WHO ARE THE INDEPENDENT DIRECTORS IN LARGE ITALIAN BANKS? IDENTITY, DIVERSITY AND DISCLOSURE

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Abstract

This paper investigates the quality of the independent directors of large Italian banks, with the aim of understanding who they are and the degree of diversity among them. The extent to which the profile of the independent director meets the requirements of independence as well as the level of biographical disclosure is also examined. The results indicate that the identikit coincides with a 60-year-old man coming from the bank's territories and with remarkable expertise and a middle international vocation, while diversity is lacking in relation to gender, education and professional background. The study also raises serious concerns about the time availability and true independence that characterizes independent directors, as well as an insufficient level of biographical disclosure.

Keywords: Independent Directors, Banks, Identity, Diversity, Disclosure

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1 Introduction and objectives

Corporate governance broadly embraces all mechanisms, processes and relationships developed to direct and control companies in an effective and balanced way, in order to improve performance (Cadbury Report, 1992). It deals with the distribution of power, responsibilities and rights among stockholders, board of directors, managers, employees and all stakeholders that influence and in turn are influenced by decision-making. Corporate governance has gained increasing attention in recent years, as testified by the continuous promulgation of rules and regulations and the release of reports and guidelines worldwide, as well as the large amount of research on the topic.

This renewed attention, after the primary contributions of the 1990s, aimed at setting out general principles and recommendations to assure proper governance (Cadbury Report, 1992; Rapport Vienot, 1995; OECD Report, 1998; Preda Code, 1999), has been enhanced firstly by the long list of corporate collapses and scandals around the world (among the most famous see Enron in the U.S.A. and Parmalat in Europe), and then by the world financial crisis. Due to the key role that banks play in the economy, corporate governance has also become a central issue in the debate on the future of the banking industry, as it is seen as a powerful tool to stabilize the financial markets and restore confidence in them (Mulbert, 2010). Banks' 'uniqueness' is at the core of more severe agency problems than in other companies (Adams and Merhan, 2003; Levine, 2004), and in recent years corporate governance rules for banks have deeply changed worldwide due to the combined influence of the evolution of banking regulations and the convergence towards the rules for all listed companies. A lack of studies on key aspects of banks' corporate governance is reported (Szego *et al*., 2008), for instance in terms of the quality of the independent directors and their level of independence. From the agency theory perspective, the appointment of outside board directors is essential to control management more effectively, to expand a firm's boundary through their social networks (Hillman *et al*., 2000) and to increase financial transparency, thereby improving a firm's performance (Walsh and Seward, 1990). Though the essential role of non-executive directors is not new and has been internationally remarked by a number of codes of conduct (Cadbury Report, 1992; Australian Corporate Practices and Conduct Guidelines, 1995; Higgs Report, 2003), today it seems to be even more crucial to prevent companies' conflicts of interests and restore credibility in financial markets. In the literature there is no conclusive evidence of the positive relationship between independent directors and corporate performance (Peng, 2004), and some scholars claim that it is the independence of outside directors that makes a difference, not just the difference between insider and outsider. Nevertheless, very few studies have been able to extract the true independence of them beyond traditional definitions (Luan and Tang, 2007). In general, a controversial issue in contemporary discussions on corporate governance has been the prevalent quantitative approach used to assess its impact (Gompers *et al*., 2003; Black *et al*., 2006; Bebchuck *et al*., 2009), blamed for disregarding the quality of individuals behind the rules and structures (Bertini, 2014). Thus, in line with the theoretical

approach arguing that 'the directors' independence cannot be built by requirements' as it is a personal quality of the individual (Stein and Plaza, 2011), this paper uses a qualitative approach to shed light on the figures of the independent directors. The aim, in particular, is to define the identity of the independent directors in the Italian banking system, in order to address the following questions:

- Who are the independent directors? Gender, provenance, age, educational and professional background and international orientation are some of the personal qualities investigated.
- What are their characteristics, in terms of time availability to serve the purpose, expertise and true independence?
- Does the identikit meet the requirements of the independence of independent directors?
- What is the degree of diversity among them?
- What is the level of disclosure about independent directors' identity?

This paper is organized as follows. Section 2 shows a regulation and literature review on corporate governance and the profile of independence, while section 3 focuses on the independent directors in the banking industry. Section 4 outlines the research methodology with reference to the sample and the data collection, section 5 illustrates results, and section 6 is devoted to the final discussion and conclusion.

2 Corporate governance and independence of directors

Corporate governance refers to the complex set of rules, relationships and responsibilities shared by ownership, board of directors, top management and stakeholders, coming from the traditions, behaviours and customs of management and control systems developed in each country (Bianchi Martini *et al.*, 2006). In relation to the characteristics of Anglo-Saxon companies, corporate governance has mainly been studied under the agency theory perspective, according to which the balancing of power and control mechanisms inside firms is needed to reduce agency costs caused by the information asymmetry existing between stockholders (the principal) and managers (the agent). In fact, the latter are supposed to act in the interests of the owners, but in reality they are often driven by the possibility of increasing their own welfare at the expense of the former (Jensen and Meckling, 1976). One of the main mechanisms to align the differing interests between ownership and managers is the board of directors, and a fair relationship between inside and outside directors (Johnson *et al.*, 1996). While the interests of inside directors are substantially aligned to those of the management, as they basically serve as 'firm officers' (Peng, 2004), the purpose of outside directors is to monitor and control management to safeguard the interests of shareholders. Furthermore, the possibility of catalysing external resources due to their social ties and increasing financial transparency in order to rebuild trust in the market, especially in times of crisis (Gul and Leung, 2004), are usually utilized to prove the effectiveness of outside directors in enhancing a firm's performance (Walsh and Seward, 1990).

Recent theories have highlighted that non-executive directors should be independent not only of the company's management, but also of any other external interest that could undermine their own orientation towards the whole firm's interest, and that the real issue is linked to the true independence of a director more than the insider/outsider dichotomy (Luan and Tang, 2007). Previous research has shown contradictory results as to the effectiveness of outside directors on firm performance (Goodstein *et al.*, 1994; Bhagat and Black, 2002), probably due to the difficulty of defining independent directors. Although the role of non-executive directors has been remarked internationally since the Cadbury Report of 1992, and consequently reviewed in a number of documents and guidelines worldwide to cope firstly with company failures and secondly with the financial crisis, no univocal agreement exists on the concept of independence.

There is widespread agreement in the literature on the fact that the extent of independence basically depends upon the professional or personal associations of non-executive directors with top management (Patton and Becker, 1987). As these associations are not always evident, seemingly independent directors, actually aligned with management interests, could be nominated. Therefore, the individual matters beyond the requirements of guidelines and codes of corporate governance, as it is the nature of the director that counts for independence and impartiality in his or her decision-making (Stein and Plaza, 2011; Bertini, 2014). Another problem is the array of definitions for independence, coming from regulations, laws and codes that companies can use alternatively within the same country (Mulgrew *et al.*, 2014).

To regain consistency in interpreting the concept of independence, in the literature a three-way classification system for directors has been proposed. It distinguishes insider directors, outsider directors and 'grey area' directors, who are those somehow affiliated with the company or its management (Baysinger and Butler, 1985). 'Grey area' includes all non-executive directors who are relatives of management, act as executives, consultants, suppliers or customers, are retirees or previous employees, hold shares or share options, have close professional relationships with the company or its external auditing body, interlocking directorates or other related party transactions. Baysinger and Butler (1985) related a firm's performance to board composition, finding that companies with a high proportion of independent outside directors achieved relatively higher returns on investments over a ten-year period. Byrd and Hickman (1992) found consistent results with the importance of

identifying 'grey area' directors, while Vicknair *et al.* (1993) provided evidence of the material presence of 'grey area' directors on many audit committees across NYSE. Clifford and Evans (1997) provided empirical support for the three-scale classification system in listed Australian companies, where the combination of insider and 'grey area' directors constituted a majority of the board. Brennan and McDermott (2004) examined the issue of independence of companies listed on the Irish Stock Exchange, finding a number of risky situations which impose upon independence, a lack of compliance with guidelines' provisions and an insufficient degree of biographical disclosure to assess directors' independence. Luan and Tang (2007), starting from the assumption of the inconsistency of the definition of outside directors, found through regression analysis a positive impact of independent outside directors appointments on a firm's performance in Taiwan.

The Italian corporate governance system has unique features, such as a limited role of institutional investors and banks in favour of a rather concentrated control structure due to the presence of a blockholder, often representing a family group, who prevails over other shareholders and is able to effectively monitor management (Melis, 2004). This paves the way for a new agency problem: majority shareholders strongly control management, and often the board is a formally constituted body deprived of decision-making power, while minority shareholders' interests remain unprotected (Brunetti, 1997). In this regard, in Italy the role of the independent director is crucial to align the interests of blockholders and minority shareholders and to increase transparency and autonomy in order to attract and protect institutional investors.

These issues have been addressed since the 1990s with Legislative Decree n. 58/1998 (Draghi Reform), which regulated the financial market and corporate governance for listed companies, and the Self-Disciplinary Code for listed companies (Preda Code) of 1999, which focused on board role and composition. Then the reform of company law with Legislative Decree n. 6/2003 aimed, among other things, to progressively drive corporate governance systems of Italian companies to the international standard models, by giving them the freedom to choose the one-tier board (unitary model) or the two-tier board (dual model) beside the traditional Italian corporate governance system requiring a board of directors (Consiglio di Amministrazione) and a board of statutory auditors (Collegio Sindacale), composed of independent and expert members appointed by the shareholders' general meeting to monitor the directors' performance.

Nevertheless, the interpretations of independence in the country vary depending upon the definitions which Italian companies adopt, usually swinging between that given by the Consolidated Law of Finance (Testo Unico della Finanza - TUF), released with Draghi Reform, and that of the Preda Code. The independent directors are, first of all, non-executive directors, which the Civil Code defines as those individuals who are not members of the executive committee, do not receive any delegated power and do not perform, not even *de facto*, functions relating to the management of the bank. Then, following art. 148 of the TUF, the non-executive director is not independent when:

- is interdict, disqualified, bankrupted, convicted and sentenced to debarment from public contracts or directorship incapacity;
- is spouse, relative and relative by marriage within the fourth degree of consanguinity of directors of the company or controlling and controlled companies;
- have working, professional or patrimonial relationships with the company, or controlling and controlled companies.

For the Preda Code, on the other hand, is not independent, as regards substance rather than form, who:

- directly or indirectly, controls the company or has a significant influence on it;
- in the three previous accounting years has been a leading representative, has or has had in the previous accounting period, directly or indirectly, significant commercial, financial or patrimonial transactions, is or has been in the three previous accounting periods an employee, gets or has got in the three previous accounting periods a significant extra-remuneration by the company or controlling and controlled companies;
- has been a director of the company for more than nine out of the last 12 years or is also an executive director in a company where is director another executive director of the company;
- is a shareholder or director of a company of the group of the external auditing body;
- is a close relative of a person in one of these situations.

3 Regulation and studies on the independent directors in banking companies

Since the initial guidance published by the Basel Committee on Banking Supervision (BCBS) in 1999, the aim of enhancing corporate governance in banks has become a central issue of the agenda of national supervisory authorities, as well as in the literature. Today it is recognized that good corporate governance in banks is extremely important, as with other businesses, to reduce agency costs and to cope with more severe agency problems caused by banks' uniqueness (Levine, 2004). The specificity of their role, the high debt-to-equity ratio, the presence of safety nets and the lack of transparency of their accounting system potentially increases both the

information asymmetry with minority shareholders and creditors and the risk propensity of majority shareholders (Szego *et al.*, 2008). The governance of banking companies has never been as relevant as it is now due to the current subprime crisis, because it is largely believed that weak balancing and control mechanisms concurred to create too imprudent a level of risk (Adams and Mehran, 2012). In consideration of the crucial role of banks in the stability of the whole economy, corporate governance is viewed as a powerful tool to restore banks' reputation and trust in the financial market (Draghi, 2008).

Italian listed banks, firstly, have to accomplish all the requirements set by corporate governance regulation for listed companies. Secondly, they have to respect specific supervisory regulations for banking companies. In this regard, in 2008 the Bank of Italy issued a regulation on banks' internal organization and corporate governance, with which were implemented the general guidelines set forth by the Minister of Economic Affairs with Decree n. 200/2004 (the 'Treasury Decree'). The new regulation, among other principles, highlighted the key role and functions of non-executive and independent directors within the board and in its special committees (Scassellati-Sforzolini and Zadra, 2008). Banks were also obliged to draw up a 'corporate governance plan'. In December 2011, the Bank of Italy carried out an investigation of 258 banking and financial companies to assess the degree of implementation of the supervisory regulation of 2008 (Bank of Italy, 2011). With reference to the number of independent directors on the board, the study revealed an average of 15.6% on the total directors, slightly higher than the standard set by art. 147-*ter* of the TUF (one or two independent directors when the board has more than seven members), but lower than 33% (and always at least two independent directors) as asked by the Preda Code to FTSE-Mib listed companies.

The investigation also remarked on the problem of the plurality of definitions of independence, none of them really satisfying as underestimating key aspects such as kinship or professional and patrimonial relationships. The study indicated as a best practice an average of 25% (or more for the most complex banks) of independent directors on the total members of the board.

The extreme generality of regulation is the reason for a number of international initiatives to enhance the quality of banks' governance, which is seen as an essential requirement to assure safer and more prudent activity. In 2011, for instance, the European Banking Authority (EBA) released the 'Guidelines on Internal Governance' which define principles to compose more efficient boards and control bodies. Professionalism, authority, experience and competence, as well as time availability to perform the task, are some of the criteria directors must respect. Board qualifications are also stressed by the updated version of BCBS' guidance, 'BCBS Principles for enhancing corporate governance', issued in 2010 as a contribution to overcoming the financial crisis. Finally, the new legislative package of the European Parliament and Council, made up of Directive 2013/36/UE and EU regulation (575/2013), and known as 'Capital Requirements Directive' (CRD IV), set out in detail aspects like the composition of company bodies, role of non-executive directors, limits on the number of directorates, and board remuneration. In particular, to improve independence and critical sense in decision-making, the question of diversity is introduced. The rationale behind this is that board composition should be diversified for age, gender, educational and professional background and provenance, in order to represent a variety of points of view and experiences and to cope with 'gang mentality'. These new advancements convinced the Bank of Italy to promote a public consultation, concluded in January 2014, to improve the 2008 supervisory regulation and align it to new European standards. In the meantime, with a Note of 11/01/2012, the Bank of Italy started a process of 'self-evaluation of the qualitative and quantitative composition of the boards of Italian banks' (Bank of Italy, 2013). A total of 43 main Italian banks were involved in the analysis, which revealed that, on average, boards were larger and the number of independent directors was lower than best practices. As regards independence, it showed a strong disparity in the sample and the fact that not much attention was paid to true independence. Participation in executive committees, or previously to management boards, length of directorship, being part of shareholders' agreements, and directorates in companies strongly indebted to the bank were some of the commonly underestimated variables. Interlocking directorates were not considered, as in Italy they have been explicitly forbidden for financial organizations by Law no. 214/2011. Diversity, level of education, international orientation and number of directorates were then evaluated, all of them showing unsatisfactory standards in comparison to best practices and regulation requirements.

The results of the self-evaluation process on banks' corporate governance suggested the Bank of Italy identify, in 2014, a set of options, together with an analysis of their impact, to improve the effectiveness of supervisory regulation. Among others, as Italian banks insufficiently addressed the suggestion of 2011 in relation to having an adequate number of independent directors on the board, the obligation of at least 25% of them (more for larger banks) on the total number of directors has been proposed.

Finally, disclosure has been recognized as a key variable for safe and sound banking practices since the BCBS release of the document 'Enhancing Bank Transparency' in 1998, highlighting six different areas of information that banks should disclose, including business, management and corporate governance. The

area of risk disclosure has become preeminent in the wake of the Basil II Accords of 2004, and especially to accomplish the third pillar of 'market discipline', as banks should comply with disclosure requirements concerning capital adequacy, risk exposure and the general characteristics of the systems put in place to identify, measure and manage such risks. The Third pillar requirement has been acknowledged with Circular n. 263/2006 (New Prudential Supervisory Provisions) by the Bank of Italy. Banks' financial accountability has certainly increased over time (BCBS, 2001; Barth *et al.*, 2004; Tadesse, 2006), but serious concerns remain about the level of corporate governance disclosure, and in particular in relation to assessing directors' true independence.

The banking literature shows a gap in qualitative research on corporate governance and independent directors. Independence has mainly been studied, following a quantitative approach, as one of the variables of board structure that is supposed to have an impact on bank performance. Nevertheless, such studies revealed diverging results as board independence alternatively appeared to be related (Mishra and Nielsen, 2000; Pathan *et al.*, 2007; Chahine and Safieddine, 2011; Stefănescu, 2014) or not related to performance (Adams and Mehran, 2012; Pathan and Faff, 2013). In other cases, the board independence of banks was supposed to be a dependent variable in order to investigate if it could be affected by regulation, finding a positive impact with the empowerment of official supervisory agencies to discipline banks (Li and Song, 2013), or by bank CEOs, finding no impact (Pathan and Skully, 2010). Furthermore, two emerging issues are associated with the independent directors' remuneration of banks, which seems to vary from the corporate governance systems used (Kostyuk *et al.*, 2012), and with diversity, basically analysed, through statistical methodologies, with reference to gender (Mateos de Cabo *et al.*, 2012; Romano *et al.*, 2012; Pathan and Faff, 2013), and to race and provenance (Stefănescu, 2011; Hartarska and Nadolnyak, 2012). Gender equality, not coincidentally, is also the main aspect of diversity considered by regulation. Law n. 120/2011 and D.P.R. n. 251/2012, for instance, established that Italian listed companies, must have in the board 1/5 (first mandate) and 1/3 (second and third mandate) of the directors belonging to the under-represented gender.

4 Methodology

The sample data are based upon the Italian banks that underwent comprehensive assessment by the European Central Bank (ECB) in October 2013. The comprehensive assessment, including a risk assessment, an asset quality review (AQR) and a stress test, has been uniformly applied to all significant European banks in the preparation of the single supervisory mechanism. Starting from the total of 15 Italian banking companies involved in the process, the final sample is made up of 14, as ICREEA Holding was excluded as a cooperative bank with proper regulation of corporate governance outside the provisions of 2008 set by the Bank of Italy for all other banks. The reasons behind the selection are that a) it is a very homogeneous group, so filling one of the gaps usually mentioned in the literature for this kind of investigation (Brennan and McDermott, 2004); b) being the larger and more complex banks, accounting for about 60% of the total capital invested in the sector in 2013, they are supposed to present advanced corporate governance systems in line with regulation requirements and best practices; c) elevated availability of information is supposed to characterize such a relevant industry and companies, as they are all banking holding companies, and 12 out of 14 are listed on Italy's Stock Exchange (The Borsa Italiana S.p.A.). As shown in the last column of table 1, which accounts for the sample's characteristics, only three companies adopt the corporate governance dual model, while the rest rely on the traditional Italian one.

Table 1. Characteristics of the sample

No.	Banking company	Asset (€/000)	Holding	Listed on stock exchange	Corporate governance system
1	Banco Popolare	126,042,652	•	•	Traditional
2	Banca Popolare dell'Emilia Romagna	61,758,052	•	•	Traditional
3	Banca Popolare di Milano	49,353,318	•	•	Dual
4	Banca Popolare di Sondrio	30,462,715	•	•	Traditional
5	Banca Carige	42,156,275	•	•	Traditional
6	Credito Emiliano	31,530,794	•	•	Traditional
7	Credito Valtellinese	27,198,703	•	•	Traditional
8	Intesa San Paolo	626,283,000	•	•	Dual
9	Mediobanca	72,841,306	•	•	Traditional
10	Monte dei Paschi di Siena	199,105,906	•	•	Traditional
11	UBI Banca	124,241,837	•	•	Dual
12	Unicredit	845,838,444	•	•	Traditional
13	Banca Popolare di Vicenza	42,111,484	•		Traditional
14	Veneto Banca	31,390,986	•		Traditional

With the aim of defining the identity of the independent directors in large Italian banks, an empirical investigation on the personal quality of the individuals composing the board with strategic functions is carried out. According to alternatives let to the companies by Italian regulation (Civil Code, artt. 2380-2409 *novesdeciem*), strategic functions in the sample are up to the board of directors in 11 cases, to the supervisory board in two cases and to the management board in one case, for a total of 231 directors of whom 163 are non-executive and 127 qualified as independent (Table 2). In the sample, the board is made up of 16.50 directors with a percentage of non-executive and independent directors, respectively, of 70.56% and 54.98% (77.91% independent in respect to non-executive directors) on average. Regarding independence, the composition of the boards seems to be in line with Bank of Italy's recommendations of 2011 and 2014, as in just one case the number of independent directors, which amounts to 9.07 per bank, is below the limit of 25% of the total.

Table 2. Composition of the board (sample)

	Number of directors	Non-executive directors	Independent directors
Total	231	163	127
Mean	16.50	11.64	9.07
St. Dev.	4.86	5.33	5.61
Average		70.56%	54.98% (77.91%)

A biographical analysis on the 127 independent directors is then performed through several information sources. Firstly, the main official documents such as annual reports, corporate governance reports (mandatory for listed companies), company statutes, corporate governance plans (mandatory for banks since Bank of Italy regulation of 2008), together with information released through the official websites, are used to reconstruct personal data and professional backgrounds. All sources are related to the accounting year of 2013, with the latest updated data. When necessary, because of the lack of disclosure, official sources are integrated with online research and in particular with business-oriented and professional social networks. Furthermore, in order to shed light on hidden patrimonial or financial connections that could influence the profile of autonomy, official documents of the companies related to the independent directors (such as family businesses or companies where he/she holds office as a director) are also analysed. For this purpose, an in-depth investigation, by means of the AIDA database, is carried out on a total of 283 annual reports, referring to the accounting year 2013, in order to detect prejudicial presences of capital shares, debts, loans, equity participations, financial instruments or commercial transactions between the bank and the companies related to each independent director.

In relation to data elaboration, the identity of individuals is analysed with reference to gender, provenance, age, educational and professional background, and international orientation, which are also considered to assess diversity among the independent directors (Directive 2013/36/UE). In particular, international orientation is evaluated by considering nationality, education, place of work and international vocation in directors' own jobs or related companies.

Some important characteristics of the independent directors are then evaluated in light of regulation and guideline requirements. The first characteristic is the time availability to serve the purpose, which is analysed considering the provisions of both the National Commission for Companies and the Stock Exchange (CONSOB) (art. 144–*duodecies* and Attachment 5–*bis* of 'Regolamento Emittenti Consob', 2010) and the Directive 2013/36/UE on the limit of directorates for board directors. The second relevant characteristic is the authority and experience of the independent director, summarized in the concept of 'expertise', that is assessed by cross-checking data on the length of office and the educational and professional background (Draghi Reform, 1998). The third characteristic is the true independence of the individual, whose assessment relies on the presence of a set of circumstances strictly disciplined by regulation and codes of conduct (Cadbury Report, 1992; Higgs Report, 2003; Bank of Italy, 2011, 2013), such as previously being a director in the management board or an executive director/officer of the company, or having held the office of director for more than nine years, rather than having professional relationships with the external auditing body or crossed directorates with other directors of the bank, or some kind of financial or commercial relationship between the bank and companies where he/she holds office as a director, or some other kind of patrimonial and personal relationship.

Finally, the degree of disclosure by the banks of independent directors' identities is investigated by considering five different information areas: personal data, career path, education and international orientation, time availability, and personal, financial and commercial relationships.

5 Results

With reference to identity, table 3 shows that of the 127 independent directors' biographies studied, 96

(75.59%) were male directors and 31 (24.41%) were female directors. Independent directors are around 60 years old on average, and the age brackets ranging from 50 to 69 years account for about 59% of the sample. In relation to provenance, for which both place of birth and place of work are considered, independent directors come from the areas where the banking group is located (69.29%). They are mainly private sector managers (34.65%) and university professors in the field of economics and finance (24.41%), but a good percentage of them are accountants (and auditors or consultants) (14.96%) and lawyers (11.81%). As a consequence, the great majority of them have graduated in the areas of economics and finance (60.55%) and law (23.85%). Finally, the number of internationally-oriented and of not internationally-oriented independent directors appears to be quite balanced in the sample, with a slightly higher presence of the first category (respectively, 55.12% and 44.88%).

Table 3. Identity of the independent directors

Gender	Male	%	Female	%
	96	75.59%	31	24.41%
Age	Mean	St. Dev.	Min.	Max.
	58.42	10.34	35	78
Brackets (number and average)				
30-39	40-49	50-59	60-69	over 69
4 (3.15%)	25 (19.69%)	39 (30.71%)	36 (28.35%)	23 (18.11%)
Provenance	Bank area		Other areas	
	n.	%	n.	%
	88	69.29	39	30.71
Professional background	Entrepreneur	Manager	University professor	Freelance professional
	14 (11.02%)	44 (34.65%)	31 (24.41%)	38 (29.92%)
Freelance professional (details)				
Notary	Accountant / Auditor/Consultant		Lawyer	Physician
2 (1.57%)	19 (14.96%)		15 (11.81%)	2 (1.57%)
Education	Degree	High school certificate		Not given
	109 (85.83%)	12 (9.45%)		6 (4.72%)
Degree fields				
Economics / Banking / Finance	Law	Engineering	Agriculture	Medicine
60.55%	23.85%	1.83%	1.83%	2.75%
Political science	History	Literature	Not given	
0.92%	0.92%	0.92%	6.42%	
Internationality	Yes	%	No	%
	70	55.12%	57	44.88%

Table 4 is helpful in the interpretation of diversity, which reveals to be lacking in relation to gender, as highlighted by the fact that in 50% of banks the feminine gender is represented by a percentage equal to or lower than 25% of all independent directors. Nevertheless, diversity is good with reference to age (3.29 age brackets represented on average) even if the independent directors, as mentioned before, tend to concentrate on the interval between 50 and 69 year olds. Although the presence of independent directors coming from the bank area is massive, the results show a remarkable provenance diversification (4.21 territories on average), meaning that the different territories of each bank holding company are well represented. Professional background is also significantly differentiated, since the independent directors belong to 3.64 professional categories on average, and the only category of managers occurs with a percentage higher than 25%. As more than 85% of the independent directors hold a degree, diversity in education is associated with the different fields of study. Positively (in this case), almost 85% of the sample graduated in the areas of economics and law (table 3). To conclude, in spite of the apparent equilibrium between internationally-oriented and not internationally-oriented independent directors, the first category appears rather concentrated, as more than 35% of the banks have a percentage of independent directors with an international vocation equal to or lower than 25%.

This study assumes that some key characteristics of an independent director are having sufficient time to serve the purpose, adequate expertise and true independence. In relation to the first issue, table 5 shows that each director holds 3.69 total offices and 2.85 effective offices (excluding the directorship in the bank) on average. The difference is that effective directorates, in line with art. 144–*duodecies* of

CONSOB Regulation and CRDIV provisions, do not take into account offices held in foundations and non-profit organizations as well as, among others, in other companies of the banking group. By using the standards set in the above mentioned regulation, and also just considering the number of effective directorates, results reveal that 27.56% of the independent directors hold five or more offices elsewhere, with 80% of them with more than five offices.

Table 4. Diversity of the independent directors

	Gender	Age	Provenance	Professional background	Education (degree)	Internationality
Category diversity on average	-	3.29	4.21	3.64	2.43	-
Banks with all directors in a single category	2 (14.28%)	1 (7.14%)	1 (7.14%)	0	2 (14.28%)	-
Banks with one category with a value ≤ 25%	7 (50%)	-	-	-	-	5 (35.71%)

A remarkable level of expertise, coming from the combined consideration of educational and career paths, length of current office and previous directorships can be observed in the sample, with the bulk of the independent directors having significant experience in banking, financial and insurance markets (66.93%).

A quite surprising result, of course, is that about the extent of independence, as the investigation reveals that the majority of the independent directors (57.48%), are not really independent for one or two different causes (about 89% of them), or more than three causes (about 11%).

In particular, table 6 shows the nature and weight of the different causes of non-independence, and gives more detailed information on the leading cause, that is the existence of financial relationships between the independent directors and the bank. In order of frequency, the main causes are four-fold: financial relationships between the bank and other companies where they hold an office, crossed boards with other directors of the bank, office held for a period equal to or longer than nine years, membership of the bank's executive (or strategy) committee. Another four causes - past membership of the bank's management board, relationships with the external audit body of the bank, having been an executive officer or manager of the bank and other kinds of patrimonial or personal relationships with the bank - together account for less than 7%.

Table 5. Independent directors' characteristics

Directorates	No.	Min.	Max.	Mean	Directors with ≥ 5 offices (%)	Offices = 5	Offices > 5
total	469	0	31	3.69	32.28%	17.07%	82.93%
	No.	Min.	Max.	Mean	Directors with ≥ 5 offices (%)	Offices = 5	Offices > 5
effective	362	0	16	2.85	27.56%	20%	80%
Expertise	Banking and similar sectors		Other sectors		No experience		
	85 (66.93%)		31 (24.41%)		11 (8.66%)		
Independence	Yes	No	Number of causes of non-indep.	Causes of non-independence per director (%)			
				1	2	3	4
	54 (42.52%)	73 (57.48%)	121	46.58%	42.47%	9.59%	1.37%

Sometimes hidden behind the financial relationships between the bank and its independent directors are very deep links, as the companies where the independent directors hold office often have multiple financial connections and an independent director often holds an office in a plurality of companies that has financial relationships with the bank. This is the reason why the 51 financial relationships translate into 90 different connections. In fact, in the sample, each independent director holds an

office in 1.96 companies related to his/her bank on average, and 1.76 connections affect each independent director on average.

Table 6. Causes of non-independence (details)

Nature	Financial relationships	Crossed directorates	Offices in the bank for ≥ 9 years	Executive or strategy committee	Others
Number	51	26	19	17	8
Average	42.15%	21.49%	15.70%	14.05%	6.61%
Financial relationships (details)					
Debts	Bank shares	Financial guarantees	Company shares	Commercial relationships	Others
28	21	12	11	10	8
31.11%	23.33%	13.33%	12.22%	11.11%	8.90%

The last line of table 6 shows that the main financial cause is represented by bank debts (31.11% of total connections), whose relevance is proved by the large amount of both the average single debt (€102,173,305.53) and the average independent director debt (€162,720,449.50), which includes the sum of the debts taken out by the companies where he/she holds offices. The second recurrent connection is the ownership of bank shares (23.33%), while financial guarantees, the ownership of company shares by the bank, and other commercial relationships settle at slightly more than 10% each.

In relation to the second and third cause of non-independence it is possible to add more detailed information. With reference to crossed directorates, each independent director shares on average 1.77 boards with colleagues, while the average length of offices over the limit of nine years is 14.11 years.

To conclude the analysis of the independence, it is interesting to note that in only two banks (14.28%) all independent directors are really independent, and that in the sample an array of definitions of independence is used, as 35.71% of banks adopt the definition proposed by the Preda Code, 28.57% of them that of art. 148 of the TUF, and 21.43% of them a combination of the two definitions, while 14.29% of the banks do not adopt any definition.

Finally, the analysis of the level of disclosure as to the independent directors' identities shows insufficient results as banks, on average, provide only about 50% of the total information that they could potentially release (Table 7). In particular, while the highest transparency is associated with the career path of the independent director, as 85.71% of banks provide adequate information about it, the different kinds of relationships between him/her and the bank stand out for information incompleteness. Only two banks (14.28%), in fact, give full information about what has previously been proved to be the main cause of non-independence.

Table 7. Level of biographical disclosure

Areas	No.	%
Personal data	7	50%
Career path	12	85.71%
Education and internationality	6	42.86%
Time availability	10	71.43%
Personal, financial and commercial relationships	2	14.28%
Mean		52.86%

6 Conclusion

This paper aims to advance the understanding of the personal qualities of the independent directors in large Italian banks, and of the distance existing between their profile and the requirements asked for this key role by regulation and codes of conduct. The identikit that comes to light from the study reveals that the independent director is usually a 60-year-old man coming from the area in which the bank is located, has generally graduated in economics or law and is mainly a manager or a university professor. He shows relevant expertise in directing and controlling banks and other companies and a medium international vocation. In spite of the growing attention paid to the issue of diversity by supervisory authorities, the independent directors show remarkable differences only in age, international orientation and provenance, while essential aspects to prevent the risk of 'gang mentality' in decision-making, such as gender, education and professional background seem to be rather disregarded (CRDIV, Directive 2013/36/UE). The analysis of some important characteristics of the individuals raises serious concerns about their ability to effectively serve as independent directors. Firstly, a significant number of them appear not to be aligned to

recent regulations on the limit of directorates (CONSOB, 2010; CRDIV, Directive 2013/36/UE), holding a number of offices in other companies too high to devote the right time to the bank board. Furthermore, the valuation is prudential and time availability is probably lower as a number of offices supposed to be time-consuming are not considered. Secondly, the topic of independence stands out as the main issue as the findings reveal that non-independent directors would constitute the majority of the sample. Surprisingly, considering that banks are highly regulated companies due to the primary importance they have to the economy and in promoting recovery from the financial crisis, the 'grey area' includes 57.48% of the independent directors of large Italian banks and this confirms the concerns of the Bank of Italy about the underestimation of substantial elements beyond formal requirements of independence (Bank of Italy, 2013). Financial relationships by far the most frequent one, but also crossed directorates, length of office and participation in the executive committee are the main causes that impose upon their independence. Once more, it is reasonable to believe that the large number of non-truly-independent directors is even prudent, as the insufficiency of the data does not always permit a full assessment of independence. For instance, the annual reports of the companies related to the independent directors that have been analysed cover around 78% of all effective directorates, dropping to about 60% when considering total directorates.

In general, as founded in other studies (Brennan and McDermott, 2004), the level of disclosure of biographical information by large Italian banks is not adequate for tracing the identity and assessing the independence of directors. This has major implications for the supervisory authorities responsible for filling the regulatory gap on the obligatoriness of full biographical disclosure. Not coincidentally, the lowest level of transparency affects the area of personal, financial or commercial relationships between the bank and the directors, that proved to be the first cause of their non-independence.

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