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The effect of board multiple directorships and CEO characteristics on firm performance: evidence from Palestine

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Abstract

Purpose – The purpose of this study is to empirically examine the effect of board multiple directorships and chief executive officer (CEO) characteristics on firm performance among nonfinancial firms listed on the Palestine Security Exchange (PSE) during the period from 2009 to 2016.

Design/methodology/approach – Based on 200 observations, this study utilizes panel data to examine the effect of the predictors on firm performance measured by return on assets. The analysis is repeated using the return on equity and two regression methods to evaluate the robustness of the main analysis (pooled regression, and backward stepwise regression analysis).

Findings – The results show that the "busyness" of a CEO reduces their effectiveness and is associated with losses in the companies where they are in charge. On the other hand, the results show that CEO tenure, CEO experience and CEO political connections have a positive effect on corporate performance.

Originality/value – This study is timely given that the practice of multiple directorships is widely common among firms in developing countries. Prior research in Palestine has not investigated the role of multiple directorships and the CEO characteristics on corporate outcomes. This study provides a picture of the potential benefits to firms, policymakers and professional bodies from considering CEO variables. The findings of such an examination can help them to set up suitable policies and enhance the role and the quality of the CEO in firms.

Keywords Multiple directorships, Busy CEO, CEO tenure, CEO financial experience, CEO political connection

Paper type Research paper

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1. Introduction

The practice of multiple directorships is common in a majority of companies and it occurs when the director/chief executive officer (CEO) occupies a position on two or more boards (Haniffa and Hudaib, 2006). Studies which examine multiple directorships have mainly focused on the relationship between multiple directorships and the directors' ability to successfully fulfill their responsibilities (Chiranga and Chiwira, 2014; Fich and Shivdasani, 2006; Haniffa and Hudaib, 2006; Kamardin *et al.*, 2014). In this regard, the extent to which multiple directorships influence the performance of the firm has largely been ignored. According to Haniffa and Hudaib (2006) as well as Pathak and Sun (2013), if member of a board holds several directorships, this may damage board's effectiveness and lead to weaker firm performance. Hauser (2018) reveals that reductions of "busyness" among directors as measured by the number of directorships that they hold are associated with higher profitability, a larger market-to-book ratio and a greater likelihood of other directors joining board committees. In contrast, Rouyer (2016) has documented that multiple directorships are not negatively related to firm performance in France. This inconsistency was investigated by some other studies.

For example, Hundal (2017) believed that the effect of busyness can be different on different firms. For local Indian private firms, the association between the number of directorships and firm performance is negative before the maximum number of directorships set by legislation is reached; whereas, for foreign and government firms, the relationship remains positive throughout. Similarly, Lopez Iturriaga and Morros Rodriguez (2014) analyzed the effect of multiple directorships on Spanish firm performance. The findings revealed a nonlinear relation explained by resource-based and busyness hypotheses. For low levels of multiple directorships, the resource-based theory prevails, so that serving on more boards means acquiring more skills and a greater incentive to perform better; hence multiple directorships result in a positive influence on the firm's performance. After a certain threshold (of around four board), the busyness hypothesis prevails as directors become overwhelmed attending to the duties of too many boards. In addition, Chen *et al.* (2015) using firms' merger and acquisition (M&A) activities before the enactment of the Sarbanes–Oxley Act of 2002 discovered that regulatory supervision can be used to mitigate the negative effect of multiple directorship on firm performance.

In Australia where the incidence of multiple directorship is low, Kiel and Nicholson (2006) reported that many of the apparent examples of multiple directorships occur in related entities, which share common directors and, due to the nature of these entities, have much lower workload requirements. Sarkar and Sarkar (2009) discovered that in India where the incidence of multiple directorships is high, independent directors with multiple positions are also found to attend more board meetings and are more likely to be present at a company's annual general meeting. However, the study discovered that multiple directorships by inside directors are negatively related to firm performance.

This study unlike other studies on multiple directorship practices focuses on the multiple positions held by different types of directors (all directors, independent directors and executive directors) as recommended by Kamardin *et al.* (2014). Also, it responds to a call by Mohd *et al.* (2016) for studies to examine different directorship types owing to the varying levels of importance that they have for the different firm activities; in this regard, the present study carries out an assessment of the effect of different types of multiple directorships on the financial performance of PSE-listed firms.

Added to the above, multiple directorships have become an increasing issue in several countries worldwide. For instance, in Malaysia, based on the mandatory listing requirements for the Bursa Malaysia, directors can hold as many as 25 directorships, from which 15 can be in nonpublic companies with the rest (10) in public entities. Comparably, in the US, best practice dictates that an individual should hold no more than two directorships for a single director (Ferris *et al.*, 2003). Moreover, in order to promote best corporate governance practice, there should be a limited number of directorships held by a single director (Shamsudin *et al.*, 2018). Extant literature has, in fact, encouraged the provision of more insight into the effect of multiple directorships in different contexts. In answer to this call, the current study focuses on the Middle East and is the first study of its kind in Palestine.

In the context of Palestine, Article 160 of the Company Act 2008 states that every member of the board of directors should not be a member of the board of directors of over five firms at any one time. Despite this stipulation, data obtained from the PSE-listed firm's annual reports for the period from 2009 to 2016 evidences that several companies do have directors holding multiple directorships, indicating that multiple directorships is a widely practiced phenomenon among listed firms in Palestine. Such a finding is surprising since the busyness hypothesis proposes directors holding multiple corporate board positions have insufficient time to conduct their board duties in an appropriate fashion (Ferris *et al.*, 2003). This highlights the significance of the present study in drawing the attention of regulatory bodies in Palestine to the practice of multiple directorships among firms and its impact on the firms' profitability. This prevalence of multiple directorships in the Palestinian context may be linked to the political and economic issues bedeviling the country. The pool of talent available in the country cannot satisfy its ever growing need for experts in corporate governance and management. In addition, some foreigners may not be willing to accept an appointment as a director in some of the Palestinian companies because of safety fears and on inability to visit the entity. Given with the inability to hire expatriate to join the boardroom has force PSE firms to utilize the local experts.

On the other hand, one of the main factors that has been evidenced to improve a firm's ability to achieve economic goals and enhanced performance is the CEO (Peterson *et al.*, 2003). The CEO is an individual who serves as the senior corporate officer, executive or administrator, who oversees the organization and is responsible for its overall operations (Peterson *et al.*, 2003). The CEO of an organization frequently interacts with the board of directors and is responsible for increasing the company's profitability (Hassonn *et al.*, 2016). Not surprisingly, therefore, several corporate governance codes call for the CEO to have specific qualities and attributes to be able to conduct their duties in a diligent manner. In the Palestinian case, the Palestinian Code of Corporate Governance 2009 requires Palestinian listed firms to choose a CEO who possesses a significant level of financial experience. However, regardless of the importance of CEO characteristics in effecting the performance of a firm, this issue has been left relatively unexplored by most researchers, with the few studies that examined the issue providing mixed findings.

With regards to CEO busyness, the Palestinian Code of Corporate Governance 2009 stipulates in Article 47 that the CEO has to be free to work full-time in the company. Moreover, the Council of Institutional Investors (2014) has established effective governance goals and guidelines among publicly traded corporation which stipulate that CEOs should not serve as a director of more than one other company at a time. Despite this stipulation, data obtained from annual reports (2009–2016) indicate that many PSE-listed companies have some CEOs serving in more than five companies at a time. Such CEO multiple-directorships could adversely impact firm performance (Ferris *et al.*, 2003). A majority of prior studies dedicated to the topic have mainly focused on the multiple directorships of board member, however, multiple directorships held by CEOs have received much less attention by scholars globally. This phenomenon, particularly the effects of a busy CEO on the performance of their firm, therefore needs more in-depth exploration.

Among the top CEO attributes that have been researched is CEO tenure; it has been extensively researched in the literature as one of the most controversial aspect of corporate governance (Hou *et al.*, 2017). The role of CEO tenure in Palestinian companies' is important because many CEOs have been in post for up to 23 years. The possible reason for this may be the lack of restrictions about the length of CEO tenure in Palestine. Another attribute that the present study focuses on is the financial expertise of the CEO as stipulated by the requirements of the Palestinian CG code. The Code states that a CEO should be an expert in financial matters in order to enhance organizational performance. In a related study, Baatwah *et al.* (2015) indicated that CEO tenure and CEO experience are the most discernible attributes of these key individuals.

Still another important attribute is the CEO's political connection – this has been examined in light of its impact on the performance of a firm (Wu *et al.*, 2013). Among Arab countries, the political life in Palestine is distinctive owing to the multiparty structure which exists in the country with the major parties being Fatah and Hamas. In some studies, political division has been found to result in economic instability and environmental chaos, which in turn, affects companies' performances in a negative way (e.g. Kattan *et al.*, 2007). In contrast, several studies have indicated that firms having political affiliations with the ruling party can leverage such relationships by securing tax reliefs, power and influence, governmental subsidies and financial support, which could enhance the firm's performance (Yang *et al.*, 2012). Based on such analysis, there is a need to examine the impact of a CEO's political relationship with the government/governmental parties since the corporate environment in Palestine is dominated by political connections. The findings of this study are expected to assist other developing nations possessing similar political, cultural, environmental and economic conditions as Palestine; specifically other Middle Eastern era and Arab countries. Among such countries, studies on the links between CEO political connection and firm performance are also lacking.

The remained of the study is organized as follows; the second section presents a review of literature, while the third section describes the data collection and methodology. The fourth section details the descriptive analysis, while the fifth section presents the parametric regression outcomes. In the sixth section, the results are discussed while the seventh section contains the conclusions and recommendations for future studies.

2. Literature review and hypothesis development

2.1 Multiple directorships

Researchers have provided several definitions for the concept of multiple directorships; for instance, it is defined as the number of external appointments held by directors (Kamardin *et al.*, 2014), or directors who serve on two or more boards (Chou *et al.*, 2014).

With regards to the effects of multiple directorships, it can be viewed from two perspectives: namely, the busyness hypothesis and resource dependence theory. According to the busyness hypothesis perspective, directors having multiple board positions may not have sufficient time to manage the company and this may result in higher agency costs. On the other hand, the resource dependence theory perspective argues that firm performance can be optimized through the use of external resources (Pfeffer and Salancik, 1978). According to this theory, multiple directorships can be viewed as a proxy for superior director quality and directors holding positions in multiple companies have a great deal of experience to draw on which may help them to provide wise and informed recommendations as well as enhanced oversight. According to this hypothesis, directors holding multiple directorships can bring enhanced business connections, mitigate competition in the market and improve synergies in light of their expertise and insights (Kamardin *et al.*, 2014). For example, Saleh *et al.* (2005) found that multiple directorships lead to more control over the selection of accounting policies utilized for the preparation of financial statements, higher earnings equality and a greater level of expertise and reputation among monitors.

Of these two perspectives, the busyness hypothesis has been advanced by several researchers, particularly those who have found a negative relationship between multiple directorships and firm performance. For example, Shamsudin *et al.* (2018) noted that a director holding varying industrial backgrounds because of their multiple directorships may disregard the counsel of management, which can adversely impact the performance of the firm. In the study by Jiraporn *et al.* (2009), the authors revealed that several board-of-director's tasks are distinct from overseeing financial information and demand the availability of directors as opposed to merely their expertise and reputation. Because of their positions on multiple boards at the same time, such directors may split their attention and time among the different boards on which they hold positions.

In a subsequent study, Chiranga and Chiwira (2014) showed that directors that hold multiple directorships on boards are often absent from board meetings, which indicates that there is less monitoring of a company. In the case of Malaysia, Mohd *et al.* (2016) found that publicly listed companies recommended that directors do not hold multiple directorships in order to maintain a high level of engagement with their committee duties for one firm.

In contrast to the abovementioned studies, other investigations have not supported the busyness hypothesis; among them, Saleh *et al.* (2005), illustrate that outside directorships strengthen the knowledge and expertise base within a company and improve earnings quality. Added to this, those who hold multiple directorships can also work toward improving performance when it comes to capital expenditures and investments in R&D. Also, managers holding multiple directorships are better able serve as source of external resources as argued by Saleh *et al.* (2018). Thus, three hypotheses are proposed from the literature:

H1.1. The existence of multiple directorships among all directors of nonfinancial companies listed on PSE is negatively associated with firm performance.

H1.2. The existence of multiple directorships among independent directors of nonfinancial companies listed on PSE is negatively associated with firm performance.

H1.3. The presence of multiple directorships among executive directors of nonfinancial companies listed on PSE is negatively associated with firm performance.

2.2 CEO busyness

A busy CEO is defined as a CEO that sits on two or more companies' boards (Strøm, 2015). In Palestine, the corporate governance code requires the CEO of a publicly listed firm to be a full-time employee in order to allow them to concentrate on managing their company's affairs. Despite this stipulation, several CEOs still work in many companies aside from the one which employs them as CEO. Because some CEOs of publicly listed companies have positions in more than one company, their activities impact the performance of the company that hired them as a CEO. On the basis of the busyness hypothesis, a CEO holding multiple directorships may not effectively manage their firm's activities (Ferris *et al.*, 2003). Also, based on the Council of Institutional Investors (2013) guidelines for the effective governance of public corporations a CEO should not serve as a director of more than one company simultaneously; a CEO that does so may not have sufficient time to concentrate on all the corporate boards and their own CEO responsibilities.

Contrasting findings in this topic were documented by Jiraporn and Liu (2008), who found that multiple directorships function as a magnet for more experienced individuals and the provision of better monitoring and advising. Also, Chiang and He (2010) contend that managers holding several positions on different boards will possess superior business knowledge and experience as supported by resource dependence theory. They may be a source of experience (local or international), knowledge, diversity and education for the firms where they work (Pfeffer and Salancik, 1978). Thus, the following hypothesis is proposed:

H2. The presence of CEOs of nonfinancial companies listed on PSE who hold multiple positions on the boards of several companies is negatively associated with firm performance.

2.3 CEO tenure

Another factor which is thought to affect firm performance is CEO tenure. Tenure is described as the period for which a position is held; specifically, the impact of CEO tenure is among the most extensively research topics in the literature and a controversial topic in the corporate governance area (Hou *et al.*, 2017). In fact, a debate has recently started on the maximum tenure that the CEOs should stay in office; particularly the usefulness of limits to CEO terms (Limbach *et al.*, 2015). Evidence shows that in the upper levels of management, the effects of CEO tenure may impact on firm performance. Indeed, Institutional Shareholder Services (ISS), the world's largest proxy advisor, has added CEO tenure to its analytical framework for assessing the quality of corporate governance (International Shareholder Service ISS, 2014).

More importantly, evidence of both the positive and negative effects of CEO tenure on firm performance has been noted. To begin with, Luo *et al.* (2014) stated that CEOs might form a power base as time passes which would make them difficult to dislodge. By contrast, Dikolli *et al.* (2014) illustrated that the longer the tenure of the CEO, the more positive of the firm performance will be; longer CEO tenure can enhance the value of the firm. According to this line of argument, Boling *et al.* (2015) noted that CEOs often obtain knowledge and abilities with increasing tenure. Contrary to this argument, a negative CEO tenure–firm performance relationship was reported by Goyal and Park (2002); this was attributed to the difficulty of getting rid of the entrenched CEO. Regarding the previous discussion, the following hypothesis is posited:

H3. CEO tenure for nonfinancial companies listed on PSE is positively associated with firm performance.

2.4 CEO financial experience

The financial experience of the CEO is a significant issue among organizations and it has been linked to several factors including firm performance, R&D decisions and financial reporting. On the basis of human capital theory, CEOs with job-specific experience work more efficiently compared to those that do not have such experience (Hamori and Koyuncu, 2015). Similarly, resource dependence theory also posits that experience is one of the firm's main resources and is invaluable for achieving objectives (Pfeffer and Salancik, 1978). In other words, a CEO with greater financial experience can to provide extra human capital to the firm in light of this experience (Salem *et al.*, 2019). Meanwhile, financial experience was noted to be the most significant feature of the CEO in the study by Custodio and Metzger (2014). The authors revealed that CEO financial experts can raise external funds more easily aside from obtaining support from other firms.

Many studies support the argument that a CEO with financial experience is more capable of managing the business environment compared to their nonexperienced counterparts. For instance, a CEO with accounting expertise is more likely to detect fraud and as such, fraud is less likely to occur (Shurafa and Mohamed, 2016). Also, a CEO with financial experience will prevent the company from engaging in real earnings management (Jiang *et al.*, 2013). By contrast, Ang and Nagel (2009) and Hamori and Koyuncu (2015) arrived with opposite findings, in that a CEO with prior financial experience negatively impact the firm's financial performance according to their results. This was attributed to the argument that the transfer of job-specific skills across organizations involves a performance penalty.

H4. The financial expertise of CEOs in nonfinancial companies listed on the PSE is positively associated with firm performance.

2.5 CEO political connection

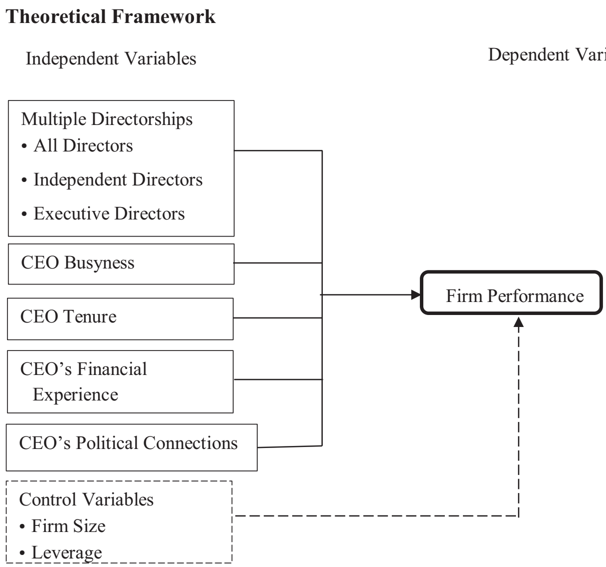
According to Pfeffer and Salancik (1978), organizations depend on their external environments for the achievement of their goals and one of the significant factors in their external environment is political connections. Pfeffer and Salancik (1978) noted, "the organization, through political mechanisms, attempts to create for itself an environment that is better for its interest" (p. 189) and that "organizations may use political means to alter the condition of the external economic environment" (p. 190). Hence, the political affiliations of the CEO may be one of the mechanisms that could maximize the firm's profitability.

The political connections of a firm's CEO strengthens the relationship of the main shareholders, board members and executive officers with government officials (Maaloul *et al.*, 2018). In the Palestinian case, one of the outcomes of the political division in the country is the fundamental market changes that damage the companies' performance and the general economic structure of the nation (Barakat *et al.*, 2015). These issues can be overcome by building political connections with the governing party in order to obtain benefits from the government. Political connections of firms help to secure major resources like bank loans, favorable tax treatments and market strength (Johnson and Mitton, 2003). In other words, firms which are politically connected are more capable of leveraging government assistance or obtaining favors from political leaders (Morck *et al.*, 2005).

In a related study, Menozzi *et al.* (2011) referred to a politically affiliated firm as one where its directors are previously or presently holding a position in the parliament or local government. Generally, firms are politically affiliated when their directors are connected to the dominant political parties. Also, a politically connected firm is one in which its CEO is currently serving or formerly served in the government or military (Wu *et al.*, 2012).

In the Palestinian context, a politically affiliated firm is where the CEO or one of the directors are presently working or previously worked in government. This is based on the work of Barakah (2016), and Saleh *et al.* (2018) which documents that if a government employee is a Fatah member, they are classified as government-related employees. Hence, our next hypothesis is drawn as follows;

H5. The political connection of a CEO for a nonfinancial companies listed on the PSE is positively associated with firm performance.



2.6 Underpinning theories

Agency theory is employed as an underpinning theory supported by resource dependence theory and the busyness hypothesis in an attempt to examine the association between the existence of multiple directorships, CEO characteristics and financial performance. Agency theory was developed as a way to recognize incomplete and asymmetric information. The theory requires board of directors to use different mechanisms to reconcile the interests of the agent with the principal. Based on this, the delegation of the administrative responsibilities should go hand-in-hand with the mechanisms to supervise management performance and guarantee that the delegation of authority leads to the highest possible returns. Shettima and Dzolkarnaini (2018) found that the agency theory lays down the relationship between board characteristics and the performance of the firm.

Based on resource dependency theory, it has been suggested that internal corporate mechanisms, such as the board of directors (Haniffa and Hudaib, 2006) are important corporate mechanisms in that the directors are resource providers; it assumes that a large number of directors, with diversity of nationality and multiple directorships are valuable resources to the firm. They may also significantly help the directors to effectively monitor and oversee the financial reporting process, thus improving firm performance. Resource dependency theory suggests that directors are vital assets to firms who may supply both resources and monitor a company's performance (Hillman and Dalziel, 2003). Therefore, the theory provides a theoretical framework for examining the role of board directors as a firm resource (Johnson and Mitton, 2003). Boards acts as mechanisms for firms allowing them to acquire external resources beyond the boundary of the resources that the firm currently has access to (Pfeffer and Salancik,1978).

This study also utilizes the busyness hypothesis to support the investigation of multiple directorships. Ferris *et al.* (2003) proposed that directors with multiple corporate boards appointments would have insufficient time to carry out their duties on board committees. Executives may seek outside directorships because it improves their visibility and enhances their status, but at the cost of shareholders wealth Saleh *et al.* (2020). These exclusive advantages might outweigh the advantages of sitting on internal board committees. Therefore, directors have much less to gain by serving on committees than by serving on more boards (see Table 1).

3. Data and methods

This study utilizes secondary data from annual reports and DataStream for the eight-year period from 2009 to 2016. This period was used because the Palestinian code of corporate governance was issued in 2009 and became effective in the same year. This paper also focuses on nonfinancial listed firms, which involve 25 companies (12 in the service sector and 13 companies in the industry sector).

The first model investigates whether multiple directorships, CEO busyness, CEO tenure, CEO financial expertise and CEO political connection affect companies' performance as measured by return on assets (ROA). A second model is formulated to test the robustness of the findings by using return on equity (ROE) as a performance indicator in order to compare the results.

$$\begin{aligned}\mathrm{ROA}_{it} = {} & \beta_0 + \beta_1\mathrm{MULDALL}_{it} + \beta_2\mathrm{MULDIND}_{it} + \beta_3\mathrm{MULDEXCE}_{it} + \beta_4\mathrm{BUSYCEO}_{it} \\ & + \beta_5\mathrm{CEOTENURE}_{it} + \beta_6\mathrm{CEOEXPRT}_{it} + \beta_8\mathrm{CEOPOLCON}_{it} + \beta_8\mathrm{FSIZ}_{it} \\ & + \beta_9\mathrm{LEVG}_{it} + \varepsilon_{it.}\end{aligned}$$

Name	Definition
ROA	Return on assets, extracted from the DataStream data base
ROE	Return on equity, extracted from the DataStream data base
Multiple directorships for all directors (MULDALL)	Average multiple directorships held by all directors
Multiple directorships for independent directors (MULDIND)	Average multiple directorships held by independent directors
Multiple directorships for executive directors (MULDEXEC)	Average multiple directorships held by executive directors
Busy CEO (BUSYCEO)	The number of directorships the CEO holds in other companies
CEO Tenure (CEOTENURE)	The CEO's number of years in the position
CEO financial experience (CEOEXPRT)	This study gives the variable a value of 1 if the CEO is qualified as a financial expert, 0 otherwise Financial expertise is associated with either current or previous experience as vice president of finance, CFO, financial analyst experience or financial auditor experience, member of accounting professional body, possesses a finance-related academic qualification or work experience in the finance-related field (Haislip *et al.*, 2015)
CEO political connection (CEOPOLCON)	This study gives the variable a value of 1 if the CEO is politically connected, 0 if not
Firm Size (FSIZ)	The (logarithm) of the company's assets (Control Variable)
Leverage (LEVG)	The ratio of total liabilities to total assets (Control Variable)

Note(s): i refers to the company, t refers to year and ε Error term

Table 1. Definition of variables used in the study

$$\begin{aligned}\mathrm{ROE}_{it} = {} & \beta_0 + \beta_1\mathrm{MULDALL}_{it} + \beta_2\mathrm{MULDIND}_{it} + \beta_3\mathrm{MULDEXCE}_{it} + \beta_4\mathrm{BUSYCEO}_{it} \\ & + \beta_5\mathrm{CEOTENURE}_{it} + \beta_6\mathrm{CEOEXPRT}_{it} + \beta_8\mathrm{CEOPOLCON}_{it} + \beta_8\mathrm{FSIZ}_{it} \\ & + \beta_9\mathrm{LEVG}_{it} + \varepsilon_{it.}\end{aligned}$$

4. Descriptive analysis

The descriptive statistics for the variables are tabulated in Table 2, with the mean, median, minimum, maximum and standard deviation of the dependent variable (ROA) being 0.03, 0.03, −0.14, 0.17 and 0.08, respectively. This shows that the PSE-listed firms were profitable, on average, throughout the period of study. Such an average return is low in comparison to the average performance of listed firms in other developing markets. For instance, in Saudi Arabia, the average ROA was 9%, while in Egypt, it was 7% over a similar period (Al-Ghamdi and Rhodes, 2015; Amer *et al.*, 2014). With regards to the ROE, this study found the average to be 2%, which is also relatively low compared to other emerging and developing markets.

Moving on to the multiple directorships for all directors (MULDALL), the mean, median, minimum, maximum and standard deviation values are 5.17, 5, 1.2, 11 and 2.03, respectively. It is evident that on average, a director in Palestinian listed firms serves on just over five other boards at the one time. This goes against the Palestinian Company Act 2008, which mandates that every board member should refrain from serving as a member of the board of directors of over five companies simultaneously. In the current sample, one CEO set on 11 boards which in more than twice the limit set by the Companies Act As for the multiple directorships for independent directors (MULDIND), the values of mean, median, minimum, maximum and standard deviation are 5.80, 0.12, 0.00, 15.00 and 3.11, respectively, indicating that an independent director serves on at least six boards at the same time. In addition, the mean value

Variable	Observations	Mean	Median	Min	Max	Std. dev
ROA	200	0.03	0.03	−0.14	0.17	0.0761
ROE	200	0.02	0.12	−0.39	0.32	0.0997
MULDALL	200	5.17	5.00	1.20	11.00	2.0332
MULDIND	200	5.80	6.00	0.00	15.00	3.1069
MULDEXEC	200	4.90	4.53	1.31	10.20	1.8749
BUSYCEO	200	1.77	0.00	0.00	13.00	2.7399
CEOTENURE	200	8.13	7.00	1.00	23.00	6.6324
CEOEXPRT	200	0.51	1.00	0.00	1.00	0.5012
CEOPOLCON	200	0.63	1.00	0.00	1.00	0.4853
FSIZ	200	9.72	9.79	7.90	12.23	1.2142
LEVG	200	0.31	0.30	0.03	0.62	0.1756

Note(s): ROE is return on assets, ROE is return on equity, MULDALL is multiple directorships for all directors, MULDIND is multiple directorships for independent directors, MULDEXEC is multiple directorships for executive directors, BUSYCEO is busy CEO, CEOTENURE is CEO tenure, CEOEXPRT is CEO financial expert, CEOPOLCON is CEO political connection, FSIZ is firm size and LEVG is leverage

Table 2.
Summary statistics

for multiple directorships of the executive directors (MULDEXEC) is 4.9 directorships, which is deemed to be high relative to the average for the other groups. This can be attributed to the lack of qualified individuals to take up board positions as Palestine is still a relatively young nation.

With regards to the busyness (BUSYCEO), the mean, median, minimum, maximum and standard deviation are 1.77, 0.00, 0.00, 13.00 and 2.74, respectively. The maximum value indicates that some CEOs held board positions in 13 firms in addition to the company where they worked, while the minimum value of 0.00 indicates that some CEOs did not hold position in any board other than in the company where they served as CEO. Meanwhile, the standard deviation value of 2.74 indicates that the busyness variable was normally distributed. Moving on to the CEO tenure (CEOTENURE), the typical CEO served an average of 8.13 years with a minimum of one and a maximum of 23 years. With regards to their financial experience (CEOEXPRT), the values of mean, median, minimum, maximum and standard deviation are 0.51, 1.00, 0.00, 1.00 and 0.50, respectively. The minimum value of 0.00 means that some of the CEOs had no financial experience, and the mean of 0.51 means that only half of the CEOs in the listed firms had financial experience. Lastly, the political connection of the CEO (CEOPOLCON) had a mean value of 0.63, a median value of 1.00, a minimum value of 0.00, a maximum value of 1.00 and standard deviation of 0.49. The mean value of 0.63 shows that a majority of the CEOs of listed firms in Palestine have some political connection.

5. Univariate analysis

The correlation between the study variables was tested to see if they were related to ROA and to investigate if multicollinearity is a problem. According to Hair *et al.* (2010), a correlation benchmark of ± 0.8 or below would not indicate multicollinearity. Therefore, all associations among the research variables were within the acceptable range as an association of not greater than 0.8 was uncovered and, therefore, will not expose the research models to multicollinearity problems. Moreover, the variance inflation factors (VIF) obtained did not exceed 10. Meanwhile, the data were tested for heteroscedasticity using the Breausch-Pagan/Cook–Weisberg test. The results showed the absence of heteroscedasticity in the data (X^2 (1) = 3.78, prob > chi2 = 0.052). The Doornik–Hansen test was conducted to check if the residuals of the model used in this study are normally distributed. The results of the test revealed the X^2 (2) of 0.436 and an insignificant p-value of 0.784. This indicates that the residuals of the model are normally distributed. All variables were winsorized by 1% at the top and bottom to mitigate the extreme values bias. The final point to emerge from Table 3 is that none of the multiple directorship variable were correlated with ROA. By contrast, the CEO characteristics as well as the busyness measure were all significantly associated with the firm performance.

5.1 Regression analysis

A panel data regression analysis based on three models, (namely, the pooled model, the fixed-effects (FE) model and the random-effects (RE) models) was conducted in this study. The best model was chosen using the Hausman test and the Breusch–Pagan Lagrangian multiplier (LM) test. The first test was conducted was to determine whether data for the study are heterogeneous (λ) using the Breusch and Pagan LM Test. The result of this test reveals a *p*-value of 0.000. This indicated that a random effects model was the most appropriate model. When the RE model was employed, a Hausman specification test was run to identify whether the RE or FE is more suitable. The results of the Hausman test as presented in Table 4 reveals an insignificant *p*-value of 0.8828. This leads to the conclusion that the random effects model is more appropriate (Hausman, 1978).

In Table 4, the regression results are tabulated; these results suggest that multiple directorships and different multiple directorship types do not impact the performance of Palestinian-listed firms. The finding indicates that as the multiple directorships held by each director change, no benefits arise and no costs are imposed on a company's profitability. The current results therefore contradict the findings reported by Kamardin *et al.* (2014) that showed directors serving on multiple boards could have numerable commitments; as a result of which, they are not able to fulfill all of their responsibilities. These results contradict the agency theory and busyness hypothesis that high multiple directorships decrease the financial performance of a firm.

The regression outcomes in Table 4 indicate that a negative relationship exists between CEO busyness and the performance of Palestinian-listed firms at the 5% level of significance (p-value = 0.042). This supports the assumptions of the busyness hypothesis which posits that multiple directorships generate busy managers who are not able to fulfill their key responsibilities in an effective manner. This finding is aligned with the result from Jackling and Johl (2009) as well as Saleh *et al.* (2018). These authors argued that multiple directorships prevent managers from devoting their full attention to the firm, as a result of which, firm performance suffers. This result is also aligned with the stipulations of the Palestinian code of corporate governance and the recommendations the Council of Institutional Investors (2014) that a CEO should be a full-time employee of their firm.

Furthermore, the results tabulated in Table 4 support the hypothesized relationship between CEO tenure and financial performance among Palestinian-listed firms in that a positive relationship was found at the 1% level (p-value = 0.000). This means that the longer the CEO tenure, the better the firm performance; this may be due to the fact that long-serving CEOs have become experts in all aspects of the business' operations as well as the firms' technicalities. Other studies that support this result includes Luo *et al.* (2014), where the CEO is deemed to develop a power base as time passes and Limbach *et al.* (2015), who reported that longer a CEO tenure is linked with greater CEO experience, knowledge and personal affiliations. More importantly, this is aligned with the assumptions of resource dependence theory that considers a powerful CEO as one of the firm's main assets (Pfeffer and Salancik, 1978). These findings support the Palestinian code of corporate governance which did not place any restrictions on CEO tenure.

In addition to the above results, Table 4 documents that CEO financial experience is positively related to firm performance at the 10% level (p-value = 0.082). This result is also supported by resource dependence theory which argues that CEO is a resource with

Table 3.
Correlation matrix

Variable	1	2	3	4	5	6	7	8	9	10	VIF	1/VIF
ROA (1)	1											
MULDALL (2)	0.1446	1									4.37	0.2289
MULDIND (2)	0.0462	0.5749*	1								2.41	0.4153
MULDEXEC (3)	0.0735	0.7711*	0.3103*	1							3.18	0.3140
BUSYCEO (4)	0.4820*	0.1757	0.0004	0.1453	1						1.72	0.5805
CEOTENURE (5)	0.4689*	0.2109*	0.0642	0.2197*	0.3558*	1					1.66	0.6042
CEOEXPRT (6)	0.2542*	0.2608*	0.3744*	0.1197	0.4366*	0.4125*	1				1.51	0.6637
CEOPOLCON (7)	0.4082*	0.1127	0.1066	0.0618	0.2738*	0.2866*	0.1034	1			1.21	0.8287
FSIZ (8)	0.2229*	0.4304*	0.5459*	0.2474*	0.2609*	0.2972*	0.3293*	0.2732*	1		1.98	0.5039
LEVG (9)	−0.1935*	0.0704	0.0695	0.0154	−0.2398*	−0.1402	−0.1190	0.0540	0.2508*	1	1.28	0.7837

Note(s): ROE is return on assets, MULDALL is multiple directorships for all directors, MULDIND is multiple directorships for independent directors, MULDEXEC is multiple directorships for executive directors, BUSYCEO is busy CEO, CEOTENURE is CEO tenure, CEOEXPRT is CEO financial expert, CEOPOLCON is CEO political connection, FSIZ is firm size and LEVG is leverage. *, **, *** significance levels of 10%, 5% and 1%, respectively, using 1-tailed

Variables	Coef	Z	P >|z|
MULDALL	0.0011	0.38	0.353
MULDIND	0.0004	0.24	0.4065
MULDEXEC	−0.0009	−0.28	0.391
BUSYCEO	−0.0024	−1.73	0.042**
CEOTENURE	0.0044	5.8	0.000***
CEOEXPRT	0.0136	1.39	0.083*
CEOPOLCON	0.0114	1.84	0.033**
FSIZ	0.0013	0.22	0.412
LEVG	−0.0682	−3.05	0.001
Constant	−0.0128	−0.23	0.409
R^2	0.3198		
Prob (*F*)	0.0000		
Breusch and Pagan Lagrangian multiplier test	0.0000		
Hausman *p*-value	0.8828		
Observations	200		

Note(s): MULDALL is multiple directorships for all directors, MULDIND is multiple directorships for independent directors, MULDEXEC is multiple directorships for executive directors, BUSYCEO is busy CEO, CEOTENURE is CEO tenure, CEOEXPRT is CEO financial expert, CEOPOLCON is CEO political connection, FSIZ is firm size and LEVG is leverage. *, **, *** significance levels of 10%, 5% and 1%, respectively, using 1-tailed

Table 4. Results of the regression

experience that helps to maximize shareholders' wealth (Pfeffer and Salancik, 1978). Custodio and Metzger's (2014) results also support the current findings. Other theories that support this result includes the human capital theory and the resource dependence theory – with both theories positing that a CEO equipped with greater financial experience is better able to provide valuable human capital to the firm.

In Table 4, the association between CEO political connection and financial performance is positive at the 5% level (*p*-value = 0.033). This finding supports resource dependence theory that posits that firms use political means to change their external economic environments (Pfeffer and Salancik, 1978). In other words, managers make use of their political connections to maximize their company's performance. Also, political connections enable firms to obtain benefits like higher earnings and larger loans (Yang *et al.*, 2012), government support and resources in the form of tax benefits and preferred government contracts (Claessens *et al.*, 2008), as well as enhanced government access (Wu *et al.*, 2013), all of which can enhance firm performance.

A majority of studies also support the positive relationship between CEO political connections and firm performance; for instance, Yang *et al.* (2012) found politically connected Chinese private firms found it easier to acquire bank loans. They documented that developing political affiliations can work as an alternative mechanism to overcome market weaknesses among private firms. Along a similar line, Claessens *et al.* (2008) revealed that politically connected managers leverage such connections to obtain government support in the form of tax benefits and thus, the relationship between political connections and firm performance is a positive one. Other studies in prior literature found political connections to affect government subsidies and firm performance like that of Zhang *et al.* (2014). The authors examined the association between political connection, government subsidies and firm financial performance in Chinese manufacturing solar energy firms. Based on their findings, political connections provide opportunities for the firm to obtain government subsidies that could enhance its financial performance.

5.2 Additional analysis

Additional robustness checks were undertaken by repeating the analysis with ROE as the dependent variable. ROE refers to a performance indicator that shows the company's ability to generate profit through the use of invested funds. Table 5 tabulates the findings that shows a number of differences. For instance, multiple directorships for all directors and for independent directors become significant at the level of 5%, while CEO political connection (see Table 4), which was significant at the level of 5%, becomes insignificant when ROE (see Table 5) is the measure of firm performance. The remaining variables had the same results.

6. Conclusion

This study examined the influence of multiple directorships, as well as CEO characteristics on Palestinian firms' performance. In summary, this paper provides evidence that CEO characteristics are associated with firm performance. The findings of this study reveal that CEO tenure, CEO experience and CEO political connection are linked with firm performance. This suggests that CEOs can attract external resources to create additional wealth for a firm. The study documents that multiple directorships have no significant influence on firm performance. This implies that multiple directorships do not deter members on the boards of Palestinian-listed board from discharging their legitimate responsibilities. Hence, a restriction on multiple directorships is uncalled for in a Palestinian context considering the environmental, economic and political factors surrounding the country.

However, the situation is not the same with the CEO multiple directorship. The findings reveal that a busy CEO is associated with poorer firm performance. This is because the practice of multiple directorships may distract CEOs from optimizing the performance of their firms; the CEOs may not have the requisite skills needed to improve the firm performance given the other distractions. Therefore, the relevant authorities need to enforce compliance with the restrictions of the Palestinian code of corporate governance on CEO multiple directorship. This will create more time for CEOs to concentrate on the development of their firm which will in turn, enhance firm performance.

The main regulatory body governing the corporate code of governance in Palestine Stock Exchange could benefit from the finding of this study to further strengthen the regulations on multiple directorships restrictions. The society (public investor) could benefit from the finding of the study to be selective in choosing the investing company with less governance

Variables	Coef	Z	$P>\|z\|$
MULDALL	0.0041	2.3	*0.010***
MULDIND	0.0024	2.0	*0.025***
MULDEXEC	0.0044	0.0	0.485
BUSYCEO	−0.0020	−1.4	0.087*
CEOTENURE	0.0011	5.2	0.000***
CEOEXPRT	0.0140	1.7	0.047*
CEOPOLCON	0.0088	0.3	*0.403*
FSIZ	−0.0082	−0.5	0.317
LEVG	−0.0320	−3.2	0.001***
Constant	−0.0801	−0.5	0.322
R^2	0.2707		
Prob (F)	0.0000		
Observations	200		

Note(s): MULDALL is multiple directorships for all directors, MULDIND is multiple directorships for independent directors, MULDEXEC is multiple directorships for executive directors, BUSYCEO is busy CEO, CEOTENURE is CEO tenure, CEOEXPRT is CEO financial expert, CEOPOLCON is CEO political connection, FSIZ is firm size and LEVG is leverage. *, **, *** significance levels of 10%, 5% and 1%, respectively, using 1-tailed

Table 5.
Results of the regression using ROE as dependent variable

violation issues. The paper provides evidence that the agent (directors) and principal (investor) relationship and resources (CEOs) employed in the firm could be further strengthened its role by the reduction on seating on multiple board to avoid higher workload that would jeopardize their performance to the firm they are in charge of.

The study also reveals that Palestinian firms do not need restrictions on CEO tenure. This is because a longer CEO tenure is associated with the high performance. The outcome of this study provides insights into the potential benefit to firms, policymakers, professional bodies of the topics analyzed. The findings of such an examination can assist them to set up suitable policies and enhance the role and the quality of the CEO attributes. Future studies can examine the effect of additional CEO characteristics such as CEO ownership, CEO family, CEO gender on the firm performance.

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