

REMUNERATION COMMITTEE, OWNERSHIP STRUCTURE AND PAY-FOR-PERFORMANCE: EVIDENCE FROM MALAYSIA

ABSTRACT

Manuscript Type: Empirical

Research Question/Issue: We examine the association between remuneration committee and ownership structures on pay-for-performance.

Research Findings/Insights: We find that appropriately structured remuneration committee and institutional shareholders enhance the pay-for-performance elasticity. We also find that pay-for-performance relationship is weaker at high level of managerial ownership, consistent with the managerial power model.

Theoretical/Academic Implications: We show that remuneration committee and institutional investors play important monitoring role in ensuring the interests of executive and shareholder are aligned. The evidence shows that both the principal-agent and managerial power views have relevancy in Malaysia.

Practitioner/Policy Implications: One of the implications from this study is that investors should be wary of companies that have severe agency problems. These are companies that do not make it transparent that they practice performance-related pay scheme and have very high managerial ownership (agency problem is between controlling shareholders and minority shareholders due to management entrenchment). In such companies, there is a possibility that the managers are able to extract rent in the form of excessive pay.

Keywords: Corporate governance, pay-for-performance, ownership, Malaysia

INTRODUCTION

Executive remuneration has become one of the prominent topics in contemporary corporate governance. The mainstream view, derived from the principal-agent framework, is that, a well designed compensation contract helps to incentivize executives to enhance shareholder value (e.g., Jensen and Murphy, 1990; Murphy, 1999). Strong pay-for-performance sensitivity is seen as the key metric in aligning the divergent incentives of executives and shareholders. However, a more skeptical view sees compensation contract as a perverse instrument of greed rather than a shareholder-friendly incentive mechanism (Bebchuk and Fried, 2006). One form of managerial opportunism, or private benefits of control, is when CEOs and top management awarded themselves stupendous pay-without-performance to the detriment of shareholders. In other words, the board of directors sets compensation that deviates from arm's length contracting. Negative coverage on grossly overpaid top management is regularly featured in the international financial press (Core, Guay, & Larcker, 2008). Malaysia is not spared. In 2007, angry shareholders of Transmile Group voted against the payment of directors' fees for the financial year ended 2006 after financial irregularities were made public.¹

¹ Transmile Group, the air cargo carrier, attracted attention in the early part of 2007 when its external auditor Deloitte & Touche blew the whistle after discovering irregularities in prior years' audited financial statements, involving unsubstantiated sales of more than RM600 million from 2004 to 2006. Subsequently, Transmile Group restated its financial statements from a profit of RM158 million to a loss of RM126 million for the year ended December 2006. In July and November 2007, its former CEO, CFO and two non-executive directors were charged in court with abetting the company in providing misleading financial statements. At the AGM held in September 2007, more than two thirds of the shareholders voted against the payment of director fees for 2006 totalling RM145,000. The non-executive Chairman of Transmile Group, who is an ex-Transport Minister, resigned shortly before the said AGM. He joined the board of Transmile Group in 2004 when the Kuok Group emerged as a new controlling shareholder.

The ample empirical evidence suggests that executive compensation is largely insensitive to firm performance (e.g., Jensen and Murphy, 1990; Garen, 1994; Barkema and Gomez-Mejia, 1998; Zhou, 2000; Firth, Fung, & Riu, 2007; Merhebi, Pattenden, Swan, & Zhou, 2006; Duffhues and Kabir, 2007). This low pay-for-performance sensitivity raises concern that executives' pay arrangements do not provide sufficient incentives to deliver performance or they create agency costs in the form of excess pay (Bebchuk and Fried, 2003).

Given the observed decoupling of pay and performance, a number of studies have attempted to unravel how the pay-for-performance link can be strengthened in order to fulfill the promise of executive compensation as a mechanism to align the interests of executives and shareholders. Conyon (1997) examines the influence of remuneration committee adoption in UK companies, and finds that, in some circumstances, the adoption lowers the growth rates in top director compensation. Conyon and Peck (1998) investigate the affect of outside directors in remuneration committee decisions, and report that they enhance the pay-for-performance sensitivity. However, studies in the US by Anderson and Bizjak (2003) and Vafeas (2003) report insignificant results on the influence of remuneration committee independence towards level of CEO pay. A more recent study by Sun and Cahan (2009) attempts to provide explanation for the mixed findings. Using a broader and richer measure of remuneration committee quality instead of just focusing on independence, they show that the sensitivity of CEO compensation to accounting performance is related to the governance quality of the remuneration committee, for US companies with fully independent remuneration committees.

Another strand of research examines the role of ownership structure in enhancing the pay to performance relationship. Gomez-Mejia, Tosi and Hinken (1987) and Tosi and Gomez-Mejia (1989) document that the responsiveness of CEO pay to performance is greater in owner-controlled firm than management-controlled firm in the US manufacturing sector.² A meta analysis of CEO pay by Tosi, Werner, Katz and Gomez-Mejia (2000) concludes that firm size rather than performance is the strongest predictor of CEO pay in management-controlled firms, while performance-related pay is more prevalent in owner-controlled firms. Further evidence on the importance of ownership structure in the pay-for-performance linkage for countries in Asia is provided by Firth et al. (2007) and Kato and Long (2005). Their studies show that in China, the pay-for-performance link is weaker or insignificant in listed firms owned by the state bureaucracy. Meanwhile, Kato, Kim and Lee (2007) document that pay-for-performance link is significant for Korean non-Chaebol firms but negligible for Chaebol firms.

Denis and McConnell (2003) suggest that the interrelationship between executive compensation and corporate governance mechanisms remains a fruitful area for research worldwide. Bruce, Buck and Main (2005) suggest that country-level institution should be factored into in analyzing executive pay. Furthermore, Kabir (2008) observes that not much is known about how firms across the world reward their executives outside the US, primarily due to the lack of publicly available information on executive pay and very intensive data collection requirements. We continue this line of research and investigate whether internal governance mechanisms, particularly the remuneration committee

² Firm is referred as owner-controlled when there is single equity holder who controls as little as 5 percent of the voting stock. Meanwhile, firm is referred as management-controlled when there is no equity holder with at least 5 percent of the stock (Tosi and Gomez-Mejia, 1989).

structure and ownership structure, influence the pay-for-performance link using a unique data set on remuneration practices and directors' remuneration in Malaysia.

In addition, this study is also motivated by Conyon (2006) who challenged researchers to distinguish between the two competing theories of executive compensation namely the principal-agent and managerial power. Thus, our study also attempts to disentangle the managerial power and principal-agent views of executive pay. As mentioned earlier, the principal-agent (or optimal contracting) view of executive compensation holds that a well designed incentive contract whereby managers are suitably rewarded for generating shareholder value, helps to closely align the interests of managers and shareholders (e.g., Jensen and Murphy, 1990; Core, Holthausen and Larcker (1999). However, Bebchuk and Fried (2003) argue that the promise that managerial incentive contract is a partial solution to the agency problem remains largely unfulfilled. Bebchuk and Fried (2003) are of the view that executive compensation exacerbates the agency problem by promoting rent-extracting on the part of the executives. In their alternative managerial power story on executive compensation, powerful CEOs have great sway over their own pay by capturing the board, resulting in rent extraction in the form of greater CEO pay, or pay-without-performance, to the detriment of shareholders.

Malaysia provides a unique setting to examine the applicability of managerial power and principal-agent views in the determination of executive pay. Following the introduction of the voluntary Malaysian Code on Corporate Governance (MCCG) in

2000, companies listed on Bursa Malaysia are required to make public the Statement of Corporate Governance incorporating disclosure on directors' remuneration. The MCCG emphasizes the following principles on directors' remuneration. Firstly, in the case of executive directors, remuneration should be structured so as to link rewards to corporate and individual performance. Secondly, companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. And thirdly, company's annual report should contain details of the remuneration of each director. Under best practices in corporate governance, the MCCG recommends companies to establish a remuneration committee consisting of wholly or mainly non-executive directors. The committee is allowed to get advice from consultants relating to executive directors' remuneration and recommend to the board an appropriate remuneration for the executive directors.

By exploiting the enhanced disclosures on the activities of remuneration committees and directors' pay, and whether the companies observe the corporate governance principle by linking executive pay to performance, we expect that companies are subject to the dark side of managerial power when they do not subscribe to performance-related pay scheme. Particularly, for such companies, at high level of managerial ownership, level of pay is an increasing function of managerial ownership. Specifically, the objectives of this study are (1) to examine whether companies that publicly disclosed that they subscribe to the MCCG's principles in structuring the executive remuneration so as to link rewards to corporate and individual performance actually practice what they preach, (2) to examine whether strong remuneration

committee structure enhances the pay-for-performance link, and (3) to examine whether ownership structures influence the pay-for-performance link.

Using data from 2003-2005, our results show that companies that claim that their reward system is related to performance, generally ‘do what they say’, and companies with strong remuneration committees appear to design their executive pay packages so as to reward their executives for creating shareholder value. It appears that institutional investors are associated with higher pay-for-performance relationship. The pay-for-performance relationship seems to weaken when managerial ownership exceeds 35 percent, possibly due to the dark side of managerial power.

Our study contributes to executive pay-for-performance literature in a few ways. Firstly, we extend the measurement of the governance quality of remuneration committees by including the activities of the remuneration committees. And secondly, we show that in situations where managerial power is at its most destructive, i.e. when companies have very high managerial ownership and at the same time, do not subscribe to performance-related pay scheme, rent extraction by executives in the form of excessive pay is likely.

The paper is organized as follows. The next section summarizes the prior literature on pay-for-performance link and develops the hypotheses to achieve our research objectives. This is followed by a description of the pay-for-performance model. Next, we explain the sample selection and data sources. The penultimate section presents

the results and the final section concludes the paper and discusses the implications of our study for the governance of publicly traded companies.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Pay-for-Performance Link

There is copious literature on executive remuneration studies using the principal-agent framework. In this framework, shareholder (principal) expects the executive (agent) to put his/her greatest effort to maximize firm value, which in turn increases the shareholder's wealth. In ensuring that the alignment exists, the theory maintains that firms seek to design the most efficient compensation packages possible in order to attract, retain and motivate executives (Conyon, 2006).

The empirical study by Jensen and Murphy (1990), considered as one of the most comprehensive, has produced dismal results on the pay-for-performance alignment, which justifies shareholders' disquiet on the issue of pay and performance. They conclude that there is little support for agency theory notions that optimal contracting aligns executive and shareholder interests. Other studies have also failed to provide strong confirming evidence on the association of pay and performance such as Tosi and Gomez-Mejia (1994), Barkema and Gomez-Mejia (1998) and Jensen and Murphy (2004).

Recently, discussion on executive remuneration issues has shifted from the dominance of optimal contract (principal-agent theory) to managerial power theory (Barkema and Penning, 1998; Bebchuk, Fried, & Walker, 2002; Bebchuk and Fried,

2003; 2004). Bebchuk and Fried (2003; 2004) and Bebchuk et al. (2002) claim that CEOs have too much power over their boards. Compensation contracts are not negotiated at arm's length as they would be if shareholders were at the bargaining table, because board members care more about their standing with the CEO than with the shareholders. The lack of arm's length bargaining has resulted in excessive pay levels, weak pay-for-performance relationships, and inefficient forms of pay.

In Malaysia, realizing the importance of executive remuneration as a mechanism in aligning the interest of shareholder and executive, the MCCG strongly advocates the alignment between executive pay and performance. Some companies do in fact make a clear positive statement that they practice performance-based pay in the annual reports, while others are silent about it. Appendix 1 provides two examples of the performance-based pay disclosures, or lack of it, extracted from the Statements of Corporate Governance of the two companies. Our first research question, which is to ascertain whether companies that claim they follow performance-based pay, actually practice it, leads to the following hypotheses:

Hypothesis (H₁): Companies that disclose that they reward executive directors based on firm or individual performance have stronger pay-for-performance relationship.

Remuneration Committee Structure and Performance-Related Pay

Many prominent scholars in agency theory and remuneration studies like Jensen and Meckling (1976), Fama (1980), Fama and Jensen (1983), Jensen and Murphy (1990;

2004) argue that corporate governance mechanisms in the form of incentive (i.e. remuneration) or monitoring (i.e. ownership structures and board characteristics) are important in aligning the interest of shareholders and executives. The theory presumed that effective boards of directors have effect on executive remuneration given that they have the authority mandated by the shareholders to look into the matter of executive remuneration. The board of directors, particularly through its remuneration committee, is involved in designing a desirable remuneration package for executives in line with governing objective, and the corporate vision and strategy of company (Jensen and Murphy, 2004). Jensen and Murphy (2004) argue that corporate governance and remuneration policies are highly inter-related where bad governance can easily lead to value-destroying pay practices. They propose a number of recommendations particularly on the roles and functions of remuneration committee in pay-setting process. These include remuneration committees must take full control of the remuneration process, policies and practices, remuneration committees should employ their own professional contracting agents when hiring new top-level managers, and remuneration committees should give careful consideration to issuing executive stock options with exercise prices that increase with the company's cost of capital.

In ensuring its effectiveness, the remuneration committee should be independent from executives' influence and its members should be exclusively non-executive directors. Murphy (1999) observes that most large US corporations have a compensation committee consisting of two or more independent directors. However, Bebchuk and Fried (2003) caution that normally independent directors are proposed and nominated as board members by the influence of executive directors. Thus, to what extent the non executive

directors can be truly independent is an open question. The obstacles to achieving a truly independent remuneration committee include the following: (1) CEO often nominates non-executive directors, (2) non-executive directors must rely on the executives for most of the information they receive, (3) non-executive directors need good relationships with the executives if they are to function well in guiding corporate policy, and (4) non-executive directors often share a similar backgrounds and interest with executive directors, and frequently, they themselves are senior executives in other companies.

Vafeas (2003) examines the relation between insider membership in remuneration committees and CEO remuneration, and finds a steady decline in the number of committees with insider participation, and opportunistic behavior by insiders in setting pay. However, Anderson and Bizjak (2003) find little evidence that greater remuneration committee independence affects executive remuneration. Moreover, their findings show that committee consisting of insiders or the CEO does not award excessive remuneration or lower overall incentives. They also find no evidence that pay decreases or total incentives increase when CEOs come off the remuneration committee.

UK studies by Conyon (1997), Conyon and Peck (1998), Laing and Wier (1999), and Ezzamel and Watson (2002) document the invaluable role of the remuneration committee. Conyon (1997) and Laing and Wier (1999) show that the existence of remuneration committee influences the pay level of top directors. Conyon and Peck (1998) suggest that remuneration committee independence influences pay-for-performance sensitivity. Ezzamel and Watson (2002) show that remuneration committee plays important roles in executive pay-setting process. Their results suggest that

members of remuneration committees in the UK tend to determine CEO pay awards on the basis of: (1) their own pay levels, (2) the percentage change (typically increase) in their own pay awards, and (3) an element which attempts to maintain parity with comparable CEOs in other firms. On the other hand, Conyon and He (2004) find that the presence of significant shareholders on the remuneration committee is associated with lower CEO pay and higher CEO equity incentives. Firms with higher paid remuneration committee members are associated with greater CEO compensation and lower equity incentives. Nevertheless, they find no evidence that insiders or CEOs of other firms serving on the remuneration committee raise the level of CEO pay or lower CEO equity incentives.

The latest study by Sun and Cahan (2009) provides an important insight that CEO compensation is more positively associated with accounting earnings when companies have high remuneration committee quality. Based on the above empirical results and discussions, we hypothesized the following:

Hypothesis (H2): Companies with good remuneration committee structures have stronger pay-for-performance relationship than their counterparts with poorly structured remuneration committee.

Ownership Structure and Performance-Related Pay

Ownership structure is another important corporate governance mechanism in aligning the interest of shareholders and executives from an agency theory perspective (Jensen and Meckling, 1976; Fama and Jensen, 1983; and Hart, 1995). Jensen and Meckling

(1976) theorize that stock ownership by management could reduce agency problems. As their stakes rise, managers pay a larger share of agency costs and, therefore, are less likely to expropriate wealth from other stockholders.

A number of studies show that managerial ownership significantly influences the level of executive pay and pay-for-performance relationship although the results are mixed. Core et al. (1999) find that CEO remuneration is a decreasing function of the CEO's ownership stake and the existence of an external blockholder who owns at least five percent of the equity. Brick, Palmon, and Wald (2006) find that the higher the percentage owned by the CEO, the lower the levels of CEO remuneration and the lower the fraction of non-cash compensation received.

On the other hand, Holderness and Sheehan (1988) provide evidence that executives who are majority shareholders (defined as individuals owning at least half but not all of the common stock) in publicly held corporations receive marginally higher salaries than other officers. Zingales (1995) shows stronger evidence of executives using their controlling position in their firms to pay themselves more. He examines the remuneration as a proxy for private benefit of the largest shareholder in companies with differential voting rights. He finds that such shareholders, who are typically the CEOs, are paid significantly more and that the amount is correlated with their voting power. The evidence supports the "skimming" view of managerial remuneration as it suggests that such executives are paying themselves more.

Similar to evidence by Holderness and Sheehan (1988) and Zingales (1995) in the US, Mitsudome (2000) finds that the level of compensation increases as the level of managerial ownership increases among Japanese firms, suggesting that firms with a higher level of managerial ownership experience greater agency problems. Mitsudome's (2000) finding is supported by another research using Japanese data by Basu, Hwang, Mitsudome and Weintrop (2007). Basu et al. (2007) find that top executive pay is higher in firms with weaker corporate governance mechanisms. They use management ownership and family control, keiretsu affiliation, the presence of outside directors and board size to measure corporate governance.

A study by Cheung, Stouraitis, and Wong (2005) in Hong Kong finds a positive relationship between managerial ownership and CEO cash emoluments for levels of managerial ownership of up to 35 percent in small market cap firms and in family controlled firms, and up to 10 percent in large firms. They further suggest that in the presence of information asymmetry between owners-managers and outside investors (which are likely in small firms), the former may use their ownership rights to extract higher salaries for themselves.

The mixed evidence on the association between ownership structure and pay-for-performance relationship points to the relevance of both the managerial power and principal agent views of CEO compensation. The challenge is to disentangle the two. Thus, we formulate the following hypotheses in resolving this issue.

If principal agent view is more dominant, then we expect that the pay-for-performance relationship is increasing with higher level of managerial ownership, as hypothesized in H3a.

Hypothesis (H3a): The pay-for-performance relationship is stronger as managerial ownership increases.

However, this relationship may disappear at high level of managerial ownership due to the dark side of managerial power, as hypothesized in H3b.

Hypothesis (H3b): The pay-for-performance relationship is weakening at extremely high level of managerial ownership.

Apart from managerial ownership, another important dimension of corporate ownership is the substantial shareholdings by non-management blockholders, typically institutional shareholders. The literature predicts that blockholders will be more active monitors of management than atomistic shareholders because they have more to gain from improved firm performance. The benefits the large blockholders derive from the monitoring activities are more likely to exceed the costs that they incur (Shleiffer and Vishny, 1986).

In the US, Cordeiro and Veliyath (2003) show that the number of blockholders holding more than five percent of the outstanding shares is negatively related with CEO

cash remuneration but not total pay. Khan, Dharwadkar, and Brandes (2005) investigate how institutional ownership concentration and dispersion affect levels of CEO remuneration, pay mix and stock option pay sensitivity. They find that the percentage of shareholding by the largest institutional investor is associated with lower level of CEO remuneration, but that the number of blockholders holding more than five percent of the outstanding shares does not predict any aspects of CEO remuneration. In addition, institutional ownership dispersion is associated with increased level of remuneration. These results suggest that increases in institutional ownership concentration promote monitoring due to the needs and abilities of large institutional owners. However institutional ownership dispersion negates the beneficial effects of institutional ownership. Additionally, Hartzell and Starks (2003) find that institutional ownership concentration is positively related to the pay-for-performance sensitivity of executive remuneration and negatively related to the level of remuneration, even after controlling for firm size, industry, investment opportunities and performance. They show that, for an average executive, an increase in one standard deviation in the percentage of shareholdings by the top five institutional investors is associated with (i) a greater than 20 percent increase in the sensitivity of changes in total compensation to changes in shareholder wealth, and (ii) a drop in total compensation equal to 19 percent of the sample mean.

Ozkan (2006) is one of the earliest studies that examines large non-management ownership and CEO pays in the UK. He observes that institutional ownership and non-managerial and non-board member blockholder ownership have negative impact on CEO

compensation, which points to their active monitoring role. There are other studies that look at the association between ownership structures and executive remuneration in countries with high family ownership such as Hong Kong and Malaysia. Firth, Tam, and Tang (1999), using Hong Kong data, report that high institutional shareholdings are associated with lower remuneration levels. They argue that top management probably feels more constrained in engaging in self-serving behavior because of the monitoring role of institutional shareholders. A subsequent study by Cheng and Firth (2005), also using Hong Kong data, shows that institutional ownership moderate remuneration of top management. Using Malaysian data, Dogan and Smyth (2002) show a weak negative relationship between board remuneration (salaries and fees paid to all directors) and ownership concentration (a dummy variable equals 1 if the percentage of shares owned by the largest shareholder is above the median).

Kato and Long (2005), Kato et al. (2007) and Firth et al. (2007) provide further evidence on how ownership structures can strengthen or weaken the pay-for-performance link in countries with unique government ownership like China and South Korea. Kato and Long (2005) show that state ownership of China listed firms is weakening the pay-for-performance link for top managers. Firth et al. (2007) find statistically significant pay-for-performance coefficients when the controlling shareholder is a Chinese State-Ownership-Enterprise (SOE) or private blockholder. In addition, firms with foreign investors have significant pay-for-performance sensitivities. In contrast, performance is not statistically related to change in CEO compensation for firms whose controlling shareholder is a Chinese state bureaucracy. Kato et al. (2007) estimate the pay-for-

performance relations for executives of Korean firms with and without Chaebol affiliation.³ Their result reveals non-Chaebol firms drive the significant executive pay-for-performance link. No such link is found to exist for Chaebol firms. Based on the above, we posit the following:

Hypothesis (H3c): The pay-for-performance relationship is stronger in companies with higher non-management blockholder ownership.

MODELING PAY-FOR-PERFORMANCE

Following Murphy (1999), Zhou (2000) and Merhebi et al. (2006), the pay-for-performance elasticity is measured by regressing the dependent variable (change in log of executive remuneration) on the independent variables, log of (1 + contemporaneous return) and log (1 + lagged return). The model is:

$$\Delta \ln \text{PAY}_{it} = \alpha + \beta_1 \ln(1 + \text{RET}_{it}) + \beta_2 \ln(1 + \text{RET}_{it-1}) + u_{it}$$

where PAY = total executives pay, and

$$\text{RET} = \frac{\text{stock price at period } t - \text{stock price at period } t_{-1} + \text{dividends at period } t}{\text{stock price at period } t_{-1}}$$

³ Chaebol refers to several dozen large, family-controlled Korean corporate groups, assisted by government financing, which have played a major role in the South Korean economy since the 1960s. Some have become well-known international brand names, such as Samsung, Hyundai and LG (Life's Good)

The formula is similar to the one used by Zhou (2000). Stock price and dividend data are taken from Datastream. The self-computed annual rate of return (RET) in this study is similar to Return Index (RI) data from Datastream.

In testing hypothesis H1 the sample is partitioned into two subgroups according to whether the corporate governance statement disclosed that the pay is linked to performance or otherwise (performance-based versus non-performance based subgroups). For hypothesis H2, the sample is divided into two subgroups; those with good or poor remuneration committee structures using the median score for remuneration committee structure as cut-off point. Meanwhile, for hypotheses H3a, H3b and H3c, the sample is divided into various subgroups according to levels of managerial ownership, local institutional ownership and foreign ownership. Kato et al. (2007) and Firth et al. (2007) use similar methods when assessing the pay-for-performance sensitivity between chaebols and non-chaebols in South Korea and various types of ownership in China.

SAMPLE AND DATA

This study uses pooled cross-sectional and time-series data. The executive remuneration and corporate governance data are taken from the annual reports of the selected Bursa Malaysia listed companies for years 2003 to 2005. The 2003-2005 period is chosen because the disclosures as required under the MCCG are effective for annual reports after June 2001. As at January 2006, slightly over 1,000 companies were listed on Bursa

Malaysia comprising 646 on Main Board, 269 on Second Board and 110 on MESDAQ⁴. This study excludes MESDAQ, PN4⁵ and PN17⁶ companies. MESDAQ companies are excluded since their issued and paid-up capital are considered small compared to companies on Main and Second Boards⁷. In addition, PN4 and PN17 companies are excluded due to their adverse financial conditions.

Out of the 876 remaining companies, a further 409 companies are eliminated due to changes of financial year end, de-listing, incomplete annual reports for the three consecutive years 2003 to 2005, difficulties in assessing the annual reports online, and anomalous data. The sample of 476 remaining companies is further reduced if there is unclear or no separation between executive and non-executive remuneration in the annual report. This segregation is important since this study focuses on the executive

⁴ The MESDAQ market was created in March, 2002 as a unique market with a separate identity from the Bursa Malaysia Main and Second Boards, specifically for the capital-raising needs of technology and high-growth potential companies. The minimum paid up capital is RM2 million for technology and non-technology companies, and a minimum of RM20 million for technology incubator companies.

⁵ PN4 companies are companies which failed to meet the criteria set out under the Bursa Malaysia's "Practice Note No. 04/2001" as follows:

- i. The company failed to report the deficit in its combined shareholders funds;
- ii. Receivers or Managers have been appointed to manage the asset of the relevant company / its subsidiaries properties / associate companies;
- iii. Auditors have given a "disclaimer opinion" regarding the companies outlook in the company's latest accounts;
- iv. A special manager has been appointed as provided for under the Danaharta Nasional Berhad Management Act 1998.

⁶PN17 companies are PN4 companies which are being restructured and get into trouble again and the situation is not rectified.

⁷ Issued and paid-up capital for Main Board and Second Board must have a minimum of RM60 million and RM40 million respectively.

remuneration where the bulk of total directors' pay goes to the executive directors⁸. Taking this into consideration, 372 companies are used as a sampling frame for this study. Due to the intensive and time consuming nature of hand collecting the executive remuneration and corporate governance data, 200 companies are chosen out of the 372 companies. Due to unavailability of data from Datastream or conflicting data between Datastream and annual reports, the final sample is reduced to 158 companies.

The items extracted from the annual reports on remuneration committee characteristics are based on the Standard and Poor's Governance Disclosure Scorecard 2004 (SPGDS) which reflects the global best practices of corporate governance. In the SPGDS, there are 34 items under remuneration matters. However, for this study, in measuring the strength of the remuneration committee structure, only 15 items are selected as the others are not available from the Statement of Corporate Governance disclosed in the annual reports of Malaysian companies. The items included and excluded to indicate the strength of the remuneration committee structure are shown in Appendix 2.

⁸ Non-executive director remuneration which basically comes from fee is also taken during data collection process. Our data show that on average, 90% of director remuneration is from executive directors and about 10% from non-executive directors.

FINDINGS

Descriptive Statistics

Table 1 describes executive pay and return on stock for the sample companies for 2003 to 2005, partitioned by performance-based companies and non-performance-based companies. For our sample, the ratio between these two groups is approximately 63 percent to 37 percent for each of the years. When comparing performance-based companies and non-performance-based companies, the Table shows that the former group has lower average executive pay, although it generates better market performance. Average executive pay has increased steadily in each year for both groups, from RM2 million in 2003 to RM2.4 million in 2003 for the performance-based companies, and from RM3.1 million in 2003 to RM3.7 million in 2005 for the non-performance-based companies. On the other hand, return-on-stock has steadily declined for both groups over the period 2003-2005. In the performance-based companies, it declined from 26 percent in 2003, to 16 percent in 2004 to -10 percent in 2005. The corresponding figures for the non-performance-based companies were 18 percent, 10 percent and -17 percent. The maximum total pay for the non-performance-based group (RM79 million) is considerably higher than the performance-based group (RM19 million).

Table 1: Descriptive Statistics of Executive Remuneration and Return on Stock for 2003 to 2005 Partitioned by Performance-Based Companies and Non-Performance-Based Companies

Year	Variables	Performance-Based Companies		Non-Performance-Based Companies	
		Executive remuneration (RM)	Return on stock	Executive remuneration (RM)	Return on stock
2003	N	98	98	60	60
	Mean	2,027,223.52	0.26	3,114,971.17	0.18
	Median	1,438,625.00	0.19	1,042,070.00	0.15
	Minimum	72,000.00	-0.39	120,928.00	-0.90
	Maximum	9,483,000.00	2.76	57,896,000.00	1.65
	Std.Dev	1,909,774.01	0.43	8,315,712.95	0.46
2004	N	99	99	59	59
	Mean	2,426,227.20	0.16	3,379,855.31	0.10
	Median	1,570,880.00	0.11	1,044,655.00	0.01
	Minimum	72,000.00	-0.50	32,500.00	-0.59
	Maximum	14,433,000.00	1.54	69,496,000.00	2.63
	Std.Dev	2,626,198.87	0.36	10,081,485.07	0.56
2005	N	100	100	58	58
	Mean	2,412,797.47	-0.10	3,730,976.03	-0.17
	Median	1,597,540.00	-0.08	1,113,829.50	-0.20
	Minimum	48,000.00	-0.72	54,000.00	-0.65
	Maximum	18,940,000.00	0.63	78,788,000.00	0.69
	Std.Dev	2,859,614.23	0.30	11,524,771.33	0.31
Total	N	297	297	177	177
	Mean	2,290,047.63	0.11	3,405,120.58	0.04
	Median	1,556,480.00	0.07	1,062,000.00	-0.03
	Minimum	48,000.00	-0.72	32,500.00	-0.90
	Maximum	18,940,000.00	2.76	78,788,000.00	2.63
	Std.Dev	2,499,563.70	0.39	9,987,728.05	0.48

Table 2 describes the remuneration committee (panel A) and share ownership (panel B) of the sample companies. Nearly 90 percent of the sample companies have established remuneration committees. Slightly more than two-third of remuneration committee members are independent directors. The percentage of companies with all independent directors on the remuneration committee has increased slightly from 12 percent in 2004 to 15 percent in 2005. About 40 percent of sample companies disclose

the frequency of remuneration committee meeting. However, less than half of these companies disclose in details the attendance by each of the members. Nearly one-third of sample companies hire external compensation specialists to ascertain industry pay practices. As mentioned earlier, 63 percent of sample companies state categorically that they practice performance-related pay scheme. Less than 50 percent of sample companies use long-term performance incentive. Nearly 20 percent of sample companies do not disclose executive pay in the band of RM50,000 as stipulated by the Listing Requirements of Bursa Malaysia⁹. And less than 15 percent of sample companies disclose the pay for individual executive director. For the sample companies, the scores for remuneration committee structure range from 1 to 15 with a mean and median of 7.19 and 7.25 (not tabulated) respectively.

⁹ In relation to director's remuneration, the Code highlighted the issue under its principles and best practices parts. The principles part addresses three items, which are level and make-up of remuneration, procedure, and disclosure in annual report. With respect to executive remuneration, the principle of the Code required the following: -

1. The level and make-up of remuneration (in the case of executive directors, the component parts of remuneration should be structured so as to link rewards to corporate and individual performance);
2. Procedure (companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors);
3. Disclosure (company's annual report should contain details of the remuneration of each director).

Moreover, although the Code is a voluntary requirement, Chapter 15, para 15.26 of the Listing Requirement makes it compulsory for companies to disclose on the extent of compliance with the best practice set out in the Code, while allowing for some flexibility in its implementation. With respect of remuneration, first, companies are required to disclose the aggregate remuneration of directors with categorization into appropriate components (e.g. directors' fees, salaries, percentages, bonuses, commission, compensation for loss of office, benefits in kind based on estimated money value) distinguishing between executive and non-executive directors in their annual report. Second, companies are also required to disclose the number of directors whose remuneration falls in each successive band of RM50,000 distinguishing between executive and non-executive directors as well.

Table 2 : Descriptive Statistics of Remuneration Committee Structure and Ownership Structure for 2004 to 2005

		2004	2005	2004	2005	2004	2005	2004	2005
Variables		Mean		Max		Min		SD	
item	Panel A : Remuneration Committee Structure								
1	Remuneration committee existence	0.89	0.87	1	1	0	0	0.31	0.33
2	Majority remuneration committee independent	0.67	0.68	1	1	0	0	0.47	0.47
3	All remuneration committee independent	0.12	0.15	1	1	0	0	0.33	0.36
4	Remuneration committee's chairman independent	0.62	0.62	1	1	0	0	0.49	0.49
5	Remuneration committee's attendance disclose	0.15	0.18	1	1	0	0	0.35	0.39
6	Remuneration committee's frequency of meeting disclose	0.39	0.40	1	1	0	0	0.49	0.49
7	Remuneration committee recommends framework to board	0.80	0.82	1	1	0	0	0.40	0.39
8	Remuneration committee reviews all aspect of remuneration	0.23	0.23	1	1	0	0	0.42	0.42
9	Possibility of using a consultant in determining executive pay	0.33	0.34	1	1	0	0	0.47	0.47
10	Company links pay to individual or company performance	0.63	0.63	1	1	0	0	0.49	0.49
11	Executive director prevented from deciding their own pay	0.58	0.54	1	1	0	0	0.50	0.50
12	Executive director remuneration include long term incentives	0.48	0.46	1	1	0	0	0.50	0.50
13	Compliance of RM50,000 band	0.84	0.80	1	1	0	0	0.37	0.40
14	Disclosure of individual director remuneration	0.13	0.15	1	1	0	0	0.49	0.53
15	Disclosure of component analyzed by salaries, bonuses, options and long term incentives	0.78	0.82	1	1	0	0	0.41	0.38
	Remuneration Committee Score	7.15	7.23	12	15	1	1	2.41	2.62
	Panel B : Ownership Structure								
	Managerial ownership	0.28	0.28	0.73	0.74	0	0	0.22	0.23
	Local Institutional Ownership	0.12	0.12	0.90	0.91	0	0	0.18	0.18
	Foreign Ownership	0.07	0.07	0.60	0.59	0	0	0.14	0.14

Findings on Pay-for-Performance Elasticity

Table 3 summarizes the pay-for- performance relationship for the performance-based pay subgroup (column 2), non-performance-based pay subgroup (column 3) and for the full sample (column 4). Both columns 2 and 3 provide evidence in support of H1, whereby the sum of the coefficients of B_1 (change in shareholder wealth in period t) and B_2 (change in shareholder wealth in lagged period $t - 1$) is higher for the performance-based pay subgroup than for the non-performance-based pay subgroup. Column 2 shows moderately significant and positive coefficients for both changes in current year's and previous year's shareholder wealth. Summing both coefficients, this study finds a pay-performance elasticity of 16.4 percent for the performance-related pay companies. This study interprets the result as follows: executives in companies that have pay-performance scheme receive a 1.64 percent increase in remuneration for a 10 percent increase in

shareholder wealth. The result shown in column 3 indicates that there is no significant relationship between changes in executive pay and changes in current and previous year market-based performances. This result again supports H1, that non-performance based companies do not link their executive pay to firm performance. In sum, Malaysian companies generally ‘do what they say’. When companies make a positive declaration in the annual reports that they adopt performance-related pay scheme, these disclosures are generally reliable.

Table 3 : Pay-Performance Elasticity Partitioned by Performance-Based Pay and Non-Performance-Based Pay Companies and Full Sample

Variables (1)	Performance Based (2)	Non-Performance Based (3)	Full Sample (4)
Constant	0.063*** (3.67)	0.036 (1.59)	0.055*** (3.91)
Change in shareholder wealth (t)	0.074* (1.83)	-0.010 (-0.18)	0.039 (1.13)
Change in shareholder wealth (t-1)	0.090* (1.83)	0.100 (1.47)	0.095** (2.34)
R-square	0.029	0.018	0.022
F-value	5.35	1.08	4.15
N	198	118	316

t-statistics are in parentheses. ***, ** and * denote significance at the 0.01, 0.05 and 0.1 level

Column 4 shows the result of pay-for-performance elasticity for the full sample. The result shows that the coefficient on the previous year’s change in shareholder wealth is positive and statistically significant at the five percent level. However the coefficient for current year’s change in shareholder wealth is insignificant. The combined coefficients imply that the executives receive a 1.34 percent increase in remuneration for a 10 percent increase in shareholder wealth. The 13.4 percent pay-for-performance elasticity in Malaysia is comparable to the evidence in Canada (16 percent) and Australia (11.6 percent) as provided by Zhou (2000) and Merhebi et al. (2006), respectively.

Further, Rosen (1992) estimates that the elasticities of top executive pay with respect to stock market returns are between 10 to 15 percent. On the other hand, based on S&P 500 companies, Murphy (1999) demonstrates that pay-for-performance elasticities in the US have nearly tripled from nine percent in the 1970s to 26 percent during the first seven years of the 1990s.

Table 4 provides evidence in support of H2 whereby companies with good remuneration committee structures have stronger pay-for-performance relationship. The result in column 2 which represents companies with good remuneration committee structures reports a positive and statistically significant coefficient for previous year's change in shareholder wealth. The combined coefficients for changes in current and previous year shareholder wealth is 0.2. This result can be interpreted as executives in companies with good remuneration structure receive a 2.0 percent increase in remuneration for a 10 percent increase in shareholder wealth. As expected, column 3 which represents companies with poor remuneration committee structures show insignificant coefficients for both changes in shareholder wealth. In sum, the results in columns 2 and 3 of Table 4 support H2, whereby the pay-for-performance elasticity for companies having good remuneration committee structure is higher than their counterparts with poor remuneration committee structure (20 percent versus 8 percent). This implies that remuneration committee structure is an important factor in aligning the pay-for-performance relationship as proposed by the agency theorists such as Jensen and Murphy (2004). They argue that remuneration committee plays an important role in dealing with matters specifically related to executive remuneration on behalf of

shareholders and executives. In addition, these results reinforce the MCCG's recommendations on the establishment and role of remuneration committee in aligning the interest of shareholders and executives.

Table 4 : Pay-Performance Elasticity Partitioned by Good and Poor Remuneration Committee Structure

Variables (1)	Remuneration Committee Structure	
	Good (2)	Poor (3)
Constant	0.068*** (3.50)	0.039* (1.96)
Change in shareholder wealth (t)	0.062 (1.45)	0.020 (0.40)
Change in shareholder wealth (t-1)	0.138** (2.28)	0.062 (1.11)
R-square	0.042	0.010
F-value	4.09	0.91
N	157	159

t-statistics are in parentheses. ***, ** and * denote significance at the 0.01, 0.05 and 0.1 level

The following paragraphs report and discuss results of pay-for-performance elasticities for different ownership structures, to provide answers for H3a, H3b and H3c. Table 5 shows the pay-for-performance elasticities at various levels of managerial ownership. Following Morck et al. (1988) and Cheung et al. (2005), managerial ownership is partitioned into three subgroups; less than 10 percent, between 10 to 35 percent and above 35 percent. The results of Table 5 reveal that different levels of managerial ownership have different impact on the pay-for-performance elasticity. Column 2 shows a statistically significant relationship between change in executive remuneration to contemporaneous change in shareholder wealth at five percent level for managerial ownership of less than 10 percent. The total elasticity for contemporaneous and lagged performance measure is 0.156.

In addition, the pay-for-performance relationship is also statistically significant for level of managerial ownership between 10 to 35 percent. For this managerial ownership group, the relationship is significant for the lagged performance variable. Total coefficient for both variables is 0.115. However, column 4 which represents level of managerial ownership above 35 percent, does not provide statistically significant pay-for-performance link. In sum, the results of columns 2, 3 and 4 partly support H3a. There seems to be a significant pay-for-performance link for managerial ownership up to 35 percent¹⁰. However, for extremely high managerial ownership, the link of pay-for-performance disappears as shown in column 4. Although not tabulated in table 4, when we run regression on determinants of level of pay by regressing the log of total executive pay on market and accounting performance measures (such as return on stock and return on assets, and piecewise managerial ownership variables (less than 10 percent, 10 to 35 percent, and more than 35 percent)), we find that for non-performance-based subgroup, level of pay is positively associated with managerial ownership above 35 percent. This evidence, coupled with the result in column 4 implies that when managerial ownership exceeds 35 percent, the executives tend to use their power in extracting more pay without linking the pay to performance as argued by the managerial power approach. To sum up, the results as shown in columns 2, 3 and 4 seem to suggest that different levels of managerial ownership have different influence on the pay-for-performance relationship.

¹⁰ Beside managerial ownership less than 10%, 10% to 35% and above 35%, this study uses a variety of turning points for managerial ownership (less 10%, 10% to 50% and above 50%; less 5%, 5% to 25% and above 25%; and less 5%, 5% to 35% and above 35%). However, the results are qualitatively similar even though different turning points have been used.

Table 5 : Pay-Performance Elasticity Partitioned by Levels of Managerial Ownership

Variables	Managerial Ownership		
	Below 10 percent (2)	10 to 35 percent (3)	Above 35 percent (4)
Constant	0.021 (0.66)	0.024 (1.06)	0.098*** (4.80)
Change in shareholder wealth (t)	0.148** (2.03)	-0.017 (-0.31)	0.013 (0.25)
Change in shareholder wealth (t-1)	0.008 (0.08)	0.132** (2.19)	0.089 (1.63)
R-square	0.045	0.050	0.015
F-value	2.51	2.41	1.41
N	95	88	133

t-statistics are in parentheses. ***, ** and * denote significance at the 0.01, 0.05 and 0.1 level

Table 6 analyses the pay-for-performance link for various non-managerial blockholder ownerships to test H3c. The non-managerial blockholder ownerships are local institutional investors and foreign investors. For each of the non-managerial blockholder ownerships, the cutoff used is five percent, following Conyon and He (2004) and Tosi and Gomez-Mejia (1989).

Columns 2 and 3 show that pay-performance relationship is stronger for local institutional ownership above five percent than below five percent (0.179 versus 0.107). This implies that higher local institutional ownership generates larger pay-for-performance elasticity. Similar result is obtained for foreign ownership. Column 4 reports combined pay-for-performance elasticity of 0.151 for foreign ownership of at least five percent, which is higher than the combined pay-for-performance elasticity of 0.122 for foreign ownership less than five percent.

Table 6 : Pay-Performance Elasticity Partitioned by Levels of Non-Managerial Ownership

Variables (1)	Local Institutional Ownership		Foreign Ownership	
	ABOVE 5 percent (2)	BELOW 5 percent (3)	ABOVE 5 percent (4)	BELOW 5 percent (5)
Constant	0.053** (2.49)	0.055*** (2.94)	0.064** (2.39)	0.049*** (2.96)
Change in shareholder wealth (t)	0.120** (2.33)	-0.024 (-0.54)	0.089 (1.56)	0.013 (0.29)
Change in shareholder wealth (t-1)	0.059 (0.91)	0.131*** (2.63)	0.062 (0.87)	0.109** (2.19)
R-square	0.037	0.039	0.033	0.021
F-value	3.36	3.46	2.44	2.55
N	161	155	98	218

t-statistics are in parentheses. ***, ** and * denote significance at the 0.01, 0.05 and 0.1 level

In sum, the results in Table 5 support H3c whereby pay-for-performance elasticity is stronger in companies with higher local institutional and foreign ownership. These results are consistent with other studies that show ownership matters in aligning the interests of shareholders and investors through the use of pay-performance incentive. A study by Kato et.al. (2007) reports that non-Chaebol firms drive the significant link between pay and performance in Korea. Kato and Long (2005) report that state ownership of China listed firms weakens the pay-performance link. Firth et al. (2007) reports that foreign owned firms in China have higher pay-performance sensitivity.

Additional Analysis

The analysis so far focuses on the link between pay to shareholder returns, which may be viewed as short term performance measure. For more insights, we also investigate whether pay is sensitive to long term performance measure. We use Market to Book as a proxy, and regress change in log of executive remuneration on two independent variables, namely change in contemporaneous Market to Book and change in lagged Market to Book. Market to Book is measured as {Total asset - total common equity + shares outstanding x share closing price}/total asset. Table 7 summarizes our findings.

Table 7 : Sensitivity of Pay to Market/Book

Variables (1)	Remuneration Committee Structure		Performance-Based		Full sample (6)
	Good (2)	Poor (3)	Yes (4)	No (5)	
Constant	0.064*** (3.47)	0.042** (2.03)	0.054*** (3.40)	0.052** (2.10)	0.054*** (3.85)
Change in Market/Book (t)	0.040** (2.04)	-0.003 (-0.13)	0.042*** (2.68)	-0.032 (-1.06)	0.021 (1.42)
Change in Market/Book (t-1)	-0.012 (0.39)	0.036 (1.07)	-0.014 (-1.09)	0.064 (1.61)	-0.009 (-0.58)
R-square	0.030	0.006	0.035	0.024	0.008
F-value	3.66	0.57	5.90	1.59	1.29
N	157	159	198	118	316

t-statistics are in parentheses. ***, ** and * denote significance at the 0.01, 0.05 and 0.1 level

Companies with properly structured remuneration committee have higher sensitivity of pay to long term performance measures, compared to their counterparts with poorly structured remuneration committee. Performance-based companies also have higher sensitivity of pay to long term performance measures than non-performance based companies. However, for the full sample, executive pay in Malaysia is generally insensitive to long term performance measure such as Market/Book ratios.

CONCLUSION

The salient findings can be summarized as follows. First, companies that claim that their reward system is related to performance, generally ‘do what they say’. Second, companies with appropriately structured remuneration committee do reward their executives for creating shareholder value. Third, companies with managerial ownership below 35 percent appear to use performance-based pay, and the pay-performance incentive is stronger for the below 10 percent group than the 10 to 35 percent group. On the other hand, executives in companies with high managerial ownership (above 35 percent), tend to use their power in extracting more pay. It is important to emphasize that in the context of Malaysia, the incentive mechanism (i.e. pay-for-performance) and monitoring mechanism, in particular the remuneration committee structure and ownership structure, work hand in hand in aligning the interests of shareholders and executives. Overall, as reflected by the significant coefficient for the entire sample, there is statistical evidence that change in executive pay in Malaysia is associated with performance. This is consistent with the recommendation of the Malaysian Code on Corporate Governance and in line with international practices.

Due to unavailability of data related to the value of stock options granted to and exercised by executives, this study ignores share-based payment in measuring the executive remuneration. With the adoption of the new accounting standard FRS 2 in 2006, which requires companies to expense stock options, it is instructive to ascertain

whether the above findings are robust to the inclusion of stock options in the total remuneration package.

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Appendix 2: Remuneration Committee Attributes and Executive Pay Practices

1*	Does the company have a remuneration committee (RC)?
2	Is the remuneration committee members disclosed?
3*	Is the majority of RC independent?
4*	Are all members of the RC independent?
5*	Is the RC chaired by an independent non-executive director?
6*	Is disclosure made of individual members' attendance at the remuneration committee meetings?
7*	Does the company disclose the frequency of remuneration committee meeting in the annual report?
8	Did the RC meet more than 2 times in the year?
9	Did the RC meet more than 4 times in the year?
10	Was the attendance at the RC meetings more than 60 percent?
11	Was the attendance at the RC meetings more than 80 percent?
12	Was the attendance at the RC meetings 100 percent?
13	Is at least one remuneration committee member knowledgeable about executive compensation?
14*	Does the RC recommend to the board a framework of remuneration for the board and key executives?
15	Does the remuneration committee determine specific remuneration packages for executive directors and the CEO?
16	Are the remuneration committee's recommendations submitted for endorsement by the entire board?
17*	Does the RC's review include all aspects of remuneration (such as salaries, fees, allowances, bonuses and options)?
18*	Is disclosure made of the RC's processes (e.g., external compensation specialists hired) to ascertain industry practices and salary levels for pay and employment conditions?
19*	Is executive director compensation linked to industry, company and/or individual performance?
20	Is the percentage of performance-related elements of executive directors' remuneration above 50 percent?
21	Is compensation of non-executive directors linked to their level of contribution and responsibilities, and time spent and effort?
22	Were industry experts consulted on the remuneration of non-executive directors?
23	Has the board recommended all components of non-executive director compensation for approval at the annual general meetings?
24	Do service contracts for directors contain onerous removal clauses?
25	Did the remuneration committee consider the appropriateness of compensation commitments for early termination of directors?
26*	Are directors prevented from deciding on their own remuneration?
27*	Does director remuneration include long-term incentives? (E.g., bonuses payable after 12 months and/or share option with a vesting period > 12 months)
28*	Is disclosure made to shareholders of remuneration of executive directors in bands of RM50,000?
29	Is disclosure made to shareholders of remuneration of non-executive directors?
30	Is disclosure made to shareholders of remuneration of top 5 executives who are not directors?
31*	Is disclosure made of components of remuneration analyzed by salaries, variable bonuses, options and long-term incentives?
32*	Is disclosure made of remuneration of each director by name?
33	Is disclosure made of remuneration to an employee who is an immediate family member of a director or the CEO, and whose own remuneration exceeds \$150,000? If there are no such employees is this disclosed?

34	If the company has any shares/options for employees/directors, are the details of these disclosed (shares issued to employees or options granted)? If it does not have such schemes, is this fact disclosed?
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Note: For item 28, the quantum RM50,000 is adapted to suit the local requirement. Only items marked * are included in this study to compute the remuneration committee structure score.

Appendix 1 : Disclosure and Non-disclosure of Performance-Related Pay in Annual Reports

Company	2005	2004	2003
A Company that makes a positive statement that it uses performance-related pay scheme for executive directors	The framework for the remuneration of the Executive and Non-Executive Directors are reviewed regularly against market practices. As an Executive Director, the Group CEO is paid a salary, allowances, bonuses and other customary benefits as appropriate as a senior management member. Salary reviews take into account market rates and the performance of the individual and the Group.	The Executive Directors' remuneration comprises a salary, allowances, bonuses and other customary benefits as appropriate. Salary reviews take into account market rates and the performance of the individual and the Group.	The Executive Directors' remuneration comprises a salary, allowances, bonuses and other customary benefits as appropriate. Salary reviews take into account market rates and the performance of the individual and the Group.
A Company that does not make a positive statement that it uses performance-related pay scheme for executive directors	The Company has adopted the objectives as recommended by the Malaysian Code on Corporate Governance to determine the remuneration of Directors so as to ensure that the Company attracts and retains the Directors needed to run the Company successfully.	The Company has adopted the objectives as recommended by the Malaysian Code on Corporate Governance to determine the remuneration of Directors so as to ensure that the Company attracts and retains the Directors needed to run the Company successfully.	The Company has adopted the objectives as recommended by the Malaysian Code of Corporate Governance to determine the remuneration of Directors so as to ensure that the Company attracts and retains the Directors needed to run the Company successfully.