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Board of Directors' Busyness Following Multiple Appointments and Firm Performance of Indian Listed Firms

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ABSTRACT

The effective corporate governance leads to economic value growth. Its efficacy depends on the board of directors' nature to a large extent. The literature indicates on the features of busy directors' focuses on two grounds mainly the reputation and the busyness. We found limited research establishing the relationship between firm's value creation and the directors' busyness.
The study attempts, to provide additional evidence by using multivariate regression method on the value of busy board of directors by examining their influence on wealth gains in firm performance. Additional motivation for this study appears from the fact that majority of study on busyness of director appears from US firms.
Thus, by using new data set from BSE-500 and adding different type of busyness and using board of directors as unit of analysis this study adds significantly to the literature.
The result indicates positive impact of busyness in most of the performance measure of the firm.

Keywords
Busyness of board of directors, Corporate governance, board of director, Indian firm, Firm performance.

Introduction

The eminence of outside directors contributes in value creation. [Fama (1980)and Fama and Jensen (1983)]. The research supports inclination of effective firm performance by adding outside directors in board. [Ferris, Jagannathan, and Pritchard (2003) and Fich and Shivdasani (2006)]. Similarly, Harris and Shimizu (2004) manifest the shareholders' wealth elevation with multiple directorships.
However, other recent studies suggest that outside directors with multiple directorships participate not as much as active directors in both the board functions supervisory and operational which affects adversely in wealth creation for shareholders. Just the opposite, there is a high probability of such directors involved in financial fraud while being associated in their operational functions. [Beasley (1996)] and with a profligate compensation to CEO [Core, Holthausen, and Larcker (1999)], and it has negative relationship with firm performance [Fich and Shivdasani (2006)]. The deliberation on two important features viz. the reputation and busyness [Ferris, Jagannathan, and Pritchard (2003)], there is enough scope for research checking over the relationship between shareholder value creation and the characteristics of individual busy outside directors. [Agrawal and Knoeber (2001)] propound the importance of politically skilful directors on the boards where politics prevail in the system. [Defond, Hann, and Hu (2005)] report that finance proficiency being part of audit committee plays favourable role in firm's value creation. [Fich (2005)] finds a positive response by shareholders on appointment of CEOs of other firms as a director in the organization. It is promising to designate someone as a director having exposure of manifold profession and have leverage on firm performance. Thus, it shows a relationship between busyness of outside directors and business value.
I this paper we will make an effort to examine the features of directors' busyness and their impact on firm value creation by coverage of additional evidence on theme.

Literature Review

[Fama (1980)] and [Fama and Jensen (1983)] observe that directors of successful firms enjoy high probability to secure additional directorship in labor efficient market. [Ferris, Jagannathan, and Pritchard (2003)] and [Fich and Shivdasani (2006)] through
empirical observation established the quality of a director being considered superior on the basis of their multiple directorship. It further investigates their inclusion in the board and firm's growth using different framework. It has become a paradigm to value a director on the basis of the number of directorships he/she holds [Shivdasani (1993)] and [Vafeas (1999)]. However, different perspective, such as [Beasley (1996)], [Core, Holthausen, and Larcker (1999)], and [Fich and Shivdasani (2006)], contends on adverse impact of multiple directorships on their effectiveness in supervisory & operational functions of the business and consequently results underperformance.
Heretofore, the deliberation was more focused as to how to value busy directors considering their multiple directorship
Theretofore, the assessment of busy outside directors was based on manifold directorship positions hold by them. We examined unmapped impacts of specificities of busy outside directors on firm value creation. They have different

expertise or exposures of distinct industries & their job profile in the specific domain. The director who gained experience in alike industry will have different implications from those who been working in diverse sectors. [Ferris, Jagannathan, Pritchard (2003)] The study shows that directors with diverse exposure of multifarious business sectors and profiles bring additional value in firm's performance. If outside directorships provide directors with valuable knowledge and information on different management skills and business network contacts [see, for examples, [Mace (1986), Rosenstein and Wyatt (1994)], [Booth and Deli (1996)], [Carpenter and Westphal (2001) and Loderer and Peyer (2002)].

The directorship with the big size companies are in more demand for additional directors' position. [Ferris, Jagannathan, and Pritchard (2003)]. The directors with the experience in the large firms of major operationally consulted environment generate wider nexus of all the firms in which they carry out their key functions. In the same manner, [Fama and Jensen (1983)] denote higher proficiency of the directors on the diverse boards. [Kaplan and Reishus (1990)], [Shivdasani (1993)], and [Brickley, Linck, and Coles (1999)] endorse with empirical evidences positively this hypothesis. [Fich (2005)] elucidated favourable attitude for appointment of CEOs of other companies as directors. It valued more for CEO of any S&P firms as a director to harness their skill and valuable network [Cai (2007)]. For this reason, this is to verify whether CEO designated directors' result in superior company outcome. Provided further whether it appreciate value more to outside directs if they have credential of both director and CEO title.

It further examines whether there is any difference between busy the CEO titled outside directors in a company and busy the CEO titled outside directors in a company in a non-top 500 companies of listed cos. at stock exchange?

Additional motivation for this study appears from the fact that majority of study on busyness of director appears from US firms.

Thus, by using new data set from BSE-500 this study adds significantly to the literature also by using busyness of independent director, adds new dimension to the literature.

Research Design

Research question:

The prime exploratory point which this analysis wishes to answer is – How Independent director busyness (multiple board appointment) effects firm performance?

B. Model and Variables

1. Sampling

The sample includes maximum number of firms, more than 250 firms' from Bombay stock exchange-BSE-500 for the year 2012,2013 and 2014 and may be same 250 firms for the year 2010. Simple random selection method is applied to construct sample. We included both the years based on 1. observations in both sample years 2. observations met the data requirements.

a) The Year be of relevance- Introduction of Companies Act 2013 and afterwards major amendment in clause 49 of SEBI changed exceptionally corporate governance and institution of independent directors in last 10 years

b) Justification for the Year 2012 data: The ceiling for directorial positions under old Companies Act 1956 as per section 275 was set twenty taking into account "paucity of high-grade business ability in the country". Under Section 332, managing agent under the managing agency system could occupy maximum ten directorship positions. These provisions were effective till 2012.

c) **Justification for the Year 2010 and 2015 data:** Under the new Companies Act, 2013, the person is allowed to be director of the maximum 20 firms. By adding year 2015, for analysis brings robustness, construct validity [(Campbell and Stanley)1979], and controls heteroskedasticity of the sample.

Variables:

The following variables will be extracted from the balance sheet /annual report of the listed firm.

a) Dependent variable-

Busyness=no. of board appointment of the independent director across various firms.

b) Control Variable-Total assets of the firm from the annual report.

c) Independent Variable-Firm Performance-

The following variable will be extracted from the balance sheet of the firm.

Accounting measure- EPS,ROCE, ROE

Market Measure- P/E, P/BV

Methodology:

A. Multivariate Tests

Wooldridge(2002), for the model-

$Y_{it}=X_{it}\beta + C_{i} + U_{it}$, t=1,2,…….T

Where X_{it} is 1X K matrix and contain variables that change across t but not i, variables that change across I but not t, and variables that change across i and t.

The study uses three OLS, for the year 2005, 2010 and 2015 to thoroughly provide robustness for the result and construct validity [(CAMBELL AND STANLEY,1973)]

Findings and Result:

The descriptive statistics for the year 2005, 2010 and 2015 indicates that the total asset for the year has mean 10095 Rs. Crore (1 crore= 10 million of Indian rupees),Rs . Crore 28046 and Rs. 53223 crores. The committee member ship for the year 2005, 2010 and 2015 indicates mean of 1.45, 1.44 and 1.26. The other companies' directorship for the year 2005, 2010 and 2015 indicates mean of 3.81, 3.94 and 3.36 respectively. The committee chairmanship for the year 2005, 2010 and 2015 indicates mean of 0.54, 0.59 and 0.53 respectively. The accounting measure performance indication EPS for the year 2005, 2010 and 2015 indicates mean of 28, 29 and 24 respectively. The accounting measure performance indication ROCE for the year 2005, 2010 and 2015 indicates mean of 20.18 and 14 respectively. The

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accounting measure performance indication RONW for the year 2005, 2010 and 2015 indicates mean of 22, 20 and 13 respectively. The market measure performance indication P/BV for the year 2005, 2010 and 2015 indicates mean of 3.32,3.38 and 3.47 respectively. The market measure performance indication P/E for the year 2005, 2010 and 2015 indicates mean of 22.43, 22.48 and 23. 08 respectively.

Table-1

2005-Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Total Assets	2687	8.71	146263.23	10095.7264	22813.09187
Other Companies Directorships	2687	0	74	3.81	5.275
No. of Other Companies Committee Memberships	2687	0	20	1.45	2.359
Number of Other Companies Committee Chairmanships	2687	0	12	.54	1.258
EPS	2687	.00	571.87	28.9494	61.28312
ROCE	2687	-.64	311.52	20.0551	24.02305
RONW	2687	-6.24	108.75	22.2438	15.50166
Latest P/E Ratio	2687	.00	162.19	22.4341	21.50259
Latest P/BV	2687	-1.45	21.50	3.3069	3.60773
Valid N (listwise)	2687				

Table-2

2010-Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
[Earnings Per Share-Unit Curr	2758	.00	224.49	29.4426	31.66569
[Total Assets	2758	77.06	347898.54	28016.6182	61997.52747
[ROCE (%)	2758	.00	176.29	18.5354	18.02941
[RONW (%)	2758	-2.88	156.07	20.5027	14.06994
[Latest P/E Ratio(BSE)	2758	.00	162.19	22.3898	21.43335
[Latest P/BV(BSE)	2758	-1.45	21.50	3.3875	3.65139
[No. of Other Companies Directorships	2758	0	84	3.94	5.107
[No. of Other Companies Committee Memberships	2758	0	13	1.44	2.154
[No. of Other Companies Committee Chairmanships	2758	0	16	.59	1.248
Valid N (listwise)	2758				

Table-3

2015-Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
[Earnings Per Share-Unit Curr	2834	.00	222.22	24.4600	32.04043
[Total Assets	2834	195.08	692659.15	53223.5210	123403.10533
[ROCE (%)	2834	-5.37	105.15	14.4782	13.62710
[RONW (%)	2834	-42.53	81.59	13.5606	11.35960
[Latest P/E Ratio(BSE)	2834	.00	162.19	23.0609	23.13475
[Latest P/BV(BSE)	2834	-1.45	21.50	3.4787	3.70051
[No. of Other Companies Directorships	2834	0	45	3.36	4.185
[No. of Other Companies Committee Memberships	2834	0	15	1.26	2.100
[No. of Other Companies Committee Chairmanships	2834	0	25	.53	1.402
Valid N (listwise)	2834				

The regression analysis for the year 2005(table-4) indicates that only the EPS model which means earning per share for the year 2005 was impacted by the other companies' membership, whereas the other busyness variables like committee membership and chairmanship of committee has no impact on the performance variable mainly accounting and market measures.

Table-4

Regression of firm performance on Busyness for the year 2005

Independent Variable	**YEAR 2005** EPS	**YEAR 2005** ROCE	**YEAR 2005** RONW	**YEAR 2005** P/E ratio	**YEAR 2005** P/BV
Intercept	26.473*** (16.417)	22.981*** (37.233)	22.933*** (55.979)	23.883*** (43.066)	3.571*** (38.998)
Control variable					
Total Assets	0.062*** (3.205)	-0.236*** (-12.515)	-0.022 (-1.115)	-0.217*** (-11.498)	-0.269*** (-14.448)
Corporate governance Variable Busyness					
No. of Other Companies Directorships	0.087*** (3.968)	-0.012 (-0.559)	-0.025 (-1.150)	0.033 (1.514)	0.050** (2.348)
No. of Other Companies Committee Memberships of BOD	-0.044* (-1.834)	-0.038 (-1.640)	-0.037 (-1.536)	0.006 (0.251)	-0.008 (-0.336)

Number of Other Companies Committee Chairmanships of BOD	-0.054** (-2.301)	0.035 (1.507)	0.014 (0.608)	0.004 (0.172)	0.035 (1.520)
R^2	0.01	0.05	0.003	0.05	0.08
F	7.631***	40.73***	1.714	35.33***	58.43***
Obsevation	2687	2687	2687	2687	2687
N(firms)	240	240	240	240	240

The regression analysis for the year 2010(table-5) indicates that only the EPS model which means earning per share for the year 2010 was impacted by the other committee membership, whereas the other busyness variables like and chairmanship of committee and companies' membership has no impact on the performance variable mainly accounting measures.

Furthermore, for the year 2010(table-5) indicates that only the P/BV model and P/E model which means market measure for the year 2010 was impacted by the other company membership, whereas the other busyness variables like and chairmanship of committee and committee membership has no impact on the performance variable mainly accounting measures.

Table-5

Regression of firm performance on Busyness for the year 2010

Independent Variable	**YEAR 2010** EPS	**YEAR 2010** ROCE	**YEAR 2010** RONW	**YEAR 2010** P/E ratio	**YEAR 2010** P/BV
Intercept	24.188*** (29.560)	21.41*** (47.06)	21.028*** (56.093)	23.33*** (41.75)	3.685*** (39.325)
Control variable					
Total Assets	0.247*** (13.098)	-0.327*** (-17.764)	-0.072*** (-3.699)	-0.208*** (-10.962)	-0.267*** (-14.270)
Corporate governance Variable Busyness					
No. of Other Companies Directorships	0.030 (1.407)	-0.006 (-0.301)	-0.047** (-2.143)	0.052** (2.395)	0.052** (2.425)
No. of Other Companies Committee Memberships of BOD	0.041* (1.782)	-0.025 (-1.134)	0.057** (2.414)	0.017 (0.754)	-0.012 (-0.510)
Number of Other Companies Committee Chairmanships of BOD	0.008 (0.374)	0.021 (0.995)	-0.014 (-0.598)	-0.003 (-0.133)	0.015 (0.699)
R^2	0.06	0.10	0.007	0.04	0.07
F	48.23***	84.14***	4.51***	35.20***	58.47***
Obsevation	2687	2687	2687	2687	2687
N(firms)	240	240	240	240	240

The regression analysis for the year 2015(table-6) indicates that the EPS model which means earning per share for the year 2015 was negatively impacted by the other committee membership, whereas the other busyness variables like and chairmanship of committee had positive impact and other companies' membership has no impact on the performance variable mainly accounting measures. Also, other companies' membership had positive impact on RONW accounting measure of performance.

Furthermore, for the year 2015(table-6) indicates that all the three variable of busyness had positive impact on market measure P/E model which means market measure for the year 2015 was impacted by the other company membership and the other busyness variables like and chairmanship of committee and committee membership.

Also for the year 2015, other company membership and other companies' directorship had positive impact on market measure P/BV.

Table-6

Regression of firm performance on Busyness for the year 2015

Independent Variable	**YEAR 2015** EPS	**YEAR 2015** ROCE	**YEAR 2015** RONW	**YEAR 2015** P/E ratio	**YEAR 2015** P/BV
Intercept	23.201*** (27.330)	16.20*** (48.00)	13.72*** (45.83)	23.31*** (39.17)	3.66*** (38.65)
Control variable					
Total Assets	0.023 (1.12)	-0.347*** (-19.266)	-0.122*** (-6.441)	-0.217*** (-11.693)	-0.257*** (-13.89)
Corporate governance Variable Busyness					
No. of Other Companies Directorships	0.035 (1.602)	0.004 (0.203)	0.006 (0.257)	0.094*** (4.493)	0.042** (2.01)
No. of Other Companies Committee Memberships of BOD	-0.043** (-1.997)	0.016 (0.776)	0.039* (1.836)	0.037* (1.78)	0.042** (2.004)
Number of Other Companies Committee Chairmanships of BOD	0.072*** (3.520)	0.007 (0.348)	0.030 (1.465)	-0.041** (-2.060)	0.007 (0.377)
R^2	0.007	0.12	0.01	0.06	0.07
F	4.65***	96.95***	13.41***	47.10***	56.00***
Obsevation	2687	2687	2687	2687	2687
N(firms)	240	240	240	240	240

.Conclusion

The Busyness variable (No. of Other Companies Directorships, No. of Other Companies Committee Memberships of BOD and Number of Other Companies Committee Chairmanships of BOD) have both positive and negative impact on performance for the year 2005, 2010 and 2015.

But the busy ness had positive impact for the market measure for the firm performance (P/Bv and P/E) as it signals the positive message to the investors and may increase the market values of the firm.

Policy Implication

The companies' act of 1956 before and companies' act 2015 after have yield positive impact of busyness for the year 2005, 2010 and 2015 respectively.

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