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**"Do representatives minority shareholders differ?
A comparison of minority and majority candidates' profiles to the board"**

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Abstract

Agency issues are inherent to every kind of organization and are able to negatively affect companies' profitability as well as the correct functioning of capital markets. The board of directors has always been considered a powerful governance instrument able to mitigate such issues. Particularly, growing relevance has been attributed to minority directors: their representation is crucial to protect and safeguard their interests and to enhance board diversity. Hence, this thesis investigates the Italian minority shareholder representation system within board of directors. Specifically, it focuses on the analysis of minority shareholder representatives with the aim of assessing whether they can qualify as "diverse". The analysed data, regarding 40 Italian listed companies and 462 candidates to the board, do not provide evidence of significant differences among majority and minority candidates' profiles. However, they mainly differ with respect to the level and type of information disclosed.

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Introduction

Agency problems arise frequently in every kind of organization involving subjects with different objective functions. Agency issues within corporations have been traditionally distinguished in two types. The former, defined as agency problem type I is more frequent to arise in corporations characterized by highly dispersed ownership structures, in which there is a clear separation between ownership and control, in other words, a sharp distinction between management and shareholders. The latter, instead, defined as agency problem type II, regards potential conflict which could arise between different types of shareholders, and it is more frequent for concentrated ownership structures, where there is a large controlling shareholder who can use its control power to abuse and expropriate minorities.

Beside the specific type of agency problem, corporations have always tried to address and mitigate those conflicts, given that they, by creating additional costs, can damage shareholder wealth and in turn company profitability and value. Negative consequences arising from agency conflict do not regard only firm performance, but particularly for listed companies, they are able to affect capital markets. When conflict between shareholders are significant, investors, traditionally representing minority shareholders, might be reluctant to provide financial resources, given the potentiality of expropriation or abuse by controlling owners. Hence, agency costs mitigation is not only relevant to improve company performance, but also to further develop and enhance financial markets functioning.

Indeed, there are several mechanisms companies can adopt to relief from these problems: the most relevant are represented by the board of directors and minority protections schemes. Dealing with boards and minority protections, one relevant and fundamental way of mitigating agency conflicts between shareholders is given by the possibility of allowing minority representation as well as their active participation within boards of directors. Furthermore, it is important to underline that minority representation within boards does not only represent a useful mechanism to safeguard minority interests, but also a way of increasing board diversity and in turn board effectiveness.

Besides their relevance, minority representation provisions and measures are not implemented by all jurisdictions. Anyway, the Italian institutional setting provides for a unique system of minority representation within governance structures, defined as list voting. Since 2005, minority shareholders have granted the right to propose their representatives within board of directors, more specifically, the law requires that at least one director should be appointed from

minority shareholders representatives. In other words, this legal requirement, compulsory for listed companies, allows for a more active minority participation as well as for a more diverse composition of the board, which consequently is not only representative of controlling owners' interests but rather of the whole pool of shareholders.

The scope of this thesis is to investigate the implementation of list voting procedures across Italian listed companies, in order to assess in what circumstances minority chose to exercise this fundamental right. Furthermore, given that the list voting provision allow to make a clear distinction between minority and majority representatives, the aim of the analysis conducted is to provide evidence regarding potential differences between majority and minority candidates' profiles, and whether these differences are able to affect company performance.

In order to provide an answer to the above questions, the first chapter provides a more detailed analysis of common agency problems within corporations, with a more specific focus on agency problems type II and related protections mechanisms: board of directors and minority rights. Then, the second chapter focuses on board of directors' composition, and related minority representation mechanisms, with a specific description of the Italian institutional setting. Finally, the third and fourth chapters describe the analysis conducted on a sample of 40 Italian listed companies, with the objective of assessing list voting implementation and whether potential differences between majority and minority candidates' profiles exists.

Chapter 1- Agency theory: problems and protections

1.1 Agency theory and corporate governance

Agency relations, as well as consequent agency problems, arise in “*all organizations and in all cooperative efforts involving two or more people*” (Jensen and Meckling, 1976). The agency can be defined as a legal relationship shaped through a binding contract between two parties: the principal and the agent. In the mentioned relation, the principal empowers the agent to act on its behalf for the pursuing of contractually defined objectives. If the established objectives are the ones which maximize both parties’ utilities, there are good reasons to believe that the agent will act in the best interest of the principal. If, instead, the parties’ interests are not aligned, there is obviously the incentive for each party to maximize its personal utility. Hence, given the mis-alignment of interests, it is possible to observe what in literature has been defined as the “*agency theory*” (Jensen and Meckling 1976). The agency issue involves the rising of related costs, referred to as *agency costs*. According to Jensen and Meckling, it is possible to identify three major kinds of agency costs. The first two are: monitoring expenditures, sustained by the principal to put in place control and evaluation mechanisms of the agent activities; bonding costs, sustained by the agent to guarantee he will not act against principal interests. In addition, also in cases of positive monitoring and bonding costs, there will still be a discrepancy of interests between the two parties. This will consequently determine a significant divergence between agent’s decision and the optimal decision from the principal perspective. Thus, the reduction of wealth that the principal must sustain is identified as the third kind of agency cost: the residual loss (Jensen and Meckling, 1976).

Agency issues and related costs are closely linked to corporate governance: they are defined as the problems corporate governance tries to address (Love 2010). Within this context, it also appears fundamental to provide a definition of corporate governance. It has been defined as the “*system by which companies are directed and controlled*”, more specifically, it “*involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined*” (OECD 2015, G20/Principles of Corporate Governance, p.9). Hence, it is considered as the set of rules, mechanism and structures, whose main purpose is regulating the existent relations between various company’s stakeholders, by minimizing potential agency

costs and by promoting behaviours and decisions which can enhance the creation of economic value for the company.

1.2 Agency problem type I: principal-agent paradigm

When the general agency theory, previously defined, is applied to corporations, the principal-agent paradigm can be found in the relation between shareholders and management, indeed defined as a “*pure agency relationship*” (Jensen and Meckling, 1976).

This association was based on the crucial assumption of the separation of ownership and control: viewed as non-coincidence between decisions and risk bearing functions (Fama and Jensen, 1983). The issue of ownership and control separation has been also addressed by Adam Smith in 1776 as well as by Berle and Means in 1932. The latter, by looking at the United States context, provide a definition of the modern corporation structure, basically characterized by a dispersed ownership among shareholders, which automatically lead to concentrate the control and administration functions in the hands of management (La Porta et al., 1999). From this perspective, management is in charge of the decision-making process and of general administrative functions, while shareholders, representing the company owners and residual claimants, sustain all the risks related to the business activities, however lacking the possibility of directly control and govern the corporation.

According to this view, the general agency problem applied to corporations can be expressed as a classical misalignment of interests between management and shareholders. Shareholders (the principals) confer the direction of the company to managers (the agent), which should manage the company with the last and fundamental objective of maximizing shareholders value. However, and that is where the agency issue arises, managers may have their own interests conflicting with the ones of shareholders, thus they might be tempted to only achieve personal benefits. Conflicting interests are mainly driven by their different views on the business. Owners are interested in the maximization of value creation and consequently in the economic growth of the company in the long run. Managers, instead, might be willing to pursue different objectives which might lead to the achievement of monetary and non-monetary personal benefits: such as the rise of personal power, or the achievement of higher salaries and compensation. Given the misalignment of interests and the actual impossibility for shareholders of directly control management actions, the previously defined agency costs might arise, indeed potentially reducing shareholder wealth as well as firm value.

1.3 The principal-principal agency problem

The agency theory, as previously defined in terms of principal-agent paradigm, has been dominant in the economic literature during the last four decades (Denozza and Stabilini, 2017). However, there are more recent studies and researches which firmly believe that the principal-agent paradigm offers a reductive description of the problems and related agency costs which could arise within organizations.

Firstly, the extent to which corporations are characterized by dispersed ownership structures has been questioned by several studies. For instance, Holderness and Sheehan (1988), have found majority controlling shareholders also in several United States public companies (La Porta et al., 1999). Furthermore, focusing on economic contexts different from the one of the United States, or more generally, outside the Anglo-Saxon world, widely held firms might be considered only a minority. By analysing organizational forms in continental Europe, as well as in emerging economies, it is possible to observe that corporations have rather concentrated ownership structures, characterized by large controlling shareholders which can be identified by the Government, as well as by families and financial and non-financial institutions (La Porta et al., 1999). Particularly, an increasing number of firms seems to be controlled by families, either directly or indirectly, through control mechanisms which involve other corporations and thus, pyramidal structures. For instance, in India about 70% of firms are family controlled, while Brazil accounts for over 4 million family owned businesses. Shifting our attention to continental Europe, countries like Germany, France and Italy as well, are traditionally characterized by concentrated ownership structure, in which family owned business appears to be the greatest majority (Bhaumik and Gregoriou, 2010).

Secondly, the agency theory is closely linked with the shareholder value paradigm, according to which the last and ultimate objective that management should pursue is the maximization of the value of the firm for its shareholders. The major explanation to this principle is that shareholders are considered as the provider of risk capital, thus, they represent the residual claimants of a firm's assets. Being residual claimants, pursuing their interests also ensure protection and satisfaction of the interests of other relevant company stakeholders, whose claims are, by definition, preferred (Denozza and Stabilini, 2017). Consequently, the maximization of shareholder value becomes the firm objective function assigned to company management. However, this view starts from the critical assumption that shareholders are all the same. But, is it actually true? Are shareholders all the same and do they have the same interests?

When the ideas that company ownership is concentrated and that company shareholders are different and might have conflicting interests, are accepted, the agency theory as traditionally shaped becomes limited. Thus, it seems appropriate to expand the traditional view of the agency problem, also considering the relevance and importance of what in literature has been defined as a second type of agency conflict: the principal-principal problem.

The principal-principal agency problem focuses on the goal incongruences between different types of principals (Dharwadkar et al., 2000). Secondary agency problems are always based on interests' divergence, where the involved parties are not management and shareholders, but rather different kind of shareholders. Thus, in this case, the crucial point is not the one of aligning shareholders and management interests, incentivizing the latter to act in the best interest of the former, anymore. The focus instead, is on how to account for the diverging interests of different groups of shareholders and how to make them converge in the corporation objective-function (Denoza and Stabilini, 2017).

Even if the attention to second type of agency conflicts is a recent phenomenon, the existent literature has proven the extensive spread of such conflicts. Indeed, they could arise to some degree in all corporations, regardless of their ownership and governance structures as well as of their operating economic environment. For instance, their presence has been documented both in emerging and already developed economies, as well as in firms characterized by different ownership structures, where the major shareholder might be represented by families, institutions or even by governments (Sutton et al., 2017).

1.3.1 Majority and minority shareholders

Even though principal-principal agency conflicts could arise in all corporations, they are most frequent and most severe in firms characterized by concentrated ownership and by fewer legal protection for minorities (Young et al., 2008). In fact, if from one side the concentrated ownership structure can mitigate the traditional principal-agent problem, from the other, it may lead to conflict between different kind of shareholders (Renders and Garemynck, 2012).

Considering different types of principals, the most relevant distinction that can be identified is the one between majority and minority shareholders.

According to a general and simple definition, minority shareholders are all shareholders different from the controlling one. A controlling or majority shareholder can be identified as a person or entity that owns and control more than 50% of the company outstanding shares. In

the opposite view, minority shareholders are identified as those persons or entities who own less than such percentage of the corporation total shares. Given the traditional principle of “one share-one vote”, by controlling more than half of the outstanding shares, controlling shareholders also own the majority of the voting rights of a company. Thus, they can actively influence the company’s decisions and operations. On the other hand, given the reduced portion of outstanding shares owned, minority shareholders do not exercise control over a corporation.

Anyway, the difference between these two kinds of principals, does not solely rely on the different portion of share capital and voting power owned, their major difference is represented by their contrasting views on the business. Traditionally, majority shareholders are identified as the founders of the firm or as the ones who assume the economic initiative, thus are generally animated by a strong entrepreneurial sense. While, minority shareholders are generally represented by investors. The latter are individuals or entities who are interested in allocating their financial resources in order to obtain a certain return, represented by company dividends, or by a capital gain achieved through the selling of their ownership stake. Given their prevailing economic interest, generally they are not interested in influencing company activities: indeed, they typically do not participate general assembly, neither exercise their voting power. Investors are said to be characterized by “rational apathy”: because of the lacked possibility of influence company decisions, they choose to be inactive, only searching for a positive return upon their investment. Thus, from one side the interest in influencing and running company activities and from the other, the aim of obtaining an immediate economic return.

However, some authors believe that it is not possible to shape a unique concept or definition for minorities. There, instead, exist different typologies of minorities across jurisdictions and across companies as well. In addition, the concept of minority cannot be considered completely defined, but is rather changing according to the evolution of the social-economic system in which corporations implement their activities (Campobasso, 2014).

For instance, in some jurisdictions, specifically in continental Europe, it is very frequent that employees own company shares, and are indeed qualified as minority shareholders. Thus, from this perspective company minorities are not only represented by investors.

At the same time, also the concept of investors has been subject to significant changes during the last decades. Minorities are nowadays represented by a new category of investors: *institutional investors*. This category is quite broad, and it includes insurance and investment companies, banks and other financial intermediaries, several type of funds such as pension, mutual, hedge and private equity funds. Besides the several and different typologies of

institutional investors, they can be defined as professional figures and entities, who generally own minority stakes within companies, but actively participate company decision-making process, in order to protect and satisfy their interests, thus also ensuring the achievement of a higher and better return of their investment. Thanks to the spread of this new figure, investors do not qualify as mere consumers of financial instruments anymore. They are not only interested in the achievement of a certain monetary return, they are rather interested in company activities and operations. They are committed to company growth and expansion; indeed, they actively participate company life by directly exercising their rights and performing their related duties. In these terms, the typical investor apathy is rather translated into activism: they make clear their interests and positions, also assuming contrasting views with respect to controlling shareholders (Campobasso, 2014).

1.3.2 Minority expropriation and private benefits of control

Whatever the type of minority or majority shareholder, the divergence of interests between principals may determine agency problems and costs to arise. In these cases, firms may be exposed to the problem of tunnelling. It has been defined as the “*transfer of resources out of a company to its controlling shareholders*” (Johnson et al., 2000). According to Johnson et al. (2000) view, tunnelling activities can come in two different forms: through self-dealing transactions or through dilutive activities. With self-dealing transactions, a controlling shareholder directly transfer resources out of the company. Such transactions might include illegal activities, such as outright theft or fraud; or legal ones such as excessive and above market compensation of executives, diversion of resources, asset transfers at arbitrary prices, cheap loans and guarantees. Dilutive activities, instead, do not require the direct transfer of resources, but are equally able to increase controlling shareholder wealth by the issuance of shares at dilutive prices, minority freeze-outs, insider trading, creeping acquisitions and any other kind of activity able to discriminate minorities.

Another frequent problem is the one of entrenchment, that results in a situation in which there is a strong link between the company management and the controlling shareholder. In this case, it is highly probable that the management group will run the company in the sole personal interest of majority shareholders. In more extreme cases, company executives and top management figures might be directly represented by majority shareholders. In such a case, even if the management might be incompetent and unskilled, it cannot be easily removed; thus,

creating possible inefficiencies and a high potential for damage to firm value (Morck et al, 2005).

In both situations, dominant shareholders might use their power and their position of control, in order to obtain what in literature has been defined as “*private benefits of control*”. One of the most recent definition of private benefits of control has been provided by Coffee (2001). According to his view, private benefits are “*all of the ways in which those in control of a corporation can siphon off benefits to themselves*”, without sharing those benefits with the other shareholders (Ehrhardt and Nowak, 2001). The economic literature generally distinguishes across two major typologies of private benefits of control: pecuniary and non-pecuniary ones. Benefits of control arising through the previously mentioned self-dealing transactions and dilutive activities are pecuniary since they directly or indirectly affect shareholder’s wealth. More precisely, they increase the one of controlling shareholders while are detrimental for minorities. Besides this first category, it is crucial to consider also non-pecuniary benefits of control. These are defined as “amenities” and “reputation” and are linked to non-monetary aspects which are also able to generate utility: personal relations, physical appointment of the office, social prestige and power and the possibility of influencing public opinion (Ehrhardt and Nowak, 2001). Apart from the specific functions and characteristics of the above examples, the common and crucial aspect is that some value is not shared equally among shareholders in proportion of the shares owned, instead, it is only captured by the controlling party, hence, the definition of “private benefit of control” (Dyck and Zingales, 2004).

In these terms, the major issue is related to the incentive of controlling owners to deviate from the maximization of the total value of the firm and to take instead decisions only with the aim of maximize their private benefits. Indeed, the ultimate result of such behaviours translates in the possibility of minority expropriation. When controlling shareholders expropriate minorities, by using company resources and activities only to pursue private benefits, it is possible to observe a double effect: on one hand, minority shareholders are worsen-off by facing actual losses; on the other hand, the entire company might be penalized by potential suboptimal decisions implemented by controlling shareholders. Indeed, with the aim of preventing the occurrence of minority expropriation and related negative consequences, legal measures regarding minority protection have been introduced.

1.4 Minority shareholder protection

Until the 1970s, only Anglo-Saxon countries had implemented legal framework able to effectively protect minority shareholders. However, in the last three decades, the adoption of legal protections has interested also the rest of the world. This trend was mainly inspired by the general idea that “*financial markets allocate capital efficiently and to the benefit of the economy at large*” (Guillen and Capron, 2016). Thus, from this point of view, it becomes crucial the idea that the government should provide protection to minority shareholders as a direct way to help companies raising financial resources, essential for running their activities and to further expand, thus also improving the whole country economic system.

Besides the common trend of increasing minority shareholder protection rules, there exist differences across countries in types or protective law implemented as well as in the quality of its enforcement. La Porta and al., (1998), by empirically analysing shareholders jurisdiction in 49 countries, proved that laws significantly vary across countries, mainly because of differences in their legal origin and tradition. More specifically, common law countries, identified with the Anglo-Saxon world, provide minority shareholders with better and stronger protection. While, civil law countries, especially the ones influenced by the French legal tradition, the weakest. From what concerns the quality of law enforcement, it appears to be the highest in Scandinavian and German civil law countries, while being the lowest in French civil law ones (La Porta et al., 1998).

However, the issue of minority shareholder protection is of more than historical interest (Guillen and Capron, 2016). In fact, it has acquired more and more relevance during the years, as companies experimented failures and bankruptcy, culminating with the global financial crisis of 2008. During these periods, many countries had to deal with corporate scandals (Enron 2001, Parmalat 2003) and with a significant contraction of financial markets, which in turns lead to a substantial decrease of shareholder wealth. All these issues pointed out the inefficiency of investor protection rules and more generally of corporate governance systems.

In order to cope and to overcome these inefficiencies, new regulations and legal frameworks have been issued. A crucial step in the regulative effort made to enhance shareholder' rights in listed companies was the Shareholder Rights Directive 2007/36/EC (recently amended by the Directive 2017/828/EU, frequently defined as SHRD II). The cited directive had the general objectives of “*fostering efficiency and competitiveness of business; developing stock markets in the European Union; strengthening shareholders' rights and third parties' protection*”

(Rose, 2012). At the same time, significant emphasis has been placed on “soft” laws, intended as not compulsory regulations to which companies can choose to comply with. Particularly, Codes of good corporate governance, based on the “comply or explain” mechanism, have been created in the last decades all around the world, in order to improve corporate governance practices. Again, Anglo-Saxon countries were the first to publish such codes: United States in 1978, followed by Ireland in 1991, and United Kingdom in 1992 with the influential Cadbury Report. Then, by the middle of 2008, 64 countries had issued at least one code regarding corporate governance (Aguilera and Cuervo-Cazurra, 2009). Indeed, according to Aguilera (2009) the development of these general principles, recognised as “corporate governance best practices”, was mainly prompted by transnational institutions, such as the OECD, with the main fundamental aim of providing higher qualitative standards concerning company governance. They considered good governance as a necessary condition to make companies, and consequently countries, grow (Aguilera and Cuervo-Cazurra, 2009). This idea was considered particularly valid for public traded companies which constantly need to attract investors, thus creating an effective system of corporate governance able to satisfy and safeguard their interests.

1.4.1 Minority shareholders rights

According to the OECD Corporate Governance principles “*corporate governance frameworks should protect and facilitate the exercise of shareholders’ rights and ensure the equitable treatment of all shareholders, including minority*” (OECD, 2015).

Equity-holders, by owning company shares, are granted a set of equal rights of both administrative and proprietary nature. A share, defined as a portion of company ownership, is a financial instrument which give the owners the right to receive dividends in case of company profits distribution and the right to vote during general shareholder’s meeting and to counsel company major documents. However, rights granted to shareholders do not only depend on the type of security, but also on the set of legal rules of the country in which securities are issued (LLSV 1998). Country level jurisdictions might enhance or restrict, according to specific circumstances, shareholder rights. Even though country legal systems can differ a lot – for their origin and legal tradition, for their historical background and development, for sources of law and related hierarchies, as well as for the specific legal institutions - it is still possible to identify some commonalities regarding minority shareholders rights across different countries.

As previously mentioned, one of the most important shareholder administrative right is the one of voting during shareholder's meetings for the appointment of directors, financial statement approval and major corporate issues. The voting right is directly linked with the share ownership, according to the fundamental principle of one share-one vote. This represents the base-case in which minority shareholders are considered better protected, since, by owning company shares, they also have the possibility of expressing their opinions, thus influencing decisions taken during the general assembly (LLSV, 1998).

However, the one share-one vote principle is not the only allowed by company laws. Also, best corporate governance practices suggest that all shareholders should have the right to participate and vote in the general assembly, but at the same time, they also allow for the possibility of issuing different classes of shares. Indeed, it is very frequent, especially for listed companies to issue shares which for their specific characteristics alter, by reducing or enlarging, shareholders voting power. Main examples are represented by: non-voting shares, which completely lack voting rights in both ordinary and extraordinary shareholders meetings, but generally provide additional property rights: they are "preferred" in the dividend distribution process; limited and subordinated voting shares, in which the voting right might be limited to certain issues and topics, or subordinated to the occurrence of certain conditions; founders' shares, which are generally characterized by multiples voting rights; shares whose voting rights increase if they are owned for longer periods. La Porta et al. (1998) found evidence that only 22% of the forty-nine analysed countries applied the one share-one vote principle, pointing out that it frequent for companies to restrict minorities voting power.

Besides the voting right itself, also the way in which this right can be exercised during general shareholders meetings is deemed crucial. According to certain jurisdictions, shareholders can participate, intervene and vote in the assembly only by physically showing up or through an authorized representative. Instead, other countries, allow the intervention as well as voting, also by mail or through electronic systems, thus making easier shareholder participation and right's exercise (LLSV, 1998). Moreover, in order to have the opportunity to effectively exercise their voting rights, shareholders should always be informed about data, location and agenda of the general meetings. The timely disclosure of such information gives them the ability to actively participating by asking questions or in some cases also by adding elements they deemed relevant on the general meeting agenda (OECD, 2015).

Countries' jurisdictions also give minority shareholders additional rights through which they can be relieved by oppressive behaviours of management or controlling shareholders (LLSV, 1998). These legal mechanisms include: the right to call extraordinary shareholders meetings, the right to challenge invalid shareholders resolutions, which might involve decisions taken against minority shareholders' interests; or the right to directly challenge directors also through court procedures, generally referred as shareholder' suits. Some countries also grant shareholders the right to buy new issued shares in advance, in order to protect them from possible dilution, in the case in which shares are issued below market prices.

Moreover, another fundamental shareholder right is the possibility to elect board members and to propose candidates. Generally, many jurisdictions ask for majority voting requirements for board election: indeed, majority voting is requested by the 65% of jurisdictions (OECD Corporate Governance Factbook, 2019). However, only few countries require the implementation of voting mechanisms which allow for a proportional representation on the board, thus ensuring and facilitating an effective participation and representation of minorities (LLSV, 1998). The main effect of such rules is to provide minority shareholders with the possibility of being represented within the administrative structures of the company, thus more directly influencing company decisions and operations.

To conclude, many are the measures and mechanisms that can be implemented in order to protect minorities. Most of them are specifically required by countries' laws, in many other cases, they might be enforced by corporate charters and bylaws, according to the general principle of "statutory autonomy and flexibility". Hence, not only country level jurisdictions, but also firms can directly improve investor protection rights in several ways: by increasing the level of disclosure, by selecting well-functioning and independent boards, imposing disciplinary mechanisms to prevent minority shareholder expropriation. This also means that the level of minority protection might change across firms within the same country (Love 2010).

1.4.2. Minority protection and capital market enhancement

The introduction of minority protection legislations has been necessary also to foster the development and expansion of listed companies and of financial markets. As previously underlined, minority shareholders are recognized as company investors, indeed they play the crucial role of providers of financial resources to the company, and depending on the type of security they own, they can be either qualified as equity or debt-holders. Anyway, besides the

differences intrinsic to the type of instruments, they are granted certain rights directly linked and attached to the securities in which they decide to invest. Rights attached to securities become crucial when there is possibility for agency problems to arise: these rights give investors the power to extract from managers, or from controlling shareholders, the return on their investment (LLSV, 1998). Rights provided to minorities represent a guarantee and a reassurance mechanism of the satisfaction of their objective function. Without those rights and related reassurance, they would probably decide not to invest their financial resources. The lacked investment decision would make more and more difficult the raise of external finance for firms, thus creating potential issues for what concerns their growth and development. For these reasons, investors are crucial company stakeholders, whose interests need to be satisfied and protected. Indeed, nowadays they are the main beneficiaries of regulative efforts concerning various aspects of companies, especially listed ones. According to some authors, it is possible to say that all reforms and legal frameworks implemented in listed companies have the direct or indirect purpose of protecting minorities (Campobasso, 2014). For instance, investors are conceived as the primary addresses of financial statements disclosures, since they need to be constantly updated and aware of company activities and performance, in order to take effective investment decisions. By constantly providing investors relevant and high-quality information, and by granting them additional rights which ensure their safeguard from potential expropriation and damage of their investments, investor level of confidence is enhanced.

Furthermore, considering a broader perspective, investors and their related investment decision are not only able to influence listed companies' development, but, rather, the economic system at large. Investor reassurance and willingness to provide financial resources is a necessary condition to make financial markets expand. Indeed, most researches in the economic literature affirm that the degree of legal protection of investors within a country is a crucial aspect able to determine the development of its financial market (LLSV, 2002). In what ways a better protection of investors could be able to enhance financial market development?

La porta et al. (2002) state that when investors are better protected, they are more willing to invest their financial resources. They might be disposed at paying more for financial assets in which they want to invest. Why paying more? Because they recognize that with stronger legal protections, is more likely that they will receive the return for the investment made, in the form of either interest or dividend, by, at the same time reducing the possibility of being expropriated by the dominant shareholders. Hence, legal protection of investor increases prices of securities traded in the market. But, by limiting expropriation and enhancing confidence, there are much

more investors willing to finance firms. This in turn make financial markets enhanced, since they are made able to grow both in terms of size and value.

According to this view, corporate governance is intended as the set of mechanisms and rules able to ensure that the suppliers of finance to corporations will get a return on their investment (Love 2010). In other words, it becomes a guarantee and reassurance instrument able to secure investments and their optimal compensation. Well-functioning and protective systems for minorities are deemed crucial, since the feeling of reassurance they create make companies more attractive, thus encouraging the overall investments in financial markets. Hence, protecting minorities means protecting and enhancing the financial market itself (Campobasso, 2014).

1.5 The board of directors: a way of mitigating agency costs

As previously underlined, the major objective of corporate governance is minimizing agency problems and related costs. In order to achieve this fundamental goal, companies make use of several governance mechanisms. Particularly, governance structures and more generally good corporate governance practices, by reducing agency costs, are able to effectively improve firm value and operating performance (Renders and Garemynck, 2012).

Among internal governance structures, the board of directors is deemed as a crucial element able to determine the success of a company operations and performance. It can be defined as a collective body, made up of different members, generally identified as company directors. These are appointed by shareholders during the general assembly, with the main aim of representing their interest. Governing boards are conceived as the most important governance structure of the company and are indeed present in a wide variety of organizations all over the world. Given their spread and relevance across organization, it is also straightforward to ask why they exist. An immediate answer to this question views boards as a direct product of regulation: corporate laws require for listed companies the creation of a collective body which is empowered of the governing function of the corporation. Anyway, considering board existence only as a compliance mechanism with regulation does not provide a clear and complete picture. An additional hypothesis views boards as a “*market solution to an organizational design problem*”: the agency problem (Hermalin and Weisback, 2001).

According to Monks and Minow (2004) boards represent the link between the providers of risk capital and people who make use of the capital provided to create value. Thus, the board of

directors might be considered as a liaison between shareholders and management (Aluchna, 2010). Representing such link, it is possible to say that the board major role is to align management and shareholder interests, in order to reduce possible agency costs and ensure good firm performance. According to this view, the board represents a fundamental endogenously created institution able to mitigate agency problems characterizing all organizations (Hermalin and Weisback 2001). Anyway, how board of directors can be considered an effective solution to agency problems within organizations?

As previously described, agency costs and problems arise from the separation of ownership and control, particularly from the assumption that the owners delegate substantial executive and operating powers to managers. However, given shareholders impossibility to oversee management activities, they need to be reassured that the powers they provide will not be abused at their costs (Aluchna, 2010). Hence, the necessity of creating a monitoring and control body within the company, which should represent and ensure the satisfaction of shareholders' interests. By controlling management activities and performances, the board is able to mitigate and prevent possible agency costs to arise: if the monitoring activity is effective, managers are not able to seek only their personal interests, thus they will act pursuing the interest of the whole company, indeed the one of shareholders. Anyway, it is also necessary to consider that too strict and restrictive controls on management activities might have negative effects on performance, and consequently on shareholder value. Thus, the need for the board, not only of representing shareholders and control managers, but rather of *“balancing two distinct powers: the power of those who own the corporation and the power of those who run it”* (Monks and Minow 1996, as cited by Aluchna 2010).

Boards of directors are also deemed crucial in mitigating agency costs arising from conflict of interests between different types of shareholders. Corporate governance best practices and regulations suggest and require having boards mainly composed by independent directors, generally defined as outside members. These are defined as *“non-management members of the board”*, hence representing all board members different from executives, company stakeholders and employees (Johnson et al., 1996). Indeed, board composition has evolved dramatically during the last few decades: in 2018 the 83% of directors of S&P 1500 companies qualify as independent, a huge increase if compared with the almost 60% accounted in 2000 (EY Center for board matters, 2018). Given the absence of any direct or indirect material relation with the company, its management and shareholders, they are defined as impartial, hence viewed as a fundamental mechanism able to prevent and avoid opportunistic behaviours

which can damage the whole company as well as minorities (Uribe-Bohorquez et al., 2018). Furthermore, it is frequent that outside directors are mainly representative of minority shareholders, indeed investors. When minorities are represented within boards they are more powerful and more active in protecting their interests, limiting potential issues related to private benefits of control and minority expropriation. Hence, allowing minority shareholders to have representatives within the board is a fundamental mechanism able to mitigate the principal-principal conflict and related agency costs (Moscariello et al., 2018). In these terms the board is not only viewed as a liaison between shareholders and management, but also as “*a platform for balancing shareholders and stakeholders’ expectations, for discussing corporate strategy, for resolving shareholder conflicts and fights*” (Aluchna, 2010).

Although the primary functions of monitoring management and balancing conflicting interests of shareholders, boards serves additional roles as well. The board of directors is generally identified as the governing body of corporations, often defined as the “*ultimate legal authority with respect to decision making in the firm*” (Adams and Ferreira, 2007). It is empowered with general administration functions, which should be pursued with the main objective of long-term value creation for company shareholders (Borsa Italiana, Corporate Governance Code, principle 1.1 and 1.2.). The governance literature tends to classify directors’ responsibilities into three crucial roles: control, service and resource dependence. The control role entails monitoring management, the service role involves the advisory of top managers, while the last one regards the acquisition of resources which are deemed critical to the firm growth and success (Johnson et al., 1996).

However, discussing board roles and responsibilities also involves mentioning and describing different kind of board structures. These, together with board procedures might vary both within and among countries. The most adopted board structures are represented by the one-tier system and the two-tier system. The former, more diffused in Anglo-Saxon countries, is composed by a unitary body, the board, which performs several activities. The latter, more diffused in continental Europe, is based on two main bodies: the management and supervisory board, which are empowered with distinct roles and functions. Other counties, like Italy and France, adopt other governance systems characterized by the presence of the board of directors and of an additional statutory body which mainly perform audit functions.

According to Aluchna (2010) unitary boards have been proved to be flexible and efficient given the direct contact between executives and non-executives members. Their main negative aspect relies in the powerful positions of CEO, who generally holds also the Chairman functions. In

these specific circumstances there is a clear control of the board' work and policy by the top management, thus the potential lack of objectivity in the company administration. On the other hand, dual boards, because of the clear separation of the two main functions, provide higher objectivity and independence, particularly in the process of management control, evaluation and compensation. However, this kind of system is often criticized for being more expensive and for determining the lack of direct contact and information sharing between members of the two separated bodies (Aluchna, 2010).

Without going into details of the specific activities performed, the general and essential role of boards is governing the corporation, with the sole purpose of creating and adding value to shareholders and other company stakeholders (Carver, 2007). It is fundamental to underline that the governance role should not be confused with the management one. The major board of director responsibility is to "direct the company", by defining and establishing the overall direction and strategy of the business. Instead, it is management function and responsibility to effectively "operate the company" and run the business on a day by day basis, according to the correct implementation of the previously defined strategy.

Even though board and management roles and activities are different, it is possible to identify a strong relation between them. This link is represented from one side by the oversight function exercised by the board of directors on managers; from the other side, boards are said to be "resource providers" to managers. The idea of the resource provision role of the board was proposed for the first time by Pfeffer (1972), within the context of the resource dependence theory. According to his view, boards serve as valuable links between the company internal and external environment (Hambrick et al., 2015). Thanks to directors' expertise, ties and relationships, they can easily access external information, thus providing the company management and executives with relevant insights from several perspectives. These arguments, which point out the relevance of directors as resource providers, underline another crucial function performed by boards: the advisory role of top managers.

Given the crucial functions performed by the board of directors, and particularly its major role in mitigating the general agency issues, the next chapter will provide a more detailed analysis of this fundamental governance structure, with particular reference to its composition and the related possibility of minority representation.

Chapter 2: Board of directors: minority representation

2.1 Board composition

Board composition, intended as a mixture of various fundamental elements, such as independence, size, skills and diversity, appears crucial for an adequate governance and administration of the company. The continuously changing regulation has pressured companies to put under examination their board composition. This trend was mainly based on the crucial idea that there is a causal relation between board composition and company economic and financial performance (Martin and Herrero, 2018, McIntyre et al., 2007). Hence, given the relevance of board structures in assisting corporations in the value creation process, it becomes fundamental for companies to have well managed and well-structured boards.

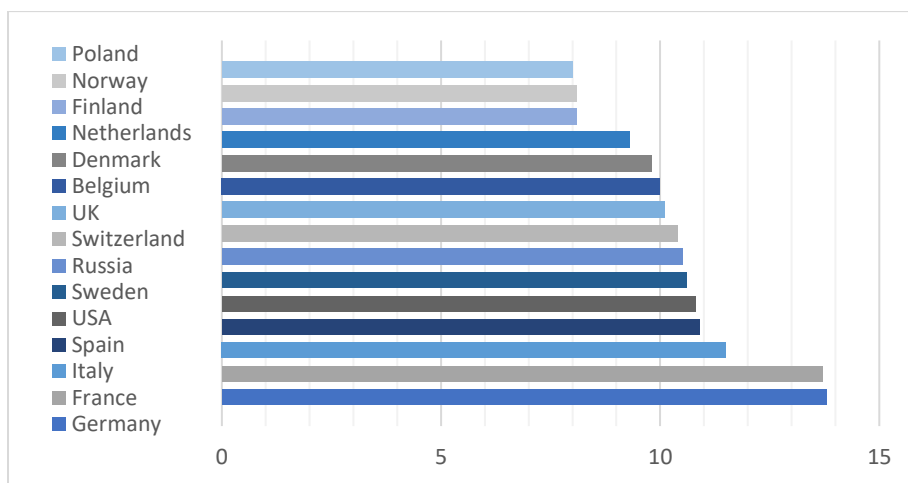
Given that boards are identified as collective bodies made of different members, the first fundamental attribute related to board composition refers to its size, defined as the total number of directors that should be appointed in the board. According to the OECD Corporate Governance Factbook 2019, not all jurisdictions provide specific legal requirements concerning optimal board size: about the 82% of countries analysed recommend a minimum number of board members between 3 or 5. On the other hand, limits on the maximum size for boards are rare: only ten jurisdictions (out of forty-nine analysed) set a maximum board size, in most cases between 15 to 21 members. Indeed, generally, corporate laws provide companies with ample autonomy in defining the most appropriate size of their boards, according to their specific characteristics and needs. Thus, the definition of board size is generally contained in each company bylaws and might be different among companies and across countries.

Generally, in literature board size is often related to business complexity. According to Lehn et al (2009) there exist a positive relation between business complexity and board size: very complex and structured businesses are associated with larger boards, since they work with more information, face more issues and have a higher need of advice. Anyway, results in this field are not unanimous, since other authors as Donnelly and Kelly (2005) observe exactly the opposite relation. The main explanation of this inverted relation could be that, even if larger boards are associated with more knowledge and a better capacity of analysis and advice, they also make more difficult to reach agreements, thus creating more difficulties in the decision-making process. According to this view, complex business should be rather associated with

smaller boards which are able take decisions and act in a more efficient way (Martin and Herrero, 2018).

The UK Board Index Report, released by Spencer Stuart, provides evidence about the average board size across the main European countries and USA. This research, which consider board data at the end of April 2018, shows that the average board size across countries range from a minimum of 8 to a maximum value of 13.8 members. Countries like Poland, Norway and Finland appears to have smaller board on average, while Germany and France the larger.

Figure 2.1: Average board size by country



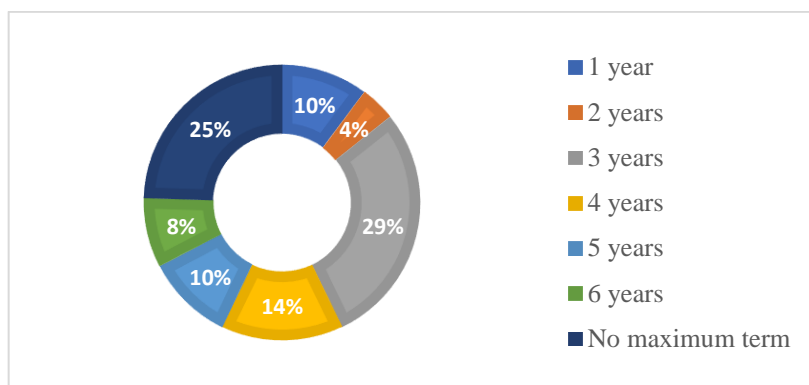
Source: author's elaboration from UK Spencer Stuart Board Index 2018

As previously underlined, the existing empirical evidence provides mixed results about board size. In fact, besides the growing body of literature and empirical researches, there is still no clear definition of optimal board size: the only point of agreement for several studies is that the optimal board size is a direct function of firm's specific characteristics (Raheja, 2005). Indeed, each company will determine the size of its board of directors considering the country and the industry in which it operates, as well as considering its intrinsic specificities and characteristics.

Board composition is also frequently related to board tenure, generally defined in terms of years and representing the period in which the board exercise its duties and required functions, before re-election. According to the OECD Corporate Governance Factbook 2019, the maximum term of office before re-election of the board varies from one to six years. However, considering a three-year period as maximum board tenure is the most common practice among countries: indeed, requested by rules and codes of the 29% of the analysed jurisdictions. At the same time,

twelve jurisdictions, corresponding to the 25% of the sample, do not establish a maximum length for board tenure.

Figure 2.2: Maximum term of board office



Source: author's elaboration from OECD Corporate Governance Factbook 2019

Anyway, besides the specific measures, in most countries the re-election of some or all directors is allowed for an unlimited period of times. In other words, many countries, including Italy do not have specific term limits on director service. Directors tenure has become a topic of interest in the last decades, especially considering the impact that board tenure might have on board effectiveness. In these terms, tenure is often considered as an additional determinant of director quality (Vafeas, 2003). However, there is a still unsolved debate regarding the effect of whether long-term or short-term tenures might be considered optimal in terms of board performance. Vafeas (2003) propose two distinct hypothesis regarding tenure: on one hand, the *expertise hypothesis* suggests that long servicing directors are associated with more knowledge, competence and experience regarding company activities and operating environment; on the other, the *management friendliness hypothesis* suggests that seasoned directors might be entrenched and more affiliated with company managers, hence less likely to control their activities.

The fundamental issue related to long-tenure boards is linked to directors' independence. Within this context, the major concern is that outside directors that join the board for prolonged periods of times might lose their external and *super partes* viewpoint in monitoring company activities and operations. Thus, board tenure exactly "*captures the trade-off between knowledge accumulation and board independence*" (Huang and Hilary, 2018). Indeed, short-tenure boards create the inverse problem: short-tenure directors can be easily considered independent, but at the same time, they lack a complete understanding and experience in terms of company business, industry or evolution. Hence, for different reasons, there are possibilities that both

kinds of directors' tenure might be detrimental for board and firm performance: long tenure directors might be inefficient in controlling management, while short tenure directors might be inefficient in performing their role, given their lack of company expertise.

Even though, the debate is still unsolved, empirical researches provide evidence that the presence of directors with many years of service on the board (twenty or even more) signal CEO entrenchment, thus suggesting that extreme lengths of board tenure are detrimental to shareholder interests (Vafeas, 2003). Other studies, analysing the relation between board tenure and firm value, find an inverted U-shaped relation between the two variables. More specifically, firm value reaches its peak around a board tenure of approximately 10 years, then as the length of time increases, a reduction of firm value is recorded. Indeed, the optimal tenure is identified in a range between 8 and 11 years (Huang and Hilary, 2018). Given the significant effect of tenure on firm performance and value, a growing number of countries have adopted in their codes and regulations some requirements related to the maximum length of board tenure: generally ranging between 9 and 12 years.

As size and tenure are mainly referred to the overall structure of the board, there are other fundamental attributes of board composition more directly related to board members: independence, skills and diversity. These are deemed fundamental qualities of directors able to significantly influence board effectiveness and consequently company economic and financial performance. Given their relevance in terms of board composition as well as of directors' individual features, they deserve a more detailed and specific analysis, hence presented in the subsequent paragraphs.

2.1.2 Board Independence

Independence represents another key attribute in terms of board composition. It can be defined as the absence of any direct or indirect relation between directors and the company. In fact, a director who qualify as independent should not have any “*substantive relationship with the firm as employee or in any other capacity beyond his role on the board*” (Neville et al., 2019).

Given their independence from the company, they are frequently defined as outside directors and are generally classified as all “*non-management members of the board*”. In the opposite view, inside directors, are the ones which for their roles or specific characteristics do not qualify as independent. In literature, insiders are defined as “*directors also serving as firm officers*”, indeed company executive members (Johnson et al., 1996).

The idea of independence is closely linked to the agency theory: as the board primary role is to mitigate potential issues and costs arising from the two types of agency problems, it is highly recommended that directors are independent from both shareholders and top managers. In fact, independence is also frequently defined as the directors' "*ability to be objective*" (Hambrick et al., 2015). Directors' objectivity is necessary to control management decisions and policies, as well as to limit minority expropriation actions. In these terms, independent directors are viewed as a possible solution to the issue of providing and ensuring effective monitoring. But, what effective monitoring means?

Basically, that directors perform their role adequately: they control management and they ask questions, challenge and dissent from management initiatives, if those initiatives could potentially damage company or shareholders' interests. Without independent directors, it is more likely that personal ties and relationships of directors with the company reduce effective monitoring, thus enhancing the potential for opportunistic behaviours of CEOs and controlling shareholders and consequently governance failures (Hambrick et al., 2015).

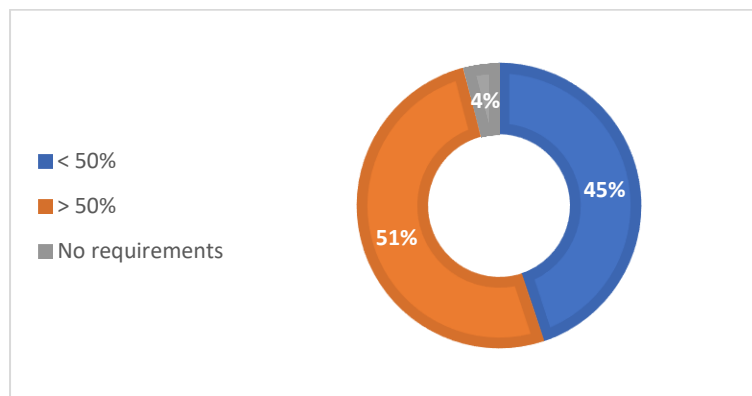
According to a slightly broader perspective, the rise of independent directors is not only driven by the need to mitigate agency problems, but it is rather associated with major shift in the political and economic environment. In a political economy characterized by the maximization of shareholder value as major corporate objective and by the greater informativeness of stock market prices, independent directors are deemed crucial (Gordon, 2007). With the shift toward shareholder wealth maximization, the role of the board has more and more shifted from management advice to management monitoring, with a significant emphasis on controlling the clarity and integrity of company financial disclosure. Furthermore, as stock prices become more informative, insiders lose their privilege of having access to fundamental information, thus becoming less valuable. Within this context, given the relevance of monitoring activities and the easier access to information, board composition automatically shifted in favour of independent directors.

According to Gordon (2007) the rise of independent directors has been quite evident in the last decades: by looking at board composition of US public listed firms in the period 1950-2005, it is possible to notice a sharp shift in board composition from insiders toward independent directors. Specifically, independent members, representing approximately 20% of the board in 1950, became almost 75% in 2005. The increasing trend has steadily developed in the first decades of the analysed period, then it sharply accelerates from 1970 onwards. According to Gordon (2007), the main explanation of this feature can be found in the huge development of

mechanisms and regulations aiming at creating director independence. The most relevant regulatory effort was made in the 1970s, with an overall corporate governance reform which introduced for the first time in the governance lexicon the term *independent director*. Where, at that time, it represented the kind of director “*capable of fulfilling the monitoring role*” (Gordon, 2007). During the years, especially in the wave of major corporate scandals and governance failures, there have been major efforts to enhance director independence and board composition standards. This trend has interested not only US, but also many other jurisdictions. Indeed, nowadays Codes and Principles of Corporate Governance as well as Stock Market Regulations recommend and require the great majority of board members of public corporation to be independent, where independence is assessed through established independence criteria.

According to the OECD Governance Factbook 2019, almost all jurisdictions have introduced requirements or recommendation regarding the need to have a minimum number or ratio of independent directors inside boards.

Figure 2.3: Independence requirements and recommendation



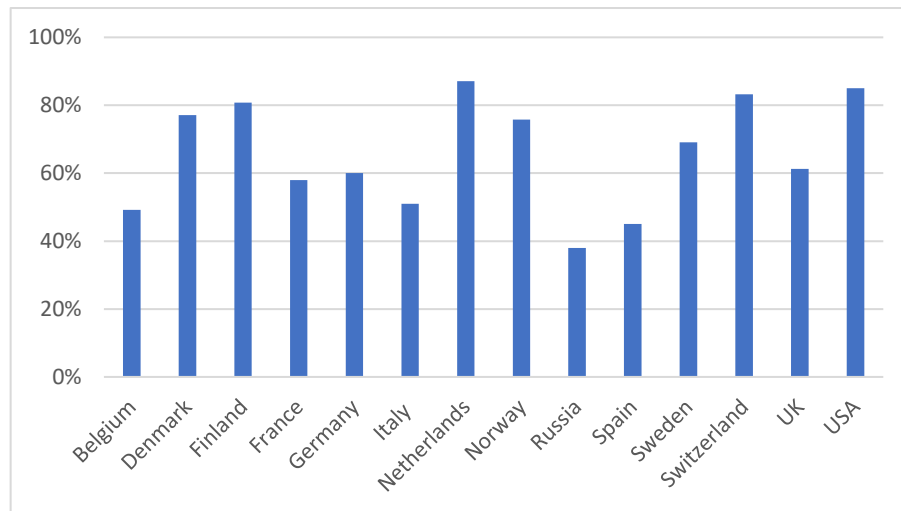
Source: author’s elaboration from OECD Governance Factbook 2019

As depicted in the pie chart above, the great majority of jurisdictions, accounting for the 96% of the total, has established independence requirements and recommendations. While, the remaining 4%, including only two countries (Luxembourg and Slovak Republic), does not require nor recommend director to be independent. More specifically, 51% of jurisdictions ask for the independence of at least 50% of the board. The remaining 45% of countries have established a minimum independence requirement for at least two or three board members, generally correspondent to a minimum ratio between 20- 30% of the board.

Consistently with the data provided by Gordon (2007), the shift towards more independent boards is evident not only in USA but across several countries. Indeed, by looking at the portion

of independent directors by country, it is possible to see that it ranges between the lowest amount of 38% (Russia) to a maximum amount equal to 87.1% (Netherlands); with eleven countries, out of fourteen which have a portion of independent directors above the 50% threshold. Indeed, it seems evident that besides the country specific requirements and recommendations, directors which qualify as independent are the great majority of non-executive directors.

Figure 2.4: Percentage of independent directors by country



Source: author's elaboration from UK Spencer Stuart Board Index 2018

Board independence is indeed a crucial aspect of board composition, particularly and directly related to the concept of board effectiveness: it has been empirically proved that board and firm performance are significantly influenced by the activities of independent directors (Johnson et al., 1996). Even though, the most immediate and straightforward way to enhance board independence is to appoint board members which qualify as such, there are several other mechanisms and structures able to reach the same fundamental objective. For instance, according to Gordon (2007), board members independence can be improved by providing them with both negative and positive incentives: typical sanctions and reward schemes. From the economic perspective, the most applied sanction is represented by the monetary exposure directors face in cases of breaches of their duties; while the more diffused reward mechanism is essentially given by a significant compensation. Besides the monetary and economic aspect, also reputation appears fundamental to enhance director independence. Typically, directors do not want to be associated with governance scandals or poorly performing firms, since these negative facts regarding companies they govern will affect their personal reputation, as well as the possibilities of future directorships in other companies. In order to preserve their personal reputation, it is indeed more likely that they will effectively perform their role and related

functions. Furthermore, another way to improve director independence is the creation and use of intra-board structures: the lead independent director. Best practices, in specific cases, suggest designating a *lead independent director*: an independent figure who join the board in the case in which there is coincidence between the board chairman and the company chief executive officer, or if the chairman is the company major owner. In these circumstances the lead independent director is conceived as a “*focal point*” able to manage board activities in an effective and objective manner, thus ensuring board independence in situations in which it is highly probable it could be undermined. Another fundamental mechanism able to enhance independence is the reduction of management influence in the matter of directors’ selection, appointment and retention. In fact, directors appointed by executives might feel a strong sense of fidelity, loyalty and gratitude in their regards, thus, potentially compromising directors’ ability to be objective in performing their activities and major tasks. Indeed, by reducing executive influence over the director appointment process, it is also possible to some extent to increase board independence.

Having underlined the relevance of the concept of independence, it also appears necessary to define what independence constitutes, and what are the criteria used to qualify a director as independent. According to the OECD, typical criteria for which a director cannot qualify as independent include:

1. familiar ties with the management or shareholder of the company;
2. employment relation with the company, or with a company belonging to the same group;
3. receipt of any kind of compensation from the company, different from directorship fees;
4. material business relations with the company or its group;
5. crossing the maximum tenure as a board member;
6. being or representing a significant company shareholder;

(OECD Corporate Governance Factbook, 2019).

Besides the commonalities which can be identified, the definition of independence as well as the regulatory approach vary significantly across countries. Large variations particularly refer to independence from a significant shareholder and the setting of a maximum level of board tenure (respectively points 1 and 5). Concerning the former, 80% of jurisdictions consider as main independence requirement the absence of any kind of relation with respect to substantial shareholders, where the shareholding threshold ranges from 2% to 50%, with 10- 15% range as the most common. For the latter, slightly more than the half of jurisdictions (26 out of 49) set as independence requirement a certain level of maximum tenure, generally varying from 5 to

15 years, with the mode ranging between 8-10 years. Once the crossing of maximum tenure occurs, for the great majority of countries (19 jurisdictions) the director cannot qualify and be appointed as independent director anymore, for some other (the remaining 7 jurisdictions) an explanation of the reason why the director still qualifies as independent is required.

2.1.3 Board skills

Another fundamental part of the corporate governance debate resolves around the composition of corporate boards in terms of director skills and knowledge. The relevance of this topic is based on the common idea that firm performance is mainly driven and affected by its human capital resources, more specifically by the pool of hard and soft skills they own and provide the company with. As a direct consequence, board effectiveness appears to be directly linked to directors' capabilities and acquired knowledge. If directors are skilled, they will more likely perform in the appropriate way their functions, by ensuring board effectiveness and positive performance.

Indeed, skills appear fundamental determinants in the appointment of directors in the board and it is more and more frequent that companies are asked to provide insight into directors' qualities and major characteristics. In fact, from 2009 the US Securities and Exchange Commission (SEC) requires US public firms to disclose for each director "*the specific experience, qualifications, attributes or skills that led to the conclusion that the person should serve as a director*" (US SEC Regulation, as cited by Adams, 2018). Also, according to OECD Governance Principles, companies should disclose "*information about board members, including their qualifications*" (OECD, G20/2015, Principle V.A.5). Hence, it is common for listed companies to provide general information regarding directors on their websites as well as in governance documents and relations. The rationale behind these requirements is clear especially for public companies: given that most of their financial resources comes from investors, they need to provide them with relevant information, in order to ensure transparency and accountability of company main decisions and actions.

Moreover, given the crucial role they perform, company directors and top managers, are generally defined as highly skilled job profiles: in order to run, direct and monitor company activities they need certain levels of skills and capabilities. When dealing with skills, we mean personal attributes which can be declined in actual knowledge, practical abilities or also way of being and to relate with others. Not always skills, like leaderships or emotional intelligence,

can be directly observable and easily measured. That is why most empirical researches have focused on observable measures of skills such as the level of education.

According to Gottesman and Morey (2006), educational qualifications owned, both in terms of typology and number, might be considered as good proxies for directors and managers skills and intelligence. On the other hand, skills cannot only be explained, and thus measured, by education. In fact, it is not unusual that high performing firms have not highly educated founders, managers or representatives (Darmadi, 2011). Particularly, educational background of CEO has been found to be unrelated with firm financial performance: besides the typology of studies attended, the level of education achieved, firms with better educated CEO and directors do not perform differently from others (Gottesman and Morey, 2010). There could be several explanations to this fundamental empirical finding, the most important is that education is basically only one part of the picture in explaining general skills of directors and managers. According to Gottesman and Morey (2010) view, the length of time between university studies and the achievement of the director or executive office is sufficiently high to diminish any kind of benefit that can be obtained by a certain level of education. Thus, in many cases educational background is not able to explain CEO's and directors' current performance, which instead is directly linked to their set of general skills, competences and knowledge (also including education) developed over their entire life. Hence, education is fundamental, but it only represents a tiny fraction of the complex set of skills individuals own.

Hence, personal skills of directors need to be taken into consideration. Within this context, it is straightforward to ask: which are the most relevant skills directors should possess in order to better perform their roles and to create value for the company?

Because of the arising of global financial crisis and of the main accounting scandals, nowadays, financial and accounting skills are deemed necessary for board effectiveness. The implicit assumption is that the general understanding of financial statements and accounting principles is needed by the board to better perform its oversight and monitoring function, thus satisfying shareholders' interests (Guner et al., 2008). Moreover, in the wave of globalization, another skill deemed important in boards is the international expertise. Indeed, foreign directors might be a valuable resource, especially for companies with significant foreign operations, or which are planning an international geographical expansion of their business (Masulis et al., 2011). At the same time, also industry expertise appears to be a fundamental director qualification. Indeed, a survey of directors, conducted in 2012 by PricewaterhouseCoopers, identify prior industry experience as the most desired qualification in director nominees (Faleye et al., 2017).

Industry expert directors have a clear understanding of company business and of the related economic environment. In addition, given their knowledge and the possibility to establish connections with key industry players, they might have access to relevant information for the firm. Particularly, industry expertise is deemed crucial to reduce information asymmetry between directors and executive, since it provides a better knowledge of the risks and opportunities that the company might respectively face or join. This expertise translates in better oversight of management choices, as well as in an increase ability of directors to advise management in the identification and evaluation of value creating opportunities (Faleye et al., 2017).

However, the individual analysis of directors' skills, particularly of whether one single ability can or cannot add value, has led to conflicting results in the economic literature. The main explanation is that what really matters in the value creation process, is not the ability of the single director, but rather how directors' skills are represented and combined at board level. Directors, exactly like boards, are not one-dimensional and their skills are interdependent (Adams et al, 2018). Indeed, besides the relevance of each specific skill, each director has multiple skills and characteristics which are bundled, and only in relation to other board member skills, they can jointly affect company performance.

2.1.4 Board diversity

The topic of diversity is another significant factor according to which board composition can be valued and defined. Diversity has become a focal point to be managed in all kind of organizations, since they operate in a continuously evolving, multicultural and multinational environment. Indeed, researches dealing with diversity in organizations have developed conspicuously. Results of researches conducted pointed out that diversity is at the same time a great opportunity, as well as an enormous challenge for organizations (Milliken and Martins, 1996). There are indeed two general conflicting opinions regarding the relation between diversity and group performance. On one hand, some research suggest that diversity enhance group knowledge, innovation and creativity, thus determining a high-quality decision-making process. According to this view, diversity appears to be a significant competitive advantage, able to positively effect performance. On the other hand, some authors argue that diversity might lead group members to disagree, thus weakening the team consensus and the overall efficiency of the decision-making process. In these terms, it might clearly represent a disadvantage in terms of positive and efficient group performance (Erhardt et al, 2003).

Hence, the idea of diversity as an opportunity is linked to the several perspectives, opinions and contributions brought by very diverse groups. However, the great diversity might create coordination and communication difficulties, thus representing a fundamental challenge to address. Besides the growing body of researches dealing with the topic, the debate regarding the potential effect of diversity on organizations performance is still open.

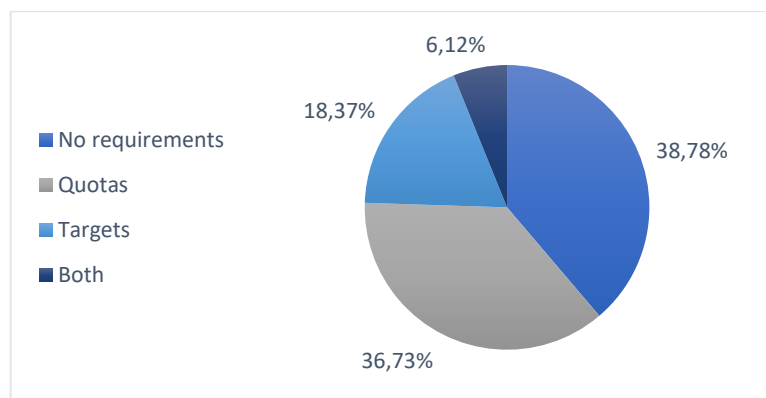
Furthermore, it also appears fundamental to underline that, the concept of diversity within organizations is very broad. It deals both with directly observable attributes like race, nationality, age, gender, generally defined as “demographic diversity”; and with non-directly observable and measurable attributes such as education, skills and personal values, generally defined as “cognitive diversity”. In relation to boards, the prevailing economic literature has defined diversity as the percentage of women and other ethnicities in the board (Carter et al., 2003). Within this context board diversity directly translates into gender and ethnicity diversity, intended as the fair and equal representation of different genders as well as different racial and cultural backgrounds. According to this view, diverse directors are basically representative of traditional minorities: women and minorities ethnicities. Indeed, they are defined as “*individuals with unique characteristics that create additional value for shareholders*” (Carter et al., 2007). Thus, the crucial point attached to diversity in the boardroom is that diversity is assumed to enhance effectiveness of board actions, which in turn leads to an increased firm profitability and to a higher shareholder value. But how board performance and effectiveness can be enhanced by diverse directors?

One argument suggests that diverse board increase board independence, because directors with different gender, ethnicity and cultural background could more actively challenge management decision, thus providing better management monitoring and control (Carter et al., 2003). For instance, it has been empirically proven that female directors have higher attendance records and are more likely to take part to audit committees, with respect to male directors (Adams and Ferreira, 2009). Furthermore, women and minority directors bring unique information, insight and knowledge which improves communication on topics and issues that might be otherwise not taken into consideration, thus providing the board with innovative approaches able to mitigate stagnant and redundant thinking (Carter et al., 2007). By bringing additional information, broader perspectives and skills they ensure effective advisory to management teams. Indeed, companies should promote diversity within their boards, where board diversity should be viewed as inclusion of different individuals, views, knowledge and experiences that allow boards to perform in the most efficient way.

Given the potential positive effects of board diversity on shareholder value and firm performance, there have been many corporate governance initiatives and reform recommending increasing board diversity. For what concerns gender diversity, nowadays a growing number of jurisdictions is adopting measures and regulations whose main purpose is to increase women's participation and representation in corporate boards. The Governance Principles issued by the OECD suggest several measures to enhance gender diversity: disclosure requirements, boardroom mandatory quotas or voluntary targets, or even private initiatives (Principle VI.E.4). Among the 49 jurisdictions analysed in the OECD Corporate Governance Factbook 2019, disclosure requirements regarding gender composition of boards are requested by laws and stock exchange regulations of 24 countries, accounting to the 49% of the total. At the same time, such disclosure is recommended by Corporate Governance Codes of other three jurisdictions.

For what concerns provisions to achieve gender diversity on boards, the 38,78% of countries do not apply specific requirements, while the remaining 61,22% of the surveyed countries have adopted such provisions in the form of quotas or targets.

Figure 2.5: Requirements to enhance gender diversity on boards



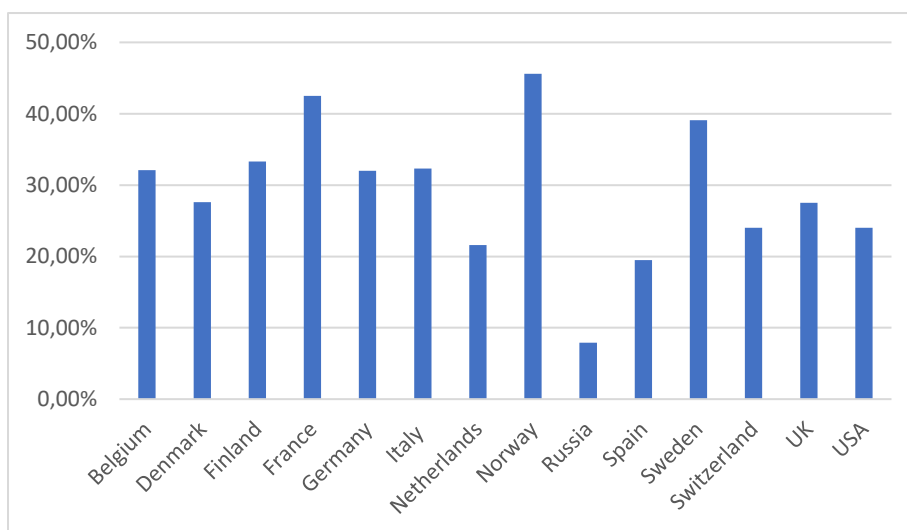
Source: author's elaboration from OECD Governance Factbook 2019

Quotas, which are mandatory requirements setting a minimum number or percentage of women in boards, have been applied by the 36,73% of jurisdictions (18 countries out of 49). While targets, defined as voluntary measurable objectives which need to be achieved in given timeframes, have been used by the 18,37% of countries. Furthermore, three jurisdictions, (including Italy, Israel and Spain) which account for the remaining 6,12%, apply both measures.

Among the 21 jurisdictions establishing mandatory requirements in the form of quotas, the great majority require a female participation to the board ranging between 20% and 40%. At the same time three jurisdictions require companies to have “at least one” female director on their boards. It is also frequent that jurisdictions establish sanctions schemes in the case in which such mandatory quotas are not respected. For instance, since 2008 all Norwegian listed companies must comply with a gender quota equal to 40%, otherwise in cases of non-compliance they face dissolution (Adams and Ferreira, 2009).

Regarding women’s participation in corporate leadership positions, according to data collected at the end of 2017, women make up a higher percentage of top management positions than of board members. Women represent at least one-third of management teams in 19 jurisdictions, while representing one-third of the board only in 5 countries. However, the average portion of women directors in the boards has increased steadily: analysing the boards of directors of S&P 1500 firms, the number of female directors has been doubling from 7% in 1998 to 14% in 2013 (Kim and Starks, 2016). The increasing trend has been consistent also by looking at the S&P 500 firms, for which in 2018, the 24% of all directors were women. According to the US Spencer Stuart Board Index, this figure represents a new record: indeed, it is the highest percentage of women directors seen since 1998, in fact, female directors accounted for the 22% in 2017, and 16% in 2008. Also, in European countries the percentage of female board members has increased during the last decades.

Figure 2.6: Female representation on the board

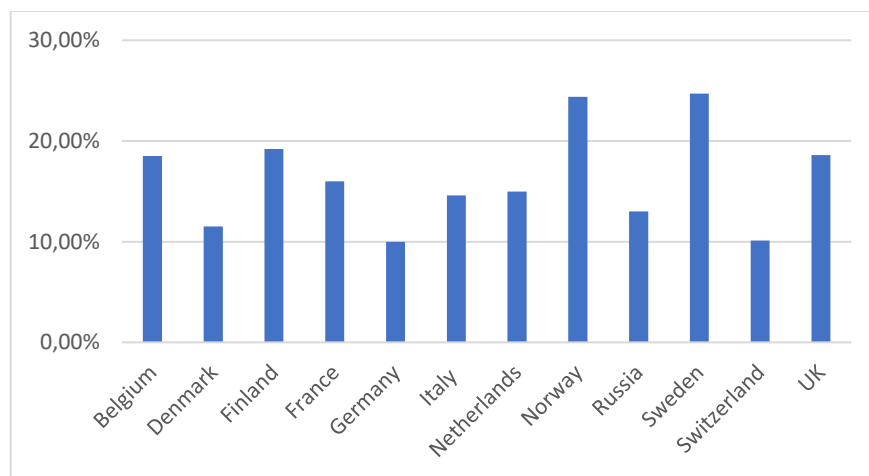


Source: author’s elaboration from UK Spencer Stuart 2018

As clearly evident in the figure above, Norway presents the highest percentage of female board participation, equal to 45.6%. It is then followed by France and Sweden, accounting to 42.5% and 39.1% respectively. Other countries have a female representation ranging between 20% and 33%. More specifically, in UK the percentage of female directors has risen to 27.5%, with an increase of 2% from 2017 and of 3.1% from 2016. Among European countries, Russia represents the lowest women participation to the boardroom, only equal to 7.9%.

Besides the increasing trend in board participation, women still hold few seats as executives and CEOs. Indeed, the presence of women in senior executive positions has increased over time since 2011 but at a lower rate with respect to non-executive positions. For instance, in 2018 the percentage of female non-executive directors in the UK FTSE 100 companies, was about 39%, while the percentage of female executives only accounted to approximately 18%, registering a slight decline of 4.3% from 2017. Only eight of the analysed companies had a female CEO. The lack of gender equality with respect to executive positions is not only an issue of UK, but it is rather widespread across Europe.

Figure 2.7: Female executive directors



Source: author's elaboration from UK Spencer Stuart Board Index 2018

Even in countries with the highest representation of women on boards there is still a significant imbalance in the female representation in executive committees. For instance, also countries like Norway and France (with a female board representation above 40%) reported a much lower percentage of female executive directors, equal to 24.4% and 16% respectively. Anyway, also for the other European countries the pattern is indeed similar: the percentage of female executive director range between a minimum of 10% to a maximum level of 24.7%, reported by Sweden. Such disparity is also evident in US, where women assuming lead/executive roles

are about 10%, with only 27 of the analysed S&P 500 companies having one woman serving as CEO (US Spencer Stuart Board Index 2018).

Concerning ethnicity diversity, as reported by the Spencer Stuart Board Index 2018, the 8% of the total board members of UK FTSE 150 companies were identified as a portion of black and minority ethnic (BME). The percentage of minority directors was sharply higher in US, where 17% of directors in the top 200 S&P 500 companies are ethnic minorities: African-American (9%), Hispanic/Latino (4%) and Asian (4%). The overall percentage is quite consistent with the one of 2017, but significantly higher with respect to 2008, when it amounted to 14% of the total directors. Furthermore, the percentage of companies with at least one minority director has continued to increase during the last decades, from 84% in 2008 to 90.5% in 2018. In 2018, 16 of the 200 analysed companies were held by ethnic minorities as CEOs, this figure has doubled considering the same data in 2013.

Another element representing board diversity is the generational and age variety within boards. Generally, given the crucial role performed by directors, a certain level of experience and expertise is needed in order to be appointed as board members. Thus, it is highly infrequent to find boards with very young directors. The average age of directors, across different European countries and USA, is equal to 58.7 years. More specifically, it ranges from a minimum level of 54.3 for Russia, to a maximum amount of 63 years for United States (UK Spencer Stuart Board Index, 2018).

2.3 Minority representation in the board of directors

Minority protection is fundamental in order to ensure a correct and effective corporate governance within companies. Rights granted to minorities are deemed necessary both from an internal and external perspective: they relieve companies from costs related to secondary agency problems, and by limiting potential minority expropriation they enhance capital market functioning. Particularly, with respect to the always debated theme of minority protection, a crucial topic is represented by minority representation within fundamental governance structures of companies, especially in the board of directors. In fact, in order to better protect and satisfy minority interests, it is crucial for companies to foster minority shareholder participation in the process of board appointment, as well as representation within this fundamental structure.

From a slightly different perspective, allowing minority representation on boards could be conceived not only as a useful mechanism of minority protection, but also as a good practise to enhance board diversity. As previously stated, the topic of board diversity is extremely related to the concept of minorities, where for the latter we should intend all those individuals that for their specific characteristics are able to provide the board with unique information, insight and skills (Carter et al., 2007). According to Carter et al., (2007), also minority directors might be considered “*diverse directors*” since they are able to provide the board with different perspectives and points of view, increasing communication on relevant issues not usually addressed.

Given the relevance of minority representation mechanisms as measures to mitigate minority expropriation and enhance diversity across boards, it is fundamental to further investigate these systems and their implementation across jurisdictions. As reported by the OECD Corporate Governance Factbook 2019, some jurisdictions have introduced provisions and mechanisms able to allow and facilitate an effective participation and representation of minority shareholders. For instance, both Italy and Israel have established compulsory rules, that provide minority shareholders the possibility to appoint board members. More specifically, in Italian listed companies, at least one director must be appointed by minorities.

In the United Kingdom, the Financial Conduct Authority requests premium listed companies to provide additional voting power to minority shareholders for what concern the election of independent directors. This mechanism, known as “dual voting”, is generally applied for companies in which a significant controlling shareholder is present. It basically requires independent directors to be approved separately by the entire group of company shareholders and by minority ones. Also, Spain, whose laws present similarities with the Italian ones, protect minority shareholder interests trying to ensure a proportional composition of the board. In Poland, shareholders, representative of at least one-fifth of the total ownership, can request the election of one director (Passador, 2018).

Even the United States with the introduction of the “cumulative voting system” facilitate representation and participation of minorities within corporate governance structures. This is a voting procedure adopted for directors’ election, according to which:

- each shareholder is entitled of an amount of votes equal to the number of owned shares multiplied by the number of directors to be elected;

- each shareholder can choose how to distribute his votes across the different candidates; (thus, deciding to attribute one vote to each candidate, distributing votes across candidates, or even to concentrate all votes on one potential director).

This voting procedure is deemed to be beneficial to minorities, since they have the possibility to cumulate all their votes to one candidate, who might be entitled as their representative. Cumulative voting has been introduced for the first time in the USA, specifically in California in 1879. Besides the quite ancient introduction, according to a study conducted in 2006, the cumulative voting was explicitly forbidden in one US jurisdiction, compulsory only in six of the fifty American States, discretionary for the remaining forty-four (Alvaro et al., CONSOB 2012). Nowadays, cumulative voting has spread also outside the American context: it is allowed by 45% of jurisdictions reviewed by the OECD Corporate Governance Factbook (2019); not allowed by the 41% of countries, and anyway required by regulations of only few jurisdictions, including China, Russia and Saudi Arabia and accounting for the 6% of the total.

In addition to the cumulative voting system, another fundamental mechanism, developed in US and able to ensure the presence of minorities on the board, is the adoption of rules allowing for an easier access of shareholders to proxy systems. Indeed, according to the US Security Exchanges Act of 1934, minority shareholders are empowered to initiate an independent solicitation of proxies. More recently, on August 2010, the SEC has issued another fundamental provision: Rule 14a-11, according to which any individual shareholder or shareholder group, holding more than 3% of a public company's shares for more than three consecutive years, can nominate one or more candidates to the board, up to the maximum limit of the 25% of board members. Surely important for minorities, the right can be exercised only if certain conditions are met: the shareholder or shareholder group continue to hold shares after the general shareholder meeting and did not acquire them only with the intention of changing company control or for achieving a higher number of representatives with respect to the ones allowed by the legislative framework (Alvaro et al., CONSOB 2012).

In some other countries, minority shareholders are not only represented by investors, but also by employees. Indeed, some jurisdictions like Germany, Austria, Denmark and Sweden adopt rules able to strength employee position as well as the protection of their interests. An example is provided by the rule allowing employees, which own more than 3% of a company share capital, to appoint one or more directors (Passador, 2018).

Besides the kind of minority, the attention to their protection and representation in the board is clearly and undoubtedly a crucial attribute shaping a good and sound corporate governance for

companies. Many jurisdictions allow companies to introduce and adopt in their bylaws, specific provisions with the aim of ensuring minority shareholders the possibility of proposing their own candidates to the board of directors. In the great majority of cases, this possibility is granted to minorities that own a certain minimal portion of company's shares. At the same time, only few jurisdictions consider the representation of minorities within the board of directors as a fundamental and compulsory legal requirement. Hence, Italy represents one of these jurisdictions, providing a rare and interesting setting concerning minorities representation and their active participation within boards of directors.

2.4 The Italian institutional setting

The Italian context provides a unique setting due to the features of the directors' election mechanism on the board, thus allowing minority shareholders to appoint their representatives within corporate governance major bodies. This mechanism is defined as "list voting" or even as "slate voting" and is regulated by Article 147-ter of the Italian "Testo Unico della Finanza" (from now onwards defined as TUF).

It is generally defined as a *charter provision* (compulsory for listed companies) whose aim is allowing representation of minorities within the administrative and control bodies of companies. This type of provision is deemed fundamental, since it would introduce within companies "*fundamental democracy principles*", by replacing the pure majority system with a more proportional one (Alvaro et al., CONSOB 2012).

Indeed, the main purpose of the list voting system is to protect minorities and encourage their participation within the administrative structures of the company, in order to ensure a more balanced composition of the board. It was introduced in the Italian legal system more than a decade ago, and nowadays it is becoming increasingly relevant especially for institutional investors. The latter have indeed shown interest in the application of such legal arrangement, because it basically provides them the possibility to join the main governance structures and actively influence company operations and decisions, thus ensuring a more concrete satisfaction of their interests. For this reason, it has also been recognized as "*an essential factor for shareholder activism*" (Passador, 2018).

The involvement of minorities in the administration function of companies is explained by the need of enforcing a higher protection of that specific group of shareholders, but also of safeguarding company interests. By appointing board members representatives of minority

groups, it is possible to mitigate the risk of running the business only in favour of controlling shareholders, rather than favouring the interests of the whole group of company owners.

Based on this idea, the introduction of the list voting aimed at significantly improve corporate governance practices of Italian companies (Alvaro et al., CONSOB 2012).

2.4.1 List voting: legal framework evolution

The *list voting* legal arrangement was firstly introduced, even if not directly regulated, by the Italian Civil Code of 1942. According to the Code, board members are appointed by shareholders during the general shareholder meetings. Article 2368 of the Italian Civil Code states that decisions within the assembly are taken in accordance to the general majority rules, however, the second comma of the same article, affirms that “*for the appointment of company officers, company bylaws might propose particular rules and procedures*”.

At that time, the Code did not present specific rules concerning board composition and minority representation within it. However, it was diffused opinion among many authors, that the ample autonomy attributed to companies charters in the process of officers’ appointment, should have been conceived as a first attempt to introduce the mechanism of list voting (Alvaro et al., CONSOB, 2012). It is worth underline that, in this case, list voting was not enforced by laws, but rather intended as a potential charter clause ensuring the company voluntary possibility of appointing board members representative of minority groups. However, besides the potential presence of such clauses in corporation charters, it was only in the 90s that list voting was explicitly disciplined by three fundamental regulative efforts.

The first legal framework was provided by the law-decree n. 332/1994, then converted into law n. 474/ 1994, known as “Legge sulle privatizzazioni”. The specific rule, regarding list voting, was part of a more complex legal framework, whose main aim was to regulate the Government divestment of shares in corporations, which as a direct consequence became privatised.

Article 4 of the cited special law has imposed to all privatised listed companies, which had introduced in their charters some limits to share ownership, the use of the list voting as voting system, allowing one fifth of board members to be appointed by minority lists.

Then, with the legislative decree n.58/1998 the list voting previously determined only for privatised listed companies, was extended to all listed companies, thus, becoming for them a compulsory charter provision. However, at that moment, the voting mechanism was only

limited to the appointment of the supervisory board, the corporate body in charge of control and monitoring functions.

It was only with a third legislative action, taken in 2005, that list voting was extended also to the appointment of directors, thus to the main corporate administrative body. Particularly, article 1 of the “Legge sul Risparmio” (law n. 262/2005), introduced the current definition of list voting as disciplined by article 147-ter of the Italian TUF.

Even though, all the legislative efforts introduced concern the definition of the list voting mechanism, the purposes they pursued were indeed different. According to the explanation of list voting presented by the CONSOB (2012), with the first reform, the mechanism, potential and optional for all corporations, was made compulsory only for a specific class: privatised companies. Within this context, the legal tenet has identified the list voting as a temporary instrument able to guarantee a widely held ownership and a more equal distribution of power among shareholders. The final aim in this case was to increase the institutional investor interest in companies undergoing the process of privatization, thus stimulating their willingness to invest within such structures, with the final objective of accelerating the whole privatization process. Instead, with the subsequent legislative interventions, the introduction of list voting as a compulsory practice for all listed companies, can be explained as a reaction to major corporate and accounting scandals which pointed out the criticalities in corporate governance systems, as well as in minority protection rules. Hence, the main scope of such implementation was to explicitly introduce a legal framework able to enhance minority protection and increase their active participation within corporations (Alvaro et al., CONSOB, 2012).

2.4.2 List voting: legal discipline

Hence, nowadays, list voting is a compulsory charter provision for all Italian listed companies, and it is implemented for the appointment of both corporation boards requested by the Italian system of administration and control. It is currently disciplined by the article 147-ter of the Italian TUF.

The first comma of the cited article, concerning the appointment and composition of the boards, states that: “*board members are appointed on the basis of lists of candidates, presented by shareholders reaching a minimum threshold of ownership*” (article 147-ter TUF).

In other words, each company shareholder, reaching a certain level of ownership has the right to present slates of candidates for the election of the board. Generally, company bylaws can autonomously determine the portion of ownership needed in order to exercise that right. In fact, the legislation only provides for a minimum limit equal to one-fourth of share capital, or to other percentages of ownership defined by the CONSOB for each issuer.

Particularly, article 144-quarter of the CONSOB “Regolamento Emittenti” n. 11971, 14/05/1998, states that: “*besides the potential lower percentage requested by company bylaws, the portion of ownership requested to shareholders in order to present list of candidates for boards appointment ranges between 0.5% and 4.5% of the company share capital*”. Such percentages are defined on the base of the issuer market capitalization and more specifically are equal to a share capital portion of:

- 0.5% for companies whose market capitalization is higher than 15 billion;
- 1% for companies whose market capitalization is between 1 and 15 billion;
- 2.5% for companies whose market capitalization is lower or equal to 1 billion;
- 4.5% for companies whose market capitalization is lower or equal to 375 million.

Indeed, the general rule applied by the CONSOB requests shareholder a higher percentage of ownership, the lower the market capitalization of the issuer.

In addition, article 147-ter request that, when presenting lists, shareholders need also to provide evidence of the minimum ownership required. Such evidence is determined with respect to shares owned at the date in which lists are submitted. Then, the ascertained ownership is certificated through an electronic communication provided by the financial intermediary, with which shares are deposited, to the company, at least 21 days before the general assembly.

As for the evidence of share ownership, also slates need to be submitted within a specific term: at least 25 days before the date in which the general shareholder meeting is scheduled. Furthermore, in order to ensure transparency to investors and other company relevant stakeholders, it is also required that, 21 days before the general assembly, the lists together with candidates curriculum vitae are published on the corporation website.

Indeed, the law and company charters require for specific terms in which lists need to be formed, submitted and published. The compliance with these terms is essential given that, list voting is implemented through “blocked lists”. In other words, once lists are submitted, they cannot be modified: hence candidates cannot be changed or substituted once the term for submission and publication has expired. The obligation of presenting lists before the general

assembly is deemed to influence positively board composition and election: it provides an increased transparency to shareholder and other stakeholders concerning board candidacies; and it allows to shape in advance the potential board composition (Richter Jr, 2007).

The list voting implementation directly influence the voting methodologies: since lists are blocked, shareholders can only vote the lists of candidates as submitted. The crucial aspect concerning the voting mechanism for lists, rather than for single candidate, is that it allows to obtain a unique deliberation concerning the appointment of the entire board, and not related to its single components. The unique resolution is deemed fundamental because “*only with the election of the entire board, or anyway of a plurality of candidates, it is possible to guarantee one or more seats to minority representatives*” (Richter Jr, 2007).

Indeed, the third comma of article 147-ter, explicitly requires that “*at least one of the elected directors must be appointed from the list presented by the minority shareholder*”. With this provision it is explicitly requested that, in the case in which more lists are submitted, a minimum number of members (generally one or two according to the board size) is taken from the minority slate. Furthermore, in order to ensure the possibility of election of minority board members, it is necessary that the corporation charters identify specific electoral rules: provisions which derogate the standard electoral systems based on pure majority rules, in favour of proportional systems of board election (Richter Jr, 2007).

Companies bylaws generally provide for two rules of list voting implementation: the “majority” and “proportional” methods. The former is the one mostly used by companies and it requires that board members are elected from the list resulting first in terms of votes received, with a certain reservation of board seats for minorities. If more minority slates are presented, minority members are appointed from the one receiving the highest portion of votes.

The latter is generally implemented within the finance industry and it requires that candidates are elected in proportion to votes received. Indeed, candidates in the slates are ordered in a progressive manner. Once votes for the lists have been collected, they are attributed to candidates by computing a certain ratio: number of votes received by the list divided by the order number of each candidate presented in the list. Then, the final appointed members are the candidates receiving the highest ratios.

Another fundamental requirement demands that the list presented by minorities “*should not be in any way connected, neither directly or indirectly, with shareholders, presenting or voting the list resulted first in terms of votes received*” (article 147-ter, comma 3, TUF). The absence of

any kind of link between minority and majority lists is indeed fundamental in order to ensure the effectiveness of list voting in protecting minorities. In other words, the law wants to ensure that the candidates proposed by minorities lists are indeed representative of such minorities, and not linked with controlling shareholders. Anyway, the Italian legislator does not provide any specific definition of these “direct and indirect connections” between lists. Indeed, this delicate issue has been partially regulated by a recommendation issued by the CONSOB: communication DEM/9017893, 26/02/2009. The cited communication recommends, to shareholders presenting minorities lists for board election, to deposit also a declaration ensuring the absence of any connection with controlling or majority shareholders. Furthermore, it is also suggested to specify, within the declaration, the types of existent relations, if deemed relevant and significant. The same CONSOB Communication also provide a list of possible relations that could represent direct or indirect links between minorities and majority candidates:

- the existence of family ties;
- the past participation to shareholder agreements;
- the existence of share ownerships, or reciprocal, direct and indirect, participations;
- the assumption of offices in control and administration bodies of corporations belonging to controlling shareholders;
- the existence of past or present commercial, financial and professional relations;
- the taking part, either in a direct or indirect way, to the list of candidates presented by controlling shareholders.

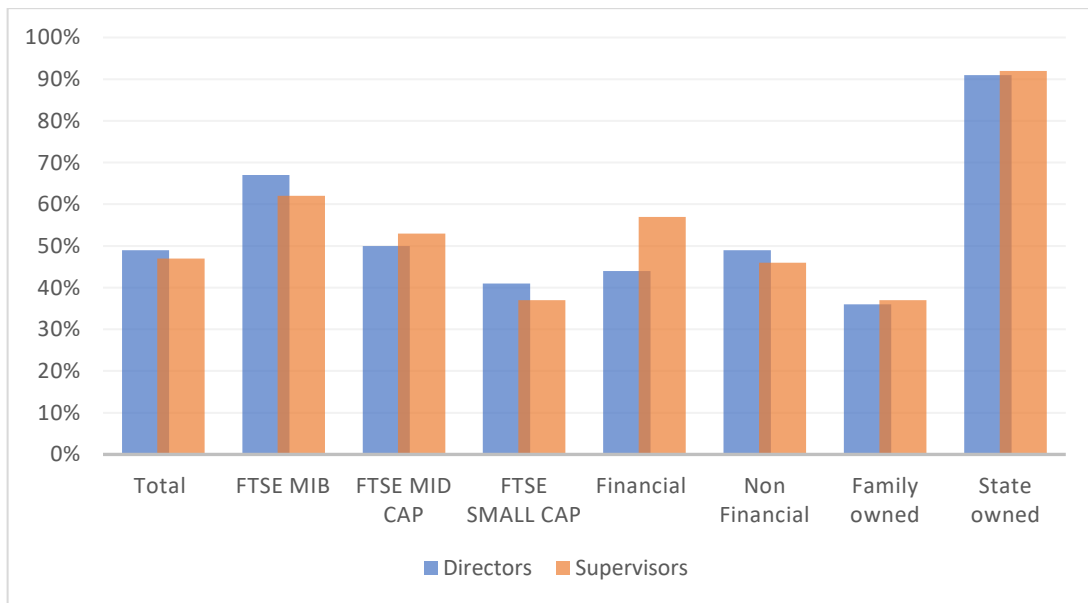
2.4.3 List voting: implementation in Italian listed companies

According to Assonime and Emittenti titoli S.p.a. Report on corporate governance (2012), list voting was implemented by half of Italian listed companies in 2011. In fact, the submission of minorities lists ranges from 37% to 49% of the total, during the analysed period 2008-2011, anyway slightly increasing from 2008. In 2011, the percentage of minority lists presented has been equal to the 49% of the total slates for board of directors, while 47% for the board of statutory auditors.

As depicted in the graph below, the actual possibility of presenting more lists of candidates appears more frequent in larger corporations. Minority slates for directors' appointment have been submitted in the 67%; 50% and 41% of FTSE MIB, Mid cap and Small cap companies respectively. A similar trend can be identified also for the board of statutory auditors with 62%, 53% and 37% respectively. In addition, no similar pattern is identifiable for boards across

industries: while minority lists for the appointment of directors are more frequent in non-financial corporations, the opposite is true for the board of statutory auditors. At the same time, the presentation of minority slates is much more frequent in government held corporations: about 91% and 92% for directors and supervisors respectively. On the other hand, it is significantly lower in family-controlled businesses: equal to 36% for board of directors and 37% for board of statutory auditors.

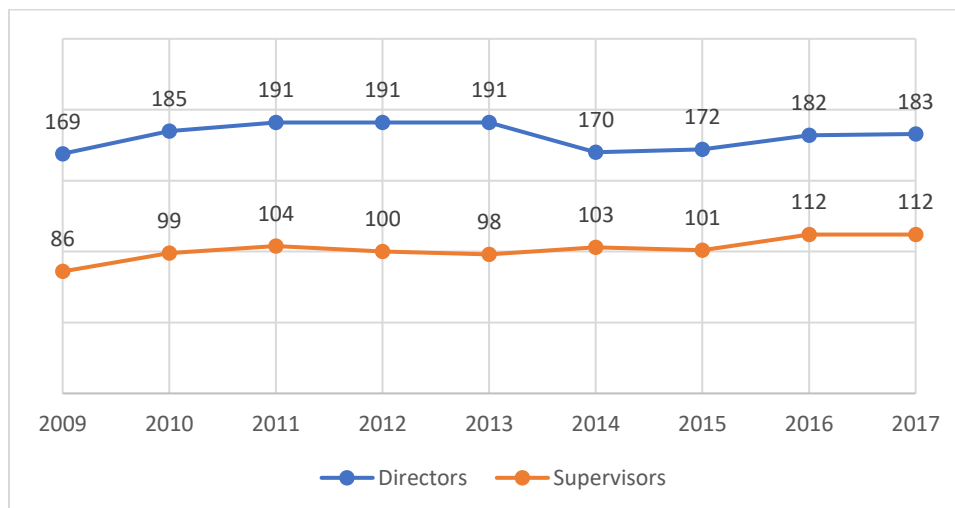
Figure 2.8: frequency (%) of minority lists presentation, by market segment, industry and ownership



Source: author's elaboration from Governance Report, Assonime 2012

Furthermore, by looking at the evolution of the number of minority directors and supervisors, it is evident that their number within boards has increased during the analysed period: indeed, increases of 8.28% for directors and of 30% for supervisors, have been registered from 2009 till 2017. While the trend for supervisors appears quite stable, the one depicted for directors is more variable. In fact, a quite sharp decline occurred between 2013-2014, probably driven by a reduction of listed companies: from 262 at the end of 2011 to 228 at year end 2014.

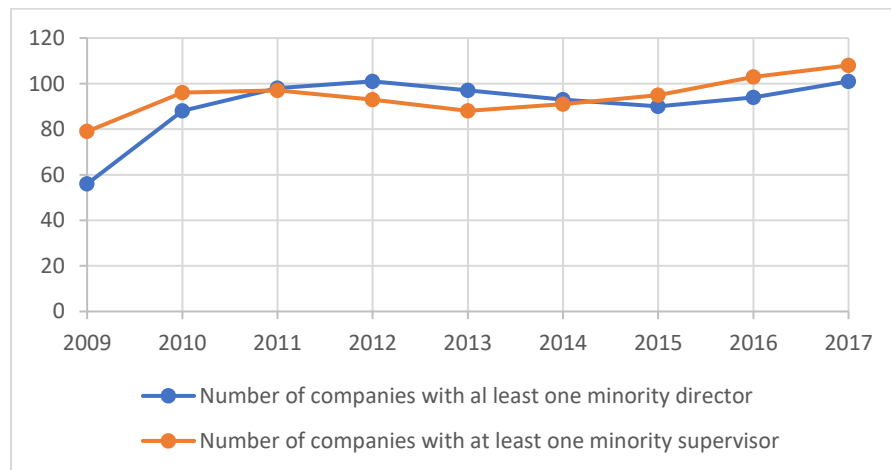
Figure 2.9: number of minority appointed directors and supervisors in the period 2009-2017



Source: author's elaboration from Governance Report, Assonime 2012 and subsequent years

A similar increasing trend can be identified when analysing the number of companies presenting at least one minority appointed board member. It raised from almost 60 and 80 for directors and supervisors respectively, to slightly above 100 for both categories, thus testifying an enhanced minority representation on Italian boards.

Figure 2.10: number of companies with minority appointed board members



Source: author's elaboration from Governance Report, Assonime 2012 and subsequent years

2.4.4 List voting and minority directors: costs-benefits analysis

Since its introduction and during the years after, the prevailing legal doctrine has both underlined potential benefits as well as criticalities of the list voting legal arrangement.

Indeed, the major potential benefit that could arise from its implementation is surely to allow minorities representative to join and actively take part to the administration and control bodies

of corporations. Anyway, in addition to the major function of providing protection to minorities, the list voting also served as mechanism able to provide shareholder with a more equal representation, thus avoiding and reducing potential risks of management entrenchment, tunnelling or other private benefits of control. On the other hand, part of legal tenet has criticized this legal arrangement affirming that list voting might negatively influence company efficiency. This view was mainly driven by the idea that the involvement of minorities within boards would determine a potential contrast between minority and majority directors, thus creating a potential obstacle to the efficient and agile administration of the corporation (Alvaro et al., CONSOB 2012).

Legal writings have also expressed contrasting opinions regarding the figure of “minority director”. If the presence of minority members within the board of statutory auditors is justified by the minority traditional function of controlling management, the same cannot be said regarding minority directors within the management board.

From one side, such representative is deemed fundamental to provide and strengthen minority safeguard measures. Minority director role appears crucial especially in large listed companies characterized by widely dispersed ownership. In such companies, it is more and more likely that the general assembly does not represent a place where shareholder can actively debate and affirm their interests and opinions anymore. It is only within the board of directors that shareholders’ interests can be affirmed, and decisions taken, that is why it is fundamental to have minorities representatives within the board. From the opposite side, concerns regarding the function of minority directors have been shown. Particularly, doubts regard the fact that they might have only a formal role within the boards, or badly, they might pursue only the interest of that part of shareholders which were responsible for their appointment. From this perspective, also minority directors might implement collusive behaviours with company management and controlling shareholders in order to pursue their personal interests. If this view is considered, the compulsory appointment of minority directors within the board, even if representing a unique setting, might not necessarily represent an index of improved governance of corporations (Alvaro et al., CONSOB 2012).

From a more empirical point of view, it could be said that minority appointed directors, even if increasing over time, always constitute a tiny fraction of the board. At the end of 2017, boards of directors composed on average by 10 members, have, on average, 1.8 directors appointed by minorities (CONSOB Report, 2018). Accordingly, the board is generally governed by majority

appointed directors, thus reducing the potential for the implementation of minorities collusive behaviours, previously underlined.

In addition, many studies, looking at Italian listed companies, have pointed out the effective role of minority appointed directors in influencing company performance, reputation and transparency. For instance, a research conducted by Maria Passador in 2018, has investigated the impact of minority-independent directors on dividend distribution policies. It has been found out that the presence of independent-minority directors, if equal to at least 15% of the board, is able to affect dividend policies, influencing positively both the amount and probability of their distribution. The positive influence over dividend distribution policies is deemed fundamental since firms paying higher dividends and more independent boards can signal their better quality to the market, encouraging further investments and economic growth (Passador, 2018). Furthermore, another study has shown the positive impact of minority appointed directors on the quantity and quality of company disclosure. This fundamental result points out the effective role of minority directors in protecting and representing investors' interests and in enhancing information transparency of listed companies. More specifically a 10% increase in the portion of minority-appointed directors within boards, determines a 14.40% higher probability of disclosing relevant information. The positive impact is also evident when analysing the quantity of information disclosed: the same increase of the portion of minority directors lead to a 3.13% increase in the number of pages of firm major documentations (Marchetti et al., 2018). The presence of minority directors has been found to be positively associated also with committees meeting frequency. Particularly the positive relation appears to be significant with respect to audit committee: the higher number of minority directors increases audit committee activity. This relation can be explained by the significant incentives, minorities have, in fostering control over management and company operations. Hence, according to this perspective, the presence of minority directors is associated with a more intensive monitoring activity of the board (D'Onza et al., 2014). Other studies, analysing the potential effect of the proportion of independent minority directors on firm value, provide evidence of a positive relation between the two variables. Particularly, minority directors are found able to alleviate agency costs associated to minority expropriation and self-dealing transactions, consequently, by reducing such costs, firm value is increased (Moscarriello et al., 2018).

2.5 The comparison between minority and majority candidates' profiles

Minority representation systems have the main aim of “*opening the boardroom to representatives of different constituencies, who have different viewpoints and priorities*” (Marchetti et al., 2016). The underline assumption behind this trend is that more diverse boards are able to positively influence governance structures functioning by improving discussion, debate and consequently the decision-making process. Hence, diversity determine an enhancement of board effectiveness which in turn lead to higher firm performance (Cater et al., 2007). Particularly, according to Carter et al. (2007) view, minority directors can be conceived as diverse since they provide the board with unique characteristics and viewpoints.

As underlined in the previous paragraphs, empirical researches focusing on the analysis of minority directors across Italian listed companies, have shown that they might have a positive effect on various aspects of company activities and characteristics. They increase dividend distribution, hence firm reputation (Passador, 2018); they enhance quantity and quality of company information disclosure (Marchetti et al., 2018); they are able to provide better monitoring and also increase firm value (D’Onza et al., 2014, Moscariello et al., 2018). However, besides these overall positive influences, minority directors have never been analysed with respect to their characteristics and major skills. Recognizing minority directors as diverse in theory, it is reasonable to ask whether minority appointed directors possess unique skills and capabilities which differentiate them from majority appointed ones, hence increasing board diversity.

Because the Italian legal system provides a unique setting of minority representation on the board, which allow to make a clear distinction between minorities and majority representatives, it is possible to provide an answer to the above question.

Indeed, thanks to list voting implementation, we can analyse and then compare candidates' profiles presented in minority and majority slates for board of directors' election and find out if potential differences across their profiles exist. In other words, the objective of this thesis is to point out whether, or not, there exists differences among minority and majority director's profiles, and whether these differences might have a potential impact on company performance.

Analysing potential differences of minority representatives appears particularly relevant since if they are found to have unique features able to positively affect company performance and governance structure functioning, having minority representatives within boards would become essential to foster corporation growth and development.

Therefore, the Italian compulsory provisions concerning minority representation within administrative structures might be beneficial also for other companies, and consequently, their implementation might be suggested to other jurisdictions.

Hence, the next two chapters, analysing companies, list voting implementation, and majority and minority candidates' profiles, will try to provide evidence of whether some differences exist.

Chapter 3: Research design and preliminary analysis

3.1 Sample definition

The empirical analysis, on which this thesis is based, looks at list voting implementation and minority representation on board of directors of Italian companies, with the major aim of identifying potential differences between minority and majority candidates' profiles.

Since slate voting is a compulsory provision for listed companies, the analysis has been conducted by looking at Italian companies listed on the Milan Stock Exchange. As underlined in the previous chapters of this thesis, the actual possibility of having lists submitted by minorities is higher in companies characterized by a larger market capitalization (Assonime, 2012). Indeed, the initial sample considered for the analysis was composed by the 40 companies belonging to the FTSE MIB Index, characterized by the highest market capitalization, free float capital and liquidity. Furthermore, the analysis only takes into consideration *Italian* companies, in other words, only companies incorporated within the national territory, that for this reason are subject to the Italian jurisdiction and legal system.

Besides the large market capitalization, other crucial conditions have been imposed in order to adequately define the sample of companies to be analysed.

The analysis performed aims at studying the implementation of slate voting for directors' appointment in the occurrence of board rotation, which in the Italian system takes place every three years. In order to assess the potential impacts of board composition and minority appointed directors' differences (if present) on performance, the analysis only consider concluded board tenures. Hence, the examination does not look at current board structures and composition but rather at the preceding ones, determined with previous board rotations occurring within the triennium 2014-2016.

In addition, in order to assure consistency in governance dynamics analysed, all companies should implement the two-tier horizontal system of administration and control, defined as *traditional system* by the Italian laws and applied by the great majority of Italian listed companies: 98% of the total at the end of 2017 (CONSOB Report, 2018).

Moreover, in order to ensure that the analysis would have been conducted by looking at ordinary rather than extraordinary situations and conditions, the sample should not be composed of companies undergoing mergers and acquisitions or other relevant restructuring activities during the analysed period.

According to the defined conditions, the initial sample of 40 highest capitalization companies (FTSE MIB Index), has reduced to 26 firms.

More specifically, of the 14 excluded companies:

- six are not incorporated in Italy;
- four do not provide data availability during the considered time span;
- two apply alternative systems of administration and control;
- two were interested by merger and acquisition and corporate restructuring activities during the considered time frame.

Indeed, in order to restore the initial number of 40 companies to be analysed, the sample of 26 FTSE MIB companies has been expanded by adding firms on the base of their market capitalization, from the highest to the lowest.

The final sample ¹is composed by 40 companies: 26, accounting for the 65% of the total, belong to the FTSE MIB Index and present an average current market capitalization equal to € 13.85 billion; while 14 companies, representing the remaining 35%, belong to the FTSE Mid Cap Index and have an average market capitalization of € 3.02 billion.

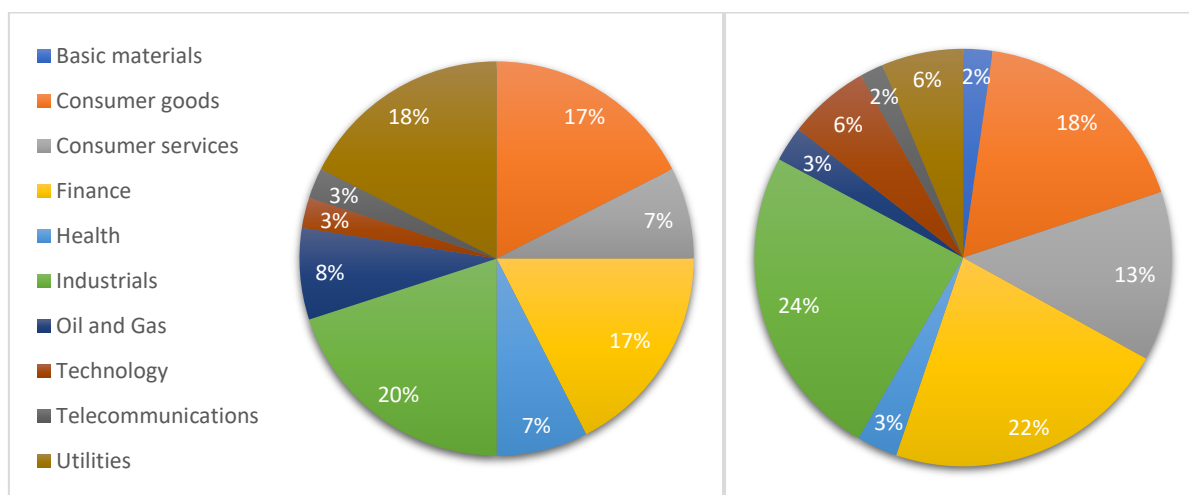
Indeed, to sum up, all companies of the sample present the following characteristics:

- have a large current market capitalization ranging between 2 and 75 billion;
- qualify as S.p.a. in accordance with the Italian legislation;
- apply the traditional system of administration and control;
- changed the board within the 2014-2016 period;
- were not interested by M&A or restructuring activities during the analysed period.

As depicted in the graphs below, the sample identified is quite representative of the whole industry classification provided by Borsa Italiana. The only industry not represented in the sample is the one of *basic materials*, anyway not significant also when considering the industry classification with respect to the total number of Italian listed companies: indeed, it accounts only for the 2% of the total. On the other hand, both at sample and total listed companies' levels, the most represented industries are: *industrials, finance and consumer goods*.

¹ The detailed list of companies composing the final sample, as well as of companies excluded from it, is presented in the appendix (tables 1 and 2).

Figure 3.1: sample and total listed companies by industry



Source: author's elaboration

3.2 Data description and sources

In accordance with the purposes of the study, the examination has been conducted at two different levels: the first looks at companies, while the second is concerned with individuals. Indeed, also data collection has been structured across these two different levels: data regarding 40 companies and 462 individuals were collected and then analysed.

With respect to company level, the data identified basically concern: industry, date of board rotation, current and historical market capitalization, implementation of list voting procedure, ownership and board structure. Industry in which companies operate has been assessed considering the sector classification provided by Borsa Italiana. Both current and historical data (2014-2016) related to market capitalization, were taken from the AIDA platform. At the same time, information related to ownership and board structures were available on the CONSOB website, since all listed issuers are obliged to provide quarterly such information to this fundamental authority. Instead, data regarding the period of board rotation and the actual implementation of the list voting procedure were observed by looking at major company documents concerning corporate governance: statutes and shareholder meeting reports. All documents were publicly available and presented on corporations' websites.

When considering individuals, instead, the analysis regards candidates presented in minority or majority lists for board election. Data regarding the specific candidates' profiles were collected by analysing their curricula. In fact, directly attached to slates of candidates, companies need to publish candidates' curricula and other relevant declarations on their websites.

3.3 Description of Main Variables and Methodology of Analysis

Given that, as previously stated, the analysis is twofold, it is possible to identify two main sets of variables: company level and director level variables. The choice of having a two-level analysis mainly derives from the fact that in order to verify if minority representative differ from majority ones, it is first necessary to consider other fundamental and more general aspects regarding companies. For instance, it is necessary to define who are companies' minority and majority shareholders, whether minorities are "active", and indeed try to propose candidates to the board. In other words, it is crucial to first analyse company level variables that have an inherent and significant impact on list voting implementation and minority representation. Indeed, only performing what can be defined as a "preliminary analysis", the subsequent possibility of analysing minority and majority candidates is ensured. Hence, in the two following sub-paragraphs the two sets of variables are separately described, then major results of the preliminary analysis are illustrated.

3.3.1 Company level variables

The first fundamental variable of analysis for corporations concerns their *ownership structures*. Studying this variable is crucial in order to understand the degree of ownership concentration within companies, as well as the nature of company owners, in other words, who directly or indirectly control the firm. As far as these two dimensions are concerned, ownership structures of companies have been analysed in accordance to the model provided by La Porta et al. (1999). Their definition of ownership relied on voting rights, indeed the analysis looks at the "voting capital" ownership percentages, provided by the CONSOB for each issuer. Moreover, they classify firms into two major groups: *widely held* companies, and companies with *ultimate owners*. If a firm classify as widely held it means it has no controlling shareholder. But, how to define a controlling shareholder? In general terms it can be defined as the owner of 50% of companies outstanding shares, anyway especially in large public companies a shareholder owning much less than 50% of shares can be still defined in charge of control or significant influence on company operations. In fact, La Porta et al., in their research used two possible arbitrary cut-offs equal to 20% and 10%. According to their view, any shareholder, whose direct or indirect ownership exceeded, in separate observations, the 20% or 10%, was qualified as controlling shareholder. In the cases in which a controlling shareholder could not be identified, the company classified as widely held type of ownership, in the opposite case, instead, the company had an ultimate owner. They further identified five types of ultimate owners: family or individual; Government; widely held financial institutions; widely held corporation;

miscellaneous, intended as “*cooperative, voting trust, or a group with no single controlling investor*” (La Porta et al., 1999).

With reference to the model provided by La Porta et al. (1999), this analysis only considers a controlling ownership cut-off of 20%, given that Italian companies are generally characterized by very concentrated ownership structures and large controlling shareholders (D’Onza et al., 2014). Furthermore, with respect to the five categories of ultimate owners, only the first four are taken as references. Indeed, the “miscellaneous” typology is excluded, given that it is just viewed as a residual category: indeed, accounting for slightly more of 5% of the total sample of companies (La Porta et al., 1999).

Ownership data were taken from the CONSOB website and are related to the periods before the scheduled general shareholder meetings in which the board is appointed. In performing the analysis, it was first assessed whether companies classify within the widely held or ultimate owner categories. Hence, according to the 20% cut off, companies in which no ownership percentages exceed the defined threshold, were qualified as widely held and were assigned a value equal to one, zero in the opposite case (ownership percentage higher than 20%).

Then, with respect to the ultimate owners’ category, the specific kind of owners were identified. As ultimate owner, the analysis considers the shareholder with the highest ownership percentage (above 20%), intended as the individual or entity which is ahead of the potential ownership chain. Hence, the examination does not look only at direct shareholders, but rather at the “declarant” of ownership rights, as defined by ownership structures provided by the CONSOB. So, each company belonging to the ultimate owners’ category has been assigned a value equal to one if the controlling shareholder is either represented by:

- a person or a family;
- a domestic or foreign State;
- a financial institution, such as banks and insurance companies;
- a non-financial corporation.

The second variable used for company level analysis is the *implementation of list voting*. As previously underlined, list voting is a compulsory voting mechanism for listed companies: company officers are appointed by voting lists of candidates. However, there is no compulsory requirement for what concern the presentation of more lists of candidates. In other words, the submission of other slates, in addition to the one presented by the controlling shareholder, is only a possibility: indeed, a potential right that minorities can choose to exercise or not.

Hence, the implementation of list voting, intended as the submission of lists by minority shareholders, represents a crucial variable to study in order to understand to what extent minorities are actually represented, or actively participate the board election process. In these terms, this variable is able to provide a measure of the level of minority shareholder activism within Italian listed companies.

To analyse the described variable, it was first necessary to identify, for each company of the sample, the date of board rotation. Hence, the study looks at the number of candidates' slates presented by shareholders in each company. Then, by considering the list proponents, and their related ownership percentages, slates are classified as majority or minority. More specifically, one list is qualified as "majority list" if it is proposed by the controlling shareholder, previously identified through the ownership structure analysis. While, a list qualifies as "minority list" if it is presented by any other shareholder, different from the controlling one. In widely held companies, in which the controlling shareholder is not directly identifiable, the list presented by the shareholder holding the highest ownership percentage is qualified as the majority one.

It is worth underline that, the criteria of classification used in this case, based on ownership percentages of the list proponents, is different from the one generally applied and defined by the Italian law and by the Governance Code. In fact, they rather consider an electoral criterion according to which lists are qualified as majority or minority slates in relation to the number of votes obtained during the general shareholder meeting (Assonime, 2012).

The ownership criterion allows to classify a list submitted for board election *ex ante*, indeed before the general assembly, during which slates are voted. On the other hand, the electoral criterion only allows for a classification *ex post* of the previously submitted slates. Beside this difference, on the base of the one-share one vote principle, it is to some extent reasonable to assume that lists submitted classify in the same way, whatever the criteria applied. In other words, the list submitted by the largest shareholder, qualified as majority according to the ownership criterion, will also receive the highest portion of votes during shareholder meetings, hence qualifying as majority also according to the electoral one. However, it is not always the case. It could happen that lists presented by minority shareholders, such as institutional investors, might receive significant support by capturing votes of other minorities, which even if not directly submitting the list may be interested in blocking the controlling owners. It has been reported that, in recent cases, minority lists received more votes with respect to the lists submitted by controlling shareholders (Ventoruzzo and Marchetti, 2016). For instance, in the occurrence of the 2015 board election of Unicredit S.p.a., the list submitted by institutional

investors, owning together 1.91% of company outstanding shares, has received the great majority of votes, accounting to 54.64% of the share capital represented during the general assembly (Unicredit S.p.a. Shareholder meeting Report, 13/05/2015). Hence, in this case, the list submitted by minorities, would classify as majority slate according to the electoral criterion. For the purpose of the analysis conducted, slates of candidates are only classified according to ownership percentages held by lists underwriters.

Furthermore, in order to determine the ownership percentage needed by minority shareholder to propose slates of candidates to the board, data regarding market capitalization were collected for each company. Within this context, the analysis looks at company historical market capitalization, considered at the specific year in which board rotation has occurred. Then, required ownership percentages were defined in accordance to the previously cited article 144-quarter of “Regolamento emittenti”, issued by the CONSOB.

3.3.2 Director-level variables

At the individual level of analysis, candidates presented in both majority and minority lists were screened across several variables of analysis.

The first variable which has been assessed is the *level of information disclosed* within their curricula, always attached to lists presented and published. Given that no specific requirement, regarding types and amount of information disclosure, has been established by the Italian regulator, it is reasonable to assume that different candidates might provide different kind of information, as well as smaller or larger amounts. Indeed, this first variable of analysis is defined as “information disclosure” and it assumes value of 1 if the candidate curriculum classifies as detailed, 0 otherwise. Within this context, it is worth underlining the meaning attributed to the adjective *detailed*. A curriculum qualifies as detailed if at least three sections can be recognized: personal and general data, study and work background, current positions. On the other hand, curricula classify as not detailed if one of the three sections described is not present or if relevant information do not emerge clearly.

Candidates were also analysed across general variables: their *gender, age and nationality*. Particularly regarding age, it was considered with respect to the year of board rotation. Moreover, for candidates qualified as Italian, a further distinction has been made: they were classified as belonging to North, Centre and South of Italy with respect to their place of birth.

Another fundamental variable analysed is *independence*. Article 147-ter of T.U.F, fourth comma, states that: “*at least one member of the board of directors, or two if the board is made of more than seven members, must comply with the independence requirements defined by article 148 T.U.F, third comma, as well as with any other independence requirement requested by company bylaws and by codes of conduct issued by professional associations or by financial market regulators*”. Indeed, in the definition and related assessment of candidates’ independence, it is necessary to look at two different perspectives: one shaped by the Italian legislator at article 148 T.U.F., and the other defined by the Italian Code of Good Corporate Governance, issued by Borsa Italiana.

Article 148 T.U.F., third comma affirms that directors do not classify as independent if they have family ties (spouse or relatives within the fourth grade) with company executives and relevant representatives or if they are linked to the company, or to its controlled entities, by financial, professional or employment relationships. Furthermore, the Code issued by Borsa Italiana, suggests and specify that any direct or indirect commercial, financial or professional relationships with the company, its controlled entities or relevant officers, should have not occurred during the whole preceding year (article 3.C.1, letter c).

In addition to family ties and material business relationships, article 3.C.1 of the Code states that directors should not qualify as independent if:

- they can, directly or indirectly, exercise control or a significant influence over the company;
- in the preceding three years, they assumed relevant offices within the company or in its controlled entities;
- they have assumed the office of company directors for more than nine years in the last twelve.

Indeed, the independence variable has been assessed by considering both requirements in a separate manner. So, it is possible to define two variables for independence: “law independence” and “code independence”. A candidate who qualify as independent for the law requirements is assigned a score of 1, 0 otherwise. The same happens for the code independence variable.

The fourth main variable of analysis for candidates is *education*. It has been assessed either in a quantitative and qualitative way, by observing the number of qualifications held as well as the field of study, respectively. In relation to the quantitative variable, the *qualifications* held were summed for each candidate. Qualifications considered, were only the ones subsequent to the standard high school diploma, indeed: bachelors’ and master’s degrees, PHDs, and other masters or specializations of either first and second levels. Hence, if a candidate only held a

high school diploma is assigned a score of 0, while for every of the cited qualifications possessed he is assigned a score of 1. Concerning the qualitative variable, five major fields of studies were identified: *economic*, representing studies dealing with the general economy, management, finance and political sciences; *legal* representing legal studies; *scientific*, dealing with all scientific subjects, such as engineering, physics, math or natural sciences; *humanistic*, representing any area concerning human being and the study of their cultural and historical setting; *other*, representing any other study area not described by the previous categories. In the cases in which candidates hold more than one qualification belonging to different study areas, the latter are linked together. Indeed, it is possible to observe bundled categories such as: *scientific/economic*; *law/economic* etc.

Finally, candidates were analysed with respect to their *skills*. Candidates' skills have been assessed by taking inspiration from the classification provided by Adams et al., (2018), who identify 20 skills categories to describe and map directors. For the purpose of this analysis, only the most relevant skills categories have been taken into consideration, thus the set of 20 reduces to 14 skills. A more precise definition of each of the 14 skills analysed is presented in the table below.

Table 3.1: skills categories and related description

	Skill	Description
1	Academic	The candidate is, or has been, a university professor.
2	Company business	The candidate is experienced with company business or industry.
3	Entrepreneurial	The candidate is an entrepreneur, or founder of other companies and activities.
4	Finance and accounting	The candidate has experience in finance, accounting and other related activities.
5	Governance	The candidate has experience in governance structures.
6	Government and policy	The candidate has policy related experience.
7	Human resources	The candidate has worked in the field of human resources.
8	International	The candidate has studied or worked abroad.
9	Legal	The candidate has legal expertise.
10	Management	The candidate has management or executive experience.
11	Marketing	The candidate has marketing and sales expertise.
12	Operations	The candidate has experience with production and logistic functions.
13	Risk management	The candidate has risk management or insurance expertise.
14	Scientific	The candidate engineering, or R&D, technology experience.

Hence, for each of the 14 skills described, a point equal to 1 is assigned to the candidate owning the specific skill, while zero points are assigned if the specific skill is not representative of the candidate analysed. Then, for each candidate the number of total skills owned is computed simply by summing scores previously attributed.

It is worth underlining that the governance skill has been assessed by considering both the two major corporate governance structures characterizing Italian companies: the board of directors, and the board of statutory auditors. Indeed, the governance skill is comprehensive of both experience as director or company supervisor, which anyway were assessed separately, given the intrinsic different characteristics of functions performed.

Furthermore, with respect to this variable, candidates were also analysed according to the number of current offices they held in other companies. In relation to the term “*other companies*”, the analysis takes only into consideration firms different from the ones for which candidates would potentially be appointed as directors. Indeed, also companies belonging to the same group (controlling or controlled entities) are considered. While, offices held in foundations, associations and any other entities different from corporations are not examined. Offices considered are three: *executive* role, indeed represented by CEOs; *board*, intended as any type of role assumed within the board of directors; *other*, identified with supervisory and control roles.

3.4 Preliminary Analysis & Results

3.4.1 Ownership structures

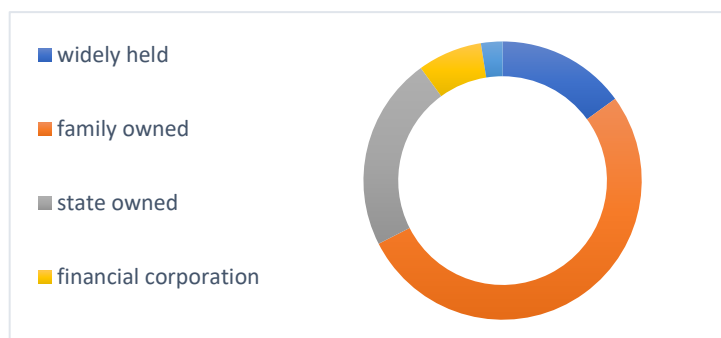
With respect to ownership structures, by applying the methodology previously described to the analysed sample, it is possible to observe that only 6 companies out of 40, and accounting to the 15% are classified as widely held. The remaining 85%, indeed has controlling owners.

This result is not totally in line with the one provided by La Porta et al., (1999), given that according to their findings, widely held companies represent more than one-third (36%) of their total sample. However, it is worth underlining that a strict and close comparison of the two analyses is not possible since the study conducted by La Porta et al., observes a much larger sample, made of 540 companies from 27 different countries.

Anyway, from a slightly different perspective, results can be considered aligned by looking at the most diffused controlling owners: both for La Porta et al., and for the current analysis, family-controlled and State-controlled companies account for the largest portion (30% and 18% respectively for La Porta et al., 1999). Hence, by looking at the pie-chart below, it is evident

that, also in Italy, the most diffused types of ownership are: widely, family and state held structures.

Figure 3.2: companies by ownership structure



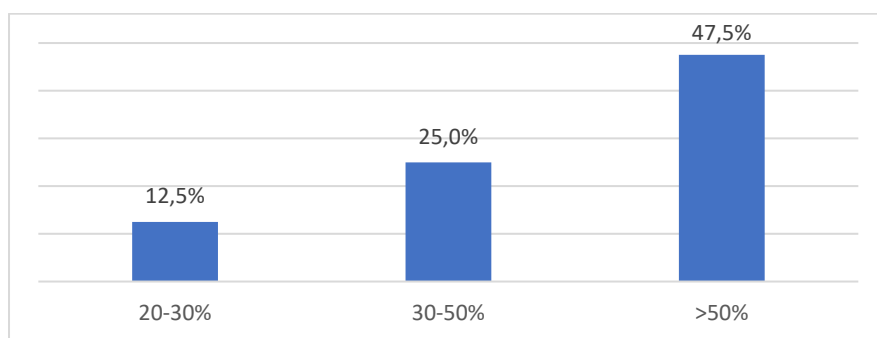
Source: author's elaboration

More specifically, considering the ultimate owners' categories, families and individuals control accounts for the great majority, equal to 52.5% of the total sample, this result is also in line with the view provided by Bhaumic and Gregoriou (2010) pointing out the great spread of family control businesses across several countries. The second fundamental category of ultimate owners is represented by the Government, accounting for the 22.5%; while financial and non-financial corporation control types are the least diffused, only accounting to three and one companies in the sample, respectively (7.5% and 2.5% of the total sample).

Generally speaking, the finding that the 85% of companies in the sample present ultimate owners corroborates the idea that the dispersed ownership, represented by widely held corporations, is not always identifiable as the dominant ownership structure for companies. In fact, in many countries, ownership structures are rather concentrated, with families and Governments as main ultimate owners (La Porta et al., 1999).

Particularly, Italian companies' ownership structures are characterized by large controlling shareholders (D'Onza et al., 2014). Indeed, the average ownership percentage of companies controlling shareholders is equal to 39.30%, with minimum and maximum values equal to 22.45% and 73.35%, respectively. When considering the distribution of ownership, it is evident that the largest portion of companies, equal to 47.5% has controlling shareholders owning more than half of the firm share capital. Indeed, testifying the significant ownership concentration in Italian listed companies.

Figure 3.3: ownership distribution of controlling shareholders

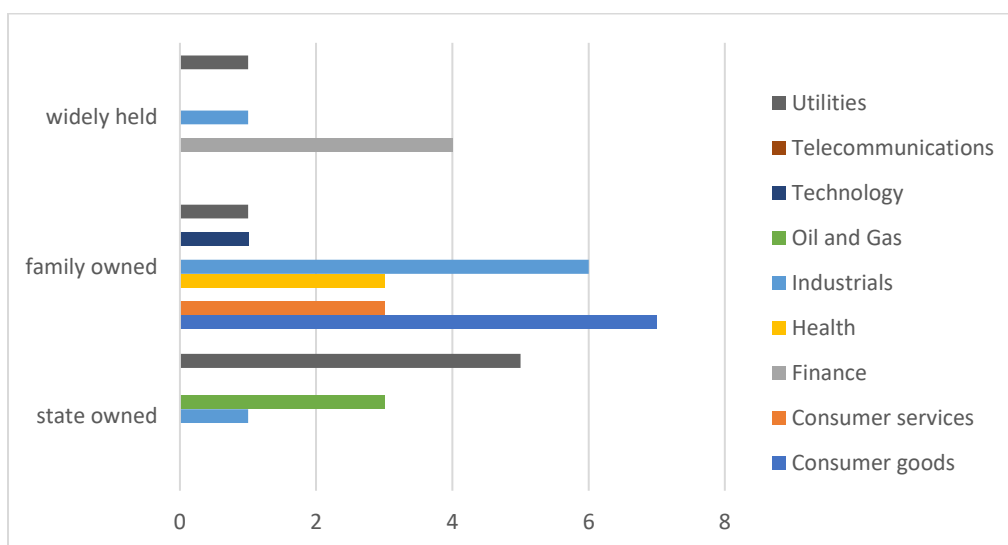


Source: author's elaboration

Furthermore, by looking at the most relevant ownership types by industry, it is worth underlining that widely held companies mainly belongs to the finance sector. Four companies out of the total amount of six, are banks (2) insurance companies (1) investment services corporation (1). Besides the partial differences in the specific activities performed, they are all participated by national or foreign financial institutions or funds and are characterized by a relevant portion of free-floating capital, on average equal to 78.60%, significantly above 48.79%, representing the average data for the whole sample.

On the other hand, family owned businesses are quite dispersed across all industries, particularly in the ones of consumer goods and industrials, in which they account for seven and six companies out of 21, respectively. At the same time, government ownership is mainly concentrated in companies operating in utilities and oil and gas industries.

Figure 3.4: relevant ownership structures by industry



Source: author's elaboration

These results are in line with the ownership structures-industry relations identified in literature: it has been observed that ownership by families and single individuals is significant in consumer goods industry, particularly in the textile, clothing and standardized goods sectors; while government ownership is more frequent in sectors dealing with public and private commodities, indeed electricity production and transmission, water collection and treatment, as well as coal, oil and other energies supply (Thomsen and Pedersen, 1999).

3.4.2 List voting implementation

As previously stated, all companies in the sample elected their boards within the three years period 2014-2016. More specifically, 17 companies (42.5%) appointed new directors in 2014, while the remaining 10 (25%) and 13 (32.5%) companies, in 2015 and in 2016 respectively. The minimum ownership percentage requested for submission of minority slates ranges between 0.5% and 2.5% across the sample. However, for the great majority of companies, 33 out of 40, it is equal to 1%; while only for 5 and 2 companies, it amounts to 0.5% and 2.5% respectively.

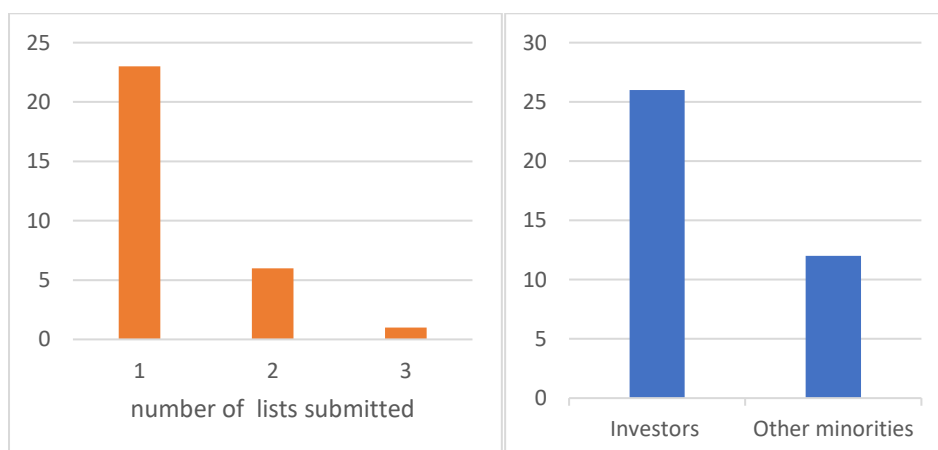
During the analysed period, the 40 companies of the sample have submitted 78 lists of candidates for board election. Out of this total, 77 lists were submitted by shareholders, while one list, in only one company (Prysmian S.p.a.), was submitted by the outgoing board of directors. According to the previous defined discriminatory criterion, that list could not be qualified as either belonging to the minority or majority category, since it is not submitted by shareholders. Anyway, only for this specific situation, the electoral discriminatory criterion is applied: the list is classified as a “majority” one, since it received the highest portion of votes, amounting to 77.93% of total shares represented during the general assembly (Prysmian S.p.a. Shareholders meeting Report 16/04/2015). Hence, of the total 78 slates submitted, 40 were classified as “majority slates”, while the remaining 38 as “minority” ones.

Besides the almost equal number, minority slates were not submitted by all companies in the analysed sample. In fact, minorities choose to present their representative for board appointment in the 75% of the total sample, hence in 30 companies out of the total 40. In the remaining 25% of analysed companies, lists were only submitted by the controlling shareholder, hence they were classified as “unique list companies”.

Among the 30 companies submitting minority slates, it is more frequent that minorities only present one slate of their representative: this has occurred in the 76.7% of companies. Instead, only few, accounting for the 20%, have submitted two slates, and just one company three.

A great portion of minority lists, equal to the 68.42% of the total, was presented by investors, through Assogestioni. The latter, is the main Italian association of asset management companies, founded in 1984, with the aim of protecting, assisting and counselling investors. Its main associates are represented by the great majority of Italian asset management companies (SGR), foreign investment management companies operating in Italy, as well as banks and other financial institutions which provide their customers with those investment services. The remaining portion of minority lists, accounting for the 31.58% of the total, was presented by other corporations or entities which qualify as minority owners, but do not belong to the institutional investors' category.

Figure 3.5: companies by number of minority lists submitted and by underwriters



Source: author's elaboration

Institutional investors presenting lists have an average ownership percentage equal to 1.62%, ranging between the minimum and maximal values of 0.70% - 3.37%. Other minorities, instead, present a higher average ownership equal to 5.35%, and indeed a significantly higher maximum value equal to 12.48%. In four companies, institutional investors do not present any list. Two of these companies are characterized by “strong” minority shareholders, holding on average 8% of equity: indeed, a significant ownership percentage for minorities, that at total sample level present an average ownership equal to 4.2%. Furthermore, three out of four, have particularly concentrated structures, in which the controlling owner holds more than half of share capital, while the free-floating capital, amounting to an average value of 25%, is significantly lower if compared with the average one for the total sample, equal to about 48%. Hence, from this

perspective, institutional investors might be discouraged to present their lists of candidates in presence of strong controlling owners and strong minorities.

Lists submitted by majority shareholders are composed by a larger number of candidates: on average equal to 11.77, with minimum and maximum values of 6 and 21 respectively. Minority lists, instead, are composed on average by 2.87 individuals, however ranging from a minimum of 1 to a maximum of 9. Moreover, a great portion of minority slates, accounting to 39.47% is composed by three candidates. The three-candidates lists are more frequently submitted by institutional investors, while other minorities tend to submit slates with either a higher or lower number of candidates.

Both for minority and majority lists submitted, it is possible to underline a significant relation between the ownership rights of the list underwriters and the number of candidates proposed within such lists. In fact, controlling shareholder propose lists with the highest number of candidates since they are identified as corporation ultimate owners, however, this also occur among minorities different from institutional investors. For instance, minorities slates proposing a number of candidates between 5 and 9, are characterized by an average ownership percentage equal to 7.5%, significantly above the sample average value of 2.80%.

Furthermore, on average majority lists appoint 10.3 directors on the board, while minority lists only 1.71 directors. This data is explained by the intrinsic characteristics of the list voting mechanism: directors are appointed in a progressive manner from the list receiving the larger portion of votes, with few seats reserved to minorities. Since the list casting the higher portion of votes is generally the one submitted by majority shareholders, it is plausible to obtain the previously described result. Hence, the larger the ownership rights, the larger the number of candidates presented in the lists, and the consequent higher possibility of appointing those candidates as board members.

3.4.3 Companies submitting a unique slate

Given that the law provides minorities with the possibility to propose and appoint their representatives on the board of directors, when such possibility is not used, it is straightforward to ask why. In other words, what are the reasons why minorities might choose to not present slates of candidates, hence refusing the exercise of one of their fundamental rights?

There exist company specific characteristics which might be able to determine this choice?

In order to answer these questions, it appears fundamental to provide a more detailed description of the ten “unique list companies” identified in our sample.

These are presented in the table below.

Table 2: companies submitting a unique list

1	ASTM S.p.a.	6	I.M.A. S.p.a.
2	Azimut Holding S.p.a.	7	Interpump Group S.p.a.
3	Brunello Cucinelli S.p.a.	8	Juventus FC S.p.a.
4	De’Longhi S.p.a.	9	Reply S.p.a.
5	Diasorin S.p.a.	10	Salvatore Ferragamo S.p.a.

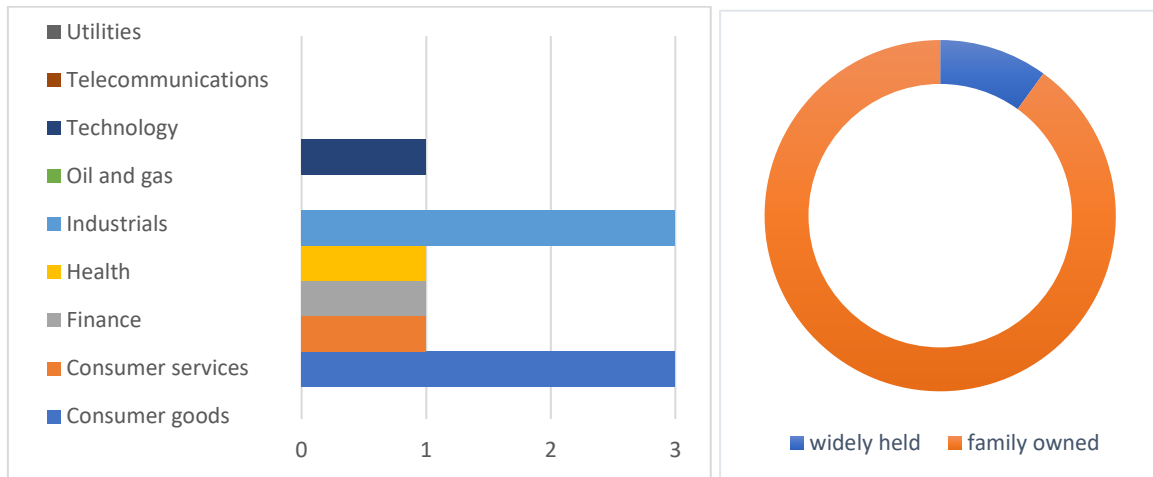
By looking at market capitalization, the ten companies present an average capitalization equal to almost 2 billion, with minimum and maximum values respectively equal to 270 million and almost 3.70 billion. The average capitalization is fairly lower if compared with the one related to the thirty companies submitting minority slates: indeed, equal to almost 8 billion.

Furthermore, when considering their current market capitalization, the 40% belongs to the FTSE MIB index, while the remaining 60% to the FTSE Mid Cap. By considering the portion of FTSE MIB and FTSE Mid Cap companies in the total sample (26 and 14 respectively), companies presenting a unique slate of candidates account for the 15.38% and 42.85% respectively. Indeed, in almost half of FTSE Mid Cap companies of the sample, minorities choose to not submit slates. This feature, suggesting that in smaller capitalization companies is more frequent that minorities chose to not exercise their representation right on the board, is in line with previous empirical researches on Italian listed companies (Assonime 2012), as well as with one of the major conditions considered in the sample definition.

Considering industries, it is possible to observe that a great portion of such companies operates within consumer goods and industrial sectors. However, given that the subset of companies is representative of almost all industries considered, the industry variable could not be viewed as a distinctive feature of unique slate companies.

More interestingly, the 90% of companies has an ultimate owner, identifiable with families or individuals. It is important to notice that this portion of companies account for almost the half of the family owned firms in the sample: about 43%. Hence, it seems that the family/individual ownership type might be able to affect the minorities choices of whether submitting or not their slates. This finding is consistent with the view proposed by Assonime survey 2012, according to which the submission of minority slates can be observed with lower frequency in family held corporations, while being more recurrent in State owned companies (Assonime, 2012).

Figure 3.6: unique list companies by industry and by ownership type



Source: author's elaboration

Given the relevance of the owners type potential impact, it has been deemed necessary to further and deeply analyse the ownership structures of such companies.

Firstly, the unique widely held company of the group is *Azimut Holding S.p.a.*, which operates in the finance sector, and belongs to the FTSE MIB Index. In relation to its ownership structure, it presents the highest free-floating capital of the sample equal to the 85.24% of company share capital. The remaining portion of capital is hold by four entities, mainly represented by financial institutions as well as investment management corporations. All the four entities hold shares for asset management purposes, rather than at ownership title. Indeed, according to such ownership structure it is not possible to clearly identify neither majority nor minority shareholders. In occurrence of board election 2016, the unique list submitted for director' appointment was presented by Timone Fiduciaria S.r.l., a company representing several shareholders participating the Shareholders' Agreement of Azimut Holding S.p.a. and accounting for a total of 13.17% of ordinary shares (Azimut Holding S.p.a. Shareholder meeting Report, 28/04/2016). According to Assonime 2012, the possibility of minority list submission also depends on the presence of qualified ownership percentages, that however, in widely held ownership structures are not easily identifiable.

In relation to the other nine family owned companies submitting a unique slate, the table below provides more detailed information regarding their controlling shareholders and related ownership percentage.

Table 3.3: family owned companies submitting a unique list

Company	Controlling shareholder	Ownership %
ASTM S.p.a.	Aurelia S.r.l.	53.93%
Brunello Cucinelli S.p.a.	Cucinelli Brunello	63.32%
De'Longhi S.p.a.	The Long E trust	62.00%
Diasorin S.p.a.	FINDE SS	44.10%
I.M.A. S.p.a.	Lopam Fin S.p.a.	66.22%
Interpump Group S.p.a.	IPG Holding S.r.l.	26.29%
Juventus FC S.p.a.	Giovanni Agnelli S.a.p.a.	60.00%
Reply S.p.a.	Rizzante Mario	53.55%
Salvatore Ferragamo S.p.a.	Ferragamo Finanziaria S.p.a.	54.71%

In all companies, except for two, controlling shareholders present ownership percentage above 50%, and all above the average controlling ownership percentage of the total sample, equal to 39.04%. It is very frequent in the Italian context that families indirectly control companies through pyramidal structures (Bhaumic and Gregoriou, 2010). In fact, with respect to the analysed subset, family financial holdings assume control in 5 firms, identified in the table below.

Table 3.4: companies submitting a unique list by controlling family

Company	Holding	Related family
ASTM S.p.a.	Aurelia S.r.l.	Gavio
Diasorin S.p.a.	FINDE SS	Denegri
I.M.A. S.p.a.	Lopam Fin S.p.a.	Vacchi
Interpump Group S.p.a.	IPG Holding S.r.l.	Montipò
Salvatore Ferragamo S.p.a.	Ferragamo Finanziaria S.p.a.	Ferragamo

In other three companies, the ultimate owners are individuals: Cucinelli, Agnelli and Rizzante, owners of Brunello Cunicelli S.p.a., Juventus FC S.p.a. and Reply S.p.a., respectively.

For what concerns De'Longhi S.p.a., instead, the ultimate controlling shareholder is a trust, whose beneficiaries are indeed members of the De'Longhi family.

For what concerns minorities, in nine companies the minimal ownership percentage requested by the CONSOB for lists submission was equal to 1%, with the only exception of Juventus FC S.p.a. for which it was equal to 2.5%, given the lower market capitalization. By looking at

companies' ownership structure, it is possible to observe that, in nine companies out of ten, all relevant minorities had the minimum level of ownership percentage requested by article 144-quarter (Regolamento emittenti, CONSOB). Only Salvatore Ferragamo S.p.a. has four minority shareholders holding less than 1% of share capital (between 0.537% and 0.838%), however these minorities are family members, indeed the lacked submission of lists appears to be reasonable, since their interests might be considered in line with the one represented by the controlling shareholder.

Hence, it is possible to say that the lacked submission of minority slates cannot be attributed to the too high ownership percentages requested either by law or company' charters. In fact, in relation to this unique requirement, all company' minorities could have exercised their right.

A possible reason could be attributed to the general discouragement of minorities with respect to strong and large controlling shareholders. It is worth underline that the list preparation and submission do not come at zero costs for shareholders. Hence, it is probable that, by feeling the impossibility of electing their representatives, minorities might choose to not present lists in order to avoid useless costs. Other possible hypothesis could be represented by a more general disregard of minorities: they might be simply not interested in influencing company activities and obtaining a "voice" in the board.

It is also important to underline that, given the absence of lists submitted by minority shareholders, these ten companies have been excluded from the subsequent analysis focusing on candidate individual level. Hence, in order to ensure the possibility of comparing majority and minority candidates' profiles, only the 68 slates presented by the remaining thirty companies were considered.

Chapter 4: Do minority representatives differ?

4.1 Majority and minority candidates' profiles

The examination looks at 462 candidates: 353, accounting for 76% of the total, belong to the majority group, while the remaining 109 are classified as minority candidates. In the following sections, a detail description of candidates' profiles is provided across the main variable of analysis considered.

Information disclosure

Among the total 462 candidates' curricula analysed, 341 were classified as *detailed*, while the remaining 121 as *not detailed*, given the significant lower amount of information disclosed. Generally, detailed curricula are presented in standard formats: either represented by the widespread "Europass", either through formats provided by the company, indeed, in this case equal for all candidates of the list. On the other hand, the undetailed ones were structured as short biographies of few lines, half page or simply as short series of bullet points.

Regarding the majority-minority distinction, the largest portion of majority candidates, accounting to the 67% of the total, submit detailed curricula, while the remaining one-third does not. When considering minority candidates, the 95% provide detailed information, with just 5 candidates submitting non-detailed curricula. Hence, even if in both groups the majority of candidates provide an overall adequate level of personal information, the correct disclosure practice is strikingly higher for minorities, submitting almost only detailed curricula.

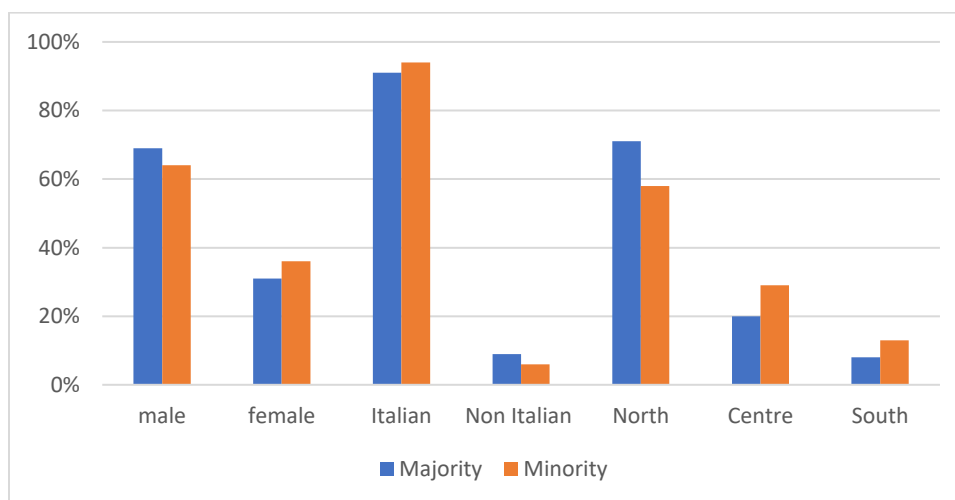
The interesting aspect to notice is that the low level of disclosure tends to coincide with cases of reappointment within the board. In fact, upon the total of 121 non-detailed curricula, 84, accounting for almost the 70%, were submitted by candidates who had already been appointed as directors during the previous board rotation. This relation is definitely a typical pattern for the majority group: of the total 84 undetailed/re-elected curricula, 83 belong to majority candidates. By analysing cases of re-election at a more general level, it is possible to observe that the total number of reappointed directors is equal to 211, hence almost half of the total observations. Moreover, also in this case, reappointment is more frequent for the majority subset: indeed, majority directors reappointed are 182, against the 29 belonging to minorities.

Another crucial link is the one existent between low level of information disclosure and lacked compliance with both types of independent requirements. Hence, out of the total 121 non-detailed curricula, 60 (50%) were submitted by non-independent majority candidates, while only one by a non-independent minority representative. In other words, also the presence of family ties, material business relations with the company, or any other relation that might determine a condition of dependence, are able to influence the level of information disclosure of candidates.

General information

For what concerns the majority pool of candidates, the 69% is male. They have an average age equal to 56.20, computed at the date of list submission. The great majority, about 91%, classify as Italian, indeed only the remaining 9% has a different nationality. With respect to the Italian group of candidates, the greatest portion of 229 individuals, representing the 71%, was born in the North of Italy, while only the 20% and 8% is native of Central and Southern regions respectively. In relation to minorities, it is possible to observe that the 64% of the total 109 candidates is male. They present an average age equal to 54.88 years old. The 94% classify as Italian, of which the 58% is native of North of Italy, while the 29% and 13% comes from Centre and South, respectively.

Figure 4.1: Majority and minority candidates by general information



Source: author's elaboration

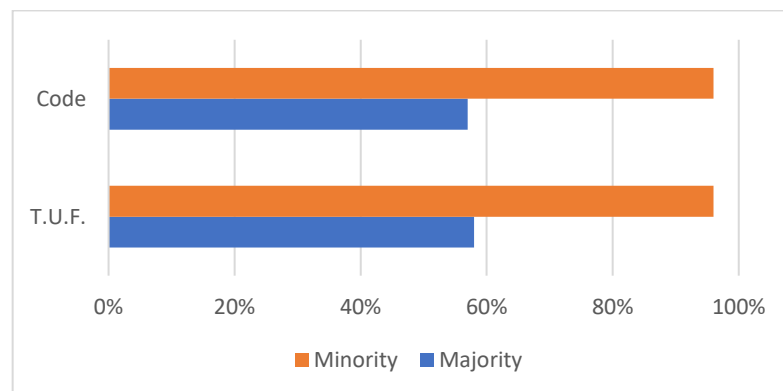
By comparing the two groups, it is quite evident that the overall distribution of candidates is similar: across both groups the majority of candidates is male, Italian and was born in the North of Italy. However, it is still possible to notice slight differences: minorities candidates are slightly more representative of the female gender and of the Italian nationality as well; at the

same time, they also account for higher portion of candidates native of Italian central and southern regions and are on average slightly younger.

Independence

Among the majority group the 58% and 57% of candidates qualify as independent according to the independence requirements provided by the T.U.F. and by the Code respectively. At the same time, almost the total amount of minority candidates, accounting for the 96%, qualify as independent.

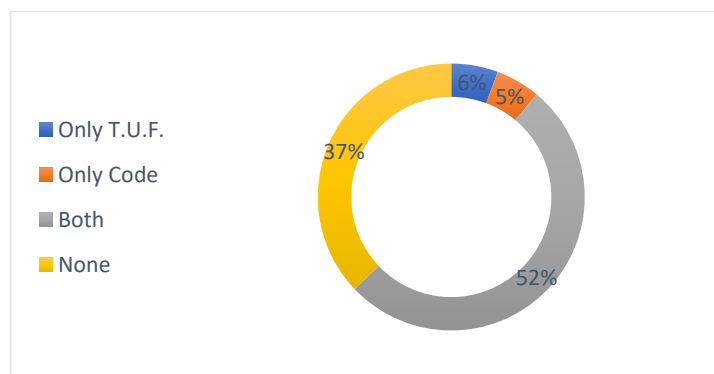
Figure 4.2: minority and majority candidates by independence requirements



Source: author's elaboration

More specifically, 105 minority candidates qualify as independent for both requirements, while only 4 as non-independent for both. In relation to the majority subset, 183 candidates, accounting to almost 52% of the total, comply with both rules, while 131 do not. However, there are also few cases in which candidates qualify as independent only according to one of the two requirements.

Figure 4.3: majority candidates independence distribution

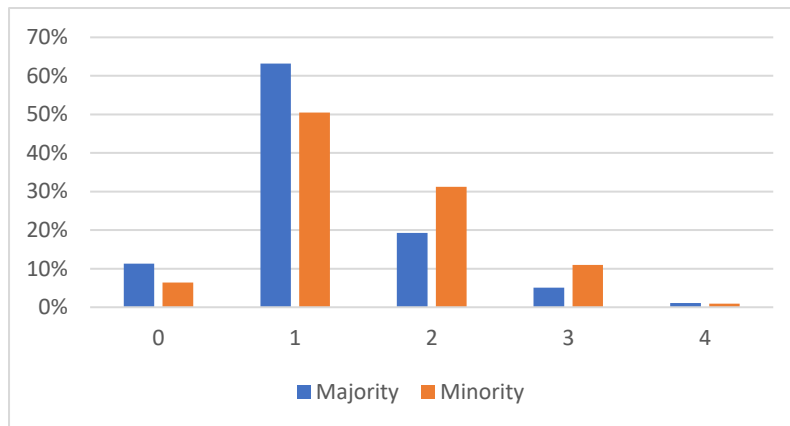


Source: author's elaboration

Education

With respect to education, majority candidates have an average number of qualifications equal to 1.22. The same data is slightly higher for the minority group: indeed, equal to 1.50. The number of qualifications held ranges from 0 to a maximum of 4, for both groups. The figure below shows the distribution of majority and minority candidates by number of qualifications held.

Figure 4.4: majority and minority candidates by number of qualifications

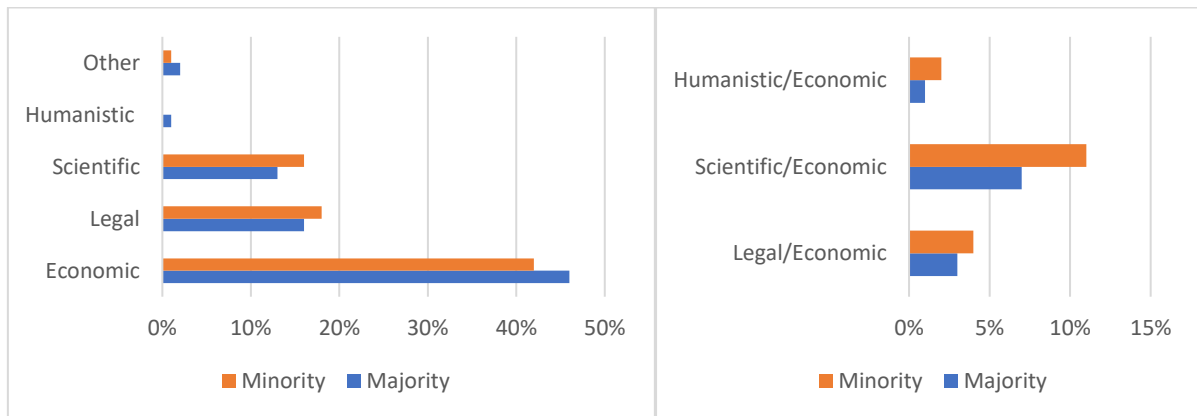


Source: author's elaboration

Once again, the general trend for both the subsets is similar: the greatest portion of candidates (63.2% and 50.5%) hold one title, followed by two titles. At the same time, for both groups, candidates holding four qualifications are rather rare. However, besides the similarities, it is possible to notice that the portion of untitled candidates is clearly higher for the majority group: 11.3% compared with 6.4% of minorities, hence representing almost the double amount. Furthermore, also the fraction of candidates holding three titles is higher for minorities: indeed, justifying their slightly higher average number of qualifications held.

Even in relation to the field of study, minority and majority candidates present a similar trend. In fact, for both groups, the most common background, accounting for more than 40%, is the economic one, encompassing all management and business administration disciplines as well as the areas of political sciences, insurance and risk management. Other frequent fields of studies are law and science: legal studies have been attended by the 16% of majority candidates and by the 18% of minority ones; while scientific disciplines have been studied by the 13% and 16% of majority and minority candidates respectively. While, in both groups, humanistic disciplines and all other subjects, which cannot be classified in the previously cited fields, are the least represented.

Figure 4.5: minority and majority candidates by field of study



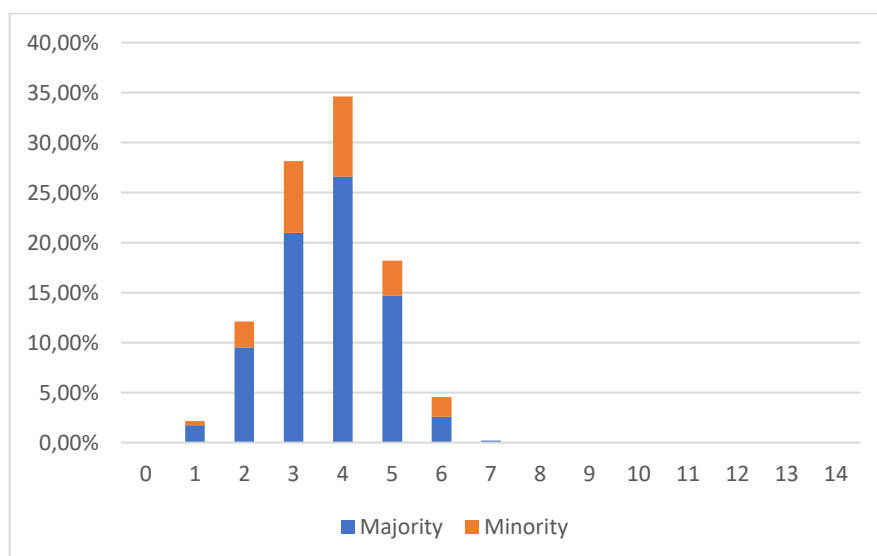
Source: author's elaboration

Moreover, some candidates of either group, holding more than one qualification, have different study backgrounds, indeed classified in three main categories, as reported in the graph above. As clearly shown in the figure, scientific/economic studies accounts for the great portion of both minority and majority candidates holding more than one title.

Skills

The total sample of analysed individuals accounts for 3.69 skills on average, where the maximum number of skills empirically recognized to each candidate is equal to 7, out of the total 14 skills categories. As depicted in the figure above, the greatest portion of both groups of candidates, accounting to almost the 35% of the total owns 4 skills. Only one candidate, belonging to the majority subset, owns 7 skills.

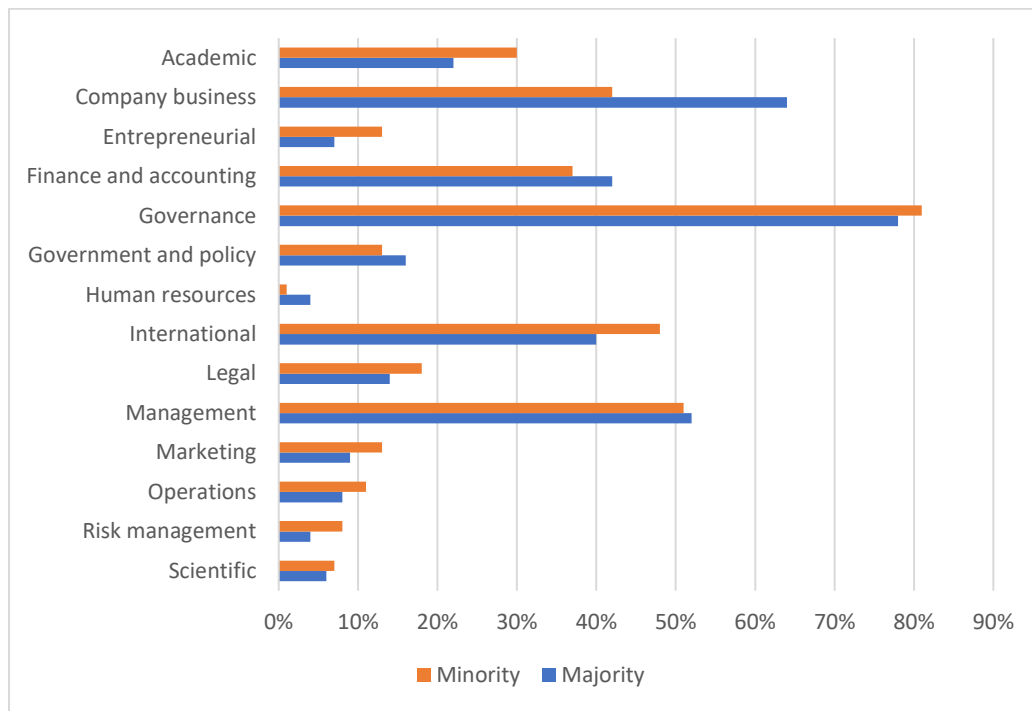
Figure 4.6: percentages of majority and minority candidates by number of skills



Source: author's elaboration

However, the average majority candidate presents 3.67 skills, while the one representative of minorities accounts for a slightly higher average number of skills, equal to 3.73. Among the 14 skills categories, the most relevant for both subsets, even if with a partially different order, are represented by: company business, finance and accounting, governance, international and management.

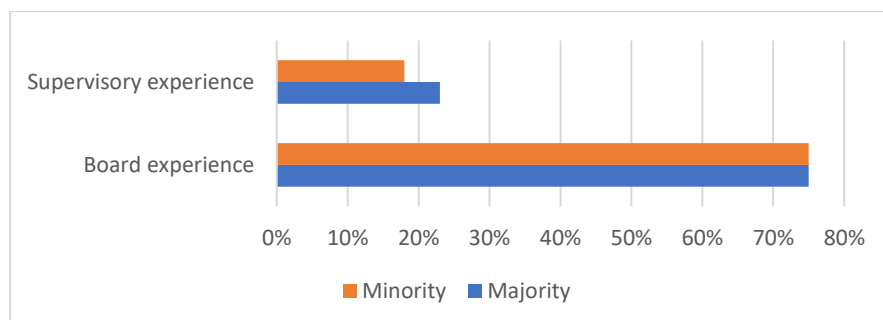
Figure 4.7: minority and majority candidates by skill category



Source: author's elaboration

Particularly, the most significant skill for all candidates is the one of Governance, accounting for the 78% and 81% of majority and minority candidates respectively. Since the Italian jurisdiction recognize two major bodies of corporate governance within companies, this skill can be further decomposed into: board experience and supervisory experience.

Figure 4.8: minority and majority candidates by governance skill



Source: author's elaboration

From the figure above it is evident that a great portion of either minority and majority candidates, accounting to the 75%, has previously joined the board of directors as ordinary or also as executive member (chairman and vice-chairman). Experience as auditors or controller is instead less frequent for both groups.

The widespread experience within board of directors is to some extent confirmed by looking at candidates' current offices in other companies. Firstly, the great majority of both groups of candidates, accounting to 73% and 68% (respectively for majority and minority), hold at least one office in other companies. Particularly, the most spread office type is the one of board member: in both groups the 85% of candidates hold such role.

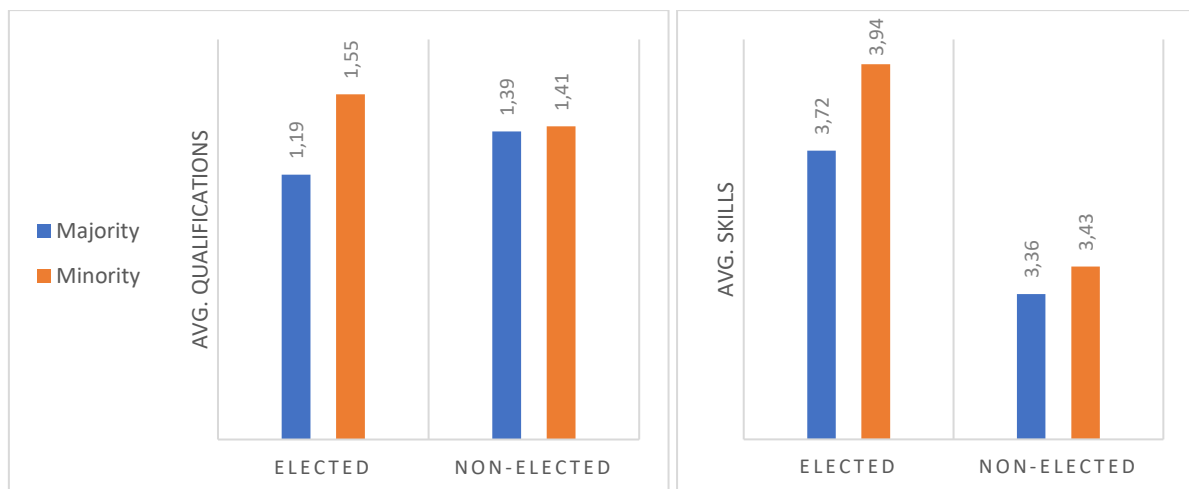
4.2 Elected and non-elected majority and minority candidates

Besides the distinction between majority and minority, candidates might also be classified as elected or non-elected, with respect to board election results.

Out of the total of 462, 374 candidates, accounting for almost the 81%, have been appointed as directors. In relation to majority candidates: 309, accounting for the 88%, were elected on the board, while the remaining portion of 44 (12%) classify as non-elected. At the same time, among the 109 minority candidates, only the 60% is elected.

Considering this further classification of candidates, while no significant variation has been observed in relation to general information and independence, interesting results can be found with respect to candidates' education and skills.

Figure 4.9: average number of qualifications and skills of candidates



Source: author's elaboration

Hence, concerning the level of education, the elected-majority has an average number of qualifications equal to 1.19, slightly lower if compared with the 1.39 of the non-elected majority members. On the other hand, it is possible to observe the inverted trend for the minority subset: indeed, the elected-minority hold an average number of qualifications equal to 1.55, slightly higher than the one of non-elected minorities, amounting to 1.41.

Regarding average skills, instead, for both minority and majority groups, elected candidates can be considered more skilled, accounting for an average number of skills of 3.72 and 3.94, for majority and minority respectively. These numbers are slightly higher if compared with the ones of non-elected candidates, 3.36 and 3.43 for majority and minority respectively.

Even if for both variables the differences are not significant, these results point out that elected candidates of either majority or minority subsets can be considered more skilled. More precisely, minority candidates elected own on average slightly more skills and a higher number of qualifications with respect to the elected-majority group.

4.3 Elected board analysis

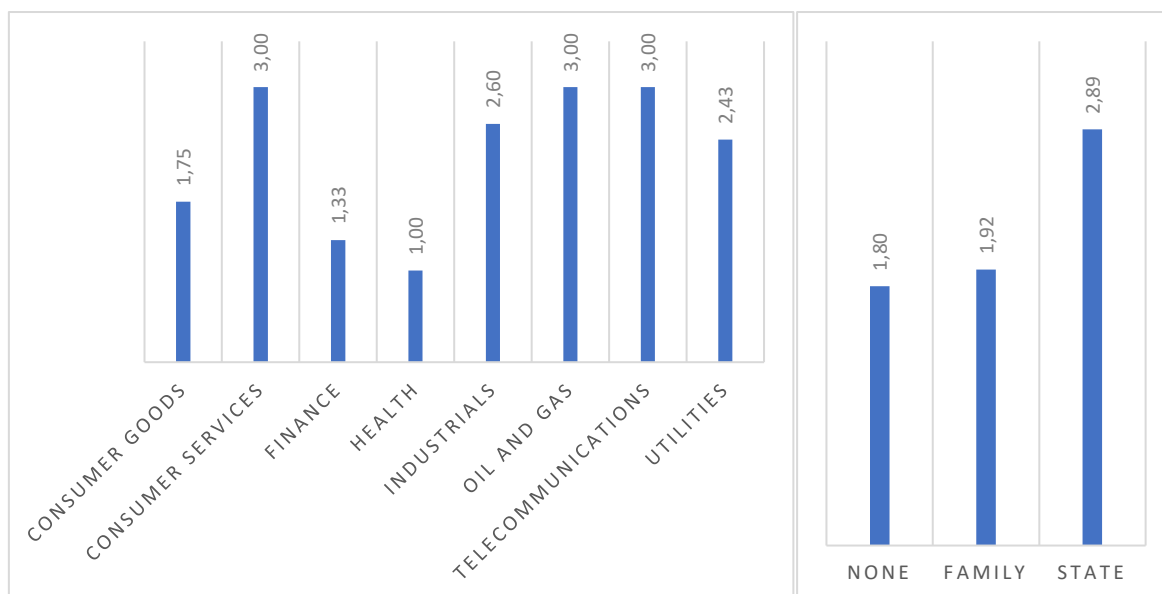
Data regarding single candidates elected from both majority and minority groups can be aggregated at board level for each company. Elected boards have on average 12.47 members. Boards average size also varies across industry, particularly it is higher in financial services corporations (16.17), while lower in all other non-financial sectors (11.54).

On average the 68% of elected directors is male, with an average age equal to almost 54 years. Furthermore the 91% of directors is Italian, mainly native of northern regions. Executive directors, intended as CEO, Chairman and Vice Chairman, are on average 2.63 and are always representatives of majority lists. Furthermore, only in 9 companies out of 30, there is at least one female executive director. On average the 60% of appointed directors qualify as independent, particularly, this data is always confirmed (100%) for minorities.

The average number of directors elected from minority slates is equal to 2.17. It also varies across different industries and in relation to the different ownership structures of companies. Indeed, by looking at the figures below, it is evident that companies operating within consumer services, oil and gas and telecommunications industries tend to appoint on average the highest number of minority directors, indeed equal to 3. At the same time, finance and health sectors appoint the lowest numbers, on average equal to 1.33 and 1 respectively.

This result points out that the election of minority representatives on boards, on average, is not linked with board size. If that was the case, it would have been reasonable to expect a larger number of appointed minority directors in companies characterized by larger boards. However, empirical evidence with respect to the finance sector shows exactly the opposite relation: with an average board size of 16 members, only 1, on average is representative of minorities.

Figure 4.10: average number of minority directors by industry and ultimate owner



Source: author's elaboration

With respect to the most significant types of ultimate owners, Government-held corporations appoint on average the highest number of minority directors. Furthermore, in the great majority of state-owned companies (six out of nine²) both slates, presented by minority and majority shareholders, always appoint all candidates. Hence, the non-elected category is not present for either majority or minority groups. In these cases, it is reasonable to assume that lists are prepared strategically in accordance with company bylaws provisions establishing the optimal number of directors to be appointed.

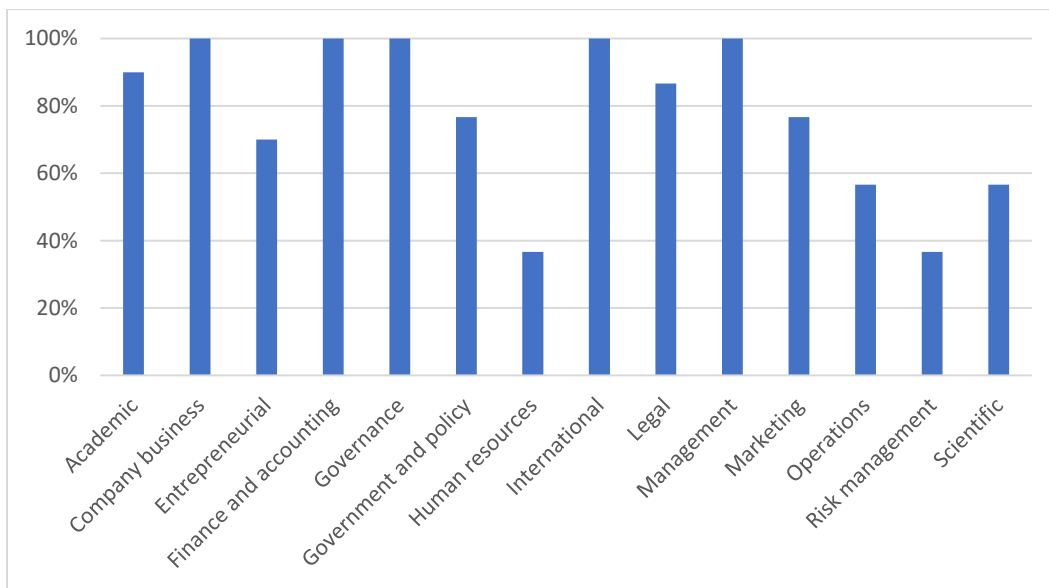
Elected directors own on average 1.28 qualifications, an exactly equal amount to the average number of qualifications owned by the total sample of candidates. Also, for elected boards the most diffused study background across directors is the economic, directly followed by legal and scientific studies.

² Enel S.p.a., Eni S.p.a., Leonardo S.p.a., Saipem S.p.a., Snam S.p.a., Terna S.p.a., all owned by the MEF.

Also, by looking at the distribution of skills across elected boards, it is possible to observe that the most represented skills categories are the ones previously identified for candidates.

Hence, in all elected boards during the period 2014-2016, at least one appointed director has: industry, financial and accounting expertise, international, as well as management and governance experience. While human resources and risk management skills are represented within boards only in the 37% of cases.

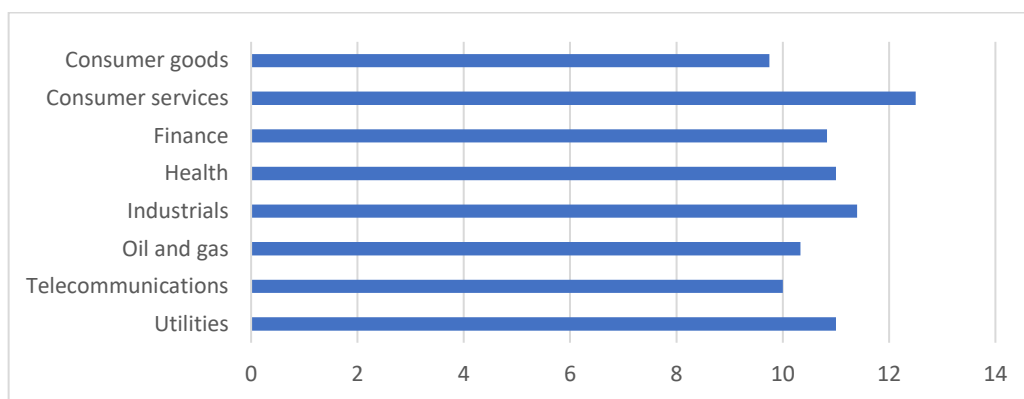
Figure 4.11: skill categories representation by company



Source: author's elaboration

The average skill representation of companies in the sample is equal to 10.87, and it furthermore range from a minimum value of 7 to a maximum of 14, representing the whole set of possible skills identified. Analysing the average skill representation by industry, it is possible to observe that the industry presenting the highest skills average, equal to 12.50, is the one of consumer services, while the opposite holds for the consumer goods sector with a skill average equal to 9.75

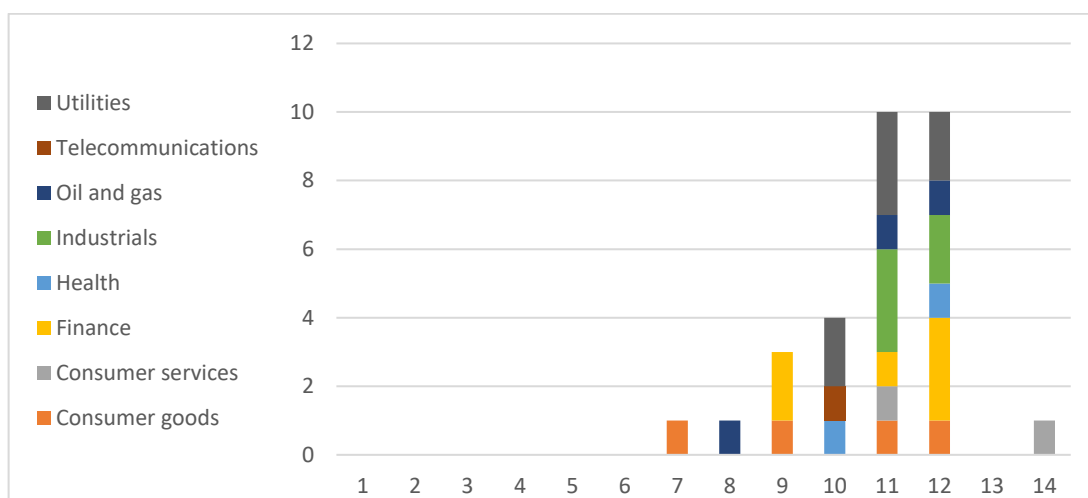
Figure 4.12: average skill representation by industry



Source: author's elaboration

By looking at the distribution of companies by number of represented skills, it is possible to observe that the greatest portion of companies, equal to 20 out of 30, has represented within the board 11 and 12 skills. Only one is representative of all the 14 skill categories and belong to the consumer services industry.

Figure 4.13: number of companies by skill representation and industry



Source: author's elaboration

With respect to elected candidates' average skills, the great majority of boards present elected directors with higher skills both for majority and minority groups. Only in few cases, the elected-majority candidates are characterized by a lower amount of skills, with respect to the non-elected counterparty. In only one company, (Generali Assicurazioni S.p.a.) both non-elected majority and minority candidates present a higher skill average.

4.4 Potential issue: same candidates across more lists

By analysing candidates' profiles, it has been found out that few individuals stand for director offices in several companies. More specifically, across the three-year period analysed, there are 33 individuals³ presented as candidates by more lists: 30 individuals run for the office in two companies, 2 in three, and 1 in four. But why a candidate might be proposed for the same office in more companies?

A possible and straightforward explanation lies in the potential existence of links between companies, as for example a relation of control. By comparing the ownership structures of firms in which candidates are simultaneously proposed, it has been possible to identify twelve cases of such relations. More specifically, in three cases the companies shared the same ultimate owners, in the remaining nine instead, it was possible to identify a relation of "control" either achieved through ownership rights or through shareholder agreements.

Another potential explanation to the recurrence of the same candidates across different companies, could be found by looking at their skills. It is indeed possible that more skilled individuals are presented in more companies given their superior capabilities or expertise. In fact, candidates in more than one company have on average 3.52 skills, slightly higher than the same data representative of the total sample, and equal to 3.10 average skills⁴. At the same time, the same group of candidates hold an average number of qualifications equal to 1.09, indeed lower than 1.28, which represent the average number of titles held by the whole sample of 462 candidates. Hence, it is possible to say that, besides the slightly lower level of education, those candidates are probably considered more expert, particularly almost all appear to be experienced as directors and managers (31 and 24 respectively, out of the total of 33).

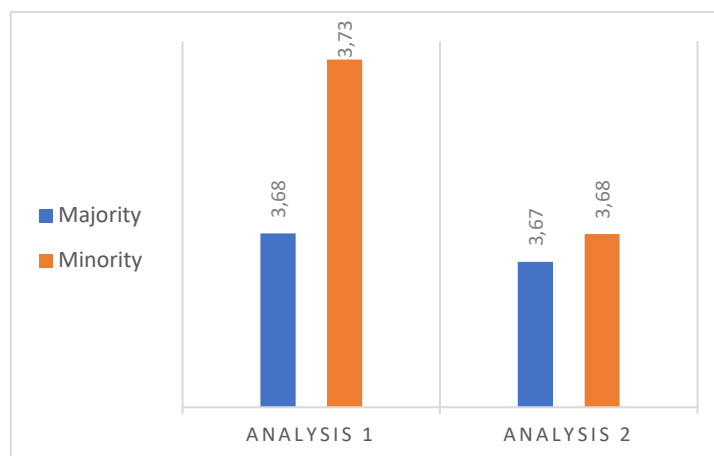
In addition, it is fundamental to underline that, of the 33 candidates simultaneously proposed in several companies, 21 are representative of majorities, while 3 of minorities lists. However, the remaining 9 candidates are representatives of both groups: indeed, proposed in lists submitted either by majority and minority shareholders, across different companies. This means that the same candidate is simultaneously present in the majority and minority group of candidates analysed. In order to ensure consistency of results, the same analysis previously performed has been conducted excluding these nine individuals. In this way, it is possible to avoid double counting the same information regarding the same candidates, thus creating

³ More detailed information regarding candidates and related lists are provided in the appendix (table 3).

⁴ In this case the average number of skills has been computed by excluding the *company business* skill, because it is related and indeed variable according to the specific company.

majority and minority subsets only composed by majority and minority representatives, respectively. Results of this further analysis, mainly with respect to general information, independence and level of information disclosure, are not particularly different from the ones previously described. However, with respect to the level of education and of skills, the general observation is of a further flattening of the already mild differences between minority and majority candidates' profiles.

Figure 4.14: majority and minority average skills across the two analysis



Source: author's elaboration

This slight levelling is mainly driven by minorities, while the values for the majority subset appear more stable. The most significant example is given by the reduction of average skills of minorities from a value of 3.73 to 3.68, which is indeed equal to the average number of skills possessed by majority candidates.

Hence, according to this result, it is possible to say that the nine eliminated candidates' profiles, characterized by a particularly high skills average (4.1), were indeed the one creating, at least for what concern skills level, a slight distinction between the two analysed subsets. Their elimination causes the slight differences to flatten.

4.5 Results discussion

The empirical analysis conducted has pointed out the impossibility to identify significant differences across minority and majority candidate's profiles.

The great majority of candidates, of either the two groups, is more representative of the male gender and of the Italian nationality, with an average age at appointment date ranging between

55-56 years old. Furthermore, only slight and indeed not significant differences are observable with respect to their level of education and average skills possessed.

The overall lack of significant differences across candidates' profiles, particularly with respect to the skill variables, means that the initial assumption according to which minority directors would have brought to the board unique capabilities or higher skills is on average not adequately supported by this empirical analysis. Hence, the introduction of minority slates does not seem beneficial, at least in terms of a diverse skill representation on boards.

However, when considering also the distinction between elected and non-elected candidates' profiles, it seems that on average the most skilled and expert candidates are indeed appointed on boards. Hence, testifying an overall adequate implementation of board election mechanisms, ensuring that directors are appointed on the base of their skills, experiences and other relevant characteristics.

Even if candidates' profiles do not differ significantly across general data, independence, skills and education, an element of more significant variation can be found with respect to the information disclosure variable, in other words, in the level of information candidates provide within their curricula. Particularly, minority candidates, in almost the 100% of cases, provide a higher level of information by submitting detailed curricula able to effectively describe their previous experiences, backgrounds, skills and capabilities. On the other hand, majority candidates, in particular in cases of previous appointment on the same board, or in the cases in which they do not qualify as independent, provide on average fewer information.

The variation in the level of information disclosure represent a potential issue both for the analysis conducted, as well as at a more general level.

With respect to the first point, the inequality of disclosure represents an important finding, but at the same time a potential limitation. If candidates' curricula have not the same structures and do not provide the same types of information, with the same level of details, it becomes extremely difficult to objectively value candidates in relation to their skills and to make then a subsequent reliable comparison, given the initial inequality of data.

At the same time, the variation in the level of disclosure between candidates might represent a potential issue in the context of board election: how is it possible to judge potential directors' skills and expertise if they do not provide the same information, or an equal level of details with respect to the same shared information?

Consequently, the potential issue companies face is to appoint directors considering aspects different from their knowledge and experience. This might cause the risk of excluding candidates, either minority or majority representatives, who could bring value added resources to the board and to the entire company.

In relation to this topic, it could be probably useful to introduce “best practices” or charter provisions able to formalize and address this potential issue. For instance, the introduction of a unique standard format of curriculum or candidate presentation for each company, could partially solve the problem, at least allowing for a comparison across candidates within the same company. Furthermore, there are countries, like USA, which have introduced regulatory measures regarding directors’ information disclosure. More specifically, the 2009 amendment to Regulation S-K requires public companies to describe the reasons why directors have been appointed. More specifically, companies need to “*briefly discuss the specific experience, qualifications, attributes or skills that led to the conclusion that the person should serve as a director*” (Adams et al., 2018). This kind of rule has two major benefits: firstly, it forces companies to appoint their directors on the base of their skills and of value-added resources they can bring to the company, secondly it makes necessary for directors the disclosure of certain specific information in order to be selected as company directors. Hence, it could be reasonable to assume that the implementation of a similar rule would on one hand provide more relevance to directors’ skills in the board election process, and as a consequence, it forces directors to disclose more detailed information in order to be appointed on the board.

Given that no significant differences were found among majority and minority candidates’ profiles, the subsequent step of analysis, regarding the potential effect of those differences on companies’ performance, has not been performed. However, given the extreme relevance of board composition, it would also be interesting to assess potential relations between board composition in terms of skills and performance. In fact, when aggregating data regarding skills at board level, it is possible to observe some elements of variation between the elected and non-elected groups. According to the analysis performed, the skill which has been found to vary most in the elected/non-elected setting is the finance and accounting one. For instance, there are boards in which only few elected directors possess financial and accounting expertise, while the majority of non-elected candidates possess the cited skill. According to this finding, some companies seem renouncing to specific skills of their potential directors. Within this context, further analysis on Italian listed companies could investigate what are the reasons of this choice, as well as the potential impacts and effects in term of economic and financial performance.

Conclusions

Agency problems might be detrimental for firm value and performance, as well as for the overall functioning and development of capital markets. Given the potential negative consequences arising with agency issues, companies and related regulations have always tried to implement and introduce several relief mechanisms. Particularly, the board of directors represents the main governance instrument able to mitigate the agency general issue in all its major declinations. Indeed, it is viewed as the major link between shareholders and management, and when allowing for minority shareholders representation, as a “platform” through which potential conflicts between shareholders might be solved.

Hence, given the extreme relevance of minority representation within boards in providing minorities with the satisfaction and safeguard of their interests, the thesis has been focused on the analysis of the Italian minority representation system, defined as list voting. Considering a sample of 40 Italian listed companies, it has been pointed out that in one-fourth of companies, minorities chose to not submit their slates of candidates. This choice coincides with highly concentrated ownership structures, in which the ultimate owners are identified with individuals or families, owning in most cases more than 50% of companies’ ordinary shares. Hence, it is possible to underline a negative relation between minority shareholder activism and controlling ownership: the higher the controlling owners’ power, the lower the minority interests in actively participate and influence the board activities.

Moving from the starting assumptions that minority representation is fundamental to reduce agency costs, and that it can also enhance board diversity, the scope of the thesis was to assess whether minority shareholders representatives, hence potential minority directors, differ from majority ones. The comparison between the two pools of candidates, shaped across several variables (gender, age, nationality, level and background of education, and skills possessed), has not pointed out significant differences.

Even though minority candidates are not found to be “diverse” with respect to their profiles, they significantly differ in relation to the level of information disclosed within their presentations and curricula. Minority candidates always provide detailed information regarding their general data, study and work background, current positions, skills and capabilities developed. While, majority candidates, in particular in cases of non-independence or of re-appointment, only provide few and general information. This finding, even if not directly connected with the research question, points out the potential need of company measures which

might implement a more equal disclosure of candidates' information, hence making possible a more direct comparison across candidates' profiles, at least within the same company.

Appendix

Table 1: final sample

Company	Market index	Market capitalization	Industry
a2a S.p.a.	FTSE MIB	5.340.000	Utilities
Acea S.p.a.	FTSE Mid Cap	3.970.000	Utilities
Amplifon S.p.a.	FTSE MIB	5.960.000	Health
Astm S.p.a.	FTSE Mid Cap	2.540.000	Industrials
Atlantia S.p.a.	FTSE MIB	17.530.000	Industrials
Autogrill S.p.a.	FTSE Mid Cap	2.390.000	Consumer services
Azimut Holding S.p.a.	FTSE MIB	3.330.000	Finance
Banca Generali S.p.a.	FTSE Mid Cap	3.490.000	Finance
Brembo S.p.a.	FTSE Mid Cap	3.650.000	Consumer goods
Brunello Cucinelli S.p.a.	FTSE Mid Cap	2.210.000	Consumer goods
Buzzi Unicem S.p.a.	FTSE MIB	4.460.000	Industrials
Campari S.p.a.	FTSE MIB	9.420.000	Consumer goods
Diasorin S.p.a.	FTSE MIB	6.450.000	Health
De' Longhi S.p.a.	FTSE Mid Cap	2.790.000	Consumer goods
Enel S.p.a.	FTSE MIB	75.800.000	Utilities
Eni S.p.a.	FTSE MIB	50.780.000	Oil and Gas
Erg S.p.a.	FTSE Mid Cap	2.860.000	Utilities
Generali Assicurazioni S.p.a.	FTSE MIB	29.230.000	Finance
Hera S.p.a.	FTSE MIB	5.670.000	Utilities
I.M.A. S.p.a.	FTSE Mid Cap	2.580.000	Industrials
Interpump Group S.p.a.	FTSE Mid Cap	2.870.000	Industrials
Iren S.p.a.	FTSE Mid Cap	3.680.000	Utilities
Juventus FC S.p.a.	FTSE MIB	1.680.000	Consumer services
Leonardo S.p.a.	FTSE MIB	6.490.000	Industrials
Mediaset S.p.a.	FTSE Mid Cap	3.050.000	Consumer services
Mediobanca S.p.a.	FTSE MIB	8.640.000	Finance
Moncler S.p.a.	FTSE MIB	10.340.000	Consumer goods
Pirelli & C S.p.a.	FTSE MIB	5.310.000	Consumer goods
Prysmian S.p.a.	FTSE MIB	5.650.000	Industrials
Recordati S.p.a.	FTSE MIB	7.960.000	Health
Reply S.p.a.	FTSE Mid Cap	2.680.000	Technology
Saipem S.p.a.	FTSE MIB	4.410.000	Oil and Gas
Salvatore Ferragamo S.p.a.	FTSE MIB	3.230.000	Consumer goods
Sias S.p.a.	FTSE Mid Cap	3.490.000	Industrials
Snam S.p.a.	FTSE MIB	17.750.000	Oil and Gas
Telecom Italia S.p.a.	FTSE MIB	11.060.000	Telecommunications
Terna-Rete Elettrica Nazionale S.p.a.	FTSE MIB	12.220.000	Utilities
Unicredit S.p.a.	FTSE MIB	30.040.000	Finance
Unipol S.p.a.	FTSE MIB	3.640.000	Finance
Unipol Sai S.p.a.	FTSE MIB	7.120.000	Finance

Table 2: FTSE MIB excluded companies

Reason for exclusion	Company
Not incorporated in Italy	Cnh Industrial N.V., Exor N.V., Ferrari N.V., Fiat Chrysler Automobiles N.V., STMicroelectronics N.V., Tenaris S.A.
Data unavailability	Banco Bpm S.p.a., Finecobank S.p.a., Nexi S.p.a., Poste Italiane S.p.a.
One-tier system	Intesa Sanpaolo S.p.a., Ubi Banca S.p.a.
M&A and restructuring activities	BPER Banca S.p.a., Italgas S.p.a.

N.V. (*naamloze vennootschap*) companies are incorporated in the Netherlands and basically represents the equivalent of the Italian S.p.a. The S.A. typology, is an autonomous society, incorporated in Luxembourg.

Banco BPM S.p.a. was created in 2017, while FinecoBank S.p.a., Poste Italiane S.p.a. and Nexi S.p.a. were admitted to the Stock exchange in 2014, 2015 and 2019 respectively.

At the same time, BPER Banca only became an S.p.a. at the end of 2016 and Italgas S.p.a. during the same period was subject to a spin-off.

Table 3: candidates in more than one company

Name	Surname	Company			
Tarak Ben	Ammar	Mediobanca S.p.a.	Telecom S.p.a.		
Gilberto	Benetton	Atlantia S.p.a.	Autogrill S.p.a.	Mediobanca S.p.a.	
Francesco	Berardini	Unipol S.p.a.	Unipol Sai S.p.a.		
Sabrina	Bruno	Snam S.p.a.	Unipol Sai S.p.a.		
Lucia	Calvosa	Telecom S.p.a.	Unipol Sai S.p.a.		
Stefano	Cao	a2a S.p.a.	Saipem S.p.a.		
Maria Elena	Cappello	a2a S.p.a.	Prysmian S.p.a.	Saipem S.p.a.	Telecom S.p.a.
Michaela	Castelli	a2a S.p.a.	Recordati S.p.a.		
Paolo	Cattabiani	Unipol S.p.a.	Unipol Sai S.p.a.		
Giovanni	Cavallini	Brembo S.p.a.	Campari S.p.a.		
Fabio	Cerchiai	Atlantia S.p.a.	Unipol Sai S.p.a.		
Carlo	Cimbri	Unipol S.p.a.	Unipol Sai S.p.a.		
Ernesto	Dalle Rive	Unipol S.p.a.	Unipol Sai S.p.a.		
Maurizio	Dattilo	Generali Ass. S.p.a.	Telecom S.p.a.		
Luigi	De Paoli	a2a S.p.a.	Unipol Sai S.p.a.		
Monica	De Virgiliis	Prysmian S.p.a.	Snam S.p.a.		
Paolo	Di Benedetto	Acea S.p.a.	Generali Ass. S.p.a.		
Philippe	Donnet	Banca Generali S.p.a.	Generali Ass. S.p.a.		
Laura	Donnini	Amplifon S.p.a.	Moncler S.p.a.		
Giovanna	Dossena	Brembo S.p.a.	Mediaset S.p.a.		
Gabriele	Galateri di Genola	Generali Ass. S.p.a.	Moncler S.p.a.		
Maria Patrizia	Grieco	Amplifon S.p.a.	Enel S.p.a.		
Massimo	Lapucci	Atlantia S.p.a.	Banca Generali S.p.a.		
Elisabetta	Magistretti	Mediobanca S.p.a.	Pirelli & C. S.p.a.		
Silvia	Merlo	Erg S.p.a.	Leonardo S.p.a.		
Gianni	Mion	Atlantia S.p.a.	Autogrill S.p.a.		
Diva	Moriani	Eni S.p.a.	Generali Ass. S.p.a.	Moncler S.p.a.	
Nicla	Picchi	Saipem S.p.a.	Unipol Sai S.p.a.		
Paolo	Pietrogrande	Iren S.p.a.	Pirelli & C. S.p.a.		
Paolo	Roverato	Atlantia S.p.a.	Autogrill S.p.a.		
Pierluigi	Stefanini	Unipol S.p.a.	Unipol Sai S.p.a.		
Giovanni	Tamburi	Amplifon S.p.a.	Prysmian S.p.a.		
Marco	Tronchetti Provera	Mediobanca S.p.a.	Pirelli & C. S.p.a.		

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