IMPACT OF OVERBOARDED DIRECTORS ON THE FIRM PERFORMANCE: EVIDENCE FROM PAKISTAN

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This study adds to the debate on the costs and benefits of overboarded directors by examining the effect of over-boarded directors on firm performance. Individuals sitting on several boards (or "busy" directors) demonstrate a greater inclination to be absent from board meetings and detrimental for firm performance. This study examines whether holding multiple outside board seats reduces a director's capability to efficiently perform monitoring obligations by using a panel data set covering KSE index 100 firms listed from 2011 to 2014, after regression analysis study find a negative relation between the number of multiple appointments of independent directors and firm value, consistent with the busyness hypothesis. Past researchers argue that overboarded directors shirk their responsibility at the parent firm and are more likely to miss meetings due to extra workload and are less efficient fort the firm. The studies also report that such directors are less loyal to the firms and tend to resign in the bad times of the companies. The results are strong even after controlling for firm-related characteristics. Further study finding supports agency theory, which suggests that outside directors are the better monitors, and advocates that the increased number of outside directors on the board is beneficial for the firm.

Keywords- Firm Performance, Director Busyness, Board Size, CEO Duality, Board Composition, Corporate Governance

I. INTRODUCTION

Corporate governance is a topic which received a large amount of attention. The interest is reflected in a variety of ways, like the discussion about the board room performance and its impact on business, greater newspaper space for debates on reporting issues of corporate governance, increased emphasis on corporate governance codes and increased government regulations to make governance systems more transparent and smooth. This increased attention can also be seen in academic research. In recent years the corporate governance has moved away from the traditional way of being purely internal managerial issue only towards more strategic business imperative and reporting issues regarding the board of directors. This study can be viewed as a further step towards studying the impact of board performance (measured by board Busyness) on firm performance (Ferris et al., 2003; Jiraporn et al., 2008; Fich and Shivdasani, 2006; Bar- Hava et al., 2013).

The corporate world has witnessed the worst economic burst at the start of this decade, raising many critical questions regarding different financial and governance practices. Following the fall of Enron and Lehman Brothers, studies like these have taken place to figure out the possible explanation of this downfall and sudden ripple in the corporate world. Researchers have tried to present a possible explanation by linking this crisis with poor corporate governance. Anecdotal evidence advocates that corporate governance was one of the main reasons for this failure and researchers proposed more effective and efficient ways to govern the corporations in future to reduce the financial inefficiencies. This study aims to provide a better insight into corporate governance roles and will also examine the link between corporate governance with firm performance.

The Board of directors is the hub of policy debate regarding corporate governance transformations to enhance board performance, especially relating to the structure of the board (Kim et al., 2014; Armstrong et al., 2010; Ferris et al., 2003). The financial crisis triggered the need for better governance policies. Corporate governance is a complex system which includes different variables and mechanisms. The study starts with defining the corporate governance and then discusses some related theories of corporate governance along with important mechanisms which can minimise the related problems.

The regulations these days' probe for increased number of contribution by non-executive directors. With the increased demand of non-executives, independent directorships these days have developed the full fledge profession. The dark side is too much busyness and workload due to the holding of multiple board seats. Researchers all around the world have talked about the director busyness due to the time constraint issue. Director busyness is the phenomenon of having less time due to having more workload by having multiple board seats. Developed countries like USA, UK and other European countries have done a lot of research in this field. The developing countries have also discussed this issue and find the significant results in India, China and Sri

Lanka. This thesis aims to bridge the gap between Pakistan and other countries.

The purpose of this study is to contribute to the enduring busyness hypothesis and its relevance with respect to the financial performance of the corporation. The study emphases on the connection between firm performance and directors having multiple board seats. The study is mainly based on agency theory and will test the relationship between firm performance and overboarded directors.1.1.1

If a board of director is serving on multiple boards then the performance of the specific director may decline due to lack of concentration. The director holding multiple board seats are expected to miss more board meetings (Jiraporn, 2009; Fich and Shivdasani,

2006). Jiraporn (2009) finds that the directors having multiple board seats show greater absence from board meetings. This thesis deals with the busy board problem and tries to analyse and present findings which can minimise this problem in the firms of Pakistan.

The study examines the effect of over- boarded directors on firm performance. In developing countries, the corporate governance is not so strong. This study provides suggestions that are likely to enhance board performance by giving recommendations regarding the workload of the board of directors and about governance structure in a Developing country like Pakistan. The study scrutinises the link between board busyness and performance of the firm. Recently a lot of research has been done in Pakistan in the area of board mechanisms (Nazir et al. 2009; Afandyar et al. 2013). This research deals with the board of directors, which is one of the most important board mechanisms.

The objective is to study the effect of overboarded directors on firm performance in Pakistan.

- To determine the influence of outside director on firm performance.
- To examine the effect of board size on company's performance.

The major research question is concerned with the multiple directorships but also focus on some correlated issues. The study also focuses on board composition which deals with the number of executives and non-executives sitting on the board. The study aims to find the relationship of board composition on firm performance. Past researchers present the indistinct results concerning the impact of board composition on board performance (Bhagat and Black, 1999). They study the public companies in America and find no significant relationship between firm performance with board composition. They fail to find any results to support the argument that having "supermajority independent boards" increase firm value. The study aim to answer these questions:

- Does board size has any significant impact on firm performance?
- re the directors having multiple directorships detrimental for the firm performance?
- Is there any impact of board composition on firm performance?

II. LITERATURE REVIEW

Extensive research has been done to figure out whether the market for directors exists in the real world or not. The empirical evidence proposes the presence of a strong market for directors. It is evident from the prior research that the directors are rewarded with the additional board seats for good performance and also get penalised by being deprived from more seat offers following the bad performance in the existing firms (Sarkar and Sarkar (2009); Jiraporn et al., 2009; Fich and Shivdasani, 2003; Ferris et al., 2003; Harris and Shimizu, 2004). The presence of a market for directors indicates that the multiple board seats may depict the director's quality and more board seats are the reward for more knowledge and higher performance (Booth and Deli, 1999; Mizruchi and Stearns, 1994).

Researchers argue that multiple board seats reflect the higher performance of the director and in turn suggest that directors with multiple appointments enhance the firm performance. Haunschild (1993) argue that having more seat offers indicate the higher knowledge and expertise. Pfeffer (1972) suggests that director with multiple board seats can be the source of resource generation by bridging the gap between the firm and outside world.

2.2 Multiple directorships and firm performance

Ferris et al (2003) studied the number of appointments held by the directors sitting on the firms with at least $100 million market capitalization at the beginning of 1995. The sample of 3190 firms was selected to analyse the relation. They find that directors with better reputation have more tendencies to sit on the extra board and tend to become busier. They report the positive effect of having more directorships on firm performance and argue that multiple directorships are beneficial for the firm. They fail to report any evidence in support of the argument that the busy directors shirk their responsibility. The study was primarily based on US firms. They find that the past performance is one of the main contributors in securing the additional board seats. They report the positive correlation between

multiple directors and firm performance. The event study reports that the mere announcement of the appointment of multiple directors has positive abnormal returns. They also report that director with multiple board seats are more probable to sit on audit, nomination and remuneration committees.

Fich and Shivdasani (2006) have used a fixed effects regression model to analyse whether busy boards are effective monitors? They used the market to book ratio for this study and find the negative impact of having multiple directorships. They report that firms having multiple directors on their board have the lower market to book ratio. They also report that the firm has positive abnormal returns when busy director leave the firm. They used the fixed effects regression because this method is more useful to omit the biasness of omitted variables. The fixed effects report the effect of unobservable variables and improve the endogeneity and heteroskedasticity issues. Fich and Shivdasani (2006) also argue that directors having multiple board seats are less loyal to the firm and leave the firm in difficult times.

They find the results contrary to Ferris et al. (2003) Jiraporn et al (2008) investigated the impact of multiple directorships on corporate diversification. The authors used the data of 3605 US firms during the period of 1998-2002 for this study. They find the results contrary to Ferris et al (2003). They find the negative impact of having multiple directorships on their board and support the busyness hypothesis. They find that the firm face adverse effects and lose firm value if they have more outside directors with multiple directorships. They used the Excess value as their dependent variable and used fixed-effects regression model. They used firm size as their control variable (logarithm of total assets) to control for industrial and geographical aspect. They report that the busy directors have an inverse relationship with firm value. They conclude that the directors having multiple appointments are overstretched and fail to add value to the firm due to their divided attention and less monitoring.

2.3 Empirical studies favouring multiple directorships

The evidence for multiple directorship and firm performance is mixed and some of the past researchers favour the busy directors due to their reputational side. Kiel and Nicholson (2006) conducted a study in Australia on the subject of director workloads and multiple directorships. They report that the frequency of overboarded directors in Australian listed companies is little and that many of the ostensible examples of overboarded directors are because of the related bodies, which have shared directors and, due to the nature of these objects, have much reduced job requirements. Further, they fail to find any significant relationship between the busy directors and firms' performance.

The variables of their study were Board size, Workload of the board, board Connectedness, and Weighted TSR. They studied this board busyness on all the listed firms as well as on top 100 companies of Australia. They also studied the phenomenon of multiple directorships within the largest 200 Australian companies and then in separate dataset they also studied the research pattern in other firms which were not in top 300 firms of Australia but were listed in it. They find out the degree of multiple chairs held by chairs of the Top 100 and 200 within and across Australian companies

In addition, regulate if any association happens between the effective assignment of a board and a firm's performance from a perspective of investors. They collected the data of 1326 companies on the ASX as at 30 June 2003. Analysis of the Top 200 companies reveals that the exchange is heavily skewed towards large companies. Similarly, Li, J., & Ang, J. S. (2000) investigated the whether the multiple directorships affects the effectiveness of the directors' capability to achieve mutually daily and exceptional circumstances checking. Data was composed for 1,195 directors that had turned into merger targets in 1989 to 1993.

They talked about the two hypotheses, attention hypothesis and expertise hypothesis. The Attention hypothesis results were director's efficiency is a task of the thoughtfulness which director need to show and its observing should be done by the firm. So outside directorships will split director consideration above all firms hence ending in negligence of their responsibilities. This attention hypothesis is just same like the busyness hypothesis other researchers have discussed. The next hypothesis which is discussed by the name of reputation hypothesis is expertise hypothesis. The Expertise hypothesis highlights qualities of directors that having particular skills will request them to attend on more boards. Empirical findings show that knowledge might be vital in some cases, whereas consideration is not found to be noteworthy. Therefore, the adversative effect on firm performance due to directorships is insignificant.

III. DATA AND METHODOLOGY

Initially, the study will start with the 100 firms listed on Karachi Stock exchange the sample will consist of the non-financial firms listed and included in KSE-index. The sample organises the companies from different public sector corporations. The annual reports of years 2011 to 2014 are examined as most companies recent years annual reports are available .The annual reports are taken from company's official website. Companies first selected were of KSE 100 index only but 36 financial firm were excluded due to different structure and reporting style of them and 11 firms were excluded because data was not available

than companies listed on Karachi Stock Exchange on the basis of highest market capital were substitute for completing the sample of 100 firms. The final sample has 100 firms for the period of four years.

Gathered data is analysed using financial econometrics tools like regression analysis. The study uses linear regression to test the hypotheses and also test for autocorrelation. Hausman test is also done.

The study uses quantitative data for the analysis. The quantitative data is deductive, and positivist in nature (Popper, 1959). Quantitative research is commonly connected with establishing causal relationships and effective in generalising the results on the larger context. Most of the previous researches are conducted in the developed countries where the researcher gathered the data using the established databases like BoardEx in the United Kingdom and Corporate Registers in the United States of America. The scholars gathered the data manually in the developing countries like India, Sri Lanka and Malaysia.

3.2 Variables for the study

3.1 Dependent variable

EPS

The study is primarily concerned with examining the effect of over boarded boards on firm performance. Firm performance has various measures. Past researchers focus on either the accounting-based measure of performance or market-based measures (Kiel and Nicholson 2003). Accounting-based measures include Return on assets (ROA) (Kiel and Nicholson 2003), return on equity (ROE) (Baysinger & Butler 1985) and earnings per share (EPS) (Latif et al. (2013); Chiranga and Chiwira (2014)). The generally used market-based measures are Tobin's Q and market to book value ratio (Barnhart, Marr & Rosenstein 1994). The dependent variables for this study will be earning per share. Empirical studies have used Earning per share (EPS) as a measure of performance. Latif et al. (2013) used EPS as a variable to measure the performance for their study in Pakistan. Chiranga and Chiwira (2014) also used EPS as a performance variable to measure the effect of multiple directorships on firm performance. When the number of shares outstanding is considered firm productivity is taken to a new level. Consequently, EPS is an important measure of an entity's profitability.A study including three financial variables which comprised EPS as their performance measure O'Hara et al (2000).

The aim was to discover about company's financial measures that would correlate with a share price that on average makes returns higher than the S&P500 index over a prolonged period. The outcomes were that corporations, which improved their earnings per share (EPS) on a regular basis, would get a strong positive association between earnings per share (EPS) and share price. After making payment of dividends to the preference shareholders the equity shareholders are the solitary claimant to the net earnings of the corporation (Sharma, 2011; Ball and Brown1968; Baskin 1989) the earning per share is one of the finest measures of profitability. It also helps in increasing the value of security, which depends on the anticipated future profits and risks linked to it. If the anticipated future profits will be high then the value of the security will also increase and if the forecasted benefits are low then the value of security will decline. Earnings per share also indicate the growth of the firm. If the EPS increases, then it can be implied that the firm is growing.

3.2 Independent variable

The independent variables for this study will be governance variables which are:

- Multiple Directorships
- Board size
- CEO Duality
- Director Composition Inside/Outside director

The variables have been selected by keeping in mind the previous researches done in the similar environment. Rahman and Ali (2006) and Sarkar and Sarkar (2009) have used somewhat same variables to test the impact of multiple board appointments on firm performance in India. The studies in emerging economies like India, Malaysia, and Sri Lanka suggest that good governance is more required in developing countries than in developed countries because of fewer regulations and weak monitoring bodies. In any study, the most important step is to distinguish useful and most relevant variables.

3.3 Control Variable

The study includes control variable log of Total Assets (TA) is used to control for firm size. The study uses firm size as a control variable as used by previous researchers (Fich and Shivdasani, 2006) Ferris et al. 2003 also used firm size as a control variable. It has been reported that firm size positively affects the firm performance. Fich and Shivdasani (2006) have used firm size and measure by taking a log of total assets and empirically tested its relationship with director busyness and firm performance. A sample of this study is comprised of majorly large organisations of Pakistan so it be interesting to check the mediating effect of firm size on firm performance. Najjar (2012) finds a significant direct relationship between firm size and firm's performance. Haunschild (1993) report that bigger firms tend to carry out more acquisitions due to better

information and resources. Castaldi and Wortman (1984) find that small companies usually fail to utilise their boards in regard to decision making and strategic direction. Forbes and Milliken (1999) suggest that firm size is important and suggest that firm size influences the director's involvement in the decision making. Similarly, Dalton and Kesner (1983) argue that firm size is directly associated with board performance. Norburn and Birley (1988) also contend that organisational structure and firm's systems have great influence on the role of the board of directors.

3.4 Research Hypothesis

Hypothesis 1: There is a lot of research on whether the multiple directorships is better for the firm or is detrimental to the firm performance. The supporters of multiple directorships argue that having more board seats signal the quality of the director and is beneficial for the firm due to a better reputation and greater knowledge they possess (Fama and Jensen, 1983). Agency theory contends that multiple directorships make director busy and forces director to shirk their responsibility due to less focus and limited time availability (Jiraporn et al., 2009). The next hypothesis tests the relationship between multiple directorship and firm performance. This study expects that the director holding many board seats have the busyness problem and be detrimental to the firm performance.

Hypothesis 1: There is a significant negative relationship between a number of board seats held by the individual director and the firm performance.

Hypothesis 2: Yermack (1996) argues that larger boards are detrimental for the firm value and suggest having smaller boards for effective monitoring. Guest (2009) fail to find any important impact of board size on company's performance but Latif et al. (2013) while studying the developing country report the positive effect of board size on firm performance. Jensen (1993) suggests that the size of the board should be around eight directors but still the evidence is not enough to support it. The first hypothesis deals with the board size and tries to find the impact of having a larger board on firm performance. The hypothesis test that is there any relationship between board size and firm performance. The study expects that the firm having larger boards perform better due to more experience and knowledge.

Hypothesis 2: there is a significant positive relationship between Board size and firm performance.

Hypothesis 3: Past research shows the sparse results regarding the phenomenon of CEO duality. Proponents of agency theory suggest that CEO duality is a negative phenomenon which gives ultimate power to one individual who can shirk their responsibility. The third hypothesis tests the relationship between CEO duality and firm performance. This study expects that the CEOs who also have the role of board chair will negatively use his/her powers and will be damaging for the firm. The CEO will be engaged in his own interest rather than working for the shareholder's wealth maximisation.

Hypothesis 3: There is a significant negative relationship between CEO duality and firm performance.

Hypothesis 4: One of the most important question in the literature of corporate governance these days is about the director type. The researchers favouring agency theory suggests that outside directors are the better monitors and advocates that the increased number of outside directors on the board is beneficial for the firm. The final hypothesis of this study will test the relationship between inside dominated boards and firm performance.

Hypothesis 4: There is a significant negative relationship between inside dominated boards and firm performance.

Model

$EPS = \beta 0 + \beta 1 \text{Multiple Directorship} + \beta 2 \text{Board Size} + \beta 3 \text{Duality} + \beta 4 \text{Director Composition} + \beta 5 \text{ Firm Size} + \varepsilon$

Where,

EPS = Earning per share;

$\beta 0$ = Constant;

Multiple Directorships= Total number of board seats held by an individual director;

Board Size = the number of directors on the board

CEO Duality = 1 if the CEO of the firm is also the chairman of the board; 0 otherwise; Director Composition = percentage of outside directors to total directors in a firm's board

Firm Size=control variable log of Total assets

#ε = Error term.

4.1 Descriptive statistics of selected variables

The following chart shows the sector analysis of the sample selected

Table 4.1: the descriptive statistics

	Frequency	Percent	Cumulative Percent
Chemical	5	5.0	5.0
Manufacturing	36	36.0	41.0
Petroleum	2	2.0	43.0
Services	29	29.0	72.0
Spinning	2	2.0	74.0
Textile	26	26.0	100.0
Total	100	100.0	

Table 4.1 Here

The table 4.1 displays the descriptive statistics of our sample for the period of four years, the mean for the EPS earning per share mean is 16.62103 and the standard deviation is 36.08633 with the minimum value of 24.3 and the maximum value of 387.2.

For an independent variable, the Multiple Directorship mean value is 0.54386 and a standard deviation is 0.498698 whereas its minimum value is 0 and the maximum value is 1. -0.17612 it's less than zero, it's negatively skewed. For board size it indicates a mean value of 8.220551 and a standard deviation of 1.73248 whereas its minimum value is 6 and the maximum value is 13.the skewness of board size is 1.66681 which shows that the result of the computation is greater than zero, the distribution is positively skewed .CEO Duality shows a mean value of 0.145363 and a standard deviation of 0.352909. It indicates a minimum 0 and maximum value of 1 respectively. CEO duality skewness is positive. Fourth is executive and non-executive this variable has a mean value of 66.49 and standard deviation of 0.12242 It shows a minimum value of 22.50 percent and a maximum value of 83 percent. The skewness of executive and non-executive is also positive.

Table 4.2 Multiple Directorship

The table shows that the busyness of the board declined from 2011 to 2014. The percentage decreased from 36% to 32% over the four years period. The decrease in busyness can be attributed to foreign studies showing the negative impact of having more busy directors on the board. This study also supported the idea of having less busy directors on the board. The study reports a negative impact of having busy directors on the board. All the three variables used to measure the firm performance reported negative relationship of having busy boards. The results for Earning per share are highly significant at 5% level and clearly, advocate the less busy directors on the board.

Table 4.3 Board Size

The table shows the frequency and percentages of Board size during the period of four years. It can be seen that the majority of firms has the board size between 7-9 members.

80% of the firms have board size within this range. Past researchers have shown that the larger board size is associated with greater monitoring and hence increase firm performance.

This study supports the hypothesis and reports the positive significant relationship between earning per share and board size. The coefficient for board size is significant at 7% level and has a positive value.

Table 4.4 CEO Duality

The table presents the yearly decomposition of CEO Duality. The phenomenon of CEO duality has reduced with every year and has dropped from 85% in 2011 to 80% in 2014. Past researchers have shown a negative impact of having CEO Duality. The results of this study fail to find any significant impact of having CEO duality on firm performance. The results of fixed effects, random effects all report the insignificant relationship between the variables of firm performance with CEO Duality.

Table 4.5 Director Composition

The table shows the pattern of Executive/Non-Executive directors during the sample period. The percentage of executive directors has declined in every passing year and the need for having more non-executive directors can be seen from the pattern. The results of fixed effects regression, random effects support the previous researches advocating the positive relationship of Non-executive directors on firm performance. The results report that more non-executives enhance the firm.

4.2 Panel data

The next table shows the pattern of the panel data for the period of four years. No observation is missing it mean that each year contain 100 companies.

Table 4.6 Here

Then next step was to run the regression on the panel data. Both the fixed effects and random effects were used and to check appropriateness Hausman test is used.

4.3 FIXED EFFECTS

The fixed effects show that busyness of the director has a negative coefficient -12.3718 which shows that there is a negative impact on Earning per share as predicted and reported in the previous researches. The variable is significant at 5% level. As measured by earning per share the busyness of the director has the negative relation with firm performance. A positive relationship is shown by board size with the firm performance coefficient of 3.560876 which means that larger board can have a better impact on performance.

The executive/non-executive variable shows that having more non-executive directors have a positive impact on firm performance with a positive coefficient of 10.059320 but the results are not very

significant for the fixed effects regression. The CEO duality shows a negative coefficient.

4.4 RANDOM EFFECTS (Table)

Regression analysis has been performed by using random effect model while fixed effect model has been rejected after conducting Hausman test. We have taken the firm size as a control variable.

As the busyness hypothesis claims that multiple appointments of directors are detrimental to the firm, the first hypothesis stated that there would be a negative relationship between multiple directorships by directors and firm performance. Former researchers have shown contradictory results regarding the multiple directorships and present two competing hypothesis busyness hypothesis and reputation hypothesis. The busyness hypothesis gives importance to the fact that directors are human beings and time is the scarce resource. According to this study, our hypothesis supports busyness hypothesis which is that there is a significant negative relationship between a number of board seats held by the individual director and the firm performance. Both the fixed effects regression and random effects show that busyness of the director has a negative effect on firm performance. The results are significant at 5% level of confidence. The coefficient for the regression is -9.05192 which shows that there is a high negative impact on Earning per share as predicted. The result also supports that the director with multiple board seats have less time to effectively monitor and have less firm-specific knowledge as the past researchers reported (Fich and Shivdasani, 2006; Bar-hava et al., 2013; Kaplan and Reishus, 1990). Past researchers also showed "busy" directors show a greater propensity to be absent from board meetings. Directors having numerous seats might find it difficult to"show up"at all board meetings. The Busyness hypothesis, discussed by Ferris et al. (2003) claims that directors who serve on multiple boards become too busy to effectively monitor management. They suggest that having multiple board appointments may increase agency costs and deteriorate the firm value.

Further on the other side Reputation hypothesis highlights the positives of market for directors and argue that directors have to work hard to get more prestige, honor, and compensation (Ferris et al., 2003; Fama, 1980) and suggest that for the sake of good reputation multiple directors work more effectively and efficiently to save that prestige and power. The advocates of reputation hypothesis also suggest that directors having multiple board seats possess the most specialised knowledge and are better monitors. Agency theory contends that multiple directorships make director busy and forces director to shirk their responsibility due to less focus and limited time availability (Jirapornetal, 2009).

Our second hypothesis showed a positive relationship with the firm performance coefficient of 4.135284 which means that larger board can have a better impact on performance. The study results support the finding of Latifetal (2013) and show that board size has the significant relationship with firm performance. The possible explanation for this positive relationship is discussed by the past researchers is that larger board are the sources of more knowledge, there performance and generates more ideas because of skills, diverse qualifications, capability and control difficult situations with ease as compared to smaller one. The size result implies that board size has a more positive impact on performance in large firms as compared to small firms. Contrary to the above findings Yermack (1996) found a significant negative alliance between board size and performance. No solid evidence was found on the relationship between board size and performance Bhagat and Black (2002).

CEO duality is the phenomenon of holding chairmanship and CEO seat by the same person. The third hypothesis examines the relationship between CEO duality and the performance firm. The results fail to find any significant impact of having CEO duality on firm performance.

Corporate governance system in Pakistan is not that much developed and strong as compared to those in Anglo-American countries, Japan or Germany. Developing countries have different legal, regulatory and institutional background and are very different from the developed countries. (Prowse 1999). However, there is a considerable discrepancy in corporate governance structures and practices between developing country like Pakistan and other developed countries like USA and UK. Prowse (1999) argue that the development of corporate governance mechanisms depends on many factors like political, social, cultural and historical individualities of a country (Prowse 1999). Pakistan has been ruled by the British rule for about one ninety years before the independence so the style and the rules are majorly influenced by the British governance. Following the UK corporate governance code, Pakistan also has unitary board structure. The public limited companies are mostly owned by some influential families and show concentrated ownership patterns having a board of directors as the most powerful. The securities and exchange commission of Pakistan SECP have introduced many rules and regulations to address the problem of the weak governance system in Pakistan.SECP has also introduced guidelines about the compositions of the board of director, their working and framework which is supposed to follow by all the public limited companies to enhance the governance quality and minimise the power play by concentrated shareholders. These findings show the effectiveness of the SECP regulation. The results show that the phenomenon of CEO duality, as followed by the

developing countries, is decreasing due to the strict regulations of the SECP.

Supporting agency theory our fourth hypothesis shows a negative relationship between firm performance and executive director. Boards have a wider, more comprehensive role, with non-executive directors involved in giving advice and enhancing strategy discussions.

The regression results show that non-executive directors are healthier for the firm performance. The coefficient for the variable is 8.70544 which are significant at 10% confidence level. This shows that inside directors are not the best monitors and suggests having more outside directors on the board. This study like Jiraporn (2009) used two ways for executive and non-executive directors the results are significant with dummy variables that are set to one if the director is an independent nonexecutive director and zero if the director is executive director. The study also tested the variable using the alternative method in which the percentages were used to represent the composition of the board. The results with the percentages are positive but are not significant. Agency theory favours the outside directors for better firm performance (Jirapornet al., 2008).

Cho and Kim (2007) present a weak but positive impact on firm performance without side directors. Independence is the main characteristic of an effective outside director in any business. Non-executive directors tend to be more independent and unbiased. They have the ability to challenge the Board positively and sometimes they think out of the box to approach a problem. Non-executive directors are motivated to improve reputations as specialists in decision-making and control. Klein (1998) identified firms cannot develop performance by merely adding or removing non-executive directors of any particular occupation from their boards.

4.5 Breusch and Pagan Lanrangian multiplier test

Breusch–Pagan test was developed in 1979 by Trevor Breusch and Adrian Pagan. This test controls for heteroskedasticity in a linear regression model. The Breusch–Pagan test tests for conditional heteroscedasticity in the model. It assumes the null hypothesis as the presence of homoskedasticity. If the value is significant with a p-value below $p<0.05$ then the null hypothesis of homoskedasticity is rejected and implies that the model is plagued with heteroskedasticity.

Here we reject the null and conclude that random effects is appropriate. This is, the evidence of significant differences across firms, therefore a simple OLS regression cannot we run. So, we should rely on Random Effects Regression

Alternative test for checking fixed effects

The Prob>F is > 0.05, which suggest that we failed to reject the null hypothesis stating that the coefficients for all years are mutually equal to zero. So, fixed effects regression is not suitable for this kind of model.

4.6 Linear regression, correlated panels corrected standard errors (PCSEs)

The result shows that the panel does not have any autocorrelation issues and also reports the significant results for independent variables.

The results are still significant at 5% level and still present the same relationship. The busyness holds the negative relationship with firm performance.

After conducting all the statistical tests, it can be safely said that generalising our sample results the director busyness is the negative phenomenon which deteriorates the firm performance and reduces firm value. Board size has a positive relationship with firm performance. It means that larger boards have a positive effect on firm performance and increase the dependent variable. CEO duality does not signify any type of relationship with the dependent variable. Non-executive directors have shown a positive impact on firm performance. The results were significant at 5% confidence level.

CONCLUSION

Directors having multiple directorships (i.e., those serving on too many boards) have come under recent scrutiny. Most of the previous researches are conducted in the developed countries like in the United Kingdom and Corporate Registers in the United States of America. This study has seen the impact of Overloaded directors on firm performance in Pakistan. There are two competing hypothesis regarding the multiple directorships, busyness hypothesis and reputation hypothesis. Reputation hypothesis states that the multiple directorships specify the good reputation of the director and boost the firm performance due to greater knowledge, experience and higher quality while busyness hypothesis suggests that director with multiple board seats are less able to monitor the firm matters and are detrimental to the firm performance. Karachi Stock Exchange firms are chosen by taking a sample of 100 companies for four years. Data has been taken from annual reports and different website like Standard Capital Securities limited and Business Recorder. Independent variables used in the study are Board Size, Multiple Directorship, Board Composition and Chief Executive Office Duality while the dependent variable used to check firm performance is earning per share. For robustness control variable used is a log of total assets. By applying random effect model and fixed effects we have explained the impact of the variable. Tests of the Busyness Hypothesis are consistent with these results. From our research it's show that there is a positive significant relationship between earning per share and board size which

means that larger board size enhances the firm performance. Next finding supports the busyness hypothesis and are consistent with theories on interlocking directors' ability to make informed contributions. Boards relying heavily on over-boarded directors that serve on several boards are likely to experience a decline in firm performance as it makes sense that directors sitting on several boards may be required to adjust because of time constraints and activity conflicts. We fail to find the negative relation predicted between Chief Executive Office duality and firm performance. Next, supports agency theory which suggests that outside directors are the better monitors and advocates that the increased number of outside directors on the board is beneficial for the firm. This shows that Earnings per share show a positive and extremely significant relationship of non- executives with firm performance as non-executive enhances the firm with their greater knowledge, practice, optimism and flexibility.

5.1 Managerial Implications

- This study makes influence to research .These findings appear to highpoint the prominence of inspecting the board as a whole unit. Companies may go for dynamic directors because they are the finest candidates prepared to add value. It will be not wrong that busy directors are demanding for worthy purpose as they are good givers. Therefore, the choice of outside directors only for their independent views may not be much important as the accumulated knowledge, experience represented by the director active on numerous boards.
- This study also favours agency theory which suggests that outside directors are the better monitors and advocates that the increased amount of outside directors on the board is beneficial for the firm.
- This study contributes to the enduring busyness hypothesis and its relevance with respect to the financial performance of the corporation.

5.2 Limitations of the Study

The study has following shortcomings and limitations:

- Limitations of this study are that the sample contains 100 companies only while there are 660 companies listed at KSE (Karachi Stock Exchange). The annual reports of many firms are not readily obtainable. Plenty time and resources are required to increase the sample size.

5.3 Recommendations of the Study

Based on the conclusion drawn from this study and its limitations, this study has following recommendations for future researchers:

- We have taken the data of only four years ranging from 2011-14. A longer panel data set can have better, accurate and precise results providing convincing evidence of the relationship between multiple directorship and firm performance.
- Previous studies surveyed the relationship and impacts of other variables like board committees, disclosure, block holder ownership, financial leverage and take overs. Future examiners can also use these variables in there study.

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