

Bank of Italy

From the Selected Works of Paolo Santella

Fall September 11, 2007

WHO CARES ABOUT DIRECTOR INDEPENDENCE? PRESENTATION (PDF FORMAT)

Paolo Santella
Carlo Drago
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Available at: https://works.bepress.com/paolo_santella/41/

“Corporate Governance: assetti proprietari e configurazione del consiglio d’amministrazione”. Bressanone/Brixen 11 September 2007

“Who cares about director independence?”

Independent directors and company disclosure:
the case of Italy in 2003

P. Santella, C. Drago, G. Paone

The paper is available free of charge

on IDEAS:

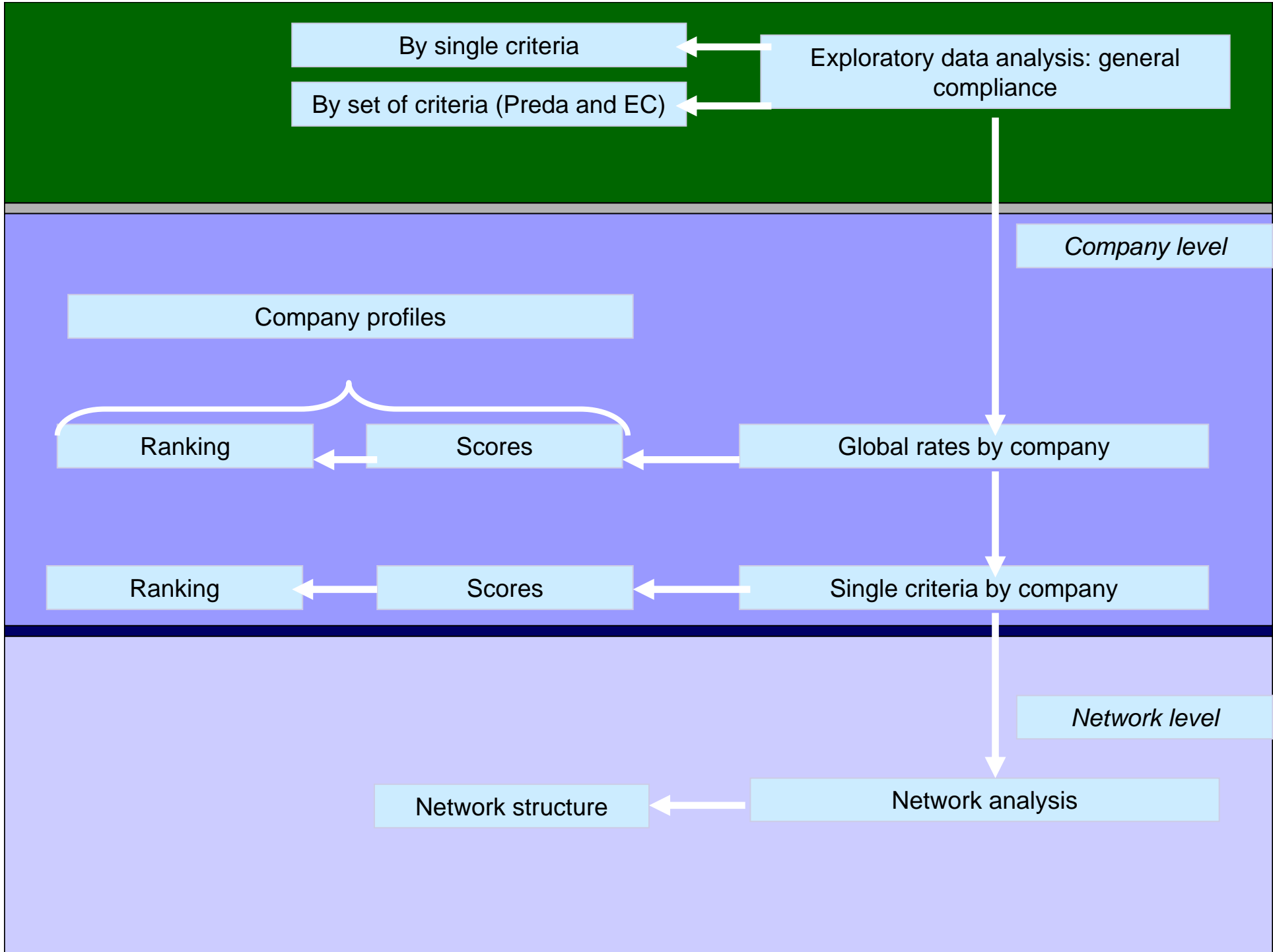
<http://ideas.repec.org/p/pramprapa/2288.html>

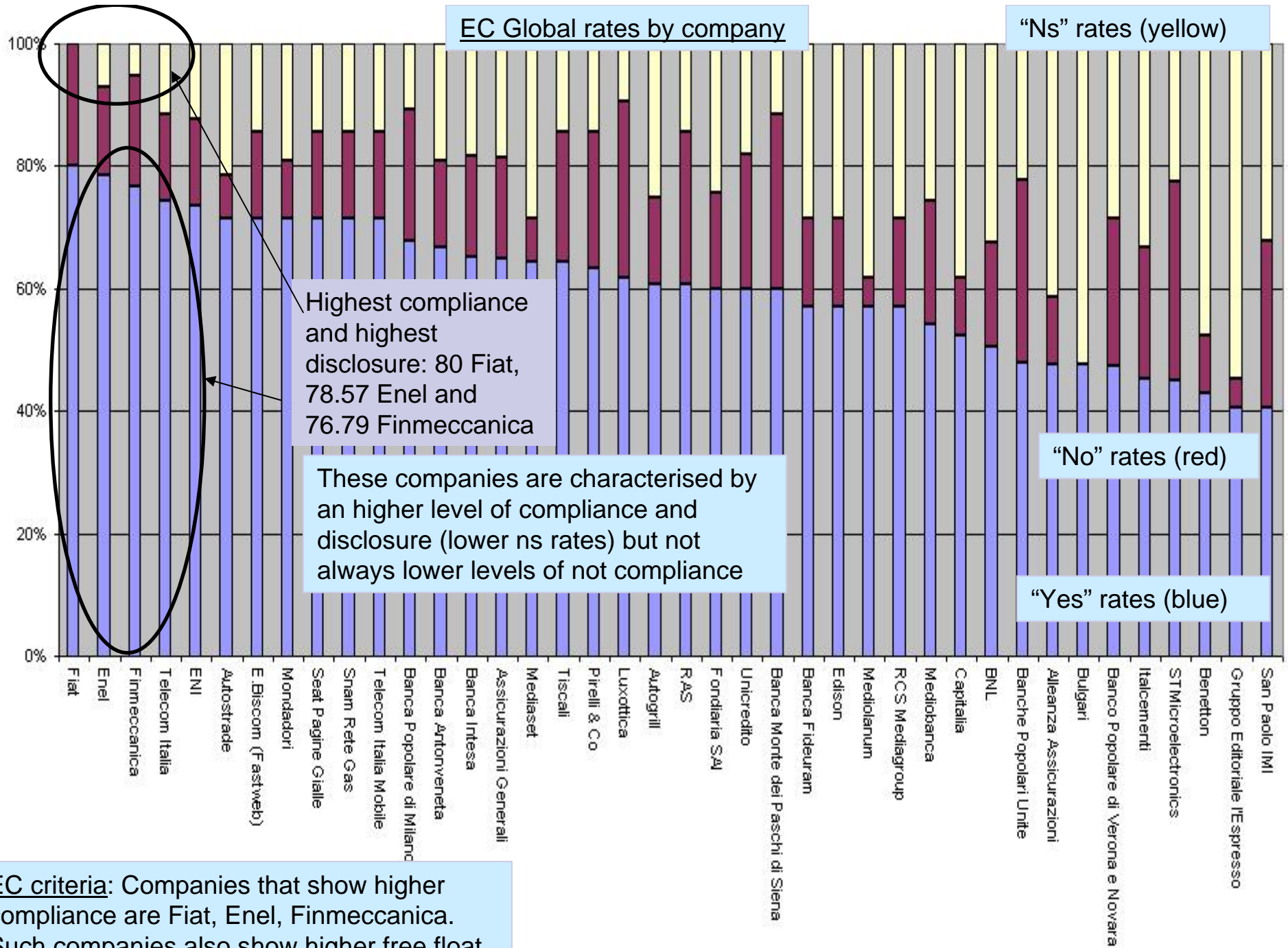
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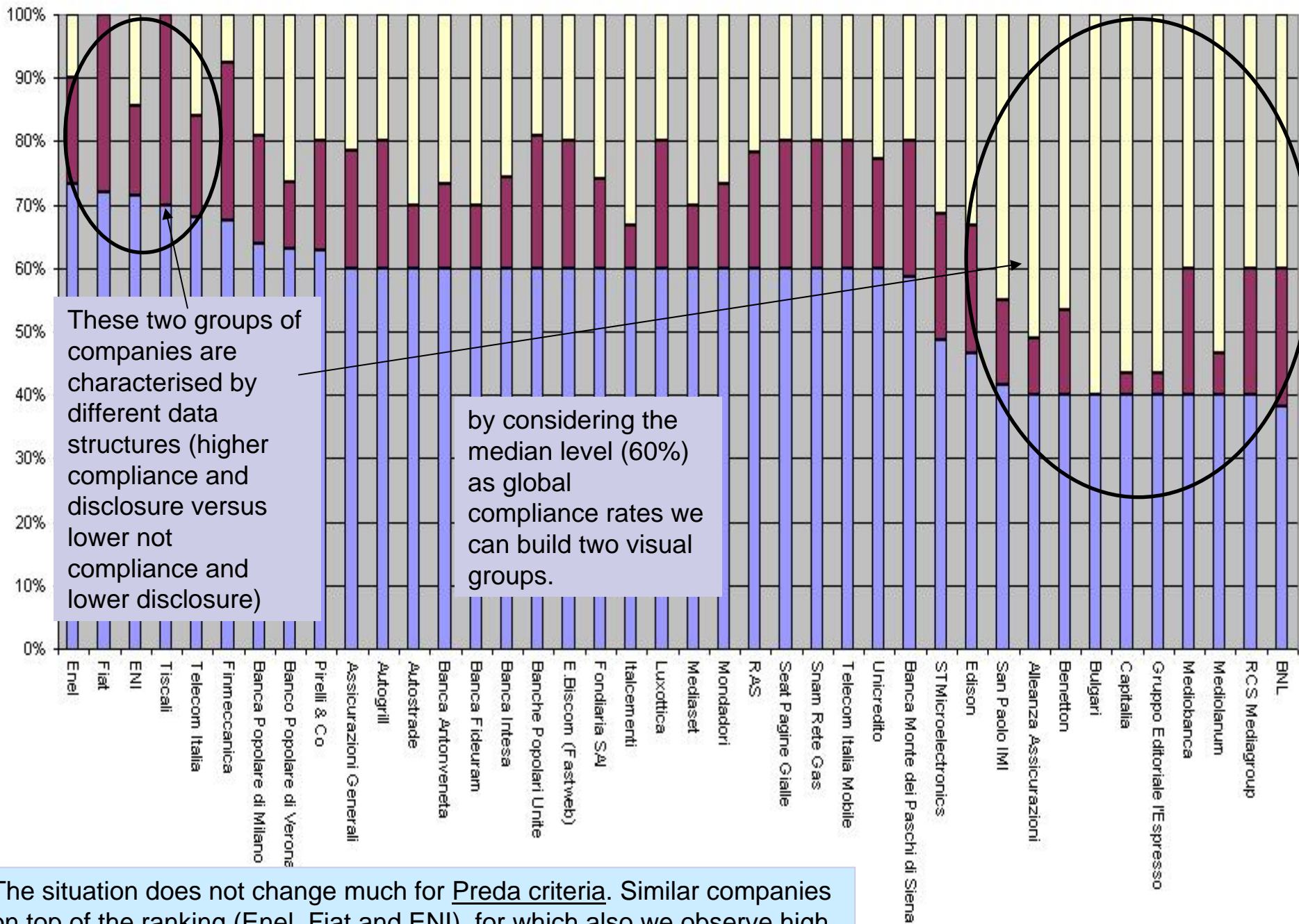
Data and methodology

- Data are collected for 40 companies making the S&P MIB index in 2003: 284 independent directors (101 belong to not financial companies and 183 from financial companies)
- Two sets of independence criteria (EC and Preda) and 12 single criteria considered (7 EC and 5 Preda)
- Every rate for each criterion is assigned (“from the investor point of view”) using three different qualitative outcomes: “yes” compliance, “no” not compliance “ns” not disclosure.
- We derive from the initial data the adjacency matrices of cross-directorships and dual directorships.
- Free float data (to study the relationships between free float and global rates) source: Consob





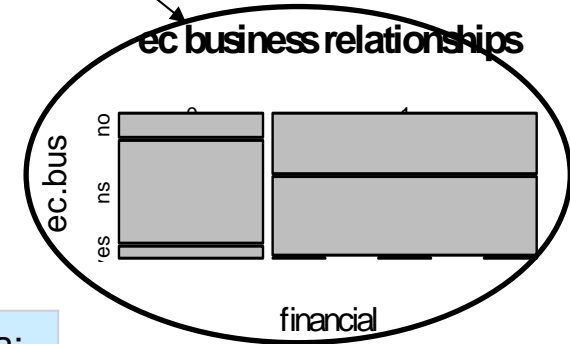
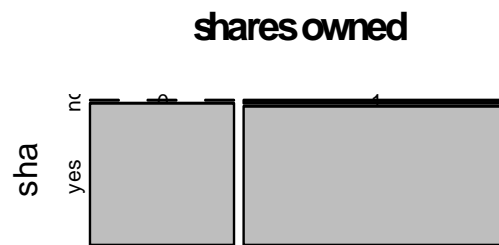
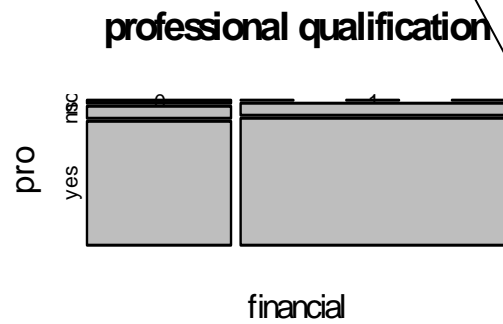
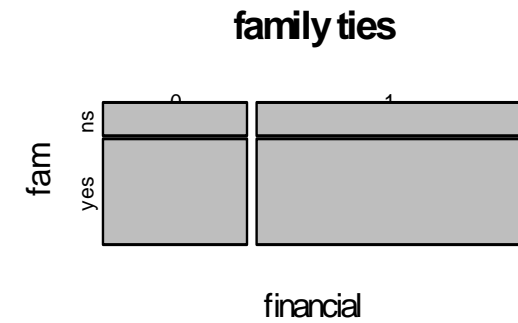
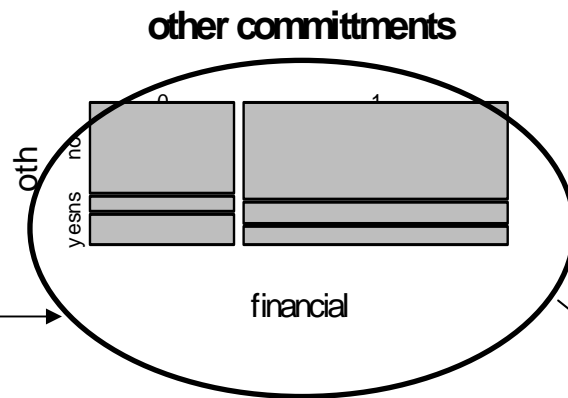
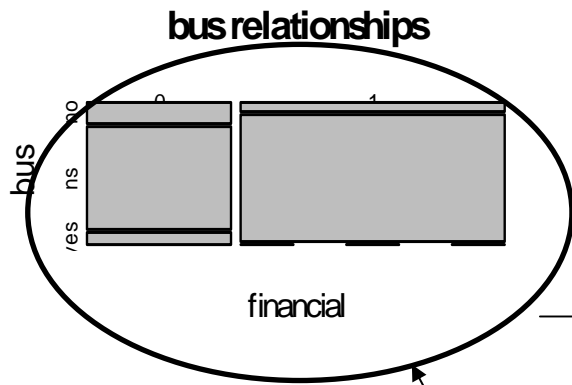
EC criteria: Companies that show higher compliance are Fiat, Enel, Finmeccanica. Such companies also show higher free float



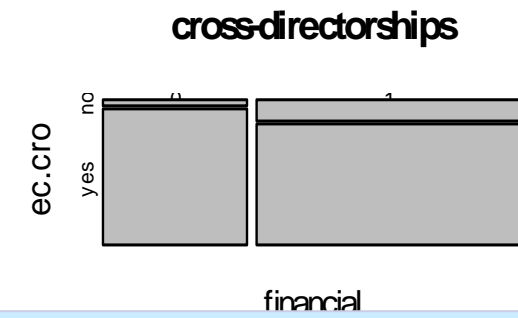
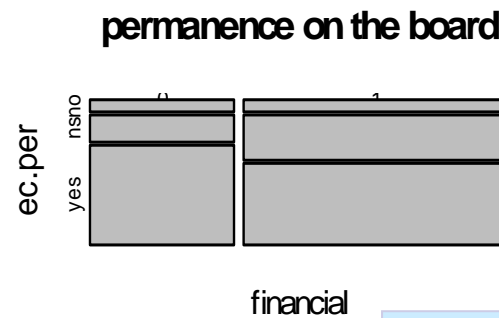
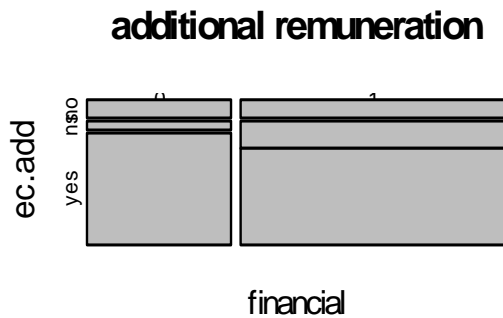
These two groups of companies are characterised by different data structures (higher compliance and disclosure versus lower not compliance and lower disclosure)

by considering the median level (60%) as global compliance rates we can build two visual groups.

The situation does not change much for Preda criteria. Similar companies on top of the ranking (Enel, Fiat and ENI), for which also we observe high levels of not compliance but also high levels of disclosure

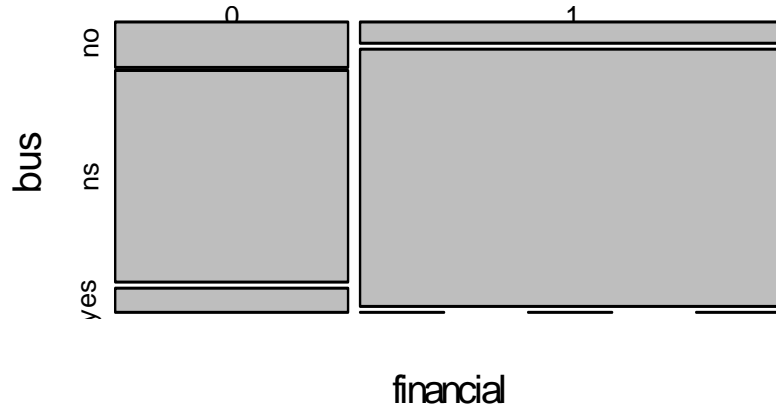


Lower compliance for three key criteria:
other commitments and business
relationships

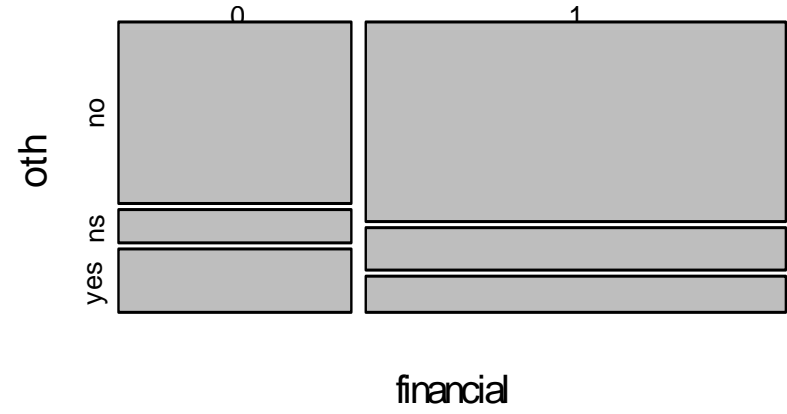


Mosaic plots: counts by rate are proportional to
length (of the split rectangle fin\not fin)

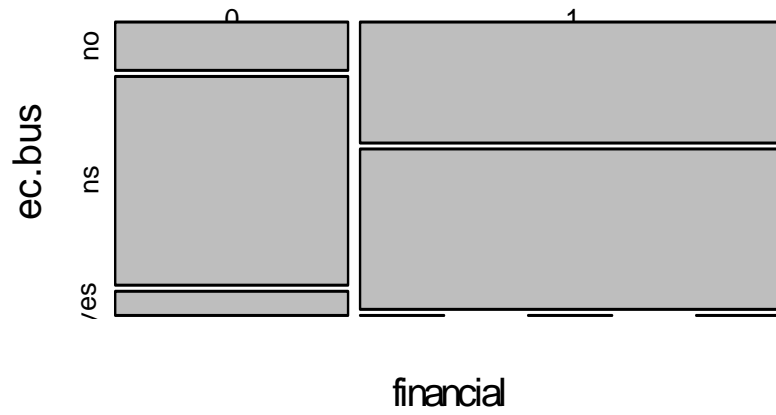
business relationships



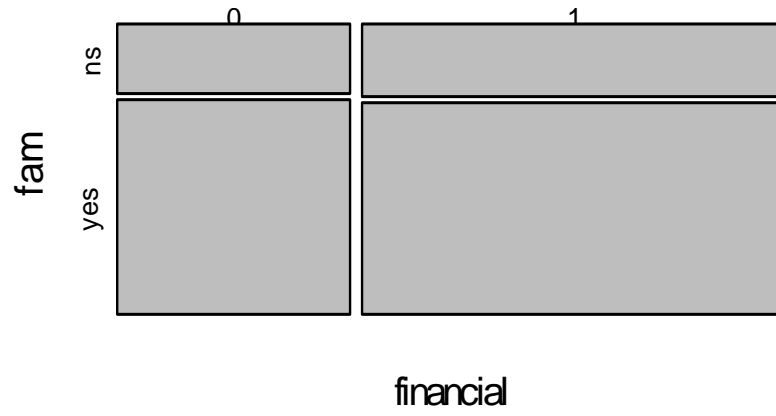
other committments



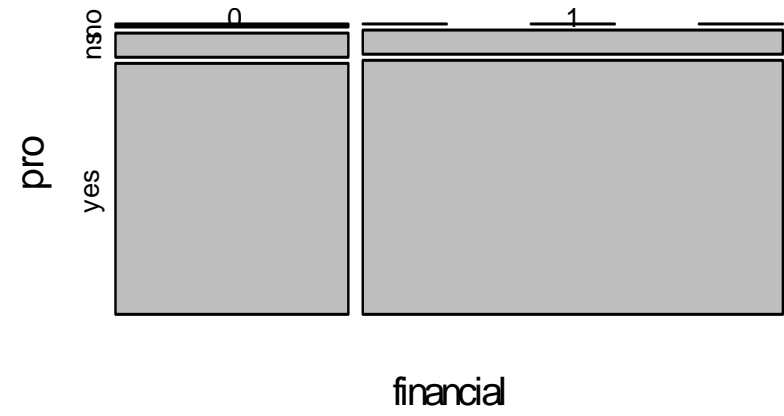
ec business relationships



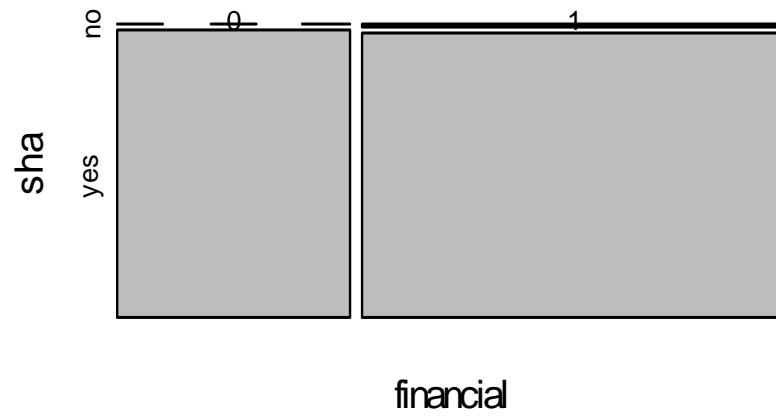
family ties



professional qualification



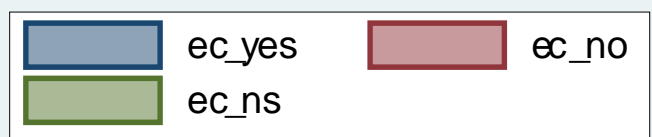
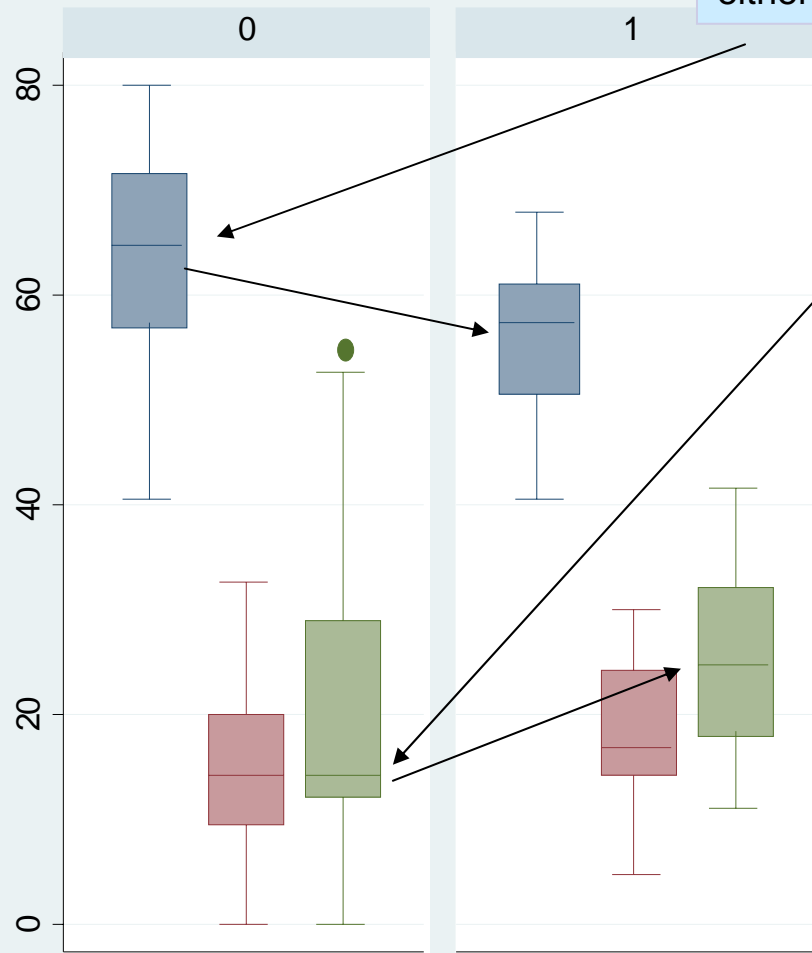
shares owned



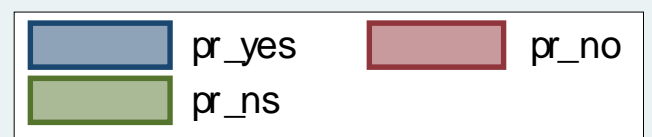
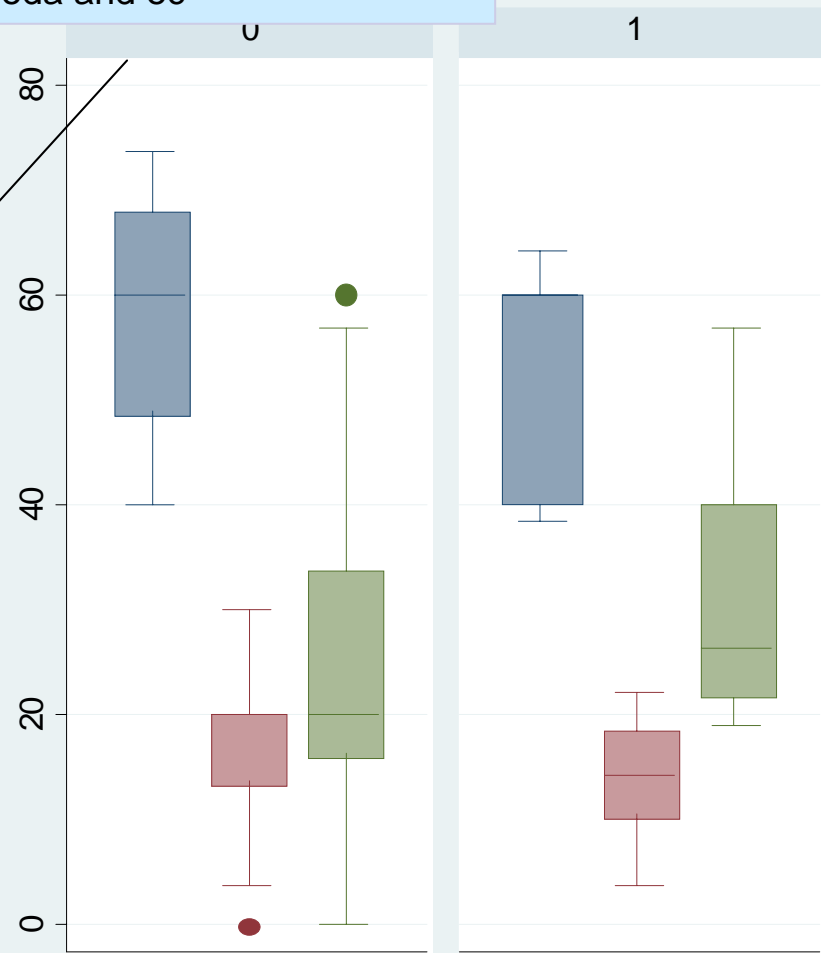
compliance and disclosure

In general higher compliance and disclosure for not financial companies either for preda and ec

s predalec

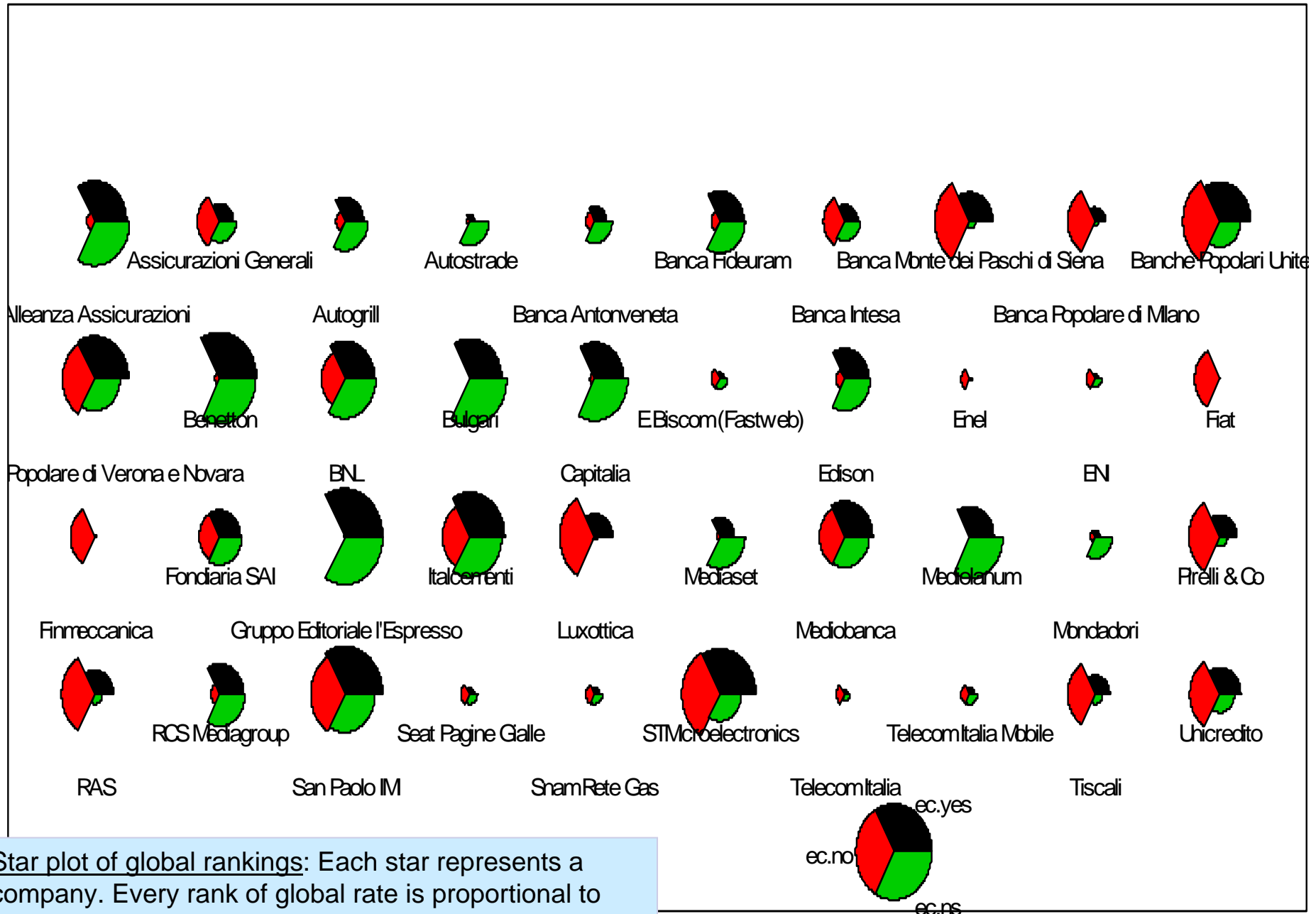


Graphs by financial



Graphs by financial

EC Company global rankings: corporate profiles

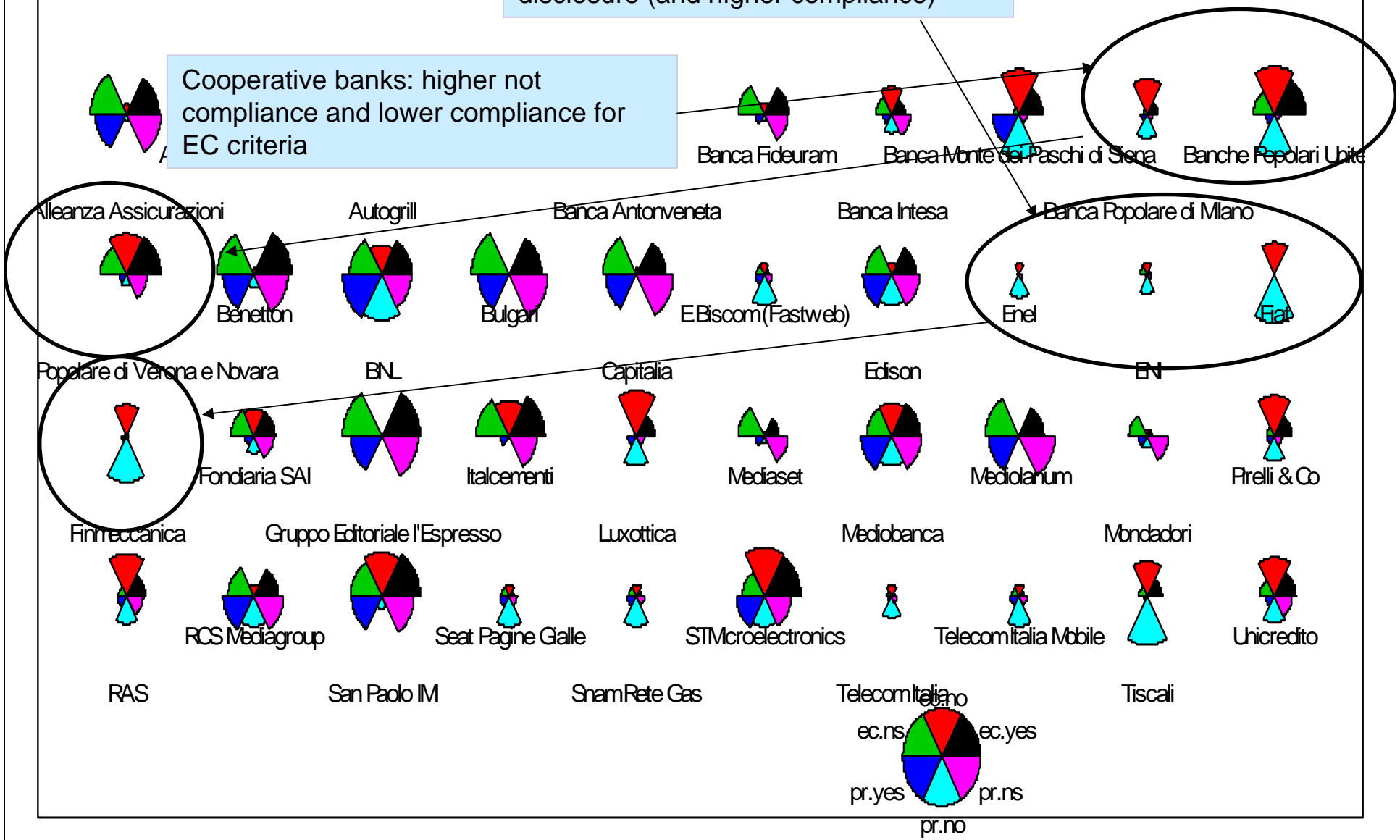


Star plot of global rankings: Each star represents a company. Every rank of global rate is proportional to the length of the ray.

Company global rankings: corporate profiles

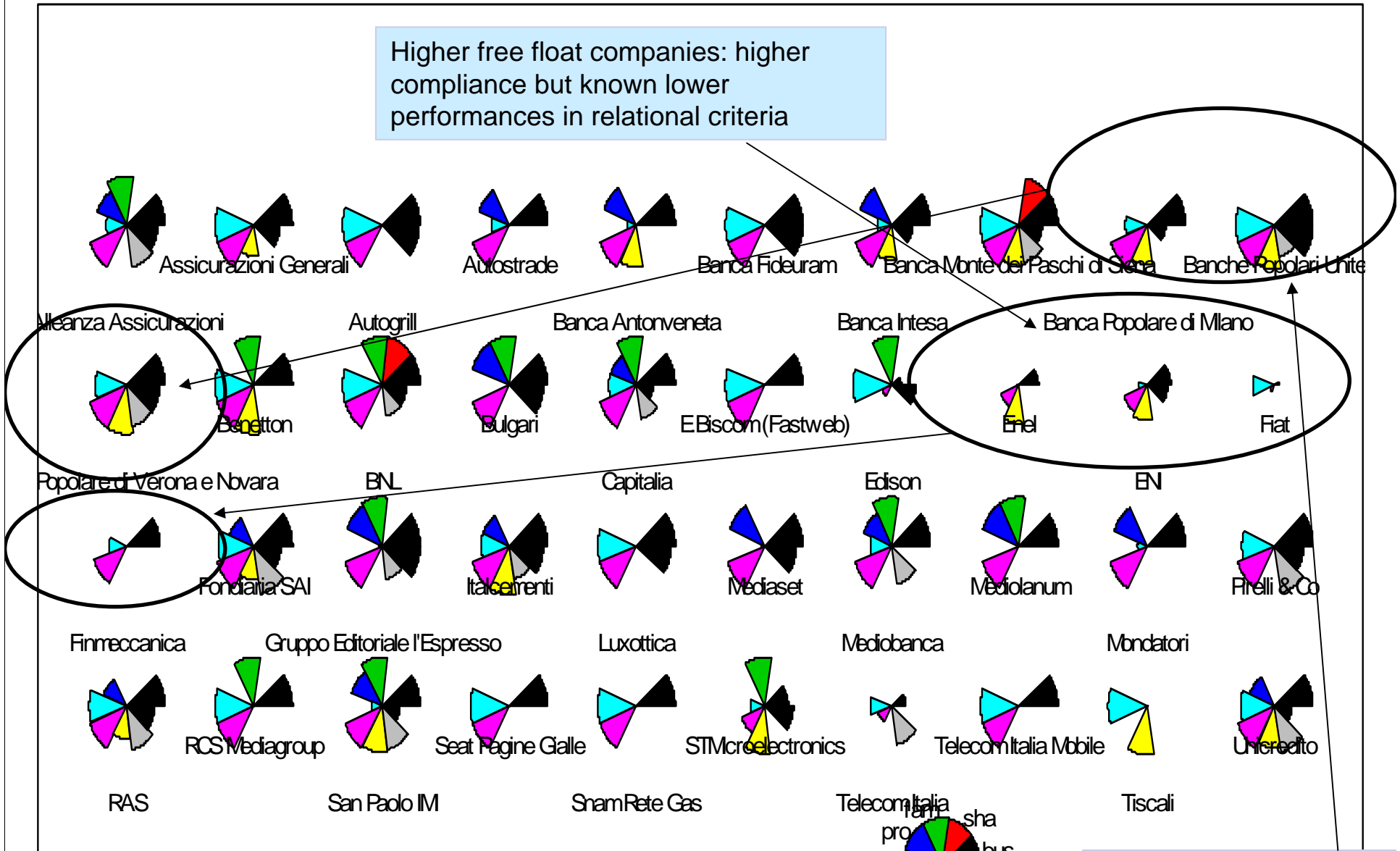
Higher free float companies: strong "environmental pressure" on higher disclosure (and higher compliance)

Cooperative banks: higher not compliance and lower compliance for EC criteria



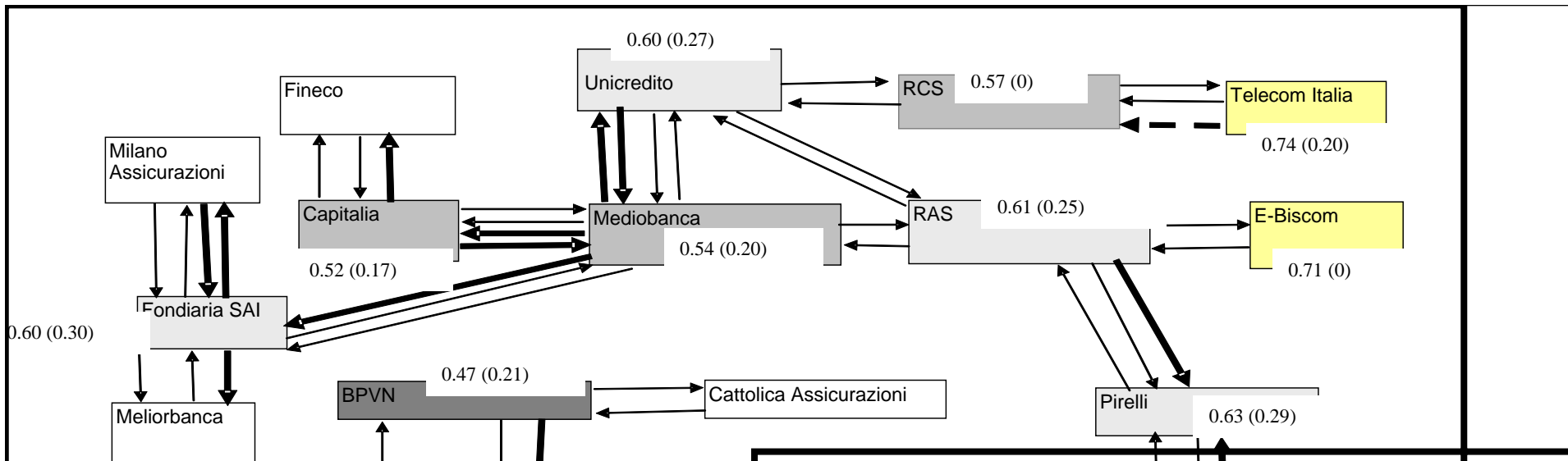
Company rankings by independence criteria: corporate profiles

Higher free float companies: higher compliance but known lower performances in relational criteria

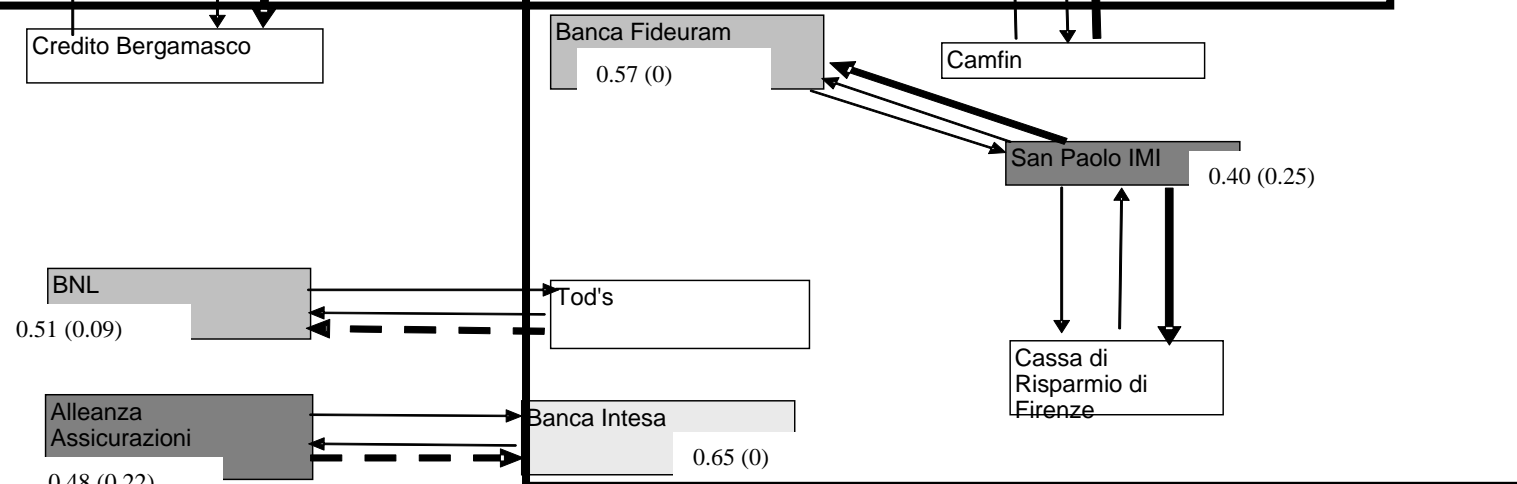


Star plot of ranking by criteria: Each star represents a company. Every rank of criteria is proportional to the length of the ray.

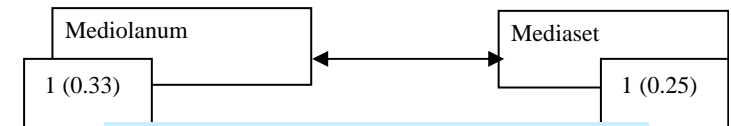
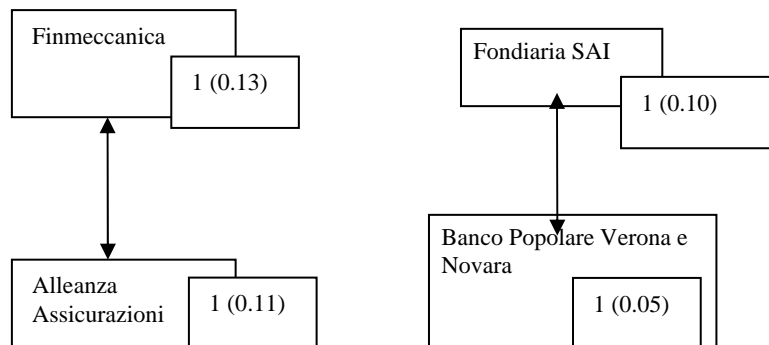
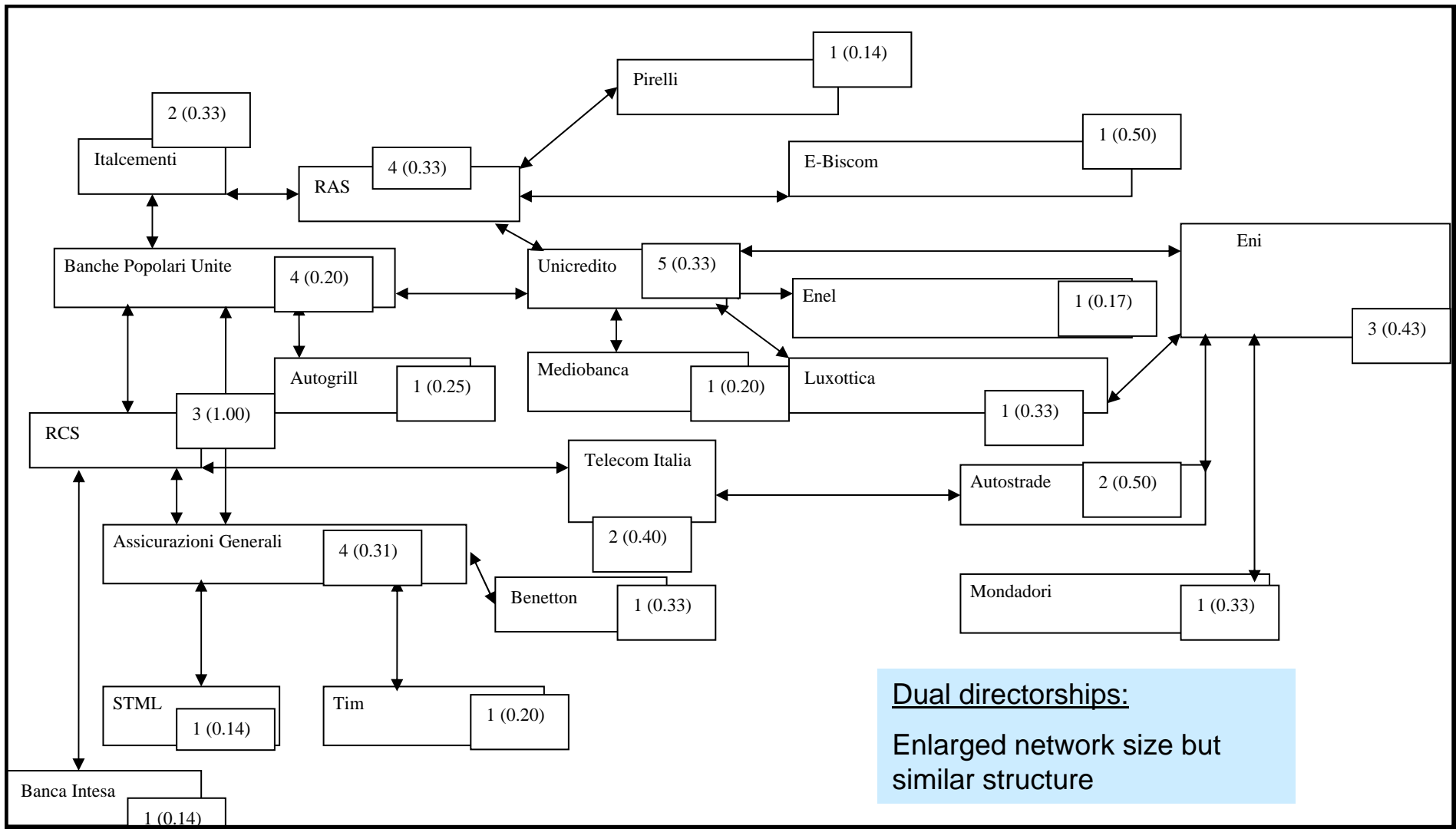
Cooperative banks: lower performance on EC criteria



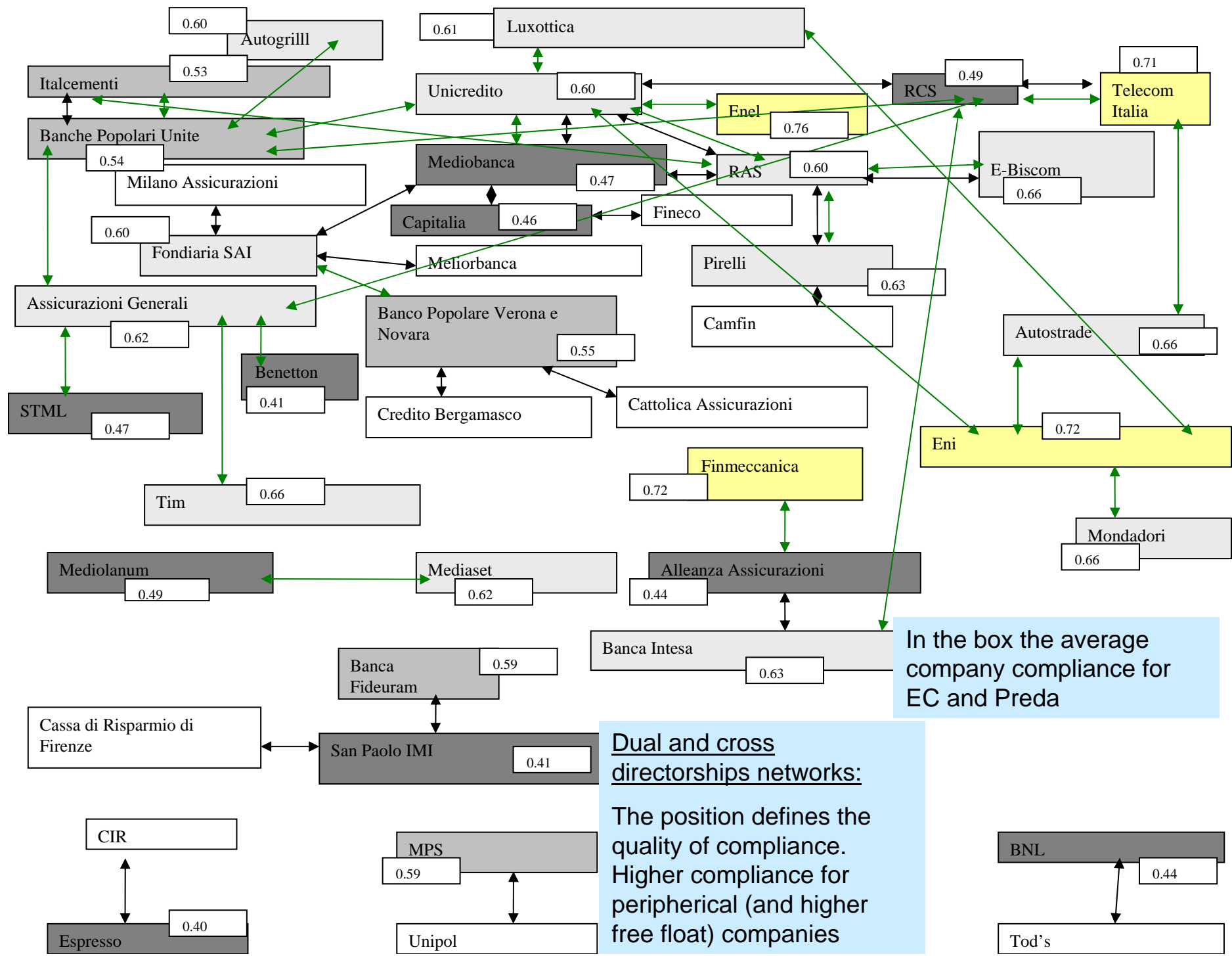
Cross-directorships:
 financial companies form the centre of the network; not financial companies are the periphery.



In the box the EC compliance rate and in brackets the incidence of cross-directorships on total number of independent directors

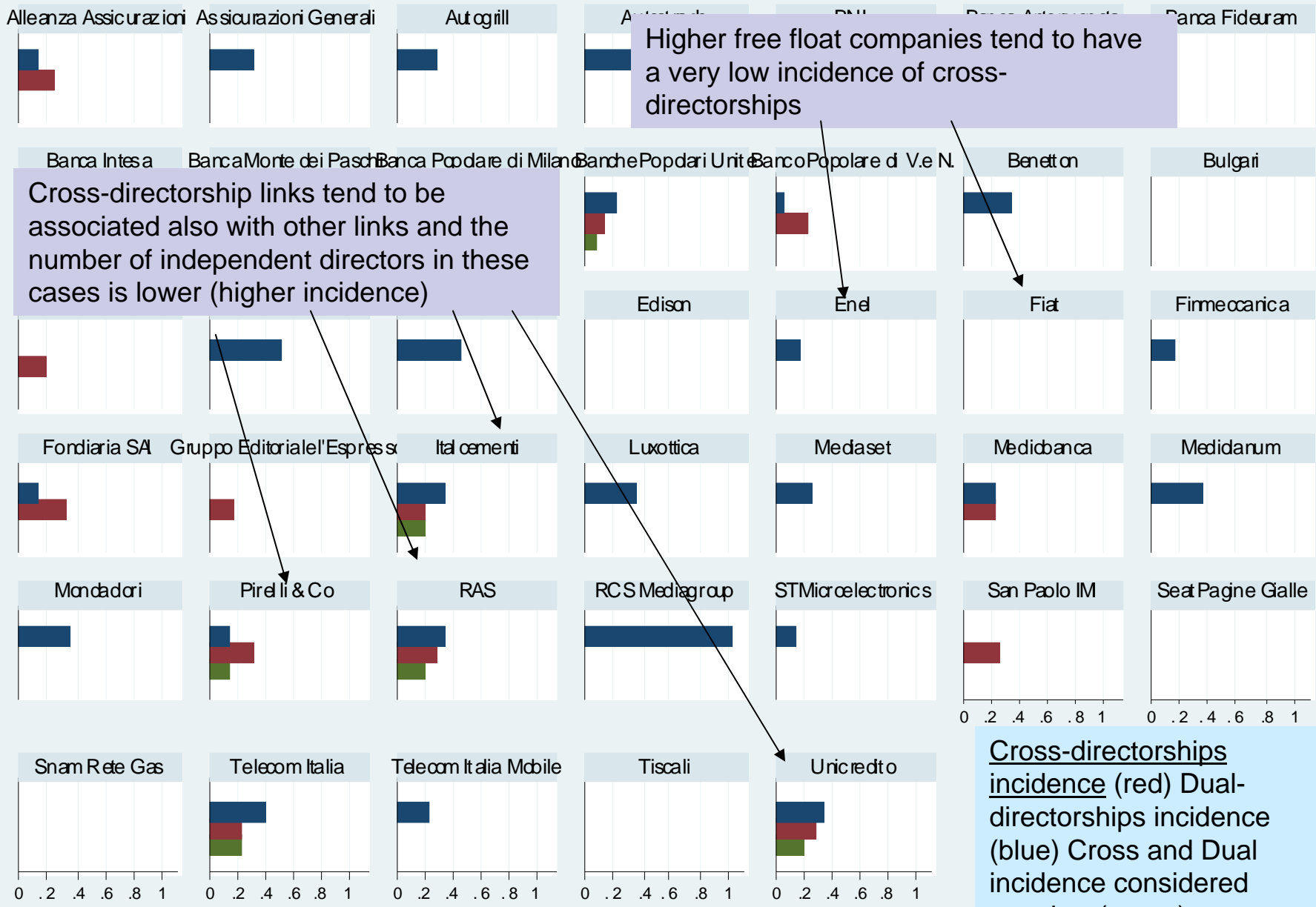


In the box the number of directors involved and in brackets the incidence of dual directorships on the total

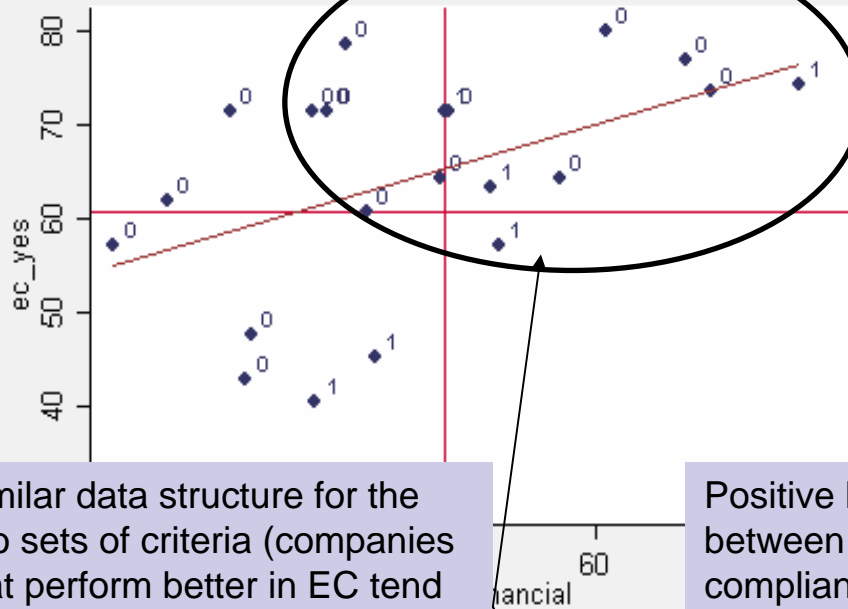


In the box the average company compliance for EC and Preda

Dual and cross directorships networks:
The position defines the quality of compliance. Higher compliance for peripheral (and higher free float) companies

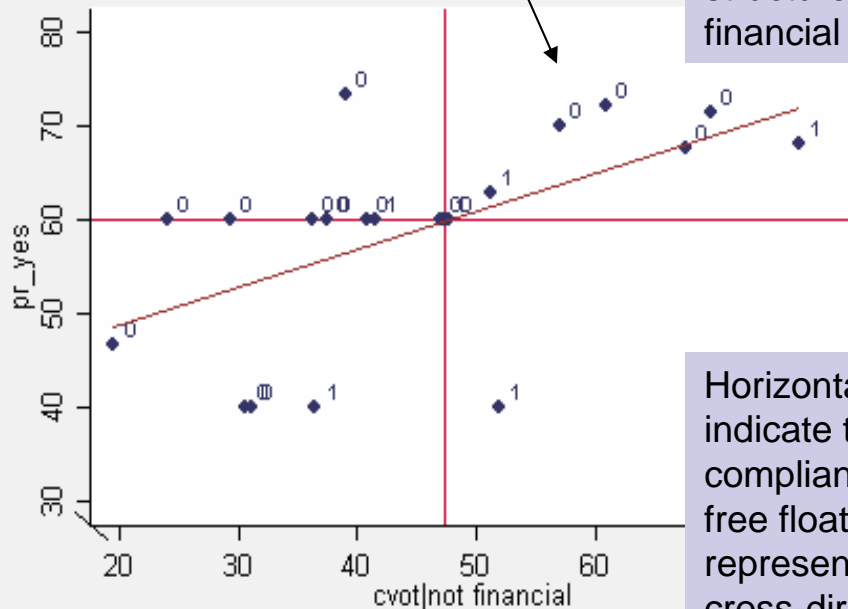
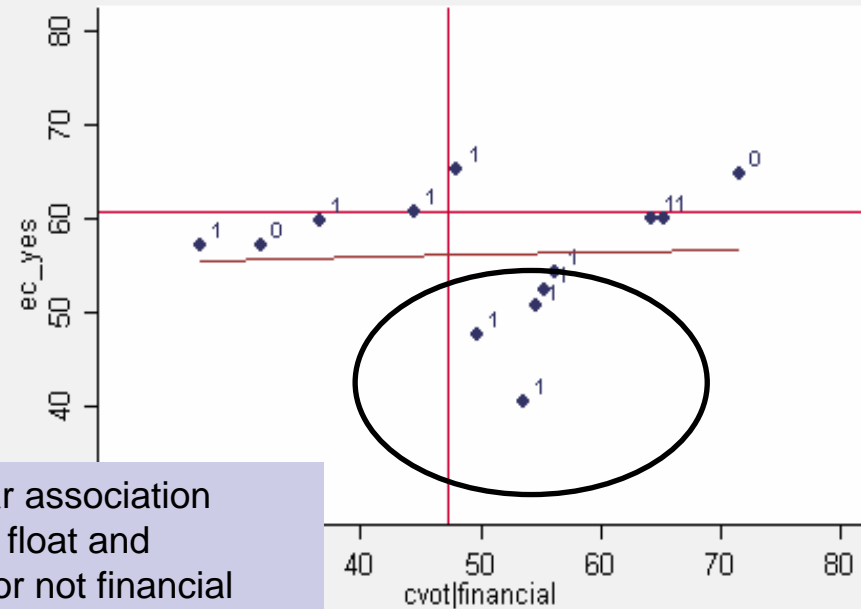


Graphs by Company

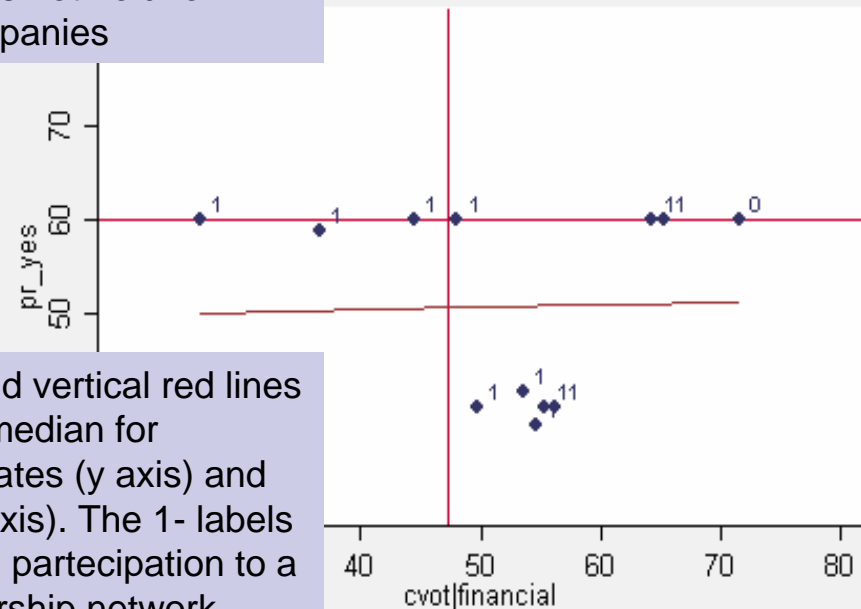


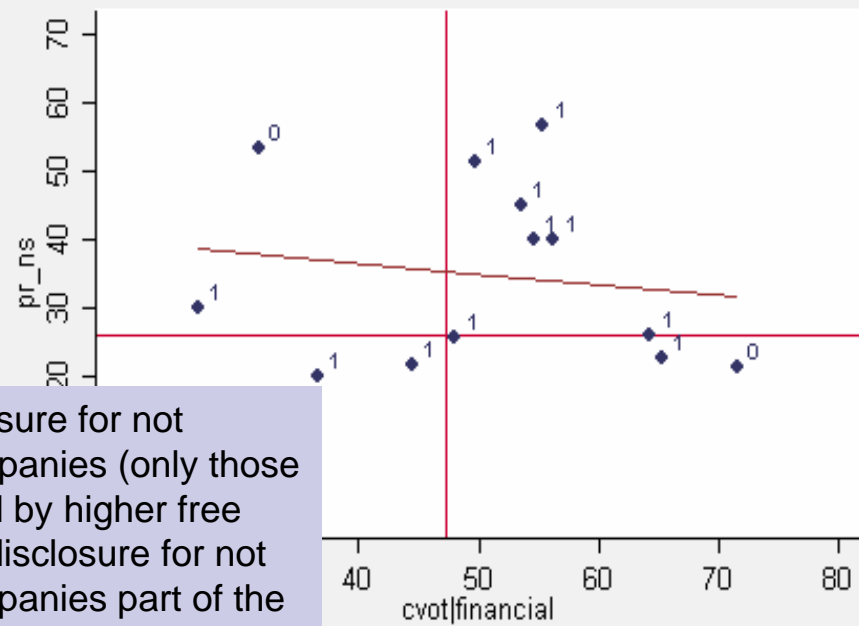
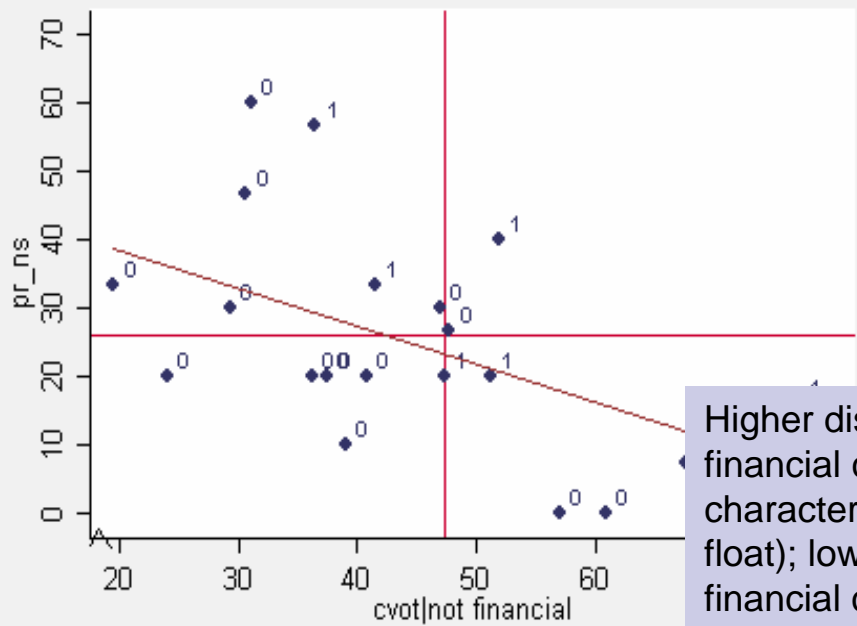
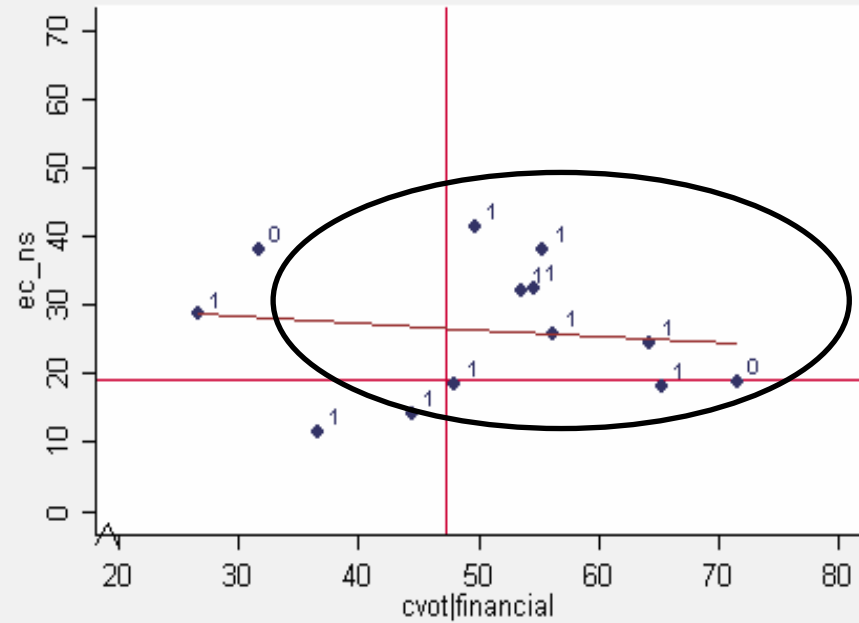
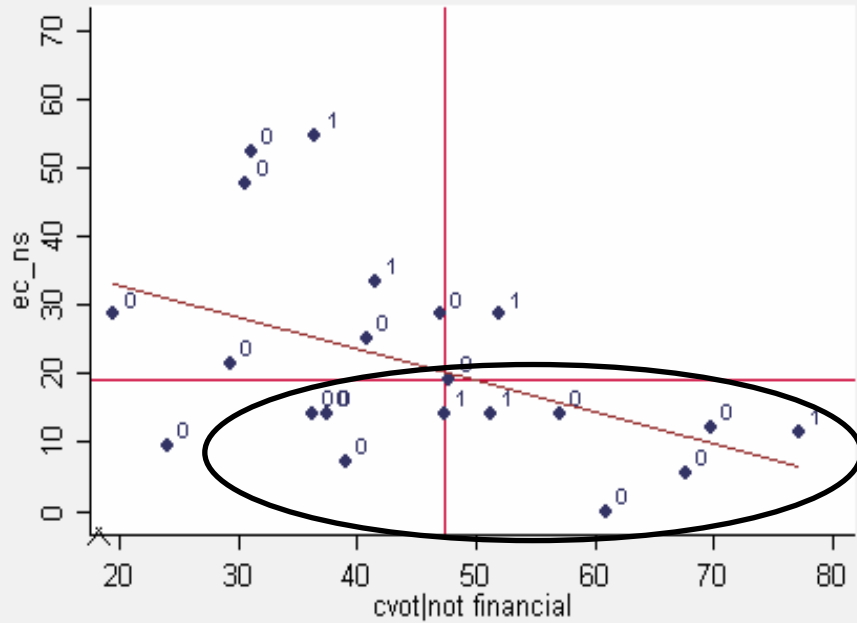
Similar data structure for the two sets of criteria (companies that perform better in EC tend to perform better also in Preda)

Positive linear association between free float and compliance for not financial companies. The same data structure does not hold for financial companies



Horizontal and vertical red lines indicate the median for compliance rates (y axis) and free float (x axis). The 1- labels represent the participation to a cross-directorship network.





Higher disclosure for not financial companies (only those characterised by higher free float); lower disclosure for not financial companies part of the networks.

Conclusion

A) General low level of compliance for both financial and not-financial companies.

B) In particular, not-financial companies with more fragmented shareholder base show higher compliance rates (responsiveness to market pressure).

C) Financial companies:

- show an even lower level of compliance;
- are connected through cross-directorship networks;
- tend not to show higher compliance the more fragmented their shareholder base (poor responsiveness to market pressure)

D) Financial and not-financial companies are connected through dual-directorship networks.