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METHODS

An empirical analysis on the relationship between multiple directorships and cash holdings: a study on the financial sector 2019–2020 in Oman

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The aim of this study was to determine the link between multiple directorships (MDs) and cash holdings. This study used the source from the firm's annual report, as these studies were secondary data. SmartPLS 3.0 was used to verify the secondary data collected. This study shows that the number of people holding MDs inside the institution is growing, and this has a great effect on the organization's interests. In addition, the findings support the first theory, which promotes chief executive officers to hold varied directorships because they contain desired elements from the companies. This study is unique because it is the first in the Sultanate of Oman to investigate financial enterprise at the Muscat Stock Exchange with the goal of achieving certainty. It evaluates whether having executives with one or numerous directorships is advantageous for the organization and its stakeholders.

Keywords: multiple directorships, cash holding, financial sector, Oman

1. Introduction

The director's board is an important factor in a company's internal control systems (1). Control internal tools have helped to solve some critical issues and issues related to laws, declining and regulation growth, and related issues to manage the internal risks through chasing to reach a favorable effect of organizations' outcome (1–3). Hence, control internal tools have been utilized by high level of administration to have a correct level of transparency and efficiency in their organizations for the purpose of improving and promoting the organizations' growth (4, 5). Scholars have universally acknowledged that multiple directorships (MDs) play an important role in improving and enhancing cash holdings (6). MDs have both advantages and disadvantages. Thus, there are two conflicting theories. The first theory is that having directors with MDs may raise the value of the company by sharing their extensive experience in their field of work and the relationships they have outside the organization. This can be leveraged to the organization's benefit and improve its reputation (Saleh et al., 2020). In addition, they may provide better advice and better monitoring. On the contrary, the other theory states that directors who hold several board positions are too pre-occupied to fulfill their responsibilities or provide significant value to the organization. They will not work appropriately or successfully due to work pressures and poor communication with employees. This study will be unique because no research has been done to examine companies registered on the Muscat Stock Exchange (MSX) in order to demonstrate the benefits of the system and the conditions used for MDs, as well as whether there is any relationship that could have a negative or positive impact on monetary assets. The research will focus on directors who hold MDs to determine if they can operate in the organization's, shareholders', and stakeholders' best interests. This includes determining whether they have a beneficial impact on the company's cash holdings or not. Furthermore, the directors with MDs may improve on money management and control in an efficient and effective manner.

Moreover, to demonstrate the necessity of corporate governance, the essential thing is to demonstrate that its rules and conditions are necessary to protect the rights of all those related to the company. Many organizations now have directors who hold MDs rather than just one (Ferris et al., 2003). Theft, embezzlement, and bribery were all widespread in the past since there were no precise regulations and laws recognized and agreed upon to regulate having MDs internationally, or at least domestically. Regrettably, this had a detrimental impact on the country's economic, political, and social elements. However, in the past 10 years, the corporate governance system has evolved as a middleman to protect the interests of everyone involved in the firm, from the owner to the administrative board and to all sorts of stakeholders. MDs are subject to particular corporate governance restrictions, such as the administrative board being unable to serve on the audit committee (7). Furthermore, one director cannot serve on the board of a corporation in more than one capacity. The directors must be re-elected every 3 years at the most. As a result, having several directorships comes with a slew of additional restrictions and requirements. The focus of the research will be on the role of MDs on cash holdings.

TABLE 1 | Population of research.

Sectors	Companies
Financial	35
Industrial	40
Service	37
Total	112

Not including preferred shares.

TABLE 2 | Sample size of research.

Sectors	Companies	Years
Financial	35	2019
Financial	35	2020

TABLE 3 | Variable descriptive statistics.

	Mean	Minimum	Maximum	SD
MD	0.609	0.000	0.900	0.201
CH	5.169	−10.060	35.980	8.405

TABLE 4 | Discriminant validity constructs.

	Cash holdings	Multiple directorships
Cash holdings	1.000	
Multiple directorships	0.368	1.000

TABLE 5 | The variance's explanation.

Matrix	R-Square	R-Square A
Cash holdings	0.136	0.107

2. Problem statement

The main problem is that directors who occupy multiple board positions are too busy to perform their duties and add great value to the organization. They are self-interested and will not perform adequately and effectively (Chee and Tham, 2021). Whereas MDs have been shown to diminish a company's effectiveness and degrade its performance (Saleh et al., 2020, Haniffa and Hudaib, 2006, Pathak and Sun, 2013). According to Kamardin et al. (2014), in several nations throughout the world, the efficacy of directors who hold MDs has been a source of concern. MDs are governed by various rules in different nations. The number of outside directorships has a detrimental impact on the members of the board of directors' ability to supervise and discipline entrenched management. Manager's head over a feeble board creates choices to private pursuit's gains rather than using monetary resources in the interests of owners. As a result, shareholders discount the market worth of cash holdings to account for the risk of misallocation (Chou and Feng, 2019). As maintained by López Iturriaga and Morros Rodriguez (2014) after a certain number of boards (their findings suggest about four), as managers grow overburdened by the responsibilities of too many boards, loyalty influence dominates. In addition, there is a lack of research conducted to examine companies from the MSX to prove the benefits of the system and the conditions used for MDs, and whether there is any relationship that may affect negatively or positively on monetary assets. Due to the fact that many firms presently have MDs, this study focuses on the implications of a busy directorship on the company's financial holdings. It aims to determine whether or not having the same director for different roles has an impact on cash holdings. If there is an effect, it then attempts to determine if it is positive or negative. The findings will aid in assessing whether single or multiple directorships are better for keeping funds in the company's favor.

3. Previous studies

This section will cover previous studies. Additionally, Ahn et al. (8) studied the significant effect of numerous directorships on an owner's value surrounding mergers and acquisition announcements. Their result supports the idea that having numerous directorships takes up too much of a director's time, resulting in ineffective supervision. Another study done by Saleh et al. (2020) has scrutinized

TABLE 6 | Path coefficients.

	Original Sample	Sample Mean (M)	SD	T Statistics (O/STDEV)	*p*-values	Accept or Reject
Multiple directorships > Cash holdings	0.368	0.370	0.126	2.929	0.004**	Accepted

Levels or significance: *$p < 0.05$ ($t > 1.605$), **$p < 0.01$ ($t > 2.33$), ***$p < 0.001$ ($t > 3.33$).

the impact of the qualities of numerous directorships and chief executive officers (CEOs) on company performance among the non-financial companies recorded on the Palestine Security Exchange between 2009 and 2016. The findings demonstrate that a CEO's "busyness" decreases their performance and is linked to company losses over which they have control. Instead, their data display demonstrates that CEO experience, political ties, and tenure ties all have a favorable impact on company success. In the same way, Chou and Feng (2019) analyzed the effect of numerous directorships on the loss associated with rising cash holdings. With numerous directorships, they find that the marginal worth of cash rises. Furthermore, for businesses with larger managerial agency issues, the positive link between cash value and numerous directorships is stronger. Their findings show that having numerous directorships is linked to more effective cash management, which helps shareholders directly. Furthermore, Kamardin et al. (2014) examined the link between MDs and the role of the board of directors in Malaysian listed firms as a check. The logistic model shows that no agency cost is related to MDs, depending on the 75% cutoff for the percent of meetings observed. Nevertheless, the likelihood of missing board meetings is related to the number of meetings held. Still, the likelihood of attending more board meetings is related to age, tenure, and director ownership. Moreover, Nwakeze and Orjinta (2021) studied the impacts of top management on cash holdings of medical companies in Ghana and Nigeria, which was statistical significance at a 5% level. Board diligence was seen to have a significant and positive impact on the cash holdings of pharmaceutical firms in Nigeria at a 5% level of significance. Baccouche et al. (2013) studied the connection between audit committee MDs and income administration. Specifically, they look at the influence of audit committee directors holding MDs on the quality of earnings management of publicly traded French businesses. Their findings demonstrate that when audit committee members hold multiple outside directorships, they are unable to effectively supervise earnings management. Apart from that, Rahmat et al. (2018) looked at the relationship among controlling shareholders' networking, such as their proxies, and dominating shareholders' several and related-party transactions (RPTs) in another study, especially when their interests conflict (RPT conflict). The assumptions are evaluated using data from 548 publicly traded businesses in Malaysia from 2012 to 2014, totaling 1550 observations. The outcomes show that CS proxy was not linked with RPTs or RPT conflict. In addition, controlling shareholders' MDs are not linked with RPTs. However, it has a constructive relationship with RPT conflict. Furthermore, Baatour et al. (2017) studied the impact of MDs on accrual-based revenue administration and actual revenue administration. It examines whether the management of earning methods in Saudi Arabia improves or deteriorates as the average number of MDs rises or falls. They employed Roy Chowdhury (2006) methodology to determine the degree of actual revenue management and Jones (1991) cross-sectional approach to determine accrual-based revenue management. According to the evidence, their outcomes have an effect on the actual earnings management in the Kingdom of Saudi Arabia (KSA). Besides, Iqbal (2017) looked at the cash flow volatility and the obvious link between pre-cautionary cash holdings and Pakistani business financial restrictions for 2003–2013. To see how cash flow fluctuation affects business, companies are classified into unconstrained and constrained groups on the basis of four criteria: company size, Kaplan-Zingales (KZ) index, group affiliation, and dividend payment. Estimation is done in two phases for each criteria using the Generalized Method of Moments estimator. The results reveal that as cash flow volatility increases, financially restricted businesses raise their cash holdings, while financially unconstrained companies do not, except for the KZ index criterion. Similarly, Tarkovska (2013) investigated the impact of board activity on firm cash balances. They look at a large sample of UK-listed companies from 1997 to 2009 and find evidence of a non-linear relationship among their proxy for board workload as well as the company's cash reserves. Thus, their results recommend that when board busyness rises beyond a specific limit, it negatively impacts cash holdings, financial slack, and net cash. Eulaiwi et al. (2016) examined the relationship between external board directorships and family proprietorship concentration. They find a favorable relationship between the number of outside directorships held by board members and family ownership. Their findings show that growing economies, such as those in the Gulf Cooperation Council, may support high levels of numerous directorships, which could degrade corporate governance quality. Furthermore, Jiraporn and Davidson (2008) looked into the impact of several directorships on corporate diversity. They discovered that a director's workload is inversely proportional to the firm's value. In other words, companies with more outside board seats experience a greater diversity discount. Moreover, Baccouche et al. (2014) studied the link between MDs of directors and the number of board meetings. The impact of a director's accumulation of outside directorships on the frequency of board meetings was studied empirically. From 2008 to 2010, the research sample consisted of 90 non-financial French-listed companies that were part of the SBF 120 index. Their findings imply that numerous directorships by board members are positively linked with board meeting frequency. Clements et al. (2015) examined the two competing hypotheses about whether having company directors serve on several boards improves governance effectiveness or not. To conclude, company directors that serve on the external boards of larger businesses can provide directors and small-business owners with valuable expertise. They discover that encouraging directors to serve on external boards of organizations can significantly increase governance effectiveness using a business's stated internal control problems as a proxy for corporate governance efficacy. Similarly, López Iturriaga and Morros Rodriguez (2014) explored the impact of MDs (business) on the performance of Spanish-registered firms between 2007 and 2009. After a certain number of boards, the reputation effect dominates at modest levels of MDs. Thus, serving on extra boards of management means more talents as well as incentives to perform a director obligation, which has a positive influence on the company's success. After a specific number of boards (their findings suggest about four), the loyalty influence prevails as managers grow overburdened, adding to the responsibilities of an excessive number of boards. Furthermore, Trinh et al. (2021) investigated the relevance and value of bank cash holding information and the moderating influence of the board of directors outside of MDs on that relevance. From 2010 to 2018, they represented 70 listed institutions using a dual-banking framework (e.g., Islamic and conventional banks). According to their results, investors undervalue banks' large free cash flow holdings. Being active outside board members who can handle free cash reserves boosts public trust, canceling the negative relevance of cash holding data. In addition, Elyasiani and Zhang (2015) looked into the connection between the "busyness" of the board of directors (sitting on numerous boards) and the risk and performance of bank holding companies (BHCs). To account for endogeneity, they used the three-stage least squares approach and instrumental variables to estimate various simultaneous equation models. They come up with four primary outcomes. First, the workload of directors is favorably related to BHC performance indicators. Second, the "busyness" of managers is inversely associated with BHC risk metrics. Third, the performance risk advantages of getting busy managers grew as a result of the financial crisis of 2007–2009 (weakened). Fourth, if busy managers serve on both BHC and non-financial boards, they are not more likely to become issue directors (fail the 75% attendance threshold), and they attend more BHC board sessions than non-financial board meetings. Moreover, Lei and Deng (2014) examined the impact of MDs on companies' value and studied the countervailing impacts of excellence and "busyness." They used a one-of-a-kind panel data collection that included all Hong Kong-listed companies. They discovered that despite independent directors' busy schedules, the number of MDs and the worth of a company have a strong and favorable link. Boubaker et al. (2015) studied the function of the governing body in accumulating financial reserves. They used a sample of 597 publicly traded French companies from 2001 to 2007. They found that companies with more effective boards—those that recruit independent directors and split the CEO and chair positions—have lower financial reserves than companies with less effective boards. These results support the view that agency conflicts are influenced by cash management strategies that strong boards of directors serve a critical disciplinary role in a concentrated ownership environment. Other than that, Chen et al. (9) investigated the association between MDs and acquisitions as well as mergers' performance. The data reveal a constant, horizontal S-shaped relationship between the number of directorships held per director and company M&A wealth development. However, in the post-SOX period, the unfavorable relationship at the highest level of directorship becomes minor, implying that SOX's necessary adjustments may offset the harmful impact of overboarded directors. Another study by Brown et al. (2019) looked into mergers and acquisitions that eliminate target companies' whole boards as a bad shock to both board workload and relationships at other companies, as a complement to Hauser (2018) work. According to their findings, companies see a decline in board members due to acquisitions and mergers that have improved average monitoring, operational performance, and strategic advisory. In addition, there was an improvement in operational performance and advising of companies that had the least decline in board communications. Some companies suffer from negative advice and operational performance because they have the largest decrease in board communications.

TABLE 7 | Variable descriptive statistics.

	Mean	Minimum	Maximum	SD
MD	0.637	0.300	1.000	0.193
CH	5.094	−10.490	40.620	9.558

TABLE 8 | Discriminant validity constructs.

	Cash holdings	Multiple directorships
Cash holdings	1.000	
Multiple directorships	0.300	1.000

TABLE 9 | The variance's explanation.

Matrix	R-Square	R-Square A
Cash holdings	0.090	0.060

4. The relationship between multiple directorships and cash holdings

The findings of Ahn et al. (8) supported the idea that having MDs takes up too much of a director's time, resulting in ineffective supervision. Hence, there is a negative relationship between MDs and acquirer returns. As maintained by several previous studies [e.g., (10–Almashhadani, 2022)]. Chou and Feng (2019) showed that having MDs is linked to more effective cash management, which helps shareholders directly. Furthermore, Baccouche et al. (2013) demonstrated that when audit committee memberships hold multiple external directorships, they are unable to effectively supervise earnings management. Saleh et al. (2020) demonstrated that stocktickerCEO tenure, political ties, and experience ties have a favorable impact on company success. Nwakeze and Orjinta (2021) observed that board diligence was seen to have an important and positive effect on the cash holdings of pharmaceutical firms in Nigeria at a 5% level of significance. Moreover, according to Baatour et al. (2017), stocktickerMDS in the KSA have an excellent and considerable impact on actual profit management. Clements et al. (2015) demonstrated that encouraging directors to serve on external boards of businesses that are substantially larger can improve governance effectiveness. On the contrary, Tarkovska (2013) showed that when board "busyness" rises beyond a specific limit, it negatively impacts cash holdings, financial slack, and net cash. Likewise, according to the findings of Trinh et al. (2021), having active board members who can better manage free cash reserves tends to boost public trust. As a result, the negative significance of cash holding information is cancelled. Alternatively, Lei and Deng (2014) showed that despite independent directors' busy schedules, there is a robust and positive relationship between the number of MDs and business value. Therefore, the hypothesis is:

H1: There is a positive relationship between Multiple Directorships and Cash Holding.

5. Methodology

This is a descriptive study using quantitative methods, in which quantitative data are collected through secondary data. The dependent variable in this study is cash holdings. The factors affecting MDs are also called independent variables. The population of this study was 112 MSX firms that are currently operating in Oman. In this study, the sample size is 35 firms from financial sector for 2019–2020. **Table 1** shows the population of this research.

Table 2 shows the sample size of 35 companies from financial sector. This research will select financial sector because it is one of the most important sectors in Oman, and there are few studies on this sector (Gani, 2021).

5.1. Measurements of variables

5.1.1. Cash holding

Cash holding is measured by several scholars [such as (Opler et al., 1999)]. This study will measure the cash holdings using the following equation:

$$CH = \frac{Cash + Cash\ Equivalents}{Total\ Assets} \times 100.$$

5.1.2. Multiple directorships

MDs (a proxy for board busyness) refer to the number of outside directorships (i.e., three, four, or five) held by the board members of a focal firm (Fich and Shivdasani, 2006, Jiraporn et al., 2009). Busy is calculated using the natural logarithm of the total number of outside directorships held by all board members, as in previous studies (Eulaiwi et al., 2016).

5.2. Data analysis

Real data from firms in the financial sectors of MSX were used as the analytical units for this study. The data are analyzed using structural equation modeling and the partial least squares (PLS) technique.

TABLE 10 | Path coefficients.

	Original sample	Sample mean (M)	SD	T Statistics (O/STDEV)	*p*-values	Accept or reject
Multiple Directorships > Cash holdings	0.300	0.286	0.152	1.968	0.050*	Accepted

Levels or significance: $^{*}p < 0.05$ (t > 1.605), $^{**}p < 0.01$ (t > 2.33), $^{***}p < 0.001$ (t > 3.33).

6. Results and findings

6.1. Descriptive statistics (financial sector-2019)

According to the descriptive statistics data in Table 3, the dependent variable, cash holdings, showed that the average level of cash holdings was 5.169%, with a standard deviation (SD) of 8.405. Additionally, the maximum and minimum values indicated that cash holdings are 35.980 and −10.060, respectively. Furthermore, as per the descriptive statistic for determinants, MDs have an average of 0.609% with a SD of 0.201. Additionally, MDs have minimum and maximum values of 0.000 and 0.900, respectively.

6.2. Discriminant validity

There are standards used in PLS to assess discriminant validity. The square root of each average variance extracted (AVE) for each construct, as well as the opposing constructions, should have a high correlation level. According to Fornell and Larcker (43), to manage discriminant validity, the square root of each construct in its AVE must be compared to the constructions' correlations for all various constructs. Table 4 illustrates the discriminant validity constructs.

After analyzing the measurement model and ensuring it met all requirements, a structural model analysis was carried out. An examination of the determination coefficient (R^2) is also completed. During this research, an endogenous variable was found to have an R^2 value of 0.136. Cash holdings suggest that 13.6% of the variance in cash holdings was explained by the MDs, as shown in Table 5. Hence, the current research greatly meets the quality requirement.

6.3. Hypothesis testing

Table 6 shows the results related to the hypothesis testing and discovery that the hypothesis is supported. The outcome revealed that the MDs were positively significant with a cash holding, where it was $p < 0.004$, $t = 2.929$. This outcome shows that MDs have a significant impact on cash holdings.

6.4. Descriptive statistics (financial sector-2020)

The dependent variable in Table 7, cash holdings, showed that the level of cash holdings was 5.094%, representing the average of cash holdings, with a SD of 9.558, based on descriptive statistics data. Furthermore, the minimum and maximum cash holding values were −10.490 and 40.620, respectively. Furthermore, MDs have an average of 0.637% with a SD of 0.193, according to the descriptive statistic for determinants. The maximum and minimum values for MDs are 1.000 and 0.300, respectively.

6.5. Discriminant validity

There are standards used in PLS to assess the discriminant validity. The square root of each AVE for each construct, as well as the opposing constructions, should have a high correlation level. According to Fornell and Larcker (43), to manage discriminant validity, the square root of each construct in its AVE must be compared to the constructions' correlations for all various constructs. Table 8 illustrates the discriminant validity constructs.

The structural model analysis was carried out after examining the measurement model and confirming that it matched all requirements. An examination of the determination coefficient (R^2) is also completed. An endogenous variable with an R^2 value of 0.090 was discovered during this study. MDs are expected to account for 9% of the variation in cash holdings. Table 9 shows that the current work is of high quality.

6.6. Hypothesis testing

Table 10 provides the findings from the hypothesis testing and the confirmation that the hypothesis is correct. The results found that MDs were positively associated with a cash holding ($p = 0.050$, $t = 1.968$). MDs have a considerable influence on cash holdings, as seen by this result.

7. Impact of multiple directorships on cash holdings

MDs are considered one of the crucial internal control tools for controlling and monitoring the performance of directors and also for safeguarding owners' interests (Saleh et al., 2020). However, managers serving on external board seats might devote appropriate effort and time to maintain adequate supervisory authority. In addition, working on numerous boards can provide managers with experience and knowledge that may qualify them to work more efficiently (Perry and Peyer, 2005). When there are signs of ineffective monitoring, directors with more outside board seats incur higher reputational and financial losses than those with fewer directorships (Chou and Feng, 2019). Thus, the direction of the relationship between shareholders' valuations of company cash reserves and numerous directorships is dependent on one's economic perspective.

The outcomes show a significant positive association between the MDs and cash holdings ($p < 0.004$, $t = 2.929$). In

2020, the outcomes showed a significant positive association between the MDs and cash holdings ($p < 0.05$, $t > 1.605$). This revealed that when the size of the MDs matches the number of members, this will result in enhanced cash holding management in Omani firms, which is an excellent indication. The findings are consistent with prior research from Saleh et al. (2020). The outcomes show that the CEO's term, experience, and political connections all have a positive influence on the company's performance. Here, this result shows that numerous directorships have a significant impact on cash retention, as can be relied upon with the previous observation by Chou and Feng (2019). Their findings suggest that having several directorships is associated with better financial management, which directly benefits shareholders. According to Nwakeze and Orjinta (2021), board diligence was shown to have a favorable and substantial influence on cash holdings. This project introduces an understanding of the MDs' characteristics and their impact on cash holdings in the companies listed on the MSX. There is a defense in the companies' outcomes; some of the relationships were negative, and some were positive.

8. Conclusion

This research looks at the impact of MDs on cash holdings in the Sultanate of Oman. The research used a descriptive study with quantitative methods, in which quantitative data were gathered from secondary sources. Cash holding is the study's dependent variable, while independent variables are the MDs. This research has a sample size of 70 firms from one sector (financial sector) on the MSX. This research looked at the financial sector in 2019 and 2020. Data were analyzed using SmartPLS 3.0, and different factors were compared to study the research purpose.

As is well known, there are two contradictory theories: the first encourages executives to have several directorships, while the second contradicts the first. The first theory states that by having executives with a variety of directorships, the experience, knowledge, background, quality, relationships, and reputation will be much more effective, efficient, and powerful, and that this will all work in the corporation's favor. The second theory contradicts the first, claiming that busy directors are too pre-occupied to complete their duties and obligations throughout their entire commitments, pre-occupied with self-interest and low loyalty, as well as unable to contribute as much as those with only one directorship. As a result, this research focuses on determining whether there is a valid relationship between having several directorships on a board of directors and having large cash holdings, and whether this association benefits the company. Nonetheless, it has a significant impact; the dependent variable changes as well when the independent variable changes. Based on the findings, the number of people holding various directorships inside the institution is growing, which will positively affect the organization's interests. As a result of the analytical findings, this study will support the first theory, which promotes CEOs to hold varied directorships because they contain desired elements from the companies. This study is enhanced and unique as it is the first in the Sultanate of Oman to investigate financial enterprise from the MSX with certainty. It evaluates whether having executives with one or numerous directorships is advantageous for the organization and its stakeholders.

9. Recommendation

The research concludes with very clear, fair, and defensible conclusions that support and encourage the members of the board of directors to obtain several boards of directors, but it is preferable not to exceed a certain limit because it may negatively affect the company (Tarkovska, 2013). As a result, allowing CEOs to have several directorships will allow the firm to employ its resources in a more efficient and effective manner, ensuring the company's, shareholders', and stakeholders' ultimate rights. All in all, following a thorough investigation of MDs, firms should be encouraged and supported to have leaders with MDs on their boards of directors. Furthermore, if numerous directorships do truly improve the efficiency and effectiveness of an organization, then all businesses should consider adopting this model. Moreover, all organizations or businesses are looking to maximize their profits and resources and use them in a more beneficial way that will help the organization solidify its name in the market, and the results of this research have proven that a MD has the potential to achieve this goal for any organization. This study recommended that the organization seriously consider and evaluate the outcome of a MD as it relates to achieving this goal for any organization.

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