

## 1.9. CORPORATE GOVERNANCE IN ITALY: THE EVOLUTION OF CORPORATE GOVERNANCE OF ITALIAN LISTED COMPANIES DURING THE RECENT FINANCIAL TURMOIL

*Doriana Cucinelli*

*Danilo V. Mascia*

### 1.9.1. Introduction

Since the beginning of the financial crisis – yet unfolded ten years ago – policy makers and researchers have devoted remarkable attention to Corporate Governance (CG) and its issues. Indeed, the crisis highlighted the importance of adopting best practice policies, at the corporate level, in order to improve the efficiency of the governance structures and, thus, a company's reputation.

In particular, our chapter aims at providing the main changes that characterized the Italian CG system during the last ten years. Although small- and medium- sized enterprises (SMEs) represent the backbone of the Italian economy, we focus our study only on listed companies. We do so not only because listed firms present a more organized system of CG, but also because the main CG reforms have been especially addressed towards them.

The chapter is structured as follows: Section 1.9.2 presents the main regulatory changes that occurred in the previous years. Section 1.9.3 provides insights into ownership structures and M&As. Section 1.9.4 deeply scrutinizes the characteristics of the Board of Directors (BoD) in Italy. The remuneration system, instead, is analysed in Section 1.9.5. Section 1.9.6 provides information on shareholders' rights, while Section 1.9.7 offers details about the corporate social responsibility of Italian listed firms. Section 1.9.8 provides information on the link between CG and a company's performance. Finally, Section 1.9.9 offers the main conclusions.

### 1.9.2. The Evolution of the Regulation

After the significant reforms adopted in 1998 (Draghi Law), in 2002-2004 (Vietti Law), and in 2005 (with the Savings' Law), in the course of the last ten years the Italian corporate governance system has mainly experienced a number of regulatory changes that have been adopted to comply with a series of recommendations released by the European authorities.

Before presenting details about the major amendments, it is worth mentioning that, following the Draghi Law, in 1999 Italy adopted its first version of the Corporate Governance Code (so-called Preda Code). Such Code provides listed companies with a series of the best self-regulatory practices to be spontaneously adopted. Moreover, the Code is based on the “comply or explain” principle. This means that non-compliance

with the prescriptions of the Code is allowed, though it needs to be clearly motivated (see, among other, Drago et al., 2015; Brogi, 2016). Adopting the Code essentially increases a company's reputation within the market, given that investors usually pay attention to the compliance of "best-practice" policies. Nonetheless, we acknowledge that companies with low free float may be discouraged in adopting such Code because of the high costs related to its implementation. However, data issued by Assonime (the Trade Association for Italian Joint Stock Companies) show that, during the last ten years, the Code has been adopted by around 94% of the companies (this figure is significantly stable throughout the years). The remaining 6% – although non-adopting the Code – provide, in any case, information about the specific corporate governance system as required by the Draghi Law.

We offer now a brief summary of the main amendments of the Code that have been adopted in the last ten years:

- 2010: amendments concerning the remuneration policy;
- 2011: complete revision of the self-regulatory Code including, among others, the prohibition of cross directorship for chief financial officers (CFOs) and the introduction of the Nomination Committee;
- 2014: other revisions regarding the remunerations policies;
- 2015: amendments concerning the internal controls, the board functioning, and the Audit Committee.

In addition to the aforementioned regulatory changes affecting the Code, it is also worth noting that on August 1<sup>st</sup>, 2012, the Golfo-Mosca Law (also labelled as "Pink Quotas" Law) came into force in Italy. The aim of such law was to increase, with time, the proportion of females on boards. As a consequence of its implementation, in June 2016 women covered about 30.3% of seats on the boards of Italian listed companies (Consob, 2016).

### 1.9.3. Ownership Structure and M&A

According to the data provided in its annual report by the Italian Securities and Exchange Commission (Consob), the number of listed companies has smoothly decreased during the last years moving from a total of 270 companies in 2010 to 234 in 2015. Such decline may be motivated by a surge in M&As and in the number of delisted companies (see, in this regard, Consob, 2016).

Table 1.9.1 reports the breakdown of Italian listed companies by their control model. Here we note that the Italian market is characterized by a great ownership concentration. Indeed, as of 2015, the number of controlled firms corresponds to 84% of the total companies (i.e., 197 out of 234). More specifically, about 50% of the firms (115 out of 234) are controlled by a single shareholder that holds more than half of the ordinary shares. More than 22% (52 out of 234) of the companies, instead, are weakly controlled – namely, the single shareholder owns a stake that is lower than half of the ordinary shares. For 30 firms (representing just 13% of the companies) the control is exerted via a shareholder's agreement (so-called "*patto parasociale*"). Finally, the remaining 37 – less than 16% of the total firms – are non-controlled companies.

**Table 1.9.1.** Control model of Italian listed companies

Year	Controlled companies						Non-controlled companies						Total	
	Majority controlled		Weakly controlled		Controlled by a shareholders' agreement		Cooperative companies		Widely held		Non-widely held			
	no.	% mc	no.	% mc	no.	% mc	no.	% mc	no.	% mc	no.	% mc	no.	% mc
2010	128	20.6	53	43	51	12.4	8	3.4	11	20.3	19	0.3	270	100
2011	123	22.3	55	45.8	48	12	8	3.2	8	16.4	18	0.3	260	100
2012	125	22.8	49	44	42	10.1	8	3.2	10	19.2	17	0.7	251	100
2013	122	24.1	48	40.1	38	10.4	8	3.3	10	21.6	18	0.5	244	100
2014	116	25	51	36.8	32	9.6	8	4	13	24	18	0.5	238	100
2015	115	28.1	52	34.8	30	6	7	3.2	15	27.3	15	0.6	234	100

Source: Consob (2016);

Note: mc – market capitalization

However, if we read the data in terms of market capitalization, we observe that weakly controlled companies display the highest share in our sample. Indeed, although having experienced a decline through time, at the end of 2015 the companies belonging to such category accounted for about 35% of the total market capitalization (in 2010 this share was nearly 8% higher). The increasing importance of widely held companies is also quite interesting, as their weight in terms of market capitalization has moved from 20%, in 2010, to more than 27% at the end of 2015. Finally, it is also worth mentioning that the weight of the companies whose control is exerted by a coalition has almost halved during the last years.

**Table 1.9.2.** Identity of the 'Ultimate Controlling Agent' (UCA) in Italian listed companies by industry

	Financial		Manufacturing		Services		Total	
	no.	% mc	no.	% mc	no.	% mc.	no.	% mc.
Families	16	9.8	96	57.3	31	18.1	143	29.2
State and local authorities	1	4.6	6	32.7	12	66.8	19	30.4
Financial institutions	3	0.9	5	1.4	2	0.1	10	0.9
Mixed	6	6.4	5	3.1	3	0.2	14	3.6
No UCA	28	78.3	16	5.6	4	14.8	48	35.9
Total	54	100.0	128	100.0	52	100.0	234	100.0

Source: authors' elaboration from data provided by Consob (2016)

Note: mc - market capitalization

Regarding the identity of the Ultimate Controlling Agent (UCA), in Table 1.9.2 we report the latest available data (i.e., data related to 2015) by sector of activity. Here we observe that the majority of companies, corresponding to 61% (143 out of 234), are owned by families. Most of them belong to the manufacturing industry (96 companies) and account for more than 57% in terms of market capitalization (of the whole manufacturing industry). These figures corroborate the widely held view according to which the presence of "industrial families" is probably the main feature of the Italian corporate governance system. Interesting information comes also from state-owned companies. Here the table displays that most of them (i.e., 12 out of 19) operate in the services industry. Although, at first glance, their significance within the sector of

activity might appear limited – their weight is just 23% (i.e., 12 out of 52 ‘services’ firms) –, state-owned companies account for more than 65% of the services industry in terms of market capitalization.

#### 1.9.4. The Board of Directors

When we talk about corporate governance, we refer to the system by which companies are directed and controlled. This system can assume, in general, one of the following structures:

- the single-tier;
- the two-tier;
- the traditional model.

In particular, the first model (single-tier) is also labeled as “English model” because it came to light in the UK and is largely employed in English-speaking countries. In this case, the firm is governed by one corporate body that has both the management as well as the monitoring function.

The two-tier model is defined by the German law and, in this case, two separate bodies exist, which operate independently. In particular, there is a management body that has the management function, and the supervisory board with both administrative and monitoring functions. In this model, the components of the supervisory board are usually elected by the shareholders and the members are independent. In general, the most important role of the supervisory board is to guide and monitor the management body – namely, it has the responsibility of defining the general policy that the management board has to implement. Moreover, in the supervisory board there might also be a workers’ representativeness. Nowadays, this model is the most widespread among European countries.

Finally, in the traditional model (or Italian model) two separate bodies are defined: the Board of Directors (BoD) and the Board of Auditors. The former is a collective body with management function; while the latter has the monitoring and control functions (see Table 1.9.3).

In Italy, the most widespread model is the traditional one. Table 1.9.4 shows the evolution of the Italian listed firms during the financial turmoil by corporate governance models. We can observe that effectively, in the last years, the percentage of firms that adopt the traditional model is always higher than 85%. The reason behind such huge percentage may be due to the fact that, before the implementation of the 6/2003 Legislative Decree, no alternative models were allowed.

As a result of this tradition (i.e., a CG system oriented to the adoption of the traditional model), also the Preda Code based its recommendations on the traditional model. Just in the last section, the Code underlines that if a firm decides to adopt a single or a two-tier model, the guidelines described in the previous sections can be adapted to the specific context. For this reason, in this chapter, we will talk about the board of directors, in general, as the body that plays the management function of the firm.

**Table 1.9.3.** The corporate governance models

<i>Model</i>	<i>Bodies</i>	<i>Bodies Election</i>
Single-Tier	<ul style="list-style-type: none"> <li>• Shareholders meeting</li> <li>• Board of Directors</li> <li>• Internal committees</li> </ul>	The assembly appoints the BoD which appoints its committee among its members
Two-Tier	<ul style="list-style-type: none"> <li>• Shareholders meeting</li> <li>• Supervisory committee</li> <li>• Management committee</li> </ul>	The assembly appoints the Supervisory committee, which defines the Management committee
Traditional	<ul style="list-style-type: none"> <li>• Shareholders meeting</li> <li>• Board of Directors</li> <li>• Board of Auditors</li> </ul>	The assembly decides the members both of the BoD and the Board of Auditors

*Source: authors' elaboration*

**Table 1.9.4.** The Italian listed firms and the corporate governance models

<i>Model</i>	<i>2008</i>		<i>2009</i>		<i>2010</i>		<i>2011</i>		<i>2012</i>		<i>2013</i>		<i>2014</i>	
	<i>n</i>	<i>%<sup>93</sup></i>	<i>n</i>	<i>%</i>	<i>n</i>	<i>%</i>	<i>N</i>	<i>%</i>	<i>n</i>	<i>%</i>	<i>n</i>	<i>%</i>	<i>n</i>	<i>%</i>
Single-tier	4	0.1	4	0.1	3	0.1	3	0.1	2	0.1	2	0.1	2	0.1
Two-tier	7	12.0	7	11.7	7	8.3	7	8.1	6	7.5	5	8.6	4	10.7
Traditional	278	87.9	267	88.2	260	91.7	250	91.8	243	92.4	237	91.3	232	89.2
Total	289	100	278	100.0	270	100.0	260	100.0	251	100.0	244	100.0	238	100.0

*Source: authors' elaboration on Consob data (2016)*

With regard to the BoD, both executive and non-executive directors compose this body, where the latter may also be independent. In the next subparagraphs, we analyse the roles of such board members and we detect the evolution of them in the Board of Directors of Italian listed firms.

#### *The Executive and Non-Executive Directors*

In the Board of Directors, we can distinguish two main categories of members: executive (when the members have some executive role in terms of management powers or are in the executive committee) and non-executive directors. When the President of the Board of Directors is also the Chief Executive Officer (CEO), the BoD should define a Lead Independent Director (LID)<sup>94</sup>. The LID has the role of collaborating with the president in order to ensure the flow of information between the president and the other BoD members<sup>95</sup>.

All members of the BoD should have suitable education, professional, managerial and experience skills with the aim of ensuring the adequate competence with regard to their duties.

<sup>93</sup> The percentage refers to the market capitalization: it is measured as the ratio between the market capitalization of listed firms that adopt the corporate model and the total market capitalization of the sample of listed firms.

<sup>94</sup> Data show that the number of cases where Chairman and CEO are the same person have decreased. Indeed, from 96 cases in 2012, in 2015 such situation appeared only in 81 companies (corresponding to 36% of the total). These numbers refer only to non-financial companies; evidence also highlights that the occurrence of these situations is inversely proportional to the firms' size (Assonime, 2016).

<sup>95</sup> Assonime (2016) underlines that 96 listed companies (42% of the total) elect the Lead Independent Director. The nomination of LID is more frequent when it is recommended by the Corporate Governance Code (60 cases on 81), while in the remaining cases (36) the nomination is on voluntary base.

Non-executive directors play the role of external experts that enrich boards' discussions, allowing BoD members themselves to analyze the different issues from several points of view. Furthermore, the presence of non-executive directors is crucial in subjects where executive directors and shareholders have contrasting views – among others, with regard to the remuneration of the BoD's members, as well as in terms of both the internal control and the risk appetite themes.

The average number of directors in the management body of Italian listed firms has roughly remained unchanged if we consider the BoD and the Management Board, while it has increased with regard to the Supervisory Board (from 12.4 in 2012 to 17.0 members on average in 2015). In particular, the average number of components of the BoD, after a short increase in 2010-2011, has returned to the same level shown in the first years of the crisis, while the Management Board has experienced a gradual but continuous decrease in the number of boards' members (from 7.7 in 2008 to 6.0 in 2015) (Table 1.9.5).

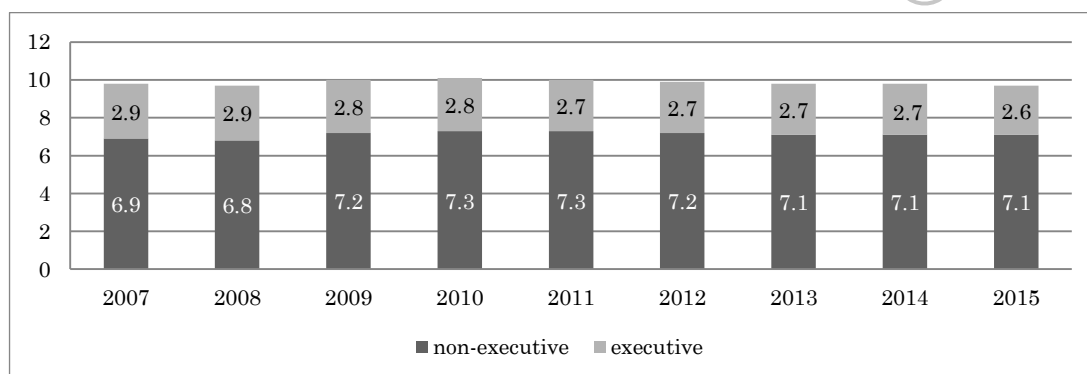
**Table 1.9.5.** The average number of directors among the different CG models

<i>Year</i>	<i>BoD</i>	<i>Management Board</i>	<i>Supervisory Board</i>	<i>Companies</i>
2008	9.9	7.7	12.4	287
2009	9.9	7.7	12.4	273
2010	10.0	7.4	13.0	262
2011	10.2	6.5	14.3	256
2012	10.0	6.3	14.2	242
2013	9.9	6.6	17.4	237
2014	9.8	6.5	17.3	225
2015	9.8	6.0	17.0	228

*Source: authors' elaboration on Consob data (2016)*

With regard to the specific composition of the Board of Directors, the separation between non-executive and executive directors has remained invariant during the last years. In particular, non-executive directors – who represent more than 70% of the total (Figure 1.9.1) – cover the majority of seats of Italian BoDs.

**Figure 1.9.1.** Executive and non-executive directors



*Source: authors' elaboration on Assonime data*

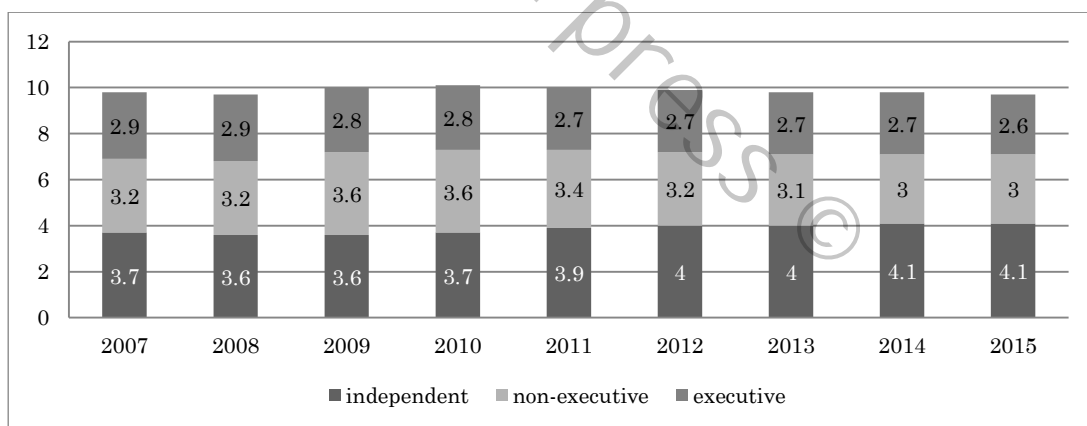
### *The Independent Directors*

An important role is played by the independent directors, who are a particular type of non-executive directors with specific characteristics of independence from the company. The Corporate Governance Code defines the independent director as the director that has no relationship with the company or with the subjects that are linked to the company. The Code also prescribes that – with regards to the companies listed in the FTSE MIB – this type of directors should be at least equal to one-third of the total number of the BoD's directors; in any case, the minimum number of independent directors cannot be lower than two. Additionally, the number of the independent directors should allow the creation of the committees, internal to the BoD, as requested by the Code.

The presence of independent directors is most crucial when the company's ownership is fragmented. Indeed, the independent directors should control the executive directors' work and ensure the alignment between the shareholders' objectives and the executive directors' interests. However, in companies where the ownership is more concentrated – even if the problem of the alignment of executive directors and shareholders interest continues to exist – having independent directors is central to ensure that BoD's decisions are not influenced by the ownership.

The evolution in the Italian BoD composition is reported in Figure 1.9.2. During the last years, the presence of independent directors has slightly risen – from an average value of 3.7 in 2007 to 4.1 members in 2015 –, while the average number of total directors has almost remained constant.

**Figure 1.9.2.** The presence of independent directors in the BoD



Source: authors' elaboration on Assonime data

### *The Board Diversity*

Since the beginning of the financial turmoil, authorities and researches have focused their attention on the board diversity under several aspects. In 2011, the Italian Parliament defined a new regulation on “gender quotas” in listed companies. Most of

these legislative initiatives are based on the idea that the presence of women on boards could significantly affect the quality of the corporate governance system. Many authors have analyzed the issue of gender diversity, notably with regards to the relationship between the presence of women on board and both firms' performance and risk (Adams and Ferreira, 2009; Darmadi, 2011; van Ees et al., 2003; Schwizer et al., 2012; Cucinelli, 2013; Cardì and Lucarelli, 2017). Results underline that the influence of women on firms' performance is ambiguous, whereas their presence on the boards is usually associated to a lower level of risk.

Consob (2016) underlines that the presence of women on boards of directors strongly increased, broking the 30% threshold at the end of June 2016 (corresponding to a total of 683 women); before the issue of the "Pink quotas" Law, women held only 11.6% of board positions (corresponding to a total of 288 women, at the end of 2012). Additionally, before the approval of the "pink quotas" law, less than 52% of listed companies had at least one woman in their BoD. Following the adoption of such law, there has been a growing trend in terms of female presence in the BoDs. So far (data from 2016), women cover at least one seat in 99.1% of Italian listed companies' BoDs (Table 1.9.6).

**Table 1.9.6.** Gender diversity on boards

<i>Year</i>	<i>N. of female</i>	<i>% on total n. of directors</i>	<i>Firms with at least one woman</i>	<i>% on total n. of companies</i>
2008	170	5.9	126	43.8
2009	173	6.3	129	46.4
2010	182	6.8	133	49.6
2011	193	7.4	135	51.7
2012	288	11.6	169	66.8
2013	421	17.8	202	83.5
2014	521	22.7	217	91.9
2015	622	27.6	230	98.3
2016 (June)	687	30.3	228	99.1

*Source: authors' elaboration on Consob data (2016)*

With regard to the board diversity, other aspects could be investigated, for example the presence of foreign directors, the age, the education and the background of directors. Several studies (Richard, 2000; Fairfax, 2005; Ruigrok et al., 2007; Masulis et al., 2012; Francis et al., 2015; Gottesman and Morey, 2015; McGuinness et al., 2017) find that the presence of foreign directors, academic professors and, more generally, members with a higher level of education positively affects the firms' performance.

Italian listed companies experienced an increase not only in terms of women on boards, but also with regards to the number of foreign directors (from 5.0% in 2012 to 7.1% in 2015), and to the level of education of the board members (from 15.3% of members with a postgraduate degree to 20.5% in 2015); instead the average age has decreased (from 57.6 to 56.7 years, respectively, in 2012 and 2015). Finally, with regard to the professional background, the majority of directors are managers – although their representativeness has declined over the years. In contrast, the share of consultants has risen from 15.4% in 2012 to 21.2% in 2015. Academics, instead, remain roughly at the same percentage (8.0%).



These evidences differ between the two groups of male and female. In particular, women on boards are usually more educated and younger than men, and they typically work as academics or consultants/professionals. Surprisingly, the link between directors and family ownership rolled over the years. In 2012, about 25.8% of women directors show a family relationship with the controlling shareholders; whereas such percentage declines to 13.1% in 2015. In contrast, male directors experienced an increase (although modest) in such relationship, passing from 14.9% in 2012 to 16.9% in 2015, thus overcoming the female one (Table 1.9.7).

**Table 1.9.7.** The board diversity

Year and gender		% of directors	% f.	Av. age	family <sup>96</sup>	% first degree	% p.d.	% m.	% consultant/professional	% a.	% other
'12	Directors	100	5.0	57.6	16.2	84.4	15.3	76.4	15.4	8.0	0.2
	F	11.79	5.3	50.5	25.8	82.7	20.9	68.7	17.8	13.2	0.4
	M	88.21	4.9	58.5	14.9	84.6	14.5	77.4	15.1	7.4	0.2
'13	Directors	100	5.7	57.3	16.3	84.9	16.5	75.0	16.4	8.2	0.5
	F	17.88	7.0	50.2	18.2	86.8	23.2	63.4	23.4	12.8	0.5
	M	82.12	5.4	58.9	15.9	84.5	15.0	77.5	14.9	7.2	0.5
'14	Directors	100	6.0	57.0	16.2	84.8	18.0	72.9	18.6	8.0	0.5
	F	22.70	6.3	50.7	14.8	87.2	26.0	59.4	29.0	11.0	0.6
	M	77.30	5.9	58.9	16.6	84.1	15.6	76.8	15.5	7.1	0.5
'15	Directors	100	7.1	56.7	15.8	85.6	20.5	70.3	21.2	8.0	0.5
	F	27.77	7.5	50.9	13.1	88.5	29.7	54.1	33.2	12.2	0.5
	M	72.23	7.0	58.9	16.9	84.5	16.7	76.5	16.6	6.4	0.6

Source: authors' elaboration on Consob data<sup>97</sup>

Note: f. – foreigners; p.d. – postgraduate degree; m. – managers; a. – academic

### *The Internal Committees*

In order to improve the efficiency and efficacy of the BoD, specific committees with the proposal and advisory functions can be defined. They can also have crucial roles when treating sensitive issues, thus helping the BoD in performing its duties.

The most common committees are i) the nomination committee; ii) the remuneration committee, and iii) the internal control committee. The Corporate Governance Code regulates this topic with a series of articles that, however, leaves companies with a discrete level of freedom. In fact, the BoD may decide to define three different committees, one for each function, or, alternatively, it may create fewer committees and group some functions within the same committee. If the BoD decides not to form one of the three committees (and in particular the internal control committee), it must explain the reasons in a specific relation. However, among the 47 firms that did not define the three committees, only 34 of them provided an explanation in 2015. The Corporate Governance Code, in the last version of 2015, defines a new committee dedicated to the supervision of the sustainability related to the enterprise activity and its interaction with the stakeholders.

Each committee usually includes at least three members. However, if the number of directors in the BoD is less than eight, just two members may form the committees.

<sup>96</sup> Family refers to the number of directors linked through a family connection to the controlling shareholder.

<sup>97</sup> Data referred to this table are available only from 2012 until 2015.

The internal control and the remuneration committee should be formed by independent directors or, at least, be led by an independent president – according to the CG Code prescriptions.

In the last decade, the number of internal committees in the BoD of Italian listed companies has increased. Firms adopting the remuneration committee in 2008 were about 80% of the whole listed companies; such share increased to 90% in 2015. With regard to the nomination committee, the percentage has increased from 20.3% in 2011 to 53.9% in 2015. In most of the cases, the members of this committee are independent directors and the president is usually a non-executive director, in line with the Code's recommendations. Finally, referring to the internal control and risk management committee, firms adopting this committee rose from 89% in 2011 to 93% in 2015. As shown in Table 1.9.8, the internal control committee is the most widespread one.

**Table 1.9.8.** The committees inside the BoD of Italian listed firms

Year	Remuneration committee		Nomination committee		Internal control committee	
	n. of firms	weight (%)	n. of firms	weight (%)	n. of firms	weight (%)
2008	234	80.4	-	-	-	-
2009	229	82.1	-	-	-	-
2010	229	84.2	43	15.8	240	88.2
2011	225	87.9	52	20.3	228	89.0
2012	215	88.8	95	39.2	220	90.9
2013	210	88.6	112	47.2	216	91.1
2014	200	88.8	114	50.6	206	91.5
2015	204	89.5	123	53.9	212	93.0

Source: Authors' elaboration based on Consob's data<sup>98</sup>

### 1.9.5. The Remuneration System

During the last decades, many authors have analysed the relationship between the BoD remuneration policy and the firms' performance (inter alia, Mallin et al., 2015; Melis et al., 2015; Provasi and Riva, 2015). Empirical evidence shows the existence of a significant relationship between the two variables. Additionally, the topic related to the remuneration policy has become a crucial issue for financial authorities.

The Corporate Governance Code devotes a specific article to this theme. Setting a given level of remuneration allows the company to attract, maintain and motivate people with high professional and management skills.

With regard to the executive directors and directors with strategic role, their remuneration should be aligned to the shareholders' objectives – in order to avoid issues like conflict of interests –, in a long term perspective.

Usually, a remuneration committee composed by independent directors is defined inside the Board of Directors. The role of this committee is to propose a remuneration policy for the Board's members. However, it is up to the Board to define the remunerations of directors and managers with strategic roles.

<sup>98</sup> Data refer to nomination and internal committees are available only from 2011.

The remuneration of executive directors can be formed by a fix and a variable component, where the former should be sufficient to remunerate the director in case the annual tasks are not achieved. With regard to non-executive directors, they receive a remuneration that is not linked to the economic results and they do not receive company's stocks as remuneration unless the shareholders vote in this sense and motivate the reason for such a decision.

In the last years, the average remuneration, paid to the BoD members, has increased from 235.000 to 244.000 euro. However, as shown in Table 1.9.9, the average remuneration changes on the basis of the role covered. The Chief Executive Officer receives the highest remuneration. His compensation shows a positive trend during the observed period, reaching almost one million euro. The second highest remuneration is paid to the President, when he is executive, with an average value equal to 623.000 euros in 2015.

**Table 1.9.9.** Remuneration policy (data in thousands of euro)

<i>Year</i>	<i>Remuneration non-equity</i>	<i>CEO</i>	<i>President (executive)</i>	<i>Executive directors</i>	<i>Non-executive directors</i>	<i>Independent directors</i>
2008	235	727	579	367	75	53
2009	219	672	555	340	83	51
2010	226	791	513	404	74	55
2011	233	824	596	434	79	55
2012	225	768	482	448	73	55
2013	229	846	491	499	76	54
2014	230	843	585	589	67	52
2015	244	979	623	392	67	55

*Source: Authors' elaboration based on Assonime's data.*

With regard to the directors (executive, non-executive, or independent), we can observe a great difference in terms of compensations. Executive directors experienced an increase in the average remuneration during the analysed period – from 367.000 in 2008 to 499.000 in 2013 and then back to 392.000 in 2015 –, whereas the remuneration of non-executive and independent directors remained almost constant, around 74.000 and 55.000 euros, respectively. One of the reasons that explain the difference between the compensation of executives and non-executives is linked to the remuneration structure. Indeed, with regard to the executive directors, their compensation largely depends on performance-related elements (16%), whereas the remuneration of non-executive directors (and independent ones) is usually based on fix components only.

### 1.9.6. Shareholders' Rights and Corporate Governance

One of the most common problems characterizing joint-stock companies is the one concerning the agency theory, namely the conflict of interest between principal and agent (i.e., between managers and shareholders, in this specific case). In fact, managers act as the agent for the shareholders (principals) under the assumption that managers work in order to maximize the shareholders' value. However – and this is what the conflict is about – such aim is not always pursued. Therefore, monitoring the activity of

managers becomes crucial for shareholders. In order to minimize the issue of the conflict of interest, a series of shareholders' rights have been defined.

Two main categories of shareholders' rights are provided:

- Patrimonial rights;
- Administrative rights.

Patrimonial rights include, among others, the right to receive dividends; the right to be attributed a proportional part of the firm's assets when the company is wound up (provided that the assets are greater than liabilities)<sup>99</sup>; pre-emptive rights whether the company decides to issue new stocks; and, finally, the right to withdraw from the company.

As regards the administrative rights, we can mention the right to participate and vote in general meetings, and the right to receive the information about the company and its conduction. Indeed, the administrative rights are those that allow shareholders to control the management activity.

With regard to the specific power that shareholders have against Corporate Governance, in Italy the law allows shareholders to define, modify and resolve the board of directors. The initial directors are appointed via bye-laws (Civil Code, art. 2328) and, after the first appointment, the subsequent directors are voted by the general meeting<sup>100</sup>. If shareholders want, they can – with just cause – remove and change directors.

However, as joint-stock companies can issue different types of stocks, the rights incorporated to the stocks may differ. Indeed, companies might attract investors by improving the patrimonial rights while reducing the administrative ones or vice versa. In all cases, there are some rights that cannot be eliminated, such as the right to receive the dividends. Examples of particular types of shares are privilege shares that incorporate an advantage during the distribution of dividends; shares with limited administrative rights, for instance, "saving shares" that do not offer voting rights; shares in favour of employees, for example, stock options.

Finally, the relationship between Corporate Governance and shareholders of Italian listed companies is treated also in the CG code (Art. 9). In particular, the Code asks the board of directors to increase the participation of shareholders to the general meetings and to ease the exercise of shareholders' rights. Indeed, the BoD has to do its best in order to reduce the difficulties and the costs to participate at general meetings, and has to favour as well the exercise of the right to vote (with regards, for instance, to the place, the date and the time when holding the meeting).

### **1.9.7. Corporate Governance and Social Responsibility of Italian Listed Companies**

The issue of Corporate Social Responsibility (CSR) has received particular attention by researchers and policy makers in the last decades. The CSR can be defined as the sense

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<sup>99</sup> This right has a value only if, at the time of closure of the company and after the payment of the total liabilities, some assets remain available for the division among shareholders.

<sup>100</sup> It is a meeting open to all shareholders of the company, where shareholders and the management discuss the company's activities and take the most important decisions.

of responsibility that a firm has towards the community and the environment in which it operates. The European vision of CSR's is characterized by two main concepts: on one hand, the close relationship between competitiveness, social cohesion and the development of knowledge among companies and, on the other hand, the belief of a strong interaction between CSR and sustainable development (ISFOL, 2013). The CSR's principles are based on the fact that a firm should achieve not only performance goals, but also social and environmental objectives. Indeed, the firm should create value not only for its shareholders, but also for all stakeholders. In particular, the firm should be committed to sustaining the territory where it operates and the social context related to it.

During the last years, in Italy, the CSR has been developed more systematically and with greater attention. The Ministry of Labor and Social Policies and the Ministry of the Economic Development have worked hard to develop the Corporate Social Responsibility at the national level. Many associations (Associazione Bancaria Italiana, Italian Chambers of Commerce, Confindustria, and also many universities) have played an important role in the dissemination of the CSR principles among financial and non-financial firms.

The Annual report published by the "Osservatorio Socialis"<sup>101</sup> shows that 2016 has been an excellent year for the CSR in Italy. Indeed, in the last year, 80% of Italian companies declared their commitment in the CSR initiatives. This data is the highest in the last fifteen years. The Corporate Social Responsibility is transforming from an accessory tool to essential value for firms. Furthermore, starting from January 2017, firms with more than 500 employees must publish, in addition to the economic and financial results, also the performances linked to social, gender, human rights and anti-corruption policies – in line with the EU Directive 95/2014. Results of the annual survey on CSR show that the majority of companies invest in CSR initiatives, and that the two main aims pursued by companies are the improvement of the firm's reputation and the sustainable development.

Corporate Governance and Corporate Social Responsibility may, at first glance, be perceived as contrasting areas. While the former aims at maximizing the firm's profit, the latter points at boosting the benefits for the external stakeholder. The main objective of managers is to maximize the firm's value in line with the shareholders' goals. A possible increase in stakeholders' value usually occurs at the expense of shareholder value maximization. However, a sound Corporate Governance should maximize the value of both shareholders and stakeholders. The Code of CG underlines this aspect and emphasizes the importance of a sustainable development as a requirement for risks' minimization and firms' value creation, which are the first goals that the CG should achieve.

Italian listed firms have long since integrated the theme of CSR in their agenda. Molteni et al. (2013) analyse the CSR in the Italian listed firms. Authors underline that 70% of the observed companies offers a clear definition of CSR in its report, more than half is engaged in defining specific themes of CSR, 49.9% verifies periodically the CSR progress in its company, about two BoD out of three are periodically updated on the

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<sup>101</sup> Osservatorio Socialis is an Italian newspaper that is specialized in Corporate Social Responsibility.

social and environmental risks linked to the firms' activity, and one every four firms links part of the remuneration to the socio-environmental performance.

It is worth mentioning that researchers have identified four different type of behaviour in terms of a company's attitude towards the CSR. In one case, the BoD is interested in the CSR topics and uses a collegial approach. The directors' competences are assessed and there is the CSR manager. In the second case, the BoD is interested in CSR themes, but there are specific committees that work with CSR manager. In the third group, the BoD is interested in CSR themes that refer only to the risk management, and also in this case there is a CSR manager. Finally, in the fourth case the BoD is engaged in CSR themes only for the strategic definition and it is not interested in the monitoring of the development of social and environmental thematic; furthermore, firms adopting such approach do not have a CSR manager. Results confirm that in the last years the CSR has become an important issue for Italian listed companies and the BoD is the body that defines the strategic guidelines and objectives regarding the social and environmental activities.

### **1.9.8. Corporate Governance and Performance**

In this section of the chapter, we provide a brief review of the most recent papers that have investigated how corporate governance may impact on firms' performance.

The first study we examine is the one by Rossi et al. (2015). The authors explore whether the quality of corporate governance – measured via a Corporate Governance Quality Index (CGQI) – affects the performance – proxied either by a Tobin's Q or a ROE and ROA – of Italian listed companies during the financial crisis. Their study is of a cross-sectional nature and based on data from the fiscal year 2012. They observe that good Corporate Governance exerts a positive effect on the performance of firms.

Minichilli et al. (2016), instead, compare the performance (measured, alternatively, as ROA or ROE) of family and non-family listed companies in Italy. More specifically, their investigation is based on a wide dataset covering the years 2002-2012. This allows the authors to explore for differences in firms' performance during pre- and post-crisis periods. Overall, they find that family-controlled companies show better performances during the crisis.

It is also worthy of note that, following the adoption of the so-called "Pink quotas" Law, there has been a growing literature on the existence of a possible correlation between gender diversity and performance (proxied either via accounting or market measures). Among the studies that employ the formers, Di Donato et al. (2016) – analysing a sample of Italian listed companies, excluding firms in the financial industry, during the years 2011-2013 – find that the increase of women on boards is negatively correlated with the firm's performance (as proxied by ROA). Similarly, Cardi and Lucarelli (2017) – analysing the boards of 83 IPOs listed on the Italian stock exchange across the years 2004-2014 – observe that higher profitability is associated to lower female participation in the Board of Directors (BoD). In contrast, considering the studies that employ the latter, we find that Gordini and Rancati (2017) – using data on Italian

listed companies during the years 2011-2014 – observe a positive correlation between gender diversity and Tobin's Q.

Other studies have also investigated the effects of gender diversity on some operating performance regarding the BoD. For instance, Schwizer et al. (2012) – based on a sample of 237 listed companies throughout the years 2007-2009 – observe that the presence of women on boards is positively correlated to the monitoring activity, as well as to the frequency of the audit committee meetings.

Overall, we observe that the presence of women on boards has not a clear and precise effect on the various dimensions of the firm's performance. Hence, we are not able to definitely conclude that the Italian "Pink quotas" law has generated a positive effect on companies.

### 1.9.9. Conclusion

The functioning of the Corporate Governance system in Italy has attracted the interest of regulators and researchers in the last ten years – a period characterized by a long-lasting crisis. The financial turmoil, indeed, highlighted the importance of adopting best practice policies – at the corporate level – in order to improve the efficiency of the governance structures and, thus, the company's management and reputation.

Our chapter has focused on the main changes that characterized the Italian Corporate Governance system during the last ten years. Although SMEs represent the backbone of the Italian economy, we have dedicated our study only on listed companies. We mainly did so because the majority of CG reforms were especially addressed to them.

Data provided by Consob highlight that the number of listed companies has smoothly decreased in the last ten years, due to a surge in M&As and in the number of delisting.

In Italy, the most widespread CG model is the traditional one. Indeed, out of 234 listed companies, 228 employ the traditional model, 4 use the two-tier model, and only 2 adopt the single-tier design.

The members forming the Board of Directors belong to two main categories, that is executive and non-executive directors. Moreover, among the latter, there is a share of independent directors. As we observed, the average number of non-executive and independent directors has increased throughout the years, whereas executive directors have marginally decreased.

With regard to the gender diversity characterizing the BoD, thanks to the "Pink quotas" law, the number of female directors in Italian listed companies has strongly increased, namely from 5.9% in 2007 to 30.3% in 2016. Several authors believe that a greater share of women on boards generates a positive impact on the firms' performance, whereas it negatively affects the risk appetite.

Referring to the directors' compensation, data show an increase, through time, in the remuneration of all components of the BoD (both executive and non-executive). However, executive directors experienced a greater increase in their compensation compared to non-executive peers. As regards the formers, such rise is explained by an

increase in both the fix component and in the performance-related elements; whereas the growth in non-executive directors' remuneration is associated with the increase in the fix component only.

Finally, concerning the attention to the social environment, 2016 was the Corporate Social Responsibility year. Indeed, at the end of 2016, 80% of Italian companies declared their commitment to CSR initiatives. This data is the highest in the last fifteen years. Indeed, there has been a change in the view of the Corporate Social Responsibility that is now felt as a value for the companies rather than a simple accessory tool.

Overall, we can conclude that the Corporate Governance of Italian listed firms has notably improved throughout the crisis years. The compliance with the several guidelines and laws issued by Regulators and Authorities has also led to an enhancement in the composition of the BoD and its internal committees. Finally, the increased attention in terms of social responsibility highlights the still-growing interest of the companies towards a wider share of stakeholders and the whole environment more generally.

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