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ECONOMIC VALUE OF ENERGY AND PETROCHEMICAL COMPANIES AND MULTIPLE DIRECTORSHIPS: EVIDENCE FROM SAUDI ARABIA

VALOR ECONÓMICO DE LAS EMPRESAS DE ENERGÍA Y PETROQUÍMICA Y DIRECTORIOS MÚLTIPLES: EVIDENCIA DE ARABIA SAUDITA

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ABSTRACT

The existence of multiple directorships is the case when a board member is serving on two or more boards or a number of other external appointments. This study aims to examine the impact of multiple directorships on a firm's economic values among Saudi listed companies using the busyness hypothesis. As for the methodology, this study collected secondary data from the annual reports of the listed companies that include corporate governance and firm-specific characteristics. In addition, this study reviewed the extant research related to the multiple directorships and firms' economic values. Using a sample of 140 Energy and Petrochemical companies for the period 2012-2019, the Ordinary-Least Square (OLS) results show that busy directors negatively influence the firm's economic value, measured as ROA and ROE. The findings of this study have theoretical implications in a manner that gives support to the busyness hypothesis in the Saudi context, which is considered a different setting from other studies conducted in other developed and developing countries in terms of politics, economic factors, and culture. This study adds additional empirical evidence in the unique setting of Saudi Arabia. In addition, the findings of this study could have practical implications to policymakers, shareholders, management, auditors, and other stakeholders in gaining a deeper understanding of how multiple directorships negatively influence the firm's economic value.

KEYWORDS

Corporate governance, multiple directorships, economic value, emerging markets, Saudi Arabia.

RESUMEN

La existencia de dirección múltiple es el caso cuando un miembro de la junta se desempeña en dos o más juntas o una serie de otros nombramientos externos. Este estudio tiene como objetivo examinar el impacto de la dirección múltiple en los valores económicos de la empresa entre las empresas saudíes que cotizan en bolsa utilizando la hipótesis de actividad. En cuanto a la metodología, este estudio recopiló los datos secundarios de los informes anuales de las empresas cotizadas que incluyen el gobierno corporativo y las características específicas de la empresa. Además, este estudio revisó la investigación existente relacionada con los múltiples directorios y los valores económicos de las empresas. Utilizando una muestra de 140 empresas de energía y petroquímica para el período 2012-2019, los resultados de los mínimos cuadrados ordinarios (OLS) muestran que los directores ocupados influyen negativamente en el valor económico de la empresa, medido como ROA y ROE. Los

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hallazgos de este estudio tienen implicaciones teóricas en el sentido de que respalda la hipótesis del ajetreo en el contexto saudí, que se considera un escenario diferente de otros estudios realizados en otros países desarrollados y en desarrollo en términos de política, economía y cultura. Este estudio agrega una evidencia empírica adicional en el entorno único de Arabia Saudita. Además, los hallazgos de este estudio podrían tener implicaciones prácticas para los formuladores de políticas, los accionistas, la gerencia, los auditores y otras partes interesadas para obtener una comprensión más profunda de cómo la dirección múltiple influye negativamente en el valor económico de la empresa.

PALABRAS CLAVE
Gobierno corporativo, directorio múltiple, desempeño de la empresa, mercados emergentes, Arabia Saudita.

1. BACKGROUND OF THE STUDY

A corporation's board of directors should undertake the essential tasks of monitoring the company and giving advice to senior managers (Aljaaidi et al., 2021; Hassan et al., 2020; Mace 1971). A board of directors is regarded as a crucial mechanism for internal governance, both to monitor the company and to control managerial performance whilst protecting the interests of shareholders. The board of directors is authorized to carry out monitoring of a company's strategy, ensuring that company management is endeavoring to realize organizational targets (Kamardin et al., 2014; Chou et al., 2014).

One of the most important issues influencing the board of directors' monitoring and advising functions is multiple directorships. This practice arises when a board member at one company holds external executive/non-executive directorships at another company. Most researchers offer a definition of a director as "busy" if the number of external directorships held by him or her is more than three (Fich, Shivdasani, 2006; Cashman, Gillan, Jun, 2012; Benson et al., 2014). In other words, multiple directorship exists when a board member is serving on two or more boards or a number of other external appointments (Kamardin et al., 2014; Chou et al., 2014). On the basis of the "busyness hypothesis" that is rooted from agency theory, the busier a corporate director is, the more negative the impact that he/she will have on the company (Méndez et al., 2015). Further, company owners should be able to have expectations that directors will always be dedicated to acting in the best interests of the company and its ownership (Jensen & Meckling, 1976). Board of directors holding multiple directorships may not have sufficient time to implement close scrutiny of internal control systems, which in turn can mean that they are not as effective in their monitoring of management. Having to share their attention and time over multiple directorships can make them less efficient in their duties (Fich & Shivdasani, 2006; Cashman, Gillan, & Jun, 2012; Falato, Kadyrzhanova, & Lel, 2014; Latif, Kamardin, Mohd, & Adam, 2013).

Pye et al. (2012) state that if directors hold numerous external board posts, they can become excessively busy, and this will prevent them undertaking their monitoring duties effectively by only focusing on the company board. Morck, Shleifer, and Vishny (1988) have stated that providing management with advice and overseeing company

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performance demands considerable work and time allocation; if directors begin to take on multiple directorships then the work and time they can offer to fulfil these responsibilities at any company will be adversely affected. Davis (1993) contends that multiple directorships can adversely impact both board independence and company performance. Sarkar and Sarkar (2009) find that as internal directors became busier with other directorships, negative reactions may arise, while impacting the stock market. Sarkar, & Sarkar (2009) reported a significantly negative relationship between the multiple executive directorships and firm performance measured as Tobin's Q. Additionally, directors who hold multiple directorships frequently do not attend board meetings (Chiranga and Chiwira, 2014; Jiraporn, Davidson, DaDalt, & Ning, 2009; Min & Chizema, 2018). Saleh, Shurafa, Shukeri, Nour, & Maigosh (2020) found that multiple directorships, particularly for independent directors, make companies less effective while impacting performance negatively. Lin et al. (2022) reported a positive relationship between multiple directorship and optimal incentives (pay-performance sensitivity).

Fich and Shivdasani (2006) revealed that companies with busy boards of directors where most external directors had more than three directorships have associations with weaknesses in corporate governance. Beasley (1996) found in his research that there is a higher likelihood of fraud if an external director holds more than two directorships. Kamardin and Haron (2011) found a negative correlation between the effectiveness of directors in terms of overseeing management if they had additional strategic roles. Mohd et al. (2016) showed that it was a recommendation of publicly listed companies that directors not pursue multiple directorships so that they remain highly engaged with their board duties for a single company. These companies have decreased market-to-book ratios, are less profitable, and have less sensitivity to CEO turnover in terms of company performance (Haniffa & Hudaib, 2006; Jackling & Johl, 2009).

Lee and Isa (2015) demonstrated that directors who do not have total commitment to their organization tend to have a negative impact on financial performance as they do not carry out effective cost monitoring duties. Latif, Voordeckers, Lambrechts and Hendriks (2020) reported a negative correlation between directors holding multiple directorships and the performance of Pakistani companies. Core, Holthausen, and Larcker (1999) concluded that when outside directors sit on multiple boards, CEOs are able to extract excess compensation. Shivdasani and Yermack (1999) showed a positive correlation between CEOs being involved in the selection of directors and busy directors being appointed. CEO involvement makes it more likely that extra board seats will be filled by directors holding multiple directorships. Shamsudin et al. (2018) found that directors who have a background in a number of industries due to holding multiple directorships may not follow management advice, and this can have an adverse impact on company performance. O'Sullivan (2009) further argues that executive directors holding multiple directorships will have a negative impact on company financial performance. Baatour, Ben Othman, and Hussainey (2017) revealed a positive correlation between multiple directorships and management of real earnings in Saudi Arabia. Liu et al. (2022) found that audit committee members sitting on multiple boardrooms unequally distribute their efforts based on the firm risks and not to firm size. In specific, multiple directorships and how they affect company performance is still a central question in research into corporate financing and governance. Berezints and Ilina (2016) have stressed that concepts of "busyness" have some ambiguity and may not be the same across institutions, cultures, and different national corporate law systems.

In Saudi Arabia, as the fifth-largest country in Asia, the second largest in the Arab world, and the largest in Western Asia, the room of board of directors is dominated by controlling shareholders, while friends and relatives constitute the board of directors. This may be indicative of member experience or it could possibly indicate time pressure encountered by the member. In addition, this situation may reveal potential conflicts of interest (Saidi, 2004). In particular, a paucity of research concerning multiple directorships is the case in the Saudi setting. The majority of the abovementioned extant research investigating multiple directorships were conducted in developed and developing countries, likely because they have comparable audit environments and advanced capital markets. As such, their results were conflicting and inconclusive. There are not enough empirical investigations that have been focused on the Arab countries, especially Saudi Arabia. Adding to this complication, it is difficult to conclude from the prior studies conducted on multiple directorships, their impact on a firm's economic value. Notably, there is no general agreement among the extant research on how multiple directorships influence firm value.

In particular, little is known, and many questions remain unanswered, about the impact of multiple directorships on economic value in the Saudi context. In addition, this study strives to answer the calls made by Healy and Palepu (2001) and Meyer (2006) who highlight that management research should consider the differences in the cultures, legal frameworks, geographies, and industry structures in predicting the relationships between certain factors. Otherwise, management theories explaining phenomena in Western countries may fail to predict the same phenomena in other countries. As a result, previous studies' findings might be unsuitable and irrelevant to the setting of Saudi Arabia. In light of these deficiencies, multiple directorship issues seem to require further empirical investigations. Yet, to the best of the researcher's knowledge, no empirical evidence exists that allows conclusive determinations to be made of how economic value is influenced by multiple directorships in Arab countries in general and in Saudi Arabia in particular. Alqahtani et al. (2022) find that multiple directors negatively influence the firm performance because this causes an increase in cash holdings, a decrease in capital expenditure, and an increase in SG & A expenses. The study conducted by Baatour, Ben Othman and Hussainey (2017) examined the effect of multiple directorships on accrual-based earnings management and real earnings management. In specific, what differentiates the

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Saudi Arabia market from the rest of the world may, in turn, lead to a different underlying correlation and analysis of multiple directorships with firm's economic value, and provide one more piece of evidence in the debate.

The rest of the paper is organized as follows. Section two highlights the data and methodology. Section three depicts the findings and discussions and section four details the conclusion and implication of the study.

2. DATA AND METHODOLOGY

2.1 Sample Selection

The population of the study is energy and petrochemical listed companies on the Saudi Stock Exchange (Tadawul) for the period 2012-2019. The final sample of the study consists of 140 year-observations. This selection is the most recent test period for which data were available. A cross-sectional review of annual reports for the sample of companies was undertaken. The selection of energy and petrochemical companies is due to the importance of these industries in Saudi Arabia. The energy sector is the backbone of the Saudi economy in which one quarter of the world's oil reserves is owned by Saudi Arabia which, in turn, gives Saudi Arabia the distinction as the largest oil producer and exporter. In addition, the Saudi petrochemical industry is an important sector for the non-oil economy. The chemical and plastic exports comprise a substantial 60 percent share of total non-oil exports.

Table 1: Sample Selection Procedure

Sample attributes	Number of observations
Total energy and petrochemical firms in Saudi Arabia, from 2021 to 2019	176
Observations discarded (Missing data and outliers)	(36)
Final sample	140

The corporate governance and firm characteristics data were collected by hand from the companies annul reports.

2.2. Data Analysis

This study uses the descriptive statistics to describe multiple directorships, board size, board meetings, firm growth, firm size, and leverage. The following models are estimated:

$$EV\ (ROA) = \beta 0 + \beta_1\ MDIR + \beta_2\ BDSIZE + + \beta_3\ BDMEET + + \beta_4\ FGRWOTH + \beta_5\ FSIZE + \beta_6\ LEV + e\ldots\ldots\ (1)$$

$$EV\ (ROE) = \beta 0 + \beta_1\ MDIR + \beta_2\ BDSIZE + + \beta_3\ BDMEET + + \beta_4\ FGRWOTH + \beta_5\ FSIZE + \beta_6\ LEV + e\ldots\ldots\ (2)$$

Where:

Dependent variables		
ROA	=	Return on assets
ROE	=	Return on equity
Test variable		
MDIR	=	The proportion of directors on the board of the company having at least one additional directorship in another company to total number of directors on the board
Control variables		
BDSIZE	=	Total number of directors on the board of the company
BMEET	=	The number of board meetings during the year
FGROWTH	=	The sales to total assets ratio
FSIZE	=	Log_{10} of total assets
LEV	=	Debt to total assets ratio
E	=	error term

This study controls for the effect of several variables that were reported by previous research for their potential confounding effect on the economic value. The expected sign for the association between the board size and economic value is positive (Omer & Aljaaidi, 2021; Omer, Aljaaidi & Habtoor, 2020a; Aljaaidi & Hassan, 2020; Al-Abbas, 2008; Al-Ghamdi, 2012; (Pearce & Zahra, 1992; Dalton et al., 1999; Kiel & Nicholson, 2003; Dwivedi & Jain, 2005; Coles et al., 2008; Jackling & Johl, 2009; Sheikh et al., 2012). The expected sign for the relationship between the board meeting and economic value is negative (Aljaaidi & Hassan, 2020;

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Omer, Aljaaidi & Habtoor, 2020a; Palaniappan, 2017). The expected sign for the relationship of the firm growth with economic value is positive (Coles et al., 2014; Reguera-Alvarado & Bravo, 2017). The expected sign for the relationship between firm size and economic value is negative (Omer & Aljaaidi, 2021; Omer, Aljaaidi & Habtoor, 2020a; Aljaaidi & Hassan, 2020; Omer, Aljaaidi & Habtoor, 2020b). As for the association between the firm leverage and economic value, the expected sign is negative (Omer & Aljaaidi, 2021; Omer, Aljaaidi & Habtoor, 2020a; Aljaaidi & Hassan, 2020; Omer, Aljaaidi & Habtoor, 2020b; Weir et al., 2002; Haniffa & Hudaib, 2006; Aljifri & Moustafa, 2007; Palaniappan, 2017).

3. FINDINGS AND DISCUSSION

Table 1 illustrates the descriptive statistics for the sample. Based on the final sample of 140 firm-year observations, the average number of directors sitting on more than one boardroom is 6 with a minimum of 0.00 and a maximum of 11.00.

Table 1: Descriptive Statistics

Variables	Minimum	Maximum	Mean	Std. Deviation
ROA	-.05	.90	.2068	.29435
ROE	-.10	8.80	.9929	2.12147
No. Multiple Directors	.00	11.00	5.8540	2.36562
MDIR	.00	1.00	.6849	.26079
BDSIZE	6.00	11.00	8.5255	1.15096
BDMEET	2.00	10.00	5.0073	1.44760
ASSETS	155992568.00	340041000000.00	30948759882.1000	74823531813.29596
SALES	25871000.00	189032000000.00	15654662531.0758	39348862667.34155
FGROWTH	.02	2.72	.5218	.44871
LEV	.01	.86	.4007	.23474

The average proportion of the multiple directorships is 0.68 with a minimum of 0.00 and a maximum of 1.00. This indicates that there are Saudi companies where all directors do not sit on any other boardroom and there are companies where all directors sit on more than one boardroom. As for the number of multiple directors, the average is about 6 with a minimum of 0.00 and a maximum of 11. This indicates that the multiple directorships in Saudi Arabia are high among listed energy and petrochemical companies, which influences negatively the firm's performance based on the busyness hypothesis.

Table 2: Pearson Correlation Analysis

	MDIR	FGROWTH	LEV	BDSIZE	BDMEET	FSIZE
MDIR	1					
FGROWTH	.047	1				
LEV	.020	.229**	1			
BDSIZE	.051	-.356**	.257**	1		
BDMEET	-.014	-.038	-.190*	-.113	1	
FSIZE	.140	-.231**	.518**	.439**	-.065	1

The correlation test in Table 2 shows that multicollinearity does not exist among the independent variables, as none of the variables correlates above 0.90. All the variables have a correlation of equal to or less than .518.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.801[a]	.642	.624	.18534

Tables from 3 to 8 depict the OLS regression results and the VIF for the tested variable. Table 3 indicates that the adjusted R^2 for the ROA model is 0.624, indicating that the ROA model has explained 62.4% of the variance of the total variance in the economic value.

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Table 4: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.505	6	1.251	36.410	.000[b]
	Residual	4.191	122	.034		
	Total	11.695	128			

Table 4 shows that the F-value for the ROA model is statistically significant at 1% level.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.717[a]	.514	.490	1.56825

Table 5 demonstrates that the adjusted R^2 for the ROE model is 0.490, indicating that the ROE model has explained 49% of the variance of the total variance in the economic value.

Table 6: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	316.921	6	52.820	21.477	.000[b]
	Residual	300.048	122	2.459		
	Total	616.969	128			

Table 6 shows that the F-value for the ROE model is statistically significant at 1% level.

Table 7: OLS Regression (ROA Model)

Model		B	t	Sig.	Collinearity Statistics	
					Tolerance	VIF
1	(Constant)	2.062	7.858	.000		
	Test variable					
	MDIR	-.136	-2.170	.032	.961	1.040
	Control variables					
	BDSIZE	-.008	-.474	.636	.711	1.406
	BDMEET	-.031	-2.669	.009	.960	1.042
	FGROWTH	.024	.567	.572	.714	1.401
	FSIZE	-.123	-4.498	.000	.616	1.623
	LEV	-.794	-8.667	.000	.635	1.574

Table 7 indicates that the multiple directorship *MDIR* is negatively and significantly associated with economic value, measured by *ROA* (β = -0.136, t = -2.170, P = 0.032, one-tailed significance).

Table 8: OLS Regression (ROE Model)

Model		B	t	Sig.	Collinearity Statistics	
					Tolerance	VIF
1	(Constant)	13.060	5.882	.000		
	Test variable					
	MDIR	-1.553	-2.927	.004	.961	1.040
	Control variables					
	BDSIZE	-.007	-.051	.959	.711	1.406
	BDMEET	-.142	-1.443	.152	.960	1.042
	FGROWTH	-.116	-.319	.750	.714	1.401
	FSIZE	-.813	-3.527	.001	.616	1.623
	LEV	-4.916	-6.344	.000	.635	1.574

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Table 8 demonstrates that multiple directorship *MDIR* is negatively and significantly related to economic value, measured by *ROE* (β = -1.553, t = -2.927, P = 0.004, one-tailed significance).

The results depicted by Tables 7 and 8 indicate that the sign of the multiple directorships is not sensitive to the change in the measurement of the economic values for either *ROA* or *ROE*. These results are also consistent with the prediction of the busyness hypothesis that stems from the agency theory. In addition, these findings are in line with the extant research (e.g., Kamardin and Haron, 2011; Fich and Shivdasani, 2006; Haniffa & Hudaib, 2006; Jackling & Johl, 2009; Lee and Isa, 2015; Latif, Voordeckers, Lambrechts and Hendriks, 2020; Core, Holthausen, and Larcker, 1999; Shivdasani and Yermack, 1999; Shamsudin et al., 2018; O'Sullivan, 2009).

It is hoped that this research furthers answering the call made by Berezints and Ilina (2016) who indicated that concepts of "busyness" have some ambiguity and may not be the same across institutions, cultures, and different national corporate law systems. In the same line, Healy and Palepu (2001) and Meyer (2006) indicated that management research should consider the differences in the cultures, legal frameworks, geographies, and industry structures in predicting the relationships between certain factors. Otherwise, management theories explaining phenomena in Western countries may fail to predict the same phenomena in other countries. As a result, previous studies' findings might be unsuitable and irrelevant to the setting of Saudi Arabia. In light of these calls, this study adds additional empirical evidence of the relationship between multiple directorship and firm performance. The findings of this study confirm what has been reported by previous studies using the busyness theory.

Multiple directorships among Saudi companies is common. Referring back to the descriptive statistics in Table 1, it turns out that more than half of the boardroom is busy with other companies' boards. This practice may influence the performance of companies, and specifically, the growth of the Saudi economy in general. It is more likely to find the same situation reported by Baatour, Ben Othman, and Hussainey (2017) in the setting of Saudi Arabia, where multiple directorships are related to management real earnings.

The phenomenon of board multiple directorships weakens corporate governance at the Saudi company level which, as a result, could expose Saudi companies to cases of fraud. In addition, busy directors may not have sufficient time to carry out their duties in terms of monitoring and advising. This, in turn, allows for less concentration on evaluating companies' internal control systems. This possibly results in board members being less independent as they become busier. In addition, busy board directors are more likely to be absent at board meetings. In summary, since multiple directorship practice has a negative impact on economic values for Saudi companies, action should be taken to limit this practice and engage board members to better prioritize their duties.

4. CONCLUSIONS AND IMPLICATIONS

4.1 Conclusion

The objective of this study was to examine the impact of multiple directorships on economic value in Saudi Arabia among Energy and Petrochemical listed companies for the period 2012-2019. This study finds that busy directors in more than one boardroom negatively influence economic value, measured as ROE and ROA. This result supports the busyness hypothesis that is derived from agency theory. This result is consistent with the findings of previous studies which reported that for various reasons multiple directors, in the context of Saudi Arabia, influences negatively on economic value. Busy board members may not have sufficient time to carry out their duties, neglecting close scrutiny of internal controls, which in turn, negatively effects their oversight and advising roles. Further, the busyness of directors affects their independence, meeting attendance, and weakens corporate governance. This study contributes to corporate governance and economic value issues in the literature by providing an initial negative empirical association between multiple directorship and economic value. It extends the line of previous literature providing for a different economic, political and cultural setting in the context of Saudi Arabia. Further, this study supports the predictions of agency theory in a new context that is different from others from developed and developing countries, given the lack of studies linking multiple directorships with economic value using the busyness hypothesis in the context of Saudi Arabia.

This study is still subject to several limitations. One limitation is that the study's model does not include other board of directors' characteristics such as financial expertise, CEO duality, and academic qualifications. A future line of research may consider including these characteristics in the context of examining multiple directorships with economic value. Additionally, audit committee characteristics and ownership structure are not included in the model for this study. Therefore, there is still an opportunity for future studies to examine these determinants. Finally, this study investigated the Energy and Petrochemical companies in the setting of Saudi Arabia. A future line of research may consider other industries in Saudi Arabia and/or replicate the same model in other Gulf cooperation countries or other emerging

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contexts. This potentially may be applicable to these countries due to the similarities in political, economic, and cultural conditions. Additionally, this study includes data for the period ranging from 2012 to 2019 in which the political and economic conditions are stable. During a time when a pandemic hits or there is a change in political or economic conditions, the link of multiple directorship and economic value may not remain the same.

4.2 Implications for Management and Stakeholders

The findings of this study may serve to enhance the practices of corporate governance in the setting of Saudi Arabia. The significance of having good corporate governance practices would be reflected positively by enhancing economic value. In particular, the results of this study could benefit banks in a manner that would assess the creditworthiness of Saudi firms where directors sit on multiple boards. In addition, this study could benefit either current or prospective investors by allowing them to be able to assess the quality of board of directors which may influence the firm's profitability. Further, Capital Market Authority (CMA) might also benefit by assessing the board quality of listed companies whose members sit on more than one board.

All types of audit firms incorporating in Saudi Arabia would benefit from this study by gaining a deeper understanding of their boardrooms by assessing policy regarding staying with current clients or attracting new ones. Both Saudi and emerging economies in general might further assess the busyness of their board rooms and determine how this practice influences a company's economic value. This may provide management with an opportunity to establish policies as to the number of boards the member can sit on. Furthermore, this study may provide may assist financial analysts with corporate governance best practices on behalf of their clients. Finally, students and researchers may benefit from this study by providing for further avenues of research focused on corporate governance and economic value.

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