

Too Busy, Too Bad? Grey, Outside, Busy and Overlap Directors and Financial Performance in Pakistan

Muhammad Rizwan Ullah^{a*}, Ahmed Chand^b, Sadaf Akram^c, Aamir Inam Bhutta^d, Muhammad Ahmed^e, ^{a,d,e}Lyallpur Business School, Government College University, Faisalabad, Pakistan. ^bDepartment of Commerce and Finance, Superior University, Lahore, Pakistan. ^cDepartment of Commerce, Government College Women University, Faisalabad, Pakistan, Email: ^{a*}mrizwanullah77@gmail.com, ^bahmedchand186@gmail.com, ^csadafakramgcwuf@gmail.com, ^daamirinam@gcuf.edu.pk, ^eraianjum@gmail.com

Regardless of the belief of reformers that a greater percentage of independent directors on a corporate board is better for good governance, it is relatively unknown whether the enhanced focus on independence of a board is able to increase firm performance in the current framework of corporate governance. Thus, this study analyses the impact of grey, outside, busy and overlap directors on firm performance in Pakistani listed firms, using data for the period 2014-2019. The study uses grey directors, outside directors, busy directors and overlap directors as explanatory variables, while firm performance is used as the main outcome variable. The potential ways for interactions between directors and firm performance (FP) are built on the basis of theories and past empirical findings. In line with theories and code of corporate governance standards, the study draws conclusion that grey, outside and busy directors (overlap directors) positively (negatively) contribute to improving FP. The study suggests increasing (decreasing) the ratio of grey, outside and busy directors (overlap directors).

Key words: *Firm Performance, Grey Director, Busy Director, Outside Director, Overlap Director*

INTRODUCTION

Since publication of the 1992 Cadbury report and issuance of a code of corporate governance standards by SECP (Securities and Exchange Commission of Pakistan), reformers of corporate governance (CG) in Pakistan are continuously emphasising the significance of independent directors (IDs) who enhance a board's monitoring function (Pakistan Code of Corporate

Governance 2019). The term independent director (ID) refers to directors who are free from economic and personal bonds with a company and its management; known as NEDs (non-executive directors). The NEDs with such bonds are categorised as non-independent non-executive directors and are also called “Grey Directors (GDs)” (Hsu and Wu 2014).

The reformers of CG generally argue that the presence of ties between a firm and NEDs decreases a NED’s monitoring effectiveness, as such ties may lead to a conflict of interest with owners. Regardless of reformers’ belief that the greater the percentage of IDs on a corporate board is better for good governance, it is relatively unknown whether an enhanced focus on the independence of a board is able to increase firm performance (FP) in the current framework of CG.

The CG theorists have dissimilar views on the affiliations between a firm and its NEDs. From a perspective of agency theory, IDs are essential for resolving the agency problems between owners and managers. The independence of IDs places them in a better and strong position, and enables them to exercise free judgement and engage in monitoring to evaluate the performance of managers (Fama and Jensen 1983). Alternatively, NEDs that are economically and personally affiliated to a firm and its management have less motivation to challenge top-level management, which may lead to interest conflicts with the owners, and opposed organisational consequences. In line with this opinion, IDs can improve FP by effectively monitoring the managers on behalf of the owners.

In contrast, supporters claim that the perspective of agency offers an incomplete basis for grasping the effect of board structure on FP (Adams and Ferreira 2007). They advise that the structure of a board should optimise joint working relations among the members of a board (Almazan and Suarez 2003). Affiliations between the management of a firm and its NEDs facilitates effective communication and mutual trust, which in turn enable advisory interaction and flow of information among the board members. Moreover, the existence of such affiliations aligns the interest of a firm and its NEDs, enhances the incentives of NEDs, and provides resources and advice to maximise FP. In line with the above points, GDs are more expected to be involved in corporate decision-making processes via their ties with the company, which may result in favourable outcomes. It is therefore necessary to empirically analyse the effect of GDs on FP.

The recent financial crisis and its link with directors’ accountability for allowing their organisations to take extreme risks elevates a global debate on the obligations of directors. In this matter, the worldwide trend is to reinforce the responsibilities of the directors in relation with inconsistencies committed by the institution. During the last decade, the contraction in the regulatory framework by most of countries discouraged potential directors from accepting directorship because it involved prospective personal risk. Fears about accomplishing their duties and responsibilities assiduously as the board of directors sets the emphasis on “over-boarded directors”. The additional directorships not only bring additional workload to the

members of board but the memberships of board committees also entail extra duties and responsibilities. Accordingly, commitments by the directors both outside and within the company may influence their supervisory capabilities, which influences FP. Are directors with multiple positions (busy directors; independent directors who hold more than two directorships (Pathan et al. 2019)) and multiple committee membership (overlap directors; independent directors serving on both audit and remuneration committees (Pathan et al. 2019)) affecting FP? In this manner, it has become an issue of interest that needs to be addressed.

There are contrasting theoretical views that support indirect affiliations between busy directors (BDs) and FP. The theoretical model of Levit and Malenko (2016) supports the idea that in an environment of strong CG, the managerial labour market asks directors to exert stringent supervision on the actions of management, which leads to improved FP. In contrast, in an environment of weak CG, the labour market considers directors as managerial friendly, and they build a reputation of being soft monitors, which may harm the FP. This positive and negative affiliation between BD and FP is also supported by the empirical evidence. Fich and Shivdasani (2007) report that BDs are harmful for firm profitability, while Ferris et al. (2003) support that BDs are value increasing.

Moreover, the trade-off (Mehran 1995) and managerial power (Bebchuk and Fried 2005) theories support that IDs play a vital role of monitoring. According to the theory of managerial power, poor monitoring by the directors allows CEOs to exercise undue power that is insensitive to FP (Bebchuk and Fried 2005), although organisations with better monitors can mitigate that power. Hence, if BDs are assumed to be poor monitors, the theory of managerial power would suggest a negative relation between BDs and FP. Contrarily, strong monitoring by the directors lessens the need to pay higher compensations to the executives, which results in higher profitability (Pathan et al. 2019; Mehran 1995). In line with the trade-off theory, when a company has BDs, it would entail strong monitoring that may improve FP (Canyon 2006). The reverse is true for overlap directors (OLDs). In summary, trade-off theory suggests negative (positive) impact of OLDs (BDs) on FP, while managerial power theory reports positive (negative) impact of OLDs (BDs) on FP.

A perspective of agency theory (Fama and Jensen 1983) argues that a higher percentage of outside directors (ODs) (an individual who has not been employee, officer or director of same firm or its holdings and does not have any executive role in the firm's business (Bebenroth and Donghao, 2007)) on corporate boards functions independently in the situations where interest conflicts occur between firm managers and its owners. ODs play a significant role in elucidating the effective control exercised by the corporate boards (Kouki and Guizani 2015). Moreover, IDs are considered to be more positively associated with the interests of outside directors monitoring the decisions made by top management, which results in better FP. Prior studies on board monitoring claim that the corporate boards with a higher fraction of inside directors are not sovereign of the firm or its existing management (because of social/family association and business transactions) and have less inspiration to monitor the managers

(Merendino and Melville 2019). However, the boards overshadowed by ODs are assumed to be better monitors and hence are necessary to be analysed. Moreover, the net effect of board composition on FP is not yet clear as past researchers have shown inconclusive indications regarding the said association. Some empirical evidences (Cho and Kim 2007) show beneficial impacts of ODs, while some researchers (Bhagat and Black 2002) claim insignificant affiliation between ODs and FP. These ambiguous findings reveal the need to analyse the relation between ODs and FP.

Resource dependency theory claims that a firm's long-term success depends on its abilities to interact with the outside environment (Pfeffer and Salancik 1978). The theory's fundamental view is that organisations should constantly link with the external environment to buy new resources and to disburse finished goods. In this respect, ODs are found to be a connecting tool between the organisation and its outside environment, which helps management to accomplish various organisational objectives (Zahra and Pearce 1989). The theory, therefore, argues that ODs add value to a firm by helping to maintain effective control over its relationships, contacts, assets and outside environment.

The current study contributes to the existing consideration as to how GDs affect FP. Numerous available studies investigate the impact of IDs but overlook the role of GDs in FP. This current study extends the role of the board by addressing this gap. Second, this is the first study of Pakistani non-financial firms investigating the effectiveness of monitoring of both overlap, and busy, directors in affiliation with FP. Third, the study observes the lack of debate in the available research on the association between ODs and FP, and hence contributes by analysing the impact of ODs on FP in the context of Pakistan. Fourth, Filatotchev et al. (2006) claim that an organisation requires diverse functions of CG at the different levels of the business trade cycle. In order to achieve long term success, a firm needs a greater extent of resource and strategic functions of CG. However, the impacts of CG mechanisms on a firm's long-term success are under-studied. Considering this, this study collectively analyses the impact of grey, outside, busy and overlap directors on FP, which is the first study, and more specifically, in Pakistan.

LITERATURE REVIEW

The CG reformers argue that the presence of affiliation between a firm and its NEDs lessens the NED's monitoring effectiveness as such bonds may lead to a conflict of interest with stakeholders. Theorists have contradictory views on the relation between an organisation and its NEDs. Agency theory claims that IDs are necessary for resolving the agency problems between principal and agent. This independence places the IDs in a better and strong position and enables them to exercise free judgement and engage in monitoring to evaluate the performance of managers (Fama and Jensen 1983). However, NEDs are economically and personally associated to firms and the management of firms have less motivation to challenge top level management, which may lead to interest conflicts with the owners, and opposed

organisational consequences. In line with this opinion, IDs can improve FP by effectively monitoring managers on behalf of owners. Contrarily, certain researchers claim the view of agency theory, offering partial basis for grasping the influence of board structure on FP (Adams and Ferreira, 2007). Almazan and Suarez (2003) advise that the structure of a board should optimise joint working relations among its members. Ties between firm management and NEDs facilitate effective communication and mutual trust, which in turn enable advisory contact and flow of information among board members. Moreover, the existence of such bonds aligns the interest of firm and its NEDs and enhances the incentives of NEDs, and provides resources and advice to maximise FP. The above discussion shows that the existence of GDs enhances the FP. The current study, therefore, develops following proposition:

H₁ GDs are likely to have positive impact on FP.

Kouki and Guizani (2015) tested the linkage between ODs and FP. Using the data of 42 non-financial firms from Turkey over the period 2004-2010, they show significant association between ODs and FP. Shin et al. (2018) studied the impact of politically concerned ODs on the performance of Korean chaebol firms and revealed the positive relationship between politically concerned OD and FP. Shiah-Hou and Cheng (2012) analysed the impact of ODs on FP and found direct impact of ODs on FP. Huang et al. (2008) worked on Taiwanese firms, examining the empirical association between OD and FP and found that ODs and FP were directly correlated. Swan and Honeine (2010) studied the rapport between ODs and FP and highlighted a positive affiliation between OD and FP. Lee et al. (2012) examined the influence of OD's social capital on the performance of 125 Korean firms and reported a positive linkage of ODs with FP. Bebenroth and Donghao (2007) and Chang et al. (2012) also found positive impact of ODs on FP. The above literature allows for the development of the following hypothesis:

H₂ There exists a positive impact of ODs on FP.

Masulis et al. (2012) examined the costs and benefits associated with foreign outside directors (FOD) in American corporations and found that the firms with FOD's made better cross-border acquisitions when the targets were from the home regions of FODs. However, FOD's showed poor board meeting appearance records. The study further found that the firms with FODs were linked with significantly worse FP. Miletkov et al. (2017) indicate that the FODs influenced the value of a firm through their monitoring and advising functions. Hahn and Lasfer (2016) examined the empirical connotation between FODs and board meetings frequency and found negative connotation between said variables. Bremholm (2015) worked on the linkage between a foreign director and the performance of a Japanese firm and revealed a positive association. After reviewing the above literature, it is assumed that:

H₃ FODs are significantly and positively affiliated with FP.

Chen et al. (2008) examined the impact of BDs on the wealth of shareholders in diversifying acquisitions and found negative impact of BDs on shareholder's wealth. Mohd et al. (2016) investigated the impact of CEO duality and multiple directorships on the performance of Malaysian firms. They revealed that CEO duality and multiple directorships were negatively related with FP. Char-Lee and Chee-Wooi (2018) studied the effect of BDs on FP and revealed a significant impact of BDs on FP. Di Pietra et al. (2008) analysed the relationship between BDs and firms' market performance and found that the market performance of a firm was significantly influenced by the BDs. James et al. (2018) scrutinised the relation between BDs and FP. By dividing the firms into rural and metro firms on the basis of their main office location, they found positive (negative) relation between BDs and FP in metro firms (rural firms). Arranz-Aperte and Berglund (2008) tested the impact of BDs on the company's board and performance and reported a significant and positive effect of BDs on the company's board as well as performance. Hauser (2018) studied the influence of BDs on FP and concluded a positive impact of BDs on FP. Similarly, Fernández Méndez et al. (2017) and Pradit and Jiraporn (2018) also support a positive link between BDs and FP. The above discussion concludes that:

H₄ BDs are positively associated with FP.

Fernández Méndez et al. (2017) tested the effect of directors with multiple responsibilities on the board's supervisory outcome. They found that firms with OLDs showed a higher likelihood of getting a competent opinion of audit, which might lower firm profitability. Kalelkar (2017) investigated the impact of over-boarded director on the audit fee and found that the existence of OLDs on the board condensed a firm's audit fee. They concluded negative association between OLDs and a firm's earning management. Moreover, the trade-off (Mehran 1995) and managerial power theories (Bebchuk and Fried 2005) support that IDs play a vital role of monitoring. According to the theory of managerial power, poor monitoring by the directors allows CEOs to exercise undue power, which is insensitive to FP (Bebchuk and Fried 2005). If OLDs are assumed to be poor monitors, the theories suggest a negative relation between OLDs and FP. The above debate shows that most of the studies focused on the linkage between OLDs, reporting quality and CEO compensation. As far as we know, no attention has been paid to the affiliation between OLDs and FP. Therefore, the current research fills this gap by empirically investigating the role of OLDs in FP and, hence, assumes (based on managerial power and trade-off theories) that:

H₅ There is a negative affiliation between OLDs and FP.

Moreover, the theoretical review also supports the above hypotheses. For instance, agency theory suggests positive impact of GD, OD and FODs on FP. Resource dependency theory reports a positive impact of ODs and FODs on FP. Trade-off theory suggests negative (positive) impact on OLD (BDs). While managerial power theory states that OLDs and BDs can have

both positive and negative impact on FP. The conceptual framework showing both empirical and theoretical review is depicted in Figure 1.

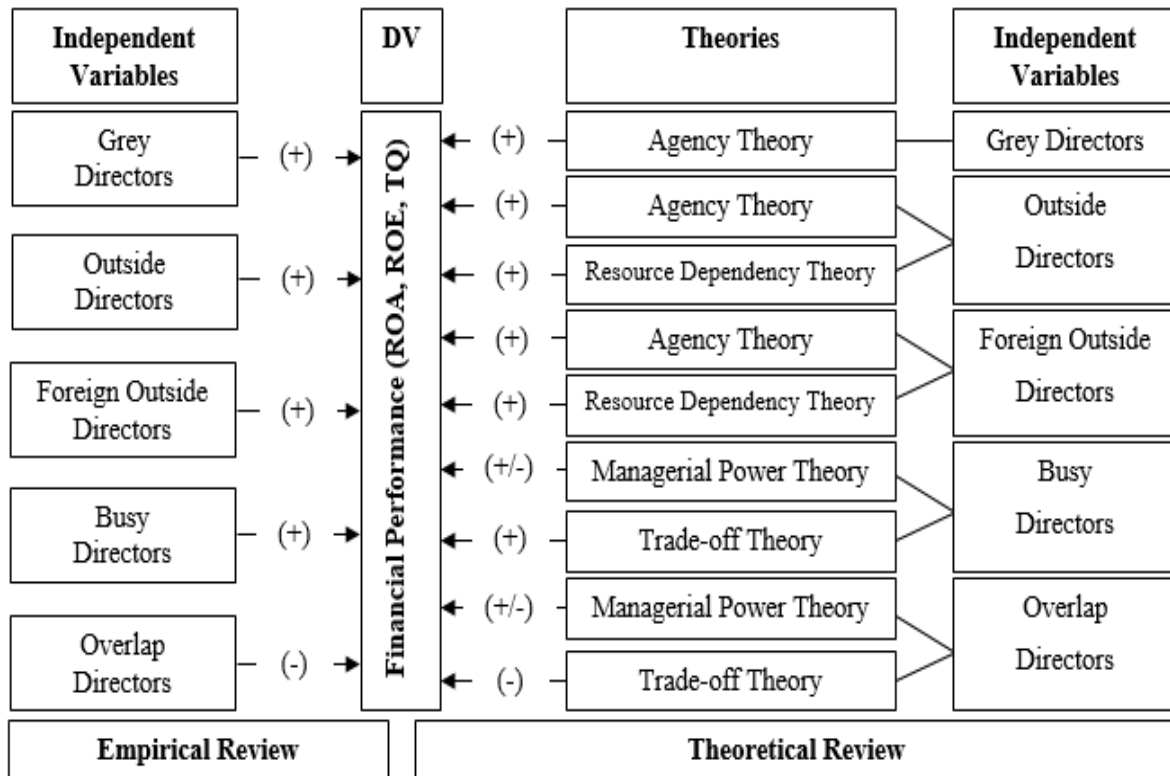


Figure 1: Conceptual Framework

METHODOLOGY

This study aims to analyse the impact of grey, outside, foreign outside, busy and overlap directors on FP of non-financial firms listed at the Pakistan Stock Exchange (KSE-100 Index). The sample of the study consists of 60 non-financial firms. The companies with incomplete data are excluded from the sample. Secondary data covering the period 2014-2019 are extracted from the annual financial reports. The study uses FP (measured by ROA, ROE and TQ) as a dependent variable while GD, BD, OD, FOD and OLD are taken as independent variables. The study also uses BO, BS, FS and FA as control variables. The measurement of study variables is shown in Table 1.

Table 1: Variables Description

<i>Dependent Variables: (Financial Performance)</i>	
1. Return on Assets (ROA)	1. Net Income ÷ Total Assets (Bhagat and Bolton 2019)
2. Return on Equity (ROE)	2. Net Income ÷ Total Equity (Mohd et al. 2016)
3. Tobin's Q (TQ)	3. {(Number of Common Shares Outstanding × Share Price) + Total Debts} ÷ Total Assets (Bhagat and Bolton 2019)
<i>Independent Variables</i>	
1. Grey Director (GD)	1. Number of non-executive non-independent directors ÷ Total Number of Directors on the Board (Hsu and Wu 2014)
2. Overlap Director (OLD)	2. Number of independent directors serving on both audit and remuneration committees ÷ Total independent directors on the board (Fernández Méndez et al. 2017)
3. Busy Director (BD)	3. Percentage of Independent Directors who hold more than two directorships (Falato et al. 2014)
4. Outside Director (OD)	4. Number of Non-Executive Directors ÷ Total Number of Directors (Kouki and Guizani 2015)
5. Foreign Outside Director (FOD)	5. Number of Foreign Non-Executive Directors ÷ Total Number of Directors (Kouki and Guizani 2015)
<i>Control Variables</i>	
1. Board Ownership (BO)	1. Percentage of shares held by board of directors (Mohd et al. 2016)
2. Board Size (BS)	2. Number of Directors on Board (Mohd et al. 2016)
3. Firm Size (FS)	3. Logarithm Natural of Total Assets (Andries and Stephan 2019)
4. Firm Age (FA)	4. Logarithm Natural of Number of years since incorporation of firm (Wang and Giouvris 2020)

Econometric Technique

The study uses second-stage regression, also called GEE (generalised estimating equations), suggested by Krause, Filatotchev and Bruton (2016). This method offers several benefits over random effects models (Cameron and Trivedi 2009). GEE accounts for autocorrelation within the executive panels and thus provides more consistent and robust findings (Liang and Zeger 1986). The models are given below:

$$ROA_{i,t} = \alpha_0 + \alpha_1 GD_{i,t} + \alpha_2 BD_{i,t} + \alpha_3 OLD_{i,t} + \alpha_4 OD_{i,t} + \alpha_5 FOD_{i,t} + \alpha_6 BO_{i,t} + \alpha_7 BS_{i,t} + \alpha_8 FS_{i,t} + \alpha_9 FA_{i,t} + \gamma_{i,t} + \varepsilon_{i,t} \text{ --- (1)}$$

$$ROE_{i,t} = \alpha_0 + \alpha_1 GD_{i,t} + \alpha_2 BD_{i,t} + \alpha_3 OLD_{i,t} + \alpha_4 OD_{i,t} + \alpha_5 FOD_{i,t} + \alpha_6 BO_{i,t} + \alpha_7 BS_{i,t} + \alpha_8 FS_{i,t} + \alpha_9 FA_{i,t} + \gamma_{i,t} + \varepsilon_{i,t} \text{ --- (2)}$$

$$TQ_{i,t} = \alpha_0 + \alpha_1 GD_{i,t} + \alpha_2 BD_{i,t} + \alpha_3 OLD_{i,t} + \alpha_4 OD_{i,t} + \alpha_5 FOD_{i,t} + \alpha_6 BO_{i,t} + \alpha_7 BS_{i,t} + \alpha_8 FS_{i,t} + \alpha_9 FA_{i,t} + \gamma_{i,t} + \varepsilon_{i,t} \text{ --- (3)}$$

Where: “ROA: return on assets, ROE: return on equity, TQ: Tobin Q, GD: Grey Director, BD: busy director, OLD: overlap director, OD: outside director, FOD: foreign outside director, BO: board ownership, BS: board size, FS: firm size, FA: firm age, α_1 α_9 : Regression coefficients, α_0 : Intercept, γ : year effect, and ε : error term.”

RESULTS AND DISCUSSION

Descriptive Measures and Correlations

The descriptive measures of the study variables are reported in Table 2, which shows that the average proportion of members of a busy board (BD) is 6.34% and stays between 0% to 13.48% in the study period. The average percentage of directors with multiple seats (OLDs) is 16.93%, which stays between 0% to 27.64% over the sample period of study. The average proportionate of ODs (FODs) is depicted as 27.04% (6.74%) from a lower 5.63% (0%) to a higher 55.01% (4.37%) over the period of study. With regards to GDs, the mean percentage is 35.26% from smallest, 13.43%, to largest, 51.59%. On average, the profitability of sample firms is 28.32% (ROA), 17.82% (ROE) and 34.01% (TQ). With respect to control variables, the average size of board (BS) is 8.64, which stays between 7 to 15. The mean of BO is 11.06% and ranges from a least of 0% to a greatest of 87.31%. The mean age (size) of sample firms is 3.44 (9.84) from a lower value of 1.32 (6.81) and highest value of 4.64 (13.43).

Table 2: Descriptive Measures

Variables	Mean	SD	Min.	Max.
ROA	0.2832	0.1333	-1.9307	0.6801
ROE	0.1782	0.4115	-1.5185	1.4710
TQ	0.3401	0.6746	-1.2213	2.9380
GD	0.3526	0.1456	0.1343	0.5159
OD	0.2704	0.1247	0.0563	0.5501
FOD	0.0674	0.0437	0.0000	0.0437
BD	0.0634	0.2562	0.0000	0.1348
OLD	0.1693	0.1954	0.0000	0.2764
BO	11.0614	1.0674	0.0000	87.3158
BS	8.6438	1.3461	7.0000	15.0000
FA	3.4461	0.6226	1.3286	4.6454
FS	9.8418	1.3222	6.8102	13.4310

Table 3 exhibits the analysis of Pearson correlation with correlations among variables, and reports that all the study variables are well below 0.5. Hence, the problem of multicollinearity among variables is not considered to be a serious concern as the maximum correlation coefficient is 0.48 (between BO and TQ), indicating that multicollinearity does not harm the data.

Table 3: Correlation Matrix

Variables	ROA	ROE	TQ	GD	OD	FOD	BD	OLD	BO	BS	FA	FS
ROA	1.00											
ROE	0.34	1.00										
TQ	-0.06	0.40	1.00									
GD	0.46	0.37	0.34	1.00								
OD	0.24	0.12	0.04	0.17	1.00							
FOD	0.13	0.17	0.09	-0.15	0.06	1.00						
BD	0.30	0.20	0.05	0.45	0.07	0.36	1.00					
OLD	-0.08	-0.37	-0.42	0.06	0.09	0.25	0.32	1.00				
BO	0.08	0.03	0.48	0.03	0.40	0.18	0.03	0.22	1.00			
BS	0.21	0.09	0.08	0.27	0.29	0.08	0.08	0.37	0.06	1.00		
FA	0.10	0.11	0.05	0.09	0.25	0.06	0.25	0.06	0.15	0.13	1.00	
FS	0.38	0.17	0.24	0.01	0.38	0.19	0.28	0.09	0.34	0.19	0.28	1.00

GEE Regression Results

The study reports GEE outputs in Table 4 for the three study models. The R² for models 1, 2 and 3 is 72.14%, 69.31% and 67.19%, respectively. The residuals of all the models pass several tests for “heteroscedasticity” and “non-normality”. Specifically, plots of the residuals do not express any distress. Similarly, the White Sandwich and Huber tests do not show desecration of any supposition.

The findings reveal a positive impact of a proportion of GDs on FP ($p < 0.05$). The findings show that a 1% increase in percentage of GDs improves ROA by 3.5%, ROE by 4.1% and TQ by 2.4%. The findings are in line with agency theory and hypothesis 1. The findings report the significance of GDs is in line with agency theory and the prior researchers’ arguments (Adams and Ferreira 2007; Baysinger and Hoskisson 1990; Baysinger and Butler 1985).

The study finds significant and positive impact of ODs on FP ($p < 0.05$). The outcomes report that a 1% inclination in the proportion of ODs results in 7.3%, 6.5% and 3.7% rise in ROA, ROE and TQ, respectively. The findings are similar with agency and resource dependency theories and lead to accepting the second hypothesis of the study. The results strengthen the recommendations of the “code of best practice of corporate governance” of Pakistani listed firms and supports the empirical findings by prior researchers (Shin et al. 2018; Kouki and Guizani 2015; Shiah-Hou and Cheng 2012; Lee et al. 2012; Chang et al. 2012; Swan and Honeine 2010; Bebenroth and Donghao 2007), who provide support for the addition of ODs on corporate boards. Moreover, the study finds insignificant impact of FODs on FP. These findings are similar with Masulis et al. (2012) and are against Bremholm (2015), and, the results are not in line with hypothesis 3. These outputs may report that increasing the proportion of FODs on a corporate board may not certainly enhance the firm profitability but enhancing the weight of ODs in relation with FODs might enhance FP.

Table 4 also reports that the estimated coefficients of BDs are statistically significant and positive at the level of 0.05 or better, which is consistent with the views of trade-off and managerial power theories and strongly supports hypothesis 4. This output can be explained as a 1% increase in the ratio of BDs upsurges the ROA by 2.7%, ROE by 3.8% and TQ by 1.9%. The results are also in line with previous studies (James et al. 2018; Pradit and Jiraporn 2018; Fernández Méndez et al. 2017; Di Pietra et al. 2008; Hauser 2018; Arranz-Aperte and Berglund 2008). Moreover, the results do not confirm the findings of Mohd et al. (2016) and Chen et al. (2008) as they find negative impact of BDs on FP. The findings suggest that firms with busy directors have better FP. The coefficients between OLDs and measures of FP are negative, indicating a negative impact on FP at 5% level or better ($p < 0.05$). In line with the managerial power and trade-off theories, this outcome provides support for hypothesis 5. The findings indicate that increasing the ratio of OLDs by 1% leads to decline ROA, ROE and TQ by 4.4%, 6.4% and 9.1%, respectively and vice versa.

Regarding the control variables, the BS is directly linked with FP (ROA: 24.96%, ROE: 19.43% and TQ: 15.34%), which supports the findings of Danoshana and Ravivathani (2019) and Merendino and Melville (2019). BO is also found to have positive impact on FP (ROA: 17.43%, ROE: 12.49% and TQ: 20.47%), confirming the findings of Rashid (2020), Khan et al. (2020) and Kao et al. (2019). FS is also positively correlated with FP (ROA: 30.46%, ROE: 39.41% and TQ: 19.95%) and accepts the findings of past studies (Rashid 2020; Vu et al. 2019). Moreover, the study finds non-significant the impact of FA on FP, which is in line with Rashid et al. (2020) and against with Vu et al. (2019) and Coad et al. (2018), who also find a negative impact of FA on FP.

Table 4: Second Stage GEE Regression: Firm Performance

Variables	Model 1: ROA		Model 2: ROE		Model 3: TQ		Decision
	Coefficient	p-value	Coefficient	p-value	Coefficient	p-value	
C	1.0348	0.0000 ^a	0.9318	0.0000 ^a	0.7194	0.0000 ^a	
GD	0.0348	0.0000 ^a	0.0407	0.0000 ^a	0.0241	0.0219 ^b	H ₁ : <input checked="" type="checkbox"/>
OD	0.0731	0.0000 ^a	0.0649	0.0064 ^a	0.0370	0.0304 ^b	H ₂ : <input checked="" type="checkbox"/>
FOD	0.1370	0.2418	0.1974	0.3418	0.0841	0.3740	H ₃ : <input type="checkbox"/>
BD	0.0269	0.0004 ^a	0.0381	0.0028 ^a	0.0187	0.0291 ^b	H ₄ : <input checked="" type="checkbox"/>
OLD	-0.0438	0.0274 ^b	-0.0637	0.0317 ^b	-0.0915	0.0415 ^b	H ₅ : <input checked="" type="checkbox"/>
BO	0.1743	0.0467 ^b	0.1249	0.0249 ^b	0.2047	0.0000 ^a	
BS	0.2496	0.0043 ^a	0.1943	0.0007 ^a	0.1534	0.0000 ^a	
FA	0.4681	0.3482	0.5236	0.4987	0.3842	0.5127	
FS	0.3046	0.0000 ^a	0.3941	0.0000 ^a	0.1995	0.0000 ^a	
R ²	0.7214		0.6931		0.6719		

Note: “(a) and (b) show level of significance at 1% and 5%, respectively; and show Acceptance and Rejection of Hypothesis respectively; Year effects included but not reported.”

CONCLUSION AND IMPLICATIONS

The study aims to analyse the effect of GD, BD, OD, FOD and OLD on FP using GEE regression. The sample of the study consists of 60 non-financial firms operating in Pakistan. The companies with incomplete data were excluded from the sample. Secondary data covering the period 2014 to 2019 are extracted from the annual financial reports of selected firms.

Key Findings

The findings reveal a positive impact of proportionate of GDs on FP. The findings provide support for hypothesis 1. It appears from the findings that GDs positively contribute to enhancing firm value, which implies that a firm may get assistance from the existence of GDs in maintaining and enhancing sustainability in FP. Inclusively, the results expose the significance of GDs on corporate boards and also support agency theory and the previous conceptual perception that GDs add value to a company (Baysinger and Butler 1985). The study also finds significant and positive impact of ODs on FP. The results support resource dependency and agency theories and thus acknowledge hypothesis 2. The results strengthen the recommendations of the “code of best practice of corporate governance” of Pakistani listed firms and supports the empirical findings by prior researchers (e.g., Shin et al. 2018; Kouki and Guizani 2015; Chang et al. 2012), who provide support for the addition of ODs on corporate boards. Moreover, the study finds insignificant impact of FODs on FP and rejects hypothesis 3. The results also report that BDs are statistically significant and positively related with FP, which is consistent with hypothesis 4. The coefficient between OLDs and FP is negative, indicating a negative impact on FP and provides support for hypothesis 5. The positive (negative) impact of BDs (OLDs) is supported by trade-off and managerial power theories.

Practical Implications

The outcomes of this research seem to have significant implications. The findings appear to show that GDs positively contribute to enhancing firm value, which implies that firms may get assistance from the existence of GDs in maintaining and enhancing sustainability in FP. Inclusively, the results expose the significance of GDs on corporate boards and also support the previous conceptual perception that GDs add value to a company (Baysinger and Butler 1985). The reformers of CG may exaggerate the probable benefits that GDs offer to a company as alternative NEDs execute different functions of boards in terms of control and strategy. Increased proportionate of IDs for monitoring of a board may lead to a decreased percentage of GDs, reducing the positive contribution of GDs on FP.

The positive contributions of ODs reported in this research offer valuable indications for the Pakistani regulators to estimate the effect of regulatory changes, whether appointing ODs is an effective and efficient tool to gauge the performance of firms. These findings are a crucial

guide for the investors of Pakistan to recognise whether appointing ODs can improve the structure of CG and, resultantly, provide them increased wealth. From a perspective of management, it is desirable for companies to search for suitable talent that garbs their strategy of business but the companies should avoid appointing ODs as a token toward the reforms of CG.

The outcomes obtained for BDs and OLDs could also be critical for policy makers in advising specific guidelines and recommendations for deciding the number of directors with multiple directorships as well as shaping board committees with multiple memberships. The regulators should be particularly cautious regarding these regulations, as the desire of a director to shape a rigorous reputation of good and effective control can be influenced by the stiff limit on the number of concurrent directorships. A synthetic limit on the number of directorships in registered firms can diminish the positive contributions of BDs, which might cause distortions in the directorial labour market. Accordingly, it seems that offering specific independence to the listed companies to decide the construction of their committees and board would be advantageous; imposing inelastic limit in such matters could lead firms to undesirable outcomes. The regulators must also cautiously review the requirements of being a director to make the market of directors more competitive and to energetically motivate qualified directors to contend in that market. The findings for the positive impact of BDs also imply that BDs are effective monitors, as they efficiently manage their efforts and limited time to perform their responsibilities, in a context of increased public scrutiny and high regulatory pressure. Thus, firms may offer more powers to BDs that may balance their monitoring ability, which ultimately improves FP.

Concluding Remarks

It is relatively unknown whether the enhanced focus on the independence of a board is able to increase the FP in the current framework of CG. Thus, this study analyses the impact of grey, outside, busy and overlap directors on FP. The study offers that the potential ways for interactions between directors and FP are built on the basis of four theories (agency theory, resource dependency theory, managerial power theory and trade-off theory) and past empirical findings. In line with the theories and code of corporate governance standards, the study draws the conclusion that grey, outside and busy directors (overlap directors) positively (negatively) contribute in improving FP. The study suggests increasing (decreasing) the ratio of grey, outside and busy directors (overlap directors).

Limitations and Avenues for Future Research

The findings of this current study are crucial and must be construed by taking in to consideration the following limitations that open doors for future researchers. First, this research focuses on observable economic and personal bonds defined by the “Pakistan Code of Corporate Governance (2019)”. It undervalues the impacts of unobservable friendship



affiliations between NEDs and EDs. Second, the outcomes estimated in the current study show average treatment impact that does not deny probable heterogeneity among individual directors and firms. Third, the study examines the impact on FP only. Whether newly appointed directors add to better compliance with regulations and laws, thus lowering the occurrence of scandals, is elsewhere the scope of current study. Fourth, the findings pinpoint the need to construct a more comprehensive and distinguished conceptual framework based on theoretical perspectives that incorporates potential performance of firms and the representation of directors.



REFERENCES

- Adams, R., & Ferreira, D. (2007). A theory of friendly boards. *Journal of Finance*, 62(1), 217–250.
- Almazan, A., & Suarez, J. (2003). Entrenchment and severance pay in optimal governance structures. *Journal of Finance*, 58(2), 519–547.
- Andries, P., & Stephan, U. (2019). Environmental Innovation and Firm Performance: How Firm Size and Motives Matter. *Sustainability*, 11(13), 3585.
- Arranz-Aperte, L., & Berglund, T. (2008). *Are busy directors good or bad for firm performance*. Unpublished PhD thesis, Swedish School of Economics and Business Administration, Helsinki, Finland.
- Baysinger, B. D., & Butler, H. N. (1985). Corporate governance and the board of directors: Performance effects of changes in board composition. *Journal of Law, Economics, & Organisation*, 1(1), 101-124.
- Baysinger, B., & Hoskisson, R. E. (1990). The composition of boards of directors and strategic control: Effects on corporate strategy. *Academy of Management review*, 15(1), 72-87.
- Bebchuk, L., & Fried, J. (2005). Pay without performance: The unfulfilled promise of executive compensation. *International company and commercial law review*, 16(11), 461-464.
- Bebenroth, R., & Donghao, L. (2007). Outside Directors and the Japanese Board Room: An In-Depth Study. *Corporate Board: Role, Duties & Composition*, 3(2), 28-36.
- Bhagat, S., & Black, B. (2002). The non-correlation between board independence and long term firm performance. *Journal of Corporation Law*, 27(2), 231-274.
- Bhagat, S., & Bolton, B. (2019). Corporate governance and firm performance: The sequel. *Journal of Corporate Finance*, 58(C), 142-168.
- Bremholm, A. (2015). *Foreign ownership and foreign directors—the effects on firm performance in Japan*. Masters thesis, Lund University, Lund, Sweden.
- Cadbury, A. (1992). Report of the committee on the financial aspects of corporate governance. London:
Gee. https://books.google.com.pk/books/about/Report_of_the_Committee_on_the_Financial.html?id=4l8sAQAAIAAJ&redir_esc=y
- Cameron, A. C., & Trivedi, P. K. (2009). *Microeconometrics using Stata*. College Station: Stata Press.
- Chang, Y. K., Oh, W. Y., Jung, J. C., & Lee, J. Y. (2012). Firm size and corporate social performance: The mediating role of outside director representation. *Journal of Leadership & Organisational Studies*, 19(4), 486-500.
- Char-Lee, L. O. K., & Chee-Wooi, H. O. O. Y. (2018). Does Busyness of Directors Matter in Reputable Firms?. *International Journal of Economics & Management*, 12(1), 339-350.
- Chen, C. W., Lin, J. B., & Yi, B. (2008). Two faces of busy outside directors. *Corporate Ownership and Control*, 6(2), 467-474.
- Cho, D. S., & Kim, J. (2007). Outside directors, ownership structure and firm profitability in Korea Corporate Governance, 15 (2), 239-250.



- Coad, A., Holm, J. R., Krafft, J., & Quattraro, F. (2018). Firm age and performance. *Journal of Evolutionary Economics*, 28(1), 1-11.
- Conyon, M. J. (2006). Executive compensation and incentives. *Academy of Management Perspectives*, 20(1), 25-44.
- Danoshana, S., & Ravivathani, T. (2019). The impact of the corporate governance on firm performance: A study on financial institutions in Sri Lanka. *SAARJ Journal on Banking & Insurance Research*, 8(1), 62-67.
- Di Pietra, R., Grambovas, C. A., Raonic, I., & Riccaboni, A. (2008). The effects of board size and 'busy' directors on the market value of Italian companies. *Journal of Management & Governance*, 12(1), 73-91.
- Falato, A., Kadyrzhanova, D., & Lel, U. (2014). Distracted directors: Does board busyness hurt shareholder value?. *Journal of Financial Economics*, 113(3), 404-426.
- Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *The Journal of Law and Economics*, 26(2), 301-325.
- Fernández Méndez, C., Arrondo García, R., & Pathan, S. (2017). Monitoring by busy and overlap directors: an examination of executive remuneration and financial reporting quality. *Spanish Journal of Finance and Accounting*, 46(1), 28-62.
- Ferris, S., Jagannathan, M., & Pritchard, A. (2003). Too busy to mind the business? Monitoring by directors with multiple board appointments. *The Journal of Finance*, 58(3), 1087-1111.
- Fich, E., & Shivdasani, A. (2007). Financial fraud, director reputation, and shareholder wealth. *Journal of Financial Economics*, 86(2), 306-336.
- Filatotchev, I., Toms, S., & Wright, M. (2006). The firm's strategic dynamics and corporate governance life-cycle. *International Journal of Managerial Finance*, 2(4), 256-279.
- Hahn, P. D., & Lasfer, M. (2016). Impact of foreign directors on board meeting frequency. *International review of financial analysis*, 46(6), 295-308.
- Hauser, R. (2018). Busy directors and firm performance: Evidence from mergers. *Journal of Financial Economics*, 128(1), 16-37.
- Hsu, H. H., & Wu, C. Y. H. (2014). Board composition, grey directors and corporate failure in the UK. *The British Accounting Review*, 46(3), 215-227.
- Huang, H. H., Hsu, P., Khan, H. A., & Yu, Y. L. (2008). Does the appointment of an outside director increase firm value? Evidence from Taiwan. *Emerging Markets Finance and Trade*, 44(3), 66-80.
- James, H. L., Wang, H., & Xie, Y. (2018). Busy directors and firm performance: Does firm location matter?. *The North American Journal of Economics and Finance*, 45(7), 1-37.
- Kalelkar, R. (2017). Effect of audit and compensation committee membership overlap on audit fees. *Asian Review of Accounting*, 25(1), 34-57.
- Kao, M. F., Hodgkinson, L., & Jaafar, A. (2019). Ownership structure, board of directors and firm performance: evidence from Taiwan. *Corporate Governance: The International Journal of Business in Society*, 19(1), 189-216.



- Khan, M. J., Kamran, M., & Imran, M. (2020). Impact of Ownership Structure and Board Composition on Firm Performance in Banking Sector of Pakistan. *Journal of Banking and Finance*, 3(1), 1-11.
- Kouki, M., & Guizani, M. (2015). Outside directors and firm performance: The moderating effects of ownership and board leadership structure. *International Business Research*, 8(6), 104-116.
- Krause, R., Filatotchev, I., & Bruton, G. D. (2016). When in Rome, look like Caesar? Investigating the link between demand-side cultural power distance and CEO power. *Academy of Management Journal*, 59(4), 1361–1384.
- Lee, J. H., Choi, C., & Kim, J. M. (2012). Outside directors' social capital and firm performance: A complex network approach. *Social Behavior and Personality: an international journal*, 40(8), 1319-1331.
- Levit, D., & Malenko, N. (2016). The labour market for directors and externalities in corporate governance. *The Journal of Finance*, 71(2), 775-808.
- Liang, K.-Y., & Zeger, S. L. (1986). Longitudinal data analysis using generalized linear models. *Biometrika*, 73(1), 13–22.
- Masulis, R. W., Wang, C., & Xie, F. (2012). Globalizing the boardroom—The effects of foreign directors on corporate governance and firm performance. *Journal of Accounting and Economics*, 53(3), 527-554.
- Mehran, H. (1995). Executive compensation structure, ownership, and firm performance. *Journal of financial economics*, 38(2), 163-184.
- Merendino, A., & Melville, R. (2019). The board of directors and firm performance: empirical evidence from listed companies. *Corporate Governance: The international journal of business in society*, 19(3), 508-551.
- Miletkov, M., Poulsen, A., & Wintoki, M. B. (2017). Foreign independent directors and the quality of legal institutions. *Journal of International Business Studies*, 48(2), 267-292.
- Mohd, K. N. T., Latif, R. A., Kamardin, H., & Adam, N. C. (2016). The effect of busy directors, CEO duality and ownership on firm performance. *International Information Institute (Tokyo). Information*, 19(8), 3149-3154.
- Pathan, S., Wong, P. H., & Benson, K. (2019). How do 'busy' and 'overlap' directors relate to CEO pay structure and incentives?. *Accounting & Finance*, 59(2), 1341-1382.
- Pfeffer, J. and Salancik, G.R. (1978). *The external control of organisations: A resource dependency perspective*, Harper and Row, New York.
- Pradit, W., & Jiraporn, P. (2018). Are Busy Directors Harmful or Helpful? Evidence from the Great Recession. *The BE Journal of Economic Analysis & Policy*, 18(2), e0249.
- Rashid, M. M. (2020). Ownership structure and firm performance: the mediating role of board characteristics. *Corporate Governance: The International Journal of Business in Society*, 20(4), 719-737.
- SECP (2019). Code of Corporate Governance Regulations, Pakistan. [https://www.psx.com.pk/psx/themes/psx/uploads/SRO_1163\(I\)2019-ListedCompanies\(CodeofCorporateGovernance\)Regulations_2019.pdf](https://www.psx.com.pk/psx/themes/psx/uploads/SRO_1163(I)2019-ListedCompanies(CodeofCorporateGovernance)Regulations_2019.pdf)



- Shiah-Hou, S. R., & Cheng, C. W. (2012). Outside director experience, compensation, and performance. *Managerial Finance*, 38(10), 914-938.
- Shin, J. Y., Hyun, J. H., Oh, S., & Yang, H. (2018). The effects of politically connected outside directors on firm performance: Evidence from Korean chaebol firms. *Corporate Governance: An International Review*, 26(1), 23-44.
- Swan, P. L., & Honeine, S. (2010). *Is Company Performance Dependent on Outside Director'Skin in the Game'?*. PhD thesis, University of New South Wales, Sydney, Australia.
- Vu, T. H., Nguyen, V. D., Ho, M. T., & Vuong, Q. H. (2019). Determinants of Vietnamese listed firm performance: Competition, wage, CEO, firm size, age, and international trade. *Journal of Risk and Financial Management*, 12(2), e62.
- Wang, C., & Giouvris, E. (2020). Firm Survival between Manufacturing and Non-Manufacturing Industries: Cultural Distance, Country Risk, Entry Mode, Market Size, Firm Age and Location. *The Chinese Economy*, 53(5), 1-20.
- Zahra, S. A., & Pearce, J. A. (1989). Boards of directors and corporate financial performance: A review and integrative model. *Journal of management*, 15(2), 291-334.