18

Multiple Directorships: How Many is Enough?

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Directors with multiple corporate directorships have often attracted the attention of corporate governance watchdogs.

The concern lies with the time fragmentation that occurs when a director also serves on the boards of other companies. A director of too many companies is likely to be an ineffective monitor of corporate management because he or she would be too busy to allocate sufficient time to govern any one company.

The time commitment needed is now even greater with the increasing responsibilities of corporate boards. The negative impact of time fragmentation is further reinforced by cases of companies with busy boards experiencing lower performance, retaining their CEOs despite poor performance, and furthermore excessively compensating

these CEOs.

However, despite these intuitive arguments, the reported evidence against multiple directorships is far from conclusive.

A study of United States firms (*Too Busy to Mind the Business?*) did not find any association between multiple directorships and securities fraud litigation. To muddy the waters further, some studies found that directors with multiple corporate directorships are important sources of knowledge that can enhance outcomes for the corporation. For instance, a recent study of US initial public offerings (*Are Busy Boards Detrimental?*) concluded that multiple directorships are not only common among newly-listed companies, but also add value to these companies.

It has been argued that directors with multiple external appointments are better connected and exposed to a wider variety of organisational practices and diverse operating environments. These external connections and diverse experiences equip the directors to contribute more effectively in board decisions.

SO, WHAT'S THE NUMBER?

Clearly, multiple directorships can benefit the director and the companies that he or she serves. At the same time, too many directorships lead to time fragmentation and an ineffective director. The real issue is therefore the tipping point that occurs as a result of adding another board appointment and crossing a threshold that leads to less effective board performance.

Such a tipping point is necessarily contingent on various factors.

For instance, the tipping point is likely to occur earlier when a director holds a CEO appointment in a company, or when the director holds multiple board appointments in large companies that

operate in complex and dynamic environments. These contingencies are likely to be unique and different for each director.

There does not appear to be any normative convergence in standards on multiple directorships across countries. Some jurisdictions, such as the US and Hong Kong, do not impose a limit on multiple directorships, while others do.

For instance, Malaysia's Main Market restricts a director to no more than five directorships in listed issuers. The Securities Exchange Board of India recently imposed a limit of seven listed directorships. The UK Corporate Governance Code states that a full-time executive director should not take on more than one non-executive directorship or chairmanship in a FTSE 100 company.

For countries that do not impose a limit, variation in practices is also observed. For example, the *Spencer Stuart US Board Index 2013* reported that 40 per cent of S&P 500 boards do not impose a limit. Of the remaining 60 per cent that cap directorships, 5 per cent do so at two, 73 per cent at three or four, 21 per cent at five, and one per cent at six.

Different companies also specify different limits on the different types of directors: 73 of the S&P 500 boards put tighter restrictions on directors employed as executives or CEOs of public companies.

COUNTING DIRECTORSHIPS IN SINGAPORE

Based on the *SID-ISCA Singapore Directorship Report 2014*, which analyzed the directorships of 717 SGX-listed entities in 2013, the breakdown is as follows

- 1 directorship: 82 per cent.
- 2 directorships: 11 per cent.
- 3-4 directorships: 5 per cent.

- 5 directorships: 1 per cent.
- 6 or more directorships: less than 1 per cent.

At this time, a numerical limit on multiple directorships is not prescribed in Singapore. If there is, only a small group of directors would be impacted. However, regulators are clearly aware of the pitfalls.

Guideline 4.4 of the 2012 Code of Corporate Governance requires the board, together with its nominating committee and the individual director, to decide on the numerical limit that can be held by any director, and to disclose this in its Annual Report.

The same guide also highlights the need to consider a director's other principal commitments, which involve significant time commitment.

SGX also requires the appointment of new directors to be announced using a fixed template that includes information on a director's occupations and directorships.

The current disclosure regime should be adequate for shareholders to assess whether multiple directorships is a concern for their companies. However, for effective governance, shareholders must also exercise their voice when in doubt, and hold their boards accountable for appointing directors that may not have the time and attention to protect their interests. ■