HOW INDEPENDENT DIRECTORS AFFECT FIRMS' PERFORMANCE AND SUSTAINABILITY: AN ANALYSIS OF ITALIAN FIRMS

Francesco Mirone [*], Giuseppe Sancetta [**], Domenico Sardanelli [***], Salvatore Mele [**]

* Department of Law, Parthenope University of Naples, Naples, Italy
** Department of Management, Sapienza University of Rome, Rome, Italy
*** *Corresponding author,* Department of Management, Sapienza University of Rome, Rome, Italy
Contact details: Department of Management, Sapienza University of Rome, Via del Castro Laurenziano, 9, 00161, Rome, Italy

How to cite this paper: Mirone, F., Sancetta, G., Sardanelli, D., & Mele, S. (2021). How independent directors affect firms' performance and sustainability: An analysis of Italian firms. *Corporate Governance and Organizational Behavior Review, 5*(2), 72–81. https://doi.org/10.22495/cgobrv5i2p7

ISSN Online: 2521-1889
ISSN Print: 2521-1870

Received: 23.07.2021
Accepted: 08.11.2021

JEL Classification: G3, G32, G34
DOI: 10.22495/cgobrv5i2p7

Abstract

The role of independent directors has been for years in the spotlight of international studies. This phenomenon, which was initially a prerogative of corporations of English-speaking countries, over the last two decades has rapidly spread across Europe, where several countries have introduced specific regulations, borrowing from international best practices. Board independence is thought to buffer the firms against opportunistic behavior (Masulis & Zhang, 2019). This study aims to analyze how independent directors contribute to the decisional processes within Italian boards of directors and to the development of the firms to which they belong. The research hypotheses were formulated based on bibliometric analysis and then they were validated through both a desk analysis and survey data. Therefore, the hypotheses were first connected to the data included within the Assonime reports on corporate governance in Italy in the last 4 years. Then, a quantitative analysis was conducted through a structured survey, administered to a sample of 65 independent directors of Italian firms and belonging to Nedcommunity, the Italian association of non-executive and independent directors, in order to examine the self-perception of independent directors about their own role and effectiveness. This work, combining the structural and the behavioral views, aims at contributing to the literature concerning the impact and the efficacy of independent directors. The findings confirm that the presence of independent directors has a positive effect on corporate performance, on the protection of shareholders' interests, and especially on the adoption of CSR policies.

Keywords: Independent Directors, Outside Directors, Lead Independent Director, Corporate Governance, CSR

Authors' individual contribution: Conceptualization — F.M., G.S., D.S., and S.M.; Methodology — F.M., G.S., D.S., and S.M.; Investigation — F.M., G.S., D.S., and S.M.; Writing — Original Draft — F.M., G.S., D.S., and S.M.; Writing — Review & Editing — F.M., G.S., D.S., and S.M.; Visualization — F.M., G.S., D.S., and S.M.

Declaration of conflicting interests: The Authors declare that there is no conflict of interest.

1. INTRODUCTION

Because of the need to strengthen the effectiveness and credibility of the board of directors, starting from the USA, during the 70s, the figure of the independent director began to rise in popularity.

At the time, both researchers and practitioners were calling into question the ability of the board of directors to actually lead the firm, pointing out that its functions were mainly advisory and formal, while the real executive power rested in the hands of the CEO and of a limited number of relevant shareholders. With regards to this, Mace (1971) referred to the BoD "as an old boys club", whose members were dependent on the CEO and lacked the ability and the power to administer the firm's operations.

Therefore, the audit committee and independent directors were introduced as a way to widen the functions of the board, and make it not just a formal governance body, but rather a pool of competencies, experiences, know-how, and relationships, as well as a tool to protect the interests of all the shareholders of the firm[1].

Independent directors, neutral by definition, immune from conditioning coming from the ownership and the management, do not hold any executive role but they administrate the firm from the inside of the BoD, offering an undeniable competitive advantage to the firm they belong to. Independent directors seem to possess a distinctive set of resources that they bring to the firm (Sharif, Ho, Yeoh, & Timchenko, 2016; Fernández-Gago, Cabeza-García, & Nieto, 2018). In fact, being decoupled from the executive roles, they tend to be appointed because of the expertise and prestige they can bring, and so they are commonly characterized by possessing a high level of education — especially business and law education — strong relevant expertise, and formal titles and qualifications that can increase the legitimacy of the firms they are linked to.

In Europe, and especially in Italy, the role of the independent directors has risen in importance since 2000, despite the specificities as compared with English-speaking countries[2]. The European Union has been crucial in pushing the renewal and the spread of independent directors. In this perspective, a key role has been played by the Directive 2007/36/EC[3] on shareholders' rights (later modified by Directive 2017/828/EU[4]), commonly known as Shareholders Rights Directive II (SHRD II), issued in 2017 by the EU to strengthen the principles of independence of and control on the BoD conduct.

In order to facilitate the monitoring of shareholders' transactions with related parties and to limit the risk of expropriations, SHRD II introduced some legal standards aiming at guaranteeing a prompt notice, as well as specific protections in the deliberation of these transactions, entrusting the Member States to define appropriate approval procedures in defense of the interest of firms and shareholders. The key passages of the procedure are the following:

1. Obligation to make it public relevant related party transactions, not later than the time of their ending.
2. The notice to the public must be accompanied by a report explaining the rightness and convenience of the transaction, on behalf both of the firm and of the shareholders who are not related parties, including minority shareholders, and describing the premises and methods of the transaction.
3. The report must be compiled by an independent third party or by the management body or by the monitoring body, or by the audit committee, or by another committee composed of a majority of independent directors.
4. The Member States must ensure that related parties do not participate in the writing of the report and that the transactions are approved in accordance with procedures that prevent the related party from gaining an advantage from its position and which safeguard the interests of not related shareholders, including minority shareholders.

In Italy, this Directive has been approved with the Legislative Decree 49/2019, and CONSOB (Commissione nazionale per le società e la Borsa) is required to monitor its application. Article 1 of the above-mentioned decree, sets off that it must be CONSOB to regulate some aspects of related-party transactions, such as relevance thresholds, procedural and transparency rules, cases of exemption, and the requirement to refrain from the deliberation on the transactions.

Therefore, the CONSOB regulation, issued on March 12, 2010, establishes the principles by which Italian firms must abide in regulated markets in Europe, in order to ensure transparency and substantive and procedural correctness of related-party transactions, both those that directly realized and also the ones realized by means of controlled firms.

This regulation, beyond bringing out the centrality of independent directors within the BoD, lead the way to the concrete application in Italy of the SHRD II, which has considerably enhanced the governance in listed firms, strengthening their competitiveness and sustainability in the long run, also thanks to greater involvement of shareholders.

Another innovation is the introduction of the lead independent director (LID). This role, invented in the USA and increasingly popular in Europe, is a sort of an official which links the president of the BoD (and, more generally, the top management), and the independent directors.

The lead independent director is the reference point of independent directors, representing them in front of shareholders, chairing the meetings of independent directors, and coordinating their work.

In Italy, this figure, both technical and strategical, struggled to emerge, because of the prevalence of small and medium enterprises. However, in recent years, and especially since its

[1] Along with the increasing presence of independent directors, the attempts to regulate their activities have proliferated, such as through the reform of corporate law of 2003 and SHRD II. Indeed, the Consolidated Law on Finance ("Testo Unico della Finanza", introduced through the Legislative Decree 24/02/1998, No. 58) has started a transformation process of Italian corporate law, giving greater importance to the board of auditors, to the detriment of the board of directors. Following this approach, the so-called "Reform of Corporate Law" (approved by the Legislative Decree 17/1/2003, No. 6) has radically changed the corporate law in the civil code, adapting its content to new needs.

[2] In Italy, there is a more complex system than in the USA, since there are two monitoring bodies: one is internal to the BoD, represented by the independent directors and the internal committees, the other one is external, represented by the board of auditors. There is partial overlapping between the two bodies, but this does not limit that much the effectiveness and behavior of independent directors, who, beyond monitoring the management, are in charge of specific and characterizing functions.

[3] https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32007L0036

[4] https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32017L0828

introduction is recommended by the Code of Corporate Governance[5], there has been a steady growth of this role.

In addition, the sustainability principle, introduced by Article 1 of the Code of Corporate Governance, states for the first time the importance to adopt a sustainability-oriented government of the firm. In particular, in contrast to the self-regulatory code where the goal was the creation of value in the long run, the new code affirms a wider view, strongly oriented toward sustainability. The essential principle is safeguarding the interests not only of the shareholders but of all the stakeholders since the latter plays a key role in fostering long-run sustainability for the whole ecosystem in which the organization is embedded. The implication of this principle is a stronger role and position of independent directors.

Therefore, the recent advancements in the regulation and the practice of corporate governance in Italy seem to lead to the need to pursue greater independence of the boards. However, it is unclear whether a stronger presence of independent directors within the BoD has a concrete influence on the development dynamics of firms (Tulung & Ramdani, 2018), especially with regard to sustainable behavior. Starting from these considerations, this work is grounded on the following research question:

RQ: Can independent directors influence the development dynamics of the firms?

This research question has been detailed through several hypotheses, which formalize the presumed impact of board independence on firm performance and sustainability. In order to answer the research question and test the hypotheses, we adopted a composite methodology, including both a structural and a perceptual perspective. In fact, the hypotheses have firstly been tested using secondary data derived from the Assonime reports, which provided an objective view on the state of the art of Italian corporate governance in recent years. Then, this desk analysis has been completed by the administration of a questionnaire to independent directors and by the analysis of the subjective perception that they have about their role and effectiveness.

The remainder of the paper is structured as follows. In the following section, we review the relevant literature and present the research hypotheses that were elaborated based on the results of previous studies. Section 3 describes the research method, while in Section 4 we present the results of the study and we discuss these results also in the light of previous literature. Finally, in Section 5, we make the conclusive remarks of the paper, highlighting the limitations of the study, and proposing the directions for future researches addressing elements still unexplored.

2. LITERATURE REVIEW AND RESEARCH HYPOTHESES

The literature review has been conducted using a bibliometric approach and considering the articles published within the period 2010–2002 in the 12 international journals that are most relevant to the research topics and that have the highest impact factor.

The considered time span allowed us to observe the change in perspective that has occurred on the research topics. The bibliometric analysis leads to the extraction of 55 papers, 15 of which were deemed to be interesting for the elaboration of the hypotheses of the present work. Starting from the topics that emerged from the first round of paper collection, we deepened the corpus of papers, by considering other articles which were not included in the time span and into the array of journals that had been initially selected.

The analysis of the literature shows that the topic of independent directors, despite being very interesting, is not particularly treated by the international journals within the management domain. Instead, there is greater debate about the correlation between the presence of independent directors and firms' performance. However, about this topic, the findings are not homogeneous and are sometimes contrasting.

Regarding the role of the independent director, in the screened literature, two lines of research can be individuated that, at first glance, appear to be very far apart from a formal point of view. However, when analyzed more closely, they turn out to be deeply interwoven from a substantial point of view. In fact, the first line of research, which can be labeled as "structuralist", is concerned with the examination of the influence of the board structure and composition on the firm's performances; the second one, instead, can be defined as "functional and behavioral", since it investigates the behavior and the role of independent directors.

As for the "structuralist" line, the results coming from the literature are radically contrasting. On the one hand, there are scholars who believe that having a greater number of independent directors within the board drastically improves the firm's performances (Barnhart, Marr, & Rosenstein, 1994; Daily & Dalton, 1992; Schellenger, Wood, & Tashakori, 1989; Zouari-Hadiji & Zouari, 2021).

On the other hand, there are studies that negate the existence of any correlation between the presence of independent directors and performances.

For instance, Bhagat and Black (2008) state that there is no convincing proof of the fact that greater independence of the board translates into greater firm performance. Instead, they advocate the equilibrium within the board, that is a balancing mix of independent and executive directors.

For Mutlu and Sauerwald (2020) the independent directors promote the interest of the shareholders. This idea is shared also by Fama and Jensen (1983), who, more specifically, affirm that the announcement of an external director is seen as an aid to shareholders' interests, and as fostering positive returns.

The analysis of the literature clearly shows that external directors generally have two functions: monitoring the managers' conduct and supporting and counseling the executives (Yoshikawa, Zhu, & Wang, 2014). Also, for Fama (1980), a high percentage of independent directors is seen as an important control mechanism, while for Zattoni and Cuomo (2010), independent directors, having no business or family connection either with the management or with the ownerships, help prevent conflicts of interest within the firm.

[5] https://www.borsaitaliana.it/comitato-corporate-governance/codice/2020.pdf

The monitoring function is also discussed by the advocates of the agency theory (Geletkanycz & Boyd, 2011), who maintain that the presence of independent directors spurs the owners and managers to do new investments (Fama & Jensen, 1983), but especially enhances the control of the decisional process of the internal managers, limiting the pursuit of personal benefits (Masulis & Zhang, 2019; Stein & Plaza, 2011).

From the perspective of the agency theory, it is also interesting to underline how the great disparity in remuneration between independent and executive directors, in addition to delimiting their tasks and functions, clearly highlights the differences and the distance between the two roles. However, despite its theoretical and practical relevance, the remuneration of independent directors has received little attention so far and has been referred to as an "enigma" (Hahn & Lasfer, 2011), regarding both the amount and the design (Brown, 2007; Magnan, St-Onge, & Gelinas, 2010).

As regards the Italian context, the Italian Code of Conduct (2006, 2011[6]), issued by the Corporate Governance Committee of Borsa Italiana, recommends that the remuneration of independent directors is not linked, if not to an insignificant extent, to company performance. Indeed, receiving significant additional incentive-based payments, compared to the "fixed" remuneration of other non-executive directors, and/or being a beneficiary of a share-based plan, is deemed to negatively affect nonexecutive directors' independence (Mallin, Melis, & Gaia, 2015).

As for the second line of research, instead, namely the "functional and behavioral" studies, the view of Gupta, Hothi, and Gupta (2011) is emblematic, since the authors consider independent directors as having the fundamental role of advocates of the shareholders. In this line, Byrd and Hickman (1992) maintain that the shareholders enjoy greater benefits when it is the independent directors who control the BoD. Arzubiaga, Kotlar, De Massis, Maseda, and Iturralde (2018) found that independent directors decrease the likelihood of financial fraud.

Forbes and Milliken (1999) state that external directors, being not involved in executive decisions, need to rely on executive directors, giving advice and information to them in order to allow them to make the best possible decisions. Dalton, Daily, Johnson, and Ellstrand (1999) carry a less agreeable view, explaining that independent directors, by virtue of the absence of interests in the firm, can be more assertive than non-independent directors in criticizing and calling into question managerial decisions.

In this same line of research, it is also possible to include the contributions concerning the role of independent directors in relation to the complex dynamics characterizing the relationship between majority and minority shareholders. For Grosman, Aguilera, and Wright (2019), indeed, the presence of independent directors, beyond facilitating the "good governance", guarantees constant protection of shareholders' rights.

Lardon, Deloof, and Jorissen (2017) highlight that the presence and the monitoring function of independent directors can only produce positive effects on the shareholders and on the firm since they do not share any common interest.

As a consequence, for Michiels and Molly (2017) the independent directors strongly contribute to the maximization of performance and to the value of the shares, while limiting the sub-performance which often penalize the shareholders (Fama & Jensen, 1983), and especially reducing the information asymmetries which destabilize the fragile relationship between majority and minority shareholders (Esposito De Falco, 2017).

The reduction of information asymmetries has been debated also by Dehlen, Zellweger, Kammerlander, and Halter (2014), who maintain that independent directors, because of their effort to spread information within the organization, decrease the information asymmetries between majority and minority shareholders, limiting the risks of litigations and, as a consequence, safeguarding the firm reputation (Lim, Matolcsy, & Chow, 2007). Also, Block (1999) and Esposito De Falco (2014) state that the asymmetries concerning corporate information are one of the main differences between internal and external directors, and it affects, often negatively, firm performances. Indeed, by definition, internal directors are well aware of the details of managing the business activities, while external directors are less documented about these facts. Therefore, the latter aspect might undermine the effectiveness of independent directors in influencing positively the business outcomes, limiting their position to a figurative role, as it has been maintained by Marris (1964).

Based on what has emerged in the analysis of literature, we formulate the following research hypotheses:

H1: The presence of independent directors within the BoD facilitates the alignment between the interests of the shareholders and results in a positive impact on the firm's performances.

From this broad hypothesis, three sub-hypotheses are derived:

H1a: The greater the information asymmetry between internal and external directors, the smaller is the positive impact of independent directors on firm performances.

H1b: Independent directors, safeguarding the interests of the shareholders, decrease opportunistic behavior, with positive effects on firm returns.

H1c: The presence of independent directors within the BoD, reducing information asymmetries between majority and minority shareholders, facilitates the alignment of the interests of the parties.

The literature review has shown also a new and interesting line of research, which we labeled "sustainability orientation", and concerns the link between the presence of independent directors and the firm orientation toward corporate social responsibility (CSR).

On this point, García-Sánchez and Martínez-Ferrero (2016) claim that the independent directors, having less personal interests and being more inclined toward fulfilling the social requirements, are generally more interested in developing and implementing CSR policies (Soana & Crisci, 2017).

Similarly, Cuadrado-Ballesteros, Rodríguez-Ariza, and García-Sánchez (2015) state that the presence of independent directors is essential to guarantee the firm's responsible behavior since they are so autonomous that nobody can interfere with their actions. In this line, independent directors have also been shown to increase the firm's environmental

[6] https://www.borsaitaliana.it/comitato-corporate-governance/codice/2011.pdf

proactivity, in particular management commitment to climate change and environmental disclosure (Calza, Profumo, & Tutore, 2017).

The greater is the degree of independence of the board, the more there is an increase in the disclosure of information concerning the implementation of policies prompting sustainability and CSR (García-Ramos, Díaz-Díaz, & García-Olalla, 2017). To the same token, the sustainability-related disclosure is greater in firms where there is a strong presence of independent directors, since this practice ensures the coherence between social values, strategic decisions, and the activities actually implemented (Frias-Aceituno, Rodriguez-Ariza, & Garcia-Sanchez, 2013).

Lai, Chen, and Song (2019) maintain that independent directors foster the implementation of responsibility mechanisms within the firms since the function of independent directors is to ensure that their shareholders defend the interests not only of shareholders but of all the stakeholders as well. Kang and Kroll (2014) claim that the independent directors, having greater impartiality in analyzing the firm's operations, are more willing to take on obligations intended to satisfy the interests of stakeholders.

In light of these considerations, the following research hypothesis is formulated:

H2: The presence of independent directors within the board stimulates the adoption of CSR policies by the firm.

Starting from this hypothesis, two sub-hypotheses have been formulated:

H2a: The adoption of policies oriented toward sustainability is directly correlated to the proclivity of the independent directors to be proactive.

H2b: The firm orientation toward fulfilling the social obligations is directly related to the presence of independent directors whose personal interests are less interwoven with the business dynamics.

Table 1 summarizes the two groups of hypotheses — which respectively concern the effect on a firm's performance and on the propensity of the firm toward CSR policies — and the articles which inform them.

Table 1. Hypothesis summary

Topics	*Articles*	*Hypotheses*
Structuralist view	Mutlu and Sauerwald (2020), Yoshikawa, Zhu, and Wang (2014), Masulis and Jincheng (2019), Geletkanycz and Boyd (2011)	*H1: The presence of independent directors within the BoD facilitates the alignment between the interests of the shareholders with a positive impact on the firm's performances.*
Functional and behavioral view	Dehlen et al. (2014), Lardon et al. (2017), Michiels and Molly (2017), Grosman et al. (2019), Arzubiaga et al. (2018), Gupta et al. (2011)	*H1a: The greater the information asymmetry between internal and external directors, the smaller is the positive impact of independent directors on firm performances.*
		H1b: Independent directors, safeguarding the interests of the shareholders, decrease opportunistic behavior, with positive effects on firm returns.
		H1c: The presence of independent directors within the BoD, reducing information asymmetries between majority and minority shareholders, facilitates the alignment of the interests of the parties.
Sustainability orientation	Lai et al. (2019), García-Ramos et al. (2017), Calza et al. (2017), Cuadrado-Ballesteros et al. (2015), Kang and Kroll (2014), García-Sánchez and Martínez-Ferrero (2016)	*H2: The presence of independent directors within the board stimulates the adoption of CSR policies by the firm.*
		H2b: The adoption of policies oriented toward sustainability is directly correlated to the proclivity of the independent directors to be proactive.
		H2c: The firm orientation toward fulfilling the social obligations is directly related to the presence of independent directors whose personal interests are less interwoven with the business dynamics.

3. RESEARCH METHODOLOGY

In order to test the hypotheses that emerged from the literature review, two different perspectives were adopted to quantitatively analyze two different datasets, i.e., a set of secondary data and a set of primary data. Firstly, we analyzed secondary data about board composition in Italian companies, to inspect the hypotheses from a structural point of view. Then a survey methodology was adopted: a questionnaire was administered to a sample of independent directors, allowing us to obtain and analyze primary data about the perception of independent directors.

Both perspectives are instrumental to this study, since they allow to examine, both from a structural and a perceptual point of view, the contribution of independent directors to the increase in firm performances and sustainability.

The first phase consists of testing the hypotheses based on the desk analysis of the data of the Assonime reports, which inspects the degree of development of corporate governance in Italy in the last 4 years. Assonime is the association of Italian corporations. Its reports examine the governance of Italian corporations listed on MTA (mercato telematico azionario), the regulated market of Borsa Italiana. Assonime reports are based on the corporate governance reports and on the remunerations reports, which are periodically issued by Italian corporations to disclose their governance structure and remuneration policies. Thus, the Assonime reports allowed us to test the most relevant statistics about the board composition within Italian listed companies, the role of the lead independent directors, the meetings of the independent directors, and the level of remuneration of the various corporate bodies.

The first phase of the analysis allowed us to design a field analysis conducted through the administration of a questionnaire to a sample of 65 independent directors, belonging to the association Nedcommunity. The field analysis provided a strongly subjective interpretation of the phenomenon based on the perception that independent directors have of both their role and their actions.

Therefore, the desk analysis of Assonime reports has been integrated with the information collected through a questionnaire made of 12 questions, divided into 5 different sections.

The first section refers to the structural aspects that emerged from the literature review, so including questions intended to evaluate the independent directors' self-perception of the exponential growth of their role within the firm.

The second, fourth, and fifth sections revolve around the aspects that were previously defined as "functional and behavioral". In particular, the first section inspects how independent directors perceive shareholders and internal management. These aspects converge into the fourth section, which deals with the relationships between the lead independent director and management. The fifth section aims at investigating the topic of the internal committees, which should have a relevant impact on the functions transferred to independent directors amidst the board of directors.

Finally, the third section deals with the topic that has been previously labeled "sustainability orientation", and addresses the practices of independent directors when it comes to the emerging topic of sustainability.

The questionnaire has been administered with the CAWI (computer-assisted web interviewing) methodology, through the online platform Google Forms. More specifically, the questionnaire is made of multiple-choice questions and dichotomous questions. The number of questions per section varies from a minimum of 2 to a maximum of 4. In some instances, the Likert scale was employed, which involves asking the interviewees to express their agreement/disagreement with what is stated in the question, choosing from five possible answers. The main advantage of this technique is undoubtedly the ability to clearly and quickly identify the answer and to position it on an increasing scale of values in order to provide quick but meaningful analysis.

Finally, with regards to the sampling strategy for the survey, Nedcommunity, the Italian association of non-executive and independent directors, founded in March 2004, was selected.

The association is made up of 600 associates, of which at least two-thirds is made of mayors or directors of listed or large companies, while another third consists of experts in corporate governance.

The mission of the association is to foster the continuous development of the corporate governance culture and to enhance the role of the company directors, especially the independent ones, by interacting with all national and international bodies and institutions that pursue similar or complementary purposes.

In recent years, Nedcommunity has been making a significant contribution to the growth of the figure of the independent director in Italy. The association also carries on investigations about the key issues concerning the functioning and implementation of corporate governance and of international best practices. In addition, it creates and promotes constant networking among the associates, dictates the guidelines of socially responsible behavior and actions functional to the needs of listed and unlisted companies, and organizes training courses to disseminate and promote the principles of "good governance".

Following the administration of the questionnaire, Nedcommunity sent us the answers of 65 independent associated directors, selected at random and whose identity remained strictly anonymous. The following paragraph describes the results deriving from both the desk analysis of Assonime reports and the survey analysis of the received responses.

4. RESULTS AND DISCUSSIONS

With regards to the structural aspects, Assonime data demonstrate a change in the structural composition of the board of Italian companies: the average percentage of independent directors grows from 4.1 in 2016 to 4.6 in 2019, confirming the increasing importance of this phenomenon.

As for the type of firms that are more likely to have independent directors, firms operating in the financial industry are those that are more prone to adopt this figure: indeed, while in 2016 the average was 5.6 independent directors per firm in 2016, this figure has risen up to 7.2 in 2017.

An intriguing data, which proves a still too sharp difference in the treatment of independent directors, is the one concerning the remuneration. Indeed, there is a major disparity between the remuneration of a chief executive officer and the one of an independent director: according to Assonime (Assonime, 2020), the former can arrive to earn 80–100 times more than the latter. Indeed, the average earnings of the CEO are around one million euros per year (excluding equity remuneration), while the independent director's stops at around 56,000 euros (the reports of last 4 years show a steady increase up to this figure in 2019, thanks to an increase of the fixed component of compensation). Coherently with the recommendations of the Code, the independent directors have never earned equity compensation, while it is common that they receive, beyond the fixed compensation equal to one of the other directors, institutional allowances for participating in the committee.

Nonetheless, the pay gap between independent and executive directors is explained by the substantial dissimilarity between the two roles: executive directors have undoubtedly greater responsibilities and obligations than independent do.

Similarly, significant data concerning the behavioral aspects is represented by the constant presence within listed companies of the figure of the lead independent director. In 2016, the companies adopting this role constituted 74% of those subscribing to the code, while in 2019 the percentage grew to 86%.

Furthermore, strictly related to the presence of the LID in the firms, it is the percentage of independent directors' meetings, which are recommended by the Code to be taken at least once per year. Indeed, the percentage of meetings where the LID is present grows from 66% in 2016 to 77% in 2019, with a peak of 82% in 2018.

Even the data concerning the board evaluation is particularly interesting. On this point, the Code of Corporate Governance recommends making, at least once per year, an evaluation on the size, composition, and functioning of the board and the committees, eventually indicating which professional figures should be included within the board.

Assonime revealed generally large compliance with these recommendations already since 2016 when 80% of the firms stated to have implemented this activity. Analyzing this percentage in subsequent years confirmed a positive trend, since, also in 2019, 83.6% of listed companies made a self-assessment of the BoD.

The results obtained from the survey are coherent, in most cases, with the desk analysis of Assonime data. Therefore, most of the hypotheses formulated, that is 4 out of 6, are punctually validated. Coherently with the structural aspects highlighted by the Assonime reports, almost all of the interviewees (96.9%) agree on the growing importance that the role of the independent director will have in Italian companies, also with reference to the perception of contributing to the achievement of higher performance levels and a greater rebalancing of the interests at stake.

Thus, these data validate first hypothesis (*H1*) and sub-hypothesis (*H1a*), confirming that there is great confidence in the fact that Italian companies will increasingly adapt to international best practices that preach that the BoD, consisting mostly of independents, should not only carry out the role of monitoring board but also contribute to achieving higher performances and balancing the powers of majority and minority shareholders.

As for the behavioral and functional aspects, it seems that the role of the LID is still too little considered since 85.9% of the independent directors has never held the position of LID. This data does not fit well with Assonime reports, which show that more than 85% of the firms of the sample has a LID.

Therefore, based on such data and considering the LID as a fundamental balancer in the relations between independent directors and shareholders, *H1c* is not confirmed, because, despite the growing presence of the LID within the boards, this role is still too little importance, as compared to the relevance that this position has according to independent directors.

These could be the conditions for a change that unfortunately is struggling to take off. These considerations, obviously, are also linked to the figure related to the percentage of independent participation in internal committees. Only in 58.5% of the cases examined, in fact, the companies in which the interviewees work set up meetings exclusively intended for independent directors, while in 41.5% of the companies, such a practice is not in use.

The contribution of the independents provided in transactions with related parties goes in the opposite direction. Although a low percentage of independent directors (30.8%) found themselves overvalued in transactions with related parties, 16.9% often found themselves in this situation and only 10% never evaluated transactions with related parties. The data, therefore, confirm the important role played by independent directors in expressing an opinion on these transactions, as well as in reducing the opportunistic behavior of shareholders. Therefore, independent directors end up having a significant impact on company returns. Therefore, *H1b* is confirmed.

Finally, in the final part of the questionnaire, the issue of sustainability and CSR is addressed. The responses of the interviewees show that 36.9% of the interviewees place themselves in a neutral position on a scale from 1 to 5; this is an indication that sustainability should be the object of greater attention in Italian companies.

In fact, a worrying figure, and one that should be improved, is that the 6.2% and 32.3% of respondents placed themselves at the lowest rungs of the Likert scale, demonstrating how low it is, to date, the attention to sustainability in Italian companies.

From the analysis, however, a strong orientation to the themes of environmental social governance seems to emerge. In particular, even if only 53.1% of respondents believe that care for the environment is very important in strategic business decisions, nonetheless the entirety of respondents believes that economic and social interests can and must coexist in carrying out a business. These results confirm *H2* and *H2a* about the tendency on the part of directors to fulfill social, economic, and partly environmental interests.

However, *H2b* does not seem to be confirmed as the adoption of sustainability-oriented policies does not depend on the proactivity of the independent directors. In fact, only 29.7% of the independent directors interviewed were personally promoters, at least once, of sustainable initiatives within the board of directors in which they operate.

Finally, the last two closely related questions belong to the fifth section of the questionnaire and refer to the presence of committees within the BoD in the companies where the interviewees operate. In 75.4% of the companies that the independent directors belong to, there are committees within the BoD and in 78.6% of cases, these committees are made up of independents.

Table 2. Summary of hypothesis testing

Hypotheses	***Validation***
H1	
H1: The presence of independent directors within the BoD facilitates the alignment between the interests of the shareholders with a positive impact on the firm's performances.	Yes
H1a: The greater the information asymmetry between internal and external directors, the smaller is the positive impact of independent directors on firm performances.	Yes
H1b: Independent directors, safeguarding the interests of the shareholders, decrease opportunistic behavior, with positive effects on firm returns.	Yes
H1c: The presence of independent directors within the BoD, reducing information asymmetries between majority and minority shareholders, facilitates the alignment of the interests of the parties.	No
H2	
H2: The presence of independent directors within the board stimulates the adoption of CSR policies by the firm.	Yes
H2a: The adoption of policies oriented toward sustainability is directly correlated to the proclivity of the independent directors to be proactive.	Yes
H2b: The firm orientation toward fulfilling the social obligations is directly related to the presence of independent directors whose personal interests are less interwoven with the business dynamics.	No

5. CONCLUSION

The analysis carried out in this work allowed us, albeit not in a conclusive way since it is based on the personal perceptions of the independent directors interviewed, to answer the research question, highlighting the importance of the role played by the independent director.

Firms' owners, even in a context as peculiar as the Italian one, where most of the companies are family-owned, are increasingly aware of the crucial importance of independent directors in creating competitive advantage, especially in a hyper-competitive context such as the current one.

Our results confirm that independent directors foster the alignment between the interests of the shareholders and contribute to decreasing shareholders' opportunism. Furthermore, board independence is directly related to the adoption of CSR policies and the implementation of sustainable practices.

Independent directors allow the company not only to flourish in the long run but also to better face the challenges presented day by day by the market while improving the economic and social sustainability profile of the company.

At the same time, from a practical point of view, firms need to encourage independent directors in making projects and advice to effectively enhance information sharing and decision-making processes, and especially to improve the firm's sustainable behavior. In fact, our results show that still, a too little percentage of independent directors were personally promoters of sustainability initiatives. Nonetheless, given their neutrality, independent directors' proposals are more likely to be followed than other corporate roles' ones, especially with regards to themes that go beyond mere profit, such as CSR initiatives.

However, despite the growing attention towards the role of independent directors, this work is not exempt from limitations. Firstly, the sample of independent directors studied is small, and this obviously prevents the possibility of generalizing the survey results. The sample analyzed, in fact, is made up only of independent directors belonging to Nedcommunity. Moreover, only the perception of independent directors was examined.

An expansion of the sample to also include other independent directors, not belonging to the aforementioned association, could be a solution that would not introduce excessively distorting elements.

However, only testing the assumptions "in the field" will allow giving greater weight and objectivity to this statement.

In the future, to strengthen this analysis and better outline the role of the independent director, it would be interesting to investigate the privileged point of view of those who work closely with independent directors, such as CEOs or even the owners of the companies in which they are employees.

Furthermore, to improve the results achieved and strengthen the conclusions reached, it would be appropriate to implement a comparative analysis between companies with independent directors operating in different regulatory contexts.

REFERENCES

1. Arzubiaga, U., Kotlar, J., De Massis, A., Maseda, A., & Iturralde, T. (2018). Entrepreneurial orientation and innovation in family SMEs: Unveiling the (actual) impact of the Board of Directors. *Journal of Business Venturing, 33*(4), 455–469. https://doi.org/10.1016/j.jbusvent.2018.03.002
2. Assonime. (2016). *La corporate governance in Italia: Autodisciplina, remunerazioni e comply-or-explain (anno 2016)* (Estratto del Note e Studi No. 18/2016). Retrieved from http://www.assonime.it/attivita-editoriale/studi/Pagine/268983.aspx
3. Assonime. (2018). *La corporate governance in Italia: Autodisciplina, remunerazioni e comply-or-explain (anno 2017)* (Estratto del Note e Studi No. 2/2018). Retrieved from http://www.assonime.it/attivita-editoriale/studi/Pagine/note-e-studi-2-2018.aspx
4. Assonime. (2019). *La corporate governance in Italia: Autodisciplina, remunerazioni e comply-or-explain (anno 2018)* (Estratto del Note e Studi No. 1/2019). Retrieved from http://www.assonime.it/attivita-editoriale/studi/Pagine/note-e-studi-1-2019.aspx
5. Assonime. (2020). *La corporate governance in Italia: Autodisciplina, remunerazioni e comply-or-explain (anno 2019)* (Estratto del Note e Studi No. 2/2020). Retrieved from http://www.assonime.it/attivita-editoriale/studi/Pagine/note-e-studi-2-2020.aspx

6. Barnhart, S., Marr, W., & Rosenstein, S. (1994). Firm performance and board composition: Some new evidence. *Managerial and Decision Economics, 15*(4), 329–340. https://doi.org/10.1002/mde.4090150407
7. Beasley, M. S. (1996). An empirical analysis of the relation between the board of director composition and financial statement fraud. *The Accounting Review, 71*(4), 443–465. Retrieved from https://www.jstor.org/stable/248566
8. Bhagat, S., & Black, B. (1998). *The non-correlation between board independence and long-term firm performance* (Stanford Law and Economics Olin Working Paper No. 185). https://doi.org/10.2139/ssrn.133808
9. Bhagat, S., & Black, B. (2008). Independent directors. In P. Newman (Ed.), *The new Palgrave dictionary of economics and the law* (Vol. 2, pp. 283–287). Retrieved from https://www.researchgate.net/publication/228285489_Independent_Directors
10. Block, S. (1999). The role of non-affiliated outside directors in monitoring the firm and the effect on shareholder wealth. *Journal of Financial and Strategic Decisions, 12*(1), 1–8. Retrieved from https://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.197.4327&rep=rep1&type=pdf
11. Brown, J. R., Jr. (2007). Disloyalty without limits: "Independent" directors and the elimination of the duty of loyalty. *Kentucky Law Journal, 95*(1), Article 3. Retrieved from https://uknowledge.uky.edu/klj/vol95/iss1/3
12. Byrd, J., & Hickman, K. (1992). The case for independent outside directors. *Journal of Applied Corporate Finance, 5*(3), 78–82. https://doi.org/10.1111/j.1745-6622.1992.tb00227.x
13. Calza, F., Profumo, G., & Tutore, I. (2017). Boards of directors and firms environmental proactivity. *Corporate Governance and Organizational Behavior Review, 1*(1), 52–64. https://doi.org/10.22495/cgobr_v1_i1_p6
14. Cuadrado-Ballesteros, B., Rodríguez-Ariza, L., & García-Sánchez, I.-M. (2015). The role of independent directors at family firms in relation to corporate social responsibility disclosures. *International Business Review, 24*(5), 890–901. https://doi.org/10.1016/j.ibusrev.2015.04.002
15. Daily, C., & Dalton, D. (1992). Financial performance of founder-managed versus professionally managed small corporations. *Journal of Small Business Management, 30*(2), 25–34. Retrieved from https://www.researchgate.net/publication/246187000_Financial_Performance_of_Founder-Managed_Versus_Professionally_Managed_Small_Corporations
16. Dalton, D. R., Daily, C. M., Johnson, J. L., & Ellstrand, A. E. (1999). Number of directors and financial performance: A meta-analysis. *The Academy of Management Journal, 42*(6), 674–686. https://doi.org/10.2307/256988
17. De Bellis, N. (2014). *Introduzione alla bibliometria: Dalla teoria alla pratica*. Roma, Italia: Associazione italiana biblioteche.
18. Dehlen, T., Zellweger, T., Kammerlander, N., & Halter, F. (2014). The role of information asymmetry in the choice of entrepreneurial exit routes. *Journal of Business Venturing, 29*(2), 193–209. https://doi.org/10.1016/j.jbusvent.2012.10.001
19. Esposito De Falco, S. (2012). *Genesi ed evoluzione dell'impresa: Principi e casi esplicativi*. Padova, Italia: Cedam.
20. Esposito De Falco, S. (2014). *La corporate governance per il governo dell'impresa*. Milano, Italia: McGraw Hill Education.
21. Esposito De Falco, S. (2017). *I rapporti di potere nel sistema proprietario: Il difficile equilibrio tra maggioranza e minoranza*. Padova, Italia: Cedam.
22. Fama, E. F. (1980). Agency problems and the theory of the firm. *Journal of Political Economy, 88*(2), 288–307. https://doi.org/10.1086/260866
23. Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *Journal of Law Economics, 26*(2), 301–325. https://doi.org/10.1086/467037
24. Fernández-Gago, R., Cabeza-García, L., & Nieto, M. (2018). Independent directors' background and CSR disclosure. *Corporate Social Responsibility and Environmental Management, 25*(5), 991–1001. https://doi.org/10.1002/csr.1515
25. Forbes, D. P., & Milliken, F. J. (1999). Cognition and corporate governance: Understanding boards of directors as strategic decision-making groups. *The Academy of Management Review, 24*(3), 489–505. https://doi.org/10.2307/259138
26. Frias-Aceituno, J., Rodriguez-Ariza, L., & Garcia-Sanchez, I. (2013). The role of the board in the dissemination of integrated corporate social reporting. *Business Strategy and Environment, 20*(4), 219–233. https://doi.org/10.1002/csr.1294
27. García-Ramos, R., Díaz-Díaz, B., & García-Olalla, M. (2017). Independent directors, large shareholders and firm performance: The generational stage of family businesses and the socioemotional wealth approach. *Review of Managerial Science, 11*, 119–156. https://doi.org/10.1007/s11846-015-0182-8
28. García-Sánchez, I. M., & Martínez-Ferrero, J. (2016). Independent directors and CSR disclosures: The moderating effects of proprietary costs. *Corporate Social Responsibility and Environmental Management, 24*(1), 28–43. https://doi.org/10.1002/csr.1389
29. Geletkanycz, M. A., & Boyd, B. K. (2011). CEO outside directorships and firm performance: A reconciliation of agency and embeddedness views. *Academy of Management Journal, 54*(2), 335–352. https://doi.org/10.5465/amj.2011.60263094
30. Grosman, A., Aguilera, R. V., & Wright, M. (2019). Lost in translation? Corporate governance, independent boards and blockholder appropriation. *Journal of World Business, 54*(4), 258–272. http://doi.org/10.1016/j.jwb.2018.09.001
31. Gupta, S., Hothi, B., & Gupta, A. (2011). Independent directors emerging as peer group. *Small Enterprises Development, Management & Extension Journal, 38*(1), 41–56. https://doi.org/10.1177/0970846420110104
32. Hahn, P., & Lasfer, M. (2011). The compensation of non-executive directors: Rationale, form, and findings. *Journal of Management & Governance, 15*(4), 589–601. https://doi.org/10.1007/s10997-010-9134-5
33. Kang, E., & Kroll, M. (2014). Deciding who will rule: Examining the influence of outside noncore directors on executive entrenchment. *Organization Science, 25*(6), 1573–1877. https://doi.org/10.1287/orsc.2013.0874
34. Lai, J., Chen, L., & Song, S. (2019). How outside directors' human and social capital create value for corporate international investments. *Journal of World Business, 54*(2), 93–106. https://doi.org/10.1016/j.jwb.2018.11.006
35. Lardon, A., Deloof, M., & Jorissen, A. (2017). Outside CEOs, board control and the financing policy of small privately. *Journal of Family Business Strategy, 8*(1), 29–41. https://doi.org/10.1016/j.jfbs.2017.01.002
36. Lim, S., Matolcsy, Z., & Chow, D. (2007). The association between board composition and different types of voluntary disclosure. *European Accounting Review, 16*(3), 555–583. https://doi.org/10.1080/09638180701507155
37. Mace, M. (1971). *Directors: Myth and reality*. Brighton, MA: Harvard Business School Press.

38. Magnan, M., St-Onge, S., & Gelinas, P. (2010). Director compensation and firm value: A research synthesis. *International Journal of Disclosure and Governance, 7*(1), 28–41. https://doi.org/10.1057/jdg.2009.13
39. Mallin, C., Melis, A., & Gaia, S. (2015). The remuneration of independent directors in the UK and Italy: An empirical analysis based on agency theory. *International Business Review, 24*(2), 175–186. https://doi.org/10.1016/j.ibusrev.2014.07.006
40. Marris, R. (1964). *The economic theory of 'managerial' capitalism.* https://doi.org/10.1007/978-1-349-81732-0
41. Masulis, R. W., & Zhang, E. J. (2019). How valuable are independent directors? Evidence form external distractions. *Journal of Financial Economics, 132*(3), 226–256. https://doi.org/10.1016/j.jfineco.2018.02.014
42. Michiels, A., & Molly, V. (2017). Financing decisions in family businesses: A review and suggestions for developing the field. *Family Business Review, 30*(4), 369–399. https://doi.org/10.1177%2F0894486517736958
43. Mutlu, C., & Sauerwald, S. (2020). CEO outside directorships and managerial efficiency: The role of host board capital. *Corporate Governance: An International Review, 29,* 45–66. https://doi.org/10.1111/corg.12337
44. Pfeffer, J., & Salancik, G. R. (1978). *The external control of organizations: A resource dependence perspective.* Retrieved from https://ssrn.com/abstract=1496213
45. Sancetta, G. (2007). *Gli intangibles e le performance dell'impresa. Verso nuovi modelli di valutazione e di comunicazione nella prospettiva sistemica.* Padova, Italia: Cedam.
46. Sancetta, G. (2020). Introduzione: I processi di ristrutturazione nel governo dell'impresa. In AA.VV., *Contributi in onore di Gaetano Maria Golinelli* (pp. 336–341). Napoli, Italia: Rogiosi Editore.
47. Schellenger, M. H., Wood, D. D., & Tashakori, A. (1989). Board of director composition, shareholder wealth, and dividend policy. *Journal of Management, 15*(3), 457–467. https://doi.org/10.1177%2F014920638901500308
48. Sharif, S. A., Ho, M. K., Yeoh, G. H., & Timchenko, V. (2016, December). Tracking of Bubbles using InterSection Marker (ISM) method. In *Proceedings of 20th Australasian Fluid Mechanics Conference* (Vol. 20). Retrieved from https://people.eng.unimelb.edu.au/imarusic/proceedings/20/445%20Paper.pdf
49. Soana, M. G., & Crisci, G. (2017). Board evaluation process in Italy: How far is it from the UK standard? *Corporate Board: Role, Duties and Composition, 13*(3), 6–18. https://doi.org/10.22495/cbv13i3art1
50. Stein, G., & Plaza, S. (2011). The role of the independent director in CEO supervision and turnover. *Corporate Ownership & Control, 9*(1), 40–59. https://doi.org/10.22495/cocv9i1art2
51. Tulung, J. E., & Ramdani, D. (2018). Independence, size and performance of the board: An emerging market research. *Corporate Ownership & Control, 15*(2–1), 201–208. https://doi.org/10.22495/cocv15i2c1p6
52. Yoshikawa, T., Zhu, H., & Wang, P. (2014). National governance system, corporate ownership, and roles of outside directors: A corporate governance bundle perspective. *Corporate Governance: An International Review, 22*(3), 252–265. https://doi.org/10.1111/corg.12050
53. Zattoni, A., & Cuomo, F. (2010). How independent, competent and incentivized should non-executive directors be? An empirical investigation of good governance codes. *British Journal of Management, 21*(1), 63–79. https://doi.org/10.1111/j.1467-8551.2009.00669.x
54. Zouari-Hadiji, R., & Zouari, G. (2021). A mediation analysis: Board of directors' composition, R&D investment, and international firm performance. *Corporate Ownership & Control, 18*(3), 104–119. https://doi.org/10.22495/cocv18i3art9