Compensation Committee Diversity and Board Compensation: The Case of an Emerging Economy

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Abstract

This study examines the relationship between the diversity of the compensation committee and executive compensation in Malaysia from 2016 to 2018. We utilized agency theory to derive our hypotheses. Independent variables include compensation committee diversity and independent directors, while control variables cover board characteristics and firm-specific factors such as size, leverage, profitability, industry, and year effects in all models. The findings demonstrated that all the diversity components of the compensation committee tested are insignificant in influencing the extent of board compensation. Control variables such as board size, firm size, and profitability were found to be positively related to board compensation. The findings will be useful for policymakers in setting guidelines for diversity in the compensation committee or the board in general. The Malaysian Code on Corporate Governance (MCCG 2021) promotes diversity on the board as one of the mechanisms that can improve a firm's governance structure. While diversity is prevalent in Western markets, this study believes that the same policy might be less effective in Asian countries such as Malaysia, where Eastern values and culture are very different compared to their Western counterparts. Policymakers need to revisit whether diversity is necessary in the context of Malaysia. To the best of our knowledge, based on the observation of the literature in this area, this is the first study that examines the effect of a wide-ranging diversity perspective of the compensation committee on executive compensation in the context of an emerging economy such as Malaysia.

Keywords:
Compensation Committee Diversity, Executive Compensation, Agency Theory

INTRODUCTION

Excessive executive compensation package has been blamed as one of the reasons that stimulate the occurrence of the financial crisis due to excessive risk-taking by the managers (Bebchuk, 2012; Bhagat and Bolton, 2011). A study by Hilman & Mohamed, (2009) states that there is a lack of strategic management practices among Malaysian companies despite being known as one of the most important sectors to the country's economic sustainability. A developing country such as Malaysia, is also afflicted by this executive compensation issue. According to Ahmad, Nawawi and Salin (2016) the excessive compensation issue in Malaysian firms is plagued to both large firms and small firms. In order to overcome this

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shortcoming, the corporate governance code has been viewed as a potential solution in reducing the conflict of interest of the agent in the firm (Ghasemi and Razak, 2020). In the latest Malaysian Code on Corporate Governance (2021), diversity of board members has been promoted as one of the mechanisms that would be potential in solving agency problems.

This study empirically examines the relationship between compensation committee diversity and executive compensation in the context of Malaysia. Diversification of the board of directors is a strategic choice of a firm to improve performance (Kabir et al., 2023). This study intends to examine the impact of compensation committee diversity and executive compensation due to several reasons. First, while the majority of the literature focused on developed countries such as UK and US (e.g., Clements et al., 2021; Borrenbergs et al., 2017) to the best of our knowledge, none of the compensation committee diversity studies has ever been conducted in Malaysia, thus we are unable to grasp the understanding on the impact of such existence to the extent of executive compensation in Malaysia. Second, the Malaysian Code on Corporate Governance (MCCG, 2021) focused on diversity as one of the components in strengthening the governance practices in the firm. This study would like to examine whether diversity in the context of the compensation committee in Malaysia is prevalent in influencing the executive compensation, something that has been predominantly neglected by prior studies. Third, our study contributes to the literature by providing evidence from the lens of Malaysia, which represents an emerging market in the Asian counterparts. This study argues that the findings from the western regime are not able to be generalized to the Asian countries due to differences in various aspects such as governance, culture, transparency, government system, and equality of income.

Malaysia is a unique setting for this research since it has been widely recognized as a cultural-diverse country with a mixed ethnicity since the colonialization era. In line with the findings from the prior literature, we argue that the traditional cultural system in Malaysia unwelcomed diversity in the board (Katmon et al. 2019). Unlike western studies that are prone to enjoy diversity in the board, this is not the case for emerging economies such as Malaysia. Abdullah et al. (2014) found that the board of directors in Malaysia recognize individuals' knowledge, skills and capability beyond gender or any other diversity elements, thus suggesting the values of diversity have been underrated, underutilized or less appreciated in the context of the Malaysian capital market. This suggests that the concept of board diversity, as celebrated in the U.S. or other Western capital markets, may not necessarily be upheld in Asian cultural contexts such as Malaysia.

According to Azlani et al. (2023), applying a "one-size-fits-all" strategy for corporate governance toward transferring Western models directly to Eastern economies may lead to ineffective outcomes due to differences in culture, religion, and other contextual factors. For example, Hofstede's Cultural Dimensions highlight significant cultural differences between Malaysia and other countries such as the UK or China. In terms of the Power Distance Index, Malaysia scored 100 and this is the highest possible score indicating a strong acceptance of hierarchical structures and respect for authority (OpenAI, 2025). This contrasts with China's score of 80 and the UK's score of 35, reflecting strong and low power distance cultures, respectively (OpenAI, 2025).

Regarding the Individualism vs. Collectivism dimension, Malaysia scored 26, signifying a collectivist society, while the United Kingdom scored 86, representing a highly individualistic culture (OpenAI, 2025). These cultural differences likely influence the governance systems and organizational structures in each country (Katmon et al., 2019). In Malaysia, traditional cultural norms may favour women in more reserved, caregiving roles within the family. However, from the Islamic perspective, both men and women are entitled to equal rights and responsibilities (Borham & Md. Taib, 2024), reinforcing the view that both genders should be equally empowered to fulfil their roles effectively.

This paper has been organized as follows. In the next section, this paper will discuss about the empirical literature and hypothesis development on diversity and compensation. After that, the research methodology will be explained. Next, this paper will discuss about the findings from the analyses. Finally, the conclusion of our study will be presented in the last section of this paper.

LITERATURE REVIEW

Agency Theory

Agency theory is mainly related to the relationship between agent *(managers)* and principal *(shareholders)*, where agent is supposed to act on behalf of the principal at all the times. There is a tendency that the agent may either act partially or may not even act in the best favor of the principal, but agency theory has indicated that managers have discretion in the expropriation of fund providers by the supplier of capital and there is likely to be deviance in reporting earnings (Ronok & Rapani, 2022, p. 3).This fragile relationship suffers from two main problems such as conflict of interest and information asymmetry which is happened due to misalignment of interest between agent and principal (Jensen and Meckling, 1976). In order to remedy such problems, agency cost occurs by agents. Example of agency costs are monitoring cost, bonding cost and residual loss. Monitoring cost includes the cost of appointing external auditor, while bonding cost is the cost occurred to build trust within agent and principal such as by using a good compensation package. In this instance, board compensation is one form of agency cost (Gayle et al. 2018; Bebchuk and Fried, 2003) that is expected to be able to reduce agency problems.

According to Panda & Leepsa (2017) agency problems in the firms can be mitigated through the effective function of board committee, such as the compensation committee. A study by Fauzi & Locke (2012) found that the existence of compensation committee is associated with lower agency cost. In this regards, diversity of compensation committee is expected to be able to bring the best qualifications, knowledge, and experience to the table in determining the suitable remuneration rates for the board members. Compensation committee carry an administrative, advisory and strategic function to the board (Price, 2018), therefore a diverse compensation committee is expected to be able to deliver a rational judgement on the optimal remuneration that should be received by the board. In this regard, we argue that diverse compensation committee is less bias and more efficient when compared to a homogenous board especially when decision making on remuneration take place.

According to the Malaysian Code on Corporate Governance (2021) Section 7.2, the role of compensation committee is to implement its remuneration policies and procedures including reviewing and recommending matters relating to the remuneration of board and senior management. There are two traditional views in regards to the board compensation according to the prior literature. The optimal contracting theory suggest that the practice of high compensation will be able to reduce conflict of interest among the agent in the firm, thus aligning the interest between principal and agent (Bebchuk and Fried, 2003; Depken, Nguyen, Sarkar, 2005), while the managerial power theory outlined that managers themselves are a part of the agency problem, where they have certain level of power to influence the optimal board compensation at expense of the firms, i.e, the rent-seeking approach (Bebchuk, Fried, & Walker, 2002; Blanchard, Lopez-de-Silanes and Shleifer, 1994). Thus, we expect that the presence of diverse members in compensation committee will offer a more transparent, independent, and fair remuneration that less suffer from managerial power of certain individuals, hence reducing the board compensation.

Compensation Committee Diversity and Board Compensation

Previous studies on diversity and compensation committee are limited, especially from the emerging economies. Several studies have been examining the association between the diversity of compensation committee in the context of developed country, such as United States (Borrenbergs et al. 2017; Cook, Ingersoll, & Glass, 2018; Strobl et al. 2016); United Kingdom (Clements et al. 2021) and developing country such as China (e.g. Usman et al., 2018), and Taiwan (Huang et al., 2021). This study contends that the findings from the developed countries are not applicable to the unique characteristics of emerging economy such as Malaysia. Therefore, conducting a study within the Malaysian context is particularly valuable, as it deepens our understanding of the issue through the lens of Asian cultural values. According to Azlani et al. (2023), the impact of board diversity on board compensation remains inconclusive, especially in emerging markets like Malaysia. Thus, further research in this area is essential to expand our knowledge and contribute to more context-specific corporate governance practices.

Majority of prior studies focused on single diversity element per *se* such as gender diversity (e.g. Huang et al. 2021; Usman et al. 2018; Borrenbergs et al. 2017 and Cook et al. 2018; Strobl et al. 2016), age diversity (Clements et al. 2021), and CEO's foreign experience (Conyon et al., 2019) while neglecting other diversity perspectives such as educational background, ethnicity and independent. This study, therefore, fill the void in the literature by examining the impact of wide-ranging diversity components of compensation committee towards executive compensation from the context of Malaysia. Compared to previous studies that only focused on single component of diversity (e.g. Clements et al. 2021; Huang et al. 2021), this study intends to examine the impact of comprehensive diversity components on executive compensation from the context of developing economy such as Malaysia.

Usman et al., (2018) examined whether gender diversity on compensation committees influence CEOs' compensation. Using 9,397 firm-year observations of companies listed in China from 2006 to 2015, they found that gender diversity has a strong monitoring role in reducing CEO compensation when such roles is carried out by an independent female director. Borrenbergs et al., (2017) from US investigating the relationship between the gender composition of firms' remuneration committees the top executive bonus. Using Canadian and US firms during the year 2001 to 2006, they found that there is a negative relationship between the existence of female in the remuneration committee and the annual bonus of top executive. Nevertheless, it is important to highlight that the findings from both Usman's et al. (2018) study and Borrenbergs et al. (2017) are drawn from the China and US market respectively, which might not be able to be generalized to the Malaysian context that are differs in terms of culture, history, institutional background, corruption level as well as the economic level (Katmon et al., 2019).

Cook, Ingersoll, & Glass, (2018) examine whether board composition influence the board compensation in the US firms. Their sample comprised of 500 companies for 5-year period that is from 2009 to 2013. They found that the placement of female on board and compensation committee has no significant impact in reducing the compensation gap between the executive team. Nevertheless, the appointment of female chair in the compensation committee is effective in reducing the gap of compensation among top executive team. While these findings provide valuable insights in the context of the United States, it is important to investigate whether similar dynamics apply in Malaysia, given the distinct cultural, regulatory, and corporate governance environment. In Malaysia, where gender representation on corporate boards is still evolving and policies promoting diversity are gaining traction, exploring the influence of female leadership within board committees-particularly the compensation committee-could offer meaningful contributions to both policy development and corporate governance practices. Such an investigation would help determine whether the presence or leadership of women on Malaysian boards can play a similarly impactful role in addressing executive pay disparities.

Huang et al. (2021) examine the impact of gender diversity in the audit committee and compensation committee in Taiwan capital market during the year of 2011-2015. They found that the placement of diverse gender in audit committee is associated with higher firm performance, while the existence of diverse gender in compensation committee is related to lower board and management's pay performance sensitivity. Strobl et al., (2016) US study focused on the relationship between gender diversity and the CEO compensation. Using 5,630 of listed firms, they found that there is no statistical relationship between gender diversity and CEO pay. In the UK, Clements at al. (2021) investigate the relationship between the average age of the compensation committee and CEO compensation and CEO pay-performance sensitivity from the period of 2002 to 2017. They found that the average age of compensation committee is associated with lower CEO compensation. Previous studies mainly offer inconclusive findings on the relation between board diversity and compensation. Majority of researches so far have been carried out in the Anglo-Saxon background of the US and the UK. Our study is therefore intending to fulfil this research gap by providing evidence from the context of an emerging economy such as Malaysia.

Alluwia & Sarun, (2018) investigated the effect of corporate governance mechanisms and agency cost. They found that female board directors, board size, CEO duality, independent directors, and audit quality have a significantly negative relationship with agency cost. Besides, a study from Hassan et al., (2020) found that board comprised of long tenure members may become homogeneous due to their close working relationship.

Hypothesis Development

The quality of compensation committees is crucial since it will affect the quality of the executive compensation through the designation of remuneration package (Catuogno et al., 2016). A sound compensation committees must ensure that compensation package designed is able to align the managers and shareholder's interest (Catuogno et al., 2016) hence, reducing agency problem. Agency theory believed that a sound remuneration package function as a bonding cost that will be able to deter agency problem, that can be performed through a diverse composition of compensation committee members. A diverse compensation committee is needed to control and to strengthen the decision on remuneration package. Specifically, compensation committees with different demographic characteristics will be able to contribute fresh ideas in overseeing the remuneration package and will have various perspective in administrating the board compensation. In this regard, we suggest that the diverse compensation committee functions as a monitoring mechanism to mitigate the abuse of power in determining the board compensation. Nevertheless, since previous research offers conflicting findings, we argue that that diversity of compensation committee can possibility have a positive and negative association to executive compensation. In one hand, diverse compensation committee is potential to reduce agency cost through a fair remuneration package. On the other hand, the employment of diverse committee members might require higher remuneration due to the complexities of the knowledge, experience, and expertise that they possess.

Usman et al., (2018) found that *gender* diverse compensation committees limit the Chief Executive Officers' (CEO) cash compensation while Huang (2021) concluded that higher gender diversity in the compensation committee will lower the directors' pay. Contradict to that, Strobl, Rama and Mishra (2016) do not find any significant relationship between the gender diversity compensation committee and CEO remuneration. In term of *age*, Clements (2021) found that compensation committee members' age is negatively associated with the level of CEO pay. Additionally, research by Nguyen & Soobaroyen (2022) show that *education diversity* in remuneration committee is positively related to CEO compensation. From another perspective, Guest (2019) exhibits a non-significant relationship between *ethnic* diversity on CEO compensation. He opined that diverse ethnicity in the board may induce conflict and lack of trust. Notwithstanding to the above, little is known on the effect of diverse *nationality* committee on the board compensation as research on nationality on committee diversity in sparse and non-existence (Strobl, Rama & Mishra, 2016). Thus, a bibliometric analysis by Mumu et al., (2021) suggests future researchers to investigate the impact of nationality diversity on board remuneration package. Indeed, Canyon et al., (2019) notice that foreign CEOs receive higher levels of total compensation due to higher levels of international dependence. With mixed findings in the prior literature, we therefore hypothesised that:

H_1: There is a relationship between gender diversity in compensation committee and board compensation.

H_2: There is a relationship between age diversity in compensation committee and board compensation.

H_3: There is a relationship between education background diversity in compensation committee and board compensation.

H_4: There is a relationship between nationality diversity in compensation committee and board compensation.

H_5: There is a relationship between independent diversity in compensation committee and board compensation.

H_6: There is a relationship between ethnic diversity in compensation committee and board compensation.

RESEARCH METHODOLOGY

This study focused on non-financial firms listed on the main market in Bursa Malaysia during the year of 2016 to 2018 given that financial companies are under special scrutiny by financial authorities thus subject to special accounting practices that constrain the role of their board of directors (Pucheta-Martínez et al., 2017, p. 11). The year of 2016 to 2018 have been selected since Malaysia has started to promote board diversity in MCCG 2017. Therefore, by taking 2016 to 2018 as sample, this study is able to capture the effects of pre and post of board diversity implementation in Malaysia. This study chooses 2018 as the end date of the duration of our study in order to avoid the Covid-19 effects that took place in 2019 as a pandemic which will likely influence the normal practice to firm's diversity and compensation structure. This study has chosen 2016 as a starting year since 2016 is the dateline for the implementation of 30% female in the board in listed firms in Malaysia (Abdullah, 2014).

This study choose public listed company that the disclosure of information on this type of companies are more accessible compare to non-listed companies (Ming et al., 2015, p. 37). There are 628 non-financial firms in Bursa Malaysia in 2016, which represent our population. Since our data on board diversity, corporate governance and firms' characteristics are hand collected manually, and no database is available, we follow previous studies that used around 100 firms as our sample, due to labor intensive reading in the data collection stage. This sample size has been commonly practiced by researcher in Malaysia due to the lack of available database in Malaysia. For example, Talpur et al., (2018) utilized 95 firms, while Jamil et al., (2020) employed 126 firms as their sample in corporate governance studies. In order to select 100 firms, we use stratified random sampling, where we use Cooper and Schindler (2011) stratified data calculation, where the formula is 628/100 = 6.28. The selection of the firms has been performed using Microsoft Excel for every 6th interval. Using this method, the final sample for the year 2016 is 104. The total companies for all 3 years are 312. Following Katmon et al. (2019), this study merge certain industries with low number of firms such as energy, healthcare, logistic, technology, telco and utility firms into services industry given that all of these firms are mainly related to services products, while property has been included in the construction industry. Our final sample has been re-categorized into four main industries that are consumer, construction, industrial and services.

We measure our variables as follows:

Dependent Variable

The dependent variable in this research is board compensation, which is the total of compensation reported by the annual reports. We define board compensation following MCCG, (2017), Practice 8.1, where the remuneration of directors include fees, salary, bonus, benefits in-kind and other emoluments. We follows Haron & Akhtaruddin, (2013) by focusing on the compensation of both executive and non-executive directors since it represent a collective compensation for all directors in the board.

Independent Variables

We applied gender diversity (GENCOM), age diversity (AGECOM), ethnic diversity (ETHNICOM), education background diversity (EDUBCOM) and nationality diversity (NATIONCOM) of compensation committee as the independent variables in this study. GENCOM refers to the heterogeneity of gender in the composition of compensation committee. We measured the GENCOM by using the proposition of female directors in the compensation committee (Alvarado et al., 2011). We measure AGECOM, ETHNICOM, EDUBCOM, NATIONCOM and INDECOM following Katmon et al. (2019). Specifically, we refer AGECOM as the variety of age in the compensation committee structure. It was calculated by dispersion in the age of compensation committees by using the coefficient of variation (Katmon, et al., 2019). The formula is standard deviation divided by mean. ETHNICOM refers to multi-ethnic committee in the compensation panel. We measured ETHNICOM by variation ethnicity diversity of Malay, Chinese, Indian and others using Blau's Index (Katmon, et al., 2019). EDUBCOM denotes the variability of compensation committees' education background. EDUBCOM was computed by variation of education background such as accountancy, finance, business, economics, management and others using Blau's index (Katmon, et al., 2019). The Blau Index indicates the extent of concentration of group members, ranging from high concentration in a single category, with index of 0 reflecting complete homogeneity, to extremely low concentration or high diversity, based on equal distribution of members across a very large number of categories, with index of 1 reflecting perfect or the highest level of diversity. We define NATIONCOM in this study as the existence of various nationality in the formation of compensation committee. It was measured by the number different nationalities in the compensation committee (Katmon, et al., 2019).

Control Variables

This study includes several control variables in order to ensure that the model was not mis-specified. We include firm size, given that according to Kerkhoven, (2011, p. 32) the firm size is the greatest explanatory variable for all forms of executive compensation. We measure firm size using by natural log of total assets which is also used by previous study (Abdullah, 2014; Haron & Akhtaruddin, 2013; Sigler, 2011; Borrenbergs et al., 2017). This study also controlled for firm performance, which is measured using return on assets. It is calculated by dividing net income with total assets as used by Frijns et al., (2016). Besides that, we also included for leverage using the ratio of total debt to total equity following Liargovas (2014, p. 474) since it has been viewed as a result of events that determines companies' source of financing to run the business (Alkhatib, 2012, p. 1).

This study also included several board characteristics in our model since it is prevalent in in solving agency problems (Bhattarai, 2016). This study also controlled for governance variables such as board size (Muttakin, Khan, & Subramaniam, 2012, p. 97), board independent (Kent et al., 2010) and board meeting (Eluyela et al., 2018) since all of these governance variables represent board effectiveness in providing monitoring roles to the firm. In addition, Nooraisah Katmon et al. (2022) also found that corporate governance mechanisms are important in reducing agency cost in the companies in Malaysia.

Model Development

We developed the model below in order to test the relationship between compensation committee diversity and board compensation.

$$BODCOM_i = GENCOM_i + AGECOM_i + ETHNICOM_i + EDUBCOM_i + NATIONCOM_i\ INDECOM_i + SIZE_i + ROA_i + LEV_i + BODSIZE_i + BODIND_i + BODMEET_i + YEAR\ EFFECT_i + INDUSTRY\ EFFECT_i + e$$

Measurement of variables

BODCOM	=	Total compensation captures salary, bonuses, benefits in-kind and other emoluments awarded to the board as outlined by MCCG, (2021).
GENCOM	=	Compensation committee gender diversity. It is measured using the proposition of female directors in the compensation committee.
AGECOM	=	Age diversity among directors on compensation committee and measure using Blau Index coefficient of variation.
ETHNICOM	=	Compensation committee ethnicity diversity. It is measure using the percentage of different ethnicity among directors on compensation committee and measured using Blau Index
EDUBCOM	=	Educational background of directors in compensation committee and measured using Blau Index based on the percentage of each category of educational background such as accountancy, finance, business, economics, management and others

NATIONCOM	=	Nationality diversity among directors in compensation committee and measured using the Blau Index based on the percentage of people with nationalities other than Malaysian on boards
INDECOM	=	Dummy variable will be used for independent directors where firms will be assigned 1 if the majority of the board comprised of independent directors and 0 otherwise.
SIZE	=	Size of firm, which is measure using the natural logarithm of total asset
ROA	=	Return on asset calculated using net profit divided with total assets.
LEV	=	Debt to equity ratio. Calculated using total debt divide with total equity.
BODSIZE	=	The total number of directors in the board
BODIND	=	Percentage of independent directors in the board
BODMEET	=	Number of board meeting in a year
YEAR EFFECT	=	2016, 2017 and 2018. Year 2018 has been excluded from the regression model due to multicollinearity.
INDUSTRY EFFECT	=	Consumer Products, Industrial Products, Services as well as Construction. Services industry has been excluded from the regression model due to multicollinearity.

FINDINGS AND DISCUSSION

We performed several statistical analyses including descriptive statistics, pairwise correlation and Panel data regression. We present our descriptive statistics in Table 1.

Table 1: Descriptive statistic

VARIABLES	MEAN	STD DEV	MIN	MAX
GENCOM	0.968	0.1688	0	1
INDECOM	0.4003	0.3476	0	1
ETHNICOM	0.4721	0.3510	0	1
AGECOM	0.6965	0.2928	0	1
NATIONCOM	0.9711	0.1676	0	1
EDUBCOM	0.6604	0.3316	0	1
LOGREM	14.6025	1.2011	11	21
LOGSIZE	20.115	1.44	17	25
ROA	0.041	0.0892	-0.301	0.399
ROE	0.067	0.186	-0.539	1.116
DTE	0.744	0.733	0.027	5.532
DTA	0.3658	0.1971	0.027	0.925
BODSIZE	7.256	1.888	4	14
BODMEET	5.169	1.213	3	9
BODIND	49.086	13.31	23	80
TOTAL REM (RM)	5147315	13200000	200000	109000000

In Table 1, we provide our descriptive statistics results which are comprise of the mean, standard deviation, minimum and maximum. With respect to the diversity of compensation committee variables, GENCOM which represent the gender diversity in compensation committee reported a mean of 0.9636277, with the minimum value of 0 and maximum value of 1. On top of that, Table 1 also show the mean of INDECOM which is 0.4126306 lower than mean show for independent directors in compensation committee in Borrenbergs, Vieira, & Georgakopoulos, (2017)'s research which is 0.773.

In addition, the result also shows the mean of ETHNICOM that is 0.4576838, that represent the ethnicity of directors in compensation committee. The mean for AGECOM is 0.6928006, while the mean of NATIONCOM and EDUBCOM was 0.965812 and 0.6541453 respectively.

In regards to the dependent variable, the mean of REM in this research is RM5,147,315, while the mean of LOGREM is 14.59544, which is slightly higher than the mean show by Abed, Suwaidan, & Slimani, (2014), 14760 in Jordanian Dinars and 9.6 for log compensation. With regards to the firm characteristic's variables, the LOGSIZE which is represent the firm size shows the mean of 20.16524, which is qualitatively similar to Katmon et. al. (2019) with a mean of 18.93. Our mean of ROA is 0.0383134 which is close to the ROA in Bui & Krajcsák, (2024) which is 0.05. Both mean of DTE and DTA in the result show 0.7680427 and 0.3665499 respectively.

In respect to the board characteristics, the mean for BODSIZE is 7.273504, which is lower than the mean of board size in the research from Eluyela et al., (2018) which is 14.16327. Besides, the mean of BODMEET in our study is 5.245014, which is slightly lower than the mean of board meeting in Al-Daoud, Saidin, & Abidin, (2016) with the total number of meeting of 7.561. In respect to the BODIND, our descriptive statistic recorded a mean of 48.73789 which is lower than Al-Shaer & Zaman, (2017) UK studies whose reported a mean of 66.5.

Pairwise Correlation

We run the pairwise correlation for each of the variables included in our regression analyses and our result is reported in Table 2. We found that the highest correlation is belong to NATIONCOM and GENDERCOM with a value of 0.99. Since the correlation coefficient between these two variables have exceeded 0.8 (Hair et al. 2008), we therefore will not include both in the same regression model in order to avoid multicollinearity.

Table 2: Pairwise correlation

	1	2	3	4	5	6	7
1. GENCOM	1.00						
2. AGECOM	**0.407**	1.00					
3. ETHNICOM	**0.220**	0.042	1.00				
4. EDUBCOM	**0.331**	0.021	0.078	1.00			
5. NATIONCOM	**0.991**	**0.410**	**0.232**	**0.344**	1.00		
6. INDECOM	**0.199**	0.072	0.004	*0.143*	**0.198**	1.00	
7. SIZE	*-0.13*	0.034	0.055	*-0.105*	*-0.114*	**0.199**	1.00
8. PROFIT	-0.052	0.014	<u>-0.104</u>	0.089	-0.035	-0.071	0.045
9. LEV	-0.008	0.081	<u>-0.094</u>	0.054	-0.003	<u>0.105</u>	**0.259**
10. BODSIZE	0.045	*-0.141*	<u>0.104</u>	-0.021	0.044	**0.178**	**0.254**
11. BODIND	0.055	**0.202**	0.034	-0.081	0.061	**-0.239**	-0.056
12. BODMEET	0.140	0.066	**0.163**	-0.008	**0.151**	0.058	**0.176**

	8	9	10	11	12
8. PROFIT	1.00				
9. LEV	*-0.106*	1.00			
10. BODSIZE	*0.117*	0.036	1.00		
11. BODIND	-0.055	*0.039*	**-0.455**	1.00	
12. BODMEET	-0.084	0.103	-0.051	*0.136*	1.00

Notes: Figures in **bold**, *italics* and <u>underlines</u> indicate that the coefficient is significant at p<0.01, p<0.05 and p<0.1 respectively. Correlation coefficient for year and industry dummies not reported, due to brevity. The highest coefficient correlation is between GENCOM and NATIONCOM that is 0.99%. We therefore will not include GENCOM and NATIONCOM in the same regression model due to multicollinearity.

Table 2 exhibit that GENCOM has a significant (p<0.01) and positive correlation with AGECOM, ETHNICOM, EDUBCOM, NATIONCOM and INDECOM. This suggest that an increase in GENCOM will also lead to an increase in AGECOM, ETHNICOM, EDUBCOM, NATIONCOM and INDECOM. In addition, NATIONCOM also were found to be positively associated with AGECOM, ETHNICOM and EDUBCOM at p<0.01. Moreover, INDECOM also reported significant and positive correlation with NATIONCOM at p<0.01, thus suggesting that the diversity in independent directors is positively correlated with the diversity of the board nationality.

Table 3: Panel data analysis (random-effects and fixed-effects)

		DEPENDENT VARIABLES			
	Sign	**MODEL 1 Random effects**	**MODEL 2 Random effects**	**MODEL 3(a) Random-effects**	**Model 3(b) Random-effects**
		Coef. (z-stat)	Coef. (z-stat)	Coef. (z-stat)	Coef.
GENCOM	+/-			0.3065 *(0.54)*	
INDECOM	+/-			-0.0473 *(-0.17)*	*-0.055* *(-0.20)*
ETHNICOM	+/-			0.08004 *(0.34)*	*0.063* *(0.26)*
AGECOM	+/-			-0.1267 *(-0.33)*	*-0.144* *(-0.38)*
NATIONCOM	+/-				0.452 (0.75)
EDUBCOM	+/-			-0.0774 *(-0.24)*	*-0.096* *(-0.30)*
BODSIZE	+/-		**0.139*** *(3.62)***	***0.1318*** (3.48)***	***0.1311*** (3.46)***
BODMEET	+/-		-0.0043 *(-0.12)*	-0.0119 *(-0.29)*	-0.015 (0.042)
BODIND	+/-		-0.0027 *(-0.66)*	-0.00316 *(-0.71)*	*-0.0033* *(-0.74)*
SIZE	+/-	**0.3640489*** *(4.32)***	**0.3444*** *(3.79)***	**0.351*** *(3.51)***	***0.354*** (3.54)***
ROA	+/-	**1.413** *(2.03)***	**1.229* *(1.85)***	**1.264* *(1.90)***	***1.245* (1.87)***
DTA	+/-	0.0914 *(0.26)*	0.131 *(0.37)*	0.165 *(0.46)*	*0.168* *(0.47)*
Year effects		**Yes**	**Yes**	**Yes**	**Yes**
Industry effects		**Yes**	**Yes**	**Yes**	***Yes***
_cons		**6.498*** *(3.50)***	**6.441*** *(3.67)***	**6.1153*** *(3.34)***	***6.115*** (3.34)***
N		312	312	312	312
R-squared		0.2613	0.3222	0.3256	0.3256
Wald Chi(^{2})		85.34	116.72	131.76	131.76
Prob > chi^2		0.0000	0.0000	0.0000	0.000

In order to cater for the effect of outliers, we winsorized all of our continuous data at the top and bottom 1% following Katmon et al. (2019). Our Durbin-Wu Hausman test reported that our dataset is suitable for Random-Effect Panel Data analysis with the Chi^2 = 17.01 and p>Chi^2 =0.7523. Table 3 presents the results for Random-effect regression for compensation committee diversity and executive compensation. In Model 1, we run the regression for control variables only. The result for for MODEL 1 shows that SIZE (coef = 0.36, p<0.01) is having a positive and significant influence to compensation and it is consistent with the result reported by Lau & Vos, (2004). In regards to the ROA, our Model 1 shows that it is positively related to compensation at (coef = 1.43, p<0.01). This suggest that an increase in ROA will lead to an improvement in the compensation, hence underlining that the compensation received by the board is in tandem with the firm performance. This finding is encouraging in the light of MCCG that promotes a compensation package that is linked with the firm performance.

In Model 2, we add BOD characteristics of governance variables in our regression. We found that BODSIZE reported a significant and positive relationship with board compensation (coef = 0.139, p<0.01), in line with Kuo & Yu (2014). In Model 3(a), we add board diversity variables by excluding NATIONCOM since this variable strongly correlated with GENCOM. Our Model 3(a) exhibit that none of diversity variables are significant in influencing board compensation. Other results on ROA, BODSIZE and SIZE are consistently significant. In Model 3(b), when we replaced GENCOM with NATIONCOM, we can see that all of the diversity variables are also insignificant in influencing board compensation, while the results on ROA, BODSIZE and SIZE are maintained to have a positive and significant relationship with board compensation. The insignificant relationship between compensation committee diversity variables is consistent with Katmon et al. (2019) whom reported that some of diversity components in board is insignificant on corporate social responsibility (CSR). This suggest that diversity of compensation committee that might be beneficial in the western context might not be acceptable in the Asian context such as Malaysia.

Sensitivity Analyses

We run several sensitivity analyses and we present the result in Table 4. We re-run our baseline regression using an alternative estimation (i.e, Fixed-effect model) in Model 3(a) and 3(b) of our Table 4. Our result reported similar findings to our baseline model in Random-effects estimation, thus suggesting that our result is robust across different estimation. We also re-run our baseline model using alternative measurement for profitability and leverage. In this instance, we replaced the ROA with ROE (refer to Model 4a and 4b in Table 4) and DTA with DTE (refer to Model 5a and 5b in Table 4). We found that our results are qualitatively unchanged, where the diversity of compensation committee variables are insignificant in controlling the board compensation. This suggest that our result is robust across different measurement for control variables.

Table 4: Sensitivity analyses

	Sign	**MODEL 3 (a) Fixed-effects**	**MODEL 3 (b) Fixed-effects**	**Alternative variables: Model 4(a) ROE**	**Alternative variables: Model 4(b) ROE**	**Alternative variables: Model 5(a) DTE**	**Alternative variables: Model 5(b) DTE**
		Coef. (t-stat)	Coef (t-stat)	Coef (z-stat)	Coef (z-stat)	Coef (z-stat)	Coef (z-stat)
GENCOM	+/-	-0.241 *(-0.49)*		0.308 *(0.54)*		0.303 *(0.54)*	
INDECOM	+/-	-0.2702 *(-0.70)*	*-0.274* *(-0.73)*	*-0.0649* *(-0.23)*	*-0.073* *(-0.26)*	*-0.041* *(-0.14)*	*-0.049* *(-0.17)*

ETHNICOM	+/-	-0.068 *(0.816)*	*-0.1002* *(-0.33)*	*0.0639* *(0.27)*	*0.046* *(0.19)*	*0.065* *(0.28)*	*0.047* *(0.20)*
AGECOM	+/-	-0.0037 *(-0.01)*	*-0.015* *(-0.03)*	*-0.126* *(-0.33)*	*-0.145* *(-0.38)*	*-0.123* *(-0.32)*	*-0.139* *(-0.36)*
NATIONCOM	+/-		0.493 (0.99)		0.465 (0.78)		0.448 (0.75)
EDUBCOM	+/-	-0.7412 *(-1.61)*	*-0.752* *(-1.64)*	*-0.0839* *(-0.27)*	*-0.104* *(-0.33)*	*-0.069* *(-0.22)*	*-0.089* *(-0.28)*
BODSIZE	+/-	0.062 *(1.13)*	0.063 (1.14)	***0.132****** ***(3.43)***	***0.131****** ***(3.41)***	***0.131****** ***(3.45)***	***0.131****** ***(3.43)***
BODMEET	+/-	-0.023 *(-0.62)*	*-0.029* *(-0.74)*	*-0.014* *(-0.35)*	*-0.017* *(0.42)*	*-0.012* *(-0.30)*	*-0.0155* *(-0.37)*
BODIND	+/-	-0.0021 *(-0.32)*	*-0.0023* *(-0.33)*	*-0.0036* *(-0.83)*	*-0.073* *(-0.26)*	*-0.003* *(-0.67)*	*-0.003* *(-0.69)*
SIZE	+/-	**0.456**** ***(2.34)***	**0.459**** **(2.38)**	**0.353***** **(3.53)**	**0.355***** **(3.57)**	**0.358***** **(3.59)**	**0.36***** **(3.62)**
ROA/ROE	+/-	0.229 *(0.22)*	0.216 (0.21)	***0.4847**** ***(1.80)***	0.478 (1.77)	***1.224**** ***(1.86)***	***1.205**** ***(1.82)***
DTA/DTE	+/-	0.2223 *(0.60)*	*0.236* *(0.64)*	*0.1002* *(0.29)*	*0.104* *(0.30)*	*-0.018* *(-0.28)*	*-0.018* *(-0.27)*
Year effects		**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Industry effects		***Yes***	***Yes***	***Yes***	***Yes***	***Yes***	***Yes***
_cons		**5.6023** ***(1.51)***	***5.335*** ***(1.45)***	***6.295****** ***(3.43)***	***6.163****** ***(3.34)***	***6.18****** ***(3.39)***	***6.068****** ***(3.30)***
N		312	312	312	312	312	312
R-squared		0.2109	0.2140	0.3197	0.3197	0.3251	0.3250
F-stat / Wald Chi^2		2.63	17.45	127.64	127.97	134.24	134.97
Prob > chi2		0.0033	0.000	0.000	0.000	0.000	0.000

CONCLUSION

This study investigates the impact of comprehensive compensation committee diversity and executive compensation. This study argues that diverse committee are expected to deliver a strong monitoring role in ensuring a fair remuneration. Using a wide-ranging of diversity variables on the compensation committee on the listed firms in Malaysia from 2016 to 2018, the results exhibit that none of the compensation committee variables are significant in influencing the executive compensation, thus suggesting that diversity in compensation committee failed to deliver monitoring roles to the executive compensation.

This finding is in corroboration with Katmon et al. (2019) and Abdullah (2014) Malaysian studies whom reported that diversity in the board is less appreciated in the context of emerging economy such as Malaysia. Malaysian business culture is surrounded with eastern values (Katmon et al. 2019) and religious parameters, where female has strong traditional roles to serve the husband and family, the younger generation has to respect the elderly and brotherhood among the Muslim are viewed as among the highest virtues in life, this unique culture is obviously not in line with the Western culture. Therefore, this study suggests to suggest to the regulators in Malaysia to revisit the need of diversity in the highest-ranking position in the corporate sector in Malaysia.

Specifically, while Western studies have reported that gender diversity in the compensation committee is effective in reducing executive compensation (e.g., Borrenbergs et al., 2017), our study found that gender diversity does not play a significant role in influencing executive compensation in the Malaysian context. This may be attributed to Malaysia's high-power distance culture, where the presence of female directors may be less effective in challenging executive pay decisions. This is possibly due to traditional Eastern cultural norms, which often associate women with more reserved, obedient roles, discouraging them from questioning male authority.

Similarly, with regard to age diversity, this study also found no significant relationship between age diversity and executive compensation. As noted by Katmon et al. (2019, p. 462), there is a traditional Malay proverb: "the older eat salt earlier than the younger," implying that older generations are seen as more experienced and should be respected. Consequently, younger board members may feel compelled to defer to their senior counterparts, limiting their influence in decision-making processes.

The findings of this study have practical implications for policymakers involved in shaping board diversity policies within the Malaysian Code on Corporate Governance (MCCG). While the current diversity guidelines in the MCCG are largely adapted from the UK Code of Corporate Governance, it is important to recognize that such "copy-and-paste" policies may not be effective in Malaysia due to the influence of deeply rooted Eastern cultural values. A more refined policy that considers diversity in terms of skills, experience, and personal values may be more appropriate.

Furthermore, corporate boards should go beyond merely fulfilling the diversity requirements outlined in the MCCG. It is essential that all directors-regardless of gender, age, or ethnicity-are given equal opportunities and encouraged to express their views during board meetings. This ensures the board operates at its highest level of functionality. In addition, investors should not focus solely on the surface-level composition of board diversity when making investment decisions; they must also assess the effectiveness of the company's governance and transparency mechanisms.

Our study is not without limitations. First and foremost, while the sample size is relatively small, which is not uncommon in this type of corporate governance study. In this regard, to increase the generalizability of the findings, this study suggests that future research could possibly increase the number of sample size. Moreover, future study could examine the impact of compensation committee diversity on other perspective such as firm performance, earnings management or sustainability reporting. Finally, the spectrum of board diversity could possibly be focused on the internal part of the board members such as religion affiliation or personal ethical values, since those factors are more likely to affect the morality of an individual in their decision-making process.

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