The role of independent directors in the regulated firms: an empirical analysis

Claudio Becagli[*]

Sara De Masi[**]

Andrea Paci[***]

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Abstract

The introduction of corporate governance codes in Europe has stressed on the importance of boards of directors dominated by independent directors. Many commentators and institutional investors believe that independent directors are particularly effective in controlling CEO's actions, pushing him to take decisions to improve firm performance, growth and dividend policy. We conduct a study of whether independent directors and other board variables correlate with the performance, the growth and the dividend policy of European public utilities. We find evidence that independent directors reduce future firm performance and that they do not affect neither firm growth nor dividend policy. Using different econometric techniques and controlling for endogeneity, our results do not support the conventional wisdom of corporate governance codes that greater board independence improves firm results.

JEL classification: G30; J33; L95

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[*] University of Florence, claudio.becagli@unifi.it

[**] IMT – Institute for Advanced Studies, Lucca s.demasi@imtlucca.it

[***] University of Florence, andrea.paci@unifi.it