

**THE PAY-PERFORMANCE RELATIONSHIP FOR
MALAYSIAN PUBLIC LISTED FIRMS**

BY

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**A dissertation submitted to Othman Yeop Abdullah Graduate School of
Business in partial fulfilment of the requirements for Master of Human
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ABSTRACT

The purpose of this study is to examine the pay-performance relationship for Malaysian public listed firms. It is often argued whether executive compensation is positively linked to firm performance and for organizations it is hard to justify their compensation decisions. Therefore, this study can be useful for providing insights on this matter. The first part of this research theoretically examines how executive compensation is determined according to the Human Capital Theory, Agency Theory, and Managerial Power Theory and what the components are of executive compensation packages. Furthermore, it is theoretically examined what the determinants of firm performance are and what role human capital has in determining firm performance. Thereafter, it is empirically investigated by using the Ordinary Least Squares Regression method whether executive compensation has a positive influence on firm performance while controlling for firm size and industry product as previous studies have found evidence for these being firm performance determinants. The sample of 90 Malaysian public listed firms has been manually selected based on the availability of information in annual reports regarding executive compensation. The empirical results have found a positive and significant relationship between executive compensation and firm performance in terms of return on equity. This study makes a significant contribution to the existing literature on the pay-performance relationship for Malaysian firms as little evidence has been found yet.

Keywords: Human Capital, executive compensation, firm performance, pay-performance-relationship, Malaysia.

ABSTRAK

Kajian ini mengkaji hubungan di antara pampasan dan prestasi bagi firma tersenarai awam Malaysia. Sering kali di hujah dan di bincang sama ada pampasan eksekutif mempunyai hubungkait positif dengan prestasi firma dan adalah sukar bagi organisasi untuk memberi justifikasi mengenai keputusan pampasan organisasi mereka. Oleh itu, kajian ini berguna dalam memberikan pandangan mengenai perkara ini. Bahagian pertama kajian ini secara teorinya mengkaji bagaimana pampasan eksekutif ditentukan mengikut Teori Modal Insan, Teori Agensi, dan Teori Kuasa Pengurusan dan komponen-komponen yang terlibat di dalam pakej pampasan eksekutif. Tambahan pula, faktor-faktor penentu prestasi firma disiasat secara teori dan apa peranan modal insan dalam menentukan prestasi firma. Seterusnya, kajian ini secara empirikal menggunakan kaedah *Ordinary Least Squares Regression* dalam mempastikan sama ada pampasan eksekutif mempunyai pengaruh positif ke atas prestasi firma. Dalam masa yang sama pembolehubah saiz firma dan produk industri, di kawal kerana kajian sebelumnya telah menemui bukti yang pembolehubah berkenaan menjadi antara faktor penentu prestasi firma. Sampel 90 firma tersenarai awam Malaysia telah dipilih secara manual berdasarkan ketersediaan maklumat dalam laporan tahunan mengenai pampasan eksekutif. Hasil kajian telah mendapati terdapat hubungan positif dan signifikan di antara pampasan eksekutif dan prestasi firma dari segi pulangan ke atas ekuiti. Kajian ini memberi sumbangan penting dan menambah nilai terhadap kajian-kajian yang dijalankan sebelum ini mengenai hubungan pampasan-prestasi ke atas firma tersenarai awam Malaysia.

Kata kunci: Modal Insan, pampasan eksekutif, prestasi firma, hubungan pampasan-prestasi, Malaysia.

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CHAPTER 1

INTRODUCTION

1.1 Introduction

One important and frequent debated area among employers, employees, and regulators regarding the scope of human resource management (HRM) is compensation. More specifically, the salaries received by executives since Chief Executive Officer (CEO) compensation is primarily at the top of the remuneration hierarchy. Executive compensation continues to receive the attention of scholars and researchers ranging from the field of economics and corporate governance to the field of human resource management (HRM) (Bootsma, 2009). Furthermore, it is a topic that often receives media its attention. An example of this media attention is the movie ‘Inside Job’. This film is a 2010 documentary film about the financial crisis (2007-2009), how it had come that far and in which it is stressed that the CEOs of financial firms which went bankrupt still went home with huge bonuses. Another example of media attention is the news. For example, when in the Netherlands announcements are made for changes in bonus structures for the banking sector, the newspapers will fall over it. One of the reasons for executive compensation to be a hot discussion topic is that a positive link between the executive compensation packages and firm performance is often questioned. The following section further explains the motivational background of this present study and in the problem statement section it is explained why the pay-performance relationship is empirically investigated for Malaysian public listed firms. Thereafter, this chapter continues with stating the research questions and objectives, the significance of this study, the scope and limitations, and of which chapters the remainder of this dissertation is structured.

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