MANAGEMENT MONITORING BY BOARDS OF DIRECTORS OF MALTESE LISTED COMPANIES AND ITS EFFECTIVENESS

BY

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Abstract

TITLE: Management Monitoring by Boards of Directors of Maltese Listed Companies and its Effectiveness.

PURPOSE: The research objectives were to establish how MM is perceived by MLC Boards and their management; to ascertain and assess the major barriers to the effectiveness of such monitoring; and to address such barriers to effective MM and recommend how MM may be balanced.

DESIGN: A mixed-methods research approach was adopted. Semi-structured interviews were conducted in 23 companies, with participants consisting of eight members of management, three EDs, two IDs and nine company secretaries, with one of the latter answering on behalf of two MLCs.

FINDINGS: MM was seen as essential even when management performance is satisfactory. It is to include the monitoring of EDs. Overall MM barriers were not deemed high, with the highest being insufficient director expertise. Furthermore, capping director tenures was not perceived as necessarily improving MM effectiveness. Additionally, CEO Board participation may contribute towards overcoming barriers, yet MM may improve if the CEO becomes a director. Frequent meetings, an appropriate mix of director skills and possibly formal qualifications could also enhance MM. Finally, the best monitors were seen to be NEDs/IDs rather than EDs.

CONCLUSIONS: MM is best effected by the whole Board including EDs themselves. It prevents managerialism and is to be continuous irrespective of management performance. If not excessive, managers will tend to accept MM. Besides the needed mix of skills and qualifications, directors are to ask the appropriate questions for MM to be effective. Finally, companies are to find their own MM balance, avoiding any excess.

IMPLICATIONS: The study implies that effective MM is an essential part of CG. It puts forward several recommendations as to how such MM may be improved.

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

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Dedication

To my family

You can take anyone's place, but no one can ever take yours.

With a special dedication to my grandparents

I am forever grateful for your wisdom and unconditional love.

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I take this opportunity to express my sincere gratitude and appreciation to all those who supported me throughout the course of this study.

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I would not have been able to complete this journey without my family's support. A heartfelt thank you goes out to my parents, Joseph and Josephine, for their endless love and support, not only in the completion of this dissertation but also throughout my academic years. I cannot help but marvel at their selfless willingness to sacrifice their dreams to help me reach mine. Special acknowledgments also go to my siblings, Nicolai and Rachel, who brighten even the most difficult of days.

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List of Abbreviations

AICD	Australian Institute of Company Directors
Board	Board of Directors
CEO	Chief Executive Officer
CG	Corporate Governance
Code	Code of Principles of Good Corporate Governance
ED	Executive Director
EU	European Union
ID	Independent Director
IFC	International Finance Corporation
MFSA	Malta Financial Services Authority
MLC	Maltese Listed Company
MM	Management Monitoring
MSE	Malta Stock Exchange
NED	Non-executive Director
OECD	Organisation for Economic Co-operation and Development

Chapter 1

INTRODUCTION

1.1 Introduction

This chapter introduces the dissertation. As shown in Figure 1.1, Section 1.2 provides the study's background and Section 1.3 gives the reasons for pursuing this research. Section 1.4 establishes the objectives of the study and Section 1.5 highlights the scope and limitations. Section 1.6 concludes this chapter by giving an overview of the structure of the dissertation.

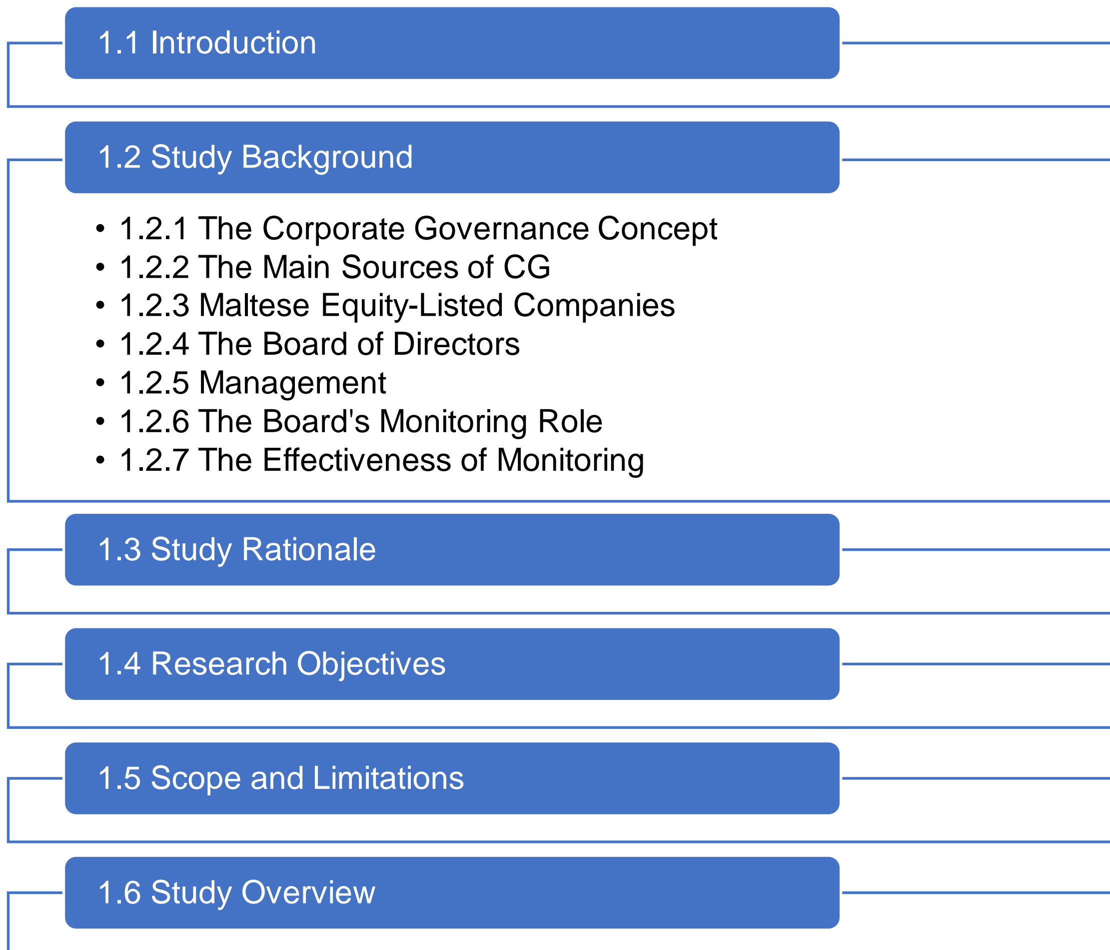

Figure 1.1: Outline of Chapter 1

1.2 Study Background

1.2.1 The Corporate Governance Concept

The notion of Corporate Governance (CG) is no recent phenomenon. It originated through the formation of the first corporate forms, which created diverging interests and subsequent conflicts between managers and owners. The widely dispersed shareholding of large public corporations leaves individual shareholders with no control over decision-making. Indeed, it is often only institutional investors who hold some type of control as generally, shareholders *“lack capability, incentive and power to monitor the actions of management”* (Azzopardi 2012, p. 6) and are more concerned with their returns on investment.

Matters of CG became subject to public debate in the 1920s (Wells 2010). However, so long as corporations were successful and shareholders made money, little regard was given to CG (Cheffins 2009). Indeed, CG was put at the forefront in view of the large corporate scandals that occurred in recent years (Bertsch 2011) including One. Tel in Australia, WorldCom and Enron in the US (Coulton, Taylor 2004), Parmalat in Italy and the global economic disaster caused by the 2008 financial crisis (Baldacchino et al. 2016).

Berle and Means (1991) delineated CG in relation to the separation of ownership and control in public companies. Tricker (1994) stated that CG occurs when companies are managed according to the shareholders’ interests. According to the Organisation for Economic Co-operation and Development (OECD 2015, p. 9), the company’s CG refers to the interactions between its *“management, its board, its shareholders and other stakeholders”*; with the latter including *“customers, employees, suppliers, creditors and the community”* (Bain, Band 1996, p. 2). Furthermore, the OECD (2015) states that CG allows for the setting of the company’s objectives and describes how these can be achieved as well as how performance can be monitored.

Despite the recent heavier focus on CG, it is still difficult to precisely define this multi-faceted term (Van den Berghe, De Ridder 1999). As stated by Bain and

Band (1996, p. 2) people have *"widely divergent views on the nature of governance"* and *"define the term in many different ways"*. The nature of CG varies largely with the company's size, business model and nature of operations, its risk appetite and regulation as well as with the employees' skills and experiences (Australian Institute of Company Directors [AICD] 2017b). However, in most if not all cases, CG includes the concept of *"control of the company and corporate management"* (Azzopardi 2012, p. 5). The working definition adopted for the purpose of this study is that of the Cadbury Committee, that is, *"the system by which companies are directed and controlled"* (Cadbury 1992, p. 15).

1.2.2 The Main Sources of CG

Camilleri (2018, p. 14) contends that *"there is no single model"* of good CG. Indeed, along the years, several CG reports have been issued by various bodies in different jurisdictions and to date CG legal frameworks are still continuously changing (OECD 2021). The aim is to increase investor confidence in the capital markets (Cauchi 2009).

In 1999, the OECD issued its Principles of Good Corporate Governance. This document has since become an international benchmark, with the OECD Council and the G20 Leaders' Summit endorsing it in 2015 (OECD 2015). In 2010, following the wave of scandals surrounding the financial crisis, the Financial Reporting Council revised the UK Corporate Governance Code (Institute of Chartered Accountants in England and Wales 2021). In April 2011, a Green Paper on the European Union (EU) CG framework was issued. This focused on listed companies, shareholders, boards of directors (Boards) and CG statements (European Commission 2011). In 2012, an EU Action Plan on European Company Law and Corporate Governance was adopted with the aim of enhancing the CG frameworks. Furthermore, in 2014 the EU released a Recommendation on CG reporting, aiming to improve the listed entities' reporting of CG (International Finance Corporation [IFC] 2015).

When addressing CG issues, EU-listed companies follow a CG framework that blends formal legislation with 'soft laws'. To date, the EU has not adopted a

common CG code among EU Member States and therefore these differ from one another in this respect (IFC 2015). Yet, over the years, the EU has issued several Directives addressing the main CG issues (Azzopardi 2012) and has undertaken CG reforms which led to *“substantial convergence”* in the CG frameworks of Member States (IFC 2015, p. 6).

Not only is Malta an island state but it is actually the smallest EU Member State. In 2001, it adopted a code of good corporate governance for listed entities (hereinafter referred to as “Code”) with a one-tier CG system (Baldacchino 2017) in line with the recommendations of an *ad hoc* Working Group (Baldacchino, Duca et al. 2020). Such Code is significantly influenced by foreign developments particularly by the OECD Code (Bezzina et al. 2014).

The CG of Maltese listed companies (MLCs) is governed by the Listing Rules, the accompanying Code, and by the 1995 Companies Act (Baldacchino 2017). The Code itself targets all listed entities, except for Collective Investment Schemes (Azzopardi 2012). A leading revision was conducted in 2005 by the Malta Financial Services Authority (MFSA) whilst another one was done in 2006 following the OECD guidelines (Azzopardi 2012) and a further one in 2011 (Bezzina et al. 2014). Such revisions typically mirrored the OECD guidelines and emphasised the ‘comply-or-explain approach’ (MFSA 2011) wherein any deviations from the Code need to be thoroughly explained and justified (IFC 2015). This approach was meant to allow for adaptability in view of corporate differences (Camilleri 2019).

1.2.3 Maltese Equity-Listed Companies

According to the Financial Markets Act 1991, Article 2[1], Chapter 345 of the Laws of Malta, a listed company is

> *“a company whose financial instruments have been admitted to listing on a trading venue”.*

The sole regulator for financial services in Malta is the MFSA which also acts as Malta’s Listing Authority. The Listing Authority is responsible for approving the admittance of financial instruments on the Malta Stock Exchange (MSE) and for

their supervision. As of the 31st of October 2021, the MSE had 27 equity-listed companies branching into various industries including banking, insurance, telecommunications, aviation, postal services, and real estate holdings.

1.2.4 The Board of Directors

The Code requires all listed companies to be *"headed by an effective board, which should lead and control the company"* (MFSA 2011, p. 2).

The two principal organs of a company are the shareholders and the Board. The Board is delegated power by the shareholders and is accountable to them (Van den Berghe, De Ridder 1999). Therefore, unlike managers, directors may be appointed and dismissed by the shareholders (Azzopardi 2012, Renton 2001). Indeed, Maltese law delegates the Board with all the powers of the company apart from those reserved to the shareholders by the Companies Act or the company's Memorandum and Articles of Association.

Renton (2001) describes the Board as a company's *"mind and will"* (p. 1). The Board has a strategic function. It establishes the company's policies and sets its vision and mission, whilst also being responsible for its monitoring and control (Boland, Hofstrand 2009). Indeed, a Board's main responsibility is to add value to the company by directing its affairs as well as working with management and supervising it. The aim is to sustain corporate prosperity and enhance shareholder value (MFSA 2011).

The Companies Act 1995, Section 136A(1), Chapter 386 of the Laws of Malta prescribes that:

> *"A director of a company shall be bound to act honestly and in good faith in the best interests of the company".*

Directors have both the statutory duties of loyalty, skill and care, as well as fiduciary duties (Abela 2021). Generally, under the Companies Act, directors have joint and several liability for any breach of duty. According to Johnson et al. (1996), the three main roles of directors are classified into service, resource

dependence and control. The latter involves *"directors monitoring managers"* (Johnson et al. 1996, p. 411) and being responsible to

> *"check transparency, integrity and accountability of the management toward shareholders and investing community"* (Pandya 2013, p. 1).

Additionally, directors are classified as either executive or non-executive, even if the Companies Act makes no such distinction. Whilst executive directors (EDs) are employees of the company and are entrusted with its daily management (Baldacchino, Tabone et al. 2020), non-executive directors (NEDs) are only involved part-time (Caruana 2017). The NEDs are further classified as independent and non-independent, with the latter having a close relationship with the company despite not being employed by the mentioned company (Anand 2007). Yet, notwithstanding these differences, all the directors have a common monitoring role (Renton 2001).

1.2.5 Management

Management refers to those persons who *"run and control"* an organisation (Oxford Advanced American Dictionary, n.d.). Through planning, decision-making, leading, organising and controlling, managers are responsible to help a company reach its goals through the efficient and effective use of its resources; whether physical, human, financial or informational (Griffin 2021).

The American Management Association defines management as *"the act of getting things done through others and having them do it willingly"* (Kurian 2013). Therefore, ultimate accomplishments are the onus of management, yet achievement largely depends on the work of others. This extends managers' responsibility beyond their own actions as they are also responsible for the efforts of others.

Executive managers tend to be *"experienced, influential and serious professionals"* (Azzopardi 2012, p. 10). Not only are they the Board's main channel for company information but they are usually industry experts and tend to heavily influence the Board's decisions even if they do not form part of it. Yet,

good CG requires directors to monitor management adequately for the shareholders' sake (Pandya 2013).

1.2.6 The Board's Monitoring Role

The Board's legal duties have been continuously changing (Baxt 2005), with directors being given different sets of roles. This led to disagreements on how Boards add value to the companies they direct, even among corporate elites themselves (Nicholson, Newton 2010).

Recent scandals indicate that the monitoring role is to extend beyond the prevention and disclosure of fraud and deception towards the elimination of abuse of power and conflicts of interest. *"Negligent, overoptimistic or ill-informed boards"* (Hirt et al. 2016, p. 8) too often allow executives to pursue high-risk strategies even though this commonly only leads to higher executive remuneration packages with no tangible benefits to society (Van den Berghe, Baelden 2005). Boards are now clearly responsible to ensure that managers act in the shareholders' best interests (Cornelli et al. 2013) and this is specifically done through supervision (Keasey, Wright 1993). Indeed, the Board's control function, which includes monitoring, is generally perceived to go beyond its strategic function. Such perceptions may have resulted from the increased emphasis on control in company legislation and from the extensive research to date on Boards acting as a "*monitoring device*" (Fjellvær et al. 2013, p. 4).

However, corporate scandals are proof that the Board's monitoring role should be wider than merely checking the internal controls or the accuracy of financial information. Van den Berghe and Baelden (2005) suggest that monitoring is when Boards *"regularly evaluate a situation and act upon this evaluation"* (p. 681), giving reasonable assurance that the situation is under control. To perform this oversight role, Boards collect both 'hard', verifiable information about the company's performance relative to its budgets, as well as 'soft', unverifiable information in relation to the business activity and the capabilities of the Chief Executive Officer (CEO) (Nicholson, Newton 2010). Boards monitor executives either through decision control; where the final decisions are made by the Board,

or through outcome control; where Boards review the entity's performance to examine agency problems (Baysinger, Hoskisson 1990, Boivie et al. 2021).

Boards may be passive or active (Golden, Zajac 2001). However ideally, they should be active monitors since it is not enough to collect information about the firm's operations or the managers' abilities. Instead, to improve managerial performance, the Board should engage in monitoring and act on the gathered information. For instance, Boards should be able to dismiss managers who are not maximizing value (Cornelli et al. 2013) or who do not meet the Board's expectations (Monks, Minow 2001). Monitoring allows directors to distinguish between negative occurrences introduced by *"bad luck or honest mistakes"* and those owing to a CEO's incompetent decision or action (Cornelli et al. 2013, p. 432).

Lastly, the intensity of monitoring and its execution varies between Boards in different companies. Not only are Boards limited in the time available to execute their roles but also the level of monitoring should be adjusted according to the company's level of delegation (Van den Berghe, Baelden 2005).

1.2.7 The Effectiveness of Monitoring

Effectiveness refers to the degree to which an event or activity produces the planned and intended result (Oxford Advanced Learner's Dictionary, n.d.). The push for more robust CG aimed at more efficient functioning of capital markets after public confidence plummeted in the early 2000s. Undoubtedly, stronger CG requires increased Board involvement. Enhanced management monitoring (MM) could mitigate the agency problem that results from the managers' self-interests conflict with shareholder interests. The effectiveness of a Board in MM depends on several factors such as its structure and composition, its independence (Al-Adeem, Al-Sogair 2019) and the level of expertise. Indeed, there are several barriers to effective MM and only if such barriers are successfully addressed can management oversight truly be effective and CG goals be achieved.

1.3 Study Rationale

Board monitoring of management is crucial since history has shown that inadequate CG can lead to corporate collapse. However, no studies about MM by the Board in MLCs have been conducted and therefore this study aims to bridge this Maltese research gap.

Furthermore, although studies conducted in other countries address the various scenarios of CG, literature on the how the Board's monitoring role is perceived by both the monitors and the monitored, is limited. Theoretical predictions in governance research are enhanced when grounded in realistic perceptions of both directors and executives. The relatively small size of the MSE may render this CG-related research more feasible despite being yet scarce in small state countries (Baldacchino 2017).

In particular, the study aims at shedding light on major barriers to effective MM and producing insights to enhance such effectiveness including those relating to balancing the MM level. It is the researcher's objective to contribute towards encouraging MLCs to reassess their viewpoints on effective MM.

1.4 Research Objectives

The objectives of this study are:

a) to establish how MM is perceived by both MLC Boards and their management
b) to ascertain and assess the major barriers to the effectiveness of such monitoring
c) to address such barriers to effective MM and recommend how the MM level may be balanced.

1.5 Scope and Limitations

This study focuses on the Maltese scenario. Furthermore, although CG is relevant to all businesses, for the purpose of this study, only equity-listed

companies (excluding collective investment schemes) are considered since these are the largest companies locally and hence exert the highest influence on Malta's economy.

As far as possible, the research takes into account relevant developments up to the 31st of March 2022.

1.6 Study Overview

Chapter 1 provides the study's background by introducing the research subject, defining salient terminology, outlining the rationale for the study, explaining the research objectives, and delineating the scope and limitations.

Chapter 2 presents a broad review of both local and foreign literature related to MM.

Chapter 3 describes and justifies the research methodology applied for the achievement of the research objectives.

Chapter 4 shows the findings gathered through semi-structured interviews.

Chapter 5 discusses the research findings presented in Chapter 4 in relation to the literature reviewed in Chapter 2.

Chapter 6 concludes the study by outlining the main findings, making recommendations, and suggesting areas for further research.

Figure 1.2 outlines the structure of this dissertation as discussed above.

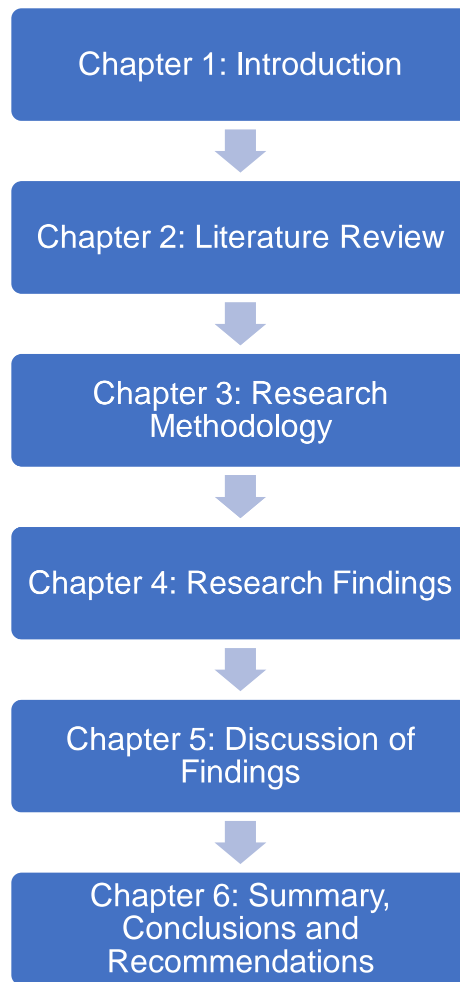

Figure 1.2: Structure of the dissertation

Chapter 2

LITERATURE REVIEW

2.1 Introduction

This chapter reviews both national and international literature on the research topic. As illustrated in Figure 2.1, Section 2.2 discusses the agency problem and the varying perceptions of MM. Subsequently, Section 2.3 reveals the barriers to effective MM and Section 2.4 analyses how such barriers may be overcome, and MM be balanced. Finally, Section 2.5 concludes the chapter.

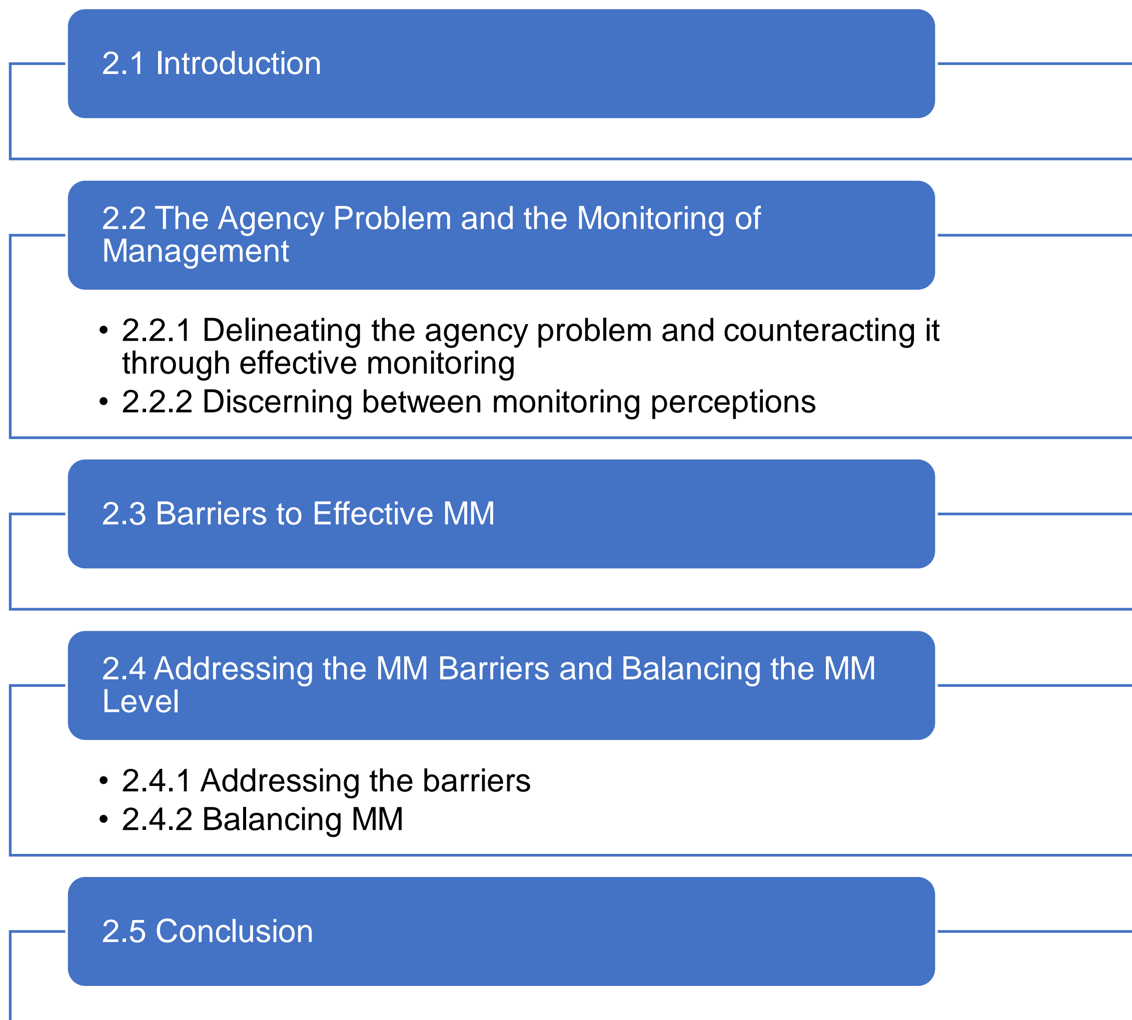

Figure 2.1: Outline of Chapter 2

2.2 The Agency Problem and the Monitoring of Management

2.2.1 Delineating the agency problem and counteracting it through effective monitoring

In a sole proprietorship, ownership and control are one and the same. In the case of small private companies, where only few people have the required business know-how, allocating control and management to the same agents is likely efficient (Fama, Jensen 1983). However, in listed companies, where shares are traded publicly on the Stock Exchange and ownership is dispersed amongst many investors and is separate from control, conflicts might arise between owners and managers (He, Sommer 2010). Thus, directors and shareholders must be clearly segregated (Baldacchino 2017) so as not to allow anyone to *"exercise exclusive management and control rights over the same decisions"* (Fama, Jensen 1983, p. 304). As famously stated by Berle and Means (1991), ownership should be separated from control to prevent anyone from having unfettered powers of discretion.

Large public companies tend to have many small shareholders who as owners, leave it up to the Board to run the company, with the latter passing responsibility to management (Hart 1995). Although critical of the agency theory, Ghoshal (2005) states that directors must maximise shareholder value. Directors are answerable to shareholders and are responsible not only for strategic decision-making but also for MM (Baldacchino 2013). As stated by Dent (1981, p. 623) a company is to be

> *"managed by its executive officers, and the board, dominated by outside directors, monitors management's performance"*.

Often, shareholders conduct very little monitoring on management. Since monitoring is a public good, shareholders free ride and reason that monitoring is being done by others (Hart 1995). This, together with information asymmetries between managers and shareholders, and the resulting moral hazard, create the risk that managers exploit opportunities and take decisions that enhance their

self-interests (Boshkoska 2014). As management's interests differ from those of shareholders, the latter might be disregarded, causing the agency problem.

Literature continuously links the Board's monitoring role with the agency theory (Alshareef, Sandhu 2015, Boshkoska 2014, Dalton et al. 1998, Fama, Jensen 1983). Such *"watchdog role"* is believed to be fundamental for CG (Chen 2008, p. 1) as it allows Boards to safeguard shareholder interests by mitigating conflicts between managers and owners. As stated by Fama (1980, p. 294), regardless of the various monitoring mechanisms available, the *"ultimate internal monitor"* remains the Board which delegates decision-making to management but preserves its rights to *"ratify and monitor"* (Fama, Jensen 1983, p. 311).

2.2.2 Discerning between monitoring perceptions

Amid the various roles entrusted to directors, monitoring has recently been placed under the spotlight, creating increased expectations for Boards to be watchful monitors (Van den Berghe, Baelden 2005). Indeed, Nicholson and Newton (2010) concluded that both practitioners and academics perceive monitoring to be one of the Board's main roles. With MM, Boards align the interest of owners and managers (Panda, Leepsa 2017) and improve the company's performance (Zahra, Pearce 1989). Therefore, MM shouldn't be perceived to indicate that something is amiss (Buchholtz et al. 2005), but as the Board performing its mandated role for a greater good.

Perceptions of the Board

Schwartz-Ziv and Weisbach (2013) contended that Boards emphasise their monitoring role over their advisory role. Boards perceive monitoring positively owing to its learning effect, especially since it produces soft information. For instance, whilst the Board has imperfect knowledge about the abilities and qualities of a newly appointed manager or CEO, MM sheds light on such competences, thus allowing directors to take corrective action (Cornelli et al. 2013).

Research has vigorously followed the agency theory, imposing the monitoring role on Boards, in the expectation that directors align the interests of managers and shareholders (Dalton et al. 2007, Drobetz et al. 2018) and restrain managerial opportunism (Fama, Jensen 1983). Whilst the agency theory assumes that Boards must monitor management, recent studies indicate that this might not reflect today's realities and reveal that the directors have neither the aspiration nor the ability to effectively monitor management (Boivie et al. 2016, Hambrick et al. 2015).

Boivie et al. (2021) found that whilst directors acknowledge monitoring as a fiduciary duty, only a minority keep management at arm's length. Instead, most directors believe that shareholder interests are served by helping management create value. The directors do not see themselves as monitors, but as management's strategic partners who help improve the CEO's decision-making. Thus, they seldom decide against management decisions (Schwartz-Ziv, Weisbach 2013), avoid conflict, and collaborate with management to protect and enhance shareholder value (Boivie et al. 2021).

Furthermore, directors expect CEOs to provide complete information and make sound decisions (Hirt et al. 2016). They oppose the implicit idea that they must safeguard shareholders by preventing managerial opportunism; they *"trust and respect"* managers and consider directors who aggressively challenge the CEO to be causing trouble (Boivie et al. 2021, p. 1673). Whilst recognising the importance of probing management, directors assert that even if they want to, they cannot be effective in monitoring management, who as *"full-time experts"* (Hill 2016) hold far more corporate knowledge than them. They confess that *"traditional"* monitoring aimed at avoiding fraud and opportunistic actions is *"beyond their capacity"* (Boivie et al. 2021, p. 1673).

Perceptions of Management

If the Board's actions are reasonable and legitimate, management is unlikely to perceive monitoring negatively and conflict is improbable. Managers acknowledge that since the Board sits higher in the corporate hierarchy, it has

oversight authority and thus expects directors to oversee its work and measure its performance (Buchholtz et al. 2005).

Yet, Boards *"should only monitor the tasks they have delegated to management"* (Van den Berghe, Baelden 2005, p. 681) as individuals only accept responsibility for things they can control. When managers have power over their work, they are motivated and less likely to complain about monitoring or to bear a grudge against the monitors (Buchholtz et al. 2005).

Contrastingly, managers feel frustrated if MM hinders their freedom to progress strategically. When Boards take on a managerial role and limit the management's ability to make its own choices, monitoring may have unintended negative consequences. The management might reckon that the Board's confidence in its work is diminishing (Barlow 2021), the CEO's enthusiasm to maximise performance might decrease, whilst *"team deterioration"* may spark *"a negative spiral of performance decline"* (Buchholtz et al. 2005, p. 409).

The situation becomes more complex with EDs who, whilst being members of management, simultaneously sit on the Board. EDs are still controlled by the Board and are hired and fired by directors. Buchholtz et al. (2005) conclude that managers *"understand and accept"* (p. 419) this since they acknowledge that it is the Board's fiduciary duty to be a vigilant monitor and hold them accountable for their actions.

2.3 Barriers to Effective MM

Dent (1981, p. 623) asserts that most academics, including those who criticise MM, believe it to be a *"significant board function"*. However, Boards are unlikely to be perfect monitors (Coulton, Taylor 2004) and various barriers to effective MM may arise.

MM requires considerable *"time and effort"* (Beasley 1996, p. 461). Yet, given Malta's small size, directors tend to hold directorships in multiple companies (Baldacchino, Duca et al. 2020). Kamardin et al. (2014) contend that whilst multiple directorships expose directors to more *"tasks and procedures"* (p. 52)

that can be implemented to enhance MM, directors might become constrained in the time and energy they can dedicate to their directorships. Indeed, a study by Fich and Shivdasani (2006), cited in Jensen et al. (2020), recognised that

> *"directors with a significant workload serve as less effective monitors, as their attention is more dispersed across the numerous firms that they monitor"* (p. 8).

The *"amount and nature of directors' outside job demands"* (Boivie et al. 2016, p. 16) also hinders effective MM as directors find it harder to gather and process information, especially if they lack a strong industry background.

The size of a Board also influences its efficiency and effectiveness (Duca 2019). Since the number of directors sitting on a Board varies between companies (Baldacchino, Tabone et al. 2020) depending on their size, financial profile and ownership structure (Renton 2001), no optimal size can be defined. Whilst the Maltese Companies Act (1995) requires Boards of public companies to have at least two members, it establishes no capping for listed companies. Yet, research indicates that smaller Boards are more effective since larger ones *"face considerable problems of coordination, communication, and decision-making"* (De Andres, Vallelado 2008, p. 2576). Whilst smaller Boards potentially ease meaningful discussions and reduce disputes (Baldacchino, Tabone et al. 2020), larger Boards might hinder information sharing (Boivie et al. 2016) and make it harder to reach consensus, especially if directors are not familiar (Kim et al. 2010, Pozen 2010). Large Boards also tend to give excessive power to CEOs, threatening MM efficiency (De Andres, Vallelado 2008). Furthermore, directors on large Boards free ride and remain inactive as they assume that monitoring is being done by others, whilst directors on smaller Boards feel a greater monitoring responsibility (Baldacchino, Tabone et al. 2020). Large Boards also suffer from social loafing as directors exert less effort because accountability is shared between more people and personal liability is diluted (Boivie et al. 2016). Nonetheless, companies might benefit from larger Boards (Coles et al. 2008) as these are less susceptible to dominance (Anand 2007), tend to be more collectively knowledgeable, and have wider resources than smaller ones, thus enabling more effective MM (Baldacchino, Tabone et al. 2020).

MM effectiveness also depends on the frequency of Board meetings. Boards that do not meet often enough cannot provide relevant oversight (Institutional Shareholder Services 2014) since it is during Board meetings that directors gain insights about management's decisions and formulate their monitoring role (Kamardin et al. 2014, Vafeas 1999).

Whilst the Code requires all directors to *"regularly review management performance"* (MFSA 2011, p. 2), the extent to which Boards oversee management is also impacted by the ratio of NEDs and independent directors (IDs) to EDs. Whilst EDs have greater *"firm-specific experience"* (Al-Adeem, Al-Sogair 2019, p. 74) and access to corporate information, in a Board dominated by EDs, management may *"control the monitoring of its own actions"* (Van den Berghe, Baelden 2005, p. 680). Similarly, Carter and Lorsch (2004) contend that, if directors are not independent, MM is prejudiced. Since EDs are affiliated with the party being monitored, they are not expected to play a significant part in MM (Chen 2008). However, whilst independence is important, IDs might not thoroughly understand the complex corporate matters (Nordberg 2011). Although De Haas et al. (2017) indicate that most directors believe that they are given enough information to meet their responsibilities, the unequal access to information increases deference to CEOs as IDs rely on management for corporate information.

MM is also obstructed when directors are reluctant to express their concerns because they feel that their role is not to challenge management but to support and advise the CEO (Boivie et al. 2016). Additionally, when CEOs hold a lot of power – formally or informally – they might promote their self-interests, sway the Board's decisions, and influence the Board's composition (Boivie et al. 2016, Shivdasani, Yermack 1999). This will indirectly impact on the monitoring effectiveness, especially if they are the only executives on the Board. Cases of Chair/CEO role duality, where the same person leads the Board and runs the company, might also result in abuse of power and weaker MM (Krause et al. 2014). Additionally, long CEO tenures increase the likelihood of Boards being *"held captive to strong, entrenched CEOs"* (Coulton, Taylor 2004, p. 19).

Similarly, long-tenured directors might hinder effective MM as they may block new talent from entering the boardroom and result in Boards becoming attached to management. Indeed, the Code sets tenures as a determinant of director independence, with the upper limit being 12 consecutive years (MFSA 2011). Nevertheless, Azzopardi (2012) states that long tenures are the norm in Malta, with companies being unconcerned that they hinder independence. Indeed, long tenures may be beneficial, especially in case of IDs, whose MM capabilities are obstructed by their heavy reliance on management for information (Gao, Huang 2017). Over the years, directors gain company-specific knowledge and experience (Vance 1983) and build working relationships among themselves, making them *"stronger monitors of management"* (Gao, Huang 2017, p. 3).

Monitoring is also hindered when directors lack the "*relevant experience and expertise"* (Kim et al. 2010, p. 47). Yet, since companies are unique, there is no exhaustive list of such qualifications and experiences. Indeed, the Companies Act does not impose any minimum level of professional qualifications, skills or experience (Azzopardi 2012), whilst the Code (MFSA 2011) speaks of *"fit and proper"* (p. 2) directors, requiring directors to be honest, competent and integral and to hold a *"diversity of knowledge, judgment and experience"* (p. 4).

Indeed, a Board lacking diversity might not be sufficiently equipped to monitor and question management's actions and decisions. For instance, Boards entirely composed of directors from older age groups might weaken MM (Abela 2021). Notwithstanding, diversity may be a *"double-edged sword"* (Milliken, Martins 1996, p. 403) since it might increase biases and impede director collaboration, thus hampering MM (Boivie et al. 2016).

The MM effectiveness also depends on the company's size, type and complexity. Effective MM is harder to achieve in large companies, especially if all directors are non-executive, because the large number of customers and suppliers creates a sheer amount of information for directors to process, making it harder to focus on the *"most relevant"* matters (Boivie et al. 2016, p. 23). Additionally, large companies are more complex and diversified, and tend to have set structures and practices which are harder to change. Although complex companies require

stronger monitoring (Coles et al. 2008), structural inertia makes it difficult for Boards to process information, give recommendations and exert influence *“through ongoing monitoring”* (Boivie et al. 2016, p. 24).

2.4 Addressing the MM Barriers and Balancing the MM Level

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

2.4.1 Addressing the Barriers

MM effectiveness is likely to increase when director workload is reduced (Jensen et al. 2020), as they may dedicate more time and attention to monitoring. However, Macdonald and Tremblay (2012) state that capping the number of directorships that one may hold concurrently might not be the solution since different Boards require *“differing levels of involvements and time commitment”* (p. 12) and instead suggest the *“full disclosure of all executive and non-executive positions”* (p. 13) together with the related responsibilities and time commitments. Furthermore, director commitment should be increased, not only with higher pay, but also by creating opportunities for directors to expand their networks and build a *“reputation for good boardroom oversight”* (Hirt et al. 2016, p. 11).

Duke and Kankpang (2011) conclude that appropriate Board sizes are critical for MM. However, it is impossible to decide on such an appropriate Board size for MM since a one-size-fits-all approach is not applicable as size should reflect a company’s uniqueness (Renton 2001). With too many directors, Board meetings might *“become protracted and cabals can emerge”* whilst, if directors are too few, Boards may suffer a *“shortage of the necessary talents, knowledge and experience”* (Renton 2001, p. 5). Thus, the Board’s size must vary according to the company’s circumstances, including *“its industry, the spread of its shareholders, its competitors and markets”* (Baldacchino, Tabone et al. 2020, p. 33). Since such circumstances are constantly changing, the Board’s size should be regularly reviewed to ensure that it is equipped for MM. However, whilst the

size of the Board does matter, the quality of directors (Baldacchino, Tabone et al. 2020) and their level of involvement (Green 2005) might be even more significant.

Increasing the frequency of Board meetings enhances Board interaction, potentially increasing MM effectiveness. Many Boards meet around six to eight times a year and only have time for compliance and strategic matters (Hirt et al. 2016). More frequent Board meetings allow the Board to understand its role better, set out and communicate its expectations and reduce the likelihood of Board/management conflicts (Buchholtz et al. 2005).

Fama and Jensen (1983) suggest that MM is more effective when the Board includes non-executive and independent directors. Similarly, the Code recommends that at least one third of the Board should be non-executive; the majority of whom should be independent (MFSA 2011). Although EDs are important, NEDs provide new perspectives, access to additional resources (Nicholson, Newton 2010), different experiences and outside information, whilst lessening the principle-agent problem and the related agency costs (Hamdan, Al Mubarak 2017). Furthermore, IDs may be more objective and unbiased (Jensen et al. 2020), have greater ability to control (Fama, Jensen 1983), and are more likely to monitor management and sanction management's opportunistic behaviour (Hamdan, Al Mubarak 2017, He, Sommer 2010, Nicholson, Newton 2010). IDs are motivated to *"perform their monitoring function effectively"* and are less likely to collude with management, to avoid harming their reputation (He, Sommer 2010, p. 269). Furthermore, IDs are essential for Board subcommittees, which will then be able to better scrutinise management actions and decisions and thus potentially enhance MM (Azim 2009).

Although NEDs and IDs face fewer conflicts of interest when monitoring managers (De Andres, Vallelado 2008) and are less susceptible to management dominance (Gordon 2006), they might have insufficient information to fulfil their roles (Wilson 2009). Coulton and Taylor (2004, p. 20) assert that the effectiveness of MM by NEDs is *"context-specific*". Such directors can only make relevant contributions and properly challenge management if they hold a strong understanding of the company and its industry. Therefore, Boards should either

include NEDs who are experts in the sector or have them participate in *"visits to facilities, suppliers and customers"* (Hirt et al. 2016, p. 46).

As companies are only expected to get larger, more complex and diverse, directors will find it increasingly challenging to understand a company's operations. Thus, EDs are potentially indispensable since industry expertise might be superior to independence (Baker 2009). Therefore, rather than focusing on having totally non-executive Boards, companies should find the optimum mix of EDs and NEDs to balance the Board's monitoring function with the need for information (De Andres, Vallelado 2008).

Additionally, separating the chairperson and the CEO guarantees the Board's freedom from management's grip (Baldacchino, Tabone et al. 2020). Duke and Kankpang (2011) conclude that Chair/CEO role duality complicates MM because the CEO possesses "*the greatest knowledge of the firm"* and is able to *"withhold information"* from non-executives (p. 55). Indeed, the Code recommends separating the two roles, and requires Chair/CEO role duality to be justified through a company announcement (MFSA 2011). Similarly, prohibiting a CEO from being a director might mean greater Board freedom and improved MM, although it might unintentionally reduce the Board's power and make management the real leader of the company (AICD 2017a).

Furthermore, directors should attend induction training (Hirt et al. 2016) as well as team dynamics and communication courses, because the more directors trust and respect each other, and cooperate and communicate effectively, the greater their ability to control dominant CEOs (Boivie et al. 2016). Additionally, since when appointing directors, shareholders often disregard the resulting mix of expertise, Baldacchino, Tabone et al. (2020) suggest that such a mix should be overseen by the MFSA. However, to date neither the Code nor the Companies Act requires directors to hold any minimum years of experience or specific qualifications. The directors' lack of knowledge could be addressed by making higher qualification levels mandatory for all directors (Baldacchino 2007). Contrastingly, Baldacchino, Tabone et al. (2020) conclude that, although it is beneficial to have directors with different qualifications, making formal

qualifications mandatory is not ideal since experience is generally *"much more valuable"* (p. 40).

Yet, Green (2005) argues that financial, accounting, and managerial expertise enhances the directors' ability to scrutinise management. Similarly, Kirkpatrick (2009) states that financial sophistication generally leads to enhanced MM, whilst Renton (2001) suggests that knowledge in governance, strategic business direction and finance are requisites in any Board. Moreover, to ensure continuous effective MM, when appointing directors, consideration must be given to the specific skills required, both at present and in the future (AICD 2017b).

Additionally, diverse Boards, having a wider access to talent pools, might enhance MM (Nicholson, Newton 2010). Gender-diverse Boards *"allocate more effort to monitoring"* (Adams, Ferreira 2009, p. 291) and are more likely to hold CEOs accountable for their actions (Mishra, Jhunjhunwala 2013), whilst age-diverse Boards result in directors from different age groups introducing different experiences and qualifications (Abela 2021).

2.4.2 Balancing MM

Stronger monitoring by IDs is deemed crucial for robust CG (Faleye et al. 2011). Yet, although good CG with appropriate MM may remedy the agency problem (Eisenhardt 1989), it might be wrong to assume that tighter MM is always advantageous (Faleye et al. 2013). Although MM provides directors, especially IDs, with information, allowing informed contributions to strategic decision-making, it inherently limits the time available for the Board's advisory role, potentially resulting in a loss of company value (Faleye et al. 2011). Excessive MM could demoralise management, cause Board/management conflicts and discourage communication and transparency (Adams 2009, Adams, Ferreira 2007, Faleye et al. 2013, Holmstrom 2005). Thus, if MM becomes excessive, it might not only restrain business, but also be detrimental to CG.

Given that Boards are responsible for increasing company value through both their strategic and oversight roles, CG is successful if it is not simply seen *"as a compliance obligation"* (New York Stock Exchange 2010, p. 4) but if it includes

MM in alignment with the company's strategy. However, a one-size-fits-all approach is unlikely to be beneficial owing to corporate uniqueness (Faleye et al. 2011). Thus, no strict MM model should be imposed on Boards (Van den Berghe, Baelden 2005). Instead, MM might be best enforced through general regulations requiring Boards to *"monitor effectively"* (Dent 1981, p. 644).

2.5 Conclusion

This chapter thoroughly reviews the literature on the Board's MM role and how it is perceived, the barriers to effective MM, how such barriers may be addressed and how MM may be balanced. The next chapter presents the research methodology.

Chapter 3

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the applied research methodology. As seen in Figure 3.1, Section 3.2 describes the preliminary secondary research. Sections 3.3 and 3.4 investigate the research design and research tools, whilst Section 3.5 gives the rationale in the selection of research participants. Thereafter, Sections 3.6 and 3.7 explain the data collection and data analysis, and Section 3.8 explains the research limitations. Section 3.9 concludes the chapter.

Figure 3.1: Outline of Chapter 3

3.2 Preliminary Secondary Research

Initially, existing literature was analysed to attain a thorough understanding of the research area. Literature sources mainly included peer-reviewed academic papers, journal articles, reports, books and documents published by national and international institutions.

Attention was given to the limited Maltese research on MM and to the Maltese regulatory framework, in order to gain insight into the current local situation.

3.3 Research Design

Three research designs are the quantitative, qualitative and mixed methods. The quantitative and qualitative methods are the opposite ends of a spectrum with the mixed method combining them both at the centre (Paoletti et al. 2021). When choosing a suitable research design, consideration must be given to the researcher's assumptions, the research strategy and technique for data gathering, analysis and interpretation, as well as the research question, the researcher's own experiences and the intended audience (Creswell, Creswell 2018).

Whilst quantitative research yields numbers from closed-ended questions, qualitative research yields words through open-ended questions (Creswell, Creswell 2018). In quantitative research, data measured numerically is analysed using statistical tests to *"support or refute alternative knowledge claims"* (Williams 2007, p. 66). The main benefit of quantitative research is that it maintains objectivity, allowing the researcher to generalise the findings (Mertler 2019). Contrastingly, qualitative research takes an "*interpretative, naturalistic approach"* to the study (Denzin, Lincoln 2005, p. 3). In its nature, qualitative research makes the use of statistical procedures challenging (Techo 2016), and findings are not generalised to a larger population (Austin, Sutton 2014). Given that both quantitative and qualitative research have their benefits and limitations, the mixed method allows researchers to gain from *"the advantages of both in a single technique"* (Gobo, 2015, p. 331). Using both methods makes the study stronger

than if it were completely quantitative or completely qualitative (Creswell, Creswell 2018). As stated by Johnson and Onwuegbuzie (2004, p. 18) several research questions are *"best and most fully answered through mixed research solutions"*.

3.4 Research Tool

In view of the research objectives, semi-structured interviews were thought to be the most appropriate research tool. Semi-structured interviews are guided by a predetermined interview schedule, permitting the researcher to ask the same questions to all participants *"within a flexible framework"* (Dearnley 2005, p. 22). Ordering of the questions is at the researcher's discretion; yet questions are standardised, with probes being used to motivate respondents to provide further detail and to ensure that the research objectives are properly met (Harrell, Bradley 2009). Furthermore, standardisation makes the collected data comparable and quantifiable numerically for statistical analysis (McIntosh, Morse 2015). Semi-structured interviews include both close-ended and open-ended questions. Whilst the former restrict the respondents to *"the set of alternatives"* provided (Reja et al. 2003, p. 161), the latter allows respondents to *"freely articulate"* their responses (Züll 2016, p. 3).

The interview schedule prepared for this study was aimed towards Maltese equity-listed companies. Table 3.1 illustrates the structure of the interview schedule, starting off with a list of abbreviations and relevant definitions, this being followed by four main sections, with a final section inquiring about respondent characteristics. Of the latter, the first four questions were asked to all participants whilst the last three were asked only to Board members. All other interview questions were asked to all participants.

Section A revolved around the agency problem and the monitoring of management, this being delved into for the researcher to understand the respondents' perceptions about MM, in line with the first objective of this study. Subsequently, in consistency with the second research objective, Section B inquired about the major barriers to effective MM. In line with the third research

objective, Section C considered possible actions for addressing MM barriers, whilst Section D made inquiries about excessive MM, its avoidance, and who is to be responsible for balancing MM. Thus, the latter section sought to provide further insights about MM perceptions, specifically related to excessive MM.

Section Heading		Question Number
	List of Abbreviations and Definitions	-
Section A:	The Agency Problem and the Monitoring of Management	A1
Section B:	Major Barriers to MM Effectiveness	B1.1 – B4
Section C:	Addressing the Monitoring Barriers	C1 – C7
Section D:	Balancing the MM Level	D1 – D4
	Respondent Characteristics	1 – 7

Table 3.1: Interview schedule structure

As portrayed in Table 3.2, the interview schedule included both closed-ended and open-ended questions. Table 3.3 then lays out the 5-point and 10-point Likert scales used in the closed-ended questions, with Table 3.4 identifying the questions utilising each type of Likert scale.

Question Type	Section	Question Number
Closed-ended	A	A1
	B	B1.1, B1.2, B1.3, B4
	C	C1, C5
Open-ended	B	B2, B3
	C	C2, C3, C4, C6, C7
	D	D1, D2, D3, D4

Table 3.2: Separation of closed-ended and open-ended questions

Responses	Scales	
Strongly Disagree	0	1
		2
Disagree	1	3
		4
Neutral	2	5
		6
Agree	3	7
		8
Strongly Agree	4	9
		10

Table 3.3: Likert scales

Likert Scale	Question Number
5-point Likert scale	A1, B1.1, B1.2, B1.3, C1, C5
10-point Likert scale	B4

Table 3.4: Questions utilising each Likert scale

3.5 Research Participants

A list of all 27 equity-listed Maltese companies as at 31st October 2021 was obtained from the Official List on the MSE website.

Contact was generally made with the company secretary of each Maltese equity-listed company via email through the email address found on the MSE website. When this was not available, contact was made via the company's administration or investor relations officer email addresses found on the MSE website or on the websites of the individual MLCs. When email addresses were not found or when no reply was received, telephone contact was made to ask for an applicable email address. In all instances, requests were made to speak either to the company secretaries, or any type of director or members of management.

The Letter of Introduction and Invitation to Participate in Research, endorsed by the Head of Department of Accountancy, was attached to the emails. This briefly

described the research topic and what contribution the research participants would be giving to the study, whilst confirming the email's authenticity. When no reply was received, an email reminder was sent. If no reply was again received, another email was sent, or contact was made by telephone. Whilst one email was left unanswered, another three requests were declined.

As shown in Table 3.5, a total of 22 interviews were carried out. These were conducted with 22 MLC representatives from 23 MLCs, since one participant was involved in two MLCs. Requests were made to speak with EDs, NEDs, IDs, company secretaries or members of management since they are all knowledgeable of the Board's monitoring role. However, no NEDs participated in the study.

Category	Research Participants	Representing
MLCs	9 company secretaries 8 members of management 3 EDs 2 IDs	23 companies
Total	**22 participants**	**23 companies**

Table 3.5: Research participants

3.6 Data Collection

The research objectives influence the selection of the data collection method (Saunders, Thornhill 2009). Choosing the appropriate data collection technique results in high-quality research as the *"accuracy, validity, and reliability"* of the research findings are enriched (Harrell, Bradley 2009, p. 2).

Chapter 2 has already analysed the secondary data gathered from various sources. Such data was used as a basis for drafting the interview schedule. A pilot interview was conducted to ascertain the appropriateness of the research questions and to prevent deficiencies from occurring in the large-scale study (Lowe 2019). Thereafter, the interview schedule was amended and finalised.

Interviews were conducted between the 10th of November 2021 and the 3rd of March 2022. Owing to the COVID-19 pandemic most interviews were held virtually, with only three interviewees preferring a face-to-face interview. All interviews were held at the date, time, place, or online meeting platform that participants found most suitable. Generally, a copy of the interview schedule was provided in advance. Before each interview, explicit consent to audio-record the interview was requested. In the one instance when consent was not granted, notes of the replies were taken during the interview.

3.7 Data Analysis

Audio-recordings of the interviews were transcribed without undue delay to get the best value from the data. Together with the notes taken during the interviews, these transcripts eased the understanding and analysis of the data.

3.7.1 Quantitative Data Analysis

The quantitative data in this study was compiled from the close-ended questions included in the interview schedule.

As explained in more detail in Appendix 3.2, the researcher used the Friedman test to compare the mean rating scores given to the statements in five (Questions A1, B1.1, B1.2, B1.3, C1)[1] of the 5-point Likert scale questions, and to establish whether such mean rating scores vary significantly or otherwise. Appendix 3.2 also lays out the error bar graphs graphically representing such mean rating scores.

As discussed in greater detail in Appendix 3.3, the researcher used the Kruskal Wallis test to compare the mean rating scores given to a statement among the four groups clustered by their position in the company *(company secretaries, EDs, IDs and members of management)* and to determine whether such mean rating scores vary significantly or otherwise among the groups. This test was used in addition to the Friedman test with respect to the five (Questions A1, B1.1,

[1] Vide Appendix 3.1.

B1.2, B1.3, C1)[2] 5-point Likert scale questions and the results of these tests are reproduced in Appendix 4.1. As regards the 10-point Likert scale question (Question B4)[3], the Kruskal Wallis test was also used.

As further detailed in Appendix 3.4, the Wilcoxon signed ranks test was used on the 5-point Likert scale of Question C5[4], so as to determine whether the mean rating scores given to two positions in the company by the same group of participants vary significantly or otherwise.

3.7.2 Qualitative Data Analysis

Qualitative data was sourced from the open-ended questions in the interview schedule and from other comments made by the respondents after giving their Likert scale ratings. Transcripts of responses to open-ended questions were summarised to identify commonalities and disparities in the participant responses. With regards to respondent comments after providing their Likert scale rating, analysis was focused on those statements in relation to which the mean rating scores were highest, lowest, or varied significantly among the respondent groups.

3.8 Research Limitations

The first limitation of the study is that, although contact was made with all MLCs, respondents of three of the 27 MLCs refused to contribute to the research, whilst another one failed to respond. Furthermore, of those who accepted to be interviewed, only three were EDs and only two were IDs, limiting the ability to determine the extent to which results represent the respondent group's opinion on the matter. Additionally, none of those who accepted to participate were simply NEDs.

Inevitably, participant responses were clouded with an element of subjectivity. Additionally, minor inconsistencies were seen between the Likert scale ratings

[2] Vide Appendix 3.1.
[3] Vide Appendix 3.1.
[4] Vide Appendix 3.1.

given by the respondents, the explanations provided in relation to them and the replies to the open-ended questions.

3.9 Conclusion

This chapter provides a detailed explanation of the research methodology applied in this study. The next chapter presents the research findings gathered from the interviews conducted.

Chapter 4

RESEARCH FINDINGS

4.1 Introduction

This chapter analyses the findings collected from the interviews. The analysis follows the sequence of the interview as outlined in Figure 4.1 below. Section 4.2 discusses the agency problem and the monitoring of management. Subsequently, Section 4.3 presents the major barriers to the effectiveness of MM whilst Section 4.4 investigates how these barriers should be addressed. Section 4.5 examines the balancing of MM. Lastly, Section 4.6 concludes this chapter.

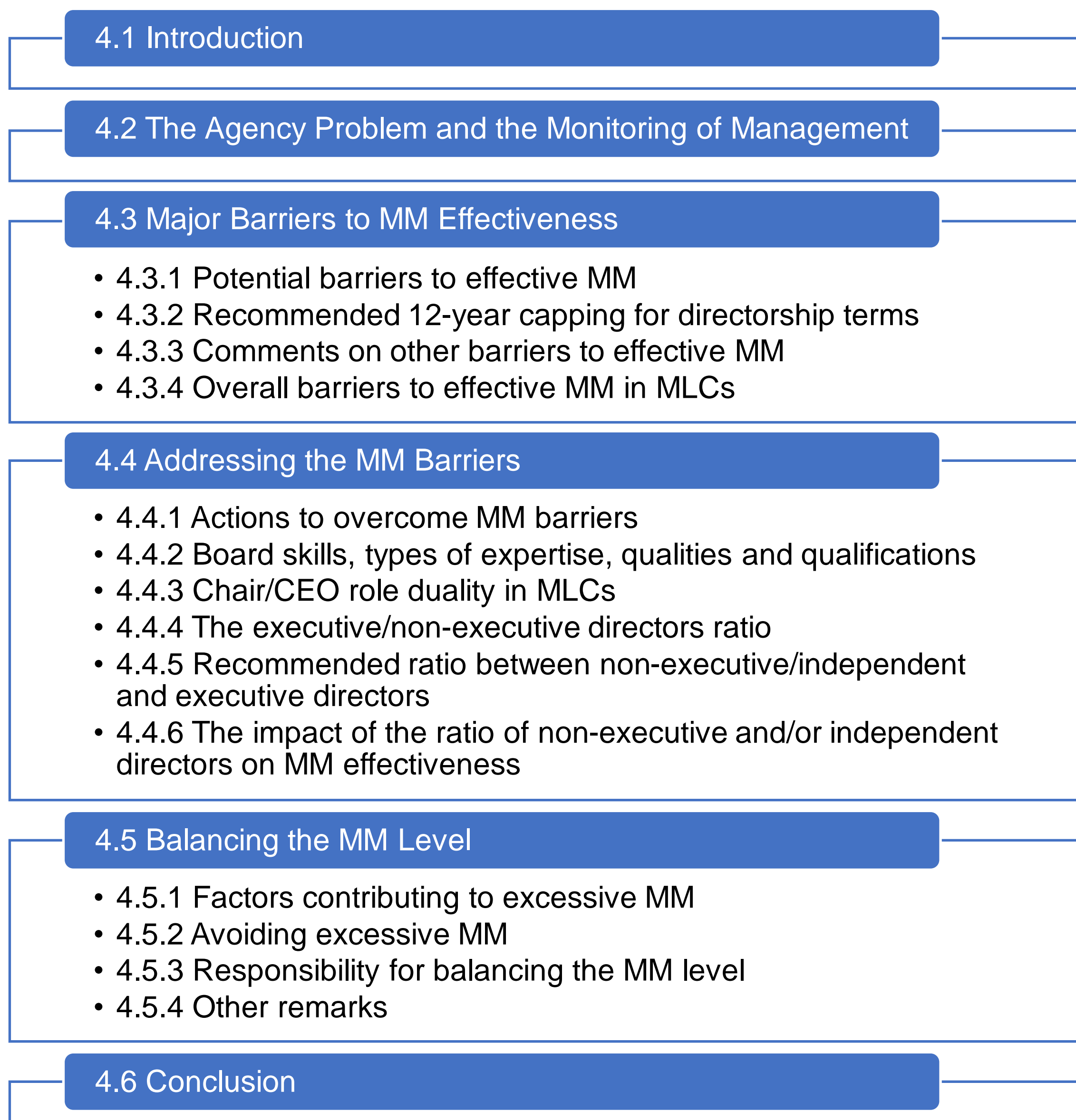

Figure 4.1: Outline of Chapter 4

4.2 The Agency Problem and the Monitoring of Management

The first part of the interview schedule consisted of one question (Question A1) listing 15 statements related to the agency problem and the monitoring of management. Respondents were asked[5] to rate these statements according to their level of agreement.

Table 4.1 below shows, in descending rating order, the mean rating scores of the respondents' answers regarding such statements. The differences among these mean rating scores were significant$_{(p<0.001)}$.

Statements	Mean	Std. Dev.
xiv. Even EDs themselves need to be subject to MM	3.65	0.573
x. MM by the Board is required even if management is known to be doing its work properly	3.61	0.722
ii. MM prevents opportunistic behaviour and achieves positive returns for shareholders	3.57	0.662
i. The Board is the ultimate internal monitor of management	3.48	0.665
xi. Oversight by the Board guards against any excesses brought about by the day-to-day power of management	3.48	0.665
vi. b. The following course of action impacts negatively on shareholder value: the Board rubber stamps rather than seriously challenging management proposals where necessary	3.39	1.158
v. The main goal of MM is to challenge managerial decisions and to prevent managerial opportunism	3.26	0.810
iv. MM renders the Board adequately aware of the CEO/management qualities and limitations	3.26	0.864
xii. NEDs are best suitable for MM	3.26	0.915
xiii. EDs still have a role in MM, albeit less than that of NEDs	2.70	1.295
iii. In any company MM is the Board's most important role	2.52	1.039

[5] Vide Qn. A1 p.A3.1-3.

vi. a. The following course of action impacts negatively on shareholder value: management is routinely kept at arm's length by the Board	2.52	1.344
vii. Most Boards only take a decision against management proposals as a last resort	1.65	1.229
viii. It is difficult for directors to hold sufficient corporate knowledge to monitor management effectively	1.61	1.033
ix. MM by the Board is often resisted by management and raises the probability of Board/management conflicts	1.43	0.896

$X^2(14) = 140.412$, $p<0.001$ *0 = strongly disagree, 4 = strongly agree*

Table 4.1: The agency problem and the monitoring of management

As indicated, the statements most agreed to were; (xiv) – that even EDs themselves need to be subject to MM; (x) – that MM by the Board is required even if management is known to be doing its work properly; and (ii) – that MM prevents opportunistic behaviour and achieves positive returns for shareholders. Agreement to a lesser extent was evident in relation to statements (i), (xi), (vi. b.), (v), (iv), (xii), (xiii), (iii) and (vi. a.). Respondents were undecided with respect to statements (vii) – that most Boards only take a decision against management proposals as a last resort and (viii) – that it is difficult for directors to hold sufficient corporate knowledge to monitor management effectively, whilst disagreement was expressed in relation to statement (ix) – that MM by the Board is often resisted by management and raises the probability of Board/management conflicts. The latter is in line with Buchholtz et al. (2005)[6].

No comments were added with regards to statement (xiv), which was the most agreed to statement, whilst with respect to statement (x), two respondents*(2/23)* added that monitoring is *"necessary at all times"* and for this reason they emphasised the importance of *"regular Board meetings"* and *"regular reporting"*. Regarding statement (ix), which was the only one respondents expressed disagreement with, one respondent*(1/23)* remarked that the extent to which MM by

[6] Vide Section 2.2.2.

the Board is resisted by management and raises the probability of Board/management conflicts varies with the *"characters of management individuals"*.

It is also to be noted that the responses of the four respondent groups *(company secretaries, EDs, IDs and members of management)* were found to be significantly different with respect to statements (xii)$_{(p=0.026)}$, (iii)$_{(p=0.040)}$ and (vi. a.)$_{(p=0.029)}$[7].

As regards statement (xii), an ID comment was that NEDs are best suitable for MM since they are *"objective"*, whilst a company secretary observed that IDs are better suited for MM than mere NEDs. In contrast, a member of management noted that all directors are suitable as long as they are *"serious"* directors.

With respect to statement (iii) regarding MM being the Board's most important role in any company, one member of management and a company secretary commented that MM is an *"extremely important"* role which involves *"effective oversight"*. Yet an ED comment and an ID comment emphasised that the main role of any Board should not be to *"scrutinise management"* because there were a number of competing responsibilities including, *"strategic direction"*, *"compliance"*, *"performance management"* and *"business development"*.

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

[7] Vide Appendix 4.1 p.A4.1-1.

4.3 Major Barriers to MM Effectiveness

The second section of the interview schedule contained four questions (Questions B1.1 – B4) regarding the major barriers to MM effectiveness.

4.3.1 Potential barriers to effective MM

This part of the study consisted of several statements which respondents were asked[8] to rate according to their level of agreement.

Table 4.2 shows in descending order, the mean rating scores of the respondents' answers to 22 statements presented to them. As one may observe, the rating scores varied significantly$_{(p<0.001)}$ among the different statements, yet most statements were confirmed to be possible barriers. Rating scores for (i)$_{(p=0.016)}$ and (vii)$_{(p=0.026)}$ also varied significantly among the respondent groups[9].

Potential barriers to effective MM:	Mean	Std. Dev.
xiv. Having directors lacking appropriate expertise	3.52	0.730
xi. d. Having a CEO who is secretive	3.48	0.947
xvi. Having director/s closely related to the CEO	3.35	0.647
x. There being Chair/CEO duality of office	3.35	0.935
vi. Holding less than six Board meetings per annum	3.22	0.736
iv. Insufficient industry-specific knowledge	3.09	0.668
iii. Outside job workloads	3.04	0.825
ix. There being information asymmetries between management and directors	3.04	0.825
xv. The Board being insufficiently diverse	2.87	0.920
xi. b. Having a CEO who is domineering	2.83	1.029
xvii. There being inertia due to the large size of the company	2.70	0.876
v. The Board being too large or too small	2.61	1.076

[8] Vide Qn. B1.1 pA3.1-5.
[9] Vide Appendix 4.1 p.A4.1-5.

i. Multiple directorships	2.52	1.123
xii. Having long-tenured directors (e.g., more than 12 years)	2.43	1.237
xviii. The company being too complex	2.43	0.945
ii. Unrelated outside jobs	2.39	1.158
xix. The company being too spread out in markets and products	2.35	1.027
vii. The Board placing most emphasis on its strategic and accountability roles	2.30	0.926
xi. a. Having a CEO who is long-tenured	2.13	1.100
xiii. Having newly engaged directors	2.09	1.041
viii. Having EDs with much more company-specific experience than the non-executive ones	2.00	1.087
xi. c. Having a CEO with more industry-specific knowledge	1.83	1.193

$X^2(21) = 142.611$, $p<0.001$ *0 = strongly disagree, 4 = strongly agree*

Table 4.2: Potential barriers to effective MM

As one may note, only one*(1/22)* barrier (xiv) – having directors lacking appropriate expertise – was agreed to as being very high. Most*(12/22)* other barriers – (xi. d.), (xvi), (x), (vi), (iv), (iii), (ix), (xv), (xi. b.), (xvii), (v) and (i) – were agreed to, with respondents being undecided with respect to the remaining*(9/22)* barriers, that is, (xii), (xviii), (ii), (xix), (vii), (xi. a.), (xiii), (viii) and (xi. c.). The latter barrier – having a CEO with more industry-specific knowledge – received the lowest rating. Notably, the respondents did not disagree with any barrier.

The respondents also commented on two barriers they agreed with – barriers (vi) and (iv). With respect to barrier (vi) – holding less than six Board meetings per annum – one respondent emphasised that frequent Board meetings are essential given that regulation is becoming *"more complex"*. Yet, another respondent emphasised that the focus should be on the *"quality"* of meetings rather than their frequency.

In relation to barrier (iv) – insufficient industry-specific knowledge – it was argued*(3/23)* that especially in *"very specialised"* industries, directors would be unable to challenge information presented by management.

The respondents also made remarks on three barriers – (xi. a.), (xiii) and (viii) – after having expressed their lack of decisiveness on them. In line with Coulton and Taylor (2004)[10], regarding barrier (xi. a.) – having a CEO who is long-tenured – a few*(4/23)* agreed that strong familiarity with and knowledge of the company make it harder to challenge long-tenured CEOs. Yet, respondents added that no issues arise if the long-tenured CEO has the right *"energy"* and *"foresight"*.

In relation to barrier (xiii) – having newly engaged directors – it was argued*(2/23)* that whilst long-tenured directors who know the *"history of the company and have experience and knowledge"* are beneficial for MM, they might become too *"comfortable"* with the process. Thus, newly engaged directors, especially those having extensive experience in other companies, introduce a *"new culture"* and *"fresh ideas"* that enhance MM. When confirming newly engaged directors as a barrier, another respondent*(1/23)*, emphasised that directors should not be replaced across the Board since newly engaged directors need to acquaint themselves with the company and its operations.

In respect of barrier (viii) – having EDs with much more company-specific experience than the non-executive ones – some respondents*(5/23)* added that they were indecisive about this as whilst executives could *"abuse"* of their enhanced firm-specific experience or knowledge, generally NEDs, who shoulder the same responsibility as executives for MM, are sufficiently knowledgeable and *"challenge"* anything that is unclear.

The rating score for barrier (i) – multiple directorships – which was agreed to, varied significantly*(p=0.016)* among the four respondent groups. In contrast to Kamardin et al. (2014)[11], an ID and two company secretaries commented that whilst multiple directorships limit the time devoted to each directorship, these

[10] Vide Section 2.3.
[11] Vide Section 2.3.

were not a *"formidable"* barrier, since they enable *"bold"* and *"skilled"* directors to acquire wider *"experience, knowledge and skills"*. Yet, a member of management commented that directors having multiple directorships might be stretched thin and are unlikely to dedicate enough time for each directorship, especially if they are *"figureheads"* rather than serious directors.

No comments were made in respect of (vii) – the Board placing most emphasis on its strategic and accountability roles – whose rating score also varied significantly between the respondent groups.

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

The respondents were subsequently asked[12] to rate, according to their level of agreement, two statements concerning the reason why large Boards may be ineffective in MM, and to specify other reasons, if there were any.

Table 4.3 shows the mean rating scores in descending order. As one may note these varied significantly *(p=0.004)* with respondents confirming (ii) to be a barrier but expressing neutrality in the case of (i).

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

$X^2(1) = 8.333$, $p = 0.004$ *0 = strongly disagree, 4 = strongly agree*

Table 4.3: Impact of large Boards on MM

Although (ii) was confirmed as a barrier, contrary to Baldacchino, Tabone et al. (2020)[13], three respondents*(3/23)* argued that Boards suffering from some directors being free riders or relying on responsibility being shared with the other directors are *"not specific to size"* and occur even in small Boards. With regards to

[12] Vide Qn. B1.2 p.A3.1-7.
[13] Vide Section 2.3.

statement (i), one respondent$_{(1/23)}$ added that such difficulties are overcome through Board subcommittees.

When asked to specify other reasons why large Boards may be ineffective in MM, some respondents$_{(5/23)}$ explained that in large Boards *"consensus is more difficult"* and conflicts are more likely as there is an increase in *"diverse opinions"*. This is in line with Kim et al. (2010) and Pozen (2010)[14]. Two respondents$_{(2/23)}$ argued that smaller Boards have better *"functionality"* because *"too many cooks spoil the broth"*. Another two$_{(2/23)}$ stated that large Boards are more likely to experience *"groupthink"* because directors' thoughts become *"aligned"* as they *"hide"* behind others. Large Boards were also believed$_{(1/23)}$ to face time constraints, hindering meaningful director participation. Whilst one respondent$_{(1/23)}$ stated that larger Boards are ineffective in MM because they are more likely to have a number of directors who lack corporate knowledge, another$_{(1/23)}$ argued that large Boards have more *"expertise"*, "*knowledge"* and *"experience"*, enabling them to work *"extremely effectively"*. The latter is consistent with Baldacchino, Tabone et al. (2020)[15].

Two respondents$_{(2/23)}$ added that large Boards may not be ineffective if they have subcommittees focusing on specific functions with one of them being MM. However, a few$_{(2/23)}$ deemed size to be irrelevant as long as the Boards are equipped with the *"right skills and competencies"*. In line with Renton (2001)[16], one respondent$_{(1/23)}$ stated that MM is ineffective not only if Boards are *"overburdened with members"* but even if directors are *"too few"*.

Potential Barriers to Effective MM arising from Long Tenures

Subsequently, respondents were asked[17] to rate, according to their level of agreement, two statements about why long-tenured directors may be ineffective in MM, and to specify other reasons, if there were any.

[14] Vide Section 2.3.
[15] Vide Section 2.3.
[16] Vide Section 2.4.1.
[17] Vide Qn. B1.3 p.A3.1-7.

Table 4.4 shows the mean rating scores of the respondents' answers in descending order. As one may observe, these did not vary significantly*(p=1)* with respondents confirming both statements as reasons why long-tenured directors may be ineffective in MM.

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

$X^2(1) = 0.000$, $p = 1.000$ *0 = strongly disagree, 4 = strongly agree*

Table 4.4: Impact of long tenures on MM

As for statement (i), one respondent*(1/23)* argued that whilst familiarity tends to pose difficulties, it renders directors aware of the *"capabilities of individual managers"* and of areas where MM should be more strict. With regards to statement (ii), one respondent*(1/23)* maintained that tenures are mostly irrelevant since the nomination committees have discretion to recommend directors according to the required skill sets.

When asked to specify any other reasons why long-tenured directors may be ineffective in MM, the most*(8/23)* cited reason was complacency. The respondents*(7/8)* emphasised that long tenures make directors feel *"too comfortable"* and create a tendency for things to be taken for granted. Another*(1/8)* respondent stated that *"fatigue"* in long-tenured directors results in lack of challenging attitudes, thus hindering MM.

Two respondents*(2/23)* explained that, in a continuously changing environment, long-tenured directors conduct effective MM only if they are constantly updated with emerging matters and industry changes, such as technology. In contrast, one respondent*(1/23)* insisted that long tenures increase MM effectiveness as they

enable the acquisition of more corporate knowledge. This is consistent with Vance (1983)[18].

4.3.2 Recommended 12-year capping for directorship terms

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

Table 4.5: Respondent viewpoints on the 12-year cap for IDs

Respondents were asked[19] to give their viewpoints about the Code's 12-year capping for directorship terms, exceeding which the Code considers such directors as no longer being independent. Most respondents*(12/23)* replied that a capping to the overall years of tenure was necessary. However, many of them*(8/12)* considered the existing 12-year capping as being too long. The rest*(4/12)* considered such a capping as being either optimal*(3/4)* or too short*(1/4)*. The remaining respondents*(11/23)* emphasised that there should be no specific capping set in the Code.

The most common reason*(5/8)* expressed by the respondents who believe that the 12-year capping is too long was that, in their companies' experience, a shorter capping, ranging from five to ten years, had been in place to date and this was found to be effective. Furthermore, three of these respondents*(3/8)* emphasised that such capping should not remain under the comply-or-explain rule but be rendered compulsory. The three respondents*(3/23)* who consider such capping to be optimal asserted that 12 years was a time period balancing the time needed to acquire the appropriate director expertise with the need not to stay too long on the Board and thus render oneself ineffective. The respondent*(1/23)* who thinks the

[18] Vide Section 2.3.
[19] Vide Qn. B2 p.A3.1-7.

time limit is too short stated that it would be a *"pity"* to lose the capabilities of a well-skilled director after only 12 years.

Contrastingly, many*(7/11)* of those respondents*(11/23)* who were against a specific time capping added that having such capping could easily be detrimental to the company because both personalities and circumstances vary amongst companies. As one respondent added*(1/11)*, the 12-year limit may hinder progress by resulting in a drain of directors with an invaluable *"accumulation of knowledge"*. This may be the case particularly in Malta where it is more difficult to find directors of the right calibre given the small size of the country. Another respondent*(1/11)* found the introduction of any suggested capping to be against the right of shareholders to appoint directors of their choice.

4.3.3 Comments on other barriers to effective MM

In the following question respondents were asked[20] to comment on other MM barriers, if there were any. The barriers with the most comments were inappropriate communication*(5/23)* and inadequate reporting*(3/23)* to the Board. One respondent*(1/5)* emphasised that effective MM relies on proper communication of the Board's direction and strategy to the management. Furthermore, one respondent*(1/5)* believes that directors can only be equipped for MM if the management informs them of developments such as changes in accounting standards. Two respondents*(2/3)* linked poor reporting to directors' own time constraints preventing effective MM.

Other barriers included negligent Boards*(2/23)*, low director remuneration*(1/23)*, directors with lack of interest*(1/23)*, directors becoming too accustomed to the company*(1/23)*, close friendships among Board members*(1/23)*, outside interference from shareholders and third parties*(1/23)*, weak CEOs, subcommittees and respective chairpersons*(1/23)*, directors' lack of awareness *"of their roles, their responsibilities and their functions"* including management oversight*(1/23)* and Boards composed of *"figureheads"(1/23)*, such as directors who are simply elected because of their family relationships and acquaintances with shareholders or with

[20] Vide Qn. B3 p.A3.1-7.

members of management instead of for their knowledge and skills. One respondent*(1/23)* contended that rather than MM being hindered when Boards lack diversity, this occurs when there is no *"reasonable and sensible representation"* of different characters. Another respondent*(1/23)* stated that it all depends on trust and it is essential that the wrong people are not onboarded.

4.3.4 Overall barriers to effective MM in MLCs

Subsequently respondents were asked[21] to rate, according to their level of agreement, the extent to which they agreed that overall, the barriers to effectiveness of MM in MLCs are high.

Table 4.6 shows the mean rating scores of respondent answers in descending order. As shown, responses did not vary significantly*(p=0.394)*. One respondent – a company secretary – chose not to reply.

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

1 = strongly disagree, 10 = strongly agree

Table 4.6: Respondent viewpoints on overall barriers to effective MM

The overall mean shows the respondents' lack of decisiveness as to the MM barriers in MLCs. This is in line with the previous finding[22] wherein only one barrier was highly agreed to. Such uncertainty was specifically evident on the part of EDs and company secretaries in relation to the existence of high MM barriers in MLCs, arguing that the regulations imposed on MLCs ascertain *"good governance"*. Contrastingly, members of management and IDs disagreed with the existence of high MM barriers in MLCs. Opposing such existence, two IDs*(2/2)*

[21] Vide Qn. B4 p.A3.1-8.
[22] Vide Section 4.3.1.

added that, whilst in foreign listed companies shareholding is *"diluted"*, several MLCs are *"family firms"*. This incentivises effective MM because the burden of poor governance impacts directly the directors themselves who are generally also shareholders.

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

4.4 Addressing the MM Barriers

The third section of the interview schedule contained seven questions (Questions C1 – C7) which were related to addressing the MM barriers, the Board's skills, types of expertise, qualities and qualifications, Chair/CEO role duality and the ED/NED ratio.

4.4.1 Actions to overcome MM barriers

The first question of this section consisted of a list of 18 possible courses of action possibly helping to overcome MM barriers. The respondents were asked[23] to rate each statement according to their level of agreement.

Table 4.7 lists, in descending order, the mean rating scores of the respondents' answers. As one may note, rating scores for the different statements varied significantly$_{(p<0.001)}$, although all statements were confirmed as being courses of action helping to overcome such MM barriers. Rating scores for (vii) – ensuring the Board is adequately diversified$_{(p=0.031)}$ and for (iv) – prioritising adequate prior experience as Board director in any company$_{(p=0.030)}$ – varied significantly between the respondent groups[24], with the ED group being much less in agreement than the other groups.

[23] Vide Qn. C1 p.A3.1-8.
[24] Vide Appendix 4.1 p.A4.1-12.

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

iv. Prioritising adequate prior experience as Board director in any company	2.87	0.920
v. Setting a Board size threshold	2.78	1.085
x. Mandatory induction training to include case studies on team dynamics and communication	2.74	1.010
i. a. Promoting director commitment to the company by capping the number of directorships held	2.52	1.163

$X^2(17) = 95.380$, $p<0.001$ *0 = strongly disagree, 4 = strongly agree*

Table 4.7: Actions to overcome MM barriers

Interestingly, all$_{(18/18)}$ listed actions were agreed to although to a varying extent. The action mostly agreed to was (xiii) – ensuring that the CEO participates in Board meetings deemed necessary by the Board. This was followed by (xi), (viii), (ii. c.) and (xii). The respondents also confirmed the remaining courses of action (ii. b.), (i. b.), (vi), (ix), (vii), (xiv), (iii), (ii. a.), (i. c.), (iv), (v), (x), (i. a.) as possible ways to overcome MM barriers. Thus, despite receiving the lowest rating, statement (i. a.) – promoting director commitment to the company by capping the number of directorships held – was still notably positive.

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

Similarly, respondents commented on two of the courses of action least agreed to being, (v) and (i. a.). With regards to (v) – setting a Board size threshold – two respondents$_{(2/23)}$ explained that Board sizes have limited impact on MM effectiveness. This contrasts to Duke and Kankpang (2011)[25]. In relation to (i. a.), relating to multiple directorship capping – the course of action least agreed to –

[25] Vide Section 2.4.1.

a few respondents*(4/23)* added that provided that the number of directorships involved demand a reasonable amount of work and commitment, any director in that predicament could in fact contribute more to MM owing to invaluable *"experience"* and *"expertise"* acquired in other places. In view of this, one respondent*(1/4)* added that capping the number of directorships is in itself not a solution.

A few others*(2/23)* added that they oppose the listed courses of action being made compulsory as this would signify over-regulation and also possibly rendering MM a mere *"box-ticking exercise"*.

4.4.2 Board skills, types of expertise, qualities and qualifications

Indispensable Board skills, types of expertise and qualities

The respondents were then asked[26] to specify skills, types of expertise and qualities which they deemed indispensable for serving on any Board. The majority*(16/23)* cited financial and accounting skills, followed by industry-specific skills*(11/23)* and skills relating to communications*(6/23)*, strategy*(4/23)*, corporate governance practices*(4/23)*, law*(3/23)*, decision-making*(3/23),* economics*(2/23)*, business acumen*(2/23)*, negotiation*(2/23)*, leadership*(2/23)*, technicalities*(2/23)*, politics and diplomacy*(1/23)*, local knowledge*(1/23)*, teamwork*(1/23)*, enterprise*(1/23)*, analytics*(1/23)*, management*(1/23)*, and risk management*(1/23)*. Furthermore, two respondents*(2/16)* justified their emphasis on the need for finance and accounting skills by the need for their companies to have effective audit committees and to ensure adherence with the Capital Market Rules. Three other respondents*(3/6)*, who cited the need for communication skills, stated that directors need to communicate *"persuasively and convincingly"* to *"every level"* of the company.

As for any required qualities, some gave examples of having integrity*(2/23)*, objectivity*(1/23)*, an extended network of contacts*(1/23)*, being trustworthy*(1/23)*, open-minded*(1/23)* and responsible*(1/23)*. A few*(3/23)* added that their emphasis on integrity

[26] Vide Qn. C2 p.A3.1-10.

or objectivity was mainly due to the duty of directors to avoid conflicts of interest and to have an appropriate *"set of values"*.

Mandatory Board qualifications

Subsequently, the respondents were asked[27] about what kind of mandatory formal qualifications, if any, they deemed necessary for Board members to possess. Most$_{(20/23)}$ emphasised that mandatory qualifications were a *sine qua non* for all directors. Many of these$_{(16/20)}$ also added that, although mandatory, such qualifications could be a mix, with members having different qualifications. A few others$_{(4/20)}$ deemed it sufficient that such mandatory qualifications consist of an imposed minimum level of education. This would imply either a tertiary$_{(2/4)}$ or a secondary level$_{(1/4)}$, or at least having successfully completed a course in basic communication and writing skills$_{(1/4)}$.

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

In contrast, three respondents$_{(3/23)}$ stated that there are no mandatory formal qualifications Board members are to possess. In line with Baldacchino, Tabone et al. (2020)[28], they asserted that whilst they appreciate the significance of Board members having a variety of qualifications, in their view, any mandatory impositions would block the appointment of directors who, despite not having such formal qualifications, still possess invaluable *"in-depth knowledge of the company"* and vast industry-specific experience. Consistent with Hirt et al. (2016)[29], one respondent$_{(1/3)}$ held that newly elected directors need to attend induction training.

[27] Vide Qn. C3 p.A3.1-10.
[28] Vide Section 2.4.1.
[29] Vide Section 2.4.1.

4.4.3 Chair/CEO role duality in MLCs

The respondents were asked[30] to give their opinion about MLCs having Chair/CEO role duality.

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

Table 4.8: Respondent opinions about Chair/CEO role duality

As seen in Table 4.8, most*(17/23)* were against role duality in MLCs. A few*(5/23)* believe that, although the two roles should be separate, circumstances might require otherwise. One respondent*(1/23)* supported the possibility of Chair/CEO role duality without making any qualifications.

Of those opposing role duality some*(4/17)* contended that duality of office hampers the Board's monitoring function which requires the CEO to be accountable to the Board. Notably, this is in line with Duke and Kankpang (2011)[31]. Of these, one*(1/4)* described role duality as a *"disservice"* to the company since it eliminates *"one layer of checks and balances"*. Additionally respondents*(4/17)* argued that duality creates a potential for conflicts of interest and that *"acting with a dual hat"* makes it harder to separate – and therefore monitor – the management from the Board. Two respondents*(2/17)* emphasised that when role duality is implemented, the two individuals should not overstep in each other's role. In two cases*(2/17)*, the Chair/CEO role duality was not considered since the Board was completely non-executive. One respondent*(1/17)* believes that combining roles gives excess power to a single individual.

Of the respondents*(5/23)* who acknowledged circumstances warranting Chair/CEO role duality, all*(5/5)* agreed that it should possibly be avoided and if not, then this

[30] Vide Qn. C4 p.A3.1-10.
[31] Vide Section 2.4.1.

should only be exercised as a temporary arrangement*(4/5)*. One respondent*(1/4)* stated that temporary duality is better than having an individual as acting CEO without having the required *"power"*, *"expertise"*, *"knowledge"*, *"qualifications"* and confidence. Lastly, two respondents*(2/4)* share the belief that allowing Chair/CEO role duality necessitates another appointee, that is a senior ID, to hold enhanced responsibility for MM.

4.4.4 The executive/non-executive directors ratio

This section consisted of six statements comparing EDs with NEDs and IDs. The respondents were asked[32] to rate such statements according to their level of agreement.

Table 4.9 shows, in overall agreement order, the mean rating scores of the respondents' answers to the statements presented.

In comparison with EDs, NEDs and IDs:	Director type	Mean	Std. Dev.	p-value
i. introduce fresh perspectives, access to new resources and outside information	NEDs	3.39	0.583	0.059
	IDs	3.61	0.583	
	Both types	***3.5***		
iv. are less likely to collude with management	NEDs	3.26	0.619	***0.035***
	IDs	3.57	0.662	
	Both types	***3.42***		
iii. are more willing to monitor CEOs and thwart opportunistic behaviour of management	NEDs	3.22	0.600	***0.021***
	IDs	3.57	0.590	
	Both types	***3.40***		
ii. are more objective and unbiased in MM	NEDs	3.09	0.668	0.109
	IDs	3.35	0.832	
	Both types	***3.22***		

[32] Vide Qn. C5 p.A3.1-10.

vi. need to be introduced to the firm's operations, facilities, suppliers and customers	NEDs	2.87	0.815	1.000
	IDs	2.87	0.869	
	Both types	***2.87***		
v. need to be experts in the sector	NEDs	2.65	0.832	0.655
	IDs	2.61	0.783	
	Both types	***2.63***		

0 = strongly disagree, 4 = strongly agree

Table 4.9: Comparing EDs with NEDs and IDs

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

As regards the other statements wherein no significant difference was found between the respondents' agreement to NEDs and IDs, two respondents*(2/23)* added that, with respect to MM, there is little difference between having any of the two types of directors. The differences do not occur by the type of director but result from the personalities of such directors.

It was also noted that, while the lowest level of agreement was given to statement (v) – that both such directors need to be experts in the sector – three respondents(3/23) emphasised that such directors should aim to gain more relevant knowledge while on the job.

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

Subsequently, respondents were asked to comment about the Code stating that one-third of the Board should be non-executive with the majority being independent[33]. Most$_{(19/23)}$ respondents commented in line with the Code position that most NEDs should be independent. Several respondents$_{(12/23)}$ deemed that one-third of the Board being non-executive is practical, whilst others$_{(10/23)}$ called for a higher ratio of NEDs. A few$_{(3/23)}$ found no need for most non-executives to be independent, whilst one respondent$_{(1/23)}$ argued that no ratio can be regulated since any Board composition varies with the company's requirements.

Of those commenting that most NEDs are to be independent, two$_{(2/19)}$ justified their preference by the need of such directors on subcommittees including audit and remuneration committees. This is in line with Azim (2009)[34].

Most$_{(7/10)}$ of those suggesting a higher non-executive ratio asserted that NEDs need to compose at least half the Board$_{(1/7)}$ if not having a clear Board majority$_{(6/7)}$, with some$_{(3/6)}$ even proposing a two-thirds majority. Two respondents$_{(2/10)}$ emphasised that having an MLC Board composed solely of non-executives would be better since in this way there would be no undue management influence.

Of those$_{(3/23)}$ disagreeing with the recommended ratio of IDs, one respondent$_{(1/3)}$ called only for a *"reasonable representation"*. Lastly, one respondent$_{(1/3)}$ believes that as long as directors are *"conscientious"*, it suffices to have one third of the NEDs being independent.

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

The respondents were then asked[35] whether in their experience the effectiveness of MM is often positively impacted by the ratio of non-executive and/or

[33] Vide Qn. C6 p.A3.1-11.
[34] Vide Section 2.4.1.
[35] Vide Qn. C7 p.A3.1-11.

independent directors. Consistent with Fama and Jensen (1983)[36], the majority*(18/23)* was positive about this, stating that the more NEDs and/or independent directors are included in the Board, the more effective the MM. Some of these added*(4/18)* that the enhancement to MM results from the fact that NEDs and IDs normally have no interest to *"collude with management"* and are normally *"more vociferous"* and *"outspoken"*.

Another respondent*(1/23)* held that, whilst an increase in NEDs enhances MM, the number of independent NEDs was irrelevant. In contrast, one respondent*(1/23)* found MM to be of higher efficacy only when more IDs are included in the Board.

On the other hand, three respondents*(3/23)* held that such a ratio is irrelevant with respect to MM effectiveness. Two of these*(2/3)* clarified that it all depends on the directors' *"character and abilities"*. The other respondent*(1/3)* argued that *"all the directors contribute to MM"* and described EDs as the *"front liners"* of MM since they reject unsatisfactory propositions before these reach the Board.

4.5 Balancing the MM Level

The final section of the interview schedule contained three questions (Questions D1 – D3) about balancing the MM level as well as a general question for other remarks, provided there were any (Question D4).

4.5.1 Factors contributing to excessive MM

In the first question of this section, the respondents were asked[37] for their view on what may contribute to excessive MM that may cause a failure in CG.

Most*(17/23)* respondents commented that MM becomes excessive when directors, especially if they are NEDs, practically *"step into management's shoes"*, involving themselves in the day-to-day operations and *"invading the turf of the CEO"*, thus potentially and unduly influencing management decisions. Some*(5/17)* described excess MM as *"micromanagement"*. Two of these*(2/5)* interpreted

[36] Vide Section 2.4.1.
[37] Vide Qn. D1 p.A3.1-12.

micromanagement as unnecessary Board meetings whilst another respondent*(1/5)* pointed out that such type of management originates mainly from a *"lack of trust"*. Three other respondents*(3/17)* also referred to the significance of mutual trust, with one*(1/3)* emphasising that, if management is to feel *"trusted, autonomous and accountable"*, there is a continuous need for a *"balanced approach"* to MM. The directors' personalities and the way they interact with the management were also considered*(2/17)* as major determinants as to the extent of MM, whilst others*(2/17)* described MM as excessive if it allows insufficient space for the management to take action. Two respondents*(2/17)* added that the directors' *"direct involvement"*, such as by having direct communication with the management's subordinates, is *"counterproductive"* as it defies the corporate hierarchy. In this context, two added*(2/17)* that a high level of MM would only be justified when the management clearly underperforms*(1/2)* or when the Board's risk appetite and the CEO's ability to execute delegated tasks are found to be misaligned*(1/2)*.

However, two of these respondents*(2/17)* commented that excessive MM does not necessarily render CG a failure, although as one added*(1/2)*, similar excesses typically result in the projects not being completed owing to Board/management disagreements.

Whilst Boards are entitled to *"question, challenge and probe"*, a few*(4/23)* commented that MM becomes excessive when Boards demand unnecessary details from the management. It was argued that the management should not spend most of its time reporting and justifying its actions to *"extremely intrusive"* Boards as the management would thus be hindered from fulfilling its job successfully.

Lastly, two respondents*(2/23)* stated that MM is in fact very rarely excessive or having negative impact on CG, with one adding*(1/2)* that what may appear to be excessive is often the Boards simply responding to more stringent regulatory requirements.

4.5.2 Avoiding excessive MM

The respondents were subsequently asked[38] about what may be done to ensure that excessive MM does not materialise.

In this regard, most provided an answer to this question*(21/23)*, with some*(7/21)* citing *"open, clear and regular communication"* as well as *"true and accurate"* reports which convey *"sufficient information"* and ensure *"transparency"* between the management and the Board. One respondent*(1/7)* added that a balance needs to be achieved between, on the one hand, providing Board members with such information as needed for *"effective oversight"*, while on the other hand, avoiding the burdens of excessive reporting.

Others*(6/21)* emphasised the need for the management and the Board to base their relationships on *"mutual trust and respect"*. In such an environment, micromanagement is not involved and the Board is in an easier situation to assess the management's *"competence"(2/6)* particularly if it allows enough time for such an assessment*(1/6)*.

A few*(6/21)* stated that excessive MM may be avoided if directors, including the chairperson, are mindful of their roles, with one(1/6) suggesting that training is needed in this regard. Having an established MM structure was also deemed*(4/21)* contributory to the avoidance of such excesses. Two respondents*(2/4)* added that MM may best be structured if it goes hand-in-hand with sound internal control systems.

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

[38] Vide Qn. D2 p.A3.1-12.

4.5.3 Responsibility for balancing the MM level

The respondents were then asked[39] about whether they believed that, in order to balance the level of MM, a solution is to be found by the regulator/s or by each company on its own. Almost all the respondents$_{(20/23)}$ believed that a specific solution needs to be found by each company. Contrastingly, two respondents$_{(2/23)}$ suggested that this should be a combination of both. Only one respondent$_{(1/23)}$ believes that a solution is to be found by the regulator/s.

In line with Faleye et al. (2011)[40], several$_{(5/20)}$ of those suggesting that a specific solution needs to be found by each company explained that striking a balance for MM varies in different companies. Such differences might be in size and in the qualities of their CEOs, other members of management, chairpersons and directors. Others$_{(2/20)}$ argued that regulation is already tight and trying to find a balance by regulating could easily amount to an *“overkill”*. One respondent$_{(1/20)}$ added that the appropriate level of MM is continually subject to change even within the same company and that therefore a regulatory *“one-size-fits-all”* approach may in fact be detrimental.

Of the two respondents$_{(2/23)}$ who stated that a balance in the level of MM needs to be found by both the regulator/s and the individual companies, one$_{(1/2)}$ explained that, whilst the company has its part to play, regulations for listed companies which are not in regulated industries like banking and insurance, need to be amplified in this respect.

The respondent$_{(1/23)}$ who considered that a solution is to be found by the regulator/s added that, whilst ideally each company may also ultimately find its own solution, in practice it is through regulations that changes occur quickly enough. They clarified that past wrongdoings indicate that fundamentals like *“transparency”*, *“communication”*, *“integrity”* and the avoidance of *“conflicts of interest”* are easily disregarded unless imposed by regulation.

[39] Vide Qn. D3 p.A3.1-12.
[40] Vide Section 2.4.2.

4.5.4 Other remarks

Finally, the respondents were asked[41] about whether they had any other remarks. The only respondent*(1/23)* who gave such remarks pointed out that some of the Board subcommittees, such as the audit committee, also had a role to play in MM. This is because, at subcommittee level, directors have more opportunity to *“delve deeper”* and *“corroborate”* information that prevents a *“convincing”* CEO from misinforming the Board.

4.6 Conclusion

This chapter presented the findings gathered from the interviews conducted. The following chapter gives a detailed discussion of these findings.

[41] Vide Qn. D4 p.A3.1-12.

Chapter 5

DISCUSSION OF FINDINGS

5.1 Introduction

This chapter discusses the findings presented in Chapter 4. As shown in Figure 5.1, Section 5.2 evaluates the varying perceptions of MM, whilst Section 5.3 assesses the major barriers to the effectiveness of MM. Section 5.4 then discusses how such barriers to effective MM may be addressed and explores how the MM level may be balanced. Finally, Section 5.7 concludes this chapter.

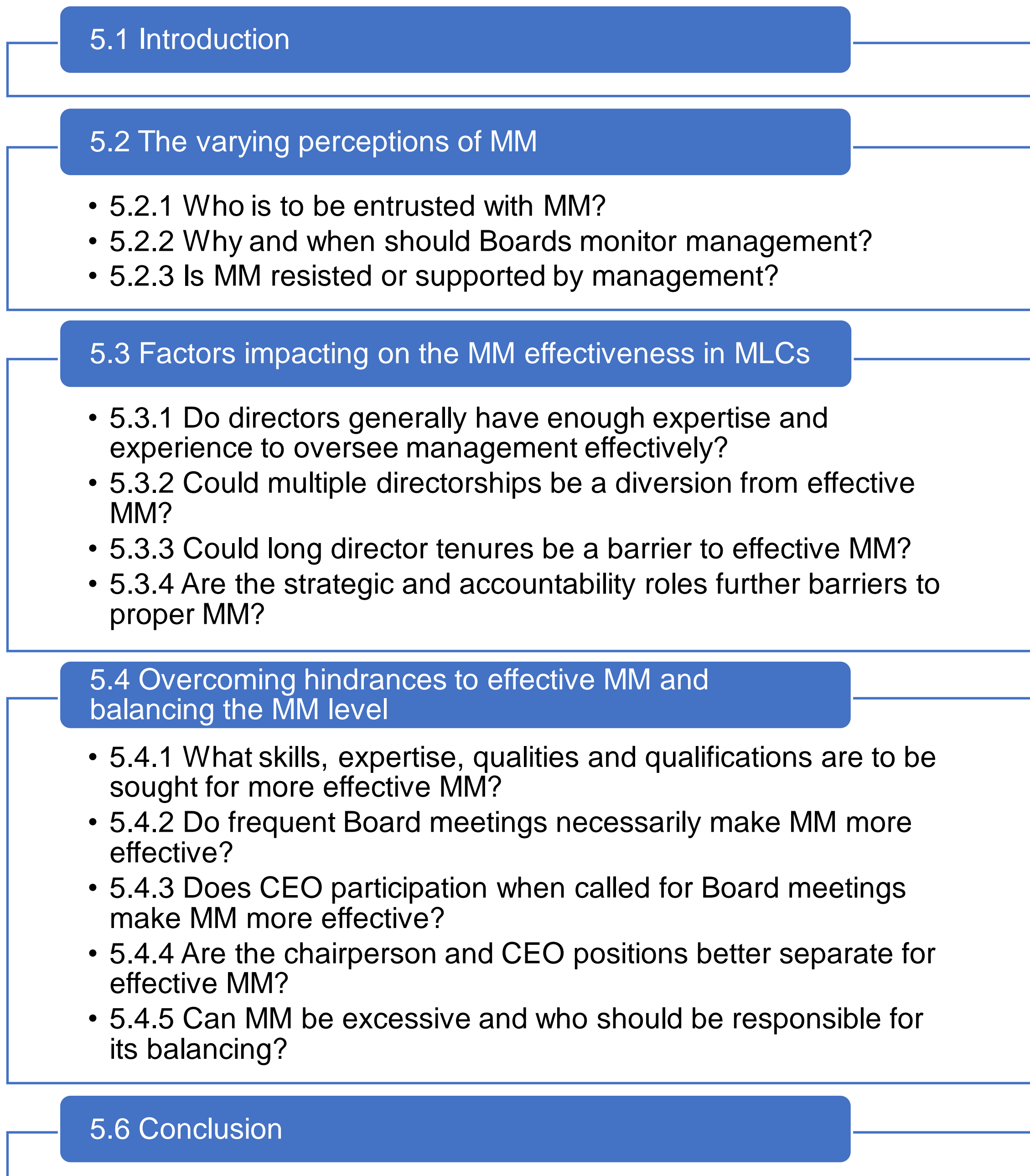

Figure 5.1: Outline of Chapter 5

5.2 The varying perceptions of MM

5.2.1 Who is to be entrusted with MM?

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

Literature[42] highlights the whole Board's monitoring role. Similarly, respondents[43] agreed that the Board is the ultimate internal monitor of management.

Boards need to take a strong interest in management actions and decision-making processes whilst ensuring that they do not take over management responsibilities, in order to remain at arm's length. However, for MM to be conducted in this manner, one may emphasise that EDs are also best included, despite any conflicts the latter may have derived from managing the company. The participation of all directors with their different perspectives – whether IDs, NEDs or EDs – will ensure that accurate, collective, and valid views of management actions and performance are obtained.

As some respondents[44] argued, each director may contribute to MM with varying degrees of effectiveness, depending on one's individual character and attitude – two aspects that are potentially at the leading edge of effective MM. Positive traits of such character and attitude, which are paramount for vigorous oversight, include directors being serious, outspoken, diligent, and transparent.

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

The indications[45] are that IDs remain the preferred monitors, followed by NEDs. This is because independence and detachment from the day-to-day running of the company are essential for effective MM[46]. NEDs and IDs may both contribute[47] almost similar benefits in their management scrutiny, asking the

[42] Vide Section 2.2.2.
[43] Vide Section 4.2 statement (i).
[44] Vide Section 4.2; Section 4.4.6.
[45] Vide Section 2.4.1; Section 4.2.
[46] Vide Carter and Lorsch (2004) Section 2.3.
[47] Vide Section 4.4.4; Section 4.4.6.

difficult questions to challenge management and tending to arrive at sound judgments without creating conflicts. Yet, clearly IDs remain in a superior position for MM because they are much less likely to have any interest in colluding with management.

Nonetheless, whilst IDs are critical for unbiased oversight, they may commonly find it more difficult to be strong monitors of management given that the latter hold far more corporate knowledge than they do. In this context, the specific difficulties arising in monitoring expert managers of complex companies were pointed out in the literature[48]. Whilst members of management are duty bound to be transparent in supplementing the Board with detailed reports, such corporate information is normally much more available to EDs given their added managerial roles. Furthermore, with their closer working relationships with the CEO and the rest of management, EDs may be in the best position to establish both the qualities and the bad habits of most managers. Therefore, EDs may clearly also contribute to MM by sharing their knowledge with the rest of the Board. Yet, such contribution needs to be subject to the rest of Board remaining cautious enough to ensure that no compromise arises in this sensitive exercise by any lack of impartiality, conflict of interest, or misinformation on the part of EDs. Particularly, EDs cannot play any decisive role in the monitoring related to any action taken by themselves. On the contrary, the rest of the Board needs to ensure that it still carries out effective MM, pressing all those involved, including the EDs themselves[49], with the appropriate questions and challenging queries.

5.2.2 Why and when should Boards monitor management?

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

It is evident that MM prevents opportunistic behaviour on the part of management[50]. This is because MM renders managerialism more difficult in that, with the transparency resulting from such an exercise, it prevents, or at least

[48] Vide Hill (2016) Section 2.2.2; Wilson (2009) Section 2.4.1.
[49] Vide Section 4.2 statement (xiv).
[50] Vide Fama and Jensen (1983) Section 2.2.2; Section 4.2 statement (ii).

minimises, the opportunities for managers to act in their own interests and against those of shareholders, and thus helps to align the interests of both parties. With their awareness of being monitored by the Board, managers are much more likely to be deterred from taking most undue actions and therefore tend to refrain from pursuing their own self-interests.

With MM, the Board will also be enabled to better understand most management actions and their implications and also gain useful insights about everyday operations. Thus, with MM the Board is in a superior position to scrutinise management performance. The exercise typically helps the Board to press for improved performance where necessary, and to intensify efforts for more positive returns for shareholders.

Could there be occasions where MM is relaxed?

Boards are entrusted by shareholders to direct the company and ensure the highest possible return[51]. Whilst the day-to-day operations are delegated to management, the Board remains accountable to the shareholders and must monitor management at all times. Since managers could be tempted to exploit opportunities in their favour, thus hindering value creation and possibly robbing shareholders of their returns on investment, Boards must be active monitors and remain continuously vigilant. However, MM must not vary according to the level of management performance and needs to be conducted even if management has been there for long, is trusted, and is not suspected of misconduct or foul play. This is in line with the findings[52]. Furthermore, ongoing MM enables Boards to collect information about the company's operations and managers' performance, which allows them to take the necessary remedial actions before it is too late.

[51] Vide Section 2.2.1.
[52] Vide Section 4.2 statement (x).

5.2.3 Is MM resisted or supported by management?

The indications[53] are that management is ambivalent in this context. On the one hand, MM does not seem to be resisted by management or to increase Board/management conflicts, with managers emphasising the Board's monitoring role more than the directors themselves. Managers respect the Board's higher rank in the corporate hierarchy, whilst acknowledging that when directors oversee their performance, they are acting on shareholder expectations[54]. Instead of being perturbed by MM, managers could be motivated to work harder to ensure that the Board is satisfied with their performance.

Yet, the situation deteriorates if, whilst monitoring, Boards are perceived to be taking an executive role and to attempt to micromanage, thus unduly influencing management's decisions. Such actions may demoralise managers who feel mistrusted by a difficult Board. This may easily create problems as management starts looking at MM as a way for the Board to infringe on their work.

5.3 Factors impacting on the MM effectiveness in MLCs

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

Competent CEOs are an essential resource for corporate success and their strong expertise cannot be a source for them being blamed for the difficulties of directors in monitoring them[55]. Yet, given the complexity of companies and ever-increasing regulations, effective MM on the part of directors is increasingly dependent on them having sufficient and appropriate experience and expertise[56], including industry-specific knowledge[57].

Well-rounded Boards must include a mix of directors, who together provide for the range of skills, knowledge and expertise relevant to the company. However,

[53] Vide Section 4.2.
[54] Vide Buchholtz et al. (2005) Section 2.2.2.
[55] Vide Section 4.3.1 barrier (xi. c.).
[56] Vide Kim et al. (2010) Section 2.3; Section 4.3.1 statement (xiv).
[57] Vide Section 4.3.1 barrier (iv).

given today's fast-paced business environments, the required areas of expertise change continually. This makes it harder for directors to effectively oversee management, as what may at present be enough for effective MM could soon be insufficient or redundant as markets evolve. Thus, it is those directors with sufficient up-to-date knowledge, who ask the appropriate questions, solicit information from management, and keep abreast with company affairs who are able to contribute to effective MM.

As previously discussed, NEDs and IDs commonly have limited access to company information and thus cannot be expected to have the same level of knowledge and experience in corporate matters as EDs. Yet, they do not necessarily lack the expertise required for effective MM because they may possess valuable experiences and wisdom, both within the same and other industries, these allowing them to probe and challenge management from a different and probably more objective perspective. Thus, they may potentially make up for their lack of firm-specific experience.

5.3.2 Could multiple directorships be a diversion from effective MM?

The question as to whether or not multiple directorships are a diversion from Boards achieving effective MM is controversial[58]. On the one hand, the advantages of such directorships are that directors might gain wider experiences that could be useful for most of the companies they monitor. For example, such directors may be more able to recognise easily when management withholds information from the Board and thus be in a better position to contribute to MM. Furthermore, given their experiences on the various Boards, such directors are probably able to understand more quickly most management actions and their implications.

On the other hand, such directors may become overstretched with the multitude of responsibilities in their various companies. The time available for them to attend regular Board meetings and to carry out their duties in any single company may be severely limited. Owing to the increased complexity of companies and

[58] Vide Kamardin et al. (2014) Section 2.3; Section 4.3.1 barrier (i).

the sheer amount of information that directors must go through, they may therefore find it difficult to conduct MM in-depth.

The question therefore arises as to whether it is in the best interest of MLCs that the directorships held by any one director would better be statutorily capped. Given the varying circumstances in which multiple directors are involved, it remains difficult to specify the level of such capping and to determine whether or not its benefits would actually outweigh the drawbacks. Therefore, even though respondents in this study seemed to favour capping, yet given its complexity, further study is required in this connection.

5.3.3 Could long director tenures be a barrier to effective MM?

Long director tenures[59] are likely to result in closer director/CEO relationships, these potentially compromising director independence, and hindering effective MM, as directors tend to become less willing to challenge management. Other long-tenure consequences include complacency, director fatigue and indifference. These also obstruct effective MM as directors become less vigilant in their oversight role. The introduction of tenure capping would permit Boards to remain afresh as new directors bring different ideas and perspectives.

Nonetheless, MLCs do not seem significantly concerned with long tenures hindering effective MM[60]. This is because long-tenured directors, with their accumulation of relevant experiences and knowledge, both in relation to the company and to the qualities and abilities of managers, may contribute to effective MM in their own way. In this context, capping directorship terms may simply result in still-performing directors, who may be difficult to replace, being forced off the Board.

A possible way out is for the Code to set a cap that allows for a range of years, for instance between five and ten years. Whilst the frequency of director rotation would still depend on the respective company, on the one hand, such capping would be wide enough to allow enough time for most directors to acquaint

[59] Vide Section 4.3.1 Table 4.4.
[60] Vide Section 4.3.1 barrier (xii).

themselves with the company and contribute effectively to MM, while on the other hand, allowing the company to reap the benefits of any accumulated knowledge and experience. Additionally, regardless of the number of years for which such capping may be set, it would probably be better if director terms are not made to expire simultaneously. Overlapping tenures would permit enough continuity and stability for new directors to be accustomed more quickly to the company and their role[61].

5.3.4 Are the strategic and accountability roles further barriers to proper MM?

Apart from monitoring management, Boards have the strategic function of setting the company's vision, mission and goals, as well as providing direction, establishing policies and governing the company. Additionally, Boards take responsibility for the company's activities and ensure transparency by presenting shareholders with detailed information about current and prospective corporate matters. Literature[62] gives contrasting views regarding the relative aspirations of directors to be monitors in comparison to such other directorship responsibilities. However, the latter responsibilities might indeed prevent the allocation of appropriate time for effective MM.

Yet, MM in itself may be inextricably linked to such other functions. This is because MM is essential for directors to be able to ensure that performance is aligned with the company's strategic vision. Furthermore, accountability is also ensured if directors monitor management and gather sufficient and reliable information for proper and accurate communication with shareholders and stakeholders.

[61] Vide Section 4.3.1 barrier (xiii).
[62] Vide Schwartz-Ziv and Weisbach (2013), Boivie et al. (2021) Section 2.2.2.

5.4 Overcoming hinderances to effective MM and balancing the MM level

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

As previously discussed, effective MM requires knowledgeable and expert directors. Thus, overcoming MM barriers requires the appointment of directors skilled in core areas such as CG, finance, strategy and entity-specific matters[63]. Directors lacking such skills may exercise little, if any, influence over management. Additionally, when appointing directors, consideration needs to be given to the expertise required both at present and in the future. This ensures that directors have an adequate range of qualifications and experiences and helps companies prepare for future training needs with the aim of helping current directors stay abreast of both company and industry developments. Otherwise, a Board that starts off as an effective monitor might soon lose its monitoring capabilities.

Yet, formal qualifications may not be a *sine qua non* to effective MM because directors lacking them might still hold significant company-specific and/or industry-specific experiences that are highly contributory to MM[64]. Furthermore, personal qualities and skills, such as integrity, objectivity, honesty, accountability, open-mindedness, teamwork skills, communication skills and good judgment may matter more than specific or technical qualifications as these remain essential for MM effectiveness.

5.4.2 Do frequent Board meetings necessarily make MM more effective?

Given that Board meetings supply directors with most corporate information, such meetings allow directors to properly articulate and eventually improve their

[63] Vide Renton (2001) Section 2.4.1; Section 4.4.1 action (viii).
[64] Vide Baldacchino, Tabone et al. (2020) Section 2.4.1; Section 4.4.2.

monitoring role[65]. Therefore, more frequent Board meetings tend to give directors additional opportunities to share their views, discuss more issues relating to current performance and to review management actions. They also help to better predict important forthcoming issues and to decide on the appropriate monitoring mechanisms. Since MM needs to be continuous, more frequent Board meetings will help to ensure a consistent level of communication both between the directors and management as well as among directors themselves. A higher meeting frequency also tends to give directors, especially the NEDs and IDs, more opportunities to discuss controversial matters with EDs, and to be able to elicit clarity from members of management who participate in such Board meetings. Thus, a higher Board meeting frequency – say exceeding the minimum of six Board meetings per annum[66] – is likely to result in more effective MM.

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

Having the CEO participate in Board meetings as deemed necessary by the Board has been found to enhance MM[67]. When management and the Board are kept separate and the CEO is invited to attend Board meetings only when and as needed, directors are likely to be more comfortable with probing the CEO when compared to when the CEO is a fellow director. Furthermore, such an arrangement allows directors to discuss certain matters, particularly in relation to MM, without the presence of members of management.

On the one hand, literature indicates[68] that when the CEO is the only ED on the Board, MM may be negatively impacted. When CEOs are given a seat at the Board table, they get a voice in the Board's decision-making process, giving them greater power and potentially obscuring the distinction between the functions of management and those of the Board. This causes tensions, because just as directors should not micromanage, the CEO should not unduly influence the

[65] Vide Kamardin et al. (2014), Vafeas (1999) Section 2.3.
[66] Vide Section 4.3.1 barrier (vi); Section 4.4.1 action (xi).
[67] Vide Section 4.4.1 action (xiii).
[68] Vide Section 2.3.

Board's decisions and monitoring processes. Also, a CEO who sits on the Board is likely to face conflicts of interest when trying to balance the distinct managerial and directorship roles, with the latter including MM. Yet, regardless of such drawbacks, CEO participation when called to the Board may not always be sufficient. Indeed, whilst in some companies CEOs strictly hold a managerial responsibility, in others they are given an *ex ufficio* Board position. Having the CEO sitting on the Board could strengthen the Board/management working relationship, increase transparency and decrease the likelihood of directors misinterpreting management's reports since information may be confirmed and further explained immediately by the CEO. This could result in the Board making more informed monitoring decisions, resulting in more effective MM. Furthermore, the CEO also being a Board member renders such CEO jointly and severally liable with the other directors in the decisions taken at this highest level. Given the valid points on both sides of the argument, more detailed research should be conducted in this respect.

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

The findings[69], literature and Code[70] all advocate for the separation of the chairperson and CEO in MLCs. Although such role duality prevents rivalry between the chairperson and the CEO and aligns the expectations of management and the Board, a more prudent structure for effective MM is probably that of separating the two roles. Having such role duality may render a single individual overly powerful and thus more subject to abuse. Whilst effective MM requires the chairperson to retain an objective view of the company's operations and the performance of management, the CEO role requires the direct involvement of the individual in setting and completing management plans. Thus, if one individual occupies these two contradictory positions, conflicts of interest are bound to increase. Such role duality also reduces MM effectiveness as the

[69] Vide Section 4.4.3.
[70] Vide Section 2.4.1.

Chair/CEO may more easily manage to conceal or delay adverse news and thus steer directors away from getting to grips in time with suspicious occurrences.

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

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

As a CG mechanism, MM aims to prevent managerial malfunctioning and protect shareholder interests. Yet, a balance needs to be reached in MM so that it will not be allowed to become excessive and thus possibly a hindrance for management to operate appropriately.

Excessive MM has been previously described[71] as directors tending to take an undue managerial role, thus bypassing the company's organisational structures and also leading to micromanaging. With such faulty MM, CG principles become a failure as director control becomes unreasonable, potentially increasing Board/management disputes to the detriment of the company's performance. An example of such excessive MM is that of directors demanding too many unnecessarily detailed reports from management rather than asking for reports conveying critical information and reflecting the expected standards from management. For a balanced MM to be achieved, both directors and management need to keep in mind their proper place in the company's hierarchy and refrain from overstepping on each other's toes.

Whilst MM needs to be strong enough to ensure the adherence to the regulatory framework, directors cannot conduct such monitoring solely with this in mind. More importantly, they need to ensure that the MM level is such that it neutralises the agency problem and promotes corporate success. Whilst regulations do respond to past malpractices and are aimed at avoiding reoccurrences, it is

[71] Vide Section 4.5.1; Section 5.2.3.

impossible for regulators to establish any MM level suiting every company. Thus, companies must find their own balanced MM level in response to their needs[72].

5.5 Conclusion

This chapter discussed the key research findings. The next chapter concludes the dissertation by presenting a summary of these findings together with recommendations and areas of further research.

[72] Vide Section 4.5.3.

Chapter 6

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter concludes the dissertation. As illustrated in Figure 6.1, Section 6.2 summarises the findings of the study, while Section 6.3 sets out the conclusions. Then, Section 6.4 provides various recommendations and Section 6.5 suggests areas for further research. Finally, Section 6.6 presents the concluding remarks.

Figure 6.1: Outline of Chapter 6

6.2 Summary

The objectives of this study were to establish how MM is perceived by both MLC Boards and their management; to ascertain and assess the major barriers to the effectiveness of such monitoring; and to address such barriers to effective MM and recommend how the MM level may be balanced.

To achieve these objectives, a mixed-methods research approach was adopted. Semi-structured interviews were conducted with 22 participants in 23 companies. These consisted of eight members of management, three EDs, two IDs and nine company secretaries, with one of the latter answering on behalf of two MLCs.

Findings indicated that MM is an important Board function. It is considered essential notwithstanding satisfactory management performance, with Boards being expected to monitor even EDs themselves whose roles may trigger conflicts of interest.

The overall barriers to effective MM in MLCs were not deemed high, with the highest barrier being the lack of appropriate director expertise. The practice of multiple directorships was found controversial because, whilst increased demands on directors do often render less time available for effective MM, yet the additional experiences of such directors were perceived as possibly enhancing MM. As to whether other Board functions, such as strategy and accountability, do obstruct effective MM, it was not established that such functions do so. Furthermore, whilst MM may be hindered by long directorship tenures, the implementation of any capping measures was not found to necessarily improve MM effectiveness, even if such measures are meant to safeguard Board independence. Additionally, CEO participation in Board meetings when required by the Board most likely helps to overcome many MM barriers, although it is yet unclear whether rendering the CEO a director rather than a participant may improve matters. Moreover, for MM to be enhanced, frequent Board meetings and director skills in fundamental subjects including CG, finance, strategy and entity-specific matters were found to be essential. A mix of Board skills and qualifications were considered ideal, although the imposition of formal qualifications was not considered essential. In addition, Chair/CEO role duality in MLCs was strongly opposed and considered a hindrance for effective MM. Moreover, whilst in terms of MM effectiveness, little, if any, distinction between directors was made, NEDs and IDs were still considered better monitors than EDs.

Finally, respondents pointed out that MM cannot be excessive. This was found to occur when it impinges on duties meant to be carried out by management. Yet, respondents did not expect any regulatory solutions for excessive MM as the matter was considered best left to be dealt with by the individual MLCs themselves.

6.3 Conclusions

This study concludes that MM is perceived to be best effected by the whole Board, including EDs. Whilst with their independence, IDs have a good reputation for MM, EDs provide company-specific knowledge that the NEDs and IDs might lack. Yet, MM includes overseeing EDs and thus, on their part, such directors cannot contribute decisively to monitoring. Furthermore, effective MM is thought to prevent managerialism and to supply directors with any relevant information. Thus, MM needs to be continuous, even when management is performing as expected. Management reaction to such oversight depends on the type of MM that is conducted. As long as the Board does not overstep on management and does not unduly influence its actions, managers will normally not be uncomfortable with being monitored and will also tend to strive harder.

The study also concludes that the highest barrier to effective MM is insufficient expertise on the part of directors. Unrelenting market developments make MM a difficult task for directors – whether they are NEDs, IDs or EDs. Notwithstanding the Board's mix of skills, knowledge and expertise, if directors do not ask the hard questions and keep themselves well informed about corporate matters, MM will be hindered. Yet, the lack of company-specific knowledge on the part of NEDs and IDs is likely counterbalanced by their experience and objectivity. Furthermore, whilst multiple directorships could enhance director competencies, they might also be a barrier to effective MM, owing to the ensuing limited time availability. Yet the solution remains unclear because of the uncertainty as to whether the benefits of capping outweigh its shortcomings. Additionally, long directorship tenures may hinder effective MM as directors might build cosy relationships with management and Board processes might become ineffective. However, whilst capping tenures preserves Board independence, it might cause

a loss of irreplaceable experience and knowledge. Thus, tenure caps might be best set for a range of years to allow flexibility in this regard. Additionally, whilst the Board's other roles apart from monitoring, including strategy and accountability, do often limit the time dedicated to MM, all Board functions should work in tandem if shareholder value is to be increased.

Barriers to effective MM can be overcome if directors hold a range of skills and expertise, especially in core areas, according to their present and future needs. Yet formal qualifications are best not made mandatory, since their absence might be counterbalanced with valuable personal qualities and skills. Furthermore, overcoming MM barriers might necessitate more frequent Board meetings, ideally more than, say, six meetings per annum. Frequent Board meetings enhance oversight, especially by NEDs and IDs, since they allow for the proper provision of information, stronger director interaction and enhanced communication, both with management and among the directors themselves. Additionally, CEO participation in Board meetings is likely to enhance MM because the CEO typically holds extensive knowledge that might increase the Board's effectiveness, whilst also permitting directors the choice to discuss any issues without management involvement. Yet, it could not be determined whether CEO participation is sufficient or whether the CEO should also be a director, regardless of concerns related to undue influence or conflicts of interest on the part of the CEO. Nonetheless, for MM to be effective, the Chair/CEO roles are better separated, except in some exceptional cases. The distinction between the two roles safeguards against having one person holding disproportionate power and ensures that the conduct of one role does not negatively impact the other. Finally, MM may become excessive if directors start managing, and particularly micromanaging, rather than controlling. Although MM is critical for good CG, its excess creates Board/management tensions, potentially destroying company value. Whilst regulations may reduce malpractices, it might be best to avoid regulatory impositions and leave it up to companies themselves to find their MM balance.

6.4 Recommendations

This study recommends that:

A. the Code recommends specific qualifications and expertise that are best found on any Board *(Section 5.3.1 and Section 5.4.1)*

The Code may go beyond recommending Boards to include directors with a diversity of knowledge, judgment and experience. It is recommended that the Code requires all Boards to include directors qualified in finance, strategy, CG and entity-specific matters. This would make the Boards robust enough for effective monitoring over expert managers, whilst continuing to permit the inclusion of directors who hold no formal qualifications yet having experience or strong personal qualities.

B. the Code suggests a maximum number of directorships that may be held simultaneously *(Section 5.3.2)*

The Code may recommend the maximum number of directorships that may be held concurrently, subject to exceptions for which proper justification is to be provided. This is a safeguard against directors taking on an excessive number of directorships and consequently being unable to conduct their role in each company effectively. However, the setting of such a maximum may require further study.

C. the Code recommends a range for tenure periods *(Section 5.3.3)*

The Code may recommend a maximum tenure ranging between five to ten years, this being shorter than the current Code recommendation of 12 years. Justification would be required for directors exceeding the actual maximum set by each company, this giving the various Boards the flexibility to decide what capping works best for them.

D. the relevant authority issues general guidelines for the achievement of an effective and balanced MM level *(Section 5.4.5)*

Companies could be provided with a general guide for balancing MM. Whilst helping companies avoid excessive MM and thus CG failures, companies would be free to find their own balance according to their specific circumstances. Achieving such balance helps to ensure that companies enhance their CG whilst not infringing on their value creation.

6.5 Areas for Further Research

The study identified the following areas requiring further research:

A. Multiple Directorships and their impact on the Corporate Governance of Maltese Listed Companies: A Study *(Section 5.3.2 and Section 6.4B)*

In line with what was stated in the previous section, a specific study may help to establish a capping for multiple directorships and also delve deeper into the benefits and ramifications of such directorships, including their impact on MM.

B. MLC Board Meeting Frequency and its Impact on the Effectiveness of Boards of Directors: A Study *(Section 5.4.2)*

Frequent Board meetings are thought to increase interactions between directors and to enhance their corporate knowledge. A specific study on the matter would provide thorough insights on this, and possibly recommend a possible range of Board meetings per annum.

C. The concept of reasonable representation in Boards of Directors of Maltese Listed Companies: A Study *(Section 4.3.3 and Section 4.4.5)*

The Code's ratio of non-executive/independent to executive directors is sensible whilst diversity in the broadest sense is imperative. Yet, otherwise appropriate directors might not be permitted to take up a directorship because appointees are preferred on the basis of their independence and their diversity. This study could consider whether the introduction of the concept of reasonable representation may be better than the imposition of ratios. The question arises as to whether

implementing such a concept would be successful, permitting a wider variety of backgrounds, perspectives and knowledge.

D. The relevance of Board of Directors size to Corporate Governance: A Maltese Listed Company Perspective *(Section 4.3.1)*

This research would analyse how Board size may impact on the CG of MLCs. Attention could also be given to how changes in circumstances might lead to companies changing such a size.

E. Balancing the monitoring, strategic and accountability roles of MLC Boards of Directors: An analysis *(Section 5.3.4)*

The Board's monitoring, strategic and accountability roles might not necessarily be in tandem. Focusing on strategy and accountability potentially hinders MM. Yet, as focus on CG increases, the MM role might be emphasised more than the Board's other roles, this being potentially detrimental for company value enhancement. Thus, this study could assess how the Board's roles may best be balanced to ensure Board and company effectiveness.

F. The involvement of CEOs in MLC Boards: A boon or a hindrance to Corporate Governance? *(Section 5.4.3)*

This study may determine the benefits and drawbacks of keeping the CEO separate from the Board versus having the CEO serving as a director. Additionally, the impact of having the CEO participate in Board meetings *ad hoc* may also be investigated. The study would determine the impact of the varying levels of CEO involvement in the Board on the effectiveness of CG.

6.6 Concluding Remarks

The Board is indeed the ultimate monitor of management. Not only is monitoring one of its main functions but, with proper Board structures and compositions, it may indeed be best placed and equipped for MM. MM effectiveness is particularly enhanced when the Board includes IDs who are both knowledgeable and experienced and can also dedicate enough time to their directorship roles.

Although regulators might not be able define an optimal MM level, finding the right balance is essential for successful CG. Ultimately, as was stated by one respondent *“while it is essential for a Board to monitor its management it will be damning if such monitoring is excessive”.*

Appendices

Appendix 1.1 Maltese Equity-Listed Companies

This appendix lists MLCs in two parts:

A. Those companies whose equity was listed on the MSE by 31st October 2021. Such companies were taken into account in the application of the interview schedule in the period starting November 2021.

B. Other companies listed on the MSE in the period 1st November 2021 to 31st March 2022. These companies were not taken into account in the application of the interview schedule.

A. Maltese equity-listed companies listed on the MSE as at 31st October 2021

1. Bank of Valletta p.l.c.
2. HSBC Bank Malta p.l.c.
3. Lombard Bank Malta p.l.c.
4. Mapfre Middlesea p.l.c.
5. Simonds Farsons Cisk p.l.c.
6. GO p.l.c.
7. International Hotel Investments p.l.c.
8. Plaza Centres p.l.c.
9. LifeStar Holding p.l.c.
10. LifeStar Insurance p.l.c
11. FIMBank p.l.c.
12. Malta International Airport p.l.c.
13. Santumas Shareholdings p.l.c.
14. MedservRegis p.l.c.
15. Grand Harbour Marina p.l.c.
16. MaltaPost p.l.c.
17. RS2 Software p.l.c.
18. MIDI p.l.c.
19. Malita Investments p.l.c.
20. Tigne Mall p.l.c.

21. Malta Properties Company p.l.c.
22. PG p.l.c.
23. Trident Estates p.l.c.
24. Main Street Complex p.l.c.
25. BMIT Technologies p.l.c.
26. Harvest Technology p.l.c.
27. VBL plc

B. Other Maltese equity-listed companies listed on the MSE in the period 1st November 2021 to 31st March 2022

1. Hili Properties p.l.c.
2. AX Real Estates p.l.c.
3. M&Z p.l.c.

Appendix 3.1 Interview Schedule

This appendix exhibits the interview schedule that was used during the semi-structured interviews carried out for the purpose of this research study. The schedule also demonstrates the responses for each Likert scale question, in **bold** and *italics*.

List of Abbreviations

Board	Board of Directors
Code	Code of Principles of Good Corporate Governance
ED	Executive Director
ID	Independent Director
MLCs	Maltese Listed Companies
MM	Management Monitoring
NED	Non-executive Director

Definitions

1. **Executive and non-executive director:** An executive director (ED) is a member of the Board of Directors (Board) who besides being a director is also engaged in an executive position, whilst a non-executive director (NED) is not so engaged.

2. **Independent director** (ID)**:** A member of the Board who does not have any professional, family or other relationship with the company, its controlling shareholders or its management.

Section A

A. The Agency Problem and the Monitoring of Management

A1. *Kindly indicate the extent to which you agree/disagree with the following statements by rating from 0 to 4.*

0 = strongly disagree, 4 = strongly agree

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
i. The Board is the ultimate internal monitor of management	*0*	*0*	*2*	*8*	*13*
ii. Management monitoring (MM) prevents opportunistic behaviour and achieves positive returns for shareholders	*0*	*0*	*2*	*6*	*15*
iii. In any company MM is the Board's most important role	*1*	*3*	*5*	*11*	*3*
iv. MM renders the Board adequately aware of the CEO/management qualities and limitations	*0*	*1*	*3*	*8*	*11*
v. The main goal of MM is to challenge managerial decisions and to prevent managerial opportunism	*0*	*1*	*2*	*10*	*10*
vi. The following courses of action impact negatively on shareholder value:					
a. management is routinely kept at arm's length by the Board	*3*	*2*	*4*	*8*	*6*

b. the Board rubber stamps rather than seriously challenging management proposals where necessary	*1*	*2*	*0*	*4*	*16*
vii. Most Boards only take a decision against management proposals as a last resort	*4*	*7*	*8*	*1*	*3*
viii. It is difficult for directors to hold sufficient corporate knowledge to monitor management effectively	*2*	*11*	*6*	*4*	*1*
ix. MM by the Board is often resisted by management and raises the probability of Board/management conflicts	*3*	*10*	*7*	*3*	*0*
x. MM by the Board is required even if management is known to be doing its work properly	*0*	*1*	*0*	*6*	*16*
xi. Oversight by the Board guards against any excesses brought about by the day-to-day power of management	*0*	*0*	*2*	*8*	*13*
xii. NEDs are best suitable for MM	*0*	*0*	*7*	*3*	*13*
xiii. EDs still have a role in MM, albeit less than that of NEDs	*1*	*5*	*2*	*7*	*8*
xiv. Even EDs themselves need to be subject to MM	*0*	*0*	*1*	*6*	*16*

Section B

B. Major Barriers to MM Effectiveness

B1.1 *Kindly indicate the extent to which you agree/disagree with the following statements by rating from 0 to 4.*

0 = strongly disagree, 4 = strongly agree

The following may be barriers to effective MM:	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
i. Multiple directorships	***1***	***4***	***4***	***10***	***4***
ii. Unrelated outside jobs	***1***	***5***	***5***	***8***	***4***
iii. Outside job workloads	***0***	***2***	***1***	***14***	***6***
iv. Insufficient industry-specific knowledge	***0***	***0***	***4***	***13***	***6***
v. The Board being too large or too small	***1***	***3***	***4***	***11***	***4***
vi. Holding less than six Board meetings per annum	***0***	***0***	***4***	***10***	***9***
vii. The Board placing most emphasis on its strategic and accountability roles	***1***	***3***	***8***	***10***	***1***
viii. Having EDs with much more company-specific experience than the non-executive ones	***3***	***4***	***6***	***10***	***0***
ix. There being information asymmetries between management and directors	***0***	***1***	***4***	***11***	***7***

x. There being Chair/CEO duality of office	***0***	***2***	***1***	***7***	***13***
xi. Having a CEO:					
a. who is long-tenured	***2***	***4***	***9***	***7***	***2***
b. who is domineering	***1***	***1***	***5***	***10***	***6***
c. with more industry-specific knowledge	***4***	***5***	***6***	***7***	***1***
d. who is secretive	***1***	***0***	***1***	***6***	***15***
xii. Having long-tenured directors (e.g., more than 12 years)	***2***	***3***	***7***	***7***	***5***
xiii. Having newly engaged directors	***2***	***4***	***9***	***8***	***1***
xiv. Having directors lacking appropriate expertise	***0***	***0***	***3***	***5***	***15***
xv. The Board being insufficiently diverse[1]	***0***	***0***	***3***	***5***	***15***
xvi. Having director/s closely related to the CEO	***0***	***2***	***5***	***10***	***6***
xvii. There being inertia due to the large size of the company	***0***	***0***	***2***	***11***	***10***
xviii. The company being too complex	***0***	***4***	***8***	***8***	***3***
xix. The company being too spread out in markets and products	***1***	***3***	***9***	***7***	***3***

[1] Diversity implies a group of people who differ from one another on the basis of certain aspects such as age, gender, knowledge, qualifications and experience.

B1.2

Large Boards may be ineffective in MM since they:	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
i. are faced with more coordination and communication problems	***0***	***5***	***7***	***8***	***3***
ii. commonly suffer from some directors being free riders or relying on responsibility being shared with the other directors	***0***	***1***	***4***	***12***	***6***
Others (if any) please specify:					

B1.3

Long-tenured directors may be ineffective in MM since they:	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
iii. become familiar and tend to relate closely to management over time	***0***	***3***	***3***	***13***	***4***
iv. often hinder the introduction of fresh talent in the boardroom	***1***	***1***	***8***	***9***	***4***
Others (if any) please specify:					

B2. The Code recommends a 12-year upper limit for directorship terms, beyond which a NED would be rendered non-independent. What is your opinion about this?

B3. You may wish to comment on other barriers to effective MM, if any.

B4. On a scale from 1 to 10, how far do you agree that overall, the barriers to effectiveness of MM in Maltese Listed Companies (MLCs) are high?

1 = strongly disagree, 10 = strongly agree

Section C

C. Addressing the Monitoring Barriers

C1. *Kindly indicate the extent to which you agree/disagree with the following statements by rating from 0 to 4.*

0 = strongly disagree, 4 = strongly agree

The following courses of action may help to overcome MM barriers:	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
i. Promoting director commitment to the company by:					
a. capping the number of directorships held	***2***	***1***	***9***	***7***	***5***
b. requiring full disclosure of all executive and/or non-executive roles held	***0***	***1***	***2***	***6***	***14***
c. requiring disclosure of the total time commitment required for other positions/appointments beyond those within the company	***1***	***1***	***6***	***7***	***8***
ii. Increasing such director commitment by ensuring that the company:					
a. provides enough opportunities for widening networks	***0***	***0***	***6***	***10***	***7***

b. remunerates directors fairly	*0*	*0*	*2*	*8*	*13*
c. remains cautious about maintaining its reputation	*0*	*0*	*3*	*5*	*15*
iii. Imposing a minimum level of qualifications for directors	*0*	*1*	*4*	*7*	*11*
iv. Prioritising adequate prior experience as Board director in any company	*0*	*2*	*5*	*10*	*6*
v. Setting a Board size threshold	*1*	*1*	*7*	*7*	*7*
vi. Regularly reviewing the Board's composition to ensure it is aligned with changing circumstances	*0*	*1*	*0*	*11*	*11*
vii. Ensuring the Board is adequately diversified[1]	*0*	*1*	*1*	*10*	*11*
viii. Requiring directors to have appropriate skills in at least one of the following; corporate governance, finance, strategy and entity-specific skills	*0*	*1*	*0*	*3*	*19*
ix. Imposing mandatory induction training on newly engaged directors	*0*	*1*	*2*	*8*	*12*
x. Mandatory induction training to include case studies on team dynamics and communication	*0*	*3*	*6*	*8*	*6*
xi. Ensuring regular Board meetings	*0*	*0*	*0*	*6*	*17*
xii. Prohibiting role duality	*0*	*0*	*2*	*7*	*14*

xiii. Ensuring that the CEO participates in Board meetings deemed necessary by the Board	***0***	***0***	***0***	***2***	***21***
xiv. Making the Board chairperson and secretary responsible for ensuring the integrity of corporate information passed on to NEDs	***1***	***0***	***2***	***9***	***11***

Board skills, types of expertise, qualities and qualifications:

C2. Are there any specific skills, types of expertise and qualities which you deem indispensable on any Board?

C3. What kind of mandatory formal qualifications, if any, do you deem as being necessary for Board members to possess?

Chair/CEO role duality:

C4. What is your opinion about having *(or not having)* Chair/CEO role duality in MLCs?

The executive/non-executive directors ratio:

C5. *Kindly indicate the extent to which you agree/disagree with the following statements by rating from 0 to 4.*

0 = strongly disagree, 4 = strongly agree

	NEDs					**IDs**				
In comparison with EDs, NEDs and IDs:	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
i. introduce fresh perspectives, access to new resources and outside information	***0***	***0***	***1***	***12***	***10***	***0***	***0***	***1***	***7***	***15***

ii. are more objective and unbiased in MM	***0***	***0***	***4***	***13***	***6***	***0***	***0***	***5***	***5***	***13***
iii. are more willing to monitor CEOs and thwart opportunistic behaviour of management	***0***	***0***	***2***	***14***	***7***	***0***	***0***	***1***	***8***	***14***
iv. are less likely to collude with management	***0***	***0***	***2***	***13***	***8***	***0***	***0***	***2***	***6***	***15***
v. need to be experts in the sector	***0***	***1***	***10***	***8***	***4***	***0***	***1***	***10***	***9***	***3***
vi. need to be introduced to the firm's operations, facilities, suppliers and customers	***0***	***1***	***6***	***11***	***5***	***0***	***1***	***7***	***9***	***6***

C6. The Code recommends that one third of the Board should be non-executive with the majority being independent. What comments do you have about such position taken by the Code?

C7. In your experience is the effectiveness of MM often positively impacted by the ratio of directors who are

a. non-executive and/or

b. independent?

Section D

D. Balancing the MM Level

Some may argue that with excessive MM corporate governance is also bound to fail.

D1. In your view what may contribute to such excessive MM?

D2. What may be done to ensure that such excessive MM does not materialise?

D3. In order to balance the level of MM, do you believe that a solution is to be found by:

a. the regulator/s

b. each company on its own

D4. Other remarks, if any.

Respondent characteristics

1. What is your role in the company?
    - Executive director
    - Non-executive director
    - Independent director
    - Company secretary
    - Member of management *(Kindly specify)*
2. Age: _______________
3. Gender: ____________
4. How long have you been on the Board/part of management team?

If a member of the Board:

5. Number of Boards in which you were or still are a member: __________
6. Number of Boards in which you are a member now: ________________
7. Do you hold any professional designations/qualifications? *(Kindly specify)*

Appendix 3.2 Statistical Data Analysis using the Friedman Test

The Friedman test is a non-parametric test which was used to compare mean rating scores between a number of related statements in five (Questions A1, B1.1, B1.2, B1.3, C1)[74] of the 5-point Likert scale questions. The mean rating scores ranged from 0 to 4, where 0 corresponds to ‘strongly disagree’ and 4 corresponds to ‘strongly agree’, thus implying that the higher the mean rating score, the higher the agreement with the given statement.

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

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

The error bar graphs provided in this appendix supplement the statistical tables disclosed in Chapter 4. These give a graphical illustration of the differences, significant or otherwise, between the level of agreement to the statements in each Likert scale question and clearly demonstrate the Friedman test results.

The error bar graphs present the 95% confidence intervals of the actual mean rating score provided to a statement if the whole population of MLCs had to be included in the study. When two confidence intervals overlap considerably, the indications are that their mean rating scores are comparable. However, when two confidence intervals overlap slightly or are disjointed, the indications are that their mean rating scores differ significantly.

[74] Vide Appendix 3.1.

Section A1: The Agency Problem and the Monitoring of Management

Figure A3.2.1 below illustrates the level of respondents' agreement to the given statements. As shown, the error bar of (xiii) does not overlap the error bars of (xiv), (x), (ii), (viii) and (ix) and only slightly overlaps with the error bars of (xi), (i) and (vii). Similarly, the error bars of (vi. a.) and (iii) do not overlap with error bars of (xiv), (x), (ii), (xi), (i) and (ix) and only slight overlap with the error bars of (vi. b.), (v), (iv), (xii), (vii) and (viii). Also, error bar of (vii) does not overlap the error bars of (xiv), (x), (ii), (xi), (i), (vi. b.), (v), (iv) and (xii) and only slightly overlaps the error bars of (xiii), (vi. a.) and (iii). Lastly, both error bars of (viii) and (ix) do not overlap with (xiv), (x), (ii), (xi), (i), (vi. b.), (v), (iv), (xii), (xiii) and (iii), whilst error bar (ix) also does not overlap the error bar of (vi. a.).

This shows that the mean rating scores differ significantly, which is confirmed by a p-value of less than 0.001 (that is less than the 0.05 level of significance).

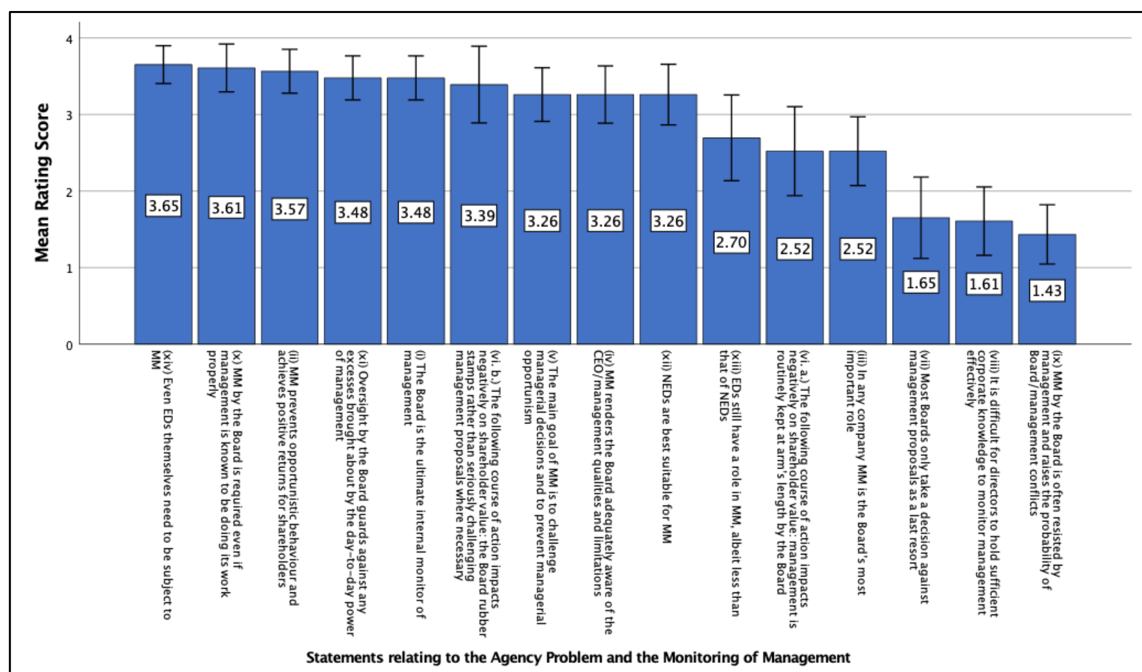

Figure A3.2.1: The Agency Problem and MM (Qn. A1)

Section B1: Potential Barriers to Effective MM

Figure A3.2.2 below illustrates the level of respondents' agreement to the given potential barriers to MM. As shown, the error bars of barriers (xiv), (xi. d.) and (xvi) do not overlap the error bars of barriers (xvii), (v), (i), (xviii), (xii), (ii), (xix), (vii), (xi. a.), (xiii), (viii) and (xi. c.) and only slightly overlap the error bar of barriers (iv), (ix), (iii), (xv) and (xi. b.).

This shows that the mean rating scores differ significantly, which is confirmed by a p-value of less than 0.001 (that is less than the 0.05 level of significance).

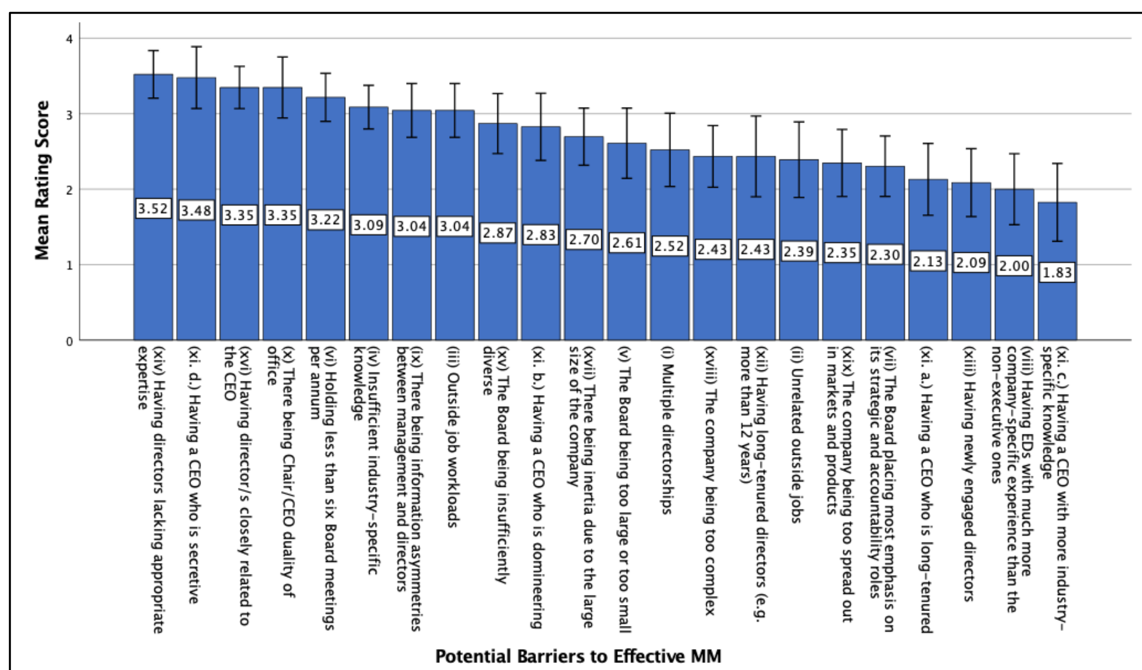

Figure A3.2.2: Potential Barriers to Effective MM (Qn. B1.1)

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

Figure A3.2.3 below illustrates the level of respondents' agreement to the given statements regarding the impact of Boards size on MM effectiveness. The only slightly overlapping error bars indicate that the mean rating scores provided to the two statements differ significantly. This is confirmed by a p-value of 0.004 (that is less than the 0.05 level of significance).

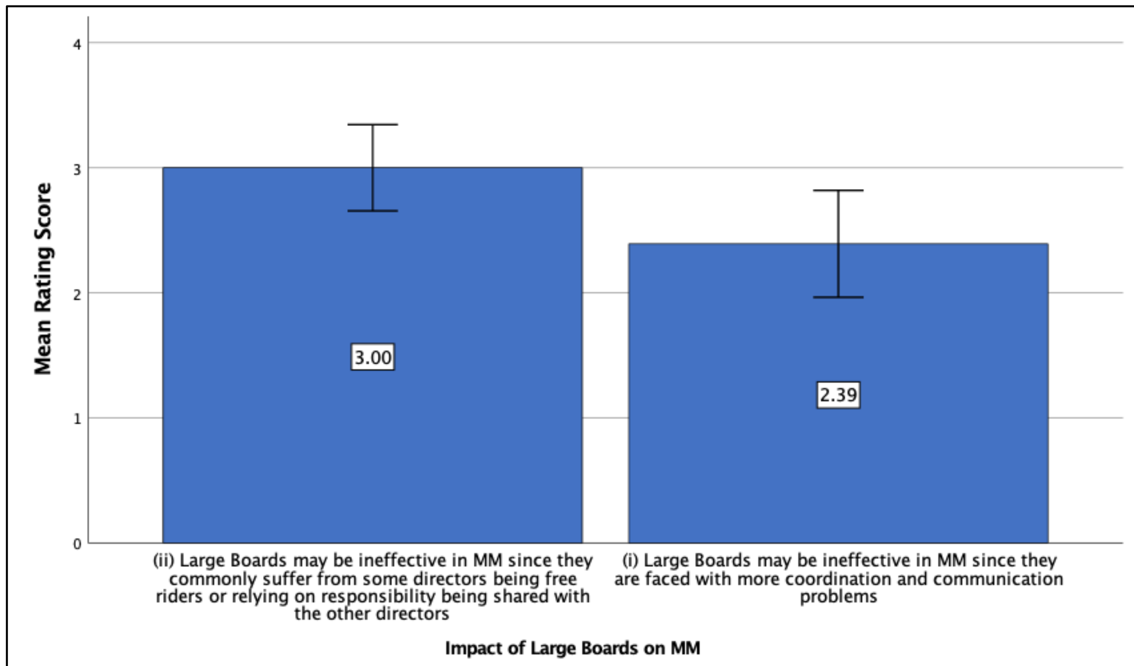

Figure A3.2.3: Impact of Large Boards on MM (Qn. B1.2)

Potential Barriers to Effective MM arising from Long Tenures

Figure A3.2.4 below illustrates the level of respondents' agreement to the given statements regarding the impact of long tenures on MM effectiveness. The considerably overlapping error bars indicate that the mean rating scores provided to statements (i) and (ii) are comparable. This is confirmed by a p-value of 1.000 (that is more than the 0.05 level of significance).

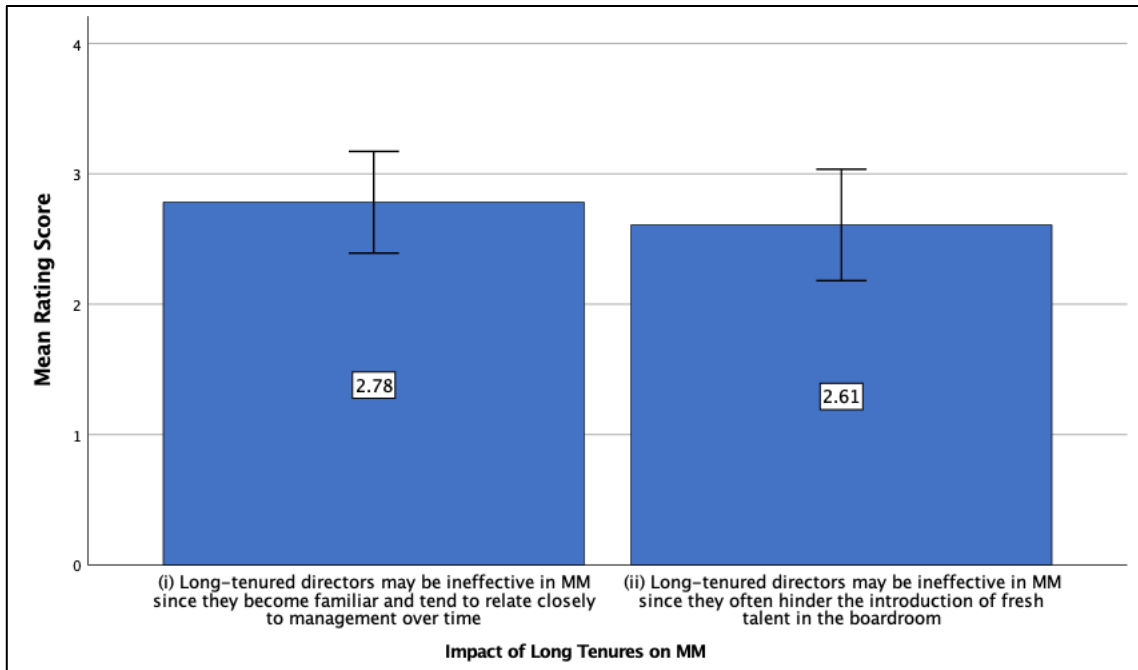

Figure A3.2.4: Impact of Long Tenures on MM (Qn. B1.3)

Section C1: Actions to Overcome MM Barriers

Figure A3.2.5 below illustrates the level of respondents' agreement to the given courses of action. As shown, the error bar of (xiii) – the highest rated course of action – overlaps slightly only on the error bars of (xi), (viii), (ii. c.), (xii) and (i. b.) but does not overlap the error bars of (ii. b.), (vi.), (ix), (vii), (xiv), (iii), (ii. a.), (iv), (i. c.), (v), (x) and (i. a.). Similarly, the error bar of (i. a.) – the lowest rated course of action – does not overlap the error bars of (xiii), (xi), (viii), (ii. c.), (xii), (ii. b.), (i. b.), (vi) and only slightly overlaps with the error bars of (ix), (vii), (xiv), (iii) and (ii. a.).

This shows that the mean rating scores differ significantly, which is confirmed by a p-value of less than 0.001 (that is less than the 0.05 level of significance).

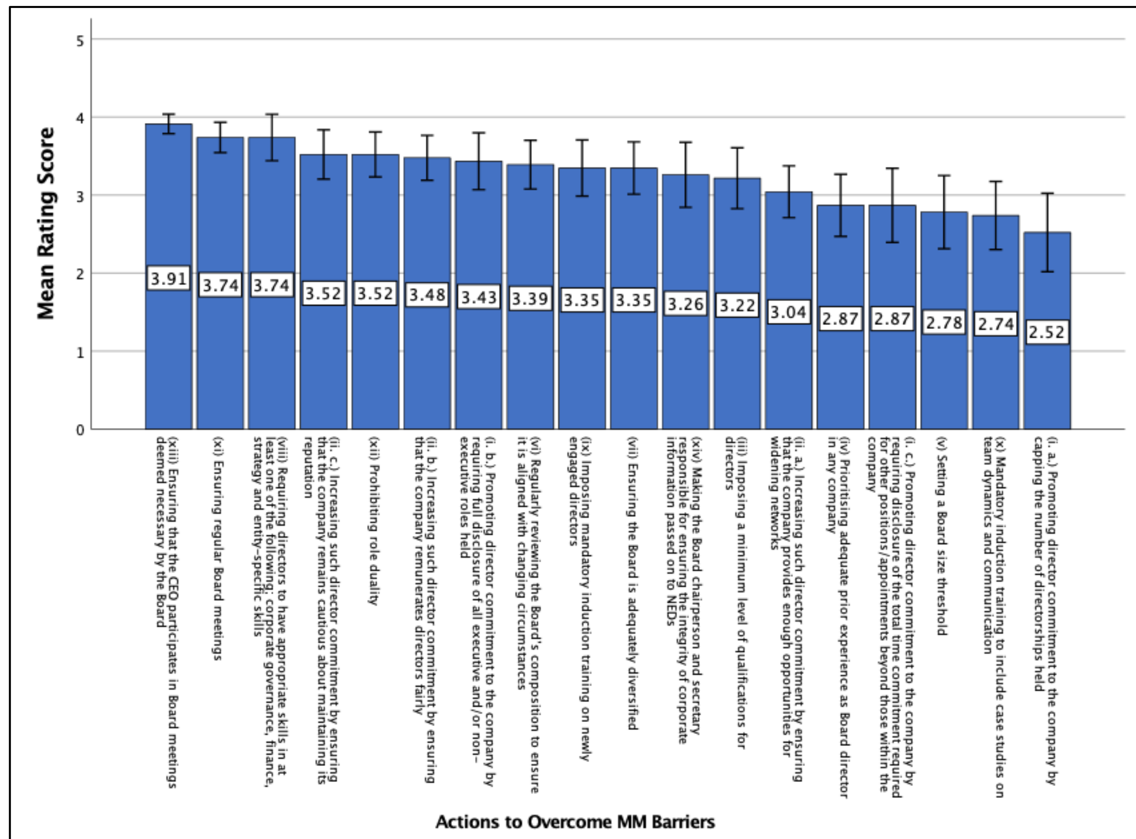

Figure A3.2.5: Actions to Overcome MM Barriers (Qn. C1)

Appendix 3.3 Statistical Data Analysis using the Kruskal Wallis Test

The Kruskal Wallis test was used to compare mean rating scores provided to a statement between groups of participants clustered by their position in the company *(company secretaries, EDs, IDs and members of management)* in five (Questions A1, B1.1, B1.2, B1.3, C1)[75] 5-point Likert scale questions and in the 10-point Likert scale question (Question B4)[76]. The mean rating scores range from 0 to 4, where 0 corresponds to 'strongly disagree' and 4 corresponds to 'strongly agree'.

The **null hypothesis (H_0)** specifies that the mean rating scores provided to the statement vary marginally between the groups 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 statement vary significantly between the groups and is accepted if the p-value is less than the 0.05 criterion.

[75] Vide Appendix 3.1.
[76] Vide Appendix 3.1.

Appendix 3.4 Statistical Data Analysis using the Wilcoxon Signed Rank Test

The Wilcoxon signed ranks test is used to compare mean rating scores provided to two positions in the company by the same group of participants for one Likert scale question (Question C5)[77]. The mean rating scores range from 0 to 4, where 0 corresponds to ‘strongly disagree’ and 4 corresponds to ‘strongly agree’.

The **null hypothesis (H_0)** specifies that the mean rating scores provided vary marginally between the two positions 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 vary significantly between the two positions and is accepted if the p-value is less than the 0.05 criterion.

[77] Vide Appendix 3.1.

Appendix 4.1 Kruskal Wallis Test Results

The tables below give the Kruskal Wallis test results. The statements in questions A1, B1.1, B1.2, B1.3 and C1 for which mean rating scores vary significantly between the respondent groups are shaded in grey and with the p-values in **bold** and *italics*.

Section A1: The Agency Problem and the Monitoring of Management

Statements	Group	Sample size	Mean	Std. Dev.	p-value
i. The Board is the ultimate internal monitor of management	EDs	3	3.33	0.577	0.283
	IDs	2	3.00	0.000	
	Company Secretaries	10	3.70	0.675	
	Members of Management	8	3.38	0.744	
ii. MM prevents opportunistic behaviour and achieves positive returns for shareholders	EDs	3	4.00	0.000	0.205
	IDs	2	3.50	0.707	
	Company Secretaries	10	3.70	0.675	
	Members of Management	8	3.25	0.707	
iii. In any company MM is the Board's most important role	EDs	3	2.67	0.577	***0.040***
	IDs	2	1.50	0.707	
	Company Secretaries	10	3.10	0.876	
	Members of Management	8	2.00	1.069	
iv. MM renders the Board adequately aware of the CEO/management	EDs	3	2.67	0.577	0.251
	IDs	2	3.50	0.707	

qualities and limitations	Company Secretaries	10	3.50	0.972	
	Members of Management	8	3.13	0.835	
v. The main goal of MM is to challenge managerial decisions and to prevent managerial opportunism	EDs	3	3.00	0.000	0.227
	IDs	2	3.50	0.707	
	Company Secretaries	10	3.50	0.972	
	Members of Management	8	3.00	0.756	
vi. a. The following course of action impacts negatively on shareholder value: management is routinely kept at arm's length by the Board	EDs	3	1.67	0.577	***0.029***
	IDs	2	2.50	0.707	
	Company Secretaries	10	3.30	1.252	
	Members of Management	8	1.88	1.356	
vi. b. The following course of action impacts negatively on shareholder value: the Board rubber stamps rather than seriously challenging management proposals where necessary	EDs	3	3.00	1.732	0.278
	IDs	2	3.50	0.707	
	Company Secretaries	10	3.90	0.316	
	Members of Management	8	2.88	1.553	
vii. Most Boards only take a decision against management proposals as a last resort	EDs	3	2.33	1.528	0.321
	IDs	2	2.50	0.707	
	Company Secretaries	10	1.70	1.418	
	Members of Management	8	1.13	0.835	

viii. It is difficult for directors to hold sufficient corporate knowledge to monitor management effectively	EDs	3	1.67	1.155	0.796
	IDs	2	1.00	0.000	
	Company Secretaries	10	1.60	0.966	
	Members of Management	8	1.75	1.282	
ix. MM by the Board is often resisted by management and raises the probability of Board/management conflicts	EDs	3	1.67	1.155	0.287
	IDs	2	2.50	0.707	
	Company Secretaries	10	1.40	0.966	
	Members of Management	8	1.13	0.641	
x. MM by the Board is required even if management is known to be doing its work properly	EDs	3	3.00	0.000	0.057
	IDs	2	3.50	0.707	
	Company Secretaries	10	3.70	0.949	
	Members of Management	8	3.75	0.463	
xi. Oversight by the Board guards against any excesses brought about by the day-to-day power of management	EDs	3	3.00	0.000	0.229
	IDs	2	3.50	0.707	
	Company Secretaries	10	3.70	0.675	
	Members of Management	8	3.38	0.744	
xii. NEDs are best suitable for MM	EDs	3	2.33	0.577	***0.026***
	IDs	2	2.00	0.000	
	Company Secretaries	10	3.70	0.675	
	Members of Management	8	3.38	0.916	

xiii. EDs still have a role in MM, albeit less than that of NEDs	EDs	3	1.67	1.155	0.286
	IDs	2	3.50	0.707	
	Company Secretaries	10	3.00	1.414	
	Members of Management	8	2.50	1.195	
xiv. Even EDs themselves need to be subject to MM	EDs	3	3.33	0.577	0.263
	IDs	2	3.50	0.707	
	Company Secretaries	10	3.90	0.316	
	Members of Management	8	3.50	0.756	

Table A4.1.1: The agency problem and MM (Qn. A1)

Section B1.1: Potential Barriers to Effective MM

Potential barriers to effective MM:	Group	Sample size	Mean	Std. Dev.	p-value
i. Multiple directorships	EDs	3	1.33	0.577	***0.016***
	IDs	2	2.50	0.707	
	Company Secretaries	10	3.30	0.675	
	Members of Management	8	2.00	1.195	
ii. Unrelated outside jobs	EDs	3	1.33	0.577	0.097
	IDs	2	2.50	0.707	
	Company Secretaries	10	3.00	1.054	
	Members of Management	8	2.00	1.195	
iii. Outside job workloads	EDs	3	3.00	0.000	0.098
	IDs	2	3.50	0.707	
	Company Secretaries	10	3.40	0.699	
	Members of Management	8	2.50	0.926	
iv. Insufficient industry-specific knowledge	EDs	3	3.00	0.000	0.583
	IDs	2	3.00	1.414	
	Company Secretaries	10	3.30	0.675	
	Members of Management	8	2.88	0.641	
v. The Board being too large or too small	EDs	3	3.00	1.000	0.928
	IDs	2	2.50	0.707	

	Company Secretaries	10	2.60	0.966	
	Members of Management	8	2.50	1.414	
vi. Holding less than six Board meetings per annum	EDs	3	2.67	0.577	0.226
	IDs	2	3.50	0.707	
	Company Secretaries	10	3.50	0.707	
	Members of Management	8	3.00	0.756	
vii. The Board placing most emphasis on its strategic and accountability roles	EDs	3	2.33	0.577	***0.026***
	IDs	2	1.00	1.414	
	Company Secretaries	10	2.90	0.568	
	Members of Management	8	1.88	0.835	
viii. Having EDs with much more company-specific experience than the non-executive ones	EDs	3	2.33	0.577	0.611
	IDs	2	1.00	1.414	
	Company Secretaries	10	2.10	1.101	
	Members of Management	8	2.00	1.195	
ix. There being information asymmetries between management and directors	EDs	3	3.00	1.000	0.844
	IDs	2	3.50	0.707	
	Company Secretaries	10	2.90	0.994	
	Members of Management	8	3.13	0.641	
x. There being Chair/CEO duality of office	EDs	3	3.00	1.000	0.548
	IDs	2	4.00	0.000	

	Company Secretaries	10	3.50	0.527	
	Members of Management	8	3.13	1.356	
xi. a. Having a CEO who is long-tenured	EDs	3	3.00	1.000	0.154
	IDs	2	2.50	0.707	
	Company Secretaries	10	2.30	1.160	
	Members of Management	8	1.50	0.926	
xi. b. Having a CEO who is domineering	EDs	3	3.00	1.000	0.983
	IDs	2	3.00	1.414	
	Company Secretaries	10	2.80	1.135	
	Members of Management	8	2.75	1.035	
xi. c. Having a CEO with more industry-specific knowledge	EDs	3	2.67	0.577	0.408
	IDs	2	2.50	0.707	
	Company Secretaries	10	1.60	1.430	
	Members of Management	8	1.63	1.061	
xi. d. Having a CEO who is secretive	EDs	3	4.00	0.000	0.253
	IDs	2	4.00	0.000	
	Company Secretaries	10	3.30	1.337	
	Members of Management	8	3.38	0.518	
xii. Having long-tenured directors (e.g., more than 12 years)	EDs	3	3.67	0.577	0.140
	IDs	2	3.00	1.414	

	Company Secretaries	10	2.40	1.265	
	Members of Management	8	1.88	1.126	
xiii. Having newly engaged directors	EDs	3	2.33	0.577	0.787
	IDs	2	2.50	0.707	
	Company Secretaries	10	1.80	1.135	
	Members of Management	8	2.25	1.165	
xiv. Having directors lacking appropriate expertise	EDs	3	2.67	0.577	0.074
	IDs	2	3.00	1.414	
	Company Secretaries	10	3.80	0.422	
	Members of Management	8	3.63	0.744	
xv. The Board being insufficiently diverse	EDs	3	2.00	0.000	0.109
	IDs	2	3.50	0.707	
	Company Secretaries	10	3.20	0.789	
	Members of Management	8	2.63	1.061	
xvi. Having director/s closely related to the CEO	EDs	3	4.00	0.000	0.206
	IDs	2	3.50	0.707	
	Company Secretaries	10	3.30	0.675	
	Members of Management	8	3.13	0.641	
xvii. There being inertia due to the large size of the company	EDs	3	2.67	0.577	0.980
	IDs	2	2.50	0.707	

	Company Secretaries	10	2.70	1.160	
	Members of Management	8	2.75	0.707	
xviii. The company being too complex	EDs	3	2.67	0.577	0.806
	IDs	2	2.00	0.000	
	Company Secretaries	10	2.40	1.265	
	Members of Management	8	2.50	0.756	
xix. The company being too spread out in markets and products	EDs	3	2.67	0.577	0.616
	IDs	2	2.00	0.000	
	Company Secretaries	10	2.10	1.370	
	Members of Management	8	2.63	0.744	

Table A4.1.2: Potential barriers to effective MM (Qn. B1.1)

Section B1.2: Potential Barriers to Effective MM arising from the Board's Size

Large Boards may be ineffective in MM since they:	Group	Sample size	Mean	Std. Dev.	p-value
i. are faced with more coordination and communication problems	EDs	3	2.67	0.577	0.943
	IDs	2	2.50	0.707	
	Company Secretaries	10	2.30	1.059	
	Members of Management	8	2.38	1.188	
ii. commonly suffer from some directors being free riders or relying on responsibility being shared with the other directors	EDs	3	2.67	0.577	0.458
	IDs	2	2.50	0.707	
	Company Secretaries	10	3.00	0.943	
	Members of Management	8	3.25	0.707	

Table A4.1.3: Impact of large Boards on MM (Qn. B1.2)

Section B1.3: Potential Barriers to Effective MM arising from Long Tenures

Long-tenured directors may be ineffective in MM since they:	Group	Sample size	Mean	Std. Dev.	p-value
i. become familiar and tend to relate closely to management over time	EDs	3	3.67	0.577	0.098
	IDs	2	2.00	0.000	
	Company Secretaries	10	2.80	0.789	
	Members of Management	8	2.63	1.061	
ii. often hinder the introduction of fresh talent in the boardroom	EDs	3	2.67	1.155	0.262
	IDs	2	1.50	0.707	
	Company Secretaries	10	2.80	1.135	
	Members of Management	8	2.63	0.744	

Table A4.1.4: Impact of long tenures on MM (Qn. B1.3)

Section C1: Actions to Overcome MM Barriers

The following courses of action may help to overcome MM barriers:	Group	Sample size	Mean	Std. Dev.	p-value
i. a. Promoting director commitment to the company by capping the number of directorships held	EDs	3	1.33	1.155	0.308
	IDs	2	3.00	1.414	
	Company Secretaries	10	2.80	0.789	
	Members of Management	8	2.50	1.414	
i. b. Promoting director commitment to the company by requiring full disclosure of all executive and/or non-executive roles held	EDs	3	2.33	0.577	0.074
	IDs	2	3.50	0.707	
	Company Secretaries	10	3.50	0.972	
	Members of Management	8	3.75	0.463	
i. c. Promoting director commitment to the company by requiring disclosure of the total time commitment required for other positions/ appointments beyond those within the company	EDs	3	1.67	1.528	0.110
	IDs	2	4.00	0.000	
	Company Secretaries	10	3.10	1.101	
	Members of Management	8	2.75	0.707	
ii. a. Increasing such director commitment by ensuring that the company provides enough	EDs	3	2.33	0.577	0.120
	IDs	2	2.50	0.707	
	Company Secretaries	10	3.40	0.843	

opportunities for widening networks	Members of Management	8	3.00	0.535	
ii. b. Increasing such director commitment by ensuring that the company remunerates directors fairly	EDs	3	4.00	0.000	0.147
	IDs	2	3.00	0.000	
	Company Secretaries	10	3.60	0.699	
	Members of Management	8	3.25	0.707	
ii. c. Increasing such director commitment by ensuring that the company remains cautious about maintaining its reputation	EDs	3	3.67	0.577	0.869
	IDs	2	3.00	1.414	
	Company Secretaries	10	3.60	0.699	
	Members of Management	8	3.50	0.756	
iii. Imposing a minimum level of qualifications for directors	EDs	3	2.67	1.528	0.328
	IDs	2	3.00	1.414	
	Company Secretaries	10	3.60	0.699	
	Members of Management	8	3.00	0.756	
iv. Prioritising adequate prior experience as Board director in any company	EDs	3	1.67	0.577	***0.030***
	IDs	2	3.00	0.000	
	Company Secretaries	10	3.40	0.699	
	Members of Management	8	2.63	0.916	
v. Setting a Board size threshold	EDs	3	2.33	0.577	0.194
	IDs	2	3.00	1.414	
	Company Secretaries	10	3.30	0.823	

	Members of Management	8	2.25	1.282	
vi. Regularly reviewing the Board's composition to ensure it is aligned with changing circumstances	EDs	3	3.00	0.000	0.244
	IDs	2	4.00	0.000	
	Company Secretaries	10	3.50	0.527	
	Members of Management	8	3.25	1.035	
vii. Ensuring the Board is adequately diversified	EDs	3	2.67	0.577	***0.031***
	IDs	2	4.00	0.000	
	Company Secretaries	10	3.70	0.483	
	Members of Management	8	3.00	0.926	
viii. Requiring directors to have appropriate skills in at least one of the following; corporate governance, finance, strategy and entity-specific skills	EDs	3	3.67	0.577	0.654
	IDs	2	4.00	0.000	
	Company Secretaries	10	3.90	0.316	
	Members of Management	8	3.50	1.069	
ix. Imposing mandatory induction training on newly engaged directors	EDs	3	3.33	0.577	0.261
	IDs	2	4.00	0.000	
	Company Secretaries	10	3.60	0.516	
	Members of Management	8	2.88	1.126	
x. Mandatory induction training to include case studies	EDs	3	2.67	0.577	0.656
	IDs	2	3.50	0.707	

on team dynamics and communication	Company Secretaries	10	2.80	1.033	
	Members of Management	8	2.50	1.195	
x. Ensuring regular Board meetings	EDs	3	3.33	0.577	0.230
	IDs	2	3.50	0.707	
	Company Secretaries	10	3.90	0.316	
	Members of Management	8	3.75	0.463	
xii. Prohibiting role duality	EDs	3	3.33	1.155	0.714
	IDs	2	4.00	0.000	
	Company Secretaries	10	3.50	0.527	
	Members of Management	8	3.50	0.756	
xiii. Ensuring that the CEO participates in Board meetings deemed necessary by the Board	EDs	3	4.00	0.000	0.893
	IDs	2	4.00	0.000	
	Company Secretaries	10	3.90	0.316	
	Members of Management	8	3.88	0.354	
xiv. Making the Board chairperson and secretary responsible for ensuring the integrity of corporate information passed on to NEDs	EDs	3	3.67	0.577	0.064
	IDs	2	4.00	0.000	
	Company Secretaries	10	2.70	1.160	
	Members of Management	8	3.63	0.518	

Table A4.1.5: Actions to overcome MM barriers (Qn. C1)

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