REMUNERATION POLICY AND CORPORATE GOVERNANCE: STORY FROM INDONESIA, MALAYSIA, INDIA, SINGAPORE, AUSTRALIA, AND UNITED STATES

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Abstract

Objective - Remuneration becomes an interesting research project since the occurrence of global financial crisis in the world's economic. Remuneration relates to the corporate governance issues as well as agency theory. The objective of this research is to test the factors affecting remuneration in 6 countries (Indonesia, Malaysia, India, Singapore, Australia, and United States).
Design/ Methodology/ Approach - The research takes samples from 929 manufacturing companies on the list of stock exchange in 6 Countries during 2010 up to 2013 by using purposive judgment sampling. The years are chosen considering those are the years when the companies in those 6 countries underwent a recovery from the global financial crisis impact.
Result - There are significant differences in remuneration distribution between the companies with compensation committe or those without. Country/the company location in several ways could give significant difference related to remuneration distribution. Surprisingly, Company size and Compensation committee give negative effect towards remuneration distribution.

Keywords: Remuneration, Global Financial Crisis, Agency Theory, Corporate Governance

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1 Introduction

Since 1990 to 2015, there are two global financial crisis (GFC) accounted and it causes many companies going under. Global financial crisis causing chaos in global economy and causing the financial market to engage in critical condition. Thus, many countries being dragged into the pit of destruction (Wells, 2015). The first global financial crisis accounted happened in 1997 - 1998. The next happened in 2007 - 2009. The financial crisis in 2007 - 2009 happened because the accumulation of global imbalance since the occurrence of financial crisis in the middle of 1990s (Jamel, 2015). Hence, global financial crisis in the middle of 1990s has a certain connection with the occurrence of global financial crisis in 2007 - 2009.

The primary contributor of the global imbalance is the United States of America (USA), with GDP 1.6% lower than the world's GDP and is a huge difference, compared to China, Asian country, and oil exporter countries with GDP higher by 1.8% from the world's GDP (Jamel, 2015) (IMF, 2012). Several researches accounted the negative effects of global financial crisis such as the decrease of profitability of construction companies listed in the stock exchange of Malaysia (Lai, H and Aziz, A, 2014) and the decrease of affiliation companies performance in China, visible from the low stock return value compared to the independent companies (Zhang and Huang, 2014). Financial crisis in 2007 - 2009 is a serious global economic backwardness (Loser, 2009; Kenc and Dibooglu, 2009; Claessens and Kose, 2010)

The end of 2009 is recovery time from the impact of GFC (IMF, 2009). The time for companies to think how the recovery must be done to fix all the effects caused by the global financial crisis. Recovery from GFC causing the will to fix the failures after GFC. The failures includes the existence of inconsistent accounting and auditing standard, weak regulation and banking system, as well as incompetent directors who neglect minority stock holders (Bunkanwanicha, Gupta, and Rokhim, 2006). That is why application of Good Corporate Governance is believed to be able to cope with the negative effects of the GFC (Zhang and Huang, 2014).

Remuneration as a form of the application of corporate governance started to earn its reputation as one of the way to recover from the negative effects of GFC. Remuneration related to performance is an important aspect in the context of company management (Gill, 2014). In the past few years remuneration consists of base salary, bonus, share option, restricted share plan, pension, and other advantages (health, vehicle, housings, etc.) becomes controversial topics, in need to be studied both by academics, regulators, or media (Neokleous, 2013).

The objective of this research is to check the application of remuneration in companies in the manufacturing industry around 6 countries (Indonesia, Malaysia, India, Singapore, Australia, and United

States of America). Manufacturing sector is one of the main sector in each countries. Based on the World Bank (2010) the GDP contribution from the manufacture section of the six countries is considered to be quite impressive (Indonesia 47%, Malaysia 24%, India 25%, Singapore 19%, Australia 29% and United State of America 27%). The main questions in this research on the factors affecting the executive and non-executive distribution in the 6 Countries then compare the remuneration in the 6 countries as well as the effect of remuneration distribution for the shareholder.

Remuneration is regulated under different regulations in each countries. However Security Exchange Act of 1943, in section 12 (b) already regulated the declaration of executive remuneration before any special regulation on executive remuneration existed (Dnahue, 2008). IFRS issued by (International Accounting Standard Board) IASB does not regulate specifically on the remuneration, but the remuneration in IFRS is interpreted as Employee Benefits (IAS 19). In Indonesia there are several regulations regulating specifically the remuneration, for example the regulation issued by Financial Services Authority (OtoritasJasaKeuangan, OJK)[10] and Ministry of State-Own Corporation (BUMN). OJK and BUMN regulation mentioned that remuneration given have to be normal and in accordance with the obligations, tasks, responsibility, as well as the condition of the Issuer and the Company. Other example comes from the UK. UK creates Financial Services Authority (FSA) which issues a law (statement PS 09/15) to regulate remuneration practice of financial service (Morgan and Robson, 2009).

2 Literature review

Since the global financial crisis (GFC) remuneration has become the option of the company to apply the corporate because remuneration is considered to be an effective methods to solve the agency conflict. During the GFC, the performance of the agencies declines greatly. The purpose of remuneration is to give the agents a purpose to change the agents' performance into a better one and thus, will increase the overall company performance. Remuneration given to the agents are in the form of both financial and non-financial, for example bonus, commission, salary, insurance, mobile assets, pension, etc. Muljani (2002) mentioned that remuneration in the form of extrinsic rewards includes direct remuneration, indirect remuneration, and non-financial remuneration. As a comparison, Mackat (1997) stated *"Remuneration is the monetary value of the compensation an employee receives in return for the performance of their contacted duties and responsibilities"*.

Remuneration according to Wikipedia (2015) is a payment or salary, usually in the form of money, in return of the services given. Remuneration could not be defined as salary given only, but remuneration has a wider meaning that even includes financial and non-financial. Rivai (2004) said that remuneration is presented towards the employees in return of the services given to the company. The purpose of remuneration is to achieve the human resource with quality, maintaining the existing employees, guarantee justice, rewards of obedience, cost control, abiding the law, facilitating understanding, and to improve administration. As an example, remuneration distribution in India includes fixed elements which are salary, contribution of provident cost, extra income, and pension advantages as well as other elements in the form of bonus / commission as well as stock grant and stock option value.

Remuneration is divided into two different groups, executive remuneration and non-executive remuneration. Executive and non executive remuneration is something different. Several researches related to remuneration related to executive and non-executive remuneration, for example a research done by Rampling et al (2013) relates to the remuneration for State-Owned Corporations in China, later a research in 1985 done by Murphy (1985) shows significant connection between shareholder's return and pay, and there are several other research related to remuneration. This research will focus on executive remuneration.

It is hard to separate remuneration from corporate governance and agency theory issues. In Agency theory, the discussion revolves around intensive problem caused by the differences of interests between the principle and the agents, causing the development of differences of interest between the contract made by the two parties in one company (Su, Li, and Li, 2008).

Related to the agency theory, Remuneration could be used as a tool to minimize the differences of interests between the agent and the principle. The purpose of remuneration is to synchronize the interest of the agent with the principle, as to keep the conflicts between the agent and principle to minimum. Remuneration will motivate the employees into performing a better operation, which will result in the increase of the company value, in line with the intention of the company owners, and the employees will not conduct acts that will cause harm to the company profit. Remuneration could help in handling the imbalance information problem. Remuneration is an important mechanism in conveying what the stakeholder wants to the agent.

3 Hypothesis development

3.1 Country influence towards Executive Remuneration

Operational of each country is different. As an example, a research from Melis (2015) which

[10]In Indonesia, Financial Services Authority (OJK) issued the Regulation of Financial Services Authority No. 34/ POJK.04/ 2014 Regarding the Nomination Committee and Issuer Remuneration or Public Company.

compares disclosure of remuneration in two countries which are Italy and United Kingdom (UK), the result of the research proves that in UK's remuneration disclosure presents a higher level compared to the disclosure in Italy. Melis (2015) found important differences in the criteria of disclosure method adopted by the UK and Italy. Lee (2009) stated that there are many factors that affect the remuneration distribution for CEO (Executive Remuneration) such as the local regulation and business practice in certain country. Remuneration is tightly related to the corporate governance issue. However, the condition of corporate governance depends on the regulations applied in the origin country.
H1: Country gives influence towards Executive Remuneration

3.2 Influence of Board Independence towards Executive Remuneration

Board Independence play certain influences towards the remuneration because outside-dominated boards are independent from the management. Fama and Jensen (1983) stated that the existence of board independence from the management could creates an effective monitoring and activity control of the company. Outside-dominated boards are more ready too use their authority in conducting monitoring and activity control of the company (Kosnik, 1987 and 1990; Beasley, 1996; Abdullah, 2004). The greater proportion held by the board independence, the higher the performance of the company will be. Thus remuneration distribution will come in higher value. Board which is dominated by non-dependent or insider dominated board will have a lower performance. This shows the problem in self-monitoring, especially the improper CEO monitoring, while the CEO's task is to pump up the insider directors' performance (Zajac and Westphal; 1994). Several researches found out that board independence affects the remuneration. Firth et al. (1900) and Ryan and Wiggins (2004) found out that board independence has significant effect towards the amount of remuneration. Abdullah (2014) found that board independence gives negative influence towards remuneration. Board independence gives positive influence towards total remuneration found by Hearn (2013).
H2: Board Independence gives positive influence towards Executive Remuneration

3.3 Managerial Ownership influences Executive Remuneration

In business, CEO often also has his/her share in the company. In several researches, managerial ownership affects the Executive remuneration. Abdullah (2006) proves that managerial ownership has significant role in director's remuneration. Allen (1981) proves that CEO compensation lowers CEO's ownership of the company's shares. This research is in line with the research done by Olderness and Sheehan (1998). Firth et al. (1999) also proves that director's share ownership affects the low amount of remuneration. This agrees with the research done by Core et al. (1999) CEO compensation will lower when there are higher function of the CEO ownership.
H3: Managerial Ownership gives negative influence towards Executive Remuneration

3.4 Compensation Committee Influence towards Executive Remuneration

Main and Johnston (1993) conducts a research on the remuneration given by committee. The result of the research shows the proof that the amount of remuneration compensation for the compensation will give negative influence towards the executive remuneration. Incentive of the CEO will decrease if being affiliated with the director in the compensation committee (Canyon, 2006).
H4: Compensation committee gives positive influence towards Executive Remuneration

3.5 Influence of CEO Duality towards Executive Remuneration

CEO duality is the term used when a CEO possesses two authorities. The first one is as CEO itself and the second is as chairman of the board (Lee and Isa, 2014). CEO duality gives negative influence because it would ignites conflict of interest between the role as CEO and the role as chairman (Abdullah, 2006; Canyon and Peck, 1998). CEO who also sit as chairman of the board becomes no longer independent towards the executive remuneration given. In corporate governance issue, it is best that CEO does not hold any other role so that the function of a CEO could be conducted effectively (Jensen, 1993l; Farma and Jansen, 1983). Lakshan and Wijekoon (2012) stated that CEO duality would increase the risk of a company's failure. Lee and Isa (2015), Canyon and Peck (1998) and Abdullah (2006) found that CEO duality does not affect Executive remuneration.
H5: CEO Duality gives negative effects towards Executive Remuneration

3.6 Influence of company's operational years towards Executive Remuneration

The age of the company often relates to the company management. A new company tends to possesses lower company management efficiency compared to the companies with long years behind. If it is connected to the remuneration research, Brown and Medoff (2003) explains that the longer a company has existed, the higher the wage given to the employees, including the remuneration distribution.
H6: Influence of company's operational years towards Executive Remuneration

4 Research method

This research focuses on manufacturing company listed in Indonesian, Malaysian, Indian, Singaporean, Australian, and US stock exchange during the period of 2011 - 2014. There are several reasons behind the choosing of this research setting. First, based on the data from World Bank (2010) the GDP contribution of the manufacture sector in the six countries are relatively high (Indonesia 47%, Malaysia 24%, India 25%, Singapore 19%, Australia 47 %, US 27%). Second, there are several differences in the funding system in the six country which are mixed between liability and equity based funding used in Indonesia, Malaysia and India, and equity based funding used in Singapore, Australia, and United States. The third, there is a difference in the law system adopted by the six countries. Indonesia adopts the civil law system, while Malaysia, India, Singapore, Australia and United Stated adopt common law system. Fourth, there is a difference in the type of the countries which are emerging country, Indonesia, Malaysia and India, and then the developing countries, which are Singapore, Australia and United States. The comparison is made to see whether exist differences on the remuneration policies in those scoop so the role model for remuneration could be drawn, to achieve public transparency.

The research takes samples from 929 manufacturing companies on the list of stock exchange in 6 Countries during 2010 up to 2013 by using purposive sampling. The years are chosen considering those are the years when the companies in those 6 countries underwent a recovery from the global financial crisis impact in the year 2007 - 2009. This research uses secondary data taken from other parties in the form of annual report listed in the Indonesian, Malaysian, Indian, Singaporean, Australian, and US Stock Exchange in 2011 - 2014. The data is retrieved from www.idx.co.id, bursamalaysia.com, www.nseindia.com, www.sgx.com, www.asx.com.au and *www.nyse.com. Below are definition of the operational variables in the research:*

Table 1. Operational Definition

No.	Variable	Notes
a.	Board Remuneration (BR)	BR= Total Executive Remuneration + Total Non-Executive Remuneration
b.	Managerial Ownership (MO)	MO= Total director share / Total share
c.	Company Size (SIZE)	SIZE= Company's Total Assets
d.	Leverage	Leverage = Total Liability / Asset
e.	Board Independent (BI)	BI= (Indonesia= independent commissary/total commissary) II (other countries= Independent non executive/ total board of Director)
f.	Country	Country = Indonesia “1”; Malaysia “2”; Australia “3”; Singapore “4”; India “5” and United States “6”.
g.	Compensation Committee (CC)	Compensation Committee= Variable Dummy (If there is compensation, code“1” and “0” if there is no compensation.
h.	Company's Age (AGE)	AGE= the age of the company's operational period
i.	CEO Duality (CEO)	CEO= Variable Dummy (If there is CEO duality, code “1” and “0” if there is no CEO duality

Data analysis method used in this research is multiple regression analysis. The method is used because the independent variable is a combination of matrix and non-matrix (Ghozali, 2011). In accordance with the frame of mind and the suggestion of the above hypothesis, the hypothesis will be tested with the following regression equation:

$$\mathbf{BR = \beta_0 + \beta_1\, MO + \beta_2\, SIZE + \beta_3\, Leverage + \beta_4\, BI + \beta_5\, Country + \beta_6\, CC + \beta_7\, AGE + \beta_8\, CEO + \varepsilon}$$

5 Finding

Table 2 provides the description of the remuneration variable each year. Every year represents 929 companies doing remuneration both executive and non-executive.

Table 2. Variable Descriptive Year 2011, 2012, 2013, and 2014

	Mean			
	2011	2012	2013	2014
Remuneration	13.67	13.46	13.29	13.54
Managerial Ownership	5.3838	6.0867	4.7541	6.9310
Size	18.8143	16.7855	18.0574	18.5186
Leverage	0.5605	3.1663	0.6029	0.6645
Board Independence	0.6371	0.6534	0.6412	0.6396
Country	3.0992	3.1726	3.1818	3.0909
Compensation committee	0.8244	0.8578	0.8273	0.8545
Age	36.6298	38.3894	39.7409	39.3455
CEO	0.0954	0.1062	0.1409	0.1136

n = 929

From the table 2 above, it can be seen that remuneration distribution undergoes a decline from the year 2011 to 2013 but slightly increase in 2014. The decline can be the effect of a shock of remuneration decline done by the companies to their employees. The decline can be assumed to be happened because the economic stance which still weak against global crisis.

Table 3. Test T-Test

	Levene's Test for Equality of Variances	
	F	**Sig.**
CEO	1.241	0.266
Compensation Committee	19.010	0.000

Dependent variable: Board Remuneration

The test in table 3 is conducted to find out whether there is difference between the remuneration distribution for CEO and for Compensation committee. The test result on CEO in the table above shows a great significant 0.226 or 22.6%. That means Duality CEO does not earn different total remuneration. Whether in companies with CEO also playing the role as Chairman, or not, there is no sign of difference towards the remuneration distribution. The test result in compensation committee shows a significance as much as 0.00 or 0%. This means there is a significant difference in remuneration distribution between companies with compensation and those without.

Table 4. Anova Test

	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	3241.432[a]	5	648.286	55.411	0.000
Intercept	124459.569	1	124459.569	10,638	0.000
Country	3241.432	5	648.286	55.411	0.000
Error	10798.719	923	11.700		
Total	183685.830	929			
Corrected Total	14040.150	928			
Dependent variable: Board Remuneration, n = 929, R Squared = ,231 (Adjusted R Squared = 0.227)					

Anova Test result above in table 4 shows that F accounting value is 10.638 for significance interference at 0.005, as well as country variable with F as much as 55. 411 and significance on 0.005. Thus, it can be concluded that country/ company location, in several ways can give significant differences in term of remuneration distribution. Adj. value R Squared of 0.227 means variability of the remuneration can be explained by the variability of the country is 22.7%.

5.1 Regression Analysis

Table 4 shows the regression analysis result in four countries during 2011 - 2014. This research studies the relation between independent variables (Managerial Ownership, Size, Leverage, Board Independent, Age, Country, Compensation Committee, and CEO)

Table 4. Regression Analysis

	Sig.
Managerial Ownership	-0.401
Size	-0.000*
Leverage	0.027**
Board Independent	-0.401
Age	0.726
Country	0.069**
Compensation Committee	-0.009*
CEO	-0.576
Adjusted R Square: 4.9%	
Dependent variable: Board Remuneration * Significance 1%, ** Significance 5%, ***Significance 10%. n = 929	

Table 4 above explains that Adj. value R Square is 4.9%. This shows that dependent variables in this research affects the independent variables as a whole by 4.9%. While the remaining 95.1% is affected by extrinsic variables outside of the research. The key explanation of the factors for remuneration distribution is as follow:

a. The variable managerial ownership, board independent,, age, and CEO shows significance rate above 10%. This shows how the three variables does not affect the remuneration distribution conducted by companies.
b. The variable Size and Compensation committee shows significance rate of less than 1%. This shows that the two variables affect the remuneration distribution conducted by companies. Variable size and Compensation committee give negative effect towards remuneration distribution.
c. Variable Country and Leverage committee shows significant rate of less than 5%. This shows that the two variables affect the remuneration distribution conducted by companies. Variable Country and Leverage gives positive influence towards remuneration distribution.

6 Conclusion

Board Size in this research gives negative effect towards remuneration, agrees with the research conducted by Oviantri (2011). This is because the possibility of the company focusing on assets which will later affect the amount of remuneration given to the executive and non-executive. The variable compensation committee in this research shows negative effect. The result gives negative effect because perhaps there is an allocation of spending directed for the committee to do efficiency in companies. The amount of spending for the committee will most probably cut the allocation for other spending, including remuneration.

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