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DIRECTORS' REMUNERATION IN LISTED SMALL AND MEDIUM SCALE FIRMS: DOES CORPORATE GOVERNANCE MATTER?

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ABSTRACT

The study examines the relationship between corporate governance mechanisms on directors' remuneration of listed small and medium scale firms in Malaysia. It was conducted over the period 2014 to 2017 on the 274 listed small and medium enterprises on Bursa Malaysia. Six potential corporate governance mechanisms were utilized as surrogates including size, executive ownership, CEO duality, family relationship, independent non-executive directors on the remuneration committee, and board meetings; amount of remuneration package of all the directors was used as dependent variables. By controlling for potential endogeneity among the variables, the study estimates the data with system dynamic generalised method of moment. The results from this estimate reveal that five out of six corporate governance mechanisms significantly affect the directors' remuneration among listed small and medium enterprises in Malaysia. The study concludes that CEO duality, board size, directors' ownership, the presence of independent directors on the remuneration committee and board meetings have a significant impact on directors' remuneration among listed small and medium enterprises in Malaysia. The study provides insights into the relevance of

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agency theory in the context of corporate governance research. The use of GMM as an estimator made the results from the study align closely with this theory which ordinary would have been rejected. Also, the current study fills the gap identified in the literature regarding corporate governance and directors' remuneration among small and medium enterprises in a majority-world economy.

JEL Classification: M480

Keywords: Directors' remuneration, Corporate governance, Agency conflict, Malaysia

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1. INTRODUCTION

Investigating the relationship between corporate governance (CG) and director remuneration is not new but studies that focus specifically on listed small and medium scale firms are relatively new, especially in a Global South nation such as Malaysia. Earlier studies in various business magazines and academic journals have documented various factors that could explain director remuneration (Boyd, Franco Santos, and Shen, 2012). Earlier studies on this relationship have also been published in regulatory authorities and policymakers circulars (Graham, Li, and Qiu, 2012). In most of the developed economies, compensation package of the executive directors and CEO of top listed firms rose significantly during the 1980s and 1990s leading to a debate on the possible factors that could explain the managerial compensation package (Pereira and Esperança, 2015).

Extant studies have considered agency theory to offer explanations of corporate governance mechanisms as the potential determinants of directors' remuneration (Greckhamer, 2016). Most of these studies either focussed on larger firms (Pereira and Esperança, 2015), government-linked firms (Minhat and Abdullah, 2014) or developed economies (James, 2014). Little is known, however, about the potential effect of determinants of directors' remuneration of listed small firms in majority world economies. These economies make up about 90% population of the entire globe and have specific features and characteristics that could not make the findings on developed economies applicable to their development. Further, small firms underpin the economic development of these nations as they provide more employment and produce basic consumable products for national well-being.

It has been documented that 85% of Malaysian listed companies are small firms characterized as owner-managed (Claessens, Djankov, and Lang, 2000). The impact of CG on the directors' compensation in these small firms is mostly unknown and poorly understood. There is scant evidence on this despite the many works of literature on executive compensation. This could have resulted from the absence of small firms, coupled with data difficulties in countries with such a scenario. This study will contribute to addressing this gap by utilizing hand-collected data from the financial statements and annual reports of 234 listed firms in Malaysia. Though Minhat and Abdullah (2014) examine determinants of executive compensation in listed companies, the authors considered only government-linked public listed firms. To the best of our knowledge, the scenario concerning smaller firms is yet to be considered.

Utilizing agency and managerial rent extraction theories, this study examines the possible impact of board size, directors' ownership, CEO duality, presence of family members and independent directors on the remuneration committee on directors' remuneration. The findings from the data analyses are expected to help the regulatory authorities in shaping and enhancing the future code of corporate governance among small enterprises in Malaysia.

2. CORPORATE GOVERNANCE REFORM IN MALAYSIA

Generally, the codes of good governance in many nations from the Global North and South (e.g., United States, United Kingdom, Australia, Germany, Japan, Malaysia, India, Nigeria, and Brazil) have incorporated the remuneration committee as part of the corporate governance committees to monitor director remuneration packages. Specifically, the code of corporate governance in Malaysia, introduced in March 2000, sets out the principles and best practices of good governance and describes optimal corporate governance structures and internal processes. Besides, the board governance system exists to control and reduce agency problem that arises due to adverse selection and moral hazard (MCCG, 2012) by monitoring the board of directors, compensation of executives, shareholders, accounting expertise, and internal audit in the country. The code was revised twice, in 2007 and 2012, to ensure that its principles and recommendations were aligned with business practices and market development. The new updated code is tagged as MCCG 2017.

MCCG (2017) stated clearly that the board should establish a Remuneration Committee to determine the directors' remuneration. The Remuneration Committee should consist exclusively or a majority of, non-executive directors, drawing advice from experts, if necessary. Companies without a Remuneration Committee should have board policies and procedures on matters that would otherwise be dealt with by the Remuneration Committee. Board remuneration policies and procedures should be disclosed in the annual report.

3. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

3.1 THEORETICAL FRAMEWORK

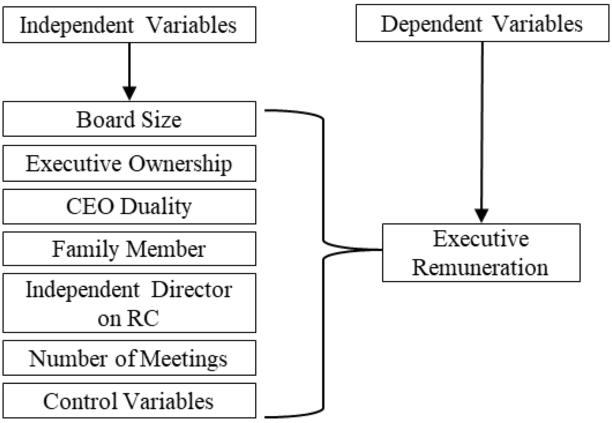
The present study will be based on the managerial rent extraction theory and agency theory. Managerial rent extraction theory associates director remuneration with managers' ability to extract rents (Bertrand and Mullainathan, 2001) and that the level of pay and the use of forms of remuneration that are easier to conceal (e.g., stock options) would increase during periods of unsound corporate governance. The fundamental opinion is that poor corporate governance has allowed managers to skim profits from the company, thus leading to a significant increase in director remuneration (James, 2014). The agency theory, on the other hand, posits that the agent is a rational actor, risk-averse, and motivated by self-interest. Therefore, the principal can encourage the agent by managing compensation (Stroh et al., 1996). The concept of agency has been widely used to analyze relations between owners and managers within organizations. Even CEO compensation is a negotiation between a CEO and a principal (Kumar and Zattoni, 2016). In addition, small and medium-sized firms tend to have different director remuneration strategies than larger firms because of limited resource capacity.

3.2 CONCEPTUAL FRAMEWORK

Figure 1 shows the relationship between the dependent variable and the independent variables, which is the basic framework of the study. Executive remuneration is related to the CG mechanism in either positive or negative relationship. Remuneration can increase or decrease. It depends on the BOD effectiveness and efficiency in performing their duties. Agency theory suggests that providing incentives is the best solution for mitigating the agency problem (Boyd et. al., 2012). The relationship between the remuneration and BOD depends on board effectiveness in determining director remuneration.

In the small firms, the executive directors control the key position such as chairperson and chief executive officer which lead to the positive relationships with remuneration. For example, executive ownership (Kumar and Zattoni, 2016), family member (Chen and Lee, 2008), and CEO duality (Krause, Semadeni, and Cannella, 2014) shows a positive relationship with total remuneration. Thus, the relationship between a number of meeting and remuneration will have a positive relation. The Malaysia Code of Corporate Governance revised (MCCG) 2012, requires that the remuneration committee have a majority of independent directors. The expertise and experience of the independent non-executive directors will enable them to understand and effectively fulfill their role in monitoring and controlling excessive remuneration. Therefore, the monitoring and controlling in this study will have a negative relationship with total remuneration.

FIGURE 1
Conceptual Framework



3.3 HYPOTHESIS DEVELOPMENT

This subsection explains the hypothesized relationship between the corporate governance mechanisms and directors' remuneration among the listed small and medium enterprises on the floor of Bursa Malaysia as follows.

3.3.1 BOARD SIZE

The size of the Board of Directors (BOD) is an important factor for board effectiveness in determining director remuneration (Greckhamer, 2016). The optimal size should be a balance between the knowledge and resources gained from a larger board with that of more effective communication and coordination obtained from a smaller board (Graham et al., 2012). Most of previous research on executive compensation has documented a positive relationship with board size (Ozkan, 2007), indicating that larger boards lead to more agency problems. Smaller boards, however, lead to better alignment with shareholders, which is more effective in controlling the agency problem (Hermalin and Weisbach, 2003).

MCCG 2012 requires the board size to be examined in respect of board effectiveness; however, no specific number has been recommended. Therefore, based on the abovementioned argument, the board should not be too big nor too small. Rather, companies should promote a board with active participation and the ability to make effective decisions and perform its duties. Most of the studies indicate a significant positive relationship between board size and executive remuneration (Fahlenbrach and Stulz, 2010; Basu et al., 2007). This leads to the first hypothesis:

H1: There is a positive and significant relationship between board size and executive remuneration in small firms.

3.3.2 BOARD SHAREHOLDING

As shareholders appoint the BOD, it may be in the shareholder interest to ensure increased alignment through stock ownership, or a general requirement for directors to hold company shares (Hermalin and Weisbach, 2003). This will increase alignment with shareholders, thereby leading to higher benefits of monitoring as the board will have a vested interest in the company’s profitability (Basu et al., 2007). This generates a more proactive board and mitigates the agency's problem (Fahlenbrach and Stulz, 2010). When viewing the practice of stock-based remuneration in relation to the risk profile of the small company, stronger shareholder alignment leads to a larger risk-willingness

(Chen and Lee, 2008). Moreover, Cheng and Firth (2006) revealed that director’s stockholding reduces pay because receiving a higher dividend lowers the need for cash remuneration. Therefore, it is argued that executive ownership will result in strong alignment with shareholders, improve company performance, increase monitoring and control firm activities, be in accordance with shareholders, and ensure efficient company performance. Since this ensures the expected higher dividend will lower the need for cash remuneration, hence it can be hypothesized that:

H2: There is a negative and significant relationship between executive ownership and the remuneration expected due to a stronger alignment with shareholders.

3.3.3 CEO DUALITY

When the CEO is also a board chair (CEO duality), agency theory suggests that the agency problem will increase (Krause et. al., 2014). In addition, the combined leadership CEO duality weakens the monitoring role of the board over the executive manager; this has a negative effect on corporate performance (Elsayed, 2007). Therefore, agency theory suggests a negative relationship between CEO duality and remuneration (Boyd et al., 2012). It is believed that when the CEO and the chairman of the board is the same person, the company will achieve strong, unambiguous leadership and internal efficiency hence reducing potential conflicts between the chairman of the board and CEO through the unity of command and avoid confusion with the stakeholders (Hermalin and Weisbach, 2003). Most researchers, however, documented that the separation of the CEO and board chair will eliminate the dominance of the CEO over the board (Elsayed, 2007). The board will be more powerful and better exercise its control, which will lead to reduced executive remuneration (Daily, Johnson, and Dalton, 1999). Therefore, it is expected that CEO duality will have a negative relationship with executive remuneration. There is a requirement to balance the power and authority between the CEO and chairman of the board, and that the leadership structure should be disclosed publicly (MCCG, 2017). This leads to the following hypothesis:

H3: There is a negative and significant relationship between CEO duality and executive remuneration in small firms.

3.3.4 FAMILY MEMBERS

Many small firms are majority-owned by individuals and their family members, which holds implications for CG, firm performance, and executive remuneration (Sapp, 2008). Instead of hiring more qualified managers, family firms tend to provide positions for family members (Chen and Lee, 2008) even if they are not talented enough to run a business (Cheng and Firth, 2006). This relationship is not against regulations because the firm belongs to them and they have a right to be awarded higher remuneration even though unqualified, as long as it is not proven risky to the firm.

Non-executives have less power to argue or oppose the actions by family members because the family appoints them. Family groups in committees can actively influence the committee's decision-making to benefit themselves (Boyd et al., 2012). Cheung, Stouraitis, and Wong (2005) found a negative association between family ownership and executive remuneration in Hong Kong public listed companies. Additional findings show that family executives receive lower remuneration compared to their counterparts (Ozkan, 2007). Contradictory results show that there is a positive relationship between family ownership and remuneration (Basu et al., 2007). It can be argued that family firms do not always strictly follow the remuneration policies and procedures, and are often not truthful nor transparent during justification. As a result, they can grant themselves higher remuneration, which leads to a decline in firm performance (Chen and Lee, 2008). This leads to the following hypothesis:

H4: There is a positive and significant relationship between directors who have a family relationship with the company and director remuneration in small firms.

3.3.5 REMUNERATION COMMITTEE

Although the remuneration committee plays an essential role in determining directors' pay, only a few researchers have studied the relationship (Sapp, 2008). The remuneration committee is responsible for designing packages that follow CG's best practices. The committee can design remuneration packages such that they are made up of salary, bonuses, fees (Cheung et al., 2005), and stock options (Greckhamer, 2016), consonant with the performance of the executive and the firm. Independent directors are a source of external control over the management, and it is suggested that independent directors/non-executives constitute the majority of the remuneration committee members. Therefore, is likely that independent directors discourage excessive remuneration for the directors and also link remuneration to company performance (Cheng and Firth, 2006). This leads to the following hypothesis:

H5: There is a positive and significant relationship between remuneration committees that have directors with family relationships and director remuneration in small firms.

3.3.6 INDEPENDENT DIRECTORS ON THE REMUNERATION COMMITTEE

The remuneration committee members consist wholly or mainly of independent directors, and committee membership should also appear in the annual reports. Furthermore, the remuneration committee should make recommendations to the board on company policy and structure for all forms of remuneration paid to the directors and top management. This leads to the establishment of a formal and transparent procedure for developing policy on directors' remuneration (MCCG, 2012).

Existence of independent directors on the remuneration committee can be used as a monitoring mechanism that reduces high remuneration to the executive directors since independent directors are unlikely to grant excessive remuneration to the executives.

Although independent directors act as external control mechanisms, they also present a drawback in as much as they are part-timers who lack expertise, knowledge, and information about the company's business. The non-executive directors of family firms who are on the remuneration committee increase the remuneration either to satisfy or to achieve executive expectations (Lee, 2009) since they have less power and lack independence. Presence of non-executive independent directors on the remuneration committee, however, is more likely to make the best decisions in line with the shareholders to reduce agency problems. This leads to the following hypothesis:

H6: There is a negative and significant relationship between executive remuneration and a higher proportion of independent directors/non-executive directors on the remuneration committee in small firms.

3.3.7 NUMBER OF BOARD MEETINGS

Generally, directors are rewarded by attractive fees for each board meeting they attend in the firm, which has a significant influence on the effective role in decision-making in the boardroom. Therefore, the frequency of board meetings is clearly affected by many factors including the firm's characteristics and the board structure (Vafeas, 2003). The process of meeting to assess the viability of business propositions and corporate proposals has a significant impact on company performance and financial decisions (Lee, 2009). The directors are paid a fee according to the number of board meetings, which is directly included in the cash and total remuneration computation.

Therefore, a strong positive relationship is expected between cash and total compensation (Pereira and Esperança, 2015). It is required by Bursa Malaysia Listing Requirements that board meetings should be held at quarterly intervals with additional meetings when necessary. However, it is so hard to explain how the number of board meetings can affect the remuneration since a higher number of meetings indicate the board's response to poor performance by raising the level of operating activities in the following year. It is argued that regulations concerning the number of board meetings may influence the board of directors to improve the performance. More frequent board meetings have a significant effect on firm performance and executive remuneration. This leads to the following hypothesis:

H7: There is a positive and significant relationship between executive remuneration and the number of board meetings per financial year of small firms.

3.4 RESEARCH MODELS AND DATA ANALYSIS METHODS

The selection of the bottom listed companies is based on market capitalization. Initially, this study considered 351 companies; however, a sample of 274 bottom listed companies turned out as the final sample. Based on Table 1, 77 companies were excluded from the initial total population because their annual reports were missing, had incomplete data or poor disclosure, and had no information on executive remuneration. The data were extracted from the financial statements of the selected firms over the period of 2014 to 2017.

This study developed and utilized longitudinal panel data for the analyses. The panel regression model was used to estimate the association between corporate governance attributes and directors' remuneration among listed small and medium enterprises on the Bursa Malaysia. The choice of panel data analysis is its significant over time-series and cross-sectional data analyses which include ability to control for individual heterogeneity of observations; giving better informative data, more variability, less collinearity among the variables, and also permitting studying of dynamics analysis among others (Baltagi, 2005).

TABLE 1
Final Sample Selection

Selection Criteria	Number of Companies
Listed companies (Total population)	351
Companies with incomplete data	44
Companies in the finance industry	6
Companies with no information on executive remuneration	27
Final Sample	274

All analyses were carried out using Microsoft Excel, IBM SPSS 21, E-view statistical package version 7, and STATA version 13.1. The generalization of findings was made from hypotheses testing based on the inferential statistics (Field, 2013; Wooldridge, 2010). Based on Table 2, the empirical models include dependent and independent variables adopted for analyses of expected association between corporate governance and directors' remuneration of listed small and medium scale firms in Malaysia. Stochastically, the models are written as follows:

$$
\begin{aligned}
LNREM_{it} = \ & \alpha + \beta_1 LNREM_{it-1} + \beta_2 BSIZE_{it} + \beta_3 LNEXCOWN_{it} \\
& + \beta_4 CDUALITY_{it} + \beta_5 FMEMBER_{it} \\
& + \beta_6 INRC\_PCT_{it} + \beta_7 NUM\_MTNG_{it} + \beta_8 SIZE_{it} \\
& + \beta_9 ROA_{it} + \varepsilon_{it}
\end{aligned}
$$

The equation represents the stochastic model for estimating the static OLS regression without consideration of effect potential endogeneity among the variables.

TABLE 2
Summary, Definition, and Measurement of Symbols Used in the Study

Symbol	Meaning	Measurement	Source
$LNREM$	log of remuneration of executive directors	Log of remuneration of executive directors in each firm	Annual report
$LNREM_{it-1}$	difference of $LNREM_{it}$	The first difference of $LNREM_{it}$	Annual report
$BSIZE$	Size of the board	Number of a member of board director	Annual report
$LNEXCOWN$	Log executive ownership		Annual report
$CDUALITY$	CEO duality	dummy variable coded as one (1) if the post of CEO and Chairperson is held by the same person, otherwise zero (0)	Annual report
$FMEMBER$	CEO or chairperson has a family relationship with any Director and/or major shareholder of the company	refers to a dummy variable coded as (1) if the CEO or chairperson has a family relationship with any Director and/or major shareholder of the company otherwise zero (0)	Annual report
$INRC\_PCT$	independent non-executive directors on the remuneration committee	percent of independent non-executive directors on the remuneration committee	Annual report
NUM_MTNG	Number of times the board meeting in a financial year	refers to the number of meetings held in financial year	Annual report
$SIZE$	Size of the firm	the log of total assets	Annual report
ROA	Return on total assets	EBIT divided by Total Assets	Annual report

4. DATA ANALYSIS AND DISCUSSION OF FINDINGS

4.1 DESCRIPTIVE STATISTIC ANALYSIS

Table 3 presents a summary of the descriptive statistics of the variables of interest used in the study. The table reveals that the average size of board members among the small and medium scale enterprises is seven with a maximum number of 18 members. This aligns with the MCCG 2012 encouraging firms to have directors commensurate with their scope of activities. The average number of seven might indicate that the boardroom has a substantial number that would facilitate robust discussion on a crucial decision that could make or break a firm existence. Also, the sample of the average director remuneration is RM2,416,969 with the maximum amount of RM47,000,000 over the research period. This indicates that the pay variable is highly right-skewed, so we use the log of compensation, LN_EXREM, in our regressions.

Further, on average, the sampled firms met five times over of the five years of the study. It means at least the board members meet once a year. Average firm performance is low in the aftermath of among the sampled firms, with mean return-on-assets, ROA, being 0.18%. The deviation of almost all the observations from the mean are pronounced, and results of skewness and kurtosis suggest the possibility of normality problem. (Field, 2013; Wooldridge, 2010).

Examination of the Jarque-Bera statistic indicates the presence of heteroscedasticity of the residual of the regression. Thus, normality might be a major issue among the series. Hence, the study ran the OLS and later compared the results with that of GMM (Baltagi, 2008). The results of skewness, kurtosis, and Jarque-Bera further explained the pattern of distribution. Across all variables, there were mixed findings regarding normality based on the skewness value as some were within the benchmarks while others were not.[1] Further, a closer look at the kurtosis values shows that most of the observed variables had violated the cut-off point[2], an indication of non-normality of distributions.

TABLE 3
Summary of Descriptive Statistics

	Mean	Median	Max	Min	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Prob.	Obs
BS	7	7	18	2	2.01	1.23	6.65	880.3	0.00	1087
DSHD	0.195	0.053	61.918	0.000	1.913	31.11	999.2	4512	0.00	1087
IND_PCT	0.713	0.667	1.000	0.000	0.225	-0.815	4.493	221.4	0.00	1087
EXREM	2416969	1421127	247000000	955	8195156	25	733	24244303	0.00	1087
LN_EXREM	6.143	6.153	8.393	2.980	0.412	-0.226	7.394	883.8	0.00	1087
NOMTG	5.442	5.000	21.000	0.000	1.965	2.931	17.553	11148	0.00	1087
ROA	0.181	0.029	66.297	-70.8	4.286	1.863	183.61	1478	0.00	1087
SIZE	8.291	8.161	11.850	3.076	0.806	0.642	11.657	3469.3	0.00	1087

Also, the results of Jarque-Bera (JB) statistics which are mainly based on OLS residuals (Field, 2013) indicate values that are above critical level and a probability value of 1% except for a few indications which are further confirmation of non-normality problem of the observations[3]. Distribution of observed variables, however, might not necessarily pose any major problem with the estimation of the parameters but that of error term which might suggest the presence of heteroscedasticity (Wooldridge, 2010). The result of the JB statistics indicates the absence of homoscedasticity of the variance of disturbance. (Hill et al., 2011). The possible reasons for this might be the composition of the firms sampled in the present study as they are from different sizez, and from different industries which are panelled in the present study (Baltagi, 2008).

Results of testing frequency distribution of the firms CEO duality and the CEO or chairperson has a family relationship with any Director and/or major shareholder of the company are presented in Table 4. The result reveals that about 88.3% of the firms have different individual occupying the position of chairman and CEO of the sampled firms. The remaining 11.7% of the have fusion of power in the boardroom with the same person occupying both positions.

TABLE 4
Summary of the Frequency Distribution

	Code	Frequency	Percent
CDUAL	0	967	88.3
	1	128	11.7
FMBER	0	751	68.5
	1	344	31.5

4.2 CORRELATION COEFFICIENT MATRIX

Based on Table 5, the matrix shows the absence of multicollinearity problem among the explanatory variables as the coefficients are within the acceptable region as suggested by prior studies. For instance, Field (2013), respectively set the level of coefficient of correlation below 0.8 or 0.9. Otherwise, there could be a collinearity problem.

Specifically, the result reveals that the Board size and directors' remuneration display a significant positive correlation, which means the higher the board size, the higher the package paid. Meanwhile, the CEO duality has a significant positive correlation with board member remuneration. This also means that when an individual occupies the position of CEO and Chairman, the remuneration packages might the reduced. Probably, the individual only receives an entitlement from one position and sacrifices from the other. Also, the number of a family member on the board has a significant positive association with the directors' remuneration. The possible implication of this might be that these set of people might dominate the board and award bogus packages to themselves.

The expected role of the independent director is to ensure that the remuneration committee does things in the shareholder interest. Hence, the relationship with remuneration should be negative if the job is done well. This correlation result confirms this expectation. The frequency of board meeting has a significant positive association with director remuneration. The finding might be explained by the board composition being appropriate, enabling adequate discussion and minimal amount of allowances claimed. The two control variables have a positive correlation with directors' remuneration. This is expected because the higher the profitability, the better would be the packages for directors. This would align with the firm size.

Table 6 presents the results of VIF and tolerance value of the series in further consideration of the possibility of multicollinearity. The variable has VIF of less than two and tolerance of higher than 0.5 across the panels. These further suggest the absence of multicollinearity as the value is below the benchmark of 10 for VIF and above 0.10 for tolerance (Field, 2013). The result in panel B would be used to confirm the aggregate IC disclosure while Panel A is employed for the IC disclosure categories.

4.3 THE DYNAMIC SYSTEM GMM RESULTS

The present study proceeds by subjecting the series to further estimation using dynamic system GMM. The result of the estimation is presented in Table 7. The results reveal that the previous remuneration has a significant positive effect on the present remuneration. This finding implies that the amounts paid to the directors are on an incremental basis as the higher the prior year amount, the higher would be rge current year package. This justifies the dynamic nature of the study and confirms that the results from traditional OLS discussed above fails to consider. The fitness of the model is explained by the Wald $x^2$with a significant probability value of less than 1%.

TABLE 5
Summary of Pearson Correlation Coefficients

	LnEXREM	BS	DSHD	CDUAL	FMBER	IND_PCT	NoMtg	ROA	Size
LnEXREM	1								
BS	0.370^{**}	1							
DSHD	0.011	0.025	1						
CDUAL	-0.123^{**}	-0.191^{**}	0.076^{*}	1					
FMBER	0.105^{**}	0.088^{**}	0.051	0.091^{**}	1				
IND_PCT	-0.037	-0.100^{**}	-0.016	0.128^{**}	-0.010	1			
NoMtg	0.291^{**}	0.293^{**}	-0.017	-0.089^{**}	-0.053	0.020	1		
ROA	0.093^{**}	0.000	-0.001	-0.015	0.010	0.048	0.005	1	
Size	0.484^{**}	0.340^{**}	-0.020	-0.110^{**}	-0.026	-0.041	0.460^{**}	-0.006	1

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

TABLE 6
The Results of VIF and Tolerance Value

Variable	VIF	1/VIF
SIZE	1.35	0.739924
NOMTG	1.32	0.758847
BS	1.23	0.814809
CDUAL	1.07	0.934769
IND_PCT	1.03	0.970230
FMBER	1.03	0.971359
DSHD	1.01	0.990093
ROA	1.00	0.997634
Mean VIF	1.13	

Similarly, Table 7 reveals the result of the specification tests- the AR (1) first-order series correlation test and Sargan test of overidentifying restrictions. The AR (1) test produced a significant value of 0.2457 which means that the study cannot reject the null hypothesis of no serial correlation. The Sargan test yields a J-statistic which is distributed x^2 under the null hypothesis that subset of instruments that the study used in the level equation are exogenous.

4.3.1 BOARD SIZE AND DIRECTORS' REMUNERATION

Meanwhile, the relationship between the numbers of persons in the boardroom on the remuneration is positive. This is consistent with the finding under the OLS result. The implication of this is that no matter the kind of estimators adopted, the board size would always have a positive impact on the amount of directors' remuneration. The only difference between the two results is that the OLS result is significant at 1% while that of GMM is at the 10% level of significance. It could, therefore, be concluded that the higher the board size the more would be the remuneration packages accrued to the directors among the listed small and medium enterprises in Malaysia. The finding aligns with some of the prior studies (Fahlenbrach and Stulz, 2010) and confirms the study hypothesis.

TABLE 7
Summary of Dynamic System GMM Result

EXREM	Coef.	Std. Err.	z	P>z
EXREM(-1)	0.0127894	0.004634	2.76	0.0060
BS	302852.8	153284.4	1.98	0.0480
DSHD	-2214909	268237.7	-8.26	0.0000
CDUAL	3834928	932120.6	4.11	0.0000
FMBER	-3139712	1020797	-3.08	0.0020
IND_PCT	-8339568	1944527	-4.29	0.0000
NOMTG	288026.2	234334.1	1.23	0.2190
ROA	-2897.297	20841.09	-0.14	0.8890
Size	724954.7	272858.4	2.66	0.0080
CONS	834824.5	3110098	0.27	0.7880
AR(1) test (p-value)				0.2457
Sargan test of overidentifying restrictions (p-value)				0.9991
Wald chi2(9)(p-value)				0.00000

Note: LNREM is log of remuneration of executive directors; SIZE is the size of the board; DSHD is log of executive ownership; CDUAL is CEO duality; FMEMBER is CEO or chairperson has family relationship with any Director and/or major shareholder of the company; INRC_PCT is the independent non-executive directors on the remuneration committee; NOMTG is the number of times the board meeting in a financial year; SIZE is the size of the firm; ROA is Return on total assets; LNREMit-1 is the difference of LNREMit.

4.3.2 BOARD SHAREHOLDING AND DIRECTORS’ REMUNERATION

The study hypothesized a significant negative relationship between the two variables. Though the result of the OLS reveal insignificant positive impact, the GMM result confirms our hypothesis as Table 7 reveals significant negative impact of board ownership on the amount of directors’ remuneration. This also justifies the superiority of the GMM over the OLS estimator. The finding is in alignment with agency theory which opined that the agency problem might be mitigated by encouraging director ownership as this may be in the interests of the shareholders to ensure increased alignment through the ownership stock, or a general requirement for directors to hold company shares (Cheng and Lee, 2008). The finding is consonant with prior studies that concluded that agency problem could be minimized if the director ownership is encouraged (Cheng and Firth, 2006).

4.3.3 FAMILY MEMBER AND DIRECTORS' REMUNERATION

The result of the GMM estimator presented in Table 7 reveals that CEO or chairperson having a family relationship with any Director and/or major shareholder of the company has a significant negative impact on the directors' remuneration. The implication of this finding is that the presence of CEO or chairperson with a family relationship with any Director and/or major shareholder of the company would minimize the remuneration of directors. This implies that agency conflicts might be curtailed among the listed small and medium enterprises if the CEO or chairperson has a family relationship with any Director and/or major shareholder of the company contradict the expected hypothesized relationship advanced earlier in the present study and the OLS result presented above where a significant positive impact was revealed. The finding, however, is consistent with that of Chen and Lee (2008).

4.3.4 INDEPENDENT DIRECTORS ON THE REMUNERATION COMMITTEE AND DIRECTORS' REMUNERATION

The present study hypothesised a negative and significant relationship between executive remuneration and a higher proportion of independent directors/non-executive directors on the remuneration committee in small firms. Unlike the OLS regression result, the dynamic system GMM confirms the hypothesis by revealing a significant negative relationship between the two variables. The finding contradicts that of Lee (2009) which reveals that the presence of independent non-executive directors of family firms who are on the remuneration committee increase the remuneration either to satisfy or to achieve executive expectations.

4.3.5 NUMBER OF BOARD MEETINGS AND DIRECTORS' REMUNERATION

The present study expects a positive and significant relationship between executive remuneration and the number of board meetings per financial year of small firms. The results of the GMM regression reveal an insignificant positive relationship between the two variables. The results are almost the same as OLS that reveals a moderate positive significant association between the variables. This explains the power of the dynamic system GMM is refining the series better than the OLS by taking into consideration some endogeneities among the variables and possible impact of previous values of the present value of series.

4.3.6 CEO DUALITY AND DIRECTOR REMUNERATION

The result of the dynamic system GMM square regression (Table 7) indicates that CEO duality has a significant positive impact on the directors' remuneration. This contradicts the hypothesized negative relationship between the two variables.

Hence, the hypothesized relationship is rejected. The result aligns with agency theory that if there is a fusion of power between CEO and Chairman, the board will affect the independence of the directors as an individual has more power. This is one of the features of the small and medium enterprises which are mostly owned by a few groups of people. Most of the firms in the categories are evolving and might have enough resource to hire more directors. The finding contradicts prior studies that documented a significant negative impact of CEO duality on the directors' remuneration (Daily et al., 1999).

Results of the dynamic system GMM estimator have provided some findings that are more consistent with theoretical assumptions compared to that of OLS. This justifies the argument of Baltagi (2008) that the estimator which incorporates the dynamic nature of internal governance choices provides valid and powerful instruments that address unobserved heterogeneity and simultaneity, hence, provide more reliable results mostly in accordance with theory and by extension with realities in society.

5. CONCLUSION AND RECOMMENDATION

The current study considers the potential impact on director renumeration of CG mechanism measures as Board size, CEO duality, executive ownership; CEO or chairperson has a family relationship with any Director and/or major shareholder of the company; independent non-executive directors on the remuneration committee and a number of times the board meets in a financial year. The results from GMM estimates reveal that the board size has a positive impact on the remunerations package of the directors among the small and medium enterprises in Malaysia. The result confirms the theoretical assumption of managerial extension rent theory and the reality in society.

The conclusion from the study is that board size would always have a positive impact on the amount of director remuneration. The finding confirms the study hypothesis of a significant positive impact of the number of board of directors on the amount of ringgits they earn annually.

Another objective of the present study is examine the extent to which the fusion of power of CEO and chairman in the hand of an individual would influence director remuneration packages. The results reveal a positive significance, making the finding inconclusive. Going by the belief that CEO duality could make an individual more powerful and reduce the board independent which might result in the aggravating the agency conflict, especially among the listed small and medium enterprises, thus, that CEO duality has significant positive impact on the directors' remuneration among the listed small and medium enterprises in Malaysia. Most of the small and medium enterprises are owned by the family or few members.

This study examined the extent to which the proportion of board member from the same family in the boardroom would impact on the directors' remuneration among listed small and medium scale enterprises. The finding of GMM after controlling for endogeneity in the series, reveals a negative effect. This implies that agency conflicts might be curtailed among the listed SMEs if the CEO or chairperson has a family relationship with any Director and/or major shareholder of the company contradict the expected hypothesized relationship advanced earlier in the present study. While most of the small firms might be unable to hire independent directors, the results of GMM estimate reveal a significant negative impact on the amounts of ringgits paid to directors in the period of study align with the GMM findings which also confirm the assumption of agency theory. This study also looked into the relationship between number of board meetings and director renumeration. The result of GMM regressions reveal a significant positive relationship between the two variables. It can, therefore be concluded that the number of board meeting would affect the directors' remunerations.

From the theoretical contribution aspect, the study provides insights into the relevance of agency theory in the context of corporate governance research. The use of GMM as estimator made the results from the study align closely with this theory which ordinarily would have been rejected.

The negative significant finding on CEO duality in directors' remuneration is expected to have policy implication regarding the nature of allowing an individual to occupy both roles in this category of business organizations. In line with the result of GMM estimator, it is suggested that no individual is allowed to occupy both roles as the result of the frequency distribution indicates that an ample number of firms are still practising this concept.

Also, our results show the presence of independent director is will minimize agency problem by reducing the amount of remuneration package accrued to the directors. The authorities might need to ensure that companies have this kind of directorship in the committee. Besides, since the board size increases the director remuneration, the regulators might ensure that the number of directors is commensurate with the firm activities. This would protect the non-controlling interest and reduce agency conflict.

This study also finds that directors' shareholding has significant negative impact on directors' remuneration. Hence the regulators might mandate a sizeable proportion of shareholding right should be concealed to directors as this would promote principal-agent relationship, thus reduce corporate failure risk among others.

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ENDNOTES

1. The benchmark applied for normality are -3 to 3 (Wooldridge, 2010).
2. See the point 1 above.
3. The *p* value of Jarque-Bera statistics should be insignificant for normally distributed observations.

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