

# Between the Two Edges: Income Disparity in Malaysia

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**Abstract:** *The average household income for Malaysians has been continuously increasing. However, the majority of Malaysians are still struggling to survive due to the continuously rising cost of living. On the other edge, there is a minority of Malaysians who are earning an excessively lavish income. The huge income disparity might change the landscape of the future socio-economic stability where the rich will become far richer, and the poor will become far poorer. Those who are earning an excessively high income are mainly holding the position of Chief Executive Officers (CEOs) of the corporate sector. Some of these people still earn a lavish income even though the contribution towards the company is below average, whereas the majority of the population in Malaysia are earning a far lower income for living, which leads to a major disparity of the average income earned between the two groups within the same population. As a measure to control the amount of overpayment to underperforming CEOs, this research proposes a CEO Performance and Compensation Monitoring Policy model.*

**Keywords:** *Corporate Governance, Disparity, Ethics, Income, Malaysia, Overpaid CEO*

## 1. Introduction

In 2014, Oxfam International released a report called “Working for the Few,” which contains disquieting statistics on wealth distribution in the world. Some of the shocking news was that almost half of the world’s wealth is owned by just one per cent of the population. Secondly, the bottom half of the world’s population owns the same as the richest 85 people in the world [1]. Furthermore, the wealth of the top one per cent of the richest people in the world amounts to USD 110 trillion, which is 65 times the total wealth of the bottom half of the world’s population. This report also supports the finding of the Organization for Economic Co-operation and Development (OECD), which indicates that the gap between the rich and the poor has increased by more than 182 times.

In Malaysia, the middle-class wealth has grown at a slower pace than the wealth at the top end. The upper middle-income group, has a total wealth of USD 474 billion, which is an awesome figure for a developing nation but still remain in the category of poor compared world’s wealth [2]. Despite this remarkable wealth, Malaysia still struggles with a significant gap between rich and poor in which 97.2 per cent hold wealth of less than USD 100, 000 and only 2.8 percent have wealth of more than USD 100, 000 to above USD 1 million. This is similar to the Oxfam report in which only a few are rich as the rest are still in poverty [2].

Based on these scenarios, this paper tries to analyse the income disparity in Malaysia. This paper highlights a group of individuals who are in the higher income band but not performing. This group, which comprises CEOs of 40 organizations, earns an enormous figure even though their respective organization is not performing financially. The data were collected from articles published in Focus Malaysia in 2013 and 2015. To accommodate the academic proponent, this paper indicates the income disparity between two groups in Malaysia by comparing the majority with the top 40 underperforming CEOs in the higher wealth category. Furthermore, this paper also analyses this case from the theoretical perspective. Finally, this paper suggests a mechanism to control underperforming high earning CEOs.

In Malaysia, although the average household income of Malaysians is increasing, the purchasing power is still limited due to the increasing cost of living. This is because most of the producers have to increase the selling price of products and services on the market as the main cost to meet the minimum income payment to the employees that is recommended by the government. The situation becomes even worse when there are companies that reduce the number of employees due to the increasing operational costs to avoid paying a higher monthly salary to the employees. This scenario will definitely increase the percentage of unemployment, which will burden society [3]. This research focuses on the income disparity between two groups of people in Malaysia, the first are earning an excessively high income, and the second, the majority, are those who are earning a low and average income.

## 2. Average Household Income in Malaysia

The Malaysian government has been continuously encouraging all companies to provide a higher income to their employees. The minimum monthly income for Peninsular Malaysia has been set at RM1,000 and RM920 for Sabah, Sarawak, and Labuan, in an effort to transform the socio-economic level from middle-income earners to high-income earners within the next few years [4]. This initiative is to assist the people to obtain a reasonable income for living [5]. The policy of setting the minimum income for employees seems encouraging to enhance the average household income, as shown in Table 1.

TABLE I: Average Monthly Household Income In Malaysia [6]

Average Household Income	In Year 2012	In Year 2014	Growth Percentage
Overall Average Household Income	RM 5,000	RM 6,141	22.82%
Average Household Income in Urban Areas	RM 5,742	RM 6,833	19.00%
Average Household Income in Rural Areas	RM 3,080	RM 3,831	24.38%

Although the average monthly income of people in Malaysia has been continuously increasing, the percentage of high-income earners in Malaysia is still considered as the minority since the group is only represented by 20%. While the majority of Malaysians are actually within the group of middle-income (40%) and low-income (40%) earners. A summary of the average monthly individual income groups in Malaysia is shown in Table 2.

TABLE II: Average Monthly Individual Income Groups In Malaysia [7]

Income Group	In Year 2009	In Year 2012	Growth Percentage
Top 20%	RM 9,987	RM 12,159	21.75%
Middle 40%	RM 3,631	RM 4,573	25.94%
Bottom 40%	RM 1,440	RM 1,847	28.26%

According to the recent statistics, the overall percentage of poverty has been reduced. Due to this, the initiative that has been taken by the government to improve the socio-economic level of the people seems worthwhile. The overall percentage of poverty in urban and rural areas in 2012 and 2014 is represented in Table 3.

TABLE III: Percentage of Poverty in Malaysia [6]

Poverty	In Year 2012	In Year 2014
Overall Poverty	1.7%	0.6%
Poverty in Urban Area	1.0%	0.3%
Poverty in Rural Area	3.4%	1.6%

## 3. The Edge of High-Income Earners

Beyond the majority of Malaysian who are struggling to survive in high costs of living, there is a minority group of people who are earning an extraordinarily high income. Irrespective of their work performance, this group of people is among those who are earning more than what they are supposed to receive. It is found that those people who are working as corporate CEOs are receiving a large amount of personal income even though the performance of the companies is far below the expected level [8]. The key issue that should be highlighted is why underperforming CEOs are still receiving an extraordinarily high amount of income while the other employees within the same company do not share a similar benefit? The yearly range of individual CEO income and the income band for the underperforming companies between 2011 and 2014 is shown in Table 4.

TABLE IV: Range of CEOs' Income and Income Band [8-9]

Year	Range of CEOs' Income	Income Band
2011	RM 1,286,864 – RM 17,658,424	RM 950,001 – RM 8,400,000
2012	RM 1,419,000 – RM 12,912,000	RM 800,000 – RM 6,450,000
2013	RM 1,828,000 – RM 3,002,000	RM 500,000 – RM 2,000,000
2014	RM 1,391,000 – RM 11,000,000	RM 150,000 – RM 4,500,000

The main tasks of a CEO are to ensure that the company can operate smoothly with the ability to generate maximum profit for the shareholders by considering the interests of the stakeholders. Accordingly, the overall performance of the company depends on the CEO leading the company operations. However, 30 companies excessively overpaid their CEOs in 2011 and 2012 despite the poor performance of the respective companies, which were not making the expected profit, and, in some cases, even making a loss [9]. The number of companies that excessively overpaid the underperforming CEOs increased to 50 in 2013 and 2014 [8]. This trend might continue if no policy is introduced to ensure that the CEOs only receive a reasonable income based on their contribution and performance towards the companies. Due to an extraordinary income that is being received by these underperforming CEOs, the average household income for Malaysians has been deviated by this minority group of people.

Table 5 shows the average and median salary of Malaysian households by state in 2012 and 2014. Each household normally has more than one income recipient. Based on the overall comparison of the average and median salary for Malaysian households, it is proven that the average salary in all states is higher than the median salary. This is probably because of the excessively overpaid CEOs in Malaysia who have pushed the average salary of the overall Malaysian household higher. However, in reality, the majority of Malaysians are earning less than the average income since the household median salary is lower than the household average salary.

TABLE V: Average and Median Salary of Malaysian Households [6]

States	In Year 2012		In Year 2014	
	Average Household Income	Median Household Income	Average Household Income	Median Household Income
Perlis	RM 3,538	RM 2,387	RM 4,445	RM 3,500
Johor	RM 4,658	RM 3,650	RM 6,207	RM 5,197
Kedah	RM 3,425	RM 2,633	RM 4,478	RM 3,451
Sabah	RM 4,013	RM 2,860	RM 4,879	RM 3,745
Kuala Lumpur	RM 8,586	RM 5,847	RM 10,629	RM 7,620
Perak	RM 3,548	RM 2,665	RM 4,268	RM 3,451
Melaka	RM 4,759	RM 3,923	RM 6,046	RM 5,029
Terengganu	RM 3,967	RM 3,034	RM 4,816	RM 3,777
Sarawak	RM 4,293	RM 3,047	RM 4,934	RM 3,778
Kelantan	RM 3,168	RM 2,276	RM 3,715	RM 2,716
Pulau Pinang	RM 5,055	RM 4,039	RM 5,993	RM 4,702
States	In Year 2012		In Year 2014	

	Average Household Income	Median Household Income	Average Household Income	Median Household Income
Putrajaya	RM 8,101	RM 6,486	RM 10,401	RM 7,512
Negeri Sembilan	RM 4,576	RM 3,575	RM 5,271	RM 4,128
Labuan	RM 6,317	RM 5,063	RM 7,591	RM 5,684
Pahang	RM 3,745	RM 3,067	RM 4,343	RM 3,389

#### 4. The Controversy

The issue of excessively overpaid non-performing CEOs is not novel as it has been happening all around the world. One of the most prevalent controversies was the issue of the United States (US) bailout in 2008 [10]. Many companies, such as banks and insurance agencies, still paid hefty bonuses to the respective CEOs even though most of these companies were on the brink of collapse, which created public rage that questioned such an act. Normally, the companies justified that they are legally required to pay the bonuses. However, this created many unanswerable ethical questions since the CEOs did not perform to assist the development of the company as the main responsibility. This US scenario is similar to the issue being faced by Malaysian companies as the underperforming CEOs are still receiving excessive personal income. Although the company is legally bound to pay the CEO, from the ethical point of view, it seems unfair that underperforming CEOs receive an excessively high income. In line with this, there is also another issue concerning the effectiveness of Corporate Governance (CG), which is adopted to ensure that the company is performing well. In this issue, the company has failed to perform well due to the incapability of the CEO to manage the company. This questions the creditability of the Corporate Governance policy itself. Parallel to this, the integrity and leadership of the particular underperforming CEO also need to be questioned as it does not reflect an ideal quality of leadership. The most important question that should be raised is the link between compensation and performance. Due to this, the tricky question is, “how is it possible to ensure fair compensation based on the CEO’s performance?”

#### 5. Theoretical Discussion

The CEO’s characteristics and integrity can be analysed using virtue ethics, which refers to the character, motivation, and intention of individual behaviour [11]. Virtue ethics is more important than legalistic [12]. In this situation, the underperforming CEOs should renegotiate a reasonable income based on their performance. This will exhibit the highest level of integrity or virtue among the CEOs. Hence, these CEOs will set an example of ethical behaviour that is admired not only among employees within the company but also among those from other companies. Virtue ethics provides a sense of morality to the individual in an organization as this moral sense is beneficial for the organization [13].

In Malaysia, corporate governance is perceived as the process and structure implemented to direct and manage the operations of the company towards enhancing business prosperity and corporate accountability with the main objective being to achieve sustainable long-term shareholder value while considering the interests of other stakeholders. Malaysia’s corporate governance contains eight principles: 1) establishing clear roles and responsibilities, 2) strengthening composition, 3) reinforcing independence, 4) fostering commitment, 5) upholding integrity in financial reporting, 6) recognizing and managing risks, 7) ensuring timely and high-quality disclosure, and 8) strengthening the relationship between the company and the shareholders [14]. As per the current scenario, underperforming CEOs are still receiving excessively overpaid compensation as the word “accountability” has never appeared in the policy. In line with this, there should be an improvement in the corporate governance mechanism for the benefit of the firm [15].

Charismatic leadership is rooted in the behavioural characteristics of the leader to inspire and enthuse subordinates by showing them an appropriate example of integrity and competence [16]. In contradiction, those underperforming leaders are reinforcing compensation, which does not consider the real performance. These overpaid CEOs will not be able to promote an ideology based ethics because the employees will continuously question their behaviour. However, if the overpaid CEOs consider renegotiating the compensation based on the performance, the level of respect and loyalty will definitely be enhanced.

In the agency theory, the owners or shareholders are considered to be the principals, and the managers are considered to be the agents. The CEO is an agent who is hired by the principals to ensure that the company is performing well. The agency theory clearly mentions the relationship between the performance of the agents and the principals [17]. The CEO should be able to manage the company's operations as the main priority. Problems might arise when the CEO does not perform or produce results in accordance with or as desired by the shareholders. The application of the agency theory in this scenario implies that the excessively overpaid CEOs are acting based on personal self-interest rather than the interests of the company and stakeholders [18].

## 6. CEO Performance and Compensation Monitoring Policy Model

An effort to reduce the income disparity between those underperforming CEOs who are earning a lavish income and those middle- and low-income earners should be given serious consideration. The CEO Performance and Compensation Monitoring Policy (CPCMP) is proposed as a measurement tool to determine the actual compensation and benefits for the CEO. The CPCMP should clearly specify the details of the regulations for compensation and benefits based on the company performance. If the company and CEO perform according to the CPCMP, then the CEO should be given the contractual compensation. However, if there is any discrepancy, the contractual compensation should be adjusted, and the actual compensation that is given should reflect the performance of the company. This will provide a chance for the company to not excessively overpay the CEO. The guidelines in the CPCMP should be developed by the company's compensation committee. The details of the guidelines should be based on standardized government guidelines, professional auditor's recommendations, shareholders' agreement and the Bursa Malaysia standards. The proposed CEO performance and compensation monitoring policy model is shown in Figure 1.

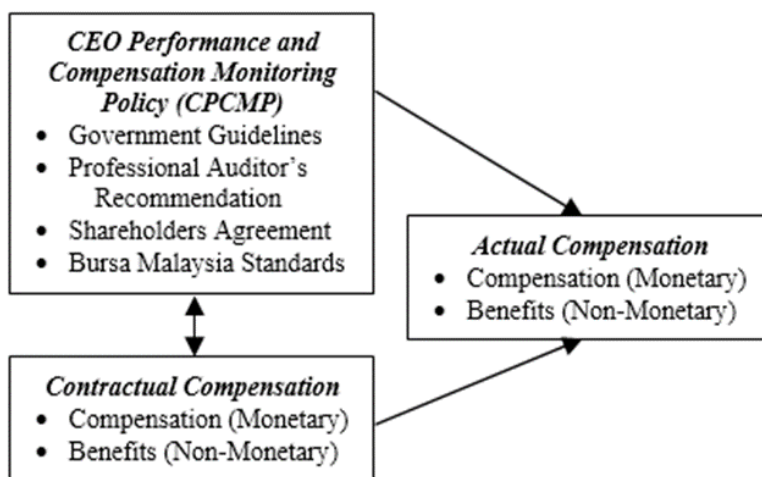


Fig. 1. CEO Performance and Compensation Monitoring Policy Model

Generally, income should be paid based on the contribution, performance and continuous effort of the employees towards the company. On the other hand, those employees who are underperforming and not sufficiently contributing as expected by the company will be given less income. However, this scenario is somehow not applicable to those employees who are holding the position of CEO in the Malaysian corporate sector. The findings have proven that even though part of the corporate sector is making a loss it is still paying an excessively high income to the CEOs, which is far beyond comparable to that of other employees in a similar sector. In fact, based on further analysis, there are few CEOs who are earning a much higher income than the income band originally set by the company [8-9].

The failure of the CEOs to operate the company does not seem to affect the amount of income that they receive. In contrast, the non-CEO employees normally receive a lower bonus and salary increment if the company is not making an adequate profit. Some of them might not be given a bonus or increment due to the poor performance of the company to generate profit. There are also employees who have to be retrenched if the

company has performed badly and could not survive in the long-term. Commonly, the most impacted group in the underperforming company will always be those non-CEOs or lower level employees. From an ethical perspective, it would be totally unfair for the underperforming CEOs to earn such an extremely high income while the other employees in the company are unable to enjoy a similar benefit. This is a very obvious corporate crime that is usually raised by employees from the lower levels, especially by non-managerial employees. However, their voice seems to be unheard by the top management in the company. This corporate crime is similar to workplace bullying and will lead to malicious health-endangering of the employees who are affected [19].

The CEO Performance and Compensation Monitoring Policy (CPCMP) is expected to provide fair income to the CEOs based on the capability and skills to operate and manage the company for the benefit of all the stakeholders. This proposed policy is similar to the government initiative to set a minimum salary to eradicate the percentage of poverty in Malaysia. With the two edges of policies to control minimum and maximum incomes, it is expected that the majority of people will have a better quality of living based on the personal effort and initiative. The implementation of an appropriate policy should be able to reduce the impact of unfairness or income disparity among the people who are extremely rich and below poverty level [20].

## 7. Conclusion

Most countries that are developing and well developing are categorized under a mixed-economy market system where there is a government intervention to administer and control the ongoing progress and development of the economic activities. The market system tends to be moving towards capitalism where government intervention reduces considerably as a country becomes developed. In order to prevent extreme income disparity between the rich and poor people within a country, the negative momentum of socio-economic inequality should be controlled before it becomes worse. As a path to become a developed country, the Malaysian government has been making an effort to ensure that the citizens could earn a higher income to gain a better lifestyle through higher purchasing power. However, there is still a huge income disparity between those who are earning an excessively lavish income and those who are earning low- and middle-incomes. An initiative to set a standard minimum salary in Malaysia is perceived as a positive initiative to improve the overall socio-economic level of the people. On reflection, similar concern for the overpaid group of CEOs who lack basic management skills and the capability to manage the companies has still not been taken. The income disparity might become even worse in the next few years if serious consideration is not given to the matter.

As an initiative to reduce the negative impact, the CEO Performance and Compensation Monitoring Policy (CPCMP) has been proposed to ensure that all CEOs in Malaysia obtain a fair income based on the performance of the company. This research is expected to become a breakthrough in finding potential ways to reduce the huge income disparity between the minority of underperforming CEOs who are earning an excessively high income and the majority of employees who are earning a low or average income.

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