Boards of Directors' Effectiveness in Maltese Public Sector Entities: An Analysis

By

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Abstract

TITLE: Boards of Directors' Effectiveness in Maltese Public Sector Entities: An Analysis

PURPOSE: This study had two objectives: First, to analyse BE within MPSEs through an examination of five fundamental aspects, namely, Board selection and appointment, Board role, Board composition, Board remuneration, and Board performance evaluation, and second, to propose recommendations that could enhance BE within MPSEs for each of these aspects.

DESIGN: A qualitative mixed-method research approach was adopted. Semi-structured interviews were conducted with 22 participants, consisting of 18 MPSE BMs, a representative of the Malta Institute of Directors, 2 corporate lawyers, and 1 corporate advisor.

FINDINGS: It transpired that all five fundamental aspects of BE are compromised in MPSE Boards. It was found that, in Malta, the selection and appointment process of MPSE BMs lacks transparency, and relies on political ties. The tendency to continuously appoint members of the '*people of trust*' network of ministers creates a barrier to new talent outside the network, and deters competent individuals from accepting appointments, who fear that political bias in the selection process may harm their reputation. Meanwhile, the identification of BMs as PEPs upon appointment further hinders the MPSE Boards' ability to appoint diverse talent, particularly entrepreneurs. Furthermore, Board training is neglected, and tensions exist between political party loyalty and fiduciary duties, hence obstructing MPSE BMs from fulfilling their roles optimally. Additionally, it seems that ministers value academic qualifications as political connections complement, rather than supersede qualifications in Board appointments. However, female representation on MPSE Boards is considerably lacking, and foreign Board appointments are a rare occurrence, weakening Board composition. Moreover, MPSE Board remunerations are too low, when compared to the private sector, thereby reducing Board quality. Finally, Board performance evaluations face resistance, as they would make the shield of political protection obsolete, at the expense of optimal performance and BE.

CONCLUSIONS: The study concluded that the journey towards achieving BE within MPSEs is still far from complete, and there remains considerable work yet to be done by the Maltese Government for Malta to reap the rewards from BE and good CG in MPSEs.

IMPLICATIONS: This study attempted to raise awareness of the need to strengthen CG practices and enhance BE within MPSEs. It is hoped that the recommendations presented assist the Maltese Government in achieving BE within MPSEs, which is an essential step towards building a thriving economy and creating a positive legacy for future Maltese generations. Additionally, it is hoped that this study proves valuable to future scholarly researchers investigating CG in the context of PSEs within small island states.

Keywords: Corporate Governance, Board of Directors, Board Effectiveness, Maltese Public Sector Entities

Dedication

To my mother, Rita, and my boyfriend, Iousef, for their unconditional love, support and encouragement. I would not be where I am today without you.

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List of Abbreviations

BE	Board Effectiveness
BM	Board Member
CG	Corporate Governance
EBU	Extra Budgetary Unit
ED	Executive Director
ESA	European System of Accounts
MBR	Malta Business Registry
MFAC	Malta Fiscal Advisory Council
MFSA	Malta Financial Services Authority
MLE	Maltese Listed Entity
MPSE	Maltese Public Sector Entity
NED	Non-Executive Director
NSO	National Statistics Office
OECD	Organisation for Economic Co-operation and Development
OPM	Office of the Prime Minister
PC	Public Corporation
PEP	Politically Exposed Person
PIC	Public Interest Companies
PSE	Public Sector Entity
The Board	Board of Directors
The Code	The Code of Principles of Good Corporate Governance for Listed Entities’
The Guidelines	Corporate Governance Guidelines for Public Interest Companies’
The Manual	Corporate Governance Manual for Directors of Investment Companies and Collective Investment Schemes’

Chapter 1
Introduction

1.1 Introduction

This introductory chapter establishes the basis for the study. As depicted in Figure 1.1 hereunder, Section 1.2 presents relevant background information about the research topic. This is followed by Section 1.3, which justifies the need for the study. Thereafter, Section 1.4 outlines the research objectives and Section 1.5 defines the scope and limitations. Finally, Section 1.6 delineates the structure of this dissertation.

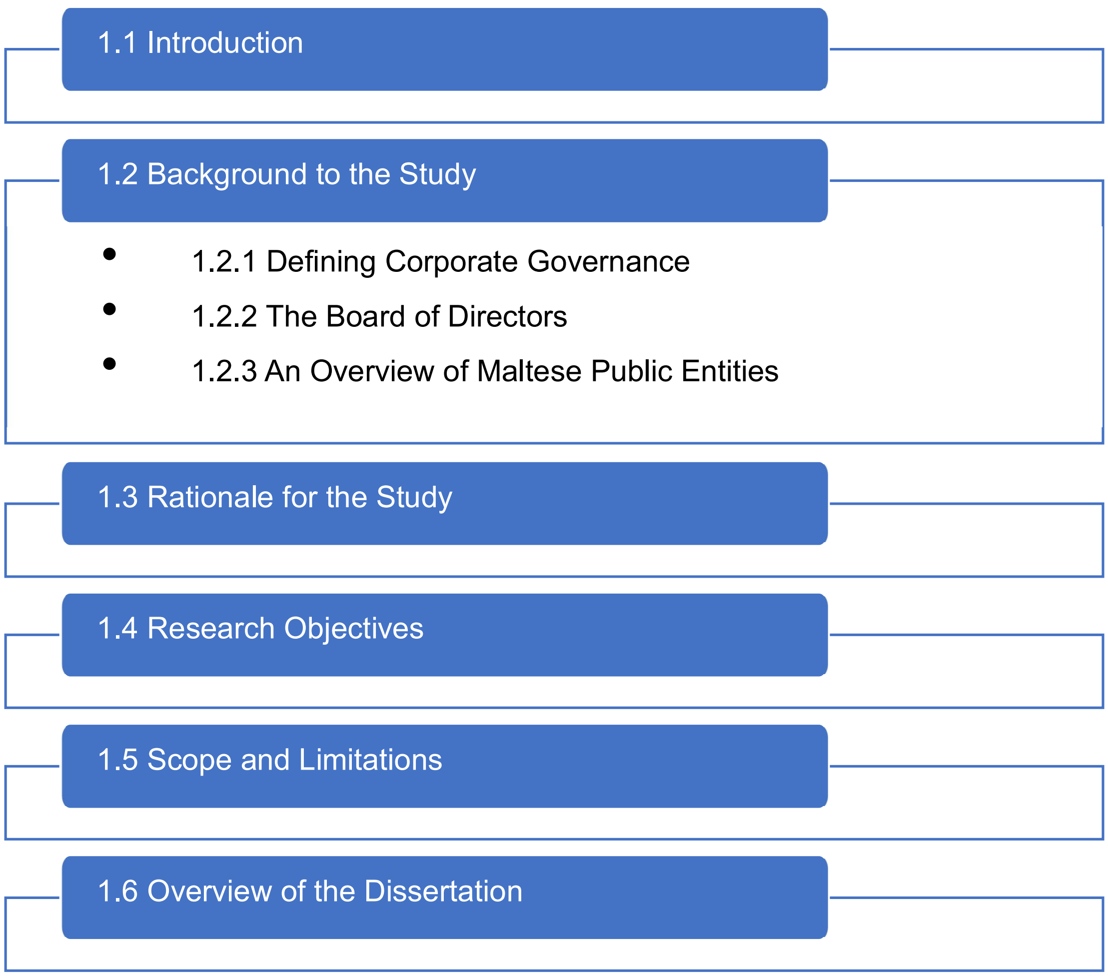

Figure 1.1: Outline of Chapter 1

1.2 Background to the Study

1.2.1 Defining Corporate Governance

The concept of Corporate Governance (CG) was conceived in the aftermath of the development of limited liability companies (Khan 2011), when the agency relationship between owners and management began to cause a surge in conflicts (Martorelli 2013). Prior to the 1990s, CG experienced an undeserved low degree of appreciation (Keasey, Thompson et al. 2005), but it nowadays commands universal respect wherever and whenever business is on the table (Coffee Jr 2005). This came about after several high-profile corporate failures were linked to weak CG frameworks, such as Enron in the US and Parmalat in Italy (Dibra 2016).

While CG has no single accepted definition (Barrett 2002, Aguilera, Jackson 2010), it is generally defined as *"the system by which companies are directed and controlled"* (Cadbury 1992, p.15). The concept places a strong emphasis on adherence to ethical standards for the protection of shareholder welfare (John, Senbet 1998), while establishing a set of robust structures and procedures that limit the self-interested and opportunistic behaviour of executive management (Baldacchino, Tabone et al. 2020). Ultimately, good CG sets the standard for accountable and transparent decision-making processes, and ensures the protection of interests of all stakeholders, thereby stimulating business integrity, financial stability, and long-term growth (Organisation for Economic Co-operation and Development [OECD] 2015).

1.2.2 The Board of Directors

The Board of Directors (the Board) is recognised as a critical governing body of any CG structure (Fama, Jensen 1983). A typical Board is comprised of executive directors (ED) and non-executive directors (NED). EDs are full-time employees of the company, while NEDs are not employed by the company and are not involved in its day-to-day operations (World Bank 2014). Monks and Minow (2011) typecast the Board as appointed shareholders' representatives, borne with primary responsibilities of monitoring the validity of decisions taken by management on behalf of shareholders, formulating strategy and promoting business prosperity. Effectively, the Board addresses conflicts of interest (Strier 2005), thereby helping to alleviate the classic agency problem stemming from the separation of ownership and control within organisations (Rinaldo, Puspita 2020). In this vein, agency theory advises that a value-adding Board leads to a net decrease in agency costs and long-term success (ibid.). Understandably, Alfraih (2016, p.155) warns that the importance of an "*effective board*" cannot be underestimated.

1.2.3 Maltese Public Sector Entities

The Maltese public sector extends beyond its ministries, government departments and local councils, encompassing also a substantial number of entities in the legal form of companies, corporations, agencies and authorities, amongst others. In Malta, an entity qualifies as a Public Sector Entity (PSE), depending on whether it meets the definition of a "*government-controlled institutional unit" (*Malta Fiscal Advisory Council [MFAC] 2020, *p.46).* An entity which does not meet this definition is considered part of the private sector. In this regard, the MFAC (2020) defines a government controlled institutional unit as an entity that is "*directly or indirectly controlled by the government*" (p.47). This happens when the government has one of the following powers: (1) the right to choose most of the members of the Board, (2) the right to choose most of the members of important committees that make decisions about the organization's policies, or (3) own most of the voting rights (ibid.)

As illustrated in Figure 1.2, Malta classifies PSEs, regardless of their legal form, into either Extra Budgetary Units (EBUs)[1] or Public Corporations (PCs)[1]. PSEs classified as EBUs form part of the general government, and are defined by the National Statistics Office (NSO) as:

> *"institutional units under public control that are principally engaged in the production of goods and services not usually sold on a market and/or that are involved in the redistribution of national income and wealth"* (NSO n.d., n.p.)

[1] Vide Appendix 1.1

On the other hand, PSEs classified as PCs fall outside the general government, and are defined by the NSO as:

> *"government-controlled units established by Government, or by other public corporations as market producers principally engaged in the production of goods, non-financial and financial services"* (NSO n.d., n.p)

EBUs, being part of the general government, depend on central budgetary funds allocated in the public budget process as their main source of finance. In contrast, PCs are administered in a manner which allows them to generate and control their own finances, and thus, they operate independently of the public budget (Zammit 2012).

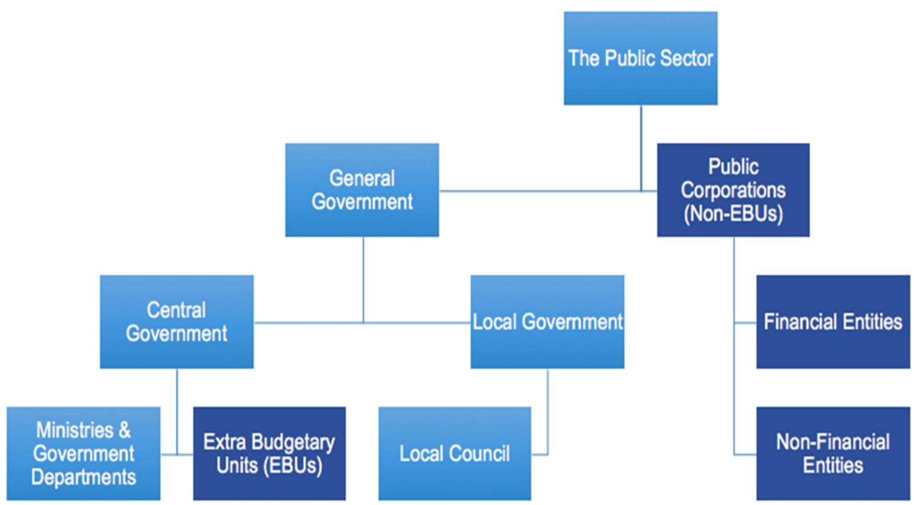

Figure 1.2: The Public Sector Structure in Malta

Source: ESA 2010

For the scope of this study, the term Maltese Public Sector Entities (MPSEs)[2] reflects local PSEs established under the Companies Act, classified as either EBUs or PCs, thereby excluding PSEs not established under the Companies Act.

[2] Vide Table A1.1 in Appendix 1.2

1.3 Rationale for the Study

PSEs continue to play a pivotal role in economic growth generation (Makhala 2019). Indeed, NSO (2022) publications reveal that PCs injected €1,537 million and €1,251.2 million worth of revenue into the Maltese economy in 2019 and 2020 respectively, whereas EBUs contributed positively to the consolidated fund by €146.7 million in 2019 and €59 million in 2020. In order to ensure a public sector which correlates with long-term GDP growth, good CG practices within PSEs are a must (Kaufmann, Kraay et al. 2005). This view is shared by Matei and Drumasu (2015), who emphasise the criticality of good CG practice within PSEs to prevent their failure and the resultant considerable losses, which unfairly so, would ultimately be borne by tax payers.

Boards are the heart and soul of practices aiming at achieving a satisfactory standard of CG. In fact, corporate failures are often blamed on Boards (Adams, Hermalin et al. 2010) through complaints of Board ineffectiveness (Kimuyu 2012). In this regard, Keasy, Thompson et al. (2005) contend that the potential re-occurrence of the recent corporate scandals and the major repercussion thereof prompted the examination of Board Effectiveness (BE) to become central to research agendas and policy debates.

BE is just as important for the private sector as it is for the public sector (Moyo 2016). Nonetheless, local research aimed to analyse boardroom effectiveness within PSEs remains a neglected area of exploration. Apart from concentrating on private sector entities, Maltese studies have taken a focused view by concentrating on one single aspect of BE. For instance, Camilleri (2019) explored the Board composition aspect of BE within Maltese Listed Entities (MLEs), while Schembri (2016) discussed the Board performance evaluation aspect also within MLEs. Moreover, while the study of Baldacchino, Mercieca's et al. (2022) is one of the few that addresses BE within the context of PSEs, it only delves into Board gender diversity.

Therefore, overall, this study enhances local existing literature on CG, and proposes new contributions thereto. Moreover, the study will prove worthwhile as it will recommend ways to strengthen MPSE Boards, thereby enhancing economic and social development on the island. In particular, the research may be used as guidance by policymakers in revising the existing Maltese CG framework in a manner which addresses more effectively the unique obstacles to BE within MPSEs. Furthermore, the study should also benefit future scholarly researchers exploring CG in the context of PSEs within small island states

1.4 Research Objectives

The objectives of this study are:

(1) To assess BE within MPSEs as a key determinant of good CG. In doing so, the study conducts a thorough examination of the following five key fundamental aspects of BE within MPSEs emphasised in foreign literature, and illustrated in Figure 1.3:

   a. Board Selection and Appointment
   b. Board Role
   c. Board Composition
   d. Board Remuneration
   e. Board Performance Evaluation

(2) On the basis of (1), to recommend possible solutions for improving the effectiveness of MPSEs' Boards in promoting good CG for the common good of Maltese society.

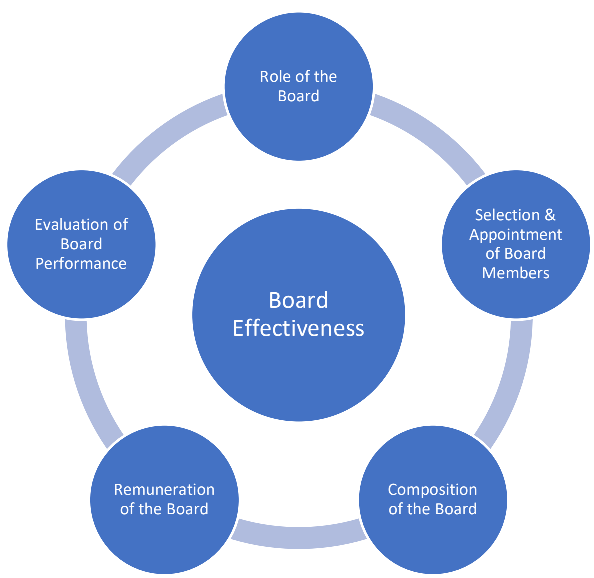

Figure 1.3: Fundamental Aspects of Board Effectiveness

1.5 Scope and Limitations

While CG may be applied to any organisation, this study is restricted to the analysis of BE within MPSEs, and thus, it excludes all Maltese private entities and public entities that are not established under the Companies Act.

It is important to observe that, even though the study focuses on the five most academically cited fundamental aspects of BE, there are other aspects affecting BE, such as, Board processes and Board culture. Therefore, the five factors of BE evaluated in this study are not exhaustive.

Additionally, due to time constraints, the study captures pertinent information and developments on the research topic from local and foreign sources up to a specified cut-off date defined as at 31st March, 2023.

1.6 Overview of the Dissertation

Chapter 1 introduces the study by exploring background information about the research topic. This chapter also delves into the rationale for the study, research objectives and scope and limitations.

Chapter 2 reviews a body of literature pertinent to BE. An in-depth theoretical background of the Maltese CG framework and other legal sources regulating MPSEs is also provided.

Chapter 3 discusses the research methodology used to achieve the research objectives.

Chapter 4 presents the research findings obtained.

Chapter 5 critically evaluates the research findings presented in Chapter 4, in light of the literature reviewed in Chapter 2.

Chapter 6 concludes the study by summarising the key findings, proposing a number of recommendations and suggesting areas for further research.

Figure 1.4 outlines the structure of this dissertation.

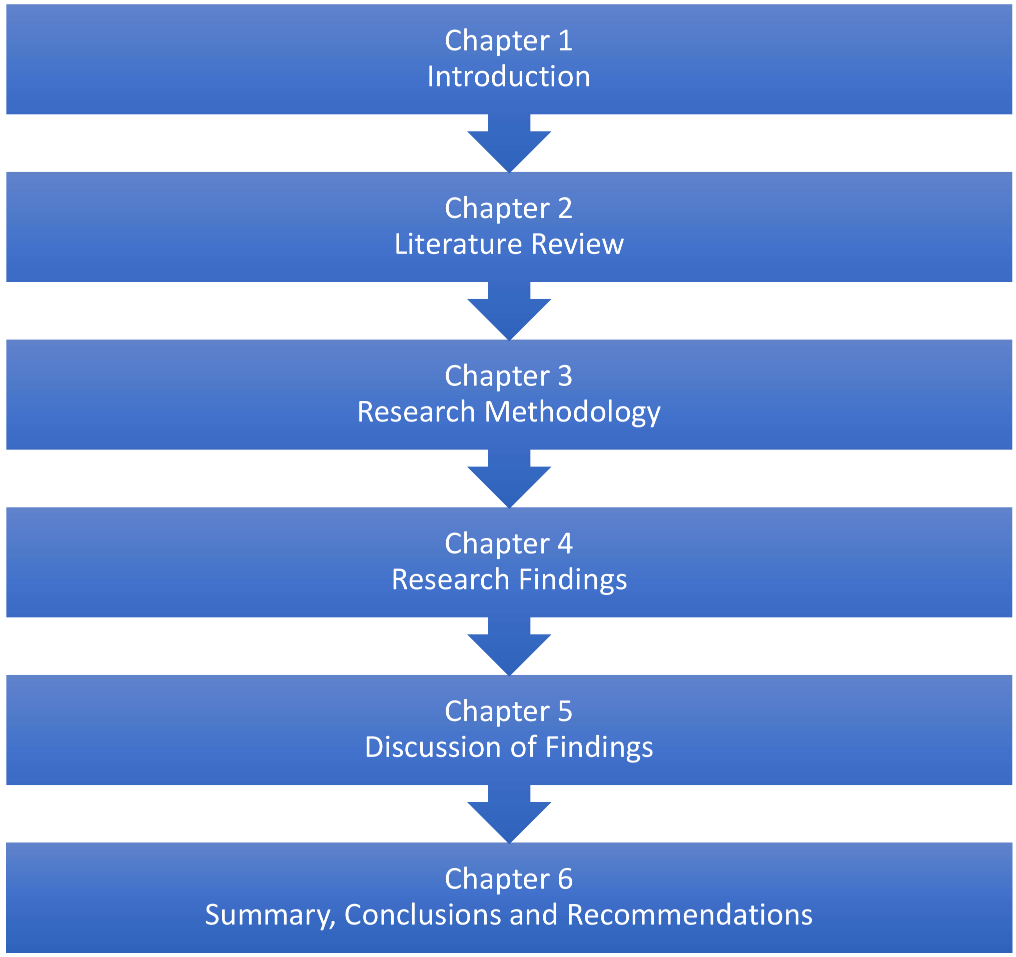

Figure 1.4: Structure of the Dissertation

Chapter 2
Literature Review

2.1 Introduction

This chapter provides an in-depth review of national and international literature pertinent to the research topic. As demonstrated in Figure 2.1, Section 2.2 provides an overview of the legal framework regulating CG in Malta. Thereafter, Section 2.3 outlines BE, while Section 2.4 delves into the five key fundamental aspects for achieving BE. Finally, Section 2.5 concludes the chapter.

Figure 2.1: Outline of Chapter 2

2.2 Corporate Governance in Malta: The Regulatory Framework

The Maltese islands possess four authoritative sources regulating CG practices, as illustrated in Figure 2.2. The main source is the Companies Act 1995, which regulates all types of corporate entities in Malta, and which serves as the core legal basis for the separation of powers between the general meeting of shareholders and the Board.

Complementing the Companies Act 1995, the Malta Financial Services Authority (MFSA) published three additional authoritative sources designed to enhance the CG framework in Malta. Each source targets a distinct type of Maltese entity. These include:

1. 'The Code of Principles of Good Corporate Governance for Listed Entities' ('The Code')
2. 'Corporate Governance Manual for Directors of Investment Companies and Collective Investment Schemes' ('The Manual')
3. 'Corporate Governance Guidelines for Public Interest Companies' ('The Guidelines')

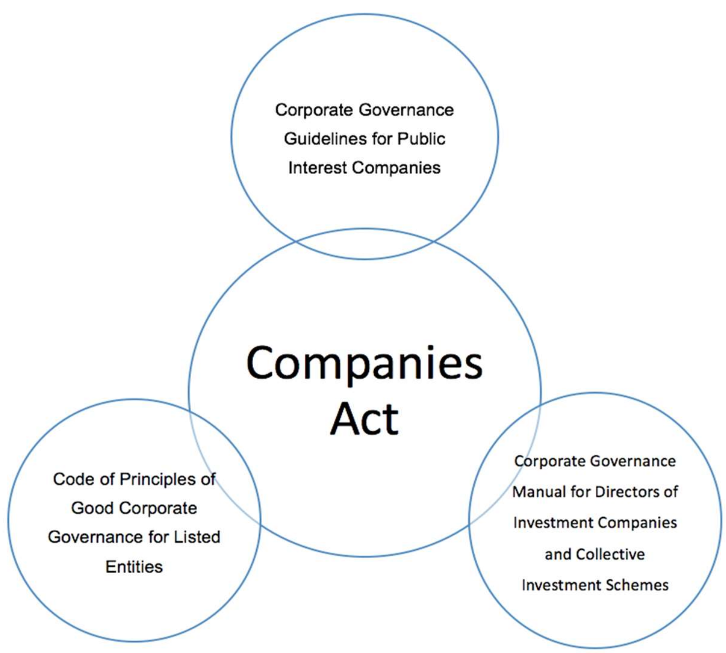

Figure 2.2: The Authoritative Sources for Good Corporate Governance Practices in Malta

The Code establishes a CG framework for entities listed on the Malta Stock Exchange. It operates on a comply-or-explain regulatory mechanism, and is thus non-binding. Nonetheless, failure to comply with one or more provisions encapsulated within the Code triggers the need for an explanation to be given to shareholders through the annual financial statements.

On the other hand, the Manual specifically targets directors of an investment company or a collective investment scheme, and intends to provide them with general guidance on the implementation of good CG in the fund industry.

Lastly, the Guidelines[3] highlight communal interest and put forward principles of best practice aimed to advance CG in companies deemed to have a great impact on the Maltese general public. Indeed, the Guidelines target Public Interest Companies (PICs), these being defined by the MFSA (2006, p.2) as:

> *"(1) a regulated company or (2) a company that has issued debt securities to the public and whose securities are not admitted to listing on a Recognized Investment Exchange or (3) a government-owned entity established as a limited liability company."*

Point (3) implies that MPSEs satisfy the MFSA definition of a PIC, and are therefore expected, though not forced, to adopt the Guidelines and to highlight their adherence thereto in their Annual Reports.

2.3 Board Effectiveness

An effective Board is one that truly adds value. Moyo (2016) defines BE as *"the degree to which a board of directors achieves the purpose of its existence."* (p.3) Meanwhile, Makhlouf, Laili et al. (2017) recognise that an effective board is the key for the proper functioning of entities, and serves as a source of reassurance which attracts investors. Ultimately, BE enriches an entity's overall performance (Conheady, McIlkenny et al. 2015), and maximises the wealth of its respective shareholders (Ingley, Van Der Walt 2008), thereby playing a crucial role in ensuring long-term sustainable growth (Garde-Sanchez, Flórez-Parra et al. 2020). The existence of BE is therefore imperative for each entity, irrespective of

[3] Vide Appendix 2.1

size and nature. In this vein, Frederick (2011) contends that one of the most important components of a successful PSE is an effective Board.

Academics have suggested different solutions to address BE, with the Board's, selection and appointment, role, composition, remuneration, and performance evaluation being the fundamental aspects (Rebeiz 2016, Moyo 2016, Kaur, Vij 2017, Nordberg, Booth 2019).

2.4 Fundamental Aspects of Board Effectiveness

2.4.1 Board Selection and Appointment

Under Maltese law, specifically the Companies Act 1995 (Art. 139), the power to appoint Board Members (BMs) rests with the shareholders. Carver (2011) concedes that "*many boards have the wrong people on them*" (p.295). BMs who lack sufficient capabilities and competencies contribute towards deficiencies in the performance of the entity on which they serve (Mwaura 2007), thereby rendering the Board ineffective. Therefore, selecting and appointing directors who are fit and proper, having adequate repute, qualifications, experience, skills, and expertise, is critical for BE and good CG (Baldacchino, Tabone et al. 2020). In effect, a rising emphasis is being witnessed on rigorous director selection and appointment criteria within the CG research sphere and regulatory frameworks, with the Code recommending the setting up of a *"Nomination Committee to lead the process for board appointments and to make recommendations to it." (MFSA n.d. p.126).* In this vein, the Guidelines[4] fail to recommend PICs to set up nomination committees.

<u>Challenges Surrounding the Selection and Appointment of BMs in PSEs</u>

The selection of competent BMs is particularly challenging for PSEs (Vagliasindi 2008). This is primarily due to unnecessary profound political interference in the Board selection and appointment process (Simpson 2012), with members being chosen for their political loyalty, rather than their business acumen (Vagliasindi 2008). Salleh and Ahmad (2012) share the same viewpoint, arguing that political ties are the main selection criterion for PSE Board appointments as the

[4] Vide Appendix 2.1

politicians' norm is to offer important managerial roles to likeminded individuals with whom they can align their interests (Yoshikawa, Zhu et al. 2014).

Moreover, Kernaghan (1986) states that the shift of political power triggers replacements of political appointees. In this regard, Shleifer and Vishny (1994) notice that an election won by an opposing party is often followed by a change of PSE BMs. Therefore, BM changes in PSEs correlate with political disagreement and election cycles, rather than with poor performance (Kuzman, Talavera et al. 2018), thereby resulting in frequent Board overhauls, instability, and Board ineffectiveness (Indreswari 2006).

Moreover, Vagliasindi (2008) unveils the probability that, out of concern for reputational harm, highly competent and professional individuals would be reluctant to serve on a Board stigmatised with political interference and poor performance. This refusal by specialists to serve on PSE boards restricts, to a significant extent, the accessibility of competent and proper individuals, especially given that a scarcity of experts in managerial roles is already a serious problem in many countries (Jackling, Johl 2009).

Due to the aforementioned challenges, scholars recommend that the nomination process for PSE Boards be depoliticised (Frederick 2011), more transparent, and merit-based (Böwer 2017), with political allegiance and connections excluded from the selection criteria (Kuzman, Talavera et al. 2018). Furthermore, the World Bank (2014) necessitates the development of profiles of Board skills as a guide for appropriate Board appointments.

2.4.2 Board Roles

A role embodies organised sets of duties and responsibilities. The extent to which Boards undertake their roles is a fundamental point to consider for an accurate evaluation of BE (Arnwine 2002). Boards have three main roles, namely, a (1) control role, (2) strategic role and (3) resource dependence role, which they are expected to fulfil in their quest for good CG.

Control. The control role of the Board, also known as the monitoring role, is deemed by Dent (1981) as a "*significant board function*" (p.623). It entails serving as a watchdog for shareholders' dividends (Adams, Hermalin et al. 2010) by carefully overseeing and monitoring the CEOs' performance, and ensuring that they do not make short-term accommodating decisions at the expense of shareholders' interests (Browning, Sparks 2016). The control role stems from the basic premise that Boards are not involved in the daily running of a company, but rely on executive management, led by the CEO, to do so responsibly. For their part, Kamardin, Latif et al. (2014) recognise Board meetings as the main vehicle for the Board to get insights on management's actions, and establish their monitoring function. Indeed, the Guidelines recommend Boards to meet "sufficiently regularly"[5]. In this vein, Baldacchino, Callus et al. (2022) suggest that frequent Board meetings, exceeding the minimum of six per year, would enhance the Board's monitoring role. Moreover, shareholder activists oppose multiple directorships, arguing that it compromises effective monitoring (Alhaddad, Gerged et al. 2022). Indeed, as per Allen (1992, p.457, cited in Ferris, Jagannathan et al. 2003, p.1087),

> *"effective monitoring requires a commitment of time and resources…… The demands of the position, if properly understood, are inconsistent in my opinion, with service on an impressingly long list of Boards"*

Contrastingly, however, some scholars view multiple directorships positively, believing that they enhance directors' competencies (Baccouche 2015) and lead to better networking (Jackling, Johl 2009), hence benefitting the firms through better access to resources and enhanced performance (Raonic, Riccaboni 2008). For this reason, Baldacchino and Callus et al. (2022) suggest that although capping directorships may be a good CG practice, there is uncertainty as to whether the benefits of such a measure outweighs its shortcomings.

***Strategic.*.** McDonald, Westphal et al. (2008) consider the evaluation of Boards' strategic role as "*a second main front*" in research on BE (p.1157). The strategic role entails the provision of guidance and expert advice on the company's strategy to the CEO, together with the active creation and implementation of strategy (Johnson, Daily et al. 1996). Indeed, Browning and Sparks (2016) declare that the most effective Boards are those which devote sufficient time and

[5] Vide guideline 5 of the Guidelines in Appendix 2.1

energy in ensuring that the entity is following the right strategy. Consequently, regular communications and meetings with the CEO keeps Boards attuned to strategic issues (ibid.)

Resource Dependence. Boards are "*vehicles for co-opting important external organizations*" (Pfeffer, Salancik 1978, p.167). Indeed, the resource dependence role refers to the Board's supply of valuable resources necessary for business success, for example, skills and contacts of key people (Hillman, Cannella et al. 2000), secured through links to the external environment (Zahra, Pearce 1992). In turn, such links buffer entities from environmental fluctuations, thereby reducing environmental uncertainty (ibid).

To enable Boards to better perform the aforementioned roles, scholars suggest the use of specialised Board committees, to enable directors to concentrate on their areas of expertise, and handle complex issues more effectively (Kolev, Wangrow et al. 2019). The OECD (2021) proposes that in entities without Board committees, the first priority should be to establish an audit committee, due to its significance in promoting transparency, accountability and good CG.

The aforementioned roles are vested in Boards through statutes and/or charters thereby making them extremely powerful. In effect, the Companies Act 1995 (Art. 136A) confers wide powers of management and administration on the Board. This broad mandate of power is, in most common law countries, including Malta, controlled through legal minimum standards, taking the form of a duty of skill and care and a fiduciary duty. The duty of skill and care places responsibility on Boards to act professionally, keep abreast of all matters that may have a potential impact on the organisation, and arrive at well-informed judgements (World Bank 2014). Meanwhile, fiduciary duties, also referred to as the duty for loyalty, require directors to seek the best interests of the company at all times, and to act as *bonus pater familias*. Fiduciary duties are generally referred to as four general rules, namely, (1) acting in good faith, (2) refraining from situations which give rise to conflicts of interests, (3) maintaining an unfettered discretion, and (4) not exceeding the limitations of the vested powers (Davies, Worthington et al. 2021).

The fiduciary duty is also promoted in the Guidelines (2006, p.15)[6], which state that:

> *"Directors' primary responsibility is always to act in the interest of the company and its shareholders as a whole, irrespective of who appointed them to the board"*

In this vein, the role and vested powers of MPSE Boards is further controlled through the Prevention of Money Laundering Act (Cap. 373 of the Laws of Malta). The Act mandates subject persons to conduct a rigorous due diligence procedure on Politically Exposed Persons (PEPs)[7]. By the decision of the Minister for Finance and Employment, in 2021, the definition of PEPs[8] was expanded to encompass top-level officials within PSEs, such as, CEOs and BMs.

<u>Challenges Surrounding the Role of the Board in PSEs</u>

The roles of PSE Boards are not as well-fulfilled as those of private sector Boards, owing to several challenges.

Scholars contend that conflicts of interest and compromised independence represent the major impediments to the effective fulfillment of Board roles in PSEs (Vagliasindi 2008, Frederick 2011). PSE Boards are often not sufficiently independent or empowered to effectively carry out their governance responsibilities. This is due to the fact that government, which is the major shareholder, frequently circumvents them (Chauke, Motubatse 2018). Indeed, PSE Boards are often "*put in untenable positions, torn between their duty of loyalty to the [PSE] and the need to act on the behalf of the shareholders"* (Fredrick 2011, p.10).

Furthermore, Vagliasindi (2008) contends that the prospect of being voted off by dissatisfied ministers can generate conflicts of interest, as PSE BMs become motivated to make governance decisions that satisfy the political party that appointed them, in order to secure their re-appointment. Resultantly, PSE Boards tend to prioritise "*conformity with rules and compliance with the directives of the state owner"* (Fredrick 2011, p.13), and neglect their strategic roles, in that they

[6] Vide Appendix 2.1
[7] Vide Art 11(5) of the Prevention of Money Laundering and Funding of Terrorism Regulations
[8] Vide Govt. Gazette No.20,602 of 6th April 2021

abandon the effectiveness of the overall business strategy (Castellanos, George 2022). According to the World Bank (2014), these aforementioned issues arise because PSEs lack written and formal procedures for Board operations and an adequate CG regulatory framework tailor-made to their specific challenges. To this effect, back in 2005, the OECD has taken the initiative to address these challenges by publishing the '*OECD Guidelines on Corporate Governance of State-Owned Enterprises'*. Covering a range of CG topics, such as transparency, the role of the state as an owner, and the composition and responsibilities of the Board, the guidelines offer an internationally recognised benchmark for enhancing CG practices in PSEs (OECD 2015), that governments worldwide can follow to establish an effective regulatory framework for their own PSEs.

Secondly, Nellis (2005) observes that PSE BMs frequently serve on multiple PSE Boards simultaneously. While multiple directorships are convenient for politicians, as they can pursue their political interests by one BM, while reaching several PSE Boards (ibid.), it compromises one of the main Board roles, namely the monitoring role (Latif, Voordeckers et al. 2020).

Thirdly, the OECD (2021) recognises that the lack of adequate training programmes to educate and develop the boardroom on their roles and CG issues is a major contributor to the ineffective discharge of the PSE Boards' role. For their part, Alfanador, Bernal et al. (2017) elucidate that training methods enable directors to enhance their competences, and rely on latest knowledge of PSE features and challenges, thus properly fulfilling their roles. In this respect, good practice calls for PSEs to invest in Board training programmes (World Bank 2014) at least once a year, concentrating on, *inter alia*, CG, strategy and business, risks, accounting policies, and IFRSs (Afanador, Bernal et al. 2017).

2.4.3 Board Composition

Board composition affects the directors' capability of safeguarding shareholder interests (Baldacchino, Tabone et al. 2020) and the quality of their strategic guidance (Baysinger, Hoskisson 1990). Indeed, most CG activists recognise that a properly composed Board is crucial to a Board's proper functioning and effectiveness (John, Senbet 1998). Key elements underlying a Board's composition relate to Board gender diversity, nationality diversity, skills and expertise, amongst other important ones (Shukeri, Shin et al. 2012, Baldacchino, Tabone et al. 2020, Baldacchino, Abela et al. 2021).

Gender Diversity. Baldacchino, Mercieca et al. (2022) suggest that the more the female Board ratio rises towards a reasonable female/male balance, the more effective Boards become, in both the private and public sectors. Indeed, Board gender diversity leads to a wide range of ideas, skills and expertise, thereby infusing distinct social outlooks and interpretations into the formulation of strategies and decision-making procedures (Brammer, Millington et al. 2009). Furthermore, Damak (2018) indicates that women tend to be more engaged in their monitoring obligations, and thus, deliver better supervision. In view of this, a significant number of CG legislations have emphasised the need to promote and enforce gender equality in corporate Boards. In the local context, however, both the Code and Guidelines[9] currently exclude any specific recommendation on gender diversity. Gender diversity has also elicited some unfavourable feedback from scholars and CG commentators. In effect, according to Kamal (2018), women exhibit greater risk aversion than men, potentially resulting in a negative impact on the allocation of resources within the organisation. Additionally, Cox and Blake (1991) view gender diversity unfavourably, claiming that, due to their disproportionate share of family caregiving responsibilities, women contribute to higher turnover and absenteeism rates, ultimately harming a company's performance.

Nationality Diversity. The concept of nationality diversity on Boards entails the inclusion of individuals hailing from diverse countries and cultures in the composition of a Board. Foreign directors provide a valuable supplement to Boards by virtue of their diverse backgrounds, cultures and perspectives, which serves to mitigate groupthink (Janis 1982), and enhance the quality of decision-making at Board level (Baldacchino, Abela et al. 2021). Moreover, non-native directors provide an array of indispensable resources to the Board, including their invaluable reservoir of international proficiency (Ruigrok, Peck et al. 2007) and their extensive network ties across borders (Piekkari, Oxelheim et al. 2013).

[9] Vide Appendix 2.1

However, nationality diversity on Boards may create a language barrier that hinders Board communication and effective decision-making (Miletkov, Poulsen et al. 2017). Moreover, Hagn and Lasfer (2016) contend that the trade-off between costs and benefits associated with appointing foreign directors in contrast to local directors, dilutes the efficacy of governance measures, as the costs borne by the firm are considerably higher when utilizing foreign directors. For this reason, some consider the need for foreign Board appointments only when valid native directors are limited (Miletkov, Poulsen et al. 2017).

Skills and expertise. It is widely believed that inadequate Board skills lead to a lack of objectivity and critical thinking (Gaur, Bathula et al. 2015). Therefore, a sharp focus on the competencies of BMs is a must to ensure that Boards are composed in a manner which maximises BE. Furthermore, Boards composed of different types of expertise, rather than a single type, are said to function at the highest levels (Meng, Tian 2020), thereby enhancing BE. In fact, heterogeneity of director expertise is believed to yield better quality advice and monitoring (Gray, Nowland 2017), as Boards apply more viewpoints thereby allowing for the implementation of more extensive policies and strategies (Melmusi, Ilona et al. 2019). Additionally, a mix of skills among BMs can improve the Board's capacity for innovation and adaptable decision-making, making them better suited to respond to the challenges of a constantly changing corporate landscape (Anderson, Reeb et al. 2011). In this vein, the Guidelines state that:

> *"The board should be composed of persons who as a group, have the required diversity of knowledge, judgment and experience to properly complete their tasks" (MFSA 2006, p.7)*[10]

<u>Challenges Surrounding Board Composition in Public Sector Entities</u>

Achieving the most appropriate Board composition remains a significant challenge in PSEs. In effect, the World Bank (2014, p. 162) posits that, contrary to good CG, PSEs are often:

> *"composed of government, political, and stakeholder representatives with limited commercial or financial knowledge or experience, who*

[10] Vide Appendix 2.1

> *are therefore unsuited to exercising the kind of responsibility required"*

Firstly, literature reveals that members on PSE Boards generally lack the necessary mix of skills and expertise to function properly, resulting in a poor skills mix (Vagliasindi 2008, Mayo 2016). This is mostly because directors are nominated for political purposes and/or to compensate for shortages of appropriately skilled directors who sit on private sector Boards (Mwaura 2007).

Secondly, Baldacchino, Mercieca et al. (2022) find that PSEs in Malta fall short of achieving gender diverse Boards, primarily due to a lack of opportunities for women to advance in a number of male-dominated sectors, and the perception among women that directorships in PSEs are less attractive and more politically oriented.

Thirdly, Budiman, Lin et al. (2009) acknowledge that many PSEs are prohibited from appointing foreigners for senior positions, and suggest that policymakers should work to ease restrictions and be more open to appointing talented foreigners to sit on PSE Boards, thus bringing the diversity of skills needed for BE.

2.4.4 Board Remuneration

Board remuneration packages differ between EDs and NEDs. EDs, as employees of the respective companies, are generally compensated by virtue of salaries and benefits, with no further compensation for Board meeting attendance (Beck, Friedl 2020). On the other hand, NEDs are typically paid monthly or yearly cash retainers, or they may receive fees per Board meeting attended (Adebayo, Ackers 2022)

Mumu, Saona et al. (2021) assert that CG and Board remuneration are closely tied, and must thus be thoroughly investigated. Indeed, arriving at the optimal Board remuneration is critical to guaranteeing the Board's adequate function, thus ensuring BE (Sari, Tjoe 2017). Afanador, Bernal et al. (2017, p.65) refer to Board remuneration as:

"a fair compensation paid to directors for the knowledge and experience they bring to the company, the responsibility they take on as directors, the time they invest in attending meetings and, in general, for the fulfillment of their functions."

The Cadbury Report (1992) and the Greenbury Report (1995) express that low remunerations are discouraging, and emphasise the importance of designing remuneration packages that are sufficient and competitive enough to attract and retain directors of high calibre for the sake of ensuring good CG practices within entities.

To attain a "*fair compensation*" (Afanador, Bernal et al. 2017, p.65), most CG legal frameworks suggest the formation of remuneration committees that are generally established to aid Boards in developing and managing remuneration policies that align with the companies' long-term goals (Abdullah 2006, Kanapathippillai, Wines 2016). In this regard, the local MFSA Guidelines[11] do not include the formation of remuneration committees as one of the relevant guides.

<u>Challenges Surrounding Board Remuneration in Public Sector Entities</u>

Studies have found that, in general, PSE Boards tend to be underpaid when compared to their private sector counterparts thereby rendering them uncompetitive in attracting high-calibre BMs (Sari, Tjoe 2017). This view is shared by Afanador and Bernal et al. (2017) who claim that the Board remuneration of most PSEs is below market levels as compensation packages are prescribed with little consideration to the prevailing market conditions (Fredrick 2011). Very low remunerations impose a variety of challenges for PSEs related to, *inter alia*, directors demotivated to fulfil their duties (e.g., failing to attend Board meetings), and a restrained capacity of the PSE to demand that directors fulfil their duties appropriately (Al-Tkhayneh, Kot et al. 2019).

Another observed problem is that remuneration levels and structures tend to be solely decided by governments, as owners of the entity, rather than by the Board, thereby limiting their decision-making rights (Fredrick 2011). Indeed, literature outlines that the remuneration packages of PSE Boards are prescribed by either the government, as active owner, or remuneration committees of the Boards

[11] Vide Appendix 2.1

(World Bank 2014). When such a responsibility is delegated to committees, the government's approval is typically still necessary, to maintain transparency in pay and to prevent abuses (ibid.). In this vein, Mayo (2016) posits that remuneration committees of PSE Boards generally lack the necessary autonomy to devise directors' remuneration packages, and their role, contrary to good CG, is limited to providing suggestions to the relevant government ministry, which ultimately holds the decision-making power.

2.4.5 Board Performance Evaluation

Literature has reached consensus on the fact that Board performance evaluations are a good CG practice. In this vein, Van den Berghe and Levrau (2004, p. 469) state that:

> *"a critical aspect of an effective board is the evaluation of its own performance"*

Indeed, Board performance evaluations provide transparency on whether BMs are fulfilling the designated roles (Spencer 2004), and acting in the best interests of the company (D'Alesandro 2010). In turn, such evaluations serve as a proactive approach to identifying and addressing CG issues before they get out of hand (Kiel, Nicholson 2005). Such evaluations also act as a significant motivator for individual BMs to "*take their duties more seriously*" (Rebeiz 2016, p.502), and to devote sufficient time and effort to fulfil their roles effectively (Kiel, Nicholson 2005). Furthermore, Board performance evaluations identify skill gaps, and serve as a tool for guiding the decision-making process for future BM nominations (Alfanador, Bernal et al. 2017).

There are different approaches to conducting Board performance evaluations, including informal assessments carried out by the Chairperson of the Board, formal self-evaluations, and formal evaluations conducted by independent external consultants (OECD 2021). Additionally, Board performance evaluation criteria are typically a combination of both quantitative measures, such as, attendance and participation in Board committees, and qualitative measures, such as, contributions to the Board's overall performance (ibid.).

The various advantages of Board performance evaluations have prompted certain countries to introduce mandatory Board performance appraisals within both private and public sector entities, in a quest to promote BE. Indeed, as an example, the Swedish state ownership policy requires PSEs to carry out Board performance evaluations annually (OECD 2021). From a local standpoint, the Guidelines fail to guide PICs to perform Board performance evaluations.

Challenges Surrounding the implementation of Board Performance Evaluations in Public Sector Entities

Although it is a widely recognised fact that Board performance evaluations are a cornerstone for good CG, most PSEs still seem to be lagging behind in their implementation. To this effect, literature reveals various challenges which impede the implementation of such evaluations in PSEs.

Firstly, the World Bank (2014) explains that the majority of PSEs do not have any evaluation mechanisms in place, and, inevitably, conducting effective evaluations of Board performance becomes a challenging, if not, impossible, task. Furthermore, the government's intrusion in a PSE's operational decisions presents a hurdle in effectively evaluating the PSE Board's performance (Salleh, Ahmad 2012) since it would be illogical to attribute any substandard performance resulting from such decisions wholly to the Board. Another obstacle cited by Vagliasindi (2008) is the high turnover of BMs in PSEs, making it challenging to achieve continuity and evaluate Board performance.

2.5 Conclusion

This chapter provided an overview of the CG regulatory framework in Malta. It has also presented a review of the literature pertaining to Board and the fundamental aspects thereto. The next chapter delves into the research methodology used to conduct this study.

Chapter 3
Research Methodology

3.1 Introduction

This chapter delineates the research methodology employed in this study. As shown in Figure 3.1, Section 3.2 describes the preliminary secondary research conducted. Next, Sections 3.3 and 3.4 examine the research design and research tools, respectively, while Section 3.5 outlines the rationale adopted for the selection of the research participants. Thereafter, Sections 3.6 and 3.7 explain the data collection and analysis, respectively, and Section 3.8 discusses the research limitations. Lastly, Section 3.9 concludes the chapter.

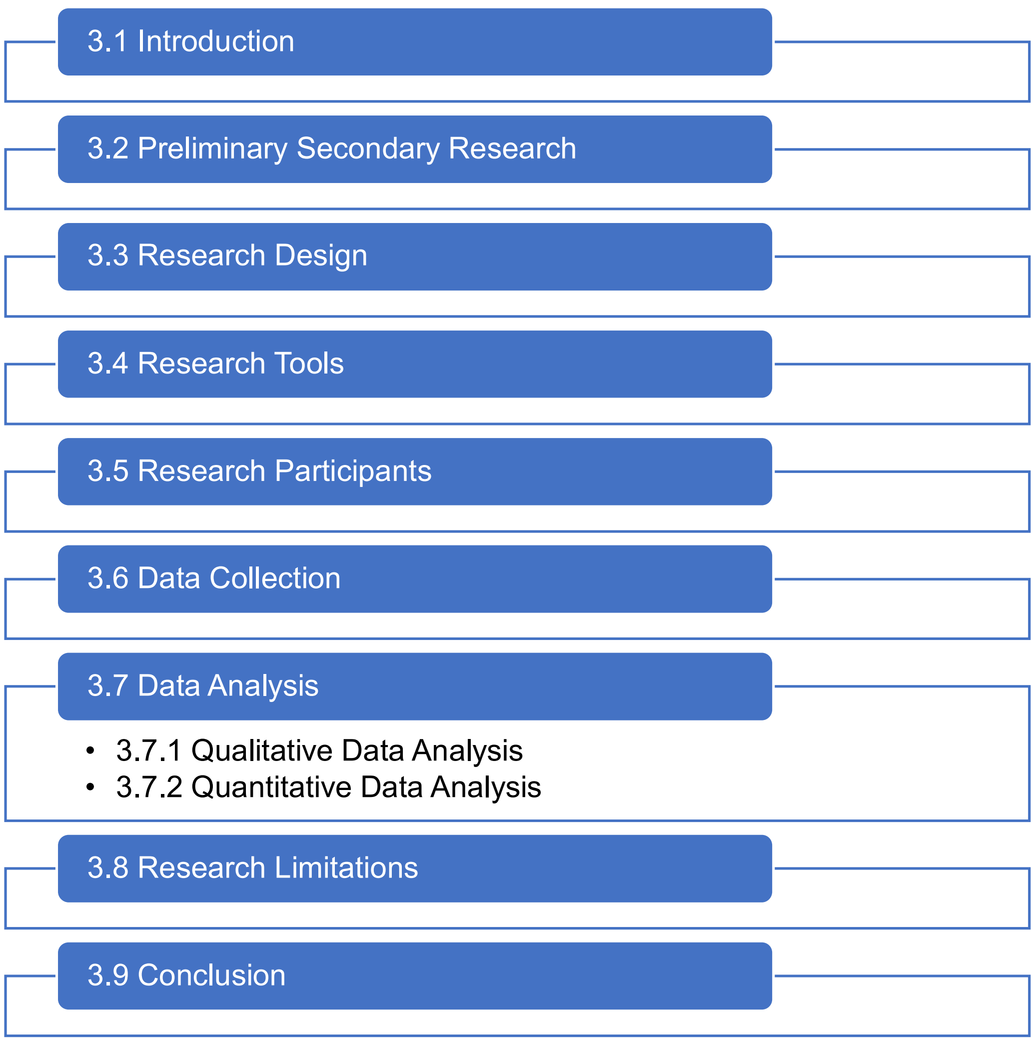

Figure 3.1: Outline of Chapter 3

3.2 Preliminary Secondary Research

At the outset of the study, existing foreign literature was thoroughly scrutinised to gain knowledge of the research topic. Primarily, literature sources consisted of peer-reviewed journal articles, academic papers, reports issued by international institutions, and books.

Furthermore, Maltese studies on the research topic, NSO publications on the Maltese public sector, and the Maltese regulatory framework were also researched. Additionally, publicly available information about MPSEs, such as annual reports and corporate websites, were also examined. The primary goal was to comprehend the mechanisms of PSEs in Malta, and the present status of BE within such entities.

This exercise led to the selection of the main boardroom aspects contributing to BE, and the identification of the challenges surrounding each aspect of BE within PSE Boards.

3.3 Research Design

There exist three types of research methods, namely, quantitative, qualitative, and the mixed methods. As noted by Creswell and Creswell (2017), the qualitative and quantitative methods can be conceptualised as opposite ends of a spectrum, with the mixed methods positioned in the middle. This is because the latter incorporates elements of both the qualitative and quantitative methods, amalgamating them into a single approach.

The quantitative method employs a deductive scientific approach to the research process (Saunders, Lewis et al. 2007). More specifically, it involves the collection of numerical data, primarily through the use of close-ended questions, which is then analysed using statistical procedures (Creswell, Creswell 2017). The analysis of quantitative data explores the causal relationship between a set of variables, which then falsifies or verifies pre-existing theories (Leavy 2022). Typical strategies for quantitative research include experiments and survey research (Bougie, Sekaran 2019). Advantageously, quantitative data allows the researcher to produce findings that are generalisable to a larger population;

however, it may oversimplify complex phenomena due to its inability to obtain an understanding of the participants' own experiences and contexts (Saunders, Lewis et al. 2007). Conversely, qualitative research analyses data inductively (Leavy 2022), allowing for the comprehension of complex phenomena through an understanding of individuals' experiences, perceptions, and behaviours (Chalmers, Cowdell 2021), using non-numerical data. Qualitative data is typically collected through open-ended questions asked in interviews or questionnaires, encouraging detailed responses (Bougie, Sekaran 2019). Such data is then analysed by conducting thematic analysis, a technique that aids in identifying patterns or themes within qualitative data (Chalmers, Cowdell 2021). Overall, a qualitative approach enriches the value of research through the provision of detailed information. Nonetheless, qualitative data is often subjective and difficult to generalise (ibid.)

Creswell (2015) suggests that researchers can improve the quality of their study and gain a deeper understanding of their research problem by adopting a mixed-method approach that combines qualitative and quantitative methods, utilising both close-ended and open-ended questions, to leverage the strengths of each method (Chalmers, Cowdell 2019).

For this study, the researcher decided that a combination of qualitative and quantitative approaches would be most effective in achieving the research objectives. Therefore, this study adopted predominantly a qualitative methodology, with an additional quantitative element.

3.4 Research Tool

The semi-structured interview was identified as the most appropriate research tool for this study. Generally, semi-structured interviews follow an interview schedule containing a mix of close-ended and open-ended predetermined set of questions (Adams 2015), which steer the discussion, and guarantee that all the relevant topics related to the research questions are comprehensively addressed (Harrell, Bradley 2009). However, research participants are encouraged to express themselves freely and openly, and the researcher may probe these responses (McIntosh, Morse 2015). In turn, the flexibility permitted grants researchers the autonomy to explore interesting ideas that arise spontaneously during the interview, and to ask additional questions to clarify or expand on the participant's responses (Adeoye-Olatunde, Olenik 2021). Additionally, because the probes and questions used in semi-structured interviews are standardised, the data collected can be compared and analysed statistically, thereby enhancing the generalisability of the findings (McIntosh, Morse 2015).

This study's interview schedule[12] was developed specifically for current BMs of *MPSE*s and *Corporate Governance Experts* (*CGE*s). Table 3.1 presents an outline of the five sections that make up the interview schedule.

Section Heading	Question Number
Section 1: Board Selection & Appointment	1.1 – 1.2
Section 2: Board Role	2.1 – 2.6
Section 3: Board Composition	3.1 – 3.4
Section 4: Board Remuneration	4.1 – 4.2
Section 5: Board Performance Evaluation	5.1 – 5.3

Table 3.1: Interview Schedule Structure

It is important to note that, while all the interview questions were asked to the MPSE BMs, some questions were not relevant to CGEs. This is illustrated in more detail in Table 3.2.

Interview Categories	Applicable Question Number
MPSE BMs	1.1 – 5.3
CGEs	1.1 – 1.2, 2.6, 3.3 – 5.3

Table 3.2: Questions applicable to interviewee categories

The interview schedule included a mix of open-ended and close-ended questions. Table 3.3 categorises the interview questions as either open-ended or close-ended, while Table 3.4 specifies the type of five-point Likert Scale used for constructing the close-ended questions.

[12] Vide Appendix 3.2

Question Type	Section	Question Number
Open-Ended	1	1.1
	2	2.3 – 2.5
	3	3.3 – 3.4
	4	4.1
	5	5.1, 5.3
Close-Ended	1	1.2
	2	2.1 – 2.2, 2.6
	3	3.1 – 3.2
	4	4.2
	5	5.2

Table 3.3: Categorisation of the interview questions as open-ended and close-ended

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

Table 3.4: Likert-Scale Type

3.5 Research Participants

The appropriate selection of the research population is key to ensuring that research questions are properly answered (Saunders, Townsend 2018). The list of MPSEs[13] relevant to this study was obtained from the Government of Malta's official website. To guarantee its completeness, this was cross-referenced with the latest lists[14] of PCs and EBUs published by the NSO. Thereafter, the BMs of the corresponding MPSEs were identified through the website of the Malta

[13] Vide Appendix 1.2
[14] Vide Appendix 1.1

Business Registry (MBR), which contains an online database with information about all companies registered in Malta.

To contact the prospective interviewees, the researcher searched company websites to acquire their email addresses. An email was then composed, inviting interviewees to participate in an interview. The email's credibility was enhanced with a Letter of Introduction[15] signed by the Head of Department of Accountancy at the University of Malta, attached thereto. When email addresses could not be sourced, the researcher reached out to potential interviewees through LinkedIn, a social media platform that caters to professionals. The message sent through LinkedIn included identical content as the emails, as well as the Letter of Introduction. Follow-up emails or messages were sent to potential interviewees who failed to respond within one month. If no reply was still forthcoming, an attempt was made to contact them over the phone. Despite the efforts made, various potential respondents did not respond to the emails or messages that had been sent, while some others explicitly declined the invitation to participate.

As depicted in Table 3.5, twenty-two interviews were carried out in total. Out of these, eighteen interviews were done with MPSE BMs, covering a total of twenty-five MPSEs as some BMs sit on multiple MPSE Boards. Board chairpersons and Board directors were chosen as research participants since they possess hands-on experience in the mechanisms of MPSE Boards and their respective CG practices. Meanwhile, another four interviews were conducted with CGEs, consisting of two corporate lawyers, a representative of the Malta Institute of Directors, and a corporate advisor. The reason for selecting CGEs as research participants was the anticipation that, incorporating their expertise into their responses to the interview questions would enrich the analysis of the research topic.

[15] Vide Appendix 3.1

Interviewee Category	Research Participants	Representing	M	F
MPSE BMs	5 Board Chairpersons	25 MPSEs	4	1
	13 Board Directors		11	2
CGEs	2 Corporate Lawyers	N/A	1	1
	1 Institute of Directors Representative		1	-
	1 Corporate Advisor		1	-
Total	22 participants	25 MPSEs	18 Males	4 Females

Table 3.5: The research participants

3.6 Data Collection

Data collection is crucial in research as it provides the necessary information for investigating research problems (Mazhar, Anjum et al. 2021). Nonetheless, researchers must carefully select appropriate data collection methods to achieve the research objectives, and ensure impactful studies (HR, Aithal 2022) as, using unsuitable methods can yield invalid findings and erroneous conclusions (Mwita 2022).

For the purpose of this study, secondary data was collected through credible sources aligned with the research objectives. Such data was thoroughly analysed in Chapter 2 of this dissertation, and was subsequently used to prepare an interview schedule for the collection of primary data, as outlined in Section 3.4. Prior to the actual primary data collection, a pilot interview was carried out with a CGE and academic, having ample practical experience in CG research projects. This helped to identify challenges that would have emerged during the actual data collection, hence enabling the researcher to make the necessary adjustments to the interview schedule to ensure high-quality data collection.

The research participants were interviewed at a location, date, and time that suited them best, between the 3rd of November, 2022 and the 21st of March, 2023. The interviews lasted between 30 and 90 minutes. Following recent trends emerging from the COVID 19 pandemic, some participants opted to hold the interview virtually, using video-conferencing on their preferred online platform. With the participants' permission, some interviews were audio recorded. However, some participants refused to be audio-recorded, and, in such instances, the researcher took detailed notes of their feedback during the interview itself.

Primary data was also collected through the MBR website to obtain additional information about one of the key fundamental aspects of BE within MPSEs, namely, Board composition, with a specific focus on MPSE Board gender ratio[16].

3.7 Data Analysis

3.7.1 Qualitative Data Analysis

Qualitative data was collected from the open-ended questions included in the interview schedule, as well as from the researcher's probing into the participants' Likert-Scale ratings. To facilitate analysis, ensure accuracy in data, and obtain direct excerpts from the interviewees, all audio-recorded interviews were later transcribed. A summary of these transcriptions, along with notes taken during non-audio-recorded interviews, helped to identify similarities and differences in the data, streamlining the overall qualitative data analysis process.

3.7.2 Quantitative Data Analysis

Quantitative data was collected from the Likert-Scale questions included in the interview schedule. This quantitative data was subsequently analysed using IBM SPSS Statistics.

The Friedman Test[17] was used to compare mean rating scores of the Likert Scale between a number of related statements, and to determine whether the statements differ significantly or not. These mean rating scores range from 0 to 4, where 0 corresponds to *'Strongly Disagree'* and 4 corresponds to '*Strongly Agree'*.

[16] Vide Appendix 1.2
[17] Vide Appendix 3.3

The Mann-Whitney Test[18] was used to compare mean rating scores of the Likert Scale provided to a statement between the two groups of interviewees, namely, the BMs and the CGEs. It further determined whether the mean rating scores vary significantly between the two respondent groups.

3.8 Research Limitations

Efforts were made to interview one BM from each MPSE. Despite successfully interviewing eighteen BMs, representing a total of twenty-five MPSEs, including one BM from each of the largest[19] five MPSEs, time constraints limited the possibility of interviewing a BM from all fifty-four[20] MPSEs. Furthermore, various MPSE BMs failed to respond to the invitation to participate, which restricted the number of BMs that could be interviewed within the researcher's time capacity to eighteen.

In certain instances, the study touched upon political content, which inherently represents a sensitive topic. This, in turn, created another research limitation as it led to some inevitable subjectivity in the participants' responses, and a potential reluctance to provide completely truthful answers. To address this limitation, the researcher ensured to maintain a contented discussion, and derived conclusions from the viewpoints of both MPSE BMs and CGEs.

3.9 Conclusion

This chapter presented a detailed description of the research methodology applied in the study. The next chapter presents the research findings compiled from the interviews conducted.

[18] Vide Appendix 3.4
[19] The largest five MPSEs were identified from Mercieca's (2022) recent study
[20] Vide Appendix 1.2

Chapter 4
Research Findings

4.1 Introduction

This chapter analyses the research findings obtained from the twenty-two interviews conducted for the purpose of achieving the study's research objectives, namely, to assess BE within MPSEs on each of the five fundamental aspects of BE, and to provide suitable recommendations for the enhancement thereof. Figure 4.1 illustrates the structure of the chapter that delves into the five parts of the interview schedule, namely, Board Selection and Appointment (Section 4.2), Board Role (Section 4.3), Board Composition (Section 4.4), Board Remuneration (Section 4.5), and Board Performance Evaluation (Section 4.6). Lastly, Section 4.7 concludes this chapter.

4.1 Introduction

4.2 Board Selection and Appointment

- **4.2.1 The Appointment and Removal of MPSE BMs – How is it done?**
- **4.2.2 Challenges Surrounding the Selection and Appointment of PSE BMs – Are they applicable to MPSEs?**

4.3 Board Role

- **4.3.1 Board Meeting Protocol: Frequency, BMs' Attendance, and CEO Participation**
- **4.3.2 Sub-Committees in MPSE Boards – Do they exist?**
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4.4 Board Composition

- **4.4.1 Gender Diversity on MPSE Boards**
- **4.4.2 Academic Qualifications of MPSE BMs**
- **4.4.3 Local Talent Pool for a Good Skills Mix - Is it sufficient for the needs of MPSE Boards?**
- **4.4.4 Non-Maltese BMs - Should they serve on MPSEs?**

4.5 Board Remuneration

- **4.5.1 Remuneration Packages of MPSE Boards**
- **4.5.2 Challenges Surrounding Board Remuneration in PSEs – Are they present in MPSEs?**

4.6 Board Performance Evaluation

- **4.6.1 The Implementation of Board Performance Evaluations by MPSEs - Is it done?**
- **4.6.2 Challenges Surrounding the Implementation of Board Performance Evaluations in PSEs – Applicable to MPSEs**?
- **4.6.3 Other Challenges for the Implementation of Formal Board Performance Evaluation within MPSEs**

4.7 Conclusion

Figure 4.1: Outline of Chapter 4

4.2 Board Selection & Appointment

Section one of the interview schedule included two questions (Qns 1.1 – 1.) on Board selection and appointment.

4.2.1 The Appointment and Removal of MPSE BMs – How is it done?

The first question[21] asked the participants to explain the MPSEs' procedure for the appointment and removal of BMs.

Participants(18/18BMs, 4/4CGEs) explained that the government, as the shareholder of MPSEs, has sole discretion over the appointment of MPSE BMs, with one CGE(1/4CGEs) explaining that BM's appointments are within the shareholders' rights according to the Companies Act *1995.* They added that, the ministers, who are the *"legal representatives of the government"*(1/4CGEs), have the authority to select and nominate individuals whom they consider competent and integral to be appointed as BMs for MPSEs falling under their respective ministries(18/18 BMs, 4/4 CGEs). Ultimately, nominations are approved by the Cabinet Office(3/18 BMs).

While some consider the ministers' authority to oversee nominations and appointments and select their "*people of trust*"(4/18BMs, 2/4CGEs) as "*acceptable*"*(1/18 BMs),* "*reasonable*"(4/18BMs), and "*the way it should be*"(2/18BMs), others(11/18BMs, 4/4CGEs) deem this counterproductive as they question whether the ministers are conducting an appropriate fit and proper assessment when appointing MPSE BMs. Similarly, some participants asserted that the ministers' methodology for appointing MPSE BMs involves simply "*picking and choosing*" (3/11BMs) from the "*pool of people they know*"(1/4CGEs), frequently including "*people in politics*" (2/4 CGEs).The Board's lack of influence on the appointment of new MPSE BMs was emphasised by several participants(6/18BMs). However, some(3/18 BMs) contended that the minister seeks the Board's consultation for new appointments.

Regarding the removal of MPSE BMs, participants(18/18BMs, 4/4CGEs) clarified that this naturally occurs when the ministers do not reappoint BMs after their term has

[21] Vide Q1.1 p.A3.2-2

naturally expired. Additionally, some(3/18BMs, 2/4CGEs) elaborated that the Companies Act 1995 empowers ministers to remove BMs before their tenure expires if they lose confidence in their ability to perform their responsibilities effectively. Similarly, the participants also explained that it is the "*practice*" (7/18 BMs) and "*ethic*"(3/18BMs) for MPSE BMs to offer their resignation when there is a change in government or minister in order to enable the incoming minister to choose between re-confirmation or new appointments(10/18BMs). Further comments on this are provided in Section 4.2.2 statement (ii).

4.2.2 Challenges Surrounding the Selection and Appointment of PSE BMs – Are they pplicable to MPSEs?

Thereafter, the participants were provided with five statements[22] containing features that, according to literature, are the primary challenges of the selection and appointment of PSE Boards. They were then asked to rate and comment on their level of agreement with each statement, specifically in the context of MPSEs.

Table 4.1 reveals that, in descending order of agreement, on average, the respondents agreed with statements (ii)$_{(\bar{x}=4.00)}$, (iii)$_{(\bar{x}=3.27)}$ and (i)$_{(\bar{x}=2.91)}$, were neutral to statement (v)$_{(\bar{x}=1.77)}$ and disagreed with statement (iv)$_{(\bar{x}=0.41)}$, with significant differences in the level of agreement$_{(p < 0.001)}$. The two respondent groups differed significantly[23] in their agreement to statement (v)$_{(p=0.042)}$

[22] Vide Q1.2 pp.A3.2-2
[23] Vide Table A3.1 in Appendix 3.4

	Mean	Std. Dev	Min	Max
(ii) A change in Government is followed by a change in BMs.	4.00	0.000	4	4
(iii) Competent individuals are reluctant to be appointed as BMs.	3.27	1.202	0	4
(i) Political ties are the main selection criterion for Board appointments.	2.91	1.269	0	4
(v) The nomination process for BMs is merit-based.	1.77	1.020	0	3
(iv) The nomination process for BMs is transparent.	0.41	0.503	0	1
Scale from 0 (Strongly Disagree) to 4 (Strongly Agree)	$X^2(4) = 64.492$, $p < 0.001$			

Table 4.1: Challenges surrounding the Selection and Appointment of MPSE BMs

(i) Political ties are the main selection criterion for MPSE BM appointments.

On average, this statement received high agreement(13/18BMs, 3/4CGEs), with one participant(1/13BMs) acknowledging that "*unfortunately*, *that is how it always was in Malta*." However, some disagreed, observing that this criterion is not the main factor considered by ministers(3/5BMs), and that it does not always hold true(2/5BMs, 3/4CGEs).

(ii) A change in government is followed by a change in MPSE BMs.

The interviewees unanimously agreed(18/18BMs, 4/4CGEs) that a change in government is followed by a change in MPSE BMs, with one BM(1/18BMs) stating that this is a fact. As discussed in Section 4.1.1, when there is a change in government, or even in minister, the practice is that the MPSE BMs voluntarily offer their resignation. Consequently, the participants(5/18BMs, 2/4CGEs) explained that the trend is for incoming ministers to choose new appointments over re-confirmations in order to pick their "*people of trust*", resulting in complete overhauls of MPSE Boards. The tables hereunder summarise the arguments for (Table 4.2) and against (Table 4.3) this practice.

Comments	Responses*
It is the shareholders' right to choose their BMs.	4
If people were appointed for the wrong reasons (politically), then, the incoming minister should have the option to replace them with competent individuals.	2
It is not right to leave the public administration in the hands of the opposing political party.	1
The change in government/minister is not something which happens on a regular basis.	1

Table 4.2: Arguments for the practice

**Responses limited to the respondents (out of twenty-two) who added comments to Q1.2(ii). Some participants discussed more than one argument.*

Comments	Responses*
It hinders Board continuity and stability.	7
It is unfair for the BMs that are dedicated, constantly delivering and doing a good job.	5
It impacts Board chemistry, and can ruin Board harmony.	3
It is not a practice emerging from the Companies' Act.	2

Table 4.3: Arguments against the practice

**Responses limited to the respondents (out of twenty-two) who added comments to Q1.2(ii). Some participants discussed more than one argument.*

(iii) Competent individuals are reluctant to be appointed as MPSE BMs

Expressing disappointment over the matter, most participants(14/18BMs, 4/4CGEs) recognised that various talented individuals within the local community are reluctant to accept positions on MPSE Boards. Some causes for this reluctance are compiled in Table 4.4.

Comments	Responses*
Becoming a PEP	16
Perceived political association	7
Poor remuneration	4

Table 4.4: Causes for the reluctance to serve on MPSE Boards

**Responses limited to the respondents (out of twenty-two) who added comments to Q1.2(iii). Some participants discussed more than one cause.*

As may be observed, sixteen participants(13/18BMs, 3/4CGEs) argued that a growing reluctance to serve on MPSE Boards is attributed to the classification of individuals as PEPs upon appointment. BMs(13/13BMs) view being a PEP as a burdensome experience, describing it as a "*headache*"(1/13BMs) and "*nightmare*" (1/13BMs), primarily due to the rigorous background checks and scrutiny of their financial transactions by their banks. Some explained(6/13BMs) that the burden is elevated with the extension of the PEP status to their close family members, including spouses, children, and parents.

The participants further explained the various reasons why being a PEP is viewed unfavourably. Firstly, it is contended that certain industries, particularly banks, are "*going overboard*"(1/13BMs) with their scrutiny of PEPs, which is causing BMs considerable distress. Case in point, some BMs declared(3/13BMs) that certain local banks and other financial institutions off-boarded them or their family members due to their classification as PEPs, deeming them too risky for business. Similarly, another BM(1/13BMs) disclosed that an insurance company denied issuing a life insurance coverage, citing his PEP status as a reason for the increased risk of murder. Meanwhile, some argued(3/13BMs) that being a PEP is especially disadvantageous for entrepreneurs, or individuals whose immediate family member is an entrepreneur. This is because entrepreneurs have a lower tolerance level for the endurance of delays in their business transactions stemming from banks' enhanced scrutiny as it would disrupt their business operations. Interestingly, it was remarked(2/13BMs, 1/4CGEs) that the classification of MPSE BMs as PEPs is one of the reasons why many individuals are appointed on multiple MPSE Boards since, *"if you have 1 or 100 appointments on MPSE Boards, you still have to go under the same scrutiny".* As a result, MPSE BMs often end up "*having a lot on their plate*"(1/1CGEs), and are unable to give sufficient and adequate contribution to the MPSE on which they serve, leading to Board ineffectiveness. Similarly, CGEs(2/3CGEs) believe that, classifying MPSE BMs as PEPs is an exaggeration, adding that, if they were in their shoes, they would decline the appointment.

Other interviewees(5/18BMs, 2/4CGEs) observed that many are hesitant to accept MPSE Board appointments due to concerns of reputational harm stemming from perceived political association. Indeed, BMs acknowledged(5/5BMs) that they are often perceived as being appointed for their political alignment with the political party in government, rather than for their merit. This perception overshadows the achievements of competent individuals, and is therefore deemed "*offensive*"(2/5BMs, 1/2CGE). Additionally, one BM(1/5BMs) stated that this stigma attracts media attention, which can lead to unfounded attacks that damage their reputation.

Another cause for the reluctance to serve on MPSE Boards was the poor remuneration offered to MPSE BMs(4/4BMs). This matter is discussed further in Section 4.5.

(iv) The nomination process for MPSE BMs is transparent.

All the participants(18/18BMs, 4/4CGEs) disagreed that the nomination process for MPSE BMs is transparent, contending that the methodology used by the minister for selecting BMs is publicly unknown. Similarly, some(8/18BMs, 3/4CGEs) strongly suggested that the Government should start considering the implementation of a public call system to strengthen the nomination process for MPSE BMs, enhance transparency, and promote greater equity. Yet, a $CGE_{(1/3CGEs)}$ warns that "*strong political will*" is necessary for this system to ever be implemented.

(v) The nomination process for MPSE BMs is merit-based.

This statement received mixed opinions, with some $disagreeing_{(6/18BMs,\ 4/4CGEs)}$, and others $agreeing_{(7/18BMs)}$. $Others_{(5/18BMs)}$ maintained a neutral stance, claiming that, sometimes, it is, and, at others, it is not. As aforementioned, the two respondent groups differed significantly in their responses to this statement, with the BMs providing a significantly higher mean rating score than the CGEs[24]. This indicates that the CGEs do not perceive the nominations of MPSE BMs as based on merit, while BMs do. These diverging opinions may be an indication of bias in the responses provided by one of the respondent groups.

4.3 Board Role

The second part of the interview schedule consisted of six questions (Qns 2.1 – 2.6) on the role of the Board.

4.3.1 Board Meeting Protocol: Frequency, BMs' Attendance, and CEO Participation

In the initial three questions[25], the participants were asked about the frequency of the MPSEs' Board meetings, the attendance of BMs to these meetings, and the involvement of the CEO in them.

Frequency of MPSE Board Meetings

Over 80% of the BMs $interviewed_{(15/18BMs)}$ indicated that their MPSE holds Board meetings monthly. The $others_{(3/18BMs)}$ specified that Board meetings within their MPSE are conducted either quarterly or semi-annually. It is important to note that the latter feedback was received from BMs serving on smaller MPSEs. Some

[24] Vide Table A3.1 in Appendix 3.4
[25] Vide Q2.1-2.3 p.A3.2-3

BMs(4/15BMs) added that, in situations where urgent matters cannot wait until the next scheduled meeting, they may hold informal Board meetings virtually to address such matters, enabling the Board to respond promptly to any unexpected circumstances that may arise, and make timely decisions, thereby guaranteeing the seamless functioning of the MPSE. Overall, the Board meeting frequency of MPSEs exceed the minimum of six meetings yearly recommended by Baldacchino, Callus et al. (2022)[26], hence indicating satisfactory input towards the fulfilment of the Board's monitoring role and BE.

BMs' Attendance to MPSE Board Meetings

When asked about the percentage of BMs attending the MPSE Board meetings, the BMs(18/18BMs) specified that the attendance rate ranges between 80%-100%, adding that, most of the time, all BMs attend, and occasionally, one BM may be absent. In addition, one(1/18BMs) explained that, if a BM cannot attend a Board meeting physically, they can still participate through virtual means, emphasising that the possibility to attend meetings virtually had an overall positive impact on the attendance rate.

CEO's Participation in MPSE Board Meetings

The BMs(16/18BMs) affirmed that it is customary for the CEO to be a regular *ex-officio* participant in MPSE Board meetings, with the role of guiding the agenda and providing strategy updates, but devoid of any voting rights. Echoing Browning and Sparks (2016)[26,] several BMs(5/16BMs) stressed the importance of the CEO's participation in MPSE Board meetings for the Board to keep attuned to strategic issues and effectively fulfil their strategic role, claiming that *"governance and management go hand-in-hand"*(1/5BMs) and that having a Board meeting without the CEO's knowledge of the MPSE's operational issues would make no sense(4/5BMs).

[26] Vide Section 2.4.2

4.3.2 Board Committees in MPSE Boards – Do they exist?

In the next question[27], the BMs were asked whether the MPSE/s on which they serve has/have Board committees, and if so, to name them. Their feedback is presented in Table 4.5 hereunder.

<table>
<tr><th rowspan="3">Type of Committee</th><th colspan="4">Interviewed MPSEs in November 2022 – March 2023</th></tr>
<tr><th colspan="2">Large MPSEs (N[28]= 5; n[29]=5)</th><th colspan="2">Small and Medium MPSEs (N=49; n=20)</th></tr>
<tr><th>No. of MPSEs</th><th>%</th><th>No. of MPSEs</th><th>%</th></tr>
<tr><td>Audit</td><td>3</td><td>60%</td><td>4</td><td>20%</td></tr>
<tr><td>Risk Management</td><td>2</td><td>40%</td><td>3</td><td>15%</td></tr>
<tr><td>Nomination</td><td>0</td><td>0%</td><td>0</td><td>0%</td></tr>
<tr><td>Remuneration</td><td>0</td><td>0%</td><td>0</td><td>0%</td></tr>
<tr><td>Investment</td><td>0</td><td>0%</td><td>2</td><td>10%</td></tr>
<tr><td>Procurement</td><td>0</td><td>0%</td><td>2</td><td>15%</td></tr>
<tr><td>Corporate Social Responsibility (CSR)</td><td>0</td><td>0%</td><td>1</td><td>5%</td></tr>
<tr><td>None</td><td>2</td><td>40%</td><td>14</td><td>70%</td></tr>
</table>

Table 4.5: Types of Board Committees found in MPSEs

As can be seen, 60% of the large MPSEs have established an audit committee, while 40% have not set up any Board committees at all. As for the small-and-medium MPSEs interviewed, only 20% have established an audit committee. Moreover, the most small-and-medium MPSEs (70%) have not set up any Board committees, indicating a lack of formal governance structures in the smaller-sized MPSEs. Furthermore, within the interviewed sample, neither large MPSEs nor small-and-medium MPSEs have established a nomination and/or remuneration committee for the BMs. This is understandable since nomination and remuneration of MPSE BMs are addressed solely by the parent ministry and government, as discussed in Sections 4.2 and 4.5, respectively.

[27] Vide Q2.4 p.A3.2-3
[28] N = population size, Vide Table A1.1 in Appendix 1.2
[29] n = sample size

4.3.3 Written Procedures for MPSE Board Operations

Subsequently, the participants were asked[30] whether there are any written and formal procedures available for guidance on MPSE Board operations and CG.

The participants$_{(6/18\text{BMs})}$ explained that, during their term, MPSE BMs are expected to follow the Guidelines for public interest entities issued by the MFSA, which outlines their roles and responsibilities as BMs. They$_{(6/18\text{BMs})}$ added that there is a lack of awareness of these Guidelines, as well as insufficient monitoring by the relevant authority to ensure that MPSE Boards are adhering to them. Several$_{(4/6\text{BMs})}$ suggested the need for new tailor-made Guidelines to tackle newly emerging CG challenges, as well as the political element of MPSEs. In particular, one participant$_{(1/6\text{BMs})}$ proposed a revision which resembles the "*OECD guidelines for good corporate governance in state-owned enterprises*"[31]. Additionally, some participants$_{(10/18\text{BMs})}$ noted that there are no formal and written procedures that are entity-specific to guide them on their roles as BMs.

4.3.4 Challenges Surrounding the Role of the Board in PSEs – The reality of MPSEs?

Subsequently, the respondents were provided with three statements[32] containing features that are generally perceived as obstacles to the fulfilment of Board roles in PSEs, and were asked to rate and comment on their level of agreement with each statement, specifically in the context of MPSEs.

As shown in Table 4.6 hereunder, in descending order of agreement, on average, the respondents agreed with statement (i)$_{(\bar{x}=2.27)}$, were neutral to statement (ii)$_{(\bar{x}=1.55)}$, and disagreed with statement (iii)$_{(\bar{x}=1.00)}$, with significant differences in the level of agreement$_{(p=0.001)}$. Furthermore, as cited in Appendix 3.4[33], the differences between the two respondent groups was found to be significant for statements (i)$_{(p=0.005)}$ and (ii)$_{(p=0.042)}$

[30] Vide Q2.5 p.A3.2-3
[31] Vide Section 2.4.2
[32] Vide Q2.6 pp.A3.2-3 - A3.2-4
[33] Vide Table A3.2 in Appendix 3.4

	Mean	Std. Dev	Min	Max
(i) The Board is adequately empowered to discharge its functions, free from government intervention.	2.27	1.279	0	4
(ii) BMs are objective enough to refrain from making decisions that please the political party that elected them on the Board	1.55	1.101	0	3
(iii) The Board is adequately trained on their roles as BMs by means of training programs implemented by the MPSE	1.00	1.195	0	4
Scale from 0 (Strongly Disagree) to 4 (Strongly Agree)	$X^2(2) = 13.364$, $p = 0.001$			

Table 4.6: Challenges surrounding the fulfilment of Board roles in MPSEs

(i) MPSE Boards are empowered to function freely without government intervention

Several(9/18BMs) agreed that MPSE Boards perform their roles without interference from the government, with one(1/9BMs) further adding that, *"if there is government intervention, a MPSE Board member should resign immediately",* and the rest(8/9BMs) abstaining from providing further comments on their agreement with the statement.

Others(7/18BMs) took a neutral stance, asserting that the extent of government interference in MPSE Boards depends on the personalities of the directors sitting on the Boards and the respective ministers, adding that, while they acknowledge the need for MPSEs to *"follow the political direction",* at times, it does not mean that the government intervenes in all the decisions taken by Boards. They claimed that the degree of government intervention in MPSEs fluctuates, and is not consistent.

The remaining interviewees disagreed(2/18BMs, 4/4CGEs) with the statement, admitting that, *"to say that there is no government intervention in these entities is not* *realistic"*, and that there may be instances where BMs actively invite government intervention to secure their re-appointment(2/4CGEs), resulting in a "*process with a double negative*". Meanwhile, two BMs(2/2BMs) were of the opposing opinion that the government should intervene in MPSEs because BMs are simply "*government representatives*", and if something goes wrong within the entity, the media would attack the responsible minister, not the Board. Contrastingly, the CGEs(4/4CGEs) emphasised that the Board should have the liberty to conduct their business without any political interventions.

As aforementioned, the two respondent groups differed significantly on their level of agreement with this statement[34], with BMs agreeing and CGEs strongly disagreeing, indicating opposing perspectives regarding the existence of government intervention in MPSEs. As outsiders, CGEs do not believe that the BMs are objective in their decision-making, while the BMs believe they are. The nature of the question does not preclude bias in the answers provided.

(ii) BMs are objective enough to refrain from making decisions that benefit the political party that elected them on the Board

Overall, there were mixed viewpoints on this statement, leading to an average neutral score. Some participants disagreed(8/18BMs, 4/4CGEs), observing that, "*in Malta we have not yet reached that level of impartiality"(1/4BMs).* Similarly, a CGE(1/4CGEs) contended that MPSE BMs avoid challenging ideas because they would be "*going against the minister*", and thus, they "*will not be re-appointed".* Some(6/18BMs) took an opposing view, stating that, in general, the appointed MPSE BMs take decisions in the best interest of the company. The rest were neutral(4/18BMs), claiming that there is "*no black and white answer*"(2/4BMs) because every Board is composed of individuals with varying levels of commitment to CG. Interestingly, one CGE(1/4CGEs) suggested MPSEs to establish a mechanism where BMs declare their fiduciary duty and ethical behavior by signing a declaration.

[34] Vide Table A3.2 in Appendix 3.4

(iii) The implementation of BM training programmes by MPSEs

Some participants(4/18BMs) agreed with this statement, stating that their respective MPSEs implement training programmes for BMs on their respective roles, either formally (2/4BMs) or informally(2/4BMs).

On the other hand, most participants(14/18BMs, 4/4CGEs) disagreed, commenting that MPSEs fail to provide any form of training to their BMs throughout their tenure. Consequently, some BMs who may lack experience serving on a Board may not be aware of the inherent responsibilities of a MPSE BM(3/14BMs,2/4CGEs), such as, being designated as a PEP(2/3BMs, 1/2CGEs) and acting as *bonus pater familias*(1/3BMs, 1/2CGEs). Therefore, some(2/14BMs, 2/4CGEs) suggested that it is "*about time*" for MPSEs to start taking Board training seriously, such that BMs "*keep abreast of the rapidly changing world*", and fulfil their duties effectively. Conversely, others(7/14BMs) argued that requiring MPSE BMs to attend Board training would be "*unnecessary*" (4/6BMs), "*offensive* [and] *disrespectful*"(2/6BMs), and an "*inconvenience*"*(1/6BMs),* considering their busy schedules and extensive experience.

4.4 Board Composition

Section 3 of the interview schedule consisted of four questions (Qns 3.1 – 3.4) on Board composition.

4.4.1 Gender Diversity on MPSE Boards

An analysis of the MBR website indicated that the average MPSE Board includes only one female ($\bar{x}$=1.65, $\tilde{x}$=1). In support of this finding, the next question[35] asked MPSE BMs(18/18BMs) to classify the BMs of the MPSEs on which they sit by gender. Table 4.7 presents the participants' feedback and the data collected from the MBR on all MPSEs, suggesting male-dominated MPSE Boards, hence a lack of gender diversity, which hinders BE.

[35] Vide Q3.1 p.A3.2-4

		Males BMs	Females BMs
[a]MPSEs as at 15^{th} April, 2023	Number of BMs	222	*89*
	Mean$_{(\bar{x})}$	4.11	1.65
	Median$_{(\tilde{x})}$	4	1
Interviewed MPSEs in Nov 2022 – March 2023	Number of BMs	111	39
	Mean$_{(\bar{x})}$	4.44	1.56
	Median$_{(\tilde{x})}$	5	1

Table 4.7: Gender diversity on MPSE Boards

[a]Source: Malta Business Registry (2023)

Several individuals$_{(7/18BMs)}$, some of whom are females themselves$_{(2/7BMs)}$, chose to elaborate on this matter, emphasising that people should be on Boards based on their merit, not their gender$_{(7/7BMs)}$. Some further cited the recently introduced law in Malta that imposes a quota for women in parliament, and objected to the idea of favouring women through positive discrimination$_{(3/7BMs)}$. It was also highlighted$_{(1/7BM)}$ that, locally, the pool of women is smaller than that of males, and thus, we see the same women serving on many MPSE Boards. Therefore, it is believed that, everything being equal, there should be a fair chance for both genders$_{(1/7BMs)}$, and that rather than emphasising gender balance on MPSE Boards, the objective should be to support and educate females to feel comfortable and confident enough to sit on MPSE Boards$_{(2/7BMs).}$

4.4.2 Academic Qualifications of MPSE BMs

The next question[36] asked BMs$_{(18/18BMs)}$ to specify the academic qualifications held by all directors on the 25 MPSE/s they serve on. Table 4.8 demonstrates the results concerning the MPSE BMs' qualifications.

[36] Vide Q3.2 p.A3.2-4

Interviewed MPSEs in November 2022 – March 2023 N[37] = 54; n[38] = 25[39]		
	Frequency	**%**
No Academic Qualification	32	21%
Management	32	21%
Law	17	11%
Accountancy	16	11%
Banking and/or Investment	14	9%
Economics	11	8%
Other (EU Studies, Health, Education, IT)	11	7%
Engineering	7	5%
Architecture	6	4%
HR	4	3%
Total no. of BMs sitting on the 25 MPSEs represented by the BMs interviewed	150	

Table 4.8: Academic qualifications held by MPSE BMs

As illustrated, of the 150 BMs serving on the 25 MPSEs represented by the 18 BMs interviewed, 79% possess a qualification, while 21% do not. The most common qualification held by MPSE Boards included in the study is management (21%), followed by law (11%) and accountancy (11%).

4.4.3 Local Talent Pool for a Good Skills Mix – s it Sufficient for the needs of MPSE Boards?

Next, the participants were asked[40] whether, in the local context, the pool of professional and experienced individuals is sufficient to achieve a good skills mix in MPSE Boards. Whilst some$_{(5/18BMs)}$ opined that the local pool of skilled candidates is sufficient, most$_{(13/18BMs,\ 4/4CGEs)}$ suggested otherwise, providing several reasons to support their views. Firstly, Malta's small size means that the pool of human resources is inherently limited$_{(5/13BMs,1/4CGEs)}$. Secondly, the pool of skilled individuals is particularly lacking in certain specialised industries, such as,

[37] N = population size, Vide Table A1.1 in Appendix 1.2
[38] n = sample size
[39] The 18 BMs interviewed represent a total of 25 MPSEs as some BMs sit on more than one MPSE Board.
[40] Vide Q3.3 p.A3.2-4

AI, aviation, and fuel(3/13BMs,2/4CGEs). Thirdly, one BM(1/13BMs) explained that governments are reluctant to appoint skilled individuals who hold opposing political ideologies, leading to the automatic exclusion of approximately 50% of the available pool of skilled individuals. Additionally, for reasons outlined in Section 4.2.2 statement (iii), many skilled individuals are being discouraged from serving on MPSE Boards(4/13BMs, 1/4CGE). Therefore, all in all, the already small pool of local skilled people available for MPSE Boards is continually shrinking, leading to a poor skills mix on these Boards.

4.4.4 Non-Maltese BMs – Should they serve on MPSEs?

The next question[41] asked the participants to comment on their agreement with non-Maltese individuals serving on MPSEs. Most respondents(12/18BMs, 2/4CGEs) agreed with the recommendation, on condition that the respective foreigners possess the right skills and competencies that can add value to the entities. Indeed, the participants further contended that foreigners provide "*a different point of view*"(3/12BMs), "*political independence*"(2/12BMs, 1/2CGEs), "*good networks,*" (3/12BMs), and a "*diverse skills mix*"(4/12BMs, 1/2CGEs), all of which are crucial to achieve BE. Moreover, in cases where MPSEs demand specialised expertise, the participants(2/12BMs, 1/2CGEs) argued that appointing non-Maltese nationals is "*inevitable*" as such expertise is scarce in Malta. While recognising that foreign appointments on MPSE Boards are a rare occurrence, possibly due to national insularity(3/12BMs), the participants emphasised that positive discrimination towards foreigners should not be adopted(2/12BMs, 2/2CGEs).

Conversely, some participants(6/18BMs, 2/4CGEs) expressed disagreement towards foreigners serving on MPSE Boards, emphasising that there are sufficient capable individuals within the local community(3/6BMs), and that this would lead to a "*clash of culture*"(1/6BMs, 1/2CGEs) which would disrupt the harmony on MPSE Boards. Others disagreed(2/6BMs, 1/2CGEs) on the basis that, hiring foreigners would be a costly endeavour as the MPSEs would have to bear the costs of their travel and accommodation.

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[41] Vide Q3.4 p.A3.2-4

4.5 Board Remuneration

Section four of the interview schedule consisted of two questions (Qns 4.1 – 4.2), on Board remuneration.

4.5.1 Remuneration Packages of MPSE Boards

Since information about the remuneration packages of MPSE Boards is not publicly available, the interviewees were asked[42] to explain how the remuneration mechanism of MPSE Boards works. Table 4.9 summarises the participants' feedback on this question.

Comments	Responses*
Fixed fee paid monthly	22
Established by the Government	8
Remuneration amount depends on a categorisation mechanism	8

Table 4.9: Characteristics of MPSE Boards' Remuneration Packages

**Some participants discussed more than one characteristic*

The respondents(18/18BMs, 4/4CGEs) unanimously stated that BMs of commercial MPSEs are paid a fixed monthly *honoraria* fee. Some participants(6/18BMs, 2/4CGEs) further remarked that the remuneration package of MPSE BMs is dictated by the Maltese government, just like a shareholder in the private sector dictates the remuneration packages of its BMs(1/2CGEs). Therefore, MPSEs have no say whatsoever on the remuneration packages of their BMs. Indeed, one BM(1/6BMs) remarked that *"there is no question about the remuneration, Boards do not even discuss it. If you want to sit on a MPSE Board, you have to agree with the Government's established remuneration package, whether you like it or not".*

Moreover, there was division in the participants' understanding of how the government establishes the remuneration amount, with most(10/18BMs, 3/4CGEs) lacking sufficient knowledge of the matter, and the remaining(7/18BMs, 1/4CGEs)

[42] Vide Q4.1 p.A3.2-5

elucidating that it is determined through a categorisation mechanism that relies on government criteria associated with the values of the MPSE's income, assets, and number of employees. The higher the values of the latter, the better the categorisation, and correspondingly, the higher the Board remuneration. Similarly, one $BM_{(1/8BMs)}$ pointed out that this categorisation mechanism ensures that "*the higher the responsibility, the higher the remuneration".* Another $BM_{(1/8BMs)}$ remarked that this mechanism promotes fairness and independence, and is "*black and white*", because it is not influenced by the ministers' bargaining ability for better categorisation of the MPSEs falling under them, but rather by pre-defined criteria. Conversely, $others_{(3/8BMs)}$ remarked that the categorisation mechanism has some anomalies as it may not always appropriately compensate for higher levels of responsibility, given that an entity could have limited assets and a moderate number of employees, but would still hold significant responsibilities towards not just the MPSE, but the country as a whole. On this point, one $BM_{(1/3BMs)}$ highlighted that the categorisation mechanism fails to acknowledge the economic impact on the country caused by the business disruption of certain MPSEs, claiming that "*such weight is not reflected in the remuneration packages… [hence] …brings about frustration amongst Board members".*

4.5.2 Challenges Surrounding Board Remuneration in PSEs – Are they present in MPSEs?

Subsequently, the respondents were asked[43] to rate and comment on their level of agreement with three statements, which, in foreign literature, are generally related to Board remuneration obstacles of PSEs, but specifically, in the context of MPSEs.

According to Table 4.10, in descending order of agreement, on average, the respondents agreed with statement (i)$_{(\bar{x}=3.32)}$, were neutral to statement (iii)$_{(\bar{x}=1.95)}$, and disagreed with statement (ii)$_{(\bar{x}=0.95)}$, with significant differences in the level of agreement$_{(p< 0.001)}$. Moreover, the differences between the two respondent groups

[43] Vide Q4.2 p.A3.2-5

were found to be marginal[44] for all three statements, implying that both respondent groups share similar perspectives.

	Mean	Std. Dev	Min	Max
(i) Remuneration packages are insufficient to attract and retain high-calibre BMs	3.32	0.716	2	4
(iii) The Board does not have clear and sufficient remuneration policies in place	1.95	1.527	0	4
(ii) The responsible minister has the final say on the remuneration packages	0.95	1.527	0	4
Scale from 0 (Strongly Disagree) to 4 (Strongly Agree)	$X^2(2) = 17.942, p < 0.001$			

Table 4.10: Challenges surrounding Board Remuneration in MPSEs

(i) Remuneration packages are insufficient to attract and retain high-calibre BMs.

This statement received widespread agreement$_{(15/18BMs,\ 3/4CGEs)}$, indicating that the participants, in general, believe that the honoraria fee amount offered for any category in which the MPSE falls is insufficient to attract and retain directors of high calibre. This belief is further strengthened by the presence of the previously mentioned anomalies in the categorisation mechanism, which, at times, fails to reward higher responsibilities.

According to the participants$_{(3/15BMs)}$, the annual remuneration is subject to a capped maximum amount of approximately €18,000 in MPSEs deemed by the categorisation mechanism as having the highest responsibility, while it can be as low as €3,000 annually in MPSEs classified in the lowest categories. Consequently, one BM$_{(1/15BMs)}$ deemed MPSE Board directorships as "*charity"*

[44] Vide Table A3.3 in Appendix 3.4

after taking into account income taxes, while others argued that the range of remuneration amounts offered to MPSE Boards is "*demeaning*" for highly skilled individuals(2/15BMs, 1/3CGEs), "*ridiculous*" (1/15BMs) and "*far off*" from what is being paid in the private sector for smaller and less important entities(11/13BMs, 2/3CGEs). One CGE(1/3CGEs) added that, as if this insufficient and inadequate remuneration was not enough, MPSE BMs are not merely burdened with the heavy responsibilities of directors, such as acting as *bonus pater familias* and fulfilling *fiduciary duties*, but are also flagged as PEPs. Another CGE(1/3CGEs) added that, due to inadequate compensation, competent and capable individuals are discouraged from considering directorship roles in the public sector, claiming that "*for peanuts, you get monkeys*", and that this could ultimately have a detrimental impact on the quality of leadership in MPSEs, hindering BE, thus limiting the ability of MPSEs to effectively meet their objectives.

However, three interviewees(2/18BMs, 1/4CGEs) were neutral on this statement, arguing that the sufficiency of the remuneration amount offered to MPSE Boards depends on the extent of participation of the BMs and their position on the Board. On this point, one(1/1CGEs) contended that, if someone is not fully dedicated to the Board, and is there to "*act as the puppet of the minister*", then, even an annual remuneration of €3,000 is expensive.

(ii) The responsible minister has the final say on the remuneration packages.

The participants strongly disagreed(13/18BMs) and disagreed(1/18BMs,4/4CGEs) that the minister has any influence on the remuneration packages of MPSE BMs, asserting that the categorisation mechanism is the sole responsibility of the Office of the Prime Minister (OPM).

(iii) The Board does not have clear and sufficient remuneration policies in place

The participants had divergent opinions on this statement. Those who disagreed (8/18BMs, 4/4CGEs) argued that the MPSE Boards are not involved in creating remuneration policies for their members, and therefore, the MPSEs *per se* do not have their own Board remuneration policies in place, but follow the guidance of the shareholder. Conversely, those who supported this statement$_{(10/18BMs)}$ explained that the government's creation of the categorisation mechanism serves the purpose of a remuneration policy for BMs.

4.6 Board Performance Evaluation

Section five of the interview schedule consisted of three questions (Qns 5.1 – 5.3) on Board performance evaluation.

4.6.1 The implementation of formal Board performance evaluations by MPSEs

The next question[45] requested the participants to indicate whether MPSEs perform formal Board performance evaluations to assess their BMs. The participants $_{(22/22BMs,\ 4/4CGEs)}$ were unanimous that, to their knowledge, formal performance evaluations are not carried out by MPSEs. Ultimately, the best performance evaluation for MPSE BMs is said$_{(3/18\ BMs)}$ to be expressed by the decision on whether directors are re-appointed or not by the respective ministers upon expiry of their term.

On this matter, the CGEs$_{(4/4CGEs)}$ emphasised the significance of conducting Board performance evaluations in MPSEs, specifying that such evaluations are crucial according to "*proper governance rules*"$_{(2/4CGEs)}$ as they would enable the identification of BMs that are not making a "*valid contribution*"$_{(1/4CGEs)}$ to the MPSEs' objectives. This is particularly important to minimise the cases where BMs are *"appointed for the wrong reasons"$_{(1/4CGEs)}$*, such as, personal connections or political affiliations. It was suggested that such Board evaluations for MPSEs can be made annually$_{(3/4CGEs)}$ or bi-annually$_{(1/4CGEs)}$, by either independent consultants$_{(2/4CGEs)}$, the chairman of the Board$_{(1/4CGEs)}$, or the permanent secretary$_{(1/4CGEs)}$, as long as the chosen evaluator has the necessary expertise. They acknowledged$_{(2/4CGEs)}$ that, conducting such evaluations is a "*trial-and-error process*," as it has never been done before in MPSEs. One CGE$_{(1/4CGEs)}$ further noted that, to start off, Board evaluations should be carried

[45] Vide Q5.1 p.A3.2-6

out only for the large MPSEs because these tend to have more complex structures and operations, and therefore, require a greater level of oversight and evaluation.

4.6.2 Challenges in Conducting Board Performance Evaluations in PSEs – Applicable to MPSEs?

Next, the participants were presented[46] with a list of three challenges commonly encountered when conducting performance evaluations in PSEs, as identified in the literature. They were requested to rate and comment on their level of agreement with each obstacle in the context of the implementation of performance evaluations in MPSEs.

Table 4.11 shows that, in descending order of agreement, on average, the respondents agreed with the presence of challenge (i)$_{(\overline{x}=2.95)}$, were neutral to the presence of challenge (ii)$_{(\overline{x}=2.41)}$, and disagreed with the presence of challenge (iii)$_{(\overline{x}=1.32)}$, with significant differences in the level of agreement$_{(p=0.012)}$. Furthermore, the differences between the two respondent groups was found to be significant[47] for statement (ii)$_{(p=007)}$

	Mean	Std. Dev.	Min	Max
(i) There is a lack of developed evaluation tools in place.	2.95	1.290	0	4
(ii) The Government's interference in the Board makes it difficult to measure Board performance.	2.41	1.436	0	4
(iii) The high turnaround of directors makes it difficult to measure performance	1.32	1.041	0	3
Scale from 0 (Strongly Disagree) to 4 (Strongly Agree)	$X^2(2) = 8.778$, $p = 0.012$			

Table 4.11: Challenges surrounding the implementation of Board Performance Evaluations in MPSEs

[46] Vide Q5.2 p. A3.2-6
[47] Vide Table A3.4 in Appendix 3.4

(i) The lack of evaluation tools

The interviewees agreed most with this challenge(14/18BMs, 4/4CGEs), emphasising that there is a lack of evaluation tools in place within MPSE Boards, thus making it difficult to conduct effective Board performance evaluations. One participant(1/14BMs) added that the shareholder needs Key Performance Indicators (KPIs) to assess Board performance, "*but the government never gave us KPIs*", thus, BMs are *"at the mercy of the government*". Meanwhile, a few disagreed(4/18BMs), without providing further comments.

(ii) The government's interference in Board operations

There were varied views on the above obstacle. Several(8/18BMs,4/4CGEs) agreed, specifying that interference exists in many MPSEs, thereby hindering the ability to measure Board performance as the Board lacks full control over operational issues. Others(8/18BMs) disagreed on the basis that the government does not intervene in the operational issues of the MPSE Board on which they serve. The rest(2/18BMs) remained neutral on the basis that government interference does not occur in each MPSE.

The two respondent groups differed significantly in their responses to this statement[48], with the BMs providing a significantly lower mean rating score than the CGEs. This indicates that the CGEs perceive government's interference to be a challenge for Board performance evaluations in MPSEs, while BMs do not, as they claim there is no interference.

(iii) The high turnaround of BMs

Most interviewees(11/18BMs,3/4CGEs) disagreed, while some were neutral*(3/18BMs, 1/4CGEs),* that high turnaround of MPSE BMs is an obstacle to the implementation of performance evaluations in MPSEs. Indeed, the latter believe that turnover among MPSE BMs is not always high, while the former claimed that it is not high at all. Some agreed(4/18BMs) on the basis that "*Board members in a complex entity take about two years to understand the fundamentals of the operations"(1/4BMs),*

[48] Vide Table 3.4 in Appendix 3.4

and that it is *"not right to judge the performance of someone who has been sitting on the Board for a year or less"(1/4BMs).*

4.6.3 Other Challenges for the implementation of formal Board performance evaluation within MPSEs

In the final question[49] of this section, the participants were asked to express their views on whether other challenges, apart from those discussed in the previous question, hinder Board performance evaluations in MPSEs. Their feedback is summarised in Table 4.12.

The respondents(11/18BMs, 4/4CGEs) suggested that the main obstacle of the implementation of Board performance evaluations of MPSEs is the reluctance to pull the trigger on non-performing directors, with a BM(1/11BMs) admitting that *"no action was taken in the past"* on non-performing BMs. This issue was attributed to several factors. Firstly, there is a perception that "*political allegiances*"(8/11BMs, 2/4CGEs) are often the primary consideration for MPSE BM appointments. Consequently, many appointed directors enjoy "*political protection*"(1/2CGEs), making it difficult to evaluate their performance and remove them from the Board when they fail to perform. Secondly, performance evaluations would result in "*shortcomings coming to the surface very fast*"(2/11BMs, 2/4CGEs), which can therefore make the process unpleasant for the involved ministers. Finally, the process of evaluating and removing non-performing directors can be uncomfortable as it requires "*criticising decisions made by the minister*"(1/11BMs) who appointed them to the Board.

Additionally, some(3/18BMs,1/4CGEs) argued that ministers prioritise their freedom to change Boards when they deem it necessary over basing such decisions on performance evaluations, thereby creating an obstacle to introducing a Board performance evaluation process within MPSEs.

Some interviewees(5/18BMs, 1/4CGEs) suggested that the absence of a "*culture*" of Board performance evaluation is a significant challenge to its implementation

[49] Vide Q5.3 p.A3.2-6

within MPSEs. They suggested that the lack of implementation is due to a lack of awareness and “*not having thought about the practice yet”,* rather than a deliberate avoidance. They thus believe that the government has yet to fully understand the benefits of Board performance evaluation and its potential for future introduction.

Comments	Responses*
There is a reluctance to identify and remove non-performing directors	10
Culture	6
Ministers prefer having freedom to change MPSE BMs	4
No further comments	4

Table 4.12: Other challenges hindering the implementation of Board performance evaluations in MPSEs

*Some participants discussed more than one challenge

4.7 Conclusion

This chapter presented the research findings obtained from the interviews and the MBR website. The next chapter discusses these findings in detail.

Chapter 5
Discussion of Findings

5.1 Introduction

This chapter discusses the research findings presented in Chapter 4 in light of the literature reviewed in Chapter 2. The achievement of BE, in line with the two research objectives, necessitates the assessment and enhancement of the five fundamental aspects of BE, ensuring that each aspect is implemented effectively. This may be closely analogous to a building with a series of 5 locked doors. Unlocking all five doors grants MPSE Boards access to the BE room which guarantees the MPSEs' continued long-term growth and contribution to the Maltese economy.

As per Figure 5.1, Section 5.2 addresses Board selection and appointment, while Section 5.3 evaluates the optimisation of Board role fulfillment. Thereafter, Sections 5.4, 5.5, and 5.6 discuss the right Board composition, sufficient Board remuneration, and the implementation of Board performance evaluation, respectively. Finally, Section 5.7 concludes the chapter.

5.1 Introduction

5.2 Unlocking the first door: Dealing with Board selection and appointment

- **5.2.1 Board Selection and Appointment - Is it all political?**
- **5.2.2 Becoming a Politically Exposed Person - A barrier to talent?**
- **5.2.3 Time to Implement a Public Call System?**

5.3 Unlocking the second door: Optimizing Board roles' fulfilment

- **5.3.1 Independence vs Influence - Do Board members prioritise political party loyalty over their fiduciary duties?**
- **5.3.2 Board Training - About time to implement?**
- **5.3.3 Breaking the Mould - Is it time for a tailor-made Code of good CG for MPSEs?**

5.4 Unlocking the third door: The right Board composition

- **5.4.1 Female Board Participation - To be improved?**
- **5.4.2 Qualifications vs Political Connections?**
- **5.4.3 Foreign Board Appointments – Is it time to overcome the insularity of a small island state?**

5.5 Unlocking the fourth door: Fair and sufficient Board remuneration

- **5.5.1 Are the Remuneration Packages Fair and Sufficient?**
- **5.5.2 Remuneration Committees - To become standard practice?**

5.6 Unlocking the fifth door: Implementing Board performance evaluations

- **5.6.1 The Lack of Implementation of Board Performance Evaluations - A missed opportunity to achieving BE?**
- **5.6.2 Board Performance Evaluations – Resisted or overlooked?**

5.7 Conclusion

Figure 5.1: Outline of Chapter 5

5.2 Unlocking the First Door: Dealing with Board Selection and Appointment

5.2.1 Board Selection and Appointments – Is it all political?

Political ties have been identified[50] as the main selection criterion for MPSE Board appointments. This is consistent with foreign findings[51], thus suggesting that this is not a unique CG issue to the MPSE Boards. Specifically, it transpired[50] that, in Malta, individuals with political affiliations and access to a current minister's '*people of trust*' network have a greater chance of being appointed to MPSE Boards than better-suited candidates outside this network. The timing of MPSE BM appointments being synchronised with election cycles[52], as also evidenced by previous literature[53], solidifies this finding. Moreover, the research reveals[52] that, in Malta, it is a common practice for MPSE BMs to voluntarily offer their resignation to new incoming ministers as a sign of "*ethic*". This worrying revelation, not found in foreign literature, indicates that MPSE Boards prioritise the appointment of BMs from the incoming minister's '*people of trust*' network over re-appointments. Naturally, this practice leaves a negative impact on the stability and effectiveness of MPSE Boards, as highlighted by Indreswari (2006)[54] and the research participants[52]. In this context, Vagliasindi (2008)[54] cautions that political bias could make individuals reluctant to serve on MPSE Boards, fearing that political bias in the selection process may harm their reputation. This was indeed another study finding[55]. Consequently, as argued by Jackling and Johl (2009), this limits talent, hence BE, from reaching MPSEs.

Naturally, the de-politicisation of the MPSE Board selection process and the adoption of more transparent and equitable selection processes are a pressing

[50] Vide Section 4.2.1 and 4.2.2 statement (i)
[51] Vide Vagliasindi (2008), Salleh and Ahmad (2012) and Simpson (2012) in Section 2.4.1
[52] Vide Section 4.2.2 statement (ii)
[53] Vide Shleifer and Vishny (1994) and Kuzman, Talaveraz et al. (2018) in Section 2.4.1
[54] Vide Section 2.4.1
[55] Vide Table 4.4 in Section 4.2.2 statement (iii)

need, as suggested in relevant literature[56]. Such measures are imperative to elevate BE within MPSEs, which, presently, seem to be compromised.

5.2.2 Flagging Appointees as PEPs – A barrier to talent?

Malta's June 2021 grey-listing prompted the country to make significant improvements to the anti-money laundering and counter-terrorism financing framework. One refinement relevant to this study was the Minister for Finance and Employment's decision to extend[57] the definition of PEPs to MPSE BMs and their close family members, most likely due to their perceived political associations, as aforementioned[58].

The indications[59] are that individuals are increasingly hesitant to accept MPSE Board appointments due to the added scrutiny and burdensome compliance requirements that come with being classified as PEPs. Resultantly, this continues to impinge on the MPSEs' ability to attract talented individuals necessary for BE. Nonetheless, the findings suggest that the reluctance is not uniform across all individuals, and may disproportionately affect certain groups, such as entrepreneurs, and those whose immediate family members are engaged in business. Understandably, local entrepreneurs are less tolerant of delays in their business banking transactions arising from the banks' increased scrutiny as this can disrupt their business operations. It is therefore expected that MPSEs will continue to see less entrepreneurs on their Boards. This is unfortunate as entrepreneurs bring valuable qualities to a Board, *inter alia*, innovation, creativity, adaptability, and a deep understanding of the business sector and customer needs. Probably, MPSEs are missing out on the valuable business acumen that entrepreneurs, in particular, can offer for BE.

Furthermore, because the level of scrutiny faced by PEPs is not commensurate with the number of MPSE Board appointments held, the appointment of individuals to multiple MPSE Boards is viewed as the solution to address the

56 Vide Fredrick (2011), Böwer (2017) and Kuzman, Talavera et al. (2018) in Section 2.4.1
57 Vide Section 2.4.2
58 Vide Section 5.2.1
59 Vide Section 4.2.2 statement (iii)

shortage of MPSE BM supply emerging from such scrutiny[59]. Nonetheless, this solution has its downside because, as argued in literature[60], multiple directorships can potentially reduce the time available for MPSE BMs to effectively fulfil their monitoring role.

The question therefore arises about whether the benefits derived from the decision of the Minister for Finance and Employment outweigh the losses. Nevertheless, due to the legal complexities surrounding this matter, further investigation is necessary to determine whether changes are required to strike a better balance.

5.2.3 Is It Time for a Public Call System?

Clearly, the nomination process of MPSEs is far from transparent[61], while the extent to which it is equitable is a grey area[62]. Meanwhile, Board selection and appointment can be perceived as the foundation upon which the other fundamental aspects of BE are predicated. In the absence of a strong foundation, all that lies on top is likely to crumble into disarray. Therefore, strengthening the nomination and appointment process should be a top priority in achieving BE within MPSEs. In this context, the interviewees suggested[61] the establishment of a public call system.

A public call system involves MPSEs publicly announcing directorship opportunities and inviting interested individuals to apply. The call would outline the necessary qualifications, skills, and experience required for Board membership, serving as a benchmark in the selection process. The outcome of the selection process would then be made public, likely through the government gazette. Consequently, the introduction of a public call system results in a more transparent, equitable, and diverse selection process for MPSE BMs, which Fredrick (2011)[63] and Bower (2017)[63] strongly suggest, as the opportunity

[60] Vide Ferris, Jagannathan et al. (2003) and Alhaddad, Gerged et al. (2022) in Section 2.4.2
[61] Vide Section 4.2.2 statement (iv)
[62] Vide Section 4.2.2 statement (v)
[63] Vide Section 2.4.1

extends to individuals beyond the confines of the '*people of trust*' network[64], ultimately contributing to BE.

Nevertheless, to guarantee successful implementation, it is critical to ensure that the call is widely publicised and easily accessible to all eligible candidates, without any exclusivity to any '*people of trust*'. It is equally important that selection criteria be unambiguously defined and impartially established by, for example, developing profiles of Board skills as a guide for appropriate Board appointments, as suggested by the World Bank (2014)[65].

Ultimately, the crucial question arises about which entity would be responsible for the administration of the proposed public call system. Would it be the OPM, or an independent private body commissioned by the government? As a CGE noted[66], the State is the ultimate owner of these entities, and as such, relinquishing complete control over appointments would breach the provisions of the Companies Act[67]. Therefore, a delicate balance must be struck between ensuring political independence and adhering to the provisions of the Companies Act by sustaining the Maltese Government's involvement in the MPSEs Board appointment process. Moreover, further research is imperative to develop the intricacies of how this public system can be practically and effectively executed in a manner which ensures BE in MPSEs. However, as indicated by a CGE[68], the implementation of a public call system may face resistance, especially from those who benefit from the current appointment process; hence, strong political will is necessary to bring about this change.

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[64] Vide Section 5.2.1
[65] Vide Section 2.4.1
[66] Vide Section 4.2.1
[67] Vide Article 139 of the Companies Act 1995
[68] Vide Section 4.2.2 statement (iv)

5.3 Unlocking the Second Door: Optimizing Board Roles' Fulfilment

5.3.1 Independence vs Influence: Do BMs prioritize political party loyalty over their fiduciary duties?

The Companies Act and the Guidelines impose[69] a fiduciary duty on BMs, requiring them to act as *bonus pater familias,* and prioritise the best interests of the company they serve at all times, regardless of who appointed them to the Board. Nonetheless, in line with Fredrick (2011)[70], the study explores[71] a tension between the fiduciary duty of BMs and their loyalty to the political party that appointed them on the MPSE Board. To this effect, the study supports the viewpoint of Chauke and Motubatse (2018)[70], and contends that claims of no government intervention in MPSEs are unrealistic[72]. However, it is further suggested that the extent of intervention depends on the personalities of the BMs and the respective minister. With this in mind, the respondents[73], Vagliasindi (2008)[70], and Fredrick (2011)[70] maintain that BMs, albeit not all, may abstain from disputing or expressing divergent views, as this could be perceived as an act of opposition to the minister, and could consequently invite unfavourable repercussions, such as, being overlooked for reappointment. Indeed, Castellanos and George (2022)[70] argue that this lack of objectivity and independence is concerning as it may prevent diverse perspectives and constructive discussions, ultimately hindering the effectiveness of the MPSE Board.

Therefore, to guarantee BE, it is important to ensure that MPSE BMs are aware of their fiduciary duties and are committed to upholding them, rather than being swayed by political pressures. In line with an interviewee[73] recommendation, the adoption of a periodic declaration of fiduciary obligation and ethical conduct would serve as a psychological stimulus, prompting the MPSE BMs to prioritise their fiduciary duty over political loyalty, thus acting independently and with integrity,

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[69] Vide Article 136A of the Companies Act 1995 and guideline 8 of the Guidelines in Appendix 2.1
[70] Vide Section 2.4.2
[71] Vide Section 4.3.4 statements (i) and (ii)
[72] Vide Section 4.3.4 statement (i)
[73] Vide Section 4.3.4 statement (ii)

contributing positively to BE. Similarly, fostering a culture of openness and transparency in MPSE Boards encourages constructive debate and discussion, and alleviates hesitations in expressing divergent views, ultimately promoting effective decision-making towards achieving BE.

5.3.2 Board Training – About time to implement?

The findings[74], literature[75] and Guidelines[76] establish the importance of Board training sessions in promoting BE. Nonetheless, despite this recognition, it is indicated[74] that most MPSE Boards, albeit not all, underinvest in Board education thereby leading to what the OECD (2021)[77] describes as a lack of skills and up-to-date knowledge, ultimately giving rise to the ineffective discharge of the MPSE Boards' role, compromising BE. Understandably, the interviewees argued that it is '*about time*'[74] for MPSEs to introduce Board training sessions, and to organise them '*periodically*', as recommended by the Guidelines[76]. In this context, the study finds that some BMs may perceive training sessions as offensive and disrespectful to their ego[74]. Perhaps, to overcome this resistance and ensure high attendance rates, it may be helpful to label such sessions as seminars or information sessions, rather than training sessions.

5.3.3 Breaking the Mould: Is it Time for a Tailor-Made Code of Good CG for MPSEs?

According to the World Bank (2014)[78], written and formal procedures for Board operations, combined with a strong CG framework, can prevent conflicts of interest, and promote independence by providing clear guidelines and decision-making processes.

As previously discussed[79], the MFSA Guidelines currently serve as the main authoritative source regulating CG practices in MPSEs. However, the study

[74] Vide Section 4.3.4 statement (iii)
[75] Vide World Bank (2014), Alfanador, Bernal et al. (2017) and OECD (2021) in Section 2.4.2
[76] Vide guide 4.5 of the Guidelines in Appendix 2.1
[77] Vide OECD (2012) in Section 2.4.2
[78] Vide Section 2.4.2
[79] Vide Section 2.2 and Appendix 2.1

reveals[80] that many MPSE BMs lack awareness of their existence, and there is no monitoring system in place by the authority to ensure adherence. Consequently, the Guidelines are rendered ineffective for MPSEs as the lack of monitoring leads to a lack of compliance.

It transpired[80] that the Guidelines do not consider the political element of the CG characteristic of MPSEs. Therefore, it would be a step in the right direction to issue a tailor-made Code of good CG specifically for MPSEs, specifying the type of governance for MPSEs, ensuring that the MPSEs' best interests are always at the forefront and uniformly across all MPSEs. As one interviewee suggested[80], a step forward towards ensuring effective governance in MPSEs is the potential implementation of the *OECD Guidelines for Good Corporate Governance in State-Owned Enterprises*. As noted earlier[81], these internationally recognised guidelines are designed to promote transparency and efficiency, while fulfiling public policy objectives. Therefore, adopting these guidelines would enable MPSEs to align with internationally acknowledged best CG practices for PSEs, hence raising the bar for effective CG in MPSEs. Since the government of the day aims to pursue OECD membership, adopting a CG Code specifically for MPSEs based on these OECD guidelines can enhance Malta's reputation as a responsible and trustworthy partner, increasing the country's prospects of being granted membership, hence creating opportunities for investment, economic growth, and increased cooperation with other member countries.

5.4 Unlocking the Third Door: The Right Board Composition

5.4.1 Female Board Participation – To be improved?

Contrary to good CG practice[82], the study finds[83] that MPSE Boards are male-dominated, confirming the recent conclusions by Baldacchino, Mercieca et al. (2022)[84]. The study acknowledges that the quest for Board gender diversity

[80] Vide Section 4.3.3
[81] Vide OECD (2015) in Section 2.4.2
[82] Vide Brammer, Millington et al. (2009) and Damak (2018) in Section 2.4.3
[83] Vide Table 4.7 in Section 4.4.1
[84] Vide Section 2.4.3

poses an even greater challenge for MPSEs than their private sector counterparts due to a host of factors discussed throughout the study, including political allegiances[85], fear of reputational harm[86], the burden of being designated as PEPs[87], and poor remuneration[88], all combining to severely limit the already small pool[89] of women who are eligible to serve on Boards in Malta. Resultantly, the study explores[90] a tendency for the same women to serve on multiple MPSE Boards, which, as argued by Alhaddad and Gerged et al. (2022)[91], compromises their monitoring role.

While the recent endorsement of a gender quota bill for the Maltese parliament indicates the Maltese Government's commitment to achieve gender diversity in local managerial roles, this commitment is not mirrored in MPSEs. Meanwhile, Damak (2018)[92] contends that women deliver better supervision on Boards, while Brammer, Millington et al. (2009)[92] claim that Board gender diversity enhances the formulation of strategy and decision-making procedures. This, thus highlights the need for the Maltese Government to prioritise the improvement of gender diversity on MPSE Boards as a means of enhancing BE within such entities. Gender quotas, however, are perceived as discriminatory[90], because they are not based on merit, and a fair chance is not given to both genders. Therefore, implementing a gender quota for MPSEs, as seen in parliament, is likely to face strong resistance. Instead, as suggested by an interviewee[90], leadership development programmes for women could be a viable strategy to improve gender diversity on MPSE Boards, hence raising awareness of the importance of gender diversity on Boards, while providing support and education to women, empowering them to seek out Board positions and contribute to MPSEs. Meanwhile, this can expand the pool of women available to serve on MPSE

[85] Vide Section 4.2.2 statement (i) and Section 5.2.1
[86] Vide Section 4.2.2 statement (iii) and Section 5.2.1
[87] Vide Section 4.2.2 statement (iii) and Section 5.2.2
[88] Vide Section 4.5.2 statement (i) and Section 5.5.1
[89] Vide Section 4.4.3
[90] Vide Section 4.4.1
[91] Vide Section 2.4.2
[92] Vide Section 2.4.3

Boards, and address the Board monitoring deficiencies arising from the tendency for the same women to serve on multiple MPSE Boards.

5.4.2 Qualifications vs Political Connections?

Literature[93] highlights a concerning trend of insufficient qualifications among PSE Boards, with a disproportionate emphasis on political affiliations, rather than relevant qualifications and expertise. This study challenges the conventional wisdom found in literature, and, instead, finds[94] that a substantial number of MPSE BMs are not merely members of the '*people of trust'* network, but are also genuinely qualified individuals. This suggests that, while ministers may prioritise individuals within their trusted inner circles, overall they still recognise and value the qualifications held by their network members when appointing them to key positions.

Nonetheless, the downside to this *'people of trust'* approach on Board composition emerging in the study[95] , is that it significantly limits the already small pool of skilled candidates available to serve on Boards in Malta, thus hindering the ability to achieve diversity of skills and experience that Enag and Tian (2020)[96] argue is critical for Boards to function at their highest level. Perhaps, headhunting beyond the '*people of trus*t' network could result in remarkable gains, boosting BE in MPSEs.

5.4.3 Foreign Board appointments – is it time to overcome the insularity of a small island state?

The study[97], in agreement with Baldacchino, Abela et al. (2021)[96], suggests that foreign BMs lead to a more diverse skills mix on Boards, by virtue of their diverse backgrounds, cultures, and experience in foreign markets. Furthermore, echoing Piekkari, Oxelheim et al. (2013)[96], some interviewees remarked that non-Maltese BMs extend the network ties of MPSE Boards thereby facilitating new

[93] Vide Vagliasindi (2008), World Bank (2014) and Mayo (2016) in Section 2.4.3
[94] Vide Table 4.8 in Section 4.4.2
[95] Vide Section 4.4.3
[96] Vide Section 2.4.3
[97] Vide Section 4.4.4

partnerships and business opportunities, ultimately improving the overall performance of MPSEs. It is also indicated[98] that foreign Board appointments on MPSEs promote '*political independence*' and mitigate the influence of political ties on decision-making. This is particularly beneficial to small island states, like Malta, where the close-knit community and limited pool of local directors make them more susceptible to political pressures.

Nonetheless, Budiman, Lin et al. (2009)[99] recognise that foreign appointments to PSE Boards are prohibited in many cases, and the study confirms this[98]. Indeed, the interviewees[98] highlight that Malta's geographical position as a small island state has led to a sense of self-reliance, independence, and even isolation from the rest of the world, culminating in an '*insular mindset*' that disfavors foreigners occupying managerial positions.

Therefore, BE calls for ministers to overcome the insular mentality of a small island state, becoming more open to appointing foreign BMs on MPSEs, without resorting to positive discrimination towards foreigners. Nonetheless, the MPSEs' feasibility of attracting foreign talent is challenged by the current remuneration packages being offered to BMs, as is discussed further below. In this context, some interviewees[98] echo the concerns of Hagn and Lasfer (2016)[99] regarding the trade-off between the costs and benefits of appointing foreign directors versus local ones, which can undermine the effectiveness of governance measures.

5.5 Unlocking the Fourth Foor: Fair and Sufficient Board Remuneration

5.5.1 Are Remunerations Fair and Sufficient?

Corroborating Adebayo and Ackers (2022)[100], NEDs of MPSEs are paid fixed monthly retainers[101]. Interestingly, the study finds that the retainer amount is determined by a categorisation mechanism based on the assets, income, and

[98] Vide Section 4.4.4
[99] Vide Section 2.4.3
[100] Vide Section 2.4.4
[101] Vide Table 4.9 in Section 4.5.1

number of employees of the respective MPSE. This mechanism attracts '*fair compensations*', which Afanador, Bernal et al. (2017)[102] advocate for, because, as the interviewees explained[103], it eliminates the prejudiced possibility that ministers with better bargaining skills secure a better categorisation for the MPSEs falling under them. Nonetheless, a gap remains in ensuring that remuneration packages are fairly determined across MPSEs as the findings[103] highlight an anomaly in the categorisation mechanism which fails to reflect the extent of the potential impact of an MPSE's failure on Malta's economy when classifying MPSEs.

Regarding sufficiency, the study[104] confirms the literature[105] as it transpired that the remuneration packages offered to the NEDs of MPSEs are too low and '*far off*' from what is paid in the private sector. A crucial aspect which the study captures[104] in this context is tax considerations. Locally, directors' remuneration is taxed in accordance with the Final Settlement System Rules at the applicable progressive tax rates. NEDs are typically seasoned professionals with a track record of success in their respective industries; thus, it is likely that their income surpasses the 35% income tax threshold in Malta. Therefore, tax considerations further compound the issue, as the low remuneration packages offered for MPSE appointments are subject to an additional 35% income tax deduction, making it financially unfeasible for these professionals to accept directorship positions on MPSEs. Understandably, some participants view MPSE Board appointments as '*charity*'[106]. Consequently, as anticipated by Sari and Tjoe (2017)[102], this study finds[104] that, attracting and retaining top talent to serve on MPSE Boards is a contemporary challenge as more professionals are becoming disinterested in MPSE appointments, aware that they can secure a better deal in the private sector for less effort. With this in mind, the interviewees[104] and Al-Tkhayneh, Kot et al. (2019)[102] argue that poor remunerations are lowering the quality of decision-making on MPSE Boards, hence compromising BE. Naturally, this calls for the

[102] Vide Section 2.4.4
[103] Vide Section 4.5.1
[104] Vide Section 4.5.2 statement (i)
[105] Vide Sari and Tjoe (2017), Afanador, Bernal et al. (2017) and Fredrick (2011) in Section 2.4.4
[106] Vide Section 4.5.2

Maltese Government to take heed of the recommendations put forth by the Cadbury Report (1992)[107] and the Greenbury Report (1995)[107], and revise the remuneration packages of MPSEs, such that they are sufficient and competitive enough to attract high-calibre BMs.

5.5.2 Remuneration Committees – To become standard practice?

It transpired[108] that the Maltese Government muzzles the voices of MPSE Boards on the matter of their own remuneration, as evidenced by the absence of remuneration committees on each MPSE Board[109]. Instead, reportedly[108], the Government opts for a *take-it-or-leave-it* approach, which deprives these Boards of their rightful decision-making power. This arbitrary stance, as argued by Fredrick (2011)[107], contradicts good CG principles, and hinders the pursuit of BE.

Therefore, in line with Mayo (2016)[107], introducing remuneration committees with limited autonomy could be a positive step towards BE in MPSEs. Although the Government would still make the final decision, these committees would at least give the Boards the opportunity, as advocated by Kanapathippillai and Wines (2016)[107], to develop and recommend fair remuneration policies to the Government that align with the MPSEs' long-term goals and good CG. This collaborative approach instigates flexibility, and would help to address the sufficiency issues and anomalies in the current remuneration categorisation mechanism discovered in the study[108].

[107] Vide Section 2.4.4
[108] Vide Section 4.5.1
[109] Vide Table 4.5 in Section 4.3

5.6 Unlocking the Fifth Door: Implementing Board Performance Evaluations

5.6.1 The Lack of Implementation of Board Performance Evaluations - A missed opportunity to achieving board effectiveness?

According to Van den Berghe and Levrau (2004, p. 469)[110], "*a critical aspect of an effective Board is the evaluation of its own performance".* The study confirms[111] this. Indeed, the interviewees believe[111] that Board performance evaluations within the ambit of MPSEs have the potential to elevate good CG practices. Such evaluations are particularly crucial for PSEs because, as contended by D'Alessandro (2010)[110], they provide transparency on whether the Board is composed of members who are committed to acting in the best interest of the MPSEs, rather than as '*puppets of the ministers*'[112]. This would, ultimately, unlock the door to the attainment of BE. However, the study finds[111] that Board performance evaluations are not being implemented in MPSEs.

Table 4.11[113] shows that the deficient implementation of Board performance evaluations in MPSEs cannot be attributed to the Government's meddling in Board operations or the frequent replacement of BMs, contradicting the arguments made by Salleh and Ahmad (2012), and Vagliasindi (2008)[110]. Rather, as stated by the World Bank (2014)[110], the main obstacle is the absence of KPIs[114], making the measurement of Board performance an impossible task. Naturally, the Government's neglect to equip the necessary KPIs represents a major missed opportunity to bolster effective boardrooms within MPSEs, and reap attendant benefits.

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[110] Vide Section 2.4.5
[111] Vide Section 4.6.1
[112] Vide Section 4.5.2 statement (i)
[113] Vide Section 4.6.2
[114] Vide Section 4.6.2 statement (i)

5.6.2 Uncovering the Root Cause: Are Board performance evaluations resisted or overlooked?

Scrutinising further the issue of the deficient provision of KPIs for Board performance evaluations in MPSEs, a pivotal question arises: What is at the root of the Government's failure to equip these entities with the requisite KPIs? While analysing the interviewees' feedback, two possibilities loom large: deliberate resistance to such evaluations, or mere oversight of their importance[115].

As aforementioned[116], the selection and appointment process of MPSE BMs is heavily dependent on political allegiances, and therefore, many MPSEs enjoy '*political protection*'. It is thus indicated[116] that the Maltese Government may be resistant to implementing Board performance evaluations because, as contended by Kiel and Nicholson (2005)[117], such evaluations can proactively and effectively uncover the flaws in the MPSE Board appointments stemming from the prioritisation of political connections over superior talent outside the '*people of trust' network*, thereby rendering their shield of '*political protection*' towards their '*people of trust*' obsolete. Contrastingly, some interviewees[115] remarked that the root cause might be the oversight of the benefits of Board performance evaluations for BE, owing to a lack of awareness and a local corporate culture that does not prioritise or encourage such assessments.

The dilemma is not definite. Nonetheless, overall, the findings[118] shift the scale in favour of resistance being a more likely explanation. Therefore, it is likely that the potential mandatory enforcement of Board performance evaluations in PSEs, as proposed by the OECD (2021), and as can already be seen in Sweden and Poland[117], amongst other EU countries, would encounter resistance in the local context. In a journey towards BE, the Maltese Government must acknowledge the benefits of Board performance evaluations, and address any resistance and/or oversights that may be hindering the implementation process, such that

[115] Vide Section 4.6.3
[116] Vide Section 5.2.1
[117] Vide Section 2.4.5
[118] Vide Table 4.12 in Section 4.6.3

this becomes a standard practice for MPSEs. Perhaps, it would also be helpful if the relevant authority adds a guide on the evaluation of Board performance to the Guidelines, which presently lack such guidance[119], to improve awareness.

5.7 Conclusion

This chapter discussed the key research findings. To conclude this study, the next and final chapter summarises the findings, and provides a number of recommendations.

[119] Vide Section 2.4.5

Chapter 6
Summary, Conclusions and Recommendations

6.1 Introduction

This chapter concludes the study. As shown in Figure 6.1, Section 6.2 summarises the research findings, while Section 6.3 discusses the conclusions. Thereafter, Section 6.4 presents a number of recommendations, and Section 6.5 identifies areas for further research. Lastly, Section 6.6 provides the concluding remarks.

Figure 6.1: Outline of Chapter 6

6.2 Summary

The purpose of this study was to assess BE within MPSEs through an examination of five fundamental aspects: Board selection and appointment, Board role, Board composition, Board remuneration, and Board performance evaluation. Additionally, this study aimed to propose recommendations that could enhance BE within MPSEs with respect to each of these aspects.

A qualitative mixed-methods approach was adopted to achieve these objectives. Meanwhile, semi-structured interviews were held with twenty-two participants consisting of eighteen MPSE BMs, a representative of the Malta Institute of Directors, two corporate lawyers, and one corporate advisor.

The findings indicate that, in Malta, the selection and appointment process of MPSE BMs lacks transparency, and relies on political ties, with a tendency to appoint individuals who are members of the '*people of trust*' network of ministers. Consequently, this may compromise BE within MPSE Boards. Particularly, this presents a barrier to new talent outside the '*people of trust*' network to reach MPSE Boards. It also presents a barrier to the recruitment of talented people who perceive MPSE Board appointments as a potential damage to their reputation due to the stigma of political bias in the selection and appointment process. The identification of BMs as PEPs upon appointment continues to impinge on the MPSEs' ability to appoint an array of talent to their Boards, particularly entrepreneurs. MPSE Boards demonstrate regular Board meetings and attendance, in line with good CG practices, contributing towards BE. However, there seems to be a tension between political party loyalty and fiduciary duties that has been found to hinder the optimal fulfillment of the BMs' roles. Board training is neglected, and there is a lack of awareness among MPSE BMs of the MFSA Guidelines for Public Interest Companies, hence demonstrating ineffective monitoring and enforcement by the relevant authority. The Guidelines also fail to address the characteristic political element inherent in the CG of MPSEs. Furthermore, female representation on MPSE Boards is considerably lacking, while foreign Board appointments are a rare occurrence. Ministers consider academic qualifications important when nominating and appointing directors, and political connections have been found to complement, rather than supersede qualifications. Moreover, MPSE Board remunerations are too low when compared to the private sector, and Board performance evaluations are most likely resisted as they would eliminate the shield of political protection.

6.3 Conclusions

The study concludes that the journey towards achieving BE within MPSEs is still far from complete, and there is considerable work yet to be undertaken by the Maltese Government for Malta to reap the rewards of BE. Overall, the CG framework for MPSEs needs to be tailor-made to their realities, potentially mirroring the *OECD Guidelines for Public Sector Entities*, and should be tightened in terms of monitoring in order to spur more rigorous implementation of good CG practices on the part of those responsible of CG to help elevate BE within MPSEs.

The MPSE Board selection and appointment is compromising BE within MPSEs since the process is politicised and lacks transparency. Resultantly, better alternatives outside the '*people of trust*' network are neglected, and the willingness of talented individuals to be appointed to serve on MPSE Boards is deterred, potentially compromising the quality of strategic advice and performance of the MPSE. Furthermore, the burden of additional scrutiny resulting from being identified as PEPs is a further deterrent for local talented professionals, particularly entrepreneurs, to serve on MPSE Boards. Consequently, MPSE Boards are likely to lack the valuable business acumen that entrepreneurs have to offer to the decision-making processes of effective Boards. Overall, it is concluded that the depoliticisation of the process is key to improving BE in MPSEs.

The study concludes that, achieving optimal fulfillment of the MPSE Board role is complicated by a tension between political loyalty and fulfilling fiduciary duties. The assertion of no government intervention in MPSEs is unrealistic. Moreover, attaining complete objectivity among MPSE BMs in decision-making, without fearing the consequences of not being re-appointed, is a desired milestone for BE. Resultantly, MPSEs suffer from a lack of critical thinkers, which lowers the quality of decision-making, contributing to Board ineffectiveness. The underinvestment in Board education further jeopardises BE in MPSEs as BMs are deprived of up-to-date knowledge necessary to effectively carry out their roles.

MPSE Boards are male-dominated, with gender diversity not receiving the priority it deserves, hence restricting BE. Despite consideration given to political connections in the selection and appointment process, academic qualifications still play an important role in MPSE Board composition. Nevertheless, the study concludes that, headhunting beyond the '*people of trust'* network could yield unexpected gains towards a stronger Board composition, ultimately enhancing BE. Additionally, the rare occurrence of non-Maltese BMs in MPSEs results in a missed opportunity to capitalise on the advantages of having a Board comprising diverse nationalities, which could contribute significantly to enhancing BE by way of extended networks, diverse skills mix, and higher political independence. The key is therefore to overcome the insular mentality of a small island state, and embrace nationality diversity within MPSE Boards.

The study also concludes that remuneration packages for MPSE BMs are inadequate, and do not align with the level of responsibilities they hold or the remuneration offered in the private sector. This prevents the MPSE Boards from attracting high-quality decision-makers and achieving nationality diversity, as experts and foreigners are discouraged from accepting demanding directorships due to poor remuneration, hence compromising BE. The revision of MPSE Board remuneration packages is therefore a must for the enhancement of BE within MPSEs.

A final conclusion is that the importance of Board performance evaluations is not given due consideration for the enhancement of BE within MPSEs. The current mindset is characterised by resistance to such evaluations rather, than embracing them. While mandatory enforcement of such evaluations is likely to face resistance, the CG framework regulating MPSEs needs to put much more emphasis on the matter. This would enable Board performance evaluations within MPSEs to gradually become a standard practice, leading to the elevation of BE and peak performance.

Recommendations

This study recommends that:

A. A public call system is implemented *(Section 5.2.3)*

A public call system entails publicly advertising and inviting applications for positions on MPSE Boards based on pre-defined and quantifiable selection criteria. Such implementation ensures that MPSE Board appointments are based on merit and qualifications, rather than on political connections, and that diverse candidates are considered, even those outside the '*people of trust'* network. This enhances Board composition, hence BE.

B. The Minister for Finance and Employment re-evaluates the decision to extend the PEP definition to MPSE BMs *(Section 5.2.2)*

The extension of the PEP definition to MPSE BMs has had negative effects on BE within MPSEs. Therefore, it is recommended that the Minister for Finance and Employment should re-evaluate this decision and conduct additional research to determine whether the benefits of this extension outweigh its drawbacks.

C. A periodic declaration of fiduciary obligation and ethical conduct is adopted *(Section 5.3.1)*

It is recommended that MPSE BMs are periodically requested to sign a declaration of fiduciary obligation and ethical conduct. This would ensure that BMs understand their fiduciary obligations and ethical responsibilities, hence promoting greater transparency and accountability within MPSEs, while mitigating conflicts of interest, and enhancing Board independence.

D. A culture of openness and transparency is promoted within MPSEs *(Section 5.3.1)*

A culture of openness and transparency encourages critical thinking, and fosters a climate where BMs feel empowered to challenge assumptions and make informed decisions in the best interest of the organisation. This helps to resolve the dilemma between political loyalty and fiduciary duties, while eliminating the BMs' fear of not being re-appointed for challenging ideas.

E. MPSE Board training sessions are organised periodically *(Section 5.3.2)*

Periodic Board training sessions can help enhance the skills, knowledge, and competencies of MPSE BMs, and equip them with the tools and resources needed to effectively fulfil their fiduciary duties. This would enhance Board role fulfilment, and improve BE.

F. A new set of CG Guidelines tailor-made to MPSEs mirroring the OECD Guidelines for State-Owned Enterprises is issued, and monitoring is enhanced *(Section 5.3.3)*

A new set of tailor-made CG Guidelines for MPSEs is recommended to provide clear direction on effectively managing the political dimension, as well as other unique CG challenges to MPSEs. Aligning the framework with the OECD Guidelines ensures conformity with international best practices. With the Government's commitment to OECD membership, potential benefits from such implementation increase. However, effective enforcement requires monitoring, and thus, it is recommended that the relevant authorities enhance their monitoring of MPSEs' compliance with the proposed tailor-made CG framework

G. A way forward on gender diversity is sought *(Section 5.4.1)*

Given the findings of the study, the legal mandatory enforcement of gender quotas is likely to be resisted. Therefore, an alternative way forward is to establish leadership development programmes for women on Board directorships to help them gain the confidence needed to seek out Board positions and participate on MPSE Boards.

H. The appointment of foreign BMs is welcomed *(Section 5.4.3)*

The appointment of foreign BMs can bring political independence, diverse perspectives, and expertise to MPSEs. In turn, this strengthens Board composition, and enhances BE within MPSEs.

I. Remuneration packages are aligned with market rates *(Section 5.5.1)*

Aligning MPSE Board remuneration packages with market rates can help attract and retain top talent, which is essential for ensuring the effective management of MPSEs.

J. Board performance evaluations are implemented *(Section 5.6.2)*

Regular Board performance evaluations can help identify CG areas for improvement before they reach crisis point, ultimately enhancing the effectiveness of MPSE Boards.

6.4 Areas for Further Research

The following areas could be further researched:

A. Board of Directors' Effectiveness in Maltese Government Authorities and Agencies

Given the size and significance of Maltese Government agencies and Authorities *(e.g., Transport Malta, Identity Malta, Jobsplus, Planning Authority, and MFSA)* to the country, it would be interesting to replicate this study for these entities in a quest to enhance their BE.

B. The implementation of a public call system for MPSE Board selection and appointment: A study

A study on the implementation of a public call system for MPSE Board selection and appointment would be valuable as it proposes a potential solution to political favouritism and lack of transparency in the selection process for MPSE Boards. The study could provide insights on potential benefits and challenges of such a system, and could potentially serve as a model for other small island states facing similar challenges.

C. Board remuneration mechanisms in PSEs: A comparative analysis

This study would analyse and compare Board remuneration mechanisms in local and foreign PSEs, identify international best practices, and recommend better Board remuneration policies for improving governance and performance of PSEs.

6.5 Concluding remarks

Achieving BE in MPSEs is an essential step towards building a thriving economy in a small island state that benefits all, leaving a positive legacy for posterity. Therefore, striving towards fostering a culture of BE and CG in PSEs is a must as it is only then that we can truly realise the potential of our MPSEs. As Budiman, Lin et al. (2009, p. 1) rightly claim:

> *“Public-sector companies can match the performance of their private-sector counterparts and even become world-class players”*

……and it is our duty to make it happen.

Appendices

Appendix 1.1 : List of EBUs and PCs

This appendix provides the most recent lists of EBUs and PCs published by the NSO (2022).

- The latest published list of EBUs reflects information as at **31st December, 2021**
- The latest published list of PCs reflects information as at **31st December, 2020**

List of Public Corporations as at reporting year: 2020

	NACE code		NACE code
Air Malta Aviation Services Co. Ltd	52	Malta Business Registry	82
Air Malta plc	51	Malta Development Bank	64
Automated Revenue Management Services Ltd (ARMS)	63	Malta Digital Hub	68
Casma Co. Ltd	68	Malta Electronic Certification Services Ltd	63
Central Bank of Malta	64	Malta Financial Services Authority	66
ClearFlowPlus Ltd	71	Malta Freeport Coporation Ltd.	68
D3 Power Generation Ltd	35	Malta Life Science Centre Ltd	68
Enemalta plc	35	Malta Marketing Ltd	73
Enemed Co. Ltd.	46	Malta Stock Exchange Institute Ltd	85
Energy Services Centre Ltd	33	Malta Stock Exchange plc	66
Engineering Resources Ltd	78	Malta University Consulting Ltd	85
Gozo Channel (Operations) Ltd	50	Malta University Holding Company Ltd (UOM)	64
Gozo Heliport Co. Ltd	52	Malta University Residence Ltd	55
Heritage Malta Services Ltd	68	Mediterranean Conference Centre	82
Indis Malta Ltd	68	Mediterranean Offshore Bunkering Ltd	52
Institute of Foreign Direct Investment Studies Ltd	73	Melita Transgas Co. Ltd	49
International Clean Energy Ltd	74	Milano Due	55
International Energy Service Centre Ltd	33	MPG Energy Services Ltd	19
Keys Security Services Ltd	80	MSX p.l.c.	64
KM Holdings	64	Petromal	47
Kordin Grain Terminal Ltd	52	Public Broadcasting Services Ltd.	60
Libyan Maltese Investments Co Ltd	64	University Broadcasting Services Ltd (UOM)	60
Malita Investments Plc	41	Vault Finance	65
Malpro Ltd	68	Vivaldi Hotel (Operations) Ltd	55
Malta Air Traffic Services Ltd	52	Water Services Corporation	36
Malta Air Travel Ltd (a.k.a Malta Med Air Ltd)	51	World Aviation Group Ltd	79

Notes:
1. Companies that are in the process of dissolution or have been struck off do not feature in this lis

Extra Budgetary Units as at 31 December 2021

	NACE CODE		NACE CODE
Arts Council Malta	90	Malta Government Technology Investments Ltd	84
Agency for Infrastructure Malta	71	Malta Information Technology Agency	63
Bord tal-Koperattivi	84	Malta Investment Management Co. Ltd	84
Broadcasting Authority	84	Malta Philharmonic Orchestra	90
Business First Ltd	84	Malta Resources Authority	84
Commonwealth Trade Finance Facility Ltd	64	Malta Statistics Authority	84
Community Malta Agency	84	Malta Tourism Authority	84
Court Services Agency	84	Manoel Theatre Management Committee	90
Correctional Services Agency	84	Medicines Authority	84
Depositor Compensation Scheme	64	Mental Health Services	87
Environment and Resources Authority	84	MSE (Holdings) Ltd	64
Environment and Development funds	84	National Audit Office	84
Film Finance Malta Ltd	84	National Commission Persons with Disability	84
Fort Secuirty Services Ltd	84	National Development and Social Fund	84
Foundation for Educational Services	84	Occupational Health and Safety Authority	84
Foundation for Medical Services	84	Office of the Ombudsman	84
Foundation for Social Welfare Services	88	Planning Authority	84
Foundation for Tomorrow's Schools	84	Projects Malta Ltd	84
Gozo Channel (Holdings) Co. Ltd	77	Projects Plus Ltd	84
Grand Harbour Regeneration Corporation	71	Property Management Services	84
Heritage Malta	91	Protection and Compensation Fund	64
House Maintenance and Embellishment Co. Ltd	41	Regulator for Energy and Water Services	84
Housing Authority	84	Residency Malta Agency	84
Identity Malta	84	Resources Support and Services Ltd	78
International Institute on Ageing	85	Safe City Malta Ltd	84
Investor Compensation Scheme	64	Sapport	88
Jobsplus	78	Selmun Palace Hotel	84
Lands Authority	84	SportMalta	93
Libyan Arab Maltese Holdings Ltd	64	St James Cavalier Creativity Centre	90
Malta College of Arts, Science and Technology	85	Superintendence of Cultural Heritage	84
Malta Communications Authority	84	The Rehabilitation Hospital Karin Grech	86
Malta Competition and Consumer Affairs Authority	84	Trade Malta Ltd	73
Malta Council for Economic and Social Development	84	University of Malta	85
Malta Council for Science and Technology	84	Transport Malta	84
Malta Enterprise Corporation	84	Valletta Cultural Agency	91
Malta Gaming Authority	84	WasteServ Malta Ltd	38
Malta Government Investments Ltd	84	Yachting Malta Ltd	73

Notes:

1. This list does not include entities which are already accounted for within the Government's accounting systems.
2. General Classification of economic activities within the European communities. Industries are grouped into 64 categories (A64) based on NACE Rev 2.

Appendix 1.2: Maltese Public Sector Entities

The appendix provides a list of MPSEs. For the purpose of this study, MPSEs refer to local public sector entities, established under the Companies Act 1995, classified as either EBUs or PCs, thereby excluding PSEs not established under the Companies Act. For the purpose of Section 4.4.1, this following list also provides a breakdown of the number of male and female BMs on each MPSE, as at 15th April, 2023.

	MPSE	Responsible Ministry	No. of Male BMs	%	No. of Fe-male BMs	%
1	AirMalta Aviation Services Ltd	Ministry for Finance and Employment	2	50%	2	50%
2	AirMalta Plc	Ministry for Finance & Employment	5	83%	1	17%
3	Automated Revenue Management Services Ltd	Ministry for Energy, Enterprise & Sustainable Development	6	67%	3	33%
4	Business First Ltd	Ministry for Energy, Enterprise & Sustainable Development	4	57%	3	43%
5	CASMA Co. Ltd	Ministry for the Economy, European Funds and Lands	4	80%	1	20%
6	ClearFlowPlus Ltd	Ministry for Energy, Enterprise & Sustainable Development	4	80%	1	20%
7	Commonwealth Trade Finance Facility Ltd	Ministry for Foreign and European Affairs and Trade	2	67%	1	33%
8	Enemalta Plc	Ministry for Energy, Enterprise & Sustainable Development	5	71%	2	29%
9	Enemed Co. Ltd	Ministry for Energy, Enterprise & Sustainable Development	4	57%	3	43%
10	Engineering Resources Ltd	Ministry for Energy, Enterprise & Sustainable Development	6	60%	4	40%
11	Film Finance Malta Ltd	Ministry for Tourism	6	86%	1	14%
12	Gozo Channel (Holding) Ltd	Ministry for the Economy, European Funds and Lands	3	60%	2	40%
13	Gozo Channel (Operations) Ltd	Ministry for Gozo	7	78%	2	22%
14	Gozo Fibre Optic Cable Ltd	Ministry for the Economy, European Funds and Lands	3	60%	2	40%
15	Gozo Heliport Ltd	Ministry for Gozo	2	67%	1	33%
16	Grand Harbour Regeneration Corporation Plc	Ministry for Transport, Infrastructure and Capital Projects	7	70%	3	30%
17	Heritage Malta Services Ltd	Ministry for the National Heritage, the Arts and Local Government	4	80%	1	20%

18	Housing Maintenance and Embellishment Co. Ltd	Ministry for Social and Affordable Accommodation	5	71%	2	29%
19	Indis Malta Ltd	Ministry for the Economy, European Funds and Lands	5	83%	1	17%
20	Interconnect Malta Ltd	Ministry for Energy, Enterprise & Sustainable Development	5	71%	2	29%
21	International Energy Service Centre Ltd	Ministry for Energy, Enterprise & Sustainable Development	3	100%	0	0%
22	IP Holding Ltd	Ministry for the Economy, European Funds and Lands	2	100%	0	0%
23	ITS New Campus Ltd	Ministry for Tourism	4	57%	3	43%
24	KM Holdings Ltd	Ministry for Finance & Employment	1	100%	0	0%
25	Kordin Grain Terminal Co Ltd	Ministry for the Economy, European Funds and Lands	4	44%	5	56%
26	Libyan Arab Maltese Holdings Co Ltd	Ministry for Finance and Employment	5	83%	1	17%
27	Malita Investments Plc	Ministry for Finance and Employment	4	57%	3	43%
28	Malpro Ltd	Ministry for the Economy, European Funds and Lands	3	60%	2	40%
29	Malta Air Traffic Services Ltd	Ministry for Transport, Infrastructure and Capital Projects	5	83%	1	17%
30	Malta Air Travel Ltd (A.K.A Malta MedAir)	Ministry for Finance and Employment	5	71%	2	29%
31	Malta Electronic Certification Services Ltd	Ministry for Home Affairs, Security, Reforms and Equality	2	100%	0	0%
32	Malta Government Investments Ltd	Ministry for the Economy, European Funds and Lands	5	83%	1	17%
33	Malta Government Technology Investments Ltd	Ministry for the Economy, European Funds and Lands	4	50%	4	50%
34	Malta Investment Management Co. Ltd.	Ministry for the Economy, European Funds and Lands	5	83%	1	17%
35	Malta Marketing Co. Ltd	Ministry for the Economy, European Funds and Lands	0	0%	1	100%
36	Malta Stock Exchange Institute Ltd.	Ministry for Finance and Employment	4	80%	1	20%
37	Malta Stock Exchange Plc	Ministry for Finance and Employment	5	83%	1	17%
38	Malta Strategic Partnership Projects Ltd	Office of the Prime Minister	5	100%	0	0%
39	Mediterranean Offshore Bunkering Co. Ltd	Ministry for Energy, Enterprise & Sustainable Development	3	33%	6	67%
40	MSE (Holdings) Ltd	Ministry for Finance and Employment	5	83%	1	17%
41	National Orhcestra Ltd	Ministry for the Economy, European Funds and Lands	3	33%	6	67%
42	Petromal (Holdings) Co. Ltd	Ministry for Energy, Enterprise & Sustainable Development	5	100%	0	0%
43	Pitkalija Ltd	Ministry for Agriculture, Fisheries and Animal Rights	5	100%	0	0%

44	Projects Plus Ltd	Ministry for Transport, Infrastructure and Capital Projects	5	83%	1	17%
45	Property Management Services Ltd.	Ministry for the Economy, European Funds and Lands	1	50%	1	50%
46	Public Broadcasting Services Ltd	Ministry for the National Heritage, the Arts and Local Government	7	78%	2	22%
47	Resource Support and Services Ltd	Office of the Prime Minister	4	100%	0	0%
48	Safe City Ltd	Ministry for Tourism	1	100%	0	0%
49	Selmun Palace Hotel Co. Ltd	Ministry for Tourism	1	100%	0	0%
50	Social Innovative Projects Management Ltd	Ministry for Social Policy and Children's Rights.	6	86%	1	14%
51	Social Projects Management (S.P.M.) Ltd	Ministry for Social and Affordable Accommodation	6	100%	1	17%
52	Trade Malta Ltd	Ministry for Foreign and European Affairs and Trade	4	67%	2	33%
53	WasteServ (Malta) Ltd	Ministry for the Environment, Climate Change & Planning	3	43%	4	57%
54	Yachting Malta Ltd	Ministry for Transport, Infrastructure and Capital Projects	8	100%	0	0%
		Total MPSE BMs	222		89	

Table A1.1: List of MPSEs and Gender Breakdown of BMs [120]

[120] Sources: Amended from Government Services and Information Website (2023), MBR website (2023), NSO (2022)

Appendix 2.1: The CG Guidelines for PICs

This appendix presents the CG Guidelines for PICs issued by the MFSA. which are presently the main CG authoritative source for MPSEs as they cater for "*government owned companies established as limited liability companies*" (MFSA 2006, p. 2). The Guidelines were central to the research and were cited in several instances.

Introduction

During the past decades freedom in all aspects of business activities has increased significantly thus creating more opportunities for entrepreneurs. Increased freedom means increased responsibility. Enterprises must show respect for their shareholders as well as for other stakeholders and indeed society as a whole. The manner in which company directors promote and control their company's operations, that is, the way they exercise their stewardship, is not just a matter of interest to their shareholders, but is a matter of public interest too. Mutual trust between the public and the business community is the key to improved competitiveness.

The aim of these guidelines is to:

- advance best practice in corporate governance in Malta;
- make it easier for directors and managers to fulfill their duties and assist them in advancing the growth and development of the companies they are entrusted with directing;
- ensure public confidence in enterprises and business activities in general; and
- strengthen trust between investors, directors and managers.

These guidelines are applicable to companies having an impact on the public in general. Public interest companies are thus companies whose operations affect a substantial sector of society. These companies should not only act in the interests of their shareholders but also in the communal interest.

A 'public interest company' means any one of the following three types of companies:

(a) a regulated company; or
(b) a company that has issued debt securities to the public and whose securities are not admitted to listing on a Recognized Investment Exchange; or
(c) a government-owned entity established as a limited liability company.

A 'regulated company' means a company authorised to provide a financial or a utility service and which is either a large private company or a public company, but excluding:

- collective investment schemes;
- companies which do not hold or control clients' money;
- companies which already have an obligation to segregate clients' funds in separate accounts.

A large private company means a company which is defined under Article 209 of the Companies Act and moreover which on its balance sheet date exceeds the limits of two of the three following criteria:

- balance sheet total - one million one hundred thousand Maltese liri;
- turnover - two million two hundred thousand Maltese liri;
- average number of employees during the accounting period - fifty.

A ‘public company’ means a company which is not a private company in terms of the Companies Act.

These companies should aim to adopt these guidelines of corporate governance and to highlight adherence thereto in the Annual Report.

Nothing contained in these Guidelines should be deemed to override the general rules, laws and principles which regulate public interest companies but these should be considered as a general framework to support good governance within the Maltese financial sector.

In an increasingly globalized world economy where competition is intense, the adoption of good corporate governance guidelines can make a difference in the way companies are managed and perceived, both domestically and within the international scenario.

GUIDELINE 1: THE BOARD

A company should be headed by an effective board, which should lead and control the company.

1.1 The board should be composed of persons who are fit and proper to direct the business of the company. The concept of fit and proper requires directors to be honest, competent and solvent persons.

1.2 It is one of the board's main responsibilities to promote the success of the company by directing and supervising the company's affairs and management to enhance shareholders' value.

1.3 The shareholders, as the owners of the company, have the jurisdiction and discretion to appoint or remove directors on the board. The process of appointment should be transparent and conducted at properly constituted shareholder meetings where the views of the minority can be expressed.

1.4 All directors are required to provide leadership, integrity and judgment in directing the company.

1.5 All directors should:

1.5.1 exercise prudent and effective controls which enable risk to be assessed and managed in order to achieve the continued prosperity of the company;

1.5.2 be accountable for all actions or omissions attributable to them or their delegates;

1.5.3 determine the company's strategic aims and the organizational structure;

1.5.4 regularly review management performance and ensure that the company has the appropriate mix of financial and human resources to meet its objectives and to improve the economic and commercial prosperity of the company;

1.5.5 set the company's values and standards in order to enhance and safeguard the interests of shareholders;

1.5.6 act with integrity and due diligence while discharging their duties as directors and in particular in the decision and policy-making process of the company, which should be reflected in all company's dealings and at every level of the organization; and

1.5.7 exercise accountability to shareholders and be responsible to other relevant stakeholders.

1.6 Leadership can only come about if the directors, individually and collectively, are of the appropriate calibre, with the necessary skills and experience to contribute effectively to the decision-making process.

1.7 Directors therefore should:

1.7.1 acquire a broad knowledge of the business of the company;

1.7.2 be aware of and be conversant with the statutory and regulatory requirements connected to the business of the company;

1.7.3 allocate sufficient time to uphold their responsibilities; and

1.7.4 regularly attend meetings of the board.

1.8 In cases when a director is unable to acquiesce in a decision of the board because a proposed course of action is not deemed to be in accordance with his statutory or fiduciary duties and responsibilities and all reasonable steps have been taken to resolve the issue, the director may feel that resignation may be a better alternative than acquiescence. In such instances, the shareholders are entitled to an honest account of any such disagreements between directors.

GUIDELINE 2: THE CHAIRMAN OF THE BOARD

There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business.

2.1 The chairman has a pivotal role to play in helping the board achieve its full potential. He should encourage every director to play a full and constructive role in the affairs of the company.

2.2 The chairman is responsible to:

2.2.1 lead the board and set its agenda;

2.2.2 ensure that the directors of the board receive precise, timely and objective information so that they can take sound decisions and effectively monitor the performance of the company;

2.2.3 ensure effective communication with shareholders; and

2.2.4 encourage active engagement by all members of the board for discussion of complex or contentious issues.

GUIDELINE 3: DIRECTORS

The board should be composed of persons who as a group, have the required diversity of knowledge, judgment and experience to properly complete their tasks. This may require the inclusion of a number of non-executive directors (including independent non-executives).

3.1 The exact composition and balance on a board will depend on the circumstances and business of each enterprise. Companies should ensure a balance such that no individual or small group of individuals can dominate the board's decision-making.

3.2 A director is considered to be independent when he is free from any business, family or other relationship – with the company, its controlling shareholder or the management of either – that creates a conflict of interest such as to jeopardize exercise of his free judgment.

3.3 A 'non-executive director' is a director who is not engaged in the daily management of the company. A non-executive director has an important role in overseeing executive or managing directors and dealing with situations involving conflicts of interests.

3.4 Non-executive directors and executive directors have as board members the same duties and responsibilities in terms of law. However, as the non-executive directors are not involved in the day-to-day running of the business, they can bring fresh perspectives and contribute more objectively in supporting as well as constructively challenging and monitoring the management team.

3.5 The company should appoint non-executive directors of sufficient calibre whose independence and standing would offer a balance to the strength of character of a chairman. Where the roles of the chairman and chief executive officer are combined, it is important that the non-executive directors are able to bring an independent judgment to bear on the various issues brought before the company.

3.6 Non-executive directors should be free from any business or other relationship, which could interfere materially with the exercise of their independent and impartial judgment.

3.7 Each director should apply to his duties the necessary time and attention, and should undertake to limit the number of any directorships held in other companies to such an extent that the proper performance of his duties is assured.

3.8 Non-executive directors should:

- 3.8.1 constructively challenge and help develop proposals on strategy;
- 3.8.2 monitor the reporting of performance;
- 3.8.3 scrutinize the performance of management in meeting agreed goals and objectives; and
- 3.8.4 satisfy themselves on the integrity and financial information and that financial controls and risk management systems are well established.

GUIDELINE 4: THE RESPONSIBILITIES OF THE BOARD

The board has the first level responsibility of executing the four basic roles of corporate governance namely: accountability, monitoring, strategy formulation and policy development.

4.1 The board should regularly review and evaluate corporate strategy, major operational and financial plans, risk policy, performance objectives and monitor implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best business practice.

4.2 The board should clearly define its level of power and ensure that it is known by all directors and the senior management of the company. Delegation of authority to management should also be clear and unequivocal. Independently of any powers and functions that the directors may from time to time validly delegate to management, it remains a fundamental responsibility of directors to monitor effectively the implementation of strategy and policy by management.

4.3 The board should apply high ethical standards and take into account the interests of stakeholders. Its members should act:

4.3.1 responsibly and with the highest degree of integrity when exercising independent objective judgment; and

4.3.2 on a fully informed basis, in good faith, with due diligence and in the best interests of the company and its shareholders.

4.4 The board should:

4.4.1 define in clear and concise terms the company's strategy, policies, management performance criteria and business policies which can be measured in a precise and tangible manner;

4.4.2 establish a clear internal and external reporting system so that the board has continuous access to accurate, relevant and timely information such that the board can discharge its duties, exercise objective judgment on corporate affairs and take pertinent decisions to ensure that an informed assessment can be made of all issues facing the board;

4.4.3 continuously assess and monitor the company's present and future operations, opportunities, threats and risks in the external environment and current and future strengths and weaknesses;

4.4.4 recognise and support enterprise and innovation within the management of the company. The board should examine how best to motivate company management;

4.4.5 seek to establish an effective decision-making process in order to develop the company's business efficiently;

4.4.6 evaluate the management's implementation of corporate strategy and financial objectives. The strategy, processes and policies adopted for its implementation should be regularly reviewed by the board using key performance indicators so that corrective measures can be taken to address any deficiencies and ensure the future sustainability of the enterprise;

4.4.7 ensure that the company has appropriate policies and procedures in place to assure that the company and its employees maintain the highest standards of corporate conduct, including compliance with applicable laws, regulations, business and ethical standards;

4.4.8 recognize that the company's success depends upon its relationship with all groups of its stakeholders, including employees, suppliers, customers and the wider community in which the company operates. The board should maintain an effective dialogue with such groups in the best interests of the company and monitor the application by management of its policies;

4.4.9 strike a balance between enterprise and control in the company; and

4.4.10 develop a succession policy for the future composition of the board of directors and particularly the executive component thereof, for which the chairman should hold key responsibility.

4.5 Upon being appointed to the board and throughout the term of their appointment, directors should ensure that they have sufficient and adequate information about the company, its affairs and their fiduciary duties, responsibilities and liabilities. It is desirable that periodic information sessions are organized to ensure that directors are familiar with, *inter alia*:

4.5.1 their statutory and fiduciary duties;
4.5.2 the company's operations and prospects;
4.5.3 the skills and competence of senior management;
4.5.4 the general business environment; and
4.5.5 the board's expectations.

4.6 The board must understand and fully appreciate the business risk issues and key performance indicators effecting the ability of the company to achieve its objectives.

4.7 The board should assess regularly any circumstances, whether actual or potential, that could expose the company or its directors to risk and take appropriate action.

4.8 The business risk and key performance indicators should be benchmarked against industry norms so that the company's performance can be effectively evaluated.

4.9 The board shall require management to constantly monitor performance and report, at least quarterly, fully and accurately on the key performance indicators to its satisfaction.

4.10 The board shall ensure that the financial statements of the company and the annual audit thereof have been completed within the stipulated time periods.

GUIDELINE 5: BOARD MEETINGS

The board should meet sufficiently regularly to discharge its duties effectively. Ample opportunity must be given to all board members during meetings to convey their opinions and discuss issues set on the board agenda so that they honour their responsibilities at all times.

5.1 The board should set procedures to determine the frequency, purpose, conduct and duration of meetings and meet regularly, at least once every quarter, in line with the nature and demands of the company's business.

5.2 The chairman is primarily responsible for the efficient working of the board. He must ensure that all relevant issues are on the agenda supported by all available information.

5.3 The board agenda should strike a balance between long-term strategic and shorter-term performance issues.

5.4 The attendance of board members should be reported to shareholders at annual general meetings.

5.5 Notice of the dates of the forthcoming meetings together with the supporting material should be circulated well in advance to the directors so that they have ample opportunity to appropriately consider the information prior to the next scheduled board meeting. Advance notice should be given of ad hoc meetings of the board to allow all directors sufficient time to re-arrange their commitments in order to be able to participate.

5.6 Conduct of board meetings by the chairman should facilitate and encourage the presentation of views pertinent to the subject-matter.

5.7 After each board meeting and before the next meeting, minutes that faithfully record attendance and decisions should be prepared and made available to all directors as soon as practicable after the meeting.

GUIDELINE 6: INFORMATION AND PROFESSIONAL DEVELOPMENT

The board should:

- ***actively participate in the appointment of senior management;***
- ***ensure that there is adequate training in the company for management and employees; and***
- ***establish a succession plan for senior management.***

6.1 Boards should actively consider the establishment and implementation of appropriate schemes to recruit, retain and motivate high quality executive officers and the management team.

6.2 Senior management should ensure that systems are in place:

6.2.1 to provide for the development of the management and employees generally and to provide for adequate training in the company;

6.2.2 to ensure staff receive adequate and relevant training so that the company remains competitive; and

6.2.3 to monitor management and staff morale.

GUIDELINE 7: RELATIONS WITH SHAREHOLDERS

The board shall serve the legitimate interests of the company and account to shareholders fully. Companies should use the general meeting to communicate with shareholders.

7.1 The board should endeavour to protect and enhance the interest of both the company and its shareholders, present and future. The company should therefore provide shareholders with regular, timely, accurate, comprehensive and comparable information in sufficient detail to enable investors to make informed investment decisions.

7.2 The board shall utilize the annual general meeting of the company to communicate effectively with the shareholders. It shall also ensure compliance with Company Law provisions regulating the convening of extraordinary general meetings.

7.3 The board should:

7.3.1 always ensure that all holders of each class of capital are treated fairly and equally; and

7.3.2 act in the context that its shareholders are constantly changing and consequently, decisions should take into account the interests of future shareholders as well.

7.4 Shareholders must appreciate the significance of participation in the general meetings of the company and particularly in the election or appointment of directors. They should continue to hold directors to account for their actions, their stewardship of the company's assets and the performance of the company.

7.5 The agenda for general meetings of shareholders and the conduct of such meetings must not be arranged in a manner to frustrate valid discussion and decision-taking.

7.6 A detailed explanatory memorandum should accompany all proposals put before an extraordinary general meeting or proposals considered as extraordinary business and it must be provided well in advance of the meeting with adequate time within which shareholders can evaluate it.

7.7 Provision must be made for shareholders who do not attend a general meeting to appoint a proxy of their choice to attend and vote on any matter either in favour of, or against, any proposal presented at a general meeting of shareholders, or to abstain.

7.8 The company should consider making available for inspection to its shareholders for a period of not less than 15 days particulars of service contracts and particulars of any contract in which a director of the company is materially interested and which is significant in relation to the business of the company and its subsidiaries taken as a whole.

7.9 The company should disclose the total of any outstanding loans granted by the company or any of its subsidiaries or the parent of such company to the directors of the company and of any guarantees provided for their benefit.

7.10 It is the directors' responsibility not to make improper use of information acquired by them by virtue of their position as a director.

7.11 The board should consider whether, from time to time, disclosure should be made by the company to other stakeholders other than its shareholders, but in other respects treating them equally as regards content and timeliness.

GUIDELINE 8: CONFLICTS OF INTEREST

Directors' primary responsibility is always to act in the interest of the company and its shareholders as a whole irrespective of who appointed them to the board.

8.1 A director should avoid conflicts of interest at all times and shall make a declaration at the first board meeting if he is aware that he has an actual conflict of interest.

8.2 Should an actual or potential conflict arise during the tenure of a directorship, a director must disclose the conflict in full and in time to the board and the board shall determine whether or not that director should participate in the discussion. In any event, the director shall refrain from voting on the matter.

8.3 The personal interest of a director must not take precedence over those of the company and its shareholders.

8.4 A director having a continuing material interest that conflicts with the interests of the company should, following consultation with the chairman, take effective steps to eliminate the grounds for conflict. In the event that such steps do not eliminate the grounds for conflict then the director should consider resigning.

8.5 Each director should declare to the company his or her interest in the share capital of the company distinguishing between beneficial and non-beneficial interest.

GUIDELINE 9: CORPORATE SOCIAL RESPONSIBILITY

Directors should seek to adhere to accepted principles of corporate social responsibility in their day-to-day management practices of the company.

9.1 Corporate Social Responsibility is the continuing commitment by business entities to behave ethically and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing 'more' into human capital, the environment and the relations with stakeholders.

9.2 Companies are encouraged to take up initiatives aimed at augmenting investment in human capital, health and safety issues, and managing change, while adopting environmentally responsible practices related mainly to the management of natural resources used in the production process.

9.3 Companies are expected to act as corporate citizens in the local community, work closely with suppliers, customers, employees and public authorities.

9.4 Companies are encouraged to go through material relating to the theme of corporate social responsibility and keep abreast with initiatives being taken in the local and international scenario.

Appendix 3.1 Letter of Introduction and Invitation to Participate

L-Università ta' Malta

DEPARTMENT OF ACCOUNTANCY

Faculty of Economics, Management & Accountancy

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LETTER OF INTRODUCTION AND INVITATION TO PARTICIPATE IN RESEARCH

28/10/2022

Dear Sir / Madam,

This is to introduce Marilyn Scicluna, a Master in Accountancy student at the Faculty of Economics, Management and Accountancy at the University of Malta.

The student is undertaking research within the Department of Accountancy regarding Corporate Governance. This research aims to explore *the Boards of Directors' Effectiveness in Maltese Public Sector Entities.*

In this regard, the said student would like to invite you to contribute on this research project by participating in an interview covering aspects of this topic, at your convenience.

This research is important and valuable in enhancing understanding of the subject area and helping practicing professionals and practitioners like yourself, as well as informing policy and support initiatives. The student would be happy to share with you general findings ensuing from this research.

The student is to ensure that any information provided will be treated in confidence, also in line with general Faculty research requirements and ethical obligations. A consent form will be separately provided. You are, of course, entirely free to discontinue your participation at any time or to decline to answer particular questions.

While I thank you beforehand for your consideration as well as your possible kind support and involvement in this important research, should you have any queries on this research please feel free to contact me via email at: accountancy.fema@um.edu.mt.

Yours sincerely,

L Ellul

Dr. Lauren Ellul

Appendix 3.2: Interview Schedule

This appendix presents the interview schedule that was used during the semi-structured interviews conducted for the purpose of this dissertation. The schedule also displays the number of responses for each Likert scale question, in **bold** and *italics*.

SECTION 1: BOARD SELECTION & APPOINTMENT

1.1) What is the entity's procedure for the appointment and removal of directors? Please explain.

1.2) To what extent do you agree with the following statements? Please rate from 0 to 4 *(with 0 being strongly disagree and 4 being strongly agree),* adding comments, if any:

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
(i) Political ties are the main selection criteria for Board appointments	***1***	***4***	***0***	***8***	***9***
(ii) A change in government is followed by a change in the BMs.	***0***	***0***	***0***	***0***	***22***
(iii) Competent individuals are reluctant to be appointed as BMs.	***1***	***2***	***1***	***4***	***14***
(iv) The nomination process for BMs of local PSE is transparent	***13***	***9***	***0***	***0***	***0***
(v) The nomination process for BMs of local PSE is merit based	***2***	***8***	***5***	***7***	***0***

SECTION 2: ROLE OF THE BOARD

2.1) How many times did the Board meet in the past fiscal year?

☐ Times.

2.2) On average, what was the percentage of members attending the Board meetings?

☐ %

2.3) How often does the Board meet the CEO to review the implementation of strategy?

2.4) Does your Board have Board Committees? If so, please name them.

2.5) Does your organisation's Board have any written and formal procedures for guidance on Board operations?

2.6) To what extent do you agree with the following statements, specifically in the context of Maltese public sector entity Boards. Please rate from 0 to 4 *(with 0 being strongly disagree and 4 being strongly agree),* adding comments, if any:

	Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
(i) The Board is adequately empowered to discharge its functions, free from government interventions.	***2***	***4***	***7***	***4***	***5***
(ii) BMs are objective enough to refrain from making decisions that please the political party that elected them on the Board.	***4***	***8***	***4***	***6***	***0***

(iii) The Board is adequately trained by means of training programs implemented by the entity focusing on their roles as BMs and other corporate governance issues.	*9*	*9*	*0*	*3*	*1*

SECTION 3: BOARD COMPOSITION

3.1) How many directors constitute your Board? ☐

Out of these how many are women? ☐

3.2) What professional qualifications do current directors have ?

Qualification	Number of Directors
Accountancy	
Banking and/or Investment	
Economics	
Management	
Law	
Other	
No Qualifications	
Unknown	

3.3) In your opinion does Malta have a sufficient number of skilled and experienced directors to meet the needs of the local public sector entities and achieve the diversity of skills needed for performance effectiveness?

3.4) Should non-Maltese individuals serve on local public sector entity Boards?

SECTION 4: BOARD REMUNERATION

4.1) What is the remuneration mechanism of Maltese public sector entity Boards?

4.2) The following are widely known Board remuneration issues encountered by public sector entity Boards. To what extent do you agree with such statements? Please rate from 0 to 4 *(with 0 being strongly disagree and 4 being strongly agree),* adding comments, if any:

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
(i) Remuneration packages are insufficient, inadequate and not competitive enough to attract and retain directors of high calibre to PSEs	***0***	***0***	***3***	***9***	***10***
(ii) The responsible minister has the final say on the remuneration packages of BMs.	***13***	***5***	***0***	***0***	***4***
(iii) The Board does not have clear and sufficient remuneration policies for BMs in place.	***5***	***7***	***0***	***4***	***6***

SECTION 5: EVALUATION OF BOARD PERFORMANCE

5.1) Is the Board's performance formally evaluated? If so, how and how frequent?

5.2) There are various challenges which may be impeding the implementation of Board performance evaluations within Maltese Public Sector Entities. Please rate the following arguments from 0 to 4 *(with 0 being strongly disagree and 4 being strongly agree),* adding comments, if any:

	Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
(i) There is a lack of developed evaluation tools in place in most entities	***2***	***2***	***0***	***9***	***9***
(ii) The Government's interference on operational issues makes it difficult to effectively measure Board performance	***2***	***6***	***2***	***5***	***7***
(iii) The high turnaround of directors makes it difficult to measure performance	***5***	***9***	***4***	***4***	***0***

5.3) Are there any other challenges which come to mind for Board performance evaluation within Maltese public sector entities?

Appendix 3.3: Statistical Data Analysis using the Friedman Test

The Friedman test is a non-parametric test used to compare mean rating scores given to Likert scale question, between a number of related statements. These mean rating scores range from 0 to 4, where 0 corresponds to *'Strongly Disagree'* and 4 corresponds to '*Strongly Agree'*. Thus, the higher the score, the higher the agreement. This test was carried out four times, that is, for Qns 1.2, 2.6, 4.2, and 5.2 of the interview schedule.

The **null hypothesis** (H_0) specifies that the mean rating scores provided to the statements are similar and is accepted if the p-value is larger than the 0.05 level of significance.

The **alternative hypothesis** (H_1) specifies that the mean rating scores provided to the statements differ significantly and is accepted if the *p*-value is less than the 0.05 criterion.

The bar graphs presented in this appendix complement the statistical tables shown in Chapter Four. These bar graphs illustrate the differences, significant or otherwise, among the mean rating scores to each Likert scale question, and clearly demonstrate the results of the Friedman test.

The error bar graph displays the 95% confidence interval of the actual mean rating score if the whole population of MPSE BMs and CGEs had to be included in the study. When two confidence intervals are disjointed or overlap slightly, this indicates that their mean rating scores differ significantly. Otherwise, when two confidence intervals overlap, this indicates that their mean rating scores are similar and do not differ significantly.

Section 1: Board Selection and Appointment

Figure A3.1 hereunder illustrates the interviewee's level of agreement with challenges surrounding Board selection and appointment in MPSEs.

As depicted, the error bars of challenge (i) does not overlap the error bars of challenges (ii), (iv) and (v). Moreover, the error bars of challenges (ii), (iv), (v) do not overlap any error bars of any challenge.

These observations show that the mean rating scores provided to such challenges differ significantly. This is confirmed by the p-value of less than 0.001 (which is less than the 0.05 level of significance)

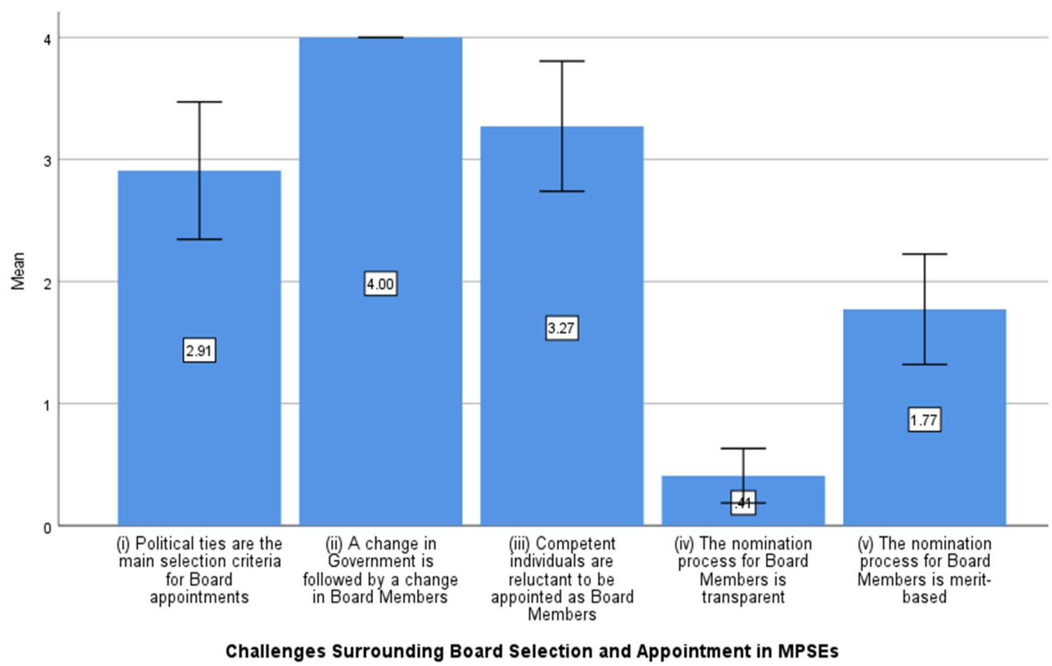

Figure A3.1: Challenges surrounding Board selection and appointment in MPSEs (Q1.2)

Section 2: Board Role

Figure A3.2 hereunder illustrates the interviewee's level of agreement with challenges surrounding the role of the Board in MPSEs.

The error bar of challenge (i) does not overlap the error bar of challenge (iii) and it slightly overlaps the error bar of challenge (ii). The error bar of challenge (i) slightly overlaps the error bar of challenge (iii).

These observations show that the mean rating scores provided to such challenges differ significantly. This is confirmed by the p-value of 0.001 (which is less than the 0.05 level of significance)

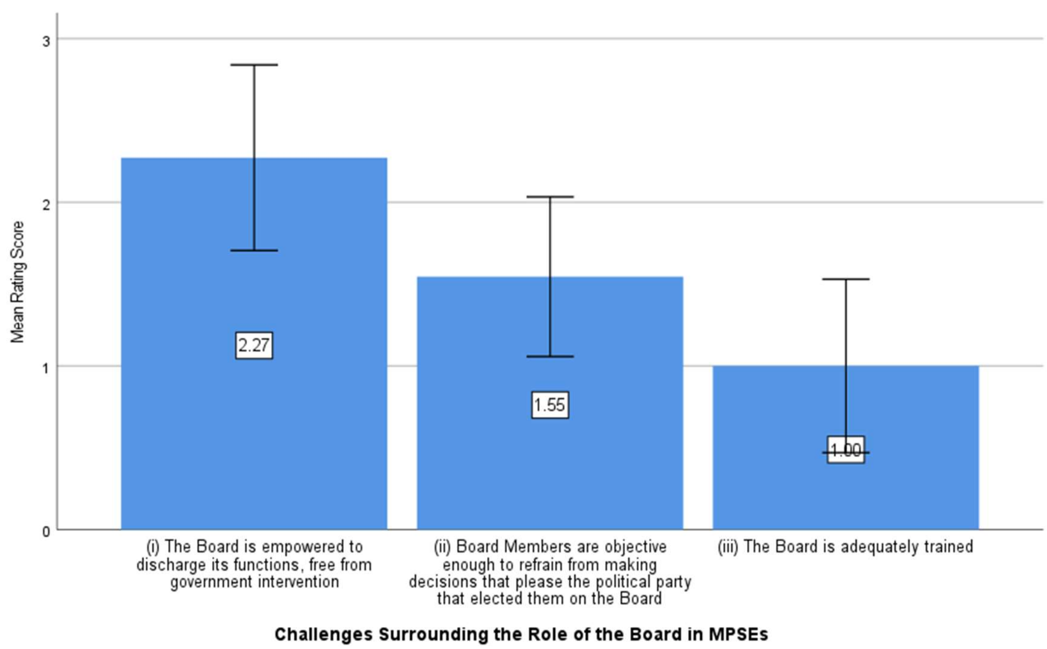

Figure A3.2: Challenges surrounding the role of the Board in MPSEs (Q2.6)

Section 4: Board Remuneration

Figure A3.3 hereunder illustrates the interviewee's level of agreement with challenges surrounding Board remuneration in MPSEs.

As depicted, the error bar of challenge (i) does not overlap the error bars of challenges (ii) and (iii). The error bar of challenge (ii) slightly overlaps the error bar of challenge (iii)

These observations show that the mean rating scores provided to such challenges differ significantly. This is confirmed by the p-value of less than 0.001 (which is less than the 0.05 level of significance.

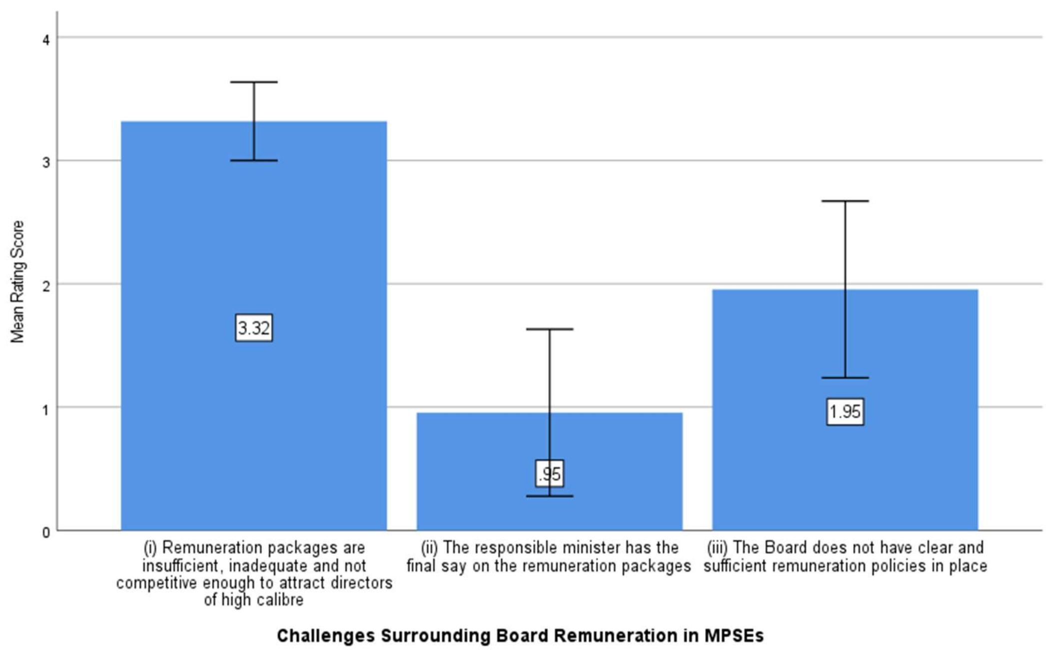

Figure A3.3: Challenges surrounding Board Remuneration in MPSEs (Q4.2)

Section 5: Board Performance Evaluation

Figure A3.4 hereunder illustrates the interviewee's level of agreement with challenges surrounding the implementation of Board performance evaluations within MPSEs.

As depicted, the error bar of challenge (i) does not overlap the error bar of challenge (iii). Additionally, the error bar of challenge (ii) slightly overlaps the error bar of challenge (iii),

These observations show that the mean rating scores provided to such challenges differ significantly. This is confirmed by the p-value of 0.012 (which is less than the 0.05 level of significance)

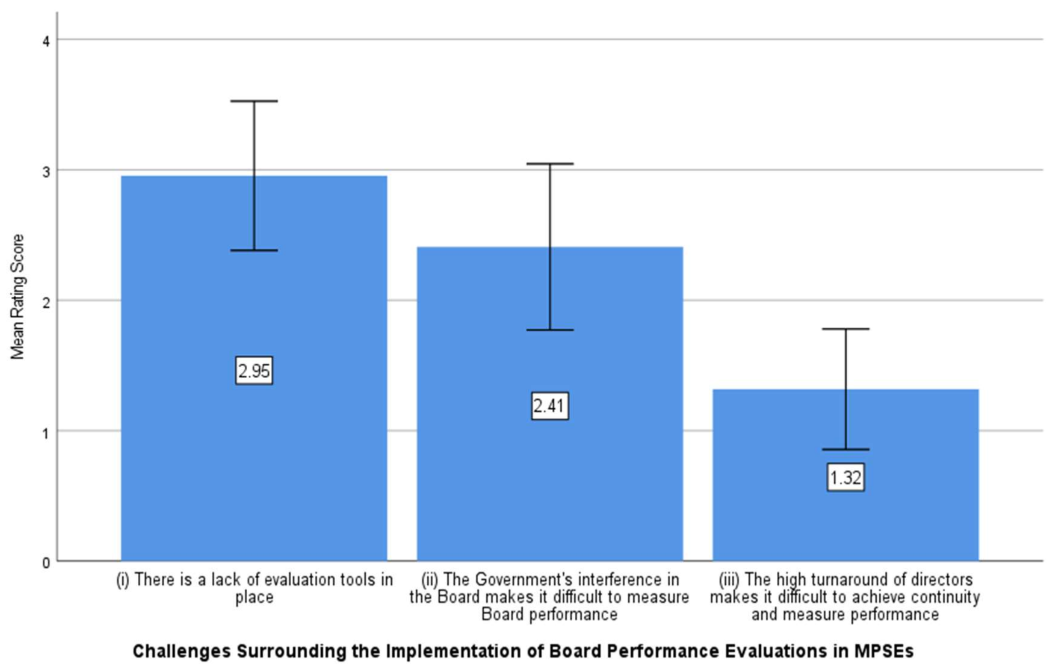

Figure A3.4: Challenges surrounding the implementation of Board Performance Evaluations in MPSEs (Q5.2)

Appendix 3.4: Statistical Data Analysis using the Mann-Whitney Test

The Mann-Whitney test is a non-parametric test that was used to compare the mean rating scores between the two respondent groups, namely, the MSE BMs and the CGEs. These mean rating scores range from 0 to 4, where 0 corresponds to ’Strongly Disagree’ and 4 corresponds to ‘Strongly Agree’. Thus, the higher the score, the higher the agreement. This test was carried out four times, that is, for Qns 1.2, 2.6, 4.2, and 5.2 of the interview schedule.

The **null hypothesis** (H_0) specifies that the mean rating scores provided by the two respondent groups are similar, and is accepted if the p-value is larger than the 0.05 level of significance.

The **alternative hypothesis** (H_1) specifies that the mean rating scores provided by the two respondent groups differ significantly. and is accepted if the *p*-value is less than the 0.05 criterion.

The tables presented in this appendix (Table A3.1-A3.4) illustrate whether or not the mean rating scores to each Likert scale question differ between the MPSE BMs and the CGEs.

Q1.2	Group	N	Mean	Std. Dev	P-value
(i) Political ties are the main selection criterion for Board appointments	MPSE BMs	18	2.89	1.278	0.837
	CGEs	4	3.00	1.414	
(ii) A change in Government is followed by a change in Board Members	MPSE BMs	18	4.00	0.000	1.000
	CGEs	4	4.00	0.000	
(iii) Competent individuals are reluctant to be appointed as Board Members	MPSE BMs	18	3.17	1.295	0.594
	CGEs	4	3.75	0.500	
(iv) The nomination process for BMs is transparent	MPSE BMs	18	0.44	0.511	0.594
	CGEs	4	0.25	0.500	
(v) The nomination process for BMs is merit-based	MPSE BMs	18	2.00	0.907	0.042
	CGEs	4	0.75	0.957	

Table A3.1: Challenges Surrounding MPSE Board Selection and Appointment

Q2.6	Group	N	Mean	Std. Dev	P-value
(i) The Board is empowered to discharge its functions, free from government intervention	MPSE BMs	18	2.61	1.145	0.005
	CGEs	4	0.75	0.500	
(ii) Board Members are objective enough to refrain from making decisions that please the political party that elected them on the Board	MPSE BMs	18	1.78	1.060	0.042
	CGEs	4	0.50	0.577	
(iii) The Board is adequately trained on their roles as BMs by means of training programmes implemented by the MPSE	MPSE BMs	18	1.06	1.305	0.967
	CGEs	4	0.75	0.500	

Table A3.2: Challenges Surrounding the Role of the Board in MPSEs

Q4.2	Group	N	Mean	Std. Dev	P-value
(i) Remuneration packages are insufficient, inadequate and not competitive enough to attract directors of high calibre	MPSE BMs	18	3.33	0.686	0.967
	CGEs	4	3.25	0.957	
(ii) The responsible minister has the final say on the remuneration packages	MPSE BMs	18	0.94	1.697	0.141
	CGEs	4	1.00	0.00	
(iii) The Board does not have clear and sufficient remuneration policies in place	MPSE BMs	18	2.17	1.724	0.434
	CGEs	4	1.00	0.00	

Table A3.3: Challenges Surrounding Board Remuneration in MPSEs

Q5.2	Group	N	Mean	Std. Dev	P-value
(i) There is a lack of evaluation tools in place	MPSE BMs	18	2.89	1.410	0.967
	CGEs	4	3.25	0.500	
(ii) The Government's interference in the Board makes it difficult to measure Board performance	MPSE BMs	18	2.06	1.349	0.007
	CGEs	4	4.00	0.000	
(iii) The high turnaround of di-rectors makes it difficult to achieve continuity and measure performance	MPSE BMs	18	1.39	1.092	0.594
	CGEs	4	1.00	0.816	

Table A3.4: Challenges Surrounding the Implementation of Board Performance Evaluations in MPSEs

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