

Economic Growth and the Potential of Corruption's Existence: The Case of Distracted Directors in Saudi Arabia

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Abstracts: The objective of this study is to examine the impact of distracted directors on the economic growth of companies listed in Saudi Arabia for the period 2012-2019. The final sample consists of 509 firm-year observations. This study integrated the return on assets (ROA), return on equity (ROE), and profit margin ratio (PMR) to establish a composite score indicating the economic growth of companies (EG). Specifically, this study focused on the analysis of firm performance through the utilization of three distinct individual models as well as a composite model. The composite measure (EG) was derived using factor analysis, a statistical technique, to assess companies' growth. Furthermore, this study used the hypotheses derived from well-established theories to explain the relationship between distracted directors and the economic growth of companies. These include the social network theory, the reputational hypothesis, the agency-based busyness hypothesis, and the resource-dependence theory. The social network theory, reputational hypothesis, and resource-dependence theory all posit positive correlations, whereas the busyness hypothesis posits a negative correlation. This study posits a potential correlation without specifying its direction because of the conflicting theories that attempt to predict the relationship, as well as the inconsistent results reported in previous empirical research. The study's findings provided support for the agency-based busyness hypothesis, as they revealed a negative association between distracted directors and economic growth. The findings of this study have significant implications for the corporate governance policymakers in Saudi Arabia, particularly in relation to the understanding of how distracted directors sitting on the board may indicate potential corruption that, in turn, has a negative impact on the economic growth of companies.

Keywords: Distracted Directors, Companies' Economic Growth, Potential Corruption, Saudi Arabia.

1. INTRODUCTION

The recent spate of corporate financial scandals has highlighted worries about corporate governance. The current studies on corporate governance indicated that there is a link between corporate governance mechanisms and firm performance (Gibson, 2003; Klapper & Love, 2004; Claessens & Yurtoglu, 2013; Kao et al., 2019). The directors' board, as an internal tool for governance, reduces any potential issues of agency between the management of a company and shareholders, which could boost the firm's profitability (Cubbin & Leech, 1983; Aydin et al., 2007). Organizations nevertheless have interest conflicts and a variety of focuses, which expose them to agency difficulties, despite the existence of corporate governance institutions like the board of directors (Fama & Jensen, 1983; Jensen & Meckling, 1976). The difficulty arises from the board of directors' incapacity to carry out the crucial tasks of monitoring the company's managers and providing the necessary guidance (Mace, 1971; Waked & Aljaaidi, 2021; Sharma et al., 2021; Aljaaidi et al., 2021a, b; Kamardin et al., 2014; Chou et al., 2014). Particularly, a number of earlier and more current research suggest a connection between the effectiveness of the board of directors and the company's performance (Merendino & Melville, 2019; Gomez et al., 2017; Hillman & Dalziel, 2003; Brennan, 2006; Agyemang et al., 2014; Makhlof et al., 2017). Moreover, some companies have busy directors whose behavior influences their companies' performance. Under the busyness hypothesis of agency theory, busy directors adversely affect the company when it has several directors (e.g., Beasley, 1996; Sarkar and Sarkar, 2009; Saleh et al., 2020; Kamardin and Harson, 2011; Latif et al., 2020; Meeusen and Cuyvers, 1985; Fligstein and Brantley, 1992). Azzoz and Khamees (2015) advocated lowering the number of board members. However, the dependence theory contends the more directors there are, the better the performance (Pfeffer & Salancick, 1978; Westphal, 1999; Casciaro & Piskorski, 2005; Westphal, Boivie, & Chng, 2006; Horton, Millo, & Serafeim, 2012; Granovetter, 1985). The inference shows that researchers lack a consensus regarding the financial impact of busy directors. Moreover, they used different proxies of firm performance together as individual examinations which caused conflicting and inconclusive results. The enforcement of corporate governance mechanisms differs in developing and developed countries, with the latter lacking strong, established financial systems. Researchers have

also considered this disparity when linking board interlocks and performance (Berezints & Ilina, 2016). They discovered contradictory findings, even if the selected countries had related economic, political, and cultural conditions.

This study seeks to advance the extant empirical research linking distracted directors with the economic growth of companies incorporated in the context of Saudi Arabia. This study adds contributions in several ways. First, the social network theory, the reputational hypothesis, the agency-based busyness hypothesis, and the resource-dependence theory are used in this study to make predictions about the connection between distracted directors and the economic growth of companies in the setting of Saudi Arabia where there is a paucity of research conducted in this setting. Therefore, this study fills in some of the gaps in the issues of distracted directors and the economic growth of companies using the predictions of four theories. second, this study suggests that measures of companies' economic growth are related in that they measure one aspect of the companies' growth. They should have utilized a bundle of measures since they are complements or substitutes for each other. The reported conflicting results by the previous studies may refer to potential errors in assessing a single measure's impact of companies' economic growth (Berezints & Ilina, 2016). Therefore, this study establishes a composite score of return on assets (ROA), return on equity (ROE), and profit margin ratio (PMR) as three proxies for companies' economic growth. These proxies have been examined individually as three models and in combination as a composite score using the statistical technique of factor analysis. Since previous studies on firm performance examined firm performance measures independently of one another and how each measure addressed a different aspect of companies' economic growth, they produced mixed results because they ignored the idea that the effectiveness of one measure depends on the effectiveness of the other measures. Moreover, this is important to consider these measures as a bundle rather than as separate measures that need to be considered in isolation from one another as they act in a substitutable manner as a whole. Furthermore, the results of a single measure might be misleading. Therefore, the measurement effect improves with the assessment of several factors as opposed to individual metrics (O'Sullivan et al., 2008; Ward et al., 2009; Agrawal and Knoeber, 1996; Cai et al., 2009). Finally, this study explains the phenomena of distracted directors from another perspective. The higher degrees of distracted directors may lead to a potential for corruption existence. Distracted directors are incapable of effectively monitoring the management. They may shrink their responsibilities serving the board causing fraud, mistakes, and/or incomplete tasks which are associated with a greater likelihood of corruption. Consequently, the companies' economic value is reduced. Ferris et al. (2003) suggested that busy directors' lower monitoring may enhance the firm's litigation risk. According to the Busyness Hypothesis, numerous directorships increase fraud risk because directors overcommit to board appointments. According to Beasley (1996), outside directors' directorships are positively correlated with SEC enforcement actions for financial statement fraud. Sharma and Iselin (2012) examined the relationship between audit committee directorship and tenure and financial statement occurrences. Their study revealed that holding multiple directorships is associated with an increased likelihood of financial misstatements. Hasnan et al. (2013) reported a positive relationship between multiple directorships and fraudulent financial reporting.

The paper is organized as follows: The second section highlights the literature review and hypothesis development, the third section addresses the methodology, the fourth section reports the results and discussion, and the final section concludes the study.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

When a director holds more than one external directorship, there are director interlocks (Fich, Shivdasani, 2006; Cashman, Gillan, Jun, 2012). The theory of agency and its hypothesis of busyness, the social network theory, the reputational hypothesis, and the dependence theory are among the hypotheses that can explain the linking between interlocks' directors and the performance of business. The hypothesis's busyness, rooted in agency theory, holds that company owners should expect directors to consistently act in the company's and its owner's best interests (Jensen & Meckling, 1976). Therefore, the director should allocate lots of work and time to the organization (Madison, 2015; Morck et al., 1988). The challenge lies with directors with several directorships, where they lack adequate time to closely scrutinize the internal control systems. The conflict of interest negatively influences directors' effectiveness in monitoring management. It necessitates them to divide their attention and time to cater to

all directorships (Madison, 2015; Fich & Shivdasani, 2006; Cashman et al., 2012; Falato et al., 2014; Kamardin & Haron, 2011; Latif et al., 2013). In addition, Fernández-Méndez et al. (2015) indicated the corporate adverse of directors' impact on the company's performance increases with their degree of busyness. The busier they are, the greater the diversion from the focus of the board (Kaczmarek et al., 2012) and the lower the independence board (Davis, 1993). Moreover, they might be absent from board meetings and devote less time to a company's operations. It is also associated with directors' failure to fully execute their responsibilities of them (Chiranga and Chiwira, 2014; Li & Ang, 2000; Jiraporn et al., 2009; Min & Chizema, 2018) and exposes the company to fraud (Beasley, 1996). This behavior leads to poor corporate governance and transmission of information (Fich & Shivdasani, 2006).

The authors also discovered that busy directors only invest most of their time in their elite network instead of organizational roles (Burris, 1992; Koenig & Gogel, 1981; Windolf & Beyer, 1996). Busy directors transmit good and bad practices and information (Armstrong & Larcker, 2009; Bizjak et al., 2009; Kang, 2008; Lamb, 2017), and they fail to do their responsibilities (Morck, Shleifer, & Vishny, 1988). Directors' busyness has an impact negatively on company's performance because investors react negatively to stock market (Sarkar & Sarkar, 2009), lowering market-to-book ratios and reducing their sensitivity to CEO turnover (Haniffa & Hudaib, 2006; Jackling & Johl, 2009). Directors also develop a reduced sensitivity to CEO turnover (Core et al., 1999) and fail to recognize loan loss provisions in a timely manner (Kutubi et al., 2021). Moreover, CEOs participate in the selection of directors and exploit their peers' inadequacy to increase their compensation (Shivdasani & Yermack, 1999). Conflicts of interest also make directors ignore management's advice (Shamsudin et al., 2018). As a result, the agency theory's busyness hypothesis anticipates a negative correlation between director interlocks and business performance. Sarkar and Sarkar (2009), Lee and Isa (2015), Latif et al. (2020), Shamsudin et al. (2018), Fligstein and Brantley (1985), O'Sullivan (2009), Ahn et al. (2010a, 2010b), Meeusen and Cuyvers (1985), Andres & Lehmann (2010), and Jiraporn et al. (2008) provide empirical support for this theory (1992).

The social network theory also examines how interlocking director relationships affect business success. Its focus is on the director networks that allow for the leveraging of interpersonal connections and commercial transactions (Granovetter, 1985). Researchers also employ the reputational theory, which contends that an individual's reputation and expertise are influenced by the number of subsequent directorships. The more links there are, the higher the ability to deal with financial reporting issues due to superiority in data processing and increased firm value. Therefore, organizations collecting diverse data require busy directors to effectively exploit the information (Bédard et al., 2004; Shivdasani, 1993; Yang et al., 2005; James et al., 2018). The resource dependence theory ensures that managers secure the needed resources and regulate their supply. Thus, it complements the assertions of social network theory and the reputational hypothesis regarding improved financial performance after relying on interlocking directors. The hypothesis demonstrates that directors promote organizational cooperation and reduce environmental unpredictability (Pfeffer & Salancick, 1978). The directors accomplish this by having access to all the resources and information required for improved organizational performance (Pfeffer & Salancick, 1978; Casciaro & Piskorski, 2005; Westphal et al., 2006).

Several empirical studies report the desirable influence of director interlocks on various organizational issues. For instance, directorship determines board members' quality during advising and monitoring of management (Ferris et al., 2003; Kaplan & Reishus, 1990). It also reduces default risk and real earnings management, coupled with realistic cash-effective tax rates (James et al., 2018). Interlocking directors' lower financial independence, with efficiency in data management fosters borrowing and governance practices (Lang & Lockhart, 1990). Management hires resourceful outside directors and achieves vertical coordination of suppliers and clients (Hillman et al., 2000). Director interlocks foster employees' expertise since directors interact with different types of customers (Carpenter & Westphal, 2001). In addition, they improve the formation of alliances (Mizsuchi, 1996) as well as the management dissemination and practices of governance through exchanging knowledge and experiences (Cunha & Piccoli, 2017; Hashim & Rahman, 2011; Shi et al., 2013). Director interlocks serve to streamline competition among competitors, to streamline supply and demand between suppliers and customers, enhance competence and reputation among all interested parties (Schoorman et al., 1981), facilitate alliance formation (Gulati & Westphal, 1999), effective acquisition (Stearns & Mizsuchi, 1993), carrier of information (Useem, 1986), the transfer of best

practices and critical information (Hillman & Dalziel, 2003), and the thwarting of opportunism through enhancing the information flow across firms (Phan, Lee, & Lau, 2003). With the support of social network theory, reputational hypothesis, and resource dependence theory, many empirical studies have reported a positive relationship between the performance of a firm and director interlocks (Ferris et al., 2003; Fich, 2005; James et al., 2018; Field, Lowry, & Mkrtychyan, 2013; Harris & Shimizu, 2004; Horton, Millo & Serafeim, 2012; Keys & Li, 2005).

Following the discussion given above, we propose the following relationship between Saudi Arabian firm economic growth and distracted directors:

H₁: Ceteris paribus, there is a relationship between distracted directors and companies' economic growth.

3. METHODOLOGY

3.1 Sample Selection

All manufacturing companies that were listed on the Saudi Stock Exchange (Tadawul) from 2012 to 2019 made up the research population. Due to missing data for some study variables, as shown in Table 4, the final sample of the study consisted of between 509 and 496 firm-year observations. Data on the governance and firm characteristics were manually collected from the sampled companies' annual reports.

3.2. Data Analysis

This study uses descriptive statistics to describe multiple directorships, family ownership, governmental ownership, board meetings, firm leverage, board size, age, and firm size. In addition, this study uses multivariate analysis to estimate four models of firm economic growth as follows:

$$FP (ROA) = \beta_0 + \beta_1 PMDIR + \beta_2 FOWN + \beta_3 GOWN + \beta_4 BISIZE + \beta_5 BMEET + \beta_6 FSIZE + \beta_7 LEV + \beta_8 AGE e \quad (1)$$

$$FP (ROE) = \beta_0 + \beta_1 PMDIR + \beta_2 FOWN + \beta_3 GOWN + \beta_4 BISIZE + \beta_5 BMEET + \beta_6 FSIZE + \beta_7 LEV + \beta_8 AGE e \quad (2)$$

$$FP (PMR) = \beta_0 + \beta_1 PMDIR + \beta_2 FOWN + \beta_3 GOWN + \beta_4 BISIZE + \beta_5 BMEET + \beta_6 FSIZE + \beta_7 LEV + \beta_8 AGE e \quad (3)$$

$$FP (EG) = \beta_0 + \beta_1 PMDIR + \beta_2 FOWN + \beta_3 GOWN + \beta_4 BISIZE + \beta_5 BMEET + \beta_6 FSIZE + \beta_7 LEV + \beta_8 AGE e \quad (4)$$

Where:

Dependent variables

ROA = Return on assets.

ROE = Return on equity.

PMR = Profit margin ratio

EG = Composite measure of ROA, ROE, and PMR

Test variable

PMDIR = The ratio of members on the board with multiple directorships (more than two directorships) to total members

Control variables

FOWN = Percentage of ordinary shares held by a family

GOWN	=	Percentage of ordinary shares held by the government and its agencies
FSIZE	=	Log ₁₀ of total assets
LEV	=	Debt to total assets ratio
AGE	+	The number of years since the company is established
E	=	error term.

In this study, the effects of numerous control variables are considered. In the relationship between family ownership and corporate success, favorable results are anticipated (Bataineh, Abed, & Suwaidan, 2019). It is anticipated that there will be a negative correlation between governmental ownership and corporate performance (Xu and Wang, 1999; Megginson et al., 1994; Ongore, 2011). The relationship between board size and business performance is anticipated to be as follows: Omer & Aljaaidi, 2021; Omer et al., 2020a; Aljaaidi & Hassan, 2020; Al-Abbas, 2008; Al-Ghamdi, 2012; Pearce & Zahra, 1992; Dalton et al., 1999; Kiel & Nicholson, 2003). Regarding the relationship between board meetings and firm performance, negative outcomes are projected (Aljaaidi & Hassan, 2020; Omer et al., 2020a; Palaniappan, 2017). Business size and performance are projected to have a negative correlation (Omer & Aljaaidi, 2021; Omer et al., 2020a; Aljaaidi & Hassa, 2020; Omer et al., 2020b). The link between firm leverage and firm performance is predicted to have a negative sign (Omer & Aljaaidi, 2021; Omer et al., 2020a; Aljaaidi & Hassan, 2020; Omer et al., 2020b).

4. RESULTS AND DISCUSSIONS

The findings of the empirical investigation are illustrated in this section. It dealt with the analysis, presentation, and information interpretation gleaned from the sample firms' annual reports. The study's premises were tested using multiple regression analysis, more especially ordinary least squares (OLS).

After taking into consideration outliers, Table 1 displays the descriptive statistics for each variable. For each variable, the maximum, minimum, standard deviation values, and mean are shown. Regardless of the missing data, the descriptive statistics were given based on the available notes that were gathered. The larger sample was based on 509 observations, and the smallest sample was based on 496 companies.

Table 1. Descriptive statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Panel A: Continuous variables					
ROA	509	-.18	.27	.0441	.07357
ROE	509	-.83	.60	.0590	.13558
PMR	496	-19.86	4.81	.0471	1.09603
MDIR	548	.00	11.00	4.8595	2.71706
PMDIR	495	.00	1.00	.6248	.27286
BSIZE	509	.00	11.00	7.9804	2.00678
BMEET	509	.00	22.00	5.2377	2.37450
FSIZE	496	338027.00	189032000000.00	6825746215.7480	22230962107.63066
LEV	508	.01	6.65	.9615	1.10676
FOWN	509	.00	.73	.0598	.11800
GOWN	509	.00	.89	.0702	.16742
AGE	509	.00	64.00	26.4244	14.88501

According to Table 1, the average ROA had a standard deviation of 0.7357, a range of -.18 to .27, and a value of 0.441. The average ROE was .0590, with a minimum ROE of -.83, a maximum ROE of .60, and a standard deviation of .1355. The mean PMR was .0471, with a minimum PMR of -19.86, a maximum PMR of 4.81, and a standard deviation of 1.09603. The average MDIR is 4, the maximum MDIR is 11, the smallest MDIR is 0.00, and the standard deviation is 1.096. The PMDIR had a mean of 0.62, a standard deviation of 273, and a range of 0.00 to 1.00. The average BSIZE was 8, with a range of 0.00 to 11, and a standard deviation of 2.00678. BMEET had a mean of 5, a standard deviation of 2.37450, and a range of 0.00 to 22. The average FSIZE was 6825746215.7480, with a minimum of 338027.00, a maximum of 189032000000.00, and a standard deviation of 22230962107.63066. The mean LEV was .9615, with a minimum LEV of .01, a maximum LEV of 665, and a standard deviation of .10676. The FOWN had a mean of 0598, a standard deviation of .11800, and a range of .00 to .73. GOWN had a mean of 0.702, a standard deviation of .16742, and a range of 0.00 to 0.89. The average AGE was 26, with a range between 0 and 64, and with a standard deviation of 14.88501.

Table 2. Pearson correlation analysis

	PMDIR	BSIZE	BMEET	FSIZE	LEV	FOWN	GOWN	AGE
PMDIR	1							
BSIZE	.147**	1						
BMEET	-.002	.097*	1					
FSIZE	.419**	.399**	.073	1				
LEV	.159**	.101*	-.089*	.365**	1			
FOWN	-.024	-.122**	-.088*	-.198**	-.097*	1		
GOWN	.145**	.213**	.250**	.357**	-.013	-.154**	1	
AGE	.125	.199**	.217**	-.027	-.301**	-.038	.085	1

To determine if there was a link between the independent variables, multicollinearity was used. It employs the variance inflation factor and the Pearson correlation as two tests to assess whether there is a multicollinearity issue (VIF). A connection between these two variables was shown by the correlation of Pearson when the correlation's value between the independent variables was more than 0.60. (Anderson, Sweeney & Williams, 1996). The outcomes, however, showed that the Pearson correlation was less than 0.6. Since FSIZE and PMDIR had the highest correlation of 419., the independent variables were not multicollinear.

The Tolerance and VIF tests are an additional method for identifying the multicollinearity issue. The VIF boundary is 10 whereas the tolerance value's border is 0. (Hair et al., 1995). According to Table 3, the tolerance values were larger than 0.10, and the VIF values for the three regressions in this investigation were fewer than 10. As a result, the multicollinearity problem is not present in our investigation.

Table 3. Tolerance and VIF

Variables	ROA Model		ROE Model		PMR Model	
	Tolerance	VIF	Tolerance	VIF	Tolerance	VIF
PMDIR	.807	1.239	.807	1.239	.807	1.239
FOWN	.920	1.087	.920	1.087	.920	1.087
GOWN	.792	1.263	.792	1.263	.792	1.263
BSIZE	.776	1.289	.776	1.289	.776	1.289
BMEET	.885	1.130	.885	1.130	.885	1.130
FSIZE	.551	1.815	.551	1.815	.551	1.815
LEV	.756	1.322	.756	1.322	.756	1.322
AGE	.830	1.205	.830	1.205	.830	1.205

OLS regression was used to compare the dependent variable to the independent factors. The familiar R2 for the ROA model, which is 0.372 in Table 5, indicates that it has successfully explained 37.2% of the variance in economic growth of the firm. A good fit is indicated by this.

Table 5. Model Summary- ROA Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.619a	.383	.372	.05810

In Table 6, F-statistic of the ROA model is 36.826 with a significance level of 0.000. Due to the significance level being below 0.05, it suggests that the model is much more suitable.

Table 6. ANOVA- ROA Model

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.995	8	.124	36.826	.000b
Residual	1.604	475	.003		
Total	2.598	483			

The modified R2 for the ROE model, which is 0.424 in Table 7, indicates that 42.4% of the variance in the economic growth of the firm has been clarified by the ROE model. A good fit is indicated by this.

Table 7. Model Summary – ROE Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.659a	.434	.424	.10012

In Table 8, the F-statistic of the ROE model is 45.496, with a significant level of 0.000. Due to the significance level being below 0.05, it is recommended that the model is much more suitable.

Table 8. ANOVA- ROE Model

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	3.648	8	.456	45.496	.000b
	Residual	4.761	475	.010		
	Total	8.410	483			

According to Table 9, the PMR model has successfully described 4.3% of the overall variance in economic growth of firm with an adjusted R2 of 0.043.

Table 9. Model Summary – PMR Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.243a	.059	.043	1.08514

According to Table 10, the F-statistic for the PMR model is 3.739, with 0.000 being the level of significance. Because of the significance level is below 0.05, it suggests that the model is much more fit.

Table 10. ANOVA- PMR Model

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	35.226	8	4.403	3.739	.000b
	Residual	559.323	475	1.178		
	Total	594.549	483			

The significant value is the statistic deciding whether the hypothesis is rejected or accepted (or P value). According to the study's hypothesis, a bad connection between having several directorships and economic growth of the firm is there. As shown in Table 11 ($\beta = -0.30$, $t = -2.781$, $P = 0.006$, one-tailed significance), the existence of numerous directors is adversely and substantially associated to company economic growth as evaluated by ROA. The hypothesis is accepted since the P value is fewer than 0.05. Several directorships consequently have impact negatively on ROA-based economic growth of firm.

Table 11. OLS Regression (ROA Model)

Model		B	t	Sig.
1	(Constant)	.094	12.010	.000
	Hypothesized variable			
	PMDIR	-.030	-2.781	.006
	Control variables			
	FOWN	.074	3.238	.001
	GOWN	-.053	-3.043	.002
	BSIZE	-.002	-.645	.520
	BMEET	-.002	-.525	.600
	FSIZE	.044	12.526	.000
	LEV	-.034	-12.574	.000
	AGE	.010	3.248	.001

According to Table 12 ($\beta = -0.048$, $t = -2.609$, $P = 0.009$, one-tailed significance), multiple directorship PMDIR is negatively and substantially connected to the economic growth of the company as evaluated by ROE. The hypothesis is accepted since the P value is fewer than 0.05. Several directorships have impacted negatively on the ROE-measured economic growth of the company.

Table 12. OLS Regression (ROE Model)

Model		B	t	Sig.
1	(Constant)	.149	11.054	.000
	Hypothesized variable			
	PMDIR	-.048	-2.609	.009
	Control variables			
	FOWN	.132	3.346	.001
	GOWN	-.104	-3.467	.001
	BSIZE	-.009	-1.541	.124
	BMEET	-.006	-1.137	.256
	FSIZE	.088	14.551	.000
	LEV	-.066	-14.188	.000
	AGE	.014	3.248	.001

According to Table 13 ($\beta = 0.107$, $t = 0.534$, $P = 0.593$, one-tailed significance), the multiple directorships PMDIR is not correlated with the economic growth of the firm as assessed by PMR. The hypothesis is not supported because the P value is larger than 0.05.

Table 13. OLS Regression (PMR Model)

Model		B	t	Sig.
1	(Constant)	.107	.730	.466
	Hypothesized variable			
	PMDIR	.107	.534	.593
	Control variables			
	FOWN	.630	1.474	.141
	GOWN	-.423	-1.304	.193
	BSIZE	.051	.802	.423
	BMEET	.005	.080	.936
	FSIZE	.272	4.130	.000
	LEV	-.146	-2.879	.004
	AGE	-.034	-.601	.548

As indicated in Table 14, the dependent variables, namely PMR, ROE, and ROA, are combined using principal component analysis (PCA) with varimax rotation. PCA is a method of factor analysis identifying the public components among many variables. The total Kaiser-Meyer-Olkin value for all three variables was .50 (Hair et al., 2010). Bartlett's test showed substantial results. The correlation matrix shows the degree to which the factor analysis was suitable and offers a statistical measure of the likelihood that at least a portion of the variables have a significant connection with at least one another (Hair et al., 2010). Based on these findings, it appears that the presumptions made throughout the factor analysis were accurate.

Using PCA, it was discovered that there are three main components or factors that load with three different eigenvalues. Three variables in total (ROA, ROE, and PMR) had factor loadings of .957, .946, and .454 on the first factor, respectively. In order to highlight the common factor measuring firm economic growth, the three firm economic growth surrogates (ROA, ROE, and PMR) have been integrated under one component.

Variables	Factor loadings
ROA	.957
ROE	.946
PMR	.454
Eigenvalue	2.017
% of variance	67.240
Kaiser–Meyer–Olkin (KMO)	.529
Bartlett's Test of Sphericity: Approx Chi-Square	862.371
df	3
Sig	.000
Cronbach's Alpha (α)	.721

In Table 15, the modified R^2 of the composite model is 0.408, which means it has successfully explained 40.8% of the variance in firm economic growth. This demonstrates the goodness of fit.

Table 15. Model Summary – EG Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.646a	.418	.408	.75536421

In Table 16, the F-statistic is 42.562 for the composite models with a significance level of 0.000. Due to the significance level being below 0.05, this recommends the model is much more suitable.

Table 16. ANOVA- EG Model

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	194.278	8	24.285	42.562	.000b
	Residual	271.023	475	.571		
	Total	465.301	483			

Using a composite measure of the three firm economic growth proxies, namely ROA, ROE, and PMR, Table 17 demonstrates that multiple directorship PMDIR is adversely and substantially linked with firm economic growth ($\beta = -0.334$, $t = -2.395$, $P = 0.017$, one-tailed significance). The hypothesis is accepted since the P value is less than 0.05. Therefore, having several directors has an impact negatively on the economic growth of the firm as assessed by a composite metric.

Table 17. OLS Regression (EG Model)

Model		B	t	Sig.
1	(Constant)	.628	6.177	.000
	Hypothesized variable			
	PMDIR	-.334	-2.395	.017
	Control variables			
	FOWN	1.056	3.547	.000
	GOWN	-.781	-3.456	.001
	BSIZE	-.035	-.780	.436
	BMEET	-.030	-.751	.453
	FSIZE	.641	13.990	.000
	LEV	-.475	-13.479	.000
AGE	.103	2.613	.009	

This research discovered the sign of ownership's family (FOWN) is consistent with the control factors. It has a positive connection with the economic growth of the firm as evaluated by ROA ($r = 0.074$, $t = 3.238$, $P = 0.001$, one-tailed significance), ROE ($r = 0.132$, $t = 3.346$, $P = 0.001$, one-tailed significance), and EG ($r = 1.056$, $t = 3.547$, $P = 0.001$, one-tailed correlation). However, PMR is not found to have this connection ($r = 0.630$, $t = 1.474$, $P = 0.141$, one-tailed significance). This analysis discovered that the GOWN's symbol is consistent with expectations for the GOWN owned by the government. It has a negative correlation with ROA ($\beta = 0.053$, $t = -3.043$, $P = 0.002$, one-tailed significance), ROE ($\beta = 0.104$, $t = -3.467$, $P = 0.001$, one-tailed significance), and EG ($\beta = 0.781$, $t = -3.456$, $P = 0.001$, one-tailed significance) of the firm. However, no reports of this connection with PMR have been made ($r = -0.423$, $t = -1.304$, $P = 0.193$, one-tailed significance). This study showed that the sign of the board size indicator, or BSIZE, is not consistent with all firm economic growth indicators, including ROA, ROE, PMR, and EG. In the study's findings, there is no connection between board meetings (BMEET) and the economic growth of the firm as determined by EG, ROA, PMR, and ROE.

According to the firm size FSIZE, the expected connection between FSIZE and economic growth of the firm as measured by ROA is positive ($\beta = 0.044$, $t = 12.526$, $P = 0.000$, one-tailed significance), ROE is similarly positive ($\beta = 0.088$, $t = 14.551$, $P = 0.000$, one-tailed significance), PMR is similarly positive ($\beta = 0.272$, $t = 4.130$, $P = 0.000$, one-tailed significance), and EG is similarly. The expected sign for the connection between leverage LEV and economic growth of the firm as measured by ROA is negative ($\beta = -0.034$, $t = -12.574$, $P = 0.000$, one-tailed significance), as are the relationships between ROE ($\beta = -0.066$, $t = -14.188$, $P = 0.000$, one-tailed significance), and PMR ($\beta = -1.46$, $t = 2.879$, $P = 0.004$, one-tailed significance), as well as those between EG ($\beta = -0.475$, $t = -13.479$, $P = 0.000$, one-tailed significance). The expected sign for AGE and firm economic growth expressed as ROA ($\beta = 0.010$, $t = 3.248$, $P = 0.001$, one-tailed significance), ROE ($\beta = 0.014$, $t = 3.248$, $P = 0.001$, one-tailed significance), and EG ($\beta = 0.103$, $t = 2.613$, $P = 0.009$, one-tailed significance) is positive. However, PMR ($\beta = -0.034$, $t = -0.601$, $P = 0.548$, one-tailed significance) did not report this connection.

CONCLUSIONS

This study's objective was to determine how distracted directors affected companies' economic growth in Saudi Arabia's 509 non-financial industrial companies from 2021 to 2019. This study hypothesized a connection between distracted directors and companies' economic growth. This is because the previous empirical studies resulted in mixed results that were based on the predictions of conflicting explanations, namely, the busyness hypothesis rooted in agency theory, social network theory, dependence theory, and reputational hypothesis.

This study found that distracted directors have a negative impact on companies' economic growth. This result fits the predictions of the busyness hypothesis in the Saudi Arabian context. The social network theory, the reputational hypothesis, or the resource dependence theory do not provide any predictions that can account for the association between distracted directors and companies' economic growth in Saudi Arabia. This result is in line with previous studies such as Sarkar and Sarkar (2009), Saleh et al. (2020), Lee and Isa (2015), Latif et al. (2020),

(Shamsudin et al., 2018), O'Sullivan (2009), Ahn et al. (2010a, 2010b), Andres & Lehmann (2010), Jiraporn et al. (2008), Meeusen and Cuyvers (1985) and Fligstein and Brantley (1992). Directors of Saudi-listed firms may be too busy to closely monitor internal control systems., which in turn makes them ineffective in monitoring and providing advice to management. So far, they may have failed to fulfill their responsibilities. In addition, they have limited time devoted to the board, and they may be absent at the board meetings. This weak corporate governance practice may influence the transmission of the bad information and practices of the company, which, in turn, may expose them to financial statement misstatements and fraud, and litigation risk. In this aspect, Mohd et al. (2016) recommended for many companies that multiple directorships should not be pursued by directors so that they remain highly engaged with their duties on the board for a single company.

The results reported by this study are of importance to several internal and external stakeholders, such as management, the Saudi Stock Exchange, auditors, financial analysts, and academics. The results deepen our understanding of how distracted directors can affect the economic growth of companies negatively. This study has several limitations in the subject. First, it examined three accounting firm economic growth proxies, namely, ROA, ROE, and PMR, and constructed a composite measure of them (EG) using the statistical technique of factor analysis. The factor analysis combines them into one composite component representing economic growth. Future lines of research may consider other economic growth proxies, especially those related to the market, such as earnings per share and Tobin's Q. Second, the board members' percentage having multiple directorships (more than two directorships) to wholly board members were employed in this study as one indicator of distracted directors. Future research may employ more distracted directors' measures in addition to the one employed in this research, such as a binary measure in which the company has directors sitting on more than three boardrooms to be assigned "1" otherwise and "0" otherwise. Third, this study focuses on two other control variables, namely board size, and meetings, as well as one postulated distracted director. Additional board characteristics including financial knowledge, CEO duality, and academic qualifications may be combined into the model of further study. Finally, Additional Gulf Cooperation Countries (GCC) countries including Kuwait, Oman, Qatar, the United Arab Emirates, and Bahrain could yet be considered in future studies since this study is conducted only in the Saudi setting. These countries have similar economic, political, and cultural conditions. Future studies may result in different results that would be considered interesting findings. Furthermore, a comparison analysis may also be conducted among all GCC countries if the results are different.

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