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Determinants for the approval of executive compensation packages by shareholders

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Abstract

Objective: To analyze the factors determining institutional investors to approve executive compensation packages among Brazilian companies listed on B3.

Method: This study addressed 771 shareholder votes in Annual and Extraordinary General Meetings (AGO/E), from January to April 2019 among firms listed on B3. Data were manually collected from reference forms, shareholding positions, management proposals, general meetings minutes, and analytical and synthetic voting maps. Data were analyzed using logistic regressions.

Results: Total executive compensation is positively related to controlling shareholders approving compensation packages, indicating a principal-agent alignment. Therefore, the remaining hypotheses suggest a misalignment between controllers and non-controllers and that dissent reduces the likelihood of compensation packages being approved, which points to a principal-principal conflict. Another result indicates an excess share-based compensation, which may indicate wealth expropriation through this type of remuneration.

Contributions: This study contributes to the development of the Brazilian capital market and its shareholders, managers, and business transparency.

Keywords: Executive Compensation; Voting; Activism.

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1. Introduction

Shareholder activism targeting executive compensation as an external control mechanism has become an increasingly relevant issue in annual general meetings (Obermann & Velte, 2018; Vargas et al., 2018). Various international studies have addressed shareholder activism through institutional investors' voting and its effects on the companies and their Corporative Governance (CG) practices (Conyon & Sadler, 2010; Ertimur et al., 2011; Cucari, 2019; Iliev & Vitanova, 2019). Brazilian studies have explored executive compensation regarding corporate governance policies (Punsuvo et al., 2007; Carvalhal & Souza, 2014; Vargas et al., 2018), earning management (Junior, 2013; Holanda et al., 2013), and the characteristics and determinants of shareholder activism (Vargas, 2013), as monitoring mechanism (Silva, 2017), and performance (Aguiar & Pimentel, 2017; Beuren et al., 2020). However, there is little evidence about the relationship between shareholder activism and approval or disapproval of executive compensation packages.

Even though voting rights on executive compensation, i.e., say on pay (SOP), existed since 1997 (Art. 152, Law No. 6.404), this topic only drew significant attention of investors, regulators, and researchers after 2002, when the United Kingdom started demanding annual voting on executive compensation (Ferri & Maber, 2013). In 2011, the United States made SOP mandatory for US companies, occurring at least once every three years (Ferri & Maber, 2013).

Voting on executive compensation packages is an important mechanism for CG because it can promote shareholder activism, give more voice to the owners (Cucari, 2019), align interests between shareholders and executives (Iliev & Vitanova, 2019), and counterweigh managerial abuse (Pinto & Leal, 2013). In this sense, it works as a mechanism to monitor executives, something like an incentive and punishment system (Cuñat et al., 2016; Iliev & Vitanova, 2019).

Empirical evidence from European countries shows that say on pay has worked as a monitoring mechanism and to pressure organizations to withdraw controversial remuneration practices. For example, Cai and Walkling (2011) report the pressure imposed by shareholder voting on organizations, and Correa and Lel (2016) identified that executive compensation dropped after say on pay was adopted.

Despite various findings, there is limited evidence about what aspects of the executive compensation package determine shareholder approval (institutional investors) in the Brazilian market. It appears that the impediment to disclosing this information contributed to it. However, starting in 2018, the Securities and Exchange Commission (CVM) overturned a 2010 injunction that prevented public-trade companies from disclosing executive compensation. Given this context, this study's objective was to analyze the factors determining the approval of the executive compensation packages by the institutional investors of Brazilian companies listed on B3. Note the importance of investors' participation, considering the search for the "one share, one vote" model that can boost activism (Valenti, 2018).

This study contributes to the Brazilian stock market, considered asymmetric due to ownership concentration (Silveira et al., 2003), which may lead the majority to expropriate wealth, harming minority shareholders (Aldrighi & Mazzer Neto, 2007). The reason is that aspects that can align the interests of shareholders and executives can be identified and reduce agency conflict. It also contributes to understanding how shareholder activism affects executive compensation based on data recently disclosed; Brazilian companies did not disclose data since 2010.

2. Literature Review

2.1 Activism and Institutional Investors

Studies addressing executive compensation and shareholder activism have increased in the last decade (Obermann & Velte, 2018). Activist shareholders are investors dissatisfied with something in the company and use their "voice" to change its management, i.e., use proactive effort to change the company's behavior or governance rules (Black, 1998; Gillan & Starks, 1998). Shareholder activism became an important characteristic of financial markets, as it targets companies with dissatisfying performance and pressures the management to improve it (Gillan & Starks, 2000). These shareholders also seek seats on the boards (Monks & Minow, 2011) responsible for monitoring their managers (Gillan & Starks, 1998). In this sense, activism can be considered a mechanism to protect shareholders within the GC structure.

Among the main activist investors, institutional investors are defined as investors who trade a large number of securities (Cia et al., 2002). For example, institutional investors can be investment funds, pension funds, insurance companies, capitalization companies, investment clubs, open and closed private pension funds (Assaf Neto, 2014), hedge funds, foundations, and sovereign wealth funds (Silveira, 2010).

These groups of investors play an important role in monitoring a company's activities (Bebchuk & Fried, 2003) because they have a sizeable financial volume, aim at long-term investments (Assaf Neto, 2014), hold large blocks of shares, and have privileged access to the company's information (Bainbridge, 2005). In this sense, agency costs can be reduced because, besides being responsible for a large part of the business on the main stock exchanges, they exercise their governance rights and have the power to influence the management (Cia et al., 2002).

Shareholders become activists when they believe that the management is not maximizing a company's value. Activism can take many forms, depending on the type of investor and his/her objectives. For example, loop et al. (2018) explain that institutional investors can be pension funds, assets managers, mutual funds, and insurance companies such as BlackRock, Vanguard Group, State Street Global, Fidelity Investments, J.P.Morgan Chase, and Bank of New York Mellon, and usually seek long-term investments.

Carvalhal and Souza (2014) report empirical evidence of 649 companies listed from 2002 to 2009, showing that private equity funds in the role of activist institutional investors have a positive influence on GC and that the companies of these shareholders tend to present better GC indices and most are listed on the Novo Mercado. However, Edmans (2014) notes that large investors can minimize or aggravate agency problems if they extract private benefits of control, such as inducing the investee company to negotiate with another company they own.

2.2 Executive Compensation

The hiring and remuneration of executives through contracts aim to align the interests of shareholders and executives. However, since there are no perfect contracts, compensation is intended to minimize agency costs (Bebchuk et al., 2002). In practice, compensation packages are the responsibility of boards of directors and compensation committees (Conyon, 2014; Monks & Minow, 2011) seeking to establish adequate incentives for executives to maximize shareholder return (Bebchuk et al., 2002).

An executive compensation package may contain diverse components. The most used components include salaries, bonuses, stock options, restricted stock, long-term incentive plans, and retirement plans, pensions, benefits (health insurance, life insurance, daycare, education, corporate cars), and perks (corporate jets, executive dining, or club memberships) (Balsam, 2002; Ellig, 2007; Goergen & Renneboog, 2011; Giroux, 2015).

Conyon (2006) notes that stock options, restricted shares, and long-term contracts are included in compensation packages to align the interests between the parties, providing adequate incentives to CEOs. The study carried out by Conyon (2014) in the American market reveals a predominance of stock options (42%) and restricted shares (6%) up to 2001; however, in 2012, compensation portions in stock options represented 14%, while restricted shares represented 35%. However, in Brazil, there is participation in stock options (Rissatti et al., 2019).

There are studies addressing executive compensation and the role of institutional investors. For instance, Hartzell and Starks (2003) report that institutional investors influence executive compensation and mitigate agency conflict. However, Croci et al. (2012) note that the presence of institutional investors may affect the structure of remuneration with increased use of share-based compensation in family and non-family companies.

2.3 Hypotheses Development

Shareholders have three options in the voting process – approve, disapprove or abstain – which enable shareholders to influence executive compensation (Hooghiemstra et al., 2015). Because voting is a consultative process, it can be used by board members to remove people (Cuñat et al., 2016) and pressure CEOs to make a more significant effort in managing the company (Iliev & Vitanova, 2019).

From the perspective of Agency Theory, the executive compensation package can be considered one of the most efficient mechanisms to encourage executives to act in favor of their companies' performance (Krauter, 2013). In this sense, evidence shows a positive relationship between the companies in the Brazilian market that pay higher compensation to executives and improved performance in the short and long terms (Krauter, 2013; Aguiar & Pimentel, 2017; Beuren et al., 2020). Furthermore, Cai and Walkling (2011) show that pressure from shareholders' votes creates greater value for the companies willing to improve their remuneration practices. Therefore, the first hypothesis is proposed.

Hypothesis 1: There is a positive relationship between total executive compensation and votes to approve the compensation package.

An important characteristic of the Brazilian market is its high shareholding concentration (Pinheiro et al., 2019), especially in the composition of boards (Crisóstomo et al., 2020). In this sense, controllers tend to monitor management directly, replacing the board's role without the need for an independent board that can restrict the use of private benefits of control (Crisóstomo et al., 2020). Hence, in addition to controllers seeking to encourage the performance of executives by approving compensation packages, they tend to approve these packages to avoid conflicts with executives (Stathopoulos & Voulgaris, 2016). Therefore, the second hypothesis is presented.

Hypothesis 2: There is a positive relationship between controllers and the approval of executive compensation packages.

Additionally, empirical evidence shows the effect of activism on executive remuneration packages in the developed markets of the United States and the United Kingdom, but not in Brazil. Ferri and Maber (2013) report that SOP worked for UK investors as a monitoring mechanism and also a way to pressure companies to withdraw controversial remuneration practices. Obermann and Velte (2018) state that the level and structure of executive compensation are two factors driving shareholder activism because the levels of executive compensation may affect SOP. Morgan et al. (2006) indicate that shareholders tend to vote against potentially harmful plans; however, the authors consider those plans that are disapproved of to be a proxy for harmful plans. Armstrong et al. (2013) add that share-based compensation attracted more disapproval than any other matter brought to voting.

Given ownership concentration in the Brazilian context, conflicts of interest among shareholders are likely to arise (Crisóstomo et al., 2020). Furthermore, evidence from Pinheiro et al. (2019) shows that ownership concentration exacerbates principal-principal conflicts. Hence, the third hypothesis indicates that the remaining shareholders will manifest their dissatisfaction disapproving of executive compensation packages, a phenomenon known as dissent.

Hypothesis 3: There is a negative relationship between dissent and the approval of remuneration packages.

3. Methodological Procedures

3.1 Data Collection and Sample

This study considered the Ordinary and Extraordinary General Meetings (AAGOEs) between January and April 2019. Data concerning this period were manually collected, including all publicly traded Brazilian companies listed on B3 S.A. As a result, a total of 367 companies were identified, 55 of which were excluded for not disclosing data on voting (minutes of the meeting, management proposal, voting map in a synthetic and analytical format) or for reporting conflicting information (differences between the amounts disclosed in the reference form and minutes of the meeting). Hence, 312 companies remained in the sample.

Next, data concerning the shareholders with voting rights were collected in the Economatica® database. A total of 1,664 shareholders with voting rights were identified among the 312 companies. Some were excluded: i) companies that did not disclose documents (maps, minutes, proposals) and ii) investors with denominations like treasury shares, individuals, board members, various legal entities, and others without classifications. Hence, 926 investors remained in the sample.

Some activities were excluded for not being considered institutional investors, such as poultry slaughter, rental of own property, diverse activities (e.g., associations, hospital care, consulting, organizations), retail and wholesale trade, purchase and sale of own properties, construction, brokerage, animal husbandry, farming, electric energy (generation, distribution, and transmission), extraction, manufacturing (sugar, cutlery, firearms, cabins, parts, fibers, etc.), services (engineering, social assistance), transport, issuance of food vouchers, teaching activities, various managements (intangible and real state), real estate development, food, leasing, milling, other activities (financial services, advertising, engineering works, etc.), steel production, sales representatives, assistance services, office and engineering, technical support, telephony, and transport. Table 1 presents the final sample, composed of 771 investors.

Table 1
Classification of Investors according to Activities

Type of Investor	Number of investors	Relative Frequency (%)
Holdings of Non-Financial Institutions	321	41,63
Fund Administration	192	24,90
Investment Funds	131	16,99
Multiple Banks	37	4,80
Closed Supplementary Pension	31	4,02
Public Administration in General	28	3,63
Holdings of Financial Institutions	11	1,43
Insurers	7	0,91
Investment Clubs	5	0,65
Securities and Securities Dealers	4	0,52
Private Foundation	4	0,52
Total	**771**	**100**

Source: Developed by the authors

The investors' activities were classified according to the main activity registered with the Brazilian Federal Revenue Service (RFB) and verified through CNPJ (National Registry of Legal Entities). Hence, we have: fund management by contract or commission, public administration in general, banks, investment clubs, securities dealers, private foundations, investment funds, holdings of financial and non-financial institutions, closed supplementary pension plans, and insurance companies. These activities were considered institutional investors because they integrate the group defined by the literature (Silveira, 2010; Assaf Neto, 2014). Note that some institutional investors are registered in the RFB as holdings of financial and non-financial institutions, as is the case of BNDESPar. For this reason, holdings were considered institutional investors.

Regarding the compensation structure, remunerations proposed (expected) for 2018 and voted in 2019 meetings were considered. Thus, the companies' AAGOEs minutes, management proposals (PA), and references forms (FR) were used. The classification of compensation follows the structure in item 13.2 of FR and IN CVM 490/09: (i) fixed compensation is the sum of salary or pro-labore, direct and indirect benefits, remuneration for participation in committees and others; (ii) variable compensation is the sum of bonuses, profit sharing, compensation for participation in meetings, commissions, and others; (iii) post-employment benefits; (iv) benefits motivated by the cessation of employment of executive; (v) share-based compensation, including options; and (vi) total compensation is the sum of (i) fixed compensation and (ii) variable compensation.

Data concerning the participation of shareholders with voting rights in the meetings were collected from the AAGOEs, synthetic and detailed map (analytical), proposals, and FR (item 15.1/2 Shareholder Position). Once the names of the ten main shareholders were collected, it was necessary to collect the members' CNPJ and validate it with data registered at the RFB, which enabled obtaining the shareholders' main activity and verifying if the shareholder resided abroad.

Shareholder votes were collected from the analytical maps available on the B3 website. In addition, the minutes, proposals, and maps that implemented the changes recommended by IN CVM 594/2017 in the meetings held as of March 5th, 2018, and the voting bulletins released as of February 1st, 2018, were considered.

The map enabled identifying the investors' votes regarding the executive compensation packages because the first five numbers of CPF or CNPJ are presented. Additionally, these documents were verified together with data provided by the FR of each company in the sample, item 15, "Control and economic group," in which we verified whether the shareholder lived abroad, was the controlling shareholder, or participated in the shareholder agreement. Finally, the remaining control variables were collected in the Economatica® database.

3.2 Variables and Empirical Models

Two linear regression models were performed, considering that the dependent variables are dichotomous. For example, the dependent variable VOTO represents the approval or disapproval of executive compensation. Note that one can approve, disapprove, or abstain; however, only two options are considered (approval or disapproval/abstention).

The first model intended to test the probability of approving (VOTO) total compensation (*RTOTln*):

$$P(Y = 1) = \frac{1}{1 + e^{-g(Voto_i)}}$$

Where,

$$VOTO_i = \beta_0 + \beta_1 RTOTln_i + \beta_2 CTRA_i + \beta_3 ACTR_i + \beta_4 PART_i + \beta_5 DISSID_i + \beta_6 AEXT_i + \beta_7 ACAC_i + \beta_8 ESTD_i + \beta_9 NGC_i + \beta_{10} PREJ_i + \beta_{11} ROA_i + \beta_{12} ALAV_i + \beta_{13} ATIVOln_i + \varepsilon \quad (1)$$

The second model intended to explore the relationship between the likelihood of approval *VOTO* and the various types of remunerations in the executive compensation package, for instance, fixed compensation such as participation in committees, benefits, and variable remunerations like profit sharing and stock options.

$$P(Y = 1) = \frac{1}{1 + e^{-g(Voto_i)}}$$

Where:

$$VOTO_i = \gamma_0 + \gamma_1 FSALln_i + \gamma_2 FBENln_i + \gamma_3 FPARln_i + \gamma_4 FOUTln_i + \gamma_5 VBONln_i + \gamma_6 VRESln_i + \gamma_7 VREUln_i + \gamma_8 VCOMln_i + \gamma_9 VOUTln_i + \gamma_{10} BPOSln_i + \gamma_{11} BCECln_i + \gamma_{12} ACAOln_i + \gamma_{13} CTRA_i + \gamma_{14} ACTR_i + \gamma_{15} PART_i + \gamma_{16} DISSID_i + \gamma_{17} ACAC_i + \gamma_{18} AEXT_i + \gamma_{19} ESTD_i + \gamma_{20} NGC_i + \gamma_{21} PREJ_i + \gamma_{22} ROA_i + \gamma_{23} ALAV_i + \gamma_{24} ATIVOln_i + \varepsilon \quad (2)$$

The variables of models 1 and 2 are described in Table 2.

Table 2
Description of the models' variables

Variables	Definition	Measurement	Theoretical Foundation
		DEPENDENT	
VOTO	Votes of all the shareholders participating in the general meetings	Dummy variable, *approval = 1 otherwise = 0.*	Conyon and Sadler (2010); Ferri and Maber (2013); Hooghiemstra et al. (2015); Correa and Lel, (2016); Hooghiemstra et al. (2017)
		INDEPENDENT	
		Executive Compensation	
RTOTln	Total executive compensation	Natural logarithm of total executive compensation	Obermann and Velte (2018); Conyon and Sadler, (2010); Armstrong et al. (2013); Balsam et al. (2016); Conyon (2016); Hooghiemstra et al. (2017)
FSALln	Fixed portion of compensation with salary or pro-labore.	Natural logarithm of the fixed portion of the compensation with salary or pro-labore	
FBENln	Fixed share of direct and indirect benefits.	Natural logarithm of the fixed portion of direct and indirect benefits.	
FPARln	Fixed portion of compensation for participation in committees.	Natural logarithm of the fixed portion of the compensation for participation in committees	
FOUTln	Fixed portion of other remunerations.	Natural logarithm of the fixed portion of other remunerations	
VBONln	Variable portion of bonus remunerations.	Natural logarithm of the variable portion of the bonus remuneration	
VRESln	Variable portion of compensation with profit sharing (PR).	Natural logarithm of the variable portion of the compensation with profit sharing (PR)	
VREUln	Variable portion of compensation for participation in meetings.	Natural logarithm of the variable portion of the compensation for participation in meetings	

Variables	Definition	Measurement	Theoretical Foundation
VOUTln	Variable installment with other remunerations.	Natural logarithm of the variable portion with other remunerations	
BPOSln	Portion of compensation with post-employment benefits.	Natural logarithm of the portion of compensation with post-employment benefits	
BCECln	Portion of the compensation with benefits motivated by the cessation of employment of executive (CEC).	Natural logarithm of the portion of compensation with benefits motivated by the cessation of employment of executive	
ACAOln	Portion of share-based compensation, including options.	Natural logarithm of share-based compensation portion, including options.	
		Controlling Shareholder	
CTRA	Existence of Controlling Shareholders.	Percentage of the three largest shareholders	Firth et al. (2006); Firth et al. (2007); Conyon and He (2011); Silva and Chien (2013)
ACTR	Existence of a controlling shareholder (AC)	Dummy variable, investor is AC = 1 otherwise = 0	Firth et al. (2006); Firth et al. (2007); Conyon and He (2011); Silva and Chien (2013)
PART	Percentage held by the controlling investor.	Percentage of common shares held by the controlling shareholder	Firth et al. (2006); Firth et al. (2007); Conyon and He (2011); Silva and Chien (2013)
		Dissent	
DISSID	Companies that showed a high number of disapproval or abstention votes (> 20%)	Dummy variable, companies with disapproval or abstention votes above 20% = 1 otherwise = 0	Ertimur (2013); Ferri and Maber (2013); Hooghiemstra et al. (2015); Correa and Lel (2016); Kimbro and Xu (2016)
		Control Variables	
AEXT	If the shareholder lives abroad (RE)	Dummy variable, investor is RE = 1 otherwise = 0	Firth et al. (2007) Croci et al. (2012); Conyon et al. (2019)
ACAC	If the investor is part of a shareholder agreement (AA)	Dummy variable, investor participates in AA = 1 otherwise = 0	Ertimur et al. (2011); Falco et al. (2016)
ESTD	State investor or belongs to the state.	Dummy variable, Public investor = 1 otherwise = 0	Firth et al. (2006); Firth et al. (2007); Conyon and He (2011)
NGC	Companies listed on B3 that participate in the Novo Mercado (NM)	Dummy variable, company belongs to NM = 1 otherwise = 0	Alencar (2005); Terra and Lima (2006); Antunes et al. (2013); Carvalhal and Souza (2014)
PREJ	Loss presented in the previous year	Dummy variable concerning loss in the previous year = 1 otherwise = 0	Kaplan and Zamora (2018)
ROA	Return on asset	Net income divided by total assets	Brav et al. (2008); Becht et al. (2009)
ALAV	Financial Leverage	Financial leverage.	Brav et al. (2008); Grosse et al. (2017)
ATIVOln	Total assets	Natural Logarithm of total assets	

Source: developed by the authors.

4. Analysis of Results

4.1 Descriptive Analyses

Regarding executive compensation, we mapped the proposals concerning global and individual amounts of each compensation element, which enabled observing the patterns of the packages proposed, and the packages destined to the companies' board of directors (CA) and statutory board (DE). Note that compensation of the fiscal council was not considered in the analysis because, in general, this compensation package is voted separately from the CA and DE packages.

Table 3 presents the descriptive statistics of the variables presented in models 1 and 2.

Table 3
Descriptive Statistics

Variable	N	Mean	Standard Deviation	Minimum	Maximum
VOTO	614			0	1
RTOT	614	22.643.977,68	37.385.466,30	9.200,00	370.000.000,00
RTOTln	614	16,228	1,383	9,130	19,730
FSAL	614	7.831.252,10	8.141.822,86	9.200,00	80.700.000,00
FSALln	614	15,433	1,122	9,130	18,210
FBEN	614	718.924,40	1.576.873,37	0,000	17.300.000,00
FBENln	614	9,678	5,838	0	16,670
FPAR	614	213.901,65	565.968,98	0	3.228.000,00
FPARln	614	2,824	5,497	0	14,990
FOUT	614	1.900.728,39	5.457.591,23	0	67.237.500,00
FOUTln	614	9,564	6,698	0	18,020
VBON	614	3.042.548,28	5.779.919,93	0	43.716.739,00
VBONln	614	7,845	7,567	0	17,590
VRES	614	2.798.687,33	8.001.581,28	0	79.500.000,00
VRESln	614	5,182	7,239	0	18,190
VREU	614	17.512,54	128.456,37	0	1.213.920,00
VREUln	614	0,338	2,077	0	14,010
VOUT	614	788.589,65	2.549.759,21	0	20.888.680,00
VOUTln	614	4,989	6,693	0	16,850
BPOS	614	162.248,37	458.257,92	0	3.870.000,00
BPOSln	614	3,485	5,712	0	15,170
BCEC	614	951.541,86	6.370.462,18	0	68.907.261,00
BCECln	614	1,757	4,813	0	18,050
ACAO	614	4.218.043,11	18.526.904,59	0	293.868.000,00
ACAOln	614	6,416	7,485	0	19,500

Variable	N	Mean	Standard Deviation	Minimum	Maximum
CTRA	614	0,643	0,235	0,130	1
ACTR	614			0	1
PART	614	0,242	0,268	0	1
DISSID	614			0	1
AEXT	614			0	1
ACAC	614			0	1
ESTD	614			0	1
NGC	614			0	1
PREJ	557			0	1
ROA	555	-2,440	46,817	-978,114	37,617
ALAV	518	1,954	15,097	-54,501	135,434
ATIVOln	557	22,137	2,103	9,716	28,132

Legend: *VOTO* = Shareholder vote, dummy variable, approval = 1 otherwise = 0; *RTOTln* = Natural logarithm of total executive compensation; *FSALln* = Natural logarithm of the fixed portion of compensation with salary or pro-labore; *FBENln* = Natural logarithm of the fixed share of direct and indirect benefits; *FPARln* = Natural logarithm of the fixed portion of the remuneration for participation in committees; *FOUTln* = Natural logarithm of the fixed portion of other remunerations; *VBONln* = Natural logarithm of the variable portion of the bonus remuneration; *VRESln* = Natural logarithm of the variable portion of the compensation with profit sharing (PR); *VREUln* = Natural logarithm of the variable portion of the compensation for participation in meetings; *VOUTln* = Natural logarithm of the variable portion with other remunerations; *BPOSln* = Natural logarithm of the portion of compensation with post-employment benefits; *BCECln* = Natural logarithm of the portion of the compensation with benefits motivated by the cessation of employment of executive; *ACAOln* = Natural logarithm of share-based compensation portion, including options; *CTRA* = Percentage of the three largest shareholders; *ACTR* = Existence of a controlling shareholder (AC), dummy variable; *PART* = Percentage of common shares held by the controlling shareholder. *DISSID* = Dummy variable, company with disapproval or abstention above 20% = 1 otherwise = 0; *AEXT* = If the shareholder lives abroad (RE), dummy variable; *ACAC* = If the investor is part of a shareholder agreement (AA), dummy variable; *ESTD* = State investor or belongs to the State, dummy variable; *NGC* = Companies participating in the Novo Mercado (NM), dummy variable; *LOST* = dummy variable; *ROA* = Net Income divided by total assets; *ALAV* = Financial leverage; *ASSETln* = Natural logarithm of total assets.

Source: developed by the authors.

The *VOTO* variable revealed that approximately 90% of the voters approved the executive compensation packages, and 32% participated in shareholder agreements. In addition, approximately 18% of the voters lived abroad (*AEXT*).

The executive remunerations were presented in absolute values and natural logarithms. The descriptive statistics show that the total average compensation was R$22,643.00 (Twenty-two thousand, six hundred and forty-three Reais). Among the types of executive compensation, the fixed share of salary and variable bonus portions, profit sharing, and share-based compensation presented the highest averages. The average fixed portion of salary, *FSAL* variable, was R$7,831.00 (Seven thousand, eight hundred and thirty-one Reais). The variable portion of the bonus remuneration (*VBON*) presented an average of R$ 3,042.00 (Three thousand and forty-two Reais). The variable portion of compensation with profit sharing (*VRES*) presented a mean R$2,798.00 (Two thousand, seven hundred and ninety-eight Reais). Finally, share-based compensation, including options, presented a mean equal to R$4,218.00 (Four thousand, two hundred and eighteen Reais).

4.2 Logistic Models Results

Table 4 presents the regression results of models 1 and 2, which explain the shareholders' favorable vote for the executive compensation package and its relationship with the variables of interest.

Table 4
Results of the Logistic Regression Models

Variables	Expected Relationship	Model 1			Model 2		
		Coefficient	Odds	Standard Error	Coefficient	Likelihood	Standard Error
RTOTln	(+)	0.338*	1.403	0.191			
FSALln					0.257	1.294	0.262
FBENln					0.084**	1.087	0.036
FPARln					-0.007	0.993	0.04
FOUTln					0.074**	1.077	0.037
VBONln					-0.025	0.975	0.035
VRESln					-0.037	0.964	0.034
VREUln					-0.015	0.985	0.080
VOUTln					0.024	1.024	0.037
BPOSln					-0.05	0.951	0.045
BCECln					0.061	1.063	0.059
ACAOln					0.013	1.014	0.031
CTRA	(+)	-1.013	0.363	1.183	-0.603	0.547	1.264
ACTR	(+)	1.595***	4.927	0.585	1.853***	6.378	0.614
PART	(+)	1.095	2.989	1.213	1.248	3.483	1.310
DISSID	(-)	-2.628***	0.072	0.417	-2.721***	0.066	0.462
ACAC	(+)	0.68	1.973	0.532	0.462	1.588	0.578
AEXT	(+)	-0.785*	0.456	0.407	-0.653	0.521	0.429
ESTD	(-)	-0.369	0.692	0.469	-0.695	0.499	0.52
NGC	(+)	0.486	1.627	0.506	0.502	1.653	0.581
PREJ	(-)	-0.879**	0.415	0.383	-0.902**	0.406	0.444
ROA	(+)	-0.002	0.998	0.006	0.000	1.000	0.006
ALAV	(-)	-0.012	0.988	0.010	-0.008	0.992	0.010
ATIVOln	(+/-)	-0.166	0.847	0.119	-0.271*	0.763	0.151
Constant		1.564		2.660	4.156		3.607

Variables	Expected Relationship	Model 1			Model 2		
		Coefficient	Odds	Standard Error	Coefficient	Likelihood	Standard Error
N			518			518	
R²			0.3050			0.3512	
Log-Likelihood			-115.850			-108.104	
Wald Chi2			101.560			117.050	
Prob > Chi2			0.000			0.000	
Sensitivity			0.979			0.976	
Specificity			0.314			0.353	
ROC			0.883			0.901	
Moderate VIF			1.560			1.690	

Legend: *VOTO* = shareholders' votes, dummy variable, approval = 1 otherwise= 0; *RTOTln* = Natural logarithm of total executive compensation; *FSALln* = Natural logarithm of the fixed portion of the compensation with salary or pro-labore; *FBENln* = Natural logarithm of the fixed portion of direct and indirect benefits; *FPARln* = Natural logarithm of the fixed portion of the compensation for participation in committees; *FOUTln* = Natural logarithm of the fixed portion of other remunerations; *VBONln* = Natural logarithm of the variable portion of the bonus remuneration; *VRESln* = Natural logarithm of the variable portion of the compensation with profit sharing (PR); *VREUln* = Natural logarithm of the variable portion of the compensation for participation in meetings; *VOUTln*= Natural logarithm of the variable portion with other remunerations; *BPOSln* = Natural logarithm of the portion of compensation with post-employment benefits; *BCECln* = Natural logarithm of the portion of compensation with benefits motivated by the cessation of employment of executive; *ACAOln* = Natural logarithm of share-based compensation portion, including options; *CTRA* = Percentage of the three largest shareholders; *ACTR* = Existence of a controlling shareholder (AC), dummy variable; PART = Percentage held by the controlling investor. *DISSID* = dummy variable, Companies presenting disapproval or abstention votes > 20% = 1 otherwise = 0; *AEXT* = If the shareholder lives abroad (RE), dummy variable; *ACAC* = If the investor is part to a shareholder agreement (AA), dummy variable; *ESTD* = State investor or belongs to the State, dummy variable; *NGC* = Companies listed on B3 that participate in the Novo Mercado (NM), dummy variable; *PREJ* = dummy variable *ROA* = Net income divided by total assets; *ALAV* = Financial Leverage; *ATIVOln* = Natural Logarithm of total assets.
*, **, *** indicate statistical significance at 0.10, 0.05 and 0.01, respectively.
R² does not show evidence that multicollinearity is influencing the estimates. The Chi2 test p-values for all the models indicate that the hypothesis that the models are not appropriate was rejected. McFadden's R².

Source: developed by the authors.

The results of the logistic regression for model 1 showed that total executive compensation (*RTOTln*) was positively related to the package's approval (*coef.* = 0.338, $p < 0.10$), i.e., the higher the likelihood of approval, the higher the total executive compensation, confirming Hypothesis 1. However, among the performance variables, *PREJ* presented a significant negative relationship (*coef.* = -0.879, $p<0.05$), which means that when a company reported a loss in the previous period, the likelihood of approving the compensation package decreased. This result suggests that institutional investors monitor the companies' performance and express their dissatisfaction disapproving of the compensation package.

The *VOTO* variable was positively related to *ACTR* (*coef.* = 1.595, $p<0.01$) and negatively related to *AEXT* (*coef.* = -0.785, $p < 0.10$). The results for *ACTR* suggest that the controlling shareholder is four times more likely to approve compensation packages than non-controlling shareholders, showing that the first group intends to provide incentives to the companies' executives, confirming Hypothesis 2. On the other hand, *AEXT* showed that shareholders living abroad are 45.6% likely to disapprove of the compensation package, meaning that international shareholders are against the approval of compensation packages.

Furthermore, *DISSID* was negatively related to the shareholders' approving votes (*coef.* = -2,628, p<0.01), which confirms Hypothesis 3. It shows the shareholders' dissatisfaction toward institutional investors approving the compensation packages; that is, it decreases the likelihood of approval. Note that dissent considered was above 20%, as presented in the literature (Correa & Lel, 2016; Kimbro & Xu, 2016).

Model 2 explored the specific relationship of the types of remuneration the packages included. The logistic regression results for model 1b showed that variables *ACTR* and *DISSID* remained statistically significant (*coef.* = 1.853, $p < 0.01$ and *coef.* = -2.721, $p < 0.01$, respectively). Regarding the types of remuneration, *FBENln*, *FOUTln* are positively and statistically related (*coef.* = 0.084, $p < 0.05$ and *coef.* = 0.074, $p < 0.05$, respectively). It means that the fixed portion of direct and indirect benefits, such as, for instance, health insurance, dental care, periodical medical checkup, life insurance, and private pension plan, are positively related to the compensation package. This result suggests that institutional investors agree to approve these benefits to the executives.

Regarding the control variables, *PREJ* and *ATIVOln* were negatively and statistically related (*coef.* = -0.902, $p < 0.05$ and *coef.* = -0.271, $p < 0.10$, respectively). Again, it shows a lower likelihood of compensation packages of companies that reported losses in the previous period to be approved. Additionally, the result for *ATIVOln* in model 2 indicates that the higher the approval rate, the smaller the company's size, meaning that larger companies face more divergences among institutional investors regarding the approval of executive compensation packages.

4.3 Additional Results

An additional test was performed to analyze the effect of compensation excess considering remunerations above the average adopted in the sector as excess compensation aggravates wealth expropriation (Correa & Lel, 2016; Kimbro & Xu, 2016). Hence, the following question guided the additional analysis regarding compensation excess: does compensation above the average influence the likelihood of shareholders approving executive compensation packages?

Hence, 1 (one) was considered for companies with compensation above the average adopted in the sector and 0 (zero) for those with compensation below the average. Table 5 presents the results concerning the regression of the models explaining excess executive compensation. Table 5 presents the results concerning the regression models explaining excess executive compensation.

Table 5
Results of the Additional Logistic Regression Analysis

Equation 3

$$VOTO_i = \beta_0 + \beta_1 RTOTm_i + \beta_2 CTRA_i + \beta_3 ACTR_i + \beta_4 PART_i + \beta_5 DISSID_i + \beta_6 AEXT_i + \beta_7 ACAC_i + \beta_8 ESTD_i + \beta_9 NGC_i + \beta_{10} PREJ_i + \beta_{11} ROA_i + \beta_{12} ALAV_i + \beta_{13} ATIVOln_i + \varepsilon$$

Equation 4

$$VOTO_i = \gamma_0 + \gamma_0 + \gamma_1 FSALm_i + \gamma_2 FBENm_i + \gamma_3 FPARm_i + \gamma_4 FOUTm_i + \gamma_5 VBONm_i + \gamma_6 VRESm_i + \gamma_7 VREUm_i + \gamma_8 VCOMm_i + \gamma_9 VOUTm_i + \gamma_{10} BPOSm_i + \gamma_{11} BCECm_i + \gamma_{12} ACAOm_i + \gamma_{13} CTRA_i + \gamma_{14} ACTR_i + \gamma_{15} PART_i + \gamma_{16} DISSID_i + \gamma_{17} ACAC_i + \gamma_{18} AEXT_i + \gamma_{19} ESTD_i + \gamma_{20} NGC_i + \gamma_{21} PREJ_i + \gamma_{22} ROA_i + \gamma_{23} ALAV_i + \gamma_{24} ATIVOln_i + \varepsilon$$

Variables	Model 3			Model 4		
	Coefficient	Odds	Standard Error	Coefficient	Likelihood	Standard Error
RTOTm	1.064**	2.899	0.496			
FSALm				0.557	1.746	0.574
FBENm				0.487	1.628	0.519
FPARm				-0.473	0.623	0.538
FOUTm				0.486	1.625	0.519
VBONm				-0.37	0.691	0.507
VRESm				0.486	1.626	0.484
VREUm				-0.438	0.645	1.283
VOUTm				0.627	1.872	0.575
BPOSm				-0.376	0.687	0.625
BCECm				0.751	2.12	0.915
ACAOm				1.074*	2.927	0.564
CTRA	-0.863	0.422	1.168	-0.688	0.502	1.299
ACTR	1.734***	5.664	0.587	1.803***	6.068	0.611
PART	0.889	2.432	1.212	1.393	4.026	1.308
DISSID	-2.705***	0.067	0.428	-2.929***	0.053	0.479
ACAC	0.671	1.956	0.530	0.548	1.729	0.586
AEXT	-0.820**	0.44	0.410	-0.785*	0.456	0.427
ESTD	-0.507	0.602	0.475	-0.595	0.551	0.528
NGC	0.632	1.881	0.504	0.609	1.839	0.540
PREJ	-0.714*	0.489	0.395	-0.737*	0.478	0.422
ROA	-0.002	0.998	0.007	-0.003	0.997	0.007
ALAV	-0.011	0.989	0.009	-0.013	0.987	0.010
ATIVOln	-0.151	0.859	0.109	-0.207*	0.813	0.126
Constant	6.138**		2.437	6.927**		2.742
N		518			518	
R^2		0.3110			0.3370	
Log Likelihood		-114.856			-110.401	
Wald Chi2		103.54			112.46	
Prob > Chi2		0.000			0.000	
Sensitivity		0.979			0.976	
Specificity		0.294			0.353	
ROC		0.889			0.892	
Moderate VIF		1.420			1.530	

Legend: *VOTO* = Votes of all the shareholders participating in the general meetings, dummy variable, approval = 1 otherwise = 0; *RTOTm, FSALm, FBENm*, *FPARm*, *FOUTm*, *VBONm*, *VRESm*, *VREUm*, *VOUTm*, *BPOSm*, *BCECm*, *ACAOm* are dummy variables, compensation above the average in the sector = 1, otherwise = 0; *ACTR* = Existence of a controlling shareholder (AC), dummy variable, investor is AC = 1 otherwise = 0; *PART* = Percentage held by the controlling investor. *DISSID* = dummy variable, Companies with disapproval or abstention votes > 20% = 1 otherwise = 0; *AEXT* = If the shareholder lives abroad (RE) (RE), dummy variable, investor is RE = 1 otherwise = 0; *ACAC* = If the investor is part to a shareholder agreement (AA), dummy variable, investor is part of AA = 1 otherwise = 0; *ESTD* = State investor or belongs to the State, dummy variable, State investor = 1 otherwise = 0; *NGC* = Companies listed on B3 that participate in the Novo Mercado (NM), dummy variable, company belongs to NM = 1 otherwise = 0; *PREJ* = dummy variable, reports loss in the previous year = 1 otherwise = 0; *ROA* = Net income divided by total assets; *ALAV* = Financial leverage; *ATIVOln* = Natural Logarithm of total assets.
*, **, *** indicate statistical significance at 0.10, 0.05 and 0.01, respectively.
R^2 does not show evidence that multicollinearity is influencing the estimates. The Chi2 p-values for all the models indicate that the hypothesis that the models are not appropriate was rejected. McFadden's R^2.

Source: Developed by the authors.

The results of the logistic regression for model 3 revealed that variables *ACTR, AEXT, DISSID* are statistically significant. These results show that the presence of investors living abroad and dissident shareholders is negatively correlated with the approval of compensation packages, both regarding the amount of compensation and excess compensation; *RTOTm* was positively and statistically related to Voto (*coef.* = 1.064, $p < 0.05$). Similar to the results of equations 1 and 2, *PREJ* was statistically and negatively related to VOTO (*coef.* = -0.714, $p < 0.05$).

Model 4 sought to explore the specific relationships of types of excess remuneration contained in the packages. The logistic regression results for model 2b revealed that variables *ACTR, AEXT, DISSID* remained statistically significant. Regarding the types of remuneration, the results show that the *ACAO* is statistically significant and positively related to approval (*coef.* = 1.074, $p < 0.10$). These results suggest a variable remuneration excess through packages with stock rights. This finding indicates that the executives may be focusing on the long-term performance and acting as owners to maximize the company's value.

5. Final Considerations

This study's objective was to analyze the factors determining institutional investors to approve executive compensation packages among Brazilian companies listed on the B3. Additionally, this study was intended to provide information regarding excess compensation packages, and the results are expected to contribute to studies conducted in emergent countries with shareholder concentration (Insider System), especially Brazil.

This study's results show that total executive compensation is positively related to the approval of executive compensation packages, indicating that institutional investors and the executives of the companies listed on B3 are aligned. However, contrary to what the international literature suggests (Balsam et al., 2016), controlling shareholders in Brazil have substantial control of companies and, for this reason, influence executive compensation, compensation variables, as direct and indirect benefits. Additionally, different fixed values make other shareholders vote in favor of compensation packages.

The controlling shareholder variable is positively related to the approval of the executive compensation package. Hence, if we consider that controllers aim at the companies' long-term investments, they approve compensation packages to encourage executives and prevent attrition. Additionally, behind-the-scenes negotiation (shareholders' agreement) and alliances established among the shareholders (Obermann & Velte, 2018) lead controlling shareholders and shareholder concentration – characteristics of the Insider System model – to encourage investors to approve compensation packages (Falco et al., 2016).

Even though executive compensation can be used as a mechanism to align interests among a company's stakeholders (Beuren et al., 2020), this study's results regarding dissent show that the interests of controllers and non-controllers are not aligned, a characteristic of the Brazilian market, where principal-principal conflicts predominate. "Other shareholders" either miss the meetings and let controllers decide or do not approve of the package (dissent). A potential explanation for missing the meetings would be that shareholders understand that, compared to controllers, they do not have the power to influence, and when they do vote, they exercise their activism. However, Pinheiro et al. (2020) note that improved corporate governance tends to decrease conflicts among shareholders.

The additional results show an excess of share-based compensation. Shareholders tend to be more favorable to this type of compensation, corroborating Conyon and Sadler (2010) and Croci et al. (2012). This finding confirms that controllers may be interested in extracting private benefits (Crisóstomo et al., 2020) expropriating wealth through shared-based remuneration.

Therefore, this study contributes to shareholders and business managers and business transparency. The principal-principal conflict may result in negative consequences, such as controllers expropriating private resources to the detriment of non-controlling shareholders. Hence, good corporate governance practices can mitigate conflicts and protect minority shareholders. Governance and information transparency contribute to the efficient allocation of resources and the development of the Brazilian financial market. The disclosure of incentives offered directly by controllers to managers through compensation packages enables investors to make better decisions about the relationship between management performance and compensation.

This study's limitations concern the signature of shareholders present at the meetings, considering that § 2nd of Art. 130, Law No. 6.404/1976 authorizes minutes to be disclosed without the shareholders' signatures, which prevented the identification of investors and decreased the sample. Regarding ownership structure, we considered direct participation in capital and only those with voting rights (common shares). Additionally, we could not verify the different types of share-based compensations, stock options, or restricted shares, which the international literature considers relevant to analyze shareholder voting. Finally, various companies were excluded from the sample because variable payments were not disclosed; for example, the company was reviewing previous earnings.

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