

DOES BOARD MULTIPLE DIRECTORSHIP DRIVE FIRM VALUE? STUDY OF NON-FINANCIAL COMPANIES IN THAILAND

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ABSTRACT

The authors intend to demonstrate the impact of board busyness through board multiple directorship and ESG scores towards firm value in Thailand within the period of 2018-2022. Theoretical frameworks such as the agency theory and stakeholder theory helps support the two hypotheses developed for busy directors and sustainability reporting. This paper originally specifies multiple directorships in publicly listed firms, excluding private organizations and foundations. This research optimizes a final data sample of 28 publicly listed non-financial companies resulting in 140 firm-year observations with full ESG disclosure in the 5-year time frame. The samples for board directorships and board size relies on a conventional data collection method by inspecting each firms' annual reports. Panel data regression with fixed effect model is used, and results show positive significant impact between multiple directorship and firm value. On the other hand, ESG shows no significant relationship towards firm value. This research specifically contributes to beliefs that busy directors have a notable impact on firm value based on their contribution in terms of providing information, advice, and especially the supervisory role.

Keywords: Board Busyness, ESG, Firm Value, Tobin's Q, Agency Theory

INTRODUCTION

Previous studies have highlighted the importance and critical role of board governance in one firm's performance (Afrifa & Tauringana, 2015; Assenga et al., 2018). However, no existing literature has expressed the specific optimal leadership structure needed in a board (James et al., 2018). Fundamentally, an organization's success rate depends on two main factors, externally and internally. External factors encompass a few different aspects, such as competitive environment to political conditions where it is difficult to manipulate for the benefit of the company (Kagzi & Guha, 2018). This aspect increases a company's need to maximize the utilization of their internal organizational structure to form a higher quality of governance. Through this research, the authors intend to analyze the effects of board multiple directorships and ESG Score towards firm value. Several papers have expressed the positive association between directors sitting on multiple boards and firm performance. These studies suggest that multiple directorship does not always bring a negative impact in an organization. A director who sits and serves in a number of companies in a certain period can be classified as a qualified director because the individual has alternatively more competence and experience than a director who does not have multiple positions (Ahn et al., 2010). Past research has also deeply expressed how the quality of directors influence a firm's financial decisions (Bin-Sariman et al., 2015). Additionally, a director who holds many positions with various companies helps a director paint a favorable reputation. But on the contrary, a number of studies have pointed out a different perspective, where board busyness shares a negative impact towards a firm's economic value (Bazrafshan & Hesarzadeh, 2021; Reguera-Alvarado & Bravo, 2017).

A director's role in a company involves two pivotal duties, which is to fulfill one firm's monitoring and advisory needs against the management (Hauser, 2018; Uhlaner et al., 2021; Viviers & Mans-Kemp, 2019). Both academics and practitioners pay close attention to the corporate governance system within a corporation (Trinugroho et al., 2022). Maximizing shareholder values is the corporation's primary goal, and in order to ensure that the top management conducts the business in accordance with the shareholders interest and values, the board of directors is chosen at the annual meetings as a representative of shareholders (Trinugroho et al., 2022). The association between board

composition and structures and business performance has already been extensively studied in this area (Ciftci et al., 2019). However, issues that currently rise to the topic is the ineffectiveness of monitoring duties held responsible by the directors appointed in one firm. Therefore, this paper aims to contribute to the study of the board's role of corporate governance, particularly in director demographics by assuming that certain characteristics of a board will influence management decisions and improve firm value.

In recent years, ESG has also gained the interest and attention of researchers as it provides a degree of significance for measuring firm performance in various different aspects (Díaz et al., 2021; Pollard et al., 2018). The rise of Environmental, Social, and Governance awareness increases the firms' willingness to express concern towards the external environment. This awareness is then measured by ESG as the index commonly used to measure the firm's contribution and responsibilities towards their surroundings. In the year 2000 only a mere 48 organizations had provided disclosure of their sustainability reports. Due to the rising trend of Environmental, Social, and Governance disclosure, according to the Global Reporting Initiative, as of 2017, the number of organizations worldwide that had publicly shared their sustainability reports had spiked to 12,075 firms (Melinda & Wardhani, 2020). There is an increasing demand for countries to consume a balanced amount of energy that limits emissions to the environment while also preserving the country's sustainable economic growth in light of rising concerns about global warming or climate change (Saboori & Sulaiman, 2013). The influence of ESG factors on a firm varies according to the state of one country's economy. In emerging and developing countries, the effect of ESG factors is notably significant (Lu & Khan, 2022). One study also conveys how ESG intensifies customer loyalty, which brings a linear increase in the operating profit margin even though the period of analysis was during the COVID-19 pandemic (Albuquerque et al., 2020) However, the direct relationship between ESG and firm value has still remained inconclusive throughout the years. Therefore following the footsteps of prior research, this paper intends to examine the importance of ESG performance and how it strongly enhances firm value.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Agency Theory

Multi-directorship boards in organizations are supported by numerous theories. In this paper, we implement the agency theory to describe the significance of busy directors towards an organization's economic performance. In a listed company, there are two separate entities, namely principals (shareholders) and agents (directors). An agent can be described as an individual who tends to uphold personal rather than collective interests of the management. A principal acting as the owner, is the individual who expects agents to act upon their best interests rather than the agents' own desires. Agency theory argues that when there is a separation between ownership and controlling roles in an organization, a conflict of interest will arise between shareholders and managers (Fama & Jensen, 1983). Because of this separation, agents may act upon personal interests mainly because agents have more knowledge and information than shareholders do (Siagian et al., 2013). This will cause unwanted agency costs and agency problems to arise in the company's operations. The agency theory provides a perspective that the board of directors is the main key that holds the responsibility to carry out the supervisory function in order to prevent these conflicts from occurring (Lin et al., 2014).

Stakeholder Theory

The stakeholder theory assumes that firms would take stakeholders' long-term objectives into consideration in addition to their own short-term goals within the company (Freeman, 1984). This theory suggests that an organization should take into account the actions the management makes with the goal of fulfilling the interest of stakeholders, as in outside investors, which represent the objectives of the firm. In other words, increasing stakeholder prosperity will favor raising the firm's value in the long run. One way is by managing and optimizing the governance as it will help act upon the stakeholder's interests. As understandably, stakeholders will also be curious towards a firm's efforts in the external society rather than just benefiting themselves. Samy El-Deeb, et. al (2023)

also suggests that investors tend to take ESG performance into consideration when making financial decisions.

Busy directors

Board multiple directorship refers to the busyness of the board of directors in an organization or corporate entity (Ferris et al., 2003). Prior research has approached different perspectives in measuring multiple directorships in one board. One of the past studies defines busyness as the total board meetings attended by a director in one firm year (Baccouche et al., 2014). That is because there is a sense of importance and significance in the presence of directors in board meetings towards the effectiveness of monitoring duties in one firm (Brick & Chidambaram, 2010). The more board meetings a director is obligated to attend, realistically the less board meetings are attended. This impacts the workload of the director, hence increasing the busyness of that director (Gray & Nolan, 2018). This paper defines busy directors as individuals that hold concurrent positions in multiple firms outside of the primary firm. This measurement excludes positions in private firms, foundations, charities, and non-profit organizations.

ESG

ESG which stands for Environmental, Social, and Governance is a three aspect framework which is part of sustainability reporting in most firms. This framework helps investors and potential stakeholders to assess the contributions a company makes towards their concerns in the external environment. As there is a recent rise in attention towards ESG, companies experience an increased voluntary action in disclosing their involvement in ESG through sustainability reporting (Samy El-Deeb et al., 2023). The rationale behind Environmental, Social, and Governance disclosures is the belief that ESG awareness will have a beneficial effect on an organization's reputation, since ESG disclosure brings a level of contribution to making the firm appear credible due to their concern and involvement for the environment. Furthermore, Li, et. al (2017) also proposes the idea of how ESG disclosures can increase firm value through the valuable trust built among stakeholders.

Busy directors and Firm Value

Following previous studies, a director is considered to be busy when they sit on the board and hold three or more directorship positions in other companies (Cashman et al., 2012; Ferris & Liao, 2019; James et al., 2018). Due to the busyness experienced by directors, an individual sitting on the company's board of directors will possibly experience difficulties in carrying out supervisory and advisory roles (Tan et al., 2019). Logically, involvement in multiple positions at the same time prevents a director from focusing on carrying out supervisory functions in one company. As the final authority to make a decision centers not on the individual director but the board of directors as a whole, so the busyness of the board of directors is a topic of argument that is quite often raised in current research. However, multiple directorship does not always bring a negative impact in an organization. A director who sits and serves in numerous companies in one certain period of time can be classified as a qualified director. That is because the individual has alternatively more competence and experience than a director who does not have multiple positions (Ahn et al., 2010). Additionally, a director who holds many positions with various companies will help a director paint a favorable reputation for them and the company they are representing. Respectfully, this paper develops the first hypothesis as stated below.

H1. Board multiple directorship positively impacts Tobin's Q (Firm Value).

ESG and Firm Value

Past researchers have long argued about the positive impact of ESG performance on firm value (Ahmad et al., 2021; Al-Issa et al., 2022; Fatemi et al., 2017; Maji & Lohia, 2022). Their findings are limited to the setting of observation in developed economies and the results vary based on the level of ESG Scores projected by each firm. High ESG firms experience a higher financial performance than low ESG firms. Hypothetically, higher levels of ESG awareness and commitment will increase firm efficiency and reputation which will indirectly lower agency costs and problems, leading to higher firm performance. Some recent studies have expressed a different perspective where ESG scores show no significant value towards firm performance (Atan et al., 2017; Makridou et al., 2023). But

this research believes that the high sense of responsibility in one firms' towards its surroundings will help firm value substantially grow. These arguments help justify this research's second hypothesis.

H2. ESG Score level brings positive impact towards Tobin's Q (Firm Value).

METHODOLOGY

Sample

This study examines Thailand as one of Southeast Asia's (ASEAN) countries with a currently developing economy, in a 5 year time frame from 2018-2022. The observations encompass non-financial firms publicly listed in the Thailand stock exchange. Financial firms are excluded from the sample because they have strict and special regulations as well as accounting standards which could not be generalized with other firm sectors (Samy El-Deeb et al., 2023). This study uses a balanced data panel for this paper regarding ESG score disclosure on Refinitiv (previously Thomson Reuters). According to Refinitiv, there are 793 non-financial publicly listed companies in Thailand. The initial sample consists of 33 firms with complete consecutive 5 year disclosure of ESG score. Firms with insufficient disclosure of director profiles on the firm's annual report are excluded from the sample, resulting in a total of 28 firms with comprehensive board information. For incomplete financial information, this observation completes the missing information by referencing financial statements and annual reports provided by each firm's official website or Thailand's stock exchange website. After completing missing financial information provided by Refinitiv, the final dataset for this study results in 140 firm-year observations. Table 1 summarizes the sample criteria.

Table 1. Observation details.

Sampling criteria	Total
Non-financial publicly listed firms between 2018 and 2022	793
Firms with non-consecutive 5 years disclosure of ESG score	(760)
Firms with insufficient director profile or annual reports	(5)
Firms that fulfill the criteria	28
Final sample (28 firms x 5 years)	140 observations

Measurement of Variables

Busy directors

In accordance with Trinugroho, et. al (2022), this study uses the ratio as a percentage of busy directors relative to total directors in the board rather than the dummy variable approach to determine board busyness. This paper perceives an outside directorship when directors hold concurrent position(s) in other public/listed companies. A board will be considered busy when 50% or more directors on the board based on board size are busy. Tan, et. al (2019) suggests that busyness will be defined with a dummy variable. A director that is busy is defined by "1" and a non-busy director as "0". A director will be considered as busy when each individual holds 3 or more outside directorships and is equivalent to "1", while a non-busy director holding less than 3 outside directorships as "0". The same as defining a busy director, a board defined as busy will be equivalent to "1" and a non-busy board as "0".

ESG

The environmental, social, and governance variable of this study uses ESG scores of non-financial listed companies in Refinitiv (Thomson Reuters) in the full 5-year time frame. Firms with incomplete ESG disclosure during the period of research are excluded from the initial sample, referencing previous studies (Adeneye et al., 2022) and (Asimakopoulos et al., 2021). Refinitiv measures ESG by grouping the 3 pillars to 10 categories. The environmental aspect covers resource use, emissions, and innovation, while the Social aspect encompasses workforce, human rights, community, and product responsibility. And the last aspect, Governance, consists of management, shareholders, and CSR strategy. Each pillar and category weighs differently which will sum and contribute to the final 0 to 100 percentage indicating the full ESG scoring, where 0 indicates the lowest and 100 as the

highest ESG performance. This paper believes that eliminating partial disclosures will lessen the effect of low representation regarding sustainability metrics during the observation period (Lu & Khan, 2022). The final sample consists of firms with a full 5 year ESG score disclosure within the Refinitiv database.

Firm Value

Following Bakry, et. al (2023), this research uses market value of equity and the book value of total liability as a gauge to calculate the firm's market value. This paper uses market capitalization from the Refinitiv database as the market value of total equity. It will be then divided by the total assets as the representation of the firm's intrinsic value, resulting in the Tobin's Q ratio.

Control Variables

Control variables used in this study are firm size (F_SIZE), firm age (F_AGE), board size (B_SIZE), return on assets (ROA), and a dummy variable (COV) to control the years 2020–2021 as the pandemic significantly affects the economy during this period of time. Firm size represents the company's scope, which is measured by natural logarithm of total assets (Hatane et al., 2022). The size of the firms may possibly be the primary driver of whether busy directors have a positive or negative effect on firm performance. Firm age calculated by deducting the current observation year from the IPO year (first year listed in the stock market) (Trinugroho et al., 2022). Firm ages denote the number of years a company has been listed on the stock exchange market (Kılıç and Kuzey, 2016). Board size is the number of directors on the board. Last, this paper uses ROA, which is calculated by income before taxes divided by total assets x 100% (Kuo et al., 2018). ROA demonstrates management's skill and willingness to employ business assets that belong to shareholders (Ujunwa, 2012). For the dummy variable COV, COVID years of observation (2020-2021) is indicated by "1" and non-COVID years (2018, 2019, and 2022) as "0".

ANALYSIS AND DISCUSSION

Analysis

Using descriptive statistics, this research summarizes the mean (average), standard deviation, minimum, and maximum of the sample population. Table 2 shows the results of the descriptive statistics which shows that the dependent variable TQ (Tobin's Q) has a mean of 2,081 with the minimum of 0,8289 held by PTT in 2022. The highest TQ value is 11,78 which belongs to the firm DELTA in 2022. For independent variables, ESG shows a mean for all 28 companies of 0,6376. The lowest value for ESG is 0,1442 which will be held by BEM in 2018. Meanwhile the highest value lies on the company DELTA in 2020 with a score of 0,9212. This shows that amongst companies with full 5 year ESG disclosure in Thailand, there is a significant distance between the highest and lowest ESG score. For the second independent variable, board busyness which is defined by B_BUSY shows an average busyness of the board of 0,2416. With the minimum value of 0 which indicates no more than 50% busy directors present on a board. The maximum value of 1 indicates a busy board with the presence of 50% or more of busy directors on the board. 9 out of 28 of the population has a busy board.

For the control variables, firm size shows that the minimum and maximum values of 22,98 and 28,86 which are in order, held by BEC in 2020 and PTT 2022. The average firm size value is 25,99 which shows that the gap between high and low values are not very significant. This suggests that listed companies in Thailand comply with a certain standard or criteria regarding firm size. For firm age, the average age for firms is 23,18. The minimum value of 1 belongs to GULF in 2018 and maximum value of 47 belonging to BJC in 2022 and SCC in 2022. Through this measurement, the findings show that the average board size of 13,16 directors on the board. The smallest board size is held by DELTA in 2018-2022, KCE in 2018-2022, and LH in 2018-2022 with the value of 9. However the largest value of 19 is held by TOP in 2018-2021. The mean value for the last control variable which is ROA, is 0,05922. The minimum value of ROA is -0,06941 which belongs to MINT in 2020 and the maximum value of 0,2494 belongs to BH in 2022. A negative ROA generally indicates that a

company is suffering a loss and not generating income/profits, which stems from a company not able to turn their investments towards profits.

Table 2. Descriptive Statistics.

	Mean	S.D.	Min	Max
TQ	2,081	1,763	0,8289	11,78
ESG	0,6376	0,1637	0,1442	0,9212
B_BUSY	0,2416	0,1541	0,0000	0,6364
F_SIZE	25,99	1,212	22,98	28,86
F_AGE	23,18	11,11	1,000	47,00
B_SIZE	13,16	2,689	9,000	19,00
ROA	0,05922	0,04920	-0,06941	0,2494

n=140

COVID	1	0	Total
Frequency	56	84	140

During the period of analysis, 2 out of 5 firm-year observations were affected by the COVID-19 pandemic, therefore the dummy variable COV is used. It is shown that 56 out of 140 observations were when COVID pandemic occurred.

Discussion

The first step this study approaches is determining the most ideal panel effect model for the variables chosen. Using the data panel pooled OLS regression model with robust standard errors. Next, the fixed and random effects models are tested with robust standard errors.

Table 3. Summary of panel effect tests.

	TQ <i>p-values</i>
Fixed effects estimator (A low p-value counts against the null hypothesis that the pooled OLS model is adequate, in favor of the fixed effects alternative.) Results	2,49924e-005 Fixed effect
Random effects estimator Breusch-Pagan test statistic (A low p-value counts against the null hypothesis that the pooled OLS model is adequate, in favor of the random effects alternative.) Results	7,8105e-005 Random effect
Hausman test statistic (A low p-value counts against the null hypothesis that the random effects model is consistent, in favor of the fixed effects model.) Results	0,139376 Fixed effect
White's test for heteroskedasticity With p-value $P(\text{Chi-square}(13) > 38,900986) = 0,000207 (< 0.05, \text{model has heteroskedasticity problem})$	Test statistic: $TR^2 = 38,900986$

Incurring a heteroskedasticity problem with p-value of 0,000207, the model is then treated as a Heteroskedasticity Corrected model. Collinearity tests show no multicollinearity problem since all variables have VIF < 10 as shown in Table 4.

Table 4. Heteroskedasticity corrected regression results.

	Coefficient	Std. Error	t-ratio	p-value	Collinearity
const	10,5421	1,55660	6,773	3,78e-010***	
ESG	0,361638	0,427417	0,8461	0,3990	1,469
B_BUSY	1,30119	0,389203	3,343	0,0011***	1,133
F_SIZE	-0,328617	0,0700936	-4,688	6,78e-06***	1,828

F_AGE	-0,0209723	0,00567182	-3,698	0,0003***	1,224
B_SIZE	-0,0643479	0,0280540	-2,294	0,0234**	1,548
ROA	11,3414	1,36932	8,283	1,18e-013***	1,167
COV	0,158160	0,118464	1,335	0,1841	1,068

Note(s): *, **, and * express significance level of 1%, 5%, and 10%, respectively.**

Table 4 shows Board business has a 1% significance (p-value = 0,0011) and positive effect towards Tobin's Q. The results indicate that having concurrent roles at numerous companies improves firm value, this paper's H1 is supported. As the main role of directors is monitoring and advising the management, a director's busyness level has many advantages and drawbacks. Past findings presume the same positive correlation between multiple directorship and firm value (Hauser, 2018; James et al., 2018). The results of this research show that the benefits outweigh the disadvantages of having multiple positions during one specific time frame. Researchers argue that holding multiple directorships in companies brings benefit to the firms as directors gain valuable insights and experiences (Ahn et al., 2010). Besides the experiences, external directors having multiple roles in outside companies helps directors expand their network which is essentially pertinent to gain new opportunities and overcoming challenges in the industry, based on the resource dependence theory (Pfeffer and Salancik, 1978). Reasonably, directors holding more than one position in different boards are commonly found during the span of this research during data gathering compared to directors that focus on just one position in the primary firm.

Subsequently, ESG (coefficient 0.4957) shows no significant impact towards Tobin's Q, thus H2 is rejected. This result can be interpreted that ESG scores do not show contribution towards a business' valuation. The population of analysis encompasses the country of Thailand which represents companies in the environment of a developing economy. From the Refinitiv database, there are a total of 793 publicly listed firms in Thailand. Nonetheless, 640 firms of the 793 firms in 2022 still did not publish a sustainability report. Even though sustainability reporting isn't mandatory in most countries, voluntary ESG disclosure still shows a positive correlation with firm performance in developed countries (Li et al., 2017; Mohammad & Wasiuzzaman, 2021). This paper's hypothesis assumes that this statement aligns in ESG performance towards firm value in developing countries, yet the outcome from the analysis shows otherwise. Atan, et. al (2017) who also analyzed Malaysia, a developing country, found that ESG shows no significant effect towards firm value. Hence, ESG does not help perceive a firm to be more valuable financially. Intriguingly in another study, ESG score shows negative impact towards firm corporate financial performance (Makridou et al., 2023).

As for the controlling variables, firm size, firm age, and board size shows a negative significant impact on Tobin's Q. On the other hand, ROA shows a positive significant correlation on Tobin's Q. This aligns with the justification where if a firm is able to utilize and enhance their assets, firm value will be favorably impacted. Like ROA, COV dummy variable shows a positive but insignificant relationship towards Tobin's Q.

CONCLUSIONS AND RECOMMENDATIONS

Connecting the bridge of economic performance, sustainability, and firm board multiple directorships, this study sheds light towards how the different variables contribute to firm value. Based on this research' perspective, with the dataset of non-financial listed firms in Thailand during the 5 year time-frame of 2018-2022, ESG score was not at the top of the list of factors that significantly affect company value. However, board busyness shows a positive significant impact towards a firm's Tobin's Q. As directors gain knowledgeable insights and experience, they will tend to bring a higher quality in their roles in advising and monitoring the management. These particular results are driven by the control variables used, namely firm size, firm age, board size, ROA, and dummy variable COVID.

Through the results, we recommend and encourage directors to hold multiple directorships as it increases director competency and experience, which brings positive impact towards firm value. On

the contrary, ESG should not be a main concern for the management when intending to increase firm value. Companies should be more compelled to take part in and report on their ESG activities.

Just like any other previous studies, this paper also has its limitations. The first notable limitation resides in the final sample population analyzed, which is vastly smaller compared to other researches held. It is also important to note that since the sample of this paper focuses on one developing country within Southeast Asia, these results might not be generalized to other research conducted in multiple developing economies.

Future research could further expand the sample towards more developing economies to further solidify this paper's findings. In addition, more control variables could be utilized, such as firm growth, leverage, and operating cash flow (OCF). Changing or adding other dependent variables mirroring the firm's value, such as firm profitability, could help strengthen the findings and support the findings in this paper. ROA and Gross Operating Profit may be a suitable accounting measure to calculate firm profitability.

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