of CEO compensation efficiency and equity. Using a sample of UK listed firms from 2011 to 2018, our results show that SOP effectiveness is positively influenced by family ownership and is strongly moderated by family involvement in management and in governance as well as by family generation. Our findings stress the strong family effect and the ethical perceptions of family shareholders on SOP voting, showing how family participation in the firm encourages fairer and more aligned CEO compensation packages. SOP institutional and practical implications oriented to preserve shareholder value and family wealth are finally outlined.

KEYWORDS
CEO compensation, family heterogeneity, family listed firms, family ownership, say-on-pay effectiveness

1 | INTRODUCTION

Executive pay is still one of the most controversial topics in management, business ethics, and corporate governance-related literature (Kaplan, 2008; Magnan & Martin, 2019; Murphy, 1986; Walsh, 2008). Despite the increases in equity-based compensation (Frydman & Saks, 2010), executive pay —and particularly CEO compensation—is often described as being quite disproportionate in relation to the average employee's salary and substantially disconnected both from firm performance and shareholder wealth (Aguinis et al., 2018; Dalton et al., 2007; Tosi et al., 2000; Van Essen et al., 2015). In an effort to shift the balance of power in large corporations (Goranova & Ryan, 2014), shareholder activism has increasingly demanded that executive pay packages be redesigned. This has come particularly to the fore through the say-on-pay (SOP) voting mechanism (Cai & Walkling, 2011; Ertimur et al., 2011; Lozano-Reina et al., 2022).

Born in the United Kingdom in 2002, SOP voting provides shareholders with an appropriate instrument to exercise these compensation demands (Chu et al., 2021; Lozano-Reina & Sánchez-Marín, 2020; Stathopoulos & Voulgaris, 2016) through a vote in which they can express their (dis)agreement with executive pay designs (Alissa, 2015; Conyon & Sadler, 2010; Ferri & Maber, 2013). Most empirical findings indicate that SOP is generally effective, since it entails a containment of executive pay levels as well as an enhanced

pay-for-performance link (e.g., Alissa, 2015; Correa & Lel, 2016; Ferri & Maber, 2013; Sánchez-Marín et al., 2017).[i] In addition, SOP effectiveness has been shown to be greater in Anglo-American corporate governance contexts and in institutional environments where this voting is mandatory and binding (see detailed findings in reviews of Lozano-Reina and Sánchez-Marín (2020) and Velte and Obermann (2020)). The effectiveness of SOP can, thus, be understood as its ability to reduce misaligned executive pay (Baixauli-Soler et al., 2021) and to restore compensation efficiency and equity through "a stronger, clearer link between pay and performance [that] reduces rewards for failure, and promotes better engagement between companies and shareholders" (BIS, 2012, p. 1).

Although studies have thus far provided strong evidence regarding the positive effect of SOP on executive pay-for-performance packages, research has failed to consider how SOP effectiveness is affected by governance idiosyncrasies at company level. In this vein, family firms—who play a key role in the world economy and who are significantly represented within the business community (De Massis et al., 2018)—provide one of the most distinctive governance contexts in which to analyze SOP because of the interweaving between family and business, which gives rise to a wide and idiosyncratic range of potential agency conflicts and shareholder relationships (Cheng et al., 2015; Villalonga et al., 2015). In this context, Lozano-Reina et al. (2022) reported that family shareholders tend to adopt more concentrated SOP voting positions regarding CEO compensation compared to their non-family peers. This voting alignment can be explained by the often active involvement of family members in the firm as either shareholders, directors, or managers (Baek & Fazio, 2015; Barontini & Bozzi, 2018), their propensity toward social identification and interaction (Combs et al., 2010; Mueller & Flickinger, 2021), and their general concern for pursuing and preserving family wealth (Gomez-Mejia et al., 2003, 2007; Sánchez-Marín et al., 2020). This leads to trust and altruism and so reduces executive opportunism and entrenchment (Schulze et al., 2001, 2003).

Since we do not yet know to what extent this SOP voting concentration among family firms influences CEO compensation packages (in other words, how voting results affect SOP effectiveness) there is an important gap to fill. Given the particular characteristics of family firm corporate governance mentioned above (Dyer & Whetten, 2006; Payne et al., 2011), we expect such firms to converge in a peculiar shareholder enforcement of moral dynamics (Vazquez, 2018)—expressed through their SOP voting—that supports equity and efficiency considerations when designing CEO compensation packages. This paper, thus, seeks to address this void by providing deeper insights into the effectiveness of SOP and by extending these insights to the family firm corporate governance context. This is achieved by building on the interplay of agency (Jensen & Meckling, 1976) and socioemotional wealth (SEW) (Gomez-Mejia et al., 2007) approaches. Based on a sample of UK-listed family companies for the period 2011–2018, this paper examines the impact of family ownership on SOP effectiveness as well as the moderating role played by family involvement in governance and management and by family generation.

We first propose that family ownership intensifies monitoring tasks geared toward preserving family and shareholder wealth, which translates into SOP voting intentions aimed at restraining CEO pay levels and intensifying the pay-for-performance link (de Castro et al., 2017; Gomez-Mejia et al., 2011; Villalonga et al., 2015). Second, family directors positively moderate the above relationship since—through mechanisms such as SOP—their presence on boards helps to reduce agency conflicts and increase SEW preservation, in that they seek to promote both pro-organizational and pro-family views (Chrisman et al., 2013; Sciascia, Mazzola, Astrachan, & Pieper, 2013). Third, non-family CEOs reinforce the benefits of family ownership on SOP effectiveness due to their reduced commitment to family socioemotional values that emphasize governance mechanisms such as SOP in order to align CEO compensation with financial gains and so maintain family wealth (Miller et al., 2014; Waldkirch, 2020). Fourth, second or later family firm generations may compromise the favorable influence of family ownership on SOP effectiveness due to their limited efforts to protect family wealth and the increased likelihood of potential opportunistic behaviors (Calabrò et al., 2018; Le Breton-Miller & Miller, 2013).

By addressing these goals, this study contributes to the literature in several ways. First, this paper is pioneering in analyzing SOP under the idiosyncratic corporate governance of family businesses, thus heralding a major step forward in our understanding of the boundaries of SOP effectiveness across different contexts. We offer insights into SOP's effectiveness on family shareholders' views on CEO compensation, considering the potential balance between economic and family wealth (Martin & Gomez-Mejia, 2016; Sánchez-Marín et al., 2020). Second, by analyzing family firms and their heterogeneity (in ownership, governance, management, and family generation) (Chua et al., 2012; Daspit et al., 2021), this research provides an understanding of how the motivations, ethical perceptions, and incentives of multiple family members may affect the business's corporate governance (Mueller & Flickinger, 2021; Vazquez, 2018) and play a key role in understanding SOP voting results and how they impact CEO compensation. Third, this paper expands the SOP-related theoretical framework beyond agency theory and incorporates the SEW approach (Gomez-Mejia et al., 2007). The combination of the two frameworks helps to understand SOP effectiveness and shareholders' voting behaviors, considering the economic incentives and conflict of interest among (family and non-family) owners and managers (Sánchez-Marín et al., 2017), the social and emotional interactions among family members (Kaplan et al., 2015), and the prevalence of family-centered goals (Martin et al., 2016). Fourth, by focusing on the UK context—the pioneer country in both implementing SOP and subsequently making it binding—our study provides insightful knowledge in a context characterized by prominent shareholder activism among large corporations (Stathopoulos & Voulgaris, 2016) and greater sensitivity toward executive compensation as well as its economic and ethical consequences. Finally, this study helps practitioners by highlighting the importance of SOP voting in family firms where family shareholder protection is weak and family wealth is threatened. The evidence to emerge should also encourage

institutions to promote shareholder activism in SOP voting so as to endow minority shareholders with greater influence over executive compensation (Lozano-Reina & Sánchez-Marín, 2020).

2 | THEORETICAL FRAMEWORK AND HYPOTHESES

2.1 | SOP effectiveness and family ownership

The effectiveness of SOP among family firms may primarily be affected by family shareholder voting behavior, whose influence is strongly modulated by the number and distribution of shares held by the family (Lozano-Reina et al., 2022). From an agency view (Jensen & Meckling, 1976), executive compensation is not only a mechanism to minimize type I agency conflicts (Jensen & Murphy, 1990)—by offering well-designed contracts that align *ex ante* executive interests with those of family owners—but also type II agency conflicts (Villalonga et al., 2015)—by reducing the risk of family shareholder entrenchment and tunneling of resources. As regards type I conflicts, dominant family owners have a strong incentive to express their views on CEO compensation through SOP toward pay-for-performance schemes as a way of reducing managerial discretion (Baixauli-Soler et al., 2021), driving CEO behaviors and decision-making toward maximizing both shareholder and family wealth (Nason et al., 2019; Tsao et al., 2021). If this conflict is attenuated by the fact that managers are significant family owners or members of the controlling owner's family, SOP also helps to minimize type II agency conflicts among family firms since it increases minority shareholder power by giving them a voice on pay decisions (Lozano-Reina & Sánchez-Marín, 2020), thereby reducing undesirable effects related to entrenchment behaviors of controlling family shareholders and managers. In this vein, Villalonga et al. (2015) evidence that families in family firms are the type of controlling shareholders most likely to expropriate. In order to protect their firm's economic value, minority shareholders can avoid this potential expropriation and these tunneling practices (Johnson et al., 2000; La Porta et al., 2000) by giving more relevance to SOP voting and by encouraging more equitable and fairer CEO pay designs through this mechanism, which can positively influence its effectiveness.

Similarly, the above-mentioned effects regarding SOP effectiveness are also expected to occur as firm ownership in the hands of families increases. Family ownership concentration promotes intensification of a shared vision among family shareholders to increase executive monitoring (Lozano-Reina et al., 2022; Sánchez-Marín et al., 2020), where SOP voting is seen as a valid instrument for families to exert a certain influence over corporate decisions in listed family firms (Aguilera & Crespi-Cladera, 2012; de Castro et al., 2017). Specifically, SOP voting helps to preserve business value and family wealth, including the design of pay packages that foster CEO pay-for-performance sensitivity (Gomez-Mejia et al., 2003). Likewise, minority shareholders will exercise higher levels of activism when the likelihood of misappropriation of private control benefits by dominant family shareholders increases (Villalonga et al., 2015), thereby giving greater relevance to SOP voting as a mechanism to avoid tunneling and expropriation via executive compensation.

From the SEW perspective (Gomez-Mejia et al., 2007), family owners primarily pursue family-centered goals and seek family identity, family influence, family reputation, and dynastic succession (Gomez-Mejia et al., 2007, 2011). The "affective endowments" concept (Berrone et al., 2012, p. 259) implies that family owners will lean toward preserving SEW when faced with the dilemma of choosing between family goal achievements or financial gains (Gomez-Mejia et al., 2018; Jaskiewicz et al., 2017). However, SEW preservation may be favored by improvements in business performance (Martin & Gomez-Mejia, 2016). Family owners, thus, become more likely to adopt "economically driven decisions" in order to reinforce their SEW endowments (Gomez-Mejia et al., 2011; Llanos-Contreras et al., 2020; Patel & Chrisman, 2014). This makes family shareholders more inclined to promote pay packages closely linked to firm performance as a way of ultimately increasing SEW preservation, which then enhances SOP effectiveness. This behavior—which promotes pay efficiency and equity—is more likely when there are controlling family owners, since they are "effective monitors of their business, in part to keep firm control within the family for both economic and transgenerational purposes" (Tsao et al., 2021, p. 2). Since controlling family shareholders have a greater proportion of their wealth invested in companies, their need to preserve SEW is greater. Moreover, their monitoring and control tasks in decision-making are intensified, such that their incentives to align CEO compensation with firm interests are greater (Cheng et al., 2015). Likewise, as family member ownership increases, a more socioemotional orientation is also assumed (Eddleston & Kellermanns, 2007; Gomez-Mejia et al., 2011; Sánchez-Marín et al., 2020). This incentivizes family owners to exert greater group activism that is manifested through SOP voting toward a CEO pay-for-performance design aimed at maximizing the economic value of the company as a way of maintaining SEW.

We, thus, expect SOP effectiveness to increase with family ownership—both through the presence of a controlling family owner or through a greater percentage of family ownership. We, therefore, propose the following hypotheses:

> **H1a.** *The effectiveness of SOP increases in the presence of a controlling family owner.*

> **H1b.** *The effectiveness of SOP increases as the proportion of ownership in the hands of family shareholders increases.*

2.2 | The moderating role of family directors

Family involvement in firm governance impacts the incentives, authority structure, and legitimacy norms of this kind of organization (Barontini & Bozzi, 2018; Saravanan et al., 2017; Songini & Gnan, 2015). The existence of family-dominated boards, boards with minority family representation, or family directors with competing interests (De Massis,

Kotlar, et al., 2014; Sciascia, Mazzola, Astrachan, & Pieper, 2013) generates major sources of governance heterogeneity in family firms. No matter what kind of representation they have, the literature has shown that family directors on boards are a key corporate governance mechanism that can exert a significant influence—both in the compensation monitoring of executives and in firm value (Cruz et al., 2014; Gomez-Mejia et al., 2010). Given their direct responsibility in efficiency and equity issues regarding CEO pay designs, family directors have a crucial role to play in the relationship between family ownership and SOP effectiveness, since they are directly responsible for taking into consideration SOP voting results (Lozano-Reina & Sánchez-Marín, 2020).

In line with agency arguments (Jensen & Meckling, 1976), family directors seek to "reduce managerial opportunism by deploying proper control and accountability devices" (González-Cruz & Cruz-Ros, 2016, p. 1453). Influenced by family goals and interests (Chrisman et al., 2013), family directors tend to defend family interests in their decision-making in an effort to preserve family wealth by pursuing financial gains. This family director pro-organizational and pro-family view helps to mitigate agency problems I (Villalonga et al., 2015) and thus reduce managerial entrenchment and opportunistic behaviors. In addition, family directors can protect minority (family) shareholders from expropriation by controlling family shareholders—thereby ameliorating agency problems II and IV—and by improving communication and alignment of the respective interests and incentives between these two groups of family owners (Villalonga et al., 2015). Family-dominated boards can, thus, be considered as a vehicle for encouraging CEO pay-for-performance schemes (de Castro et al., 2017; Gomez-Mejia et al., 2011) whilst also maintaining balanced and equitable CEO payments in the eyes of shareholders (Hermanson et al., 2012), which is usually in line with shareholders' voting intentions and which reinforces SOP effectiveness. In addition, family directors have further individual incentives to promote CEO pay-for-performance due to the potentially high penalties incurred by boards for receiving a dissenting vote on SOP (even higher penalties than those incurred in the event of poor performance) (Badgett et al., 2022). An unfavorable SOP result can jeopardize the family business's reputation, put family board positions at risk, and so threaten the firm's economic as well as non-economic (family) value.

Drawing on SEW arguments (Gomez-Mejia et al., 2007), family directors are highly motivated to share emotional alignment, to have highly altruistic behaviors, to pursue family-centered goals, and to support the firm's long-term orientation (Giovannini, 2010; Samara et al., 2018). Their decisions are influenced by family culture and are permeated by emotions, trust, and fairness (Achleitner et al., 2012; Kraiczy et al., 2015) related to SEW preservation. After family shareholders express their views through SOP, family directors take decisions aimed at seeking a balance between financial and socioemotional concerns as a way to avoid business failure (Gomez-Mejia et al., 2011; Llanos-Contreras et al., 2020; Patel & Chrisman, 2014; Peláez-León & Sánchez-Marín, 2022). This is because—just as a downturn in firm performance may imply SEW losses—better performance rates often imply SEW gains (Martin & Gomez-Mejia, 2016). By understanding shareholders' different needs and concerns, family directors, thus, tend to favor the former's views manifested through SOP voting toward CEO compensation packages that are closely linked to business performance (Lozano-Reina et al., 2022). As family involvement in governance increases, the relationship between family ownership and SOP effectiveness intensifies because of the greater emotional attachment to the family business (Barontini & Bozzi, 2018; Jong & Ho, 2018).

Considering the above arguments, we hypothesize that the presence of family directors on boards positively moderates the impact of family ownership on SOP effectiveness, reinforcing the implementation of CEO compensation packages that are closely linked to firm performance.

> **H2.** *The relationship between family ownership and SOP effectiveness is positively moderated by the presence of family directors.*

2.3 | The moderating role of CEO family status

The effectiveness of corporate governance mechanisms in family firms is also influenced by family involvement in management and, specifically, by considering CEO status as a source of family firm heterogeneity (Berrone et al., 2010; Kellermanns et al., 2008; Naldi et al., 2013). Since family CEOs behave differently from non-family ones, CEO family status is a key factor in explaining differences in strategies and decision-making processes in family businesses (Michiels, 2017; Mueller & Flickinger, 2021), and can modulate the effect that family ownership has on SOP effectiveness (Waldkirch, 2020).

When family firms are run by non-family CEOs—the most common scenario among publicly traded family businesses (Anderson & Reeb, 2003; Waldkirch, 2020)[ii]—the agency problem I tends to increase as a result of divergent interests vis-à-vis those of family owners (Jiang & Peng, 2011; Michiels, 2017; Miller et al., 2014). In an effort to counterbalance non-family CEO opportunism and potential entrenchment with regard to pursuing their own goals—including those related to higher pay levels regardless of firm performance—family owners will increase the intensity of CEO monitoring (Gomez-Mejia et al., 2003; Sánchez-Marín et al., 2020). In this context, both controlling and minority family shareholders will especially promote criticism by the use of the SOP mechanism to align CEO compensation schemes with company economic value, in turn strengthening SEW and enhancing SOP effectiveness. In this vein, Gomez-Mejia et al. (2003) find that family CEOs tend to receive lower total compensation than non-family CEOs but to enjoy greater risk protection. Combs et al. (2010) classify non-family CEOs as agents—with higher levels of variable compensation linked to company performance—and family CEOs as stewards—with lower yet fixed pay in exchange for greater job security. In addition, Croci et al. (2012) find further evidence that controlling family shareholders limits family CEOs' total compensation. This evidence confirms the greater activism in these contexts, which incentivizes SOP voting intentions aimed at seeking optimal pay-for-performance designs, and thereby positively moderating the family ownership-SOP effectiveness relationship.

Following SEW arguments (Gomez-Mejia et al., 2007), non-family CEOs—whose attachment to the organization and family tends to be lower (Tsao et al., 2021)—are less willing to orient their behaviors and decision-making to the family's preferences and goals related to SEW (Gomez-Mejia et al., 2011). Here, the pursuit and perpetuation of family influence, reputation, and lineage are relegated to a secondary role (Waldkirch, 2020). Due to their less accentuated socio-emotional priorities, non-family CEOs "will be freer from financially compromising family socioemotional priorities" (Miller et al., 2014, p. 549), and will be less aware of the importance of balancing family endowments and financial gains. As a result—and in the absence of a shared vision and commitment to the family business project—family shareholders tend to place particular emphasis on corporate governance mechanisms to financially monitor non-family CEOs as a way to reach family goals and preserve SEW. The SOP voting mechanism, thus, acquires relevance as a means of increasing the family's collectivist orientation to align CEO compensation with financial gains in order to preserve family wealth (Lozano-Reina et al., 2022). The positive effects derived from family ownership on SOP effectiveness are, thus, reinforced in the presence of non-family CEOs.

Considering all the above agency and SEW arguments, we expect the presence of a non-family CEO in the family firm to positively moderate the impact of family ownership on SOP effectiveness.

> **H3.** *The relationship between family ownership and SOP effectiveness is positively moderated by the presence of a non-family CEO.*

2.4 | The moderating role of generational stage

The family generation that manages the business is another key source of heterogeneity among family firms that can significantly affect their corporate governance (Aguilera & Crespi-Cladera, 2012). When a family business is in the second- and later-generation stage, "the governance of the firm becomes more complicated" (Le Breton-Miller & Miller, 2013, p. 1395). Since competing positions among family members increase, type II agency conflicts are more likely to occur (Le Breton-Miller et al., 2011; Villalonga et al., 2015), hindering agreements on the pursuit of family goals. Similarly, the intensity of family shareholder activism tends to erode over time because family ownership passes on to new family generations and ownership is spread among a larger number of family members (Le Breton-Miller & Miller, 2013). The dilution of family ownership over generations affects both a family firm's strategic unity and governance decision-making coordination, thereby diminishing CEO monitoring thoroughness and the subsequent incentive to focus SOP voting on pay-for-performance schemes (Lozano-Reina et al., 2022). This process negatively impacts CEO pay equity and efficiency and counteracts the effectiveness of SOP.

Moreover, various aspects of family firms such as self-identification, altruism, or emotional attachment to the business tend to evolve as the generational stage advances (Le Breton-Miller & Miller, 2013). Specifically, family firms who belong to the first family generation are more concerned with preserving SEW and firm control (Calabrò et al., 2018). However, as the firm moves into later generational stages, the overlap between family and firm fades, with family commitment, family member identification, and emotional family attachment becoming progressively weaker (Berrone et al., 2012; Gomez-Mejia et al., 2007; Le Breton-Miller et al., 2011). This loss of SEW preservation—coupled with family members' moral hazard to take individual advantage of their position—is accentuated as different family branches enter the business (Le Breton-Miller & Miller, 2013). In addition, the likelihood of pursuing short-term and individualistic interests will prove easier as the family generation advances due to this reduced protection of family wealth (Pittino et al., 2016).

Based on the above arguments, we expect the positive impact of family ownership on SOP effectiveness to decline as the firm moves into later generational stages due to the limited efforts to preserve family wealth and to the more likely potential opportunistic behaviors in later generations.

> **H4.** *The relationship between family ownership and SOP effectiveness is negatively moderated by later generational stages of the family firm.*

The research model is presented in Figure 1.

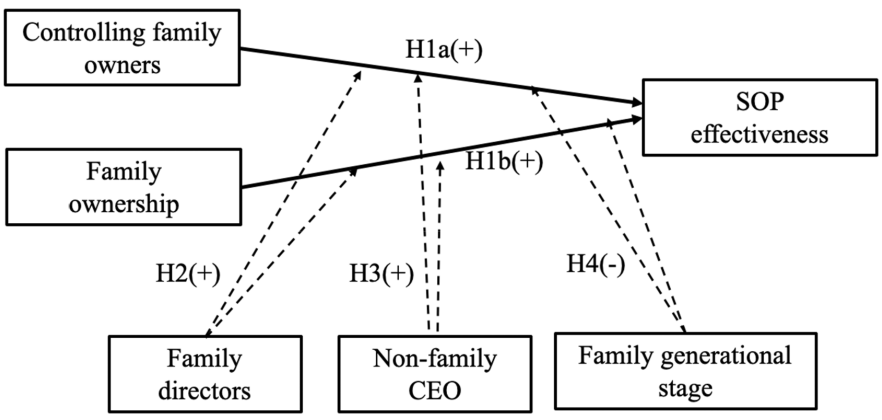

FIGURE 1 Research model and hypotheses.

3 | METHODS

3.1 | Sample and data

Our sample consisted of 406 firm-year observations from a subset of 78 UK-listed family companies from 2011 to 2018. This sample is quite representative of the population of UK-listed family businesses, which comprise about 10% of the approximately 2000 companies listed on the London Stock Exchange (Cruz & Núñez, 2012). It includes a representation of the main economic sectors—i.e., basic materials and utilities (9%), consumer goods and services (27%), financials (24%), health care (5%), industrials, oil, and gas (28%), and technology and telecommunications (7%). The analysis period commences in 2011 so as to exclude years affected—and biased—by the 2008 financial crisis, and ends in 2018 based on our availability of data.

The United Kingdom offers a specifically significant context for three main reasons. Firstly, the United Kingdom was pioneering in implementing SOP voting, making it an appropriate place to test how this voting works. This long-standing experience with SOP-related legislation allows more robust results to be obtained, since shareholder behavior in SOP voting vis-à-vis CEO compensation design can be tested using a longer time horizon. Secondly, the UK legislator reformed the nature of SOP results, moving from non-binding to binding in 2013 (Stathopoulos & Voulgaris, 2016). This legal change may intensify shareholder activism, which is analyzed by focusing mainly on the binding period. Thirdly, the United Kingdom—characterized by the Anglo-American corporate governance model—has experienced several movements toward limiting abusive, misaligned, and excessive CEO pay designs (Sánchez-Marín et al., 2022).

In order to collect data on CEO compensation, SOP, family firms, and control variables, we use the following four databases: *Manifest Ltd*, *NRG Metrics*, *DataStream*, and *Worldscope*. SOP voting data were collected from *Manifest Ltd*. We gathered information on CEO pay, family firms, and corporate governance variables via *NRG Metrics*. Lastly, *DataStream* and *Worldscope* were used to add economic and financial variables.

The sample construction process—shown in Table 1—is described in the following steps. First, when we considered the data extracted from the *NRG Metrics* database (i.e., data on compensation, corporate governance, and family firm variables), our sample was made up of 3603 firm-year observations. Second, we merged these data with the *Manifest Ltd* database (i.e., data on SOP votes), which yielded a sample of 2284 firm-year observations. Third, economic–financial variables (extracted from *Worldscope* and *DataStream*) were then included, resulting in 1650 firm-year observations. Fourth, we removed observations with any missing data as well as extreme values—i.e., observations in the extreme 1% distribution at both tails for each variable—in order to control for extreme values and outliers (Ashley & Yang, 2004; Chen et al., 2018). Our final sample, thus, came to 1123 firm-year observations (relating to 207 firms) from 2011 to 2018. We use these observations—which include both family and non-family businesses—to estimate SOP effectiveness so as to increase accuracy when estimating this variable due to its enormous importance for our models. Moreover, to test our hypotheses, we use the subset of 406 firm-year observations (relating to 78 firms) that refer exclusively to family businesses.

In order to assess whether a company is a family firm, we draw on the procedure used by the *NRG Metrics* database, which searches for any evidence of family in each firm (e.g., large shareholdings or founder) and then double-checks board compositions and business reports. In addition, firms often report the family relationship in the footnotes below the shareholdings—which is especially useful to identify family members who do not have the same surname (e.g., nephew, spouse, or niece). Based on this initial categorization, we consider family firms to be those holding at least 5% of ownership in the hands of the family (Berrone et al., 2010; Martin et al., 2017; Miller et al., 2007). This equity threshold has often been used as a proxy for effective corporate control by a certain type of shareholder (Dyl, 1988, 1989; McEachern, 1975; Salancik & Pfeffer, 1980) and may—in our case—reflect the significant influence of family owners and/or family shareholder coalitions, through SOP voting, on CEO compensation (Gomez-Mejia et al., 2003).

TABLE 1 Sample construction.

	Firm-year observations remaining	Number of firms remaining
Data extracted from the *NRG Metrics* database	3603	631
Data extracted from the *Manifest Ltd* database	2284	401
Data extracted from the *Worldscope* database	1650	285
Data extracted from the *DataStream* database	1650	285
Sample after dropping observations with missing data and extreme values	1123	207
Observations/firms referring to family businesses	406	78
Observations/firms referring to non-family businesses	717	129

3.2 | Variables

3.2.1 | SOP effectiveness

This variable reflects SOP's ability to reduce misaligned CEO pay—i.e., the portion of CEO compensation not linked to business performance (Baixauli-Soler et al., 2021), and so seek increased pay efficiency and equity. Specifically, it measures the usefulness of unfavorable SOP votes, considering that if this vote were not to exist, then the likelihood of designing efficient compensation would decrease, such that the excess (or gap) between received compensation and aligned pay would increase.

In order to obtain this variable, we first regress CEO compensation on its major economic and financial indicators, following the model of Core et al. (1999, 2008),[iii] as shown in Equation 1. This procedure—often used in the SOP research field (for instance, Alissa, 2015; Brunarski et al., 2015; Correa & Lel, 2016; Sánchez-Marín et al., 2017)—allows us to estimate the regression residual (e_{it}), which measures "the amount of the natural logarithm of total compensation in excess of that justified by a firm's characteristics and performance"—representing compensation misalignment or excess pay (Brunarski et al., 2015, p. 137).

$$ln(\text{CEO compensation}_{it}) = \beta_0 + \beta_1 \cdot ln(\text{Tenure}_{it}) + \beta_2 \cdot ln(\text{Sales}_{it-1}) + \beta_3 \cdot ROA_{it} + \beta_4 \cdot ROA_{it-1} + \beta_5 \cdot \text{Stock Return}_{it} + \beta_6 \cdot \text{Stock Return}_{it-1} + \beta_7 \cdot \text{BookToMarket}_{it-1} + \varepsilon_{it} \quad (1)$$

This model (Core et al., 1999, 2008)—applicable to an economic–financial context—does not consider other variables whose influence may prove relevant when CEO compensation is designed. Specifically, after implementing SOP, this vote has an enormous influence—both implicit and explicit—on executive pay designs (see the reviews of Lozano-Reina & Sánchez-Marín, 2020; Obermann & Velte, 2018; Stathopoulos & Voulgaris, 2016). It can, therefore, be said that SOP is potentially contributing to an "unobserved pay adjustment" after being implemented in the world's corporate governance system. This means that the traditional model of Core et al. (1999, 2008) should be updated by adding the effect of unfavorable SOP votes—as stated in Equation 2. It is, thus, possible to test how unfavorable votes received from shareholders can account for CEO compensation. In line with previous research, we measure an unfavorable SOP as a continuous variable, using the ratio of abstentions and votes against out of the total number of votes (Conyon & Sadler, 2010; Hooghiemstra et al., 2015, 2017).

$$ln(CEO\ \text{compensation}_{it}) = \beta_0 + \beta_1 \cdot ln(\text{Tenure}_{it}) + \beta_2 \cdot ln(\text{Sales}_{it-1}) + \beta_3 \cdot ROA_{it} + \beta_4 \cdot ROA_{it-1} + \beta_5 \cdot \text{Stock Return}_{it} + \beta_6 \cdot \text{Stock Return}_{it-1} + \beta_7 \cdot \text{BookToMarket}_{it-1} + \beta_8 \cdot \text{Unfavorable } SOP_{it-1} + \varepsilon_{it} \quad (2)$$

As stated in the "analyses and models" subsection, for estimation purposes we apply an extended instrumental variable estimation routine that provides a generalized method of moments (GMM) estimation to address endogeneity concerns. From Equation 2, the regression residual (ε_{it}) is obtained. This reflects the amount of the natural log of total pay "in excess" of that justified by a business's features, performance, and unfavorable SOP votes. This regression residual is finally multiplied by "−1" to give it a positive orientation to this variable, which constitutes a proxy of SOP effectiveness.

3.2.2 | Family ownership

Two different variables are used to measure family ownership. First, the *proportion of family ownership* is measured through a continuous variable that comprises the percentage of ownership in the hands of family members. We apply a restriction using a 5% threshold, since we consider family firms to be only those that hold at least 5% of family ownership (Berrone et al., 2010; Martin et al., 2017; Miller et al., 2007)—as stated in the "sample and data" subsection. This variable is thus left-truncated because only those observations where family ownership is at least 5% will be valid (Chrisman & Patel, 2012; Gomez-Mejia et al., 2018; Patel & Chrisman, 2014). Second, the *presence of a controlling family owner* is measured through a dichotomous variable that takes the value 1 when the family is the largest shareholder of the business (regardless of the percentage it owns, and which will be higher or lower depending on the company), and 0 otherwise (González et al., 2019). This variable indicates whether the family may be considered as the main controlling owner (Cheng et al., 2015).

3.2.3 | Family directors

Family representation on the board has been used to measure family involvement in governance (Barontini & Bozzi, 2018; Jong & Ho, 2018; Sciascia, Mazzola, Astrachan, et al., 2013a). We use a continuous variable considering the percentage of family members (over the total) who hold a director seat on the board (Barontini & Bozzi, 2018; Kuan et al., 2011; Le Breton-Miller et al., 2011), which represents another source of power for the family through its representation on the board.

3.2.4 | CEO status

We consider CEO status through a dummy variable that states whether the CEO is or is not a member of the family. Specifically—and based on the premise that the probability of being led by a non-family CEO is greater when a family business is publicly traded (Anderson & Reeb, 2003; Waldkirch, 2020)—this variable equals 1 when the CEO position is not occupied by a family member, and takes the value 0 when it is (Naldi et al., 2013).

3.2.5 | Family generation

This variable identifies whether the family business is in a first-, second-, third-, or later-generation stage. For this purpose, firm age is used as an appropriate indicator for family generation stage, since a founder-controlled firm tends to be younger than a successor-controlled firm (Gottardo & Moisello, 2019; Zellweger et al., 2012). The literature is very conclusive in establishing the high correlation between firm age and family generation (Zellweger et al., 2012); some reported correlations are 0.84 (De Massis, Chirico, et al., 2014) or 0.841 (Sciascia, Mazzola, & Chirico, 2013). Specifically—and following Cucculelli et al. (2014)—we use a categorical variable to differentiate between businesses in the first, second, or third and subsequent generational stages, using 20 years old as a cohort (Cucculelli et al., 2014). Based on this, firms less than 20 years old are assumed to be first generation (value 1), firms between 20 and 40 years old are assumed to be second generation (value 2), and those over 40 years old are deemed to be third or later generations (value 3).

3.2.6 | Control variables

Beyond those variables included when estimating CEO compensation (see Equations 1–2), we consider others identified as relevant by prior literature. (1) *CEO ownership* is measured by the percentage of ownership in the hands of the CEO (Sánchez-Marín et al., 2017), indicating the extent of CEO power to influence the effectiveness of SOP voting (Baixauli-Soler et al., 2021); (2) *Institutional ratio* is measured as the percentage of ownership in the hands of institutional investors (Correa & Lel, 2016), resulting from the strong pressure these institutional investors often exert on boards—and on their decision-making (Alissa, 2015) and which affects pay designs and governance mechanism functioning. (3) *Cash flow* is a relevant factor due to the close relationship between free cash flows and potential rent extraction suffered by shareholders (Brunarski et al., 2015). This variable equals the ratio of free cash flow to the business's sales or revenues (Burns & Minnick, 2013; Correa & Lel, 2016). (4) *Leverage*—measured as the ratio of the book value of total amount of liabilities to the business's equity value (Balsam et al., 2016; Cai & Walkling, 2011; Ferri & Maber, 2013)—should be controlled, since shareholders (especially family ones) prefer capital structures that preserve their interests, and so may alter their debt levels (Brunarski et al., 2015). (5) *Dividend yield*, which expresses the dividend per share as a percentage of the share price (Brunarski et al., 2015), and which should be included, since the family would be willing to forego certain compensation in another form in order to obtain dividends, such that this dividend yield can be significant for our analyses. (6) Certain board features should be considered (i.e., independence, size, and ownership) since boards have a direct responsibility in efficiency and equity pay affairs, added to which their configuration tends to affect monitoring tasks and, therefore, SOP effectiveness (Lozano-Reina & Sánchez-Marín, 2020; Obermann & Velte, 2018). Specifically, *board independence* is measured by the percentage of directors classified as independent over the total (Canil & Karpavičius, 2020; Correa & Lel, 2016; Daily & Johnson, 1997; Zhou et al., 2017); *board size* is measured by the number of board members on the board (Conyon & Sadler, 2010; Ertimur et al., 2011); and *board ownership* is measured by the percentage of ownership in the hands of all board members (Grosse et al., 2017). (7) Finally, we also control two relevant features regarding compensation committees (i.e., size and number of meetings) that tend to affect SOP voting (Hooghiemstra et al., 2015, 2017). While *compensation committee size* is measured by the number of board directors holding a seat on the committee, *compensation committee meetings* are calculated by the number of sessions a year (Persons, 2006). See Appendix A for further information.

3.3 | Analyses and models

A panel data method is used for our analyses because it offers more information, more efficiency, and more variability when compared to other methods, thereby providing improvements in our econometric specifications and estimation (Baltagi, 2001). Specifically—following Baum et al. (2003)—we apply an extended instrumental variable estimation routine that provides generalized method of moments (GMM) estimation—introduced by Hansen (1982). This estimation allows for internally generated instruments—considering company history—in order to control endogeneity issues (Nadeem, 2022). It is also useful both for resolving many sources of endogeneity; e.g., unobservable heterogeneity—which is particularly relevant here since it is difficult to measure certain features that may impact CEO compensation and for considering the potential dynamic nature of the relationships (Nadeem, 2022). We, therefore, deal with endogeneity by obtaining consistency in the presence of arbitrary heteroskedasticity and we test instrument subset validity through additional diagnostic tests. STATA software (version 14.2) was used to perform our analyses.

To test our hypotheses, we set out Equations 3 and 4. Specifically, we apply Equation 3 to test our first hypothesis, where the dependent variable is the effectiveness of SOP—encompassing how this vote helps to reduce excessive pay and to promote pay designs that are more oriented toward equity and efficiency criteria. The independent variables are variables concerning family ownership and control variables. Based on the justification of H1a and H1b, we expect β_1 to have a positive and significant impact on SOP effectiveness. Specifically:

$$SOP\ \text{Effectiveness}_{it} = \beta_0 + \beta_1 \bullet \text{Family ownership}_{it} + \beta_2 \bullet \text{Control variables}_{it} + \varepsilon_{it} \quad (3)$$

Moreover, we apply Equation 4 to test our second, third, and fourth hypotheses—where the effectiveness of SOP is also our dependent variable; the independent variables are variables concerning family ownership, family directors, CEO status, family

generation, and control variables; and finally, the moderating variables are the interaction effects between family ownership and family directors/CEO status/family generation. Based on the justification of these moderating hypotheses, we expect the same sign for β_1 as in Hypothesis 1. As regards Hypotheses 2 and 3, we expect β_5 and β_6 to exert a positive and significant effect since the presence of family directors as well as the existence of a non-family CEO tends to reinforce the family ownership–SOP effectiveness relationship. As regards Hypothesis 4, we expect β_7 to exert a negative and significant effect because the positive effects resulting from family ownership on SOP effectiveness are counterbalanced when the business moves into later generational stages. Specifically:

$$\begin{aligned} &SOP\ \text{Effectiveness}_{it} = \beta_0 + \beta_1 \cdot \text{Family ownership}_{it} \\ &+ \beta_2 \cdot \text{Family directors}_{it} + \beta_3 \cdot CEO\ \text{status}_{it} + \beta_4 \cdot \text{Family generation}_{it} \\ &+ \beta_5 \cdot (\text{Family ownership}_{it} \cdot \text{Family directors}_{it}) \\ &+ \beta_6 \cdot (\text{Family ownership}_{it} \cdot CEO\ \text{status}_{it}) \\ &+ \beta_7 \cdot (\text{Family ownership}_{it} \cdot \text{Family generation}_{it}) \\ &+ \beta_8 \cdot \text{Control variables}_{it} + \varepsilon_{it} \end{aligned} \quad (4)$$

4 | RESULTS

4.1 | SOP effectiveness estimation

Models 1 and 2 are performed to first estimate excess pay (from the estimation of the regression residuals) and then to obtain SOP effectiveness—considering it as SOP's ability to reduce misaligned or excess pay.[iv] To obtain these variables—as shown in Table 2—we regress CEO pay on its major determining factors. Specifically, Model 1 contains the traditional economic and financial indicators based on Core et al. (1999, 2008) (see regression I). For its part, Model 2 adds the potential impact of an unfavorable SOP as a dependent variable (see regressions II). While Model 1 shows an approximation of the implicit effect of SOP (given that SOP will implicitly have been affecting pay designs since the 2002 legislation), Model 2 shows an approximation of its explicit effect (since the variable is expressly included in the adapted model). As shown in Table 2, reported VIF values (which are below 5) indicate low levels of multicollinearity (Hair et al., 2010, 2019).

In all regressions, our results show that the main determinants regarding CEO pay are CEO tenure for the current year, company sales in the previous period, and stock return in the current year. Regression II also indicates that an unfavorable SOP result has a negative and significant impact on CEO pay, supporting the not only implicit but also explicit effect of this vote (β= −0.0164, $p<0.01$). Added to this is the fact that when an unfavorable SOP is introduced in Model 2, we see that its explanatory power increases—indeed Model 2 has a greater explanatory power (i.e., R^2 is 0.1525) than model 1 (R^2 is 0.1089 for regression I). This is supported by the statistically significant change in the R-squared—which ultimately reflects the relevance of our Model 2.

TABLE 2 CEO compensation estimations.

Variable	CEO compensation$_{it}$		
	(I) (Model 1)	(II) (Model 2)	VIF values
Tenure$_{it}$	0.1104***	0.1256***	1.05
	(0.0298)	(0.0302)	
Sales$_{it-1}$	0.0724***	0.0783***	1.06
	(0.0133)	(0.0133)	
ROA$_{it}$	−0.0007	−0.0005	1.45
	(0.0031)	(0.0030)	
ROA$_{it-1}$	−0.0030	−0.0026	1.43
	(0.0031)	(0.0030)	
Stock return$_{it}$	2.93e^{-06}**	2.86e^{-06}**	2.15
	(1.36e^{-06})	(1.33e^{-06})	
Stock return$_{it-1}$	2.71e^{-06}*	2.66e^{-06}*	2.10
	(1.57e^{-06})	(1.54e^{-06})	
Book-to-market$_{it-1}$	0.0002	0.0005	1.04
	(0.0026)	(0.0027)	
Unfavorable SOP$_{it-1}$		−0.0164***	1.04
		(0.0024)	
Industry control	Yes	Yes	
Year control	Yes	Yes	
Number of firm-year observations	1123	1123	
Number of firms	207	207	
R^2	0.1089	0. 1525	

Note: Robust standard errors in parentheses. ***, **, and * denote significance at 1%, 5%, and 10%, respectively.

After performing these regressions, we estimate the value of the residuals (ε_{it}), which symbolize the amount of the natural log of total pay in excess. The value of SOP effectiveness is then obtained by multiplying the value of these residuals by "−1" (as explained in the subsection 3.2.1). In any case, to test our hypotheses, we only use the measure of SOP effectiveness derived from regression II—which includes unfavorable SOP voting as a continuous variable—since it has greater variability and explanatory power.

4.2 | Descriptive statistics

Descriptive statistics are reported in Table 3. Specifically, Panel A shows the basic statistics of those variables used to estimate excess pay and SOP effectiveness (considering the sample of 1123 firm-year observations relating to 207 firms). Panel B shows the basic statistics of variables used to test our hypotheses (considering the subset of 406 firm-year observations relating to 78 family firms). As regards Panel A, we see that average CEO pay (in logarithms) is about 14, although the value of its standard deviation indicates the existence of a large compensation gap between CEOs. In addition, we see that about 9% of shareholders often show their dissatisfaction, in

TABLE 3 Descriptive statistics.

Panel A – Variables for estimating excess pay and SOP effectiveness (*N* = 1123 firm-year observations relating to 207 firms)					
Variable	**Mean**	**SD**	**Median**	**Min**	**Max**
CEO compensation	14.0011	0.9731	13.9108	7.9040	18.0610
Tenure	1.8961	0.9108	1.9459	0.0000	3.8501
Sales	13.5544	1.9495	13.4383	6.1612	19.7000
ROA	5.7437	10.7083	5.9600	−128.8500	100.8300
Stock return	13.9842	41.6099	9.4400	−97.9300	810.7640
Book-to-market	2.7677	9.5183	2.0000	−160.0200	259.7609
Unfavorable SOP	8.7757	11.1901	4.3950	0.0000	81.3800
Panel B – Variables for testing the hypotheses (*N* = 406 firm-year observations relating to 78 firms)					
Variable	**Mean**	**SD**	**Median**	**Min**	**Max**
SOP effectiveness	0.3264	0.8653	0.3311	−2.3062	3.0076
Proportion of family ownership	26.6464	18.8604	23.4300	5.1200	79.3800
Controlling family owner	0.6685	0.4714	1.0000	0.0000	1.0000
CEO status	0.5893	0.4943	1.0000	0.0000	1.0000
Family generation	2.3907	0.6392	2.0000	1.0000	3.0000
Family governance	13.0921	8.6674	12.5000	0.0000	37.5000
CEO ownership	7.4422	13.3284	0.5000	0.0000	60.2400
Institutional ratio	23.0364	17.6140	19.9600	0.0000	73.5000
Cash flow	17.8246	45.1028	12.5650	−100.000	99.8700
Leverage	24.0323	34.3833	17.1100	−98.9670	100.5400
Dividend yield	2.5917	2.4037	2.0400	0.0000	39.4300
Board size	8.1532	1.8600	8.0000	4.0000	16.0000
Board independence	51.7465	15.9314	50.0000	0.0000	88.0000
Board ownership	19.4222	18.7815	12.6500	0.0000	80.0900
Compensation committee size	4.0179	1.1854	4.0000	2.0000	8.0000
Compensation committee meetings	2.4942	2.3665	2.0400	0.0000	11.7200

line with previous evidence (Conyon & Sadler, 2010; Sánchez-Marín et al., 2017). Although the actual consequences of a low percentage of SOP dissent might a priori be limited, the ever greater quest for legitimacy and reputation in the eyes of investors, shareholders, and other stakeholders of listed companies is making SOP results increasingly relevant, even when there is little dissent. Badgett et al. (2022, p. 761) state that "the fact that penalties are incurred for low SOP support means that these votes can give shareholders a consequential mechanism to penalize directors [or executives] and to improve corporate governance". Even low percentages of SOP dissent—as in our study (around 9–10%)—can be interpreted as "wake-up calls" for top management and the board. This obviously also affects listed family firms, since they are subject to intensive public exposure, which influences their governance and executive pay policies.

As regards Panel B, SOP effectiveness tends to exhibit higher average values when considering SOP results, although the existence of disparities is determined by each company's specific characteristics. As regards family firm variables, family ownership averages around 26.65%, most companies have a majority family owner, and the average percentage of family members on boards is 13.09%. Moreover, most CEOs are not family members (specifically, 59% of the companies in the sample have a non-family CEO) and businesses are often in the third- and later-generation—in line with prior literature (Anderson & Reeb, 2003; Waldkirch, 2020). Panel B also shows the basic statistics regarding control variables.

The correlations between our main variables are displayed in Table 4. We highlight the positive correlations between SOP effectiveness and variables related to family ownership, governance, and management. However, these correlations become negative when we consider family generation. The correlations between family variables are also worth highlighting. In particular, the correlation is positive between family ownership and family directors, while it is negative between family directors and both CEO status and CEO generation. This implies that in family firms in which family involvement in governance is high, the presence of a family CEO who is first-family generation is more likely. Moreover, correlations between family firm variables and board characteristics merit highlighting.

TABLE 4 Correlation matrix.

Variable[a]	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	VIF
(1) SOP effectiveness	1.000																
(2) Proportion of family ownership	0.1662**	1.000															2.19
(3) Controlling family owner	0.1073*	0.6403***	1.000														2.06
(4) Family governance	0.2219**	0.1939***	0.1214**	1.000													2.29
(5) CEO status	0.1055**	0.0771	0.1125***	−0.5327***	1.000												2.15
(6) Family generation	−0.1109*	0.1078	0.2308***	−0.3444***	0.2654***	1.000											1.84
(7) CEO ownership	−0.2117**	0.3139***	0.2095***	0.0419	−0.5702***	0.0052	1.000										2.30
(8) Institutional ratio	0.0800	−0.1994***	−0.1484**	0.0245	−0.1314**	−0.2898****	−0.0485	1.000									1.54
(9) Cash flow	0.1292*	0.0459	0.0804	0.0623	−0.0611	−0.0175	0.1635***	−0.0110	1.000								1.42
(10) Leverage	0.1024	−0.1208**	−0.0689	0.0046	0.0035	−0.0412	−0.0460	−0.0236	0.0072	1.000							1.22
(11) Dividend yield	0.1256	0.0013	0.1048*	0.0222	0.1589**	0.2372***	−0.0234	−0.0500	0.0352	0.0595	1.000						1.79
(12) Board size	−0.3226***	−0.0028	0.0671	−0.0946*	0.1869***	0.0554	−0.2442**	−0.0243	−0.0259	−0.0396	−0.1115	1.000					1.44
(13) Board independence	0.0719	0.0909*	0.0832*	0.0183	−0.0907*	−0.1090**	−0.0572	0.1221**	0.0021	−0.0578	−0.1181**	0.0428	1.000				1.29
(14) Board ownership	0.2759***	0.4320***	0.2898***	−0.4133***	−0.1967***	−0.2264***	0.5636***	−0.0782	0.1669**	−0.1675**	0.0744	−0.0875*	−0.1119**	1.000			2.11
(15) Compensation committee size	−0.3047***	−0.0809	−0.0539	−0.0817	−0.0041	0.2832***	−0.0257	−0.0354	−0.0449	0.0575	−0.0009	0.3003***	0.0835	−0.1257**	1.000		1.48
(16) Compensation committee meetings	0.0017	0.0709	0.1317**	−0.0654	0.0579	0.0503	−0.0722	−0.0364	0.0157	−0.0138	−0.0734	0.0926*	0.1287**	−0.0851*	0.1335**	1.000	1.19

Note: ***, **, and * denote significance at 1%, 5%, and 10%, respectively.

Finally, as displayed in Table 4, VIF values (which are below 5) indicate an absence of multicollinearity between the variables used in our study (Hair et al., 2010, 2019).

4.3 | Main results

The results of testing our direct hypotheses 1a and 1b (Equation 3) are reported in Table 5. We find that SOP effectiveness tends to increase in companies where the family is the largest controlling owner ($\beta = 0.4177$, $p < 0.01$). Similarly, as the percentage of ownership in the hands of family shareholders increases, SOP effectiveness is also greater ($\beta = 0.0360$, $p < 0.01$). These results—which confirm hypotheses 1a and 1b—are thus robust to both measures of family ownership. In essence, we find that family ownership tends to increase the effectiveness of SOP—ultimately promoting CEO compensation that is more moderate and more aligned with business performance. As regards the control variables, we find that institutional ratio, board ownership, and compensation committee meetings have a positive impact on voting effectiveness.

TABLE 5 Impact of family ownership on SOP effectiveness.

	SOP effectiveness$_{it}$	
Variables	**(I)**	**(II)**
Controlling family owner$_{it}$	0.4177***	
	(0.1724)	
Proportion of family ownership$_{it}$		0.0360***
		(0.0135)
CEO ownership$_{it}$	0.0094	0.0218
	(0.0159)	(0.0152)
Institutional ratio$_{it}$	0.0363***	0.0382**
	(0.0098)	(0.0161)
Cash flow$_{it}$	0.0069	−0.0067
	(0.0067)	(0.0080)
Leverage$_{it}$	0.0001	0.0001
	(0.0001)	(0.0001)
Dividend yield$_{it}$	0.0059	0.0077
	(0.0353)	(0.0425)
Board size$_{it}$	−0.0215	−0.0731
	(0.0533)	(0.0658)
Board independence$_{it}$	0.0044	0.0056
	(0.0060)	(0.0073)
Board ownership$_{it}$	0.0146**	0.0272***
	(0.0062)	(0.0087)
Compensation committee size$_{it}$	0.0192	0.0247
	(0.0732)	(0.0878)
Compensation committee meetings$_{it}$	0.1256**	0.1449**
	(0.0612)	(0.0598)
Industry control	Yes	Yes
Year control	Yes	Yes
Number of firm-year observations	406	406
Number of firms	78	78
R^2	0.2382	0.2476

Note: Robust standard errors in parentheses. ***, **, and * denote significance at 1%, 5%, and 10%, respectively.

Table 6 shows the results regarding Equation 4 for testing hypotheses 2, 3, and 4 in which we consider the moderating role of family directors (regressions I–II), CEO status (regressions III–IV), and family generation (regressions V–VI). Before testing interaction effects, we find that family ownership has a positive and significant direct impact on SOP effectiveness in all the regressions, which is consistent with our hypotheses 1a and 1b. As for the moderating effects, we first test the moderating role of *family directors* (see regressions I–II) and find that a greater presence of family members on the board tends to positively moderate the impact of family ownership on SOP effectiveness. These results—which confirm our hypothesis 2—are robust to both measures of family ownership, i.e., considering the presence of a controlling family owner ($\beta = 0.0560$, $p < 0.05$) and the percentage of family ownership ($\beta = 0.0345$, $p < 0.05$). Secondly, Table 6 also shows the moderating role exerted by *CEO status*, specifically considering the effect of having a non-family CEO (see regressions III–IV). We find that the existence of a non-family CEO positively moderates the relationship between family ownership and SOP effectiveness, again considering both the presence of a controlling family owner ($\beta = 0.1477$, $p < 0.05$) and the percentage of ownership in the hands of the family ($\beta = 0.1507$, $p < 0.01$), thereby supporting our hypothesis 3. This implies that the positive effect exerted by family ownership on SOP effectiveness is reinforced in family businesses where the CEO position is not occupied by a family member. Thirdly, Table 6 also displays the moderating role played by *family generation* (see regressions V–VI). We find that family generation negatively moderates the relationship between family ownership and SOP effectiveness—considering both the presence of a controlling family owner ($\beta = -0.2476$, $p < 0.01$) and the percentage of ownership in the hands of the family ($\beta = -0.3229$, $p < 0.01$). These results—which support hypothesis 4—show that the positive effect exerted by family ownership on SOP effectiveness is also counterbalanced when family businesses move from first to later-family generations. Finally, as regards our control variables, we find that institutional ratio, board ownership, and compensation committee meetings have a positive impact on voting effectiveness.

Finally, Table 7 shows a robustness analysis that replicates the analyses previously performed in Table 6 in the following two subsamples: (a) the subsample of family businesses whose percentage of family ownership is less than 20% (see regressions I–VI), and (b) the subsample of family businesses whose percentage of family ownership is greater than 50% (see regressions VII–XII). This robustness analysis shows that our prior results are maintained in the subsample where the family has a higher proportion of family ownership (i.e., where the percentage of family ownership exceeds 50%). However, in the subsample of family businesses where the percentage of ownership is lower (i.e., less than 20%), the impact of a controlling family

TABLE 6 Moderating effects of family directors, CEO status, and family generation.

	SOP effectiveness$_{it}$					
Variables	**(I)**	**(II)**	**(III)**	**(IV)**	**(V)**	**(VI)**
Controlling family owner$_{it}$	0.7486***		0.7682***		0.4366**	
	(0.2694)		(0.2944)		(0.1799)	
Proportion of family ownership$_{it}$		0.0419***		0.0323**		0.0341**
		(0.0169)		(0.0161)		(0.0149)
Family governance$_{it}$	0.0206	0.0679				
	(0.0613)	(0.1668)				
CEO status$_{it}$			0.0062	0.0670		
			(0.0175)	(0.0602)		
Family generation$_{it}$					0.0153	0.0186
					(0.0481)	(0.0519)
Controlling family owner$_{it}$ × Family governance$_{it}$	0.0560**					
	(0.0257)					
Proportion of family ownership$_{it}$ × Family governance$_{it}$		0.0345**				
		(0.0159)				
Controlling family owner$_{it}$ × CEO status$_{it}$			0.1477**			
			(0.0603)			
Proportion of family ownership$_{it}$ × CEO status$_{it}$				0.1507***		
				(0.0630)		
Controlling family owner$_{it}$ × Family generation$_{it}$					−0.2476***	
					(0.0710)	
Proportion of family ownership$_{it}$ × Family generation$_{it}$						−0.3229***
						(0.1069)
CEO ownership$_{it}$	0.0219	0.0091	0.0018	0.0095	0.0062	0.0095
	(0.0149)	(0.0160)	(0.0444)	(0.0249)	(0.0175)	(0.0249)
Institutional ratio$_{it}$	0.0373**	0.0255*	0.0281*	0.0290*	0.0248***	0.0229***
	(0.0163)	(0.0150)	(0.0159)	(0.0160)	(0.0071)	(0.0076)
Cash flow$_{it}$	0.0035	0.0028	0.0047	0.0049	0.0063	0.0070
	(0.0080)	(0.0081)	(0.0080)	(0.0065)	(0.0081)	(0.0068)
Leverage$_{it}$	−0.0001	0.0001	0.0001	−0.0000	0.0001	0.0001
	(0.0001)	(0.0001)	(0.0001)	(0.0000)	(0.0001)	(0.0000)
Dividend yield$_{it}$	−0.0189	−0.0321	−0.0126	−0.0190	−0.0046	−0.0190
	(0.0419)	(0.0428)	(0.0677)	(0.0420)	(0.0434)	(0.0419)
Board size$_{it}$	−0.0373	−0.0028	−0.0628	−0.0934	−0.0749	−0.0618
	(0.0798)	(0.0776)	(0.0669)	(0.1513)	(0.0668)	(0.0669)
Board independence$_{it}$	0.0049	0.0032	0.0070	0.0088	0.0046	0.0049
	(0.0072)	(0.0073)	(0.0074)	(0.0756)	(0.0074)	(0.0065)
Board ownership$_{it}$	0.0231*	0.0333**	0.0388***	0.0278**	0.0269***	0.0321**
	(0.0112)	(0.0141)	(0.0099)	(0.0126)	(0.0088)	(0.0133)
Compensation committee size$_{it}$	0.0001	0.0142	0.0116	0.0115	0.0313	0.0272
	(0.0868)	(0.0863)	(0.0868)	(0.0868)	(0.0897)	(0.0788)
Compensation committee meetings$_{it}$	0.1431***	0.1201**	0.1506**	0.1087*	0.1302***	0.1289**
	(0.0544)	(0.0557)	(0.0609)	(0.0620)	(0.0372)	(0.0064)
Industry control	Yes	Yes	Yes	Yes	Yes	Yes
Year control	Yes	Yes	Yes	Yes	Yes	Yes

TABLE 6 (Continued)

	SOP effectiveness$_{it}$					
Variables	**(I)**	**(II)**	**(III)**	**(IV)**	**(V)**	**(VI)**
Number of firm-year observations	406	406	406	406	406	406
Number of firms	78	78	78	78	78	78
R^2	0.2270	0.1981	0.2055	0.1802	0. 2197	0.2131

Note: Robust standard errors in parentheses. ***, **, and * denote significance at 1%, 5%, and 10%, respectively.

owner continues to be significant, but the impact of proportion of family ownership is diluted.

5 | CONCLUSIONS AND DISCUSSION

Executive compensation remains one of the most controversial topics in the literature, attracting considerable public interest and multidisciplinary attention from scholars (Kaplan, 2008; Kumar & Zattoni, 2016b; Sánchez-Marín et al., 2022; Walsh, 2008). The well-documented lack of efficiency and equity in executive pay policies (Aguinis et al., 2018; Chu et al., 2021; Kumar and Zattoni, 2016b) has translated into more intense and demanding shareholder activism (Crawford et al., 2021; Ertimur et al., 2011; Goranova & Ryan, 2014) fostering the implementation of new corporate governance mechanisms among listed firms worldwide—with SOP figuring prominently amongst such mechanisms (Lozano-Reina & Sánchez-Marín, 2020; Stathopoulos & Voulgaris, 2016). SOP—a vote in which shareholders can express their (dis)agreement with executive pay at the general meeting—allows them to boost their influence over executive compensation policies (Conyon & Sadler, 2010; Stathopoulos & Voulgaris, 2016).

In an effort to bridge the gap regarding SOP effectiveness, this paper explores the influence of this voting on CEO compensation packages, considering listed family firm governance idiosyncrasies. Family firms—a common kind of organization worldwide (De Massis et al., 2018)—constitute a key research context, since family shareholders merge the structural power manifested in SOP voting with their varying influence (in management and governance) afforded by their ownership stake (Lozano-Reina et al., 2022; Mangen & Magnan, 2012). The SOP mechanism in family firms thus merges both the potential economic incentives and the family emotional and ethics dynamics required to monitor CEO compensation and minimize free-rider issues as well as preserve family wealth (Cheng et al., 2015; Sánchez-Marín et al., 2020). Specifically, by examining a sample of UK family-listed companies from 2011 to 2018, this paper yields interesting and valuable findings after exploring the direct influence of family ownership on the effectiveness of SOP as well as the moderating impact of family involvement in governance and management and family generation.

Our findings first indicate that SOP effectiveness is seen to increase as the degree of familiarity grows, i.e., voting effectiveness is intensified in companies where there is a higher percentage of ownership in the hands of the family as well as in businesses in which the family is the largest controlling owner. Both dominant family owners and minority shareholders in family firms use SOP to reduce managerial discretion and maximize shareholder value and family wealth (Baixauli-Soler et al., 2021; Lozano-Reina et al., 2022). SOP increases shareholder power to minimize (type I and II) agency conflicts, encouraging more equitable and effective CEO pay-for-performance schemes (Gomez-Mejia et al., 2003; Villalonga et al., 2015). This evidence is also consistent with SEW arguments in the sense that family shareholders seek to act for the firm's collective good, to promote corporate citizenship behaviors (Haynes et al., 2015), and to protect their affective endowments regarding CEO monitoring and rewards (Sánchez-Marín et al., 2020). In this way—and considering that superior firm performance promotes greater SEW preservation (Martin & Gomez-Mejia, 2016)—family shareholders tend to prefer more sensitive CEO pay-for-performance packages as a way to protect family wealth, all of which ultimately increases the effectiveness of SOP.

More interestingly, our findings highlight key moderating effects that modulate the positive influence of family ownership on SOP effectiveness in the specific context of listed family firms. Our results reveal that family involvement in governance positively moderates this relationship, since family directors—through their privileged position on the board—are more likely to pursue both pro-organizational and pro-family views in decision-making (Gomez-Mejia et al., 2003). This encourages shareholders' views to be taken into consideration, which favors more aligned CEO compensation packages, thereby stimulating SOP voting in that direction in an effort to preserve family wealth (Catuogno et al., 2018; Cheng et al., 2015). Similarly, family firms led by a non-family CEO tend to experience a reinforcement in SOP effectiveness since these CEOs are less committed to family socioemotional values, which emphasize the use of governance mechanisms such as SOP to align CEO compensation with financial gains in order to preserve family wealth (Miller et al., 2014; Waldkirch, 2020). As regards family generation, we observe a general counterbalance of the positive "family effect" on SOP effectiveness when firms move to subsequent generational stages (Anderson & Reeb, 2003; Waldkirch, 2020). Loss of familiarity—as the family firm generation advances—means there is a more restricted SEW orientation as well as less family and emotional identification (Barontini & Bozzi, 2018; Combs et al., 2010; Le Breton-Miller et al., 2011), which results in weaker monitoring and less efficiency demands by shareholders regarding CEO compensation.

In sum, this paper helps to provide a better understanding of shareholder activism regarding the governance of listed family firms and, specifically, how the SOP mechanism impacts CEO

TABLE 7 Robustness check.

	SOP effectiveness$_{it}$											
	Subsample of firms where family ownership <20%						Subsample of firms where family ownership >50%					
Variables	(I)	(II)	(III)	(IV)	(V)	(VI)	(VII)	(VIII)	(IX)	(X)	(XI)	(XII)
Controlling family owner$_{it}$	0.6460**		0.7944**		0.4805**		0.9886**		0.8366**		0.5538**	
	(0.2977)		(0.3380)		(0.2367)		(0.4448)		(0.4403)		(0.2074)	
Proportion of family ownership$_{it}$		0.0598		0.0516		0.0182		0.0784**		0.0712*		0.0655**
		(0.1429)		(0.0819)		(0.0586)		(0.0401)		(0.0406)		(0.0282)
Family governance$_{it}$	0.0118	0.0176					0.0766	0.0069				
	(0.0122)	(0.0399)					(0.0580)	(0.0147)				
CEO status$_{it}$			0.0227	0.0193					0.0995	0.0298		
			(0.0241)	(0.0121)					(0.2792)	(0.0334)		
Family generation$_{it}$					0.0152	0.0153					0.0139	0.0189
					(0.0375)	(0.0255)					(0.0296)	(0.2122)
Controlling family owner$_{it}$ * Family governance$_{it}$	0.1091*						0.0819**					
	(0.0546)						(0.0368)					
Proportion of family ownership$_{it}$ * Family governance$_{it}$		0.0082						0.0617**				
		(0.0075)						(0.0246)				
Controlling family owner$_{it}$ * CEO status$_{it}$			0.2491*						0.2450**			
			(0.1245)						(0.1207)			
Proportion of family ownership$_{it}$ * CEO status$_{it}$				0.0841						0.1472***		
				(0.0460)						(0.0678)		
Controlling family owner$_{it}$ * Family generation$_{it}$					−0.1958*						−0.1867**	
					(0.0984)						(0.0856)	
Proportion of family ownership$_{it}$ * Family generation$_{it}$						−0.1305						−0.3645***
						(0.1069)						(0.1302)
CEO ownership$_{it}$	0.0283	0.0118	0.0144	0.0228	0.0058	0.0390	0.0625	0.1399	0.0571	0.0364	0.0147	0.0152
	(0.0580)	(0.0122)	(0.0089)	(0.0241)	(0.0154)	(0.0405)	(0.0399)	(0.4552)	(0.0402)	(0.0779)	(0.0799)	(0.0091)
Institutional ratio$_{it}$	0.0174**	0.0188*	0.0127*	0.0204**	0.0253**	0.0196*	0.0229**	0.0205**	0.0270**	0.0200**	0.0186*	0.0203***
	(0.0078)	(0.0095)	(0.0064)	(0.0103)	(0.0117)	(0.0098)	(0.0109)	(0.0092)	(0.0104)	(0.0092)	(0.0107)	(0.0076)
Cash flow$_{it}$	0.0013	0.0083	0.0009	0.0037	0.0002	0.0066	0.0143	0.0169	0.0151	0.0169	0.0329	0.0217
	(0.0549)	(0.0107)	(0.0215)	(0.0076)	(0.0089)	(0.0253)	(0.0101)	(0.0127)	(0.0116)	(0.3053)	(0.2856)	(0.0294)
Leverage$_{it}$	−0.0001	0.0000	−0.0000	0.0001	0.0001	−0.0001	0.0010	0.0020	0.0014	−0.0000	0.0013	0.0021
	(0.0001)	(0.0000)	(0.0001)	(0.0001)	(0.0001)	(0.0001)	(0.0012)	(0.0011)	(0.0013)	(0.0000)	(0.0011)	(0.0024)

TABLE 7 (Continued)

	SOP effectiveness$_{it}$											
	Subsample of firms where family ownership <20%						Subsample of firms where family ownership >50%					
Dividend yield$_{it}$	−0.0867	−0.0073	−0.0242	−0.0644	−0.0737	−0.0305	−0.0639	−0.0489	−0.0692	−0.0630	−0.0671	−0.1085
	(0.2115)	(0.0724)	(0.0380)	(0.0380)	(0.0423)	(0.0677)	(0.0702)	(0.0719)	(0.0747)	(0.0725)	(0.0795)	(0.0722)
Board size$_{it}$	−0.0831	−0.0161	−0.0064	−0.0196	−0.0118	−0.0199	−0.0550	−0.0403	−0.0612	−0.0536	−0.0946	−0.0592
	(0.8206)	(0.0171)	(0.2062)	(0.1278)	(0.1369)	(0.2358)	(0.0766)	(0.0879)	(0.0750)	(0.0811)	(0.0795)	(0.0762)
Board independence$_{it}$	0.0504	0.0294	0.0131	0.0110	0.0106	0.0024	0.0093	0.0050	0.0116	0.0046	0.0082	0.0123
	(0.0308)	(0.0190)	(0.0268)	(0.0112)	(0.0127)	(0.0266)	(0.0083)	(0.0085)	(0.0099)	(0.0083)	(0.0083)	(0.0084)
Board ownership$_{it}$	0.0236*	0.0230*	0.0277*	0.0239**	0.0197*	0.0147*	0.0207**	0.0191*	0.0214**	0.0218*	0.0207*	0.0227**
	(0.0118)	(0.0116)	(0.0149)	(0.0110)	(0.0099)	(0.0072)	(0.0102)	(0.0112)	(0.0105)	(0.0158)	(0.0102)	(0.0104)
Compensation committee size$_{it}$	0.0327	0.0857	0.0174	0.0142	0.0689	0.0828	0.0089	0.0761	0.0299	0.0879	0.0631	0.0488
	(0.1213)	(0.0803)	(0.0276)	(0.0087)	(0.0964)	(0.1217)	(0.0056)	(0.0703)	(0.0675)	(0.0699)	(0.0658)	(0.0675)
Compensation committee meetings$_{it}$	0.2211**	0.2135*	0.1756*	0.2078**	0.2132**	0.1917*	0.2185**	0.2041*	0.2283**	0.2362**	0.1914*	0.2489**
	(0.1019)	(0.0979)	(0.0878)	(0.0903)	(0.0969)	(0.0958)	(0.0975)	(0.1055)	(0.1024)	(0.1087)	(0.1005)	(0.1147)
Industry control	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year control	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of firm-year observations	182	182	182	182	182	182	65	65	65	65	65	65
Number of firms	35	35	35	35	35	35	13	13	13	13	13	13
R^2	0.1930	0.1833	0.2086	0.1856	0.1862	0.2155	0.1792	0.2013	0.1801	0.1990	0.1761	0.1808

Note: Robust standard errors in parentheses. ***, **, and * denote significance at 1%, 5%, and 10%, respectively.

compensation. Our findings reinforce the idea that the family as the dominant shareholder is often prone to adopt more ethical behaviors and to demand the same moral approach from its executives (Samara & Paul, 2019; Vazquez, 2018). Similarly, Samara & Arenas (2017, p. 647) state that family shareholders can benefit considerably "from promoting fairness both in terms of preserving business reputation and in terms of achieving long-term family business survival and success". This reflects the family's ethical view on SOP voting results, acting as a control/supervision mechanism that tends toward performance-based CEO pay schemes. Social interactions and emotional attachment among family members—seen as a signal of closeness and familiarity that affect voting behavior (Kaplan et al., 2015)—also encourage this voting orientation that promotes fairer and more aligned CEO compensation (Mueller & Flickinger, 2021) designs which, in turn, help to preserve business value and family wealth. In addition, our research reveals that SOP effectiveness is strongly influenced by family directors' idiosyncrasies and heterogeneities. Consistent with past literature on family firm governance (Villalonga et al., 2015; Villalonga & Amit, 2009), the influence of family involvement in corporate governance has a clear and positive impact on SOP effectiveness, both through family ownership and family management and governance, which translates into CEO compensation packages that are more aligned with shareholders' interests (Martin & Gomez-Mejia, 2016; Sánchez-Marín et al., 2020). Furthermore, we find that the usual loss of familiarity occurs in listed family firms over generations, with the subsequent negative effects on SOP effectiveness.

5.1 | Academic contributions and practical implications

In reaching these conclusions, this research contributes academically to several directions. Theoretically, our study benefits from the synergies to arise from merging agency and SEW standpoints to explain SOP effectiveness. Within a family firm context, agency theory is particularly relevant when explaining CEO compensation design. In this vein, implementing the SOP voting mechanism helps to minimize type I—and especially type II agency problems (among family-controlling shareholders and minority shareholders)—thereby helping to explain economic incentives and expected shareholder behaviors. This ultimately improves corporate governance effectiveness and company value through the progressive optimization of pay-for-performance contracts (Gomez-Mejia et al., 2001; Sánchez-Marín et al., 2020; Villalonga et al., 2015). Furthermore, the SEW framework helps to understand the role played by the affective monitoring viewpoint of shareholders in terms of SOP voting intentions and their consequences in terms of executive compensation effectiveness (Barontini & Bozzi, 2018; Songini & Gnan, 2015). Since SEW preservation in family firms is closely related to firm performance as a mixed gamble approach (Martin & Gomez-Mejia, 2016; Peláez-León & Sánchez-Marín, 2023), designing more aligned and fairer CEO compensation packages helps to achieve family goals by maintaining a strong financial situation and by enhancing company value. In methodological terms, this study also provides an accurate and updated operationalization of SOP voting based on the classical model of CEO compensation estimations provided by Core et al. (1999, 2008), which—together with the statistical prevention of potentially biased results due to heterogeneity concerns—helps to improve the validity, reliability, and explanatory power of our estimations.

Furthermore, this paper offers important implications for both practitioners and institutions alike. First, SOP voting is an effective mechanism for shareholder activism in family firms. What is more, it is binding (as in the case of the United Kingdom from 2013) (Lozano-Reina & Sánchez-Marín, 2020; Stathopoulos & Voulgaris, 2016). Yet, even in non-binding contexts, when a minority votes against CEO pay, boards are usually concerned, as the media and policymakers "push SOP votes to the forefront of the public consciousness" (Krause et al., 2014, p. 96). This may be especially interesting for family businesses, since they can be affected in some of their key pillars (trust, altruism, and ethical values), considering the undesirable consequences that result from an unfavorable SOP voting outcome (Lozano-Reina et al., 2022): negative corporate reputation, loss of social legitimacy, internal agency conflicts, and the costs involved in changing executive compensation packages. Second, the SOP mechanism is particularly important in certain family firm configurations or scenarios in which executive entrenchment behaviors in terms of excessive CEO compensation are more likely to occur (e.g., when family involvement in the firm decreases or when family influence becomes blurred over generations) (Combs et al., 2010). SOP outcomes can be counteracted in such scenarios where family shareholder protection is weak and family wealth is threatened. Third, in order to prevent SOP from becoming mere window-dressing, it is also important to provide shareholders with all the valid and necessary information before they cast their vote so that they can reasonably assess whether or not CEO compensation is adequately designed (Brunarski et al., 2015). In this sense, two main sources of information can be highlighted: (i) proxy advisors, who are voting advisor firms that function as information providers for shareholders of listed companies, and which tend to share relevant information so that shareholders can build a solid voting position (Ertimur et al., 2013; Hitz & Lehmann, 2018); and (ii) the company itself, which is also keen to provide reliable information to shareholders so as to prevent a negative social media opinion. This is by no means a trivial issue, since prior research states the enormous influence that social media has on SOP voting results (Hooghiemstra et al., 2015, 2017), which may encourage companies to act diligently to avoid an unfavorable public opinion that may damage reputation. Fourth, public institutions should continue to promote shareholder activism and participation in SOP voting and to boost its implementation in companies other than listed ones in order to give minority shareholders a bigger say on executive compensation. This would counteract the potential entrenchment behavior that is typical of large corporations—including those of a family

nature (Villalonga et al., 2015)—and positively influence executive pay-for-performance optimization (Conyon & Sadler, 2010; Correa & Lel, 2016). Publicly promoting SOP is particularly important in countries where this voting is merely advisory and non-binding, since this mechanism is not only a valid instrument for monitoring executive compensation but also a means of legitimizing the creditworthiness of company management.

5.2 | Limitations and lines of future research

Finally, this study is not exempt from limitations which, in turn, offer interesting opportunities for further research. First, we test the existence of high levels of SOP effectiveness in family companies based on the degree of alignment between CEO compensation packages with firm performance and shareholders' interest. However, whether or not this effectiveness varies depending on the specific compensation components involved was not tested. Future studies should, thus, complement this evidence by analyzing executive compensation in depth, and by specifically looking at how salary, bonus, and long-term incentives respond to SOP voting results (Combs et al., 2010). Second, although our measures of family involvement (in ownership, governance, and management) and family generation are well accepted and established in the literature, other family governance indicators might be considered (e.g., the distinction between founder or descendant CEO, family member involvement in top management, or family duality in boards) so as to obtain more refined findings with regard to how family governance influences SOP effectiveness. In this sense, future studies can use more precise measures of family generation (instead of using a proxy), including both the generation in charge of management and the generation responsible for company governance. Third, further research might assess the effectiveness of SOP below the CEO, analyzing whether the scope of this governance mechanism extends to the top executive team or, through a cascading effect (Carrasco-Hernandez & Sanchez-Marin, 2007), to most (or all) of the company's executives. Fourth, another challenge for future research is to delve into other theoretical approaches to explore the functioning and effectiveness of SOP—such as stakeholder theory or organizational justice theory—in order to obtain a more comprehensive picture of how perceptions of fairness are associated with major organizational outcomes. More specifically, these theories are interesting to promote shareholder activism because they provide frameworks that emphasize the importance of considering the interests and rights of [family] shareholders. In addition, these frameworks allow shareholders' influence on corporate behaviors, policies, and practices (specifically on pay design) to be justified in a way that aligns with the interests of shareholders and other stakeholders, thus promoting shareholder activism. Fifth, since this study focuses on a single country—the United Kingdom—future research might adopt a cross-country approach in order to extend comparisons of how SOP works under different corporate governance systems (Anglo-American vs. continental European systems) (Aguilera & Crespi-Cladera, 2012). Sixth, although this research focuses on family governance as one important determining factor of SOP effectiveness, future inquiry might take into consideration the role played by other alternative actors and mechanisms—such as proxy advisors or the media (Kumar & Zattoni, 2016a; Logsdon & Van Buren, 2009), which might also affect the monitoring of executive pay as well as the overall effectiveness of governance mechanisms within family businesses.

AUTHOR CONTRIBUTIONS

The authors declare that they have equally contributed to the manuscript.

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CONFLICT OF INTEREST STATEMENT

The authors declare that they have no conflict of interest.

PEER REVIEW

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DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available from the corresponding author upon reasonable request.

RESEARCH INVOLVING HUMAN PARTICIPANTS AND/OR ANIMALS

Not applicable.

INFORMED CONSENT

Not applicable.

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ENDNOTES

[i] For a more in-depth review of these findings, see Lozano-Reina & Sánchez-Marín et al. (2020) and Stathopoulos and Voulgaris (2016). Although most evidence states that SOP can be considered an effective mechanism to increase efficiency and equity pay (Baixauli-Soler et al., 2021; Balsam et al., 2016; Ferri & Maber, 2013; Kimbro & Xu, 2016), other studies find no significant effects (Conyon & Sadler, 2010; Cuñat et al., 2016), and others report undesired consequences after implementing the SOP—such as the legitimization of inefficient compensation or the growth of excess compensation (Brunarski et al., 2015; Sánchez-Marín et al., 2017).

[ii] Waldkirch (2020) states in his review that "while there is a lack of official statistics on the prevalence of non-family CEOs, the samples of the articles in the review clearly indicate that non-family CEOs represent an important stakeholder group across listed family firms" (Waldkirch, 2020, p. 2). In fact, this is consistent with the description of our sample (as stated in sub-section 4.2, referring to "Descriptive Statistics") since 59% of the companies in the sample have a non-family CEO.

[iii] The variables used to estimate CEO pay are the following: CEO compensation, tenure, sales, book-to market, stock return, and return on assets (ROA). Finally, the time effect (d_t) and the industry of each business (ψ_i) are controlled through dummy variables.

According to prior literature, CEO compensation is the logarithm of pay (calculated from the sum of salary, bonus, other compensation, and the value of equity awarded) for year *t*; tenure is measured by the logarithm of the length of time (i.e., number of years) CEOs have been in their current position for year *t*; sales are measured by net revenues/sales of the firm for year *t–1* (calculating the natural logarithm); book-to-market equals the ratio of book value of equity to market value (market capitalization) for year *t*; stock return is the 52-week total return for the current and prior year; and ROA is obtained by dividing the firm's net income by the value of total assets for the current and prior year.

[iv] To perform these regressions, we use the sample comprised 1123 firm-year observations from 2011 to 2018, including both family and non-family firms in order to increase the robustness of the estimation, as stated in the "sample and data" subsection.

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Appendix A

Labels, definitions, and source of variables

Variables labels	Definitions	Source(s)
SOP effectiveness	This variable reflects SOP's ability to reduce misaligned executive pay, i.e., the portion of CEO compensation not linked to business performance. It is calculated from the regression residual of Core et al.'s model reflecting the amount of total pay "in excess" of that justified of a business's features, performance, and unfavorable SOP. Finally, it is multiplied by "−1" to give a positive orientation to this variable. To build this variable, CEO compensation is obtained from NRG Metrics. The main pay determinants are obtained from *Worldscope* and *DataStream*, and unfavorable SOP votes are obtained from Manifest.	NRG Metrics, Worldscope, DataStream, and Manifest
Proportion of family ownership	Percentage of ownership in the hands of family members. This variable is, thus, left-truncated because only those observations where family ownership is at least 5% will be valid. To assess whether a company has a family nature or not, the NRG Metrics database seeks any evidence of family in each firm (e.g., large shareholdings or founder), and then double-checks board compositions and business reports. In addition, firms often report the family relationship in the footnotes below the shareholdings—which is especially useful to identify family members who do not have the same surname (e.g., nephew, spouse, or niece).	NRG Metrics
Controlling family owners	Dichotomous variable that takes the value 1 when the family (identified as previously indicated) is the largest shareholder of the business, and 0 otherwise.	NRG Metrics
Family directors	Percentage of family members (over the total) who hold a director seat on the board. The procedure for identifying family members is similar to that indicated above.	NRG Metrics
CEO status	Dichotomous variable that takes the value 1 when the CEO position is not occupied by a family member, and 0 when it is. The procedure for identifying whether the CEO is or is not a family member is similar to that indicated above.	NRG Metrics
Family generation	A categorical variable is used to differentiate between businesses in the first, second, and third and subsequent generational stages, using 20 years old as a cohort (Cucculelli et al., 2014). Based on this, firms less than 20 years old are assumed to be first generation (and the variable takes the value 1), firms between 20 and 40 years old are assumed to be second generation (and the variable takes the value 2), and those over 40 years old are deemed to be third or later generations (and the variable takes the value 3).	NRG Metrics
CEO ownership	Percentage of ownership in the hands of the CEO	NRG Metrics
Institutional ratio	Percentage of ownership in the hands of institutional investors	NRG Metrics
Cash flow	Ratio of free cash flow to the business's sales or revenues	Worldscope
Leverage	Ratio of the book value of total amount of liabilities to the business's equity value	Worldscope
Dividend yield	It expresses the dividend per share as a percentage of the share price	DataStream
Board size	Number of members on the board	NRG Metrics
Board independence	Percentage of directors classified as independent over the total	NRG Metrics
Board ownership	Percentage of ownership in the hands of all board members	NRG Metrics
Compensation committee size	Number of board directors who hold a seat on this committee	NRG Metrics
Compensation committee meetings	Number of sessions in a year	NRG Metrics
CEO compensation	The logarithm of CEO pay (calculated from the sum of salary, bonus, other compensation, and the value of equity awarded)	NRG Metrics
Tenure	The logarithm of the length of time (i.e., number of years) CEOs have been in their current position	NRG Metrics
Sales	Net revenues/sales of the firm	Worldscope
ROA	Ratio of a firm's net income to the value of total assets	Worldscope
Stock return	The 52-week total return	DataStream
Book-to-Market	Ratio of book value of equity to market value (market capitalization)	Worldscope
Unfavorable SOP	It is measured as a continuous variable, using the ratio of abstentions and votes against out of the total number of votes	Manifest