Seventh Asia Pacific Interdisciplinary Research in Accounting Conference, Kobe 26-28 July, 2013

Paper#: K253

Directors' Remuneration and Corporate Governance in Malaysia

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ABSTRACT

Using a cross-sectional analysis of 428 listed firms on the Bursa Malaysia for the financial year ending 2008, this study examines the association between directors' remuneration, firm performance, and corporate governance structures. The results show that directors' remuneration is positively and significantly related to firm performance, CEO tenure, board size, and the existence of remuneration committee. The study also finds that directors' remuneration is negatively and significantly related to board independence. Consistent with prior research, the study finds a positive and significant association between directors' remuneration and firm size and a firm's growth opportunity. The findings can be useful to regulators since the recent proposal by market regulators to limit director's influence over remuneration packages and require disclosures of directors' remuneration. The study also contributes to the growing literature on executive and directors' remuneration and it provides international evidence on the effects of corporate governance reforms in recent years in influencing boardroom pay. Although the results of prior studies are largely supported, the period of analysis is short. The use of panel data allows us to assess changes in corporate governance and directors' remuneration over time in a more meaningful way. Further, the potential limitations of using total directors' remuneration as the only dependent variable may not provide us a more meaningful insight of the impact of other components of total remunerations such as bonuses, salaries, and other benefits have on firm performance.

Keywords: directors' remuneration, board of directors, firm performance, compensation.