

The Composition of the Board of Directors: A Study

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

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Abstract

TITLE: The Composition of the Board of Directors: A Study

PURPOSE: The principal aim of this study was to ascertain and analyse aspects of the Board composition of Maltese listed companies, namely Board size, Board independence, Board expertise, gender diversity, and the chairperson/CEO links and how these may be improved.

DESIGN: The study was designed around a qualitative mixed-method approach of data collection in order to ensure that the main objectives were achieved. Semi-structured interviews were conducted with 17 participants, consisting of 14 company secretaries of MLCs, a representative of the MFSA, a corporate advisor and a corporate lawyer.

FINDINGS: The findings indicate that, in Malta, the nomination and appointment process of directors relies mainly on networking, whereby there is a tendency to continuously appoint the same tried and tested network of directors. This has resulted in weaknesses in the composition of MLC Boards. First of all, this is a barrier to new talent being introduced into boardrooms and secondly, this restricts the number of independent Board members. Additionally, there seems to be a general disagreement as to what constitutes a truly independent Board member. Academic qualifications are not given much importance when nominating and appointing directors, and experience has been found to supplant qualifications. Moreover, female representation on the Boards of MLCs is, to date, still lacking, with too little importance being given to enhancing gender diversity. Additionally, notwithstanding the fact that the importance of having separate chairperson/CEO roles is acknowledged, there is likely to be strong resistance to any law rendering this mandatory.

CONCLUSIONS: This study concludes that the Maltese regulatory framework with respect to Board composition is still lax and clearly needs to be tightened so as to spur more rigorous implementation on the part of those in charge of corporate governance.

IMPLICATIONS: This study raises awareness on the need of improving corporate governance practices relating to Board composition among Maltese listed companies. It is hoped that the recommendations put forth allow companies to strengthen their Boards and encourage the competent authorities to provide further guidance in this respect.

KEYWORDS: Corporate Governance, Board of Directors, Board Composition, Maltese Listed Companies

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Dedication

*To my loved ones
for their unyielding love, support and
encouragement.*

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List of Abbreviations

Companies Act	CA
COSEC(s)	Company Secretary(ies)
CEO	Chief Executive Officer
CG	Corporate Governance
CGE(s)	Corporate Governance Expert(s)
ED(s)	Executive Director(s)
EU	European Union
INED(s)	Independent Non-executive Director(s)
MFSA	Malta Financial Services Authority
MLC(s)	Maltese Listed Company(ies)
MSE	Malta Stock Exchange
NED(s)	Non-Executive Director(s)
NC	Nomination Committee
RoC	Registry of Companies
The Board	Board of Directors
The Code	Code of Principles of Good Corporate Governance

Chapter 1

Introduction

1.1 Introduction

This chapter sets the basis for the study. Section 1.2 presents a background to the study, followed by Section 1.3 which identifies the need for the study. Thereafter, Section 1.4 and 1.5 set out the research objectives, and scope and limitations respectively. Finally, Section 1.6 outlines the structure of the dissertation.

1.2 Background to the Study

1.2.1 Defining Corporate Governance

Historically, the concept of corporate governance ('CG') can be traced back to the emergence of limited companies, when concerns relating to the separation of ownership and control started to rise (Stout, 2012). However, until some years ago, the notion of CG and its effects on company operations was generally overlooked (Cheffins, 2011). Following various corporate scandals in the beginning of the twenty-first century, such as that of Enron and Worldcom in the US and Parmalat in Italy, CG started to be questioned (Coffee, 2005), since evidence showed that such failures were attributed to weak CG systems (Dibra, 2016). As a result, the role of CG systems in corporations started to regain its due importance, with various efforts being made to reform such systems (Baldacchino, 2007).

The Cadbury Report of 1992 defines the term CG as "*the system by which companies are directed and controlled*" (Cadbury, 1992, p. 15). In fact, CG relates to the interaction between an organisation's management, the Board of directors ('the Board'), investors and other vested interests. It provides the framework for setting out goals and ways of achieving them, whilst also determining means for overseeing the operations of the organisation (OECD, 2015).

1.2.2 Sources of Corporate Governance

A sound CG framework requires effective and reliable laws and regulations, which are usually the product of a country's conditions, customs and history. It is also suggested that the regulatory and legislative aspects of a CG framework are

accompanied by soft legislation, such as CG codes, centred on the comply-or-explain principle to provide for adaptability. This is because something that functions properly in one organisation, for one shareholder or vested interest is not guaranteed to function properly in another organisation, shareholder or vested interest that might operate in a different environment under different conditions (OECD, 2015).

In Malta, the Companies Act ('CA') and the Code of Principles of Corporate Governance ('the Code') are the main sources of CG. The CA of 1995, whose provisions are legally enforceable, endeavours to set out a balance between limiting the likelihood of misconduct through a system of checks and balances, while safeguarding the management function of the Board (Laws of Malta, 1995). Meanwhile, the Code was introduced in 2001 and subsequently amended in 2005 and 2011 pursuant to European Union ('EU') recommendations and guidelines put forth by the OECD (Azzopardi, 2012). It is based on the comply-or-explain principle, which allows non-compliance with certain provisions of the Code whilst requiring an identification and justification for such non-compliance (Baldacchino, 2007). This approach allows entities to adapt the Code's principles to their requirements and further acts as an inducement to prioritize CG issues (Wilson, 2009). The Code is attached to the Listing Rules to promote adherence by Maltese listed companies ('MLCs'). Nonetheless, the principles are equally beneficial and recommended for all other entities (Azzopardi, 2012).

1.2.3 The Board of Directors

Corporate Boards are the focal point of various efforts to improve CG (Boone *et al.*, 2006). Lipton and Lorsch (1992) consider the Board to be the basis for the validity of the decisions taken by executives on behalf of the shareholders, and to have a pivotal role in any CG system. This philosophy is supported by Fama and Jensen (1983) who refer to the Board as a very important aspect in the way companies are governed. To this effect, the Code requires each MLC to be directed by an "*effective Board*"¹, which is obligated to manage and administer the entity (MFSA, 2011).

¹ Vide Principle 1 of the Code

Extensive literature asserts that the Board serves three prime functions: control, service, and strategic (Zahra and Pearce, 1989). The control function of the Board, also known as the monitoring function of the Board, involves the monitoring, evaluation and oversight of the management's performance (Monks and Minow, 2011). The service function of the Board is concerned with providing advice about the company's corporate strategy (Huse, 1993). Appropriately, this function is generally referred to as the Board's advisory function. Finally, the Board's strategic function involves the authorisation, supervision, evaluation and implementation of the company's strategy, as well as the formulation and achievement of the company's objectives, values and mission (Ingley and Van Der Walt, 2001).

1.3 Need for the study

The Board is at the pinnacle of the company and performs a critical role in an entity's business. Understandably, Board issues hold the attention of several academics, investors, regulatory authorities, the business community and the general public. Indeed, CG codes and governance professionals have long addressed the composition of the Board, suggesting ways in which this can be improved to allow Boards to be more effectual governance agents (Monks and Minow, 2011). However, in 2003, the European Commission decided against developing a European code for CG. Instead, it was decided that each Member State will be left to deal with CG matters on a national level. Consequently, carrying out nationwide studies has become crucial in establishing a robust CG framework among EU Member States (Baldacchino, 2017). Indeed, the Maltese CG framework does not address the composition of the Board in a comprehensive and exhaustive manner. The Code merely states that the composition of the Board will vary according to the business and conditions of every company (MFSA, 2011). Such equivocation requires further study.

Furthermore, the occurrence of global corporate scandals has given rise to much critique of the Board, with various allegations claiming that directors are not properly carrying out their duties (Petra, 2006) and fulfilling their governance responsibilities (Monks and Minow, 2011). Since not all directors participate in the day-to-day running of the organisation, the Board's value and contribution

towards the organisation is often questioned. However, in times of turmoil and corporate collapses the Board is the first to be blamed and to be placed under scrutiny (Adams *et al.*, 2010).

Moreover, notwithstanding the importance of corporate Boards and the prevalent attempts for their reform, research about the composition of the Board in Malta is very limited. Therefore, it is worthwhile to obtain an in-depth analysis on the composition of Boards and ascertain whether there exists room for development by way of determining how Board composition can contribute towards a good and sound CG framework.

1.4 Research objectives

The primary aim of this study is to assess and examine aspects of the composition of the Board as a determinant of good CG. In this context, this dissertation will seek to ascertain and analyse the following aspects of the Board composition of MLCs and how these may be improved:

- (i) Board size
- (ii) Board independence
- (iii) Board expertise
- (iv) gender diversity
- (v) the chairperson/chief executive officer ('CEO') links

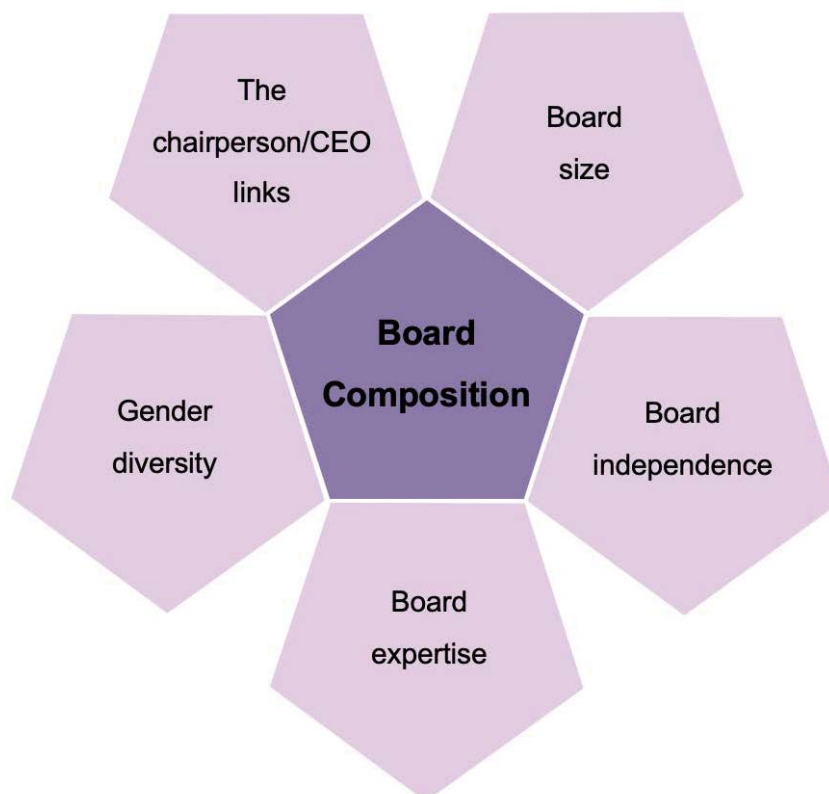


Figure 1.1: Aspects of Board composition

1.5 Scope and limitations

The current study is restricted to the composition of the Board of Maltese entities whose equity is listed on the Malta Stock Exchange ('MSE')² even though CG may be applied to every organisation, listed or otherwise. This is because MLCs constitute the largest profit-making businesses and are the most economically significant.

Furthermore, owing to the specified time frame, this study captures relevant national and international information and developments up to a cut-off date set out as 31st March 2019.

² Vide Appendix 1.1 for list of equity-listed companies on the Malta Stock Exchange

1.6 Overview of the study

Chapter 1 introduces the research topic by exploring relevant background information. The need for the study, research objectives, and scope and limitations are also set out in this preliminary chapter.

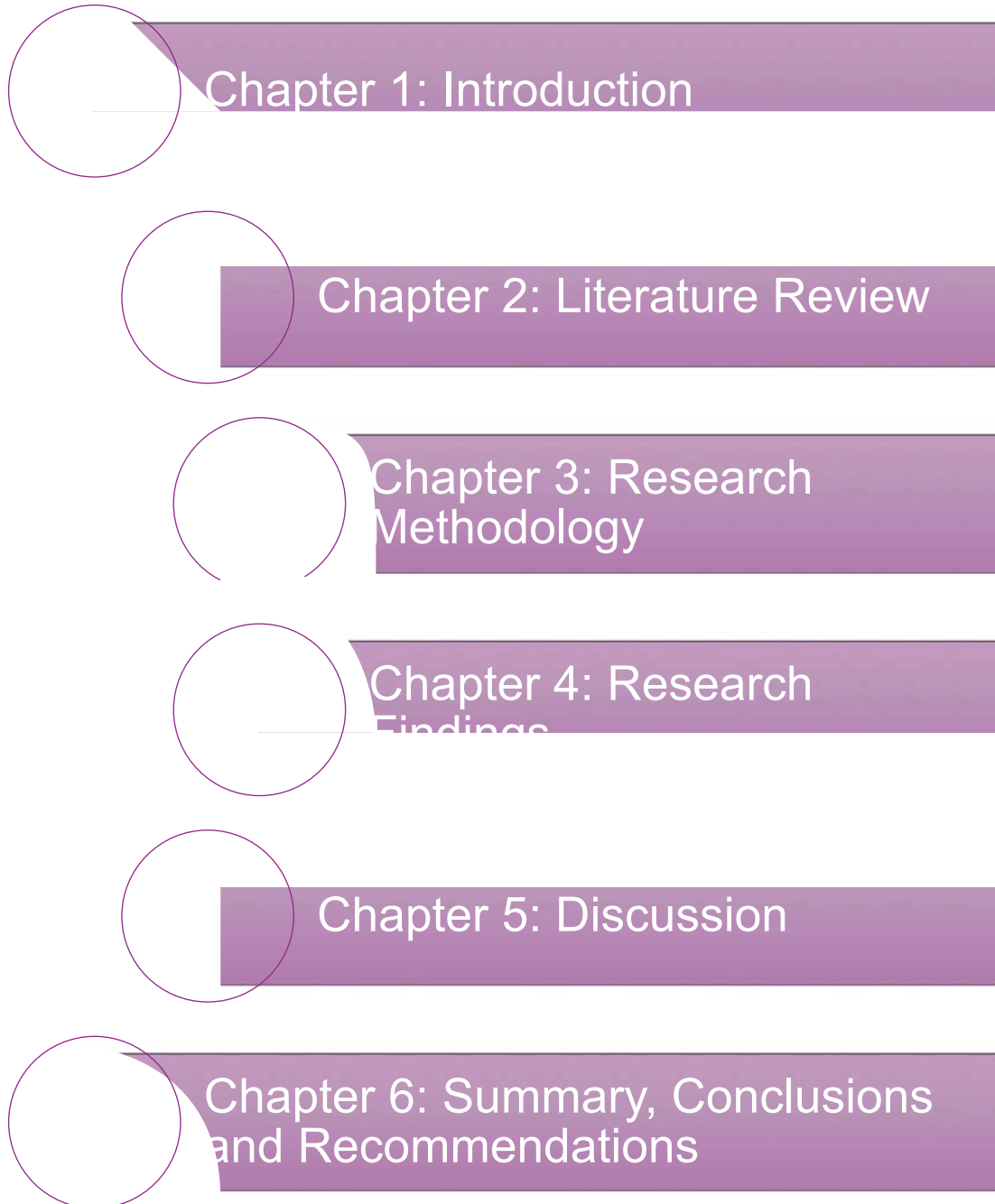
Chapter 2 reviews existing foreign literature with regards to Board composition. Furthermore, the Maltese CG regulatory framework is also analysed in view of the research topic.

Chapter 3 outlines the research methodology adopted in order to achieve the aforementioned research objectives.

Chapter 4 presents the research findings, which were collected by means of semi-structured interviews.

Chapter 5 evaluates and discusses the research findings in the light of the secondary data reviewed in the literature review.

Chapter 6 concludes the study by presenting the key findings and puts forth a number of recommendations and suggestions for further research. Figure 1.2 illustrates an overview of the study.



Chapter 1: Introduction

Chapter 2: Literature Review

Chapter 3: Research Methodology

Chapter 4: Research Findings

Chapter 5: Discussion

Chapter 6: Summary, Conclusions and Recommendations

Chapter 2

Literature Review

2.1 Introduction

This chapter reviews and evaluates literature on the research topic in a comprehensive manner. As illustrated in Figure 2.1, Section 2.2 deals with the composition of the Board. Thereafter, Section 2.3 analyses aspects of Board composition, and finally Section 2.4 concludes the chapter.

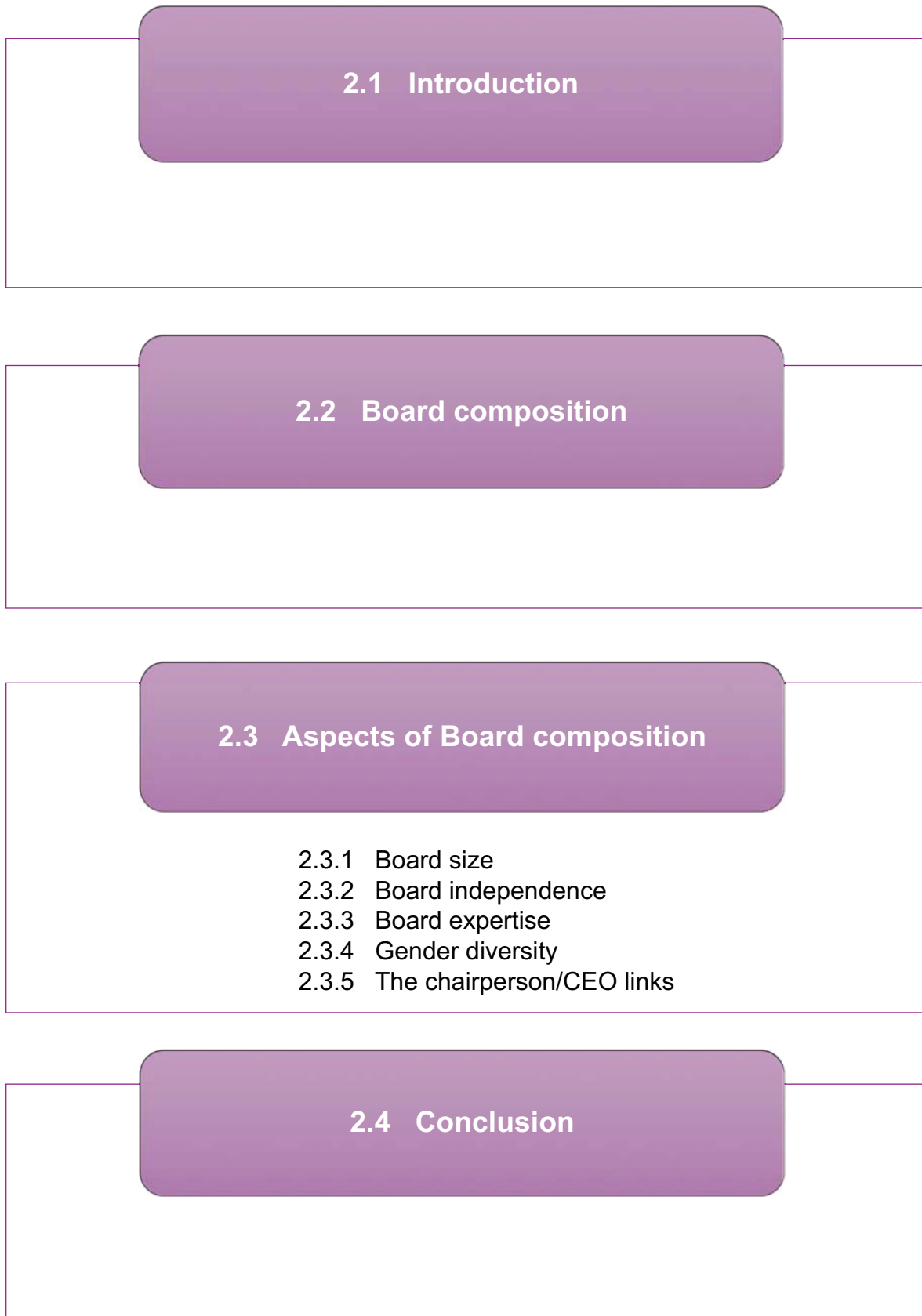


Figure 2.1: Outline of Chapter 2

2.2 Board composition

Board composition is imperative as it affects the quality of directors' resolutions and considerations. It also influences the directors' capability of safeguarding shareholder interests. Furthermore, Board composition affects the directors' capability to give strategic guidance and performance (Baysinger and Hoskisson, 1990). Indeed, various studies indicate that inadequate and imbalanced Boards contribute towards deficiencies in Board performance and corporate failure (Hambrick and D'Aveni, 1992).

The function of the Board must therefore be underpinned by the appropriate Board composition (Levrau and Van den Berghe, 2004). The composition of the Board comprises various elements, mainly relating to Board size, Board independence, Board expertise, gender diversity, and the chairperson/CEO links (Finkelstein *et al.*, 2009).

2.3 Aspects of Board composition

2.3.1 Board size

As per the CA 1995 (Art. 137), the Board of a public company should not have less than two directors. The CA 1995 (Art. 69) further requires that the number of Board members should be set out in the company's memorandum and articles of association (Laws of Malta, 1995) which need not be a fixed number, but which may specify the maximum number of directors. It is prudent not to specify a fixed number of Board members, since a Board vacancy may disrupt the proper composition of the Board, resulting in a situation where the company is not able to administer its business operations (Muscat, 2007).

The Board must be of adequate size, such that the level of skills and experience is suitable for the entity's needs. Therefore, the optimal size of the Board shall vary on a firm-by-firm basis, depending on the firm's characteristics (MFSA, 2011). In particular, Lehn *et al.* (2009) contend that Board size is driven by the size of the company and its growth opportunities. Large companies are naturally involved in a higher amount of, and more diverse activities, when compared to smaller companies (Lehn *et al.*, 2009). Appropriately, the information requirements of a large entity generally necessitate a larger Board (Boone *et al.*,

2007). Similarly, Board size is also affected by the growth opportunities available to the company. Companies with high growth opportunities are costly for Board members to oversee (Linck *et al.*, 2008), and this aggravates the free-rider problem related to larger Boards (Lehn *et al.*, 2009). Therefore, the Boards of such companies tend to be small in a bid to give directors enough incentive to bear the high costs of oversight. In addition, owing to the volatile business environments faced by companies with high growth opportunities, such firms usually necessitate more efficient governance structures to expedite the decision-making process. Consequently, the more volatile the environment in which a company operates, the smaller is the Board (Lehn *et al.*, 2009).

Numerous academics (Kim *et al.*, 2010) (Lehn *et al.*, 2009) affirm that Boards of a smaller size are better able to maximise a company's value and function more effectually than Boards of a larger size because of the high coordination expenses and free-rider issues linked to larger Boards. The free-rider issues arise because as Board size increases, the influence of a director decreases. As a result, Board members are discouraged from incurring expenses to monitor the company's executives and to invest in information (Lehn *et al.*, 2009). Furthermore, with larger Boards, there is a tendency for individual directors to presume that the many other directors are monitoring. In contrast, directors in smaller Boards tend to make a greater effort than they otherwise would, since there would be few other directors overseeing the company (Kim *et al.*, 2010). Smaller Boards also facilitate communication and decision-making among the directors and enable them to have more effectual and candid deliberations. Such Boards also benefit from increased participation and social cohesion. This makes it easier to reach consensus (Lipton and Lorsch, 1992).

On the other hand, larger Boards are thought to have better and increased information and access to resources (Lehn *et al.*, 2009) as collectively Board members possess more knowledge and skills. Moreover, Boards of a larger size tend to provide better and impartial counsel to senior management. Therefore, larger Boards enhance both the monitoring and advisory role of the Board (Cohen *et al.*, 2002). Furthermore, unlike smaller Boards, larger ones are dominated less

easily (Anand, 2007). However, the Code warns that “*the Board should not be so large as to be unwieldy*”³ (MFSA, 2011).

2.3.2 Board independence

Directors may be classified as either executive directors (‘EDs’), non-executive directors (‘NEDs’), or independent non-executive directors (‘INEDs’). Board independence is said to exist when a Board is made up of a majority of INEDs (Goergen and Renneboog, 2000).

EDs are those directors who are also managers, officers or employees of the organisation (Anand, 2007). On the other hand, NEDs are directors who are not linked to the company’s daily management and who are not employed by the company (Caruana, 2017). NEDs may be further categorised as independent or non-independent. Independent directors do not have any close relations with the company and are mainly inducted for their abilities and skills. Non-independent directors have a close relationship with the organisation, despite not forming part of management or being employees of the company (Anand, 2007). Yet, the CA does not distinguish between the different types of directors that may form part of the Board. Directors’ duties, functions and liabilities specified by the CA, equally apply to EDs, NEDs and INEDs (Azzopardi, 2012).

The Code recommends that Boards should involve a mixture of “*executive and non-executive directors, including independent non-executives*”⁴, whose independence is to be ascertained by the Board⁵. In fact, the Code suggests that the Boards of MLCs should be balanced and composed of a minimum of one-third of NEDs, most of whom should be independent, so as to ascertain that the Board’s function is not influenced by any person⁶ (MFSA, 2011). However, being based on the comply-or-explain principle, the Code gives companies the flexibility not to adhere to such a recommendation. In fact, the Code does not set out any system to guarantee that the Board is made up of a mix of EDs and NEDs. An

³ Vide Principle 3 of the Code

⁴ Vide Principle 3 of the Code

⁵ Vide Provision 3.2 of the Code

⁶ Vide Supporting Principle 3(iii) of the Code

appropriate ED/NED ratio is, in practice, not easily attainable since executives are often reluctant and/or unable to sit on Boards (Muscat, 2007).

Customarily, the concept of Board independence has been understood as a prerequisite for the Board to be able to provide effective and impartial oversight (Ringe, 2013). In view of their autonomy from the management of the company, INEDs are also better able to safeguard shareholder interests (Monks and Minow, 2011) and to introduce greater independence and objectivity in the Board's deliberations (OECD, 2015). Therefore, INEDs are deemed to be more valuable because they are less vulnerable to capture by management (Gordon, 2006).

However, the term 'independence' lacks a clear definition (Ringe, 2013). Indeed, the exact criteria for ascertaining the independence or otherwise of a Board member are ambiguous (Kim *et al.*, 2010). Certain regulatory authorities, particularly international bodies, attempt to define independence by setting out a conceptual and broad definition. This is because it is futile to list all possible threats to independence. At the national level, several regulators set out a list of criteria which try to characterise a non-independent director (Ringe, 2013). This is the case in the Code and Listing Rules applicable to MLCs, which list a number of scenarios that are to be taken into consideration when determining the independence of a director. However, in his study, Baldacchino (2017) notes a lack of knowledge and clarity about such criteria.

Scholars and regulatory authorities describe an INED as a director:

- who has not received “*significant additional remuneration from the company... in addition to a director’s fee*”⁷(MFSA, 2011);
- who is not an employee of the entity or related entity⁸ (MFSA, 2011);
- whose tenure in a given company does not exceed twelve years⁹ (MFSA, 2011);
- who is “*free from any business, family or other relationship*”¹⁰ that might give rise to a conflict of interest or interfere with the exercise of unbiased judgement (MFSA, 2011);
- who thinks autonomously from the other directors on the Board (Monks and Minow, 2011);
- who is not reliant upon any other director for re-appointment or promotion (Monks and Minow, 2011);
- whose interests are aligned with shareholder interests (Gilson and Kraakman, 1991).

Nonetheless, despite the increasing importance given to independent Board members, studies indicate a shortage of INEDs, both in Malta (Sant, 2003) and abroad (Chen and Moers, 2018). It is hard to find individuals who are completely and explicitly independent of the company’s management (Kim *et al.*, 2010). Secondly, given the various responsibilities assigned to INEDs, their incentive structure is quite weak. This potentially reduces the number of individuals who are willing to fill directorship positions (Chen and Moers, 2018). This problem may be overcome by financially motivating directors and sustaining liability provisions (Ringe, 2013). Furthermore, high scrutiny from third parties, such as shareholders and regulators, has discouraged INEDs from taking on too many directorships in order to ensure that they have adequate time to dedicate to the workload arising from their existing directorships (Chen and Moers, 2018). On the other hand, others claim that the main problem is the lack of skill as opposed to the absolute independence of Board members (Davies and Hopt, 2013). Some

⁷ Vide Provision 3.2.3 of the Code

⁸ Vide Provision 3.2.1 of the Code

⁹ Vide Provision 3.2.5 of the Code

¹⁰ Vide Supporting Principle 3(vii) of the Code

even claim that INEDs may be too independent to comprehend the intricacies of the company which they are supposed to monitor (Nordberg, 2011). Sheer independence without knowledge regarding the entity's operations is undoubtedly improper (Gordon, 2006). In this respect, legislators should ensure that independence is complemented with adequate expertise or proper continuous training (Ringe, 2013).

2.3.3 Board expertise

Nowadays, companies are experiencing change and disruption through various sectors (EY, 2016). The best way to manage such disruption and to gain competitive advantage (Bilimoria and Wheeler, 2000) is to harness the power of different ideas from diverse groups of people (EY, 2016). To this effect, the Code recommends that the Board should ascertain that it is composed of a “*diversity of knowledge, judgment and experience*”¹¹ (MFSA, 2011). This supports the views of Mishra and Jhunjhunwala (2013) who conclude that in order for Boards to function at the highest level, Boards need to draw on the skills and experience of a broad range of people with different professions and expertise. However, ensuring this does not fall within the direct remit of the Board, since under the Maltese legal system it is the shareholders who are vested with the power to appoint directors (Muscat, 2007). Nonetheless, the Code does recommend the setting up of a Nomination Committee ('NC') to guide the shareholders in the appointment of directors. Yet, this recommendation has to date only been taken up by a minority of MLCs (Baldacchino *et al.*, 2018).

Boards can only fulfil their duties effectively and efficiently if they are properly qualified (O'Sullivan, 2009). A Board should be composed of different professional expertise to ensure that it fully comprehends all matters, including the ramifications of markets, the financial targets of the organisation and the effect of the business operations on the various stakeholders including employees (European Commission, 2011). Additionally, qualified directors are also able to come up with resourceful and insightful ideas as well as to provide distinctive views (Cox and Blake, 1991). Inadequate Board qualifications lead to

¹¹ Vide Supporting Principle 3(i) of the Code

a lack of objectivity and critical thinking (Gaur *et al.*, 2015). Yet, despite extensive literature highlighting the benefits of professionally qualified directors, Azzopardi (2012) found that in Malta, Board members are selected on the basis of integrity and experience, rather than academic qualifications.

Board members should have a specific degree of experience and knowledge of the industry in which the organisation operates together with the general economic conditions of the country in which the organisation conducts its business (Caruana, 2017). Nevertheless, despite its importance, the CA does not specify any minimum qualifications or experience that the directors should possess (Bezzina *et al.*, 2014). Consequently, any individual may serve as a director (Mifsud, 2008). This may be the root cause of one of the challenges faced by today's Boards – Board members lacking the expertise to be directors (Kim *et al.*, 2010). This is troubling considering the widely recognised adversity of managing organisations and the possible consequences to creditors of an organisation incompetently managed by its directors (Muscat, 2007). However,

“the requirement of qualifications, whether academic or otherwise, would be impracticable to the point of being virtually impossible to implement and enforce.”

(Muscat, 2007, p. 377)

Nonetheless, the Code recommends that Board members should have the:

“appropriate calibre, with the necessary skills and experience to contribute effectively to the decision-making process.”¹²

(MFSA, 2011)

The Code further compels Board members of MLCs to be *“fit and proper”*¹³. This requirement is mandatory for companies operating in the financial services industry to ensure that the entity is managed in a *“sound and prudent”* (Muscat, 2007, p. 380) manner. A fit and proper person shall have the personal traits, such as a good repute (proper), and the professional qualifications, competence, knowledge and experience (fit), required for such individual to be able to adequately fulfil the duties and obligations attached to a director's role (MFSA,

¹² Vide Supporting Principle 1(iii) of the Code

¹³ Vide Provision 1.1 of the Code

2015). In particular, the fit and proper test requires persons to be “*honest, competent and solvent*” (Azzopardi, 2012, p. 112). In ascertaining the competence of individuals, the competent authority is concerned with the knowledge, professional expertise and experience exhibited by the individual (MFSA, 2015).

2.3.4 Gender diversity

Corporate Boards are experiencing increasing pressure to appoint women. This is because female Board members can influence the governance of firms in considerable ways (Adams and Ferreira, 2009). Indeed, certain leadership demeanours, which tend to be more commonly applied by women than men, improve the performance of a company and will be a crucial element in overcoming challenges faced by corporations in the future (Desvaux and Devillard, 2008). Furthermore, females regularly attend Board meetings (Adams and Ferreira, 2009) thereby compelling enhanced attendance by males and also tend to be more autonomous (Mishra and Jhunjhunwala, 2013) since they are not part of the “old boys club” (Adams and Ferreira, 2009). Moreover, females expand the expertise at the disposal of the management of the organisation (European Commission, 2011) since by considering females companies are accessing wider talent pools for Board members (Adams and Ferreira, 2009). Evidence also suggests that Boards which are diversified in terms of gender carry out better oversight (Mishra and Jhunjhunwala, 2013) and are more inclined to hold CEOs responsible, thereby improving the company’s governance framework (Adams and Ferreira, 2009).

Despite the extensive literature highlighting the benefits of gender diversity, the Code does not address gender diversity at Board level. This could be a major reason why Malta¹⁴ has the lowest presence of females in Boards when compared to other EU countries, amounting to only 5%. It is also one of the few EU countries which does not have national measures in place to promote the presence of women on Boards (European Commission, 2016).

¹⁴ Vide Malta in Appendix 2.1 p.A2.1-3

However, even globally, corporations have been slow to appreciate the capabilities of females, barring support roles (Singh, 2005), such as human resources and customer care (Higgs, 2003). This is partly because leaders tend to appoint individuals who are similar to them. As a result, Board members have become type-casted as male. Females will not be able to develop their abilities and will thus be less fit for promotions if they are not presented with challenges (Singh, 2005). Another reason which prevents women from climbing the corporate ladder is that they generally have greater childcare responsibilities, which usually results in them having less experience because of the higher tendency towards career breaks and reduced working hours. This will likewise deter women from promotions. Other obstacles include the absence of female predecessors and role models showing that females can occupy such roles and be successful in boardrooms, and that such positions are open to women (Ford and Rohini, 2011). Comparably, the appointment of directors often relies on networks of existing directors, who are generally males. Consequently, another reason which impedes women's presence on Boards is the difficulty experienced by potential female directors when accessing networking opportunities (Lord Davies of Abersoch, 2011).

In order to improve the number of female Board members, emphasis must be given to increasing the demand for female Board members, as well as to enlarge the pool of female candidates by encouraging more women to put themselves forward and by having more women forming part of executive management (Lord Davies of Abersoch, 2011). Importance should also be given to improving networking opportunities for females (Fairfax, 2006). Consideration should also be given to implementing gender quotas, as is already the practice in a few EU countries (European Commission, 2016), with the purpose of increasing female representation in boardrooms (Ford and Rohini, 2011). However, quotas may be deemed to promote unequal treatment and positive discrimination in favour of women. Furthermore, quotas may lead to tokenism (O'Sullivan *et al.*, 2014), and a surge in the number of females holding multiple directorships, due to the lack of sufficiently experienced and competent women (Choudhury, 2014). Obligatory quotas may also lead to incompetent women being elected to Boards if no candidates meet the requirements for the role, ultimately reducing the quality of

the Board (Fagan *et al.*, 2012) and threatening CG structures (O'Sullivan *et al.*, 2014).

2.3.5 The chairperson/CEO links

The chairperson is responsible for the leadership of the Board (Kakabadse *et al.*, 2010), while the CEO is responsible for the leadership of the firm (Lorsch and Zelleke, 2005) and for implementing decisions made by the Board (Levrau and Van den Berghe, 2013). Simply put, the Board is responsible for governing, while the CEO is responsible for managing. Nonetheless, the relationship between the Board and the CEO is detrimental, and the two must work together to achieve the goals of the company and the needs of management (Russel, 2009).

Following recent corporate scandals, regulators are continuously demanding that the roles of the chairperson and CEO are held by different persons (Wilson, 2009). In fact, much CG literature argues that separating the two roles is vital to ensuring good CG (Solomon, 2013). Having a separate chairperson and CEO ensures that the Board is independent from the company's management (Lorsch and Zelleke, 2005). In the absence of such independence, and because of the concentration of power emanating from combining the two roles, the Board will not be able to carry out its oversight and control function effectively (Duke and Kankpang, 2011). Hence, when combining the two roles, the Board's ability to assess, probe and challenge the CEO is debatable (Kim *et al.*, 2010).

Evidently, the Maltese Code proposes that the roles of the chairperson and CEO should be separate to ensure that no one person has "*unfettered powers of discretion*"¹⁵ and to distinguish the Board's leadership from the management of the company¹⁶(MFSA, 2011). Yet, it permits the combination of the two roles so long as a justification is given to the market and organisation's stakeholders (Baldacchino, 2017).

The Code also considers the fact that in certain circumstances, combining the two roles may be inevitable¹⁷ (MFSA, 2011), a situation referred to as

¹⁵ Vide Principle 2 of the Code

¹⁶ Vide Supporting Principle 2(i) of the Code

¹⁷ Vide Provision 3.1 of the Code

chairperson/CEO duality (Baldacchino, 2017). Proponents of chairperson/CEO duality claim that there should only be one boss (Baldacchino, 2013), otherwise the chairperson would simply be a figure-head, or else would overpower the CEO (Monks and Minow, 2011). Therefore, chairperson/CEO duality eliminates possible conflicts and power struggles between the chairperson and CEO (Solomon, 2013) and ensures that there is no confusion with regards to the leadership of the company, arising from the fact that Board members may be uncertain as to who – the chairperson or the CEO – is accountable for what (Lorsch and Zelleke, 2005). Moreover, chairperson/CEO duality allows the chairperson/CEO to administer and coordinate the Board's deliberations more competently and efficiently as s/he has a broader range of information and awareness (Solomon, 2013).

The chairperson may hold an executive or non-executive role (NACD, 2017). The Code¹⁸ and the King Committee on Corporate Governance (2016) recommend an independent non-executive chair, as such a role reinforces Board independence, increases the efficiency of the Board (NACD, 2017) and allows a more effective assessment of the CEO (Jensen, 1993). A non-executive chair also increases the likelihood that the chair will perform his/her role effectively, and not stray away to matters concerned with the daily management of the company (Wilson, 2008). On the other hand, an executive chair may provide valuable benefits to the Board as s/he is more knowledgeable about the organisation's limitations and opportunities and has access to critical and pertinent information about the organisation's operations and its business environment (Raheja, 2005).

The CEO may either be a Board member, a regular *ex-officio* participant, or a Board participant only upon invitation (Lieu, 2016). Those in favour of the CEO serving as a Board member assert that this provides the CEO with greater integrity and authority within the company and leads to better informed decisions since the CEO can provide inside information on the company, thereby enhancing the Board's decision-making process. In addition, when the CEO is a Board member, s/he is given the opportunity to work together with the rest of the

¹⁸ Vide Provision 2.3 of the Code

Board, giving all an equal opportunity to voice their opinion and influence the decision-making process. On the other hand, those against the CEO being a Board member argue that this is essential in keeping the management role distinct from the governance role. However, in such cases, the CEO should still attend Board meetings (Council on Foundations, 2010). In this respect, some contend that the CEO should be normally asked to attend all Board meetings, while others argue that the chairperson should attend only upon invitation and for specific meetings, if not only upon specific matters (Lieu, 2016). In any case, it is important for conflicts of interest arising from the presence of the CEO, to be avoided, such as for instance, when the Board is setting the CEO's remuneration, or evaluating the CEO's performance (Council on Foundations, 2010).

2.4 Conclusion

This chapter presented an overview of Board composition together with a review of the literature relating to aspects of Board composition. The following chapter describes the research methodology used for the purpose of this study.

Chapter 3

Research Methodology

3.1 Introduction

This chapter outlines the research methodology of the study. As illustrated in Figure 3.1, Section 3.2 highlights the preliminary secondary research conducted. Section 3.3 and Section 3.4 describe the research design and research tools respectively. Thereafter, Section 3.5 provides a rationale for the selected participants, while Sections 3.6 and 3.7 describe the data collection and analysis respectively. Finally, Section 3.8 highlights the research limitations and Section 3.9 concludes the chapter.



Figure 3.1: Outline of Chapter 3

3.2 Preliminary secondary research

At the initial stages of the study, knowledge on the research area was gained through the analysis of existing literature and publications comprising primarily of books, journal articles, academic papers, and reports.

Attention was also given to local studies and the Maltese regulatory framework for the purpose of analysing aspects of Board composition and making recommendations for improvement. Furthermore, public company information, including Annual Reports and corporate websites, was thoroughly scrutinized.

3.3 Research design

There exist three main types of research designs: quantitative, qualitative, and mixed-methods. The choice of the research design depends on the strategies and data gathering and evaluation techniques selected by the researcher, the research question itself, the researcher's personal experiences, and the target audience of the research (Creswell, 2014).

Quantitative research attempts to explain phenomena using numeral data and analysis, while qualitative research attempts to explain phenomena using descriptive data and analysis (Graff, 2013). However, Creswell (2014) argues that, if used in isolation, quantitative research will not allow the researcher to obtain an accurate and deep understanding of the interviewees' judgement and individual perspectives. Similarly, the exclusive use of qualitative methods restricts the researcher's ability to extrapolate the research findings to other settings or circumstances (Yilmaz, 2013).

Thus, in certain instances, instead of solely using a quantitative or qualitative approach, it is more appropriate to use mixed-method research so as to provide better insight into the research question (Saunders *et al.*, 2016). In particular, a mixed-method approach combines the cumulative metiers of both quantitative and qualitative research in order to be able to address the research question in a more comprehensive manner (Creswell, 2014). Such approach is deemed to be appropriate when the sole use of quantitative or qualitative research does not adequately tackle the predetermined research objectives, due to the inherent drawbacks associated with such methods (Hesse-Biber, 2015).

3.4 Research tool

The research tool deemed to be most appropriate for achieving the research objectives of the current study is the semi-structured interview. Semi-structured interviews usually progress according to an interview schedule prepared by the researchers to be used as a guide in order to ensure that all the questions and topics, which are required to properly address the research questions, are covered (Harrell and Bradley, 2009). Semi-structured interviews provide interviewees with the opportunity to respond to the interview questions as they desire, whilst allowing the researcher to inquire further, thereby enabling the researcher to obtain a deep understanding of the rationale of participants. Moreover, since all interviewees are probed with the same questions, the data gathered may be compared and statistically analysed (McIntosh and Morse, 2015).

The interview schedule¹⁹ prepared for the purpose of this study was aimed towards equity MLCs and Corporate Governance Experts ('CGEs'). Table 3.1 illustrates the five sections that constitute the interview schedule.

Section Heading	Question Number
Section 1: Board size	1.1 – 1.4
Section 2: Board independence	2.1 – 2.6
Section 3: Board expertise	3.1 – 3.3
Section 4: Gender diversity	4.1 – 4.3
Section 5: The chairperson/CEO links	5.1 – 5.4

Table 3.1: Interview schedule structure

While most questions were asked to all interviewees, a number of these questions were explicitly aimed towards representatives of MLCs. Table 3.2 illustrates this in more detail.

¹⁹ Vide Appendix 3.2

Interview Categories	Question Number
All interviewees	1.2 – 1.4, 2.2 – 2.6, 3.2 – 3.3, 4.2 – 4.3, 5.2 – 5.4
MLC representatives	1.1, 2.1, 3.1, 4.1, 5.1

Table 3.2: Questions applicable to specific interviewees

The interview schedule comprised a combination of closed-ended questions and open-ended questions. Table 3.3 differentiates between the open-ended and closed-ended questions in each section of the interview schedule. Table 3.4 then displays the five-point Likert scale used to construct the closed-ended questions.

Question Type	Section	Question Number
Open-Ended	1	1.2, 1.4
	2	2.2 – 2.3, 2.5 – 2.6
	3	3.3
	4	4.3
	5	5.2 – 5.4
Closed-Ended	1	1.1, 1.3
	2	2.1, 2.4
	3	3.1 – 3.2
	4	4.1 – 4.2
	5	5.1

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

Response	Scale
Strongly Disagree	1
Disagree	2
Neutral	3
Agree	4
Strongly Agree	5

Table 3.4: Likert scale

3.5 Research participants

The selection of the research population is fundamental to every study (Martínez-Mesa *et al.*, 2016). For the purpose of this study, a list of equity-listed companies²⁰ was obtained from the MSE website. The latest company announcements, which are generally undersigned by the company secretary ('COSEC'), were then examined to identify all COSECs. Subsequently, all interviewees were contacted via email, using the email addresses found on the company websites. The email invited all COSECs and three CGEs to partake in the study by means of an interview. Attached to the email was a letter of introduction²¹ which included a brief description of the study, and which was signed by the Head of Department of Accountancy to enhance the credibility of the email. An email reminder was sent to potential interviewees who did not respond within two weeks, after which an attempt to contact them by phone was also made if there still was no reply forthcoming. Unfortunately, while some persons did not respond to the emails sent, others specifically indicated that they were not willing to participate in the study.

As shown in Table 3.5, a total of seventeen interviews were carried out. Fourteen interviews were conducted with COSECs, representing eighteen different MLCs, as two of the interviewees occupied the secretarial role for more than one MLC. Company secretaries were chosen as the target population for the study, since they participate extensively in the CG function of MLCs and are fairly acquainted with the provisions of the Code. Three other interviews were also carried out with CGEs, including a representative of the Malta Financial Services Authority ('MFSA'), a corporate advisor and a corporate lawyer, as their participation was deemed to be significant in order to obtain a more comprehensive analysis of the research topic. Interview questions were modified accordingly, depending on the interviewee.

²⁰ Vide Appendix 1.1

²¹ Vide Appendix 3.1

Interviewee Category	Research Participants	Representing
MLCs	14 company secretaries	18 companies
CGEs	1 MFSA representative	N/A
	1 corporate advisor	N/A
	1 corporate lawyer	N/A
Total	17 participants	18 companies

Table 3.5: Interviewees participating in the research

3.6 Data collection

The data collection technique to be used is determined by the study being undertaken and the research objectives (Saunders *et al.*, 2016). Choosing the appropriate data collection method will ensure that high-quality research is carried out, and that research findings are accurate, reliable and credible (Harrell and Bradley, 2009).

In view of the study being carried out, secondary data was collected from numerous sources, and analysed in Chapter 2 of this dissertation. Subsequently, this data was used to prepare an interview schedule. A pilot test was then conducted to identify and resolve potential problems prior to carrying out the actual data collection process (Mackey and Gass, 2015), after which the interview questions were appropriately amended.

Interviews were carried out between the 26th of October and the 17th of December 2018 on a date, time and place most suitable for the research participants. To facilitate the process of data analysis, the participants' explicit consent to audio-record the interviews was obtained. In those cases where participants felt uneasy about being recorded, suitable notes of the respondents' views were taken during the interview itself.

Primary data was further collected through the Registry of Companies ('RoC') website which was used to obtain additional information about aspects of the Board composition of such companies. In particular, the RoC website was used to determine the number of Board members, the number of women on the Board, the mixture of EDs, NEDS and INEDS, the role (executive or non-executive) held

by the chairperson, and whether the roles of the chairperson and CEO were separated or combined.

3.7 Data analysis

Where applicable, audio recordings of each interview were subsequently transcribed in order to enhance the quality of the interviews being carried out. These transcripts, along with the notes taken during the interviews, facilitated the data analysis and interpretation process.

3.7.1 Qualitative data analysis

Qualitative data was gathered through the open-ended questions asked during the interviews, and by probing further into the participants' rationale for the ratings given to the Likert scale questions. A summary of the transcripts of these responses was carried out and the main similarities and disparities were noted. This enabled the evaluation of such qualitative data.

3.7.2 Quantitative data analysis

Quantitative data was collected through the Likert scale questions found in the interview schedule. Such quantitative data was then analysed using IBM SPSS Statistics.

The Friedman Test²² was used to compare the mean rating scores provided to the statements in each of the Likert scale questions. These mean rating scores range from 1 to 5, where 1 corresponds to Strongly Disagree and 5 to Strongly Agree. This implies that the higher the mean rating score, the higher is the agreement with the statement given. The null hypothesis (H_0) specifies that the mean rating scores provided to the related statements vary marginally and is accepted if the p -value exceeds 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.

²² Vide Appendix 3.3

3.8 Research limitations

The limitations of the research study are noted. At the outset, contact was made with the COSECs of all MLCs. Yet, despite the many efforts, two of the potential interviewees refused to participate in the research, stating time restrictions, while another four failed to reply at all.

Furthermore, an element of subjectivity was inevitably present in the participants' responses. Similarly, some inconsistencies were also noted between interview questions, and between the ratings given to Likert scale questions and the explanations accompanying such ratings.

Moreover, emphasis was only placed on aspects of Board composition which were deemed to be more important, owing to the timing and word limit restrictions. In particular, the element of Board diversity was restricted to gender, and the mix of qualifications and skills. The aspects of age and race diversity were omitted as they were considered less important than the other aspects in Malta.

3.9 Conclusion

This chapter described and substantiated the research methodology applied in the study. The following chapter presents the research findings gathered from the interviews carried out.

Chapter 4

Research Findings

4.1 Introduction

This chapter analyses the findings gathered from the interviews and scrutiny of the RoC website. As outlined in Figure 4.1, the following five sections deal with the five parts of the interview schedule: Board size (Section 4.2), Board independence (Section 4.3), Board expertise (Section 4.4), gender diversity (Section 4.5), and the chairperson/CEO links (Section 4.6). Finally, Section 4.7 concludes the chapter.

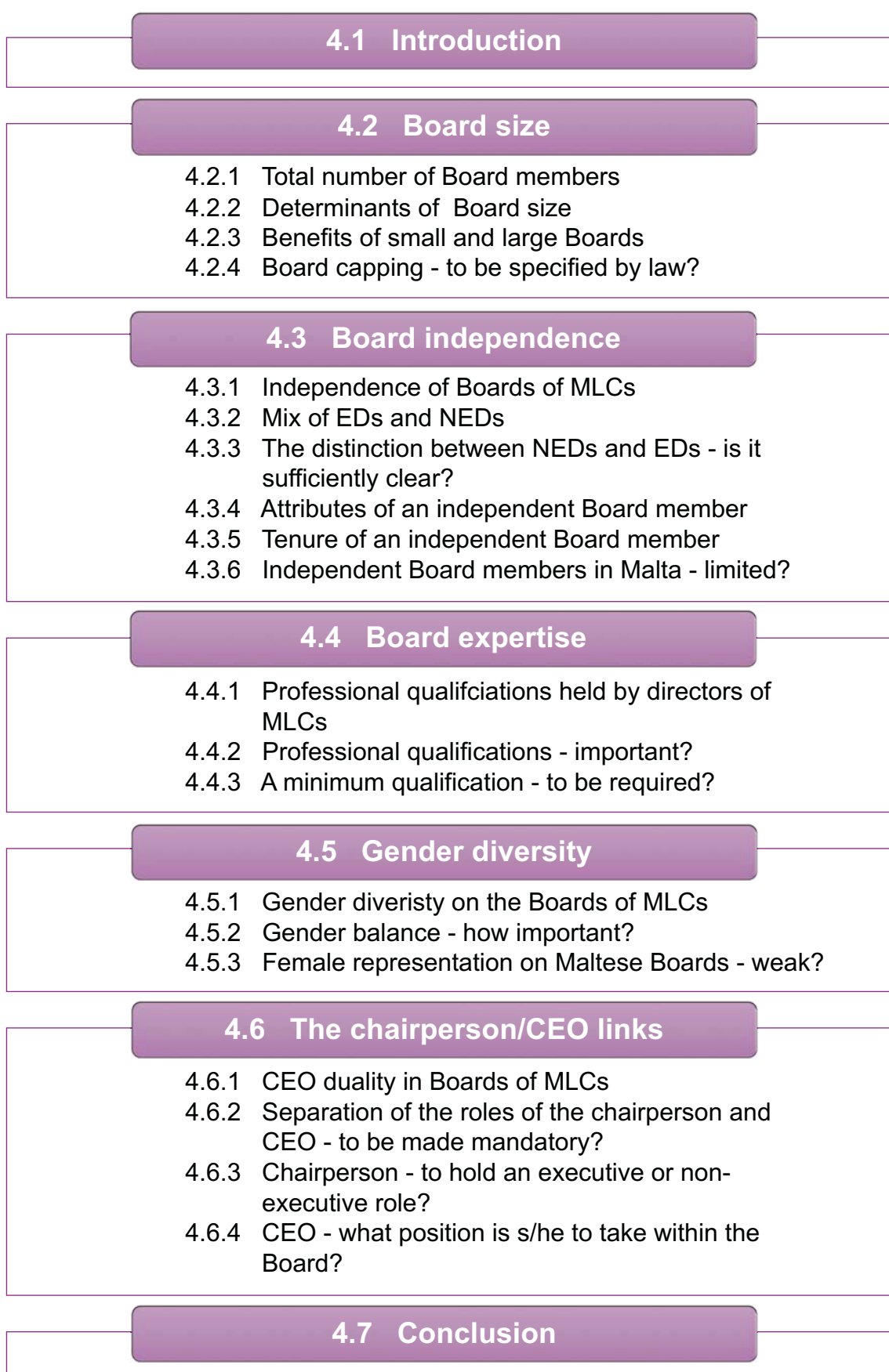


Figure 4.1: Outline of Chapter 4

4.2 Board size

The first part of the interview schedule consisted of four questions (Qns 1.1 – 1.4) relating to Board size.

4.2.1 Total number of Board members

An analysis of the RoC website indicated that the average number of Board members is 7.17²³ ($\bar{x}=7.17, \bar{x}=7$), with the smallest Board consisting of four directors and the largest Board consisting of eleven directors. In support of this finding, each of the fourteen COSECs interviewed was asked²⁴ to state the current number of Board members and if need be, to comment thereon. It was found that the Board of the eighteen interviewed MLCs has an average of 7.39 ($\bar{x}=7.39, \bar{x}=7$) Board members. Table 4.1 below shows a summary of Board sizes in MLCs.

Number of Directors	^a Equity MLCs as at 31 st March 2019		Interviewed MLCs in Oct-Dec 2018	
	Frequency	Percentage	Frequency	Percentage
1 – 3	0	0.00%	0	0.00%
4 – 6	9	37.50%	6	33.33%
7 – 9	12	50.00%	9	50.00%
10 – 12	3	12.50%	3	16.67%
Total number of companies	24	100.00%	18	100.00%

Table 4.1: Board sizes in MLCs

^aSource: Registry of Companies (2019)

Two interviewees_(2/17) added that they believed that the Board size varies within the context of each particular company, and that therefore there exists no optimal size. On the contrary, one of the interviewees_(1/17) added that the optimal Board should be made up of seven members, as is the case of the interviewee's own company. However, a Board of five members could be the next best alternative. Too small a Board will not provide the right balance, while too large a Board will result in over lengthy Board meetings.

²³ Vide Appendix 4.1 for list of Board sizes in MLCs as at 31st March 2019

²⁴ Vide Q1.1 p.A3.2-2

4.2.2 Determinants of Board size

Interviewees were then asked²⁵ what, in their opinion, determines the size of the Board. Most interviewees_(10/17) believed that their company's Board size is determined by what the company understood to be best CG practices. Such practices entail a different mix of expertise and skills and a sufficient complement of EDs and NEDs. Most_(10/17) also stated that the size, scope and operations of the company is another important determinant. An appreciable number_(8/17) further referred to the shareholding structure also being a determinant. Two other interviewees_(2/17) further emphasized that the number of directors is preferably an odd number for voting purposes, as otherwise the Board may be locked in a stalemate. Table 4.2 below summarises these and other comments put forth by interviewees.

Comments	Responses*
Best practices of corporate governance	10
Size, scope and operations of the company	10
Shareholding structure of the company	8
Regulatory requirements	4
Historical reasons	1
Culture of the company	1

Table 4.2: Determinants of Board size

*Responses limited to the respondents (out of seventeen) who added comments to Q1.2

²⁵ Vide Q1.2 p.A3.2-2

4.2.3 Benefits of smaller and larger Boards

In the next question²⁶ respondents were provided with two statements and asked to rate and comment on their level of agreement to each statement.

Benefits of smaller Boards

The first statement listed two features which are generally perceived as benefits of smaller Boards. The mean rating scores of both features are shown in Table 4.3. As may be seen, there was no significant difference in respondent agreement relating to the two features_(p=1.000).

The following are likely to serve as benefits of smaller Boards (i.e. smaller than your considered optimum):	Mean	Median	Std. Dev
i) More efficient decision-making	3.94	4	1.088
ii) Easier to reach consensus	3.88	4	0.857
Scale from 1 (Strongly Disagree) to 5 (Strongly Agree)	$X^2(1) < 0.001, p=1.000$		

Table 4.3: Agreement with advantages of smaller Boards

(i) Smaller Boards – more efficient decision-making?

Respondents marginally agreed_($\bar{x}=3.94, \bar{x}=4$) that a smaller Board expedites the decision-making process. The larger the number of Board members, the longer will it take for each of them to express their own views_(11/17). Furthermore, the bigger the Board, the greater the likelihood of some Board members being absent. As a result, sometimes matters may have to be postponed because the Board may also need to consult a particular director who may not be present_(3/17).

One COSEC_(1/17) did however remark that this is not always the case. While in theory it is true that smaller Boards may lead to more efficient decision-making since it is easier to convince a Board with a few Board members than one with a large number, given a highly convincing argument, the number of Board members becomes irrelevant, assuming the directors are “*sound, sensible, and rational persons*”.

²⁶ Vide Q1.3 p.A3.2-2

A further benefit brought up was that smaller Boards allow for more discussion to take place, where everyone has a chance to air their views and at the same time listen to other opinions_(3/17). Contrastingly, two CGEs_(2/3) stated that smaller Boards are much more likely to be dominated by one person, with one adding_(1/2) that the expertise of a small Board is somewhat limited. As a result, the decision taken may not always necessarily be optimal.

(ii) Smaller Boards – easier to reach consensus?

Most participants_(10/17) marginally agreed_($\bar{x}=3.88$, $\bar{x}=4$) that it is easier to reach consensus in smaller Boards. The smaller the Board, the fewer the number of opinions, and hence the less the likelihood of such opinions differing_(9/17).

However, some participants_(7/17) were undecided about this. They commented that while generally it may be easier to reach consensus in a smaller Board, this is not necessarily so. Beyond size, consensus may also depend on other factors such as the personalities involved. An example given was that of the difficulty of reaching consensus when one director is constantly stirring up conflict and bringing disorder in the boardroom_(2/17).

Benefits of larger Boards

The second statement listed two features which are generally perceived as advantages of larger Boards. As shown in Table 4.4, respondents agreed_($\bar{x}=4.18$, $\bar{x}=4$) that larger Boards provide for a different number of perspectives, and marginally agreed_($\bar{x}=3.88$, $\bar{x}=4$) that larger Boards are able to carry out their monitoring and advisory roles better.

The following are likely to serve as benefits of larger Boards (i.e. larger than your considered optimum):	Mean	Median	Std. Dev
i) They provide for a different number of perspectives and better access to resources	4.18	4	0.73
ii) They are better able to carry out their monitoring and advisory role	3.88	4	0.78
<i>Scale from 1 (Strongly Disagree) to 5 (Strongly Agree)</i>	$X^2(1) < 0.001, p=1.000$		

Table 4.4: Agreement with advantages of larger Boards

(i) Larger Boards – different perspectives and better access to resources?

In support of respondent agreement that larger Boards provide different perspectives and better access to resources, one COSEC_(1/14) added that this is particularly important when formulating strategy. On the contrary, one dissenting CGE_(1/3) emphasized that a large number of Board members often renders a Board inefficient.

(ii) Larger Boards – better monitoring and advisory roles?

In support of marginal respondent agreement that large Boards enable better monitoring and advisory roles, most_(13/17) took this stance because, in their view, large Boards provide for wider skillsets and competencies. However, according to one CGE_(1/3), improvement only occurs if the duties and responsibilities of each director are clearly specified within an organisation, which on its part has appropriate accountability and reporting structures – otherwise, “*larger Boards may result in mere confusion*”. One COSEC_(1/14) also pointed out that the larger the Board, the larger is the chance of having more “*probing*” directors, and it is such persons who make the Board matter.

However, some of the participants_(6/17) emphasized that larger Boards do not necessarily lead to better monitoring and advisory roles. Other more important factors included the resources available to the Board, and the willingness_(6/6), ability_(6/6) and “*quality*”_(2/6) of the Board members themselves.

4.2.4 Board capping – to be specified by law?

The next question²⁷ asked interviewees as to whether they think that a maximum number of directors should be specified by law. Most interviewees_(14/17) did not agree that there should be a legal maximum number to Board members. Imposing such a maximum could easily result in a detrimental one-size-fits-all approach for companies with different dynamics, needs and resources_(14/14). This would be unnecessarily “*prescriptive*”_(12/14) and “*inflexible*”_(11/14), preventing the Board from having good collective judgment. It may even preclude potential

²⁷ Vide Q1.4 p.A3.2-2

investors, who may be demanding the addition of another director, from proceeding to invest_(1/14). Furthermore, if a general statutory cap were to be imposed, the determination of the number of directors would be highly contentious_(1/17).

On the other hand, two COSECs_(2/14) agreed that Board capping was to be specified by law so that Boards will not become unmanageable and inefficient. While one suggested that a maximum of ten to twelve directors would be appropriate, the other stated that the number of directors sitting on a Board should not exceed eight. In line with these views, one CGE_(1/3) remarked that one may argue in favour of a very high maximum number, although such a cap may have limited practical merits.

4.3 Board independence

The next part of the interview schedule consisted of six questions (Qns 2.1 – 2.6) relating to Board independence.

4.3.1 Independence of Boards of MLCs

Table 4.5 below presents data relating to the mix of EDs, NEDs and INEDs on the Boards of MLCs. Such data was collected from the annual reports of MLCs, and the next question²⁸ which asked COSECs to specify the number of Board members in their company which are EDs, NEDs and INEDs.

		EDs	NEDs	INEDs
Equity MLCs at year-end 2017	Number of Directors	24	28	109
	Mean _(x̄)	1.14	1.33	5.19
	Median _(x̄)	1	0	5
Interviewed MLCs in Oct-Dec 2018	Number of Directors	19	34	80
	Mean _(x̄)	1.06	1.89	4.44
	Median _(x̄)	1	2	4

Table 4.5: Mix of EDs, NEDs and INEDs in MLCs

^aSource: Registry of Companies (2019)

²⁸ Vide Q2.1 p.A3.2-3

As may be seen, the Board of a MLC is, on average, composed of 1 ED ($\bar{x}=1.14$, $\bar{x}=1$), 0 NEDs ($\bar{x}=1.33$, $\bar{x}=0$) and 5 INEDs ($\bar{x}=5.19$, $\bar{x}=5$)²⁹. Correspondingly, the Board of the eighteen interviewed MLCs is, as a general rule, made up of 1 ED ($\bar{x}=1.06$, $\bar{x}=1$), 2 NEDs ($\bar{x}=1.89$, $\bar{x}=2$) and 4 INEDs ($\bar{x}=4.44$, $\bar{x}=4$). It was further noted that EDs always seem to be in the minority, while most Boards are made up of a majority of INEDs, meeting the recommendations of the Code.

4.3.2 The distinction between the different types of directors – is it sufficiently clear?

The next question³⁰ asked respondents whether the distinction between EDs and NEDs is sufficiently clear. Most respondents_(11/17) agreed, stating that it is sufficient for the Code to state that an ED is involved in the daily running of the business, while a NED is not involved in such day-to-day management of the organisation. Two interviewees_(2/11) further stated that it is troubling if directors are not able to make such a distinction.

On the other hand, other interviewees_(6/17) stated that the distinction may not always be clear as there is a fine line between what renders a director executive or otherwise, and such a fine line renders it difficult even to have an acceptable legal definition of such a distinction. As one CGE_(1/3) added, probably the matter needs first to be subject to much professional debate. A relevant issue is that, in order to properly fulfil their duties, NEDs may start to involve themselves in the decisions of management and hence such a distinction becomes a grey area_(4/6). In this connection, respondents_(3/6) emphasized that it is imperative that such a distinction, if it were ever to be made by law, would not lead to the removal of equal, joint and several responsibilities of the two types of directors.

On a related issue, a number of respondents_(6/17) brought up the question of clarity in the distinction between NEDs and INEDs. In their view, being “*free from any business, family or other relationship*”³¹, as stated in the Code, is insufficient as a definition of independence. With such a description, the concept of independence remains “*complex and ambiguous*”_(3/6). Detailed criteria, and

²⁹ Vide Appendix 4.2 for list of mix of EDs, NEDs, and INEDs in MLCs at year-end 2017

³⁰ Vide Q2.2 p.A3.2-3

³¹ Vide Supporting Principle 3(vii) of the Code

stipulating conditions and situations where independence may be compromised, need to be specified in the regulatory framework for the sake of clarification_(1/6). One CGE_(1/3) added that with the current Code, directors may be “*deemed to be independent, even in situations when they are clearly not so*”. Another three respondents_(3/17) also referred to the current distinction between NEDs and INEDs, however stating that the current description in the Code is clear enough.

4.3.3 Mix of EDs and NEDs

Participants were then asked whether they believed that the Board should be composed of both EDs and NEDs³². Only one COSEC_(1/14) believed that the Board should be made solely of NEDs and that the only executive role on a Board should be held by the chairperson.

On the other hand, almost all participants_(16/17) agreed that it is crucial to have a mix of both EDs and NEDs to ensure that the Board is balanced and has an adequate mix of members. Respondents_(8/16) argued that being involved in the daily running of the business, EDs have a better understanding of the operations of the company and are thus able to provide insights into the company’s operations. Others also emphasized that having EDs on the Board ensures that management has a representation on the Board_(4/16), and that management is also held legally responsible and accountable for their actions and the decisions made by the Board_(2/16). Furthermore, a number of participants_(7/16) pointed out why NEDs are also an important component in attaining an appropriate Board balance. In their view, NEDs can present a more objective approach towards the issues being discussed_(7/16). Interviewees also highlighted that NEDs can bring a “*fresh and outsiders’ perspective and expertise to the boardroom*”_(6/16), are “*able to probe, question, criticize and challenge*” the decisions and actions of the executive as necessary_(6/16), and are “*central to providing direction and vision*”_(1/16). This is a “*must*” for proper oversight_(4/16) and for an appropriate implementation of the four-eyes principle_(2/16). The tables overleaf summarise the potential benefits of having EDs (Table 4.6) and NEDs (Table 4.7) on the Board.

³² Vide Q2.3 p.A3.2-3

Comments	Responses*
To provide insight into the operations of the company	8
To have a representation of management on the Board	4
To hold management responsible and accountable for their actions and Board decisions	2

Table 4.6: Benefits of having EDs on the Board

**Responses limited to the respondents (out of seventeen) who added comments to Q2.3*

Comments	Responses*
To present a more objective approach towards the issues being discussed	7
To bring a fresh and outsiders' perspective and expertise to the boardroom	6
To probe, question, criticize and challenge executives as necessary	6
To ensure that the Board's oversight role is properly being carried out	4
To implement the four-eyes principle	2
To ensure having central direction and vision	1

Table 4.7: Benefits of having NEDs on the Board

**Responses limited to the respondents (out of seventeen) who added comments to Q2.3*

Some respondents_(5/16) went further to emphasize that an appropriate ED/NED mix needs to involve a higher proportion of NEDs and that such NED majority is to be a Code recommendation. Such majority_(5/16), or at least equality with EDs_(1/5), is important to ensure that the Board remains a balanced entity, separate from management. However, they felt that they had to admit that such an imposition may be difficult to implement in certain companies, such as small and family-run businesses_(4/5). Another COSEC_(1/16) further stated that beyond the Code, the law needs to provide that at least one of the Board directors is to be executive. However, one COSEC_(1/16) emphasized that the ED/NED mix is really irrelevant, as what is important is to have a director who is able to fulfil his/her roles.

4.3.4 Attributes of an independent Board member

Subsequently, respondents were asked³³ to rate and comment on their level of agreement to six attributes of an independent Board member, as recommended by the Code and found in the literature. As shown in Table 4.8 in descending order of agreement, on average, respondents agreed to statements (i) to (v) and were neutral to statement (vi), with significant differences in the level of agreement ($p < 0.001$).

	Mean	Median	Std. Dev
iv) Thinks autonomously from the other directors on the Board	4.82	5	0.393
i) Has no business or family relationship with the company	4.47	5	1.068
iii) Is not an employee of the entity or related entity	4.29	5	0.920
v) Is not reliant upon any other director for re-appointment	4.18	4	0.810
ii) Has not earned additional remuneration from the entity apart from director's remuneration	3.88	4	1.166
vi) Has interests aligned with those of the general body of shareholders	3.29	3	1.490
Scale from 1 (Strongly Disagree) to 5 (Strongly Agree)	$\chi^2(5) = 22.237, p < 0.001$		

Table 4.8: Attributes of an independent Board member

(i) No business or family relationship with the company

This statement was one which was most agreed to. This may be understandable, as such statement involves the description of an independent director provided by Supporting Principle 3(vii) of the Code. Yet, two respondents^(2/17) disagreed with such a limitation, contending that such relationships should only be limited depending on “*the extent and nature of the relationship, and the value of the transaction*”. Furthermore, one COSEC^(1/14) added that with such a description in the Code, it is only the appearance of independence that is being regulated, and not the independence of mind.

³³ Vide Q2.4 p.A3.2-3

(ii) Has not earned additional remuneration from the entity apart from director's remuneration

Two of the respondents^(2/17) emphasized that the extent to which additional remuneration impairs a director's independence depends on its materiality, which may be reflected in the type of contract and the nature and amount of the additional remuneration. For instance, a distinction needs to be made between a director who is on a monthly retainer and a director who provides services on an ad hoc basis^(1/2). Furthermore, one CGE^(1/3) added that more clarification needs to be made by the law in this respect, as it is currently unclear whether additional remuneration earned in relation to the job of a director, such as that earned from being part of a Board sub-committee, is deemed to impair independence.

However, other interviewees^(2/17) did not agree and asserted that any type of remuneration, regardless of the amount, will influence the appearance of independence and may also influence independence of mind with respect to a director's unbiased judgement.

(iii) Not an employee of the entity or related entity

Most participants strongly agreed^(9/17) or agreed^(5/17) that independent directors are not to be employees of the entity or related entity. However, two^(2/17) were undecided, and one^(1/17) disagreed on the basis that real independence is independence of mind, and this cannot be regulated.

(iv) Thinks autonomously from the other directors on the Board

Interviewees^(17/17) agreed that a major attribute of an independent director is to think autonomously of other Board members. One respondent^(1/17) added that this includes the ability and will to question even the actions of any other director.

(v) Not reliant upon any other director for re-appointment

Respondents^(13/17) agreed that an independent director is one who is not reliant upon any other director for re-appointment. One^(1/13) added that this enables an objective opinion to be expressed and ensures that the director is not subject to any conditioning. However, other respondents^(4/17) were neutral about this.

(vi) Alignment of interests with shareholders' interests

A number of interviewees_(8/17) agreed that the interest of an independent director needs to be aligned with those of shareholders. Others_(4/17) took a neutral stance, contending that there might be different viewpoints within the general body of shareholders, particularly between the minority and majority shareholders. The rest of the participants_(5/17) disagreed that such an alignment was a major attribute and emphasized that the short-term interests of the body of shareholders may not coincide with those of the company, particularly in the long-term.

4.3.5 Tenure of an independent Board member

The next question³⁴ asked participants to comment on their agreement with the Code's recommendation regarding the tenure of an independent director, particularly that it should not exceed twelve years. Most respondents_(12/17) agreed with the recommendation, asserting that over time, directors will start to become too familiar with management_(11/12), and that "*familiarity breeds contempt*"_(1/12). Consequently, director independence may more easily be impaired_(6/12), and directors may also tend to become "*complacent and stale in their ideas*"_(5/12). Most of these respondents_(10/12) emphasized that a maximum period needs to be imposed, and not merely recommended in the Code. A period of nine_(5/10) to twelve_(2/10) years is long enough for a director to be able to contribute to the company and not too short as to render it premature and preventing the director from being effective on account of the experience gained with the company. A few_(3/10) further pointed out that director rotation should follow the steps of external auditor rotation, which is now every ten years. However, despite this, an analysis of the financial statements showed a number of tenures that were too long. It is presumed that this issue is even more evident in practice since not all MLCs divulge their directors' tenures.

On the other hand, other respondents_(5/17) disagreed with the recommendation, stressing that independence is not really related to the number of years of directorship, but is rather related to issues of character_(4/5), professionalism_(4/5) and integrity_(3/5). Two COSECs_(2/5) further added that the period should be

³⁴ Vide Q2.5 p.A3.2-4

determined by the company on the basis of its needs and circumstances. In fact, one COSEC^(1/5) added that imposing such limitation in a small country will make it difficult for most companies to find enough independent Board members. An alternative to such a capping in the number of years could be regular assessments of the independence of each member of the Board by independent consultants^(1/5).

4.3.6 Independent Board members in Malta – limited?

Interviewees were then asked³⁵ whether the number of independent directors in Malta is unduly limited and how this may be addressed. All the participants^(16/16) agreed that such number is limited. Table 4.9 below summarizes the factors restricting the number of independent Board members.

Comments	Responses*
Widespread preference for the “golden boys”	11
Malta’s size limits the resource pool and easily creates conflicts of interests	8
Appropriately independent directors with the necessary expertise and experience are hard to find	8
Failure of the law to limit the holding of multiple directorships	4
Ambiguous definition of independence	2
Tendency of many Boards not to encourage, as candidates for directors, those of different origin, age or sex	2
Remuneration is not commensurate with the heavy legal responsibilities faced by independent directors	1

Table 4.9: Factors restricting the number of independent Board members

*Responses limited to the respondents (out of seventeen) who added comments to Q2.6a

As may be seen, eleven respondents^(11/16) argued that the limitation is not necessarily there but may be created by a natural tendency to continuously seek and appoint the same “*tried and tested network of directors – the golden boys*”. Such a tendency may, in itself, be preventing new persons from coming forward and gaining the needed experience. A few interviewees^(4/16) pointed out the fact that multiple directorships by such a limited network may, in fact, be causing

³⁵ Vide Q2.6 p.A3.2-4

further limitations. Yet, the MFSA representative stated that in view of the EU equal rights regulation, there is not much one may do to limit the holding of such multiple directorships. Others^(8/16) also argued that this limitation is due to Malta's small size, limiting the resource pool and easily creating conflicts of interests. A director can easily be rendered non-independent because, for instance, s/he is sitting on a competitor's Board. Furthermore, other interviewees^(8/16) argued that appropriately independent directors with the necessary expertise and experience are hard to find. Two interviewees^(2/16) added that the criteria for independence in the Code, such as there being no "*relationships or circumstances which are likely to affect, or could appear to affect, the director's judgment*"³⁶, may be a problem because such relationships and circumstances may be interpreted too widely in a small country. In addition, respondents^(2/16) claimed that the pool of independent directors is further limited by the tendency of many Boards not to encourage those of different origin, age or sex to be candidates for directors. For instance, many directors are only appointed so after their retirement. Another respondent^(1/16) also argued that inadequate remuneration is too often not commensurate with the heavy legal responsibilities an independent director must face.

³⁶ Vide Provision 3.2 of the Code

The next question asked what may be done about the current limited number of independent Board members in Malta. Table 4.10 below summarises the recommendations put forth by interviewees.

Comments	Responses*
Recruiting foreign Board members	9
Endeavouring to appoint to a Board both persons who have reached their final years of their career, as well as younger directors	5
Instigate a more deeply thought-out nomination and appointment process	3
Creating a register of people who are competent to act as directors	2
Increasing remuneration	1

Table 4.10: Steps to enlarge the pool of independent directors

**Responses limited to the respondents (out of seventeen) who added comments to Q2.6b*

Most participants_(9/16) pointed out that one needs to look more at non-Maltese directors, who may be engaged as long as they have the appropriate skills and are sufficiently acquainted with the Maltese corporate regulatory framework_(5/9), market_(4/9) and culture_(1/9). Again, respondents_(5/16) referred to the need to mix the Board both with persons who have reached their final years of their career and with younger directors at the peak of their career. Any tendency to include one and exclude the other may be controversial. In this respect, the MFSA representative stated that the fit and proper test carried out by the authority allows both experienced directors and new director appointees with the necessary expertise to hold such a role. Some respondents_(3/16) also contended that the nomination and appointment process for directors needs to be more deeply thought-out, as otherwise it will continue to rely too much on networking. Two other respondents_(2/16) also pointed out that creating a register of people who are competent to act as directors will facilitate the appointment of independent Board members. Finally, it was recommended that remuneration should be increased to entice independent directors to offer themselves for directorship roles_(1/16).

4.4 Board expertise

Section 3 of the interview schedule consisted of three questions (Qns 3.1 – 3.3) dealing with directors' expertise.

4.4.1 Professional qualifications held by directors in MLCs

The next question³⁷ requested COSECs to indicate the professional qualifications held by Board members. Table 4.11 presents the results relating to such qualifications.

	Mean*	Median*	Std. Dev
Accountancy	2.00	2	1.782
Management	1.44	1	1.542
Banking and/or Investment	1.22	1	0.878
Other	1.11	1	0.900
Law	0.72	1	0.575
Economics	0.72	0.5	1.018
No qualifications	0.56	0	0.984
Insurance	0.28	0	0.958
<i>Scale from 1 (Strongly Disagree) to 5 (Strongly Agree)</i>	$\chi^2(7) = 25.047, p=0.001$		

Table 4.11: Qualifications held by directors of MLCs

*Number of directors in each Board

As may be seen, the average MLC Board has two Board members qualified in accountancy ($\bar{x}=2.00, \bar{x}=2$), one qualified in management ($\bar{x}=1.44, \bar{x}=1$), and another qualified in banking and/or investment ($\bar{x}=1.22, \bar{x}=1$). Other qualifications held by directors relate to engineering, architecture, and marketing. It also resulted that some directors ($\bar{x}=0.56, \bar{x}=0$) have no type of qualification.

³⁷ Vide Q3.1 p.A3.2-4

4.4.2 Mix of professional qualifications – important?

In the following question³⁸ participants were asked to rate their agreement and comment thereon on five statements relating to the importance of professional qualifications and the mix thereof. As shown in Table 4.12 in descending order of agreement, on average, respondents agreed to the statements, with significant differences in the level of agreement ($p=0.487$).

Professional qualifications provide:	Mean	Median	Std. Dev
i) A sound understanding of matters being discussed	4.47	5	0.624
ii) Adequate competence to monitor management	4.47	5	0.624
iii) Resourceful and insightful ideas	4.24	4	0.752
v) Increased objectivity and critical thinking	4.18	4	0.883
iv) Increased Board performance	4.12	4	0.857
Scale from 1 (Strongly Disagree) to 5 (Strongly Agree)	$\chi^2(4) = 3.44, p=0.487$		

Table 4.12: Importance of mix of professional qualifications

Some respondents_(3/17) contended that resourceful and insightful ideas increased Board performance, and that increased objectivity and critical thinking are not necessarily a product of professional qualifications. They emphasized that it all depends on the individuals themselves, rather than their professional qualifications. Directors may still provide significant input and add value to the Board from their extensive experience in the industry, despite lacking professional qualifications. In fact, two participants_(2/3) argued that they would prefer a director who is experienced and seasoned in the industry, as opposed to a director who is professionally qualified.

Nonetheless, one COSEC_(1/14) added that it is true that a professionally qualified director is likely to be better able to monitor management. Typically, the more professionally qualified a director is, the more likely are they to be experienced in

³⁸ Vide Q3.2 p.A3.2-5

reviewing the activities of others and in asking the right questions. For instance, a retired auditor by profession is trained to criticize and question.

Interviewees_(17/17) added that it is crucial to have a Board composed not only of directors with different qualifications, but also with experience. This is because Board members are to cover the whole plethora of expertise if they are to oversee the operations of the company_(11/17) and ensure the smooth running of the business_(9/17). Moreover, such a mix is needed for more holistic discussions to take place_(9/17) and for a proper, accountable and well-functioning Board_(7/17). Only such a Board may provide the best type of decision-making process possible and perform well, since people with different backgrounds and experience may bring different perspectives to the table. However, two respondents_(2/17) noted that ensuring an appropriate mix of expertise on the Board is rarely dependant on the company itself, but on the shareholders who tend to appoint directors without any regard to Board diversity. Identifying the Board's skill gaps and making recommendations to the shareholders is as far as the company may go_(1/17).

Moreover, participants_(7/11) added that they would oppose any law requiring that companies ensure that the Board has a mix of expertise and experience. Companies necessitate different expertise and skills, and therefore it would be difficult to define what such a mix needs to be composed of_(5/17). A few_(2/7) emphasized that in certain companies it is "*neither practicable nor value adding to have directors from certain professional backgrounds*". A director should not be overlooked simply because there is someone else with the same expertise already occupying a director role. Appointing directors on the basis of diversity may result in a "*weaker Board*"_(1/7).

4.4.3 A minimum qualification – to be required?

Interviewees were then asked³⁹ whether regulation needs to be introduced for the law to specify any minimum professional qualifications or experience. Most respondents_(12/17) contended that although they were aware that, as the regulatory framework now stands, director engagements may be based on nepotism or lead to incompetence, they were still against regulatory requirements for minimum qualifications or skills. This is because it is even more important for companies to be flexible_(7/12) and not to be victims of a one-size-fits-all approach_(5/12). Some_(6/12) added that it was important not to exclude persons with a wealth of business acumen and experience in business from Board directorships simply on the basis of professional qualifications. However, a few_(2/12) pointed out that a more active NC could play an important role in encouraging shareholders to engage directors to fill the existing skill gaps. Yet, a review of the 2017 MLC financial statements indicates that as yet, most companies_(12/21) do not have such a Committee⁴⁰.

On the other hand, one COSEC_(1/14) pointed out that although the law does not specify any minimum professional qualifications or experience, listed company directors need to be approved as fit and proper to ensure the right skills, integrity and probity. Another COSEC_(1/14) argued that they cannot understand how a director managing millions of assets is not vetted more thoroughly by the regulator and may not even have any particular skills. Two interviewees_(2/17) pointed out that unlike private companies, listed companies are public interest ones and therefore need to have stringent criteria relating to Board membership requirements. To this effect, a number of interviewees_(5/17) added that more specific criteria need to be laid down for deciding what is fit and proper. Definitely, applying such criteria may minimize nepotism in Board appointments. One COSEC_(1/14) added that a register of potential directors could be compiled for specific companies based on written or oral examinations.

Furthermore, a few participants_(7/17) pointed out that the Code and Listing Rules require at least one member of the audit committee to be “*competent in*

³⁹ Vide Q3.3 p.A3.2-5

⁴⁰ Vide Appendix 4.3 for list of Nomination Committee in MLCs at year-end 2017

*accounting and/or auditing*⁴¹. Such competence is not necessarily evidenced by professional qualifications. Some other respondents^(3/17) argued that the presence of both a Certified Public Accountant and a lawyer on the Board is crucial, and the Listing Rules need to be updated in this regard. However, the MFSA representative pointed out that one must be cautious, also not to make the requirements for director engagement too astringent, as this might result in Malta based companies not being on a levelled playing field with other European counterparts. The MFSA may always disapprove the engagement of a director who is deemed to be not adequately competent.

4.5 Gender diversity

The next part of the interview schedule consisted of three questions (Qns 4.1 – 4.3) relating to gender diversity.

4.5.1 Gender diversity on the Boards of MLCs

An analysis of the RoC website indicated that the average MLC Board is entirely composed of males⁴² ($\bar{x}=6.63$, $\bar{x}=7$). In support of this finding, the next question⁴³ requested COSECs to classify their Board members by gender. Table 4.13 presents the feedback of the respondents and the data collected from the RoC relating to all MLCs.

		Male	Female
Equity MLCs as at 31 st March 2019	Number of Directors	159	13
	Mean(\bar{x})	6.63	0.54
	Median(\bar{x})	7	0
Interviewed MLCs in Oct- Dec 2018	Number of Directors	122	11
	Mean(\bar{x})	6.78	0.61
	Median(\bar{x})	7	0

Table 4.13: The presence of women on the Boards of MLCs

^aSource: Registry of Companies (2019)

⁴¹ Vide Provision 8.B.6 of the Code

⁴² Vide Appendix 4.4 for list of male and female directors on the Boards of MLCs as at 31st March 2019

⁴³ Vide Q4.1 p.A3.2-6

4.5.2 Gender balance – how important?

The following question⁴⁴ asked participants to rate their agreement and comment upon four statements relating to how gender balance may improve a Board's quality. As shown in Table 4.14 in descending order of agreement, respondents were neutral ($\bar{x}=2.65$) to statement (iv) and disagreed with statements (i) to (iii), with significant differences in the level of agreement ($p=0.034$).

Gender diversity is important for:	Mean	Median	Std. Dev
iv) Better, more balanced oversight	2.65	3	1.412
iii) Increased expertise and knowledge on the Board	2.00	1	1.275
ii) Improved overall Board independence	1.76	2	0.903
i) Improved overall attendance by Board members	1.59	1	0.795
Scale from 1 (Strongly Disagree) to 5 (Strongly Agree)	$\chi^2(3) = 8.643, p=0.034$		

Table 4.14: Agreement with the importance of gender diversity

Some participants_(4/17) added that differentiating Board members by gender is of no use, as competence is not related to gender. A female may be valuable, a male may not be, and vice versa_(4/4).

However, one CGE_(1/3) emphasized that “a good Board is one which has as diverse a mind-set as possible”. In this context some interviewees_(7/17) acknowledged that many women may have different perspectives, skills and insights from men, and may bring many traits and qualities to the Board, such as multitasking and an eye for detail. Some_(2/7) added that women tend to have less pride and are more likely to ask questions, while males are more reluctant to admit when they do not understand. Yet, males are often better able to see the big picture and may be more practical. However, these interviewees_(7/17) felt that the need for gender diversity should not be overemphasised at the expense of Board competence.

⁴⁴ Vide Q4.2 p.A3.2-6

4.5.3 Female representation on Maltese Boards – weak?

Participants were then asked whether they think that female representation on the Boards of MLCs is weak⁴⁵. Respondents_(17/17) unanimously agreed. In this respect, one COSEC_(1/14) pointed out that women constitute half the resources of the country and thus often represent an untapped resource. Table 4.15 presents the reasons that respondents believe are contributing to this situation.

Comments	Responses*
Historical and cultural reasons	6
Appointment of directors often relies on networks of existing directors	5
Women do not present themselves as potential candidates for elections and directorships	5
Women generally have greater childcare responsibilities	4

Table 4.15: Reasons why female representation on Maltese Boards is weak

*Responses limited to the respondents (out of seventeen) who added comments to Q4.3a

Some interviewees_(6/17) contended that the lack of female Board members may be attributed to historical and cultural reasons. As for history, society is coming out of an era which was completely male dominated, and since higher education has been pursued much more by both males and females only in recent years, the balance of Board members is as yet much in favour of males_(4/6), though this may be slowly changing_(3/6). Furthermore, culturally, directors have become type-casted as males_(2/6). Changing such a culture takes time because there are few, if any, female role models to emulate_(1/2). Other respondents_(5/17) argued that this is due to the fact that the appointment of directors often relies on networks of existing directors, who are predominantly men. The “*widespread preference for the golden boy network*” therefore presents a major barrier for women to access networking opportunities. Conversely, other interviewees_(5/17) emphasized that the major reason why the presence of females on Boards is so weak is due to the fact that very few women, if any, present themselves as potential candidates for elections and directorships. Participants_(4/17) also remarked that women tend

⁴⁵ Vide Q4.3 p.A3.2-6

to bear greater childcare responsibilities and there may be instances where females present themselves as being less available for the role because of family commitments. Consequently, women tend to have less experience and are thus less likely to be considered for such roles^(3/4).

When asked what can be done to promote such female representation, the responses given were as shown in Table 4.16.

Comments	Responses*
Women need to become more proactive	6
More awareness and education on gender equality	6
Introduction of family-friendly measures	1

Table 4.16: Recommendations to improve female representation on Boards

*Responses limited to the respondents (out of seventeen) who added comments to Q4.3b

Some respondents^(6/17) emphasized that firstly, women must become more proactive and ready to present themselves for Board membership, both with respect to elections and direct appointments. They need to take advantage of networking opportunities organised by institutes, such as the Chamber of Commerce^(2/6). Other respondents^(6/17) noted that more public investment in awareness and education on gender equality may be helpful, ultimately to change employers' and shareholders' mentality. One COSEC^(1/14) further noted that more employers need to introduce family-friendly measures, such as flexible hours, thus providing women with the opportunity to achieve a balance between their work and personal lives.

Almost all respondents^(15/17) opposed the implementation of gender quotas. They remarked that women are just as capable as men and that the appointment of directors should be made on the basis of "*suitability, competency, merit and value-adding ability, and not gender*". The imposition of such quotas will limit companies from appointing the best people and may lead to a situation where directors are appointed merely to meet such quotas, ultimately undermining Board effectiveness^(7/15). Some respondents^(5/15) also added that every company has its own peculiarities and it is ludicrous to put all companies in a tight straitjacket. However, they suggested that the issue of diversity should be

addressed by the Code in a more exhaustive manner. Being based on the comply-or-explain principle, companies may attempt to comply, but are not required to do so by law, provided that they give a valid justification. On the other hand, a few respondents^(2/17) emphasised that the implementation of gender quotas for a limited period is necessary to prompt the needed change in gender representation.

4.6 The chairperson/CEO links

The last part of the interview schedule consisted of four questions (Qns 5.1 – 5.4) relating to the chairperson/CEO links.

4.6.1 Chairperson/CEO duality in Boards of MLCs

Table 4.17 below shows whether the roles of the chairperson and CEO in MLCs are combined or separated. Such data was collected from the annual reports of MLCs, and the next question⁴⁶ which asked COSECs to indicate whether their company chairperson is also the CEO of the company. As may be seen, almost all MLCs^(19/21) have separate roles for the chairperson and CEO⁴⁷.

	Separate chairperson and CEO roles	Combined chairperson and CEO roles
^a Equity MLCs at year-end 2017	19 companies	2 companies
Interviewed MLCs in Oct-Dec 2018	17 companies	1 company

Table 4.17: Chairperson/CEO Duality in Boards of MLCs

^aSource: Registry of Companies (2019)

⁴⁶ Vide Q5.1 p.A3.2-7

⁴⁷ Vide Appendix 4.5 for list of chairperson/CEO duality in MLCs at year-end 2017

4.6.2 Separation of the roles of the chairperson and CEO – to be made mandatory?

The next question⁴⁸ asked respondents whether the separation of the roles of the chairperson and CEO should be made mandatory. Most_(10/17) were against the mandatory separation of the two roles. This is because such a law would be rigid_(8/10) and may involve unneeded expenses, particularly in the smaller listed companies_(4/10). Furthermore, the chairperson's role may be intrinsically tied to that of the CEO and therefore detrimental to separate_(3/10). These respondents_(10/17) were therefore in favour of retaining such separation as a recommendation in the Code, as this gives companies the flexibility to combine the roles when there is an adequate justification.

The other interviewees_(7/17) were in favour of such a legal separation. This would render the role of INEDs less onerous_(5/7) and would improve the Board's monitoring of the CEO_(3/7). Furthermore, the distinction between the Board and management becomes clearer, with the chairperson leading the Board, and the CEO managing the company day to day_(2/7). Moreover, legally separating the two roles reduces the risk of the chairperson/CEO dominating the Board_(1/7). However, a proviso made by one of the COSECS_(1/14) is that the chairperson and CEO collaborate.

⁴⁸ Vide Q5.2 p.A3.2-7

4.6.3 Chairperson – to hold an executive or non-executive role?

Table 4.18 shows whether the Board chair in MLCs holds an executive or non-executive role. Such data was collected from the annual reports of MLCs and the next question⁴⁹ which asked COSECs to indicate whether their company chairperson holds an executive or non-executive role. As may be seen, the majority_(15/21) of chairpersons in MLCs hold an non-executive role⁵⁰.

	Chairperson holds an executive role	Chairperson holds a non-executive role
^a Equity MLCs at year-end 2017	6 companies	15 companies
Interviewed MLCs in Oct-Dec 2018	4 companies	14 companies

Table 4.18: Executive/non-executive role held by MLCs' chairpersons

^aSource: Registry of Companies (2019)

When asked further whether the Board chairperson should in general hold an executive or non-executive position, most interviewees_(13/17) stated that the chairperson's role is to be non-executive, as thus s/he can provide a better balance to the CEO's executive role_(6/13) and affect more independent and effective oversight_(5/13). Restricting the chairperson to Board issues will enable such chairperson "to focus on strategic issues rather on day-to-day management issues"_(2/13). A chairperson holding an executive role as well, would be too "time-consuming"_(1/13). However, one COSEC_(1/14) stated that a disadvantage of the chairperson being non-executive is that s/he becomes totally dependent on information provided by management. Contrastingly, other participants_(4/17) argued that an executive chair will be better able to effectively "monitor, criticise and question management".

⁴⁹ Vide Q5.3 p.A3.2-7

⁵⁰ Vide Appendix 4.6 for list of executive/non-executive role held by MLCs' chairpersons

4.6.4 CEO – what position within the Board?

The next question⁵¹ asked participants whether, in their opinion, the CEO should be a Board member, regular *ex-officio* participant, or participant only upon invitation. Figure 4.2 below shows the interviewees' responses.

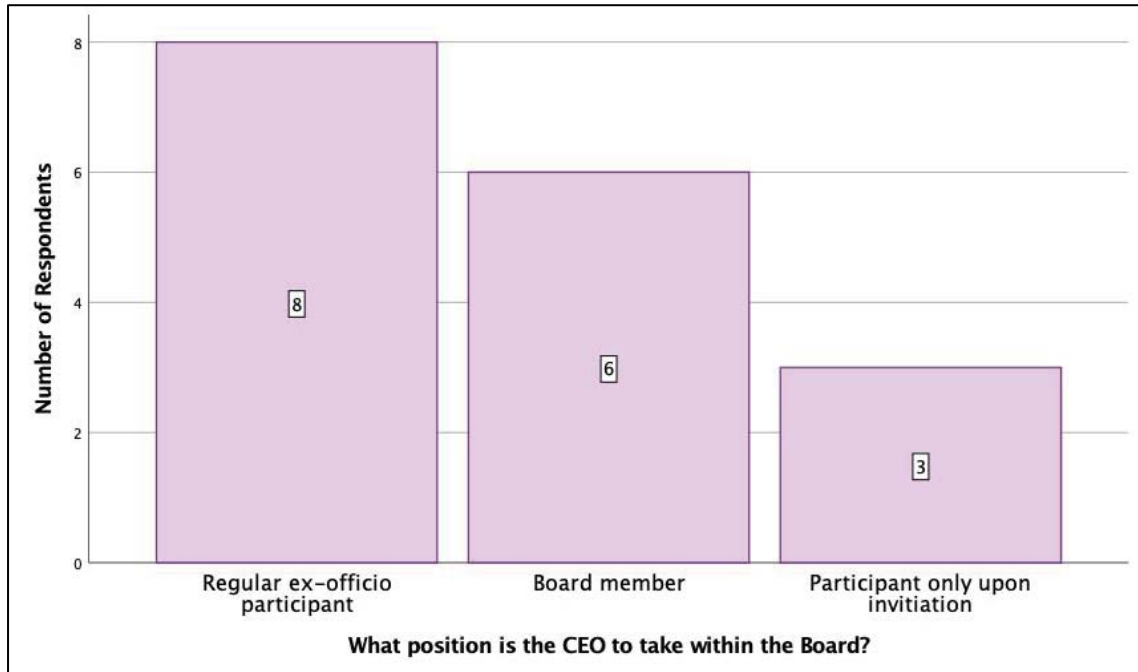


Figure 4.2: Position the CEO is to take within the Board

As may be seen, most interviewees^(11/17) argued that the CEO should not be a Board member, as otherwise s/he may unduly influence Board decisions. If the CEO is a Board member, s/he may easily dominate the other directors^(5/11) and may be more involved in potential conflicts of interest^(3/11). Furthermore, the CEO not being a Board member ensures that the Board may ask the CEO out of the meeting^(2/11) and may even discuss the CEO's own performance in confidence^(1/11). Board policy making and the execution of such policies may also be confused where the CEO is a member^(1/11). Most^(8/11) respondents emphasized that the CEO needs to be an *ex-officio* participant in all Board meetings so as to be in a better position of providing knowledge and contribute effectively to Board discussions and also to implement Board decisions. The other respondents^(3/11)

⁵¹ Vide Q5.4 p.A3.2-7

were in favour of the CEO participating in Board matters only upon invitation, rather than regularly.

Other interviewees_(6/17) claimed that the CEO needs to be a regular Board member so that s/he will be held, jointly and severally, liable for any Board default, as is the case with the other directors. These respondents emphasized that not giving a directorship to the CEO means that in troubled times, s/he may easily shift blame onto the Board. In their view, CEO Board membership will not necessarily hinder the Board's oversight role_(3/6) as this depends mostly on the relative strengths of personalities_(1/6).

When respondents were asked whether the CEO in their company performed the role as was preferred by them in the first part of the question, most_(16/17) confirmed this. However, one respondent_(1/17) declared that in the case of the group where the respondent is involved, the CEO was a Board member despite their preferences to the contrary.

4.7 Conclusion

This chapter presented the findings from the interviews conducted as well as the RoC website. The next chapter presents a thorough discussion of these findings.

Chapter 5

Discussion

5.1 Introduction

This chapter presents a discussion of the research findings of this study in the light of the literature review in Chapter 2. As shown in Figure 5.1, Sections 5.2 and 5.3 evaluate Board size and independence respectively. Subsequently, Section 5.4 evaluates Board expertise, while Section 5.5 discusses gender diversity. Section 5.6 deals with chairperson/CEO duality, and finally Section 5.7 concludes the chapter.

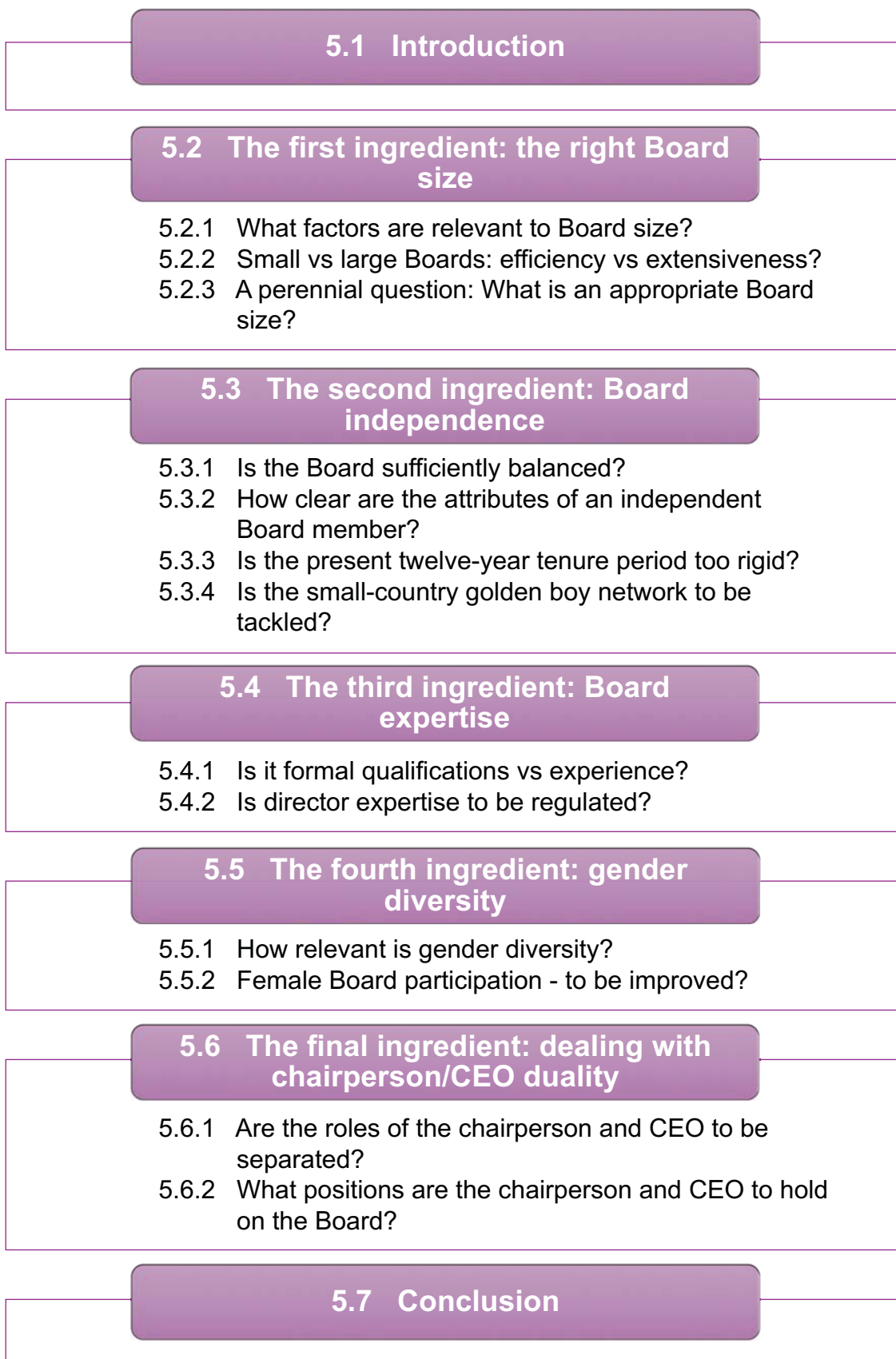


Figure 5.1: Outline of Chapter 5

A MLC Board is to include an appropriate balance of a number of aspects, each of which plays its part in determining the overall suitability and relevance of such Board in governing a company. This may be closely analogous to the appropriate ingredients one is to include in a well-baked cake.

5.2 The first ingredient: the right Board size

5.2.1 What factors are relevant to Board size?

As previously stated, the size, scope and operations of the company, along with best CG practices, are considered to be the primary factors driving the size of a MLC Board⁵². The relevance of these factors is also in line with the findings of Lehn *et al.* (2009)⁵³ in their study of American companies.

5.2.2 Small vs large Boards: efficiency vs extensiveness?

Lipton and Lorsch (1992) contend that smaller Boards benefit from more efficient decision-making⁵⁴. The findings⁵⁵ indicate that smaller Boards make it easier to reach a quorum, and to hold discussions. Yet, such Board size is no longer relevant when the directors present a highly convincing argument.

Moreover, it is easier to reach consensus in smaller Boards. This is because, with fewer Board members, there is less possibility of conflict or disagreement. However, as noted by some interviewees⁵⁶, the ease with which consensus is reached does not solely depend on the number of the Board members, but equally on the personalities of the directors themselves.

On the other hand, in line with the findings of Lehn *et al.* (2009) and Cohen *et al.* (2002), larger MLC Boards are often better able to carry out their monitoring and advisory roles, because such Boards usually have a more extensive range of skills, providing for different perspectives and superior access to resources⁵⁷. However, this is not always the case as the Board's ability to properly carry out

⁵² Vide Section 4.2.2

⁵³ Vide Section 2.3.1

⁵⁴ Vide Section 2.3.1

⁵⁵ Vide Section 4.2.3

⁵⁶ Vide Section 4.2.3

⁵⁷ Vide Section 2.3.1

its functions does not depend merely on the number of Board members, but also, and sometimes even more importantly, on the quality of the Board members themselves.

5.2.3 A perennial question: What is an appropriate Board size?

The Maltese regulatory framework does not exact a maximum number to the Board of any public entity, and the only relevant proviso in the Code is that “*the Board should not be so large as to be unwieldy*”⁵⁸. Indeed, the introduction of any Board capping would probably be strongly resisted⁵⁹ as this would be tantamount to a rigid one-size-fits-all legal requirement for MLCs. On the other hand, without any specific legal guidance at all, difficulties will linger as to *how, when* and *who* is to determine such number in each MLC.

Boards may turn out to be too large or too small, unless the appropriate criteria for deciding size are taken into consideration. These criteria are to revolve around the particular circumstances of each company, and may include considerations of its industry, the spread of its shareholders, its competitors and markets, and the resulting skillsets. Company promoters and, later, those in charge of CG, need to ensure that the number of directors is and remains a fitting and balanced one even as the company progresses.

Probably it would be helpful if the Code recommends a range, rather than a fixed number of Board members. Neither any recommended maximum nor minimum would necessarily have to be adhered to, provided that sufficient reasons are publicly laid out as justification, in case of any non-adherence.

⁵⁸ Vide Principle 3 of the Code, and Section 2.3.1

⁵⁹ Vide Section 4.2.4

5.3 The second ingredient: Board independence

5.3.1 *Is the Board sufficiently balanced?*

What are the different types of directors?

In line with the Code, Anand (2007) and Caruana (2017) contend that an ED is one who is involved in the daily operations of a company, while a NED is one who is not so involved. However, the CA (1995) does not address such difference⁶⁰. In fact, the distinction between EDs and NEDs is not always a black-and-white issue⁶¹. In particular, the distinction starts to become a grey area in respect of non-executive directors and the extent to which they may involve themselves in company activities without being deemed to be executive. A proper legal definition could eliminate any such ambiguity in distinguishing between EDs and NEDs, if such a definition includes some additional criteria to that of mere involvement in the day-to-day running of the organisation.

The distinction between NEDs and INEDs has been found to be even more vague⁶². In this respect, Kim *et al.* (2010)⁶³ argue that the determination of the independence of directors is difficult as the exact criteria have not been found. In fact, both the Code and Listing Rules merely provide a non-exhaustive list of situations which are to be considered when determining director independence⁶⁴. Consequently, as stated by one CGE, directors may be deemed to be independent “*even in situations when they are clearly not so*”⁶⁵. It may therefore be a matter of tightening up the legal framework so that it provides more clarity without becoming too prescriptive. If it is difficult to establish detailed criteria, one may rather choose to set out more examples of practical situations and case studies to help the proper ascertainment of the independence or otherwise of a Board member. For example, may additional remuneration earned in relation to the job of a director, such as that earned from being part of a Board sub-

⁶⁰ Vide Section 2.3.2

⁶¹ Vide Section 4.3.3

⁶² Vide Section 4.3.3

⁶³ Vide Section 2.3.2

⁶⁴ See for example Section 2.3.1, and Provision 3.2 of the Code

⁶⁵ Vide Section 4.3.3

committee, be deemed to impair independence? If so, at what point may such additional remuneration become significant or material?

Executive, non-executive or independent directors?

In line with the Code recommendations on Board composition⁶⁶, it is accepted⁶⁷ that the Board needs to be composed of both EDs and NEDs if it is to have an adequate mix of Board members. Having a balance of EDs and NEDs helps the Board to be equipped with the relevant inside and outside knowledge, objectivity and skills that are necessary to monitor, advise and formulate strategy. However, as Muscat (2007)⁶⁸ pointed out, the Code did, and as yet does not establish any mechanism to ensure that both EDs and NEDs form part of the Board. Although the Board is responsible for the appointment of EDs, an appropriate ED/NED mix is difficult to obtain because one can hardly find executives who are both able and willing to sit on Boards. In this respect, one may argue that inviting executives as participants of Board meetings may be enough, as they will still be in a position to share their knowledge and insights with their Board. Yet, mere participation may lead to executives not being held fully responsible and accountable for their actions or for any resulting decisions made by their Board.

The Code further recommends that at least one-third of the Board is to be made up of NEDs, most of whom are to be independent⁶⁹. This is to help the Board ensure that its decision-making is not dominated by any member, given that, as stated by Gordon (2006)⁷⁰, NEDs, and particularly INEDs, are less vulnerable to capture by management. However, ensuring the right balance with one-third of the members being NEDs or INEDs probably remains questionable. Perhaps it is now time for the Code to recommend that INEDs make up the majority of the Board members.

⁶⁶ Vide Section 2.3.2

⁶⁷ Vide Section 4.3.2

⁶⁸ Vide Section 2.3.2

⁶⁹ Vide Principle 3(iii) of the Code, and Section 2.3.2

⁷⁰ Vide Section 2.3.2

5.3.2 *How clear are the attributes of an independent Board member?*

As shown in the literature⁷¹, an INED is to have a number of attributes. The most important attribute has been found to be the ability to think autonomously from the other directors on the Board⁷². Yet, such an attribute - symptomatic of real independence of mind - is not specifically referred to anywhere in the Maltese regulatory framework.

Another attribute found to be important, and possibly even more relevant within this small country context, is that an INED is to have no business or family relationship with the company. While in the case of such an attribute the Code makes a specific reference⁷³, yet the definition of what a prohibited business or family relationship would actually consist of remains lacking. While previous research such as that of Baldacchino (2017) has forwarded some examples, more research in this area would be helpful, as it is not a matter of simply emulating the position taken by other larger countries.

These clarifications may be even more enlightening if they are made in conjunction with regulatory requirements such as that of Boards having to delegate the classification of each Board member to independent consultants to determine whether they are NED or INED. Thus, this would further ensure the ascertainment of the attributes of a truly independent director without any possibility of conflict of interest.

5.3.3 *Is the present twelve-year tenure period too rigid?*

It is generally agreed⁷⁴ that, as the Code⁷⁵ and Listing Rules stipulate, in ascertaining the independence or otherwise of a director, the tenure of a director (set at a threshold of twelve years) also needs also to be taken into consideration. Yet, there are clear indications that a number of long tenures actually persist in MLCs⁷⁶. Could it be that the present Code recommendation of a maximum

⁷¹ Vide Section 2.3.2

⁷² Vide Section 4.3.4

⁷³ Vide Supporting Principle 3(vii) of the Code, and Section 2.3.2

⁷⁴ Vide Section 4.3.5

⁷⁵ Vide Provision 3.2.5 of the Code, and Section 2.3.2

⁷⁶ Vide Section 4.3.5

director tenure of twelve years is not always practicable? While such a fixed upper limit may normally seem to be reasonable, it is probably more acceptable for Board tenures to be set within a maximum range of five years, for instance, such as between seven and twelve years. Any tenure not adhering within such range may then be made compulsorily subject to published detailed justification. Clearly, as has already been suggested by the literature with respect to other CG measures⁷⁷, it is far from enough to have such maximum tenure being merely recommended by the Code. At the same time, the flexibility provided by the upper limit range helps towards ensuring that there is no shortage of members suitable to satisfy the independence criteria.

5.3.4 Is the small-country golden boy network to be tackled?

In their study, Chen and Moers (2018)⁷⁸ found that the shortage of INEDs has been caused by the high scrutiny of shareholders which has discouraged independent directors from holding multiple directorships. This study⁷⁹ instead indicates that a major factor restricting the number of INEDs is the widespread preference by shareholders and different companies for the “*golden boys*”, thereby resulting in the incidence of multiple directorships. Such multiple directorships may easily give rise to conflicts of interest and may discourage other persons from showing interest in directorship roles as they often perceive the situation as competing against an already established network of directors.

In this regard, the NC has an important role to play. In particular, it may instigate a more deeply thought-out nomination and appointment process which does not have to rely on networking. Furthermore, an internal evaluation of top management by such Committee should indicate the most capable and suitable individuals for the role of EDs. The NC, through its active processing, may also easily be in a position to recommend competent individuals for non-executive directorship roles. Unfortunately, the study⁸⁰ indicates that as yet, most companies do not have such a Committee, as is confirmed by recent literature⁸¹.

⁷⁷ Vide Section 2.3.2

⁷⁸ Vide Section 2.3.2

⁷⁹ Vide Section 4.3.6

⁸⁰ Vide Section 4.3.6

⁸¹ Vide Section 2.3.3

This points towards the need to consider making NCs compulsory in the Listing Rules in the same manner as Audit Committees. Additionally, one could also consider the adoption by the MFSA of a policy of active discouragement of multiple directorships, such policy being set within the parameters of the regulatory restrictions of the EU⁸². The implementation of both measures could easily lead to long-term positive inclusivity results.

5.4 The third ingredient: Board expertise

5.4.1 *Is it formal qualifications vs experience?*

A mix of professional qualifications is considered crucial for Boards to fulfil their duties effectively and efficiently⁸³. This is line with the arguments put forth by O’Sullivan (2009), the EU Commission (2011), Cox and Blake (1991), and Gaur *et al.* (2015). Furthermore, having such a mix creates a competitive advantage (Bilimoria and Wheeler, 2000)⁸⁴.

Formal qualifications and experience do not have to be alternative forms of expertise, as some respondents seem to imply⁸⁵. The fact that some MLCs still have a number of directors who do not hold any professional qualifications⁸⁶ indicates that such qualifications are as yet not considered crucial in the appointment or election of directors, and this confirms the findings of Azzopardi (2012)⁸⁷. Yet, the question arises, why, in so far as is possible, are directors not required to have both formal qualifications and experience? Probably this could be the optimal way to ensure that a Board, even a smaller one, is composed of a “*diversity of knowledge, judgment and experience*”⁸⁸, as recommended by the Code. It is understandable that a director endowed with both qualifications and experience may be a rarity, but probably headhunting beyond “*the golden boys*” could result in unexpected gains.

⁸² Vide Section 4.3.6

⁸³ Vide Section 4.4.2

⁸⁴ Vide Section 2.3.3

⁸⁵ Vide Section 4.4.2

⁸⁶ Vide Section 4.4.1

⁸⁷ Vide Section 2.3.3

⁸⁸ Vide Supporting Principle 3(i) of the Code, and Section 2.3.3

Furthermore, when determining whether a director is fit and proper, the MFSA, as regulator, needs to go beyond the qualifications and experience of the individual director. It also needs to examine how far such personal attributes are compatible with those of the rest of the Board. In particular, the regulator could probably do well to pay particular attention to the overall mix of expertise where most of the directors are appointed by the major shareholders who, as also indicated earlier by Muscat (2007)⁸⁹, tend to give too little attention to the range of expertise.

5.4.2 *Is director expertise to be regulated?*

Maltese law does not specify any minimum professional qualifications or experience to become a director⁹⁰. Nonetheless, the findings⁹¹ indicate that any new regulatory requirements for minimum qualifications or experience would probably face deep resistance. Furthermore, Muscat (2007) contended that such a requirement, particularly that relating to experience, would be both impracticable and difficult to monitor⁹².

Being fit and proper, as required by the regulator, translates itself into being “*honest, competent and solvent*”⁹³. To date, the competent authority fails to objectively define what constitutes a competent director, merely stating that this varies with the position a person holds and the “*relevant circumstances*”⁹⁴. The question that follows concerns the manner in which the MFSA is to appropriately judge the competence of a potential candidate if there are no clearer, more objective specifications than this. As already stated, the fitness and properness of the Board as a whole also still does not seem to be given its due importance. Possibly, the MFSA might be more strongly empowered by law to compel Boards, which may be deficient as a whole in such fitness and properness, to temporarily engage a number of consultants in order to ensure that the required skill gaps are filled in.

⁸⁹ Vide Section 2.3.3

⁹⁰ Vide Section 2.3.3

⁹¹ Vide Section 4.4.3

⁹² Vide Section 2.3.3

⁹³ Vide Section 2.3.3

⁹⁴ See for example p.27 of MFSA (2015)

5.5 The fourth ingredient: gender diversity

5.5.1 *How relevant is gender diversity?*

Despite the extensive literature highlighting the importance of having a gender diverse Board⁹⁵, the findings indicate that requiring a mix of female and male Board members would currently be resisted by MLCs as it is considered “*of no use, as competence is not related to gender*”⁹⁶. Probably, few companies realise what they have missed until they opt for such diversity.

Board competence is highly related to one’s vision and experience in life. Placing together a team of men and women should result in wider perspectives and challenges with respect to various issues such as priorities in decision-making, the life/work balance, ethics and even a company’s vision, mission and ultimately strategy.

5.5.2 *Female Board participation – to be improved?*

As confirmed by the European Commission (2016)⁹⁷, Malta has the lowest presence of female Board members. This is not a surprise given the lack of importance given to gender diversity by MLCs as well as the failure of the Code to address the importance of gender diversity. In line with the findings⁹⁸ of the study, the weak representation of females on Boards in Malta may be probably attributed to historical and cultural reasons, which are now being increasingly challenged. For instance, career breaks no longer need to be long or possibly need not even occur. Furthermore, the recent introduction of free childcare and increased emphasis on teleworking are additional motivating factors for women returners.

Yet, while such recent public measures may encourage improvement in female Board participation, this is clearly not enough. The same report (European Commission, 2016) has also remarked that Malta is one of the few countries which does not have any national measures in place to promote the presence of

⁹⁵ Vide Section 2.3.4

⁹⁶ Vide Section 4.5.2

⁹⁷ Vide Section 2.3.4

⁹⁸ Vide Section 4.5.3

women on Boards⁹⁹. Gender quotas may be strongly resisted¹⁰⁰ in the first few years, and this is due to the fact that women may be elected to the Boards not exclusively on the basis of merit. However, it must be kept in mind, that such quotas are only a necessary evil, or rather a temporary measure to ensure that change does occur within the foreseeable future. In order not to undermine the quality and effectiveness of the Board, as claimed by many respondents in the study¹⁰¹ and also O'Sullivan *et al.* (2014)¹⁰², specific measures could be taken, such as requiring formal qualifications in the case of those making use of the quota mechanism. Furthermore, quotas need to be limited to a small percentage of the Board size, say a maximum of two out of a Board of seven.

Another issue is the need for adequately changing the regulatory framework so as to encourage Boards to become much more diverse. Thus, an alternative to requiring quotas in the law is that of changing the Code itself, which by addressing such issue of gender diversity may, with its more voluntarily comply-or-explain principle, generate less resistance towards adhering to quotas.

Finally, more public investment in awareness and education on gender equality may be helpful, as it would ultimately help to change employers' and shareholders' attitudes towards more acceptance of female members on the Board.

5.6 The final ingredient: dealing with chairperson/CEO duality

5.6.1 Are the roles of the chairperson and CEO to be separate?

The Code proposes that the roles of the chairperson and CEO need to be separate to ensure that no one person has "*unfettered powers of discretion*"¹⁰³ and to distinguish the Board's leadership from the management of the company¹⁰⁴. Yet, one of the provisos of the Code later allows the combination of the two roles, if an adequate justification is provided¹⁰⁵. If separating the two roles

⁹⁹ Vide Section 2.3.4

¹⁰⁰ Vide Section 4.5.3

¹⁰¹ Vide Section 4.5.3

¹⁰² Vide Section 2.3.4

¹⁰³ Vide Principle 2 of the Code, and Section 2.3.5

¹⁰⁴ Vide Supporting principle 2(i) of the Code, and Section 2.3.5

¹⁰⁵ Vide Provision 3.1 of the Code, and Section 2.3.5

is so crucial, and given that the Code has a comply-or-explain principle, why is there is a specific provision that with an adequate explanation, one may combine? Such flexibility allows power-hungry individuals to occupy both roles with little, if any, resistance. However, even with no duality of roles, the CEO may still wield significant influence on the Board, especially if s/he has been chosen by the Board itself. One reason for this is that the Board may be very much dependant on the information provided by the CEO and his/her subordinates. In fact, controversy arose even among research respondents as to whether the separation of the two roles is to be mandatory¹⁰⁶. However, while there still exists dangers to having a separate chairperson and CEO, the problems are probably aggravated when the two roles are combined.

5.6.2 What positions are the chairperson and CEO to hold on the Board?

The Code¹⁰⁷, in line with the findings¹⁰⁸, recommends that the chairperson is to hold an independent non-executive role. As stated by Wilson (2008)¹⁰⁹, a non-executive chair is more likely to focus on Board issues rather than wander onto daily management issues. Furthermore, a non-executive chair is better able to execute the Board's control, service and strategic functions, albeit possibly suffering knowledge deficit when compared to an executive chair. On the other hand, one could argue in favour of an executive chairperson, other than the CEO, which would still be in line with the Code recommendation favouring the separation of the two roles. However, in such a case, a power struggle between the executive chair and CEO may potentially arise and be harmful to the company.

However, the Code does not make any reference to the CEO's role in the Board, particularly, whether the CEO is or is not to be a Board member. As has been indicated in the literature¹¹⁰, a number of arguments exist both in favour and

¹⁰⁶ Vide Section 4.6.1

¹⁰⁷ Vide Provision 2.3 of the Code, and Section 2.3.5

¹⁰⁸ Vide Section 4.6.3

¹⁰⁹ Vide Section 2.3.5

¹¹⁰ Vide Section 2.3.5

against this. This is a contentious issue. In fact, the findings indicate¹¹¹ a general reluctance on the part of companies towards having the CEO as a Board member, with most contending that s/he should be an *ex-officio* participant, either on a regular basis or on call as required. This is necessary in order to ensure that Board members are provided with the necessary knowledge and expertise needed for them to take an informed decision. However, if the CEO is a regular *ex-officio* participant, this may give rise to conflicts of interest, as also confirmed in the literature (Council on Foundations, 2010)¹¹². Thus, it would be better if the CEO is only a participant upon invitation as this will give the chairperson the right to exclude the CEO from the meetings when potential conflicts of interest arise. Contrastingly, some interviewees¹¹³ argued that the CEO is to be a Board member to place an element of onus and accountability on the CEO. Perhaps one way out of this dilemma is for the legal liability of the CEO to be specified more clearly in the regulatory framework, particularly the CA.

5.7 Conclusion

This chapter presented a discussion of the research findings pertaining to the composition of the Board. The following chapter presents a summary of these findings and makes a number of recommendations by way of concluding this dissertation.

¹¹¹ Vide Section 4.6.4

¹¹² Vide Section 2.3.5

¹¹³ Vide Section 4.6.4

Chapter 6
Summary,
Conclusions and
Recommendations

6.1 Introduction

This chapter concludes the dissertation. Section 6.2 summarises the findings of this study, while Section 6.3 outlines the major conclusions. Section 6.4 then provides a number of recommendations, and Section 6.5 identifies areas for further research. Finally, Section 6.6 presents the concluding remarks.

6.2 Summary

The principal aim of this study was to ascertain and analyse the following aspects of the Board composition of Maltese companies: Board size, Board independence, Board expertise, gender diversity, and the chairperson/CEO links; and suggest ways in which these may be improved.

To achieve the objectives of the study, a qualitative mixed-methods approach was adopted. Semi-structured interviews were conducted with 17 participants, consisting of 14 COSECs of MLCs, a representative of the MFSA, a corporate advisor and a corporate lawyer.

The findings indicate that, in Malta, the nomination and appointment process of directors relies much on networking, whereby there is a tendency to continuously appoint the same tried and tested network of directors. This has resulted in weaknesses in the composition of MLC Boards. In particular, this presents a barrier to new talent being introduced to boardrooms and restricts the number of independent Board members. Additionally, there seems to be a general disagreement as to what constitutes a truly independent Board member. Academic qualifications are not given much importance when nominating and appointing directors, and experience has been found to supplant qualifications. Moreover, female representation on the Boards of MLCs is still lacking, with too little importance being given to enhancing gender diversity. Additionally, although acknowledging the importance of having separate chairperson/CEO roles, there is likely to be strong resistance to any law rendering this mandatory.

6.3 Conclusions

This study concludes that the Maltese regulatory framework, with respect to Board composition, is still lax and clearly needs to be tightened so as to spur more rigorous implementation on the part of those responsible of CG. However, there seems to be a general strong resistance to change.

While Maltese law stipulates the minimum number of directors, there is no reference to any Board size capping. Indeed, if such capping were to be strictly established by law for all MLCs, this would probably signify the imposition of a harmful and much resented one-size-fits-all approach. Flexibility is therefore needed in this connection. Too small a Board is likely to suffer from a lack of expertise, while if too large, a Board is likely to be rendered unmanageable and inefficient. The key is therefore for the company to determine its Board size in a way that ensures an adequate collective competence and willingness for the Board to be effective, and to take into account company size, scope and range of operations, along with best CG practices.

The concept of director independence seems to be quite complex and ambiguous, with much controversy as to who is and what makes a Board member truly independent. More regulatory clarity is required in this respect. While, admittedly it is much easier to be prescriptive about independence in appearance than independence of mind, yet, the CG regulatory framework probably needs to include much more emphasis on the latter. Specifically, distinctions among the different types of directors – EDs, NEDs and INEDs – need to be carefully made, clearly defining where the lines between each type are to be drawn.

With respect to Board expertise, the study concludes that, despite the fact that companies acknowledge the importance of having a Board composed of Board members holding a mix of professional qualifications, they strongly resist any legal requirements in this respect. The general view is that experience is much more valuable than qualifications, even to the extent that qualifications are too often ignored.

MLC Boards also have a low presence of female Board members, with gender diversity not being given any priority. The study concludes that the benefits of

having a diverse Board are rarely appreciated, with the current impetus being that of looking narrowly at the quality of the individual Board member rather than the composite skillset of the whole Board.

A final conclusion of the study is that with regards to the chairperson/CEO links, the roles of the chairperson and CEO are separated in most MLCs. Yet, probably the best arrangements need to consist of a non-executive chairperson and a separate CEO, the latter normally participating in Board matters, but such participation is to remain subject to Board invitation.

6.4 Recommendations

This study recommends that:

- (i) the Code stipulates an appropriate range for the size of MLC Boards**
(Section 5.2.3)

It is recommended that the Code best specifies an appropriate range for the Board size of MLCs, thus helping to ensure that MLC boards are neither too small, nor too large. It is important that such a range is flexible enough to allow room for variations of company size, scope and range of operations.

- (ii) the Code distinguishes more clearly the different types of directors**
(Section 5.3.1)

Revisions to the regulatory framework need to result in more clarity and not be too prescriptive. In particular, the distinctions among the different types of directors – EDs, NEDs and INEDs – may be more carefully defined and be subject to more comprehensive criteria. Such definitions and criteria are recommended to be supported by regulatory guidelines which illustrate practical situations and case studies concerning the independence or otherwise of Board members.

(iii) independent consultants are engaged to assess issues of Board member independence (Section 5.3.2)

Assessing the true independence of a director is a complex task. It is therefore recommended that Boards delegate such assessments to independent consultants possibly appointed annually with the approval of the annual general meeting. This would probably go a long way to avoiding conflicts of interest.

(iv) the Code recommends a range for the tenure of an independent Board member (Section 5.3.3)

The Code may recommend that maximum Board tenures range between seven and twelve years. Tenures falling outside such a range would be made subject to published detailed justifications. This flexibility is meant to ensure that there is a sufficient number of members who are suitable to satisfy the independence criteria.

(v) the Nomination Committee becomes mandatory in the Listing Rules (Section 5.3.4)

Given that MLCs have been slow to adopt the Code recommendation of the setting up of a NC and given also the vital importance of such a Committee, the recommendation is for the NC in MLCs to become mandatory. The Board composition of MLCs may thus be strengthened by facilitating the identification of gaps and weaknesses within the Board and giving timely and appropriate guidance to shareholders about these.

(vi) the holding of multiple directorships is actively discouraged by the regulator (Section 5.3.4)

The competent authority may consider adopting a policy of active discouragement of multiple directorships, such a policy being set within the limiting parameters of EU legislation. The extent and manner of such policies still needs to be determined (See also Section 6.5).

(vii) the competent authority establishes more objective criteria for the fit and proper test (Sections 5.4.1 and 5.4.2)

The criteria of fit and proper testing need to be clearer and more objective. This is necessary if one is to adequately ascertain what and who constitutes a competent director. In particular, the relevance of qualifications is not to be ignored. Moreover, in its assessments, the competent authority is to ensure also that the Board, as a whole, has an adequate mix of expertise, possibly without any skill gaps. It is recommended that such overall assessments may lead also, if necessary, to the temporary engagement of a number of external consultants to ensure that any skill gaps are filled in.

(viii) more emphasis is placed on gender diversity (Section 5.5.2)

More emphasis may be exercised on gender diversity, this including the possible introduction of gender quotas as a temporary measure in order to ensure that change occurs without much delay. The extent of such quotas and the qualifications attached to them need further considerations. Complementary to this, more public investment in awareness and education on gender equality may also be helpful (See also Section 6.5).

6.5 Areas for further research

This study identified the following areas requiring further research:

(a) Multiple directorships in Maltese Listed Companies: a study

Further to Section 6.4 (vi) above, such a study may include how the regulatory authority may carry out monitoring of multiple directorships and even go beyond this to establish policies of discouraging such directorships, if found necessary.

(b) Towards gender diversity in the boardroom: the relevance of quotas and qualifications

Further to Section 6.4 (viii) above, such a study would clearly be useful to point a possible way forward in order to increase gender diversity.

(c) The implementation of age and race diversity in the boardroom: a study

As stated in Chapter 1, this study has not considered age and race diversity within its remit. A separate study on this could complement that of (b) above.

6.6 Concluding remarks

There exists no optimal Board composition as there is no one single model of CG. Nonetheless, it is paramount to thoroughly consider the various aspects of Board composition within the context of each MLC and its operations in order to determine the composition which is best suited to each Board. Furthermore, in order to remain competitive and flourish, organisations clearly need to comprehend and appreciate the significance of enhancing their CG practices. However, for CG practices to be effective, it is not enough that MLCs subject themselves to self-regulation. There is also the need for the competent authorities to carry out the relevant statutory changes so as to improve the quality of regulation, and not just increase its quantity (Baldacchino, 2007, 2017). After all, regulation is the cake recipe and, as stated by one expert in the study, “*having a good recipe goes a long way towards baking the right cake*”.

Appendices

Appendix 1.1 Maltese Equity-Listed Companies

This appendix lists MLCs whose equity was listed on the MSE as at 31st March 2019.

- 1) Bank of Valletta p.l.c.
- 2) HSBC Bank Malta p.l.c.
- 3) Lombard Bank Malta p.l.c.
- 4) Mapfre Middlesea p.l.c
- 5) Simonds Farsons Cisk p.l.c.
- 6) GO p.l.c.
- 7) International Hotel Investments p.l.c.
- 8) Plaza Centres p.l.c.
- 9) GlobalCapital p.l.c.
- 10) FIMBank p.l.c.
- 11) Malta International Airport p.l.c.
- 12) Santumas Shareholdings plc
- 13) Medserv p.l.c.
- 14) Grand Harbour Marina p.l.c.
- 15) MaltaPost p.l.c.
- 16) RS2 Software p.l.c.
- 17) MIDI p.l.c.
- 18) Malita Investments p.l.c.
- 19) Tigne Mall p.l.c
- 20) Malta Properties Company p.l.c
- 21) PG p.l.c.
- 22) Trident Estates p.l.c
- 23) Main Street Complex p.l.c
- 24) BMIT Technologies p.l.c

Appendix 2.1 EU Statistics relating to Gender Balance on Corporate Boards

Member State	Share of women on Boards EU-28 average: 23.3%	Quotas in place	Other national measures in place
Austria	20.1%	Yes: only state-owned companies (35% for supervisory Boards by 2018).	Self-regulation: The Corporate Governance Code of 2009 recommends representation of both genders in appointments to supervisory Boards.
Belgium	26.6%	Yes: 33% for executives and nonexecutives in state-owned and listed companies-by 2017 and in listed SMEs-by 2019.	Self-regulation: The Corporate Governance Code of 2009 recommends that the composition of a Board is determined on the basis of gender diversity.
Bulgaria	17.9%	No	No
Croatia	22.2%	No	No
Cyprus	10.9%	No	No
Czech Republic	8.8%	No	No
Denmark	27.0%	No	Boards in state-owned companies should 'as far as possible' have an equal gender balance; a man and a woman nominated for every vacancy (executives and non-executives). From 2013 - obligation to all companies (listed and non-listed) to self-regulate and set their own targets. A company can be fined if it hasn't set any target figures or hasn't submitted any reporting.
Estonia	8.2%	No	No
Finland	29.9%	No	State-owned companies are required to have an 'equitable proportion of women and men'. The Corporate Governance Code for listed companies contains recommendation that 'Boards shall consist of both sexes'.

Member State	Share of women on Boards EU-28 average: 23.3%	Quotas in place	Other national measures in place
France	37.1%	Yes: from 2011 - 40% by 2017. Applicable to non-executive directors in large listed and non-listed companies.	The AFEP-MEDEF Corporate Code: recommendation containing same quotas as in the Law of 2011, applicable to all Board members.
Germany	27.2%	Yes: from 2016 - 30% for supervisory Boards of the listed companies that are submitted to parity co-determination (the roughly 110 biggest listed companies).	Other companies that are either listed or fall under parity co-determination have to set individual quantitative objectives of women on Boards with regard to non-executive and executive Board members and senior managers below Board level and deadlines to achieve them.
Greece	9.4%	Yes, 33% - only companies fully or partially owned by the State. Applicable to all Board positions (executives and non-executives).	Soft positive action measures in public sector.
Hungary	11.2%	No	Soft positive action measures in public sector.
Ireland	16.0%	No	A policy target of 40% female participation on all state Boards and committees. Soft positive action measures in public sector employment.
Italy	30.0%	Yes: 33% by 2015 for listed companies and state-owned companies. Applicable to management Boards and supervisory Boards (i.e. executives and non-executives).	Yes
Latvia	27.7%	No	Soft positive action measures in public sector.
Lithuania	13.0%	No	No

Member State	Share of women on Boards EU-28 average: 23.3%	Quotas in place	Other national measures in place
Luxembourg	12.9%	No	Soft positive action measures. The Corporate Code of 2009 recommends the Board to have an appropriate representation of both genders. The rule is applicable to all Board members.
Malta	5.0%	No	No
Netherlands	28.1%	Target of 30% in the executive Boards and supervisory Boards of large companies – “comply or explain” mechanism, no sanctions. Measure to expire in 2016.	Self-regulation: diversity clauses in the Dutch Corporate Governance Code of 2009, applicable to both executives and non-executives. Voluntary Charter with targets for more women in management.
Poland	19.9%	No	The executive ordinance of Minister of State Treasury obliges state-owned companies to ‘choose adequately prepared members of supervisory Boards, taking into account the balanced participation of women and men’. The Code of good practices attached to that ordinance establishes a target of 30% for 2015 and a priority rule for equally qualified women. No sanctions are envisaged.
Portugal	14.2%	No	A government resolution of 2015 encourages listed companies to attain 30% of the under-represented sex at their administrative bodies by 2018.
Romania	10.1%	No	Soft positive action measures in public sector employment.
Slovakia	14.3%	No	No

Member State	Share of women on Boards EU-28 average: 23.3%	Quotas in place	Other national measures in place
Slovenia	23.9%	No	Regulation on state-owned companies: A principle of 40% representation of each sex applies to the nomination or appointment of government representatives to management and supervisory Boards of state-owned enterprises (executives and non-executives). No sanctions apply if the principle is not respected.
Spain	20.2%	Yes: 40% (both executives and non-executives) by 2015 (but no sanctions, thus rather a recommendation by nature) in state-owned companies with 250 or more employees. New possible models under discussion.	Soft positive action measures in public sector employment.
Sweden	36.1%	No	Self-regulation: The Corporate Governance Code of 2004 has a voluntary goal of parity for listed companies – “comply or explain” mechanism.
United Kingdom	27.1%	No	Self-regulation – from 2012 on the basis of principles of UK Corporate Governance Code (following the Lord Davies’ recommendation). The recommended target for listed companies in FTSE 100: 25%, by 2015 is applicable to all Board members. FTSE 350 companies recommended setting their own aspirational targets to be achieved by 2013 and 2015.

Source: Adapted from European Commission (2016)

Appendix 3.1 Letter of Introduction and Invitation to Participate



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DEPARTMENT OF ACCOUNTANCY LETTER OF INTRODUCTION AND INVITATION TO PARTICIPATE IN RESEARCH

19th March 2018

Dear Sir / Madam,

This is to introduce Janice Camilleri, 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 structure and meetings of the board of directors.

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,

A handwritten signature in black ink, appearing to read 'P. Baldacchino', written over a horizontal line.

Mr. Peter J Baldacchino
*Head, Department of Accountancy
Faculty of Economics, Management and Accountancy*

Appendix 3.2 Interview Schedule

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

Section 1: Board size

1.1) What is the current total number of Board members?

1.2) What, in your opinion, determines the size of the Board?

1.3) To what extent do you agree with the following statements? *Please rate from 1 to 5 (with 1 being strongly disagree and 5 strongly agree), adding comments, if any:*

The following are likely to serve as benefits of <u>smaller</u> Boards (i.e. smaller than your considered optimum):	Number of Interviewees = 17				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
i) More efficient decision-making	1	0	4	6	6
ii) Easier to reach consensus	0	0	7	5	5

The following are likely to serve as benefits of <u>larger</u> Boards (i.e. larger than your considered optimum):	Number of Interviewees = 17				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
i) They provide for a different number of perspectives and better access to resources	0	0	3	8	6
ii) They are better able to carry out their monitoring and advisory role	0	0	6	7	4

1.4) Maltese law only stipulates the minimum number of directors. Do you think that a maximum number of directors should be specified by law? Why?

Section 2: Board independence

Board independence refers to a Board which is made up of a majority of independent non-executive directors.

2.1) Please indicate below the number of Board members that are:

- a) Executive directors
- b) Independent non-executive directors
- c) Non-independent non-executive directors

2.2) Do you think that the distinction between executive and non-executive directors is sufficiently clear among those in charge of corporate governance?

2.3) The Code recommends that the Board should be composed of both executive and non-executive directors. Do you agree with this and why?

2.4) Which of the following do you think are major attributes of an independent Board member? *Please rate from 1 to 5 (with 1 being strongly disagree and 5 strongly agree), adding comments, if any:*

	Number of Interviewees = 17				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
i) Has no business or family relationship with the company	0	2	1	1	13
ii) Has not earned additional remuneration from the entity apart from director's remuneration	1	1	3	6	6
iii) Is not an employee of the entity or related entity	0	1	2	5	9

iv) Thinks autonomously from the other directors on the Board	0	0	0	3	14
v) Is not reliant upon any other director for re-appointment	0	0	4	6	7
vi) Has interests aligned with those of the general body of shareholders	3	2	4	3	5

2.5) The Code recommends that the tenure of an independent director should not exceed twelve years.

- a) Do you agree with this statement, and why?
- b) In principle, do you agree to a maximum tenure being imposed? Why?
- c) Do you think the 12-year period is appropriate? Why? If not, what do you think is the optimal tenure?

2.6) a) In Malta, do you think that the number of independent Board members is unduly limited and why?

- b) If so, what in your view can be done about this?

Section 3: Board expertise

3.1) What professional qualifications do current directors have?

Qualification	Number of Directors
Accountancy	
Insurance	
Banking and/or Investment	
Economics	
Management	
Law	
Other	

- 3.2) Diversity among Board members in terms of professional qualifications may be considered important. Please rate your agreement to such statement, by rating the following arguments from 1 to 5 (*with 1 being strongly disagree and 5 strongly agree*), adding comments, if any:

Professional qualifications provide:	Number of Interviewees = 17				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
i) A sound understanding of matters being discussed	0	0	1	7	9
ii) Adequate competence to monitor management	0	0	1	7	9
iii) Resourceful and insightful ideas	0	0	3	7	7
iv) Increased Board performance	0	0	5	5	7
v) Increased objectivity and critical thinking	0	0	5	4	8

- 3.3) Maltese law does not specify any minimum professional qualifications or experience. Do you think that some kind of regulation needs to be introduced in this regard?

Section 4: Gender diversity

4.1) Please indicate below the number of female and male Board members:

a) Female directors

b) Male directors

4.2) How does a gender balance on the Board improve its quality? *Please rate from 1 to 5 (with 1 being strongly disagree and 5 strongly agree), adding comments, if any:*

Gender diversity is important for:	Number of Interviewees = 17				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
i) Improved overall attendance by Board members	10	4	3	0	0
ii) Improved overall Board independence	8	6	2	1	0
iii) Increased expertise and knowledge on the Board	9	2	4	1	1
iv) Better, more balanced oversight	5	3	4	3	2

- 4.3) a) Do you think that female representation is weak among the Boards of Maltese Listed entities?
- b) If so, how can the situation be improved?
- c) What are your views about the setting of female quotas on Boards?

Section 5: The chairperson/CEO links

- 5.1) Is the chairperson of the Board also the CEO of the company?
- 5.2) In your opinion, should the separation of the roles of the CEO and Chairperson be made mandatory? Why?
- 5.3) a) Is the Board chair of your company an executive or non-executive?
b) In your opinion, should the chairperson generally hold an executive or non-executive role?
- 5.4) a) In your view, what position is the CEO to have in Boards of MLCs – that of a Board member, regular *ex-officio* participant, or participant only upon invitation? Please explain your choice.
b) In the case of your company, is the position of the CEO in line with your preference in (a)? Why or why not?

Appendix 3.3 Statistical Data Analysis using the Friedman Test

The bar graphs presented in this appendix complement the statistical tables presented in Chapter 4. The bar graphs provide a visual representation of the differences, significant or otherwise, between the agreement to the statements in each Likert scale question, and clearly depict the results from the Friedman Test.

The error bar graph displays the 95% confidence interval of the actual mean rating score provided to a statement if the whole population of twenty-four Maltese listed companies had to be included in the study. When two confidence intervals overlap, this indicates that their mean rating scores are comparable and do not differ significantly. On the other hand, when two confidence intervals do not overlap, this indicates that their mean rating scores differ significantly.

Section 1: Board size

Figure A3.1 shows the interviewees' level of agreement with benefits of small Boards. As clearly shown, the error bars are overlapping, indicating that the mean rating scores provided to statements (i) and (ii) do not differ significantly.

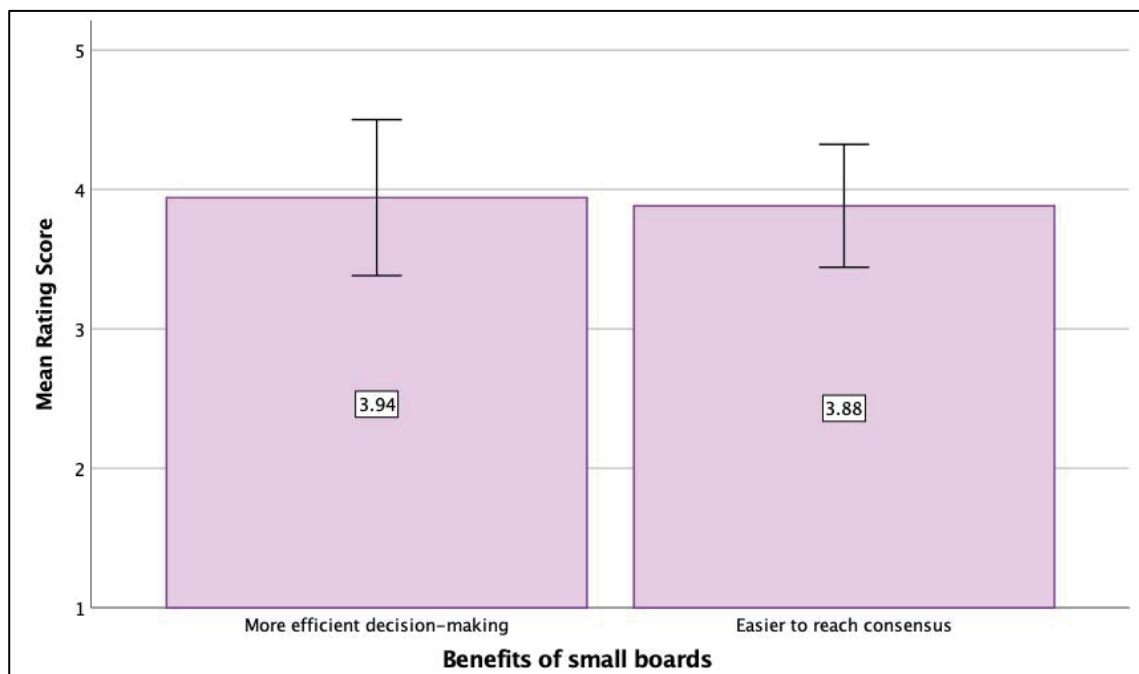


Figure A3.1: Agreement with benefits of small Boards (Q1.3)

Similarly, Figure A3.2 shows the interviewees' level of agreement with benefits of large Boards. The overlapping error bars suggest that the mean rating scores provided to statements (i) and (ii) only vary marginally.

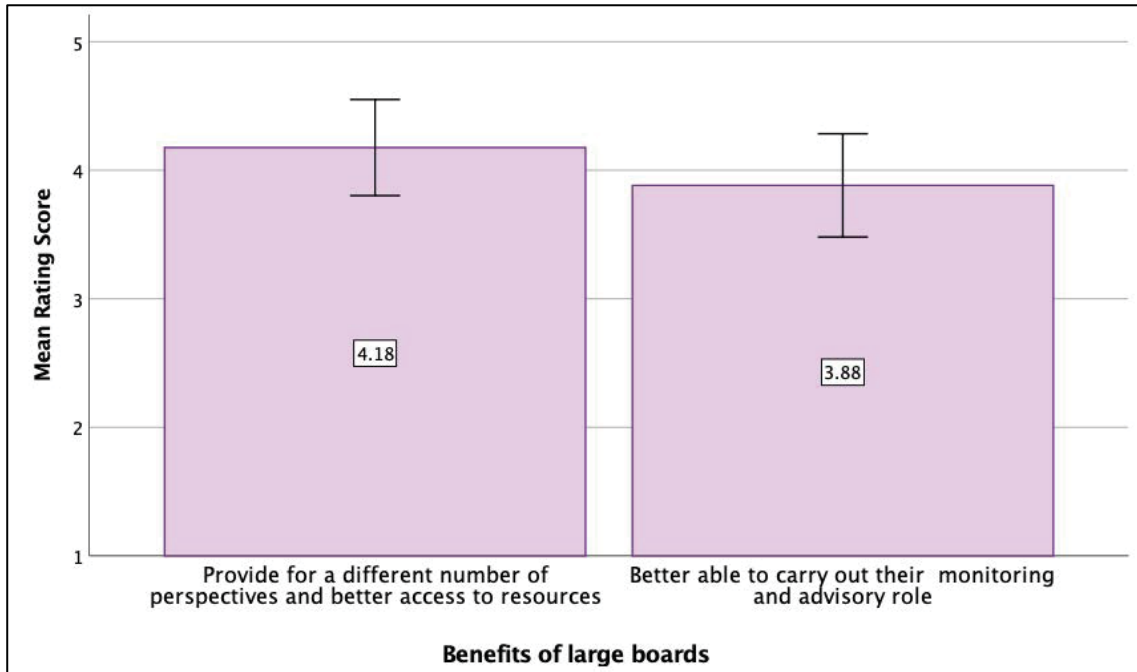


Figure A3.2: Agreement with benefits of large Boards (Q1.3)

Section 2: Board independence

From Figure A3.3 below, it is evident from the error bar graph that the mean rating score provided to statement (iv) is significantly higher than the mean rating scores provided to statements (ii) and (vi).

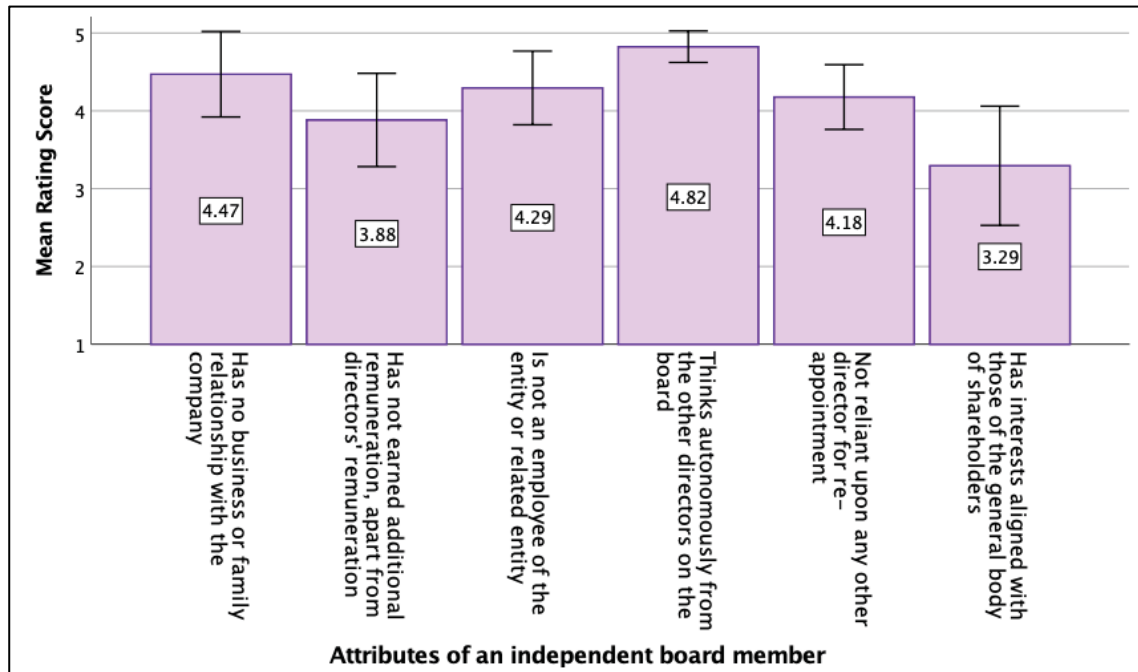


Figure A3.3: Agreement with the attributes of an independent Board member (Q2.4)

Section 3: Board expertise

It is evident from the error bar graph shown in Figure A3.4 that the average number of Board members holding an accountancy qualification ($\bar{x}=2.00$) is significantly higher than the average number of Board members holding an insurance or law qualification.

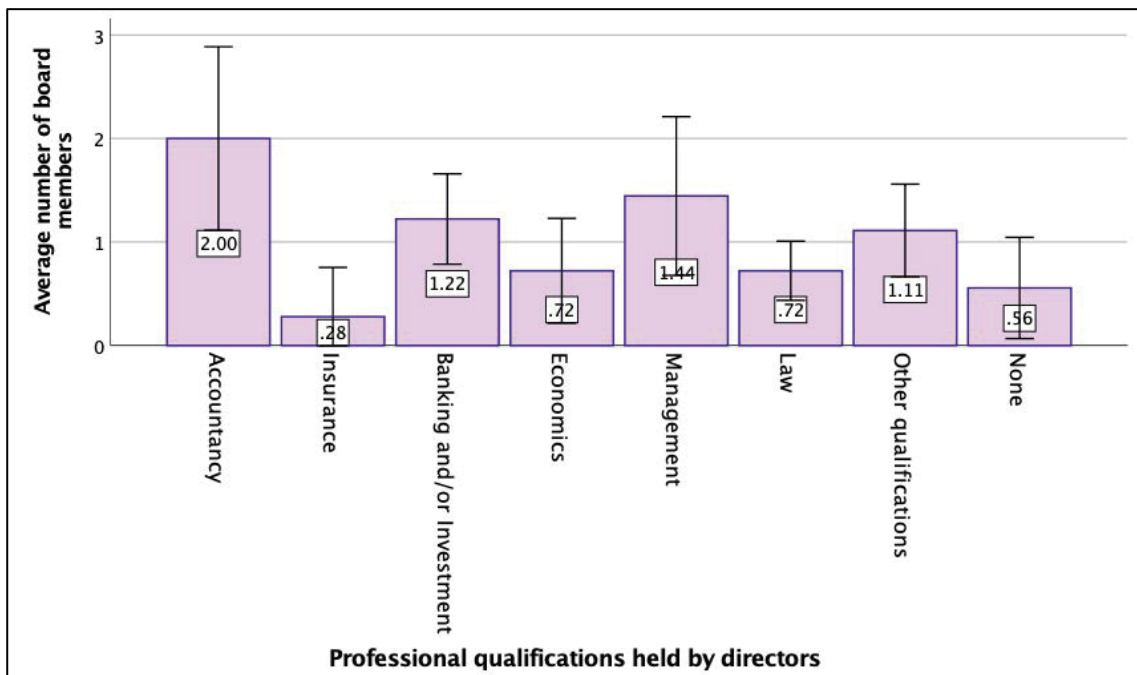


Figure A3.4: Professional qualifications held by directors of MLCs (Q3.1)

Figure A3.5 shows that the mean rating scores provided to statements (i) and (ii) are larger than the mean rating scores provided to statements (iii), (v) and (iv). However, these mean rating scores do not differ significantly since the p -value ($p=0.487$) exceeds the 0.05 level of significance and the error bars overlap.

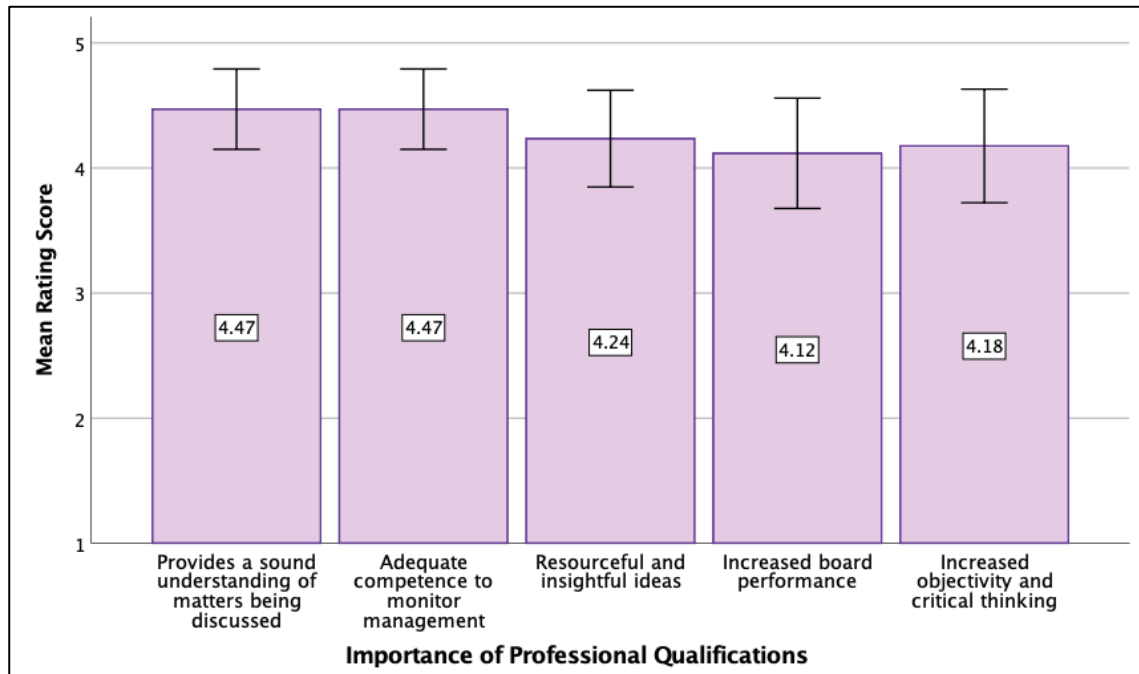


Figure A3.5: Agreement to the importance of diversity in terms of professional qualifications (Q3.2)

Section 4: Gender diversity

From Figure A3.6 below, it is evident that the mean rating scores differ significantly since the p -value ($p=0.034$) is less than the 0.05 level of significance and the error bars from the lowest rated statement (statement (i)) only slightly overlap statement (iv).

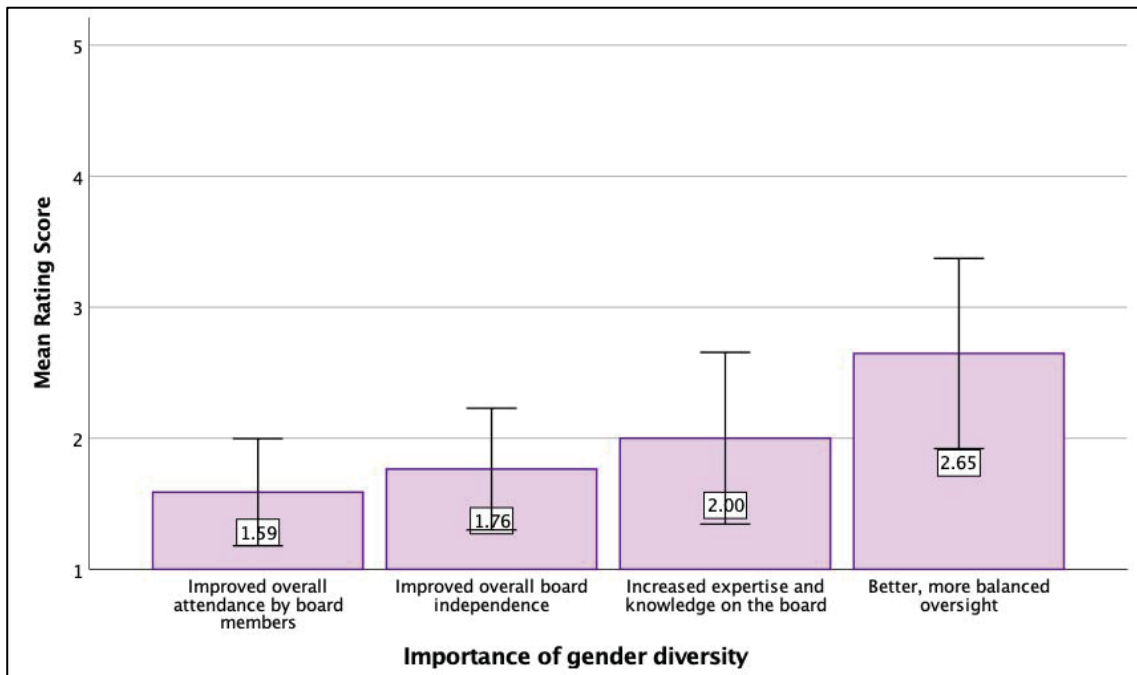


Figure A3.6: Agreement to the importance of gender balance (Q.4.2)

Appendix 4.1 Board Sizes in Maltese Equity-Listed Companies as at 31st March 2019

Company	Number of Board Members
Bank of Valletta p.l.c.	11
HSBC Bank Malta p.l.c.	8
Lombard Bank Malta p.l.c.	5
Mapfre Middlesea p.l.c.	9
Simonds Farsons Cisk p.l.c.	8
GO p.l.c.	8
International Hotel Investments p.l.c.	10
Plaza Centres p.l.c.	7
GlobalCapital p.l.c.	8
FIMBank p.l.c.	11
Malta International Airport p.l.c.	7
Santummas Shareholdings p.l.c.	6
Medserv p.l.c.	6
Grand Harbour Marina p.l.c.	6
MaltaPost p.l.c.	7
RS2 Software p.l.c.	7
MIDI p.l.c.	9
Malita Investments p.l.c.	5
Tigne Mall p.l.c.	5
Malta Properties Company p.l.c.	4
PG p.l.c.	7
Main Street Complex p.l.c.	5
Trident Estates p.l.c.	8
BMIT Technologies p.l.c.	5
Total number of Board members	172
Mean_(\bar{x})	7.17
Median_(\tilde{x})	7

Appendix 4.2 Mix of EDs, NEDs, and INEDs in Maltese Equity-Listed Companies at year-end 2017

Company	EDs	NEDs	INEDs
Bank of Valletta p.l.c.	2	2	7
HSBC Bank Malta p.l.c.	1	2	6
Lombard Bank Malta p.l.c.	1	1	3
Mapfre Middlesea p.l.c.	1	4	6
Simonds Farsons Cisk p.l.c.	2	0	6
GO p.l.c.	0	0	9
International Hotel Investments p.l.c.	1	0	9
Plaza Centres p.l.c.	2	0	5
GlobalCapital p.l.c.	1	6	1
FIMBank p.l.c.	0	0	11
Malta International Airport p.l.c.	3	0	5
Santummas Shareholdings p.l.c.	1	4	1
Medserv p.l.c.	3	1	2
Grand Harbour Marina p.l.c.	1	5	2
MaltaPost p.l.c.	1	3	1
RS2 Software p.l.c.	1	0	6
MIDI p.l.c.	0	0	9
Malita Investments p.l.c.	0	0	6
Tigne Mall p.l.c.	0	0	5
Malta Properties Company p.l.c.	0	0	5
PG p.l.c.	3	0	4
Main Street Complex p.l.c.*	N/A	N/A	N/A
Trident Estates p.l.c.*	N/A	N/A	N/A
BMIT Technologies p.l.c.*	N/A	N/A	N/A
Total number of Board members	24	22	108
Mean (\bar{x})	1.14	1.33	5.19
Median (\tilde{x})	1	0	5

*Company commenced activities after 2017

Appendix 4.3 Nomination Committee in Maltese Equity-Listed Companies at year-end 2017

Company	Nomination Committee?	
	Yes	No
Bank of Valletta p.l.c.	✓	
HSBC Bank Malta p.l.c.	✓	
Lombard Bank Malta p.l.c.		✓
Mapfre Middlesea p.l.c.		✓
Simonds Farsons Cisk p.l.c.	✓	
GO p.l.c.		✓
International Hotel Investments p.l.c.	✓	
Plaza Centres p.l.c.		✓
GlobalCapital p.l.c.	✓	
FIMBank p.l.c.	✓	
Malta International Airport p.l.c.		✓
Santummas Shareholdings p.l.c.		✓
Medserv p.l.c.		✓
Grand Harbour Marina p.l.c.		✓
MaltaPost p.l.c.		✓
RS2 Software p.l.c.		✓
MIDI p.l.c.		✓
Malita Investments p.l.c.	✓	
Tigne Mall p.l.c.	✓	
Malta Properties Company p.l.c.		✓
PG p.l.c.	✓	
Main Street Complex p.l.c.*	N/A	N/A
Trident Estates p.l.c.*	N/A	N/A
BMIT Technologies p.l.c.*	N/A	N/A
Total number of companies	9	12

*Company commenced activities after 2017

Appendix 4.4 Male and Female Directors on the Boards of Maltese Equity-Listed Companies as at 31st March 2019

Company	Males	Females
Bank of Valletta p.l.c.	10	1
HSBC Bank Malta p.l.c.	7	1
Lombard Bank Malta p.l.c.	5	0
Mapfre Middlesea p.l.c.	9	0
Simonds Farsons Cisk p.l.c.	6	2
GO p.l.c.	8	0
International Hotel Investments p.l.c.	10	0
Plaza Centres p.l.c.	7	0
GlobalCapital p.l.c.	7	1
FIMBank p.l.c.	11	0
Malta International Airport p.l.c.	7	0
Santummas Shareholdings p.l.c.	6	0
Medserv p.l.c.	5	1
Grand Harbour Marina p.l.c.	6	0
MaltaPost p.l.c.	7	0
RS2 Software p.l.c.	7	0
MIDI p.l.c.	9	0
Malita Investments p.l.c.	5	0
Tigne Mall p.l.c.	2	3
Malta Properties Company p.l.c.	4	0
PG p.l.c.	5	2
Main Street Complex p.l.c.	4	1
Trident Estates p.l.c.	8	0
BMIT Technologies p.l.c.	4	1
Total number of Board members	159	13
Mean(\bar{x})	6.63	0.54
Median(\tilde{x})	7	0

Appendix 4.5 Chairperson/CEO Duality in Maltese Equity-Listed Companies at year-end 2017

Company	Separate chairperson and CEO roles	Combined chairperson and CEO roles
Bank of Valletta p.l.c.	✓	
HSBC Bank Malta p.l.c.	✓	
Lombard Bank Malta p.l.c.	✓	
Mapfre Middlesea p.l.c.	✓	
Simonds Farsons Cisk p.l.c.	✓	
GO p.l.c.	✓	
International Hotel Investments p.l.c.	✓	
Plaza Centres p.l.c.	✓	
GlobalCapital p.l.c.	✓	
FIMBank p.l.c.	✓	
Malta International Airport p.l.c.	✓	
Santumas Shareholdings p.l.c.		✓
Medserv p.l.c.		✓
Grand Harbour Marina p.l.c.	✓	
MaltaPost p.l.c.	✓	
RS2 Software p.l.c.	✓	
MIDI p.l.c.	✓	
Malita Investments p.l.c.	✓	
Tigne Mall p.l.c.	✓	
Malta Properties Company p.l.c.	✓	
PG p.l.c.	✓	
Main Street Complex p.l.c.*	N/A	N/A
Trident Estates p.l.c.*	N/A	N/A
BMIT Technologies p.l.c.*	N/A	N/A
Total number of companies	19	2

*Company commenced activities after 2017

Appendix 4.6 Executive/Non-executive role held by Maltese Equity-Listed Companies' Chairpersons at year-end 2017

Company	Chairperson holds an executive role	Chairperson holds a non-executive role
Bank of Valletta p.l.c.		✓
HSBC Bank Malta p.l.c.		✓
Lombard Bank Malta p.l.c.		✓
Mapfre Middlesea p.l.c.		✓
Simonds Farsons Cisk p.l.c.	✓	
GO p.l.c.		✓
International Hotel Investments p.l.c.	✓	
Plaza Centres p.l.c.	✓	
GlobalCapital p.l.c.		✓
FIMBank p.l.c.		✓
Malta International Airport p.l.c.		✓
Santummas Shareholdings p.l.c.	✓	
Medserv p.l.c.	✓	
Grand Harbour Marina p.l.c.		✓
MaltaPost p.l.c.	✓	
RS2 Software p.l.c.		✓
MIDI p.l.c.		✓
Malita Investments p.l.c.		✓
Tigne Mall p.l.c.		✓
Malta Properties Company p.l.c.		✓
PG p.l.c.		✓
Main Street Complex p.l.c.*	N/A	N/A
Trident Estates p.l.c.*	N/A	N/A
BMIT Technologies p.l.c.*	N/A	N/A
Total number of companies	6	15

*Company commenced activities after 2017

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REQUEST FOR DISSERTATION WORD LIMIT EXTENSION

Student's I.D. /Code	<u>0415696M</u>
Student's Name	<u>Janice Camilleri</u>
Title of Dissertation	<u>The Composition of the Board of Directors: A Study</u>

As the dissertation supervisor of Ms Janice Camilleri, I am writing to inform the Faculty of Economics, Management and Accountancy that the student requested permission for extending the 15,000 word limit of her dissertation. In this respect, I grant Ms Camilleri permission to extend the word limit up to 18,865 words.

A handwritten signature in black ink, appearing to read 'Peter J. Baldacchino', written over a horizontal line.

Dr Peter J. Baldacchino
Dissertation Supervisor