International Business Management 7 (6): 475-484, 2013
ISSN: 1993-5250

Remuneration Committee Attributes and Firm Performance in Finance Industry

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Abstract: The study examines the influence of remuneration committee attributes on performance of finance companies for the period 2007-2011. Based on the data obtained from 37 finance companies listed under the finance segment of the main market of Bursa Malaysia, the result indicates significant positive relationship between RC attributes and firm performance. In terms of the coefficient of the variables, the result indicates that independent committee chair is significantly negatively related with accounting returns. This is contrary to agency theory and theoretically consistent with stewardship theory which suggests that executive directors are good stewards and in terms of conflict of the interest, the interest of the principal will prevail. This implies that the requirement for RC to be composed of only non-executive directors may not be the appropriate governance arrangement for finance companies. The result indicates a significant improvement in corporate governance in finance companies based on attributes of remuneration committee after the Malaysian Code on Corporate Governance was revised.

Key words: Remuneration committee, independent directors, finance companies, firm performance, finance segment

INTRODUCTION

The consequences of the recent global financial crisis were felt by several financial institutions and countries in different parts of the world and the extent of the effect varies among countries (Atik, 2009). The significance of good corporate governance in finance companies was re-emphasized by the crisis. The crisis began in 2007 and led to the demise of many financial institutions in the West and in some cases the downsizing of the operation of the companies (Becht *et al*., 2011). The authorities came up with various measures to save the bankrupt companies and protect the financial system and the entire economy. Public funds were used by the authorities to rescue those institutions to prevent total collapse of the financial system. Furthermore, authorities set up committees to study the crisis, reasons behind such problems and recommend solutions to the problem. These recommendations have become laws and regulations to guide the governance of financial institutions. Some recommendations of these committees include the enhancement of internal control over risk and the alignment of remuneration with risk.

Researchers have discussed the factors that causedthe recent financial crisis and theseinclude the complex nature of financial inventions, the change in focus of finance companies, subprime crisis in the US and government policy on the provision of housing for US citizens, deposit insurance, government guarantee, excessive risk taking and the compensation plan that is focused on short-term company performance (Moosa, 2008). The board of directors was a major contributing factor to the crisis due to poor monitoring by its monitoring subcommittees, especially risk management and remuneration committee which enabled the management to take excessive risk and compensation plan that was not aligned with long-term performance (Kashyap *et al*., 2008). The Asian financial crisis of 1997-1998, the corporate scandals in different parts of the world and the recent financial crisis has affected the performance of finance companies and motivated the research and interest in corporate governance of such companies. These corporate scandals and current financial crisis affected big firms such as Enron and WorldCom, Parmalat, Bear Stearns, Citigroup, Lehman brothers and Dexia (Becht *et al*., 2011) in the West, Transmile, Megan Media and Oilcorp in Malaysia (Zulkafli and Samad, 2007).

Finance companies serve as a very important player in the financial system and therefore provide essential

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services for the smooth running and functioning of the economy (Sufian and Habibullah, 2010). In addition, in developing countries finance companies serve as an important source of finance due to the under development of the capital market. The finance sector is very important contributor to the GDP (EPU, 2011) and the government in Malaysia has a very significant investment in the finance sector which it used to implement economic policies and programmes aimed at developing some economic sectors (Kim and Rasiah, 2010). This accounts for the importance of good governance of finance companies to the government. Board subcommittees play a very important role in the discharge of the functions of the board which enhances performance of a firm. In addition, interaction among the subcommittees enhances information flow and reduces information asymmetry among the members. However, despite the important role of subcommittees few studies have examined the attributes of such committees, especially in finance companies (Carcello *et al*., 2011). Furthermore, communication by board subcommittees enhances their effectiveness in monitoring management for example communication by audit and remuneration committee will help the audit committee in knowing risks that may result from the actions of the remuneration committee.

Hence, the study of the relationship between board remuneration subcommittee attributes and performance of finance companies is significant because it highlights the characteristics of the subcommittee that enhance the effective monitoring and discharge of the various functions of board through the committee and it shows how interaction between the subcommittee and nomination committee enhance their effectiveness. Furthermore, the study has shown how revision to the Malaysian Code on Corporate Governance enhances corporate governance in finance firms by enhancing remuneration committee attributes. Thus, this study examines the features of remuneration subcommittee which have influence on the performance of finance companies in Malaysia. The main objective of the study is to determine the impact of remuneration committee attributes on the performance of finance companies in Malaysia. The study provides empirical evidence on the impact of remuneration committee attributes, interrelationship among board subcommittees and performance of finance companies. Unlike prior studies, this study provides evidence on the impact of remuneration committee attributes on the performance of finance companies which are usually excluded in prior studies. In terms of practical significance, the study provides regulatory authorities an insight into the remuneration committee attributes that influence performance and improves investors confidence in finance companies. This will enable them to incorporate the attributes that have significant impact on performance of finance companies in future policy formulation to enhance monitoring and safeguard the confidence of investors in the sector. The study will enable directors to improve their monitoring functions through enhanced functioning of the remuneration subcommittee by enhancing the interrelationship between the subcommittee and other monitoring subcommittees thereby improving coordination and communication among the various subcommittees.

Literature review: The committees of the board includes the operating committees which advice the management on matters relating to day to day operations of the company and the monitoring committee which monitor the activities of the company in order to ensure that the interest of various stakeholders are protected (Harrison, 1987). The establishment of remuneration subcommittee is a requirement for most corporate governance codes or guideline given by regulators. In Malaysia, for example both the listing requirements and the corporate governance guide issued by Bank Negara (Central Bank) requires firms to have remuneration subcommittee. The central bank requires all licensed financial institution to establish a remuneration committee composed of only non-executive directors with at least 3 members with independent director as committee chair. The committee is responsible for issues relating to the compensation of the executive directors, CEO and senior management. The remuneration of the executive directors should be set by the Remuneration Committee (RC) consisting of INED while the remuneration of the non-executive directors including the chairman should be determined by the board as a whole. In the United Kingdom, a separate committee known as the Greenbury committee of 1995 was set up to establish principles with regards to directors remuneration.

Remuneration committee helps ensure that the remuneration of directors is aligned with the corporate objectives and firm performance to prevent agency problem which could result from the compensation package that is not aligned with firm performance and corporate objectives (Klein, 1998). In terms of the impact of remuneration committee on firm performance, Main and Johnston (1993) reported a negative impact of remuneration committee on firm performance while Chhaochharia and Grinstein (2009) found that board committees have a positive impact on the firm performance. According to Jiraporn *et al*. (2009), the effectiveness of the board in performing its functions is

enhanced when the board has subcommittees. From agency perspective, the presence of board subcommittee will ensure that directors remuneration is adequate to attract and retain quality directors (Chhaochharia and Grinstein, 2009). On the other hand, prior evidence has shown that board subcommittees do not enhance firm's performance but that they even affect it negatively. For example, the extra cost to be incurred in form of meeting allowance, travel cost, time of the directors and excessive monitoring which could affect management initiative and reduce income of the company (Vafeas, 1999). In addition, Klein (1998), Vafeas and Theodorou (1998) and Bozec and Dia (2007) all found no relationship between monitoring committees and firm performance.

The number of board subcommittees has increased from prior period when only audit committee was in existence to the current situation which saw the establishment of other monitoring committees (Harrison, 1987). One important feature of most committees that made them very important is the presence of all or majority independent directors on such committees. The subcommittees are effective in monitoring due to their small size which ensures that decisions are taken quickly (Karamanou and Vafeas, 2005) and ensures that the expertise of the directors will have an influence on the decision of the committee (Harrison, 1987).

Prior studies have shown that performance of a company is positively related with the presence of a Remuneration Committee (RC) of the board (Young and Buchholtz, 2002) and RC attributes are positively related with risk level and performance (Tao and Hutchinson, 2013). The presence of RC ensures that the compensation of the CEO is reviewed when necessary and ensures that the compensation is in line with the industry practice (Ogden and Watson, 2004). The RC in conjunction with other monitoring committees monitors the risk of the finance company by ensuring that the compensation plan of the management is aligned with the risk profile of the company (Tao and Hutchinson, 2013). In addition, the committee designs remuneration package to attract and retain high quality directors and also motivate executives to take reasonable and calculated risk that will enhance value for shareholders.

Hypotheses development

Committee composition: Chhaochharia and Grinstein (2009) reported that independent remuneration committee enhances the performance of a firm through adequate monitoring of compensation which will lead to the reduction in the amount of CEO compensation. Lack of committee independence was one of the factors that led to problems during the recent financial crisis (Walker, 2009). According to Klein (2002), the presence of independent directors on remuneration committee will help reduce agency problem thereby making equity based incentive unnecessary. The independence and expertise of directors on RC will help to balance bonus based compensation and risk-taking-incentives since fixed executive compensation will not motivate the management to undertake some risky projects because the increase in performance resulting from that contract will not benefit them while short term compensation plan will motivate the management to take risky projects because of the additional benefit accruing to them (Yeh *et al*., 2011). This will increase the level of risk of the company and decrease the overall performance of the company. On the other hand, independent directors may be ineffective in monitoring when they are overseas due to inadequate attendance of meeting, physical visit to the company and lack of access to information from social networks (Chhaochharia *et al*., 2012).

H_1: There is asignificant relationship between independent directors on remuneration subcommittee and firm performance

Independent committee chair: The presence of independent committee chair will enhance the independence of the remuneration committee and prevent the interference of the executive in the affairs of the committee. A committee chaired by INED will be in a better position to monitor the compensation of directors and ensure the compensation plan is aligned with the risk taking activities of the managers and strategic objectives of the company (Tao and Hutchinson, 2013).

H_2: There is a significant relationship between independent chair of remuneration subcommittee and firm performance

Expertise and experience: The expertise and experience of the members of the RC will enhance company performance by ensuring that the compensation plan of the executive is designed to align the interest of the management and the shareholders. Committee members with accounting expertise and finance industry related experience will be in a better position to monitor the risk and compensation of the company to ensure that it is within the limit acceptable to the company and the compensation is in line with the industry practice (Tao and Hutchinson, 2013). On the contrary, Burak Guner *et al*. (2008) reported that the presence of a director with financial knowledge on the board does not have any relationship with the firm's compensation policy.

H_3: There is a significant relationship between remuneration subcommittees' expertise and firm performance

H_4: There is a significant relationship between presence of NED with executive experience on remuneration subcommittee and firm performance

Executive membership: The presence of the CEO or executive directors on the remuneration committee may enable the CEO to be involved in the determination of his remuneration. This could mean the executive getting compensation scheme that will benefit them not minding its impact on performance of the company (Tao and Hutchinson, 2013). Furthermore, membership of CEO on such committee may give the executive much power that may motivate him to engage in activities that may not add value to the company (Tao and Hutchinson, 2013).

H_5: There is a significant relationship between membership of executive on remuneration subcommittee and firm performance

Interlock on subcommittees: The reduction of information asymmetry through simultaneous membership of directors on subcommittee will enhance information flow and awareness of directors about decisions of various subcommittees that could create risk in the financial statements (Hoitash and Hoitash, 2009). They added that the extent of simultaneous membership of directors on committees is associated with the size of the committee itself and negatively associated with the size of the board. If there is interlock of directors on subcommittees the directors will be more willing to give CEO compensation plan that is not sensitive to performance since a compensation plan that is sensitive to performance may motivate the CEO to engage in earnings management activities which may increase the oversight functions of other subcommittee such as audit committee on financial reporting process and possibly increase the liability of directors in case of litigation (Laux and Laux, 2009). Simultaneous memberships of directors on subcommittees will enhance the coordination and communications among members of various subcommittees thereby enhancing information flow among the directors thereby reducing the chances of conflict in the discharge of the roles of various subcommittees which improves coordination among the committees and ultimately enhancing performance (Tao and Hutchinson, 2013). Pombo and Gutierrez (2011), reported that interlock of directors have a significant negative impact on accounting returns. To be effective and to avoid conflicting decisions, the board committees should communicate with each other and coordinate their activities to enhance the benefit of their roles to the company (Tao and Hutchinson, 2013). This will be achieved, through simultaneous membership of directors on the committees, especially the monitoring committees. Thus, the following hypothesis was tested:

H_6: There is a significant relationship between dual membership of directors on remuneration and nomination subcommittees and firmperformance

MATERIALS AND METHODS

The study was conducted based on the data collected from the annual reports of 37 finance companies listed on main market of the of Bursa Malaysia. The 37 companies comprised of universal banks, insurance companies, Islamic banks, takaful business and stock broking companies. The observation period covers financial year end 2007-2011. The data on committee attributes was obtained from the annual reports of the companies which were downloaded from the website of the Bursa Malaysia or companies' website. Data on the control variables and the performance measures was obtained from the database of Bloomberg. Regression analysis was used to analyze the data. In order, to reduce the possibility of wrong conclusion that could result from omitting variables that can predict performance and also to reduce omitted variable bias and endogeneity problem, two control variables (firm size and leverage) were added to the regression model. Size was used as a control variable in this study, similar to other corporate governance studies since size of a company could influence its performance through availability of more resources at its disposal and through enhanced monitoring due to the high agency problem in such type of organizations (Pathan, 2009; Praptiningsih, 2009; Tao and Hutchinson, 2013). The following regression model was estimated for the remuneration committee attributes:

$$Fp_i = \alpha + \beta_1 INBSR_{it} + \beta_2 CINED_{it} + \beta_3 FINEXP_{it} + \beta_4 EXECEXP_{it} + \beta_5 EXPRE_{it} + \beta_6 INTERLOCK_{it} + \beta_7 + SIZE_{it} + \beta_8 LEVERAGE_{it} + \varepsilon_{it}$$

Where:

Firm performance = Return on Assets (ROA) and Tobin's Q

INBSR = Proportion of independent directors to total number of directors on the subcommittees

CINED = Dummy variable of one if the subcommittee chair is independent director zero otherwise

FINEXP = Proportion of directors with accounting qualification or finance industry experience on the subcommittee
EXECEXP = Proportion of directors with executive experience on the subcommittee
INTERLOCK = Proportion of directors with dual membership of remuneration and nomination subcommittee to total number of directors on the remuneration subcommittee
EXPRE = Proportion of executive on the committee
SIZE = Log of total assets
LEVERAGE = Ratio of total debt to equities

RESULTS AND DISCUSSION

Descriptive statistics: The result of descriptive statistics presented in Table 1 indicates that the data was normally distributed since the values obtained for skewness and kurtosis for each of the variables were within the normality threshold. In addition, to the skewness and kurtosis for individual variables, group normality test was performed which indicates that the data is normally distributed since the skewness and kurtosis values are within ±3.00 and ±10.00 range. The data meets the assumption of linearity based on the result obtained which indicated that all the values are within the ±3.00 threshold. In terms of the characteristics of the variables, the composition of RC varies among the companies from a company with RC composed of 100 inside directors to a company with RC made up of 100% INEDs with an average of 57% while 81% of the companies have INED as RC chair. This indicates that majority of the companies are in compliance with the requirement of BNM and Bursa Malaysia that requires the RC to be independent and chaired by INED so that the executive will not be involved in determining their compensation. Financial expertise of committee members ranges from a minimum of 0.00% to a maximum of 100% with an average of 26%.

The proportion of directors with executive experience ranges from a minimum of zero to a maximum of 100% with an average of 26%. In addition, the result shows that some companies have RC that has executive as members ranging from a company with no executive to a company with 66% of executive members with an average of 5%. This indicates that some companies include executive on RC which might cause conflict of interest. Interlock of directors on RC and NC ranges from a minimum of 0 to a maximum of 100% with an average of 67%. The result of correlation analysis show no multicollinearity problem among the predictor variables since none of the bivariate correlation is more than 0.9. In addition, the result obtained from heteroskedasticity test indicates that the null hypothesis of no heteroskedasticity is rejected implying that there is heteroskedasticity problem. The problem was addressed by using the white's heteroskedasticity-consistent standard error. Auto-correlation was addressed by white diagonal method (Table 2).

Multivariate regression result: The result of Hausman's test indicates that REM was the most appropriate method to use. The adjusted R^2 of 0.1374 implies that the variables explain 13.7% of the variation in firm performance. The F-statistics (3.4427) was large and the corresponding

Table 1: Result of descriptive statistics

Statistics	ROA	TQ	CC	CINED	FE	EE	EP	RC/NC	FS	LEV
Mean	0.024	0.010	0.5700	0.818	0.261	0.268	0.054	0.670	0.043	0.042
Median	0.015	0.010	0.6660	1.000	0.250	0.250	0.000	0.750	0.038	0.036
Maximum	0.079	0.013	1.0000	1.000	1.000	1.000	0.666	1.000	0.088	0.088
Minimum	0.002	0.009	0.0000	0.000	0.000	0.000	0.000	0.000	0.025	0.025
SD	0.019	0.004	0.3487	0.386	0.273	0.307	0.127	0.401	0.012	0.012
Skewness	1.253	1.647	-0.3980	-1.649	0.568	0.905	2.174	-0.828	0.737	0.790
Kurtosis	3.265	5.500	1.9780	3.722	2.144	2.835	6.841	2.038	2.675	2.776
Obs.	165.000	165.000	165.0000	165.000	165.000	165.000	165.000	165.000	165.000	165.000

Table 2: Result of correlation analysis

	ROA	TQ	CC	CINED	FE	EE	EP	RC/NC	FS	LEV
ROA	1.000	-0.163	-0.090	-0.281	0.001	-0.206	-0.128	-0.184	0.112	-0.402
TQ	-0.163	1.000	0.141	0.142	0.085	0.005	0.019	0.117	0.065	0.375
CC	-0.090	0.141	1.000	0.728	0.479	0.209	-0.040	0.718	-0.051	0.133
CINED	-0.281	0.142	0.728	1.000	0.451	0.413	0.201	0.709	-0.147	0.076
FE	0.001	0.085	0.479	0.451	1.000	0.353	0.001	0.499	-0.118	0.039
EE	-0.206	0.005	0.209	0.413	0.353	1.000	0.134	0.297	-0.121	0.090
EP	-0.128	0.019	-0.040	0.201	0.001	0.134	1.000	-0.115	-0.124	-0.116
RC/NC	-0.184	0.117	0.718	0.709	0.499	0.297	-0.115	1.000	-0.156	0.133
FS	0.112	0.065	-0.051	-0.147	-0.118	-0.121	-0.124	-0.156	1.000	0.054
LEV	-0.402	0.375	0.133	0.076	0.039	0.090	-0.116	0.133	0.054	1.000

ROA = Return On Assets; TQ = Tobin's Q ratio; CC = Committee Composition; CINED = Chair Independent Non-Executive Director; FE = Finance Expertise; EE = Executive Experties; EP = Membership of Executive; RC/NC = Remuneration/Nomination Committe interlock; FS = Firm Size; LEV = Leverage

p-value was highly significant ($p<0.001$) or lower than the alpha value of 0.05. This indicates that the slope of the estimated least squares regression model line is not equal to zero confirming that the research data fits the proposed eight predictor model of the study. As shown by the result presented in Table 3, leverage made the largest contribution of 0.156 with a corresponding t-statistics of -3.647 in explaining the dependent variable (ROA). This suggests that one standard deviation increase in leverage is followed by 0.156 standard deviation change in performance.

Hypothesis 2 predicted a significant relationship between independence of committee chair and ROA. The result obtained indicates a negative and significant relationship between independent committee chair and ROA. This is contrary to agency theory which opined that independence of chair will enable the committee to effectively monitor the compensation policies and ensure that compensation is aligned with interest of shareholders (Walker, 2009). However, the result is consistent with stewardship theory which suggests that non-independent directors are motivated by extrinsic rewards and that in case of conflict of interest the interest of the principal will prevail. The negative sign is contrary to recommendations of BNM and Bursa Malaysia. Finally, the result indicates that leverage was significantly negatively related with firm performance while the remaining hypotheses were insignificant.

Result based on market measure of performance: Result of Hausman's test indicated that REM was the most appropriate method to use. The adjusted R^2 of 0.1030 implies that the variables explain only 10% of the variation in firm performance. The F-statistics (2.7328) was large and the corresponding p-value was highly significant ($p<0.1$) or lower than the alpha value of 0.1. This indicates that the slope of the estimated least squares regression model line is not equal to zero confirming that the research data fit the proposed eight predictor model of the study. As shown by the result presented in Table 4 and based on the REM only leverage was significant. Leverage made the largest contribution in explaining the dependent variable (Tobin's Q) the coefficient obtained was -0.030 with a corresponding t-statistics of -4.524. It suggests that one standard deviation increase in leverage is followed by -0.030 standard deviation change in firm performance. Researchers' study predicted a significant relationship between RC composition, Independent committee chair, expertise of directors on RC, directors with executive experience on RC, membership of executive on RC and interlock of directors on remuneration nomination and Tobin's Q however, none of the committee attributes is significantly related with Tobin's Q. Lastly with regards to control variables, the result obtained shows a significant negative relationship between leverage and Tobin's Q while firm size has a positive but insignificant relationship with Tobin's Q.

Comparison of the result for the period before and after the revision to MCCG: In order to compare impact of

Table 3: Result of multivariate regression analysis based on ROA

Variables	Pooled (OLS)	REM	FEM
Constant	0.0450 (4.495)***	0.058 (4.552)***	0.043 (3.737)***
Composition	0.030 (3.171)***	0.012 (1.065)	-0.012 (-0.793)
Chair independent	-0.038 (-4.388)***	-0.020 (-2.001)**	0.011 (0.721)
Finance expertise	0.014 (1.527)	0.006 (0.596)	-0.013 (-0.915)
Executive experience	-0.003 (-0.473)	-0.010 (-0.934)	-0.021 (-1.084)***
Executive presence	-0.052 (-1.121)	0.032 (0.486)	0.112 (2.690)
RC/nomination	-0.010 (-1.209)	-0.009 (-1.35)	-0.011 (-1.473)
Firm size	0.2100 (1.242)	0.077 (0.496)	0.020 (0.137)
Leverage	-0.206 (-5.818)***	-0.156 (-3.647)***	-0.086 (-1.647)
2008	0.014 (2.249)**	-0.016 (-2.543)**	0.0093 (1.949)*
2009	-0.001 (-0.262)	-0.011 (-2.321)**	-0.007 (-1.255)
2010	0.0027 (0.419)	-0.011 (-2.239)**	-0.001 (-0.326)
2011	0.002 (0.305)	-0.012 (-2.357)**	-0.001 (-0.313)
R^2	0.3407	0.1936	0.7162
Adjusted R^2	0.29478	0.1374	0.6161
F-statistics	7.4095***	3.4427***	7.1532***
Hausman's test	NA	19.1413 (0.0852)	NA
Durbin Watson stat	1.1101	1.6931	2.0672

*, **, ***indicates p-value is significant at 10, 5 and 1% level; Coefficient first and t-statistics in parenthesis; OLS = Ordinary Least Square; REM = Random Effect Method; FEM = Fixed Effect Method, 2007 is used as the base year. ROA = Return on Assets measured as EBIT divided by total assets, CC = Committee Composition defined as the proportion of independent directors to total number of directors on RC; CINED = Chair Independent Non-Executive Director defined as a dummy variable that takes one if committee chair is independent zero otherwise; FE = Finance Expertise measured as the number of directors with accounting expertise or finance industry experience divided by the total number of directors on RC; EE = Executive Experience measured as the number of directors with executive experience divided by the total number of directors on RC; EP = Membership of Executive defined as number of executive directors on RC divided by total number of directors on RC; RC/NC = Remuneration/Nomination Committee interlock, interlock is defined as the number of directors on RC and nomination committee divided by total number of directors on RC; FS = Firm Size (log of total assets); LEV = Leverage measured as total debt divided by equity

Table 4: Result of multivariate regression analysis based on Tobin's Q

Factors	Pooled (OLS)	REM	FEM
Constant	0.0079 (5.601)***	0.0080 (5.323)***	0.0081 (4.841)***
Composition	-0.002 (-1.673)*	-0.0003 (-0.176)	0.002 (0.912)
Chair independent	0.0001 (0.177)	-0.0005 (-0.520)	-0.002 (-1.158)
Finance expertise	0.0012 (0.838)	-0.00014 (-0.078)	-0.002 (-0.698)
Executive experience	-0.001 (-0.932)	-0.0006 (-0.402)	5.40 (0.025)
Executive presence	0.014 (2.893)***	0.007 (1.647)	0.0017 (0.527)
RC/nomination	0.001 (1.006)	0.0009 (0.819)	0.0011 (0.801)
Firm size	0.038 (1.582)	0.036 (1.625)	0.032 (1.292)
Leverage	-0.025 (-4.690)***	-0.030 (-4.524)***	-0.037 (-4.648)
2008	-0.00116 (-1.155)	-0.0008 (-1.064)	0.0007 (0.973)
2009	-0.0004 (-0.471)	-0.0001 (-0.147)	0.0009 (1.178)
2010	0.0001 (0.122)	0.0002 (0.373)	0.001 (2.422)**
2011	0.0010 (1.126)	0.0011 (1.584)	0.0004 (0.588)
R^2	0.2084	0.162514	0.6093
Adjusted R^2	0.1522	0.103048	0.4684
F-statistics	3.7089***	2.732871***	4.3225***
Durbin Watson stat	0.9203	1.439946	1.8017
Hausman's test	NA	15.353277	NA

Coefficient infront and t-statistics in parenthesis; *, **, ***Indicates significant at 10, 5 and 1%, respectively; OLS = Ordinary Least Square; REM = Random Effect Method; FEM = Fixed Effect Method; Table 3 contains full definition of the variables; Year 2007 was used as base year

remuneration committee attributes on firm performance in the period before and after the Malaysian code on corporate governance was revised, we obtained data for 3 years before the revision (2004-2006) and 3 years after the revision (2009-2010). Researchers excluded year 2007 and 2008 because it was the year the revision was made and the immediate following the year the revision was made. The maximum value for composition of RC is 100% with a minimum of zero and average of 64 and 60% for the period before and after, respectively. The proportion of RC with independent chair has increased from 47-82% for the period before and after the revision.

This indicates an increase in the independence of the RC. The maximum number of expert directors on RC is 100% with a minimum of 0 and an average of 39 and 25% for the period before and after revision, respectively. The proportion of directors with executive experience has increased from a maximum of 33-100% with a minimum of zero and an average of 7 and 27% for the period before and after the revision. Furthermore, the percentage of executive directors on RC varies from a maximum of 100% to a minimum of zero with an average of 73 and 1% for the period before and after the revision. This indicates that companies have improved the composition of RC after the issuance of the revised code by reducing the number of executive directors on the RC. The interlock of directors on RC and NC has a maximum value of 100%, a minimum of 0 and an average of 31 and 69% for the period before and after the revision. This indicates an in increase in the dual membership of directors on RC and NC.

Multivariate regression analysis based on ROA: The result of the Hausman's test indicates that FEM is the most appropriate for the RC model based on ROA for both

Table 5: Multivariate regression analysis for RC model based on ROA for both periods

Variables	Period before revision	Period after revision
Constant	0.036836 (1.629543)	2.402383 (1.998414)**
INED	0.013291 (1.420209)	0.057121 (0.039178)
CC	0.001561 (0.129362)	-0.091550 (-0.073484)
Finance expertise	0.005767 (0.349166)	-0.677758 (-0.382049)
Executive experience	0.069087 (1.685837)*	0.601387 (0.453131)
Executive membership	-0.012117 (-1.245589)	-6.935999 (-0.809404)
RC_NC	0.010906 (0.860604)	-0.354541 (-0.432145)
Firm size	-0.453138 (-0.693870)	18.02702 (1.065534)
Leverage	0.013331 (0.583844)	-5.367193 (-1.141982)
Year dummies	-0.007887 (-1.542141)	-0.026497 (-0.095200)
Year dummies	-0.005886 (-1.129042)	-0.008465 (-0.028463)
R^2	0.802801	0.885214
Adjusted R^2	0.661065	0.802712
F-statistic	5.664037***	10.72956***
Durbin-Watson stat	2.421082	3.275650

Table 6: Multivariate regression result based on Tobin's Q for both periods

Variables	Period before revision	Period after revision
Constant	0.005944 (2.958646)***	0.008884 (2.839769)***
INED	-0.000653 (-0.784695)	0.000310 (0.081672)
CC	0.000115 (0.107474)	-0.001121 (-0.345832)
Finance expertise	0.002479 (1.688582)*	-0.001046 (-0.226671)
Executive experience	-0.002040 (-0.560134)	-0.000172 (-0.049745)
Executive membership	-0.000160 (-0.184705)	-0.003989 (-0.178861)
R-N	0.000627 (0.556846)	-5.30E-05 (-0.024832)
Firm size	0.067724 (1.166781)	0.033338 (0.757172)
Leverage	1.18E-05 (0.579524)	-0.018513 (-1.513569)
Year dummies	-0.000701 (-1.542708)	0.000840 (1.159833)
Year dummies	-0.000506 (-1.091127)	-0.000367 (-0.474099)
R^2	0.683096	0.686479
Adjusted R^2	0.455322	0.461136
F-statistic	2.999000***	3.046372***
Durbin-Watson stat	2.042958	2.383122

***, **, *Indicates significant at 1, 5 and 10%, respectively

periods. The result obtained indicates an a djusted R^2 of 66 and 80% for the 2 periods, respectively. This means that the variables collectively explain 66 and 80% of the variation in ROA. The F-statistics obtained was large (5.6640 and 10.7295) and corresponding p-value was significant or lower than the alpha value of 0.05. In terms of the two periods, the variables explain more of the variation in ROA after the revision compared to the period before the revision. With respect to the individual variables, only executive experience is significant ($p<0.1$) and positively related with ROA in the period before the revision. However, none of the variables in the period after the revision is significantly related with ROA (Table 5).

Multivariate regression analysis based on Tobin's Q: Result of the regression analysis indicates that the variables explain 45 and 46% of the variation in Tobin's Q for the period before and after the revision. The F-statistics for the two periods (2.9990 and 3.0463) was large and the corresponding p-value was significant at 1% level in both periods. In terms of the individual variables, finance expertise of directors is significant ($p<0.1$) and positively related with performance in the period before

Table 7: Result of regression analysis based generalized method of moments

Variables	ROA	Tobin's Q	GMM (ROA)	GMM (TQ)
Constant	0.058 (4.552)***	0.0080 (5.323)***	0.0062 (0.0494)	0.007 (5.024)
CC	0.012 (1.065)	-0.0003 (-0.176)	0.1350 (1.065)	-0.0006 (-0.1114)
CINED	-0.020 (-2.001)**	-0.0005 (-0.520)	-0.0064 (-0.102)	0.0059 (1.0235)
FE	0.006 (0.596)	-0.00014 (-0.078)	-0.2474 (-1.485)	-0.0013 (-0.1414)
EE	-0.010 (-0.934)	-0.0006 (-0.402)	0.0422 (0.5573)	0.0011 (0.3632)
EP	0.032 (0.486)	0.007 (1.647)	0.0212 (0.1631)	0.0004 (0.1089)
RC/NC	-0.009 (-1.35)	0.0009 (0.819)	-0.0432 (-1.254)	-0.00094 (-0.3704)
FS	0.077 (0.496)	0.036 (1.625)	-0.7807 (-0.6243)	0.0064 (0.0808)
LEV	-0.156 (-3.647)***	-0.030 (-4.524)***	-0.1790 (-1.177)	-0.0022 (-0.1194)
2008	-0.016 (-2.543)**	-0.0008 (-1.064)		
2009	-0.011 (-2.321)**	-0.0001 (-0.147)	-0.0018 (-0.3296)	0.0004 (0.7784)
2010	-0.011 (-2.239)**	0.0002 (0.373)	-0.0032 (-0.4647)	0.0005 (0.7206)
2011	-0.012 (-2.357)**	0.0011 (1.584)	-0.0069 (-0.9042)	-0.0004 (-0.544)
R^2	0.193675	0.162514		
Adjusted R^2	0.137419	0.103048		
F-statistics	3.442781***	2.732871***		
DW statistics	19.1413 (0.0852)	1.439946		
J-statistics			2.6241 (0.7576)	7.3218 (0.2921)
Wald test			23.7637 (0.0138)	9.1482 (0.6082)

ROA = Return On Assets; CC = Committee Composition; CINED = Chair Independent Non-Executive Director; FE = Finance Expertise; EE = Executive Expertise; EP = Membership of executives; RC/NC = Remuneration/Nomination Committee interlock; FS = Firm Size; LEV = Leverage; DW = Durbin Watson; Year 2007 is used as the base year

the revision while none of the variables is significantly related with performance in the period after the revision (Table 6).

Robustness analysis: The result presented earlier does not take into consideration potential endogeneity problem which implies that the result may be spurious. In this study, researchers examine the robustness of the result to endogeneity problem. In order to account for potential endogeneity problem in the regression and following prior studies, researchers employ the generalized method of moments method (Blundell and Bond, 1998; Sufian and Habibullah, 2010). The result presented above based on the GMM indicates some cases of sensitivities. Firstly, coefficient of committee chair has changed from significant to statistically insignificant under ROA while it has changed from negative to positive under Tobin's Q. Secondly, coefficient of finance expertise has changed from positive to negative under ROA while coefficient of executive experience has changed from negative to positive under both measures of performance.

Coefficient of interlock of directors on RC and NC has changed from positive to negative under Tobin's Q while firm size has changed from positive to negative under ROA. Lastly, leverage has changed from been statistically significant to insignificant under both measures of performance but remained in the same direction. The remaining variables remained unchanged in both direction and significance. In order to ensure that the instruments, researchers used are strong and therefore the estimates are consistent we used the sargan test a test of over-identification restriction to test the instruments validity. The result obtained from the sargan test confirms that the instruments are valid. The result from the GMM estimation indicates that the result is robust to potential endogeneity problem (Table 7).

CONCLUSION

Based on data obtained from annual reports of 37 finace companies and Bloomberg database, the study examined the impact of RC attributes on the performance of finance companies in Malaysia. The result indicates significant positive relationship between RC attributes and firm performance. In terms of the coefficients of the variables, the result indicates that independent committee chair is significantly negatively related with accounting returns. This is contrary to agency theory and empirically supports stewardship theory which suggests that executive directors are good stewards and in terms of conflict of the interest, the interest of the principal will prevail. This implies that the requirement for RC to be composed of only non-executive directors may not be the appropriate governance arrangement for finance companies. In addition, the result suggests that the independent committee chair may not be appropriate for all finance companies but that companies should appoint committee chair based on the circumstance of the committee. The result also indicates improvement in the RC committee attributes after the Malaysian code on corporate governance was revised.

The study only examined the attributes of RC in finance companies and over the period 2007-2011. Future studies could extend the sample of the study to include other sectors of the economy and different observation period. In addition, the study only examined composition of RC, committee chair, expertise and experience of directors, executive membership and interlock of directors on RC and NC. Future studies could include other attributes of the committee such as the individual characteristics of the directors and the internal processes of the committee.

APPENDIX

Descriptive statistics for the period before revision

Statistics	CC	CINED	FE	EE	EP	RC_NC
Mean	0.640	0.477	0.397	0.074	0.735	0.311
Median	1.000	0.000	0.333	0.000	1.000	0.000
Maximum	1.000	1.000	1.000	0.333	1.000	1.000
Minimum	0.000	0.000	0.000	0.000	0.000	0.000
SD	0.519	0.501	0.551	0.139	0.537	0.370
Skewness	0.595	0.090	2.860	1.315	0.729	0.737
Kurtosis	5.191	1.008	13.910	2.730	6.772	2.111
Obs.	111.000	111.000	111.000	111.000	111.000	111.000
Statistics	INED	CC	FE	EE	EP	RC_NC
Mean	0.6003	0.8288	0.2552	0.2791	0.0170	0.6987
Median	0.6666	1.0000	0.2500	0.2500	0.0000	1.0000
Maximum	1.0000	1.0000	1.0000	1.0000	0.1000	1.0000
Minimum	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
SD	0.3245	0.3783	0.2630	0.3078	0.0401	0.3967
Skewness	-0.5886	-1.7460	0.5427	0.8765	1.9262	-0.9513
Kurtosis	2.4101	4.0486	2.1691	2.8526	4.7102	2.2521
Obs.	111.0000	111.0000	111.0000	111.0000	111.0000	111.0000

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