St. Petersburg State University
Graduate School of Management
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# MULTIPLE DIRECTORSHIP AND PUBLIC COMPANIES' PERFORMANCE IN RUSSIA

Master's Thesis by the 2nd year student
Concentration – Master in Corporate Finance
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ЗАЯВЛЕНИЕ О САМОСТОЯТЕЛЬНОМ ХАРАКТЕРЕ ВЫПОЛНЕНИЯ ВЫПУСКНОЙ КВАЛИФИКАЦИОННОЙ РАБОТЫ

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## АННОТАЦИЯ

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| Описание цели, задач и основных результатов | Цель данной работы заключается в определении взаимосвязи между финансовой результативностью компаний и множественностью директорских позиций (как членов совета директоров, так и топ-менеджера). Для достижения поставленной цели были выдвинуты следующие задачи исследования:<br>1. Изучить понятие множественности директорских позиций, а также проанализировать существующие подходы к измерению занятости директоров.<br>2. Провести анализ исследований по взаимосвязи занятости директоров с финансовой результативностью деятельности компаний. Изучить соответствующие методы оценки финансовой результативности.<br>3. Проанализировать особенности корпоративного управления в России<br>4. Провести эконометрический анализ характера взаимосвязи занятости директоров с финансовыми показателями деятельности компании<br>5. Проанализировать полученные результаты и выдвинуть практические рекомендации<br>В рамках работы было проведено эконометрическое исследование на базе российских компаний, торгующихся на Московской бирже в период с 2014 по 2016 год.<br>Результаты эконометрического исследования подтвердили наличие положительной взаимосвязи между множественностью директорских позиций топ-менеджера и рыночным показателем результативности компании, измеренным с помощью коэффициента Тобина. Также, по результатам исследования была обнаружена негативная взаимосвязь между занятостью членов совета директоров и показателем операционной деятельности компании, измеренным с помощью ROA. |
| Ключевые слова | Совет директоров, генеральный директор, множественность директорских позиций, занятость директоров, финансовая результативность деятельности компании. |

## ABSTRACT


| | |
|---|---|
| Master Student's Name | Kristina Tsoi |
| Master Thesis Title | “Multiple directorship and public companies' performance in Russia” |
| Faculty | Graduate school of management |
| Main field of study | 080200 “Management” (specialization: Master of Corporate Finance) |
| Year | 2016 |
| Academic Advisor’s Name | Irina V. Berezinets, PhD in Physico-mathematical sciences, Associate Professor |
| Description of the goal, task and main results | The research goal of the paper is to determine the relationship between financial performance of Russian public companies and multiple directorship of the board directors and CEO. To achieve the goal, the following objectives of the research were formulated:<br>1. To analyze the concept of multiple directorship and approaches to its measurement;<br>2. To review the existing literature on the relationship between directors’ busyness and company performance. And to analyze different approaches to the measurement of company performance used in the previous studies;<br>3. To study the specifics of the corporate governance in Russia;<br>4. To conduct an empirical research of the relationship between busyness of the board directors/CEO and performance of the company;<br>5. To analyze the results of the empirical research, and provide practical recommendations<br>For the purpose of the study an econometric analysis on the sample Russian public companies listed on Moscow Stock Exchange from 2014 to 2016 was conducted.<br>The findings of the analysis indicated the positive relationship between the busyness of CEO and market performance the company, measured by Tobin’s Q. Moreover, the research revealed a negative relationship between the multiple appointments of board members and operating performance, measured by ROA. |
| Keywords | Board of directors, CEO, multiple directorship, director busyness, company financial performance. |

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## INTRODUCTION

It is hard to overestimate the importance of corporate governance for corporate success as well as for social welfare. Recent examples of massive corporate collapses resulting from weak systems of corporate governance have highlighted the need to improve and reform corporate governance at an international level. In the wake of Enron and other similar cases, countries around the world have reacted quickly by pre-empting similar events domestically. As a speedy response to these corporate failures, the USA issued the Sarbanes–Oxley Act in July 2002, whereas in the UK the Higgs Report and the Smith Report were published.

Indeed, there is a growing perception in the financial markets that good corporate governance is associated with prosperous companies. Scientists as well as practitioners are tempting to identify what corporate governance practices should be adopted, and what boards of directors and top-managers are able to implement those practices in order to improve company performance. In this regard, a lot of attention is paid to the issues of optimal board structure, including questions on board size, proportion of independent directors, gender and nationality diversity. Moreover, different personal characteristics of CEOs and board directors are examined on their relationship with company financial performance.

Recently, much of the criticism has been put forward regarding the efficiency of having board directors active on several boards, a phenomenon known as multiple directorships or busyness. From one point of view, it has been argued that multiple directorship inhibits the ability of the board directors to adequately monitor the management and carry out the strategic work, whereas busy CEOs shirk their responsibilities, and thus, destroy shareholder value. The argument for detrimental effect of multiple directorships can be stated in terms of the "busyness hypothesis" (Ferris et al., 2003), which postulates that a substantial number of directorial appointments can make directors over-committed and thereby compromise on their ability to act effectively on behalf of the shareholders. Several countries, like India, Malaysia and South Korea, have reacted on such concerns by imposing regulatory limits on the number of boards on which an individual director can serve. Other countries, including developed ones like the US and UK are still debating the pros and cons of imposing such mandatory limits. In Russia, there is no formal limitation on number of directorships for an individual; however, the Russian Corporate Governance Code states that: «Board members shall have sufficient time to perform their duties"… "Conscientious and efficient performance of his duties means that he should have enough time to devote to his work on the board, including its committees».

On the other hand, however, there is argument that directors with multiple appointments can serve shareholder interests by positively impacting company performance (Miwa and

Ramseyer, 2000), can benefit shareholders through offering them larger premiums in tender offers (Cotter et al., 1997), and can generate superior returns from acquisitions. The existing theoretical literature also highlights potential benefits from such directorships given the presence of a well functioning market for outside directors. The number of multiple directorships can signal a director's reputational capital so that a director with multiple directorships may proxy for high director quality (Fama, 1980, Fama and Jensen, 1983). Thus, having such directors on board can lead to better monitoring and thereby positively impact company performance. In addition, from a resource dependency perspective it is argued that directors with multiple appointments, by virtue of being more networked, can generate benefits by helping to bring in needed resources, suppliers and customers to a company (Pfeffer, 1972; Booth and Deli, 1995).

So far, the relation between multiple directorships and firm performance has been researched in the context of different countries. In this thesis we examine the effect that busyness of the main executors of corporate governance have on firm financial performance in Russian context. Despite the increasing interest to the phenomenon of multiple directorship, not many empirical studies on this issue in Russia can be found, whereas similar studies in other countries show mixed evidences. As a result, the study dedicated to the problem of multiple directorship phenomenon in Russian public companies can contribute to the development of the theoretical base on the issue of busyness and provide managerial implications for such companies.

This paper extends the existing literature on multiple directorships in two ways; first, by providing additional evidence on its effect on firm performance, but with respect to an emerging economy, Russia. Secondly, by suggesting a different effect of busyness on company performance depending on which performance indicator we consider. We propose that regarding company operating performance, busyness can indeed have detrimental effect following the logic of busyness hypothesis. However, when we look at market performance of the company with busy directors, reputational hypothesis can enter into force, allowing for higher estimation of the company value.

Moreover, despite the fact that majority of the literature has primarily investigated multiple directorship of board directors, we pay attention to chief executive officers' busyness as well, as we believe that different roles of these corporate bodies demands for the separate analysis of their characteristic, whereas the results of such analysis can bring a very important findings for the companies. As a result of this work, the suggestion about the restriction of outside directorships that a member of the board or top-manager can concurrently hold can be formulated as well as the role of specific characteristics in the realization of certain management strategy.

Therefore, the goal of the following thesis is to establish the relationship between board of directors and CEO busyness and the financial performance of Russian public companies, measured by accounting and market based values. To achieve this goal following research objectives were set:

- To analyze the concept of multiple directorship and approaches to its measurement;
- To review the existing literature on the relationship between directors' busyness and company performance. And to analyze different approaches to the measurement of company performance used in the previous studies;
- To study the specifics of the corporate governance in Russia;
- To conduct an empirical research of the relationship between busyness of the board directors/CEO and performance of the company;
- To analyze the results of the empirical research, and provide practical recommendations

The object of the current research is Russian public company listed in Moscow Stock Exchange. The subject of the study is the relationship between multiple directorship of board members and CEOs and financial performance of the companies. The methodology of the study is based on the financial, statistical and econometric analysis.

The sample of the companies that were investigated during the study includes 87 Russian open joint-stock companies listed on MOEX during the period from 2014 to 2016 and 84 companies in 2014. As a result, 227 observations were collected. Data on the financial and economic state of companies, as well as the characteristics of the board directors were obtained from the following sources:

- Thomson Reuters (Datastream);
- SCRIN database;
- Quarterly reports of the companies;
- Official web-sites of the companies

The rest of the paper is organized as follows. Chapter 1 covers main concepts of multiple directorship in the context of corporate governance. Chapter 2 outlines approaches to measurement of company financial performance. Chapter 3 contains a description of the sample and represents the econometric analysis of multiple directorships in public Russian companies. The study is summarized with the results of the analysis, limitations of the work, practical recommendations and directions for future research.

# 1. CHAPTER. THE PHENOMENON OF MULTIPLE DIRECTORSHIP

One of the main directions of the modern research in the field of corporate governance is the phenomenon of multiple directorships or busyness. The first chapter of the current study is devoted to this concept. In order to analyze the busyness phenomenon, we should consider the role and functions of the board of directors and Chief Executive Officers from the corporate governance perspective. Further, we define what constitutes multiple directorship and describe main theories on its relationship with the company performance. Finally, we conduct an analysis of the extensive academic literature on busyness, and study the specifics of corporate governance in Russia. The chapter will be summarized by a formulation of the research hypothesis.

## 1.1.Corporate governance

Corporate governance is defined as a set of processes, mechanisms and relationships through which companies are managed. It also determines the structure, which sets the company's goals and objectives, ways of achieving those objectives and monitoring performance. According to the Code of corporate governance proposed by Central Bank of the Russian Federation: "Corporate governance is a concept encompassing a system of relationships between executive bodies of the company, its board of directors, shareholders and other stakeholders". Corporate governance principles define the allocation of rights and obligations among participants of corporate relations and includes a set of rules and procedures for decision-making in the company.

A key function of corporate governance is to ensure the company's activities are executed in the interests of owners who provide financial resources. Corporate governance reflects and enforces the company's value and contributes to the firm's legitimacy and the credibility of its decisions and reporting (Luo Y. 2007). This is accomplished by effective cooperation of major parties: shareholders, board of directors, managers and other stakeholders such as employees, creditors, suppliers, local authorities. However, in practice, each group strives to satisfy its own interests that often do not match or, even more, contradict with each other. This occurs due to such a feature of corporate governance as the separation of ownership from direct control. A priority objective of corporate governance is in balancing interests of parties involved in the activities of the company. In theory, as well as in practice, corporate governance deals with the analysis of agency problems, which have arisen due to the separation of powers in the company. The essence of this problem lies in the resolution of conflicts between the principal (the owners of the company, potential investors, creditors) and the agent (top management of the company).

So far, many researchers have already addressed the corporate governance issues. However, in a separate area of the study A. Berle and G. Means defined it in the book - "The Modern Corporation and Private Property" (1931).

Contemporary interest in corporate governance has increased following the series of high profile corporate scandals of 2001-2002 (many of which included financial frauds) and financial crisis of 2008. In 2002, with increased attention of regulators and politicians to corporate governance practices, the Sarbanes-Oxley Act was introduced in USA aiming to restore public confidence in corporate governance. In addition to the Sarbanes-Oxley, which greatly tightened the requirements for financial reporting and its preparatory process, there are other important documents, such as The Cadbury Report (UK, 1992) and the Principles of Corporate Governance (OECD, 1999, 2004 and 2015). These documents represent a body of General principles and guidelines under which firms must operate in order to embody proper corporate governance. In addition, many countries have developed their laws and codes designed to improve the efficiency and transparency of corporate governance with attention to their local market specifics.

Corporate governance in Russia is mainly regulated by the Civil code of the Russian Federation, Federal laws "On joint-stock companies", "On securities market", "On protection of rights and legitimate interests of investors on the securities market" and regulatory acts of the Federal Service for financial markets (FSFM). In 2014, the corporate governance code entered into force; it was developed by Central Bank and approved by the Russian Government. This code has recommendatory nature; it provides Russian joint stock companies with basic guidelines on advanced standards for corporate governance and considers distinctive features of existing Russian legislation and practical aspects of relations on the Russian market.

The abundant number of recommendations developed in the field of corporate governance clearly shows the importance that participants of market relations assign to this issue. To date, a sufficient number of studies linking corporate governance and performance of the companies exists in the literature. It is possible to identify a number of benefits that companies can obtain when implementing corporate governance standards. Main advantages are:

- Easier access to capital markets;
- Reputation development;
- Increased efficiency;
- Reduction of the cost of capital and increase of the asset value;
- Risk reduction

As it was previously mentioned, the main participants of corporate governance are shareholders, board of directors and top management. Shareholders determine the overall objectives of the company. According to the article 47 of the Federal law "On joint-stock society", shareholders are the supreme governance body of the company, they are required to hold annual general meeting in the terms established by the Charter. Board of directors determines specific strategic objectives and ways of achieving them through monitoring and evaluating decisions of

company executives. Top management or the sole executive body (General Director, CEO) aims to implement advanced tasks and control current activity of the company.

The following paragraphs provide an in-depth review of the role and major functions of the board of directors and CEO in order to address the relationship between their characteristics and firm financial performance.

### 1.1.1. Board of directors

Board of directors represents the most direct form of corporate governance. The primary responsibility of the board of directors is to protect shareholders ' interests. The board of directors is engaged in strategic management of the company, developing financial and dividend policy of the business, as well as policies in the field of risk management, stimulation and evaluation of the top management.

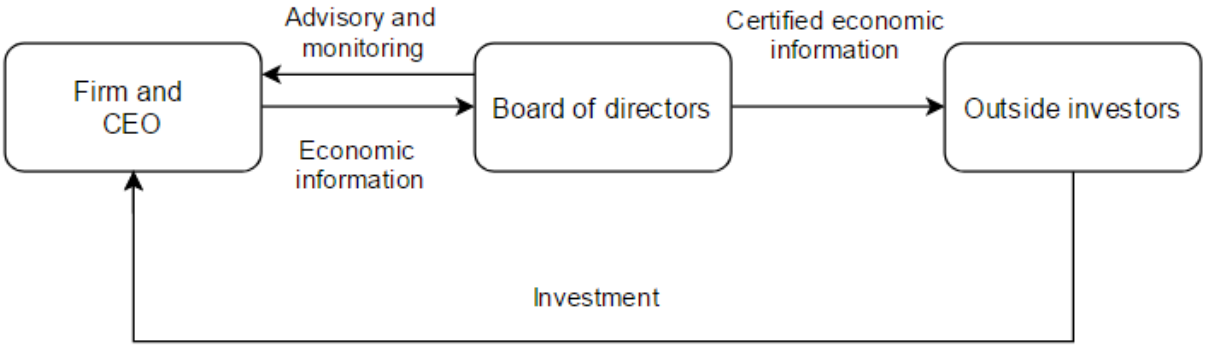


Figure 1. Interaction of the participants of corporate governance. Source: "A report on good board structure", T. Kirchmaier.

In practice, the major competences of the board of directors includes:

- monitoring activities of the company;
- hiring, dismissal, and remuneration of the senior management;
- control over the disclosure of information by the company;
- ensuring the realization of the rights and legitimate interests of shareholders;
- resolution of the corporate conflicts;
- analysis of strategic decisions, formulation of the recommendations to the top-management

Corporate boards are obliged "to exercise its rights and fulfill duties reasonably and in a good faith with respect to the company" (Federal law "On joint-stock companies", 1995, art. 650. The board of directors represents a complex structure, varying in size, composition, activities and other dimensions. Its structure defines the size and necessary board committees, such as

nomination, compensation, audit, and governance committees. The corporate board composition depends on the experience of the board members, skills and other important features. The processes determine the ways the information is gathered, the expertise is built and the decisions are executed in the board.

All joint-stock companies in Russia with the number of shareholders exceeding 50 people are required to create a board of directors. The number of its members is limited by the lower threshold depending on the total number of shareholders and cannot be less than 5. In a company with the number of shareholders from one to ten thousand, the number of directors at the board should be at least 7, and in companies with a number of shareholders exceeding ten thousand - not less than 9.

The Board of Directors may consist of executive, non-executive related or affiliated directors, and independent directors. Under the Law "On Joint Stock Companies", executive directors are defined as those members of the board, who concurrently hold positions as members of the managerial board. Non-executive related or affiliated directors do not work in the company itself, however, they may have some links with the company and interests in it activities. Independent directors, in addition to not working in the company, also should not have a personal interest in the affairs of the company through shareholders, contractors, state or other company employees. Thus, independent directors act as an independent consultant and controller, including monitoring functions in the board of directors, since affiliated members of the board of directors, as well as company managers, can exercise opportunism. An effective board should have balanced composition of inside and outside directors to ensure the presence of qualified representatives, impartial assessment and monitoring efficiency. In terms of the composition of the board of directors, the law establishes only the requirement for a maximum proportion of executive directors (that is, employees of the company) on the board - it should not exceed one quarter. Whereas, Code of corporate governance recommends that independent directors account for at least one-third of all directors in the board.

The board structure influences functioning, investment, financing and strategic decisions of the board, and, thus, is one of the fundamental issues to be analyzed. Considering the crucial effect of the board of directors on decisions taken in the company, a large amount of research has been devoted to how companies organize their boards and what characteristics determine its effectiveness (Weisbach, 1988; Byrd and Hickman, 1992; Brickle et al, 1994).

Many researchers have attempted to investigate the relationship between various characteristics of the board of directors and company financial performance. An extensive

academic literature examine the link between company performance and such characteristics as board size (Eisenberg, Sundgren, Wells, 1998; Mak, Kusnadi, 2005), proportion of independent directors (Weisbach, 1988, Yermack, 1996, Coles et al., 2008), gender diversity (Dawson, 1997; Adams, Funk, 2012), age of the board members (Rose, 2005). Moreover, recent researchers are increasingly paying attention to not only the structural characteristics of the boards, but also to the role of the knowledge, competencies and contacts of the directors, which enhance their ability to perform their key function (Brickley, Zimmermann, 2010; Kim, Mauldin, Patro, 2014).

Today, one of the highly debated directions of modern research in this field is phenomenon of multiple directorship or busyness. Generally, it examines the role of boards of directors with the emphasis on experience, connections and other valuable resources that enables directors to execute better advising. At the same time, multiple directorship is associated with increasing obligations, as well as time and energy commitments, whereas the boards must monitor and evaluate the immediate economic health and decisions of the firm, and report on these issues to its investors. Thus, the question arises whether a multiple directorship is beneficial or detrimental for the company where a busy director is working. More specifically, researchers are concerned whether there is a relationship between financial performance of the companies and multiple appointments of its directors. And, if such relation exist, what is the character of such relationship.

In general, there are two theories on directors' functions in the company: agency theory and resource dependency theory (Hillman and Dalziel, 2003). According to the agency theory, the key activity for boards is monitoring management on behalf of shareholders, as through effective monitoring companies can improve firm performance by reducing agency costs. In order to perform this function, directors have to have sufficient time and energy, whereas multiple directorship may be indeed detrimental.

Realizing that time and energy of directors are limited, reformers in the field of corporate governance have started to impose restrictions on the number of boards that directors are able to serve simultaneously. For example, the national Association of corporate Directors recommends to the board members and other senior executives take positions in no more than three corporate boards. In addition, the norms of corporate governance adopted by the Council of institutional investors suggests that individuals whose work involves the full rather than partial busyness, should not serve more than two firms.

In the United States, for instance, most of the companies have limited the number of company boards in which one person can hold director positions. For example, 74% of U.S. companies included in the S&P 500, set limits in 2011 for the number of positions held by directors

(Falato, Kadyrzhanova, 2014). Whereas in Russia, the current Code of Corporate Governance proposes that "the members of the board of directors are advised to notify their boards of the intention to hold positions in management bodies of other organizations" (Corporate governance Code, 2014).

The second theory suggests that the important board function is to provide resources to the firm (Boyd, 1990; Daily & Dalton, 1994; Píeííer & Salancik, 1978). Píeííer and Salancik state that "when an organization appoints an individual to a board, it expects the individual will come to support the organization, will concern himself with its problems, will variably present it to others, and will try to aid it" (1978). From this perspective, director busyness can be beneficial, as through the participation in boards of several companies directors get access to limited resources and best corporate practices.

All in all, the board of directors is a complex structure and a powerful governance mechanism, which has received a lot of attention. It is widely acknowledged that the level of the board involvement is significantly increasing nowadays. The effective work of corporate boards is an important factor of an increasing investment attractiveness of the company as well as increasing shareholder value. In order to be effective, each board must find the optimal balance between its main functions - monitoring and advising. Finding this balance is the crucial point concerning the question on how to structure the membership and operations of a board. Regarding the monitoring function, corporate boards must be active, independent and dedicate enough time in order to investigate and prevent serious problems with the efficiency of the top-management (Milstein, McAvoy, 1998). Whereas, the advisory capacity of the board is essential to the long-term economic value of the firm and consequently to its investors. Therefore, the question whether the multiple directorship is beneficial or detrimental to company performance is still open and demanding for further investigation.

### 1.1.2. CEO

The CEO is one of the key actors of the corporate governance and policy-making decisions. He has a social responsibility that consists in the implementation of two management principles: principle of corporate legitimacy and the principle of fiduciaries (acting as agent of all parties concerned). Adherence to these principles promotes competitive growth of the company, as effective consideration of the interests of the various participants of corporate relations ensures the involvement of the most valuable resources in the corporation (Libman, 2005).

The CEOs are hired in order to implement appropriate management decisions and increase company value. Firms incur exorbitant costs to recruit and retain talented CEOs in order to

maximize performance. Shareholders and board of directors of the company, in turn, affect the decisions of the CEO, providing incentives and monitoring his activities. The success of the company may also be subject to the effect of other factors relating to personal characteristics of the CEO. There is an argument that the CEO, in fact, has the biggest influence on the company activity and its policies, and, therefore, hold the greatest responsibility for its prosperity or failure. As a result, researchers and practitioners are highly concerned about various characteristics that CEO possess and, more specifically, how these characteristics affect his performance and company success.

A group of studies claims that activities of the top-manager are highly subject to institutional limitations, inertia, dependence on the chosen strategy and limited resources. Under this approach, CEO does not have the ability to exert significant influence on the company (Hannan, Freeman, 1977; DiMaggio, Powell, 1983; Haveman, 1993).

Nevertheless, most of the researches in management field conclude that there exist significant relationship between managerial characteristics and organizational outcomes (e.g. Hambrick and Mason, 1984). The most researched characteristics of executives include age, tenure and previous working and educational experience. The major concerns in this regard is that certain characteristics of top-manager may increase the probability of opportunistic behavior and negatively affect shareholders value.

The main management theory that supports the fact that CEO may affect performance of the organization is the agency theory. It assumes that the actual decisions made by the company executive may differ from the goals of other stakeholders and lead to the inefficient actions. Therefore, the choice of the right top-manager for the company is considered as increasingly meaningful task.

The study of the relationship between professional characteristics of CEO and effectiveness of companies can be analyzed from the theory of human capital (Becker, 2003), concept, which covers the knowledge and skills of the individual. Over the lifetime, individuals increase their capital by getting an education, professional experience and other useful skills. In the process of activity, using this capital, individual receives a reward – the return to human capital. Sometimes there is the opposite situation, when the accumulated knowledge becomes unnecessary, and the value of human capital decreases. The importance of the human capital theory is confirmed by the findings that the knowledge, skills and abilities of the individual can bring economic value of the company (Marshall,1890; Tsang,1987).

Experience is considered as one of the most effective ways of increasing human capital. There are four types of the experience that are of a greatest importance to the accumulation of human capital for CEO: work experience in current position, experience in the industry, experience in public service and experience in the board of directors of other companies. For example, in the study (Herrmann, Datta, 2002) it was found that with increasing tenure, CEO obtains a wider range of knowledge and experience. However, in (Sorenson ,1999) was discovered negative relationship between the duration of work of the management team of the company and its growth. Because of the contradictory results of studies, some scientists have suggested that the period of tenure of the head may have a nonlinear relationship with performance of companies (Cannella, Finkelstein, Hambrick, 2008).

Many scholars consider the chief executives as an entrepreneurial resource for the company. In the paper (Hambrick, Mason, 1984) authors analyze such CEO characteristics as education and overall psychological portrait. Scientists conclude that personal features of CEO and financial performance of the organization are significantly interrelated. The basic idea is that the estimation of the situation and the adoption of strategic decisions by CEO depends on his personal vision, which is formed by previous experience, knowledge, values and other characteristics. This approach is also known as The Upper Echelon Theory (UET). The main idea of the approach is based on the following assumptions: leaders assess the situation and take strategic decisions based on their personal vision of the problem; these decisions in turn affect the operations of the company as a whole, and as a result, its financial performance. Because of the difficulty of obtaining CEOs psychometric information, the scientists investigate their demographic (gender, age, nationality, etc.) and professional features (education, work experience, etc.).

One of the CEO profile characteristics that raised academicians and practitioners interest recently is CEO multiple directorship. It is a quite common phenomenon, when the CEO of one company is a member of the board of directors of other companies. Indeed, active top executives are one of the most demanded targets to the corporate boards. According to the research conducted by PwC ("Russian boards: selection nomination and election", 2015), when searching for independent directors, the board main targets are either active or retired top-executives (Figure 2).

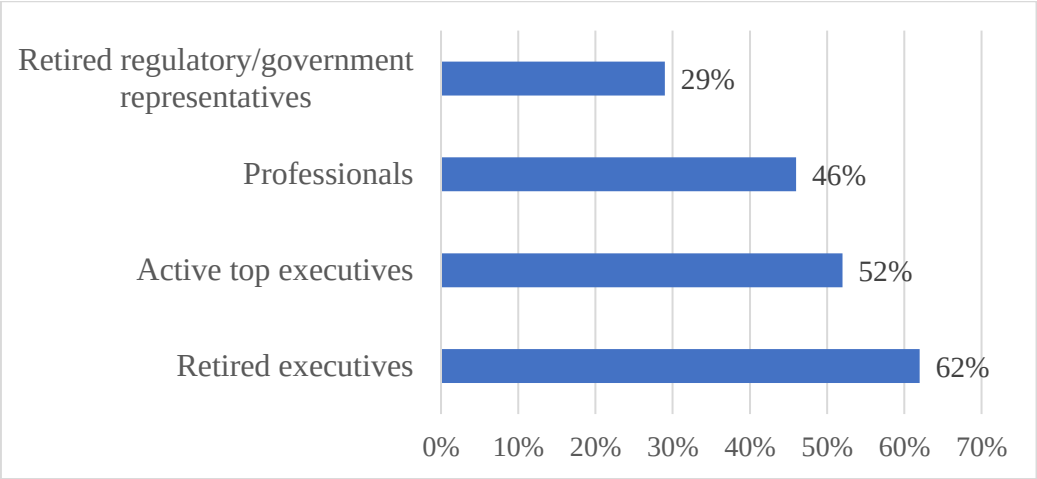


Figure 2. Questionnaire: Who are the main targets when searching for an independent director? Source: (PwC, 2015)

Recently, busy directors have been considered as those who can shirk their duties, especially in the light of increased director responsibilities. The main problem of the busy CEOs is that they can be too busy to perform their daily duties, and, therefore, their busyness can be associated with lower company performance. On the other hand, Benson et al. (2015) show that busy directors are important sources of knowledge, experience and they inevitably enhance company's performance during M&A deals, which means that executives with multiple board membership bring more benefits to the companies. Moreover, multiple board membership may signal the market about high quality and great competence of the CEO.

All in all, numerous studies indicate that diversity of managerial characteristics is important for strategic decisions and company performance. The various researches provide evidence on the relationship between the CEO personal features and financial outcomes of the organization. However, the effect of CEO busyness on the results of the company show contradicting results. In addition, the evidence on the Russian market is quite limited, which means that this issue has to be further addressed. Therefore, this paper, will contribute to the existing literature and explore how the representation of CEO in the board of directors of other companies is interconnected with the activities and financial performance of the company.

### 1.2.Multiple directorship

Multiple directorship occurs when a board member of one firm has some outside executive or non-executive directorships in another frim. The majority of scientists define a director with multiple positions as "busy" if he holds three or more outside directorships (Fich, Shivdasani, 2006; Cashman, Gillan, Jun, 2012; Benson et al., 2014). "Busy board" refers to the corporate board, where the majority of its members classified busy. However, not all scientists agree with

this criterion of busyness. For example, in the article (Berezints, Ilina, 2016) authors emphasize that the concept of busyness is ambiguous and may not have common interpretation due to institutional features, cross-cultural differences and specifics of corporate law in different countries.

Indeed, many researches (Fich, Shivdasani, 2006; Cashman, Gillan, Jun, 2012; Benson et al., 2014) have highlighted that three directorship positions as a condition of busyness may not be applicable to some developing markets, where it is common for director to be a member of ten boards simultaneously. In India, for instance, the number of concurrent directorships could achieve incredible amount - fifty, but after recent restrictions (Clause 49 of the Listing Rules) directors are eligible to combine positions in no more than ten boards (Pandey, Vithessonthi, Mansi, 2014). The study (Li, Wang, Dong, 2013) on financial companies in China discovered that on average members of corporate boards hold two positions, and 44% of the corporate boards are busy (with more than half of directors classified as busy).

In contrast, relatively small frequency of multiple directorship can be observed in developed markets. This is confirmed by the studies on the samples of companies from U.S., Canada and Western Europe. The study (Ferris, Jagannathan, and Pritchard, 2003) found that in 1995, 85% of selected companies' directors, consisting of 3 thousand companies in the U.S., served only one board, and another 10% of directors – two boards. In the paper (Ferris, Jagannathan, 2001) that analyzed boards of directors of more than 6 thousand companies in the U.S. and Canada authors came to the conclusion that only 13 percent of directors had more than one director's position. Analysis of the U.S. companies from the Fortune-500 in the work (Fich, Shivdasani, 2006) has discovered that 52% of directors can be classified as busy and the criterion of busyness corresponds to 21% of the boards.

Andres, Bongard and Lehmann (2003) have examined an alternative approach to the measurement of busyness on a sample of German companies. Authors have argued that simple counting of the positions held by director in the boards cannot serve as a reliable and effective estimation of the busyness. In order to determine the degree of busyness, it is necessary to conduct a detailed analysis of the structure of his social relationships and personal contacts. The study concludes that the maintenance of the major social networking can consume considerable time and intellectual resources, making involved directors extremely busy and deteriorating their ability to implement effective monitoring. This theory is also confirmed by the studies (Hwang, Kim, 2009; Ferriani et al., 2009) that have analyzed negative relationship between memberships in different informal institutions with directors' performance.

Scientists Cashman, Gillan, Jun (2012) have attempted to analyze directors' busyness from different angle as well. In the study (Cashman, Gillan, Jun, 2012) they claim that companies with multiple business segments require from directors a greater deal of time and effort than a company with one business segment and, thereby, the director holding a position in these companies must be characterized as more busy one. However, the results showed that the relatively straightforward definition used in the prior literature is appropriate and informative enough than the more complex and data-intensive proxies that were examined (Cashman, Gillan, 2012).

In the paper (Ferris, Jagannathan, and Pritchard, 2003) authors show that large and profitable companies with big board of directors are more apt to hire busy directors. It can be explained by the fact that such companies benefit from a large network of contacts from different fields and industries that busy directors possess. Moreover, it provides a company with valuable contracts. Moreover, according to (Field, Lowry, and Mkrtchyan, 2013) companies going for IPO also benefit from busy directors due to their experience, knowledge and contacts that these companies lack.

At this moment, it may be interesting to analyze the incentives for directors to hold multiple directorships. According to A. Filatov ("Why do managers go to independent Directors?"), CEOs believe that representation in the boards of other companies fosters self-realization and gaining professional experience in various sectors of the economy. In fact, directors learn the specifics of other industries and obtain diverse social contacts. It enables them to develop their human capital and increase overall reputation of the organization.

Another look to the motivation of directors proposed Mace (1971). According to his research, the main reason why directors accept multiple positions is financial compensation, prestige and experience of an outside director, so the board members are concentrated on maintaining their directorship, instead of effectively perform the function of monitoring management.

So far, a cornerstone in the study of the multiple directorship is a question whether it has a detrimental or beneficial effect on company performance. Here scholars do not come to the same conclusion, whereas studies in this area show mixed results (Table 1).

Table 1. Overview of the previous research on the relationship between multiple directorship and companies financial performance

| Research | Relation between directors busyness and company financial performance | Country |
|---|---|---|
| **Developed markets** | | |
| Fich, Shivdasani, 2006 | Market-to-book value – negative | USA |
| Andres, Bongard, Lehmann, 2013 | Market-to-book value – negative | Germany |
| Cashman, Gillan, Jun, 2012 | Tobin's Q; ROA; ROS; AT – positive for non S&P 500; negative for S&P 500 | USA |
| Omer, Shelley, Tice, 2014 | Market capitalization – positive | Different markets |
| Ferris et al., 2003 | Market-to-book value – not significant | USA |
| Field, Lowry, Mkrtchyan, 2013 | Market-to-book value; ROS – positive | USA, IPO |
| Lei, Deng, 2014 | Tobin's Q; Market-to-Book value – non-linear (positive → negative) | Hong Kong |
| **Developing markets** | | |
| Santos, da Silveira, Barros, 2008 | Market capitalization – negative | Brazil |
| Arioglu, Kaya, 2014 | Market-to-book value; ROA – not significant | Turkey |
| Li, Wang, Dong, 2013 | ROA – positive | China |
| Sarkar J., Sarkar S., 2009 | Market-to-book value - positive | India |

Overall, in literature, there exist two main theories on busy directors: the Busyness hypothesis and the Reputation hypothesis.

The Busyness Hypothesis states that directors serving multiple boards may not be able to monitor and advise management effectively due to the time constraints, event conflicts, and directors' effort (Ferris et al., 2003). The main problem is that multiple directorships implies higher overload for directors that is caused by participation in increasing number of meetings and reading more corporate reports.

Indeed, profound empirical studies have provided evidence supporting the busyness argument. For example, previous investigations find that directors' busyness is associated with the higher probability to be absent from board meetings (Jiraporn et al., 2009); the likelihood of financial statement fraud (Beasley, 1996); weak corporate governance, lower market-to-book ratios, lower profitability, and lower sensitivity of CEO turnover to firm performance (Fich & Shivdasani, 2006). In mergers, busy directors may not be able to negotiate good deals for their shareholders given the shortage of their time and efforts.

The authors of (Fich, Shivdasani, 2006) consider the relationship between firm performance and busyness in a sample of companies published in the Forbes 500 list. The survey results show that companies with busy directors on their boards have a lower market-to-book ratio compare to the companies where directors do not serve multiple boards. Moreover, the activities of such companies are characterized by lower rates of return on assets, return on sales and asset turnover.

In this regard, reformers as well as practitioners advocate restricting the number of directorships that can be held by one person. In some countries, these limits were fixed at the legislative level and through the recommendations of professional associations. In the United States, the National Association of Corporate Directors (1996) and the Council of Institutional Investors (2004) adopted resolutions calling for a limit on the number of directorships held by directors of publicly traded companies. The OECD Principle (VI) emphasizes that board members should be able to commit themselves effectively to their responsibilities. Moreover, the National Association of corporate Directors has published a recommendation according to which directors should devote a minimum of 228 hours of work in a particular board (Benson, et al., 2014). In the UK, the Combined Code of the Financial Statements proposes that executive managers of the companies should not take more than one additional director position in other companies (The Combined Code, 2013). Whereas in Spain, the Code of Good Governance recommends that firms

impose restrictions regarding the number of multiple appointments of the board directors (CNMV, 2006).

Following the restriction on the legislative level, numerous individual companies have introduced their own restrictions. As indicated by (Field, Lowry, and Mkrtchyan, 2013), in 2011 74% of U.S. companies included in the S&P500 has imposed restrictions on the number of director's positions for members of the corporate boards. According to PwC research on corporate boards in Russia, 19% of companies have set formal limitations for board members on holding directorship positions in other organizations.

Nevertheless, there exist theory, which highlights positive aspects of directors' busyness. The Reputation Hypothesis views multiple directorships as a proxy for high director quality (Fama, 1980; Fama & Jensen, 1983). It suggests that such directors are better monitors and advisors as director's knowledge and expertise can improve by prior management duties and directorships in other boards (Haunschild,1993; Haunschild & Beckman, 1998).

Consistently with the Reputation argument, empirical studies have provided evidence that multiple directorship is an important and valuable source of firm value (Ferris et al., 2003; Fich,2005; Harris & Shimizu, 2004; Keys & Li, 2005). In merger transactions, if most of the directors on the board have experience in dealing with similar situations, it may be easier for them to figure out the most favorable price for the firm.

Directors with multiple directorships by virtue of more networks are expected to generate benefits through delivering needed resources, suppliers and customers to the company. These directors are expected to have more experience and knowledge about industry; thus, they are capable to make effective strategic decisions. So far, researchers (Cohen et al., 2010; Horton et al, 2012) have found evidence that busy directors have a privileged and rapid access to information that enables better performance of the board members.

Through serving boards of several companies, directors have access to information and resources that are not available for investors. This may be the best corporate practices, recent market trends and other valuable information resources exchanged between. According to this hypothesis, a director of the acquired knowledge as a result of involvement in the boards of several companies have a beneficial effect on the function of counseling lead to improved performance of the company and increase value for shareholders.

In addition, there is supportive evidence that labor market values busy directors higher (Keys & Li, 2005), and such directors are of a greater demand than their non-busy counterparts

(Linn & Park, 2005). For example, the study (Harris and Shimizu, 2004) has shown that busy directors are three times more likely to receive new appointments.

Moreover, the researchers Elyasiani, Zhang (2015) analyzed bank holding companies and found that the active CEO of one company unlikely to be the problem officer (to miss more than 75% collections) to another company and that company, in which there are busy executives show better performance and lower levels of risk . The authors find evidence that, even with time constraints directors may fully perform their duties, develope their human capital and increase value for the company.

Scientists Masulis, Mobbs (2014) found the support of the reputation hypothesis. According to their study, busy directors consider the multiple directorship primarily as a way to increase their human capital and seek to fulfil their obligations for monitoring management effectively. Moreover, they say that busy executives tend to rarely miss a meeting of the corporate boards if they treat the company more prestigious and able to have a greater impact on their reputation in the labor market. Fama and Jensen (1983) also argue that participation in the corporate boards creates an incentive for director to work efficiently because otherwise, his human capital can be damaged. Multiple directorship gives the market a signal that director can properly perform his functions, once he is invited to the boards of other companies. Ferris et al. (2003) find evidence that the past performance of the companies in which the director worked is positively associated with the number of seats the director holds in boards of other companies. The authors of (Adams et al., 2010) also believe that directors are busy, because they are considered as better professionals.

It is worth mentioning, that the number of authors have suggested the presence of a nonlinear relationship between multiple directorships and various indicators of the company performance. In paper (Ahn, Jiraporn, Kim, 2010) authors discovered that the relationship between directors' busyness and financial performance of the company is irrelevant as long as the number of directors positions do not reach a certain level, after which the association becomes negative.

The authors of the study (Chen, Lai, Chen, 2015) also make the assumption that there is a nonlinear relationship between the multiple appointments of directors and financial performance. According to their results, there is negative association between the firm financial performance and either very high or very low directors busyness; otherwise, the relationship is a positive.

Thus, studies of the relationship in developed markets receive different results: positive, negative, as well as non-linear relationships depending on the samples studied, as well as on approaches to research. Such diverse results only increase interest in studying the relationship

between the employment of directors and financial performance on a sample of Russian companies.

### 1.3.Specifics of corporate governance in Russia

This part of the paper examine specifics of corporate governance in Russia, with an emphasis on the role of corporate boards and CEOs in Russian companies. Further, it will allow us to formulate hypothesis of the research, as well as interpret results of the empirical analysis more adequately.

As it we have already mentioned, effective corporate governance is crucial to all economic transactions. It is even more important for transitional and emerging economies (Dharwadkar, George, Brandes, 2000). If we take a particular look on Russian economy, we can note that business and management have experienced substantial change during the last two decades as the country has moved from the centrally planned Soviet system to a market-oriented economy. Development of the corporate governance in Russia has started with the privatization in the 90-s. Despite its short history, there have been developed the variety of laws and codes on the regulation of corporate governance system in Russian companies. The major documents include: Civil Code of the Russian Federation, the Federal Laws "On Joint-Stock Companies," "On the Securities Market," and "On Protection of the Rights and Legal Interests of Investors in the Securities Market," and Russian Code of Corporate Governance. The most important features of Russian Federal law on joint stock companies include:

- Minimal size of the board of directors, which is linked to the number of shareholders (not less than 5 directors);
- Total representatives of executive body on the board is less than one quarter;
- CEO duality is prohibited to take a chairmanship of the board of directors.

Similar to many transitional economies, Russia has an unstable environment, therefore the process of adoption of best corporate practices is quite limited. According to McCarthy and Puffer (2008) there exist a high tendency to circumvent laws and recommendations, as they are seen mostly unnecessary and unclear. The main features that shape corporate governance in Russia include high private benefits of control, high ownership concentration, weak legal enforcement and not sufficient transparency of the business. It is supplemented with a high influence of the state and hostile attitude to outsiders (Judge, Naoumova, 2004). As a result, capital markets in Russia are still underdeveloped.

The dominant mechanism of corporate governance in Russia is the ownership structure. According to the results of researches, conducted by scientific centers in Russia, the ownership structure of Russian companies is characterized by relatively high level of concentration, which

results in exercising control over the company by the dominant owner or consolidated group of such owners. Concentrated ownership and large business groups was a response to multiple market and government failures (Khanna and Yafeh 2007). By mid 2000-s, large-scale business groups controlled about 40% of Russian industry in terms of both revenues and busyness (Fiedorczuk, Grabowiecki, 2014). In 2010 about 60% of the largest companies had a single shareholder (including the state) holding a majority stake. Controlling owners are able and have strong incentives to closely monitor managers and fire them for poor performance, they are often closely involved in day-to-day operating management themselves.

However, due to the increasing scope and complexity of business as well as rising competition in Russian market, owners are prompted to delegate the management over companies to real professionals, otherwise success of the business will be undermined. Qualified managers started to appear in Russia recently and their number is increasing every year. However, the delegation of rights flows very slowly and painfully as owners do not trust outside managers and have concerns about their possible opportunistic behavior. In addition, management of the companies in most of the cases was adjusted to one person with autocratic leadership style, whereas business contracts were directly associated with the sole leader. Thus, it leads to an extreme difficulty of passing management over company.

Another important feature of corporate governance in Russia is a reliance on developed system of personal networks and economy of favors, which is strongly embedded in every aspect of business relationships. Russian managers relied excessively on informal cognitive structures (Scott, 2008), such as personal communication to conduct business (Khanna & Palepu, 1997).

This system has its roots in the Soviet Union time when an inefficient system of resource distribution and allocation was dominant. It allows for an extensive applicability of contacts in order to gain access to different scarce resources from external environment for organizational as well as personal needs. From this perspective, many companies presume that one of the most significant role of the CEO and board of directors is to establish linkages to the external environment and negotiate best terms and conditions of the business deals.

In order to attract foreign and domestic investments, Russian companies have to pay attention to recently developed market economy and corporate governance mechanisms by means of efficient and well-functioning top-management and corporate boards (McCarthy and Puffer, 2008; Peng, Buck, Filatochev, 2003). The study (Black, Love. Rachinsky, 2006) of relation between Russian companies' level of corporate governance and firm value has proved that high level of corporate governance is associated with a higher firm value. However, the development of corporate culture has shown to be difficult for numerous Russian companies, whereas the implementation of the Corporate Governance Code of Conduct has varied across corporations

(Judge and Naoumova, 2004). As this code is not obligatory and of a recommendatory character, many companies have found it is unnecessary or very difficult to implement. That has resulted in a lower level of corporate governance for many corporations, lower value for minority shareholders and, as a consequence, lower value of the companies as a whole (Wright et al., 2003). The recent global crisis has highlighted that the real level of corporate governance in Russian firms is still markedly below that of their counterparts from developed countries.

Nevertheless, corporate governance has improved over the last decade, especially in the large listed firms. Companies have become more transparent, corporate board composition and procedures as well as remuneration practices have improved, and rights of minority shareholders are now respected more than in early 2000s. To a large extent, these improvements can be explained by companies' desire to access international financial markets in a situation of growing investment needs, on the one hand, and global competition for funds, on the other hand. At the moment the Russian capital market is under a distress related to the increase of the risk premium, increase of the discounting rates. Due to this reason, the determination of an optimal structure of the board of directors and choice of the right company management is an important issue.

In 2002, the first Russia's Code of Corporate Conduct was released. Its goal is to improve corporate governance rules in Russian companies, increase the protection of shareholder's rights, and improve the information transparency. It emphasizes the role of the boards, which considered to be a crucial element in enhancing the investors' confidence in the credibility of Russian companies

Within the companies that are oriented on long-term development, especially where shareholders retreat from the operating management, the role of the board of directors increase sharply. The practices of boards of directors are improving, and in recent years, it has become urgent for an increasing number of both private and public companies. In this regard, both the professional community and the state with regulators have begun to pay close attention to the issues of corporate boards structure and composition. Boards do not play decorative role any longer – they do really work and develop strategy. According to the research on boards of directors in Russia conducted by PwC in 2015, when accepting a directorship, respondents primarily considered a company's reputation and the possibility of adding value and making a real difference, as well as improve business strategy and financial strength of a company.

In this regard, Code and corporate charters develop number of restrictions and recommendations on board composition and state clearly all the duties and obligations of board members. Survey (Pwc: "Russian boards: selection, nomination and election", 2015) shows that, in practice, 90% of the top 50 Russian public companies set limits on the number of board members in their in-house documents.

Considering the number of multiple appointments that directors and CEOs of Russian public companies can hold, there is no legal restriction. However, the Corporate Governance Code developed by the Central Bank of the Russian Federation states that directors should have sufficient time to fulfil their duties, meaning that too many additional directorships may be detrimental and should not be acceptable. Moreover, directors are strictly advised to inform companies about their appointments to another companies' boards.

It is worth mentioning, that recently many large public companies impose their own recommendations and restrictions on the issue of multiple appointments of their board directors. For instance, the Corporate Governance Code of OJSC "Bashneft" № 16-2015 from 02.10.2015 indicated that when deciding on accepting positions in the management bodies of other companies, the members of the board must proceed from the availability of sufficient time for proper performance of their duties in OJSC "Bashneft". However, there is no quantitative restriction on multiple directorships.

Therefore, it can be concluded that the question of directors' busyness raises a close attention from the government, as well as companies, which are oriented on the long-term development. From one point of view, directors and CEOs busyness can be detrimental for companies operating processes. From another perspective, directors improving experience as well as connections from multiple appointments can provide companies with an access to scarce resources and encourage the implementation of best corporate practices. Indeed, there are arguments both, in favor of the positive, and in favor of the negative interconnection between directors busyness and firm performance. Yet, the number of studies in the context of Russian Federation is quite limited. Therefore, this research is aimed at providing a valuable insight on the question of particular importance – "Is there a relationship between financial performance of Russian public companies and multiple directorship of the board of directors and CEOs?"

### 1.4. Hypothesis formulation

In the Chapter 1 we considered one of the main directions of researchers in the field of corporate governance - phenomenon of multiple directorship or busyness. Recently, the issue of multiple directorships has caused a great deal of interest among researchers. Scholars' opinion concerning busy directors is divided. Overall, it was revealed that director busyness is more typical for emerging markets. There are papers that justify a positive relation (reputation effect), a negative relation (busyness effect), and the lack of a relation (Kiel and Nicholson, 2006). A combination of both effects is also possible: initially there may prevail reputation effect until a threshold, after which the accumulation of too many boards turns the relation into a negative one. Lack of

consensus can be explained by the fact that national and institutional characteristics of the countries being analyzed are different. Moreover, the needs of large companies with multiple segments may differ from the smaller fast growing firms.

The positive effect of multiple directorship is supported by the Reputation Hypothesis, which suggests that directors are busy for good reasons, and busy directors are better monitors and advisors. Consistent with the high quality or reputation argument, empirical studies have provided supporting evidence that directorship accumulation is an important and valuable source of firm value (Ferris et al., 2003; Fich,2005; Harris & Shimizu, 2004; Keys & Li, 2005). Conversely, the Busyness Hypothesis states that busy directors neglect certain aspects of their directorships due to lack of time and commitment; such directors are not able to monitor and advise management effectively because of time constraints, limited efforts, and event conflicts (Ferris et al., 2003). Therefore, we propose following hypotheses:

*Hypothesis 1:* There is a negative relation between busy board directors and operating performance of the company.

*Hypothesis 2:* There is a negative relation between busy board directors and market performance of the company.

Further, we have indicated that most studies with respect to the US and other developed markets tend to focus on the busyness of independent or outside directors (Sarkar, Sarkar, 2009). However, busyness of the CEO must be under concern as well, regarding his unique role in the company. In this study, we suggest that busy CEOs may differ from busy board directors as we believe that the factors that determine multiple directorships for these two groups are likely to be different, as well as the relationship with firm performance.

It is claimed that good performing CEOs are more likely to hold outside directorships (Fich, 2005). Moreover, rational CEOs are not likely to accept outside directorships if they cannot handle the workload because of the potential reputation damage (Benson et al, 2015). In addition, considering the high demand for CEOs as outside directors and the limited supply, chief officers can select boards of good-performing firms and maintain their reputation. As previous studies show, CEOs are not likely to accept director appointments in firms with high work load and high risks (Fahlenbrach et al., 2010; Linck, Netter, & Yang, 2009). Sound firms may not require that busy executives dedicate too much time or effort in their firms. Whereas, CEO commitment to high quality monitoring and advising can cancel out some of the negative effects of their busyness. For instance, Faleye (2011) finds that chief executives are associated with higher acquisition returns in the appointing firms, suggesting that CEOs provide advising benefits to the appointing

firms. Multiple directorships can provide CEOs with additional certifications for their managerial skills and performance in the "home" companies. Therefore, following hypotheses of the research were formulated:

*Hypothesis 3: T*here is a positive relation between CEO busyness and operating performance of the company.

*Hypothesis 4:* There is a positive relation between CEO busyness and market performance of the company.

# 2. CHAPTER. FINANCIAL PERFORMANCE MEASURES

Since this research is aimed at revealing the relationship between the multiple directorship and financial performance of Russian public companies, it is necessary to define methods for measuring the financial performance of companies taking into account the advantages and disadvantages of each indicator. There is a large number of indicators of financial performance, which may be associated with various items of balance sheet or activities of the company. Each indicator characterizes the company from a separate point of view, focusing on certain characteristics of the business; therefore, it is often impossible to choose a single indicator that would give a complete picture of the situation in the company. In this regard, Chapter 2 describes the existing approaches to measuring the financial performance of the company, enabling us to choose the most appropriate for the purposes of this study.

## 2.1.Financial performance measurement definition

In general terms, performance measurement can be defined as the process of measuring the action's efficiency and effectiveness (Neely, Gregory & Platts, 1995). Measurement of the performance is the transference of the complex processes that occur in reality in organized symbols that can be relayed under the same circumstances (Lebas, 1995). Currently, performance measurement in a business environment is considered to be in a more critical role compared to quantification and accounting (Koufopoulos, Zoumbos & Argyropoulou, 2008). For appropriate measurement of the performance, it is critical to choose measurements that are aligned with the chosen performance dimension.

Performance measurement is crucial for effective management of any organization (Demirbag, Tatoglu, Tekinus and Zaim, 2006). It enables to adjust management of the company to its corporate and functional strategies and objectives. Process improvement requires measurements to identify the level to which the use of firm resources affects its performance (Gadenne and Sharma, 2002; Madu, Aheto, Kuei and Winokur, 1996). Without doubts, companies' performance measurement provide management with valuable information to allow monitoring of performance, report progress, enhance motivation and tackle problems (Waggoner, Neely & Kennerley, 1999). Through the measurement, people can create simplified numerical concepts to ease the process of communication and action (Lebas, 1995). Hence, firms have to be interested in evaluating its performance.

Moreover, performance measurement enables the comparison of performances over different time periods. It is important because firm's success is basically explained by its performance over a certain period of time. So far, researchers have attempted to specify

measurement that would capture every performance aspect; however, no such measurement has been proposed to date (Snow & Hrebiniak, 1980).

There exist, for instance, financial measures such as return on sales, return on equity, earnings per share and market-to-book ratio. These are commonly used indicators of company financial performance among firms' managers and analysts. In the other hand, there is also a plenty of nonfinancial measures, which include, for example, market share, customer satisfactions and timely accomplishment of tasks.

Although there are numerous indicators of performance, which can be related nearly to any aspect of business activity, in the framework of this paper we will consider only those, which have been widely used by researchers in the field of corporate governance with an emphasis on its relationship with company's financial performance.

Corporate governance significantly influences performance of a firm, and if the corporate governance system of the company is established appropriately, it allows to attract investment and helps to maximize company's funds, strengthening the company's pillars and thus increasing its performance. In other words, an effective corporate governance facilitates sustainable growth and protects company from probable financial challenges and therefore, it plays a crucial role in the growth of the performance. Many researchers so far have examined the impact of corporate governance on the general well-being of the companies.

There is an extensive amount of research devoted to the analysis of the company's future operations and future profitability based on its past. In most of these studies, past and current indicators are measured using different financial ratios. This strategy is a very traditional approach to evaluating the performance, yet it is a very powerful decision-making tool for external and internal stakeholders - potential investors, business analysts and company managers. These ratios can show not only health, stability and growth potential, but also help the comparison of the analyzed organization with industry.

Financial measures are broadly divided into two categories. These categories are measures of performance expressed in market terms or accounting terms. The first category contains market measures that reflects changes in shareholder returns or stock prices. The second category represent accounting measures, which can be defined in residual terms or ratio terms. Accounting measures defined by residual terms include net income after taxes, operating profit, residual income and economic value added. Accounting measures defined by ratio terms include return on net assets, return on investment and return on equity (Merchant and Van der Stede, 2012).

## 2.2.Accounting-Based Measurements

Accounting measures are generally considered as an effective indicator of the company's profitability. It provides useful summary of the results of many actions and decisions that managers implement. Most organizations base their higher managerial-level performance controls to accounting measures of performance. In addition, accounting measures are considered more accurate estimates because they are based on the results of management actions, rather than estimates and projections that are usually used for market valuation and exposed to general level of investor optimism, market trends, etc.

Although, there exist several problems with accounting indicators of performance. First of all, income-based figures are criticized for its backward-looking element as they represent the result of past performance and activities. Second, these figures are influenced by different accounting practices like various methods employed for the assessment of tangible and intangible assets. In addition, there is concern that accounting measures tend to make managers very short-term oriented. (Merchant and Van der Stede 2012).

**Return on assets (ROA)**

ROA is a profitability ratio which is calculated as the ratio of after-tax operating profit to the average value of all assets of the company; it represents a short-term operational performance and can be used as a measure of overall performance, as it has a strong connection to fundamental indicators of evaluation (Volkov, Nikulin, 2009).

$$ROA = \frac{EBIT}{Average\ total\ assets} * 100\%$$

Higher ROA reflects the effective use of assets by the company in serving the economic interests of its shareholders (Ibrahim & AbdulSamad, 2011). It indicates the profitability from the whole company's perspective since it takes into account all assets. Return on assets is one of the most popular and widely used financial metrics on a par with ROE (Rappaport, 1986).

ROA, as any accounting rate, may be artificially inflated by changes in accounting policies. Moreover, there is argument that ROA is a less reliable indicator than some of the market metrics. For instance, Damodaran draws attention to the arising discrepancy in the calculation of the indicator: book value of assets includes the company's cash, however income received for these funds should not be included in the after-tax operating profit.

At the same time, profitability of assets is a better financial indicator than the profitability of the company and the profitability of sales, as it takes into account the assets used to support business activities and defines whether a company is able to generate adequate returns from these assets. This indicator helps managers to focus on those assets that company can manage well (Hagel III, Brown, Davison, 2009).

Accordingly, the return on assets is often found in studies on corporate governance. For example, in (Core et al., 1999), ROA is used as a measure of operating performance of the company. They find evidence that companies with weak management structure more susceptible to the influence of agency problems. The CEO of such firms gets higher rewards, while the operating performance of these companies is relatively smaller. Return on assets also appears frequently in the research, affecting the independence of the board of directors. In (Horton et al., 2012) on the links between board members, ROA was included in the model as the dependent variable. According to the findings of the study, the existence of ties between members of the board of directors positively affects the financial performance of the company measured by ROA.

For example, in (Knyazeva et al., 2011) ROA is also included in the model for the sample of medium and small American companies as a measure of operating performance of the company. It turned out that the average board independence has a positive direction of the relationship with the operating performance of the company.

According to another study (Hsu, Wu, 2013), in which a sample of British companies have been investigated on the relationship between board structures and financial performance of the company with the probability of bankruptcy, firms with a greater value of return on assets were less prone to bankruptcy.

According to the research made by Al-Matari et al, ROA is the most frequently used indicator of company financial performance among researchers of the corporate governance issues. Authors reviewed 191 works on the relationship between corporate governance and firms' financial performance and revealed that 46% of the reviewed articles use ROA as a proxy for financial performance (Al-Matari, Al-Swidi, Fadzil, 2014).

**Return on equity (ROE)**

ROE is defined as the ratio of the net profit to the average value of the share capital, is also a common indicator used as a measure of financial performance of the company.

$$ROE = \frac{Net\ income}{Shareholder\ Equity} * 100\%$$

The return on equity, along with the return on assets (ROA), is one of the most popular and perhaps the most widely used financial indicators (Rappaport, 1986). Moreover, some researchers argues that ROE is a key indicator that investors should take into consideration (Monteiro, 2006). This ratio shows the profitability of the company from the shareholders perspective, indicating how much money company is actually generating with the money that was invested in it.

The fact that the ROE is based factor model of DuPont, contributes to its popularity among analysts, financial managers and shareholders. According to the DuPont model which links the

change in ROE with the changes in other factors, ROE can be improved through a more efficient use of assets and by increasing financial leverage.

The ROE can be represented as the product of three other indicators: operating margin (ratio of net profit to revenue), asset turnover (the ratio of revenues to assets) and financial leverage (ratio of assets to equity). The possibility of such representation is also one of the reasons for the wide use of this indicator. Some analysts consider the spread between ROE and cost of capital in order to evaluate the performance of the company.

However, there is a criticism on the applicability of ROE. For instance, researchers (Hagel III, Brown, Davison, 2009) highlight that investors should be extremely cautious with the use of ROE as companies can artificially maintain a high level of ROE by increasing financial leverage and repurchase shares at the expense of accumulated funds. In this regard, along with the ROE investors should take into account additional fundamental performance indicators of the company.

**Return on Sales (ROS)**

Return on sales - also known as operating profit margin - is calculated as the ratio of net profit to company's revenue; it shows the average margin from a 1 unit of the monetary proceeds.

$$ROS = \frac{Net\ income}{Sales\ Revenue} * 100\%$$

This figure is considered to be one of the most important in assessing the degree of profitability of the company. In (Griffin, Mahon, 1997) the authors include ROS in the list of most common methods of assessing the financial performance of the company along with the return on assets and return on equity. This indicator is less common among researchers in the field of corporate governance than ROA or ROE, however, is more often used in researches on marketing and supply (Hendricks, Singhal, 2005; Woodburn, 2006)

**Return on Invested Capital (ROIC)**

ROIC is calculated as the ratio of after-tax operating income to the book value of invested capital (Damodaran, 2007):

$$ROIC = \frac{NOPAT}{Invested\ capital} * 100\%$$

This coefficient characterizes the yields obtained on the capital raised from external sources. As the invested capital should be considered only the capital invested in the core activity of the company, as well as profit only from operations. Return on investment along with the growth of the company create value through increased cash flow. In addition, the increase in ROIC is considered as the company's ability to achieve a larger profit margin, the larger (positive) cash flow and lower values of the weighted average cost of capital.

The problem of profitability of invested capital is that it can also be confusing when comparing a small growing, large and stable companies. Moreover, researchers found that the

indicator of ROIC varies greatly not only by industry, but also that the differences within industries can be even more significant (Jiang, Koller, 2006).

**Economic value added (EVA)**

$$EVA = (ROIC - WACC) * Capital\ Invested$$

EVA is the company performance indicator, calculated as the difference between actual earnings and the required profit. According to many experts, EVA is the most versatile value indicator of business efficiency. Due to the fact that increase in EVA indicator can be implemented only by increasing the profit or reducing the cost of capital, this measure became popular for determining the remuneration of managers. The main difference of economic value added from market values, , is that EVA avoids accidents and noises that occur when setting the price per share, and simultaneously takes into account the change in the wealth of shareholders (Stewart, 1991). Thus, the measure of economic value added in some sense could combine accounting figures and market efficiency (Milbourn et al., 1997).

The main strategic task of company management is to increase business value. Therefore, the task of effective management of EVA is to provide a stable and non-negative value. Positive dynamics means that the company's business is developing more efficiently than the market as a whole. Consequently, when the EVA is growing, the investment attractiveness of the company increase. Conversely, if there is a steady decline in the EVA indicator, then we can observe decreasing value of the company due to the falling interest of outside investors.

The main disadvantage of EVA indicator is the complexity of the calculations, as companies rarely provide the weighted average cost of capital, whereas an independent calculation can be labor-intensive and very rough.

Thereby, in this section were represented one of the most used accounting-based measures of financial performance in corporate governance related literature. To sum up the analysis of accounting-based indicators, it is worth noting that despite the manifold benefits that were mentioned previously, the attention has to be put to the application of this figures, as they are essentially short-term-oriented compared to market performance (Hillman, Keim, 2010). Moreover, the calculation of this indicators assume only historical data on past financial performance, whereas accounting figures are subject to manipulation by management of the company (Fischer, 1979), and can also be distorted because of different methods of accounting policies (Damodaran, 2007).

## 2.3.Market-Based Measurements

Market-based performance indicators serve as indication of how well a firm is performing in relation to its share price and book values of assets and capital. It calculation requires use of information from financial reports as well as data obtained from the market. Some, authors argue that the market indicators of financial performance are more preferable compare to accounting-based measures as they give the opportunity to more adequately assess future cash flows (Lubatkin, Shrieves, 1986). One of the most common market-based approach ratios are Tobin's Q, Market value added, the Price-to-Earnings ratio, and Market-to-Book ratio. Further, this measure will be analyzed in a more detail.

**Tobin's Q**

Scientists James Tobin and William Brainard developed this coefficient in 1968. Authors explain that the numerator reflects valuation of assets by the market, while the denominator is the replacement cost, amount that company have to pay for the same assets (Tobin, Brainard, 1977).

Tobin's Q coefficient shows how effectively the company manages its assets and extracts the value. It focuses on the assessment of the quality of management of the company. For example, in the case of inefficient management of the company the market value of the company is below the value of its assets, and therefore Q will take a low value (less than 1) (Damodaran, 2002). Such companies often become the targets for acquisitions, with the goal of future increases in their market value (Lang et al., 1991).

Tobin's Q is one of the most popular indicators of market attractiveness for the traded companies' securities and is often used in the studies on the relationship of corporate governance and financial performance as an indicator of the performance (Berger, Ofek, 1995). This coefficient is also often applied in the researches examining the performance of senior management.

Despite the prevalence of Tobin's Q in theoretical studies, many researchers have emphasized the complexity of its use that is associated with the difficulties of calculating the coefficient. So far, authors of (Chung, Pruitt, 1994) emphasize that the way to compute the indicator proposed in (Lindenberg, Ross, 1981) is too expensive from the point of view of required data and computational effort. The difficulty of the computation is caused mostly by the need to use information from a variety of sources, which may not be freely available. In this regard, researchers Chung and Pruitt have proposed a modified version of the formulae; they argue that the initial method of calculation can be replaced by a more simple approach that does not require a long calculation. Therefore, authors propose the following alternative approximation of Tobin's coefficient:

$$Approximate\ q = \frac{MVE + PS + DEBT}{TA},$$

where MVE is the product of share price and number of shares outstanding, PS is the liquidation value of the preferred shares, DEBT – value of the company's net debt, TA is the book value of total assets of the company. Therefore, all the data used in the formula can be easily obtained from published companies reporting.

Hence, from the viewpoint of ease of calculation and meaning, Tobin's coefficient is the most appropriate indicator of company financial performance to study the relationship with adherence to the best corporate governance practices. This coefficient takes into account future growth opportunities, displays company's intangible assets, whilst the manipulation by management is hardly applicable to this measure.

**Market value added (MVA)**

Market-based indicator that represent company's performance from the perspective of added value to shareholders, which the company was able to generate. MVA can be calculated in two ways:

1) As the difference between the market value of the company and its capital (the most common approach)

$$MVA = Market\ Value - Capital$$

2) As the net present value of future added economic value

$$MVA = \frac{\sum_{t=1}^{N} EVA_t}{(1+r)^t}$$

MVA assess the market's opinion about the future performance of the company from the point of view of the invested capital as a measure of the net present value of future economic profits. MVA taking a value greater than zero, indicates how many values the company can add to the investment of shareholders. The MVA is less than zero indicates how many values the company "deducted" from the investments of its owners.

Market value added is defined as a long-term financial performance measurement. It is closely associated with the concept of company values and absolute scale measures assessed by the market future performance of the company. In addition, it represent company's ability to restore and improve its effectiveness in the future.

Advantage of MVA is its ability to consider the relative success of the company in creation the value for shareholders through efficient allocation and management of scarce resources. MVA is an approximation of the net present value of the company, valued by the market, therefore the market added value is a unique achievement of value creation for shareholders, because it takes into account both the degree of shareholders enrichment and the company's performance.

In addition, unlike other approaches to measuring value created for shareholders, the MVA also takes into account not only the future cash flows of the company, but also debt and invested capital (Hillman, Keim, 2010). As a disadvantage of this indicator can be considered the complexity of the calculations.

**Price Earnings Ratio (P/E)**

Price earnings ratio indicates the dollar amount that investors are willing to invest in firm's shares in order to receive one dollar of company's earnings. It indicates investors' judgment or expectations about the firm's performance. Generally, this ratio reflects investors' expectations about the growth in the company's earnings. This measure is calculated using the current share price and current earnings, as indicated by the following formula:

$$P/E = \frac{Price\ per\ Share}{Earnings\ per\ Share}$$

Price Earnings Ratio is among most popular measures for performance analysis; however, there are other factors that investor should consider before making an investment decision.

In order to assess the P/E ratio, one must always consider the industry, that is, compare the P/E ratio with the average in the industry. However, the value of P/E > 20 is with great probability suggests that the company is overvalued. The value of P/E in the area of 12-15 may indicate the validity of the assessment.

To check the evaluation additionally an analyst should relate the magnitude of company's P/E with a growth rate of its net profit. According to Peter Lynch, P/E and growth rate of profit should be the same. If P/E of the company is less than 2 times of the rate of profit growth, it means that the stock has growth potential. In the case of low P/E investor should be careful. Especially when analyzing cyclical companies. Low value P/E cyclical companies often warns that it is at the final stage of its growth and will be followed by a decline.

In addition, one of the disadvantages of P/E ratio is it basement on the performance of the profit and loss statement and account for the "paper profit", and not "real" cash flows, which represents the main interest for the investor.

Therefore, market based evaluation of the firm's performance is based around the price of the share of the company. Market indicators provide relatively direct measure of changes in the company value. In addition, for publicly traded companies market values are available on timely basis and they are characterized as precise and relatively accurate. Values of this measures should usually be objective and understandable. These measures do not require any company

measurement expenses and due to this reason they are considered to be cost efficient (Merchant, Van der Stede, 2012).

However, it should be noted that there exist several problems with market-based measures of performance. First of all, these measures usually reflect information about expectations rather than real performance. Therefore, it can be risky to base any incentives to the expectations, as these expectations can be not realized. Secondly, market-based indicators suffer from controllability problems. This means that only few top-managers can influence them, hence these measures say a little about the performance of individuals in lower levels of the company. Another problem with these measurements is that they are limited only to a sample of publicly traded firms and not available for privately held or non-profit organizations. (Merchant, Van der Stede, 2012)

## 2.4.Summary

In the Chapter 2, we considered the definition of company financial performance and different approaches to its measurement. It was shown that researchers of the corporate governance use various measures as it allows examining of the relationship between different corporate governance systems within the companies and financial performance.

In general, indicators of the performance can be divided into two groups: accounting-based and market-based. For the calculation of the accounting indicators of the performance, it is necessary to use information from the accounting records of the company, while the calculation of the market values requires usage of data from reports as well as from the market. Despite the fact that accounting indicators can be artificially modified by managers and different accounting policies, this has only effect in a short term. In the long run, accounting and market indicators have to display the same effects (Carr, 1997).

Each indicator has a number of advantages and disadvantages, the choice in favor of one or another indicator has to be based on the initial purpose of the analysis. In addition, the choice of the financial indicator can have a significant impact on the results, since there is no unambiguous opinion on the extent to which the board of directors, its decisions or top management decisions can affect accounting or market performance indicators (Dalton, 1998). The choice between indicators based on accounting data and market valuations is one of the most struggled issues in the study of the relationship between major characteristics of the board of directors and CEOs with financial performance (Berezinets, Ilina, Cherkasskaya, 2013).

Considering the research goal of this paper, it was decided to use two proxies for company financial performance: one that is accounting-based and capturing for the operating performance

of the company - ROA; and the second one, which is market-based and reflecting the quality of the company management – Tobin's Q. The choice of these measures has been made after a careful analysis of the previous literature on multiple directorship. It was concluded that ROA and Tobin's Q are one of the most widely used indicators among others (Li, Wang, Dong, 2013; Gutierrez, Pombo, 2011; Cashman, Gillan, Jun, 2012). Therefore, it will allow us to compare the results of this paper with the previous studies and draw some valuable conclusion considering the case of Russian public companies.

# 3. CHAPTER. EMPIRICAL RESEARCH

## 3.1. Methodology

Present study is aimed at examining the relationship between multiple directorship and financial performance of Russian public companies. Research methodology is based on an econometric analysis, which has been chosen regarding the nature of the research question and previous empirical studies. The econometric analysis involves panel data estimates relating the financial performance to busy boards/CEOs and other corporate governance and financial attributes. The general econometric model has the following type:

$$Performance_{i,t} = \beta_0 + \beta_1(Busy_{i,t}) + \beta_2(BD_{i,t}) + \beta_3(Controls_{i,t}) + \varepsilon_{i,t},$$

where $i -$ subscript denoting firm; $t -$ subscript denoting year;

- $Performance_{i,t}$ – dependent variable representing company performance;
- $Busy_{i,t}$– vector of variables, representing directors' busyness;
- $BD_{i,t}$ - vector of variables, that control for the characteristics of the board of directors;
- $Controls_{i,t}$ – vector of variables of the baseline model;
- $\beta_1$, $\beta_2$, $\beta_3$, - vectors of unknown coefficients;
- $\varepsilon_{i,t}$– error term.

In the study, we use approach, which is similar to that of Cashman et al. (2012), Pandey et al. (2014), and Chou et al. (2013), who apply one-year lagged values for the variables in the right-hand side of all model specifications.

Dependent variable $Performance_{i,t}$ accounts for financial performance of the company. Since we intend to capture for the relationship between directors busyness and both, operating and market performance, it was decided to apply two commonly used measures of firm performance. Forward looking, market performance is measured by Tobin's Q - similar to Andres (2008), Bae et al. (2012), Cashman et al. (2012) and Connelly et al. (2012). Whereas, backward looking, operating performance is measured by ROA, which indicates how profitable a company is relative to its total assets (Cashman et al., 2012; Field et al., 2013; Pandey et al., 2014).

Table 2 describes the construction of the variables and data sources in more detail.

Table 2. Summary on variables description

| Variables | Description |
|---|---|
| Dependent variable | |
| Q | $Q = \frac{MV(Equity) + BV(Debt)}{BV(Assets)}$ |
| ROA | $ROA = \frac{EBIT}{Average\ Total\ Assets}$<br>Source: Thomson Reuters Datastream |
| Independent variables of vector $Busy_{i,t}$ | |
| busyceo | Binary. Equals 1 - if CEO is busy, 0 - otherwise<br>Source: company report |
| pbdir | Percentage of busy directors. Calculated as the ratio of busy directors to the total number of board directors.<br>Source: company report |
| avbusyd | The average number of outside directorships that board members hold. Calculated as the total number of outside directorships divided by number of directors.<br>Source: company report |
| busyboard | Binary variable; 1- if the majority of the board directors are busy; 0 - otherwise<br>Source: company report |
| Variables of vector $BD_{i,t}$ | |
| BDSIZE | Board size, equals to the total number of directors in the board.<br>Source: company report |
| DIRAGE | Calculated as the verage age of the board members.<br>Source: company report |
| POD | Proportion of outside directors. Calculated as number of outside directors divided by total number of directors in the board.<br>Source: company report |
| Variables of vector $Controls_{i,t}$ | |
| AGE | Natural logarithm of the company age<br>Source: SKRIN |
| SIZE | Natural logarithm of the total assets.<br>Source: Thomson Reuters Datastream |
| LEV | Financial leverage, defined as the ratio of the book value of debt to the book value of assets<br>Source: Thomson Reuters Datastream |

***Busyness measurement***

The key issue underlying our analysis is to understand what constitutes directors busyness and how it should be measured. There are several commonly used measures, which we adopt in the analysis.

First, following (Benson et al., 2014), we define CEO as busy if he holds a total of three or more additional directorships. We further proxy for CEO busyness using an indicator variable (busyceo) equal to one if the CEO is classified as a busy director, and zero otherwise.

Second, to capture the board busyness, we use independent variable *busyboard*. As we already discussed in Chapter 1, we define board of directors busy if the majority of its members hold three or more outside directorships.

Third variable that is widely applied in the similar studies is the percentage of the directors who hold three or more directorships (Cashman et al., 2012).

However, some researchers have argued that measuring board busyness by the percentage of directors with three or more directorships is a very strict measure. It assumes, for example, that directors with two additional board seats are the same as those with no additional seats (not busy directors), whereas directors with three board seats are the same as those with six or more (busy directors) (Ferris et al., 2003). Another issue with such a measure is the extreme skewness in the distribution of the busyness among directors. In this regard, it was proposed to use average director busyness (avbusy), which is calculated as the total number of outside directorships of the board members divided by a number of directors on the board (Ferris, Jagannathan, Pritchard, 2003).

***Controls***

The vector $Controls_{i,t}$ represent the components of the baseline model, which are widely applied in the international academic literature as determinants of the firm financial performance. Components of the vector are slightly different depending on which variable – Tobin's Q or ROA - is tested. In both models we use firm specific factors such as: (1) size, (2) leverage and (3) firm age. Moreover, there is argument that market value of the firm can be affected by its operating performance, therefore, we include lagged ROA as an explanatory variable when Tobin's coefficient is tested. Some researchers claim that return on assets signal information about company's ability to produce future cash flows, and, thus, it may affect company stock prices. Related studies found that ROA has a significant positive effect on stock returns one period ahead (Dodd and Chen (1996); Uchida (2006); Ulupui (2007); Carlson and Bathala (1997)). Accordingly, we expect ROA to have a positive association with Tobin's Q.

Moreover, extensive empirical studies indicated that various corporate governance aspects of the board of directors might be associated with firm financial performance. Therefore, it was decided to include a vector of control variables for board characteristics. The vector $BD_{i,t}$ include

variables that characterize: (1) board size, (2) percentage of outside directors, (3) average age in the board.

We expect that board size is negatively associated with firm performance. According to Jensen (1993), companies with larger boards tend to become less effective; there increase probability of free riding. Whereas, Yermack (1996) finds that having small boards improves company's performance and positively affects investor's behavior and firm value. On the contrary, proportion of outside directors is expected to have a positive relationship with company performance. According to Dalton (1998), outside directors play crucial role in explaining the efficient control exercised by boards committee. Many of empirical evidences sustain the fact that outside directors enhance monitoring and advisory functions (Weisbach, 1988; Cho & Kim, 2007). Furthermore, such directors are likely to be more associated with outside investors' interests, to better monitor top management decisions, and, thus, to lead to better firm performance. The average age of directors is one more characteristics that has been investigated on the relationship with company performance. Wiesema and Bantel (1992) report a negative relationship between the average age of board directors and the changes in corporate strategy. It is being claimed that older directors are less open to innovative approaches in government and changes in decision-making. Therefore, it is assumed that age of directors is negatively associated with the company performance.

### 2.5.Sample selection

In order to study the relationship between multiple directorship and performance of the public companies in Russia, a panel data fulfilling the following criteria has been collected:

- Russian public company listed on Moscow Stock exchange
- Stocks are traded in any year of the period 2015 - 2016;
- Only liquid securities represented in quoted list of Stock Exchange (Level 1 and 2);
- Company is a non-financial institution.

Due to different accounting rules and different nature of capital structure, it was decided to exclude companies from financial services industry, such as banks, investment funds and insurance companies (Gugler et al., 2004).

.Final version of the research sample consists of 74 companies in 2014, 76 in 2015 and 77 in 2016, therefore the total sample is represented by 227 company-year observations. Companies were further distributed by industries according to classification provided by SPARK database. Most of the companies in the sample belong to resource-extraction or manufacturing sectors, whereas

services and consumer sectors represent a minority of the companies. More detailed distribution by industries can be seen on the Figure 3.

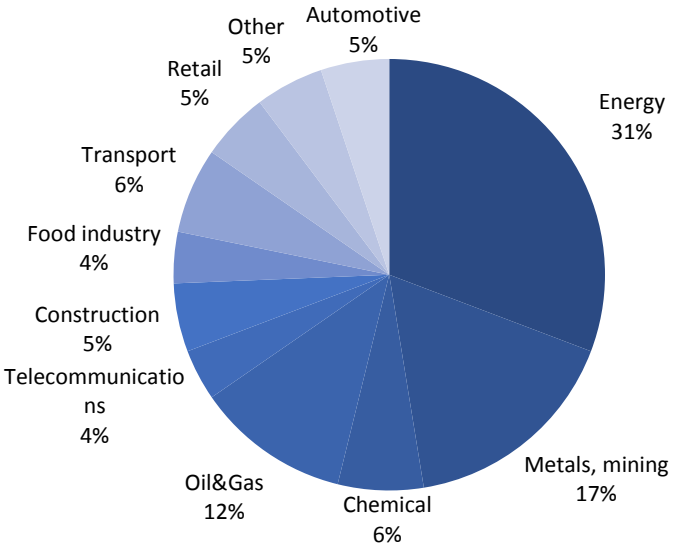


Figure 3. Industry distribution of the companies from the sample.

Main sources of information for the selected sample of companies: official websites; SPARK database; Thomson Reuters Datastream.

For the research purposes of this study, it was necessary to obtain the data on board members and CEOs personal characteristics. The only way to collect this data was to investigate manually quarterly reports of the companies from the sample; public companies in Russia are obliged to represent information about their board members and chief executives. The data on financial and market performance was collected from Thomson Reuters.

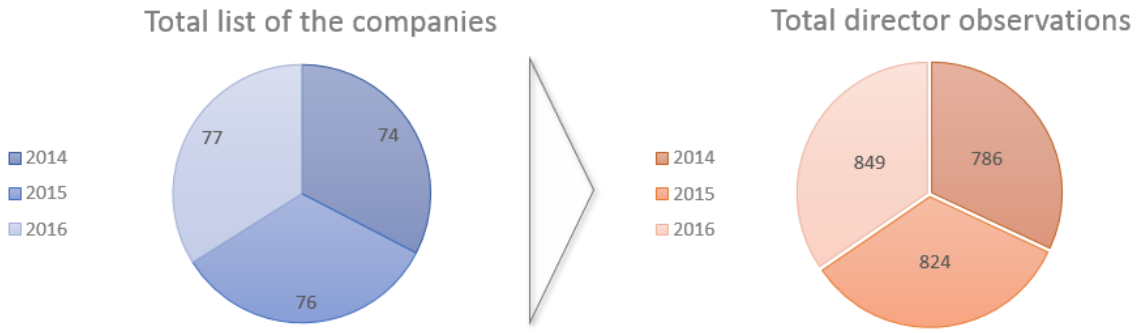


Figure 4. Sample collection process.

Overall, there were 2459 observations on board members and CEOs of each company from the sample. Further, this data was processed and summarized for companies, thus we could analyze multiple directorship and other board of directors characteristics across the firms.

### 2.6. Descriptive statistics of variables

Descriptive statistics of the observed variables is summarized in the following table:

Table 3. Descriptive statistics

| Variable | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|
| *Dependent variables* | | | | |
| Q | 0.913 | 0.710 | 0.167 | 5.468 |
| ROA | 0.045 | 0.202 | -1.777 | 0.456 |
| *Busyness variables* | | | | |
| avbusy | 2.750 | 2.249 | 0 | 12.375 |
| maxdir | 8.088 | 6.425 | 0 | 44 |
| *Board composition variables* | | | | |
| bdsize | 10.128 | 2.460 | 5 | 18 |
| outdir | 0.788 | 0.156 | 0.167 | 1 |
| dirage | 49.355 | 6.384 | 39.091 | 69.818 |
| *Firm specific variables* | | | | |
| size (mln rub) | 800 | 2420 | 3,513 | 17100 |
| lev | 0.395 | 0.482 | 0 | 4.979 |
| age | 14.198 | 5.748 | 1 | 26 |

**Description of the dependent variable**

The average level of ROA for the observed period is quite low and equals to 4,5%. It can be explained by the fact that during the crisis and unstable political situation in 2014 and 2015 many companies had experienced losses and their return on assets have been either very low or negative. The graph below (Figure 5) depicts changes in average ROA for the sample during 2014-2016 years. Indeed, in 2016 companies on average have shown better performance results, with ROA increased in 6 times since 2015. However, even with increasing operating performance, average rate of return still very low for these years.

Regarding the market-based performance indicator, for the companies in the sample the average Tobin's q was lower than 1. Again, in 2014 and 2015 the market evaluation for the company's assets was lower of its replacement cost (Tobin's Q<1).

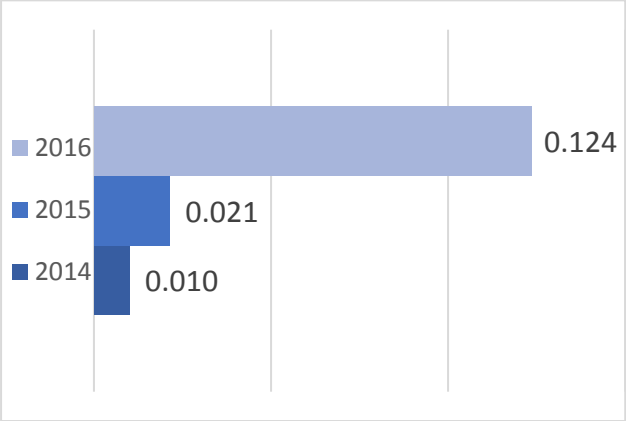


Figure 5. Changes in ROA

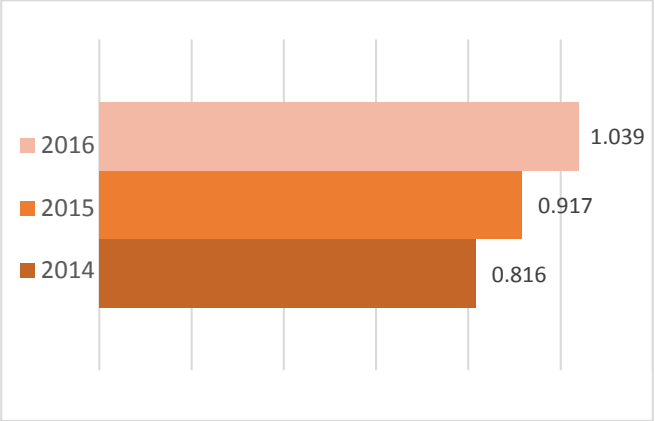


Figure 6. Changes in Tobin's

If we look at the distribution of average ROA among industries that were investigated, we can notify that the highest level of return on assets was delivered by chemical sector and is equal to 20%, whereas automotive industry showed negative result of -6%. Negative ROA can be explained by the fact that the largest company in this sector – Avtovaz have experienced significant losses during the studied years.

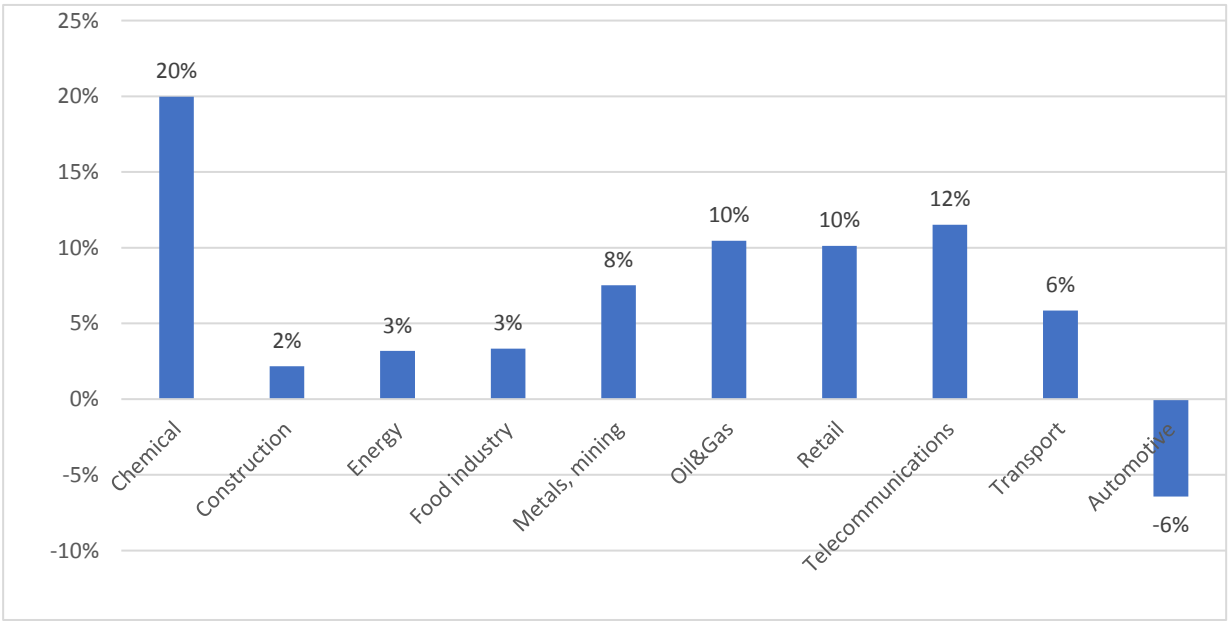


Figure 7. Distribution of average ROA among industries

Similar analysis of the Tobin's Q (Figure 8) depicts that only five out of ten industries had the level of this coefficient larger than 1, namely Chemical, Metals and Mining, Retail, Telecommunications and Transport industries, implying that on average for firms in this sector stocks were more expensive than the replacement cost of its assets.

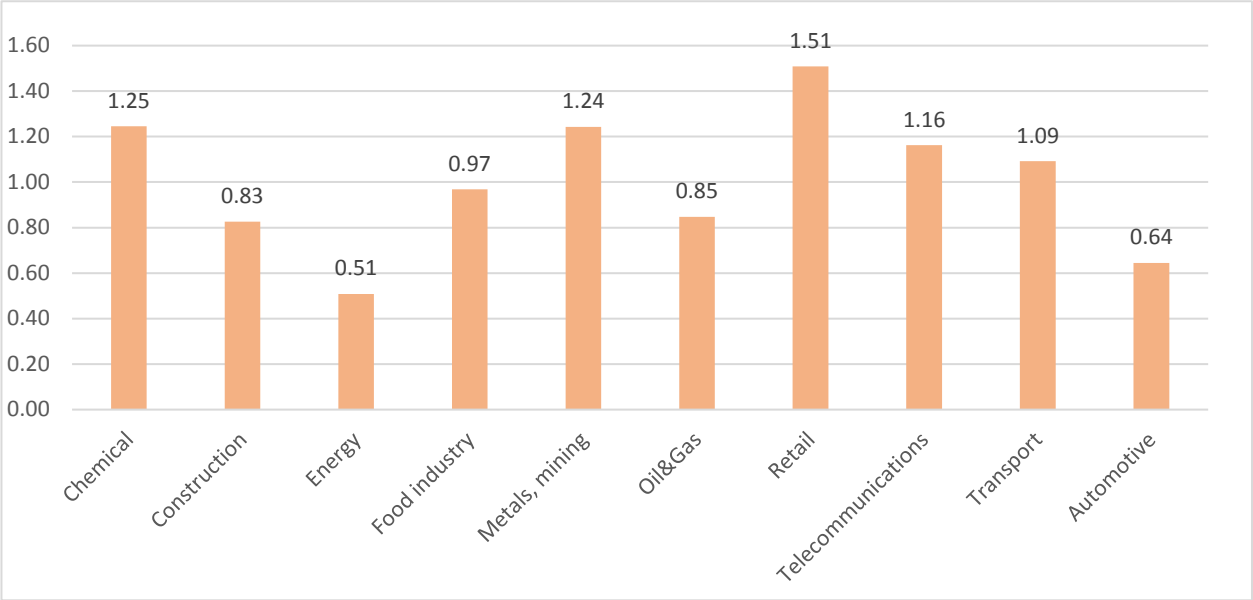


Figure 8. Distribution of average Tobin's Q among industries

**Description of the independent variables**

Before we run a regression analysis, it is important to investigate the prevalence of multiple directorship in Russian public companies. Following table provides summary statistics on the busyness of the board directors and CEOs from the sample.

Table 4. Busyness of the board directors and CEOs of Russian public companies

| Variable | Observations | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| Directors busyness | 2455 | 2.748 | 3.885 | 0 | 44 |
| CEO busyness | 241 | 2.236 | 3.352 | 0 | 21 |

The graph below represent the distribution of the directors by number of the additional boards that they serve at the same time.

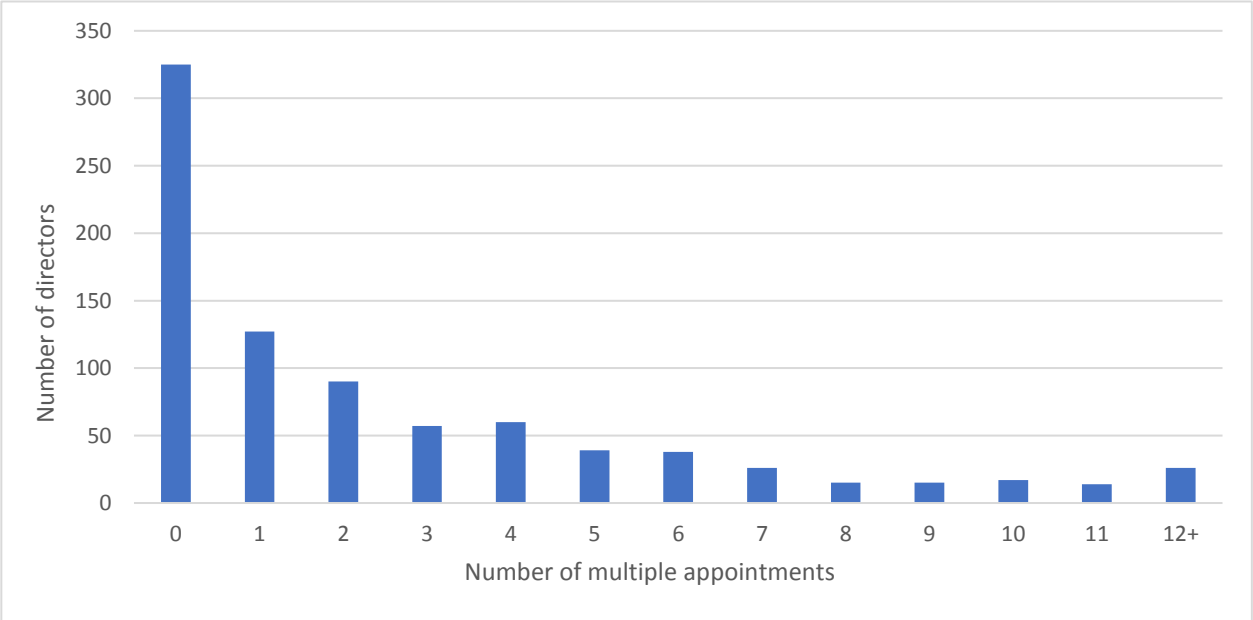


Figure 9. Distribution by number of multiple directorships for board directors

It can be seen on the graph that the majority of board directors in Russian public companies do not serve other companies' boards. Most of the directors from the sample hold less than 3 director positions and cannot be classified as busy according to the accepted definition. Thus, it can be argued that busyness is not widely spread among Russian directors. However, the existence of directors with an enormous number of multiple directorships increase the average busyness among board members. In the investigated sample, the maximum number of boards that director of a Russian public company has served equals to 45[1]. Due to this reason, even if none of the other board members hold multiple directorships, average busyness of the board still high. However, it does not necessarily mean that board's activities have to be affected by the busyness of its members. That is why, it is crucial to include several measure of the busyness to check for the sustainability of the results.

If we look at the distribution of the CEOs by number of the outside boards that they serve, we can note the same tendency. Majority of CEOs of Russian public companies do not serve other companies' boards. CEOs with a large number of multiple appointments is an exception.

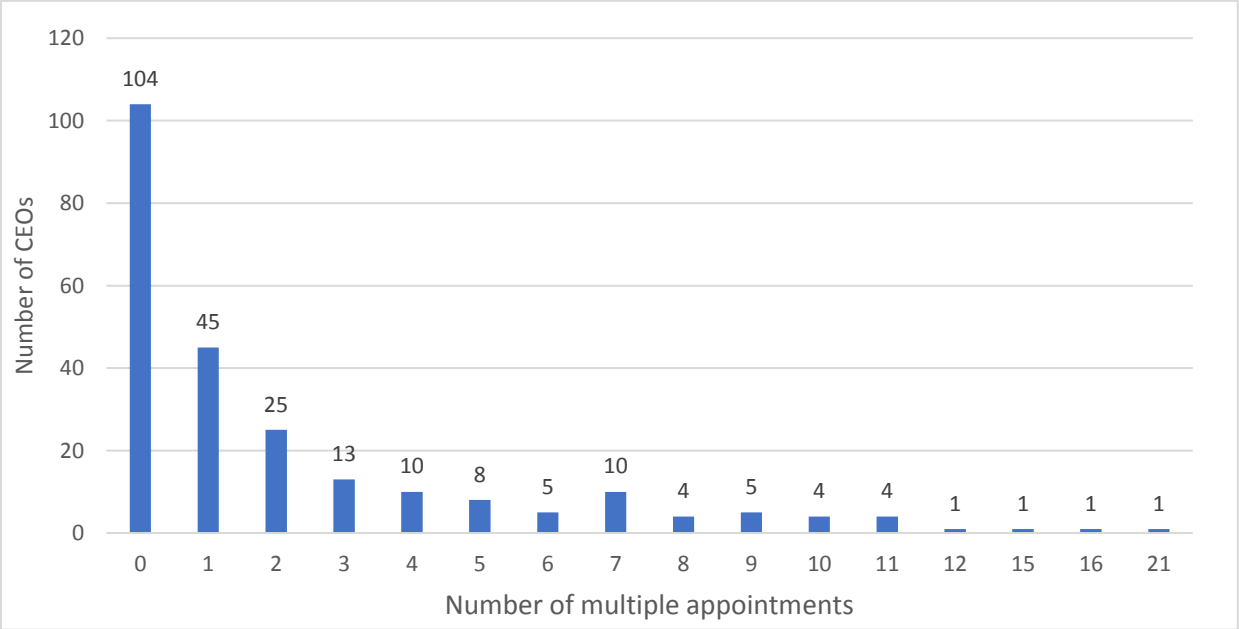


Figure 10. Distribution by number of multiple directorships for CEOs

Following chart (Figure 11) provide information on what percentage of the CEOs and board of directors from the studied sample can be classified as busy. We follow the definition from the first chapter and characterize board of directors busy if the majority of its members hold more than three additional directorships.

[1]Source: quarterly report of PJSC Mosenergo (IV quartal 2015 year).

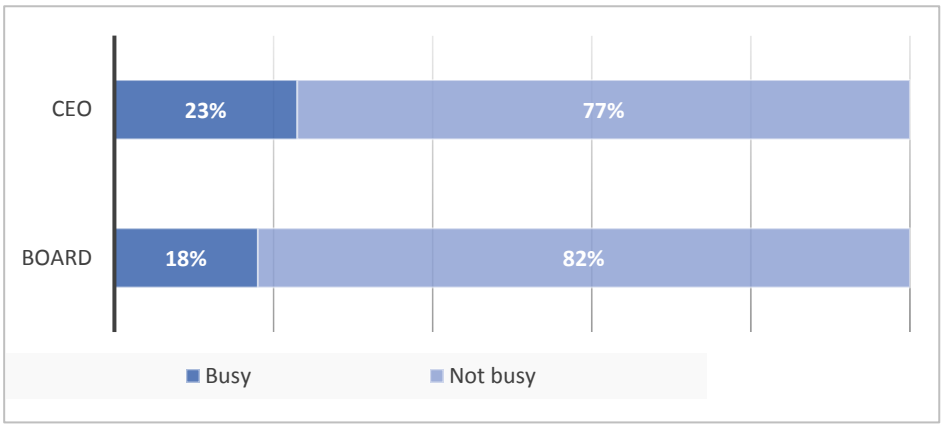


Figure 11. Percentage of busy CEO and busy boards of directors

Indeed, it can be concluded that multiple directorship is not common phenomenon among Russian Chief Executive Officers. Whereas, the majority of corporate boards of Russian public companies mostly consist of not busy directors.

Table 5 depicts size and composition of the average board of directors. Number of independent directors was not included in the analysis as the resources that have been used during collection of the data on board members (quarterly reports of the companies) either did not contain this information or it was not reliable due to the fact that mostly companies require only minimal standards for director's independency. Hence, the collection of the reliable data on proportion of independent directors would be very time-consuming and is somewhat out of the scope of this work. Nevertheless, from the table below it can be seen that whilst the average size of the corporate board is a bit more than 10, percentage of outside directors – who has no meaningful connections with the company – is 79%. Insiders represent 21% of the board directors, and only 27% of the board members can be classified busy.

Table 5. Average board size and composition

| | **Number** | **Proportion** |
|---|---|---|
| Board size | 10.13 | - |
| Outside directors | 7.98 | 79% |
| Inside directors | 2.15 | 21% |
| Busy directors | 2.89 | 29% |

The figure bellow shows the number of positions that board members hold concurrently and the average number of directorships that they had during previous 5 years (Figure 12).

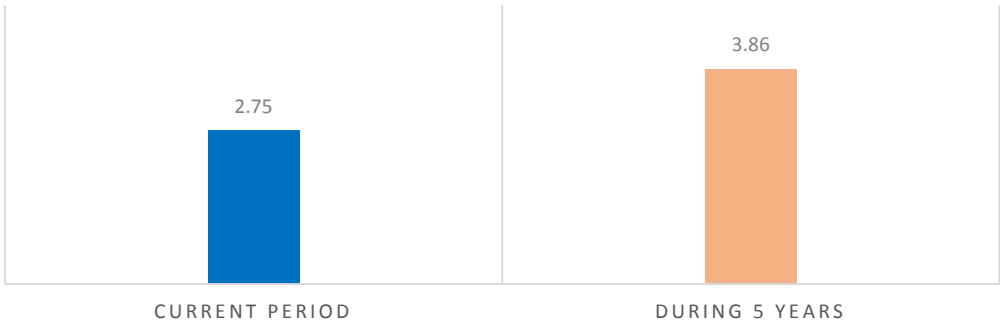


Figure 12. Average busyness of the board directors

On average, a member of the board of directors, serves 2,75 extra positions on the boards of other companies. If we compare this figure with the USA market ,we can observe that for American companies included in the S&P 500 index, the average number of positions is 2, while for companies not included in this index, the average number of positions is slightly smaller at 1.5 (Cashman, Gillan, Jun, 2012). For Indian companies mean busyness of the board members equals to 4,4 (Sarkar, Sarkar, 2005), whereas in Turkey director takes an average 3 additional positions (Arioglu, Kaya, 2014).

As we have previously analyzed financial performance of the companies by industries, it is interesting to check how busyness is distributed by industries as well. The highest average busyness can be observed in the telecommunication sector, whereas board members of the retail companies on average do not serve any other companies' boards.

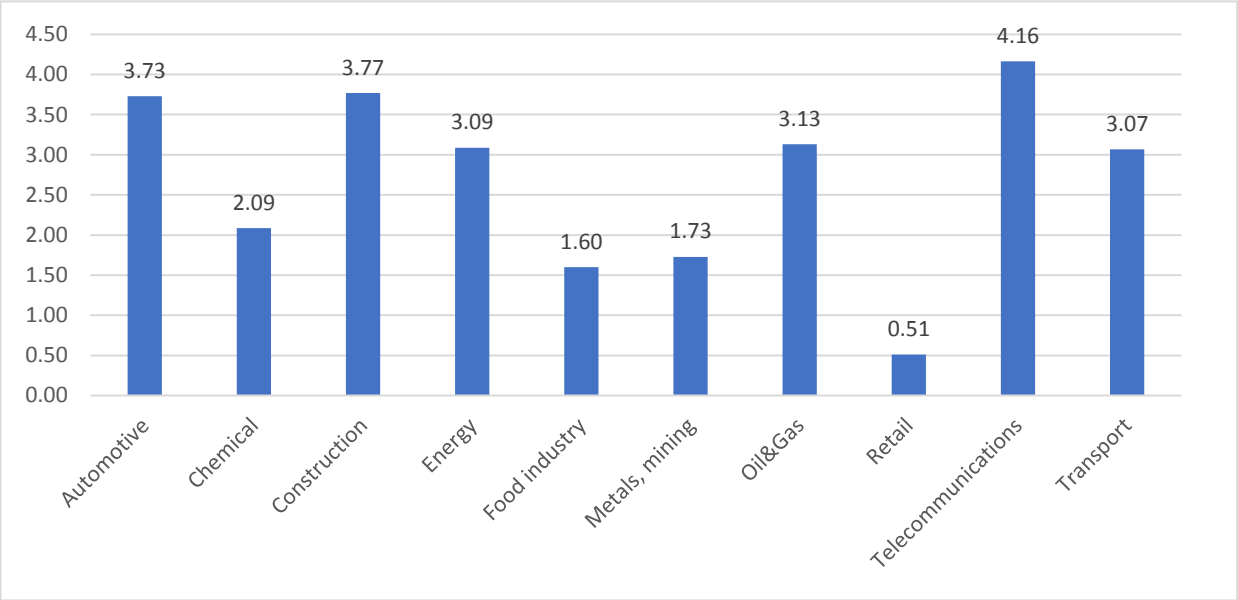


Figure 13. Average busyness of the board members by industries

## 2.7.Econometric analysis

Regression analysis was performed using STATA package. On the first stage, a baseline model was constructed (Model 1) for the analysis of the relationship between dependent variable and variables characterizing the economic and financial condition of the company. Then variables of the baseline model were supplemented with control variables for board characteristics, and the variables, which allow us to test the hypotheses of the reseacrch. Sequential testing of models for panel data using different tests, including Hausman test, indicated that model with fixed effects is the most suitable to describe our empirical data. This is in line with the previous studies, which highlight the validity of this model. Fich and Shivdasani (2006), for example, argue that fixed effects analysis offers more reliable estimates; consistent with this, Brookman and Thistle (2011), and Graham et al. (2012), suggest the need to control for unobservable firm characteristics when analyzing corporate finance issues. Results of (Cashman et al., 2012) as well demonstrate the importance of controlling for firm fixed effects. First, researchers find the relation between busy directors and firm performance to be sample specific (S&P 500 from non S&P 500), however, once they control for firm fixed effects, a consistent relation between busy directors and firm performance is observed. Thus, we rely on this approach and believe that it provide sound results. The coefficient estimates for all for model specifications are represented in Table 6 and Table 7.

Table 6. Results of the regression analysis for ROA

| **Variable** | **ROA** | | | | |
|---|---|---|---|---|---|
| | **1** | **2** | **3** | **4** | **5** |
| LEV | -0,190*** | -0,195*** | -0,192*** | -0,182*** | -0,200*** |
| SIZE | -0,031 | -0,038 | -0,026 | -0,026 | -0,031 |
| AGE | 0,266*** | 0,269*** | 0,250*** | 0,247*** | 0,258*** |
| BDSIZE | | -0,007 | -0,005 | -0,005 | -0,006 |
| DIRAGE | | -0,000 | -0,001 | -0,001 | -0,000 |
| POD | | 0,041 | 0,038 | 0,052 | 0,037 |
| busyceo | | -0,014 | | | |
| pbdir | | | -0,132** | | |
| avbusy | | | | -0,013** | |
| busyboard | | | | | -0,030* |
| cons | 0,055 | 0,055 | 0,108 | 0,103 | 0,145 |

| Variable | ROA | | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| Observations | 178 | 178 | 178 | 178 | 178 |
| $R^2$ | 0,18 | 0,18 | 0,24 | 0,23 | 0,21 |
| Prob > F | 0,000 | 0,000 | 0,000 | 0,000 | 0,001 |

Note: *, ** and *** means the variables are significant at the 10%, 5% and 1% levels respectively.

All the models, represented in the Table 6 are statistically significant. Moreover, signs of the parameter estimates for all variables were robust to the addition or removal of different variables. The columns 1 to 5 reveal that not all the variables of the baseline model are statistically significant. Particularly, the variable, describing capital structure (LEV) and company age (AGE) are statistically significant at 1% level. Negative coefficient of leverage indicates that firms with higher ratio of debt have lower return on assets. This result is consistent with Jackling and Johl (2009), who find that leverage has a negative effect on ROA of Indian firms. Company age (AGE), on the contrary, is positively associated with return on assets.

The coefficient on the company size (SIZE) is not statistically significant in all models. Li et al. (2007) and Pandey at al. (2015) find that firm size is not associated with a change in ROA in a sample of Chinese firms and Indian firms respectively. Overall, the results in the table indicate that none of the controls for board of directors characteristics is statistically significant. Therefore, we cannot make any conclusion about the relationship between these variables and firm performance measured by ROA.

Further, the column 2 reports the results of the model, which considers the association between CEO busyness and company operating performance. We can note that the variable *busyceo* is not statistically significant. This result is similar to Pandey et al., who investigate Indian family firms, and report that CEO busyness is not associated with ROA.

The columns 3 to 5 indicate the results of the model, which considers busyness of the board directors. Notably, whether we apply the proportion of busy directors in Model 3, average directorship in Model 4, or the busy board indicator in Model 5 (Fich and Shivdasani, 2006), we can observe a negative and statistically significant association between busy board/board directors and ROA. It implies that the cross-sectional results of our analysis are robust to different proxies for director busyness.

Model 3 represents that the coefficient for the percentage of busy directors variable (pbdir) is negative and statistically significant at 5% confidence level, which indicates that if the percentage of busy directors increases by one percentage point, ROA decreases by 0.132 points.

Consistently, Model 4 reports that the coefficient for the average directors' busyness (avbusy) is negative (-0,013) and statistically significant at the 5% significance level. The coefficient indicates that if the average number of directorships of the board increases by one unit, the ROA decrease by 0,013. Finally, busy board indicator (busyboard) in Model 5 has a statistically significant at 10% level and negative association with the dependent variable. The coefficient estimate indicates that a firm with busy board has ROA by 0.03 points lower, then the company with not busy board.

Therefore, the empirical results are consistent with our hypothesis and imply that companies with busy boards and busy directors are negatively associated with the company operating performance. Busyness hypotheses provide explanation for such results, as according to this hypothesis, increasing busyness of board directors assumes less time to perform their duties, which, in turn, decrease overall performance of the board, and, consequently, decreases the performance of the entire company.

Table 7. Results of the regression analysis for Tobin's Q

| **Variable** | **TOBIN'S Q** | | | | |
|---|---|---|---|---|---|
| | **1** | **2** | **3** | **4** | **5** |
| ROA | 0,508*** | 0,408*** | 0,504*** | 0,509*** | 0,491*** |
| LEV | 0,548*** | 0,416*** | 0,498*** | 0,485*** | 0,500*** |
| SIZE | -0,501*** | -0,522*** | -0,530*** | -0,540*** | -0,532*** |
| AGE | 1,077*** | 1,197*** | 1,154*** | 1,183*** | 1,157*** |
| BDSIZE | | -0,369** | -0,353** | -0,357** | -0,343* |
| DIRAGE | | -0,007 | -0,004 | -0,003 | -0,006 |
| POD | | 0,263 | 0,295 | 0,262 | 0,290 |
| busyceo | | 0,170*** | | | |
| pbdir | | | 0,183 | | |
| avbusy | | | | 0,027 | |
| busyboard | | | | | 0,052 |
| cons | 7,465*** | 8,540*** | 8,565*** | 8,650*** | 8,693*** |
| Observations | 174 | 174 | 174 | 174 | 174 |
| $R^2$ | 0,44 | 0,54 | 0,49 | 0,49 | 0,49 |
| Prob > F | 0,000 | 0,000 | 0,000 | 0,000 | 0,000 |

Note: *, ** and *** means the variables are significant at the 10%, 5% and 1% levels respectively.

Table 7 indicates that all the models are statistically significant. Moreover, all the variables of the baseline model are statistically significant at 1% confidence level. Signs of the parameter estimates for variables were robust to the addition or removal of different variables in the model.

Considering the baseline model, we can note that as we predicted, there exist positive relation between firm operating performance (ROA) and market-based valuation of the company. This result is consistent with (Fich and Shivdasani, 2006).

There is a positive association between financial performance measured by Tobin's q and capital structure measured by debt-to-assets ratio (LEV). This can be explained by the fact that a higher level of leverage indicates that the firm has potential for future development enough to justify the need in financing (Black, Love, Rachinsky, 2006; Berezinets, Ilina, Cherkasskaya, 2013).

The size of the company, expressed as a logarithm of its total assets is negatively related to Tobin's coefficient. There are studies confirming the inverse relationship between increase in assets and financial performance within the framework of related and not related to the diversification (Riahi-Belkaoui, Pavlik, 1993; and Hoskisson, 1987). It is argued that the decline in financial performance with the increase in assets can be justified by the lack of ability to effectively allocate resources between the interdependent units. Moreover, larger firms are organized in a more complicated way (Blau, 1970), they require a more formal, specialized and integrated systems (Mintzberg, 1980).

From the variables that characterize board of directors, only board size (BDSIZE) is statistically significant throughout all the specifications. The sign of the coefficient is negative, allowing to conclude that larger boards are not preferable. This result is supported by the majority of studies, which found that smaller boards are associated with better performance due to faster decision-making and flexibility (Lipton and Lorsch, 1992; Yermack, 1996).

Notably, the regression with Tobin's Q as dependent variable provide results that only coefficient of CEO busyness (busyceo) does have a statistically significant (at 1% confidence level) and positive relation with the market performance of the company. It suggests that companies with CEO holding multiple directorships have Tobin's Q higher by 0.17 points.

The results of the models 3 to 5 indicate that none of the variables describing busyness of the corporate board and its members is statistically significant. Therefore, we are not able to conclude anything on the relationship between busy boards/directors and market performance of the company.

## 2.8.Main findings

This paragraph will summarize all the findings of the econometric analysis and compare it to the results of the prior studies on related topic.

Overall, results of the conducted analysis confirm the existence of the significant relationship between multiple directorship of the board directors and CEOs and financial performance of Russian public companies. Econometric analyses allowed us to examine hypotheses of the research, which were proposed in the Chapter 1.

Table 8. Results of the econometric analysis

| Hypotheses | Result |
|---|---|
| H1. There is a negative relation between busy board directors and operating performance of the company. | Accepted |
| H2. There is a negative relation between busy board directors and market performance of the company. | Not evidence |
| H3. There is a positive relation between board of directors' busyness and company's financial performance based on market indicators. | Accepted |
| H4. There is a negative relation between board of directors' busyness and company's financial performance based on accounting indicators | No evidence |

The results of the regression analysis reveal that firms with busy CEOs have Tobin's Q about 0.17 higher. The possible explanation can be that such CEOs are perceived better by the market because investors believe that a larger number of positions in different boards bring to the experience and the contacts of such CEO. Thus, we can suggest that the Reputation hypothesis for CEOs is applicable in case of Russian public companies. The results of the study are consistent with previous literature that reported positive effect of CEO on company performance. For instance (Masulis and Mobbs, 2011) find that firms with inside directors holding multiple directorships have better market-to-book ratios. Such companies also make good acquisition decisions. Mace (1986) supports that additional positions provide executives with prestige, visibility, and commercial contacts. In addition, Benson et al. (2015) show that busy CEOs are better negotiators and pay lower premiums, which indirectly shows that busy CEOs of acquirer firms have positive wealth effects.

However, the relation between CEO busyness and firm performance is not evident when ROA is used as measure of company performance. Similarly, Pandey at al. (2015) find the evidence on association between CEO busyness and firm market performance, whereas such relation is not evident when ROA is used.

Another result was obtained considering the busyness of the board directors. There are several major conclusions:

- Increase in a percentage of busy directors on the board is associated with lower operating performance;
- Average number of outside directorships by board members is negatively related to the company operating performance;
- Firms with busy boards (in which the majority of directors hold three or more outside directorships) are associated with lower operating profitability;

Therefore, we present evidence confirming the Busyness argument in the context of board directors of Russian public companies. This result is consistent with the studies on developed markets such as the U.S. and Europe (Fich, Shivdasani, 2006; Cashman, Gillan, Jun, 2012).

The election to the large number of companies' boards leads to over commitment and reduces directors' efficacy as advisors and monitors. Indeed, numerous studies suggest that too many directorships decrease the effectiveness of outside directors as corporate monitors (see, e.g., Core et al. (1999), Shivdasani and Yermack (1999)). Fich, Shivdasani, (2006), for example, indicate that firms with busy boards exhibit lower market-to-book ratios, lower operating performance, and weaker sensitivity of CEO turnover to firm performance. Core et al. (1999) also find that busy directors provide CEOs with excessive compensation, which in turn leads to weaker performance of the company.

Thus, from the current study it can be interfered that for board members of Russian public companies the ability to devote enough time and energy to the functions of monitoring and advising top-management plays a more crucial role than acquisition of contacts and connections. The reputation argument and a wide network of contacts cannot outweigh the decrease in the efficiency.

## CONCLUSION

This thesis have examined the relationship between multiple directorship and financial performance of Russian public companies. Traditionally, directors' busyness is considered form two different perspectives: one that supports busyness hypothesis, second supporting reputational and resource dependency hypothesis.

Based on the analysis of the previous literature and with regard to the specifics of corporate governance in Russia, we were able to propose several hypothesis for the research. Following the logic of busyness hypothesis, we suggested that busy board directors experience lack of time and commitment, and, thus, are not able to perform their key functions effectively. We have argued that multiple appointments of the board directors are associated with lower operating and market performance. The findings of our analysis indeed confirm the existence of the negative association between busyness of the board directors and operating profitability of the company measured by ROA. However, such relationship was not evident when the market-based indicator was used as a financial performance measure.

Moreover, we examined busyness of the Chief Executive Officer separately, as we acknowledge that due to the specific role of the top-manager, the result concerning his multiple appointments and company performance can be distinct, yet very important from theoretical as well as practical applicability. The econometric analysis presented in the Chapter 3 revealed the positive association of the CEO multiple appointments and market-based measure of company performance - Tobin's Q. Our regressions support the idea that busyness may proxy for director quality. The fact that busyness of the CEO is associated with higher market-based estimation of the company performance provide support for reputational hypothesis.

Current study gives theoretical contribution to the existing literature on the corporate governance in Russia and provide theoretical framework of the specific characteristic of the board of directors and CEO. Consequently, based on the results that were obtained it is possible to make several recommendations:

Busyness of the board members have to be controlled as it has detrimental effect on company performance. It can be implemented either on country level through federal law and Corporate Governance Code, or company level through the establishment of the limitations on the number of acceptable multiple positions.

As busy boards are associated with lower operating performance, companies have to impose a limit on number of board members that can serve multiple boards, such that majority of its board members would not be considered as busy and have enough time to carry out their duties.

Firms could further increase their market performance by allowing the CEOs to serve other companies' boards, and subsequently improve his reputation on the market and allow for positive signal to the investors.

While assuming theoretical and practical contributions of the research conducted in this study, it is necessary to mention that there is a set of limitations, which were unavoidable. First limitation is that we considered quite narrow period for our data collection (2014-2016 years) and thus we obtained quite small sample for the research (227 company-year observations). As a result, some relations can remain unobserved. Therefore, for further analysis it could be reasonable to wider the period and include more yearly observations. Second limitation is that when we count the number of outside directorships for a board member/CEO, we assume that all of them have the same effect on his busyness. However, individual characteristics of the firms where director serves as a board member may have different effect on his commitments. For example, participation in the board of the affiliated company compare to the director position in the large multiple-segment company from the different industry can be associated with different level of workload and time commitment. In this regard, further research can take into consideration specifics of the companies that counts for directors' busyness.

Finally, current paper explicitly assumes that relationship between director' busyness and firm performance has linear character, whereas some of the previous works in the context of different countries have already suggested and empirically proved that busyness can have a non-linear kind of relation with firm performance. Therefore, future researchers can try to approach this issue as well.

To sum up, it can be stated that the goal of the research was completed. Current study provides valuable insights on multiple directorship in Russian public companies and its relatedness to the financial performance of the companies. The results should be interesting for a wide audience, including policymakers, managers, shareholders, and scientists. Despite some limitations, the results have valuable managerial implications and indicate the directions for further academic research.

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