

## How Board Busyness Affects Agency Costs and Shareholder Rights?

**Xuehua Shao**

The Australian National University, Australia  
u6838460@anu.edu.au

### **Abstract:**

In quest of the Busyness Hypothesis, I explore how board busyness affects agency costs and shareholder rights via anti-takeover governance provisions indices. Regarding agency costs, managerial and directorial entrenchment are measured by the Entrenchment Index and the Other Provisions Index respectively. Similarly, the Governance Index gauges shareholder rights restrictions placed by busier boards. To alleviate the endogeneity of corporate boards, I employ directors' MBA educational backgrounds and firms' geodesic proximity to airports as instruments. Based on 3428 US public firm observations from 1999 to 2007, results from Two-Stage least squares estimations suggest a negative association between busy boards and takeover defences brought by managers and directors. Apart from suppressing managerial and directorial entrenchment, busier boards place fewer constraints on shareholder rights. My results survive extensive robustness tests. Generally, my results reject the Busyness Hypothesis and find busy directors helpful in lessening agency costs for shareholders. Thus, my results do not support limiting the maximum number of seats that an individual director is allowed to take. This research contributes to extant literature by mitigating endogeneity through two instrumental variables and by improving measurement accuracy under distinguished managerial and directorial entrenchment effects.

**Keywords:** Board busyness, Anti-takeover governance provisions index, Agency costs

**JEL Codes:** G34, G38, G30