Director Remuneration and Performance in Malaysia Family Firms: An Expropriation Matter?

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This study examines the relationship between director remuneration and performance in Malaysia family firms. The proxies of director remuneration include fees, salary, bonuses, and benefits of kin. The proxy for family firm is a dummy variable that is one (1) if the firm is a family firm and zero (0) is a non-family firm. The dependent variable (performancez) is measured by ROA and ROE. A panel analysis of 537 firms from 2007 and 2009 finds that the relationship between director remuneration and performance is significantly positive. This suggests that the remuneration driven board motivation to enhance performance. Furthermore, this study does not find evidence the family firm manipulated a power and control for personal wealth.

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1. Introduction

Implementation of corporate governance provides better insight for better achievement. Component of corporate governance such as board composition, board of director, audit committee, remuneration become a subject for many scholars (Christopher & Hassan 2005; Durisin & Puzone 2009; Filatotchev 2009). Demb and Neubauer (1992) explain the frame of corporate governance as the responsibility for firm performance. These components need to be integrated and matched with firm strategies towards enhancing performance. For example, under the component board structure context, board composition (Dalton et al. 1998), board size (Jensen 1993) and meetings are required to review and establish effectiveness during implementation. Similar to the remuneration structure involved with a remuneration committee (Hussin & Salim 2009), the level of remuneration (Abdul Wahab & Abdul Rahman 2009) and structure of the remuneration (Mehran 1995) need to be looked as a whole package, not as individual components. Such a holistic approach can positively improve governance practice.

General task of board of director run a business and provide advises to management related to the executive remuneration and protect shareholder investment. Better remuneration is able to driven board of director motivation to fulfil firm objectives. Existing literature examine the executive remuneration impact to the firm performance (Barkema & Gomez-Mejia 1998; Bartholomeusz & Tanewski 2006; Cheng & Firth 2006; Croci et al. 2010). Fama & Jensen (1983) explain that the

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effective incentives provided to executive tend to mitigate agency problem and enhance firm performance which is similar study by Lazear (2000) and Murphy (1999). Furthermore, Hassan et al. (2003) study in Malaysia firms pre- and during Asian financial crisis (i.e. 1996 to 1998) find that weak relation between director remuneration and performance though is positive. However, the remuneration is less effective to enhance firm performance when applied in family firm because conflict of interest exists between majority and minority shareholder.

La Porta et al. (1999) notices that most companies in the world are dominated by family or state, and this is a common practice in Asian countries (Claessens et al. 1999; Tam & Tan 2007). A study by Claessens et al. (1999) indicates that 67.2% of companies in Malaysia are in family hands, followed by Thailand with 61.6% and the Philippines with 40%. Indonesia has a higher rate of family ownership of public companies, around 68.8%. Thus, this provides opportunity for family members at family firms tend to keep the top positions. Moores & Craig (2008), family firms prefer to keep top management in the hands of family members rather than hiring qualified outsiders. This shows that the possibly executive family be awarded higher remuneration without links on performance and abilities. As a result, family firm perform worse than non family firm (Anderson & Reeb 2003; Miller & Le Breton-Miller 2006; Villalonga & Amit 2006). Implication of this notion contribute seriously on agency problem among majority shareholders and minority shareholders (Jiang & Peng 2010; Young et al. 2008). Remuneration becomes a subject of expropriation in family firm due to unable to enhance firm performance rather than increase personal benefit.

Based on the sample size of this study of 537 firms listed in Bursa Malaysia with 1611 pieces of panel data from 2007 and 2009, we find a significantly find the relationship between director remuneration and performance. Further analysis find no evidence family firm uses power and control to reduce effectiveness of remuneration to increase firm performance.

The remaining chapters are organized as follows: Chapter 2 outlines the relevant literature while developing fully the ideas in past research that are most important to the present study. The research design issues and methodology are explored in Chapter 3. Details of the final sample and the measurement of variables are also discussed in this chapter. The results and discussion are presented in Chapter 4. Chapter 5 sets out the study's conclusions, limitations, and some suggestions for further research.

2. Literature Review

Implementation of corporate governance is very important in business world in provides transparent and valuable of information for shareholder related to investment decision making. There is component of corporate governance consists of board composition, board of director, audit committee and remuneration which is possibly beneficial for firm and shareholder. Accordingly to Demb & Neubauer (1992) notice the frame of corporate governance as the responsibility for firm performance. This indicates that each element of corporate governances has possibility to align similar interest between manager and shareholder to fulfilling firm objectives.

The literature generally suggests better remuneration should links with the business strategy and objectives of company. The relationship between remuneration and performance has been discussed widely among researchers (Barkema & Gomez-Mejia 1998; Bartholomeusz & Tanewski 2006; Cheng & Firth 2006; Croci et al. 2010). Fama and Jensen (1983) explain that effective incentives provided to executives tend to mitigate the agency problem and enhance firm performance, as shown by (Lazear 2000; Murphy 1999). Furthermore, the study of Hassan et al. (2003) on Malaysia firms before and during the Asian financial crisis (i.e., 1996 to 1998) finds a weak relation between director remuneration and performance, though it is positive.

Remuneration need to be better in order to retain and remaining quality of board because they have capability to achieve long term success. Regarding of this, board of director is awarded with better remuneration when firm satisfied with abilities such as skills, knowledge and experience. Accepted remuneration as a contract put responsibility towards board to work harder with great strategies and planning. As a result, business is operated smooth and well which is possibly enhance performance. Doucouliagos et al. (2007) finds no evidence that director remuneration is sensitive towards poor performance rather than better performance. Conyon and Murphy (2000) study on UK and US companies find evidence on pay and performance.

Board is motivated to keep performance improved when the pay is equivalent with their effort. Thus, they will try to provide a creative way and ideas in order to keep long term success. They also willing to spend all day and extra work in order to ensure the firm are on track to achieve better performance. For example, study conducted by Paarsch and Shearer (2000) on the British Columbia tree-planting industry indicates that incentives increased productivity by almost 173 trees per day, about of 22.6%. They also find that the workers were willing to undertake extra work due to the incentive's being based on productivity. In contrast, under a fixed salary system, the worker contribution is at a minimum level compared with incentive schemes under which workers maximize effort, thus increasing productivity (Paarsch & Shearer 2000). Chen et al (2006) explain that the poor incentives to top manager are able to put forward for firm poor performance.

Previous studies show mixed results related to relationship between remuneration and performance. Dogan & Smyth (2002) study in public listed companies in Malaysia found that no relationship between board of director and firm performance. In other hand, other study found that the relationship between remuneration and performance is negative significant (Croci et al. 2010). They also found that CEO compensation in family firm is negatively related to performance. However, study by Doucouliagos et al. (2007) found that the relationship between CEO compensation and performance is positively significant. Discussion stated at above show that the relationship between remuneration and performance is still open for discussion regarding to the agency theory perspective.

Lazear (2000) notice that provides a financial incentives is effect to the firm performance. However, the remuneration is less effective to motive board of director to increase firm performance when applied to family ownership. Other perspectives argue that the family firm is very unique because family members dominated in top positions (i.e. CEO, Chairman, Board of director) and major shareholders provides widely opportunity for expropriation (Anderson & Reeb 2003; Claessens & Fan 2002; Jiang & Peng 2010; La Porta et al. 1999). They are paid large amounts of money but

less capability to increase performance because are not appointed based truly on their abilities rather than on family ties. Furthermore, family groups prefer to hire unqualified family members, friends, or cronies than to look for better-qualified candidates (Faccio et al. 2001; Moores & Craig 2008). This probably makes it easier to extract profits even if a firm is underperforming. According to Brick et al. (2006), in U.S. firms, higher remuneration to executives is linked to underperformance because of cronyism. Cronyism is a sensitive issue in family firms due to the blood relationships.

The positive relationship between family ownership and director remuneration may be due to the altruism issue, when the parents' estate and share transfer intention moderates the effect of these pay incentives (Schulze et al. 2003). Parents believe that they are responsible for bringing wealth to family members and use emotion in setting remuneration, which is influenced by the perception of the competence of the executive (Moores & Craig 2008). Another reason is family members have a right to take a portion of the profits for their personal interest without getting permission from other shareholders because the firm is belong to them because they are founder of the firm.

There is mixed results show related to family ownership and remuneration. Chen & Lee (2008) notice that the family executive willing to accept lower remuneration to maintain a firm reputation. Cheung et al (2005) study in Hong Kong public listed companies found negative relationship between family ownership and remuneration. Another finding show that family executive receives lower remuneration compare with their counterpart (Gomez-Mejia et al. 2003). Contradicted results show that there is positive relation between family ownership and remuneration, for example Haid & Yurtoghu (2006) found that family firm pay higher remuneration for their CEO rather than non family firm. Basu et al. (2007) found that Japanese executive receive higher remuneration in firm with higher ownership.

Family member has advantages to be awarded higher remuneration although they are fewer capabilities to enhance performance. They are appointed related to the families' ties rather than performance and abilities criteria. Implication of this notion is firm facing difficulty on financial matter and may be influence business operation. Past studies show that there is negative relationship between family ownership and firm performance (Basu et al. 2007; Brick et al. 2006). According to Hill (1996) explains that the higher remuneration less links to performance potentially can be damaging the corporate, shareholder, creditor and worker morale. Basu et al. (2007) finds that the higher ownership and monitoring is negative relation with performance and consistent with the agency theory prediction that the majority shareholder focuses on personal benefit than maximization profit.

There is mixed results show related to family ownership and performance, for example Abe et al (2005) study in Japan found that the pay performance is positive related to non-keiretsu firms. In Korea context, positive relationship between pay and performance related to non Chaebol firms (Kato et al. 2007). Furthermore, Maury (2006) notice that the active family executive can improve the firm profitability. In other hand, study by Croci et al (2010) found that CEO compensation in family firm is negatively related to performance. Discussion stated at above show that the relationship between family ownership and performance still open for discussion related to the agency theory perspective.

Discussion stated above look the separately relationship between remuneration, family firm and performance. This indicates that there is less study focus on expropriation issues related to director remuneration and performance in family firm in Malaysia context. We expect that the family firm manipulated a power and control to reward higher remuneration but less perform. Thus, the following hypotheses:

H1: *There is weaker relationship between director remuneration and firm performance in family firm*

Many studies test hypothesis regarding to remuneration and family firm (Basu et al. 2007; Haid & Yurtoglu 2006) and performance and family firm (Abe et al. 2005; Maury 2006) and there are mixed results presented. However, there is less studies focus on relationship between director remuneration and performance in Malaysia family firm. The higher remuneration awarded to family executives without go along with better performance, shows the possibly expropriation is practices in family firm.

3. Research Methodology

3.1 Sample and Model

The sample comprises balanced data for 537 firms and 1611 firm-year observations from Malaysian companies over a three-year period between 2007 and 2009. The 2007-2009 periods was chosen because disclosure, as required under the *Malaysia Code of Corporate Governance* (MCCG), was made effective for annual reports after June 2001 that details the activities of the executive pay structure, and the level of remuneration. The company data obtained from Bursa Malaysia included information on 762 family firms and 849 non-family firms.

This study includes only cash-based remuneration for the sample period. Although the disclosure of director remuneration in Malaysia has significantly improved since the implementation of MCCG, the remuneration information is not available in electronic form and, thus, must be manually collected from annual reports. The annual reports are available from Bursa Malaysia (www.bursamalaysia.com).

The data will be extracted from Bursa Malaysia[i] website link to the company. The reason is many companies interested to listing on Bursa Malaysia[ii] are because: a) simple and clear requirements for listings, b) effective cost listing destination and c) transparent and fully automated marketplace. From these sources, data is obtained from companies' annual reports 2009 period. The 2009 periods has been chosen because disclosure, as required under the *Malaysia Code of Corporate Governance* (MCCG), is made effective for annual reports after June 2001 which detail out the activities of remuneration committee, executive pay structure and level of remuneration.

This model relates remuneration variables to firm performance with aim of identifying expropriation in family owned companies. The remuneration variables are director, executive and non executive remuneration (Abdul Wahab & Abdul Rahman 2009). Previous research shows that the firm performance (proxies by ROA and ROE) is related to size, age, debt and incorporate which is need to be control (Anderson & Reeb 2003; Carrasco-Hernandez & Sanchez-Marin 2007; Chalmers et al. 2006;

Martinez et al. 2007; Maury 2006). This study use linear regression to test hypotheses and following regression analysis with econometric model:

Equation (1) describes the model used to test the relationship between performance and director remuneration, family ownership and control variables.

$$PERM = \beta_0 + \beta_1 REM_{it} + \beta_2 FAM\_FIRM_{it} + (\beta_3 REM_{it} * FAM\_FAM) + \beta_4 SIZE_{it} + {}_5 DEBT_{it} + \beta_6 AGE_{it} + \beta_7 IND_{it} + \epsilon_{it} \dots\dots\dots\dots\dots(1)$$

3.2 Dependent Variable

The performance is dependent variable proxies by accounting-based measures such as Return on Assets (ROA) is measured as the ratio of net income to total assets and Return on Equity (ROE) is measured as the ratio of net income to total equity. The interesting fact is that the ROA and ROE are the profitability ratios in accounting statements which reflect the shareholders' wealth. Furthermore, ROA is the best measures for current performance (Cornett et al. 2007) whereas ROE is better measures of executives' ability.   Kiel and Nicholson (2003, p.196) explain:

> *"accounting-based (ROA and ROE) measures of performance are historical and so experience a more backward and inward looking focus, including the past successes of advice given from the board to the management team and are the traditional mainstay of corporate performance measures".*

Kaplan (1994) finds that there is positive relationship between remuneration and performance and closely tied with executive remuneration (Bushman & Smith 2001). This past studies strongly affirms suggestion by Cadbury (1992) remuneration links to performance as a factor determination on director remuneration. These measures are determined whether by providing remuneration is associated with fulfil firm objective or otherwise. For example, if the result show the remuneration is associate with performance the firm objective is achieve and if not other way round. Following by positive relationship links to the ability of the firm to pay out dividend.

Data was obtained via annual report under section financial report sub section profit and loss account and balance sheet and be formulated. When information is related to the data is confuse or unclear further step is look into note to the account which is explain further detail. Furthermore, all annual report was provided to Bursa Malaysia disclosure into 2 years include current year and previously so that the data can be extracted at the same time.

3.3 Independent Variables

3.3.1 Director Remuneration

Total cash based director remuneration (DIRREM) which is independent variable is consists of executive and non executive remunerations. The proxy for cash basic is consists of fees, salary, bonus and benefit of kin. This measure which is applied in this has been widely used in prior research (i.e. Abdul Wahab & Abdul Rahman 2009; Basu et al. 2007; Jensen & Murphy 1990; Ozkan 2007). Cash remuneration becomes popular as a incentive, because directors is closest to the maximum profit (Bushman & Smith 2001). Furthermore, Dong & Ozkan et al (2008) in their study

notice that almost 70% of CEO remuneration in UK companies consists of cash pay. Similar study by Murphy (1985) in US companies where salary and bonus a major component of the executive remuneration which is constitute 80%. The executive and non executive remuneration are consists of salary, fees and allowances, benefits and bonus. All remuneration variables are based on logarithm transformations, where statistical relationship could be weaken related to skewed distribution and lead heterosdasticity (Tabachnick & Fidell 2007).

Director remuneration data was obtains from annual report in Bursa Malaysia form as the level of remuneration and structure of executive and non executive in cash remuneration. The annual report was disclosure in form as salary, bonus, benefit of kin and fees for each categorize whether executive of director or non executive director. If the cash remuneration is disclosure as an aggregate without segregate each components, the data is not be taken due to difficulty to identify the level of remuneration. Similarly when the total remuneration fail to fall within executives categories, the samples are not be taken due to difficulty to identify the total remuneration earn by family members or otherwise

3.3.2 Family Firm

To capture the effect of family firm this study includes FAM_FIRM; a dummy variable that is one (1) if the firm is family firm and zero (0) otherwise. Second measure is family member (FAM_MEM) who is board of director. The first measure which is applied in this has been widely used in prior research (i.e. Anderson & Reeb 2003; Gomez-Mejia et al. 2003; Maury 2006). Furthermore, this study include an interaction variable (REM*FAM_FIRM) to capture the moderating effect of director remuneration involvement in family firm on performance. Firms are identified as family-owned if the board of director has a blood relationship with the largest ultimate shareholder and at the same time holds direct or indirect voting rights exceeding 20%.[iii]

To calculate this fraction (i.e. direct and indirect shareholding) the information was provided in annual report under shareholdings statistic – list of thirty (30) largest shareholders. The information is stack from the largest shareholding to less including firms or individual then determinate family member those who are holding more than 5 per cent categorize as family firm. Saleh et al (2009) explain that the percentage of ownership is used to links with degree of family involvement in the firm which is tends to influence remuneration and performance.

3.4 Control Variables

For the purpose of this study, industry and firm characteristics (variables) are controlled, which includes firm size, industry, debt and firm age. Firm size is measured by the natural log of the book value of total assets which similar with prior studies (i.e. Anderson & Reeb 2003; Chalmers et al. 2006; Maury 2006; Mehran 1995). Accordingly to Anderson & Reeb (2003) investigate the relation between founding-family ownership and firm performance by using data from the S&P 500 and control the firm size which is measures by the natural log of the book value of total assets. Consistent study by Chalmers et al (2006) measure the firm size by the natural logarithm of firm`s assets on their study related to the factors of determination CEO compensation.

The firm age need to be control due to significant impact to this research. Firm age is measure base on Initial Public Offer (IPO). Public listed companies will announce IPO for public after incorporate to increase capital. Firm age is measured by the different year of Initial Public Offer (IPO) which is the first sale of stock by company to public and the current year. Relation of this, shows that the firm is considered run the business after gain the capital via IPO.

Next, variable to be control is industry which is measured by dummy variables that differentiate between industrial sectors; "1" is for the consumer products sector; trading/service sector; construction; plantations/mining; and "0" if others such as banking, finance and insurance which are not included in this study and already discuss previously. The researchers (Carrasco-Hernandez & Sanchez-Marin 2007; Martinez et al. 2007) control this variable in their study investigates characterize employee compensation in family firms by using dummy variable between industrial, consumer, trading/service, construction, properties, plantation and mining (1) and otherwise (0).

Financial problem is significant to reduce director remuneration compared with strong financial. This shows that to control debt variable is necessity in many studies (Anderson & Reeb 2003; Cheung et al. 2005; Martinez et al. 2007). Debt variable is measure by capital structure dividing long-term debt by total assets (Anderson & Reeb 2003). Cheung et al (2005) investigates the concentration of ownership and executive compensation, sample 412 from Hong Kong firms during 1995 to 1998 by control debt variables where a measure is long-term debt divided by total assets.

Data of firm size and debts were extracted from annual report under section financial balance sheet and profit and loss account. Furthermore, information links to industry where the data was extracted from Bursa Malaysia under section listed companies sub section annual reports disclosure with few icons such as by financial year, by date, by company, by board and by sector. For this research, types of industries were obtained under icon sector such as construction, plantations mining, finance and others. Furthermore, age of incorporate obtained from annual report under section Initial Public Offer (IPO). Under this section the information directly mentions the current, historical and archives, also under sub section highlight by date and by company.

4. Results and Discussion

4.1 Descriptive Statistic and Correlation Matrix

Panel A of Table 4.1 exhibits the descriptive statistics related to director remunerations. Total director remuneration averages RM2.120 million, with a maximum of RM70.347 million. Further, the mean (median) for executive remuneration and non executive remuneration is RM1.854 (RM1.135) million and RM 265,000 (RM160,000) respectively. In addition, components of executive remuneration are consists of fees and allowance, salary, bonus and benefit of kin averages RM91,000, RM1.359 million, RM219,000 and RM184,000 respectively. Furthermore, components of non executive remuneration are consists of fees and allowance, salary, bonus and benefit of kin averages RM185,000, RM51,000, RM11,000 and RM17,000 respectively. The descriptive findings suggest the obvious

that firms allocate more remuneration for executive remuneration rather than non executive remuneration.

Panel C of Table 4.1 reports the descriptive statistics for the performance components. Return on Assets indicate mean (median) is 0.030 (0.037), with maximum is 1.426. Furthermore, mean (median) of Return on Equity is 0.044 (0.061), with maximum 3.004. Panel D of Table 4.1 presents the firm characteristic results. Average of firm size is RM19.542 million, with maximum RM24.496 million. Others firm characteristic are debt which mean (median) is RM140,000 (RM85,000), with maximum RM3.897 million. Furthermore, mean (median) of firm age is 13 (12) years, with maximum 48 years respectively.

Table 6.2 presents the Pearson correlations for the test variables. Executive remuneration (EXECREM) and non-executive remuneration (NEDREM) were positively and significantly correlated with director remuneration (DIRREM) with significance levels at 0.01. (r = 0.996 and r = 0.277, respectively). Furthermore, ROA and ROE were both positively and significantly related to director remuneration (r = 0.101, $p < 0.01$; r = 0.100, $p < 0.01$). ROA and ROE were also positively and significantly correlated to executive remuneration (r = 0.095, $p = 0.05$; r = 0.095, $p < 0.01$), providing support to our hypothesis, director remuneration is motivated director to achieve better performance.

Table 6.2 exhibits the Pearson correlation related to family firm ownership. The results showed that director remuneration and executive remuneration were not correlated with family firm ownership. However, non-executive remuneration was negatively and significantly related to family firm ownership (r = -0.103, $p < 0.01$). Similarly director remuneration and executive remuneration were not correlated with direct shareholding and indirect shareholding by family members, but non-executive remuneration was negatively and significantly correlated to direct and indirect shareholding (r = -0.108, $p < 0.01$; r = -0.061, $p < 0.05$). Furthermore, director and executive remuneration were positively and significantly correlated to number of family members in family firm (r = 0.060, $p < 0.05$; r = 0.067, $p < 0.01$). In contrast, the correlation between non-executive remuneration and family members was negative and significant (r = -0.063, $p < 0.05$). Family members and indirect shareholding had a positive and significant correlation with ROA (r = 0.071, $p = 0.05$; r = 0.084, $p < 0.01$). Similarly, family firm was positive correlated related to ROA (r = 0.062, $p < 0.05$) and indirect shareholding was positively correlated with ROE (r = 0.050, $p < 0.05$).

Table 4.1: Descriptive Statistic

	Mean	Median	Standard Deviation	Minimum	Maximum
Panel A:Director Remuneration					
DIRREM (million)	2.120	1.385	4.059	0.045	70.347
EXECREM (million)	1.854	1.135	3.971	0.000	69.621
EXECFEES (million)	0.091	0.024	0.213	0.000	2.130
EXECSAL (million)	1.359	0.897	3.373	0.000	68.851
EXECBON (million)	0.219	0.000	1.170	0.000	32.111
EXECBEN (million)	0.184	0.039	1.072	0.000	38.165
NEDREM (million)	0.265	0.160	0.381	0.000	5.035
NEDFEES (million)	0.185	0.134	0.196	0.000	2.074
NEDSAL (million)	0.051	0.000	0.211	0.000	3.588
NEDBON (million)	0.011	0.000	0.078	0.000	1.466
NEDBEN (million)	0.017	0.000	0.114	0.000	3.423
Panel B: Family Firm					
FAM_MEM	1.450	0.000	1.703	0.000	6.000
DIR_SHARES	6.787	0.000	13.402	0.000	66.400
INDIR_SHARES	14.445	0.000	20.864	0.000	84.250
Panel C: Performance					
ROA	0.030	0.037	0.122	--1.139	1.426
ROE	0.044	0.061	0.305	-4.085	3.004
Panel D: Control Variables					
SIZE	19.542	19.417	1.317	11.755	24.496
DEBT	0.140	0.085	0.203	0.000	3.897
AGE	13.83	12.000	10.824	0.000	48.000

Notes: EXECREM and NEDREM are executive and non-executive director remuneration respectively, DIRREM is the total director remuneration respectively. EXECFEES, EXECSAL, EXECBON AND EXECBEN are executive director fees and allowances, salary, bonus and benefit of kin.. NEDFES, NEDSAL, NEDBON AND NEDBEN are non-executive director fees and allowances, salary, bonus and benefit of kin respectively. FAM_MEM is family member as in board of director. DIR_SHARES and INDIR_SHARES are direct and indirect shareholding in family firm ROA is the net income divided by total assets. ROE is the net income divided by total equity. DEBT is the long term debt over total assets. SIZE is logarithm of total assets and AGE is number of year since incorporate.

Table 4.2: Correlation Matrix

Pearson (in shaded area) correlations are reported in the table: EXECREM and NEDREM are executive and non-executive director remuneration; DIRREM is the total director remuneration respectively. FAM_MEM is family member as in board of director. FAM_FIRM is a dummy with 1= family firm and 0= non family firm. DIR_SHARES and INDIR_SHARES are direct and indirect shareholding in family firm. ASSETS total assets. ROA is the net income divided by total assets. ROE is the net income divided by total equity. Debt is the long term debt over total assets. SIZE is logarithm of total assets and AGE is number of year since incorporate. * and ** denote significance at the 5% and 1% level respectively.

	DIRREM	EXECREM	NEDREM	FAM_MEM	FAM_FIRMS	DIR_SHARES	INDIR_SHARES	ROA	ROE	SIZE	DEBT	AGE	IND
DIRREM													
EXECREM	.996**												
NEDREM	.277**	.187**											
FAM_MEM	.060*	.067**	-.063*										
FAM_FIRMS	.020	.030	-.103**	.896**									
DIR_SHARES	-.039	-.029	-.108**	.461**	.532**								
INDIR_SHARES	.041	.047	-.061*	.719**	.727**	.140**							
ROA	.101**	.095**	.089**	.071**	.062*	.015	.084**						
ROE	.100**	.095**	.076**	.022	.010	-.027	.050*	.640**					
SIZE	.357**	.334**	.315**	.003	-.033	-.124**	.054*	.187**	.158**				
DEBT	.067**	.065**	.029	-.065**	-.084**	-.041	-.075**	-.037	-.034	.108**			
AGE	-.005	-.003	-.028	-.016	-.039	.054*	.005	.014	-.002	.038	-.026		
IND	-.008	.004	-.120**	.076**	.076**	.079**	.091**	.021	-.005	-.069**	.015	-.010	

4.2 Multivariate Analysis

Table 4.3 exhibits univariate analysis for the test variables between family firm and non family firm. Panel A of Table 6.3 reports that director remuneration is higher in family firm (RM2.206 million) than non family firm (RM2.042 million). The univariate test provided initial support for a positive relationship between family firm and director remuneration. The results present that fees and bonus of family executive are higher (RM112,000 and RM301,000) compare with non family firm, (RM72,000 and RM144,000). The measures of director remuneration higher in family firm providing initial support of existing family members influencing on board remuneration. Following results exhibit that remuneration and fees for non executive are higher (RM303,000 and RM221,000) in non family firm than family firm (RM224,000 and RM145,000), suggesting non executive better pay is more prevalent in relation to non family firm.

The result present that performance measure by Return on Asset is better in family firm (0.038) than non family firm (0.023). Furthermore, a relationship between size of firm and family firm is significant with $p < 0.05$. The results also indicate that Debt is higher (RM156,000) in non family firm rather than family firm (RM122,000) but insignificant of age of incorporation.

Table 4.4 present extended results on relationship between remuneration and firm performance. Table 4.4 exhibit the results of regression related to explanatory variables determination of firm performance. This study find that the coefficient of DIRREM on column 1 positive and significantly (0.021; $t = 5.719$ and $p < 0.05$) related to ROA. Similar results shows on column 5, the relationship between DIRREM and ROE is positive and significantly (0.043; $t = 4.744$ and $p < 0.05$). Furthermore, regression on column 2 shows that EXECREM is positive and significantly (0.015; t = 4.887 and p < 0.05) related to ROA. Evidence shows that regression on column 5 is significant positive (0.032; $t = 4.279$ and $p < 0.05$) between EXECREM and ROE. Other component of director remuneration is non executive remuneration which is positive and significant related to ROA and ROE. This study finds that NEDREM has influence on firm performance. Result of regression on table 4.4 show that relationship between NEDREM and ROA is positive and significantly (0.014; $t = 3.958$ and $p < 0.05$). Furthermore, column 6 shows that NEDREM is positive and significantly (0.022; $t = 2.533$ and $p < 0.05$) related to ROE.

This study finds evidence that the director remuneration is significant positive on performance. Further study also shows evidence that executive and non executive remuneration are significant influences on firm performance. This providing support our hypothesis that director remuneration influences performances, consistent with agency theory (Fama 1980; Jensen & Meckling 1976). Further analysis suggest that the nature of firm providing better remuneration and motivate director to work harder and tries to find creative ways to enhance performance. Therefore, they tend to use their skills, expertise and experience during carry on business operation. Doucouliagos et al. (2007) find no evidence that director remuneration is sensitive towards poor performance rather than better performance. Our study suggests that executive in public listed firms pay attention in order to enhance firm performance when they are satisfaction with remuneration. Previous study shows that there is a

weak positive relationship between director remuneration and performance in Malaysian firms before and during the Asian Financial Crisis (i.e., 1996 to 1998) (Hassan et al. 2003).

Table 4.3: Univariate Analysis of Differences Variables between Family Firm and Non Family Firm in Malaysia Public Listed

	(n=762) Family Firm = 1 Mean	(n=849) Non Family Firm = 0 Mean	*t* – Test *p* - Value	Mann Whitney *p* - Value
Panel A:Director Remuneration				
DIRREM (million)	2.206	2.042	0.421	**0.000**
EXECREM (million)	1.981	1.739	0.223	**0.000**
EXECFESS (million)	0.112	0.072	**0.000**	**0.000**
EXECSAL (million)	1.361	1.435	0.976	**0.000**
EXECBON (million)	0.301	0.144	**0.010**	**0.000**
EXECBEN (million)	0.205	0.166	0.469	0.329
NEDREM (million)	0.224	0.303	**0.000**	**0.000**
NEDFEES (million)	0.145	0.221	**0.000**	**0.000**
NEDSAL (million)	0.051	0.051	0.952	0.665
NEDBON (million)	0.008	0.013	0.219	0.074
NEDBEN (million)	0.018	0.016	0.780	0.133
Panel B: Performance				
ROA	0.038	0.023	**0.011**	0.064
ROE	0.047	0.041	0.695	0.684
Panel C: Control Variables				
SIZE	19.496	19.583	0.186	**0.030**
DEBT	0.122	0.156	**0.001**	**0.001**
AGE	13.39	14.23	0.122	0.149
IND	0.95	0.91	**0.002**	**0.002**

Notes: Firms are formed based on family firm, whereby FAM_FIRMS takes the value of 1 for family firms and zero otherwise. EXECREM and NEDREM are executive and non-executive director remuneration; DIRREM is the total director remuneration respectively. EXECFEES, EXECSAL, EXECBON and EXECBEN are executive fees, salary, bonus and benefit of kind. NEDFEES, NEDSAL, NEDBON and NEDBEN are non executive director fees, salary, bonus and benefit of kind. IND is "1" is for the consumer products sector; trading/service sector; construction; plantations/mining; and "0" if others. Debt is the long term debt over total assets. SIZE is logarithm of total assets and AGE is number of year since incorporate. Significant p-values are bold

Table 4.4: Determination of Firm Performances by Remuneration

	ROA			ROE		
	1	2	3	4	5	6
DIRREM	0.21			0.043		
	5.719**			4.744**		
EXECREM		0.015			0.032	
		4.887**			4.279**	
NEDREM			0.014			0.022
			3.958**			2.533**
SIZE	0.012	0.014	0.013	0.024	0.028	0.030
	4.564**	5.582**	5.106**	3.808**	4.578**	4.617**
DEBT	-0.032	-0.033	-0.035	-0.071	-0.073	-0.077
	-2.184**	-2.230**	-2.362**	-1.934**	-1.967**	-2.089**
AGE	0.000	0.000	0.000	0.000	0.000	0.000
	0.295	0.252	0.366	-0.335	-0.369	-0.298
IND	0.018	0.017	0.020	0.009	0.007	0.013
	1.479	1.416	1.686	0.297	0.245	0.433
CONSTANT	-0.502	-0.455	-0.411	-1.035	-0.949	-0.810
	-9.182**	-8.672**	-8.170**	-7.538**	-7.222**	-6.418**
Adjusted R^2	0.056	0.051	0.046	0.038	0.036	0.029
F-statistic	20.045**	18.208**	16.497**	13.775**	12.911**	10.464**
Cross-sections	537	537	537	537	537	537
Total observation	1611	1611	1611	1611	1611	1611

*EXECREM and NEDREM are executive and non-executive director remuneration; DIRREM is the total director remuneration respectively. DEBT is the long term debt over total assets. SIZE is logarithm of total assets, AGE is number of year since incorporate and IND is types of industries. t – Statistics are italicised. ** denote 5 percent significant levels respectively.*

Table 4.5 indicates no evidence the interaction between DIRREM*FAM_FIRM influence on firm performance. Column 1 shows that the interaction between DIRREM*FAM_FIRM is positive and insignificant related to ROA. However, results of regression on column 2 exhibit that the interaction between DIRREM*FAM_FIRM is negative but insignificant links to ROE. This not providing support our hypothesis the introduction of family firm influences director remuneration and performance. Further analysis finds no evidence show that the family firm manipulated a power and control for personal interest. Family members are very happy with remuneration that is proposed, as recommended by MCCG, which recommends a strong link between remuneration and performance and abilities of board members.

Table 4.5: Regression Results of Performance by Interaction between Director Remuneration and Family Firm

	ROA (1)	ROE (2)
DIRREM	0.018	0.035
	*3.959**	*3.143**
FAM_FIRM	0.010	-0.007
	1.574	*-0.450*
DIRREM*FAM_FIRM	0.005	-0.021
	0.748	*-1.278*
SIZE	0.012	0.024
	*4.688**	*3.712**
DEBT	-0.031	-0.075
	*-2.082**	*-2.012**
AGE	0.000	0.000
	0.323	*-0.407*
IND	0.016	0.009
	1.331	*0.293*
CONSTANT	-0.471	-0.914
	*-7.048**	*-5.449**
Adjusted R^2	0.057	0.038
F-statistic	*14.777**	*10.093**
Cross-sections	537	537
Total observation	1611	1611

*Notes: DIRREM is the total director remuneration respectively. FAM_FIRM is a dummy with 1= family firm and 0= non family firm. ROA is the net income divided by total assets. ROE is the net income divided by total equity. DEBT is the long term debt over total assets. SIZE is logarithm of total assets, AGE is number of year since incorporate and IND is types of industries. t – Statistics are italicised. ** denote 5 percent significant levels respectively.*

5. Conclusion

This study examines the relationship between the remuneration committee and director remuneration in Malaysian family firms. In the sample of 537 firms listed in Bursa Malaysia with 1611 pieces of panel data from 2007 and 2009, we find evidence that board of director is motivate to work harder in order to enhance firm performance when they are satisfaction with remuneration. Our study suggests that remuneration provided to director in firm listed on Bursa Malaysia regarding on skills, experience and expertise which suggested by governance regulation and best practices by MCCG 2007 (revised). However, this study does not find evidence a relationship between director remuneration and performance influenced by family firm. Our study suggest that the nature of firm is when performance keep improved and beneficial is gain by family firm and there is no reason for expropriation in firms listed on Bursa Malaysia. Therefore, family members do not manipulate their positions of power on boards of directors and as majority shareholders to increase remuneration for personal benefit.

The limitation of the study is some data is less meaningful although presented because is not fulfill requirement of research methodology in this study. However, this uncollected data which is probability enable to generalize the results. Remuneration committee is responsibility on design remuneration for director should links to performance. Further research could be done to investigate the influence of the remuneration committee on the relationship between director remuneration and performance.

Endnotes

[i] www.bursamalaysia.com.

[ii] refer to address on
http://www.bursamalaysia.com/website/bm/resources/download/brochure_listing_bursa.pdf)

[iii] This definition is consistent with other researchers. For example, Claessens and colleagues (2002) define the family firm as when there is presence of a group of people related by blood or marriage with large ownership stakes. Furthermore, Gomez-Mejia and colleagues (2003) define family firm under two condition: First, two or more directors have a family relationship and family members own or control at least 5% of the voting stock. Family relationships include father, mother, sister, brother, son, daughter, spouse, in-laws, aunt, uncle, niece nephew and cousin. Second, family-controlled and CEO is a family member/percentage of family equity ownership/family controlled and family member(s) are on the compensation committee. Next, La Porta and colleagues (1999) define a family firm if a person is the controlling shareholder (ultimate owner) whose direct and indirect voting rights exceed 20%.

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