The scantness of the effect of corporate governance mechanisms on executive directors' remuneration in small listed companies: evidence from Malaysia

By: Nyambia, HS (Nyambia, Husna Siraji)[1]; Hamdan, H (Hamdan, Hamdino)[2]

SOCIAL RESPONSIBILITY JOURNAL
Volume: 14 **Issue:** 4 **Pages:** 934-949
DOI: 10.1108/SRJ-01-2017-0014
Published: 2018
Document Type: Article

Abstract

Purpose This study extensively aims to investigate the effects of different aspects of corporate governance (CG) mechanism, including board size, executive directors' shareholdings, Chief Executive Officer (CEO) duality, a family member as the CEO and/or chairperson of the board, independent directors in remuneration committee and number of board meeting, on executive directors' remuneration in small firms listed on Bursa Malaysia (BM).

Design/methodology/approach The sample of this study consists of 173 bottom-listed companies from Bursa Malaysia in Year 2010. The Year 2010 was chosen because the disclosure of remuneration committee activities and directors' pay structure is required under the revised Malaysia Code of Corporate Governance, 2007. Furthermore, the period selected is after the global economic crisis (2008), which may have an effect on the remuneration structure in small firms. The ordinary least squares regression was used to estimate the relationship between remuneration as dependent variable and other independent variables.

Findings A finding from this study reveals that there is a significant positive relationship between executive ownership and executive remuneration, and between board size and executive remuneration. The results provide evidence that the family members manipulate power and control remuneration in small firms. This indicates that the independent directors are not truly independent to monitor and control the firm activities, including minimizing the excessive remuneration.

Research limitations/implications This study examines how the corporate governance (CG) affects remuneration among 173 small firms in Malaysia based on market capitalization, for one year, 2010. Hence, the results may not be generalizable to other periods or types of the companies. This shows the possibility of the absence of some additional variables in the research model and hence a limitation to the findings of the study. Although the study is being parsimonious in the choice of relevant variables, prior literature serves the guide in the selection of the used variables. This therefore gives room for future research using the potential omitted variables. Furthermore, the study focuses on total remuneration, such as fees, salaries, bonuses and benefits in kind, which makes aggregate directors' remuneration. However, this study did not consider the remuneration related to stock options. Finally, this study only uses secondary data; hence, it could be interesting to use other instruments to collect data like a questionnaire to add more weight to the research. This study only uses one-year data; therefore, impact of changes between years cannot be analysed.

Originality/value Results of the study provide evidence that the family members manipulate power and control remuneration in small firms. They reduce the effectiveness of non-executive directors because most of them are appointed by a family member and not socially responsible to their stakeholders.

Keywords

Author Keywords: Executive remuneration; Board of directors (BOD); Corporate governance (CG); Small firms listed on Bursa Malaysia (BM)

KeyWords Plus: BOARD-OF-DIRECTORS; FIRM PERFORMANCE; CEO COMPENSATION; INSTITUTIONAL INVESTORS; DETERMINANTS; FAMILY; SIZE; SHAREHOLDERS; OWNERSHIP; TURNOVER

Author Information

Reprint Address: Hamdan, H (reprint author)

Int Islamic Univ Malaysia, Dept Finance, Kuala Lumpur, Malaysia.

Addresses:

[1] Int Islamic Univ Malaysia, Dept Accounting, Kulliyyah Econ & Management Sci, Kuala Lumpur, Malaysia

[2] Int Islamic Univ Malaysia, Dept Finance, Kuala Lumpur, Malaysia

E-mail Addresses: husney81@yahoo.com; hamdino@iium.edu.my

Funding

Funding Agency	Grant Number
Ministry of Higher Education Malaysia	RIGS15-009-0009

View funding text

Publisher

EMERALD GROUP PUBLISHING LTD, HOWARD HOUSE, WAGON LANE, BINGLEY BD16 1WA, W YORKSHIRE, ENGLAND

Categories / Classification

Research Areas: Business & Economics

Web of Science Categories: Management

See more data fields

1 of 1

Cited References: 63

Showing 30 of 63 **View All in Cited References page** *(from Web of Science Core Collection)*

1. **Directors' remuneration, firm's performance and corporate governance in Malaysia among distressed companies** Times Cited: 25
By: Abdullah, Shamsul Nahar
CORPORATE GOVERNANCE-THE INTERNATIONAL JOURNAL OF BUSINESS IN SOCIETY Volume: 6 Issue: 2 Pages: 162-+ Published: 2006

2. **Determinants of director compensation in two-tier systems: evidence from German panel data** Times Cited: 24
By: Andreas, Joern M.; Rapp, Marc Steffen; Wolff, Michael
REVIEW OF MANAGERIAL SCIENCE Volume: 6 Issue: 1 Pages: 33-79 Published: JAN 2012

3. **Corporate governance, top executive compensation and firm performance in Japan** Times Cited: 43
By: Basu, S.; Hwang, L.S.; Mitsudome, T.; et al.
Pac. Basin Financ. J. Volume: 15 Issue: 1 Pages: 56-79 Published: 2007
[Show additional data]

4. **Executive compensation as an agency problem** Times Cited: 587
By: Bebchuk, LA; Fried, JA
JOURNAL OF ECONOMIC PERSPECTIVES Volume: 17 Issue: 3 Pages: 71-92 Published: SUM 2003

5. **Managerial power and rent extraction in the design of executive compensation** Times Cited: 498
By: Bebchuk, LA; Fried, JM; Walker, DI
UNIVERSITY OF CHICAGO LAW REVIEW Volume: 69 Issue: 3 Pages: 751-846 Published: SUM 2002

6. **CEO DUALITY AND FIRM PERFORMANCE - A CONTINGENCY-MODEL** Times Cited: 322
By: BOYD, BK
STRATEGIC MANAGEMENT JOURNAL Volume: 16 Issue: 4 Pages: 301-312 Published: MAY 1995

7. **CEO compensation, director compensation, and firm performance: Evidence of cronyism?** Times Cited: 207
By: Brick, IE; Palmon, O; Wald, JK
JOURNAL OF CORPORATE FINANCE Volume: 12 Issue: 3 Pages: 403-423 Published: JUN 2006

8. **Determinants of CEO Pay: A Comparison of ExecuComp and Non-ExecuComp Firms** Times Cited: 36
By: Cadman, Brian; Klasa, Sandy; Matsunaga, Steve
ACCOUNTING REVIEW Volume: 85 Issue: 5 Pages: 1511-1543 Published: SEP 2010

9. Title: [not available] Times Cited: 155