SOEs OWNERSHIP AND CONTROL: INDIPENDENCE AND COMPETENCE OF BOARDS MEMBERS

Luca Gnan*, Alessandro Hinna, Danila Scarozza***, Fabio Montaduro******

Abstract

The public presence is a feature of the European countries. Reforms of State-Owned Enterprises asked for more autonomy and new formal control systems. In OECD countries, SOEs cover a significant economical and social role. However, SOEs raise some issues. They present inefficiencies and low profitability, related to their poor corporate governance, in particular with respect of the board's role. Ownership is a key variable underlying different corporate governance regimes, but very few empirical studies investigate the influences of state ownership on board's composition. Two attributes are particularly relevant: board independence and competence. The paper aims at highlighting: (1) the components that assign a critical role to a SOE's board; (2) the specificities of independence and competence in a public governance perspective; (3) the effects of the ownership structure on these attributes. Hypotheses are tested on a sample of 29 firms of the 30 Italian SOEs directly managed by the Italian Ministry of Economics and Finance.

Keywords: board composition; board independence; board competence; SOE; public governance.

* *Professor of Business Administration, Università di Roma "Tor Vergata", of Economics*
***PhD, Assistant Professor of Organizational Studies, University of Rome "Tor Vergata" (Italy), Faculty of Economics*
****PhD Assistant Professor of Public Management, University of Rome "Tor Vergata" (Italy)*
*****PhD Student in Public Management, Università di Roma "Tor Vergata", Faculty of Economics*

Notes:
* *Even if this article is the result of the shared research of all the authors, paragraphs 1 and 3 can be attributed to D. Scarozza; paragraph 2 can be attributed to L. Gnan; paragraphs 4 and 7 can be attributed to A. Hinna; paragraphs 5 and 6 can be attributed F. Monteduro.*

INTRODUCTION

From the mid-1980s, a reform movement to change public-sector management practices has grown in many countries (Hood, 1995). This movement, characterized by the idea that government may or should be run like business emphasizes, efficiency, and effectiveness in public services and it is often known as New Public Management (NPM) (Hood, 1998; Ferlie *et al.*, 2005; Vigoda *et al.*, 2008). Growing evidence toward NPM includes many changes to organizational structures, systems, and processes, such as restructuring, performance auditing and privatization of public organizations (Osborne and Gaebler, 1992).

A fundamental element of this process, in fact, is the creation or the reorganization of State-Owned Enterprises (SOEs) with increased business autonomy and new formal control systems (Christensen and Laegrid, 2003). The term "SOEs" refers to enterprises where the state has significant control, through full, majority, or significant minority ownership (OCED, 2005).

In many OECD countries, SOEs cover a significant role on the production of GDP, on the employment and on the market capitalization. The relevance of SOEs remains quite heterogeneous in terms of presence, size, economic impact and "strategic" industry in which they operate (OECD, 2005). However, SOEs' creation, governance and management raise some issues. Many researchers argue that SOEs, compared with their private counterparts, present inefficiencies and low profitability (Megginson and Netter, 2001). In many countries, previous SOE reform efforts failed to increase performance because they did not fully address the core governance deficiencies of public enterprises (Wong, 2004, OECD, 2005).

Despite extensive political and economic literature on SOEs (Coombes, 1971; Reed, 1973; Shepherd, 1976), the theoretical and empirical literature on SOEs' corporate governance remains emergent. Ownership is a key variable underlying different corporate governance regimes (Frydman *et al.*, 1999), but very few empirical studies investigate the influences of state ownership on board's role and composition (Herman, 1981; Hermalin and Weisbach, 1988; Pearce and Zahra, 1991). Board of directors represents - especially in joint stock companies - one of the fundamental governance mechanisms for managing the relationships between shareholders and the management.

Theories regarding boards of directors, prior empirical research and various recommendations suggest, both in the private (Fama and Jensen, 1983) and the public (Cornforth, 2003) sector, that some characteristics of the boards have an influence on their effectiveness and thus on the organizational

performance. Two board characteristics are particularly relevant: *board independence*, related to the ability of the board to monitor and control the activities of management in accordance with the interests of the stakeholders; *board competence*, related to the critical knowledge that directors, individually and jointly, have to possess to fulfill their tasks (i.e. knowledge of the company affairs, knowledge of governance process, professional knowledge, valuable networks, etc.).

Starting from these premises, the paper aims at highlighting: (1) the components that assign a critical role to a board of public sector organizations - particularly SOEs - evidencing the opportunity to take more steps in the investigation of boards in a wider behavioural perspective; (2) what specificities of the boards members' attributes of independence and competence have to be considered in a public governance perspective; (3) the effects of the ownership structure on these attributes and the conditions which enable the board to effectively carry out its own tasks.

The rest of the paper is organized as follows. In the next section, we present the main features and corporate governance challenges of SOEs. Moreover, the theoretical background is presented. In section three we present the hypotheses. In the fourth section research methods is described. Finally, findings and conclusions are discussed, including implications for future research.

CORPORATE GOVERNANCE IN THE STATE OWNED ENTEPRISES: FEATURES AND CHALLENGES

Inspired by NPM, many countries have changed their central public apparatus from an integrated to a more decentralized structural model. A central element in this process is the creation or the reorganization of SOEs with increased business autonomy and new formal control systems (Christensen and Laegrid, 2003). Worldwide, the development and control of the 'reinvented' SOEs has been the battleground for modern reforms and it has been considered as a test for the modernization of the public sector, whether in different countries (Spicer *et al.* 1996; Pollitt and Bouckaert 2000).

However, in literature there is no universally accepted definition of SOE. Bozec (2005) defines SOEs as "arm's length corporate entities established to pursue public policy and commercial objectives". Shirley (1997) defines SOEs as government-owned/controlled economic entities that generate the bulk of their revenues from selling goods and services. Radon and Thaler (2009) considers SOEs wholly owned by government and very similar to private firms in the way they operate and function. The defining or the overriding feature is ownership or control by a government (Radon and Thaler, 2009).

There has been a long-standing debate on government control over business enterprises (Kay and Thompson, 1986; Megginson and Netter, 2001; Nombela, 2001). Firms are government-owned for specific reasons, such as to facilitate economic development or to avoid collapse or foreclosure of a private enterprise (Bozec *et al.*, 2004). Few governments owned companies are created only to generate profits (Gordon, 1981; Gray, 1984; Ramanadham, 1991).

In many OECD countries, SOEs cover a significant role on the production of GDP, on the employment and on the market capitalization. SOEs are prevalent in utilities and infrastructure industries (i.e. energy, transport and telecommunication) and their performances affect both population's welfare and business industries' competitiveness. The relevance of SOEs remains quite heterogeneous in terms of presence, size, economic impact and "strategic" industry in which they operate (OECD, 2005).

SOEs are primarily characterized by their independent judicial status, by having their own control or scrutiny bodies, by holding responsibility for their own economic resources and by closely observing the laws regulating private companies (Zuna, 2001). The government controls the SOEs through its ownership position, manifested in a continuous dialogue between the owner and the companies, but also through its role as a regulator via laws and rules.

Despite extensive political and economic literature on SOEs (Coombes, 1971; Reed, 1973; Shepherd, 1976), the theoretical and the empirical literature on governing and managing SOEs remains emergent (Lewin, 1981; Vernon, 1981; Ring and Perry, 1985). SOEs' creation, governance and management raise some issues. Many researchers argue that SOEs, compared with their private counterparts, present inefficiencies and low profitability (Aharoni, 1986; Vining and Boardman, 1992; Domberger and Piggott, 1994; Gathon and Pestiau, 1996; Tittenbrun, 1996; Megginson and Netter, 2001). Many reasons explain the poor performance, but in recent years the idea that poor corporate governance lies at the heart of the poor performance of SOEs throughout the world (OECD, 2005; Wong, 2004) has acquired some consensus. SOEs face some specific governance challenges.

The central problem facing those who attempt to build a theory of SOE governance, probably, is to deal with the multiple pressures acting on SOEs: markets, government (Jones, 1982; Zif, 1981) and society. There is not theoretical or empirical research to help governments to assess and to improve how they exercise ownership of these enterprises.

To analyze dimensions influencing SOEs' governance effectiveness – particularly board's effectiveness - it is important to start from the

important differences between private and public firms.

First, contrary to the situation in private firms, SOEs are not exposed to the capital market disciplinary forces as no shares are issued to the public. Most SOEs operate in markets where competition for products and services is quite limited. Consequently, as SOEs are not exposed to major external control mechanisms, the internal monitoring realized by the board is arguably more important (Bozec, 2005). Secondly, according to Moore and Hartley (2008), governing bodies typically have much less discretion to define goals of their organizations, and the ways they intend to pursue those (Moore and Hartley, 2008). While private sector executives settle out strategic goals to maximize the long-term value of their shareholders, in public organizations, such a consensus about goals does not exist and a some degree of discretion arise, as an opportunity for leadership. The articulation of the concept of value creation in public organizations introduces a problem of ambiguity concerning ends as well as means. The ends and the means of public organizations' success are complex to define and ensuring the public organizations' survival is too easy to achieve (Moore, 1995: 9). The efficiency tension and their adaptation to the evolution of political demands are important challenges, but they do not fit the concept of success. Adopting an effectiveness approach and implementing political preferred policy goals have the aim of avoiding that managers follow their own desires or personal views of public needs. However, the value creation in public organizations may be different from actual political aspirations, and public organizations' success is connected to their value in the society, both in the short and in the long run.

The last, but not least, difference of SOEs in comparison to private firms is that in SOEs the principal shareholder is the State. The literature on SOE-government relationship displays great diversity (Hafsi *et al.*, 1987). Some authors (Lamont, 1979; Walters and Monsen, 1979) describe the SOE as an obedient servant of government, working to fulfill the latter's socio-economic goals. Others (McCraw, 1971; Caro, 1974; Hafsi, 1985) report situations in which SOEs behave as if they were autonomous. Finally, a great part of the literature (e.g., Vernon and Aharoni, 1981) describes the relationship as essentially adversarial with the government trying to superimpose its socio-political goals on the others and different objectives. Hafsi (1985) reconciled these contrasting views by postulating a three-phase cycle in the relationship: *(a) cooperative,* where the SOE draws support and resources from government; *(b) adversial* where the SOE is pulled away from government; *(c) autonomy* when the SOE can discourage the government's intervention.

More in general, different forms of state ownership are associated with more or less involvement of government officials in the corporate governance process. Government involvement in corporate governance is an important issue: the governments have to decide on the degree of appropriate involvement in corporate governance of the SOEs.

THEORETICAL BACKGROUND

Corporate governance is a main concern of the private as well as the public sector literature and it has become extremely important in the last decades. According to OECD's (2005) definition, corporate governance is "the system by which business corporations are directed and controlled". Bonn and Fisher (2005) argue that governance deals with the rights and responsibilities of an organization's board, its management, shareholders, and stakeholders. Corporate governance also sets rules and procedures for making decisions, provides structures through which monitoring is carried out.

According to agency theory, several governance mechanisms work together to provide incentives to managers and, so, they alleviate agency problems. These includes the board of directors and the ownership structure, called the internal governance, and also some external governance mechanisms such as market mechanisms (product market, the market for corporate control, the labor market for managers and the capital market).

In literature there is a certain agreement on the fact that governance issues are mainly related with governing bodies (i.e. boards) roles (Mayaux, 1999; Coeckelbergh, 1999; Fields, 2007; Cornforth, 2001, 2003; Callen *et al.*, 2003; Cornforth, 2003; Labie, 2005). Considerable effort has been made on studying governing bodies in the private sector, presenting different theories as *agency theory* (Jensen and Meckling, 1976; Fama, 1983; Eisenhardt, 1989), *stewardship theory* (Donaldson and Davies, 1991; Muth and Donaldson, 1998), *resource dependence theory* (Pfeffer and Salancik, 1978; Zahra and Pearce, 1989), *managerial hegemony theory* (Lorsch and MacIver, 1989), *stakeholder theory* (Freeman, 1984; Donaldson and Preston 1995), and *institutional theory* (Meyer and Rowan, 1977), respectively correlate to various board roles like *control, strategic roles, linking, support, coordination, maintenance* roles (Hung, 1998). Following Zahra and Pearce (1989) the primary role of the board is to watch over the interests of shareholders, evidencing three key tasks: *control task* (Midttun and Kamfjord, 1999; Clatworthy *et al.*, 2000; Hood *et al.*, 2000; Smith and Beazley, 2000; West and Durant, 2000; Hyndman and Eden, 2001; Sanderson, 2002; Siciliano, 2002; Considine, 2004) which is related to the control over managers and the monitoring of the firm's performance in order to safeguard shareholders' interests (Fama and Jensen, 1983); *strategic tasks* (Dopson *et al.*, 1999; Jørgensen, 1999; Sullivan *et al.*, 2006), which is related to the revision and evaluation of strategic

decisions and the provision of technical advice so as to improve the firm's strategic plans (Zahra and Pearce, 1989); *networking tasks* (Lowndes and Wilson, 2003; Kijn and Skelcher, 2007) which consists of enabling key resources that may favour the survival and the *success* of a company (Pfeffer, 1972).

Different theories, prior empirical research and various recommendations suggest, both in the private (Fama and Jensen 1983) and in the public (Cornforth, 2003) sector, that some characteristics of the boards have an influence on their effectiveness and thus on the organizational performance. Two board dimensions are particularly relevant: *board independence*, related to the ability of the board to monitor and control the activities of management in accordance with the interests of the stakeholders; *board competence*, related to the critical knowledge that directors, individually and jointly, have to possess to fulfill their tasks (i.e. knowledge of the company affairs, knowledge of governance process, professional knowledge, valuable networks, etc.).

Fama and Jensen (1983), while they recognize that independence and competences are the main requirements of an effective board, point out that the importance and the features of these requirements depend on the organization's characteristics.

In the public sector, and particularly in SOEs, board independence has, for instance, some specificity since it has to be viewed not only with reference to the relationship between board and management, but also to the relationship between board and the shareholder (i.e. the government).

In this frame, a synthesis of the public corporate debate on board effectiveness is following, with the aim at highlighting: (a) how ownership, independence and competence have been conceptualized by the corporate governance literature and (b) what specificities have to be considered in a public governance perspective.

Board and ownership structure

Under the agenda of the ownership structure's research (Mak and Li, 2001; Peng *et al.*, 2004) two dimensions of corporate ownership have been examinated: (1) the *degree of managerial ownership* (Jensen and Meckling, 1976), and (2) the *ownership concentration* (Shivdasani, 1993). To analyze the influences of ownership structure on boards' composition also in the public organizations it is important to take into account also a third dimension: the *degree of state ownership*.

Firms with higher *managerial ownership* tend to have lower proportion of outside directors. The extent of managerial ownership affects the degree of congruence between the interests of owners and management. The greater the degree of managerial ownership the more likely the managers will make decisions consistent with maximizing the shareholders' interests (Jensen and Meckling, 1976) since that will maximize their own interests. The corporate governance literature argues that increasing the degree of ownership by managers may be an effective control mechanism designed to reduce the moral hazard behaviour of firm managers. If this is an effective control mechanism, then an increase in the extent of its use would induce a reduction in the level of other monitoring mechanisms such as the presence outside directors.

Literature also suggests that *ownership concentration* have a positive influence on board independence. The presence of shareholders holding a high proportion of the firm's ownership constitutes another way to mitigate the effects of the separation of ownership and control. Decisions control is one of the board's primary role, and outside directors have the particular responsibility of advocating shareholder interests. This role is mostly important when ownership is diffuse. When ownership is concentrated, the owner may effectively influence and monitor the management, sometimes by personally sitting on the board. Schleifer and Vishay (1986) argue that large shareholders (blockholder) have a strong incentive to monitor managers because of their significant economic stakes. A blockholder may also nominate a person to represent him or her on the board of directors, in order to ensure that management is acting in the interests of him/her. When many small owners are present, however, it may not be possible to appoint anyone to monitor the performance of the management. Consequently, firms with blockholder ownership (a greater ownership concentration) are expected to have less agency problems, and the need for alternative control mechanisms (as the percentage of outside directors) is reduced. On the other hand, a less ownership concentration is said to render owners of shares powerless to constrain professional management requiring more experiences and knowledge to boards' members to use corporate resources in an effective manner (Demsetz and Lehn, 1985).

Extant literature, finally, suggests that *state ownership* entails inferior governance quality and effectiveness compared to private ownership (Alchian, 1977; Shleifer, 1998). When the state is a major owner, it is especially important for the board of directors to appear to be legitimate and accountable to the public. State owned firms have been assumed to pursue maximization of political support. Some Authors (Li, 1994) argue this can be achieved with adding more outside directors on the board. Another part of literature affirms that SOEs tend to employ fewer outside directors. The reason is that government-linked enterprises having less incentive to control agency problems because they have weaker accountability for financial performance, easier access to financing, lack of exposure to a market for corporate control, and weaker monitoring by shareholders.

Board and "independence"

An important cornerstone of the corporate governance literature is the recognition that the specific interest of the executive management and the wider interest of the company may at time diverge. An independent board plays an important role in these situations.

This focus on board independence is grounded in agency theory (Fama and Jensen 1983), which recognizes the oversight function of the board as the most critical of directors' role (Jensen and Meckling, 1976; Eisenhardt, 1989).

The board effectiveness in fulfilling the monitoring tasks is related to the relative independence of its members. An effective monitoring can improve firm performance by reducing agency costs. Agency theorists acknowledge that boards will vary in their incentives to monitor on behalf of shareholders; as a result, incentives are an important precursor to effective monitoring (Jensen and Meckling, 1976; Fama and Jensen, 1983). The agency perspective on board composition primarily concerns creating independent boards or otherwise aligning the interests of directors with those of shareholders to ensure effective monitoring of management. Independent boards - those primarily consisting of independent outside directors - are thought to be the most effective at monitoring because their incentives are not compromised by dependence on the organization.

Shifting from the corporate to the public governance perspective, it can be argued that governance problems are even more challenging. Applying agency theory to SOEs, it can be noted that the owner-manager relationship is broken down into two other agency relationships (Villalonga, 1999): (1) the relationship between citizens (the "real" owners of SOEs) and the government (the "formal" owner); (2) the relationship between the government (the "formal" owner) and the managers of SOEs. Moreover in the cases in which some private investors are present in SOEs' ownership, an additional kind of agency relationship concerns the government (as control shareholder) and the minority shareholders (OECD, 2005 and 2007). Given these considerations, an independent director in a SOE board should not only be independent from the executive management, she/he should also be independent from the government and the political parties in the power. If the government appoints individuals with perceived political affiliation to the board of directors of a SOE, this could impede the exercise of independent judgment by the board. Moreover, the excessive representation of the government in the board might be perceived by minority shareholders as well as by other stakeholders as a decrease of the board's independence and authority.

Insert Figure 1 about here

As the Figure 1 shows, two aspects of board independence arise in governance settings of SOEs:

1) *Board independence from management*: this is the traditional characteristic of independence that SOEs share with private firms. The board effectiveness in fulfilling the monitoring tasks is related to the relative independence of its members from executives.

2) *Board independence from government*: this is a peculiar requirement for board effectiveness in governance settings of SOEs and it emerges because of the multiple agency relationships between citizens, government and management. Indeed, this aspect of independence has attracted the attention of public governance scholars (Wong, 2004) and international institutions (OECD, 2005).

Board and competence

The competence of board members is an important requirement for the effectiveness of the board and the results of many studies of corporate governance support this statement (Beasley 1996; Gerety and Lehn 1997). According the resource dependence theory, the board of directors is a provider of resources (Pfeffer, 1972; Pfeffer and Salancik, 1978; Boyd, 1990; Donaldson and Davies, 1991; Gales and Kesner, 1994; Muth and Donaldson, 1998; Hillman *et al.*, 2000) and important resources include knowledge and competence.

Among the necessary competences, knowledge of the industry, of the company affairs and of the governance process is particularly essential for the fulfilling of the board tasks. Directors may acquire these competencies through internal or external training and experience. However, while training is important, expertise research (Bedard and Chi 1993) shows that experience is essential in the development of superior competence.

In the public sector literature and in SOEs' governance studies (Wong 2004; OECD, 2005) a specific kind of competence has been identified as critical: business expertise and perspective. This depends from the fact that the public sector organizations traditionally lack managerial competences and skills and board members could be a mean for filling this managerial gap. In fact, if SOEs' directors are business experts they could bring to the organization some useful knowledge about business practices.

HYPOTHESES

Summarizing, existing research typically tests hypothesis concerning the relationship between a specific type of governance mechanism (ownership concentration or board independence or board competence and so on) and organizational performance, assuming the independence of the mechanism under study with other governance

mechanisms. If substitution effects in fact operate and, thus, if governance mechanisms are correlated, the aforementioned assumption is incorrect and there are important theoretical and empirical implications for research in the area.

With the aim of exploring substitution effects, we examine the relationships between two characteristics of the boards of directors (independence and competence) and between one of these board characteristics (board independence) and some alternative internal governance mechanisms with particular reference to the ownership structure (ownership concentration and government ownership).

We are firstly interested in examining the relationships between two characteristics of the boards of directors (independence and competence). In the corporate governance literature, board independence (from management) and board competence have been often treated separately. There are studies (especially those grounded in agency theory) concerning board independence. There are others studies (especially those grounded in resource-dependence theory and stewardship theory) highlighting the importance of board competence. Williamson (2008, p. 261), among other things, warns that de facto CEO control can arise from lack of board competence. Therefore the board independence from management could be positively related to board competence. On the contrary, it has been argued (Tosi *et al.*, 2003) that, if board members have similar backgrounds and experiences as the CEO, they will be less independent directors and more prone to the CEO's discretion and entrenchment (even if they are outside directors). Therefore, the independence of the board from management could be positively related to board competence (especially business competence). Moreover, other authors (Huse, 2008) note that in some cases there is a failure to balance independence with the knowledge of the business. In the over-zealous search for independence, occasionally appointments are made to boards of people so distant and uninformed about the business that they are unable to provide concrete, meaningful strategic input. Accordingly, the following hypotheses are formulated in this article:

***H1a**: Board independence from management is positively related to board competence in SOEs*

***H1b**: Board independence from management is negatively related to board competence in SOEs*

In the studies regarding the governance of SOEs (Wong, 2004; OECD, 2005), board independence and competence have been viewed as more entrenched. According to Wong (2004, p. 14): "the board must comprise talented and committed people who are willing to learn about the business, challenge top management, and resist improper overtures by politicians and civil servants. Too often, SOE boards are populated with people chosen for their political allegiance rather than business acumen". This suggests that the board independence (from government and politics) could be positively related to board competence. Accordingly, the following hypothesis is formulated:

***H2**: Board independence from politics is positively related to board competence in SOEs*

As already mentioned, a second aim of the paper is that of examining the relationships among board independence and some other internal governance mechanisms, with particular reference to the ownership structure (ownership concentration and government ownership).

Based on the agency theory, several authors (Demsetz and Lehn, 1985) have argued that if the ownership is diffused across a large number of shareholders with small equity stakes, no individual shareholder has the incentive to monitor the actions of managers. Such a shareholder would incur all the costs of monitoring managerial behavior, but the benefits would be shared by the other shareholders. However, to the extent that there is some degree of ownership concentration (blockholding ownership), large owners have increased incentive to monitor both the decision plans and the decision outcomes of managers since they will bear greater proportions of the costs associated with the value-destroying decisions of the firms' managers. Accordingly, in the presence of relatively large owners, we would expect the board independence (form management) to represent a less important monitoring mechanism (i.e., there will be a reduced need to have independent directors on the board to provide the service of monitoring management). Thus, the following hypothesis could be formulated:

***H3a**: Board independence (from management) is negatively related to the degree of ownership concentration in SOEs.*

There is however an alternative argument. In the specific governance setting of SOEs, the most important blockholder is the government. The government as shareholder has been considered in two alternative and extreme perspectives: passive shareholder or excessively active shareholder. The view of the government as passive shareholder is based on both agency theory (Jensen, 1983) and property rights theory (Alchian, 1977). According to these theories, a shareholder has the incentive to monitor the actions of managers if the benefits exceed the costs of monitoring managerial behavior. For the large private owners, the benefits of monitoring management are relevant because they directly bear the major quota of the costs associated with the value-destroying decisions of the firms' managers. In the case of SOEs, the government, although is the larger owner, does not directly bear the costs associated with the value-destroying decisions of the SOEs managers,

because these costs can be transferred to the citizens, who are the ultimate owners of the SOEs. Therefore, the government badly performs its monitoring role of the management and, accordingly, we would expect the board independence (form management) to represent a more important monitoring mechanism if the ownership is concentrated in the government hands. Thus, the following hypothesis could be formulated:

***H3b**: Board independence (from management) is positively related to the degree of ownership concentration in SOEs.*

The Public Choice theory (Boycko *et al.*, 1993) supports the view of the government as an excessively active shareholder. The central argument is that politicians pursue their own utility rather than the public interest. Accordingly, they impose on SOEs goals that can lead them to gain votes but can conflict with efficiency. Confirming this argument, the OECD (2005) notes that SOEs' boards are often not entrusted with the full range of board responsibilities and can be therefore overruled by senior management and by the ownership entities. Thus, the following hypotheses could be formulated:

***H4**: Board independence (from management) is negatively related to the degree of government ownership.*

***H5**: Board independence (from government and politics) is negatively related to the degree of government ownership.*

METHOD

Sample and data collection

The population of Italian SOEs under investigation in this study includes all the 29 stock companies whose main (or exclusive) direct shareholder is represented by the Central Government.

Despite in the mid-1990 the privatization process began to reduce the State presence in the Italian economy, it is still characterized by a widespread presence and relevance of SOEs in comparison with other countries (OECD, 2005). Employees are half a million (averaged 2% of the national total) and the value of production exceeds the 11% of GDP. There are many Italian enterprises in which government is one of the shareholders but this study, following the OECD's choice (2005), includes only the SOEs whose main (or exclusive) direct shareholder is represented by the Central Government (Tab 1), through the Economy and Finance Ministry (MEF).

Insert Table 1 about here

In Italy, as in other OECD countries (Greece, Korea, Mexico, Australia, etc), but differently from others (Sweden, Belgium, Spain, Poland, etc.) the exercise of ownership responsibility is shared by two ministries, both sector ministries and a "common" ministry, particularly the Ministry of Economy and Finance (MEF). In this type of organizations the central Minister is directly in charge of some specific ownership functions as the nomination of board members or of aggregating reporting.

However, the Italian SOEs are very heterogeneous, both in history, both in their economic characteristics. The main objectives of the construction of the Italian SOEs were partly in line with the ones of other countries. They were aimed, first, to surrogate the inadequate action of private capitalism, too feeble on the financial front and facing a very poor market and, second, to develop strategic industries of the economy by initiating public activities (oil, highways, and telecommunications). In Italy other objectives were also important ones: to rescue private business affected by deep, sometimes irreversible economic crisis as well as to foster modernization and growth (especially employment) in neglected regions of the country. On the whole, the growth of SOEs was propelled less by ideology than by happenstance and political expediency (Megginson and Scannapieco, 2006).

Data were obtained from two main sources. First, a relevant source of data is the Italian Register of Enterprises held by the Chambers of Commerce. All SOEs created as stock companies have to be enrolled in the aforementioned Register of Enterprises. Through the consultation of this database it has been possible to gather data on board members (name, number and position) as well as the number of enterprises in which they were members of the board at the time of analysis (interlocking directorates). Moreover, through this source, information on ownership, organizational size, organizational age, financial performance and activity field (sector) have been collected.

The second source of data has been a new database originally developed by our research team. This database contains the curricula vitae (CV) of each board member for all the investigated population and a classification of the board profiles along two dimensions: a) degree of independence from government or politics (i.e. directors without governmental or political affiliation); b) business competence and experience (i.e. business experts according to the classification of Hillmann *et al.*, 2000). Data were collected through a three-stage process. We first carried out an in-depth research into annual reports, general and specific search engines, electronic database, national and local press, economic magazines, etc. In this way we collected a rich set of records about the profiles of all 183 directors sitting on the board of our population of 29 Italian SOEs. These data refer to the directors in charge at December 31st 2008). In the second phase, we classified each director profile into two categories

according to a dichotomous criterion: (1) non political/governmental affiliated directors, regarding to the board independence from politics; (2) business expert regarding to the board competence. All these classifications have been made by one of the authors and a second researcher not involved in the study. The two resolved the small number of differences in coding by a subsequent discussion. Classification was very straightforward, and followed the guidelines provided by literature (Hillman *et al*,. 2000; OECD, 2007).

The analysis has been carried out from September 2009 to December 2009. During this period, the information retrieved from the aforementioned sources has been systematized in a data matrix including statistical units in rows and the variables that will be explained later on, in columns.

Variables

1. *Board independence from management* (NONEXEC). This category was measured by the ratio of nonexecutive (outside) directors to the total number of board members (Westphal, 1998). While both executive (inside) and nonexecutive (outside) directors are responsible for overseeing corporate strategy, agency theory emphasizes that nonexecutives have the potential to evaluate strategic decision making more objectively (Fama and Jensen, 1983; Zahra and Pearce, 1989). Since nonexecutives are not "beholden to CEOs for their jobs" (Fredrickson, Hambrick, and Baumrin, 1988: 262), they are potentially more willing to challenge or seriously question the CEO's position on strategic issues (Boeker, 1992).
2. *Board independence from politics* (NONAFFIL_REPR). According to the OECD (2007), the degree of independence of SOE boards depends on the size and characteristics of governmental (political) representatives. In a large part of OECD countries, the government (as shareholder and in proportion to the quotas held) can appoint some board members. However, the government can choose to be represented by affiliated representatives (civil servants or other persons with some kind of affiliations with the government) as well as by non-affiliated personalities from the private sector or else (academics, experts, etc.). The affiliated representatives are supposed to be more subject to political interference and therefore less independent from government and politics. Therefore, following the suggestions of the OECD (2005), we measured board independence from government and politics by the ratio of non-political (or non-governmental) affiliated directors to the total number of board members. We considered political affiliated any director that had one or more of the following characteristics in the last five years: a) held a political position (for example, member of parliament, etc); b) has been employed in the State; c) had a tight relation with government (for example, consultants, etc).
3. *Board competence.* Considering the research aims and the state of the art of literature two variables have been identified.

The first one is the *interlocking directors (INTERLOCK).* An interlocking directorate occurs when a person affiliated with one organization sits on the board of directors of another organization. We calculated the total number of other organizations in which each board member had taken part in their boards during his mandate. Interlocking directorates is employed here as a measure of the board competence. In fact, according to some authors (Milgrom and Roberts 1992), the labour market for directorships rewards effective directors with additional positions as directors, but disciplines directors who have a low level of competence. For that reason, it has been suggested that the number of directorships that a board member holds is a signal of her/his competence. Also, additional directorships allow the director to acquire governance competences and to gain knowledge of best practices for boards of directors.

The other board competence measure is the *business experience* (BUS_EXP). Hillman *et al*., (2000) suggest that, aside from maturity, leadership and analytical judgment, which are expected from all directors, differences among directors are perhaps most visible in terms of their individual experience or occupational attributes. These differences reflect the heterogeneity of resources such as expertise, skill, information and the potential linkages to other external constituencies. The authors (Hillman *et al*., 2000), develop taxonomy of four director profiles based on human capital experience. In this paper we are particularly interested to one of the director profiles identified by Hillman *et al*. (2000), that is the "business experts". They are directors who are active or retired executives in other organizations and directors who serve on other large corporate boards. These directors bring the business expertise and knowledge to the organization as a result of their experience in decision making in other organizations. Therefore they may serve as sounding boards for executives, providing advice on internal operations and on strategy formulation. Therefore, following the guidelines provided by Hillman *et al*. (2000), we calculated the percentage of business experts on the total number of board members.
4. *Blockholder ownership* (BLOCKHOLD). According to Belkhir (2009), blockholder ownership indicates the presence of shareholders holding a high proportion of the firm's capital. A shareholder with a little stake in the firm has weak incentives to engage in the monitoring of managers. On the contrary, an ownership structure in which one or more shareholders own a large block of stock has a strong incentives to engage in the controlling of managers. We measure the percentage of equity owned by

persons and institutions that hold 5% or more of the company's.

5. *Government ownership* (GOV_OWN). This category, widely discussed in the preceding, is measured by the percentage of equity (directly or indirectly) owned by the government.

6. *Organizational size* (LOG_ASSET_AV). The present study employs as measure of organization size the natural logarithm of book value of total assets (average value in 2006-2008).

7. *Financial performance.* In the literature on governance structure, organizational performance is measured typically by accounting/financial variables, such as return on assets, return on equity, return on sales, variations on Tobin's Q ratio, net earnings, and growth in sales for employees (Hutchinson and Gul, 2004). In this study we employed three variables:

- *ROE (ROE_AV)*: Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. ROE is calculated by dividing net income by shareholder's equity. We employ the average ROE in 2006-2008.
- *ROA (ROE_AV):* the return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. ROA is calculated by dividing a company's annual earnings by its total assets. We employ the average ROA in 2006-2008

8. *Field of activity (TRANS, ENER, TECH, INFRAST, SERV_PA, FIN, OTH).* The SOEs' area of activity and the subsequent regulatory framework might influence the board characteristics. Therefore we controlled for the area of activity including six dummy variables with the value of 1/0 indicating respectively the activity/inactivity of the SOE in each of the six sectors identified (i.e. transport; energy; technology; infrastructure; services to the public administrations; financial services; others).

9. *Age.* Two variables have been identified: a) the age of the organization (ORG_AGE) measured by the number of years since the organization has been founded; b) the age of SOE's incorporation (CORPOR_AGE) measured as the number of years since the SOE has been organized as a stock company.

Table 2 synthesizes the main characteristics of the variables used in the analysis.

Insert Table 2 about here

Data analysis

In order to test our hypotheses we used both bivariate and multivariate statistical methods. A bivariate statistical analysis has been performed using parametric techniques (Pearson's r). Then, a multivariate analysis has been carried out by mean of the ordinary least squares (OLS) regression technique.

RESULTS

Descriptive statistics appear in Table 3.

Insert Table 3 about here

We employed the bivariate correlation analysis in order to test the first two hypotheses (H1a-H1b and H2). The bivariate analysis (Table 4) points to an insignificant correlation between the percentage of nonexecutive directors and the interlocking directorates, although the relation has a positive sign as we hypothesized. Similarly, the relation between the percentage of nonexecutive directors and the percentage of business experts in the board is not statistically significant. Instead, it has been found a statistically significant and relevant positive correlation between the percentage of non-political/non-governmental affiliated representatives and the interlocking directorates (Pearson's r = + 0,320; p<0,05) as well as the percentage of business experts in the board (Pearson's r = + 0,611; p<0,001).

It is worth to note that the two variables measuring board competence (i.e. interlocking directorates and the percentage of business experts) are significantly correlated (Pearson's r = + 0,449; p<0,01).

Insert Table 4 about here

Therefore, the bivariate correlation analysis offers no support for H1a and H1b. Interestingly, the relationship between board independence from management and board competence, although not statistically significant, goes on the direction to that hypothesized by H1a when board competence is measured as interlocking directorates and to that hypothesized by H1b when board competence is measured as the percentage of business experts (but in this case the relation is very weak).

On the contrary, the results are fully compatible with Hp 2. This means that board independence from politics is positively related to board competence in SOEs.

A multivariate analysis has been carried out by mean of the ordinary least squares (OLS) regression technique, in order to test the remaining three hypotheses (H3a-H3b; H4 and H5). In this way it was possible to understand the effects of the identified ownership characteristics (independent variables) on the board independence from management and politics (dependent variables), keeping the action of the other variables under control.

In order to test the abovementioned hypotheses we specified three different models (Model 1, 2, and 3).

Model 1 concerns the relation between board independence from management and the degree of ownership concentration in SOEs. In this model the dependent variable is the ratio of nonexecutive directors to the total number of board members (NONEXEC), whereas the independent variable is the degree of ownership concentration (BLOCKHOLD). The model includes as control variables the organizational size (LOG_ASSET_AV); the financial performances (ROE_AV, ROA_AV); the fields of activity (TRANS, ENER, TECH, INFRAST, SERV_PA, FIN); the number of years since the organization has been founded (ORG_AGE) and the number of years since the SOE has been organized as a stock company (CORPOR_AGE).

Model 2 explains the relation between board independence from management and the degree of government ownership in SOEs. This model is just alike to the Model 1 with the only exception of the independent variable. In this case, we have the percentage of equity (directly or indirectly) owned by the government (GOV_OWN) instead of the blockholding ownership.

Table 5 presents the results of the ordinary least squares (OLS) regression analysis. The first analysis (Model 0) focuses only on the control variables. The Model 0 is statistically significant (Adjusted R^2= 0,336; p<0,10). The second analysis (Model 1) adds up to the control variables the independent variable regarding blockholding ownership. This model is also statistically significant (Adjusted R^2= 0,433; p<0,05), and di F-change is also statistically significant (p<0,10). This means that the blockholding ownership does contribute substantially to explain the variance with respect to the board independence form management. Looking at the standardized coefficients we note that the degree of ownership concentration in SOEs is significantly and negatively related to the board independence (from management). These results fully support the H3a and, conversely, are incompatible with the alternative hypothesis (H3b).

The third analysis (Model 2) adds up to the control variables the independent variable regarding government ownership. The results are practically identical to that of the Model 1 and confirm fully support the H4: government ownership is significantly and negatively related to the board independence (from management). It is worth to note that Model 1 and Model 2 lead to similar results because ownership concentration and government ownership are strongly correlated in our sample (table 4 shows a bivariate correlation of +0,987). In fact, government is the largest shareholder for all the Italian SOEs and holds, on average, the 86% of equity. Therefore, in our case, ownership concentration and government ownership, although being conceptually distinct, practically overlap.

Insert Table 5 about here

Model 3 regards the relation between board independence from government and politics and the degree of government ownership. In this model the dependent variable is ratio of non-political (or non-governmental) affiliated directors to the total number of board members (NONAFFIL_REPR), whereas the independent variable is the percentage of equity (directly or indirectly) owned by the government (GOV_OWN). The model includes the same control variables of Models 1 and 2.

Table 6 presents the results of the ordinary least squares (OLS) regression analysis. The first analysis (Model 3A) focuses only on the control variables. The Model 3A is not statistically significant. The second analysis (Model 3B) adds up to the control variables the independent variable regarding government ownership. This model is statistically significant (Adjusted R^2= 0,337; p<0,10), and di F-change is also statistically significant (p<0,01). This means that the government ownership substantially explains the variance of the model. The standardized coefficient of our investigated variable is significantly (p<0,01) and negatively related to the board independence from government and politics. These results fully support the H5.

Insert Table 6 about here

Interestingly, looking at the standardized coefficients of the control variables, we can note that, in all three Models, the organizational age is a significant variable. However, in the models in which board independence from management is the dependent variable (Model 1 and 2), organizational age positively affects the independence. In the third model, where independence from politics is investigated, organizational age negatively affects the independence.

DISCUSSION AND CONCLUSIONS

Many countries have changed their central apparatus toward a decentralized model, increasing the evidence and the role of State-Owned Enterprises, allowing them for more autonomy and new control systems (Christensen, 2003). The reinventing of SOEs has leaded to reforms and has been considered a playground for modernizing the public sector (Spicer *et al.* 1996; Pollitt, Bouckaert 2000).

In OECD countries, as far as their presence, size, economic impact and “strategic” industries are concerned, the relevance of SOEs remains quite heterogeneous (OECD, 2005). In the mid-1990 Italian privatization process began. First, the Italian SOEs surrogate the somewhat inadequate action of private capitalism in some markets, and, secondly, they develop strategic industries by starting public activities.

However, the presence of SOEs raises some critical aspects. Literature and empirical evidence

argue that they are characterized by inefficiencies and low profitability (Aharoni, 1986; Vining and Boardman, 1992; Domberger and Piggott, 1994; Gathon and Pestiau, 1996; Tittenbrun, 1996; Megginson and Netter, 2001). The main cause of these critical aspects relates to a poor governance of these organizations (Wong, 2004; OECD, 2005;).

Despite extensive literature on SOEs (Coombes, 1971; Reed, 1973; Shepherd, 1976), the relative literature on corporate governance of SOEs remains emergent (Vernon, 1981; Lewin, 1981; Ring and Perry, 1985).

Different theories, prior empirical research and various recommendations suggest both in the private (Fama and Jensen, 1983) and in the public (Cornforth, 2003) sector, that board independence and board competences have an influence on their effectiveness. In the public sector, and particularly in SOEs, board independence has some specificity since it has to be viewed not only with reference to the relationship between board and management, but also with respect to the link between board and the shareholder (i.e. the government). Moreover, SOEs typically lack business knowledge; consequently this competence is very critical (OECD, 2005).

Accordingly, the paper examined the relationships between independence and competences of directors of SOEs' boards. In studies regarding the governance of SOEs (Wong, 2004; OECD, 2005), board independence and competence have been viewed as entrenched. According to Wong (2004: 14): "the board must comprise talented and committed people who are willing to learn about the business, challenge top management, and resist improper overtures by politicians and civil servants. Too often, SOE boards are populated with people chosen for their political allegiance rather than business acumen". Thus we hypothesized that in SOEs the board independence from government should be related to board competence. Our empirical findings support this perspective. If the board is independent form politics and government than it is also more competent and vice versa.

In previous literature (Shleifer, 1998; Vickers and Yarrow, 1991) the effect of ownership (i.e., state versus private) remains an open question (Bozec *et al.*, 2002). Extant literature, suggests that state ownership entails inferior governance (i.e. boards) quality and effectiveness compared to private ownership (Alchian, 1977; Shleifer, 1998).

Following agency theory, in SOEs if some degree of ownership concentration (blockholding ownership) is present, large owners have a greater incentive to monitor managers. Accordingly, in the presence of large owners in SOEs, agency theory predicts the board independence form management will represent a less important monitoring mechanism.

On the other hand, considering the specific governance setting of SOEs, the most important blockholder is usually the government. However, in SOEs, the government does not directly bear the costs associated with the value-destroying decisions of SOE's managers, as these costs may be transferred to citizens. Therefore, the government may badly perform its monitoring role and, accordingly, we would expect that the board independence from management should be an important monitoring mechanism if ownership is concentrated in the government hands.

Our empirical findings support the agency perspective. Ownership concentration is a substitute of other monitoring mechanisms such as the board of directors. In this respect, it does not matter that the ownership is concentrated in the hand of government.

Finally, SOEs' boards are often not entrusted with the full range of board responsibilities and they may be overruled by senior management and by the ownership entities (OECD 2007). Accordingly, we hypothesized that in SOEs board independence from management and from government should be related to the degree of government ownership. Our empirical findings support these arguments. Government ownership negatively affects board independence both from management and from politics.

This study contributes to the evolving literature on public board characteristics in two aspects. First, previous studies have not considered board characteristics of SOEs. Agency problems in SOEs are particularly relevant and more complex in comparison with firms in the private sector, and also have an important influence on board attributes. Second, we considered together two board attributes, while previous studies have focused mainly on them as separate and independent ones.

This study contributes to stimulating various future research directions. Further studies about boards and their processes in public organizations should be undertaken, and further conceptual and empirical studies should also be conducted. In addition to these general calls for contribution, we may identify some further research paths, in relation to some limitations of this article. As far as the boards' role in SOEs is concerned, the study focuses of the relationships between the board members' attributes and the ownership structure and does not investigate the board processes.

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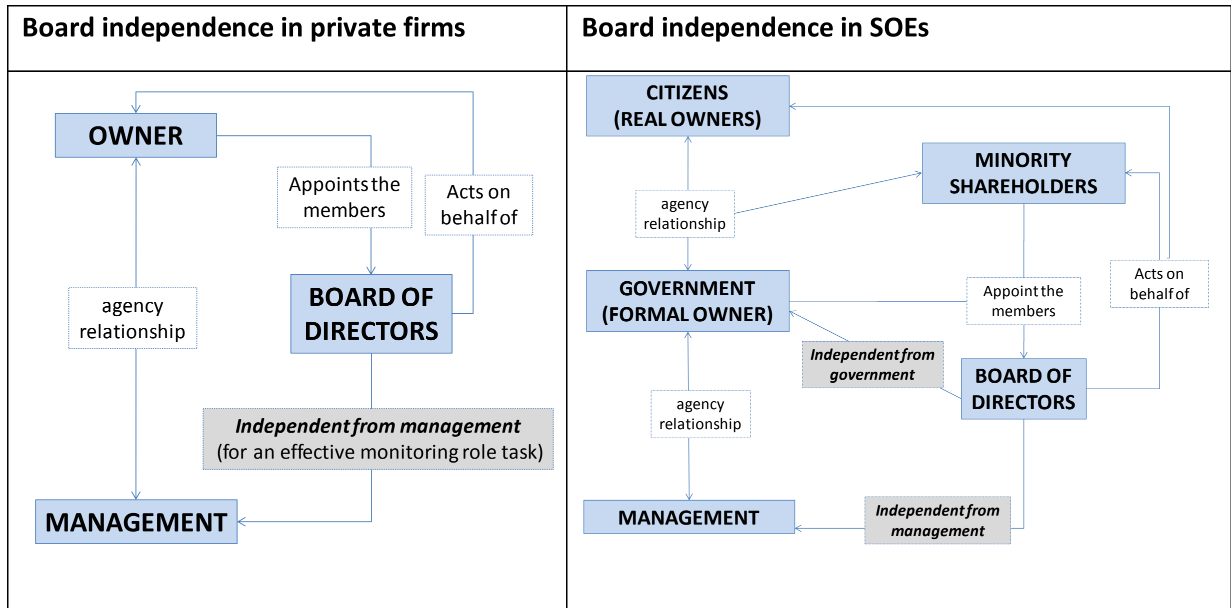
Figure 1. Conceptualizing board independence in private and public sector



Tab 1. The population of Italian SOEs

	SOES	% OF EQUITY (DIRECTLY OR INDIRECTLY) OWNED BY THE GOVERNMENT	MAIN FIELDS OF ACTIVITY
1	ANAS	100%	Others
2	ENEL	31%	Utilities
3	ENI	30%	Utilities
4	INVITALIA	100%	Financial services
5	CONSIP	100%	Services to the public administrations
6	POSTE ITALIANE	100%	Financial services
7	RAI	100%	Others
8	FINMECCANICA	30%	Utilities
9	ARCUS	100%	Others
10	CDP	70%	Financial services
11	CINECITTA' SPA	100%	Others
12	CONI	100%	Others
13	CONSAP	100%	Others
14	ENAV	100%	Utilities
15	EUR SPA	90%	Others
16	EXPO 2015	40%	Others
17	FERROVIE DELLO STATO SPA	100%	Utilities
18	FINTECNA SPA	100%	Financial services
19	GSE SPA	100%	Utilities
20	IPZS	100%	Services to the public administrations
21	ITALIA LAVORO SPA	100%	Others
22	MEFOP SPA	55%	Financial services
23	RAM SPA	100%	Others
24	SACE SPA	100%	Financial services
25	SOGEI SPA	100%	Services to the public administrations
26	SOGESID	100%	Others
27	SOGIN SPA	100%	Others
28	STUDIARE SVILUPPO SRL	100%	Services to the public administrations
29	ALITALIA	50%	Utilities

Tab 2. Main characteristics of the variables used in the analysis

Category	Variables	Label	Type of variable	Year	Source
Board independence from management	ratio of nonexecutive (outside) directors to the total number of board members	NONEXEC	Continuous	2008	Italian Register of Enterprises – Chambers of Commerce
Board independence from politics	ratio of non-political (or non-governmental) affiliated directors to the total number of board members	NONAFFIL_REPR	Continuous	2008	Original database developed
Board competence	Interlocking directorates	INTERLOCK	Continuous	2008	Italian Register of Enterprises – Chambers of Commerce
	percentage of business experts on the total number of board members	BUS_EXP	Continuous	2008	Original database developed
Blockholder ownership.	percentage of equity owned by persons and institutions that hold 5% or more of the company's	BLOCKHOLD	Continuous	2008	Italian Register of Enterprises – Chambers of Commerce
Government ownership	percentage of equity (directly or indirectly) owned by the government	GOV_OWN	Continuous	2008	Italian Register of Enterprises – Chambers of Commerce
Organizational size	natural logarithm of book value of total assets	LOG_ASSET_AV	Continuous	2006-2008	Italian Register of Enterprises – Chambers of Commerce
Financial performance	ROE	ROE_AV	Continuous	2006-2008	Italian Register of Enterprises – Chambers of Commerce
	ROA	ROA_AV	Continuous	2006-2008	Italian Register of Enterprises – Chambers of Commerce
Fields of activity	transport	TRANS	Dichotomous	2008	Italian Register of Enterprises – Chambers of Commerce
	energy	ENER	Dichotomous	2008	Italian Register of Enterprises – Chambers of Commerce
	technology	TECH	Dichotomous	2008	Italian Register of Enterprises – Chambers of Commerce
	infrastructure	INFRAST	Dichotomous	2008	Italian Register of Enterprises – Chambers of Commerce
	services to the public administrations	SERV_PA	Dichotomous	2008	Italian Register of Enterprises – Chambers of Commerce
	financial services	FIN	Dichotomous	2008	Italian Register of Enterprises – Chambers of Commerce
	others	OTH	Dichotomous	2008	Italian Register of Enterprises – Chambers of Commerce
Age	number of years since the organization has been founded	ORG_AGE	Continuous	2008	Italian Register of Enterprises – Chambers of Commerce
	number of years since the SOE has been organized as a stock company	CORPOR_AGE	Continuous	2008	Italian Register of Enterprises – Chambers of Commerce

Tab 3. Descriptive Statistics

	N	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
NONEXEC	29	,67	1,60	,8710	,03120	,16800
NONAFFIL_REPR	29	,00	1,00	,5407	,04821	,25960
INTERLOCK	29	1	99	15,21	3,435	18,500
BUS_EXP	29	,00	,89	,3293	,04494	,24198
BLOCKHOLD	29	,30	1,00	,8710	,04544	,24468
GOV_OWN	29	,30	1,00	,8607	,04716	,25395
LOG_ASSET_AV	28	6,201	9,915	7,88921	,179333	,948942
ROE_AV	28	-16,93	61,68	8,6757	2,57138	13,60644
ROA_AV	28	-3,74	18,82	2,2511	,79168	4,18918
TRANS	29	,00	1,00	,1034	,05755	,30993
ENER	29	,00	1,00	,1034	,05755	,30993
TECH	29	,00	1,00	,0345	,03448	,18570
INFRAST	29	,00	1,00	,1034	,05755	,30993
FIN	29	,00	1,00	,2069	,07655	,41225
OTH	29	,00	1,00	,3448	,08983	,48373
ORG_AGE	29	0	158	30,69	6,625	35,678
CORPOR_AGE	29	0	45	10,90	1,683	9,065
Valid N (listwise)	27					

Tab 4. Bivariate correlations

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1. NONEXEC																	
2. NONAFFIL_REPR	-,162																
3. INTERLOCK	,241	,320*															
4. BUS_EXP	-,012	,611***	,449**														
5. BLOCKHOLD	-,303#	-,174	-,630***	-,258#													
6. GOV_OWN	-,274#	-,167	-,602***	-,296#	,987***												
7. LOG_ASSET_AV	-,059	-,073	-,219	,011	,200	,185											
8. ROE_AV	,155	-,265#	,165	-,196	-,263#	-,257#	,187										
9. ROA_AV	,085	,029	,272#	,123	-,602***	-,598***	,113	,453**									
10. TRANS	-,078	,234	,470**	,406*	-,053	-,037	,043	-,133	-,116								
11. ENER	-,023	-,174	,171	-,009	-,472**	-,441**	-,108	,231	,563**	-,115							
12. TECH	,056	-,030	,071	-,063	-,449**	-,425*	-,096	,085	,078	-,064	-,064						
13. INFRAST	-,146	-,187	-,147	-,185	,182	,190	-,228	-,254#	-,223	-,115	-,115	-,064					
14. SERV_PA	-,051	-,036	-,148	-,163	,215	,223	,223	,419*	,144	-,136	-,136	-,076	-,136				
15. FIN	,291#	,089	,041	,095	,008	,029	-,146	-,057	,092	-,173	-,173	-,097	-,173	-,204			
16. OTH	-,106	,004	-,288#	-,114	,268#	,202	,188	-,183	-,346*	-,246#	-,246#	-,137	-,246#	-,290#	-,191		
17. ORG_AGE	,608***	-,201	,343*	-,026	-,327*	-,282#	,025	,005	,099	,320*	,058	,158	,019	-,128	,085	-,358*	
18. CORPOR_AGE	-,057	,051	,671***	,089	-,211	-,165	-,126	,456**	,075	,449**	-,034	,108	-,123	,117	-,004	-,277#	,166

*** Correlation is significant at the 0.001 level (1-tailed).

** Correlation is significant at the 0.01 level (1-tailed).

* Correlation is significant at the 0.05 level (1-tailed).

Correlation is significant at the 0.10 level (1-tailed).

Tab 5. Multiple Regression Results (standardized coefficients) of Models 1 and 2

	Model 0	Model 1	Model 2
Variables	b	b	
BLOCKHOLD		**-,568** #	
GOV_OWN			**-,553** #
LOG_ASSET_AV	-,233	-,145	-,157
ROE_AV	,387	**,413** #	**,421** #
ROA_AV	-,028	-,295	-,291
TRANS	-,181	-,158	-,148
ENER	-,240	-,353	-,345
TECH	-,125	-,323	-,315
INFRAST	-,228	-,183	-,177
SERV_PA	-,117	-,016	-,009
FIN	,062	,094	,103
ORG_AGE	**,722 ****	**,589 ****	**,595 ****
CORPOR_AGE	-,314	**-,432** #	**-,436** #
Adjusted R^2	,336	,433	,432
Model F- statistic (p-value)	**2,244** # (0,069)	**2,721** * (0,035)	**2,711** * (0,036)
R^2 change (p-value)		**0,78** # (0,072)	**0,78** # (0,074)

****** Correlation is significant at the 0.001 level (2-tailed).***
***** Correlation is significant at the 0.01 level (2-tailed).***
**** Correlation is significant at the 0.05 level (2-tailed).***
# Correlation is significant at the 0.10 level (2-tailed).

Tab 6. Multiple Regression Results (standardized coefficients) of Model 3

	Model 2A	Model 2B
Variables	b	b
GOV_OWN		**-1,032 ****
LOG_ASSET_AV	-,145	-,003
ROE_AV	-,406	-,342
ROA_AV	,436	-,055
TRANS	,208	,270
ENER	-,358	**-,554 ***
TECH	-,043	**-,397** #
INFRAST	-,261	-,165
SERV_PA	-,031	,172
FIN	-,067	,009
ORG_AGE	-,306	**-,543 ***
CORPOR_AGE	,061	-,166
Adjusted R^2	-,077	,337
Model F- statistic (p-value)	0,824 (0,620)	**2,721** # (0,082)
R^2 change (p-value)		**0,270**** (0,005)

****** Correlation is significant at the 0.001 level (2-tailed).***

***** Correlation is significant at the 0.01 level (2-tailed).***

**** Correlation is significant at the 0.05 level (2-tailed).***

Correlation is significant at the 0.10 level (2-tailed).