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# The Impact of Director's Multiple Positions on Investment Efficiency Decisions

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## Keywords:

Busyness Hypothesis, Reputation Hypothesis, Investment Efficiency, Firm Complexity.

## ABSTRACT

There are differences in research results regarding the impact of a director's busyness due to multiple positions, so this study aims to examine the relationship between director busyness and investment efficiency decisions from the perspective of the upper echelons theory. This study uses regression analysis and moderated regression analysis. The sample used is mining companies listed on the IDX in 2015-2019. The results of this study indicate that they take sides on a reputation hypothesis, that a director who has more than one position at the same time influences the investment decisions that are made. However, when the complexity of the company is included in the regression model, it turns out that it can moderate the relationship between director busyness and investment efficiency decisions.

## INTRODUCTION

The issue of multiple positions held by directors has received increasing attention from both academics and practitioners (Ferris et al., 2020). There is conflicting evidence in the academic literature regarding the impact of multiple positions on firm value and performance. The first opinion, directors with many positions indicate that they are showing reputation, quality, and skills as directors (Fama & Jensen, 1983). Thus, the existence of multiple positions held by directors must positively affect company performance (Cashman et al., 2012) through private business networks (Gray & Nowland, 2018). On the other hand, being in many seats on the board of directors at once will certainly reduce time and energy, so that the supervisory role is not effective (Lu et al., 2013).

From a practical point of view, the regulatory authority has set guidelines regarding concurrent positions that a director may hold. In the Financial Services Authority Regulation Number 33 / POJK.04 / 2014 concerning the Board of Directors and Board of Commissioners of Issuers or Public Companies, Article 6 states that members of the board of directors can hold two positions at most in one public company, while members of the board of commissioners can concurrently hold positions at most three issuers or a public company (POJK No.33 / POJK.04 / 2014). In addition, Law Number 5 Article 26 Year 1999 also stipulates that a person who is a director or commissioner in a company is prohibited from concurrently serving as a director or commissioner in another company at the same time, especially in the same market (Law No. 5 Article 26 of 1999).

This study fills a gap in the previous literature that mostly links multiple positions held by directors with company performance (Fich & Shivdasani, 2006; Heaney et al., 2012; Ferris & Liao, 2019). There is a need to study the effect of board characteristics, in this case, concurrent positions on investment decisions, because corporate investment decisions not only help improve company performance, but also the country's economic development (Agyei-Mensah, 2020). Indeed, the main director has an important role in the running of the company's operations. In the top position, the managing director contributes to the strategic decision-making process (Kim et al.,

2009) and one of his roles is approving strategic decisions, such as corporate investment decisions. Investment decisions require companies to decide how they allocate part of their resources (Felix, 2018), thus management will try to find potential projects as investment opportunities. The theory of corporate finance states that the financial manager is responsible for providing advice on the allocation of funds and the risk profile of the consequences of investment choices, but the final responsibility for decision making remains with the director (Agyei-Mensah, 2020).

Being in a top level management position, the upper echelons theory describes the main director as the main strategic decision maker in the company. When strategies and decisions are chosen, there is a description of the personal characteristics of top management (Hambrick & Mason, 1984). In other words, upper echelons theory recognizes that top management characteristics such as age, career experience and industry specialization can influence decision making.

In contrast to Lu et al. (2013) and Tan et al., (2019) which also examines board activity and company performance and uses director's experience as a moderating variable, this study considers the complexity factor to be a moderating variable. The complexity of the company may affect the director's preoccupation with investment efficiency decisions. Companies are considered to be more complex if they have many business segmentations and subsidiaries, and directors become busier when concurrently with positions in complex companies (Cashman et al., 2012). Thus, the aim of this study is to examine the relationship between director's busyness and investment efficiency decisions from the perspective of the upper echelons theory by using firm complexity as a moderating variable with a sample of 200 company year observations.

Using a sample of 200 company year observations and using the number of positions the director has at the same time, the findings of this study indicate that directors tend to be more cautious about the decisions they make, because they have a reputation at stake. This result supports the reputation hypothesis that when directors hold positions at several issuers, they are actually showing to the director's labor market their abilities, because only competent directors can be

recognized by people and are employed by many issuers as directors (Tham et al., 2019). Other results also show that other measures of activity, such as company complexity, result in findings that company complexity is able to moderate the relationship between director's busyness and investment efficiency decisions.

This research is expected to contribute in several ways. First, this study provides support for the upper echelons theory by showing evidence of the effect of director's busyness on investment efficiency. In other words, the character of a busy director will affect the quality of managerial decisions taken. This research is also expected to show that investment efficiency can be influenced by the characteristics of those who make decisions and will affect investment efficiency. This study seeks to prove that the directors' busyness will affect the quality of investment decisions or something else. This study also hopes to be able to evaluate or examine variables that have the potential to reduce or even exacerbate the impact of the managing director's busyness. In addition, from a practical point of view, the findings of this study are expected to show regulators the concrete limits of the permissible dual positions.

## LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### *Teori Upper Echelons*

Upper echelons theory states that top management is considered the main strategic decision maker in an organization (Hambrick & Mason, 1984). This theory argues that these characteristics significantly explain the situation at hand, thus influencing their strategic decisions (Hambrick & Mason, 1984). Being busy is one of the characteristics of top management that might influence the company's strategic decisions, especially investment decisions. CEO's busyness due to multiple positions can be caused because the CEO wants to show his reputation. On the other hand, concurrent positions increase his work schedule so that the contribution to the company is not optimal. From this perspective, the situation faced by the CEO through the busyness of multiple positions can influence decision making. On the one hand, the CEO must be careful in making decisions because it relates to his reputation, on the other hand, the CEO gets experience from concurrent

positions, especially when he concurrently holds positions in similar companies.

### *Multiple Position: Reputation and Busyness*

Fama & Jensen (1983) put forward a reputation hypothesis, in which only competent directors are recognized and employed by many companies. With this argument, the multiple positions held by the director are actually showing his quality and competence as a director. Of course this creates a more competitive environment, thus encouraging directors to have other positions (Xie, 2015). Through concurrent positions, directors have a personal business network that can be an opportunity for the company (Gray & Nowland, 2018), and of course it will have an impact on making decisions that are easier because of the experience generated from multiple positions (Lu et al., 2013).

The Busyness hypothesis opposes the stigma reputation hypothesis regarding multiple positions for directors. The director's ability to supervise requires more time and effort (Lu et al., 2013). With this argument, it can be said that the more directors are in multiple positions in several companies, the less time and energy the director can distribute equally to each company. Such conditions certainly lead to ineffective supervision due to lack of monitoring (Fich & Shivdasani, 2006) and have an impact on the greater use of earnings management (Ferris & Liao, 2019). Being in several positions at different companies simultaneously shows a higher tendency to be absent from board meetings (Jiraporn et al., 2009).

### *Investment Efficiency Decisions*

One of the roles of the CEO is to design the company's long-term strategy, thereby creating value for shareholders (Arranz-aperte & Berglund, 2008). One such strategy is an investment strategy. Investments for companies provide added value, making it possible for management to pursue many of the best investment opportunities (Felix, 2018). But unfortunately, companies often deal with the problem of expanding the scale of investment. Managers tend to use excessive funds on worthless projects and hold back investment in profitable opportunities (Naeem & Li, 2019). Therefore, investment decisions need special attention from the CEO as the head of the company.

Research conducted by Bzeouich et al. (2019) states that board size as well as gender diversity are positively related to investment efficiency. In addition, the director's experience significantly moderates the impact of board busyness on investment efficiency (Tan et al., 2019). In connection with the CEO's busyness due to concurrent positions, companies with more reputable CEOs tend to find it easier to access financing from external parties that facilitate positive NPV projects, so as to avoid underinvestment (Lai & Liu, 2018).

### ***Firm Complexity***

The effect of CEO's busyness is not solely due to multiple positions. The complexity of the company is one indicator that is considered to exacerbate CEO's busyness. Different company characteristics tend to demand more of the time and effort that directors need to monitor management (Cashman et al., 2012). The complexity of the company can be one of the factors that illustrates the CEO's busyness by looking at the business segmentation and the number of subsidiaries. If the CEO holds a concurrent position in a company that does not have many subsidiaries and business segments, perhaps the impact of being busy is not too pronounced, in contrast to the large number of subsidiaries and business segments owned, the CEO's work schedule will be more dense and attention will be divided. The director's job for a company that has a single product line may be less strenuous than one that serves in a multinational scale company (Cashman et al., 2012).

Multiple positions for directors can be an advantage for companies because they have investment opportunities through the experience and personal network of directors (Gray & Nowland, 2018). However, the busyness hypothesis revealed that there were multiple positions for the board which was considered to make them even busier. This results in the division of time and supervision that is not optimal (Ferris & Liao, 2019), of course it also impacts company performance because it is not managed effectively (Heaney et al., 2012). CEO's busyness due to multiple positions also leads to a tendency to be absent at company meetings (Jiraporn et al., 2009). In fact, the meetings being held may require authorization from the CEO, such as the decision to make an investment. Supported by the upper echelons theory, there is a reflection of the characteristics of top management in the

decisions made, so CEO's busyness will certainly have an impact on investment decisions made due to a lack of time and supervision even though they have experience and industry specialization. Based on these arguments, the first hypothesis built in this study is:

**H1:** CEO's busyness has a positive effect on investment efficiency decisions

The development of the company makes business complexity unavoidable. Sources of business complexity can come from internal and external factors, local operations versus global operations, environments that move quickly and change dynamically (Queen & Fasihi, 2015). Multi-industrial companies often allocate capital ineffectively, so multi-national companies also face complex managerial decisions because they have different cultures and laws in each market (Queen & Fasihi, 2015). Being in a complex company, of course, makes the workload of the director increase, especially if he holds multiple positions. Serving companies that have a single product line certainly has an easier workload than serving in multinational companies. The complexity of the company is described by the number of subsidiaries and the number of business segmentations (Cashman et al., 2012). The more complex a company is, the more busy the CEO may be if he holds multiple positions. Based on these arguments, the hypotheses built in this study are:

**H2:** Business complexity moderates the effect of CEO busyness on investment efficiency decisions

### **RESEARCH METHODS**

The sample chosen was all public companies in the mining sector listed on the IDX from 2015 to 2019. The mining sector was chosen because the value of its investment and assets is much greater than that of other sectors, so researchers want to see how being busy with multiple positions can influence investment decisions in the mining sector. Companies included in the sample must have the criteria as companies with the mining sector listed on the IDX during the sample period in a row and not delisted during the 2015 to 2019 period and the company has the data needed by this study. Sources of data in this study were obtained from the IDX website, namely [www.idx.co.id](http://www.idx.co.id), company websites,



and OSIRIS. Overall, there were 212 companies during the observation year. However, because several companies were judged not according to the criteria, the final sample used was 200 sample companies during the observation year.

### Measuring Dependent Variable

The following is an investment model measured by sales growth and using the residue as a proxy to see the deviation from the expected investment:

$$INV_{i,t} = \beta_0 + \beta_1 salesgrowth_{i,t-1} + \varepsilon_{i,t}$$

Where,  $INV_{i,t}$  is the total investment of firm  $i$ , year  $t$ . Total investment is obtained from the total capital expenditures, R&D costs and acquisition of fixed assets less cash proceeds from the sale of fixed assets in year  $t$  divided by total assets  $t-1$  (Biddle et al., 2009).  $SALESGROWTH_{i,t-1}$  is the percentage change in sales from year  $t-2$  to  $t-1$  (Biddle et al., 2009).  $\varepsilon$  is the residual value. The results of the residual value will be absolute for use as the dependent variable.

### Measuring Independent Variable

This study defines a director's busyness by having more than two concurrent positions at the same time. The measurement proxy used to see a director's busyness is POSCEO or the number of positions held in the same year.

### Measuring Moderated Variable

Companies that operate in complex environments with many industries, have national and international markets certainly need a greater focus from the CEO. Measuring the complexity of the company refers to the research of Cashman et al., (2012) using the number of business segments (SEGMENT) and the number of subsidiaries (SUBS).

### Measuring Control Variables

The control variables used in this study are firm size, return on assets, leverage and managerial ownership. Firm size is a company size that is reflected in the size of the number of assets owned (Bzeouich et al., 2019). Firm size in this study is measured by the natural logarithm of total assets (Bzeouich et al., 2019). Return On Assets (ROA), is a

profitability ratio that measures a company's ability to generate profits from the use of all assets it owns (He et al., 2019). Leverage, defined as a financial ratio that shows the level of debt the company has issued. In this study, leverage is measured using a debt to asset ratio (Bzeouich et al., 2019). Managerial ownership is defined as shares owned by company management, including the board of commissioners and directors. The measurement uses a dummy variable, namely assigning a value of 1 if the management of company  $i$  has a share of the company's share capital in year  $t$ , giving a value of 0 if if the management of company  $i$  does not have a share of the company's share capital in year  $t$ .

The following is a summary table of the measurements used in this study

Table 1. Variable Measurement

Labels	Measurement
<b>Dependent Variable</b>	
INEFFINV <sub>i,t</sub>	The residual value is absolute from the calculation of the investment equation
<b>Independent Variable</b>	
POSCEO <sub>i,t</sub>	The number of positions held by the director in the same year
<b>Moderated Variable</b>	
SUBS <sub>i,t</sub>	Number of subsidiaries $i$ in year $t$
SEGMENT <sub>i,t</sub>	Number of company segments $i$ in year $t$
<b>Control Variables</b>	
FSIZE <sub>i,t</sub>	firm size, which is measured by the natural logarithm of total assets at company $i$ in year $t$
LEV <sub>i,t</sub>	leverage, which is measured by debt to total assets at company $i$ in year $t$
ROA <sub>i,t</sub>	Net income after tax divided by total assets in company $i$ year $t$
MO <sub>i,t</sub>	Dummy variable 1: If the management of company $i$ , owns the share capital of the company in year $t$ 0: If if the management is company $i$ , it does not own the share capital of the company in year $t$ .

Source: Processed by researchers (2021)

## RESULTS AND DISCUSSION

Table 2. Descriptive Statistics

Variable	Min	Max	Mean	SD
POSCEO	1	18	3.40	3.935
SUBS	0	31	8.30	8.613
SEGMENT	1	7	2.40	1.414
POSCEO*	0	431	30.26	68.734
SUBS				

Variable	Min	Max	Mean	SD
POSCEO*	1	54	8.18	10.405
FS	23.907	31.928	28.783	1.533
ROA	0.0002	0.455	0.711	0.082
LEV	0.0003	89.140	0.906	6.278

Sumber: SPSS, 2020 (Hasil olah peneliti)

Table 2 reports the CEO's busyness of the sample companies as well as the dependent and control variables used in this study. The average CEO busyness proxied by the number of positions held (POSCEO) is 3.40, with at least 1 position,

and at most 18 positions. We also measure the moderating variables and their interactions with the independent variables. The moderating variable used is the complexity of the company, with the proxies for the number of subsidiaries (SUBS) and the number of business segments owned (SEGMENT). On average, the sample companies have 8.30 subsidiaries, with at least 0 or no subsidiaries (31 subsidiaries). In addition, the sample companies also have business segments (SEGMENT) with an average of 2.40, with at least 1 business segment (7 business segments).

Table 4. Regression Results

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
POSCEO	0.002 0.210	0.002 0.246	0.002 0.188	0.005 0.022**	0.005 0.023**	0.002 0.214	0.009 0.004**	0.008 0.014**
SUBS			-0.001 0.297	0.000 0.737	0.001 0.528			
SEGMENT						-0.004 0.316	0.009 0.175	0.006 0.413
POSCEO*SUBS				0.000 0.058*	0.000 0.042**			
POSCEO*SEGMENT							-0.004 0.010**	-0.003 0.023**
FS		-0.004 0.374			-0.002 0.682			-0.001 0.892
ROA		-0.121 0.113			-0.116 0.129			-0.130 0.087*
LEV		0.000 0.629			-0.001 0.529			-0.000 0.955
MO		-0.021 0.155			-0.023 0.119			-0.019 0.216

\*, Significant at level 0.1

\*\*, Significant at level 0.05

\*\*\*, Significant at level 0.01

Sumber: SPSS, 2020 (Hasil olah peneliti)

Table 4 shows the regression results of the model built in this study. The results show that in models 1 and 2, the significance value generated from POSCEO does not show significance at the 5% or 10% level. In addition, the POSCEO interaction with SUBS in model 4 resulted in a significance value of 0.058 < 0.1, which means that it is significant at the 10% level. In model 5, after being tested by including control variables, the results are similar to model 4. POSCEO shows a significance value of 0.022 < 0.05, which means that it is significant at the 5% level. The regression results from the POSCEO and SUBS interactions are also significant at the 10% level because the significance value is 0.058 < 0.1

In model 7, POSCEO produces a significance value of 0.004 < 0.05, thus POSCEO is significant at the 5% level. While the SEGMENT variable does not show significant results, but when interacted with POSCEO and SEGMENT, the significance value shows 0.010 < 0.05, which means it is significant at the 5% level. In model 8, after being given a control variable in the model, the results show a significant POSCEO value of 0.014 < 0.05, which means that it is significant at the 5% level, the interaction between POSCEO and SEGMENT shows a significance value of 0.023 which means significant at the 5% level and ROA as a significant control variable. at the 10% level.

Table 3 provides the results for testing hypothesis 1. It can be seen that the POSCEO model 1 and model 2 are not significant for the investment efficiency decision. Thus, the first hypothesis is rejected. The meaning is that there is no relationship between CEO's busyness and investment efficiency decisions. In line with the reputation hypothesis, that a director who has more than one position at the same time wants to show to the director's labor market that he has the reputation, qualities and skills of a director (Fama & Jensen, 1983). By having more than one position, the value of the company is considered to increase due to the personal business network owned by the director (Gray & Nowland, 2018). In addition, being in many companies can diversify the experience of a director, so that it can help increase the efficiency of decision making, in this case investment decisions (Tham et al., 2019).

In model 5, determinants of investment efficiency decisions such as firm size (FS) ROA, LEV and MO are negatively and insignificantly related to investment efficiency decisions. Whereas in model 8, the variables FS, LEV and MO have a negative and insignificant relationship with the investment efficiency decision. However, ROA has a significant negative effect on investment efficiency decisions. This is because high performance can lead to discretionary use of the benefits generated, either through excessive investment or low investment (Biddle et al., 2009).

Table 3 also presents the results for the second hypothesis. It can be seen that in models 4 and 5, the interaction between POSCEO and SUBS is significant at the 10% and 5% levels. So that the second hypothesis is not rejected. The meaning is, the complexity of the company as measured by its subsidiaries moderates the relationship between the director's busyness and investment efficiency decisions. In addition, in models 7 and 8, the interaction between POSCEO and SEGMENT also shows a significant result at the 5% level. Thus, the results reinforce the second hypothesis, that the complexity of the company as measured by the number of business segmentations moderates the relationship between director's busyness and investment efficiency decisions. The two results of this study are in line with (Cashman et al., 2012), that different company characteristics tend to demand more time and effort required by directors

to monitor management, especially if they have many subsidiaries. In addition, director jobs for companies that have a single product line may be less strenuous than those serving in multinational scale companies (Cashman et al., 2012).

These results further indicate partiality to the busyness hypothesis. The ability of directors to supervise requires more time and effort (Lu et al., 2013), so that the more directors are in multiple positions in several companies, the less time and energy they can distribute equally to each company and show a tendency towards is higher for absences at board meetings, thus impacting the decisions they make (Jiraporn et al., 2009).

## CONCLUSION

The debate regarding the impact of multiple positions still attracts attention because it produces two different views, namely reputation hypothesis or busyness hypothesis. The results of this study indicate that it is aligned with a reputation hypothesis that multiple positions for a director can be an advantage for a company because it has investment opportunities through the director's personal experience and network.

With concurrent positions, of course the CEO will try and be careful to choose investment projects to maintain his reputation in the business network he has. In addition, through business networks, of course, the CEO will have better project-related information and skills. However, conditions are different when concurrent positions are carried out in complex companies. The results actually show that the complexity of the company is able to moderate the relationship between director's busyness and investment efficiency decisions. The complexity of the company is described by the number of subsidiaries and the number of business segmentations. The more complex a company is, the more busy the director will be when he holds multiple positions.

This research is inseparable from the limitations of writing. The limitation in this study is that it only uses the mining sector, so the results cannot be generalized to other sectors. Suggestions for further research are to expand the research sample used.

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