Independent directors and governance ratings: evidence from Italian listed companies.
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Abstract
In recent years, studies into the role played by independent directors and diversity on boards have been increasing in corporate governance literature. Simultaneously, a new stream of research has examined the usefulness of commercial corporate governance ratings. FTSE International Limited (FTSE) has created the FTSE ECPI Italia SRI Benchmark Index, composed of ordinary stocks issued by Italian companies demonstrating good environmental, social and governance practices.

The aim of this paper is to test whether corporate governance quality variables, such as board diversity and the role of independent directors, have an impact on the judgment expressed by the ECPI in the FTSE Index. Basing our research on the 2013 Company Report on corporate governance, we consider more than 100 Italian listed companies belonging to different industries (financial and non-financial sectors) and we collect information on independent directors and board diversity referring to year-end 2012. Our results show that board diversity has no impact on the FTSE judgment; company size, the number of main shareholders and the number of directors have a positive influence on the FTSE rating, whereas the number of majority shareholders has a negative one. Furthermore, our results confirm the importance of independent directors with reference to the judgment expressed by the FTSE. Our study expands the existing literature on the topic by distinguishing between the directors independent in accordance with the Corporate Governance Code and those independent in accordance with Legislative Decree no. 58, 1998, revealing a surprising and contradictory result: the former seem to have a positive impact on the FTSE rating at year-end 2012, while the latter seem to have a negative impact.

1. Introduction
Policymakers in several countries have turned their attention to independent directors and board diversity as important elements of legal and policy reform in the field of corporate governance. For example, in the United States, the New York Stock Exchange (NYSE) Listing Standards require that independent directors constitute a board majority in domestic companies. In Italy, the importance of independent directors, and of independent statutory auditors, has been established by law (article 147-ter and article 148 of the Legislative Degree no. 58 of 24 February 1998) and by the Corporate Governance Code (the ‘Code’) for listed companies. According to the Consob annual report on corporate governance, independent directors are quite widespread across companies (42.6% of total board members). As a consequence, Italian listed companies’ boards are now much more diverse than they used to be (Consob, 2013). Furthermore, in recent years institutional investors have increasingly engaged in corporate governance activities and attached great importance to the role and quality of independent directors on the board. For all of these reasons, focus on the role played by independent directors within boards is increasing in studies on corporate governance. More recently studies on corporate governance also consider board diversity, i.e. the differences in board composition due to nationality, education, age and gender.

Simultaneously, a new stream of research deals with the usefulness of commercial corporate governance ratings. The corporate governance industry has been expanding rapidly during recent years, and according to Rose (2007), in the U. S. market it influences the votes of trillions of dollars’ worth of equity and affects the governance policies and fortunes of thousands of companies through proxy voting recommendations and governance ratings. For this reason, firms such as Governance Metrics International (GMI), Institutional Shareholder Services (ISS), and Standard & Poor’s (S&P) have created some corporate governance evaluation models. Unfortunately, the Italian listed companies covered by these ratings are very few. The FTSE ECPI Italia SRI Index Series is a specific index designed for the Italian market by FTSE International Limited (FTSE), wholly owned
by the London Stock Exchange Group. It was designed to create a family of benchmark and tradable sustainable and responsible indices (SRI) for the Italian market, tracking the performance of companies following leading environmental, social and governance (ESG) practices.

The aim of this paper is to test whether having independent directors and board diversity, which are variables attributable to corporate governance quality, though not considered in the FTSE ECPI judgment, (indirectly) have an impact on the judgment expressed by the ECPI in the FTSE ECPI Italia SRI Benchmark Index. Based on the 2013 Company’s Report on corporate governance, we created a database which includes more than 100 Italian listed companies belonging to different industries (financial and non-financial sectors), collecting several items of information on independent directors and board diversity referring to year-end 2012.

The paper is organized as follows: Section 2 presents a brief review of the main literature on the role of independent directors in corporate governance and board diversity; Section 3 illustrates our data and methodology; Section 4 shows the main results and Section 5 concludes.

2. Literature review

The role of independent directors has become a recurring issue in studies on corporate governance. Fama and Jensen (1983) argue that independent directors are in a better position to perform a critical monitoring function and thus mitigate agency conflicts between management and shareholders. Other studies (Weisbach, 1988; Linck et al., 2009) argue that independent directors have incentives to signal their reputation and managerial competence to the market.

Within the board of directors, individuals develop and strengthen interpersonal interactions both in formal and informal group settings (Harris and Helfat, 2007). Independent directors develop and solidify their friendship or social ties with management as their tenure on the board increases. Kesner et al. (1986), Wade et al. (1990), and Boeker and Goodstein (1993) argue that independent
directors with long tenure are potentially more likely to ratify management decisions that could compromise the interests of shareholders. Vafeas (2003a) argues that independent directors with longer tenure, particularly 15 years and more, compromise shareholder interests by ratifying higher CEO compensation under unwarranted circumstances.


The role of independent directors has also been taken into consideration with reference to multiple directorships. Masulis and Mobbs (2013) show that directors with multiple directorships distribute their effort unequally, based on the directorship’s relative prestige. Carpenter and Westphal (2001) argue that because busy independent directors are stretched too thin, their limited information processing capacity could induce information overload. Consequently, busy directors may experience negative socio-cognitive externalities from their other directorships, leading to ineffective monitoring of management. Ferris et al. (2003) label this as the ‘busyness hypothesis’.

Stein and Plaza (2011) examine the role played by the independent director in the supervision and turnover of the chief corporate executive (CEO). They argue that companies with a larger number of independent directors are more likely to replace the CEO when performance is not as expected. They also argue that this situation can only arise if independent directors enjoy effective independence.

Fahlenbrach, Low and Stulz (2010) find evidence for the fact that independent directors are more likely to relinquish their directorships prior to poor performance, which the authors interpret as an effort to protect their reputation.
Knyazeva, Knyazeva and Masulis (2013) demonstrate the strong impact of the local director labor market on board composition. Specifically, they show that proximity to larger pools of local director talent leads to more independent boards for all but the largest quartile of S&P1500. Using local director pools as an instrument for board independence, they show that board independence has a positive effect on firm value, operating performance and CEO-fraction of incentive-based pay and turnover. Moreover, they find that directors are willing to travel greater distances from their home offices to serve as independent directors of larger firms. The authors argue that the primary reason for their finding is that directorship reputation benefits rise with firm size. Rubin and Segal (2013) examine the relationship between CEO skill and firm size, introducing a new measure of director skill which is based on the aggregate size of firms on which the individual serves as an independent director. Specifically, they argue that directors are officers of the firm whose main responsibilities are to monitor and advise management; they then conjecture that firm size is not only a measure of managerial ability but also of an independent director’s ability, hence independent directors of large firms have better monitoring skills than those of small firms.

Other studies, such as that by Guthrie, Sokolowsky and Wan (2012), cast doubts on the effectiveness of independent directors in constraining CEO pay as suggested by the managerial power hypothesis (Bebcuck et al., 2002). Karmel (2013) suggests that director competency may be more important than director independence. The author supports this conclusion considering, among other factors, that independent directors are part-time participants in a corporation’s affairs, so they do not have the time or the mandate to challenge management’s judgments except as to a discrete number of issues. For this reason, according to this author independent directors are completely beholden to management for information and are therefore less efficient than insiders.

However, the independence of directors is not the only variable to consider in order to explain a company’s performance or firm value creation or, in general, a good corporate rating. The literature also includes studies of the impact of “board diversity”, i.e. the differences in board composition in
terms of nationality, education, age and gender, but the results are contradictory. Erhardt et al. (2003), Adams and Ferreira (2009), and Luckerath-Rovers (2010) demonstrate a positive relationship between board diversity and accounting performance as measured by balance sheet ratios such as ROA, ROE or ROI. Francoeur et al. (2008) and Darmadi (2011) find a negative relationship between the same variables. Adams and Ferreira (2009) in particular find a positive relationship between the presence of women on boards and firm value. According to Dobbin and Jung (2011), an increase in the number of women on boards has no effect on subsequent profitability, but is followed by a significant decrease in stock value. Carter et al. (2010) examine the relationship between the number of women directors and the number of ethnic minority directors on the board and important board committees, and financial performance as measured by ROA and Tobin’s Q. They do not find a significant relationship between the gender or ethnic diversity of the board or important board committees and financial performance for a sample of major US corporations.

3. The FTSE ECPI Italia SRI Benchmark Index and our test hypotheses

Hitz and Lehmann (2013), using a dataset of UK and German firms, show the usefulness of commercial corporate governance ratings to investors. In particular they find a positive and significant association between ISS ratings and firm value; in addition they measure the incremental usefulness of the commercial rating compared to the underlying publicly-available governance data and find a non-significant coefficient in the firm value regressions.

ECPI has been a leading independent provider of sustainability research since 1997. ECPI research is conducted according to the industry-recognised parameters of ESG, i.e. Environmental risk, Social impact, and Corporate Governance structure. With reference to the Corporate Governance profile, ECPI declares that it takes into consideration “*spin-off, stock mergers, capital repayments, new rights issues and corporate events that result in free float changes*”. Based on this declaration,
we are able to affirm that board composition variables such as diversity and gender or the role of independent directors are not taken in consideration. ECPI periodically analyzes the public documents of the top 100 companies listed on the Italian market, assigning a rating over a scale of nine levels between F and EEE. The FTSE ECPI Italia SRI Index Series consists of two indices:

- the FTSE ECPI Italia SRI Leaders, composed of a basket of selected Italian companies that demonstrate excellent ESG characteristics, including only stocks with an ECPI rating of "EE" or higher. In order to ensure the same exposure to all the companies considered, the index is equally weighted;

- the FTSE ECPI Italia SRI Benchmark Index, a broad benchmark composed of ordinary stocks issued by companies that demonstrate good ESG practice. The universe of eligible constituents is large and mid-cap constituents from the FTSE Italia All-Share Index that pass free float and liquidity criteria.

The FTSE ECPI Italia SRI Benchmark Index inclusion criteria measure the quality of a company’s environmental and social performance and corporate governance structure through a series of measures in these areas: i) environmental strategy and policy; ii) environmental management; iii) production process (industry-specific); iv) products (industry-specific); v) social employees and human capital; vi) community relations; vii) markets; viii) corporate governance and shareholders. All eligible companies receive one of nine ESG rankings from EEE (maximum) to F (minimum). All companies ranked E+ and above are included. In this way, each company included in the index obtains a rating expressed as “Good” (rating E+ and above) or “Not Good” (under E+). The index is weighted according to free-float adjusted market-cap and is also capped to reduce the concentration of large constituents.

The FTSE ECPI Italia SRI Index Series is based on UCITS-compliant methodology; thus the indices provide a suitable benchmarking of funds and ETFs and are used to develop structured products. However, this index series is not particularly well known in the Italian market because no mass products with this benchmark have been created. On the other hand, FTSE ECPI is an index
provided by FONDAPPI, the Italian pension fund for employees of small/mid-sized companies; Alceda Fund Management S.A. Luxemburg has created a mutual fund with FTSE ECPI Italia SRI as a benchmark; other asset managers interviewed by us affirm that they know of the existence of the FTSE ECPI Italia SRI Index Series and that the judgment expressed by FTSE on Italian listed companies could be taken into consideration in general, like other decision-making variables.

We acquired the list of the Italian listed companies included in the FTSE ECPI Italia SRI Benchmark Index directly from FTSE; they are thus companies that obtained a rating of E+ and above from ECPI. In this way we acquired the judgment (“Good” and “Not Good”) that has guided the inclusion or exclusion of companies surveyed by the index itself.

From this perspective, our study tests the impact of some variables related to board diversity, firm’s size, board size and composition, on the FTSE rating.

We test the following hypotheses:

H₁: the FTSE ECPI rating is positively influenced by the percentage of independent directors on the board and by independence effectiveness, as expressed by compliance with the Corporate Governance Code.

H₂: the FTSE ECPI rating is positively influenced by the educational diversification of board members.

H₃: the FTSE ECPI rating is positively influenced by the international experience of independent board members.

H₄: the FTSE ECPI rating is positively influenced by the percentage of women serving on the board.

H₅: the FTSE ECPI rating is negatively influenced by the average number of other offices held by board members.

H₆: the FTSE ECPI rating is positively influenced by the size of the company.

² Invesco and Blackrock
H7: the FTSE ECPI rating is influenced by the weight of the main shareholder.

H8: the FTSE ECPI rating is influenced by the weight of the presence of several majority shareholders.

H9: the FTSE ECPI rating is influenced by the board size.

4. Data and methodology

The sample we used in this study consists of more than 100 Italian listed companies belonging to different segments of the market. Specifically, the database was created considering: i) 38 companies from the FTSE MIB, the index comprising the 40 most liquid and capitalized stocks listed on Borsa Italiana's (BIT) MTA. These companies capture approximately 80% of the domestic market capitalization; ii) 63 companies from the STAR segment. Companies are admitted to STAR if they present a capitalization of at least 40 million euros, a free float of at least 35% and specific and more rigorous corporate governance requirements; iii) 27 companies from BIT’s other segment.

BIT assigns a specific sector to each listed company; we included 4 different macro-sectors (consumer goods and services, finance, industrial and public service) in our database.

For each company we analysed the corporate governance annual report published in 2013 and reporting data on 2012, and we gathered information about a) the number and the gender of each director and of each statutory auditor; b) the directors’ and the statutory auditors’ international

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3 Two companies are not considered because they have not published their Corporate Governance Annual Report.

4 “Companies are admitted to MTA on the basis of both formal and substantial requirements. Among the formal requirements, a capitalization of at least of 40 million euros and a free float of at least of 25% (35% in the case of STAR companies) are required. The substantial requirements also include having a sound and clear strategy, a good competitive advantage, a balanced financial structure, the management autonomy and all of the aspects which contribute to improving the company’s ability to create value for the investors. The adoption of the Codice di Autodisciplina (Corporate Governance Code) is recommended to all companies listed on MTA on a “comply or explain” basis. STAR companies are requested to comply with specific governance requirements.”

Source: www.borsaitaliana.it

5 The corporate governance rules require the appointment of independent directors, the existence of an internal control committee composed of a majority of the latter, and an incentive remuneration system for directors and top managers.

www.borsaitaliana.it
expertise, considering their careers abroad; c) the directors’ and the statutory auditors’ independence (or not) in accordance with law or the Code; d) the total number of directors’ and statutory auditors’ offices in other companies. Our database includes 1,468 observations, attributable to more than 100 Italian listed companies.

The dependent variable used in our research is the rating “Good” or “Not Good” attributed by FTSE to the listed companies on the BIt market. 34 Italian listed companies included in our sample obtained the FTSE rating “Good”, 4 from the STAR segment, 26 from MIB and 4 from other segments. This check led us to insert the control variable ‘MKT’ in the model. Based on the assumption that companies included in the STAR segment have specific and rigorous corporate governance requirements, we wanted to test the connection between the FTSE judgment and the STAR companies. The small number of FTSE-rated “Good” Star companies led us to insert another control variable in the model, ‘MACROSECTOR’. Table 1 shows the sample companies’ distribution among the 4 MACROSECTORs identified, considering the segment of the market they are from and the FTSE “Good” rating.

Table 1 –distribution of sample companies by MACROSECTOR

<table>
<thead>
<tr>
<th>MACROSECTOR</th>
<th>MIB</th>
<th>STAR</th>
<th>OTHER</th>
<th>FTSE “GOOD”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Goods and</td>
<td>10</td>
<td>14</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>12</td>
<td>7</td>
<td>23</td>
<td>13</td>
</tr>
<tr>
<td>Industrail</td>
<td>7</td>
<td>27</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Public Service</td>
<td>9</td>
<td>15</td>
<td>0</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: data elaborated by the authors

Table 1 reveals that FTSE “Good” Italian listed companies are found in each MACROSECTOR but are predominant in the Financial Sector. For this reason, we consider MACROSECTOR a complementary control variable, together with MKT, in our aim to capture any link between the FTSE rating and the macrosector the examined companies belong to.
We consider the FTSE rating for the Italian stocks at the end of 2012 as a dependent variable. As the FTSE rating is dichotomous, a logit regression was used as follows:

\[
FTSE\_RATING = \alpha_1 + \gamma \sum_{j=1}^{4} MACROSECTOR_j + \beta_1 SIZE + \beta_2 \sum_{i=1}^{3} MKT_i + \beta_3 INT\_EXP + \beta_4 OTHER\_OFFICE + \beta_5 W\_IND\_CODE + \beta_6 W\_IND\_LAW + \beta_7 W\_WOMEN + \beta_8 AVG\_AGE + \beta_9 EDUCAT\_DIV + \beta_{10} N\_MEETINGBOARD + \beta_{11} DURAT\_MEETINGBOARD + \beta_{12} W\_MAINSHAREHOLDER + \beta_{13} W\_MAJORITYSHAREHOLDERS + \beta_{14} N\_DIRECTORS + \varepsilon \quad (1)
\]

where FTSE\_RATING is the judgment “Good” or “Not Good” expressed by FTSE for Italian listed companies included in our database, \(\alpha_1\) is a constant, MACROSECTOR indicates the four macro-sectors the companies examined belong to (respectively, consumer goods and services, finance, industrial and public service), SIZE is the logarithm of the total assets for each company at the year-end 2012, while MKT is the segment of market (MIB, STAR or other) the companies belong to; INT\_EXP expresses the presence or absence of international experience among the members of the board calculated as the mean, examining the curricula of each member, OTHER\_OFFICE is the total number of other offices for each member of the board, W\_IND\_CODE is the percentage of independent directors in accordance with the Code on the board, W\_IND\_LAW is the percentage of independent directors in accordance with the law on the board, W\_WOMEN is the percentage of women on the board, AVG\_AGE is the average age of the board, EDUCAT\_DIV indicates educational diversification calculated using the Herfindahl-Hirschman Index\(^6\), N\_MEETINGBOARD is the number of meetings of the board during the year 2012, DURAT\_MEETINGBOARD is the total duration (expressed in hours) of the total board meetings.

\(^{6}\) The HHI is designed to measure industry concentration. The US Department of Justice associates the following threshold values with the HHI for particular use: an HHI below 1,000 signals a low concentration, while one above 1,800 signals a high concentration; an index between 1,000 and 1,800 shows a moderate concentration.
during the year 2012, W_MAINSHAREHOLDER is the percentage held by the main shareholder for each company at the year-end 2012, W_MAJORITYSHAREHOLDERS is the percentage of shareholders holding at least 2% of the company’s capital and N_DIRECTORS is the number of directors for each company.

Table 2 summarizes the descriptive statistics of the variables used in the analysis of the sample and indicates the expected results.

Table 2 – Descriptive statistics and expected results

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
<th>General expected results</th>
</tr>
</thead>
<tbody>
<tr>
<td>MACROSECTOR1</td>
<td>0.1875</td>
<td>0.3918</td>
<td>0</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>MACROSECTOR2</td>
<td>0.3281</td>
<td>0.4713</td>
<td>0</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>MACROSECTOR3</td>
<td>0.2969</td>
<td>0.4587</td>
<td>0</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>MACROSECTOR4</td>
<td>0.1875</td>
<td>0.3918</td>
<td>0</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>SIZE</td>
<td>13.5994</td>
<td>2.7786</td>
<td>3.8286</td>
<td>20.6473</td>
<td>Positive</td>
</tr>
<tr>
<td>MKT1</td>
<td>0.2968</td>
<td>0.4586</td>
<td>0</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>MKT2</td>
<td>0.4921</td>
<td>0.5019</td>
<td>0</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>MKT3</td>
<td>0.2109</td>
<td>0.4095</td>
<td>0</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>INT_EXP</td>
<td>0.0625</td>
<td>0.2430</td>
<td>0</td>
<td>1</td>
<td>Positive</td>
</tr>
<tr>
<td>OTHER_OFFICE</td>
<td>4.3163</td>
<td>2.7880</td>
<td>0.1</td>
<td>20</td>
<td>Negative</td>
</tr>
<tr>
<td>W_IND_CODE</td>
<td>0.4346</td>
<td>0.1526</td>
<td>0.2</td>
<td>0.875</td>
<td>Positive</td>
</tr>
<tr>
<td>W_IND_LAW</td>
<td>0.2257</td>
<td>0.6594</td>
<td>0</td>
<td>0.3809</td>
<td>Positive</td>
</tr>
<tr>
<td>W_WOMEN</td>
<td>0.1237</td>
<td>0.0002</td>
<td>0</td>
<td>0.4286</td>
<td></td>
</tr>
<tr>
<td>AVG_AGE</td>
<td>57.0659</td>
<td>4.4715</td>
<td>44</td>
<td>67.17</td>
<td></td>
</tr>
<tr>
<td>EDUCAT_DIV</td>
<td>0.4765</td>
<td>0.5014</td>
<td>0</td>
<td>1</td>
<td>Positive</td>
</tr>
<tr>
<td>N_MEETINGBOARD</td>
<td>11.0625</td>
<td>6.7506</td>
<td>4</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>DURAT_MEETINGBOARD</td>
<td>2.1464</td>
<td>1.1458</td>
<td>0</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>W_MAINSHAREHOLDER</td>
<td>0.4422</td>
<td>0.2118</td>
<td>0.021</td>
<td>0.898</td>
<td></td>
</tr>
<tr>
<td>W_MAJORITYSHAREHOLDERS</td>
<td>0.5900</td>
<td>0.1999</td>
<td>0.021</td>
<td>0.933</td>
<td></td>
</tr>
<tr>
<td>N_DIRECTORS</td>
<td>11.1484</td>
<td>4.7190</td>
<td>5</td>
<td>32</td>
<td></td>
</tr>
</tbody>
</table>

Table 2 presents the main descriptive statistics of the variables used in the analysis: MACROSECTOR1 groups companies belonging to consumer goods and services, MACROSECTOR2 identifies companies from the finance sector, MACROSECTOR3 groups industrial companies, MACROSECTOR4 groups companies providing public services, SIZE is the logarithm of the total assets for each company at the year-end 2012, MKT1 is the MIB segment of the Italian market, MKT2 is the STAR and MKT3 is the other segment, INT_EXP expresses the presence or absence of international experience among the members of the board calculated as the mean after examining the curricula of each member, OTHER_OFFICE is the total number of other offices for each member of the board, W_IND_CODE is the percentage of the independent directors in accordance with the Code on the board, W_IND_LAW is the percentage of independent directors in accordance with the law on the board, W_WOMEN is the percentage of women on the board, AVG_AGE is the average age of the board, EDUCAT_DIV indicates educational diversification of board members calculated using the Herfindahl-Hirschman Index, N_MEETINGBOARD is the number of board meetings during the year 2012, DURAT_MEETINGBOARD is the total duration (expressed in hours) of the total number of board meetings during the year 2012, W_MAINSHAREHOLDER is the percentage held by the main shareholder for each company at the year-end 2012, W_MAJORITYSHAREHOLDERS is the percentage of shareholders holding at least 2% of the company’s capital and N_DIRECTORS is the number of directors for each company.

Source: data elaborated by the authors
Before proceeding with the empirical analysis, we checked the correlation between the independent variables used in the survey (Table 3).

5. Results

Table 4 presents the results of Equation (1). Some of the obtained results confirm our expectations while others are particularly interesting. The first important result is related to the control variables. In fact, based on the results obtained, being listed in the STAR segment or in another market segment has no influence on the FTSE judgement.

Table 4 - FTSE Rating logistic regression

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macrosector1</td>
<td>1.301</td>
<td>(1.385)</td>
</tr>
<tr>
<td>Macrosector2</td>
<td>0.264</td>
<td>(1.785)</td>
</tr>
<tr>
<td>Macrosector3</td>
<td>-0.228</td>
<td>(1.222)</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.286*</td>
<td>(0.173)</td>
</tr>
<tr>
<td>MKT1</td>
<td>2.672</td>
<td>(1.840)</td>
</tr>
<tr>
<td>MKT2</td>
<td>2.009</td>
<td>(1.927)</td>
</tr>
<tr>
<td>INT_EXP</td>
<td>1.846</td>
<td>(1.501)</td>
</tr>
<tr>
<td>OTHER_OFFICE</td>
<td>0.168</td>
<td>(0.141)</td>
</tr>
<tr>
<td>W_IND_CODE</td>
<td>5.452*</td>
<td>(3.163)</td>
</tr>
<tr>
<td>W_IND_LAW</td>
<td>-13.19*</td>
<td>(7.573)</td>
</tr>
<tr>
<td>W_WOMEN</td>
<td>-5.415</td>
<td>(5.291)</td>
</tr>
<tr>
<td>AVG_AGE</td>
<td>-0.120</td>
<td>(0.133)</td>
</tr>
<tr>
<td>EDUCAT_DIV</td>
<td>0.0340</td>
<td>(0.941)</td>
</tr>
<tr>
<td>N_MEETINGBOARD</td>
<td>-0.0979</td>
<td>(0.0843)</td>
</tr>
<tr>
<td>DURATION_MEETINGBOARD</td>
<td>-0.243</td>
<td>(0.429)</td>
</tr>
<tr>
<td>W_MAINSHAREHOLDER</td>
<td>11.70**</td>
<td>(5.915)</td>
</tr>
<tr>
<td>W_MAJORITSHAREHOLDERS</td>
<td>-18.06***</td>
<td>(6.823)</td>
</tr>
<tr>
<td>N_DIRECTORS</td>
<td>0.571***</td>
<td>(0.196)</td>
</tr>
<tr>
<td>Constant</td>
<td>-3.068</td>
<td>(7.470)</td>
</tr>
</tbody>
</table>

Number of observations: 111
Pseudo R2: 0.6048
This conclusion is contrary to our expectations and probably to Borsa Italiana’s aims too. For this reason this aspect could open debate on corporate governance requirements for the STAR segment.

The same conclusion is reached with reference to the macrosector. Corporate macrosector has no impact on the FTSE rating. Similarly, the average number of other offices, educational diversification, international experience and the percentage of women on the board are not significant.

The size of the companies and the weight of the main shareholder, as expected, are significant and have a positive influence on the FTSE rating; instead, the presence of more majority shareholders (with holdings of at least 2% of the capital) is a significant but negative determinant of the FTSE rating. The board size, that is the total number of directors, is significant and positively influences the judgment expressed by FTSE.

The variables of greatest interest, however, are those related to the independent directors. The results in Table 4 reveal that independent directors complying with the more strict definition given by the Corporate Governance Code and those who only comply with the definition given by the Consolidated Law of Finance (L. 58/98) do not have the same impact on the FTSE rating. Both variables are significant but with opposite impacts: ‘Code’ independent directors influence the judgment expressed by FTSE positively, while ‘Law’ independent directors have a negative impact on it. This result is important from two points of view. On the one hand, it confirms the importance stressed in several studies of the role of independent directors in corporate governance (i.e. Fama and Jensen, 1983; Hu and Kumar, 2004; Harris and Helfat, 2007) and, at the same time, it refutes the hypothesis that the role of independent directors is not important in corporate governance (Karmel, 2013). On the other hand, our study expands existing literature in the independent directors field because for the first time it shows that independent directors do not all have the same
effect. In particular, it demonstrates that the presence of ‘Code’ independents can positively influence the judgment expressed by specialized operators, in contrast to ‘Law’ independents.

5. Conclusions

Board composition has been the subject of wide analysis in the literature. Two areas especially have been analysed: board diversity (such as the presence of women on the board, the different international experiences and the educational diversification of the board’s members) and the role of independent directors.

We have examined both the dimensions mentioned above together with others, in order to discover if and how these variables influence the rating expressed by the ECPI in the FTSE ECPI Italia SRI Benchmark Index related to Italian listed companies at the year-end 2012.

Our sample is composed of more than 100 companies listed on the Italian market. The results obtained show that board diversity has no impact on the FTSE judgment; company size, the relevance of the main shareholders and the number of directors have a positive influence on the FTSE rating, whereas the number of majority shareholders has a negative one.

In our opinion, our study achieves to two important results. The first one is related to the STAR segment. STAR companies are requested to comply with specific and rigorous corporate governance requirements, but the results obtained in our study show that belonging to this segment or to another one makes no difference to the judgment expressed by FTSE. This conclusion could lead to debate on the effectiveness of the corporate governance requirements for including a company in the STAR segment established by Borsa Italiana.

The second important result is related to independent directors. The importance of independent directors in mitigating agency conflicts, in the supervision and turnover of the chief corporate executive, and in shareholder protection, has already been demonstrated in the literature. Our study additionally confirms the important role of independents with reference to the judgment expressed by FTSE. Furthermore, our paper expands the existing literature on the topic because it distinguishes between the directors independent in accordance with the Code and those independent
in accordance with the law, and it reveals a surprising contradictory result: the former seem to have a positive impact on the composition of the FTSE rating at year-end 2012 while the latter seem to have a negative one.

These results could lead to further research on the concrete differences between ‘Code’ and ‘law’ independents in terms of skill and behaviour, and in the future may open debate on board composition for Italian listed companies.

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