

## DIRECTORS REMUNERATION AND FIRM PERFORMANCE IN PROPERTY AND CONSTRUCTION INDUSTRIES LISTED ON BURSA MALAYSIA'S MAIN BOARD

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### Abstract:-

Nowadays, directors' remuneration has become increasingly popular and being discussed by all walks of life. Through a holistic approach based on corporate governance best practice, it could affect the internal and external performance of corporate in terms of management and financial performance. The main objective of the study is to investigate the directors' remuneration listed under property and construction industry towards firm performance. 266 samples of annual reports of listed firms for the period of 2013 to 2015 were obtained and examined. The regression results show that directors' remunerations have significantly positive relationship with firm performance. Appealing remuneration package encourages and attracts the directors who have the ability and potential in successfully managing the firm. Most of control variables have significant relationship with firm financial performance except CEO duality which does not have significant relationship with financial performance. Future studies could recommend using other performance measures such as Tobin Q or Economic Value Added (EVA) and the total directors' remuneration could be broken up to several parts which could reveal new research insights.

## 1.0 INTRODUCTION

Directors' remuneration is closely linked to the corporate governance issue in Malaysia. This helps to focus the reality of the agency problem that could happen and resulted in growing interest especially research in the field of corporate governance and firm performance. As a consequence, according to Denis and McConell (2003), the relation between various aspects of corporate governance such as directors' remuneration, board composition and corporate governance mechanism have been widely studied. Consideration has been given to the influence of compensation packages on corporate performance, corporate governance effectiveness and board monitoring.

In Malaysia, in 2000, the Malaysia Code of Corporate Governance (MCCG) was introduced and improved in 2007 which established the regulations for best practices of corporate governance in listed companies. An improved insight of the code provides for better achievement for publicly listed companies with respect to the previous Asian financial crisis on 1997 to 1998. Therefore, according to the study by Jaafar et al. (2014), the corporate governance's components, such are remuneration, composition of board of directors and audit committee have brought attention to a few scholars (Christopher, Hassan, & Street, 2005; Durisin & Puzone, 2009; Filatotchev, 2009). Based on Demb and Neubauer (1992), they have explained the corporate governance framework as accountable for performance of firm. Its components need to be integrated and matched with firms' strategies in order to enhance performance. For example, the components of board composition, board structure and board size (Jensen, 1993) and meetings must be inspected and effectiveness established during implementation. Correspondingly, the structure of remuneration which involves a remuneration committee (Salim & Wan-Hussin, 2009) and level of remuneration (Abdul Wahab & Abdul Rahman 2009) should not be seen as individual components but as a whole package. Thus, it can positively improve the practice of governance which eventually will stimulate a better corporate performance by using that holistic approach. For example, a study was investigated by Abdullah in 2006 about directors' remuneration, firm's performance and corporate governance among be companies in Malaysia.

In order to retain and attract executives, remunerations are given and it has to be referred to as an expertise and responsibility of boards. In addition, remuneration must be in lined with the strategy of business and the firm's long run objectives. The remuneration level must be increased or maintained; which boosts motivation of the executives and assure the firm's survival. Nevertheless, these procedures and policies of remuneration are difficult to establish if a crisis affects the firm. Directors may be less motivated if their remuneration is cut off. A board of directors' remuneration or a remuneration committee also plays a significant role in ensuring that the motivation of executives is maintain and in achieving better performance.

## 1.2 Problem Statement

Directors remuneration issue has drawn attention from public media, academic field as well as to the policy makers. The shareholders start to question if, and consequently how the director remuneration packages can be reasonable. Thus, firms are needed to be more transparent in their remuneration figures and policies. According to Berta (2007), the improved transparency contributed to the provision of the details and disclosure of the remuneration amounts and the relative weight of different remuneration components such as salaries, bonuses and benefit in kind.

Based on the study conducted by Bebchuk and Fried (2003), it is impossible if all of the shareholders are involved in the process of management. Directors will be assigned by the shareholders to perform upon their behalf where a relationship of principal-agent is formed, which later may lead to an agency problem if conflict happens between directors and shareholders especially in decision making. In the research of Jensen and Meckling (1976) it is reported that, problem of agency occurs due to the directors taking the benefit, where high salaries are rewarded to themselves and hence this could reduce profits that are available for distribution to the shareholders in a form of remuneration package. This case happens when the directors are in the highest and strategic position in the firm's organization structure, where their directors' position influence their pay as studied by Bratton (2005).

The regulation of directors' remuneration case arises due to the well-known market failure at the center of corporate governance regime. Precisely, a shaky corporate governance (CG) mechanism failed to provide and cultivate sound business practices. As in Malaysia, the issue involved can be seen from the case of Perwaja Steel Project. According to Wain (2009), Malaysia Perwaja Steel Project had lost RM2.56 billion where actually the company had lost RM10 billion. Perwaja's new principal had listed a report about Perwaja losses when services of a previous principal (a person who caused the losses) included unauthorized contracts, unwise investment, misappropriation of funds, and poor management with board of directors and manager and inaccurate record of accounting. The Perwaja's board of directors had decided not to the meeting, bidding process and blatantly ignored the issue. This caused the agency problem due to conflict of board of director and shareholders of Perwaja.

Thus, based on Conyon (2006), the shareholders began to be alarmed regarding to the level and growth of directors' remuneration, and the way it can be approved. Study by David et al. (1998) said that, it has been constantly argued that excessive remuneration is one of the main causes of financial crisis that affects the firm performance.

Associating corporate performance to directors' remuneration must be seen as fair to the shareholder (as director), especially when includes the executive directors' remuneration packages, are rewarded based on their individual and corporate performance. Various studies have been investigated in various countries across the world to establish the link. For instance, based on research by Main et al. (2008), there is a positive and significant relation between the total board remuneration and the firm's performance. Gregg et al. (1993) and Conyon and Leech (1994) made a study if such relationship indeed exists, with top director's remuneration being the focus. Their proof shows that corporate growth is a key determinant of top director's remuneration.

## **2.0 LITERATURE REVIEW**

### **2.1 Agency Theory**

The agency theory is based on the relationship between agents and principals. The theory highlights the agency problems that can arise from the separation of ownership and control. Based on Fama (1980), the problems can occur in any situation where there is a principal-agent relation; a principal, who wants to have an action performed, and an agent, who is expected to act in the principal's interest and perform the action. While according to Crespí-Cladera and Gispert (2003) in the basic model, the owners are the principal and the management is the agent. The relationship is comparable with a contract between the parties, where the owners permit the management to operate the company on their behalf (Kim, Nofsinger, & Mohr, 2010; Berk & DeMarzo, 2014). The extent of the agency problem depends on how closely aligned the interests between the principal and the agent are. In an agency perspective, the parties are assumed to be rational and will try to maximize their own wealth. This problem results in agency costs for the firm and companies has to handle these agency problems to make the organizations efficient (Blom, Kärreman, & Svensson, 2012; Berk & DeMarzo, 2014). In the agency theory, the role of the board is to monitor and control the management on behalf of the owners. By effective monitoring and incentives, the board of directors can help reduce the agency problems and align the interest of shareholders and management (Zahra & Pearce, 1989; Hillman & Dalziel, 2003; Kim, Nofsinger & Mohr, 2010). Although there is no reason to presume that boards always will perform in the owners' best interest either, there could be no reason to presume that managers will. Based on Bebchuk and Fried (2003), the relation between the owners and boards can also be considered a principal-agent relation. In this relation, the owners are the principal and the board is the agent. Sufficient incentives in form of performance-oriented compensation structures are necessary to reduce information asymmetry, which is the main cause of the principal-agent problem.

Agency theory has become the theoretical framework for research about director remuneration, since one of the solutions to the agency problem is located in the formulation of incentive instruments. According to Crespí-Cladera and Gispert (2003), satisfying remuneration packages to the agents is sufficient to reduce agency problems. It is important to have incentives for the board that manage effective control and encourage the board to do a successful job (Fama, 1980).

### **2.2 Stakeholder Theory**

Freeman (2010) described the stakeholder theory as involving the top management or directors with emphasis on their control and performance of the right working ethics, highlighting their moral and standards while handling and controlling the firm especially in decision making. This theory basically focuses on what their primary objective is especially in terms of decision making where all stakeholders are involved within a particular firm. In many years, this theory is developed in an attempt to determine the state of a particular firm's stakeholder with respect to how the manager of the firm handles the various behaviors and dealing with the stakeholders in the firm.

It is important to maintain a good relationship in order to ensure that the firm value is on par with other firms in the same industries. Jensen (2001) stated that it is important to take concern on everyone's interest that is related with a firm in order for the firm's value to be well established. Moreover, a firm cannot maximize its value if the manager ignores the interest of its stakeholders.

In terms of remuneration, according to Jones (1995) stakeholder theory can be folded in to agency theory with the assumption regarding the disposition and motivation between directors (agents) and stakeholders (principals). The directors must have a good connection with the stakeholders in order to perform well for stakeholder's best interest. The main interests between stakeholders and directors in the firm are director remuneration such as performance-linked bonuses, share options and reputation of status. The remuneration agreement and policy are identified and already made between them. The remuneration amount cannot be exceeded from the amount that has been specified by the firm, and the directors may be sued by the stakeholder if they surpass the stated amount or get themselves paid too high from the profit share. According to Harrison and Wicks (2013), there are arguments on the review of literature by researchers (Donaldson & Preston, 1995; Freeman, 1984; 1994; Freeman, Harrison & Wicks, 2007; Harrison, Bosse & Phillips, 2010; Jones, 1995; Jones & Wicks, 1999) about theory of stakeholder is more concentrated on stakeholders, particularly acting in their favour and directing on their interests, hence these assist a firm in creating value together with a few capacity and thus, it is good in terms of performance of the firm. From previous empirical literatures which are studied by Freeman, Harrison, Wicks, Parmar, and de Colle (2010), they mainly support the positive link between management of stakeholder-oriented firms and their performance.

Based on a study conducted by Donaldson and Preston (1995), stakeholder theory can be used to describe the natural flow of the firm, the ideal thinking on how the managers of a firm conduct and handle the stakeholders while managing the firm, and how this reflects to other board members once the decision making is concluded. When it comes to the firms'

performance, it means how one firm performed based on their financial analysis. The keys to a great performance of a firm in order to ensure the value of firm are, the understanding and mutual consent between managers of the firm together with the stakeholder of the firm. This is to ensure that both parties are in win-win situations where both parties can gain and reap the benefits from any business venture they are involved in. Stakeholder can come from many perspectives despite their position in or out of the firm. Examples will be employees, clients, suppliers, stockholders, banks and even the public including the consumers that using or buying the products provided by the firm. Chen et al (2006) also explained that, a poor incentive plan on the top manager could put forward for a poor performance of firm.

### **Legitimacy Theory**

According to Suchman (1995), he claimed that the legitimacy is '*a generalized understanding or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions.*' From the definition derived, legitimacy asserts that a social contract exists between the entity and society. The ongoing issue in order to maintain the legitimacy is faced by the organization. Study conducted by Ashforth and Gibs (1990), assurances need to be provided to the society by the organizations about their developing performances through 'warm signals' such as long term contracts and speeches. Thus, it contributes to maintain a social contract with society.

A study by Core et al. (2008) claimed that, a possible threat to a firm's legitimacy is negative publicity regarding to an unrestrained remuneration payout to executives. In order to preserve the legitimacy, firms use a good sense of remuneration to prove good practices of executive remuneration. Public traded firms with a large member of executive commonly found to be the subject of public criticism. The argument on executive remuneration is essential as it influences society's assumption about executive remuneration. Society will be affected through press releases and articles issued by professional associations, academics and media. Phillips, Lawrence, and Hardy (2004) showed a model explaining the relationships between discourse and action. They disagree that action influences discourse through the texts production such as annual reports and books. In the director remuneration case, the directors' pay legitimacy relies on society's assumption based on press releases issued by academics, media and professional association.

### **2.3 Director Remunerations and Firm Performance**

The directors are inspired to maintain a better performance when the remuneration is worth by efforts of their own. Therefore, they will work on a resourceful technique and ideas in order to retain in a long run success. The directors may will to take up all days and extra works to assure the firm is on a right track to achieve better performance. From that, workers that want to perform extra work, is because of the incentive based on productivity. In contrast, according to Paarsch and Shearer (2000), under a system of fixed salary, the contribution of worker is at a minimum level if compare to incentive plans under where the workers could maximize their effort, which after that it could increase the productivity. Chen et al (2006) also explained that, a poor incentive plan on the top manager could put forward for a poor performance of firm.

According to the study of Miyienda, Oirere and Miyogo (2013), the link between directors' remuneration and firm's performance can be looked from the viewpoint of remuneration's residual effect packages on performance of firm. When the remuneration is quite encouraging to directors, the firm could polish and highlight skill and talent within the directors which can prompt to a strong administration in firm. They also claimed that, the packages of remuneration need to be appealing enough to encourage and attract the directors who have the ability and potential in successfully managing the firm. The remuneration packages form for directors has to be linked to the individual and corporate performance. Individual director and the responsibilities level in the firm should see the non-executive directors' remuneration as experience.

According to Abdullah (2004), when performance is looked as a main determinant, this could be not true if remuneration is partially or even wholly based on performance. Different measurements to the relationship between firm performance and directors' remuneration have also been presented by a few reviews. The positive association between remuneration of directors and performance of firm, and the relevance of governance structure in the power of the compensation-performance relationship was confirmed by a study by Crespi-Cladera and Gilbert (2003), which analyzed a sample of large Spanish firms.

Mixed results from previous study show the relationship between remuneration and performance. According to Dogan and Smyth (2002), based on the study that they conducted on Malaysia's public listed firm, they found that there is no association between firm performance and board of director remuneration. Meanwhile, study conducted by Croci et al. (2010) found negative significant association between remuneration and performance. However, according to Doucouliagos et al. (2007), they found positively significant association between director remuneration and performance. A review by Shah, Javed and Abbas in 2009, found a weak positive association between directors' remuneration and performance of firm where sample taken is from 144 companies which were listed in Karachi Stock Exchange. They also stated the same findings from previous research where firm size is the important determinant of directors' remuneration. Brick, Palmon and Wald (2005) found a link between underperformance and excessive directors' remuneration in a study. This partially supports the argument by Bebchuk and Fried (2003) that high directors' remuneration may be counterproductive.

In Australia, studies by Matolcsy (2000) and Merhebi et al. (2006) in Australia reported there is a significant relationship between directors' remuneration and profitability of firm. According to study by Dogan and Smyth (2000), a positive relationship is reported between sales turnover and board remuneration by getting Malaysian firms sample from year 1989 to 2000 that is listed on Kuala Lumpur Stock Exchange (KLSE).

**Hypothesis: There is a significant relationship between directors' remuneration and firm performance**

## METHODOLOGY

### 3.1 Sample and Data Collection

The sample comprises data taken from Bursa Malaysia website, ([www.bursamalaysia.com](http://www.bursamalaysia.com)). From these 2 sectors which are Construction and Property, final samples were 266 firms which were listed from period of 2013-2015 in Bursa Malaysia are used for this study. Both sectors were chosen because property market is a developing market in Malaysia. In order to find out the directors' remuneration, secondary data are used. The financial statements of the companies that are published annually and posted in the company websites are the main sources of information and those data are obtained from Bursa Malaysia too and some financial data were obtained DataStream.

### 3.2 Regression Model

Multiple regression analysis is used to conduct this study where it is used to measure the effect of firm's performance towards director's remuneration. The model is used to capture the behavior of director's remuneration which might affect the firm's performance. The functional form and economic model equation will be as follows:

*Functional Form:*

PERM = f (director remuneration, board size, CEO duality, board independence)

Hence, the equation for the following *economic model* will be:

$$PERM_{i,t} = \beta_0_{i,t} + \beta_1 REM_{i,t} + \beta_2 BIND_{i,t} - \beta_3 CD_{i,t} + \beta_4 BSIZE_{i,t} + \beta_5 FSIZE_{i,t} + \varepsilon_{i,t}$$

Where:

PERM	= firm's performance
$\alpha$	= constant
$\beta$	= coefficient
REM	= director's remuneration
BIND	= board independence
CD	= CEO duality
BFSIZE	= board size
FSIZE	= firm size
$\varepsilon$	= error term
i	= firms
t	= time

### 3.3 Measurement of Dependent Variable

*Firm Performance*

The dependent variable is the firm performance which serves by accounting-based measures which are Return on Assets (ROA) and Return on Equity (ROE). ROA is a good indicator to measures current performance. Meanwhile, ROE is one of the better measures of executives' ability. The ROA and ROE data of each company were taken at the DataStream.

### 3.4 Measurement of Independent Variables

*Director Remuneration*

From annual report in Bursa Malaysia website, data of director remuneration was obtained which as a form of remuneration level and executive and non-executive structure in cash remuneration. Disclosure of annual report in form of bonus and salary, for each categorize whether executive director or non-executive director. If the cash remuneration is disclosed as an aggregate without segregate for each component, the data will not be taken due to difficulty to identify the level of remuneration. Likewise, if the sum of remuneration fails to fall within executives categories, the samples will not going to be taken due to complication to recognize the sum remuneration earned or otherwise.

### 3.5 Measurement of Control Variables

#### 3.5.1 Board Independence

This study uses the proportion of independent directors to test the effects of board independence on firms' performance. Index of board independence is measured by using content analysis. Content analysis is a method for systematically relating written, verbal or visual communication. It provides a numerical description.

$$\text{Board Independence} = \frac{\text{Outside Directors}}{\text{Board Size}}$$

### 3.5.2 CEO Duality

CEO duality is coded as 1 if an individual simultaneously serves as both CEO and chairperson of the board and 0 otherwise. From the firm's proxy statements, the data were obtained.

**CEO Duality = CEO dummy equals to 0. If CEO performs dual roles equal to 1**

### 3.5.3 Board Size

Board size refers to the total number of directors on the board of each sample firm which is inclusive of the CEO and Chairman for each accounting year. This will include outside directors, executive directors and non-executive directors.

**Board Size = Total number of directors on the board**

### 3.5.4 Firm size

Firm size determined how much of the total assets of the companies have. Large firm have more resources compared to smaller firm and have effect on firm performance. To measure the firm size by using of formula as follows:

**Firm Size =  $\text{Log}_{10}$  (Total Assets)**

## 4.0 RESULTS AND DISCUSSION

**Table 1: Descriptive statistics of the variables**

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	489	-29.39	27.28	3.5593	6.22203
ROE	489	-80.30	85.16	6.5418	13.27831
Directors					
Remuneration (RM'000)	489	114.17	54407.00	4022.9847	5651.26797
BIND	489	.23	.88	.4612	.12522
CD	489	.00	1.00	.1411	.34849
BFSIZE	489	4.00	16.00	7.4070	1.93756
Total Assets (RM'000)	489	29587.00	19529493.00	1534483.016	2821237.9765

The samples in this study covered 489 observations or 266 companies listed on Bursa Malaysia, annual report from the year of 2013 to 2015 where the variables data are collected and analyzed. Descriptive statistics data employed in the analysis are shown in table 1. The table shows the mean, median, standard deviation, minimum, and maximum values for all variables. The performance of the companies is measured by using two indicators which are ROA (Return on Asset) and ROE (Return on Equity).

It revealed that the average of ROA for sample companies in 2013 to 2015 is 3.5593. It can be said that the companies had 3.5593% efficient management at using their assets to generate earnings (range from -29.39% to 27.28%) with the gap between the minimum and maximum score is quite high for them. Whereas, the average or mean of ROE is 6.5418 (Ranging from -80.30% to 85.16%). With regard to the directors' remuneration, it is around RM114, 170 to RM54407, 00, which said that sample companies have an average of RM4022, 985.

The diagram also indicates descriptive statistics for control variables in this study. Regarding to the board independence (BIND), it was measured from the total number of the independent director in the company where it had an average of 0.4612 which means there is average of 46.12% of board independence is range from 0.23 to 0.88. The CEO duality (CD) was calculated by observing each company where its director performed two duties or position at the same time where. The CEO duality had a mean of 14.11% which consist of CEO and the chairman of the company is the same person. While the board size (BFSIZE) had an average of 7.41 which means there is an average of 7-8 people as directors in companies. The range of board size lies between 4 and 16. For the total assets of both industries have minimum value of RM29587, 000 and maximum value of RM19529493, 000.



**Table 2: Correlation**

		ROA	ROE	REM	BIND	CD	BSIZE	FSIZE
ROA	Pearson Correlation	1						
	Sig.							
ROE	Pearson Correlation	.896***	1					
	Sig.	.000						
REM	Pearson Correlation	.207***	.215***	1				
	Sig.	.000	.000					
BIND	Pearson Correlation	-.079*	-.069	-.148***	1			
	Sig.	.081	.129	.001				
CD	Pearson Correlation	.033	.007	.249***	-.130***	1		
	Sig.	.462	.879	.000	.004			
BSIZE	Pearson Correlation	.003	-.008	.315***	-.335***	.082*	1	
	Sig.	.954	.858	.000	.000	.071		
FSIZE	Pearson Correlation	.230***	.250***	.511***	-.095**	.143***	.313***	1
	Sig.	.000	.000	.000	.036	.002	.000	

\* Correlation is significant at the 0.10 level (1-tailed), \*\* Correlation is significant at the 0.05 level (1-tailed), \*\*\*Correlation is significant at the 0.01 level (1-tailed).

Table 2 shows correlation among all variables. First variable independent variable which is ROA has significant positive correlation with ROE, REM, and FSIZE at 1% significant level. It also has negative correlation with BIND at 10% significant level. Followed by ROE has significant correlation with REM, and FSIZE at 1% significant level. In relation with independent variable which is REM and all control variables, REM is negative correlated with BIND at 1% significant level and is positive significant correlation at 1% with CD, BSIZE and FSIZE. BIND is the first control variable has negative significant correlated with all control variables which are CD, BSIZE and FSIZE. The values of significant level are 1%, 1% and 5% significant level respectively. CD is the second control variable is positive correlated with BSIZE at 10% significant level and FSIZE at 1% significant level. Lastly, BSIZE is positive correlated with BSIZE.

Table 3 shows the overall regression results of two models which are ROA and ROE financial performance model. Both models show that REM is positively related with the financial performances which are ROA and ROE at 1% significant level. The results prove higher remuneration pay to directors improve firm’s performance. However, there is no significant relationship between remuneration and firm performance in term of ROE firms listed in construction sector. It is consistent with Miyianda, Oirere and Miyogo (2013) statement that the packages of remuneration need to be appealing enough to encourage and attract the directors who have the ability and potential in successfully managing the firm. The remuneration packages form for directors has to be linked to the individual and corporate performance.

Regard with control variable, in overall BIND has negative significant relationship with firm performance at 10% significant level. Non-significant relationship appears with both industries. A few factors may contribute negative relationship board independent and first performance. W.Masulis and Mobbs (2014) point out those low rank independent directors are ineffective managing a firm. Second, independent directors are busy with directorship with other firms (Fich & Shivdasani, 2006)

Insignificant negative relationship appears between CD and firm performance. Only property industry show significant negative relationship between CD and financial performance at 10%. CEO duality gives more power to CEO on the board lead to increase agency cost. Significant negative relationship between CEO duality and financial performance reveal by Duru et al., (2016). Based on study done by Ehikioya and Benjami (2009), when CEO and Chairman of the board in firms are separated, shareholders are about to gain certainty in capability to boost additional capital and therefore, a firm will face a lower percentage of bankruptcy.

BSIZE has negative significant relationship with financial performance for most of equations. In overall, it significant level is at 1 % for both models. The result proves that greater board size ineffective boost financial performance. Jensen (2012) suggested that smaller board can enhance company financial performance and it is easier for CEO to monitor when the size is less than seven or eight directors.

Lastly, FSIZE has positive significant relationship with financial performance in both models at 1 % significant level. Based on study conducted by Artikis et al. (2009) and Yang and Chen (2009), they found that large firms are more

profitable than smaller firms. However, it has weak positive relationship with financial performance in construction sector.

**Table 3: Regression results**

		ROA Model			ROE Model		
		OVERALL	Property	Construction	OVERALL	Property	Construction
<b>C</b>	Coefficient	-22.437***	20.526***	-19.726***	-54.995***	-47.915***	-54.896***
	t-Statistic	-4.505	-2.710	-2.693	-5.215	-3.276	-3.275
	Prob.	.000	.007	.008	.000	.001	.001
<b>REM</b>	Coefficient	1.954***	1.906**	2.306*	4.410***	4.694***	4.261
	t-Statistic	2.723	2.095	1.826	2.901	2.672	1.474
	Prob.	.007	.037	.069	.004	.008	.142
<b>BIND</b>	Coefficient	-4.307*	-1.944	-5.010	-8.760*	-6.963	-8.846
	t-Statistic	-1.858	-.610	-1.382	-1.784	-1.132	-1.066
	Prob.	.064	.542	.168	.075	.259	.287
<b>CD</b>	Coefficient	-.548	-2.194*	.833	-2.321	-4.017*	-.703
	t-Statistic	-.677	-1.782	.759	-1.355	-1.690	-.280
	Prob.	.499	.076	.449	.176	.092	.780
<b>BSIZE</b>	Coefficient	-.416***	-.42*	-.361*	-1.008***	-.949**	-.994*
	t-Statistic	-2.630	-1.885	-1.609	-3.012	-2.162	-1.935
	Prob.	.009	.061	.109	.003	.032	.054
<b>FSIZE</b>	Coefficient	2.127***	1.913**	1.469	5.152*	4.116*	5.145*
	t-Statistic	3.726	2.256	1.527	4.262	2.514	2.337
	Prob.	.000	.025	.128	.000	.013	.020
<b>R-squared</b>		.079	.064	.086	.094	.085	.083
<b>Adjusted R-squared</b>		.070	.044	.068	.084	.065	.065
<b>ANOVA Prob.</b>		.000	.009	.000	.000	.001	.001

\* Relationship is significant at the 0.10 level (1-tailed), \*\* Relationship is significant at the 0.05 level (1-tailed), \*\*\* Relationship is significant at the 0.01 level (1-tailed).

## 5.0 CONCLUSION AND IMPLICATION OF THE STUDY

Overall, most of the expectations made about director's remuneration and most other variables chosen having significant effect towards firm's performance are still consistent regarding to previous study. The director's remuneration as tested in this study has significantly positive relationship with the firm's performance in ROA model and ROE model which tells somehow it managed to improve or contribute in firm's financial performance. The results prove higher remuneration pay to directors improve firm's performance. Appealing remuneration package encourages and attracts the directors who have the ability and potential in successfully managing the firm. A Director knows that he will gain more in return. In terms of director remuneration, investors want to see that the management team are properly motivated and rewarded if they are successful in delivering the strategy. Thus, investors need to understand the strategy and see how it is supported by remuneration policy and somehow the remuneration of this study manages to give positive impact to the investors.

Apart from that, this study will also promote managers to gain insight from the firm's performance. First, any firm should have a clear and complete definition of how "performance" will be measured. Second, clear goals of what constitutes good performance should be set. Third, records of exceptions to goals that are the inevitable result of operating in a turbulent environment should be maintained. Next, the contingencies of the pay for performance system should be made clear to all participating executives.

Most of control variables have significant relationship with firm financial performance except CEO duality which does not have significant relationship with financial performance. Board independence has negative significant relationship with firm performance and this could be due to low rank and busy independent directors who are ineffective in managing a firm. Greater board size is difficult to monitor which explain negative relationship between board size and financial performances. Lastly, the greater the size of a firm proves that a firm could become more profitable.

There are several important implications of this study. First, this study will contribute to the investors. Investors looking for a core holding that targets stocks with a good performance of a company. Investors will be interested to invest in the company when he or she knows that a company performs well. Basically, well performed companies usually are good at handling their assets and equities could generally gain profit more. Thus, it sounds great for the investor to invest because



he or she is sure of the suitable proportion of institutional firm ownership, proportion of executive directors and board ownership.

Only two forms of firm performances which are ROA and ROE. Other indicator also can be used in order to measure the performance of a firm such as Tobin Q or Economic Value Added (EVA). Apart from that, this study consisted of four control variables which are independence of board, CEO duality, board size and firm size. In reality, other factors do come in determining firm's performance. Future studies should examine the effects of other control variable such as proportion of institutional firm ownership, proportion of executive directors and board ownership.

This study considers only total directors' remuneration. The definition of total remuneration can also be broken into several components such as bonuses, benefit-in-kind, salaries, and pension benefits. Several studies from developed markets examine the effectiveness of a remuneration committee which includes in its composition various other factors which are likely to provide insights on how remuneration packages are designed and decided.

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