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The Barriers and Effectiveness of Management Monitoring by Maltese Listed Boards**

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***Abstract**:*

Purpose: *The objectives of this study are to establish how Management Monitoring ("MM") is perceived by the Boards of Directors ("Boards") of Maltese Listed Companies ("MLCs") and their management, to ascertain and assess the major barriers to the effectiveness of such monitoring, and to address such barriers to effective MM and recommend how MM may be balanced.*
Design/Methodology/Approach: *Semi-structured interviews were conducted in twenty-three companies, with participants consisting of eight members of management, three Executive Directors ("EDs"), two independent directors ("IDs") and nine company secretaries, with one of the latter answering on behalf of two MLCs.*
Findings: *MM is essential even when management is performing satisfactorily and is best carried out by the whole board, even though it includes monitoring EDs. Yet, the best monitors were considered to be Non-Executive Directors ("NEDs") and IDs. The highest MM barrier was deemed to be insufficient director expertise. Capping director tenures was not thought to necessarily improve MM. Additionally, whilst CEO participation may help overcome barriers, MM may improve if the CEO is a director. Frequent meetings, an appropriate mix of director skills and possibly formal qualifications could also enhance MM. Managers tend to accept MM if it is not excessive and it is up to companies to find the appropriate MM balance.*
Practical Implications: *Effective MM is essential for good Corporate Governance (CG). The study puts forward several recommendations for improving MM.*
Originality/Value: *This study bridges a small state research gap about MM by listed company Boards. It enhances theoretical predictions in governance research by grounding them in realistic perceptions of both directors and executives. This study also sheds light on major barriers to effective MM and produces insights to enhance such effectiveness including those relating to balancing the MM level. It contributes towards encouraging listed companies to reassess their viewpoints on effective MM.*

Keywords: *Management Monitoring, Board of Directors, Maltese Listed Companies, Corporate Governance.*

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1. Introduction

The notion of Corporate Governance ("CG") was accentuated following the large corporate scandals faced in recent years (Bertsch 2011). Whilst *"there is no single model"* of good CG (Camilleri 2018, p. 14), Malta has adopted a one-tier CG system (Baldacchino 2017) that follows the 'comply-or-explain approach' (Malta Financial Services Authority [MFSA] 2011). The CG of Maltese listed companies ("MLCs") is governed by the Listing Rules, the accompanying code of good corporate governance for listed entities (Code) and by the 1995 Companies Act (Baldacchino, 2017).

The Board of Directors sets the company's policies, vision and mission and is responsible for its monitoring and control (Boland and Hofstrand, 2009). Contrastingly, managers make efficient and effective use of the company's physical, human, financial or informational resources to reach the company's goals (Griffin, 2021). Although executives tend to be *"experienced, influential and serious professionals"* (Azzopardi, 2012, p. 10), good CG requires directors to effectively monitor management for the shareholders' sake (Pandya, 2013).

Management monitoring (MM) could mitigate the agency problem arising from the conflict between managers' self-interests and shareholders' interests. However, the Board's effectiveness in MM depends on several factors including its structure and composition, its independence (Al-Adeem and Al-Sogair, 2019) and its expertise. Indeed, there are several barriers to effective MM which need to be addressed if oversight is to be effective and CG goals be achieved.

The objectives of this study are (a) to establish how MM is perceived by both MLC Boards and their management, (b) to ascertain and assess the major barriers to the effectiveness of such monitoring and (c) to address such barriers to effective MM and recommend how the MM level may be balanced. This study aims to bridge the Maltese research gap about MM by the Board in MLCs, whilst enriching the international literature about the perception of the Board's monitoring role by both the monitors and the monitored. The relatively small size of the Malta Stock Exchange may increase the feasibility of this research despite being yet scarce in small states like Malta (Baldacchino, 2017). The study aims to lay out the major barriers to effective MM and provide insights for enhanced effectiveness including in relation to balancing the MM level. The paper aims to encourage MLCs to reassess their viewpoints on effective MM.

2. Literature Review

2.1 The Agency Problem and the Monitoring of Management

2.1.1 Delineating the agency problem and counteracting it through effective monitoring

In listed companies, where shares are publicly traded on the Stock Exchange and ownership is dispersed and separate from control, conflicts might arise between owners and managers (He and Sommer, 2010). Thus, as famously stated by Berle and Means (1991), ownership and control should be separated to prevent anyone from having unfettered powers of discretion.

Since monitoring is a public good, shareholders free ride as they reason that monitoring is being conducted by others (Hart, 1995). This, together with information asymmetries between managers and shareholders, and the resulting moral hazard, may result in managers exploiting opportunities and enhancing their self-interests (Boshkoska, 2014). As the shareholders' interests are disregarded the agency problem arises.

Literature continuously links MM by the Board with the agency theory (Alshareef and Sandhu, 2015; Boshkoska, 2014; Dalton *et al.*, 1998; Fama and Jensen, 1983). The directors' *"watchdog role"* is thought to be essential for CG (Chen, 2008, p. 1) as it safeguards shareholder interests by mitigating owner/manager conflicts. As stated by Fama (1980, p. 294), regardless of the various monitoring mechanisms available, the Board remains the *"ultimate internal monitor"* of management.

2.1.2 Discerning between monitoring perceptions

Boards have increasingly been expected to be watchful monitors (Van den Berghe and Baelden, 2005). Since MM aligns the interests of owners and managers (Panda and Leepsa, 2017) and improves the company's performance (Zahra and Pearce, 1989), monitoring should not be perceived to indicate that something is amiss (Buchholtz *et al.*,, 2005) but simply as the Board performing its role.

Perceptions of the Board:

Schwartz-Ziv and Weisbach (2013) argued that Boards emphasise their monitoring role over their advisory role. Additionally, monitoring has a learning effect which makes directors perceive it positively. For instance, it sheds light on the competences of newly appointed executives, allowing directors to take corrective action (Cornelli *et al.*, 2013).

Research has vigorously followed the agency theory, imposing the monitoring role on Boards, in the expectation that directors align the interests of managers and shareholders (Dalton *et al.,* 2007; Drobetz *et al.,* 2018) and restrain managerial opportunism (Fama and Jensen 1983). Yet, recent studies reveal that directors have neither the aspiration nor the ability to effectively monitor management (Boivie *et al.,* 2016; Hambrick *et al.,* 2015), who as *"full-time experts"* (Hill, 2016) hold strong corporate knowledge.

Whilst directors acknowledge monitoring as a fiduciary duty, few keep management at arm's length (Boivie *et al.,* 2021). Instead, most directors believe that they serve shareholder interests by helping management create value and consider themselves to be management's strategic partners. Thus, they seldom decide against management decisions (Schwartz-Ziv and Weisbach, 2013), avoid conflict, and collaborate with management (Boivie *et al.,* 2021).

Perceptions of Management:
When the Board's actions are reasonable and legitimate, it is unlikely that management perceives monitoring negatively or that conflicts arise. Managers acknowledge the Board's oversight authority and expect directors to oversee their work and measure performance (Buchholtz *et al.,* 2005). Buchholtz *et al.* (2005) also conclude that managers *"understand and accept"* (p. 419) that the Board controls, hires and fires executive directors (EDs) who, are members of management and simultaneously sit on the Board. This is because they accept that it is the Board's fiduciary duty to hold managers accountable for their actions.

Yet, Boards are expected to *"only monitor the tasks they have delegated to management"* (Van den Berghe and Baelden 2005, p. 681). This motivates managers and reduces the likelihood that they complain about monitoring or bear a grudge against directors (Buchholtz *et al.,* 2005). Contrastingly, if directors take on a managerial role, obstruct the managers' freedom to progress strategically and limit their ability to make decisions, monitoring may have negative consequences. Managers might reckon that the Board's confidence in their work is diminishing (Barlow, 2021) and there might be *"a negative spiral of performance decline"* (Buchholtz *et al.,* 2005, p. 409).

2.2 Barriers to Effective MM

Whilst MM is a *"significant board function"* (Dent 1981, p. 623), Boards are not perfect monitors (Coulton and Taylor, 2004) and several barriers to effective MM exist. MM necessitates significant *"time and effort"* (Beasley, 1996, p. 461). Yet, given Malta's small size, directors usually hold multiple directorships (Baldacchino, Duca *et al.,* 2020). Whilst this exposes directors to additional *"tasks and procedures"* (Kamardin *et al.,* 2014, p. 52) that may enhance MM, it might limit the time and energy available for each directorship. Similarly, the *"amount and nature of directors' outside job demands"* (Boivie *et al.,* 2016, p. 16) hinders effective MM as it becomes harder for directors to gather and process information, especially if they lack a strong industry background.

The Board's efficiency and effectiveness also depends on its size (Duca, 2019). Larger Boards *"face considerable problems of coordination, communication, and decision-making"* (De Andres and Vallelado, 2008, p. 2576). Whilst smaller Boards might ease discussions and reduce disputes (Baldacchino *et al.,* 2020), larger Boards potentially hinder information sharing (Boivie *et al.*, 2016), find it harder to reach consensus (Kim *et al.*, 2010; Pozen, 2010) and possibly give excessive power to CEOs (De Andres and Vallelado, 2008).

Furthermore, whilst with smaller Boards directors feel a greater monitoring responsibility, in large Boards directors free ride as they assume that others are monitoring (Baldacchino *et al.,* 2020). Directors in large Boards might exert less effort as accountability is shared between more people and personal liability is diluted (Boivie *et al.,* 2016). Nonetheless, larger Boards might enhance MM because they are less susceptible to dominance (Anand, 2007), are more collectively knowledgeable, and have more resources than smaller ones (Baldacchino *et al.*, 2020).

MM effectiveness also depends on the frequency of Board meetings. Infrequent Board meetings make relevant oversight improbable (Institutional Shareholder Services, 2014) since it is during Board meetings that directors gain insights about management's decisions and formulate their monitoring role (Kamardin *et al.,* 2014; Vafeas, 1999).

The ratio of non-executive directors (NEDs) and independent directors (IDs) to EDs also impacts MM. EDs have greater *"firm-specific experience"* (Al-Adeem and Al-Sogair, 2019, p. 74) and access to corporate information than IDs who might not thoroughly understand complex corporate matters (Nordberg, 2011). Yet, in a Board dominated by EDs, management may *"control the monitoring of its own actions"* (Van den Berghe and Baelden 2005, p. 680). Thus, EDs are not expected to play a significant part in MM (Chen, 2008).

MM is also obstructed if directors feel that their role is to support and advise the CEO rather than challenge management (Boivie *et al.,* 2016). Similarly, when CEOs hold enough formal or informal power to promote their self-interests, sway the Board's decisions, and influence the Board's composition, MM is negatively impacted (Boivie *et al.,* 2016, Shivdasani and Yermack, 1999). Chair/CEO role duality could also trigger abuse of power and weaken MM (Krause *et al.,* 2014). Additionally, long CEO tenures increase the probability that Boards are *"held captive to strong, entrenched CEOs"* (Coulton and Taylor, 2004, p. 19).

Similarly, long-tenured directors might hinder effective MM as these may block new talent from entering the boardroom and strengthen attachments between the Board and management. Indeed, the Code sets tenures as a determinant of director independence, with the recommended upper limit being 12 consecutive years (MFSA, 2011). Nevertheless, long tenures are the norm in Malta, with companies being unconcerned about independence (Azzopardi, 2012). Long-tenured directors gain company-specific knowledge and experience (Vance 1983) and build working relationships among themselves, potentially becoming *"stronger monitors of management"* (Gao, Huang 2017, p. 3). This is especially beneficial for IDs, whose monitoring capabilities are hindered by their reliance on management for information (Gao and Huang, 2017).

MM is also obstructed when directors lack the "*relevant experience and expertise"* (Kim *et al.,* 2010, p. 47). Yet, the Companies Act does not impose any minimum level of professional qualifications, skills or experience (Azzopardi, 2012), whilst the Code (MFSA, 2011) only speaks of *"fit and proper"* (p. 2) directors, requiring directors to be honest, competent and integral and to hold a *"diversity of knowledge, judgment and experience"* (p. 4). Indeed, a Board lacking diversity might not be equipped to monitor management's actions and decisions. Notwithstanding, diversity may be a *"double-edged sword"* (Milliken and Martins, 1996, p. 403) as it may hamper MM by increasing biases and hindering collaboration (Boivie *et al.*, 2016).

The company's size, type and complexity also impact the MM effectiveness. The larger the number of customers and suppliers the harder it is for directors to focus on the *"most relevant"* information (Boivie *et al.*, 2016, p. 23), especially if they are all NEDs. Additionally, large companies tend to be complex and diversified, and have set structures that are harder to change. Whilst complex companies require stronger monitoring (Coles *et al.*, 2008), structural inertia makes it difficult for Boards to process information and exert influence *"through ongoing monitoring"* (Boivie *et al.*, 2016, p. 24).

2.3 Addressing the MM Barriers and Balancing the MM Level

Whilst not all barriers to effective MM may be resolved, improvements are called for since balanced MM enhances CG.

2.3.1 Addressing the Barriers

Directors may dedicate more time to monitoring if their workload is reduced (Jensen *et al.*, 2020). However, since each Board requires *"differing levels of involvements and time commitment"*, capping the number of directorships held concurrently might be irrelevant (Macdonald and Tremblay, 2012, p. 12). Instead, it might be better to mandate the disclosure of *"all executive and non-executive positions"* (Macdonald and Tremblay 2012, p. 13), and increase director commitment, not only with higher remuneration, but also by giving directors the opportunity to expand their networks and build a *"reputation for good boardroom oversight"* (Hirt *et al.*, 2016, p. 11).

Optimal Board sizes are critical for MM (Duke and Kankpang, 2011). Yet, given that the Board size must reflect the company's needs (Renton, 2001), a one-size-fits-all approach is not applicable. With large Boards, meetings might *"become* *protracted and cabals can emerge"* whilst small Boards may suffer a *"shortage of the necessary talents, knowledge and experience"* (Renton, 2001, p. 5). Nevertheless, the quality of directors (Baldacchino *et al.*, 2020) and their level of involvement (Green, 2005) might be more important than the Board's size.

More frequent Board meetings potentially enhance MM. Many Boards meet six to eight times a year and only have time for compliance and strategic matters (Hirt *et al.*, 2016). With more Board meetings, directors are better able to understand their roles and to establish and communicate their expectations, whilst the probability of Board/management conflicts diminishes (Buchholtz *et al.*, 2005).

The Code recommends that at least one third of the Board should be non-executive; the majority of whom should be independent (MFSA, 2011). Indeed, with non-executive and independent directors, MM is likely enhanced (Fama and Jensen, 1983). NEDs provide new perspectives, access to additional resources (Nicholson and Newton, 2010) and outside experiences and information, whilst lessening the principal-agent problem (Hamdan and Al Mubarak, 2017) since they face fewer conflicts of interest when monitoring managers (De Andres and Vallelado, 2008) and are less susceptible to management dominance (Gordon, 2006).

On their part IDs are more objective and unbiased (Jensen *et al.*, 2020), are better at exerting control (Fama and Jensen, 1983), are more likely to monitor and sanction management's opportunistic behaviour (Hamdan and Al Mubarak, 2017; He and Sommer, 2010; Nicholson and Newton, 2010) and are less likely to collude with management (He and Sommer, 2010). IDs are also essential for Board subcommittees, which help scrutinise management (Azim, 2009). Yet, NEDs and IDs might not hold sufficient corporate and industry information to fulfil their roles (Wilson, 2009). Thus, Boards should include NEDs who hold sector expertise or have them attend *"visits to facilities, suppliers and customers"* (Hirt *et al.*, 2016, p. 46). Nevertheless, industry expertise might be more important than independence (Baker, 2009), indicating that EDs may be indispensable, especially as companies become larger, more complex and diversified.

Since the CEO possesses *"the greatest knowledge of the firm"* and is able to "*withhold information"* from non-executives (Duke and Kankpang, 2011, p. 55), Chair/CEO role duality complicates MM. Indeed, the Code recommends separating these roles and requires justification when Chair/CEO role duality exists (MFSA, 2011). Such separation frees the Board from management's grip (Baldacchino *et al.*, 2020). Similarly, prohibiting the CEO from being a director might enhance the Board's freedom although it could diminish the Board's strength, making management the real leader (Australian Institute of Company Directors [AICD], 2017a).

The directors' ability to control dominant CEOs might improve if directors attend induction training (Hirt *et al.*, 2016) as well as team dynamics and communication courses (Boivie *et al.*, 2016). Furthermore, since when appointing directors, shareholders often ignore the ensuing mix of expertise, Baldacchino *et al.* (2020) propose that this should be supervised by the MFSA. Yet, to date neither the Code nor the Companies Act requires directors to hold any minimum years of experience or specific qualifications. Directors could also be required to hold higher qualification levels (Baldacchino, 2007), although this might not be ideal since experience may be *"much more valuable"* (Baldacchino *et al.*, 2020, p. 40).

Nevertheless, Green (2005) argues that financial, accounting, and managerial expertise is essential for directors to be able to scrutinise management. Similarly, Kirkpatrick (2009) emphasises financial sophistication, whilst Renton (2001) regards knowledge in governance, strategic business direction and finance as fundamental. Additionally, for MM to be continuously effective directors must be appointed according to the skills required both presently and in the future (AICD, 2017b). Diverse Boards might enhance MM through broader talent pools (Nicholson and Newton, 2010). Furthermore, age-diverse Boards benefit from different experiences and qualifications (Abela, 2021) whilst gender-diverse Boards tend to *"allocate more effort to monitoring"* (Adams and Ferreira, 2009, p. 291) and are more likely to hold CEOs accountable for their actions (Mishra and Jhunjhunwala, 2013).

2.3.2 Balancing MM

Whilst adequate MM and good CG may remedy the agency problem, tighter MM is not always beneficial (Faleye *et al.*, 2013). Although MM supplies the Board with information that may enhance its strategic decision-making, it leaves less time for the Board's advisory role, thus negatively impacting corporate value (Faleye *et al.*, 2011). Excessive MM might be detrimental for CG as it demoralises management, causes Board/management conflicts and discourages communication and transparency (Adams, 2009; Adams and Ferreira, 2007; Faleye *et al.*, 2013; Holmstrom, 2005).

Successful CG must include MM in alignment with the company's strategy and should not be regarded only *"as a compliance obligation"* (New York Stock Exchange, 2010, p. 4). Furthermore, given each company's uniqueness, MM should not be enforced through strict MM models (Van den Berghe and Baelden, 2005) but through general regulations that require Boards to *"monitor effectively"* (Dent, 1981, p. 644).

3. Research Methodology

3.1 The Research Tool

In view of the research objectives, semi-structured interviews were considered to be the most appropriate research tool. These were guided by a predetermined interview schedule including standardised questions and probes. Standardisation makes the collected data comparable and quantifiable numerically for statistical analysis

(McIntosh and Morse, 2015) whilst probes motivate respondents to provide further detail and ensure that the research objectives are properly met (Harrell and Bradley 2009). Semi-structured interviews include both close-ended and open-ended questions. Whilst the former restricts respondents to *"the set of alternatives"* provided (Reja *et al.*, 2003, p. 161), the latter allow respondents to *"freely articulate"* their responses (Züll, 2016, p. 3). A five-point Likert Scale, with '0' being strongly disagree and '4' being strongly agree was employed for most close-ended questions, whilst a ten-point Likert Scale, with '0' being strongly disagree and '10' being strongly agree was used for one close-ended question.

The interview schedule targeted Maltese equity-listed companies and consisted of a list of abbreviations and relevant definitions, followed by four main sections and a final section inquiring about respondent characteristics.

3.2 The Sample Population

For the purpose of this study a list of all twenty-seven equity-listed Maltese companies as at 31st October 2021 was obtained from the Official List on the MSE website. A total of twenty-two interviews were carried out with twenty-two MLC representatives from twenty-three MLCs, since one participant was involved in two MLCs. Requests were made to speak with EDs, NEDs, IDs, company secretaries or members of management since they are all knowledgeable of the Board's monitoring role. However, no NEDs participated in this study.

3.3 Data Analysis

Quantitative data was compiled from the close-ended questions. The Friedman test was used to compare the mean rating scores given to the statements in five of the 5-point Likert scale questions, and to establish whether such mean rating scores vary significantly or otherwise. The Kruskal Wallis test was used to compare the mean rating scores given to a statement among the four groups clustered by their position in the company *(company secretaries, EDs, IDs and members of management)* and to determine whether such mean rating scores vary significantly or otherwise among the groups. This test was used in addition to the Friedman test with respect to the five 5-point Likert scale questions and exclusively for the 10-point Likert scale question. The Wilcoxon signed ranks test was used on another 5-point Likert scale question to determine whether the mean rating scores given to two positions in the company by the same group of participants vary significantly or otherwise.

Qualitative data was sourced from the open-ended questions and from the comments made by the respondents after giving their Likert scale ratings. Responses to open-ended questions were transcribed and summarised to identify commonalities and disparities in the responses. Analysis of respondent comments after providing Likert scale ratings was focused on the statements whose mean rating scores were highest, lowest, or varied significantly among the respondent groups.

4. Research Findings

4.1 The Agency Problem and the Monitoring of Management

Respondents were asked to rate statements related to the agency problem and the monitoring of management, according to their level of agreement. Table 1 shows, in descending rating order, the mean rating scores of the respondents' answers. The differences among these mean rating scores were significant$_{(p<0.001)}$.

Table 1. *The agency problem and the monitoring of management*

Statements	Mean	Std. Dev.
xiv. Even EDs themselves need to be subject to MM	3.65	0.573
x. MM by the Board is required even if management is known to be doing its work properly	3.61	0.722
ii. MM prevents opportunistic behaviour and achieves positive returns for shareholders	3.57	0.662
i. The Board is the ultimate internal monitor of management	3.48	0.665
xi. Oversight by the Board guards against any excesses brought about by the day-to-day power of management	3.48	0.665
vi. b. The following course of action impacts negatively on shareholder value: the Board rubber stamps rather than seriously challenging management proposals where necessary	3.39	1.158
v. The main goal of MM is to challenge managerial decisions and to prevent managerial opportunism	3.26	0.810
iv. MM renders the Board adequately aware of the CEO/management qualities and limitations	3.26	0.864
xii. NEDs are best suitable for MM	3.26	0.915
xiii. EDs still have a role in MM, albeit less than that of NEDs	2.70	1.295
iii. In any company MM is the Board's most important role	2.52	1.039
vi. a. The following course of action impacts negatively on shareholder value: management is routinely kept at arm's length by the Board	2.52	1.344
vii. Most Boards only take a decision against management proposals as a last resort	1.65	1.229
viii. It is difficult for directors to hold sufficient corporate knowledge to monitor management effectively	1.61	1.033
ix. MM by the Board is often resisted by management and raises the probability of Board/management conflicts	1.43	0.896

Note: *$X^2(14)$ = 140.412, p<0.001   0 = strongly disagree, 4 = strongly agree*
Source: *Own study.*

Statement (xiv) – that even EDs themselves need to be subject to MM – was the most agreed to. With respect to the second most agreed to statement – statement (x) – two respondents$_{(2/23)}$ commented that monitoring is *"necessary at all times"*, thus emphasising *"regular Board meetings"* and *"regular reporting"*.
Respondents were only undecided about statements (vii) and (viii). Furthermore, in line with Buchholtz *et al.* (2005), respondents disagreed with statement (ix) – that MM by the Board is often resisted by management and raises the probability of Board/management conflicts, with one respondent$_{(1/23)}$ remarking that the extent to

which MM by the Board is resisted by management and raises the probability of Board/management conflicts varies with the *"characters of management individuals"*. Additionally, the Kruskal Wallis Test indicated that responses of the four respondent groups *(company secretaries, EDs, IDs and members of management)* were significantly different with respect to statements (xii)$_{(p=0.026)}$, (iii)$_{(p=0.040)}$ and (vi. a.)$_{(p=0.029)}$.

Regarding statement (xii), an ID commented that NEDs are best suitable for MM since they are *"objective"*, whilst a company secretary observed that IDs are better suited for MM than mere NEDs. Contrastingly, a member of management noted that all directors are suitable if they are *"serious"* directors. As for statement (iii) regarding MM being the Board's most important role in any company, one member of management and a company secretary commented that MM is an *"extremely important"* role involving *"effective oversight"*. Yet an ED and an ID emphasised that a Board's main role should not be to *"scrutinise management"* due to competing responsibilities including, *"strategic direction"*, *"compliance"*, *"performance management"* and *"business development"*.

As for statement (vi. a.) regarding the negative impact on shareholder value if management is routinely kept at arm's length by the Board, three company secretaries stated that such *"detachment"* is not ideal and highlighted the importance of a *"healthy relationship"* involving *"communication"*, *"discussions"*, *"interaction"*, and *"teamwork"*. While no comments were added by the other respondent groups, an analysis of their response, particularly of the EDs and members of management, indicates differing perceptions: management is more in favour of the Board remaining at arm's length.

4.2 Major Barriers to MM Effectiveness

4.2.1 Potential barriers to effective MM

Respondents were asked to rate, according to their level of agreement, statements regarding potential barriers to effective MM. Table 2 shows in descending order, the mean rating scores of the respondents' answers. The rating scores varied significantly$_{(p<0.001)}$ among the statements, yet most were confirmed as possible barriers. The Kruskal Wallis Test showed that the rating scores for (i)$_{(p=0.016)}$ and (vii)$_{(p=0.026)}$ also varied significantly among the respondent groups.

Table 2. *Potential barriers to effective MM*

Potential barriers to effective MM:	Mean	Std. Dev.
xiv. Having directors lacking appropriate expertise	3.52	0.730
xi. d. Having a CEO who is secretive	3.48	0.947
xvi. Having director/s closely related to the CEO	3.35	0.647
x. There being Chair/CEO duality of office	3.35	0.935

vi. Holding less than six Board meetings per annum	3.22	0.736
iv. Insufficient industry-specific knowledge	3.09	0.668
iii. Outside job workloads	3.04	0.825
ix. There being information asymmetries between management and directors	3.04	0.825
xv. The Board being insufficiently diverse	2.87	0.920
xi. b. Having a CEO who is domineering	2.83	1.029
xvii. There being inertia due to the large size of the company	2.70	0.876
v. The Board being too large or too small	2.61	1.076
i. Multiple directorships	2.52	1.123
xii. Having long-tenured directors (e.g., more than 12 years)	2.43	1.237
xviii. The company being too complex	2.43	0.945
ii. Unrelated outside jobs	2.39	1.158
xix. The company being too spread out in markets and products	2.35	1.027
vii. The Board placing most emphasis on its strategic and accountability roles	2.30	0.926
xi. a. Having a CEO who is long-tenured	2.13	1.100
xiii. Having newly engaged directors	2.09	1.041
viii. Having EDs with much more company-specific experience than the non-executive ones	2.00	1.087
xi. c. Having a CEO with more industry-specific knowledge	1.83	1.193

Note: *$X^2(21) = 142.611$, $p<0.001$, 0 = strongly disagree, 4 = strongly agree.*
Source: *Own study.*

Only barrier (xiv) – having directors lacking appropriate expertise – was agreed to be very high. Barrier (xi. c.) – having a CEO with more industry-specific knowledge – received the lowest rating. No barrier was disagreed to.

The respondents commented on two barriers they agreed with. Regarding barrier (vi) – holding less than six Board meetings per annum – one respondent emphasised the importance of frequent Board meetings as regulation becomes *"more complex"*. Yet, another respondent emphasised the *"quality"* of meetings over their frequency. As for barrier (iv) – insufficient industry-specific knowledge – it was argued$_{(3/23)}$ that especially in *"very specialised"* industries, directors cannot challenge information presented by management.

Comments were also made regarding barriers (xi. a.), (xiii) and (viii) about which respondents were undecided. Consistent with Coulton and Taylor (2004) , regarding barrier (xi. a.) – having a CEO who is long-tenured – a few$_{(4/23)}$ respondents agreed that strong familiarity with and knowledge of the company make it harder to challenge long-tenured CEOs. Yet, respondents added that no issues arise if the long-tenured CEO has the appropriate *"energy"* and *"foresight"*.

Regarding barrier (xiii) – having newly engaged directors – it was argued$_{(2/23)}$ that whilst long-tenured directors know the *"history of the company and have experience and knowledge"*, they might get too *"comfortable"* with the process. Thus, newly engaged directors, especially those having extensive experience in other companies, introduce a *"new culture"* and *"fresh ideas"* that enhance MM. Another respondent$_{(1/23)}$, emphasised that directors should not be replaced across the Board since newly engaged directors must acquaint themselves with the company.

Some respondents$_{(5/23)}$ were undecided about barrier (viii) – having EDs with much more company-specific experience than the non-executive ones – since whilst EDs could *"abuse"* of their enhanced firm-specific experience or knowledge, generally NEDs, who shoulder equal MM responsibility as EDs, are sufficiently knowledgeable and *"challenge"* whatever is unclear.

Respondents also commented on barrier (i)$_{(p=0.016)}$ – multiple directorships – which was agreed to but whose rating score varied significantly among the respondent groups. An ID and two company secretaries commented that whilst multiple directorships limit the time devoted to each directorship, these were not a *"formidable"* barrier, since they enable *"bold"* and *"skilled"* directors to acquire wider *"experience, knowledge and skills"*. Yet, a member of management commented that directors might be stretched thin and cannot dedicate enough time to each directorship, especially if they are only *"figureheads"*.

4.2.2 Potential Barriers to Effective MM arising from the Board's Size

Respondents were subsequently asked to rate, according to their level of agreement, two statements about why large Boards may be ineffective in MM, and to specify other reasons, if there were any. Table 3 shows the mean rating scores in descending order. These varied significantly$_{(p=0.004)}$ with respondents confirming (ii) as a barrier but expressing neutrality to (i).

Table 3. *Impact of large Boards on MM*

Large Boards may be ineffective in MM since they:	Mean	Std. Dev.
ii. commonly suffer from some directors being free riders or relying on responsibility being shared with the other directors	3.00	0.798
i. are faced with more coordination and communication problems	2.39	0.988

Note: *$X^2(1) = 8.333$, $p = 0.004$, 0 = strongly disagree, 4 = strongly agree*
Source: *Own study.*

Although (ii) was confirmed as a barrier, contrary to Baldacchino *et al.* (2020), three respondents$_{(3/23)}$ argued that the problem of directors free riding or relying on responsibility being shared with the other directors is *"not specific to size"* and occurs even in small Boards. Regarding statement (i), one respondent $_{(1/23)}$ added that such difficulties are overcome through Board subcommittees.

When asked to specify other reasons why large Boards may be ineffective in MM, some respondents$_{(5/23)}$ explained that in large Boards *"consensus is more difficult"* and conflicts are more likely as *"diverse opinions"* increase. This is in line with Kim *et al*. (2010) and Pozen (2010). Two respondents$_{(2/23)}$ argued that smaller Boards have better *"functionality"* because *"too many cooks spoil the broth"*. Another two$_{(2/23)}$ stated that large Boards tend to experience *"groupthink"* because directors' thoughts become *"aligned"* as they *"hide"* behind others. Large Boards were also believed$_{(1/23)}$ to face time constraints, hindering meaningful director participation.

One respondent$_{(1/23)}$ stated that larger Boards obstruct MM because they tend to include directors who lack corporate knowledge, whilst another$_{(1/23)}$ argued that large Boards offer more *"expertise"*, *"knowledge"* and *"experience"*, enabling them to work *"extremely effectively"*. The latter is consistent with Baldacchino *et al.* (2020) .

Two respondents$_{(2/23)}$ stated that large Boards may be effective if they have a subcommittee for MM. Furthermore, a few$_{(2/23)}$ deemed size to be irrelevant if Boards are equipped with the *"right skills and competencies"*. In line with Renton (2001), one respondent$_{(1/23)}$ stated that MM is ineffective both if Boards are *"overburdened with members"* and if directors are *"too few"*.

4.2.3 Potential Barriers to Effective MM arising from Long Tenures

Subsequently, respondents were asked to rate, according to their level of agreement, two statements about why long-tenured directors may be ineffective in MM, and to specify other reasons, if there were any. Table 4 shows the mean rating scores of the respondents' answers in descending order. These did not vary significantly$_{(p=1)}$ with respondents confirming both statements.

Table 4. *Impact of long tenures on MM*

Long-tenured directors may be ineffective in MM since they:	Mean	Std. Dev.
i. become familiar and tend to relate closely to management over time	2.78	0.902
ii. often hinder the introduction of fresh talent in the boardroom	2.61	0.988

Note: *$X^2(1) = 0.000$, $p = 1.000$, 0 = strongly disagree, 4 = strongly agree*
Source: *Own study.*

As for statement (i), one respondent$_{(1/23)}$ argued that whilst potentially posing difficulties, familiarity makes directors aware of the *"capabilities of individual managers"* and of areas requiring stricter MM. Regarding statement (ii), one respondent$_{(1/23)}$ maintained that tenures are mostly irrelevant since nomination committees have discretion to recommend directors according to requirements. The most$_{(8/23)}$ cited reason why long-tenured directors may be ineffective in MM, was complacency. The respondents$_{(7/8)}$ emphasised that long tenures make directors *"too* *comfortable"* and cause things to be taken for granted. Another$_{(1/8)}$ respondent stated that *"fatigue"* in long-tenured directors elicits less challenging attitudes.

Two respondents$_{(2/23)}$ explained that, in an ever-changing environment, long-tenured directors conduct effective MM only if they are updated with emerging matters and industry changes, such as technology. Conversely, consistent with Vance (1983), one respondent$_{(1/23)}$ insisted that long tenures enhance MM as directors acquire corporate knowledge.

4.2.4 Recommended 12-year capping for directorship terms

Respondents were asked to give their viewpoints about the Code's 12-year capping for directorship terms, exceeding which directors are not considered independent. Most$_{(12/23)}$ agreed with capping the tenures with controversy erupting as to the number of years for which it should be set. Some$_{(8/12)}$ considered the 12-year capping to be too long, whilst others$_{(4/12)}$ considered it to be either optimal$_{(3/4)}$ or too short$_{(1/4)}$. Other respondents $_{(11/23)}$ emphasised that no capping should be specified (Table 5).

Table 5. *Respondent viewpoints on the 12-year cap for IDs*

Respondent viewpoints	Frequency	Percent (%)
There should be no capping	11	47.8
A 12-year capping is too long	8	34.8
A 12-year capping is optimal	3	13.0
A 12-year capping is too short	1	4.3
Total	**23**	**100.0**

Source: *Own study.*

Most$_{(5/8)}$ of those deeming the 12-year capping to be too long stated that a capping ranging from five to ten years was effective. Three of them$_{(3/8)}$ added that instead of being under the comply-or-explain rule such capping must become compulsory. Those$_{(3/23)}$ considering the capping to be optimal asserted that 12 years balance the time needed to acquire director expertise with the importance of not staying on the Board for too long. The respondent$_{(1/23)}$ who thinks the cap is too short stated that it would be a *"pity"* to lose a well-skilled director after only 12 years.

Contrastingly, many$_{(7/11)}$ of those$_{(11/23)}$ opposing a specific time capping commented that it could be detrimental because personalities and circumstances vary amongst companies. One respondent added$_{(1/11)}$ that the 12-year cap may hinder progress by causing a drain of directors with an invaluable *"accumulation of knowledge"*, especially since Malta's small size makes it harder to find appropriate directors.

4.2.5 Comments on other barriers to effective MM

Respondents were then asked to comment on other MM barriers, if there were any. The most mentioned barriers were inappropriate communication $_{(5/23)}$ and inadequate reporting $_{(3/23)}$ to the Board. One respondent $_{(1/5)}$ emphasised that effective MM relies on proper communication of the Board's direction and strategy to the management.

Another respondent *(1/5)* believes that directors are only equipped for MM if the management informs them of developments such as changes in accounting standards. Two respondents *(2/3)* linked poor reporting to the directors' own time constraints preventing effective MM.

Other barriers included negligent Boards*(2/23)*, low director remuneration*(1/23)*, directors' lack of interest*(1/23)*, directors becoming too accustomed to the company*(1/23)*, close friendships among directors*(1/23)*, interference from shareholders and third parties*(1/23)*, weak CEOs, subcommittees and respective chairpersons*(1/23)*, directors' lack of awareness *"of their roles, their responsibilities and their functions"* including MM*(1/23)* and Boards composed of *"figureheads"(1/23)*, such as directors who are elected only because of family relationships and acquaintances with shareholders or with members of management. One respondent *(1/23)* contended that MM is not hindered when Boards lack diversity but when there is no *"reasonable and sensible representation"* of different characters. Another respondent*(1/23)* stated that it all depends on trust and emphasised the importance of not onboarding the wrong people.

4.2.6 Overall barriers to effective MM in MLCs

Subsequently respondents were asked to rate, according to their level of agreement, the extent to which they agreed that overall, the barriers to effective MM in MLCs are high. Table 6 shows the mean rating scores of respondent answers in descending order. Responses did not vary significantly*(p=0.394)*. One respondent – a company secretary – did not reply.

Table 6. *Respondent viewpoints on overall barriers to effective MM*

Group	Sample size	Mean	Std. Dev.	p-value
EDs	3	5.67	2.082	0.394
Company Secretaries	9	5.00	2.739	
Members of Management	8	3.75	1.035	
IDs	2	3.50	0.707	
Total	**22**	*Overall Mean = 4.5*		

Note: *1 = strongly disagree, 10 = strongly agree*
Source: *Own study.*

The overall mean shows the respondents' lack of decisiveness about MM barriers in MLCs. This is similar to the finding wherein only one barrier was highly agreed to. Such uncertainty was specifically evident in EDs and company secretaries, who argued that the regulations imposed on MLCs ascertain *"good governance"*. Contrastingly, members of management and IDs disagreed with the existence of high MM barriers in MLCs. Indeed, two IDs stated that, whilst in foreign listed companies shareholding is *"diluted"*, several MLCs are *"family firms"*, which incentivises effective MM because poor governance impacts the directors who are generally also shareholders.

The few respondents$_{(5/23)}$ who considered MM barriers in MLCs to be high, stated that this was mainly due to the existing MLC *"culture"*$_{(2/5)}$, regulation insufficiency$_{(1/5)}$, lack of director commitment$_{(1/5)}$, overfamiliarity between directors and management$_{(1/5)}$ and CEOs being *"too powerful"*$_{(1/5)}$.

4.3 Addressing the MM Barriers

4.3.1 Actions to overcome MM barriers

Respondents were asked to rate, according to their level of agreement, courses of action that possibly help overcame MM barriers. Table 7 lists, in descending order, the mean rating scores of the respondents' answers. These varied significantly$_{(p<0.001)}$, although all statements were confirmed as courses of action helping to overcome MM barriers. The Kruskal Wallis test showed that the rating scores for (vii) – ensuring the Board is adequately diversified$_{(p=0.031)}$ and for (iv) – prioritising adequate prior experience as Board director in any company$_{(p=0.030)}$ – varied significantly between the respondent groups, with the ED group being much less in agreement than the other groups.

Table 7. *Actions to overcome MM barriers*

The following courses of action may help to overcome MM barriers:	Mean	Std. Dev.
xiii. Ensuring that the CEO participates in Board meetings deemed necessary by the Board	3.91	0.288
xi. Ensuring regular Board meetings	3.74	0.449
viii. Requiring directors to have appropriate skills in at least one of the following; corporate governance, finance, strategy and entity-specific skills	3.74	0.689
ii. c. Increasing such director commitment by ensuring that the company remains cautious about maintaining its reputation	3.52	0.730
xii. Prohibiting role duality	3.52	0.665
ii. b. Increasing such director commitment by ensuring that the company remunerates directors fairly	3.48	0.665
i. b. Promoting director commitment to the company by requiring full disclosure of all executive and/or non-executive roles held	3.43	0.843
vi. Regularly reviewing the Board's composition to ensure it is aligned with changing circumstances	3.39	0.722
ix. Imposing mandatory induction training on newly engaged directors	3.35	0.832
vii. Ensuring the Board is adequately diversified	3.35	0.775
xiv. Making the Board chairperson and secretary responsible for ensuring the integrity of corporate information passed on to NEDs	3.26	0.964
iii. Imposing a minimum level of qualifications for directors	3.22	0.902
ii. a. Increasing such director commitment by ensuring that the company provides enough opportunities for widening networks	3.04	0.767
i. c. Promoting director commitment to the company by requiring disclosure of the total time commitment required for other positions/appointments beyond those within the company	2.87	1.100
iv. Prioritising adequate prior experience as Board director in any company	2.87	0.920
v. Setting a Board size threshold	2.78	1.085

x. Mandatory induction training to include case studies on team dynamics and communication	2.74	1.010
i. a. Promoting director commitment to the company by capping the number of directorships held	2.52	1.163

Note: *$X^2(17) = 95.380, p<0.001$, 0 = strongly disagree, 4 = strongly agree.*
Source: *Own study.*

All$_{(18/18)}$ listed actions were agreed to, with action (xiii) – ensuring that the CEO participates in Board meetings deemed necessary by the Board receiving the highest rating and (i. a.) – promoting director commitment to the company by capping the number of directorships held – receiving the lowest rating.

The respondents commented on two of the courses of action most agreed to. As regards (xiii), one respondent$_{(1/23)}$ emphasised that, rather than mere CEO participation in Board meetings as deemed necessary by the Board, the CEO must be a Board member. Regarding (viii) – requiring directors to have appropriate skills in at least one of CG, finance, strategy and entity-specific skills – one respondent$_{(1/23)}$ added that otherwise directors would be mere *"figureheads"*.

Similarly, respondents commented on two of the courses of action least agreed to. Regarding (v) – setting a Board size threshold – two respondents$_{(2/23)}$ explained that Board sizes have limited impact on MM effectiveness. This contrasts to Duke and Kankpang (2011) . In relation to (i.a.), relating to multiple directorship capping, a few respondents$_{(4/23)}$ added that if the directorships demand a reasonable amount of work and commitment, such directors could enhance MM owing to invaluable *"experience"* and *"expertise"* acquired in other places. Thus, one respondent$_{(1/4)}$ added that capping the number of directorships is not a solution. Two others$_{(2/23)}$ opposed the courses of action being made compulsory as this would signify over-regulation and make MM a mere *"box-ticking exercise"*.

4.3.2 Board skills, types of expertise, qualities and qualifications

Indispensable Board skills, types of expertise and qualities:

The respondents were asked to specify skills, types of expertise and qualities which they deemed indispensable on any Board. The majority$_{(16/23)}$ cited financial and accounting skills, followed by industry-specific skills$_{(11/23)}$ and skills relating to communications$_{(6/23)}$, strategy$_{(4/23)}$, CG practices$_{(4/23)}$, law$_{(3/23)}$, decision-making$_{(3/23)}$, economics$_{(2/23)}$, business acumen$_{(2/23)}$, negotiation$_{(2/23)}$, leadership$_{(2/23)}$, technicalities$_{(2/23)}$, politics and diplomacy$_{(1/23)}$, local knowledge$_{(1/23)}$, teamwork$_{(1/23)}$, enterprise$_{(1/23)}$, analytics$_{(1/23)}$, management$_{(1/23)}$, and risk management$_{(1/23)}$. When citing the need for communication skills, three respondents$_{(3/6)}$ stated that directors need to communicate *"persuasively and convincingly"* to *"every level"* of the company.

Respondents also mentioned having integrity$_{(2/23)}$, objectivity$_{(1/23)}$, a network of contacts$_{(1/23)}$, being trustworthy$_{(1/23)}$, open-minded$_{(1/23)}$ and responsible$_{(1/23)}$. Some$_{(3/23)}$

added that their emphasis on integrity or objectivity arose from the directors' duty to avoid conflicts of interest and to have an appropriate *"set of values"*.

Mandatory Board qualifications:
Subsequently, the respondents were asked what mandatory formal qualifications, if any, they deemed necessary for Board members to possess. Most$_{(20/23)}$ emphasised that mandatory qualifications were a *sine qua non* for all directors, although these could be a mix$_{(16/20)}$. Others$_{(4/20)}$ deemed a minimum level of education, implying either a tertiary$_{(2/4)}$ or secondary level$_{(1/4)}$, or basic communication and writing skills courses$_{(1/4)}$, to be enough.

Qualifications deemed mandatory for at least some directors related to accounting, banking and finance$_{(10/18)}$, law$_{(7/18)}$, management$_{(5/18)}$, economics$_{(4/18)}$, information technology$_{(4/18)}$, industry-specific skills$_{(4/18)}$, business$_{(2/18)}$, risk management$_{(2/18)}$, politics$_{(1/18)}$, human resources$_{(1/18)}$ and social policy$_{(1/18)}$.

Conversely, three respondents$_{(3/23)}$ stated that there are no mandatory formal qualifications that directors must possess. In line with Baldacchino *et al*. (2020), they asserted that mandatory impositions would block the appointment of directors who, despite not having formal qualifications, possess invaluable *"in-depth knowledge of the company"* and vast industry-specific experience. Consistent with Hirt *et al*. (2016), one respondent$_{(1/3)}$ held that newly elected directors must attend induction training.

4.3.3 Chair/CEO role duality in MLCs

The respondents were asked to give their opinion about Chair/CEO role duality in MLCs. Most$_{(17/23)}$ were against this. A few$_{(5/23)}$ believe that, although the two roles should be separate, circumstances might require otherwise. One respondent$_{(1/23)}$ supported Chair/CEO role duality without making any qualifications.

Of those opposing Chair/CEO role duality, some$_{(4/17)}$ contended that duality of office hampers the Board's monitoring function which requires the CEO to be accountable to the Board. One respondent$_{(1/4)}$ described role duality as a *"disservice"* to the company since it eliminates *"one layer of checks and balances"*, whilst others $_{(4/17)}$ argued that duality increases conflicts of interest and that *"acting with a dual hat"* makes the separation of management from the Board harder. Two respondents$_{(2/17)}$ emphasised that when Chair/CEO role duality is implemented, the individuals should not overstep in each other's role. In two companies$_{(2/17)}$, such role duality was impossible since the Board was completely non-executive. One respondent$_{(1/17)}$ believes that combining roles gives excess power to one individual.

Of those$_{(5/23)}$ acknowledging circumstances warranting Chair/CEO role duality, all$_{(5/5)}$ agreed that it should be avoided or exercised only as a temporary arrangement$_{(4/5)}$. One respondent$_{(1/4)}$ stated that temporary duality is better than having an acting CEO lacking the required *"power"*, *"expertise"*, *"knowledge"*, *"qualifications"* and confidence. Lastly, two respondents*(2/4)* contended that Chair/CEO role duality requires another appointee, like a senior ID, to hold enhanced responsibility for MM (Table 8).

Table 8. *Respondent opinions about Chair/CEO role duality*

Respondent opinions	Frequency	Percentage (%)
Disagreement with Chair/CEO role duality	17	73.9
Avoidance of Chair/CEO role duality	5	21.7
Agreement with Chair/CEO role duality	1	4.3
Total	**23**	**100.0**

Source: *Own study.*

4.3.4 The executive/non-executive directors ratio

The respondents were asked to rate, according to their level of agreement, statements comparing EDs with NEDs and IDs. Table 9 shows, in overall agreement order, the mean rating scores of the respondents' answers.

Table 9. *Comparing EDs with NEDs and IDs*

In comparison with EDs, NEDs and IDs:	Director type	Mean	Std. Dev.	p-value
i. introduce fresh perspectives, access to new resources and outside information	NEDs	3.39	0.583	0.059
	IDs	3.61	0.583	
	Both types	***3.5***		
iv. are less likely to collude with management	NEDs	3.26	0.619	***0.035***
	IDs	3.57	0.662	
	Both types	***3.42***		
iii. are more willing to monitor CEOs and thwart opportunistic behaviour of management	NEDs	3.22	0.600	***0.021***
	IDs	3.57	0.590	
	Both types	***3.40***		
ii. are more objective and unbiased in MM	NEDs	3.09	0.668	0.109
	IDs	3.35	0.832	
	Both types	***3.22***		
vi. need to be introduced to the firm's operations, facilities, suppliers and customers	NEDs	2.87	0.815	1.000
	IDs	2.87	0.869	
	Both types	***2.87***		
v. need to be experts in the sector	NEDs	2.65	0.832	0.655
	IDs	2.61	0.783	
	Both types	***2.63***		

Source: *Own study.*

All the statements were accepted and only the mean rating scores for (iv)*(p=0.035)* – that such directors are less likely to collude with management – and for (iii)*(p=0.021)* – that such directors are more willing to monitor CEOs and thwart opportunistic behaviour of management – varied significantly amongst the two director types. In both cases agreement was higher for IDs. Regarding the latter statement, one member of management clarified that such preference becomes more evident when the CEO is also a Board member.

Regarding the statements wherein no significant difference was found between the respondents' agreement to NEDs and IDs, two respondents $_{(2/23)}$ added that, with respect to MM, there is little difference between NEDs and IDs since differences arise from the directors' personalities not their type. Furthermore, while the lowest rating was given to statement (v) – that both such directors need to be experts in the sector – three respondents$_{(3/23)}$ emphasised that directors should aim to gain knowledge while on the job.

4.3.5 Recommended ratio between non-executive/independent and executive directors

Subsequently, respondents were asked to comment about the Code's recommendation that one-third of the Board should be non-executive with the majority being independent. Consistent with the Code, most respondents$_{(19/23)}$ stated that most NEDs should be independent. Several respondents$_{(12/23)}$ deemed that one-third of the Board being non-executive is practical, whilst others$_{(10/23)}$ called for more NEDs. A few$_{(3/23)}$ found no need for most non-executives to be independent, whilst one respondent$_{(1/23)}$ argued that the ratio cannot be regulated since Board compositions vary with the companies' requirements.

In line with Azim (2009), of those commenting that most NEDs must be independent, two$_{(2/19)}$ justified their preference by the need of IDs on subcommittees including audit and remuneration committees. Most$_{(7/10)}$ of those suggesting a higher non-executive ratio asserted that NEDs need to compose at least half the Board$_{(1/7)}$ if not having a clear majority$_{(6/7)}$, with some$_{(3/6)}$ proposing a two-thirds majority. Two respondents$_{(2/10)}$ emphasised that an MLC Board is best composed solely of non-executives to avoid undue management influence. Of those$_{(3/23)}$ disagreeing with the recommended ratio of IDs, one respondent$_{(1/3)}$ called only for a *"reasonable representation"*. Lastly, one respondent$_{(1/3)}$ believes that if directors are *"conscientious"*, it suffices to have one third of the NEDs being independent.

4.3.6 The impact of the ratio of non-executive and/or independent directors on MM effectiveness

The respondents were asked whether in their experience the MM effectiveness is often positively impacted by the ratio of non-executive and/or independent directors. Consistent with Fama and Jensen (1983), the majority$_{(18/23)}$ stated that the more NEDs and/or IDs sitting on the Board, the more effective the MM. Some added$_{(4/18)}$ that MM is enhanced because NEDs and IDs normally have no interest to *"collude with management"* and are *"more vociferous"* and *"outspoken"*.

One respondent$_{(1/23)}$ held that, whilst NEDs enhance MM, the ratio of IDs was irrelevant, whilst another respondent$_{(1/23)}$ found MM to be enhanced only with more IDs. Furthermore, three respondents$_{(3/23)}$ held that such ratio is irrelevant for MM effectiveness. Two of these$_{(2/3)}$ clarified that it depends on the directors' *"character and abilities"*. The other respondent$_{(1/3)}$ argued that *"all the directors contribute to MM"* and described EDs as the *"front liners"* of MM since they reject unsatisfactory propositions before these reach the Board.

4.4 Balancing the MM Level

4.4.1 Factors contributing to excessive MM

The respondents were asked for their view on what may contribute to excessive MM that may cause a failure in CG. Most$_{(17/23)}$ commented that MM becomes excessive when directors, especially NEDs, *"step into management's shoes"*, involve themselves in the day-to-day operations and *"invade the turf of the CEO"*, thus unduly influencing management decisions. Some$_{(5/17)}$ described excess MM as *"micromanagement"*. Two of these$_{(2/5)}$ interpreted micromanagement as unnecessary Board meetings whilst another respondent$_{(1/5)}$ stated that micromanagement originates from a *"lack of trust"*. Three other respondents$_{(3/17)}$ referred to the significance of mutual trust, with one$_{(1/3)}$ emphasising that, for management to feel *"trusted, autonomous and accountable"*, a *"balanced approach"* to MM is essential.

The directors' personalities and their interactions with the management were also considered$_{(2/17)}$ major determinants of the MM level, whilst others$_{(2/17)}$ described MM as excessive if it allows insufficient space for the management to take action. Two respondents$_{(2/17)}$ stated that the directors' *"direct involvement"*, including directly communicating with the management's subordinates, is *"counterproductive"* as it defies the corporate hierarchy. Indeed, two added$_{(2/17)}$ that strict MM is only justified when the management underperforms$_{(1/2)}$ or when the Board's risk appetite and the CEO's ability to execute delegated tasks are misaligned$_{(1/2)}$. However, two of these respondents$_{(2/17)}$ commented that excessive MM does not necessarily render CG a failure, although one added$_{(1/2)}$ that similar excesses result in uncompleted projects due to Board/management disagreements.

Whilst Boards are entitled to *"question, challenge and probe"*, a few$_{(4/23)}$ commented that MM becomes excessive when Boards demand unnecessary details from the management. It was argued that managers should not spend most of their time reporting and justifying their actions to *"extremely intrusive"* Boards as this stops them from fulfilling their job. Lastly, two respondents$_{(2/23)}$ stated that MM is very rarely excessive or having negative impacts on CG, with one adding$_{(1/2)}$ that what appears excessive is often simply a response to stringent regulatory requirements.

4.4.2 Avoiding excessive MM

The respondents were asked about what may ensure that excessive MM does not materialise. In reply$_{(21/23)}$, some$_{(7/21)}$ cited *"open, clear and regular communication"* as well as *"true and accurate"* reports which convey *"sufficient information"* and ensure *"transparency"* between the management and the Board. One respondent*(1/7)* added that a balance is needed between providing directors with sufficient information for *"effective oversight"* and avoiding excessive reporting.

Some*(6/21)* emphasised the need for Board/management relationships based on *"mutual trust and respect"*. This avoids micromanagement and eases the Board's assessment of management's *"competence"(2/6)* particularly if enough time is allowed for such assessments*(1/6)*. Others*(6/21)* stated that excessive MM may be avoided if directors, including the chairperson, are mindful of their roles, with one(1/6) suggesting training in this regard. Having an established MM structure was also deemed*(4/21)* contributory to the avoidance of such excesses. Two respondents*(2/4)* added that MM may be best structured if it goes hand-in-hand with sound internal control systems.

Others believed that, to safeguard against excessive MM, companies must adhere to their organigram structures and communication lines*(2/21)*, focus on who they recruit*(1/21)*, engage directors with sufficient industry expertise*(1/21)*, hold Board meetings only when necessary *(1/21)* and allow the management to submit proposals and take decisions without undue Board influence*(1/21)*.

4.4.3 Responsibility for balancing the MM level

The respondents were asked whether they believed that, to balance the MM level, a solution is to be found by the regulator/s or by each company on its own. Almost all the respondents*(20/23)* believed that a specific solution needs to be found by each company. Contrastingly, two respondents*(2/23)* suggested that this should be a combination of both. Only one respondent *(1/23)* believes that a solution is to be found by the regulator/s.

Several*(5/20)* of those suggesting that a specific solution needs to be found by each company explained that balancing MM varies in companies that differ in size and in the quality of their CEOs, members of management, chairpersons and directors. Others*(2/20)* argued that regulation is already tight and balancing MM through regulation could cause an *"overkill"*. One respondent*(1/20)* added that the appropriate MM level is continually changing even within the same company, thus making a regulatory *"one-size-fits-all"* approach potentially detrimental.

Of the two respondents*(2/23)* who stated that a balance in the MM level needs to be found by both the regulator/s and the individual companies, one*(1/2)* explained that, whilst the company must play its part, MM regulations for listed companies in unregulated industries like banking and insurance, must be amplified.

The respondent*(1/23)* who considered that a solution is to be found by the regulator/s added that, whilst ideally each company finds its own solution, regulations are essential for swift changes. Past wrongdoings indicate that *"transparency"*, *"communication"*, *"integrity"* and the avoidance of *"conflicts of interest"* are easily disregarded unless imposed by regulation.

5. Discussion

5.1 The Varying Perceptions of MM

5.1.1 Who is to be entrusted with MM?

Is MM perceived to be best affected by the whole Board?

Literature highlights the whole Board's monitoring role. Similarly, respondents agreed that the Board is the ultimate internal monitor of management. Boards must take a strong interest in management actions and decision-making processes whilst remaining at arm's length by not taking over management responsibilities. Furthermore, EDs are best included, despite any conflicts arising from their management role. The participation of all directors – whether IDs, NEDs or EDs – ensures accurate, collective, and valid views of management actions and performance.

As some respondents argued, each director may contribute to MM with varying degrees of effectiveness, depending on one's character and attitude – two leading aspects of effective MM. Positive character traits for vigorous oversight include directors being serious, outspoken, diligent, and transparent.

5.1.2 Are non-executive/independent and executive directors expected to have different roles in MM?

IDs remain the preferred monitors, followed by NEDs. This is because independence and detachment from the day-to-day running of the company enhance MM. NEDs and IDs contribute similar benefits to management scrutiny, asking the difficult questions to challenge management and arriving at sound judgments without creating conflicts. Yet, IDs remain in a superior position for MM because they are less likely to collude with management.

Nonetheless, IDs may find it harder to be strong monitors of management given that the latter hold far more corporate knowledge than they do. Indeed, the difficulties arising in monitoring expert managers of complex companies were pointed out in the literature . Whilst members of management must be transparent in supplementing the Board with detailed reports, such corporate information is more accessible to EDs.

Furthermore, with their closer working relationships with the CEO and management, EDs may be best placed to establish management's qualities and bad habits. Therefore, EDs may contribute to MM by sharing their knowledge with the rest of the Board. Yet, this must be subject to the other directors ensuring that no compromise arises in this sensitive exercise by any lack of impartiality, conflict of interest, or misinformation on the part of EDs. Particularly, EDs cannot play any decisive role in monitoring related to any action taken by themselves. The rest of the

Board must press everyone, including the EDs themselves, with appropriate and challenging questions.

5.1.3 Why and when should Boards monitor management?

Does MM prevent opportunistic behaviour on the part of management and promote managerial performance?

MM prevents opportunistic behaviour on the part of management because it makes managerialism harder by providing transparency, which prevents, or at least minimises, the opportunities for managers to act in their own interests and against those of shareholders. With their awareness of being monitored, managers are also more likely to be deterred from taking undue actions and to refrain from pursuing their self-interests.

With MM, the Board may also understand better management's actions and their implications, and gain insights about everyday operations. Thus, MM puts the Board in a superior position to scrutinise management performance and helps it to press for improved performance and to intensify efforts for more positive returns for shareholders.

Could there be occasions where MM is relaxed?

Whilst the day-to-day operations are delegated to management, the Board remains accountable to the shareholders and must always monitor management. Since managers could be tempted to exploit opportunities in their favour, thus hindering value creation and reducing the shareholders' returns on investment, Boards must be active monitors and remain continuously vigilant. Consistent with the findings MM should not vary with management performance and must be conducted even if management has been there for long, is trusted, and is not suspected of misconduct or foul play. Furthermore, ongoing MM enables Boards to collect information about the company's operations and managers' performance, allowing them to take timely remedial actions.

5.1.4 Is MM resisted or supported by management?

Management is ambivalent in this context. MM does not seem to be resisted by management or to increase Board/management conflicts, with managers emphasising the Board's monitoring role more than the directors themselves. Managers respect the Board's higher rank in the corporate hierarchy, whilst acknowledging that when directors oversee their performance, they are acting on shareholder expectations. Instead of being perturbed by MM, managers could be motivated to work harder to ensure that the Board is satisfied with their performance.

Yet, the situation deteriorates if, whilst monitoring, Boards are perceived to be taking an executive role and micromanaging, thus unduly influencing management's decisions. This may demoralise managers who feel mistrusted by the Board and may create problems as management starts regarding MM as an infringement on their work.

5.1.5 Factors impacting on the MM effectiveness in MLCs

Do directors generally have enough expertise and experience to oversee management effectively?

Competent CEOs are essential for corporate success and their expertise cannot result in them being blamed for the difficulties directors face in monitoring them. Yet, given the corporate complexities and ever-increasing regulations, effective MM is increasingly dependent on directors having sufficient and appropriate experience and expertise, including industry-specific knowledge.

Boards require a mix of directors, who together provide a range of skills, knowledge and expertise. However, given today's fast-paced business environments, the required areas of expertise change continually. Thus, what may currently be enough for effective MM could soon become insufficient or redundant. Hence, it is those directors who hold up-to-date knowledge, ask the appropriate questions, solicit information from management, and keep abreast with company affairs who can contribute to effective MM.

As previously discussed, NEDs and IDs have limited access to company information and thus cannot be expected to have the ED's level of company-specific knowledge and experience. Yet, they do not necessarily lack the expertise required for effective MM because they may possess valuable experiences, within the same and other industries, which allows them to probe and challenge management from a different, and more objective, perspective.

Could multiple directorships be a diversion from effective MM?

The question as to whether multiple directorships are a diversion from Boards achieving effective MM is controversial. On the one hand, the directors might gain wider experiences that could improve their contribution to MM. For example, directors may more easily recognise when management withholds information from them. Furthermore, given their various Board experiences, such directors may probably understand more quickly most management actions and their implications.

On the other hand, such directors may become overstretched with their multitude of responsibilities in different companies. The time available for them to regularly attend Board meetings and to carry out their duties in every company may be limited. Owing to the increasingly complex companies and the sheer amount of information to be processed, directors may find it difficult to conduct MM in-depth.

The question therefore arises as to whether it would be better for MLCs if the directorships held by one director were statutorily capped. Given the varying circumstances, it remains difficult to specify a capping and to determine whether its benefits would outweigh the drawbacks. Thus, further study is required in this regard.

Could long director tenures be a barrier to effective MM?
Long director tenures may result in closer director/CEO relationships, potentially compromising director independence, and hindering effective MM, as directors become less willing to challenge management. Other consequences include complacency, director fatigue and indifference which obstruct MM as directors become less vigilant. Tenure capping would keep Boards afresh as new directors introduce different ideas and perspectives.

Nonetheless, MLCs do not seem significantly concerned with long tenures hindering effective MM. This is because long-tenured directors, with their accumulation of experiences and knowledge, both in relation to the company and to the managers' qualities and abilities, may enhance MM. Thus, capping directorship terms may simply force off the Board still-performing directors, who may be difficult to replace.

Instead, the Code could set a cap that allows for a range of years, for instance between five and ten years. Whilst the frequency of director rotation would still depend on the respective company, such capping would be wide enough to allow enough time for most directors to acquaint themselves with the company and contribute effectively to MM, whilst allowing the company to reap the benefits of any accumulated knowledge and experience. Additionally, regardless of the number of years for which such capping is set, it is probably better if director terms do not expire simultaneously. Overlapping tenures permit continuity and stability for new directors to get accustomed to the company and their role.

Are the strategic and accountability roles further barriers to proper MM?
Apart from MM, Boards have the strategic function of setting the company's vision, mission and goals, as well as providing direction, establishing policies and governing the company. Additionally, Boards take responsibility for the company's activities and ensure transparency by presenting shareholders with detailed information about current and prospective corporate matters. Literature gives contrasting views regarding the relative aspirations of directors to be monitors in comparison to their other responsibilities.

Whilst the Board's other responsibilities might limit the time allocated to monitoring, MM may be inextricably linked to these other functions since it helps directors ensure that performance is aligned with the company's strategic vision. Furthermore, accountability is ensured if directors monitor management and gather sufficient and reliable information for proper and accurate communication with shareholders and stakeholders.

5.1.6 Overcoming hindrances to effective MM and balancing the MM level

What skills, expertise, qualities and qualifications are to be sought for more effective MM?

Effective MM requires knowledgeable and expert directors. Thus, overcoming MM barriers necessitates directors skilled in core areas such as CG, finance, strategy and entity-specific matters. Directors lacking such skills may exercise little, if any, influence over management. Additionally, when appointing directors, one must consider the expertise required both at present and in the future. This ensures that directors have a range of qualifications and experiences and helps companies prepare for future training needs to help current directors stay abreast of company and industry developments. Otherwise, a Board that starts off as an effective monitor might soon lose its monitoring capabilities.

Yet, formal qualifications may not be a *sine qua non* to effective MM because directors could instead hold company-specific and/or industry-specific experiences that are highly contributory to MM. Furthermore, personal qualities and skills, including integrity, objectivity, honesty, accountability, open-mindedness, teamwork skills, communication skills and good judgment may be more important for MM than specific or technical qualifications.

Do frequent Board meetings necessarily make MM more effective?

Board meetings supply directors with corporate information, allowing them to articulate and improve their monitoring role. More frequent Board meetings give directors additional opportunities to share their views, discuss the current performance, review management actions, better predict forthcoming issues and decide on the appropriate monitoring mechanisms. Since MM must be continuous, more frequent Board meetings help to ensure consistent communication both between the directors and management as well as among directors themselves. A higher meeting frequency also tends to give directors, especially NEDs and IDs, more opportunities to discuss controversial matters with EDs, and to elicit clarity from members of management who participate in Board meetings. Thus, more frequent Board meetings – exceeding the minimum of six per annum – likely enhance MM.

Does CEO participation when called for Board meetings make MM more effective?

Having the CEO participate in Board meetings as deemed necessary by the Board is thought to enhance MM. Keeping management and the Board separate and inviting the CEO to attend Board meetings only when needed, likely makes directors more comfortable with probing the CEO than when the CEO is a fellow director. Furthermore, directors may discuss matters, particularly about MM, without the presence of management.

When CEOs have a seat at the Board table, they get a say in the Board’s decision-making process, strengthening their power and potentially obscuring the distinction between the Board and management. This causes tensions, because just as directors should not micromanage, the CEO should not unduly influence the Board's decisions and monitoring processes. Furthermore, a CEO who sits on the Board is likely to face conflicts of interest when balancing the distinct managerial and directorship roles, with the latter including MM.

Nevertheless, CEO participation when called to the Board may not be sufficient. Indeed, whilst sometimes CEOs strictly hold a managerial responsibility, other times they have an *ex ufficio* Board position. Having the CEO sitting on the Board could strengthen the Board/management working relationship, increase transparency and decrease misinterpretations of management's reports since directors may get immediate explanations from the CEO. Thus, the Board might make more informed monitoring decisions, resulting in enhanced MM. Furthermore, being a Board member renders the CEO jointly and severally liable with the other directors. The validity of both sides of the argument calls for further research.

Are the chairperson and CEO positions better separate for effective MM?

The findings, literature and Code all suggest separating the chairperson and CEO roles in MLCs. Although such role duality prevents rivalry between the chairperson and the CEO and aligns the expectations of management and the Board, separating them is more prudent for MM. Having such role duality may render an individual overly powerful and thus more subject to abuse. Whilst effective MM requires the chairperson to retain an objective view of the company's operations and the performance of management, the CEO role requires the direct involvement of the individual in setting and completing management plans.

Thus, if one individual occupies both positions, conflicts of interest increase. Such role duality also reduces MM effectiveness as the Chair/CEO may more easily conceal or delay adverse news and steer directors away from getting to grips with suspicious occurrences.

Yet, Chair/CEO role duality could be a temporary solution when there is no adequate replacement for a vacant chairperson or CEO role. This is preferable to having an incompetent individual holding one of the roles, which might be a greater MM barrier than role duality.

Can MM be excessive and who should be responsible for its balancing?

As a CG mechanism, MM aims to prevent managerial malfunctioning and protect shareholder interests. Yet, MM must be balanced to avoid its excessiveness and the potential hindrance of management operating appropriately.

Excessive MM has been described as directors taking an undue managerial role, thus bypassing the company's organisational structures and micromanaging. With such faulty MM, CG principles fail as director control becomes unreasonable, potentially increasing Board/management disputes to the detriment of corporate performance. An example of excessive MM is directors demanding too many unnecessarily detailed reports from management rather than requesting reports conveying critical information and reflecting the expected standards from management. To balance MM, both directors and management must respect their place in the company's hierarchy and refrain from overstepping on each other's toes.

Whilst MM must be strong enough to ensure adherence to regulatory frameworks, directors cannot conduct such monitoring solely for this purpose. Instead, they must ensure that the MM level neutralises the agency problem and promotes corporate success. Whilst regulations do respond to past malpractices and avoid reoccurrences, regulators cannot establish an MM level suiting every company. Thus, companies must find their own balanced MM level in response to their needs.

6. Conclusion

This study concludes that MM is perceived to be best effected by the whole Board, including EDs. Whilst IDs have a good reputation for MM, EDs provide company-specific knowledge that the NEDs and IDs might lack. Yet, MM includes overseeing EDs and thus, such directors cannot contribute decisively to monitoring. Furthermore, effective MM is thought to prevent managerialism and to provide information for directors. Therefore, MM must be continuous, even when management is performing as expected. Management reaction to MM depends on how it is conducted. If the Board does not overstep on management or unduly influence its actions, managers will find no issue with being monitored and might strive harder.

The study also concludes that the highest barrier to effective MM is the directors' insufficient expertise. Unrelenting market developments make MM difficult for all directors – whether NEDs, IDs or EDs. Notwithstanding the Board's mix of skills, knowledge and expertise, if directors do not ask the hard questions and keep abreast with corporate matters, MM is hindered. Yet, the lack of company-specific knowledge of NEDs and IDs is likely counterbalanced by their experience and objectivity.

Furthermore, whilst multiple directorships could enhance director competencies, they might also be a barrier to effective MM, owing to limited time availability. The solution remains unclear as uncertainty about whether the benefits of capping outweigh its shortcomings persists. Additionally, long-tenured directors may hinder MM as directors might build cosy relationships with management and Board processes might become ineffective.

However, whilst capping preserves Board independence, it might cause a loss of irreplaceable experience and knowledge. Thus, tenure caps might be best set for a range of years. Additionally, whilst other Board roles, including strategy and accountability, often limit the time dedicated to monitoring, all Board functions should work in tandem to increase shareholder value.

With proper Board structures and compositions, the Board may be best placed for MM. Barriers to effective MM can be overcome if directors hold a range of skills and expertise, especially in core areas, according to present and future needs. Yet, formal qualifications should not be mandatory since their absence might be counterbalanced with valuable personal qualities and skills.

Furthermore, overcoming MM barriers might necessitate more frequent Board meetings, ideally more than six per annum. Frequent Board meetings enhance oversight, especially by NEDs and IDs, by allowing proper provision of information, stronger director interaction and enhanced communication, both with management and amongst directors. Additionally, CEO participation in Board meetings is likely to enhance MM because the CEO typically holds extensive knowledge that might increase the Board's effectiveness, whilst also permitting directors to discuss any issues without management involvement. Yet, it could not be determined whether mere CEO participation is sufficient or whether the CEO should be a director regardless of potential conflicts of interest.

Nonetheless, for effective MM, the Chair/CEO roles are better separated, except in exceptional cases. Such separation safeguards against having someone holding disproportionate power and ensures that the conduct of one role does not negatively impact the other. Finally, MM may become excessive if directors start micromanaging rather than controlling. Although MM is critical for good CG, its excess creates Board/management tensions, potentially destroying company value. Whilst regulations may reduce malpractices, it might be best to avoid regulatory impositions regarding an optimal MM level and instead let companies find their MM balance. Ultimately, as stated by one respondent, *"while it is essential for a Board to monitor its management it will be damning if such monitoring is excessive"*.

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