

The Effects of Multiple Directorship, Tenure, and Age of Board of Directors on Corporate Value

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ABSTRACT

The purpose of this study was to analyze the effects of multiple directorships, tenure, and age of board of directors on corporate value. Multiple directorships, tenure, and age were used as independent variables, and corporate value became the dependent variable. Two variables were used as control, which was company growth and leverage. This study used secondary data obtained from Annual Reports between 2011 and 2017. The samples involved 266 companies listed on the Indonesia Stock Exchange (IDX), and the results showed that multiple directorship had negative and significant effect on corporate value. Basically, the tenure, age of directors and company growth did not have significant effect on corporate value as opposed to its leverage.

Keywords: *multiple directorship, tenure, age of board of directors, corporate value.*

1. INTRODUCTION

Corporate value is a reflection of the company's assets which affect its investors' perceptions, which can be improved by implementing corporate governance practices. According to Nazir and Afza (2018), companies which practice good corporate governance outdo their competitors. The board of directors should strive to monitor and control the company's management (Chareonwongsak, 2017) to perform outstandingly and be attractive to investors.

Multiple directorships refer to a situation in which the board of directors serve on two or more companies at the same time. According to Cashman, Gillan, and Jun (2012), multiple directorships positively influence company's performance. For organizations with little experience in public market, *multiple directorships* have various benefits (Field, Lowry, and Mrktchyan, 2013).

Tenure is the length of service for someone holding a position in the organization. A company with a board of directors having different *tenures* bond differently (Kagzi and Guha, 2018). Directors with less than average *tenures* should be replaced since such a situation decreases financial performance (Cooper, 2017).

Age is the number of years of the member of board of directors. It indicates the maturity level of a person in acting and thinking. The *age* difference is another essential characteristic of an effective board of directors (Ibrahim and Hanefah, 2016). Members of the board who are older or near retirement influence income management, and are often interested in the company's performance flow and less concerned about the future, always aiming at maximizing wealth or retirement only (Alqatamin, Aribi, and Arun, 2016).

2. LITERATURE REVIEW

Agency theory is the relationship or contract between principals and agents who act on their behalf (Jensen and Meckling, 1976). The shareholder is the principal in this case and employs another person, which is an *agent* to provide services and delegate authority on decision making.

2.1 Multiple Directorships

This refers to a situation whereas an individual is a board member in more than one company at the same time, of which such condition affects the entity's performance. According to the research conducted by Cashman, Gillan, and Jun (2012), multiple directorships negatively influence company performance and impact its corporate value. In contrast, Field, Lowry, and Mrktchyan's research (2013) suggested that *multi-directional partnership* has positive effect on corporate value.

H1: Multiple directorships have positive effect on corporate value.

2.2 Tenure

Tenure is the time-length of service of someone holding a position in the company. Kagzi and Guha (2018) stated that *the tenure* of the board of directors has positive effect on company's performance in India.

Besides, a study conducted by Hamzah and Zulkafli (2014) found that *the tenure* of the board of directors did not influence dividend policy. Rao and Tilt (2016) examined

the *tenure* of the board of directors among 150 companies listed in Australia and concluded that it influences CSR.

H2: Tenure of the board of directors has positive effect on corporate value.

2.3 Age

Age is a period calculated in the year from the time an individual is born. The age difference increases corporate value.

According to **Kagzi and Guha's (2018)**, the age of the board of directors has positive effect on company's performance, which then affects corporate value. However, **Aribidan Arun (2017)** stated that age of the board of directors did not contribute to the increase in company's value.

H3: Age of the board of directors has positive effect on corporate value

3. RESEARCH METHODS

Corporate value was used as the dependent variable in this study, and it is measured by using *Tobin's Q* approach. The independent variables included *multiple directorships*, *tenure*, and *age* of board of directors. *Multiple directorships* of board of directors were measured by comparing the number of board members serving in other companies. *Tenure* of the board of directors was determined by calculating the average serving time as a member of the board of directors. *Age* was measured by calculating the average number of years of the board members.

This study also used two control variables, which were company growth and leverage.

Multiple Linear Regression Analysis

The regression model based on data panels in this study was formulated as follows:

$$CPV_{it} = \alpha + \beta_1MDS_{it} + \beta_2TDD_{it} + \beta_3ADD_{it} + \beta_4CPG_{it} + \beta_5CPL_{it} + e \quad (1)$$

Description:

- CPV = *Corporate Value* (Y)
- MDS = *Multiple Directorships* (X₁)
- TDD = *Tenure* of Board of Directors (X₂)
- ADD = *Age* of Board of Directors (X₃)
- CPG = *Company Growth* (Control variable)
- CPL = *Company Leverage* (Control variable)

4. RESULT AND DISCUSSION

The purpose of this study was to obtain empirical evidence on the influence of *multiple directorships*, *tenure*, and *age*

of board of directors on *corporate value* among the companies listed on the Indonesia Stock Exchange (IDX). Descriptive statistics were used to provide data in form of the minimum, maximum, median, mean, and standard deviation.

Table 1: Descriptive Statistics

| | obs | min | max | median | mean | std.dv |
|-----|------|--------|--------|--------|--------|--------|
| CPV | 1862 | 0.013 | 2.762 | 0.812 | 0.882 | 0.498 |
| MDS | 1862 | 0.000 | 1.000 | 0.000 | 0.192 | 0.284 |
| TDD | 1862 | 0.009 | 25.833 | 5.000 | 6.579 | 5.162 |
| ADD | 1862 | 30.000 | 71.000 | 51.250 | 51.126 | 5.221 |
| CPG | 1862 | -9.179 | 96.875 | 0.076 | 0.255 | 2.900 |
| CPL | 1862 | -1,459 | 11,846 | 0,509 | 0,556 | 0,544 |

Description: CPV (*corporate value*), MDS (*multiple directorship* of board of directors), TDD (*tenure* of board of directors), ADD (*age* of board of directors), CPG (*company growth*), dan CPL (*company leverage*)

Table 1 explains the descriptive statistics of this study. *Outlier Test* represents the criteria used to detect the presence of data deviation from a dataset (*data outlier*). The existence of *data outlier* in a dataset determines whether the analysis reflect the actual phenomenon or not.

Grubbs Test method on *GraphPad Prism 7* helps detect the presence of *outlier* in each of the research variables. In this method, the critical Z value with a significance level of 5% is compared. In case $Z > Z_{critical}$, then the null hypothesis is accepted, or the *outlier* is detected. The $Z_{critical}$ value is provided by the statistical table based on the number of observations of 266 sample companies from 2011 to 2017, which totals 1862. To find the value of Z, we used the *outlier calculator* application on the *GraphPad software* site or the formula as follow:

$$Z = \frac{(mean\ value)}{sd}$$

After the *outlier* data has been detected, it is replaced with the second-highest value. This step is repeated until no *outlier* data is detected since the *Grubbs Test* only detects one *outlier* at a time. From this *Grubbs Test* method, there were 93 *outlier* research data. In the corporate value variable, there were 69 *data outliers*, 2 data in *multiple directorship*, and 22 data in *tenure* of the board of directors. After clearing *outlier* data using the *Grubbs test* method, the classical assumption testing was performed.

Table 2: The Result of t-Test

| Variable | Coefficient | Std. Error | t-Statistic | Prob |
|-----------|-------------|------------|-------------|-------|
| C | 0.843 | 0.101 | 8.319 | 0.000 |
| MDS | -0.003 | 0.001 | -2.540 | 0.011 |
| TDD | -0.012 | 0.013 | -0.952 | 0.340 |
| ADD | 0.000 | 0.001 | 0.304 | 0.760 |
| CPG | 0.000 | 0.001 | 0.522 | 0.601 |
| CPL | 0.080 | 0.022 | 3.542 | 0.000 |
| R-Squared | 0.731 | | | |

| | |
|--------------------|-------|
| Adj R ² | 0.686 |
| F-Statistic | 6.074 |
| Prob (F-statistic) | 0.000 |

Description: CPV (corporate value), MDS (multiple directorship of board of directors), TDD (tenure of board of directors), ADD (age of board of directors), CPG (company growth), dan CPL (company leverage)

The result of the first hypothesis test showed that *multiple directorships* had a regression coefficient of -0.003 and t-Statistic of -2.540 with a probability value of 0.011, which was smaller than 0.05 (or $0.011 < 0.05$). Therefore, the *multiple directorship* variable had negative and significant effect on corporate value among the companies listed on the IDX in 2011-2017. This result indicated that the effect of *multiple directorships* on corporate value was consistent with the research conducted by **Chasman, Gillan, and Jun (2012)**, which concluded that there is negative and significant effect on corporate value. However, this result on contrary to the research of **Field, Lowry, and Mkrtchyan (2013)**, which suggested that multiple directorships had positive and significant effect on corporate value.

Data analysis showed that *tenure* of the board of directors had a regression coefficient of -0.012 and t-statistic of -0.952 with a probability value of 0.340, which is higher than 0.05 (or $0.340 > 0.05$). This was the result of the second hypothesis test. Therefore, the board of directors did not significantly influence the corporate value among the companies listed on the IDX in 2011-2017.

The results of the third hypothesis test showed that *age* of the board of directors had a regression coefficient of 0,000 and t-statistic of 0.304 with a probability value of 0.760, which is higher than 0.05 (or $0.760 > 0.05$). For this reason, the *age* did not significantly influence corporate value among companies listed on the IDX in 2011-2017. However, this conclusion is on contrary to **Kagzi and Guha (2018)**, which stated that *age* of the board of directors has positive effect on corporate value.

Data analysis showed that the *company growth* variable had a regression coefficient of 0,000 and t-statistic of 0.522 with a probability value of 0.601, which is higher than 0.05 (or $0.601 > 0.05$). Therefore, it is appropriate to conclude that the *company growth* did not significantly influence *corporate value* among the companies listed on the IDX in 2011-2017. Furthermore, data analysis also showed that the *company leverage* had a regression coefficient of 0.080 and t-statistic of 3.542 with a probability value of 0,000, which is less than 0.05 (or $0,000 < 0.05$). Therefore, it is appropriate to conclude that the *company leverage* had positive and significant effect on *corporate value* among the companies listed on the IDX in 2011-2017.

Based on Table 2, the probability of F-statistic obtained is 0,000, with an error-rate of 0.05. The coefficient of determination reflected by the *Adjusted R-squared* is 0.686. The results obtained indicated that *multiple directorship* (MDS), *tenure* of the board of directors (TDD), *age* of the

board of directors (ADD) with *company growth* (CPG) and *company leverage* (CPL) as control variables contributed to the *corporate value* (CPV) by 68.6% while the remaining 31.4% of CPV was influenced by other factors not analyzed in this research model.

5. CONCLUSIONS

The study was conducted to analyse the influence of *multiple directorships*, *tenure*, and *age* of the board of directors with *company growth* and *company leverage* as control variables. The results showed that *multiple directorships* of board of directors had negative and significant effect on *corporate value*. However, the *tenure* and *age* of board of directors, as well as *company growth* did not have significant effect on *corporate value*. In contrast, *company leverage* has positive and significant effect on *corporate value*.

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