

Interlocking Directorates across Listed Companies in Italy: the Case of Banks*

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1. Introduction and summary

Interlocking directorates, i.e. the sharing of directors across different companies, is a phenomenon characterising a number of developed economies to varying degrees. Although it has been widely studied by sociologists, mainly as a tool for analysing economic power, economists have attached little importance to it, particularly in recent times.

However, the sharing of members of the board of directors (interlocking) represents a significant feature of the industrial structure and corporate governance of a system: these relationships may in fact guarantee enterprises a collusive potential where other mechanisms of co-ordination are lacking; furthermore they may strengthen ownership as a means to exercise control or substitute it. Hence, analysis of this phenomenon represents an important element when evaluating a system's corporate governance.

Recently the debate on corporate governance reforms in Italy has extended to the board of directors, its role, its powers, its composition and the importance of having 'outside' directors, while also considering the desirability of limiting the cumulation of positions in order to guarantee that directors perform a more active role. It is therefore particularly interesting to evaluate the extent of inter-

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locking as well as its characteristics in Italy: whether it is generated only via the board of directors or also via the internal auditors (*collegio sindacale*), whether it has changed over time, whether it is strictly linked to ownership or not. The possible effects of interlocking on companies' strategies, performance and on the relationships between enterprises and intermediaries will not be studied here.

In this paper, interlocking directorates are analysed for companies listed on the stock exchange for the period 1985-1995. In particular, we evaluate the dimension and evolution of the phenomenon over the period, with a special emphasis on banks. The links with ownership structure, where data are available, are considered in order to ascertain whether interlocking represents a way to strengthen ownership relationships or to substitute them.

Our analysis, which is based on a Consob dataset on the boards of listed companies, suggests that the closest relationships, i.e. those established by executive directors, are usually accompanied by the presence of majority shareholdings.

As far as the relationships between banks and non-financial enterprises are concerned, interlocks seem to have replaced ownership links, in presence of legislative restraints both on bank ownership of non-financial enterprises and on non-financial companies investment in banks.

2. A brief survey of the literature

The expression interlock or interlocking directorship describes the relationship established between two or more enterprises when the same subject is on the board of directors of both. This phenomenon has always caused great interest among scholars of social science as an indicator of the presence of a specific use of economic power. Other analyses are instead related to antitrust policies.

The classical sociological literature uses matrix descriptions of the links between enterprises as a consequence of interlocking (Fennema 1982, Chiesi 1985, Scott and Griff 1985). The relationships are classified according to the positions held on the boards. In particular, the classification of the various types of relationships is based on two categories of positions: those described as *in*, which

include executive directors, and those described as *out* which include the other directors. There are four main categories: the first includes all the relationships, the second includes *in-in* types of relationships, the third includes *out-out* relationships and the fourth *in-out* or *out-in* links.

In order to interpret the role of interlocks in the literature various models have been proposed. Some of them introduce economic power,¹ while other explain interlocks within more general models. The 'finance-capital model' inspired by Marxist tradition and theorised by Hilferding (1961) argues that "the concentration of banking and industry leads to the fusion into the monopoly form of money capital".² Finance capital is a source of links across the whole economy. This is achieved through common shareholdings, agreements, indebtedness and interlocks. In this framework there is a high correspondence between interlocking on the one hand and financial participations or indebtedness on the other. Moreover, the majority of interlocks run between financial and non-financial companies. The 'control model' is based on the idea of the economic system structured in competing groups of co-ordinated companies, characterised by the presence of a bank- or family-controlled centre. In the 'resource-dependence model' the relationships between enterprises depend on organisational motives, and interlocking directorships are finalised to regulate interdependence. The 'managerial model' is based on the idea that top executives are almost completely inde-

¹ These are: the organizational perspective, the social background perspective, the inter-organizational perspective and the class-hegemony perspective. In the first type the organizational features of the company play an important role: interlocking is considered as an attribute of the company which affects performance measured by profits and the debt-capital ratio. The social background perspective is based on the concept of 'corporate elite': the number of directorships held and the type of enterprises in which they are held are treated as attributes of the persons studied and are related to their level and type of education, club memberships, wealth and so on. Those perspectives based on static attributes have been more or less replaced. The recent literature is mostly interested in the relational features of economic power in order to understand its systemic character. The inter-organizational relationship considers the relationship between enterprises as constitutive of the environment in which they operate and therefore determinant of their possibilities of action. Finally, the class-hegemony perspective states that the connection between people who have more than one company directorship determines the existence of a so-called 'capitalistic class'. This class is made up of all the subjects who represent the linked enterprises; in other words, the members of the respective boards.

² See Scott (1985, p. 6).

pendent of company shareholders and lenders. Those relationships among the boards of directors have little or no effect. Thus the *out-out* type of interlock has the sole purpose of increasing company prestige and contacts. The members of the board of directors are essentially recruited in the local community or in the financial centre. Finally, the class-cohesion model holds that directors are recruited from an upper class and interprets interlocks as an instrument for strengthening their class.

The five aforementioned interpretative models of the economic power relationships are not necessarily alternatives but may complement one another in accounting for the different types of interlock in a given country, economic sector or period of time. The literature considered above suggests that interlocking directorships create social links (organisational, based on resource dependence, based on class) between enterprises rather than control links. However, we must take into account the fact that only recent research has brought the concept of *primary interlocks* into focus: this is a relationship among enterprises achieved by a subject who holds – in at least one of the companies – an executive position. In other words, only the recent literature distinguishes clearly between interlocks achieved by an executive director or other directors and between single and multiple interlocks.

The results of a detailed research on interlocking with international comparisons regarding 1976 are given in Stokman, Ziegler and Scott (1985). In particular, summarising the results for each individual country (Austria, Belgium, Switzerland, Germany, France, Great Britain, Italy, the Netherlands, Finland and the US) Stokman and Wasseur (1985) show that the highest number of interlocks were to be found in France, Italy, Finland, US and Belgium; in these countries there was also the highest share of directors with multiple positions, and apart from the US, this was mainly accounted for by a few directors with a large number of positions. In the Anglo-Saxon countries, on the other hand, it was rare for directors to hold a large number of positions. Examining the consequences on the relationships among enterprises, the authors show that in the US, Finland, France and Switzerland there was only a small number of enterprises which were not connected to any other (mostly subsidiaries of foreign companies) while the number is large in Austria and Belgium.

As far as Italy is concerned, Luzzatto Fegiz (1928, pp. 226-27) with an analysis of 2,829 companies based on data for the year 1923,

highlighted the importance of the “exchange of executives” as a way of creating relationships between companies: according to the author, the relationship among several companies through the board of directors contributes to “link all the industries in one country in a close and complicated network of interests”. The author’s attention is mainly focused on concentration in specific sectors:³ the exchange of directors is considered one of the main means to collude. The industry with the highest concentration in 1923 was the electricity industry (followed by textiles and shipping). On the other hand it was rather low in banking and insurance sectors. Luzzatto Fegiz also distinguishes between “directors-non entrepreneurs” and “directors-entrepreneurs” and identifies the former with those with one position only, while the latter are in turn distinguished according to whether they control several companies and have in each one or in some a managing position (but whose influence is not as strong in all the companies as to make them a single group) or whether they also perform a specific activity of a financial and often also political nature, connected with the creation and transformation of industries through finance and equity operations. The latter are identified as those who hold a high number of positions: Luzzatto Fegiz finds that 2% of the directors “control” more than one third of the total capital of the companies taken into consideration.⁴

This analysis shows that already at the beginning of the 1920s the phenomenon of interlocking directorships was quite important in Italy.

50 years later, analysing 247 enterprises with data for 1976, Chiesi (1985) again finds that the phenomenon is significant, but studies different aspects. While distinguishing between the various boards, the author finds that a high number of interlocks is achieved through the board of directors while the statutory auditors (*sindaci*) are not a source of relationships among companies. The author also

³ Measured both on the basis of the number of boards, as well as on the basis of “controlled” capital stock where this is calculated as the ratio between the capital stock of the company and the number of executives.

⁴ In the category of “non entrepreneurs directors”, the author considers the case of those with a title of nobility: 5% of the executives belongs to this category and generally participates in one board only. Finally, it is interesting to note that about one third of the executives who control more than 15 million are engineers, which is interpreted as proof of the fact that the Italian industrial structure was not yet in the advanced phase of development “where the technician must give way to the capitalist” (Luzzatto Fegiz 1928, p. 227).

identifies the characteristics of the Italian case in the presence of two centres in the system of interlocks: a state centre, represented by 22 enterprises, and a private centre, with 14 enterprises. Furthermore, 11 state-owned and 5 private enterprises are closely linked. There are only two banks in the network: IMI and Efibanca.

3. A preliminary description of the phenomenon

3.1. *The characteristics of company boards in Italy*

In Italy the appointment of directors is the responsibility of the stockholders' meeting which decides on a majority vote. A recently approved law⁵ introduced, for privatised companies, a voting system which allows minority shareholders to appoint some directors. Directors last three years but can be re-elected, must act jointly and their duties cannot be modified by a directors' decision, nor by a decision made by the shareholder meeting, nor by the company statute. The board of directors has supervision duty over the executive directors. In large Italian companies, there are usually both non-executive and executive directors.

A recent research on the role and the functioning of Italian boards (Crisci and Tarizzo 1995) shows that the board represents mainly the interests of majority owners.⁶ Usually the directors are proposed by the president of the board or by the majority shareholder and are chosen (in 90% of cases) among employees or persons with professional relationships with the company. Board meetings are not extremely frequent (on average less than 5 times per year) and not very well prepared (the date is not decided sufficiently in advance, the information on the issues to be discussed is not readily available to all the participants). This suggests that important decisions are taken outside the boards. It should also be noted that shareholders are not allowed to see the minutes of the meetings. Only 27% of the direc-

⁵ Law of 30 July 1994, no. 474 (known as the 'Privatization Law').

⁶ The research was performed on a sample of all listed companies and the 300 largest companies (except those listed) in 1994 through a questionnaire sent to 1,500 directors. It should be noted that the results are based on the answers of 219 directors and hence might not be totally representative.

tors are non-executives: even the non-executives in Italy are not really outsiders and independent, since they are mainly representative of the majority shareholders.

In Italian companies there is also a second board or internal auditors' board (*collegio sindacale*). The number of the second board members (*sindaci*) is set by law (3 or 5). It is legally responsible for the decisions taken by the board of directors and has to certify the correctness of accounting practices (internal auditing). They are appointed by the shareholders' meeting and hence in general they are not independent of the ownership.

Italian laws take interlocking directorates into account only in specific instances.⁷ Joint control of multiple enterprises (which can be obtained by means of interlocking directorates) is recognised for example by the so called 'Legge Prodi',⁸ concerning some bankruptcy procedures for large companies in financial distress, which established that in cases of joint management the directors of the connected companies are jointly responsible. This provision has in some cases been interpreted as applicable to other bankruptcy procedures and to sound companies, even though some courts decided that in order for this provision to be applicable there must also be evidence of joint management (Bianchi 1988).

3.2. *The sample*

The sample used for the empirical analysis consists of directors of all listed companies (except those listed on the second market) for all the years between 1985 and 1995:⁹ the number of companies varies between 187 in 1985 and 253 in 1988. The dataset used is based on the communications of the companies to Consob regarding their boards. For each company the dataset includes information on the composition of the board: the names of directors, their position, the date of appointment and that of their resignation.¹⁰ It also has

⁷ Interlocking directorates are however considered by the American Antitrust Law. The Clayton Act, Sect. 8, establishes that when it is evidence of connection between two enterprises, it is to be considered unlawful.

⁸ Law of 3 April 1979, no. 75.

⁹ For the year 1995 data refer only to the first half of the year. Hence, some of the companies that went public in the second half of the year are excluded from the sample.

¹⁰ The positions are: president of the board, vicepresident of the boards, director, executive director, honorary president.

the same information regarding internal auditors.¹¹ For the period 1991-93 this information is complemented with that referring to the ownership structure, based on the experimental archive Banca d'Italia-Consob.¹²

In what follows, after a quantitative description of companies' boards, interlocking directorships are evaluated mainly with reference to boards of directors, and only to a more limited extent with reference to internal auditors. The availability of data referring to a sufficiently long period allows us to evaluate the stability of board structures and the characteristics of interlocking.

TABLE 1
AVERAGE NUMBER OF DIRECTORS^a

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Industrial companies (employees classes)											
≤ 99	9.1	9.7	7.8	9.4	9.2	8.7	9.2	10.2	9.0	8.7	8.0
100-499	8.6	8.4	8.5	9.0	8.9	9.9	9.8	10.4	11.4	10.8	9.5
500-999	9.8	9.3	9.8	8.9	9.8	9.5	9.5	9.6	10.1	9.6	8.6
1000-4999	12.4	11.1	11.4	11.5	11.6	12.8	12.8	13.0	12.3	12.1	12.2
more than 5000	18.4	15.5	16.5	18.2	18.8	17.9	17.6	17.1	17.5	20.3	14.7
Financial companies	9.7	8.4	8.3	9.4	8.5	8.7	8.7	8.2	10.1	10.6	9.4
Holding companies	11.4	11.0	11.8	11.8	11.8	12.5	12.8	12.1	12.2	10.9	10.0
Total	12.0	11.2	11.7	12.1	11.9	12.7	12.8	12.7	12.8	12.4	11.5
of which: executive	1.3	1.3	1.3	1.3	1.3	1.3	1.4	1.3	1.3	1.4	1.3
Number of companies	187	225	242	253	249	250	242	238	233	227	217

^a They include: directors, president, vice-president, executive directors.

Source: based on Consob data.

The boards of the companies have an average size of 12 directors. This number increases with the company's size¹³ and is slightly lower for financial and holding companies. The size is relatively stable over the period (Table 1). More complex ownership structures (as is the case for large companies) seem to generate boards with a higher number of directors. It is possible to distinguish between executive and non-executive directors: on average, listed companies

¹¹ The positions are: president of the secondary board, internal auditor.

¹² For a description of this dataset, see Barca *et al.* (1994a).

¹³ See also Barca *et al.* (1994b, ch. IV), for an analysis of the relationship between board structures and control models.

have 1.3 executive directors.¹⁴ Internal auditors on second boards are on average 3.6-3.8 (Table 2); for large firms they are usually 5, the maximum number. Also the second board is smaller for financial and holding companies.

TABLE 2
AVERAGE NUMBER OF INTERNAL AUDITORS

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Industrial companies (employees classes)											
≤ 99	3.0	3.0	3.0	3.0	3.3	3.0	3.0	3.0	3.0	5.0	-
100-499	3.9	3.1	3.7	3.4	3.4	3.8	3.2	3.2	4.5	3.7	3.5
500-999	3.3	2.9	3.2	3.5	3.3	3.5	4.0	3.0	3.2	3.0	3.0
1000-4999	3.8	3.5	3.8	3.9	3.7	4.0	3.9	3.7	3.2	3.5	3.5
more than 5000	5.0	4.4	4.7	4.5	4.7	5.0	5.0	4.2	-	5.0	4.0
Financial companies	3.0	3.5	4.0	3.0	3.5	3.0	3.0	3.5	3.0	-	4.0
Holding companies	3.6	3.5	3.6	3.9	3.4	3.6	3.5	3.6	3.6	3.9	4.1
Total	3.9	3.6	3.8	3.8	3.7	3.8	3.7	3.7	3.7	3.8	3.7
Number of companies	187	225	242	253	249	251	242	238	233	227	217

Source: based on Consob data.

If we consider (listed) banks only, the boards and secondary boards are on average larger: the number of directors is on average 16, of which 1.3 are executive, while the internal auditors are nearly always 5 (Table 3). This often corresponds to more complex ownership structures. However this size may be partly accounted for by the occurrence of interlocking, as will be shown later.

The board turnover is rather high over the period: every year 14% of directors on average left the board, and approximately the same percentage entered.¹⁵ For banks the turnover is slightly higher (Table 4). In particular, directors with more than one position are more 'mobile'. For executive directors the turnover is similar to that

¹⁴ The differences with the results of Crisci and Tarizzo (1995) may be due to the different samples used or to an over-representativeness of executive directors in their sample. As for the possibility to distinguish more clearly between insiders and outsiders, it should be noted that directors, internal auditors and chief executive officers must reveal their ownership share in the company to Consob (art. 17, L. 216/74). The introduction of new 'schemes' for communication to Consob will guarantee a better use of these data.

¹⁵ The slight difference between the two rates is due to the turnover of the listed companies.

TABLE 3

AVERAGE NUMBER OF DIRECTORS OF BANKS

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Directors	16.46	14.28	14.95	15.95	15.50	16.95	16.27	16.20	16.46	16.57	16.79
of which executive	1.46	1.17	1.19	1.27	1.32	1.52	1.32	1.28	1.21	1.27	1.18
Internal auditors	4.85	5.00	4.81	4.91	4.91	5.00	4.76	5.00	5.00	4.93	4.54
Number of banks	13	18	21	22	22	21	22	25	24	30	33

Source: based on Consob data.

TABLE 4

DIRECTOR TURNOVER
(percentages)

	All companies		Banks	
	Exits	Entries	Exits	Entries
1985	16.5	10.7	15.8	17.3
1986	9.5	12.2	7.0	7.9
1987	12.9	16.9	11.0	15.6
1988	13.5	17.4	14.4	16.6
1989	11.8	13.9	11.4	11.4
1990	12.9	18.8	16.0	21.8
1991	13.4	15.3	12.4	14.3
1992	11.8	12.8	10.4	12.8
1993	19.3	12.6	17.4	12.2
1994	19.0	15.3	22.1	19.9
1995	-	12.2	-	24.7
Average	14.1	14.4	15.0	15.9

Source: based on Consob data.

of the others. Fairly stable composition and size of the board are accompanied by relatively high internal mobility.

3.3. The cumulation of positions

Before considering the types of links established across the companies by interlocking directorates, in this Section we offer a preliminary evaluation of the extent of the phenomenon. The share of directors with multiple positions is approximately 20%, and appears

relatively stable over time: in the sample considered by Stokman and Wasseur (1985) it was 19% in 1976; it became 20% in 1985 and exceeded 23% only in 1991 (Table 5). This value is rather high in the international comparison, which showed lower values in 1976 for most countries.

TABLE 5

SHARE OF DIRECTORS WITH MULTIPLE POSITIONS

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Share of directors with more than one positions	20.3	21.6	21.9	22.1	22.7	22.9	23.9	22.5	22.0	22.1	20.5
Number of directors	1,669	1,807	1,974	2,106	2,084	2,188	2,156	2,125	2,113	2,026	1,832
Number of positions	2,250	2,517	2,824	3,056	2,971	3,163	3,096	3,029	2,978	2,812	2,493
Cumulation ratio	1.35	1.39	1.43	1.45	1.43	1.45	1.44	1.43	1.41	1.39	1.36

Source: based on Consob data.

This represents preliminary evidence that a strong network of links, not only through the ownership structure but also through interlocking directorships, is a stable characteristic of the Italian system.

If we consider banks only, this value is lower (Table 6), possibly also due to the fact that only a limited number of banks are listed over most of the years considered.

The average number of positions held by a director is 1.4. Also in this case the value has proved stable over the last 10 years (Table 7). Also the average number of positions of an internal auditor is 1.4 (stable as well) while, taking all the positions together, this value is only slightly higher (but only until 1993), suggesting that there is a limited amount of interlocking between boards and internal auditors. Bank directors hold positions on a larger number of boards than other company directors: on average they have 1.7 positions (Table 8). This might be preliminary evidence of the fact that they connect banks and non-financial firms: the point will be investigated in Section 4. In the last three years, however, the gap has narrowed. The same is true for internal auditors.

If, however, we consider interlocks only across banks, their importance appears smaller (Table 9).

TABLE 6

SHARE OF DIRECTORS WITH MULTIPLE POSITIONS IN BANKS

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Share of directors with more than one position	9.33	9.01	9.57	6.44	5.96	6.01	7.29	8.74	5.12	7.44	7.42
Number of directors	193	233	282	326	319	333	329	366	371	457	512
Number of positions	214	257	314	351	341	356	358	405	395	497	554
Cumulation ratio	1.11	1.10	1.11	1.08	1.07	1.07	1.09	1.11	1.06	1.09	1.08

Source: based on Consob data.

TABLE 7

AVERAGE NUMBER OF POSITIONS IN COMPANIES

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Directors only											
average	1.34	1.39	1.43	1.45	1.43	1.45	1.43	1.42	1.41	1.39	1.36
standard deviation	0.91	1.03	1.13	1.20	1.09	1.16	1.09	1.09	1.03	0.97	0.95
max.	11	13	15	14	14	15	15	16	14	14	12
Internal auditors											
average	1.38	1.40	1.41	1.42	1.41	1.39	1.39	1.42	1.41	1.40	1.39
standard deviation	0.95	0.95	0.98	0.99	0.99	1.00	0.96	0.98	0.98	0.93	0.92
max.	8	8	9	10	10	10	9	8	9	9	8
All positions											
average	1.39	1.43	1.47	1.49	1.47	1.48	1.47	1.46	1.45	1.43	1.39
standard deviation	0.98	1.08	1.17	1.23	1.16	1.21	1.14	1.14	1.09	1.03	0.99
max.	11	13	15	15	16	16	15	16	14	14	12
Number of companies	187	225	242	253	249	251	242	238	233	227	217

Source: based on Consob data.

A high cumulation of positions may be due to a large number of directors with more than one position or to a large number of positions for a small group of directors. In the first case the phenomenon is less concentrated and the number of companies in the same network is smaller. For the companies in our sample, most of directors with more than one position are usually on two boards (these account for approximately 60% of all directors with more than one

TABLE 8

AVERAGE NUMBER OF POSITIONS OF BANK DIRECTORS

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Directors only											
average	1.71	1.77	1.77	1.86	1.76	1.76	1.74	1.79	1.64	1.53	1.49
standard deviation	1.42	1.74	1.81	2.01	1.80	1.87	1.80	1.76	1.51	1.23	1.13
max.	9	13	15	14	14	15	15	16	14	14	12
Internal auditors											
average	1.69	1.50	1.46	1.59	1.64	1.58	1.47	1.76	1.78	1.60	1.64
standard deviation	1.39	1.23	1.15	1.19	1.31	1.21	0.87	1.16	1.17	0.96	1.09
max.	8	8	7	8	10	9	5	6	6	5	6
All positions											
average	1.76	1.75	1.74	1.87	1.82	1.83	1.78	1.82	1.71	1.60	1.53
standard deviation	1.51	1.71	1.74	1.98	1.86	1.92	1.78	1.76	1.58	1.30	1.19
max.	10	13	15	15	16	16	15	16	14	14	12

Source: based on Consob data.

TABLE 9

AVERAGE NUMBER OF POSITIONS OF BANK DIRECTORS
(in banks only)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Directors only											
average	11.11	11.10	11.11	11.08	11.07	11.07	11.09	11.11	11.06	11.09	11.08
standard deviation	0.36	0.36	0.41	0.34	0.30	0.30	0.37	0.39	0.33	0.35	0.30
max.	3	4	5	5	4	4	5	5	5	5	3
Internal auditors											
average	1.11	1.10	1.11	1.08	1.07	1.07	1.09	1.10	1.07	1.09	1.08
standard deviation	0.36	0.36	0.41	0.34	0.30	0.30	0.37	0.39	0.33	0.35	0.30
max.	3	4	5	5	4	4	5	5	5	5	3
All positions											
average	1.0	1.08	1.09	1.08	1.08	1.07	1.08	1.12	1.10	1.11	1.08
standard deviation	0.34	0.32	0.37	0.33	0.30	0.29	0.35	0.42	0.38	0.36	0.31
max.	3	4	5	5	4	4	5	5	5	5	3
Number of banks	13	18	21	22	22	21	22	25	24	30	33

Source: based on Consob data.

position) and only a small number (between 4 and 9%) have more than 5 positions (Table 10).

TABLE 10

CUMULATION OF POSITIONS BY MULTIPLE DIRECTORS
(percentages)

Number of positions	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
2	63.4	62.9	57.5	55.5	61.8	59.8	61.9	58.9	58.5	62.7	63.5
3	20.9	18.9	20.8	22.8	17.7	19.5	20.0	21.7	22.6	19.2	18.7
4	6.2	6.9	9.0	8.2	9.5	8.6	8.0	8.8	7.3	9.6	8.3
5	5.0	4.6	5.5	4.7	4.9	4.6	3.7	2.9	5.2	3.6	4.3
6-10	4.1	5.6	6.2	7.3	5.5	7.0	5.6	7.3	6.2	4.7	5.1
11 or more	0.3	1.0	0.9	1.5	0.6	0.6	0.8	0.4	0.2	0.2	0.3
Total number of multiple directors	339	391	433	465	474	502	515	479	465	448	375

Source: based on Consob data.

However, most of the interlocks are generated by directors with a large number of positions: in 1995, more than 60% of the interlocks were due to directors with more than 4 positions (Table 11). It should be noticed that since 1990 this share has decreased, although this might be due to a reduction in the number of listed companies. In the case of banks, as in the other companies, most directors hold two positions; however, the largest number of interlocks is actually generated by them (Table 13).

Finally, a measure of the importance of interlocking directorships is given by its *density*, that is by the share of possible links across companies¹⁶ actually established through interlocks: this value is now slightly lower than 6% (Table 11), higher than in 1976 and larger than in other countries. For banks the density is higher (Table 13), possibly also due to their more limited number.¹⁷

Data presented in this Section showed that in Italy companies are often linked through interlocking directorates. In the next Sections we discuss the types of links and the companies that are connected.

¹⁶ The number of possible links across N companies is $N(N-1)/2$.

¹⁷ See Stokman, Ziegler and Scott (1985).

TABLE 11

INTERLOCKS CARRIED BY MULTIPLE DIRECTORS
(percentages)

Number of positions	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
2 or 3	39.7	31.9	27.6	26.1	28.7	27.0	32.2	31.2	33.9	35.8	35.2
4 or more	60.3	68.1	72.4	73.9	71.3	73.0	67.8	68.8	66.1	64.2	64.8
Total	100	100	100	100	100	100	100	100	100	100	100
Total number of interlocks	1,077	1,466	1,880	2,211	1,898	2,204	1,952	1,902	1,732	1,504	1,272
Density	6.2	5.8	6.4	6.9	6.1	7.0	6.7	6.7	6.4	5.8	5.4

Source: based on Consob data.

TABLE 12

CUMULATION OF POSITIONS BY MULTIPLE DIRECTORS IN BANKS
(percentages)

Number of positions	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
2	83.3	90.5	92.6	90.5	89.5	90.0	91.7	87.5	89.5	91.2	89.5
3	16.7	4.8	-	4.8	5.3	5.0	-	6.3	-	2.9	10.5
4	-	4.8	3.7	-	5.3	5.0	4.2	3.1	5.3	2.9	-
5	-	-	3.7	4.8	-	-	4.2	3.1	5.3	2.9	-
Total number of multiple directors	18	21	27	21	19	20	24	32	19	34	38

Source: based on Consob data.

TABLE 13

INTERLOCKS CARRIED BY MULTIPLE DIRECTORS ACROSS BANKS
(percentages)

Number of positions	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
2 or 3	100	78.6	61.0	68.8	76.9	77.8	57.9	68.0	51.5	68.0	100
4 or more	-	21.4	39.0	31.3	23.1	22.2	42.1	32.0	48.5	32.0	-
Total	100	100	100	100	100	100	100	100	100	100	100
Total number of interlocks	24	28	41	32	26	27	38	50	33	50	46
Density	28.4	17.3	18.6	13.2	10.7	12.2	15.7	16.0	11.4	11.1	8.4

Source: based on Consob data.

substitute ownership relationships and, on the other hand, which types of companies are linked. We leave for future research analysis of the possible effects of interlocks on company strategies, performance and credit relationships.

In particular we consider two aspects: on the one hand we study the correlation between ownership and interlocks when there are close links (*in-in*) or links showing a direction (that can be more easily associated to an ownership share); at the same time, we shall also be taking a brief look at the networks created across banks only (of whatever type), in order to see whether they are stable over time.

In this Section we limit ourselves to the years 1991, 1992 and 1993, since only for these we also have information on company ownership structures. In particular, it is extremely interesting to ascertain whether, with legislation imposing separation between banks and non-financial companies (at least until 1993) both in terms

TABLE 14

TYPES OF LINKS GENERATED BY BANK DIRECTORS
(percentages)

	1991	1992	1993
IN-IN	3.2	3.0	2.5
of which: associated with share ownership	0.4	1.1	1.5
of which: with banks	-	-	-
with insurance and other financial co.	2.7	2.7	2.5
with holding co.	0.4	0.4	-
with non-financial companies	-	-	-
IN-OUT	6.5	6.8	7.1
of which: associated with share ownership	2.3	1.5	1.0
of which: with banks	1.8	1.1	1.5
with insurance and other financial co.	1.4	1.5	2.5
with holding co.	-	0.7	1.5
with non-financial companies	3.2	3.4	2.0
OUT-IN	17.1	13.6	18.2
of which: associated with share ownership	3.6	2.6	3.5
of which: with banks	1.8	1.1	1.5
with insurance and other financial co.	6.4	4.2	7.6
with holding co.	2.3	1.9	1.5
with non-financial companies	6.4	6.4	7.6
OUT-OUT	73.3	76.5	72.2
Total	217	264	198

Source: based on Consob data.

of bank ownership and in terms of bank participations in non-financial companies, personal links have been a way to substitute ownership.

We distinguish between different types of links. With respect to all the links where one of the companies is a bank, those of the *out-out* type are obviously the majority, in all years being over 70% (Table 14). There are a limited number of *in-in* cases (approximately 3%, corresponding to 5-8 links), approximately half of those where the director has an *in* position on the board of the bank and on *out* in the other company. Finally, in a share of cases included between 14 and 18% the director has an *out* position in the bank and an *in* position in the other company. In all these last three cases we verify which companies the bank is linked to and whether this link is accompanied by an ownership share.

The *in-in* interlocks link banks mainly to insurance and other financial companies or other banks; in a relatively large number of cases (except in 1991) they are associated with ownership shares (Table 14). In these cases interlocks seem to provide a way to guarantee that common strategies will be pursued and are expressions of ownership links.

The *in-out* interlocks (the bank directors have an *in* position in the bank and an *out* position in the other company) occur in half of the cases with non-financial or holding companies. They are associated with ownership in a more limited number of cases. In particular the interlock is associated with ownership (with the same direction of the interlock) mainly when the other company is a bank or financial company. This does not occur when the second company is a non-financial or holding company.

Hence the evidence suggests that since the law did not allow banks to hold shares in non-financial companies, personal links have somehow substituted ownership links. It would be interesting to consider the evolution of these indicators since 1992, when, with the implementation of the Second European Directive, banks have been allowed to own shares in non-financial companies, within certain limits. The evidence, based on a very limited number of years, shows a reduction in the percentage of cases where the company with an *out* director is a holding or non-financial company. However, before concluding that a change in legislation has reduced the extent of interlocks, we need a larger number of observations.

In the case of *out-in* interlocks, characterised by a director with an important position in the 'other' company and a less important position in the bank, only in a very limited number of cases are they associated with share ownership. This occurs in general when the connection is with another bank, while it is extremely rare where banks and non-financial companies are linked through interlocks. Hence, also for this second type of link, the evidence suggests that the separation between banks and non-financial companies, with the prohibition for financial companies to hold sizeable blocks of shares (or anyway control) of banks, personal links have represented a way to substitute direct ownership.

Finally, we offer a description of the links, of any type, across banks and their evolution over the period. Figure 2, which presents a stylised description of the connections across banks, suggests that there are two groups of banks. On the one hand there is a group of links which is relatively stable over the whole period: these connect the first 6-10 banks in the list which create a stable network, even if some banks enter or exit over the period considered. For all the other banks the connections are less stable and it is not immediately apparent that a clear trend exists. This might also be due to the fact that all types of links have been included while possibly only *in-in* links and those with a direction are significant.

To conclude, the evaluation of the interlocking directorates is extremely important to obtain a clear picture of the corporate governance of both banks and non-financial companies. Analysis based only on ownership structure might in fact be misleading and hide important links. International comparisons of different control systems, in particular, would benefit from this extension and might reveal similarities (or differences) previously unclear. Another important line of research is related to the effects of interlocks for the different types of companies depending on the kind of link established, which will certainly help interpret and evaluate the phenomenon more correctly.

FIGURE 2

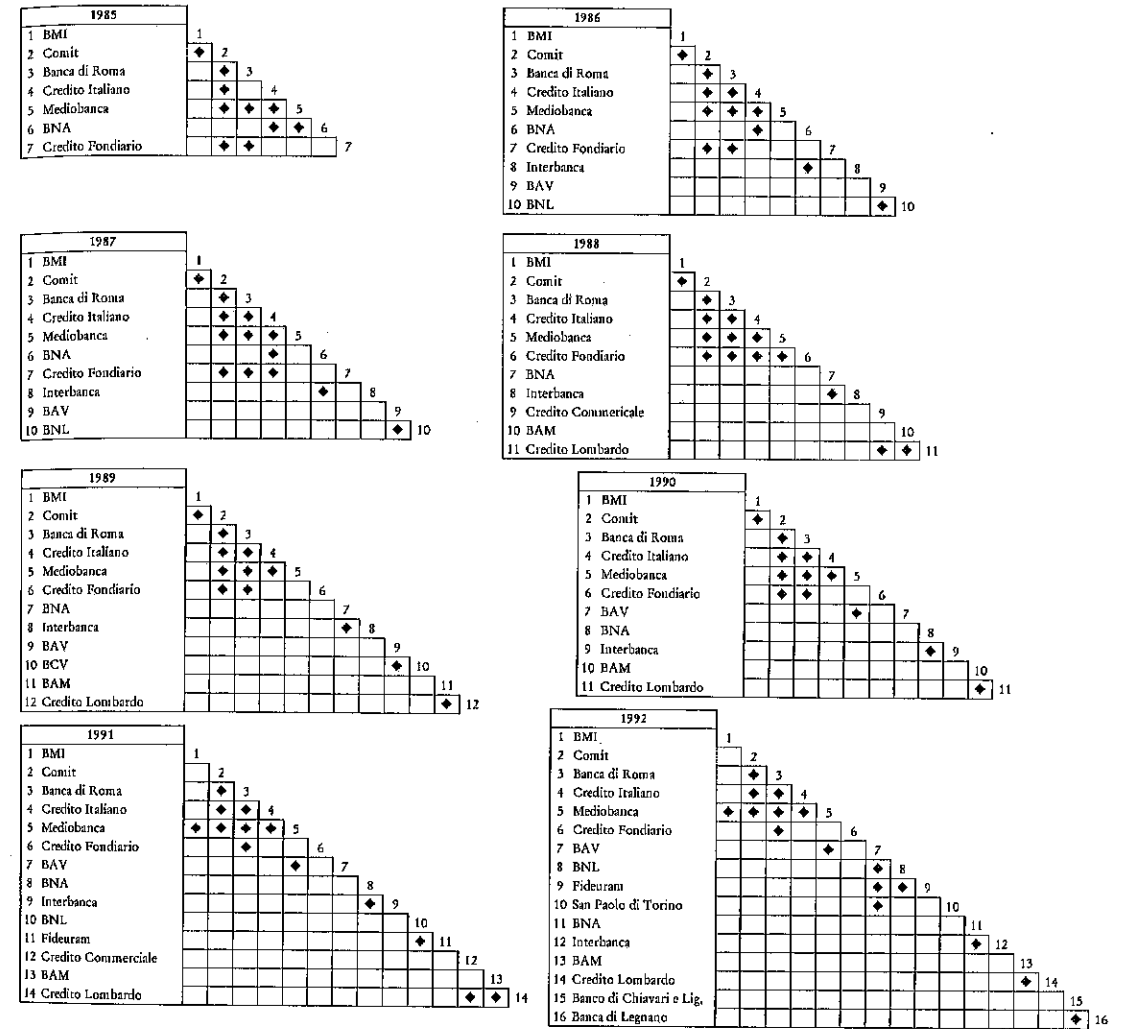
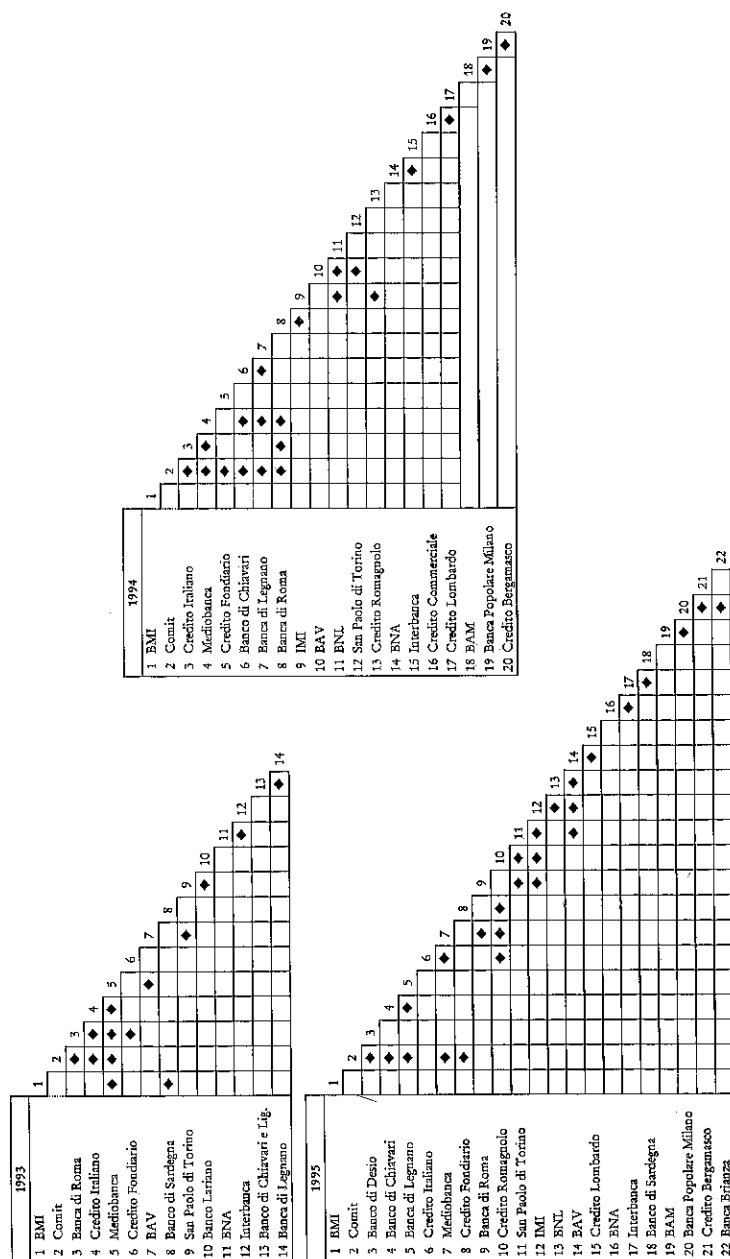


FIGURE 2 (cont.)



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