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Does Busyness of Directors Matter in Reputable Firms?

CHAR-LEE, LOK [A], CHEE-WOOI, HOOY [A*]

[A] *School of Management, Universiti Sains Malaysia, Malaysia*

ABSTRACT

This paper investigates how the degree of busyness and reputation of firm affect the relationship between multiple directorships and corporate performance in Malaysia. Using a sample of listed entities excluding financial sector in the main market of Bursa Malaysia in 2009 till 2015, this paper finds many public companies have board members who hold multiple directorships; the companies that embrace multiple directorships perform better financially than companies without multiple directorships. However, it is detrimental if majority of these board members hold higher than two directorships. Nonetheless, the reputational effect of firm will alleviate the negative effect of busyness. The empirical results are also valuable to regulators in judging the relevant number of appointments for individual directors.

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* Corresponding author: Email: cwhooy@usm.my

INTRODUCTION

There is increasing concern that busyness of board members is being disadvantaged to the monitoring role in collective governance. Thus, more rigorous requirements to set a limit on appointments in multiple boards for individual board members are imposed. For instance, paragraph 15.06(1) of the Main Market Listing Requirements of Bursa Malaysia states that an individual board member is not allowed to hold exceeding 5 board seats in listed entities (Bursa Malaysia, 2015). Similarly, in Singapore, the SGX's Code of Corporate Governance (2012) also requires board member to give ample time and attention for each appointment while the board needs to determine and disclose maximum number of multiple directorships in the company's annual report (SGX, 2012). Consistent with the view, the UK Corporate Governance Code prohibits an executive director who is full time to take chairmanship nor more than one non-executive board seats in a FTSE 100 company (Financial Reporting Council, 2012).

Evidence suggests that multiple directorships are more prevalent among companies in Malaysia as compared to Australia and USA. Latif et al. (2013) find that about 90% of board members of public listed companies in Malaysia accepted 1 to 3 board seats. However, it is rare for board members of Australian listed companies to hold multiple directorships besides the multiple seats are mainly within related entities (Kiel and Nicholson, 2006). Similarly, in USA, merely larger firms appoint board members who hold multiple directorships (Ferris et al., 2003). Therefore, findings in Australia and USA exhibit that the effect of multiple directorships on firm performance might be distinctive in emerging economy as compared to developed countries.

A number of empirical results show that the practice of multiple directorships is unfavorable to the firm value (Fich and Shivdasani, 2006; Jiraporn et al., 2008; Ahn et al., 2010; Santos et al., 2012). Other evidence also discover that non-executive directors are not effective in monitoring the top management when they hold multiple board seats (Kamardin and Haron, 2011; Ahn et al., 2010). These findings support the argument that busyness of directors is linked to inadequate monitoring function as well as poor firm performance.

More recently, literature has emerged that offers contradictory result of multiple directorships on corporate performance. For instance, Lu et al. (2013) find that this relationship is non-linear and advocate that firms perform better with certain ratio of multiple directorships, but it is harmful if the ratio beyond the limit. However, few writers have investigated the causal relationship of corporate performance and the number of board seats for individual director, it is found that better corporate performance is linking to the reputational effect which increases the number of appointments for individual director (Fama and Jensen, 1983; Ferris et al., 2003). The results are rather controversial, and there is no evidence that directors with more directorships refuse to be appointed into board committees (Fama and Jensen, 1983; Ferris et al., 2003). Nonetheless, a search of the literature revealed few studies which conclude that multiple directorships do not significantly affect firm performance (Kiel and Nicholson, 2006; Chiranga et al., 2014).

Previous research on multiple directorships has established that busyness effect and quality effect of individual director are significant to board role and firm performance. Due to busyness, directors who hold multiple directorships may not have enough time to gather information to monitor top management. However, their linkages to resources and networks of outside firms are beneficial in performing advisory role.

However, the previous researches are unable to find consistent results to explain the effect of multiple directorships on corporate performance. These mixed results may indicate that previous studies ignore relevant factors associated with the effect of multiple directorships on firm performance. The interest of related studies will have policy implication for corporate governance practices because further evidence is needed to justify the decision to set the permitted number of board seats for individual directors.

The contributions of this paper are twofold: First, this is a study of the overall impact of multiple directorships scaled by board size as well as the busyness effect of individual directors which supplementing the existing theories on the internal corporate governance mechanism and how it can affect corporate performance in Malaysia. The results support the resource dependence theory that directors who hold multiple directorships are capable to enhance corporate performance. However, the busyness effect of individual directors with three or more board seats is harmful. Thus, we offer a theoretical basis for the decision-makers in the regulatory authorities to determine more appropriate limiting number. Our theoretical model is able to separate and gauge the threshold for the busyness effect of individual directors. Second, the results of the study also show that the reputational effect of firm is able to alleviate the negative effect of busyness of individual board members on corporate performance and hence, it provides explanation to the conflicting empirical results of the previous studies which have omitted this factor.

THEORETICAL BACKGROUND AND EMPIRICAL EVIDENCE

Implication of Multiple Directorships on Firm Performance

The effect of multiple directorships of board members on firm performance has been the focus of prior studies but the findings are inconclusive. The mixed results provide unclear evidence about net advantages or disadvantages to allow individual directors to hold multiple board seats.

Around the early 1980s, small-scale research began to emerge linking the incidence of multiple directorships to reputation of individual directors and their quality. It was argued that the ability to hold multiple board seats in different companies for a director is apparently owing to personal good reputation and quality.

Although there are recent studies in Malaysia on multiple directorships, nonetheless, the focus of the studies is concentrated on earnings quality and management oversight roles. Several studies also focus on the effect of internal corporate governance mechanisms on board monitoring roles. In a study about earnings quality, Hashim and Abdul Rahman (2006) discover that the appointment of directors from outside board can enhance earnings quality because these directors are better in knowledge, more capable and skillful, they have stronger incentive to supervise the actions of management and hence, resulting better quality in financial reporting. Conversely, excessive ratio of board members with multiple directorships is detrimental to earnings quality (Hashim and Abdul Rahman, 2006). Likewise, Kamardin and Haron (2011) find that non-executive directors who hold multiple directorships are ineffective in performing their monitoring roles.

Besides unclear evidence in the existing literatures concerning the effect of multiple directorships on firm performance, there is also potential issue regarding the direction of causality between these two variables. For instance, Ferris and Jagannathan (2001) find that good corporate performance will increase the number of appointments into multiple boards for individual directors. Furthermore, individual directors in unregulated industries tend to hold more board seats than their counterparts in regulated industries (Ferris and Jagannathan, 2001). Based on a study of multiple directorships in Australia, Kiel and Nicholson (2006) find that multiple directorships have no direct effect on corporate performance. In addition, multiple directorships occur mainly among related entities in Australia and hence, they have much lower workload requirements (Kiel and Nicholson, 2006). Similarly, using a sample of 132 Malaysian publicly listed entities in 2008, Latif et al. (2013) discover that multiple directorships do not have impact on the market-to-book value of the firms.

Busyness Hypothesis

Enormous number of studies in multiple directorships is connected to the busyness hypothesis which emphasizes the negative effect of busyness when a director is sitting in multiple boards. The busyness hypothesis was advocated by Ferris et al. (2003) by suggesting that individual board members with more directorships suffer from inadequate time to serve on board committees because they are overcommitted with multiple board seats. The detrimental effect is centered on the limited attention and capacity of overcommitted directors who might compromise oversight or fail to provide meaningful managerial monitoring (Core et al., 1999; Shivdasani and Yermack, 1999). The busyness of board members might cause excessive restriction on their time and energy to carry out board role. Thus, holding multiple directorships by individual director is defective to the monitoring role and hence, it can weaken the efficiency of corporate governance of an entity (Ferris et al., 2003).

Much of the literature since the mid-1990s emphasizes the problem of over commitment of board members who hold outside board seats. It is argued that these directors are over stretched on their time. Consequently, they are attending fewer board meetings or refuse to serve in board subcommittees (Ferris et al., 2003). Accordingly,

board of directors becomes increasingly constrained and ineffective in performing supervisory functions when board members accumulate more directorships, the situation is more severe if more than half of the independent directors are overcommitted (Fich and Shivdasani, 2006). Such negative effect of overcommitted board members is more significant for firms which incur higher agency costs (Jiraporn et al., 2008). Most studies conclude that overcommitted directors are unlikely to monitor management effectively because they are unable to allocate sufficient time to each company (Balsmeier et al., 2011). It is further supported by Santos et al. (2012) that firm value is lower when the majority of independent directors accept more than two directorships of other companies.

Busyness hypothesis speculates that directors fail to monitor management adequately as a result of inadequate time to serve on multiple boards. They tend to lack in performing their duties and responsibilities appropriately and is partly linked to poor management oversight roles (Kamardin and Haron, 2011). Moreover, it was found that multiple directorships are detrimental to the acquiring entities during the merger and acquisition process if the external appointments surpasses a certain threshold (Ahn et al., 2010). Likewise, busyness is inversely related to firm value as a result of deeper diversification discount (Jiraporn et al., 2008). Based on a study in in Brazil, evidence supports a nonlinear association while there is positive effect on firm value at low and moderate levels of multiple directorships but adverse effect at higher levels (Santos et al., 2012). Falato et al. (2014) also find that busyness is harmful to shareholder value and earnings quality in the event of sudden loss of key management personnel. The main reason is that busy directors fail to monitor undisciplined managers who are engaging in self-interest activities (Chen et al., 2015).

Busyness is also linked to higher agency costs, Fich and Shivdasani (2006) advocate that the busyness of individual directors is associated with weak corporate governance. According to the agency theory, Ahn et al. (2010) observe that the detriments of multiple directorships out weight the gains when the intensity of busyness exceeds a certain level. Although multiple directorships bring positive effect to firm performance, the effect turns to negative when the total directorships held by individual directors is higher than a certain ratio (Lu et al., 2013). Moreover, these directors are unlikely to involve in additional board committees and hence, leading to lower firm value (Fich and Shivdasani, 2006).

On the other hand, the negative effect of outside board seats might associate with the agency problems, Perry and Peyer (2005) discover that the busyness of individual directors in firms with severe agency problems leads to negative announcement returns. In contrary, firm value will increase when the firms have fewer agency problems. Jiraporn et al. (2008) also find firms that suffer from greater agency costs show more noticeable negative effect as a result of multiple directorships.

Reputational Effect of Individual Director

The finding of busyness hypothesis is inconclusive, there are evidence showing that multiple directorships bring positive effects to the firm performance. These studies support the reputation hypothesis which suggests that the appointment of a person in multiple boards is related to personal capabilities. The study on reputational effect of individual director is rooted on the reputation hypothesis which suggests that the appointment of a person in multiple boards is the outcome of personal capabilities (Jiraporn et al., 2009). Accordingly, reputable director is invited to sit in multiple boards because he or she has possession of the reputational capital. Holding multiple directorships enable board members to gain greater diversity of experience. They can gain knowledge from other firms and hence, are able to provide better advisory service to top management and perform more effective monitoring role. Directors of large companies are more likely to be reputable and the appointment of reputable directors will improve the governance efficiency of a company (Fama and Jensen, 1983). Board members with more networks are able to share their resources and business contacts with the entity. Knowledgeable personnel with excellent skill are greatly desirable because companies will be benefited from these directors with more experience and knowledge about the industry (Fama and Jensen, 1983). Subsequent findings by Gilson (1990), Kaplan and Reishus (1990) and Vafeas (1999) advocate that ability to hold more board seats might imply that such persons are better quality board members. However, when individuals are held responsible for their firms' financial distress, they will be no longer reputable in monitoring role and hence, they are less likely to be appointed into extra outside boards. It is further discovered that firms will experience significantly positive abnormal returns when a common director from other board is appointed for the first time (Ferris et al., 2003) and better corporate performance (Lu et al., 2013) because busy directors are better in quality (Fama and Jensen, 1983).

In the view of resource dependence theory, a firm can benefit from appointing directors from other firms to share resources and bringing into the boardroom the essential know-how and information about external environment (Sarkar and Sarkar, 2009). In a study about the implication of busy board on bank parent company performance, Elyasiani and Zhang (2012) find that managers can receive quality advice from directors who are sitting in multiple boards and benefit from stronger connection to the community through networking. Directors with more experience and contacts are more likely to be excellent advisors (Field et al., 2013). Moreover, board members who hold multiple directorships have access to business networks and valuable outside information that may improve corporate strategies and practices, and bring in additional contacts and business prospects to the firm (Chen et al., 2015).

Reputational Effect of Firm

Over the past three decades, most research relating to multiple directorships emphasized on the contrasting effects of busyness hypothesis and reputation hypothesis associated with total directorships held by individual directors. Thus far, there has been

little quantitative analysis of the personal behavior of directors who hold multiple directorships, particularly on how they allocate and devote their time to the firm. A number of authors have shared their opinions that busy directors fail to allocate adequate time to perform their roles and unable to attend meetings regularly and hence, they are not effective in monitoring the management (Lipton and Lorsch, 1992; Vafeas, 1999). Similarly, the board attendance problem indicates poorer board monitoring performance (Lin et al., 2013) and Chou et al. (2013) find that director's own meeting attendance is positively associated with firm performance.

Traditionally, it is argued that busy directors may fail to perform their duties particularly the attendance of board meetings (Jiraporn et al., 2009). However, they can prioritize certain board seats and will devote more effort to more prestigious firms. It has been demonstrated that independent directors view firm reputation as an incentive for them to allocate their resources and hence, the reputable firms are able to record better board attendance rate which enhances firm performance (Masulis and Mobbs, 2014). Regardless of their busyness, busy board members will still devote more resources and time to selected firms in order to maintain their personal reputation. Hence, examining the willingness to serve on the board is crucial instead of merely counting the total directorships for individual directors.

In short, the arguments in the existing literatures are based on both agency theory and resource dependence theory, which might bring potential negative or positive effect to firm financial performance. The relationship can be positive, negative or neutral subject to factors such as busyness effect and reputational effect of individual director as well as reputational effect of firm.

HYPOTHESIS DEVELOPMENT

Previous research has explored the relationship between multiple directorships and firm performance. One of the key functions of the board of directors is to monitor the actions of top management. This is grounded on the agency theory which emphasizes the director's role in resolving the principal-agent conflict between owners and management (Jensen and Meckling, 1976). Our hypothesis is in line with the agency theory which suggests that the busyness of board members will dilute the performance of board monitoring role and hence, leading to poorer firm performance. It is also argued that potential conflict of interest may arise from multiple appointments and hence, resulting lower devotement to the firm and it is detrimental to firm performance. Empirically, Haniffa and Hudaib (2006) find that multiple directorships reduce the market value as measured by the Tobin's Q.

In contrary, resource dependence theory suggests that a firm can benefit from appointing directors from other firms for the interaction with other firms and connection to outside environment as well as bringing in more resources to the boardroom (Mace, 1986; Loderer and Peyer, 2002; Sarkar and Sarkar, 2009). The reputation hypothesis postulates that directors with multiple directorships are able to play better advisory role

which contributes to better firm performance. However, Latif et al., (2013) find that multiple directorships do not bring significant advantage nor destruction to market performance.

Overall, empirical studies show conflicting results for the effects of multiple directorships on firm performance. However, the preceding discussion indicates that multiple directorships when viewed in isolation, may affect firm performance positively or negatively. This assertion is consistent not only with the results of some prior studies that examined board's busyness on firm performance, but also with Malaysian evidence, which showed that holding multiple directorships may discourage directors to perform effectively in both monitoring and advisory role. Since previous studies have shown that multiple directorships do affect performance, this discussion leads us to develop and test empirically the following hypothesis:

H1: There is a significant relationship between multiple directorships and firm performance.

The fundamental theories in this paper are associating with both the busyness hypothesis and reputation hypothesis. According to Adams et al. (2010), the relationship between board's busyness and firm performance is actually a test for whether busyness effect or reputational effect of individual director dominates the relationship. If the reputational effect is greater than busyness effect, then the relationship is positive or vice versa. This paper provides further test on the strength of "busyness" or "reputation" in dominating the relationship, particularly for the publicly listed companies in Malaysia, an emerging economy with relatively smaller capital market.

Empirical evidence discovers that firms have busy board when majority of the independent directors hold three or more directorships, show poorer market-to-book ratio and profitability as well as weaker monitoring on CEO performance (Fich and Shivdasani, 2006). In this paper, we hypothesize that busyness of directors with multiple directorships will exacerbate the poor firm performance due to deficiency in their monitoring and advising activities. This leads us to develop and test empirically the following hypothesis:

H2: Busyness of directors with multiple directorships negatively affects the relationship between multiple directorships and firm performance.

One of the main contributions of this paper is to extend the investigation regarding the reputational effect of firm on the allocation of resources by individual directors. We believe that it is vital to take into account the reputational effect of firm when study the relationship between board's busyness and firm performance. Our analysis offer further explanation that the characteristic of firm is likely to enhance or destroy shareholder value when the board members are sitting on multiple boards. This study provides evidence whether the effort and time committed to the firm is influenced by the reputational effect of the firm. Given the choice, busy directors may opt to allocate more resources to serve the reputable firms. This leads us to develop and test empirically the following hypothesis:

H3: The negative effect of busyness of directors with multiple directorships on firm performance is alleviated by the reputational effect of firm.

SAMPLE AND VARIABLES MEASUREMENT

This study focuses on the firm listed in Main Market of Bursa Malaysia from 2009 to 2015 (covering over a lengthy period of 7 years). The selected period was after the financial crisis and the division of Bursa Malaysia into Main Market and ACE Market in October 2009. We focus solely on Main Market firms because they have sufficient data related to director background and firm performance. In reality, the directors of larger and more famous firms are more likely to be appointed by other firms mainly due to the premium of their reputation.

All board and director characteristics are obtained from annual reports submitted and available at Bursa Malaysia website. First of all, we acquired the seat information and profile of board members for each firm during 2009-2015, then so we matched the names of directors with concurrent seats in more than one firm. Thus, we are able to identify directors who hold multiple directorships and the respective firms. Based on the total samples, we obtained the sum of annual concurrent seats of board members for each firm. Eventually, we obtained 3,562 annual data in total, among which, more than 75% of the sample firms have at least one director who holds multiple directorships. The necessary data were found to be available for 514 firms covering 10 different industrial sectors. Table 1 presents the distribution of firms according to their industrial sectors.

Table 1: Distribution of sample according to industrial sectors

Industry	Number of Firms
Properties	61
Hotel	4
Industrial Products	187
Trading/Services	102
Construction	31
Technology	12
Plantation	30
Mining	1
Consumer Products	81
Infrastructure Project Company (IPC)	5
Total	**514**

Note: This table presents the descriptive statistics for firms from 2009 to 2015 across industry classifications according to the Main Market of Bursa Malaysia.

Table 2: Descriptive statistics

Variable	n	Mean	S.D.	Min	0.25	Mdn	0.75	Max
Firm Age	3562	28.4	17.55	1	16	23	38	108
Firm Size	3489	2.1	7.4	0	0.17	0.39	1.1	120
Firm Leverage	3477	0.08	0.11	0	0	0.04	0.13	1.11
Firm Growth	3554	1.13	1.43	0.16	0.48	0.73	1.21	11.23
Board Size	3562	7.97	2.15	4	6	8	9	19
MdDummy	3562	0.81	0.4	0	1	1	1	1
DMulti	3562	0.29	0.25	0	0.11	0.23	0.43	1

Table 2 Cont.

Busy	3562	0.36	0.48	0	0	0	1	1
RepFirm	3489	0.23	0.42	0	0	0	0	1
RepDirector	3562	0.19	0.39	0	0	0	0	1
ROA	3495	4.43	8.94	-74.59	1.32	4.22	7.85	60.24

Note: Firm Age is the founding date of company till cutoff date of corresponding samples. Firm Size is the natural logarithm of book value of total assets in millions Malaysian Ringgit. Firm Leverage is the ratio of long term debts to total assets. Firm Growth is ratio of market value of the firm to book value of the firm (market-to-book-value). Board Size is the number of directors in the firm. MdDummy is a binary variable that takes a value of 1 if it is found that any board member of the firm holds other board seat. DMulti is the ratio of number of directors who hold multiple directorships to the total number of directors in the firm. Busy is a binary variable that takes a value of 1 if the majority of directors who hold multiple directors have three or more board seats. RepFirm is a binary variable that takes a value of 1 if the firm is ranked in the top 25% based on its total assets in the respective year. RepDirector is a binary variable that takes a value of 1 if the majority of directors who hold multiple directorships in a bottom 75% firm also have board seat in another top 25% firm. ROA is the percentage of net profit on total assets.

Preempting the results of our analysis below, descriptive statistics (Table 2) show that on average 81 per cent of boards have at least one director sitting in another board. The figure is, to some extent, consistent to the figures reported in the Malaysia. For instance, Latif et al. (2013) reported that almost 90% of directors of Malaysian public listed firms have between 1 to 3 directorships. Kamardin and Haron (2011) also reported on average, 56.8 percent of the non-executive directors in a company have at least one additional directorship in other PLCs. However, the figure is not consistent with findings in developed countries. For instance, Kiel and Nicholson (2006) find that the incidence of multiple directorships in Australian listed companies is low. Based on a sample of 6,089 firms, Ferris and Jagannathan (2001) also reported that multiple directorships are not pervasive among companies in USA, only 12.9% of the directors in the sample hold more than one board seat.

In this study, the incidence for multiple directorships ($DMulti_{it}$) is measured as the proportion of multiple directors to total number of directors on the board (Haniffa and Hudaib, 2006). It shows that on average, 29% of the board members of the sample firms hold at least one additional directorship in another firm. Thus, the incidence of multiple directorships is a common phenomenon in Malaysian corporations and is an important issue to be considered in order to strengthen corporate governance practice.

Cashman et al. (2012) suggest that a busy director is defined as a person serves on three or more boards, is appropriate and as informative as the more complex and data-intensive proxies for busyness, and they find busyness is negatively and significantly related to both return on assets (ROA) and return on sales (ROS). It is argued that board members with more than three directorships may be overextending themselves at the expense of their monitoring ability (Shivdasani and Yermack, 1999). Following the definition of Cashman et al. (2012), a busy director is defined as a person serves on three or more boards. First, we calculate the proportion of busy director over the number of directors with multiple directorships in the firm. Then, busyness of directors ($Busy_{it}$) is expressed as a binary variable that takes a value of 1 if it is found that the majority of directors who hold multiple directorships have three or more seats; otherwise, takes it as 0, for the firm i in period t.

Firm size is a natural source of director reputation incentives given that larger firms afford a director greater visibility (Masulis and Mobbs, 2014). Furthermore, directors are motivated mainly by power and prestige, reputation and career concerns (Adams and Ferreira, 2008) as well as opportunities to obtain additional directorships (Yermack, 2004). Accordingly, reputable firm ($RepFirm_{it}$) is firm i which ranked on top 25% based on the total assets of the firm in period t, takes dummy variable 1, or 0 otherwise. Reputable directors in bottom 75% firm ($RepDirector_{it}$) is expressed as a binary variable that takes a value of 1 if the majority of directors who hold multiple directorships are also directors in reputable firm; otherwise, takes it as 0, for the firm i in period t.

Financial performance (PER) is the key dependent variable in this study. From the literature, there are several measures of firm performance. Corporate performance is measured by its ROA which is calculated by dividing net profit over total assets (Lu et al., 2013). Alternatively, Vafeas (1999) defines ROA as operating performance which is calculated as income before extraordinary items divided by total assets. ROA is an indication of management's efficiency and it represents the ability of a firm's management to create profits from available resources et al., 2008). We measure accounting based performance, ROA_{it} which is calculated as the net income divided by total assets and is a measure of profit per dollar of assets.

Following previous work, firm age, firm size, financial leverage, firm growth, board size, time effect and industry effect are included in the models as control variables that may affect the relationship between multiple directorships and financial performance. These variables are selected as guided by theory as well as based on previous empirical studies. They represent important corporate governance and financial characteristics of a firm.

Age_{it} is the natural logarithm of founding date of company till cutoff date for the firm i in period t; $FSize_{it}$ is the natural logarithm of book value of total assets for the firm i in period t; Lev_{it} is the ratio of book value of total long-term debts over book value of total assets for the firm i in period t; $Growth_{it}$ is the market to book ratio for the firm i in period t, indicates the growth opportunities of the firm and $BSize_{it}$ is the number of directors for the firm i in period t.

Because this paper focuses on the discussion of multiple directorships, all variables related to busyness and reputation only consider the situations of board members who hold multiple directorships.

ECONOMETRIC ANALYSIS

The main suggested hypothesis to predict the relationship between the multiple directorships and firm performance was tested by using the following model of analysis:

$$PER_{it} = \alpha_1 + \mathrm{PER}_{it-1} + \beta_1 DMulti_{it} + \beta_2 Busy_{it} + \beta_3 DMulti * Busy_{it} + \delta_1 Age_{it} + \delta_2 FSize_{it} + \delta_3 Lev_{it} + \delta_4 Growth_{it} + \delta_5 BSize_{it} + u_t + v_k + \varepsilon_{it} \quad (1)$$

where $\alpha_1$is a constant, and (β_1:β_3) are the parameters for the explanatory variables. The subscript (i) refers to the firm number, the subscript (t) denotes the time period, the subscript (k) refers to industries. u_i is the year fixed effect; v_k is the industry fixed effect; and $\varepsilon_{it}$is the error term.

The analysis was estimated using panel data regression. Panel data methodology is able to control for an individual firm's heterogeneity, reduce problems associated with multicollinearity and estimation bias. In addition, it can identify the time-varying relationship between dependent and independent variables (Hsiao, 1986).

We address aspects of endogeneity that have been ignored or treated with arbitrary assumptions in previous research with dynamic generalized method of moments (GMM) estimator. Following Duru et al. (2016), we determinate the lag order for the depended variable that ensures dynamic completeness to ensure that the lag order is consistent with the absence of second order serial correlation in the first-differenced residuals. The other control variables were treated as strictly exogenous.

RESULT AND DISCUSSION

Our estimated results for Model 1 are reported in Table 3. Regarding dynamic completeness, a lag of two periods is required to fulfill the diagnostic tests.

Under Model 1 in Table 3, multiple directorships have a positive and significant coefficient to ROA. Consistent with our hypothesis, when omitting the interaction term, the multiple directorships ($DMulti_{it}$) exerts a positive and significant coefficient (8.878) on ROA.

Then, the GMM model, which includes an interaction term between multiple directorships and busyness, was estimated, and the results are reported under Model 2 in Table 3. According to ROA, consistent with our hypothesis, the estimated coefficient for the multiple directorships ($DMulti_{it}$) is significant and positive at 13.066 and for $DMulti * Busy_{it}$ is significant and negative at -11.831. That is, a 10 percent increase in the number of directors with multiple directorships increases ROA by 1.307 percent for firms' whose directors with multiple directorships are not busy, whereas it increases ROA by an average of 0.124 percent for firms whose directors with multiple directorships are busy. The fact that the coefficient of the interaction term is negative supports the main argument of this paper.

Table 3: The effects of multiple directorships and busyness of directors on firm performance

Dependent variable: ROA	Model 1	Model 2
L.ROA	0.0722*	0.0321
	(0.0878)	(0.4124)
L2.ROA	-0.0660***	-0.0722***
	(0.0040)	(0.0013)

Table 3 Cont.

DMulti	8.8777***	13.0661***
	(0.0047)	(0.0008)
Busy		3.0505**
		(0.0133)
DMulti*Busy		-11.8313**
		(0.0133)
Firm Age	-1.5036	-1.7990
	(0.5479)	(0.4891)
Firm Size	-4.6944***	-3.9250***
	(0.0002)	(0.0012)
Firm Leverage	-0.7646	-2.7813
	(0.8580)	(0.5130)
Firm Growth	0.3340	1.2611**
	(0.5362)	(0.0256)
Board Size	0.1380	0.4514*
	(0.5794)	(0.0703)
AR(1)	-3.5731***	-3.5991***
AR(2)	0.3567	0.3245
Hansen	85.2043	97.0427

Note: This table reports the results from the GMM estimation on all samples. The dependent variable is the net profit over total assets. The variables are defined as follows: Multiple directorships (DMulti) is the proportion of multiple directors to total number of directors on the board. Busyness (Busy) is a binary variable that takes a value of 1 if it is found that the majority of directors who hold multiple directorships have three or more seats. Firm Age is the founding date of company till cutoff date of corresponding samples. Firm Size is the natural logarithm of book value of total assets in millions Malaysian Ringgit. Firm Leverage is the ratio of long term debts to total assets. Firm Growth is ratio of market value of the firm to book value of the firm (market-to-book-value). Board Size is the number of directors in the firm. All variables are measured at the end of the fiscal year. Standard deviations are reported in brackets. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

Under the Model 2 in Table 3, the coefficients for the incidence of multiple directorships and busyness are all positive but the coefficient of interaction term is negative. Thus, it is possible that the different sample characteristics may account for the disparate empirical findings. Consequently, we reexamine the economic significance of this relation by focusing on the subsample analyses reported in Table 4; we estimate the change to ROA by dividing the sample firms into reputable firms and non-reputable firms. As reported, the coefficient for the multiple directorships in reputable firms is still positive but not significant. In contrary, the coefficient for the multiple directorships in non-reputable firms turns to negative. However, the coefficient for $DMulti * Busy_{it}$ is negative but smaller magnitude than non-reputable firms. That is, when the majority of directors with multiple directorships in reputable firms are busy, it will reduce ROA but not as serious as smaller firms.

The results indicate that busyness of directors exerts more negative effect on firm performance for non-reputable firms than reputable firms. This is a remarkable finding that supports the main argument of this paper as stated in hypothesis 3.

On the whole, our models strongly support the applicability of the key hypothesis in this study. Specifically, we confirm that the busyness of individual directors affects the relationship between the incidence of multiple directorships and firm performance. However, the negative effect of busyness on firm performance is different for reputable firms and non-reputable firms.

Table 4: The reputational effect of firm on firm performance

Dependent variable: ROA	**Panel A** **Reputable firms**	**Panel B** **Non-reputable firms**
L.ROA	-0.1377***	-0.2842***
	(0.0000)	(0.0000)
L2.ROA	-0.0212	-0.1124***
	(0.2133)	(0.0000)
DMulti	0.6543	-1.9883
	(0.4220)	(0.2465)
Busy	2.1138***	3.0623***
	(0.0002)	(0.0001)
DMulti*Busy	-1.6574**	-11.8762***
	(0.0469)	(0.0000)
Firm Age	-4.4150***	-0.9432
	(0.0001)	(0.5100)
Firm Size	-2.9166***	2.3688***
	(0.0000)	(0.0000)
Firm Leverage	-8.8752***	35.7974***
	(0.0000)	(0.0000)
Firm Growth	1.3033***	1.2348***
	(0.0000)	(0.0000)
Board size	-0.5764***	0.1183*
	(0.0000)	(0.0987)
AR(1)	-1.6841*	-1.6539*
AR(2)	-0.8579	0.3569
Hansen	92.2714	91.5011

Note: This table reports the results from the GMM estimation after separating all sample firms into top 25% and bottom 75% based on the total assets. Included in Panel B are non-reputable firms with the majority of directors who hold multiple directorships consist of directors in top 25% firms.

CONCLUSION AND DISCUSSION

Our findings provide an additional explanation for the conflicting evidences in the previous studies regarding the relationship between board members who hold multiple directorships and firm performance. These directors are better in networking and knowledge but could also be weak monitors if they are overcommitted. With a sample of 3,562 firm-year observations of 514 public firms listed in the Main Market of Bursa Malaysia from 2009 to 2015, our empirical results show that multiple directorships have significant effect on firm performance. We then further analyze how the busyness of individual directors who hold multiple directorships will affect this relationship. We find that the negative effect of busyness offsetting the positive reputational effect of directors when majority of directors who hold multiple directorships have three or more board seats. The result is consistent with Ahn et al. (2010) that the number of directorships as a result of the director's reputation is positively associated with firm value but excess directorships is harmful to firm performance. We conclude that negative effect of busyness for board members is similar to the results reported in other developed countries, which implies that the results of this research can be generalized to other contexts.

While a large body of literature explores the contradictory busyness effect and reputational effect of directors, the reputational effect of firm has received little attention. In this paper, we shed light on the question of how larger firms affect the relationship through the reputation effect in getting more effort and time from busy directors, when traditional board structure devices do not seem to work well. Our analysis shows that busyness is detrimental to firm performance in general, but this relationship is alleviated in larger firms, indicating that though directors are busy, they are still putting more effort and time in managing the reputable firms. It also can be explained that larger firms have more resources such as human capital, better structure and communication channel that allow directors to perform their monitoring and advisory functions more effectively though they are busy.

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