

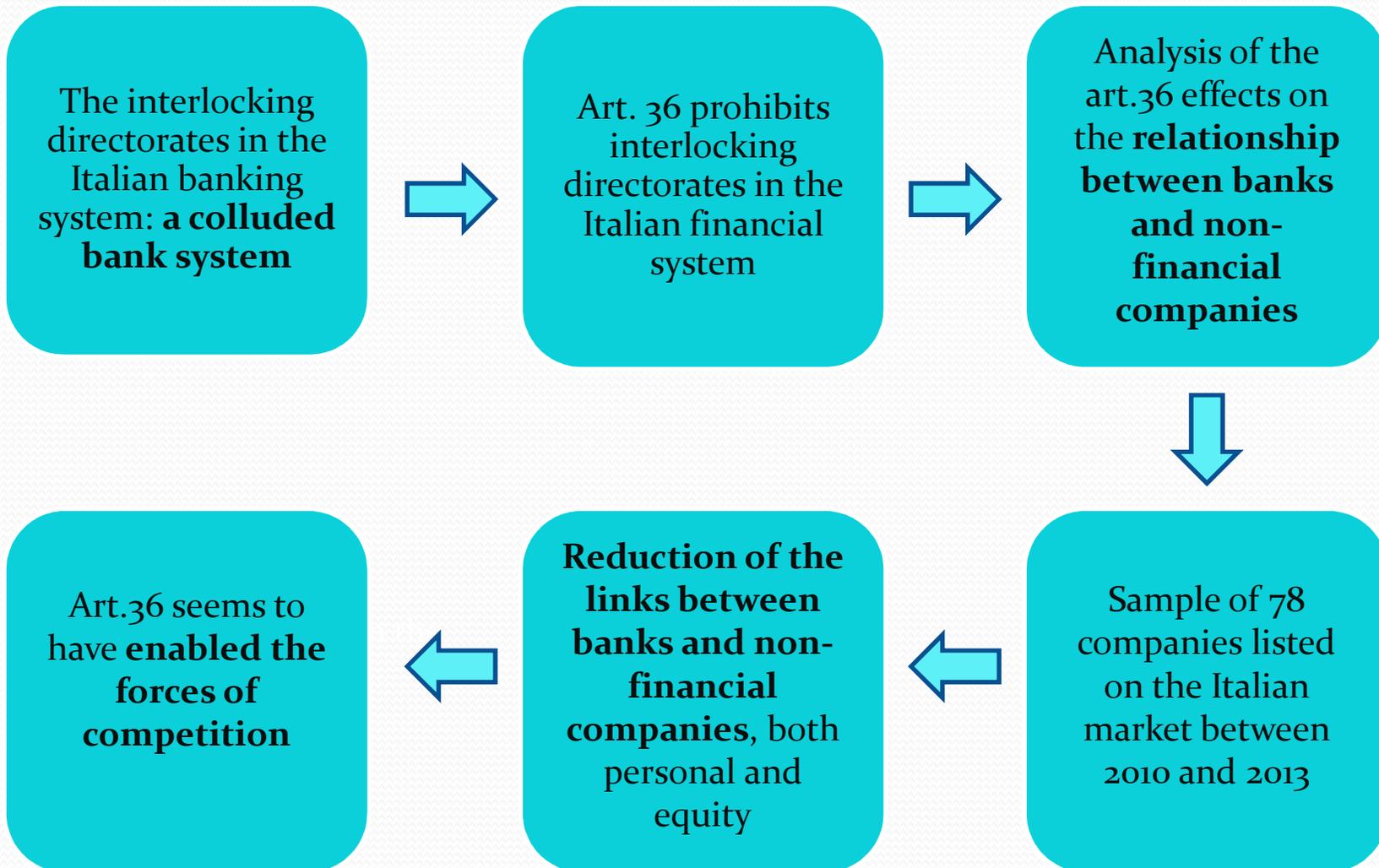
*“The Prohibition of Interlocking Directorates in the  
Italian financial system”:*  
effects on Bank-Firm connections

International conference “Corporate Governance: a Search for Advanced  
Standards in the Wake of Crisis”

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## Paper structure



# *Interlocking Directorates*

## *Definition:*

*“Interlocking Directorates is defined as a situation in which a person affiliated with one organization sits on the board of directors of another organization” (Mizruchi 1996)*

In this work we differentiate two types of interlocking directorates:

- the first one considers the tie between two financial firms ,
- the second one considers the tie between financial and non financial firms



## *The reason of the phenomenon*

Several papers have shown essentially 3 theories explaining interlocking directorates:

- Collusion
- Cooptation and monitoring
- Career advancement and social cohesion



## *Pros and Cons*

The same studies, however, have not provided definite evidence on effects of this phenomenon:

### POSITIVE EFFECTS:

- Greater access to resources,
- Reduction of information asymmetries,
- Exchange of knowledge between companies.

### NEGATIVE EFFECTS:

- Limitation of competitive forces,
- Reduction in the efficiency of the work of the directors,
- Increased likelihood of conflicts of interest in boards,
- Strengthening the control of majority shareholders to the detriment of the minority.



## *Pros and Cons*

Furthermore, in several cases, contrasting results were found in different countries --- > A positive relationship between ID and company's value has been found in Italy, Netherlands, Brazil and Germany and a negative one in U.S.A. and Switzerland. (*Croci, Grassi – 2012*)

**We first need to analyze the socio-economic scenario**

## *The Italian scenario before art.36*

Unlike other national laws, the Italian legal system was very poor with respect to the phenomenon. Two rules only governed the ID topic ... .. :

- ❖ Art.2390 of the Civil Code
- ❖ Art.148-bis of Legislative Decree 58/1998

... .. and these rules gave a lot of autonomy to the individual companies, in fact they could be departed by the shareholders.

Therefore, there was not a real ban at the practice Interlocking Directorates (such as the “*Clayton Act*” issued in U.S.A in 1914)

*As a result:*

## *The Interlocking Directorates between Italian listed Bank at 2010*

<b>Bank</b>	<b>Number of components</b>	<b>Subjects related</b>	<b>% weight</b>
<b>Unicredit</b>	<b>23</b>	<b>9</b>	<b>39%</b>
<b>Intesa San Paolo</b>	<b>28</b>	<b>5</b>	<b>18%</b>
<b>Mediobanca</b>	<b>21</b>	<b>5</b>	<b>24%</b>
<b>Banca Carige</b>	<b>18</b>	<b>4</b>	<b>22%</b>
<b>UBI Banca</b>	<b>34</b>	<b>3</b>	<b>9%</b>
<b>Credito Emiliano</b>	<b>14</b>	<b>2</b>	<b>14%</b>
<b>Banco Popolare</b>	<b>32</b>	<b>2</b>	<b>6%</b>
<b>Banco di Desio e di Brianza</b>	<b>11</b>	<b>1</b>	<b>9%</b>
<b>Banca Finnat</b>	<b>11</b>	<b>1</b>	<b>9%</b>
<b>Banca Generali</b>	<b>13</b>	<b>1</b>	<b>8%</b>
<b>Banca Ifis</b>	<b>13</b>	<b>1</b>	<b>8%</b>
<b>Credito Valtellinese</b>	<b>15</b>	<b>1</b>	<b>7%</b>
<b>Banca popo di Sondrio</b>	<b>18</b>	<b>1</b>	<b>6%</b>
<b>Mediolanum</b>	<b>17</b>	<b>1</b>	<b>6%</b>
<b>Banco Popolare di Milano</b>	<b>16</b>	<b>0</b>	<b>0%</b>
<b>Banca pop Emilia Romagna</b>	<b>24</b>	<b>0</b>	<b>0%</b>
<b>Monte dei Paschi di Siena</b>	<b>12</b>	<b>0</b>	<b>0%</b>
<b>Banca Pop. dell'Eutriria e del Lazio</b>	<b>15</b>	<b>0</b>	<b>0%</b>



## *The Interlocking Directorates between Italian listed Bank at 2010*

In the majority of the banks there was at least one director who sited on the board of another bank competitor:

**As a result the Italian banking system was colluded with poor competition**

At the end of 2010, the European commission published a study showing the average annual costs for banking services:

Italy **295,66 €**

European average (27 countries) **114 €**

## *The prohibition of Interlocking Directorates*

Article 36 of Decree-Law n. 201 of 6 December 2011 (the so-called “Salva Italia Decree”) provides that:

*“ is prohibited from holding positions in management bodies, monitoring and control and the top officials of companies or groups of companies operating in credit markets, insurance and financial services to assume or exercise similar positions in companies or groups of companies competing.”*

The intent of the legislature in enacting this specific ban was to:

- Ensure respect for the laws of competition and the free market;
- Prevent it formed the real concentrations between undertakings with the result of observing the high prices for services and opportunistic behavior of the governance of banks



## *The Italian scenario after art.36....*

**The percentage of interlocking directorates in Italian banks has definetly written off!!!!**

*....but what are the effects for bank-firm connections?*

- The aim of our paper is to study the effects that the art .36 on the Bank-Firm Connections --- > both interlocking directorates and equity links;
- We want to investigate whether the reactivation of competitive forces with Article 36 has also changed the bank-firm connections, and if so in which direction they have varied



## *Three possible results:*

### *Higher B-F Connection -- > Inverse dependence between Cooptation and Collusion theories*

Banks increase their links with companies, providing services more personalized and more effective in order to justify a level of prices still high.

### *Lower B-F Connection -- > Direct dependence between Cooptation and Collusion theories*

Non-Financial firms do no longer have an interest in strong ties with banks and they want to take advantage of competitive forces in order to obtain more favorable prices.

### *No effect on B-F Connection -- > No dependence*

## *Research Methodology*

1. An analysis of banks-firms links within 2 time windows;
2. The analysis was first carried out on the entire sample of companies and then developed for two sub-samples (large and medium-sized companies);
3. We have run mean-difference statistical tests, in order to analyze whether there have been significant changes in the number of ties.

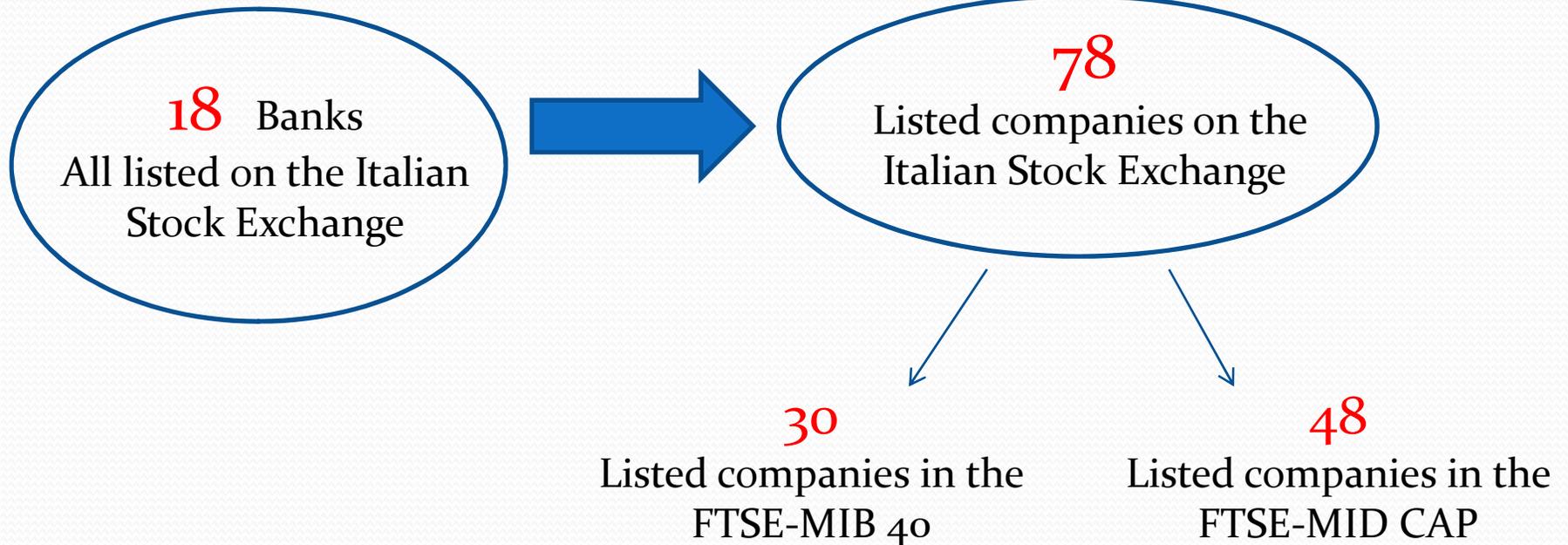
**TIME WINDOWS**



**Surveys of ties at 2010**

**Surveys of ties at 2013**

## The sample



*Bonds* are represented by both the interlocking directorates and equity links



## *Interlocking Directorates: empirical results*

	2010			2013			Variation %
	Interlocking	Mean	Median	Interlocking	Mean	Median	
<b>All firms</b>	90	5	4	70	3,89	2	<b>-22,22%</b>
<i>FTSE-MIB40</i>	44	2,44	2	39	2,17	1	<b>-11,36%</b>
<i>MID-CAP</i>	46	2,56	2	31	1,72	1	<b>-32,11%</b>

- There has been a decrease of Bank-Firm, particularly for mid-cap firms

*Let's check whether these changes are statistically significant...*

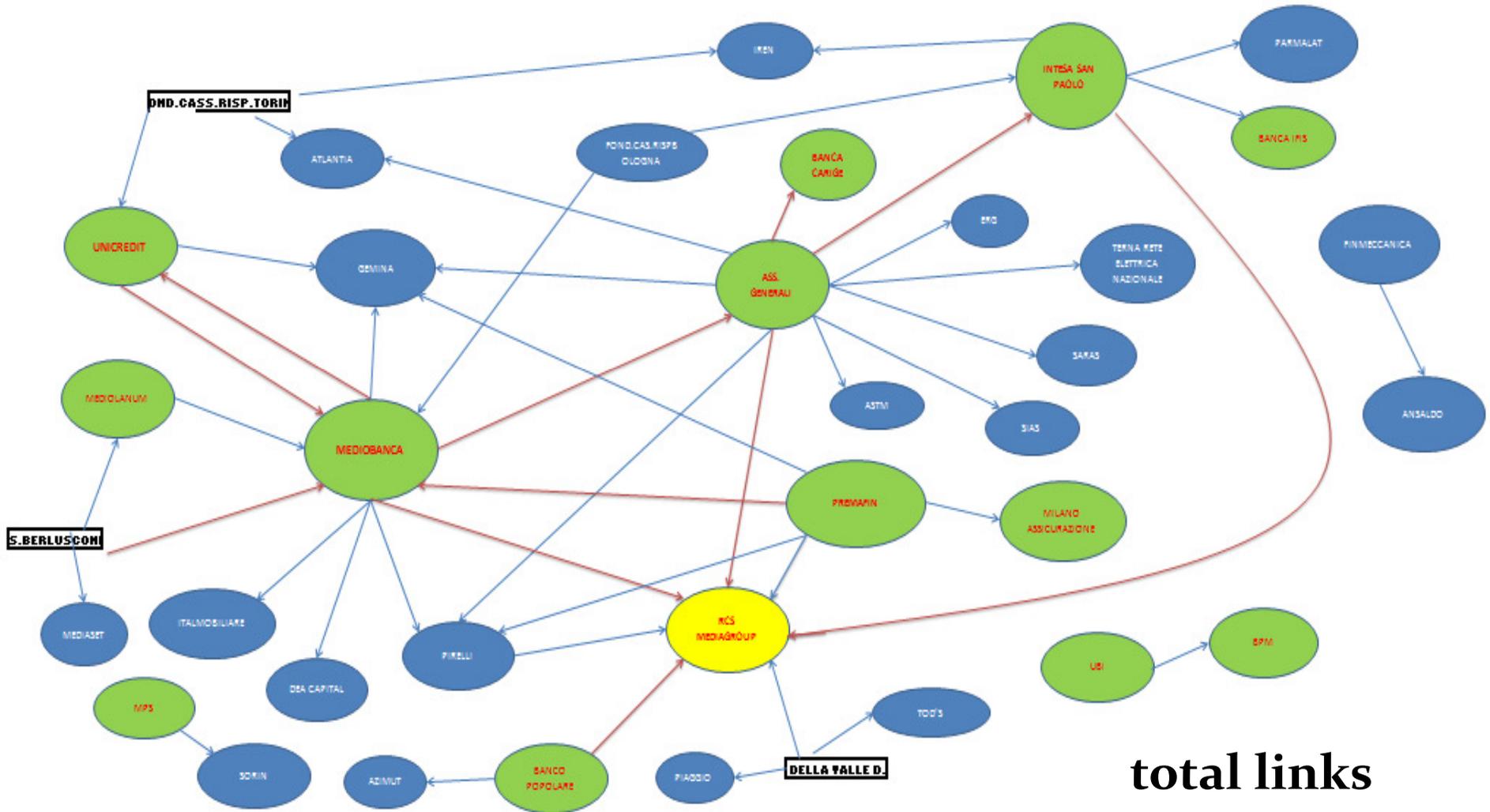
## Statistical tests

### T-TEST PAIRS OUTPUT

Mean differences	Mean	Std.Deviat.	Std. Error mean	95% confidence interval of the difference		<i>T statistic</i>	<i>p-value</i>
				Lower	Upper		
<b>All firms</b>	1,1111	1,74521	0,41135	0,24324	1,97898	<b>2,701</b>	<b>0,015</b>
<b>FTSE-MIB 40</b>	0,27778	1,7083	0,40265	-0,57174	1,1273	<b>0,69</b>	<b>0,5</b>
<b>MID-CAP</b>	0,83333	1,50489	0,35471	0,08497	1,5817	<b>2,349</b>	<b>0,031</b>

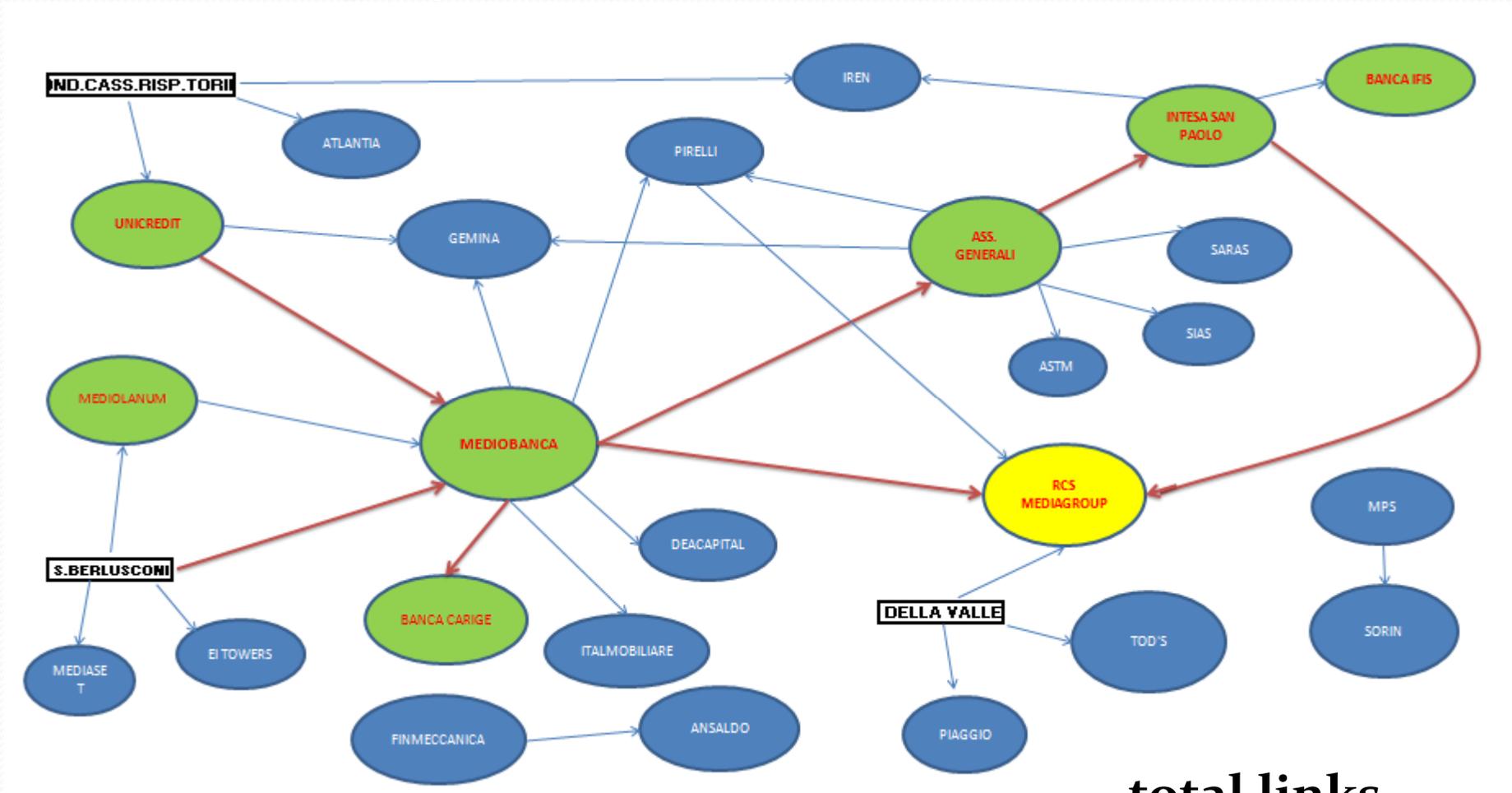
- Tests confirm previous data. The significant change in in the average ID numbers is mainly driven by the mid-cap firms.

# Equity links - At 2010



**total links**  
**46**

# Equity links - At 2013



**total links**

**31**

## *Conclusions and future research*

- The prohibition of B-B interlocking has had a reductive effect on bank-firm connections;
- The effect seems to be stronger for small firms (Mid-Cap);
- There have been also some effects on the network of ties operated in the Italian market. In fact, the average number of links for each company equity has decreased from 3.8 in 2010 to 2.7 in 2013.
- It can be argued that the reduction of the links within the system might represent a fundamental precondition for the reactivation of competitive forces.



What about the impact of art. 36 on the cost of debt for the Italian listed companies?