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Multiple Directorships in Maltese Listed Entities: Implications, Determinants, and Governance Strategies

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Abstract: The phenomenon of multiple directorships (MDs) within Boards of Directors of listed entities has garnered increasing attention due to its implications on corporate governance (CG) effectiveness. This study examines the prevalence and major implications of MDs on the governance of Maltese listed entities (MLEs), identifying key determinants and evaluating potential management strategies. A mixed-methods approach is utilized, comprising semi-structured interviews with fourteen directors and company secretaries of MLEs. The findings reveal a significant occurrence of MDs among MLE directors, with impacts that vary based on the number of directorships held, individual circumstances of the directors, and the specific corporate environments of the entities involved. Critical factors contributing to the prevalence of MDs include a limited pool of qualified candidates, directors' aspirations to serve on multiple boards, and the corporate emphasis on the perceived reputation and quality associated with MD holders. The study highlights that director overcommitment, resulting from MDs, poses potential risks to CG effectiveness. Strategies proposed to mitigate these risks include enhanced nomination committee (NC) reviews, self-assessment mechanisms for board members, and the establishment of more comprehensive guidelines within the CG code specific to directors with MDs. The originality of this research lies in its focus on the unique context of MDs within smaller states like Malta, providing valuable insights into CG enhancement in similar environments. This study offers significant contributions to the literature on MDs and CG, particularly relevant for listed companies in smaller jurisdictions and their stakeholders, by proposing actionable strategies to improve governance practices amidst the challenges posed by MDs.

Keywords: Corporate governance (CG); Director; Multiple directorships (MDs); Listed companies; Malta

1. Introduction

Corporate governance (CG) and the effectiveness of the board are crucial components of a well-managed corporation. Their interdependence ensures that organizations not only achieve their strategic objectives but also assess and mitigate risks effectively while creating value for all stakeholders. This is achieved through adherence to ethical and responsible business practices, which are foundational to CG (Global Corporate Governance Forum, 2005).

This study examines the prevalence and implications of holding multiple directorships (MDs) in listed companies in Malta, a small but strategically significant member state of the European Union. By investigating the practice of MDs, this research aims to uncover its effects on the CG of MLEs and identify the key determinants driving this phenomenon. Furthermore, the study explores how the potential challenges of overboarding—where directors hold too many board positions—can be addressed to enhance CG.

The study of MDs is essential within the broader context of CG due to its implications for board effectiveness, risk management, and value creation. While MDs can bring valuable expertise, broader networks, and strategic insights to a firm, they also pose risks, particularly if directors become overextended and unable to fulfill their responsibilities effectively. This balance between potential benefits and drawbacks makes the topic a critical area of study for CG scholars and practitioners alike.

Malta presents a unique and compelling case for examining MDs. As a small island nation within the European Union, Malta's corporate landscape is characterized by a high degree of interconnectedness and a relatively small pool of experienced directors. These factors could exacerbate the risks associated with overboarding, making it particularly important to understand the dynamics at play. Furthermore, Malta's strategic position within the EU and its growing financial services sector make it an interesting case study for a global audience, particularly those concerned with financial regulation and compliance. Insights gained from this study could be valuable not only for improving CG in Malta but also for informing practices in other small or developing economies with similar characteristics.

2. Literature Review

Recent research on MDs offers a complex and nuanced perspective on the practice, highlighting both the potential benefits and disadvantages associated with directors holding positions on multiple boards. This body of literature provides insights into how MDs can influence firm performance, governance, and overall corporate value.

One stream of research suggests that MDs can be advantageous under certain conditions. For example, companies with high advising and external financing needs may benefit from directors who hold multiple board appointments, particularly in countries with weaker shareholder rights (Lee & Lee, 2014). Additionally, in Hong Kong, firms with independent non-executive directors (INEDs) who hold prestigious directorships tend to perform better, possibly due to higher meeting attendance and greater effort allocation (Liu & Liu, 2023). These findings support the "quality hypothesis" and "resource dependency theory," which argue that busy directors may bring valuable expertise and connections to the firms they serve (Lei & Deng, 2011; Sarkar & Sarkar, 2008).

Conversely, other studies emphasize the potential costs of MDs. For instance, firms that experience a reduction in MDs due to mergers and acquisitions (M&A) tend to show improved operating performance and advice, suggesting that overly busy directors may impair firm performance (Brown et al., 2018). Similarly, busy directors have been found to negatively impact economic value in certain contexts, such as in Saudi listed companies (Aljaaidi, 2022). Moreover, audit committee directors with MDs have been associated with lower financial reporting quality, although this effect may vary depending on the relative importance of their directorships (Liu et al., 2022).

Interestingly, the impact of MDs on firm performance appears to be nonlinear, with both positive and negative effects depending on the level of director busyness and specific firm characteristics (Ahn et al., 2010; Lei & Deng, 2011). Additionally, smaller boards may be more effective at monitoring when directors hold MDs, suggesting that board size can influence the relationship between MDs and firm outcomes (Schnake & Williams, 1970).

The recent literature on MDs indicates that the effects are multifaceted and contingent on various factors, including firm needs, director prestige, and board characteristics. While MDs can provide valuable resources and expertise to firms, there is also evidence that excessive busyness among directors can detract from firm performance and governance quality. These findings contribute to a more comprehensive understanding of the implications of MDs in different CG contexts (Ahn et al., 2010; Aljaaidi, 2022; Brown et al., 2018; Lee & Lee, 2014; Lei & Deng, 2011; Liu & Liu, 2023; Liu et al., 2022; Sarkar & Sarkar, 2008; Schnake & Williams, 1970).

For instance, MDs by independent directors are associated with positive firm value in emerging economies like India, as they may bring better networking and resources to the firm (Sarkar & Sarkar, 2008). Similarly, in Hong Kong, multiple appointments of independent directors are positively related to firm value, supporting the 'quality hypothesis' and 'resource dependency theory' (Lei & Deng, 2011). In South Asia, MDs are linked to delayed recognition of loan loss provisions, which can be interpreted as a strategic move by directors to maintain profitability targets (Kutubi et al., 2021). Additionally, MDs can lead to more efficient use of cash, suggesting benefits to shareholders (Chou & Feng, 2018).

Conversely, some studies indicate negative outcomes associated with MDs. For instance, firms with directors holding numerous outside board seats may suffer from a diversification discount due to reduced quality of managerial oversight (Jiraporn et al., 2009). The termination of entire boards in M&A scenarios can lead to improved operating performance and advising, suggesting that MDs may have costs related to board busyness and connections (Brown et al., 2018). In the context of M&A, firms with directors who are too busy may allow value-destroying acquisitions (Ahn et al., 2010). Moreover, MDs have been linked to financial misstatements, particularly in the post-Sarbanes-Oxley environment, indicating that directors may be overstretched (Sharma & Iselin, 2012). The financial services sector study found that smaller boards, which may imply fewer MDs, are better at monitoring firm behavior (Schnake & Williams, 1970). Lastly, the benefits and costs of MDs appear to be conditional on firm characteristics, with firm valuation being positively associated with MDs in certain contexts, while in others, especially with controlling shareholders, it can reduce firm valuation (Lee & Lee, 2014).

In summary, the relationship between MDs and firm performance is complex and context-dependent. While there are potential benefits due to increased networking, resources, and strategic management, significant risks related to managerial oversight, agency conflicts, and the potential for financial misstatements also exist. The impact of MDs varies across different economies, industries, and firm-specific characteristics (Ahn et al., 2010; Brown et al., 2018; Chou & Feng, 2018; Jiraporn et al., 2009; Kutubi et al., 2021; Lee & Lee, 2014; Lei & Deng, 2011; Sarkar & Sarkar, 2008; Schnake & Williams, 1970; Sharma & Iselin, 2012).

2.1 The Board and MDs

The role of a board member comes with both benefits and challenges. While a director may gain prestige and receive substantial compensation, the position demands significant time and responsibility and carries the risk of reputational harm (Katz & McIntosh, 2016). These dual aspects of a director's role become even more challenging when managing MDs simultaneously (Kaczmarek et al., 2014; Oehmichen et al., 2017).

Stakeholders and businesses are primarily concerned with whether board members can dedicate enough time to an increasingly demanding role (Higgs, 2003; Papadopoulos, 2019) as their duties grow more complex and significant. Critics argue that directors with multiple board roles may not be able to fully meet their responsibilities (Ferris et al., 2003; Orol, 2016). CG experts maintain that effective monitoring requires substantial time and resources, and that serving on too many boards can undermine a director's ability to perform effectively (William, 1992). As a result, various organizations and regulatory bodies have voiced concerns about the negative impacts of allowing directors to hold multiple board positions. National CG codes and laws now often require directors to allocate adequate time to their roles (European Commission, 2011). The national Code of Good Corporate Governance ('the Code') similarly advises that directors should commit sufficient time and attention to their duties, with the letters of appointment of non-executive directors (NEDs) specifying the expected time commitment for their roles.

2.2 The Implications of MDs

The consequences of director overboarding are discussed in the literature through two main perspectives:

2.2.1 The experience hypothesis

The experience hypothesis suggests that board members with MDs can gain valuable expertise and expand their social networks, leading to improved CG (Carpenter & Westphal, 2001; Clements et al., 2015).

Overboarding, or serving on multiple boards, can benefit both directors and the companies they serve. Multi-boarded directors are often better connected within their industries, making resources more accessible (Carpenter & Westphal, 2001; Kim & Kim, 2015). They also bring diverse knowledge of different management styles and strategies, which enhances their ability to monitor and improve governance practices (Clements et al., 2015).

Directors with a limited number of board roles are also believed to be more motivated and skilled, positively impacting their companies' financial performance (López Iturriaga & Morrós Rodríguez, 2014). Proponents of the experience hypothesis argue that overboarding reflects a director's quality and reputation (Clements et al., 2015).

2.2.2 The busyness hypothesis

On the other hand, the busyness hypothesis argues that holding MDs can overwhelm directors, reducing their effectiveness (Clements et al., 2015).

This perspective suggests that the demands of MDs can lead to distractions and time constraints, impairing directors' ability to provide sound advice and contribute meaningfully to key strategic decisions (Ahn et al., 2010). Overboarding may also result in poor attendance at board meetings (Chiranga & Chiwira, 2014; Jiraporn et al., 2009) and weaker CG systems (Fich & Shivdasani, 2006). Additionally, overcommitted directors are less likely to participate in critical board committees (Ferris et al., 2003).

2.2.3 Context and its relevance to the two hypotheses

Recent research suggests that the experience and busyness hypotheses are not mutually exclusive. Directors with multiple board roles may experience both effects, with one prevailing depending on the corporate context and individual circumstances (Clements et al., 2015).

Corporate context and its relevance

The corporate context refers to the nature and characteristics of the entities on whose boards directors serve. Several factors influence the impact of MDs, including the size and complexity of the companies, the industry, and the level of regulation. Directors serving on larger, more complex, or highly regulated companies may find it more challenging to fulfill their duties effectively (Clements et al., 2013; Equilar, 2018; Kaczmarek et al., 2014). Companies with a strong culture of transparency and accountability may also require more time and attention from their directors (Lee & Lee, 2014) and may thus more easily become overboarded (Field et al., 2013).

Individual circumstances and their relevance

The number of directorships held is a significant factor in determining whether a director will experience the benefits of the experience hypothesis or the drawbacks of the busyness hypothesis. Directors with fewer board roles are more likely to improve their skills and performance, while those holding four or more directorships may become overwhelmed (Kaczmarek et al., 2014; López Iturriaga & Morrós Rodríguez, 2014). Other personal commitments can also affect a director's ability to devote sufficient time to their board roles, potentially leading to conflicts of interest and compromised decision-making (Sarkar & Sarkar, 2008).

2.3 The Determinants of MDs

The emergence of MDs can be seen as both a strategic decision by companies and directors and a result of market imperfections (Imreorowa & Kollin, 2013). Several factors contribute to this practice:

2.3.1 Limited pool of eligible board candidates

A limited pool of eligible candidates, particularly for NED positions, can contribute to the prevalence of MDs (Mans-Kemp et al., 2018). In countries like New Zealand and India, director overboarding has been found to be partly due to a shortage of qualified, independent directors (Roudaki & Bhuiyan, 2015; Sarkar & Sarkar, 2008). Despite the potential negative implications, companies may prefer to appoint overboarded directors for their skills and experience (Mans-Kemp et al., 2018). Other supply constraints may be the high scrutiny of third parties, such as investors and legislators, possibly leading to reputational damage (Chen & Moers, 2018), as well as the increased liability associated with directorships (Deloitte, 2011). Furthermore, small country size, such as in the case of Malta, further limits the pool of qualified directors, leading to conflicts of interest and repeated appointments of the same individuals (Baldacchino et al., 2020).

2.3.2 Pressure on companies to improve board diversity

The push for greater board diversity can also contribute to MDs (Mans-Kemp et al., 2018). For example, in Norway, publicly owned companies must meet gender quotas for board members (Ahern & Dittmar, 2012). In countries like Malta without such quotas, governance bodies typically encourage companies to set voluntary diversity goals (Baldacchino et al., 2021; Institute of Directors in Southern Africa, 2016). However, the limited pool of qualified female directors may lead to overboarding, and forced diversity measures could result in token appointments that harm board effectiveness (Jackling & Johl, 2009; Mans-Kemp et al., 2018).

2.3.3 The demand for multi-boarded directors

Multi-boarded directors are often seen as high-quality candidates with valuable experience and networks, making them attractive to NCs (Clements et al., 2013). Companies may seek out busy directors for their connections and ability to manage relationships with key stakeholders (Imreorowa & Kollin, 2013). As a result, these directors are frequently invited to serve on additional boards (Ferris et al., 2003).

2.3.4 Financial rewards and director prestige

The financial incentives associated with MDs can also drive director overboarding (Andres et al., 2013). Some directors accept all offered positions for monetary reasons (Mans-Kemp et al., 2018). The prestige and visibility of holding MDs may further motivate directors to seek additional roles, sometimes prioritizing personal gain and own reputation over the company's interests (Fama & Jensen, 1983; Imreorowa & Kollin, 2013; Mace, 1986).

2.4 Managing Director Overboarding

To mitigate the risks associated with MDs and ensure directors can effectively monitor and oversee their entities, many CG organizations have issued recommendations or imposed limits on the number of board positions a director may hold (European Commission, 2011).

Limiting directorships is believed to enhance oversight and ensure directors fulfill their responsibilities (Bezzina et al., 2014). However, imposing such restrictions is challenging due to the need to consider each director's and company's unique circumstances. Factors such as the type of directorship, whether it is a chairmanship or NED role, and the nature of the companies involved should be considered (European Commission, 2011).

Some sources argue that a one-size-fits-all approach is likely to fail, advocating for a principles-based approach that allows flexibility based on individual and corporate circumstances (Malta Financial Services Authority, 2019; Mans-Kemp et al., 2018). Although Malta's government supported limiting the number of directorships in an EU Green Paper (European Commission, 2011), the country has not yet imposed any such restrictions. The Companies Act of 1995 does not regulate MDs, and the Code only suggests that directors limit their roles to ensure that they can effectively perform their duties (Laws of Malta, 1995).

To address overboarding, NCs and board reviews are essential (Bezzina et al., 2014; Kiel & Nicholson, 2006). All directorships held by board members should be regularly reviewed to prevent overcommitment and address any underperformance (Kiel et al., 2005). If a director is found to be overcommitted, the issue should be resolved before the next election (Mans-Kemp et al., 2018).

3. Research Methodology

3.1 The Theoretical Framework

The research was based on an integrative theoretical framework combining elements from:

(i) *Agency theory* deals with potential conflicts of interest between the directors (*agents*) and the shareholders on behalf of their respective entities (*principals*). In fact, such conflicts of interest may be behind a number of the negative implications sought in the key research objective to ascertain such implications, in view of possible ethical and legal issues that may arise among the different entities where a directorship is held, particularly in a small market like Malta.

(ii) *Stewardship theory* deals with whether directors with multiple board memberships act as better stewards or if their effectiveness in board CG is compromised. This theory is particularly relevant in deciding between the key experience and busyness hypotheses earlier referred to and in determining a point at which a balance has to be drawn between the two for the sake of steward effectiveness.

3.2 The Research Tool

3.2.1 Semi-structured interviewing

The most suitable research tool for achieving the research objectives of this study was determined to be semi-structured interviewing. The interviews followed an interview schedule comprising a mix of closed-ended and open-ended predetermined questions to ensure that the objectives are addressed (Byrne, 2016). The semi-structured nature of the interviews gave participants the freedom to answer the interview questions as they saw fit, while allowing the researcher to ask follow-up queries to obtain a deeper understanding of their motivations. Furthermore, since the same questions were asked to each respondent, it was possible to compare the data gathered, thus balancing both replicability and flexibility (McIntosh & Morse, 2015).

Semi-structured interviews were thus well-suited to this research study because they allowed for the in-depth exploration of complex and context-specific issues related to MDs in MLEs. The methodology provided the flexibility to capture detailed insights while ensuring that the research remained focused on the key objectives, making it an ideal choice for addressing the nuanced and multifaceted nature of the research questions at hand.

The study's interview schedule was targeted at equity MLEs. For the closed-ended questions, a five-point Likert scale was utilised, with ‘0’ denoting strongly disagree and ‘4’ denoting strongly agree, this allowing for the quantitative analysis of responses. Open-ended questions allowed participants to elaborate on their experiences and insights, facilitating the exploration of different perspectives and emerging themes.

3.2.2 Development of the interview schedule

The interview schedule for this study was specifically developed for current board directors and secretaries of MLEs. It was designed to directly map the three research objectives, ensuring that critical aspects of MDs were thoroughly explored. The protocol was divided into four main sections, each addressing one or two of four fundamental aspects of MDs:

Objective 1: To ascertain the incidence [Section (i)] and the implications [Section (ii)] of MDs: In Section (i), participants were asked four open-ended questions about the prevalence of MDs and how directors and their entities were ensuring that the necessary time and attention were applied to MDs in other companies. In Section (ii), participants were then asked to gauge the possible positive and negative implications of MDs and the underlying theories; here, two multi-part closed-ended questions on a Likert scale were followed by one open-ended question.

Objective 2: To assess the major determinants of MDs in MLEs (Section [iii]), one multi-part closed-ended question focused on such possible major determinants.

Objective 3: To evaluate (Section [iv]) how the incidence of MDs and possibly resulting overboardedness may be managed to enhance CG, one multi-part closed-ended question focused on possible measures that may be taken to mitigate the negative consequences associated with director overboardedness.

One open general question then wrapped up the interviews by inviting any other possible comments.

3.2.3 Addressing variability and bias

One limitation of the semi-structured interviews was their intrinsic flexibility, which could result in variations in the depth and breadth of the information collected. To address this, the same interviewer conducted all the interviews and employed follow-up questions as needed. The open-ended nature of certain questions also posed the risk of researcher bias or differences in interpretation. To counter this, the first two co-authors engaged in thorough discussions to reach a consensus on the interpretation of responses, ensuring that the analysis remained objective and firmly rooted in the data.

3.3 The Sample Population

The selection of research participants is crucial for every study (Martínez-Mesa et al., 2016). Given their significant practical experience with the CG of equity MLEs, their familiarity with the Code's regulations, and their expert perspectives, the sample consisted of directors and company secretaries chosen from an Official List of 31 MLEs obtained from the Malta Stock Exchange (MSE) website. Fourteen individuals — ten directors and four company secretaries — representing 21 of these MLEs were thus purposively interviewed. By the final interview, the responses indicated that qualitative saturation had been achieved.

Such qualitative saturation was determined by terminating the interview process at the point at which no new themes, insights, or information were emerging from the data, indicating that additional data collection would likely be redundant. Criteria included the depth of understanding achieved, the relative lack of complexity of the research topic, the limited variability of responses, and the study's main objectives. The researchers also considered whether the research objectives had been fully explored. Monitoring such saturation was an ongoing process throughout data collection.

3.4 Data Analysis

The data analysis process was carefully designed to ensure a thorough and precise evaluation. All interviews were transcribed and summarized to help the researchers to identify similarities and differences in the responses (Braun & Clarke, 2006). Such a transcription process was crucial for preserving data accuracy and enabling a detailed thematic analysis for the qualitative data, wherein recurring themes and patterns could be identified and categorized. Quantitative data was collected from the closed-ended questions, primarily using the Likert scale ratings. The Friedman Test was used to compare mean Likert scale ratings across related statements, helping to identify significant differences within the same group of participants. This non-parametric test was selected for its effectiveness in analyzing ranked data from multiple related samples.

3.5 Other Limitations of the Study

Despite significant efforts to conduct a comprehensive analysis of the research topic, the study is still subject to some limitations. Participants' comments inevitably reflected some degree of subjectivity. Additionally, certain discrepancies were observed between responses to the open-ended questions and the scores given on the closed Likert scale, as well as the justifications provided for those evaluations. Some challenges also arose when a few participants did not provide answers to all the questions asked. The study included pertinent and international developments up to 31st March, 2023.

Finally, the major limitations of this study, including the potential for researcher bias and variability and the purposively small sample size, have already been referred to. However, with respect to these two limitations, it is pertinent to add that:

(i) Residual researcher bias and variability might still have influenced the study's design, data collection, analysis, or interpretation, despite the safeguards referred to in Section 3.2.3, possibly leading to results that reflect the researchers' expectations and vary from the objective reality. Although, as stated in Section 3.2.3, measures were taken to mitigate this bias, its presence cannot be entirely ruled out, which could skew the findings in a particular direction.

(ii) The small sample size limits the statistical power of the study, making it more difficult to detect significant effects and increasing the probability that the results could be due to chance. This limitation also affects the generalizability of the findings, as a smaller, potentially non-representative sample may not accurately reflect the broader population. Consequently, while the results provide valuable insights, they should be interpreted with caution and may not be applicable to all contexts. Future studies with larger, more diverse samples and strategies to reduce researcher bias would be necessary to confirm these findings and enhance their generalizability.

4. Findings and Discussion

4.1 The Incidence of MDs and Their CG Implications

The findings clearly indicate that the holding of MDs was prevalent in Malta, with almost all (9/10) respondent directors being involved in at least two additional directorships and a few of them (2/10) even having five other listed, regulated, or private companies.

4.1.1 The positive CG implications of the incidence

Nevertheless, in line with Clements et al. (2015), the findings also indicate that sitting on such multiple boards was perceived as enhancing CG effectiveness. This was because multi-boarded directors were perceived as gaining experience and exposure to different business models, strategies, and governance structures. Such exposure was seen as helping them in developing a more nuanced understanding of how companies operate and the challenges they face. As a result, directors were seen having the possibility of bringing a broader perspective to their roles and making better-informed decisions. Nonetheless, such experienced directors may not necessarily make valuable contributions in their MLE and may also run the risk of becoming too complacent.

In addition, in line with the findings of Carpenter & Westphal (2001) and Kim & Kim (2015), Maltese multi-boarded directors were considered to have better networking opportunities than other directors. Serving on the boards of multiple companies was perceived as enabling directors to meet and work with a variety of executives, investors, and other stakeholders. This is usually beneficial for their personal and professional development and also for their companies. Indeed, directors who have such strong networks may bring new ideas and opportunities to their organizations, and they may be better equipped to navigate crises. However, unlike the findings of López Iturriaga & Morrós Rodríguez (2014), the correlation between the holding of MDs and the inducement to fulfill directors' obligations and improve financial performance in their MLE was found not to be necessarily strong in this study.

Nevertheless, subject to both (i) seeking to acquire through their multi-directorships such or related positive CG implications (experiences, more understanding of the operations, new challenges, broader perspectives, better networking opportunities) and (ii) also striving to apply these implications in their main MLE without becoming complacent, the holding of multi-directorships could be a successful way to enhance the CG effectiveness of Maltese directors and also, in a similar manner, the effectiveness of board directors in other countries, especially, although not exclusively, in the smaller ones.

4.1.2 The negative CG implications of the incidence

In contrast, this study also implies that the holding of MDs may have several negative implications. In the first instance, in line with the findings of Clements et al. (2015), MDs were considered to possibly lead to overcommitment and a lack of attention to detail. It is a demanding role to serve on the board of any listed company, and directors must normally dedicate a significant amount of time to their duties. When a director serves on multiple boards, s/he may find it challenging to balance the responsibilities effectively, and director quality may be tarnished. Additionally, holding multiple concurrent directorships may easily lead to conflicts of interest, especially in a small state such as Malta. Ethical and legal challenges may be created for directors, possibly undermining their credibility. Furthermore, while the holding of MDs may not necessarily lead to poor attendance at board meetings, the ability of multi-boarded directors to engage fully in the decision-making process or to contribute their best efforts remained doubtful. While such directors may be highly committed to keeping up their image, their attendance at board meetings serves little value if they come to such meetings unprepared and unable to properly probe and challenge management.

Therefore, overall, the holding of multi-directorships may have the aforementioned positive CG implications subject only to an important further condition: that of avoiding the recurrent domination of such or related negative CG implications (overcommitment, a lack of balance, material conflicts of interest, inability to fully engage in MLE Board matters). If one cannot do otherwise, it would be wise for any director to disengage from all or part of such additional directorships.

4.2 The Relevance of the Number of Directorships, Corporate Context, and Individual Circumstances

4.2.1 Number of directorships

As also stated by Clements et al. (2015), the experience and busyness hypotheses were not found to be mutually exclusive. Furthermore, the findings show that these do not necessarily exist in a vacuum. The indications are that the consequences emanating from the holding of MDs at least partly depend on the number of concurrent directorships being taken on. Holding two or three directorships is surely not comparable to holding many more directorships. Therefore, it is inappropriate to use the word "overboardedness" as a blanket term to describe multi-boarded directors. In this context, the consequences of MDs may be compared to the law of diminishing returns. As shown in Figure 1, the experience hypothesis will initially prevail, wherein additional directorships will expose directors to a number of different situations and thus enable them to gain a vast amount of knowledge and experience. Yet, as the number of directorships increases, the value added from each additional directorship will probably start to diminish, until a point is reached wherein a director starts being overwhelmed and the busyness hypothesis dominates.

However, the question lingers as to at what point the taking on of additional directorships stops adding value, or, in other words, as to how many directorships are in fact too many. Any attempt to determine a specific number would probably be impracticable. This is because, as stated in the literature and the findings of this study confirm, the number of directorships resulting in overboardedness varies with both the corporate and individual contexts, and therefore such analysis may only be made on a case-by-case basis.

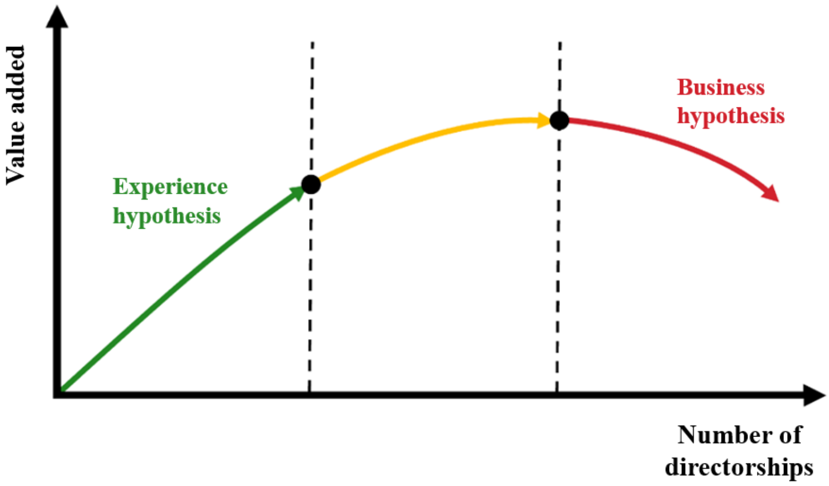

Figure 1. The experience hypothesis vs the busyness hypothesis
Note: Amended from Clements et al. (2015).

4.2.2 Corporate context

As for the corporate context, a relevant point for any director to decide as to whether or not s/he is to be engaged in additional directorships is the size and complexity of such additional companies under consideration. The bigger their size and complexity, the more extra time and outside attention is often expected and necessitated. Such size and complexity may also frequently vary among different industries. In this context, in line with the literature, directors of regulated listed companies are expected to have fewer additional directorships owing to the high level of regulation and scrutiny involved in such industries.

4.2.3 Individual circumstances

As for the individual circumstances, the findings also indicate that the added value from each additional directorship and from the number of directorships that will cause a director to become overcommitted and overwhelmed also depends mostly on the individual’s level of dedication, professionalism, and focus. A director's ability to handle MDs will also vary with the time and resources required for effectively discharging director duties. Directors who are already heavily committed to their primary role may struggle to take on additional directorships. The age and stage of a director’s career are also relevant considerations. Directors who are approaching retirement age may have more time and capacity to take on a larger number of additional directorships, while younger directors may be focused on building their careers and may thus not be in a similar position to take on additional responsibilities. Finally, the role and responsibilities of directors within the company, such as their involvement in board committees and whether they are EDs or NEDs, are also essential to consider. Where any director has significant responsibilities within the company, the number of directorships that may be taken on simultaneously before reaching the point of compromising his/her ability to cope effectively would be lower.

4.3 The Determinants of MDs

The limited pool of eligible board candidates, directors’ own ambition to serve on multiple boards to attain financial rewards and director prestige, and the overemphasis on the quality and reputational capital emanating from multiple board positions were identified as the main causes of MDs in the Maltese context. Malta's small market has led to a shortage of qualified and skilled individuals. With a concentration of talent among a limited number of individuals, the incidence of MDs is scarcely evitable. As earlier indicated by Baldacchino et al. (2020), the issue seems to be further aggravated by the tendency of companies and shareholders to look for and engage the same multi-boarded directors.

One way of enlarging the pool of eligible board candidates could be that of considering the nomination and election of directors from foreign countries. However, despite the positive contributions of such directors, it may be quite challenging to locate individuals who are knowledgeable and conversant with the local legal and regulatory requirements and the market per se.

In this regard, the creation by the Malta Financial Services Authority (MFSA) of a public directory containing a list of individuals competent to act as directors could be useful. Such a directory is likely to spur the search for new blood and, at the same time, help enlarge the pool of eligible board candidates. Information included in such a directory could include, as a minimum, the names and contact information, experience and qualifications, current and past directorships held, any board committee memberships, as well as information on the director's diversity characteristics, such as gender, race, age, and nationality. One prerequisite to registration in such a directory could be that of attendance to a short intensive course relating to the duties and responsibilities of directors in MLEs.

Formal training and continued professional development by companies and regulators would also help create a healthier and stronger pool of high-quality prospective directors. Together with the widespread education on governance, this should instigate a shift in culture and instantly enlarge the pool of eligible board candidates, as companies would be compelled to headhunt beyond the same usual network of directors.

4.4 Managing Director Overboardedness

Respondents referred to a number of measures that may be put in place by companies and regulators with the aim of mitigating the negative consequences associated with too many MDs and also of ensuring that directors devote adequate time to fulfill their duties and obligations.

The prevalence of MDs among MLEs indicates that directors are either unable or unwilling to regulate themselves. As also found by Bezzina et al. (2014), the extension of restrictions against MDs to all listed companies would probably be strongly resisted. A testament to this is the hostility to the 2020 comparatively lax amendments to the Company Service Providers Act (Laws of Malta, 2013), which new provisions were aimed at discouraging individuals from pursuing MDs. Besides, the capping to be exercised would probably need further study.

The Malta Financial Services Authority may also consider establishing legal limits in order to spur turnover and renewal on boards. This may help to reduce overboardedness by ensuring that directors do not become too entrenched in their roles and that they are replaced periodically by fresh perspectives and expertise. While such legally established term limits may be resisted on the basis that they may initially be perceived as aggravating the director supply problem, the fact that they undoubtedly induce companies to find new directors may prove them to be beneficial over time.

One possible additional step towards managing director overboardedness is for the Code to establish clear guidelines and policies on directors being engaged on multiple boards. Such guidelines may help directors not to be stretched too thinly and to retain sufficient time and energy to devote to each board. These would be flexible enough to permit considerations of overboardedness on a case-by-case basis, taking into account possible individual circumstances, the size and complexity of the companies involved, and the level of commitment required from its directors. In setting up such guidelines, the experience gained to date relating to the restrictions imposed on regulated industries – including a specified proportion of EDs and NEDs roles taken up by any director – may be beneficial. Alternatively, one may consider limiting the engagement of any type of director to only one MLE Board yet permitting him/her to serve simultaneously on up to three boards of non-listed companies. Despite such a provision, room may still be left for such directors to justify their presence in not more than another non-competing listed company. In this context, one may need to seriously consider legally imposing such provisions in the Listing Rules. rather than retaining Code compliance on the comply-or-explain principle. This may be supplemented by requiring greater transparency and disclosure around directors' board memberships in each MLE Annual Report. This can help MLE stakeholders become much more aware of a director's time commitments and assess whether such directors are in a position to fulfill their roles effectively. In this manner, the public visibility in the MLE Annual Reports can itself be a source of pressure towards eliminating overboardedness (Listing Authority–Malta, 2021).

Each MLE NC, where already established (or, if not so established, each MLE Board itself), may also play a crucial role in mitigating director overboardedness by ensuring that directors are appointed to boards in a thoughtful and deliberate manner, with careful consideration of their individual abilities and commitments. In the first instance, the NC may establish upfront criteria for recommending each director candidate to the Annual General Meeting, which criteria may also take into account the specific circumstances of each candidate. By the application of such examination criteria, a NC may help to ensure sufficient awareness on the part of shareholders about the eligibility and appropriateness of each candidate. Regulations may also be put in place for the respective NC or Board to be immediately informed of any material change of circumstances relating to overboardedness during the tenure of a director so that any such change would need to be scrutinized by the respective NC or the Board itself.

Furthermore, more emphasis on the annual self-evaluation of each MLE director’s performance, as recommended by the Code, could also help counteract the negative consequences of director overboardedness. In this connection, as stated in the literature and also indicated in the findings, the help of independent external consultants in assessing such performance would be an appreciable step forward. This is due to the fact that in a small state like Malta, where everyone knows everyone, it is culturally challenging to conduct internal performance reviews. Internal self-evaluations also increase the possibility of collusion among the directors themselves.

5. Conclusions and Recommendations

While the regulatory framework in Malta concerning MDs remains ambiguous and requires further reinforcement, there is a foundational understanding among directors of their legal obligations and powers. However, many directors lack a comprehensive grasp of the specific legalities related to their duties. The study underscores the significance of enhancing the regulatory framework to ensure that policies are not only established but also effectively enforced.

The study results indicate that holding MDs is prevalent in Malta and is generally perceived as enhancing CG effectiveness. The study also concludes that: a) directors with multiple board appointments are seen as gaining valuable experience and exposure, which contributes to a deeper understanding of the operational challenges faced by companies. Additionally, these directors benefit from improved networking opportunities, which better equip them to navigate crises within their firms. However, the study also identifies several possible negative implications of holding MDs, including the risks of overcommitment, insufficient attention to detail, and an increased likelihood of conflicts of interest, particularly in Malta's relatively small market. The study's findings support the notion that the experience and busyness hypotheses are not mutually exclusive. Initially, the experience gained from additional directorships is beneficial, enhancing directors' knowledge and effectiveness. However, as the number of directorships increases, the added value from each additional board position diminishes, eventually leading to a tipping point where the busyness hypothesis dominates, and directors become overwhelmed. This suggests that the impact of MDs should be assessed on a case-by-case basis, taking into account the specific circumstances of each director. b) there are several key determinants of MDs in Malta, including the limited pool of eligible board candidates, directors' ambitions to attain financial rewards and prestige, and the emphasis placed by MLEs on the perceived quality and reputational capital associated with holding multiple board positions. c) while MDs can provide significant benefits to both directors and the companies they serve, there is a clear need for careful management to ensure that the benefits outweigh the potential drawbacks. The study emphasizes that both listed companies and regulators must take proactive steps to ensure that the practice of holding MDs remains advantageous rather than detrimental.

The major recommendations of this study are that:

(a) In order manage the issues involved, MLEs may include the recruitment of foreign directors and the creation of a public directory listing individuals qualified to serve as directors.

(b) Formal directorship training could help to develop a healthier and stronger pool of high-quality prospective directors.

(c) Several other measures may be introduced to mitigate the negative consequences associated with holding too many directorships, including the statutory establishment of tenure limits, clearer guidelines in the CG code, the introduction of NC reviews, and more robust self-evaluations of director performance.

As a concluding remark, one may also add that the implications of this research study provide additional insights for listed companies in small states with similar characteristics, particularly on CG and board effectiveness. Three important examples of such insights are the following:

(i) Firstly, as referred to earlier, in small states, where the pool of qualified directors is limited, multi-directorships can lead even more to potential conflicts of interest and reduced board independence. Listed companies in similar jurisdictions may need to implement stricter governance policies to mitigate these risks, such as clear guidelines on the maximum directorships a single individual can hold. Enhanced disclosure requirements are necessary to address these risks, allowing stakeholders to better assess the impact of directors' multiple roles.

(ii) Secondly, regulators might also need to adapt policies to limit the number of boards a director can serve on and consider mandatory rotation to maintain board effectiveness.

(iii) Thirdly, directors with multiple roles might wield significant influence, creating power imbalances. Companies should ensure that such directors do not dominate board decisions, potentially through the appointment of independent directors from outside the local network.

Informed Consent Statement

Informed consent was obtained from all subjects involved in the study.

Data Availability

Not applicable.

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Conflicts of Interest

The authors declare no conflict of interest.

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