Does the Founder CEO Receive a Higher Pay for the Firm's Performance? Evidence from Malaysia

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Abstract: This paper examines whether firms run by a founder chief executive officer (CEO) have higher pay and whether their power sources from chairing the board, remuneration committee, tenureship, or share ownership affect the pay-performance nexus. Data for the study was hand-collected amongst 362 family-owned firms listed in Bursa Malaysia from 2009 to 2015 and analysed via the generalized method of moments (GMM) system to address endogeneity. The results showed that initially there was a significant positive pay-performance relationship in Malaysian family-owned firms; however, the founder CEOs had a weak influence on the pay-performance nexus. Secondly, the founder CEOs' influences on the pay-performance nexus mainly came from their ownership power and their structural power as the chairman of the board. Thirdly, the pay-performance nexus tended to be positive and stronger when the family member of the CEO was chairing the board of directors and remuneration committee, instead of themselves, but the relationship changed to negative when more independent directors sat on the board, including a remuneration committee. The findings offered some policy implications for the regulators to enhance corporate transparency on the directors' remuneration and ownership.

Keywords: Pay, performance, founder CEO, family firm, corporate governance
JEL classification: G32, G34

1. Introduction

In Asia, except Japan, nearly 50% of family-owned businesses are first-generation family or founder-owned. The performance of firms is related to the family management style, especially if the founder is still on the corporate board or overseeing the management. Credit Suisse (2018) had even lauded family-owned businesses as the cornerstone of most economies in the world and they outperformed non-family-owned companies in terms of equity market performance, revenue and profitability growth. The outstanding

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performances of family-owned firms can be attributed to a greater focus on research and development, long-term investment philosophy and a conservative or less-geared balance sheet (Credit Suisse, 2018). Family-owned firms also exhibited higher margins, better cash flow returns, and lower gearing compared to non-family-owned firms (Tan, 2018). It is always intriguing to know whether family-owned firms compensate the top management, especially the family CEO, based on the performance of the firm, or whether there is a tendency for family-owned firms to overpay the family CEO, especially if the CEO is also the founder.

Before 2010, the economic contributions of family-owned firms were quite substantial, whereby 45% of listed firms on Bursa Malaysia comprised family-owned firms (Carney & Child, 2013; Ibrahim et al., 2008), and they contributed approximately 67% of nominal gross domestic product (GDP) (Fan et al., 2011). Three of the family-owned companies listed in the Main Board of Bursa Malaysia, namely Press Metal Aluminium Holdings Bhd, Hap Seng Consolidated Bhd and Hartalega Holdings Bhd, made the grade by being listed in the top 30 Asian family-owned companies ranked by Thomson Reuters in terms of sales growth and cash flow returns on investment (Credit Suisse, 2018). Credit Suisse (2018) and Tan (2018) highlighted that most Malaysian family-owned firms comprised the first and second generations. Several of the founders are still running the company themselves with successful performance, whereas some founders preferred to withdraw themselves from top management but are still chairing the board, while other founders preferred to hold both the posts of CEO and board chairman, resulting in a duality role that is commonly seen in Malaysian family-owned firms.

A problem that has affected Malaysian family-owned firms is the non-transparency of remuneration paid to their top executives, especially to the founder. Malaysian firms only provide scant information on the remuneration received by their executive directors. Starting from 30th June 2001, publicly listed companies in Malaysia were required to disclose the remuneration paid to their directors under the Revamped Listing Requirements of Bursa Malaysia (paragraphs 15.25 and 15.26). However, only a minimal number of Malaysian firms had voluntarily disclosed the remuneration paid to their directors and their components individually. Therefore, it is fair to question if family-owned firms compensate the family CEO, especially the founder, commensurate with the firm performance that they have charted and achieved.

The regulator has taken efforts to increase transparency in directors' remuneration. The *Malaysian Code on Corporate Governance 2017* made it a mandatory requirement for publicly listed companies to provide detailed disclosure based on the remuneration paid to directors (these included all fees, salaries, bonuses, benefits-in-kind and other emoluments), and the remuneration paid to the top five senior management personnel within the bands of RM50,000 (Securities Commission Malaysia, 2017). However, until 2018 the adoption rate of disclosure on directors' remuneration was still low amongst Malaysian publicly listed companies. As reported in the *Corporate Governance Monitor 2019*, only 17% of 930 listed companies had disclosed their senior management remunerations as requested (Securities Commission Malaysia, 2019). The reasons cited for non-disclosure are concerns over the safety of senior management members, confidentiality and the poaching of talent by rival companies. Amongst family-controlled companies, CEOs continued to be paid large remunerations even when the company

profits decline. This grievous situation has prompted the media to urge the Securities Commission Malaysia and Bursa Malaysia to insist the board of directors of publicly listed companies disclose and clearly articulate the basis of determining CEOs' salaries in their annual reports (*The Edge Malaysia*, 2019).

This paper offers at least three contributions. Firstly, although the literature showed that firms with a founder CEO outperformed non-founder CEO firms, most of the evidence documented was based on the United States (US) or Western firms (Anderson & Reeb, 2003; Miller et al., 2007). Asian family-owned firms, however, behave differently in terms of corporate culture and business philosophy, whereby they tend to cultivate political connections, rely heavily on personal networks, and uphold stronger cultural values and social norms (Dinh & Calabrò, 2019). Malaysia is one of the Asian markets that practises strong Western corporate governance culture, however, it is dominated by family-owned firms. This study assessed whether the findings on the pay-performance nexus using Western founder CEO firms can be generalised to the Asian context. Secondly, the influence of the founder CEO was studied to explore whether it is linked with any specific sources of the CEO's power (Finkelstein, 1992). These interaction effects have hitherto not been examined before in previous studies on founder CEOs. The results gauged whether the founder CEOs received higher pay due to their prestige status as founders, or whether the premium payment was due to any specific sources of structural power, or ownership power. Finally, additional insights were needed to explore whether family involvement and the monitoring of independent directors affected the pay-performance nexus.

The rest of this paper is divided into four sections, whereby Section 2 provides the arguments for the testable hypotheses. The descriptions of data collection, sample firms and regression models are provided in Section 3. Section 4 reports on the results and findings. Finally, Section 5 states the conclusion with some policy suggestions.

2. Hypothesis Development

2.1 Founding CEO Remuneration and the Performance of Family-owned Firms

The cornerstone of classical agency theory is a misalignment of interests between the principals (shareholders or owners) and agents (managers). The shareholders are interested in maximising the firm's value; however, the managers tend to enhance personal wealth, job security and prestige (Jensen & Meckling, 1976; Jong & Ho, 2018). In widely held firms, without the presence of large shareholders, agency conflict between shareholders and managers or Type I agency conflict is usually resolved via financial alignment, which is achieved either through the equity ownership of managers in the firms; and/or the structure of managers' compensation that is tied to the firm's performance. Also, it is believed that firms should adopt incentive compensation systems (Fama & Jensen, 1983; Jensen & Meckling, 1976). Briefly, the common consensus in the literature is that the firm's performance is positively associated with the CEO's compensation.

In family-owned firms, ownership is concentrated in the hands of family members, especially the founder CEO if he or she is still running the firm (Shleifer & Vishny, 1989).

It is also expected that firms with founder CEOs outperformed non-founder CEOs' firms, as evidenced in many US studies (Anderson & Reeb, 2003; Miller et al., 2007). This could be because the founder CEOs may exert more effort for a given incentive structure (Palia & Ravid, 2002), have a higher dedication to ensuring long-term survival (Chen et al., 2012), and they are better at solving agency problems (Jensen & Meckling, 1976). Nevertheless, this positive nexus between the founder CEOs and the firm's performance may not be that straightforward. Founder CEOs may no longer possess the expertise in managing a more established company (Wasserman, 2006), and incur Type II agency conflict (Anderson et al., 2009) that leads to relatively worse firm performance compared to non-founder CEOs.

While founding CEOs may cause different performance impacts, a question that is often asked is, would the remuneration policy in family-owned firms be indifferent between the founder-CEOs and non-founder CEOs? Financially, a family-owned firm managed by the founder-CEO tends to have better investment efficiency (Fahlenbrach, 2009), higher R&D expenditure (Block, 2012), and higher cash holdings (Lau & Block, 2012). Furthermore, founder-CEO family-owned firms are less likely to have wasteful expenditure and intra-family conflicts than non-founding family-owned firms, and they also prefer share repurchase over dividends as a pay-out policy compared to non-founder CEO family-owned firms (Lau & Block, 2014). Therefore, it is expected that the founder-CEO family-owned firms ought to have better financial standing to pay higher remuneration. As founder-CEOs have a unique status in the firms and many privileged positions, they may be able to extract the private benefit of control (Adams et al., 2009) by pressuring the remuneration committee to approve higher pay for their performance, relative to non-founding CEOs. As a result, *ceteris paribus*, the first hypothesis is:

H1: Remuneration for the founder-CEO is higher for an improved firm's performance.

2.2 The Power of Founding CEOs and Pay-Performance Nexus

In practice, not all founder-CEOs receive higher pay relative to non-founder CEOs. The founder-CEOs that can pressure the remuneration committee decision should possess a certain degree of formal and informal power. Consequently, it is relevant to examine whether CEO's power can be a moderating factor in the pay-performance nexus. Finkelstein (1992) explained the CEO's power in four dimensions. Firstly, structural power comes from his or her legitimate formal position within the organisation. Secondly, ownership power from his or her shareholdings. Thirdly, expert power refers to CEO's ability via his or her educational background and professional training. Fourthly, the prestige power, which comes from a personal background that helps the CEO earn privileged treatment or respect from the organisation, such as his or her status as founder, descendent, or family member of the founder, or major owner. Since the main focus is on the founder-CEO, hypothesis H1 covered the prestige power of the founder-CEO, and thus other power dimensions of the founder-CEOs will be examined. In this context, the focus was on structural power as measured by the chairmanship of the corporate board, remuneration committee chairman, and CEO's tenure. Ownership

power was also included, which was measured by the founder-CEO's shareholdings. The general hypothesis to be tested is spelt out in H2 as follows:

H2: The higher the CEO's power, the higher the remuneration for an improved firm's performance.

To pinpoint the interaction effect of the CEO's power on the pay-performance nexus, the following four sources of the CEO's power were tested:

H2a: When the founder-CEO is also the chairman of the board of directors, the higher the remuneration for an improved firm's performance.

H2b: When the founder-CEO is also the chairman of the remuneration committee, the higher the remuneration for an improved firm's performance.

H2c: The longer the founder-CEO's tenure, the higher the remuneration for an improved firm's performance.

H2d: The higher the founder-CEO's share ownership, the higher the remuneration for an improved firm's performance.

2.3 Further Issues I: Does Family Involvement Matters?

Family-owned businesses possess certain characteristics that worry investors. One of the dominant traits of family-owned businesses is a high concentration of family ownership, which breeds poor corporate governance. Shareholdings in Malaysia's publicly listed companies are highly concentrated in the hands of a few individuals (Abdul Samad, 2004; La-Porta et al., 2000). A majority of companies have the ultimate controlling owner, either an individual or a family (Ishak & Napier, 2006). For instance, Abdul Samad (2004) reported that about 71.4% of companies in the Main Board and Second Board are under majority ownership with more than 50% of shareholdings. The largest shareholder of Malaysian firms on average owns between 33% (Truong & Heaney, 2007) to 43% (Tam & Tan, 2007) of the issued capital. With a high level of ownership concentration, Malaysian family-owned firms tend to remain active participants in management (Abdul Rahman, 2006; Liew et al., 2014). Ameer et al. (2010) found that 40% of the board members of family-controlled firms in Malaysia comprised incumbent family members. These family members entrenched their position in the company by serving for multiple years; and only a fraction of them is subject to yearly elections to the board (Sakinah & Ameer, 2012). The emergence of family-controlling shareholders in the board increases the tendency of expropriation of minority shareholders in various forms, such as transfer pricing, asset stripping, investor dilution, excessive salaries, or perquisites for family members or insiders (Bhaumik & Gregoriou, 2010; Lim & Yen, 2011), diversion of corporate opportunities from the firm, and installing unqualified family members in managerial positions (Jensen & Meckling, 1976; Johnson et al., 2000). These constitute the so-called Type-II agency conflicts (Shleifer & Vishny, 1997; Villalonga & Amit, 2006) between the controlling family shareholders and minority shareholders in family-owned firms. For a founder CEO, the active placement of family members in the firms may result in a more relaxed and loose pay-performance mechanism. Thus, it could be deduced that:

H3: The more power the family member has, the higher the remuneration for an improved firm's performance.

The specific hypotheses to be tested in the regression model to infer hypothesis H3 were:

H3a: When a family member is the chairman of the board of directors, the higher the remuneration for an improved firm's performance.

H3b: When a family member is the chairman of the remuneration committee, the higher the remuneration for an improved firm's performance.

2.4 Further Issues II: Does Independent Directorship Matter?

Without vigilant oversight from independent directors on the board of family-owned firms (Anderson & Reeb, 2004), large shareholders, such as founding families tend to exploit minority shareholders' portion of the firm's wealth (Faccio et al., 2001). This possibility of expropriation is relatively high in family-owned firms because family ownership is associated with greater managerial entrenchment (Gomez-Mejia et al., 2001). De Angelo and De Angelo (1985) traced the incentives for monitoring family involvement in business activities. Family involvement could take the forms of explicit and implicit contracts, quasi-rents relatives earn from employment at a family-controlled firm and family ownership of common stock cash flows. The involvement of family members is more likely to be based on emotions and sentiments than on non-family relational contracts (Wu, 2017). Gao and Li (2015) also argued that annual pay may be of second-order importance to family-member CEO, as it is their legacy to manage the business.

Independent directors, commonly known as outside directors, or non-executive directors, represent the interest of stakeholders in addressing the agency issues in executive compensation (Daily et al., 1998). Independent directors are also important to limit managerial influences in deciding executive compensation (Boone et al., 2007). However, independent directorship may not necessarily be a perfect solution for a fair compensation policy. Having inside or executive directors in the remuneration committee may not necessarily contradict the interest of shareholders as inside directors from family members or even the founder may be more effective in designing and setting a fair remuneration, as they have a better understanding of the specific social and political details of the firm (Anderson & Bizjak, 2003). This asymmetry of information on the firm's operations and management can be a drawback in having more outside directors. Still, it is expected that with weak corporate governance culture in emerging markets, the level of independence in the compensation process is going to pose a positive impact on CEO's pay. Therefore, the following hypothesis was suggested:

H4: The more independent directors on the corporate board, the lower the remuneration for an improved firm's performance.

The specific hypotheses to be tested in the regression model to infer hypothesis H4 were:

H4a: The more independent directors on the corporate board, the lower the remuneration for an improved firm's performance.

H4b: The more independent directors on the remuneration committee, the lower the remuneration for an improved firm's performance.

3. Data and Methodology

Data were collected from annual reports with a sample of 362 listed family-owned firms from five sectors, namely consumer products, construction, industrial products, properties, and trading and services. The rationale for choosing these sectors was to ensure uniformity in the sample firms, and therefore, help in reducing potential biases that could occur due to a mix of relatively incompatible sectors (Dogan & Smyth, 2002). The sample period was from 2009 to 2015. The reason for only using data up to 2015 for carrying out the analysis was based on the following rationale. Malaysia first started to adopt the *Malaysian Code of Corporate Governance* at the beginning of 2000. Since then, various revisions and updates have been made to the Code in 2007, 2012, 2017 and 2021 to ensure its relevancy and alignment with globally recognised best practices and standards. In terms of regulations and requirements about directors' remuneration, the *Malaysian Code of Corporate Governance 2017* not only requires companies to disclose on a named basis the top five senior management's remuneration component, but each listed company also needs to explain the policies and procedures used to determine the remuneration of directors and senior management on the company's website. This new requirement is expected to enhance transparency on how the company determines its directors' pay as well as provide an indication of whether the best practice has been adopted in rewarding and retaining the company's top talent. The sample period from 2009 to 2015 was chosen to assess the actual remuneration practice adopted by family-owned firms, particularly in compensating family member CEOs before it is moderated or influenced by this new requirement on remuneration policy disclosure.

The definition of a family-owned firm was based on Anderson and Reeb (2003) and Villalonga and Amit (2006), i.e., a firm that has the founder's family members on the corporate board and ownership of shares; or a firm that has at least two family members on the board. The dependent variable was the CEO's remuneration, proxied by *PAY*, which was measured as the median of the highest band of director's remuneration, including salary, bonus, fees, allowances and contributions to retirement funds. Financial variables were collected from Refinitiv Datastream. For control variables, a total asset to proxy for the firm's size (*SIZE*), firm's age (*AGE*), Tobin's Q to proxy for the firm's value (*VALUE*), sales growth to proxy for the firm's growth (*GROWTH*), leverage (*LEVERAGE*), and stock return volatility to proxy for firm's risk (*RISK*) were included. For the key independent variable of the firm's performance, return on assets (*ROA*), return on equities (*ROE*), and firm's stock returns (*RETURN*) were used. The remaining board variables were hand-collected from the annual reports and Corporate Governance Statement, including the identity of board members, such as the founder-CEO, board chairman, chairman of the remuneration committee, number of independent directors in the board and remuneration committee.

The pay-performance model was likely to suffer from an endogeneity problem, thus a dynamic GMM estimator was used that utilises endogenous instrumental variables. A GMM system was chosen because the sample was a relatively small panel set; and the time dimension was only T=6, with a reasonably large number of firms (N=365) for the overall sample, and this could result in estimation bias and inefficiency. The GMM

system is best to address this small sample bias and provides better precision compared to other panel GMM estimators (Soto, 2009). Moreover, the GMM system can address the unobserved firm fixed effect and the joint endogeneity of all the regressors, and is an improved estimator over the difference GMM (Wintoki et al., 2012).[1]

To address the first hypothesis, H1, whether the founder CEO is getting higher pay, the following model was estimated:

$$PAY = \beta_1 SIZE + \beta_2 AGE + \beta_3 VALUE + \beta_4 GROWTH + \beta_5 LEVERAGE + \beta_6 RISK + \beta_7 PERF + \beta_8 D_{Founder} + \beta_9 (PERF \times D_{Founder}) + Year + Sector + \varepsilon \quad (1)$$

In Model (1), the dependent variable is *PAY* (the natural log of the median of the highest band of director's remuneration), while control variables include *SIZE* (the natural logarithm of total assets), *AGE* (the number of years since the firm is incorporated), *VALUE* (Tobin Q), *GROWTH* (sales growth), *LEVERAGE* (total debt-to-total assets), *RISK* (the standard deviation of daily stock returns in a year). The main independent variable is *PERF*, which denotes the firm's performance, measured with three different variables: *ROA* (net income divided by total assets), *ROE* (return on equity) and *RETURN* (annualised firm stock returns). The *founder* is a dummy variable that takes the value of 1 if the CEO is a founder. The year and sector effects, and ε (the error term) in the regression were also controlled.

To address the four specific hypotheses from H2a to H2d on whether the structural and ownership power of the founder CEOs affect the pay-performance nexus, subsample analysis using family-owned firms with founder-CEOs was focused. The firm's performance variable in Model (1) interacted with the four power proxies, i.e., the founder-CEO is also the chairman of the board of directors (*BOARD_CHAIR*), the founder-CEO is also the chairman of the remuneration committee (*RECOM_CHAIR*), the founder-CEO's tenure (*TENURE*), and the founder-CEO's share ownership (*OWNERSHIP*). The model for H2 is shown below:

$$PAY = \beta_1 SIZE + \beta_2 AGE + \beta_3 VALUE + \beta_4 GROWTH + \beta_5 LEVERAGE + \beta_6 RISK + \beta_7 PERF + \beta_8 POWER + \beta_9 (PERF \times POWER) + Year + Sector + \varepsilon \quad (2)$$

To test hypothesis H3a and hypothesis H3b on whether the founder CEOs get higher pay when a family member is chairing the board and remuneration committee, respectively, the dummy variable $D_{Founder}$ was replaced in Model (1) with a dummy representing the family chairman in the board and another dummy variable representing the family chairman in the remuneration committee, respectively, as shown in Model 3(a) and Model 3(b):

$$PAY = \beta_1 SIZE + \beta_2 AGE + \beta_3 VALUE + \beta_4 GROWTH + \beta_5 LEVERAGE + \beta_6 RISK + \beta_7 PERF + \beta_8 CHAIR\_BD + \beta_9 (PERF \times CHAIR\_BD) + Year + Sector + \varepsilon \quad (3a)$$

$$PAY = \beta_1 SIZE + \beta_2 AGE + \beta_3 VALUE + \beta_4 GROWTH + \beta_5 LEVERAGE + \beta_6 RISK + \beta_7 PERF + \beta_8 CHAIR\_RC + \beta_9 (PERF \times CHAIR\_RC) + Year + Sector + \varepsilon \quad (3b)$$

where *CHAIR_BD* and *CHAIR_RC* refer to a family member (F) chairing (CHAIR) the board of directors (BD) and remuneration committee (RC), respectively.

[1] For the estimation, the xtabond2 provided by Roadman (2009) in STATA was applied.

For hypothesis H4a and hypothesis H4b, the dummy variable $D_{Founder}$ were replaced in Model (1) with a ratio variable measuring the percentage of independent directors in both positions, respectively, as represented in Model 4(a) and Model 4(b):

$$PAY = \beta_1 SIZE + \beta_2 AGE + \beta_3 VALUE + \beta_4 GROWTH + \beta_5 LEVERAGE + \beta_6 RISK + \beta_7 PERF + \beta_8 IND\_BD + \beta_9 (PERF \times IND\_BD) + Year + Sector + \varepsilon \quad (4a)$$

$$PAY = \beta_1 SIZE + \beta_2 AGE + \beta_3 VALUE + \beta_4 GROWTH + \beta_5 LEVERAGE + \beta_6 RISK + \beta_7 PERF + \beta_8 IND\_RC + \beta_9 (PERF \times IND\_RC) + Year + Sector + \varepsilon \quad (4b)$$

where *IND_BD* and *IND_RC* refer to the ratio of independent directors (IND) in the board of directors (BD), and remuneration committee (RC), respectively.

4. Results and Discussion

4.1 Descriptive Statistics and Variable Correlations

In the sample of family-owned firms, about 27% of the firms had the founder as CEO, while 55% of the firm's CEO was held by a descendant or other family members, and the remaining family-owned firms appointed outsiders as CEO, constituting only 18% of the total sample. In this study, however, the latter two groups of CEOs as non-founder CEOs were lumped together, as it is not within the interest of the study to differentiate the influence of the family CEOs and professional CEOs. Table 1 provides the comparisons between family-owned firms with founder-CEOs and non-founder CEOs in terms of pay, performance and other firms' attributes. A simple t-test was conducted on the differences.

Founder-CEOs, particularly of those companies, which can get listed on the stock exchanges normally possess exceptional business acumen and managerial skills. These managerial skills and capabilities of value creation and enhancement are innate and difficult to be transferred entirely to their descendants. Therefore, it is expected that firms with a founder-CEO should have better performance relative to firms with non-founder CEO. Indeed, this has been shown in the sample: from Table 1, all three performance indicators, *ROA* (0.060), *ROE* (0.082) and *RETURN* (0.244) for firms with founder-CEO were higher than those firms with non-founder CEOs with *ROA* (0.043), *ROE* (0.056) and *RETURN* (0.214). These differences were statistically significant, except for *RETURN*. However, in terms of CEO's pay, the average annual CEO's pay for firms with a founder-CEO was RM1.306 million compared to RM1.65 million earned by non-founder CEO firms, and this pay difference was statistically significant. The higher pay for non-founder CEOs seemed to contradict the comparison using the firm's performance measures (*ROA*, *ROE* and *RETURN*), and the positive pay-performance nexus was not reflective based on the descriptive statistics. Nevertheless, the higher non-founder CEOs' pay seemed to be backed up by or aligned with the larger firm's size, older firm's age and higher sales growth achieved by these firms, which have non-founder CEOs at the helm.

Next is the measurement of the CEO's power. The first was BOARD_CHAIR or commonly known as CEO's duality. CEO's duality exists when the position of CEO and chairman is held by the same person. This was observed in about a quarter of the firms with a founder-CEO compared to only approximately 12% for the non-founder

Table 1. Descriptive statistics and equality test for founder CEO vs non-founder CEO firms

Variable	Firms with founder CEO (689 observations)				Firms with non-founder CEO (1845 observations)				Differences
	Mean	Std. dev.	Min	Max	Mean	Std. dev.	Min	Max	
PAY (*RM*)	1,306,108	1,834,569	19,000	20,400,000	1,650,000	7,940,047	25,000	165,000,000	347,481*
ROA	0.060	0.064	-0.196	0.288	0.043	0.064	-0.196	0.288	-0.017***
ROE	0.082	0.102	-0.418	0.554	0.056	0.126	-0.480	0.555	-0.026***
RETURN	0.244	0.534	-0.609	3.412	0.214	0.595	-0.726	7.089	-0.036
SIZE	704,925	1,892,552	24,159	20,500,000	1,272,917	5,482,797	27,837	89,000,000	567,992***
AGE	17.761	9.097	2	47	25.171	15.776	2	95	7.412***
VALUE	1.032	0.644	0.359	4.537	0.919	0.454	0.359	4.537	-0.113***
GROWTH	0.062	0.233	-0.967	1.353	0.134	0.916	-0.947	22.687	0.072***
LEVERAGE	0.077	0.089	0.000	0.664	0.085	0.093	0.000	0.599	0.007*
RISK	0.030	0.022	0.009	0.255	0.032	0.024	0.003	0.457	0.002*
BOARD_CHAIR	0.250	0.433	0	1	0.124	0.330	0	1	-0.126***
RECOM_CHAIR	0.466	0.499	0	1	0.337	0.473	0	1	-0.129***
TENURE	15.120	8.510	1	44	9.735	7.634	1	45	-5.386***
OWNERSHIP	0.373	0.153	0.028	0.744	0.217	0.217	0	0.842	-0.155***
CHAIR_BD	0.431	0.496	0	1	0.506	0.500	0	1	0.075***
CHAIR_RC	0.129	0.336	0	1	0.12	0.32	0	1	-0.009
IND_BD	0.438	0.107	0.250	0.800	0.46	0.12	0.091	0.875	0.021***
IND_RC	0.701	0.190	0	1	0.69	0.20	0	1	-0.008

Note: The asterisks ***, **, * denote statistical significance at 1%, 5% and 10% levels respectively. Differences refer to t-test on the mean Pay for non-founder CEOs minus the mean Pay for founder CEOs.

firms. Interestingly, for the RECOM_CHAIR, another CEO power proxy, it was found that nearly half (0.466) of the founder CEOs were also chairing their remuneration committee, while 33% of the non-founder CEOs were holding the same position. For the CEO's power measurement, it was found that the founder CEOs on average have 37% of the firm's shares, and this implied that most founder-CEOs were the controlling shareholders compared to their descendants or other family CEOs with only 21.7% share ownership. This high ownership stake further entrenched the position of founder CEOs as there were rarely any shareholders, even institutional, that could own such a high percentage of share ownership. Founders are usually entrenched in the CEO's position compared to non-founder CEOs. On average, founders hold their CEO position for about 15 years, which is more than 50% longer than the CEO's tenure for non-founder CEOs (9.7 years). As stated by Song and Wan (2019), with longer tenure, founder CEOs learn more on the job and this might be one of the underlying reasons they can deliver an improved firm's performance. Most importantly, all four CEO power measures for these two groups of CEOs are different, suggesting that founder CEOs are more powerful than non-founder CEOs.

For other control variables, Table 1 exhibits that firms with a founder-CEO are significantly smaller in size, younger in firm age, slower in sales growth, and lower in leverage and firm risk. Nevertheless, firms with a founder-CEO are in better shape in terms of financial performance, as measured by Tobin's Q, besides ROA, ROE and RETURN, as discussed earlier. For family involvement, approximately 50.6% of firms with non-founder CEOs appointed a family member as the board chairman compared to 43.1% of firms with a founder CEO. For remuneration committees, a family member had an almost equal proportion of chairing the committee in firms with founder and non-founder CEOs, with 12.9% and 12%, respectively, and the difference was not statistically significant. The percentage of independent directors appointed by these Malaysian family-owned firms was still below the 2/3 threshold required by the *Malaysian Code on Corporate Governance*, whereby their proportion for firms with founder and non-founder CEOs was only 43.8% vs. 46%, respectively. This was relatively lower compared to 66% for the overall Malaysian firms documented in a recent study by Khan et al. (2019). However, for the percentage of the independent remuneration committee, they were at quite the same proportion in both groups of firms, i.e., 70% vs. 69%, and thus their difference was statistically insignificant.

Table 2 presents the pairwise correlation matrix of the variables. The magnitude of the correlations among the variables was, in general, low except for the correlation between *ROA* and *ROE*, with a value of 0.9367. The high correlation between *ROA* and *ROE* was not surprising because these variables were conventional variables used to proxy the firm's performance. Consequently, they could have similar characteristics and very close data values.

4.2 Baseline Results for Hypothesis H1

As with any typical pay-performance model, the problem of endogeneity issue needs to be addressed properly. Therefore, throughout the empirical analyses, the system GMM estimator was used to handle possible omitted variable bias and measurement

Table 2. Correlation matrix

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1. *PAY* (*RM*)	1																	
2. *ROA*	0.1356	1																
3. *ROE*	0.1965	0.9367	1															
4. *RETURN*	0.0229	0.2419	0.2511	1														
5. *SIZE*	0.5420	-0.0179	0.0521	-0.0108	1													
6. *AGE*	0.1269	-0.0890	-0.0857	0.0655	0.1468	1												
7. *VALUE*	0.1416	0.6001	0.5169	0.2604	0.0254	-0.0070	1											
8. *GROWTH*	0.1268	0.2141	0.2133	0.0188	0.0944	0.0205	0.0794	1										
9. *LEVERAGE*	0.2917	-0.1121	-0.0423	-0.0033	0.5250	-0.1205	-0.0419	0.0702	1									
10. *RISK*	-0.1724	-0.2886	-0.3076	0.1143	-0.1006	-0.0694	-0.1983	-0.1047	-0.0696	1								
11. *BOARD_CHAIR*	0.0147	-0.0042	-0.0356	-0.0518	-0.0586	0.0383	-0.0984	-0.0300	-0.1277	0.0445	1							
12. *RECOM_CHAIR*	0.0480	-0.0770	-0.0341	-0.0490	-0.0446	-0.0508	-0.0416	0.0005	0.0632	0.0332	0.0709	1						
13. *TENURE*	0.0411	-0.0730	-0.0401	0.0681	-0.0414	0.7380	-0.0877	0.0112	-0.0962	-0.0613	-0.0467	-0.0038	1					
14. *OWNERSHIP*	0.0069	0.0549	0.0497	-0.0270	-0.0804	0.0459	0.0032	0.0276	-0.0347	-0.0493	0.2842	0.1108	-0.0114	1				
15. *CHAIR_BD*	0.0049	0.0300	-0.0139	-0.0493	-0.0040	0.0032	-0.1147	-0.0423	-0.1027	0.0145	0.6847	-0.0210	-0.0938	0.0646	1			
16. *CHAIR_RC*	-0.0708	0.0544	0.0491	-0.0614	-0.0856	-0.0479	-0.0797	0.0039	-0.0471	-0.0222	0.0311	0.1608	0.0402	-0.1729	0.2331	1		
17. *IND_BD*	-0.0295	-0.0335	-0.0330	-0.0588	0.0313	-0.0875	0.0434	0.0288	0.0468	-0.0498	-0.0769	-0.0968	-0.1419	-0.0960	-0.1686	-0.2060	1	
18. *IND_RC*	0.0630	-0.0570	-0.0451	-0.0199	0.0382	0.0002	-0.0515	-0.0003	0.1547	-0.0916	0.1323	-0.3499	-0.0386	0.1307	0.0827	-0.2590	0.4300	1

errors (Wooldridge, 2012). The system GMM results in Table 3 to Table 5 pass all the diagnostic tests: AR (1) is statistically significant but not AR (2), and the Hansen test for over-identification of the list of instrumental variables was not statistically significant. Hence, the coefficient estimates can be reliably interpreted.[2]

Table 3 presents the results for Model (1) to test hypothesis H1, which the founder-CEOs received higher remuneration for the firm's performance. Before proceeding to estimate the full Model (1) in Panel III, the first two panels compared the results with and without the dummy founder-CEOs. Model (1) was estimated via three different performance measures, i.e., *ROA*, *ROE*, and *RETURN*. Regardless of the performance measures used, the coefficient estimates for PERF were always positive and statistically significant. The difference among the three measures was the magnitude of their coefficients, whereby the estimates for *ROA* were always elastic, for *ROE* was always inelastic, while for *RETURN* it was inelastic and below 10%. The different magnitudes showed the varying degrees of sensitivity of the directors' remuneration on these three performance measures, the highest being ROA, followed by ROE, and thereafter stock returns. This was due to the relative compactness of the measures on profitability, whereby *ROA* was the most comprehensive, *ROE* did not include retained earnings, and stock returns were full of market noises. Mohd Razali et al. (2018) also discovered a significant positive relation between directors' remuneration and financial performance in terms of ROA and ROE for Malaysian listed firms in the consumer product industry. This positive relationship between directors' remuneration and ROA and ROE even extended to government-linked companies (Nur-Al-Ahad et al., 2018). For the case of family-owned firms, Jaafar et al. (2012) found a significant positive relationship between the CEO's pay and the firm's performance. Nevertheless, the research results of Ghasemi and Ab Razak (2020) showed that there was no significant relationship between a firm's profitability measured by ROA and ROE and executives' remuneration, which signified a weak contractual agreement in the Malaysian market in resolving agency conflict by tying directors' remuneration to firm's performance. Jong and Ho (2020) also did not find a link between an executive's remuneration and a firm's accounting performance (ROA (-1)) and stock performance (SR (-1)) for their samples of Malaysian-listed family-owned firms from 2010 to 2014.

Besides *PERF*, the other statistically significant control variables in explaining CEO's pay were the firm's age (*AGE*), firm's growth (*GROWTH*), and firm's leverage (*LEVERAGE*) with their coefficient signs consistent with previous studies. On the other hand, the firm's size (*SIZE*) was not consistently significant in explaining *PAY*, which contrasted with the positive effect of the firm's size as found by Ghasemi and Ab Razak (2020) on the executives' remuneration. The firm's value (*VALUE*) and firm risk (*RISK*) also did not consistently and significantly explain the variation in *PAY*, except for some cases in Panel II and Panel III.

The *FOUNDER* dummy was found to be positive and statistically significant for all three different performance measures implying that founder-CEOs tend to receive significantly higher pay than non-founder CEOs. However, in the descriptive statistics, founder CEOs received lower pay on average. Turning to the full Model (1) for hypo-

[2] Note that for the system GMM, the different equation did not contain an intercept term.

Table 3. Founder CEO and pay-performance nexus

	Panel I Without founder-CEO dummy			Panel II With founder-CEO dummy			Panel III Founder-CEO dummy interact with performance		
	ROA	ROE	RETURN	ROA	ROE	RETURN	ROA	ROE	RETURN
SIZE	0.1101	0.0993	0.0146	0.1788*	0.1806*	0.0718	0.1553	0.1378	0.032
	(0.0847)	(0.0839)	(0.0761)	(0.0952)	(0.0947)	(0.0826)	(0.1030)	(0.1035)	(0.0851)
AGE	0.0389***	0.0394***	0.0427***	0.0400***	0.0407***	0.0450***	0.0413***	0.0435***	0.0459***
	(0.0067)	(0.0068)	(0.0062)	(0.0075)	(0.0075)	(0.0065)	(0.0075)	(0.0075)	(0.0066)
VALUE	0.0065	0.0269	0.031	0.0528	0.0781*	0.0696	0.0304	0.0344	0.0561
	(0.0391)	(0.0384)	(0.0416)	(0.0446)	(0.0435)	(0.0486)	(0.0467)	(0.0472)	(0.0549)
GROWTH	-0.0737**	-0.0755**	-0.0465	-0.0924***	-0.0927***	-0.0654**	-0.0943**	-0.0902**	-0.0674**
	(0.0350)	(0.0349)	(0.0291)	(0.0345)	(0.0342)	(0.0283)	(0.0370)	(0.0385)	(0.0312)
LEVERAGE	-0.5706**	-0.5942***	-0.4653**	-0.8116***	-0.8445***	-0.6649**	-0.6382**	-0.6224**	-0.7226***
	(0.2273)	(0.2207)	(0.2329)	(0.2578)	(0.2492)	(0.2605)	(0.2700)	(0.2611)	(0.2693)
RISK	0.8098	0.7158	0.5309	1.3449**	1.2023*	0.8257	1.2655*	1.3284*	1.0622*
	(0.6473)	(0.6225)	(0.5341)	(0.6265)	(0.6376)	(0.5669)	(0.7048)	(0.7492)	(0.5674)
PERF	1.1732***	0.5257***	0.0466*	1.1509***	0.5549***	0.0555**	1.1199***	0.4789***	0.0103
	(0.3048)	(0.1437)	(0.0261)	(0.3325)	(0.1588)	(0.0273)	(0.3466)	(0.1643)	(0.0337)
$D_{FOUNDER}$				0.5659***	0.6403***	0.5195***	0.4483**	0.4319**	0.4422**
				(0.1760)	(0.1820)	(0.1721)	(0.1915)	(0.1960)	(0.1869)
PERF x $D_{FOUNDER}$							-0.0033	0.0721	0.1624*
							(0.0114)	(0.6769)	(0.0866)
Lag(*PAY*)	0.3703***	0.3624***	0.3827***	0.3635***	0.3598***	0.3645***	0.3530***	0.3557***	0.3683***
	(0.0280)	(0.0278)	(0.0270)	(0.0304)	(0.0301)	(0.0293)	(0.0346)	(0.0351)	(0.0306)
N	1809	1809	1809	1809	1809	1809	1809	1809	1809
AR(1)	-4.9064***	-4.8185***	-4.677***	-4.9455***	-4.8975***	-4.6986***	-4.8757	-4.7994	-4.8563
	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]

Table 3. Continued

	Panel I Without founder-CEO dummy			Panel II With founder-CEO dummy			Panel III Founder-CEO dummy interact with performance		
	ROA	ROE	RETURN	ROA	ROE	RETURN	ROA	ROE	RETURN
AR(2)	-1.1178	-1.0492	-1.0952	-1.1149	-1.0495	-1.1245	-1.0889	-1.0343	-1.0277
	[0.2637]	[0.2941]	[0.2734]	[0.2649]	[0.2939]	[0.2608]	[0.2762]	[0.3010]	[0.3041]
Hansen	113.4462	117.5125	102.7041	112.3869	116.7849	103.167	95.6281	94.7789	101.3003
	[0.0840]	[0.0508]	[0.2532]	[0.0836]	[0.0482]	[0.2211]	[0.3771]	[0.4006]	[0.2381]

Note: The dependent variable is *PAY* (the natural log of the median of the highest band of director's remuneration), while control variables include SIZE (natural logarithm of total assets), *AGE* (number of years since the firm is incorporated, *VALUE* (Tobin Q), *GROWTH* (sales growth), *LEVERAGE* (total debt-to-total assets), *RISK* (Standard deviation of daily stock returns in a year). The main independent variable of firm performance is denoted as *PERF*, measured with three different proxies: *ROA* (net income divided by total assets), *ROE* and *RETURN* (annualised stock returns). $D_{Founder}$ is a dummy variable that takes a value of 1 if the CEO is a founder, and zero otherwise. N is the number of firm-year observations. AR(1) and AR(2) are diagnostic tests on first order and second order autocorrelation of the residuals, respectively, while Hansen is the Hansen test of over-identification on the instrumental variables. Figures in parentheses ( ) and square brackets [ ] are standard errors and p-values, respectively. The asterisks ***, **, * denote statistical significance at the 1%, 5% and 10% levels, respectively.

thesis H1, Panel III showed that the interaction term of the founder dummy with the firm's performance was only positive and statistically significant for *RETURN*, but insignificant for *ROA* and *ROE*. These results provided weak support for hypothesis H1, which indicated the lack of evidence to support that founder-CEOs received higher pay for the firm's performance. This is consistent with the findings of He (2008), whereby the founder-CEOs tend to earn smaller incentive compensation (which is measured by the relationship between pay and firm's performance as seen in this study) and smaller total compensation than professional CEOs. He (2008) also reported that founder-managed firms are also associated with higher financial performance, which implied that although firms have the financial ability to pay more to founder-CEOs, this incentive is not needed as founder-CEOs have self-motivation and aspiration to work for the betterment of their firms. He (2008) attributed this phenomenon to the founders' intrinsic attributes (such as identification of oneself with the survival and prosperity of the firm he/she created), which led to more compensation reduction than ownership and other extrinsic endowments.

4.3 The Interaction Effect of Founder CEO's Power for Hypothesis H2

With the weak support for H1, it was further explored whether the founder-CEO's structural and ownership power exert any influence on the pay-performance nexus in the subsample of founder-CEO firms. The results are reported in Table 4. Here, it is observed that among the four powers, board chairing and ownership power had significant interaction effects with the firm's performance consistently across the three performance measures. Interestingly, in terms of the magnitude of the coefficients, in both cases, the CEO's powers consistently had a bigger impact on *ROE*, followed by *ROA*, and the least on *RETURN*. Consequently, there was strong empirical support for H2a (when the founder CEO is also the chairman of the board of directors, the higher the remuneration for an improved firm's performance) and H2d (the higher the founder-CEO's share ownership, the higher the remuneration for an improved firm's performance). The positive association between the founder-CEOs, who acted as the board chairman and director remuneration was viewed negatively by Jong and Ho (2020), as the presence of CEO duality coupled with the CEO who was also the controlling shareholder tended to exacerbate the likelihood of expropriation of minority shareholders' interests through excessive remunerations. Nevertheless, Jong and Ho (2020) found that there was no positive association between family CEOs and executives' remunerations in their study.

The positive relationship found between the CEO share ownership (as the controlling shareholder) and the director's remunerations in this study were also evident in the research conducted by Jong and Ho (2020), whereby family ownership exerts a significant positive influence on executive remuneration of Malaysian-listed family-owned firms. Jong and Ho (2020) regarded it as the manifestation of Type II agency conflict in Malaysian family-owned firms via executives' remuneration. Nevertheless, in the present study, this positive relationship was interpreted as the founder-CEO only exerted ownership power to increase their remuneration, which was accompanied by an improved firm's financial performance. In the strictest sense, it could still be

regarded as an expropriation of minority shareholders' interests; however, mitigated by an improved firm's performance. Nevertheless, in a study by Ghasemi and Ab Razak (2020), there was an insignificant impact of executives' ownership on their remunerations. The findings showed that both the family CEOs and family ownership had a significant positive impact on directors' remunerations (via the pay-performance nexus), implying that family directors (founder-CEOs in this study) influenced their remunerations via directorship as well as concentrated ownership. Contrarily, family directors only affect their remunerations through concentrated ownership rather than directorship (Jong & Ho, 2020).

For the other two structural powers, it was found that remuneration committee chairing only had a significant negative interaction effect via *ROA*, while tenureship had a positive significant interaction effect via stock returns. The former implied that when the founder-CEOs chaired the remuneration committee, they tended to reward themselves a relatively lower pay for their improvement of the firm's *ROA* compared to founder-CEOs who do not chair the remuneration committee. This could be due to the CEOs having high levels of share ownership in the firm (Anderson & Bizjak, 2003). On tenureship, the results showed that when the founder-CEO had a longer tenure, they tended to get higher pay when they could deliver favourable stock returns. Their tenureship did not have any interaction effect with book performances. This is understandable because the founder-CEOs offer market confidence and investors will always make investment decisions of buying a particular firm's shares by looking at the credibility of the CEOs in generating market confidence and how long he/she has been leading the company. Furthermore, founder-CEOs, who possess these powers will be rewarded in their pay, which commensurate with the power of generating market confidence. As a result, it could be concluded that no empirical support could be made for H2b (when the founder-CEO is also the chairman of the remuneration committee, the higher the remuneration for an improved firm's performance) and some degree of supporting evidence for H2c (the higher the founder-CEO's tenure, the higher the remuneration for an improved firm's performance).

Generally, the empirical results in Table 4 provided partial support to hypothesis H2, whereby the powers of founder-CEOs influenced the CEOs' pay. More specifically, when CEOs deliver an improved firm's performance, the founder-CEOs who chaired the corporate board and own higher shares tend to get higher pay.

4.4 The Interaction Effect of Family Involvement for Hypothesis H3

Even if the founder-CEOs do not have the structural power as claimed in H2, it could be deduced that as long as these structural powers are still in the hands of the family members, there will still be a favourable effect on the founder-CEO's pay. Table 5 reports the empirical results of this deduction. It could be seen that even when founder-CEOs are not the board chairman and remuneration committee chairman, as long as these important posts (except board chairman) are held by a family member, founder-CEOs are still getting higher pay with and without interacting with the firm's performance compared to other founder-CEO firms without family's involvement. For instance, when a family member is the chairman of the remuneration committee, there

Table 4. CEO power and pay-performance nexus

	ROA				ROE				RETURN			
	POWER1	POWER2	POWER3	POWER4	POWER1	POWER2	POWER3	POWER4	POWER1	POWER2	POWER3	POWER4
SIZE	0.1581***	0.1358***	0.1275***	0.1755***	0.1684***	0.0795***	0.1023***	0.2103***	-0.0599***	-0.1383***	-0.0478*	-0.1091***
	(0.0151)	(0.0245)	(0.0276)	(0.0205)	(0.0240)	(0.0253)	(0.0229)	(0.0185)	(0.0214)	(0.0328)	(0.0261)	(0.0284)
AGE	0.0370***	0.0400***	0.0400***	0.0407***	0.0363***	0.0494***	0.0391***	0.0422***	0.0529***	0.0618***	0.0552***	0.0637***
	(0.0020)	(0.0032)	(0.0024)	(0.0027)	(0.0024)	(0.0028)	(0.0021)	(0.0025)	(0.0021)	(0.0022)	(0.0023)	(0.0029)
VALUE	0.0717***	0.1003***	0.0981***	0.0521***	0.0559***	0.0890***	0.0899***	0.0443***	0.0773***	0.0903***	0.0846***	0.0538***
	(0.0095)	(0.0081)	(0.0109)	(0.0082)	(0.0116)	(0.0076)	(0.0091)	(0.0080)	(0.0103)	(0.0121)	(0.0159)	(0.0102)
GROWTH	-0.3746***	-0.3586***	-0.3197***	-0.3175***	-0.2715***	-0.2847***	-0.2486***	-0.2906***	-0.3062***	-0.3057***	-0.2593***	-0.2728***
	(0.0201)	(0.0174)	(0.0211)	(0.0122)	(0.0142)	(0.0127)	(0.0102)	(0.0138)	(0.0123)	(0.0116)	(0.0193)	(0.0174)
LEVERAGE	0.5986***	0.4291***	-0.3752***	0.1609**	0.7430***	0.4467***	-0.1732*	0.4518***	0.4072***	0.5184***	-0.1360*	0.4298***
	(0.0812)	(0.1265)	(0.0738)	(0.0698)	(0.1176)	(0.0928)	(0.0985)	(0.0935)	(0.1011)	(0.1330)	(0.0790)	(0.1085)
RISK	6.3529***	6.4247***	4.9094***	6.9560***	6.6069***	5.9001***	4.4954***	6.9932***	4.6765***	5.8450***	4.0635***	6.8406***
	(0.1220)	(0.4098)	(0.2522)	(0.2723)	(0.2621)	(0.3215)	(0.2571)	(0.3089)	(0.3691)	(0.2832)	(0.2838)	(0.2768)
PERF	1.9017***	2.2829***	1.9976***	0.4662	1.0309***	1.2040***	1.1335***	-0.7436***	0.0805***	0.1206***	-0.0241	-0.0296
	(0.0657)	(0.0514)	(0.2816)	(0.2878)	(0.0546)	(0.0517)	(0.1191)	(0.1422)	(0.0095)	(0.0119)	(0.0204)	(0.0180)
POWER1	0.0173				-0.0446				-0.0871***			
	(0.0225)				(0.0274)				(0.0295)			
PERFxPOWER1	0.6132***				0.8898***				0.2323***			
	(0.1294)				(0.0767)				(0.0231)			
POWER2		0.2820***				0.1165***				0.2106***		
		(0.0167)				(0.0166)				(0.0341)		
PERFxPOWER2		-0.6051***				0.0225				0.0034		
		(0.1205)				(0.0516)				(0.0190)		
POWER3			0.1762***				0.1601***				0.1430***	
			(0.0120)				(0.0085)				(0.0082)	
PERFxPOWER3			-0.0325				-0.0218				0.0591***	
			(0.1128)				(0.0497)				(0.0067)	
POWER4				0.4650***				0.3511***				0.6713***
				(0.0555)				(0.0550)				(0.1035)

Table 4. Continued

	ROA				ROE				RETURN			
	POWER1	POWER2	POWER3	POWER4	POWER1	POWER2	POWER3	POWER4	POWER1	POWER2	POWER3	POWER4
PERFxPOWER4				4.2650*** (0.7493)				5.5929*** (0.300]73)				0.4089*** (0.0398)
Lag(*PAY*)	0.2386*** (0.0062)	0.2284*** (0.0089)	0.2589*** (0.0064)	0.2553*** (0.0075)	0.2527*** (0.0062)	0.2425*** (0.0070)	0.2622*** (0.0066)	0.2509*** (0.0076)	0.2486*** (0.0104)	0.2344*** (0.0133)	0.2533*** (0.0070)	0.2702*** (0.0085)
N	493	493	493	493	493	493	493	493	493	493	493	493
AR(1)	-2.8266*** [0.0047]	-2.5311** [0.0114]	-2.1966** [0.0280]	-2.681*** [0.0073]	-3.0045*** [0.0027]	-2.7198*** [0.0065]	-2.3906** [0.0168]	-3.023*** [0.0025]	-2.4353** [0.0149]	-2.0716** [0.0383]	-2.1381** [0.0325]	-2.2864** [0.0222]
AR(2)	-1.4022 [0.1608]	-1.2647 [0.2060]	-1.3689 [0.1710]	-1.5559 [0.1197]	-1.0485 [0.2944]	-1.1526 [0.2491]	-1.1588 [0.2465]	-1.5485 [0.1215]	-1.6205 [0.1051]	-1.4807 [0.1387]	-1.2233 [0.2212]	-1.5251 [0.1272]
Hansen	83.8865 [0.7147]	88.4797 [0.5846]	94.2572 [0.4152]	94.1457 [0.4184]	87.8394 [0.6034]	95.9906 [0.3673]	96.4258 [0.3556]	96.1846 [0.3621]	98.1832 [0.3103]	104.2953 [0.1794]	103.0076 [0.2033]	95.1325 [0.3907]

Note: The dependent variable is *PAY* (the natural log of the median of the highest band of director's remuneration), while control variables include *SIZE* (natural logarithm of total assets), *AGE* (number of years since the firm is incorporated, *VALUE* (Tobin Q), *GROWTH* (sales growth), *LEVERAGE* (total debt-to-total assets), *RISK* (standard deviation of daily stock returns in a year). The main independent variable of firm performance is denoted as *PERF*, measured with three different proxies: *ROA* (net income divided by total assets), *ROE* and *RETURN* (annualised stock returns). POWER 1, POWER 2, POWER 3 and POWER 4 represents founder holding the post of board chair, remuneration committee, tenureship, and share ownership (>10%), respectively. N is the number of firm-year observations. AR(1) and AR(2) are diagnostic tests on first order and second order autocorrelation of the residuals, respectively, while Hansen is the Hansen test of over-identification on the instrumental variables. Figures in parentheses ( ) and square brackets [ ] are standard errors and p-values, respectively. The asterisks ***, **, * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Table 5. Family involvement and pay-performance nexus

	ROA		ROE		RETURN	
	Family member chairing board of directors	Family member chairing remuneration committee	Family member chairing board of directors	Family member chairing remuneration committee	Family member chairing board of directors	Family member chairing remuneration committee
SIZE	0.1644***	0.1506***	0.1469***	0.1234***	-0.0660**	-0.0734**
	(0.0197)	(0.0267)	(0.0198)	(0.0220)	(0.0305)	(0.0284)
AGE	0.0392***	0.0369***	0.0399***	0.0360***	0.0526***	0.0551***
	(0.0019)	(0.0029)	(0.0012)	(0.0020)	(0.0025)	(0.0019)
VALUE	0.0589***	0.0549***	0.0693***	0.0656***	0.0758***	0.0737***
	(0.0094)	(0.0083)	(0.0086)	(0.0073)	(0.0123)	(0.0125)
GROWTH	-0.3332***	-0.3571***	-0.2769***	-0.2904***	-0.3209***	-0.2612***
	(0.0158)	(0.0212)	(0.0162)	(0.0110)	(0.0145)	(0.0179)
LEVERAGE	0.5349***	0.5741***	0.5868***	0.5395***	0.3674***	0.3767***
	(0.0785)	(0.0751)	(0.0729)	(0.0810)	(0.1182)	(0.1184)
RISK	6.4938***	6.4557***	6.5418***	6.0091***	5.1925***	5.7530***
	(0.2153)	(0.2763)	(0.3156)	(0.2714)	(0.4347)	(0.2632)
PERF	1.7030***	2.0487***	0.9265***	1.2298***	0.0882***	0.1346***
	(0.0900)	(0.0483)	(0.0606)	(0.0424)	(0.0110)	(0.0078)
CHAIR_BD	-0.1057***		-0.1751***		-0.2630***	
	(0.0169)		(0.0160)		(0.0224)	
PERF x *CHAIR_BD*	1.0057***		0.8686***		0.0837***	
	(0.1119)		(0.0653)		(0.0249)	
CHAIR_RC		0.1187*		0.2037***		0.0293
		(0.0654)		(0.0453)		(0.0823)
PERF x *CHAIR_RC*		1.9631***		-0.0019		-0.2225***
		(0.6992)		(0.3368)		(0.0403)
Lag(*PAY*)	0.2344***	0.2454***	0.2346***	0.2571***	0.2257***	0.2386***
	(0.0070)	(0.0052)	(0.0067)	(0.0074)	(0.0126)	(0.0094)
N	493	493	493	493	493	493
AR(1)	-2.7908***	-2.7348***	-2.9429***	-2.8341***	-2.2764**	-2.4382**
	[0.0053]	[0.0062]	[0.0033]	[0.0046]	[0.0228]	[0.0148]
AR(2)	-1.1693	-1.4011	-0.7723	-1.2269	-1.2655	-1.4411
	[0.2423]	[0.1612]	[0.4399]	[0.2199]	[0.2057]	[0.1495]
Hansen	90.489	91.0214	94.0253	84.8705	102.3701	95.2343
	[0.5250]	[0.5092]	[0.4218]	[0.6880]	[0.2159]	[0.3879]

Note: The dependent variable is *PAY* (the natural log of the median of the highest band of director's remuneration), while control variables include *SIZE* (natural logarithm of total assets), *AGE* (number of years since the firm is incorporated, *VALUE* (Tobin Q), *GROWTH* (sales growth), *LEVERAGE* (total debt-to-total assets), *RISK* (standard deviation of daily stock returns in a year). The main independent variable of firm performance is denoted as *PERF*, measured with three different proxies: *ROA* (net income divided by total assets), *ROE* and *RETURN* (annualised stock returns). *CHAIR_BD* and *CHAIR_RC* denote family member chairing the board of directors and remuneration committee, respectively. N is the number of firm-year observations. AR(1) and AR(2) are diagnostic tests on first order and second order autocorrelation of the residuals, respectively, while Hansen is the Hansen test of over-identification on the instrumental variables. Figures in parentheses ( ) and square brackets [ ] are standard errors and p-values, respectively. The asterisks ***, **, * denote statistical significance at the 1%, 5% and 10% levels, respectively.

is a ratcheting-up effect on founder-CEO remuneration when the firm's performance is measured by *ROA* and *ROE*, but not *RETURN*. Equally interesting is when a family member has taken up the position of board chairman, Table 5 shows that there is a significant downward effect on founder-CEO remuneration. It might be due to a family member from the opposite faction who chaired the board exerting his/her influence to rein in or contain the founder-CEO's remuneration. Generally, Table 5 shows that where family members either chaired the board or the remuneration committee, there was a significant positive effect on the pay-performance nexus.

The only exception is the family chairing remuneration committee under *ROE* and *RETURN*; the interaction coefficient for the family remuneration committee chairman was not statistically significant for *ROE*, and negatively significant for *RETURN*. The latter result was puzzling, as it showed again the founder-CEO's pay was negatively significant commensurate with an improved firm's stock returns even though the remuneration committee was chaired by other family members. Perhaps, the ploughing back intention of the founder-CEO is also translated to the family chair, especially if the founder-CEO is still very much in power. Overall, the empirical results showed that family involvement led to higher pay for improved performance in founder-CEO firms, and thus H3 was supported. Similar findings are also found in the research conducted by Jong and Ho (2020), whereby the interaction of family CEOs with the family directors on remuneration committees exerts a significant positive influence on executive remuneration. And they interpreted it as the manifestation of Type II agency conflict, whereby the family CEOs interacted with their family members who sat on the remuneration committee to manipulate the remuneration arrangement.

4.5 The Interaction Effect of Independent Directorship for Hypothesis H4

This section addresses whether corporate governance, in the context of the proportion of independent directors on the corporate board and the remuneration committee, affects the pay-performance nexus of founder CEOs. The results are reported in Table 6. The significant positive regression coefficients of *IND_BD* across all three measures of the firm's performance implied that the larger the proportion of independent directors on the board, the higher the founder-CEO's remuneration. It is in sharp contrast to the insignificant influence of independent directors on executive remuneration, as reported by Jong and Ho (2020). This positive influence of independent directors on founder-CEO remuneration seems intriguing as it is the independent directors who sit on the remuneration committee that decide on remuneration matters rather than those appointed to the company board. This positive influence of board independent directors on CEO pay only makes sense when companies do not set up remuneration committees and these independent directors are also entrusted with the responsibility to decide on the directors' pay. Their positive association with director remuneration means that these directors are using higher pay to elicit greater efforts from top managers to achieve an improved firm's performance (Jaafar & James, 2013). As discussed earlier, founder-CEOs for the sample firms did not need this type of motivation. As founders of their companies, they were highly motivated and enthusiastic to strive for the firms' long-term survival and prosperity, which they established.

Table 6. Independent directors and pay-performance nexus

	ROA		ROE		RETURN	
	Ratio of independent directors on board of directors	Ratio of independent directors on remuneration committee	Ratio of independent directors on board of directors	Ratio of independent directors on remuneration committee	Ratio of independent directors on board of directors	Ratio of independent directors on remuneration committee
SIZE	0.2072***	0.1931***	0.1399***	0.1037***	-0.1121***	-0.1205***
	(0.0242)	(0.0268)	(0.0221)	(0.0195)	(0.0289)	(0.0159)
AGE	0.0331***	0.0367***	0.0378***	0.0424***	0.0567***	0.0605***
	(0.0024)	(0.0033)	(0.0017)	(0.0025)	(0.0019)	(0.0018)
VALUE	0.0655***	0.0591***	0.0754***	0.0881***	0.0709***	0.0560***
	(0.0102)	(0.0067)	(0.0094)	(0.0057)	(0.0105)	(0.0093)
GROWTH	-0.3464***	-0.3537***	-0.2994***	-0.2922***	-0.3029***	-0.2797***
	(0.0154)	(0.0107)	(0.0119)	(0.0120)	(0.0168)	(0.0178)
LEVERAGE	0.3554***	0.5643***	0.3082***	0.4433***	0.6226***	0.5995***
	(0.0655)	(0.0873)	(0.0950)	(0.0620)	(0.1079)	(0.0818)
RISK	7.2100***	6.7568***	6.2853***	5.2345***	6.0543***	5.4511***
	(0.3179)	(0.2866)	(0.2546)	(0.3144)	(0.2586)	(0.2632)
PERF	5.6861***	3.7623***	3.4429***	1.4864***	0.2054***	-0.1220***
	(0.2723)	(0.4043)	(0.1378)	(0.2590)	(0.0234)	(0.0308)
IND_BD	0.9357***		0.6870***		0.4463***	
	(0.0865)		(0.0699)		(0.0747)	
PERF x *IND_BD*	-8.0421***		-4.6328***		-0.1758***	
	(0.5520)		(0.2677)		(0.0511)	
IND_RC		0.0143		-0.1714***		-0.4085***
		(0.0574)		(0.0423)		(0.0791)
PERF x *IND_RC*		-2.4476***		-0.4532		0.3861***
		(0.4844)		(0.3368)		(0.0452)
Lag(*PAY*)	0.2379***	0.2413***	0.2466***	0.2548***	0.2497***	0.2432***
	(0.0080)	(0.0069)	(0.0060)	(0.0072)	(0.0089)	(0.0084)
N	493	478	493	478	493	478
AR(1)	-2.8547***	-2.7703***	-2.9097***	-2.6659***	-2.2573***	-2.4245**
	[0.0043]	[0.0056]	[0.0036]	[0.0077]	[0.0240]	[0.0153]
AR(2)	-1.3909	-1.1637	-1.2373	-1.0988	-1.5663	-1.1901
	[0.1643]	[0.2445]	[0.2160]	[0.2718]	[0.1173]	[0.2340]
Hansen	82.9865	89.2578	91.3138	90.7562	100.2394	94.5771
	[0.7382]	[0.5616]	[0.5006]	[0.5171]	[0.2614]	[0.4062]

Note: The dependent variable is *PAY* (the natural log of the median of the highest band of director's remuneration), while control variables include *SIZE* (natural logarithm of total assets), *AGE* (number of years since the firm is incorporated, *VALUE* (Tobin Q), *GROWTH* (sales growth), *LEVERAGE* (total debt-to-total assets), *RISK* (standard deviation of daily stock returns in a year). The main independent variable of firm performance is denoted as *PERF*, measured with three different proxies: *ROA* (net income divided by total assets), *ROE* and *RETURN* (annualised stock returns). *IND_BD* and *IND_RC* denote the proportion of independent directors on the board of directors and remuneration committee, respectively. N is the number of firm-year observations. AR(1) and AR(2) are diagnostic tests on first order and second order autocorrelation of the residuals, respectively, while Hansen is the Hansen test of over-identification on the instrumental variables. Figures in parentheses ( ) and square brackets [ ] are standard errors and p-values, respectively. The asterisks ***, **, * denote statistical significance at the 1%, 5% and 10% levels, respectively.

In terms of the role played by independent directors on remuneration committees to affect director remuneration, Jong and Ho (2020) did not find any moderating effect of these committee members for their samples of Malaysian-listed family-owned firms. They attributed the ineffectiveness of these remuneration committee independent directors to their inability to stand against family directors on remuneration matters, which increased their chances of being reappointed to the board or sub-committee. Jong and Ho (2020) deduced that independent directors could not mitigate Type II agency conflict via the governance of executives' remuneration.

On the contrary, as shown in Table 6, independent directors in the remuneration committee on the samples of Malaysian-listed family-owned firms were performing well in their monitoring role by significantly moderating downwards the founder-CEO remuneration in two out of three measures of the firms' performances, namely *ROE* and *RETURN*. The positive and encouraging role played by independent directors in moderating directors' remunerations was also found in studies conducted by Nahar Abdullah (2006), Ghosh (2006), Yatim (2013), and Anderson and Bizjak (2003). In terms of interaction between independent directors in the remuneration committees and pay-performance nexus, it could be seen that all the interaction terms involving the proportion of independent directors were negative and statistically significant, except the one with *RETURN*. This implied that the proportion of independent directors exerted effective monitoring of founder-CEO's pay, as the higher the proportion of independent directors, the lower the pay received by founder-CEOs given the same firm's performance. Two exceptions were the interaction with *ROE*, which was not significant, and the interaction with *RETURN* that yielded a positive coefficient. The latter implied for a higher proportion of independent directors on the remuneration committee, founder-CEOs tended to get higher pay for higher *RETURN*. In short, the results supported H4 that a higher proportion of independent directors leads to lower remuneration for performance in founder-CEO firms.

5. Conclusion

This paper provided some insights on whether founder-CEOs receive higher pay relative to non-founder CEOs in family-owned firms. Family-owned firms are one dominant phenomenon in emerging countries, especially in Southeast Asia. Malaysia is one good example, whereby most of the national industry is dominated by family-owned firms and many founder-CEOs are still operating the management of the firms. Seven years of the firms' data were hand-collected from 2009 to 2015 to examine a few related hypotheses on whether the founder-CEOs affect the pay-performance nexus in family-owned firms. The data comprised 362 listed family-owned firms on Bursa Malaysia. These firms were selected from five main sectors, namely consumer products, construction, industrial products, properties, and trading and services. The system GMM was employed to address common endogeneity issues in pay-performance studies.

The following key findings were noted; firstly, there was a significant positive pay-performance relationship in Malaysian firms, but founder-CEOs only pose a weak influence on the pay-performance nexus. Next, it was found that the influence of founder-CEOs on the pay-performance nexus was mainly derived from their ownership

and structural powers as the chairman of the board. Thirdly, their pay-performance nexus was positive and stronger when their family member was chairing the board of directors and remuneration committees, instead of themselves. However, it was negative when more independent directors sat on the board and remuneration committee.

In an emerging market like Malaysia, disclosures on remuneration are still low, and thus a minority of the investors are not well-protected. The findings implied that when founder-CEOs are managing the firm, the opacity to accrue the private benefits of control could be higher, especially when the founder has high ownership and structural power, backed by strong family involvement in the firm. There is a need for regulators to consider making it mandatory for the disclosure of the CEO's remuneration on an individual basis to address the possible expropriation of minority shareholders via the CEO's pay; therefore, promoting greater corporate transparency.

Disclosing CEO's pay on an individual and a named basis has the merit of pinpointing who and how much each director in the top management team of the company board is receiving. Furthermore, whether the award of remuneration is following the firm's declared remuneration policies and practices, and criteria and metrics used for determining such payout amount. This is particularly important in the case of family-owned firms, whereby family members are often appointed to the top position of CEOs and executive directors of the board, and the actual remuneration received by them is shrouded in secrecy, as most of the firms only disclosed aggregate remuneration paid to executive and non-executive directors. It is difficult or near impossible to decipher from this aggregate data the exact remuneration received, especially by family CEOs, who are often the controlling shareholders. This data imperfection hampers any meaningful and conclusive academic investigation and examination that are to be made on the manifestation of Type II agency conflict via excessive remuneration that is thought to be rampant in family-owned firms. As seen in this study, the remuneration of founder-CEOs was only second-guessed by using the median of the highest band of executive directors' remuneration reported by the family-owned firms with the assumption that the CEO should be the one who received the highest remuneration.

If the disclosure of individual directors' remuneration on a named basis is made mandatory, it not only enhances the quality and transparency of directors' remuneration reporting, precision and validity of academic research surrounding the issues of excessive directors' remuneration, and Type II agency conflicts could also be elevated significantly. More importantly, with the enhanced transparency on the disclosure of directors' remuneration and the reliability of academic studies about remuneration issues, investors at large will have more confidence to invest in the Malaysian capital market, as they are provided with more accurate corporate information for them to make informed investment decisions.

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