



# Enhancing Board Effectiveness in Maltese Public Sector Entities: An Analytical Study



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**Abstract:** This study critically evaluates Board Effectiveness (BE) within Maltese Public Sector Entities (MPSEs), with a focus on five key aspects: board selection and appointment, board role, board composition, board remuneration, and board performance evaluation. Semi-structured interviews were conducted with twenty-two participants, including eighteen MPSE board members (BMs), a representative from the Malta Institute of Directors, two corporate lawyers, and one corporate advisor. The findings indicate significant deficiencies in BE, particularly due to a lack of transparency in the selection and appointment process. This process is often influenced by political loyalties, which exclude new talent and discourage competent individuals. The identification of BMs as Politically Exposed Persons (PEPs) further restricts the inclusion of diverse talent, particularly among entrepreneurs. Additionally, insufficient training for BMs and persistent political pressures have been found to hinder the fulfilment of fiduciary duties. Female representation on MPSE boards is notably low, and foreign appointments are rare, thereby weakening the overall board composition. Moreover, the remuneration for MPSE BMs is significantly lower than that in the private sector, adversely impacting the quality of BMs. Resistance to implementing performance evaluations, which could potentially reduce political protection, has also been observed to impede BE. This study underscores the necessity of strengthening corporate governance (CG) practices to enhance BE in MPSEs, which is crucial for fostering a thriving economy and creating a positive legacy for future generations.

**Keywords:** Corporate governance (CG); Board of directors; Board Effectiveness (BE); Maltese Public Sector Entities (MPSEs); Political loyalties; Fiduciary duties; Board composition; Performance evaluation

**JEL Classification:** D71; E6; H4; H83; J18

## 1. Introduction

The concept of CG emerged with the development of limited liability companies, addressing the increasing conflicts arising from the agency relationship between owners and management. Historically undervalued before the 1990s, CG gained widespread recognition following several notable corporate collapses, such as Enron in the United States and Parmalat in Italy, which were attributed to weak CG frameworks. While CG lacks a universally accepted definition, it is generally described as "the system by which companies are directed and controlled" (Cadbury, 1992). Effective CG ensures accountable and transparent decision-making processes, safeguarding the interests of all stakeholders and fostering business integrity, financial stability, and long-term growth.

Boards of directors are central to achieving high standards of CG. They are responsible for overseeing management's decisions, formulating strategy, and promoting business success, thus mitigating conflicts of interest and addressing the classic agency problem resulting from the separation of ownership and control within

organisations. Good CG practices are equally vital within Public Sector Entities (PSEs) to ensure a public sector that contributes to long-term GDP growth and prevents failures that can result in significant losses borne by taxpayers.

This study evaluates BE within MPSEs, which are entities directly or indirectly controlled by the Maltese government and established under the Companies Act. The objectives are twofold: (1) to analyse BE within MPSEs through a comprehensive examination of key BE aspects, specifically board selection and appointment, board role, board composition, board remuneration, and board performance evaluation, and (2) to recommend potential solutions for enhancing the effectiveness of MPSEs' Boards in promoting good CG for the benefit of Maltese society.

#### **Research Questions:**

- What are the main challenges in selecting and appointing MPSE BMs?
- How do board composition and remuneration affect BE in MPSEs?
- What are the impacts of inadequate BM training on fulfilling fiduciary duties?
- How does the identification of BMs as PEPs influence board diversity and effectiveness?
- What resistance exists to implementing board performance evaluations, and how does it impact BE?

By addressing these questions, this paper aims to raise awareness about the necessity of strengthening CG practices and enhancing BE within MPSEs, especially in small states. It offers strategies to achieve BE, which is essential for fostering a thriving economy and creating a positive legacy for future generations.

## **2. Methodology**

### **2.1 Key Themes in BE**

#### **2.1.1 Definition and importance of BE**

Moyo (2016) defines BE as "the degree to which a board of directors achieves the purpose of its existence." BE enhances an entity's overall performance (Conheady et al., 2015) and maximises shareholder wealth, playing a crucial role in ensuring sustainable long-term growth (Garde Sánchez et al., 2020).

#### **2.1.2 Fundamental aspects of BE**

**Board selection and appointment:** Effective selection and appointment are crucial, as inadequate selection processes can lead to incompetent BMs (Mwaura, 2007). Political interference in public sector board appointments often results in instability and poor performance (Vagliasindi, 2008).

**Board role:** Boards typically have control, strategic, and resource-dependence roles. Effective fulfillment of these roles is essential for good CG (Arnwine, 2002; Browning & Sparks, 2016).

**Board composition:** Diversity in gender, nationality, and skills is critical for a well-functioning board. Gender and nationality diversity can enhance decision-making quality and bring varied perspectives (Baldacchino et al., 2021; Brammer et al., 2009).

**Board remuneration:** Competitive remuneration packages are necessary to attract and retain high-caliber directors (Cadbury, 1992; Greenbury, 1995). Underpayment in public sector boards can demotivate members and reduce BE (Sari & Tjoe, 2017).

**Board performance evaluation:** Regular performance evaluations help identify non-performing directors and improve BE (Kiel & Nicholson, 2005; Van den Berghe & Levrau, 2004).

### **2.2 Gaps in Literature**

#### **2.2.1 Transparency and political interference in board appointments**

There is limited research on the transparency of the board selection process in small states like Malta, particularly regarding political interference and its impact on BE. Political loyalties often dictate appointments, excluding competent individuals and discouraging participation due to concerns over non-partisan reputation (Kuzman et al., 2018; Vagliasindi, 2008).

#### **2.2.2 Training and development of BMs**

Insufficient attention is given to ongoing training and development programs for BMs in PSEs. Lack of adequate training programs limits BMs' ability to fulfill their fiduciary duties effectively (OECD, 2021).

#### **2.2.3 Gender and nationality diversity**

There is a need for more in-depth studies on the impact of low female and foreign representation on the effectiveness of public sector boards. Current literature suggests that gender diversity leads to better supervision and decision-making (Brammer et al., 2009; Triki Damak, 2018). However, female representation on MPSE Boards is notably low, and foreign appointments are rare (Baldacchino et al., 2022a).

#### 2.2.4 Remuneration discrepancies

Research on the impact of remuneration discrepancies between public and private sector boards on BE is needed. Lower remuneration on public sector boards compared to the private sector adversely affects the quality of BMs (Sari & Tjoe, 2017).

#### 2.2.5 Performance evaluation resistance

There is a lack of comprehensive studies on the resistance to implementing performance evaluations in PSEs. Resistance to performance evaluations often stems from a desire to maintain political protection and avoid accountability (Kiel & Nicholson, 2005).

### 2.3 Link to Stewardship Theory

#### 2.3.1 Stewardship theory constructs

Stewardship theory posits that stewards (BMs) are motivated to act in the best interests of their organisations and stakeholders, prioritising long-term success and community well-being over personal gains (Davis et al., 1997). Key constructs include intrinsic motivation, organisational identification, and the alignment of interests between stewards and stakeholders.

#### 2.3.2 Findings and stewardship theory

The study highlights that many competent individuals are discouraged from joining MPSE boards due to political interference and a lack of transparency, undermining their intrinsic motivation and organisational identification. Enhancing transparency and reducing political influence can align the interests of BMs with those of the organisation, fostering a stronger sense of stewardship. Additionally, stewardship theory emphasises the importance of diverse perspectives for effective decision-making. The low female and foreign representation on MPSE boards weakens the overall board composition, suggesting that promoting gender and nationality diversity can enhance BE by bringing in varied viewpoints and expertise aligned with the stewardship model. Proper training and development are crucial for BMs to fulfil their fiduciary duties effectively, a core aspect of stewardship theory. The lack of adequate training programs identified in the study underscores the need to invest in ongoing professional development to maintain high standards of governance and stewardship. Furthermore, regular performance evaluations are essential for accountability and continuous improvement, reflecting stewardship theory's focus on the organisation's long-term success. The resistance to implementing such evaluations in MPSEs highlights a gap that needs to be addressed to ensure effective stewardship.

#### 2.3.3 Extending stewardship theory in the public sector context

This research extends stewardship theory by illustrating unique challenges MPSEs face, such as political interference and inadequate training, which are less prevalent in private sector contexts. The findings suggest that stewardship theory needs to account for these public sector-specific issues to provide a more comprehensive framework for enhancing BE. Implementing strategies to mitigate political influence, promote diversity, and ensure continuous development can modify the stewardship model to suit public sector environments better. By addressing these gaps and linking the findings to stewardship theory constructs, this study provides a stronger theoretical foundation and offers practical recommendations to enhance BE in MPSEs, ultimately contributing to better CG and societal outcomes.

## 3. Research Methodology

### 3.1 The Theoretical Framework

The research was based on the stewardship theory applied in the context of CG by the boards of directors in the PSEs. The focus was on the idea that BMs are seen as stewards entrusted with fiduciary duties to act in the best interest of both their entity and the community in their management of public resources. The theory also underscores the importance of accountability and transparency in the boards' actions and how board structures, processes, and dynamics impact such actions. Effective boards are expected to engage in strategic decision-making that aligns with the public interest and addresses societal needs. They are also expected to have enough incentives for their members' appropriate stewardship behaviour to be encouraged to foster a culture of public service, integrity, and a commitment to the common good.

### 3.2 Semi-Structured Interviews

Semi-structured interviews were selected as the most suitable research tool to align with the research objectives, despite certain limitations discussed in Section 3.3. This method employs a schedule comprising a mix of closed-

ended and open-ended predetermined questions (Adams, 2015), ensuring comprehensive coverage of all topics relevant to the research objectives (Harrell & Bradley, 2009). Participants are encouraged to express themselves freely, and the interviewer may probe responses to explore emerging ideas spontaneously during the interview.

### 3.2.1 Development of the semi-structured interview protocol

**Objective mapping:** The interview schedule for this study was specifically developed for current BMs of MPSEs and Corporate Governance Experts (CGEs). It was designed to directly map to the research objectives and questions, ensuring that all critical aspects of BE were thoroughly explored. The protocol was divided into five main sections, each addressing one of the five fundamental aspects of BE:

#### 1. Board Selection and Appointment:

- Objective: To understand the transparency and criteria involved in the selection and appointment process.
- Research question: What are the main challenges in selecting and appointing MPSE BMs?
- Protocol questions: Participants were asked about the transparency of the nomination process, the influence of political affiliations, and the criteria used for selecting BMs. Close-ended questions on a Likert scale gauged agreement on statements regarding political ties and transparency.

#### 2. Board Role:

- Objective: To evaluate how well the boards fulfill their control, strategy, and resource-dependence roles.
- Research question: How do board composition and remuneration affect BE in MPSEs?
- Protocol questions: Questions focused on the frequency and nature of board meetings, CEOs' involvement, and specialised committees' existence. Follow-up questions probed the effectiveness of these roles and the challenges faced in fulfilling them.

#### 3. Board Composition:

- Objective: To assess the diversity and qualifications of BMs.
- Research question: How does inadequate board member training affect fulfilling fiduciary duties?
- Protocol questions: Participants were queried about gender and nationality diversity, the academic qualifications of BMs, and the perceived adequacy of the local talent pool. Open-ended questions allowed for a deeper understanding of the challenges of achieving a diverse and qualified board.

#### 4. Board Remuneration:

- Objective: To analyse the fairness and sufficiency of board remuneration packages.
- Research question: How does the identification of BMs as PEPs influence board diversity and effectiveness?
- Protocol questions included the structure of remuneration packages, a comparison with private sector remuneration, and the impact of remuneration on BM motivation and retention. Likert scale questions assessed agreement on the sufficiency and fairness of remuneration.

#### 5. Board Performance Evaluation:

- Objective: To investigate the practices and challenges of evaluating board performance.
- Research question: What resistance exists to implementing board performance evaluations, and how does it impact BE?
- Protocol questions: Participants were asked about the existence and effectiveness of performance evaluations, the challenges in implementing them, and their impact on BE. Follow-up questions explored the reasons for resistance to evaluations and suggestions for improvement.

### 3.2.2 Ensuring comprehensive coverage

The interview protocol included closed-ended and open-ended questions to ensure that all topics relevant to the research objectives were covered. Closed-ended questions utilised a five-point Likert scale, ranging from '0' (strongly disagree) to '4' (strongly agree), allowing for quantitative analysis of responses. Open-ended questions allowed participants to elaborate on their experiences and insights, facilitating the exploration of nuanced perspectives and emerging themes.

### 3.2.3 Addressing variability and bias

One limitation of the semi-structured interviews was their inherent flexibility, which could lead to variability in the depth and scope of the information gathered. This was mitigated by having the same interviewer conduct all interviews and using follow-up questions as necessary. The open-ended nature of some questions introduced the risk of researcher bias or interpretation variance. To mitigate this, in-depth discussions were held among the first two co-authors to reach a consensus on the interpretation of responses, ensuring that the analysis remained objective and grounded in the data.

### 3.2.4 Sensitivity to political context

The study's political content posed sensitivity issues, particularly in Malta's politically polarised environment,

leading to potential subjectivity and reluctance in participant responses. To address this, the interviewer maintained a courteous and neutral stance throughout the discussions, fostering an environment where participants felt comfortable sharing their views. Conclusions were derived by considering the perspectives of both MPSE BMs and CGEs, ensuring a balanced and comprehensive analysis.

By meticulously developing and implementing the semi-structured interview protocol, the study aimed to gather rich, detailed data that could provide a thorough understanding of BE within MPSEs while addressing potential biases and limitations inherent in the research methodology.

### **3.3 Sample Population**

The sample population was identified using a list of MPSEs from the Government of Malta's official website and the Malta Business Registry (MBR), which provides an online database of all registered companies in Malta. Twenty-two interviews were conducted in total: eighteen with BMs covering twenty-five MPSEs (as some BMs serve on multiple boards) and four with CGEs, including two corporate lawyers, a representative from the Malta Institute of Directors, and a corporate advisor. BMs were chosen for their practical experience with MPSE boards and CG practices, while CGEs were included for their expert insights, enriching the analysis of the research topic.

### **3.4 Data Analysis and Limitations**

The data analysis process was meticulously structured to ensure a comprehensive and accurate analysis. Qualitative data was sourced from open-ended interview questions and the researcher's probing into participants' Likert scale ratings. All interviews were transcribed and summarised to facilitate the identification of similarities and differences across responses. This transcription process was essential for maintaining data accuracy and allowed for a detailed thematic analysis, where recurring themes and patterns were identified and categorised.

Quantitative data was derived from close-ended questions, primarily using Likert scale ratings. The Friedman Test was employed to compare mean Likert scale ratings across related statements, allowing for the identification of significant differences within the same group of participants. This non-parametric test was chosen for its suitability for analysing ranked data from multiple related samples. Additionally, the Mann-Whitney Test was utilised to compare mean Likert scale ratings between the two groups of interviewees (BMs and CGEs). This test is particularly useful for determining significant response variations between two independent groups, providing insights into differing perspectives on BE.

One limitation of the semi-structured interviews was their inherent flexibility, which could lead to variability in the depth and scope of the information gathered. This potential variability was mitigated by having the same interviewer conduct all interviews, ensuring consistency in questioning and follow-up. Using follow-up questions as necessary allowed for a deeper exploration of emerging themes while maintaining a consistent interview framework.

The open-ended nature of some questions introduced the risk of researcher bias or interpretation variance. To mitigate this risk, in-depth discussions were held among the first two co-authors to reach a consensus on interpreting responses. This collaborative approach helped ensure the analysis remained objective and grounded in the data.

The study's political content also posed sensitivity issues, particularly in Malta's politically polarised environment. This led to potential subjectivity and reluctance in participant responses. To address this, the interviewer maintained a courteous and neutral stance throughout the discussions, fostering an environment where participants felt comfortable sharing their views. Conclusions were derived by considering the perspectives of both MPSE BMs and CGEs, ensuring a balanced and comprehensive analysis.

Combining qualitative thematic analysis with robust quantitative statistical tests, the study aimed to provide a thorough and nuanced understanding of BE within MPSEs while addressing potential biases and limitations inherent in the research methodology.

## **4. Research Findings**

### **4.1 Board Selection and Appointment**

#### **4.1.1 Challenges surrounding the selection and appointment of MPSE BMs**

Participants were asked to rate and comment on their agreement with several statements regarding challenges in selecting and appointing PSE Boards, using a scale from 0 ('Strongly Disagree') to 4 ('Strongly Agree').

##### *(i) Political ties as the main selection criterion for MPSE BM appointments*

Participants widely acknowledged ( $\bar{x} = 2.91$ ) that political ties are a primary criterion for MPSE BM appointments. One participant noted, "Unfortunately, that is how it always was in Malta" (1/13 BMs). However,

some disagreed, arguing that political ties are not the main factor considered by ministers (3/5 BMs) and that this does not always hold true (2/5 BMs, 3/4 CGEs).

(ii) *Change in government followed by change in MPSE BMs*

All participants unanimously agreed ( $\bar{x} = 4.0$ ) that a change in government leads to a change in MPSE BMs. As discussed in Section 4.1.1, MPSE BMs typically offer their resignation after a governmental change, and incoming ministers often prefer to appoint their "people of trust," resulting in complete overhauls of MPSE boards, which can hinder BE.

(iii) *Competent individuals' reluctance to be appointed as MPSE BMs*

Most participants ( $\bar{x} = 3.27$ ) expressed disappointment that many competent individuals are reluctant to accept positions on MPSE boards, negatively impacting BE. Three main reasons were identified for this reluctance:

**Becoming a PEP:** A major reason for reluctance is the classification as a PEP upon appointment (13/18 BMs, 3/4 CGEs). BMs view this status as burdensome due to rigorous background checks and scrutiny by banks, which also extends to close family members (6/13 BMs). Some BMs reported being off-boarded by banks due to their PEP status, causing significant distress. This status is particularly disadvantageous for entrepreneurs whose business operations can be disrupted by delays caused by enhanced scrutiny. Additionally, the classification as a PEP means that even serving on multiple MPSE boards does not increase the level of scrutiny, leading to an overloaded schedule and an inadequate contribution to each board.

**Perceived political association:** Many participants (5/18 BMs, 2/4 CGEs) noted concerns over reputational harm from perceived political association. BMs are often seen as politically aligned with the government in power, overshadowing their achievements and attracting negative media attention.

**Poor remuneration:** Poor remuneration for MPSE BMs was another factor for reluctance, discussed further in Section 4.4.

(iv) *Lack of transparency in the nomination process for MPSE BMs*

Participants largely disagreed ( $\bar{x} = 0.41$ ) that the nomination process for MPSE BMs is transparent. The methodology used by ministers is not publicly available. Some participants (8/18 BMs, 3/4 CGEs) suggested implementing a public call system to enhance transparency and promote equity, although a CGE warned that "strong political will" is necessary for such a system to be implemented.

## 4.2 Board Role

### 4.2.1 Board meeting protocol: Frequency, attendance, and CEO participation

**Frequency of MPSE board meetings:** Over 80% of BMs indicated that their MPSE holds monthly board meetings. Some (4/15 BMs) added that informal virtual meetings are held for urgent matters, enabling prompt responses and timely decisions. This frequency exceeds the minimum of six meetings per year recommended by Baldacchino et al. (2022b), indicating satisfactory monitoring and BE.

**BMs' attendance to MPSE board meetings:** Attendance rates were reported to range between 80% and 100%, with virtual attendance positively impacting this rate.

**CEO's participation in MPSE board meetings:** BMs (16/18) affirmed that it is customary for the CEO to participate in board meetings ex-officio, guiding the agenda and providing strategy updates without voting rights. Several BMs (5/16) emphasised the importance of the CEO's participation so that the board would stay attuned to strategic issues and effectively fulfill its strategic role (Browning & Sparks, 2016).

### 4.2.2 Board committees in MPSE boards

BMs were asked whether the MPSEs on which they serve have board committees and to name them. Their feedback is presented in Table 1.

**Table 1.** Types of board committees found in MPSEs

Type of Committee	Interviewed MPSEs in November 2022 – March 2023			
	Large MPSEs (N= 5; n=5)		Small and Medium MPSEs (N=49; n=20)	
	No. of MPSEs	%	No. of MPSEs	%
Audit	3	60%	4	20%
Risk Management	2	40%	3	15%
Nomination	0	0%	0	0%
Remuneration	0	0%	0	0%
Investment	0	0%	2	10%
Procurement	0	0%	2	15%
Corporate Social Responsibility (CSR)	0	0%	1	5%
None	2	40%	14	70%

Note: N = population size; n = sample size  
Source: Authors' own

Among the large MPSEs interviewed, 60% have established an audit committee, while 40% have not set up any board committees. In contrast, only 20% of small and medium MPSEs have established an audit committee, with the majority (70%) having no board committees at all, indicating a lack of formal governance structures in smaller MPSEs. Additionally, neither large nor small and medium MPSEs have established nomination or remuneration committees for BMs, as these matters are handled exclusively by the parent ministry and government.

4.2.3 Written procedures for MPSE board operations

Participants were asked if they followed any written and formal procedures for MPSE Board operations and CG. A minority (6/18 BMs) acknowledged adherence to the Guidelines for Public Interest Entities issued by the Malta Financial Services Authority (MFSA) in 2006, which outline their roles and responsibilities. However, these participants noted a lack of awareness of these guidelines and insufficient monitoring to ensure compliance. Several participants (4/6 BMs) suggested the need for updated guidelines to address emerging CG challenges and the political elements inherent in MPSEs. Additionally, many participants (10/18 BMs) reported an absence of formal, entity-specific procedures to guide their roles as BMs.

4.2.4 Challenges surrounding the role of the board in MPSEs

Participants were provided with three statements regarding perceived obstacles to fulfilling board roles in PSEs and were asked to rate and comment on their level of agreement using a scale from 0 ('Strongly Disagree') to 4 ('Strongly Agree').

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

Responses were mixed regarding this challenge ( $\bar{x} = 2.27$ ). Some participants (9/18 BMs) argued that MPSE Boards perform their roles without government interference, while others (2/18 BMs, 4/4 CGEs) contended that government intervention is a reality, with instances where BMs invite such intervention to secure reappointment (2/4 CGEs). Some participants (7/18 BMs) took a neutral stance, suggesting that the extent of government interference depends on the personalities of the board directors and the respective ministers. CGEs (4/4) emphasised the need for boards to operate independently of political interventions. The two respondent groups differed significantly on the extent of government intervention as an obstacle to MPSEs' BE, with BMs more likely to acknowledge it and CGEs strongly disagreeing. CGEs believed BMs lacked objectivity in their decision-making, while BMs felt they were objective.

(ii) *MPSE BMs are objective in their decision-making*

Participants had mixed views on this challenge ( $\bar{x} = 1.55$ ). Some agreed that there is a lack of objectivity (8/18 BMs, 4/4 CGEs), citing a tendency to avoid challenging ideas to maintain favour with the minister (1/4 CGEs). Others (6/18 BMs) argued that BMs generally act in the company's best interest. The remaining participants (4/18 BMs) were neutral, noting that board commitment to CG varies among individuals.

(iii) *Adequate training programmes for MPSE BMs*

Most participants ( $\bar{x} = 1.00$ ) acknowledged that MPSEs fail to provide adequate training for BMs throughout their tenure. Some (2/14 BMs, 2/4 CGEs) urged that it is "about time" MPSEs take board training seriously to keep BMs abreast of changes and fulfill their duties effectively. Conversely, others (7/14 BMs) argued that mandatory training would be "unnecessary" (4/6 BMs), "offensive" (2/6 BMs), and an "inconvenience" (1/6 BMs) due to their busy schedules and experience. A few participants (4/18 BMs) mentioned that their MPSEs provide formal or informal training programs, indicating some effort towards BE.

4.3 Board Composition

4.3.1 Gender diversity on MPSE boards

An analysis of the MBR website revealed that the average MPSE Board has only one female member ( $\bar{X} = 1.65$ ,  $\tilde{x} = 1$ ), indicating a lack of gender diversity and the predominance of male-dominated boards, which may hinder BE (see in Table 2).

**Table 2.** Gender diversity on MPSE boards

		<b>Males BMs</b>	<b>Females BMs</b>
MPSEs as of 15 <sup>th</sup> April 2023	Number of BMs	222	89
	Mean( $\bar{x}$ )	4.11	1.65
	Median( $\tilde{x}$ )	4	1
Interviewed MPSEs in Nov 2022 – Mar 2023	Number of BMs	111	39
	Mean( $\bar{x}$ )	4.44	1.56
	Median( $\tilde{x}$ )	5	1

Source: Adapted from Malta Business Registry (2023)

#### 4.3.2 Academic qualifications of MPSE BMs

Next, BMs were asked to specify the academic qualifications held by all directors on the 25 MPSE/s they serve on. Table 3 demonstrates the results.

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

**Table 3.** Academic qualifications held by MPSE BMs

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

Note: N = population size; n = sample size; 25= The 18 BMs interviewed represent a total of 25 MPSEs as some BMs sit on more than one MPSE Board.

Source: Author's own

#### 4.3.3 Local talent pool for a good skills mix – Is it sufficient for the needs of MPSE boards?

Participants were asked whether the local pool of professional and experienced individuals is sufficient to achieve a good skill mix on MPSE boards. While some (5/18 BMs) believed the local talent pool is adequate, most (13/18 BMs, 4/4 CGEs) disagreed, citing several reasons. Firstly, Malta's small size inherently limits the pool of human resources (5/13 BMs, 1/4 CGEs). Secondly, there is a significant shortage of skilled individuals in specialised industries such as AI, aviation, and fuel (3/13 BMs, 2/4 CGEs). Thirdly, governments tend to avoid appointing individuals with opposing political ideologies, effectively excluding about 50% of the available skilled individuals (1/13 BMs). Additionally, many skilled individuals are discouraged from serving on MPSE boards for reasons discussed in Section 4.1.2 (4/13 BMs, 1/4 CGE). Consequently, the already small pool of local skilled individuals available for MPSE boards is continuously shrinking, leading to a poor skill mix on these boards.

#### 4.3.4 Non-Maltese BMs – Should they serve on MPSEs?

Participants were asked to comment on the inclusion of non-Maltese individuals on MPSE boards. Most respondents (12/18 BMs, 2/4 CGEs) agreed, provided that the foreigners possess the necessary skills and competencies to add value to the entities. They noted that foreigners offer a "different point of view" (3/12 BMs), "political independence" (2/12 BMs, 1/2 CGEs), "good networks" (3/12 BMs), and a "diverse skills mix" (4/12 BMs, 1/2 CGEs), all of which are crucial for BE. Despite recognising that foreign appointments on MPSE boards are rare, likely due to national insularity (3/12 BMs), participants emphasised that positive discrimination towards foreigners should not be adopted (2/12 BMs, 2/2 CGEs).

Conversely, some participants (6/18 BMs, 2/4 CGEs) expressed disagreement, arguing that there are sufficient capable individuals within the local community (3/6 BMs) and that foreign appointments could lead to a "clash of culture" (1/6 BMs, 1/2 CGEs) disrupting board harmony. Additionally, hiring foreigners could be costly due to travel and accommodation expenses (2/6 BMs, 1/2 CGEs).

### 4.4 Board Remuneration

#### 4.4.1 Remuneration packages of MPSE boards

Given the lack of public information about MPSE Boards' remuneration packages, interviewees were asked to explain the remuneration mechanism. Respondents (18/18 BMs, 4/4 CGEs) unanimously stated that BMs of commercial MPSEs receive a fixed monthly honorarium fee. Some participants (6/18 BMs, 2/4 CGEs) further noted that the Maltese government dictates the remuneration package, similar to how a private sector shareholder dictates BM remuneration (1/2 CGEs). There was, however, division in understanding how the government establishes the remuneration amount. Most (10/18 BMs, 3/4 CGEs) lacked sufficient knowledge, while others (7/18 BMs, 1/4 CGEs) explained that it is determined through a categorisation mechanism based on the MPSE's income, assets, and number of employees. Higher values lead to better categorisation and higher remuneration.



One BM noted that this ensures that higher responsibility correlates with higher remuneration, promoting fairness and independence. However, some (3/8 BMs) pointed out anomalies in the mechanism, which may not always appropriately compensate for higher responsibilities, particularly when an MPSE has limited assets but significant national responsibilities. This discrepancy can lead to frustration among BMs.

#### 4.4.2 Challenges surrounding board remuneration in MPSEs

Participants rated and commented on their agreement with statements regarding board remuneration challenges using a scale from 0 ('Strongly Disagree') to 4 ('Strongly Agree').

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

Participants generally agreed ( $\bar{x} = 3.32$ ) that the honorarium fee is insufficient to attract and retain high-caliber directors. The anomalies in the categorisation mechanism, along with the annual remuneration cap of approximately €18,000 for the highest-responsibility MPSEs and as low as €3,000 annually for the lowest categories, exacerbate this issue. Consequently, some BMs viewed MPSE Board directorships as "charity" due to income taxes, while others found the remuneration demeaning compared to the private sector. A CGE added that inadequate compensation discourages competent individuals from considering public sector directorships, which can negatively impact leadership quality and BE. However, three interviewees (2/18 BMs, 1/4 CGEs) were neutral, suggesting the sufficiency of remuneration depends on BM participation and position on the board.

##### *(ii) The board does not have clear and sufficient remuneration policies in place*

Participants had divergent opinions ( $\bar{x} = 1.95$ ). Some disagreed (8/18 BMs, 4/4 CGEs), arguing that MPSE boards follow government guidance rather than having their own remuneration policies. Conversely, others (10/18 BMs) explained that the government's categorisation mechanism serves as a remuneration policy for BMs.

### 4.5 Board Performance Evaluation

#### 4.5.1 Implementation of formal board performance evaluations by MPSEs

Participants (22/22 BMs, 4/4 CGEs) indicated that MPSEs do not conduct formal performance evaluations. The best performance evaluation for MPSE BMs is reflected by whether the respective ministers reappoint directors upon term expiry. CGEs emphasised the importance of conducting performance evaluations in MPSEs to identify non-contributing BMs and minimise politically motivated appointments.

#### 4.5.2 Challenges in conducting board performance evaluations in MPSEs

Participants identified several challenges hindering board performance evaluations:

**Lack of evaluation tools:** Interviewees noted the absence of evaluation tools within MPSE boards, making effective performance evaluations difficult.

**Reluctance to identify and remove non-performing directors:** Respondents (11/18 BMs, 4/4 CGEs) suggested that the main obstacle is the reluctance to remove non-performing directors, attributed to political allegiances and protection, which makes it difficult to remove underperforming BMs. Performance evaluations could bring shortcomings to light, creating discomfort for involved ministers.

**Ministers' preference for freedom to change MPSE BMs:** Some (3/18 BMs, 1/4 CGEs) argued that ministers prefer the freedom to change boards when deemed necessary over basing such decisions on performance evaluations.

**Absence of a culture of board performance evaluations:** Some interviewees (5/18 BMs, 1/4 CGEs) suggested that the lack of implementation is due to a lack of awareness of the benefits of performance evaluations rather than deliberate avoidance.

## 5. Discussion of Findings

Achieving BE within MPSEs requires assessing and enhancing five fundamental aspects, akin to unlocking five doors to access the BE room, ensuring MPSEs' long-term growth and contribution to the Maltese economy.

### 5.1 Unlocking the First Door: Dealing with Board Selection and Appointment

#### 5.1.1 Board selection and appointments – Is it all political?

Political ties are identified as the main criterion for MPSE board appointments, consistent with Vagliasindi (2008). This political influence leads to appointing individuals within ministers' trusted networks rather than more qualified candidates, negatively impacting board stability and effectiveness. Depoliticising the selection process and adopting transparent, equitable methods are crucial for improving BE.

#### 5.1.2 Flagging appointees as PEPs – A barrier to talent?

Malta's anti-money laundering framework classifies MPSE BMs as PEPs, leading to added scrutiny and

compliance burdens. This deters talented individuals, especially entrepreneurs, from accepting board appointments. The study suggests further investigation to balance the benefits and drawbacks of this classification.

#### 5.1.3 Is it time for a public call system?

The current nomination process lacks transparency. Introducing a public call system could create a more transparent, equitable, and diverse selection process, extending opportunities beyond the 'people of trust' network and enhancing BE. Successful implementation requires strong political will and well-defined, impartial selection criteria.

### **5.2 Unlocking the Second Door: Optimising Board Roles' Fulfillment**

#### 5.2.1 Independence vs. influence: Do BMs prioritise political party loyalty over their fiduciary duties?

The study finds a tension between BMs' fiduciary duties and loyalty to appointing political parties, impacting objectivity and BE. Adopting periodic declarations of fiduciary obligation could encourage BMs to prioritise their duties over political loyalty.

#### 5.2.2 Board training – About time to implement?

Underinvestment in board training leads to a lack of skills and up-to-date knowledge, compromising BE. Regular training sessions, labeled as seminars or information sessions to avoid resistance, are essential for BE.

#### 5.2.3 Breaking the mould: Is it time for a tailor-made code of good CG for MPSEs?

The MFSA Guidelines are not widely known or monitored. A tailor-made Code of Good CG, potentially based on OECD Guidelines, could address the specific challenges of MPSEs and enhance BE.

### **5.3 Unlocking the Third Door: The Right Board Composition**

#### 5.3.1 Female board participation – To be improved?

MPSE boards are male-dominated, limiting BE. Leadership development programs for women could improve gender diversity and enhance BE.

#### 5.3.2 Qualifications vs. political connections?

While qualifications are valued, political connections still play a significant role in appointments, limiting the pool of skilled candidates. Expanding the search beyond the 'people of trust' network could enhance board composition and BE.

#### 5.3.3 Foreign board appointments – Is it time to overcome insularity?

Foreign BMs can provide diverse skills and perspectives, enhancing BE. Overcoming the insular mindset and addressing remuneration challenges are key to attracting foreign talent.

### **5.4 Unlocking the Fourth Door: Fair and Sufficient Board Remuneration**

#### 5.4.1 Are remunerations fair and sufficient?

Current remuneration packages are inadequate and do not reflect responsibilities, hindering the attraction and retention of high-calibre BMs. Revising remuneration packages to be competitive is essential for enhancing BE.

#### 5.4.2 Remuneration committees – To become standard practice?

Introducing remuneration committees with limited autonomy could improve fairness and sufficiency in remuneration, contributing to BE.

### **5.5 Unlocking the Fifth Door: Implementing Board Performance Evaluations**

#### 5.5.1 The lack of implementation of board performance evaluations – A missed opportunity?

Board performance evaluations are not implemented in MPSEs, and an opportunity to enhance BE is missing. Implementing such evaluations, supported by the relevant authority, is crucial for effective governance.

#### 5.5.2 Uncovering the root cause: Are board performance evaluations resisted or overlooked?

Resistance to performance evaluations due to political protections and a lack of awareness of their benefits are significant barriers. The government must acknowledge these benefits and address any resistance to standardise performance evaluations.

## 5.6 Gender and Nationality Diversity

### 5.6.1 Underlying causes of low diversity

#### 1. Cultural Norms and Stereotypes:

- In many societies, traditional gender roles and cultural stereotypes persist, leading to a preference for male leadership in business and governance. In Malta, these cultural norms may discourage women from pursuing or being considered for board positions. This societal bias can result in a male-dominated boardroom environment.
- Similarly, there may be cultural resistance to appointing foreign nationals to key positions, stemming from a preference for local candidates who are perceived to understand the local context and challenges better.

#### 2. Lack of Supportive Policies:

- The absence of robust policies promoting gender equality and diversity in board appointments can perpetuate low female and foreign representation. Without mandates or incentives for diversity, organisations may lack the motivation to change entrenched practices.
- Specific policies to encourage the inclusion of foreign nationals may be insufficient or non-existent, contributing to a lack of international representation on boards.

#### 3. Pipeline Issues:

- There may be fewer women in senior management positions or with the experience required for board roles, creating a smaller pool of female candidates. This can be attributed to broader systemic issues such as gender bias in hiring and promotion practices and inadequate support for work-life balance.
- The local talent pool may not include enough individuals with the requisite skills and experience, particularly in specialised industries, leading to a reliance on a limited pool of male candidates.

#### 4. Political Interference:

- Political considerations often play a significant role in board appointments within MPSEs. Political loyalty and connections can overshadow merit-based selection, which may disproportionately disadvantage women and foreign nationals who are less likely to be part of established political networks.
- Identifying BMs as PEPs can also deter potential candidates, particularly foreign nationals and entrepreneurs, who may view the scrutiny and potential risks associated with PEP status as too burdensome.

### 5.6.2 Targeted interventions

#### 1. Policy Reforms and Quotas:

- Implementing gender quotas for board positions can significantly increase female representation. For example, mandating that women occupy a certain percentage of board seats can compel organisations to seek and appoint qualified female candidates actively.
- Policies encouraging or requiring the inclusion of foreign nationals on boards can help diversify the talent pool. This could include setting targets for international representation or providing incentives for companies that demonstrate diversity in their board appointments.

#### 2. Leadership Development Programs:

- Establishing leadership development and mentorship programs specifically for women can help build a pipeline of qualified female candidates for board positions. These programs can provide training, networking opportunities, and mentorship to prepare women for leadership roles.
- Similar programs can be developed to attract and integrate foreign talent, supporting international professionals and helping them navigate the local business environment.

#### 3. Enhancing Transparency in Selection Processes:

- Making the selection and appointment process for BMs more transparent can reduce the influence of political considerations and biases. Public calls for board positions, clear criteria for selection, and transparent evaluation processes can ensure that the most qualified candidates, regardless of gender or nationality, are chosen.
- Implementing an independent review committee to oversee board appointments can further ensure that the process is fair and merit-based.

#### 4. Creating an Inclusive Culture:

- Promoting an inclusive organisational culture that values diversity can help attract and retain diverse talent. This includes fostering an environment where all BMs, regardless of gender or nationality, feel valued and are encouraged to contribute their perspectives.

- Training programs on unconscious bias and diversity can raise awareness among current BMs and management, helping to create a more supportive environment for diverse candidates.

#### 5. Support for Work-Life Balance:

- Providing support for work-life balance, such as flexible working arrangements and parental leave policies, can help retain women in the workforce and prepare them for leadership roles. This support is crucial for enabling women to balance professional responsibilities with personal commitments.

- Encouraging a balance between professional and personal life for all BMs can create a more attractive and sustainable work environment for diverse candidates.

Organisations can significantly improve gender and nationality diversity on their boards by addressing these underlying causes and implementing targeted interventions. These efforts enhance BE by bringing diverse perspectives and expertise and contributing to more equitable and inclusive CG practices.

## **6. Limitations and Further Studies**

The limitations of this study, including the inherent flexibility of semi-structured interviews and potential researcher bias, present significant opportunities for future research. One key limitation was the variability in the depth and scope of information gathered due to the non-standardised nature of the questions. Future studies could address this by employing a more structured interview format or by triangulating data collection methods, such as combining interviews with surveys or observational studies. Additionally, due to the open-ended questions, the potential for researcher bias and interpretation variance suggests that future research could benefit from using multiple researchers to conduct interviews and analyse data independently, thereby enhancing objectivity. The sensitivity of political content in a highly polarised context like Malta may have influenced the participants' willingness to provide candid responses. Further research could explore anonymous data collection methods to mitigate this issue and encourage more open and honest feedback.

Furthermore, there are potential biases inherent in the interview participants themselves, as BMs and CGEs may have personal or professional biases that colour their responses. Future studies should consider a more diverse range of participants, possibly including lower-level employees or external stakeholders, to provide a more comprehensive view of BE. The generalizability of the study's findings is another limitation, as the context-specific nature of MPSEs means that the results may not directly apply to other PSEs or private sector boards, particularly in different countries or cultural settings. Future research should aim to replicate the study in various contexts to test the applicability and robustness of the findings. Finally, the study's findings highlight the need for ongoing research into the practical implementation of proposed reforms, such as public call systems for board appointments and developing a tailor-made CG code for MPSEs, to assess their impact on BE and overall governance improvement. Exploring these reforms in practice will provide valuable insights into their feasibility and effectiveness, contributing to the body of knowledge on CG in the public sector.

## **7. Conclusions**

The study on BE within MPSEs highlights several positive aspects and best practices that can serve as models for improving governance. Despite the challenges, some MPSEs have demonstrated effective board practices that significantly contribute to their success.

One notable practice is the adoption of transparent selection processes for BMs. By implementing clear appointment criteria and procedures, these entities have reduced political influence and promoted merit-based selection, ensuring that competent and qualified individuals are chosen.

Regular training and development programs for BMs are also observed in a few MPSEs. These programs keep BMs well-informed about their roles and responsibilities and keep them up-to-date with the latest governance practices. Continuous professional development enables them to fulfill their fiduciary duties more effectively, contributing to the board's overall competence.

The effective use of specialised board committees, such as audit and risk management committees, has been identified as another best practice. These committees allow BMs to focus on specific governance areas, improving oversight and strategic decision-making. For example, the presence of an audit committee in some MPSEs has significantly enhanced financial oversight and accountability.

High attendance rates and active engagement in board meetings indicate a strong commitment to effective governance. Regular and well-attended meetings facilitate robust discussions and better decision-making, as actively involved BMs contribute constructively to the board's work.

While overall gender diversity remains a challenge, some MPSEs have achieved more balanced gender representation on their boards. This diversity brings a variety of perspectives and skills to the boardroom, enhancing decision-making and overall BE. Boards with balanced gender representation tend to have a broader range of viewpoints, leading to more comprehensive and well-rounded decisions.

Some boards have demonstrated a strong strategic focus, dedicating time and effort to guiding the organisation's long-term strategy. These boards prioritise strategic planning and provide valuable guidance and oversight to ensure that the entity's goals align with its mission and values, which is crucial for the organisation's sustainable growth and success.

Implementing performance evaluations for BMs, even if informal, has been another positive practice observed. These evaluations help identify areas for improvement and ensure accountability. Regular feedback fosters a culture of continuous improvement and responsibility among BMs, contributing to the board's overall effectiveness.

Finally, some entities have fostered a culture of inclusivity and open communication. When BMs feel their opinions are valued, they are more likely to contribute constructively. Open lines of communication between BMs and management facilitate better governance and alignment with operational goals.

By highlighting these positive aspects and best practices, other MPSEs can learn and adopt similar strategies to enhance their BE. These practices improve governance outcomes and contribute to the overall success and integrity of public-sector entities.

Furthermore, achieving BE within MPSEs is an ongoing process requiring substantial efforts from the Maltese government to ensure these entities contribute effectively to the country's economy. A primary issue identified is the influence of political ties in the selection and appointment of BMs, which undermines the effectiveness and stability of MPSE Boards. It is crucial to depoliticise the selection process and adopt transparent and equitable methods to address this. Expanding the search beyond the 'people of trust' network could significantly enhance board composition and effectiveness.

Additionally, there is a pressing need to improve gender diversity and consider including foreign BMs to bring diverse perspectives and expertise. Another critical area is the inadequacy of current remuneration packages for BMs, which do not reflect the responsibilities held. Revising these packages to be competitive with the private sector is essential for attracting and retaining high-calibre individuals. Furthermore, significant underinvestment in board education hampers the ability of BMs to fulfill their roles effectively. Regular training sessions are necessary to update BMs with the latest knowledge and skills.

The study also highlights the lack of formal performance evaluations, which prevents the identification of non-performing directors and the promotion of good governance practices. Implementing these evaluations is vital for ensuring accountability and continuous improvement. Additionally, many MPSE BMs are unaware of existing guidelines, and there is no monitoring system to ensure compliance. Developing a tailor-made Code of Good CG for MPSEs could address specific challenges and promote better governance.

## **8. Practical Implications**

The findings of this study have several practical implications for policymakers, practitioners, and researchers. There is an urgent need for policy reforms to depoliticise BMs' selection and appointment processes. Implementing a public call system for board appointments could enhance transparency and equity, ensuring that the most qualified candidates are selected.

Efforts should also be made to improve gender diversity and include foreign BMs in MPSEs. Leadership development programs for women and revised policies to attract foreign talent can help achieve a more diverse and effective board composition. Additionally, the remuneration packages for MPSE BMs need to be revised to be competitive with the private sector. This will help attract and retain high-calibre individuals who can contribute significantly to the effectiveness of MPSEs.

Regular and comprehensive training programs should be implemented for BMs to ensure they are equipped with the necessary skills and knowledge to fulfill their roles effectively. These training sessions should be mandatory and tailored to the specific needs of MPSEs. Formal performance evaluations should be introduced to assess BMs' effectiveness and identify areas for improvement. These evaluations should be based on clear and objective criteria, with regular monitoring to ensure accountability. Lastly, a tailor-made Code of Good Corporate Governance for MPSEs should be developed, considering these entities' unique challenges. This code should be widely disseminated and regularly updated to reflect best governance practices.

## **Data Availability**

The data used to support the research findings are available from the corresponding author upon request.

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## **Conflicts of Interest**

The authors declare no conflict of interest.

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