

DIRECTOR REMUNERATION, FAMILY OWNERSHIP AND FIRM PERFORMANCE: AN ANALYSIS FROM MALAYSIAN LISTED FIRM FOR PERIOD OF 2005 TILL 2013

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Abstract

This study examines the association between directors' remuneration, corporate governance structures and firm performance of 140 Malaysian listed firms which 70 firms are family firm and 70 firms are non-family. Data has been collected through annual reports in Bursa Malaysia's database from 2005 till 2013. The results show that firm performance is positively and significantly related to directors' remuneration, firm's growth and size measured by ROA, ROE and Tobin's Q. However, firms' performance in this study is not responsive to anticipated future market valuations in Stock returns. The study also finds that family ownership leads to lower performance than non-family owned firms on accounting measurement (ROA and ROE) and market measurement (Tobin's Q) after controlling company specific characteristics. The findings also reveal that role duality has no significant effect on accounting and market performance. Meanwhile the study explores that firm performance is negatively and significantly related to leverage. The findings can be useful to regulators to limit director's influence over remuneration packages especially in family firm. The study also contributes to the growing literature on executive and directors' remuneration and it provides international evidence on the effects of corporate governance reforms in recent years in influencing boardroom remuneration and ownership structure on a firm's efficiency and performance.

Keywords: Family Ownership, Firm Performance, Corporate Governance

JEL Classification: L25, G31, G34

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1. INTRODUCTION

The development of corporate governance in Malaysia can be basically divided into two different time frames - before and after the 1997 Asian Financial Crisis (AFC). Before the AFC, the term 'corporate governance' was seldom heard in Malaysia and the importance of corporate governance was often overlooked (Liew, 2007). However, the 1997 AFC revealed the serious weaknesses of corporate governance in the region. It has been acknowledged that weak corporate governance is one of the factors that caused the impact of the 1997 AFC to become more serious in many countries in the region including Malaysia (Haniffa and Hudaib, 2006). The performance of many firms was seriously affected during the crisis period. The minority shareholders in family owned companies were among the victims that were particularly hurt by the crisis (Haniffa and Hudaib, 2006). For example, Morck *et al.* (1988) showed that as ownership becomes more concentrated, the value of the firms decreases, suggesting that large shareholders are diverting wealth to themselves. When large investors become so powerful that they control the firm, they could pursue their own interests to the detriment of minority shareholders, creditors and other stakeholders (Maury, 2006).

Thus, the central issue for corporate governance under these conditions is therefore how to prevent insiders (or the controlling shareholders/family-owners) from expropriating the assets of the minority (or non-controlling) shareholders. Better corporate governance would help to remedy this and ensure that minority shareholder's rights are protected.

Malaysia established its High Level Finance Committee on Corporate Governance in 1998, after the AFC, to improve and strengthen the corporate governance system in the country (Sharif and Zaidansyah, 2004). The committee identified a number of lapses in corporate governance practices in the country, which among others were mainly attributable to ownership concentration, efficiency of boards of directors, enforcement mechanisms, and lack of responsibilities awareness by directors (Othman, 1999). The problem with ownership concentration in Malaysia is due to the domination, in most companies, by large shareholders who exercise control rights, putting minority shareholders at high risk (Claessens *et al.*, 1999). There also exists scepticism about the ability of boards, especially the non-executive directors, to monitor management, as they are selected for reasons other than monitoring (Haniffa and Cooke, 2002). The committee reported in March 2000 with a

detailed corporate governance code; the Malaysian Code of Corporate Governance (hereinafter the MCCG). The MCCG addressed four main issues: board of directors, directors' remuneration, shareholders and accountability and audit. The Bursa Malaysia (formerly known as the Kuala Lumpur Stock Exchange) has adopted the Code's recommendations and with effect from 2002, listed companies have to include a statement of their compliance with MCCG and explain any areas of the MCCG that they do not comply with.

One of the most extensively debated issues in corporate governance concentrates on the issue of the directors' remuneration²¹ (Mallin, 2004). The debate has tended to focus on four areas (i) the overall level of directors' remuneration and the role of share options; (ii) the suitability of performance measures linking directors' remuneration with performance; (iii) the role played by the remuneration committee in the setting of directors' remuneration; and (iv) the influence that shareholders are able to exercise on directors' remuneration²².

The directors' remuneration debate clearly highlights the important aspect of the principal-agent problem addressed by agency theory. Agency theory notes that the shareholders' objective is to increase wealth via better company performance and hand over of authority to the board of directors to run the business on their behalf. Thus, the board of directors has the responsibility to achieve the firm's objectives, enhance the firm's performance, increase shareholder wealth and protect shareholders' interests. However, personal interest is the main objective for the board of directors, which drives them to work harder. In this context it highlights that shareholders are viewed as the 'principal' and the board of directors as their 'agent' (Conyon and Mallin 1997). These dissimilar interests between the principal and agent have implications for a firm's operation. This conflict should be dealt with to ensure the firm's operation is not impeded. Thus, a well-designed compensation contract can play a major role as a means to align the interests of the board of directors and the shareholders.

Bebchuk & Fried (2003) suggest levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. Therefore, the remuneration committee is responsible for designing better remuneration for the board of directors. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance. However, remuneration is difficult to link with performance in family firms

because the uniqueness of family firms provides opportunities to manipulate remuneration for private benefit, indeed decreasing minority shareholder wealth.

Family-controlled firms are the most common type of corporations in many countries around the world (La Porta *et al.*; 1999, Bhaumik and Gregoriou; 2010) and a common practice in Asian countries (Tam & Tan 2007). A study by Claessens *et al.* (2000) on the separation of ownership and control in nine East Asian corporations (Hong Kong, Indonesia, Japan, South Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand), showed Malaysia has the third highest concentration with 67.2% of family control after Thailand and Indonesia. Furthermore, family is the most common blockholder controlling two-thirds of publicly listed firms in Malaysia (Claessens *et al.*, 2002; Business Times, 2010).

Family ownership has a unique attribute, which is believed to be able to give rise to greater competitive advantage to the firms and improve their performance (Habbershon *et al.*, 2003). They represent a special class of large shareholders that have a unique incentive structure and strong motivation of owner-managers (Demsetz and Lehn, 1985), which is not found with other large shareholders such as institutional investor-controlled firms. This is due to the owner-managers having a tendency and obligation to pass on wealth to the next generation and thus they possess longer-term commitment compared to non-family firms where the professional managers may be short-term in their management approach. Furthermore, family ownership may bring along some significant benefits or advantages to the firms and the advantages could be enhanced with an increase in the level of ownership (Anderson and Reeb, 2003). This is because family ownership is able to reduce the agency problems commonly found in the dispersed ownership structure and also provides the controlling families with both the power and incentive to improve the firm's efficiency and performance.

However, at the same time, an increase in family ownership also means an increase in the control (voting) power of the families. Moores and Craig (2008) note that family firms prefer to keep top management for family members rather than hiring qualified outsiders to run a business due to increased personal interest. Family groups on committees actively influence the committee decision making to benefit them. Therefore, as the controlling shareholders, they have the 'ability and inclination' to carry out strategies, activities or practices that benefit them but may not benefit, or may even be detrimental to, the efficiency and performance of firms and minority shareholders (Young *et al.*, 2008; Dharwadkar *et al.*, 2000).

The relationship between ownership-related variables and a firm's performance may be caused by the difference in political and corporate environments, legal systems and enforcement, taxation or accounting rules (Filatotchev *et al.*, 2005; Joh, 2003). Undertaking a single country ownership study (Malaysia) instead of a cross-country study, can control for the outlined country-specific factors and has the advantage of avoiding endogeneity problems between ownership structure and other

21 Directors' remuneration refers to the total remuneration received by the directors of a firm (Firth *et al.* 1999; Mehran 1995). According to Murphy, (1986), "remuneration is every form of Salary, Bonus, Stock Options, (Restricted) Stock Award, Phantom Stock Plans (as in common stock but has no ownership claims. CEO will be entitled to share price appreciation and dividends as well as the actual stock) and Stock Appreciation Rights (The right to collect a number of shares at a specified price at a certain time).

22 Director remuneration can be consist from executive and non-executive director remunerations. This study will use executives rather non-executives especially in family firms. According to Moores and Craig (2008), family firms prefer to keep top management for family member rather than hiring qualified outsiders. Non-executive has less power to argue or oppose actions in family firms because family appoints them.

related variables and country-specific institutional characteristics.

Finally, this study focuses only on publicly listed family-controlled firms and does not include privately held family-controlled corporations, in order to avoid the difficulty of obtaining data in privately held corporations. Data on publicly listed firms are publicly available and more importantly trustworthy as their source is mainly audited company annual reports. As shares of listed firms are publicly traded, market-based performance measures can also be employed in the study and therefore the problem of performance measures being constrained only to accounting-based measures can be avoided.

There are many studies around the world comparing family and non-family firms' performance (i.e. Ibrahim and Samad 2011; Miller & Breton-Miller 2006; Villalonga & Amit 2006; Castillo & Wakefield (2006 and Anderson & Reeb 2003). However, there is limited research carried out in Asian countries particularly Malaysia. Additionally, research on the relationship between a firm's performance and executive compensation does not identify consistent and significant relationships between executives' remuneration and firms' performance. Not all firms experience the same levels of agency conflict, and external and internal monitoring devices may be more effective for some than for others. Thus, this study tends to bridge this gap by providing insight into the directors' remuneration and performance in different ownership structures in Malaysia.

The study intends to investigate the impact of corporate governance mechanisms such as directors' remuneration, role duality and agency problem/cost proxy on performances in Malaysian Listed Firms by using recent data and explores a longer period. Specifically, this study will explore the performances and corporate governance mechanisms between family and non-family ownership in Malaysia and will examine the influence of control variables such as firm size, leverage and growth on performance.

The study will examine the impact of improved corporate governance mechanisms such as directors' remuneration in Malaysian public listed firms' especially family-owned firms. It aims to provide a significant contribution as it recognizes the importance of corporate governance in the integrity of financial reporting and in harmonizing the objectives of both the firm's management and its stakeholders. In this research, the study also will provide a window of opportunity for Malaysian regulators to take a deeper look at the MCCG regarding directors' remuneration and other corporate governance characteristics. It is most important to regulators, investors, academics and others who contend that good corporate governance is important for increased market liquidity, and the confidence of the public and investors in Malaysian public listed firms, especially family firms. This leads to a lower cost of capital, therefore more investment opportunities yield a positive NPV leading to more employment or taxes and generally will benefit society. This is an important point of corporate governance, which should not be lost.

The rest of paper is organized as follows. In the next section, we present our theoretical

framework and hypothesis regarding the effect of director remuneration, corporate governance on firm performance of family and nonfamily firm. Data describes the Malaysian database and the empirical strategy. This is followed by the presentation of our results. We conclude in the final section.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

2.1. Agency Theory

Agency theory addresses the issue of how better remuneration can possibly align the interests of powerful and sometimes opportunistic executives and shareholders (Jensen and Murphy, 1990; Baker *et al.*, 1988; Fama, 1980). According to Lazear (2000), in order to motivate the board of directors, incentives are required where providing an incentive may possibly affect performance. When both parties have similar interests, they are able to work together and create better strategies and planning for long-term success. Agency theory suggests diversity based payment performance has been challenged in recent years due to an exorbitant amount for compensation packages paid to corporate executives (Friedrichs, 2009). Inability to refine the cross-country differences means the agency theory has also been criticized (Filatotchev and Allcock, 2010; Bruce *et al.*, 2005).

The organization theory limiting the agency theory by examining executive remuneration as a political process and focuses particularly on powers of the CEO and the Board of Directors, where there are factors which may influence the decision of the executive compensation decisions (Elhagrasy *et al.* 1999; Finkelstein, 1992). Organizational theorists examining executive remuneration as a political process as CEOs are in a unique position to determine their own compensation, based on their power and ability to influence board behavior. Several factors that have been suggested by the literature that are potentially associated with the power of the CEO are CEO ownership, board size, firm size, and ownership of the board (Elhagrasy *et al.*, 1999).

The family ownership firm tends to provide positions for family members rather than hiring more qualified managers (Moores & Craig 2008) even if they are not talented enough to run a business (Faccio *et al.* 2001). Family groups on committees can actively influence the committee's decision making and can use remuneration to benefit them. Non-executives have less power to argue or oppose actions taken by family members because the family appoints them. This fact influences the direction of family group divergences from maximizing profit towards increasing personal wealth. This relationship is not against regulations because the firm belongs to them and has a right to be awarded higher remuneration, even though they are unqualified as long as it is not proven risky to the firm (Yatim, 2012). Thus, the agency problem becomes serious between majority shareholders and minority shareholders (Jiang & Peng 2010; Young *et al.* 2008). Therefore, effective remuneration is very important in influencing the majority shareholder to

switch personal interest towards fulfilling the firm's objectives.

On the other hand, agency theory also suggests a number of mechanisms to reduce agency problems. These mechanisms include board and ownership structures (Yermack, 1996; McConnell and Servaes, 1990). Family firms incorporate purposefully for long-term success and prefer to hand over the business to the next generation. Ownership could align the interest of management to the interest of owners (Jensen and Meckling, 1976). Therefore, the agency theory predicts that the alignment of interest should lead to lower directors' remuneration because excessive remuneration (and perks) leads to the value of the firm being lowered by the market. Remuneration packages (and perks) are considered as excessive if they are not linked to performance.

The other mechanism of corporate governance is the role of the CEO duality, which is also as Chairman of the board of a firm. The role of duality is expected to reduce the agency costs, enhance decision-making, which are much more closely focused on the objectives of the firm, and encourage more rapid adoption of operating results (Stewart, 1991). An individual who acts as the CEO and Chairman has the power to determine strategy, and is responsible for the firm and with minimal interference from the board, and could lead to improved performance of the firm (Davis et al., 1997). Similarly, Felton & Watson (2002) argue that, splitting the role of the Chairman and CEO reduces the CEO's freedom of action.

Combining the top two roles, on the other hand, could result in a conflict of interest (Conyon and Peck, 1998) that adversely affects the board's monitoring roles, in favor of the CEO. According to (Jensen 1993), for the board to be effective, it is important to separate the Chairman's and CEO positions. Consequently, the various codes on corporate governance (i.e. Cadbury Report, 1992; Hampel Report, 1998; MCCG, 1999) suggest that there should be a clear division of responsibilities at the head of the firm, which will ensure a balance of power and authority for the Chairman and CEO. Further, there is also empirical evidence that concludes that the agency problem is higher if the CEO and the board are the same person (Yermack, 1996; Fama and Jensen, 1983). Thus, the separation of the two roles will ensure checks and balances on management performance. Next, it will be more likely to implement and achieve the objectives of the firm of personal interest (Jensen, 1986; Jensen and Meckling, 1976).

2.2. Stewardship Theory

Jensen and Meckling (1976) in their theoretical study on the relationship between ownership structure and performance have divided shareholders into two groups, internal shareholders with control power and voting rights and external shareholders without control. They also found a higher level of ownership by 'insiders' such as owner-managers in family-controlled firms that will reduce the agency conflict because the interests of the insiders will converge with those of the shareholder. In other words, the controlling family will have the incentive to improve their respective

firms' performance and share prices as they reap the benefits from doing so.

Stewardship theory views that managers behave as stewards and gain higher utility from pro-organisational, collectivistic behaviour than from individualistic and self-serving behaviour, as presumed by agency theory (Jaskiewicz & Klein 2006). Research also claimed that when ownership is high and concentrated, the higher benefits and costs are borne by the same owner (Demsetz & Lehn 1985), and indicate that more and more family wealth is tied into the business and thus why families are more concerned with the firm's survival because the risks are not fully diversified, and they have strong incentives to monitor management closely. The monitoring cost tends to be lower in firms controlled by family than by non-family (Fleming *et al.*, 2005; Fama & Jensen, 1983). The controlling shareholders will serve the interests of minority shareholders as well as their own interests (Schulze et al., 2001). This will evade the exploitative behaviour of agents towards the principals, decrease the agency costs and increase the firm's performance (Jensen & Meckling 1976).

Family ownership is also motivated not only by short-term financial interest but also longer term non-financial goals such as creating sustainable competitive advantages and capabilities. As controlling shareholders, families exercise their ownership stakes as a means of pursuing the strategic interests of their organisations, such as securing new markets and protecting managerial autonomy so that the owner-managers are able to "make tough decisions" more effectively (Aguilera and Jackson, 2003). Overall, the firm's performance is expected to improve and the improvement is sustainable in the long-term.

In contrast, as the controlling shareholders, they have the 'ability and inclination' to carry out strategies, activities or practices that benefit them but may not benefit, or may even be detrimental to, the efficiency and performance of firms and minority shareholders (Young *et al.*, 2008; Dharwadkar *et al.*, 2000; Claessens *et al.*, 2000).

3. HYPOTHESIS DEVELOPMENT

Based on the justification from the arguments in the literature, six sets of hypotheses (H1 - H6) are developed to represent the six major themes of the study: the influence of board remuneration, ownership structure, board duality, firm's leverage, firm's growth and firm size on the firm's efficiency and performance. There is a lot of literature on the relative merits of different measures of performance. This study follows the extant literature and use both accounting based measures of performance, as well as market based ones. Accordingly, the key performance measures in our study are return on assets (ROA) and return on shareholder equity (ROE), Tobin's Q and Stock Returns.

3.1. Director Remuneration

Most empirical studies have correlated the relationship between the directors' remuneration and the firm's performance. There is a positive relationship between the compensation of directors

and company performance (Merhebi *et al.*, 2006; Kato and Kubo 2006; Jensen and Murphy, 1990). Performance-based compensation plays an important role in the relationship with shareholders, indirectly reducing agency costs. In Malaysia, Yatim (2012) examined a cross-section of 428 family firms listed on the Bursa Malaysia for the financial year ending 2008, and checked that the remuneration of directors has the significance of a strong positive relationship with the firm's performance. According to Yatim, the family firms include power and control for the remuneration awarded to the board in order to provide motivation to achieve objectives. Hassan *et al.* (2003) and Sim (2004) also found positive but weak relationship remuneration for the performance of the firm.

There are also decisions behind which is an inverse relationship between the compensation of the directors and the firm's performance (Bebchuk and Fried, 2003; Core *et al.*, 1999). According to them, excessive director compensation will increase spending that much and indirectly cause the firm's performance to decrease. The studies by Fernandes, (2008); Randoy and Nielsen, (2002); Firth *et al.*, (1995) also did not find an association between compensation and firms' performances. Abdullah (2006) concluded in his study of distressed firms in Malaysia and found an inverse and significant relationship between directors' remuneration and lagged profitability to the firm.

Regardless of many researches concerning agency costs, there are still some reservations about the role of the different incentives played in managers' performance and what the best structure of directors' remunerations is to increase the firm's performance. Based on the discussion above, the previous research does not identify consistent and significant relationships between executives' remuneration and company performance. Therefore, it becomes increasingly interesting to test the relationship between directors' remuneration and company performance. Thus, from the perspective of agency theory, the incentive schemes can notably increase efficiency of managers and an optimal compensation contract is a cure for the principal-agent conflict. Therefore, this study proposes the following hypothesis:

H_1 : There is a positive significant relationship between the remuneration of directors and the firm's performance.

3.2. Family Ownership

Family ownership is measured as the proportion of shares held by family directors over the total number of shares issued. Firm will be considered as family firm when family owned at least 20% of shares issued. This measurement has been used by previous researchers (Morck *et al.* 2000; Schulze *et al.* 2001; Yeh *et al.* 2001; Anderson *et al.* 2003; Ng 2005; Chen *et al.* 2005; Andres 2008; Achmad *et al.* 2009; Chu, 2009; Lin & Chang 2010). An empirical study by Anderson and Reeb (2003) based on family firms in the S&P 500, found that family firms perform better than non-family firms, attracting more investment from minority shareholders with better payout dividends. Similarly, Andres (2008) contends that family ownership in Germany "can be regarded as an efficient ownership structure" as they

perform better than firms with dispersed and other types of ownership. Ownership concentration is also positively related to company performance in Thailand, a country with a number of similarities to Malaysia in terms of economic development and a corporate landscape that is dominated by the family-controlled firms of Chinese descendants (Wiwattanakantang, 2001).

Maury (2006) examined the individual relationships between ownership rights and excess control rights and firm performance in large, listed Asian and European family firms and found a positive relationship between ownership rights and a firm's performance and a negative relationship between excess control rights and company performance. The results of these studies indicate that family ownership helps to align the interests of the family with other shareholders, but only up to a certain point. Beyond this point, further ownership or excess control rights help to entrench the position of the family, which is associated with deteriorating company performance.

A study in Malaysia, Ibrahim and Samad (2011) found that on average, family ownership experienced a higher value than non-family ownership based on ROE. On the other hand, based on Tobin's Q and ROA, the study finds that a firm's value is lower in family than non-family ownership. While, Haniffa and Hudaib (2006) found that the higher the concentration of ownership, the better the accounting performance of the listed firms but they do not report any significant findings in the relationship between managerial ownership and market-based performance.

On the other hand, Chen *et al.* (2004) did not find any relationship between family ownership and the operating performance of family PLCs in Hong Kong. Similarly, Filatotchev *et al.* (2005) also did not find any association between family control and company performance among family-controlled listed firms in Taiwan. Meanwhile, Sciascia and Mazzola (2008), Westhead and Howorth (2006), and Castillo and Wakefield (2006) examined relationships between family ownership and the firm's performance using samples of small and unlisted family firms from the UK, US and Italy, respectively. They found no significant relationships between family ownership and company performance. This suggests that the significant relationships between ownership variables and a firm's performance may be limited to large, listed family firms.

The above discussion shows that empirical examination based on different countries on the relationship between family ownership and a firm's performance may yield different findings. A likely reason for the different findings is that firms in different countries operate with a distinctive culture and in different legal, enforcement and institutional environments. These country-specific differences may thus have a significant impact on ownership performance relationships (Filatotchev *et al.*, 2005; Joh, 2003). Given inconsistent findings in previous studies, it becomes interesting to test the relationship between family ownership and company performance in Malaysia. Thus, the second hypothesis is stated as follows:

H_2 : There is a positive significant relationship between family ownership and a firm's performance.

3.3. Role Duality

Different countries have different rule on role duality. For example, in UK (The UK Code of Corporate Governance 2012) and Germany (German Corporate Governance Code 2013) indicate that the roles of chairman and chief executive should be exercised by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established. But is different in US, according to National Association of Corporate Directors (NACD) report that, in average 75% of the CEO of the S&P in the US are also the Chairman of the board (Mid Cap 64%, Small Cap 59% (Chhaochharia, Grinstein, 2007).

Role duality is not common in Malaysian corporations (PwC, 1998), family firms in Malaysia prefer to practice duality leadership as it gives greater power to the same person, who is the owner and the manager of the family firm, to make fast and prompt decisions. With less bureaucracy, a shorter time period is needed and lower costs are involved in managing family firms. Accordingly, Malaysian Institute of Corporate Governance (MICG) revised in 2007 suggest that firms separated the two roles to ensure proper checks and balances on the leadership of the corporation. Firm in which the roles of chairman and CEO are combined have to publicly announce the fact and explain the need for it in their annual report.

Empirical research on the effect of role duality on corporate performance has resulted in numerous inconsistencies. Some studies found role duality does not play an important role in improving a firm's performance (Weir *et al.*, 2002, Dahya *et al.*, 1996 and Peel and O'Donnell, 1995). However, Rhoades *et al.* (2001) in his study found that firms with a separation of the two roles of accounting consistently have higher returns than those who have combined. McKnight and Mira (2003) studied role duality that has had a moderately strong and negative impact on quality values. In other words, where there is a firm with role duality of their CEO underperformed, compared to firms in which the CEO did not occupy both positions. Haniffa and Hudaib (2006) obtained different results on the performance of the firm. There is no relationship between role duality with company value, Tobin's Q, but a negative relationship between role duality with return on assets (ROA). It summarized that it is important if the person holding the position of Chief Executive Officer (CEO) and Chairman is a different person as recommended by the MICG to limit excessive force by individual firms.

In contrast, Ibrahim and Samad, (2011) found that the firm's value with family ownership is weaker but non-family ownership gains more profitability when duality exists on the board. This research is consistent with previous studies by Florackis and Ozkan (2004), McKnight and Mira (2003). Family owners are found to have a preference for CEO duality and such practice is found to have an impact on the firm's performance Tam and Tan (2007).

However, the combined role can be beneficial, as the 'top man' will work for a better performance, especially if there are high financial stakes. Hence, next hypothesis is:

H_3 : There is a positive significant relationship between the duality of the role and performance of the firm.

3.4. Firm Leverage

Based on Modigliani and Miller (1958), they assume that there is a particular set of anticipated cash flow required by the firms. At the same time, they presume that there is a perfect capital market, which means no arising of transactions or bankruptcy costs and perfect information. In other words, the firm and individuals can finance debts at same interest rate and no tax. Besides, investment is not influenced by financing decisions. There is no impact of leverage on firms' market value. Furthermore, Stulz, (1990) and Jensen (1986) argued that debt financing may play an important role in reducing management's discretionary control over free cash flow as the commitment to make periodic repayments of interest and principal. It will restrain them from using the firm's free cash flow to engage in non-optimal activities such as unnecessary diversification. As said by Grossman and Hart (1982), debt also forces managers to consume fewer perks and become more efficient to avoid bankruptcy, the loss of control as well as loss of reputation. Debt contracting may also result in improved managerial performance and reduced cost of external capital (John and Senbet, 1998). In short, debt could result in creditors monitoring management more closely and may help yield a positive disciplinary effect on performance. However, too much gearing may incur a burden of excessive interest and affect a firm's performance. The stock beta of firms with greater debt may also be higher, reflecting higher financial risk. Debt can increase conflicts of interest over risk and return between creditors and equity holders; this may affect the market value of the stock and consequently the market-based performance of the firm such as the Q measure.

Hurdle (1974) found gearing to affect profitability positively. Margaritis and Psillaki (2008) investigates the relationship between efficiency, leverage and ownership structure using a sample of French firms from low- and high-growth industries. This study finds the effect of efficiency on leverage is positive but significant only at low to mid-leverage levels. Nour (2012) concludes in his study that there is positive impact of capital structures on firms' performances, accounting and market measurement.

By way of contrast, early studies such as Stulz (1988) and Myers (1977) suggest that there is a negative association between gearing and a firm's value. Weir *et al.* (2002), Short and Keasey (1999) and Downen (1995), found a significant negative relationship between gearing and corporate performance. In the case of Malaysia, Ibrahim and Samad (2011) found that family ownership uses less debt, however, family firms do not appear to use debt differently than non-family. Meanwhile, Zeitun and Tian (2007) in their study, investigated the effect of capital structure on corporate performance

by using 167 Jordanian firms from 1989 to 2003, and concluded that a firm's capital structure had a significant negative impact on both firm's performance measurements. Since debt can increase conflicts of interest over risk and return between creditors and equity holders, so our next hypothesis:

H₄: There is a significant negative relationship between a firm's leverage and a firm's performance.

3.5. Firm Growth

Some studies used pecking order theory to examine the relationship of company growth and performance. The pecking order theory mentions that firms prefer using internal finance²³ for raising capital. And, this theory assumes that there is no existence of optimal capital structure in the real world (Krishnan and Moyer, 2007). External finance²⁴ is a last resort used by firms to expand their business. By that, this theory points out that firms use the internal finance method to minimize the asymmetric information cost. Furthermore, Barclay & Holderness (1989) claimed that ownership concentration reduces the probability of bidding by other agents, thereby depressing the value of the firm. These factors suggest that family control imposes a capital constraint that inhibits the firm's growth. Additionally, Serrasqueiro (2009), did a study on Portuguese firms and found a positive relationship between profitability and growth, and claimed small firms usually rely on internal finance for the expansion of their business and avoid external financing. This creates a positive relationship between growth and profitability.

Another measurement for company growth was sales or revenue. The revenue figure is important because a business must bring in money to turn a profit. Jang and Park (2011) examined the relationship between a firm's profitability and growth and argued that not only will higher profits boost growth, but profits are deterred by an increase in growth. Other researchers also agree that the profit has a positive effect on growth (Goddard *et al.*, 2004, Cowling, 2004 and Mendelson, 2000). However, the study done by Markman and Gartner (2002) found no relationship between growth and profitability.

Agency theory argues that sales growth does not always lead to increased return to stockholders. Empirical studies have claimed that growth sometimes benefits managers rather than stockholders. (Marris and Wood, 1971; Baumol, 1967; Berle and Means, 1932). Managers pursue growth because growth benefits them personally, where growth guarantees employment and salary increases for managers due to the greater responsibilities of managing a larger firm (Murphy, 1985). However, Thomas *et al.* (2000) claimed that depending on the industry structure, sales growth may also provide additional market power, which firms can use to increase performance. All these lead to the next hypothesis:

H₅: There is a significant positive relationship between a firm's growth and a firm's performance.

²³ The internal finance is such as retained earnings and excess liquid assets.

²⁴ The external finance is such as issues the new share like ordinary share and prefer share, bank loan, and so on.

3.6. Firm Size

The important factor influencing directors' remuneration as well as company performance is company size. Prior studies have shown that firm size generally reflects organizational complexity. Larger firms are likely to have larger number of directors on their boards and may pay higher directors' remuneration (Herdan and Szczepańska, 2011). Furthermore, a study by Rosen (1982) indicates that a small difference in the quality of the CEO can make a big difference in larger firms, thus, larger firms try to attract the best directors for their firms. This results in higher remuneration packages in larger companies as to acquire the best CEO for the firm and to keep him or her interested in the firm. Jensen and Murphy (1990) also show that CEOs in larger firms receive greater levels of pay.

On average, larger firms are better performers because they are able to diversify their risk (Ghosh, 1998). Furthermore, they have more analysts following their performance, and as such will be under more pressure to perform well. Larger firms are also associated with larger market power and thus better performance. Yatim (2012), Haniffa and Hudaib (2006) and Joh (2003) in their studies found a positive significant value for the variable in regressions that shows a positive relationship between a firm's size and performance, indicating that large firms may benefit from economies of scale and scope.

However, some researchers believe that a larger firm may not be as efficient as a smaller firm due to decreasing control by senior management over strategic and operating activities as a firm's size increases. Others, such as Nenova (2003), believed that larger firms may be subject to greater scrutiny and it is therefore more costly for the controlling families to extract private benefits. On the other hand, smaller firms are more creative, innovative and change more readily to enhance corporate value (Hannan and Freeman, 1989).

Overall, the literature recognizes the effect of firm size on performance but that it is ambiguous. Therefore, the next hypothesis is:

H₆: There is a significant positive relationship between a firm's size and a firm's performance.

4. DATA

This study used the quantitative research method, which involved secondary data. The data were collected from the annual report in Bursa Malaysia's database; the sole stock exchange in Malaysia, as in May 2014. In order to guarantee the validity of sample data and to minimize the impact of abnormal factors on the results, the exclusion criteria of sample are designed as follows:

1. The banking and finance and insurance sectors are excluded from the study because firms in this sector are governed by a different set of rules and regulations and thus make them incomparable to firms in other sectors.
2. The companies which fail to comply with any obligations under Practice Note such as Practice Note 4 (PN4) and Practice Note 17 (PN17), because the financial situation of these two kinds of listed companies is abnormal, and most of them have made losses for more than

two years, may even have gone bankrupt. This company cannot provide continuous data and adding these companies into the sample will bring serious influences on the reliability of results.

3. The firms had failed to maintain their report (annual accounts) without any substantial gaps for the period of 2005 to 2013.
4. The companies with listing time that is less than three years should be removed from the sample to reduce the impact of companies' listing time on their performance.

These exclusions (one and two) were also consistent with previous studies in this area (Amran & Che-Ahmad 2009; Ibrahim *et al.* 2008; Claessens *et al.*, 2006; Haniffa & Hudaib (2006) and Anderson and Reeb, 2003). As a result, this study used the sample of 140 Malaysian firms listed on Bursa Malaysia, which consists of 70 family firms and 70 non-family firms over a period of nine years, 2005 to 2013 with 1260 panel data or observations. The 2005-2013 periods has been chosen because disclosure detailing the activities of the remuneration committee, executive pay structure, level of remuneration, and whether the firm is a family firm, as required under the Malaysia Code of Corporate Governance (MCCG), became effective for annual reports after June 2001.

4.1. Dependent Variables

The study used accounting measures such as Return on Assets (ROA), which is the ratio of net income divided by the total assets and Return on Equity (ROE), the ratio of the net income divided by the shareholder's equity as a performance measurement. In catering to shareholder wealth, we use two market measurements, Tobin's Q and Stock Returns. Tobin's Q is computed as the ratio of the market capitalization plus total debt divided by total assets of the firm. These performance measures have been widely used as proxies for company performance (Ibrahim and Samad, 2011), Sraer and Thesmar, 2006; Haniffa and Hudaib, 2006; Anderson and Reeb, 2003). Meanwhile stock returns are derived from the difference between current and previous stock price plus current dividend per share and divided by current stock price. Antunovich *et al.* (2000); O'Hara *et al.* (2000), Madura *et al.* (1996) and Kerr and Bettis (1987), have used stock returns as an indicator of company performance.

4.2. Independent Variables

Remuneration was measured using proxies representing cash remuneration consisting of salaries, bonuses, benefits of kin, and fees bands in the range of RM50000 (less or more). In order to reduce heteroscedasticity (Tabachnick, 2007), the natural log of total directors' remuneration is used as the dependent variable.

In Malaysia, information on lists of family ownership is unavailable and not recorded. Information pertaining to the family ties or relationship is determined by using the name of board members. The family ties, which are considered to be family members, include anyone who has a blood relationship and also family-in-laws. In addition, this study uses the fraction of

equity stake held by all family members as being at least 20 percent or more. The fraction of equity ownership and control is hand-collected from the company annual reports under the section 'Analysis of Shareholdings' as per the substantial shareholder disclosure requirement of Section 69D(1), Companies Act 1965. The Act requires the mandatory disclosure of substantial shareholders who are defined as holding more than a 5% equity stake of any firm, irrespective of their direct or indirect interest in the shares. The information available in the annual reports includes disclosure of the names of all substantial shareholders and the percentage of their direct and indirect shareholding which allows for categorisation of family and non-family ownership. This data collection is considered to be appropriate since it has also been adopted by previous studies (Ibrahim and Samad, 2011; Sraer and Thesmar, 2006; Anderson and Reeb, 2003; La Porta *et al.*, 1999).

The data related to the board of directors and duality is obtained from the 'Corporate Information' and 'Profiles of Directors' sections of annual reports. The information available in the annual reports includes the names of all executives and non-executives directors, which allow the categorisation of duality.

4.3. Control variables

Firm size is measured by the book value of total assets, which is consistent with how firm size has been measured in prior studies (Jaafar and James 2013; Amran & Che-Ahmad 2009; Ibrahim *et al.* 2008 and Anderson & Reeb 2003). Log transformation was applied to firm size variables to correct the positive skewness in the data distribution of the variable. A firm's leverage is measured by total debts over total assets (Jaafar and James 2013; Anderson & Reeb 2003). While the firm's growth is measured by total revenue over the total assets, which is consistent with how the firm's growth has been measured in prior studies by Nazrul *et al.* (2008) and Ang and Ding (2005).

4.4. Estimation Models

Testing of the hypothesis presented in this study will be conducted using multiple regression analysis that gathers all cross-sectional data and time series data to analyze the impact of board mechanisms on corporate performance of Malaysian listed companies. Our regression models are similar to those used by Abdullah (2006) and Hassan *et al.* (2003). A multiple regression analysis is carried out to test the hypothesis. Regression is the main tool of analysis used in this study as it is one of the widely used methods in relational research. Multiple regression analysis is chosen as the main tool of analysis in this study as it is "the appropriate method of analysis when the research problem involves a single metric variable presumed to be related to two or more independent variables" (Hair *et al.*, 2010). In addition, it is also an appropriate method as the data are cross-sectional; hence we do not have to address autocorrelation issues. It is one of the most common methods of analysis used in previous research exploring the relationship between corporate governance mechanisms,

organisational structures and company performance and is used, for instance, in Claessens *et al.* (2006); Anderson and Reeb (2003) and Khanna and Palepu (2000). The multiple regression model is as follows:

$$\text{Performance} = f \{ \text{Family ownership, Director's remuneration, Corporate governance mechanisms, Control Variables} \} \quad (1)$$

To begin the analysis, both dependent and independent data are tested for stationary normality by observing the data skewness. Sample data that is normally distributed should be an efficient estimator, unbiased and consistent. In detecting multicollinearity in a regression model, this study used one of two ways to identify whether the problem of multicollinearity exists suggested by economist Gujarati (2004). This study used the pairwise or zero-order correlation co-efficient between regressors and multicollinearity, which exists when it in excess of 0.8. The problem of multicollinearity can be reduced by dropping one of the collinear variables.

4.5. Operation Model

4.5.1. Simple Parametric Test

This study employs firstly a simple parametric test of mean difference for comparing between 70 family firms and non-family in Malaysia. Family is identified as sample firms, meanwhile control firms for non-family.

$$t\text{-test} = \frac{[\mu_{\text{family}} - \mu_{\text{nonfamily}}]}{[(\sigma_{\text{family}} / n_{\text{family}}) + (\sigma_{\text{nonfamily}} / n_{\text{nonfamily}})]} \quad (2)$$

where:

μ_{family} = mean value of the characteristics of family;

$\mu_{\text{nonfamily}}$ = mean value of the characteristics of control firms or non-family;

σ_{family} = the standard deviation of family;

$\sigma_{\text{nonfamily}}$ = the standard deviation of non-family;

n_{family} = number of family;

$n_{\text{nonfamily}}$ = number of non-family.

4.6. Regression Analysis

Panel based multivariate regression will be used to analyze the impact of family control mechanism on a firm's performance by using two measurements, accounting and market. For accounting, this study uses ROA and ROE as proxies, meanwhile Tobin's Q and Stock Returns as market based proxies.

$$\text{Value} = \beta_0 + \beta_1 \text{FAM} + \beta_2 \text{DR} + \beta_3 \text{Duality} + \beta_4 \text{AC} + \beta_5 \text{Size} + \beta_6 \text{Lev} + \beta_7 \text{Growth} + \varepsilon_t \quad (3)$$

where:

Value = Tobin's Q (Market value of ordinary shares plus book value of preferred shares and debt divided by book value of total assets), Stock Returns (current stock price minus previous price plus current dividend per share divided by current price). Return on Assets (ROA), which is the ratio of net income divided by the total assets and Return on Equity (ROE), the ratio of the net income divided by

the shareholder's equity as a performance measurement;

β_0 = intercept;

FAM = A dummy variable of "1" if a firm's shares are owned by a family by more than 20% and "0" otherwise;

DR = Ln (Total Director Remuneration);

Duality = A dummy variable of "1" if CEO and director are the same person and "0" if otherwise;

AC = Agency cost proxy: Total Expenses/Sales;

Size = Ln (Total Assets);

Lev = Total Debt/Total Assets;

Growth = Total Revenue/Total Assets;

ε_t = Error term.

5. RESEARCH FINDINGS

5.1. Descriptive Analysis

Table 1 provides descriptive statistics for the variables used in the study. It shows the range, minimum, maximum, sum, mean, standard deviation, variance and skewness of the total 140 firms that will be observed in this section for the sample interval of 9 years period from 2005 to 2013. Hence, the total observations for this section are 1,260 firms' years. Table 1 shows the maximum value of ROA (ROE) is 0.7236 (1.3629) whereas the lowest value is -0.5487 (-1.3436). The distribution of the statistics is centred at the value of 0.4466 (0.6607) with the standard deviation of 0.0776 (0.1903). The skewness for ROA variable is 0.106 meanwhile the skewness for ROE is -1.925.

Tobin's Q (TobinQ) variable has the range value of 7.7160. The minimum and maximum value for TobinQ variable is 0.0488 and 7.7648 respectively. Meanwhile, the mean score for TobinQ variable is 0.8396. Tobin's Q is affected by the general stock market movement. Overall, the stock market performance was encouraging and exhibited an upward trend from 2005 to 2007. However, the performance deteriorated in 2008 as a result of the US credit crisis that occurred during the year and the stock market recovered in 2009. Tobin's Q in this study, on average, would have been higher if the trough period of the economy cycle (i.e. 2008) is avoided. The mean value of less than 1.00 for Tobin's Q in this study, is explainable by the deteriorating market conditions in 2008.

The subsequent, descriptive statistics is the Stock Returns with the maximum value is 5.2576, whereas the lowest value is -7.1648. The distribution of the statistics is centred at the value of -0.0159 with the standard deviation of 0.6689. Meanwhile the director's remuneration (DR) has a range variable value of 40.2113. The statistics show that the average DR is about 3.284 while the standard deviation and variance for DR variable is 3.9013 and 15.220 respectively. Besides that, DR variable has skewness value of 3.824.

The next descriptive statistic is the family ownership (Fam) variable. The Fam variable has the range, minimum, and maximum value of 1, 0, and 1 respectively. The mean score for Fam variable is 0.5000. Meanwhile, the standard deviation and variance for Fam variable is 0.5002 and 0.250 respectively. In terms of leadership structure, 77% of the firms in the sample practice had dual leadership with the standard deviation and variance for Duality

variable is 0.4201 and 0.176 respectively. Additionally, the skewness value for Duality variable is -1.294.

Meanwhile, in terms of leverage, the range value of Lev is 0.7894. The usage of debt was low with an average debt ratio of 20%. Meanwhile, the skewness for Lev variable is 0.664. Moreover, from Table 1, the range value for the firm growth (Growth) variable is 1.3075. The statistics show that the average Growth is about 0.1114 (with maximum value = 0.7925 and minimum value = -0.5150). The standard deviation and variance for Growth variable is 0.1031 and 0.011 respectively. Besides that, Growth variable has skewness value of 1.307. Finally, the range value for firm size (Size) variable is 6.9374. The mean score for Size variable is

6.4993. The table also clearly illustrates that Size variable has a standard deviation of 1.2409 and variance of 1.540. By the way, the skewness value for Size variable is 0.364.

Based on the understanding in the earlier discussion, the acceptable range for the skewness value is dropped in between -2.0 to +2.0 (Stuart and Ord, 1994). Variable with skewness value falling within this acceptable range is considered to be normally distributed. Otherwise, if the skewness value of the variable falls outside the acceptable range, then the variable is said to be not normally distributed. From a descriptive analysis, we can obviously capture that most variables are normally distributed.

Table 1. Descriptive Statistics Analysis

Variables	N	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic
ROA	1260	-0.5487	0.7236	0.0447	0.0776	0.006	0.1060
ROE	1260	-1.3436	1.3629	0.0661	0.1903	0.036	-1.9253
TobinQ	1260	0.0488	7.7648	0.8396	0.7602	0.578	4.3652
Fam	1260	0.0000	1.0000	0.5000	0.5002	0.25	0.0000
Duality	1260	0.0000	1.0000	0.7714	0.4201	0.176	-1.2943
DR	1260	0.0000	40.2113	3.2838	3.9013	15.22	3.8236
Lev	1260	0.0000	0.7894	0.2046	0.1642	0.027	0.6636
Growth	1260	-0.5150	0.7925	0.1114	0.1031	0.011	1.3069
Size T	1260	3.6854	10.6228	6.4993	1.2409	1.54	0.3644
Return	1260	-7.1649	5.2577	-0.0160	0.6689	0.448	-3.3201
Valid N (listwise)	1260						

5.2. Correlation Matrix

The results of Pearson correlation matrix for Malaysian public listed firms are reported in Table 2. The correlation matrix is used to explore the strength of relationship between two variables. The findings in Table 2 suggest that there is strong positive relationship between ROA and Growth and Size. For Growth with r-value of 0.253 and Size of 0.112 are positive and significant at 1% level indicate that firms with large assets and good handling revenue will lead better ROA. Additionally, there is a positive relationship between ROA and DR ($r=0.242$) at 1% level. Meanwhile, there is a negative relationship between ROA and Lev which r-value of -0.271 explains that firms with lower debt will lead to better ROA.

ROE has positive correlation with DR ($r=0.239$) at 0.01 level of significance, which explains that firms with higher direct remuneration will improve company performance, ROE. Also there is positive correlation between ROE with Growth and Size. With $r=0.161$ for Growth and Size of $r=0.151$ with significance at 1% level describes that firms with greater revenue and at the same time increase their total assets will increase the firm's ROE. Meanwhile, there is a weak negative correlation between ROE and family owned firms. This describes that firms with family member's involvement will reduce the firm's performance, ROE. Finally, there is no significant relationship with Duality.

Furthermore, TobinQ has a strong positive relationship with DR, Growth and Size. For DR, the r-value of 0.183 with 1% level of significance explains that firms which pay high director's remuneration will increase market performance. Additionally, r-value of 0.244 for Growth and Size of 0.140 are significantly positively correlated with TobinQ at 1% level of significance. These results show that, firms with high growth, which with high revenue and at same time, large size will lead to better performance.

Stock returns have positive correlation with Growth (0.073) at 0.05 level of significance, which explains that, firms with greater revenue over their total assets will increase the firm's Stock returns. Nevertheless, there is a negative relationship between Stock returns and Lev which r-value of (-0.094) explains that firms with lower debt will lead to increasing the shareholders' wealth. Meanwhile base results reported, there are no significant relationships with Fam, Duality, DR and Size.

The findings also suggest that there are negative significant relationships between Tobin Q and ROE with Fam. Results show that r-value of TobinQ and Fam is -0.81 is significant at 1% level and for ROE, r-value of -0.064 is significant at 5% level. This implies that family firms under perform more than non-family firms. Meanwhile, ROA shows there is no significant relationship with family ownership. For two components of Corporate Governance, which are DR and Duality, both results show positive and significance with Fam. These

indicate that firms with family involvement have role duality and at same time will lead to higher pay and directors' remuneration. The r-value for both components of 0.135 and 0.306 are significant at 1% level. Meanwhile for Size, the r-value of 0.164, which is positive and significant at 1% level, explains that family firms have large assets compared to non-family firms.

For directors' remuneration, besides a positive and significant relationship with both firm's performance measurements, accounting and market, the results show a moderate positive relationship with Fam ($r=0.135$) and duality ($r=0.093$) at 0.01 level of significance. This relationship can be explained that firms with family member will increase their remuneration, meanwhile role duality

in firms will lead to higher directors' remuneration.

For role duality (Duality), besides a positive relationship Fam ($r=0.306$) and DR ($r=0.93$), the results in Table 2 explore that this corporate Size ($r=0.231$) have a strong relationship (with positive) at 1% level of significance. This describes that firms who have role duality are mostly from large firms.

Finally, Table 2 identifies that firms with high leverage or debt have a negative relationship with firm's growth. This result explains that with higher debt, firms will not have large revenue and at same time, it will not lead to company growth. But debt doesn't effect on firm size due to result of $r=0.237$ which shows a positive relationship at 1% level of significance. This may be due to firms that have more fixed assets increasing their business activities.

Table 2. Pearson Correlation Matrix

	ROA	ROE	TobinQ	Fam	Duality	DR	Lev	Growth	SizeT	Return
ROA	1	.827 0.000	.537 .000	-.035 .210	-.021 .451	.242 .000	-.271 .000	.253 .000	.112 .000	.170 .000
ROE		1	.419 .000	-.064 .023	-.030 .282	.239 .000	-.118 .000	.161 .000	.151 .000	.133 .000
TobinQ			1	-.081 .004	-.008 .766	.183 .000	-.031 .268	.244 .000	.140 .000	.135 .000
Fam				1	.306 .000	.135 .000	-.048 .091	.052 .063	.164 .000	.013 .642
Duality					1	.093 .001	.049 .085	-.019 .508	.231 .000	.005 .847
DR						1	.045 .109	.053 .058	.420 .000	.027 .330
Lev							1	-.324 .000	.237 .000	-.094 .001
Growth								1	.030 .291	.073 .009
SizeT									1	-.033 .242
Return										1

Note: ** Correlation is significant at the 0.01 level (2-tailed); * Correlation is significant at the 0.05 level (2-tailed)

5.3. T-Test for two means

The t-test for dependent means is used to compare the means of two sets of scores that are directly related to each other. The findings in Table 3 were summarized that family ownership will reduce a firm's performance compared to non-family. The results found that non-family have advantages in terms of performance compared to the family firms. For example, the average ROE for non-family is 7.83% higher than the family firm, with only 5.39% significant difference at 5% level. Similarly, Tobin's Q for non-family firms with an average rate at 0.9020, is higher than the average of the family firm and the significance level of 1%. Meanwhile, the average ROA do not have significance for differences between family and non-family firms and has a high margin of 4.19% for the family firm, and 4.75% for non-family. Similarly, with ROA, Stock Returns also have insignificant differences between these two types of ownership.

It is most likely the above findings are due compensation, for the family firm is too high even though the director and the CEO are the same person, namely his own family. This can be explained from the findings in Table 3 where the family firm pays an average of 3.8127 compared to 2.7573 for the non-family firm. It is supported by the results of its role duality, where there is a strong difference in the level of 1% between family and non-family firm. With power as CEO and director, family members can decide for their own interests and benefits. These findings were supported from a previous study (Ibrahim et al. 2011)

The findings also show that the average value of Lev (the proportion of total debt to total assets) was 19.67% for the family, is less than non-family, 21.27%. The results show that family ownership uses less debt, as is most likely not funded by the family firm financing them through borrowing but using their own cash. The study also finds strong significant differences of firm Size while the weak links, at 10% for the Growth of the firm.

Table 3. T-Test for Two Means

Variable	70 Family	70 nonFamily	t-stat	p-value
ROA	0.0419	0.0475	-1.2588	0.2083
ROE	0.0539	0.0783	-2.2780	0.0229**
Tobin's Q	0.7785	0.9020	-2.8873	0.0040***
Return	-0.0072	-0.0248	0.4657	0.6415
DR	3.8127	2.7573	4.8365	0.0000***
Duality	0.8998	0.6439	11.3493	0.0000***
Lev	0.1967	0.2127	-1.7306	0.0838*
Growth	0.1170	0.1061	1.8663	0.0622*
Size	6.7032	6.2956	5.8985	0.0000***

Note: *** p-value <0.01 (Strongly significant) ** p-value <0.05 (Significant); * p-value <0.1 (Partially significant)

6. REGRESSION ANALYSIS

6.1. Directors' Remuneration

From Table 4 and Table 5, directors' remuneration has a strong positive relationship to ROA ($p=0.044$) and ROE ($p=0.0102$). Additionally, in table 4.6, directors' remuneration also has a strong positive relationship to TOBIN'S Q ($p=0.0292$) with t-stat of 5.0706 significant at 1% level. As suggested by Hypothesis 1, the study finds that firms which pay high directors' remuneration will improve both their accounting performances and market performance (Tobin's Q) compared to firms with lower remuneration. Besides due to their expertise and knowledge, higher salaries and bonuses will motivate directors to work more efficiently and effectively, which will lead to the firm performing better. Yatim (2012) also found similar results with the study which indicates directors' remuneration has a close relationship to profitability. However, this finding is contradicted with the studies by Abdullah (2006) and Oviantari, (2011), that directors' remuneration is not associated with a firm's profitability, as measured by ROA and ROE. Furthermore, the remuneration component of CEO pay in this study is not responsive to anticipated future market valuations in stock returns.

6.2. Family Owned

In contrast to the prediction of Hypothesis 2, the study finds that dummy variable of family owned ($t = -3.5048$) has a negative significant relationship with ROA at 1% level and the coefficient of family owned was -0.148. Furthermore, ROE also has a reverse correlation with family ownership with $p = -0.0428$. This indicates that family members involvement in the firm will not improve the firm's performance. Our finding is supported by Bennedsen et al., 2007; Maury, 2006 and Anderson and Reeb, 2003. Unfortunately, the findings contradict the study of Atmaja and Tanewski (2009) which shows that family firms are more profitable than non-family firms. Table 6 shows that dummy variable of family owned ($p = -0.194$) also has a negative significant relationship with TOBIN'S Q at 1% level. The finding of t-stat of -4.502 strongly explains that family members involvement in firm will not improve a firm's value. This study's finding supports research done by Ibrahim et al. (2011). They explained that family interference in firms could increase doubt for investor's, especially potential investors to invest in a family firm. They might think that family members will concentrate

more on their personal/family benefits rather than maximising the firm's value. Again, there is no significance between Fam and Stock Return.

6.3. Duality

With regard to CEO duality, when it was defined as chairman-cum-CEO, the findings of the role duality are not responsive either to past performance or anticipated future market valuations in stock returns, hence Hypothesis 3 is not supported.

6.4. Leverage

In line with Hypothesis 4, the result shows that leverage (Lev) has a strong negative relationship with ROA ($p = -0.1208$ with t-stat of -9.0766) and ROE with ($p = -0.1414$ with t-stat of -4.1604). Results on Stock Return ($p = -0.291$ with t-stat of -2.315) also indicate a negative correlation with Lev. These indicate that firms with lower debt will be better in terms of performance, compared to firms with high debt. High debt possibly leads to a firm's bankruptcy. This study's results are consistent with the findings of McConnell and Servaes (1990) and Weir et al. (2002). However, the result shows that leverage has no significant relationship to TOBIN'S Q in this model.

6.5. Firm Growth

The result of $p=0.12108$ with t-stat of 5.8777 for ROA in Table 4 and for ROE in Table 5 $p = 0.2082$ with t-stat of 3.9664 has a strong positive significance that tells that growth opportunities provide a substantial and positive impact on a firm's performance across the sub-periods. The firm Growth in table 4.6 also shows a strong positive relationship with Tobin's Q with $p = 1.804$ and significance at 1% level implying that firms with better revenues in their business will have improved firm performance by engaging in growth activities. Consistent with the prediction of Hypothesis 5, firms improving their revenue and showing a good performance, normally are able to meet due obligations and avoid potential downfalls. At the same time, it will lead to investors' confidence to invest in these firms. However, there is no correlation in the findings between firm's growth in returns to shareholders' investments.

6.6. Firm Size

Finally, in line with Hypothesis 6, the firm Size in table 4 shows a significant relationship to ROA

($p=0.006$) with t-stat of 3.1840 and for ROE, a result of $p=0.0177$ with t-stat of 3.6889. Firm size is strongly significant at $p<0.01$ level in this model. The coefficient of firm Size shows that every time growth increases by 1 unit, ROA will increase by 0.006 units. Firm Size in table 6 also shows a positive significant relationship to TOBIN'S Q ($p=0.0532$). This explains that large firms with huge assets will perform better than smaller firms. Large firms can increase their business activities and as such improve their production, which will lead to better profits and the firm's value and also lead to increasing their performance. This will contribute to increasing confidence in investors whether, existing or potential investors. This result is supported from previous studies done by Nazrul et al. (2008) and Ang and Ding et al. (2005). Meanwhile, studies done by Ramasamy et al. (2005) are inconsistent with the findings. They found that firm size is negatively related to performance, while privately owned plantation companies are more profitably managed.

Table 4. Regression for relationship between ROA and company specific characteristics for 140 Malaysian listed companies for period of 2005 until 2013

Variables	ROA		
	Coefficients	t-statistic	Significant
(constant)	0.0129	1.1453	0.2523
Fam	-0.148	-3.5048	0.0005***
Duality	-0.0035	-0.6948	0.4873
DR	0.0044	7.7361	0.0000***
Lev	-0.1208	-9.0766	0.0000***
Growth	0.12108	5.8777	0.0000***
Size	0.006	3.184	0.0015***
R Square	0.1775		
Adjusted R Square	0.1736		
F-statistic	45.0697		
Prob (F-statistic)	0.0000***		

Note: *** p -value <0.01 (Strongly significant); ** p -value <0.05 (Significant); * p -value <0.1 (Partially significant)

Table 5. Regression for relationship between ROE and company specific characteristics for 140 Malaysian listed companies for period of 2005 until 2013

Variables	ROE		
	Coefficients	t-statistic	Significant
(constant)	-0.0431	-1.4964	0.1348
Fam	-0.0428	-3.9652	0.0001***
Duality	-0.0153	-1.1828	0.2371
DR	0.0102	7.0522	0.0000***
Lev	-0.1414	-4.1604	0.0000***
Growth	0.2082	3.9664	0.0001***
Size	0.0177	3.6889	0.0002***
R Square	0.108		
Adjusted R Square	0.1037		
F-statistic	25.2835		
Prob (F-statistic)	0.0000***		

Note: *** p -value <0.01 (Strongly significant); ** p -value <0.05 (Significant); * p -value <0.1 (Partially significant)

Table 6. Regression for relationship between TOBIN'S Q and company specific characteristics for 140 Malaysian listed companies for period of 2005 until 2013

Variables	TOBIN'S Q		
	Coefficients	t-statistic	Significant
(constant)	0.2793	2.4283	0.0153
Fam	-0.194	-4.5002	0.0000***
Duality	0.001	0.0191	0.9847
DR	0.0292	5.0706	0.0000***
Lev	0.0672	0.4953	0.6205
Growth	1.804	8.6124	0.0000***
Size	0.0532	2.7862	0.0054***
R Square	0.109		
Adjusted R Square	0.1047		
F-statistic	25.5484		
Prob (F-statistic)	0.0000***		

Note: *** p -value <0.01 (Strongly significant); ** p -value <0.05 (Significant); * p -value <0.1 (Partially significant)

Table 7. Regression for relationship between Stock Returns and company specific characteristics for 140 Malaysian listed companies for period of 2005 until 2013

Variables	Stock Returns		
	Coefficients	t-statistic	Significant
(constant)	0.1020	0.9610	0.3370
Fam	0.0050	0.1200	0.9050
Duality	0.0220	0.4590	0.6460
DR	0.0070	1.3780	0.1690
Lev	-0.2910	-2.3150	0.021*
Growth	0.3180	1.6400	0.1010
Size	-0.0210	-1.1980	0.2310
R Square	0.1300		
Adjusted R Square	0.0800		
F-statistic	2.7310		
Prob (F-statistic)	0.012**		

Note: *** p -value <0.01 (Strongly significant); ** p -value <0.05 (Significant); * p -value <0.1 (Partially significant)

7. DISCUSSION

This study discusses whether there is any impact of family ownership, director remuneration, role duality and three control variables on 140 Malaysian listed firms for period 2005-2013, after controlling corporate governance mechanisms (i.e. director's remuneration and role duality) and firm specific characteristics (firm leverage, growth and size).

For first analysis on 140 Malaysian listed firms, results are as per Table 8 indicating that there is significance between director's remuneration on accounting performance (ROA, ROE) and Tobin's Q for market performance. With positive correlation, it explains that high pay-performance for directors will improve company performances. Shareholders are willing to pay high rates based on their expertise and knowledge for excellent performance with an assurance from the directors that their funds will be managed effectively and efficiently. With high salaries and bonuses it will motivate managers to work more efficiently and effectively to make sure firms will perform better. However, the remuneration component of CEO pay in this study is

not responsive to anticipated future market valuations in Stock return hence Hypothesis 1 is partially supported.

Next, results show that family ownership leads to lower performance than non-family owned firms on accounting measurement (ROA and ROE) and market measurement (Tobin's Q) after controlling company specific characteristics. These findings can be explained that when in the family, members' involvement may be carried out to their personal/family interest or benefit rather than to maximize firm's profits and also firm's market value (Bennedson et al., 2007; Perez Gonzalez, 2006). Additionally, concentrated ownership may lead to ineffective monitoring and it is also not ideal for an emerging market like Malaysia, which is attempting to attract more investors. Thus, a higher valuation may be given by the market to firms with more diffused, and not concentrated, ownership. This finding rejects our hypothesis, which anticipated with family involvement, it is expected has a competitive advantage because they must be concerned with performance of the firm since it belongs to them or the family and is expected to bring a positive impact on company performance. The findings also reveal that role duality has no significant effect on accounting and market performance; hence, Hypothesis 3 is not supported. Meanwhile, firms with high debt or leverage will reduce performance and potential, leading to the firm's bankruptcy. Therefore, with a negative correlation between leverage and firm performance (ROA, ROE and Stock returns), this finding is partially supported by hypothesis 4. However, when measured using Tobin's Q, leverage has no significant effect on performance.

Table 8. Summary of Regression Analysis for 140 Malaysian listed companies for period of 2005 until 2013

140 MSIAN LISTED COMPANIES									
Hypothesis	EXPECTED	ROA		ROE		TOBIN'S Q		STOCK RETURNS	
		+/-	Sig.(V)	+/-	Sig.	+/-	Sig.	+/-	Sig.
DR	+	+	V	+	V	+	V	+	X
Fam	+	-	V	-	V	-	V	+	X
Duality	+	-	X	-	X	+	X	+	X
Lev	-	-	V	-	V	+	X	-	V
Growth	+	+	V	+	V	+	V	+	X
Size	+	+	V	+	V	+	V	-	X

7.1. Implications and Policies

This study is particularly important due to heightened attention given by numerous stakeholders, such as regulators, shareholders, and employees on excessive director remuneration in recent years. Given the attention on remuneration practices and their relations to corporate governance, this study makes a timely contribution to the debate. It is hoped that the findings from Chapters 4 and their implications can be a significant contribution to the ongoing body of work related to corporate governance and family firms in Malaysia and to policy makers when revising their policies. This study documents empirical evidence on the positive association between corporate governance mechanisms and boardroom pay and monitoring of Malaysian firms. It also provides

Malaysian evidence on the effects of corporate governance reforms in influencing boardroom pay, which suggests the effectiveness of compensation linking to performance and solving the agency problem as suggested by Jensen and Meckling (1976). The analysis also allows international comparison and evaluation of the robustness of other existing research.

The findings in this study indicate compensation for the family firm is too high even though the director and the CEO is the same person, namely his own family. With power as CEO and director, family members can decide for their own interest and benefits. Thus policy-makers should have a clear direction in addressing the ownership-performance issue in family-controlled firms including the limitations of board compensation. The study also indicates that giving more control to already powerful controlling families (majority ownership) may further enhance their ability to expropriate and cause a firm's performance to deteriorate. Therefore, using increasing ownership to solve the agency problem as suggested in the Jensen and Meckling (1976) may not work. Therefore, it is proposed that regulators formulate policies that are able to encourage controlling families to keep their ownership level below majority that helps to curb the potential power-abusing of controlling families but nonetheless preserves the uniqueness/traits of familiness and the positive characteristics of the family form of governance that give advantages to family controlled firms.

Furthermore, the policy-makers should formulate strategies to attract more foreign institutional investors to invest in publicly listed firms in Malaysia. The strategies that policy-makers can consider such as improving the tax treatment to foreign institutional investors in respect of income from stocks and capital gains. The other strategy that can be considered is to increase the free float level. As far as family-controlled firms are concerned, due to the nature of concentrated ownership structure, the free float level of stocks in Malaysia is rather low under the current setting. A low level of free float tends to create liquidity problems that may discourage foreign investors from investing in the market. Policies should be directed to encourage those controlling families with majority ownership to dispose of some of their shareholdings to free up more shares for foreign investors. Controlling families may realize that reducing their expropriation activities and improving their corporate governance is worthwhile, as this will attract more foreign institutional investment into their stocks.

Corporate governance concerns in Malaysia surround issues inherent in concentrated ownership structures. All textbooks and references are written by authors from the US and UK and do not reflect corporate reality in Malaysia, though they still serve well in equipping students with rigorous finance theories and applications from a Western perspective. Thus the knowledge acquired from this study will help to close the gap in corporate governance and finance teaching at university level in Malaysia.

This study also makes a contribution to consulting firms providing a corporate governance

consultancy service to corporate clients in Malaysia. The information provided in this study highlights how governance issues are useful and can be incorporated into consultancy work. The solutions to corporate governance issues in Malaysia are potentially much more challenging compared to the US and UK, due to the dominance of controlling families who may be reluctant to co-operate. However, not all the families are closed-minded on governance-related issues. It is not impossible to convince some controlling families in finding solutions to governance issues their firms face when they realize that they will be disadvantaged in the longer term by resisting the global movement of corporate governance.

Finally, this study also may help investment professionals such as analysts and fund managers to understand how different company structures determine corporate governance and the effects of those firm-level governance choices on firm performance. Thus the knowledge from this study may help enhance the process of investment decision-makings, particularly the corporate governance risk assessment or analysis for investments such as corporate governance screening process, before a particular stock or firm is considered for investment.

The results drawn from this study should be interpreted with the limitations in mind. Some limitations represent potential opportunities for further investigation in future studies. One of them is the sampling method for the comparison between family and non-family. Though there are an equal balanced number of firms between family and non-family, the matching mechanism should be implemented. The matching may be based on size and industry for this study. Although the effect on performance is probably minimal, an inaccurate match-pair could jeopardise the mechanism of the sample selection itself and may lead to inaccurate results.

Furthermore, this study used ROA, ROE, Tobin's Q and Stock Returns to measure the firms' performance. As far as we are concerned there are many methods which can be used to measure firms' performance such as value added approach such as Free Cash Flow, Return on Capital Employed (ROCE) ratios and Economic Value Added. Based on these facts, we recommend that another method of measuring performance may be used in future research to determine the consistency and validity of such methods.

Though the study has attempted to include relevant variables, including the control variables in the regression analysis (as guided by the literature), the third limitation is the possibility of other variables that should be reconsidered to add or replace existing variables especially on corporate governance mechanisms (i.e. board size in company, non-executive directors and age of firm). Other variables can also be considered for agency cost proxies such as total expenses to total assets, instead of total expenses over total sales.

Finally, the study examined the performance of families in Malaysia after controlling some corporate governance mechanisms and firm specific characteristics for 9 periods of study (2005 to 2013). Also this study is doing the comparison between family and non-family firms in Malaysia.

Since there is a crisis period of 2008 and 2009, it may lead to a downturn in many firms especially family firms. By that, it could provide inaccurate and inconsistent results without separating this type of period.

This study can be expanded in some of the following areas:

1. A continuing study, which concentrates on the performance of family firms in Malaysia after taking into consideration corporate governance mechanisms to get better and significant results and to obtain new findings and knowledge, that can be added on to available literature especially on corporate governance theories like the agency theory.
2. Besides comparing between family and non-family firms in Malaysia, it can be suggested that the research is extended to other ASEAN countries, such as Indonesia and Thailand. These two countries have known majority firms which are listed in the stock exchange as family firms. Why ASEAN countries, is because policies and regulations among these countries are mostly similar. Beside ASEAN, China is also one of top family business countries. Then, Malaysian family firms can learn from them how to manage the firm.
3. Future research may investigate the finding differentials under different economic conditions i.e. the pre-economic crisis (2005-2007), during (2008 and 2009), and post crisis (2010-2013). Thus by conducting further study for a different time period; comparisons with the findings in this study can be drawn in order to verify whether they have changed or remain unaffected.
4. Last but not least on methodology, due to long periods of study and involved panel and pooled data, it can be suggested to use other econometric regression with common and period co-efficient with three models. These models are Fixed Effects, Random Effects and Ordinary Least Square (OLS). Further, these models can reduce or overcome econometric issues such multicollinearity and heteroskedascity.

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