

Empowering Minority Shareholders and Executive Compensation: Evidence from a Natural Experiment

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August 2016

Abstract

We use a recent regulatory change in Israel to examine the efficacy of minority shareholder approval. In 2011, the level of minority shareholder support required for approving related party transactions, including executive compensation paid to controlling shareholders or to their relatives, increased from a third to a majority of the minority votes cast, and a new rule required renewal of this approval every three years. Comparing changes in compensation following approvals before and after the reform, we find that only the new type of approval constrains compensation, and that this effect is present only when the firm does not choose the timing of the vote.

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I. Introduction

Shareholder voting is an important mechanism for addressing agency problems in the firm. In addition to electing directors, shareholders vote on key firm actions such as charter amendments, mergers, stock option plans and executive compensation, certain large acquisitions, and liquidations.

Much of the literature on shareholder voting focuses on firms with dispersed share ownership (recent surveys include Yermack, 2010; Thomas and Van der Elst, 2015; Staphopoulos and Voulgaris, 2016). This focus is natural because in these firms shareholders can collectively influence voting outcomes despite having small shareholdings individually. However, shareholder voting is different in firms with controlling shareholders.

First, while in widely held firms the main conflict is between shareholders and management, in firms with controlling shareholders the main conflict is between minority shareholders and controlling shareholders. This difference affects the matters brought to a vote, shareholder preferences regarding these matters, and voting patterns. Second, minority shareholders can affect voting outcomes in firms with controlling shareholders only if minority shareholder approval is required.

Some jurisdictions encourage or require minority shareholder approval of conflict transactions. This legal approach is consistent with arguments in the literature that minority shareholder approval can curb value expropriation by controlling shareholders (Goshen, 2003; Djankov et al., 2008). However, there is rarely a suitable setup to test the efficacy of minority shareholder approval.

Delaware courts, whose decisions govern most public firms in the United States and influence the laws of jurisdictions worldwide, view favorably minority

freeze-outs that the controlling shareholder makes conditional on minority shareholder approval.¹ The optionality of this approval and the fact it changes how the court views of the transaction, however, create difficulties for empirical study of its effect. Those difficulties are not present in Canada, which mandates minority shareholder approval in certain types of transactions.² However, it is difficult to examine the effect of this mandate without a control group of transactions exempt from it.

This study takes advantage of a recent change in Israeli law to examine the effect of minority shareholder approval without these difficulties. Until 2011, the law in Israel required that certain related party transactions, including executive compensation paid to controlling shareholders or their relatives, receive the approval of a third of the minority shareholders. The approval was good for the duration of the transaction. In 2011, the law began requiring majority of the minority approval of these transactions every three years. Meanwhile, the approval requirements of compensation paid to executives not related to controlling shareholders did not change. This reform enables us to compare compensation changes following the various approvals both within and across firms and years.

We find that only approvals requiring majority of the minority support are not associated with an increase in compensation. When we divide these approvals into

¹ A minority freeze-out put for minority shareholder approval is difficult to challenge. See *Kahn v. Lynch Communication Systems, Inc.*, 638 A.2d 1110 (Del. 1994). A minority freeze-out put for minority shareholder approval after negotiation and approval by a committee of disinterested directors is even more difficult to challenge. An early chancery court decision announcing this approach is *In re Siliconix Inc. Shareholders Litigation*, Consol. C.A. No. 18700 (Del. Ch. June 19, 2001). A recent supreme court decision embracing it is *Kahn v. M & F Worldwide Corp.*, 88 A.3d 635 (Del. 2014).

² Multilateral Instrument 61–101: Protection of Minority Security Holders in Special Transactions. A similar requirement is under consideration in the European Union. Article 9c of the Proposal for a Directive of the European Parliament and of the Council Amending Directive 2007/36/EC as Regards the Encouragement of Long-Term Shareholder Engagement and Directive 2013/34/EU as Regards Certain Elements of the Corporate Governance Statement (July 8, 2015).

those obtained long before due and those obtained later, we find that the latter drive the results. Within the latter, approvals obtained in 2011 and 2012 drive the results.

Our findings suggest that majority of the minority approval matters more when the firm does not choose when to obtain it. The ability to prepare for future rounds of approval, schedule early votes, or (as in Canada) choose when to propose a transaction that requires approval dampen the approval's effect. The effect is likely further limited if (as in Delaware) the firm can choose whether to obtain minority approval at all. These conclusions extend beyond minority approval to shareholder approval in general.

The remainder of the article is as follows. Section II summarizes the literature. Section III presents the data and our empirical approach. Section IV describes the main findings. Section V provides robustness tests and extensions. Section VI concludes.

II. Related Literature

This study joins the line of research on investor protection and ownership concentration initiated by the law and finance literature in the 1990s. Within this literature, it contributes to studies of shareholder voting in general, and voting on executive compensation in particular.

The literature on shareholder approval of executive compensation (surveyed in Staphopoulos and Voulgaris, 2016) addresses several questions. One question is whether voting on executive compensation affects firm value. The results of this line of research are mixed. A positive effect is present only in some firm types. Another question is whether voting on executive compensation affects CEO pay levels and structure, as well as other firm decisions. The results of this line of research are also

mixed. The effects are observable in only some firm types and some compensation attributes.³ While the executives in the studied jurisdictions include controlling shareholders, none of these jurisdictions requires their compensation to receive minority shareholder approval. As a result, the literature does not examine the potential of this approval.

There are few studies of minority shareholder approval in other contexts. Hamdani and Yafeh (2013) uses voting records of Israeli institutional investors in 2006. It finds that institutional investors regularly support management, even in conflict transactions requiring a third of the minority approval. However, because it is impossible to observe corporate decisions before the adoption of that approval requirement, one cannot infer from the evidence whether it limits value expropriation.

Subramanian (2007), Restrepo (2013), and Restrepo and Subramanian (2015) examine minority freeze-outs in Delaware firms. They find lower announcement returns in transactions that were conditional on approval by a majority of the minority and accordingly were subject to less judicial scrutiny. The limitation of these studies is that obtaining minority shareholder approval is optional in Delaware and alters the legal treatment of the transaction, raising both endogeneity and identification difficulties.

³ Studies addressing the first question, sometimes together with the second question, include Cai and Walking (2011), Ferri and Maber (2013), Correa and Lel (2016), and Cuñat, Giné, and Guadalupe (2016). Studies examining the second question include Armstrong, Gow, and Larcker (2013), Gregory-Smith, Thompson, and Wright (2013), Brunarski, Campbell, and Harman (2015), Iliiev and Vitanova (2015), and Kimbro and Xu (2016). A third line of research focuses on the determinants of votes supporting management. Iliiev, Miller, and Roth (2015), for example, examines different types of shareholder voting schemes around the world, studying both the probability of a vote in support of management and the effect of such a vote on various outcomes, including executive compensation. Troger and Walz (2015) finds mixed evidence on the efficacy of voting on executive compensation in Germany. Three studies based on voting data from Sweden and the Netherlands address different questions (de Jong, Mertens, and Roosenboom, 2006; Norden and Strand, 2011; Poulsen, Strand, and Thomsen, 2010).

Chen, Bin, and Yang (2013) is the closest to the present study in using data gathered around a regulatory change in China that subjected stock issuances, which could serve for value expropriation by controlling shareholders, to minority shareholder approval. It finds that mean cumulative abnormal stock returns associated with stock issuances are negative before the reform and positive after the reform. That study, however, does not contain a control group of stock issuances unaffected by the reform.

The present study adds to this literature by providing direct evidence on the effect of minority shareholder approval without the limitations of previous studies. Using data gathered around a legal reform in Israel that raised the approval requirements of conflict transactions, including executive compensation paid to controlling shareholders, we compare compensation changes associated with pre-reform approvals requiring a third of the minority support, post-reform approvals requiring a majority of the minority support, and approvals before and after the reform not requiring minority support. Because the reform applied only to some executives and to each applied at a different time, this comparison controls for variation in compensation across firms and over time.

III. Methodology and Data

Attempts to measure the effectiveness of shareholder voting as a tool to curtail value expropriation typically suffer from the fact that firms bring proposals to a vote only when they expect approval, possibly after negotiating with shareholders (Carleton, Nelson, and Weisbach, 1998 is an early study of these negotiations). It is difficult to infer from proposals on the corporate ballot or from voting outcomes

whether voting limits value expropriation because the degree of expropriation that would exist in the absence of voting is unknown.

Our study addresses this issue by taking advantage of a 2011 reform that replaced an existing requirement that related party transactions receive the approval of a third of the minority shareholders once by a requirement that they receive the approval of a majority of the minority votes every three years. Because related party transactions include under Israeli law compensation contracts of controlling shareholders and their relatives, we can examine the effect of the reform by comparing compensation changes following both types of approval. If the new approvals constrain compensation more than the old approvals, compensation changes following the new approvals will be less generous to executives than compensation changes following the old approvals, even if firms propose compensation for either type of approval only when expecting support.⁴

To test this hypothesis, we hand-collect data on executive compensation for all firms listed on the Tel Aviv Stock Exchange in the years 2009–2013. For each firm, we obtain from annual reports the name, position, and compensation details of all reported executives.⁵ We also obtain from annual reports and proxy statements all compensation approvals received in the years 2010–2013. We supplement these data with accounting data from the commercial database A-Online.

⁴ Given our focus on controlling shareholders, who hold considerable equity positions in the firms they control, we do not focus on the sensitivity of pay to performance. In unreported regressions we find that bonus amounts tend to decrease following MoM approval. There is no significant change in bonus sensitivity to ROA.

⁵ Israeli law requires public firms to disclose all compensation components paid during the year to the five highest paid executives in the firm and its subsidiaries, the three highest paid executives in the firm itself, and any holder of 5% of the shares. Most firms in our sample report the compensation of five executives.

The approval types of interest are those required for the compensation packages of controlling shareholders or their relatives. Before May 15, 2011, the compensation package of controlling shareholders and their relatives required approval *once* by a majority of the votes cast at a shareholder meeting that includes a *third of the minority* votes cast in that meeting (“ToM approval”). This approval held indefinitely. Beginning May 15, 2011, the compensation of controlling shareholders and their relatives required approval *every three years* by a majority of the votes cast at a shareholder meeting that includes a *majority of the minority* votes cast in that meeting (“MoM approval”).

The compensation of executives not related to controlling shareholders is subject to other approvals, which the reform did not change.⁶ We record these approvals because they can affect the compensation of those executives, which we include in the sample to compare compensation packages that received a ToM approval or a MoM approval with compensation packages of other executives in the same firm. Including only controlling shareholders or their relatives in the sample would limit our ability to conduct this comparison, which controls for unobservable firm effects, like changes in board strategy or fluctuation in performance not captured by accounting measures.⁷

⁶ Under Israeli law, approval by a majority of the votes cast at a shareholder meeting is required for any new compensation contract with directors not related to the controlling shareholders who receive more than a certain amount. Approval by the board of directors is required for any new compensation contract with individuals not related to the controlling shareholders who serve as directors and receive less than a certain amount or serve as non-director officers. Since 2013, approval by a majority of the votes cast that includes a majority of the minority votes cast at a shareholder meeting is required for new executive compensation contracts if the firm has not yet adopted a compensation policy, the contract is inconsistent with the firm’s compensation policy, or the contract is with the chief executive officer.

⁷ It is possible that the new rule also affects executives not related to controlling shareholders and therefore not subject to it, if their compensation is set with the compensation of controlling

Under the reform, MoM approvals were due by the later of August 15, 2011, the third anniversary of the executive's most recent compensation approval, and the firm's first shareholder meeting after May 15, 2011. We classify MoM approvals as early if obtained before the calendar year in which they were due and as non-early otherwise.⁸ Our hypothesis is that non-early MoM approvals constrain compensation more because their timing is less likely to be a firm choice.

Panel A of Table 1 shows the number of compensation approvals of each type in each year. There are 512 minority shareholder approvals of the compensation of controlling shareholders or their relatives: 111 ToM approvals (in 2010 and early 2011) and 401 MoM approvals (mostly in 2011 and 2012, and fewer in 2013). More than 80% of the MoM approvals are non-early. In addition, the sample includes 754 other approvals, mostly of compensation packages of executives not related to controlling shareholders.⁹

Panel B of Table 1 presents compensation data. The mean level of compensation is about NIS 1.5 million (about \$400,000) and the median is about NIS 0.9 million (about \$240,000), with controlling shareholders and their relatives as a group earning about 10% more on average. Figure 1 presents the evolution of executive compensation over time. It shows that compensation levels remain roughly constant during the sample period. There is only a moderate and temporary decline in

shareholders and their relatives as reference. Such a spillover would bias downward our estimates of the rule's effect.

⁸ The results do not materially change in unreported regressions in which we classify MoM approvals as early if obtained more than 180 or a similar number of days before they were due and as non-early otherwise.

⁹ Of these 754 approvals, 32 are for the compensation of controlling shareholders or their relatives. Israeli law authorizes the board of directors (inevitably, at the initiative of the controlling shareholder) to approve a reduction in the compensation of controlling shareholders or their relatives without a shareholder vote. Consistently, these 32 approvals are associated with an average decrease in total compensation of nearly 20%.

average compensation between 2011 and 2012. Media reports note this decline and attribute it to social justice protests that took place in 2011 (Azran, 2013). Panel B of Table 1 further shows that executives in the sample receive on average 16% of their compensation in the form of performance based pay (this figure rises to 27% for executives who receive any performance based pay).

Panel B of Table 1 additionally reveals two important characteristics of firms in the sample. First, firm size as measured by total assets varies considerably across firms, with a mean that is much larger than the median. Accordingly, we control for the natural logarithm of total assets in our analyses. Second, the mean profitability as measured by the return on assets (ROA) is about 1.8% and the median profitability is 4.4%, suggesting that the sample includes firms whose performance is poor (about a quarter of the firms have negative profits). Accordingly, we control for ROA and use a dummy variable to denote negative profitability in our analyses.

IV. Results

We begin with univariate analysis. During the sample period, all forms of approval of an executive's compensation contract other than MoM approval are associated with a significant mean increase in total compensation of 13.9% and a median increase of 10.7%.¹⁰ ToM approvals, which were required for compensation contracts of controlling shareholders or their relatives before the reform, are associated with an even larger mean increase in total compensation of 16.8% and a median increase of 12.8%.

¹⁰ We exclude in these calculations decreases in compensation by more than 50% or increases in compensation by more than 100%.

In contrast, MoM approvals are associated with a much smaller mean increase in compensation of 3.4% and a median increase of 2.6%. Within MoM approvals, early approvals are associated with a mean increase in total compensation of 4.2% and a median increase of 3.0%, and non-early approvals are associated with a mean increase of 3.2% and a median increase of 2.5%. The difference between early MoM approvals and non-early MoM approvals is not significant.

Next, we examine total compensation decreases following approval. There are 189 such cases involving controlling shareholders or their relatives.¹¹ Of these, 144 followed MoM approvals (120 of which were non-early) and 23 followed ToM approvals. This ratio of MoM to ToM approvals, nearly 7 to 1, is much higher than the ratio of MoM approvals to ToM approvals in the full sample (Panel A of Table 1), which is roughly 4.5 to 1.

We now turn to multivariate analysis. Table 2 presents benchmark regressions examining the relation between approval types and executive compensation in the approval year. The dependent variable is the natural logarithm of total compensation and the variables of interest are approval types. We control for the lagged natural logarithm of total compensation, executive characteristics, firm characteristics, and firm and year fixed effects.

The results suggest that all forms of approval other than MoM approval are associated with an increase in compensation. The coefficient of *Any Approval* (which equals one for any type of compensation approval and zero for no compensation

¹¹ We exclude from these calculations observations with nonzero equity-based consideration in the compensation package in the current or previous year because firms report them in uneven installments over several years according to accounting rules, which can create the semblance of compensation reduction.

approval) indicates that both shareholder approvals and board approvals are associated with a significant 14% increase in the executive's total compensation. ToM approvals are associated with an even higher increase in total compensation of 22% (the sum of *Any Approval* and *ToM Approval*), but this increase is not significantly different from the increase associated with other approvals.

MoM approvals are different. They are associated with an increase in total compensation of only 6% (the sum of *Any Approval* and *MoM Approval*), which is not significantly different from zero and is significantly lower than the increase associated with other approvals (the p value is 0.02). Column 2 shows that, among MoM approvals, early approvals are associated with a 14% increase in total compensation (the sum of *Any Approval* and *Early MoM Approval*) like other compensation approvals. By contrast, non-early approvals are associated with a much lower increase of less than 5% (the sum of *Any Approval* and *Non-Early MoM Approval*), which is not significantly different from zero. The difference between early and non-early MoM approvals is significant (the p value is 0.02).¹²

Table 3 presents the results of similar regressions in which the dependent variable is the percent change in compensation (excluding outliers with a decrease in compensation by more than 50% or an increase in compensation by more than 100%). As in Table 2, MoM approvals are economically and statistically different from other approvals. There is little difference between early and non-early MoM approvals in

¹² The results are virtually identical in unreported regressions in which we classify MoM approvals as early if obtained at least 180 days ahead of the deadline, and non-early if obtained thereafter. Defining early MoM approvals using a different number of days preceding the deadline does not materially affect the results.

this specification: both are associated with a compensation decline of similar magnitude relative to other approvals.

Table 4 presents probit regressions in which the dependent variable equals one if total compensation paid to an executive during the year is lower than in the preceding year and zero otherwise. Whereas any approval other than non-early MoM approval is associated with a significant decrease in the probability of compensation reduction, the effect of non-early MoM approval (the sum of *Any Approval* and *Non-Early MoM Approval*) is roughly zero. This finding is consistent with many compensation reductions taking place following non-early MoM approvals.

The increase in compensation following approvals other than MoM approval in all regressions is not surprising because they are required only when the firm wishes to modify the compensation contract. That these approvals are associated with compensation increases indicates that firms give executives raises more often than pay cuts. The board and the controlling shareholder initiate the raise, approve it, and seek ToM approval only when expecting to obtain it.

In contrast, MoM approval is required every three years even if the firm has no desire to revisit the compensation contract. MoM approvals obtained long before due reflect a choice. Consistently, they are associated with an increase in compensation. MoM approvals obtained not long before due, or past due, constitute acts of compliance. Their timing is less likely to be the most convenient for securing minority shareholder support of a raise, and they do not lead to one. It is possible that some of them leave compensation unchanged simply because the controlling shareholder does not seek a raise and the vote is a mere formality. However, the evidence above that decreases in the compensation of controlling shareholders or their relatives tend to follow MoM approvals (even though board approval would suffice)

suggests that MoM approvals include instances of minority shareholders constraining the controlling shareholder.

This result is reminiscent of Choi, Fisch, and Kahan (2016), which examines voluntary adoptions by firms of a voting scheme that makes it easier for shareholders to unseat directors. The study finds that early adopters experience less shareholder opposition at the outset and appear unaffected by the adoption, whereas late adopters experience a decline in shareholder opposition after the adoption. Our result is also consistent with Ferri and Oesch (2016), which finds correlation between the frequency of advisory shareholder votes on executive compensation and firm responsiveness to these votes, and resonates with findings in the political science literature that governments call early elections when reelection prospects are high.¹³

While the increase in the required minority shareholder support from a third to a majority of the minority votes cast likely contributes to the effectiveness of MoM approvals, we cannot estimate this contribution. The reason is that there have never been exogenously timed ToM approvals for comparison with exogenously timed MoM approvals.

V. Robustness Tests and Extensions

In this section, we present extensions and robustness tests. We find that our results hold in a variety of specifications and subsamples.

First, although we control in our regressions for part-time employment (employment less than full-time or less than a full year), the reported value of equity-

¹³ Country studies include Japan (Ito and Park, 1988; Ito 1990; Cargill and Hutchinson, 1991), India (Chowdhury, 1993), United Kingdom (Smith, 2003), Canada (Ferris and Voia, 2009; Roy and Alcantra, 2012; Dickson, Farnsworth, and Zhang, 2013), and members of the Organization for Economic Cooperation and Development (Palmer and Whitten, 2000).

based compensation varies considerably over time due to accounting reasons. To ensure that this variation does not affect our results, we estimate regressions similar to the benchmark regressions, but with non-equity-based compensation as the dependent variable. The results are qualitatively unchanged both for the full sample (Table 5, Columns 1 and 2) and for a subsample excluding observations with nonzero equity-based compensation (Table 6, Columns 3 and 4).¹⁴

Second, some firms in the sample are parents of other firms in the sample. The compensation reported by these parents includes payments by their public subsidiaries despite the fact that those subsidiaries report the same payments in their own filings. Moreover, in these cases, it is the subsidiaries that approve the payments and the payments should reflect their performance. By misattributing these payments to the parents, our estimates can mask the relation of compensation to approvals and performance at the parents. To address this concern, in Table 6 we exclude executives receiving compensation from more than one firm in the sample in the same year, if one firm controls the other or both are under common control. Our results do not change. In unreported regressions, we find similar results also when excluding compensation reported by a parent if the sample contains compensation reported by its subsidiary for the same executive and year.

Third, the regressions thus far addressed firm heterogeneity by including executives within the same firm receiving different approvals in different years, by including firm fixed effects, and by clustering standard errors at the firm level. Following Bebchuk, Cremers, and Peyer (2011), to further control for unobservable

¹⁴ This specification leads to the exclusion of many executives not related to controlling shareholders, as they are more likely to receive equity-based compensation than are controlling shareholders.

differences between firms we estimate a regression similar to the benchmark regression, in which the dependent variable is an executive's share of the total executive compensation reported by the firm in a given year. The results remain unchanged (Table 7, Columns 1 and 2).

Fourth, our estimates do not distinguish between the two groups of executives subject to the MoM approval requirement, controlling shareholders and their relatives, even though their position in the firm is very different.¹⁵ We therefore examine a subsample consisting of only the highest paid and the second highest paid executive in each firm. The coefficients of the approval variables and control variables are similar to those in the benchmark specification despite the shrinkage of the sample to less than half its original size (Table 7, Columns 3 and 4).

Before concluding this section, we discuss a possible challenge to our analysis and a possible extension. The challenge relates to the fact that firms can choose whether to hold an early MoM vote.¹⁶ Our interpretation of the results is consistent with this choice. Early MoM approvals are associated with compensation increases, we reason, precisely because they reflect instances in which the controlling shareholders anticipate support and hold an early vote. Non-early MoM approvals, in contrast, take place at a time set by the regulator. They are associated with no compensation increase and a higher likelihood of compensation decrease.

¹⁵ Among controlling shareholders and their relatives, the average rank within the firm by total compensation of executives holding at least 0.1 of the equity (a proxy for being a controlling shareholder) is 2.29 and the average rank of executives holding less than 0.1 of the equity (a proxy for being a relative) is 3.68. The average rank of executives not related to controlling shareholders is 3.36. The differences between the averages are highly significant.

¹⁶ This choice is available only to firms whose MoM approval deadline was in 2012 or 2013. Firms with a 2011 deadline could not hold an early vote because the MoM approval requirement originated in that year.

To ensure that unobserved factors affecting the decision to hold an early vote do not bias our estimates, we examine a two stage regression in which the amount of time the firm had until the deadline serves as an instrument for an early vote. In the first stage, the dependent variable is the year in which the firm obtained MoM approval and the explanatory variables are the deadline year, firm profitability and size and the executive's lagged natural logarithm of total compensation. The fitted values from this regression serve to create dummy variables that replace the dummy variables for early and non-early MoM approvals in a second stage resembling the benchmark regression: fitted values lower than the deadline year correspond to early MoM approvals and fitted values higher than the deadline year correspond to non-early MoM approvals.

The unreported results of the first stage indicate that the approval year is positively related to the deadline year (the p value is 0.00), and negatively related to firm profitability (the p value is 0.03), suggesting that MoM approvals tend to take place earlier in more profitable firms given the deadline year. The approval year is not significantly related to the other two explanatory variables. Column 1 of Table 8 reports the results of the second stage regression. They are similar to those of the benchmark regression.

A possible extension to our analysis relates to differences between MoM approval years. Column 2 of Table 8 replicates the benchmark regression while distinguishing between non-early MoM approvals obtained in different years. Non-early MoM approvals constrain compensation increases in 2011 and to a lesser extent in 2012, but not in 2013. This finding is consistent with the effect of the approval requirement petering out as firms adapt and get more time to prepare for the vote, for

example, by negotiating with minority shareholders, scheduling early votes, and timing profitability peaks or compensation lows to coincide with the vote.¹⁷

VI. Conclusion

This study finds that mandatory minority shareholder approval constrains compensation paid to controlling shareholders and their relatives when the voting schedule is determined exogenously, rather than by the firm. Unlike other approvals of compensation, minority shareholder approvals are not associated with an increase in compensation, especially if obtained close to the deadline and the deadline is near. In contrast, minority shareholder approvals obtained long before the deadline and approvals with deadlines known well in advance are associated with an increase in compensation. The first round of minority shareholder approvals after the reform can therefore mark the upper bound of their potential. The ability to prepare for future rounds and schedule early votes can weaken their disciplining effect.

Our findings have broader implications for conflict transactions. That minority shareholder approval matters more when its timing is determined exogenously bears notice when evaluating the deference paid in Delaware courts to minority freeze-outs chosen by the controlling shareholder to be conditional on minority shareholder approval. The requirement in Canada that conflict transactions invariably receive minority shareholder approval provides more protection to minority shareholders, but the fact that the controlling shareholder chooses when to propose the transaction limits this protection.

¹⁷ Kronlund and Sandy (2016) finds that compensation patterns in American firms are different in years in which shareholders cast an advisory vote on compensation. Election driven business cycles are well known in the political science literature.

More generally, our findings are relevant to all firm initiatives requiring shareholder approval, such as charter amendments, adoption and amendment of stock option plans, mergers, certain large acquisitions, disposition of substantially all assets, and voluntary dissolution. By controlling the timing of the vote, management can influence the outcome in all of these cases.

Finally, our findings contribute to recent work on management ability to manipulate the voting mechanism through strategic timing of the vote. The literature has long noted that shareholder voting is subject to collective action costs (Berle and Means, 1932; Coffee, 1991; Rock, 1991), shareholder agency costs (Romano, 1993; Hamdani and Yafeh, 2013; Cvijanović, Dasgupta, and Zachariadis, 2016), and shareholder regulatory costs (Black, 1990; Roe, 1991). However, voting is also subject to strategic timing by the agents it aims to constrain. Bebchuk and Kamar (2010) finds that managers obtain shareholder approval for moves to a staggered board structure by bundling these moves with mergers. Managers can do so because they have monopoly over initiating transactions, structuring them, and putting them before shareholders. The present study suggests this agenda control enables managers to affect voting outcomes through scheduling decisions as well.

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Figure 1: Mean Total Compensation

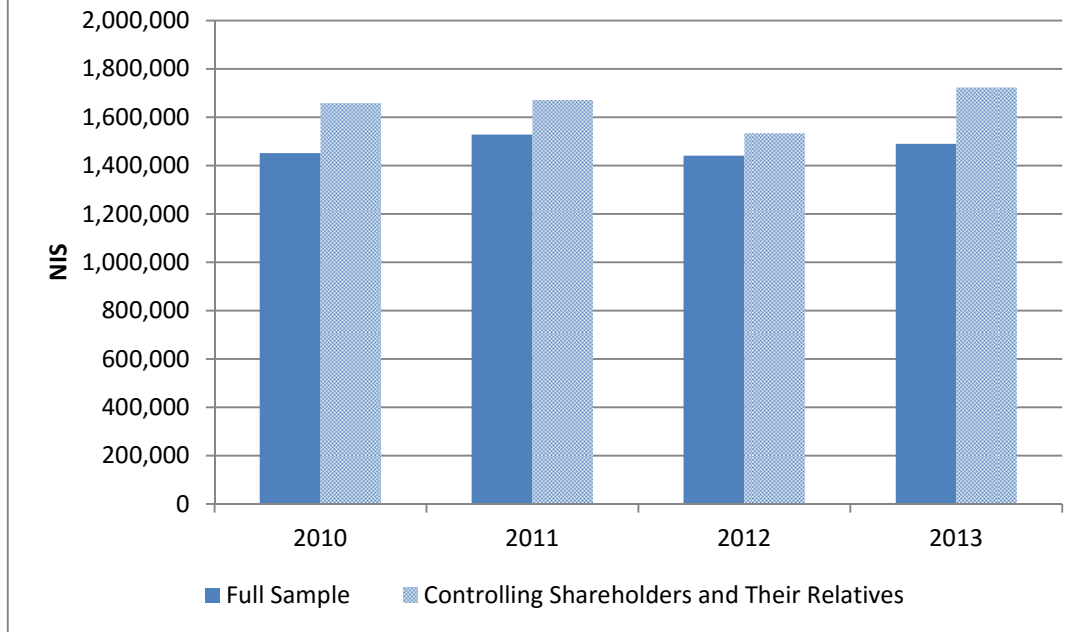


Table 1: Variable Definitions and Sample Statistics

The sample consists of 6,925 observations on 2,759 executives (688 of whom are controlling shareholders or their relatives) from 537 firms in the years 2010–2013.

Panel A: Voting Characteristics

	Definition	2010	2011	2012	2013	Total
MoM Approval	Majority of the Minority vote on controlling shareholders' compensation (after mid-2011)	0	178	132	91	401
Non-Early MoM Approval	Mandatory MoM approvals at least three years after the previous approval	0	150	112	67	329
ToM Approval	Third of the Minority vote on controlling shareholders' compensation (until mid-2011)	85	26	0	0	111
Other Approval	Various approval mechanisms mainly for non-controlling shareholders	207	198	179	170	754
No Approval		1,371	1,528	1,434	1,326	5,659

Panel B: Compensation and Characteristics

	Definition	Mean	Std.	25%	50%	75%	Obs.
Total Compensation	In thousand NIS (about 4 NIS per USD)	1,479	1,998	529	930	1,644	6,925
Total Compensation of Controlling Shareholders (or their relatives)	In thousand NIS (about 4 NIS per USD)	1,644	2,237	575	1,076	1,905	1,918
Variable Compensation	Equity-based compensation and performance-based bonus as a percent of total compensation (corresponding statistics if nonzero in parentheses)	16.2 (28.3)	21.4 (21.4)	0.0 (11.0)	6.1 (22.4)	26.3 (41.5)	6,925 (3,970)
Total Assets	In thousand NIS (about 4 NIS per USD)	3,578	13,500	131	396	1,315	6,925
ROA	As a fraction	0.017	0.161	0.001	0.044	0.082	6,925

Table 2: The Effect of Minority Approval on Total Compensation

This table presents linear regressions in which the dependent variable is each executive's total compensation during the year. The sample includes 2,759 executives from 537 firms in the years 2010–2013. The dependent variable is the natural logarithm of total annual compensation in NIS. *Log Total Compensation_{t-1}* is the natural logarithm of total compensation in the previous year; *Any Approval* is a dummy variable taking the value one if any type of approval took place in that year. *MoM Approval* and *ToM Approval* are similarly defined dummy variables taking the value one if a MoM approval or a ToM approval took place, respectively. *Early MoM Approval* is a dummy variable taking the value one if a MoM approval was obtained before the calendar year it was due. *Non-Early MoM Approval* is a dummy variable taking the value one if a MoM approval was obtained not before the calendar year it was due. *Log (Total Assets)* is the natural logarithm of total assets in NIS. *ROA* is a fraction. *Negative ROA*, *Controlling Shareholder* and *Part-Time Employment* are dummy variables denoting negative profitability, controlling shareholders or their relatives, and part-time employment (less than full-time or less than a full year). Standard errors are in parentheses. ***, ** and * denote statistical significance at 1%, 5% and 10% respectively.

	(1) Log (Total Compensation)	(2) Log (Total Compensation)
Log (Total Compensation _{t-1})	0.755 *** (0.008)	0.755*** (0.008)
Any Approval	0.137 *** (0.020)	0.137*** (0.020)
MoM Approval	-0.078 ** (0.034)	
Early MoM Approval		-0.001 (0.062)
Non-Early MoM Approval		-0.094*** (0.035)
ToM Approval	0.075 (0.052)	0.076 (0.052)
Log (Total Assets)	0.024 (0.020)	0.023 (0.020)
ROA	0.324 *** (0.082)	0.321*** (0.082)
Negative ROA	0.032 (0.027)	0.031 (0.027)
Controlling Shareholder	0.078 *** (0.017)	0.077*** (0.017)
Part-Time Employment	-0.226 *** (0.017)	-0.227*** (0.017)
Year Fixed Effects	Yes	Yes
Firm Fixed Effects	Yes	Yes
Observations	6,925	6,925
Adjusted R-squared	0.84	0.84

Table 3: The Effect of Minority Approval on Percent Change in Total Compensation

This table presents linear regressions in which the dependent variable is the percent change in each executive's total compensation, excluding changes smaller than -50% or larger than 100%. The sample is the same as in Table 2, except that observations with percent change in compensation above 50% or below -100% are excluded, resulting in 2,554 executives from 527 firms in the years 2010–2013. *Log (Total Compensation_{t-1})* is the natural logarithm of total compensation in the previous year; *Any Approval* is a dummy variable taking the value one if any type of approval took place in that year. *MoM Approval* and *ToM Approval* are similarly defined dummy variables taking the value one if a MoM approval or a ToM Approval took place, respectively. *Early MoM Approval* is a dummy variable taking the value one if a MoM approval was obtained before the calendar year it was due. *Non-Early MoM Approval* is a dummy variable taking the value one if a MoM approval was obtained not before the calendar year it was due. *Log (Total Assets)* is the natural logarithm of total assets in NIS. *ROA* is a fraction. *Negative ROA*, *Controlling Shareholder* and *Part-Time Employment* are dummy variables denoting negative profitability, controlling shareholders or their relatives, and part-time employment (less than full-time or less than a full year). Standard errors are in parentheses. ***, ** and * denote statistical significance at 1%, 5% and 10% respectively.

	(1) Percent Change in Total Compensation	(2) Percent Change in Total Compensation
Log (Total Compensation _{t-1})	-0.080 *** (0.005)	-0.080 *** (0.005)
Any Approval	0.106 *** (0.011)	0.106 *** (0.011)
MoM Approval	-0.095 *** (0.018)	
Early MoM Approval		-0.082 ** (0.033)
Non-Early MoM Approval		-0.098 *** (0.019)
ToM Approval	0.008 (0.028)	0.008 (0.028)
Log (Total Assets)	0.011 (0.012)	0.011 (0.012)
ROA	0.120 ** (0.049)	0.120 ** (0.049)
Negative ROA	0.025 (0.015)	0.025 (0.015)
Controlling Shareholder	0.013 (0.009)	0.013 (0.009)
Part-Time Employment	-0.076 *** (0.009)	-0.076 *** (0.009)
Year Fixed Effects	Yes	Yes
Firm Fixed Effects	Yes	Yes
Observations	6,161	6,161
Adjusted R-squared	0.12	0.12

Table 4: The Effect of Minority Approval on the Probability of a Decline in Total Compensation

This table presents probit regressions in which the dependent variable is a dummy that equals one if total annual compensation declines in a given year relative to the previous year. The sample includes 2,759 executives from 537 firms in the years 2010–2013. *Log (Total Compensation_{t-1})* is the natural logarithm of total compensation in the previous year. *Any Approval* is a dummy variable taking the value one if any type of approval took place in that year. *MoM Approval* and *ToM Approval* are similarly defined dummy variables taking the value one if a MoM approval or a ToM approval took place, respectively. *Early MoM Approval* is a dummy variable taking the value one if a MoM approval was obtained before the calendar year it was due. *Non-Early MoM Approval* is a dummy variable taking the value one if a MoM approval was obtained not before the calendar year it was due. *Log (Total Assets)* is the natural logarithm of total assets in NIS. *ROA* is a fraction. *Negative ROA*, *Controlling Shareholder*, and *Part-Time Employment* are dummy variables denoting negative profitability, controlling shareholders or their relatives, and part-time employment (less than full-time or less than a full year). Standard errors, clustered at the firm level, are in parentheses. ***, ** and * denote statistical significance at the 1%, 5% and 10% respectively.

	(1) Compensation Reduction	(2) Compensation Reduction
Log (Total Compensation _{t-1})	0.360 *** (0.023)	0.360 *** (0.023)
Any Approval	-0.289 *** (0.056)	-0.290 *** (0.056)
MoM Approval	0.166 * (0.098)	
Early MoM Approval		-0.028 (0.181)
Non-Early MoM Approval		0.209 ** (0.105)
ToM Approval	-0.106 (0.157)	-0.106 (0.157)
Log (Total Assets)	-0.051 *** (0.014)	-0.051 *** (0.014)
ROA	-0.492 *** (0.179)	-0.504 *** (0.179)
Negative ROA	0.170 ** (0.067)	0.167 ** (0.067)
Controlling Shareholder	-0.031 (0.049)	-0.031 (0.049)
Part-Time Employment	0.426 *** (0.045)	0.429 *** (0.045)
Year Fixed Effects	Yes	Yes
Firm Fixed Effects	No	No
Observations	6,925	6,925

Table 5: The Effect of Minority Approval on Non-Equity Compensation

In Columns 1 and 2, the sample includes all executives. In Columns 3 and 4, the sample includes only executives receiving no equity-based compensation, resulting in 2017 executives from 487 firms. *Log (Non-Equity Compensation_{t-1})* is the natural logarithm of total non-equity compensation in the previous year. *Any Approval* is a dummy variable taking the value one if any type of approval took place in that year. *MoM Approval* and *ToM Approval* are similarly defined dummy variables taking the value one if a MoM approval or a ToM approval took place, respectively. *Early MoM Approval* is a dummy variable taking the value one if a MoM approval was obtained before the calendar year it was due. *Non-Early MoM Approval* is a dummy variable taking the value one if a MoM approval was obtained not before the calendar year it was due. *Log (Total Assets)* is the natural logarithm of total assets in NIS. *ROA* is a fraction. *Negative ROA*, *Controlling Shareholder* and *Part-Time Employment* are dummy variables denoting negative profitability, controlling shareholders or their relatives, and part-time employment (less than full-time or less than a full year). Standard errors are in parentheses. ***, ** and * denote statistical significance at 1%, 5% and 10% respectively.

	(1)	(2)	(3)	(4)
	Log (Non-Eq. Comp.)	Log (Non-Eq. Comp.)	Log (Non-Eq. Comp.)	Log (Non-Eq. Comp.)
Log (Non-Equity Compensation _{t-1})	0.746 *** (0.008)	0.746 *** (0.008)	0.743 *** (0.009)	0.743 *** (0.009)
Any Approval	0.125 *** (0.020)	0.125 *** (0.020)	0.141 *** (0.029)	0.142 *** (0.029)
MoM Approval	-0.073 ** (0.033)		-0.094 ** (0.041)	
Early MoM Approval		0.003 (0.061)		-0.035 (0.070)
Non-Early MoM Approval		-0.089 ** (0.035)		-0.107 ** (0.043)
ToM Approval	0.064 (0.052)	0.065 (0.052)	0.064 (0.052)	0.073 (0.061)
Log (Total Assets)	0.018 (0.020)	0.018 (0.020)	-0.000 (0.020)	-0.001 (0.024)
ROA	0.313 *** (0.081)	0.310 *** (0.081)	0.453 *** (0.102)	0.451 *** (0.102)
Negative ROA	0.026 (0.027)	0.025 (0.027)	0.071 ** (0.032)	0.070 ** (0.032)
Controlling Shareholder	0.082 *** (0.017)	0.082 *** (0.017)	0.087 *** (0.020)	0.087 *** (0.020)
Part-Time Employment	-0.225 *** (0.016)	-0.225 *** (0.016)	-0.218 *** (0.021)	-0.218 *** (0.021)
Year Fixed Effects	Yes	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes	Yes	Yes
Observations	6,909	6,909	4,700	4,700
Adjusted R-squared	0.83	0.83	0.83	0.83

Table 6: The Effect of Minority Approval on Total Compensation in Unaffiliated Companies

The sample excludes firms controlling, controlled by, or under common control with, other firms in the sample. The dependent variable is the natural logarithm of total annual compensation in NIS. *Log (Total Compensation_{t-1})* is the natural logarithm of total compensation in the previous year; *Any Approval* is a dummy variable taking the value one if any type of approval took place in that year. *MoM Approval* and *ToM Approval* are similarly defined dummy variables taking the value one if a Majority of the Minority or a Third of the Minority vote took place. *Early MoM Approval* and *Non-Early MoM Approval* is a dummy variable taking the value one if a MoM approval was obtained before the calendar year it was due. *Non-Early MoM Approval* is a dummy variable taking the value one if a MoM approval was obtained not before the calendar year it was due. *Log (Total Assets)* is the natural logarithm of total assets in NIS. *ROA* is a fraction. *Negative ROA*, *Controlling Shareholder* and *Part-Time Employment* are dummy variables denoting negative profitability, controlling shareholders or their relatives, and part-time employment (less than full-time or less than a full year). Standard errors are in parentheses. ***, ** and * denote statistical significance at 1%, 5% and 10% respectively.

	(1) Log (Total Compensation)	(2) Log (Total Compensation)
Log (Total Compensation _{t-1})	0.747 *** (0.008)	0.746 *** (0.008)
Any Approval	0.148 *** (0.022)	0.148 *** (0.022)
MoM Approval	-0.081 ** (0.036)	
Early MoM Approval		-0.001 (0.069)
Non-Early MoM Approval		-0.097 *** (0.038)
ToM Approval	0.089 (0.057)	0.091 (0.057)
Log (Total Assets)	-0.014 (0.023)	-0.015 (0.023)
ROA	0.267 *** (0.086)	0.264 *** (0.086)
Negative ROA	0.007 (0.030)	0.006 (0.030)
Controlling Shareholder	0.078 *** (0.018)	0.077 *** (0.018)
Part-Time Employment	-0.267 *** (0.019)	-0.267 *** (0.019)
Year Fixed Effects	Yes	Yes
Firm Fixed Effects	Yes	Yes
Observations	5,840	5,840
Adjusted R-squared	0.83	0.83

Table 7: The Effect of Minority Approval on Pay Slice and on Total Compensation of the Highest Paid Executives

In Columns 1 and 2, the dependent variable is the executive's share in total executive pay in the firm during the year. In Columns 3 and 4, the dependent variable is the natural logarithm of total compensation and the sample includes only the two highest paid executive in each firm, resulting in 2017 executives from 487 firms. *Log (Total Compensation_{t-1})* is the natural logarithm of total compensation in the previous year; *Any Approval* is a dummy variable taking the value one if any type of approval took place in that year. *MoM Approval* and *ToM Approval* are similarly defined dummy variables taking the value one if a Majority of the Minority or a Third of the Minority vote took place. *Early MoM Approval* is a dummy variable taking the value one if a MoM approval was obtained before the calendar year it was due. *Non-Early MoM Approval* is a dummy variable taking the value one if a MoM approval was obtained not before the calendar year it was due. *Log (Total Assets)* is the natural logarithm of total assets in NIS. *ROA* is a fraction. *Negative ROA*, *Controlling Shareholder* and *Part-Time Employment* are dummy variables denoting negative profitability, controlling shareholders or their relatives, and part-time employment (less than full-time or less than a full year). Standard errors are in parentheses. ***, ** and * denote statistical significance at 1%, 5% and 10% respectively.

	(1) Pay Slice	(2) Pay Slice	(3) Log (Total Compensation)	(4) Log (Total Compensation)
Log (Total Compensation _{t-1})	0.105 *** (0.002)	0.105 *** (0.002)	0.494 *** (0.014)	0.494 *** (0.014)
Any Approval	0.029 *** (0.004)	0.029 *** (0.004)	0.085 *** (0.027)	0.085 *** (0.027)
MoM Approval	-0.028 *** (0.007)		-0.096 ** (0.043)	
Early MoM Approval		-0.018 (0.013)		-0.057 (0.076)
Non-Early MoM Approval		-0.031 *** (0.01)		-0.104 ** (0.045)
ToM Approval	0.012 (0.011)	0.011 (0.011)	-0.030 (0.064)	-0.028 (0.064)
Log (Total Assets)	-0.037 *** (0.004)	-0.037 *** (0.004)	0.087 *** (0.027)	0.086 *** (0.027)
ROA	0.037 * (0.004)	0.032 * (0.002)	0.378 *** (0.108)	0.377 *** (0.108)
Negative ROA	0.003 (0.006)	0.003 (0.006)	0.005 (0.037)	0.004 (0.037)
Controlling Shareholder	0.045 *** (0.003)	0.045 *** (0.003)	0.191 *** (0.025)	0.190 *** (0.025)
Part-Time Employment	-0.002 (0.003)	-0.002 (0.003)	-0.048 * (0.026)	-0.048 * (0.026)
Year Fixed Effects	Yes	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes	Yes	Yes
Observations	6,925	6,925	2,898	2,898
Adjusted R-squared	0.57	0.57	0.84	0.84

Table 8: IV Estimates and MoM Approval by Year

Column 1 presents the second stage of a two stage least squares estimation in which fitted values of early and non-early MoM approvals substitute for the actual values. The fitted values are estimated in an unreported first stage regression in which the MoM approval year is regressed on the deadline year, *ROA*, *Log (Total Assets)*, and *Log Total Compensation_{t-1}*. Column 2 presents a regression in which non-early MoM approvals are split by approval year. The dependent variable in both columns is the natural logarithm of total annual compensation in NIS. *Log Total Compensation_{t-1}* is the natural logarithm of total compensation in the previous year; *Any Approval* is a dummy variable taking the value one if any type of approval took place in that year. *MoM Approval* and *ToM Approval* are similarly defined dummy variables taking the value one if a MoM approval or a ToM approval took place, respectively. *Early MoM Approval* is a dummy variable taking the value one if a MoM approval was obtained before the calendar year it was due. *Non-Early MoM Approval* is a dummy variable taking the value one if a MoM approval was obtained not before the calendar year it was due. *Log (Total Assets)* is the natural logarithm of total assets in NIS. *ROA* is a fraction. *Negative ROA*, *Controlling Shareholder* and *Part-Time Employment* are dummy variables denoting negative profitability, controlling shareholders or their relatives, and part-time employment (less than full-time or less than a full year). Standard errors are in parentheses. ***, ** and * denote statistical significance at 1%, 5% and 10% respectively.

	(1) Log (Total Compensation)	(2) Log (Total Compensation)
Log (Total Compensation _{t-1})	0.755*** (0.008)	0.755*** (0.008)
Any Approval	0.137*** (0.020)	0.139*** (0.020)
Early MoM Approval (fitted value)	-0.010 (0.044)	
Non-Early MoM Approval (fitted value)	-0.131*** (0.040)	
Early MoM Approval		-0.006 (0.062)
Non-Early MoM Approval in 2011		-0.164*** (0.047)
Non-Early MoM Approval in 2012		-0.124** (0.052)
Non-Early MoM Approval in 2013		0.092 (0.065)
ToM Approval	0.077 (0.052)	0.077 (0.052)
Log (Total Assets)	0.024 (0.020)	0.022 (0.020)
ROA	0.323*** (0.082)	0.332*** (0.082)
Negative ROA	0.031 (0.027)	0.032 (0.027)
Controlling Shareholder	0.077*** (0.017)	0.078*** (0.017)
Part-Time Employment	-0.227*** (0.017)	-0.227*** (0.017)
Year Fixed Effects	Yes	Yes
Firm Fixed Effects	Yes	Yes
Observations	6,925	6,925
Adjusted R-squared	0.84	0.84