AN INVESTIGATION OF BOARD DIRECTORS' ABSENCE AND ITS DETERMINANTS IN THE MALAYSIAN STOCK MARKET

Mohammad Refakar**, Ming-Ming Lai**

Abstract

This paper examines the relation between directors' absence in board meetings as an indicator of directors' busyness with possible determinants of director absence on the constituent companies of FTSE Bursa Malaysia KLCI index from 2005 to 2008. This study has found board size as the strongest determinant of directors' absence. As the size grows, there is higher probability of directors to be absent from board meetings. This study found a board size of 9 and less as an optimum board size. We also found that the more independent directors on the board, the less absence they made. The results showed that the number of multiple directorships a director holds, number of annual meetings, age, and ethnicity of the director are not significant determinants.

Keywords: Director absence, board size, determinants, multiple directorships, annual meetings

**Multimedia University and Université du Québec à Montréal*

*** Corresponding Author, Faculty of Management, Multimedia University*
Jalan Multimedia, 63100 Cyberjaya
Selangor Darul Ehsan, Malaysia
Tel: 603-83125747
Fax: 603-83125590, 603-83125445
mmlai@mmu.edu.my

1. Introduction

The issue of multiple directorships has recently received attention in the field of corporate governance. Holding outside directorships may or may not add value to the firm's performance. Prior studies (Ferris et al., 2003; Perry and Peyer, 2005; Fich and Shivdasani, 2006) on the relation between directors' busyness or multiple directorships with a firm's performance showed mixed findings. Some studies show that multiple directorships allow directors to build a business network and to improve their experience; others find multiple directorships as a threat to the firm value and the ability of board of directors to monitor management performance.

While some work of multiple directorships are available for developed markets, little research on director absence and multiple directorships have been done on emerging economy such as Malaysia. Thus, this study is motivated to investigate the relation between director's absence in board meetings as an indicator of director's busyness with possible determinants of director absence on the constituent companies of FTSE Bursa Malaysia KLCI index during the years 2005 to 2008. The possible determinants are number of outside directorships that the director holds, board size, number of annual meetings, percentage of independent directors on the board, directors' race and age. The findings of the study fill the gap of existing corporate governance literature by providing in-depth insights into significant determinants of director absence. Interesting findings showed that board size and percentage of independent directors rather than multiple directorships indicated significant relation with the board director absence.

2. Literature Review

Numerous studies have been conducted on the issue of multiple directorships. However, the determinants of multiple directorships on firm value and its significant relation with firm value warrants further investigation.

There are two opposing hypotheses on the issue of multiple directorships. The reputation hypothesis advocates that directors are desirous to accept new outside directorships because the number of directorships they hold could signify their expertise and provides networks of business contacts. On the contrary, busyness hypothesis argues that multiple directorships would make directors so busy that they are not able to effectively do their jobs as corporate monitors.

Their busyness may also have negative effects on their attendance to the board of director. The busyness hypothesis implies that the directors who hold too many board seats may be unable to attend the board meetings. The busyness of directors would produce oversight management and eventually reduce the firm value.

Prior studies (Fama, 1980; Fama and Jensen, 1983, Perry and Preye, 2005; and Fich, 2005) indicated that multiple outside directorships reflect good reputations of directors as these directors might consider as monitoring specialists. Multiple outside directorships are good for a firm's value.

A number of studies produced empirical support for the reputation hypothesis argument. According to Fama and Jensen (1983), the responsibilities of board of directors are to endorse management decisions and to monitor management performance. Utilizing outside directors might reduce the probability of managerial collusion (Fama, 1980) and can help as another potential source of corporate monitoring.

Ferris, Jagannathan, and Pritchard (2003) examined 3190 firms in the United States pertaining to the effect of the multiple directorships by using four measures. Upon testing the busyness hypothesis in a multivariate framework, the results showed that there was no evidence that multiple board appointments reduced a firm's performance in which the market-to-book ratio was used. They found positive coefficient of market-to-book ratio with multiple directorships which was inconsistent with busyness hypothesis. "Busyness hypothesis of corporate directorships postulates that serving on multiple boards overcommits an individual. As a consequence, such individuals shirk their responsibilities as directors" (p.1088). This would also imply that busyness hypothesis predicts that an individual holding more outside board seats will serve on fewer internal board committees. Overall, the appointment of a multiple director for the first time experience would produce positive returns to the firms. There was no evidence the directors who held multiple directorships and busy attended less board committee meetings as compared to other counterparts. The results failed to find negative relationship of multiple directorships with firm performance as predicated by busyness hypothesis. The results are consistent with Fama and Jensen (1983) of the reputational effect of directorships.

Perry and Peyer (2005) examined 349 announcements of new director appointments from 1994 to 1996 when an executive of a firm was nominated for an outside directorship in public listed companies in United States. The results showed that firms with executives that accepted an outside directorship would find negative announcement returns only when the executive primary employer (sender firm) had greater agency problems. However, when fewer agencies concerned existed, additional directorships would increase the value of the sender-firm. Sender-firm announcement returns were also higher when executives accepted an outside directorship in a financial, high-growth, or related-industry firm. Overall, the results indicated that outside directorships for executives can enhance firm value in which the value can be gained through learning or networking opportunities or through signaling of managerial quality. The finding is consistent with reputation hypothesis.

Despite many supports for reputation hypothesis, some literature questioned the rationale of holding too many board seats in which too many directorships may decrease the effectiveness of outside directors as they were overcommitted and too busy. Fich and Shivdasani (2006) contended that Ferris et al. (2003) had several methodological flaws and questioned their results. It should be pointed out that the definition of busy boards used by Fich and Shivdasani (2006) was different from Ferris et al.'s (2003). In terms of outside directorship, Ferris et al. (2003) computed the average number of sample firm directorships held by the directors of a firm. Whereas, Fich and Shivdasani (2006) considered directors busy if they held directorships in three or more firms.

Fich and Shivdasani (2006) examined 508 industrial firms that were listed in the Forbes magazine from 1989 to 1995 in United States on busy directors and corporate governance value. They focused on the boards in which directors held on more than three external directorships. The market-to-book ratio was used as a measure of firm performance and considered the busyness of a director who sat in three or more boards. The results indicated that firms with busy board directors were linked with lower market-to-book ratios, weak corporate governance, and poor financial performance. In addition, departure of busy outside director would produce positive abnormal returns of 1.33% on average significantly at the announcement.

Jiraporn, Singh, and Lee (2009) examined 1500 firms from 1999 to 2003 about corporate governance and director ability. They obtained the data from Investor Responsibility Research Centre in Wharton Research Service Centre, United States. The results indicated U-shaped relation between number of board seats and directors' ability. The results provided evidence to the busyness hypothesis in which at lower levels of multiple board seats, directors holding more multiple directorships tend to serve on fewer board committees. However, on the higher levels of multiple directorships, the results supported the reputation hypothesis in which busy directors served on a higher number of committees. The results also suggest that board size and board

composition materially impact board committee assignments.

We then moved to the review of the possible associated determinants of board effectiveness. Yermack (1996) examined a sample of 452 large U.S. industrial corporations between 1984 and 1991 by using Tobin's Q on the board size and its board effectiveness. The results indicated negative association between board size and firm value. The result was robust to numerous controls such as company size, industry membership, inside stock ownership, growth opportunities, and alternative corporate governance structures. Companies with small board showed favorable financial ratios as well as good CEO performance.

Studies have found that the frequency of board meetings was an important determinant of company performance and the board's ability. If the board meeting frequency was reduced, the directors would have less time to discuss about the company issues properly. They might only rubber-stamp management decisions. Vafeas (1999) examined the board meeting frequency and firm value for 307 firms in Unite States over the 1990 to1994 period. The results showed that the number of annual board meetings was negatively related to market value. Nonetheless, when prior poor performance of the firm was incorporated in the model, the operating performance of the firm improved in the following years of abnormal board meeting. These improvements were most apparent for firms performing poor before such years and firms not engaged in corporate control transactions. Overall, the results suggested that board meeting frequency was an important determinant of company performance and the board's ability.

Mak and Kusnadi (2005) examined a sample of the 230 firms listed on the Singapore Exchange and Kuala Lumpur Stock Exchange. Each financial data, board composition, ownership structure, and other relevant data were collected for each firm for the 1999 or 2000 financial years. They examined whether board size mattered with firm value by using Tobin's Q. The results showed that the board size effect in which firm value was highest when board size was 5. Larger board seemed less effective as compared to smaller board. It should be pointed out that the board size of 5 was relatively small number in these two markets.

Linck, Netter, and Yang (2008) used about 7,000 firms in United States from 1990 to 2004 to examine the corporate board structure, trends, and determinants. The results found that the board structure of firms was based on the costs and benefits of monitoring and advising. Strong relations between board structure and firm characteristics were shown. The board size was found to become smaller and more independent in the 1990s. Small firms indicated an apparent increase in board independence, whereas, large firms had more dramatic decrease in board size.

Lwu Egwounwu (2010) reviewed existing literature on effectiveness of independent directors on the firm performance. Mixed evidence was found in which the effectiveness of independent directors was also influenced by organizational structural and culture factors. Despite independent directors had improving corporate governance, it had not conclusively indicated better firm performance. The studies in the west such as United States either showed no consistent relationship or no relationship at all between independent directors and firm performance. On the other hand, studies done in the east, appeared to support the conventional wisdom that independent directors produced positive firm performance.

In Malaysia, the Malaysian Code on Corporate Governance (MCCG) was developed and approved by the high level Finance Committee on Corporate Governance (FCCG) in 2001. Ponnu (2008, p.218) indicated that "the Malaysian Code on Corporate Governance is the main cornerstone of the corporate governance reforms agenda in Malaysia. It provides guidelines on the principles and best practices in corporate governance and the direction for the implementation as well as charts the future prospects of corporate governance in Malaysia". Ponnu, (2008) further asserted that the companies which fully complied with MCCG showed better performance than the companies which had lower compliance. With respect to board independence, the results showed that increased of independent directors from below 33% to more than 33% indicated better firm performance than those companies whose proportion of independent director remained to less than 33%".

Despite the MCCG not being mandatory for the companies to comply, the listing requirements of Bursa Malaysia has incorporated parts of MCCG. For example, at least one third or two independent directors, whichever is higher, of the board should be independent directors for a public listed company that are listed in Bursa Malaysia.

3. Data and Method

This study concentrated on the board of directors of the constituents of the FTSE Bursa Malaysia KLCI for four years from year 2005 to 2008. FTSE Bursa Malaysia KLCI comprises the 30 largest companies in the Bursa Malaysia (Bursa Malaysia, 2010a).

The Malaysian Code on Corporate Governance and KLSE listing requirements require the companies to reveal certain data in their annual reports. The sections of the annual reports which were relevant to this study were board of directors' list, director's profile, attendance of the directors and the statement on corporate governance. The data can be downloaded from Bursa Malaysia

website (Bursa Malaysia, 2010b). However, the annual reports of the companies which did not have sufficient information of the variables are excluded. Companies which had been listed or privatized after 2005 were excluded from this study. Also, the directors who were appointed in the middle of the financial year and were unable to attend at least 50 percent of the board's meetings were excluded from the analysis.

This study used directors' profile section of the annual reports to determine the number of directorships each director held as the KLSE listing requirements forced the companies to disclose the number of directorships each director served in public companies.

3.1 The Dependant Variable: Directors' Attendance

The dependant variable of "directors' attendance" is defined as the percentage of total board meetings in which a director was present.

3.2 Multiple Directorships

"Multiple directorships" is an independent variable and is defined as the number of outside directorships each director of each company held.

3.3 Board Size

Since the board size did not meet the normality assumption, for consistency and to reduce the distorting effects of outliers, as well as minimizing the problems that appeared when the normality assumption was violated, the variable "board size" was defined as the natural logarithm of the total number of the directors who sat in the board of directors meetings in each fiscal year, as stated in companies' annual reports.

3.4 Independent Directors

The "independent directors" variable was determined as the percentage of the board of directors' independent/outside directors in each fiscal year. Independent outside directors were described as directors who were not current or past employees of the firm, did not have significant business or family ties with management, nor had potential business links with the firm.

3.5 Number of Annual Board Meetings

Since the annual meeting variable was not normally distributed, to minimize the problems that came along the violation of normality assumption as well as consistency of the variables and to lessen the effects of outliers, the independent variable of "number of annual board meetings" was defined as the natural logarithm of the number of board meetings which had been held in a fiscal year, as stated in the companies' annual report.

3.6 Ethnicity of the Director

Malaysia is a multiracial country and ethnicities play an important role in leading the firms. There is a recognizable capital segment division by ethnic lines in the Malaysian corporate environment. There are many ethnic groups in Malaysia; Bumiputra Malays, Chinese, Indians, Ibans, Kadazans, etc.; but from observing the public listed companies, their board memberships and share ownerships, there are two main ethnic groups who dominate much of the socio-economic activities and political policy making decisions: Bumiputra Malays and the Chinese.

Chinese-controlled firms have contributed significantly to the economy of Malaysia. Listed private Chinese family-controlled companies are profit oriented and they use minimum costs of production to produce maximum output. Given this unique corporate environment of Malaysia and separation of bumiputra and non-bumiputra in it, this study measured the independent dummy variable of "race" and its potential relation to the absence of directors in the board meetings. The variable valued 0 if the director was non-bumiputra and 1 if the director was bumiputra.

3.7 Age

This research studied the association between the age of the director and its attendance in the board meetings by defining the independent variable of "age" which was defined as the natural logarithm of the age of the director who served in the board. Since age was seriously departing from normality, natural logarithm was used to minimize the problem.

3.8 Regression Model

This study used the percentage of directors' attendance in the board meetings as the sole dependent variable, and number of multiple directorships, board size, and the percentage of independent directors, the number of annual meetings, age and race of the directors as the independent variables. The regression equation based on the dependent and independent variables is as follows:

Director's Attendance = $a + b_1$ (Multiple Directorships) + b_2 Ln (Board Size) + b_3 (Independent Directors) + b_4 Ln (Annual Meetings) + b_5 Race + b_6 Ln (Age)

The data of variables for year 2005 to 2008 was collected on an individual basis and on the pooled basis. Descriptive statistics was employed. Besides, both cross-section and time-series analyses were used in order to capture the effect of control variables on directors' attendance through a multiple regression methodology. The regression approach had been recommended in multiple directorships and used frequently in previous studies (Ferris et al., 2003; Fich and Shivdasani, 2006).

Assumptions of normality, linearity, homoscedasticity and multicollinearity were also tested before using the multivariate regression method to test the hypotheses. Multivariate regressions for each model were run for each year (2005-2008) as well as for the pooled data for all four years. No multicollinearity had been found between variables.

4. Analyses and Discussions

Descriptive statistics of the dependent and independent variables for the pooled sample, year 2005, 2006, 2007 and 2008 are shown in Table 1. The upward trend is consistent with the increase of the mean of the board size from 8.61 in 2005 to 8.88 in 2008. The mean of the board size's pooled sample for 2005-2008 is 8.74.

On the other hand, the number of multiple directorships a director hold has experienced a decrease from 3.83 in year 2005 to 3.59 in year 2006, 3.39 in year 2007 and 3.29 in year 2008. The mean of the number of multiple directorships for the pooled sample 2005-2008 is 3.52. Mean of the percentage of independent directors of the board for the pooled sample is 44.40%. While the mean for independent directors fluctuated throughout the sample period (2005 to 2008), generally it has risen from 44.5% in 2005 to 45.72% in 2008.

The average number of annual meetings of the board grew from 8.27 in the year 2005 to 8.53 in year 2008 and the peak in year 2007 with 9.11 annual meetings. The arithmetic average of the number of annual meetings of the pooled sample 2005-2008 is 8.63. The mean age of the directors is also augmented by 2 years from 58.63 in year 2005 to 60.11 in year 2008 with an upward trend. The mean age for the pooled sample is between 59 and 60 years old.

The percentage of Bumiputra directors of the participants of FTSE KLCI index has dropped from 53.7% in 2005 to 49.8% in 2008 while it peaks in 2006 with 54.5%. On the contrary, the percentage of non-Bumiputra directors has risen from 46.3% in 2005 to 50.2% in 2008 with some fluctuations.

Table 2 shows the distribution of the number of multiple directorships each director holds. The largest frequency, 17.36%, is for directors that hold no other directorships. This could be due to the fact that directorships in private and subsidiary corporations are not disclosed in the annual reports. About 88.62% of the directors hold six and less outside board seat. This shows the popularity of multiple directorships among Malaysian directors. The percentage of directors who hold zero directorships to six outside directorships remain more than 10% (17.36%, 10.80%, 11.03%, 13.10%, 13.10%, 10.80%, 12.41% respectively), while it drops dramatically to 4.48% for directors who hold seven outside directorships. These frequencies show that the optimum amount of outside directorships among Malaysian directors is six. Approximately 4% of directors hold more than ten outside directorships. The highest number of outside directorships in the sample is 13 with a percentage of 0.23%.

Table 1. Descriptive Statistics for Dependent and Independent Variables

	All *Minimum* *Maximum* *Mean* *Standard Deviation* *N=870**	*2005* *Minimum* *Maximum* *Mean* *Standard Deviation* *N=218**	*2006* *Minimum* *Maximum* *Mean* *Standard Deviation* *N=213**	*2007* *Minimum* *Maximum* *Mean* *Standard Deviation* *N=218**	*2008* *Minimum* *Maximum* *Mean* *Standard Deviation* *N=221**
Dependent variable[1]					
Directors' Attendance	44.44% 100% 92.87% 0.1115	50.00% 100% 92.21% 0.1195	50.00% 100% 92.22% 0.1166	50.00% 100% 93.36% 0.1051	44.44% 100% 93.65% 0.1042
Independent variables[1]					
Multiple Directorships	0.00 13.00 3.52 2.76	0.00 13.00 3.83 2.90	0.00 13.00 3.59 2.82	0.00 12.00 3.39 2.66	0.00 12.00 3.29 2.64
Board Size	5.00 13.00 8.74 2.19	6.00 13.00 8.61 2.12	5.00 13.00 8.61 2.19	5.00 13.00 8.85 2.13	5.00 13.00 8.88 2.42
Independent directors	25% 77.78% 44.40% 0.1033	28.57% 77.78% 44.50% 0.1238	30.77% 66.67% 44.44% 0.0934	25% 62.5% 42.94% 0.0966	30.77% 66.67% 45.72% 0.1010
No. Annual meetings	4.00 23.00 8.63 4.52	4.00 17.00 8.27 4.40	4.00 18.00 8.61 4.59	4.00 23.00 9.11 5.15	4.00 16.00 8.53 4.10
Age of the director	27.00 87.00 59.54 10.32	31.00 84.00 58.63 10.24	32.00 85.00 59.51 10.30	27.00 86.00 59.90 10.52	28.00 87.00 60.11 10.21
Race of the Director					
Bumiputras (%)	52.3%	53.7%	54.5%	51.4%	49.8%
Non-Bumiputras (%)	47.7%	46.3%	45.5%	48.6%	50.2%

* The number of board size samples, independent directors samples, annual meeting samples are 104 for the pooled samples and 26 for each year.

** All the data extracted from annual reports of the companies in FTSE BMKLCI from year 2005 to 2008.

Sources:

1- Bursa Malaysia, (2010b), Annual Reports [Online], Retrieved from http://www.bursamalaysia.com/website/bm/listed_companies/company_announcements/annual_reports/index.jsp [2010, February 1-20]

Table 2. Distribution of Multiple Directorships

Number of multiple directorships*	Total sample (2005-2008)		
	Frequency	Percent (%)	Cumulative Percent (%)
0	151	17.36	17.36
1	94	10.80	28.16
2	96	11.03	39.20
3	114	13.10	52.30
4	114	13.10	65.40
5	94	10.80	76.21
6	108	12.41	88.62
7	39	4.48	93.10
8	18	2.07	95.17
9	9	1.03	96.21
10	8	0.92	97.13
11	17	1.95	99.08
12	6	0.69	99.77
13	2	0.23	100
Total	870	100	-

* All the data extracted from annual reports of the participant companies.
Sources:
1- Bursa Malaysia, (2010b), Annual Reports [Online], Retrieved from http://www.bursamalaysia.com/website/bm/listed_companies/ company_announcements/annual_reports/index.jsp [2010, February 1-20]

The Pearson correlations are presented in Table 3 for the pooled samples 2005-2008. Table 4 shows Pearson correlations for 2005, 2006, 2007 and 2008. As it is reflected in the tables, all the pair-wise correlations for all years are less than 0.80 and no multicollinearity between the variables detected[4]. Table 5 which is the collinearity statistics, shows the tolerances for all the independent variables which are greater than 0.1 and Variation Inflation Factors (VIFs) which are all lesser than 10. This confirms that there is no multicollinearity problem[5].

Table 3. Pearson Correlation Matrix for Independent and Dependent Variables for Pooled Samples (2005-2008)

	Attendance	Multiple Directorships	Board Size	Independent Directors	Annual Meetings	Race	Age
Attendance	1.000	0.028**	-0.204**	0.182	0.019	0.042	0.076*
Multiple Directorships	0.028	1.000	0.170**	-0.008	0.103**	0.043	0.102**
Board Size	-0.204**	0.170**	1.000	-0.210**	0.214**	0.060	0.007
Independent Directors	0.182**	-0.008	-0.210**	1.000**	0.428**	0.092**	0.136**
Annual Meetings	0.019	0.103**	0.214**	0.428**	1.000	0.207**	-0.006
Race	0.042	0.043	0.060	0.092**	0.207**	1.000	0.139**
Age	0.076*	0.102**	0.007	0.136**	-0.006	0.139**	1.000

Notes:
** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

[4] When the Pearson correlation is more than 0.8, the multicollinearity problem may exists (Gujarati,2009).
[5] According to Hair et. al., (1998), there would be no multicollinearity problem if tolerance for independent variables are greater than 0.1 and VIFs are all smaller than 10.

Table 4. Pearson Correlation Matrix Independent and Dependant Variables for Years 2005 to 2008

	Year	Attendance	Multiple Directorships	Board Size	Independent Directors	Annual Meetings	Race	Age
Attendance	2005	1.000						
	2006	1.000						
	2007	1.000						
	2008	1.000						
Multiple Directorships	2005	-0.054	1.000					
	2006	0.030	1.000					
	2007	0.112	1.000					
	2008	0.061	1.000					
Board Size	2005	-0.339	0.166	1.000				
	2006	-0.161	0.171	1.000				
	2007	-0.135	0.232	1.000				
	2008	-0.189	0.137	1.000				
Independent Directors	2005	0.227	0.065	-0.245	1.000			
	2006	0.270	0.009	-0.121	1.000			
	2007	0.139	-0.009	-0.173	1.000			
	2008	0.069	-0.120	-0.295	1.000			
Annual meetings	2005	-0.016	0.123	0.180	0.310	1.000		
	2006	0.069	0.084	0.080	0.527	1.000		
	2007	0.020	0.126	0.185	0.607	1.000		
	2008	-0.011	0.099	0.398	0.306	1.000		
	2005	0.055	0.058	-0.004	0.082	0.175	1.000	
Race	2006	0.027	0.045	-0.004	0.117	0.225	1.000	
	2007	0.010	0.027	0.100	0.107	0.194	1.000	
	2008	0.086	0.030	0.147	0.074	0.247	1.000	
	2005	0.059	0.192	0.021	0.205	-0.022	0.115	1.000
Age	2006	0.198	0.116	0.001	0.124	-0.021	0.142	1.000
	2007	-0.071	0.037	-0.006	0.058	-0.044	0.133	1.000
	2008	0.106	0.073	0.003	0.142	0.056	0.173	1.000

Table 5. Collinearity Statistics

	All *Tolerance* *VIF*	*2005* *Tolerance* *VIF*	*2006* *Tolerance* *VIF*	*2007* *Tolerance* *VIF*	*2008* *Tolerance* *VIF*
Multiple Directorships	0.955	0.925	0.951	0.936	0.956
	1.047	1.081	1.051	1.069	1.046
Board Size	0.824	0.838	0.931	0.803	0.646
	1.214	1.194	1.074	1.246	1.549
Independent directors	0.701	0.761	0.676	0.539	0.674
	1.426	1.313	1.480	1.856	1.484
No. Annual meetings	0.687	0.794	0.659	0.522	0.618
	1.455	1.260	1.518	1.914	1.617
Race of the director	0.937	0.953	0.927	0.938	0.910
	1.067	1.049	1.079	1.066	1.099
Age of the Director	0.942	0.897	0.936	0.962	0.943
	1.062	1.115	1.068	1.040	1.060

Table 6 presents the results of regression analysis for the pooled samples (2005-2008), years 2005, 2006, 2007 and 2008. The overall regression results seem to be significant. The F-values are in the range of 5.729 in 2005 to 10.784 for pooled data. All five models are significant for the pooled samples, as well as individual year of 2005 to 2008. The regression equation for the pooled samples (2005-2008) as shown in Table 6 is as follows:

Directors' Attendance = 0.920 + 0.002 (Multiple Directorships) - 0.083 Ln (Board Size) + 0.149 (Independent Directors) - 0.003 Ln (Annual meetings) + 0.008 (Race) + 0.029 Ln (Age)

The equation indicates that for every unit increase in the number of multiple directorships of a director, his presence in the board will increase by 0.2% provided that other variables, board size, percentage of independent directors, number of annual meetings and age, remain constant. The same applies to independent directors, race and age which will increase the directors' presence while other independent variables remain unchanged. However, an increase in the board size and the number of annual meetings reduces the percentage of attendance in the board.

In the pooled samples, the p-value for board size and independent directors are less than 0.05 (both are 0.00). This shows that board size and independent directors are the strong determinants of directors' attendance. The R-square values reported in Table 6 are between 6.5 to 14 percent. This means approximately 6.5 to 14 percent of variation in directors' attendance can be explained by all independent variables. Schroeder, Sjoquist, and Stephan (1986) remarked "it is quite possible for all regression coefficients to be significantly different from zero, and yet the coefficient of determination may be very small. If testing hypotheses about the regression coefficients is the aim of the study, the coefficient of determination should be considered only as additional information, not as the summary indicator of the quality of results" (p.56). Nau (2005) contended that an R-square of 10% or even as low as 5% may be considered as statistically significant in some applications e.g. predicting stock returns. Moreover, several previous empirical studies measuring the effects of multiple directorships have also reported that R-square values of lower than 10% (Ahn, Jiraporn & Kim, 2010; Perry & Peyer, 2005) and yet produced convincing results.

Due to the strong significance of board size in determining the percentage of directors' attendance, Table 7 presents the descriptive statistics of directors' attendance in relation to the board size for the pooled sample. Panel A of Table 7 indicates that the percentage of directors' attendance reduces gradually when the board has 9 members and above. The board size of 13 has the minimum attendance at 84.62% as the board size of 7 corresponds to the maximum attendance at 96.36. To gauge a better understanding on the effect of the board size on directors' attendance, we further divide the board size in two different groups: board size of 5 to 9, and board size of 10 to 13. It is clear from the Table that the board size of 5 to 9 has the higher attendance (94.47%) than another group (board size of 10 to 13) with 90.32%, respectively (see Panel B of Table 7). The results show that board size of 5 to 9 appear to have higher board members' attendance than a board size of 10 to 13. Given these results, the study would suggest the optimum board size of 9 or less.

Table 6. Regression of Directors' Attendance and Independent Variables

	All				**2005**			
R^2 (%)	6.9				14			
F-value	10.687				5.729			
P-value	0.000				0.000			
	B	Standard Error	t	sig	B	Standard Error	t	sig
Constant	0.920	0.090	10.194	0.000	1.100	0.188	5.839	0.000
Multiple directorships	0.002	0.001	1.638	0.102	-0.001	0.003	-0.330	0.742
Board Size	-0.083	0.016	-5.062	0.000	-0.150	0.035	-4.258	0.000
Independent Directors	0.149	0.042	3.577	0.000	0.146	0.072	2.038	0.043
Annual Meetings	-0.003	0.009	-0.360	0.719	-0.003	0.017	-0.172	0.864
Race	0.008	0.008	1.012	0.312	0.010	0.016	0.626	0.532
Age	0.029	0.021	1.412	0.158	0.022	0.044	0.499	0.618
	2006				**2007**			
R^2 (%)	12.2				6.5			
F-value	4.753				2.449			
P-value	0.000				0.026			
	B	Standard Error	t	sig	B	Standard Error	t	sig
Constant	0.517	0.191	2.710	0.007	1.213	0.174	6.973	0.000
Multiple directorships	0.002	0.003	0.541	0.589	0.006	0.003	2.297	0.023
Board Size	-0.062	0.032	-1.937	0.054	-0.056	0.033	-1.701	0.090
Independent Directors	0.315	0.094	3.344	0.001	0.196	0.099	1.979	0.049
Annual Meetings	-0.013	0.019	-0.707	0.480	-0.019	0.018	-1.042	0.298
Race	-0.004	0.016	-0.239	0.811	0.006	0.014	0.445	0.657
Age	0.105	0.044	2.396	0.017	-0.055	0.039	-1.421	0.157
	2008							
R^2 (%)	6.6		F-value	2.500				
			P-value	0.023				
	B	Standard Error	T	sig				
Constant	0.915	0.172	5.321	0.000				
Multiple directorships	0.003	0.003	1.123	0.263				
Board Size	-0.097	0.032	-3.013	0.003				
Independent Directors	-0.035	0.085	-0.413	0.680				
Annual Meetings	0.014	0.019	0.741	0.459				
Race	0.019	0.014	1.332	0.184				
Age	0.050	0.039	1.269	0.206				

Table 7. Descriptive Statistics of Directors' Attendance in Relation to Board Size

Panel A:	Board Size		Attendance
	5	Mean	93.48%
		Standard Deviation	0.1001
	6	Mean	95.82%
		Standard Deviation	0.0810
	7	Mean	96.36%
		Standard Deviation	0.0662
	8	Mean	92.38%
		Standard Deviation	0.1353
	9	Mean	94.50%
		Standard Deviation	0.0996
	10	Mean	93.27%
		Standard Deviation	0.0892
	11	Mean	93.13%
		Standard Deviation	0.0886
	12	Mean	91.99%
		Standard Deviation	0.1217
	13	Mean	84.62%
		Standard Deviation	0.1434

Panel B:	Board Size		Attendance
	(5 to 9)	Mean	94.47%
		Standard Deviation	0.1024
	(10 to 13)	Mean	90.32%
		Standard Deviation	0.1204

The reputation hypothesis posits that directors are inclined to have more outside directorships because it improves their experiences, helps them to build business networks and enhances their status. This study shows that about 60% of the directors have three or more outside directorships and about 88% of them have six outside directorships and lesser. This reflects the popularity of multiple directorships among Malaysian directors. These findings are consistent with the results of several studies (Fama, 1980; Fama & Jensen, 1983; Ferris et al., 2003).

The percentage of independent directors in a board also shows a relation with directors' attendance in the meetings. As the percentage increases, the likelihood of the director's absence in the board decreases. This is consistent with the some studies which advocate that the larger the percentage of independent directors in a board, the better the firm's performance (Iwu-Egwuonwu, 2010).

Although the common belief is when the number of annual meetings of a board increases, the directors tend to miss the meetings. However, this study finds no significant relation between the number of annual meetings and the percentage of director's attendance in board meetings. At the same time, age and ethnicity of the director are also not the significant determinants of directors' attendance in board meetings.

4.1 Implications of the Study

The results of regression analysis show that board size is the strongest determinant of directors' attendance in the board with negative and high significant coefficients. The finding implies that in larger boards, directors tend to attend fewer meetings. Relatively larger boards affect inversely on directors' concern on company issues and make it easy for directors to be absent from board meeting. Their absence is less noticeable and fewer responsibilities are entrusted to them.

This study also finds the negative relation between percentage of independent directors in the board and directors' attendance. As the percentage of independent directors in a board increases, the probability of directors' absence falls. Boards with more independent directors are more efficient and produce better performance. The increase of independent directors in the boards not only improves the overall performance of the firms but also enhances the monitoring role of the directors.

Despite the general belief that directors tend to be absent in boards which have large number of annual meetings, this study fails to provide evidence on the relation of number of annual meetings and directors' absence. In addition, the number of multiple directorships of a director is also found to be unrelated to his or her absence in board meetings.

This study finds no evidence to support the busyness hypothesis.

As the board size is the strong determinant of directors' absence in board meetings, this study recommends companies to scrutinize and investigate the optimal board size to maximize the efficiency and the board's productivity. As the optimal level for a board size differs from one company to another, this study recommends the companies to have boards with 9 or less members. This range is found to be the optimum board size with the least director's absence. This result is quite consistent with recommendation of Jensen (1993) for board size of no more than 8 in United States. Generally, board of director, like any decision making board, the larger the board size, the greater the difficulties in decision making as well as coordination.

Since the percentage of the independent directors have a positive effect on directors' attendance in board meetings, this study recommends the companies to have more independent directors on their board to improve board effectiveness and firm performance.

5. Conclusion

This study finds the board size and the percentage of independent directors in the board as significant determinants for director absence. No significant relation between multiple directorships and directors' attendance is found. This study also suggests for firms to have a board size with 9 or less to be more effective in supervision and monitoring. Future researchers may investigate not only the quantitative variables, but also the possible relation of qualitative variables (i.e. personal relationships, political network etc.) and directors' absence.

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