

RGC Ref. No.: <b>UGC/FDS14/B03/18</b> _____ (please insert ref. above)
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**RESEARCH GRANTS COUNCIL  
COMPETITIVE RESEARCH FUNDING SCHEMES FOR  
THE LOCAL SELF-FINANCING DEGREE SECTOR**

**FACULTY DEVELOPMENT SCHEME (FDS)**

**Completion Report**  
*(for completed projects only)*

<p><b><u>Submission Deadlines:</u></b></p> <ol style="list-style-type: none"> <li>1. Auditor's report with unspent balance, if any: within <b>six</b> months of the approved project completion date.</li> <li>2. Completion report: within <b>12</b> months of the approved project completion date.</li> </ol>
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**Part A: The Project and Investigator(s)**

**1. Project Title**

Too Busy to Help? Recent Evidence on Multiple Directorships and Firm Performance  
in Hong Kong

**2. Investigator(s) and Academic Department(s) / Unit(s) Involved**

Research Team	Name / Post	Unit / Department / Institution
Principal Investigator	LIU Junxia / Assistant Professor	Department of Accountancy / The Hang Seng University of Hong Kong
Co-Investigator(s)		
Others		

**3. Project Duration**

	Original	Revised	Date of RGC / Institution Approval <i>(must be quoted)</i>
Project Start Date	January 1, 2019		
Project Completion Date	December 31, 2020	June 30, 2021	August 26, 2020
Duration <i>(in month)</i>	24	30	August 26, 2020
Deadline for Submission of Completion Report	December 31, 2021	June 30, 2022	August 26, 2020

**Part B: The Final Report****5. Project Objectives**

## 5.1 Objectives as per original application

1. To examine the effect of independent directors with multiple board appointments on firm performance using a sample of Hong Kong listed firms collected after the latest 2012 regulatory change for INEDs.
2. To investigate how director characteristics, such as geographical distance, prestige incentives, and political connections, affect the performance of INEDs holding multiple directorships.
3. To identify the channels through which INEDs with multiple directorships detract from or improve firm performance, including attendance at board meetings, frequency and magnitude of related party transactions, and external debt financing.

## 5.2 Revised objectives

Date of approval from the RGC: Nil.

Reasons for the change:

- 1.
- 2.
3. ..

### 5.3 Realisation of the objectives

*(Maximum 1 page; please state how and to what extent the project objectives have been achieved; give reasons for under-achievements and outline attempts to overcome problems, if any)*

The project objectives have been achieved, which is evident from the fact that: the working paper directly arising from the project has been submitted to and under review at the *Journal of Business Finance and Accounting* (JBFA), a journal indexed by SSCI and ranked Type A by our Department and Business School (i.e., following the Academic Journal Guide (ABS earlier) ranking).

### 5.4 Summary of objectives addressed to date

<b>Objectives</b> <i>(as per 5.1/5.2 above)</i>	<b>Addressed</b> <i>(please tick)</i>	<b>Percentage Achieved</b> <i>(please estimate)</i>
1. To examine the effect of independent directors with multiple board appointments on firm performance using a sample of Hong Kong listed firms collected after the latest 2012 regulatory change for INEDs.	√	100%
2. To investigate how director characteristics, such as geographical distance, prestige incentives, and political connections, affect the performance of INEDs holding multiple directorships.	√	100%
3. To identify the channels through which INEDs with multiple directorships detract from or improve firm performance, including attendance at board meetings, frequency and magnitude of related party transactions, and external debt financing.	√	100%
4.		

## 6. Research Outcome

### 6.1 Major findings and research outcome

*(Maximum 1 page; please make reference to Part C where necessary)*

In the submitted and under review working paper titled “*Multiple Directorships and Firm Performance: Evidence from Independent Director Effort Allocation in Hong Kong*”, we examine the relation between multiple directorships and firm performance in Hong Kong from a new perspective of independent non-executive directors’ unequal effort allocation across directorships.

Given that an individual’s time and effort are limited, independent directors with multiple directorships face the dilemma of how to allocate their limited time and effort across the boards they serve. Prior research on the relation between multiple directorships and firm performance in Hong Kong uses the number of multiple directorships and implicitly assumes equal effort allocation. Assuming that independent directors devote unequal effort in exercising their monitoring and advising duties among multiple directorships, this study examines whether the unequal prioritization of effort across directorships affects firm performance using Hong Kong listed firm data in 2012-2018.

Our results show that independent directors with multiple directorships prioritize their limited time and effort according to the relative reputation effect that each directorship can offer. They are more likely to devote more effort to their more prestigious directorships. Using 9,063 firm-year observations, we find that firms with a greater proportion of independent directors who view the directorship as relatively more prestigious and thus devote more effort are more likely to have better firm performance.

Further analysis using 34,062 director-firm-year observations reveals that independent directors ranking their directorships as more prestigious are more diligent in attending board meetings and are more likely to help enhance firm performance.

Our findings are of potential interest to stock exchange regulators and listed company boards of directors. We provide evidence in support of HKEX’s new disclosure requirement for nominating INEDs who will be serving on their seventh or more directorships. To avoid the negative performance effects of multiple directorships, listed company boards should assess their firm size relative to other firms supervised by the independent director nominee if the nominee already holds multiple board positions.

### 6.2 Potential for further development of the research and the proposed course of action

*(Maximum half a page)*

This project proposed to use the number of outside directorships (MD) to examine the relation between multiple directorships and firm performance. However, recent literature questions the validity of this MD measure because it is difficult to disentangle an INED’s attention from ability. INEDs with multiple directorships are likely to have less time available to each directorship (attention), but more capable INEDs are also likely to have multiple directorships (ability). Therefore, recent papers in top-tier finance and accounting journals begin to use time-varying distraction shocks to examine the performance effect of MDs. The INEDs may remain constant (same

directors, same ability), but the allocation of an INED's time and attention can vary substantially when distractions occur. Such distractions can be personal or professional, positive or negative, for example, the death of directors, the poor performance of their primary employers or other firms they hold directorships, etc. We hand collected data on INEDs and we should be able to conduct the study using distraction shocks.

## 7. Layman's Summary

*(Describe in layman's language the nature, significance and value of the research project, in no more than 200 words)*

While Hong Kong Stock Exchange does not impose a limit on multiple directorships, concerns have been expressed about the time commitment of busy independent non-executive directors (INEDs). Highly trained professionals, including professional accountants, lawyers, and executives from the financial sector, constitute a major portion of highly sought-after INEDs in Hong Kong. Their experience, expertise, and connections are very likely to make them excellent advisors and help to improve firm performance.

Given that a director's time and effort are limited, INEDs with multiple directorships face the dilemma of how to allocate their limited time and effort across all the boards they serve. Prior research finds that INEDs on multiple boards value each directorship differently and distribute their effort unequally based on the relative prestige benefits a board offers, which is correlated with firm size. Thus, busy INEDs' strong incentives to prioritize more prestigious boards (i.e., larger firms) may reduce the time and effort they can devote to relatively small firms, and thereby compromise their monitoring or advising abilities and firm performance.

This project examines whether INEDs' unequal effort allocation enhances or diminishes firm performance and identifies the channels through which INEDs with multiple directorships affect firm performance.

**Part C: Research Output****8. Peer-Reviewed Journal Publication(s) Arising Directly From This Research Project**

*(Please attach a copy of the publication and/or the letter of acceptance if not yet submitted in the previous progress report(s). All listed publications must acknowledge RGC's funding support by quoting the specific grant reference.)*

The Latest Status of Publications				Author(s) (denote the corresponding author with an asterisk*)	Title and Journal / Book (with the volume, pages and other necessary publishing details specified)	Submitted to RGC (indicate the year ending of the relevant progress report)	Attached to this Report (Yes or No)	Acknowledged the Support of RGC (Yes or No)	Accessible from the Institutional Repository (Yes or No)
Year of Publication	Year of Acceptance (For paper accepted but not yet published)	Under Review	Under Preparation (optional)						
		√		Liu, Junxia* Liu, Yu	Multiple Directorships and Firm Performance: Evidence from Independent Director Effort Allocation in Hong Kong. <i>Journal of Business Finance and Accounting</i> .	No	Yes (Annex I)	Yes	No (Will be available upon acceptance / publication)

**9. Recognized International Conference(s) In Which Paper(s) Related To This Research Project Was / Were Delivered**

*(Please attach a copy of each conference abstract)*

Month / Year / Place	Title	Conference Name	Submitted to RGC (indicate the year ending of the relevant progress report)	Attached to this Report (Yes or No)	Acknowledged the Support of RGC (Yes or No)	Accessible from the Institutional Repository (Yes or No)
Nil						

## 10. Whether Research Experience And New Knowledge Has Been Transferred / Has Contributed To Teaching And Learning

*(Please elaborate)*

I shared the research findings with BBA-Accounting and BBA-Corporate Governance and Compliance students in classes and other occasions such as personal tutor-tutee meetings, to inform students of the recent development of HKEX regulations on INEDs.

I also included part of the literature and its policy implications which I have learned from doing this project in the writing of a book chapter on corporate governance, i.e., Chan, T., Leung, T. and Liu, J. (2020). 董事會權責及組成, In Simon Ho and Kevin Lam (Eds.), 企業管治新論, Chapter 7, pp 43-69, 匯智出版, ISBN: 9789887443759 (in Chinese).

## 11. Student(s) Trained

*(Please attach a copy of the title page of the thesis)*

Name	Degree Registered for	Date of Registration	Date of Thesis Submission / Graduation
Nil			

## 12. Other Impact

*(e.g. award of patents or prizes, collaboration with other research institutions, technology transfer, teaching enhancement, etc.)*

The first RA hired for this project was a PhD student in Chongqing University. We collaborated well during his time in HK. After his completion of the six-month RA contract, we have been working on another paper, titled “Does industry audit risk similarity affect auditor expertise? Evidence from China”. This co-authored paper was presented at 2020 AIBSEAR Hong Kong Conference on 3-5 December 2020. It was re-submitted to Asia-Pacific Journal of Accounting & Economics on 18 May 2022 for the fourth-round review, and it is very promising to be published. Further collaborations are expected in the future.

The second RA hired for this project lost his job in the banking industry at the outbreak of the Covid-19 pandemic. His data handling ability helped this project; meanwhile, this position provided him with essential financial supports to go through the difficult time.

**13. Statistics on Research Outputs**

	<b>Peer-reviewed Journal Publications</b>	<b>Conference Papers</b>	<b>Scholarly Books, Monographs and Chapters</b>	<b>Patents Awarded</b>	<b>Other Research Outputs (please specify)</b>	
<b>No. of outputs arising directly from this research project</b>					Type	No.
					journal paper (under review)	1

**14. Public Access Of Completion Report**

*(Please specify the information, if any, that cannot be provided for public access and give the reasons.)*

<b>Information that Cannot Be Provided for Public Access</b>	<b>Reasons</b>
Nil	