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MULTIPLE DIRECTORSHIPS AND CORPORATE PERFORMANCE IN AUSTRALIAN LISTED COMPANIES

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MULTIPLE DIRECTORSHIPS AND CORPORATE PERFORMANCE IN AUSTRALIAN LISTED COMPANIES¹

Abstract

How many directorships are too many? Globally, normative advice emphasises the importance of limiting the number of directorships any individual should hold due to the workloads they entail. However, there is little empirical evidence to support this view. Rather, there is a strong tradition of supporting multiple directorships as a mechanism for the firm to co-opt external resources. To explore the issue of director workloads and multiple directorships, we first consider the issues related to multiple directorships and outline the conclusions of extant international and Australian studies into multiple directorships. We then detail our objectives in undertaking this research and our approach to data collection.

Our findings indicate that the incidence of multiple directorships in Australian listed companies is low. We also find that many of the apparent examples of multiple directorships are due to related entities, which share common directors and, due to the nature of these entities, have much lower workload requirements. Further, there does not appear to be any relationship between holding multiple directorships and firm financial performance. Finally, we discuss the implications for boards and those interested in governance, particularly the need to ensure governance recommendations and guidelines reflect empirical findings. We offer one solution to address the concerns of boards, investors, other stakeholders and the community regarding multiple directorships: board and individual director evaluations.

¹ This paper was presented at the 8th International Conference on Corporate Governance and Board Leadership, 11-13 October 2005 at the Centre for Board Effectiveness, Henley Management College.

Key words: Boards of directors; multiple directorships; corporate governance

INTRODUCTION

How many directorships can a person undertake and still perform to the level expected of director in the current economic and legal environment? With the increasing attention being placed on boards and individual directors in the post-Enron environment, this question has major implications for investors, boards and potentially, regulators. There are two basic views. On the one hand it can be held that individuals themselves and the boards on which they sit are best placed to determine whether an individual is “overboarded” and consequently not fully undertaking their appropriate role on a particular board. This view is supported by many researchers and commentators who can point to several advantages of boards containing directors who are linked to other boards. Researchers also question whether this “overboarding” is an endemic feature of the modern governance of large publicly listed companies or whether the vast majority of public company directors have found an appropriate mix of directorships and other activities.

The other view is put forward by organisations such as the Australian Shareholders’ Association (ASA), who claim there is a link between companies with difficulties and the workloads of their boards (Galacho, 2004). The ASA focused on packaging giant Amcor, the subject of an Australian Competition and Consumer Commission (ACCC) investigation over cartel activity, as an example of this link. In particular, the ASA highlighted the high workload of four of its seven non-executive directors and argued that they had too great a workload given the number of other boards on which they sat (Moullakis, 2004).

The ASA believes that any director who sits on more than five boards is doing a disservice to the companies’ shareholders. They are not alone in suggesting

directorship limits. For example, in the United States, the Council of Institutional Investors (2004) suggests that directors with a full-time job should not sit on more than two other boards and current CEOs should only serve on one other board. In the United Kingdom, the Combined Code (Financial Reporting Council, 2003) recommends that full-time executive directors should not take on more than one non-executive directorship in a FTSE 100 company. Both these US and UK examples are concerned with people who hold full-time demanding managerial positions in addition to directorships in other companies. This has been far more a feature of the governance regimes in those countries than in Australia.

Concerns over the workloads that come with multiple directorships are not new. Lipton and Lorsch (1992: 64), for example, stated, “the most widely shared problem directors have is lack of time to carry out their duties”. A US survey of 1279 directors by *Corporate Board Member* magazine and PricewaterhouseCoopers (2004) found that a majority of directors themselves believe there should be a limit on the number of other boards on which board members may sit (2 for the CEO and 3 for outside directors).

But are these attacks on so-called “serial” directors warranted? In this report we consider the extent of multiple directorships in companies listed on the Australian Stock Exchange (ASX) and whether there is any relationship between director workloads and the performance of the companies they govern. As our report will show, there is no empirical evidence to support the ASA’s view on multiple directorships.

To explore the issue of director workloads and multiple directorships we will first consider the issues related to multiple directorships and outline the conclusions of extant international and Australian studies into multiple directorships. We then detail

our objectives in undertaking this research and our approach to data collection. The data analysis and findings follow. These findings indicate that the incidence of multiple directorships is the exception, rather than the rule in Australia. Further, there does not appear to be any relationship between holding multiple directorships and firm financial performance. Finally, we discuss the implications for boards and those interested in governance, particularly the need to ensure governance recommendations and guidelines reflect empirical findings. We suggest an answer is not in arbitrary limits for the number of multiple directorships, but rather in boards undertaking and acting upon board and individual director evaluations.

THE ISSUE OF MULTIPLE DIRECTORSHIPS

Scepticism is naturally evoked when we read of directors serving on multiple boards, especially in light of the burgeoning responsibility of the modern director. How can an individual possibly monitor, strategise, counsel and generally control five, six, seven or more companies? The answer, of course, is that they do not: directors do not govern, boards do. There is no argument against criticisms founded on evidence of directors not applying themselves or not providing valuable service to the companies they govern. However, indiscriminately singling out directors on arbitrary standards of directorship holdings cannot be supported with empirical evidence. In fact, there are several important reasons why holding multiple directorships can be good for companies and for our economy and society.

There is an emerging stream of research recognising that boards do more than monitor the firms they govern (e.g., Zahra and Pearce, 1989; Johnson, Daily and Ellstrand, 1996; Nicholson and Kiel, 2004). Rather, it is the suite of roles that they perform that is important. And to carry out these roles, a board requires a mix of

skills. Therefore, if we are to examine board effectiveness, we should be examining the board as a whole, rather than individual directors. It is the pool of talent, skills and experience that is important (including contacts), because this pool will determine how well a board (as a group) carries out its functions. An individual director can play a significant role in a limited area (thus requiring a limited time commitment) or a wider more extensive role (requiring a much greater time commitment).

Policy guidelines which seek to limit multiple directorships also ignore the rich tradition of empirical support for the resource dependence role of directors. The resource dependence role of directors has long been recognised (Pfeffer and Salancik, 1978) and is the role directors play when they use their external contacts and reputation to the advantage of the firm which they serve as a director. Examples of this role include financiers supplying funds to the firm on the basis of the reputation of directors, directors using their contacts to open new markets for the firm or using their contacts to assist in securing new technology. In short, directors holding more than one directorship (usually defined as interlocking directors) have been long acknowledged as a key way that firms seek to control their external environment and access vital resources.

The Benefits of Multiple Directorships

Directors holding more than one directorship (defined as interlocking directors in the literature) have been long acknowledged as a key way that firms seek to control their external environment and access vital resources (Means, 1939). Quite simply, directors can play a vital role in providing the companies they govern with access to key resources such as capital.

The first major study of boards as a device to control their external environment was carried out by Selznick (1949), who noted the Tennessee Valley Authority (TVA) sought to neutralise strong opposition by bringing representatives of the hostile groups onto the TVA's governing board. Similarly, Price (1963) and Zald (1967) also documented the use of boards as a cooptative device.

Recently, scholars have examined direct links between various measures of firm performance and interlocking behaviour. For example, Boyd (1990) found that, in firms facing greater environmental uncertainty, those with more interlocks (i.e. greater number of multiple directorships) exhibited superior performance as measured by sales growth and return on equity.

Directors are thought to be able to use their multiple links to add value in three ways. First, they can act as a co-optive mechanism to extract resources (Zahra and Pearce, 1989) and obtain support from external stakeholders critical to the organisation's performance. An example would be where a director has contacts which allow the firm access to capital at a more attractive rate than from other sources. Second, board members serve as boundary spanners (Zahra and Pearce, 1989) providing channels for communicating information to or from the external environment (Pfeffer and Salancik, 1978). A director may fulfil this role when they introduce a value adding governance policy to a firm, having seen it work in another company on whose board they sit as a director. Third, boards are thought to play an important role in enhancing organisational legitimacy (Pfeffer and Salancik, 1978; Zahra and Pearce, 1989). This explains the often observed fact that those floating new companies seek at least some directors with established business reputations.

It is important to recognise that, as with many topics in governance, there is no single correct approach. Advantage may come to a company via a director's formal company linkages (such as providing access to capital, reducing transaction costs between companies, addressing firm level interdependencies). For instance, there appears to be a positive relationship between interlocks (i.e. multiple directorships) and firm solvency and performance (see Dooley, 1969; Pfeffer, 1972, Pennings, 1980, Stockman, Ziegler and Scott, 1985; Mizuchi and Stearns, 1988).

Alternatively, advantage may come on a personal level (e.g., environment scanning, provision of information or access to communication channels). For instance, interlocking directors can form a formal firm link aimed at reducing the costs of coordination and resource planning (Bazerman and Schoorman, 1983). Hillman, Zardkoobi and Bierman (1999) found that firms with links to the US government had reduced uncertainty due to improved information flows resulting in greater shareholder value. Similarly, directors with ties to strategically related firms have been found to provide better advice and counsel, which is positively related to firm performance (Westphal, 1999).

There is also evidence that multiple directorships benefit firms by increasing a firm's legitimacy (e.g., Daily and Schwenk, 1996; Gales and Kesner, 1994). Since a company's reputation is linked to that of its board (Bazerman and Schoorman, 1983), "prestigious or legitimate persons or organizations represented on the focal organization's board provide confirmation to the rest of the world of the value and worth of the organization" (Pfeffer and Salancik, 1978: 145). As an example, firms with more prestigious boards have been linked with less underpricing at an IPO (Certo, 2003; Certo, Daily and Dalton, 2001).

Turning aside from single company effects, multiple directorships are associated with positive effects on the entire corporate system, as interlocking directors facilitate the dissemination of innovation through a corporate network (Haunschild and Beckman 1998). For example, firms are more likely to adopt a multidivisional structure if they have with ties with previous adopters (Palmer, Jennings and Zhou 1989).

With respect to governance in particular, a recent unpublished Canadian study is reported to have found that directors serving on the most boards are associated with better corporate governance (McFarland, 2004). The authors (Tim Rowley and Matt Fullbrook from the University of Toronto's Rotman School of Management) conclude that directors holding multiple directorships represent:

...just 1 per cent of the 1,689 directors who sit on the boards of companies in Canada's S&P/TSX composite index. They sit on 68 boards, representing 31 per cent of the index's 223 companies. In total, their boards comprise 51 per cent of the market capitalization of the benchmark index (McFarland, 2004).

However, the study found that most of the directors with multiple directorships used their influence to diffuse positive corporate governance improvements throughout their boards. In fact, most of the boards on which these directors sat received above-average corporate governance scores in an annual survey of governance of companies in the S&P/TSX index conducted by the Rotman School of Management.

Director Workloads and Multiple Directorships

The literature on multiple directorships (as they relate to the board's workload) is limited. Instead there is a rich tradition of studies concentrating on interlocking

directorates, in which a director or senior executive of one company sits on the board of another company. As Table 1 shows, Australian studies have overwhelmingly concentrated on describing the network of inter-corporate relationships that result from multiple directorships rather than the incidence or resultant workloads of such directorships.

INSERT TABLE 1 ABOUT HERE

As discussed above, interlocking directorates are thought to have positive impacts on company performance by providing management with access to a variety of key resources. The significant benefits thought to be associated with appointing directors with multiple board positions may also, however, be associated with a significant negative – increased workloads for the directors serving on multiple boards. Known as “overboarding”, the concern centres on directors who are perceived as serving on too many boards (Harris and Shimizu, 2004: 776). A recent study by Harris and Shimizu (2004) on the impact of overboarded directors is one of the few systematic studies of the topic, which, though the subject of much complaint in the business press both in Australia and internationally (e.g., Dobrzynski, 1996), has been largely ignored in academic studies. Table 2 provides the details of three US studies on multiple directorships and board workloads. It should be noted that the findings from these studies do not support the imposition of directorship limits.

INSERT TABLE 2 ABOUT HERE

RESEARCH OBJECTIVE

The objective of this study is to investigate claims that some Australian directors hold too many directorships and that this “overboarding” is a serious problem.

In particular, we aim to inform the current debate by providing data on the extent and nature of multiple directorships in listed Australian companies, and the link between multiple directorships and firm performance. It should be noted, however, that our study relates only to directorships in ASX-listed companies. It does not take into consideration any other positions individual directors may hold, such as their full-time positions or seats on the boards of not-for-profit or government business enterprises, as this is beyond the scope of our study due to the difficulties involved in collecting accurate data for large samples. The specific objectives of the research are to:

1. Determine the extent of multiple directorships held by directors of the Top 100 Australian companies:
 - a. within the Top 100 companies
 - b. across all listed companies;
2. Determine the extent of multiple directorships held by directors of the companies contained within the largest 200 Australian companies:
 - a. within the largest 200 companies
 - b. across all listed companies;
3. Determine the extent of multiple directorships held by directors of all listed Australian companies across all listed companies;
4. Determine the extent of multiple chairmanships held by chairmen of the Top 100 Australian companies:
 - a. within the Top 100 companies
 - b. across all listed companies;
5. Determine the extent of multiple chairmanships held by directors of the companies contained within the largest 200 Australian companies:

- a. within the largest 200 companies
 - b. across all listed companies;
6. Determine the extent of multiple directorships and chairmanships held by chairmen of the largest 200 Australian listed companies across all listed companies; and
7. Determine if any relationship exists between the effective workload of a board and a company's financial performance from an investor's perspective.

METHODOLOGY

Our study is based on publicly available archival data. Our original source data on directorships was collected from Connect 4 (www.connect4.com.au) in electronic form. Connect 4 specialises in providing information on companies listed on the ASX. It purchases this data every year from the ASX and compiles it into a searchable data archive that can be downloaded.

At the time of this study, the directorship data for all listed companies was only available till June 2003. Data beyond this date were fragmented and so our study concentrated on directorship data retrieved as of 30 June 2003. The data collected included a list of all ASX-listed companies, the names and positions of the directors of these companies and the market capitalisation for each company.

Although the Connect 4 directorship data is generally accurate, there are usually errors in large databases. Common errors included duplicate names of people, different spellings of the same name, as well as dated and missing data. To correct these data inaccuracies, we ran two checks. First, we reviewed the data and highlighted any missing or ambiguous information. Where a company entry contained missing or

ambiguous data, we downloaded the annual report from that company's website and updated the information. Since the main focus of the study is the Top 200 companies, we also downloaded all annual reports for the ASX Top 200 companies as at June 30 2003 and manually cross-checked every director entry for these companies.

We used two sources to collect firm performance data, namely Connect 4 and the financial database managed by the Australian Graduate School of Management (AGSM) Centre for Research in Finance's Risk Measurement Service. By employing two data sources, we were able to cross-check entries and locate missing data. As previously noted, Connect 4 provides information on all ASX-listed companies through their "BoardRoom" product. Our second source of data, the AGSM database is a separate source from Connect 4. The AGSM maintains its own archival database dating back to January 1974 and it is updated periodically.

By using the ASX code as a unique identifier, we were able to cross-reference the two datasets. This check revealed minor discrepancies in terms of missing companies and conflicting data. We resolved these rare conflicts by referring to original source data. For instance, some companies were missing market capitalisation figures; we calculated this data by obtaining the total number of outstanding shares from the company annual reports and multiplying it by closing share price of these companies on 30 June 2003.

In addition to market capitalisation figures, we also collected financial performance data, including share prices and dividend per share (DPS). This allowed us to calculate the Total Shareholder Return (TSR). We acquired the historical closing share prices for the *S&P/ASX* 200 listed companies as of 30 June 2003 and 2004 from the *Australian Financial Review* (AFR). We audited this data by randomly checking

the AFR prices with those available online from Yahoo Finance (<http://finance.yahoo.com>). The DPS data was acquired from the Aspect Fin Analysis (Huntley's) database in electronic format. We manually cross-checked this information with those published in *Shares* magazine to clarify any ambiguities.

We obtained the risk measures (Betas) for different industries represented on the ASX from the AGSM.

Given the size of this database and the fact that this data are inherently "noisy" (i.e. the data change frequently and are not always recorded at the source accurately), there is likely to be some level of error in the data. However, this level of error is unlikely to be such as to change the substantive findings or conclusions of the analysis.

With the data collected and validated, we created a relational database using 4th Dimension (4D) software. This enabled us to structure and query the data, and run initial statistical and financial analyses. More advanced statistical analyses were conducted using SPSS (Statistical Package for the Social Sciences).

Study Measures

The objectives required us to develop a number of measures. First, we developed a series of measures related to multiple directorships and director workloads. These were:

Total Directorships. The total number of directorships held by the board. This variable is calculated for each board and is the sum of all directorships held by directors who served on the board at 30 June 2003.

Board Connectedness. This variable is related to *Total Directorships*, but takes into account the fact that larger boards are naturally more likely to have more connections to other boards. This variable was calculated as followed:

$$\text{Board Connectedness} = (\text{Total Directorships} - \text{Board Size}) / \text{Board Size}$$

Consequently, *Board Connectedness* can range upwards from zero. A score of zero means that all the directors of a company only sit on that one board. The higher the *Board Connectedness* scores the greater the connectedness of the board to other ASX-listed companies.

Board Workload. This variable measures the total workload of a board using the ASA's guidelines. While we in no way support the arbitrary limits set by the ASA and believe commentators in general should be very careful about making blanket policy recommendations for all boards, these limits do provide a convenient measure for our study. Since these guidelines have been given a degree of validity through their coverage in the media their soundness should be tested.

The calculation is based on the ASA's view that carrying out a director's duties requires a minimum time commitment of 360 hours (45 working days) per year (Galacho, 2004). Additionally, the ASA believes that a chairmanship requires three times the effort of a workload, while a deputy chairmanship is equal to two directorships. Thus, all chairman positions were given a workload of three times an ordinary director (under the ASA guidelines this equals 1080 hours or 135 working days per annum). Deputy chairmen were given a weighting of two. Consequently, the *Board Workload* variable will be greater than *Total Directorships* as each chair or deputy chair held by any director on that board receives an extra weighting.

Our analysis also required us to study various categories of firms. We defined these categories as follows:

Top 100 companies. The Top 100 companies refer to those companies with the 100 largest market capitalisations on 30 June 2003.

Top 200 companies. The Top 200 companies refer to those companies with the 200 largest market capitalisations on 30 June 2003.

S&P/ASX 200 companies. This grouping of companies is used as the basis for studying the relationship between board workload and firm performance. Analysis of multiple directorships needs to be undertaken at one point in time (for example, 30 June 2003). In contrast, any analysis seeking to relate multiple directorships with firm performance needs to measure that performance over a period of time (for example, from 30 June 2003 to 30 June 2004). Consequently, it is necessary to settle upon a collection of companies that were traded over a specified period of analysis. We used the S&P (Standard & Poor's)/ASX 200 as the base for determining the companies included in this analysis.

The S&P/ASX 200 is used by investment managers as a benchmark for “a portfolio characterised by sufficient size and liquidity” (ASX, 2004). It comprises the S&P/ASX 100 plus an additional 100 stocks. Because 26 companies were either delisted after 1 July 2003 or were listed after 30 June 2004, our S&P/ASX 200 category comprised 174 entities representing the major companies on the ASX which were listed at 30 June 2003 and which are included in Standard & Poor's index at the end of 2004.

All listed entities. This category refers to all companies listed and traded on the ASX as at 30 June 2003 for which we could collect both board and market capitalisation data. The number is slightly fewer than ASX-listed companies because some companies were suspended from trading, some companies' data for that date is incomplete and so on. As discussed in the results section, we collected data on 1250 of the 1425 listed entities.

Corporate groups. A feature of some ASX-listed companies is that although they are separate legal and listed entities, they form part of a corporate group. Our criterion for a corporate group was that if two or more companies have 50 percent or more overlap of directors, it is part of a corporate group and should be counted as one entity for studying multiple directorships. This is based on the premise that although these directors are sitting on multiple boards, they are essentially catering to the needs of one corporate group. Their presence on the board of a related entity will be the result of their seat on the parent company's board and these directors will have different workload requirements to those directors who sit on boards of distinct and unrelated entities. For example, an executive director on the board of a related trust company may only have to attend only one or two board meetings a year for that trust company. Thus, we report the data for individual companies first before using corporate groups to highlight the impact they have on the results. As we discuss below, corporate groups are of particular import when we consider the workload of chairmen.

Finally, we needed to calculate financial performance for the S&P/ASX 200. We calculated an investor focused measure of firm financial performance as follows:

Risk Adjusted Total Shareholder Return. Risk adjusted total shareholder return measures the total return shareholders would receive if they held a company's share from 1 July 2003 to 30 June 2004. This return is equal to the increase (decrease) in share price plus any dividends received (where the closing date for dividend payment was within this period). This unweighted return is weighted for risk using industry betas for the year. This reflects the risk profile of industries, a factor that should be considered when comparing firm performance from an investment perspective.

DATA ANALYSIS AND FINDINGS

The ASX-Listed Companies

We were able to collect data on 1326 companies out of the total population of 1425 companies listed on the ASX as at 30 June 2003. The total number of ASX-listed companies (1425) includes foreign companies, counts stapled securities as more than one entity and includes corporations with no quoted securities (or debt securities only). Furthermore, it also includes some temporary duplications arising from mergers and acquisitions of listed companies.

Of the 1326 for which we collected data, 76 companies did not have market capitalisation data. Since the data pertain to 30 June 2003, some companies were suspended from trading on that day, some companies had partial unbalanced accounts, for some, accounts were not updated by the ASX and the information was still being processed, and a few companies had been delisted but still appeared on the Connect 4 database. Removing these anomalies meant our study covered 1250 companies. Our dataset (1250 out of 1425 listed entities in 2003) held a combined market capitalisation of \$724 billion.

Analysis of the Top 200 companies reveals that the exchange is heavily skewed towards large companies. Of the three groups of companies reported in this study, the Top 100 companies comprised 88 percent of the exchange's market capitalisation, the Top 200 95 percent, while the 174 companies represented in the S&P/ASX 200 grouping represented 78 percent of the total market capitalisation. The S&P/ASX 200 represents a lower proportion of the exchange than either the Top 100 or Top 200 companies, because, for reasons explained previously, this group included only 174 companies. In addition, the S&P/ASX 200 does not include some major listed entities

which have their primary listing on another exchange or which are investment entities such as property trusts. Consequently, while these entities are included in our analysis of the directors of the Top 100 and 200 companies they are excluded from the analysis of workload and firm performance.

Table 3 highlights that board size varies with company size – the larger the company, the larger the board. Across the ASX, board size averaged 5.7, while among the Top 100 firms it averaged 8.2. These figures correspond to previous Australian studies (see Arthur, 2001; Kiel and Nicholson, 2003; Stapledon and Lawrence, 1996).

INSERT TABLE 3 ABOUT HERE

The Extent of Multiple Directorships across Individual Companies

Results on the incidence of multiple directorships are presented in three categories: the Top 100, Top 200 and all listed companies. We also provide a within-category analysis of multiple directorship holdings for the Top 100 and 200 companies. This within-category analysis shows the number of multiple directorships held within the Top 100 and Top 200 respectively. This approach highlights the extent of multiple directorship holdings among Australia’s major listed companies. Findings are presented in tabulated form, followed by a brief discussion of the key points for each table.

Table 4 presents the results for multiple directorships within Australia’s Top 100 companies held by individuals sitting on the boards of Top 100 listed entities. There are 824 directorships (an average of 8.2 per company) held by 656 individuals. It is clear from this table that there is a relatively low level of multiple directorship holdings within Australia’s Top 100 companies. Of 656 individuals, 534 (81 percent)

held only one directorship and another 85 individuals (13 percent) held two directorships. Only one individual held five or more directorships within the Top 100 companies, a fact which is associated with membership of a “corporate group” and which will be discussed later.

INSERT TABLE 4 ABOUT HERE

Directors of the Top 100, however, are in demand outside the Top 100 category. The incidences of multiple directorships of individuals sitting on ASX Top 100 companies across all listed entities are shown in Table 5.

INSERT TABLE 5 ABOUT HERE

The table highlights that these 656 directors held a total of 1209 directorships (or an average of 1.8 directorships each). However, this workload is not evenly spread. Fifty eight percent of the Top 100 directors held only one directorship in a listed company. A further 130, or 20 percent of individuals, held only two directorships. Only 31 (4.8 percent) individuals held five or more directorships across all listed companies. Again membership of a “corporate group” is behind many of these multiple directorships.

Results of the analysis of the Top 200 companies are reported in Tables 6 and 7. Table 6 presents the directorships held by individuals within the Top 200 companies by market capitalisation at 30 June 2003. Similar to the results of the Top 100, the Top 200 also shows low levels of multiple directorships. Of the 1178 directors, 955 individuals hold only the one directorship (81 percent) and 131 (11

percent) of individuals held two directorships within the Top 200. Only 7 individuals (0.6 percent) held five or more directorships within the Top 200 listed companies.

INSERT TABLES 6 and 7 ABOUT HERE

The results for the Top 200 companies across all listed entities are shown in Table 7. Again, Table 7 reports relatively low levels of multiple directorships. Of 1178 directors, 976 held one or two directorships (83 percent) and only 35 individuals (3 percent) held five or more directorships across all listed companies.

Turning to the analysis of all listed companies in 2003, the results remain highly consistent with our earlier findings of the Top 100 and Top 200 categories. Results are shown in Table 8.

Table 8 reveals an average of 1.3 directorships per person. Of 5468 individuals, 4317 (79 percent) held one directorship, while a further 734 (13 percent) held two directorships. Among the “big linkers”, those holding five or more directorships are only 68 (1 percent) directors. This 1 percent of directors held 398 directorships (5.4 percent) out of the total of 7344 directorship on the exchange.

INSERT TABLE 8 ABOUT HERE

Multiple Chairmanships

We now present the results of multiple chairmanships that individuals held in 2003 for the Top 100 and Top 200 companies. We compare the levels of chairmanships within the Top 100 and 200 companies as well as the extent to which these chairmen held other chairman positions across all listed companies. We do this

for chair only positions and then also take into account workloads where a chairman also holds other non-chair directorships.

As shown in Table 9, 12 people hold either two or three chairmanships in Top 100 companies. The remaining 73 chairmen chaired a single Top 100 company.

INSERT TABLE 9 ABOUT HERE

As with directors, chairmen of the Top 100 are in demand when all listed companies are examined. Table 10 reports the level of multiple chairmanships for the Top 100 companies, across all listed entities in 2003. Of the 85 individuals who held the position of chairman, 51 (60 percent) hold only one chair position. Two individuals (2 percent) held five or more chairmanships across all listed companies.

INSERT TABLE 10 ABOUT HERE

Similar to our earlier findings, these results remain consistent when we analyse the levels of chairmanships for the Top 200 ASX-listed companies, as shown in Tables 11 and 12.

INSERT TABLES 11 AND 12 ABOUT HERE

Table 11 present chairmanships for individuals who were on the boards of Top 200 companies and held multiple chairmanships within the Top 200 listed companies in 2003. The results clearly show significantly low levels of multiple chairmanships as, of 166 individuals, only 26 (16 percent) held two or more chairmanships. This situation changes when the multiple chairmanships for the Top 200 companies are analysed across all ASX-listed entities.

Table 12 presents the levels of multiple chairmanships for the Top 200 listed companies across all listed entities in 2003. The results demonstrate a reasonably low level of multiple chairmanships as only 52 individuals (29 percent) held two or more chairmanships.

Table 13, which shows the total number of positions held by the chairmen of the Top 200 companies, demonstrates the importance of governance knowledge and board interlocks among these senior company directors. While one third hold only the one position on any listed company, a further 29 percent hold two positions while 15 percent hold three positions. Twenty three percent hold four or more such positions.

INSERT TABLE 13 ABOUT HERE

Do a few chairmen have the heavy work loads as suggested by Tables 11, 12 and 13? While one director may appear to be holding a large number of chairmanships (9), it is a considerable overstatement of his actual commitment when consideration is given to the corporate group involved. An examination of the actual companies this person chairs reveals they are all related to one corporate group, of which this director is the executive chairman. Many of these listed entities are trusts which are related to the parent company while listed on the ASX as separate entities. Consequently, it can be argued that this represents a significantly lower workload and one which represents a full-time position for the individual.

The same rationale applies to the other chairmen who at first glance appear to chair four or more companies. In each case these chairmen are chairing companies related in a corporate group, often property trusts which are related to a single operating company. An examination of the actual loads taken by these six people who

nominally chair four or more listed entities shows that in one case one person chairs three separate entities, another two entities while the remainder only effectively chair one entity. A similar explanation occurs when reviewing some of those directors with a significant number of positions. A number of these people hold positions on groups of related companies. Significant examples can be seen in the entities associated with the Macquarie Bank, Deutsche Bank and Westfield Holdings. Such groups are characterised by common directors and often common chairmen.

Multiple Directorships and Firm Performance

An important objective of the study was to observe if there is any relationship between the workload of a board and firm performance. As noted above, we calculated three variables to measure the slightly different facets of the impact of the number of directorships held by directors on a board. These are:

- *Total Directorships* – the total number of directorships in ASX-listed entities of the directors sitting on a board;
- *Board Connectedness* – an index which takes into account the impact of board size; and
- *Board Workload* – the total workload of the board using the Australian Shareholders' Association Guidelines that a chairmanship is equal to three directorships and a deputy chairmanship is equal to two directorships.

The measure of firm performance is Total Shareholder Return weighted for risk (wTSR), which shows the return an investor received holding the share for a year through movement in share price plus dividend and controlling for industry risk. The period for the analysis is the 2003-04 financial year, with the board workload measures being at the end of June 2003. The population of interest is those companies in the

S&P/ASX Top 200 index at the end of 2004 that were in existence over the period of analysis.

The boards ranged between 4 and 15 directors with an average of 7.5 directors. The total number of directorships held by directors on a board, including the board they sat on, ranged from 4 to 38 with a mean of 15. However, the board workload measure ranged between 6 and 72 directorships with a mean of 23, while the connectedness ratio ranged from zero, meaning that the directors sat on no other boards to 4.2, with a mean of 1, meaning that the average board comprised directors who sat on average on one other board. Weighted total shareholder return (wTSR) ranged from minus 260 percent to 690 percent with a mean of minus 10 percent. This means that these major 173 companies performed 10 percent worse than the exchange after making allowance for the risk levels represented by the industries within which they compete. Overall, the 2003 to 2004 year was a strong year for the ASX. Over this period the S&P/ASX 200 index moved from 3,026.87 to 3,532.89, an increase of 16.7 percent (ASX, 2004).

To understand the relationship between these variables a correlation matrix was calculated (see Table 14). As expected, there is a strong positive correlation between board size, total directorships and board workload. Of interest, there is no significant correlation between board size and board connectedness. In other words, larger boards do not necessarily have more connections to other companies once the impact of board size is removed. The important finding is that none of these measures is significantly correlated with wTSR. In short, neither the size of the board, the total number of directorships held by the board, the total board workload as calculated by the ASA nor the relative connectedness of the board with other boards is related to firm

performance, either positively or negatively. This is not to say, of course, that these boards do not make a difference – that is a totally different research question. These findings demonstrate that these size and workload measures cannot predict firm performance as measured in a way that is meaningful to shareholders.

INSERT TABLE 14 ABOUT HERE

As a final test of the relationship, the correlations were calculated again controlling for the impact of company size. As the ASX is considerably skewed by size, with a few extremely large companies accounting for a high proportion of the total market capitalisation, it is possible that the relationships between board workload and firm performance could be mediated by size – that is, that larger companies perform either better or worse on wTSR and this effect drowns out the relationships of interest. To test this hypothesis, the natural log of total assets (LNASSET), with total assets being a measure of size, was calculated and then used as control variable in a partial correlation (see Table 15).

INSERT TABLE 15 ABOUT HERE

Of interest, the relationship between board connectedness and board size now becomes significant. Controlling for firm size, larger boards tend to be negatively correlated with connectedness, but connectedness is positively correlated with board workload and total number of directorships. However, none of the variables is significantly related to wTSR.

In summary, for the period July 2003 to June 2004, for the largest 173 companies on the ASX, there is no relationship between the total number of

directorships held by a board, the total work load of a board, the “connectedness” of the board allowing for board size and firm performance.

DISCUSSION AND CONCLUSION

Defending the incidence of multiple directorships is not, of course, the same as arguing for directors to neglect their duties. There is obviously a limit for any individual based on the particular boards on which they sit, their other commitments and their own personal abilities and limitations. There obviously can be situations where a specific individual can be overboarded. Even two positions may be too many if a company is in difficulty and a director has other major responsibilities in addition to his or her directorships. Rather, the argument is that individuals play different roles on boards, and a key role for some directors can be their links to other boards. How then can a board and, indeed, an individual director, ensure that they are making a strong contribution and are not over committed? The answer lies in a sound regime of board-as-a-whole and individual director evaluations. By undertaking regular, meaningful and rigorous evaluations, boards have a mechanism to guard against over commitment and general non-performance by individuals (Kiel, Nicholson and Barclay, 2005).

Board evaluations are recommended by most guidelines and commentators. For example, the *Principles of Good Corporate Governance and Best Practice Recommendations* (ASX Corporate Governance Council, 2003) in Australia, *Beyond Compliance: Building a Governance Culture* (Saucier, 2001) in Canada, the *Combined Code on Corporate Governance (Combined Code)* (Financial Reporting Council, 2003) in the UK, and the *Principles of Corporate Governance (A White Paper from the Business Roundtable, May 2002)* (Business Roundtable, 2002) in the US, all make

specific recommendations for the regular review of board performance. Similarly, commentators such as Jeffrey Sonnenfeld (2002) point out that even good boards can benefit from a properly conducted evaluation.

Since the board itself is generally the only body with sufficient insight to comment on director performance, we suggest that evaluations are a key mechanism in guarding against overboarding. Boards should undertake evaluations and make known to key stakeholders the processes they used and the implications from the process (ASX Corporate Governance Council, 2003). While the attendance data contained in the company's governance report will provide a superficial indication of effort, general comments based on a sound evaluation program provide additional information to the market and ensure investors that the board reviews the performance of all directors and not just those with multiple directorships. Indeed, we suggest that, before a director is supported by the board for re-election, individual evaluation should be mandatory and should be considered by the nomination committee.

In conclusion, our study focused on whether multiple directorships pose a serious problem for Australian listed companies. We investigated the extent and nature of multiple directorships in ASX-listed companies in 2003 and the links between directors holding multiple board positions and firm performance. The Australian Shareholders' Association's claim that there is a link between companies with difficulties and the workloads of boards is undermined by our findings. In line with the extant literature, we find that there is no empirical evidence to support the ASA's view.

Our findings reveal that the incidence of multiple directorships in Australian listed companies is low. Further, many of the apparent possible over commitments,

such as holding five or more positions, are due to related entities being listed on the ASX which share common directors. In these circumstances the workload is often less than that associated with directorships held in unrelated companies. Further, there does not appear to be any relationship between holding multiple directorships and firm financial performance. This is in line with extant international studies on the topic (Ferris and Jagannathan, 2001; Ferris, Jagannathan and Pritchard, 2003; Harris and Shimizu, 2004). One implication for boards of directors is that the number of directorships held by a director need not mean they will be unable to handle all their commitments. It may well be that “busy directors are busy for good reason – they are good contributors (Harris and Shimizu, 2004: 793). For regulators or policy groups, consideration of the imposition of limits on the number of board positions a director can hold needs to be carefully examined, so as to ensure governance recommendations and guidelines reflect the reality of corporate boards. Likewise, investors should not see multiple directorships as the threat foreseen by the ASA. Directors with multiple board positions can, in fact, be an asset to a company in particular and society in general.

There are three key flaws in any policy aimed at limiting the number of directorships an individual can hold. First, it is conceptually the wrong level of analysis. Second, it ignores considerable academic research that links director interlocks (i.e. holding multiple directorships) with superior performance. Third, it neglects various systemic benefits of multiple directorships (i.e. the positive effects on our corporate system of having directors serving on multiple boards, such as the rapid transfer of knowledge concerning beneficial corporate governance practices,).

One important way boards can allay fears over director workloads is to conduct regular board and individual director evaluations. Evaluations ensure that the board and its directors are able to carry out the roles expected of them and help promote corporate transparency and accountability.

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Table 1: Australian studies

Study	Year of Sample	Sample		Mean number of interlocks per firm	Focus of study	Key findings
		No. of companies	No. of directors			
Hall (1983)	1971-1974	1,200 publicly listed companies (excluding mining companies)	2,030	5.6	Interlocking directorates	Hall found that there was a significant level of interlocking directorships within the Australian economy.
Stening and Wai (1984)	1959 and 1979	Top 250 publicly listed companies	1,599 (1959) 1,622 (1979)	2.5 (1959) 6.3 (1979)	Interlocking directorates	Showed that both average board size and proportion of interlocking directorships increased over the study period.
Carroll, Stening and Stening (1990)	1986	Top 250 publicly listed companies	1,640	6.6	Interlocking directorates	Found that the only 14% of companies in their study had no interlocks and that average number was up from Stening and Wai's (1984) figure for 1979 (6.3).
Alexander, Murray and Houghton (1994)	1991	Top 250 publicly listed companies	1,755	4.43	Interlocking directorates	Reported that the "big linkers" (people who held 4 or more directorships) accounted for only 1.8% of the number of directors, but 7.2% of the total director positions.
Murray (2001)	1992 and 1998	Top 30 Australian companies	Not stated	Not stated	Interlocking directorates	Findings showed that there was not a dense pattern of interlocking directorships that would be expected given the finance capital ownership of the top 30 companies.
Kiel and Nicholson (2003)	1996	Top 500 publicly listed companies (460 companies)	2,211	6.38	Board demographics, including interlocks, and corporate performance	Larger boards are associated with larger companies, more diverse companies and more heavily interlocked boards.
Nicholson, Alexander and Kiel (2004)	1996	Top 250 publicly listed companies in Australia and the US	1,583 (Australia)	5.89 (Australia)	Structural social capital created through interlocking directorates	Found that the smaller, sparser Australian corporate network is only marginally less compact than that of the larger US network.

Table 2: International studies

Study	Year of Sample	Sample		Focus of study	Key findings
		No. of companies	No. of directors		
Ferris and Jagannathan (2001)	1995	6,089 US firms	37,774	Multiple directorships	The incidence of multiple directorships is low and the number of directorships held is influenced by factors such as firm size, board size and firm performance.
Ferris, Jagannathan and Pritchard (2003)	1995	3,190 US firms with total assets of at least \$100 million	23,673	Multiple directorships and board monitoring	Determined that the evidence from the study did not support limits on the number of directorships held by individual directors.
Harris and Shimizu (2004)	1981-1989	143 US companies drawn from the Top 100 deals in <i>Mergers & Acquisitions</i> magazine	Not stated	Multiple directorships and acquisition performance	The study suggests that boards with “overboarded” directors are able to make informed acquisition decisions.

Table 3: Average board size of ASX companies in 2003

Category	Average Board size	Range
Top 100 companies	8.2	4 to 15
Top 200 companies	7.6	3 to 15
S&P/ASX 200	7.5	4 to 15
Companies in rank 201 to 1250	5.2	3 to 16
All companies	5.7	3 to 16

Table 4: The number of directorships per director for the Top 100 ASX-listed companies within the Top 100 listed companies in 2003

Number of directorships	Frequency	Percentage of people	Total number of directorships	Percentage of directorships
1	534	81.4%	534	64.8%
2	85	13.0%	170	20.6%
3	29	4.4%	87	10.6%
4	7	1.1%	28	3.4%
5	1	0.2%	5	0.6%
Totals	656	100.0%	824	100.0%

Table 5: The number of directorships per director for Top 100 ASX-listed companies across all listed companies in 2003

Number of directorships	Frequency	Percentage of people	Total number of directorships	Percentage of directorships
1	381	58.1%	381	31.5%
2	130	19.8%	260	21.5%
3	69	10.5%	207	17.1%
4	45	6.9%	180	14.9%
5	15	2.3%	75	6.2%
6	8	1.2%	48	4.0%
7	7	1.1%	49	4.1%
9	1	0.2%	9	0.7%
Totals	656	100.0%	1209	100.0%

Table 6: The number of directorships per director for Top 200 ASX-listed companies within the Top 200 listed companies in 2003

Number of directorships	Frequency	Percentage of people	Total number of directorships	Percentage of directorships
1	955	81.1%	955	62.6%
2	131	11.1%	262	17.2%
3	68	5.8%	204	13.4%
4	17	1.4%	68	4.5%
5	6	0.5%	30	2.0%
7	1	0.1%	7	0.5%
Totals	1178	100.0%	1532	100.0%

Table 7: The number of directorships per director for Top 200 ASX-listed companies across all listed companies in 2003

Number of directorships	Frequency	Percentage of people	Total number of directorships	Percentage of directorships
1	748	63.5%	748	37.9%
2	228	19.4%	456	23.1%
3	102	8.7%	306	15.5%
4	65	5.5%	260	13.2%
5	17	1.4%	85	4.3%
6	10	0.8%	60	3.0%
7	7	0.6%	49	2.5%
9	1	0.1%	9	0.5%
Totals	1178	100.0%	1973	100.0%

Table 8: The number of directorships per director across all ASX-listed companies in 2003

No of directorships	Frequency	Percentage of people	Total number of directorships	Percentage of directorships
1	4317	78.95%	4317	58.8%
2	734	13.42%	1468	20.0%
3	235	4.29%	705	9.6%
4	114	2.08%	456	6.2%
5	32	0.58%	160	2.2%
6	20	0.36%	120	1.6%
7	14	0.26%	98	1.3%
9	1	0.01%	9	0.1%
11	1	0.01%	11	0.1%
Totals	5468	100.0%	7344	100.0%

Table 9: The number of chairmanships per chairman for Top 100 ASX-listed companies within the Top 100 listed companies in 2003

Number of chairs	Frequency	Percentage of people	Chairs held	Percentage of chairmanships
1	73	85.9%	73	73.7%
2	10	11.8%	20	20.2%
3	2	2.4%	6	6.1%
Totals	85	100.0%	99*	100.0%

* AMP Office Trust falls within the Top 100 companies and had no director nominated as the chair. Source: AMP Office Trust annual report 2003

Table 10: The number of chairmanships per chairman for top 100 for ASX-listed companies across all listed companies in 2003

Number of chairs	Frequency	Percentage of people	Chairs held	Percentage of chairmanships
1	51	60.0%	51	36.2%
2	24	28.2%	48	34.0%
3	4	4.7%	12	8.5%
4	4	4.7%	16	11.3%
5	1	1.2%	5	3.5%
9	1	1.2%	9	6.4%
Totals	85	100.0%	141	100.0%

Table 11: The number of chairmanships per chairman for the Top 200 for ASX-listed companies within the Top 200 listed companies in 2003

Number of chairs	Frequency	Percentage of frequency	Chairs held	Percentage of chairmanships
1	140	84.3%	140	69.7%
2	21	12.7%	42	20.9%
3	4	2.4%	12	6.0%
7	1	0.6%	7	3.5%
Totals	166	100.0%	201 *	100.0%

* Thakrall Holdings Ltd falls within the Top 200 listed companies and has 2 directors as Joint Chairman. Source Thakrall Holdings Ltd annual report 2003. Similarly GUD Holdings is shown with two chairmen.

Table 12: The number of chairmanships per chairman for the Top 200 ASX-listed companies across all listed entities in 2003

Number of chairs	Frequency	Percentage of frequency	Chairs held	Percentage of chairmanships
1	114	68.7%	114	46.9%
2	39	23.5%	78	32.1%
3	7	4.2%	21	8.6%
4	4	2.4%	16	6.6%
5	1	0.6%	5	2.1%
9	1	0.6%	9	3.7%
Totals	166	100.0%	243	100.0%

Table 13: The number of chairmanships and directorships per chairman for the Top 200 ASX-listed companies across all listed entities in 2003

Number of chairs and directorships	Frequency	Percentage of frequency	Chairs and directorships held	Percentage of positions
1	56	33.7%	56	13.8%
2	48	28.9%	96	23.6%
3	24	14.5%	72	17.7%
4	20	12.0%	80	19.7%
5	12	7.2%	60	14.8%
6	2	1.2%	12	3.0%
7	3	1.8%	21	5.2%
9	1	0.6%	9	2.2%
Totals	166	100.0%	406	100.0%

Table 14: Board workload and performance – correlation matrix

	Variable	Mean	S.D.	N	1	2	3	4
1.	Board Size	7.5	2.14	173				
2.	Board Workload	22.5	10.44	173	.511**			
3.	Connectedness	1.05	0.67	173	-.055	.734**		
4.	Total Directors	15.3	6.18	173	.630**	.946**	.704**	
5.	Weighted TSR	-9.87	111.67	173	.016	-.036	-.073	-.055

** Correlation is significant at the 0.01 level (2-tailed).

Table 15: The effect of board workload on performance controlling for firm size

Controlling for LNASSET

	1	2	3	4	5
1. Board Size	1.000				
2. Board Workload	.326***	1.000			
3. Connectedness	-.232**	.727***	1.000		
4. Total Directors	.473***	.925***	.701***	1.000	
5. Weighted TSR	.063	-.001	-.057	-.020	1.000

*** Correlation is significant at the 0.001 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).