Busy Boards and Compensation: Unveiling Their Combined Impact on Firm Performance

Abstract: Busy board members' experience, network, and expertise make them valuable monitors and advisors. As such, their compensation packages should reflect these attributes. However, there is conflicting evidence regarding the trade-offs between the advantages and disadvantages of directors holding multiple directorships. In this study, we examine whether busy board members are compensated more generously and, if so, explore the role they play in firm performance, taking their compensation into account. We analyze data from all publicly traded non-financial American companies from 2008 to 2024. Our findings show that busy directors receive higher compensation and contribute positively to firm performance, as measured by return on assets. While greater compensation is associated with improved firm performance, the interaction between compensation and busyness is not significant in relation to return on assets. We provide evidence supporting the reputation hypothesis, suggesting that busy directors enhance firm performance due to their reputation rather than higher compensation.

Keywords: Busy Boards; Compensation; Performance.

JEL codes: G32, G34

1 Introduction

Busy board members, those who have a seat on multiple boards (Elyasiani and Zhang, 2015), have become relevant in the discussion of board composition. On the one hand, these members often bring significant knowledge, experience, and professional networks accumulated from their involvement on multiple boards, enhancing decision making and positively contributing to firm performance. Their presence signals expertise and credibility, which can

be attractive to firms (Fama and Jensen, 1983). On the other hand, being part of multiple boards may stretch a member's capacity, reducing the time and attention they can dedicate to any single firm. As a result, the corporate world tends to perceive busy directors as ineffective.

Given this background, the existing literature has examined the advantages and disadvantages of counting with busy board members (Fich and Shivdasani, 2006; Field et al., 2013; Withisuphakorn and Jiraporn, 2018; Ferris et al., 2018). While some studies suggest that busy directors bring valuable skills and connections that benefit the firm, others argue that their overcommitment hampers their ability to provide effective oversight. The opposing perspectives make busy board members a key topic in corporate governance debates, especially as firms aim to balance the benefits of their expertise against the risks of diminished effectiveness.

Based on the assumption that busy directors may be beneficial due to their knowledge, experience, and connections, but their monitoring might still not be effective, some efforts examine the role of compensation of these directors (Ferris et al., 2018; Chen and Keefe, 2018). The results are unanimous: busy directors are awarded higher or better-incentive compensation (Ferris et al., 2018; Chen and Keefe, 2018; Yoon, 2024). However, whether this is an acknowledgment for their expertise or the consequence of the apprehension over their busy agendas is still unknown.

Compensation packages are commonly used to motivate executives and align their interests with those of shareholders. However, empirical research suggests that they often fail to align with value creation (Goergen and Renneboog, 2011). Consequently, the effects of executive compensation on firm performance are *de facto* inconclusive (Adelopo et al., 2023), particularly when board members are busy. In such cases it becomes even more challenging to reach an agreement on busy members' compensation due to the perceived trade-off between their engagement with the company and what is offered to them.

Moreover, under the premise that busy directors are beneficial to firms, existing literature suggests that their compensation packages are also more attractive than those of non-busy members (Brick et al., 2006; Chen and Keefe, 2018; Yoon, 2024). This is, again, possibly not only a result of their quality but also a means to mitigate potential conflicts due to their full

agenda (Ferris et al., 2018). From the reputation point of view, however, busy directors are not driven by their compensation. Instead, they are motivated by building a good reputation established through the positive organizational outcomes of the firms where they hold a seat.

Busy directors are recognized for the value of their human and social capital as internal decision makers in other organizations (Fama and Jensen, 1983). Taking this into account, it would be expected that busy board members positively contribute to firm performance, considering that good results would signal to the market that they are indeed effective decision makers contributing to their reputation (Withisuphakorn and Jiraporn, 2018). Nevertheless, opposing evidence are also present in literature. For example, Fich and Shivdasani (2006) argue that firms with busy boards are associated with poorer profitability and performance, possibly a result of the higher cost of debt that comes with board busyness (Chakravarty and Rutherford, 2017), among others. An explanation of such consequence of having busy directors can be found in Reguera-Alvarado and Bravo (2017) who show that these directors enhance firm performance up to a certain level of busyness.

In this paper we aim to examine whether busy board members are rewarded better compensation packages and, if so, verify the role they play in firm performance taking their compensation into consideration. We achieve this by analyzing all publicly traded non-financial American companies from 2008 to 2024. Our sample is of 18,011 observations across 1,035 companies distributed among 11 industries.

This paper adds to the recently growing body of literature regarding boards' busyness while examining the existence and nature of relationships not thoroughly explored. The paper closest to ours is Ferris et al. (2018) which we differ from in several ways. First, we focus on the impact of the interaction between compensation and busyness on different financial outcomes while Ferris et al. (2018) aimed to examine the relationship between directors' busyness and their compensation. Second, due to the different goals and thus hypothesis and variable definitions of each of the papers, our analysis method also differs. Last but not least, our sample is large and representative, therefore, our results can provide valuable and easily generalizable insights.

In doing so, we contribute not only to the literature, but also to practitioners who can benefit from our findings and appreciate them when structuring a board. Furthermore, we

add to policy makers who need to develop guidelines on the composition of boards and are now more aware of the trade-off of having (and well-paying) busy board members in firms.

2 Theoretical Background and Hypothesis Development

Corporate governance, with roots in Agency Theory (Berle and Means, 1932; Jensen and Meckling, 1976), aims to mitigate the existing conflicts between agents and principals aligning their interests and goals. Boards of directors, an internal mechanism of corporate governance, facilitate the separation of management and control over the organization's decisions (Fama and Jensen, 1983). It is due to its importance in monitoring and controlling organizations' agents that a vast body of literature is dedicated to examining its and its members' diverse characteristics.

In this paper, we focus on the multiple directorship of board members. Independent directors, who are often busy, address serious agency problems, motivated by their desire to build a reputation as experts in decision control (Fama and Jensen, 1983). The disadvantage of counting on such members relies on their overcommitment. Multiple directorships reduce the time and attention devoted to any individual board (Ferris et al., 2020), thus decreasing the impact of their monitoring (Yoon, 2024). From this standpoint, companies led by busy boards may have a weaker governance structure (Yoon, 2024) that jeopardize organizational outcomes such as performance (Fich and Shivdasani, 2006; Withisuphakorn and Jiraporn, 2018). On the other hand, with multiple directorships comes better quality. Busy board members are often offered additional directorships as a result of their high quality (Chen and Keefe, 2018). Their skills and network grant their reputation as high-caliber professionals capable of contributing to strategic decisions and improving organizational performance, a fact evidenced in previous studies (Field et al., 2013; Elyasiani and Zhang, 2015; Trinh et al., 2020; Mbanyele, 2020).

As a result, the strategic need to cope with overcommitment and the high quality and demand for busy directors is expected to reflect on their compensation (Ferris et al., 2018). The compensation of busy directors is first evidenced in Brick et al. (2006) whose results point that highly paid directors are more likely to serve on multiple boards. Later, Ferris et al. (2018) find that not only do busy directors are awarded greater total compensation, they

also receive greater amounts of equity-bases compensation. These evidences are consistent with both points of view, *i.e,*, the overcommitment and the reputation ones. Moreover, Chen and Keefe (2018) show that compensation is positively influenced by multiple directorship in China while Yoon (2024) evidence that busy directors are paid higher values of compensation in New York's nonprofits. Thus, we hypothesize that:

H_1. *Busy board members are awarded greater total compensation than non-busy directors.*

As mentioned earlier, busy board members have relevant skills acquired from serving on multiple boards. However, their overcommitment may limit the time and attention they can dedicate to monitoring and governance activities for any single organization. To counterbalance this potential limitation, firms may structure compensation packages with a larger proportion of share-based remuneration (Ferris et al., 2018). Such packages encourage busy directors to prioritize long-term value creation and remain focused on firm performance, despite their multiple commitments (Goergen and Renneboog, 2011).

Long-term remuneration, such as stock options and restricted stock, offers high pay-performance sensitivity, motivating directors to contribute to sustainable organizational success. There is evidence of the effectiveness of such strategy once share-based payments seem to contribute to the alignment of managers' and shareholders' interests creating long-term value (Aguiar and Coppe, 2017). For busy directors, this strategy is even more crucial, as it reinforces their focus on the firm's success while mitigating their potentially ineffective monitoring (Ferris et al., 2018). Therefore, firms are more likely to award a higher proportion of share-based compensation to busy board members to mitigate overcommitment challenges and maximize their contributions to organizational performance. Taking this information into consideration, we hypothesize as follows:

H_2. *Busy board members receive more long-term compensation than non-busy directors.*

Being compensation a means to incentivize busy board members and mitigate the negative effects of their busy agendas, it is reasonable to believe that such members enhance firm performance only when the right compensation package is offered to them. Empiri-

cal evidence can be found in Ferris et al. (2018) who find that the compensation package busy directors receive has a positive impact on market-to-book, return on assets and profit margins.

In this scenario and contrary to the reputation theory, busy directors would be motivated by their performance-based compensation, not by their ought to build a good reputation in the market. Therefore, we hypothesize the following:

H_3. *The interaction between busy board members and their compensation is a determinant of high firm performance.*

Even though compensation packages may be important to encourage directors and align their interests with those of shareholders, back from the reputation theory busy directors have their own incentives to enhance better firm performance, *i.e,*, of building a good reputation. Thus, compensation may not be significant when it comes to engaging busy board members.

Furthermore, busy directors with strong reputations, management experience, and information resources can help mitigate agency problems such as information asymmetry (He et al., 2024) considering that they can offer firms access to a range of information sources that are valuable for advising and monitoring managers (Amin et al., 2023). Therefore, despite the fact that busy board members are frequently characterized as ineffective (Field et al., 2013), their reputation and quality might speak louder than the disadvantages associated with their busy agendas.

H_4. *Busy board members enhance firm performance.*

3 Methodological Procedures

3.1 Sample and data sources

Our sample consists of 18,011 board members from 2008 to 2024 in 1,035 different companies across 11 industries (including healthcare, technology, and industrials, among others). Particularly, we collected data for all American listed companies. We excluded firms that were not in the NYSE or NASDAQ exchanges, those whose primary sector was Financial

Services and those that had more than 90% of missing data in their yearly financial demonstratives. To achieve our goal, we counted on a dataset that provided information on boards and the compensation of its members gathered from SEC Filings API platform (click here to access).

3.2 Variable Construction

To examine the compensation of the different groups (busy and non-busy) we use two different dependent variables, *i.e,* busy director and busy boards. Both variables are dummies where busy director takes the value of 1 if the director occupies a seat in three or more companies' boards and 0 otherwise (Ferris et al., 2018). For busy boards, 1 refers to the board counts with a busy director and 0 otherwise (He et al., 2024). Regarding firm performance, we use return on assets (ROA) as a proxy to assess financial outcomes, following previous studies (Withisuphakorn and Jiraporn, 2018; Ferris et al., 2020; Saleh et al., 2020; Sun and Yu, 2022; Elyasiani and Zhang, 2015).

Our independent variables include compensation and the proportion of busy board members. We break down compensation as total, short-term, long-term and non-equity based incentives (Goergen and Renneboog, 2011; Bhuyan et al., 2022). Short-term compensation consists of the sum of salary and bonuses while long-term compensation includes stock and option awards. Non-equity compensation is the sum of non-equity incentives, changes in pension and deferred earning, and others. We base on Withisuphakorn and Jiraporn (2018); Wang et al. (2023); He et al. (2024) for the proportion of busy board members which we compute as the sum of the busy member dummy divided by the number of board members for each company/year observation.

We opt to control for the economic sector in which firms operate in (Ferris et al., 2018), the leverage and size of firms (Elyasiani and Zhang, 2015; Withisuphakorn and Jiraporn, 2018) as well as some board characteristics. For board characteristics we use board size (Elyasiani and Zhang, 2015; Withisuphakorn and Jiraporn, 2018; Ferris et al., 2018) and the tenure and age of board members (Field et al., 2013; Ferris et al., 2020; Sun and Yu, 2022). All variables are defined following Table 1.

Table 1: Variable Definitions

Family	Variable	Type	Definition	Authors
Busyness	busy_board	Dependent	Dummy variable: equals 1 if the board counts with at least one busy board member and 0 otherwise.	He (2024)
Busyness	busy_director	Dependent	Dummy variable: equals 1 if director has a seat on three or more different boards in the same year and 0 otherwise.	Ferris (2018)
Busyness	prop_busy	Independent	Sum of busy_board per company and year / board_size.	Withisuphakorn (2018), Wang (2023), He (2024)
Compensation	total	Independent	Total compensation.	Goergen (2011), Bhuyan (2022)
Compensation	shortterm	Independent	Sum of salary and bonus.	Goergen (2011), Bhuyan (2022)
Compensation	longterm	Independent	Sum of stock and option awards.	Goergen (2011), Bhuyan (2022)
Compensation	nonequity	Independent	Sum of non-equity incentive, change in pension value, deferred earnings, and other compensation.	Goergen (2011), Bhuyan (2022)
Performance	ROA	Dependent	Net income / total assets.	Elyasiani (2015), Withisuphakorn (2018), Ferris (2020), Saleh (2020), Sun (2022)
Board Characteristic	board_size	Control	Sum of board members occupying a seat on the board.	Elyasiani (2015), Withisuphakorn (2018), Ferris (2020), Sun (2022)
Director Characteristic	age	Control	Age, in years, of board member.	Field (2013), Ferris (2020), Sun (2022)
Director Characteristic	tenure	Control	Difference between reference date and date first elected.	Field (2013)
Firm Characteristic	firmsize	Control	Log of total assets.	Elyasiani (2015), Withisuphakorn (2018), Saleh (2020), Sun (2022)
Firm Characteristic	leverage	Control	Total liabilities / total assets.	Elyasiani (2015), Withisuphakorn (2018), Saleh (2020), Sun (2022)
Firm Characteristic	sector	Control	Matrix of dummies of the sector in which each company operates.	Ferris (2018)

3.3 Data Analysis

We begin with a descriptive analysis of our data to better understand our sample. By computing the mean, standard deviation, minimum, and maximum for both the full sample and separate groups (busy and non-busy), we can identify potential trends early on. After this, we proceed with a univariate analysis using Welch's t-test. Following the approach of Ferris et al. (2018), this analysis allows us to explore the relationship between compensation and busyness.

Thereafter, we move to the multivariate analyses. The first step is to confirm the univariate results by estimating a logit regression to thoroughly verify whether busy directors are awarded better compensation packages. We estimate two logit regressions, one for each of our dependent variables, *i.e,* busy directors and busy boards. The models have the following form:

$$Z_i = \alpha + \beta_1 \cdot \text{compensation} + \beta_2 \cdot \text{control}, \tag{1}$$

$$P(i) = \frac{1}{1 + e^{-(\alpha + \beta_1 \cdot \text{compensation} + \beta_2 \cdot \text{control},)}}, \tag{2}$$

where Z_i is the dependent variable busy_board or busy_director, alpha is the intercept and the betas are for the independent and control variables respectively. Beta 1 for compensation includes total, short and long term and nonequity compensation. For the model where the dependent variable is busy_board, the mean of each compensation item is computed for board/year observations. The mean for age and tenure is also computed and used when the dependent variable is busy_board and the analysis is done for board/year observations instead of director/year.

We perform an OLS regression to analyze the role of busyness and compensation play in performance. The model is as follows:

$$y_{i,t} = \alpha_{i,t} + \beta_1 \cdot \text{compensation}_{i,t} \cdot \text{busyness}_{i,t} + \beta_2 \cdot \text{control}_{i,t} + \epsilon, \tag{3}$$

where y_i, t takes the value of ROA, the interaction of compensation and busyness is responsible for beta 1 and control variables are considered for the value of beta 2. When working with busy_director, i,t represent observations of each board members individually over the years while when working with busy_board, i,t represents board/year observations. As before, in the second case we work with the mean values of compensation, age and tenure.

4 Analysis and Discussion of Results

4.1 Summary Statistics

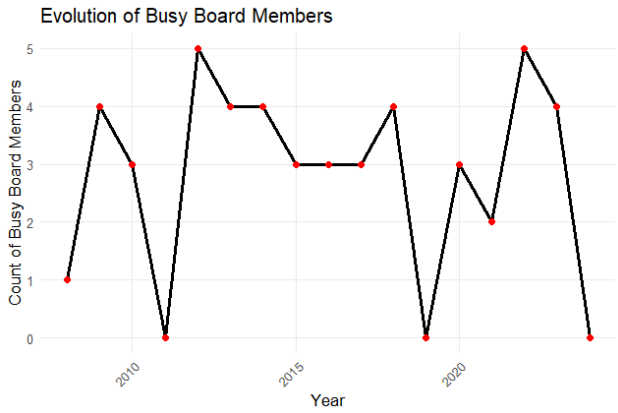
Of the 5,877 board members (18,011 observations over time) , only 0,17% (0.27%) are busy. The maximum number of boards held by one director is four (see Table 2). Over time (see Figure 1), the number of directorships held by a director has varied. From 2012 to 2019 busy board members were more present at companies. Interestingly, during and after the GFC and Covid-19 breakout, we can observe that busy directors were present and more were required. This may be a result of the need for specific skills and networks to deal with crises that only busy directors could have. For example, we see that immediately after the GFC, the number of busy directors increased from one to four. During the Covid-19 pandemic and in the following two to three years, companies also demanded busy directors. However, we can observe that after both crises were handled, the demand for busy directors sharply declined.

Table 2: Seat of Boards Occupied by Board Member

No of Boards	1	2	3	4
Board Members	5726	141	9	1

Table3 displays the summary statistics of our main variables, where we can already observe some trends referring to compensation. Busy board members receive higher total

Figure 1: Busy Board Members over Time



compensation in terms of mean values. Moreover, they receive higher amounts of short-term, long-term, and non-equity compensation. The standard deviation values, on the other hand, indicate that the compensation packages of non-busy directors (specifically long-term and non-equity) vary substantially, and with them, so does total compensation. Interestingly, the maximum and minimum compensation values in our sample belong to non-busy directors, which contributes to the high variation.

On average, a board consists of about ten members, and the proportion of busy board members is relatively low, with the largest proportion of busy directors being 83%. As of the directors themselves, busy board members are often older with an average age of 76.81 comparing to 53.69 years old of non-busy directors. Directors with multiple directorships also occupy their board seat longer than non-busy directors. Therefore, we can note that the experience, network and expertise that come with a busy director might also be the result of advanced aged and tenure. Directors holding multiple directorships have had the time to build a concrete reputation the market recognizes and needs, something they are awarded for better than their non busy pairs.

Moreover, concerning firm characteristics, one can observe that firms counting with busy directors perform better once ROA values are higher for such firms. Busy directors seem to enhance returns on assets. Furthermore, companies where directors are busy are bigger and less indebted.

Table 3: Summary Statistics

Variable	Mean			Standard Deviation			Minimum			Median			Maximum		
	All	Non Busy	Busy	All	Non Busy	Busy	All	Non Busy	Busy	All	Non Busy	Busy	All	Non Busy	Busy
person_count	1.02	1.02	3.02	0.17	0.13	0.14	1.00	1.00	3.00	1.00	1.00	3.00	4.00	2.00	4.00
busy_director	0.00	0.00	1.00	0.05	0.00	0.00	0.00	0.00	1.00	0.00	0.00	1.00	1.00	0.00	1.00
busy_board	0.06	0.06	1.00	0.24	0.24	0.00	0.00	0.00	1.00	0.00	0.00	1.00	1.00	1.00	1.00
board_size	10.11	10.11	9.54	4.10	4.10	3.84	1.00	1.00	3.00	10.00	10.00	9.00	37.00	37.00	22.00
prop_busy	0.01	0.01	0.40	0.04	0.03	0.26	0.00	0.00	0.05	0.00	0.00	0.40	0.83	0.71	0.83
age	53.74	53.69	76.81	8.72	8.66	9.33	0.00	0.00	58.00	53.00	53.00	78.00	94.00	94.00	88.00
tenure	11.56	11.47	27.17	11.39	11.30	15.77	-3.00	-3.00	8.00	8.00	8.00	22.50	68.00	68.00	52.00
shortterm	518831.36	518338.87	703132.69	441503.43	441386.95	451211.80	0.00	0.00	95000.00	436157.00	435670.00	674038.50	12000000.00	12000000.00	2965000.00
longterm	1332753.09	1332478.41	1435545.67	2992183.47	2994709.03	1831482.35	0.00	0.00	0.00	646494.00	645986.00	899625.00	130000032.00	130000032.00	9441201.00
nonequity	553385.50	553286.00	590620.56	1044097.36	1045110.83	550200.34	0.00	0.00	0.00	295709.00	295205.00	490933.50	56235370.00	56235370.00	1800588.00
total	2416560.89	2415700.40	2738583.46	3554491.58	3557455.95	2177143.14	0.00	0.00	105960.00	1541623.00	1540267.00	2515354.00	138652063.00	138652063.00	10224655.00
ROA	0.08	0.08	0.12	0.18	0.18	0.07	0.00	0.00	0.02	0.06	0.06	0.14	13.80	13.80	0.28
firmsize	21.32	21.32	21.00	1.79	1.79	1.90	9.45	9.45	18.30	21.39	21.39	20.79	28.07	28.07	24.73
leverage	0.55	0.55	0.42	0.32	0.32	0.20	0.00	0.00	0.16	0.54	0.54	0.38	8.93	8.93	0.94

4.2 Busyness and Compensation

From the t-tests performed we confirm the results of the descriptive analysis that busy board members receive higher amounts of total, long and short-term and non equity compensation. However, the difference is only statistically significant for short-term compensation at 1% level.

These results are in accordance with the first two hypotheses. Busy directors, usually seen as well connected, highly skilled and desirable (Ferris et al., 2018), are paid more. Nonetheless, the higher amounts of money earned by them are mostly due to the short-term component of their compensation. These results do not align with Ferris et al. (2018) who report that busy directors earn more equity-based compensation, yet receive lower total pay. We corroborate, however, the findings in Brick et al. (2006) and Chen and Keefe (2018) that highly paid directors are busy.

Even though this analysis is not enough to draw definitive conclusions about the compensation of busy board members, the results suggest that directors holding multiple directorships are appreciated. Moreover, we find no evidence that busy directors are perceived as ineffective, at least not to the extent that they require greater long-term or non-equity compensation as an incentive.

Furthermore, two logistic regressions were performed (Table4). The difference between them is in the dependent variables: Models 1 and 2 show the results for busy_director while Models 3 and 4 show the results for busy_board. The regressions include the sector matrix, but to save space we opt to not present these results.

Model 1 only includes only the compensation variables where all four of them are statistically insignificant. In Model 2 accounts for board, director and firm characteristics. In this

case, being busy increases the chances to receive higher values of total compensation and decreases the chances to receive higher long-term and non equity compensation. It is noteworthy to mention that according to the BIC and AIC criteria, the second model performs better. Moreover, it is interesting to notice that age is also significant. Busy directors tend to be older than non-busy potentially due to their accumulated experience, reputation, and established networks.

Turning our attention to busy boards, Model 3 considers only the compensation components, while Model 4 is a more complete form of the former. Model 4 better predicts our hypotheses than Model 3 as AIC and BIC values are lower. At first sight (Model 3), total and long-term compensation are significantly positive and negative, respectively. This is an indicative that the odds of busy boards paying higher amounts of total compensation are short, despite long-term compensation being lower. When other variables are taken into account, however, compensation loses its significance. Busy boards tend to be bigger, have older directors and fewer chances to be indebted.

Table 4: Compensation of Busy Directors and Boards

	Model 1	Model 2	Model 3	Model 4
(Intercept)	-6.11^{***}	-16.47^{**}	-2.93^{***}	-10.88^{***}
	(0.18)	(5.39)	(0.07)	(2.22)
total	-0.00	$0.12^{\cdot}$	0.02^{*}	0.03
	(0.04)	(0.07)	(0.01)	(0.05)
shortterm	0.04	-0.10	0.01	-0.00
	(0.04)	(0.07)	(0.01)	(0.05)
longterm	0.00	$-0.11^{\cdot}$	$-0.02^{\cdot}$	-0.03
	(0.04)	(0.07)	(0.01)	(0.05)
nonequity	0.00	$-0.16^{\cdot}$	-0.02	-0.05
	(0.04)	(0.08)	(0.01)	(0.05)
board_size		-0.19		0.13^{***}
		(0.13)		(0.03)
tenure		-0.02		-0.02
		(0.02)		(0.01)
age		0.29^{***}		0.08^{***}
		(0.06)		(0.02)
firmsize		-0.10		0.11
		(0.25)		(0.09)
leverage		0.22		-1.24^{*}
		(1.70)		(0.63)
AIC	670.96	137.88	3694.21	635.71
BIC	709.95	251.32	3729.02	741.12
Log Likelihood	-330.48	-49.94	-1842.11	-298.86
Deviance	660.96	99.88	3684.21	597.71
Num. obs.	18011	2894	7796	1896

$^{***}p < 0.001$; $^{**}p < 0.01$; $^{*}p < 0.05$; $^{\cdot}p < 0.1$

With these evidence in hand, we can accept Hypothesis 1 that busy board members are better awarded and reject Hypothesis 2 that they are awarded more long-term compensation.

Busy board members are appreciated and valued. However, they do not need incentives to outperform non-busy board members. Our results corroborate those of Brick et al. (2006); Chen and Keefe (2018); Yoon (2024) and, in parts, those of Ferris et al. (2018) once, although busy directors are paid more, they do not receive more long-term compensation. Our results also support the reputation hypothesis (Fama and Jensen, 1983). Busy board members can be beneficial to firms bringing with them extensive experience, expertise and networks. Their contribution to each individual firm does not requite monetary stimulus, they are motivated by their will to build a reputation.

4.3 Performance

We turn our attention to returns on assets in order to unveil whether busy directors are capable of enhancing performance and if so, whether this is a result of their urge to build a fine reputation or the monetary incentives offered to them. Table 5 exhibits the results of the significance of different compensation components and the proportion of busy directors in corporate boards, as well as their interaction, on firm performance. Model 1 to Model 4 examine compensation components separately (total, short-term, long-term and non equity) while Model 5 considers them altogether. Model 5 explains better part of the variation in the dependent variable with higher R^2 and adjusted R^2.

Importantly, the higher the proportion of busy directors in boards, the higher the returns on assets. This result stands and is statistically significant in all models. For every increase of 1 unit in the proportion of busy directors, the ROA increases, on average, between 0.15 and 0.19 units. These results take us to not reject hypothesis 4 that busy board members enhance firm performance. In accordance to the reputation hypothesis (Fama and Jensen, 1983) and the agency theory, directors with multiple directorships are effective monitors whose great experience, information resources and reputations promotes greater financial performance. Our findings are contrary to the ones found by Fich and Shivdasani (2006) but corroborate those of Ferris et al. (2003).

When evaluated separately, total, short-term and long-term are statistically and positively significant indicating that attractive compensation packages lead to better performance. These results only stand for short-term compensation in Model 5. Thus far we

Table 5: Performance

	Model 1	Model 2	Model 3	Model 4	Model 5
(Intercept)	0.14***	0.13***	0.13***	0.12***	0.16***
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
avg_total	0.11***				−0.36
	(0.03)				(0.37)
prop_busy	0.15***	0.19***	0.15***	0.15***	0.18**
	(0.04)	(0.06)	(0.03)	(0.04)	(0.06)
board_size	−0.00	−0.00	−0.00	−0.00·	−0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
avg_tenure	0.00·	0.00*	0.00·	0.00*	0.00·
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
avg_age	−0.00**	−0.00**	−0.00**	−0.00**	−0.00**
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
firmsize	−2.70*	−2.49*	−2.21*	−1.31	−4.00***
	(1.12)	(1.10)	(1.09)	(1.07)	(1.18)
leverage	−6.52	−3.59	−6.07	−6.45	−4.16
	(5.45)	(5.47)	(5.45)	(5.49)	(5.48)
avg_total:prop_busy	−0.62				3.05
	(1.36)				(6.33)
avg_short		1.43***			1.72***
		(0.34)			(0.49)
avg_short:prop_busy		−8.64			
		(8.32)			
avg_long			0.12***		0.47
			(0.03)		(0.37)
avg_long:prop_busy			−1.27		
			(1.92)		
avg_nonequity				0.12	0.42
				(0.08)	(0.37)
avg_nonequity:prop_busy				−0.80	
				(5.11)	
prop_busy:avg_short					−10.85
					(14.48)
prop_busy:avg_long					−4.40
					(5.77)
prop_busy:avg_nonequity					−0.42
					(10.09)
R^2	0.09	0.09	0.09	0.08	0.10
Adj. R^2	0.08	0.08	0.08	0.07	0.09
Num. obs.	1491	1491	1491	1491	1491

$^{***}p < 0.001$; $^{**}p < 0.01$; $^{*}p < 0.05$; $^{\cdot}p < 0.1$

proved that both compensation and busy board members boost performance, however, their interaction is irrelevant. More interestingly, the interaction between compensation and the proportion of busy directors is negative in all models. Although insignificant, this is something to be considered. To the extent that busy board members are more present in corporate boards, the positive effect of compensation diminishes and, more importantly, reverses. Therefore, we reject hypothesis 3 that it is the interaction between busy board members and their compensation that takes to better performance.

Contrary to Ferris et al. (2018), better return on assets is not the outcome of the interaction between compensation and busy directors. Even though total, short-term, long-term and non equity components of compensation, as well as the proportion of busy board members enhance firm performance, they do so alone. It is also noteworthy to mention that the average age and tenure are statistically significant in all models. On the one hand, the older the directors, the worse the performance of firms. On the other hand, more entrenched directors enhance firm performance. Firm size is also detrimental to performance; in our findings, smaller firms perform better.

5 Final Considerations

We investigate board busyness in 1,035 firms from 2008 to 2024 to evaluate the compensation of busy board members and the role they play in firm performance. The results provide evidence that directors holding multiple directorships are awarded greater compensation packages, especially in the short-term, than their non busy pairs. Considering their expertise, network and vast experience, such a result was expected and busy directors are appreciated by companies.

Furthermore, we prove that the higher proportion of busy directors in board, the greater the performance of firms. Altogether with the fact that the odds of busy boards being paid higher amounts of long-term compensation are low implies that busy directors do not need a monetary incentive to dedicate themselves in the firms they work for. Instead, their motivation might be more closely related to their reputation, which goes in line with the reputation hypothesis. In addition to busy board members, the different compensation components also contribute to firm performance. Despite that, their interaction is not significant at all

reinforcing the reputation hypothesis.

We contribute to the growing body of literature on the trade-offs associated with directors holding multiple directorships by examining their compensation and whether they deserve to be paid more than their peers. We find that although busy directors are better compensated and their contributions to firm performance are significant, their primary motivation appears to stem from a desire to build a strong reputation. These findings open the door for a new research agenda on other benefits busy directors can bring with them and their motivations. Our findings provide valuable insights to policy makers and practitioners who can, from the evidence obtained here, design strategies and policies on board structure and its diversity to improve firm performance, among other organizational outcomes.

References

Adelopo, I., Adu-Ameyaw, E., Cheung, K.Y., Bako, H.S., 2023. Managerial compensation and firm performance: The moderating role of managerial ownership and other governance factors. The Journal of Corporate Accounting & Finance 34, 31 – 46. doi:10.1002/jcaf.22609.

Aguiar, A.B.d., Coppe, P.R., 2017. Remuneração de executivos e desempenho no mercado brasileiro: Relações contemporâneas e defasadas. Revista de Administração Contemporânea 21, 545 – 568. doi:10.1590/1982-7849rac2017160228.

Amin, M.R., Mazumder, S., Aktas, E., 2023. Busy board and corporate debt maturity structure. Global Finance Journal 58, 100890. doi:10.1016/j.gfj.2023.100890.

Berle, A.A., Means, G.C., 1932. The Modern Corporation and Private Property. Macmillan.

Bhuyan, R., Butchey, D., Haar, J., Talukdar, B., 2022. Ceo compensation and firm performance in the insurance industry. Managerial Finance 48, 1086 – 1115. doi:10.1108/MF-04-2019-0154.

Brick, I.E., Palmon, O., Wald, J.K., 2006. Ceo compensation, director compensation, and firm performance: Evidence of cronyism? Journal of Corporate Finance 12, 403 – 423. doi:10.1016/j.jcorpfin.2005.08.005.

Chakravarty, S., Rutherford, L.G., 2017. Do busy directors influence the cost of debt? an examination through the lens of takeover vulnerability. Journal of Corporate Finance 43, 429 – 443. doi:10.1016/j.jcorpfin.2017.02.001.

Chen, Z., Keefe, M.O., 2018. Board of director compensation in china: To pay or not to pay? how much to pay? Emerging Markets Review 37, 66 – 82. doi:10.1016/j.ememar.2018.05.003.

Elyasiani, E., Zhang, L., 2015. Bank holding company performance, risk, and "busy" board of directors. Journal of Banking Finance 60, 239 – 251. doi:10.1016/j.jbankfin.2015.08.022.

Fama, E.F., Jensen, M.C., 1983. Separation of ownership and control. Journal of Law Economics 26, 301 – 325.

Ferris, S.P., Jagannathan, M., Pritchard, A.C., 2003. Too busy to mind the business? monitoring by directors with multiple board appointments. The Journal of Finance 58, 1087 – 1111.

Ferris, S.P., Jayaraman, N., Liao, M.Y.S., 2020. Better directors or distracted directors? an international analysis of busy boards. Global Finance Journal 44, 100437. doi:10.1016/j.gfj.2018.05.006.

Ferris, S.P., Liao, M.Y.S., Tamm, C., 2018. The compensation of busy directors: An international analysis. Research in International Business and Finance 46, 294–312. doi:10.1016/j.ribaf.2018.04.003.

Fich, E.M., Shivdasani, A., 2006. Are busy boards effective monitors? The Journal of Finance 61, 689 – 724.

Field, L., Lowry, M., Mkrtchyan, A., 2013. Are busy boards detrimental? Journal of Financial Economics 109, 63 – 82. doi:10.1016/j.jfineco.2013.02.004.

Goergen, M., Renneboog, L., 2011. Managerial compensation. Journal of Corporate Finance 17, 1068 – 1077. doi:10.1016/j.jcorpfin.2011.06.002.

He, Y., Hamdan, S.L., Faizal, S.M., 2024. Busy independent directors and ipo company earnings management: Evidence from china. Heliyon 10, e40304. doi:10.1016/j.heliyon.2024.e40304.

Jensen, M.C., Meckling, W.H., 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics 3, 305 – 360. doi:10.2139/ssrn.94043.

Mbanyele, W., 2020. Do busy directors impede or spur bank performance and bank risks? event study evidence from brazil. SAGE Open , 1 – 17doi:10.1177/2158244020933594.

Reguera-Alvarado, N., Bravo, F., 2017. The effect of independent directors' characteristics on firm performance: Tenure and multiple directorships. Research in International Business and Finance 41, 590 – 599. doi:10.1016/j.ribaf.2017.04.045.

Saleh, M.W.A., Shurafa, R., Shukeri, S.N., Nour, Abdulnasr, I., Maigosh, Z.S., 2020. The effect of board multiple directorships and ceo characteristics on firm performance: evidence from palestine. Journal of Accounting in Emerging Economies 10, 637 – 654. doi:10.1108/JAEE-12-2019-0231.

Sun, L., Yu, H., 2022. The effects of busy board on firm's probability to pay dividends. Research in International Business and Finance 60, 101596. doi:10.1016/j.ribaf.2021.101596.

Trinh, Vu Quang anf Elnahass, M., Salama, A., Izzeldin, M., 2020. Board busyness, performance and financial stability: does bank type matter? The European Journal of Finance 26, 774 – 801. doi:10.1080/1351847X.2019.1636842.

Wang, Q., Sun, M., Wang, K., 2023. Do reputation incentives matter? busy directors and corporate social responsibility in china. Sustainability 15, 4857. doi:10.3390/su15064857.

Withisuphakorn, P., Jiraporn, P., 2018. Are busy directors harmful or helpful? evidence from the great recession. SSRN Electronic Journal doi:10.2139/ssrn.3140626.

Yoon, N., 2024. How much does nonprofit board governance matter? role of interlocking directorates, executive power, and women on boards in executive compensation. Review of Public Personnel Administration doi:10.1177/0734371X231221505.