The Implications of a Mixed Board on the Corporate Governance of MLEs

by

Annie Caruana

A dissertation submitted in partial fulfilment of the requirements for the award of the Master in Accountancy degree in the Department of Accountancy at the Faculty of Economics, Management and Accountancy at the University of Malta

May 2023

L-Università ta' Malta

FACULTY/INSTITUTE/CENTRE/SCHOOL Faculty of Economics, Management and Accountancy

DECLARATIONS BY POSTGRADUATE STUDENTS

(a) Authenticity of Dissertation

I hereby declare that I am the legitimate author of this Dissertation and that it is my original work.

No portion of this work has been submitted in support of an application for another degree or qualification of this or any other university or institution of higher education.

I hold the University of Malta harmless against any third party claims with regard to copyright violation, breach of confidentiality, defamation and any other third party right infringement.

(b) Research Code of Practice and Ethics Review Procedures

I declare that I have abided by the University's Research Ethics Review Procedures. Research Ethics & Data Protection form code FEMA-2022-00488.

As a Master's student, as per Regulation 77 of the General Regulations for University Postgraduate Awards 2021, I accept that should my dissertation be awarded a Grade A, it will be made publicly available on the University of Malta Institutional Repository.

Abstract

TITLE: The implications of a Mixed Board on the Corporate Governance of MLEs

PURPOSE: This study sets out (i) to ascertain the Board mix of the selected MLEs and how this has changed in the years 2018-2022, if in any way, (ii) to extract the main factors affecting the Board mix, and (iii) to assess the extent to which the Board mix is perceived as contributing to good CG.

DESIGN: A mixed methodology was adopted. Thirty-one semi-structured interviews were conducted with eleven directors, nine company secretaries, four CFOs and two CEOs of MLEs, together with three corporate advisors, one corporate lawyer and one MLE expert.

FINDINGS: The findings indicate that INEDs are appreciated in the Boards of MLEs but the Board mix varies significantly among MLEs. Minimal changes in the Board mix have been noted in the years 2018-2022. The main factors affecting the Board mix of MLEs are the scope and complexity of the entity's operations, CEO entrenchment, the directors' knowledge on the entity's key functions and the directors' nationality. The findings also indicate that NEDs/INEDs contribute towards strategy formulation, the prevention and detection of corporate irregularities, and enhanced transparency in financial reporting. Meanwhile, EDs contribute towards strategy execution and may even aid in preventing and detecting corporate irregularities.

CONCLUSIONS: The study concludes that no one optimal Board mix may be prescribed for all MLEs due to their own specific needs. However, it is high time to increase the present Code's recommendation of one-third to be NEDs for these to become the Board majority.

IMPLICATIONS: This study aims to raise awareness amongst MLEs on the importance of Board mix, together with the factors which affect such a mix. The proposed recommendations may aid MLEs in composing a Board mix which ensures good CG and enable competent authorities to provide more guidance.

KEYWORDS: Board Mix, Corporate Governance, Maltese Listed Entities, Board of Directors

Dedication

To my loved ones
for always encouraging me
to go the extra mile

Acknowledgements

First and foremost, I would like to express my deepest gratitude to all those who supported and encouraged me throughout the completion of this study.

I cannot begin to express my heartfelt thanks to my supervisor Professor Peter J. Baldacchino, Ph.D.(Lboro.), M.Phil.(Lboro.), F.C.C.A., F.I.A., C.P.A., who furnished invaluable advice and constructive feedback throughout the process of writing this study. I am extremely grateful to his dedication, patience and expertise.

I would like to extend my thanks to Professor Liberato Camilleri, B.Ed.(Hons), M.Sc., Ph.D.(Lanc.) for his help in the analysis and interpretation of the statistical tests using the IBM SPSS software.

Moreover, I am deeply indebted to all the research participants who spared some of their time to share their extensive knowledge and provide invaluable insights on the research area. Undoubtedly, this study would not have been possible without their contribution.

I am truly grateful for my friends and colleagues for always having my back and making the University experience an enjoyable one.

Last but not least, a special thanks goes to my beloved parents, sister and brothers for their unconditional love, relentless support, patience and profound belief in my abilities.

Table of Contents

List of Figures

List of Tables

List of Abbreviations

Board	Board of Directors
CEO(s)	Chief Executive Officer(s)
CFO(s)	Chief Financial Officer(s)
CG	Corporate Governance
CGE(s)	Corporate Governance Expert(s)
Code	Code of Principles of Good Corporate Governance
ED(s)	Executive Director(s)
INED(s)	Independent NED(s)
IPO	Initial Public Offering
MBR	Malta Business Registry
MFSA	Malta Financial Services Authority
MLE(s)	Maltese Listed Entity(ies)
MSE	Malta Stock Exchange
N	Number of MLEs
NED(s)	Non-Executive Director(s)
OECD	Organisation for Economic Cooperation and Development
SOX	Sarbanes-Oxley Act
UK	United Kingdom
US	United States

Chapter 1

Introduction

1.1 Introduction

This introductory chapter kicks off the study as portrayed in Figure 1.1. Firstly, the key definitions are presented in Section 1.2. Then, Section 1.3 justifies the rationale for the study and the research objectives are laid down in Section 1.4. Thereafter, Section 1.5 identifies the scope and confines of the study. Finally, Section 1.6 gives a synopsis of the study's structure.

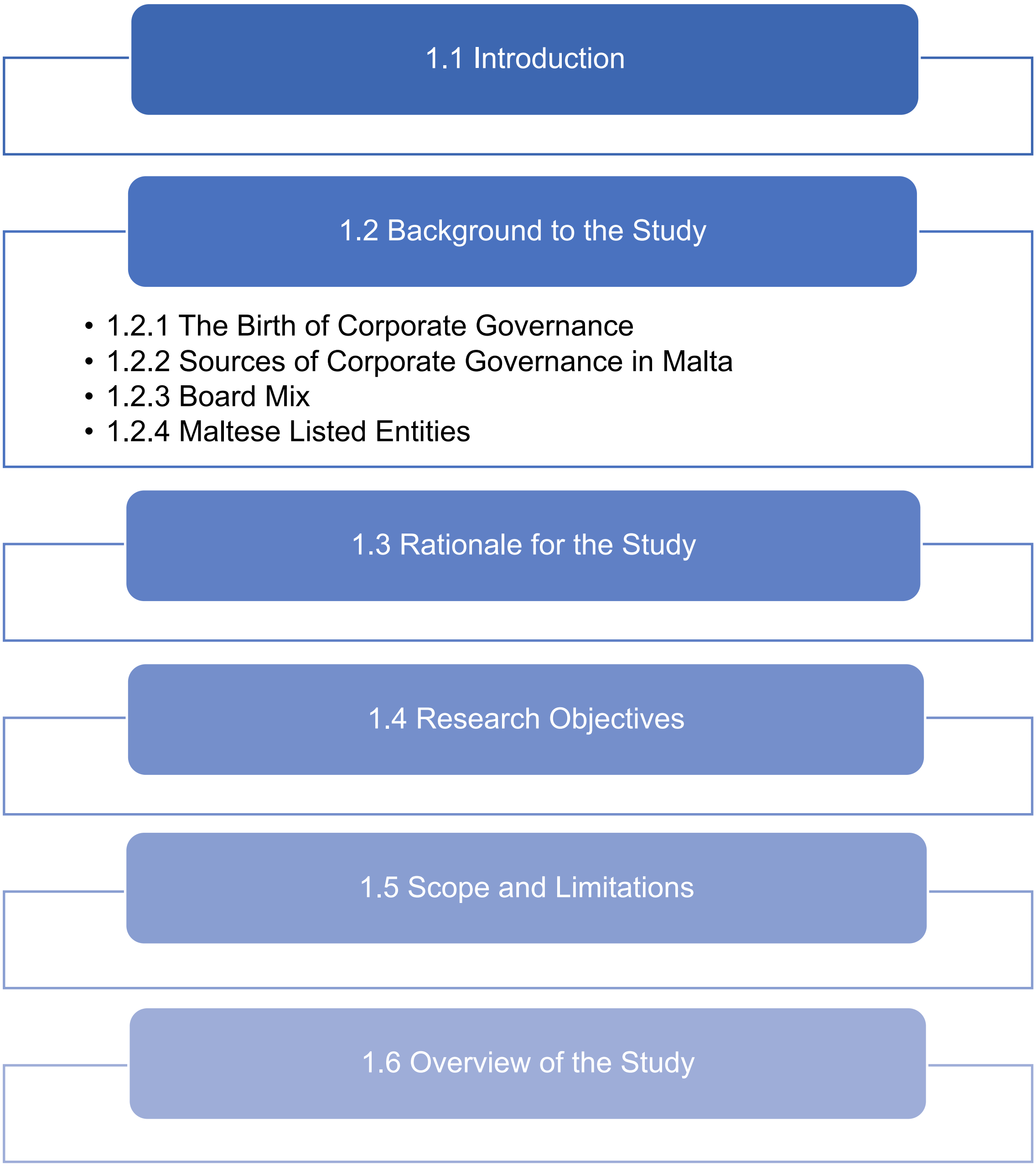

Figure 1.1: Outline of Chapter 1

1.2 Background to the Study

1.2.1 The Birth of Corporate Governance

The term Corporate Governance (CG) was born due to the principal-agent problem triggered by the separation of ownership and management in the formation of limited entities (Wells 2010), whereby shareholders appointed salaried managers to maximise wealth on their behalf (Pye, Camm 2003). Amidst successful entities and satisfied shareholders, CG was disregarded (Cheffins 2009). It only started being given its due importance in the beginning of the twenty-first century, following the demise of internationally renowned entities such as Enron and Worldcom, which were blamed for poor and ineffective CG (Dibra 2016). In Malta, problems also prevailed as evidenced by Price Club and Supermaster supermarkets' abrupt bankruptcies, amongst others (Sant 2003). According to Jensen (1993), entities failed to perceive internal crisis on time and to take immediate action, placing themselves in a compromised situation. Governments and regulators recognised the need for legal reforms to control management (Bezzina, Baldacchino et al. 2014). The United States (US) responded by passing the Sarbanes-Oxley Act (SOX) (Sarbanes 2002) while the United Kingdom (UK) issued several reports including the Cadbury Report (Cadbury 1992). Malta was mostly influenced by the development of CG in the UK and the Organisation for Economic Cooperation and Development (OECD) Principles of CG (Baldacchino 2017, OECD 2015).

In recent years, CG has been under the lens of many academics and practitioners worldwide (Magnanelli, Pirolo 2021). Yet, no one single definition of CG exists. A common point of analysis in the numerous definitions is that of aligning the differentiated interests of the entity's managers, directors and stakeholders to safeguard a fair system (Baldacchino 2007). The mostly used definition is that laid down in the Cadbury Report (1992, p.15) which delineates CG as *"the system by which companies are directed and controlled"*. Entities should instil a culture of good CG at all the hierarchical levels, from top to bottom (Farrugia 2022).

1.2.2 Sources of Corporate Governance in Malta

The primary source that regulates CG in Malta is the Companies Act of 1995. This gives discretionary powers to directors, but it also stipulates their duties (Companies Act 1995). Another source is the Memorandum and Articles of Association of entities. Additionally, in 2001, the Malta Stock Exchange (MSE) introduced the Code of Principles of Good Corporate Governance (Code) as an appendix to the Listing Rules (Listing Authority – Malta 2021). The Regulator/s are the Malta Listing Authority and the Malta Financial Services Authority (MFSA). Although the Code is primarily targeted to listed entities, it applies to any other type of entity (Baldacchino 2017), excluding Collective Investment Schemes (MFSA 2011). Moreover, the Code does not supersede any regulatory or legal requirements that an entity must adhere to (MSE n.d.). Malta adopted the 'comply or explain' regime (MFSA 2011) implying that entities can either comply with the provisions set out, or else, give reasons for divergence from the Code (Baldacchino 2007). Indeed, the Code is called *"soft law"* (Gower, Davies 2003, p.322).

1.2.3 Board Mix

The mainstay of CG is the Board of Directors (Board), the highest echelon of an entity (Merendino, Melville 2019). As illustrated in Figure 1.2, the Board acts as the bridge between management and shareholders. Shareholders contribute equity capital to the entities, are entitled to any residual cashflows and hold the ultimate control rights. However, they do not participate in the daily running of the entity (Armstrong, Guay et al. 2010). They appoint a Board which is directly accountable to them (Cadbury 1992) and also, indirectly accountable towards other stakeholders impacted by its decisions (Magnanelli, Pirolo 2021). The Board has three fundamental roles (Zahra, Pearce 1989). Firstly, it monitors and controls the actions of management (Magnanelli, Pirolo 2021). Secondly, it establishes connections with the external environment and facilitates the procurement of resources. Thirdly, it furnishes management with advice and helps in setting the strategy and decision-making (Şener, Varoğlu et al. 2011).

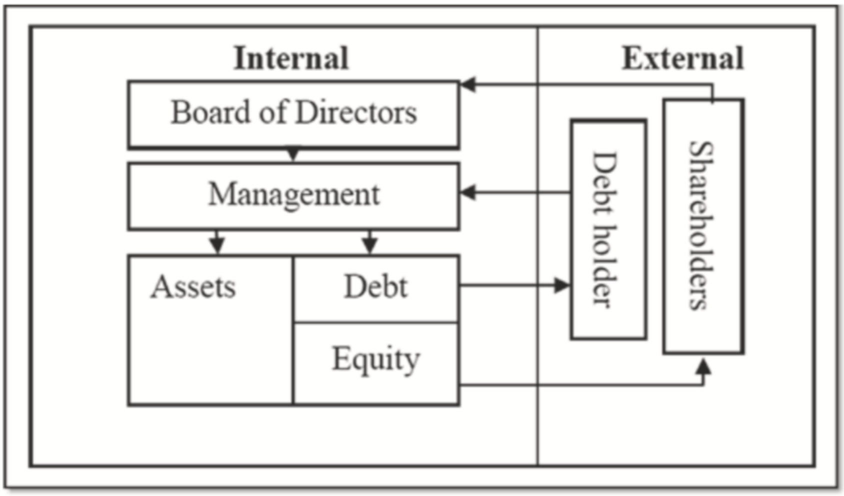

Figure 1.2: The Board as a bridge between management and shareholders

Adapted from Tabassum and Singh (2020, p.3)

The Board is a group of directors. The Companies Act 1995 (Art. 2[1]), Chapter 386 of the Laws of Malta, delineates a director as

> *"any person occupying the position of director of a company… carrying out substantially the same functions in relation to the direction of the company as those carried out by a director"*.

The Code[1] does not prescribe the Board size, that is, how many directors should sit on the Board except that it *"should be of sufficient size"* (MFSA 2011, p.4). However, the Code maintains that the Board has to be made up of both executive (ED) and non-executive directors (NEDs), also referred to in the literature as insiders and outsiders respectively. This is in line with Baysinger and Butler's (1985) suggestion that an optimal Board is composed of an unspecified mix of EDs and NEDs. The Companies Act (1995) does not draw a line between the two types of directors and Baldacchino, Camilleri et al. (2020) claim that this distinction is blurred in Malta. Essentially, EDs are also employees or managers of the entity while NEDs serve only as Board members (Caruana 2017).

[1] Vide Principle 3

As depicted in Figure 1.3, EDs on a Board either have the capacity of an executive, Chief Executive Officer (CEO) or the combination of CEO and chairperson (McCabe, Nowak 2008). Only EDs are entrusted with the daily running of the entity (Baldacchino 2017). However, NEDs also play a pivotal role in an entity's CG (Pye, Camm 2003). These may still have some form of connection with the entity, for example, they are business consultants, former managers, attorneys (Borokhovich, Boulton et al. 2014) or major shareholders (McCabe, Nowak 2008). Such directors are also known as 'affiliated' or 'grey' directors (Baysinger, Butler 1985). Meanwhile, those NEDs who do not have any present or past ties with the entity and so, demonstrate independence of mind, information and income (McCabe, Nowak 2008), are classified as independent NEDs (INEDs). The Code[2] specifies that INEDs are *"free of any business, family, or other relationship with the company, its controlling shareholder or the management"* (MFSA 2011, p.4). As a result, INEDs exercise judgement without undue influence (Magnanelli, Pirolo 2021). The mix of EDs, NEDs and INEDs is the working definition of Board mix in this study.

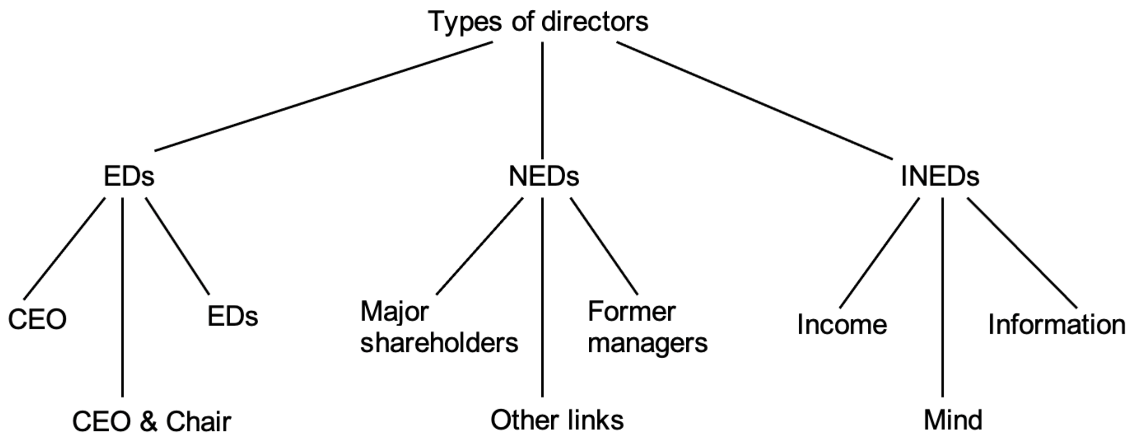

Figure 1.3: The different types of directors

Amended from McCabe and Nowak (2008, p.550)

[2] Vide Supporting Principle 3(vii)

1.2.4 Maltese Listed Entities

The Financial Markets Act 1991 (Art. 2[1]), Chapter 345 of the Laws of Malta defines a listed entity as

> *"a company whose financial instruments have been admitted to listing on a trading venue in accordance with the provision of this Act".*

As of 31st March 2023, there are thirty-one entities with equity being listed on the MSE (MSE 2023)[3]. For Maltese Listed Entities (MLEs), the Code[4] suggests that at least, one third of the directors are NEDs, most of whom are INEDs (MFSA 2011). However, entities are not obliged to follow this recommendation and in fact, there is no system or watchdog to ensure that they have this Board mix. Such comply-or-explain approach gives entities the flexibility to tailor the Code's principles according to their needs (Wilson 2009).

1.3 Rationale for the study

Being imperative for CG, the Board has received significant attention from academics, regulators, investors, businesses and the public at large, even in Malta. However, many studies such as Bezzina, Baldacchino et al. (2014) focus on the Board as a whole, without delving into the different types of directors. Nevertheless, an effective Board is composed of an appropriate mix of directors, referring not only to the mix of knowledge and expertise but also, to the mix of the types of directors (MSE n.d.).

The earlier mentioned Code's recommendation for the Board mix is rather vague and no further guidance is provided because the exact Board mix depends *"on the circumstances and business of each enterprise"*[5] (MFSA 2011, p. 4). However, this does not negate the need to advise entities on the optimal Board

[3] Vide Appendix 1.1
[4] Vide Supporting Principle 3(iii)
[5] Vide Supporting Principle 3(iii)

mix which ensures good CG and the factors that may necessitate a change in this Board mix. In Malta, no study has yet shed light in this regard. According to Magnanelli and Pirolo (2021), the findings defer depending on the country where the study is performed because CG is not globally standardised but it is aligned to every country's political, cultural, economic and legal frameworks (Shirwa, Onuk 2020). Indeed, various CG models exist (Aguilera 2005). The two widely accepted models are the Anglo-American and the Continental models. Under the Anglo-American model, which is the one that prevails in Malta (Baldacchino 2017), entities have a single-tier Board with both managerial and supervisory duties. This consists of the CEO or Chief Financial Officer (CFO) but seldom more than three EDs (Magnanelli, Pirolo 2021). Meanwhile, under the Continental model, entities have two-tier Boards, these being, the supervisory and management Boards which are exclusively made up of NEDs/INEDs and EDs respectively (Magnanelli, Pirolo 2021, OECD 2021).

Moreover, Malta is a small state country (World Bank 2021) and there are only a few studies on CG applicable to small states (Baldacchino 2017). Thus, this study is imperative. It seeks to raise awareness amongst MLEs on the importance of Board mix to good CG and aid them in composing their Board mix depending on their specific needs. In addition, the findings which emerge from this study may be used in the revision of the Code which is in progress (MFSA 2020).

1.4 Research Objectives

This study's objectives are:

1. To ascertain the Board mix in each of the selected MLEs and how this has changed in the years 2018-2022, if there was any change.
2. To extract the impact of the main factors affecting the Board mix as determined in 1. These include both entity-specific and director-specific factors as shown in Figure 1.4.

3. To assess the extent to which the Board mix as determined in 1 is perceived as contributing to good CG.

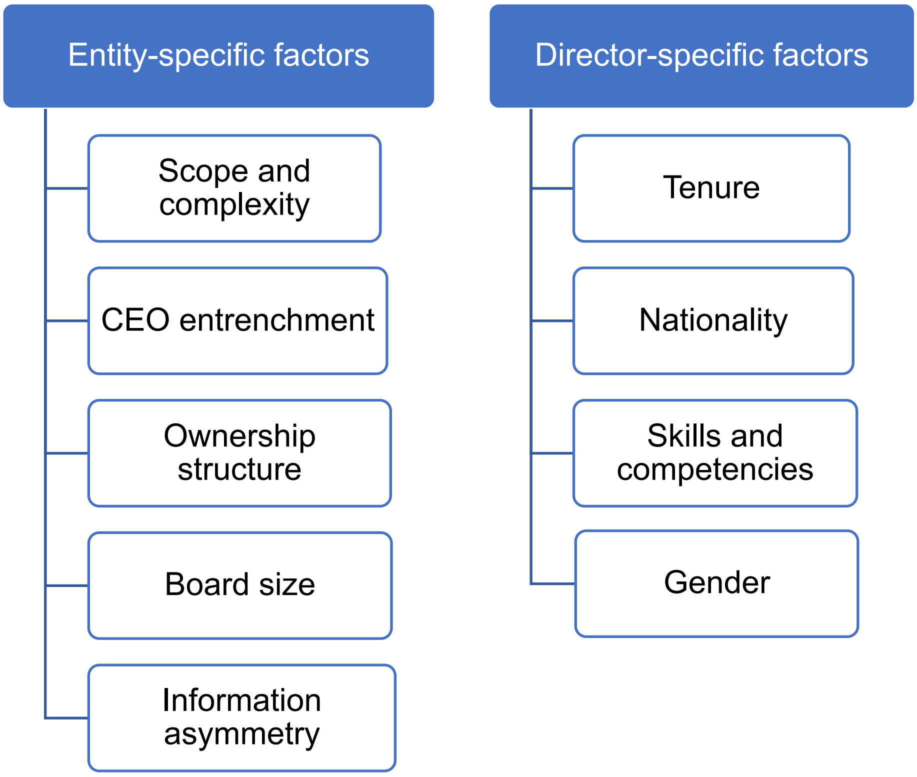

Figure 1.4: Possible factors affecting the Board mix

Source: Author

1.5 Scope and Limitations

This study focuses solely on the Board mix without considering the numerous other CG mechanisms that may substitute or complement it in creating appropriate checks and balances on management, such as Board size, except insofar as any of these affect the Board mix itself.

Moreover, although CG applies to every type of entity (Shirwa, Onuk 2020), this study is limited to MLEs which are the largest and most vital entities for the Maltese economy (Baldacchino 2017). In addition, this study reflects relevant Maltese and international studies and developments until 31st March 2023.

1.6 Overview of the Study

Chapter 1 sets the scene for this study by providing the key definitions. It also clarifies the need for this study and the research objectives.

Chapter 2 evaluates the domestic and international literature about CG that is relevant to the Board mix.

Chapter 3 covers the research methodology chosen for this study.

Chapter 4 presents the research findings obtained from the interviews conducted.

Chapter 5 discusses the findings obtained in Chapter Four, in the light of the literature examined in Chapter Two.

Finally, **Chapter 6** summarises the key findings, puts forward recommendations and proposes areas for future research. The sequence of the study is depicted in Figure 1.5.

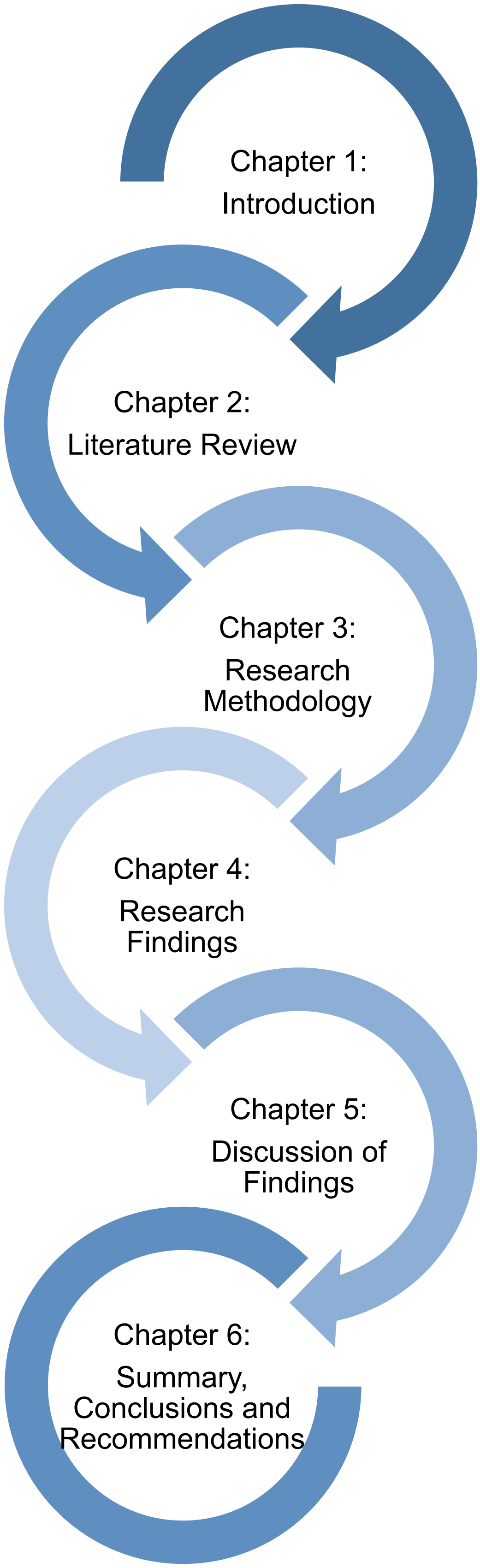

Figure 1.5: Sequence of the study

Chapter 2

Literature Review

2.1 Introduction

This chapter presents an analysis of domestic and international literature on the research area. Figure 2.1 shows the agenda of this chapter. Section 2.2 delves into the Board mix and the factors altering this mix are then discussed in Section 2.3. Consequently, Section 2.4 provides insights on the contribution of Board mix to good CG. Finally, Section 2.5 closes off the chapter.

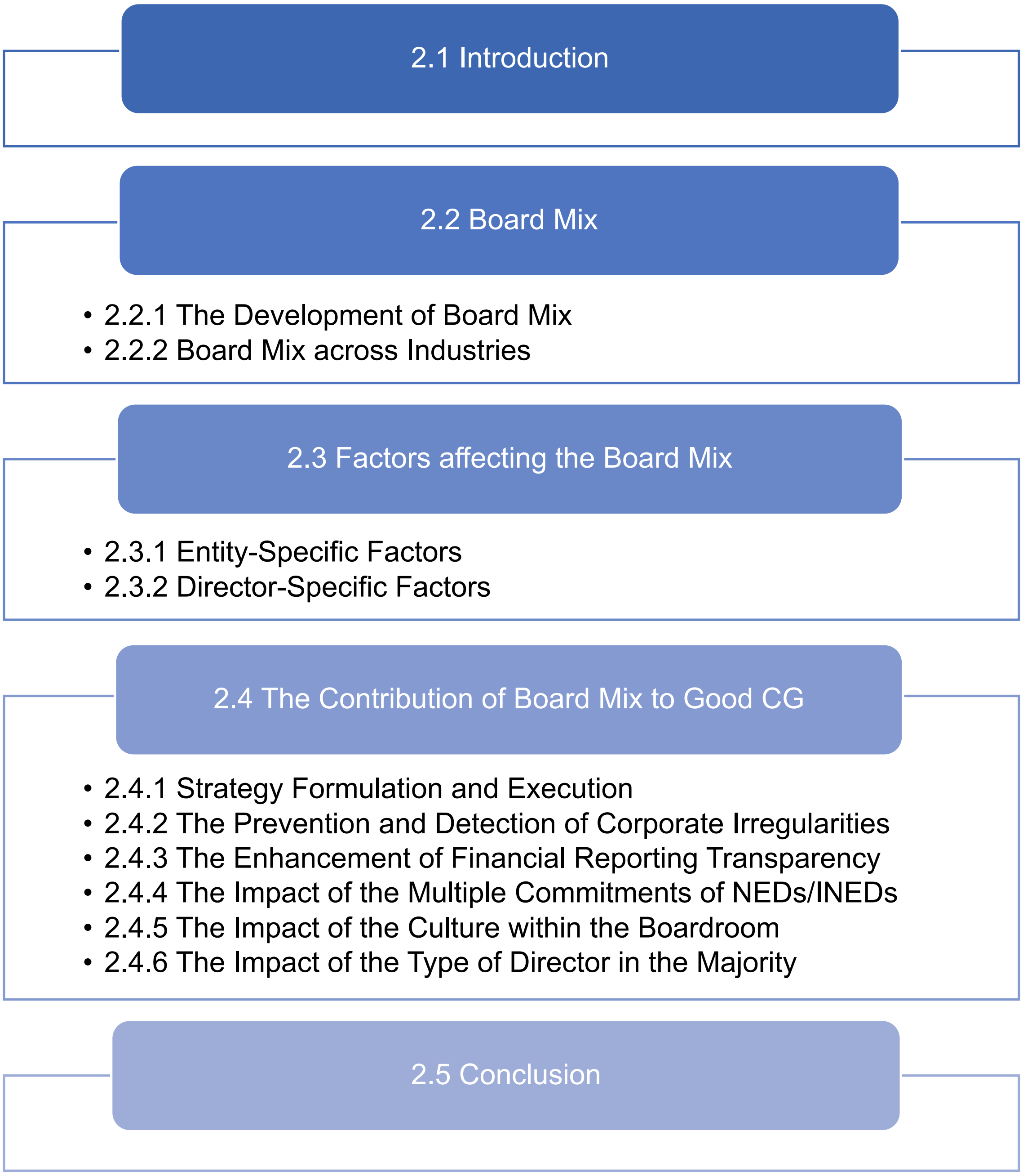

Figure 2.1: Outline of Chapter 2

2.2 Board Mix

2.2.1 The Development of Board Mix

Worldwide, countless studies have examined the Board mix[6] and radical changes have been noted over the years. Originally, Boards were mainly made up of EDs but during the 1970s, entities in the US started replacing EDs with NEDs/INEDs through a voluntary process (Baysinger, Butler 1985). The downward trend in the number of EDs was experienced by different entities irrespective of size, yet the small entities presented the largest decrease (Linck, Netter et al. 2008). Then, the imposition of SOX in 2002 further accelerated the drive to increase the proportion of INEDs (Linck, Netter et al. 2008). This pattern was also confirmed by Lahlou (2018). A recent study in the US by Chung, Liu et al. (2019) illustrated that NEDs/INEDs even gained supermajority. The replacement of EDs with NEDs/INEDs in boardrooms also featured in other countries, albeit more slowly (Dahya, McConnell 2005). Malta was no exception such that in 2007, all MLEs except for one, had a majority of NEDs/INEDs (Ellul 2007).

Various forces could have shaped this pattern over time. One of these could have been the conventional wisdom that NEDs/INEDs were more effective than EDs in monitoring management (Baldacchino, Callus et al. 2022, Bhagat, Black 2002). It could also have been due to shareholder activism, advancement in technology (Linck, Netter et al. 2008) or the burdening of NEDs/INEDs with more responsibilities (Pye, Camm 2003). Another driver altering the Board mix was the transformation into a public entity. According to Boone, Casares Field et al. (2007), at the time of Initial Public Offering (IPO), entities had more INEDs than other typical entities. Moreover, during the initial ten years following the IPO, there was commonly a steady decrease in the proportion of EDs and a steady increase in the proportion of INEDs (Boone, Casares Field et al. 2007). Underlying all this, the imposition of institutional and regulatory pressures acted as a further impetus towards more Board independence (Coles, Daniel et al.

[6] Vide Appendix 2.1

2008). Indeed, policymakers worldwide proposed a minimum proportion of NEDs/INEDs (Neville, Byron et al. 2019) which exceeded the then historical norm (Dahya, McConnell 2005) yet varied widely across the globe[7]. In most countries, this is equivalent to 2-3 persons or 50% of the Board members. While this is just a recommendation in some countries, it is a requirement in others (OECD 2021). All this suggests that although the Board mix is only one of the CG mechanisms, it is of utmost importance (Baysinger, Butler 1985).

The increased emphasis on the participation of NEDs/INEDs in boardrooms reflects the notion that these are *"'guardians' of the corporate good and act as 'buffers' between the EDs and the company's shareholders"* (Pass 2004, p.4). EDs may have misleading intentions due to their private benefits and their implicit connection with the CEO (Raheja 2005). Moreover, there is the risk that EDs do not make an informed choice but automatically agree with the CEO on corporate initiatives (Borokhovich, Boulton et al. 2014). This risk is further compounded when EDs fear that they will be dismissed by the CEO if they do not back him up (Shakir 2008). In turn, the interests of the shareholders and other stakeholders of the entity are protected by the presence of NEDs/INEDs (Agrawal, Knoeber 2001) who act as a monitoring tool on EDs and management by scrutinising and exercising control over their actions (Higgs 2003). Moreover, the professional qualifications, vast experience and rich external viewpoints that NEDs/INEDs possess often enable them to offer sound advice to the EDs (Magnanelli, Pirolo 2021). In addition, NEDs/INEDs enrich the entity's resources through their network of contacts and linkages to the external environment (Tabassum, Singh 2020). Since NEDs/INEDs are not inundated by the daily operations, they can envisage the 'big picture' of the market and identify threats and opportunities which EDs may have overlooked (Pass 2004).

In particular, NEDs' independence is a common CG practice because there is less chance that INEDs collude with management (He, Sommer 2010). Moreover, INEDs can prevent bad or illegal decisions from occurring whereas

[7] Vide Appendix 2.2

other sources of accountability such as the court, are exerted only when accusations of management misconduct are made (Zattoni, Cuomo 2010).

2.2.2 Board Mix across Industries

A few studies indicate that the Board mix differs across industries. In particular, where directors require entity-specific knowledge such as in entities that focus on research and development or new technology, there is a higher proportion of EDs (Coles, Daniel et al. 2008, Raheja 2005). The same applies in environments surrounded by uncertainty (Rhoades, Rechner et al. 2000) since EDs are exposed to more first-hand information than NEDs/INEDs. In contrast, in entities where NEDs/INEDs can easily verify projects like grocery store chains, there is a higher proportion of NEDs/INEDs (Raheja 2005).

2.3 Factors affecting the Board Mix

The Board mix is affected by both entity-specific and director-specific factors (Garner, Kim et al. 2017). Entities adjust the Board mix in either direction as the need arises, but they are becoming less likely to decrease the proportion of NEDs/INEDs given the increasingly restrictive governance standards (Chung, Liu et al. 2019, Cicero, Wintoki et al. 2013).

2.3.1 Entity-Specific Factors

Entity-specific factors found in the literature to be relevant to Board mix include scope and complexity, information asymmetry, CEO entrenchment, ownership structure and Board size.

Scope and Complexity

The scope and complexity of an entity's operations and finances affect the Board mix (Pascual-Fuster, Crespí-Cladera 2022). As entities grow larger, age or enter into new product or geographical lines, they onboard more NEDs/INEDs (Boone, Casares Field et al. 2007, Chung, Liu et al. 2019, Coles, Daniel et al. 2008, Fraile, Fradejas 2012, Lahlou 2018), particularly those with expertise and specific knowledge in the new growth areas (Agrawal, Knoeber 2001). The deployment of more NEDs/INEDs may result from the need to oversee the broader and more intricate range of the entity's operations (Coles, Daniel et al. 2008). Similarly, entities with high financial gearing have a higher proportion of NEDs/INEDs since such entities necessitate more advice (Coles, Daniel et al. 2008, Lahlou 2018) and monitoring (Bushman, Chen et al. 2004, Monem 2013). This is disputed by García Martín and Herrero (2018) because monitoring is partly carried out by debt holders.

Information Asymmetry

It has long been recognised that NEDs/INEDs have inferior entity-specific information compared to EDs (Zattoni, Cuomo 2010). An entity with high spending on research and development, growth opportunities or stock return volatility encounters an even larger gap between the information EDs and NEDs/INEDs possess (Chung, Liu et al. 2019). Consequently, fewer NEDs/INEDs feature on Boards (Lahlou 2018, Linck, Netter et al. 2008, Monem 2013). Indeed, Duchin, Matsusaka et al. (2010) insist that where it is costly to acquire information, the entity's performance declines if more NEDs/INEDs are onboarded. EDs are more beneficial than NEDs/INEDs in volatile environments since speedy decision-making represents the entity's success or failure (Lehn, Patro et al. 2009). Meanwhile, Boone, Casares Field et al. (2007) and Chung, Liu et al. (2019) declare that information asymmetry does not impact the Board mix.

CEO Entrenchment

CEO entrenchment is a gauge of the CEO's influence on the directors' decisions (Chung, Liu et al. 2019). This is fostered by CEO duality, good entity performance and CEO ownership of an entity's shares (Monem 2013). The Code[8] stipulates a *"clear division of responsibilities"* between the chairperson and the CEO (MFSA

[8] Vide Principle 2

2011, p.3). All MLEs abide by the Code's recommendation and thus, CEO duality is no longer relevant for Malta.

Several studies (Boone, Casares Field et al. 2007, Chung, Liu et al. 2019, Pascual-Fuster, Crespí-Cladera 2022) have discovered that CEO entrenchment results in a decrease in the proportion of NEDs/INEDs because the CEO uses his/her power in the boardroom to create a 'friendlier' Board of EDs and lessen the monitoring. Indeed, the CEO of a well-performing entity is not likely to be questioned on changes in the Board (Cicero, Wintoki et al. 2013). Only if the CEO's power is controlled through, for example, the shareholder presence of NEDs or a venture capitalist, the NEDs/INEDs in the boardroom increase (Boone, Casares Field et al. 2007). Despite this, Raheja (2005) emphasises the need for more NEDs/INEDs so as to hold the entrenched CEO in check. Contrastingly, Linck, Netter et al. (2008) argue that, with CEO ownership, the CEO's interests become aligned with those of the shareholders, thus reducing the need for monitoring by NEDs/INEDs.

Ownership Structure

Entities with high ownership concentration tend to have a lower proportion of NEDs/INEDs in the boardroom than those with scattered ownership (Monem 2013, Pascual-Fuster, Crespí-Cladera 2022). This is due to the fact that the large shareholders themselves exercise strong control over the actions of management (García Martín, Herrero 2018) and there is a lower possibility that inferior projects are undertaken (Raheja 2005). Conversely, in a scattered ownership structure, more supervision is called for and more NEDs/INEDs are onboarded (Fraile, Fradejas 2012, Kang, Cheng et al. 2007).

Quoted entities in European countries in contrast to those in the US, tend to have high ownership concentration (Boone, Casares Field et al. 2007, Linck, Netter et al. 2008, Pascual-Fuster, Crespí-Cladera 2022) and this has also been confirmed by Baldacchino (2017) for Malta where most MLEs have one major shareholder owning 51% or at least between 30% and 50% of the entity's shareholding.

Board Size

A few studies have also analysed whether Board mix differs in any way with Board size. On their part, Beiner, Drobetz et al. (2004) have shown that Board mix is a CG mechanism independent of Board size. In this context, Mak and Roush (2000) argue that Board size influences the Board's monitoring role because a large Board is able to monitor management better than a small Board: when large, the Board renders the CEO less able to stand up to the increased number of directors. This in turn implies that there is a link between Board mix and size in that fewer NEDs/INEDs may be needed in large Boards (Mak, Roush 2000). However, with large Boards, the risk remains that some directors may become free-riders and rely unduly on other directors to carry out their duties (Beiner, Drobetz et al. 2004).

2.3.2 Director-Specific Factors

Director-specific factors found in the literature to be relevant to Board mix include tenure, nationality, gender, skills and competencies.

Tenure

Over the length of service on the same Board, NEDs/INEDs build close ties with EDs and this potentially impairs the independent and objective view of NEDs/INEDs (Pass 2004). This supports the Cadbury's report (1992) claim that the independence of NEDs/INEDs decreases as Board tenure increases. Indeed, the Code[9] stipulates that an entity should ascertain whether INEDs who have sat on the Board for a tenure exceeding twelve years are still independent (MFSA 2011) and therefore still render the Board mix effective.

Nationality

Foreign directors expose the entity to distinctive cultural and ethical principles and norms (Ameer, Ramli et al. 2010). Thus, foreign NEDs/INEDs may monitor and scrutinise EDs more objectively than local NEDs/INEDs (Pass 2004). In contrast, Deng, Kanagaretnam et al. (2020), Firoozi, Magnan et al. (2019),

[9] Vide Provision 3.2.5

Masulis, Wang et al. (2012) have found that foreign INEDs reduce the monitoring intensity while local INEDs reduce the possibility of corporate misconduct. However, Firoozi, Magnan et al. (2019) also recognise the added value of those foreign directors residing locally because, like local directors, these have easier access to soft information on the specific country and domestic information networks. Indeed, entities favour NEDs/INEDs residing in the same city (Deng, Kanagaretnam et al. 2020).

Gender

Wearing and Wearing (2004) have found that in the UK, the number of female NEDs/INEDs outweigh the female EDs. Yet, overall females NEDs/INEDs are still underrepresented in UK Boards (Cortese 2009, Pass 2004). According to Seed (2021), a similar situation of underrepresentation of female directors persists in Malta despite the fact that, in recent years, more females have taken on this role whether as EDs, NEDs or INEDs. Terjesen, Couto et al. (2015) claim that such underrepresentation is relevant to the effectiveness of the Board mix because NEDs/INEDs tend to contribute more positively to the entity when surrounded by female directors. This may be a main reason why the European Union has stipulated that by 2026, 40% of NEDs/INEDs in listed entities are to be females (Vella Cardona 2022). Moreover, according to Frye and Pham (2018), even the presence of a female CEO tends to affect the Board mix as it is often accompanied by a lower ratio of EDs to NEDs/INEDs.

Skills and Competencies

For directors to be able to deal with matters laid before them during Board meetings, they need to possess knowledge on the entity's key functions. Coupled with this, the presence of skilled and competent NEDs/INEDs is imperative for the Board (Zattoni, Cuomo 2010). Competence is measured by academic qualifications and experience (Pass 2004). According to the Listing Rules (Listing Authority – Malta 2021, S.5.117.3), at least one NED/INED has to be competent in accounting/ auditing to sit on the audit committee. However, the Code does not lay down any additional skills and competencies that the directors should possess apart from the fact that they need to be *"fit and proper"* [10] while the Companies Act remains silent in this regard (Azzopardi 2012).

With increased complexity, entities demand directors with different academic backgrounds (Anderson, Reeb et al. 2011), encompassing the traditional sphere of management, such as marketing and accounting, and other spheres needed to manage the affiliation with the environment, such as law and politics. The interplay of various skills and competencies enable more creative ideas and ameliorates the quality of decision-making (Zattoni, Cuomo 2010). However, there is the risk of the Board segmenting into groups of different qualifications and this is more pertinent amongst NEDs/INEDs because their sporadic meetings do not contribute to the breaking down of the barriers that separate them (Fernández-Temprano, Tejerina-Gaite 2020). Moreover, in a small state environment like Malta, it is difficult to find directors with the appropriate variety of skills and competencies (Baldacchino, Callus et al. 2022).

2.4 The Contribution of Board Mix to Good CG

The contribution of Board mix to good CG depends on the roles of the different types of directors with regards to strategy formulation and execution, the prevention and detection of corporate irregularities, the enhancement of transparency in financial reporting, the multiple commitments of NEDs/INEDs, the enculturation of boardroom openness and the type of director in the majority.

2.4.1 Strategy Formulation and Execution

NEDs/INEDs are predominantly involved in strategy formulation (Azlan Annuar 2014) in terms of evaluating the strategy proposed by EDs (Pass 2004). They may even participate in pre-annual plans and brainstorming sessions (Azlan Annuar 2014). Moreover, with the presence of NEDs/INEDs, the EDs raise the bar of strategic quality and effective decision-making (Roberts, McNulty et al.

[10] Vide Provision 1.1

2005). Indeed, Schmidt and Brauer (2006) argues that NEDs/INEDs do not make resource allocation decisions but they create an environment that shapes the groundwork, championing and endorsement of the decisions made by EDs and management. Hsu and Wu (2014) assert that NEDs are more beneficial for strategy formulation than INEDs because the latter lack enough entity-specific information. Moreover, managers may propose myopic strategies for their own personal benefit. In order to contribute effectively to strategy formulation, INEDs in particular have to ask the right questions relating to the newly venturing business, product market segmentation and the targeted customers (Fuzi, Halim et al. 2016).

Once strategy is approved at Board level, EDs provide the leadership to execute it (Azlan Annuar 2014, Pass 2004). Although NEDs/INEDs are not involved in strategy execution, they may still want to ensure that the strategy is actually executed in line with what has been approved (Schmidt, Brauer 2006). Moreover, there may be instances where the initial strategy has to be modified owing to difficulties encountered in its execution (Azlan Annuar 2014). In this connection, Baldacchino (2017) suggests appointing directors for a reasonable number of years rather than renewing their appointment every year, to enable them to implement long-term strategies.

2.4.2 The Prevention and Detection of Corporate Irregularities

One of the key pillars of good CG is accountability to shareholders, other stakeholders and the local community (Sant 2003). This accountability is achieved by inquiring and challenging, which are the crux for NEDs/INEDs to be effective (Roberts, McNulty et al. 2005). As a result, EDs and management are reluctant to engage in misconduct for their personal interest (Fuzi, Halim et al. 2016). NEDs/INEDs instinctively avoid aberrant managerial behaviour because this harms their repute and negatively affects the demand for their service (Ahmed, Hossain et al. 2006). On the contrary, they would want to create the image of vigilant monitors so that they acquire directorships in additional entities

(Neville, Byron et al. 2019). Thus, NEDs/INEDs aid in preventing and detecting corporate irregularities such as financial fraud, regulatory violations, earnings management and illicit behaviour. INEDs are even in a better position to question management's actions than EDs and NEDs (Neville, Byron et al. 2019).

Although the Board has the power to dismiss managers, Baldacchino (2017) argues that this is not an easy task for two main reasons; managers hold information on the entity through which they can influence the directors, and the Board's fear of distraction and conflict. Nevertheless, doing what it takes to curtail corporate irregularities is fundamental, especially in Malta given the numerous stakeholder relationships, whereby some entities' income stream consists solely of the supplies provided to another entity (Sant 2003).

2.4.3 The Enhancement of Financial Reporting Transparency

Another pillar of good CG is transparency which instils confidence and trust amongst all the stakeholders (MFSA 2020). Increasing the proportion of NEDs/INEDs on Boards enriches the quality (Ahmed, Hossain et al. 2006) and the quantity of financial reporting (Foo, Zain 2010). The information that entities make publicly available is very restrictive in Malta (Sant 2003). The lack of transparency and the quest for secrecy in this small state have also been observed by Baldacchino (2017).

The oversight of financial reporting rests with the audit committee (Camenzuli 2017). The drive towards Board independence reinforces the representation of INEDs on the audit committee (Duchin, Matsusaka et al. 2010). Neville, Byron et al. (2019) affirm that audit committee independence is more influential in curbing both financial and non-financial corporate misconduct than Board independence. This is achieved through two means. Firstly, INEDs on the audit committee are more able to assist in internal audits than EDs, NEDs or INEDs who do not sit on this committee (Neville, Byron et al. 2019). Indeed, INEDs sitting on the audit committee have more exposure to financial information (Armstrong, Guay et al.

2010). Secondly, INEDs on the audit committee tend to back up more the appointment or retention of external auditors (Neville, Byron et al. 2019). Moreover, an independent audit committee is less likely to impose pressure on external auditors to issue a clean audit opinion when a modified opinion is warranted (Carcello, Neal 2000).

2.4.4 The Multiple Commitments of NEDs/INEDs

Non-executive directorship is only a part-time job and numerous NEDs/INEDs have additional work commitments, such as directorships in other entities (Hooghiemstra, Van Manen 2004). Multiple directorships prevail in Malta (Baldacchino, Duca et al. 2020) since only a limited number of individuals are apt to act as NEDs, especially INEDs, given the interconnectedness of a small state (Ellul 2007).

Multiple commitments present two sides of the same coin. On one side, these add to the directors' luggage of experience (Pass 2004). Moreover, serving on more than one Board grants access to essential resources, networking connections with other entities and wealth of knowledge on business practices (Harris, Shimizu 2004). Indeed, Field, Lowry et al. (2013) claim that NEDs/INEDs with multiple commitments are especially valuable for young, newly public entities. On the other side, NEDs/INEDs with multiple commitments may become *"overboarded"* and *"stretched"* (Harris, Shimizu 2004, p.776), implying that they will not be in a position to bestow adequate time and attention to all their responsibilities (Pass 2004). Fich and Shivdasani (2006) specify that when NEDs/INEDs hold three or more directorships, they will be busy and this results in weak CG.

2.4.5 The Enculturation of Boardroom Openness

NEDs/INEDs need to be 'active' in the boardroom (Roberts, McNulty et al. 2005). Although an increase in the number of INEDs is a visible sign of Board effectiveness for investors (Higgs 2003), it is not merely the quantity of INEDs that should be considered but also their quality (Kim, Lim 2010). In fact, the presence of NEDs/INEDs does not necessarily assure good CG (Rhoades, Rechner et al. 2000). According to Merendino and Melville (2019), entities should be diverted to focus on the directors' experiences and characters. Moreover, the appointment of INEDs should not be affected in any way by the personal, business or political connections of the major shareholder (Tabassum, Singh 2020). In the words of Hodge (2021, p.3),

> *"Getting the right people around the board table does not guarantee the company will be effectively governed, but not doing so guarantees that it won't be, no matter how good the policies and processes you put in place".*

The Board is actually effective in *"a culture of openness and constructive dialogue"* (Higgs 2003, p.33). This facilitates the information flow among the directors (Hsu, Wu 2014) and ensures that they discern their honest opinion even when it diverges from that of the CEO or management (Zattoni, Cuomo 2010). For such a culture to thrive, directors' relationships need to be built on trust. Due to their ties with the entity, there is mutual trust between EDs and NEDs and they have a healthy collaborative working relationship (Adams, Ferreira 2009). Meanwhile, INEDs are generally strict monitors who cause tension and diminish valuable interactions among the directors because EDs loath rigorous oversight (Hsu, Wu 2014).

2.4.6 The Type of Director in the Majority

The trend for a Board dominated by NEDs/INEDs puts them in a better position to challenge the actions of the EDs than a Board having only one NED/INED who may end up following the majority (Fuzi, Halim et al. 2016). Secondly, a NED/INED-dominated Board is more likely to remove managers exhibiting poor performance. Thirdly, such Boards go through more strategic thinking and restructuring (Fox 1998).

Nevertheless, some entities still persist in onboarding EDs owing to their possession of rich and credible information on the entity's internal processes and daily undertakings (Shakir 2008). Moreover, EDs link the Board with management (Sarkar 2009) and they lay down the criteria to evaluate management's performance (Baysinger, Butler 1985). The inclusion of EDs on Boards results in timelier and more efficacious decision-making (Armstrong, Guay et al. 2010). Yet, regulators and policymakers have tarnished the EDs' valuable contribution in the boardroom (Bhagat, Black 2002). Like EDs, NEDs/INEDs may have conflicting interests despite satisfying the official independence requirements (Fairfax 2010). They rely on information acquired from EDs who may withhold or 'colour' the information in such a way to safeguard existing privileges or conceal poor performance (Hooghiemstra, Van Manen 2004). In turn, NEDs/INEDs cannot make informed decisions (Zattoni, Cuomo 2010) and doubts also arise on their ability to fulfil their *"watchdog role"* effectively (Hooghiemstra, Van Manen 2004, p.1).

Therefore, while entities may object to having a Board dominated by EDs, they should think twice before entirely eradicating them from the boardroom (Fairfax 2010). The roles of EDs, NEDs and INEDs are different yet complementary (Harris, Shimizu 2004) and it is there coming together which results in an ideal Board mix (Baysinger, Butler 1985, Fairfax 2010). As pointed out by Armstrong, Guay et al. (2010, p.185),

> *"A board composed of entirely insiders may not be effective because of the potential for allowing managerial entrenchment, just as a board with no insiders may not be effective if the board members have a limited understanding of the company they are governing and cannot readily overcome this information asymmetry".*

Nevertheless, the best way forward is for every entity to find its own balanced Board mix (Boone, Casares Field et al. 2007, Pascual-Fuster, Crespí-Cladera 2022) because there is no *"one-size-fits-all"* (Coles, Daniel et al. 2008, Lehn, Patro et al. 2009, Şener, Varoğlu et al. 2011) but it differs across entities (Field, Lowry et al. 2013). Indeed, Fernández-Temprano and Tejerina-Gaite (2020) urge caution before prescribing any specific Board mix. The imposition of targets on the number of NEDs/INEDs is *"more than window dressing"* (Duchin, Matsusaka et al. 2010, p.196). According to Raheja (2005), the optimal Board mix is one that maximises the inducements for EDs to divulge information on the entity, minimises the costs to coordinate the different views of NEDs/INEDs and maximises the probability of discarding inferior projects.

2.5 Conclusion

This chapter gave an in-depth description of literature on mixed Boards and how the value of EDs and NEDs differed in CG. Furthermore, it established factors that had an impact on the Board mix. The ensuing chapter presents the research methodology applied for this study.

Chapter 3

Research Methodology

3.1 Introduction

This chapter explains the research methodology of this study, as outlined in Figure 3.1. Section 3.2 describes the secondary research done at the commencement of the study. The research design, tool and participants are then delineated in Sections 3.3, 3.4 and 3.5 respectively. Subsequently, Section 3.6 explains how the data of this study was collected while Section 3.7 delves into how it was analysed. The research limitations are identified in Section 3.8 and Section 3.9 wraps off the chapter.

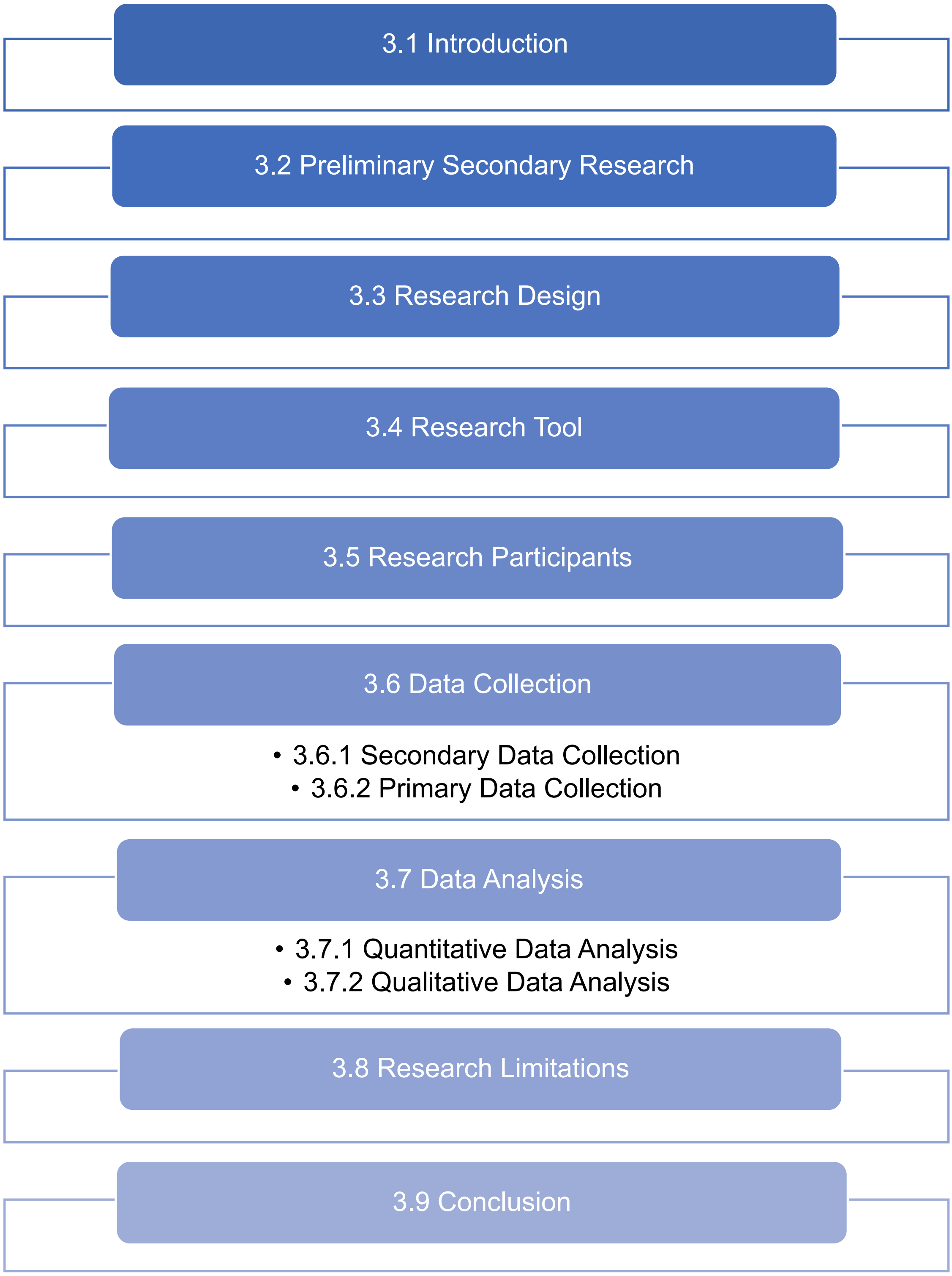

Figure 3.1: Outline of Chapter 3

3.2 Preliminary Secondary Research

At the commencement of the study, acquaintance with the chosen research area was obtained by analysing existing literature sources in the national and international arena, such as journal articles, reports, books and dissertations. Attention was particularly given to national research so as to understand the Maltese context parallel to the Maltese regulatory framework. Moreover, public information on MLEs, made available on their websites and Annual Reports, was comprehensively scrutinised.

3.3 Research Design

The three main research designs are qualitative, quantitative and mixed methods. The choice of the research design is based on the research purpose and objectives (Wahyuni 2012).

While quantitative research yields numeric data that is analysed with statistical methods, qualitative research yields non-numeric data that describes the people's connotations to their experiences (Saunders, Lewis et al. 2016, Yilmaz 2013). To obtain this data, the researcher uses prearranged response categories in quantitative research whereas in qualitative research, participants are allowed to delineate their own perspectives or categories (Hirose, Creswell 2023). Findings of quantitative research may be generalised but they do not provide any insight into the participants' feelings or perspectives. In contrast, qualitative research enables the researcher to understand the world from the standpoint of the participants. However, such findings cannot be extended to wider populations (Creswell 2015, Yilmaz 2013). A mixed methodology is an amalgamation of the qualitative and quantitative research (Saunders, Lewis et al. 2016), overcoming the inherent limitations associated with the sole use of such approaches.

For the purpose of this study, it was determined that neither quantitative nor qualitative research on its own would completely answer the research objectives

(Hirose, Creswell 2023). Thus, a mixed methodology was utilised. This enabled the researcher to get an informative and broad understanding on the research problem (Johnson, Onwuegbuzie et al. 2007).

3.4 Research Tool

Semi-structured interviews with both closed-ended and open-ended questions were deemed to be the most suitable research tool because these would be very versatile in gathering reliable and valid data to answer the research objectives (Saunders, Lewis et al. 2016). Semi-structured interviews were conducted according to a detailed interviewed schedule. The questions were standardised and asked in a systematic order so that the data collected would be comparable and evaluated statistically (McIntosh, Morse 2015). However, participants were offered the flexibility to provide their insights when answering open-ended questions. Probes and follow-up questions were used to stimulate the respondents to open up on preliminary responses or to elucidate some points which arose during the interview (Wahyuni 2012). According to McIntosh and Morse (2015, p.5), *"the dual qualities of replicability and flexibility yield pertinent as well as rich data"*.

Section Heading	Question Number
Section 1: The Board Mix	1, 2
Section 2: Factors affecting the Board Mix	3 – 8
Section 3: The Contribution of Board Mix to good CG	9 – 17
Section A1 – Definitions	/
Section A2 – Likert Scale	/

Table 3.1: Structure of interview schedule

The interview schedule[11] devised for this study was appropriate for both MLE representatives and Corporate Governance Experts (CGEs). As illustrated in

[11] Vide Appendix 3.1

Table 3.1, this consisted of three sections, one for every research objective. Two further sections were included, these being, Section A1 which defined the key terms and Section A2 which delineated the Likert scale for the closed-ended questions.

Although most questions were applicable to MLE representatives and CGEs alike, two questions were specifically on MLEs and did not apply to CGEs. Another question was amended for CGEs to ask them on MLEs in general. This is illustrated in Table 3.2.

Respondent Categories	Question Number
MLE representatives	1 – 17
CGEs	2a (amended), 2b – 12, 14 – 17

Table 3.2: Applicability of question numbers to the respondent categories

The interview questions were a mix of open-ended and closed-ended, as depicted in Table 3.3. The five-point Likert scale applicable for the closed-ended questions is portrayed in Table 3.4.

Question Type	Question Number
Open-ended	2, 4 – 6, 8 – 17
Closed-ended	1, 3, 7

Table 3.3: Arrangement of open-ended and closed-ended questions

Response	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Scale	0	1	2	3	4

Table 3.4: Likert scale for questions 3 and 7

3.5 Research Participants

The Official List of MLEs was found on the MSE website. The website of every MLE was visited to identify the Board and its company secretary. Otherwise, such information was looked up on the Malta Business Registry (MBR) website. Contact with every MLE was made either through email or telephone to ask for the relevant email address. The email to prospective interviewees included the Letter of Introduction and Invitation to Participate in the Research to enhance the email's authenticity. If no reply was received after two weeks, a gentle reminder was sent. In cases where this still proved to be unsuccessful, prospective interviewees were followed up by telephone contact. Nevertheless, some individuals did not reply while others stated that they were not able to take part in this study.

<table>
<tr><th colspan="2">Research Participants</th><th>Representing</th></tr>
<tr><td>26 MLE representatives</td><td>11 directors
9 company secretaries
4 CFOs
2 CEOs</td><td>27 MLEs</td></tr>
<tr><td>5 CGEs</td><td>3 corporate advisors
1 corporate lawyer
1 MLE expert</td><td>N/A</td></tr>
<tr><td colspan="2">31 participants</td><td>27 MLEs</td></tr>
</table>

Table 3.5: Composition of the research participants

A total of thirty-one interviews were conducted. Twenty-six of these were carried out with participants who occupied the roles depicted in Table 3.5 in MLEs. In all, these represented twenty-seven MLEs since some participants sat on the Board of more than one MLE. Directors, company secretaries, CFOs and CEOs were the chosen population for this study due to their contribution and involvement in the CG of MLEs. Five further interviews were conducted with CGEs, encompassing three corporate advisors, one corporate lawyer and one MLE expert. The views of these participants were deemed to be significant in obtaining a holistic and thorough understanding on the research area. Some findings made specific reference to the responses of MLE representatives and CGEs otherwise, there was no distinction between the responses obtained from MLE representatives and CGEs.

3.6 Data Collection

Data collection refers to the process of assembling information. This had to be chosen in line with the study's research objectives (Saunders, Lewis et al. 2016). Both secondary and primary data was collected for the purpose of this study.

3.6.1 Secondary Data Collection

Secondary data was gathered from numerous literature sources which were scrutinised in Chapter 2 of this study. This data served as the basis to formulate a detailed interview schedule. To safeguard the reliability and validity of this research tool, a pilot interview was conducted with one corporate advisor. Consequently, the necessary amendments to the interview questions were made in line with the recommendations provided.

3.6.2 Primary Data Collection

Interviews were conducted between the 9th of November and the 5th of December 2022 on a date and time that most suited the research participants. Interviews were held either face-to-face at the respondent's office or virtually on Zoom or Microsoft Teams, according to the respondent's preference. The interview questions were sent to all respondents one week ahead of the interview so as to allow them to acquaint themselves with the questions. Then, the interview questions were also presented as a hardcopy during the physical interviews and via screen sharing for the virtual interviews. All participants were requested to sign the Interviewee Consent Form prior the commencement of the interview. Moreover, to facilitate the data analysis, the respondents' explicit consent was acquired to audio-record the interviews. For those respondents that did not grant this permission, notes were taken down during the interviews.

Moreover, primary data on the Board composition of MLEs[12] was gathered from the MBR and the MLEs' websites. Then, respondents were asked to confirm this data and to provide any missing information during the interviews.

3.7 Data Analysis

Audio-recorded interviews were transcribed soon afterwards to ensure the most optimal value. The transcripts and notes written down during the interviews, enriched the data analysis.

3.7.1 Quantitative Data Analysis

The quantitative data was sourced from the closed-ended questions. This was analysed with IBM SPSS Statistics.

The Chi Square Test[13] was used to investigate the association between MLEs and their Board characteristics, such as, Board mix and directors' tenure and the association between MLEs' industries and Board mix. Ultimately, it determined whether or not there were significant differences between MLEs.

The Friedman Test[14] was used to compare the mean rating scores obtained on the statements relating to the entity-specific and director-specific factors and then conclude whether or not the mean rating scores varied significantly.

[12] Vide Q.1 in Appendix 3.2
[13] Vide Appendix 3.3
[14] Vide Appendix 3.4

3.7.2 Qualitative Data Analysis

The qualitative data was sourced from the open-ended questions as well as the comments added by some respondents on their ratings of the Likert scale questions. The transcripts were summarised and organised in a spreadsheet. This made it easier to compare the different responses and identify the emerging themes. This is known as thematic analysis (Wahyuni 2012).

3.8 Research Limitations

The first limitation that emerged while conducting this study was the lack of participation of four MLEs, despite the considerable effort to reach all MLEs. Secondly, a respondent from the Malta's Institute of Directors or the MFSA would have added valuable contribution but these refused to take part in this study.

Thirdly, one MLE representative did not participate in an interview owing to urgent matters which cropped up. Instead, the interview questions were answered via email. As a result, some of the responses were vaguely interpreted and the opportunity for clarification was lost.

Moreover, an element of subjectivity in the participants' responses was inevitable. Also, some disparities between the ratings to the Likert scale questions and the open-ended questions were detected.

3.9 Conclusion

This chapter explained the research methodology used in this study. The ensuing chapter delineates the research findings that emerged from the interviews.

Chapter 4

Research Findings

4.1 Introduction

This chapter contains the findings assembled from the semi-structured interviews. As depicted in Figure 4.1, Section 4.2 deals with the Board mix in the selected MLEs while Section 4.3 delineates the factors affecting this mix. Subsequently, Section 4.4 explains how the Board mix contributes to good CG. Section 4.5 concludes this chapter.

4.1 Introduction

4.2 Board Mix

- 4.2.1 Board Mix of MLEs
- 4.2.2 Other Aspects of Board Composition of MLEs
- 4.2.3 Changes in Board Mix from 2018-2022

4.3 Factors affecting the Board Mix

- 4.3.1 Entity-Specific Factors
- 4.3.2 Director-Specific Factors

4.4 The Contribution of Board Mix to Good CG

- 4.4.1 The Role of EDs, NEDs and INEDs in Strategy Formulation and Execution
- 4.4.2 The Role of NEDs/INEDs in Preventing and Detecting Corporate Irregularities
- 4.4.3 The Role of NEDs/INEDs in Enhancing Financial Reporting Transparency
- 4.4.4 The Impact of NEDs'/INEDs' Multiple Commitments on their Contribution to Good CG
- 4.4.5 The Impact of Board Mix on Enculturation of Boardroom Openness
- 4.4.6 The Type of Director to be in the Majority

4.5 Other Comments

4.6 Conclusion

Figure 4.1: Outline of Chapter 4

4.2 Board Mix

The first section of the interview schedule (Q.1-2) delved into the Board mix of selected MLEs.

4.2.1 Board Mix of MLEs

At first, MLE representatives were asked[15] to quantify their Board size and mix. Their responses are portrayed in Table 4.1. The shading varies with the type of director which was in the majority and this is displayed in bold. In most MLEs$_{(17/27)}$, INEDs constituted the largest percentage of directors, with three such MLEs$_{(3/17)}$ being entirely composed of INEDs. One MLE$_{(1/27)}$ had an equal percentage of NEDs and INEDs. On the other hand, six MLEs$_{(6/27)}$ had NEDs as the largest percentage while only three MLEs$_{(3/27)}$ had EDs as the largest percentage. All MLEs followed the Code's recommendation that at least one third of the Board would be composed of NEDs. However, the majority of such NEDs were not INEDs in all MLEs. When combining all the MLEs together, 18.6% were EDs, 24.2% were NEDs and 57.2% were INEDs. The Board mix varied significantly among MLEs$_{(p\text{=approx. }0)}$.

MLE representatives were also asked[16] to specify the MLE's industry. Banking, insurance, shopping complex, property development and technology were the most pertinent industries of MLEs. Other industries included postage, telecommunications and aviation. Table 4.2 analyses the Board mix across the different MLEs' industries and significant differences can be noted$_{(p\text{=approx. }0)}$. In the main industries of banking, insurance, shopping complex and property development, INEDs were in the majority. Meanwhile, technology was the only industry with a majority of NEDs. This contrasts the findings of Coles, Daniel et al. (2008) and Raheja (2005)[17] who had found that technology entities would onboard more EDs.

---

[15] Q.1a, b
[16] Q.1c
[17] Vide S.2.2.2

			Board Mix			Total	Average Board Mix
			EDs	**NEDs**	**INEDs**		
MLE	16	Count	0	0	**7**	7	1: 1: 5.17
		Percentage	0.0%	0.0%	**100.0%**	100.0%	
	17	Count	0	0	**5**	5	
		Percentage	0.0%	0.0%	**100.0%**	100.0%	
	19	Count	0	0	**5**	5	
		Percentage	0.0%	0.0%	**100.0%**	100.0%	
	15	Count	1	0	**8**	9	
		Percentage	11.1%	0.0%	**88.9%**	100.0%	
	21	Count	1	0	**7**	8	
		Percentage	12.5%	0.0%	**87.5%**	100.0%	
	6	Count	1	0	**5**	6	
		Percentage	16.7%	0.0%	**83.3%**	100.0%	
	1	Count	2	1	**10**	13	
		Percentage	15.4%	7.7%	**76.9%**	100.0%	
	4	Count	2	0	**6**	8	
		Percentage	25.0%	0.0%	**75.0%**	100.0%	
	2	Count	2	1	**6**	9	
		Percentage	22.2%	11.1%	**66.7%**	100.0%	
	3	Count	0	3	**6**	9	
		Percentage	0.0%	33.3%	**66.7%**	100.0%	
	25	Count	0	3	**6**	9	
		Percentage	0.0%	33.3%	**66.7%**	100.0%	
	7	Count	0	2	**3**	5	
		Percentage	0.0%	40.0%	**60.0%**	100.0%	
	8	Count	1	1	**3**	5	
		Percentage	20.0%	20.0%	**60.0%**	100.0%	
	12	Count	1	1	**3**	5	
		Percentage	20.0%	20.0%	**60.0%**	100.0%	
	22	Count	2	0	**3**	5	
		Percentage	40.0%	0.0%	**60.0%**	100.0%	
	18	Count	1	2	**3**	6	
		Percentage	16.7%	33.3%	**50.0%**	100.0%	
	20	Count	3	1	**4**	8	
		Percentage	37.5%	12.5%	**50.0%**	100.0%	
	14	Count	1	**3**	**3**	7	
		Percentage	14.3%	**42.9%**	**42.9%**	100.0%	
	9	Count	0	**9**	2	11	0.67: 4.5: 2
		Percentage	0.0%	**81.8%**	18.2%	100.0%	
	24	Count	0	**3**	2	5	
		Percentage	0.0%	**60.0%**	40.0%	100.0%	
	5	Count	0	**4**	3	7	
		Percentage	0.0%	**57.1%**	42.9%	100.0%	
	10	Count	2	**4**	1	7	
		Percentage	28.6%	**57.1%**	14.3%	100.0%	
	13	Count	1	**4**	2	7	
		Percentage	14.3%	**57.1%**	28.6%	100.0%	
	23	Count	1	**3**	2	6	
		Percentage	16.7%	**50.0%**	33.3%	100.0%	
	11	Count	**4**	1	1	6	4.67: 0.67: 2
		Percentage	**66.7%**	16.7%	16.7%	100.0%	
	27	Count	**6**	1	2	9	
		Percentage	**66.7%**	11.1%	22.2%	100.0%	
	26	Count	**4**	0	3	7	
		Percentage	**57.1%**	0.0%	42.9%	100.0%	
Total		**Count**	**36**	**47**	**111**	**194**	1.33: 1.74: 4.11
		Percentage	**18.6%**	**24.2%**	**57.2%**	**100.0%**	
Number of MLEs (N) = 27 $X^2(52) = 111.499$, $p < 0.001$							

Table 4.1: Board mix of the selected MLEs

			Board Mix			Total
			EDs	**NEDs**	**INEDs**	
MLEs' Industries	**Banking**	Count	4	14	**24**	42
		Percentage	9.5%	33.3%	**57.1%**	100.0%
	Insurance	Count	1	6	**12**	19
		Percentage	5.3%	31.6%	**63.2%**	100.0%
	Shopping Complex	Count	3	0	**13**	16
		Percentage	18.8%	0.0%	**81.3%**	100.0%
	Property Development	Count	14	4	**38**	56
		Percentage	25.0%	7.1%	**67.9%**	100.0%
	Other	Count	13	17	**20**	50
		Percentage	26.0%	34.0%	**40.0%**	100.0%
	Technology	Count	1	**6**	4	11
		Percentage	9.1%	**54.5%**	36.4%	100.0%
Total		**Count**	**36**	**47**	**111**	**194**
		Percentage	**18.6%**	**24.2%**	**57.2%**	**100.0%**
N = 27 $X^2(10) = 31.829$, $p < 0.001$						

Table 4.2: Board mix across industries

One respondent$_{(1/31)}$ emphasised that originally, Boards were entirely composed of EDs, then there was the introduction of NEDs, this being followed over the years, with a decrease in the number of EDs and an increase in NEDs/INEDs. Indeed, INEDs were already appreciated in Boards. EDs were very rarely in a majority, in fact in three of the MLEs only and this could be because they were family-owned.

4.2.2 Other Aspects of Board Composition of MLEs

Subsequently, MLE representatives were requested[18] to categorise their Board members by tenure, gender and nationality. Table 4.3 depicts that most directors had been on the Board of the MLE for less than five years. Despite this, 18.6% of the directors' tenure had exceeded the twelve years laid down in the Code[19]. The Boards of MLEs were highly dominated by males and Maltese. However, the foreign directors' pool had also been tapped into by some MLEs because a quarter of the directors were foreign. The tenure and nationality distribution of the directors varied significantly between MLEs$_{(p=\text{approx. } 0)}$ while the gender$_{(p=0.721)}$ distribution varied only marginally.

[18] Q.1d-f
[19] Vide Tenure in S.2.3.2

	Count	Percentage	Chi-Square Test
Directors' Tenure			
Less than 5 years	93	47.9%	*N = 27* $X^2(52) = 126.841$, $p < 0.001$
5 - 12 years	65	33.5%	
More than 12 years	36	18.6%	
Directors' Gender			
Males	160	82.5%	*N = 27* $X^2(26) = 21.399$, $p = 0.721$
Females	34	17.5%	
Directors' Nationality			
Maltese	144	74.2%	*N = 27* $X^2(26) = 71.188$, $p < 0.001$
Foreign	50	25.8%	

Table 4.3: Other aspects of Board composition[20]

4.2.3 Changes in Board Mix 2018-2022

Section 1 of the interview proceeded by asking[21] MLE representatives whether there were any changes in the Board mix of their MLE in the years 2018-2022 and the responses are recorded below. As illustrated in Table 4.4, only 37% of MLEs experienced a change in the Board mix in the last five years. Some of these MLEs$_{(6/10)}$ reported an increase in the proportion of INEDs. The drivers that induced such a change were the shift to a public listed entity$_{(2/6)}$, resignations, retirement and expiry of the term of office$_{(2/6)}$, regulatory expectations$_{(2/6)}$ and indirect pressure from shareholders$_{(1/6)}$. Some other MLEs$_{(4/10)}$ introduced an ED on the Board. One of such MLEs$_{(1/4)}$ originally had a Board composed entirely of NEDs. It introduced an ED after acknowledging that this would help in the collective suitability. Other drivers for appointing an ED were change in ownership$_{(1/4)}$ and to temporarily fill in the position of the CEO who had resigned$_{(1/4)}$.

		Frequency	Percentage
Did the Board mix of your entity change in the years 2018-2022?	Yes	10	37%
	No	17	63%
Total		**27**	**100%**

Table 4.4: Changes in the Board mix of MLEs 2018-2022

[20] Vide Appendix 3.2
[21] Q.2

The CGEs were asked whether in general, the Board mix of MLEs had changed in the years 2018-2022. Most of the CGEs$_{(3/5)}$ confirmed that few changes had been carried out to the Board mix of MLEs and this was partly due to the fact that the Code's recommendation had not altered in the five-year period$_{(2/3)}$. The slow trend seemed to be for a more balanced mix among EDs, NEDs and INEDs in the Board$_{(2/5)}$.

4.3 Factors affecting the Board Mix

The second section of the interview schedule consisted of six questions (Q.3-8) relating to factors affecting the Board mix.

4.3.1 Entity-Specific Factors

Respondents were presented with a set of statements[22] for which they had to rate their level of agreement and add their comments, if any. Table 4.5 displays, in descending order of agreement, the mean rating scores obtained. For more clarity, the shading of the statements varies with the extent of respondent agreement and the two statements mostly agreed to are displayed in bold. There were significant differences among the mean rating scores$_{(p\text{=approx. 0})}$.

As may be observed from Table 4.5, the entity-specific factor mostly agreed$_{(\bar{x}=3.06)}$ to by respondents was one of scope and complexity, that as entities grew, aged or ventured into new products and geographical areas, these engaged more NEDs/INEDs. Some respondents$_{(5/31)}$ added that this was because with enlargement, greater need was felt for NEDs/INEDs as they brought additional skills and new dynamic experience to the Board. However, the other factor noted in the literature review related to scope and complexity, that of financial gearing as affecting the Board mix, was not agreed$_{(\bar{x}=1.61)}$ to by respondents. One respondent$_{(1/31)}$ added that this was so despite there being a much greater onus on the Board when an entity was financially geared in view of more accountability

[22] Q.3

being required. In this connection, a few respondents$_{(2/31)}$ perceived an inverse relationship, implying that an entity's financial gearing depended on the Board mix rather than the other way round. One such respondent$_{(1/2)}$ explained that a Board composed of more EDs rather than more NEDs, would understand better the entity's need to increase the gearing ratio.

		Mean	Std. Dev.
a.	**Scope and complexity: As entities grow larger, age or enter into new product or geographical lines, such entities tend to engage more NEDs and INEDs.**	**3.06**	**1.153**
c.	**CEO entrenchment: Upon the imposition of strong controls on the CEO, the NEDs and INEDs on a Board generally increase.**	**2.52**	**1.262**
f.	Information asymmetry: Entities operating in volatile environments tend to engage more EDs.	2.26	.893
d.	Ownership structure: Entities with ownership concentration reduce the proportion of NEDs and INEDs because management monitoring lies more in the hands of the large shareholders.	2.00	1.366
e.	Board size: A large Board size tends to be composed of a lower proportion of NEDs and INEDs than in the case of a small Board.	1.94	1.413
b.	Scope and complexity: An increase in an entity's financial gearing affects the Board mix.	1.61	1.23
	Scale from 0 (strongly disagree) to 4 (strongly agree) *Number of respondents = 31*	$X^2(5)=25.524$, $p< 0.001$	

Table 4.5: Major entity-specific factors affecting the Board mix

Another factor marginally agreed$_{(\bar{x}=2.52)}$ upon was CEO entrenchment, in that with the imposition of strong controls on the CEO, the NEDs/INEDs generally increased. However, this factor appeared to be controversial as while some$_{(3/31)}$ added that more controls required more NEDs/INEDs, others$_{(2/31)}$ maintained that more controls meant only the need for more participation by the existing NEDs/INEDs. This matter was taken up further in subsequent questions.

Respondents were neutral to the entity-specific factor of information asymmetry$_{(\bar{x}=2.26)}$, that entities operating in volatile environments should engage more EDs. While most respondents$_{(20/31)}$ confirmed the existence of information asymmetry between EDs on one part and NEDs/INEDs on the other part, it was argued that EDs should never exceed the NEDs/INEDs$_{(3/31)}$. Despite this, other respondents$_{(4/31)}$ agreed, in line with Lehn, Patro et al. (2009)[23], that in a volatile environment, EDs were essential because they were the *"hands on the ground"*$_{(1/25)}$ dealing with the *"nuts and bolts"*$_{(2/25)}$ and so they had a better understanding of the market than NEDs/INEDs.

Another neutral factor was ownership structure$_{(\bar{x}=2)}$, that entities with ownership concentration should reduce the proportion of NEDs/INEDs because management monitoring lay more in the hands of the large shareholders. This contrasted the findings of Monem (2013) and Pascual-Fuster and Crespí-Cladera (2022)[24]. Three respondents$_{(3/31)}$ argued that, it depended on whether the dominant shareholder was local or foreign, as foreign-owned entities tended to press for more NEDs/INEDs to get the right balance$_{(2/3)}$.

Respondents were also neutral$_{(\bar{x}=1.94)}$ to the factor of Board size, that a large Board should be composed of a lower proportion of NEDs/INEDs than a small Board. Some respondents$_{(4/31)}$ argued that there even existed large Boards that were entirely composed of NEDs/INEDs. A later question amplified on this.

Some respondents$_{(6/31)}$ emphasised that another trigger to onboard more NEDs/INEDs was in the case of listed family-owned entities that entered into the second or third generation and started to experience conflicts and other interests.

CEO Entrenchment

<u>**CEO Ownership**</u> Three subsequent questions delved into the possibility of CEO entrenchment affecting the Board mix. The first question[25] dealt with CEO

[23] Vide Information Asymmetry in S.2.3.1
[24] Vide Ownership Structure in S.2.3.1
[25] Q.4

entrenchment emanating from share ownership to which, as stated earlier, respondents had agreed that this factor affected the Board mix. Some respondents$_{(15/31)}$ stated that, if the CEO had a shareholding interest or pertained to a group that had a shareholding interest in the entity, more NEDs/INEDs were needed. Five of these respondents$_{(5/15)}$ emphasised particularly on the need of more INEDs. Some such respondents$_{(6/15)}$ added that a CEO who was also a shareholder required more oversight, monitoring and a greater system of "*checks and balances"*$_{(3/6)}$. In fact, more often than not, the management decisions which were taken by the CEO on a daily basis were driven by the benefit s/he got from the shareholding$_{(1/6)}$. According to one respondent$_{(1/15)}$, more NEDs/INEDs often provided the CEO with better direction to act in the entity's overall best interests and this safeguarded minority interests in particular.

Some other respondents$_{(5/31)}$ stated that the need for more NEDs/INEDs depended on the significance of the CEO's shareholding. More NEDs/INEDs would be needed if the CEO had a significant shareholding, but this did not hold if it was negligible. Furthermore, one such respondent$_{(1/5)}$ added that, if the CEO was a major shareholder, this would in itself be a failure in CG.

A few further respondents$_{(4/31)}$ argued that, while it would be good practice to have more NEDs/INEDs on the Board table if the CEO was a shareholder, it was not 'necessarily' so. A few such respondents$_{(3/4)}$ emphasised that this depended on other factors such as the level of gearing, public perceptions and the size of the entity.

Contrastingly, other respondents$_{(7/31)}$ disagreed that if the CEO had a shareholding interest, more NEDs/INEDs would be needed. Two such respondents$_{(2/7)}$ emphasised that, it was the quality of the directors rather than the number which was relevant. Meanwhile, a CGE$_{(1/7)}$ argued that a CEO with shareholding in the entity would have more control and, especially if s/he adopted a dictatorial approach, the number of INEDs would actually decrease.

Entity's Performance Another question[26] enquired respondents whether entity performance could influence the entrenchment of the CEO at Board level. Most respondents$_{(22/31)}$ answered in the affirmative. A well-performing entity increased the CEO's underlying strength in view of the entity having flourished under his/her direction$_{(12/22)}$. One such respondent$_{(1/12)}$ added that this was particularly so if the CEO also had a strong character. Another respondent$_{(1/22)}$ claimed that if a positive entity performance derived almost exclusively from the merits of the CEO, there would be the risk that INEDs would rely on the CEO and hesitate to challenge. In such circumstances, the CEO would be rarely contested because, as one respondent$_{(1/22)}$ argued, *"why change a winning team?"*. On the other hand, if the entity's performance was not adequate, all eyes in the Board room would turn towards the CEO as being the main cause of the entity's poor performance$_{(8/22)}$. Consequently, management would be more frequently questioned$_{(1/22)}$.

Contrastingly, some respondents$_{(7/31)}$ argued that entity performance could not influence the CEO's power if the appropriate controls and monitoring systems were in place$_{(1/7)}$. However, two further respondents$_{(2/7)}$ affirmed that in the case of a well-performing entity, the CEO tended to acquire the support from the other directors who would be more likely to heed to his/her advice. Another such respondent$_{(1/7)}$ stated that *"a healthy profit is not the be-all and end-all"* for assessing the CEO but there were other important metrics such as customer satisfaction.

The remaining two respondents$_{(2/31)}$ insisted that ideally the CEO should not be a member of the Board but only reported as requested at each Board meeting.

Figure 4.2: The possible link between entity's performance and Board mix

Source: Author

[26] Q.5a

Those respondents$_{(22/31)}$ that were of the opinion that entity performance could influence the CEO's entrenchment, were subsequently asked[27] whether this could in turn impact the Board mix, as depicted in Figure 4.2. According to most respondents$_{(13/22)}$, a powerful CEO on the back of solid entity performance could influence how the Board members would be set up. Some of them$_{(5/13)}$ added that more NEDs/INEDs were required to monitor the EDs, but one respondent$_{(1/5)}$ outlined that the problem lay in who was going to take such a decision if the CEO would have practically taken over the Board. Indeed, as another respondent$_{(1/13)}$ argued, the CEO would want to involve fewer INEDs so as to maintain control. Two further such respondents$_{(2/13)}$ asserted that the CEO could directly influence the decisions of the Board and also engage people in the entity with the potential of later becoming Board directors complying to him/her. Moreover, according to another respondent$_{(1/13)}$, if the CEO required a change at Board level, this would be given more attention and credibility in a scenario of good entity performance because the CEO would become *"the person to follow"*. This aligned with the findings of Cicero, Wintoki et al. (2013)[28]. Meanwhile, in a scenario of a poor entity performance, the CEO's suggestions would be overlooked$_{(1/13)}$.

On the contrary, some respondents$_{(7/22)}$ did not perceive any impact on the Board mix resulting from CEO entrenchment. One such respondent$_{(1/7)}$ added that it ultimately depended on whether the CEO *"abused"* of the Board by trying to get an easy ride and maneuvering the information, or on the contrary, respected the other directors' inputs and tried to get the best out of the Boards. Another respondent$_{(1/7)}$ suggested that the CEO's weakening or increasing power could possibly alter the Board mix but not necessarily in one way or another.

The remaining two respondents$_{(2/22)}$ concurred that the impact on the Board mix depended on the overall strength of the Board and the chairperson. In turn, the Board's strength relied on the directors' competence and understanding of the key functions and risks of the entity$_{(1/2)}$. As long as there was a strong functioning

[27] Q.5b
[28] Vide CEO Entrenchment in S.2.3.1

Board and particularly, a strong chairperson in place, the power the CEO could exert on the Board mix remained minimal$_{(2/2)}$.

Board Size

Further to the earlier response of half the respondents$_{(15/31)}$ that large Boards were not constituted of a lower proportion of NEDs/INEDs, all respondents were then asked[29] to explain their viewpoints on the effect of Board size on Board mix. Two respondents$_{(2/31)}$ refrained from answering this follow-up question. Most respondents$_{(23/29)}$ pointed out that there was in fact, a correlation between Board size and Board mix. Some such respondents$_{(8/23)}$ stated that it was difficult to have a balanced Board mix in small Boards. Meanwhile, in large Boards, there were more *“vacancies”* and it was easier to have such a balance given the number of directors$_{(4/8)}$. In contrast to Mak and Roush (2000)[30], some respondents$_{(6/23)}$ specified that in a large Board, there was more room for INEDs. Other respondents$_{(3/23)}$ opined that there was more room for NEDs, while others$_{(4/23)}$ referred to both more NEDs and INEDs. Conversely, small Boards tended to be mostly composed of EDs$_{(2/23)}$. Having said this, five respondents$_{(5/23)}$ argued that it was pertinent to make a distinction between family-controlled MLEs where Boards were mainly composed of EDs and heavily regulated MLEs such as banks$_{(2/5)}$, wherein the Board mix was dictated by such regulation.

Contrastingly, a few respondents$_{(4/29)}$ maintained that Board size had little effect on Board mix as in any case, NEDs/INEDs were needed by law in order to make up the audit committee. One further respondent$_{(1/29)}$ argued that the Board mix differed among MLEs depending on the shareholders’ demands while another respondent$_{(1/29)}$ stated that it varied with the outlook of the present directors rather than Board size.

---

[29] Q.6

[30] Vide Board Size in S.2.3.1

4.3.2 Director-Specific Factors

Respondents were presented with two statements[31] relating to director-specific factors. They were requested to rate their level of agreement and add their comments, if any. The mean rating scores obtained are displayed in Table 4.6, in descending order of agreement. There was a significant difference between the mean rating scores$_{(p=0.004)}$.

		Mean	Std. Dev.
a.	**Skills and competencies: An appropriate Board mix needs to be supplemented by at least one director with knowledge of the entity's key functions.**	**3.42**	**1.205**
b.	Nationality: NEDs and INEDs who are foreign nationals but reside in Malta usually have a closer relationship with EDs than those residing abroad.	2.65	1.170
	Scale from 0 (strongly disagree) to 4 (strongly agree) *Number of respondents = 31*	$X^2(1)= 8.167$, $p = 0.004$	

Table 4.6: Major director-specific factors affecting the Board mix

As portrayed in Table 4.6, respondents agreed$_{(\bar{x}=3.42)}$ that an appropriate Board mix had to incorporate at least one director knowledgeable of the entity's key functions. In line with Zattoni and Cuomo (2010)[32], most respondents$_{(25/31)}$ added that such knowledge needed to be accompanied by adequate skills and competencies as otherwise, the Board as a whole could not be effective. Some respondents$_{(4/31)}$ emphasised that all directors should have this knowhow. Another respondent$_{(1/31)}$ argued that it was impossible to have any one director knowledgeable on everything. There should be a varied set of skills and competencies such as finance, law, governance, human resources and technology, amongst the directors to cover as many areas as possible$_{(7/31)}$. According to another respondent$_{(1/31)}$, alongside the knowledge on the entity's key functions, Boards in specific industries like hospitals and care homes, also required relevant expertise. Yet, if none of the directors had in-depth knowledge

[31] Q.7
[32] Vide Skills and Competencies in S.2.3.2

of the entity's key functions, they could always engage experts to help them understand a particular area$_{(1/31)}$. Indeed, as underlined by two respondents$_{(2/31)}$, it was becoming ever more difficult to source directors so *"beggars cannot really be choosers"*$_{(1/31)}$.

Respondents marginally agreed$_{(\bar{x}=2.65)}$ that NEDs/INEDs who were foreign nationals but resided in Malta usually had a closer relationship with EDs than those residing abroad. According to one respondent$_{(1/31)}$, foreign NEDs/INEDs would become particularly essential for an MLE that had infiltrated other markets but local NEDs/INEDs were closer and they were the first point of reference. However, another respondent$_{(1/31)}$ reiterated that this was not a standard occurrence in other countries but it transpired in Malta owing to its size. Since COVID-19, online meetings were being held and this provided more opportunities for local and foreign directors to interact$_{(1/31)}$. Although online meetings were more focused and there was less waste of time$_{(1/31)}$, another respondent$_{(1/31)}$ noted that these had a different dynamic than physical meetings.

The Relevance to Board Mix of other Director-Specific Factors

Subsequently, respondents were asked[33] whether directors' tenure and gender were relevant to the composition of Board mix. Respondents opined that neither directors' tenure$_{(22/31)}$ nor gender$_{(26/31)}$ should influence the Board mix. While there was increased public awareness to address the imbalance on these factors at Board level$_{(2/31)}$, one might argue that an appropriate Board mix would be better geared if supplemented by skills$_{(2/31)}$ and knowledge$_{(2/31)}$ rather than tenure and gender. With respect to directors' tenure, some respondents$_{(3/31)}$ claimed that, while NEDs/INEDs started losing their independence because *"familiarity breeds contempt"*$_{(2/3)}$ as was indeed opined by the Cadbury report (1992)[34], long service on a Board created an *"effective memory"*$_{(2/3)}$ which was essential for continuity. Indeed, one such respondent$_{(1/3)}$ added that any entity should avoid having NEDs/INEDs who were all *"fresh"*.

[33] Q.8
[34] Vide Tenure in S.2.3.2

4.4 The Contribution of Board Mix to Good CG

The last section of the interview schedule consisted of nine questions (Q.9-17) relating to the contribution of the Board mix to good CG.

4.4.1 The Role of EDs, NEDs and INEDs in Strategy Formulation and Execution

The first question[35] asked respondents whether, in their opinion, the ratio of EDs, NEDs and INEDs affected strategy formulation and/or execution. One respondent$_{(1/31)}$ did not have an opinion on this question. Half the respondents$_{(15/30)}$ agreed that the Board mix affected both strategy formulation and execution. Three such respondents$_{(3/15)}$ argued that an *"overdose"* of EDs would result in an internally-driven strategy whereas the higher the element of NEDs/INEDs would allow for an externally-driven strategy. A clear contribution of NEDs/INEDs was that they brought an outside perspective$_{(7/15)}$ and a broader view because of their exposure beyond the entity$_{(2/15)}$. Moreover, by virtue of being independent$_{(3/15)}$ and often removed from any internal politics that might be going on$_{(1/15)}$, NEDs/INEDs could challenge the strategic plans proposed by management$_{(11/15)}$ and ask the all-important difficult questions$_{(3/15)}$. However, one respondent$_{(1/15)}$ added that, if NEDs/INEDs were buried in tons of papers, they would easily give in to any proposal presented to them. Some respondents$_{(7/15)}$ argued that EDs also contributed to strategy formulation because they were aware of what was happening in their entity$_{(4/7)}$, knew the existing limits and what could be achieved$_{(1/7)}$. Meanwhile, two further respondents$_{(2/15)}$ were of the opinion that NEDs/INEDs made a positive contribution to strategy formulation while EDs made a positive contribution to strategy execution. Moreover, similar to Hsu and Wu (2014)[36], another respondent$_{(1/15)}$ maintained that a higher proportion of EDs and NEDs than INEDs made it easier to pass strategic decisions.

[35] Q.9
[36] Vide S.2.4.1

Other respondents$_{(4/30)}$ believed that only strategy formulation was affected because, as pointed out by Azlan and Annuar (2014) and Pass (2004)[37], once the Board set the strategy to adopt, its execution was then implemented by management$_{(2/4)}$. In this connection, one such respondent$_{(1/4)}$ stated that NEDs/INEDs gave strategy formulation a certain level of detachment from its actual execution by management. However, another respondent$_{(1/4)}$ argued that many NEDs/INEDs tended to slow down the strategy formulation because they were too cautious.

Contrastingly, in the view of three further respondents$_{(3/30)}$, only strategy execution was affected. Particularly, a higher number of EDs allowed for a more expedient execution of the strategy$_{(3/3)}$.

The remaining respondents$_{(8/30)}$ perceived no effect either on strategy formulation or execution. According to three such respondents$_{(3/8)}$, strategy formulation and execution were dictated by the vision of the directors$_{(2/3)}$.

4.4.2 The Role of NEDs/INEDs in Preventing and Detecting Corporate Irregularities

Subsequently, respondents were asked[38] whether in their view, onboarding more NEDs/INEDs helped prevent and detect corporate irregularities. Most respondents$_{(22/31)}$ agreed, with three such respondents$_{(3/22)}$ emphasising the role of INEDs in this regard. NEDs/INEDs are the *“custodians of governance in an entity”*$_{(3/22)}$. They had a significant concern for their own position$_{(2/22)}$ and made sure that everything was done according to best practices$_{(1/22)}$ since ultimately, they were personally liable$_{(3/22)}$. Being associated with entities which were reported to have breached regulations and corporate requirements would leave a negative toll on NEDs’/INEDs’ name$_{(1/22)}$, echoing Ahmed, Hossain et al.

[37] Vide S.2.4.1
[38] Q.10

(2006)[39]. Thus, as opined by Roberts, McNulty et al. (2005)[39], NEDs/INEDs challenged and asked questions in a determined effort to detect corporate irregularities$_{(3/22)}$. Other respondents$_{(4/22)}$ underscored the fact that NEDs/INEDs observed matters objectively. Accordingly, they could offer an independent and unbiased opinion on any agenda item$_{(3/4)}$ and thus, ensured that the entity's strategy for growth was achieved within the legal environment that the entity operated$_{(1/4)}$. Two respondents$_{(2/22)}$ pointed out that the underlying assumption was that NEDs/INEDs had quality and refused to act on the Board simply as *"puppets"*$_{(1/2)}$. Moreover, directors were not appointed because of past connections or family relations$_{(1/2)}$.

A few respondents$_{(9/31)}$ held the view that onboarding more NEDs/INEDs did not aid in preventing corporate irregularities. Some such respondents argued$_{(2/9)}$ that EDs had a greater day-to-day role in this regard. Others$_{(2/9)}$ argued that every director, notwithstanding whether it is an ED, NED or INED, had fiduciary obligations and a duty of care towards the shareholders$_{(2/2)}$, so there should be no corporate irregularities$_{(1/2)}$.

4.4.3 The Role of NEDs/INEDs in Enhancing Financial Reporting Transparency

The next question asked[40] respondents in what way NEDs/INEDs enhanced transparency in financial reporting, if at all. According to most respondents$_{(21/31)}$, NEDs/INEDs did so through their respective roles on the Board as well as through sitting on committees, particularly the audit committee, in line with Neville, Byron et al. (2019)[41]. EDs were closely involved in the preparation of financial reporting while NEDs/INEDs were in a position to challenge$_{(4/21)}$, scrutinise the financial reports and management accounts$_{(3/21)}$, pose the right questions$_{(3/21)}$ and ask for detailed explanations$_{(1/21)}$. A few respondents$_{(4/21)}$ referred to the role of INEDs

[39] Vide S.2.4.2
[40] Q.11
[41] Vide S.2.4.3

who were completely independent of any shareholder, in contributing to transparency while ensuring that what was being communicated was fully understood by shareholders. Moreover, other respondents$_{(5/21)}$ argued that the responsibility of financial reporting rested with the audit committee, echoing Camenzuli (2017)[42]. One such respondent$_{(1/5)}$ added that the audit committee had the oversight and energy to ensure that the proper rigour was put even into judgmental areas and where estimates were required. Two further respondents$_{(2/21)}$ stated that transparency is enhanced if NEDs/INEDs are qualified in accounting/auditing. Meanwhile, another respondent$_{(1/21)}$ claimed that having an appropriate Board mix would improve the stakeholders' credibility when reading statements produced by the entity.

Some respondents$_{(10/31)}$ argued that NEDs/INEDs were not the *"authors"* of enhanced transparency in financial reporting. Financial reporting was dictated by thorough legislation$_{(6/10)}$ with little room for manoeuvre$_{(1/6)}$. However, another respondent$_{(1/6)}$ insisted that the audit committee was the engine where the NEDs/INEDs, EDs and external auditors actually *"triangulate and clash the mines"* towards transparency and integrity of financial reporting. One further respondent$_{(1/10)}$ argued that NEDs/INEDs could have a technical discussion with the auditors on what needed to be included in the reports but transparency was thus not necessarily enhanced.

4.4.4 The Multiple Commitments of NEDs/INEDs

Respondents were also enquired[42] on how NEDs'/INEDs' contribution to good CG was affected by their own multiple commitments. Half of the respondents$_{(16/31)}$ were of the opinion that multiple commitments left a negative toll on the performance of NEDs/INEDs. According to eight such respondents$_{(8/16)}$, the more commitments held by NEDs/INEDs, the less time they could dedicate to the entity in question, as was also argued by Harris and Shimizu

[42] Q.12

(2004) and Pass (2004)[43]. If they lacked the time to prepare for Board meetings by reading the Board papers in advance, this would impair CG$_{(5/16)}$. They could even refuse to sit on Board committees$_{(2/16)}$ or attend Board meetings$_{(1/16)}$. Such NEDs/INEDs were there merely to tick the boxes$_{(3/16)}$. According to some respondents$_{(6/16)}$, NEDs/INEDs must ensure that they had sufficient time to execute their functions as directors, particularly the more stringent and cumbersome functions existent in listed entities$_{(1/6)}$. Moreover, multiple commitments could also result in conflicts of interest$_{(3/16)}$ and competition issues if a director took on directorships in competing entities$_{(1/16)}$. Another respondent$_{(1/16)}$ added that if an entity upheld certain values but one of its directors was associated with another entity of low repute, this would still have a bearing on CG.

Contrastingly, some other respondents$_{(8/31)}$ argued that multiple commitments had a positive impact. As long as the directors limited their commitments to the point that the appropriate performance of their duties was assured$_{(3/8)}$, CG would improve because directors could bring in to bear the experience of how other entities had addressed CG issues$_{(5/8)}$, thus improving existing practices$_{(4/8)}$. This was in line with Harris and Shimizu (2004)[43]. One such respondent$_{(1/8)}$ specified that NEDs/INEDs with experience in regulated entities could bring that structure and high standard to non-regulated entities. Another respondent$_{(1/8)}$ added that directors sitting on the Boards of related entities would have a wider spectrum and could observe intragroup transactions.

Three further respondents$_{(3/31)}$ highlighted both the positive and negative impacts of multiple commitments on CG. Meanwhile, other respondents$_{(4/31)}$ argued that the effect of NEDs'/INEDs' multiple commitments on good CG depended on whether these would impinge upon their duties. Indeed, one respondent$_{(1/4)}$ insisted that there was a finite number of commitments that should be accepted, which was determined not only by the number of multiple directorships held, but

[43] Vide S.2.4.4

also their type because different directorships could demand different time consumptions.

Afterwards, MLE representatives$_{(26/31)}$ were asked[44] how the answers to the previous four questions[45] reflected the position in their own entity. Half of the respondents$_{(13/26)}$ stated that their answers to the previous questions were applicable to their entity while the other half$_{(13/26)}$ were not sure. Indeed, MLE representatives were more comfortable in giving general views but when asked on their own MLE, they remained quite restrained. Some respondents$_{(6/13)}$ argued that although their directors had multiple commitments, they were still committed to the entity in question. Attendance to Board meetings and Board committees was promising and there was hardly ever the need to postpone or change dates$_{(2/6)}$. One respondent$_{(1/6)}$ added that NEDs/INEDs participated very actively in all Board meetings, even informal meetings. Two further respondents$_{(2/13)}$ emphasised that MLEs in the banking industry were heavily regulated and directors were restricted from having multiple commitments.

4.4.5 The Enculturation of Boardroom Openness

The next question[46] asked respondents whether they perceived Board mix as one of the prerequisites for a culture of openness and constructive dialogue among the directors. Most respondents$_{(21/31)}$ perceived it as a prerequisite. Some such respondents$_{(5/21)}$ attested that it was essential to achieve a healthy balance between EDs and NEDs/INEDs since their different backgrounds enabled them to have constructive discussions. One respondent$_{(1/5)}$ added that there would be a different Board dynamic in terms of how directors worked together to achieve one common aim. In this connection, another respondent$_{(1/21)}$ emphasised that a Board composed entirely of NEDs/INEDs could raise boundaries between the Board and management and so, rather than being part of the same entity, they

[44] Q.13
[45] Q.9-12
[46] Q.14

would become separate, contrasting and conflicting. Moreover, other respondents$_{(4/21)}$ stated that an appropriate Board mix would allow for interesting dialogue$_{(1/4)}$ and effective and creative decision-making$_{(1/4)}$. However, as pointed out by two further respondents$_{(2/21)}$, for there to be an element of openness within the Board, an overall prerequisite was mutual trust among directors which could not always be taken for granted$_{(1/21)}$.

Contrastingly, ten further respondents$_{(10/31)}$ were of the opinion that the Board mix was not a prerequisite for a culture of openness and constructive dialogue among the directors because this depended mostly on the directors' personalities$_{(4/10)}$ and soft skills$_{(1/10)}$. Some individuals could be open but they dominated the proceedings in each meeting$_{(2/10)}$. Others could be assertive or aggressive$_{(1/10)}$. On the more positive side, other individuals could be open-minded, constructive and know how to discuss issues with all sorts of people$_{(1/10)}$. Accordingly, one could not put *"all the directors in one box"*$_{(1/10)}$.

4.4.6 The Type of Director in the Majority

Respondents were then asked[47] for their opinion on which type of director, if any, should the majority be based. One respondent$_{(1/31)}$ did not have any opinion on this question. Some respondents$_{(8/30)}$ argued that INEDs should be in the majority while others$_{(7/30)}$ were more in favour of NEDs. Additional respondents$_{(7/30)}$ stated that both NEDs and INEDs together should be in the majority, with one such respondent$_{(1/7)}$ adding that this should only be a slight majority. Another such respondent$_{(1/22)}$ affirmed that all entities, except for small family-owned entities, aspired to have good CG and the tendency was to have an appropriate Board composed of more NEDs/INEDs than EDs. Although the EDs would be *"running their own race"* and knew where they wanted to get, they could not be completely objective$_{(1/22)}$. Contrastingly, NEDs/INEDs gave an independent view of how business should be done for the benefit of all$_{(3/22)}$.

[47] Q.15a

In line with Baysinger and Butler (1985) and Fairfax (2010)[48], some other respondents$_{(6/30)}$ were of the opinion that there should be a balance between EDs, NEDs and INEDs, with three such respondents$_{(3/6)}$ adding that such balance varied with the circumstances. One such respondent$_{(1/3)}$ emphasised that in family-owned entities, the majority should be EDs. Similarly, a further respondent representing a family-owned MLE and one CGE$_{(2/30)}$ were of the opinion that EDs should be in the majority.

Subsequently, respondents were asked[49] whether the extent of such majority could be successfully prescribed or recommended by the regulatory framework. Most respondents$_{(18/31)}$ argued that there should just be a recommendation. Every business had different requirements$_{(6/18)}$, often too varied$_{(1/6)}$, so making a *"hard and fast rule"* was not necessarily for the greater good$_{(1/6)}$. Indeed, two respondents$_{(2/6)}$ added that a 'one-size-fits-all' did not exist, in line with Coles, Daniel et al. (2008), Lehn, Patro et al. (2009) and Şener, Varoğlu et al. (2011)[48]. Moreover, it would be difficult to introduce prescriptions in non-regulated entities$_{(4/18)}$. Additionally, one respondent$_{(1/18)}$ argued that *"the proof of the pudding is in the eating"* since entities which were not acting legally, would still find ways how to circumvent the law. For example, they could find people who were less appropriate$_{(2/18)}$. Indeed, two respondents$_{(2/18)}$ stated that a prescription rendered it difficult to find new directors in view of the limitations of a small state. Therefore, it was best to give shareholders freedom to decide whom they wanted to appoint$_{(3/18)}$. Yet, as mentioned by one respondent$_{(1/18)}$, more could be done in terms of following up on these principles and increasing awareness.

Contrastingly, thirteen respondents$_{(13/31)}$ were in favour of prescribing a majority in a regulatory framework. One such respondent$_{(1/13)}$ emphasised that it would be good for our national reputation while another respondent$_{(1/13)}$ argued that without prescriptions, nothing would happen. Two respondents$_{(2/13)}$ distinguished between the different corporate setups. Although prescription was probably

[48] Vide S.2.4.6
[49] Q.15b

essential for licensed entities particularly in financial services, this would not be so for normal trading entities$_{(1/2)}$. The other respondent$_{(1/2)}$ reiterated that, such prescription should be limited to listed entities, at least for the foreseeable future.

The last question[50] gauged respondents' opinion about the Code's recommendation that as a minimum, one-third of the Board would be composed of NEDs and for most such NEDs to be INEDs. It was the view of half of the respondents$_{(16/31)}$ that one-third was a low threshold and needed upgrading. Accordingly, NEDs should always be in the majority$_{(5/16)}$. Otherwise, a dominance of EDs around a Board table defeated the overriding objective of having a proper constituted Board$_{(3/5)}$ since they tended to go into too much operational detail in meetings$_{(1/5)}$ and thus, misguided the Board$_{(1/5)}$. Three such respondents$_{(3/16)}$ were of the opinion that the proportion of NEDs/INEDs should be increased to one-half while another three respondents$_{(3/16)}$ suggested increasing it to two-thirds.

Other respondents$_{(13/31)}$ agreed with the one-third threshold but one of them$_{(1/13)}$ added that the mix should be determined by what experience and inputs were most beneficial to the better functioning of the Board. Meanwhile, two further respondents$_{(2/31)}$ disagreed with the threshold recommended in the Code. According to such respondents$_{(2/2)}$, the number of EDs should not be limited as they were valuable normally in giving undivided attention to the entity.

Moreover, most respondents$_{(25/31)}$ agreed that most NEDs should be INEDs. According to one such respondent$_{(1/25)}$, the independent function had to be given more priority. Contrastingly, a few respondents$_{(6/31)}$ disagreed that from the cohort of NEDs the majority were to be INEDs. Two such respondents$_{(2/6)}$ argued that the number of INEDs should be limited to that required for the composition of the audit committee. However, the difference between NEDs and INEDs was

[50] Q.16a, 16b

not so clear among respondents, supporting the findings of Baldacchino, Camilleri et al. (2020)[51].

4.5 Other Comments

Various respondents$_{(12/31)}$ commented on whether or not the CEO should also be a Board member. Two respondents$_{(2/12)}$ maintained that the CEO had a wide-angled vision for all the entity's departments and therefore, as a Board member, s/he could clearly explain to other directors what was going on in the entity. Another two respondents$_{(2/12)}$ observed that, by being a director, the voice of the CEO would be strengthened. However, one such respondent$_{(1/2)}$ made a disclaimer for small Boards where the CEO would be typically overpowering and therefore, it would be better if the CEO was not an ED. Some other respondents$_{(2/12)}$ agreed that it was crucial for the CEO to be an ED so that s/he would be held responsible with the other directors for any decisions taken. Meanwhile, other respondents$_{(6/12)}$ argued that having the CEO as an ED was a big barrier towards effective CG. According to such respondents$_{(6/6)}$, the CEO should always be present for Board meetings but only as a participant. This enabled the Board to hold *"in-camera discussions"* whereby issues were discussed without the CEO being present$_{(2/6)}$. One such respondent$_{(1/6)}$ emphasised that since the CEO was generally the one most informed, by being granted also the voting power as an ED, s/he could unduly influence the Board's decisions.

4.6 Conclusion

This chapter presented the findings that emerged from the interviews. The ensuing chapter discusses these findings in detail.

[51] Vide S.1.2.3

Chapter 5

Discussion of Findings

5.1 Introduction

This chapter analyses the research findings obtained in Chapter Four, in the light of the literature examined in Chapter Two. As shown in Figure 5.1, Section 5.2 discusses the Board mix. Then, Section 5.3 identifies the factors affecting the Board mix of MLEs and Section 5.4 discusses the contribution of a balanced Board mix to good CG. The mixed Board and its implications on CG may be seen as analogous to the prescription of medicine to a patient and its effects.

5.1 Introduction

5.2 The Medicine being Prescribed: The Board Mix

- 5.2.1 Why are INEDs the largest percentage type of director in most entities?

5.3 The Medicine Determinants: Factors affecting the Board Mix

- 5.3.1 To what extent does an entity's scope and complexity affect the Board mix?
- 5.3.2 To what extent does CEO entrenchment affect the Board mix?
- 5.3.3 Are NEDs/INEDs preferable to EDs in the Board subject to be residing in Malta and/or with entity-specific knowledge?

5.4 The Effects of the Medicine: The Contribution of a Balanced Board Mix to Good CG

- 5.4.1 Do more NEDs/INEDs on the Board result in less strategy execution?
- 5.4.2 Are NEDs/INEDs more able to contribute than EDs towards the prevention and detection of corporate irregularities?
- 5.4.3 Is the contribution of NEDs/INEDs on the audit committee sufficient to justify a more NEDs/INED balance in the mix?
- 5.4.4 Are NEDs/INEDs with multiple commitments a boon or a scourge to CG?
- 5.4.5 Are NEDs/INEDs sufficiently more independent than EDs?
- 5.4.6 Is the quality of NEDs/INEDs more important than their number?
- 5.4.7 Is there an optimally balanced mix?
- 5.4.8 Can a specific Board mix be prescribed or recommended?
- 5.4.9 Should the Code give NEDs/INEDs more priority in Boards composition?

5.5 Conclusion

Figure 5.1: Outline of Chapter 5

5.2 The Medicine being Prescribed: The Board Mix

5.2.1 Why are INEDs the largest percentage type of director in most entities?

The findings[52] indicate that the development of the Board mix in Malta has replicated the trend experienced in several other countries. Such trend was earlier noted in the literature[53]. This entailed replacing EDs with NEDs and INEDs who over the years have gained superiority in some MLEs[54]. The main reasons behind this trend were the pressures imposed by regulators and shareholders, as also noted abroad by Coles, Daniel et al. (2008) and Linck, Netter et al. (2008)[53] respectively. In fact, such pressures typically kicked in following a chain of high-profile national and international scandals. NEDs and in particular, the independence and objectivity of INEDs, were believed to help prevent reoccurrences. This belief has now been retained for several years and indeed, earlier on, Ellul (2007) had already noted a majority of NEDs/INEDs in most MLEs. In particular, in the years 2018-2022, minimal changes emerged from the findings[55] with respect to the Board mix. An added plausible reason for this might be that no recent revisions to the Code's recommendations were made.

The findings also reveal that although Maltese family-owned entities in the second or third generation may need to onboard outsiders to solve the conflicts of interests that start to crop up between the family members[56], these entities seem to be slower in opening up to NEDs/INEDs than other entities[52]. The latter has scarcely been noted in the international literature. A study relating to the Board mix in large family entities might further clarify this. Contributing to this slowing down in Malta is probably its secretive culture which, as observed by Baldacchino (2017)[57], emanates from the interconnectedness of a small state.

---

[52] Vide S.4.2.1
[53] Vide S.2.2.1
[54] Vide Chung, Liu et al. (2019) in S.2.2.1
[55] Vide S.4.2.3
[56] Vide S.4.3.1
[57] Vide S.2.4.3

However, in line with Boone, Casares Field et al. (2007)[58], onboarding NEDs/INEDs prior to an IPO is crucial for it to be successful since these types of directors give the general public the peace of mind that their investments in the entity will be used in the interest of its new shareholders.

5.3 The Medicine Determinants: Factors affecting the Board Mix

5.3.1 To what extent does an entity's scope and complexity affect the Board mix?

The findings[59] indicate that out of the four elements of complexity noted in the literature[60], only three of them affect the Board mix of MLEs. Specifically, an entity's size, age and new products or locations clearly necessitate more NEDs/INEDs, as also revealed by various literature sources[61].

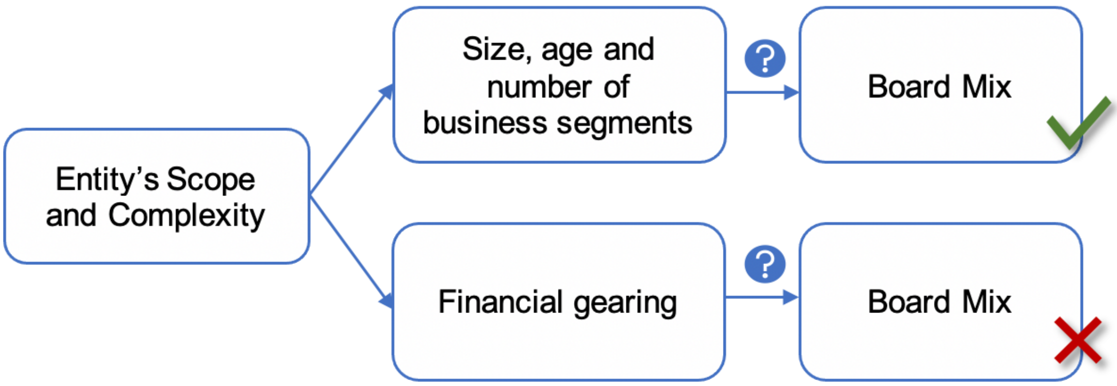

Figure 5.2: Complexity elements and their effects on the Board mix of MLEs

Source: Author

However, as illustrated in Figure 5.2, financial gearing seems not to bear such an influence in MLEs. The situation seems clearer than the contrasting picture

[58] Vide S.2.2.1
[59] Vide S.4.3.1
[60] Vide Scope and Complexity in S.2.3.1
[61] Vide S.2.3.1 e.g. Boone, Casares Field et al. (2007) and Lahlou (2018)

portrayed by the international literature[62] regarding the need of more or less NEDs/INEDs. The lack of influence of financial gearing with respect to the Board mix may be due to the financial institutions not giving too much importance to the Board mix of entities which approach them to borrow as such. Perhaps more study is needed in this respect.

5.3.2 To what extent does CEO entrenchment affect the Board mix?

Both findings[63] and literature[64] indicate that CEO entrenchment, as a determinant of CEO ownership and entity's performance does affect the Board mix as shown in Figure 5.3. In this context, a local element of CEO entrenchment has been found to be the CEO being granted voting power by sitting on the Board as an ED[65]. In line with Boone, Casares Field et al. (2007), Chung, Liu et al. (2019) and Pascual-Fuster and Crespí-Cladera (2022)[64], findings[63] show that the CEO uses the power granted from positive entity performance or ownership to compose the Board in his/her favour, with fewer NEDs/INEDs, even though this results to be detrimental to the entity's monitoring mechanism. However, CEO entrenchment actually calls for more NEDs and particularly INEDs. This is especially so if the entrenchment originates from the CEO being a significant shareholder. Yet, as has been seen in the literature[64], the influence of the CEO being a significant shareholder on the Board mix remains controversial. While Raheja (2005) claimed that such influence requires more NEDs/INEDs, Linck, Netter et al. (2008) observed that if the CEO is also a shareholder, s/he will have stronger incentives to monitor and thus, the Board can do with less NEDs/INEDs. Further investigation into the CG implications of a CEO shareholding is therefore also called for.

Despite the need to onboard more NEDs/INEDs outlined both in the findings[63] and by Raheja (2005)[64], a more relevant question that remains to be answered

---

[62] Vide S.2.3.1 e.g. García Martín and Herrero (2018) versus Bushman, Chen et al. (2004)
[63] Vide S.4.3.1
[64] Vide CEO Entrenchment in S.2.3.1
[65] Vide S.4.5

is about who is going to take this decision given the CEO's power and influence on the decisions of the directors. One may argue that the imposition of controls on the CEO does result in an increase in the number of NEDs/INEDs, as both findings[66] and Boone, Casares Field et al. (2007)[67] reveal. Perhaps a prerequisite towards increasing NEDs/INEDs could be that of ensuring in the first place, sufficient participation by the existing NEDs/INEDs. Undoubtedly, it is essential to have a strong chairperson in place since, although the CEO may be in a position to exercise much power, at the end of the day, the personality of the chairperson is pivotal.

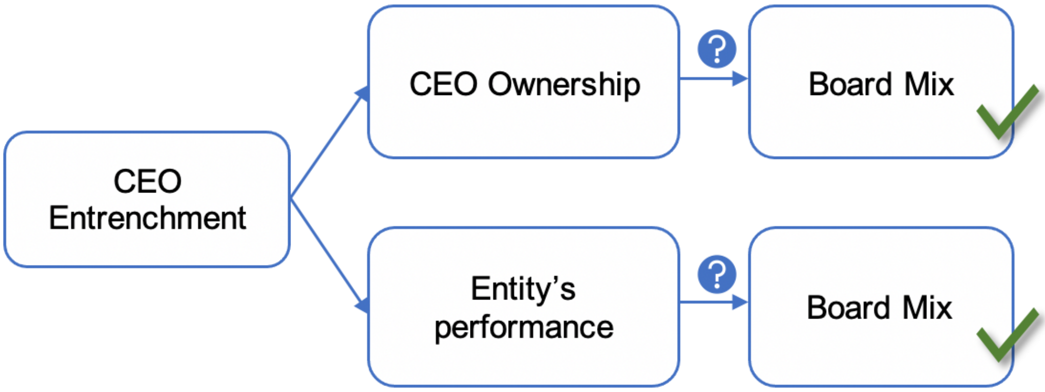

Figure 5.3: CEO entrenchment elements and their effects on the Board mix of MLEs
Source: Author

5.3.3 Are NEDs/INEDs preferable to EDs in the Board subject to be residing in Malta and/or with entity-specific knowledge?

The director-specific factor most relevant to the Board mix is director entity-specific knowledge, including skills and competencies[68]. Apart from having one NED/INED qualified in accounting or auditing (Listing Authority–Malta 2021, S.5.117.3), there are no additional academic qualifications or experience that the directors should possess[69]. The findings[68] reflect a controversy on the extent to which the directors should possess knowledge on the entity's key functions.

[66] Vide S.4.3.1
[67] Vide CEO Entrenchment in S.2.3.1
[68] Vide S.4.3.2
[69] Vide Skills and Competencies in S.2.3.2

Literature does not shed light in this regard. However, both findings[68] and literature[70] indicate that directors should have different skills and competencies. Indeed, it is impossible for one director to be knowledgeable in every area. Directors with expertise in different fields in the same Board, may challenge one another on account of their various views and knowledge. However, given the small pool of qualified people that present themselves as directors in the Maltese context, it might be difficult to compose a Board with a wide range of skills and competencies. In this regard, entities may always consult with outside advisors on major issues. Nonetheless, entities should also step up their efforts in sourcing directors beyond those that have already been tried and tested in other entities. Findings[71] indicate that the female and foreign directors pool have not yet been tapped into by all MLEs.

Although gender and tenure were not found[72] to be relevant factors to the Board mix, nationality was a relevant factor as illustrated in Figure 5.4. Findings[71] show that only 25.8% of the directors in MLEs are foreign, some of whom reside in Malta. This implies that entities favour NEDs/INEDs who reside locally, and is consistent with the view of Deng, Kanagaretnam et al. (2020)[73]. In fact, Malta-residing NEDs/INEDs have a closer relationship with EDs than those residing abroad[72], which might in turn reduce their monitoring effectiveness, as implied by Pass (2004)[73]. Such a viewpoint on monitoring contrasts with those other sources in the literature[74] that illustrate that foreign INEDs result in lax monitoring due to their low participation in Board meetings, dearth of entity-specific information, lack of knowledge on the specific country and limited access to national information channels. However, nowadays, it has become a norm for Board meetings to be held virtually, thus facilitating foreign NED/INED attendance and participation and serving as a tool for them to acquire information on the entity. Yet, online Board meetings do not guarantee that NEDs/INEDs

[70] Vide S.2.3.2 e.g. Anderson, Reeb et al. (2011) and Zattoni and Cuomo (2010)
[71] Vide S.4.2.2
[72] Vide S.4.3.2
[73] Vide Nationality in S.2.3.2
[74] Vide S.2.3.2 e.g. Firoozi (2018) and Masulis, Wang et al. (2012)

residing abroad are at par with Malta-based NEDs/INEDs. The implication is that it is better for at least some, if not the majority, of the NEDs/INEDs to be residing locally. Moreover, it is probably better that Malta-based NEDs/INEDs interact frequently with those residing abroad to help to bridge the gap caused by the distance. Indeed, NEDs/INEDs residing abroad may contribute valuably to the entity, particularly in the case of entities with minimal or no competition in the Maltese scenario and entities that diversify in the countries where the foreign NEDs/INEDs are based.

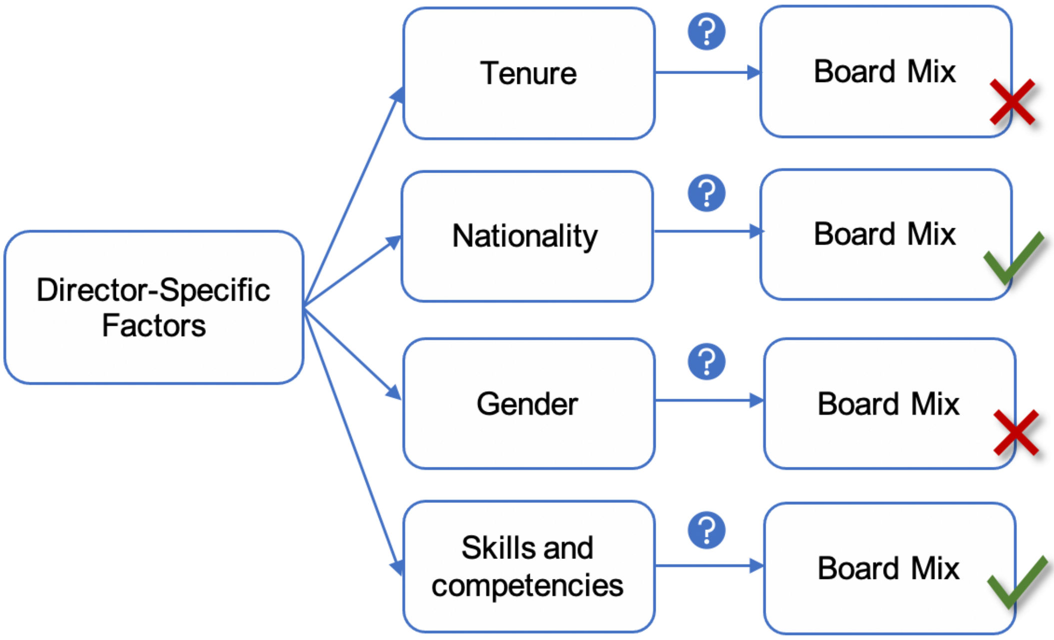

Figure 5.4: Director-specific factors and their effects on the Board mix of MLEs

Source: Author

5.4 The Contribution of a Balanced Board Mix to Good CG

5.4.1 Do more NEDs/INEDs on the Board result in less strategy execution?

Both findings[75] and literature[76] outline the positive contribution of NEDs/INEDs in strategy formulation but also indicate that the strategy execution is often left in

[75] Vide S.4.4.1
[76] Vide S.2.4.1

the hands of the EDs. However, according to Schmidt and Brauer (2006)[76], it is in the interest of NEDs/INEDs to ensure that the strategy is executed according to the approved plan. They are kept informed of the process of the strategy execution through meetings with EDs, progress reports and even surprise site visits. Although findings[77] seem to indicate that EDs are left on their own in executing the strategy, Azlan Annuar (2014)[78] highlight the importance of NEDs/INEDs in strategy execution by underpinning that the strategy is not a plan set in stone but is one to be revised as the need arises. This was clearly evidenced recently during the Covid-19 Pandemic which no entity had foreseen in the formulation of their strategy. NEDs/INEDs probably need to go beyond strategy formulation and to take timely action to adjust the strategy whenever there is a change in the environment or economic outlook while at the same time, not stepping on EDs' and management's toes. After all, the latter need to be given enough resources, time and freedom to enable them execute the proposed strategy. Nevertheless, NEDs/INEDs involvement in strategy execution ensures the realisation of short-term goals to the eventual achievement of the entity's long-term goal.

5.4.2 Are NEDs/INEDs more able to contribute than EDs towards the prevention and detection of corporate irregularities?

Literature[79] points clearly to the abilities of NEDs/INEDs to prevent and detect corporate irregularities through challenging and questioning. However, the findings[80] of this study remain inconclusive in this respect. While many respondents confirmed the various sources of literature, others opined that EDs were in a better position to do so because they were exposed more to the entity than NEDs/INEDs whose main, if not sole function, remained that of attending the Board meetings. However, this is questionable because EDs build close relationships with management who may even entice them to join or permit any

[77] Vide S.4.4.1
[78] Vide S.2.4.1
[79] Vide S.2.4.2 e.g. Roberts, McNulty et al. (2005)
[80] Vide S.4.4.2

corporate misconduct. Unless such EDs have a strong enough character, many of them may tend not to take the appropriate action. Moreover, lower levels of management may take every possible measure to conceal any corporate irregularities, this rendering it harder for EDs to detect them despite their daily involvement in the entity. Therefore, NEDs/INEDs may commonly be more able to prevent corporate irregularities in the first place and also, to detect them once they occur. Moreover, both findings[81] and literature[82] make specific reference to the contribution of INEDs in this regard. This seems to explain the knee-jerk reaction to reinforce the importance of NEDs, especially INEDs, in the boardroom every time a scandal dominates the headlines.

5.4.3 Is the contribution of NEDs/INEDs on the audit committee sufficient to justify a more NED/INED balance in the mix?

Both findings[83] and literature[84] describe the audit committee as the most important watchdog of transparency in financial reporting. According to the Listing Rules (Listing Authority – Malta 2021, S.5.117.1/2), this has to be composed entirely of NEDs, most of whom are to be INEDs. This study confirms the pivotal role of NEDs, and in particular, INEDs sitting on the audit committee in enhancing transparency and boosting the trust of stakeholders in any reports issued by the entity.

Moreover, the Listing Rules (Listing Authority – Malta 2021, S.5.117.1) mandate for at least three NEDs/INEDs to sit on the audit committee is applicable to all entities and therefore, this also applies to small Boards. Possibly, there will be more NEDs/INEDs because, in the first instance, an entity may decide to have more NEDs/INEDs on the audit committee than the minimum requirement of three. Secondly, not all NEDs/INEDs on the Board may be sitting on the audit committee so that, those who do not sit on this committee may speak up and

[81] Vide S.4.4.2
[82] Vide Neville, Byron et al. (2019) in S.2.4.2
[83] Vide S.4.4.3
[84] Vide S.2.4.3 e.g. Camenzuli (2017) and Neville, Byron et al. (2018)

question at Board level. Therefore, there will be limited seats, if any, left for EDs in the boardroom.

5.4.4 Are NEDs/INEDs with multiple commitments a boon or a scourge to CG?

Both findings[85] and literature[86] show concern on the limited time NEDs/INEDs may dedicate to the entity if they have multiple commitments. Findings add on to the literature that NEDs/INEDs with multiple commitments can be a recipe for conflicts of interest and competition issues. This may be more relevant for a small state environment. However, findings[85] also confirm the literature[87] regarding the valuable contribution these may bring, particularly the exposure to other business practices and environments.

Therefore, NEDs/INEDs with multiple commitments can both be a boon or a scourge to CG. This ultimately depends on whether they can juggle all their different commitments and devote sufficient time to properly fulfil their duties. It is understandably difficult, if not impracticable, for the Code to impose a specific number of directorships or commitments a NED/INED should accept because the responsibilities of directors and therefore, the time to be committed, vary substantially among entities. Perhaps the matter may be resolved by appropriate action both by prospective NEDs/INEDs and the entities themselves. On the part of the former, they may themselves opt to decline any directorships for which they know will not be able to dedicate enough time or which will cause conflicts of interest or competition with the commitments already held. On the part of entities, they may clarify to those interested in such directorships the extent of work and responsibilities to be undertaken as these may vary from one entity to another.

[85] Vide S.4.4.4
[86] Vide S.2.4.4 e.g. Pass (2004) and Fich and Shivdasani (2006)
[87] Vide S.2.4.4 e.g. Harris and Shimizu (2004) and Field, Lowry et al. (2013)

5.4.5 Are NEDs/INEDs sufficiently more independent than EDs?

Both findings[88] and literature[89] reveal that on the Board, the EDs are more informed than NEDs/INEDs and, unless the latter press for more information, they will rarely receive it. Therefore, for NEDs/INEDs to exercise their independence, the Board mix has to foster a culture of openness and constructive dialogue amongst the directors[90], in line with the view of Higgs (2003)[91]. For example, a Board made up of more NEDs/INEDs might be more able to extract information from EDs. However, NEDs/INEDs who are likely to yield to consistent pressure arising either from the circumstances of the entity itself or owing to their own not-so strong personality, may best decline such a position. Indeed, it is important that the directors sitting on a Board and taking decisions are not unduly influenced. For a Board to be free and open, a prerequisite to the success of the Board mix is the trust built among the directors. This has been pointed out both in the findings[90] and by Adams and Ferreira (2009)[91]. However, the level of trust built between EDs and NEDs and that between EDs and INEDs may be subjected to further study.

NEDs/INEDs may be more comfortable to exercise their independence and non-executive status within in-camera discussions whereby matters are discussed without management being present. These discussions also serve as a tool to build or break the trust among directors. Therefore, overall, given the appropriate personality, the status of NEDs generally renders them more independent.

5.4.6 Is the quality of NEDs/INEDs more important than their number?

The Board is a dynamic organ. It is made up of different characters and personalities. The findings[92] support Kim's (2010)[93] avowal that the quality of

---

[88] Vide S.4.3.1
[89] Vide Information Asymmetry in S.2.3.1
[90] Vide S.4.4.5
[91] Vide S.2.4.5
[92] Vide S.4.3.1 and S.4.4.2
[93] Vide S.2.4.5

NEDs/INEDs should be taken into account together with their quantity. Regardless of the number of NEDs/INEDs sitting in the boardroom, if these do not adequately carry out the responsibilities, they might as well not be there. The problem is to measure their quality particularly before the beginning of director engagement. Perhaps a way of dealing with this is to appoint them on a probationary period of one year. Then, if their performance is found to be satisfactory, they are given a tenure for a reasonable number of years, as suggested by Baldacchino (2017)[94].

Moreover, another element emerging from the findings[95] and Tabassum and Singh (2020)[96] is related to the appointment of the directors. The litmus test is to ensure that NEDs/INEDs are independent, competent and have the necessary knowhow to be able to sit on the Board, rather than being appointed because someone knows them or is related to them. The Code might help in this direction by stipulating some minimum requirements such as the minimum level of skills and competencies for one to hold the Board position. A study in this regard might help. Ultimately, the comment by Hodge (2021, p.3) referred to in the literature[96] emphasises the need to get *"the right people around the board table"*.

5.4.7 Is there an optimally balanced mix?

The Board mix varies significantly amongst MLEs and even amongst MLEs' industries[97], and this implies that an optimally balanced standard mix does not exist. This confirms the various sources in the literature[98] arguing that there is no blueprint for CG as the "optimal" Board mix differs in each entity. Indeed, EDs, NEDs and INEDs all inject valuable contribution but this varies depending on the different circumstances of each entity. Thus, the single-minded drive for an increase in NEDs/INEDs is not necessarily for the greater good.

---

[94] Vide S.2.4.1
[95] Vide S.4.4.2
[96] Vide S.2.4.5
[97] Vide S.4.2.1
[98] Vide S.2.4.6 e.g. Field, Lowry et al. (2013)

However, the findings[99] indicate that EDs should never exceed the NEDs/INEDs because if the latter are in the minority, they will go with the flow as was opined by Fuzi, Halim et al. (2016)[100]. Moreover, if Boards had to be dominated by EDs, Board meetings might morph into an executive committee meeting discussing the mundane operations of the entity. While NEDs/INEDs should ideally be in the majority, findings[101] and literature[102] still acknowledge the valuable contribution of EDs in terms of providing information and receiving guidelines from the Board. In fact, EDs feature as a minority on the Boards of most MLEs[103]. As highlighted by Shakir (2008)[100], this is essentially due to the information asymmetry between EDs on one part and NEDs/INEDs on the other part. In this respect, one or two EDs might suffice on most Boards. This is believed to be enough in pressing EDs to pass the first-hand information they possess on the entity to NEDs/INEDs which, in turn, enables them to challenge management, apply oversight and ensure that all the necessary rigour is applied into whatever the EDs are doing. Moreover, through the presence of EDs, management will be held responsible for the proposals they present to the Board. This also minimises the risk of segregation between the Board and management. However, an entity whereby a culture of information sharing is promoted not only through the participation of management in Board meetings but also through informing NEDs/INEDs on relevant issues that arise between meetings, can do even without any EDs. Contrastingly, a family-owned entity may prefer most EDs to be family members so that decisions remain a family affair in as far as it is possible. Therefore, once the basic principles of CG are both understood and applied, every entity may find it easier to decide its optimally balanced Board mix.

[99] Vide S.4.3.1 and S.4.4.6
[100] Vide S.2.4.6
[101] Vide S.4.4.6
[102] Vide S.2.4.6 e.g. Armstrong, Guay et al. (2010)
[103] Vide Table 4.1 in S.4.2.1

5.4.8 Can a specific Board mix be prescribed or recommended?

Literature[104] warns against prescribing a standard balanced Board mix given that there is no one such mix applicable to all entities. As has been seen earlier[105], while some respondents echoed this, others favoured a prescription for the sake of ensuring compliance. However, it is clear that any standard and specific Board mix will make it even more difficult for entities to find their optimal one. In this connection, recommendations are better than prescriptions because they allow for the dynamics, audience and characteristics of each particular entity. Recommendations are therefore probably a generally accepted way forward and so there are reasonable grounds to build on the present Code's recommendation for NEDs/INEDs to make up one third of the Board[106]. This may take the form of a detailed guideline outlining how the Board mix might change with the different circumstances of each entity, while adhering to the basic minima. Yet, if a prescription is a generally accepted way forward, one may opt to build on the present regulation recommending one third of the directors to be NEDs/INEDs, starting from the financial services industry.

5.4.9 Should the Code give NEDs/INEDs more priority in Boards composition?

The current Code recommendation referred to earlier[107] has been standing for several years. Findings[108] show that this does not reflect the current MLEs' Board mix since most MLEs have a much higher proportion of NEDs/INEDs. Across the globe[109], most countries have imposed or recommended their own minimum ratio or number of NEDs/INEDs. The threshold of some countries is even lower than that in Malta while other countries have a higher threshold.

---

[104] Vide S.2.4.6 e.g. Fernández-Temprano and Tejerina-Gaite (2020)
[105] Vide S.4.4.6
[106] Vide S.1.2.4
[107] Vide S.5.4.8
[108] Vide Table 4.1 in S.4.2.1
[109] Vide Appendix 2.2

The findings[110] indicate that there is room to increase the minimum proportion of NEDs/INEDs recommended in the Code. In fact, it has been noted that the perception among MLE representatives is that the Board should include a majority of NEDs/INEDs. However, in increasing such a minimum, care needs to be taken to avoid overdoing the issue and for the change to be implemented in steps over a number of years. Possibly, allowances may also be made for exceptions as long as these are justifiable.

As for the Code's existing recommendation that the majority of NEDs are to be INEDs, the regulators probably need to ensure that the distinction between NEDs and INEDs is made much clearer than that present.

5.5 Conclusion

This chapter presented a discussion on the main research findings. The next chapter summarises and concludes the discussion and, presents a number of recommendations.

[110] Vide S.4.4.6

Chapter 6

Summary, Conclusions and Recommendations

6.1 Introduction

This Chapter winds up the dissertation. As shown in Figure 6.1, Section 6.2 recapitulates the findings of this study and Section 6.3 delineates the conclusions reached. Several recommendations are presented in Section 6.4 while Section 6.5 identifies areas for future research. Then, Section 6.6 presents the final concluding remarks.

Figure 6.1: Outline of Chapter 6

6.2 Summary

This study aimed to ascertain the Board mix of the selected MLEs and whether this changed in any way in the years 2018-2022, to extract and assess the factors affecting the Board mix, as well as to assess the extent to which the Board mix was perceived to contribute to good CG.

In order to realise these objectives, a mixed research method was adopted. Semi-structured interviews were carried out with eleven directors of MLEs, nine company secretaries, four CFOs, two CEOs, three corporate advisors, one corporate lawyer and one MLE expert, thus a total of 31 interviews.

The findings indicate that most MLEs have INEDs as the largest percentage of Board directors while EDs are rarely in a majority. A majority of INEDs has been observed in all MLEs' industries, except in the technology industry where NEDs are in the majority. Moreover, minimal changes in the Board mix have been noted in the years 2018-2022. The most relevant entity-specific factors affecting the Board mix of MLEs are the scope and complexity of the entity's operations, followed by CEO entrenchment. Moreover, the director-specific factors which affect the Board mix of MLEs are the directors' knowledge on the entity's key functions including their skills and competencies, and nationality. The findings also indicate that the Board mix contributes to good CG. In the first instance, NEDs/INEDs play a pivotal role in strategy formulation while EDs contribute towards executing the strategy. Secondly, NEDs/INEDs tend to have a determined effort to prevent and detect corporate irregularities, although EDs' daily involvement in the entity may also contribute in this regard. Thirdly, NEDs/INEDs, particularly those sitting on the audit committee, contribute towards enhanced transparency in financial reporting. However, NEDs/INEDs with multiple commitments may impair such valuable contribution to the entity, unless they limit the number of commitments to the extent of enabling them to properly fulfil their duties.

6.3 Conclusions

This study concludes that INEDs are appreciated in Boards of MLEs as a result of pressures imposed by regulators and shareholders. However, Maltese family-owned entities seem to be slower in opening up to NEDs/INEDs. There are wide divergences in the Board mix amongst MLEs and these imply that no one optimal Board mix may be prescribed for all MLEs. Indeed, the Board mix in the Maltese context is affected by both entity-specific and director-specific factors. One factor that results in onboarding more NEDs/INEDs is the entity's scope and complexity arising from the entity's size, age and new products or geographical areas. Another pertinent entity-specific factor in the Maltese context is CEO entrenchment resulting from CEO part share ownership, the entity's performance and the CEO also being an ED. Board size also seems to affect the Board mix but exceptions prevail in family-controlled and heavily-regulated MLEs. With regard to the director-specific factors, the study concludes that one director cannot be an expert in all areas and so entities composing the Board mix should include directors that collectively cover a wide range of skills and competencies. Moreover, Malta-residing NEDs/INEDs have a closer relationship with EDs than those residing abroad and so the former tend to be preferred over non-resident ones.

Therefore, whilst a specific standard Board mix may be recommended, imposing it as a prescription to be followed strictly by all MLEs may not be beneficial as this may prevent them from adapting the Board mix to suit their specific needs. Yet, prescribing a Board mix for a specific industry, such as for the banking or insurance industries, is not to be excluded. Moreover, this study concludes that the present Code recommendation for at least one-third of the Board to be NEDs/INEDs is too low and it is high time for such a proportion to be increased for these to become the Board majority. Additionally, the difference between NEDs and INEDs needs to be further clarified.

The presence of NEDs/INEDs in the boardroom only contributes to good CG if they actively carry out their duties rather than act as mere figureheads. Clearly, the quality aspects of NEDs/INEDs are important attributes that entities need to take into account if they are to achieve an effective mix. In particular, while active NEDs/INEDs do aid in the formulation of the needed strategy, the study concludes that they also have to extend their contribution towards guiding EDs and management in the execution of such strategy. Furthermore, by asking the appropriate questions, NEDs/INEDs may place themselves in a better position to prevent and detect corporate irregularities and to enhance transparency in financial reporting. As for the implications of NEDs/INEDs having multiple commitments, these are not necessarily more negative than positive as such commitments may in fact be both a boon and a scourge to CG. Therefore, while the introduction of a limitation in the number of multiple commitments in the Code may not in itself be beneficial, both prospective NEDs/INEDs and the entities themselves may still play a crucial part in limiting as far as possible, if not completely eliminating, the negative implications of such multiple commitments.

6.4 Recommendations

This study recommends that:

A. MLEs step up their efforts in sourcing directors with different skills and competencies insofar as is practicable *(S.5.3.4)*

It is recommended that entities tap more deeply into all the relevant segments of society, some of which are as yet partly underutilised, in an attempt to compose a Board wherein directors cover a wider array of skills and competencies.

B. NEDs/INEDs residing in Malta interact more with those residing abroad *(S.5.3.4)*

Ideally, not all NEDs/INEDs should reside abroad because, although those residing abroad may prove to be beneficial to the entity, they commonly lack national connections and updated specific information on the Maltese corporate scenario. Therefore, NEDs/INEDs residing in Malta may improve on this by being expected to communicate regularly with those residing abroad to update them on any changes in the entity's environment.

C. NEDs/INEDs go beyond strategy formulation and also contribute to its execution *(S.5.4.1)*

Although NEDs/INEDs are already main contributors in the formulation of their respective MLE strategy, it is recommended that they also follow closely on its execution and, if need be, take timely action to adjust the initially proposed strategy. Such contribution may be given without NEDs/INEDs taking over the responsibilities of EDs and management or hindering them from fulfilling such responsibilities.

D. Both prospective NEDs/INEDs and entities take into account the multiple commitments of such NEDs/INEDs prior to their definite engagement *(S.5.4.4)*

It is recommended that MLEs explain in detail to prospective NEDs/INEDs – preferably in writing – their expected duties prior to their effective engagement. On their part, such prospective NEDs/INEDs need to understand fully what will be expected of them and to carefully estimate the time entailed in order to fulfil such expectations. Both parties will then only proceed with the new engagement if both the MLEs and the prospective NEDs/INEDs themselves are convinced that the latter are in a reasonable position to devote adequate time towards fulfilling such duties.

E. NEDs/INEDs are appointed on a one-year probationary period and then possibly confirmed on a longer tenure *(S.5.4.6)*

This study concludes that the proven quality of NEDs/INEDs is at least as important an attribute as their number mix. One may therefore consider changing the appointments of new NEDs/INEDs to a one-year probationary period and, subject to their performance being proven to be sufficiently satisfactory to the appropriate authority (for example, independent consultants), then confirm them for a longer tenure, say for three to seven years.

F. the Code stipulates the minimum requirements for directors of MLEs *(S.5.4.6)*

At present, any individual may sit on an MLE Board. However, it is recommended that, in addition to the minimum proportion of NEDs/INEDs, the Code stipulates other minimum requirements such as the minimum level of skills and competencies that each NED/INED needs to possess. This increases the possibility that all NEDs/INEDs sitting in the boardroom will add their valuable contributions to their entity.

G. the Code's minimum recommendation for one-third of the Board to be NEDs/INEDs is increased *(S.5.4.9)*

It is recommended that the Code increases its present minimum recommended proportion of NEDs/INEDs of one-third in such a way that these ultimately form a majority in the Board mix. Such a change would probably need to be implemented in a number of stages over the years. In order to retain enough flexibility for the varying MLE circumstances, MLEs may also be permitted not to attain such a majority of NEDs/INEDs given that they present a thorough justification to the Regulator/s.

H. the Code incorporates a clear distinction between NEDs and INEDs *(S.5.4.9)*

In addition to the Code's recommendation for most NEDs to be INEDs, there needs to be a clearer distinction between the two types of directors. The Code may set out more detailed criteria illustrated with examples as to when directors are to be classified as NEDs or INEDs. This would ensure that MLEs have a common understanding of each type of director.

6.5 Areas for Further Research

This study recommends the following areas for further research:

A. The Board Mix in Large Maltese Family Entities: A Study *(S.5.2.1)*

Such a study may examine whether large unlisted family entities are on a slower or quicker pace than MLEs towards achieving their optimal Board mix. It may also consider whether the factors affecting such Board mix differ from those of MLEs.

B. The Board Mix in MLEs and its Implications on Bank Borrowing *(S.5.3.1)*

This study has indicated that financial institutions may not be giving due importance to the Board mix in their decision to lend funds to MLEs. Therefore, a further study may delve into the perceptions of such financial institutions on the Board mix of MLEs, particularly those approaching them to borrow and the reasons thereof.

C. CEO Entrenchment and its Implications on CG: the pluses and the minuses *(S.5.3.2)*

This study may analyse in more detail the impact of CEO entrenchment on the CG of MLEs by extracting both the positive and negative aspects of such CEO entrenchment. In particular, it would seek to determine whether the CG positive implications outweigh the negative ones.

D. Interactions in the MLE Boardrooms and their Implications on Board Effectiveness: An Analysis *(S.5.4.5)*

One may study how the interactions between EDs and NEDs may differ, if in any way, from those between EDs and INEDs and the implications of such differences on Board effectiveness.

E. The Skills and Competencies of MLE Directors: A Case for Regulation? *(S.5.4.6)*

This study may delve into the multiple skills and competencies of Board directors which are necessitated by MLEs and consider whether any such skills and competencies should be prescribed by the Listing Rules or recommended by the Code.

6.6 Concluding Remarks

A balanced Board mix is a major, yet one, medicine prescribed to an entity for it to be helped in controlling its management from acting in its own interests and also having its Board acting in the best interests of the entity's shareholders. Furthermore, by understanding and analysing the various factors that affect the Board mix as well as their ensuing implications on CG, entities will have a better chance to improve on their position to work towards more effective CG at Board level. Yet, of course, the Board mix in itself is never the panacea for good CG. After all, as stated by one respondent, *"Medicine may be helpful, and yet does not cure every underlying health problem"*.

References

General

ADAMS, R.B. and FERREIRA, D., 2009. Women in the boardroom and their impact on governance and performance. *Journal of financial economics,* 94(2), pp. 291-309. DOI: 10.1016/j.jfineco.2008.10.007.

AGRAWAL, A. and KNOEBER, C.R., 2001. Do Some Outside Directors Play a Political Role? *Journal of Law & Economics,* 44(1), pp. 179-198. DOI: 10.1086/320271.

AGUILERA, R.V., 2005. Corporate Governance and Director Accountability: an Institutional Comparative Perspective. *British journal of management,* 16(1), pp. S39-S53. DOI: 10.1111/j.1467-8551.2005.00446.x.

AHMED, K., HOSSAIN, M. and ADAMS, M.B., 2006. The Effects of Board Composition and Board Size on the Informativeness of Annual Accounting Earnings. *Corporate governance : an international review,* 14(5), pp. 418-431. DOI: 10.1111/j.1467-8683.2006.00515.x.

AMEER, R., RAMLI, F. and ZAKARIA, H., 2010. A new perspective on board composition and firm performance in an emerging market. *Corporate governance (Bradford),* 10(5), pp. 647-661. DOI: 10.1108/14720701011085607.

ANDERSON, R.C., REEB, D.M., UPADHYAY, A. and ZHAO, W., 2011. The Economics of Director Heterogeneity. *Financial management,* 40(1), pp. 5-38. DOI: 10.1111/j.1755-053X.2010.01133.x.

ARMSTRONG, C.S., GUAY, W.R. and WEBER, J.P., 2010. The role of information and financial reporting in corporate governance and debt contracting. *Journal of accounting & economics,* 50(2), pp. 179-234. DOI: 10.1016/j.jacceco.2010.10.001.

AZLAN ANNUAR, H., 2014. Independent non-executive directors strategic role – some evidence from Malaysia. *Corporate governance (Bradford),* 14(3), pp. 339-351. DOI: 10.1108/CG-10-2011-0075.

AZZOPARDI, J., 2012. The Board/Management Relationship Aspect of Corporate Governance in Maltese Listed Companies. Masters of Arts in Financial Services Dissertation, Malta: University of Malta. Available: https://www.um.edu.mt/library/oar//handle/123456789/5919.

BALDACCHINO, P.J., 2007. *An EU-inspired corporate governance statement for Maltese listed companies - boon or scourge?* University of Malta. European Documentation and Research Centre, pp. 161-167.

BALDACCHINO, P.J., 2017. *External Auditing and Corporate Governance Perspectives in a Small State : the Case of Malta*. Doctoral Dissertation, United Kingdom: Loughborough University. Available: https://www.um.edu.mt/library/oar/bitstream/123456789/97021/1/External_auditing_and_corporate_governance_perspectives_in_a_small_state_the_case_of_Malta_Doctoral_dissertation_2017.pdf.

BALDACCHINO, P.J., CALLUS, A., TABONE, N., ELLUL, L. and GRIMA, S., 2022. The Barriers and Effectiveness of Management Monitoring by Maltese Listed Boards. *International Journal of Finance, Insurance and Risk Management,* 13(2), pp. 106-141.

BALDACCHINO, P.J., CAMILLERI, J., TABONE, N. and GRIMA, S., 2020. An Analysis of the Board of Directors Composition: The Case of Maltese Listed Companies. *International Journal of Finance, Insurance and Risk Management,* 10(1), pp. 25-44.

BALDACCHINO, P.J., DUCA, N., TABONE, N. and GRIMA, S., 2020. Corporate Governance Transparency in Small Listed Entities: The Case of Malta. *European Research Studies Journal,* 23(2), pp. 22-42. DOI: 10.35808/ersj/1578.

BAYSINGER, B.D. and BUTLER, H.N., 1985. Corporate Governance and the Board of Directors: Performance Effects of Changes in Board Composition. *Journal of law, economics, & organization,* 1(1), pp. 101-124. DOI: 10.1093/oxfordjournals.jleo.a036883.

BEINER, S., DROBETZ, W., SCHMID, F. and ZIMMERMANN, H., 2004. Is Board Size an Independent Corporate Governance Mechanism? *Kyklos (Basel),* 57(3), pp. 327-356. DOI: 10.1111/j.0023-5962.2004.00257.x.

BEZZINA, F.H., BALDACCHINO, P.J. and AZZOPARDI, J.R., 2014. The corporate governance relationship between the board and management in Maltese listed companies. *Rethinking corporate governance.* Pearson, pp. 1-15.

BHAGAT, S. and BLACK, B., 2002. The non-correlation between board independence and long-term firm performance. *The Journal of corporation law,* 27(2), pp. 231-273.

BOONE, A.L., CASARES FIELD, L., KARPOFF, J.M. and RAHEJA, C.G., 2007. The determinants of corporate board size and composition: An empirical analysis. *Journal of financial economics,* 85(1), pp. 66-101. DOI: 10.1016/j.jfineco.2006.05.004.

BOROKHOVICH, K.A., BOULTON, T.J., BRUNARSKI, K.R. and HARMAN, Y.S., 2014. The incentives of grey directors: Evidence from unexpected executive and board chair turnover. *Journal of corporate finance (Amsterdam, Netherlands),* 28, pp. 102-115. DOI: 10.1016/j.jcorpfin.2013.11.015.

BUSHMAN, R., CHEN, Q., ENGEL, E. and SMITH, A., 2004. Financial accounting information, organizational complexity and corporate governance systems. *Journal of accounting & economics,* 37(2), pp. 167-201. DOI: 10.1016/j.jacceco.2003.09.005.

CAMENZULI, K., 2017-last update, Determining the effectiveness of a board of directors [Times of Malta], [Online]. Available: https://timesofmalta.com/articles/view/determining-the-effectiveness-of-a-board-of-directors.665414 [Feb 11, 2023].

CARCELLO, J.V. and NEAL, T.L., 2000. Audit Committee Composition and Auditor Reporting. *The Accounting review,* 75(4), pp. 453-467. DOI: 10.2308/accr.2000.75.4.453.

CARUANA, D., 2017-last update, Listed Companies - the Board Composition [Rizzo Farrugia], [Online]. Available: https://rizzofarrugia.com/published-articles/monthly/listed-companies-the-board-composition/ [Aug 2, 2022].

CHEFFINS, B.R., 2009. Did Corporate Governance "Fail" During the 2008 Stock Market Meltdown? The Case of the S&P 500. *SSRN Electronic Journal,* 65(1), pp. 1-65. DOI: 10.2139/ssrn.1396126.

CHUNG, C.Y., LIU, C. and PAUL, D.L., 2019. Do Firms Seek A Target Board Structure? Evidence From The Post-Sox Period. *The Journal of financial research,* 42(2), pp. 361-381. DOI: 10.1111/jfir.12173.

CICERO, D., WINTOKI, M.B. and YANG, T., 2013. How do public companies adjust their board structures? *Journal of corporate finance (Amsterdam, Netherlands),* 23, pp. 108-127. DOI: 10.1016/j.jcorpfin.2013.08.001.

COLES, J.L., DANIEL, N.D. and NAVEEN, L., 2008. Boards: Does one size fit all? *Journal of financial economics,* 87(2), pp. 329-356. DOI: 10.1016/j.jfineco.2006.08.008.

CORTESE, C., 2009. A Profile of the Non-Executive Directors of Australia's Largest Companies. *Australian accounting review,* 19(1), pp. 33-41. DOI: 10.1111/j.1835-2561.2008.00043.x.

CRESWELL, J.W., 2015. *A concise introduction to mixed methods research.* Los Angeles | London | New Delhi | Singapore | Washington, DC: SAGE.

DAHYA, J. and MCCONNELL, J.J., 2005. Outside directors and corporate board decisions. *Journal of corporate finance (Amsterdam, Netherlands),* 11(1-2), pp. 37-60. DOI: 10.1016/j.jcorpfin.2003.10.001.

DENG, C., KANAGARETNAM, K. and ZHOU, Z., 2020. Do Locally Based Independent Directors Reduce Corporate Misconduct? Evidence from Chinese Listed Firms. *Journal of International Accounting Research,* 19(3), pp. 61-90. DOI: 10.2308/JIAR-19-513.

DIBRA, R., 2016. Corporate governance failure: The case of Enron and Parmalat. *European Scientific Journal,* 12(16), pp. 283-290. DOI: 10.19044/esj.2016.v12n16p283.

DUCHIN, R., MATSUSAKA, J.G. and OZBAS, O., 2010. When are outside directors effective? *Journal of financial economics,* 96(2), pp. 195-214. DOI: 10.1016/j.jfineco.2009.12.004.

ELLUL, C., 2007. *The role of the Non-Executive Director within the Corporate Governance Framework of Maltese Listed Companies*. M.A. Dissertation, Malta: University of Malta. Available:

https://www.um.edu.mt/library/oar/bitstream/123456789/81677/1/B.ACCTY.%28HONS%29_Ellul_Christian_2007.pdf.

FAIRFAX, L.M., 2010. The uneasy case for the inside director. *Iowa law review,* 96(1), pp. 127.

FARRUGIA, S.J., 2022-last update, Corporate Governance And The Importance Of Board Meetings [Times of Malta], [Online]. Available: https://timesofmalta.com/articles/view/corporate-governance-and-the-importance-of-board-meetings-sacha.945192?fbclid=IwAR2LjRTHKbHGbxgIlbI8FYUMO6vq4jr3rx5f4Hsqcvp3cLXy0UpmaDsXdrI [Jul 27, 2022].

FERNÁNDEZ-TEMPRANO, M.,A. and TEJERINA-GAITE, F., 2020. Types of director, board diversity and firm performance. *Corporate governance (Bradford),* 20(2), pp. 324-342. DOI: 10.1108/CG-03-2019-0096.

FICH, E.M. and SHIVDASANI, A., 2006. Are Busy Boards Effective Monitors? *The Journal of Finance (New York),* 61(2), pp. 689-724. DOI: 10.1111/j.1540-6261.2006.00852.x.

FIELD, L., LOWRY, M. and MKRTCHYAN, A., 2013. Are busy boards detrimental? *Journal of financial economics,* 109(1), pp. 63-82. DOI: 10.1016/j.jfineco.2013.02.004.

FIROOZI, M., MAGNAN, M. and FORTIN, S., 2019. Does proximity to corporate headquarters enhance directors' monitoring effectiveness? A look at financial reporting quality. *Corporate governance: an international review,* 27(2), pp. 98-119. DOI: 10.1111/corg.12264.

FOO, Y. and ZAIN, M.M., 2010. Board independence, board diligence and liquidity in Malaysia: A research note. *Journal of contemporary accounting & economics,* 6(2), pp. 92-100. DOI: 10.1016/j.jcae.2010.10.001.

FOX, M.A., 1998. *Boards of directors : the influence of board size, leadership and composition on corporate financial performance.* Lincoln University. Commerce Division.

FRAILE, I.A. and FRADEJAS, N.A., 2012. The effect of the monitoring function and advisory function on board structure. *Revista española de financiación y contabilidad,* 41(153), pp. 9-38. DOI: 10.1080/02102412.2012.10779717.

FRYE, M.B. and PHAM, D.T., 2018. CEO Gender and Corporate Board Structures. *The Quarterly Review of Economics and Finance,* 69, pp. 110-124. DOI: 10.1016/j.qref.2017.12.002.

FUZI, S.F.S., HALIM, S.A.A. and JULIZAERMA, M.K., 2016. Board Independence and Firm Performance. *Procedia economics and finance,* 37, pp. 460-465. DOI: 10.1016/S2212-5671(16)30152-6.

GARCÍA MARTÍN, C.J. and HERRERO, B., 2018. Boards of directors: composition and effects on the performance of the firm. *Economic research - Ekonomska istraživanja,* 31(1), pp. 1015-1041. DOI: 10.1080/1331677X.2018.1436454.

GARNER, J., KIM, T. and KIM, W.Y., 2017. Board of Directors: a literature review. *Managerial Finance,* 43(10), pp. 1189-1198. DOI: 10.1108/MF-07-2017-0267.

GOWER, L.C. and DAVIES, P.L., 2003. *Gower & Davies' principles of modern company law.* London: Sweet & Maxwell.

HARRIS, I.C. and SHIMIZU, K., 2004. Too Busy To Serve? An Examination of the Influence of Overboarded Directors. *Journal of management studies,* 41(5), pp. 775-798. DOI: 10.1111/j.1467-6486.2004.00453.x.

HE, E. and SOMMER, D.W., 2010. Separation of Ownership and Control: Implications for Board Composition. *The Journal of Risk and Insurance,* 77(2), pp. 265-295. DOI: 10.1111/j.1539-6975.2010.01351.x.

HIGGS, D., 2003. *Review of the role and effectiveness of non-executive directors.* London: DTI.

HIROSE, M. and CRESWELL, J.W., 2023. Applying Core Quality Criteria of Mixed Methods Research to an Empirical Study. *Journal of Mixed Methods Research,* 17(1), pp. 12-28. DOI: 10.1177/15586898221086346.

HODGE, C., 2021. Board composition. In: C. Fargeot and C. Valeur, ed, *Effective Directors: The Right Questions to Ask (QTA)*. London: Routledge, pp. 3-8. DOI: 10.4324/9781003201182.

HOOGHIEMSTRA, R. and VAN MANEN, J., 2004. The Independence Paradox: (im)possibilities facing non-executive directors in The Netherlands. *Corporate governance: an international review,* 12(3), pp. 314-324. DOI: 10.1111/j.1467-8683.2004.00372.x.

HSU, H. and WU, C.Y., 2014. Board composition, grey directors and corporate failure in the UK. *The British accounting review,* 46(3), pp. 215-227. DOI: 10.1016/j.bar.2013.12.002.

JENSEN, M.C., 1993. The Modern Industrial Revolution, Exit, and the Failure of Internal Control Systems. *The Journal of finance (New York),* 48(3), pp. 831-880. DOI: 10.1111/j.1540-6261.1993.tb04022.x.

JOHNSON, R.B., ONWUEGBUZIE, A.J. and TURNER, L.A., 2007. Toward a Definition of Mixed Methods Research. *Journal of Mixed Methods Research,* 1(2), pp. 112-133. DOI: 10.1177/1558689806298224.

KANG, H., CHENG, M. and GRAY, S.J., 2007. Corporate Governance and Board Composition: diversity and independence of Australian boards. *Corporate governance: an international review,* 15(2), pp. 194-207. DOI: 10.1111/j.1467-8683.2007.00554.x.

KIM, H. and LIM, C., 2010. Diversity, outside directors and firm valuation: Korean evidence. *Journal of business research,* 63(3), pp. 284-291. DOI: 10.1016/j.jbusres.2009.01.013.

LAHLOU, I., 2018. Determinants of Board Size, Composition and Leadership. *Corporate Board of Directors.* Cham: Springer International Publishing, pp. 29-67. DOI: 10.1007/978-3-030-05017-7_2.

LEHN, K.M., PATRO, S. and ZHAO, M., 2009. Determinants of the Size and Composition of US Corporate Boards: 1935-2000. *Financial management,* 38(4), pp. 747-780. DOI: 10.1111/j.1755-053X.2009.01055.x.

LINCK, J.S., NETTER, J.M. and YANG, T., 2008. The determinants of board structure. *Journal of financial economics,* 87(2), pp. 308-328. DOI: 10.1016/j.jfineco.2007.03.004.

MAGNANELLI, B.S. and PIROLO, L., 2021. *Corporate governance and diversity in boardrooms.* Cham: palgrave macmillan. DOI: 10.1007/978-3-030-56120-8.

MAK, Y.T. and ROUSH, M.L., 2000. Factors Affecting the Characteristics of Boards of Directors: An Empirical Study of New Zealand Initial Public Offering Firms. *Journal of business research,* 47(2), pp. 147-159. DOI: 10.1016/S0148-2963(98)00040-X.

MALTA FINANCIAL SERVICES AUTHORITY (MFSA), 2020. *Stakeholder Consultation on Revisiting the Corporate Governance Framework for Entities Authorised by the MFSA And Listed Companies*. Malta: MFSA.

MASULIS, R.W., WANG, C. and XIE, F., 2012. Globalizing the boardroom - The effects of foreign directors on corporate governance and firm performance. *Journal of Accounting & Economics,* 53(3), pp. 527-554. DOI: 10.1016/j.jacceco.2011.12.003.

MCCABE, M. and NOWAK, M., 2008. The independent director on the board of company directors. *Managerial Auditing Journal,* 23(6), pp. 545-566. DOI: 10.1108/02686900810882101.

MCINTOSH, M.J. and MORSE, J.M., 2015. Situating and Constructing Diversity in Semi-Structured Interviews. *Global qualitative nursing research,* 2, pp. 1-12. DOI: 10.1177/2333393615597674.

MERENDINO, A. and MELVILLE, R., 2019. The board of directors and firm performance: empirical evidence from listed companies. *Corporate governance (Bradford),* 19(3), pp. 508-551. DOI: 10.1108/CG-06-2018-0211.

MONEM, R.M., 2013. Determinants of board structure: Evidence from Australia. *Journal of contemporary accounting & economics,* 9(1), pp. 33-49. DOI: 10.1016/j.jcae.2013.01.001.

NEVILLE, F., BYRON, K., POST, C. and WARD, A., 2019. Board Independence and Corporate Misconduct: A Cross-National Meta-Analysis. *Journal of management,* 45(6), pp. 2538-2569. DOI: 10.1177/0149206318801999.

ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD), 2021. *OECD Corporate Governance Factbook 2021*. Italy: OECD Publishing.

PASCUAL-FUSTER, B. and CRESPÍ-CLADERA, R., 2022. Optimal board independence with gray independent directors. *Business research quarterly,* 25(2), pp. 193-209. DOI: 10.1177/2340944420940313.

PASS, C., 2004. Corporate governance and the role of non-executive directors in large UK companies: an empirical study. *Corporate governance (Bradford),* 4(2), pp. 52-63. DOI: 10.1108/14720700410534976.

PYE, A. and CAMM, G., 2003. Non-Executive Directors: Moving beyond the 'One-size-fits-all' View 1. *Journal of general management,* 28(3), pp. 52-70. DOI: 10.1177/030630700302800304.

RAHEJA, C.G., 2005. Determinants of Board Size and Composition: A Theory of Corporate Boards. *Journal of financial and quantitative analysis,* 40(2), pp. 283-306. DOI: 10.1017/S0022109000002313.

RHOADES, D.L., RECHNER, P.L. and SUNDARAMURTHY, C., 2000. Board Composition And Financial Performance: A Meta-Analysis Of The Influence Of Outside Directors. *Journal of managerial issues,* 12(1), pp. 76-91.

ROBERTS, J., MCNULTY, T. and STILES, P., 2005. Beyond Agency Conceptions of the Work of the Non-Executive Director: Creating Accountability in the Boardroom. *British Journal of Management,* 16, pp. S5-S26. DOI: 10.1111/j.1467-8551.2005.00444.x.

SANT, I., 2003. *The New Code of Principles of Good Corporate Governance and its implications for Maltese Listed Companies*. M.A. Dissertation, Malta: University of Malta. Available: https://www.um.edu.mt/library/oar/bitstream/123456789/82750/1/B.ACCTY.%28HONS%29_Sant_Isabel_2003.pdf.

SARKAR, J., 2009. Board Independence & Corporate Governance in India: Recent Trends & Challenges Ahead. *Indian journal of industrial relations,* 44(4), pp. 576-592.

SAUNDERS, M., LEWIS, P. and THORNHILL, A., 2016. *Research methods for business students.* Harlow: Pearson Education.

SCHMIDT, S.L. and BRAUER, M., 2006. Strategic Governance: how to assess board effectiveness in guiding strategy execution. *Corporate governance: an international review,* 14(1), pp. 13-22. DOI: 10.1111/j.1467-8683.2006.00480.x.

SEED, 2021. *Glass walls and ceilings in Malta's listed companies*. Malta: SEED.

ŞENER, İ, VAROĞLU, A. and AREN, S., 2011. Board Composition and Organizational Performance: Environmental Characteristics Matter. *Procedia - Social and Behavioral Sciences,* 24, pp. 1481-1493. DOI: 10.1016/j.sbspro.2011.09.130.

SHAKIR, R., 2008. Board Size, Executive Directors and Property Firm Performance in Malaysia. *Pacific Rim Property Research Journal,* 14(1), pp. 66-80. DOI: 10.1080/14445921.2008.11104248.

SHIRWA, H.A. and ONUK, M., 2020. Corporate Governance Models and the Possibility of Future Convergence. *Journal of Corporate Governance Research,* 4(1), pp. 18-34. DOI: 10.5296/jcgr.v4i1.17057.

TABASSUM, N. and SINGH, S., 2020. *Corporate Governance and Organisational Performance : The Impact of Board Structure.* 1st ed. 2020. edn. Cham: Springer International Publishing. DOI: 10.1007/978-3-030-48527-6.

TERJESEN, S., COUTO, E.B. and FRANCISCO, P.M., 2015. Does the presence of independent and female directors impact firm performance? A multi-country study of board diversity. *Journal of Management and Governance,* 20(3), pp. 447-483. DOI: 10.1007/s10997-014-9307-8.

VELLA CARDONA, M., 2022-last update, Women on Board [Times of Malta], [Online]. Available: https://timesofmalta.com/articles/view/women-board.970883 [Aug 17, 2022].

WAHYUNI, D., 2012. The Research Design Maze: Understanding Paradigms, Cases, Methods and Methodologies. *Journal of Applied Management Accounting Research,* 10(1), pp. 69.

WEARING, C.A. and WEARING, B., 2004. Between glass ceilings: Female non-executive directors in UK quoted companies. *International Journal of Disclosure and Governance,* 1(4), pp. 355-371. DOI: 10.1057/palgrave.jdg.2040036.

WELLS, H., 2010. The Birth of Corporate Governance. *Seattle University Law Review,* 33(4), pp. 1247-1292.

WILSON, D., 2009-last update, Corporate governance after the global financial crisis [Times of Malta], [Online]. Available: https://timesofmalta.com/articles/view/corporate-governance-after-the-global-financial-crisis.274620 [Feb 22, 2022].

WORLD BANK, 2021-last update, Link to Small States Forum Members Information by Country. Available: https://thedocs.worldbank.org/en/doc/922761504726183951-0290022020/original/CountrylinksofSmallStates.pdf [Feb 24, 2022].

YILMAZ, K., 2013. Comparison of Quantitative and Qualitative Research Traditions: epistemological, theoretical, and methodological differences. *European journal of education,* 48(2), pp. 311-325. DOI: 10.1111/ejed.12014.

ZAHRA, S.A. and PEARCE, J.A., 1989. Boards of Directors and Corporate Financial Performance: A Review and Integrative Model. *Journal of management,* 15(2), pp. 291-334. DOI: 10.1177/014920638901500208.

ZATTONI, A. and CUOMO, F., 2010. How Independent, Competent and Incentivized Should Non-executive Directors Be? An Empirical Investigation of Good Governance Codes. *British journal of management,* **21**(1), pp. 63-79. DOI: 10.1111/j.1467-8551.2009.00669.x.

Regulatory

CADBURY, A., 1992. *Report of the Committee on the Financial Aspects of Corporate Governance*. London: Gee.

Companies Act 1995 (c. 386 of the Laws of Malta). Malta: The Legislation Unit.

Financial Markets Act 1991 (c. 345 of the Laws of Malta). Malta: The Legislation Unit.

LISTING AUTHORITY – MALTA, 2021. *Listing Rules*. Malta: MFSA.

MALTA FINANCIAL SERVICES AUTHORITY (MFSA), 2011. *The Code of Principles of Good Corporate Governance for Listed Entities*. Malta: MFSA.

MALTA BUSINESS REGISTRY (MBR), 2023-last update, Company Search [MBR], [Online]. Available: https://registry.mbr.mt/ROC/index.jsp#companySearch.do?action=companyDet%20ails [Mar 31, 2023].

MALTA STOCK EXCHANGE (MSE) n.d. *Principles of Good Corporate Governance.* Valletta: Malta Stock Exchange Prospects.

MALTA STOCK EXCHANGE (MSE), 2023-last update, Official List [MSE], [Online]. Available: https://cdn.borzamalta.com.mt/download/Official_list/official_list.pdf [Mar 31, 2023].

ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD), 2015. *G20/OECD Principles of Corporate Governance*. Paris: OECD Publishing.

Sarbanes, P. (2002). Sarbanes-Oxley Act, 2002. In *The Public Company Accounting Reform and Investor Protection Act*. Washington DC: US Congress.

Appendices

Appendix 1.1 List of MLEs

This Appendix inscribes the entities whose equity was listed on the Official List of the MSE as of 31st March 2023.

1. Bank of Valletta p.l.c.
2. HSBC Bank Malta p.l.c.
3. Lombard Bank Malta p.l.c.
4. Mapfre Middlesea p.l.c.
5. Simonds Farsons Cisk p.l.c.
6. GO p.l.c.
7. International Hotel Investments p.l.c.
8. Plaza Centres p.l.c.
9. Lifestar Holding p.l.c.
10. Lifestar Insurance p.l.c.
11. FIMBank p.l.c.
12. Malta International Airport p.l.c.
13. Santumas Shareholdings p.l.c.
14. Medserv Regis p.l.c.
15. Grand Harbour Marina p.l.c.
16. MaltaPost p.l.c.
17. RS2 Software p.l.c.
18. MIDI p.l.c.
19. Malita Investments p.l.c.
20. Tigne Mall p.l.c.
21. Hili Properties p.l.c.
22. Malta Properties Company p.l.c.
23. PG p.l.c.
24. Trident Estates p.l.c.
25. Main Street Complex p.l.c.
26. BMIT Technologies p.l.c.
27. Harvest Technology p.l.c.
28. APS Bank p.l.c.
29. VBL p.l.c.
30. AX Real Estate p.l.c.
31. M&Z p.l.c.

Appendix 2.1 Literature Findings on Board Mix

Study	Country	Period covered	EDs (%)	NEDs (%)	INEDs (%)
Baysinger and Butler (1985)	US	1970 - 1980	**54 → 43**	26 → 26	20 → 31
Bhagat and Black (2002)	US	1991	23	13	**64**
Pass (2004)	UK	2001 - 2002	46	**54**	
Fich and Shivdasani (2006)	US	1989 - 1995	30	15	**55**
Kang, Cheng et al. (2007)	Australia	2003	23.54	11.83	**64.63**
Coles, Daniel et al. (2008)	/	1992 - 2001	20	**80**	
Shakir (2008)	Malaysia	1999 - 2005	36.6	**63.4**	
Linck, Netter et al. (2008)	US	1990 - 2004	34.3	**65.7**	
Sarkar (2009)	India	2003 -2007	28.73	18.43	**52.84**
Frye and Pham (2018)	/	1996 - 2016	27.8	**72.2**	
Lahlou (2018)	US	1997 - 2010	21	**69**	
Chung, Liu et al. (2019)	US	2003 - 2014	23.33 → 15.09	17.32 → 4.52	**59.35 → 80.32**
Fernández-Temprano, Tejerina-Gaite (2020)	Spain	2005 – 2015	19 → 17	**81 → 83**	

Table A2.1: Findings of studies that examined the Board mix

Table A2.1 shows the Board mix discerned by various researchers in different countries over time. Most studies took place in US and these are highlighted in blue. The figure in **bold** represents the majority type of director.

Appendix 2.2 Minimum thresholds of NEDs/INEDs Across the Globe

Country	No threshold	Minimum number		Minimum ratio			Required/ Recommended
		1	2 – 3	20 – 25%	30 – 49%	50%+	
Argentina						✓	Recommended
Australia						✓	Recommended
Austria						✓	Recommended
Belgium			✓				Required
Brazil				✓	✓		33% is recommended but 20% is required for entities that adhere to B3 governance special segment listing rules.
Canada			✓				Required
Chile		✓					Required
China					✓		Required
Colombia				✓			Required
Costa Rica			✓				Required
Czech Republic	✓						
Denmark						✓	Recommended
Estonia						✓	Recommended
Finland						✓	Recommended
France					✓	✓	Recommended
Germany	✓						
Greece			✓				Required
Hong Kong (China)			✓		✓		Required
Hungary						✓	Required
Iceland						✓	Recommended
India					✓	✓	Required
Indonesia					✓		Required
Ireland						✓	Recommended
Israel					✓	✓	Recommended
Italy		✓	✓				1 NED/INED required but 2 recommended if the Board size > 7

Japan			✓				Required
Korea						✓	Required
Latvia						✓	Recommended
Lithuania					✓		Required
Luxembourg	✓						
Malaysia			✓		✓		Required
Mexico				✓			Required
Netherlands						✓	Recommended
New Zealand			✓			✓	At least 2 NEDs/INEDs a required but majority recommended
Norway			✓			✓	At least 2 NEDs/INEDs are required but majority recommended
Peru					✓		Recommended
Poland			✓				Recommended
Portugal						✓	Recommended
Russia			✓	✓			Required
Saudi Arabia			✓		✓		Required
Singapore					✓	✓	Required but majority recommended if the chairperson is not independent
Slovak Republic	✓						
Slovenia						✓	Recommended
South Africa						✓	Required
Spain			✓				Required
Sweden						✓	Recommended
Switzerland						✓	Recommended
Turkey			✓		✓		Recommended
United Kingdom						✓	Recommended
United States						✓	Required

Table A2.2: Minimum thresholds of NEDs/INEDs on the Board across the globe
Amended from OECD 2021 p. 142

Table A2.2 shows the minimum number or ratio of NEDs/INEDs that is required or recommended in different countries.

Appendix 3.1 Interview Schedule

This appendix presents the interview schedule that was used in the interviews conducted during this dissertation. The responses for the Likert scale questions are also presented in *italics* and **bold**.

Section 1: Board Mix

1. Kindly indicate the number of directors that fall under each category.

a. Board size *(see def 1)*: _______			
b. Board mix *(see def 2)*:	EDs ☐	NEDs ☐	INEDs ☐
c. Entity's industry: ____________________			
d. Directors' tenure:	< 5 years ☐	5 -12 years ☐	> 12 years ☐
e. Directors' gender:	Male ☐	Female ☐	Other ☐
f. Directors' nationality:	Maltese ☐	Other ☐	

2. a. Either to MLE representatives – Has the Board mix of your entity changed in the years 2018-2022?
   Or to CGEs – Has the Board mix of MLEs in general changed in the years 2018-2022?
   b. If yes, how?
   c. What do you believe were the drivers that induced such a change?

Section 2: Factors affecting the Board Mix

3. To what extent do you agree with the following statements? Kindly rate from 0 to 4 *(with 0 being strongly disagree and 4 being strongly agree)* as shown in Section A2, adding comments, if any.

	Number of interviewees = 31				
	Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
a. Scope and complexity: As entities grow larger, age or enter into new product or geographical lines, such entities tend to engage more NEDs and INEDs.	***3***	***0***	***1***	***15***	***12***
b. Scope and complexity: An increase in an entity's financial gearing affects the Board mix.	***4***	***16***	***2***	***6***	***3***
c. CEO entrenchment: Upon the imposition of strong controls on the CEO, the NEDs and INEDs on a Board generally increase.	***2***	***7***	***2***	***13***	***7***
d. Ownership structure: Entities with ownership concentration reduce the proportion of NEDs and INEDs because management monitoring lies more in the hands of the large shareholders.	***3***	***13***	***2***	***7***	***6***
e. Board size *(see def 1)*: A large Board size tends to be composed of a lower proportion of NEDs and INEDs than in the case of a small Board.	***5***	***10***	***4***	***6***	***6***
f. Information asymmetry: Entities operating in volatile environments tend to engage more EDs.	***1***	***4***	***14***	***10***	***2***

4. Do CEOs with shareholdings in their entity necessitate a change in the Board mix towards more/less (i) INEDs (ii) NEDs?

5. a. Can entity performance influence the entrenchment of the CEO at Board level?

   b. If so, can such entrenchment also impact the Board mix?

6. With respect to your viewpoint relating to Board size and its influence on the Board mix, can you amplify on your position?

7. To what extent do you agree with the following statements? Kindly rate from 0 to 4 *(with 0 being strongly disagree and 4 being strongly agree)* as shown in Section A2, adding comments, if any.

	Number of interviewees = 31				
	Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
a. Skills and competencies: An appropriate Board mix needs to be supplemented by at least one director with knowledge of the entity's key functions	***2***	***2***	***0***	***4***	***23***
b. Nationality: NEDs and INEDs who are foreign nationals but reside in Malta usually have a closer relationship with EDs than those residing abroad.	***1***	***6***	***4***	***12***	***8***

8. In your view, are the following director-specific characteristics typically relevant to the composition of the Board mix? If so, please specify.
   a. Tenure
   b. Gender

Section 3: The Contribution of Board Mix to Good CG

9. In your opinion, how does the ratio between EDs, NEDs and INEDs affect (i) strategy formulation *(see def 5)* and (ii) strategy execution, if at all?

10. In your view, does onboarding more (i) INEDs (ii) NEDs help prevent and detect corporate irregularities?

11. In what manner do (i) INEDs (ii) NEDs enhance transparency in financial reporting, if at all?

12. How is (i) INEDs' (ii) NEDs' contribution to good CG affected by their own multiple commitments?

13. How, if in any way, the answers to questions 9 - 12 reflect the position in your entity?

14. Do you perceive Board mix as one of the prerequisites for a culture of openness and constructive dialogue among the directors?

15. a. In your opinion, which type of director, if any, needs to be in the majority?
    b. Can the extent of such majority as referred to in (a) be successfully prescribed or recommended by the regulatory framework?

16. What is your opinion about the recommendation of the Code of Principles of Good Corporate Governance for:
    a. At least, one third of the Board to be NEDs?
    b. The majority of such NEDs to be INEDs?

17. Other final remarks if any.

Section A1 - Definitions

1. **Board size:** The total number of directors on board, including EDs, independent and non-independent NEDs (Shakir 2008). A Board is classified as small if it has 5 directors or less, and as large if it has more than 5 directors.

2. **Board Mix:** The mix of executive directors (EDs), non-executive directors (NEDs) and independent NEDs (INEDs).

3. **Information asymmetry:** The gap between the information EDs and NEDs possess. Since EDs are involved in the day-to-day running of the entity, they will be well versed about the entity compared to NEDs.

4. **Multiple directorships:** A director holds three or more board seats (Fich, Shivdasani 2006).

5. **Strategy formulation:** The examination, ratification and evaluation of the proposed strategy (Schmidt, Brauer 2006).

Section A2 – Likert Scale

Agreement scale to be used for questions 3 and 7:

0	1	2	3	4
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Appendix 3.2 Statistical Data Analysis using the Chi Square Test

The Chi Square Test was used to investigate the association between two categorical variables, these being, MLEs and their Board characteristics, such as, the Board mix and directors' tenure and also, the association between MLEs' industries and the Board mix.

The null hypothesis (H_0) specifies that there is no association between the two categorical variables (row percentages are similar across MLEs) and is accepted if the *p*-value exceeds the 0.05 level of significance. The alternative hypothesis (H_1) specifies that there is a significant association between the two categorical variables (row percentages vary significantly across MLEs) and is accepted if the *p*-value is smaller than the 0.05 criterion.

The crosstabs displaying MLEs by directors' tenure, gender and nationality in this Appendix supplement Table 4.3 presented in Chapter 4. The shading varies according to the category in the majority which is displayed in **bold**.

Directors' Tenure

			< 5 years	5-12 years	> 12 years	Total
MLE	6	Count	**6**	0	0	6
		Percentage	**100.0%**	0.0%	0.0%	100.0%
	19	Count	**5**	0	0	5
		Percentage	**100.0%**	0.0%	0.0%	100.0%
	20	Count	**8**	0	0	8
		Percentage	**100.0%**	0.0%	0.0%	100.0%
	24	Count	**5**	0	0	5
		Percentage	**100.0%**	0.0%	0.0%	100.0%
	27	Count	**9**	0	0	9
		Percentage	**100.0%**	0.0%	0.0%	100.0%
	3	Count	**7**	1	1	9
		Percentage	**77.8%**	11.1%	11.1%	100.0%
	18	Count	**4**	1	1	6
		Percentage	**66.7%**	16.7%	16.7%	100.0%
	7	Count	**3**	2	0	5
		Percentage	**60.0%**	40.0%	0.0%	100.0%
	8	Count	**3**	2	0	5
		Percentage	**60.0%**	40.0%	0.0%	100.0%
	22	Count	**3**	2	0	5
		Percentage	**60.0%**	40.0%	0.0%	100.0%
	16	Count	**4**	3	0	7
		Percentage	**57.1%**	42.9%	0.0%	100.0%
	2	Count	**5**	4	0	9
		Percentage	**55.6%**	44.4%	0.0%	100.0%
	9	Count	**6**	3	2	11
		Percentage	**54.5%**	27.3%	18.2%	100.0%
	23	Count	**3**	2	1	6
		Percentage	**50.0%**	33.3%	16.7%	100.0%
	1	Count	**6**	5	2	13
		Percentage	**46.2%**	38.5%	15.4%	100.0%
	15	Count	**4**	2	3	9
		Percentage	**44.4%**	22.2%	33.3%	100.0%
	10	Count	0	**7**	0	7
		Percentage	0.0%	**100.0%**	0.0%	100.0%
	21	Count	2	**6**	0	8
		Percentage	25.0%	**75.0%**	0.0%	100.0%
	14	Count	0	**5**	2	7
		Percentage	0.0%	**71.4%**	28.6%	100.0%
	25	Count	2	**6**	1	9
		Percentage	22.2%	**66.7%**	11.1%	100.0%
	13	Count	1	**4**	2	7
		Percentage	14.3%	**57.1%**	28.6%	100.0%
	12	Count	1	**2**	**2**	5
		Percentage	20.0%	**40.0%**	**40.0%**	100.0%
	4	Count	0	2	**6**	8
		Percentage	0.0%	25.0%	**75.0%**	100.0%
	5	Count	3	0	**4**	7
		Percentage	42.9%	0.0%	**57.1%**	100.0%
	26	Count	0	3	**4**	7
		Percentage	0.0%	42.9%	**57.1%**	100.0%
	11	Count	1	2	**3**	6
		Percentage	16.7%	33.3%	**50.0%**	100.0%
	17	Count	**2**	1	**2**	5
		Percentage	**40.0%**	20.0%	**40.0%**	100.0%
Total		**Count**	**93**	**65**	**36**	**194**
		Percentage	**47.9%**	**33.5%**	**18.6%**	**100.0%**

N = 27
$X^2(52) = 126.841$, $p < 0.001$

Table A3.1: Crosstabs displaying MLEs by Directors' Tenure

Directors' Gender

			Males	Females	Total
MLE	5	Count	**7**	0	7
		Percentage	**100.0%**	0.0%	100.0%
	6	Count	**6**	0	6
		Percentage	**100.0%**	0.0%	100.0%
	11	Count	**6**	0	6
		Percentage	**100.0%**	0.0%	100.0%
	13	Count	**7**	0	7
		Percentage	**100.0%**	0.0%	100.0%
	14	Count	**7**	0	7
		Percentage	**100.0%**	0.0%	100.0%
	21	Count	**8**	0	8
		Percentage	**100.0%**	0.0%	100.0%
	9	Count	**10**	1	11
		Percentage	**90.9%**	9.1%	100.0%
	3	Count	**8**	1	9
		Percentage	**88.9%**	11.1%	100.0%
	15	Count	**8**	1	9
		Percentage	**88.9%**	11.1%	100.0%
	25	Count	**8**	1	9
		Percentage	**88.9%**	11.1%	100.0%
	10	Count	**6**	1	7
		Percentage	**85.7%**	14.3%	100.0%
	18	Count	**5**	1	6
		Percentage	**83.3%**	16.7%	100.0%
	23	Count	**5**	1	6
		Percentage	**83.3%**	16.7%	100.0%
	7	Count	**4**	1	5
		Percentage	**80.0%**	20.0%	100.0%
	8	Count	**4**	1	5
		Percentage	**80.0%**	20.0%	100.0%
	12	Count	**4**	1	5
		Percentage	**80.0%**	20.0%	100.0%
	19	Count	**4**	1	5
		Percentage	**80.0%**	20.0%	100.0%
	22	Count	**4**	1	5
		Percentage	**80.0%**	20.0%	100.0%
	24	Count	**4**	1	5
		Percentage	**80.0%**	20.0%	100.0%
	4	Count	**6**	2	8
		Percentage	**75.0%**	25.0%	100.0%
	20	Count	**6**	2	8
		Percentage	**75.0%**	25.0%	100.0%
	16	Count	**5**	2	7
		Percentage	**71.4%**	28.6%	100.0%
	26	Count	**5**	2	7
		Percentage	**71.4%**	28.6%	100.0%
	1	Count	**9**	4	13
		Percentage	**69.2%**	30.8%	100.0%
	2	Count	**6**	3	9
		Percentage	**66.7%**	33.3%	100.0%
	17	Count	**3**	2	5
		Percentage	**60.0%**	40.0%	100.0%
	27	Count	**5**	4	9
		Percentage	**55.6%**	44.4%	100.0%
Total		**Count**	**160**	**34**	**194**
		Percentage	**82.5%**	**17.5%**	**100.0%**
					N = 27 $X^2(26) = 21.399$, $p = 0.721$

Table A3.2: Crosstabs displaying MLEs by Directors' Gender

Directors' Nationality

			Maltese	Foreign	Total
MLE	11	Count	**6**	0	6
		Percentage	**100.0%**	0.0%	100.0%
	13	Count	**7**	0	7
		Percentage	**100.0%**	0.0%	100.0%
	16	Count	**7**	0	7
		Percentage	**100.0%**	0.0%	100.0%
	20	Count	**8**	0	8
		Percentage	**100.0%**	0.0%	100.0%
	22	Count	**5**	0	5
		Percentage	**100.0%**	0.0%	100.0%
	25	Count	**9**	0	9
		Percentage	**100.0%**	0.0%	100.0%
	26	Count	**7**	0	7
		Percentage	**100.0%**	0.0%	100.0%
	27	Count	**9**	0	9
		Percentage	**100.0%**	0.0%	100.0%
	1	Count	**12**	1	13
		Percentage	**92.3%**	7.7%	100.0%
	15	Count	**8**	1	9
		Percentage	**88.9%**	11.1%	100.0%
	21	Count	**7**	1	8
		Percentage	**87.5%**	12.5%	100.0%
	6	Count	**5**	1	6
		Percentage	**83.3%**	16.7%	100.0%
	7	Count	**4**	1	5
		Percentage	**80.0%**	20.0%	100.0%
	17	Count	**4**	1	5
		Percentage	**80.0%**	20.0%	100.0%
	24	Count	**4**	1	5
		Percentage	**80.0%**	20.0%	100.0%
	4	Count	**6**	2	8
		Percentage	**75.0%**	25.0%	100.0%
	2	Count	**6**	3	9
		Percentage	**66.7%**	33.3%	100.0%
	3	Count	**6**	3	9
		Percentage	**66.7%**	33.3%	100.0%
	18	Count	**4**	2	6
		Percentage	**66.7%**	33.3%	100.0%
	23	Count	**4**	2	6
		Percentage	**66.7%**	33.3%	100.0%
	8	Count	**3**	2	5
		Percentage	**60.0%**	40.0%	100.0%
	12	Count	**3**	2	5
		Percentage	**60.0%**	40.0%	100.0%
	9	Count	2	**9**	11
		Percentage	18.2%	**81.8%**	100.0%
	19	Count	1	**4**	5
		Percentage	20.0%	**80.0%**	100.0%
	5	Count	2	**5**	7
		Percentage	28.6%	**71.4%**	100.0%
	10	Count	2	**5**	7
		Percentage	28.6%	**71.4%**	100.0%
	14	Count	3	**4**	7
		Percentage	42.9%	**57.1%**	100.0%
Total		**Count**	**144**	**50**	**194**
		Percentage	**74.2%**	**25.8%**	**100.0%**
					N = 27
					$X^2(26) = 71.188$, $p < 0.001$

Table A3.3: Crosstabs displaying MLEs by Directors' Nationality

Appendix 3.3 Statistical Data Analysis using the Friedman Test

The Friedman test was used to compare the mean rating scores obtained on the entity-specific and director-specific factors affecting the Board mix. These mean rating scores range from 0 to 4, where 0 corresponds to ‘Strongly disagree’ and 4 corresponds to ‘Strongly agree’. This implies that the higher the mean rating score, the greater is the agreement.

H_0 specifies that the mean rating scores provided to the statements are similar and is accepted if the *p*-value exceeds the 0.05 level of significance. H_1 specifies that the mean rating scores provided to the statements differ significantly and is accepted if the *p*-value is smaller the 0.05 criterion.

The bar graphs included in this appendix complement Tables 4.5 and 4.6. These visually illustrate the differences, whether significant or not, between the level of agreement with the factors in the Likert scale questions, and also present the results from the Friedman Test.

The error bar graph gives the 95% confidence interval of the actual mean rating score provided to a statement if the study had to include the entire population of MLEs and CGEs. If two confidence intervals overlap, their mean rating scores are similar and do not differ significantly. On the other hand, if the confidence intervals are disjointed or overlap only slightly, then the mean rating scores differ significantly.

Section 1: Entity-Specific Factors

Figure A3.1 depicts the respondents’ agreement with entity-specific factors. As may be observed, some error bars do not overlap with each other indicating that the mean rating scores provided to these factors differ significantly. This is confirmed by the *p*-value being less than the 0.05 level of significance.

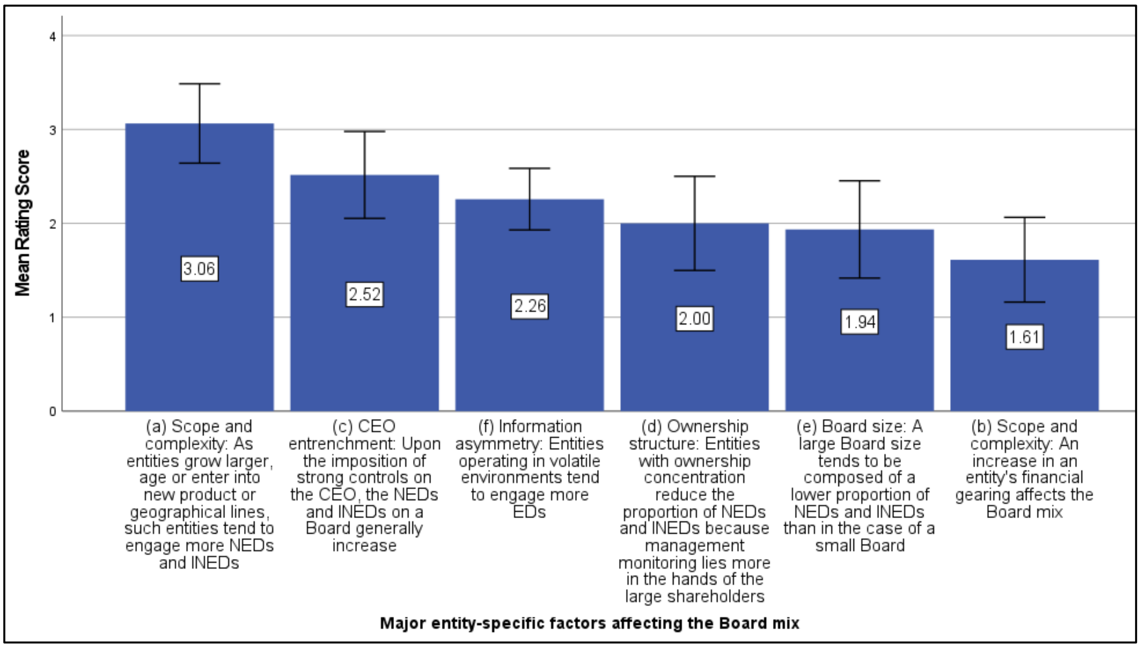

Figure A3.1: Agreement with entity-specific factors (Q.3)

Section 2: Director-Specific Factors

Figure A3.2 depicts the respondents' agreement with directors-specific factors. The error bars overlap only slightly which implies that the mean rating scores provided to these two factors differ significantly. Indeed, the resultant *p*-value of 0.004 is less than the 0.05 level of significance.

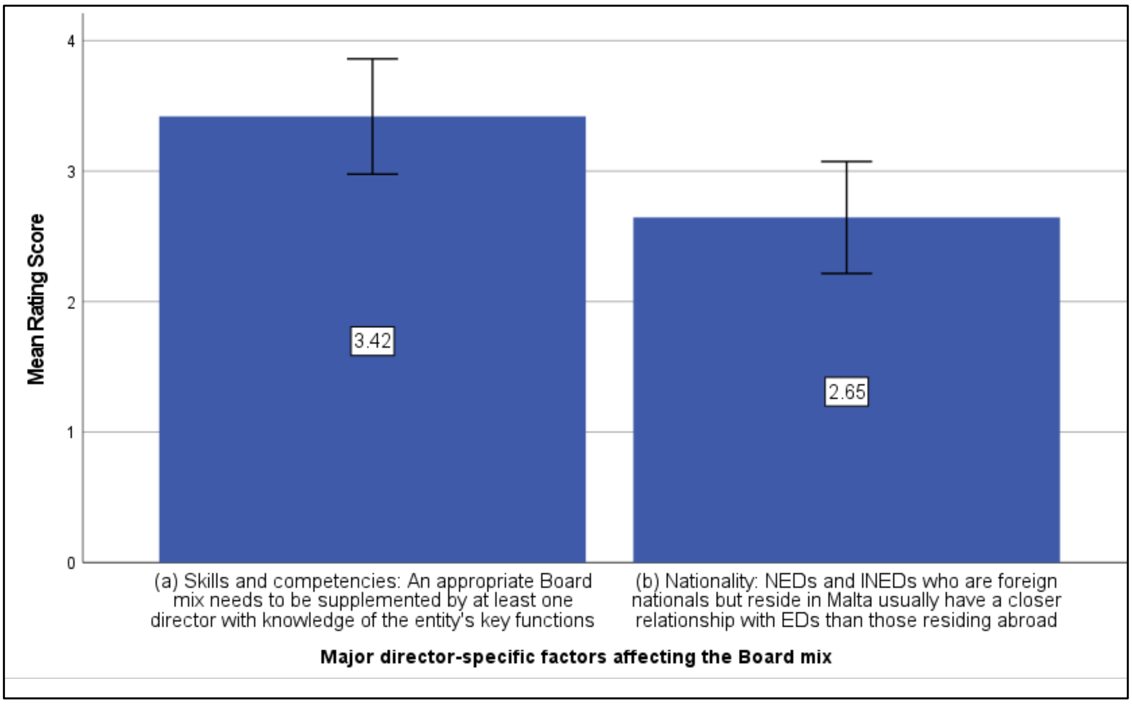

Figure A3.2: Agreement with director-specific factors (Q.7)