DIRECTORS AND FIRMS' PERFORMANCE

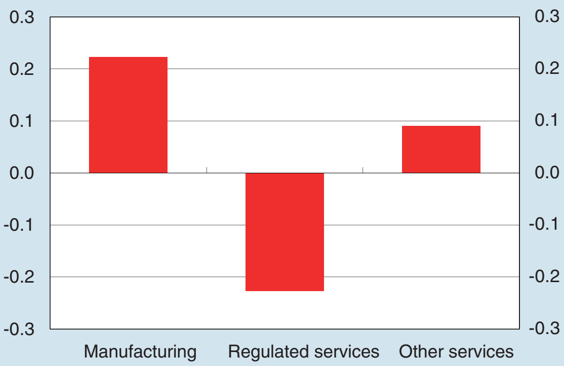
How firms perform is one of the determinants of a country's long-term potential growth. The productivity and technological progress of firms are influenced by, among other things, the quality of directors and managers, as well as by the managerial practices they adopt.[1]

According to several in-depth interviews with entrepreneurs carried out by Bank of Italy branches, the firms that use modern management practices – based on production targets and performance pay systems for employees – are at the technological frontier of the sectors where they operate, regardless of their size. Not only do these firms have higher adoption rates for advanced digital technologies, but they are also better able to integrate them into production processes. In the case of firms that are family-owned businesses, their management is mainly external.

Some recent analyses of the universe of Italian firms, which employ more than half the workers in the non-farm private sector, examine the main characteristics of directors and assess their impact on firms' productivity.[2]

In 2016, around one million directors were working for Italian companies, over 75 per cent of whom male, fewer than 10 per cent below the age of 35, and in almost two out of three cases from the same province as the firm's head office.

Quality of directors by sector (1)
(index)



(1) The figure shows a quality index for directors measured in terms of their relative contribution to firms' total factor productivity; the index is equal to zero on average. Regulated services are defined as those subject to product market regulation (OECD definition) and those in which most employees belong to regulated occupations.

Many directors hold positions in more than one firm during their careers (every year about 11 per cent of directors join or leave a firm's board of directors) or hold more than one position at the same time (15 per cent have positions in a number of firms in the same year). The firms affected by this phenomenon tend to be 'close' to each other, both geographically speaking (in about nine in ten cases they are within 100 kilometres of one another)

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[1] M. Bertrand and A. Schoar, 'Managing with style: the effect of managers on firm policies', *The Quarterly Journal of Economics*, 118, 4, 2003, 1169-1208; N. Bloom and J. Van Reenen, 'Measuring and explaining management practices across firms and countries', *The Quarterly Journal of Economics*, 122, 4, 2007, 1351-1408.

[2] A. Baltrunaite, E. Brodi and S. Mocetti, 'Assetti proprietari e di governance delle imprese italiane: nuove evidenze e effetti sulla performance delle imprese', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), forthcoming; A. Baltrunaite, G. Bovini and S. Mocetti, 'Directors' talent and firm productivity', Banca d'Italia, Temi di Discussione (Working Papers), forthcoming.

and in terms of sector (in almost one in three cases they are in the same sector of economic activity).[3]

The involvement of the same director in the management of more than one firm makes it possible to estimate an individual director's contribution to firm productivity holding constant a number of other firm characteristics.[4] This contribution is important, as it is equal to over half of that attributable to employees' overall educational levels, a factor considered to be one of the main determinants of productivity.[5] The analysis also shows that the average 'quality' of directors is higher in the manufacturing sector, which is exposed to international competition, and lower in regulated services (see the figure).

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3 The sectors are classified using the two-digit Ateco 2007 codes.

4 These characteristics include both observable factors that vary over time and those that are unobservable but constant.

5 M. Bugamelli and F. Lotti (eds.), 'Productivity growth in Italy: a tale of a slow-motion change', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 422, 2018.