Multiple appointments and perquisite consumption: Empirical evidence

> Except for a few recent and tentative steps … we have no theory which explains how the conflicting objectives of the individual participants are brought in to equilibrium.[1]

> Effective boards depend as much on behaviours and relationships as on procedures and structures… I do not presume a "one size fits all" approach to governance is appropriate. There will always be exceptions, but this does not negate the need to establish the expected norm.[2]

I. CONTROLLING MULTIPLE APPOINTMENTS

Previous chapters have investigated how a non-executive may be deterred from self-interest through the imposition of the fiduciary duty of loyalty; and how theory supposes boards may be structured to incentivise individuals *ex ante* to align their interests with the principal's. Now, it is the purpose of this chapter to provide empirical analysis of non-executive self-interest by using their multiple directorships as an outcome variable to determine what influences their decision to take additional appointments. This analysis can identify governance mechanisms that can control self-interest. The study will also demonstrate the influence multiple appointments can have on aligning the interests of the executive directors. Since their role is focused on reducing conflict amongst executives, then increased problems within the firm in relation to its governance of the executives would suggest that multiple appointments are based on self-interest and not the interests of the firm. Finally, this study will be conducted through a multi-level analysis by collecting data from firms over a five-year

[1] M Jensen and W Meckling, 'Theory of the Firm: Managerial behaviour, agency costs and ownership structures' (1976) 3(4) *Journal of Financial Economics* 305, 307

[2] The Higgs Report, Review *of the role and effectiveness of non-executive directors*, (January, 2003) para 1.18-9

period of 2006-2010 to identify any changes based on market conditions before and after the economic recession in 2008.

Agency theory would contend that the taking of multiple directorships by non-executives is a form of perquisite consumption[3] that, in excess, can be detrimental to the firms involved for a number of reasons and can generate agency costs. For example, appointments may be based on contacts and networks rather than merit or signals from the managerial labour market.[4] This may lead to excessive executive compensation[5] due to the non-executives being unwilling to challenge the executives who supported their appointment. Non-executives may also be unable to fulfil all their duties for each one of their undertakings at the different firms.[6] This chapter is not, however, advocating that firms should prevent non-executives from taking any external appointments, as there are often many benefits in doing so. Benefits include reducing uncertainties in the market[7] and improvements in firm

[3] S Ferris, M Jagannathan and A Pritchard, 'Too Busy to Mind the Business? Monitoring by Directors with Multiple Board Appointments' (2003) 58(3) *The Journal of Finance* 1087

[4] E Fama and M Jensen, 'Separation of Ownership and Control' (1983) 26(2) *Journal of Law and Economics* 301; L Bebchuk and J Fried, *Pay Without Performance: The Unfulfilled Promise of Executive Compensation*, (Harvard University Press, 2006); Qianru Qi, 'How Does the Director's Social Network Matter? Evidence From Structure Estimation' (2010) <http://ssrn.com/abstract=1786555> accessed 14th April 2011

[5] L Renneboog and Y Zhao, 'Us knows us in the UK: On director networks and CEO compensation' (2011) 17(4) *Journal of Corporate Finance* 1132

[6] S Ferris, M Jagannathan and A Pritchard, 'Too Busy to Mind the Business? Monitoring by Directors with Multiple Board Appointments' (2003) 58(3) *The Journal of Finance* 1087, 1088; citing M Lipton and J Lorsch, 'A modest proposal for improved corporate governance' (1992) 48 *Business Lawyer* 59

[7] See, for example, K Eisenhardt and C Schoonhoven, 'Resource-Based View of Strategic Alliance Formation: Strategic and Social Effects in Entrepreneurial Firms' (1996) 7(2) *Organization Science* 136; J Pfeffer, 'Organization Theory and Structural Perspectives on Management (1991) 17(4) *Journal of Management* 789

performance.[8] The point is to highlight how firms may control an excess of external appointments and this may serve as a partial answer as to how a firm can create an alignment of interests to prevent or guard against opportunism and potentially reduce agency costs.

This analysis uses a dataset compiled from the annual reports of thirty FTSE 100 firms over a five-year period from 2006 to 2010. The dataset is designed to use the board features identified in Chapter V to discover how corporate governance mechanisms relate to multiple directorships. By using a time series[9] this analysis also offers insight into how changing market conditions may impact on multiple directorships. Another contribution this chapter aims to make is the relationship between multiple appointments and agency problems. The study identifies several proxies of agency problems within a firm and measures their relationship with multiple appointments. The amount of agency problems present in any given firm may vary. Executives may be more able than others to impose higher agency costs. Agency theory would predict this is due to insufficient monitoring from the independent non-executives. A reason why non-executives are not monitoring effectively may be from their own external appointments that they have viewed as perquisite consumption. Therefore one may predict that where a firm has more multiple directorships then the firm will also have greater agency problems. Thus, evidence is provided that external appointments may result in greater disparity between the interests of company and non-executive.

It is possible that the analysis will reveal that governance mechanisms may not be significant enough on their own to incentivise non-executives *ex ante* to prefer the interests of the firm. Therefore, to begin with this chapter shall consider whether placing restrictions on multiple

[8] J Cotter, A Shivdasani, M Zenner, 'Do independent directors enhance target shareholder wealth during tender offers?' (1997) 43(2) *Journal of Financial Economics* 195

[9] Data collected is also a panel which would allow for control of firm and organisation type in future studies

appointments may be beneficial in deterring self-interest. This will be done through a comparative analysis of board restrictions within the EU in part two. Some testable hypotheses are identified in Part III from the literature discussed in Chapter V. The next sections shall provide a methodology, analysis and results before concluding with some observations and recommendations. By analysing the effects of corporate governance mechanisms on non-executive multiple directorships and the effect they can have on executive directors, recommendations and observations on the norms and limits on the number of external appointments can be made.

II. LIMITS ON MULTIPLE DIRECTORSHIPS: A PERSPECTIVE FROM THE EU

The European Commission has no set rules on the amount of board mandates any one individual is allowed to hold but how to regulate them has been an issue of some considerable debate.[10] States across the EU can place their own restrictions on multiple appointments that are detailed in Table A. The UK's Corporate Governance Code (hereinafter The Code) adopted the recommendation from the Higgs Report[11] that executives should only accept a maximum of one additional non-executive appointment of a FTSE 100 firm.[12] For non-executives The Code merely states that directors should ensure that have enough time to fulfil their duties.[13]

The comparative analysis of the EU suggests that the UK is strict in terms of restricting executive board mandates. Austria, for example, allows for four additional appointments for

[10] European Commission, *Green Paper: The EU Corporate Governance Framework*, 5.4.2011 COM(2011) 164, 7-8; For some recent UK proposals see ---, 'FRC to consult on executive remuneration' 20th June 2012 <http://www.frc.org.uk/News-and-Events/FRC-Press/Press/2012/June/FRC-to-consult-on-executive-remuneration.aspx> accessed 5th August 2012

[11] The Higgs Report, *Review of the role and effectiveness of non-executive directors*, (January, 2003) Para 12.19

[12] The UK Corporate Governance Code 2010, Para B.3.3

[13] The UK Corporate Governance Code 2010, Para B.3.2

executives[14] and Estonia allows for two.[15] However, when it comes to restricting non-executive mandates, the UK approach appears to be common across the EU though some EU codes still impose restrictions or recommendations for non-executives. For example, Germany's restriction for non-executives is ten[16] and it is five in France.[17] It appears that some States already regard it as necessary to restrict the number of appointments held by the non-executive directors – or members of the supervisory board. However, these figures appear slightly arbitrary as it would seem unlikely that an individual would have the time to undertake ten, or perhaps even five, roles without questions being raised as to a non-executive's time commitment. The Netherlands does defend its restriction on the basis that it makes apparent to supervisory board members that they should make sufficient time available to perform their duties.[18]

[14] The Austrian Code of Corporate Governance 2010, Para 25

[15] Estonia Corporate Governance Recommendations, Para 2.2.2

[16] The German Stock Corporation Act (AtkG), s. 100

[17] The French Recommendation of Corporate Governance 2011, Part II Para D.2

[18] Dutch Corporate Governance Code: Principles of good corporate governance and best practice provisions (2008) para 39

TABLE A: EU Multiple directorship restrictions		
Member State	**Exec restrictions**	**Non-exec restrictions**
AUSTRIA	Para 25: Without approval from supervisory board no member of the management board is permitted to assume a mandate on a supervisory board; Para 26: Shall not hold more than 4 supervisory roles (chairs count double)	Para 56: No more than 8 mandates (chair counts double) Para 57: If serving on a management board of a listed company may not hold more than 4 supervisory roles (chair counts double)
BELGIUM	N/A	Para 4.5: should not consider taking on more than five directorships
BULGARIA	Para 3.6: Company by-laws should limit the amount allowed	Para 3.6(one tier board)/3.7(two tier board): Company by-laws should limit the amount allowed
CYPRUS	N/A	N/A
CZECH REPUBLIC	Ch VI para 16: Participation in too many boards can interfere: but no limit	Ch VI para 16: Participation in too many boards can interfere: but no limit
DENMARK	N/A	Para 5.7: member of supreme governing body who is also on the executive board should not take on more than a few non-executive positions or one non-exec and one chairmanship
ESTONIA	Para 2.2.2: No more than 2 other management board positions; shall not be a chair of a supervisory board	Para 3.2.3: Enough time to perform duties
FINLAND	Rec 9: Possible to devote a sufficient amount of time to discharge of duties, considering secondary occupations	Rec 9: Possible to devote a sufficient amount of time to discharge of duties, considering secondary occupations
FRANCE	Part II Para B.5: Not in favour of cross-directorships unless for strategic alliances Part II Para D.2: Recommended limit of five non-exec positions or two exec	Part II Para D.2: Recommended limit of five non-exec positions or two exec
GERMANY	Para 5.4.5: Should not accept more than three positions on supervisory boards	German Stock Corporation Act section 100: Members of the supervisory board should not take on more than 10 Para 5.4.5: Members must have enough time to fulfil duties
GREECE	Para 4.2: Board Members should not sit on the board of more than five other listed companies	Para 4.2: Board Members should not sit on the board of more than five other listed companies
HUNGARY	Para 2.4.2: When accepting further functions or nominations it is the board members' duty to ensure they are able to perform their duties in relation to the current board membership	Para 2.4.2: When accepting further functions or nominations it is the board members' duty to ensure they are able to perform their duties in relation to the current board membership
IRELAND	(Corporate Governance Code for Credit Institutions and Insurance Undertakings CIIU) Para 7.7: No more than five additional appointments of other CIIUs; Para 7.8 – No more than eight additional appointments of non-CIIUs	(Corporate Governance Code for Credit Institutions and Insurance Undertakings) Para 7.7: No more than five additional appointments of other CIIUs; Para 7.8 – No more than eight additional appointments of non-CIIUs
ITALY	Para 1.C.2-3: Must devote enough time to fulfil duties. The board	Para 1.C.2-3: Must devote enough time to fulfil duties. The board

	shall impose any limits differentiating depending on the type of the role i.e. executive or non-executive	shall impose any limits differentiating depending on the type of the role i.e. executive or non-executive Para 2.P.3: Devote enough time to ensure their judgement may have a significant impact on the taking of board's decisions
LATVIA	Para 4.3: Enough time to fulfil their duties	Para 7.2: Should have enough time to fulfil duties and act in the interests of the company
LITHUANIA	Para 4.7: Devote sufficient time to fulfil their duties	Para 4.7: Devote sufficient time to fulfil their duties
LUXEMBOURG	Rec 2.9: Should accept no more than one other non-executive appointment and not be a chairman of more than one other listed company	Rec 2.9: Should devote sufficient time to fulfil duties and only accept a limited amount. Should not be a chairman of more than one listed company
MALTA	Para 1.7.3: Allocate sufficient time to their duties	Para 3.8: Allocate sufficient time to their duties and limit the number of directorships held in other companies
NETHERLANDS	Para 2.1.8: Must not be a member of more than two supervisory boards, nor may they be a chairman of a supervisory board	Para 3.3.4: Maximum number of appointments limited to five. Chairmanships count double
POLAND	N/A	N/A
PORTUGAL	N/A	N/A
ROMANIA	N/A	N/A
SLOVAKIA	Section V n 5: Several directorships can disrupt efficiency. The company should assess if these directorships are compatible with efficient performance of the board's activities	Section V n 5: Several directorships can disrupt efficiency. The company should assess if these directorships are compatible with efficient performance of the board's activities
SLOVENIA	Para 14.2: Should inform the supervisory board immediately of any appointment to a supervisory board	Para 7.1: Sufficient time for the role Para 8.6: Should make an objective assessment of their ability to perform duties in relation to the scope of existing duties
SPAIN	Para 26: Devote sufficient time and effort to perform their duties. Companies themselves should lay down any rules or limits on external directorships	Para 26: Devote sufficient time and effort to perform their duties. Companies themselves should lay down any rules or limits on external directorships
SWEDEN	N/A	N/A
UNITED KINGDOM	Para B.3.3: No more than 1 additional non-executive appointment on a FTSE 100 board	Para B.3.2: All directors should allocate enough time to discharge their duties

Since some States in the EU have determined it appropriate to restrict the amount of board mandates any one individual can take it is questionable whether the UK should do so also in order to improve governance and deter self-interest. However, there may be several reasons why restrictions may not be beneficial and in fact unnecessary in the UK. For example, recent studies have shown a decline in additional appointments being taken.[19]

Ferris *et al* showed that in 2003 only 16% of directors held two or more board seats.[20] In the US another study showed 83% of boards contained a Chief Executive Officer (CEO) or Chief Operating Officer (COO) of another company. The latter research also showed 56% of outside directors had declined to serve on another board and 39% of firms had restrictions on multiple directorships.[21] Therefore, a restriction of ten appointments as in Germany, or even five as in France, may be arbitrary or unnecessary in the UK. Any meaningful restriction would have to be less than five. Yet, some individuals do still hold several appointments such as Allan Leighton who in 2000 stepped down as CEO of Asda in 2000 to take up eleven non-executive positions.[22] By 2011 he still occupied seats on six boards as chairman or non-executive.

---

[19] See, for example, G Davis and M Mizruchi, 'The Money Center Cannot Hold: Commercial Banks in the US System of Corporate Governance' 44 *Administrative Science Quarterly* 215; S Ferris, M Jagannathan and A Pritchard, 'Too Busy to Mind the Business? Monitoring by Directors with Multiple Board Appointments' (2003) 58(3) *The Journal of Finance* 1087

[20] S Ferris, M Jagannathan and A Pritchard, 'Too Busy to Mind the Business? Monitoring by Directors with Multiple Board Appointments' (2003) 58(3) *The Journal of Finance* 1087, 1091

[21] Korn/Ferry International, '30th Annual Board of Directors Study' 2003 <http://www.kornferryinstitute.com/about_us/thought_leadership_library/publication/1492/30th_Annual_Board_of_Directors_Study> accessed 15th April 2011

[22] L Roach, 'An Equitable solution for non-executive directors?' (2006) 17(4) ICCLR 117, 118

Another consideration is the nature of the managerial labour market[23] in any one State. Whilst the EU permits free movement of people,[24] practical barriers such as language can still restrict multi-national appointments. Arranz-Aperte and Berglund note that where there is a small managerial labour market this will create more multiple directorships as those with the expertise and skill can choose on which boards to sit.[25] Indeed in Norway, there must be a minimum of 40% female representation on company boards as required by the State.[26] This has lead to a phenomenon known as "golden skirts" where prominent female board members sit on a number of boards.[27] From this it may be suggested that any sort of restriction on board mandates may not resolve the problem addressed.[28] Since the UK has a large managerial labour market and benefits from the language being broadly spoken restrictions may not be necessary since there is greater competition for appointments.

The type of economy may also be relevant to whether restrictions should be imposed. Studies have shown that countries with coordinated market economies

---

[23] E Fama and M Jensen, 'Separation of Ownership and Control' (1983) 26(2) *Journal of Law and Economics* 301

[24] Consolidated Version of The Treaty on the Functioning of the European Union [2008] OJ C115/13, Arts 26, 45

[25] L Arranz-Aperte and T Berglund, 'Are Busy Directors Good or Bad for Firm Performance?' (2007) <http://goo.gl/sZJJ4> accessed 23rd Feb 2012

[26] See the Norwegian Public Limited Liability Companies Act 2003, ss. 6-11a

[27] M Lewis, 'Most of the women who make up Norway's "golden-skirts" are non-execs' The Guardian (London, 1st July 2011) <http://www.guardian.co.uk/business/2011/jul/01/norway-golden-skirt-quota-boardroom> accessed 27th Sep 2012

[28] see, C Villers, 'Achieving gender balance in the boardroom: is it time for legislative action in the UK?' (2010) 30(4) LS 533

tended to have dense interlocking directorships since firms rely on 'extensive relational or incomplete contracting, network monitoring based on the exchange of private information inside networks, and more reliance on collaborative, as opposed to competitive, relationships to build the competencies of the firm'.[29] Despite a greater focus on competition in liberal market economies, such as the UK and US, multiple directorships were, and are still to some extent, common in more liberal market economies.[30] Therefore restrictions may be necessary in coordinated markets to prevent abuse but there is less of a need for them where there is a liberal economy due to increased competition and less need for business coordination. However, the fact that there is less need but they remain common in liberal markets suggests that the market forces alone may not do enough to restrict perquisite additional appointments. It is unsurprising to observe that States with smaller managerial labour markets such as Greece and Austria have higher maximum limits for executive directors' external appointments at five and four respectively and countries such as France, Germany and the Netherlands with a coordinated market also have higher limits for directors. Since the UK managerial market is liberal, along with the economy, any limits or restrictions imposed should be low for non-executives.

Restricting additional board mandates in a liberal managerial labour market and economy to a meaningful level will reduce the number of positions a non-executive could take. This may not improve governance and reduce self-interest as the non-

[29] P Hall and D Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, (Oxford University Press, 2001) 8

[30] P Hall and D Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, (Oxford University Press, 2001); E Heemskerk *et al*, 'Corporate-State interlocks in the Netherlands: 1969-2006' (2008) <http://ssrn.com/abstract=1123363> accessed 10th May 2012

executive may become dependent on one firm, creating incentives to side with the executives over the company.[31] It may also deter the most able non-executives from taking on appointments due to the reduced earning potential. According to agency theory, reduction in financial incentives would result in reduced alignment of interest, whilst stewardship theory may predict that the lack of trust placed in the individual will mean the individual will be unable to maximise their own utility. Resource dependence theory may also look negatively on restrictions due to the decrease in resources a non-executive could bring to the firm. Therefore, restrictions may not align interests and, according to theory, would seemingly not explain how conflicting objectives are brought in to equilibrium.[32] Simply placing restrictions on additional appointments may not prevent self-interest in the roles they do take on if the incentive structure is not beneficial for the individual. Restrictions may minimise the opportunities one has to act with self-interest but they may increase the impulse to do so.

Another possibility instead of, or as well as, restrictions is disclosure. Transparency of additional appointments may help deter self-interest. Mahoney argues that 'the principal purpose of mandatory disclosure is to address certain agency problems between … corporate managers and shareholders. Disclosure can help reduce the cost of monitoring … managers' use of corporate assets for self-interested purposes'.[33] Coffee also argues that mandatory disclosures can be beneficial, albeit

[31] R Masulis and S Mobbs, 'Are all Inside Directors the Same? Evidence from the External Directorship Market' (2011) 66(3) *The Journal of Finance* 823

[32] M Jensen and W Meckling, 'Theory of the Firm: Managerial behaviour, agency costs and ownership structures' (1976) 3(4) *Journal of Financial Economics* 305, 307

[33] P Mahoney, 'Mandatory Disclosure as a Solution to Agency Problems' (1995) 62 *University of Chicago Law Review* 1047, 1048

in the context of securities law.[34] He notes that interests between parties can never be perfectly aligned and the individual will always have some self-interest in mind.[35] Disclosure may make the risk of enforcement greater since informational asymmetries between the company's shareholders and directors will be smaller. Disclosure will make a non-executive who fails to treat one principal's interests as subservient to another more transparent. In 2001 the European Commission conducted a study of disclosure rates amongst boards of additional appointments.[36] The study found that disclosure rates by companies of directors' external appointments were at 78% across the EU. This was up from 50% only two years prior. Notably, Sweden was one of only two States to have 100% disclosure of this information, yet it imposes no restrictions in its corporate governance code, whereas Austria, which imposes restrictions, only had a 32% disclosure rate. Limits or restrictions on multiple directorships alone then may not be conducive to good corporate governance and it needs to be supported by sufficient disclosure. However, the UK was the only country, other than Sweden, to have a 100% disclosure.[37] Thus, if evidence suggests that corporate governance mechanisms in the UK are not adequately controlling for multiple directorships, setting limits and restrictions may be the only option as full disclosure is already in place.

---

[34] J Coffee, 'Market Failure and the Economic Case for a Mandatory Disclosure System' (1984) 70(4) *Virginia Law Review* 717; *cf.* F Easterbrook and D Fischel, 'Mandatory Disclosure and the Protection of Investors' (1984) 70(4) *Virginia Law Review* 669

[35] J Coffee, 'Market Failure and the Economic Case for a Mandatory Disclosure System' (1984) 70(4) *Virginia Law Review* 717, 722

[36] European Commission, *Comparative Study Of Corporate Governance Codes Relevant To The European Union And Its Member States, Final Report & Annexes I-III*, 27.03.2002, pg 47

[37] See FSA Listing Rule 9.6.14, which requires a company, in respect of any current director, to notify a regulatory information service of any new directorships held by the director in another publicly quoted company

Since restrictions may not be beneficial to reducing the potential for self-interest and disclosure is already at 100%, this chapter will now investigate the influences on additional appointments in order to identify ways self-interest could be reduced as well as the impact that additional appointments can have on the governance of the firm.

III. HYPOTHESES

The hypotheses are intended to look at two paradigms. The first group of hypotheses is designed to examine the effect corporate governance mechanisms have on the number of non-executive external appointments. Primarily these hypotheses look at different corporate governance mechanisms such as non-executive remuneration to see if this has a relationship with external appointments. The second is designed to look at the relationship between non-executive multiple directorships and executive director characteristics such as their remuneration. Most studies do not emphasise an important element of agency theory relating to executive compensation packages when looking at the effects non-executive appointments have on them. Eisenhardt detailed two different approaches taken as identified in Chapter V: outcome based and behaviour based contracts.[38] Most studies conclude that where higher compensation packages correlate with higher non-executive appointments that this is a consequence of bad monitoring. The hypotheses below aim to take account of these differences.

[38] K Eisenhardt, 'Agency Theory: An Assessment and Review' (1989) 14(1) *Academy of Management Review* 57, 70

Finally, the hypotheses will aim to look at the pre and post financial time periods to see if there are any significant changes in behaviour as predicted by Eisenhardt and Schoonhoven.[39]

a. Corporate governance mechanisms and non-executive multiple directorships

Remuneration

Hypothesis 1: *Non-executives will hold more appointments where remuneration is higher*

There are at least two ways in which non-executive remuneration may influence their behaviour. Clearly non-executives need to be remunerated to align their interests with the company. However, as Fama identified, if you pay an individual up front, then what is to stop the individual consuming more perquisites to the detriment of his principal?[40] Since there are rarely wage revision process or long-term incentive schemes for non-executives it is hypothesised that as remuneration increases non-executive multiple directorships will also increase. This suggests that additional appointments are perquisite consumption for the non-executive.[41] If evidence is found to the contrary then it can be argued that higher remuneration is accompanied by greater responsibilities, therefore they are unable to take on more appointments. Renneboog and Zhao hypothesised that non-executives who are more locally

[39] K Eisenhardt and C Schoonhoven, 'Resource-Based View of Strategic Alliance Formation: Strategic and Social Effects in Entrepreneurial Firms' (1996) 7(2) *Organization Science* 136

[40] E Fama, 'Agency Problems and the Theory of the Firm' (1980) 88(2) *Journal of Political Economy* 288, 306

[41] S Ferris, M Jagannathan and A Pritchard, 'Too Busy to Mind the Business? Monitoring by Directors with Multiple Board Appointments' (2003) 58(3) *The Journal of Finance* 1087, 1097

constrained earn a higher fee since their isolation may be perceived as an indication of their independence and superior monitoring capabilities.[42]

Equity

Hypothesis 2: *Non-executives with more equity will hold fewer appointments*

Equity is tied to the value of the company. As such non-executives with a lower equity holding will have greater incentives to prefer short-term personal interests to those long-term interests of the company. For example, Baghat *et al*[43] showed that where directors have a higher equity ownership in the company are more likely to remove an under-performing CEO. As a consequence, as Ferris *et al* showed, non-executives with greater equity ownership will hold fewer additional appointments.[44] Their personal wealth is tied to the value of the company and so non-executives will be less willing to shirk their responsibilities and will provide better oversight of management. If data shows that non-executives continue to be influenced by their equity holdings, then this may serve as a realistic alternative to limits on appointments.

Agency problems

Hypothesis 3: *Non-executives will hold fewer appointments where there are more agency problems in the firm*

[42] L Renneboog and Y Zhao, 'Us knows us in the UK: On director networks and CEO compensation' (2011) 17(4) *Journal of Corporate Finance* 1132, 1135

[43] S Baghat, D Carey and C Elson, 'Director Ownership, Corporate Performance and Management Turnover' (1999) 54 *Business Lawyer* 885

[44] S Ferris, M Jagannathan and A Pritchard, 'Too Busy to Mind the Business? Monitoring by Directors with Multiple Board Appointments' (2003) 58(3) *The Journal of Finance* 1087, 1097

Perry and Peyer found that executive directors would be less willing to take on additional appointments where agency problems in the firm are greater.[45] This study used only two proxies to determine agency problems. The agency problems they identified and tested were the number of independent directors and percentage of executive ownership.[46] This study uses agency problems identified from Chapter V, where a set of agency problems were defined in the model board, and makes a similar hypothesis for non-executive directors. This will make the test more robust. As well as examining the impact of the extent of agency problems collectively, individual agency problems such as the ratio of independent directors to executives, the duality of CEO and chair positions, board meetings missed/held and board size can be explored. This is justified by the argument that where there are greater agency problems in the firm, the non-executives will recognise the need to monitor senior management more closely. As a consequence they will be less able to take on other appointments. Another reason may be that executive management may be able to impose higher agency costs on the firm where non-executives have fewer external appointments based on Masulis and Mobbs' observation that non-executives may become more reliant on the firm when they hold fewer appointments and thus less willing to challenge.[47] Similarly, where there are singular agency problems such as duality of CEO and chair or a smaller ratio of independent directors to executives it is hypothesised that these non-executives will hold fewer appointments. Conversely, if non-executive multiple directorships increase with the volume of agency problems this may be a result of what Ferris *et al* stated that

[45] T Perry and U Peyer, 'Board Seat Accumulation by Executives: A Shareholder's Perspective' (2005) 60(4) *The Journal of Finance* 2083

[46] T Perry and U Peyer, 'Board Seat Accumulation by Executives: A Shareholder's Perspective' (2005) 60(4) *The Journal of Finance* 2083, 2096

[47] R Masulis and S Mobbs, 'Are all Inside Directors the Same? Evidence from the External Directorship Market' (2011) 66(3) *The Journal of Finance* 823

‘reduced monitoring by such directors allows managers to impose greater agency costs on the firm’.[48]

The number of board meetings attended is often used as a gauge of whether directors with more appointments are too stretched to fulfil the obligations that they have undertaken. Ferris *et al* discussed the “busyness” hypothesis, that directors with more appointments would be incapable of effective oversight of management.[49] Interestingly, Ferris *et al* found that those with more appointments attended more meetings and served on more committees. It seems that a director serving on more committees is going to attend more meetings because they have more meetings to attend than those who do not sit on committees. Therefore, number of meetings may not be a good measure for this hypothesis. Vafeas found meeting frequency was significantly and positively related to the amount of directorships held by independent directors, but considered that those holding more than three external appointments may be overextending themselves.[50] Renneboog and Zhao’s study failed to reject the “busy” board hypothesis finding corporate governance becomes less effective when a board is interlocked with a possible consequence of higher CEO compensation.[51] Fich and Shivdasani[52] have also found that an increase in board appointments may lead to an overcommitted board. Here the busyness hypothesis is

[48] S Ferris, M Jagannathan and A Pritchard, ‘Too Busy to Mind the Business? Monitoring by Directors with Multiple Board Appointments’ (2003) 58(3) *The Journal of Finance* 1087, 1096

[49] S Ferris, M Jagannathan and A Pritchard, ‘Too Busy to Mind the Business? Monitoring by Directors with Multiple Board Appointments’ (2003) 58(3) *The Journal of Finance* 1087, 1103-1105

[50] N Vafeas, Board meeting frequency and firm performance (1999) 53(1) *Journal of Financial Economics* 113, 127-130

[51] L Renneboog and Y Zhao, ‘Us knows us in the UK: On director networks and CEO compensation’ (2011) 17(4) *Journal of Corporate Finance* 1132, 1148

[52] E Fich and A Shivdasani, ‘Are Busy Boards Effective Monitors’ (2006) 61(2) *Journal of Finance* 689

tested by examining the link between the number of meetings missed and the number of external appointments held by the non-executives.

b. Non-executive appointments and executive directors

Executive Directorships

Hypothesis 4: *Where non-executives hold fewer appointments, executives will hold more*

Following on from the previous hypothesis it may be presumed that an increasing number of executive external appointments would increase the agency problem. Given this, non-executives will recognise the increased possibility to shirk or collude and, as a consequence, accept fewer directorships themselves in order to monitor more effectively. Alternatively, where non-executives themselves hold more external appointments, executives may recognise the decrease in monitoring capabilities and be more willing to accept external positions. Masulis and Mobbs' research found that non-executives with more appointments are less dependent on the CEO and so would be more willing to challenge. This follows on from Ferris' *et al* observation that directors with more appointments were better monitors. Therefore the first of these two relationships is tested, that non-executives will hold fewer appointments where executives hold more.

Executive Remuneration

Hypothesis 5: *Where non-executives hold more appointments, the ratio between long term incentive schemes and fixed remuneration will be greate*r

Hypothesis 6: *Where non-executives hold more appointments, executives will have higher overall compensation*

Executive remuneration is made up of a number of categories that are explained in more detail in the methodology section below. The three categories of interest for these hypotheses are fixed remuneration, which is made up of salary and benefits; annual bonuses made up of shares and cash including any that are deferred; and long term incentive payments which include share awards under the long term incentive schemes (LTIS), share options and any other miscellaneous awards over a long term i.e. more than one year.

A number of existing studies have examined the link between non-executive appointments and executive compensation. Most conclude those with more appointments are either worse or better monitors based on the extent to which pay is linked to performance. Devos *et al* have found interlocked non-executive appointments positively correlate with CEO compensation that is less performance sensitive.[53] A higher ratio of pay for performance sensitivity is taken as a sign of good monitoring based on agency theory. The two primary reasons for this are as follows: First is that identified by Fama, that paying upfront would result in additional consumption of perquisites. Thus LTIS are created, and approved by shareholders,[54] to ensure the long-term performance of the firm. Secondly, since pay for performance is necessary to avoid shirking and excessive consumption of perquisites, executives need the promise of higher remuneration in the future as they

[53] E Devos, A Prevost and J Puthenpurackal, 'Are Interlocked Directors Effective Monitors' (2008) <http://ssrn.com/abstract=1084117> accessed 1st August 2011, 4

[54] For shareholder approval of director remuneration see, Companies Act 2006, s. 439; Enterprise and Regulatory Reform Act 2013, s. 79; The Enterprise and Regulatory Reform Act 2013 (Commencement No. 3, Transitional Provisions and Savings) Order 2013, SI 2013/2227

value £1 in the hand more than the promise of £1 in the future.[55] So pay for performance has to be significantly higher than any fixed remuneration.

Bebchuk and Fried note that a good compensation package can help align the executives' interests with the company since the non-executives have neither the time nor information to monitor every management decision.[56] Eisenhardt theorised that the optimal contract for firms will differ depending on aspects pertaining to the particular firm.[57] She distinguished between two types of contracts, behaviour and outcome based. The type of contract preferred would be influenced especially by the information systems available in the company. Based on this it is predicted that information systems will be weaker where non-executives hold more external appointments. As a result where outcome based contracts are present it is expected that non-executives will hold more external appointments. This means that pay for performance sensitivity will be higher. Conversely, where the ratio of LTIS to fixed remuneration is lower non-executives will have fewer appointments as executive contracts are behaviour based contracts with less performance sensitivity.

Since the performance element of compensation is significantly higher than that of the fixed remuneration, if the ratio of LTIS to fixed remuneration increases with appointments then it is likely that overall compensation will also be positively correlated with non-executives' external appointments. The decrease in information systems will increase the outcome based element of the remuneration package.

---

[55] L Bebchuk and J Fried, *Pay Without Performance: The Unfulfilled Promise of Executive Compensation* (Harvard University Press, 2003) 19

[56] L Bebchuk and J Fried, *Pay Without Performance: The Unfulfilled Promise of Executive Compensation* (Harvard University Press, 2003) 19

[57] K Eisenhardt, 'Agency Theory' (1989) 14(1) *Academy of Management Review* 57, 60-61

Since this thesis is looking to the regulation of self-interest rather than interlocks this analysis looks at the effects of holding multiple appointments on different boards rather than reciprocally sitting on each others, or personal interlocks such as Renneboog and Zhao's study.[58] The latter is certainly something considered in this thesis outside the realms of regulation.

Executive Ownership

Hypothesis 7: *Where non-executives hold more appointments, executive directors will hold more equity*

Following on from executive compensation a similar hypothesis is made in regard to executive equitable ownership in the firm. Masulis and Mobbs found that where an executive director held more equity the board would be less likely to have non-executives with external appointments who they viewed as better monitors due to their decreased dependence on the firm. Therefore they conclude that higher ownership can reduce the need for monitoring.[59] This argument works on the notion that directors with more appointments become less dependent on the CEO and create a more effective board; but also that where executive ownership is higher there is less need for monitoring.[60] It is predicted then that where multiple appointments amongst non-executives are frequent equity ownership will also be high. There is a reduction in information systems that will increase the need for

[58] L Renneboog and Y Zhao, 'Us knows us in the UK: On director networks and CEO compensation' (2011) 17(4) *Journal of Corporate Finance* 1132

[59] R Masulis and S Mobbs, 'Are all Inside Directors the Same? Evidence from the External Directorship Market' (2011) 66(3) *The Journal of Finance* 823, 839; see also, S Deakin and A Hughes, *ESRC Report* (ESRC Centre for Business Research, University of Cambridge 1999) para 4.2

[60] S Deakin and A Hughes, *ESRC Report* (ESRC Centre for Business Research, University of Cambridge 1999) para 4.2

outcome-based remuneration but also the need to monitor is reduced and the non-executive is less dependent on the individual firm. High equity amongst executives then may increase additional appointments being taken by non-executives as perquisite consumption.

c. Pre and post financial crisis

Hypothesis 8: *After 2008 non-executives will hold fewer appointments*

In 2008 the economy suffered a significant contraction as it entered into a deep recession. This event may have significantly altered the way directors behave in regard to accepting multiple directorships and monitoring executive management.

It was observed by Eisenhardt and Schoonhoven that additional appointments can be beneficial in difficult market conditions. This is supported by Erkens *et al*[61] study that showed higher performance levels in firms with access to expertise compared with those boards with more independent directors. For executive directors, Booth and Deli found that the CEO was more likely to hold fewer appointments where growth opportunities were greater.[62] In a recession, growth opportunities are likely to be lower therefore leading to a larger number of external positions.

---

[61] D Erkens, M Hung and P Matos, 'Corporate Governance in the 2007-2008 Financial Crisis: Evidence from Financial Institutions Worldwide' (2010) <http://ssrn.com/abstract=1397685> date accessed 1st Nov 2010

[62] J Booth and D Deli, 'Factors affecting the number of outside directorships held by CEOs' (1996) 40(1) *Journal of Financial Economics* 81

However, Fich and Schivdasani found that directors were more likely to depart underperforming firms. Linking this with Lorsch and MacIver's[63] qualitative study that a primary reason behind accepting an appointment is the reputation of the company it would be expected that firms' reputation would decrease in a recession leading to fewer appointments. As well as a decrease in reputation of the firms, it is likely that the non-executives' reputation and worth in the managerial labour market may also be diminished after a financial crisis, especially those with more external appointments, which would be contrary to what was reported by Eisenhardt and Schoonhoven. Gilson reported, for example, that non-executives who left a firm that had difficulties with its finances held fewer external appointments after departure than those who left in other circumstances.[64] A lack of effective monitoring, caused by a shortage of time commitment, may be perceived as part of the problem that led to the crisis as identified by the Walker Review. Therefore non-executives with more external appointments will have less worth in the managerial labour market resulting in a decline in additional appointments held after 2008.

As well as identifying whether non-executives hold more or fewer appointments after the financial crisis, the other hypotheses will also be tested pre and post crisis to see whether there are any changes in behaviour. Whilst the hypotheses will remain the same any changes in the results may indicate changing behaviour in different market conditions. This will be important as firms may have already responded to problems

[63] M Conyon and L Read, 'A model of the supply of executives for outside directorships' (2006) 12 *Journal of Corporate Finance* 645, 651; citing J Lorsch and E MacIver, *Pawns or Potentates: The Reality of America's Corporate Boards*, (Harvard Business School Press, 1989)

[64] S Gilson, 'Bankruptcy, boards, banks and blockholders: Evidence on changes in corporate ownership and control when firms default' (1990) 27(2) *Journal of Financial Economics* 355

of self-interest arising from multiple directorships after the financial crash, and thus regulation on appointments may no longer be necessary.

Due to the decreased worth of the non-executives the hypothesis from above will also be re-analysed to identify any significant changes in behaviour. For example, as Fama and Jensen noted having more appointments is a signal of worth in the managerial labour market and results in higher pay. In an economic environment where signals of worth from multiple directorships may have diminished it will be interesting to observe if this is still the case. The ability to monitor may be perceived as more valuable in such times. Renneboog and Zhao's prediction may be more pertinent then as non-executives who are more locally constrained earn a higher fee since their isolation may be perceived as an indication of their independence and superior monitoring capabilities.[65] As such, the remuneration and equity effects on multiple appointments will be examined.

As for executive influences the worth of non-executives worth has diminished resulting in fewer appointments they may in a position to monitor the executives more closely and improve information systems. Therefore it will be of interest to examine, for example, the direction of external appointments for non-executives as the LTIS to fixed remuneration increases. Whilst it is still predicted that those with more appointments will prefer outcome based contracts and thus a greater ratio it will be interesting to observe whether this becomes more or less significant after 2008.

IV. METHODOLOGY

a. Sample selection and data sources

[65] L Renneboog and Y Zhao, 'Us knows us in the UK: On director networks and CEO compensation' (2011) 17(4) *Journal of Corporate Finance* 1132, 1135

The dataset was collected from thirty FTSE 100 companies selected at random from the London Stock Exchange website[66] over a five year period, 2006-2010. The relevant data was collected from the annual reports, which are required to be made available for the last five years.[67] In total the dataset comprises of 150-firm years. The data was collected at firm level, rather than for individual directors. This was done as the study is interested in regulating self-interest generally and the impact that external appointments can have on executives. Essentially the study aims to identify reasons why some firms have non-executives with higher levels of external appointments in order to identify conditions that facilitate increased external appointments, rather than why individuals take more appointments. This will identify ways governance mechanisms may be used to reduce the potential for self-interest in external appointments.

For most firms the annual report relates to the period of 1st January to 31st December. However, some firms' data in their annual reports ran for different periods. Where a financial year did not coincide with the calendar year the data collected was attributed to the year where the most months had been covered.

i. Multiple Directorships data

Directorships and any external appointments held can change during the firm's financial year as appointments are made and directors retire. In some cases retirement and appointment can happen at the beginning of the financial year and these are not problematic. For any director serving for the whole year and any external appointments held for the whole year are given a value of 1. However, where a director, or external appointment, only serves for part of the year these were

[66] <http://www.londonstockexchange.com>

[67] Transparency Directive 2004/109/EC Ch 2 Art 4

given the value of 0.5. These were then converted in to full time equivalents (FTE). FTEs were used for multiple directorships, directors serving, independent directors and chairs. Because of this it was not possible to use a count model in the analysis below as the dependent variable, multiple directorships, is not an integer.

Before collecting the data on multiple directorships it was determined what would be categorised as a multiple directorship. This was generally classed as an appointment on a board of directors where remuneration is received that would attract fiduciary accountability. This included public and private companies, boards of trustees and limited liability partnerships but excluded membership of professional bodies, not-for-profit, charitable and government organisations.

Annual reports tended to only report external appointments of directors serving at the time of the annual report. Thus, data of all directors who served for that year may not have been available for the specific year in question. In such cases the external appointments for any directors leaving the board would be taken from the previous year's annual report.

Table B reports the descriptive statistics on directorships levels and multiple directorships in firms. From the descriptive statistics there seems to be no obvious pattern between the number of appointments and external directorships. However, there is a noticeable drop of 17% in the number of external appointments held by executives from 2008 to 2010. This relates to hypothesis 8 in that the financial crash and subsequent recession as market conditions can impact on director behaviour in how many appointments they take. The number of non-executives' external appointments have also been in decline after 2007 but are still just above the lowest levels reported in 2006.

An interesting observation from the data is that whilst the maximum number of multiple directorships on a board has been in decline, the minimum has been rising. This suggests that smaller boards are now allowing for more external appointments, whilst bigger boards have scaled back external appointments. This may be related to market conditions that directors of larger companies tried to focus attention on a particular business to aid survival in difficult market conditions. The shift in public perception relating to directors who subsequently resigned or were removed from positions may also have had an influence, perhaps, promoting resignations in larger companies relating to directors who subsequently resigned or were removed from positions. Conversely, smaller FTSE 100 companies may have appointed directors with more external appointments to help reduce uncertainties in the market, which would account for the increase in the minimum number of external appointments. This is consistent with Eisenhardt and Schoonhoven as mentioned under hypothesis 8. Reputational influences may have also played a part with larger firms losing reputation and prestige thus attracting fewer talented individuals, whilst existing directors with high volumes of additional appointments lost worth in the managerial labour market and became less desirable to appoint.

Table B: Board Composition and External Appointments

Variable (n = 150)	Min	Max	Mean	SD	Median
Executive Directorships	**1.5**	**8**	**4.09**	**1.32**	**4**
2006	1.5	6.5	4.22	1.31	4
2007	1.5	7	4.20	1.34	4
2008	2	7.5	4.18	1.20	4
2009	2	8	4.02	1.32	4
2010	1.5	8	3.85	1.45	3.5
Non-Executive Directorships	**3.5**	**14.5**	**7.83**	**2.41**	**7.5**
2006	3.5	14.5	7.73	2.53	7.5
2007	4	14	7.78	2.39	7.5
2008	4	14	8.07	2.61	7.5
2009	4.5	14.5	7.90	2.36	7.25
2010	5	13.5	7.67	2.26	7.25
Executive Multiple	**0**	**10**	**3.04**	**2.30**	**3**

Directorships					
2006	0	9.5	3	2.54	2
2007	0	8	3.07	2.25	3
2008	0	10	3.40	2.44	3
2009	0	9	2.93	2.27	2.75
2010	0	7	2.82	2.07	2.25
Non-Executive	**3**	**45**	**18.38**	**8.05**	**17**
Multiple Directorships					
2006	3	40.5	17.40	8.01	17
2007	4	40.5	19.15	8.32	17.5
2008	4	45	18.73	8.20	17.25
2009	8	41	18.55	8.61	16.5
2010	7	38	18.07	7.50	17.5

ii. Remuneration data

Starting with executives, their remuneration has been divided into three different categories: (1) fixed remuneration of salary and benefits; (2) Annual bonus of shares and cash including any deferred; and (3) LTIS. These categories and what is included is mainly based on the Listing Rules (LR) definitions as opposed to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008/410. The only relevant distinction between the two definitions of these categories is in regard to deferred annual bonuses. Whilst the 2008 Regulations class deferred bonuses as a LTIS[68] the Listing Rules do not.[69] This definition from the LR is used to carve out LTIS from deferred bonuses, but the two are merged back together when calculating the ratio of LTIS to fixed remuneration. This is to capture the differences in outcome and behaviour based contracts since annual bonuses along, with any deferred and matching, and LTIS are usually based on performance and service.

[68] Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations (SI 2008/410) Schedule 5 Regulation 8 Part 3 Article 11

[69] Financial Services Authority Listing Rules 9.8.8

For LTIS awards, shares are usually awarded to executive directors as a mechanism to attract, retain and incentivise, which vest after three year if performance and service conditions attached to them have been satisfied. These performance conditions usually include objective measurements consisting of earnings per share (EPS), total shareholder return (TSR), company comparator performance usually by sector or FTSE 100, and in some instances individual performance targets. Whilst this study only looks to the value of those LTIS at the time of the award, rather than comparing it against the criteria that is met, a further study may wish to look at which criteria is usually met by directors to see if there is a relationship with multiple appointments. This may provide further insight as to whether there is a greater distinction between outcome and behaviour based contracts.

To calculate the value of the LTIS the amount of shares awarded is multiplied by the value of the company's shares at the time of award. This is done to judge how the director is incentivised. It will enable this study to draw firmer conclusions about the impact of multiple directorships for non-executives since packages that have a stronger focus on LTIS may allow for non-executives to take on or continue with additional appointments compared with those packages that do not.

Since the intention of this study is to capture the differences between outcome and behaviour based contracts where there are multiple directorships, other long term rewards, such as share options, are included under the definition of LTIS. Whilst the definition of LTIS by the Listing Rules or 2008 Regulations do not include awards such as share options, they still serve as a mechanism to incentivise directors over the long term and are rewards that can be seen as an indicator of an outcome based contract. Since share options are paid for by directors through a right to acquire at an agreed exercised price, the value of awards is taken at the value of those exercised

in that year. The exercise price is taken instead of the estimated value at award based on the differences in the incentive schemes. Whereas an LTIS is a nil-cost award, share options have to be paid for by directors at the agreed exercise price. The director has a choice on purchasing the share options.

Table C and Figure 1 give a break down of executive remuneration. As detailed earlier the biggest portion of executive compensation is LTIS making up 46% of their overall package. Despite a sharp fall in bonus and LTIS after the 2008 crash, these awards reached new highs in 2010 as measured by the mean. However the percentage of performance related pay that made up the total was 47% in 2007 and 2010 and 39% in 2006 and 2009. In terms of fixed remuneration for directors' salary and benefits, despite a continual growth in the mean paid to executives, the median has decreased for two consecutive years. This is suggestive of outliers, which is supported by the increase in the standard deviation. Bonus and share options were also squeezed in 2008, which was to be expected as executives forfeited their bonuses and share prices dwindled with the recession.

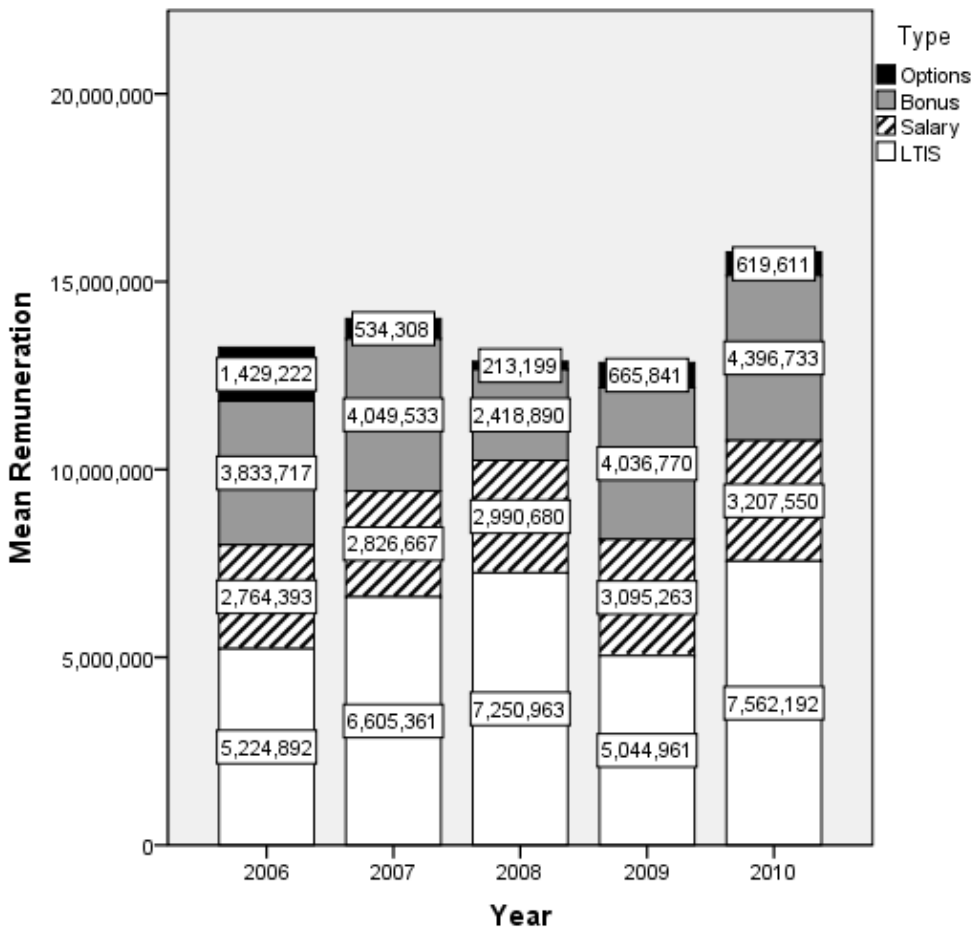
Whilst looking at individual sectors may not be reliable due to the size of the dataset, some observations can still be drawn from the descriptive statistics. Companies in the banking, oil and gas producers, utilities and financial services were the sectors to pay executives the most. The highest paid executives were those at Barclays in 2007 with a total compensation package of around £57,020,000 to its six executives who served that year. Barclays also paid the most per executive in 2010 where it awarded £36,950,000 (£12,317,000 per executive) to its three executives. The lowest was paid in 2006 to the two executives of Autonomy Corporation who awarded £768,600.

Table C: Executive Remuneration Breakdown

Variable (n = 150)	Min	Max	Mean	SD	Median

Fixed Remuneration	**£461,000**	**£8,317,000**	**£2,976,911**	**1635185.15**	**£2,493,500**
2006	£461000	£7805000	£2764393	1580095.69	£2402000
2007	£511000	£6507000	£2826667	1357037.43	£2598000
2008	£588000	£6911000	£2990680	1466717.54	£2640000
2009	£615000	£7895000	£3095263	1667172.17	£2598000
2010	£663000	£8317000	£3207550	2080671.16	£2471000
Annual Bonus	**£0**	**£23608000**	**£3747129**	**4181970.15**	**£2326000**
2006	£205000	£22897000	£3833717	4610329.25	£2158000
2007	£238000	£23608000	£4049533	4904329.08	£2343000
2008	£0	£11311000	£2418890	2442379.44	£1601000
2009	£0	£18248000	£4036770	4211127.92	£2452500
2010	£268000	£15279000	£4396733	4289464.13	£2438000
Share Options	**£0**	**£10096089**	**£692436**	**1685357.94**	**£6319**
2006	£0	£10096089	£1429222	2670508.66	£67876
2007	£0	£2308896	£534308	697475.00	£84353
2008	£0	£2119434	£213199	526171.95	£4658
2009	£0	£7687000	£665841	1760940.64	£0
2010	£0	£6178260	£619610	1663381.71	£0
LTIS	**£0**	**£36918258**	**£6337674**	**6419343.15**	**£4764257**
2006	£0	£27867605	£5224891	6473406.13	£3152361
2007	£0	£29796067	£6605361	6654465.62	£5727981
2008	£0	£36918258	£7250963	7582676.90	£5405329
2009	£0	£21811343	£5044961	5053745.84	£3486358
2010	£0	£23043831	£7562192	6082894.16	£6290943
Total	**£768600**	**£57020175**	**£13754149**	**10182433.77**	**£11685292**
2006	£768600	£54404605	£13252224	11572789.10	£10688919
2007	£2478200	£57020175	£14015869	11049128.17	£12181900
2008	£2969947	£43303258	£12873733	8979039.60	£11690076
2009	£2032753	£39151766	£12842835	9547555.36	£8715581
2010	£1541848	£36950831	£15786086	9932547.15	£13254605

Figure 1: Executive Remuneration



As described earlier, non-executive remuneration is paid in fees based on their role on the board. Table D offers some descriptive statistics on how non-executive fees have changed over the past five years. Since it was rare for a non-executive to receive bonuses or equity based compensation the figures below only consider the fees paid to non-executives. Generally, the average paid to non-executives has increased. The overall increase in the average paid to a company's non-executives has been around £150,000 or 17%. This is despite a slight decrease in the average number of non-executives serving. Similar observations are made in regard to the median and standard deviation that were made in relation to executives. Despite the increase in the mean, the standard deviation is observed to have increased with the amount paid to non-executives, based on the median, having levelled off. This again suggests the presence of outliers. Sectors where fees paid to non-executives were

the highest included banking, oil and gas producers, pharmaceuticals, tobacco and food producers. However, when taking into account the amount paid per director the highest paid non-executives were those in banking, oil and gas producers, pharmaceuticals and general mining. Thus it seems these sectors are the ones pulling the mean up.

Table D: Non-executive Remuneration Breakdown

Variable (n = 150)	Min	Max	Mean	SD	Median
Remuneration	**£98000**	**£2603000**	**£958152**	**594747.24**	**£808500**
2006	£102000	£2603000	£897233	747308.63	£696500
2007	£98000	£1831000	£846133	419648.52	£771500
2008	£124000	£2154000	£950600	506061.64	£855500
2009	£267000	£2408000	£1043500	619674.98	£830000
2010	£377870	£2351000	£1053296	639501.04	£849500

iii. Equity holdings

How much time an individual will dedicate to their role and whether they take on additional appointments may be affected by how much equity they hold in the company. This data was collected using the disclosed equity holdings of directors in the annual report and the percentage of ownership was calculated against the called up share capital. On October 1st 2009 section 10 of the Companies Act 2006 came into force that removed the requirement for companies to have an authorised share capital. For consistency across all years the percentage of ownership was always calculated against the called up share capital. Table E gives a breakdown of insider ownership. This data offers support to Renneboog and Zhao's findings of a general trend of increasing insider ownership.[70] The mean and median have both increased over the five years for executives with notable increases in the mean despite a significant drop in the maximum ownership by executive directors. Non-executive ownership saw a fluctuation in 2008 and 2009 but returned to pre-crash levels by

[70] L Renneboog and Y Zhao, 'Us knows us in the UK: On director networks and CEO compensation' (2011) 17(4) *Journal of Corporate Finance* 1132, 1146

2010. Thus, for non-executives the incidence of inside ownership by non-executives appears to have levelled off. The mean and median are also significantly lower than that of Renneboog and Zhao's study. Although the sample size of this study is smaller and the sample is taken only from the FTSE 100 rather than the full listings on the market, it may actually represent a drop in insider ownership for non-executives. However, smaller firms may have directors with a higher equitable percentage due to a smaller called up share capital or founders sitting as directors on the board in Renneboog and Zhao's study.

Three sectors can be identified as ones where the directors owned higher amounts of equity in the company and these may explain the differences in the mean and median, which are highly skewed. General mining (mean executive/non-executive - 49.8%/1.9%), oil and equipments services (27.6%/0.7%) and financial services (11.0%/4.4%) all had insiders who owned a significant portion of the company's share capital. Kazakhmys had the highest executive ownership whilst Schroders NV had the highest non-executive ownership. Due to the distribution, as with remuneration, it would be more accurate to rely on the median figures to make generalisations about insider ownership.

Table E: Equity Ownership Breakdown

Variable (n = 150)	Min	Max	Mean	SD	Median
Executive Ownership (%)	**0.00**	**59.92**	**3.80**	**10.69**	**0.08**
2006	0.00	59.92	3.92	12.25	0.07
2007	0.00	52.84	3.59	11.07	0.09
2008	0.00	45.43	3.20	9.54	0.08
2009	0.00	45.43	4.11	10.49	0.08
2010	0.01	45.43	4.16	10.61	0.10
Non-Executive Ownership (%)	**0.00**	**8.10**	**0.29**	**0.97**	**0.01**
2006	0.00	2.50	0.25	0.64	0.01
2007	0.00	2.54	0.24	0.63	0.01
2008	0.00	8.10	0.43	1.52	0.01
2009	0.00	4.83	0.31	0.96	0.01
2010	0.00	4.80	0.23	0.88	0.01

iv. Agency Problems

In Chapter V a number of features of boards were identified which linked with different corporate governance theories. These have been collected in the dataset to see whether multiple directorships have a relationship with agency problems in the firm. This builds on Perry and Peyer's research, which determined that non-executives take on fewer appointments where there are more agency problems in the firm based on the two proxies of independent directors and executive ownership.

This study builds on this and uses nine proxies to see if there is a relationship between agency problems and multiple directorships for non-executives. These nine proxies include the ratio of LTIS to fixed remuneration; executive ownership; executive multiple directorships; ratio of independent directors to executives; board size; number of board meetings; number of remuneration committee meetings; number of board meetings missed; and CEO-Chair duality.

The ratio of independent directors to executives and board size was determined using the FTEs. Under the Code firms are advised to have at least half the board represented by independent directors.[71] In most firms the ratio was at least 1:1 or higher. On the rare occasion that it fell below 1 this was normally due to board rotation or unexpected retirement.

As for board meetings missed it was only possible to measure this for directors who had served for the full year. This was due to a lack of available data on meeting attendance for those joining and leaving the board during the year. When testing for agency problems and board meetings missed both non-executive and executive non-attendance were included. When identifying board size agency problems it was

[71] UK Corporate Governance Code 2010, para B.1.2

determined that a board that was too big or too small would be deemed to present an agency problem.

To determine whether there was an agency problem in a firm, originally two different methods were applied. The first adopted an objective binary approach whereas the other adopted a scale approach as to the significance of the agency problem. The binary approach was determined for each year using the median value of the proxies except for CEO-Chairman duality where this is simply binary in itself. For example where directors had missed more than the median board meetings they were deemed to have an agency problem and awarded a score of 1. For board size where the board size was 2± from the median it was deemed to be an agency problem. This is because a large board can be seen as an agency problem for being unwieldy and a small board may be perceived as ineffective based on the size of the firm.[72]

The second method adopted a subjective scale approach. Agency problems were scaled between 0-5 except, again, in the case of CEO-Chairman duality where it was scored 0-1. The greater the agency concern the higher the score was awarded depending on pre-determined thresholds. For example, fewer independent directors to executives is considered an agency problem. Therefore as the ratio of independent directors to executives decreased the higher the score awarded. The 0-5 scale was used where it was possible for it to be considered no agency problem i.e. where no meetings were missed or there were no executive multiple directorships, otherwise the scale was 1-5. For board size a similar approach was adopted to that of the first method. Where the board sized moved away from the centre, the bigger the agency concern.

[72] S Ferris, M Jagannathan and A Pritchard, 'Too Busy to Mind the Business? Monitoring by Directors with Multiple Board Appointments' (2003) 58(3) *The Journal of Finance* 1087, 1097

The same scale was used for all five years since the scale was designed to determine whether there were agency problems rather than simply whether they were above or below the median. With the median there may have been condensed data values where there was no large difference between the values yet one could be deemed an agency problem but the other would not. However, creating a subjective scale also comes with problems as to what one perceives to be an agency problem and how much it is considered to be such a problem.

Table F details the descriptive statistics of these different agency problems. Executive directorship and ownership details are outlined in Tables B and E and are not repeated here. For duality of CEO-Chair there were twelve incidences of executive chairmen serving a full year over the five year period and three incidences of an executive chair stepping down showing a move towards all companies separating the role, in order to comply with the code.[73] Over all the firm years the incidence of an executive chairing the board was 11.3% and 8% for those serving the whole year.

In regards to agency problems (utilising the median method) the highest score was a seven out of a maximum possible of nine. This was observed in Kazakhmys 2009 annual report. Kazakhyms are in the general mining sector[74] and are known for copper production. In 2010 the board was made up of nine directors (3 executives, 5 independent non-executives and 1 non-independent non-executive) all of whom were male. Notably Kazakhmys were the company with the highest insider ownership

[73] UK Corporate Governance Code 2010, para A.2.1

[74]<http://www.londonstockexchange.com/exchange/prices-and-markets/stocks/summary/company-summar.html?fourWayKey=GB00B0HZPV38GBGBXSET1> accessed 26th Sep 2012

owning 45.43% of the ordinary shares. This anecdotal evidence may refute Masulis and Mobbs' finding of the reduced need for monitoring where there is higher ownership.[75] For the scale method three companies scored a high of 29 out of maximum of 41. These scores were attributed to Kazakhmys in 2006; Arm Holdings in 2009; and HSBC Holdings in 2010.

From the data it is observed that executives on average can potentially earn £3 in performance pay for every £1 of fixed remuneration. Therefore, potentially, three quarters of a director's overall compensation package is performance related. The biggest ratio of LTIS to fixed remuneration was in the banking and financial services sectors. The median ratio across all firm years from the dataset was 3.10. There is also one and three quarter independent non-executives to every executive with the highest average over the five year period in the food producers sector with Unilever. Petrofac in the oil equipment and services sector had the lowest average ratio for independent directors.

Whilst it is the Code's requirement that directors have enough time to fulfil their duties it is noted that in one instance the board of directors between them missed a total of 35 meetings despite the average number of meetings held a year being between 8 and 9. This suggests that firms with more appointments may be unable to fulfil all their commitments and are taken as perquisite consumption evidenced by the increase in the agency problem. For board size it was seen in Table B that the median was a ratio of 4:7.5 executives to non-executives.

[75] R Masulis and S Mobbs, 'Are all Inside Directors the Same? Evidence from the External Directorship Market' (2011) 66(3) *The Journal of Finance* 823, 839

Whilst Table F details the scores of individual firm's agency problems it was considered that it is natural for most firms to have agency problems. For example, firms are likely to pay directors a fixed fee and LTIS awards. Ultimately, there is no escaping from some forms of agency problems where there is dispersed ownership. With this in mind, indicator variables were created to identify whether firms had an agency problem beyond what may be considered "normal". To identify whether a firm had an agency problem for each individual variable in this regard, the frequency of scale variable agency problems were analysed to see how many firms scored each result between 0-5 or 1-5. The scale variable for agency problems was used over the median as the variety of scores was greater and thus would be better placed to identify more subtle changes and differences in firm behaviour. The category where the top 25% of results fell and above was used as the indicator of whether the firm did or did not have an agency problem. It was presumed that those scoring low on the agency scale were representative of normal firm behaviour. Those with an agency problem were given a value of 1 and those that did not were given the value 0. As well as indicating whether a firm had a specific agency problem, these individual indicator variables were tallied up to identify the total number of agency problems a firm had.

Table F: Agency Problems Breakdown

Variable (n = 150)	Min	Max	Mean	SD	Median
Board Meetings	4	25	8.59	2.61	8.00
Remuneration Committee Meetings	0	14	5.50	2.32	5.00
Board Meetings Missed	0	35	3.81	4.31	3.00
Ratio Independent:Executives	0.63	6.67	1.75	0.90	1.50
Ratio LTIS:Fixed Remuneration	0.35	14.84	3.65	2.54	3.11
Board Size	6.00	20.50	11.9	2.89	12.00
Agency Problem (Median)	**0.00**	**7.00**	**3.76**	**1.30**	**4.00**
2006	1.00	6.00	3.77	1.25	4.00
2007	1.00	6.00	3.80	1.21	4.00
2008	0.00	6.00	3.70	1.37	4.00
2009	1.00	7.00	3.63	1.47	3.00
2010	2.00	6.00	3.90	1.24	4.00
Agency Problem	**11**	**29.00**	**20.43**	**3.73**	**20.00**

(Scale)					
2006	16	29	21.80	3.50	22.00
2007	13	26	20.37	3.30	20.50
2008	11	27	20.47	3.79	20.00
2009	14	29	20.17	3.67	20.50
2010	12	29	19.33	4.14	18.50

This gave data for both the total indicator agency problem variable and the individual indicator agency problems. The latter allowed the tests to be taken one step further. The regression model for the individual agency problems will identify any significant relationships between these agency problems and multiple directorships. Those agency problems that had a significant relationship with multiple appointments were used to create dummy variables. The dummy variables were created based on how many significant agency problems a firm had. Thus, for example, if a firm had one agency problem from those identified as significant from the individual analysis then they would be given the value of one under the variable “one significant agency problem”. Depending on how many significant agency problems there are, all the other dummy variables, i.e. “two significant agency problems”, would be given the value of 0. These dummy variables could then be used to test Hypothesis 3 and see if multiple appointments relate to these significant agency problems.

b. Regression models

i. Non-executive influences

Non-executive remuneration and non-executive equity holdings were built in to the model using the average totals of both variables to predict the FTE of non-executive multiple directorships as the dependent variable. The reason behind using the FTE for the outcome is that the study is at company level and thus a measure of company rather than individual behaviour *per se*. The results will help illustrate why firms have non-executives who have more external appointments. A larger board is likely to have more multiple directorships and higher remuneration etc. due to the volume of

directors. The averages of these predictors therefore provide a more accurate reflection of the conditions that facilitate multiple appointments. The predictors had to be used as averages to avoid problems of multicollinearity as well.

Building agency problems into the regression model was done using the total agency problems indicator variable as opposed to the scale or median agency problem variables. As well as including the total indicator variable in to the regression model to determine whether there is a relationship between agency problems and multiple directorships, each individual indicator variable agency problem was included in a separate model. This helped identify individual agency problems that had a significant relationship with external appointments. Four significant agency problems were identified: total board meetings missed, the presence of an executive chairman, executive equity ownership and the ratio of independent directors to executive directors. After identifying the individual agency problems five dummy variables were created showing firms that had zero, one, two or three these agency problems. The variable "four significant agency problems" was omitted from the analysis because no firm was identified as having these. These variables were used in a regression model to test whether the significance of predicting non-executive multiple directorships increased as firms had more of these agency problems. Therefore the final regression model for predicting total non-executive multiple directorships on a board can be represented in the following equation:[76]

$$\text{(1) NED Multiple Directorships}_i = \beta_0 + \beta_1\text{NED remuneration}_i + \beta_2\text{NED equity}_i$$

[76] In the models i relates to the individual case whilst β-values relate to the vectors of the model coefficients.

$+ \beta_3$ one sig. agency problem$_i$

$+ \beta_4$ two sig. agency problems$_i$

$+ \beta_5$ three sig. agency problems$_i$

ii. Executive influences

To analyse the influences that executive features have on the outcome of non-executive multiple directorships this regression model used four predictors. The average executive equity ownership, executive multiple directorships and total remuneration were used alongside the ratio of LTIS to fixed remuneration. The averages for the first three variables were used for the same reasons identified above in the previous model. The ratio for LTIS:Fixed did not matter whether the FTE or per director variables were used since they would have cancelled each other out to reach the same result.

(2) NED Multiple Directorships$_i$ = $\beta_0 + \beta_1$Exec Multiple Directorships$_i$

$+ \beta_2$Exec Equity$_i$

$+ \beta_3$Exec Total Compensation$_i$

$+ \beta_4$Exec Ratio LTIS:Fixed$_i$

iii. Multi-level regression analysis

To further understand the factors that impact on external directorships for non-executives the regression analyses from models 1 and 2 will be run for individual years to discover whether economic conditions can impact on the decisions to take external appointments.

Therefore two further regression models are analysed. Given the small sample size it was not possible to estimate model (1) for each year. This multi level analysis is conducted by looking at pre and post financial crisis. Therefore the years 2006-2007 are compared against the years 2008-2010. However, in business change can take time. Thus any impact of the financial crisis on firm behaviour may not be immediately apparent. This may bias results as changes take place. Therefore the analysis compares 2006-2007 to 2009-2010 and omits the year 2008. The same tests are run again this time omitting both 2008 and 2009 and comparing 2006-2007 against 2010.

V. RESULTS

a. Non-executive appointments and corporate governance influences

Table G provides a correlation matrix to identify the relationships between non-executives' multiple directorships and the variables used in the model for the first multiple regression. This model used the total agency problem indicator variable alongside non-executive remuneration and equity. These only allow pair wise comparisons. The multiple regression analysis in Table H is run to capture the influences that different corporate governance mechanisms have simultaneously on a non-executive's external appointments.

Table G: Correlation Matrix

Variable	NED Multiple Directorships	NED Remuneration	NED Equity	Agency Problem (Indicator)
Pearson's Correlation				
NED Multiple Directorships	1.00	.241	-.284	-.019
NED Remuneration	.241	1.00	-.081	-.325
NED Equity	-.284	-.081	1.00	.286
Agency Problem (Indicator)	-.019	-.325	.286	1.00
Sig.				
NED Multiple Directorships	.	.001	.000	.410
NED Remuneration	.001	.	.161	.000

NED Equity	.000	.161	.	.000
Agency Problem (Indicator)	.410	.000	.000	.

Dependent Variable: Non-Executive Multiple Directorships

From the analysis it is observed that there is a significant correlation between non-executive appointments and their remuneration and equity holdings. This descriptive analysis shows early indication that whilst increased remuneration may create additional perquisite consumption by non-executives, equity holdings may serve as a check on over consumption. There was a slight negative relationship between non-executive multiple directorships and the agency problem indicator. The data does not show a significant relationship however. Therefore, those with more appointments may not necessarily shirk their responsibilities. Whilst there is no significant relationship between these variables, there is one between equity holdings and agency problems. The relationship suggests that whilst equity may serve as a check on over consumption of additional appointments, it is also associated with more agency problems and poor corporate governance. Thus, where equity ownership of non-executives increases they may become more dependent on the firm, which results in increased agency problems. This supports Masulis and Mobbs' study that non-executives who are reliant on the company become less effective monitors as well as Renneboog and Zhao's study which saw non-executive owners as less effective monitors.[77] As such, increased equity ownership may not be a sufficient resolution to curbing excessive consumption of additional appointments for non-executives that may be a result of increased remuneration.

Table H: Non-Executive Multiple Directorship Predictors

	B	SE B	β	Sig.	t
Constant	11.70	2.39			4.91

[77] L Renneboog and Y Zhao, 'Us knows us in the UK: On director networks and CEO compensation' (2011) 17(4) *Journal of Corporate Finance* 1132, 1150

Remuneration	4.283E-5***	.000013	.27	.001	3.30
Equity	-16.69***	4.34	-.31	.000	-3.85
Agency Problem (Indicator)	.81	.44	.16	.066	1.85

R^2 = .15; F = 8.47. *** p <.001
Dependent Variable: Non-Executive Multiple Directorships

From Table H it is observed that both remuneration and equity significantly contribute to predicting the number of non-executive external appointments, whilst agency problems do not significantly contribute to the model. From this it would appear that non-executives do view additional appointments as a form of perquisite offering support for Hypothesis 1. It seems that a firm offering higher remuneration does not deter non-executives from taking additional appointments. In fact the results suggest the opposite, as it seems non-executives hold more directorships where there is higher remuneration. This can be countered by rewarding non-executives in equity, which provides support for Hypothesis 2, that when the non-executive's wealth is tied to the value of the company they will accept fewer appointments. However, as it was observed from the correlation matrix, a firm would have to be mindful of any trade off this may have with increased agency problems for the firm. As such Hypothesis 3 is not substantiated that non-executives will hold fewer appointments where agency problems are higher.

As mentioned above the indicator agency problem variable was replaced by the individual agency problems in the regression model in order to identify any individual agency problems that significantly predict the outcome of non-executive external appointments. These were identified as those situations where there was a duality of chairman-CEO; low executive equity ownership; the ratio of independent directors to executives and the number of board meetings missed. With the exception of the ratio of independent to executive directors all agency problems demonstrated a positive correlation with non-executive multiple directorships. Therefore non-executives are

more likely to take more external directorships where there is a duality of chairman-CEO and where directors collectively miss more meetings. Where executives hold less equity the results show that non-executives hold more external positions when the agency problem of reduced equitable ownership for executives arises. Coupled with situations where more meetings are missed and the control of the board is with one individual it is suggestive that monitoring may be weaker in firms with a larger number of non-executive appointments. This is similar to what Booth and Deli observed in regard to a CEO's decision to take additional appointments where there was a lack of growth opportunities in the home firm. The control of the board may reduce the influence non-executives can have thus they choose to exert their influence and commit their time elsewhere. The evidence here is suggestive that where there is less need for non-executives, or they have less influence, they will hold more appointments.

Where the ratio of independent directors to executives is lower and thus creating generating greater agency problems, the number of non-executive appointments fall. This offers some support for Hypothesis 3 that non-executives will need to dedicate more time to the firm as there is potentially more work to be done as there are fewer individuals to monitor the executives. However, this finding may also reflect that boards with a lower ratio are smaller in general, and thus non-executives will have a smaller number of external appointments.

These findings also reject what Ferris *et al* found regarding meetings attendance. Whilst no significant relationship was found with the amount of meetings held and external appointments, it was observed that more meetings are missed where there are a higher number of external appointments. Thus the busyness hypothesis is

supported and supports the notion that additional appointments are a form of perquisite consumption resulting in less effective monitoring.

Table I outlines the results for these four individual agency problems using dummy variables. The interesting observation is that it is not existence of agency problems that matter, rather it is the concentration of a large number that makes a difference. The results demonstrate a positive relationship between the presence of a wide range of significant agency problems and multiple directorships. Therefore the results do not support Hypothesis 3. Rather it appears where a firm has increased agency problems their non-executives have additional directorships. In consequence having directors with additional appointments may not result in better monitoring as submitted by Masulis and Mobbs since the results demonstrate agency problems increasing with external appointments. This offers more support for the notion that additional appointments for non-executives are perquisite consumption and without sufficient controls this can lead to increased self-interest.

Table I: Significant agency problems

	B	SE B	β	Sig.	t
Constant	13.05	2.10			6.23
Remuneration	3.584-E**	.000013	.22	.005	2.85
Equity	-16.15***	4.19	-.30	.000	-3.86
One sig. agency problem	1.91	1.58	.12	.227	1.21
Two sig. agency problems	2.45	1.81	.13	.177	1.36
Three sig. agency problems	7.05*	2.59	.23	.007	2.72

R^2 = .17; F = 5.99; *p <.01, **p <0.05, *** p <.001
Dependent Variable: Non-Executive Multiple Directorships

b. Executive influences

To add to the observations made that where agency problems exist non-executives hold more appointments, this chapter turns to whether the characteristics of

executives influence the number of additional appointments. Table J details the results from the regression model.

Table J: Executive multiple directorship predictors

	B	SE B	β	Sig.	t
Constant	14.84	1.38			10.76
Exec Multiple Directorships	2.63*	1.12	.19	.020	2.35
Exec Equity	-.22	.20	-.09	.260	-1.13
Exec Total Compensation	1.546E-6**	.0000004	.41	.001	3.52
Ratio LTIS:Fixed	-.914*	.36	-.29	.012	-2.56

R^2 = .15; F = 6.25; *p <.01 **p <0.05 *** p <.001
Dependent Variable: Non-Executive Multiple Directorships

This model accounts for 15% of the variation in the outcome, which is roughly the same for the other models produced so far. Whilst in model 1 when executive ownership was low and demonstrated a significant agency problem there was a significant relationship with non-executive multiple directorships, overall there is only a slight non-significant negative relationship between executive equity and non-executive external appointments. Thus the model fails to support Hypothesis 7 that external appointments will increase as equity increases due to weaker information systems in the company creating the need for more outcome based incentives.

Hypothesis 4 predicted that as executives' external appointments rise, the number held by non-executives' will decrease. The estimates presented in Table 9 in fact show a positive relationship. This provides more support for the notion that collectively, non-executives and executives hold more appointments imposing more agency costs on the firm, meaning that non-executive external appointments are potentially based on self-interest as their increase is resulting in more frequent external appointments for executives.

The two executive compensation predictors demonstrate some interesting results. A positive relationship between the total compensation of executives and non-

executive multiple appointments was found, whilst the number of non-executive external appointments fall as the ratio of LTIS to fixed remuneration rises. The latter does not support Hypothesis 5 that where there are outcome based contracts non-executives will have more external appointments. It can be inferred, however, that non-executives with fewer appointments are better monitors and produce better corporate governance standards due to the increase in pay for performance compared to fixed remuneration.

This is supported by the finding that overall compensation is higher with a larger number of non-executive external appointments. Since pay for performance was documented as being significantly higher percentage of the overall compensation package for executives it is very surprising to observe such a relationship with overall compensation. The evidence supports the argument that an increase in external appointments can result in excessive compensation for executives due to weaker information systems. Whilst observed on its own it may support the hypothesis that increased compensation relates to an increase in non-executives' external appointments due to the poorer information systems thus placing greater emphasis on the performance element of the compensation package, this is qualified by the finding that when the LTIS to fixed compensation predictor is higher the number of external appointments is lower. Therefore the results demonstrate that non-executives with fewer appointments will place more emphasis on the performance element of the compensation package and thus, theoretically, better monitors. This further supports the notion that external appointments amongst non-executives are based on self-interest and do not help align interests.

c. Multi-level analysis

i. Non-executive influences

Table K takes the specification from Table 7 and presents estimates for sub-periods in order to explore possible changes in the relationship pre and post 2008 recession.

Table K: Non-executive multiple directorship predictors (multi-level)

	B	SE B	β	Sig.	t	R^2	F
2006-2007						.30	7.94
Constant	6.68	3.72		.078	1.80		
Remuneration	5.358E-5**	.000018	.35	.005	2.91		
Equity	-36.89***	8.25	-.61	.000	-4.47		
Agency Problem (Indicator)	2.28**	.77	.43	.004	2.97		
2008-2010						.12	3.78
Constant	12.03	3.26		.000	3.69		
Remuneration	4.519E-5	.000018	.26	.016	2.46		
Equity	-10.64**	5.28	-.21	.047	-2.02		
Agency Problem (Indicator)	.49	.56	.09	.392	.86		
2009-2010						.18	4.04
Constant	8.02	3.94		.047	2.03		
Remuneration	6.535E-5**	.000021	.41	.003	3.08		
Equity	-9.15	7.28	-.16	.214	-1.26		
Agency Problem (Indicator)	.85	.67	.17	.213	1.26		
2010						.22	2.38
Constant	6.73	5.02		.192	1.34		
Remuneration	5.755E-5**	.000027	.40	.041	2.15		
Equity	-7.68	10.30	-.13	.463	-.75		
Agency Problem (Indicator)	1.49*	.87	.31	.098	1.72		

*p <.1, **p <0.05, *** p <.001

There are certainly significant observations to be made from pre and post financial crisis. Eisenhardt and Schoonhoven predicted that external appointments would increase in difficult market conditions. However, it was hypothesised that their decline in worth in the managerial labour market would result in fewer additional appointments post-crisis. It is observed that pre financial crash the number of external non-executive appointments is higher when remuneration is higher, equity is lower and agency problems exist.

The influence of equity is certainly more pronounced pre crisis. Using the standardised *b*-values (β) for equity the study observes what degree each predictor affected the outcome when the other predictors are held constant. For years 2006-2007 for every one standard deviation in equity non-executives owned (.13493) there would be -4.97 non-executive appointments. Therefore a one standard deviation increase in equity reduces external appointments by 27%. In comparison to remuneration for every one standard deviation increase this would raise external appointments by 16%. As a result equity can have a larger impact on external appointments than remuneration. Therefore before the crash if a firm was to compensate its non-executives with £100,000 in total there would be 5.36 external appointments. If the firm was to increase that to £200,000 there would be 10.72 external appointments. With equity though there is a much sharper impact with the increase in equity. Where non-executives owned 0.1% of the equity there would be 3.70 fewer external appointments and for 0.2% there would be 7.28 fewer. Thus, whilst increased equity may create more agency problems it may be easier to balance the trade-off since you may not have to award as much equity to prevent additional appointments resulting in excessive perquisite consumption and thus reducing the potential for agency problems.

After the crisis figures for 2008-2010 demonstrate that one standard deviation increase in equity (.15681) would result in only -1.69 external appointments. Therefore one standard deviation after the crisis only accounts for a 9% reduction in external appointments. That is almost half of what was the case in 2006-2007. 2009-2010 demonstrated only a -1.28 decrease in external appointments for every one increment in standard deviation (.13582) for equity. Comparing again to remuneration for non-executives a one standard deviation increase would raise external appointments by 11%. After the financial crisis, remuneration has a bigger

influence on the outcome than equity. Therefore, remuneration in comparison to equity was more important post crisis, but still had a smaller overall impact on the outcome when compared with 2006-2007. Using the example above the model predicts that if non-executives are rewarded £100,000 there will be 4.52 external appointments and 9.04 for £200,000. Compared to equity, where non-executives hold 0.1% equity there would be 1.06 fewer appointments. If that increased to 0.2% there would be 2.13 fewer. As a consequence firms may have problems in curtailing excessive additional appointments with increased equitable ownership due to the potential for increases in agency problems it brings and the smaller effect it has. This may be a result of the decrease in opportunities in any one firm so the non-executive spreads their risk by taking more appointments to increase their *ex ante* remuneration as they see *ex post* equitable incentives as unattainable.[78] As such whilst increased appointments may bring about an increase in resources in difficult market conditions the evidence suggests that it may result in perquisite consumption that is harder to control.

Whilst equity appears to have less impact post-crisis, remuneration plays a similar role in predicting non-executive appointments pre and post crisis. This offers strong support for the need for regulation of multiple directorships when equity stops becoming an effective check on additional appointments. Thus this study does not support Renneboog and Zhao's findings that those who are more constrained will earn higher fees. If multiple directorships are capable of helping a firm survive in difficult market conditions however, it would appear that higher compensation will help facilitate the creation of them.

[78] See, J Booth and D Deli, 'Factors affecting the number of outside directorships held by CEOs' (1996) 40(1) *Journal of Financial Economics* 81

Agency problems were also shown to have a significant positive relationship with non-executives' additional appointments pre-2008. Yet, after the financial crash that significant relationship disappeared. Before 2008 this supported the notion that those with fewer appointments are better monitors. However, post-crash boards do not necessarily have more external appointments relative to agency problems. Therefore the hypothesis that non-executives will hold fewer appointments where there are more agency problems is rejected before the financial crisis and is not substantiated afterwards. This supports what Ferris *et al* argued that executives may be able to impose higher agency costs on the firm where the non-executives hold more external appointments.

Table L: Significant agency problems multi-level

	B	SE B	β	Sig.	t	R^2	F
2006-2007						.28	4.10
Constant	11.34	3.44		.002	3.30		
Remuneration	3.953E-5**	.000019	.26	.040	2.11		
Equity	-28.24***	7.36	-.47	.000	-3.84		
One sig. agency problem	3.49	2.77	.21	.213	1.26		
Two sig. agency problems	5.75*	2.96	.33	.057	1.94		
Three sig. agency problems	8.87**	3.81	.33	.024	2.33		
2008-2010						.15	2.91
Constant	13.12	2.78		.000	4.71		
Remuneration	3.857E-5**	.000018	.23	.033	2.17		
Equity	-11.02**	5.26	-.22	.039	-2.10		
One sig. agency problem	1.20	1.95	.08	.540	.62		
Two sig. agency problems	.86	2.44	.04	.725	.35		
Three sig. agency problems	7.33*	3.76	.21	.054	.195		
2009-2010						.17	2.28
Constant	11.33	3.26		.001	3.47		
Remuneration	5.440E-5**	.000020	.34	.010	2.66		
Equity	-7.84	7.57	-.13	.305	1.04		
One sig. agency problem	-.36	2.31	-.02	.876	-.16		
Two sig. agency problems	2.32	2.89	.11	.425	.80		
Three sig. agency problems	2.76	4.80	.076	.567	.58		

2010						.19	1.15
Constant	11.64	4.34		.013	2.68		
Remuneration	4.061E-5	.000027	.28	.148	1.49		
Equity	-6.83	11.02	-.12	.541	-.62		
One sig. agency problem	.76	3.19	.05	.814	.24		
Two sig. agency problems	3.37	4.16	.17	.425	.81		
Three sig. agency problems	7.19	5.81	.24	.227	1.24		

*p <.01, **p <0.05, *** p <.001

The reason behind this change may be a change in corporate culture as illustrated by the call for monitoring from non-executives as in the Walker Review. Non-executive board members may have been inclined to ensure governance in a company was improved and thus minimising the relationship between agency problems and external appointments. Firms may also wish to be perceived as aiming to improve corporate governance standards and thus minimising agency problems by moving more in line with the Code.

In Table L for the significant agency problems identified earlier – CEO-chair duality; executive equity ownership; board meetings missed; and ratio of independent directors to executives – a similar set of results are obtained where more of these features are present in any given firm. This adds further support to the call for more regulation for external appointments.

ii. Executive influences

Whilst three of the four predictors had a significant relationship with external appointments in the combined analysis, only the total compensation of executives retained a significant relationship post-crisis, and executive external appointments retained a significant role pre-crisis in the multi-level analysis. The positive relationship found between executive and non-executive external appointments

supports that which was found earlier with the agency problems pre and post crisis that non-executives seem to continue to hold multiple appointments despite the existence of agency problems existing.

Table M: Executive influences multi-level

	B	SE B	β	Sig.	t	R^2	F
2006-2007						.20	3.41
Constant	15.19	2.12		.000	7.16		
Exec Multiple Directorships	3.65*	1.83	.26	.051	2.00		
Exec Equity	-.39	.30	-.17	.194	-1.31		
Exec Total Compensation	1.281E-6	.0000008	.34	.117	1.59		
Ratio LTIS:Fixed	-.85	.54	-.32	.122	-1.57		
2008-2010						.12	3.01
Constant	14.60	1.86		.000	7.83		
Exec Multiple Directorships	1.92	1.53	.13	.215	1.25		
Exec Equity	-.08	.27	-.03	.757	-.31		
Exec Total Compensation	1.642E-6**	.0000006	.43	.004	2.92		
Ratio LTIS:Fixed	-.89	.57	-.24	.119	-1.58		
2009-2010						.10	1.46
Constant	15.61	2.32		.000	6.73		
Exec Multiple Directorships	.91	2.00	.06	.649	.46		
Exec Equity	-.01	.33	-.003	.983	-.02		
Exec Total Compensation	1.601E-6**	.0000007	.43	.027	2.28		
Ratio LTIS:Fixed	-1.01	.66	-.29	.130	-1.54		
2010						.14	.98
Constant	14.15	3.19		.000	4.44		
Exec Multiple Directorships	.63	2.90	.04	.831	.22		
Exec Equity	.26	.45	.11	.568	.58		
Exec Total Compensation	1.538E-6*	.0000009	.49	.084	1.80		
Ratio LTIS:Fixed	-.77	.81	-.25	.352	-.95		

*p <.01, **p <0.05, *** p <.001

In comparison with the non-executive influences there appears to be a mirror effect. Whilst agency problems were positively related to non-executives' external appointments pre-crisis, higher total compensation only had a significant relationship post-crisis. Therefore this study does not support the theory that outcome based contracts relate to additional appointments. Where there is higher executive total compensation there is found to be an increase in external appointments for non-executives. The failure to find a similar relationship with the ratio is suggestive that those with more appointments are less effective monitors. Executives' total compensation has a substantial amount determined *ex ante* thus creating the opportunity to impose agency costs on the firm.

Having considered the relevant hypotheses, Table N now provides a breakdown of the conclusions from the models tested.

Table N: Model Summary

Hypothesis	Accept/Reject/Mixed Evidence	Model/Table	Pre-Crisis	Post-crisis
1	Accepted	Model 1 Table H	Accepted	Accepted
2	Accepted	Model 1 Table H	Accepted	Rejected
3	Rejected	Model 1 Tables H and I	Rejected	Rejected
4	Rejected	Model 2 Table J	Rejected	Rejected
5	Rejected	Model 2 Table J	Rejected	Rejected
6	Accepted	Model 2 Table J	Rejected	Accepted
7	Rejected	Model 2 Table J	Rejected	Rejected
8	Mixed Evidence	Table 1	N/A	N/A

VI. CONCLUSIONS

To summarise, there appears to be a complex relationship between the firm's corporate governance systems and non-executives' external appointments. The evidence above provides an insight, and in many instances appears to support the call for tighter regulation, of external appointments, as it seems non-executives may be taking additional directorships as a form of perquisite consumption as well as increasing their external commitments allowing for executives to impose higher agency costs on the firm. Whilst governance mechanisms, like equity, may be able to reduce the amount of external appointments this may not be an adequate way of reducing self-interest *ex ante* amongst non-executives. Equity awards had a significant correlation with agency problems in the firm and its significance in relation to how many external appointments the non-executives will hold since the economic recession in 2008 has reduced compared to its significance pre-2008.

The Financial Reporting Council has already begun a move to regulate such affairs with proposals relating to who may sit on remuneration committees.[79] However, this may not go far enough as it seems it is not simply a matter of whether one director knows another but about time commitment and an associated ability to monitor. The failure to find a relationship between LTIS and fixed remuneration in addition to a positive relationship between total compensation and external appointments suggests a lack of effective monitoring from non-executives with more appointments. The theory relating to outcome and behaviour based contracting is not substantiated by this study as it does not find a relationship between the number of external appointments and the LTIS to fixed remuneration ratio. Nor was a positive relationship with the total compensation and external appointments found. This

[79] ---, 'FRC to consult on executive remuneration' 20th June 2012 <http://www.frc.org.uk/News-and-Events/FRC-Press/Press/2012/June/FRC-to-consult-on-executive-remuneration.aspx> accessed 5th August 2012

evidence suggests that non-executives are not more effective in monitoring executive management where they hold more appointments.

The evidence that non-executives with more external appointments may be less effective monitors is supported by a positive relationship with board meetings missed, executive total compensation, executive external appointments, the CEO-chair duality and agency problems in the firm. As well as these findings, despite the calls from reports such as the Walker Review for non-executives to become more involved and annual reports declaring that non-executives are required to be paid more due to their increased involvement,[80] that increase in remuneration appears to be resulting in non-executives taking additional appointments as perquisite consumption. The reduced significance that equity has on checking this consumption post-crisis may be particularly worrying in ensuring effective monitoring.

[80] Walker Review, (November, 2009) para 2.7