

The real value of Say-on-Pay

While Say-on-Pay policies may not curb excessive remuneration, they do provide other measurable, positive benefits for companies and their shareholders.

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Since the advent of the financial crisis, improving corporate governance has moved center stage, with shareholder activism gaining ground around the globe. Although such activism has been around for decades, the high-profile corporate debacles of recent years have reinvigorated interest in the ability of shareholders to influence management behavior via voting power and to improve corporate performance through better monitoring.

The latest incarnation of this activism comes in the form of Say-on-Pay, a policy that grants shareholders the right to approve or reject the CEO pay package, which has already been adopted in the United States and a number of European countries. As with any measure seen to be interfering with the inner workings of business, Say-on-Pay has drawn criticism. The effects it may have on executive compensation and firm value are unclear.

My research shows that shareholder activism and improved democracy inside firms does have a positive impact on value. Say-on-Pay, in particular, yields measurable, immediate benefits for companies and shareholders alike. Moreover, such policies provide a foundation for stronger governance and healthier companies in the long term.

This is in line with what other research and recent history have shown: When companies are autocratically governed without the check of shareholder activism on management actions, managers may become entrenched in their views and positions, and begin to exercise their power in pursuit of other goals, which may not increase, and can even destroy, value.

Given that shareholder activism and Say-on-Pay are global trends, managers cannot afford to simply ignore these issues or pretend they do not apply to them. Instead, they must learn to get used to a new age of accountability, and justify, if not completely rethink, their decisions, actions and pay awards before a newly empowered group of shareholders who have shown that they are prepared to use the voice they have been given.

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