BOARD REMUNERATION, AGENCY COST, AND FIRM PERFORMANCE: A COMPARISON BETWEEN FAMILY AND NON FAMILY FIRMS IN MALAYSIA.

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BOARD REMUNERATION, AGENCY COST, AND FIRM PERFORMANCE: A COMPARISON BETWEEN FAMILY AND NON FAMILY FIRMS IN MALAYSIA

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This study examines the relationship between agency costs, board remuneration, and firm performance in family and non-family firms listed on Bursa Malaysia from 2014 to 2013. A total of 100 firms were analyzed, equally divided between 50 family-owned and 50 non-family-owned entities.

Overall, the study results are consistent with the expectation of the board of remuneration's impact on the firm's financial performance as it's positive and significant as measured by ROA, ROE, Tobin's Q and P/E Ratio. However, results for other variables were not consistent with the expectations made. Agency costs were found to be significant, but the overall impact was neither positive nor negative. While family ownership demonstrated an insignificant negative relationship with firm performance. Additionally, firm size showed a significant negative relationship with firm performance rather than the anticipated positive one. Firm leverage, meanwhile, showed a significant positive relationship, instead of a significant negative relationship with firm performance.

The study's findings are beneficial to investors, policymakers, and the governments of developing nations like Malaysia, by contributing to the creation of a suitable governance framework that will detail good corporate practices and well-designed remuneration packages. This will lead to the improved performance of firms listed in Malaysia and thus the economic development of the nation.

Keywords: Board of director's remuneration, Agency cost, Firm performance, Family ownership

Abstrak Disertasi Sarjana yang dibentangkan kepada Senat Universiti Putra

Malaysia bagi memenuhi keperluan ijazah Sarjana Kewangan

IMBUHAN LEMBAGA, KOS AGENSI DAN PRESTASI FIRMA: PERBANDINGAN ANTARA FIRMA KELUARGA DAN BUKAN KELUARGA DI MALAYSIA

Oleh

ABDULWAHID MAHADHI JUMA

Kajian ini mengkaji hubungan antara kos agensi, imbuhan lembaga pengarah, dan prestasi firma yang berasaskan pemilikan keluarga dan bukan keluarga yang disenaraikan di Bursa Malaysia dari 2014 hingga 2023. Sebanyak 100 buah firma telah dianalisis, dibahagikan sama rata iaitu 50 firma berasaskan pemilikan keluarga dan 50 firma bukan pemilikan keluarga.

Secara keseluruhannya, keputusan kajian adalah konsisten dengan jangkaan impak imbuhan lembaga pengarah terhadap prestasi kewangan firma yang menunjukkan keputusan positif dan signifikan seperti yang diukur melalui nisbah ROA, ROE, Tobin's Q dan nisbah P/E. Walau bagaimanapun, keputusan bagi pembolehubah lain tidak konsisten dengan jangkaan yang dibuat. Kos agensi didapati ketara, tetapi kesan keseluruhannya tidak menunjukkan kesan positif mahupun negatif. Manakala, pemilikan keluarga menunjukkan hubungan negatif yang tidak ketara dengan prestasi firma. Selain itu, saiz firma menunjukkan hubungan negatif yang signifikan dengan prestasi firma dan bukannya positif seperti yang dijangkakan. Penuilan firma pula menunjukkan hubungan positif yang signifikan dengan prestasi firma, bukannya hubungan negatif yang signifikan.

Hasil kajian ini bermanfaat kepada pelabur, penggubal dasar, dan kerajaan sesuai bagi negara membangun seperti Malaysia, dengan membawa kepada kewujudan rangka kerja dan tadbir urus yang baik melalui perincian amalan korporat dan pakej imbuhan lembaga pengarah yang direka bentuk dengan baik. Akhirnya, hasil kajian ini akan menyumbang kepada peningkatan prestasi firma yang disenaraikan di bursa Malaysia dan seterusnya menyumbang kepada pembangunan ekonomi negara.

Kata kunci: Imbuhan lembaga pengarah, Kos agensi, Prestasi firma, Pemilikan keluarga

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APPROVAL

This master dissertation was submitted to the Senate of Universiti Putra Malaysia and has been accepted as partial fulfilment of the requirement for the degree of Master of Finance.

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Date: February 2025

DECLARATION

I hereby confirm that this master dissertation is my original work except for the quotations, illustrations and citations which have been fully referenced. I also declare that this master dissertation has not been submitted previously and concurrently for any other degree at any other institutions.

Signature: ……..

Name: **ABDULWAHID MAHADHI JUMA**

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Date: February 2025

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter explains the research background, problem, objective, questions, and contribution/significance of the study.

1.2 Research Background

The Malaysian Code of Corporate Governance (MCCG) is a code of governance reported by the High-Level Finance Committee on Corporate Governance in 1998 to address the issue of the terrible performance of numerous firms during the 1997 Asian Financial Crisis (AFC). It was reported that this was due to the absence of corporate governance structures (Haniffa & Hudaib, 2006). Since 2002, all listed companies have been obligated to provide a compliance statement with MCCG and explain any deviations from MCCG. The MCCG addressed four main issues: the board of directors, directors' remuneration, shareholders, accountability, and audit.

Directors' remuneration refers to the compensation provided to members of a company's board of directors for their services or employment. This compensation may include fees, salaries, or access to corporate assets, as outlined in an agreement between the directors and the company. However, the amount of pay can be, at most, the amount set in the articles of organisation (AOA), as required by company law. When directors receive payments exceeding these limits or allocate a disproportionate share

of earnings to themselves instead of distributing it as dividends, stakeholders may take legal action against them.

Companies are generally prohibited from compensating directors for the loss of office without shareholders' approval. The board of directors typically comprises two categories: executive and non-executive directors. Executive directors, considered non-independent, are appointed based on specific operational responsibilities within the company, such as finance, administration, and operations. In contrast, non-executive directors are deemed independent because they do not engage in the company's day-to-day operations. Their primary role is to oversee the actions of the executive directors by chairing key board committees, including those related to compensation, audit, and nominations (Talha et al., 2009).

Effective firm management requires directors' remuneration to be enough to bring in and attract qualified directors. For executive directors, the compensation structure should align with both corporate and individual performance, ensuring that rewards are tied to achieving specific objectives. In contrast, the remuneration of non-executive directors should be appropriate for their expertise and the level of responsibility they assume. Companies must adopt a clear and well-defined process for creating executive remuneration policies and determining individual director compensation. Additionally, the remuneration of each director should be disclosed in the company's annual report to ensure transparency and accountability.

A substantial portion of executive directors' remuneration should correspond to rewards with corporate and individual performance outcomes. However, in family-owned

enterprises, this alignment proves challenging due to the unique dynamics inherent in such firms. These characteristics often create opportunities for remuneration manipulation to serve private interests, which can ultimately erode the wealth of minority shareholders.

Family-controlled firms represent the most prevalent form of corporation in numerous countries worldwide (Bhaumik & Gregoriou, 2010) and are particularly common in many Asian nations (Tam & Tan, 2007). In Malaysia, family ownership is incredibly dominant, with families serving as the primary blockholders in approximately two-thirds of publicly listed companies (Business Times, 2010). In addition to that, family ownership possesses distinctive characteristics that are believed to confer a competitive advantage and enhance firm performance (Habbershon et al., 2003). Families, as a unique class of large shareholders, exhibit an incentive structure and owner-manager motivation not typically found in other forms of large shareholders, such as institutional investors (Demsetz & Lehn, 1985). This distinction arises from the tendency of owner-managers in family firms to prioritise the transfer of wealth to future generations, fostering a longer-term commitment compared to non-family-owned firms, where engaged professional managers may adopt a more short-term approach. Additionally, family ownership can benefit firms significantly, with these advantages becoming more pronounced as ownership levels increase (Anderson & Reeb, 2003). Specifically, family ownership helps mitigate agency problems commonly associated with dispersed ownership structures while granting controlling families the capacity and the motivation to enhance firm efficiency and performance.

On the other hand, an increase in family ownership is also associated with a rise in the family's controlling (voting) power. Moores and Craig (2008) observed that family-owned firms often prefer to appoint family members to top management positions rather than engaging qualified external professionals driven by personal interests. Family members in key decision-making committees exert significant influence to serve their interests. As controlling shareholders, they possess both the "ability and inclination" to implement strategies and practices that may primarily benefit themselves, potentially at the expense of firm efficiency, overall performance, and the interests of minority shareholders (Young et al., 2008; Dharwadkar et al., 2000).

Filatotchev et al. (2005) observed that the link between ownership-related variables and firm performance can be shaped by differences in corporate and political contexts, legal systems, various disciplinary mechanisms, taxation policies, and accounting standards. That is why conducting a single-country study, in this case, Malaysia, offers the advantage of controlling for these country-specific factors. This approach reduces the risk of endogeneity issues that often arise in cross-country analyses, as it isolates ownership structure from other variables and institutional characteristics unique to each country.

1.3 Research Problem

Numerous studies globally have examined the performance differences between family-owned and non-family-owned firms (e.g., Ibrahim & Samad, 2011; Miller & Breton-Miller, 2006; Villalonga & Amit, 2006; Castillo & Wakefield, 2006; Anderson &

Reeb, 2003). However, research on this topic remains limited in many Asian countries, including Malaysia. Moreover, studies investigating the relationship between executive compensation and firm performance have yet to identify significant correlations consistently. Variations in agency conflict levels across firms and the differing effectiveness of external and internal monitoring mechanisms may contribute to these mixed findings. In addition, previous studies on the topic in Malaysia by Ab Razak & Palahuddin (2017) used annual reports data collected from Bursa Malaysia's database from 2005 to 2013. This study is a continuation of that study by incorporating annual reports data collected from Bursa Malaysia's database from 2014 to 2023. It thus seeks to address this gap by exploring the relationship between directors' remuneration and firm performance across different ownership structures in Malaysia for the past ten years.

1.4 Research Objectives

This study aims to examine the influence of corporate governance mechanisms, including directors' remuneration and proxies for agency problems/costs, on the performance of publicly listed firms in Malaysia. It will utilise recent data obtained from the annual reports on the Bursa Malaysia database over an extended period from 2014 to 2023. In particular, it will investigate the performance and corporate governance differences between family-owned and non-family-owned firms. Additionally, the study will assess the impact of control variables such as firm size and leverage on firm performance.

Hence, this study is conducted to attain the following objectives:

1. To examine the impact of director's remuneration on the performance of family-owned and non-family-owned firms listed in Malaysia.
2. To examine the impact of proxies for agency cost on the performance of family-owned and non-family-owned firms listed in Malaysia.
3. To examine the impact of firm size on the performance of family-owned and non-family-owned firms listed in Malaysia.
4. To examine the impact of leverage on the performance of family and non-family-owned firms listed in Malaysia.

1.5 Research Questions

The following research question(s) were developed to gain significant information to solve the problem and meet the objective of the study:

1. What is the effect of a director's remuneration on the performance of family-owned and non-family-owned firms listed in Malaysia?
2. What is the effect of agency cost on the performance of family-owned and non-family-owned firms listed in Malaysia?
3. What is the effect of firm size on the performance of family-owned and non-family-owned firms listed in Malaysia?
4. What is the effect of leverage on the performance of family-owned and non-family-owned firms listed in Malaysia?

1.6 Significance of the Study

This study will examine the effects of enhanced corporate governance mechanisms, particularly directors' remuneration, within Malaysian publicly listed firms, explicitly focusing on family-owned enterprises. Its goal is to make a substantial contribution by highlighting the critical role of corporate governance in ensuring financial reporting integrity and aligning the interests of the firm's management with those of its various stakeholders. Furthermore, this research will provide Malaysian regulators with valuable insights into the Malaysian Code of Corporate Governance (MCCG) regarding directors' remuneration and other governance attributes. This inquiry is crucial for stakeholders such as academics, investors, and regulators who argue that effective corporate governance is vital for enhancing market liquidity and fostering public and investor confidence in publicly listed Malaysian firms, particularly family-owned ones. Improved governance practices can lead to a lower cost of capital, which creates more investment opportunities with positive net present value (NPV), ultimately contributing to job creation, tax revenue, and broader societal benefits. This essential aspect of corporate governance should be considered, and this is one area in which this study will contribute to Malaysia.

1.7 Organisation of the Dissertation

This chapter offers a comprehensive introduction to the research study, outlining its scope and significance. Chapter 2 then presents a critical review of relevant scholarly literature, providing a robust theoretical and empirical foundation that informs the development of the study’s conceptual framework. Chapter 3 details the methodological

approach, describing the research design, data collection, and analytical techniques employed. Following the implementation of the empirical analysis, Chapter 4 presents the findings and their interpretation within the context of the study's objectives. Finally, Chapter 5 offers concluding remarks, summarizing key insights and implications while highlighting potential avenues for future research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, there will be an explanation of the various theoretical justifications used in the study along with the hypothesis developed for this study.

2.2 Theoretical Justifications (Theoretical Framework)

This study aims to establish the relationship between corporate governance mechanisms, including directors' remuneration and proxies for agency problems/costs, and the performance of publicly listed firms in Malaysia. To do that, it has employed two organisational theories: agency theory and stakeholder theory.

Agency Theory

The term Agency theory (Jensen & Meckling, 1976) implies that there should exist a direct link between the strength of a firm's governance structures and the firm's corporate financial performance. This theory argues that managers and investors always have a potential conflict of interest due to the separation of ownership from control. In order to protect their interests, the investors opt to elect the board of directors who are in charge of monitoring and controlling the management actions to ensure that they align with the shareholder's interests. This is implemented with the presumption that better control will lead to improved long-term performance of the company and thus bring value to the shareholders.

In the context of family-owned firms, there is a tendency to prioritise positions for family members over engaging highly qualified managers, even when those family members may lack the necessary skills to effectively manage the business (Moores & Craig, 2008). Family members on decision-making committees can exert considerable influence and may leverage remuneration practices to serve their interests. Non-executive directors, appointed by family members themselves, have limited authority to challenge or oppose decisions made by these family members. This dynamic can steer family groups away from a profit-maximisation focus toward pursuing personal wealth. While such practices may not violate regulations, as the family owns the firm and has the right to appropriate higher remuneration, this situation persists as long as it does not present risks to the firm (Yatim, 2012). Consequently, an agency problem arises, intensifying the conflict between majority and minority shareholders (Jiang & Peng, 2010). Therefore, implementing effective remuneration practices is crucial for encouraging majority shareholders to align their personal interests with the broader objectives of the firm.

Consequently, agency theory posits that aligning interests between shareholders and directors should result in reduced directors' remuneration, as excessive compensation and perks can negatively impact the firm's market value. Remuneration packages and benefits are deemed excessive, notably when not correlated with performance outcomes.

Stewardship Theory

Stewardship theory posits that managers act as stewards of the organisation, deriving greater satisfaction from pro-organisational and collectivistic behaviours rather than individualistic and self-serving actions, as suggested by agency theory (Jaskiewicz & Klein, 2006). Research has shown that when ownership is high and owned by a few, the costs and benefits are predominantly shouldered by the same owner (Demsetz & Lehn, 1985). This leads to an increased entrenchment of family wealth within the business, which heightens families' concern for the firm's survival due to the lack of complete diversification of risks. Thus, families have a solid motivation to monitor management performance closely. Furthermore, monitoring costs are generally lower in family-controlled firms than in non-family firms (Fleming et al., 2005; Fama & Jensen, 1983). As a result, controlling shareholders are likely to align their interests with those of minority shareholders (Schulze et al., 2001), which mitigates potential exploitative behaviour by agents toward principals, reduces agency costs, and ultimately enhances firm performance (Jensen & Meckling, 1976).

2.3 Hypothesis Development

Drawing on the rationale presented in the existing literature, this study formulates four sets of hypotheses (H1 – H5) to address the four primary themes: the effects of board remuneration, agency costs, ownership structure, firm leverage, and firm size on firm efficiency and performance. A substantial body of literature discusses the advantages of various performance measures. In alignment with these studies, this research employs accounting-based and market-based performance metrics. Consequently, the principal

performance indicators utilised in this investigation include return on assets (ROA), return on equity (ROE), Tobin's Q, and stock returns.

Director Remuneration

Numerous empirical studies have explored the relationship between directors' remuneration and firm performance, often finding a positive correlation between compensation and company outcomes (Merhebi et al., 2006; Kato & Kubo, 2006; Jensen & Murphy, 1990). Performance-based compensation plays a crucial role in aligning the interests of directors and shareholders, thereby coincidentally reducing agency costs. In Malaysia, Yatim (2012) analysed a cross-section of 428 family firms listed on Bursa Malaysia for the financial year 2008, identifying a significant positive relationship between directors' remuneration and firm performance. Yatim suggests that family firms utilise remuneration as a tool to empower and motivate the board to achieve organisational objectives. Similarly, Hassan et al. (2003) and Sim (2004) reported a positive, albeit weaker, relationship between remuneration and firm performance.

Other studies, however, gave different results. Several studies, including those by Fernandes (2008) and Randoy and Nielsen (2002), found no significant association between executive compensation and firm performance. Additionally, Abdullah (2006), in his examination of poorly performing firms in Malaysia, identified a negative and significant relationship between directors' remuneration and the firm's prior profitability, suggesting that higher compensation may not always align with improved financial outcomes.

Despite extensive research on agency costs, there remain uncertainties regarding the effectiveness of various incentives in shaping managerial performance and determining the most effective structure of directors' remuneration to enhance firm performance. As discussed earlier, prior studies have not consistently identified significant relationships between executive remuneration and firm performance. This raises an intriguing opportunity to investigate further the link between directors' compensation and company performance. From the lens of agency theory, incentive schemes are believed to improve managerial efficiency, and an ideal compensation structure is considered a potential solution to the principal-agent conflict. Therefore, this study proposes the following hypothesis:

Hypothesis one (H1): *There is a positive significant relationship between the remuneration of directors and the firm's performance.*

Agency Cost

Stiglitz (1992) highlighted that the presence of imperfect information in principal-agent relationships can give rise to agency problems. Similarly, Reihelstein (1992) posited that such issues often emerge when agents typically managers or directors are inadequately compensated by principals, such as shareholders. These challenges are further intensified by the misalignment of personal interests between principals and agents. These findings align with the foundational perspectives of agency theory advanced by Jensen and Meckling (1976) and expanded upon by Stiglitz (1992), emphasizing the inherent conflicts found in principal-agent relationships.

Fundamentally, corporate governance mechanisms serve as essential tools to address agency costs arising from the separation of ownership and control, as discussed by Fama (1980), Fama and Jensen (1983), and Jensen and Meckling (1976). These agency costs frequently manifest as wealth expropriation, where corporate insiders exploit the firm's resources for personal gain, often to the detriment of external investors. Wealth expropriation, a core issue within agency theory, can take various forms, including transfer pricing, asset stripping, shareholder dilution, excessive executive remuneration, misappropriation of corporate opportunities, and the appointment of unqualified family members to management positions (Jensen & Meckling, 1976; Johnson et al., 2000). These persistent challenges highlight the necessity of effective corporate governance frameworks to safeguard the interests of shareholders and ensure managerial accountability.

According to Agency theory, the shareholder's sole aim is to maximize wealth through improved corporate performance and delegate authority to the board of directors to oversee the company on their behalf. Consequently, the board of directors carries the fiduciary responsibility to achieve the firm's goals, optimize operational performance, enhance shareholder value, and safeguard the interests of shareholders. However, directors' decision-making and efforts are often shaped by self-interest, serving as a key driver of their actions. With regards to this study, as per agency theory, shareholders are conceptualized as the "principals" and the board of directors as their "agents," as described by Conyon and Mallin (1997). The difference of interests between principals and agents has significant implications for the efficiency of a firm's operations and hence, resolving such conflicts is crucial to ensuring that operational disruptions are

minimized and the firm's performance remains unaffected. Jensen and Meckling (1976) further argued that such conflicts can be alleviated through effective monitoring, wherein owners oversee managerial actions to ensure alignment with shareholder objectives. Furthermore, Rizal Adhira and Viverita (2015) emphasized that firm performance plays a pivotal role in aligning the interests of owners and managers, serving as a critical mechanism to mitigate agency problems between shareholders and management. Together, these perspectives highlight the importance of performance-based incentives with effective governance structures in minimizing agency problems and enhancing organisational efficiency.

All of these concepts indicate, that for a company to improve its performance, shareholders must compensate the board of directors sufficiently enough for them to be motivated and work in the interest of the shareholders. Hence firm must increase its operating expenses inclusive of monitoring costs such as board remuneration costs and others, which translates to an increase in agency costs for them to have better performance. Therefore, this study proposes the following hypothesis:

Hypothesis two (H2): *There is a positive significant relationship between the agency cost and the firm's performance.*

Family Ownership

Family ownership is the proportion of shares held by family directors relative to the total number of shares issued by the firm. A firm is classified as a family-owned entity when

the family holds at least 20% of the issued shares. This measurement approach has been employed in previous studies, including those by Andres (2008), Achmad et al. (2009), Chu (2009), and Lin and Chang (2010). Andres (2008) argues that family ownership in Germany represents an efficient ownership structure, as firms with family ownership tend to outperform those with dispersed ownership and other ownership models.

In a study conducted in Malaysia, Ibrahim and Samad (2011) observed that, on average, family-owned firms exhibited higher values compared to non-family-owned firms when measured by return on equity (ROE). However, when assessed using Tobin's Q and return on assets (ROA), the value of family-owned firms was found to be lower than that of non-family firms. Similarly, Haniffa and Hudaib (2006) reported that greater ownership concentration was associated with improved accounting performance among listed firms. However, they did not find significant evidence of a relationship between managerial ownership and market-based performance.

The preceding discussion highlights that empirical studies examining the relationship between family ownership and firm performance across various countries have produced divergent results. A fundamental explanation for these differences is that firms operate within unique cultural, legal, enforcement, and institutional contexts specific to each country, which can significantly influence the ownership-performance relationship (Filatotchev et al., 2005; Joh, 2003). In light of the inconsistent findings in prior research, investigating this relationship within the Malaysian context presents a compelling avenue for further study. Therefore, the second hypothesis is proposed as follows:

Hypothesis three (H3)*: There is a positive significant relationship between family ownership and a firm's performance.*

Firm Leverage

Stulz (1990) and Jensen (1986) contend that debt financing is pivotal in limiting managerial discretion over free cash flow by imposing the obligation of periodic interest and principal repayments. This constraint discourages management from utilising free cash flow for suboptimal activities, such as unnecessary diversification. Grossman and Hart (1982) further argue that debt compels managers to reduce consumption of perks and operate more efficiently to avoid bankruptcy, loss of control, and reputational damage. Moreover, debt financing can enhance managerial performance and reduce the cost of external capital (John & Senbet, 1998). In essence, debt introduces greater monitoring by creditors, which can have a positive disciplinary effect on firm performance.

However, excessive leverage can lead to a substantial burden from high-interest obligations, adversely impacting a firm's performance. Companies with significant debt levels may experience an elevated stock beta, indicating increased financial risk. Furthermore, debt can intensify conflicts of interest regarding risk and return between creditors and equity holders, which may influence the market value of the firm's stock and subsequently affect its market-based performance, as measured by metrics such as Tobin's Q.

Margaritis and Psillaki (2008) examined the interplay between efficiency, leverage, and ownership structure by analysing a sample of French firms from both low- and

high-growth sectors. Their findings revealed a positive relationship between efficiency and leverage; however, this effect is significant primarily at low to moderate levels of leverage.

In a study conducted in Malaysia, Ibrahim and Samad (2011) observed that family-owned firms tend to utilise less debt; however, they do not demonstrate a distinct approach to debt utilisation compared to non-family firms. In a separate study, Zeitun and Tian (2007) analysed the impact of capital structure on the corporate performance of Jordanian firms. They concluded that a firm's capital structure significantly negatively affects various performance metrics. Given that debt can exacerbate conflicts of interest regarding risk and return between creditors and equity holders, we propose the following hypothesis:

Hypothesis four (H4): *There is a significant negative relationship between a firm's leverage and a firm's performance.*

Firm Size.

Company size is a crucial determinant of directors' remuneration and overall corporate performance. Previous research indicates that firm size often correlates with organisational complexity, suggesting that larger firms typically have more board directors and tend to offer higher compensation packages (Herdan & Szczepańska, 2011). Additionally, Rosen (1982) found that even minor differences in CEO quality can substantially impact larger firms, leading them to seek out top-tier directors to enhance their organisational effectiveness. Consequently, larger companies are inclined to offer more lucrative remuneration packages to attract and retain the best CEOs. Supporting

this, Jensen and Murphy (1990) also demonstrate that CEOs in larger firms generally receive higher compensation.

According to Ghosh, 1998, larger firms, on average, tend to exhibit superior performance due to their ability to diversify risks effectively (Ghosh, 1998). Additionally, they attract greater scrutiny from various stakeholders, such as analysts, increasing the pressure to perform well. Larger firms also possess greater market power, which contributes to enhanced performance. Empirical studies, such as those by Yatim (2012) and Haniffa and Hudaib (2006), have consistently found a positive and significant relationship between firm size and performance. These findings suggest that large firms benefit from economies of scale and scope, further strengthening their competitive advantage and operational efficiency.

However, some researchers argue that larger firms may be less efficient than smaller firms due to the diminished control senior management exercises over strategic and operational decisions as the firm size expands. Nenova (2003) suggests that larger firms face greater external scrutiny, making it more costly for controlling families to extract personal gains. Conversely, smaller firms tend to be more agile, creative, and innovative, enabling them to adapt swiftly and improve corporate value (Hannan & Freeman, 1989). While the literature acknowledges that firm size affects performance, the overall impact remains ambiguous. Consequently, the following hypothesis is proposed:

Hypothesis five (H5): *There is a significant positive relationship between a firm's size and a firm's performance*

2.4 Chapter Summary

This chapter reviews the relevant literature that supports this study. It explains the key theories used, Agency Theory and Stewardship Theory, and how they relate to board remuneration, agency costs, and firm performance. Furthermore, it explores how these theoretical perspectives contribute to the development of the five research hypotheses proposed in this study. The next chapter describes the research methods, including the researcch design, data collection process, and analysis techniques used to examine these relationships.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

In this chapter, there will be a discussion on the research methodology applied in this study. Data collection and data analysis, mostly explain on sources of data, data covered and methods used for analysis. This research will use secondary data.

Research Approaches and Research Design (Qualitative Research).

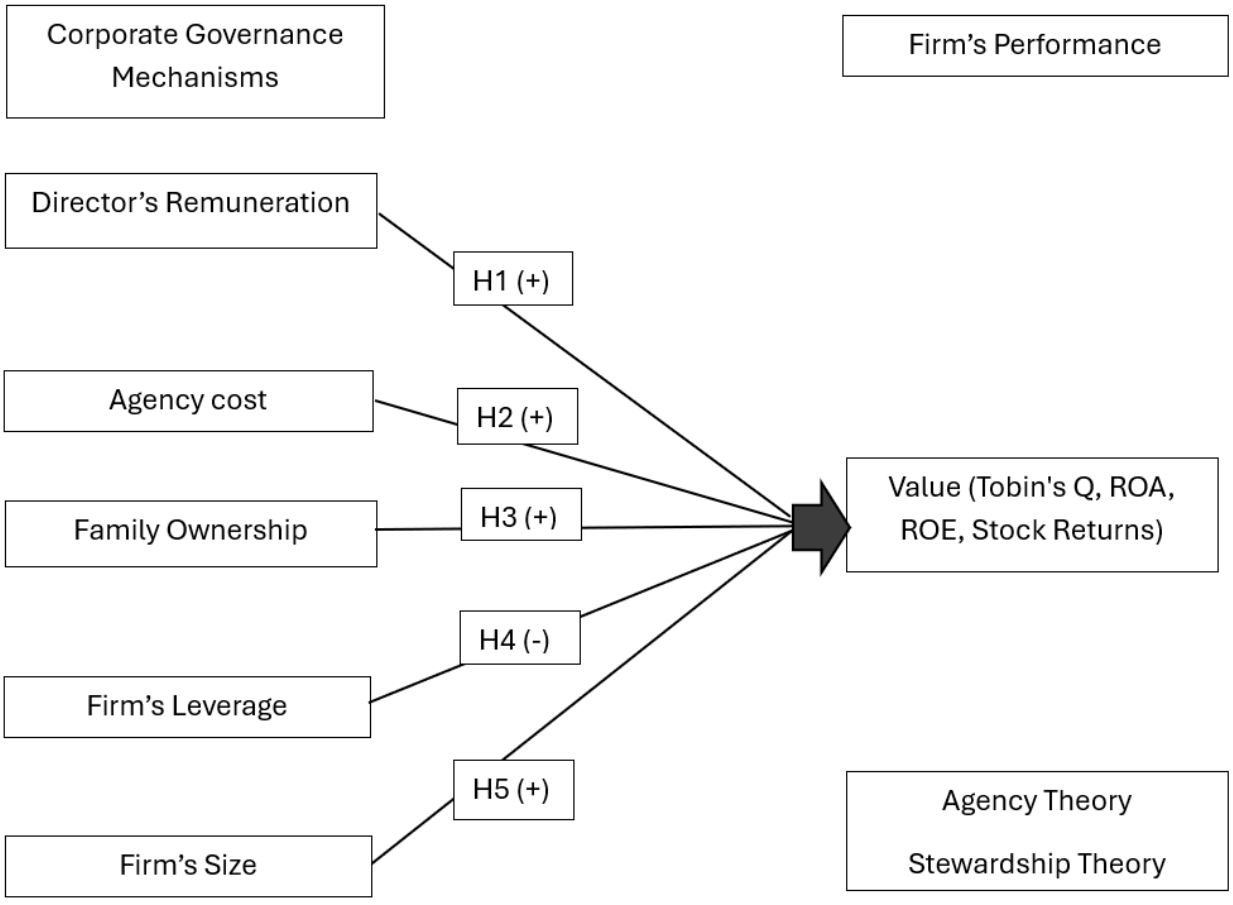

Figure 1: Research Framework

3.2 Sources of Data

This research employs a quantitative methodology, utilising secondary data sourced from firms' annual reports data collected from Bursa Malaysia's database from 2014 to 2023. To ensure the validity of the sample and mitigate the effects of outliers or abnormal factors, specific exclusion criteria were established.

1. Data Continuity Requirement: To ensure data reliability, firms that failed to provide uninterrupted annual reports from 2014 to 2023 were excluded from the sample.

2. Minimum Listing Duration: Companies with less than three years of listing were removed to minimise any potential bias stemming from the short duration of their public trading history on performance outcomes.

These criteria ensure a robust and comparable sample for analysis. The exclusion criteria outlined above align with the methodologies of prior research in this domain, notably, the study conducted by Amran and Che-Ahmad (2009). Consequently, this investigation utilised a sample comprising 100 Malaysian firms listed on Bursa Malaysia, evenly divided between 50 family-owned and 50 non-family-owned firms, covering a decade from 2014 to 2023. This time frame was selected to extend the findings of previous research by Ab Razak & Palahuddin (2017), which examined the effects of board remuneration, agency costs, and firm performance in family versus non-family firms in Malaysia, based on data from 2005 to 2013.

This study also included controlled variables and the usual dependent and independent variables, as explained below.

Dependent Variables

This study employs both accounting-based and market-based performance measures. Accounting measures include Return on Assets (ROA), calculated as the ratio of net income to total assets, and Return on Equity (ROE), the ratio of net income to shareholders' equity. The study utilises two market measures to assess shareholder wealth: Tobin's Q and stock returns. Tobin's Q is calculated as the ratio of market capitalisation plus total debt to total assets, a widely recognised proxy for company performance (Ibrahim & Samad, 2011; Sraer & Thesmar, 2006; Haniffa & Hudaib, 2006; Anderson & Reeb, 2003). Stock returns are measured as the difference between the current and previous stock prices, plus current dividends per share, divided by the current stock price. Stock returns have been extensively used as a performance indicator in studies by Antunovich et al. (2000), O'Hara et al. (2000)

Independent Variables

In this study, family ties are defined as encompassing both blood relatives and in-laws. Family ownership is measured as the fraction of equity held by family members, with a threshold of at least 20% ownership. The ownership and control data are manually collected from the "Analysis of Shareholdings" section in company annual reports, in accordance with the substantial shareholder disclosure requirement outlined in Section 69D(1) of the Companies Act 1965. This section mandates the disclosure of shareholders holding more than a 5% equity stake in a firm, whether directly or indirectly. The annual reports provide details on the names of substantial shareholders and their direct and indirect shareholdings, facilitating the identification and classification

of family and non-family ownership. This method of data collection has been validated by prior research (Ibrahim & Samad, 2011; Sraer & Thesmar, 2006; Anderson & Reeb, 2003)

Control Variables

Firm size is operationalised using the book value of total assets in alignment with prior research methodologies (Jaafar & James, 2013; Amran & Che-Ahmad, 2009; Ibrahim et al., 2008; Anderson & Reeb, 2003). To address the positive skewness in the distribution of firm size, a log transformation was applied to the variable. Leverage is measured by the ratio of total debts to total assets, consistent with approaches used by Jaafar and James (2013) and Anderson and Reeb (2003).

3.3 Subjects of Study

This study aims to examine the influence of corporate governance mechanisms, including directors' remuneration, and proxies for agency problems/costs, on the performance of publicly listed firms in Malaysia, utilising recent data obtained from the annual reports on bursa Malaysia database over an extended period from 2014 to 2023. In particular, it will investigate the differences in performance and corporate governance practices between family-owned and non-family-owned firms. Additionally, the study will assess the impact of control variables such as firm size and leverage on firm performance.

3.4 Population

A target population can be defined as a group of subjects who have the characteristics studied in the research question being studied (Lohr, 2009). The main objective of this study is to examine the impact of these corporate governance mechanisms on the performance of family-owned and non-family-owned firms listed in Malaysia. Therefore,

the population will include all the family-owned and non-family-owned firms listed in Malaysia from 2014 to 2023.

3.5 Sampling Techniques

The sampling technique that will be employed in this study is simple random sampling. After meeting the exclusion criteria outlined above, the family-owned and non-family-owned firms were randomly selected for this study to make up the requested sample size.

3.6 Sampling Size

This study will utilise a sample comprising 100 Malaysian firms listed on the Bursa Malaysia database/website, with 50 family-owned and 50 non-family-owned firms to be selected. The data collected from these firms will be sufficient, and representative of all the firms listed in Malaysia, and hence, the findings of the relationship between these corporate governance mechanisms and the performance of family-owned and non-family-owned firms listed in Malaysia will be relevant.

3.7 Research Hypothesis

For this study, the following hypotheses were formulated.

Hypothesis one (H1): *There is a positive significant relationship between the remuneration of directors and the firm's performance.*

Hypothesis two (H2): *There is a positive significant relationship between the agency cost and the firm's performance.*

Hypothesis three (H3): *There is a positive significant relationship between family ownership and a firm's performance.*

Hypothesis four (H4): *There is a significant negative relationship between a firm's leverage and a firm's performance.*

Hypothesis five (H5): *There is a significant positive relationship between a firm's size and a firm's performance.*

3.8 Data Collection Tools

The tool used to collect data will be the Bursa Malaysia database/website, where all the listed annual reports of family-owned and non-family-owned firms will be analysed to obtain and calculate corresponding values of board remuneration, ownership structure, firm leverage and firm size as well as both accounting-based and market-based performance metrics of return on assets (ROA), return on equity (ROE), Tobin's Q, and stock returns in studying how these corporate governance mechanisms on the performance of family-owned and non-family-owned firms listed in Malaysia.

3.9 Statistical Analysis Tools

EViews version 12 is the data analysis tool selected for this study. After the data has been collected, it will be processed and then analysed using EViews, which will carry out a list of tests, including panel-based multivariate regression analysis, to investigate the effects of family control mechanisms on firm performance, utilising accounting and market-based measures. Accounting performance is assessed through the proxies of Return on Assets (ROA) and Return on Equity (ROE). In contrast, market performance is captured using Tobin's Q and Stock Returns as critical indicators.

In addition, the hypotheses presented in this study will be tested through multiple regression analysis, which incorporates both cross-sectional and time-series data to assess the impact of board mechanisms on the performance of publicly listed companies in Malaysia. The regression models used are aligned with those employed by Abdullah (2006) and Hassan et al. (2003). Multiple regression is selected as the primary analytical tool due to its widespread use in relational research and its suitability for analysing the relationship between a single metric-dependent variable and multiple independent variables (Hair et al., 2010). Additionally, autocorrelation issues are not a concern since the data are cross-sectional. This method has been commonly applied in previous studies on corporate governance mechanisms, including those by Claessens et al. (2006), Anderson and Reeb (2003), and Khanna and Palepu (2000).

From the EViews, the regression model generated is as follows:

$$VALLUE = \boldsymbol{\alpha} + \boldsymbol{\beta}_1 FAM + \boldsymbol{\beta}_2 DR + \boldsymbol{\beta}_3 AC + \boldsymbol{\beta}_4 SIZE + \boldsymbol{\beta}_5 LEV + \varepsilon it$$

Where;

VALUE = A measure of the firm's performance

α	= Intercept (has constant value)
β_1- β_5	= Coefficient slope
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)
AC	= Agency cost proxy: Total Expenses/Sales
SIZE	= Ln (Total Assets)
LEV	= Total Debt/Total Assets
εit	= Error term

Note:

Value = Tobin's Q, defined as the market value of ordinary shares plus the book value of preferred shares and debt, divided by the book value of total assets. Stock Returns are

calculated as the current stock price minus the previous price plus the current dividend per share divided by the current stock price. Return on Assets (ROA) represents the ratio of net income to total assets. Return on Equity (ROE) is calculated as the ratio of net income to shareholders' equity. Both ROA and ROE are employed as accounting-based performance measures.

3.10 Chapter Summary

This chapter provides a thorough and detailed account of the research methodology employed in this study. It elaborates on the qualitative aspect of the research, as well as the measurement of dependent, independent, and control variables. In addition, the chapter explains the statistical techniques and procedures utilized to analyze the data and test the hypotheses, offering a comprehensive overview of the research design, data collection methods, and analytical strategies adopted to address the research questions.

CHAPTER 4

DATA ANALYSIS AND RESULTS

4.1 Introduction

This chapter presents the findings and data from the study, which were analysed with IBM SPSS Statistics software version 26. The questions asked in Chapter One are answered through the analysis performed. This chapter analyses the data sourced from firms' annual reports data collected from Bursa Malaysia's database from 2014 to 2023. The number of firms totalled 100 publicly listed companies which comprised 50-family-owned firms and 50 non-family-owned firms. Furthermore, this chapter presents the analysis of the statistical test in terms of the techniques and procedures used to understand the nature of the data and hypothesis test. The analyses discussed in their respective order, include Descriptive, Correlation and multivariate regression analyses.

4.2 Descriptive Statistics-Analysis

Table 1 below provides descriptive statistics for the variables used in the study. It shows the range, minimum, maximum, sum, mean, standard deviation, variance and kurtosis of the total 100 firms that will be observed in this section for the sample interval of a 10-year period from 2014 to 2013. Hence, the total observations for this section are 1,000 (firms multiplied by years).

Table 1 shows the maximum value of ROA (ROE) is 0.7540 (10.0708) whereas the lowest value is 0.00 (0.00). The distribution of the statistics is centred at the value of

0.058356 (0.162062) with a standard deviation of 0.0724991 (0.4487235) and a Variance of 0.005 (0.201). The kurtosis for the ROA variable is 24.867 meanwhile the skewness for ROE is 257.105.

For the market measurements, Tobin's Q (P/E ratio) maximum and minimum variables are 15.0677 (1562.6555) and 0.00 (0.00) respectively. While the mean, standard deviation, variance and kurtosis variables are 1.446532 (27.624709), 1.6094997 (71.0368103), 2.59 (5046.228), 25.458 (242.798) respectively.

Regarding, the board's remuneration (BR) has a range variable value of 8,5276,735.6413 RM. The statistics show that the average BR is about 1,381,505.924263 RM while the standard deviation and variance for the BR variable are 4,583,831.6979484 RM and 210,1151,303,5116.3 respectively. Besides that, the BR variable has a kurtosis value of 175.218.

Meanwhile, in terms of the firm's leverage, the maximum value of the FL is 1.4776. Most of the firm's leverage was 0.45922, which indicated that most firms relied heavily on debt to finance their operations, and almost half of their capital came from debt. Meanwhile, the kurtosis for the firm's leverage was -0.177.

The statistics show that the average Firm's size is about 37,282,748,835.943 RM (with a maximum value of 10,27674,619,000. RM). The standard deviation and variance for the Firm's size are 113,917,198,078.777 RM and 12,977,128,018,119,500,000,000.00 respectively. Besides that, the Firm's size variable has a kurtosis value of 29.572.

As for the Agency cost variable (AC), it has a range value of 2.5649. The mean score for the Agency cost variable is 0.849568. The table also clearly illustrates that the Agency cost variable has a standard deviation of 0.205028 and a variance of 0.042. By the way, the kurtosis value for Agency cost variable is 11.844

Finally, the last descriptive statistic is the family ownership (Fam) variable. The Fam variable has a maximum and minimum value of 1 and 0, respectively. The mean score for the Family ownership variable is 0.5000. Meanwhile, the standard deviation and variance for the Fam variable are 0.5 and 0.25 respectively and the kurtosis value of -2.00

Table 1: Descriptive Statistics

Descriptive Statistics	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance	Kurtosis
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic
ROA	1000	0.754	0	0.754	0.058356	0.0724991	0.005	24.867
ROE	1000	10.0708	0	10.0708	0.162062	0.4487235	0.201	257.105
TOBIN'S Q	1000	15.0677	0	15.0677	1.446532	1.6094997	2.59	25.458
P/E Ratio	1000	1562.6555	0	1562.6555	27.624709	71.0368103	5046.228	242.798
Board Remuneration (BR)	1000	85,276,735.64	0	85,276,735.64	1,381,505.92	4,583,831.70	21,011,513,035,116.30	175.218
Agency Cost (E/R)	1000	2.5649	0	2.5649	0.849568	0.205028	0.042	11.844
Firm Size (FS)	1000	1,027,674,619,000.00	0	1,027,674,619,000.00	37,282,748,835.94	113,917,198,078.78	12,977,128,018,119,500,000,000.00	29.572
Firm's Leverage (FL)	1000	1.4776	0	1.4776	0.45922	0.2458248	0.06	-0.177
Dummy "1" or "0"	1000	1	0	1	0.5	0.5	0.25	-2.004
Valid N (listwise)	1000							

4.3 Correlation Analysis

The results of the Pearson correlation matrix for Malaysian publicly listed firms are reported in Table 2. The correlation matrix is used to explore the strength of the relationship between two variables. The findings in Table 2 suggest that there is a strong negative relationship between ROA and Firm Size (FS) and Family ownership (FO) at 1% and Firm leverage at 5% with R-values of -0.211, -0.097 and -0.063. These results show that an increase in the firm size (total number of assets owned by the firm), as well as an increase in the firm's leverage (debt,) decreases the ROA of the firm. It also shows that non-family firms on average earn a high ROA compared to family-owned firms.

In terms of ROE, it is shown to have a positive correlation with Board remuneration (BC) (r=0.137), at a 0.01 level of significance, which represents that a higher level of director remuneration will improve the performance of the company. Also, there is a strong positive correlation between ROE and a firm's leverage (r= 0.261) at a 1% significance level, which describes that firms with a high level of debt are likely to increase their ROE performance as well. In addition to that, there is a strong positive correlation between ROE and AC (r= 0.116) at a 1% significance level. This indicates that firms with higher levels of AC will increase the firm's performance (ROE). Meanwhile, there is a strong negative correlation between ROE and family ownership (FO) (r=-0.129) at 1% significance level. These results show that non-family perform far better in terms of their ROE compared to family-owned firms.

In terms of market performance, i.e. Tobin's Q and P/E ratio. Table 2 shows that Tobin's Q has a strong positive correlation with Board remuneration (BR) and Firm leverage (FL) at a 1% significance level with R-values of 0.209 and 0.122 respectively. The results show that firms which pay a high amount of board remuneration will increase their market performance (Tobin's Q). This also applies to firms with high levels of debt, that is to say, an increase in the firm's leverage will lead to the high market performance (Tobin's Q) of the firms. Meanwhile, there is a strong negative correlation between Tobin's Q and both Agency cost (AC) and family ownership with r-values of -0.158 and 0.-147 at a 1% significance level. This shows that firms with high levels of AC will encounter worse performance performance (Tobin's Q). In addition to that non-family owned companies tend to perform worse as measured by their market performance (Tobin's Q) compared to family-owned firms.

P/E has a strong negative correlation with the Firm's leverage (FL) (r=-0.095) at a 1% significance level. This explains that firms with a lower level of debt will have a higher P/E ratio, as the firms have a better market performance. At the same time, Table 2 shows that there is no significant relationship between P/E and Board remuneration, Agency cost, Firm size and Family ownership.

The findings also suggest that there are strong positive significant relationship between Board remuneration and Firm size and Firm's leverage with r-values of 0.628 and 0.401 respectively at a 1% significance level. This describes that firms with higher size (total assets) pay higher Board remuneration to monitor these assets. It also describes that firms incur huge debts to pay for board remuneration. However, there is a strong negative significant relationship between Board remuneration and Agency cost and family ownership with r-values of -0.274 and -0.496 at a 1% significant level. This implies that higher agency costS decrease the board remuneration paid by the firms. It also shows that non-family firms pay higher board remuneration costs compared to family firms.

For Agency costs, the findings also show that it has a strong negative correlation with both Firm size and Firm's leverage with r-values of -0.318 and -0.225 at a 1% significance level. This shows that firms with huge and highly leveraged firms tend to decrease their agency cost. However, the findings show that agency cost has a strong positive relationship with Family ownership with an r-value of 0.184 at a 1% significance level. This indicates that family-owned firms tend to incur more agency costs than non-family owned firms.

For firm size, the findings showed that it had a strong significant positive and negative correlation to the firm's leverage and family ownership respectively with r-values of 0.574 and -0.372 respectively at a 1% significance level. This showed that firms may take more debt to finance their assets as they increase their business activities. At the

same time, it showed that non-family firms tend to have a larger firm size than non-family firms. This is reflected by non-family owned firms operating huge business activities compared to non-family firms.

The findings for firm leverage show a strong negative correlation with family ownership with an r-value of -0.348 at a 1% significance level. This demonstrates that non-family owned firms are highly leveraged compared to family-owned firms. This is reflected by these non-family owned firms operating huge businesses, having a ton of assets as compared to family-owned companies, all of which often require huge sources of capital to finance them, hence they take up more debt in terms of loans from banks and other financial institutions.

Table 2. Pearson Correlation Matrix

Correlations		ROA	ROE	TOBIN'S Q	P/E Ratio	Board Remuneration (BR)	Agency Cost (E/R)	Firm Size (FS)	Firm's Leverage (FL)	Dummy "1" or "0"
ROA	Pearson Correlation	1	.615**	.721**	-.121**	0.041	-0.007	-.211**	-.063*	-.097**
	Sig. (2-tailed)		<.001	<.001	<.001	0.198	0.813	<.001	0.045	0.002
	N	1000	1000	1000	1000	1000	1000	1000	1000	1000
ROE	Pearson Correlation		1	.441**	-0.055	.137**	.116**	0.013	.261**	-.129**
	Sig. (2-tailed)			<.001	0.083	<.001	<.001	0.679	<.001	<.001
	N			1000	1000	1000	1000	1000	1000	1000
TOBIN'S Q	Pearson Correlation			1	0.043	.209**	-.158**	-0.04	.122**	-.147**
	Sig. (2-tailed)				0.173	<.001	<.001	0.208	<.001	<.001
	N				1000	1000	1000	1000	1000	1000
P/E Ratio	Pearson Correlation				1	0.061	0.055	0.024	-.095**	0.052
	Sig. (2-tailed)					0.056	0.082	0.448	0.003	0.098
	N					1000	1000	1000	1000	1000

Board Remuneration (BR)	Pearson Correlation					1	-.274**	.628**	.401**	-.496**
	Sig. (2-tailed)						<.001	<.001	<.001	<.001
	N						1000	1000	1000	1000
Agency Cost (E/R)	Pearson Correlation						1	-.318**	-.225**	.184**
	Sig. (2-tailed)							<.001	<.001	<.001
	N							1000	1000	1000
Firm Size (FS)	Pearson Correlation							1	.574**	-.372**
	Sig. (2-tailed)								<.001	<.001
	N								1000	1000
Firm's Leverage (FL)	Pearson Correlation								1	-.348**
	Sig. (2-tailed)									<.001
	N									1000
Dummy "1" or "0"	Pearson Correlation									1
	Sig. (2-tailed)									
	N									

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

4.4 Multivariate Regression Analysis

Regression analysis is a key statistical method used to explore how a dependent variable is influenced by one or more independent variables. The process starts by developing a theoretical model, where estimated parameters help build and refine the regression equation. To ensure the model is reliable and accurate, several tests are performed to check its validity. If the model passes these tests, the final regression equation can be used to predict the dependent variable based on given values of the independent variables.

4.4.1 Board Remuneration, Agency Cost, And Firm Performance Of Firms (Family-Owned & Non-Family Owned) In Malaysia

Table 3, Table 4, and Table 5 present the multivariate regression results for agency cost and board remuneration with the performance of firms while Table 6 shows the results summary of the agency cost, board remuneration and firm's performances. Table No: Coefficients show the association between agency cost, board remuneration, and firm's performances (ROA, ROE, Tobin's Q and P/E ratio) along with the controlled variables of the study. The model is significant ($p < 0.01$); ($p < 0.05$); ($p < 0.10$) with an adjusted R-square of 10.7% in ROA, 14% in ROE and 13.4% in Tobin's Q and 2.7% in P/E Ratio. This study formulated the hypothesis that 1. There is a positive significant relationship between the remuneration of directors and the firm's performance 2. There is a positive significant relationship between family ownership and a firm's performance and 3. There is a negative significant relationship between agency cost and the firm's performance. It

also has other control variables such as firm size and firm leverage studied, to see how they are likely to influence the firm's performance.

The regression results in Table 3, show that there is a positive and significant relationship between board remuneration and the financial performance of firms as measured by Return on Asset (ROA) (coefficient 0.222; t-test 5.369; $p < 0.01$), Return on Equity (ROE) (coefficient = 0.19; t-test 4.69: $p < 0.01$), Tobin's Q (coefficient 0.336; t-test 8.246; $p < 0.01$) and P/E ratio (coefficient 0.129; t-test 2.979; $p < 0.01$).

These regression results strongly support Hypothesis one (H1): There is a positive significant relationship between the remuneration of directors and the firm's performance. Hence these results are consistent with previous studies (Hassan et al. 2003 and Sim 2004). Furthermore, these results support the notion that the remuneration paid to the board of directors should be aligned with the performance of the companies just as suggested by Yatim (2012). As a result, the board of directors must use all their skills and abilities, technical know-how and experience that they possess for the betterment of the company's performance.

Concerning agency costs, Table 3 shows that there is a positive and significant relationship between agency cost and the financial performance of firms as measured by, Return on Equity (ROE) (coefficient =0.17; t-test 5.461: $p < 0.01$), and P/E ratio (coefficient 0.067; t-test 2.034; $p < 0.01$) and that there is a negative and significant relationship between agency cost and financial performance of firms as measured by

Return on Asset (ROA) (coefficient -0.053; t-test -1.68; $p < 0.01$) Tobin's Q (coefficient -0.151; t-test -4.816; $p < 0.01$). These results produce mixed results as it states that companies who have higher agency costs meaning that they pay more expenses, such as managerial expenses in terms of salary, bonuses, perks etc often see good financial performance as measured by ROE and P/E but at the same time will face worse financial performance as measured by ROA and Tobin's Q.

Furthermore, Table 4 shows other controlled variables, firm size and leverage and their relationship with the Firm's performance. It shows that indeed firm size has a significant relationship with financial performance. However, it has a negative significant relationship with the performance measure ROA, ROE and Tobin's Q and a positive significant relationship with the P/E ratio. This means that overall, an increase in the firm size would lead to a decrease in the financial performance of the firm, hence concluding that smaller firms will perform better than large firms. Smaller firms enable the allocation of resources and efforts in a focused manner by managers as compared to larger firms which often tax the managers' efforts and focus on looking over large financial activities, thus harming the overall performance of the firms. This is consistent with the studies done by Ramasamy et al. (2005) which found that firm size is negatively related to its performance. For the Firm's leverage, the regression result shows that it has a positive significant relationship with ROE and Tobin's Q, a negative significant relationship with the P/E ratio and finally a negative significant relationship with ROA. Therefore, overall it explains that firms with high financial leverage, that is to say, debt often perform better than those with low levels of debt. This can be explained by the ability of these highly

leveraged firms to allocate the debt they have into resource operational and expansive activities within the firm which leads to high revenue generation for the firms.

Table 3: Coefficients

	Standardized Coefficients (Beta)				t-statistic				Significant			
	ROA	ROE	TOBIN 'S Q	P/E Ratio	ROA	ROE	TOBIN 'S Q	P/E Ratio	ROA	ROE	TOBIN 'S Q	P/E Ratio
(Constant)	0	0	0		11.826	3.929	11.631	-1.416	<.001	<.001	<.001	0.157
Board Remuneration (BR)	0.222	0.19	0.336	0.129	5.369	4.69	8.246	2.979	<.001	<.001	<.001	0.003
Agency Cost (E/R)	-0.053	0.17	-0.151	0.067	-1.68	5.461	-4.816	2.034	0.093	<.001	<.001	0.042
Firm Size (FS)	-0.439	-0.28	-0.417	0.081	-10.062	-6.538	-9.726	1.778	<.001	<.001	<.001	0.076
Firm's Leverage (FL)	0.044	0.369	0.177	-0.15	1.181	10.137	4.84	-3.862	0.238	<.001	<.001	<.001
Dummy "1" or "0"	-0.125	-0.041	-0.046	0.082	-3.561	-1.202	-1.332	2.233	<.001	0.23	0.183	0.026

Table 4: ANOVA

	Sum of Squares				Mean Square				F				Significant
	ROA	ROE	TOBIN'S Q	P/E Ratio	ROA	ROE	TOBIN'S Q	P/E Ratio	ROA	ROE	TOBIN'S Q	P/E Ratio	
Regression	0.584	28.968	359.25	161227.869	0.117	5.794	71.85	32245.574	24.87	33.445	32.046	6.568	<.001b
Residual	4.667	172.184	2228.648	4879954.326	0.005	0.173	2.242	4909.411					
Total	5.251	201.151	2587.899	5041182.195									

Table 5: Model Summary

	ROA	ROE	TOBIN'S Q	P/E Ratio	Significant
R-square	0.111	0.144	0.139	0.032	<.001b
Adjusted R-square	0.107	0.14	0.134	0.027	
F-statistics	24.87	33.445	32.046	6.568	
Durbin Watson	0.793	1.385	0.409	1.549	

Table 6 Summary of Analysis

	ROA	ROE	TOBIN'S Q	P/E Ratio
(Constant)	+ / Significant	+ / Significant	+ / Significant	- / Not Significant
Board Remuneration (BR)	+ / Significant	+ / Significant	+ / Significant	+ / Significant
Agency Cost (E/R)	- / Significant	+ / Significant	- / Significant	+ / Significant
Firm Size (FS)	- / Significant	- / Significant	- / Significant	+/ Significant
Firm's Leverage (FL)	+ / Not Significant	+ / Significant	+ / Significant	- / Significant
Dummy "1" or "0"	- / Significant	- / Not Significant	- / Not Significant	+ / Not Significant

4.4.2 Board Remuneration, Agency Cost, And Firm Performance Of Family-Owned Firms In Malaysia

Director Remuneration and Performance in Family Firm

Tables 7, 8 and 9 show the results of regression analysis of, board remuneration, agency cost, firm size and firm leverage on the performance of family firms in Malaysia, while Table 10, shows a summary of the analysis performed.

The regression results show that, indeed, family ownership affects the firms' performance as well as the board's remuneration. It shows that when all other variables are kept constant, there is a positive and significant relationship at a 1% significance level between family ownership and ROA, ROE, Tobin's Q and a negative non-significant relationship between family ownership and P/E ratio. Hence this supports hypothesis two, that there is a positive significant relationship between family ownership and a firm's performance. In addition to that, among family firms, board remuneration was also found to have a positive and significant relationship with all measures of financial performance, ROA, ROE, Tobin's Q and P/E ratio. This suggests that, indeed family firms do affect the performance of firms and that, for these firms to perform well, they need to compensate their board of directors well enough to motivate them to provide their expertise and knowledge for the betterment of these firms. These findings are similar to the study done by Haniffa and Hudaib (2006) who reported that greater ownership concentration was associated with improved accounting performance among listed firms. However, this is a different view compared to the study done by

Croci et. al (2010) which found that the family CEO compensation was negatively related to the performance in the Continental European firms from 2001 to 2008.

Agency cost and Performance in Family Firms

As for the Agency cost, it has a significant relationship with ROA and P/E ratio however it is negative with ROA and negative with P/E ratio. Agency cost however has a negative non-significant relationship with both ROE and Tobin's Q. Furthermore, Firm size among family-owned firms had a negative significant relationship with ROA, ROE, Tobin's Q and a negative non-significant relationship with P/E ratio. Overall, this indicates that an increase in firm size will reduce the performance of these firms, this may be due to the family mishandling or using the firms' assets & resources for their personal use, and thus reducing the profit of the firms. As for the firm's leverage, it has a negative significant relationship with ROA and P/E ratio and a positive significant relationship between ROE and Tobin's Q. Hence using different measures of the firm's performance for family-owned firms, the result shows that the leverage used by these firms can either harm or improve the performance of the firms'.

Table 7: Coefficients-Family Analysis

	Standardized Coefficients (Beta)				t-statistic				Significant			
	ROA	ROE	TOBIN'S Q	P/E Ratio	ROA	ROE	TOBIN'S Q	P/E Ratio	ROA	ROE	TOBIN'S Q	P/E Ratio
(Constant)					5.372	3.734	4.231	-1.36	<.001	<.001	<.001	0.174
Board Remuneration (BR)	0.084	0.154	0.276	0.154	1.647	3.108	5.578	2.991	0.1	0.002	<.001	0.003
Agency Cost (E/R)	-0.144	-0.05	-0.047	0.082	-3.252	-1.16	-1.086	1.833	0.001	0.246	0.278	0.067
Firm Size (FS)	-0.126	-0.171	-0.183	0.077	-2.319	-3.252	-3.495	1.407	0.021	0.001	<.001	0.16
Firm's Leverage (FL)	-0.121	0.318	0.236	-0.113	-2.514	6.85	5.084	-2.345	0.012	<.001	<.001	0.019

Table 8: ANOVA-Family Analysis

	Sum of Squares				Mean Square				F				Significant
	ROA	ROE	TOBIN'S Q	P/E Ratio	ROA	ROE	TOBIN'S Q	P/E Ratio	ROA	ROE	TOBIN'S Q	P/E Ratio	
Regression	0.061	1.183	126.022	190472.5	0.015	0.296	31.505	47618.11	6.976	15.517	16.043	5.544	<.001b
Residual	1.075	9.431	972.098	4251772	0.002	0.019	1.964	8589.438					
Total	1.135	10.614	1098.12	4442244									

Table 9: Model Summary-Family Analysis

	ROA	ROE	TOBIN'S Q	P/E Ratio	Significant
R-square	0.053	0.111	0.115	0.043	<.001
Adjusted R-square	0.046	0.104	0.108	0.035	
F-statistics	6.976	15.517	16.043	5.544	
Durbin Watson	0.851	0.547	0.26	0.26	

Table 10: Summary of Analysis of Family Firms

	ROA	ROE	TOBIN'S Q	P/E Ratio
(Constant)	+ / Significant	+ / Significant	+ / Significant	- / Not Significant
Board Remuneration (BR)	+ / Significant	+ / Significant	+ / Significant	+ / Significant
Agency Cost (E/R)	- / Significant	- / Not Significant	- / Not Significant	+ / Significant
Firm Size (FS)	- / Significant	- / Significant	- / Significant	+ / Not Significant
Firm's Leverage (FL)	- / Significant	+ / Significant	+ / Significant	- / Significant

4.4.3 Director Remuneration and Performance in Non-Family Firms

Tables 11, 12 and 13 exhibit the results of regression analysis of the non-family-firm influence on the relationship between director remuneration and performance while Table 14 shows the summary of the result from the analysis.

Based on hypothesis 2, there is a positive significant relationship between family ownership and a firm's performance. However, this study found that non-family owned firms have a significant relationship with the performance of these firms.

It shows that when all other variables are kept constant, there is a positive and significant relationship at a 1% significance level between family ownership and ROA, ROE, Tobin's Q and a positive non-significant relationship between non-family owned firms and P/E ratio. Hence this supports rejects hypothesis two, that there is a positive significant relationship between family ownership and a firm's performance. In addition to that, among non-family owned firms, board remuneration was also found to have a positive and significant influence on measures of financial firms' performance, ROA, ROE, Tobin's Q and a non-significant influence with P/E ratio. This is crucial, as it also reveals that non-family controlled companies do choose competent directors as board members, who in turn enhance the performance of these firms.

As for the Agency cost, it has a significant negative impact on ROA and Tobin's Q, a positive significant impact on ROE, and a positive non-significant impact on the P/E

ratio. Furthermore, Firm size among non-family-owned firms had a negative significant relationship with ROA, ROE, and Tobin's Q and a positive non-significant relationship with P/E ratio. Overall, this indicates that an increase in firm size will reduce the performance of these non-family owned firms, this may be due to the fact that family ties do not bind non-family firms, hence the board of directors and managers lose focus due to the different opposing views of the shareholders and thus affect their decision making and hence the performance of these firms. Regarding the firm's leverage of these non-family owned firms, it has a positive significant impact on ROA, ROE and Tobin's Q ratio and a negative significant influence on the P/E ratio. Hence this indicates, that an increase in the financial leverage used by the non-family owned firms will increase the overall performance of these firms.

Table 11: Coefficients-Non-family Firm Analysis

	Standardized Coefficients (Beta)				t-statistic				Significant			
	ROA	ROE	TOBIN'S Q	P/E Ratio	ROA	ROE	TOBIN'S Q	P/E Ratio	ROA	ROE	TOBIN'S Q	P/E Ratio
(Constant)					11.15	3.331	12.688	0.63	<.001	<.001	<.001	0.529
Board Remuneration (BR)	0.283	0.207	0.332	0.036	5.668	4.149	6.73	0.654	<.001	<.001	<.001	0.513
Agency Cost (E/R)	-0.08	0.218	-0.303	0.017	-1.817	4.925	-6.943	0.36	0.07	<.001	<.001	0.719
Firm Size (FS)	-0.654	-0.356	-0.645	0.054	-10.726	-5.838	-10.712	0.806	<.001	<.001	<.001	0.42
Firm's Leverage (FL)	0.181	0.447	0.165	-0.228	3.632	8.967	3.359	-4.187	<.001	<.001	<.001	<.001

Table 12: ANOVA-Non-Family Analysis

	Sum of Squares				Mean Square				F				Significant
	ROA	ROE	TOBIN'S Q	P/E Ratio	ROA	ROE	TOBIN'S Q	P/E Ratio	ROA	ROE	TOBIN'S Q	P/E Ratio	
Regression	0.805	37.086	312.173	23252.05	0.201	9.272	78.043	5813.011	30.554	30.577	34.433	5.121	<.001 b
Residual	3.261	150.096	1121.936	56187.6	0.007	0.303	2.267	1135.106					
Total	4.066	187.182	1434.109	585129.6									

Table 13: Model Summary-Non-Family Analysis

	ROA	**ROE**	**TOBIN'S Q**	**P/E Ratio**	**Significant**
R-square	0.198	0.198	0.218	0.04	<.001
Adjusted R-square	0.192	0.192	0.211	0.032	
F-statistics	30.554	30.577	34.433	5.121	
Durbin Watson	0.785	1.501	0.484	1.706	

Table 14: Summary of Analysis-on Family Analysis

	ROA	ROE	TOBIN'S Q	P/E Ratio
(Constant)	+ / Significant	+ / Significant	+ / Significant	+ / Not Significant
Board Remuneration (BR)	+ / Significant	+ / Significant	+ / Significant	+ / Not Significant
Agency Cost (E/R)	- / Significant	+ / Significant	- / Significant	+ / Not Significant
Firm Size (FS)	- / Significant	- / Significant	- / Significant	+ / Not Significant
Firm's Leverage (FL)	+ / Significant	+ / Significant	+ / Significant	- / Significant

4.5 Chapter Summary.

This chapter outlined various analyses. Firstly, descriptive analysis was done, followed by correlation analysis and lastly, multivariate regression analysis. These methods were used to analyse the findings of the data collected and to draw conclusions on the hypothesis tested. The next chapter will discuss the results of the study, contributions along with the limitations of the study along with its limitations and lastly the recommendations for future study.

CHAPTER 5

DISCUSSION AND CONCLUSION

5.1 Introduction

In this chapter, a discussion of major findings based on the analysis done in Chapter 4 along with implications and contributions of this study will be presented, which will provide valuable insights to various interested parties. Afterwards, the limitations encountered while conducting this study are disclosed and lastly, the recommendations of the study are provided to aid in further future research.

5.2 Summary and Conclusion- Discussion of the findings

This study analysed the relationship between agency costs, board remuneration and firm performance among both family firms and non-family firms listed on Bursa Malaysia from the year 2014-2013. The total firms studied were 100 companies, with 50 family and 50 non-family firms. Upon analysing the data collected, the result showed and supported that the presence of agency cost, and board remuneration have a significant impact on the performance of these firms. In addition, board remuneration was found to be a powerful contribution to the improvement of a firm's performance in developing countries such as Malaysia. And that is why, MCCG strongly recommends that the board remuneration should be tied/linked to the firms' performance, as supported by the study done by Barkema and GomezMejia (1998).

Despite the presence of many publicly listed family firms in Malaysia, there is a lack of

evidence to suggest that indeed family firm ownership significantly impacts the relationship between board remuneration and performance. In addition to that, there is no clear-cut evidence to indicate that within a family firm, family members tend to interfere in the setting of remuneration packages. Much of the corporate governance literature done previously predominantly states that the agency conflict between management and the owners of the firm can be eradicated by setting up well-designed remuneration packages that will entice the management to perform better, thus improving the firms' performance. Many of these studies focused on the relationship between board compensation and the factors affecting it such as the firm's performance, firm-specific factors and corporate governance mechanisms.

These studies used measures such as CEO remuneration, cash-based and equity-based remuneration to measure board remuneration, and how it affects the firm's performances. This study, however, uses cash-based board compensation to examine the relationship between the agency cost, board remuneration and the performance of the firms. In addition to that, there is a lack of sufficient studies on how agency cost and board remuneration affect the performance of the firms in developing markets, such as Malaysia where adaptation of proper corporate governance practices is still in its infancy stages and not widely adopted.

Overall, the results of the study are consistent with the expectation of the impact of the board of remuneration on the financial performance of the firms, as it is positive and significant. However, for other variables, it is not consistent with the expectations made. Agency cost was found to be significant but the overall impact was neither positive nor

negative. As for family ownership, it was found to have a negative non-significant relationship with the firm performance instead of the expected positive significant one. Firm size was found to have an overall negative significant relationship with firm performance instead of a positive significant relationship. Lastly, the firm's leverage was found to have an overall positive significant relationship with the firm's performance instead of the expected positive significant one.

This study, concludes that lucrative board remuneration packages provided to the board of directors will motivate them to work harder to improve the performance of the firms. This study suggests that the board remuneration provided to the listed firms should be based on the skills, experience and expertise of the board of directors and that should also be tied to the performance of the firms as recommended by MCCG. This study did not find any evidence to suggest that board remuneration affects the performance of the firms. Therefore, it can be concluded that family members within family-listed companies do not use their kinship, ownership and influence of the board of directors for their benefit thus affecting the overall performance of firms as suggested by some previous studies.

5.3 Contribution of Study

The lack of sufficient research on agency cost, and board remuneration practices on family and non-family listed companies in developing countries, was the reason for this study. The study's findings are beneficial for investors, policymakers and the governments of developing nations like Malaysia in coming up with a suitable

governance framework that will detail good corporate practices, and well-designed remuneration packages, all of which will lead to the improved performance of firms listed in Malaysia and thus economic development of the nation.

From the investor's perspective, the result of this study will inform them of a suitable decision to make in terms of how the board of directors are to be compensated. By approving the well-designed board remuneration packages, investors are directly shaping and improving the company's performance. The directors become motivated and work hard due to the lucrative packages offered to them which are tied to the performance of the firms. The improvement of the firms' performance, translates to higher returns received by the shareholders/investors in the form of dividends and the appreciation of the firm's share value.

According to Anderson & Reeb (2003) and Tsamenyi et al. (2007), corporate governance reforms are becoming priorities in certain developing countries, worldwide. Furthermore, these corporate governance practices including the designing of well-board remuneration packages are becoming an assessment measure for International financial institutions on whether or not to invest/ provide funds to firms in developing countries like Malaysia. Therefore, by adopting these good corporate governance practices in Malaysia, firms will position themselves in a favourable state to receive funds from these international investors, which they can use to improve their business and thus improve their financial performance and the economic condition of Malaysia at large.

5.4 Limitations of the Study

Like any other study, the results of this study should be interpreted with caution due to the limitations present in the study.

This study only relied on cash-based remuneration as a measurement of board remuneration. The analysis done on this does not cover the impact of other total board remuneration on firm performances as it excludes elements such as equity-based compensation (shares) that are provided to the board of directors and thus accounts for board remuneration which will impact the performance of firms. As a result, the interpretation of the findings of how board remuneration impacts the firm's performance should be interpreted with this limitation in mind and thus any conclusion derived from the study must clearly state that it was from the cash-based remuneration analysis only.

The sampling method used to select family and non-family firms for the study is also a limitation. These firms were selected based on the completeness of that firm's data from the database while disregarding factors such as the size and the industries of the firms chosen. This process already harms the sampling process itself. Also, it leads to inaccurate conclusions being drawn to the incorporation of firms with varying sizes and industries which often have different inherent characteristics, thus affecting the result of the study and conclusions drawn from it.

In addition, the study used ROA, ROE, Tobin's Q and P/E ratio to measure firms' performance. However, there exist various methods of measuring firms' performance

including Free cash flow and Return on Capital Employed (ROCE) which have not been used in this study. The study also excluded other factors such as the firm's age, and the number of executive directors on the board; all of which could have acted as controlled variables in the study. Not only that but other variables can be used for agency cost proxies, such as total expenses over total assets instead of the total expenses over total sales. The lack of these measures in this study hinders the consistency and validity of the study, and thus a concrete and strong conclusion is hard to draw from the study.

Furthermore, this study involved the collection of data from these firms from the period 2014 to 2023. However, there was a COVID-19 pandemic, from March 11, 2020, to May 5, 2023 (WHO). The COVID-19 pandemic led to partial to total economic shutdown worldwide. As a result, many firms performed worse with the majority being family firms. Hence, including this period in the study, leads to the result and conclusion being inaccurate, skewed and misleading.

5.5 Recommendation for Future Research

The limitations mentioned above provide potential areas for further study improvement and further investigations in future studies. Hence this study provides the following recommendations.

Firstly, a continuing study, which will incorporate the variables and other measurements of the same variables as mentioned in the limitation above should be conducted. This will enable those studies to have improved and important results and produce new

findings and knowledge to be added to the ever-expanding literature available on corporate governance and firm performance.

Furthermore, the impact of race and culture on the remuneration of the board of directors can be studied in future research. As known, Malaysia is a hotspot of different cultures, with a mixture of various ethnic groups, including the Malays, Chinese, Indians, and indigenous people among others. Hence, this mixture of individuals from diverse backgrounds coming together to form a Board of directors will inherently affect the board of director's remuneration packages and thus the financial performance of the firms. Hence, a future study needs to be done to investigate the impact and the extent of the effects of these races on board remuneration and thus the financial performance of listed firms in Malaysia.

Moreover, besides looking at listed family firms and non-family firms in Malaysia only, future research can be extended to include other 10 ASEAN nations including Indonesia and Thailand, which are also found to have a large number of well-known listed family firms and have a relatively similar economy level, policies and regulations. In addition to that, the study can also look at the ASEAN + 3 nations which includes China, Japan and South Korea which are highly developed nations compared to Malaysia. Hence, studying this will help Malaysian firms to establish areas where they can improve their management so that the performance of these firms becomes better as well as the economy of the nation.

Lastly, future research ought to investigate this study under different economic periods i.e. the pre-COVID-19 pandemic, pre-2020, during the COVID-19 pandemic (2020-2023) and later post-COVID-19 pandemic (post-2023). By conducting future studies during these various periods, comparisons with the findings of this study can be made to assess whether the findings are consistent or have changed and further conclusions can be made.

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APPENDIX

GANTT CHART

		2024						2025	
No	Activity	July	August	September	October	November	December	January	February
1	Submission of Research Title								
2	Research Proposal Writing								
3	Proposal Seminar Examination								
4	Data Collection								
5	Data Processing and Analysis								
6	Thesis Defense								
7	Final Thesis Amendment & Submission								

BIODATA OF STUDENT

Abdulwahid Mahadhi Juma is expected to graduate with a Master's degree in Finance from the Universtiti Putra Malaysia (UPM) at the School of Business and Economics by the end of February 2025. He also completed an undergraduate degree in Accounting from the same institution in 2023. Prior to pursuing his Master's level studies in March 2024, he managed to do an Audit internship at Deloitte & Touche, Tanzania where he learned valuable professing skills such as auditing financial statements, financial and data analysis, risk assessment, communication skills, client interaction, ethical awareness, problem solving skills, software proficiency and team work and collaboration. He ended his tenure in Deloitte & Touche, Tanzania in February 2024 and in March 2024, he started his studies in Master of Finance in UPM.