MULTIPLE DIRECTORSHIPS AND FINANCIAL PERFORMANCE OF MALAYSIAN PUBLIC LISTED FIRMS: DO ROLES AND DEDICATION OF DIRECTORS MATTER?

by

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FTSE	Financial Times Stock Exchange
MCCG	Malaysian Code on Corporate Governance
NACD	National Association of Corporate Directors
NSE	National Stock Exchange of India Ltd.
SEBI	Securities and Exchange Board of India
SGX	Singapore Exchange

PELBAGAI JAWATAN PENGARAH DAN PRESTASI KEWANGAN SYARIKAT AWAM TERSENARAI MALAYSIA: ADAKAH PERANAN DAN DEDIKASI PENGARAH PENTING?

ABSTRAK

Dimotivasikan oleh bukti yang tidak konsisten untuk pelbagai jawatan pengarah dan melihat secara dekat literatur mendedahkan bahawa perhatian terhadap pelbagai jawatan pengarah tidak semestinya mengenai bilangan jawatan yang dipegang oleh pengarah individu. Kajian ini mengkaji ciri-ciri pengarah yang memegang pelbagai jawatan pengarah dan kesan terhadap prestasi kewangan firma dengan menggunakan sampel sebanyak 4,964 pemerhatian daripada syarikat awam tersenarai bukan kewangan di pasaran utama Bursa Malaysia dari tahun 2009 hingga 2015. Keputusan empirikal dengan menggunakan teknik estimasi sistem GMM untuk model data panel dinamik mencadangkan bahawa kadar ahli lembaga pengarah yang lebih tinggi dengan pelbagai jawatan pengarah, sekurang-kurangnya secara purata, akan mengurangkan prestasi kewangan mengikut ukuran perakaunan serta prestasi kewangan mengikut ukuran pasaran. Walau bagaimanapun, kesan pelbagai jawatan pengarah terhadap prestasi kewangan firma dipengaruhi oleh peranan eksekutif, peranan pemantauan dan peranan penasihat yang dilaksanakan oleh para pengarah tersebut. Kajian ini mendapati bahawa para pengarah yang memegang pelbagai jawatan pengarah mampu menjalankan peranan eksekutif dan peranan penasihat dengan lebih baik dan seterusnya mengurangkan kesan negatif pelbagai jawatan pengarah terhadap prestasi kewangan firma. Penemuan ini menyokong "hipotesis reputasi" dan "hipotesis kualiti" yang mencadangkan bahawa individu yang

memegang pelbagai jawatan pengarah mungkin merupakan eksekutif dan penasihat yang berkualiti tinggi. Sebaliknya, kajian ini juga mendapati bahawa para pengarah yang memegang pelbagai jawatan pengarah lebih lemah apabila menjalankan peranan pemantauan dan oleh itu, akan memburukkan lagi kesan negatif pelbagai jawatan pengarah terhadap prestasi kewangan firma. Penemuan ini menyokong "hipotesis kesibukan" yang meramalkan bahawa ahli lembaga pengarah yang memegang pelbagai jawatan pengarah mungkin berkompromi dengan fungsi pemantauan dan seterusnya kurang berkesan untuk penyeliaan terhadap pihak pengurusan. Secara keseluruhannya, penemuan kajian ini membuktikan bahawa beberapa tindakan pengawalseliaan yang mengikut kriteria satu saiz muat semua mungkin mengakibatkan kerosakan kepada firma yang memerlukan jenis pengarah yang tertentu.

MULTIPLE DIRECTORSHIPS AND FINANCIAL PERFORMANCE OF MALAYSIAN PUBLIC LISTED FIRMS: DO ROLES AND DEDICATION OF DIRECTORS MATTER?

ABSTRACT

Motivated by the inconclusive evidence on multiple directorships and a close look at the literature reveals that the concern about multiple directorships is not necessarily about the number of board seats of individual directors. This study examines the characteristics of the directors having multiple directorships and the effects on firm performance using a sample of 4,964 observations from non-financial firms listed on the main market of the Bursa Malaysia from 2009 to 2015. The empirical results using the system GMM estimation technique for dynamic panel data model suggest that a greater proportion of board members with multiple directorships, at least on average, will reduce both accounting-based financial performance and the market-based financial performance. However, the impact of multiple directorships on firm financial performance is affected by the executive role, monitoring role and advisory role of these directors. This study finds that directors who hold multiple directorships are better in performing executive role and advisory role and hence, will alleviate the negative impact of multiple directorships on firm financial performance. This finding supports the "reputation hypothesis" and "quality hypothesis", which suggest that individuals holding multiple board seats are likely to be high-quality executives and advisors. On the other hand, this study also discovers that directors who hold multiple directorships are weaker in performing monitoring role and hence, will exacerbate the negative impact of multiple directorships on firm

financial performance. This finding supports the "busyness hypothesis", which predicts that board members who hold multiple board seats may compromise on monitoring functions and hence, less effective in managerial oversight. Overall, the findings of this study provide evidence that the one-size-fits-all criteria of some regulatory actions may cause damage to firms that need a specific type of directors.

CHAPTER 1

INTRODUCTION

1.0 Introduction

This chapter provides background information for the study and describes the purpose of the research. It also explains the underlying theories and assumptions which are made throughout this study. In addition, this chapter identifies the objectives and questions of the study as well as provides justifications to perform this study and its expected contributions. The outline of the entire study is also included at the end of this chapter.

1.1 Background of the Study

Multiple directorships are very common in Malaysia, more than 50% of the board members of publicly listed companies hold at least one additional directorship in other firms (Hashim & Abdul Rahman, 2006; Kamardin & Haron, 2011). When a director serves on two or more boards of directors, such an individual is known as interlocked director or multiple director (John, 2000; Fich & Shivdasani, 2007). Though, in order to perform their duties effectively, company directors are expected to allocate adequate time to the company (Securities Commission Malaysia, 2011). Thus, proponents of "busyness hypothesis" criticise that directors who sit on multiple boards are unlikely to put sufficient time and effort in performing their board role to monitor the management actions. In contrast, proponents of "quality hypothesis" suggest that directors who hold multiple directorships might possess a better knowledge and have more resources than ordinary directors. It is argued that these directors are able to share valuable information and expertise gained from their appointments on other boards, although they are required to serve more than one entity.

Academically, the influence of multiple directorships on performance of the firm is actually a corporate governance issue. Beginning in the late 1990s, monitoring role of boards of directors has been extensively studied and has received growing attention by the media and public (Brick & Chidambaran, 2010). Consistent with the agency theory, the possible prescribed remedy to reduce the agency costs is to separate the executive functions from the control mechanisms (Fama & Jensen, 1983b). Meanwhile, numerous management, accounting and finance research projects have explored the impacts of corporate governance on corporate performance (Akbar, Poletti-Hughes, El-Faitouri, & Sha, 2016). However, prior studies on corporate governance are mainly connected to the negative effect of agency costs. They have identified several internal corporate governance control measures such as the independent board and audit committee which are devised to reduce the agency problems prompted by the separation of managerial rights and ownership (Wang, Jin, & Yang, 2015).

In contrary to the control mechanisms which are imposed to mitigate agency costs, the composition of board members who hold multiple directorships could be a detrimental corporate governance matter. The main concern is the maximum number of seats for an individual director on multiple boards. It is argued that board members who hold multiple directorships could be overcommitted and hence, fail to perform their duty to monitor company management effectively. Consequently, Malaysia and several other nations including Singapore, India and South Korea, have formally enacted restrictions on the maximum number of multiple board seats permitted for each director (Sarkar & Sarkar, 2009).

As a result of corporate governance reform, the restriction was imposed on the number of multiple board seats for individual directors. However, the enormous empirical studies fail to provide consistent results on the association between multiple directorships and firm financial performance. Thus, it is doubtful whether multiple directorships are a first-order determinant for the poor firm financial performance. This study supplements the extant literature by revisiting the association between multiple directorships and firm financial performance. The literature has highlighted that the concern about multiple directorships is not necessarily about the number of multiple directorships and has proposed to examine the characteristics of the directors having multiple directorships (Kamardin, Latif, Mohd, & Adam, 2014). Therefore, while examining the direct relationship between multiple directorships and firm financial performance, this study attempt to explore four characteristics of multiple directorships to apprehend how these characteristics may affect the relationship between multiple directorships and firm financial performance.

These characteristics are executive role, monitoring role, advisory role and dedication of directors who hold multiple directorships. The method of analysis of this study allows the separation between the individual effect of a higher proportion of multiple directorships and the moderating effect of roles and dedication of directors on firm performance. The similar method of analysis was adopted by Shiah-Hou and Cheng (2012) to explore how management experience of directors moderates the relationship between the proportion of outside directors and firm performance through effective monitoring and advising roles.

1.1.1 Role of Directors in Corporate Governance

Over the years, Malaysia's corporate governance framework was continuously strengthened through enhancements to securities and companies laws, and regulations focusing on protecting the interests of investors. The responsibilities of boards and audit committees were also augmented following the corporate governance reform. In order to ensure that boards of directors fulfil their fiduciary duties and strategic responsibilities, the Malaysian Code on Corporate Governance (MCCG) listed the 6 specific responsibilities of the boards in the Table 1.1. In short, boards of directors are responsible to review and develop strategies, to oversee the conduct and succession planning of the management as well as to identify potential risks of the company.

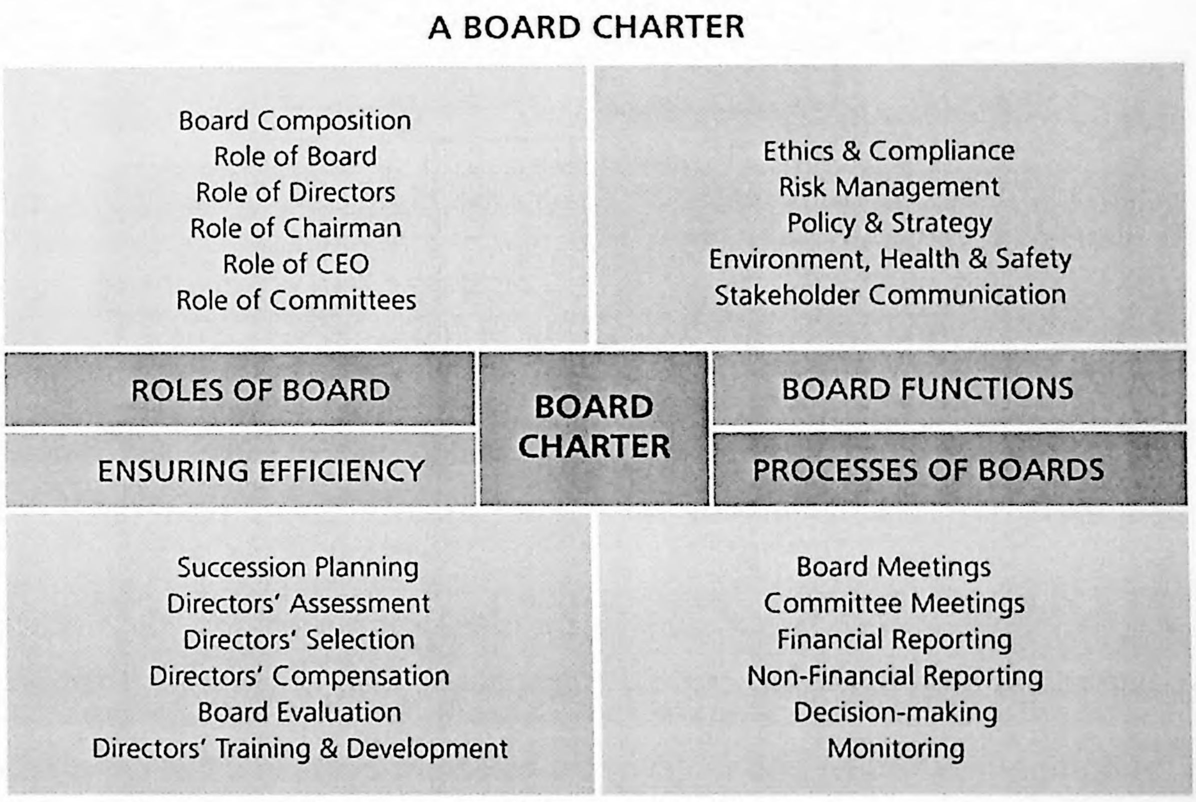
Table 1.1
Specific Responsibilities of the Boards of Directors

1.	Reviewing and adopting a strategic plan for the company;
2.	Overseeing the conduct of the company's business to evaluate whether the business is being properly managed;
3.	Identifying the principal risks and ensuring the implementation of appropriate systems to manage these risks;
4.	Succession planning, including appointing, training, fixing the compensation of and where appropriate, replacing senior management;
5.	Developing and implementing an investor relations programme or shareholder communications policy for the company; and
6.	Reviewing the adequacy and the integrity of the company's internal control systems and information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

Source: Corporate Governance Blueprint (2011)

Ideally, the boards should combine a range of skills, experience and personalities which promotes a balanced and informed decision making at board meetings and secures the necessary level of challenge and insight to enhance executive performance.

Driven in part by financial crises and corporate scandals, owners and the public are demanding the boards of directors for greater accountability on a wider range of issues. Given the expanding roles and responsibilities, boards are required to set out their strategic intent, outlining their various functions and responsibilities. As a result, Securities Commission Malaysia (2011) recommends the boards to adopt a formal board charter, as presented in Figure 1.1 to disclose the division of responsibilities and powers between the board, board committees, chairman and CEO. The board charter highlights that the roles of board comprise the role of directors and role of committees which are included in this study. In addition, the board charter also states that board meeting is an element within the processes of boards, which is included in this study to measure the dedication of directors to the firm.



Source: Corporate Governance Blueprint (2011)
Figure 1.1 Board Charter

Figure 1.2 shows the types of directors in Malaysian public listed firms. The respective duties of directors depend on the types of appointment to the board and the needs of the company. Typically, board composition consists of two types of directors, namely executive directors and non-executive directors. A non-executive director can be independent or non-independent.

The executive directors are holding the executive powers and running the company's day-to-day operations. On the other hand, non-executive directors are not performing the executive functions, however, they are expected to bring a wide and varied experience and expertise to the company because most of them are currently occupied or have occupied senior positions in industry and profession.

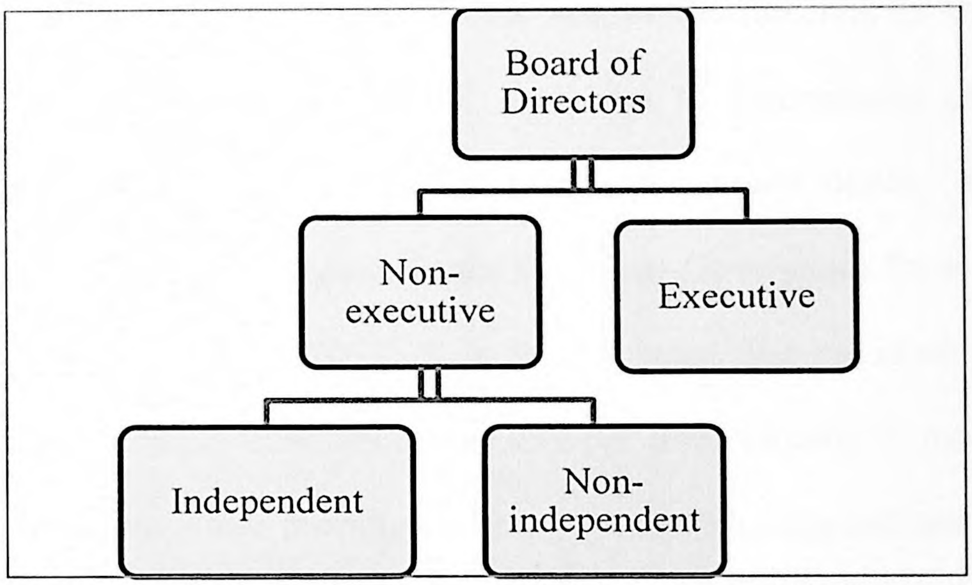


Figure 1.2 Types of directors in Malaysian public listed firms

An independent director is not an executive and free from any business relationship which could affect the independent judgement for the best interest of the company. In order to be independent, a director must not hold the executive position within the last 2 years in the listed company or any related corporation of such listed company. In addition, the independent director should not hold substantial shares of the listed company (Bursa Malaysia, 2013).

While the regulatory standards provide an objective definition of independence, the board of directors is required to establish a set of criteria for the assessment of independent directors. Although the independent directors are mainly responsible to monitor the decisions and activities of managers, they also provide a different perspective and independent view to the board. In other words, independent directors are playing a dual role in monitoring management to protect the interest of shareholders and other stakeholders as well as to advise managers on the corporate strategies.

1.1.2 Dedication of Directors in Corporate Governance

Board meetings are structured to allow open discussion. Given that the dedication required to fulfil the role of the directors is significant, attendance at board meetings serves as a vital sign to demonstrate directors' willingness to dedicate time resources to perform their board duties. As an example of time commitment of directors, in the Corporate Governance Statement of Gamuda Berhad (Gamuda Berhad, 2009), it is clearly stated that the minimum time expected of a non-executive directors is one day per three months to attend the board meetings, board committee meetings, Annual General Meeting and site visits.

Table 1.2 shows the attendance at the board meetings and board committee meetings during the year which is included in the Statement of Corporate Governance of Gamuda Berhad in 2009. It disclosed that all directors attended at least 3 out of 4 meetings during the year which could be considered as an evidence for their dedication to the company. According to the directors' profile, Tan Sri Dato' Ir Talha bin Haji Mohd Hashim is a member on the boards of Hume Industries (Malaysia) Berhad, Sapura Technology Berhad, Sunway City Berhad, Phillip Mutual Berhad, APP Industries Berhad and Universal Trustee (Malaysia) Berhad. Despite other commitments, he attended all board meetings during the year. This could be an indication that he is dedicated to the firm regardless of the number of outside directorships.

Table 1.2
Attendance of the Directors at Board and Committee meetings during the year

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings held	4	4	1	1
Number of meetings attended:				
Tan Sri Dato' Ir Talha bin Haji Mohd	4	-	1	1
Dato' Lin Yun Ling	4	-	1	-
Tan Sri Dato' Mohd Ramli bin Kushairi	3	4	-	1
Tan Sri Dato' Seri Dr Haji Zainul Ariff	3	-	-	-
Raja Dato' Seri Eleena binti Raja Azlan	3	-	-	-
Raja Dato' Seri Abdul Aziz bin Raja	4	4	1	-
Dato' Seri Ir Kamarul Zaman bin Mohd	3	-	-	-
Dato' Haji Azmi bin Mat Nor	4	-	-	-
Dato' Ir Ha Tiing Tai	4	-	-	-
Dato' Goon Heng Wah	4	-	-	-
Mr Ng Kee Leen*	4	2	-	-
Ms Wong Chin Yen	4	4	-	1
Mr Saw Wah Theng	4	-	-	-
Ir Chow Chee Wah, Alternate to Dato'	4	-	-	-

Note: - Indicates inapplicability, where a director is not a member of the committee.
* Mr Ng Kee Leen resigned from the Audit Committee on 17 December 2008.

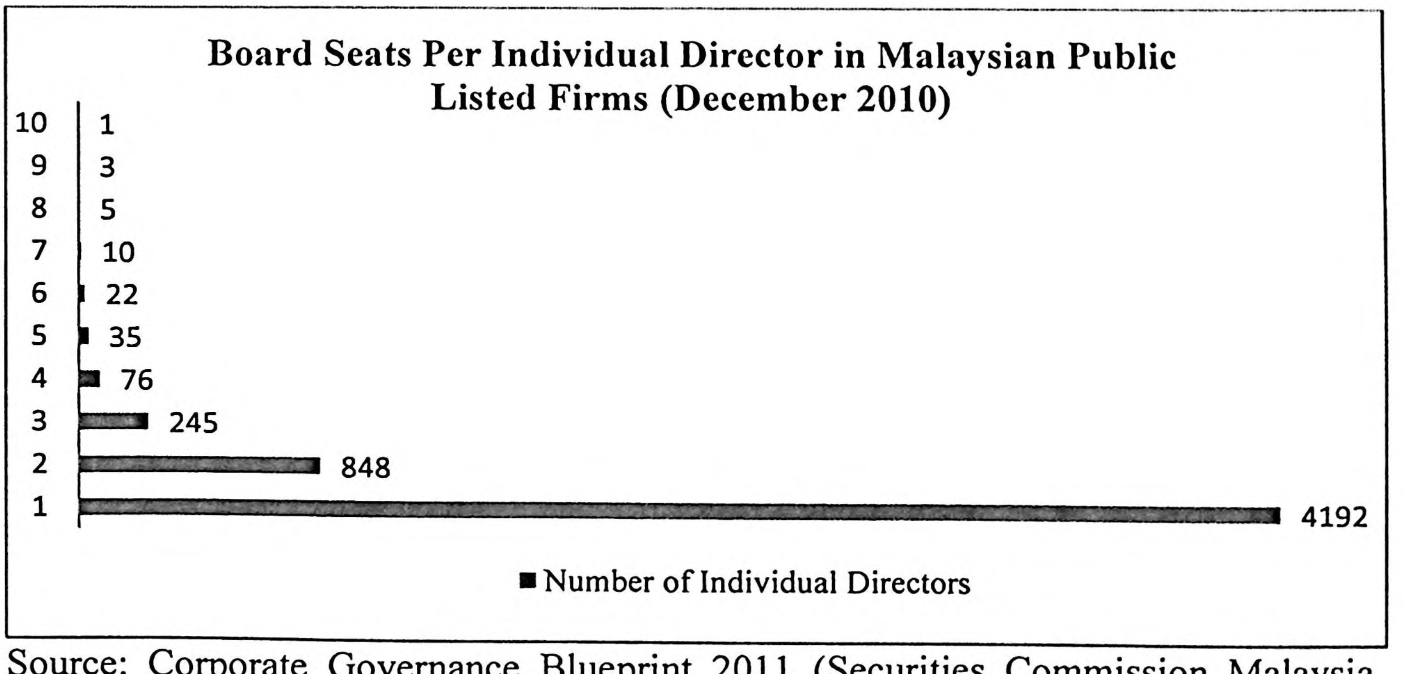
Source: Corporate Governance Statement, Gamuda Berhad, 2009

1.2 Multiple Directorships in Malaysian Listed Companies

Multiple directorships are more common among independent directors in Malaysian listed companies. As an example of a director who holds multiple directorship, YM Raja Dato' Seri Abdul Aziz bin Raja Salim was an independent director of 10 Malaysian listed companies in 2009. He is a Chartered Accountant and also an Honorary Fellow Member of the Chartered Tax Institute of Malaysia, the Chartered Association of Certified Accountants UK, the Chartered Institute of Management Accountants UK and Member of the Malaysian Institute of Accountants. Concurrently, he held directorships in Jerneh Asia Berhad, K and N Kenanga Holdings Berhad, Gamuda Berhad, PPB Group Berhad, Southern Steel

Berhad, Hong Leong Industries Berhad, Amanah Saham Mara Berhad, Jerneh Insurance Berhad, Kenanga Fund Management Berhad and Kenanga Investment Bank Berhad. Undoubtedly, the director's profile indicates that he is able to be more transparent in making decisions and make comparisons based on his knowledge and experience of the best board practices gained from other firms.

Figure 1.3 shows the number of board seats per individual director in Malaysian public listed firms in December 2010. From the statistics, it shows that 1,245 individual directors are holding more than one board seat in Malaysian listed companies while they are expected to allocate sufficient time to the board in order to perform their duties effectively. Therefore, according to the Corporate Governance Blueprint 2011, the multiple directorships in listed companies need to be addressed because over committed directors with multiple directorships are likely to compromise their ability to devote sufficient time to their duties. Overall, it is essential that the board comprises the right mix of members to ensure the board effectiveness.



Source: Corporate Governance Blueprint 2011 (Securities Commission Malaysia, 2011)

Figure 1.3 Number of board seats per individual director in Malaysian public listed firms

1.3 Scope of the study

The scope of this study is multiple directorships of directors in the Malaysian listed companies, particularly the main market of Bursa Malaysia from 2009 to 2015. There are several reasons for this scope setting.

First, all the Malaysian listed companies are required to release annual reports which contain the corporate governance statement, directors' profile, corporate structure, board committees and financial information. Therefore, this study is able to extract data related to individual directors and their involvement in various board committees and board meetings. For example, the Corporate Governance Statement of Gamuda Berhad discloses that the board is assisted in carrying out its responsibilities by the Audit, Remuneration and Nomination Committees. It is clearly stated that the board delegates to the Audit Committee the review of the effectiveness of the group's internal controls and risk management systems. In this study, the proxy of the monitoring role is membership in Audit, Remuneration and Nomination Committees as well as other committees with similar functions.

Second, one of the most far-reaching changes in the Malaysian market structure took effect on 3 August 2009, when Bursa Malaysia's Main Board and Second Board merged into a single board to form the Main Market. Between mid-2007 and early 2009, the global financial crisis, also known as 2008 financial crisis affected the global financial markets and banking systems as a result of a major collapse of the US sub-prime mortgage market and the reversal of the housing boom in other industrialised economies. Subsequently in 2009, Bursa Malaysia also enhanced the standards of corporate governance among Malaysian listed companies. This study only focus on the Malaysian listed companies excluding financial institutions on the Main Market between 2009 and 2015. Therefore, the negative impacts of 2008 financial crisis are minimised, and the selected samples are after the enhancement of corporate governance standards in Malaysia. Lastly, it was reported that FTSE Bursa Malaysia KLCI index increased from 1,272.78 points on 31 December 2009 to 1,692.51 points on 31 December 2015. It indicates that Malaysian economy was not subject to major global economic impact during the period of study.

1.4 Motivation of the study

Multiple directorships have captured much attention due to the perception that busyness of directors is detrimental to the monitoring capability of the board and its committees. Moreover, directors need to spend more time to perform their increased duties due to new regulations, intense public scrutiny and the possibility of being sued. A survey conducted by the National Association of Corporate Directors (NACD) found that a director of United States listed companies spends an average of 227.5 hours on board-related matters in 2012, which is greater than 210 hours devoted to perform board duties in 2006 (Fernández Méndez, Pathan, and Arrondo García, 2015). Consistent with the increase in time commitment of directors, the capital market regulators in most jurisdictions, including Malaysia are constraining the number of external directorships.

Multiple directorships become a cause for concern where the individual directors are over committed while they are expected to devote adequate time and resources to their oversight responsibilities. It has been documented that multiple directorships can increase the agency cost. In contrast, it has been argued that individual directors who are appointed into multiple boards of companies provide the benefit of diverse experience that impacts positively on their individual performance and that of the respective boards on which they serve.

In almost all instances, researchers analyse the cost of over commitment and benefit of diverse experience separately. Therefore, in order to explain the cost and benefit of multiple directorships, there is a need to integrate these two perspectives to explain the effect of multiple directorships on firm performance.

1.5 Problem Statement

The boards of directors have been accused for failure to monitor the management in high-profile corporate scandals such as WorldCom and Enron (Lin, Yeh, & Yang, 2013). Among the public listed companies in Malaysia, the monitoring role is highly emphasised because the concentrated ownership requires greater management oversight to protect the minority shareholders as well as the public interests (Kamardin & Haron, 2011). The concentrated ownership is linked to the dominant power of families and creates Type II agency conflict between controlling and minority shareholders (Lim, How, & Verhoeven, 2014; Rahmat, Amin, & Saleh, 2018). Therefore, outside directors are expected to monitor the majority shareholders who serve as executives and managers (Fama & Jensen, 1983b). However, outside directors who hold multiple directorships are found to be common among Malaysian listed firms (Haniffa & Cooke, 2002; Latif, Kamardin, Nisham, Mohd, & Adam, 2013), which might impose a risk to the effectiveness of their monitoring role.

According to the "busyness hypothesis", board of directors may become increasingly constrained and ineffective in performing monitoring role when board members accumulate more directorships, the situation is more severe if the majority of the outside directors are over committed (Fich & Shivdasani, 2006). It is further supported by Santos, da Silveira, and Barros (2012) that firm value is negatively affected when a majority of outside directors serve on three or more boards of other companies. The negative effect of busy board members appear to be more pronounced in firms that are suffering from larger agency costs (Type I agency conflict) when directors are not been able to monitor managers effectively (Jiraporn, Kim, & Davidson, 2008). It is also argued that directors who hold multiple directorships are not effective in monitoring the managers because they are unable to allocate sufficient time to each company (Balsmeier, Buchwald, & Zimmermann, 2011). More recently, Ferris, Jayaraman, and Liao (2018) also found that busy board negatively affects market-to-book ratios and profitability when a majority of independent directors have seats in three or more boards of directors. It is also found that the Malaysian listed companies contain a higher percentage of busy boards than firms in Hong Kong, Singapore and China (Tan, Kamarudin, Noordin, & Rahim, 2018).

As a result, there is increasing concern that over-committed directors are not effective to carry out monitoring role and hence, more stringent restriction on multiple directorships among public listed companies has been imposed by the Bursa Malaysia.

1.5.1 More Stringent Restriction on Multiple Directorships

According to the good corporate governance practices in the latest MCCG 2017, the appointments of directors should follow an objective criterion, merit and with due regard for diversity in skills, experience, age, cultural background and gender. In addition, at least half of the board members must be independent directors and the tenure of an independent director should not exceed a cumulative term limit of nine years (Securities Commission Malaysia, 2017). As a result, much attention has been focused to investigate the impact of corporate governance mechanisms on firm performance. The restriction on board seats for individual directors is among those corporate governance mechanisms which are imposed by the market regulators.

Specifically, good corporate governance practices discourage multiple directorships due to the perception of poor monitoring when the directors are holding more outside directorships. According to the previous listing requirements of Bursa Malaysia in 2006, a director was allowed to hold not more than 10 board seats in public listed companies (Bursa Malaysia, 2006). However, Bursa Malaysia changed its regulations in 2012 to further restrict multiple directorships and thereafter, a director is not allowed to hold more than 5 directorships in listed companies (Bursa Malaysia, 2013). It is also recommended by the MCCG 2012 where the board of directors must define its expectations on the allocation of time as well as the procedures to accept other board seats for the board members. In the latest development of corporate governance in Malaysia, MCCG 2017 requires the board charter to outline the commitment, roles and responsibilities which are expected from individual directors.

In Singapore, the SGX's Code of Corporate Governance states that a person holding multiple directorships must ensure that adequate time is allocated to the affairs of each firm (SGX, 2012). Similarly, the UK Corporate Governance Code only allows executive director to accept one outside non-executive directorship, but not chairmanship in another FTSE 100 firm (Financial Reporting Council, 2012). In Europe, the code of corporate best practices in Germany and France sets the maximum number of multiple directorships to three seats and four seats, respectively. However, the corporate governance codes in Italy and Spain allow the freedom to self-regulate the limits of board seats for each director (Crespí-Cladera & Pascual-Fuster, 2015).

A question arises on whether the capital market regulations can bring superior firm performance to all Malaysian listed companies which are not homogeneous. If a corporate governance regulation is expected to yield some measurable benefit to firms, then a positive relationship should exist between these regulations and firm performance. However, Bursa Malaysia imposes a restriction on the number of multiple directorships based on the perception of poor monitoring of multiple directorships although the actual cost and benefit of outside directorships are still unclear.

1.5.2 Restriction on Multiple Directorships and Inconclusive Evidence

In order to maximise its board effectiveness, a firm should determine its board composition according to its specific characteristics, however, the capital market regulation as an external corporate governance mechanism may be a burden to the firm. In Malaysia, there are limited empirical studies to examine the effectiveness of directors who hold multiple directorships in performing their board roles, which may partly be attributed to the difficulty in accessing the data (Haniffa & Hudaib, 2006).

After more stringent regulations on multiple directorships, there is a growing body of literature that recognises the importance of the study. Given that busy boards are generally associated with inferior monitoring role, the existing literature focus on the effectiveness of directors who hold multiple directorships to discharge their responsibilities (Latif et al., 2013).

In contrast, it is argued that multiple directorships are able to promote cooperation, better allocation of resources as well as sharing of information and knowledge to reduce business risk (Watkins-Fassler, Fernández-Pérez, & Rodríguez-Ariza, 2016). In a more uncertain business environmental, it was found that the sales growth and return on equity are better for firms with a higher number of multiple directorships (Boyd, 1990). Ferris et al. (2003) found that these directors also serve on various board committees and they are not linked to more occurrence of securities fraud litigation.

Despite the negative perception of multiple directorships by the policy makers, Saidin, Malek, and Saidin (2013) found that multiple directorships actually benefit shareholders by enhancing the firm performance based on the data of 741 listed companies on Bursa Malaysia in 2007. A recent study for public listed firms in the stock market of Istanbul also documented that busy board does not affect firm performance (Arioğlu & Kaya, 2015).

The inconclusive results in the literature might due to several shortcomings in the prior studies. First, most studies in multiple directorships attempt to find the direct link between multiple directorships and firm performance, but their conclusions are drawn primarily by counting the board seats held by individual directors. Second, the corporate governance studies in Malaysia are largely rooted on the agency theory because it is essential for the board of directors to monitor managers (Type I agency conflict) and major shareholders in the concentrated ownership and family-owned firms (Type II agency conflict). Third, prior studies measured the proxy for multiple directorships based on the average directorships of individual directors on the board which may not represent the board role collectively.

Motivated by the inconclusive evidence on the multiple directorships and the capital market regulation is not fully supported by the literature, this study examines whether the roles and dedication of directors affect the link between multiple directorships and firm performance. The single-minded effort to restrict the multiple directorships for an individual director is a critical issue, particularly for the attention of investor groups who are more concerned about firm financial performance.

1.5.3 Potential Changes to the Limit and Types of Multiple Directorships

Although the maximum number of multiple directorships is imposed, there are significant differences in the capital market regulations on multiple directorships in different countries. In Malaysia, the restriction is imposed on all types of directorships. However, in United Kingdom, the restriction is only applicable to non-executive directorship or chairmanship in another FTSE 100 firms. This indicates the differentiation between the functions of executive and non-executive directors. Moreover, in Germany and France, the maximum number of multiple directorships is three seats compared to a maximum number of five directorships allowed by Bursa Malaysia. The number of directorships allowed for companies in Malaysia is also higher than the United States because a director holding three or more multiple directorships is often considered as the "busy directors" (Ferris et al., 2003). In Singapore, the restriction is determined by the board and disclose in the annual report. The Securities and Exchange Board of India (SEBI) had stipulated that a person can serve as an independent director on the boards of a maximum of 7 listed companies and a maximum of 3 listed companies in case he or she is also holding a full time directorship position.

Based on the above discussions, the maximum number of multiple directorships is not consistent in various countries and hence, the capital market regulators might change the limit in future depending on the socio-political environment in Malaysia, or whether the restriction should be imposed according to the types of directors.

1.6 Research Objectives

The primary objective of this study is to revisit the association between multiple directorships and firm financial performance. Furthermore, this study aims to uncover the potential reasons for the inconclusive findings in the existing literature. Therefore, the following research objectives are included in this study.

(1) To investigate the relationship between multiple directorships and firm performance.

(2) To examine whether executive role of directors affects the relationship between multiple directorships and firm performance.

(3) To examine whether monitoring role of directors affects the relationship between multiple directorships and firm performance.

(4) To examine whether advisory role of directors affects the relationship between multiple directorships and firm performance.

(5) To examine whether dedication of directors affects the relationship between multiple directorships and firm performance.

1.7 Research Questions

This study will address the following research questions:

(1) What is the relationship between multiple directorships and firm performance?

(2) Does the executive role of directors affect the relationship between multiple directorships and firm performance?

(3) Does the monitoring role of directors affect the relationship between multiple directorships and firm performance?

(4) Does the advisory role of directors affect the relationship between multiple directorships and firm performance?

(5) Does the dedication of directors affect the relationship between multiple directorships and firm performance?

1.8 Significance of Study

In the past, extensive research has been carried out on the relationship between board attributes such as multiple directorships, on firm performance. However, no single study exists which examines the interaction effect of roles and dedication of directors on the relationship between multiple directorships and firm performance. Thus, this study highlights the need to consider the different roles and dedication of directors who hold multiple directorships when examining multiple directorships on firm performance.

In addition, research studies related to the board of directors can contribute to the current normative debate about the recommended best practice of corporate governance (Kiel & Nicholson, 2003). This study supplements the existing literature related to the relationship between multiple directorships and firm performance by specifically examines the demands for the executive role, monitoring role, advising role and dedication of directors. The findings of this study can be extended to any future studies related to the perception of 'crony capitalism', 'class consolidation' and 'elite capitalist integration' in the Malaysian business environment (Saidin et al., 2013).

1.8.1 Theoretical Contribution

Research on the multiple directorships has been mostly limited to two different hypotheses. The "busyness hypothesis" which is based on the agency theory suggests that directors who hold many outside seats will harm the firm value due to their busyness with other board engagements. In contrast, based on the resource dependency theory, the "reputation hypothesis" and "quality hypothesis" suggest that some directors are attractive to many firms due to their personal qualities and resources. Therefore, these directors tend to receive more invitations to join multiple boards because their appointments will improve firm value. However, there is no consensus in the extant literature that busy directors offer better quality service to a firm. Thus, it is necessary to further investigate how busyness and quality of directors can influence firm performance. Therefore, this study can provide further evidence to the agency theory and resource dependency theory to explain the influence of multiple directorships on the firm financial performance.

1.8.2 Practical Issues

This study clarifies some issues related to directors who hold multiple directorships and firm performance. This study suggests that multiple directorships affect the firm performance through the effectiveness of directors in performing their role as well as their dedication of time to the firm. The results of this study will provide further justification for policy makers to form their opinion whether to restrict or change the limit of directorships held by individual directors. Although the restriction might be needed, the policy makers will be able to differentiate the contribution of multiple directorships from a different perspective. The policy can be enhanced by considering the roles and dedication of directors because executive, non-executive and independent directors are performing different board functions in corporate governance. Moreover, the nomination committee is responsible to nominate board members for election by shareholders at the general meeting. Thus, the composition and performance of the board are largely depending on the effectiveness of the nomination committee. Eventually, this study provides evidence whether the nomination committees are effective in nominating suitable and competent candidates as board members.

1.9 Definition of Key Terms

The key terms used in this study are listed in the Table 1.3.

Table 1.3
Definition of Key Terms

Term	Definition
Advisory role	The advisory role of directors consists of service, strategic and resource dependency functions.
Busyness hypothesis	The "busyness hypothesis" is based on the agency theory which postulates that directors who hold multiple directorships will harm the firm value due to their busyness with other board engagements.
Dedication	Directors' willingness to dedicate time resources to perform their board duties.
Executive role	The executive role of directors is connected to the executive functions in providing strategic direction and running day-to-day business activities.
Monitoring role	The monitoring role of directors is rooted on the agency theory to monitor actions of agents to ensure their efficiency and to protect principals' interests.
Multiple directorships	Directors sitting on more than one board.
Reputation hypothesis	The "reputation hypothesis" demonstrates that directors who hold multiple directorships can improve the governance efficiency of a company, thereby playing a positive role for corporate performance.
Quality hypothesis	The "quality hypothesis" postulates that the number of multiple directorships can signal a director's reputational capital and can be a proxy for the high director quality.
Type I agency conflict	Agency conflict between managers and shareholders.
Type II agency conflict	Agency conflict between large controlling shareholders and minority shareholders.

1.10 Structure of the Thesis

This research consists of six chapters. Chapter two contains the related literature review on corporate governance, multiple directorships and firm performance. Chapter three introduces the research framework and hypotheses based on the literature review. Chapter four outlines the methodology and research models. Chapter five presents the relevant empirical results and findings from the analyses. Chapter six provides the discussion and conclusion of this study.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter provides a structured review of the existing literature related to corporate governance and boards of directors. Section 2.1 provides an overview of corporate governance and how the corporate governance studies are linked to the roles and dedication of directors. Section 2.2 reflects on the firm performance measures which are commonly used in the corporate governance literature. Section 2.3 discusses the effect of board attributes and multiple directorships on firm performance. Section 2.4 explores the linkage between the executive role of directors and firm performance. Section 2.5 explores the relationship between the monitoring role of directors and firm performance. Section 2.6 discusses the board committees that are established to perform the monitoring role. Section 2.7 explores the relationship between the advisory role of directors and firm performance. Section 2.8 discusses the board committees that are associated with the advisory role of directors. Section 2.9 explores the linkage between the dedication of directors and firm performance. Section 2.10 discusses the capital market reforms in Malaysia. Section 2.11 discusses the relationship between ownership structure and corporate governance in Malaysia. Section 2.12 provides a summary of this chapter.

2.1 Corporate Governance and Boards of Directors

Corporate governance is defined as a process through which firms are guided and managed (Financial Reporting Council, 2012). It is important to install good corporate governance mechanisms in order to facilitate effective, entrepreneurial and prudent management for long-term success of any firm.

Board of directors is the central part of corporate law and corporate governance mechanisms. In fact, members of the board are appointed by the owners of the company and are acting like agents. They hold the duties to oversight the management team on behalf of the shareholders. Thus, strong internal corporate governance depends on an effective role performed by board members. However, the effectiveness of the board might be influenced by many factors which include the composition of board members, tenure of independent audit committee members and board members with multiple directorships (Sharma & Iselin, 2012).

In a comprehensive structured review on board of directors, Zahra and Pearce II (1989) identified four distinctive theoretical viewpoints concerning the functions connected to boards of directors. These perspectives provide four different views on how board attributes and board roles can influence firm performance. Board attributes include composition, characteristics, structure, and process of the board of directors. It was discovered that particular connections exist among these attributes and defined service, strategy, and control roles for the board of directors (Zahra & Pearce II, 1989). Therefore, it is necessary to investigate board composition, characteristics, structure and processes for research related to corporate governance.

The owners of the firm are shareholders, but they are not managing the daily operations of the firm. Instead, directors are responsible for corporate governance and they are appointed into board of directors by shareholders. Principles of corporate governance prescribe specifically what board of directors really does as well as how it establishes the firm values. Basically, the duties of the board of