

**DETERMINANTS OF DIRECTORS' REMUNERATION  
PACKAGES AMONG PUBLIC LISTED COMPANIES:  
MALAYSIAN EVIDENCE**

**By**

**MUHAMMAD FAREEZ YAHYA**

**Dissertation Submitted to  
Othman Yeop Abdullah Graduate School of Business,  
Universiti Utara Malaysia,  
in Partial Fulfillment of the Requirements for the  
Post Graduate Degree of Master of Science (Finance)**



Othman Yeop Abdullah  
Graduate School of Business  
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## ABSTRACT

Studies conducted on the basis of agency theory and the recent developments of the managerial power theory have triggered many issues especially centered on the corporate governance mechanisms. Thus, this paper aims to investigate the effect of key variables – corporate governance structures, corporate performance, pay performance alignment policy and the use of remuneration consultants on directors' remuneration packages. The components of directors' remuneration packages tested are salary, fees, bonus, benefit-in-kind and other emoluments. The study also tests total directors' remuneration to investigate any significant different in the regression results. The study controls the effect of firm size and sector. Forty one Malaysian public listed companies are selected based on the result from the survey conducted by the Minority Shareholder Watchdog Group (MSWG) and published in the Malaysian Corporate Governance Report.

Based on the multiple regression analysis, it is found that corporate governance structures – board size, board and remuneration committee independence and board diversity (gender and nationality) are significantly affect individual component of directors' remuneration packages. However, the impact of board diversity (nationality) on total directors' remuneration is insignificant. Corporate performance does affect the determination of total directors' remuneration for the component of other emoluments. The study also shows that companies that disclose pay performance alignment policy in the annual report do reward their directors according to what they declare with concentration on salary, fees and benefit-in-kind components without significantly affect the total directors' remuneration. The use of remuneration consultants does influence the design of directors' remuneration packages. Finally, the results show that agency theory and managerial power theory is relevant in partially explaining the components of directors' remuneration packages in Malaysia.

**Keywords:** Directors' remuneration, corporate governance, Malaysia

## ABSTRAK

Kajian yang dijalankan berdasarkan teori agensi dan perbincangan terkini terhadap teori kuasa pengurusan telah mencetuskan banyak isu terutamanya tertumpu kepada aspek tadbir urus korporat. Oleh itu, kajian ini bertujuan untuk mengkaji kesan pembolehubah utama - struktur tadbir urus korporat, prestasi korporat, polisi pembayaran imbuhan berdasarkan prestasi dan penggunaan khidmat perunding ke atas setiap komponen pakej imbuhan pengarah. Komponen pakej imbuhan pengarah yang dikaji termasuklah gaji, yuran, bonus, manfaat berupa barangan dan emolument lain. Kajian ini juga mengkaji jumlah imbuhan pengarah bagi mengenal pasti kewujudan perbezaan ketara dalam keputusan regresi. Kajian ini mengawal kesan saiz syarikat dan sektor. Empat puluh satu syarikat tersenarai di Malaysia telah dipilih berdasarkan hasil kajian yang dijalankan oleh Pengawas Pemegang Saham Minoriti (MSWG) dan disiarkan dalam Laporan Tadbir Urus Korporat Malaysia.

Berdasarkan analisis regresi, didapati bahawa stuktur tadbir urus korporat - saiz lembaga pengarah, kebebasan lembaga pengarah dan jawatankuasa imbuhan serta kepelbagaian lembaga pengarah (jantina dan kewarganegaraan) mempengaruhi dengan ketara setiap komponen pakej imbuhan pengarah. Bagaimanapun, kesan kepelbagaian lembaga pengarah (kewarganegaraan) terhadap jumlah imbuhan pengarah adalah tidak ketara. Prestasi korporat mempengaruhi penetapan jumlah imbuhan pengarah meliputi elemen emolument lain. Kajian ini juga menunjukkan bahawa syarikat yang menyatakan polisi pembayaran imbuhan berdasarkan prestasi di dalam laporan tahunan melaksanakan seperti yang dinyatakan dengan fokus kepada elemen gaji, yuran dan manfaat berupa barangan tanpa mempengaruhi secara ketara jumlah imbuhan pengarah. Penggunaan perunding imbuhan mempengaruhi penetapan pakej imbuhan lembaga. Akhirnya, keputusan menunjukkan bahawa teori agensi dan teori kuasa pengurusan adalah relevan dalam menjelaskan sebahagian hubungan bagi komponen pakej imbuhan pengarah di Malaysia.

**Kata kunci:** Imbuhan pengarah, tadbir urus korporat, Malaysia

## **ACKNOWLEDGEMENTS**

In the name of Allah, the Most Gracious, the Most Merciful.

All praise be to Almighty Allah, the One and only God who has given me the strength, guidance and ability to carry out this dissertation until its end.

I would like to express my deepest and sincere gratitude to my supervisor, Prof. Dr. Hj. Wan Nordin Wan Hussin for all his constructive comments, guidance and patience throughout the preparation of this dissertation. His experience and expertise has enormously assisted me in completing this dissertation.

My greatest gratitude to my parents, Hj Yahya A. Kadir and Hjh Maimunah Hj Othman for their support and encouraging advise.

I dedicated this dissertation to all.

**Muhammad Fareez Yahya**  
**November 2013**

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## LIST OF ABBREVIATION

CEO	Chief Executive Officer
ESOS	Employee Stock Option Scheme
MCCG	Malaysian Code on Corporate Governance
MCG	Malaysian Corporate Governance Report
MSWG	Minority Shareholder Watchdog Group
ROA	Return on asset
ROE	Return on equity
SC	Securities Commission Malaysia
VIF	Variance Inflation Factor



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**CHAPTER ONE  
INTRODUCTION**

**1.1 Background of the Study**

Discussions on the issues of directors' remuneration packages are global phenomena (Jensen, 1993; Ewers, 2002; Clarkson et al., 2005; Chen, 2006; Abdullah, 2006; Salim and Wan-Hussin, 2009). Most of the earlier studies use a group of directors' remuneration packages namely, non-contingent pay (salary + other cash compensation), contingent pay (stock options + bonus + long-term incentives), cash compensation (salary + bonus), total remuneration (salary + bonus + fees + benefits + others), etc. (Mangel and Singh, 1993; Daily et al., 1998; Dogan and Smyth, 2002). Essentially, there are only a few researches which separate the directors' remuneration components and test its relationship with one or two key variables. For example, study by Ewers (2002) in UK examines four components of directors' remuneration packages namely (i) ownership income; (ii) salary; (iii) short term bonus; and (iv) longer term incentive to test its relationship with corporate performance. Correspondingly, study by Clarkson et al. (2005) in Australia identifies four components of directors' remuneration packages namely (i) total remuneration; (ii) salary; (iii) bonus; and (iv) options to explain directors' remuneration.

The fundamental theory supporting the discussion on directors' remuneration packages is the agency theory. The agency theory reflects the separation of power between owner (shareholders) and management which typically lead manager to pursue their own goals (agency problem) and

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