

**EXECUTIVE DIRECTORS REMUNERATION, TURNOVER AND FIRM
PERFORMANCE IN FRAUD AND LAWSUIT FIRMS**



**INSTITUT PENGURUSAN PENYELIDIKAN
UNIVERSITI TEKNOLOGI MARA
40450 SHAH ALAM, SELANGOR
MALAYSIA**

BY:

SURIA MAJDI

PROFESSOR DR RASHIDAH ABDUL RAHMAN

MARCH 2012

Tarikh : 1 March 2012

Penolong Naib Canselor (Penyelidikan)

Institut Penyelidikan, Pembangunan dan Pengkomersilan

Universiti Teknologi MARA

40450 Shah Alam

Ybhg. Prof,

LAPORAN AKHIR "Executive Directors Remuneration, Turnover and Firm Performance in Fraud and Lawsuit Firms

Merujuk kepada perkara di atas, bersama-sama ini disertakan dua (2) naskhah laporan Akhir penyelidikan bertajuk "**Executive Directors Remuneration, Turnover and Firm Performance in Fraud and Lawsuit Firms.**"

Sekian, terima kasih.

Yang benar,



Suria Majdi

Ketua, Projek Penyelidikan

TABLE OF CONTENTS

	Page
Acknowledgement	i
Table of contents	ii
List of tables	v
List of figure	vi
Abstract	1

CHAPTER ONE: INTRODUCTION

1.0 Preamble	3
1.1 Problem Statement	6
1.2 Significance of The Study	8
1.3 Organization of The Study	9
1.5 Definition of Fraud	10

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction	12
2.1 Directors' Remuneration in Corporate Governance	12
2.2 Agency Theory	16
2.3 Managerial Theory	19
2.4 Directors' Turnover, Remuneration After Fraud Revelation	22
2.5 Theoretical Framework	25

CHAPTER THREE: RESEARCH METHODOLOGY

3.0	Introduction	27
3.1	Hypothesis Development	27
3.1.1	Firm Performance After Fraud Revelation	30
3.2	Sample Description and Data Collection	31
3.3	Measurement of Executives' Remuneration	35
3.4	Statistical Analysis	38
3.4.1	Descriptive Analysis	38
3.4.2	Correlation Analysis	38
3.4.3	Independent Sample T-Test Analysis	39
3.5	Summary	40

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.0	Introduction	41
4.1	Composition of The Sample	41
4.2	Descriptive Analysis	44
4.2.1	Descriptive Analysis on Executives' Remuneration	44
4.2.2	Descriptive Analysis on Independent and Control Variables	47
4.3	Statistical and Regression Analysis	51
4.3.1	Correlation Analysis	51
4.3.2	Independent Sample T-Test Analysis	55



Executive Directors Remuneration, Turnover and Firm Performance in Fraud and Lawsuit Firms.

Suria Majdi

Professor Dr Rashidah Abdul Rahman

Abstract

The recent wave of corporate fraud has raised substantial concerns about the effectiveness of corporate governance in Malaysia. This study determines whether fraud firms reduce their executives' remuneration to improve the firm's performance and also to discipline the executive directors' behaviour so that they do not deviate from the shareholders' wealth maximizing policy. The sample of this study consists of 136 firms which comprise of 68 fraud firms that experienced fraud revelation over the periods of 2001 to 2006 and 68 non-fraud firms. The results from the independent sample t-test analysis reveal that there is a significant difference in the median executives' remuneration between fraud and non-fraud firms in the second year after the fraud revelation. It is found that fraud firms reduced the executives' remuneration by 6% while non-fraud firms still increased the executives' remuneration by 8.08%. Further analysis shows in the fraud and lawsuit firms' turnover, we find that the new appointed executive may be paid at a lower rate compared to the other executive directors in non fraud and lawsuit firms.

Key words: *Executive remuneration, turnover, fraud*