MONITORING ROLE AND PRIVATE INFORMATION ON FIRMS' INTERNATIONALISATION: THE EFFECTS OF CORPORATE GOVERNANCE ON EXECUTIVE COMPENSATION

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MONITORING ROLE AND PRIVATE INFORMATION ON FIRMS' INTERNATIONALISATION: THE EFFECTS OF CORPORATE GOVERNANCE ON EXECUTIVE COMPENSATION

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CEO	Chief Executive Officer
FATA	Foreign Assets Total Assets
FSTS	Foreign Sales Total Sales
MCCG	Malaysia Code of Corporate Governance
FGV	Felda Global Venture
MNC	Multinational Corporation
US	United States
OFDI	Outward Foreign Direct Investment
OECD	Organization for Economic Cooperation and Development
UK	United Kingdom
SME	Small and Medium Enterprises
RC	Remuneration Committee
NSE	New York Stock Exchange
ASX	Australian Securities Exchange
ROA	return on assets
ROE	return on equity
PLC	Public Listed Companies
FRC	Financial Reporting Council
NEDs	Non-Executive Directors
SOX	Sarbanes-Oxley Act
S&P	Standard & Poor
KLSE	Kuala Lumpur Stock Exchange
COB	Chairman of Board
CG	Corporate Governance

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PERANAN PEMANTAUAN DAN PERANAN MAKLUMAT PERIBADI UNTUK PENGANTARABANGSAAN: KESAN TADBIR URUS KORPORAT KEATAS PAMPASAN EXSEKUTIF

ABSTRAK

Pampasan pengarah eksekutif terdiri daripada dua peranan iaitu peranan pemantauan dan peranan maklumat peribadi. Para pengarah eksekutif perlu melaksanakan peranan pemantau yang bersesuaian dengan manfaat yang diterima. Walau bagaimanapun, peranan maklumat peribadi yang tidak diketahui oleh para pemegang saham boleh menyebabkan pengarah eksekutif menerima pampasan yang berlebihan. Objektif pertama kajian ini adalah untuk menyelidik kesan peranan pemantauan dan maklumat peribadi dalam pampasan eksekutif terhadap pengantarabangsaan firma dari segi pelaburan dalam aset asing (FATA) dan penjualan asing (FSTS). Objektif kedua melihat keberkesanan mekanisme tadbir urus korporat terhadap peranan pemantauan dan maklumat peribadi terhadap syarikat pengantarabangsaan. Sementara objektif ketiga memberi tumpuan kepada jawatankuasa saraan, objektif terakhir menangani kesan endogen dari pampasan eksekutif dan pengantarabangsaan. Kajian ini menggunakan hujah teori pemprosesan maklumat, dan teori agensi untuk membentuk hipotesis. Untuk kajian ini, sampel terpilih terdiri daripada 446 buah syarikat tersenarai di Bursa Malaysia, dari tahun 2008 hingga 2016. Hasil kajian menunjukkan pengarah eksekutif tidak menunjukkan prestasi yang memuaskan demi kebaikan pemegang saham semasa syarikat melakukan pengantarabangsaan. Kajian dapati tiada hubungan positif antara peranan pemantauan pampasan eksekutif dengan strategi pengantarabangsaan yang melibatkan pelaburan aset asing dan penjualan asing. Akan tetapi, peranan maklumat peribadi dapat

meningkatkan pelaburan aset asing (FATA) tetapi mengurangkan penjualan asing (FSTS), ini mengesahkan bahawa pengarah eksekutif mengejar kepentingan peribadi mereka, khususnya pengumpulan asset yang mungkin tidak berfaedah kepada firma. Siasatan lanjut menemui dapatan kajian terhadap keberkesanan tadbir urus korporat dan pampasan pengarah eksekutif adalah berbeza. Kajian ini menunjukkan bahawa mekanisme tadbir urus korporat di mana saiz ahli lembaga adalah tidak berkesan untuk peranan pemantauan pampasan eksekutif terhadap pengantarabangsaan. Namun Jawatankuasa pampasan (RC) didapati berkesan untuk peranan pemantauan apabila syarikat mengembangkan perniagaannya ke peringkat antarabangsa. Walau bagaimanapun, RC didapati tidak dapat mengatasi maklumat peribadi apabila syarikat melibat dalam pelaburan aset asing. Peranan pengarah bebas didapati tidak berkesan dalam peranan pemantauan, tetapi boleh mengatasi maklumat peribadi dan mengurangkan pelaburan dalam aset asing. Yang menariknya, *CEO duality* di Malaysia dapat mengawal gaji pengarah eksekutif dan meningkatkan aktiviti korporat antarabangsa, namun, tidak dapat mengurangkan peranan maklumat peribadi. Akhir sekali, kajian in membandingkan maklumat peribadi dan peranan pemantuan pampasan eksekutif, keputusan kajian menunjukkan bahawa maklumat peribadi mempengaruhi ciri-ciri tadbir urus korporat dengan ketara. Dengan maklumat peribadi, saiz ahli lembaga dan *CEO duality* dapat meningkatkan penjualan asing, sementara RC dan pengarah bebas dapat meningkatkan pelaburan aset asing. Kajian ini juga mengesahkan bahawa masalah endogenous wujud di antara peranan pemantauan dan pengantarabangsaan. Kajian ini menyumbang kepada sastera teori agensi dan teori pemprosesan maklumat yang mengkaji masalah maklumat peribadi dalam pampasan eksekutif. Keberkesanan ciri-ciri tadbir urus korporat terhadap pampasan eksekutif dibincangkan dalam kajian ini.

MONITORING ROLE AND PRIVATE INFORMATION ON FIRMS' INTERNATIONALISATION: THE EFECTS OF CORPORATE GOVERNANCE ON EXECUTIVE COMPENSATION

ABSTRACT

Executive directors' compensation consists of two roles, monitoring and private information. Directors are due to perform the monitor role which align with benefits they received. However, private information role which shareholders do not know could lead to the overpaid of executive directors' compensation. In this study, the first objective is to investigate the effects of monitoring role and private information in executive compensation on firms' internationalisation in terms of foreign assets (FATA) and sales (FSTS). The second objective looks at the effectiveness of corporate governance mechanisms on monitoring role and private information towards the firm's internationalisation. While the third objective focuses on the remuneration committee, the last objective addresses the endogenous effects of executive compensation and internationalisation. The study applies the argument of information processing theory, and agency theory to build up hypotheses. To address the issues, a sample consists of 446 public listed firms in Malaysia, from the year 2008 to 2016 are used to examine the hypotheses in the study. The findings indicate that executive directors who receive their compensation do not perform to the best interest of shareholders when pursuing internationalisation. The monitoring role of executive compensation does not positively explain firms' strategies to go overseas in terms of foreign assets and foreign sales. However, in Malaysia, the presence of private information increases foreign assets (FATA) but reduces foreign sales (FSTS), confirming executive directors pursue their private interest, especially to accumulate assets which may not benefits firms directly. Further investigation found a mixed result of the effectiveness of corporate governance on governing director compensation. The finding indicates the governance mechanism of board size is not effective in governing the monitoring role of executive compensation towards internationalisation. The remuneration committee (RC) are effective in governance the monitoring role when firms are expanding their business internationally. However, RC is still not effective to contain private information for firms' activities that involve foreign assets. The role of independent directors in governance are ambiguous, they are ineffective in monitoring, but can contain the private information and reducing internationalisation of foreign assets. Interestingly, the CEO's duality in Malaysia is governing the executive directors' salary and enhance international corporate activities; however, they are not significant in reducing private information. Lastly, when comparing private information and monitoring role of executive compensation, the findings show that private information has significantly impacted the corporate governance characteristics. With the presence of private information, board size and CEO duality are enhancing firms' foreign sales, while RC and board independence increase foreign assets. The study confirms that endogeneity issues exist between monitoring role and firms' internationalisation but not between private information and internationalisation. The study contributes to the literature of agency theory and information processing theory that examine issues of private information in executive compensation. It is important for the corporate governance mechanisms to govern executive directors' monetary award but also private information as part of the contract.

CHAPTER 1

INTRODUCTION

1.1 Introduction

Generally, executive compensation and fringe benefits of managers increase correspondingly to managerial capabilities and performance. However, finance literature, especially after the 2008 global financial crisis, argues that executive compensation is inefficient because it does not match with firm performance (Wright, Siegal, Keasey and Filatotchev, 2013). Executives directors tend to increase their pay packages and extract windfall and expropriate shareholders through firm's expansion and investment especially in the environment of weak corporate governance (Bebchuk & Fried, 2012; Goergen & Renneboog, 2011). Executive compensation has the primary function of the monitoring role of directors' ability. However, there is a flaw in the monitoring role when directors' salary packages consist of directors' private information and interest not known to shareholders. This has brought to the issues of the agency problem, and whether corporate governance mechanisms could effectively mitigate the issues of private information in compensation is an interesting issue.

In rewarding incentive contracts, there is an element of subjectivity, which is often subjective judgments about performance (Gibbs, Merchant, van der Stede, & Vargus, 2009). Often, the use of subjectivity judgment is related to unexplained observable firm performance. In this regard, Hayes and Schaefer (2000) conclude that executive directors' compensation and bonuses are not limited to the effort and contribution of directors' action toward future performance. There is an element of private information which is not easily observable by the other shareholders. The unobservable information often leads to overpaid or underpaid scenarios that may affect the overall performance of the company. Many studies have offered particularly on individual executive director-chief executive officer CEOs' compensation. The study on the overall executive board directors' compensation, is however limited.

In recent work in Corporate Governance International Review-Journal, the editor Filatotchev and Wright (2017) have called for the emphasis on executive directors' compensation, rather than focus only on chief executive officer's (CEO) compensation. Therefore, this thesis focuses on executive directors' compensation rather than individual CEO compensation. Moreover, most of the finance and corporate governance literature refer compensation to the CEO's remuneration or executive compensation. To ease the discussion in this thesis, the term executive compensation will be largely applied throughout the study.

In a recent study, Lo and Wu (2016) proved that directors' private information is the unexplained observable of firms' future performance. Specifically, directors do possess private knowledge about their capabilities on the company's activities such as strategic planning, innovative developments and decision that has a long-run impact on the firm. The issue of private information, reflecting through directors' over-paid compensation packages often lead to the over-expansion of internationalisation of business and investment, which shareholders may not be aware that is related to compensation packages of executive directors.

The past studies examined executive compensation and corporate governance (e.g. Conyon, 2011; Brandes & Deb, 2013). Dicks (2012) studied the model on executive compensation and enforcement of corporate governance regulations, which can improve investor welfare. Besides, the study uses the model that proposes that effective governance could lower agency cost and reduce executive incentives.

Moreover, governance will be more effective in large firms, which increase in value but ineffective in small firms that decrease values. On the other hand, Hong, Li and Minor (2015) studied the issues and the role of corporate governance and executive compensation with corporate social responsibility. However, private information in executive compensation and the presence of corporate governance that affect internationalisation have not been addressed.

The private information in executive directors' compensation may prompt firms to pursue a higher degree of internationalisation to justify their salary and other compensation benefits. Therefore, the directors of firms with overseas operations would incur higher total compensation, but the efforts from the board members may not be corresponding to the incentive contract rewarded to them. On similar notes, firms with foreign operation may have overestimated and overpaid the executive directors who decided for firm to go overseas. In a study that examines the two-ways relationship between internationalisation and executive director compensation, Liu and Lu (2012) concluded that there is a causality link between compensation and international diversification. However, the study did not address the issue of private information that could explain the overpaid of executive directors.

The issues of executive compensation and firms' degree of internationalisation were first addressed via various governance structures such as board size and CEO duality (Sanders & Carpenter, 1998). Sanders and Carpenter (1998) suggest that the internationalisation of US firms have gone through the information-processing demands and agency issues which involved a higher, long term director's compensation, a larger board team and the duality of chairman and chief executive officer (CEO). In the developing country, the recent internationalisation of Malaysia firms such as Felda Global Venture (FGV) unrelated international diversification to acquire overpriced hotels and apartments in London (Star, 2019). However, the company are left with heavy debts and the net loss of RM1.08 billion in 2018 (The Edge, 2019). Despite the losses, the directors at FGV Holdings Bhd were paid a total of RM5.7 million in 2018, with non-executive chairman took home nearly RM2 million (The Edge, 2019). Apparently, these are issues of governance, and how does the board of directors govern the private interest of decision-makers in the company that lead to international diversification.

There are limited studies on the issues of executive directors in Malaysia. Zabri, Ahmad and Wah (2016) studied the relationship of corporate governance, and firm performance indicates that board size has a weak negative relationship with ROE, and board independence has an insignificant relationship with firm performance. Jaafar, James and Wahab (2012) studied the director remuneration and remuneration committee in family firms. The finding indicates a positive relationship between remuneration committee and director remuneration, and the governance role of the remuneration committee is effective. Chu and Song's (2012) study relates executive compensation to earnings management and prove a positive endogenous relationship of executive compensation and over investment. The positive endogenous relationship implying that there are positively influencing each other. In other words, over investment may lead to overpaid of executive compensation and in the similar vicious cycle, the overpaid executive compensation could invest further, the above studies have focused on executive compensation in the monitoring role. However, the issue of private information has not been addressed.

Previous studies focused on executive compensation and internationalisation Sanders and Carpenter (1998), and private information and firm performance (Lo & Wu, 2016). This study takes a step further to examine private information in executive compensation and firms' internationalisation activities. Moreover, whether the corporate governance mechanisms can contain private information and affect firms 'internationalisation have not been studied.

1.2 Background of the Study

Generally, the performance of the board of director is corresponding to the compensation and perquisite received. Paying the right amount of compensation to the board members is essential to enhance their roles in monitoring firms' performance. However, the inefficient executives may be over rewarded with hefty pay packages due to the firm's empire-building and expansion through international investment. The overpayment is detrimental to the firms, and shareholders' value as overpayment could increase due to directors' private benefits, which is unfair to shareholders (Lin, Kuo, & Wang, 2013; Wilmers, 2014). Apart of the monitoring role, the compensation consists of the element of private information which is due to agency problem Lo and Wu (2016), where there is a misalignment of interest between the agent (decision-makers) and the principal (shareholders) (Jensen & Meckling, 1976). In addition, the effectiveness of corporate governance solely depends on the board of directors and shareholders (Claessen, 2006).

The disclosure on directors' remuneration is essential so that shareholders know managers performance Core, Guay, and Larcker (2003) and shareholders right are protected (Ezzine & Olivero, 2013). In the United States, executive compensation has drawn much public attention as the disparity of income in the country increases.

The directors' remuneration has shown tremendous growth in the past decade, from 24 times over the average worker's salary in 1965 to 262 times in 2005. In 2016 chief executive officer in America's largest firms made an average of $15.6 million in compensation 271 times the annual average pay of the typical worker. The disparity ratio is comparable to 299 to 1 (2014), 286 to 1 (2015), 59 to 1 (1989) and 2 to 1 (1965) (Economic Policy Institute,14-Aug 2019).

While in Malaysia, the top three highest-paid CEOs in 2018 are Tan Sri Lim Kok Thay (Genting Bhd) received around RM 183 million, Tan Sri Dato' Shahril Shamsuddin (Sapura Energy Bhd) around RM71million and Tan Sri Lee Shin Cheng (IOI Corporation Bhd) around RM 68 million (The Edge, 2019). The recent studies show that the median compensation of Malaysia's 40 highest-paid CEO's of non-government-linked companies of RM10.4 million higher than their Singaporean peers, whose median remuneration was S$5.13 million. On average, chief executive directors (CEO) in Malaysia are paid RM3.71 million as compared to S$5.67 million in Singapore. Nonetheless, Singapore counterpart scored a median 2.41CEO performance index as compared to Malaysia's 1.14. Thus, Malaysia executive directors have shown weak performance compared to Singapore (The Edge, 31-July 2018). However, the question of whether executive compensation aligns with the shareholders is an interesting subject as compensation and performance are not always align.

The mismatch of pay and performance has raised the concern of whether directors paid for performance. Lin et al. (2013) used the term "fat cat problem" to define the firms with inefficient performance due to the highly paid CEOs. The Genting Bhd, CEO, Tan Sri Lim Kok Thay's compensation has increased by 9.0% (RM183 million for FY2018 and RM168 million in FY2017). However, Genting's net profit fell 5.5%, and total returns to shareholders declined by 32 %. Another Malaysia listed company, Bumi Armada Bhd's CEO Leon Andre Harland's compensation increased 37%, (RM7.28 million to RM10 million) although the company suffered losses, while total returns to shareholders have decreased 79%. Moreover, Sapura Energy suffered losses while the CEO was the second-highest-paid director amounted, to, RM71 million (The Edge, 2019). Pertaining to this, Mueller (2012) argued that CEOs has the intention of empire-building may involve themselves investing projects that bring to their private interest.

This study has raised the question of whether the inflated compensation is due to executive directors' private benefit. In the case of agency issues, excessive compensation and its' consequences often lead to the collapse of firms. The collapse of the firms has impacted the economy, increased the number of unemployment, reduced the GDP and much more unforeseen forces. The executive directors of Enron were one of the highest executive compensation in the United States (Mun, Paek, Woo & Park, 2019). The collapsed of Enron and Worldcom have left thousands unemployed (Accounting Degree Review, 2019). Due to selfishness of the board of directors, who act to pursue their private interest has left massive scare in the society.

Generally, executive compensation consists of ability and performance, where a better perform director will be paid higher. However, a conflict of interest emerges between the owner who aims for the highest shareholder value where possible, while the executive directors are concerned with luxury perks and remuneration. The role of the principle is to protect their interest and investment by controlling the agent behaviour through the incurring monitoring costs to limit the inappropriate behaviour that might happen to their agent. By implementing the policy such as disclosure of directors' perks and remuneration is one of the actions to reduce executive directors misappropriate the company assets and expropriate shareholders' wealth.

The main objective of this study is to investigate whether private information in executive directors' compensation has overwhelmed corporate governance mechanisms and lead to firm internationalisation in acquiring overseas assets and expanding their business overseas. The study addresses these issues to focuses on the derivation of private information in all executive directors' compensation. As most of the literature covers compensation of CEOs, the only executive director in the board, to ease the discussion, the term executive compensation will be applied throughout the study. Four corporate governance mechanisms are selected, board size, independence directors. CEO duality and remuneration committee. These variables are then interacting (moderating) with the private information in executive compensation and subsequently assess its impact on internationalisation.

1.3 Executive Compensation

Remuneration is a directly or indirectly contract which is tied to firm performance (Perry & Zenner, 2001). The director's remuneration agreement is deemed to be effective, which motivate directors to perform. Any executive compensation changes should transmit to performance and reflected on the shareholder wealth (Monem & Ng, 2013). Generally, the remuneration incorporates basic pay and performance-based profits, which are categorized into money and shares options.

Executive compensation consists of short-term and long-term (Graham, Li, & Qiu, 2012). Short-term compensation consists of salary, bonus, and other annual compensation (Aggarwal, 2008). The salary is the minimum level of income prior to any performance standards, and the bonus aligns with the firms' performance. The long-term executive compensation includes restricted stock, stock options, long-term incentive plan payouts, preferential discounts on stock purchases, and contributions to benefit plans. The director executive compensation reflects their monitoring role to align with shareholder interest (Jensen & Murphy, 1990).

There are two main roles in executive compensation, the monitoring role and private information. Hayes and Schaefer's (2000) indicates that the remuneration of the board incorporates both observable and unobservable (to outsiders) measures against the firm performance. The observable monitoring role, consisting of director compensation, includes salary and bonus that directors can observe in the financial statements. Lo and Wu's (2016) further elaborates that the observable from the public information as monitoring role of executive compensation can reward or punish executive that conforms to shareholders' interests. The study has also elaborated the unobservable measure of firm performance, which indicates private information. Private information is private knowledge about individual executive directors' actions, such as strategic planning and innovative developments that are not captured by current observable performance measures that impact firms in the long run.

1.3.1 Malaysia Executive Compensation

In Malaysia, executive compensation is subjected to Malaysia Companies Act 2016 (CA 2016) (previously under companies Act 1965), the executive compensation components consist of directors' fees, salaries, bonuses, and benefits in kind (MCCG, 2017). There are two different compensation for directors' roles, which is different between the executive director and non-executive directors. The executive directors are considered as employees of the company, which they are entitled to employees' salaries and benefits. While non-executive directors only receive directors' fees which are directors' allowances, and other benefits (Balan, 2017). However, there is no regulation for ceiling or floor amount for directors' remuneration. This has bought to the major discussion of overpayment of director compensation due to directors' private benefits which is harmful to the firms and shareholders.

In CA 2016, the general meeting is to get the shareholder consent on the directors' fees. This allows the shareholders to have the direct ability to approve or reject it. The general meeting is deemed to be ineffective as they often fail to reject the proposal (Balan, 2017). The recent issues of overpaid executive directors in the case of FELDA (refer to section 1.1). On the other hand, there is no requirement to obtain any shareholders' approval of executive salary as the decision are made under the powers of the board of directors. In other word, shareholders have "no direct say" on executive salary. Therefore, the directors may fail to perform on their fiduciary duties and still receiving high compensation. Alternatively, the dissatisfaction of shareholders can oppose through the re-election of independent directors. The independent directors that sit on the remuneration committee, makes the recommendations to the board about directors' salaries and benefits. This is an indirect method which may be effective for the shareholder to voice out.

In Malaysia, most companies are still reluctant to disclose the compensation of an individual director and key executive compensation in annual reports. The current disclosure requirement of director fees is in bands such as RM50,000, RM100,000. Many companies are reporting executive compensation in aggregate forms. Therefore, this is not possible to determine individual director fees in Malaysia. Specifically, on executive salary, the Malaysia Code of Corporate Governance (MCCG) sets out to disclose the board of directors' top five senior management's remuneration, including salary, bonus, benefits-in-kind and other emoluments in bands of RM50,000.00. It recommends the disclosure of detailed remuneration for the senior management on an individual name basis. Nevertheless, these practices are not mandatory, and it allows the public listed companies to have a voluntary option. The policy contrasts with many Asia countries such as Pakistan, Indonesia, India, Korea, Taiwan, Thailand, Vietnam, Singapore and Hong Kong, which have a compulsory disclosure (Sun, Zhao, & Yang, 2010).

1.4 Firm Internationalisation

Firms that have larger capital investment are more inclined to expand their business internationally. Past studies found that the international market is important, especially for countries that focus on exported-oriented (Jansson & Sandberg, 2008; Vithessonthi, 2016). In Southeast Asia countries such as Malaysia, Singapore, Thailand, Philippines, and Indonesia are export-oriented countries. In Malaysia, firms have various competitive advantages such as technological competency, knowledge proficiency and government support's platform for expansion (Ahmad, 2008; Ahmad & Kitchen, 2008). Firm's internationalisation has impacted to the countries macroeconomics factors such as GDP growth, exchange rates and openness to trade which play an important role in determining foreign direct investment (Méon & Sekkat, 2012).

The economics literature of Adam Smith (1776) explained the importance of international trade to a country's economic welfare. Internationalisation is defined as a process of increased involvement in international operations (Welch & Luostarinen, 1988). The advantages are to gain more market opportunities, risk diversification, market reputation and economics of scale. In addition, internationalisation has been known to enhance a firm's efficiency (Doms & Jensen, 1998). With the internationalisation process, firms have progressively sought opportunities to expanse their business operations and activities abroad (Ahmad & Kitchen, 2008). The advantages of firms that engage in foreign direct investment (FDI) and development of foreign business units has been classified into three categories: (1) ownership advantages that enhance control of firms while exploring overseas to business opportunities; (2) advantage of access to other countries; and (3) abroad advantages by consolidating on the intermediate product markets (Dunning, 2000). International firms have inevitably become involved in complexities arising from heterogeneous cultures and dispersed geographies (Gomez-Mejia & Palich, 1997; Roth & O'Donnell, 1996). The complexity of internationalisation requires complex managerial decision-making (Prahalad, 1990) and higher managerial abilities. The complexity of information processing in firms with internatiolisation is correlating to the rewards structure of executive directors.

Firms offer higher rewards to directors to compensate for the increasing information processing due to managing additional complexities in internationalisation. Hence, directors are able to increase their monetary rewards such as salary, bonus and non-monetarily such as power, reputation and prestige (Hambrick & Finkelstein, 1995). The monetarily rewards can be observed through accounting performance; however, the non-monetarily rewards are the hidden private information where the information is available only to the insiders who work closely with the members of directors.

The increasing number of established Malaysian companies have expanded abroad, which their objective is to seek the strengthening of their presence in the global market. Many companies have ventured into countries like India, China, Singapore, United States, Vietnam and Europe (MIDA, 2009). The corporate issues that involved Malaysia firm where the Felda invested in overseas' investment and made huge losses. However, the directors received colossal compensation. The issue has brought to the argument of directors' empire-building through international investment which privately benefits directors.

The foreign investment with the free cash flow may lead directors to misappropriate investment for their private interest, a tunnelling concept when resources are purportedly derived from the company. The misalignment has caused the agency issues to become more severe (Johnson, La Porta, Lopez de Silanes, & Shleifer, 2000). Comparatively, foreign sales are considered genuine as sales refer to company revenue recognize during the financial year. Generally, foreign sales are for marketing purposes which, leads to an increase in director executive compensation to align with internationalisation. In contrast, investment in foreign assets which does not align with the company core business, often lead to "tunnelling" of resources of the company which deprive shareholders' benefits.

1.4.1 Malaysia Internationalistion

In recent decades, 75% of the world's trade growth come from developing countries (Kaynak et al., 2007). Internationalisation of firms in developing countries has increased tremendously and become the players in the outward FDI (OFDI) market (Ahmad et al., 2015). Malaysia was ranked 17th in the top 20 listings in terms of OFDI, according to the World Investment Report (2015). On top of that, Malaysia is a trading country with 70% of large firms export directly and outward investment has significantly increased year by year of 26.7% (The Edge, 2020).

In this rapidly developing country, the context of internationalization has embedded the hidden of institutional and cultural with the economic perspectives that explain the internationalization of MNEs (Peng, Wang & Jiang, 2008). However, it has been often neglected the corporate governance and good practices in internationalization (Yeung, 1999; Zutshi and Gibbons, 1998; Luo, 2000; Peng, 2012). Luo & Tung (2007) explained that firm internationalization has reduced their value of corporate governance practice. However, to-date study on internationalization is limited.

The challenge of understanding the performance of the firms' internationalisaton has been known as a major matter in strategic management (Marano et al., 2016) and international business (Riahi-Belkaoui, 1996), although the strategic management has been recognized which is remain unsolved (Karabag and Berggren, 2014). Despite various studies in the past no consistency of findings was found (Garbe and Richter, 2009; Ruigrok et al., 2007; Marano et al., 2016). Therefore, this study takes the opportunity to investigate monitoring role and private information executive compensation. In examine pay-for-performance or monitoring the role of executive compensation in the Malaysia context, the private information in executive compensation could be higher due to relationship-based appointments (Haniffa and Hudaib, 2006) and endogenous effect of executive compensation which may further escalate the issues of private information lead to unscrupulous internationalisation, especially in acquiring foreign assets.

1.5 Corporate Governance in Malaysia

Corporate governance deals with regulating and supervise its stakeholder members. Their functions encompass protecting investors' interest while ensuring firms achieving the objectives. The regulating and supervise which include observations on the legitimacy, transparency, responsibility, and accountability of executive operations. These include disclosure of business activities, corporate social responsibilities, and directors' remuneration. The past literature generally agreed that weak corporate governance shows poor enforcement and compliant of corporate governance in the firms (Chen, Ezzamel, & Cai, 2011; Javid & Iqbal, 2010).

Poor corporate governance quality leads to agency problems such as rent-seeking, relationship-based businesses, comprehensive group formation and uncertain financial structures. The agency costs that bear by the controlling shareholder in the form of share price discounts and expenses on monitoring, connection, and prestige status. The East Asia finance crisis has proven the ineffectiveness of corporate governance system due to weak institutions and poor property rights (Claessens & Fan, 2003).

The Malaysian Code on Corporate Governance (MCCG) was first introduced in 2000 and improved in 2007, 2012 and 2017, respectively. The code which was based on the Organization for Economic Cooperation and Development's (OECD) principle of Corporate Governance focuses on strengthening the roles and fiduciary duty of board members (MCCG, 2000). The code was later revised in 2007 to reinforce the roles and responsibilities of the boards, audit committee and the internal audit function. The revised code in 2012 focused on establishing the board structure and identifying the role of directors as active and accountable fiduciaries. There are four major components of the board composition in MCCG, such as board size, independent directors, CEO duality and Remuneration Committee (RC). The code also emphasizes that boards and management perform fiduciary duties towards the best interests of the company shareholders.

The board composition is essential for decision making, which is fairness, transparency, accountability and responsibility. An effective board is to include the right group of people, with the right skills, knowledge, experience and independent elements which fit the company's objectives and strategic goals (MCCG, 2017). The MCCG code has no recommendation of the maximum number of directors on the board (MCCG, 2002). Moreover, the board of directors needs to comprise of independent directors. Nam and Nam (2004) reported countries in Asia such as Malaysia, Thailand, Indonesia and Korea with the median of board size which is around 12 in Thailand, averagely 8 to 10 in Malaysia, around 6 to 7 in Korea, and lastly which is 4 in Indonesia respectively.

Ideally, the independent directors are selected based on the personal and professional qualities rather than relationship, which is critical to the shareholders (Stein & Plaza, 2011). In 2017 the revised MCCG, the Code recommends that at least 50% of their board members are made up of independent directors. For those categories as top 100 indexes in FTSE Bursa Malaysia or market capitalization with a minimum of RM2 billion are to consist of minimum 50% independent directors of total directors sitting on the board and minimum 30% are women directors (MCCG 2017).

The independent directors' roles include improving corporate credibility and governance standards by functioning as a watchdog and playing a vital role in risk management. Besides, board independence plays an active role in setting-up various committees such as the audit committee and remuneration committee in the company to ensure good governance in place. Further, the elected independent directors should not be a supplier, contractor or customer of the company. Besides, the independent directors need to provide independent judgments, opinions and quality decision-making which would benefit the company (Cheah & Lee, 2009). According to the survey conducted by the Asian Development Bank (2004), the share of independent directors or commissioners on boards is typically between 25% and 50%, the independent directors consist of half or more of total board members which is almost 30% that belong to Malaysian companies, estimated 20% of the Indonesian and Korean companies, and about 12% belong to Thai companies.

The reason for the separation of positions between the chairman and CEO is to promote accountability and facilitates. In regard, no individual able to influence the board's discussions pertaining to authoritative. The chairman is responsible for leading the board in its cooperative delinquency of management, whereas the CEO focuses on daily management and business operation. The chairman and chief executive officer are jointly accountable for the leadership group and promote the highest ethics of integrity and scrupulousness. There is a clear and effective separation of accountability and responsibility between the chairman and the chief executive officer. In addition, each has played a substitute and complementary role in ensuring the balance of power and authority where no individual has unregulated powers and control. Asian Development (2004) research found that 88% of the positions of CEO and board chairperson are separated in Malaysian firms.

The establishment of the remuneration committee (RC) is to provide guidance to the board in establishing and administrating a transparent and proper procedure for setting up policies on the directors' remuneration and senior management. The setting is essential for the remuneration packages are defined based on the merit, qualification and capability, firm performance, and individual performance which align with the market statistics. The reasonable remuneration is important to entice, retain and encourage directors and senior management. The remuneration package should include the complication of the operating business and the individual's tasks. In addition, business planning and long-term firm objectives should align with the designing of the director's remuneration package.

The MCCG (2000) requires setting up the remuneration committee to advise on the remuneration policy, which consists of the pension plan and other compensation. The objective of the remuneration committee is to prevent executive directors from determining their remuneration packages. Remuneration committees (RC) consist of NEDs to advise and recommend on the board remuneration. The remuneration committees' roles and responsibilities are to addresses the policies, procedure, reviewing and monitoring on the payment related to the board and senior management. The directors should not involve in their pay packages as discussed and voted upon.

1.6 Problem Statement

A few issues abroad and domestic concerning overpaid executive directors and ineffective corporate governance have led to this study.

First, based on executive compensation in Malaysia, studies show that directors receive huge compensation regardless of their performance. The misalignment of salary in FELDA, Genting and others (see section 1.2 background of the study) showed there is a mismatch of CEO earning with firm performance. The mismatch may arise due to empire building and expansion through international investment. The excesses in CEOs and executive director remuneration and poor governance control lead to underperforming firms. Studies found weak relationships between pay and performance in the United Kingdom(UK) (Girma, Thompson and Wright, 2007) and Malaysia (Haron, 2018). Nevertheless, a major discussion on the directors who receive huge compensation that may leave firms in debts. In the recent case of FELDA in Malaysia, where board directors have been paid hugely despite do not correspond to the firm performance. The case of FELDA over-priced investment in the UK but sold at a lower price has turned the company into huge losses. The decision has left the company in debts while directors still receive substantial compensation. Given the presence of high compensation of executive directors, whether the decision to go internationally for new markets or new investments is due to the directors has assumed their monitoring role or the private interest of executive compensation is still unknown. Academically, the issues have not been empirically investigated.

Second, the corporate governance mechanism has the governance roles on the monitoring role and private information of executive compensation which influence firms pursuing internationalisation. The setup of the corporate governance mechanism is to enhance governance roles which align firm performance with maximization of shareholder value (Sapp, 2006a; Lo & Wu, 2016; Oxelheim & Randøy, 2013). Prior studies analyse the relationship of corporate governance and executive compensation (Core, Holthausen, & Larcker, 1999; Grinstein & Hribar, 2004; Dey, Engel, & Liu, 2011; Capezio, Capezio, Shields, & O'Donnell, 2011) and firms' internationalisation (Sanders & Carpenter, 1998). However, the effectiveness of corporate governance to complement the monitoring role of executive compensation is still ambiguous, especially on the relationship between executive compensation and internationalisation. On the same notes, there might be a substitution effect of corporate governance and monitoring role of executive compensation for firms' activities, which render the effectiveness of executive compensation.

The problem statement related to corporate governance mechanisms such as board size, board independence and CEO duality. There is a mixed result found on the effectiveness of board size in decision making. The role of the directors assumes the primary role of monitoring which benefits shareholders. A larger board size will have more directors to play the monitoring role. But large board size may lead to free-riding and reduce the effectiveness of monitoring. The ineffective of the large board size may escalate the issues of private information in executive compensation. However, Lo and Wu (2016) found that small board has private information. Thus far, there are limited studies offered to investigate whether board size could assert their governance roles in firms' internationalisation due to director empire-building or personal benefit.

Malaysia Code of Corporate Governance (MCCG) does not emphasize on the number of board members in governing a firm. The Malaysia Code has recommended the appropriate number of representatives on the board that is fairly reflected the investment of minority shareholders. However, there are no recommendation on the minimum number of the non- executive directors, rather firms have to take the initiative to show at least one-third of the board consist of independent directors to the controlling shareholder.

The independent directors' role has been challenged as a neutral party among the shareholders and the board of directors. There are also possibilities that the independent directors may not be truly independent, as they may have a personal relationship with the CEO (Bhagat & Black, 2000). In the Malaysia context, the selections of independent directors are based on relationship, and may not be appointed according to their area of expertise and experience but more related to political reason to legitimate the business operation (Haniffa & Hudaib, 2006). Therefore, the independent directors may lack expertise, skills and knowledge of the business matters to perform effectively (Rahman & Mohamed Ali, 2006). Instead, the selection might deviate the purpose which is based on knowledge and competency purposes. Hence, the independent directors may not be truly independence due to selection biases. Lo and Wu (2016) found that board independence supports private information in executive compensation. However, whether independent directors could play a governance role on private information and lead to internationalisation is an interesting issue to investigate.

Malaysia code of corporate governance (MCCG) recommends the separation of the positions of the chairman and CEO to promote responsibility, accountability and facilitates respective division. The separate role is supposing to act as a monitoring role on behalf of shareholders. The presence of the duality position in the firms would create a dominant personality that would significantly impact the firm's operation and strategic decisions. The dominant personality could bring harm to the quality if the dominant decision which is favourable to personal interest over firm's interest (Evans, Nagarajan, & Schloetzer, 2010; Fich & White, 2005). With the presence of the duality role, the firm strategic decision-making process, implementation, and control would be complicated, thus reduce the ability of the board of directors to effectively monitor and evaluate firm's management, especially the CEO (Callaghan, 2005). A board that dominated by the CEO is likely to link to more agency problems, thus associated with poor performance. Therefore, CEO duality invites more conflicts and reduces firm performance. Moreover, the CEO with the duality role might leads the firm to over-expansion, which benefit directors' private interest.

The third problem statement concerns the effectiveness of remuneration committee on executive. According to the guideline, the remuneration committees consist of all or parts of non-executive directors. The formation of the remuneration committee is to improve the effectiveness of remuneration compensated to the board director. Most of the independent directors are the member of the committee that allocated to precise function as an independent role. The RC is responsible for recommending to the board to review the executive directors due to the executive directors unable to determine their reward. In order to decide the reward of non-executive directors who should get the board consensus and abstain the individuals from discussing their perks. Core et al. (1999) illustrate that CEOs earn excessive compensation when there are less effective governance structures. With the presence of RC, the private information in executive compensation could be reduced as independent directors are part of the committees to decide the salary rather than the executive directors decide themselves. Nonetheless, the effectiveness of the monitoring has been doubted, whether the presence of RC is able to mitigate the firm from overpaying directors. A recent report by The Edge (2020) has proven that ineffective monitoring due to overpaid directors, even firms making losses (refer to section 1.2 Para 5), although RC is supposed to evaluate the executive compensation. Academically, the effectiveness of RC on executive compensation has not been evaluated, especially when firms pursue internationalisation activities.

The mixed results of the effectiveness of corporate governance mechanisms have driven the issues of whether MCCG will reduce private information in executive compensation effectively. The excessive payment for the boards has brought to the queries among minority shareholders, shareholder protestors, watchdogs, and the public at large due to the lack of transparency of information disclosed on their remuneration policies (Core, Guay & Larcker, 2003; Ben-Amar & Zeghal, 2011). The issue has become essential when the tendency of executive directors to expropriate resources of shareholders via private benefit is high.

Lastly, the endogeneity issues present between monitoring role and private information towards internationalisation. Executive purposely increases excessive internationalisation and lead to overpaid scenarios. Due to the endogenous effect the excessive executive directors' compensation further escalates the issues of private information and increases internationalisation.

1.7 Research Objectives

Generally, the main objective is to investigate whether executive compensation could influence internationalisation. The study looks at executive compensation from its monitoring role and private information perspectives. Specifically, the study aims: -

i. To investigate whether the private information or monitoring role of executive compensation has an influence on firms' internationalisation.
ii. To examine the governance effects of board size, independent directors, and CEO duality on private information and monitoring roles of executive compensation, and its impact on firms' internationalisation.

iii. To assess the presence of remuneration committee on private information and monitoring role its impact on firms' internationalisation.

iv. To evaluate endogeneity effects of executive compensation and firms' internationalisation.

1.8 Research Questions

To address the existing research gaps, several research questions need to be answered:

i. Does the private information role or monitoring role have an influence on firms' internationalisation?

ii. Do the governance effects of board size, board independence and CEO duality on private information and monitoring role when firms pursue internationalisation?

iii. Does the presence of remuneration committee affect private information and monitoring role in executive compensation and firms' internationalisation?

iv. Does the endogenously affect the executive compensation and firm internationalisation?

1.9 Significance of the study

This study makes two essential contributions, from the perspective of executive compensation literature (theoretical contributions) and the practical contribution from the effectiveness of corporate governance and policy-making perspectives.

1.9.1 Theoretical contributions

Against the standard studies on executive compensation which the issues of agency cost constrain areas, this study offers a new insight to the issues of agency theory~~,~~ which focuses on the effects of private information in executive compensation