DETERMINANT FACTORS OF DIRECTORS' REMUNERATION: A STUDY ON MALAYSIA EQUITY MARKET

By

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In beginning of my word, I would like to dedicate this work to all my family members especially my parents for giving me their supports, encouragement and love all this while during the period of my study.

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Abstrak

Bursa Malaysia merupakan salah satu pusat yang penting di ASEAN. Kejayaan dan daya tarikan untuk pasaran bursa saham bergantung kepada prestasi harga saham yang disenaraikan di bursa saham. Pengarah eksekutif yang mempunyai kemahiran kepimpinan merupakan salah satu factor yang penting untuk mengalakkan Malaysia sebagai Negara yang berpendapatan tinggi.Di Malaysia, kajian saraan eksekutif, ciri-ciri firma dan prestasi sentiasa merupakan fokus yang utama. Antara bidang yang diabaikan adalah ciri-ciri pengarah eksekutif dan ciri-ciri pemilikan firma. Selain itu, dasar pembayaran dividen juga merupakan salah satu bidang yang kurang dikaji.

Objektif utama kajian ini adalah untuk menentukan hubungan penentu dari segi ciri-ciri pengarah eksekutif (umur dan pencapaian pendidikan), ciri-ciri pemilikan (firma keluarga), ciri-ciri firma (saiz dan prestasi firma) dan dasar pembayaran dividen dengan saraan eksekutif pengarah. Dalam kajian ini, satu ratus firma daripada tujuh sektor yang disenaraikan di papan utama Bursa Malaysia telah dipilih. Data firma dari tahun 2008 ke 2012 yang dikumpulkan telah memberikan 500 pemerhatian firma-tahun.

Analisis menunjukkan umur pengarah eksekutif mempengaruhi jumlah saraan yang diterima oleh pengarah dimana pengarah yang muda menerima saraan yang lebih rendah. Keputusan ini disokong oleh “Human Capital Theory” di mana umur membawa bersama pengalaman kerja yang membolehkan pengarah membuat keputusan perniagaan yang lebih baik. Prestasi firma-firma yang diukur dengan ROA dan ROE menunjukkan kesan positif dan signifikan terhadap gaji yang dibayar kepada para pengarah eksekutif. Kesan ini

menunjukkan bahawa amalan yang dicadangkan oleh Malaysia Kod Urus Tadbir Korporat 2012 telah digunakan untuk mengurangkan masalah agensi.

Di Bursa Malaysia, lebih daripada 70% firma-firma adalah perusahaan keluarga. Pengarah eksekutif dari syarikat-syarikat ini dapat menggunakan pengaruh mereka melalui pegangan saham anggota keluarga. Hasil kajian ini menunjukkan bahawa firma keluarga membayar 79.9% saraan pengarah eksekutif yang lebih tinggi daripada firma lain. Ia menunjukkan bahawa pengarah eksekutif di firma keluarga telah mempengaruhi keputusan firma melalui ahli keluarga untuk mendapatkan gaji yang lebih tinggi.

Tahap pendidikan para pengarah eksekutif menunjukkan kesan yang negatif dan signifikan untuk pakej saraan. Kajian ini menunjukkan penolakan “Human Capital Theory” di mana orang-orang yang lebih berkemampuan dapat mencapai pencapaian pendidikan yang lebih tinggi. Teori ini mencadangkan bahawa pencapaian pendidikan yang lebih tinggi harus membenarkan para pengarah berunding untuk gaji yang lebih tinggi tetapi hasil kajian menunjukkan keputusan yang sebaliknya. Analisis selanjutnya menunjukkan bahawa fenomena ini dipengaruhi oleh peratusan perusahaan keluarga yang di Malaysia. Ini adalah disebabkan oleh kebanyakan firma keluarga di Malaysia telah ditubuhkan sejak tahun 1950-an di mana tahan pendidikan masih rendah dan kebanyakan pengasas tidak berpeluang menerima pendidikan yang tinggi. Tambahan pula, firma keluarga di Malaysia berkemungkinan dipengaruhi dengan budaya Asia di mana kredit dan penghormatan diberi kepada yang lebih tua.

Akhir sekali, pendedahan yang berkesan dalam pakej saraan merupakan penyelesaian yang baik untuk menjaminkan gaji pengarah ditentukan berdasarkan prestasi perusahaan.

Pakej saraan yang munasabah dan kompetitif dapat membantu negara untuk menarik dan mengekalkan bakat.

Abstract

Bursa Malaysia is one of the most important stock exchange centers in ASEAN. The success and attractiveness of a stock exchange market relies on the stock price performance listed on the stock exchange. To propel Malaysia to become a high income nation, talented executive directors with great leadership skill is one of the crucial factor. In Malaysia, studies of executives' remuneration, firms' attributes and performance are always the key focus. Some of the area which lack of attention is the characteristic of executive directors and also ownership characteristics of a firm. Another factor that received little attention is the dividend payout policy of the firm in relationship to the executive directors' remuneration.

The main objective of the study is to determine the relationship of determinants in term of characteristics of executive directors (age and education attainment), ownership characteristics (family firm), firms attribute (performance) and dividend payout policy with the executive directors' remuneration. In this research, one hundred firms in seven sector listed on Bursa Malaysia main board are selected. The firms' data is collected from year 2008 to 2012 which resulted in 500 firm-year observations.

The analysis shows age of the executive directors affect the total pay receive where younger directors received lesser pay. The result is supported by the human capital theory where age will bring along the working experience which can allow the directors to do a better business decision. The firms' performance measured by ROA and ROE shows a positive and significant effect to the salaries paid to the executive directors. This healthy practice of the firms' in Malaysia shows that practices suggested by Malaysia Code of Corporate Governance 2012 is adopted to mitigate the agency problem.

In Bursa Malaysia, more than 70% of the firms are family firms. Executive directors from these firms are able to exert their influence through the share holdings of the family members. The results of the study shows that family firms pay 79.9% higher than non-family firm in directors' remuneration. It indicate that executive directors in family firm did exert influences through the family members in order to get a higher pay.

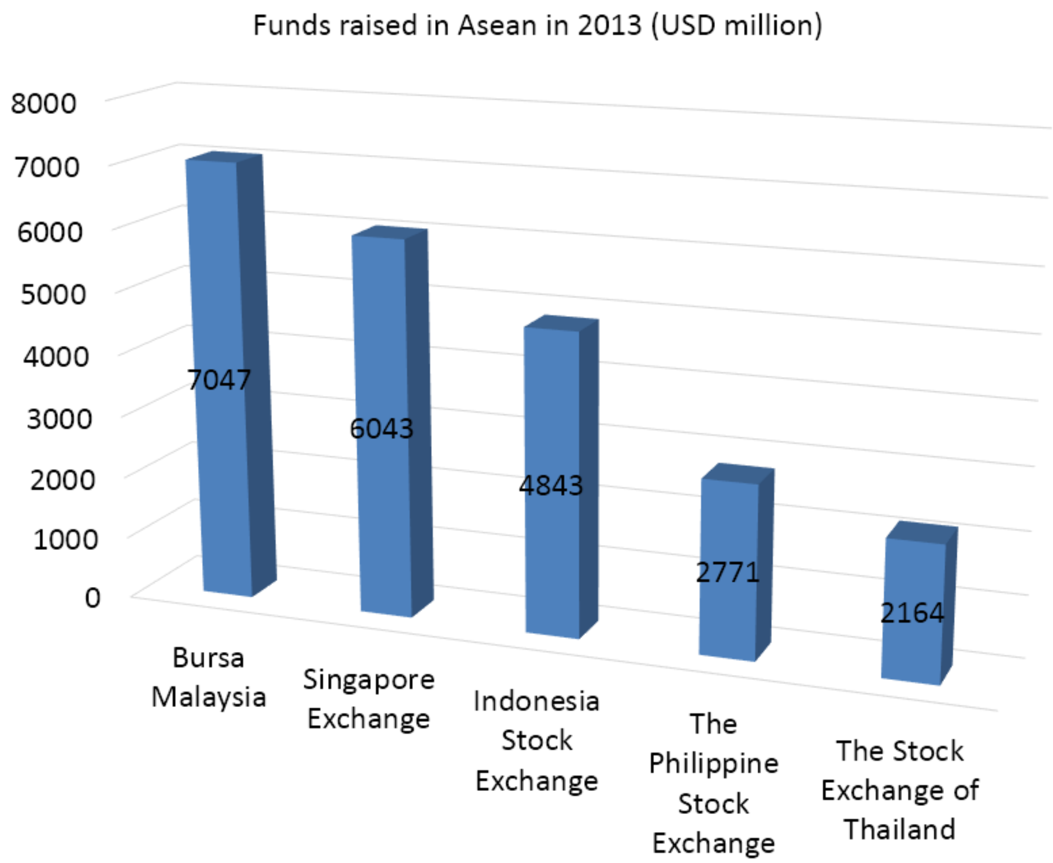
The education attainment of the executive directors shows a negative and significant effect to the remuneration package. The study shows the rejection of human capital theory where more capable persons are able to achieve higher education attainment. The theory suggest that higher education attainment should allow the directors to negotiate for a higher pay but the result shows otherwise. Further analysis shows that in fact this phenomenon is affected by the high percentage of family firms in Malaysia. The reason to this is due to startup of a lot of public listed family firm in Malaysia happened during 1950's where the literacy rate was low and the founders and family members were not able to receive their university education. Furthermore, family firm in Malaysia may be affect by the Asian culture where there is tendency to give credit and pay respect to the seniority.

Lastly, the effective disclosure of remuneration package can be a good solutions to ensure the pay of directors is determined based on firms' performance. A reasonable and competitive remuneration package helps the nation to attract and retain talents.

Chapter 1
Introduction

1.1 Background of study

Bursa Malaysia is one of the most important stock exchange centers in ASEAN. In 2013, the World Bank ranked Bursa as number 4^{th} among 189 countries for outstanding corporate governance practices for investor protection by World Bank. Bursa Malaysia emerged top in benchmark indices performance where the FBM KLCI hit all-time highs and ended the year 10.5% above 2012's index (Bursa Malaysia, 2013). Among ASEAN peers, Bursa Malaysia recorded the highest fund raised at USD7047 million in year 2013 as shown in Figure 1. The attractiveness of a stock exchange market relies on the stock price performance in the market itself and the stock price of a company is determined by the leadership of the director. Since good or capable directors need more remuneration, thus remuneration is very important in rewarding and motivating the directors to perform their tasks effectively. In return for the rewards, directors are expected to protect and increase the wealth of the shareholders. The importance of executive director's remuneration packages has made it one of the main focuses in academic studies and it is widely discussed in the media and among stakeholders.



Source: World Federation of Exchange

Figure 1: Total fund raised in USD million in year 2013

Studies related to executive director remuneration with the attributes of the firm is important to formulate attractive compensation package to enrich the talent pool by attracting renown CEO from outside the country as well as retaining the nation's talent. The design of top management compensation contract is an important topic nowadays. These critical positions in the firm should be paid adequately as there are needs to be satisfied in different stage of human life as described by Maslow need of hierarchy. In US, Cole & Mehran (2008) find that the executive pay and CEO age is in quadratic relationship with pay reaching maximum at age 55 and then declining. The explanation provided to the finding is the older executives tend to be more conservative and risk-averse, and thus they would prefer to leave earnings in the firm than extract them through salary. The other explanation is from the life-cycle consumption point of view where older executives require less current income to meet their consumption needs so they would be more likely to leave earning in the firm.

In the context of education, Allen, Thomas and Klaus (2012) revealed that education attainment associated with a decrease in risk taking. The suggested reason proposed by Allen, Thomas and Klaus (2012) is "better-educated executives employ more sophisticated risk management techniques and adjust the business model accordingly". The literacy and education attainment is important in corporate because the requirement of dealing with more sophisticated financial system, law etc. is increasing. The ability to cope with these issues and international business problem is crucial for directors and can results in a better remuneration package negotiation. The impression of higher education resulted in better decision making which will make the firms increase in values thus allowed the directors able to enjoy a better pay fits with the general idea of "Human capital Theory".

Agency problems' existence in the corporate raised concern to the public where conflict can cause executive director to make a decision for his own interest. In Malaysia, a lot of corporation is facing the same issues as well. In Malaysia Airline (MAS) annual general meeting (AGM) held in June 2014, the minority shareholders opted to vote against the resolution on the remuneration for directors by show of hands (The Star, 2014). The cause of the action was due to poor performance of the firm's financial performance and stock price. In 2011, MAS turned into net loss and since then MAS investors was expecting the board of directors to come up with plans and bring the company back to its profit. MAS investor was disappointed with the deteriorating financial performance after the incident of missing plane and claimed that board of directors are incapable. Although the resolution eventually went through after a poll, the non-executive directors decided to decline the RM396, 000 in fees that was accrued to them for the financial year ended December 31, 2013. This event brings the review of how the directors' is being paid and the level of remuneration which are appropriate.

The Malaysian Code on Corporate Governance 2012 recommends that the remuneration package should be aligned with the business strategy and long-term objectives of the company. Remuneration of the board of director should reflect the board's responsibilities, expertise and complexity of the company's activities. Formation of remuneration committee is encouraged to carry out the remuneration package setting and review (Malaysian Code on Corporate Governance, 2012).

In strengthening the corporate governance framework, Bursa Malaysia also required the firms to disclose remuneration of directors, particular of directors for which include the family relationship with any directors and/or major shareholders as well as declaring any conflict of interest that he has with the firm (Bursa Malaysia Securities Berhad, 2013).

1.2 Problem Statement

In corporation, the company operates by employing the separation of ownership and management. The shareholders own the business but board of directors (elected by the shareholders) appoints corporate officers to manage the business. Separation of ownership and management isn't come without any cost. The conflicts arise when the appointed corporate officers are also an individual who has their own personal interest and may not act towards securing the benefits of the shareholders but his own interests instead. This classic problem highlighted lead to the studies of agency theory.

In order to mitigate the risks of agency problem, shareholders relying on market forces to exert managerial discipline; incurring the monitoring and bonding costs necessary to supervise managers; and/or structuring executive compensation packages that align the interests of managers and stockholders (Megginson, Smart, & Graham, 2010). Understanding the use of aligning managerial and stockholder interest through executive compensation plan to reduce the agency cost attract major interest of in the business and academic field.

Generally, there are two types of conflict being identified in the related studies to agency theory. Type I conflicts exist in the companies where ownership and management are separated and substantial shareholder do not manage the company. Type II conflicts arises when the substantial shareholders manage the company and the probabilities of expropriation of minority shareholders increased (Charitou & Louca, 2013). In order to identify which type of conflict is dominant or exist in Malaysia, the ownership characteristic of the firms is one of the important factor. In East Asian, separation of management and ownership is rare. The firms operate in this region exert management influences by having family members appointed in the firms' top management and this type of companies is considered as family controlled firms. A study from Claessens , Djankov, & Lang (1999) shows that 60% of the firms from East Asian countries are in the position where the top management executives are related to the family of controlling shareholders. Their study also revealed that 67.2% of Malaysia firms' ownership is family held.

The high percentage of Malaysia firms are family held suggested that it is likely that Type II conflict exist. A recent study from Guan, Lim, & Yen (2012) further raising the concern towards the tendency of the influence exertion of executive director in determine his/her own remuneration package. The study shows that Malaysia's executives' compensation was fixed in nature. Indeed Salary made up of 75% of the emoluments (Guan, Lim, & Yen, 2012). This indicates that executives tends to eliminate the risk exposure on their compensation packages by decoupling between pay and performance and linking it to the more stable factor, firm size (Nulla, 2013). The use of management influences through family members in the firm allow executive directors from family controlled firm to decouple remuneration from firm's performance can cause the expropriation of the minority shareholders. This can affect the confident level of investors towards investing in Malaysia equity market hence can bring catastrophic consequences to the country's economy.

Along with an individual's working life, age brings experiences. The physical, mental, social experiences which learnt through on-job practical execution shape the unique characteristics of every individual and are a precious asset. By referring to "Human Capita Theory", the experiences are always tied up with age and education achievement associate with individual capability. Thus, education attainment in general affects the personal skills and opens up a better job prospect. The higher education attainment always gives public impression that the directors can make a better decision for the company and bring back fortune to the stakeholders.

In order to allow investors to understand more about the firms they invested in through the directors, Bursa Malaysia requires listed company to report the background of the director members. Study in characteristics of executive directors' is very limited in Malaysia, A study from KPMG (2009) revealed that for Bursa Malaysia top 300 firms, at least 50% of the non-executive directors have at least a basic degree in field of business and having age profile of 79% are more than 50 Years-old. However, we are yet to see any study of age and education background of executive directors in relationship with the remuneration for companies in Bursa Malaysia.

In the studies of executives' remuneration, firms' attributes and performance are always the key focus. Some of the area which lack of attention is the characteristic of executive directors. In order for Malaysia to attract talents in the directors' level, the understanding of those characteristic is crucial for the remuneration committee to prepare a reward package which are competitive or even better than others developing countries to lead Malaysia transform into a developed country.

1.3 Research Objectives

This study attempts to accomplish the objectives in order to address the issues highlighted in section 1.2 Problem Statement. The objectives are as below:

i. To examine whether there is a relationship between executive directors' age with the level of directors' remuneration.
ii. To examine whether there is a relationship between executive directors' education levels with the directors' remuneration.
iii. To examine whether firm attribute (firm performance) will affect the level of executive directors' remuneration.
iv. To examine whether family-controlled company have effect to the level of executive directors' remuneration.
v. To examine whether dividend payout has effect to the level of executive directors' remuneration.

1.4 Research Questions

To achieve the research objectives, the following research questions are proposed for this study:

i. Is executive directors' age profile affecting the level of remuneration of executive directors for public traded firms in Bursa Malaysia main board?
ii. Is education attainment of the executive directors' affecting the level of remuneration of executive directors for public traded firms in Bursa Malaysia main board?
iii. Are public traded firms in Bursa Malaysia main board pay executive directors' based on the firms' performance achieved?
iv. Is the executive directors' remuneration affected by either the firm is the family-controlled firm or not in Bursa Malaysia main board?
v. Is the executive directors' remuneration affected by the dividend payout of the firm?

1.5 Significance of Studies

The study is aimed to provide explanation to the gaps in dividends distribution and executive officer's characteristics in term of age and education attainment with the level of remuneration. It is commonly known that companies in the world operate in a very different economic environment as well as corporate governance structures. There are lots of researches focusing on executives' remuneration; however there is lacking of attention related to the dividend distribution and executive officer's characteristics with the remuneration. The insufficient information may lead to improper planning of how the directors being paid.

The research results are crucial to provide useful information for Malaysia’s public listed companies in executive compensation. In corporate governance policy perspective, the results of the studies can provide a suitable reference point based on firm size, performance associate with executive director’s characteristic (age and education) in the remuneration package. The results can also reveal the corporate ownership in term of family firms and give insight how those firms crafting the remuneration packages. The concern of family firms exploiting others shareholder resulted by type II conflict will have negative effect for Malaysia to invite investment.

Chapter 2
Literature Review and Hypotheses Development

This chapter will review the previous literature that has been undertaken. As such, this chapter will give an overview of literature on the underlying theories related to directors' remuneration. The selected theories are Agency Theory, Human Capital Theory and Signaling Theory. The subsections will further relate the factors (Independent Variables) with the Executive Directors' remuneration (Dependent Variable) by the theories described and hence develop the variable hypothesis.

2.1 Agency Theory

In executive remuneration study, agency theory is used in attempt to explain the conflict in of interest between the principle (shareholders) and agent (executives). Separation of ownership and management removed the ability of the shareholders to make daily decisions for the firm and hence increased the power of the executives. The agency dilemma occurs when the two parties have different interest, there are high possibilities that the agent will pursue his own interest and expropriating the principle.

In 1976, Michael C. Jensen and William H. Meckling took a different approach in studying the agency theory. While the previous agency theory literature focused on how to structure incentives and the principal-agent relationship to maximize the principal's welfare, Jensen and Meckling presume the parties largely resolve these issues. Instead Jensen and Meckling investigated the incentives faced by each of the parties and the elements entering into the determination of the equilibrium contractual form characterizing the relationship between the manager (i.e., agent) of the firm and the outside equity and debt holders (i.e., principals). Further that, they studied two firm structures where one manager owns 100% of the firm versus the manager sells out fraction of equity share to outsiders. In the first structure, the manager will maximize the firm's value because the full benefit of this maximization will accrue to him. However, in the second type of firm structure where the owner sells most of his equity stake to outside shareholders, agency costs will arise from the divergence of interest between manager and shareholders. The divergence of interest will lead the manager to act towards his own incentives, the proposed solution is to establish incentive compensation systems for the manager or to give him stock option that align manager's interest with the outside shareholders (Jensen & Meckling, 1976). In this study, the executive remuneration is being analyzed from two different perspective based on which are firm performance and family ownership. The subsequent subsections will further elaborate these perspectives in more details.

2.1.1 Firm performance

Based on the study from Jensen & Meckling in 1976, the best solution to agency problem caused by the separated ownership and management is to reward the directors based on the firm performance. In order to provide a framework that link the executive remuneration with performance, financial ratios that are able to measure firms' performance are required. In term of shareholders, their interests are always on the return from the stock market and dividend. Thus, financial ratios that always affect the stock price like ROE and ROA are used to measure the performance. ROE and ROA is well accepted in the financial world as the performance measurement because ROE indicate how effective a firm utilize shareholders' fund whereas ROA indicate how a firm generate income by using its assets. With these two ratios, it gives an idea of how well the management is managing the available resources to the firm in generating profits.

The director’s remuneration versus firm performance studies stretch across various years horizontally. The rational behavior hypothesis for pay for performance is that the “CEO that is paid more works harder (and succeeds) to improve the financial performance of the corporation that he/she leads (Michaud & Gai, 2009). However, studies from literatures Michaud and Gai (2009) and Ozkan (2007) shows that director’s remuneration is detached from the performance. In support of the same findings, Ozkan (2007) also reaching the same conclusion where there is a positive and significant relationship between firm performance and the level of CEO cash compensation while the relationship is positive but not significant for total compensation (Ozkan , 2007).

Other than that, literature from Elayan, Lau, and Meyer (2000) also revealed that there is no significant association between CEO compensation with the performance measure. With literatures showing weak or no relationship between remuneration and performance it is obvious that the pay-for-performance recommendation of Corporate Governance practices from authorities is not creating any significant improvement.

In the context of Malaysia, a surprising finding shows that a significant negative relationship between directors’ remuneration and ROE which suggesting that GLCs (Government Link Companies) directors are penalized for good performance (Tee & Hooy, 2009). The out of logic’s relationship shows a concerning factor for the relevant institutions to initiate investigation. Despite the underpaid scenarios of GLCs, the majority of the firms should follow MCCG (Malaysian Code on Corporate Governance) guidelines which linked the executive’s remuneration to the firm’s performance. Thus, as the firms’ achieved better return to the investors, the executive directors’ remuneration should be increased as well. Therefore, based on the above discussion, it is hypothesis that:

Hypothesis 1: *Firms that achieved better financial performance will pay higher directors' remuneration*

2.1.2 Family-controlled firm

In contribution to the agency problem, Shleifer and Vishney conducted a survey of corporate governance in 1997 to understand how investors get the managers to give them back their money in firms where the ownership and control are separated. Two most common approaches that give investors power in control of the firm is through legal protections and ownership by large investors (concentrated ownership) whose will have significant control and voting rights. As the voting rights of major shareholders increase, the influences that they are able to exert to the firms' manager become significant. Moreover, if the executive directors are the major shareholders, it leads to the possibilities that the directors will pursue his own interest by expropriating minority shareholders.

Firms with concentrated ownership may be subject to agency costs arising from conflicts of interest between majority and minority shareholders. There is also evidence that top executives with larger shareholdings maybe using dividends as a way to supplement their cash salaries (Cheung, Stouraitis, & Wong, 2003). Institutional investor's holding usually act as the monitoring agent towards the firm's performance and operation. Hartzell and Starks (2003) find that the institutional ownership is negatively related to the executive compensation by analyzing companies from Standard & Poor's from 1992 to 1997. The results also suggest that the institutions serve a monitoring role in mitigating the agency problem between shareholders and managers (Hartzell & Starks, 2003).

A firm is considered to be a family-owned if a person is the controlling shareholder; the number of shares hold by the person with family members are able to exert high influence to the companies' policy and business direction. The family-owned firm can be further categorized as family controlled or non-family controlled. If the family's member are the executive directors who are involved in companies operation, the firm is considered family controlled. Barontini & Bozzi (2010) conclude that in family firms, CEO pay is positively related by low ownership concentration. They suggest that the incentives family extract private benefits and to share them with the CEO in the form of higher compensation are larger. However, this relationship becomes positive and non-significant when adjusted for compensation received by controlled companies within the family group (Barontini & Bozzi, 2010).

Darmadi's (2011) study shows that the family-control firms in Indonesia is less prevalent in large firms, and is positively significant associated with the executive compensation. Family-controlled firms, which are likely to be smaller ones, tend to expend higher proportion of their financial resources to compensate their boards (Darmadi, 2011). Haid & Yurtoglu (2006) suggested that identity of owners has a significant influence on the level of executive execution and family ownership has a significant positive impact with 10% higher pays level of managers in these firms in Germany. From these studies, it shows that the family-ownership is an important factor for the firm irrespective from developed country like Germany or developing country such as Indonesia.

In the context of Malaysia, studies from Guan, Lim and Yen (2012) highlighted high possibilities of expropriation of the minority shareholders result from the family influence in the family controlled firms. Moreover, a study from Claessens , Djankov, and Lang (1999) shows that 67.2% of Malaysia firms are family controlled. These findings suggested that executive directors in family-controlled firms will use the family influence to increase their remuneration packages. Therefore, based on the above discussion, it is hypothesis that:

Hypothesis 2: *Family-controlled firms pay higher directors' remuneration*

2.2 Human Capital Theory

The history of human capital theory can be traced back to year 1961 where Schultz first proposed the theory and it was further developed by Gary S. Becker. Investment can be in many forms but a lot of those are related to the business investment. Human capital theory emphasize on investment into activities that can influence future income through imbedding of resources in people (Becker, 1962). It suggest that expenditure on training and education is costly and it should be considered as an investment since it is undertaken to increase the individual salary. In the sixties, the human capital can be considered as the ability of an individual to read, write or even to a specific skills. In present years and in the executive directors' context, the crucial skills referred to are the financial, decision making or even legal knowledge that makes the directors stand out from others. Through empirical studies, the findings show that:

i. Earnings typically increase with age at a decreasing rate and the rate of retardation tends to be positively related to the level of skill.
ii. More capable person receive more education and other kinds of training than others.

These two findings above from Becker (1962) suggested that earnings did affected by the age and capability of a person is closely related to the education level.

Throughout years of industrialization and then follow up by the corporate modernization in the western countries, employees of the companies no longer treated as human resources. A paradigm shift in the mindset happened to how corporate view their employee. Nowadays, employees are the valuable resources and it is a capital to the company in achieving success. In United States, study shows that workers with bachelor's degree are better off compared to less educated workers than they were some three decades ago. The average wage advantage of male college graduates over male high school graduates grew from 50% in the latter half of 1970 to at least 90% in 2003 (Levine, 2004). The finding is supporting that the companies valued the education attainment of employees where it enabled the companies to have human capital advantage in the competitive business environment nowadays.

Executive director is the key person of a firm. A great leader is able to bring the firm achieves its goal and become a successful company. For such an important position, selection of the director is important. Unfortunately, selection of director is done only by the past achievement of the candidates. The characteristics and skills of leaders including the communication skill, but charismatic of the leader is difficult to measure. Some of the measureable characteristics like gender, age and education attainment are also a popular factor in the studies of executive director's remuneration. In this study, age and education attainment are the characteristic which will be included.

2.2.1 Age

In the study of managerial risk taking relationship by Allen, Thomas and Klaus (2012), the decreasing age of board of directors robustly increase firm's risk taking. The finding suggested that a younger director tends to be more aggressive in decision making, this also open up possibilities to high return as rational director should have risk-adverse awareness. Based on pay for performance principles, if the performance of the firm has improved due to the risk taken, the remuneration should be improved as well.

Age although is not a guarantee to decision making ability and experience, it is widely used as an estimation factor especially in negotiation of remuneration with the assumption that as director's age grow, the experience is accumulated along with the working life. From the age perspective, older managers will try to minimize risks and be more conservative in decision making because higher risks bring the possibilities of bigger failures.

Ghosh (2006) found out in the study that age does not have any significant effect on the compensation of the CEO in India. However, Cole & Mehran (2008) in US found a very different finding, the executive pay and CEO age is in quadratic relationship with pay reaching maximum at age 55 and then declining. The explanation provided to the finding is the older executives tend to be more conservative and risk-averse, and thus they would prefer to leave earnings in the firm than extract them through salary. The other explanation is from the life-cycle consumption point of view where older executives require less current income to meet their consumption needs so they would be more likely to leave earning in the firm (Cole & Mehran, 2008). Therefore, based on the above discussion, it is hypothesis that:

Hypothesis 3: *Firms pay lesser directors' remuneration to younger directors due to lack of experience of the executives directors*

2.2.2 Education attainment

Education is an important factor in advancement of a nation. Most of the countries make education a top priority. The illiteracy made knowledge sharing, literature reading impossible. In the competitive labor market, education attainment of an individual has an important influence in determining type of possible jobs available to them and possibilities of encounter unemployment is reduced. Based on Human Capital Theory, abler person tends to achieve higher education attainment (Becker, 1962). The capabilities of the person should allow a better earnings package negotiation. The theory is also supported by Biagetti and Scicchitano (2011) on the study of the age and wage inequility in European countries, they found that the general rules for which education attainment level have positive effect for labor's wages applied.

Executive director, as the steersman of a company is facing a challenging task to make sure firm is competitive and able to generate sufficient earning to satisfy the stakeholders. The critical thinking capability and business acumen of directors are the major determinants for the firm's survival. The education attainment may not a necessity for directors of a firm, however majority of the executive directors are individuals who are literate especially in developed country.

In 2008, Cole and Mehran (2008) found that the executive's education attainment is positively related to education attainment for CEO's earning in US as expected. A CEO with a four-year college degree earns significantly more than one with less than a four-year degree, and a CEO with a graduate degree earns significantly more than one with a four-year degree (Cole & Mehran, 2008). However, a study by Ghosh (2006) which is targeted to the emerging market (India) shows a very different finding. The result shows that there is no significant effect on the compensation of the CEO with the age and education level. The possible cause may be due to financial market and corporate structure in emerging market is relatively not as mature as the developed country like US. In Malaysia, whether the result tends to align with the result from developed country or emerging market could be a guideline for the firms to prepare a competitive remuneration package. The higher education attainment should indicate that more capable person receive more education as suggested by Human Capital Theory and effectively the pay should be increased accordingly with the education achievement. Therefore, based on the above discussion, it is hypothesized that:

Hypothesis 4: *Firms pay higher directors' remuneration for the directors with higher education attainment.*

2.2.3 Education in Family firms

Education system has been the bedrock of a country's development. It has provided the country with skills and knowledge that driven the country's growth. Malaysia's is a young nation from South East Asia. The literacy rate was improved since 1950 from 40% to 91% in 2010. The percentage of the tertiary graduate was at also improved to 15% in 2010 as shown in Figure **2**. At the same time during progression of education literacy in Malaysia, the concept of large public listed corporation started to grow extensively since the independence of the country. Since then, small family owned companies were growing and started to adopt modern business model and eventually listed on Bursa Malaysia. The unique development progression of firms listed in Bursa Malaysia resulted in 67.2% of the firms are family owned (Claessens , Djankov, & Lang, 1999). Looking back at the education attainment population in 1950's where high percentage from the population without tertiary education, there are high possibilities that the founders or the executives directors of family firm are from the