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Main evidence of a new leadership model: the Italian landscape

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Introduction

"*What does it mean to say that 'business' has responsibilities? Only people can have responsibilities*". That is what the economist Milton Friedman wrote back in 1970 about business and its social implications. According to him, "*businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades*". Friedman believed that in the free market economy the sole and exclusive responsibility of the business leaders was to employ the resources of the companies and carry out those activities designed to generate and maximize profit, in compliance with the rules. This is the setting followed by several big corporations that operated in the last years according to radical idea of capitalism. Indeed, at the core of modern capitalism, there is a network of financial flows without any kind of ethical setting. This economic system aims to a boundless growth that promotes extra consumption and waste, as well as intensive use of energy and natural resources (Capra, F. & Henderson, H., 2009). In this scenario, a new leadership model is emerging. In a historical moment in which climate changes are increasingly frequent and risky, and in which growing social disparities are the cause of wars and important immigration phenomena, a unanimous awareness is emerging regarding the need to take the path of sustainable development.

Of course, the *responsibilities* that Milton Freedman was referring to are not the legal obligations of a company: nobody would ever deal with a company if they thought that it was not responsible to pay back its debts. However, there are some rules other than the rules formalized into law that businesses need to adhere to if they wish to be successful. To prosper in the long run, companies need to maximize their profits in a way that is compatible with their stakeholders needs. Today, these needs are constantly changing, as well as technologies and regulations. Therefore, in a business environment in which change is the only constant, companies must take responsibility to change their behaviours and strategies accordingly to preserve their competitive position and survive.

What Friedman was talking about are the social *responsibilities*. While running their businesses, companies generate externalities, costs that are borne by society in general, rather than by the companies themselves. When businesses does not take responsibility for their side effects, the capitalist system breaks down (Pigou, A., 1920). Companies are in touch with several social groups, which influence company management policies and are in turn influenced by them Because of this mutual influence, these groups become partners of the company and everyone has interests to support (Freeman, R. E., 1984). Building on this perspective, in today's business environment leaders of the companies cannot overlook the mutual interests among the firm and its stakeholders. In this sense, it can be stated that firms play an important part in social development. Indeed, when business activities are run by responsible company leaders, it is actually possible to improve society and welfare.

In this context fits the concept of Shared Value (Porter, M. & Kramer, M., 2011), which suggests the opening of a new opportunity for all those companies that in the last decade have strongly suffered from the crisis of confidence in capitalism, caused by nefarious leaders whose sole objective was to maximize profits at any cost. For decades, governments, non-profit organizations and forms of social enterprises have been doing an important job in trying to find a solution to social and environmental problems, but it is now clear that to obtain significant results, huge resources are needed to face these problems on a large scale. By demonstrating responsible leadership, companies can take the responsibility to use the resources at their disposal to create a positive impact on society and the environment, which in the long term will also have a positive impact on their performance. In this regard, the creation of shared value does not consist in the simple redistribution of the profits of the company and in their devolution to certain social causes, but in providing society with the tools and knowledge to improve its condition and create value itself.

Laurence Fink is the CEO of BlackRock, the largest investment management firm in the world with almost $6 trillion in assets managed worldwide. Each year from 2012 Fink writes to the companies in which BlackRock invests on behalf of its clients to make sure that they adopt governance practices that are consistent with superior business performances. In his latest letters to the CEOs, Fink asks the companies to take action to tackle the problems society is facing. Fink contributes to a positive debate on global capitalism by calling on corporations to take a more active role in addressing societal issues and outlining the investment strategy that his firm will take in the years to come. Corporate leaders and board members are invited to act likewise if they want to hold BlackRock's capital and contribution. To overcome the short-termism which obstacles a sustainable growth in the long run, it is necessary to act in the service of a social purpose, switching the focus from the financial performance to something greater.

At this point, it is clear how a new leadership model is emerging. This new leadership preaches a more participative and responsible manner of making business compared to that demonstrated by companies that became protagonists of the recent corporate scandals and managerial misconduct, and thus made people lose trust in the capitalism system. As we will see, the peculiarity of the companies that demonstrate this leadership lies in the fact that they actually bear the responsibility to act concretely for the benefit of society, and they are not driven by mere potential reputational benefits. This degree of commitment to sustainable development is made possible by a certified engagement towards the creation of a Corporate Governance that guarantees effective, reliable and responsible leadership. Since the body entrusted with the organization's ultimate leadership is identified on the board, the composition, structure and functioning of this organ must be carefully defined, if a governance system consistent with this mentality is to be built. The objective of this thesis is to define the features characterizing this leadership model, capable of shaping purposeful organizations whose mission is to create value while also benefiting society, and to verify to what extent Italy aligns with these practices.

The study is divided into four chapters. The first chapter is dedicated to explaining how leadership in an organization actually works. Firstly, it is introduced the concept of Corporate Governance as the means by which an organization can be led. Secondly, an overview of the main leadership theories is provided to understand what kind of leader is nowadays required in a corporate environment Thirdly, it is showed how strategic change can influence the structure of a governance system and the choice of the leading actors of an organization.

The second chapter introduces the concept of sustainability. The governance scandals that happened lately (1.2.1), have shown how relevant is the companies' effect on social responsibility. Recently, thanks to a renewed care for the theme of corporate social responsibility, companies' responsibility to their stakeholders increased as well. As a consequence of that, organizations are progressively recognizing the pivotal role that Corporate Governance plays in improving communications with their stakeholders.

The third chapter discuss the features that should be implemented by the boards to make their organizations thrive in today's business environment. As shown, leaders of today's organizations need to act in a more participative and responsible manner as well as with more responsiveness and orientation to change. In order to make it happen, some key processes and structures may be put in place within the boards of directors. Indeed, many companies seem to have understood that it is the direction to undertake.

The fourth chapter aims to study the current situation in which Italian companies are carrying on their operations. The Corporate Governance traits of these companies are taken into account to analyze to what extent the Corporate Leadership scenario in Italy complies with the features previously examined and to identify the most effective governances in the country. Firstly, a general overview about the Italian governance landscape is provided. Secondly, two companies – namely Terna for the non-financial segment and Poste Italiane for the financial segment - are analyzed more in depth, as their leadership models are found to be exemplary for the purposes of the contents of this thesis.

1. The role of leadership in organizations

The study is divided into four chapters. The first chapter is dedicated to explaining how leadership in an organization actually works. Firstly, it is introduced the concept of Corporate Governance as the means by which an organization can be led. Secondly, an overview of the main leadership theories is provided to understand what kind of leader is nowadays required in a corporate environment Thirdly, it is showed how strategic change can influence the structure of a governance system and the choice of the leading actors of an organization.

1.1 Corporate Governance: leading an organization

As Sir Adrian Cadbury, one of the highest authorities on business management, said during a conference held at LUISS University, it may seem a paradox to link leadership with Corporate Governance. Indeed, "*we are inclined to think of leadership in terms of individuals, while Corporate Governance refers to the collective responsibility of boards of directors in relation to the lasting success of their companies"* (Cadbury, 2008). However, the term governance itself is derived from the Latin word *gubernare,* which means "ruling, leading" and, according to the definition provided by the 1992 Report of the Committee of Financial Aspects of Corporate Governance, *"corporate governance is the system by which companies are directed and controlled"*.

In defining Corporate Governance, two meaning can be distinguished (Fontana, F., Boccardelli, P., 2015): a narrow meaning and a wider meaning. The narrow meaning of Corporate Governance is linked to the debate on Corporate Governance in capitalist systems, within which the attention is focused on the operating methods of the board of directors of large corporations that are characterized by an ownership structure attributable to the model of public company. According to this concept, the group of interest that has the right of controlling the businesses they have a strong interest in maximizing efficiency and wealth produced over the long term. The shareholders exercise their right of control by expressing their vote on some important decisions and appointing the members of the board of directors as guarantors of their interest. Indeed, according to the agency theory of Corporate Governance that will be further investigated later on in this chapter (1.2.4.1), the relationship between shareholders and members of the board can be configured as a typical agency relationship in which the shareholders (principals) delegate to the directors(agents) the realization of a set of activities (Jensen M. C. and Meckling W. H., 1976).

The wider meaning of Corporate Governance intends to remedy the limits that characterize the narrow meaning, which limits the problem of how companies are governed to the composition and functioning of the boards of directors and considers the interests of stakeholders other than shareholders as an external constraint which becomes relevant only if certain circumstances occur. This wider conception of corporate governance overcomes the limits of the narrow vision, extending its attention to all the company's stakeholders and considering the various mechanisms, internal and external to the organization, that contribute to the governance process. According to this approach, only in some particular cases and for some specific problems, it is possible to assimilate the issue of corporate governance to the analysis of the composition and functioning of the board of directors, conceived as a body whose objective is to defend the stockholders' interest. In keeping with this approach, Corporate Governance is *"a system of structuring, operating and controlling a company such as to achieve the following: (i) Fulfil the long-term strategic goal of the owners, which after survival may consist of building shareholders value or stablishing a dominant market share, (ii) Consider and care for the interests of employees, past, present and future, (iii) Take account of the needs of the environment and the local community, both in terms of physical effects and interaction with the local population, (iv) Work to maintain excellent relations with both customers and suppliers, (v) Maintain proper compliance with all the applicable legal and regulatory requirements under which the company is carrying out its activities"* (Sheridan T., Kendall N., 1992). Therefore, this concept is "wider" in the sense that on the one hand it considers the interest of many stakeholders other than shareholders and on the other maintains that Corporate Governance processes include, in addition to the structures and mechanisms internal to the organization (such as the shareholders' meeting or the board), also the behavior of external institutions (such as auditing companies), the functioning of the markets in which it operates (such as that of raw materials or the financial market), the values and customs that characterize national cultures.

Thus, it is clear how the means by which leadership is exercised in a corporation is Corporate Governance, where the responsibility of the company guide is not entrusted to the single manager or to the president who is at the head of the company, but to the coordinated and discussed teamwork of the individual members who are part of it. Such a leadership, in line with a Transformational perspective, is based on the sharing of management choices and is capable of establishing itself as a huge source of innovation and social improvement.

1.1.1 History of Corporate Governance

Over time, there has been a huge evolution in the way people govern their affairs. From the beginning, people have always been living in groups: first as small communities, later as agricultural societies and finally as cities. From the start of mankind, people have tried to determine the best ways to manage and lead their groups and communities to grant their survival over time. At first, groups were small and simple, and so were their governance practices. As time went on, communities of people grew larger and more structured. Small proprietorships have become the today's large corporation and multinational companies. Their decision-making procedures have evolved too, to adapt to more difficult governance issues.

The dominant governance system derived from the action of individuals and not from the evolution of legal principles: the turning point of this shift from simplicity to complexity in governance is represented by the social revolutions of the eighteenth and nineteenth centuries. Before that, governance roles were carried out by only a few people who managed to gain power over the many. Indeed, as communities grew over time, they became more and more hierarchic, with small ruling groups concentrating most of the wealth created by the work of the subservient classes. Though, as these small groups accumulated power, they progressively became more autocratic and oppressive, often causing revolutionary reactions by the masses. Thus, the need for freedom and the sense of awareness of the other basic human rights powered the following social revolutions, such as the French and American revolutions. From these events was born the modern concept of democracy. Although democracy has its roots in the Greek civilization, it is during the Renaissance that the foundations of representative government have been laid. The social revolutions of the eighteenth and nineteenth centuries resulted in the Constitutions that reaffirmed the birth of democratic republics all over the world as well as some of the basic principles of democracy, such as universal suffrage and the separation of powers.

To these days, democracy shaped a context in which capitalism, the dominant economic system, could grow and prosper. There is, indeed, an evident link between the idea of individual freedom, granted by democracy, and the capitalistic concepts of free market, enterprise and competition. Adam Smith wrote in his 1776 book "Wealth of Nations" that *"an invisible hand of self-interest"* moved to generate an environment in the best interest *"of the many"*, where everyone acts to maximize their personal interests. It is this *invisible hand* the main impetus that fuels economic and social development. The evolution of capitalism generated a paradox, given by the collective quest for individual interests and the consequent wellness and prosperity everybody can benefit of. In a capitalistic system, the greater good is served by each individual trying to achieve their best interests. Thanks to capitalism could thrive enterprises of size and complexity previously only imagined.

It is with the birth of the corporate form of business that it is possible to start talking about Corporate Governance. The corporate form is taken as a given today, but it is a relatively new kind of business organization. Indeed, the first recorded corporations have been the Muscovy Company in 1555, the Spanish

Company in 1577, East India Company in 1601 and the Virginia Company of London in 1606. Before these, businesses were mostly organized in the forms of proprietorships and partnerships.

Particularly interesting is the birth of the East India Company, (Vereenidge Oostindische Compagnie – V.O.C.). The V.O.C. was born in 1602 from the merger of six local companies, namely Amsterdam, Delft, Enkhuizen, Hoorn, Middelburg and Rotterdam, each of which had the task of appointing the seventeen directors who took part in the council entrusted with the governance of the Company. By virtue of the strong link with local companies, the governors were able to take advantage of the advanced purchase of goods. This conflict of interest was remedied in 1623, establishing the obligation to make the purchase only by public auction and under the same conditions as the market, and by establishing the Council of the Nine, a control body that inspected the work of the directors. The form was similar to the current corporations: the shareholders had only a limited liability and the shares were listed in the Amsterdam Stock Exchange.

The actual debate on Corporate Governance starts in the nineteenth century. In these period, governments enacted laws that allowed people to institute legal entities that were financially independent from the person of the entrepreneur, having an own legal personality. In the nineteenth century in the United States, the Supreme Court under Chief Justice John Marshall officially allowed people to institute corporations. The definition of corporation provided by Marshall was: *"an artificial being, invisible, intangible and existing only in the contemplation of the law"* (Johnson P., 1997). Marshall went on to explain the three main features of a corporation: unlimited life, owners' limited liability and division of ownership. Previously, only natural persons could assume ownership of legal rights and obligations. These organizations are distinct and independent of those of the stockholders who temporarily hold the risk capital shares. The introductions of corporations and limited companies represent a juridical innovation extremely relevant for economy as, by making it possible for the shareholders to have a limited liability on business debts, it allows entrepreneurs to acquire with greater ease the resources necessary to increase growth and business development. This model can be exploited not only by the ones who want to open the company's capital to external shareholders, but also by people who want to keep the control power on their company, while benefitting from the limited liability feature. Thus, entrepreneurs who wished to start a business could not find a better organization form than corporations.

In the first half of the twentieth century, a further event contributes to attributing critical issues to the debate on Corporate Governance. Namely, some US and British firms decided to list their shares on the capital market. Thus, the first widely held companies were born. Widely held companies are characterized by the separation of the shareholder figure, that confers the risk capital, from that of the manager, who manages the firm. The fact that the ownership was fragmented within a huge amount of savers, who have no managerial authority of the company, and the emergence of a class of professional managers, the ones that assume the most important decisions for the economic life of the company, gave born to separation of property to the power of control of the company. At this point, it was born the Corporate Governance issue, as the ones who are in charge of managing the financial resources of others do not usually carry out their task with the degree of care that the owner would dedicate to it.

It was only in the 1960s that researchers started addressing the Corporate Governance problem. The phenomenon of the split between property and control favored the birth of the so-called Managerial Theories. The classic framework of the proprietary/entrepreneur who manages his business for profit maximization is rejected by these theories. The main representatives of the Managerial Theories are:

- Baumol (1959). He maintains that managers have an interest in increasing the size of the organization as much as possible, maximizing value of sales, in order to consolidate their position and their prestige. The limit of this theory lies in the need to satisfy shareholders with a minimum profit to guarantee business development;

- Williamson (1963). He assumes that managers are interested in increasing their power through the accumulation of funds that can be used in a discretionary way;

- Marris (1964). He argues that the balanced growth rate of company size and productive capital is maximized, so as to achieve the maximization of both the utility of managers and that of shareholders-owners.

An important mechanism for protecting shareholders is represented by the market for corporate control (Manne H. G., 1965), which has the function of allocating the control of a firm to the subjects that give it the most value. according to Manne, the market for corporate control is to be understood as a real asset, having its own market. More specifically, the differentials between the market values of the shares should be ascribed to the different degrees of managerial efficiency, given the positive correlation between price and managerial performance. The control market, thus understood, would therefore take on an importance in itself, not only because of the divestment opportunities offered to the shareholder but also, and above all, because it would constitute a sort of supervision over the work of the directors, given that inefficient management would negatively affect the share price, generating pressure on the stock price, to the point where the price would become so low as to pave the way for hostile acquisitions and, therefore, to replace management.

In the Seventies the attention of scholars moved to three important themes:

- The introduction of the audit committee and the principle of independence of the directors. A research of empirical nature carried out by Myles Mace (1971) pointed out that firms evaluate their advisors basing on their personal prestige rather than on the contribution they can effectively make to the effective functioning of the council. A board composed of members so selected does not actively contribute to the determination of corporate objectives, does not put into discussion the top managers' proposals and intervenes in the process of selecting board members only when the company performance is unsatisfactory (Mace, M. L., 1972). Secondly, the bankruptcy of some large enterprises prompted the supervisory bodies on the stock exchange and on the listed companies to request to encourage the introduction of audit committees composed mainly of independent external board members.

- The harmonization of company law at Community level. In 1972, the Fifth Directive was drafted which invited Member State companies to abandon the so-called one-tier board structure to adopt the two-tier organization, which is typical of the German and Dutch corporate scenario. Unlike the one-tier boards, where all the directors take part in the same organ and have the same accountabilities, the two-tier boards provide for the presence of a supervisory board, that is responsible for appointing the members and supervising the work, and an executive board, which has the task of running the business. The directive thus intended to propose the settlement of a collaboration between capital and labor, deciding that the supervisory board would be made up of the same number of shareholder and worker representatives. However, the proposal was admitted negatively, especially by the British.

- The growing importance of stakeholders. Here the debate focuses on maximizing profit and creating economic value for shareholders, which would create negative consequences for the community. However, the profit maximization remains the guiding principle of business decisions.

An event that in the Eighties reinforced the consideration of the public towards Corporate Governance issues is represented by the large number of hostile takeovers, LBO and corporate restructuring that occurred in this period, especially in the United States and Great Britain. The acquisition of control of a company and the subsequent restructuring allows to increase the business efficiency through the radical reduction of the structure costs and the sale of business units not strictly related to the core business. The members of the board and management of large US companies answered to this wave of acquisitions by inserting clauses in the company bylaws aimed at discouraging or preventing the external acquisition attempt, or by realizing restructuring plans aimed at improving business efficiency (Baker G. P. & Wruck K., 1989). Furthermore, it is in this period that the debate on the remuneration of the managing directors of large public companies comes up, which does not seem to be in line with the company performance.

It was in the 1990s that Corporate Governance began to assume an international weight, imposing itself on the attention of politicians and public opinion. With the political and economic collapse of the Soviet Union, the superiority of the Western system based on the market economy and on liberal and democratic politics is definitively established. However, the switch to a market economy is not easy. In fact, the efficient functioning of a market economy necessitates the introduction of important adjustments in the governance systems of privatized firms, in the economic and legal infrastructures necessary to incentivize and defend the free private initiative as well as in the morals and behaviors of the people who must make the system work. The single countries began to enact the first codes of best practice on governance, putting emphasis on the strengthening of the position of minority stockholders, increasing the standards of diligence, accountability and independence of the members of the board and strengthening, once again, the internal control mechanisms. Among the various codes, the Report of the Committee on Financial Aspects of Corporate Governance (1992), better known as the Cadbury Report, was the first report on Corporate Governance and represents a crucial moment in the debate on national and international Corporate Governance, an example for the creation of the subsequent codes of conduct for industrialized countries. Another important issue in the field of governance that developed in the 1990s is the gradually increasing importance held by institutional investors, to whom families entrust their savings to be able to diversify their financial risks. During this period, the managers of mutual funds began to take on a significant influence in the businesses of the corporations in which they had put money. Indeed, a strategy was adopted which involved the creation of communication channels and participation in shareholders' meetings to try to adjust firm decisions on issues of central attention, for example the composition of the board, the remuneration structure of directors and the transparency of information provided to the market. The frequent financial crises that characterize the Nineties convince the representatives of some important international organizations, such as the International Monetary Fund, the World Bank and the United Nations, that their solution is not only linked to macroeconomic interventions, but also through a Corporate Governance reform aimed at ensuring a better protection of minority shareholders' rights (Becht M., Bolton P., Röell A., 2002).

More recent events contributed to heat up the debate about Corporate Governance as well. In particular, the incidents that took place in the early 2000s had as their object the rise and fall of the value of the new economy's titles and the umpteenth wave of corporate scandals that involved some large corporations in numerous industrialized countries. The first event that hit the assets of savers is represented by the speculative bubble linked to the rise and rapid decline of the prices of new economy companies. The analysis of the causes that have favored this phenomenon cannot be limited to considering the excessive optimism of the numerous investors and venture capital towards the potential inherent in the new technologies linked to the Internet, but requires an accurate analysis of the behavior of numerous subjects who have drawn a huge gain from the rise of the listing of the new economy shares: the shareholders of the companies that fueled the share prices to make huge capital gains; the financial intermediaries who placed the shares of the companies on the market at very high levels, despite their income and financial prospects were in some cases uncertain, in order to receive the huge placement fees; financial companies that have continued to attribute constantly rising target prices to the shares of firms that often did not have a positive net profit. At the same time, public opinion has been shaken by the sudden bankruptcy and financial scandals that have hit some large corporations in various countries. In the United States these scandals have involved companies such as Enron and WorldCom, while in Italy the Cirio and Parmalat cases have caused a sensation. These episodes have helped to highlight how the control system could not disclose in time the illegal practices undertaken by the managers of these corporations. The crimes of which the directors and managers of these companies have been accused are numerous and include falsifying financial statements, illicit expropriation of the firms' funds, carrying out related parties transactions at conditions other than market conditions, insider trading. These facts have affected the public opinion because they regarded companies considered excellent and caused considerable financial damage to numerous categories of stakeholders. However, the most serious consequence of these facts of mismanagement is not the patrimonial damage inflicted on the savers who had bought the shares and the obligations of the company that went bankrupt, but the loss of trust of the savers and the community towards the exponents of the industrial and financial worlds and towards all the authorities in charge of supervising the correctness of the behavior of the companies. Therefore, to avoid that the trust of savers, already undermined by the speculative bubble of the securities of the new economy, could lead to a drastic reduction of the financial resources invested in various companies, the national and international authorities have introduced new rules aimed at attributing new liability to persons guilty of corporate crime. The goal of the reform was, as always, to better protect the interests of those who finance companies without being able to direct their behavior. Thus, the US government issued the Serbanes-Oxley Act in 2002. The enactment's objective was to try to cover certain topics that the previous legislator did not take care of, to generally develop better Corporate Governance practices and guarantee the transparency of accounting record. Moreover, the law made some adjustments related to the penalties as well: in particular, the penalties to pay for false accounting and related crimes were notably increased. Also, the auditors' accountability for auditing has increased. In addition to redefining the duties of the Securities and Exchange Commission, the US federal body in charge of stock exchange supervision, the law set the Public Company Accounting Oversight Board, that is, the supervisory board on the financial statements of listed firms. Among other things, main topics that the legislation covered with its intervention are the following: increased managers accountability with regard to the accuracy of accounting information on financial statements; a new supervisory authority on external auditors was created; the penalties for accounting crimes and tax crimes have been increased; more authority was conferred on the minority.

After years of financial growth, a serious financial crisis broke out in 2007 which led to disgraceful consequences on the global economy in many countries. The United States is where the crisis started, with the deflation of the real estate bubble, the sharp depreciation of highly risky financial products and the strong liquidity crisis of large financial companies such as AIG, Lehman Brothers and Merril Lynch. In 2008, the US government intervened to try to mitigate the effects of the crisis through a rescue plan for the national financial system. The plan was called the Troubled Asset Relief Program and involved both interventions in the economic system and the nationalization of some financial institutions. In fact, due to the TARP, AIG was partially nationalized and financial institutions such as Merrill Lynch, Morgan Stanley and Wells Fargo were supported through bailouts. Despite the American interventions, the financial crisis has spread rapidly internationally and has hit several European financial organizations, causing a strong recession, rising unemployment, reducing international trade and falling financial values. The economic crisis has challenged the validity of the theories and practices of good governance developed up to that point. The causes that have contributed to determining this situation are numerous. In the first place, the crisis disclosed the relation existing between Corporate Governance at the micro level and macro-level governance. The strong deregulation and liberalization of financial markets in the 1990s generated great profit opportunities, but also excessive risk-taking and often not perceived inside and outside the corporation. Secondly, the crisis has shown that the remuneration mechanisms of top managers of large institutions may have encouraged behaviors aimed at maximizing short-term objectives, assuming an excessive risk for the company and carrying out irresponsible acts. Thirdly, the crisis has shown that the board of numerous financial institutions has not been able to prevent excessively risky or irresponsible behaviors, due to control systems and risk management not particularly effective. The crisis has also highlighted some shortcomings of the boards of the companies, that could not develop an autonomous and adequate judgment on firm performance as well as on the degree of risk implicit in it. The board went short not only to define a remuneration for management which is suitable and to contain riskiness on a sufficient degree, it also demonstrated to failures in its composition and general functioning, thus guaranteeing too much authority at the top of the company. According to this perspective, since the ones who elected the members of the board are the stockholders, they may be considered responsible as well. Moreover, they have never shown certain disagreement with the generous remuneration policies of management nor with the excessive risk level of firm activities, due to the high financial returns obtained up until the time of the crisis. The discussion Corporate Governance that developed in the months following the financial crisis has highly stimulated national and international organizations to take initiatives aimed at preventing the recurrence of such events in the next years. The advices provided by the several national and international organs and institutions recommend advancing governance practices, with a main focus on the management compensation system, the risk management mechanism, board's composition and processes and the exercise of shareholder rights. In fact, the Organization for Economic Co-operation and Development (2010) has formalized some recommendations regarding best practices that should be implemented in order to improve corporate governance. Among other things, the OECD has provided that it is necessary to study remuneration mechanisms that stimulate long-term performance; the compensation systems should be submitted every year for endorsement by the shareholders' meeting; the board should be involved both in the definition and in the control of the risk management procedure; the board ought to communicate the risk factors to the market in a clear and transparent way; the board should identify the skills necessary to improve its functioning and effectiveness; stockholders should be able to elect the components of the board.

1.1.2 Governance structure

The global economy today brings new growth opportunities to companies by encouraging international development of financial markets. However, as seen in the previous paragraph, the bankrupts and scandals that recently shocked the business world highlighted the shortcomings of the governances in actually controlling the management's actions through the systems traditionally put in place, both internal and external. From here, the consequent lack of trust from the people of the savers towards the corporate and business worlds. From here the necessity to develop new Corporate Governance models that will guarantee the responsible management of the companies, that are to be shaped according to the different characteristics of the companies and the environments in which they carry on their operations.

There are primarily two typical structures of Corporate Governance, distinct basing on to the different way of conceiving the separation between ownership and control:

- In the outsider system model, also known as market-oriented, the typical company is the public company, where the widespread ownership structure prevails. The market therefore represents the main system for regulating fights between shareholders and the management, that are controlled and sanctioned by the market, thanks to the possibility of continuous changes of ownership. This model is typical of the Anglo-Saxon countries where, under a common law system, the level of protection of stockholders but also of lenders is high. In this sense the so-called one-tier system prevails, where there is only one governing body, with functions of company management and controlling of the same management: the board. In this structure the board is influenced by executive directors, who are an expression of managerial power and by non-executive directors, who tend to be shareholders. It is the typical organizational model of Anglo-Saxon realities (although - with different aspects - it is also found in other European countries).

- In the insider system model, also known as bank-oriented, ownership is restricted, and decision-making power is highly concentrated in a so-called "hard core" of shareholders, consisting of one or a few entities of a banking or family nature. The system revolves around the relations between the government, businesses and the banking system. In this type of model, the financial market is not particularly efficient, as there is a strong presence of banks in the capital of companies, as well as in their decision-making procedure. In summary, the market share of ownership is rather low. It is the model found in most continental European countries, Germany, Switzerland, Austria, France and Italy. In this approach the two-tier system prevails, with a separation between management power and management control power. These functions are entrusted to two separate bodies, with distinct duties and accountabilities: on the one hand the supervisory board, which has no executive powers, but has the function of appointing, controlling and revoking the management board, which is instead invested with managerial responsibility (it is the typical model of the German area). It is a model also present in other European countries (for example France and Italy) with some differences that make a hybrid structure with respect to the two systems outlined above.

As for the concept of leadership, also for that of Corporate Governance it is not possible di identify an ideal model, also in consideration of the many factors that influence its scope. It can be stated that the development of productive forces takes place in different ways so that it is possible to identify a plurality of capitalist systems. Every business and governance framework is the result of culture, history, ethics, politics, religion, institutions, or the interaction of various environmental factors. With reference to external context, important peculiarities of the different models are born, each with its own strengths and weaknesses, which cannot be adopted in other country systems: with the changing environmental factors, even the prevailing model in a given context can undergo transformations. In this dynamic circumstances, the concept of a sort of optimal standard at the enterprise level, the idea of a universal governance model which can be transferred and adopted by different organizations in different contexts cannot be accepted.

1.1.3 Who leads a company?

In theory, Corporate Governance mechanisms give the firms' owners the ultimate control and the rights to hire and fire the boards members who act on their behalf.

However, according to Hoppmann, Naegele and Girod (2019), shareholders can seldom take on this control function for two main reasons. Firstly, distributed ownership makes monitoring and replacing board members very difficult. Secondly, although there may be a majority shareholder, owners often do not dispose of the institutionalized means through which influencing the strategy of the firm.

If Corporate Governance is the system that allows companies to be controlled and managed, then it is clearly a responsibility of the board of directors. The board's task is to drive, not to manage: managing the company's operations day by day is the job of the managers. The leadership of the company can be attributed to the board simply because this is the corporate body that has the responsibility to define the corporate objectives and to ensure that they are achieved. A board also has the task of establishing and preserving the values of the company it manages. It is the values of a company that give it its distinctive identity and that generate the loyalty and commitment of those who work there. In the members of the board therefore lies the responsibility to identify these values and to experience them in person. The board is the fulcrum of the entire company system on which all the rest depends. It may be referred to as the link between the stockholders and the top management, between those who provide the funds and those who put them to good use. Furthermore, the board is the reflection of the company on the outside world, its image in the eyes of the public. Thus, the effectiveness of leadership offered by the board depends on the skills and experience of the directors who compose it. Above all, it depends on its president's ability to exploit these skills and get the most out of them. it is therefore clear that only a person with great leadership can hold this position. As Cadbury (2008) said, *"it is a huge mistake to suppose that it is sufficient to seat a group of competent and willing administrators in a board of directors to have an effective board of directors. The effectiveness of a board is not born from nothing, it is the result of the hard work of its members, and in particular of its president. [. . .] The boards are above all teams and their presidents have the responsibility to transform the members of their boards into winning teams. "*. In fact, the duties of the chairman of a board are to answer for the work of their boards of directors, to ensure that the directors are provided with all the necessary information and take responsibility for reaching a final decision. In the context of the meetings of a board, a good board chair promotes an open debate among the members and makes sure that everyone has the opportunity to contribute, intellectually stimulating the participants and thus demonstrating a participative leadership.

1.1.4 Theories on Corporate Governance

In relation to the ownership structure of the company, the literature on Corporate Governance usually identifies some main lines of analysis, attributable to agency theory, resource dependence theory, stewardship theory and stakeholder theory. As part of this thesis, the focus will be on agency and resource dependence theories. In fact, the board of directors performs mainly two functions: the monitoring function and the strategic function (Hilman A. J. and Dalziel t., 2003). The monitoring function is based on agency theory (Jensen M. C. and Meckling W. H., 1976) and assigns to the board the task of monitoring the work carried out by the management and the firm's performance. The strategic role originates from the resource dependence theory (Pfeffer J. and Salanick G., 1978) and consists of the support that the board can provide to improve the competitiveness of the company.

1.1.4.1 Agency theory

The birth of the manager figure brings with it the problem explained in doctrine with the agency theory. The need for Corporate Governance rules is key in the face of corporate realities in which there is a separation between ownership and control, where the concept of control must be understood in the sense of directional management of the company. According to the agency theory, the logic of the entrepreneur who is both owner and manager is left behind to move on to the model in which the manager assumes the role of guiding the company even though he is not the owner. On the one hand, the shareholder or shareholders (principals) who own the business and on the other hand the manager (agent), who controls the company. Berle and Means (1932) and Fama and Jensen (*Agency Problems and Residual Claims*, 1983) believe that a separation of ownership and control brings with it differences due to the existence of different interests between shareholders and management. The conflict between the two entities is often motivated by the interest of the shareholder in the profit and the growth of the value of the company, with respect to the interest of the management towards its personal power, expressed for example in terms of the size of the company or of higher salary. Berle and Means in their work highlight how the modern enterprise is characterized by a strong dispersion of shareholders, so as to lead management to have strong management power in its hands. Fama and Jensen (*Separation of ownership and control*, 1983) highlight how the separation of ownership control brings with it a separation between risk and direction. The risk remains in the ownership of the property, so the effect is that the repercussions of the management's choices do not fall on its assets but on that of the shareholder. The problem of the agency, and therefore of Corporate Governance, arises precisely because the principal (shareholder) is not able to fully control the agent (manager), nor is it possible to envisage a "perfect" contract, which governs all the possible circumstances that may occur in running a business. As Grossman and Hart (1986) observe, contracts will always be incomplete for various reasons, such as the limits of human rationality, information asymmetries, the unpredictability, complexity and continuous changes of the environment in which the firm itself operates. The contract is therefore not the only tool that allows the shareholder to control the manager and make him pursue his goals. Epstein (1985) underlines the extreme improbability that each small shareholder carries out a monitoring action against the directors (agents), as the benefits deriving from the control will be divided among all the shareholders, even among those who have not contributed to the coverage of the management control costs. In this case the advantage obtained by the individual shareholder who carries out the monitoring action tends to be less than the costs incurred by the same to set up the control, making sure that the supervision becomes economically not convenient. The agency theory therefore arises with the separation of ownership and control and the impossibility of drawing up perfect contracts. Jensen and Meckling (1976) define the agency relationship as a contract in which one or more people (principals) entrust the execution of certain services to another person (agent). The two types of subject - principals and agents - are bound by an agreement (more or less formalized) with which the principals delegate to the agents the management of their own resources. Under the agency relationship, the agents have the duty to operate in the interest of the principals, in order to optimize their utility. In this context, however, a series of problems arise which can be summarized as follows:

- If both parties intend to maximize their utility, there are good reasons to think that the agents will not always act in the interest of the principals as they are moved by different and often conflicting interests from those of the principals.

- The principals can limit the differences by establishing appropriate incentives for the agents and preparing a management control system. However, these systems are expensive.

- Principals and agents have a different risk appetite. The agents cannot take on the entire risk, otherwise they would become entrepreneurs themselves.

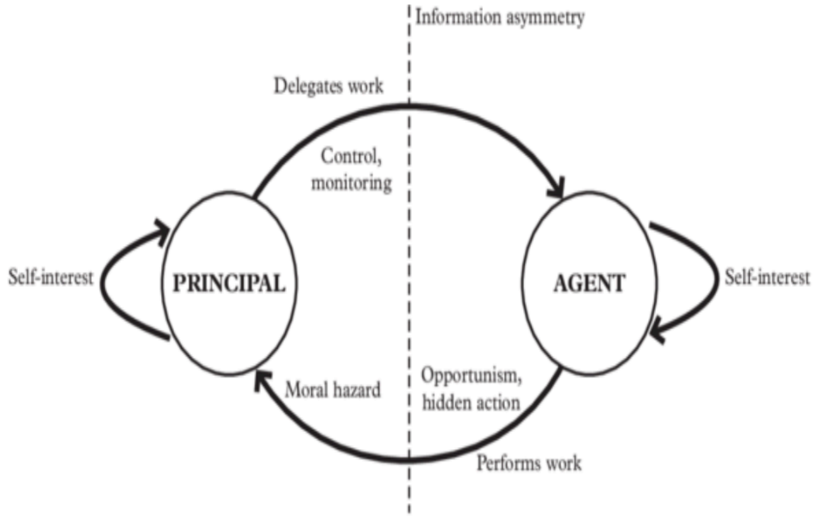
- There could be an information asymmetry in favor of the agents that generates two types of problems related to two types of behavior: adverse selection and moral hazard. The term adverse selection make reference to the problem of pre-contractual opportunism: this problem arises when the agents do not reveal their real skills to the principals, so that they are selected to carry out a specific task for which they would not have the capacity. This is a hidden information problem, as the principals are not able to accurately assess the actual capabilities of the agents. The term moral hazard make reference to the problem consisting of an unfair behavior linked to a type of behavior that is called post-contractual opportunism. This problem arises due to the lack of compliance by the fiduciary duty of the agents who undertake to act in such a way as to maximize the utility of the principals, even knowing that they are not able to verify the work of the agents effectively.

This opens up the problem of the agent's breach of the fiduciary duty to operate in the exclusive interest of the principal, who - as already seen - finds it uneconomic to verify the work of the agent. The model briefly outlined above is applied to Corporate Governance, precisely because the shareholders feel the need to delegate the management of the company to the managers, in consideration of the fact that they are equipped with the necessary skills and knowledge. Therefore in companies where the agency model is inserted (typical case of public companies), the shareholders aim to maximize their wealth (increase in the value of the shares) while the directors are often driven by different motivations, considering the value of the shares as a constraint and not as a goal, with the consequence that the objectives of the managers (increase in the size of the firm, growth of their power and prestige, increase in their remuneration, etc.) can be detrimental to the interests of the company and therefore of shareholders. The heart of the problem is information asymmetry on the one hand and agency costs on the other. Only if the shareholder is willing to incur monitoring and incentive costs it is possible to aim for an alignment of the interests of directors and shareholders and thus find a solution to the agency's problem. This solution constitutes, if feasible, the most effective way of solving the agency problem. In fact, the principal is faced with:

- monitoring costs, linked to the control mechanisms, or the cost for all the activities undertaken by the principal to measure, assess, regulate and incentivize the agent to take certain behaviors;

- reinsurance costs, or the cost of all the activities carried out by the agents to convince the principal that their work is aligned with the interests of the principal and of the firm;

- residual costs, i.e. those costs associated with any other divergence that the aforementioned actions are unable to reconstruct.



Source: Snippert et al. (2015)

In fact, the alignment between the interests of the agent and those of the principal can never be complete given the difficulties of human beings to fully understand and communicate their needs and interests (Arrow, K. J., 1974). However, it should be pointed out that the shareholders have the power and the power to change managers, in the event of divergence of objectives or in any case results that are not in line with the expectations of the shareholders themselves. This power could be a tool to approach the goals of shareholders and managers, even though the power to deprive managers cannot always be exercised in the manner and time necessary. In any case, the risk of seeing one's reputation compromised is a significant constraint for the manager, as the possibility of a suitable repositioning within other realities would be compromised. However, the doctrine comes to the consideration that there is no perfect solution to the issue of the agency (Arrow, K. J., 1974). The objective must be to minimize the costs deriving from the diversity of interests between the principal and the agent.

1.1.4.2 Resource dependence theory

According to the resource dependence theory, the organization depends on the environment to obtain the resources necessary for its survival (Pfeffer J. and Salanick G., 1978; Hilman A. J. and Dalziel t., 2003). The resource dependence theory provides that the board represents a mechanism for managing interdependencies with the environment and contributes to improving the strategic action of the company. Being able to acquire exponents from the external environment, the board improves the availability and access to resources of the external environment. The distinctive element of the board's strategic function is therefore given by supporting the formulation of the strategy and access to key resources. The contribution of the board of directors lies in its ability to reduce dependence on external resources (Pfeffer J. and Salanick G., 1978), decrease uncertainty (Pfeffer J., 1972), reduce transaction costs (Williamson, O. E., 1984). The theory suggests that the board can provide four different types of resources:

- Support for the formulation of the strategy. In this sense, the board of directors outlines, directs, evaluates and approves the strategic plans and starts the concrete implementation. it is important to clearly establish the distinction and the boundaries between the role of the board and that of the managers of the company in formulating the strategy. The board is not in charge of the formulation and elaboration of the strategic plan, the managers of the firm are to be considered the sole responsible for this task: in fact, devoting a limited time to the performance of board tasks (the board meets only episodically), it is unlikely that the directors could understand all the implications, complexities and causal links relevant to the organization and strategy. Therefore, the board of directors contributes to the development and definition of the business strategy by setting the fundamental guidelines. The indication can include the company mission and vision, the general guidelines for future development, the guiding principles that will guide the strategic action (e.g. the maximization of wealth for shareholders, sustainable growth, respect for the environment). This guidance activity is fundamental because it provides management with the trajectory on which to develop the strategy, as well as the parameters on which the strategic plans will be evaluated. Furthermore, the board, evaluates, refines and authorize the strategic plans formulated by the management. This task includes various activities: the evaluation of the coherence of the strategic proposal in relation to the basic principles indicated ex ante; the evaluation and selection of the most convincing and promising alternatives; the evaluation of the consistency and consistency of the chosen solution; the provision of suggestions, advice and ideas that improve the strategic plan; the request to the top management to further investigate or to revise and improve the proposal; approval of the proposal. Therefore, the strategy of the company will be improved thanks to the activity of the directors. The dialectic comparison within the board opens up new scenarios, questioning prejudices and pre-established management models, allowing the identification of new ideas and new ideas for initiatives that top management, immersed in the daily management of the company, may not identify. Furthermore, the debate can favor the exchange of supplementary specialized information and knowledge, useful for analyzing strategic problems from multiple points of view. Finally, the board can influence the firm's strategy also in the appointment of the CEO: in fact, it is up to the board of directors to identify the new candidate to fill the position of CEO at the end of the previous one. In this way, the board can directly influence the business strategy, since the selection of a CEO with particular characteristics will lead to the basic setting of the new business strategy. In this regard, Hambrick and Mason (1984) state that the firm's strategic path can be seen as a reflection of the personal and professional features and orientations of the managers and the CEO.

- Legitimacy. The board can strengthen and improve the company's legitimacy and reputation towards stakeholders. Acquiring high-profile elements on the board can have a positive contribution to the consensus of institutional actors as the prestige, reputation and credibility of personal advisors reverberate throughout the organization. Certo, Daily and Dalton (2001) demonstrate that, at the time of listing, similar companies in terms of strategic position and other characteristics present a different performance: in particular, companies with a more prestigious board show a better performance (reduced underpricing) compared to to companies with non-prestigious boards. This shows that the prestige of the directors can significantly increase the legitimacy and performance of the listed companies. In fact, as pointed out by Pfeffer and Salanick (1978) the high prestige people on the board confirms to the rest of the corporate world of the value of the company. Similarly, the board can provide the necessary credibility and legitimacy to the restructuring plans of the companies that are in financial conditions compromised. In such circumstances, the councils can function as collectors of trust and legitimacy, increasing the organization's ability to recover new resources to restart a restructuring plan.

- Useful channels for the exchange of information between the firm and other organizations. The board, by acquiring members of the external environment from other organizations, can construct real channels for the acquisition of useful information for management. For example, a good board of directors can provide top management with useful and timely information to reduce transaction costs and improve the organizational capacity to cope with the uncertainties of the environment. In fact, Hillman, Zardkoohi and Bierman (1999) have shown that, when administrators establish connections with the government, stockholder performance improves considerably: their conclusion is that such connections allow the exchange of information, greater access to communication and a potential influence on the government; these factors are fundamental to reduce the uncertainty in the strategic management of the company.

- Preferential access to key resource providers. The board of directors can help to acquire critical resources from external suppliers. In fact, the company is involved in a complex set of transactions with external actors, from which it acquires various financial and non-financial resources. By acquiring external representatives or exponents, the board allows access to these resources or access to more favorable economic conditions (Boeker W. and Goodstein J., 1991; D'Aveni R. A., 1990; Zald M., 1969). One of the most important resources for the company is, of course, the financial one, that is, the loan capital provided by the banks: Pfeffer (1972) and Mizruchi and Stearns (1994) show that acquiring representatives of financial institutions on the board of an industrial company allows to improve in the following years the acquisition of financial capital.

1.2 Leadership models

The second part of this chapter outlines a view of the several leadership theories developed over the years, from the Trait Theories to the Transactional and Transformational Theories, to show how they are evolving towards a less authoritarian and more creative model.

Over time, various leadership styles, theories and models have been proposed to assist leaders in influencing their followers and achieve organizational goals. The different leadership theories exposed demonstrate key insights into effective leadership. Each of these theories have tried to assist organizations in reaching their objectives to become more lucrative and competitive. These can be clustered in the following macro-categories:

- Trait Theories
- Behavioral Theories
- Contingency Theories
- New Leadership Theories

1.2.1 Trait Theories

According to the Trait Theories, leaders possess peculiar personal attributes that allow them to stand out and be capable of gaining their follower's loyalty. A great deal of early leadership research was carried out with the purpose to identify the distinctive features of true leaders versus followers. The research carried out in this area of study centers around the assumption that leaders are not made but rather born that way. This is only an assumption, however, given that there is no evidence in the research proving that specific personal traits can actually identify real leaders as opposed to the masses.

Numerous authors have devoted their research to studying the distinctive traits of leaders. One of the first to investigate these elements was Ralph Stogdill who highlighted various attributes that differentiate a leader from their typical followers. In Stogdill's investigation of leadership theories (1948), he found that previous researchers had linked certain traits to leadership ability. Among these traits there are: the inclination towards interpersonal relationships, technical skills, managing ability, directive effectiveness and self-assurance. Stogdill followed by Mann (1959) and Lord (1986), are among the most important researchers but the scientific research on the subject is vast.

Edwin Ghiselli (1971) identified a list of particularly influential characteristics for the effectiveness of leadership, including:

- Supervisory ability, i.e. the capability to complete fundamental management operations, especially those of guidance and control of the work of others;

- Self-assurance that gives authority in dealing with problems;

- Decisiveness, to resolve doubts and to face problems constructively;

- The needs for achievement and self-actualization, which drive the search for responsibility and the desire for success;

- The spirit of initiative, i.e. the capability to accomplish tasks individually, to recognize and adhere to patterns of action that others do not discern and devise new ways of acting.

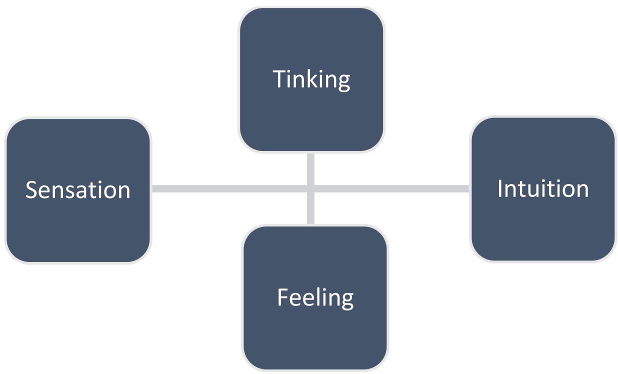
Among the Trait Theories, a major place is held by Jung’s Psychological Types (1921). The proposition of this study it is that each individual can be classified into a particular psychological "type" and puts into action distinguishing behaviors that generally follow and are in line with the features of the type of belonging. The understanding of these Psychological Types can aid in communication and, in turn, interpersonal relationships. Moreover, within an organization, there is the possibility of optimizing efficiency by finding the activities that are more congenial to one person rather than another and assign them to the people who possess the most suitable characteristics for their fulfillment. Knowledge of one’s Psychological Type can indicate people's basic attitudes and the resulting strengths and weaknesses in the workplace.

Jung's theory is built upon the difference between introversion and extroversion. The dichotomy of Introversion-Extroversion identifies two general and opposing attitudes – ways of perceiving the environment. The word “introversion” is sometimes associated with a slightly negative implication, but this is not the case in the Jungian theory. Introversion and extroversion are not in competition with each other; one is not better or worse than the other. The difference between the two is related to the psychic energy orientation (Jung, C. G., 1912). An introvert tends to direct his or her “psychic energy” towards their inner realm (thoughts and emotions) while an extrovert’s psychic energy is influenced by the external realm (facts). Each individual applies both orientations but usually one of the two dominates the other in an apparent manifestation.

Secondly, Jung (1921) distinguishes four main functions of consciousness: two perceiving functions, those being Sensation and Intuition, and two judging functions - Thinking and Feeling. Each of these four functions give us the ability to adapt to the reality of our life and environment. Basically, Jung’s functions identify different ways of orienting our experiences. Namely, Sensation perceives what we know to be true, Intuition distinguishes the potential outcomes behind these facts, Thinking analyzes logical processes and Feeling utilizes judgments. Jung himself provided a definition of his functions (1977):

> *"Sensation tells you there is something. Thinking, roughly speaking, tells you what it is. Feeling tells you whether it is agreeable, to be accepted or rejected. And Intuition is a perception via the unconscious."*

According to Jung, consciousness is a feature of the dominant function. On the other hand, its opposite is inhibited and only characterizes unconscious behavior.



Source: my elaboration

Therefore, from the interaction between attitude (Introversion and Extroversion) and dominant psychic function, eight main Psychological Types can be defined:

- Extraverted Sensation: looks for pleasure and enjoys different sensory experiences; highly reality-oriented; represses intuition.

- Introverted Sensation: tends to passivity, calm and arts; focuses on objective sensory events; represses intuition.

- Extraverted Intuition: ingenious; finds new concepts interesting; orients decisions-making process based on hunches rather than facts; in touch with the unconscious wisdom; represses sensation.

- Introverted Intuition: usually a mystic dreamer; usually finds unusual new ideas; rarely understood by others; represses sensation.

- Extraverted Thinking: tends to live according to fixed rules; represses feelings; tries to be objective but may be dogmatic.

- Introverted Thinking: calls for privacy; usually intellectual and rather impractical; represses feelings; finds it difficult to socialize.

- Extraverted Feeling: tends to be sociable; seeks harmony with the world; respects tradition and rules; tends to be emotional; represses thinking.

- Introverted Feeling: tends to be calm, introspective and very sensitive; represses thinking; usually considered cryptic and indifferent to other people.

Generally, Trait Theories have not been a very successful concept for analyzing leadership. Indeed, it should be pointed out that many non-leader individuals may possess many of the traits considered favorable by these theories, while not all leaders possess all of them. Trait Theories also close the door for a chance to getting to learn leadership traits, as they suppose that leaders are actually born with the innate features allowing them to be admired and recognized by their subordinates.

1.2.2 Behavioral Theories

If for Trait Theories leaders are born, for Behavioral Theories leaders are made. Behavioral Theories of leadership do not preach innate traits or skills. Rather, they start from the assumption that it is definable and learnable behavior that determinates leadership. Unlikely the simple psychometric evaluations typical of the Trait Theories, this postulate thus considers the possibility for leadership to be developed within individuals. By way of explanation, instead of trying to define who leaders are, scholars focused on trying to determine what do they do. However, both in Trait Theories and in Behavioral Theories, attention is placed on personal characteristics: while the Trait Theories analyze the personal characteristics of a true leader, the Behavioral Theories focus on the features of the group. Moreover, both of these strands are based on the hypothesis that only one valid leadership approach is acceptable, and every author tries to understand what that style is.

Some of the major exponents of Behavioral Theories are Lewin, Lippit and White. They identified three different leadership approaches (1939): authoritarian (autocratic), participative (democratic), delegative (laissez-fair). In spite of the fact that effective leaders make use of all of three, even though one of these approaches becomes prevalent, ineffective leaders usually remain with one approach, normally autocratic.

An autocratic approach to leadership is configured every time that leaders tell their subordinates what to do and the way they have proceed in completing the task, and they do not accept feedback or recommendations by employees. However, there are some appropriate situations in which this approach may be used. Namely, in the case in which all the information to settle a problem are accessible, the time available is thigh, subordinates are motivated.
An authoritarian approach should normally only be referred to only on limited times. If there is plenty of time available or more engagement and motivation from subordinates is sought, then a participative approach should be used.

According to participative leadership, the leader usually includes one or more subordinates in the decision-making operations (still defining the content of the task and the way to accomplish it). Nonetheless, the leader keeps the final decision power. A leader is not required to know everything, that is the reason why smart and capable individuals may also be involved in the decision-making procedures.

In a delegative style of leadership, involves the subordinates within the decision-making process. However, the leader maintains the authority to take the ultimate decisions. Delegative leadership may be referred to every time that subordinates can study the circumstances and determine what needs to be done and how to do it. A leader alone cannot accomplish all the tasks: sometimes, it is necessary to establish priorities and to delegate some efforts.

An important exponent of this stream of research is Douglas McGregor, mostly recognized for his Theory X and Theory Y (1960). He studied how the subordinates' features influence the leadership approach that should be adopted. Specifically, McGregor believes that an autocratic approach of leadership should be used when there are passive, lazy and irresponsible persons. On the other hand, a participative style should be used in the case of subordinates who do not show passive behaviors and do not present a hostile temperament to leadership.

Theory X and Theory Y postulates that much of the gratification that the employees derive from their jobs actually depends on the kind of relation that the direct superior will set with them. In turn, this rapport is identified by the idea that the superior has of human nature. McGregor's proposition focuses on defining two possible and antithetical visions about the nature of men and their behavior on the workplace. The two concepts are indeed Theory X and Theory Y.

Theory X states that it is Authority that must exercise the direction and control of subordinates, as the average employee:

- does not like work in an absolute sense;
- must be obliged to work;
- prefers to be guided;
- does not like to take responsibility;

- has no ambitions.

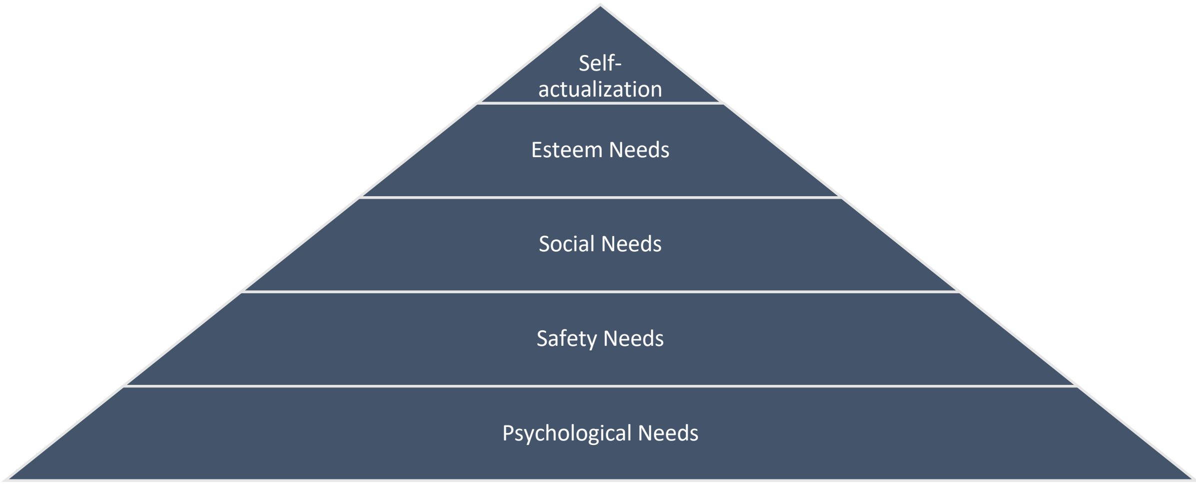
These types of employees are motivated exclusively by economic rewards, and, since they do not like to assume responsibilities, the time and effort spent trying to get them to express their own potential are pointless.

On the other hand, according to Theory Y, human nature is depicted with more precision, suggesting that every individual has their own potential to express and they will only do so if they find adequate motivation. The worker defined by this vision:

- loves work as a result of satisfaction;
- wishes to achieve goals;
- can actually solve problems on its own;
- is able to positively give a contribution to the success of the organization;
- wishes to be productive;
- likes responsibility.

Therefore, by means of a directive function animated by the postulates of Theory Y, individuals have the chance to wholly exploit their own potentials and, simultaneously, the organization will have the possibility to accomplish its mission in optimal circumstances. Indeed, McGrego argues that laziness and lack of autonomy are not attributable to human nature, but rather to the manner of working in production environments. When the work environment and the tasks assigned are appealing and challenging, allowing individual initiatives and the development of the highest abilities, within the workers may emerge other impetuses that will push them to assume responsibilities and achieve autonomy.

If correlated with Abraham Maslow's proposition (1943), Theory X postulates that subordinates consider more important for their persons the Psychological and Safety Needs; on the other hand, Theory Y argues that subordinates consider Social, Esteem and Self-actualization needs as prevalent.



Source: my elaboration from Maslow (1943)

Abraham Maslow's proposition starts on the definition of a "pyramid" composed of five needs. All the people have this hierarchy of needs in themselves. The urgency of these needs varies. These Needs are:

- Physiological. These needs are not other than the essential needs of air, water, food, clothing and shelter.

- Safety. These are physical, environmental, emotional safety and protection needs. (e.g. job security, economic security, family security, health security, etc.)

- Social. These include the need for love, affection, and friendship.

- Esteem. There are two types: internal (self-respect, confidence, achievement and freedom) and external (recognition, power, attention and admiration).

- Self-actualization. This is the urge to actually managing to become what someone has the potential to become. It includes the need for growth and self-contentment. These needs are never fully satiable. As an individual grows psychologically, opportunities keep cropping up to continue growing.

During the 1960s, Rensis Likert, a professor pf the University of Michigan, executed numerous researches about leadership and the potential role of employees for business. Likert's rich work is of great interest and is currently used in management training courses. Likert is also remembered for his four systems of management (1961). The four systems represent four managerial approaches that gradually go from a style which is authoritarian and distant from the subordinated to a style centered on teamwork, which enhances interpersonal relationships and empathy among team members.

- System one: exploitative authoritative. It is a style that does not allow subordinates to participate in decisions, nor to organize themselves as a group. The management system remains strong, as it is based on the punishment of errors, which creates a strong submission to the rules imposed by the highest levels of the hierarchy.

- System two: benevolent authoritative. It is a style that leaves all decisions to the top hierarchy but allows employees to contribute their ideas and receive rewards if they reach certain goals. Employees are expected to know how to execute the delegation when they receive it.

- System three: consultative. This style makes use of a greater involvement of employees in information and communication flows. However, information travels mainly from the top down. Middle management decisions are often made with the contribution of employees, while the most important decisions remain responsibility of top management.

- System four: participative. Within this managerial approach, great space is given to teamwork, because there is an involvement of people within the decision-making procedures and their empowerment to achieve corporate objectives. They are stimulated to bring results from a rewarding system that values the most deserving people.

The four styles of management have been illustrated by Likert by means of several organizational features. These management systems have been studied against one another basing on seven variables:

- Leadership;
- Motivation;
- Communication;
- Interaction-influence;
- Decision-making process;
- Goal-setting or ordering;
- Control processes.

Basing on these considerations, Likert asked to different workers, coming from various companies and holding various management roles, to answer a survey. The findings confirmed that business units utilizing management practices from System one and two were the least effective, while the business units empowering management procedures from Systems three and four were the most effective. The ideal case for Likert is, therefore, that which manages to unite a respect for the workers' autonomy with regular and cooperative ideas interchange.

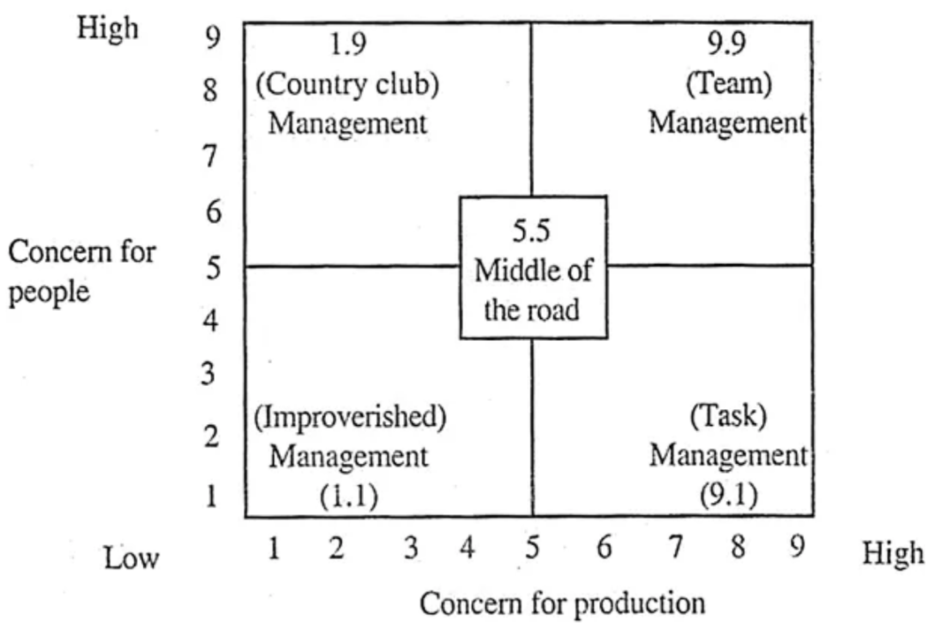
Back in 1964, Blake and Mouton studied and published one of the best-known frameworks used to analyze leadership approaches: the so-called managerial grid. This framework identifies five leadership approaches that are different in the degrees of interest demonstrated by the manager in relation to two elements: company productivity and the people. In doing so, this framework wants to prove that there is a leadership approach which is actually better than the others: the optimal approach to leadership in this framework is based on Douglas McGregor's Theory Y.

The model is constructed using Cartesian axes, showing:

- for x-axis, concern for production - the organizational quest for effectiveness and efficiency, task orientation result;

- for y-axis, concern for people, as orientation to relationships.

For each of these two dimensions, it is assigned a score that ranges from one, meaning low interest, to nine, meaning high interest.



Source: Wikipedia

This model thus constructed allows us to identify five leadership styles, which correspond to the five main combinations between concern for production and for people:

- Country Club Leadership: little concern for production and high concern for people (1,9). Managers, in this case, are above all attentive to their co-workers needs, while not paying sufficient attention to the final output of their efforts. The utmost consideration to people's needs to build gratifying relations conduces to a friendly organizational environment and a good work rate. Thus, the supervisors seldom attempt to impose their will onto other people, preferring to accept the ideas of others instead of forcing their own.

- Produce or Perish Leadership: here, there is a high concern for production and low concern for people (9,1). Leaders are especially concerned to achieve results at the expense of attention to people. In this case, they are convinced that it is not possible to achieve an excellent performance taking into account, at the same time, the needs of individuals. This approach to leadership is very authoritarian, has firm rules, practices and procedures, and subordinates are mostly motivated through sanctions. Produce or Perish Leadership is based on Mr. McGregor's Theory X.

- Impoverished Leadership: it has low concern for production and low concern for people (1,1). Managers try not to get into difficulties, as they have as major interest to not being considered culpable for any errors. They refer to this approach mainly to keep their jobs. Managers do not have a great attention to shaping effective procedures to accomplish tasks, nor they care about shaping a challenging and interesting workplace for their employees. The main outcomes of this style are disorganization, disappointment, discord.

- Middle of The Road Leadership: medium concern for production and medium concern for people (5,5). Managers show a simultaneous care for efficiency and the employees they work with. This is a kind of leadership that looks for a middle ground, a harmony, an equity. Indeed, an adequate performance can be achieved by balancing the goal to perform well while maintaining high morale.

- Team Leadership: here there is high concern for production and high concern for people (9,9). This is the most effective style of leadership and it starts from the Theory Y of Douglas McGrigor. Indeed, managers are highly concerned about both people and production. They boost teamwork and engagement among employees, and they will lead to high degrees of contentment and motivation and, as a result, high levels of production.

1.2.3 Contingency Theories

For Trait Theories, leaders are born. For Behavioral Theories, conversely, leadership approach is altered by the manner in which the subordinates behave and that the leader is called to direct. Finally, for Contingency Theories there is no valid leadership style in every situation, but it should be chosen based on environmental factors.

Contingency theories start from the idea that there one cannot find a unique and better than others approach to leadership, always and in all circumstances. Indeed, certain approaches to leadership are more recommended in some situations and are less suitable in other environments. There are various factors that can lead to a leadership style rather than another, such as the traits of the co-workers, the environmental situation, organizational culture and the features of the tasks. It therefore mandatory to periodically choose the leadership approach most suited to the organizational context. As a consequence, the ones who are called to lead may find to be extremely effective in certain contexts, while in some other circumstances, when environmental changes occur or when they are moved to other units, they may reveal themselves ineffective leaders.

The first author to pave the way for the Contingency Theories of leadership was Fred Fiedler with his Least Preferred Co-worker (LPC) Theory (1967). He maintained that people react to the surrounding environment according to the way they perceive it. By administering a questionnaire, leaders were asked to describe the person with whom, in their training, they have happened to work worse– their Least Preferred Co-worker. With this measure it is possible to determine how much the perceiver considers two people to be similar or different from each other. This measure has great importance in the interpersonal dynamics of a group and especially in the relationships of the leader with the organization members. Firstly, Fiedler assumed that considrable LPC records indicate a relationship orientation, since even the least preferred collaborator is judged favorably, while low LPC scores a task orientation. However, the outcome of the research in verifying this hypothesis was unclear. Thus, he hypothesized that the right kind of behavior also depends on how favorable the situation is to the leader. Fiedler conceived of leadership as a process of influence whose degree of favorableness of the situation is given by the combination of three elements:

- Leader-Member Relations: the attitude of the reference group is evaluated by analyzing both the perception of the members and the perception of the leader;

- Task structure: the characteristics of the objective to be achieved are assessed, identified by four variables: clarity, number of possible procedures, number of correct solutions, verifiability of the achievement of the objective;

- Leader's Position-power: the level of power assigned to the leader by the organization and consequently its ability to influence group members.

These three factors merging determine a continuum constituted by eight different situations, going from a situation of maximum favor (good emotional and trusting environment, a considerably structured task and a great level of power of the leader), to a situation of maximum disadvantage where the three factors are negative: bad sensitive and trusting environment, badly structured task and lack of authority given to the leader.

Therefore, Fiedler hypothesized that a task-oriented leader (low LPC) is more effective in contexts at the extreme end of the continuum, that is very positive or very negative, while a relationship-oriented leader (high LPC) will achieve maximum results in intermediate circumstances. Fiedler justifies by arguing in an extremely positive context one can safely focus on the task, as there are no obstacles, the group is united and trusts the leader. The leader, in turn, should execute his authority according to unambiguous manner. in the unfavorable situations the task focus may partly dampen the other negative elements. Within these "halfway" contexts, leaders should resort to their relational abilities; e.g. the case in which the task is not well structured, or relationships are negative, or in the case where both - task and relationships - are positive, but the authority attributed to leaders is low.

Despite the fact that Fiedler's framework was only partially availed by empirical researchers (Avallone, 1994), the value of this methodology lies in having taken into account for the first time the dynamism of leadership, managing in part to overcome the criticisms made so far to other approaches.

Like Fiedler, Vroom and Yetton (1973) also state that there is not a unique approach. Rather, there are certain approaches to leadership that are more effective than others depending on the contexts. Also, in this theory the authors place the leadership style on a continuum defined by two extremes: an authoritarian leadership style and a participative approach. Depending on the greater or lesser engagement of the members of the group, it is therefore possible to define a scale that ranges from one extreme to the other; in this framework several leadership approaches can be found:

- Autocratic Type I: leaders make the decision on their own, without consulting the group members;

- Autocratic Type II: leaders obtain the necessary information from subordinates, then make the decision themselves.

- Consultative Type I: leader consults each member of the group individually, taking into account the suggestions of each subordinate;

- Consultative Type II: leaders talk about the issue with all the followers, brainstorming and trying to collect as many ideas and recommendations as possible. Later, leaders assume the final decision, that may or may not be coherent with the followers' recommendations;

- Group Type: leader share a problem with the subordinates. Leaders and the group of followers together formulate and study alternatives and attempt to find the solution. Leaders do not try to get the subordinates to accept the leaders' own solution. The leaders will assume the one decision which got the support of the whole group.

Also, a series of questions leaders should ask themselves in order to understand what kind of leadership approach in the most suited has been prepared by Vroom and Yetton:

- Is there a quality requirement? Are there technical or rational grounds for selecting among possible solutions?

- Do I have enough information to take a good decision?

- Is the problem structured? Are the alternative courses of action and methods for their evaluation known?

- Is acceptance of the decision by followers critical to its implementation?

- If I were to make the decision by myself, is it reasonably sure that it would be accepted by my followers?

- Do followers share the organizational objectives to be obtained in solving this problem?

- Is conflict among followers likely in obtaining the preferred solution?

Therefore, the levels of leadership effectiveness are defined by:

- Decision quality, i.e. how much impact it has on the job;

- Amount of time to assume the decision: sometimes it is required to make high-impact decisions in little time;

- Acceptance by the followers, decisive for the success.

It is thus clear how an autocratic approach to leadership is fully effective in contexts where the leader has all the information necessary to complete the task, in which the task is structured - that is with clear and defined objectives – and in which the participation of the members is not decisive in the achievement of objectives. On the contrary, in situations that are not structured, where information from all members is needed, the involvement of the whole group is inevitable and, therefore, the effectiveness of a participatory leadership style clearly emerges.

Another interesting model within the stream of the Contingency Theories is the Path-Goal Theory (1974). This Path-Goal Theory is based on two main suppositions. First, the behavior of the leader will be accepted by followers if they think that it is suitable to satisfy their needs, immediately or in the future. Second, the behavior of the leader is motivating when it allows the group of people see that the satisfaction of their needs goes hand in hand with the achievement of productive effectiveness.

Leaders build a "path" towards the achievement of goals, along which they lead subordinates with the means of incentives, support to them and facilitations to them. Therefore, a pivotal feature concerns the motivation of the subordinates, which will peak in the case in which the leader will succeed in making the satisfaction of individual needs coincide with the achievement of the goals of the group. The situation is defined both by the nature of the task, which can be more or less complex, motivating and structured, and by the characteristics of the subordinates. To carry out their leadership function, leaders may adopt four different styles. The choice about the approach to be used varies on the task's and followers' features:

- Directive leadership: suitable where the task is complex, and the group members accept power in an authoritarian form since there are low skills;

- Supportive Leadership: it is based on shaping a peaceful atmosphere. It is effective in conditions where the task is structured and with subordinates who express a need for social recognition;

- Achievement-Oriented Leadership: it is based on the establishment of extra-ordinary objectives. Indeed, in this way the followers may reach their best possible degree of performance. It is effective with groups of people who are strongly motivated towards self-fulfillment;

- Participative Leadership: involves participation of subordinates in decision-making and encouraging suggestions from them. It can result in increased motivation. Leaders share information with their collaborators, call them and listen to them. It works with collaborators who perceive themselves as being responsible for their own success and trust in the processes of participation.

Leaders, based on the characteristics of the situation, may take on these four leadership styles from time to time.

Source: my elaboration

House and Mitchell can be considered the first scholars to shift attention from the leader to subordinates. Compared to previous models, in fact, the Path-Goal Theory holds the great convenience of also considering the main features of the of the group of subordinates, inserting them as a pivotal and intervening asset in the circumstance in which leadership is born and is exercised.

Hersey and Blanchard (1982), compared to House and Mitchell, proposed a model that focuses on subordinates to a greater extent. In their so-called Situational Leadership Theory, three dimensions are considered that define the leadership style that can be adopted in a work group: beside the amounts of task behavior and relationship behavior that the leader gives to the group of subordinates, the maturity level of subordinates is considered. The degree of maturity of subordinates is understood as the ability to take responsibility in carrying out a task. This last variable actually presents two aspects: one of a psychological nature, given by the motivation, and another defined by the skills possessed by the members, necessary to achieve the goals.

According to Hersey and Blanchard, since the subordinates go through a phase of development, over time the whole relation between leader and subordinate changes, and it undergo four phases. Therefore, leaders must execute a leadership approach which is coherent with this evolution:

- Telling: low level of relationship behavior and high level of task behavior. This is the leadership approach where a high directivity of the leader takes over, the communication is unidirectional, and the leader provides instructions and administration. This approach should be used in contexts of low psychological maturity and poor ability, given that when there are groups in which the collaborators are not very capable, reluctant to take responsibility, not self-confident.

- Selling: high level of relationship behavior and high level of task behavior. In this case, the leaders provide explanations and indications regarding the task; however, they use a two-way communication system, supporting and encouraging collaborators. This approach should be referred to when subordinates have high psychological maturity – i.e. very motivated - but with poor skills. An example can be given by a work group made up of highly motivated entry-level employees who do not yet know the job.

- Participating: high level of relationship behavior and low level of task behavior. In this case, the leader provides a lot of emotional support, involves the members and encourages them to be autonomous and to organize their work independently. This approach should be implemented when there are subordinates with considerable professional maturity, but have a low psychological maturity, which can be understood both as a lack of motivation and as a personal insecurity. Within such circumstances, the leader can be considered a facilitator of the process that is implemented, though, mainly thanks to the skills of the subordinates.

- Delegating: low level of relationship behavior and low level of task behavior. This is the leadership approach in which there is a high psychological maturity and a high professional competence. Here the leader is actually a second-order figure who provides neither guidance nor emotional support but leaves plenty of room for discretion and autonomy for the employees. This approach to leadership is typically used within groups composed of professionals with strong skills in which the leader has the only purposes of detecting the problem and directing the group's activities. Examples may be groups of managers at high company hierarchies or task forces.

In an attempt to also consider the context in which leadership finds itself operating, Contingency Theories take into account, from time to time, different elements, leaving out others. Furthermore, in each model the ability of the leaders to understand the circumstances and change their leadership style accordingly is taken for granted. Finally, although the Path-Goal Theory and the Situational Leadership Theory overturn the classic point of view by acquiring a focus more on subordinates and their features, they never take into consideration the relationships between leaders and group of followers. These further steps will instead be taken by the theories that will emerge in the following years, the so-called New Leadership Theories.

1.2.4 New Leadership Theories

In the last years, it has been developed a new stream of literature concerned with trying to understand the procedures that articulate the links between the leaders and their subordinates. This group of theories is aimed to explain the way in which leaders face and band together their followers in the search for a common development.

The theory of Transactional Leadership, according to the writings of Downton (1973), considers leaders as negotiating agents. In this context, in order to maximize their relative positions within a group, leaders have to negotiate and, sometimes, find an accommodation. As far as the subordinates are concerned, they are moved by the chance to achieve different kinds of personal reward that are granted by the leader. Often, this kind of rewards are psychological or financial in nature. However, recognition will be obtained only by those who actively participated in the achievement of the common mission. The Transactional Leadership theory is based on the premise that all the individuals have their own goals. That is the reason why, they will put in place behaviors such that it is possible to achieve their personal goals.

Bass and Stogdill (1990) are the main proponents of Transactional Leadership. According to them, Transactional Leaders must possess some fundamental characteristics. Firstly, they must be able to evaluate a good performance and whether a goal has been achieved or not, in order to distribute rewards. Rewards are given to those who stand out, but they also serve as a motivation for everyone else. This type of leader must also have the ability to understand the premonitions of a negative performance. That is why, by doing so, they can anticipate it and, when that is not possible, they can take action to empower some standard of performance. The last basic feature is in the style that must be taken towards one's own subordinate. In fact, a permissive style should be assumed, on a *laissez faire* fashion. This means that leaders should leave their subordinates the possibility to express their skills and capabilities and they should not oppress them with strict orders.

J. MacGregor Burns (1978) argues that leadership does not merely mean exercising power, since the term *leadership* does not disregard the needs of collaborators and followers. In his work *Leadership* (1978), Burns introduces the concept of Transformational Leadership. What Transformational Leadership is about, is managing to mutually engage leader and subordinates in a journey of elevating one another to higher degrees of ambition and inspiration. This process considers subordinates actual human beings and, thus, takes into account not only their skills and capabilities, but also their needs, moralities, inclinations and motivations. Transformational Leadership typically allows subordinates to goals that goes beyond what it is usually expected from them. That is because this leadership style implies a special kind of influence generated by the leader that generate trust in his followers. Burns talks about Transformational Leaders as people who work to boost awareness in their followers, carefully focusing on both the degree of achievement of the work carried out and the ways to do it. Their ultimate objective is to lead employees to take an interest in the good of the organization as a whole. Individuals who show Transformational Leadership often can rely on a wide set of ideals and morals, including supporting the common good rather than their own personal goals. According to Burns, Mahatma Gandhi is a typical example of Transformational Leader, because he has fed the hopes and desires of millions of Indians and, simultaneously, he has changed himself. According to Burns, Transformational Leadership has a higher level of effectiveness if compared to Transactional Leadership, where the appeal is to more selfish concerns. In Transformational Leadership, instead, people are encouraged to collaborate by appealing to social values, and not to work in an individual manner that may as well push them towards a potential competition.

Bernard M. Bass (1990), a leadership researcher, went beyond Burn's view. He stated that a Transformational Leader is a leader who is able to obtain from his subordinates to perform beyond their potentials by motivating them with his influence and guidance. Bass (1985) believes that Transactional and Transformational Leadership are not independent dimensions, but rather the elements of a single continuum. With respect to House, he suggests that the charisma is a necessary but not sufficient condition for Transformational Leadership.

In the leadership continuum, which ranges from transformational leadership to transactional leadership to non-leadership, Bass identifies several factors. A Transformational Leader displays the following attributes:

- Idealized influence. It calls into question the attention to trust, to obtain it, give it and manage it, making itself a role model in which the collaborators can identify themselves. In fact, admiration and respect for these leaders develop: the collaborators identify themselves with them and want to emulate them. This identification and the desire for emulation are supported by the tendency of the leader to consider the needs of others, which are placed in the foreground, as extremely important. Furthermore, the behavior of the leader is consistent and not arbitrary, demonstrates high levels of ethical conduct and tends not to use the power he possesses for his personal interests;

- Inspirational motivation. It refers to the action of giving the work a meaning, giving meaning to the everyday in perspective, outlining challenges for the future and goals to strive for. The leader involves the collaborators in imagining challenging and attractive future situations. The leader creates clearly communicated expectations, that the collaborators actually wish to satisfy. The leader himself is actively and constantly committed to achieving the set goals;

- Intellectual stimulation. Transformational leaders stimulate their collaborators' efforts to be innovative and creative by questioning what was taken for granted, redefining problems and facing old situations in a new way. Creativity is encouraged. There are no public criticisms of the mistakes made by the individual members of the group. New ideas and creative solutions to problems are required of collaborators involved in the process of defining problems and finding solutions. Employees are encouraged to try new approaches, and their ideas are not censored just because they are different from those of the leader.

- Individualized consideration. Transformational leaders are extremely attentive to each other's needs for success and growth and behave like coaches and mentors. It is exercised through the creation of new educational opportunities within an environment of supportiveness.

Individual differences in terms of urgencies are recognized. The behavior of the leader demonstrates the acceptance of these differences (for example, some employees receive more encouragement, others more autonomy and other more structured tasks). A two-way exchange in communication is encouraged, and management is practiced through physical presence in the workplace. Interactions are personalized and leaders are empathetic and capable of listening. They delegate activities as a means to develop collaborators.

According to Bass, the two factors of Transactional Leadership are:

- Reward. It is the procedure of exchanging whereby the leader rewards the efforts of the followers. With this type of leadership, the leader tries to get the agreement of the followers with respect to what must be done and in relation to which he will grant them advantages.

- Management by exception. It takes two forms: active and passive. The management by exception refers to the leadership approach that considers criticism tending to correct, negative feedback and coating. The active form implies a close observation of what the subjects do in order to detect errors and violations of rules to immediately bring the related corrections. The passive form implies that the intervention of the leader is not immediate, but it happens, when the expected standards have not been reached and problems have occurred. The difference between reward and management by exception is that the first uses positive enforcement models, the second negative enforcement models.

A non-leadership factor is then provided; in this case there is absence or avoidance of leadership. It is a non-transactional style, and one of the least effective. Non-leadership includes a single factor.

- *Laissez-faire*. Leaders give up their responsibilities, postpone decisions, do not provide feedback, have no particular exchanges with subordinates, do not strive to meet their needs and take care of their growth.

Source: my elaboration

The strengths of Transformational Theory are to be individuated in the surmounting of the exchange and reward perspective. Indeed, this theory started a new perspective of the whole leadership mechanism, no longer based on the needs of the leader and followers, but rather on a body of values that push for the overcoming of the subjective interests in view of a common goal. In other words, it is the meaning agreed upon from an ethical and value point of view, which is introduced into the logic of organizations as a main element capable of motivating and activating the individuals involved in them. Furthermore, this type of leadership is not a simple question of the leader's capacity but can only be realized in a powerful interactive process that involves both the needs and values of the leader as well as those of the followers. Finally, Transformational theory exercises an undoubted fascination at the level of common sense, with leadership concepts in which the leader provides a vision towards the future, gives value to individual efforts, shows the possibility of change and innovation.

Other leadership theories, e.g. Behavioral and Situational theories, have a typical focus on a Transactional kind of Leadership. However, the leaders who are recognized to be Transformational are generally considered more intellectually stimulating as well as more appealing, respect to the leaders recognized as

Transactional. A Transformational leader is a person who challenges the status quo, mobilizing and empowering his followers to achieve a noble objective.

Moreover, Transactional and Transformational leadership may provide the context for allowing the organization to reach a sustained performance by managing the balance between the need for ongoing improvement in leveraging existing skills and the need for new growth opportunities. It is possible to achieve this goal by developing dynamic capabilities and making the organization ambidextrous. Indeed, Lopez-Cabrales, Bornay-Barrachina and Diaz-Fernandez (2017) argue that both Transactional and Transformational leadership will grant the development of dynamics capabilities while, according to Baškarada, Watson and Cromarty (2016), Transformational leadership should be referred to in the case of exploratory innovation, and Transactional leadership is more appropriate in the context of exploitative innovation: exploration and exploitation are the simultaneous activities that allow organizational ambidexterity.

Building on a Transformational kind of leadership, Kouzes and Posner (1989) describe a leadership style divided into five actions identified as fundamental for successful leadership:

- Modeling the Way: setting the example by behaving in ways that reflect the shared values;
- Inspiring a Shared Vision: enlisting others in a common vision by appealing to their values, interests, hopes and dreams;
- Challenging the Process: searching challenging opportunities to change, grow, innovate and improve;
- Enabling Others to Act: fostering collaboration by promoting cooperative goals and building trust;
- Encouraging the Heart: recognizing individual contributions to the success of the project and celebrating team accomplishments.

Recently, corporate scandals and managerial misconduct have been prevalent in media headlines. Consequently, corporate leaders' morals and responsibilities have been given way more importance by the scholars. Among these, Brown, Treviiño and Harrison (2005) proposed an Ethical model of leadership. Ethical leadership has been defined by the authors as *"the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making".* According to the three, Ethical Leadership plays a key role in promoting enhanced employee attitudes and behaviors.

More recently, it has been introduced the Responsible Leadership model. Maak and Pless (2006) suggested that leaders managing corporations must switch from an outdated idea of shareholder supremacy (Friedman, M., 1970) to a new model that preaches care for all stakeholders, both internal and external to the company, to embrace Corporate Social Responsibility (CSR). Existing theories about leadership, such as Transformational and Ethical theories, keep a primarily attention a supervisor-subordinate exchange, ignoring the influence of leaders' actions on other groups of interest. As a consequence, these leadership models can't meet all other stakeholders' interests as effectively as shareholders' interest. On the other hand, Responsible Leadership can effectively balance the conflicting interests among stakeholders inside and outside organization (Maak, T., 2007) boosting brand reputation, earning trust of the public and achieving sustainable development of organization and society (Voegtlin, C., Patzer, M. and Scherer, A.G., 2012). Leadership effectiveness is not evaluated in terms of financial performance, but rather as directed toward gaining legitimate solutions for all stakeholders. Therefore, the pivotal subject for Responsible Leadership is the obligation to balance the needs of all affected parties (Waldman & Galvin, 2008).

As has been shown through the presentation of the several theories, over time leadership models have evolved, acknowledging the change and constant evolution of organizations and their surroundings and becoming more participative and less absolutist. In the today's dynamic business and organizational environment, leadership is required to be Transformational both in the sense of grasping, promoting, guiding the need for change, and in the sense of supporting people in the paths of change, on the organizational and individual fronts. In summary, the effective leader is therefore a change-oriented individual who shows high self-confidence and ethical concerns and who supports in the followers the growth of their motivation as well as the identification with the organizational objectives.

1.3 Strategic change

Pfeffer (1972) claimed that the composition of a board is the reflection of the firm's external dependencies. Consequently, one would expect to see strategic changes in the composition of the board following major environmental changes in the firm's environment (e.g. changes in the supply of a critical resource, in the competition, in technologies, in revenues, in the regulation). Indeed, as Hillman, Cannella and Paetzold noted (2000) taking into account a resource dependence standpoint, when the environments in which the firm operates undergoes changes, the composition of the board of the company changes as well to reflect the shift in resource needs. companies tend to strategically alter their boards according to the new environmental demands and forces. Shocks in the environment change the interdependencies and resource needs confronting the firm, therefore adjusting the needs with respect to the extra-governance role of members of the board. These adjustments are executed through adaptations and reconfiguration of the board, to reflect the shift in the needs caused by environmental changes. According to Boeker and Goodstein (1991), a downward trend in performance indicates to the management that the structure of a company, and therefore the board of directors' composition as well, may not meet the requirements of the existing environment. Poor performance is an important signal of mismatches with the environment, warning the management that changes may be required. In their study, Boeker and Goodstein conducted an analysis on 290 Californian hospitals over a seven-year timeframe and found that performance is a moderator of change. They showed how hospital with poorer performance were more responsive to environmental changes than those with relatively good performance. Leaders of poorer performing organization are therefore more active in scanning the environments in an attempt to seek out and use pivotal hints.

Considering business environment nowadays, change is inevitable. Besides, it is expected that companies must leverage towards managing change to keep and improve their competitive position. Even the better performing organization, if found short with respect to change, will soon lose relevance. Therefore, a higher level of managerial response is required, making strategic change more necessary than ever before. In this context, change is the only valid constant, because in today's business environment inaction is the riskiest strategy (Farjoun, 2007).

1.3.1 Defining strategic change

Over time, scholars have defined strategic change in several ways. For Hofer and Schendel (1978), strategic change consists of a change in the *"fundamental pattern of present and planned resource deployments"*; Goodstein and Boeker (1991) stated that strategic changes are *"changes in product and service domains"*; Wiersema and Bantel (1992) defined strategic change as an *"absolute change in diversification level"*; Haynes and Hillman (2010) conceptualize strategic change as *"two aspects: strategic variation, or a change in the 'pattern of a firm's resource commitments over time, relative to its past pattern', and strategic deviation, a shift away from the 'firm's resource commitments from industry norms of competition'"*. In line with these definitions, strategic change can be considered as a dynamic procedure that, involving various actors within the organization, allows firms to catch new opportunities and deal with threats in order to become or stay competitive in their business environment.

Furthermore, in defining strategic change, it is necessary to make a distinction between strategic change and organizational change. Although these two concepts are sometimes used in an interchangeable manner and, although their definitions may overlap to some extent, the focus for strategic changes is not characteristic of all organizational changes. Strategic change typically affects the main elements of the organization, such as the structure, the identity and the strategy and it is typically initiated and led by executives. Organizational change may incorporate a much wider range of changes that may or may not be strategic and may be also smaller in scope. In this thesis, the focus is on research that is exclusively about strategic change.

1.3.2 Strategic change and Corporate Governance

As previously observed, environmental changes constitute a huge challenge for organizations. These changes may cause companies' resources, products and capabilities to become obsolete, thus requiring a risky process of strategic change to develop new product or services and build new capabilities. If firms fail to engage in the strategic change process on time, they could see their financial performance damaged (Keck & Tushman, 1993). In fact, firms often suffer from organizational inertia which may harm their financial performance (Kelly & Amburgey, 1991).

A number of scholars have argued that executive change, in particular change in a company's CEO and top management team, provides an important mechanism for overcoming inertia and resistance to change (Tushman & Keck, 1989; Tushman & Romanelli, 1985). The process of executive succession, and particularly one in which an outsider becomes CEO, provides an important opportunity for new strategic standpoints to be introduced. However, strategic decision regarding product and services are not only influenced by top management. As Goodstein and Boeker have shown (1991), ownership and board changes can modify the context in which strategic change happens as well. Indeed, when a company's ownership control is concentrated among its top managers, they may have no accountability for their performance. Firms in which management ownership is relatively high, CEOs can keep their roles even though they are performing poorly. Changes in ownership that decrease managerial control can allow a company to have a wider strategic view (Salanick & Pfeffer, 1980). Furthermore, changes in the board of directors aimed to increase the outsider executives can motivate strategic change, as new actions initiated by the board overcome managerial opportunism and inertia.

Brunninge, Nordqvist and Wiklund (2007) have focused on closely held firms, such as small and medium-sized enterprises and their ability to introduce strategic change. In these kinds of company, governance issues are more complex than in large public companies, in which the separation between ownership and control is more evident. In small enterprises, instead, ownership, board and management often overlap on the same people. In small enterprises in which strategic leadership lies in the hands of a single person, inertia may also have reasons other than unwillingness to change: there could be a lack of resources or skills to initiate change. In this case, strategic change can be stimulated by putting in place governance mechanisms aimed to increase the strategic competence of the firm, such as acquiring more outside directors in the board and increase the size of the top management team. The possible absence of outside directors can be compensated by increasing the size of the top management team: where there is no active board with outside members to execute the monitoring function, a larger number of individuals involved in the management of the firm can have more space for implementing strategic initiatives, thus leading to more strategic change.

Given its leading role and its strategic function outlined above (1.1.4), the board of directors is one of the most important organs of the organization involved in the strategic change process. Goodstein, Gautam and Boeker (1994) have defined boards' strategic role as *"taking important decisions on strategic change that help the organization adapt to important environmental changes"*, while, according to Hoppmann, Naegele and Girod (2019), boards' strategy-related activities can be distinguished into two categories: strategy evaluation and strategy reconfiguration.

- Strategy evaluation: board activities concerned with monitoring the firm's environment and reviewing the firm's strategy to determine the fit and need for change. This activity can be carried out through annual strategy reviews to assess environmental changes and scrutinize the existing firm strategy as well as through evaluation of strategic change proposals from the management.

- Strategy reconfiguration: activities through which boards manipulate strategies to influence strategic change. After the strategy evaluation process, if boards perceive the management proposals as appropriate for coping with the environmental changes, they proceed to approve change initiatives. If boards feel that the degree of strategic change proposed by management is insufficient for dealing with the environmental changes, they focus on stimulating change, sometimes also replacing the CEOs. If boards perceive managers as pushing too much for change, they start engaging in limiting change initiatives, by simply rejecting proposals or replacing management personnel.

Indeed, boards can seriously shape firm strategies by monitoring and controlling organizational decisions and activities, providing the top management team with information and appointing new CEOs. However, as notorious cases have shown (e.g. Nokia, BlackBerry), even the most successful companies may fail to adjust to changes in their business environments. In fact, boards may differ in their responsiveness to environmental changes (Boeker & Goodstein, 1991) and may incur in path dependencies (Hillman, Cannella & Paetzold, 2000). Hannan and Freeman (1984) argued that organizational success incentives the development of internal forces for stability and inertia, which lead to resistance to organizational changes. Nelson and Winter (1982) similarly maintained that organizational routines tend to remain as long as performance is considered sufficient.

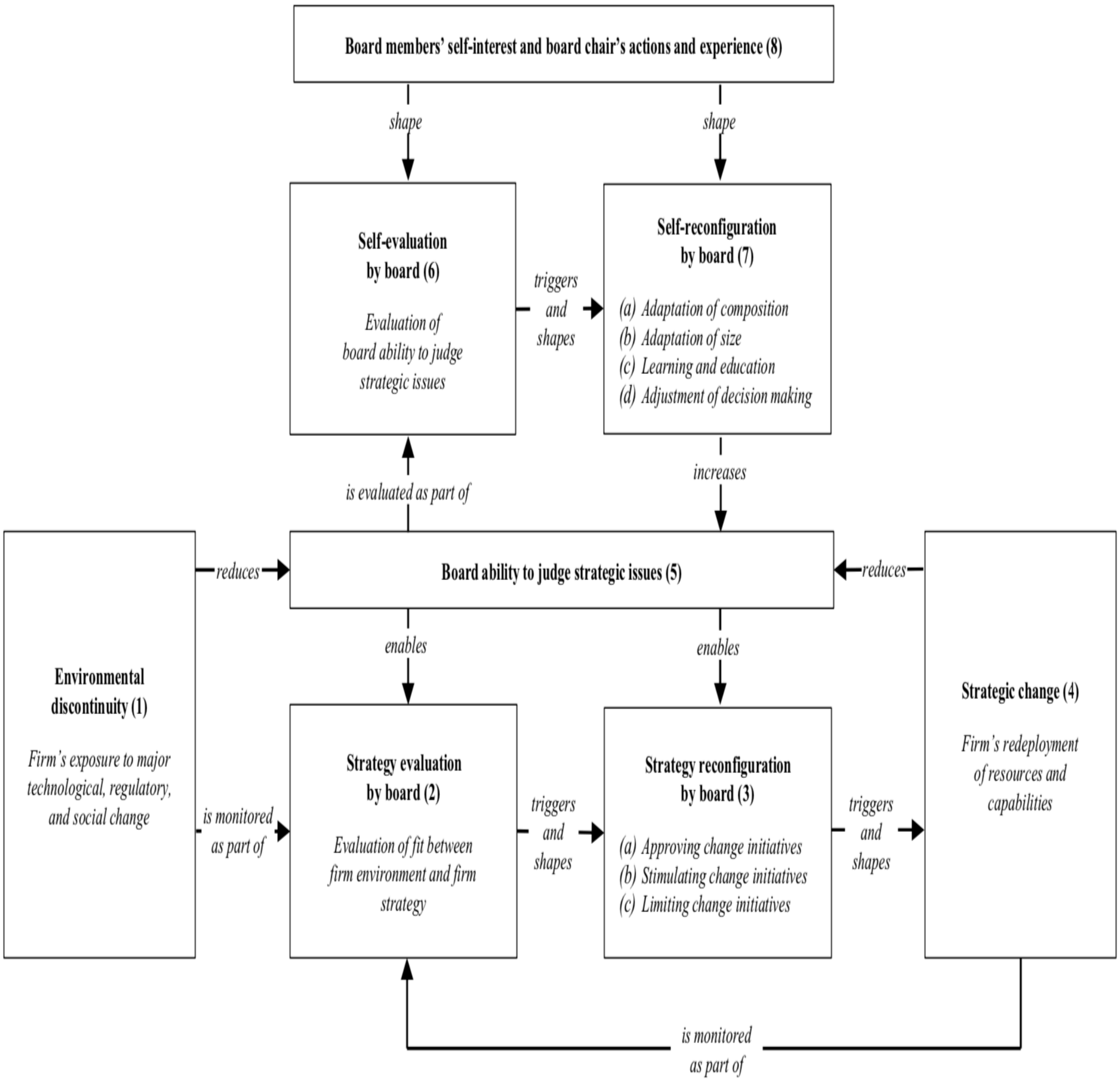
Hoppmann, Naegele and Girod (2019) give an interesting internal perspective of the board of directors that enables to deeper understand its dynamics and the way the organization can cope with strategic change. According to them, another element that may contribute to organizational inertia is the ability of the boards to judge strategic issues. This ability can be defined as a set of procedures, structures and knowledge that allow boards to identify and understand strategic issues, thereby making them able to execute the strategy evaluation and reconfiguration activities: therefore, strategic change decreases the boards' ability to judge strategic issues and, thus, increases inertia. Therefore, to defend their competency in the activities of strategy evaluation and reconfiguration, boards need to renew their ability to judge strategic issues as soon as they are confronted with increasing environmental and strategic change. This is possible through the self-evaluation and self-reconfiguration processes within the boards.

- Self-evaluation: board activities aimed at assessing the board's own strengths and weaknesses. These activities can manifest in various forms, from informal assessments to reviews, with or without support of external subjects. This constitutes a critical process for the survival of the whole organization in times of environmental changes, as it raises awareness of a possible lack of competencies within the board. Also, the several codes issued over the years on the best practices to be observed for effective corporate governance (1.1.1) believe that self-evaluation is a necessary activity for the board to function. The new British Corporate Governance Code (2018), for example, states that the board of directors should carry out a rigorous annual assessment of the performance of its directors and committees.

- Self-reconfiguration: board activities that increase the board ability to judge strategic issues and thus restore its ability to manage strategic change. In this context, adaptation of the board composition can help the board to better deal with strategic change. As Brady and Helmich noted (1984), *"the tendency of boards not to change at all is in itself a threat to constructive change strategies"*. Indeed, as Haynes and Hillman (2010) show building upon resource dependence theory, more heterogeneity within the board leads to more strategic change, thus making it easier for the organization to cope with future environmental discontinuities. Secondly, as Goodstein, Gautam and Boeker (1994) have noted, adaptation of board size is another solution to improve strategic change: they argued that high levels of board size negatively affect the ability of the board to initiate strategic change in times of environmental changes.

> Boards can address knowledge shortcomings without replacing its members through learning and education. Board education can be carried out through collective activities, such as training sessions, or individual activities, such as peers knowledge exchange. Another self-reconfiguration activity is board's decision-making adjustment: adaptations of board processes aimed at improving its ability to judge strategic issues (e.g. heighten task separation and specialization within the board, using the majority principle instead of the unanimity principle for assuming a decision within the board).

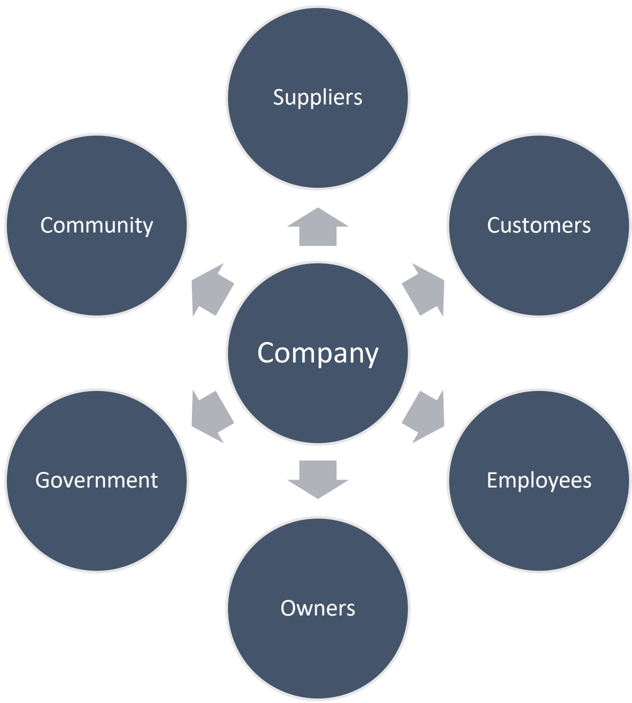
However, neither self-evaluation nor self-reconfiguration are usually driven by ordinary board members. Indeed, individual board members face little incentive to engage in self-evaluation and self-reconfiguration activities because of their self-interest: sometimes, board members mainly join boards for opportunistic reasons, such as power, prestige and money. In this sense, taking into account the agency theory (1.1.4.1), environmental discontinuities may generate circumstances in which board members themselves face conflicts of interest that prevent them from engaging in self-evaluation and self-reconfiguration, and thus damage firm's performance. As a consequence, whether boards perform these activities often depends on the actions and expertise of the board chair. Board chairs often are the main drivers of adjustments of board composition, size, education, and decision-making processes. Indeed, this is what one would expect from the leader of a team: it is the board chairman who needs to take action to improve its board. Sir Adrian Cadbury underlined this responsibility of the board chairs (2008) by saying: *"Although it is important to be consistent with one's purpose, the time may come when it is necessary to adapt objectives and strategies in the face of new challenges. [. . .] The sense of direction and the ability to know when to keep a given route and when to change it apply to all types of leadership. The presidents of the boards must be able to form an effective team with the members of their boards".* It is up to the chairman to perform the board's self-evaluation and self-reconfiguration activities and, consequently, reduce inertia and make the board reactive to new challenges. Thus, whether an organization will succeed in overcoming the obstacles posed by environmental discontinuities and advancing long-term success depends on the quality of leadership provided by the presidents of the boards. They will have to create a sense of urgency for change within the boards as well as craft an organizational culture that accepts change as inevitable and spread it at all levels of the organizations.



Source: Hoppmann, Naegele and Girod (2019)

2. Sustainability-oriented Corporate Governances

According to the stakeholder theory (Freeman, R. E., 1984), companies are in touch with several social groups, which influence company management policies and are in turn influenced by them. Because of this mutual influence, these groups become partners of the company and everyone has interests to support. Stakeholders are not just groups that have direct interests in the company, such as employees and owners, but also groups with indirect interests, since the company influence is reflected in a large external environment. Stakeholders can be divided into internal and external, depending on their position with respect to the company, and in primary and secondary. Primary stakeholders directly affect business management choices, secondary stakeholders impact more on the social climate of corporate relationships and therefore influence long-term behavior.



Source: my elaboration

Building on this perspective, in today's business environment leaders of the companies cannot overlook the mutual interests among the firm and its stakeholders. In this sense, it can be stated that firms play an important part in social development. Indeed, when business activities are run by responsible company leaders, it is actually possible to improve society and welfare. Concerned with the company activities are not only its owners, but also all the other parties that are affected by those activities. The mutual influence between the company and its external stakeholders make them almost as important as the stockholders, since they can, to a certain extent, affect the shaping of the strategy and activities of the company. Hence, between a business and each of its stakeholders must be formulated a long-term oriented relationship, based on *"a concern for the future which has become manifest through the term sustainability"* (Aras & Crowther, 2008).

According to this new general awareness, the new British Corporate Governance Code (2018) introduced important new dispositions concerning the dialogue between businesses and stakeholders.

- it is obligatory to indicate to the minority shareholders, when the 20% - or more - of the share capital has voted against a proposal presented by the board of directors, which actions are intended to work to understand the reasons that led to this voting result;

- empowerment of the board of directors towards employees;

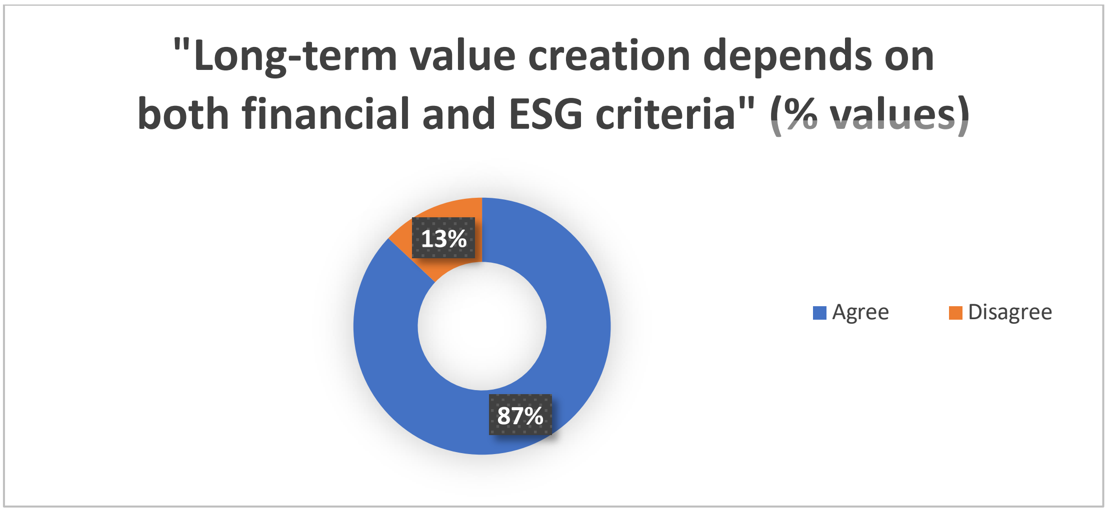
- improved dialogue with employees through appropriate organizational solutions, such as the provision of a member of the board elected by the employees, an Employee Advisory Committee or a non-executive director appointed by the employees.

As far as the term *sustainability* is concerned, although many definitions have been provided over time, it can be linked to a mentality that allows to live within the limits of the assimilation capacity of natural systems and the regenerative capacity of natural resources, connecting business society and environment. In 1987 the World Commission on the Environment and Development of the United Nations drafted a document, the Brundtland Report - also known as "Our Common Future" - according to which sustainable development is defined as " *that development that ensures that it meets the needs of the present without compromising the ability of future generations to meet their own needs."*. Indeed, as Crowther (2002) points out, the concept of sustainability is connected to the effect of present actions on the possible actions that will be available for the generations to come. If there were endless resources on the Earth, there would not be any concerns of this nature but, considering that resources are actually finite in quantity, it must be acknowledged, primarily within the economic community, that if resources are consumed today, they will not be available tomorrow as well. Capitalism aims to a boundless growth which promotes extra consumption and waste, as well as intensive use of energy and natural resources. This is a major problem not only at the macro level (i.e. society), but also at the micro level (i.e. business). In fact, as resources are consumed in the present, the cost of getting the resources that remain will inevitably rise in the future. At the business level, there is not a general, universal definition for corporate sustainability: every single company must develop its own definition, according to its purpose and goals.

2.1 In march towards sustainability

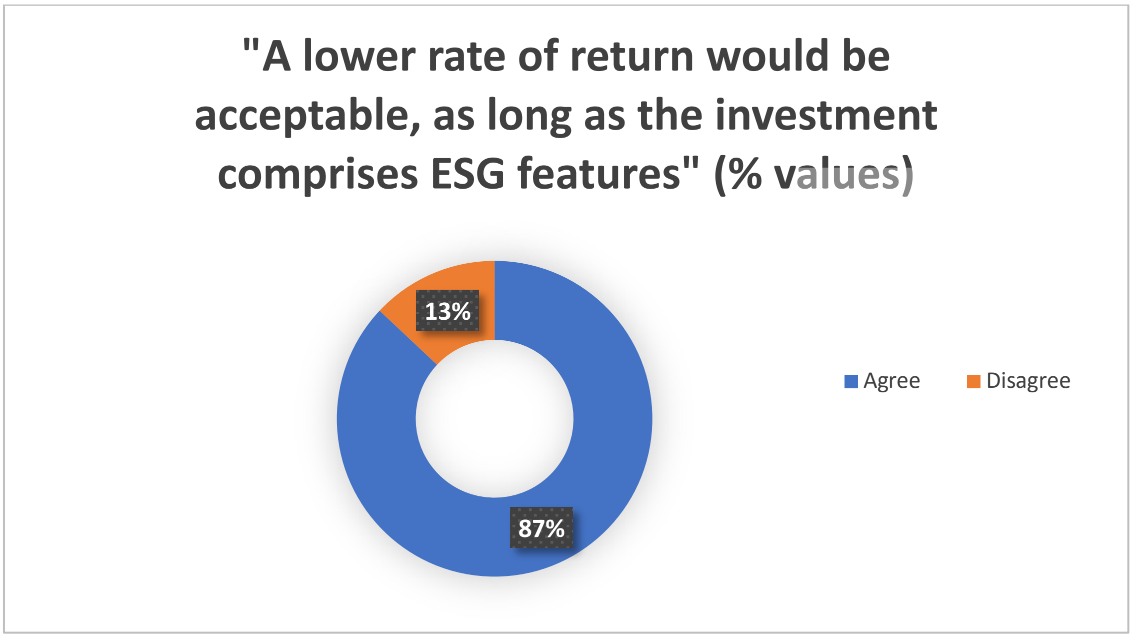
Doing good is no longer enough: today, companies are also required to actually be good. Laurence Fink is the CEO of BlackRock, the largest investment management firm in the world with almost $6 trillion in assets managed worldwide. Each year from 2012 Fink writes to the companies in which BlackRock invests on behalf of its clients to make sure that they adopt governance practices that are consistent with superior business performances. In his latest letters to the CEOs, Fink asks the companies to take action to tackle the problems society is facing. Fink contributes to a positive debate on global capitalism by calling on corporations to take a more active role in addressing societal issues and outlining the investment strategy that his firm will take in the years to come. Corporate leaders and board members are invited to act likewise if they want to hold BlackRock's capital and contribution. To overcome the short-termism which obstacles a sustainable growth in the long run, it is necessary to act in the service of a social purpose, switching the focus from the financial performance to something greater. In his 2018 letter, Fink announces that even an excellent financial performance is no longer enough for companies if they want to obtain new investments. They are required also to demonstrate a positive contribution to society and the ability to manage all the three letters of the ESG acronym - Environmental, Social and Governance.

Thus, a “good” Corporate Governance is one of the main criteria for selecting investments for both institutional operators and private investors. For the latter, investing according to these criteria often means making choices that are consistent not only with their own return and risk objectives, but also with their own values and moral convictions. In line with this view, as shown by a research carried out by Edelman (2018) on more than five hundred institutional investors around the world, investors are looking beyond the mere balance sheet.



Source: my elaboration from 2018 Edelman Institutional Investor Trust Survey data

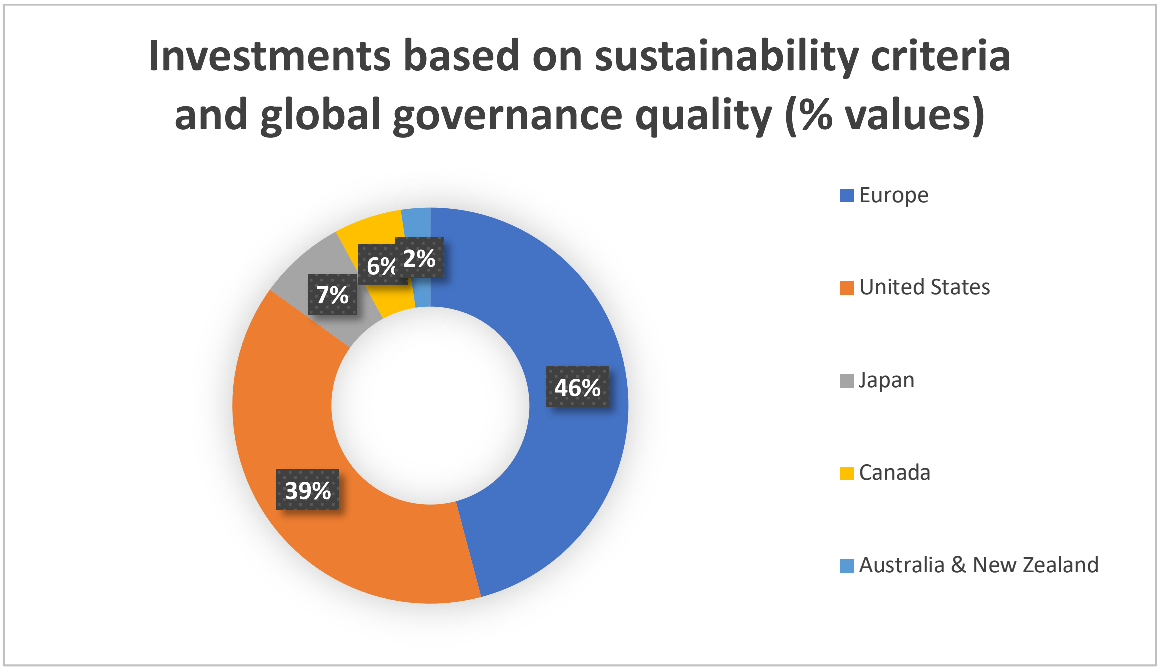
What is more, investors would even be willing to sacrifice their return on investment if the investment comprised ESG features, showing an interesting trend about sustainability themed investing:

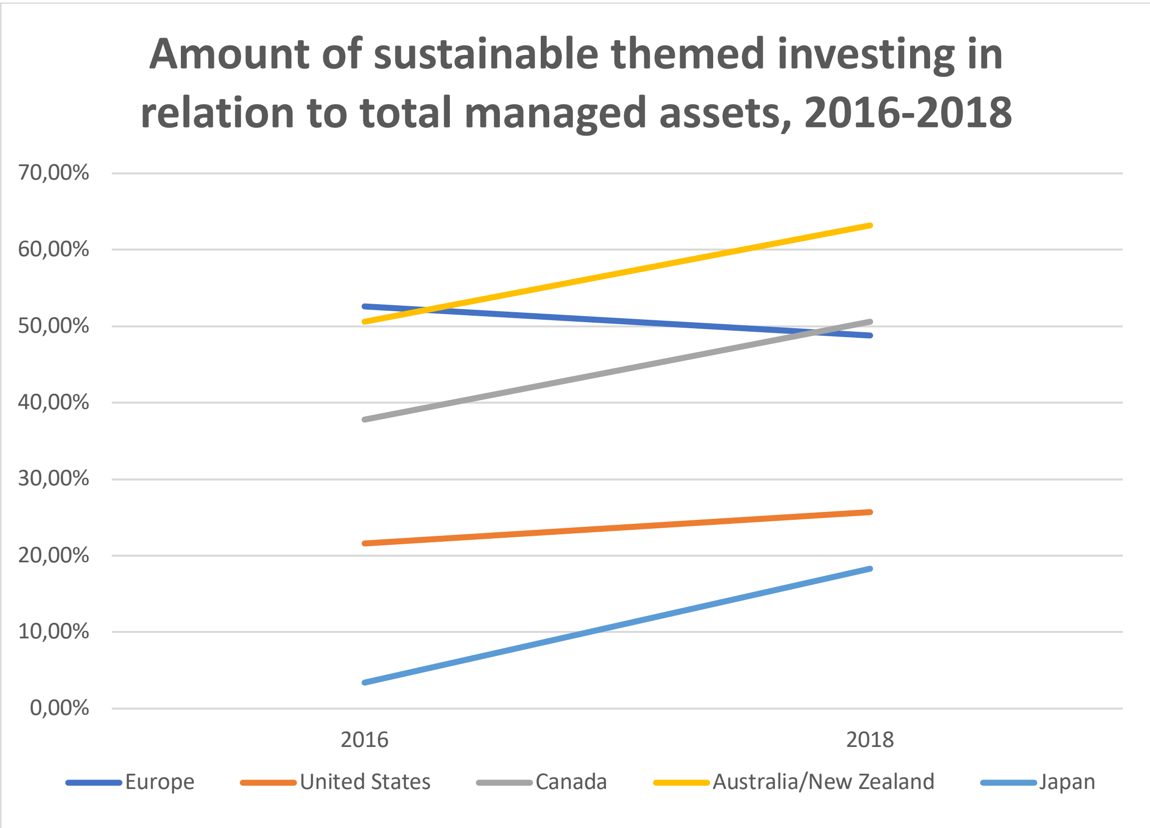


Source: my elaboration from 2018 Edelman Institutional Investor Trust Survey data

Some data show that a significant change in this sense is taking place globally, with strong growth in sustainable investments. In fact, research published every two years by the Global Sustainable Investment Alliance indicates that the global sustainable investment volume in 2018 reached $ 30.68 trillion, an increase of 34% compared to 2016. Almost half of sustainable investments (46%) occurred in Europe, where the portion of sustainable investments in relation to the totality of the assets managed is equal to 48.8%, a percentage down compared to the two-year period 2014-2016 (52.6%), a sign that the market is becoming saturated. On the contrary, the highest growth of sustainable investments was recorded in Japan (307%) and Australia / New Zealand (46%).

It should also be noted that more and more often investing in sustainable companies can also mean choosing companies with very innovative characteristics. Business model innovation, production methods, and products are often found in companies that are part of ESG-type screening: ESG can therefore also mean a strong drive towards innovation and change.





Source: my elaboration from GSIA data, 2018

2.2 Sustainability and strategy

The governance scandals that happened lately (1.1.1), have shown how relevant is the companies' effect on social responsibility. Recently, thanks to a renewed care for the theme of corporate social responsibility (CSR), companies' responsibility to their stakeholders increased as well. As a consequence of that, organizations are progressively recognizing the pivotal role that Corporate Governance plays in improving communications with their stakeholders. The biggest incentive for companies to invest in sustainability is that it actually increases their long-term value creation. Indeed, the companies that realize that their activities reflect on the external environment are able to generate a sense of accountability to the society. Thus, running a business according to socially responsible principles should be considered among the main concerns for companies, as that is what guarantee sustainability. The benefits of such a behavior will be evident in the future for both companies and societies.

For this to happen, companies must recognize the importance of integrating sustainability and strategy. However, the usual analyses of sustainability overlook financial aspects as part of sustainability. That is because of the general belief according to which a company cannot optimize both financial and social performance. As a consequence of this acceptance, corporate sustainability researchers did not analyze financial performance as an important part of sustainability. in contrast with this view, as shown by a research conducted by Eccles, Ioannou and Serafeim (2012), there is a positive correlation between economic results and sustainability. Particularly, following a twenty-year observation, the most sustainable companies are distinguished from the others also by the presence in the board of directors of a member with direct responsibility on sustainability issues.
Furthermore, according to Aras and Crowther (2008), in incorporating sustainability into strategic planning, a corporation has to consider four aspects of sustainability:

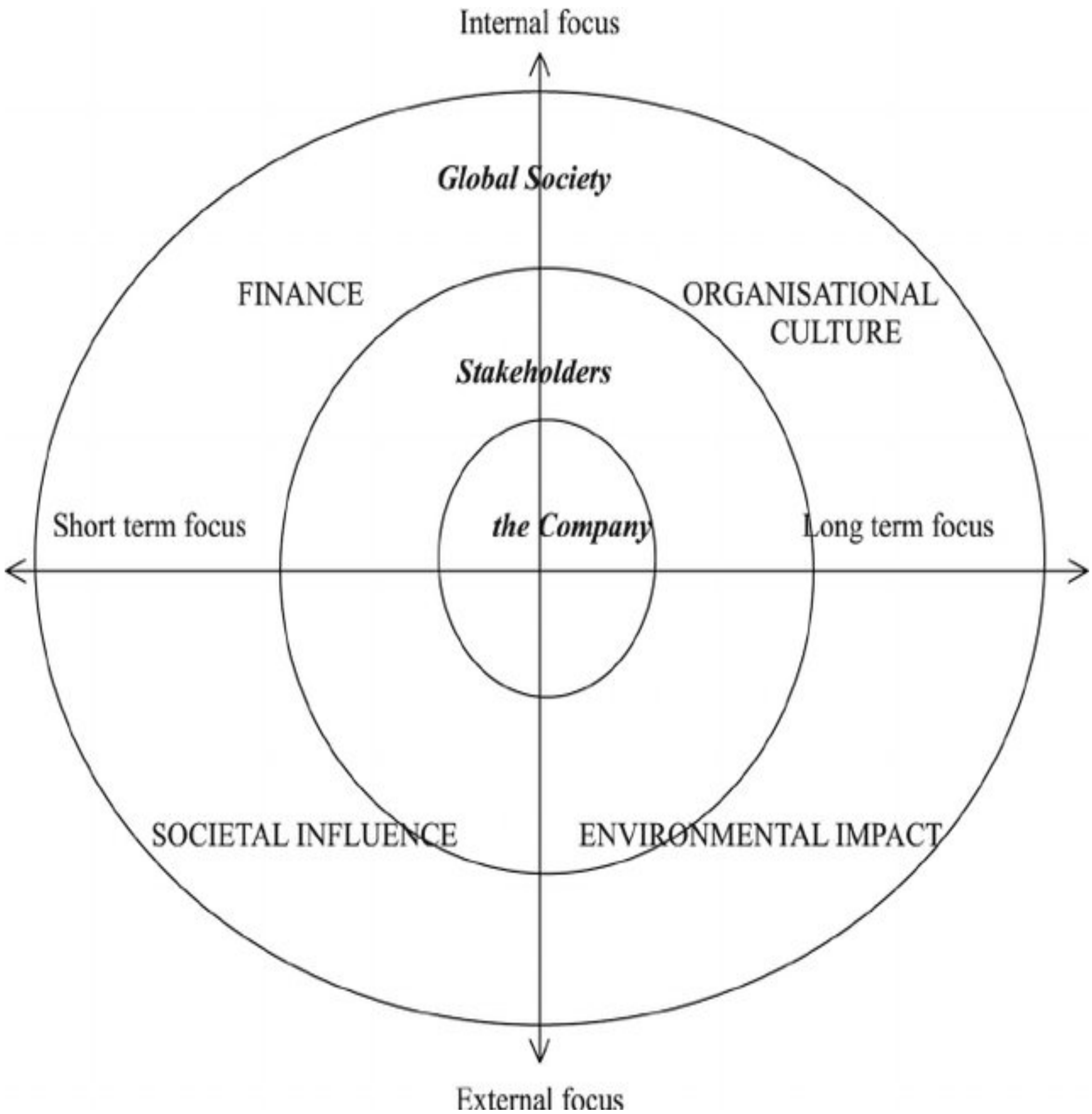
- Societal influence: defines the effect that society has on the company, thus including stakeholder influence;

- Environmental impact: defines the impact that the company has on the environment, through the performance of its activities;

- Organizational culture: defines the set of relations the company carries on with its internal stakeholders;

- Finance: defines the rate of return related to the level of risk the company faces.

All these components have the same importance in terms of weight. Thus, according to this perspective, every organization, institution and interlocutor is to be considered substantially a stakeholder of the corporation.

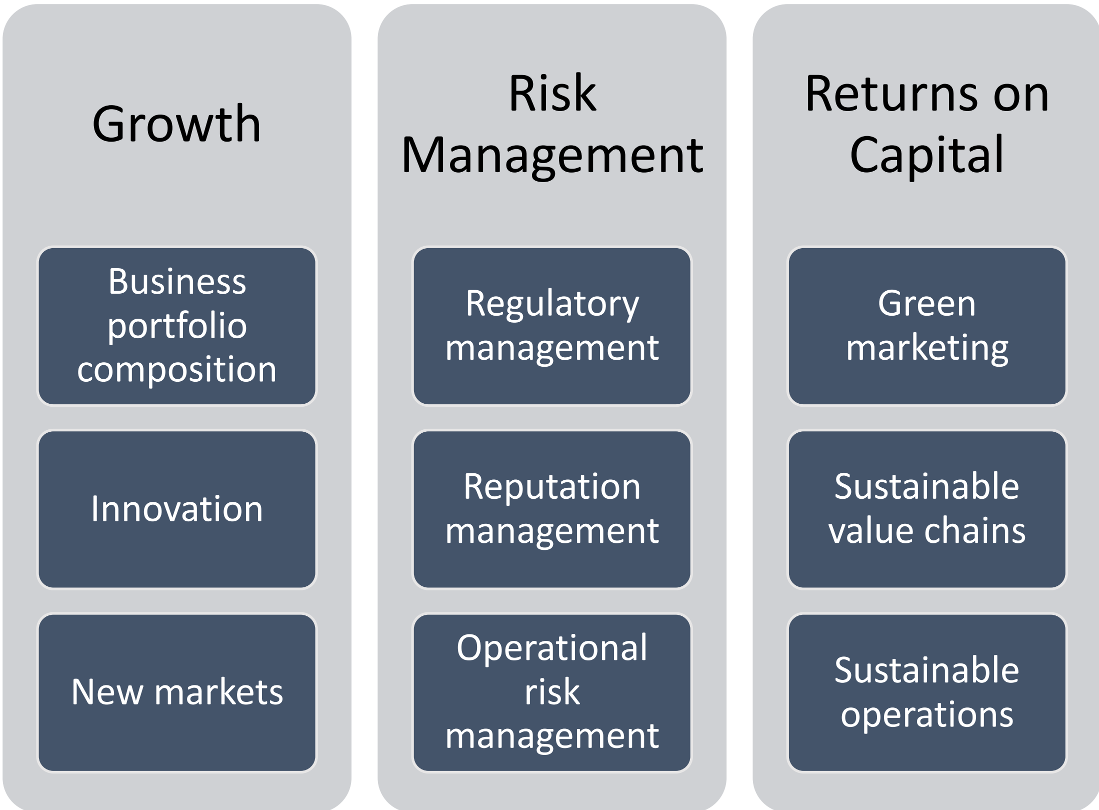


Source: Aras and Crowther (2008)

The four aspects described above can be represented through a matrix with two dimensions: origin (internal and external focus) and perspective (short-term and long-term focus). Thanks to this matrix, a complete representation of the company's conduct can be observed. Indeed, the matrix represents the ideal approach with which the organization should conduct its business. A focus on the short term is no longer sufficient for today's corporations: it is necessary to consider, for the purposes of sustainability, also a long-term perspective, to more effectively balance the interests of all stakeholders. In the same way, a focus that is exclusively internal to the organization can no longer be considered acceptable, since, as said, it is of fundamental importance that the company recognizes to be part of a global environment and therefore to have responsibility towards a multiplicity of stakeholders.

Sustainability concerns a long-term perspective and consists in securing that the options that will be available in the future on the resources available are not influenced by the actions that corporations undertake today. For this to be possible, sustainable measures must be adopted, such as making use of renewable resources, reducing pollution or adopting innovative production procedures. Above all, it is necessary to recognize that sustaining additional costs for the adoption of sustainable measures constitutes an investment for the future, both for the company and for society.

Even according to a study led by McKinsey (2011) companies should integrate sustainability into strategic planning, as it would pay off in the long run. Namely, it is necessary that companies embed sustainability into the value creation drivers that drive the growth of the company, risk management and return on capital. By doing so, companies will be able to capture value from sustainability. As far as growth is concerned, it is important to manage the business portfolio according to a sustainability-oriented approach. Thus, investment and divestment decision about the business owned by the company must consider sustainability as a key driver. Furthermore, the Research and Development department should try to meet the needs of the clients by developing new products and technologies with a strong focus on innovation. Finally, by orienting growth strategies towards sustainability in these ways, it is possible to better seize new opportunities in specific markets. Regarding risk management, a sustainability-oriented perspective would allow an improved management of risks. In this sense, regulatory management would allow to better evaluate risks and seize opportunities coming from regulation or deregulation while reputation management and operational risk management would allow respectively to get credit for sustainability initiatives and to decrease the operational risks (e.g. the risks coming from scarcity of resources or climate changes). When companies care about sustainability, they can further improve their returns on capital and eventually create value. In particular, companies can improve the value propositions of the products they offer through green marketing (marketing sustainability attributes) and sustainable value chains (manage the value chains in order to spread the concerns for resource management and environmental impact). Finally, integrating sustainability with operations means to being able to decrease operating costs thanks to a better resource management approach (e.g. energy, water, waste).

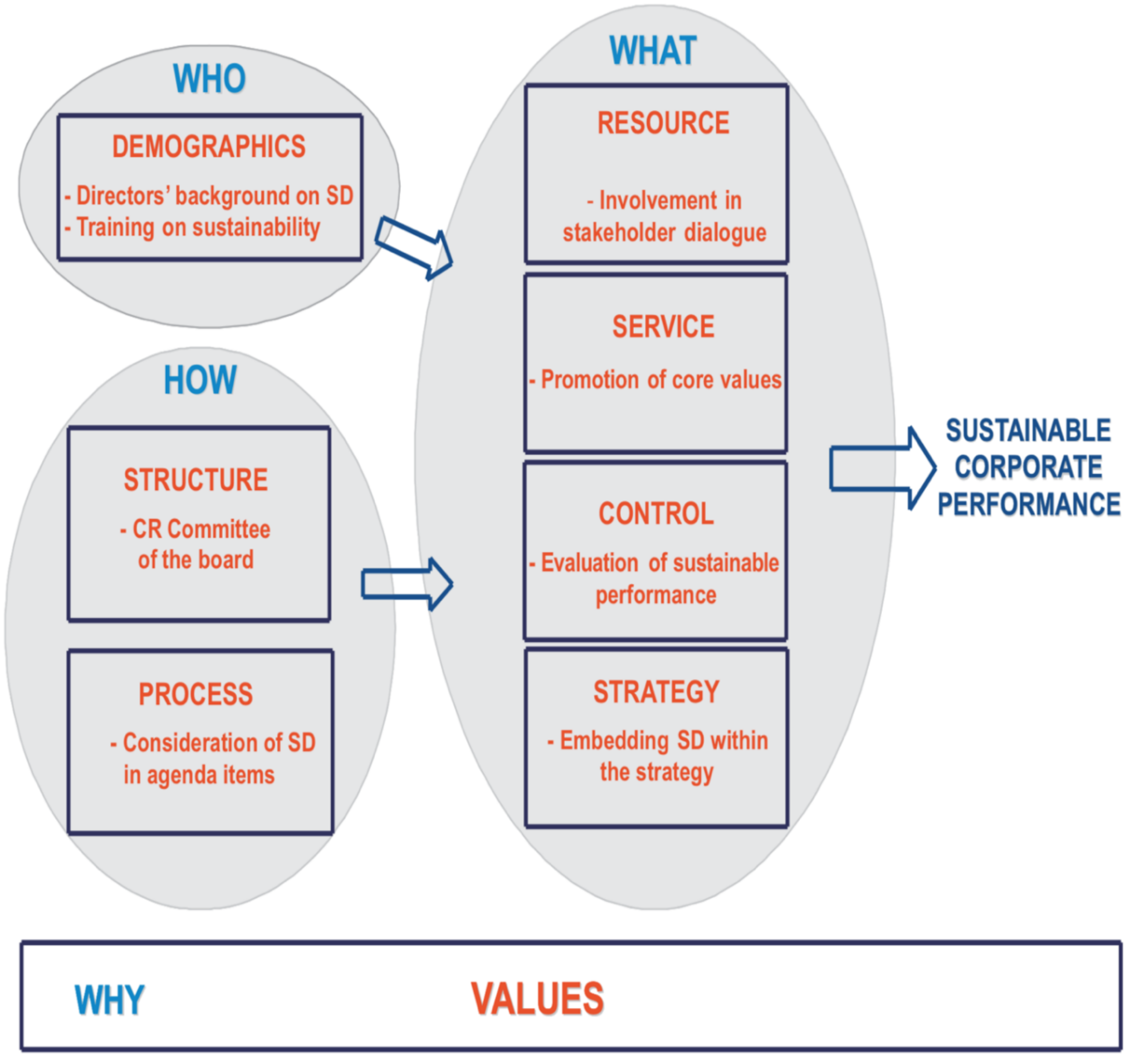


Source: my elaboration from "The business of sustainability", McKinsey, 2011

2.3 Sustainability in the board of directors

As explained in the previous chapter (1.1), the board of directors is the collegial body that holds the leadership of the entire organization. The board, specifically the chairman, has the responsibility to define the values of its business and live them in first person. Only by incorporating the issue of sustainability into the core values of an organization it will be possible to consider it truly sustainable. If the board establishes sustainability among the values of the entire company, it will then be easier to integrate this concept into the corporate strategy and to disseminate it at all levels of the organization.

Ricart, Rodriguez and Sánchez (2004) carried out a qualitative analysis from which they developed a useful template to incorporate sustainability into a board of directors.



Source: Ricart, Rodriguez & Sánchez (2004)

As far as a board is concerned, there are at least four questions to be answered in order to enhance the sustainable performance of an organization:

- Why: that is where it all starts. In order to create a sustainable organization, a board must first set sustainability as a top issue within its agenda and values to uphold;

- Who: members and features of a board are key if an organization aims to be sustainable;

- How: also the way a board works and its structure can influence the role of a board to shape a sustainable organization;

- What: there are specific roles the members of a board should cover for sustainability to be effectively spread within an organization.

Shared values as set by the board play a pivotal role, as they constitute the heart of the organizational culture of a company and they allow to effectively achieve a decentralized decision- making mechanism. As a consequence, the embedding of sustainability within a company's set of values is key for making steps forward towards sustainable development.

According to the resource dependence theory (1.1.4.1), the members of a board can provide important resources to the organization. Building on this perspective, directors ought to be able to provide the boardroom with more standpoints and experience regarding the issue of sustainability. For this purpose, organizations can offer some kind of training to improve executives' understanding of this topic or alter the composition of their boards. Indeed, by modifying its composition, a board can improve its environmental performance. Specifically, a higher environmental performance can be achieved by bringing in the board more independent directors and/or more women (Post, Rahman & McQuillen, 2014). These features can significantly improve the chances that a company makes sustainability-oriented alliances that, in turn, improve environmental performance. Furthermore, generally speaking, women leaders are more active in relationship enhancements and this drives their decisions towards environmentally friendly strategies (Glass, Cook & Ingersoll, 2016). According to Glass, Cook, and

Ingersoll, a board composed of more woman executives is more likely to enhance the environmental performance of a company. Indeed, a more gender diverse board often coincides with more commitment towards stakeholders, community and the environment.

Beyond its composition, a board must consider its structure as well, if it aims to promote sustainability within the organization. Specifically, the board ought to have a special committee dedicated to this issue to increase, oversee and check the embodiment of sustainability into the organization's culture and strategy. Alternatively, instead of acquiring a special committee on the board, the governance of the companies can progress towards sustainability in two main ways: either a director is appointed with specific responsibilities regarding the achievement of an adequate sustainable corporate performance, or sustainability issues are integrated into already existing committees, which thus increase their responsibilities. However, in this last case, since the issue of sustainability would be included into a broader set of responsibilities, the extent of attention dedicated to it would be smaller compared to a committee exclusively dedicated to sustainability. Generally, the responsibilities of a sustainability committee are:

- Designing, assessing and checking the implementation of sustainable practices;
- Making sure that the management is actually considering sustainability measures when designing firm's strategy;
- Recommending the board on sustainability guidelines.

As far as processes are concerned, as the issues related to sustainability or to the ways it can be related to strategy may be unfamiliar for most companies, it is considered desirable to take into account these points during board meetings. For the most sustainable companies, these issues are discussed at almost all the meetings of their boards, as sustainability is embedded in the way they run their businesses. In this sense, a good practice is the invitation at board meetings of external sustainability connoisseurs, to provide more expert insights on this question.

With reference to the resource role of the board of directors, companies can become more sustainability oriented by engaging in effective dialogues with all their stakeholders, recognizing their importance for their businesses. In this way, by linking to the external stakeholders, a company can bring in important resources. Stakeholder dialogue practices can be clustered in four groups:

- Classifying and mapping the most important stakeholders for strategy purposes;

- Implementing a feedback system linking the stakeholders to the board of directors;

- Enhance stakeholder dialogue by instituting periodical meetings and update conferences;

- Partnerships.

In the context of sustainability, the service role of the board refers to the promotion of core values throughout the entire organization. In this sense, the most widespread and effective system to establish sustainability as an organization's core value is to provide a code of conduct. This document is not merely a code of the business principles followed by the organization, but it also outlines the values and the vision of the company. The contents of the code can be reinforced by additional mechanisms that the company can put in place, such as training and communication programs or telephone hotlines. The code must be approved by the board and then it is released and provided to the employees. After the board has given its approval to the code of conduct, the responsibility for its implementation is on the single divisions. As a supervisor of the implementation measures, a senior manager should be appointed. To facilitate and improve the procedure of implementation, it is good practice to provide the board with a special committee or director, to make sure that there is compliance with the code of conduct in all divisions. Furthermore, for this purpose, compliance with the code can be linked to the compensation system for both employees and managers. Moreover, in some companies compliance with the code is evaluated within the periodic employee performance assessment. Sustainability, as well as the other organization's core values, should also be spread towards the external stakeholders in order to promote sustainable development externally. In this context, companies often establish the practice to evaluate their key suppliers according with sustainability-oriented measures. To perform the selection of suppliers in accordance with sustainability criteria is responsibility of the board, that in addition could require the suppliers to abide to some contents of the code of conduct or to put in place sustainability training programs.

As seen (1.1.4.1), the control role of the board assigns to the board the task of controlling and monitoring the work of managers and the performance of the company. Within this function, a sustainable-oriented board should assess the company performance also from a sustainability point of view. The most effective tool for performing a performance evaluation is the so-called Balanced Scorecard, which should therefore consider also sustainability goals to reach. In this context, there are three main ways to integrate the issue of sustainability in a Balanced Scorecard. The board of directors can:

- Add new strategic goals oriented to sustainability to the existing Balanced Scorecard perspectives;

- Add a new sustainability perspective to the Balanced Scorecard;

- Evaluate corporate sustainability through a special Balanced Scorecard, to be added to the current scorecard in performance evaluating.

In the previous chapter (1.1.4.2) the strategy role of the board has been explained and in the previous paragraph (2.2) the importance of integrating sustainability and strategy has been displayed. Therefore, when discussing about strategy, it is of great importance that the boards consider sustainability as a key variable. As stated above, how boards can make sure that sustainability and strategy making are intertwined among them depends on their structure as well and, in order to increase the extent of attention dedicated to sustainability, a special committee should be instituted within the board. Also, the way boards and top management teams communicate should be taken into account. Two main systems can be identified:

- Communication between the board and management. Communication about the issue of sustainability is secured through periodic reports and through the presence of some executive directors. Executives committees can be instituted with the specific tasks of designing and checking the implementation of sustainable policies within the business units.

- Communication between the board and sustainability committees, which is secured through periodic reports.

As a summary, the following table summarizes the main benefits deriving from the pursuit of sustainability objectives and from the inclusion of members with sustainability skills within the boards of directors.

Author	**Title**	**Source**	**Findings**
Aras, G. & Crowther, D. (2008)	*Governance and sustainability: An investigation into the relationship between corporate governance and corporate sustainability*	Management Decision	To effectively balance the interests of all stakeholders and to be able to embrace a long-term perspective, the issue of sustainability should be integrated

			within a board.
Eccles, R. G., Ioannou, I. & Serafeim, G. (2012	*The impact of corporate sustainability on organizational processes and performance*	Journal Management Science	There is a positive correlation between economic results and sustainability. Following a twenty-year observation, the most sustainable companies are distinguished from the others also by the presence in the board of a member with direct responsibility on sustainability issues.
Glass, C., Cook, A. & Ingersoll, A. (2016)	*Do women promote sustainability?Analyzing the effect of corporate governance composition on environmental performance*	Business Strategy and the Environment	A board composed of more woman executives is more likely to enhance the

			environmental performance of a company.
Post, C., Rahman, N. & McQuillen, C. (2014)	*From board composition to corporate environmental performance through sustainability-themed alliances*	Journal of Business Ethics	A higher environmental performance can be achieved by bringing in the board more independent directors and/or more women.
Ricart, J. E., Rodriguez, M. A. & Sánchez, P. (2004)	*Sustainability in the boardroom: An empirical examination of Dow Jones sustainability world index leaders*	IESE Business School, University of Navarra	First, in order to create a sustainable organization, sustainability should be introduced among its key values to uphold. Processes, members, structures and features of a board should also be taken into account in shaping a

			sustainable organization.

3. An effective leading model for business

This chapter identifies the key features that must be implemented by the boards to make their organization thrive in today's business environment. As discussed, leaders of today's organizations need to act in a more participative and responsible manner as well as with more responsiveness and orientation to change. In order to make it happen, some key processes and structures may be put in place within the boards of directors. Some of these include: more committees, more diversity, less overboarding, smaller size. Indeed, as it will be shown, many companies have understood that is the direction to undertake.

3.1 Innovative ways of leading a company

Excellent boards of directors differentiate from less effective boards, as they are robust and powerful social systems. It is not easy to distinguish the features that produce a board that is an effective team and the features that make a board, composed of equally capable directors, a dysfunctional team; excellent work teams often have chemistry one cannot quantify. Apparently, they are in a virtuous cycle in which one good quality character leads to other excellence traits (Sonnenfeld, J. A., 2002). Within a board, directors build reciprocal respect and thus they develop trust in one another; because of the trust they built, they get to share information among them; as they have the same exhaustive information, they are able to confront and build on the opinions of each member.

According to Sonnenfeld, however, a virtuous cycle like that, composed of respect, trust, and honesty can easily collapse. Among the most common causes for that to happen is when CEOs dos not have trust in the boards of directors, and thus they are not willing to share information. An example for that, is the Enron case: Enron's board chair and the CEO had never communicated the board that important questions about financial irregularities had been asked by a vice president of the company back in 2001. Exhaustive information needs to be shared timely if a board is to perform its monitoring function (1.1). One of the most common causes of a lack of trust to happen is when board members start developing back channels to management. This often happen when the CEO has not timely shared information. However, it can also occur as directors are overly political and they have plans to purse that they wish to keep secret to the management team. When a board is robust and vigorous, the CEO would usually have absolute trust in the board and timely share complete information with it. Also, the CEO would allow the directors to get in touch with managers who will answer their questions, thus avoiding the danger of back channels. Another cause for the virtuous cycle to break is when directors separate in political factions within the board. It is up to the leader, the chairman, to find a way to develop this climate of respect, trust, and honesty and to fine-tune all the processes that make sure system will work smoothly.

The most critical features of this virtuous cycle are the directors' ability and willingness to challenge each other on their opinions and conclusions. A social system like a board of directors does not require perpetual agreement and condescension. In fact, it requires strong bonds among directors that allow them to share opposite perspective and difficult questions. Often, Nominating Committees, or the directors in charge of recruiting new board members, look for people they consider team players, which mean they will usually pick candidates that are affable and does not create "troubles", challenging decisions and asking uncomfortable questions. The difference between disagreement and disloyalty must be stressed out and understood by the chair, the directors and the CEO. To make this distinction clear, to set instructions and guidelines for Nominating Committees is a good practice but it is not enough; it should be something opposition does not represent disagreement per se, but it is the consequence of an incessantly changing vision of society and business. The most excellent firms have highly quarrelsome and argumentative boards of directors that consider dissent a necessity and no question indisputable.

When there is no dissent within a board, says Sonnenfeld, board members' roles may eventually be overly rigid. Excellent boards need directors to play multiple roles, sometimes going deeper in the peculiarities of a given business, sometimes to be opponent for the sake of it, some other times taking charge of leading a project. When directors play a variety of roles the board is provided with broader standpoints whence to analyze the arising issues and this allows board members to consider all the options available.

According to Sonnenfeld, lack of feedback within a board is counterproductive. Boards, teams and organizations in general can hardly learn and improve without feedbacks. Regardless of how effective a board is, it can always improve with a performance review. Board performance reviews are generally carried out through individual directors' self-evaluation and through peer review. Usually, board performance assessments are carried out by the Nominating Committee or by the Governance Committee. Sometimes board assessments comprise not only the evaluation of competencies like strategy understanding and execution, but also elements like trust and honesty. In individual directors' self-evaluation, directors usually review how they make use of their time and competencies within the board, their familiarity with the firm's activities and industry, and their overall level of qualification. Board peer review, instead, usually comprise the evaluation of the roles that single board members play during consultations, the assessment of the quality and employment of directors' capabilities, the analysis of the single members' expertise and availability, and individuals' networks and connections to the company's stakeholders.

In conclusion, as seen in Chapter one, In the today's dynamic business and organizational environment, leadership is required to be Transformational both in the sense of grasping, promoting, guiding the need for change, and in the sense of supporting people in the paths of change, on the organizational and individual fronts. In summary, the effective governance must therefore be a change-oriented system that shows high ethical concerns and that supports in its components the growth of their motivation as well as the identification with the organizational objectives.

3.2 Effective Corporate Governances features

Corporate Governance has evolved. Over the last years, governance controversy on governance matters grew from a sparse interest by institutional investors and Corporate Governance experts into a genuine concern for boards and corporate accountability. What are the features that make a board of directors really effective? There is no straight, single answer to this question. There may be as many features as there are particular kinds of firms. However, as business leaders take part in the debate over Corporate Governance and companies from all over the world provide examples of effective governance systems, some common themes can be distinguished. How excellent companies are showing, Corporate Leadership is growing up and becoming more change-oriented, participative and responsible.

The best boards never stop asking themselves difficult questions about how effective they really are. How discussed previously in this thesis (1.3), firms often suffer from organizational inertia which may harm their overall performance. For this reason, it is imperative that the board of directors of the company engages itself in the self-evaluation and self-reconfiguration activities (Hoppmann, Naegele & Girod, 2019). To defend their competency in the activities of strategy evaluation and reconfiguration, boards need to renew their ability to judge strategic issues as soon as they are confronted with increasing environmental and strategic change. This is possible through the self-evaluation and self-reconfiguration processes within the boards. These activities can be carried out by the boards themselves or they can be delegated to some board committees, typically the nomination committee. Furthermore, adaptation of board size is another solution to improve strategic change (Goodstein, Gautam & Boeker, 1994): high levels of board size negatively affect the competency of the board to initiate strategic change in times of environmental changes.

Delegating board activities to committees is a good practice: it shows how boards are increasingly delegating from the group board to the committees to do the heavy-duty work, allowing the board to focus on the broader issues on strategy. However, it adds to the workload of directors and this is a major feature in the rising concern over overboarding. The whole notion of overboarding is a critical issue for institutional investors: they are worried that board members are accepting too many boards and spreading their efforts, therefore not performing at an optimal level. Several Corporate Governance codes, such as the UK Corporate Governance Code, debate the importance of directors having a feasible and workable number of mandates. In fact, board members are becoming more discriminating about whether they are prepared to accept on additional role: an increasing number of companies is addressing overboarding by settling a limit to the number of boards and /or committees that a director may join, and this is often given public evidence on companies' reports. Apple Inc.'s Governance Guidelines, for example, state:" Directors *should not serve on more than four boards in addition to the Corporation's Board*".

Speaking about Corporate Leadership, a key theme is the issue of CEO duality. CEO duality is the case in which the CEO of the company also plays the board's chairman role. It goes without saying that this case may generate relevant governance issues. Taking into account an agency theory perspective (1.1.4.1), indeed, in these circumstances it is more difficult for the board of directors to evaluate the CEO's performance, since it is run by the CEO himself. Thus, the overlap between the two roles would incentive possible opportunistic behaviors.

As seen previously (1.1.4.2), resource dependence theory postulates that the board of directors represents a mechanism for managing interdependencies with the environment and contributes to improving the strategic action of the company. Thus, by increasing its diversity, the board improves the availability and access to resources of the external environment. A truly diverse board considers all the dimension of diversity, from age to gender and experiences. This generally experiences a more pointed and stimulating debate and this leads to better decisions for the companies and their stakeholders.

Boards are reshaping and rethinking their composition as result of increasing pressures and changes in the business environment in every industry (1.3), but it is also a reflection of the importance of institutional investor's community and the emphasis they put on board composition. It is important to recognize the need for younger people in the board who are not going to be to retire soon, are aware of the trends of the modern world and society and are actually active. To encourage turnover in the board of directors, the most used method is instituting a retirement age. Tenure policies are also a useful tool.

In the previous chapter were discussed the benefits deriving from alter board composition to include more females: a board composed of more woman executives is more likely to enhance the environmental performance of a company. Moreover, equally important are females who hold the top leadership position because these women are the models for those who aspire to rise through the workforce. A few countries have introduced new legislations requiring a minimum quota of women on the board of directors of listed companies. The first legislation to be introduced in this sense was in Norway in 2006, with 40% of directors required to be females. This enactment was later followed by similar legislation by several other countries, including Italy.

Independent and non-executive directors are also a good practice to increase board effectiveness. According to the NASDAQ definition, an independent director is *"a person other than an Executive Officer or employee of the Company or any other individual having a relationship which, in the opinion of the Company's board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director"*. As suggested by several studies (e.g. (Rosenstein & Wyatt, 1990, Barnhart et al., 1994, etc), by several Corporate Governance codes (e.g. the UK Corporate Governance Code) and by the Sarbanes-Oxley Act (1.1) itself, independent and non-executive directors' presence within the board is key, for several reasons. First, beacouse they can guarantee accountability from the top management team, increasing governance efficiency even more in the case in which majority owners are present. Another advantage provided by this kind of directors is the outside perspective they provide the board with. As Baysinger and Hoskisson (1990) suggest, lack of independent/non-executive directors in a boardroom may cause problems like the tendency to support every decisions that the management team has already taken, without express dissent or making questions; often, inside directors do not make any contribution to the firm's strategic plan or strategic reasoning.

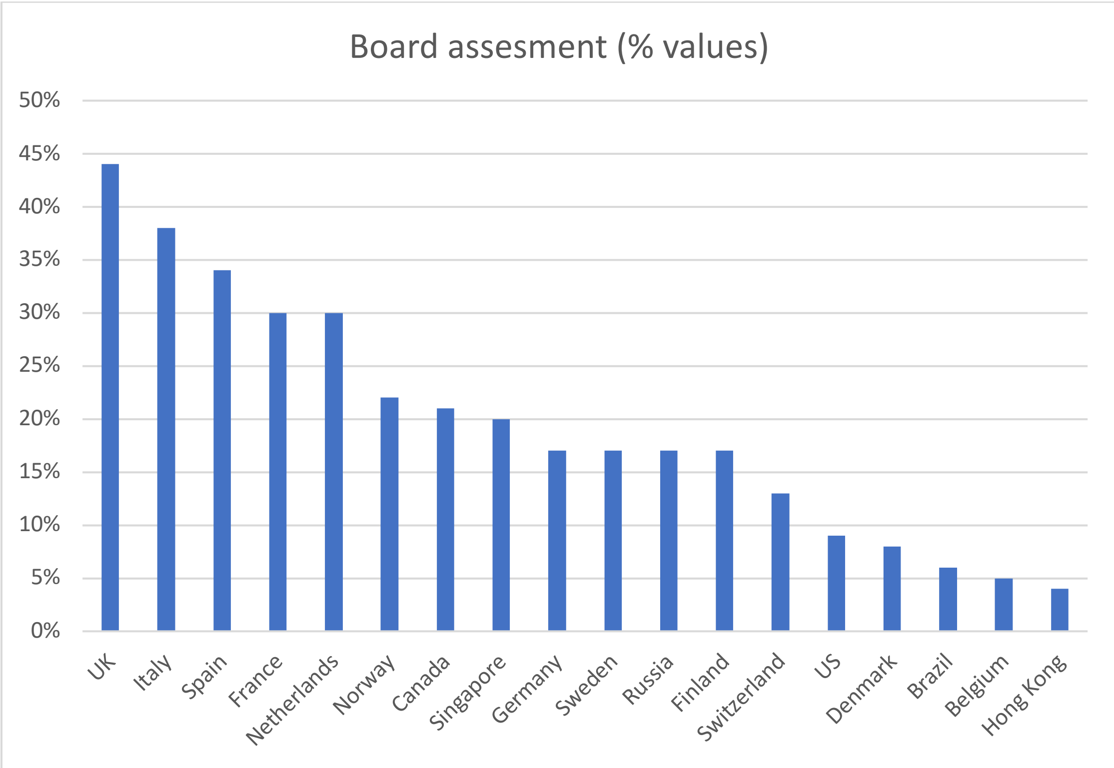
When business activities are run by responsible company leaders, it is actually possible to improve society and welfare. Concerned with the company activities are not only its owners, but also all the other parties that are affected by those activities. The mutual influence between the company and its external stakeholders make them almost as important as the stockholders, since they can, to a certain extent, affect the shaping of the strategy and activities of the company. As emerged by the G4 guideline on corporate sustainability reporting launched by the Global Reporting Initiative (GRI) in 2013, the analysis of materiality is an essential step to understand which actors and which themes are to be considered as priorities with respect to the business strategy of the company. A theme or a group of stakeholders will be as much more material as it will be able to influence the company, through its relationship in the context of present and future operational relationships. The materiality analysis is carried out by comparing the expectations of external stakeholder groups with respect to the business opportunities/priorities that concern corporate strategy. The external and internal stakeholders in this perspective must be directly or indirectly involved, through different tools that can be more or less sophisticated, in order to detect key information on which topics-areas the expectations referring to the operation of the company. The result of the analysis is usually a Materiality Matrix, which graphically summarizes the relationship of interrelation that exists between the weighting values attributed to the various issues by the company with respect to the stakeholders. The Materiality Matrix identifies the relevant themes understood as those aspects that can generate significant economic, social and environmental impacts on the activities of a company and which influencing expectations, decisions and actions of stakeholders, are perceived by them as relevant. The advantage of developing a Materiality Matrix is that it represents a step forward towards the operational level of stakeholder engagement. The materiality analysis represents in many cases a bridge between the analytical level within the company and the operational level of actual engagement.

In the previous chapter the importance of sustainability for the companies and its boards has been explained. To increase, oversee and check the embodiment of sustainability into the organization’s culture and strategy, the board ought to have a special committee dedicated to this issue (Ricart, Rodriguez & Sánchez, 2004).

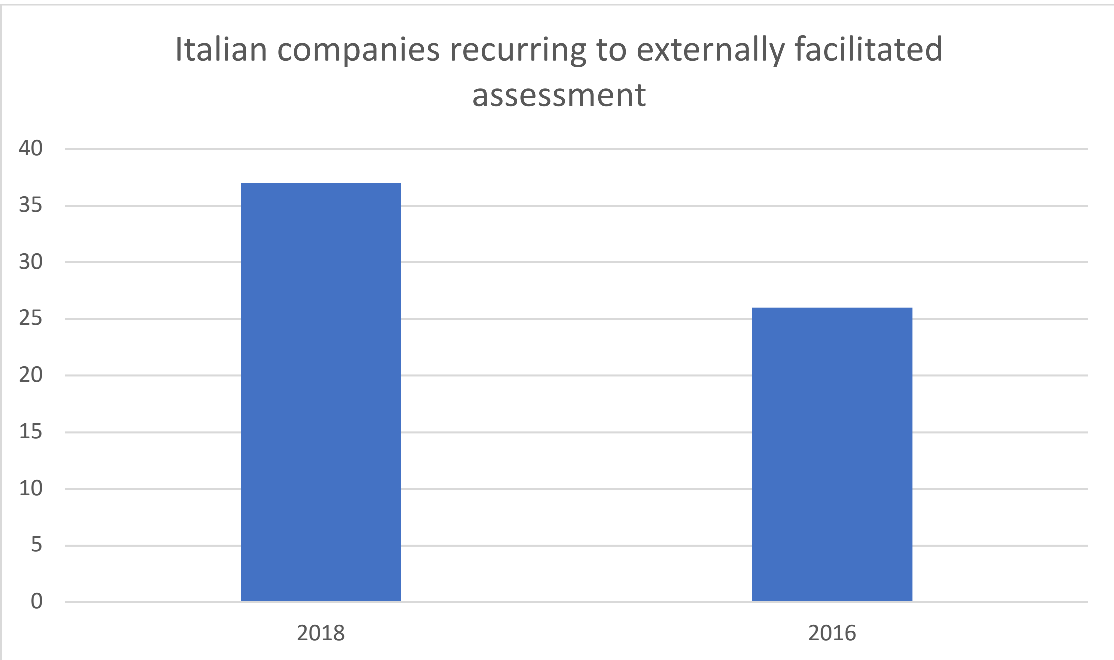
Also, for the purpose of sustainability, a good practice is to tie executive compensation with sustainability (Burchman, 2018). The ways in which compensation and sustainability performance can be linked to each other are different and they vary from one firm to another. Executive compensation and sustainability ties consist of instituting a performance tracking method to monitor executives on peculiar measures of sustainability, often including ESG (environmental, social, and governance) measures. Two major orientation can be distinguished. A first system consists of monitoring executive sustainability performance through metrics and objectives internally developed. On the other hand, some companies monitor performance with the help of third-party standards, such as the Standard Ethics Index and the Dow Jones Sustainability Index (DJSI). Usually, a certain fraction of the executive compensation is tied to sustainability performance through specific sustainability measures. There are also cases that are less specified in which there is no an assigned fraction and the general sustainability performance helps informing overall executive compensation.

3.3 Overview and emerging trends

With regard to the theme of strategic change, the self-evaluation and self-reconfiguration activities carried out by the boards play a crucial role in reducing organizational inertia. A board assessment should be executed at least once a year in order to bring to the light possible issues in the way the board operates and carries out its processes; in this way, leadership problems can be solved timely and effectively. The graphs below represent the percentage of externally facilitated assessments and it suggests that more and more boards are starting to recognize the importance of these procedures - In Italy, for example, the number of companies recurring to externally facilitated assessment, as recommended by the Codice di Autodisciplina, increased of around 40% in two years - that are to improve the company responsiveness to environmental contingencies, with peaks reached in U.K. and Italy.

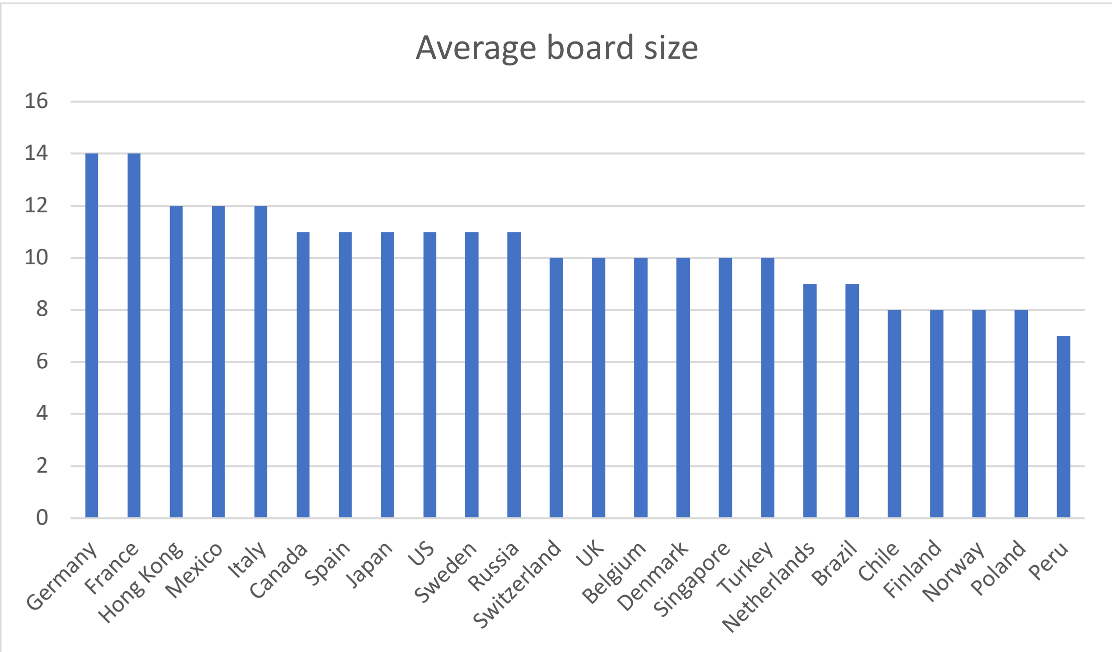


Source: Spencer Stuart, 2019



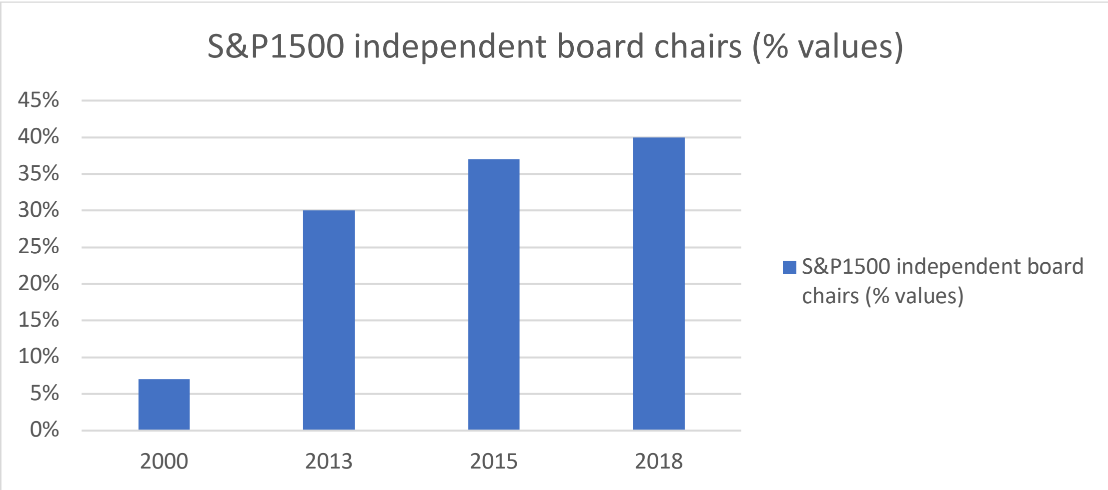
Source: my elaboration from Spencer Stuart data (the first 100 Italian companies for capitalization composed the sample)

Furthermore, as Goodstein, Gautam and Boeker (1994) argued, strategic change can be improved by reducing board size. Firms whose boards have fewer components are more collaborative and tend to outperform firms with more crowded boards in time of environmental discontinuities. Moreover, smaller boards can usually rely on more committed and engaged members, as often a director serves on a board for the only purpose of his self-interest (Hoppmann, Naegele & Girod, 2019). However, generally banks and other financial institutions have more regulations and normative obstacles than other kinds of industries. Consequently, banks need the advice and competence of several committees, that is why larger boards can be more effective for this sort of business. Indeed, companies from industries other than finance generally have smaller boards. As an example, Netflix has a board of directors composed of only seven members, while Apple has eight directors on its board. On the other hand, Bank of America counts 15 directors on its board. This premised, the graph below shows how German and French boards, counting fourteen board members on average, can be considered less effective than, for example, British boards, counting ten directors on average.



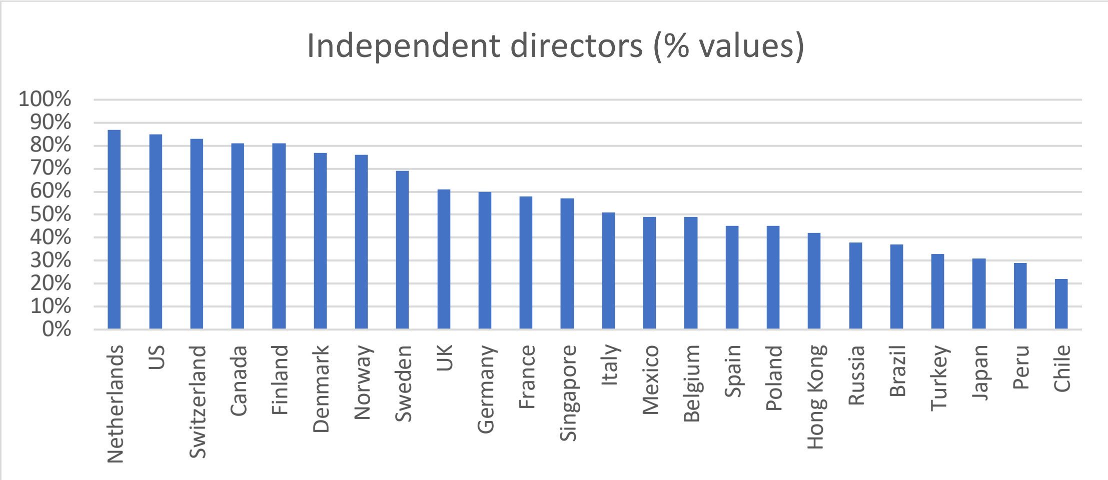
Source: Spencer Stuart, 2019

In the last twenty years, board leadership structures have drastically changed. These days, as the graph below illustrates, 40% of S&P 1500 companies have an independent director as board chairman, increasing from just 7% during the 2000s.



Source: Ernst & Young, 2018

This improvement corresponds to a contextual rise in independent board members, as well as the progressive separation of board chairman and CEO roles. The graph below depicts the countries where the most independent boards are located. The Netherlands and the U.S. proved to have excellent examples of effective boards, almost doubling the number of independent directors that can be found on Italian and Spanish boards.

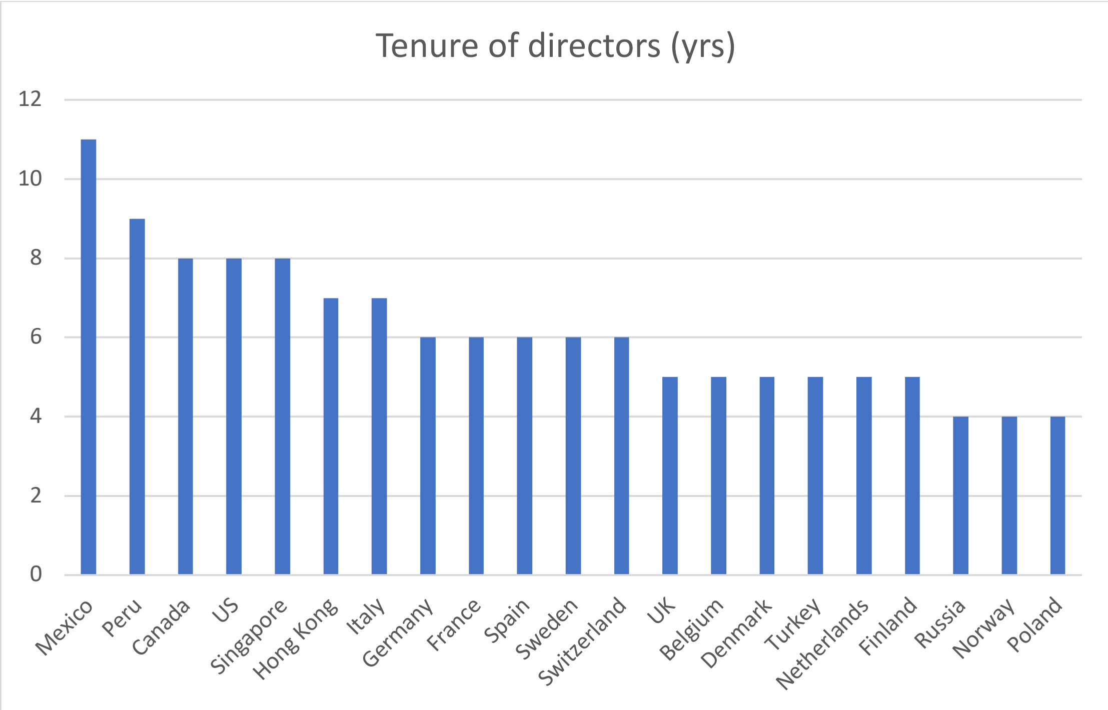


Source: Spencer Stuart, 2019

Board leadership theme is also focused on the CEO's role and on the board's ability to monitor his performance. CEO duality, in this sense, would clearly generate problems in the evaluation of CEO's actions by the board of directors. These considerations play out in the real world as companies' leaders are starting to value the increase in efficiency provided by the separation of the CEO and board chair roles. Indeed, Krause, Semadeni and Cannella (2014) point out how the number of companies that decide to keep the two roles separated doubled over time, going from the 20% to the 40% of the S&P500 companies.

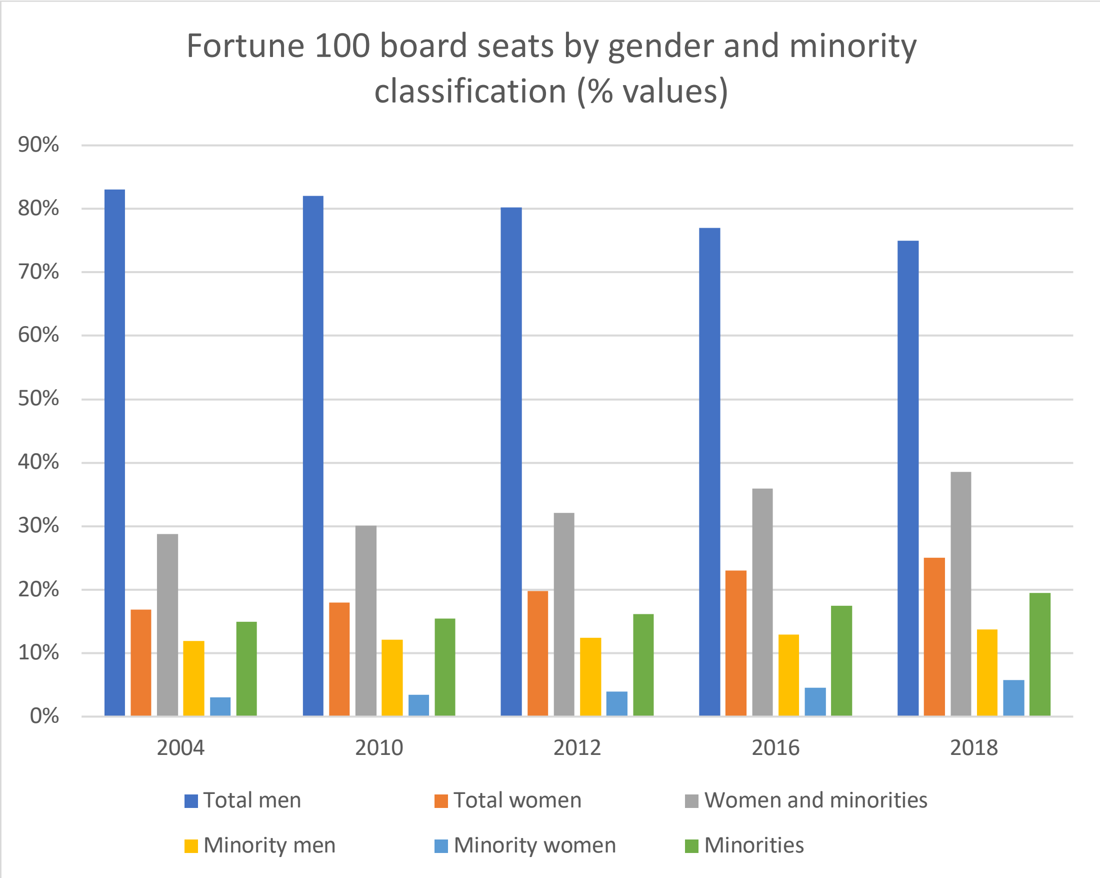
For the purpose of board effectiveness, board composition plays a key role. The most effective boards are composed of people who should be able to understand and address the strategic direction undertook by the company, the major risk areas, as well as the interests and concerns of all the stakeholders. In this view, it interesting to observe how boards answer to an enlarged call for diversity.

A truly diverse board is also composed of young directors, who are able to understand the modern trends of business and society and are therefore better equipped to deal with changes in the firm's external environment. The graph below depicts the countries where tools to encourage turnover within the board of directors, such as retirement age and tenure policies, are more widespread. As it is shown, European countries such as Russia, Norway and Poland have an average of four years, thus demonstrating to have overall fresher boards compared to American countries like Mexico, Canada and the U.S., where a single director can hope to sit on the same board for at least eight years on average.



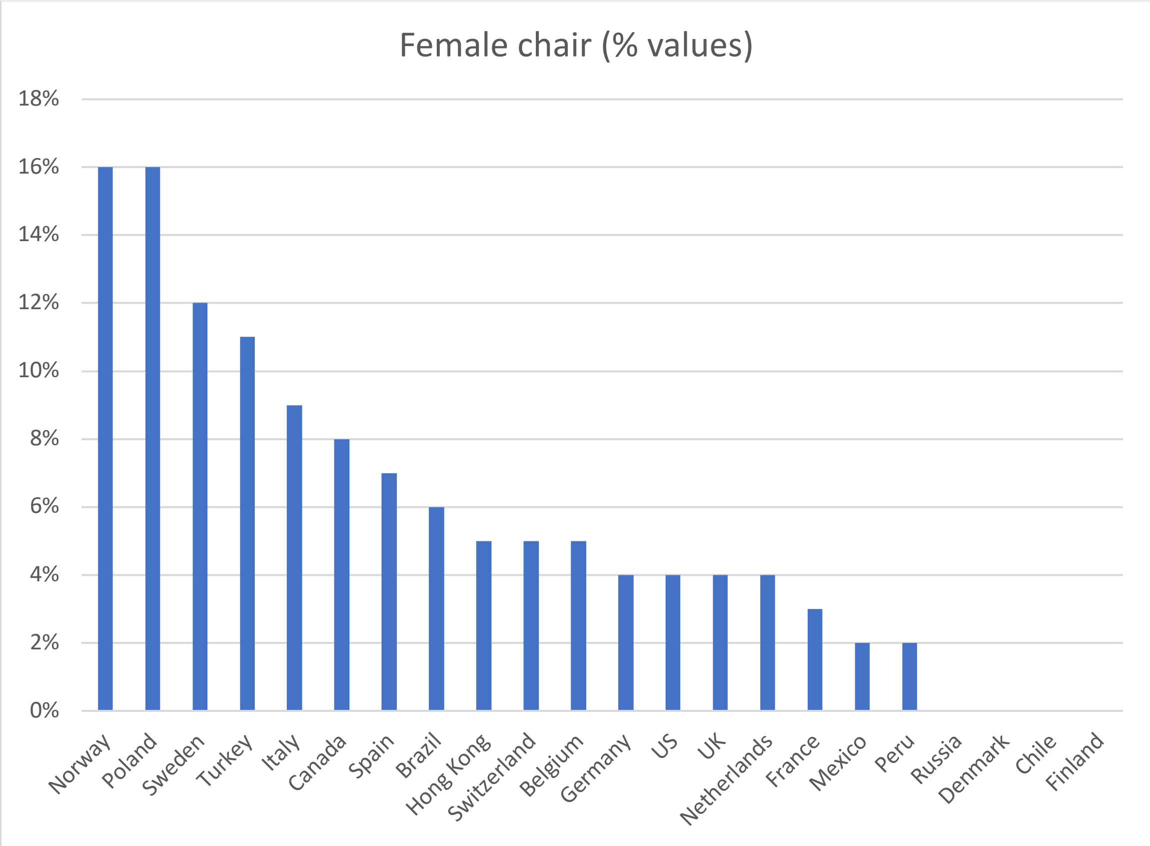
Source: Spencer Stuart, 2018

Over the past fifteen years, all over the world there has been an increased focus on diversity on the boards of directors of listed companies. The main causes for that can be identified in the pressure from institutional investors, shifting demographics and the progressively increasing need for inclusive leadership. The graph below illustrates board seats occupied by female and minority directors. According to Deloitte data, the representation of females and minorities in the companies composing the Fortune 100 index has reached 38.6%. Interestingly, since 2004, minority board representation increased more than Caucasian board representation. Over the last years, increase in board seats for females and minorities has been moderate, but the figures below provide indication of an acceleration in this sense.



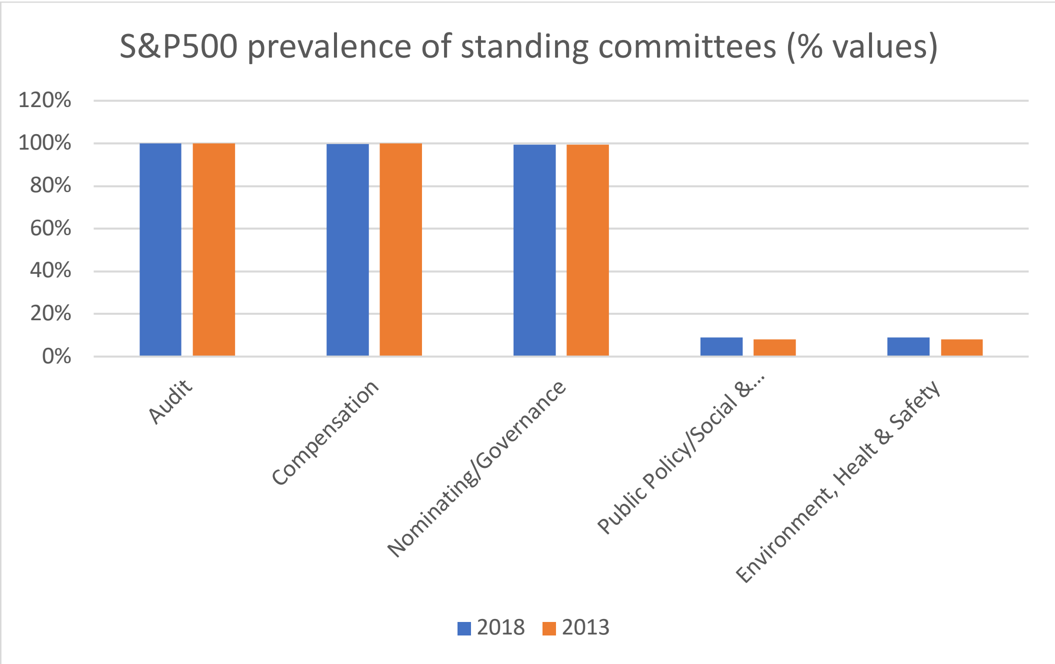
Source: my elaboration from Deloitte data, 2018

According to Glass, Cook and Ingersoll (2016) and to Post, Rahman and McQuillen (2014), a higher environmental performance can be achieved by bringing in the board more female directors (2.3). In this sense, interesting is the role of women occupying the top leadership positions (i.e. CEO, board chair) not only because the companies would be more encourage to pursue sustainability, but also because these women are to be considered the role models that today's society needs to switch to a new leadership model in which women can follow their talents to become a leader without emulating the male figure. Indeed, unfortunately leadership still has a strong connotation to masculine, difficult to break up, both because of the predominance of men in positions of command, and because the characteristics that are associated with them are those considered typically male. The graph below identifies the countries with the higher percentage of female chairpersons, showing how Norway leads the way, thanks to a regulatory journey begun in 2006 with the introduction of a legislation which set a minimum quota of women on the board of directors of listed companies.



Source: Spencer Stuart, 2019

In the previous chapter, the importance of sustainability for the companies and its boards has been explained. To increase, oversee and check the embodiment of sustainability into the organization's culture and strategy, the board ought to have a special committee dedicated to this issue (Ricart, Rodriguez & Sánchez, 2004). The graphic below illustrates the most widespread committees among the American boards, with Audit, Compensation and Nominating making the top three. Apparently, the committees dedicated to sustainability issues are still slightly unpopular: they can be found in only 9% of the S&P500 companies. In five years, this proportion did not change as in 2013 this kind of committees could be found in only 8% of the companies composing the S&P500 index. Alternatively, as seen explained in the previous chapter, instead of acquiring a special committee on the board, the governance of the companies can progress towards sustainability in two main ways: either a director is appointed with specific responsibilities regarding the achievement of an adequate sustainable corporate performance, or sustainability issues are integrated into already existing committees, which thus increase their responsibilities. However, in this last case, since the issue of sustainability would be included into a broader set of responsibilities, the extent of attention dedicated to it would be smaller compared to a committee exclusively dedicated to sustainability.



Source: my elaboration from Spencer Stuart data

4. The Italian landscape

In the previous chapters the leadership features that make an organization successful in the today's business environment have been explained. As leadership of organizations is carried out by the board of directors (1.1), there are specific structures, processes and attitudes that should be enforced within a board to make it more effective in running the company. Having analyzed that, this chapter aims to study the current situation in which Italian companies are carrying on their operations. The Corporate Governance traits of these companies are taken into account to analyze to what extent the Corporate Leadership scenario in Italy complies with the features previously examined and to identify the most effective governances in the country.

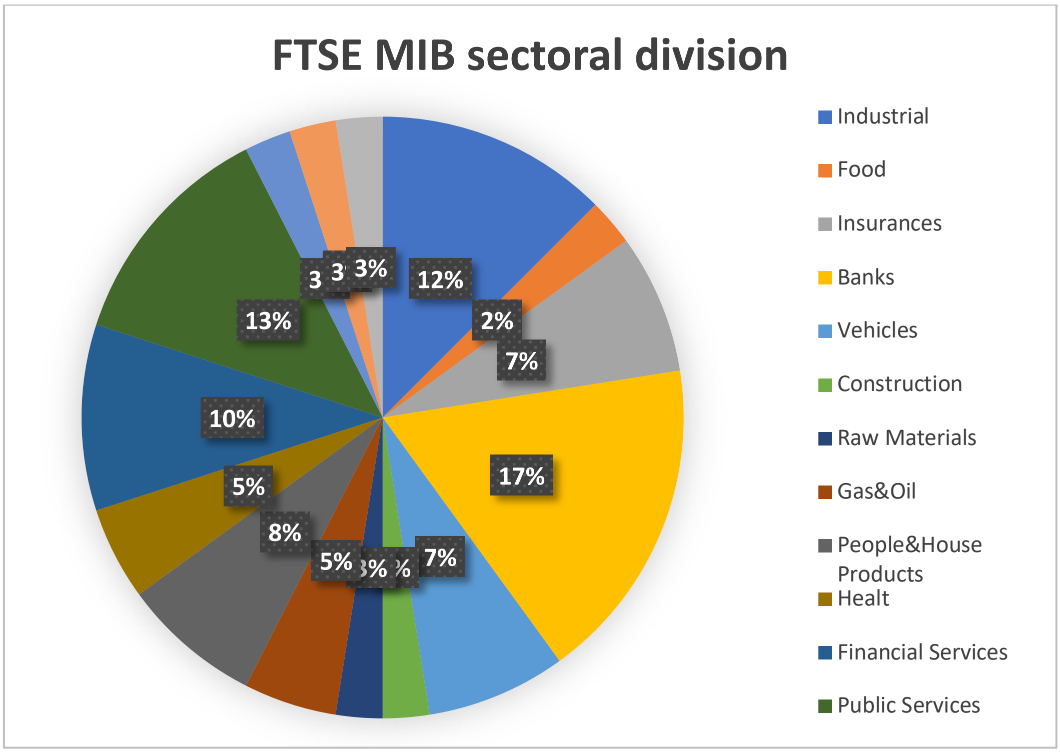
Firstly, a general overview about the Italian governance landscape is provided. Secondly, in the further paragraphs, two companies – namely Terna for the non-financial segment and Poste Italiane for the financial segment - are analyzed more in depth, as their leadership models are found to be exemplary for the purposes of the contents of this thesis. The methodology of this investigation consists in analyzing the data retrieved about the several features of Corporate Leadership and Corporate Governance previously discussed. Therefore, the analysis thereinafter developed is mainly qualitative and it is based on simple descriptive statistics. The objective of this research is to verify and understand how, in effect, the features of today's Corporate Leadership are touching and shaping Italian Corporate Governance systems. All the data and information collected for the analyses carried out in this chapter have been retrieved from the Bloomberg Terminal and from the FTSE MIB companies' public reports and are updated to June 2019.

4.1 A look at Italian governances

The analysis carried out in this chapter is based on studying the governance systems of the companies composing the FTSE MIB index. These companies are widely recognized to be models of good practice in this sense. The FTSE MIB is the main stock index of the Italian Stock Exchange. It contains the shares of the

40 largest Italian and foreign companies listed on the markets managed by Borsa Italiana and the method of calculating the index is value weighted, where the weight of each security is proportional to its market capitalization. It was decided to include also those companies that do not prepare the Corporate Governance Report and the Remuneration Report following the Corporate Governance Code (Codice di Autodisciplina) of the Italian Stock Exchange, but rather that of the Dutch Stock Exchange (e.g. FCA, Ferrari, Exor) and therefore supplying data not always comparable also due to the governance systems implemented.

One of the peculiarities of the FTSE MIB segment is related to the heterogeneity of the companies that are part of it. In fact, it is first of all possible to distinguish various sectors to which the member companies belong; the diagram below shows the sectoral subdivision of the FTSE MIB companies, allowing to graphically understand the weight of each sector on the total.



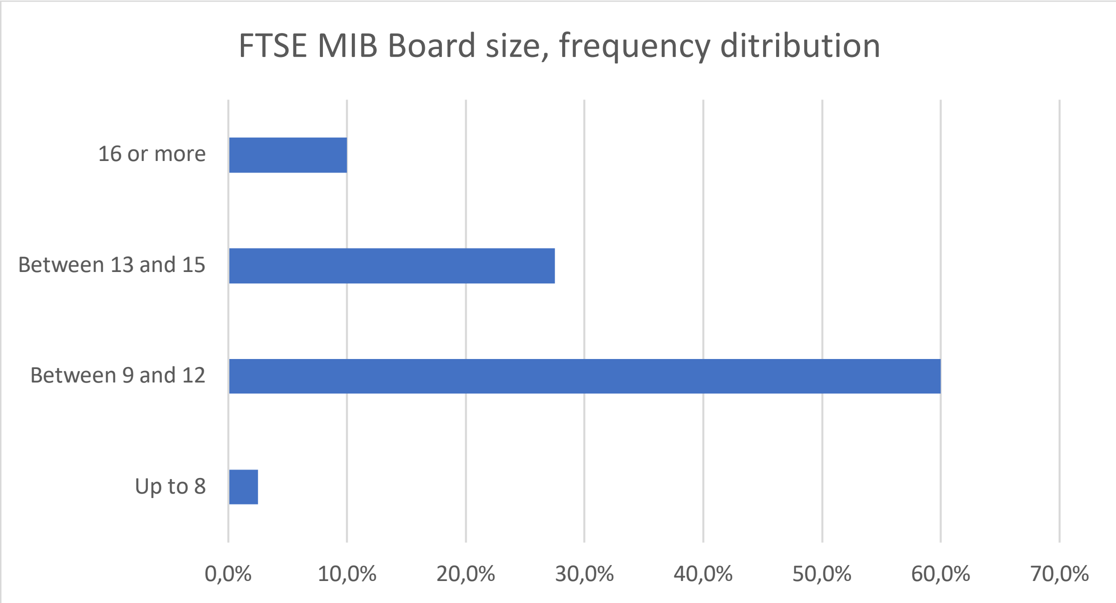
Source: my elaboration, 2019

The table below is also proposed, in which these companies are listed with the related sector to which they belong.

Industry	**Company**
Industrial	Atlantia Spa, CNH Industrial NV, Leonardo Spa, Prysmian Spa, Hera Spa
Food	Campari Spa
Insurances	Generali Spa, Unipol Spa, Unipol Assicurazioni Spa
Banks	Banco BPM Spa, BPER Banca Spa, FinacoBank Spa, Intesa Sanpaolo Spa, Mediobanca Spa, Ubi Banca Spa, UniCredit Spa
Vehicles	Ferrari NV, Fiat Chrysler Automobiles NV, Pirelli&C. Spa
Construction	Buzzi Unicem Spa
Raw Materials	Tenaris Spa
Gas&Oil	Eni Spa, Saipem Spa
People&House Products	Amplifon Spa, Moncler Spa, Salvatore Ferragamo Spa
Health	DiaSorin
Financial Services	Azimut Holding Spa, Banca Generali Spa, Exor NV, Poste Italiane Spa
Public Services	A2A Spa, Enel Spa, Italgas Spa, Snam Spa, Terna – Rete Elettrica Nazionale Spa
Sport	Juventus FC Spa
Tech	STIMicroelectronics NV
Telco	Telecom Italia Spa

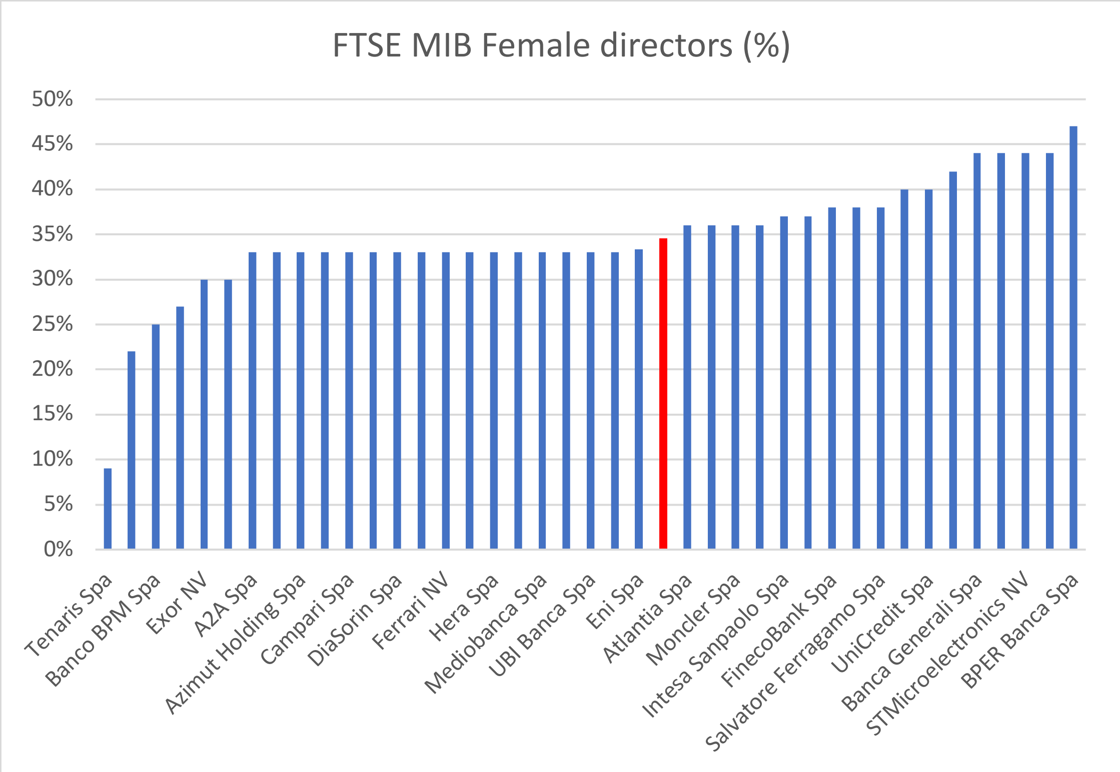
Source: my elaboration, 2019

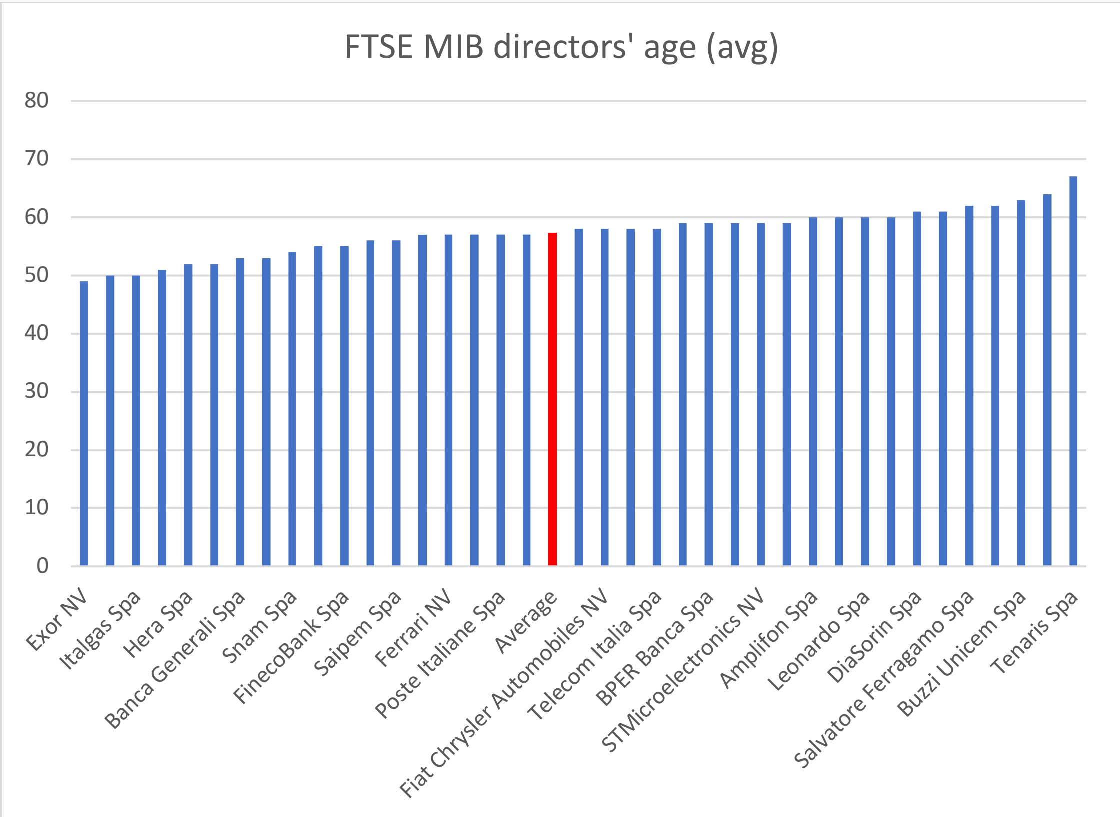
It is possible to notice how there is a huge sectorial differentiation within the index. This heterogeneity also reflects on the governance system of the companies: for example, as previously stated, generally banks and other financial institutions have more regulations and normative obstacles to face, if compared to other kinds of industries. Consequently, these institutions need the advice and competence of several committees, that is the reason why larger boards can be more effective for these sorts of business. Indeed, companies from industries other than finance generally have smaller boards. The graphs below show the board size of the companies composing the FTSE MIB index: the average size of the board of directors for the companies analyzed is around 12 members. 60% of the companies, mostly from non-financial industries, have a size between 9 and 12 members and the boards of the banking and insurance sectors demonstrate to be the most numerous, with the Banco BPM's board peaking at 24 directors. As one can see from the second graph, there is a progressive centralization of the dimension: the number of boards of directors at the extremes (very numerous or very small) is being reduced in favor of the more frequently adopted dimensions - in the range 9–14 there is almost the 90% of the companies observed.

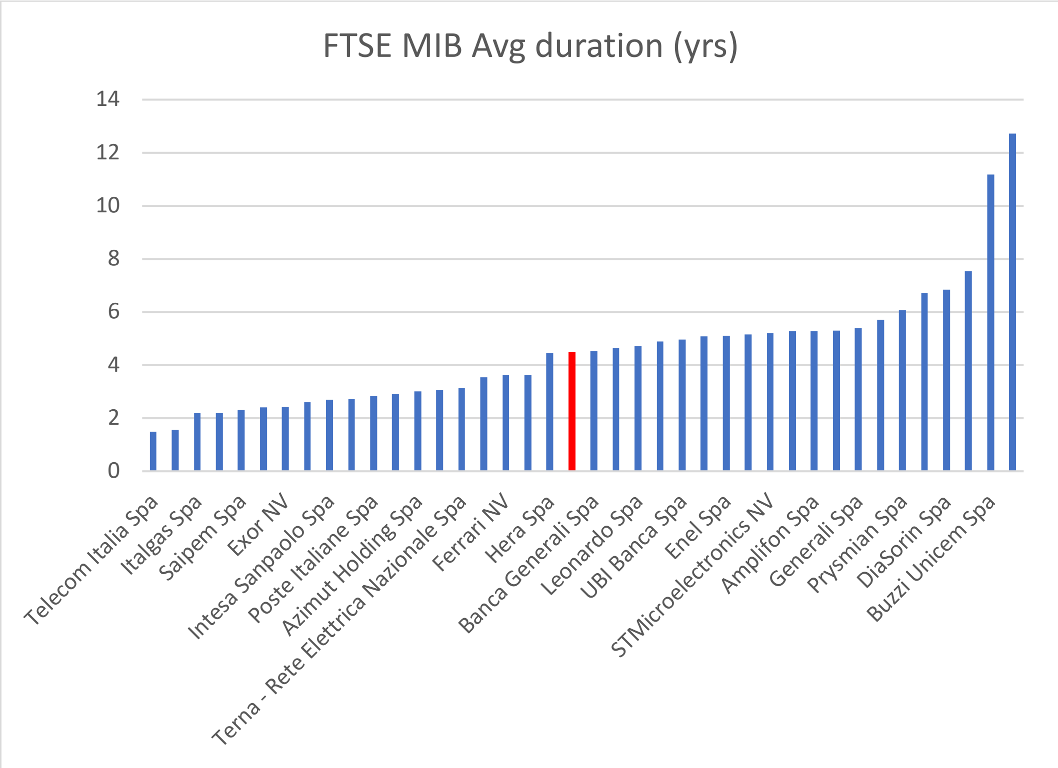


Source: my elaboration from Bloomberg data

As observed throughout this thesis, among the most important challenges for companies today there is the composition of the board of directors, as it has immediate effect on the overall effectiveness of the Corporate Governance system. The board of directors is a group of people who work, often very assiduously, and who are called to dialogue, analyze, support, make decisions to guarantee the governance and sustainability of the company over time. It is therefore important and necessary that this group of people is prepared, has skills and tools, can devote time, in other words can actively contribute, each bringing different contents and experiences. The concept of diversity is therefore enriched with elements not only more related to gender, but also to the variety of experiences, geographical origin, knowledge of other markets, registry seniority, permanence in the board itself, or seniority of mandate. The board is increasingly becoming a work group of people with different characteristics, complementary to each other and complex and appropriate to the role they are called to fill. Not all directors will have the same level of experience in every field required, but in a collegial perspective they must be able to guarantee the implementation of the plan and strategies and cover the prospective needs of the organization. The graphs below respectively show the percentage of female directors sitting on FTS MIB boards, the average age of the directors and their average duration.


FTSE MIB Female directors (%)
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
Tenaris Spa
Banco BPM Spa
Exor NV
A2A Spa
Azimut Holding Spa
Campari Spa
DiaSorin Spa
Ferrari NV
Hera Spa
Mediobanca Spa
UBI Banca Spa
Eni Spa
Atlantia Spa
Moncler Spa
Intesa Sanpaolo Spa
FinecoBank Spa
Salvatore Ferragamo Spa
UniCredit Spa
Banca Generali Spa
STMicroelectronics NV
BPER Banca Spa


FTSE MIB directors' age (avg)
80
70
60
50
40
30
20
10
0
Exor NV
Italgas Spa
Hera Spa
Banca Generali Spa
Snam Spa
FinecoBank Spa
Saipem Spa
Ferrari NV
Poste Italiane Spa
Average
Fiat Chrysler Automobiles NV
Telecom Italia Spa
BPER Banca Spa
STMicroelectronics NV
Amplifon Spa
Leonardo Spa
DiaSorin Spa
Salvatore Ferragamo Spa
Buzzi Unicem Spa
Tenaris Spa

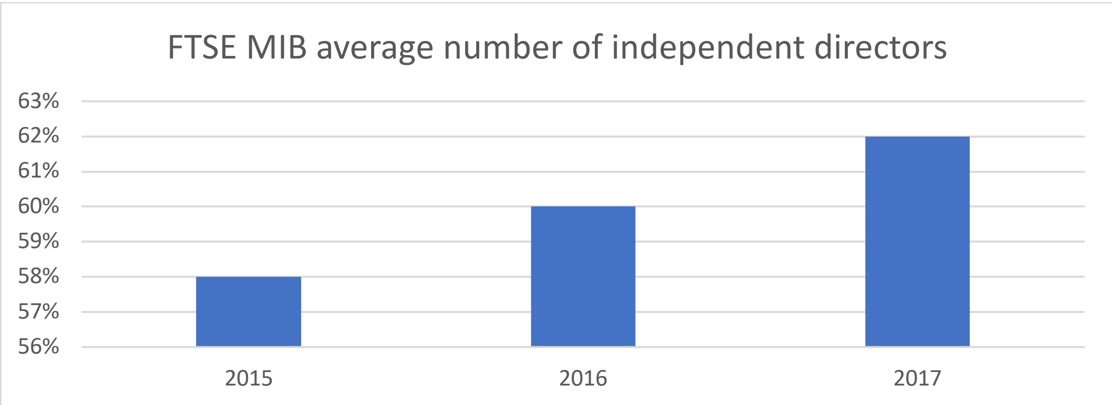


Source: my elaboration from Bloomberg data

The percentage of women having a seat on the FTSE MIB companies' boards is 35%: more than one third of the directors of the companies composing the main stock index of the Italian Stock Exchange is a woman. These are certainly satisfactory figures, considering that in 2010 females on boards of listed companies were only the 5,6%. This increase is mainly due to the introduction of the law Golfo-Mosca 120/2011, an enactment that states that a share of at least one fifth of the members of Italian listed companies' boards must be reserved for the less represented gender. However, still only the 12,5% of the FTSE MIB companies – 5 out of 40 - have a female chairperson leading their boards.

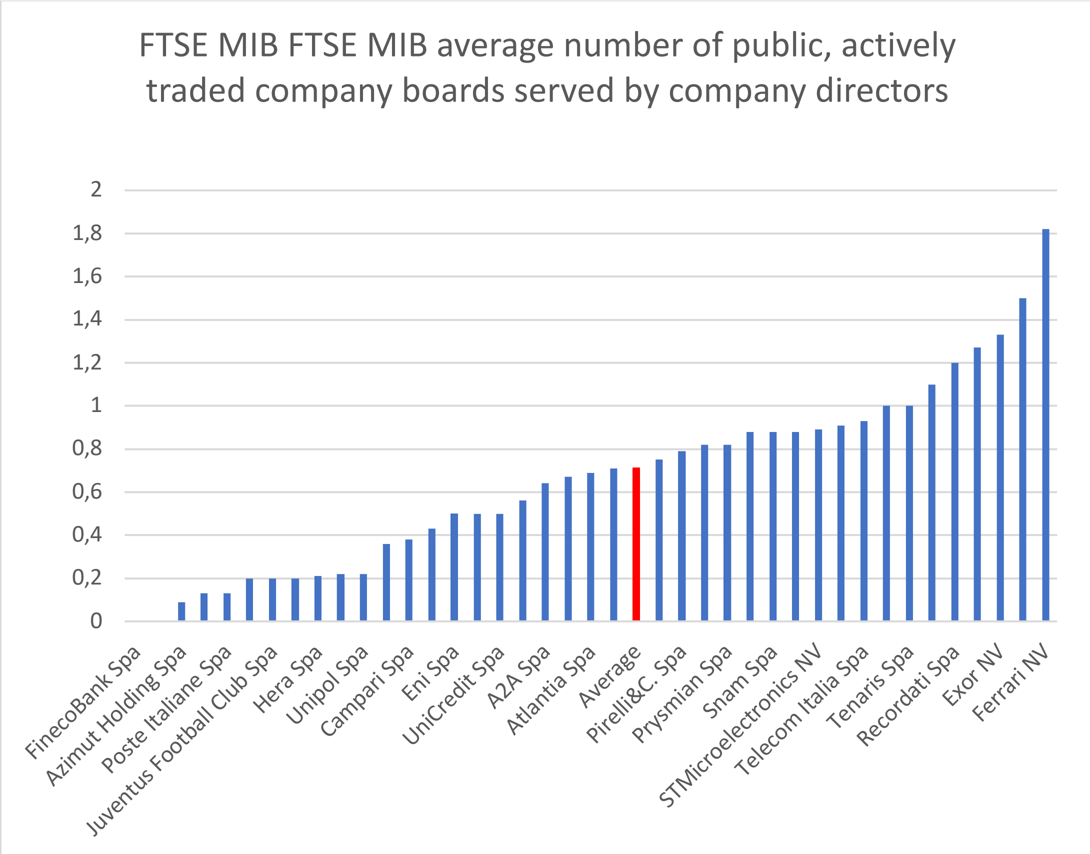
The average age for the FTSE MIB companies is 57,31 years, with no significant differences between financial and non-financial companies. The duration, or tenure, of a director considers how many years, on an ongoing basis, a director has been part of the same board. The average tenure for FTSE MIB companies is 4,49 years. Segmenting the analysis by sector, one can observe that there are significant differences. In particular, we note that the banking, energy and telecommunications sectors are the ones with the lowest average level of tenure compared to all other sectors. The reasons can be attributed to the renewals widely desired by the Supervisory Authority for the banking sector and to the strong presence of institutional investors in the main companies in the energy and telecommunications sector.

As previously stated, an important aspect for the effective functioning of the board of directors regards the presence of independent and competent directors within the board of directors. As the graph below depicts, in the last three years there have been no significant changes in the average number of independent directors within the boards of Italian issuing companies, with the figures gradually increasing year after year. The UK Corporate Governance Code recommends that at least two thirds of the board members should be independent (one third of the board in the issuing companies of the FTSE MIB segment, according to the Borsa Italiana Codice di Autodisciplina).



Source: The European House Ambrosetti, 2018

Delegating board activities to committees is a good practice as, in this way, committees can take care of the heavy-duty work allowing the group board to focus on the broader issues on strategy. However, it adds to the workload of directors and this is a major feature in the rising concern over overboarding. Overboarding can be measured by the number of company boards served by company directors, as shown by the graph below. This data is interesting to understand if the role of counselor tends to become over time a job "by profession" (tendentially full-time as is already the case in some countries) or just an "accessory" work.



Source: my elaboration from Bloomberg data

It has been explained in the previous chapter how investors, but today even more customers, employees and all stakeholders are focusing attention on how companies deal with social and environmental issues. Companies are realizing that societal problems have real implications for the company's long-term strategy and risk profile. The board of directors must have a clear view of the company's impact on the company and must take into consideration any opportunities related to the environment and sustainability that can affect the company's performance and the company's long-term activity. Overall, Italian companies demonstrate to be aware of this, since the 95% of the FTSE MIB companies carry on a materiality analysis to show how they commit to their external stakeholders.

Furthermore, boards must adequately and effectively communicate the level of integration of sustainable development policies into business strategies. Some recent developments in the Corporate Governance include the reporting of non-financial information. After the formalization of the United Nations Sustainable Development Goals (2015), the regulatory framework has incorporated the orientation towards new standards of sustainability. In particular, the European Parliament has recognized the importance of communicating information on sustainability in order to increase investor and consumer confidence, through Directive 2014/95 / EU on the disclosure of non-financial information. In Italy, Legislative Decree 254/2016 (with application starting from year 2017) has required the reporting of socio-environmental information for private companies and public interest entities with at least 500 employees. This sort of "extended social balance sheet" provides that non-financial information must necessarily be published to allow investors to evaluate the policies actually applied by the society in the field of environment, community of reference, personnel, respect for human rights, and fight against active and passive corruption. The larger companies have followed the recommendations of the Codice di Autodisciplina – the Italian code of conduct for Corporate Governance - on the subject of sustainability by creating greater awareness, sometimes by setting up an ad-hoc Committee (almost 25% of the FTSE MIB companies), more often by assigning sustainability issues to an existing Committee, usually the Nomination and/or Corporate Governance Committee. The table below illustrates the choices of FTSE MIB companies on the structure of the board for integrating sustainability into strategy.

Governance Structures	**Number of Companies**
Formal Sustainability Board Committee	9
Integration of sustainability in existing committees	25
Without any kind of structure	6

Source: my elaboration from companies' data, 2019

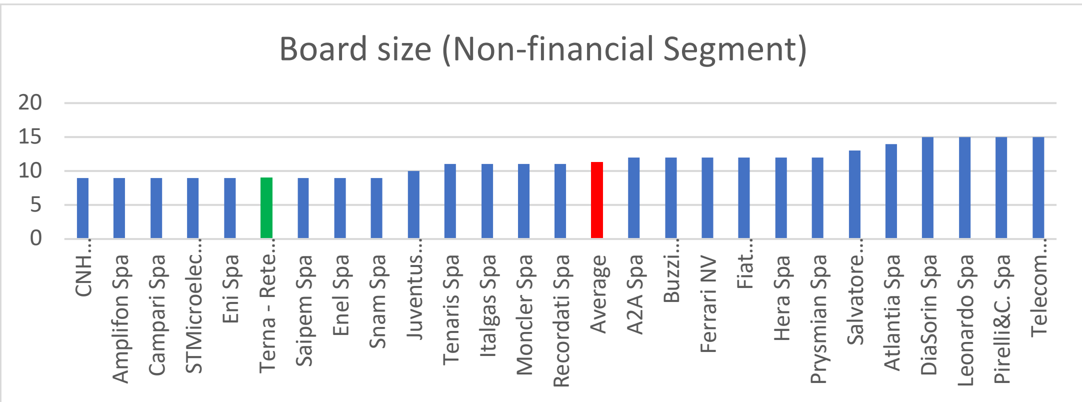
As seen, some aspects have become increasingly important in light of the main international trends: Italian companies, listed and unlisted, have therefore been required to align themselves with the developments in progress in the various areas of Corporate Governance. Overall, the analysis of the major Italian listed companies highlights the growing commitment to improving the quality of the governance systems, confirming that Corporate Governance is increasingly perceived as a key tool to ensure the proper functioning of the company and a lever to increase its attractiveness to the eyes of institutional investors, rather than as a formal adaptation to regulatory provisions. The quality level of the Corporate Governance practices adopted appears to be in line with international trends, despite some differences at the sector level. For this reason, in the remainder of the chapter an analysis will be proposed on the Corporate Leadership of the FTSE MIB companies divided between the non-financial segment and the financial segment, analyzing in detail the two most excellent companies from this point of view.

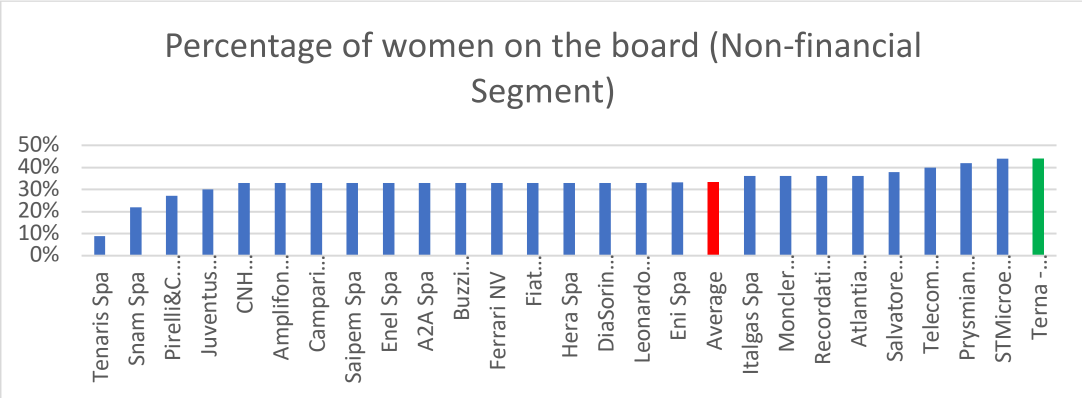
4.2 Exemplary leadership models: Terna Spa

As previously discussed, the sectorial differences between the companies composing the FTS MIB may reflect upon their leadership system. The segment where these contrasts are more evident is the financial segment: banks and other institutions, such as insurance and financial services companies, have more regulations and normative obstacles than other kinds of industries. An example of that, as seen in the previous paragraph, is given by the fact that the financial segment records the lowest average level of tenure compared to all other sectors. The reasons may be attributed to the renewals widely desired by the Supervisory Authority for the banking sector. Therefore, on the basis of these slight divergences between sectors, a deeper analysis is now carried out.

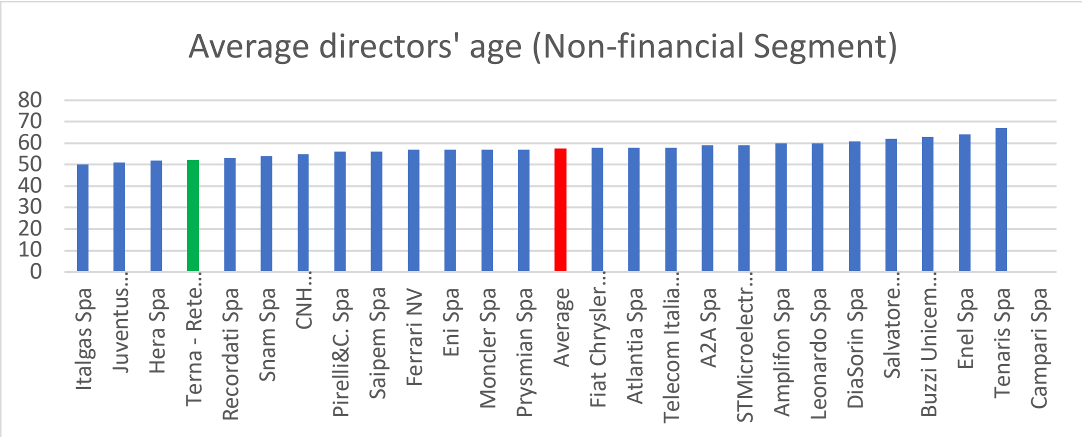
Starting from the non-financial segment, on the basis of the governance practices and trends object of this thesis, Terna – Rete Elettrica Nazionale Spa can be considered the most representative of the leadership features studied so far.

Indeed, as the graphs below depicts, Terna is a true Italian excellence in composing an efficient board and ensuring an open and collaborative Corporate Leadership, acquiring different directors by gender, experience, origin and seniority. Firstly, while the average size of the companies making up the sample is around 11 directors, that of Terna is 9, which ensures a more agile and more responsive board to environmental discontinuities than its competitors. Also, Terna has on its board the highest percentage of women compared to all companies in the FTSE MIB index of the non-financial segment, not to mention that the leadership of the board itself is entrusted to a woman. Furthermore, Terna's board is one of the youngest boards in the non-financial segment, with an average age of 52 years, against the total average of the segment of 57.44 years. The average for the tenure of the directors of the non-financial segment of the FTSE MIB is 4.8 years, while that of Terna is around 3, which guarantees it one of the freshest, most diverse boards with the most skillsets. Moreover, while the average percentage of non-executive directors on the board of the companies in the sample is 80%, that of Terna is around 90%, which makes Terna one of the most efficient Italian boards.

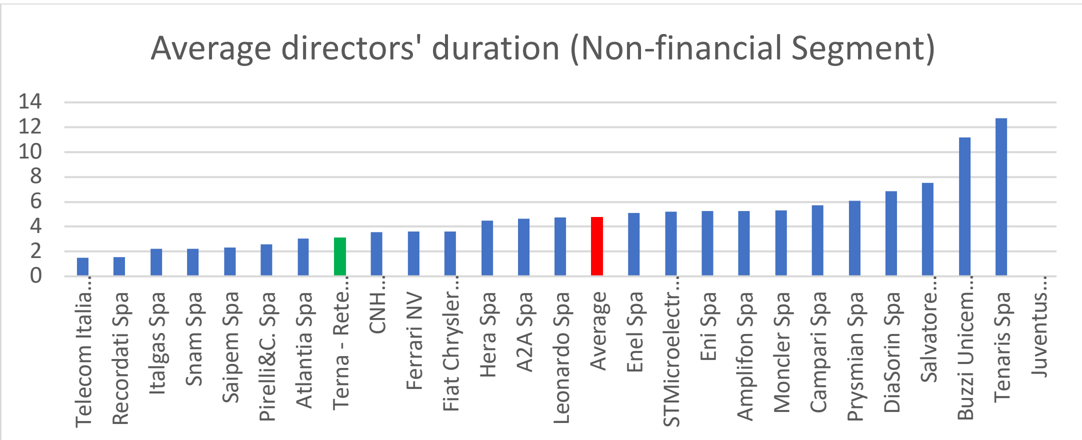




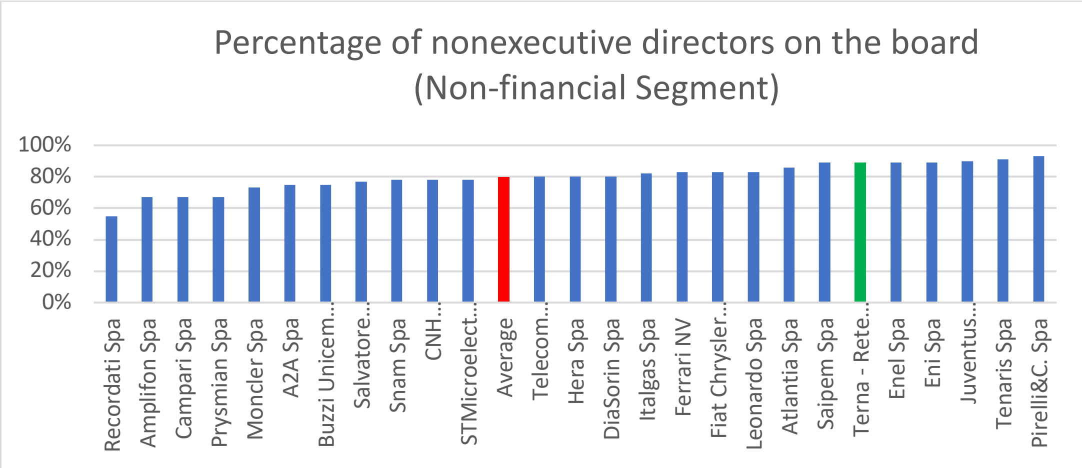
Percentage of women on the board (Non-financial Segment)
50%
40%
30%
20%
10%
0%
Tenaris Spa
Snam Spa
Pirelli&C...
Juventus...
CNH...
Amplifon...
Campari...
Saipem Spa
Enel Spa
A2A Spa
Buzzi...
Ferrari NV
Fiat...
Hera Spa
DiaSorin...
Leonardo...
Eni Spa
Average
Italgas Spa
Moncler...
Recordati...
Atlantia...
Salvatore...
Telecom...
Prysmian...
STMicroe...
Terna -...



Average directors' age (Non-financial Segment)
80
70
60
50
40
30
20
10
0
Italgas Spa
Juventus...
Hera Spa
Terna - Rete...
Recordati Spa
Snam Spa
CNH...
Pirelli&C. Spa
Saipem Spa
Ferrari NV
Eni Spa
Moncler Spa
Prysmian Spa
Average
Fiat Chrysler...
Atlantia Spa
Telecom Italia...
A2A Spa
STMicroelectr...
Amplifon Spa
Leonardo Spa
DiaSorin Spa
Salvatore...
Buzzi Unicem...
Enel Spa
Tenaris Spa
Campari Spa



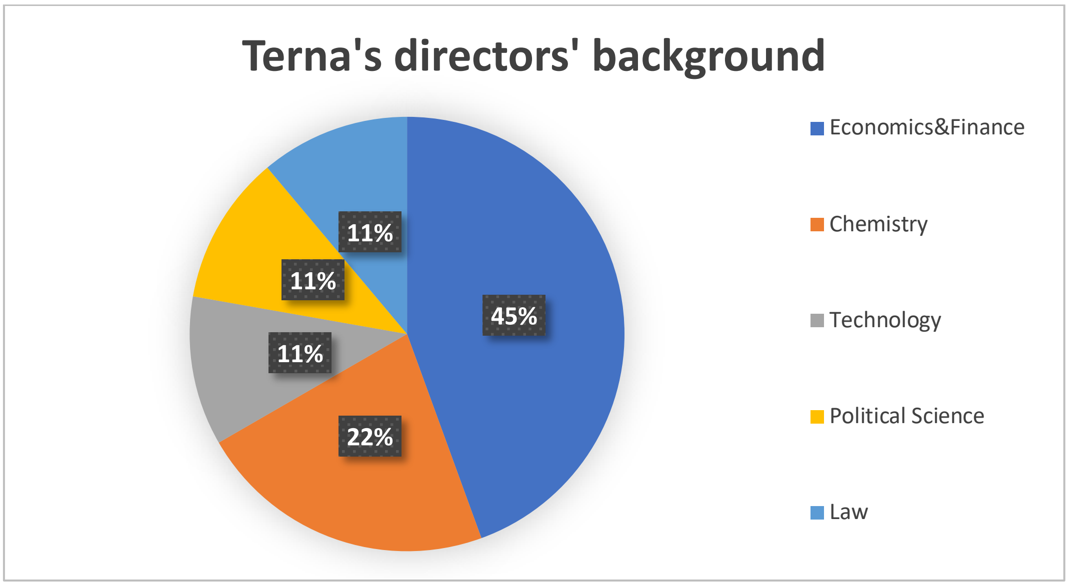
Average directors' duration (Non-financial Segment)
14
12
10
8
6
4
2
0
Telecom Italia...
Recordati Spa
Italgas Spa
Snam Spa
Saipem Spa
Pirelli&C. Spa
Atlantia Spa
Terna - Rete...
CNH...
Ferrari NV
Fiat Chrysler...
Hera Spa
A2A Spa
Leonardo Spa
Average
Enel Spa
STMicroelectr...
Eni Spa
Amplifon Spa
Moncler Spa
Campari Spa
Prysmian Spa
DiaSorin Spa
Salvatore...
Buzzi Unicem...
Tenaris Spa
Juventus...



Source: my elaboration from Bloomberg data

Terna is a Transmission System Operator, one of the largest in Europe for kilometers of lines administered. Terna is the main owner of the National Transmission Network in high and very high voltage and carries out a business of pivotal importance for the country, as it is responsible for transportation and delivery of electricity across Italy. In this context, Terna takes on a primary role in the ongoing phase of evolution towards a national and international energy system that is more and more decarbonized and sustainable. A goal that Terna wants to achieve by focusing on sustainability, innovation and digitalization. Terna's board of directors is composed of nine members. The table and the pie chart below allow a deeper analysis of Terna's board and its composition.

Directors' background	Number of directors	Directors (age)
Economics&Finance	4	Luigi Ferraris (57), Paola Giannotti (56), Elena Vasco (54), Paolo Calcagnini (39)
Chemistry	2	Catia Bastioli (61), Luca Dal Fabbro (53)
Technology	1	Yunpeng He (54)
Political Sciences	1	Fabio Corsico (45)
Law	1	Gabriella Porcelli (54)



Source: my elaboration, 2019

Except for the CEO Luigi Ferraris and for Yungpeng He, Terna's directors are all independent, according to the definition of independence provided by the Codice di Autodiscipllina. Terna manages all its activities with a sustainability approach, which has its foundations in the company mission and in the Code of Ethics. In the concrete application of the guidelines of the Code of Ethics, Terna adopts personnel selection, development and compensation systems that recognize and reward merit and performance. In this sense, Terna's board of directors therefore decided to adopt diversity policies with reference to its composition, considering aspects such as age and seniority, gender, geographical origin, training and professional path. Indeed, directors' backgrounds are very diverse and their ages vary from a low of 39 to a peak of 61 years. The presence within the board of directors of people of diverse ages and seniority of office is considered as a useful element to promote the formation of the right equilibrium between experience, continuity, innovation and risk appetite. In implementing diversity policies, the board of directors is supported by the Nominating Committee and the Risk Committee, which is also responsible for sustainability in Terna.

As argued in chapter One, the self-evaluation activity of the board comprises a set of activities aimed to a general evaluation of the board's capabilities. The self-evaluation process usually triggers the self-reconfiguration activity, a phase in which the board intends to improve its competence in assessing strategic issues and therefore improve its ability of manage strategic change. In compliance with the Codice di Autodisciplina, Terna's board of directors, with the support of the Nominating Committee, usually evaluates the functioning of the board itself and its committees, as well as their size and composition. Terna relies on the assistance of a specialized company as an external consultant, in order to ensure the maximum objectivity of its assessments. As reported by Terna through its Corporate Governance report, 2019 board assessment has indicated as main strengths of the company: the positive climate and the spirit of collaboration; the quality of information flows; effectiveness in conducting meetings and decision-making processes; attention to governance issues; the quality of interaction with management. These assessments are the summary of the following evidences:

- a balanced composition of the board of directors, also in terms of size and balance between executive and non-executive members;

- the constructive and open relationship between president and CEO; Chief Executive Officer and Board and, among the Directors;

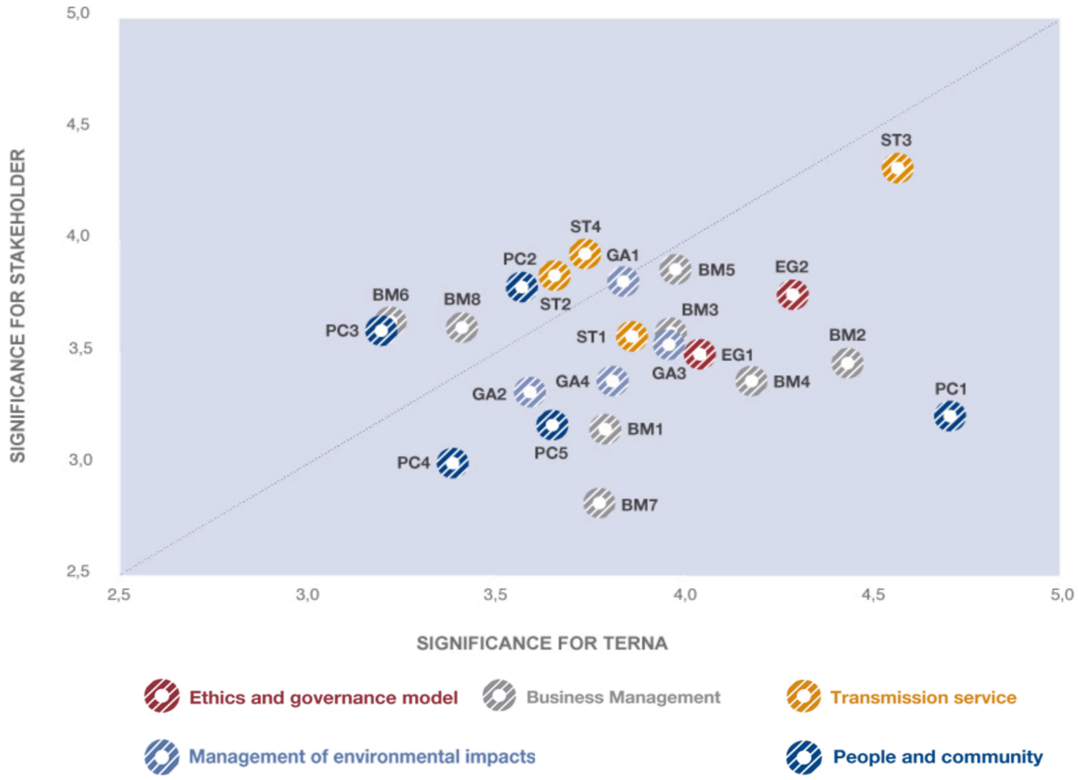
- the board documentation's quality and timeliness;

- a focus on sustainability issues.

According to Hoppmann, Naegle and Girod (2019), the self-reconfiguration activity of the board of directors (1.3) may be carried out also through learning and education. Board learning comprises activities used to cope with lack of knowledge within the board without replacing directors and may include group training sessions, on-site visits, and expert talks. For these purposes, Terna's board engages in an induction program, aimed to provide directors with an adequate knowledge of the business sector in which the company operates, as well as corporate and environmental dynamics and their evolution. As reported by the company itself, some of the initiatives recently undertaken by Terna in this sense include board visits to the company's industrial plants, top manager's consultations and workshops.

Terna's governance system also shows attention to the issue of overboarding, setting a maximum number of offices held in other companies' boards, as suggested by the Codice di Autodisciplina. it is firstly established that Terna's CEO cannot hold the same role in any other listed companies, nor hold more than four positions as independent director in listed companies. Similarly, Terna's directors cannot hold more than two CEO position in other companies, or more than three assignments as executive director in listed companies.

As argued in the previous chapter, the analysis of materiality is an essential step to understand which actors and which themes are to be considered as priorities with respect to the business strategy of the company. A theme or a group of stakeholders will be as much more material as it will be able to influence the company. Below is presented Terna's Materiality Matrix, which graphically summarizes the relationship of interrelation that exists between the weighting values attributed to the various issues (from 2,5 to 5,9) by Terna with respect to its stakeholders. As one can see, among the key issues Terna engages in there are especially the themes of governance, environmental impact and people and community. Indeed, the company itself declares on its website "*For us sustainability represents strategic leverage for the business and it is therefore essential to recognize which areas to concentrate our efforts on and know our stakeholders so that we act in the best way possible*". Therefore, Terna's materiality analysis confirms that the company is run by responsible leaders who aim to improve society in general.



Source: Terna website, 2019

Terna demonstrated to have successfully integrated sustainability into its core business. Shared values as set by the board play a pivotal role, as they constitute the heart of the organizational culture of a company (2.3). As a consequence, the embedding of sustainability within a company's set of values is key for making steps forward towards sustainable development. Indeed, sustainability principles are incorporated into Terna's mission, culture and strategic planning, demonstrating an effort towards a propose of collective impact between its activities and society in general. Terna publicly sets sustainability as a top issue within its agenda by defining its mission of "*creating value for shareholders with a strong commitment to professional excellence and responsible behavior towards the community, respecting the environment in which it operates*".

According to Ricart, Rodriguez and Sánchez (2004), as far as board structure is concerned, a board ought to have a special committee dedicated to sustainability to better increase, oversee and check the embodiment of this value into the organization’s culture and strategy. Terna did not establish a special committee dedicated to sustainability, rather sustainability issues have been integrated into an already existing committee. Namely, the Risk Committee, established in 2004, and from 2012 also responsible for Corporate Governance issues, have been responsible for sustainability in Terna since 2016. Terna’s so-called “Comitato Controllo e Rischi, Corporate Governance e Sostenibilità” thus ensures that sustainability is strongly incorporated within the company’s risk management process (2.2) and Corporate Governance system in a systemic manner. The committees is indeed responsible for:

- examining and evaluating sustainability policies aimed at ensuring the creation of value over time for the generality of shareholders and for all other stakeholders over the medium to long term;

- examining sustainability guidelines and plans, sustainability issues connected with the interaction between business activities and stakeholders, and sustainability reporting submitted annually to the board of directors;

- monitoring the inclusion of the company in the sustainability indexes.

As argued in the previous chapter, for the purpose of sustainability, a good practice is to tie executive compensation with sustainability (Burchman, 2018). Two major orientation can be distinguished for this purpose: monitoring executive sustainability performance either through metrics and objectives internally developed or through third-party standards, such as the the Dow Jones Sustainability Index. Terna makes use of the second system. Indeed, an additional focus on sustainability and innovation issues is used within the company’s remuneration policy by strengthening specific objectives within the long-term incentive system. As shown by Terna’s Annual Remuneration Report, the Long Term Incentive (LTI) plan for monagement provides for the assignment of a certain number of rights to receive Phantom Stocks linked to the value of the share at the end of the vesting period provided that the performance objectives are achieved. To this end, the sustainability performance indicator which will determine the number of Phantom Stocks to be assigned is the Dow Jones Sustainability Index. In particular, for the years 2019-2020-2021 it is established that, in case of failure to be included in the Index in all three years, a score of 0% will be assigned, while, in case of inclusion in the Index in all and three years and positioning among the top 7 companies at least in one year out of three, a 100% score will be awarded.

Overall, Terna manages all its activities with great attention to their possible economic, social and environmental repercussions and has identified the adoption of a sustainable way to make business as the main tool to create, sustain and cement a relationship of mutual trust with its stakeholders, functional to the creation of value for the company, society and the environment. For this reason the company adopts a process of preventive involvement of local institutions which was also extended to the citizens of the communities directly affected by the investments envisaged by Terna's development plan through public meetings. Only in 2018, seventeen meetings were held with the city communities of various regions throughout the country. Terna's concerted approach also involves potentially critical stakeholders such as the main environmental associations, with which it has stipulated and renewed partnership agreements aimed at increasingly improving the sustainability of its business. Finally, Terna has developed a management system to control and mitigate the environmental impact of its activities which is an important risk management tool. Terna’s plays out its corporate sustainability through several figures for the year 2019:

- 86% of recycled waste;
- 0,38% of installed SF6 greenhouse gas losses;
- 5.617 hours (64% of the total annual) of network management with coverage of the demand for over 30% from renewable sources;
- issue of a Green Bond worth 500 million euros, the net proceeds of the issue will be used to finance the company's eligible green projects.

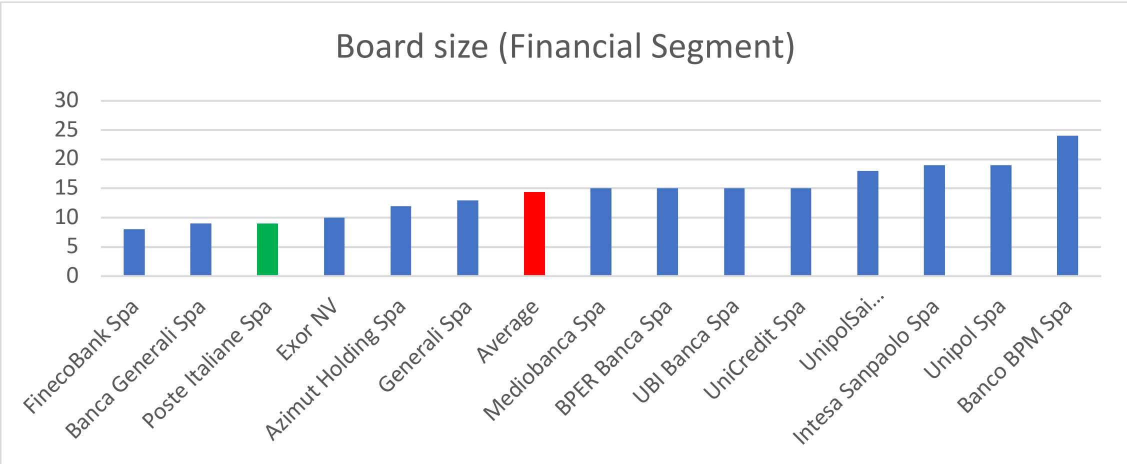
Terna's commitment to measuring its environmental, social and governance performance finds a positive response in sustainability ratings expressed by specialized agencies. In 2018, Terna was confirmed in all the indices in which it was already included, entered for the first time in the Bloomberg Gender Equality Index (GEI), which measures corporate performance on gender equality issues. In 2019, Terna was recognized for the second consecutive year as "Industry Leader", that is the best electric utility in the world, in the Dow Jones Sustainability Index.

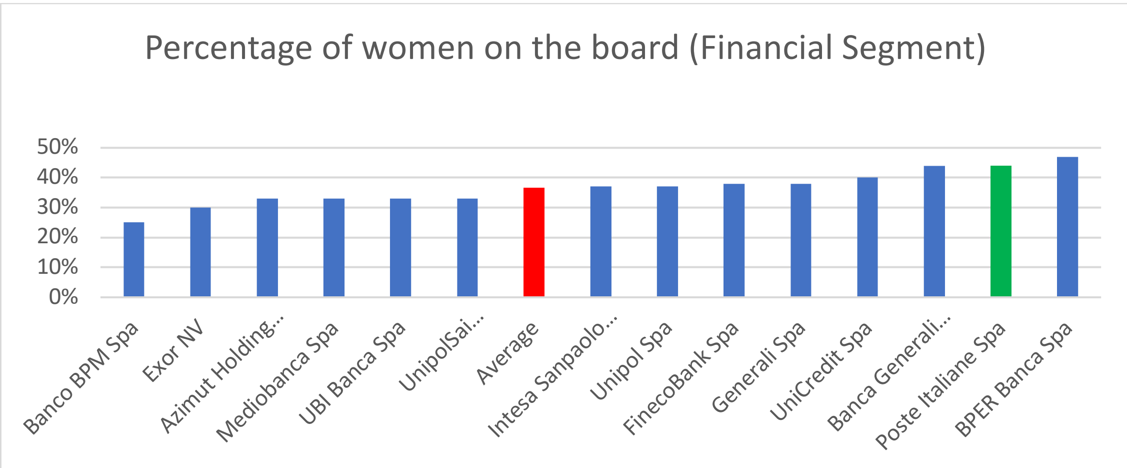
In conclusion, Terna's strategy therefore confirms its commitment to combining sustainability and growth, to favor the ongoing energy transition and generate ever greater benefits for the country and all stakeholders. The objective of such a strategy are only achivable through excellent board composition, structure and processes, as well as through a Corporate Leadership that promotes openness to dialogue and committment towards improving society.

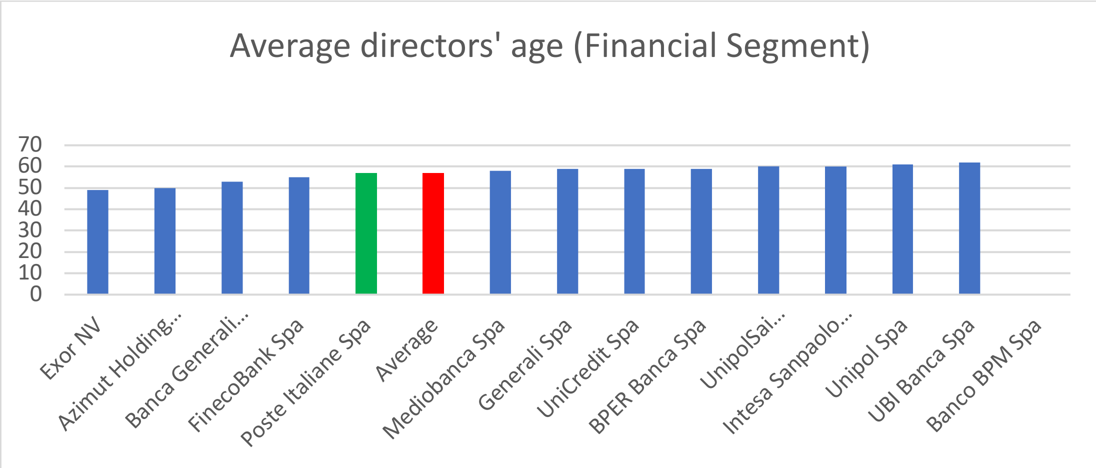
4.3 Exemplary leadership models: Poste Italiane

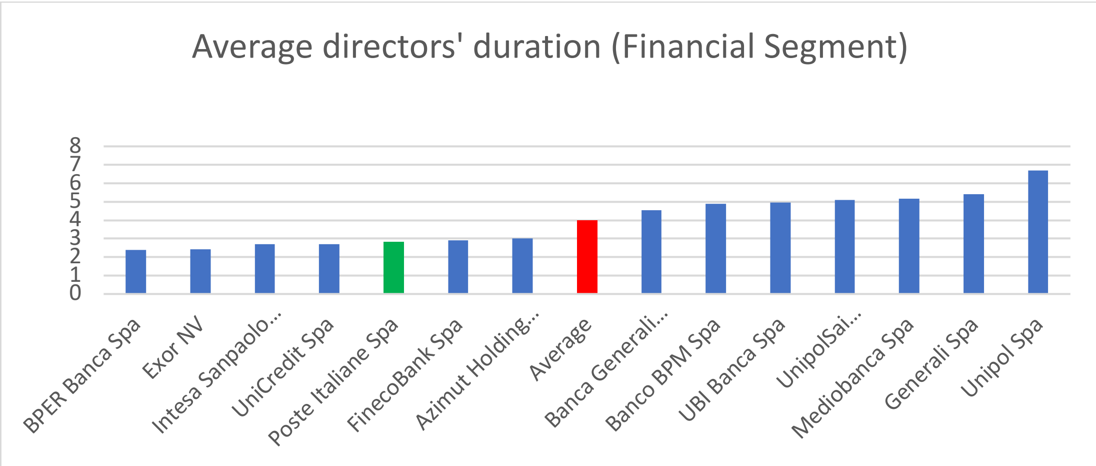
The main peculiarities differentiating the financial segment to the non-financial segment are to be mostly detected in the board composition. In fact, as shown by an analysis of the graphs below, the FTSE MIB companies composing the financial segment have an overall bigger size, with an average of 14,3 members on the board against the 11,3 of the non-financial segment. Interestingly, in line with these grater board dimensions, also the percentage of women (37%) is considerably bigger than the non-financial segment (33%). While no differences can be detected between the two segments about the directors' average age, one can observe how directors' tenure is slightly higher for the non-financial companies (4,77 against the financial segment's 3,98). Another disparity of values is in the percentage of non-executive directors: for the non-financial segment the percentage is 80%, while for the financial segment it is up to five percentage points higher.

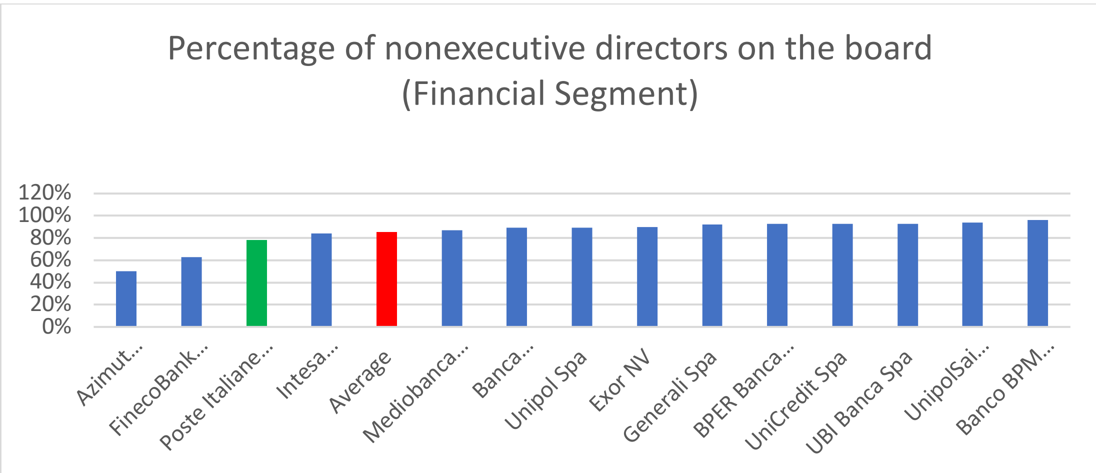
In this context, the best governance structure seems to be that of Poste Italiane. Indeed, in spite of belonging to the financial segment, Poste Italiane manages to keep a board size that would be more characteristic of a non-financial company, with nine directors on its board. The company itself maintains on its Corporate Governance report that the current number of directors "*allows for an adequate balance of skills and experience required by the complexity of the business*". Furthermore, Poste Italiane's board can be considered one of the most diverse of the segment, with a percentage of women of 44% and an average directors' duration of less than three years. Finally, Poste Italiane can boast a proportion of independent directors definitely above the average of the companies that make up the sample under analysis.



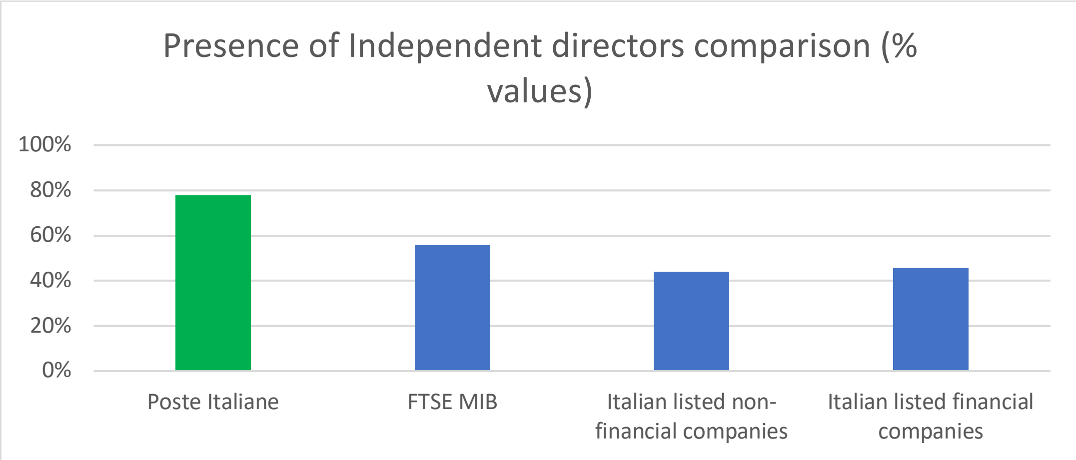








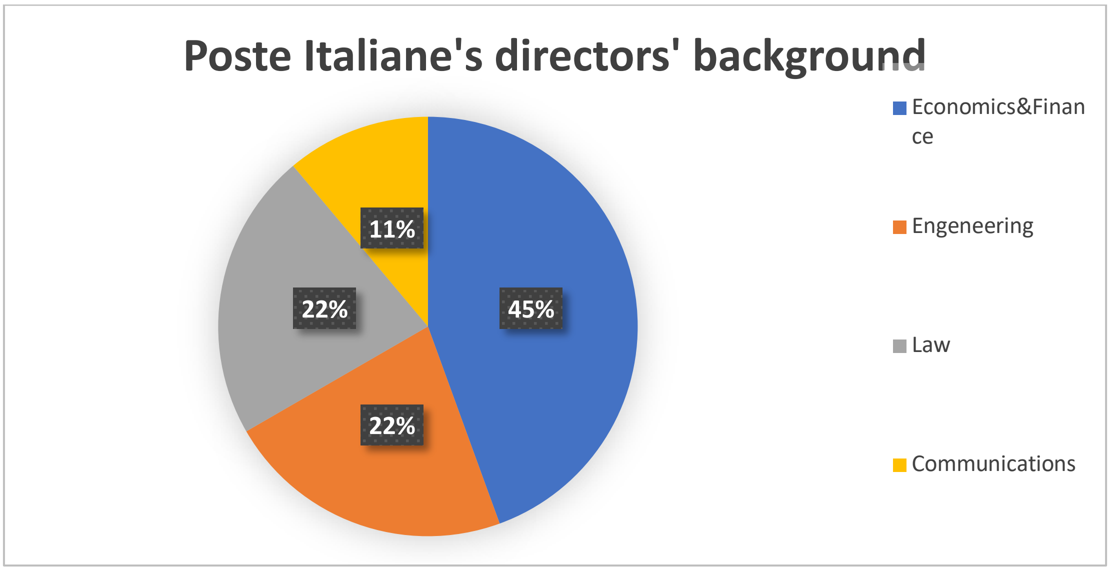
Source: my elaboration from Bloomberg data



Source: Assonime-Emittenti Titoli's and Poste Italiane's data, 2019

Poste Italiane is an integral part of the social and productive fabric of Italy and represents a unique reality in terms of size and capillarity. In fact, with almost 140,000 employees and more than 500 billion euros of financial assets invested, Poste Italiane is the largest service distribution network of the country. Poste Italiane's activities include mail and parcel delivery, financial and insurance services, payment systems and mobile telephony. The table and the pie chart below allow a deeper analysis of Poste Italiane's board and its composition.

Directors' background	Number of directors	Directors (age)
Economics&Finance	4	Maria Bianca Farina (78), Matteo del Fante (51), Antonella Guglielmetti (48), Mimi Kung (54)
Engineering	2	Giovanni Azzone (56), Roberto Rossi (75)
Law	2	Carlo Cerami (54), Francesca Isgrò (44)
Communications	1	Roberto Rao (51)



Source: my elaboration, 2019

Within Poste Italiane’s board, eight ninths of directors are qualified as non-executive, according to the Codice di Autodisciplina. The non-executive directors bring their specific competences to the board discussions, in order to favor an examination of the topics under discussion according to different perspectives and a consequent assumption of deliberations meditated, aware and aligned with the social interest (3.2). The number, competence, authority and time availability of the non-executive directors of Poste Italiane are therefore suitable to guarantee that their judgment can have a significant weight in the assumption of board decisions. Moreover, all the directors sitting on the board, with the exceptions of the CEO Matteo del Fante and the chair Maria Bianca Farina, are independent according to the definition of independence provided by the Codice di Autodisciplina. Furthermore, Poste Italiane is the only company of the financial segment of the FTSE MIB index to have a female chairperson leading the board. As argued by Post, Rahman and McQuillen (2014) about the implications between board composition and sustainability, a company may improve its environmental performance by bringing in the board more female and independent directors. Thus, Poste Italiane's board of directors stands out, as emerges from the analysis, for important strengths in terms of its composition. In particular, the qualitative profile of the administrative body is to be highlighted in terms of skills, experiences represented, and diversity declined in all the several meanings, as well as the optimal balance between independent and non-independent directors that allows an efficient functioning of the committees and management effectiveness of any conflicts of interest.

In line with the most advanced Corporate Governance practices spread abroad and implemented by the Codice di Autodisciplina, Poste Italianes's board uses to periodically evaluate its functioning and its committees, also with reference to size and composition. For its board review, Poste Italiane avails itself of the assistance of a company specialized in the sector. Poste Italiane has published the results of the board evaluation process, highlighting among the key strengths of its governance:

- the composition of its board;

- the internal climate of the board of directors, characterized by elements such as mutual esteem, strong confidence and motivation of the directors that favor the liveliness and richness of the council debate and the attainment of a decision with the widest possible participation;

- the key role of the chair board in terms of leadership in board dynamics, effectiveness in managing meetings and stimulating critical and independent discussion.

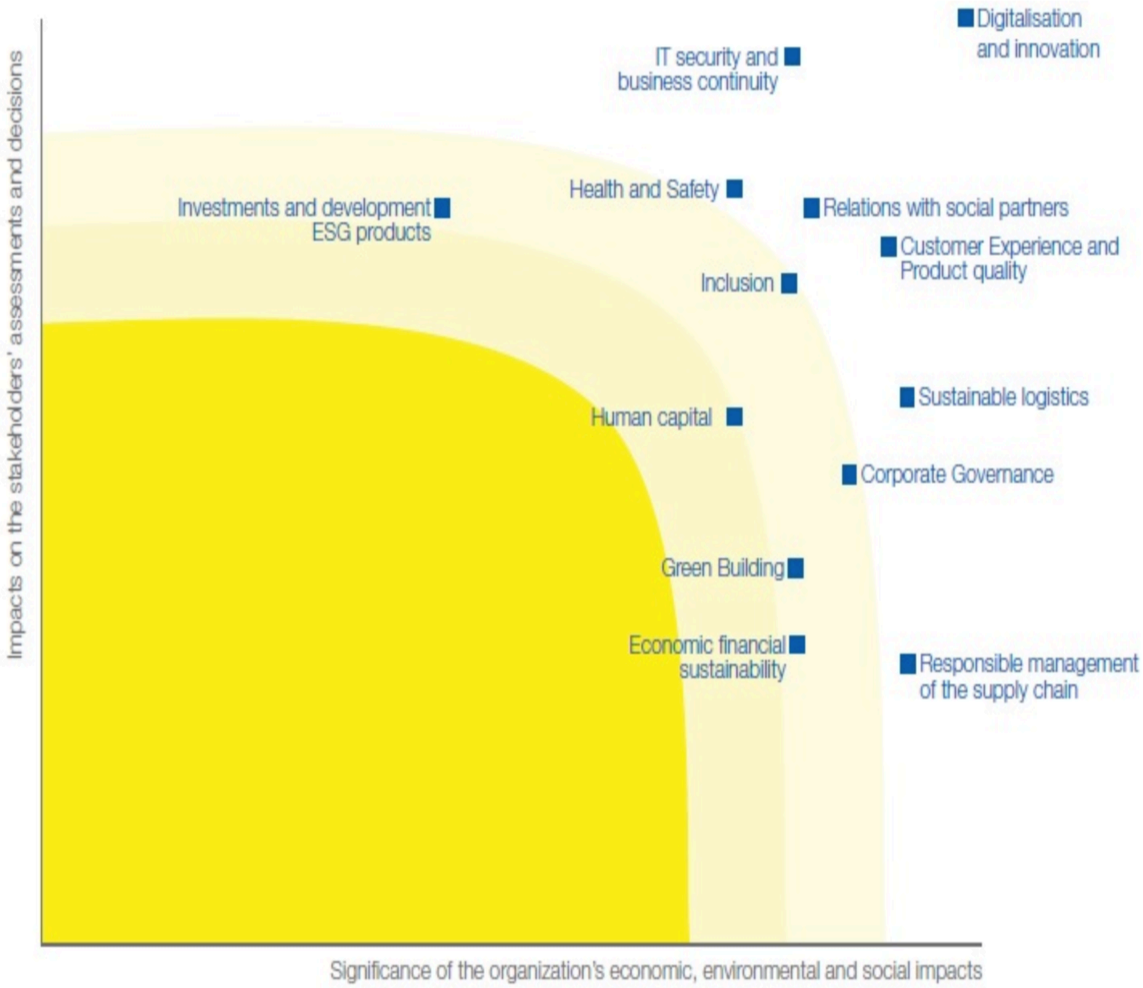
With reference to Poste Italiane's board's self-reconfiguration activity, an education process is carried out. Namely, board members take part in initiatives aimed at increasing the knowledge of the company reality and dynamics, to be able to carry out their role even more effectively. In 2019, the company has organized a special induction program aimed at providing the directors with adequate knowledge of the sectors of activity in which the group operates, of company dynamics and of their evolution, of market trends and of the reference regulatory and regulatory framework.

Moreover, Poste Italiane establishes limits on the accumulation of directors' offices, thus addressing the overboarding issue. Specifically, the policy prepared by the board of directors provides:

- that the CEO cannot - unless otherwise and motivated assessment expressed by the board – hold another CEO office for other companies;

- that directors other than the CEO cannot hold more than five positions in the administrative or control bodies of other companies.

As announced by the company itself through its Sustainability Report, Poste Italiane actively engages in seizing sustainable development opportunities and creating Shared Value (Porter, M. & Kramer, M., 2011) between the company and its stakeholders. As the Materiality Matrix below depicts, adopting a sustainable way of making business is a key issue within the company's agenda. Given the scope of its business, Poste Italiane plays an important role in the development of Italy. That is why the company engages in shaping a sustainable development model through several activities: developing green buildings and sustainable logistics, in order to decrease the environmental impact of its activities; siding with local communities by digitalizing its services and making them more accessible, also cooperating with local institutions; promoting honesty and transparency of operations, by means of developing an excellent Corporate Governance. The mutual influence between Poste Italiane and its stakeholders drove the company towards shaping its strategy around them, therefore demonstrating a commitment towards creating Shared Value for the benefit of the whole society.



Source: Poste Italiane website, 2019

Poste Italiane's mission is to be recognized as "*the engine of inclusive development for the country, accompanying citizens, businesses and the Public Administration towards the new digital economy through the offer of quality services that are simple, transparent and reliable"*. To achieve its mission, Poste Italiane commits to uphold its core values, including customer satisfaction, ethics, association and innovation. By setting such values as drivers of Poste Italiane's activities, the board of directors demonstrates a leadership which is responsible and whose ultimate goal is to improve society, while making business.

Within Poste Italiane's board, starting from 2018, the Risk Committee – namely, "Comitato controllo, rischi e sostenibilità" - is the organ responsible for diffusing sustainability in the organization and incorporating in the company's activities.

Aside the typical duties of a Risk Committee, the Comitato controllo, rischi e sostenibilità is specifically responsible for the following activities:

- supervising sustainability issues connected to the company business and its interaction dynamics with all stakeholders;

- formulating proposals on the group's environmental and social strategy, annual objectives and targets to be achieved, monitoring their implementation over time;

- examinating in advance the Sustainability Report and its contents, as well as the completeness and transparency of the information provided through the Report, issuing an ex-ante opinion to the board of directors called to approve this document.

As far as the remuneration system is concerned, Poste Italiane developed its own internal KPIs in order to measure the management sustainability performance and link its remuneration to sustainability. As the Remuneration Report shows, the three sustainability KPIs are part of the Management by Objectives (MBO) plan and they are:

- Customer Experience Index: this index is based on two indicators, namely Net Promoter Score (NPS) and Customer Effort Score (CES) and it is finalized to the authorization of the customer centrality for the company;

- PCL Quality Index: is the summary indicator of the quality of the service offered and of the operational efficiency of Post, Communication and Logistics;

- Support to the socio-economic development of the territory: this index enhances local rooting, contributing to the strengthening of the Italian social fabric and it is measured through the weighted average of the level of achievement of the several initiatives.

Poste Italiane intends to develop its own sustainability initiatives in order to support and advance the Sustainable Development Goals, seventeen global goals adopted by all one hundred and ninety-three member countries of the UN General Assembly in 2015, by structurally integrating elements of sustainability in company policies, processes and long-term strategy. Today, there are several activities undertaken by the company to actively participate in the construction and implementation of a model of local and global sustainable development. In 2018, Poste Italiane, set up its first Multi-stakeholder Forum, introducing a great chance for discussing and exchanging on trending sustainability issues in order to share opinions and programs useful for creating Shared Value with the various exponents of institutions, organizations, and other important interlocutors with whom Poste Italiane gets in touch while running its business. The Forum prepared the foundations for a careful and continual relationship with all the stakeholders that took part to the event, functional in fine-tuning common ideas and roads for sustainable development.

Poste Italiane's effort to implement a sustainability-oriented strategy that is entirely consistent with its business goals was rewarded. Indeed, in 2019, Poste Italiane has been included in the Dow Jones Sustainability World Index and in the even more selective Europe Dow Jones Sustainability Index.

Poste Italiane’s strong presence and capillarity along the whole country makes it holder of a central role within Italy’s growth and modernization process. The company took responsibility for such a role and demonstrated to fully understand its implications for society. Poste Italiane developed within its governance system an effective and responsible Corporate Leadership enhancing board composition and processes and enriching the culture and strategy of the organization. The sensibleness of Poste Italiane’s leadership allows the company to cultivate meaningful relations with all stakeholders and generate value for the whole society with its operations.

Conclusions

The subject of this thesis was Corporate Leadership. It has been argued that in today's business environment a new leadership model is emerging. This new leadership preaches a more participative and responsible manner of making business compared to that demonstrated by companies that became protagonists of the recent corporate scandals and managerial misconduct, and thus made people lose trust in the capitalism system. The peculiarity of the companies that demonstrate this leadership lies in the fact that they actually bear the responsibility to act concretely for the benefit of society, and they are not driven by mere potential reputational benefits. This degree of commitment to sustainable development is made possible by a certified engagement towards the creation of a Corporate Governance that guarantees effective, reliable and responsible leadership. The objective of this thesis was to define the features characterizing this leadership model, capable of shaping purposeful organizations whose mission is to create value while also benefiting society, and to verify to what extent Italy aligns with these practices.

Namely, the first part of the thesis has been dedicated to explaining how leadership in an organization actually works. If Corporate Governance is the system that allows companies to be controlled and managed, then it is clearly a responsibility of the board of directors. The board's task is to drive, not to manage: managing the company's operations day by day is the job of the managers. The leadership of the company can be attributed to the board simply because this is the corporate body that has the responsibility to define the corporate objectives and to ensure that they are achieved. In this context, a pivotal role is played by the chairman. The duties of the chairman of a board of directors are to answer for the work of their boards of directors, to ensure that the members of the board of directors have the necessary information and take responsibility for reaching a final decision.

According to the most modern leadership theories, in the today's dynamic business and organizational environment, leadership is required to be *"Transformational"*, both in the sense of grasping, promoting, guiding the need for change, and in the sense of supporting people in the paths of change, on the organizational and individual fronts. In summary, the effective leader is therefore a change-oriented individual who shows high self-confidence and ethical concerns and who supports in the followers the growth of their motivation as well as the identification with the organizational objectives.

It has then been argued that, considering business environment nowadays, change is inevitable. Besides, it is expected that firms must leverage towards managing change in order to keep and improve their competitive position and do not lose track of the emerging societal needs and trends. Even the better performing organization, if found short with respect to change, will soon lose relevance. Therefore, a higher level of managerial response is required, making strategic change more necessary than ever before.

Later on in the thesis, the concept of sustainability has been introduced. The governance scandals that happened lately (1.1.1), have shown how relevant is the companies' effect on social responsibility. Recently, thanks to a renewed care for the theme of corporate social responsibility (CSR), companies' responsibility to their stakeholders increased as well. As a consequence of that, organizations are progressively recognizing the pivotal role that Corporate Governance plays in improving communications with their stakeholders. The biggest incentive for companies to invest in sustainability is that it actually increases their long-term value creation. Indeed, the companies that realize that their activities reflect on the external environment are able to generate a sense of accountability to the society. For this to happen, companies must recognize the importance of integrating sustainability and strategy. First, in order to create a sustainable organization, sustainability should be introduced among its key values to uphold. Precise processes, members, structures and features of a board should also be taken into account in shaping a sustainable organization.

Then the features that should be implemented by the boards to make their organizations thrive in today's business environment were discussed. As shown, leaders of today's organizations need to act in a more participative and responsible manner as well as with more responsiveness and orientation to change. Indeed, many companies seem to have understood that it is the direction to undertake.

The final chapter aimed to study the current situation in which Italian companies are carrying on their operations. The Corporate Governance traits of these companies have been taken into account to analyze to what extent the Corporate Leadership scenario in Italy complies with the features previously examined and to identify the most effective governances in the country.

The analysis carried out was based on studying the governance systems of the companies composing the FTSE MIB index. It has been found that, although several differences in the governance system between sectors – particularly between the financial and the non-financial segments – can be identified, overall Italian companies demonstrate to be in line with the main international trends. The analysis highlighted the FTSE MIB companies' commitment to improving the quality of their governance systems, confirming that Corporate Governance is increasingly perceived as a key tool to ensure the proper functioning of the company and a lever to increase its attractiveness to the eyes of institutional investors, rather than as a formal adaptation to regulatory provisions.

Finally, two companies – namely Terna for the non-financial segment and Poste Italiane for the financial segment – have been analyzed more in depth, as their leadership models are found to be exemplary for the purposes of the contents of this thesis. The research work presented focused on the analysis of the quality of Terna's and Poste Italiane's Corporate Governance through the study of corporate information issued by the two companies listed in Italy

It has been showed that Terna's leaders are highly committed to combining sustainability and growth, to favour the ongoing energy transition and generate ever greater benefits for the country and all stakeholders. The objective of such a vision are only achievable through excellent board composition, structure and processes, as well as through a Corporate Leadership that promotes openness to dialogue and commitment towards improving society.

Similarly, Poste Italiane's strong presence and capillarity along the whole country makes it holder of a central role within Italy's growth and modernization process. The company took responsibility for such a role and demonstrated to fully understand its implications for society. Poste Italiane developed within its governance system an effective and responsible Corporate Leadership enhancing board composition and processes, and enriching the culture and strategy of the organization. The sensibleness of Poste Italiane's leadership allows the company to cultivate meaningful relations with all stakeholders and generate value for the whole society with its operations.

From this thesis work important leadership traits of the companies emerged, both through a review of the literature and through a more direct observation of the companies and, in particular, of the Corporate Governances of our country.

Aside from the contributions of this thesis, its limitations should also be pointed out. In particular, the analyses carried out focused on the companies composing the FTSE MIB index, the main stock index of the Italian Stock Exchange. However, the analysis did not mean to depict the way in which the average Italian company is led and operated through its governance. Simply, the objective was to shed light on current Corporate Leadership trends and on how governances are becoming increasingly responsible and participative.

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Main evidence of a new leaderrship model: the Italian landscape

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Introduction

"*What does it mean to say that 'business' has responsibilities? Only people can have responsibilities*". That is what the economist Milton Friedman wrote back in 1970 about business and its social implications. According to him, "*businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades*". Friedman believed that in the free market economy the sole and exclusive responsibility of the business leaders was to employ the resources of the companies and carry out those activities designed to generate and maximize profit, in compliance with the rules. This is the setting followed by several big corporations that operated in the last years according to radical idea of capitalism. Indeed, at the core of modern capitalism, there is a network of financial flows without any kind of ethical setting. This economic system aims to a boundless growth which promotes extra consumption and waste, as well as intensive use of energy and natural resources (Capra, F. & Henderson, H., 2009). In this scenario, a new leadership model is emerging. In a historical moment in which climate changes are increasingly frequent and risky, and in which growing social disparities are the cause of wars and important immigration phenomena, a unanimous awareness is emerging regarding the need to take the path of sustainable development.

Of course, the *responsibilities* that Milton Friedman was referring to are non the legal obligations of a company: nobody would ever deal with a company if they thought that it was not responsible to pay back its debts. However, there are some rules other than the rules formalized into law that businesses need to adhere to if they wish to be successful. To prosper in the long run, companies need to maximize their profits in a way that is compatible with their stakeholders needs. Today, these needs are constantly changing, as well as technologies and regulations. Therefore, in a business environment in which change is the only constant, companies must take responsibility to change their behaviors and strategies accordingly to preserve their competitive position and survive.

What Friedman was talking about are the social *responsibilities*. While running their businesses, companies generate externalities, costs that are borne by society in general, rather than by the companies themselves. When businesses do not take responsibility for their side effects, the capitalist system breaks down (Pigou, A., 1920). companies are in touch with several social groups, which influence company management policies and are in turn influenced by them Because of this mutual influence, these groups become partners of the company and everyone has interests to support (Freeman, R. E., 1984). Building on this perspective, in today's business environment leaders of the companies cannot overlook the mutual interests among the firm and its stakeholders. In this sense, it can be stated that firms play an important part in social development. Indeed, when business activities are run by responsible company leaders, it is actually possible to improve society and welfare.

In this context fits the concept of Shared Value (Porter, M. & Kramer, M., 2011), which suggests the opening of a new opportunity for all those companies that in the last decade have strongly suffered from the crisis of confidence in capitalism, caused by nefarious leaders whose sole objective was to maximize profits at any cost. For decades, governments, non-profit organizations and forms of social enterprises have been doing an important job in trying to find a solution to social and environmental problems, but it is now clear that to obtain significant results, huge resources are needed to face these problems on a large scale. By demonstrating responsible leadership, companies can take the responsibility to use the resources at their disposal to create a positive impact on society and the environment, which in the long term will also have a positive impact on their performance. In this regard, the creation of shared value does not consist in the simple redistribution of the profits of the company and in their devolution to certain social causes, but in providing society with the tools and knowledge to improve its condition and create value itself.

Laurence Fink is the CEO of BlackRock, the largest investment management firm in the world with almost $6 trillion in assets managed worldwide. Each year from 2012 Fink writes to the companies in which BlackRock invests on behalf of its clients to make sure that they adopt governance practices that are consistent with superior business performances. In his latest letters to the CEOs, Fink asks the companies to take action to tackle the problems society is facing. Fink contributes to a positive debate on global capitalism by calling on corporations to take a more active role in addressing societal issues and outlining the investment strategy that his firm will take in the years to come. Corporate leaders and board members are invited to act likewise if they want to hold BlackRock's capital and contribution. To overcome the short-termism which obstacles a sustainable growth in the long run, it is necessary to act in the service of a social purpose, switching the focus from the financial performance to something greater.

At this point, it is clear how a new leadership model is emerging. This new leadership preaches a more participative and responsible manner of making business compared to that demonstrated by companies that became protagonists of the recent corporate scandals and managerial misconduct, and thus made people lose trust in the capitalism system. As we will see, the peculiarity of the companies that demonstrate this leadership lies in the fact that they actually bear the responsibility to act concretely for the benefit of society, and they are not driven by mere potential reputational benefits. This degree of commitment to sustainable development is made possible by a certified engagement towards the creation of a Corporate Governance that guarantees effective, reliable and responsible leadership. Since the body entrusted with the organization's ultimate leadership is identified on the board, the composition, structure and functioning of this organ must be carefully defined, if a governance system consistent with this mentality is to be built. The objective of this thesis is to define the features characterizing this leadership model, capable of shaping purposeful organizations whose mission is to create value while also benefiting society, and to verify to what extent Italy aligns with these practices.

1.1 Corporate Governance: leading an organization

As Sir Adrian Cadbury, one of the highest authorities on business management, said during a conference held at LUISS University, it may seem a paradox to link leadership with Corporate Governance. Indeed, “we are inclined to think of leadership in terms of individuals, while Corporate Governance refers to the collective responsibility of boards of directors in relation to the lasting success of their companies” (Cadbury, 2008). However, the term governance itself is derived from the Latin word gubernare, which means “ruling, leading” and, according to the definition provided by the 1992 Report of the Committee of Financial Aspects of Corporate Governance, “corporate governance is the system by which companies are directed and controlled”.

In defining Corporate Governance, two meaning can be distinguished (Fontana, F., Boccardelli, P., 2015): a narrow meaning and a wider meaning. The narrow meaning of Corporate Governance is linked to the debate on Corporate Governance in capitalist systems, within which the attention is focused on the operating methods of the board of directors of large corporations that are characterized by an ownership structure attributable to the model of public company. According to this concept, the group of interest that has the right of controlling the businesses they have a strong interest in maximizing efficiency and wealth produced over the long term. The shareholders exercise their right of control by expressing their vote on some important decisions and appointing the members of the board of directors as guarantors of their interest. The wider meaning of Corporate Governance intends to remedy the limits that characterize the narrow meaning, which limits the problem of how companies are governed to the composition and functioning of the boards of directors and considers the interests of stakeholders other than shareholders as an external constraint which becomes relevant only if certain circumstances occur. This wider conception of corporate governance overcomes the limits of the narrow vision, extending its attention to all the company's stakeholders and considering the various mechanisms, internal and external to the organization, that contribute to the governance process. According to this approach, only in some particular cases and for some specific problems, it is possible to assimilate the issue of Corporate Governance to the analysis of the composition and functioning of the board of directors, conceived as a body whose objective is to defend the stockholders’ interest. In keeping with this approach, Corporate Governance is "*a system of structuring, operating and controlling a company such as to achieve the following: (i) Fulfil the long-term strategic goal of the owners, which after survival may consist of building shareholders value or stablishing a dominant market share, (ii) Consider and care for the interests of employees, past, present and future, (iii) Take account of the needs of the environment and the local community, both in terms of physical effects and interaction with the local population, (iv) Work to maintain excellent relations with both customers and suppliers, (v) Maintain proper compliance with all the applicable legal and regulatory requirements under which the company is carrying out its activities*” (Sheridan T., Kendall N., 1992).

Therefore, this concept is "wider" in the sense that on the one hand it considers the interest of many stakeholders other than shareholders and on the other maintains that Corporate Governance processes include, in addition to the structures and mechanisms internal to the organization (such as the shareholders' meeting or the board), also the behavior of external institutions (such as auditing companies), the functioning of the markets in which it operates (such as that of raw materials or the financial market), the values and customs that characterize national cultures.

Thus, it is clear how the means by which leadership is exercised in a corporation is Corporate Governance, where the responsibility of the company guide is not entrusted to the single manager or to the president who is at the head of the company, but to the coordinated and discussed teamwork of the individual members who are part of it. Such a leadership, in line with a Transformational perspective, is based on the sharing of management choices and is capable of establishing itself as a huge source of innovation and social improvement.

In theory, Corporate Governance mechanisms give the firms' owners the ultimate control and the rights to hire and fire the boards members who act on their behalf. However, according to Hoppmann, Naegele and Girod (2019), shareholders can seldom take on this control function for two main reasons. Firstly, distributed ownership makes monitoring and replacing board members very difficult. Secondly, although there may be a majority shareholder, owners often do not dispose of the institutionalized means through which influencing the strategy of the firm. If Corporate Governance is the system that allows companies to be controlled and managed, then it is clearly a responsibility of the board of directors. The board's task is to drive, not to manage: managing the company's operations day by day is the job of the managers. The leadership of the company can be attributed to the board simply because this is the corporate body that has the responsibility to define the corporate objectives and to ensure that they are achieved. A board also has the task of establishing and preserving the values of the company it manages. It is the values of a company that give it its distinctive identity and that generate the loyalty and commitment of those who work there. The members of the board of directors therefore have the responsibility to identify these values and to experience them in person. The board of directors is the fulcrum of the entire company system on which all the rest depends. It can be considered the link between the shareholders and the managers, between those who provide the funds and those who put them to good use. Furthermore, the board is the reflection of the company on the outside world, its image in the eyes of the public. Thus, the effectiveness of leadership offered by the board of directors depends on the skills and experience of its members. Above all, it depends on its president's ability to exploit these skills and get the most out of them. it is therefore clear that only a person with great leadership can hold this position. As Cadbury (2008) said, "*it is a huge mistake to suppose that it is sufficient to seat a group of competent and willing administrators in a board of directors to have an effective board of directors. The effectiveness of a board is not born from nothing, it is the result of the hard work of its members, and in particular of its president. [. . .] The boards are* *above all teams and their presidents have the responsibility to transform the members of their boards into winning teams.* ". In fact, the duties of the chairman of a board of directors are to answer for the work of their boards of directors, to ensure that the members of the board of directors have the necessary information and take responsibility for reaching a final decision. In the context of the meetings of a board of directors, a good board chair promotes an open debate among the members and makes sure that everyone has the opportunity to contribute, intellectually stimulating the participants and thus demonstrating a participative leadership.

1.2 Leadership models

Over time, various leadership styles, theories and models have been proposed to assist leaders in influencing their followers and achieve organizational goals. From the Trait Theories to the Transactional and Transformational Theories, leadership theories gradually evolved towards a less authoritarian and more creative model. In the last years, it has been developed a new stream of literature concerned with trying to understand the procedures that articulate the links between the leaders and their subordinates. This group of theories is aimed to explain the way in which leaders face and band together their followers in the search for a common development.

J. MacGregor Burns (1978) argues that leadership does not merely mean exercising power, since the term leadership does not disregard the needs of collaborators and followers. In his work Leadership (1978), Burns introduces the concept of Transformational Leadership. What Transformational Leadership is about, is managing to mutually engage leader and subordinates in a journey of elevating one another to higher degrees of ambition and inspiration. This process considers subordinates actual human beings and, thus, takes into account not only their skills and capabilities, but also their needs, moralities, inclinations and motivations. Transformational Leadership typically allows subordinates to goals that goes beyond what it is usually expected from them. That is because this leadership style implies a special kind of influence generated by the leader that generate trust in his followers. According to Burns, Transformational Leadership has a higher level of effectiveness if compared to Transactional Leadership, where the appeal is to more selfish concerns. In Transformational Leadership, instead, people are encouraged to collaborate by appealing to social values, and not to work in an individual manner that may as well push them towards a potential competition. The strengths of Transformational Theory are to be individuated in the surmounting of the exchange and reward perspective. Indeed, this theory started a new perspective of the whole leadership mechanism, no longer based on the needs of the leader and followers, but rather on a body of values that push for the overcoming of the subjective interests in view of a common goal.

Recently, corporate scandals and managerial misconduct have been prevalent in media headlines. Consequently, corporate leaders' morals and responsibilities have been given way more importance by the scholars. Among these, Brown, Treviiño and Harrison (2005) proposed an Ethical model of leadership. Ethical leadership has been defined by the authors as “the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making”. According to the three, Ethical Leadership plays a key role in promoting enhanced employee attitudes and behaviors. More recently, it has been introduced the Responsible Leadership model. Maak and Pless (2006) suggested that leaders managing corporations must switch from an outdated idea of shareholder supremacy (Friedman, M., 1970) to a new model that preaches care for all stakeholders, both internal and external to the company, to embrace Corporate Social Responsibility (CSR). Existing theories about leadership, such as Transformational and Ethical theories, keep a primarily attention a supervisor-subordinate exchange, ignoring the influence of leaders’ actions on other groups of interest. As a consequence, these leadership models can’t meet all other stakeholders’ interests as effectively as shareholders’ interest. On the other hand, Responsible Leadership can effectively balance the conflicting interests among stakeholders inside and outside organization (Maak, T., 2007) boosting brand reputation, earning trust of the public and achieving sustainable development of organization and society (Voegtlin, C., Patzer, M. and Scherer, A.G., 2012). Leadership effectiveness is not evaluated in terms of financial performance, but rather as directed toward gaining legitimate solutions for all stakeholders. Therefore, the pivotal subject for Responsible Leadership is the obligation to balance the needs of all affected parties (Waldman & Galvin, 2008).

As has been shown through the presentation of the several theories, over time leadership models have evolved, acknowledging the change and constant evolution of organizations and their surroundings and becoming more participative and less absolutist. In the today’s dynamic business and organizational environment, leadership is required to be Transformational both in the sense of grasping, promoting, guiding the need for change, and in the sense of supporting people in the paths of change, on the organizational and individual fronts. In summary, the effective leader is therefore a change-oriented individual who shows high self-confidence and ethical concerns and who supports in the followers the growth of their motivation as well as the identification with the organizational objectives.

1.3 Strategic change

Pfeffer (1972) claimed that the composition of a board is the reflection of the firm’s external dependencies. Consequently, one would expect to see strategic changes in the composition of the board following major environmental changes in the firm’s environment (e.g. changes in the supply of a critical resource, in the competition, in technologies, in revenues, in the regulation). Indeed, as Hillman, Cannella and Paetzold noted (2000) taking into account a resource dependence standpoint, when the environments in which the firm operates undergoes changes, the composition of the board of the company changes as well to reflect the shift in resource needs. companies tend to strategically alter their boards according to the new environmental demands and forces. Shocks in the environment change the interdependencies and resource needs confronting the firm, therefore adjusting the needs with respect to the extra-governance role of members of the board. These adjustments are executed through adaptations and reconfiguration of the board, to reflect the shift in the needs caused by environmental changes. Considering business environment nowadays, change is inevitable. Besides, it is expected that companies must leverage towards managing change to keep and improve their competitive position. Even the better performing organization, if found short with respect to change, will soon lose relevance.

Therefore, to defend their competency in the activities of strategy evaluation and reconfiguration, boards need to renew their ability to judge strategic issues as soon as they are confronted with increasing environmental and strategic change. This is possible through the self-evaluation and self-reconfiguration processes within the boards. Self-evaluation activities comprise board activities aimed at assessing the board's own strengths and weaknesses. These activities can manifest in various forms, from informal assessments to reviews, with or without support of external subjects. This constitutes a critical process for the survival of the whole organization in times of environmental changes, as it raises awareness of a possible lack of competencies within the board. Also the several codes issued over the years on the best practices to be observed for effective corporate governance (1.2.1) believe that self-evaluation is a necessary activity for the board to function. The new British Corporate Governance Code (2018), for example, states that the board of directors should carry out a rigorous annual assessment of the performance of its directors and committees. Self-reconfiguration activities comprise board activities that increase the board ability to judge strategic issues and thus restore its ability to manage strategic change. In this context, adaptation of the board composition can help the board to better deal with strategic change. As Brady and Helmich noted (1984), "the tendency of boards not to change at all is in itself a threat to constructive change strategies". Indeed, as Haynes and Hillman (2010) show building upon resource dependence theory, more heterogeneity within the board leads to more strategic change, thus making it easier for the organization to cope with future environmental discontinuities. Secondly, as Goodstein, Gautam and Boeker (1994) have noted, adaptation of board size is another solution to improve strategic change: they argued that high levels of board size negatively affect the ability of the board to initiate strategic change in times of environmental changes. Boards can address knowledge shortcomings without replacing its members through learning and education. Board education can be carried out through collective activities, such as training sessions, or individual activities, such as peers knowledge exchange. Another self-reconfiguration activity is board's decision-making adjustment: adaptations of board processes aimed at improving its ability to judge strategic issues (e.g. heighten task separation and specialization within the board, using the majority principle instead of the unanimity principle for assuming a decision within the board).

2. Sustainability-oriented Corporate Governances

The governance scandals that happened lately, have shown how relevant is the companies' effect on social responsibility. Recently, thanks to a renewed care for the theme of corporate social responsibility (CSR), companies' responsibility to their stakeholders increased as well. As a consequence of that, organizations are progressively recognizing the pivotal role that Corporate Governance plays in improving communications with their stakeholders. The biggest incentive for companies to invest in sustainability is that it actually increases their long-term value creation. Indeed, the companies that realize that their activities reflect on the external environment are able to generate a sense of accountability to the society. For this to happen, companies must recognize the importance of integrating sustainability and strategy. According to Ricart, Rodriguez and Sánchez (2004), as far as a board is concerned, there are at least four questions to be answered in order to enhance the sustainable performance of an organization: Why? That is where it all starts. In order to create a sustainable organization, a board must first set sustainability as a top issue within its agenda and values to uphold; Who? Members and features of a board are key if an organization aims to be sustainable; How? Also the way a board works and its structure can influence the role of a board to shape a sustainable organization; What? There are specific roles the members of a board should cover for sustainability to be effectively spread within an organization.

3. An effective leading model for business

This chapter sums up and deepens the key features that must be implemented by the boards to make their organization thrive in today's business environment. As discussed, leaders of today's organizations need to act in a more participative and responsible manner as well as with more responsiveness and orientation to change. In order to make it happen, some key processes and structures may be put in place within the boards of directors.

Firstly, the board of directors should always engages itself in the self-evaluation and self-reconfiguration activities (Hoppmann, Naegele & Girod, 2019). Furthermore, adaptation of board size is another solution to improve strategic change (Goodstein, Gautam & Boeker, 1994): high levels of board size negatively affect the competency of the board to initiate strategic change in times of environmental changes.

Delegating board activities to committees is a good practice: it shows how boards are increasingly delegating from the group board to the committees to do the heavy-duty work, allowing the board to focus on the broader issues on strategy. However, it adds to the workload of directors and this is a major feature in the rising concern over overboarding. In fact, an increasing number of companies is addressing overboarding by settling a limit to the number of boards and /or committees that a director may join.

Resource dependence theory (Pfeffer J. & Salanick G., 1978) postulates that the board of directors represents a mechanism for managing interdependencies with the environment and contributes to improving the strategic action of the company. Thus, by increasing its diversity, the board improves the availability and access to resources of the external environment. A truly diverse board considers all the dimension of diversity, from age to gender and experiences. This generally experiences a more pointed and stimulating debate and this leads to better decisions for the companies and their stakeholders.

Furthermore, a board composed of more woman executives is more likely to enhance the environmental performance of a company (Glass, et al., 2016, Post et al., 2014). Moreover, equally important are females who hold the top leadership position because these women are the models for those who aspire to rise through the workforce.

As suggested by several studies (e.g. (Rosenstein & Wyatt, 1990, Barnhart et al., 1994, etc.), by several Corporate Governance codes (e.g. the UK Corporate Governance Code) and by the Sarbanes-Oxley Act (1.2) itself, independent and non-executive directors' presence within the board is key, for several reasons. First, because they can guarantee accountability from the top management team, increasing governance efficiency even more in the case in which majority owners are present. Another advantage provided by this kind of directors is the outside perspective they provide the board with.

As emerged by the G4 guideline on corporate sustainability reporting launched by the Global Reporting Initiative (GRI) in 2013, the analysis of materiality is an essential step to understand which actors and which themes are to be considered as priorities with respect to the business strategy of the company. The result of the analysis is usually a Materiality Matrix, which graphically summarizes the relationship of interrelation that exists between the weighting values attributed to the various issues by the company with respect to the stakeholders.

Also, for the purpose of sustainability, a good practice is to tie executive compensation with sustainability (Burchman, 2018). Two major orientation can be distinguished. A first system consists of monitoring executive sustainability performance through metrics and objectives internally developed. On the other hand, some companies monitor performance with the help of third-party standards, such as the Standard Ethics Index and the Dow Jones Sustainability Index (DJSI).

4. The Italian landscape

This chapter aims to study the current situation in which Italian companies are carrying on their operations. The Corporate Governance traits of these companies are taken into account to analyze to what extent the Corporate Leadership scenario in Italy complies with the features previously examined and to identify the most effective governances in the country. Firstly, a general overview about the Italian governance landscape is provided. Secondly, two companies – namely Terna for the non-financial segment and Poste Italiane for the financial segment - are analyzed more in depth, as their leadership models are found to be exemplary for the purposes of the contents of this thesis. The methodology of this investigation consists in analyzing the data retrieved about the several features of Corporate Leadership and Corporate Governance previously discussed. Therefore, the analysis developed is mainly qualitative and it is based on simple descriptive statistics. The objective of this research is to verify and understand how, in effect, the features of today's Corporate Leadership are touching and shaping Italian Corporate Governance systems. All the data and information collected for the analyses carried out in this chapter have been retrieved from the Bloomberg Terminal and from the FTSE MIB companies' reports and are updated to June 2019.

It has been found that, although several differences in the governance system between sectors – particularly between the financial and the non-financial segments – can be identified, overall Italian companies demonstrate to be in line with the main international trends. The analysis highlighted the FTSE MIB companies' commitment to improving the quality of their governance systems, confirming that Corporate Governance is increasingly perceived as a key tool to ensure the proper functioning of the company and a lever to increase its attractiveness to the eyes of institutional investors, rather than as a formal adaptation to regulatory provisions.

The average size of the board of directors for the companies composing the FTSE MIB index is around 12 members. 60% of the companies, mostly from non-financial industries, have a size between 9 and 12 members and the boards of the banking and insurance sectors demonstrate to be the most numerous, with the Banco BPM's board peaking at 24 directors. There is a progressive centralization of the dimension: the number of boards of directors at the extremes (very numerous or very small) is being reduced in favour of the more frequently adopted dimensions - in the range 9–14 there is almost the 90% of the companies observed.

The board of directors is a group of people who called to dialogue, analyze, make decisions to guarantee the governance and sustainability of the company over time. It is therefore important and necessary that this group of people is prepared, has skills, can devote time, namely can actively contribute, each bringing different contents and experiences. The concept of diversity is therefore enriched with elements not only more related to gender, but also to the variety of experiences, geographical origin, knowledge of other markets, registry seniority, permanence in the board itself, or seniority of mandate. In a collegial perspective the directors must be able to guarantee the implementation of the plan and strategies and cover the prospective needs of the organization.

The percentage of women having a seat on the FTSE MIB companies' boards is 35%: more than one third of the directors of the companies composing the main stock index of the Italian Stock Exchange is a woman. These are certainly satisfactory figures, considering that in 2010 females on boards of listed companies were only the 5,6%. This increase is mainly due to the introduction of the law Golfo-Mosca 120/2011, an enactment that states that a share of at least one fifth of the members of Italian listed companies' boards must be reserved for the less represented gender. However, still only the 12,5% of the FTSE MIB companies – 5 out of 40 - have a female chairperson leading their boards.

The average age for the FTSE MIB companies is 57,31 years, with no significant differences between financial and non-financial companies. The duration, or tenure, of a director considers how many years, on an ongoing basis, a director has been part of the same board. The average tenure for FTSE MIB companies is 4,49 years. Segmenting the analysis by sector, one can observe that there are significant differences. In particular, we note that the banking, energy and telecommunications sectors are the ones with the lowest average level of tenure compared to all other sectors.

With reference to the presence of independent directors, in the last three years there have been no significant changes in the average number of independent directors within the boards of Italian issuing companies, with the figures gradually increasing year after year.

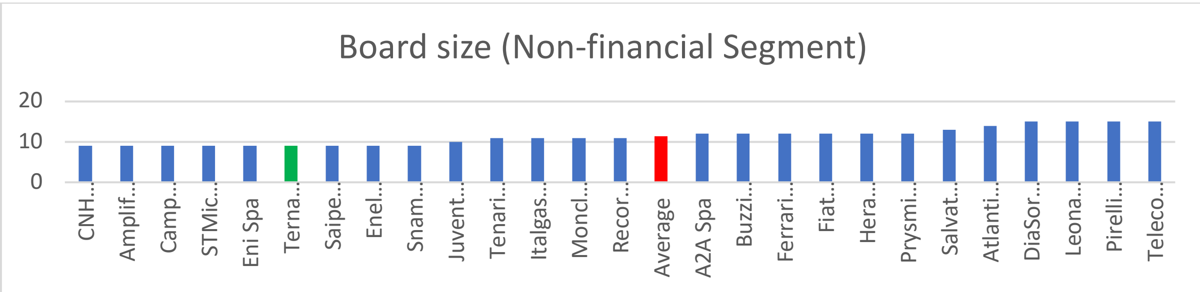
Companies are realizing that societal problems have real implications for the company's long-term strategy and risk profile. The board of directors must have a clear view of the company's impact on the company and must take into consideration any opportunities related to the environment and sustainability that can affect the company's performance and the company's long-term activity. Overall, Italian companies demonstrate to be aware of this, since the 95% of the FTSE MIB companies carry on a materiality analysis to show how they commit to their external stakeholders.

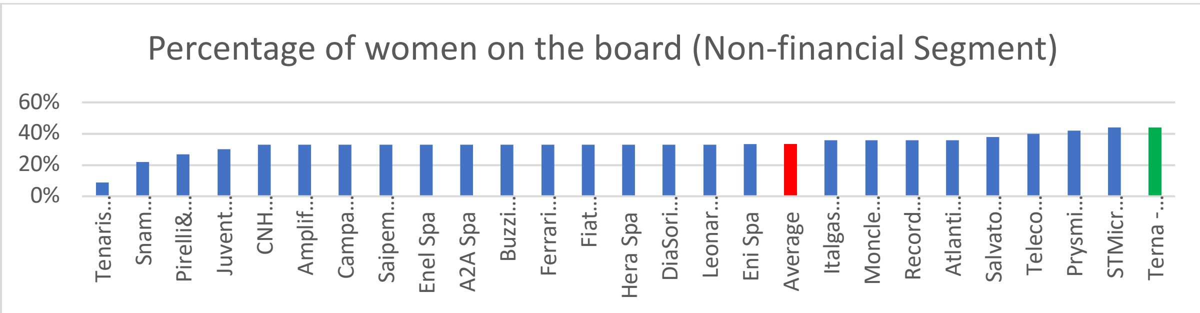
The larger companies have followed the recommendations of the Codice di Autodisciplina on the subject of sustainability by creating greater awareness, sometimes by setting up an ad-hoc Committee (almost 25% of the FTSE MIB companies), more often by assigning sustainability issues to an existing Committee, usually the Nomination and/or Corporate Governance Committee. The table below illustrates the choices of FTSE MIB companies on the structure of the board for integrating sustainability into strategy.

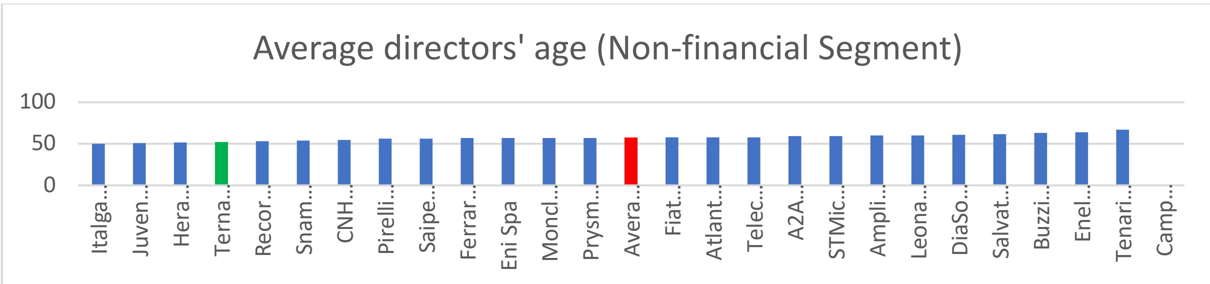
Governance Structures	Number of Companies

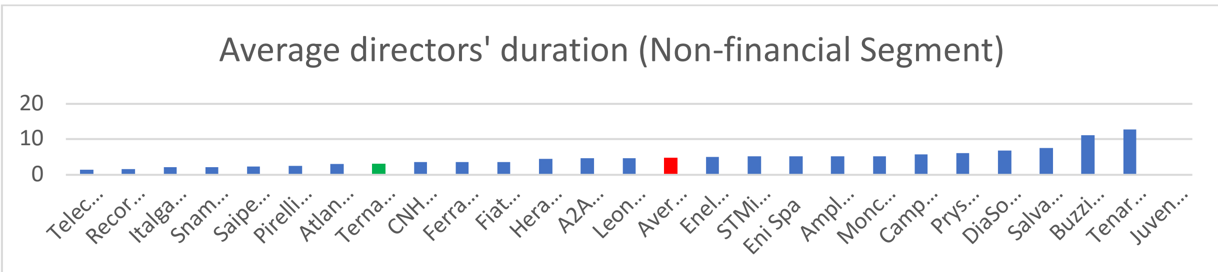
Formal Sustainability Board Committee	9
Integration of sustainability in existing committees	25
Without any kind of structure	6

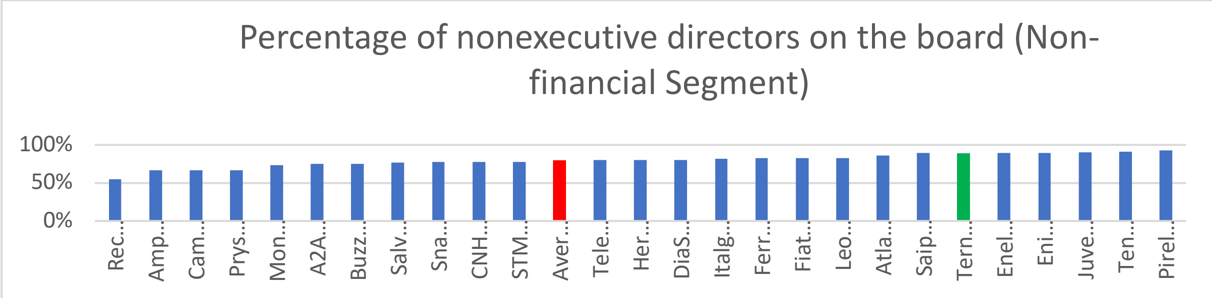
Starting from the non-financial segment, on the basis of the governance practices and trends object of this thesis, Terna – Rete Elettrica Nazionale Spa can be considered the most representative of the leadership features studied so far. Indeed, as the graphs below depicts, Terna is a true Italian excellence in composing an efficient board and ensuring an open and collaborative Corporate Leadership, acquiring different directors by gender, experience, origin and seniority.

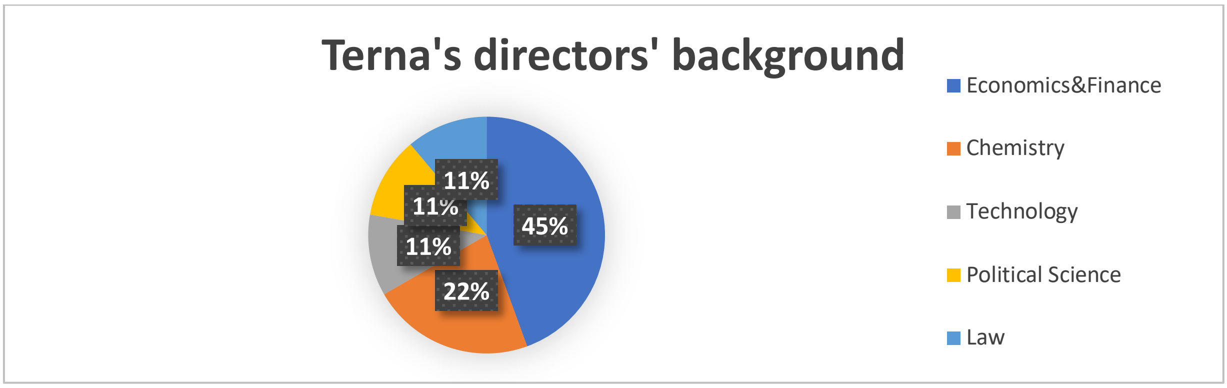






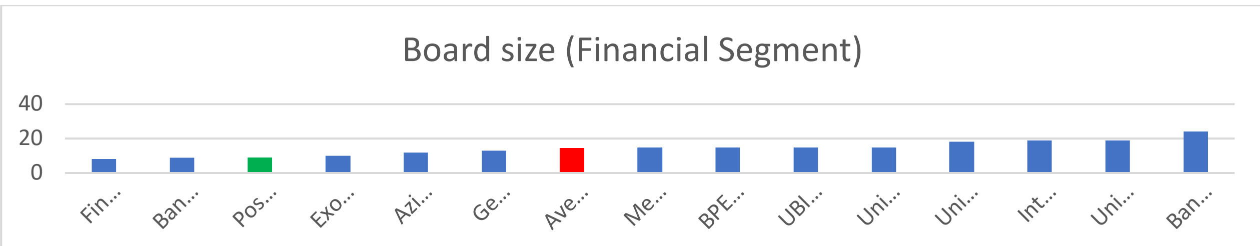


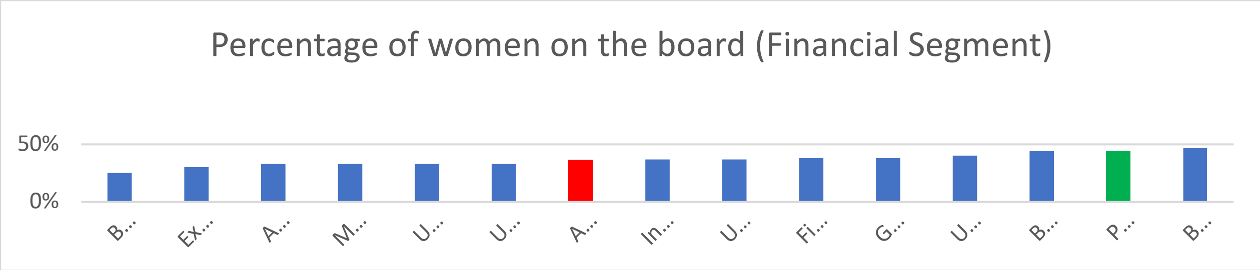


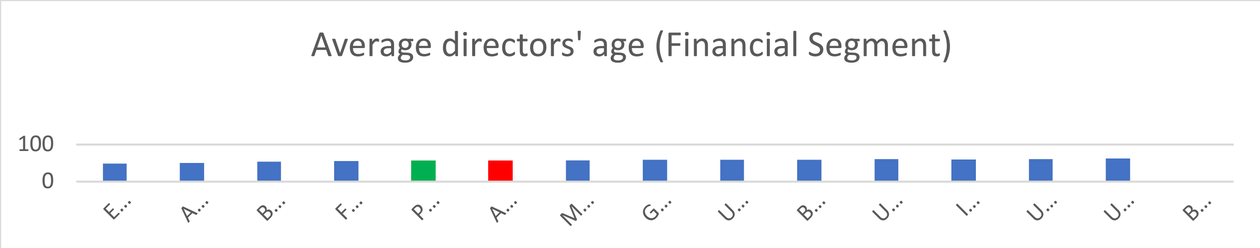


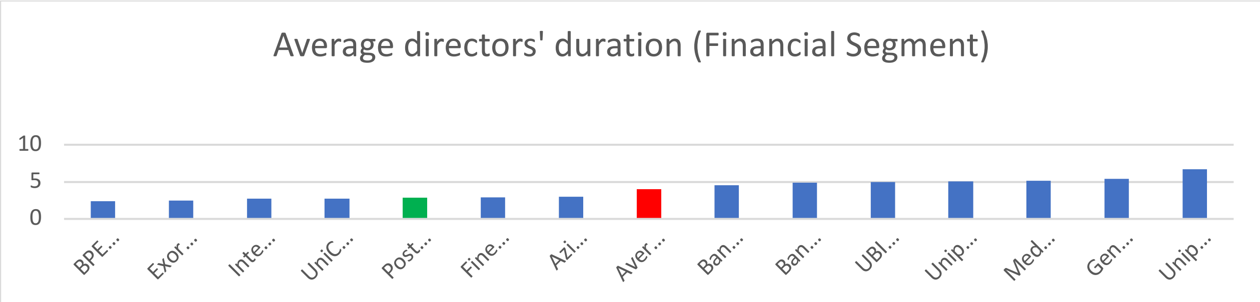
Overall, Terna manages all its activities with great attention to their possible economic, social and environmental repercussions and has identified the adoption of a sustainable way to make business as the main tool to create, sustain and cement a relationship of mutual trust with its stakeholders, functional to the creation of value for the company, society and the environment. In conclusion, Terna's strategy therefore confirms its commitment to combining sustainability and growth, to favor the ongoing energy transition and generate ever greater benefits for the country and all stakeholders. The objective of such a strategy are only achievable through excellent board composition, structure and processes, as well as through a Corporate Leadership that promotes openness to dialogue and commitment towards improving society.

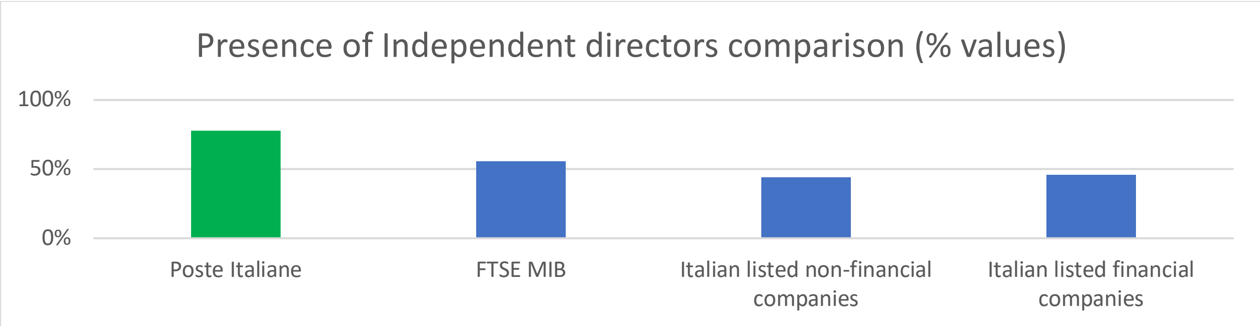
With reference to the financial segment, the best governance structure seems to be that of Poste Italiane. Poste Italiane's board of directors stands out, as emerges from the analysis, for important strengths in terms of its composition. In particular, the qualitative profile of the administrative body is to be highlighted in terms of skills, experiences represented, and diversity declined in all the several meanings, as well as the optimal balance between independent and non-independent directors that allows an efficient functioning of the committees and management effectiveness of any conflicts of interest.

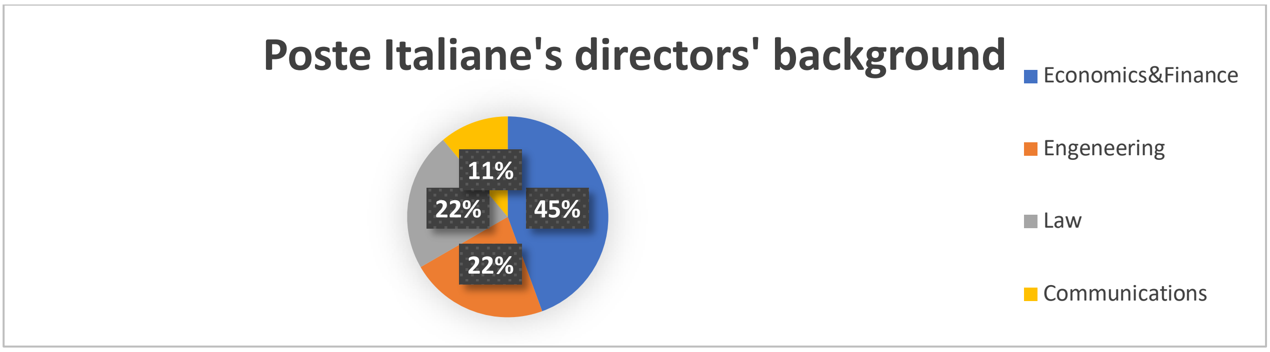












Poste Italiane's strong presence along the country makes it holder of a central role within Italy's growth process. The company took responsibility for such a role and showed to fully understand its implications. The sensibleness of Poste Italiane's leadership allows the company to cultivate meaningful relations with all stakeholders and generate value for the whole society with its operations.

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