Chapter 11
Director Attendance at Board Meetings and Executive Compensation Evidence From Malaysia

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ABSTRACT

This chapter attempts to examine the effect of directors' attendance at meetings on the board's effectiveness in mitigating executive expropriation practices, especially excessive compensation. For this end, the authors employ a multiple regression model within a sample of Malaysian firms over the period 2008-2013. The results show that the attendance of directors at board meetings affects the executive compensation negatively. Board members who attended meetings frequently are more able to monitor managers' practices continuously and effectively. Hence, they can diminish the possibility of expropriation and decrease the excessive pay. The findings also show that increasing board meetings frequency and strengthening nominating and compensation committees' independence reinforce the board's monitoring effectiveness in reducing executive expropriation behavior.

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INTRODUCTION

Overall, many researchers have examined the issue of executive compensation in listed companies. In this regard, Anderson and Bizjak (2003) report that executive remuneration plays a key role in attracting managers and provides incentive for executive directors. As a result, they tend to perform their tasks more effectively and act in the best interests of shareholders. Compensation is used as a mechanism to motivate, monitor executive directors and align their interest with those of shareholders. As a matter of fact, Jensen and Meckling (1976), Endraswati et al. (2014), among others, reveal that adequate compensation can motivate managers to work better, boost their productivity and protect shareholders' interests. Nevertheless, Ooi and Lai (2009) report that executive directors can receive good compensation when their companies lose money. Therefore, excessive executive compensation can be the result of manipulation and self-dealing (Reddy et al., 2015).

A large sum of remuneration received by executive directors has revealed the existence of corporate governance issues such as managerial opportunism behavior (Sanchez-Marin and Baixauli-Soler, 2014). For example, Core et al. (1999) report that the board of directors is influenced by the CEO, such mechanism cannot monitor the opportunistic behavior of managers and set the executive compensation package. Therefore the board of directors fails to protect shareholders' interests. In corporate governance of literature, the board of directors plays a crucial role in reducing managers' opportunistic practices such as extracting additional remuneration (Reddy et al., 2015). In this respect, Sun et al. (2009) profess that the board of directors has to be an effective mechanism to protect shareholders interests by monitoring management actions and fixing the right executive compensation packages. In this context, codes on corporate governance which are implemented in many countries can improve the effectiveness of the board of directors in terms of roles and composition.

In this context, Malaysia struggles to improve corporate governance mechanisms and especially boost the role of the board of directors of listed companies. Indeed, the Finance Committee on Corporate Governance (FCCG) in Malaysia has revisited several times the Malaysian code of corporate governance (MCCG) (Khongmalai et al., 2010; Sanni and Ahmed Haji, 2012). In spite of such efforts to establish the best practices in corporate governance, the last revisited code (MCCG, 2012) does not include some important rules which may reinforce the effectiveness of the board of directors in mitigating managers' opportunistic behavior. For instance, Lin et al. (2014) indicate that the MCCG does not require neither the number of meetings that a board should organize to improve its effectiveness nor the diligence of directors at these meetings.