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Too many seats too little talent: an analysis of optimum number of seats for board of directors in state owned enterprises (SOEs) in Zimbabwe

Abstract

Since dollarization in 2009, the Zimbabwean business environment had been uncertain thereby calling for the need by management and board of directors to understand the vagaries of the economy and the challenges of trying to navigate through it. However, a number of high profile chief executive officers and independent directors of state owned enterprises (SOEs) have been sitting on no fewer than seven companies simultaneously. Some of the independent directors did not have the necessary skills to make them indispensable or their talent scarce and rare. Against this background the study sought to examine the sliding cost benefit scale for independent directors and chief executive officers who sit on many boards other than their own. In addition, the study examined the number of boards an independent director should sit on. The study also examined whether State Owned Enterprises do have a preset criteria to measure the performance of independent directors which should be published in annual reports. Furthermore, the study also established whether independent directors who work on the frontline of business could bring a great deal to board discussion. The study used a survey research design on selected State Owned Enterprises. The study adopted a quantitave methodological approach where questionnaires were sent to board members of 10 selected companies. The questionnaires were tested for validity and reliability before being distributed. The findings from the study revealed that independent directors siting on too many boards have the risk of getting overloaded and split their time and energy and commitment to the extent that they do none of their jobs well. In addition, the findings showed that independent directors who sit on a number of boards are having trouble in one company, which may lead to the risk of director contagion whereby the taint could rub on the boards on which he or she serves. The findings also revealed that independent directors siting in many boards may fail to give their best to the respective companies without going overboard. Consequently, they fail to devote reasonable time to the affairs of all the companies since the job is onerous. The study recommends that independent directors should hold directorships in no more than three companies each to be effective. This would help the directors in giving quality time and making meaningful contribution. The study also recommends that regulators should also consider making the appointment of independent directors subject to approval by the majority of minority shareholders, a practice that is common in developed markets.

Keywords: busy directors, board interlocking, corporate governance, independent directors, state owned enterprise.
JEL Classification: D20, M38.

Introduction

Following the dollarization of the Zimbabwean economy in 2009, the business environment had been uncertain with most state owned enterprises (SOE) facing viability challenges. As such, it became paramount for the respective board of directors and management to understand the vagaries of the economy so as to navigate through these challenges. However, under the challenging business environment, a number of high profile chief executive officers and independent directors in government parastatals seat on multiple company boards. In fact, majority of the independent directors have seats in no fewer than seven boards of different companies. In general, there had been a plethora of cases of independent directors sitting on multiple boards in both state enterprises and public listed companies in Zimbabwe (The Daily News, November 2013).

There had been large scale corporate failures linked to poor governance and mismanagement by board of directors including parastatals such as PSMI, Air Zimbabwe, ZUPCO, ZESA Holdings and NRZ (Njanike, 2010). For instance, between 2013 and 2014, the Zimbabwean media was awash with high profile cases of independent directors, senior management and CEOs in government parastatals awarding themselves high salaries when the ordinary were struggling for a living (Newsday November, 2013). Also known as the "salary gate", the executive and independent directors in most state owned enterprises awarded themselves obscene salaries and compensation fees which reflected dysfunctional boards, director emolument or lack of essential information by the directors (Njanike, 2010). These happened at a time when the majority of state owned enterprises had been reeling under massive debts and salary backlogs for employees and, thus, seeking government bailouts (The Herald 2014). In particular, state owned enterprises such as PSMI and Zimbabwe Broadcasting Corporations (ZBC) had management, executive directors and independent directors offered higher allowances and packages (Newsday January, 2014). Paradoxically, the inde-

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pendent directors who should be on the forefront of enforcing corporate governance became part of the problem for most government parastatals. In the presence of the board, most state owned enterprises suffered cannibalisation at the hands of individuals entrusted by law to be its steward. Indeed, independent directors sitting on multiple boards of state owned companies had been catalysts in fleecing these underperforming enterprises.

Against this background, the study sought to examine the sliding cost benefit scale for independent directors and chief executive officers who sit on multiple boards of state enterprises. The study aimed to understand and describe the occurrence of independent directors in multiple boards of state enterprises in Zimbabwe. In addition, the study also examined the number of boards an independent director should sit on. Furthermore, the study established whether independent directors who sit on multiple boards could bring a great deal to board discussion. The study was conducted through the analysis of board composition of all state enterprises between 2009 and 2013.

1. Literature review

One aspect of corporate governance which has received much attention in the literature is the issue of independent directors sitting on a number of boards for different companies and state enterprises. The phenomena, also described by Fich and White (2001) as board interlocking, is whereby one independent director serves as a board member in two or more companies, thus establishing a connection between them.

However, there are diverse and mixed arguments regarding the existence of the phenomena of independent directors on many companies' boards. On one side, behavioral economists such as Schoorman, Bazerman and Atkin (1981) believe that independent directors on multiple boards help in improving the contractual relations between different organizations, thereby reducing implicit uncertainties. On the other side of the coin are some corporate governance scholars such as Fich and White (2001) and Mizruchi (2006) who are strongly sceptical on the view that busy directors do serve shareholder interests and value to the company. In most developing countries, especially sub Saharan African countries, the subject is still unexplored.

According to OECD (2009), the board of directors is one of the internal corporate governance mechanisms due to its functions of monitoring managers, setting company strategic decisions and ratifying relevant decisions. In fact, many corporate governance codes of best practices do highlight the profound importance of independent board members in order to ensure impartial decisions. It should be noted that the job of an independent director is onerous since he or she is accountable under the law as any other director and his performance is also evaluated. Thus, in order for the director to make meaningful contribution there is the need to devote reasonable time to the affairs of the company (Acharya, Schnabl, and Suarez, 2010). According to Cook and Wang (2011), a person cannot do justice to the job when sitting on the boards of more than half a dozen companies and if he or she also seats on a few board committees.

Ahern and Dittmar (2010) describe independent directors who seat on multiple boards as just "trophy directors" interested in navigating wood panelled board rooms as easily as their homes. In America, among the directors of Fortune 1000 companies are these trophy directors who are well connected in the business sector (Adams and Ferreira, 2010). Examples include people such as Frank C. Carlucci, who sits on 14 corporate boards, Ann D. McLaughlin, who sits on 11 corporate boards. Other high profile executive directors included Raymond S. Troubh, who occupies 15 board seats, David T. Kollat (15), Claudine B. Malone (11) and Willie D. Davis (11) (Adams and Ferreira, 2010).

In Asian countries, such as India and Malaysia, independent directors are allowed to seat on the boards of not more than seven companies simultaneously (Ferreira et al., 2010). In addition, the independent directors can only have a maximum of two terms of five years each with a company. Data on Indian boards.com shows that more than 481 directors hold 589 independent directorship positions in the top 100 listed companies by market capitalization and some of the individuals hold directorships in more than ten listed companies (Di Pietra et al., 2008). However, in Malaysia the company's act allows a person to be on the board of ten companies. As argued by Bar-Isaac and Shapiro (2010), the curbs are necessary to give independent directors time needed to analyze the agenda of board and committee meetings at a company and prevent wrong doings. However, the Company Act (2013) in India does not have restrictions on the number of independent directorships.

Many empirical studies show a negative relationship between director's participation in multiple companies and company's financial indicators (Loderer and Peyer, 2002; and Fich and Shivdasani, 2006). For instance, Nguyen (2009) believes that a director working in multiple companies may lack the time for an adequate dedication to defend the interests of all the company's shareholders. Studies by Fich

(2005) also found that stock prices would decline of companies whose directors announce their participation in other boards. This suggests that shareholders would fear that their interests will be damaged when board interlocking occurs. Thus, it is reasonable to presume that outsider director's effectiveness is conditioned not only by their independence but also by their level of dedication and commitment. This is also postulated by Mizruchi (2006) who expounds that independent directors who participate in other companies may not perform their tasks as effectively as other directors.

Meta-analysis studies by Fich (2005) on 500 American companies between 2000 and 2005 indicated that the presence of independent directors in multiple boards produced a negative effect on the firm's market value and the deterioration of corporate quality. In another study, Fligstein and Brantley (2004) also identified a negative relationship between board interlocks and profitability, in a sample of large American corporations. This is also confirmed by Loderer and Peyer (2002) in their study of companies listed on the Swiss Stock Exchange (Zurich Stock Exchange) between 1980 and 1995 which showed that the accumulation of functions in other boards reduces the value of the firm as measured by Tobin's Q. The possible reasons for these results included the conflict of interests independent directors are exposed to by participating in multiple companies, which would increase the potential of agency costs and the lack of adequate time to perform multiple mandates.

Fich and Shivdasani (2006) developed the concept of "busy boards" which is the condition in which half or more of the company's outside directors serve on three or more boards. The authors showed that board members who are affiliated with too many other companies reduce corporate value and performance. These findings concur with studies by Wang and Clift (2009) who found that the marginal benefits of the better contacts and greater experience of directors who participate in multiple companies do not exceed the decrease in the quality of their monitoring activities. The agency theory literature also assumes that directors who overstretch themselves and accept additional seats due to the extra available personal perquisites, tend to spend less time on each individual board, compromise their responsibilities and neglect their duties (Ferris et al., 2003).

In addition, a number of scholars are concerned about the participation of independent directors in many other companies' boards. For instance, Pennings (1980) and Burt (1983) note that the greater the number of annual meetings by the board, the lesser the probability that their members will participate in other firms. Core et al. (2009), and Shivdasani and Yermack (2006) also believe that directors can become overcommitted when they will be serving multiple boards and this render them unable to offer meaningful managerial monitoring. Fich and Shivdasani (2006) and Jiraporn et al. (2008) also argue that the boards with busy directors are usually associated with lax corporate governance.

Jiraporn, Kim, Davidson, and Singh (2006) and Masulis and Mobbs (2011) associate busy boards with weaker company performance and low firm value. This is also propounded by Florackis, McNalty and Ormond (2013) who state that busy directors reveal a high propensity to be absent from board meetings thereby neglecting their duties by not taking part in the strategic decision making process. Additionally, studies by Lins, Servaes and Tufano (2010) also provided evidence that busy directors are associated with companies with accounting fraud and this points to lack of attention from these directors. It is also important to note that busy directors usually take care of their own reputation and depart from underperforming firms suggesting that the presence of overstretched directors may be endogenous to the performance of companies (Brown and Maloney, 1999).

Cooper and Uzun (2012) vehemently challenge the wisdom of holding too many directorships by arguing that directors can become overcommitted and unable to effectively monitor management in many companies. This is also supported by Adams et al. (2010) who unveiled that there is an inverse relationship between company performance and board's business. Indeed, companies with busy boards demonstrate weaker operating profitability than companies with less busy boards. Core et al. (2009) contend that busy directors set high compensation for CEOs, which results in a poor firms' performance. Perry and Peyer (2005) and Ferris, Jagannathan, and Pritchard (2003) find that directors view additional directorships as a good chance to improve their incomes before retirement. They are not usually penalised for the service of poor quality, and are not fired due to the close proximity to the retirement.

Kaczmarek et al. (2012) adopted a notion of fault lines from the social identity theory to their analyses of the board effectiveness. Task-related fault lines such as functional background, education and tenure can impair directors' motivation and ability to fulfil their duties resulting in lower board effectiveness, which in turn, affects firm performance (Huse, 2007). Group fault lines deteriorate a board performance due to the conflict between different teams leading to low group cohesion.

Cooper and Uzun (2012) and Christy, Matolcsy, Wright, and Wyatt (2009) find a negative relationship between the market risk of equity and multiple directorships held by independent board members. Fich and Shivdasani (2006) provide evidence that announcements about departure of busy director are welcomed by investors with high cumulative abnormal returns around the announcement day. This particular evidence points to the negative relationship between the presence of busy directors and a firm value.

However, researchers such as Mol (2001) elucidates that the linking of companies through board members bring benefits resulting in competitive advantages. These competitive advantages brought by independent directors include access to resources, clients and creditors and disseminating innovations (Fich and Shivdasani, 2006). This is strongly supported by Nicholson, Alexander and Kiel (2004) who expound that board interlocking is advantageous for companies facing scenarios of uncertainty and interdependence in the market as well as orga nizational complexity. Studies by Boyd (2000) also observe that companies with grater uncertainty in the economic environment need greater connections with other companies through common directors. Additionally, Haunschild and Beckman (2008) found that connections between independent directors allow the dissemination of organizational innovations through corporate contact network. D'Aveni and Kesner (2003) also observe that companies whose independent directors shared multiple directories, had successful hostile takeovers as compared with companies that did not have any connection. Even similar political campaign contribution strategies are identified in companies connected through their directors.

Stokman, Van der Knoop and Wasseur (2008) believe that there may be limited set of high qualified and talented individuals that companies wish to draw as directors. For instance, for a period of 20 years the majority of new independent director appointments in large Dutch companies were drawn from a relatively small number of persons with high levels of experience and technical expertise. Thus, this implies that such people are in short supply and CEOs are usually interested in board members who are qualified and talented as well as non controversial individuals. As such, independent directors with industry expertise and strong track records can assist companies in making good operating and strategic decisions. In congruency with past studies, Harris and Shimizu (2004) elucidate that busy directors are a profound source of knowledge and this enhances acquisition of performance. Additionally, studies by Field, Lowry and Mkrtchyan (2011) also confirm that directors with multiple board seats are excellent advisors and sought after by IPO companies. At the same time, studies by Haunschild and Beckman (2008) posit that there is a positive effect of having busy directors on a company board and this may include a single company or the entire corporate system.

As noted by Bouwman (2010), some external labor market do acknowledge director's managerial skills and talent and thus multiple directorships are paramount because they help executives to develop an expertise, learn about different managerial styles and strategies and build up a professional network. Additionally, Fama (1980) and Fama and Jensen (1983) do consider what they called "reputational effect" as an important catalytic incentive for directors themselves. Ferris et al. (2003) also concur that multiple directorships positions do positively correlates with corporate performance. The findings are also reinforced by studies by Masulis and Mobbs (2011) which associates the presence of directors with outside directorships to superior board decision making and better corporate performance. Ferris et al. (2013) also contend that the inside directors with multiple directorships serve a special role on their boards and posses the knowledge and experience to become realistic candidates for replacing current CEOs. This is corroborated by Cook and Wang (2011) who argue that multiple directorships signal an exceptional ability of the director. Thus, companies with busy boards are expected to have better financial liquidity and face lower corporate financial risk. By increasing the number of busy directors at the board level, companies minimize further their financial risk.

2. Methodology and instrumentation

Given study's research objectives and the preceding literature review, the best fit to follow was a positivist research paradigm. This was in line with other studies in corporate governance, such as Patel and Tebelius (2007), which recognise that positivist paradigms produce rich and objective data. Thus, positivism was adopted since researcher needed objective results. This is also in line with studies by Yin (2009) who argues that positivism makes the investigator not only independent of the study but also impartial of social reality. Accordingly, the study used a quantitative research approach so as to decipher a lacuna of different causes within the given corporate governance research context. In addition, researches by Saunders, Lewis and Thornhill, (2007) reveal that the findings produced through quantitative research approaches are usually precise and offer greater analysis. It should also be noted that deductive approach is not only impartial but also objective (Cassel and Symon, 2007).

The choice of the research instrument was influenced by the nature of the investigation and resource availability (Saunders, 2003). As such, a questionnaire which included both open ended and closed ended questions was used. This was in line with studies by Rea and Parker (2005). At the same time, the confidentiality nature of the questionnaire meant that participants could answer without the assistance of the researcher. In addition, that would also mean that respondents would provide more truthful answers. The other advantage of the questionnaires was that they could be used to discover the experiences currently taking place. For the measurement of variables, a five point Likert scale was used and it had a range which stated from 1 (strongly disagree) to 5 (strongly agree). Hence, a five point Likert type scale was used to elicit attitudinal information from respondents in line with suggestions by Collis and Hussey (2003).

The study used a sample of state enterprises in Harare and collected financial and market information from annual reports. The sample period was from 2009 to 2013. For the study, the population included independent directors from state enterprises. Thus, the study adopted a survey quantitative research design. A total of 80 questionnaires were distributed to directors of 10 selected state enterprises and 50 questionnaires were returned fully completed. The study had a response rate of 62,5% which was in line with recommendations by Creswell (2007).

3. Findings and summary statistics

Regarding the educational qualifications of the respondents, 44% of them were holders of masters degrees, 32% had undergraduate degrees, 18% had diplomas and only 6% of the respondents had doctorate degrees. The findings are illustrated below:

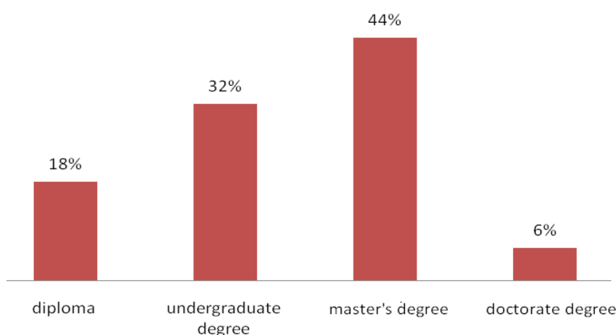

Fig. 1. Educational qualification of respondents

From the above findings it can be inferred that half of the independent directors (50%) only had undergraduate degrees as their academic qualifications and only few had doctorate degrees. Thus, it can be argued that most of the independent directors were not educated enough to warrant the necessary skills needed for busy directors. since independent directors are important for monitoring the strategic direction of the company higher educational qualifications such as masters and above are paramount for organizations which would require the use of external influences (Cox and Blake, 2004). Indeed, Westphal and Milton (2005) suggest that independent directors should have academic credentials such as at least a master's degree so as to provide a wealth platform of creative ideas to formulate meaningful policy initiatives with depth and rigour. As such, academic qualifications are imperative for independent director decision making process.

Regarding directorship per director the findings showed that the 22% fell within the category 1 to 3, 33% of the respondents were within 4 to 6 category, 27% were within 1 to 9 category and 18% fell within 10 and above category. The findings are illustrated diagrammatically below:

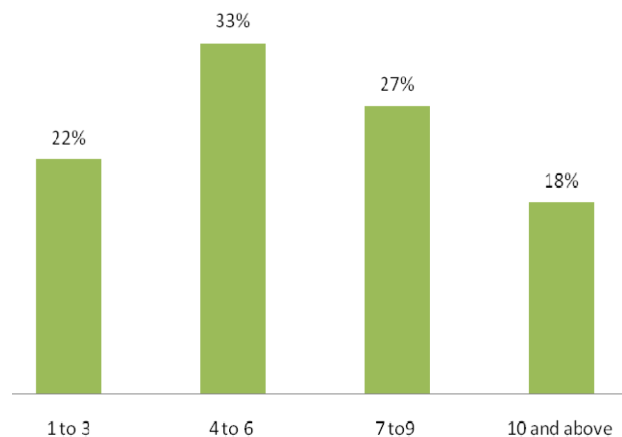

Fig. 2. Number of directorship positions per director

From Figure 2 above it can be inferred that the majority of the independent directors (78%) in the state owned directors do seat in at least 4 other board seats. Thus, the majority of the independent directors can be classified as busy directors. As such, the independent directors may be too busy to properly monitor the state owned enterprises at critical moments because of over commitments. The findings tend to correlate with Holthausen and Larcker (2009) who believe that busy boards seem to have worse long term performance and also worse oversight.

Regarding the size of the board, the average number of directors on the board was 10.7 with a minimum of 10 directors and maximum of 18 directors. in addition, the average board tenure was 5.89 years in the sample with a minimum tenure of 5 years and maximum tenure of 10 years. In terms of the number of female directors on the boards, the study found that on average 5.2% were females in the sample with a minimum of 2% to a maximum of 8%. The study also used the director's age to approximate the experience as well as useful networks directors can bring the company. According to the

findings, the average director's age was 56.7 years with a minimum of 35 years and maximum of 69 years old. From the findings, all the chief executive officers and chairmen positions were held by one person. On average, the directors sat on a minimum of 4 boards with a maximum of 12 boards and an average of 5.3 boards. This implies that the directors under the sample study had many directorship responsibilities. These findings are tabulated below:

Table 1. Analysis of directorship board

Item	Min	Max	Mean	Standard deviation
Age of directors	35	69	56.7	0.965
Board tenure in years	5	10	5.89	-
Number of directors on the board	10	18	10.7	-
Number of female directors on the board	2%	8%	5.2%	-
Number of boards seat by independent directors	4	12	5.3	-

From the Table above, it can be inferred that the majority of the state owned independent directors were approaching the mandatory retirement age of 60 years. at the same time the independent directors had served their respective. The study also used descriptive statistics to analyze various premises posited to respondents. According to the findings, the majoring of the independent directors participate in at least four other companies or state enterprises (mean = 4.70). In addition the findings showed that there was an absence rate of independent directors with multiple directorship (mean = 4.88). Lastly, the findings showed that the director's skills are demanded by several companies (mean = 3.27). The findings are summarized below:

Table 2. Descriptive statistics

	N	Min.	Max.	Mean	Standard deviation
The state enterprises are connected via shared directors	50	1.00	3.00	2.67	0.056
More than half of the independent directors participate in at least four other companies or state enterprises	50	4.00	5.00	4.708	0.09
Boards with a larger number of members tend to accept the participation of board members from other companies	50	2.00	5.00	3.97	1.13
Board meeting absence rates by independent directors is high	50	4.00	5.00	4.88	0.06
Director's skills are demanded by several companies	50	1.00	4.00	3.27	1.14

Conclusion and recommendations

The study investigated a longstanding and robust phenomenon in corporate governance on the optimum number of seats for board of directors in state owned enterprises in Zimbabwe. From the findings, it can be concluded that the independent directors in state owned companies can be classified as busy directors as they sit on at least four other company board directors. This meant that the directors had attention to board activities in multiple boards and their attendance would become just a tick box approach.

The findings also revealed that the independent directors did not have the academic talent to make their expertise scarce and rare. Indeed, most of the independent directors are holders. This was remarkably consistent with other empirical studies on the qualifications. However, the findings concluded that the state enterprises and public companies have become connected through an informal network of independent directors who seat in multiple boards. This has, unfortunately, not transformed into meaningful corporate connections as these state enterprises continue to experience operational challenges.

From the findings, it can also be concluded that the independent directors had a high absenteeism rate in terms of attending crucial board meetings per year for the state owned enterprises. Indeed, the findings did show that on multiple board seats do have a higher tendency to be absent from the board meetings. This means that the time and effort for independent directors are not unlimited. It can thus be conclude that independent directors with too many board seats may find it challenging to attend all board or committee meetings. This is also consistent with the view that those independent directors who sit on multiple boards are ever overstretched that they do have a hard time showing up for board meetings.

The age of the director, which are climaxing towards retirement can imply that the independent

directors may be interested much in the compensation rather than performance.

From the findings it can be concluded that majority of the independent directors were inclined towards retirement age and thus these would accept additional directorship at the expense of quality monitoring. The findings also revealed that there is no gender diversity in the boards of state enterprises. This was shown by the few number of women directors in the state enterprise boards under study. From the findings, it can also be concluded that the independent director's skills were not much demanded by several parastatals under study. thus, it cannot be comprehensively argued that the independent directors are too talented to have multiple directorships.

Based on the findings, the study recommends for a limit on directors on the number of sits for the boards. In particular, the government should corporate place restrictions on how many outside board seats individuals may hold. For example, the relevant ministries should restrict corporate executives board sets to no more than three. It is also important for the relevant ministries to have specified term limits for independent directors.

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