Corporate Governance and Internationalization of Malaysia Public Listed Companies

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Abstract
The main purpose of this study is to examine the impact of the corporate governance on Internationalization for a sample 46 listed companies from 2008 to 2011 which have the reported international operations abroad. The study proposes that corporate governance mechanisms such as directors' compensation and characteristics of the board could influence firms' decision to internationalization. The measurement for internationalization is foreign sales (FS) and foreign assets (FA). The empirical results indicate that Internationalization by measuring FS is negative and significant related to board size. While measuring by FA indicate the negative and insignificant result. On the other hand, FA and FS are positive and significant related to executive compensation. However, it also found insignificantly related to CEO duality and board independent. According to MCCG requirement, the role of CEO and chairman should remain as non-duality to avoid CEO overpower and board to consist of 1/3 of independent board directors. As result, corporate governance characteristics especially board size and director remuneration does influence firm internationalization.

Keywords: board size, board independent, CEO duality, directors' remuneration and firm Internationalization

1.0 Introduction
Directors' compensation is an important element that brings impact to the firms' performance (Brick, Palmon & Wald, 2006). The purpose of the directors' compensation is to align with the firms' performance. The directors' compensation consists of salary, bonus, and other benefit. The directors' compensation is measured against company profits – this is called pay-for-performance. The overpayment or underpayment of executive compensation might motivate or demotivate the board to perform effectively. The overpayment is detrimental to the firms and the shareholders' value as overpayment may due to directors' private interest.

In United States the directors' compensation has drawn a lot of public attention. The directors' compensation has an excessive increased over the past decade, from 24 times over the average worker's salary in 1965 to 262 times in 2005. Since 2009, the average increase has been over 20 percent annually (Mishel, 2006). While in Malaysia has received not less attention, the average CEO of a Malaysian listed company received more than RM1 million in salaries per year (Tan, 2002). The top listed companies CEO such as Genting (Tan Sri Lim Kok Thay) , IOI Corp (Tan Sri Lee Shin Cheng) and CIMB (Dato Nazir Razak) has received RM 86.5 million, 2007, RM56.3 million, 2010, RM10 million, 2011 respectively (Fong, cited in Ismail, Yabai and Low, 2014, Yunus, cited in Ismail et. al, 2014, Kaur, 2013). It has brought question of whether directors' pay for performance.

Malaysia had experienced a rapid rise of Outward Foreign Direct Investment from early 1990s onwards. The Malaysian government played an important role in actively promoting direct investment abroad. Malaysia firms has gone internationalization for market-seeking, resource-seeking and efficiency-seeking (UNCTAD, 2007). It expands from a local company to internationalize market. Malaysia companies that have expended to overseas market are Kulim, Kumpulan Guthrie, Sime Darby, UEM, Amsteel Corporation, Genting, Hume Industries, Telekom Malaysia, Malaysian Airlines, Malaysian

International Shipping Corporation, Maybank and Astro (UNCTAD, 2007). Firm internationalization has been a good trend however; it has bought to whether the internalization aligns to the shareholder interest. In this study, we intend to investigate the relationship of directors' compensation and firm internationalization.

The empirical studies highlighted the misalignment of shareholder interest between executive compensation and firm internationalization. The executive compensation increase outstripped the firm's performance (Gregg, Jewell & Tonks, 2005). In other words, the directors receive huge amount of compensation that does not tie with firm performance. Besides, the findings show that firms in United States with significant overseas operations enjoy a somewhat higher total compensation when measured using the firm's foreign sales to total sales (FSTS) (Fatemi et al., 2003). Firms might overestimate and overpay the board due to foreign operations. This has drawn a question on whether boards take the opportunity of foreign operations to their own private interests.

When there is no appropriate supervision, the boards of directors could take additional steps to enjoy spending shareholders' money lavishly to their private interest. According to agency theory, the problem occurs when given the cooperating parties have different view of goals and risks perception (Jensen & Meckling, 1976; Ross, 1973). This has created a separation between ownership and control has brought to an opportunity created for directors to maximize their personal wealth at the expense of shareholders (Jensen and Meckling, 1976). The agency cost increases when conflict of interest arises between the shareholder and the manager due to different goals. The shareholders interest is to maximize the value of the firms while the managers' objective is to maximize their own personal goals.

The excessive executive compensation has raises the need for corporate governance frameworks which helps to reinforce managerial accountability and encourages managers to maximize profit and shareholders' value rather than pursue their own objectives. Corporate governance has significant impact to firms' internationalization (Oxelheim and Randøy, 2013). Hence, with an effective system of corporate governance controls is considered crucial to align the interests of directors with those of shareholders. Prior studies analyzed the relationship between corporate governance to firms' internationalization (Sanders and Carpenter, 1998). The good corporate governances practice has been prescribed by OCED (2012) include the board size, separation of CEO and chairman position and board independent. The study proposes that corporate governance mechanisms such as directors' compensation and characteristics of the board could influence firms' decision to internationalization.

2.0 Literature Review and Hypothesis Development

2.1 Directors' Remuneration and Internationalization

Past literatures demonstrated a positive relationship between firm performance and directors' compensation. The director compensation believed that a firm must offer executive-level candidates and employees an appropriate compensation level. CEOs that manage overseas operation receive higher compensation than the domestic oriented firms (Sanders and Carpenter, 1998). Besides, CEO listed on the Forbes Magazine from 1974 to 1986 reveals the significant association between pay for performance (Jensen and Murphy, 1990). Similar finding by Tosi (2000) relate pay to performance and found to have a positive relationship. It is also supported by Clarkson, Nichols and Walker (2005) found a positive relation of compensation with firm performance. Hence, study found a positive correlation of compensation and firm performance. Therefore, we propose the following hypothesis.

H1: Executive Compensation positively related to firms' internationalization

2.2 Board Size and Internationalization

Past studies discovered there is a positive relationship between board size and firm performance.

According to Adams and Mehran (2011), firm with a large board of directors has bought to better performance. The larger the board size, the greater knowledge therefore it enhanced the firm performance and effectiveness control (Coles et al., 2008). The number of directors is positive correlated with high performance (Godard and Schatt, 2004). Thus, larger boards are found to be more efficient in monitoring, advising functions and create more value for a firm.

The board size has been influenced by the complexity of the firm's environment. It has been debated that the number of dependencies reflected to the increased organizational ties (Pfeffer and Salancik, 1978). When firm expanse international, it has indeed increase the new members to represent the expertise from the international constituencies (Pfeffer, 1972) and increase the information-processing capacity. The larger groups have more skills and abilities to solve large and more complex problems (Jackson, 1992) and the consequently have greater information-processing capacity with larger team. This also been supported by Haleblian and Finkelstein (1993) found that firms with large teams performed better than firms with small teams in the complex environment. Hence, large team is better to deal with more complex information processing. Hence, we propose the following hypothesis.

H2: There is positive relationship between board size and internationalization

2.3 Independent Directors and Internationalization

In several past studies (Agrawal and Knoeber, 1996; Adams and Mehran, 2003) found a significant correlation between the proportion of independent directors and firm performance. Besides, companies with more independent boards have stronger governance and leads to better firm performance (Brickley et al., 1994). Furthermore, high proportions of independent directors have brought significant impact to the board to improve the quality of financial disclosure and financial performance of companies. It is also supported a positive relationship between the number of independent directors and firm performance (Dehaene et al., 2001). Moreover, the inclusion of a larger proportion of outside directors may reduce the likelihood of financial fraud.

An increase with the number of independent directors on the board promotes a positive financial performance of the firm (Lefort and Urzua, 2008). As a result, the higher proportions of independent directors on the board are positively correlated with firm performance (Zainal Abidin et al., 2009). Likewise, Awan (2012) also discovered a positive relationship between independent directors and firm performance that measured by return on assets (ROA) and return on equity (ROE). Thus, independent directors did play a significant role in monitoring firm financial performance and act in the best interest of shareholders. We propose a positive relationship between board independent and internationalization due to act as a monitoring role on behalf of shareholders. Therefore, we propose the following hypothesis.

H3: There is positive relationship between independent directors and internationalization

2.4 CEO Duality and Internationalization

Duality is not only an issue of governance or leadership for acting chairman or CEO roles but it is also associated with the firm performance. In order to have an individual acting as a monitoring role therefore it is important to have a separation of management and control decisions. The separation of roles reduces agency costs and improves firm performance (Jensen and Meckling (1976) and Jensen (1993). Firm that switch to the practice from dual leadership structure to a single leadership structure (separated roles between the CEO and the chairman) to control agency problems had experienced a significant improvement in performance (Fosberg and Nelson, 1999).

Previous studies have found that CEO duality is negative related to firm performance. The CEO who is the sole manager on the boards argued to be more powerful than boards consisting of others managers and thus may influence decision-making, which in turn can have a negative impact on performance (Adams et al., 2005). It found that CEO duality has negative relationship with firm performance. Study by Raluca-Georgiana (2013) found that CEO duality is negatively associated with firm performance. Firms that had duality roles were not performing as well as their counterparts with separated board leadership (Rahman and Haniffa, 2005). In addition, firms dominated by a single person led to financial reports being issued much later than those with separation of the roles (Abdullah, 2004). Thus, due to centralization of power resulting from the chairman-CEO duality could be detrimental to board effectiveness, since the same person would manage and dominate board decisions. Therefore, we propose the following hypothesis.

H4: There is negative relationship between CEO duality and Internationalization

3.0 Methodology

3.1 Data Collection Design

This study is based on content analysis of the individual companies' annual reports. The data required for the purpose of this study is collected from 2008 and 2011 annual reports of the chosen publicly companies listed on Bursa Malaysia. The selected firms consist of firm went overseas markets that reported to have foreign assets and foreign sales in their annual report.

3.2 Statistical Analysis

Our empirical approach uses a mixture of time series and cross-sectional data for this research. According to Andres and Vallelado (2008), the most efficient tool for their research is the analysis of panel data. Using the Eviews software for the analysis, we used the Panel OLS to estimate the result.

3.3 Measurement of Variables

$$Intz = {}_{0} + {}_{1} DR + {}_{2} BS + {}_{3} BI + {}_{4} Duality + {}_{it}$$

Intz = Foreign Sales/ Total Sales and Foreign Asset/ Total Asset
DR = Director Remuneration
BS = Board Size
BI = Board Independent
Duality = CEO duality

This study focuses on the four independent variables which are director remuneration, board size, board independent and CEO duality. Firstly, director remuneration measured the total salary, bonus and other benefit. Secondly, board size is measured by the number of directors sitting in a board. Thirdly, board independent measured the total number of independent directors sitting on the board. Lastly, the CEO duality measured whether CEO hold dual position as a chairman and CEO. Dependent variable is firm internationalization which measured by two indicators which are FSTS and FATA.

4.0 Results and Discussion

4.1 Descriptive analysis

The mean for foreign sales to total sales 17.1397% and foreign assets to total assets is 15.5076% respectively. The median of director remuneration is RM 2004360. It indicates that on average 46 public listed Malaysia companies operation aboard that achievement sales measure in foreign sales (FS) and foreign asset (FA).

Table 1: Variables, definition and descriptive statistics

	Definition	Median	SD
FSTS	% Foreign Asset to Foreign Asset	17.1397	26.0017
FATA	% Foreign Sales to Foreign Sales	15.5076	22.3844
BOARDINDP	Total number of executive on the board	3.3401	1.2792
BOARDSIZE	CEO duality = 1 and non CEO duality = 0	7.0884	2.1057
COMP	Director Remuneration	2004360	1890762
DUALITY	Total number of independent directors on the board	0.4830	0.5015

4.2 Regression analysis

Regression analysis is conducted by using Ordinary Least-Squares (OLS). The overall regression analysis is represented in Table 2 and 3. The overall strength of the regression model is 17.2659 or 1726%. Besides, the significance of the model for F statistics and p value is $p<0.005$ respectively. The regression findings also show that only BSIZE and COMP are significant variables at p-value of less than 0.05. The BOARDINDP and DUALITY results are not significant. The median of Director Remuneration of RM 2004360, with 1% increase in FSTS increase director remuneration by 5.90E-06. While, 1% increase in FATA will increase director remuneration by 2.97E-06. The Durbin-Watson Test (DW) result of 0.3915 and 0.5102 for FSTS and FATA respectively. This research examines the existence of multicollinearity problem by using Pearson's correlation analysis. Based on the result for each pair of variable in table 3, there is no serious multicollinearity as the value are <0.7.

Table 2: Regression Analysis of FSTS & FATA

Dependent Variable	FSTS		FATA	
Independent Variable	Coefficient	Prob.	Coefficient	Prob.
BOARDINDP	0.7823	0.7194	1.3547	0.5057
BOARDSIZE	-2.3231	0.0942*	-0.4178	0.7385
DUALITY	4.2852	0.2812	4.391608	0.2369
COMP	5.90E-06	0.0000*	2.97E-06	0.0029*
C	17.2659	0.0308	6.0267	0.4051
R-squared		0.1818		0.0676
F-statistic		8.2192		2.6656
Prob(F-statistic)		0.0000		0.0347
Durbin-Watson stat		0.3915		0.5102

Note: *significant at 5% and 10%

Table 3: Pearson Correlation

	FSTS	FATA	BOARDINDP	BOARDSIZE	COMP	DUALITY
FSTS	1.0000	0.6801	-0.1094	-0.1073	0.3968	0.1193
FATA	0.6801	1.0000	0.0570	0.0746	0.2665	0.0480
BOARDINDP	-0.1094	0.0570	1.0000	0.6862	-0.0219	-0.2405
BOARDSIZE	-0.1073	0.0746	0.6862	1.0000	0.1523	-0.2047
COMP	0.3968	0.2665	-0.0219	0.1523	1.0000	-0.0364
DUALITY	0.1193	0.0480	-0.2405	-0.2047	-0.0364	1.0000

5.0 Conclusion

This study examines the corporate governance characteristics influence firm internationalization. The finding indicates that board size and director remuneration are associated with the firm internationalization. However, board independent and CEO duality provides inconclusive result, therefore, it does not impact to firm internationalization. According to MCCG requirement, the role of CEO and chairman should remain as non-duality to avoid CEO overpower. As result, corporate governance characteristics especially board size and director remuneration does influence firm internationalization. However, the limitations are the sample size and data of 4 years period that might not explain the correlation of the variables accurately. The future research might need to address the limitation.

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