

## **DIRECTORS REMUNERATION AND FIRM VALUE OF MALAYSIAN LISTED FIRMS**

**Mohd Waliuddin Mohd Razali<sup>1</sup>**  
**Muhammad Faizal Abdul Manas<sup>2</sup>**  
**Janifer Lunyai<sup>3</sup>**  
**Dyg Haszelinna Abg Ali<sup>4</sup>**  
**Irma Yazreen Md Yusoff<sup>5</sup>**

<sup>1,2,3</sup>Faculty Economics & Business, Universiti Malaysia Sarawak (UNIMAS)

<sup>4,5</sup>Centre of Policy Research and International Studies, Universiti Sains Malaysia (USM)

Email: [walirazali@yahoo.com](mailto:walirazali@yahoo.com) & [mrmwaliuddin@unimas.my](mailto:mrmwaliuddin@unimas.my)

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**Abstract:** *Directors remuneration has attracted considerable interest among the scholars and the financial analyst as it seen to be a main reason of good firm performance. This paper sought to examines the director's remuneration and the firm value in Malaysia. The data and the materials were collected from the Bursa Malaysia website and the Eikon Thomson Reuters. Data of the director remuneration, CEO duality and board size were obtained from the annual report where the other variable such as the firm value, firm size, leverage were collected from the Eikon Thomson Reuters database. The samples of this paper using 602 firms from different industries from 2014 to 2016 period. Regression analysis shows that non-cash directors remuneration has stronger significant positive relationship with firm value rather than cash remuneration. It proves that the remunerations received by directors can motivate them to perform better for the firm. The analysis also shows board size and firm age positive significantly related with the firm value. Further, the potential limitation of using firm value as the only dependent variable may not provide more meaningful insight of the impact of other components of the performance measure such as excess in value, growth and other performance measure. Thus future study may use these variables for future study.*

**Keyword:** *Cash remuneration, Non cash remuneration, Director, Firm Value*

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### **Introduction**

The debate on the Directors remuneration among the people nowadays has been the main subject. It has taken a major stage in discussion on the issue of corporate governance. The argument for the higher level of remuneration that received by the directors is that it will attract a higher caliber of candidate which, in turn, will result in increased business performance (Patel and Simon, 2014). From the previous study by Raithatha and Komera, (2016) they have find that there is positive relationship between director remuneration and the firm performance. But, this understanding on director's remuneration cannot be use for the long period and jump into solid conclusion.

Stated in Malaysian Code on Corporate Governance (MCCG), Malaysian companies need to make a specific disclosure on the level of remuneration paid to directors. But, in Malaysia, most of the Malaysian companies hide the detail of the director's remuneration even though it was the best practices that are recommended by the MCCG (Yeong, 2011) .Since there are lot of companies that not prepared to disclose the detail of the director's remuneration, it will give disadvantages to the shareholders of the company to

make an informed decision when voting on the approval of directors remuneration. It also can limit the understanding of the shareholders towards the relationship between the level of directors pay and firm performance.

Previous researches active in explaining director remuneration by using an agency theory, managerial power approach and efficiency wages theory. Since directors provide decision making, they typically better informed about firm as compared to shareholders. Hence, a potential issue of interest arises due to the partition of ownership and managerial control. The relationship between the directors remuneration and firm value might have the positive relationship. And this proclamation was supported based on the prior study by (Diks, 2016), they have find that there is positive relationship between director remuneration and firm value.

Even though prior study found that there is positive relation between directors remuneration and firms value, most of the previous research is using different sample period which is in the past, most firms would have problem or issues in maintaining their performance for a period of times. This paper is trying to find the recent relationship between the director's remuneration and the firm performance (firm value).

## **Literature review**

### **Agency theory**

Agency theory is a management theory that explained the relationships and self-interest in business organizations. The main idea of the agency theory is that one party delegates work to a second party which known as agent. It explains how best to organize relationships in which one party (principal) determines the work and which another party (agent) performs or makes decisions on behalf of the principal (Jensen & Meckling, 1976)

Since the shareholders of the firm (principal) not involve with the firm, it can cause the misalignment between the principle and agents (directors). If the conflict arises between the agent and principle it can cause poor result in firm value. The most reason the problem arise between principle and agent is when they have different interest towards company (Hill & Jones, 1992). Agency theory also helps the firm in develop the director remuneration package. The firms need to provide a remuneration package that can attract and motivate the directors, so they can have focused more on the firm performance. But, firms need to avoid pay more than is necessary or in other words overpay.

Agency cost happen when the failure of the agents which hired by the principals of a business to fully comply with the terms and responsibilities stipulated in their contract. It suggests that the directors should be rewarded based on their performance to avoid agency cost. Agency cost may arise because of the company executive may act in their own interest. For an example, they may raise their own salaries to an unrealistic level.

### **Studies on relationship between remuneration and firm value**

Directors remuneration is closely related with the firm value as one of the financial performance. To increase firm value, firms need to provide the directors with high remuneration package to motivate them (Patel and Simon, 2014). The amount of the remuneration package that paid to directors should capable enough to attract and retain the good directors. The relationship between the director's remuneration and the firm values is positively related based on the previous study. According to Miyienda, Oirere, and Miyogo (2013), study that conduct by them found that there is positive relation between the directors remuneration and the firm performance. They also found that there is strong relationship