Non-Executive Director and Remuneration in Family Firm: An Empirical Examination

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ABSTRACT

Although non-executive directors are members of the board of directors, they are less capable in monitoring director remuneration because they are appointed by the executive directors who consists of family members. This study examined the relationship between non-executive directorships and remuneration in family firms. The sample of this study includes 386 firms listed in Bursa Malaysia with 1,158 panel data observations from 2007 to 2009. Findings from this study have demonstrated a significant positive relationship between non-executive director and remuneration, which suggests the effectiveness of the non-executive director role. However, evidence shows that the family firms influence the relationships between non-executive directors and director remuneration. This study also suggests that family firms may combine power and control to mitigate the monitoring effectiveness of non-executive directors, leading to expropriation via excessive remuneration.

Keywords: Remuneration, Non-Executive Director, Family Firm, Expropriation

1. INTRODUCTION

Agency theory explains the shareholders hand over power to a board of director in order to enhance performance. However, differing interests between managers and shareholders may increase agency problems. Manager may place personal interest as priority rather than firm performance, whereas shareholder interests lies more on firm performance. Accordingly, remuneration should be provided to board of director in such a way as to align similar interests with shareholder. According to Jensen and Meckling (1976), firms should design better remuneration in order to align manager and shareholder interests.

Director remuneration should take into consideration the board of director's skills, knowledge and experience and link with performance. There is important for non-executive directors to ensure that remuneration is not part of expropriation by executive director. This role is able to play by non-executive director because they do not have firm interest. Harley et al. (2004) explained that independent directors may influence remuneration to more closely align with shareholder objectives.

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Although the non-executive director is a member of the board of directors, they are less capability in order to keep monitor on director remuneration because they are appointed by the executive director. According to Bebchuk and Fried (2003) noticed that CEO power is significant in order to influence CEO remuneration. Family firms take advantage in this situation as they may combine power and control in order to increase director remuneration. In addition, family control tends to increase expropriation via remuneration of non-family minority shareholder (Bloom and Van Reenen, 2007). An implication of this notion is that the executive director may have intentions to increase remuneration for personal interest.

Previous studies have shown mixed results with regards to the relationship between remuneration and family firm. A study by Dogan and Smyth (2002) indicated a weak negative relationship between board remuneration and ownership concentration. Gomez-Mejia et al. (2003) indicated that CEO family members received less remuneration compared with their counterparts in non-family firms. However, Basu et al. (2007) performed a study in Japan which found that top executives earn more with higher ownership. Therefore, the families prefer to appoint the top executive from among their family members (Perez-Gonzalez, 2006). Top executives who are family tend to keep the wealth among family even with less skills, knowledge and experience.

This paper makes a contribution to existing literature about non-executive director and remuneration in family firms. Previous studies investigated the relationship between the remuneration committee and remuneration in a family firm (Jaafar et al, 2012). On the other hand, fewer studies have examined the relationship between the non-executive directors and remuneration in Malaysian family firms. Although non-executive directors are effective monitors for remuneration, existing family members on the board of directors tend to mitigate the role. Furthermore, family firms tend to increase personal benefits via excessive remuneration through manipulation of the power and control.

This paper's objective is to examine the relationship between the non-executive director and remuneration in family firm. Based on the sample size of this study of 386 firms listed in Bursa Malaysia with 1,158 pieces of panel data from 2007 and 2009, this study finds a significant positive relationship between non-executive director and remuneration, which suggests the effectiveness of non-executive director role. However, evidence has shown that non-executives is significantly negative with director remuneration and executive remuneration in family firms. This study suggests that the family firm may use power and control to mitigate effectiveness of monitoring by non-executive directors.

The remaining chapters are organized as follows: Chapter 2 outlines the relevant literature while developing fully the ideas in past research that are most important to the present study. The research design issues and methodology are explored in Chapter 3. Details of the final sample and the measurement of variables are also discussed in this chapter. The results and discussion are presented in Chapter 4. Chapter 5 sets out the study's conclusions, limitations, and includes some suggestions for further research.

2. LITERATURE REVIEW

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The board of directors is one of corporate governance components which addresses an important role in order to bring better performance. Information related to the board of directors is board size, board balance, supply information, appointment to the board and re-election (MCCG, 2007 revised). According to this, the board of directors has key people who have responsibility to bring a firm long term success and also increase firm wealth. But a director may have intentions to increase their personal wealth, which is affected the shareholder wealth. To mitigate agency problems, the remuneration may be awarded to the board of directors to increase motivation. Therefore, firm should provide better remuneration that better aligns with the board of directors and shareholders (Jensen and Meckling, 1976).

Remuneration provided to executive directors is higher compare with non-executive directors due to task and responsibilities. According to Salim and Wan-Hussin (2009), executive directors receive 90% of total director remuneration while 10% remains to non-executive director. An executive director has responsibility to enhance firm performance through better business strategies and planning. Furthermore, firm risk is also higher if any business strategies and planning leads to financial problem which affected business operation. However, non-executive director responsibilities and tasks are not as heavy, such as monitoring board activities including decision on remuneration, strategies and so on. They also execute shareholders intentions related to firm wealth.

MCCG (2012) recommended that mainly or wholly of remuneration committee consist of non-executive directors. Furthermore, non-executive directors on the board are a majority compared with executive directors. Implications of this matter may avoid expropriation by an executive director via remuneration and may increase shareholder wealth. Therefore, to avoid expropriation, non-executive director may monitor the remuneration process.

One of the elements should be considers to links with remuneration is executive experience. Study conducted by Croci et al. (2010) finds that there executive experience is positive impact on their remuneration. Procedures and policies of director remuneration should be strictly followed in order to ensure strong firm performance. Therefore, non-executive directors should work together with outside consultants to develop better director remuneration. Besides that non-executive director also need to co-operation with human resources department in order to look board of director personal achievement and talent to links with remuneration. Furthermore, Cadbury (1992) recommended that performance criteria become the main factor to determine the level of remuneration along with adherence to the policies and procedure (Salim & Wan-Hussin, 2009) (cited Jaafar and James, 2013).

Non-executive directors may be able to play a role in remuneration issues because they have advantages. For example, non-executive directors appointed due to their expertise are able to make good decisions. Fama and Jensen (1983) noticed that a non-executive director is a decision expert. Furthermore, non-executive directors have less firm interest and more are independent in their decisions and suggestions. Weisbach (1988) explained that a non-executive director is independent and not intimidated by the CEO. As a result, non-executive directors are able to focus on director remuneration and

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eventually able to increase board of director motivation to enhance firm performance and increase shareholder wealth. Andreas et al. (2010) noticed that under the agency theory argument, incentives are designed to minimize agency cost.

Family executives incorporate the business for long-term success and have intentions to hand over the business to the next generation such as family members including father, mother, brother, sister, grandfather, grandmother and nephew. Therefore, family executives may work harder to increase firm wealth. This shows that when family member involvement is actively pursued, firms tend to perform better (Burkart, Panunzi, & Shleifer, 2003). There is important to reward better remuneration to family executive in order to increase their motivation. Basu et al. (2007) found that Japanese firm tends to awarded higher remuneration to top executive with higher ownership. However, family executives tend to receive less remuneration in order to increase increases cash flow. A study by Gomez-Mejia et al. (2003) noticed that CEO family members received lower remuneration compare with CEO in non-family firm.

Board of director and shareholder may agree with remuneration proposals if beneficial; otherwise the proposal will be rejected. Bebchuk and Fried (2003) noticed that shareholders will support remuneration proposals that advance their interest. Implications of this notion charge non-executive directors with a tough task related to director remuneration in family firms. Although the number of family executive may be less on a board of directors, their power and control is higher. This gives them opportunity to manipulate the remuneration for personal interest.

It is not easy for non-executive directors to give instruction to family executives, even though they are less likely to follow remuneration policies and procedures. For example, family executive with less skills and experience may earn more due to blood relationships. This occurs because the family member may allow emotion and relationships to colour perception of competence of executive (Moores and Craig, 2008). Although non-executive directors notice, nothing much can be done due to limited power and control. As a result, family executives tend not to follow suggestions from non-executive director in order to pursue personal interests.

According to Abdullah, Zhou Jia`nan and Muhammad Hashim (2017) notice that board of director role is monitor on daily operations of firm and make decisions as and when needed. However, non-executive directors may less effectively monitor director remuneration in family firms because family executives have responsibility for those they appoint. Furthermore, non-executive directors may argue less according about board decisions in order to show their appreciation for sitting on the board (Jaafar and James, 2013). In addition, it is very important for non-executive directors to have similar ideas with family executive in remuneration matters. Family executives may take an advantage regarding non-executive director problems in family firm by manipulating director remuneration for personal benefit. Brandes et al. (2003) and Khan et al. (2005) noticed that executives tend to increase their own remuneration if they hold some number of shares. In addition, family executives may possibly use their power to enhance financial benefits when they do not create financial problems due to their action (Lamia Chourou 2010).

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Malaysia Code Corporate Governance (2012) suggests that the role played by non-executive director is more on monitoring manners due to a majority proportion of non-executive directors on the board of directors. Remaining best interest of minority shareholder at the same time tends to fulfil family executives' best interests for non-executive directors. If they strictly follow remuneration procedures or policies, non-executive directors may no longer ne in their current position.

Family executive play very important role in order to ensure the business operation will keep success in long term. Therefore, firm performance may increase when family executives receive better remuneration (Mhrisman, 2007). Furthermore, family executive may use their power and control in order to propose better strategies and planning. However, the power and control could possibly be manipulated due to personal matters via increased remuneration without considering non-executive points of view. This shows that family executives may maximize their consumption of private benefits (Dahya et al., 2008).

3. RESEARCH METHODOLOGY

The sample comprises balanced data for 386 firms and 1,158 firm-year observations from Malaysian publicly listed companies during the three-year period between 2007 and 2009. This study includes only cash-based remuneration for the sample period. Although the disclosure of director remuneration in Malaysia has significantly improved since the implementation of MCCG, remuneration information is not available in electronic form and must therefore be manually collected from annual reports. Annual reports are available from Bursa Malaysia (www.bursamalaysia.com). Furthermore, the data can be extracted from Bursa Malaysia's website link.

Formerly, Bursa Malaysia was known as the Kuala Lumpur Stock Exchange (KLSE). In 2004, KLSE was renamed Bursa Malaysia, which consists of the Main Market and ACE Market. Bursa Malaysia is an exchange holding company approved under Section 15 of the Capital Markets and Services Act 2007. It operates a fully integrated exchange, offering the complete range of exchange-related services, including trading, clearing, settlement, and depository services.

The remuneration variables include director, executive, and non-executive remuneration (Abdul Wahab & Abdul Rahman, 2009). All remuneration variables are based on logarithm transformations, where the statistical relationship could be weakened and related to skewed distribution and lead heterosdasticity (Tabachnick & Fidell 2007).

Regards to independent variables, family firm this study use blood relationship among board of director as family firm (Jaafar et al., 2012). Annual reports from Bursa Malaysia require disclosure of the relationships among executives under board member profiles, which allows for categorization of directors as family members. Furthermore, another independent variable is non-executive director on the board of directors. The data was extract from the annual report under board of director sub board balance. Furthermore, control variables are related to firm's performance (proxies by ROA and ROE) size, age, debt, and industry (Anderson and Bizjak, 2003; Carrasco-Hernandez and Sanchez-Marin, 2007; Chalmers et al, 2006; Martinez et al, 2007; Maury, 2006).

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This study uses linear regression to test hypotheses and follows regression analysis with the econometric model:

Equation (1) describes the model used to test the relationship between non-executive director, family firms, director remuneration and control variables.

$$REMit = \beta_0 + \beta_1 NON\_EXEC_{it} + \beta_2 FAM\_FIRM_{it} + \beta_3\, SIZE_{it} + \beta_4 DEBT_{it} + \beta_5\, ROA_{it} + \beta_6\, ROE_{it} + \beta_7\, IND_{it} + \epsilon_{it} \quad \text{..}(1)$$

Equation (2) describes the model used to test the relationship between non-executive director, family firm, interaction between non-executive director and family firm and control variables.

$$REMit = \beta_0 + \beta_1 NON\_EXEC_{it} + \beta_2 RFAM\_FIRM_{it} + (\beta_3 NON\_EXEC_{it} * FAM\_FIRM_{it}) + \beta_4\, SIZE_{it} + \beta_5 DEBT_{it} + \beta_6 ROA_{it} + \beta_7 ROE_{it} + \beta_8\, IND_{it} + \epsilon_{it} \quad \text{...............}(2)$$

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistic and Correlation Matrix

Panel A of Table 4.1 shows the descriptive statistic related to director remunerations. Total director remuneration averages RM1.985 million, with a maximum of RM53.339 million. Further, the mean for executive and non-executive remuneration is RM1.729 million and RM255,000, respectively. In addition, components of executive remuneration consist of fees and allowance, salary, bonus, and benefits of kin and averages RM85,000, RM1.223 million, RM219,000, and RM202,000, respectively. Furthermore, components of non-executive remuneration include fees and allowance, salary, bonus, and benefits of kin averages of RM176,000, RM49,000, RM10,000, and RM18,000 respectively. These descriptive findings clearly suggest that firms allocate more remuneration to executives rather than non-executives.

Panel B of Table 4.1 presents a descriptive statistic related to the remuneration committee and the board of directors. The average on the family member is 1.48, with a maximum of 6, respectively. The mean of the board of directors consisting of executives and non-executives, respectively, is 2.96 and 4.81. The descriptive findings clearly suggest that proportional non-executive directors mainly consist of executive directors. Panel C of Table 4.1 presents the descriptive statistic related to firm characteristic and performance. The average of the firm size is RM19.504 million, with a maximum of RM23.792 million. Other firm characteristics include debt, for which the mean is RM140,000 with a maximum of 3.896. Furthermore, the mean of firm age is 13 years, with a maximum of 48 years, respectively. The average ROA is RM29,000 and ROE is RM46,000.

Table 4.2 presents the Pearson correlation for the test variables. The Pearson correlation indicates that DIRREM, EXECREM, and NEDREM are correlated with REMCOM. This provides initial support that the remuneration committee influences director remuneration. However, DIRREM, EXECREM, and NEDREM are not correlated to

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EXEC_DIR. Furthermore, correlation among DIRREM, EXECREM, and NONEXEC_DIR and BSIZE is positive and significantly correlated. This provides initial support that the board of director influences director remuneration. ROA, ROE, and size are significantly positively correlated to remuneration variables.

Table 4.1 Descriptive Analysis

	Mean	Median	Std. Deviation	Maximum	Minimum
Panel A: Director Remuneration					
EXECFEES (million)	0.085	0.022	0.209	2.130	0
EXECSAL (million)	1.223	0.897	1.956	50.887	0
EXECBON (million)	0.219	0.000	1.287	32.111	0
EXECBEN (million)	0.202	0.040	1.248	38.165	0
EXECREM (million)	1.729	1.131	2.982	50.887	0
NEDFEES (million)	0.176	0.135	0.171	1.334	0
NEDSAL (million)	0.049	0.000	0.212	3.588	0
NEDBON (million)	0.010	0.000	0.077	1.466	0
NEDBEN (million)	0.018	0.000	0.130	3.423	0
NEDREM (million)	0.255	0.160	0.359	5.035	0
DIRREM (million)	1.985	1.382	3.084	53.339	0.051
Panel B: Board of Director and Family Member					
EXEC_DIR	2.96	3.000	1.557	8	0
NONEXEC_DIR	4.81	4.000	1.978	13	0
BSIZE	7.75	8.000	2.166	15	0
FAM_MEM	1.48	0.000	1.724	6	0
Panel C: Control Variables					
ROA	0.029	0.037	0.128	1.425	-1.138
ROE	0.046	0.061	0.303	2.907	-2.802
SIZE	19.504	19.393	1.276	23.792	11.754
DEBT	0.140	0.085	0.217	3.896	0.000
AGE	13.71	12.000	10.672	48	0
IND	.92	1.000	.264	1	0

Notes: EXECREM and NEDREM are executive and non-executive director remuneration respectively; DIRREM is the total director remuneration respectively. EXECFEES, EXECSAL, EXECBON AND EXECBEN are executive director fees and allowances, salary, bonus and benefit of kin. NEDFES, NEDSAL, NEDBON AND NEDBEN are non-executive director fees and allowances, salary, bonus and benefit of kin respectively. FAM_MEM is a member of family in board of director. EXEC_DIR is executive director and NONEXEC_DIR is non-executive director. BSIZE is a size of board of director which is consist executive and non-executive director. ROA is the net income divided by total assets. ROE is the net income divided by total equity. DEBT is the long term debt over total assets. SIZE is logarithm of total assets and AGE is number of year since incorporate. IND "1" is for the consumer products sector; trading/service sector; construction; plantations/mining; and "0" if others.

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Table 4.2 Correlation Matrix

Pearson correlations are reported in the table. *:* EXECREM and NEDREM are executive and non-executive director remuneration; DIRREM is the total director remuneration respectively. EXEC_DIR is executive director and NONEXEC_DIR is non-executive director. BSIZE is a size of board of director which is consist executive and non-executive director. ROA is the net income divided by total assets. ROE is the net income divided by total equity. DEBT is the long term debt over total assets. IND “1” is for the consumer product sector, trading/service sector, construction, plantations/mining; and “0” if others. SIZE is logarithm of total assets and AGE is number of year since incorporate. * and ** denote significance at the 5% and 1% level respectively

	DIRREM	EXECREM	NEDREM	FAM_MEM	EXEC_DIR	NONEXEC_DIR	BSIZE	ROA	ROE	SIZE	DEBT	AGE	IND
DIRREM													
EXECREM	.994**												
NEDREM	.337**	.228**											
FAM_MEM	.123**	.139**	-.096**										
EXEC_DIR	.028	.030	-.013	.022									
NONEXEC_DIR	.065*	.073*	-.043	.003	-.269**								
BSIZE	.080**	.089**	-.056	.014	.472**	.711**							
ROA	.131**	.126**	.080**	.078**	.026	-.031	-.010						
ROE	.145**	.140**	.081**	.021	.001	-.009	-.010	.692**					
LN_SIZE	.346**	.311**	.388**	.017	-.026	.085**	.054	.222**	.202**				
DEBT	.044	.042	.026	-.066*	-.022	-.011	-.023	-.009	-.006	.085**			
AGE	-.008	-.003	-.036	.020	.019	.065*	.060*	.026	.017	-.002	-.030		
IND	.022	.037	-.117**	.057	-.003	.044	.059*	.018	-.003	-.060*	.020	-.002	

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

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

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4.2 Univariate Analysis

Table 4.3 exhibits results from the univariate analysis for the test variables between family firm and non-family. Panel A of Table 4.3 reports that director remuneration is higher in family firms (RM2.21 million) than in non-family firms (RM1.77 million). The univariate test provides initial support for a positive relationship between family firm and director remuneration. The results show that fees and bonuses of family executives are higher (RM107,000 and RM319,000, respectively) compared with non-family firms (RM144,000 and RM125,000 respectively). The measures of director remuneration are higher in family firms, providing initial support of existing family members influencing board remuneration. Results also show that remuneration and fees for non-executive were higher (RM290,000 and RM206,000, respectively) than in family firm (RM217,000 and RM144,000 respectively). Panel C of Table 4.3 reports that ROA are higher in family firms (RM38,000) compared with their counterparts (RM20,000) in non-family firms. The results also indicate that debt is higher (RM158,000) in non-family firms than in family firms (RM120,000).

Table 4.3: Univariate analysis of differences in director remuneration, board of director and control variables between family firm and non family firm in Malaysia public listed

	(n=556) Family Firm = 1 Mean	(n=603) Non Family Firm = 0 Mean	*t* – Test *p* - Value
Panel A: Remuneration			
DIRREM (million)	2.211	1.777	**0.018****
EXECREM (million)	1.993	1.486	**0.004****
NEDREM (million)	0.217	0.290	**0.001****
EXECFESS (million)	0.107	0.064	**0.001****
EXECSAL (million)	1.320	1.134	0.106
EXECBON (million)	0.319	0.125	**0.013****
EXECBEN (million)	0.246	0.161	0.249
NEDFEES (million)	0.144	0.206	**0.000****
NEDSAL (million)	0.044	0.054	0.406
NEDBON (million)	0.006	0.014	0.074
NEDBEN (million)	0.022	0.015	0.334
Panel B: Board of director			
NONEXEC_DIR	4.77	4.84	0.551
EXEC_DIR	2.97	2.96	0.862
BSIZE	7.70	7.79	0.473
Panel C: Control Variables			
ROA	0.038	0.020	**0.015****
ROE	0.051	0.041	0.549
SIZE	19.46	19.54	0.268
DEBT	0.120	0.158	**0.003****
AGE	13.38	14.02	0.307
IND	0.94	0.91	**0.050****

Notes: EXECREM and NEDREM are executive and non-executive director remuneration respectively; DIRREM is the total director remuneration respectively. EXECFEES, EXECSAL, EXECBON AND EXECBEN are executive director fees and allowances, salary, bonus and benefit of kin. NEDFES, NEDSAL, NEDBON AND NEDBEN are non-executive director fees and allowances, salary, bonus and benefit of kin respectively. FAM_MEM is a member of family in board of director. EXEC_DIR is executive director and NONEXEC_DIR is non-executive director. BSIZE is a size of board of director which is consist executive and non-executive director. ROA is the net income divided by total assets. ROE is the net income divided by total equity. DEBT is the long term debt over total assets. SIZE is

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logarithm of total assets and AGE is number of year since incorporate. IND "1" is for the consumer products sector; trading/service sector; construction; plantations/mining; and "0" if others.

4.3 Multivariate Regression

Table 4.4 shows the results from a panel regression of director remuneration by interaction between family firm and non-executive director. The study finds evidence that the relationship between non-executive director and director remuneration is both positive and significant (0.043; $t = 2.594$ and $p < 0.05$). This indicates that the proportion of non-executive director in board of director influence the director remuneration. Our study has suggested that non-executive directors play a role in monitoring on director remuneration. They are considered higher skills, knowledge and experience with better remuneration. Remuneration procedures and policies are strictly followed by non-executive directors.

Furthermore, this study finds evidence the relationship between family firm and director remuneration is positive and significant (0.307, $t = 6.542$ and $p < 0.05$). This finding was supported by Jaafar and James (2013), who found that the family firms influence director remuneration in Malaysia firms. Our study suggests that the number of shares holds by family executive play a big role in order to influence the director remuneration. It shows that the numbers of shares carried by family executives are related to the power and control.

Our study has found evidence that family executive influence non-executive director remuneration. There is negative and significant (-0.336; $t = -6.887$and $p < 0.05$) relationship between family firm and non-executive director remuneration as shown in Table 4.4 in column 3. This study shows that existing family executive will reduce non-executive director remuneration. The study also suggests that the family executive influence non-executive director remuneration throughout as majority shareholder and family member by reducing the amount of non-executive director remuneration in order to increase their own remuneration.

Furthermore, this study find evidence of director remuneration is influenced by family firm and non-executive director. The coefficient on the interaction variable NONEXEC_DIR*FAM_FIRM is negative and statistically significant (-0.053; $t = -2.267$ and $p < 0.05$). This interaction shows that the negative relationship between non-executive director and family firm is negative in family firm as shown in Table 4.4. The regression provides strong support in Hypothesis 2 that higher family ownership mitigates effective effort by non-executive director on DIRREM. These findings support the argument of Moores and Craig (2008) and Bartholomeusz and Tanewski (2006) that power and control in the hands of family members may lead them to act according to their own personal interest. Our study suggests that family firms manipulate power and control by pressuring non-executive director to agree with director remuneration which is bring benefit for family member.

Non-executive director cannot argue with the board’s decisions because the power and control remain with family members. In order to respect family members, non-executive will support remuneration as designed. The firm belongs to family members, so they have right to award higher remuneration as long as they do not practice discrimination for non-executive director.

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There are positive relationships between ROA, SIZE of firm and remuneration variables as shown in Table 4.4 in column 1, 2 and 3. The regression provides evidence that performance and size is significant effect the remuneration.

Table 4.4 Regression results of director remuneration by interaction between family firm and non-executive director member of board of director

	LN(DIRREM) 1	LN(EXECREM) 2	LN(NEDREM) 3
FAM_FIRM	***0.307***	***0.440***	***-0.336***
	6.542**	***7.528*****	***-6.887*****
NONEXEC_DIR	***0.043***	***0.056***	-0.001
	2.594**	***2.666*****	-0.057
NONEXEC_DIR*	***-0.053***	***-0.060***	-0.039
FAM_FIRM	***-2.267*****	***-2.047*****	-1.604
ROA	***0.516***	***0.510***	***0.533***
	2.034**	***2.026*****	***2.024*****
ROE	*0.126*	*0.172*	*0.036*
	1.188	*1.299*	*0.326*
SIZE	***0.287***	***0.270***	***0.342***
	15.170**	***11.437*****	***17.396*****
DEBT	-0.122	-0.076	-0.127
	-1.135	-0.567	-1.139
AGE	0.000	0.001	-0.002
	0.082	0.248	-0.952
IND	0.085	0.127	-0.127
	0.339	1.153	-1.381
CONSTANT	***8.039***	***7.971***	***5.626***
	20.824**	***16.578*****	***14.018*****
Adjusted R^2	***0.227***	***0.166***	***0.264***
F-statistic	***38.832*****	***26.540*****	***47.013*****
Cross-sections	386	386	386
Total observation	1158	1158	1158

Notes EXECREM and NEDREM are executive and non-executive director remuneration; DIRREM is the total director remuneration respectively. FAM_FIRM takes the value of 1for family firms and zero otherwise. NONEXEC_DIR is non-executive director. ROA is the net income divided by total assets. ROE is the net income divided by total equity. DEBT is the long term debt over total assets. IND "1" is for the consumer product sector, trading/service sector, construction, plantations/mining; and "0" if others. SIZE is logarithm of total assets and AGE is number of year since incorporate. * and ** denote significance at the 5% and 1% level respectively

4.4 Robustness

This sub-section examines the previous results as shown in Table 4.4 by an alternative measurement of family firm. This study re-estimates the regression (reported in Table 4.5) by replacing family firm with family member in board of director. The results are qualitatively similar to the previous results shown in Table 4.4. This result finds evidence of family firm influences non-executive director, as shown in regression 1 and 2 of Table 4.6. Result of

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regression indicate that the coefficient on interaction variable NONEXEC_DIR*FAM_MEM is negative and statistically significant (-0.015; t = -2.428 and $p < 0.05$). This study suggests that the positive relationship between non-executive director and director remuneration, executive and non-executive remuneration is less positive in family firms. Bartholomeusz & Tanewski (2006) explained that minority shareholders may suffer due to expropriation via excessive remuneration by family members who might abuse their power and control.

Table 4.5 Regression results of director remuneration by interaction between family member and non-executive director member of board of director

	LN(DIRREM) 1	LN(EXECREM) 2	LN(NEDREM) 3
FAM_MEM	***0.117***	***0.159***	***-0.083***
	8.760**	***9.491*****	***-5.847*****
NONEXEC_DIR	***0.041***	***0.054***	-0.012
	2.611**	***2.773*****	-0.738
NONEXEC_DIR*FAM_	***-0.015***	***-0.018***	-0.004
MEM	***-2.428*****	***-2.323*****	-0.653
ROA	0.479	*0.387*	***0.518***
	1.917	*1.243*	***1.953*****
ROE	*0.137*	*0.186*	*0.033*
	1.309	*1.420*	*0.299*
SIZE	***0.282***	***0.262***	***0.350***
	15.120**	***11.280*****	***17.661*****
DEBT	-0.121	-0.079	-0.109
	-1.145	-0.601	-0.966
AGE	-0.001	-0.001	-0.002
	-0.367	-0.235	-0.691
IND			
CONSTANT	***8.150***	***8.134***	***5.504***
	21.455**	***17.187*****	***13.661*****
Adjusted R^2	***0.248***	***0.188***	***0.254***
F-statistic	***43.428*****	***30.735*****	***44.826*****
Cross-sections	386	386	386
Total observation	1158	1158	1158

Notes EXECREM and NEDREM are executive and non-executive director remuneration; DIRREM is the total director remuneration respectively. FAM_MEM is a member of family in board of director. NONEXEC_DIR is non-executive director. ROA is the net income divided by total assets. ROE is the net income divided by total equity. DEBT is the long term debt over total assets. IND "1" is for the consumer product sector, trading/service sector, construction, plantations/mining; and "0" if others. SIZE is logarithm of total assets and AGE is number of year since incorporate. * and ** denote significance at the 5% and 1% level respectively

5. CONCLUSION

Family firms take advantage according to the non-executive is a member of the board of director but they are less capability to keep monitor on the director remuneration because

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they are appointed by the executive director which is consists of family member. Implication of this nation, it is not easy for non-executive directors to give instruction to family executives, even though they are less likely to follow remuneration policies and procedures. This situation may provide opportunity to executive director to increase remuneration for personal interest.

This study examines the relationship between non-executive director and remuneration in family firm. Based on the sample size of these study 386 firms listed in Bursa Malaysia with 1,158 panel data from 2007 to 2009, this study finds evidence that non-executive director play effectiveness monitoring towards director remuneration regarding to their skills and experience. These results suggest that the present of non-executive director in board of director tends to keep monitor as suggested by MCCG (2012). MCCG (2012) strongly recommended wholly or mainly of board of director should consist of non-executive director for monitor purpose. However, existing family members on the board tends to mitigate the effectiveness of monitoring by non-executive director on remuneration. A family firm prefers to use power and control for personal benefit. Jaafar et al. (2012) noticed that the nature of firm when top position dominated by family member, they tend to expropriation via remuneration.

Non-executive directors play a role in linking remuneration with board talent. However, lack of independent non-executive directors may become a major issue in the relationship between remuneration in family firms. An non-executive director has conflict of interest in order to provide better remuneration links with better remuneration among the family executive. This provides opportunity for family executive to increase remuneration to increase their wealth. Family firm mitigate effectiveness monitoring by non-executive directors in terms of director remuneration and leads expropriation.

Limitations of this study are related to the changing of ownership and may be not generalizable to others periods. Ownership refers to family firm which are influenced by the nature of the behaviour shareholders and stock traders. Furthermore, non-executive directors work at firm base on an appointed basic. The termination of non-executive directors may be not generalizable to others periods.

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