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THE EFFECT OF
REMUNERATION COMMITTEE
ON DIRECTORS' REMUNERATION IN HONG KONG

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by

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ABSTRACT

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Master of Philosophy

According to the Code on Corporate Governance Practices (CG Code), listed firms should be overseen by a board of directors that promotes the success of the firm through effective direction and supervision of the listed firm's affairs. Remuneration paid to directors should be sufficient to attract and retain directors of a caliber required to run the company successfully, but companies should avoid paying more than is necessary. The board should appoint a remuneration committee consisting wholly or mainly of non-executive directors and chaired by a non-executive director. The role of the committee is to make recommendations to the board on executive director remuneration in all of its forms, drawing on outside advice as necessary. According to the CG Code, the committee should consult with the chairman of the board and/or chief executive officer regarding its proposals relating to the remuneration of other executive directors. However, as many listed firms in Hong Kong are majority-owned by individuals and their families, the positions of the chairman and/or chief executive officer are usually held by family members who can influence the level of remuneration paid to directors. In an effort to assess how well the CG Code works, this study examines whether directors' remuneration is influenced by independent non-executive directors where the chairman of the board is a family member. Findings show that since the introduction the CG Code, where the number of independent non-executive directors on the remuneration committee is high, the committee acts as means of control, which leads to lower directors' remuneration than in situations where family members have more influence on remuneration committee decisions.

DECLARATION

I declare that this is an original work based primarily on my own research, and I warrant that all citations of previous research, published or unpublished, have been duly acknowledged.

WONG Shuk Fong Ada

08 May 2009

CERTIFICATE OF APPROVAL OF THESIS

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Table of Contents

Abstract	
Table of Contents	i
List of Table.....	ii
Acknowledgements.....	iii
Introduction	1
The Regulatory Background in Hong Kong	3
Disclosure of Remuneration.....	6
Motivation	8
Literature Review and Hypothesis Development.....	10
Data Collection	17
Sample Selection	17
Research methodology.....	19
Results	25
Conclusion.....	34
References	56

List of Table

Table 1:	Sample Selection	37
Table 2:	Descriptive Statistics	38
Table 3:	Correlation Analysis	40
Table 4:	Regression Analysis.....	42
Table 5:	Sensitive Analysis.....	44

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Introduction

Corporate governance refers to “the systems by which companies are directed and controlled, including the institutional arrangements for boardroom pay setting.” (Canyon, Gregg & Machin, 1995, p.710) In the wake of the financial scandals of the early 2000s, there has been increased focus on quality of earnings and the responsibility of corporate executives for earnings (Carter, Lynch & Zechman, 2005). The way in which a remuneration system is designed reflects a firm’s corporate governance and the extent to which it applies free market principles. Executive remuneration has long been a topic of heated debate and the focus of much research in the U.S. and other developed economies (Jensen & Murphy, 1990; Core et al., 1999; Canyon & Murphy, 2000; Bebchuk & Fried, 2006). Good corporate governance can help prevent excessive pay for top management and encourages the use of performance-related pay schemes (Cheng & Firth, 2006).

The objective of this paper is to examine directors’ remuneration in Hong Kong’s listed firms. Hong Kong is representative of economies in which the firms are mainly family-controlled. A distinctive characteristic of such firms is that a high percentage of their shares are held by the CEOs and directors; in addition, such firms are often family-owned. In such firms, families are capable of expropriating wealth from the firm through excessive remuneration, related-party transactions, or special dividends (Anderson & Reeb, 2003). Hence, the focus of this paper is on determining the differences, if any, between family-owned firms (FOFs) and non-family-owned firms (NFOFs) with institutional ownership with respect to directors’ remuneration.

Various studies come to different conclusions about the performance of FOFs relative to that of other firms. To some extent, this is because they use the term “family-owned firms” differently. Anderson and Reeb (2003) refer to any firm with a dominant shareholder as a

family-owned firm. By this definition, Microsoft is a family-owned firm, even though Bill Gates has given no notice of any clear intention to pass control on to his sons or daughters. Likewise, their definition would catch Andrew Carnegie's turn of the century Carnegie Steel as a family-owned firm, even though he ultimately sold out and gave the \$480 million he received away to charities. Indeed, Carnegie's famous maxim "A man who dies rich dies disgraced" would be incomprehensible to the ruling families of multigenerational European family businesses (Morck & Yeung, 2004).

This study examines large family firms – firms big enough to be listed. I define family firm as a listed firm with at least one director of the board who deemed to be substantial shareholder. Substantial shareholder is defined by referring to Section 336 of Part XV of the Securities and Futures Ordinance, individuals and corporations who are interested in 5% or more of any class of voting shares in a listed corporation is deemed to be substantial shareholders.

I set out to investigate whether there is a link between the excessive compensation levels awarded to directors if the chairman and/or CEO are family members of substantial shareholders. Also explored is the issue of how independent non-executive directors influence directors' remuneration to maximize company wealth and protect shareholders' interests, especially those of minority and non-family shareholders.

The Regulatory Background in Hong Kong

Hong Kong company law and corporate governance regulations are based on the British legal system (Cadbury, 1992; Greenbury, 1995; Hampel, 1998). Hong Kong retains the British model of the joint stock company, the basic architecture of which presumes that a broad base of owners delegates management of the enterprise to a smaller number of directors (Brewer, 1997).

The Code on Corporate Governance Practices (CG Code), Appendix 14, which forms part of the Listing Rules issued by Hong Kong Exchanges and Clearing Limited (HKEx), came into effect on 1 January 2005. The CG Code deals with corporate governance issues including the protection of shareholder rights in voting and share transactions, directors and board practices, and corporate reporting and disclosure. The CG Code places an onus on the board of directors to present balanced, clear and understandable annual and interim reports.

According to the Code, Hong Kong's listed firms should be overseen by an effective board, which should assume responsibility for the leadership and control of the listed firm and the members of which should be collectively responsible for promoting the success of the firm by directing and supervising its affairs. Directors should make decisions objectively in the best interests of the firm. To encourage directors to fulfill these responsibilities, incentive-based remuneration is needed to influence executive actions in ways that affect financial reporting (Healy, 1985).

Listing Rule 3.10 requires that the board of directors of a listed issuer have at least three independent non-executive directors, which implies that the appointment of independent non-executive directors is a basic requirement and important element of the board. The independence of proposed non-executive directors can be assessed in accordance with

Listing Rule 3.13. First, such proposed directors should hold no more than 1% of the total issued share capital of the listed issuer. Second, they should not receive an interest in any securities of the listed issuer by way of a gift, or by means of any other form of financial assistance, from a connected person or the listed issuer itself. Third, they should not act as a director, partner or principal of any professional adviser who currently provides or has provided services within one year immediately prior to the date of their proposed appointment, or be an employee of any such professional adviser who is or has been involved in providing such services during the same period. Fourth, they should not have a material interest in any principal business activity of or be involved in any material business dealing with the listed issuer or any of its related parties. Fifth, they should not be nominated for appointment to the board specifically to protect the interests of any entity the interests of which are not the same as those of the shareholders as a whole. Sixth, they should not have been connected with any director, the chief executive or any substantial shareholder of the listed issuer for two years immediately prior to the date of their proposed appointment. Seventh, they should not have acted as an executive or director of the listed issuer or any of its related parties at any time during the two years immediately prior to the date of their proposed appointment. Finally, they should not be financially dependent on the listed issuer or any of its related parties.

According to the CG Code, information related to the firm's directors' remuneration policy and other remuneration-related matters should be disclosed. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and fixing the remuneration packages of all directors. Remuneration should be set at a level sufficient to attract and retain directors of the caliber required to run the company successfully, but companies should avoid paying more than is necessary.

One criticism of this arrangement is that directors with substantial shareholdings can use their voting power to award themselves large and unwarranted remuneration packages. (Finkelstein & Hambrick, 1996) However, this may not be the case in Hong Kong, as the CG Code states that no director should be involved in determining his or her own remuneration.

Disclosure of Remuneration

In 1994, HKEx introduced rules that require listed firms to disclose additional information pertaining to top management pay in their annual reports. Firms must disclose the number of directors who receive remuneration in various pay bands: HK\$0 – 1,000,000, HK\$1,000,001 – 1,500,000 and upwards in increments of HK\$500,000 for each band. The remuneration packages of the firm's five highest paid employees, including its directors, must be disclosed and broken down according to the number of employees in each band. Until 2004, there was no requirement to disclose the names of directors whose remuneration fell within each pay band, meaning that the packages of individual executive directors remained private (Cheng & Firth, 2005).

The Disclosure of Financial Information rule (Appendix 16, paragraph 24) under HKEx's Listing Rules was amended from 31 March 2004. It states that directors' fees and any other reimbursement or emolument payable to a director must be disclosed in full in the annual report and accounts of the issuer on an individual and named basis, as follows:

- (1) Directors' fees for the financial year;
- (2) Directors' basic salaries, housing allowances, other allowances, and benefits in kind;
- (3) Contributions to pension schemes for directors or past directors for the financial year;
- (4) Bonuses paid or receivable by directors that are discretionary or are based on the listed issuer's, the group's or any member of the group's performance for the financial year;
- (5) Amounts paid during the financial year or receivable by directors as an inducement to join or upon joining the listed issuer; and
- (6) Remuneration paid during the financial year or receivable by directors or past directors for the loss of office as a director of any member of the group or of any other office in connection with the management of the affairs of any member of the group, distinguishing between contractual and other payments.

Hong Kong Financial Reporting Standard (HKFRS) 2 requires listed firms to disclose directors' share-based remuneration. The fair value of share options granted to directors is recognized as an expense in the company's consolidated income statement or as an asset if the cost qualifies for recognition as an asset under the company's accounting policies. Any corresponding increase is recognized as a capital reserve within equity. Fair value is measured at the grant date using an option pricing model such as the Black-Scholes or binomial model, taking into account the terms and conditions upon which the options were granted. Where the directors have to meet vesting conditions before becoming unconditionally entitled to options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that are expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged / credited to the consolidated profit and loss account for the year of the review unless the original directors' expenses qualify for recognition as an asset, with a corresponding adjustment being made to the capital reserve. On the vesting date, the amount recognized as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) other than where forfeiture is due solely as a result of a failure to satisfy vesting conditions that relate to the market price of the company's shares. The equity amount is recognized in the capital reserve until the option either is exercised (when it is transferred to the share premium account) or expires (when it is released directly to revenue reserves).

Greater disclosure of executive compensation makes it possible to identify the specific remuneration packages paid to specific individuals or for specific job roles, thus allowing for more detailed examination of directors' remuneration.

Motivation

In the wake of the financial scandals of the early 2000s, there has been increased focus on quality of earnings and the responsibility of corporate executives for earnings (Carter, Lynch & Zechman, 2005). Lemmon and Lins (2003) examine whether differences in ownership structure at the firm level can explain differences in firm performance during the East Asian financial crisis that began in July 1997. The East Asian crisis offers an interesting opportunity to study the valuation effects of ownership structure that avoids some of the potential shortcomings of prior research (Lemmon & Lins, 2003). As a result, the focus of this study is on the pre-crisis period during 2006 and 2007; just before the 2008 global financial crisis.

Empirical research into the determinants of top executive remuneration has found that there is only a very weak statistical link between directors' remuneration (excluding shareholdings and options) and the stock market performance of their companies (see Jensen & Murphy, 1990, for evidence from the United States; and Gregg, Machin & Szymanski, 1993a, for evidence from the United Kingdom). Hence, this study does not focus on the link between directors' remuneration and firm performance. I will study the effectiveness of CG Code regarding directors' remuneration which is different from prior research.

The rise in executive pay over time has been the subject of much public criticism, which further intensified following the corporate governance scandals that began erupting in late 2001 (Bebchuk & Fried, 2006). Boards have long been considered to play an important role in setting executive pay (Finkelstein & Hambrick, 1996). However, executive directors should play no part in decisions regarding their own remuneration (Cadbury, 1992).

Consistent with the findings of previous studies, the CG Code states that boards should appoint remuneration committees that consist wholly or mainly of independent non-executive directors and that they should make recommendations to the board on directors' remuneration in all its forms, drawing on outside advice as necessary. The underlying principle of the CG Code is that a company's directors should play no part in determining their own pay.

To examine whether this principle is borne out in practice, the study reported in this paper assessed the empirical relationship between boards of directors, remuneration committees and directors' pay. To ascertain how effective the CG Code is, this study examines whether directors' remuneration is influenced by the two following variables: the appointment of independent non-executive directors and whether the chairman of the board or CEO of an FOF is a member of the controlling family. In addition, the size, performance and monitoring of listed firms in Hong Kong during 2006 and 2007 will be controlled for.

Literature Review and Hypothesis Development

Incentive effects vary with different forms of remuneration (Holmstrom, 1979; Shavell, 1979), and public fund managers have often voiced the opinion that managerial remuneration should be linked to corporate performance (Smith, 1996; Gillan & Starks, 2000). Hence, firms should formulate remuneration contracts in a way that is likely to maximize firm value by promoting the achievement reported earnings objectives (Healy, 1985; Sloan, 1993; Holthausen et al., 1995).

Board Structure

The board is expected to represent the shareholders and serves as their first line of defense against a self-serving management team. The problem with corporate internal control systems start with the board of directors. The board, at the apex of the internal control system, has the final responsibility for the functioning of the firm (Jensen, 1993). Monitoring of corporate boards by independent non-executive directors suggests that corporate boards will become more responsive to investors, and inclusion of independent non-executive directors on boards will improve the firm's compliance with disclosure requirements which in turn will enhance the comprehensiveness and quality of disclosures (Chen & Jaggi, 2000). An important question relating to board composition concerns the ideal combination of outside and inside members. While outsiders (independent non-executive directors) are more independent than insiders (executive directors and non-executive directors) of a firm's CEO, they are potentially less informed regarding firm projects. Insiders may face distorted incentives due to their lack of independence from the firm's CEO (Bushman *et al.*, 2004).

Listing Rule 3.10 requires that the board of directors of a listed issuer have at least three independent non-executive directors, which implies that the appointment of independent

non-executive directors is a basic requirement and important element of the board.

Remuneration Committees

Corporate boards of directors provide a source of external control over management decisions that could be self-serving; thus it is expected that members of the board discourage excessive top management compensation and at least attempt to link that compensation in some manner to company performance (Cheng & Firth, 2005). The external control can be extended with the majority of remuneration committee members be independent non-executive directors. This study is to empirically evaluate how this can influence the remuneration pay to the board.

In the 1980s, inclusion of independent non-executive directors on corporate boards started to receive increasing attention. Two main arguments have been advanced in support of independent non-executive directors. First, independent non-executive directors provide advice to corporate boards on strategic decisions, which may improve the firm's economic and financial performance. The second argument for inclusion of independent non-executive directors on corporate boards relates to better monitoring of management decisions and activities by corporate boards (Chen & Jaggi, 2000).

The board of directors' function is to manage the business and affairs of the corporation. Boards can either conduct their work through the full board or, subject to the articles of incorporation, through a majority vote in order to delegate their authority to standing committees responsible to the board. Board committees meet separately from the full board, and are composed of subsets of board members. In addition, board committees tend to have specific, narrowly defined functions (Klein, 1998).

The CG Code recommends that board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties. Issuers should establish audit and remuneration committees as required by CG Code. Issuers may establish nomination or other governance committees as best practice.

In 1999, remuneration committees were uncommon in Hong Kong, with only a few firms reporting their existence (Cheng & Firth, 2005). Studies of firms in other countries yield conflicting results on the relationship between pay and remuneration committee: some find that remuneration committees reduce remuneration, whereas others report the opposite (Canyon & Peck, 1998; Ezzamel & Watson, 1998).

Although regulatory intervention is commonly supported, it is debatable whether recent reforms have sufficiently strengthened directors' independence and fully addressed past problems. In light of recent regulatory reforms, one would expect boards to have established pay policies that protect the interests of shareholders (Bebchuk & Fried, 2006) and, in support of this expectation, that Hong Kong listed firms would have established remuneration committees with specific written terms of reference clearly specifying their powers and duties.

The CG Code recommends that the majority of remuneration committee members be independent non-executive directors. Remuneration committees should make recommendations to the board on the issuer's policy and structure for all forms of remuneration paid to directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. Independent non-executive directors, who are motivated to take their duties seriously due to the need to maintain their reputations in the labor market, are unlikely to countenance excessive

executive director remuneration. One function of independent non-executive directors is to strengthen the monitoring of the firm's management through good corporate governance. The presence of independent non-executive directors on the remuneration committee can be used as monitoring mechanism (Basu *et al.*, 2007) that prevents excessive remuneration for executive directors. Hence, the following hypothesis is tested.

Hypothesis 1: All other things being equal, lower directors' remuneration will be associated with higher proportion of independent non-executive directors for the remuneration committee.

Powers of Family Members

Companies in many countries have controlling shareholders – either wealthy families or other firms that, themselves, are controlled by wealthy families. This means that the managers of most firms in most countries serve at the pleasure of a wealthy family, not at the pleasure of public shareholders (Morck & Yeung, 2004).

Cheng and Firth (2005, 2006) found that within a family firm environment, the direct compensation paid to top managers would tend to be reduced if the directors had substantial stockholdings. Research into corporate governance within a family controlled environment is nevertheless quite rare (Chen & Lee 2008). However, given that Hong Kong represents an economy within which firms are mainly family controlled, I will study the whole remuneration package to the board if the chairman or CEO had substantial stockholdings over 5% as a proxy for the definition of a family controlled firm.

Many listed firms are majority owned by individuals and their family members, a phenomenon that has implications for corporate governance, firm performance and the setting of senior executive pay (La Porta *et al.*, 1999; Lawton & Tyler, 2001; Mishra *et al.*,

2001). The difference between FOFs and NFOFs is that the ownership is held by different person. FOFs (NFOFs) refer to those firms with (without) family ownership or family presence on the board of directors (Anderson & Reeb, 2003). FOFs are majority-owned by individuals and their families, the positions of the chairman and/or chief executive officer are usually held by family members who can influence the level of remuneration paid to directors. NFOFs are owned by shareholders who are not related to the family or executive directors. The advantages of maintaining founding family control include the provision of stability and long-term planning and sustainability. In addition, family ownership often allows for flexibility and timeliness in decision making. Hong Kong is a good representative of economies in which the firms are mainly family-controlled.

For the identification of FOFs, prior research provides only limited guidance on how to ascertain FOFs. Ownership structure in many Hong Kong companies is characterized by the dominance of one primary owner. This dominant owner holds a percentage of shares significant enough to be the largest shareholder but usually much less than the majority holdings of a company (Chau & Leung, 2006). In order to clearly define FOFs from NFOFs, I classify a firm as FOFs if: (i) a family member serves as a director of the Board; and (ii) any director own more than 5% of the firm's equity.

Refer to Section 336 of Part XV of the Securities and Futures Ordinance, individuals and corporations who are interested in 5% or more of any class of voting shares in a listed corporation deem to be substantial shareholders. Chau & Leung (2006) start their analysis with three levels of ownership: less than 5%, between 5% and 25% and more than 25%. Base on these information, I conduct tests with cut-off point at 5%, if any director with shareholding more than 5% of the issued shares, then I will identify this firm as FOF. I use the dummy variable coded one (1) if the chairman of the board or CEO is a member of the

family that controls the company and holds more than 5% of the total issued shares.

Family traits, including trust, altruism and paternalism, can encourage an atmosphere of commitment to and love for the business (James, 1999). However, the management structure of such firms is often autocratic, leading to the concern that some controlling shareholders might treat their companies as personal fiefdoms (Bond, 1996; Brewer, 1997). Such companies may lack corporate transparency, especially in directors' remuneration. Directors who have substantial shareholdings are likely to receive lower compensation. First, such directors will receive large dividend payouts, reducing their need for cash compensation. Second, tax minimization may be an objective when remuneration is set. Notwithstanding the expropriation of assets argument, it is contended that directors who have substantial shareholdings will be associated with lower direct remuneration (Deckop, 1988; Ramaswamy *et al.*, 2000) designed to reduce their salary tax obligations. In my experience, this may not necessarily be the case; in Hong Kong, which is a low tax region in comparison with other territories and countries such as the USA, chairmen and/or CEOs may use their powers to award themselves generous remuneration packages, either individually or on a firm basis. Chairmen and/or CEOs with bargaining power can be expected to influence the size and structure of their remuneration packages to their own benefit (Ryan & Wiggins, 2004).

The CG Code also recommends that the remuneration committee consult with the chairman and/or CEO before making a suggestion on the remuneration of other executive directors. In addition, the remuneration committee should have access to professional advice on directors' remuneration if it is considered necessary. Management ownership and family control can be used as ownership mechanisms (Basu *et al.*, 2007). Hence, the following hypothesis is tested.

Hypothesis 2: All other things being equal, higher directors' remuneration will be associated with firms in which the chairman of the board or CEO of the firm is a member of the family that controls the company and holds more than 5% of the total issued shares.

Data Collection

This study used data of firms listed on HKEx. Directors' information, remuneration payment and board composition were collected manually from annual reports. Sales, stock returns, returns on equity, sales growth and leverage data were collected from Datastream.

Sample Selection

Because the CG Code came into effect in 2005, most firms should have had remuneration committees by the 2006 fiscal year-end. Therefore, the sample selection process started with a population of all firms listed on the main board in 2006. Table 1 shows the procedure used to select the final sample. Observations were eliminated if firms were missing price or other data needed for regression estimation. Firms involved in takeovers or mergers, or which were subsequently withdrawn or suspended from the main board, were also excluded, as were newly listed firms and those for which the closing date or their financial statements changed during the observation period.

In addition, companies that were classified as foreign, H share or red chip firms were not included because their financial profiles are significantly different from other companies; including them in the dataset would have led to meaningless or spurious results. HKEx defines a foreign company as a company that is incorporated overseas and does the majority of its business outside Hong Kong and mainland China. An H share is a company incorporated in the People's Republic of China (PRC) with shares issued under PRC law and listed on HKEx, the par value of which is denominated in RMB, and which are subscribed for and traded in HKD. A company is deemed to be a mainland China-controlled company (red chip) if: 1) the company has a total of at least 30% of its shares held directly by mainland China entities and/or through companies that are controlled by mainland China entities; or 2) the company has a total of between 20% and 30% of its

shares held directly by mainland China entities and/or through companies that are controlled by mainland China entities, and such entities have a strong influence, viewed from a subjective basis, on the company's board of directors.

This study focuses on 10 industry groups based on the HKEx classification system: Conglomerates, Consumer Goods, Energy, Industry, Information Technology, Materials, Property and Construction, Services, Telecommunications and Utilities. Financial industries such as insurance and banking are excluded because their financial profiles are different from those of other industries. The selection process for firms resulted in a final sample of 968 firm-year observations (484 firms) across 10 industries in 2006 and 2007. While there were a total of 9,142 director observations for 2006 and 2007, 1,687 were excluded because of appointment, resignation, removal, re-designation, retirement, or death during 2006 or 2007. The selection process for directors yielded a final sample of 7,455 individual firm-year observations.

Research methodology

Previous Research

The purpose of Cheng and Firth (2005) study is to examine top management pay in Hong Kong and to investigate how it is affected by firms' ownership and governance characteristics. Cheng and Firth (2005) also investigate the role of institutional ownership and board composition in the determination of pay. Cheng and Firth (2005) find that director and institutional ownership moderate remuneration but that there is little evidence that they encourage pay-for-performance reward schemes. With similar idea, this study will follow the research model of Cheng and Firth (2005), as follows:

$$\begin{aligned} \text{Directors' Pay} = & \beta_0 + \beta_1 \text{ Log of Sales} + \beta_2 \text{ Return on Equity} + \beta_3 \text{ Stock Return} + \beta_4 \\ & \text{Sales Growth} + \beta_5 \text{ Group} + \beta_6 \text{ Leverage} + \beta_7 \% \text{ Directors' Share} \\ & \text{Ownership} + \beta_8 \% \text{ Institutional Share Ownership} + \beta_9 \% \\ & \text{Non-executive Directors} + \epsilon_j, \end{aligned}$$

Where:

Directors' Pay	=	log of the average pay of the executive directors
Log of Sales	=	log of sales revenues (in millions) for the fiscal year
Return on Equity	=	net income divided by average shareholders' equity
Stock Return	=	annual return (price change plus dividend) for the fiscal year
Sales growth	=	yearly proportional change in sales
Group	=	dummy variable coded one (1) if the company was part of a "group" controlled by one family
Leverage	=	debt divided by shareholders' equity
% Directors' share ownership	=	the number of shares owned by the directors divided

by the number of outstanding shares

% Institutional share ownership = the number of shares held by institutions (equal to or greater than the disclosure level of 10%) divided by the number of outstanding shares

% Non-executive directors = the number of non-executive directors divided by the total number of directors on the board

Cheng and Firth (2005) used the above model for observations from 1994 to 1999. However, because the observations used in the present study are for 2006 and 2007, i.e., after the CG Code with its different disclosure requirements came into force, the model is amended as follows.

Dependent variables

The dependent variable used in Cheng and Firth's (2005) study was average executive directors' remuneration (total remuneration of executive directors divided by the number of executive directors). As the board of directors works as a group, this study used total pay of all board directors to obtain an overall picture of firms in Hong Kong. To mitigate the impact of outliers, I followed the common practice (e.g. Conyon & Peck, 1998) of using the logarithms of the average pay among all directors in a company.

Directors' pay can be delineated as three separate components: salary, annual performance bonus, and the change in the value of share options held. Salary is a fixed form of remuneration and is normally paid without challenge. On the contrary, bonus is a short-term variable component of pay which is linked to some element of accounting profits generally over a one year period. Share option is a long-term component of pay and it grants the holder a right to purchase a specific number of shares within a definite time

period at a prearranged price. A director's increase in wealth derived from holding share options is dependent on the variation in share price and the number of options granted and exercised (McKnight & Tomkins, 2004).

Directors' pay structures can be found in annual report. As the Disclosure of Financial Information rule (Appendix 16, paragraph 24) under HKEx's Listing Rules states that directors' fees and any other reimbursement or emolument payable to a director must be disclosed in full in the annual report and accounts of the issuer on an individual and named basis. Directors' fees can be set to ensure directors receive sufficient payment for the work with board. Salaries can be set to ensure directors received sufficient payment if he or she also holds the post of executive. Pensions can act as a long-term protection to attract director work in long run. Bonus can act as an attraction for directors to run the business successfully. Share base payments can attract directors to work not just for the firm, but also for themselves as shareholders.

Independent Variables Used to Test the Hypotheses

The ownership and governance variables that Cheng and Firth (2005) used to test their hypotheses were the share ownership of directors expressed as a percentage of the total issued shares, the share ownership of institutions and blockholders (who are not directors or allied to the directors) expressed as a percentage of the total issued shares and the number of non-executive directors on the board expressed as a proportion of the total number of directors.

However, since the introduction of the CG Code, directors' remuneration has been determined by a remuneration committee after consultation with the chairman or CEO of the board. I thus replaced the three independent variables used in Cheng and Firth's (2005)

study with two variables: the number of independent non-executive directors divided by the total number of directors on the remuneration committee, and whether or not the chairman or CEO of an FOF was a member of the controlling family.

Control Variables

Following Cheng and Firth (2005), this study includes the following control variables that could affect the level of remuneration: company size (log of sales), performance (return on equity, stock return, and sales growth) and monitoring (leverage).

In Cheng and Firth's (2005) study, a group of listed companies controlled by a single individual or family was captured as an indicator variable, "Group". However, given that most FOFs are chaired by family members, the problem of multicollinearity arises due to the high correlation between the "Group" and "Family Head" variables. Many possible values can be assigned to their coefficients. In other words, their coefficients cannot be estimated precisely and their standard errors would be large. To solve this problem, the "Group" variable was dropped from the model.

The Adjusted Model Used in this Study

After taking into consideration all of the issues stated above, the following model was developed, with industry and year dummies being included in the ordinary least squares (OLS) regression. I have estimated the statistical significance using White standard errors to adjust for any potential heteroskedasticity and serial correlation in the data.

$$\text{Directors' Pay} = \beta_0 + \beta_1 \text{ INED on RC} + \beta_2 \text{ Family Head} + \beta_3 \text{ Log of Sales} + \beta_4 \text{ Return on Equity} + \beta_5 \text{ Stock Return} + \beta_6 \text{ Sales Growth} + \beta_7 \text{ Leverage} + \epsilon_j \quad (1)$$

Where:

Directors' Pay	=	log of the remuneration of all directors in each firm;
INED on RC	=	the number of independent non-executive directors divided by the total number of directors on the remuneration committee
Family Head	=	dummy variable coded one (1) if the chairman of the board or CEO is a member of the family that controls the company and holds more than 5% of the total issued shares
Log of Sales	=	log of sales revenues (in millions) for the fiscal year
Return on Equity	=	net income divided by average shareholders' equity
Stock Return	=	the annual return (price change plus dividend) for the fiscal year
Sales Growth	=	the yearly proportional change in sales
Leverage	=	debt divided by shareholders' equity

Equation (1) concerns the total amount paid to all directors for each firm. The remuneration received by an individual director may differ according to whether the director is a family member, the chairman of the board, the CEO of the firm, an independent non-executive director, or a member of the remuneration committee. Therefore, a second model with additional dummy variables included in the OLS regression was developed to consider the remuneration paid to individual directors.

$$\text{Directors' Pay} = \beta_0 + \beta_1 \text{ INED on RC} + \beta_2 \text{ Family Head} + \beta_3 \text{ Log of Sales} + \beta_4 \text{ Return on Equity} + \beta_5 \text{ Stock Return} + \beta_6 \text{ Sales Growth} + \beta_7 \text{ Leverage} + \beta_8 \text{ Family Member} + \beta_9 \text{ Chairman} + \beta_{10} \text{ CEO} + \beta_{11} \text{ INED} + \beta_{12} \text{ RC} + \varepsilon_j \quad (2)$$

Where:

- Directors' Pay = log of the remuneration of individual directors in each firm
- Family Member = dummy variable coded one (1) if the director of the board is a member of the family that controls the company and holds more than 5% of the total issued shares
- Chairman = dummy variable coded one (1) if the director is the chairman of the board
- CEO = dummy variable coded one (1) if the director is the CEO of the firm
- INED = dummy variable coded one (1) if the director is an independent non-executive director
- RC = dummy variable coded one (1) if the director is a member of the remuneration committee

Results

Descriptive Statistics

Table 2 shows that since the introduction of the CG Code, which requires that the majority of remuneration committee members be independent non-executive directors, the percentage of remuneration committee members who are independent non-executive directors has been approximately 73%. In approximately 83% of firms, the board of directors includes a director who is a member of the family that controls the company and holds more than 5% of the total issued shares. This result supports my observation that most companies in Hong Kong are FOFs. In approximately 79% of firms, the post of chairman of the board or CEO is held by a member of the family that controls the firm. This result supports the view that most FOFs allow their family members to hold these senior positions.

Correlation Analysis

The use of remuneration paid to all directors resulted in the problem of multicollinearity. As most FOFs are headed by a family member, the “Group” and “Family Head” variables are highly correlated, with the highest absolute correlation (0.86) shown in panel A of Table 3. The second highest absolute correlation (0.83) is between directors’ bonuses and sales, which suggests that when sales are high, all directors received larger bonuses.

The same problem arises in the case of remuneration paid to individual directors. The “Group” and “Family Head” variables are again highly correlated, with the highest absolute correlation (0.87) shown in panel B of Table 3. The second highest absolute correlation (0.61) is again between directors’ bonuses and sales, which suggests that when sales are high, individual directors receive larger bonuses.

Regression Analysis

Table 4 shows the regression results when directors' remuneration is related to various potential determinants. The focus was on whether the percentage of independent non-executive directors on the remuneration committee or a family member being the chairman or CEO of an FOF influences directors' pay.

Panel A of Table 4 shows the regression results for the dependent variables of different types of remuneration and total payment to all directors. The independent variables have incremental explanatory power for total payment ($R^2 = 43.2\%$). Regarding different types of remuneration, the independent variables have the highest incremental explanatory power for bonus ($R^2 = 36.3\%$) and the lowest incremental explanatory power for directors' fees ($R^2 = 23.1\%$).

Panel B of Table 4 shows the regression results for the dependent variable of different types of remuneration and total payment to each individual director. The independent variables have incremental explanatory power for total payment ($R^2 = 45.3\%$). Regarding different types of remuneration, the independent variables have the highest incremental explanatory power for basic salaries and others ($R^2 = 43.2\%$) and the lowest incremental explanatory power for directors' fees ($R^2 = 16.1\%$).

Panel A of Table 4 shows that, as expected, the percentage of independent non-executive directors on the remuneration committee had negative coefficients for different types of remuneration and total payment on a firm basis, other than for share-based payments. The results support Hypothesis 1. Directors receive less remuneration when the percentage of independent non-executive directors on the remuneration committee is higher. This suggests that independent non-executive directors can control the emolument paid to all

directors.

It appears that independent non-executive directors do not support higher pay for all directors, as the regression results for directors' fees, basic salaries and others were statistically significant (the p-values were 0.004 for directors' fees and 0.011 for salaries, lower than the significance level of 0.05). However, the regression results for pension contributions and bonuses were not statistically significant (the p-values were 0.108 for pensions and 0.158 for bonuses, greater than the significance level of 0.05). These results suggest that independent non-executive directors cannot control share-based payments made to all directors, with a coefficient that was unexpectedly positive and statistically significant (the p-value was 0.010, lower than the significance level of 0.05).

Panel B of Table 4 shows that, as expected, the percentage of independent non-executive directors on the remuneration committee had negative coefficients for both basic salaries and others and pension contributions on an individual basis. These results supported Hypothesis 1. Directors receive lower basic salaries and pensions when the percentage of independent non-executive directors on the remuneration committee is higher, which suggests that independent non-executive directors can control the salaries and pensions paid to individual directors. Independent non-executive directors do not appear to support higher salaries and pensions for individual directors, as the regression results for these items were statistically significant (the p-values were 0.012 for salaries and 0.000 for pensions, lower than the significance level of 0.05).

Unexpectedly positive regression coefficients for directors' fees, bonuses, share-based payments and total remuneration to individual directors indicate that the percentage of independent non-executive directors on the remuneration committee does not affect the

level of these forms of remuneration. However, with the exception of share-based payment, the regression results are not statistically significant (the p-values range from 0.116 to 0.814, greater than the significance level of 0.10).

The regression results show that on both a firm and an individual basis, there is a significant positive relationship between the percentage of independent non-executive directors on the remuneration committee and share-based payments (the p-values are 0.010 for firms and 0.000 for individuals, lower than the significance level of 0.05). This indicates that directors receive higher share-based payments when the percentage of independent non-executive directors on the remuneration committee is higher.

The CG Code states that the remuneration committee can seek advice from the chairman or CEO on the matter of directors' pay. Hence, this study will also consider whether or not a family member being the chairman or CEO of an FOF will influence directors' pay. This variable has positive coefficients for salaries, bonuses, and total payment on a firm basis (panel A, Table 4). The results support Hypothesis 2 and are statistically significant (the p-values range from 0.001 to 0.058, lower than the significance level of 0.10). As expected, I find that director remuneration is, on average, higher for FOFs in which chairman or CEO is a family member than for NFOFs after controlling for the economic determinants of directors' pay.

Regarding payments made on an individual basis, the positive coefficient only applied to salaries, bonuses and total payment, but not at a statistically significant level (the p-values ranged from 0.184 to 0.786, greater than the significance level of 0.10). I find no support for hypothesis 2 on an individual basis.

Base on the result on firm basis, this suggests that when the chairman or CEO of an FOF is a member of the family that has control over the firm (via a shareholding of greater than 5%), he or she can influence remuneration committee decisions to increase remuneration for all directors. Ideally, directors' remuneration contracts should be formulated and approved by the remuneration committee, which acts on behalf of the shareholders. These results indicate that a substantial family shareholding influences directors' remuneration contracts, an arrangement that may not favor all shareholders.

Company size (log of sales) is by far the major determinant of different types of remuneration and total directors' pay at both the firm and individual levels (the p-value is 0.0000 for all types of payments to directors other than share-based payments on firm level, for which the p-value was 0.011, lower than the significance level of 0.05 and the smallest among the p-values for all variables). These results suggest that directors' remuneration will be higher in large firms, because large firms are usually more complex and require more skilled and experienced directors.

Panel A of Table 4 shows that among the performance variables, executive pay on a firm basis is much less sensitive to performance than has been commonly recognized. The p-value of return on equity (0.745) is less significant than that of stock return (0.078) in terms of total remuneration paid, which indicates that accounting performance is less significant than stock performance. Sales growth had a negative relationship with total pay and different types of remuneration on a firm basis, and is significant in the regression result (the p-values range from 0.000 to 0.038). The two exceptions are share-based payments, which had a significant positive relationship with sales growth, and salary payments, which had an insignificant negative relationship with sales growth. The negative sign for sales growth is as predicted by John and John (1993). Leverage (with p-values ranging from

0.000 to 0.094) had a positive relationship with the different forms of remuneration for all directors other than fee and bonus payments, and is significant at the 10% confidence level for all forms of remuneration other than share-based payments. Cheng and Firth (2005) also found that leverage had a positive sign.

Panel B of Table 4 shows that the result for executive pay on an individual basis is different from that for executive pay on a firm basis: return on equity has a significant negative relation with total remuneration payment (p-value 0.003), but an insignificant positive relation with payment on a firm basis. This suggests that even among listed firms that are not performing well, individual directors are still generously remunerated. There is a positive relationship between stock return (p-value 0.050) and total remuneration paid, indicating that individual directors are paid more when stock performance is good.

Sales growth has a negative relationship with salaries and pensions and bonuses on an individual basis; the results other than for salaries are significant at the 5% confidence level (the p-values were 0.023 for pensions and 0.000 for bonuses). Leverage (for which the p-values range from 0.007 to 0.022) has a positive and significant relationship with salary, pension, and total payments for individual directors.

The view that better designed directors' remuneration arrangements can generally improve firm performance was supported only by the positive coefficient on stock return. Other variables, including return on equity and sales growth, have negative coefficients. Thus, Hong Kong listed firms' arrangements for directors' remuneration may not improve even if firm performance improves.

Stock return had a positive relationship with directors' pay, which suggests that in

well-performing listed firms (in terms of stock price increases), directors are rewarded, as they are responsible for the firm's success. However, in poorly performing listed firms, shareholders will vote with their feet by selling their shares, leading to a decrease in the stock price, and directors being punished through lower pay.

Based on the regression results, the main variables that determine directors' pay are sales and sales growth. Firms with higher sales, which are normally large firms, will pay higher emoluments to all directors. Sales are a good predictor of variability in directors' remuneration, and remuneration contracts provide an incentive to directors to expand the size of the firm at the expense of profits. This is consistent with the traditionally accepted objective of expanding a firm to maximize shareholder value (Deckop, 1988). My results clearly demonstrate that in the firms sampled, directors were not given an incentive to increase sales growth, as the relationship between their remuneration and sales growth was negative.

The first variable of interest in this study is the influence of the percentage of independent non-executive directors on the remuneration committee on directors' remuneration. The sign of the coefficient for this variable is the same as that predicted for directors' fees, salaries, and total remuneration on a firm basis, and is statistically significant. Regarding payment on an individual basis, the sign for this variable is the same as that predicted for salaries and pensions, and the p-value is statistically significant. These results suggest that as the level of remuneration committee independence increases, directors are less likely to receive generous remuneration packages. Independent non-executive directors are encouraged to monitor on behalf of shareholders.

The second variable of interest is whether or not a member of the controlling family is

chairman or CEO. The sign of the coefficient for this variable was the same as that predicted for salaries, bonuses, and total payment on a firm basis, and is statistically significant. These results suggest that chairmen and CEOs use their position to influence directors' remuneration. Regarding payment on an individual basis, this variable had a positive coefficient for salaries, bonuses and total payment, but is not statistically significant.

Panel B of Table 4 shows that for directors' payments on an individual basis, there is a significant positive coefficient for family members in terms of total remuneration. This suggests that any director of the board whose family members control the company (as measured by a holding of more than 5% of the total issued shares) will receive more remuneration than non-family members. The results support the view that the concentration of management power in the hands of a controlling family gives a significant amount of power to that family and enables it to take action that is beneficial to the family. When a family is a substantial shareholder in a firm, family members have an incentive to overpay themselves.

There is a significant positive coefficient for chairmen in terms of directors' fees, salaries, bonuses, and total remuneration at the 1% confidence level. This suggests that chairmen of the board receive more remuneration than their fellow directors. There was a significant positive coefficient for CEOs in terms of salaries, pensions, bonuses, share-based payments, and total remuneration at the 1% confidence level. This suggests that any director who holds the post of CEO will receive more remuneration than his fellow directors. These results, while not surprising, are evidence that chairmen and CEOs use their power to award themselves higher pay.

Finally, the results showed that independent non-executive directors received high directors' fees than executive directors but lower salaries, pensions, share-based payments, and total remuneration. Directors who are remuneration committee members receive higher directors' fees, bonuses and total remuneration than those who are not.

Sensitivity Analysis

The first regression analysis (see Table 4) is conducted using all variables as the main test. The other models shown in Table 5 are tested alternately without the control variables of stock return, return on equity, or industry and year dummies. The results are consistent with those of the main test.

Conclusion

The study reported here found that the introduction of the CG Code in Hong Kong operated as an effective form of control on listed firms and protected shareholders' interests with respect to directors' remuneration on both a firm and individual basis. Family control influences the use of shareholders' funds, with the results showing that greater amounts are paid out to directors of FOFs on both a firm basis. Remuneration committees may lack sufficient incentives to focus solely on shareholders' interests when they set directors' pay levels. Hence, the CG Code may not adequately protect minority shareholders, as the results are not significant for firms in which a majority of remuneration committee members are independent non-executive directors. Directors of firms with a chairman or CEO who is a member of the controlling family may receive higher remuneration, as the CG Code allows the remuneration committee to seek advice from the chairman or CEO in determining directors' remuneration. This is indicated by the significant positive coefficient for payment on a firm basis when the chairman or CEO is classified as a controlling family member.

Board monitoring, measured in terms of the proportion of independent non-executive directors on a remuneration committee, has only a limited effect on the level of directors' pay. Even when the majority of remuneration committee members are independent non-executive directors, as required by the CG Code, the independence of these directors remains open to question. Although legal constraints suggest that they should act in an independent manner, in that they cannot be a relative of any of the executive directors or shareholders in the listed firm, friendships between the independent non-executive directors and substantial family shareholders of a listed company may lead to a lack of independence.

Based on the regression results obtained, the chairman or CEO being a member of the

family that controls a listed firm significantly influences the remuneration decisions made by independent non-executive directors. Listed firms may thus have an opportunity to pay out more to their directors as a whole, and even if independent non-executive directors comprise the majority of the remuneration committee, the committee might not be a perfect external monitor in terms of directors' pay.

Findings of this study suggest that there is a conflict in the CG Code regarding directors' remuneration. CG Code requires issuers to form remuneration committee with higher proportion of independent non-executive directors. This requirement is aimed at enhancing—shareholders' interest protection. However, CG Code recommends the remuneration committee consult the chairman and/or CEO before making a suggestion on the remuneration of other executive directors. Base on the result of this study, I found that directors will get more remuneration if the chairman and/or CEO are classified as family member; suggesting that such a requirement is not an effective measure in shareholders' interest protection. On the other hand, a more practical recommendation to be included in the CG Code could be a requirement of the remuneration committee to compose of a professionally qualified member in human resource management. Membership of the Hong Kong Institute of Human Resource Management or the equivalent can be used as a guideline.

One limitation of this study is the time constraint: the observations only include listed firms in 10 industries during 2006 and 2007. This may have led to a failure to identify a robust relationship between directors' remuneration and the percentage of independent non-executive directors on the remuneration committee, or whether the chairman or CEO is a member of the controlling family. Therefore, more observations should be collected in future research to cover a longer period following the introduction of the CG Code.

Especially the recent financial crisis in 2008 may lead to a different result.

This study mainly examines directors' emoluments with control variables related to firm performance over a short period to ascertain how they influence directors' pay. However, when a director is nominated to the board of a firm, the appointment is not confined to a short period and the director will normally seek to improve performance over the long term.

This suggests that emoluments are used to reward directors for improvements in accounting performance, and that such rewards will not be given for short-term fluctuations, but rather for improvements made over a considerable period of time. Therefore, the model used in this study may not reflect the long-term objectives adopted by many firms and directors. As such, research in this area would be improved by lengthening the observation period.

The Disclosure of Financial Information rule (Appendix 16) under the HKEx Listing Rules was amended to require that directors' fees be disclosed in full on an individual and named basis in the firm's annual report. However, listed firms are run not only by their directors, but also by other executives, and executive remuneration can be an important factor in a firm's corporate governance. Hence, future studies should also use as a dependent variable the highest paid director or top manager who is not a director (Hartzell and Starks, 2003).

One further limitation of this study is its narrow focus on the question of incentives alone, based on internal firm factors. However, directors can receive "luck-based" pay: that is, pay associated with profit increases that are generated entirely by external factors (e.g., changes in oil prices, GDP, inflation, exchange rates and so forth) and not associated with their own efforts. Therefore, control variables that take into account external factors may be needed in future research.

Table 1: Sample Selection

Criterion	Number of Distinct Firms
Number of Companies Listed on Main Board as at 31 December 2006	975
LESS: Firms with missing price or data	168
LESS: Withdrawal of listed companies afterwards	12
LESS: Companies under suspension afterwards	3
LESS: Companies takeover and merger afterwards	1
LESS: Foreign Companies	8
LESS: H shares Companies	95
LESS: Red Chip Companies	80
LESS: Newly Listed Companies during 2006	39
LESS: Companies change accounts closing date	11
LESS: Companies classify as Financial Industry	74
FINAL SAMPLE	484

Table 2: Descriptive Statistics**Panel A: Remuneration of All Directors**

		Mean	Range	Minimum	Median	Maximum	SD
1	Director Pay (HK\$'000)						
1a	Directors' Fees	789.784	20,400.000	0.000	482.000	20,400.000	1,098.990
1b	Basic Salaries & Others	7,391.336	93,160.000	0.000	5,091.442	93,160.000	8,450.673
1c	Pension Contributions	260.786	9,300.000	0.000	54.000	9,300.000	712.664
1d	Bonuses	3,499.882	280,700.000	0.000	0.000	280,700.000	14,076.061
1e	Share-based Paid	2,345.399	681,823.564	0.000	0.000	681,800.000	23,359.860
1f	Total	14,291.961	721,100.000	0.000	7382.660	721,100.000	31,992.360
2	INED on RC	0.734	1.000	0.000	0.667	1.000	0.145
3	Family Head	0.785	1.000	0.000	1.000	1.000	0.411
4	Sales (HK\$ millions)	2,717.637	218,726. 000	0.000	684.738	218,726. 000	11,080.126
5	Return On Equity	-0.460	528.552	-489.691	0.095	38.860	15.800
6	Stock Return	1.230	568.634	-0.883	0.195	567.751	18.337
7	Sales Growth	0.529	143.938	-1.000	0.105	142.938	4.989
8	Leverage	0.527	76.711	-8.237	0.234	68.474	2.453
9	Group	0.833	1.000	0.000	1.000	1.000	0.373

Panel B: Remuneration of Individual Director

		Mean	Range	Minimum	Median	Maximum	SD
1	Director Pay (HK\$'000)						
1a	Directors' Fees	143.817	19,199.000	1.000	100.000	19,200.000	323.731
1b	Basic Salaries & Others	1,914.484	31, 535.000	5.000	1,282.900	31,540.000	2,298.134
1c	Pension Contributions	86.098	3,149.000	1.000	12.000	3,150.000	213.525
1d	Bonuses	2,177.005	136,018.000	2.000	605.500	136,020.000	6,215.509
1e	Share-based Paid	1,804.193	220,398.000	2.000	236.000	220,400.000	12,161.460
1f	Total	1,703.427	240,500.000	0.000	250.000	240,500.000	6,356.380
2	INED on RC	0.724	0.667	0.333	0.667	1.000	0.137
3	Family Head	0.789	1.000	0.000	1.000	1.000	0.408
4	Sales (HK\$ millions)	3,816.357	218,726.000	0.000	873.090	218,726.000	14,319.262
5	Return On Equity	-0.250	528.552	-489.691	0.109	38.860	12.729
6	Stock Return	0.932	568.634	-0.883	0.198	567.751	14.795
7	Sales Growth	0.523	143.938	-1.000	0.108	142.938	5.514
8	Leverage	0.588	76.711	-8.237	0.236	68.474	3.309
9	Group	0.832	1.000	0.000	1.000	1.000	0.374
10	Family Member	0.248	1.000	0.000	0.000	1.000	0.432
11	Chairman	0.122	1.000	0.000	0.000	1.000	0.328
12	CEO	0.115	1.000	0.000	0.000	1.000	0.319
13	INED	0.374	1.000	0.000	0.000	1.000	0.484
14	RC	0.436	1.000	0.000	0.000	1.000	0.496

Table 3: Correlation Analysis**Panel A: Remuneration of All Directors**

		1a	1b	1c	1d	1e	1f	2	3	4	5	6	7	8
1	Director Pay (HK\$'000s)													
1a	Directors' Fees	1												
1b	Basic Salaries & Others	0.23	1											
1c	Pension Contributions	0.25	0.65	1										
1d	Bonuses	0.16	0.46	0.50	1									
1e	Share-based Paid	0.15	0.12	0.10	0.02	1								
1f	Total	0.27	0.58	0.50	0.59	0.78	1							
2	INED on RC	-0.01	-0.12	-0.06	-0.07	0.01	-0.06	1						
3	Family Head	-0.09	0.02	-0.04	0.00	-0.09	-0.07	-0.09	1					
4	Sales (HK\$ millions)	0.20	0.36	0.43	0.83	0.07	0.53	-0.06	-0.03	1				
5	Return On Equity	0.01	0.02	0.01	0.01	0.00	0.01	0.01	-0.01	0.01	1			
6	Stock Return (HK\$)	-0.02	-0.03	-0.02	-0.01	0.00	-0.01	0.06	-0.06	-0.01	0.00	1		
7	Sales Growth	-0.02	-0.04	-0.02	-0.02	0.00	-0.02	0.01	0.01	-0.01	0.00	0.00	1	
8	Leverage	0.04	0.21	0.18	0.05	0.03	0.10	-0.01	0.01	0.09	0.02	-0.01	0.00	1
9	Group	-0.08	-0.02	-0.05	-0.01	-0.08	-0.07	-0.08	0.86	-0.03	-0.01	0.02	0.01	0.00

Panel B: Remuneration of Individual Director

		1a	1b	1c	1d	1e	1f	2	3	4	5	6	7	8	9	10	11	12	13
1	Director Pay (HK\$'000s)																		
1a	Directors' Fees	1																	
1b	Basic Salaries & Others	0.05	1																
1c	Pension Contributions	0.00	0.55	1															
1d	Bonuses	0.06	0.36	0.39	1														
1e	Share-based Paid	0.12	0.28	0.19	0.07	1													
1f	Total	0.08	0.55	0.44	0.63	0.95	1												
2	INED on RC	0.03	-0.07	-0.06	-0.03	0.03	-0.02	1											
3	Family Head	-0.03	-0.04	-0.08	-0.02	-0.15	-0.04	-0.07	1										
4	Sales (HK\$ millions)	0.04	0.23	0.39	0.61	0.28	0.24	-0.06	-0.04	1									
5	Return On Equity	0.00	0.01	0.01	0.09	0.01	0.01	0.00	-0.01	0.01	1								
6	Stock Return (HK\$)	0.00	-0.01	-0.04	-0.02	-0.01	-0.01	0.06	-0.05	-0.01	0.00	1							
7	Sales Growth	0.00	-0.01	0.00	-0.02	-0.01	-0.01	0.00	0.02	-0.01	0.00	0.00	1						
8	Leverage	0.02	0.11	0.14	0.05	0.01	0.04	0.01	0.03	0.10	0.02	-0.01	-0.01	1					
9	Group	-0.03	-0.07	-0.08	-0.01	-0.15	-0.05	-0.05	0.87	-0.03	-0.01	0.02	0.02	0.02	1				
10	Family Member	0.02	0.11	-0.08	-0.04	-0.03	0.08	-0.01	0.26	-0.04	0.02	0.00	0.02	-0.03	0.26	1			
11	Chairman	0.11	0.18	-0.02	0.05	0.04	0.12	0.02	0.01	-0.03	0.01	0.01	0.00	-0.01	0.01	0.45	1		
12	CEO	0.04	0.26	0.08	0.13	0.07	0.21	0.02	0.01	-0.02	0.01	0.01	0.00	0.00	0.00	0.29	0.29	1	
13	INED	-0.01	-0.17	-0.03	-0.01	-0.06	-0.19	0.05	-0.01	-0.02	0.00	0.01	0.00	0.00	-0.01	-0.44	-0.27	-0.28	1
14	RC	0.02	0.01	-0.06	0.05	-0.01	-0.09	-0.04	0.04	-0.07	-0.01	0.01	-0.01	-0.02	0.04	-0.19	-0.03	-0.02	0.61

Table 4: Regression Analysis**Panel A: Remuneration of All Directors**

Variable	Directors' Fees		Basic Salaries & Others		Pension Contributions		Bonuses		Share-based Paid		Total	
	Coeff	P-value	Coeff	P-value	Coeff	P-value	Coeff	P-value	Coeff	P-value	Coeff	P-value
INED on RC	-0.522	0.004 ***	-0.504	0.011 **	-0.417	0.108	-0.787	0.158	1.736	0.010 **	-0.357	0.087 *
Family Head	-0.213	0.000 ***	0.242	0.002 ***	-0.265	0.008 ***	0.305	0.058 *	-0.435	0.086 *	0.200	0.015 **
Log Sales	0.200	0.000 ***	0.300	0.000 ***	0.427	0.000 ***	0.577	0.000 ***	0.167	0.011 **	0.375	0.000 ***
Return On Equity	-0.001	0.000 ***	-0.000	0.360	-0.000	0.962	0.399	0.127	0.017	0.155	0.000	0.745
Stock Return	-0.000	0.860	0.001	0.006 ***	0.026	0.147	0.010	0.785	0.121	0.019 **	0.000	0.078 *
Sales Growth	-0.004	0.038 **	-0.025	0.381	-0.062	0.017 **	-0.134	0.000 ***	0.035	0.058 *	-0.021	0.000 ***
Leverage	-0.002	0.809	0.019	0.000 ***	0.024	0.001 ***	-0.005	0.606	0.002	0.897	0.010	0.094 *
Industry dummies	Included		Included		Included		Included		Included		Included	
Year dummies	Included		Included		Included		Included		Included		Included	
R-squared	0.231		0.350		0.359		0.363		0.232		0.432	
Adjusted R-squared	0.217		0.338		0.346		0.338		0.184		0.422	
N	948		935		885		453		292		965	

Notes:

White-corrected standard errors in the presence of heteroskedasticity are presented in parentheses below the coefficient estimates.

*, ** and *** indicate significance at 10%, 5% and 1% level respectively in a two-tail test.

Panel B: Remuneration of Individual Director

Variable	Directors' Fees		Basic Salaries & Others		Pension Contributions		Bonuses		Share-based Paid		Total	
	Coeff	P-value	Coeff	P-value	Coeff	P-value	Coeff	P-value	Coeff	P-value	Coeff	P-value
INED on RC	0.030	0.756	-0.466	0.000 ***	-0.610	0.000 ***	0.071	0.814	1.608	0.000 ***	0.162	0.116
Family Head	-0.125	0.000 ***	0.013	0.786	-0.347	0.000 ***	0.126	0.184	-0.509	0.000 ***	0.054	0.200
Log Sales	0.140	0.000 ***	0.220	0.000 ***	0.323	0.000 ***	0.499	0.000 ***	0.123	0.000 ***	0.225	0.000 ***
Return On Equity	-0.001	0.000 ***	-0.001	0.433	0.000	0.648	0.626	0.001 ***	0.044	0.011 **	-0.001	0.003 ***
Stock Return	0.001	0.030 **	0.001	0.248	0.027	0.003 ***	0.012	0.586	0.046	0.070 *	0.001	0.050 **
Sales Growth	0.005	0.008 ***	-0.012	0.202	-0.027	0.023 **	-0.144	0.000 ***	0.044	0.003 ***	0.006	0.046 **
Leverage	0.002	0.217	0.009	0.007 ***	0.011	0.022 **	-0.022	0.196	-0.001	0.931	0.016	0.007 ***
Family Member	-0.178	0.001 ***	0.088	0.020 **	0.021	0.680	-0.096	0.259	-0.156	0.267	0.147	0.005 ***
Chairman	0.388	0.000 ***	0.339	0.000 ***	-0.042	0.511	0.613	0.000 ***	0.265	0.130	0.504	0.000 ***
CEO	0.080	0.346	0.616	0.000 ***	0.302	0.000 ***	0.679	0.000 ***	0.599	0.000 ***	1.263	0.000 ***
INED	0.333	0.000 ***	-2.501	0.000 ***	-1.162	0.000 ***	-0.41	0.109	-1.161	0.000 ***	-1.621	0.000 ***
RC	0.192	0.000 ***	0.062	0.147	-0.089	0.131	0.289	0.003 ***	0.167	0.197	0.116	0.003 ***
Industry dummies	Included		Included		Included		Included		Included		Included	
Year dummies	Included		Included		Included		Included		Included		Included	
R-squared	0.161		0.432		0.285		0.360		0.325		0.453	
Adjusted R-squared	0.157		0.428		0.279		0.350		0.310		0.451	
N	4795		3465		2738		1488		1051		7055	

Notes: White-corrected standard errors in the presence of heteroskedasticity are presented in parentheses below the coefficient estimates.

*, ** and *** indicate significance at 10%, 5% and 1% level respectively in a two-tail test.

Table 5: Sensitive Analysis**Panel A1: Directors' Fees of All Directors**

Variable	Model 1		Model 2		Model 3		Model 4	
	Coeff	P-value	Coeff	P-value	Coeff	P-value	Coeff	P-value
INED on RC	-0.522	0.004 ***	-0.523	0.004 ***	-0.523	0.004 ***	-0.522	0.004 ***
Family Head	-0.213	0.001 ***	-0.301	0.018 **	-0.213	0.001 ***	-0.213	0.001 ***
Log Sales	0.200	0.000 ***	0.201	0.000 ***	0.200	0.000 ***	0.200	0.000 ***
Return On Equity	-0.001	0.000 ***	-0.001	0.000 ***			-0.001	0.000 ***
Stock Return	-0.000	0.860	-0.000	0.540	-0.000	0.848		
Sales Growth	-0.004	0.038 **	-0.004	0.036 **	-0.004	0.038 **	-0.004	0.038 **
Leverage	-0.002	0.809	-0.002	0.828	-0.002	0.801	-0.002	0.809
Group			0.110	0.432				
Industry dummies	Included		Included		Included		Included	
Year dummies	Included		Included		Included		Included	
R-squared	0.231		0.232		0.231		0.231	
Adjusted R-squared	0.217		0.217		0.218		0.218	
N	948		948		948		948	

Notes:

White-corrected standard errors in the presence of heteroskedasticity are presented in parentheses below the coefficient estimates.

*, ** and *** indicate significance at 10%, 5% and 1% level respectively in a two-tail test.

Panel A2: Directors' Fees of Individual Director

Variable	Model 1		Model 2		Model 3		Model 4	
	Coeff	P-value	Coeff	P-value	Coeff	P-value	Coeff	P-value
INED on RC	0.030	0.756	0.033	0.736	0.030	0.760	0.034	0.729
Family Head	-0.125	0.000 ***	-0.036	0.533	-0.125	0.000 ***	-0.127	0.000 ***
Log Sales	0.140	0.000 ***	0.139	0.000 ***	0.140	0.000 ***	0.140	0.000 ***
Return On Equity	-0.001	0.000 ***	-0.001	0.000 ***			-0.001	0.000 ***
Stock Return	0.001	0.030 **	0.001	0.010 **	0.001	0.031 **		
Sales Growth	0.005	0.008 ***	0.005	0.008 ***	0.005	0.009 ***	0.005	0.009 ***
Leverage	0.002	0.217	0.002	0.271	0.002	0.236	0.002	0.215
Group			-0.115	0.069 *				
Family Member	-0.178	0.001 ***	-0.173	0.001 ***	-0.178	0.001 ***	-0.178	0.001 ***
Chairman	0.388	0.000 ***	0.388	0.000 ***	0.388	0.000 ***	0.388	0.000 ***
CEO	0.080	0.346	0.077	0.363	0.080	0.346	0.080	0.347
INED	0.333	0.000 ***	0.333	0.000 ***	0.333	0.000 ***	0.333	0.000 ***
RC	0.192	0.000 ***	0.192	0.000 ***	0.192	0.000 ***	0.192	0.000 ***
Industry dummies	Included		Included		Included		Included	
Year dummies	Included		Included		Included		Included	
R-squared	0.161		0.162		0.161		0.161	
Adjusted R-squared	0.157		0.158		0.157		0.157	
N	4795		4795		4795		4795	

Notes: White-corrected standard errors in the presence of heteroskedasticity are presented in parentheses below the coefficient estimates.

*, ** and *** indicate significance at 10%, 5% and 1% level respectively in a two-tail test.

Panel B1: Basic Salaries & Others of All Directors

Variable	Model 1		Model 2		Model 3		Model 4	
	Coeff	P-value	Coeff	P-value	Coeff	P-value	Coeff	P-value
INED on RC	-0.504	0.011 **	-0.506	0.010 ***	-0.504	0.011 **	-0.500	0.012 **
Family Head	0.242	0.002 ***	0.398	0.008 ***	0.242	0.002 ***	0.240	0.002 ***
Log Sales	0.300	0.000 ***	0.298	0.000 ***	0.300	0.000 ***	0.300	0.000 ***
Return On Equity	-0.000	0.360	-0.000	0.378			-0.000	0.370
Stock Return	0.001	0.006 ***	0.001	0.005 ***	0.001	0.007 ***		
Sales Growth	-0.025	0.381	-0.024	0.402	-0.025	0.381	-0.025	0.381
Leverage	0.019	0.000 ***	0.019	0.000 ***	0.020	0.000 ***	0.019	0.000 ***
Group			-0.201	0.234				
Industry dummies	Included		Included		Included		Included	
Year dummies	Included		Included		Included		Included	
R-squared	0.350		0.352		0.350		0.350	
Adjusted R-squared	0.338		0.339		0.339		0.339	
N	935		935		935		935	

Notes:

White-corrected standard errors in the presence of heteroskedasticity are presented in parentheses below the coefficient estimates.

*, ** and *** indicate significance at 10%, 5% and 1% level respectively in a two-tail test.

Panel B2: Basic Salaries & Others of Individual Director

Variable	Model 1		Model 2		Model 3		Model 4	
	Coeff	P-value	Coeff	P-value	Coeff	P-value	Coeff	P-value
INED on RC	-0.466	0.000 ***	-0.463	0.000 ***	-0.467	0.000 ***	-0.464	0.000 ***
Family Head	0.013	0.786	0.183	0.069 *	0.013	0.782	0.011	0.813
Log Sales	0.220	0.000 ***	0.218	0.000 ***	0.220	0.000 ***	0.220	0.000 ***
Return On Equity	-0.001	0.433	-0.001	0.434			-0.001	0.435
Stock Return	0.001	0.248	0.001	0.096 *	0.001	0.250		
Sales Growth	-0.012	0.202	-0.012	0.219	-0.012	0.201	-0.012	0.202
Leverage	0.009	0.007 ***	0.009	0.009 ***	0.009	0.007 ***	0.009	0.007 ***
Group			-0.221	0.037 **				
Family Member	0.088	0.020 **	0.098	0.009 ***	0.088	0.021 **	0.088	0.020 **
Chairman	0.339	0.000 ***	0.333	0.000 ***	0.339	0.000 ***	0.339	0.000 ***
CEO	0.616	0.000 ***	0.614	0.000 ***	0.616	0.000 ***	0.617	0.000 ***
INED	-2.501	0.000 ***	-2.492	0.000 ***	-2.501	0.000 ***	-2.501	0.000 ***
RC	0.062	0.147	0.062	0.146	0.062	0.148	0.062	0.148
Industry dummies	Included		Included		Included		Included	
Year dummies	Included		Included		Included		Included	
R-squared	0.432		0.433		0.432		0.432	
Adjusted R-squared	0.428		0.429		0.428		0.428	
N	3465		3465		3465		3465	

Notes: White-corrected standard errors in the presence of heteroskedasticity are presented in parentheses below the coefficient estimates.

*, ** and *** indicate significance at 10%, 5% and 1% level respectively in a two-tail test.

Panel C1: Pension Contributions of All Directors

Variable	Model 1		Model 2		Model 3		Model 4	
	Coeff	P-value	Coeff	P-value	Coeff	P-value	Coeff	P-value
INED on RC	-0.417	0.108	-0.408	0.118	-0.417	0.108	-0.416	0.109
Family Head	-0.265	0.008 ***	-0.406	0.004 ***	-0.265	0.008 ***	-0.266	0.008 ***
Log Sales	0.427	0.000 ***	0.428	0.000 ***	0.427	0.000 ***	0.422	0.000 ***
Return On Equity	-0.000	0.962	-0.000	0.948			0.000	0.809
Stock Return	0.026	0.147	0.024	0.167	0.026	0.147		
Sales Growth	-0.062	0.017 **	-0.063	0.017 **	-0.062	0.017 **	-0.062	0.017 **
Leverage	0.024	0.001 ***	0.024	0.001 ***	0.024	0.001 ***	0.024	0.001 ***
Group			0.180	0.302				
Industry dummies	Included		Included		Included		Included	
Year dummies	Included		Included		Included		Included	
R-squared	0.359		0.359		0.359		0.358	
Adjusted R-squared	0.346		0.346		0.347		0.346	
N	885		885		885		885	

Notes:

White-corrected standard errors in the presence of heteroskedasticity are presented in parentheses below the coefficient estimates.

*, ** and *** indicate significance at 10%, 5% and 1% level respectively in a two-tail test.

Panel C2: Pension Contributions of Individual Director

Variable	Model 1		Model 2		Model 3		Model 4	
	Coeff	P-value	Coeff	P-value	Coeff	P-value	Coeff	P-value
INED on RC	-0.610	0.000 ***	-0.610	0.000 ***	-0.610	0.000 ***	-0.613	0.000 ***
Family Head	-0.347	0.000 ***	-0.466	0.001 ***	-0.347	0.000 ***	-0.349	0.000 ***
Log Sales	0.323	0.000 ***	0.324	0.000 ***	0.323	0.000 ***	0.319	0.000 ***
Return On Equity	0.000	0.648	0.000	0.660			0.000	0.288
Stock Return	0.027	0.003 ***	0.026	0.005 ***	0.027	0.003 ***		
Sales Growth	-0.027	0.023 **	-0.027	0.021 **	-0.027	0.023 **	-0.027	0.023 **
Leverage	0.011	0.022 **	0.011	0.019 **	0.011	0.022 **	0.011	0.021 **
Group			0.146	0.357				
Family Member	0.021	0.680	0.016	0.749	0.021	0.679	0.024	0.633
Chairman	-0.042	0.511	-0.039	0.543	-0.042	0.511	-0.042	0.508
CEO	0.302	0.000 ***	0.303	0.000 ***	0.302	0.000 ***	0.301	0.000 ***
INED	-1.162	0.000 ***	-1.163	0.000 ***	-1.162	0.000 ***	-1.137	0.000 ***
RC	-0.089	0.131	-0.089	0.129	-0.089	0.131	-0.085	0.146
Industry dummies	Included		Included		Included		Included	
Year dummies	Included		Included		Included		Included	
R-squared	0.285		0.285		0.285		0.283	
Adjusted R-squared	0.279		0.279		0.279		0.278	
N	2738		2738		2738		2738	

Notes: White-corrected standard errors in the presence of heteroskedasticity are presented in parentheses below the coefficient estimates.

*, ** and *** indicate significance at 10%, 5% and 1% level respectively in a two-tail test.

Panel D1: Bonuses of All Directors

Variable	Model 1		Model 2		Model 3		Model 4	
	Coeff	P-value	Coeff	P-value	Coeff	P-value	Coeff	P-value
INED on RC	-0.787	0.158	-0.788	0.157	-0.787	0.153	-0.785	0.159
Family Head	0.305	0.058 *	0.475	0.127	0.342	0.031 **	0.304	0.058 *
Log Sales	0.577	0.000 ***	0.576	0.000 ***	0.591	0.000 ***	0.577	0.000 ***
Return On Equity	0.399	0.127	0.423	0.112			0.402	0.125
Stock Return	0.010	0.785	0.009	0.797	0.014	0.699		
Sales Growth	-0.134	0.000 ***	-0.134	0.000 ***	-0.134	0.000 ***	-0.134	0.000 ***
Leverage	-0.005	0.606	-0.006	0.526	0.004	0.559	-0.005	0.600
Group			-0.204	0.542				
Industry dummies	Included		Included		Included		Included	
Year dummies	Included		Included		Included		Included	
R-squared	0.363		0.363		0.359		0.363	
Adjusted R-squared	0.338		0.337		0.336		0.339	
N	453		453		453		453	

Notes:

White-corrected standard errors in the presence of heteroskedasticity are presented in parentheses below the coefficient estimates.

*, ** and *** indicate significance at 10%, 5% and 1% level respectively in a two-tail test.

Panel D2: Bonuses of Individual Director

Variable	Model 1		Model 2		Model 3		Model 4	
	Coeff	P-value	Coeff	P-value	Coeff	P-value	Coeff	P-value
INED on RC	0.071	0.814	0.083	0.783	0.082	0.784	0.072	0.812
Family Head	0.126	0.184	0.227	0.295	0.174	0.066 *	0.126	0.185
Log Sales	0.499	0.000 ***	0.499	0.000 ***	0.518	0.000 ***	0.498	0.000 ***
Return On Equity	0.626	0.001 ***	0.638	0.001 ***			0.633	0.001 ***
Stock Return	0.012	0.586	0.011	0.603	0.025	0.256		
Sales Growth	-0.144	0.000 ***	-0.143	0.000 ***	-0.142	0.000 ***	-0.142	0.000 ***
Leverage	-0.022	0.196	-0.023	0.183	-0.007	0.679	-0.022	0.191
Group			-0.119	0.603				
Family Member	-0.096	0.259	-0.093	0.279	-0.090	0.295	-0.097	0.255
Chairman	0.613	0.000 ***	0.609	0.000 ***	0.593	0.000 ***	0.614	0.000 ***
CEO	0.679	0.000 ***	0.677	0.000 ***	0.667	0.000 ***	0.678	0.000 ***
INED	-0.414	0.109	-0.435	0.096 *	-0.503	0.042 **	-0.402	0.118
RC	0.289	0.003 ***	0.292	0.003 ***	0.294	0.003 ***	0.290	0.003 ***
Industry dummies	Included		Included		Included		Included	
Year dummies	Included		Included		Included		Included	
R-squared	0.360		0.360		0.354		0.360	
Adjusted R-squared	0.350		0.350		0.344		0.351	
N	1488		1488		1488		1488	

Notes: White-corrected standard errors in the presence of heteroskedasticity are presented in parentheses below the coefficient estimates.

*, ** and *** indicate significance at 10%, 5% and 1% level respectively in a two-tail test.

Panel E1: Share-based Paid of All Directors

Variable	Model 1		Model 2		Model 3		Model 4	
	Coeff	P-value	Coeff	P-value	Coeff	P-value	Coeff	P-value
INED on RC	1.736	0.010 **	1.728	0.011 **	1.728	0.010 **	1.787	0.008 ***
Family Head	-0.435	0.086 *	-0.641	0.252	-0.433	0.087 *	-0.423	0.097 *
Log Sales	0.167	0.011 **	0.168	0.011 **	0.167	0.011 **	0.133	0.044 **
Return On Equity	0.017	0.155	0.017	0.154			0.013	0.312
Stock Return	0.121	0.019 **	0.119	0.021 **	0.120	0.019 **		
Sales Growth	0.035	0.058 *	0.034	0.082 *	0.035	0.060 *	0.033	0.071 *
Leverage	0.002	0.897	0.003	0.814	0.002	0.848	0.000	0.979
Group			0.261	0.657				
Industry dummies	Included		Included		Included		Included	
Year dummies	Included		Included		Included		Included	
R-squared	0.232		0.233		0.232		0.213	
Adjusted R-squared	0.184		0.182		0.187		0.167	
N	292		292		292		292	

Notes:

White-corrected standard errors in the presence of heteroskedasticity are presented in parentheses below the coefficient estimates.

*, ** and *** indicate significance at 10%, 5% and 1% level respectively in a two-tail test.

Panel E2: Share-based Paid of Individual Director

Variable	Model 1		Model 2		Model 3		Model 4	
	Coeff	P-value	Coeff	P-value	Coeff	P-value	Coeff	P-value
INED on RC	1.608	0.000 ***	1.600	0.000 ***	1.597	0.000 ***	1.634	0.000 ***
Family Head	-0.509	0.000 ***	-0.896	0.001 ***	-0.502	0.000 ***	-0.514	0.000 ***
Log Sales	0.123	0.000 ***	0.126	0.000 ***	0.125	0.000 ***	0.111	0.000 ***
Return On Equity	0.044	0.011 **	0.043	0.009 ***			0.044	0.016 **
Stock Return	0.046	0.070 *	0.041	0.105	0.046	0.072 *		
Sales Growth	0.044	0.003 ***	0.042	0.004 ***	0.043	0.003 ***	0.044	0.002 ***
Leverage	-0.001	0.931	0.001	0.911	0.000	0.962	-0.001	0.936
Group			0.474	0.108				
Family Member	-0.156	0.267	-0.172	0.221	-0.158	0.260	-0.153	0.275
Chairman	0.265	0.130	0.285	0.104	0.263	0.132	0.271	0.123
CEO	0.599	0.000 ***	0.599	0.000 ***	0.598	0.000 ***	0.597	0.000 ***
INED	-1.161	0.000 ***	-1.169	0.000 ***	-1.164	0.000 ***	-1.166	0.000 ***
RC	0.167	0.197	0.166	0.202	0.164	0.206	0.171	0.187
Industry dummies	Included		Included		Included		Included	
Year dummies	Included		Included		Included		Included	
R-squared	0.325		0.326		0.324		0.323	
Adjusted R-squared	0.310		0.311		0.310		0.309	
N	1051		1051		1051		1051	

Notes: White-corrected standard errors in the presence of heteroskedasticity are presented in parentheses below the coefficient estimates.

*, ** and *** indicate significance at 10%, 5% and 1% level respectively in a two-tail test.

Panel F1: Total Remuneration of All Directors

Variable	Model 1		Model 2		Model 3		Model 4	
	Coeff	P-value	Coeff	P-value	Coeff	P-value	Coeff	P-value
INED on RC	-0.357	0.087 *	-0.357	0.087 *	-0.357	0.087 *	-0.354	0.089 *
Family Head	0.200	0.015 **	0.189	0.245	0.200	0.015 **	0.198	0.015 **
Log Sales	0.375	0.000 ***	0.375	0.000 ***	0.375	0.000 ***	0.375	0.000 ***
Return On Equity	0.000	0.745	0.000	0.747			0.000	0.733
Stock Return	0.000	0.078 *	0.000	0.185	0.000	0.077 *		
Sales Growth	-0.021	0.000 ***	-0.021	0.000 ***	-0.021	0.000 ***	-0.021	0.000 ***
Leverage	0.010	0.094 *	0.010	0.093 *	0.010	0.094 *	0.010	0.095 *
Group			0.014	0.937				
Industry dummies	Included		Included		Included		Included	
Year dummies	Included		Included		Included		Included	
R-squared	0.432		0.432		0.432		0.432	
Adjusted R-squared	0.422		0.421		0.423		0.423	
N	965		965		965		965	

Notes:

White-corrected standard errors in the presence of heteroskedasticity are presented in parentheses below the coefficient estimates.

*, ** and *** indicate significance at 10%, 5% and 1% level respectively in a two-tail test.

Panel F2: Total Remuneration of Individual Director

Variable	Model 1		Model 2		Model 3		Model 4	
	Coeff	P-value	Coeff	P-value	Coeff	P-value	Coeff	P-value
INED on RC	0.162	0.116	0.166	0.108	0.161	0.118	0.167	0.106
Family Head	0.054	0.200	0.221	0.006 ***	0.054	0.197	0.052	0.215
Log Sales	0.225	0.000 ***	0.224	0.000 ***	0.225	0.000 ***	0.225	0.000 ***
Return On Equity	-0.001	0.003 ***	-0.001	0.004 ***			-0.001	0.004 ***
Stock Return	0.001	0.050 **	0.001	0.010 **	0.001	0.051 *		
Sales Growth	0.006	0.046 **	0.007	0.043 **	0.006	0.046 **	0.006	0.046 **
Leverage	0.016	0.007 ***	0.015	0.008 ***	0.016	0.007 ***	0.016	0.007 ***
Group			-0.215	0.015 **				
Family Member	0.147	0.005 ***	0.157	0.003 ***	0.147	0.005 ***	0.148	0.005 ***
Chairman	0.504	0.000 ***	0.501	0.000 ***	0.504	0.000 ***	0.504	0.000 ***
CEO	1.263	0.000 ***	1.259	0.000 ***	1.263	0.000 ***	1.263	0.000 ***
INED	-1.621	0.000 ***	-1.618	0.000 ***	-1.621	0.000 ***	-1.620	0.000 ***
RC	0.116	0.003 ***	0.116	0.003 ***	0.116	0.003 ***	0.116	0.003 ***
Industry dummies	Included		Included		Included		Included	
Year dummies	Included		Included		Included		Included	
R-squared	0.453		0.453		0.452		0.452	
Adjusted R-squared	0.451		0.451		0.451		0.451	
N	7055		7055		7055		7055	

Notes: White-corrected standard errors in the presence of heteroskedasticity are presented in parentheses below the coefficient estimates.

*, ** and *** indicate significance at 10%, 5% and 1% level respectively in a two-tail test.

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The Stock Exchange of Hong Kong Limited. Rules Governing the Listing of Securities
Appendix 14 – Code on Corporate Governance Practices.

The Stock Exchange of Hong Kong Limited. Rules Governing the Listing of Securities
Appendix 16 – Disclosure of Financial Information.