

MORAL GOVERNANCE: POLITICIANS, OWNERSHIP, AND CONTROL

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Abstract

We investigate upon the influences exerted by politicians on the Board and on ownership structure, as an application of political power to corporations. We characterize moral governance as the joint result of these efforts on managerial turnover and ownership turnover. We comment upon two Italian clinical cases of private, listed firms in which politicians enter the scene when a major event occurs (i.e., re-organization, merger, and acquisition activity). Our model could serve as a guideline and checklist for insiders to interact with politicians. We suggest this could be of interest in countries where there is a common level ground – such as in Europe – but with different cultures on the role of the politician in the business environment. It could be an instrument to detect political intervention in the economy to be also used for cross-country comparisons of business environment and for assessing transparency of companies in developed and developing countries. Recent events from the financial crisis in 2008 have increased the urge to investigate these themes.

Keywords: corporate governance, ownership control, political ties and connections

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1. Introduction

Political power in corporate governance is an area that has drawn the attention of many scholars. Roe (1994, 2003) has investigated the heritage effect of political and economic history on corporate culture and in shaping the separation of ownership and control. Shleifer, Vishny (1997: 774) close their survey on corporate governance by asking a crucial question: “what are the political dynamics of corporate governance? Do political and economic forces move corporate governance toward greater efficiency or, alternatively, do powerful interest groups [...] preserve inefficient governance systems? How effective is the political and economic marketplace in delivering efficient governance?”

Our research question is closely connected to this remark and focuses on the loose ties that connect former state-owned enterprises (now privatized listed firms), politicians and new controlling shareholders. Have politicians still got the power to influence on the firm’s corporate governance? Do political forces move corporate governance towards greater efficiency? Can they influence the balance of power among groups of shareholders? These questions are even more relevant in the face of recent events worldwide concerning the financial crisis. We investigate influences by politicians and other outside parties on corporate governance and on several other strategic management tasks which pertain to the

Board as of their exclusive mandate. Furthermore, we ask if they can have effect on the ownership structure of those firms.

What we detect, even before the current wave of political intervention in the business, is that we cannot consider politicians as independent policy-makers and rule-setters, but as actors in the corporate governance game. In the end their presence contributes to delivering less transparent corporate governance.

We characterize this active role on the firm as an idiosyncratic form of corporate governance and call it moral governance. We show that politicians can have such a far reaching influence as to condition ownership structure of firms, thus revealing ineffective rule of law. Indirectly, then, our paper supports also some of Roe’s considerations when he underlines politicians’ attitudes towards corporate governance. The current financial crisis in 2008 has increased the motive to rush to intervene.

In this paper we support Hilb’s idea (2005: 570) that corporate governance is situational: it differs with national, industrial and organizational culture. We contextualize our analysis in Italy in the period 2006-2007. We focus on two Italian clinical cases of listed firms in which politicians enter the scene when a major re-organization occurs whose motivations were internal. First, we study the proposed merger-of-equals between Autostrade and Abertis, announced in April 2006. Second, we analyze Telecom Italia’s recent history: its plans to break up some activities

and spin-off assets, announced in September 2006, and its quest for an industrial partner. We also take a look at the desire by the dominant shareholder in Telecom Italia to sell own shares to the new partner. While we report anecdotal evidence, we derive some conclusions of general interest. In a companion paper (Di Betta, Amenta 2008) we analyzed moral governance from a stakeholder perspective, explicitly using power as the underlying variable. Whereas that paper was concerned on stakeholder perspective, herein we focus on corporate governance, ownership and control. We concentrate on the effects of politicians as if exerting corporate governance, using models and perspective taken from that literature. For the two clinical studies in this paper, we keep aside the role of power and concentrate only on the effects politicians have on corporate decisions, in order to show the pressure put forward by Italian politicians on Board members of the two firms. Implicitly, this indirectly expresses attitudes politicians have towards the business world and their corporate culture.

In section 2 we define moral governance, in sections 3 and 4 we split it into internal and external mechanisms of corporate governance, respectively; in section 5 we illustrate some examples of defense strategies, and in section 6 we briefly conclude with some remarks.

2. Politicians, governance and ownership: moral governance

The classical debate on corporate governance is framed on the separation of ownership and control. Our research question is: are ownership and control separated from politics, and to what extent?

Bhagat, Jefferis (2002: 22) define relational investors those “influential shareholders who hold large blocks of a company’s stock for a long period of time and actively monitor its performance”. In this paper performance is not measured according to efficiency improvements, but in terms of private benefits politicians succeed in obtaining. These benefits assume several aspects: more influence on directors’ decision-making, benefits accrued to relatives and constituencies that increase probability of re-election, even bribes for themselves and/or to fund own party. We present the hypothesis that politicians can become “informal” relational investors. They can exert blurred forms of takeover activity that reduce directors and owners entrenchment. On the opposite front, what are the defenses owners and directors can rationally implement to prevent such activities to maintain independence?

In a very broad sense, corporate governance concerns the exercise of power over corporate entities. [1] We introduce a specific denotation of corporate governance along these lines, “moral governance”, that could help in characterizing the relationship between politicians and the firm and which can be interpreted as specific form of political power in a

corporate context. We show this was present even before the huge wave of political interventions witnessed in 2008.

In a business environment expectations matter, and the perspective of having unforeseen actors in the scene is important when considering investing in a firm. We define “moral governance” as the mixture of joint (1) verbal moral suasion and decisions by politicians and associated activists, (2) legislative, judiciary and regulatory acts, (3) actions by other actors in the stakeholder arena, according to which politicians directly influence firm’s strategy (at corporate and divisional business level), and even cause changes in the ownership structure of the firm and its beneficial owners. Consequently, politicians exert corporate governance from outside of the company and become forces in the market for corporate control.[2] Moral governance often arises in occasions of major reorganizations, spin-off or break-up, merger and acquisition deals, alliance formation. It is seldom detected, because in oral form and informal way, at its best it is transmitted by networking schemes that cut through Board and other organisms of corporate governance to become itself a mechanism of corporate control.

The first clinical case concerns two firms in the highways and infrastructure industry. In April 2006 the Italian *Autostrade s.p.a.* (listed at Milan) and the Spanish *Abertis* (listed at Madrid) announced a merger-of-equals (a consolidation). The chain of control is as follows. *Schema28 s.p.a.*, a company belonging to the Benetton Group, controls *Autostrade*, which manages the business through a subsidiary, *Autostrade per l’Italia*. The terms of the alliance were very friendly, since *Abertis* was at the time a large shareholder in the controlling entity, *Schema28*. The partnership ended in 2008 after the failure of the attempted consolidation.

The other case of interest is represented by *Telecom Italia s.p.a.*, the former state monopolist for local and international telephone calls, listed at Milan and at New York Stock Exchange. A re-organization was launched in September 2006. Mr Tronchetti Provera, the President of Telecom and also the larger shareholder in *Pirelli* Group, wanted to split-up the cellular phone calls subsidiary (*Telecom Italia Mobile*, TIM) from home calls and concentrate the business on broad-band and the media by developing a partnership with News Corp focussed on the contents by leveraging on 20th Century Fox. As a part of the re-organization plan, TIM would have to be sold. Oppositions to this plan immediately arose. Politicians started a quest to find new shareholders and industrial partners to enter in the coalition controlling Telecom. This research stormed the first half of 2007 and the final closing occurred in late October 2007, when the former controlling shareholder sold his stake to new industrial and financial partners in Telecom.

Autostrade and *Telecom* have some similarities: they supply utilities of social impact and relevance

and as such the industry is highly regulated. They have close ties and formal relationships with politicians and bureaucrats, mostly due to a long term public grant and a patent licence in either case.

They are former state-owned enterprises (SOEs) which were privatized to reduce public debt, and subsequently found either a dominant or a controlling shareholder. Benetton Group is dominant in Autostrade, Pirelli Group controls Telecom Italia.

Autostrade has undergone a privatization process without a golden share in two steps (Barucci and Pierobon 2007): in December 1999 a 57.6% stake was sold to the public and in March 2000 a 30% stake was sold to Schema28.

Telecom's privatization started in September 1997 when a 9% stake was sold and a *noyveau dur* composed of several Italian outstanding groups became the controlling entity with 6.6%. In October that year a 20.2% stake was sold to the general public. In 1999 a successful takeover by a group of investors established new controlling shareholders on Telecom Italia, through *Olimpia s.p.a.*, which owns an 18% stake. Two years later, these investors sold Olimpia to Pirelli Group (whose major shareholder is Mr Tronchetti Provera). Pirelli owned 50.4% of Olympia, later raised to 80% and had Mediobanca and Benetton as partners at 20%.

We analyze the impact politicians and other actors have in internal and external corporate governance mechanisms using these two clinical cases as benchmarks.

3. Moral governance and internal mechanisms of corporate governance

Let us start by considering the role on internal mechanisms of governance. We detect instances where politicians exercise unexpected director rights. Politicians have a relevant role in internal mechanisms of the board when they influence: *i*) the strategic management of the business (e.g., financial communication, alliance formation, asset and cash flow control), and *ii*) board members composition, turnover and entrenchment, and compensation.

The impact of politicians in firm's strategies is a matter of extent, since it is self-evident that they can play many roles as policy-makers and rule-setters. We consider only direct intervention on the strategies of a single firm, which can appear in various features.

Whereas politicians do not have a duty of loyalty or a duty of care towards the shareholders of the firm, they have a political mandate from the Country. In many cases they appeal to an abstract need to defend "nationality" of those firms upon which they keep an eye. They even use metaphysical terms: keeping a firm Italian is to maintain their "Italian essence", as a consequence they want to protect firm's real assets as part of the "Italian heritage".

As a guideline, in Table 1 we present a sketchy summary of activities by politicians as forces in

internal mechanism of corporate governance, for the two cases.

Insert Table 1 about here

First, politicians can show interest in financial communication, by releasing inside news concerning the firm, news they have obtained in private talks. In the Telecom case, Pirelli announced a reorganization in mid september 2006, according to which two separate business units would be dedicated to cellular/mobile (TIM) and to home calls. Two days later, the Prime Minister R. Prodi complained (in an official press release) that the plan had not been announced to him during two private talks he had had with Telecom President Tronchetti. Prodi regretted not being informed by Tronchetti on his true intentions. The awkward part of the official press release was that it disclosed private information concerning ongoing talks between Telecom and prospective partners. Once revealed, these secret talks were interrupted.

Second, politicians influence strategic management when stopping alliances with prospective partners. Abertis was a shareholder of Autostrade, and looking forward to a merger of equals. The Italian Minister for Infrastructures and Transport opposed to the merger on grounds that general contractors were shareholders in Abertis and could consequently become shareholders of Autostrade, even indirectly. Another example, as we mentioned above, was the official press release by Prime Minister Prodi that disclosed private information concerning ongoing talks between Telecom and prospective partners. It was revealed the content of talks between Telecom and *News Corp*, and other undisclosed talks between Telecom and *Time Warner*, and Telecom with *General Electric*. The results was the release of price-sensitive information and strategic news by the Prime Minister concerning the content of hypothetical alliances of interest for a listed firm, while stock markets were open, with the consequential possible price movements of the stock, and, incidentally, the breaking up of the talks. As a matter of fact, few days later *News Corporation* announced non-exclusive alliance with *Fastweb*, a competitor to Telecom on the same business – broadband and television content on the internet. Talks between News Corp and Telecom re-emerged only a year later, after Pirelli and Tronchetti had quit, and involved the new controlling shareholders

Foreign nationality of partners was under scrutiny in both cases. Among Abertis's shareholders was a construction builder company and that was questioned, too. In the Autostrade case an apparent "go" to the merger came after the Italian and the Spanish Prime Ministers met in Madrid. At the same time, from that political summit came a stop to a proposal by *Telefonica* to become industrial partner with Telecom. That was a first attempt and it must be

distinguished from the second attempt which ended well. In fact Telefonica later became member of the dominant shareholders' coalition that acquired Pirelli's stake. It is interesting to notice that when Tronchetti conducted talks with Murdoch and with Telefonica, those talks were blocked. Afterwards, Telefonica bought from Tronchetti with the politicians' applause, and new talks opened on the same terms with Murdoch, now conducted by the new Telecom President, Mr Pistorio.

Third, politicians can influence both control and cash flow rights. Politicians have an option to divert assets from their actual usage and can exercise asset hold-up. They show not only a residual income right on earnings and cash flows – by influencing subsidies, taxation and exemptions – but also on a chunk of the residual control right. Residual control right is defined by Hart (1995: 30) as “[...] the right to decide all usages of the assets in any way not inconsistent with a prior contract, custom, or law.” We have not quantified the impact of this option, which can counterbalance the findings by Bortolotti, Faccio (2004). They show that in cases of reluctant privatization, when the State transfers ownership rights without giving up control rights, there is not a negative effect on valuation, due to possibility of financial aid. As a matter of fact, along the lines of reasoning similar to Bortolotti, Faccio (2004), yet somewhat differently, we can consider Autostrade and Telecom as examples of reluctant privatizations.

Politicians can threaten to change the terms of the public grant or the patent licence, to legally dispute contractual obligations, leveraging on the regulatory hearings schedule. The extent of the regulation of the industry is an important variable, together with the effectiveness of the rule of law.[3] In October 2006 a Bill was proposed in Parliament to introduce many substantial changes in the regulatory regime, among which a rule that allowed ANAS to propose a new grant to Autostrade. If Autostrade had not accepted the proposal, the grant would have passed to ANAS itself. This amendment was later dropped. In the Telecom case, a change was introduced in the law concerning communications (article 45, point 3 bis) according to which in exceptional cases (and at its own discretion) the regulatory agency can decide what to do with the bottleneck infrastructure (“last-mile”). A sentence by administrative court in October 2006 blocked Telecom's plans to augment television services via internet protocol.

As said, after privatization of Telecom Italia, a controlling group emerged, represented by Pirelli. At the announcement of a major re-organization of the firm involving the spin-off of some assets, the Counselor to the Prime Minister (Mr Rovati) intervened and indirectly proposed an alternative plan of re-organization of the assets, by informally submitting a plan to the President of Telecom (so called Rovati plan). The Prime Minister apparently was unaware of the existence of the plan itself. The plan expressed a very precise break-up of Telecom

into divisions, each with its business mission, assets and business areas.[4] A proposal concerned the last-mile network, put either in a division with independent Board of directors or in a corporation to be listed. Another proposal contemplated the possibility to sell this corporation to a State-owned fund. The Rovati plan represented an alternative entrepreneurial vision to that expressed by the controlling shareholder. The main question for politicians, unions and the media was, Can Italy lose control on such a strategic assets and business? For example, in the Telecom case the most usual question was: is the controlling shareholder selling TIM and Telecom's assets in Brasil just to to make cash and keep control on Telecom? These questions are evidence of reduced control rights on the assets.

While we have a straight-forward definition of tunnelling (Johnson *et al.* 2000) as “the transfer of assets and profits out of firms for the benefits of their controlling shareholders”, we do not have a term to dub a similar behaviour by politicians. Even though it is not appealing to depict a conspirational setting, we consider that politicians have a “lurking option” insofar they can modify the scenario and change the business environment in an industry by applying their power. By changing horses in midstream, politicians impose “lurking costs” to firms (even listed ones), costs that emerge as a further, random, out-of-the-blue burden on the firm: these costs look similar to asset diversion, and we can name this behavior political tunnelling. In our opinion, these lurking costs ultimately originate from a spatial conception of the firm's activities as tied to territory and *jus soli*, as if the rule of law was graciously exercised by the politician. Recall Bortolotti and Faccio's (2004) argument on reluctant privatization and the possibility of having subsidies. Here, on the contrary, the fact that the State can come back using control rights generates a lurking option to “buy back” the firm in some way or another. A lurking option is an out-of-the-hand card that politicians can play, even though they have not got a golden share (or an *action spécifique*, or the like), not even a single share. However, it is interesting to notice that lurking costs can be perfectly legal, because their justification is engraved in the law. In some other cases they amount to a diluted form of corruption, when the entrepreneur prefers to do a favour to a politician to avoid retaliation, absent a clear legal ground on which the requests by politicians can stand. We must underline, however, that politicians do not grab assets or profits for themselves, there is no evidence or suspect of bribes: they directly intervene to modify or at least influence the strategies of the firms, as if directors, executives, shareholders. Their influence on results and cash flows is indirect, through the decisional process.

Finally, consider the Board of Directors (or, in a dual system: the Supervisory and the Managerial Boards): politicians influence its composition, turnover, entrenchment, and compensation. Moral

governance is exercised informally: informal ties and *nuances* play an important role, and what seems an irrelevant difference can make a huge effect. In this area interpersonal confrontation and psychological factors can make a difference, so charisma and leadership are important factors in counterbalancing political power. At its best, moral governance is transmitted by networking schemes that cut through Board powers to exert governance over firms, to force changes at corporate and business level (competitive) strategy. The result is that strategic management is diverted from the hands of the Board and from general shareholder's meetings, and even corporate governance is endangered. Politicians might influence boards because they have a tie with members (especially if they have appointed them to those posts) or due to social network. The independence of the firm from politicians is reduced when politicians and board members have shared many experiences together: at school, at university, by taking part to political activities in a party and so on; friendship and acquaintance are constitutive parts of networking. Politicians become virtual partners with a "random" appearance and reduce property rights.

Understanding the direct influences on the composition of the Board requires a perspective based on networking studies, a field where multidisciplinary is the rule. One line of attack on this front will be to refer to studies on Japanese corporate governance studies, where corporate governance and social exchange theory meet, especially when dealing with *keiretsu* and the ties between the main bank and the firms (Wan *et al.* 2005; Charkham 2005: ch. 3; Morck and Nakamura 2005). [5] We agree with Kim (2005) in distinguishing board network density and board external social capital. The former refers to the extensiveness or the cohesiveness of contact among the members, the latter can be defined as the degree to which board members have outside contacts within an institutional environment. We stress the role of networking between board members and politicians as included inside the board's external social capital dimension.[6]

Being a state owned enterprises (SOEs) allows the politician to directly appoint members to the Board, expecting in return loyalty from them. Even Board compensation can be directly fixed by politicians. Becoming a former-SOE should reduce this connection, but to a limited extent, because the management still behaves as in the old times. Sometimes, in some countries, a Member of Parliament (or a former one) can sit in the Board in either case (SOE, or ex-SOE). Corporatization can reduce the tightness of connection, but to a limited extent. Dual-board corporate governance could increase the dependence on external political actors, because (ex-)politicians could sit in the Board of Surveillance or appoint friends. This influence is stronger if politicians have a golden share or other forms of control to appoint Board members. For

example, in Italy, the civil code allows privileges to appoint board members or auditors to state owned firms (articles 2449 and 2450). Privatization issues are very important in these cases. Ex-post, the motives of privatization can be measured by the degree of payout policy put forward by the SOE: high dividend payout is indicative of a public-debt-reduction (p-d-r) motive, as opposed to a liberalization-of-the-economy motive. It will be then the case that there are higher probabilities that the politicians want to go on controlling the firm: the permanence of a golden share and/or the degree of moral governance are connected to this p-d-r motive.[7]

Will the distinction between executive and non-executive, and the presence of independent directors, make a difference? In many highly-regulated industries executive directors and managers develop idiosyncratic skills and competences to deal with the bureaucracy (ministry which used to have direct control on the SOE and the regulatory agency). Some of them use revolving door to go back and forth from bureaucracy, agency, firm; their primary, long term role is networking. Non-executive directors show other peculiar skills, too. A specific and important role is by university professors which share their knowledge and serve as non-executive components of the Board, mostly as President of the Board. Thanks to their undisputed qualifications and intellectual independence, they have developed competences in dealing with politicians, especially at mitigating their requests with the interests of the firm. They end up becoming a-beyond-the-scene instrument of bargaining. Some of them can even become guarantors of good corporate governance of the firm towards the concerned judiciary power, which then abstains from prosecution. Having charisma in judicial circles and courts is a very important competence in these contexts. Some of these professors might become politicians themselves, at various levels: they can be elected as "independents" in the lists of a political party (which usually is able to guarantee election in a "sure" constituency) or even become prime ministers. A *cursus honorum* would include: full professorship, member of a board (maybe even in a soccer club), president of a SOE, president of a privatized SOE (not necessarily the same as before), president of a branch or an agency or SOE or State-Owned-Undertaking, president of a regulatory agency, deputy or senator or vice president of a political party, or prime minister, and so on.[8] Both, executive and non-executive directors, might pursue their own private agendas, which could be aligned to the interests of politicians with whom they might (occasionally, temporarily) network; it is interesting to underline that politicians might not entirely trust them and still there is a highly intensive set of mutual relationships, based on expectations of future exchanges of favors.

Our proposal fits well also with Hilb's (2005: par. 3) analysis to manage an integrated board: in Italy

recruitment of independent members is often based on external social capital and can be used by politicians from outside the firm to improve board integration, and at the same time keep an eye on the strategic orientation of the firm itself. In our case, integration is in the interests of politicians.

Let us see now what the results are of this pressures put up by politicians. A pattern is devisable in moral suation, to address the issue of influences on the Board. Informal meetings between politicians and the directors of the firm (the Prime Minister and the President of the firm) are followed by official ones and become public only according to press releases. Politicians go on meeting representative directors of the firm. Comments appear in the press and by union representatives, foreseeing layoffs that politicians are urged to prevent and block. A surge of public opinion concern is mounted. It is interesting to notice that industrial group which are shareholders in newspapers can escape from too much press pressure, eventually by counterbalancing the comments. In passing, there appears a rationale to explain why Italian industrial groups have those stakes in newspapers ad/or in the media. In both our cases the final result was a turnover in Board composition and assignments (for more details, see also section 5).

We now turn to external mechanism of corporate governance.

4. Moral governance and external mechanisms of corporate governance

Consider now the role of moral governance as an external mechanism of corporate governance. Moral governance has a role not only as an internal mechanism of governance, because it influences strategic decisions and the way assets are managed, but also as an external mechanism. In these instances the ownership of the firm is put under scrutiny. Politicians exert a role as an external mechanism of governance by influencing ownership structure, with a role comparable to the market for corporate control and the financial system. Politicians show up holding unpredicted anti-director rights and shareholder proxy-fight rights, they seem to hold “quasi-voting rights” as if shareholders.

As a guideline, in Table 2 we present a sketchy summary of activity by politicians as forces in external mechanism of corporate governance, for the two cases. We have witnessed a massive involvement of the Italian Cabinet and other politicians to condition the conduct of business by those firms, the re-organization and merger and acquisition activities they were involved in, the change in dominant shareholders and ownership structure controlling them.

Insert Table 2 about here

The ring-in-the-chain between internal and external mechanism of corporate governance is the

assessment and the evaluation of financial and strategic performances of the firm. Politicians do not abstain from releasing evaluations in those areas, too, as if they were auditors. The distinction between internal and external mechanism is blurred because politicians make outcried and public assessments and evaluations on the financial results and overall competitive performance, strategic management and organizational structure of the firm they have decided to track down. After singling out firms, they comment upon their ownership structure, even questioning and scrutinizing the decisions of the controlling shareholders in order to influence the public opinion whether a change in the controlling shareholders would be a viable solution to problems. The ownership structure is put under scrutiny for each firm by politicians, by asking such piercing questions as: Is it too much indebted? Can it keep up with the installments and repay the debt? Is it correct that the ownership structure of firm X be like that? Are shareholders tunnelling? These questions arose public concern, with a relevant impact in the financial world (dominated by expectations and rumors) especially so in the case of listed firms.

Consider capital structure and dividend policy. In both cases financial situation was always scrutinized and commented upon by politicians, and the role of banks in the ownership structure was pervasive. According to politicians, Telecom and the Pirelli group as a whole had too much debt. In Autostrade, they foresaw higher debt in the new company arising from the merger, with the self-contradictory explanation that the debt burden would be caused by the fact that highways are cash-cows. This argument was not without political reasons, because it arouse public alarm on expected highways tolls.

Dividend policy is tangled with investment policy (see “Cash flow control” cell in Table 1). In both cases there was a constant argument by politicians against dividend policy: politicians explicitly asked, Is the adopted dividend policy appropriate? In the Telecom case the firm’s dividend policy was accused of being in the interests of the controlling shareholder (Pirelli Group), draining resources from investments in the infrastructure. In the Autostrade case an extraordinary dividend was to be distributed before the merger, in this case draining cash from investments that should have been done – and were not – in the Italian highways.

To the extreme, political influence can be so extensive to have an impact on ownership turnover, such as when indirectly soliciting the appearance of some sort of white knight to acquire the firm.

Privatizations issues and (de-)listing of firms are relevant themes that are implicitly taken into consideration in the debate regarding the two cases we analyze. Plans were made to spin-off a business unit with bottleneck as sole asset (Telecom) or to withdraw grant (Autostrade), in both cases examples of a reluctant privatization. A full review of the regulation settings in the highway ended in October

2007, when Autostrade accepted to sign a new grant, and the State decided to invest more. In October 2007 Telefonica, the white-knight, has declared that they oppose a break-up of the last-mile bottleneck.

Politicians rely on other special powers accorded by law, as in cases of golden shares, or other direct and indirect forms of ownership. In cases of a privatized firm (ex-SOE) politicians do not want to lose former control, and leverage upon the concept of public service. They could choose among some alternatives during the privatization process: *i*) to establish a golden share (or an *action spécifique*); *ii*) to support the formation of a *noyau dur*; *iii*) to stimulate the emergence of a stable group of non controlling, yet dominant, shareholders; or *iv*) to incur in various forms of lurking options, when the privatization process is ended and neither of the other forms of control could apply. In the latter case a pivotal player (such as the above-mentioned professor) could be a cohesive force among the new shareholders in the eyes of the politicians, and a form of control of last resort.

Sometimes, in industries such as telecommunications, defence, bank, insurance, the Minister of Economy of a country can oppose to a specific shareholders who already owns at least 3% of the shares, to improve their stake. The Ministry has a motivated veto power, by appealing to “vital interests of the State” in occasions when it is the special shareholders’ meetings to decide (mergers, spin-offs, liquidations, and so on). Article 22 in Telecom Italia’s company charter is along these lines. In these cases, then, politicians can be seen as if beneficial owners, when they have golden shares or other forms of ownership, or as a peculiar expression of contingent ownership.[9]

Consider now the chain of control and ownership structure. A common feature in Italian listed companies is to be part of a pyramidal structure, according to which families perpetuate control and dynasties and at the same time keeping pace with growth needs of the firms, by recurring to equity leverage and long term relationships with banks along the chain of control of subsidiaries. It is often the case that many firms in the pyramid are listed. This makes the question “Is not it too much indebted?” a very disturbing question for the President of the holding company of the group. Recently, this question has been more and more often made, since leveraged buy-outs have become common and criticized for the debt burden they bring in.

In Italian history, banks have been part of political power, expression of their direct control on the economy, the most important Italian banks have traditionally been State property. The privatization wave of the nineties has interested bank, too. Nowadays, keeping connections with the board of banks implies major political power.

The pyramidal structure of Autostrade (the listed company) is not capable of shielding the subsidiary which owns the public grant to run the highways

(Autostrade per l’Italia) from the direct intervention of politicians. To underline the difference, in the midst of the attempted merger, the name of the holding company was changed by the Benetton Group in order to avoid confusion, from Autostrade to *Atlantia*, so to distinguish higher level of control from the lower level which owns the public grant. If we consider pyramidal structure as a form of beneficial ownership, we see that it cannot shield the attacks. In Pirelli’s case a reduction in the chain of control (a much lauded move) did not prevent declarations against the pyramidal structure. In the face of a reduction in the chain of control on Telecom (two firms were eliminated by incorporation), the pyramidal structure of ownership control was accused of threatening minority rights. Politicians used arguments against the pyramid as an excuse to fight the proposed re-organization and on-going talks (with foreign prospective partners). In both Telecom and Autostrade cases, by showing that the line of control is too long and equity leverage is too extensively used, unions, newspapers and politicians mounted a campaign to change the opinions of the public on the ownership of the firm and its controlling shareholders.

As said, politicians show unpredicted anti-director rights and shareholder proxy-fight rights. In some cases politicians might even appeal to the non-controlling shareholders, to oppose the controlling shareholders and the proposed merger (there is a “quasi-call for a proxy fight” by politicians). Indeed, these anti-director and proxy-fight rights do not improve upon any index of minority protection against managers and dominant shareholders (along the lines developed by La Porta *et al.* 1998). This implies that the mere presence of anti-directors rights do not improve corporate governance. Instead care must be put to detect who are those making the appeal in favor of minority shareholders: if the call is made from politicians it could be a suspicious call.

5. Effects of moral governance on corporate governance and ownerships structure, and possible defense strategies

In a broad sense, politicians conducted a form of takeover activity (“political takeover”) through moral governance, with effects on the Board and on ownership. In both cases the final result was to show a turnover in Board composition and assignments, and ownership turnover. In Table 3 we report some final results on the pressures by politicians, on board composition and ownership structure, together with some hints on the behavior of the stock price at announcements.

Insert Table 3 about here

Board turnover in both cases was relevant. Events went wild in mid-September 2006, after Telecom Italia Board announced the reorganization. The famous official press release by the Prime Minister

Prodi revealed private meetings with Telecom President Tronchetti (the most important exponent of the controlling group). Harsh public exchange of accusations in the press ensued between Tronchetti and Prodi, up to the point that the former decided to resign from President of Telecom, as if lacking relational and network capabilities.

As a matter of fact then, the evolution of the events and the tit-for-tat accusations of unfair behaviour on both sides (Prime Minister and President of Telecom) caused the turnover of the President, as if he lacked external social capital when dealing and talking with the new Cabinet. Afterwards, other presidents were appointed. A new President, Professor Rossi was deemed capable of keeping good relationships with outside parties, especially to face a mounting investigation which accused a bunch of Telecom's managers who apparently had set up an espionage cabinet to bug conversations. He had already served as President of Telecom a decade before, and was considered not only close to investment bank *Mediobanca*, but also close to judiciary offices in Milan, and consequently a "guarantor" with them. When, before the annual shareholders' meeting, Pirelli announced that the group would not back Rossi to the post, he stepped down, and a new President was elected, Mr Pistorio.

By the same token, the chief executive officer of Autostrade first voted in favor of merger, but later resigned, in overt opposition to the strategic decisions approved by the controlling shareholders (the Benetton family). After few months he ended up as CEO in a fund named *F2i* set by the Cabinet to buy infrastructures.

Consider now ownership structure. In the Telecom case Tronchetti and the Pirelli group were looking for an industrial partner. Politicians stopped each one of Pirelli's efforts. News Corp was an eligible partner in late 2006, but these attempts were blocked. In the early months of 2007 Telefonica appeared as yet another partner, but it was vetoed, too. Later (first half of April 2007), *AT&T*, *América Movil* and *Telefonos de Mexico S.A.B.* showed up as perspective partners in a coalition with Pirelli. Again, they had to quit their attempts, declaring that during due diligence they had realized that there was too much uncertainty in regulation and in the business. When AT&T plus Mexicans were still talking with Pirelli, politicians suggested that a State firm should buy the infrastructure. They even evocated and solicited the presence of a white-knight coalition with banks, institutional investors an industrial partner. The coalition finally appeared (reunited under a company named *Telco*) few weeks later, in the second half of April 2007, and acquired from Pirelli a stake of 23.6% in *Olimpia*, which in turn owns Telecom. Member of the coalitions are (percentages in *Olimpia* in brackets): a bank (*Intesa San Paolo*, with 10.6%), an insurance company (*Generali*, with 28.1%), an investment bank (*Mediobanca*, 10.6%), one of the two extant dominant shareholder (*Sintonia* by Benetton

Group, with 8.4%), and the industrial partner (*Telefonica* from Spain, with 42.3). The price paid was 2.82 € (closing price that day at Milan Stock Exchange: 2.26 €) was the same at which Pirelli wanted to sell to AT&T and the Mexicans. For the selling party either alternative was equivalent and the dominant shareholder Pirelli could pursue an exit strategy. Telefonica has stressed the idea that the investment is in Telco, not directly in Telecom Italia, on whose strategies it will not interfere.

In logical terms we can express the relationship between moral governance and board turnover, and ownership turnover as directly related. Ownership turnover can be seen as the outcome of the most extreme forms of moral governance. We report this relationship in Figure 1, where we locate also the two cases.

Insert Figure 1 about here

We can now turn to analyze firm's reactions in order to understand what kind of strategies the firm could apply in order to deal with political influences, and how effective they really are. In analyzing defence strategies we follow the structure of Tables 1 and 2.

To avoid politicians releasing insider information, the only thing to do is of course: do not reveal strategic information to politicians. It is interesting that politicians condemn also an incomplete release of insider information. In the Telecom case Prime Minister lamented incomplete information on the part of Telecom President, hiding his intentions. In the Autostrade case "the merger was announced in an unappropriate time, after the elections, when the Cabinet had not been formed yet". Alliance formation should be kept as much secret as possible.

Consider now defenses to avoid asset divestitures or forms of reluctant privatization. The European case is interesting because in antitrust and other themes involving infrastructures and limits to free trade, there is a court outside the Country, represented by *i*) the European Commission (Competition, and Internal markets), and *ii*) the European Court of Justice. Each of them can represent a threat for the non-compliant State, as represented by the politician. In both cases the risk of infringement by the European Commission can be a deterrent. Unfortunately, this is true only when the rules are clear-cut, when politicians care about public funds, whereas it is less of a threat from a political point of view when citizens do not care or are unaware of the costs of political malfeasance.

The Italian Minister for Infrastructure pressed Autostrade with accusations of depleting Italian highways, of circumventing a law established at privatization that no construction firm should be a shareholder in Autostrade, and urged with threats to withdraw grant. Abertis has such a construction firm as shareholder and consequently it was considered impossible that Abertis could become shareholder in

Autostrade.[10] Autostrade underlined that the real grant owner is *Autostrade per l'Italia s.p.a.*, a subsidiary company controlled by *Autostrade s.p.a.*, the parent company, and that the rule against construction firms was valid only at the time of privatization. On the opposite front, contrary to the alliance, Ministers declared that that old rule passed by the Cabinet at the time of privatization (according to which contractors cannot be shareholders in Autostrade) was a law. Even if that is not a law, they interpreted that norm as applying way beyond the period of privatization itself, making it still valid to present days.

As a response, in order to avoid confusion, in May 2007 Autostrade spa was renamed *Atlantia s.p.a.* to highlight this difference between parent and subsidiary (the one running the grant). Benetton Group made it clear that Abertis wanted to be a shareholder in *Schema28*, the holding firm above Autostrade, and a fortiori above the subsidiary running the business. The separation of the Spanish construction firm which is a shareholder in Abertis was made even more evident, and it was shown that the chain of control was not so tight. The pyramidal structure was used as a shield against political interferences, but it did not made a difference in the tug-of-war. Later, when the partners in the merger gave up, Abertis become shareholder in Autostrade/Atlantia (as an exit strategy).

Consider pyramidal control and strenghtening controlling shareholders' pact (reducing effectiveness of the one share-one vote rule). The case of Telecom Italia is very illuminating in this respect, because Pirelli was indirectly forced to tighten up their strings of control. In many occasions politicians, journalists, unions have explicitly suggested that the actual controlling shareholders should find other relevant shareholders to strengthen the firm, implicitly suggesting dilution of participation and rising new capital through seasoned equity issues. These comments came notwithstanding the fact that the pyramidal structure is very common in Italy and Pirelli itself had re-organized and reduced the chain of control few months before these accusations were put forward. After the turnover in the President of the Board (Mr Tronchetti resigned), Pirelli acquired substantial shareholding from some banks, thus strenghtening its position in the controlling firm above Telecom Italia (inside Olimpia, with Benetton Group) and as a subsequent move Olimpia has signed a shareholder pact (so called *patto parasociale*) with *Mediobanca* and *Generali* to reinforce the controlling stake on Telecom Italia.[11] These moves can be considered to tie-up the chain of control and to avoid the actual ownership structure to be subject to criticisms concerning the solidity of the controlling group. However, these strategies were ineffective, and in fact Pirelli sold its stake to the new coalition of shareholders, whose industrial partner was indirectly scrutinized by politicians.

We conform to the spirit of Bhagat, Jefferis's (2002) analysis, and adopt their logical structure and model; we propose an empirical approach along their lines. We can set up the joint distribution of "politician takeover" activity and takeover defense, and the joint distribution of Board turnover and takeover defense and suggest the possibility to test two hypothesis.[12]

The first is that when moral governance is high, takeover defenses cannot insulate owners from politicians, nor Board turnover can be blocked. A further test should be to check whether performance matters in this setting. In our case both firms fared well; "too well" in the Autostrade case, which was accused of not investing enough and cumulating cash to be distributed as extraordinary dividend. This model can be used to test the effects of moral governance on director turnover and ownership turnover in a setting of relational investors (Bhagat, Jefferis, 2002: 22), where influential shareholders hold large blocks and actively monitor performance, and block ownership is represented by financial institutions, insurance companies and banks.

We classify ownership turnover ("political takeover" activity) at different levels: (1) induced asset divestitures; (2) fostering the intervention of State-funded companies to buy assets; (3) influencing or guiding alliance formation; (4) sustaining and evocating the formation of coalitions to buy block holdings in the firm; (5) promoting a coalition to win and change ownership structure; (6) inserting friends and relatives in the winning coalition.

We classify board turnover activity at different levels: (1) intromission in financial communication and comments on financial performance and stability of the firm and/or on entrepreneurial skills of management; (2) remuneration of Board members; (3) change in managers; (4) appointing representatives in the Board (politicians themselves, ex-politicians, friends and relatives), eventually as independent members, eventually either as insider or outsider directors; (5) use of interlocking directors; (6) turnover of CEO and/or President.

We classify takeover defense strategies by firms as follows: (1) reduce the chain of control; (2) spin-off and listing (initial public offerings of subsidiaries to pre-empt divestitures); (3) reduce debt-equity ratio (seasoned equity offerings); (4) search for an industrial partner and sign pacts or voting syndicates; (5) search for a financial partner and sign pacts or voting syndicates; (6) reinforce the effectiveness of the one share-one vote rule (transform special shares into ordinary ones, reduce pyramidal structure).

The next step would be then to form joint distribution tables, as in Bhagat, Jefferis (2002: ch. 4) and make nonparametric tests of the following: (1) board turnover & takeover defenses; (2) ownership turnover ("political takeover" activity) & takeover defenses; (3) board turnover & ownership turnover. In Table 4 we report the joint distribution of two variables at the time: the cell entries denote the

conditional frequency of one variable given the other. Then the χ^2 test should be implemented.

Insert Table 4 about here

6. Limitations of the paper and areas of future research

An interesting area for future research is to measure what the effects are on firm value, in a business environment like this one. Investors cannot foresee the possibility and the extent of the intervention by politicians in cases like these. As a result they could apply a discount on the value of the firm, as if stemming out from a kind of systematic risk, tied to nationality and to national customs and political culture (see La Porta *et al.* 1988, on the specificity of the legal system). A recent study by Beltratti *et al.* (2007) explains a discount of this kind as an expression of the political risk in a country. When politicians exercise this option to influence, these costs can be measured from movements in stock prices. Beforehand, by using some corruption index as a proxy (e.g., Corruption Perception Index by Transparency International), investors can approximate the risk at stake.

We have shown two cases only, but the news shows more and more examples of political intervention in the economy across Europe, not only in utilities and natural resources industries. This has become a field of interest after the 2008 crisis, and there is a urge to define a scheme according to which politicians intervene, in countries where there is a common level ground – such as in Europe – but with different cultures on the role of the politician in the business environment.

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Endnotes

1. This is the definition endorsed for example by the journal *Corporate governance – an international review*. According to Shleifer and Vishny (1997: 737) “Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investments.” Even though we analyse only firms in the stock market our approach is more in line with the broader definition in the text.
2. There is not much “moral” in there, but a lot of suation and coercion, hard-to-detect and unverifiable rent-seeking behaviour, which can also end up in limitations to free trade. In a somewhat different context, Dixit (2004) distinguishes relation-based from rule-based governance: we think moral governance contributes to characterize the former type. However, moral governance is within the law and must be distinguished from illegal moral governance (say, immoral governance) which is illegally exerted by organized crime.
3. Differences in the two cases arose from the level of regulation and the legal vest of the relationship between the State and the firm. Consider first the regulatory agency: Telecom has an industry regulator, Autostrade had not. Autostrade is under a “hybrid” form of regulation: absent a regulatory agency, many capacities are still owned by the Ministry for Infrastructures and Transport. The central figure is ANAS *s.p.a.*, a corporation and a regulator at the same time. Founded in 1928, since the end of the second World War its mission has been to rebuilt Italian roads and highways, first under the legal vest of “economic public entity” and from 2003 as a corporation. It directly manages roads (about 20000 kilometers) and highways (more than 1200 kilometers) and retains some duties of a regulatory agency (as delegated by laws, by the Cabinet and by the Ministry for Infrastructures and Transport). Consider now contractual forms between the State and the firm. A specific branch of Italian law (*viz.*, administrative law) deals with the relationships involving any public entity and any other private subject. Interests between parties are vested in idiosyncratic contractual forms under the aegis of administrative law. The underlying contractual forms differ in the Autostrade and Telecom cases. Telecom Italia received a patent licence, in which case the public authority (say, the Municipality) has weaker power. Patent licence is an act by the public authority according to which it discretionarily authorizes business, by removing legal constraint to that business or activity, which a private subject has the right to conduct. This limitation is imposed by the public authority in order to guarantee public interest. Once the public authority recognizes that the private has got the prerequisites to exercise the activity or business, it is obliged to give a patent licence and maintain a “watchdog” power in the relationship. Autostrade is supposed to run the business according to a public grant. In the case of public grant the authority has full discretionary power, according to which the private party has only a “legitimate interest” (an attenuated form of right) in doing that business or activity, an interest which derives from its prerequisites. The public authority grants a right to the private organization or individual (they could not have claimed it before). In the case of public services, apart from the public grant, a contract between the parties (public and private) is signed in order to regulate the relationship (Caringella 2006). In the Autostrade case, even the nature of the contract came to be questioned, whether the relationship is based on a grant. Autostrade has sustained in court that it runs the business under a private contract (see Scarpa 2007, for a synthetic review on the suits involving Autostrade).
4. Cambini, Giannaccari (2007) compare Italy to the United Kingdom. Frequent referrals were made to the role of Ofcom during the debate that involved industry regulatory agency, commentators and politicians. As of January 2009, nothing has been established concerning the infrastructure.
5. The relationship has not got an explicit legal or regulatory basis; according to Aoki and Patrick (1994: xxi) it is an “informal set of regular practices, institutional arrangements, and behaviour that constitute a system of corporate finance and governance, especially for large industrial firms typically listed on the stock exchange” (*cit. in Wan et al.* 2005: 329).
6. See Di Pietra (2006) for empirical results on listed firms in Italy, with special attention to board network density. Barucci (2006) is a complete empirical analysis of corporate governance in Italy.
7. See Megginson (2005) for a complete analysis of privatization issues, Boycko, Shleifer, Vishny (1995) for a transition economy (Russia), and Shleifer, Vishny (1994, 1998) for the relationships politicians open up with firms.
8. As you can see, our paper has a close relationship with Faccio (2006). A distinction is made between political connections (politicians sitting as directors or managers) and political ties (loose connections between politicians and firms).
9. According to Bhagat, Jefferis (2002: 51) beneficial ownership includes direct ownership, indirect (through family members, trusts, or partnerships) and contingent ownership in the form of stock options (that could be exercised within 60 days).
10. We do not comment on the fact that a construction firm as shareholder could reduce manutention costs of the roads, nor that there are many way to avoid conflict of interests, for example, that procurement auctions could preserve equal access to highway manutention. The Minister of Infrastructures deemed the presence of such a firm a possible source of conflicts of interest, moral hazard, and so on. It is difficult that this opportunistic behavior could have happened, because at the time of the announcement the regulatory regime did not foresee toll/tariffs adjustments as a result of investments, but only a schedule of investments, on which Autostrade was indeed far behind. From an industrial point of view the Minister is blocking a form of co-opetition among complementors and is opposing convergence in that industry. Moreover, international expansion is limited: in the Autostrade case one of the industrial motives of the proposed merger was based on the possibility to enter a foreclosed market (France), in which the prospective parter Abertis had entered.
11. A pact allows forms of actions in concert among shareholders, without requiring them to launch a takeover. Members in a pact reunites before shareholders’ meeting to decide how to vote, also to infuence composition of Board (voting syndicate).
12. Bhagat, Jefferis (2002) distinguish partial from complete turnover, whether one of the two top officers

changed, or both of them. We do not distinguish these cases. For example, in Autostrade the CEO resigned, in

Telecom it was the President.

Table 1. Politicians as actors in internal mechanisms of corporate governance

Politicians made declarations and exercised their power in the two cases at stake.

Politicians expropriate capacities usually considered duties belonging to directors of the board.

Breakdown of c.g. mechanism	Content concerning Autostrade	Content concerning Telecom
Financial communication, declarations	Comments on financial performance and investments. Tariffs and tolls depend on decisions by politicians	Comments on financial performance and entrepreneurial skills of dominant shareholder Prime Minister meets President of Telecom Tronchetti in various occasions. Cabinet discloses price sensitive and strategic information concerning alliances, previously unknown
Alliance formation	Complaints that the merger was presented with inappropriate timing because the new Cabinet was not yet in charge (This implies that, when in post-election period and before the new Cabinet is settled, firms must abstain from mergers.) Impediments to the alliance, due to presence of contractors in Abertis's shareholders Prime Minister of Italy meets Prime Minister of Spain, talks	Cold reactions to alliances (News Corp; Telefonica; AT&T with America Movil). Block perspective alliances with: a) News Corp; b) Telefonica (1 st attempt); c) AT&T, América Movil. Prime M. of Italy meets Prime M. of Spain, talks. Agreement on d) Italians + Spaniards (Telefonica, 2 nd attempt) to buy stake in Olimpia, dominant shareholder in Telecom. Talks re-open with News Corp under President Pistorio and new owners (october 2007)
Asset control/divestitures	Endangerment of breach of contract concerning the grant to run the asset Change in regulatory regime proposed by budget law Proposal to renegotiate terms of grant, and if agreement not reached, loss of grant New entity from merger is not entitled to exant grant, must be re-negotiated Minister for Infrastructures and Autostrade reach a gentlemen's agreement to settle disputes (October 07). New regulation "agreed upon". The State to invest more on highways.	Tronchetti wants to split-up cellular subsidiary (<i>Telecom Italia Mobile</i> - TIM) from home calls and concentrate on broad-band and media, in partnership with News Corp on the contents (20 th Century Fox). TIM to be sold Harsh reactions to proposed re-organization ("we were not informed") Plan to split the network prepared by Counselor to Prime Minister ("Rovati" plan): (1) division with independent directors; or (2) bottleneck company to be listed Declarations by politicians and regulators on the network: interviews expressing the necessity to keep public control on the bottleneck, which is "Italian heritage". Need to invest more on the bottleneck. Regulatory agency launches consultation on breakup of bottleneck TIM cannot be sold, it is the only one remaining Italian company in cellular calls. Comments on asset sales in Brasil, and on the international strategy of the firm Risk of selling Italian heritage to USA. Proposed Bill to break-up bottleneck, if agreement not reached with Telecom, functional spin-off of the bottleneck will be pursued President Rossi proposes reorganization of business units (January 2007) Telecom hires consultants to evaluate possible breakup of bottleneck
Cash flow control	Change in regulatory regime Opposition to payment of extraordinary dividend, because investments should be made with that money instead Complaints on the lack of due investments while instead use that money to pay extra dividend	Necessity to invest in the bottleneck Dividend policy is not good: payout ratio too high No dividend for 2006
Board composition, turnover, entrenchment	CEO resigns and becomes CEO of F2i, a newly-built State-owned fund to buy infrastructures	Dominant shareholder and President Tronchetti resigns, Rossi new President (9-'06, 4-'07) and changes in top echelon managers, Pistorio new President (4-'07)

Table 2. Politicians as actors in external mechanisms of corporate governance

Politicians made declarations and exercised their power in the two cases at stake.

Politicians act with capacities in the market for corporate control: "political takeover".

Breakdown of c.g. mechanism	Content concerning Autostrade	Content concerning Telecom
Capital structure: amount of debt, Debt/Equity ratio	Generic hints to financial situation of the whole group. New company after merger will have too much debt	Claims and concerns that there is too much debt upstream in the chain of control
Privatization issues	Bottleneck is Italian heritage	Bottleneck is Italian heritage. Plans to spin-off of a business unit with bottleneck as sole asset. Minister of Justice suggests state-owned holding company <i>Cassa Depositi e Prestiti</i> to buy 33% stake in Olimpia (holding that controls Telecom)
White knight search (passivity rule)	Threats to revoke grant, and pass it to ANAS	Denounce lack of competitive strength on firm's part Exhortations by politicians to Italian banks and entrepreneurs to grab the torch to keep the company Italian (later, together with the Spaniards) <i>vis a vis</i> letting Americans become dominant shareholders Many white knights prepare in the background (e.g., one group apparently included: Deutsche Telekom, Rotschild, Unicredit), many banks deny interest At time of the closing during the final deal, Minister of Treasury telephoned to each party in the coalition buying Telecom, to be informed of latest developments. Winning coalition is composed of banks (Intesa San Paolo, Mediobanca), former shareholder Benetton Group, and Telefonica. They buy stake in Olimpia, which is dominant shareholder in Telecom, through a newco, <i>Telco</i>
Ownership structure and chain of control	No contractors should be among dominant shareholders Abertis to sell shares it jointly owns with Benetton in the holding (Schema28) which controls Autostrade/Atlantia, receiving shares of Atlantia. Pact with Benetton ends in 2008.	Pyramidal structure generates concerns to protect minorities. Leveraged buy-outs procedures are not good, too much debt. Pirelli group exits. General satisfaction on the new ownership structure, positive comments when final deal is done and Telecom "remains" Italian (in the coalition: Telefonica is the industrial partner, there are banks as financial partners, Benetton remains). Telco spa is the newco which buys the stake from Tronchetti, a new pyramid is formed.

Table 3. Effects of politicians' activity

Effects on:	Autostrade	Telecom
Price (at announcement)	Positive when Autostrade and Abertis announced merger Positive when Minister and Autostrade signed truce after Abertis has declared exit strategy	Positive when Telefonica appears as industrial partner. Negative when retires (1 st attempt) Positive when talks with AT&T, América Movil Negative to strategic plan by Rossi Negative when final deal done, positive for the media company
Board control	CEO resigns and becomes CEO of F2i, a new State-owned fund to buy infrastructures	Dominant shareholder and President Tronchetti resigns. Rossi new President (9-'06, 4-'07), changes in top echelon managers. Rossi voted against in annual shareholders' meeting, Pistorio new President (4-'07)

Ownership

Abertis exits. First, it fixes a period before which merger should be established (until January 2008). Later, Abertis sells shares it jointly owns with Benetton in the holding (*Schema28*) which controls *Autostrade/Atlantia*, receiving shares of *Atlantia*. Finally, pact with Benetton will end by June 2008.

Minister for Infrastructures and Autostrade reach a gentlemen's agreement to settle disputes (October 07). New regulation "agreed upon". The State to invest more on highways.

Pirelli reduces chain of control in the pyramid. Pirelli rises stake in *Olimpia*, which controls *Telecom*, and ties in controlling shareholders' pact on 23.2% of *Telecom* shares (October 2006).

Many white knights prepare while official talks by Pirelli with AT&T and mexicans are in progress (e.g., one group apparently included: *Deutsche Telekom*, *Rotschild*, *Unicredit*). However, many banks deny interest, especially after declarations by politicians

Pirelli group exits. Winning coalition is composed of bank (*Intesa San Paolo*), financial institutions (*Mediobanca*), insurance company (*Generali*), former shareholder (*Benetton Group*), and new industrial partner (*Telefonica*). They buy stake in *Olimpia* which is dominant shareholder in *Telecom*, through a newco, *Telco s.p.a.*

Talks re-open with *News Corp* under President *Pistorio* and new owners (october 2007)

Table 4. Joint distribution

We report here the joint distribution of the two variables, where the cell entries denote the conditional frequency of one variable given the other. Three tables will be generated: (1) board turnover & takeover defense; (2) ownership turnover & takeover defense; (3) board turnover and ownership turnover. The χ^2 test should be implemented for each of them.

Takeover defense [Ownership turnover]	Board turnover [Ownership turnover]		
	(1)	(...)	(m)
(1)			
(...)			
(n)			

Figure 1. Moral governance, board and ownership turnover

