Alexandria Journal of Accounting Research
Issued by the Accounting Department, Second Issue, May, 2025, Vol. 9

CEO Compensation and Firm Performance in Australia: Pre and Post the Implementation of the "Two-Strike" Rule

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Abstract

This paper explores the long-term impact of Australia's "two-strikes" rule on the link between CEO pay and firm performance. With a large sample of 9,513 firm-year observations spanning the period 2004-2017, we find that, before the introduction of the rule, CEO pay was positively and significantly associated with firm performance. This pay-performance alignment is broadly seen as a means of encouraging CEOs to take shareholder value to its highest point. Yet our study documents a substantial post-adoption change, with the pay-performance relation falling sharply in intensity. The suggestion is that the "two-strikes" rule, instituted to foster corporate governance by enhancing shareholder power, has had an unintended consequence on CEO pay. Rather than strengthening the link between CEO pay and firm performance, the regulation seems to have resulted in a decrease in CEO pay, possibly because of concern about inducing a "strike" and the possible ousting of board members. The results of this study point to the intricacy of regulatory intervention in corporate governance. Although the purpose of the "two-strikes" rule was to give more power to shareholders and to enhance accountability, evidence indicates that it is a double-edged sword with implications like lower remuneration for CEOs, which may not always be optimal for long-term shareholder wealth maximization. This study contributes to the current debate on the effectiveness and influence of shareholder activism and regulatory reforms to manage executive remuneration, especially in the context of Australia.

KeyWords: CEO compensation, performance, two-strike rule, Australia.

Received on 27/2/2025, accepted on 19/3/2025.

مكافأت الرؤساء التنفيذيين وأداء الشركات في دولة أستراليا: قبل وبعد تنفيذ قاعدة "الضربتين"

ملخص البحث

تهدف هذه الدراسة إلى التحقق من مدى تأثير قاعدة "الضربتين" على العلاقة بين تعويضات الرئيس التنفيذي وأداء الشركات الأسترالية. تتمثل العينة النهائية لهذه الدراسة من 9,513 مشاهدة خلال الفترة من 2004 إلى 2017م. تشير نتائج الدراسة إلى أن تعويضات بمكافأت الرؤساء التنفيذيين قبل تطبيق القاعدة كانت مرتبطة طردياً وبشكل ملحوظ بأداء الشركة. ويُنظر إلى هذا التوافق بين التعويضات والأداء عمومًا على أنه آلية تحفيزية لدفع الرؤساء التنفيذيين نحو تعظيم قيمة حقوق المساهمين. وكما تشير نتائج هذه الدراسة أيضاً إلى هناك تغييرًا جوهريًا حدثت بعد تطبيق القاعدة، حيث انخفضت درجة الدلالة الإحصائية للعلاقة بين التعويضات والأداء بشكل ملحوظ. ويُشير ذلك إلى أن قاعدة "الضربتين"، التي وُضعت لتعزيز الحوكمة المؤسسية من خلال زيادة نفوذ المساهمين، كان لها تأثير غير مقصود على مكافآت الرؤساء التنفيذيين. فبدلاً من تعزيز العلاقة بين التعويض والأداء، يبدو أن التنظيم قد أدى إلى خفض تعويضات بمكافأت الرؤساء التنفيذيين، ربما نتيجة القلق من احتمال التعرض لـ "الضربة" الأولى، والتي قد تؤدي لاحقًا إلى إقالة أعضاء مجلس الإدارة. تؤكد نتائج هذه الدراسة إلى وجود تعقيد من حيث تأثير التشريعات على حوكمة الشركات. فعلى الرغم من أن الهدف الأساسي لقاعدة "الضربتين" كان منح المساهمين نفوذًا أكبر وتعزيز المساءلة، إلا أن الأدلة تشير إلى أنها سلاح ذو حدين، حيث ترتب عليها تداعيات مثل خفض تعويضات بمكافأت الرؤساء التنفيذيين، وهو ما قد لا يكون دائمًا الخيار الأمثل لتعظيم ثروة المساهمين على المدى الطويل. تُساهم هذه الدراسة في فهم القضايا المتعلقة بفعالية وتأثير نشاط المساهمين والإصلاحات التنظيمية في ضبط تعويضات التنفيذيين في البيئة الأسترالية.

الكلمات المفتاحية: مكافأت الرئيس التنفيذي، الأداء المالي، قاعدة الضربتين، أستراليا.

1- Introduction

Hasanah & Paramita (2025) indicated that the progress that takes place currently has issues and new developments in varied lifestyle aspects like social, political, and economic. Over the past three decades, the issue of executive compensation has generated significant debate among various stakeholders, including investors, shareholder activists, academics, the media, and regulators (Bebchuk & Fried, 2006; Edmans et al., 2017; Core, Holthausen, & Larcker, 1999; Frydman & Jenter, 2010; Conyon & He, 2012; Kumar & Zattoni, 2016; Larcker & Tayan, 2015; Armstrong et al., 2010; Murphy, 1999). The introduction of Australia's "two-strikes" rule aimed to address these concerns by aligning CEO compensation more closely with corporate performance. However, whether this rule has effectively achieved its objective remains an open question. This study seeks to answer the following major research question: *How has the implementation of Australia's "two-strikes" rule impacted the alignment between CEO compensation and firm performance?* More precisely, we look into whether the rule has changed the impact of pay ratio on performance for the performance oriented firms in Australia.

The beginning of the 21st century witnessed some of the biggest and most public cases of corporate malfeasance and frauds which instigated the global economic meltdown of 2008. This particular type of crisis, besides raising the eyebrows regarding high pay for top managements, also started drawing media attention to issues like CEO earning at risk and subsequently getting payouts for poor performance, and child issues of income distribution (Chen et al., 2016; Clarkson, Walker, & Nicholls, 2011; Ertimur et al., 2011; Ferri and Maber, 2013; Lin et al., 2013; Murphy, 2013).

The reforms across 23 countries, including the US, Australia and UK, are aimed at increasing the powers of shareholders in determining the pay of top executives such as in the case of American Depositary Shares of global companies (Thomas and Van der Elst, 2015). Australia deserves special mention as it is particular because of its controversial "two strike" rule which instructs the directors to stand in the election if more than twenty-five percent of the holders are within the say no votes for something enabled on a report for two subsequent years. This contrasts to the advisory 'say on pay' provisions in most other countries and therefore has much wider implications for board compensation policies. The "two-strikes" rule introduced by the Australian Remuneration Act 2011, or Corporations Amendment, serves the purpose of better aligning the management with the interest of the shareholder, making sure that chief executive's remuneration more directly reflects the performance of the company.

The focus on the SoP laws' adoptions in different economies has created a significant amount of controversy among scholars, especially about the "two strikes" rule in Australia. Cai and Walkling, 2011, Correa and Lel, 2016, Ferri and Maber, 2013, Grosse et al., 2017, and Monem and Ng, 2013, have made extensive contributions to the current debate. The pro-regulation forces maintain that the added shareholder voting requirement is added accountability, added transparency, as well as a better linking of remuneration to performance measures which result in added shareholder value. Critics of the new regulations point out that often, shareholders lack the knowledge and the sophistication needed to understand intricacies of an executive's compensation package. Because of this fact, badly informed decision-making processes may lead to suboptimal compensation structures that, in turn, negatively affect corporate value (Bainbridge, 2008; Brunarski et al., 2015; Correa and Lel, 2016; Deane, 2007; Grosse et al., 2017; Kaplan, 2008; Larcker, Ormazabal, and Taylor, 2011; Mangen and Magnan, 2012).

Critics of the SoP legislation have sounded warnings about the "two-strikes" rule's unintended effects. In an interview with The Australian Financial Review last December, John Colvin, Chief Executive of the AICD, talked about the policy's dark side (December 10, 2012). On the other hand, the former Australian Prudential Regulation Authority supervisor Fahmi Hosain, on March 26, 2019, in The Australian Financial Review argues that the rule might weaken the shareholders' right rather than strengthening it. Also, on the reports from April 2019, in The Australian Financial Review, the corporate consultants called to review the "two-strikes" rule on the executive pay. AICD CEO Angus Armour said in an April 22, 2019, article in The Sydney Morning Herald that the "two-strike" rule was originally designed to increase accountability. But it has been used by proxy advisers and investors for issues that are not what it was originally designed for. Corporate consultants argued that the rule gives scope for shareholder activists to strongly challenge corporate boards over executive pay and modification was needed in attempt to avoid such abuses. -The Sydney Morning Herald, April 22, 2019.

Larcker et al. (2011) suggest that regulations on executive compensation could lead to second-best contracts that potentially destroy shareholders' wealth by undermining the ability of the board to attract, retain, and motivate top-level executives. Alternatively, Murphy (2013) argues that many of the regulations that control CEO compensation heighten agency issues and create unpredictable and costly consequences. Grosse et al. (2017), on the contrary, contended that the "two-strikes" rule can fail in its purpose since Australian shareholders utilize the "strike" vote to convey displeasure with the overall company performance, and not specifically to target excessive executive pay. The "two-strikes" rule implemented by the Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011 was designed to address issues related to excessive remuneration awarded to chief executives, enable a closer link between executive remuneration and company performance, and increase transparency regarding remuneration practices. This paper investigates if the "two-strikes" rule achieved its intended objectives and assesses whether any improvements in the pay-performance relationship emerged as a result.

The results of this study provide useful information on how the "two-strikes" rule has affected firm performance and executive remuneration. Before the rule was passed, the highly positive relationship between CEO remuneration and firm performance indicated that the incentive structure was successfully aligning the interests of the executives with the interests of shareholders. Nevertheless, as the research goes into the post-"two-strikes" era, we expect this relation will change as a result of the rule's regulation changes. The critical question going forward is whether the advent of the "two-strikes" rule has diminished the strength of this positive correlation. The potential unintended consequence, as speculated, is that the regulatory regime has discouraged meritorious performance-based compensation initiatives. With the added scrutiny and threat of board removals if shareholders express discontent, boards will adopt more conservative executive remuneration strategies, potentially undermining the incentive structure intended to reward performance. The sensitivity and elasticity tests will shed further light on whether indeed the "two-strikes" rule has actually made a quantifiable difference to the alignment between CEO pay and shareholder wealth, and whether this was followed through to managerial behaviour change and firm performance. The research makes a valuable addition to corporate governance literature by investigating the long-run impact of this type of regulatory intervention to the pay-performance relationship in the Australian environment. These findings specifically indicate that with every $1,000 added to the shareholders' wealth, the CEOs' wealth increased by an average of $51, while for every 10% increase in shareholder value, the compensation to CEOs increased by 8%, thus inferring the aspect of pay-performance elasticity.

Our results support a strong negative relationship between shareholder wealth and CEO compensation following adoption of the "two-strikes" rule. Following adoption, CEO compensation declined by approximately $12 for a $1,000 increase in shareholder wealth. Pay-performance sensitivity also declined markedly, with a decline in CEO compensation of 0.78% for each 10% increase in shareholder wealth. This suggests that the "two-strike" rule places excessive pressure on companies, resulting in a more draconian outcome for CEOs than intended. The negative association between shareholder wealth and the relative wealth of CEOs may encourage managing directors to leave Australia or inhibit an entity's ability to attract high-quality CEOs from the global market. In this regard, the "two-strike" rule has the potential to impede the ability of the board to attract, retain, and reward executives in ways consistent with the creation of corporate wealth.

This study adds value to previous research on Say-on-Pay (SoP) on three important dimensions. First, it extends previous research, which had mainly focused on short-run effects on a "strike" on CEO compensation and organizational firm performance (Faghani & Gyapong, 2019; Grosse et al., 2017; Monem & Ng, 2013). Unlike previous research, this analysis takes a holistic approach, with a focus on examining the long-run and profound effects of the "two-strikes" law on CEO remuneration - corporate performance congruence. It also examines empirically this association with a large data set on non-strike-firm observations spanning pre- and post-legislation periods. In line with prevailing debate and concerns expressed by SoP regulation critics, what emerges from the findings is that the "two-strikes" policy has a tendency, unbeknownst, to bestow on shareholders, possibly with a lack of expertise, motivational frameworks, and strategic vision necessary for optimal contractual designs and value maximization, too much authority when setting up executive compensation schemes.

Methodologically, this research offers a greater scope through a detailed scrutiny of the responsiveness and flexibility inherent in CEO wealth changes and shareholder wealth changes. Methodological superiority is conferred on this research through a comparative distinction over earlier research that has not achieved such a level of analytic excellence (Kent, Kercher, & Routledge, 2016; Liang, Moroney, & Rankin, 2020). With a dual-measurement approach, this research adds value through a greater understanding of highly volatile dynamics between organizational performance and executive compensation.

This study leverages a large data set consisting of Australian firms from 2004 through 2017, including voluntary and compulsory Say-On-Pay (SoP) schemes. The unique features of this data set enable a detailed scrutiny of the "two-strikes" regulation across diverse regulatory settings, thus providing greater insight into its impact on executive pay and corporate performance dynamics.

The structure of this paper is as follows: Section 2 outlines the regulatory framework of the "two-strikes" rule. Section 3 reviews relevant literature and formulates the research hypothesis. Section 4 details the research methodology, followed by Section 5, which presents and analyzes the findings. Finally, Section 6 provides the conclusion and a summary of the study.

2- Regulatory Setting

The widespread implementation of Say-on-Pay (SOP) mandates across the globe is primarily attributed to the persistent activism of shareholders, who advocate for increased shareholder empowerment, accountability, and transparency, as well as aligning CEO compensation with corporate performance (Alissa, 2015; Cuñat, Gine, & Guadalupe, 2016; Ferri & Maber, 2013). These mandates grant shareholders the authority to vote periodically on compensation disclosure for board members and top executives. The first step towards this was taken in 2002, when the United Kingdom introduced a non-binding, mandatory vote, providing shareholders with a means to express their dissatisfaction with directors' remuneration amid growing concerns about excessive pay and poor performance (Alissa, 2015; Ferri & Maber, 2013). Since then, Australia and several developed and developing countries have adopted similar regulatory frameworks (Ferri and Lel, 2016; Ferri and Maber, 2013). Notably, Australia's SOP regulation stands out by extending board accountability beyond CEO compensation, potentially enabling shareholders to initiate board overhaul and significantly strengthen the governance structure.

The Australian regulatory environment has undergone significant changes in executive compensation since the late 1990s (Clarkson et al. 2011). The Company Law Review Act 1998 (CLRA 98) requires all publicly traded companies to disclose comprehensive information about each component of executive pay, including base salaries, annual bonuses, long-term incentives, additional benefits, superannuation, and perks. Moreover, these companies must clarify their remuneration policies and demonstrate the alignment of executive compensation with corporate performance (Bugeja, da Silva Rosa, Shan, Walter, & Yermack, 2016). This regulatory framework aims to enhance transparency and accountability of practices related to executive remuneration.

The Corporate Law Economic Reform Program (Audit Reform & Corporate Disclosure) Act of 2004, or CLERP 9, established a system of regulation that permits shareholders to provide advisory votes on executive pay at annual general meetings. Despite this, empirical evidence indicates that boards frequently disregard advisory votes, resulting in on going shareholder dissatisfaction with executive pay reports (Grosse et al., 2017). The corporate failures and scandals of the early 2000s as well as the 2008 global financial crisis have led to increased scrutiny of excessive executive compensation. In response, Australian regulators have implemented measures to strengthen shareholder influence over executive pay practices (Monem & Ng, 2013).

In response to widespread public concern about the size of executive compensation, the Rudd government commissioned the Australian Productivity Commission in March 2009 to examine the existing regulations governing executive pay (Clarkson et al., 2011). The resulting report from the Productivity Commission presents 17 recommendations aimed at addressing various corporate governance issues and enhancing the non-binding shareholder vote on executive compensation. To provide minority shareholders with greater power and encourage boards to refine their compensation practices, the Australian government implemented the "two-strikes" rule, which mandates a binding shareholder vote. This legislation was enacted on July 1, 2011 (Borthwick et al. 2018).

The "two-strikes" rule in Australia is widely recognized for its pioneering governance mechanism, with several reasons to support this recognition. First, this rule allows minority shareholders to potentially remove the entire board of directors, excluding the CEO, if more than 25% of shareholders oppose remuneration reports for two consecutive years. Furthermore, directors and managers are prohibited from voting on remuneration reports. Second, the rule redirects public scrutiny towards boards that create suboptimal compensation packages rather than focusing on the executives who benefit from them (Bugeja et al., 2016; Grosse et al., 2017; Monem & Ng, 2013). As a result, the "two-strikes" rule is expected to have immediate and significant economic consequences on boards as well as indirect effects on companies with poor compensation practices by encouraging increased shareholder activism and higher board turnover.

The "two-strikes" provision establishes a specific process that is activated when shareholders are dissatisfied with a corporation's Annual General Meeting (AGM). If a remuneration report fails to obtain the approval of at least 75% of shareholders, it incurs the first strike. In the next year, in case of dissent of more than 25% of shareholders to the remuneration report, a second strike is called. After a second strike, a spill motion is put to a shareholder vote at the same annual general meeting to determine if the entire board of directors minus the CEO is to be re-elected. In case of a spill motion having a majority of support, there is a mandatory extraordinary general meeting to be convened in 90 days. At this meeting, the entire board, excluding the CEO, is subject to reelection. For a comprehensive analysis of the procedural intricacies surrounding the "two-strikes" framework, interested parties are referred to Monem and Ng's (2013) thorough examination.

3- Review of the Relevant Literature and Developing the Rsearch Hypothesis

Shareholder-manager conflicts often occur where there is a great degree of control and ownership dispersion among organizations. Agency theory argues that conflicts may be addressed through a pay-for-performance compensation scheme, as recommended by boards of directors, where executive compensation is attached to company-wide performance. The compensation system plays two important roles: firstly, one unifies manager and shareholder interests; secondly, one makes CEOs adopt decision-making styles that value shareholder interests, ultimately increasing shareholder wealth (Berle & Means, 1932; Jensen & Meckling, 1976; Jensen & Murphy, 1990). According to Magsood and others (2025), there are concerns about how bodies charged with regulation are overly concerned with the limits set on the pay package for CEOs. This limits the innovation within the firm and eventually works against the objectives of the shareholders.

In the last three decades, a substantial body of research has examined CEO remuneration and corporate performance (CP) relationships, with varied outcomes. Research works undertaken by Coughlan and Schmidt (1985), Hubbard and Palia (1995), and Murphy (1985, 1999) have described this as a complex relationship with regards to the relationship among these two factors. Some writers have posited that there is little correlation among CEO pay and corporate performance, largely due to executives' control over boardroom decisions. However, some cross-country studies have substantiated agency theory, providing evidence for a striking correlation among corporate success and CEO remuneration (Merhebi et al., 2006). Its exact quality continues to be debated. For instance, Jensen and Murphy (1990) discovered CEOs received only $3.25 for each $1,000 increase in shareholder value, revealing a weak connection between reward and performance. Other writers, however, state that this connection has strengthened since the 1980s, particularly as a growing number of business entities start to reward managers with stock options (Hall & Liebman, 1998; Kato & Long, 2006; Perry & Zenner, 2001; Zhou, 2000). These discrepancies may occur because previous studies have not accounted for crucial factors influencing the reward-performance relationship (Hill & Phan, 1991).

Australian evidence on whether a firm's performance is connected with a CEO's pay has given varying outcomes. Another examination revealed a weak or converse correlation (Harris & Ramsay, 1994; Fleming & Stellios, 2002; Izan et al., 1998; O'Neill & Iob, 1999). Poor administration and ambiguous compensation for CEOs through 2004 made it difficult to discern a definite correlation with a firm's performance (Clarkson et al., 2011). The 2004 enactment of non-binding CLERP 9 legislation, granting shareholders voting rights on CEO compensation, was a major step forward in the development of this relationship (Merhebi et al., 2006; Clarkson et al., 2011; Schultz et al., 2013). However, subsequent enactment of a two-strikes rule, which imposes certain sanctions in the face of shareholder dissent, made it difficult to assess this relationship. A first assessment of this issue, conducted by Monem and Ng (2013), found a weak correlation between corporate performance and executive compensation among companies facing a first strike in 2011. More importantly, organizations that were able to evade a second strike in 2012 showed an improvement in this correlation.

Contrary to the report by Bugeja et al. (2016), Grosse et al. (2017) are doubtful about the effectiveness of the "two-strike" rule in strengthening the link between executive compensation and firm performance. According to them, Australian shareholders are largely using the "strike" vote as a tool to register their discontent over poor long-term corporate performance, as opposed to using it as a tool for assessing the correlation between CEO remuneration and corporate performance. Further, they report that while the rule has helped in decreasing executive compensation, it has failed to adequately address the problem of excessive compensation schemes. In support of this fact, Faghani and Gyapong (2019) argue that Australian shareholders are often not in possession of the appropriate financial literacy and sophistication required to fully understand the intricacies surrounding CEO compensation plans.

The two-strikes policy places firms under a dual form of early attention because of heterogeneous reactions from shareholders regarding an executive pay out report just before the annual general meeting which creates a situation of early scrutiny. Such preliminary dissent not only subjects organizations to adverse media publicity but also indicates governance shortcomings on the part of the company's board, hence implying high agency costs in the organization. Such a situation is likely to raise suspicions in the minds of shareholders, creditors, and auditors, hence necessitating more scrutiny of the company's governance systems by regulatory bodies. In a preemptive move in expectation of preliminary criticism, many companies listed on the ASX would likely have taken anticipatory action in the form of a dramatic cut in CEOs' compensation in conjunction with efforts to boost organizational performance. After enacting the "two-strikes" rule, a negative correlation between organizational performance and CEOs' rewards is likely to be established in companies listed on the ASX. From these observations, the following hypothesis would be formulated:

H1: Certus Parpus, changes in firm performance after the implementation of the "two-strikes" is related negatively to changes in CEO compensation.

4- Research Methodology

4.1 Data Source and Sample

This study probes the executive compensation-performing link over Australia regimes, leveraging a vast data sample that covers 9,513 firm-year records over firms quoted on the ASX over the period from 2004 through 2017. The dataset was carefully selected to align with the study's objective, with companies chosen based on their sustained operational presence for a minimum of five years within the 12-year sampling period. This allows for the examination of the long-term relationships between pay and performance. Entities undergoing delisting and subsequent relisting, having incomplete corporate governance and financial data, or experiencing CEO turnover within the specified five-year timeframe are systematically excluded from the dataset. Moreover, firms facing either a 'first-strike' or 'second-strike' under the "two-strikes" regulation are methodically eliminated from consideration. Executive compensation data are sourced from the Connect 4 database, while ownership, corporate governance data are sourced from the SIRCA database. The financial data are sourced from the Aspect Huntley FinAnalysis database. In an attempt to address the potential impact of outliers, continuous data were winsorized at both the 95th percentile level, as well as the 5th percentile, consistent with previous studies (Matolcsy & Wright, 2011; Monem & Ng, 2013; Grosse et al., 2017).

4.2 Models

Jensen and Murphy (1990b) consider the executive compensation - organizational performance connection utilizing an approach measuring shareholder wealth as an organizational performance measure. Quantifies executive compensation - company performance connection, the pay-performance sensitivity method, developed by the executive compensation - change in change - change - change - shareholder wealth.

$$CEOPAYCH_{i,t} = \alpha + \beta\ SHWEACH_{i,t} + \varepsilon_{i,t} \quad (1)$$

where all variables are as defined in Table 1.

Table 1: Variables Descriptions

Variable name	Variable definition
CEOPAYCH	the change in total CEO remuneration between t-1 and t for firm i.
SHWEACH	the change in (the beginning of period market value multiplied by the rate of total stock return) between t-1 and t for firm i
LNCEOPAYCH	the change in the natural logarithm of total CEO remuneration between t-1 and t for firm i
LNSHWEACH	the change in the natural logarithm of (the beginning of period market value multiplied by the rate of total stock return) between t-1 and t for firm i
2STRIKES	a binary variable set to 1 with the introduction of the “two-strikes” rule from 2011 onwards and 0 otherwise
CEOTEN	The total number of years that a CEO has been chief executive at the company
CEOCHANGE	a binary variable set equal to 1 if the firm’s CEO has been changed during fiscal year t and 0 otherwise
BSIZE	The total number of directors on the board
BINDP	The proportion of non-executive directors on the board
CEODUAL	A binary variable set equal to one if the CEO is also the chairman of the board
PREMCOMM	A binary variable set equal to 1 if the firm has a remuneration committee.
REMCOMMINDP	The proportion of non-executive directors on the remuneration committee
CEOREMCOMM	A binary variable set equal to 1 if the CEO is not a member of the remuneration committee
CHREMCOMM	A binary variable set equal to 1 if the chair of the remuneration committee is a non-executive director
BIG4	A binary variable set equal to 1 if the firm is audited by a Big-Four auditor
OWNCON	The percentage of firm shares owned by the top 20 shareholders at year t
LEV	Total liabilities divided by total equity of firm
PBVAL	The ratio of book-to-market value of equity
TASSETS	The natural logarithm of total assets
Industry-Fixed Effects	Dummy variable for each industry.
Year-Fixed Effects	Dummy variable for each year.

Previous studies have placed emphasis on pay-performance sensitivity, while other academics opine that pay-performance elasticity has the capacity to provide an adequate measure owing to asymmetrical data shape, together with interpretive complexity (Rosen, 1990; Merhebi et al., 2006). Following methodological approaches suggested by Murphy (1985), Coughlan and Schmidt (1985), and Kaplan (1994), employing an elasticity measure, this study makes an addition. The pay-performance elasticity formula, thus, algebraically assumes the form below:

$$\mathrm{LNCEOPAYCHi,t} = \alpha + \beta\ \mathrm{LNSHWEACHi,t} + \varepsilon\ \mathrm{i,t} \qquad (2)$$

The objective of this research is to examine H1 by partitioning the sample into two intervals: one preceding and one succeeding the implementation of the "two-strikes" regulation. This partition assesses the effect of the " two-strike " rule on the connection between compensation and performance. By expanding on the methodology put forth by Schultz et al. (2013), the study incorporates a metric of the "two-strikes" regulation and combines it with shareholder wealth. Specifically, models (3) and (4) were employed to gauge pay-performance sensitivity and pay-performance elasticity, respectively.

$$\mathrm{CEOPAYCHi,t} = \alpha + \beta 1\ \mathrm{2STRIKES} + \beta 2\ \mathrm{SHWEACHi,t} + \beta 3\ \mathrm{2STRIKES} * \mathrm{SHWEACHi,t} + \gamma\ \mathrm{Controlsi,t} + \mathrm{Industry\ Fixed\ Effects} + \mathrm{Year\ Fixed\ Effects} + \varepsilon\ \mathrm{i,t} \qquad (3)$$

$$\mathrm{LNCEOPAYCHi,t} = \alpha + \beta 1\ \mathrm{2STRIKES} + \beta 2\ \mathrm{LNSHWEACHi,t} + \beta 3\ \mathrm{2STRIKES} * \mathrm{LNSHWEACHi,t} + \gamma\ \mathrm{Controlsi,t} + \mathrm{Industry\ Fixed\ Effects} + \mathrm{Year\ Fixed\ Effects} + \varepsilon\ \mathrm{i,t} \qquad (4)$$

4.3 Control Variables

The primary objective of this research is to examine the impact of corporate governance attributes on the relationship between pay and firm performance, following prior research in hypothesizing that companies with good governance practices would experience a strong pay-performance relation (Core et al., 1999). In particular, this paper analyzes board size (BSIZE) with the theory that smaller boards monitor more effectively than larger boards (Jensen, 1993; Yermack, 1996). This paper also analyzes the use of independent directors (BIND), as they are expected to monitor more effectively and act in the interests of shareholders (Brickley, Coles, & Terry, 1994). Additionally, CEO/chair duality (CEODUAL) and long CEO tenure (CEOTEN) are added since these characteristics have the potential to concentrate power in the CEO's hands and attenuate the pay-performance relationship (Core et al., 1999; Hill & Phan, 1991). The paper also controls for remuneration committee characteristics, building on existing research that finds a stronger CEO wealth-shareholder wealth relation in high-ability remuneration committees firms. These include a remuneration committee (PREMCOM), larger number of non-executive committee members (REMCOMMIND), CEO prohibition from the committee membership (CEOREMCOM), and having an executive director as committee chairman (CHREMCOMM) (Conyon & He, 2004; Conyon & Peck, 1998; Cybinski & Windsor, 2013; Monem & Ng, 2013).

OWNCON is a standard control variable in the CEO compensation determinants literature, i.e., the percentage of total company shareholdings held by the largest twenty shareholders (Core et al., 1999; David et al., 1998). Previous evidence suggests that pay-for-performance is stronger in larger firms, as measured by total assets (TASSETS). Additionally, firms with more complex operations (COMPLEX), greater growth opportunities (PBVAL), and greater leverage (LEV) offer more generous compensation levels (Core et al., 1999; Grosse et al., 2017; Murphy, 1985). The study also controls for audit quality (BIG4) on the grounds that firms with greater audit quality have a more pronounced pay-performance link (Clarkson et al., 2011).

5- Results

5.1 Descriptive Statistics and Univariate Tests

Table 2 presents a detailed analysis of the descriptive statistics of all variables used in models (1) to (4) to enable comparative analysis of data gathered before and after enacting the "two-strikes" rule. The table presents results of univariate analyses, such as the mean t-test and the Wilcoxon Z test, to determine variations in CEO compensation, shareholder value, and other control variables. In line with prevailing methodological approaches (Brown et al., 2014; Larcker et al., 2007; Monem & Ng, 2013), this analysis employs winsorization to handle outliers; that is, it trims upper and lower 5% of observations of each of these variables to curtail skewness in resulting statistics. As shown in Table 2, CEOs' mean salary was at $1,155,138 ($599,470) before the introduction of the "two-strikes" rule, after which it increased to $1,368,077 ($759,359). The difference in means (t-statistic = -4.298) and in medians (Wilcoxon Z-statistic = -7.285) was found to be statistically significant at a 1% significance level. The natural log of total CEO pay also indicates a considerable difference between the two time periods, which is significant at a 1% level.

Table 2: Descriptive Statistics and Univariate Tests before and after the Two Strikes Rule

Variables	Before Two-Strikes Rule			After Two-Strikes Rule			Mean (t-test)		Median (Wilcoxon)	
	Mean	Std. Dev.	Median	Mean	Std. Dev.	Median	Difference	t-stat	Difference	z-stat
CEOPAYCH	1155138	1580223	599470	1368077	1743697	759359	-212939	4.298***	-159888	-7.285***
LNCEOPAYCH	13.373	1.095538	13.304	13.583	1.064151	13.539	-0.210	6.489***	-0.236	-7.274***
SHWEACH	241256421	3.520000	1720262	4188461197	3.080000	-4934486	-3947204775	6.324***	6654748	-2.726***
LNSHWEACH	14.547	354.4472	0.412	146.756	1514.958	-1.476	-132.209	4.207***	1.888	-3.764***
CEOTEN	5.106	2.438124	5.000	6.729	4.015877	6.000	-1.623	16.716***	-1.000	-11.606***
BSIZE	6.332	2.191219	6.000	6.383	2.162274	6.000	-0.050	0.774	0.000	-0.984
BINDP	0.673	0.242237	0.750	0.718	0.176761	0.750	-0.045	6.983***	0.000	-7.614***
CEODUAL	0.063	0.24378	0.000	0.063	0.243608	0.000	0.000	-0.012	0.000	-0.012
PREMCOMM	0.733	0.44274	1.000	0.785	0.410909	1.000	-0.052	4.089***	0.000	-4.112***
REMCOMMINDP	0.662	0.427332	1.000	0.745	0.406428	1.000	-0.083	6.600***	0.000	-8.129***
CEOREMCOMM	0.160	0.366951	0.000	0.095	0.29355	0.000	0.065	-6.476***	0.000	-6.587***
CHREMCOMM	0.614	0.487051	1.000	0.649	0.487278	1.000	-0.036	2.462**	0.000	-2.350**
OWNCON	0.649	18.57896	0.667	0.596	23.88903	0.642	0.053	-8.348***	0.025	-5.821***
LEV	0.243	0.355069	0.188	0.394	2.34091	0.193	-0.151	3.167***	-0.005	-1.487
PBVAL	3.270	10.1972	1.624	3.038	10.78348	1.414	0.232	-0.740	0.210	-0.785
TASSETS	18.879	2.061214	18.744	19.035	2.264123	19.000	-0.157	2.428**	-0.256	-3.045***

Subsequent to the application of the "two-strikes" rule, a significant improvement in shareholder wealth was noted, indicated by mean figures of $241,256,421 ($1,720,262) in the period before the rule was applied, and $4,188,461,197 (-$4,934,486) after it was introduced. Statistical analysis confirmed significant discrepancies in means and medians at a significance level of 1%, as indicated by the t-test (t-statistic = 6.324) and the Wilcoxon Z-test (Wilcoxon Z-statistic = 2.726). In addition, the variance in mean and median board independence in the two time frames was also found to be statistically different at a significance level of 1% (t-statistic = -6.983; Wilcoxon Z-statistic = -7.614). In terms of ownership concentration, mean and median figures in the period before the rule was introduced were 0.649% and 0.667%, respectively, which were changed to 0.596% and 0.642% after it was introduced. This change was found to be statistically different at a significance level of 1%.

5.2 Correlation Matrix

Table 3 is a Pearson bivariate correlation matrix of variables used in models (1), (2), (3), and (4). Of particular interest is that there is a negative correlation between natural log changes in total CEO compensation and shareholder wealth ($r = -0.188$, $p < 0.05$), suggesting that two-strikes rule negatively impacts the link between pay and performance. In order to determine multicollinearity, it is generally accepted that a high pairwise correlation of more than 0.8 between explanatory variables is a warning signal for such a problem (Gujarati & Porter, 2009). Table 3, however, shows that the pairwise correlation between all independent variables was below the cut-off of 0.8, implying that multicollinearity is not likely to be a problem. In addition, correlations between independent variables tended to be low, with none in excess of a correlation of 0.6.

Table 3: Pearson's Bivariate Correlation Matrix

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
CEOPAYCH	1																	
LNCEOPAYCH	0.634**	1																
SHWEACH	0.015	-0.005	1															
LNSHWEACH	-0.092	-0.188**	0.343**	1														
CEOTEN	0.062	-0.003	0.025	0.014	1													
CEOCHANGE	-0.046	0.038	-0.010	-0.013	-0.473**	1												
BSIZE	-0.023	0.018	0.063	-0.015	-0.081	0.048	1											
BINDP	-0.007	-0.062	-0.001	0.055	-0.037	-0.119*	0.367**	1										
CEODUAL	0.004	-0.023	-0.023	-0.034	0.170**	-0.016	-0.066	-0.151**	1									
PREMCOMM	-0.019	0.024	0.043	-0.020	0.073	-0.148**	0.211**	0.212**	-0.128*	1								
REMCOMMINDP	-0.035	-0.027	-0.004	-0.088	-0.026	0.065	0.059	-0.028	-0.042	0.267**	1							
CEOREMCOMM	0.007	0.048	-0.061	-0.038	-0.031	-0.005	0.086	-0.056	0.024	0.213**	0.171**	1						
CHREMCOMM	-0.018	0.009	0.022	-0.023	-0.015	-0.142**	0.095	0.209**	-0.216**	0.556**	0.123*	0.222**	1					
BIG4	0.010	-0.017	-0.006	-0.035	0.007	-0.072	0.421**	0.317**	-0.101*	0.068	-0.001	-0.061	-0.045	1				
OWNCON	-0.039	0.039	-0.020	0.036	0.038	0.024	0.036	-0.046	0.187**	-0.034	-0.085	0.060	-0.083	0.094	1			
LEV	0.017	0.084	0.012	0.023	-0.081	0.057	-0.030	0.009	-0.035	-0.007	-0.011	0.000	0.006	0.027	0.092	1		
PBVAL	0.007	-0.064	0.004	0.062	-0.044	0.084	-0.008	-0.003	0.016	-0.069	-0.024	0.022	-0.043	0.066	0.030	0.016	1	
TASSETS	-0.016	0.046	0.006	-0.096	0.154**	-0.222**	0.488**	0.328**	-0.143**	0.325**	0.104*	0.059	0.164**	0.481**	0.053	-0.133**	-0.124*	1

5.3 Empirical Results

5.3.1 Pay-Performance Sensitivity before and after the Implementation of the 'Two Strikes' Rule

Table 4 presents a complete analysis of the results of the study regarding pay-performance sensitivity in Australian companies, both before and after the two-strike rule was introduced. The results of the regression analysis indicate that there was a high correlation between CEO pay and company performance in the period preceding the introduction of the two-strike rule. In particular, it was found that shareholder wealth was positively and statistically associated (coefficient = 51.536, t = 10.092) to indicate that for each $1,000 in shareholder wealth, there was a $51 increase in CEO pay. After introducing the two-strike rule, the correlation between shareholder wealth and company performance was weak. The correlation was found to be negatively and statistically associated (coefficient = -10.168, t = -1.753) to indicate that when shareholder wealth was $1,000 higher, there was a decrease of around $10 in CEO pay. From these results, it is possible to conclude that the two-strike rule negatively impacted the correlation between company performance and CEO pay.

Table 4: Pay-Performance Sensitivity before and after the "Two-Strikes" Rule

	Full Sample (1)	Before Regulation (2)	After Regulation (3)
	CEOPAYCH		
SHWEACH	-45.258	51.536***	-10.168*
	(-0.400)	(10.092)	(-1.753)
CEOTEN	-6140.823	4248.562	-8501.176
	(-1.116)	(0.309)	(-1.526)
BSIZE	1919.056	6983.742	-2156.200
	(0.163)	(0.345)	(-0.155)
BINDP	66893.853	32527.999	109551.293
	(0.719)	(0.240)	(0.857)
CEODUAL	-24211.114	-11093.245	-31657.079
	(-0.310)	(-0.082)	(-0.346)
PREMCOMM	225985.518	361182.895	102162.602
	(0.930)	(0.970)	(0.319)
REMCOMMINDP	-280032.135	-412159.253	-159413.847
	(-1.165)	(-1.139)	(-0.498)
CEOREMCOMM	-91111.465	-196944.600	-9070.110
	(-0.965)	(-1.343)	(-0.075)
CHREMCOMM	-14020.834	-13881.254	-10751.914
	(-0.250)	(-0.134)	(-0.170)
OWNCON	2608.813***	4167.000**	1756.429*
	(2.752)	(2.234)	(1.678)
LEV	13727.739	25871.482	12164.849
	(1.249)	(0.305)	(1.198)
PBVAL	1662.658	1325.404	1445.827
	(0.898)	(0.386)	(0.693)
TASSETS	23738.714*	44129.569**	15845.194
	(1.935)	(2.001)	(1.111)
CONSTANT	-476179.821**	-947523.421**	-356165.384
	(-2.226)	(-2.510)	(-1.475)
Industry fixed effects	Included	Included	Included
Year fixed effects	Included	Included	Included
N	9513	4285	5228
ADJ R2	0.013	0.068	0.011

Table 4 depicts a weak association between shareholder wealth and CEO compensation across the entire dataset. Regression analysis shows that there is a weak, though not statistically significant, correlation between company performance and CEO pay (coefficient = -45.258, t = -0.400). In addition, a control variables analysis shows that ownership concentration (OWNCON) has a significant and positive impact on CEO pay. Before the introduction of the "two-strikes" rule, ownership concentration's coefficient was 4167.000 (t-statistic = 2.234, p-value < 0.05). After introducing this regulation, it fell to 1756.429 (t-statistic = 1.678, p-value < 0.10). The evidence indicates a negative correlation between company performance and CEO pay in companies with low ownership concentration, suggesting that higher concentration of ownership enhances internal governance, hence enabling owners to better monitor management.

5.3.2 Pay-Performance Elasticity before and after the Implementation of the 'Two-Strikes' Rule

Table 5 analyses the link between company performance and CEO pay, in particular over the period immediately preceding and after two-strike regulation was introduced (Model 2). The results indicate a strong correlation between company performance and CEO pay in the period immediately before regulation was introduced, with a pay-performance elasticity of 0.826 (t = 1.947). This indicates that a 10% improvement in shareholder value is associated with a circa 8% increase in CEO pay. In contrast, after introduction of the regulation, a dramatic change in elasticity is observed, indicating a negative value (coefficient = -0.635, t = -1.828), indicating that a 10% improvement in shareholder value is associated with a decrease in CEO pay of 0.63%. Overall, analysis indicates a negative correlation between pay and performance in the entire dataset; nevertheless, such correlation is not significant, indicated by a coefficient of -0.279 (t = -1.105).

Table 5: Pay-Performance Elasticity before and after the "Two-Strikes" Rule

	Full Sample (1)	Before Regulation (2)	After Regulation (3)
		LNCEOPAYCH	
LNSHWEACH	-0.279	0.826**	-0.635*
	(-1.105)	(1.947)	(-1.828)
CEOTEN	-0.018***	-0.026***	-0.016***
	(-4.937)	(-2.830)	(-4.301)
BSIZE	-0.029***	-0.041***	-0.020**
	(-3.778)	(-3.027)	(-2.190)
BINDP	-0.019	-0.020	-0.022
	(-0.309)	(-0.222)	(-0.259)
CEODUAL	-0.035	0.058	-0.099
	(-0.692)	(0.643)	(-1.639)
PREMCOMM	0.030	0.188	-0.125
	(0.192)	(0.755)	(-0.590)
REMCOMMINDP	-0.065	-0.233	0.111
	(-0.412)	(-0.963)	(0.522)
CEOREMCOMM	-0.067	-0.175*	0.030
	(-1.092)	(-1.790)	(0.373)
CHREMCOMM	0.023	0.045	0.010
	(0.631)	(0.650)	(0.247)
OWNCON	0.001**	0.001	0.001*
	(1.961)	(0.817)	(1.909)
LEV	0.023***	0.007	0.021***
	(3.166)	(0.127)	(3.087)
PBVAL	0.002	0.002	0.001
	(1.260)	(0.717)	(0.783)
TASSETS	0.025***	0.042***	0.014
	(3.155)	(2.847)	(1.485)
CONSTANT	-0.125	-0.370	0.039
	(-0.898)	(-1.469)	(0.243)
Industry fixed effects	Included	Included	Included
Year fixed effects	Included	Included	Included
N	9513	4285	5228
ADJ R2	0.014	0.007	0.013

The relationship between board size (BSIZE) and pay is dramatically inverse in nature. The correlation between pay and board size was -0.041, a t-statistic of -3.027, and a p-value of less than 0.01, before two-strike rule. The correlation decreased to -0.020, a t-statistic of -2.190, and a p-value of less than 0.05, after two-strike rule. This shows that there is a stronger correlation of large boards and low-paid CEOs, possibly due to stronger governance control and scrutiny. The determining role of CEO tenure (CEOTEN) also follows. The correlation between CEO tenure was -0.026 when there was no two-strike rule, and it decreased to -0.016 when there was a rule in place. This shows that CEOs of higher tenures are less sensitive to shareholder wealth effects, indicating a probable loss of congruence of CEO interests and shareholder goals over time. This result can be a reflection of a decreasing incentive of CEOs to be interested in performance, in particular, when their tenure is higher.

5.3.3 The Interaction Model for the Pay Performance Pensitivity and Elasticity before and after the Introduction of the 'Two-Strikes' Rule

Table 6 also shows more evidence of the adverse impact of the "two-strikes" rule on Australian CEOs' pay-performance sensitivity to shareholder wealth. The interaction coefficients between SHWEACH and 2STRIKES, and between LNSHWEACH and 2STRIKES, produce highly significant negatively signed coefficients. The negatively signed coefficient of SHWEACH * 2STRIKES shows that for every $1,000 of shareholder wealth, Australian CEOs lost approximately $12 in their pay. This shows that introduction of the "two-strikes" rule brought in a decline in pay-performance sensitivity. Similarly, highly significant negatively signed coefficient of LNSHWEACH * 2STRIKES shows that for every 10% improvement in shareholder wealth, CEO pay fell by approximately 0.78%. This is also in favor of our hypothesis (H1) that the "two-strikes" regulation harmed the pay-performance sensitivity, in line with our trend in our analysis in total. The results confirm that introduction of the regulation brought in a decline in the way in which CEO pay is related to company performance, discouraging the usual incentive for CEOs to link their pay to shareholder value.

Table 6: Pay-Performance Sensitivity and Elasticity for the Interaction Model

	(1)	(2)
	CEOPAYCH	**LNCEOPAYCH**
SHWEACH	43.641*** (11.223)	
LNSHWEACH		0.186** (2.298)
2STRIKES	-68147.274 (-0.691)	-0.056 (-0.861)
SHWEACH*2STRIKES	-12.486*** (-11.354)	
LNSHWEACH*2STRIKES		-0.078* (-1.815)
CEOTEN	-5661.222 (-1.047)	-0.018*** (-4.929)
BSIZE	1977.821 (0.171)	-0.029*** (-3.787)
BINDP	63285.366 (0.693)	-0.019 (-0.319)
CEODUAL	-25911.778 (-0.338)	-0.035 (-0.691)
PREMCOMM	228089.913 (0.955)	0.026 (0.164)
REMCOMMINDP	-280321.065 (-1.187)	-0.060 (-0.381)
CEOREMCOMM	-97237.404 (-1.049)	-0.067 (-1.092)
CHREMCOMM	-16843.467 (-0.306)	0.023 (0.626)
OWNCON	2494.296*** (2.679)	0.001** (1.985)
LEV	13959.559 (1.294)	0.023*** (3.131)
PBVAL	1810.354 (0.995)	0.002 (1.245)
TASSETS	26154.270** (2.170)	0.025*** (3.160)
CONSTANT	-511835.797** (-2.436)	-0.126 (-0.903)
Industry fixed effects	Included	Included
Year fixed effects	Included	Included
N	9513	9513
ADJ R2	0.038	0.014

The "two-strikes" rule in Australia is a challenging dynamic for companies in that potential removal of directors in response to shareholder disaffection (over 25% for two consecutive years) can result in low CEOs' pay even when shareholder wealth is increasing. This is a struggle between regulation conformity and optimal pay arrangements that are performance-based, referencing challenges that occur in managing companies. Larcker et al. (2011) posit that such regulation mechanisms can produce suboptimal pay arrangements in a manner that is unintentional, something that is costly to shareholder value in return. Similarly, Murphy (2013) notes that even though regulation of CEOs' pay is done to control pay extravagance, such mechanisms can produce new challenges such as higher agency costs and financial burden that was never in the initial aim. The findings of this work support interference hypothesis proposed by Cai and Walkling (2011) and Grosse et al. (2017), noting that regulation mechanisms such as Say-on-Pay (SoP) can dilute power of the board, hence resulting in arrangements that benefit neither executives nor shareholders. Such a trend is visible in the case of the "two-strikes" rule, in that regulation pressures to control CEO pay can produce unintentional effects, resulting in a disconnection between governance intent and organizational consequences.

The results in Table 6 imply that the 'two-strikes' rule along with the threat of removal of board members has put considerable pressure on Australian boards to exact harsh sanctions on their CEOs. This reflects the fine balancing act that boards are required to carry out between shareholder pressures and executive remuneration policies. The findings support the sentiments of Grosse et al. (2017) and Faghani and Gyapong (2019), which suggest the potential difference in shareholder expectations and governance practices in US and Australian markets. Australian shareholders appear to be interested in the quantum of executive pay and not in other important parameters like remuneration structures, pay-for-performance sensitivity, and overall executive compensation framework. This pattern persists even after controlling for a set of determining factors that include corporate governance practices, remuneration committee characteristics, financial performance measures, industry-based determinants, time period differences, and ownership structures. Effectively, the research echoes how regulatory pressure from the 'two-strikes' rule is likely to have shaped shareholder attitudes in Australia, with shareholders prioritizing total compensation as a first-order measure to the possible exclusion of other governance issues that might otherwise become more prominent in the executive remuneration decision-making.

The arguments of Bratton and Wachter (2010) are a dissenting opinion on the disadvantages of further empowering shareholders, specifically in the example of the "two-strikes" rule. Empowering shareholders might be a great idea at first, but their argument is that it would lead to expensive agency costs and even worsen managerial conduct. This heightened shareholder control in this instance can encourage managers to put top priority on short-run share price fluctuations to satisfy shareholders, possibly at the expense of long-term shareholder value. This will prompt the implementation of strategies for short-run profit maximization, i.e., aggressive financial activities, at the expense of the firm's long-term growth opportunity. The "two-strikes" rule, by providing shareholders with the power to force board changes, can serve to compound these problems. The possibility of a "strike" can lead executives to make decisions that are increasingly aimed at placating shareholders in the short term, as opposed to following strategies enabling long-term firm performance and growth. In addition, the risk of board instability from the rule can create an opportunity for minority shareholders to take advantage of the situation to their own benefit, rendering governance even more complex. Jensen and Murphy (1990a) also highlight the need for executive compensation design, as opposed to the level of compensation. In response to regulatory pressure from the two-strikes rule, cutting CEO compensation can inadvertently create substandard compensation schemes. Such steps, while intended to placate shareholders, can undermine the fundamental objective of executive compensation: attracting, motivating, and retaining capable executives. When compensation arrangements become decoupled from the firm's long-term strategic imperatives, it grows ever harder to align the interests of the management with the best interests of shareholders.

6- Conclusion

The transition from the advisory vote under CLERP 9 to Australia's two-strike rule necessitates a thorough policy inquiry: What implications has this change had on the adaptability and responsiveness of CEO compensation in relation to company performance? Our research reveals that, after the implementation of the two-strike rule, the pay-performance dynamics in Australian firms exhibit troubling patterns. Empirical investigations revealed a significant negative correlation. Our findings illustrate that CEOs in Australian corporations experience a reduction in compensation amounting to approximately $12 for every $1,000 increase in shareholder value. Furthermore, there is a noticeable decrease in the pay-performance elasticity, with executive wealth declining by 0.78% for every 10% increase in shareholder wealth. We interpret these results as indicative of the two-strike rule forcing boards to penalize CEOs for positive performance to prevent potential strikes, thereby placing minority shareholders who lack expertise in determining the appropriate compensation practices.

The findings indicate that restricting compensation in advance to prevent strikes and address shareholder concerns may not be the most effective strategy. This approach could lead to suboptimal contractual decisions and, ultimately, decrease shareholder value. It is crucial to establish a balanced relationship among board authority, shareholder influence, managerial autonomy, and free market dynamics. An imbalance in any of these elements can result in a decline in shareholder wealth. The transition from non-binding Say-on-Pay (SOP) votes to the' two-strikes' rule may lead to unintended negative consequences and raise questions about the effectiveness of its mechanisms in aligning management's interests with those of shareholders. It would be wise for Australian regulators to re-evaluate the consequences of the strike provision and consider measures that would allow for the removal of the remuneration committee while maintaining the integrity of the board of directors.

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