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What Determines Executives' Remuneration in Malaysian Public Listed Companies?

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Abstract

Most studies of the determination of executive compensation mainly focus on the Chief Executive Officer (CEO) compensation. However, determination of executives' compensation is relatively ignored in the literature. This paper examines the impact of executives' ownership, firm performance, board size and its components, as well as some other financial factors, on executives' compensation in the context of Malaysia as an emerging economy. The data from 267 firms during 2006-2014 in the main market of Bursa Malaysia has been used. This paper finds that firm performance, leverage and number of non-executive directors have negative effects on executives' compensation. Conversely, dividends, percentage of executives' directors, board size and size of firms have positive effects on executives' compensation. There is no evidence that executives' ownership has significant effects on their compensation. From the viewpoint of the agency theory about the effects of larger boards, firm profitability, and executive percentage on executives' compensation, it is perceived that the weak governance exists among listed companies in the Malaysian market. Considering the power of concentrated ownership in Malaysia, the insignificant impact of executives' ownership on their remuneration is an important finding of this research.

Keywords: Agency theory, Bursa Malaysia, board of directors, executive compensation, executive ownership

1. INTRODUCTION

Recent financial crisis has raised serious criticisms, particularly regarding the role of corporate governance (CG) in determining executive compensation (Fahlenbrach and Stulz, 2011; Kirkpatrick, 2009). The enhancement of CG standards and disclosures has been at the forefront of international arguments in recent times, and the compensation of executives and directors is one of the key issues in this debate. The main belief, derived from the principal-agent structure, is that, a well-designed remuneration contract helps to motivate executives to maximize shareholder wealth (Jensen and Murphy, 1990; Murphy, 1999). Furthermore, executive compensation is an important tool for both encouraging and retaining executives in a firm. The ideal executives' remuneration attempts to attract managers and incentivize them to develop growth opportunities, exert efforts, and minimize inefficient investments. The amelioration of CG standards and information disclosure has been at the forefront of worldwide debates in the recent times, and the compensation of executives and directors is one of the main issues in these debates (Fahlenbrach and Stulz, 2011; Kirkpatrick, 2009). In addition, family ownership and managerial ownership show an uncertainty in regard to the managers' remuneration Vicknes (2003). Likewise, directors' payouts in GLCs have grown approximately 12% less compared to other companies. The results of a study by Kaur and Rahim (2007) showed the aggregate payout to directors in a sample of 639 firms that are listed in KLSE, is increased by 23% from RM1.3 billion to RM1.6 billion during a period of six years (2001 to

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2006). Moreover, the executives' compensation and its determinants have been relatively ignored in that study. In addition, Hamsawi (2011) indicated that the sum of the directors' payout in the top 20 firms was increased by 22% only in 2009. Therefore, Executive compensation is vigorously debated in Malaysia (Wooi and Ming, 2009). Hence, there were different compensation policies among the listed companies in Malaysia that caused difficulty for applying executive compensation as an instrument for reducing the agency conflict. The insignificant or weak relationship between performance and remuneration has been mentioned in some Malaysian studies (Nahar Abdullah, 2006; Wooi and Ming, 2009). Although the issue of executives' compensation has not been investigated in depth in the context of board components and managerial ownership. This exploratory research uses panel data, and the analysis is conducted by using random and fixed regression models based on the Hausman Test. This study tries to examine different proxies for independent variables to make sure that findings are consistent; hence two regressions are examined due to testing different proxies. Results indicate that executives' ownership has insignificant effects on executives' remuneration and it may infer as an enhancement in governance, but from negative effects of performance as well as positive effects of board size on executive remuneration, it can be concluded that there is a weak contractual agreement and also lack of supervision when number of executives are increased or board size becomes larger than the previous size. The article is organized as follows: Section two presents a brief review of determinants of executive compensation. Section three describes the data, research methodology, and different proxies of variables. Section four provides the empirical results and analysis. Section five provides concluding remarks and some suggestions for further studies.

2. LITERATURE REVIEW AND RESEARCH HYPOTHESES

From an agency theory viewpoint, the link between firm profitability and executives' pay should provide a fundamental incentive mechanism for corporate achievement. In other words, ownership and compensation mechanisms may substitute one another (Aggarwal and Samwick, 1999; Conyon *et al.*, 2010; Fernandes *et al.*, 2013; Mat Nor and Sulong, 2007; Mehran, 1995; Ozkan (2007)). On the other hand, some scholars reported rent extraction through overcompensation by managers (Salim and Wan-Hussin, 2009). However, Malaysian scholars approve different results due to the relationship between compensation and firm profitability. For instance, Dogan and Smyth (2002) found a positive relationship between board remuneration and sales turnover using a sample of Malaysian companies listed on Kuala Lumpur Stock Exchange (KLSE) from 1989 to 2000. Hassan *et al.* (2003) investigated Malaysian firms pre and during financial crisis in Asia (1996 to 1998), reported the weak positive relationship between director remuneration and performance. They claimed that the remuneration was less successful to improve firm performance when used in family companies, because interest conflict was existent between minority and majority shareholders. Ibrahim *et al.* (2005) defined new evidence on the relationship between firm performance and directors' remuneration in Malaysia, showing evidence of good governance and appraisal system of Malaysian firms, particularly in deciding the directors' remuneration. Also Abdullah (2006) reported no linkage between executives' remuneration to ROA. Jaafar *et al.* (2012b) examined a panel of 537 firms from 2007 and 2009 in Malaysia family firms to answer the relationship between director remuneration and performance. They reported the remuneration driven board incentive for improving performance. Furthermore, they do not find any evidence that the family firm manipulated a power and control for personal wealth. Therefore, family members do not manipulate their positions of power on boards of directors and as majority shareholders to increase remuneration for personal benefits. Therefore, when examined in a multivariate setting, the positive significance disappears. According to the agency theory, there is a positive link between firm profitability and managers' compensation; hence, this study hypothesizes the following:

Hypothesis 1: There is a positive effect of financial performance on executives' remuneration.

Agency Theory predicts a negative relationship between managerial ownership and managerial remuneration since alignment between shareholders and executives is an increasing function of managerial ownership (Jensen and Meckling, 1976). Dogan and Smyth (2002) report that board of directors' remuneration are associated with sales earnings in a positive way but negatively related to the ownership concentration for Malaysian listed companies over a period of 12 years. Alternatively, some scholars revealed that high level of ownership concentration may allow managers to impose highly contingent compensation contracts on executives, leading to a positive relationship between managerial ownership and managerial remuneration (Allen, 1981; Cheung *et al.*, 2005; Holderness and Sheehan, 1988; Werner *et al.*, 2005). That is to say, managerial ownership instrument and compensation mechanism can complement each other. For instance, Lee and Chen (2011) explain that compensation and ownership of Chief Executive Officer (CEO) are interdependent and the ownership of CEO is positively associated with remuneration. However, Yatim (2013) reported that there is no relationship between insider ownership and directors' remuneration of 428 listed firms on the Bursa Malaysia for the financial year ending 2008. Overall, the impact of ownership structure on executive pay is unclear given the mixed nature of the empirical results. The owner managed companies are widespread among Malaysian firms (Mat Nor and

Sulong, 2007; Vethanayagam *et al.*, 2006). Considering entrenched managers, based on the high level of ownership, concentrated managerial ownership results in weak corporate governance system in Malaysia (Zulkarnain, 2007). Hence, Hypothesis 2 is stated as follows:

Hypothesis 2: There is a positive effect of executives' ownership on executives' remuneration.

The Agency theory suggests a number of mechanisms to alleviate agency problems. The main core of its mechanisms is related to the directors' board such as; smaller boards and greater board independence. Prior studies show that larger directors' board is associated with ineffective monitoring (Conyon and Peck, 1998; Core *et al.*, 1999b; Yermack, 1996). More recently, Yatim (2013) documents a positive and significant association between directors' remuneration and board size among 428 listed companies on the Bursa Malaysia for the financial year ending 2008. He argued that larger boards hinder board effectiveness. This result is consistent with the suggestion that the larger boards are easily controlled by CEO (Crocini *et al.*, 2012). If enlarged board size causes reduction on the effective monitoring, executives' remuneration is expected to be positively associated with the number of directors on the board. Therefore, the following hypothesis is proposed.

Hypothesis 3: There is a positive effect of board size on executives' remuneration.

Finkelstein and D'aveni (1994) implied that a separate structure of management leads to a superior level of independence to the board of directors (BOD) in various subjects associated with monitoring managerial performance. They also argued that if the managers serve as members on the BOD, the independency of the BOD is reduced and it may influence the design of the compensation contract (Core *et al.*, 1999a). Iyengar *et al.* (2005) also confirmed this prediction, meaning that they found that compensation levels are higher in companies where the executive is also a member of the board. In contrast, Angbazo and Narayanan (1997) and Conyon (1997) found no such relation in their pieces of research of the US and British companies, respectively. Moreover, Banghøj *et al.* (2010) examined the relationship between CG characteristics and executive remuneration. Their results showed that there is no significant effect of inside board members on executive compensation in the privately held firms in Denmark.

Hypothesis 4: There is a positive effect between the proportion of executive directors on boards and executives' remuneration.

Agency literature argues the domination of non-executives on board of directors provides effective monitoring and controlling of firm activities in reducing opportunistic managerial behaviors and expropriation of a firm's resources (Fama and Jensen, 1983). Non-executives also contribute a noteworthy set of resources and bring experience to the company (Goh and Gupta, 2016). Non-executives also play a significant role in designing effective remuneration contract. Therefore, executives and top managers have an incentive to serve in the best interest of shareholders (Fama and Jensen, 1983). Overly, Non-executive directors lower down the operational cost of maintaining the board of directors (basic salary, bonus, allowances and perks). This is because an independent non executive director is only entitled to receive fees (Wooi and Ming, 2009). In addition, a proactive board dominated by non executive directors, according to Pearce and Zahra (1991) deliver an effective corporate governance performance against self serving executive directors. Thus, in accordance to international corporate governance best practices by Cadbury (1992) and Remuneration and Greenbury (1995), non-executives are supposed to have negative effects on managerial remuneration.

Hypothesis 5: The executives' remuneration is negatively related to the proportion of non-executive directors on boards.

Over the years of the Modern Corporation, methods and procedures of managerial payment have changed considerably to align the interest of shareholders and managers. Dividends also are an effective instrument for mitigating the agency problem, therefore well-organized executive remuneration packages should be planned to reward fitting levels of dividend payout. On other hand, if remuneration scheme achieves to align Managers (agent) and shareholders (owner), then payout amount as a substitute alternatives of agency solution will be relaxed (Fama and Jensen, 1983). Otherwise dividends may be used as a complement method to reduce agent problems. Kahle and Kathleen (2002) suggest that amendments in compensation schemes have caused changes in firms' payout policies. This means that if remuneration scheme achieves to align managers and shareholders interest, then the role of dividends as a substitute alternative is mitigated. The study by Bhattacharyya *et al.* (2008) indicates that executive compensation is negatively associated with dividend payout. Otherwise, dividends may be used as a complement method to reduce the agent problem. In line with this notions, some scholars assigned a positive linkage between executive remuneration and dividend payment (Healy, 1985; Lewellen *et al.*, 1987).

Hypothesis 6: There is a positive effect of Dividends on executives' remuneration.

When explaining the agency theory, (Jensen and Meckling, 1976) assumes that managers are risk averse. Therefore, managers that manage firms with higher risk should get higher compensation than managers who manage firms with lower risk. However, the higher debt leads to less ability of firms to pay more amounts of compensation. Amin *et al.* (2013) studied directors' remuneration in Malaysia by using 845 firms data from year 2009 to 2011. They showed that when the heteroskedasticity problem was solved, the leverage has significant positive effects on directors' remuneration. But when industry and year effect were controlled, there was insignificant relationships between them. Cheah *et al.* (2012) studied compensation received by executive directors of 191 listed Malaysian companies from 2002 to 2007 and found that the bulk of their remuneration was fixed in nature. Indeed, salaries made up 75% of the directors' total compensations. In addition, dividends received by directors through their shares ownership represented another main source of their earnings. This gives rise to the following hypothesis:

Hypothesis 7: There is a negative effect of leverage on executives' remuneration.

The executives of large firms are paid more than those in small firms due to task complexity, financial matters, and the difficulty of decision-making (Jensen and Murphy, 1990). Previous empirical studies generally found a strong positive relationship between firm size and executive pay (Sridharan, 1996; Ueng *et al.*, 2000). The research done by Laing and Weir (1999) on 125 largest public listed companies in UK found that company size is a key determinant of pay. The link between top executive pay and company size was justifiable given that larger organizations carried greater responsibilities which would be translated to a higher pay (Zhou, 2000). In Malaysia, Abdullah (2006) found firm size to be the important factor influencing board remuneration. Another evidence from Malaysia shows that directors in big firms usually earn more than directors in small firms (Ibrahim *et al.*, 2005). Consistent with previous Malaysian studies, Jaafar and James (2013) found a positive effect of firm size on executives' remuneration based on the study of 537 firms listed in Bursa Malaysia during 2007 to 2009. Hence, In terms of firm size, increasing in responsibility should be compensated with a higher remuneration package. The final hypothesis is therefore stated as follows:

Hypothesis 8: There is a positive effect of firm size on executives' remuneration.

3. RESEARCH METHODOLOGY

3.1 Data and Sample

Data on the remuneration of executives and other corporate governance data of Malaysian companies are not available in any regular database. Therefore, they must be extracted directly from the annual reports of companies. The annual reports of 267 firms for the period 2006-2014 were acquired from Bursa Malaysia Website. Data on executives' remuneration and executives' shareholding, along with its different components, are reported in the Statement on Corporate Governance and Analysis of Shareholdings sections of the Notes to the Financial Statements. In addition, data on board size, number of executives, and number of non-executives are collected from the Profile of Board of Directors section of Annual reports. Other financial data are extracted from DataStream by Thomson Reuter. It should be noted that executives' remuneration is measured by fees, salary, bonuses and benefit of kin. If total members of the board were non-executives or the percentage of executives shareholdings were continuously zero for the years from 2006 to 2014, then these kinds of companies are excluded from sample.

3.2 Variables and Proxies

Variables used for the analysis include executives' remuneration, financial performance, leverage, dividends, number of non-executives, number of executives, size of board, and firm size. Table 1 shows the variables and their proxies that are used in both models. In addition, some other scholars who applied mentioned proxies in their studies are introduced.

Table 1. Variables and their proxies

Variable	Proxy
Dependent	
Executives' Remuneration	Ln (Executives' Remuneration) (Jaafar and James, 2014; Wooi and Ming, 2009)
Independent	
Financial performance	ROE (Ismail <i>et al.</i> , 2014) ROA(Ntim <i>et al.</i> , 2013)
Executives' shareholdings	$\frac{\text{Executives' Ownership}}{\text{Outstanding shares}}$ (Saleh <i>et al.</i> , 2005; Taufil-Mohd <i>et al.</i> , 2013)
Leverage	$\frac{\text{Debt}}{\text{Asset}}$ (Ahmad and Aris, 2015) $\frac{\text{Debt}}{\text{Equity}}$ (Appannan and Sim, 2011)
Firm Size	Natural Logarithm of Total Asset (Ahmad and Aris, 2015) Natural Logarithm of sales Revenue (Uyar, 2009)
Board Size	The total number of directors (Amin <i>et al.</i> , 2014)
Executives	The total number of executives (Jaafar and James, 2013)
Non-Executives	The total number of Non-executives Directors (Yatim, 2013)

3.3 Model

Because the sample comprises a heterogeneous set of non-financial firms belonging to divers sectors of activity that are listed on the Main Market of Bursa Malaysia, it is rational to assume that individual companies may have their own characteristics that distinguish them from the others. In addition, their changes across time justify a panel data regression model.

Considering the theoretical framework, three estimators of executives' remuneration are specified: Equation 1, pooled ordinary least squares (OLS); Equation 2, fixed effects (FE); and Equation 3, random effects (RE).

$$Y_{it} = \beta_1 + \beta_2 X_{1it} + \beta_3 X_{2it} + \dots + \varepsilon_{it} \quad (1)$$

$$Y_{it} = \beta_{1i} + \beta_2 X_{1it} + \beta_3 X_{2it} + \dots + \varepsilon_{it} \quad (2)$$

$$Y_{it} = \beta_{1i} + \beta_2 X_{1it} + \beta_3 X_{2it} + \dots + w_{it} \quad (3)$$

$$\text{Where } w_{it} = \varepsilon_i + \mu_{it} \quad (4)$$

Where *i* and *t* are indices for the firm and time, respectively.

With respect to the most important determinants of executive's remuneration based on the results on previous research on corporate governance and directors' remuneration, the following two models are formulated to state the hypothesized relationship:

$$\begin{aligned} LREM U_{a_{it}} = & \beta_0 + \beta_1 MANOWN_{it} + \beta_2 ROE_{it} + \beta_3 DEBTEQUITY_{it} + \beta_4 LDIV_{it} + \beta_5 NONEXE_{it} \\ & + \beta_6 TDIR_{it} + \beta_7 LASSET_{it} + \varepsilon_{it} \end{aligned} \quad (\text{Model 1})$$

$$\begin{aligned} LREM U_{b_{it}} = & \beta_0 + \beta_1 MANOWN_{it} + \beta_2 ROA_{it} + \beta_3 DEBTASSET_{it} + \beta_4 LDIV_{it} + \beta_5 EXE_{it} \\ & + \beta_6 TDIR_{it} + \beta_7 LNSALEREV_{it} + \varepsilon_{it} \end{aligned} \quad (\text{Model 2})$$

4. RESULTS AND DISCUSSION

Table 2 presents the descriptive statistics. The sample mean of the total executives' remuneration were RM2.56 million (ln (executives remuneration) = 14.09) during years 2006 to 2014. Regarding to executives' remuneration, the average that is reported by Jaafar *et al.* (2012a) was RM 1.98 million for 2007 to 2009. In addition, Yatim (2013) reported RM 2.54 million as executives' remuneration for the financial year ending 2008. The average number of board members ranges from 4 to 13 with an average of 7.7 members. The board composition included the averages of 4.76 Non-executive and 2.95 Executives members. Regarding to board characters, Yatim (2013) reported average 7.58 members for board size. In addition, Johl *et al.* (2015) reported 7.44 members for the board average and the average of independent directors was 43.6 percent based on a study

of the 700 public listed firms in Malaysia for the year 2009. As presented by table 4, the average of firm's shares percentage owned by executives were 10.24% with the lowest of 0% and highest of 74.4%. In this respect, Abdullah *et al.* (2016) showed 8.77 % as an Executive directors' ownership and Yatim (2013) reported 11.18 % as an insider ownership. The independent financial variables denoted by Debt/Asset, Debt/Equity, ROA, ROE, Ln (Dividends), Ln (Asset), and Ln (Net Asset Revenue) have mean values of 17%, 41%, 8.3%, 10.07%, 8.33, 13.08, and 12.65, respectively.

Table 2. Descriptive statistics

Variable	Debt/Equity	Debt/Asset	ROE	ROA	Ln(Div)	Ln(Asset)
Mean	0.41	0.17	10.07	8.30	8.33	13.08
Maximum	4.04	0.60	77	40	14.30	18.08
Minimum	0	0	-40	-20	0	10
Std. Dev.	0.51	.15	9.36	6.66	2.79	1.27

Variable	Ln(Net Sales Revenue)	Ln(Executive Remuneration)	No. of Executives	No. of Non-Executives	Percentage of Executives shareholdings	Total No. of Board Members
Mean	12.65	14.09	2.95	4.76	10.24	7.70
Maximum	16.82	17.90	7	11	74.46	13
Minimum	8.65	0	0	2	0	4
Std. Dev.	1.32	2.03	1.48	1.61	14.38	1.81

Table 3 shows that VIF for all the independent variables of both models are significantly below 10, which indicate that multicollinearity is not a problem. The VIF results are generated by STATA 13.

Table 3. Collinearity statistics of independent variables

Model 1			Model 2		
Variable	VIF	1/VIF	Variable	VIF	1/VIF
Ln(asset)	1.82	0.54	Ln(net sales Reventue)	1.78	0.56
Non-executives	1.80	0.55	Executives	1.14	0.87
Board size	1.66	0.60	Board size	1.12	0.89
Ln(dividends)	1.61	0.62	Ln(dividends)	1.42	0.70
Debt/Equity	1.27	0.78	Debt/Asset	1.53	0.65
Executives' ownership	1.15	0.86	Executives' ownership	1.15	0.86
ROE	1.14	0.88	ROA	1.25	0.80
Mean VIF	1.49		Mean VIF	1.34	

The result of chi-square in Table 4 indicates that for both models, the random effect model is more suitable compared to the pooled estimator.

Table 4. Breusch and Pagan Lagrangian Multiplier test

	Model 1	Model 2
Chi2	8142.28	8045.54
Prob.	0.0000	0.0000

Table 5 presents the results of the Hausman Test, which shows that the fixed effect is an appropriate method for the both models.

Table 5. Hausman test

	Model 1	Model 2
Chi2	26.44	21.22
Prob.	0.0004	0.0002
Fixed	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Random	<input type="checkbox"/>	<input type="checkbox"/>

In this step, two tests should be done to understand whether these two regression models have heteroscedasticity and serial correlation problems. Table 6 presents the results of the Modified Wald Test for group-wise heteroscedasticity in the fixed effects regression. Table 6 shows that the null hypothesis of "there is no heteroscedasticity" could comfortably reject these models. According to the Wooldridge Test, Table 7 indicates that the null hypotheses (H0: no first-order autocorrelation) are rejected for the two models. Since these two models have serial correlation and heteroskedasticity problems, hence, the robust standard errors should be run to reach reliable results.

Table 6. Modified Wald test (Heteroscedasticity)

	Model 1	Model 2
Chi2	5.9e+06	2.6e+06
Prob.	0.0000	0.0000
Heteroscedasticity	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Table 7. Wooldridge Test (Serial Correlation)

	Model 1	Model 2
F	54.733	77.093
Prob.	0.0000	0.0000
Serial correlation	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

5. MODELS RESULTS

Table 8 presents the results of this study. In contrast to the prediction of Hypothesis 1, this study finds an insignificant relationship between executives' remuneration and financial performance. This finding is in line with the results of Abdullah (2006) study. It can be mentioned that both proxies ROA and ROE have no significant relationship with executives' remuneration. According to the Agency Theory, owners can mitigate the agency conflict by designing a good contract between managers and shareholders, which leads to align their interest. Therefore, if changes of performance do not affect executives' remuneration, it can be concluded that there was a weak contractual agreement in the Malaysian Market. Both regression results in Table 8 show that executives' shareholdings have no significant effect on executives' remuneration; hence, hypothesis 2 is not supported. This finding does not support the opinion that level of executive's ownership provides a better opportunity for managers to rent extraction through overcompensation (Salim and Wan-Hussin, 2009). In line with Hypothesis 3, the results in Table 8 present a positive association between board size and executives' remuneration on both models (coefficient = 0.096 & 0.0738; $p < 0.01$). According to the Agency Theory, larger boards hinder board effectiveness (Yatim, 2013). This may lead to higher compensation for executives as larger boards are easily controlled by CEOs (Core *et al.*, 1999b). As predicted by Hypothesis 4, the proportion of executive directors on the board has insignificant positive effects on executives' remuneration. This finding of Model 2 (coefficient = 0.9028; $p < 0.01$) shows that more executives on the board leads to specify more compensation. In addition, the finding of Model 1 is consistent with the Hypothesis 5. That is, if the proportion of non-executives becomes larger, then the executives' remuneration decreases (coefficient = -.1574; $p < 0.01$). These findings show that non-executive directors act based on the monitoring role. However, when the proportion of executives directors enhance in the board, then it can decrease the independency of the board and board members are less sensitive to the managers' remuneration. The negative effect of non-executives on executives' remuneration is in line with the results of Yatim (2013) in the Malaysian market. Recall that Hypothesis 6 predicts that dividends are positively related to executives' remuneration. In line with Hypothesis 6, the study finds a positive association between dividends and executives' remuneration (coefficient of model 1 = .0102; $p < 0.1$, coefficient of model 2 = 0.0190; $p < 0.01$). In fact, shareholders pay more compensation to compensate managers for high level of payout. To be precise, changes in the firms' payout policies have caused amendments in compensation schemes. The study also finds support for Hypothesis 7, which predicts that executives' remuneration is negatively associated with the leverage. (Coefficient of model 1 = -.2161; $p < 0.01$, coefficient of model 2 = -.3088; $p < 0.1$). This finding is in line with results of the study by Jaafar and James (2013) in Malaysian public listed companies. The negative relationship between these two variables is likely due to the agency theory perspective that suggests debt and remuneration as substitute instruments for reducing conflicts between managers and shareholders. Finally, consistent with the prediction of Hypothesis 8, this study finds a strong positive relationship (coefficient = 0.258; $p < 0.05$) between firm size and executives' remuneration based on both models. According to both firm size proxies Ln (Asset) & Ln (Net Sales Revenue), it can be concluded that managing large type companies, either on asset size or sales scale, leads to more managerial compensation. This finding is consistent with most of the previous studies (Ibrahim *et al.*, 2005; Jaafar and James, 2013; Yatim, 2013).

Table 8. Estimation results

Model 1		Model 2	
Executives' ownership	.0010 (.0033)	Executives' ownership	.0026 (.0034)
ROE	-.0027 (.0039)	ROA	-.0110 (.0077)
Debt/Equity	-.2161 (.0507)a	Debt/Asset	-.3088 (.1736)c
Ln(Dividends)	.0102 (.0056)c	Ln(Dividends)	.0190 (.0060)a
Non-executives	-.1547 (.0534)a	Executives	.9028 (.3270)a
Total directors	.1813 (.0418)a	Total directors	.0738 (.0212)a
Ln(asset)	.6276 (.0599)a	Ln(net sale revenue)	.4284 (.0632)a
Cons	5.2415 (.8152)a	cons	7.7257 (.8284)a
Number of obs.	2372	Number of obs.	2372
F(7,266)	24.00	F(7,266)	23.72
Prob > F	0.0000	Prob > F	0.0000
R- squared (Overall)	0.1648	R- squared (Overall)	0.1180

Robust standard errors are presented in parentheses. a Indicates the statistical significance at 1%. b Indicates the statistical significance at 5%. c Indicates the statistical significance at 10%.

6. CONCLUSION

This study attempts to examine factors that are associated with the level of executives' remuneration in public listed companies with a focus on board components. The issue of executives' remuneration has not been studied in depth in the Malaysian market, as a developing country, where good governance practices are still evolving in listed companies in Bursa Malaysia. Indeed, most literature has been concerned with the directors' remuneration in developed economies but this study not only was carried out in Malaysia as a developing country, but also focuses on executive remuneration as the most important part of directors' remuneration. The methodology of the panel data models is applied to investigate whether executive's ownership, financial performance, leverage, firm size, board size and board members composition have significant relationship with executives' remuneration. The present study reveals the following findings. The research contributes to the growing literature on executives' remuneration and it provides evidence on the attempts of governance reforms in recent years in influencing board members' compensation. The present study reveals the following findings. Executives' Remuneration is positively related to dividends, board size, firm size (both proxies; Ln (Asset) and Ln (net sales revenue), and proportion of executive directors. In contrast, leverage and proportion of non-executives directors have negative effect on executives' directors. However, both models show that financial performance (both ROA and ROE) and executives' ownership have not significant relationship with executives' remuneration. The insignificant effect of managerial ownership is predictable due to the CG rules that have been strengthen recently. Although this study makes some contribution to the corporate governance and compensation debate, some limitations of this study should be mentioned to extend this study in future research. First, the potential limitations of using the total fees, salary, bonuses and benefit of kin amounts as the only proxy for executives' remuneration may not provide us a more meaningful insight of Share-based payments of total remunerations such as Executive Share Option Scheme (ESOS) or Employee Stock Option (ESO). Moreover, this study did not specify whether the non-executives directors are independent or non-independent. In order to achieve better and accurate results for future research, suggestions are proposed. The investigation of total remuneration can be broken into several components such as salaries, benefit-in-kind, and other kinds of Share-based payments due to studying the sensitivity of executives' remuneration components to independents variables. Lastly, besides these independent variables, there are some other governance variables that might affect executives' remuneration which are not included in this research, but they can be studied in further research. For example, the remuneration committee, CEO tenure, ownership structure. Studying the mentioned variables will have a better understanding on the factors that will affect executives' remuneration.

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