BOOK REVIEW: "CHALLENGES AND OPPORTUNITIES IN ITALIAN CORPORATE GOVERNANCE"

by

Salvatore Esposito De Falco, Federico Alvino, Nicola Cucari, Luigi Lepore
(Virtus Interpress, 2019)

Eric Pichet *

* KEDGE Business School, France

OPEN ACCESS

How to cite this paper: Pichet, E. (2019). Book review: "Challenges and opportunities in Italian corporate governance". *Corporate Governance and Sustainability Review, 3*(2), 76-79. https://doi.org/10.22495/cgsrv3i2p8

ISSN Online: 2519-898X
ISSN Print: 2519-8971

Received: 05.09.2019
Accepted: 11.11.2019

JEL Classification: G2, G3, M2
DOI: 10.22495/cgsrv3i2p8

"Challenges and Opportunities in Italian Corporate Governance" is a picture of corporate governance mainly but not exclusively in Italy in 2019. As we all know, since the late 1990s and following the serial business scandals corporate governance has become a powerful tool to improve transparency, accountability, and integrity in companies and in recent years, the Italian corporate governance system has been living a "new era" due to different reforms in parallel with the other rich countries that modified the corporate governance framework (Draghi Law, TUF, etc.).

This book is divided into 4 sections. Section 1 links corporate governance with firm performance. The first chapter evaluates the degree of comply-or-explain disclosure regarding the composition and functioning of boards of directors provided by Italian listed companies in the last two decades and concludes that the issuance of a good governance code could be ineffective in improving disclosure, accountability, and corporate governance. This chapter provides an excellent review of recent board of directors practices in Italy and contributes to the previous papers related to international context by Caserio and Trucco (2019), Basuony and Mohamed (2014), Meier and Meier (2013), Guerra, Fischmann, and Machado Filho (2008), Kostyuk, Koverga, and Kostyuk (2006), Davidson and Rowe (2004), who altogether concluded that the evidence that board composition influences financial performance is not very strong and depends on the definitions of financial performance and board composition as well as the type of statistical model employed.

A case study about governance reform and financial performance of the public Italian port system is the topic of the second chapter which shows no real expected effects on financial performance because the bureaucratic approach continues to prevail which is coherent with the famous quote from the late Prime minister Andreotti who explained that there are 2 manners of going absolutely disordered: thinking to be like Napoleon and launching a reform of the Italian (public) railways system.

The third chapter tries to measure the mediating and moderating effect of corporate governance on the relationship between capital structure and performance. Using variables as board size, board independence, and managerial ownership it highlights that firm's performance is affected by a good balance between capital structure choices and corporate governance mechanisms. Authors of this chapter contributed remarkably to the previous research by Rizzato, Busso, Devalle, and Zerbetto (2018), Eklund, Palmberg, and

Wiberg (2009), Chin, Vos, and Casey (2004), Füerst and Kang (2003).

Chapter 4 is about the medium-sized listed company governance, one of the topics which still needs more research because of the growing importance of such companies in Italy. Chapter 5, describing the impact of women in the board room, shows that gender diversified boards are more severe in control activity. This issue of gender board practices goes in the line with the papers by Kostyuk and Barros (2018), Handa and Singh (2015), Hawarden and Marsland (2011), Torchia, Calabrò, Huse, and Brogi (2010), Zelechowski and Bilimoria (2006), Singh and Vinnicombe (2003). The findings of the previous papers were about companies with women directors, female directorships and the women holding those directorships. Those fundamental papers reviewed the backgrounds (demographic profiles including age, education, marital status and children; corporate experience, international experience, etc.) of the top women executive directors. The above-mentioned set of mechanisms of corporate governance has been recently highlighted by Esposito De Falco, Alvino, and Kostyuk (2019).

Section 2 deals with the new perspectives of corporate governance contributing to the research performed previously by Wang, Barrese, and Pooser (2019), Di Giacomo and Cenci (2018), Ho, Tower, and Barako (2008), Kostyuk (2005).

Chapter 6 questions the superiority of the one-tier board model in Italy and specifically the amendment of bylaws by certain companies, allocating power to the outgoing board to file its own list of candidates to renew the board. The issue of the board member selection and nomination is still critical both in Italy and worldwide because of the serious concern about the independence of this process (Agyemang-Mintah, 2015; Bhuiyan & Habib, 2011; Bebenroth, & Donghao, 2007).

Chapter 7 studies the room for the minority on listed companies which seems more important in case of larger firms with institutional investors and Chapter 8 is another case study (ENI). Chapter 9 mentions lack of activism by pensions funds compared to the other European countries.

Section 3 works on the role of CSR and innovation in business strategy and investigates the major issues addressed previously by Velte (2019), Testarmata, Fortuna, and Ciaburri (2018); Looser and Wehrmeyer (2015).

Chapter 10 focuses on the stock exchange market ethical bridge between firms and investors. It presents interesting results on the relationship between CSR and firm performance previously considered by Famiyeh (2017), Feng, Wang, and Kreuze (2017), Kabir and Thai (2017), Lima Crisóstomo, de Souza Freire, and Cortes de Vasconcellos (2011) who advanced our understanding of the CSR-financial performance relationship by exploring its heterogeneous nature across industry sectors and across specific categories.

Chapter 11 explains innovativeness of family firms in light of the Behavioural Agency Theory (Eisenhardt, 1989; Jensen, 1994), by considering the moderating role of altruism on the relation between financial slack and innovation. Chapter 12 examines the relationship between sustainability, social responsibility, and performance in the Small and Medium Entreprises (SMEs). Due to market competition and globalization, companies are crossing a wide range of changes in their business environment, adopting more ethical procedures of corporate social action to achieve long-term goals, rather than focusing on the short-term perspective of profit creation (Anser, Zhang, & Kanwal, 2018).

Section 4 analyses the risk management in the banking sector to guarantee trust in the reliability of the financial system. The authors of this chapter contributed a lot to the previous research by Ben Zeineb and Mensi (2018), Elbadry (2018), Nahar, Jubb, and Azim (2016), Mullineux (2006). From the point of view of corporate governance, we should mention that the role of all those players involved in risk management in banks has now expanded to include strategy corporate governance, operational risk, technology and data, stress testing, capital adequacy, and how we respond to the changing regulatory environment.

Chapter 13 investigates the Chief Risk Officer's (CRO) role through the Italian lens, using a sample of 15 Italian banks. Chapter 14 underlines the progress that Italian banks have achieved in the area of risk oversight and governance. The purpose of chapter 15 is to analyze the introduction of the European Banking Authority (EBA) Guidelines on the level of the remuneration policy for the so-called material risk takers (MRTs) and documents the convergence among European banks. The authors of the chapters above concluded that the Chief Risk Officer should be a chief collaborator in many endeavors related to risk and compliance issues, bringing best practices from risk into compliance (and vice versa), strengthening communication between the two functions and ironing out any remaining inconsistencies or redundancies.

REFERENCES

1. Agyemang-Mintah, P. (2015). The nomination committee and firm performance: An empirical investigation of UK financial institutions during the pre/post financial crisis. *Corporate Board: role, duties and composition, 11*(3), 176-190. http://doi.org/10.22495/cbv11i3art14
2. Anser, M., Zhang, Z., & Kanwal, L. (2018). Moderating effect of innovation on corporate social responsibility and firm performance in realm of sustainable development. *Corporate Social Responsibility and Environmental Management, 25*(5), 799-806. https://doi.org/10.1002/csr.1495
3. Basuony, M. A. K., & Mohamed, E. K. A. (2014). Board composition, ownership concentration, and voluntary internet disclosure by MSM-listed companies. *Corporate Board: Role, Duties and Composition, 10*(1), 60-70. http://doi.org/10.22495/cbv10i1art5
4. Bebenroth, R., & Donghao, L. (2007). Outside directors and the Japanese board room: An in-depth study. *Corporate Board: Role, Duties and Composition, 3*(2), 28-36. http://doi.org/10.22495/cbv3i2art3
5. Ben Zeineb, G., & Mensi, S. (2018). Corporate governance, risk and efficiency: Evidence from GCC Islamic banks. *Managerial Finance, 44*(5), 551-569. https://doi.org/10.1108/MF-05-2017-0186
6. Bhuiyan, Md. B. U., & Habib, A. (2011). Determinants of nomination committee: New Zealand evidence. *Corporate Board: role, duties and composition, 7*(2-1), 54-63. http://doi.org/10.22495/cbv7i2c1art5
7. Caserio, C., & Trucco, S. (2019). Corporate governance and company performance in Italy: Corporate law and regulation perspective. *Corporate Law & Governance Review, 1*(1), 24-35. http://doi.org/10.22495/clgrv1i1p3
8. Chin, T., Vos, E., & Casey, Q. (2004). Levels of ownership structure, board composition and board size seem unimportant in New Zealand. *Corporate Ownership & Control, 2*(1), 119-128. http://doi.org/10.22495/cocv2i1p9
9. Davidson, W. N., & Rowe, W. (2004). Intertemporal endogeneity in board composition and financial performance. *Corporate Ownership & Control, 1*(4), 49-60. http://doi.org/10.22495/cocv1i4p4
10. Di Giacomo, M., & Cenci, M. (2018). Corporate control and ownership networks. *Corporate Ownership & Control, 15*(4), 86-95. http://doi.org/10.22495/cocv15i4art8
11. Eklund, J. E., Palmberg, J., & Wiberg, D. (2009). Ownership structure, board composition and investment performance. *Corporate Ownership & Control, 7*(1), 120-130. http://doi.org/10.22495/cocv7i1p11
12. Esposito De Falco, S., Alvino, F., & Kostyuk, A. (2019). Editorial: New challenges in theory and practice of corporate governance. *New Challenges in Corporate Governance: Theory and Practice*, 5-7. https://doi.org/10.22495/ncpr_ed
13. Elbadry, A. (2018). Bank's financial stability and risk management. *Journal of Islamic Accounting and Business Research, 9*(2), 119-137. https://doi.org/10.1108/MF-05-2017-0186
14. Famiyeh, S. (2017). Corporate social responsibility and firm's performance: Empirical evidence. *Social Responsibility Journal, 13*(2), 390-406. https://doi.org/10.1108/SRJ-04-2016-0049
15. Feng, M., Wang, X., & Kreuze, J. (2017). Corporate social responsibility and firm financial performance. *American Journal of Business, 32*(3-4), 106-133. https://doi.org/10.1108/AJB-05-2016-0015
16. Füerst, O., & Kang, S. H. (2003). Corporate governance, expected operating performance, and pricing. *Corporate Ownership & Control, 1*(2), 13-30. http://doi.org/10.22495/cocv1i2p1
17. Guerra, S., Fischmann, A., & Machado Filho, C. A. P. (2008). An agenda for board research. *Corporate Board: role, duties and composition, 4*(1), 50-56. http://doi.org/10.22495/cbv4i1art4
18. Handa, R., & Singh, B. (2015). Women directors and IPO underpricing: Evidence from Indian markets. *Gender in Management, 30*(3), 186-205. https://doi.org/10.1108/GM-02-2014-0011
19. Hawarden, R., & Marsland, S. (2011). Locating women board members in gendered director networks. *Gender in Management, 26*(8), 532-549. https://doi.org/10.1108/17542411111183866
20. Ho, P. L., Tower, G., & Barako, D. (2008). Improving governance leads to improved corporate communication. *Corporate Ownership & Control, 5*(4), 26-33. http://doi.org/10.22495/cocv5i4p3
21. Kabir, R., & Thai, H. (2017). Does corporate governance shape the relationship between corporate social responsibility and financial performance? *Pacific Accounting Review, 29*(2), 227-258. https://doi.org/10.1108/PAR-10-2016-0091

22. Kostyuk, A., & Barros, V. (2018). Corporate governance and company performance: Exploring the challenging issues. *Corporate Governance and Organizational Behavior Review, 2*(2), 25-31. http://doi.org/10.22495/cgobr_v2_i2_p3
23. Kostyuk, A. N., Koverga, V., & Kostyuk, H. V. (2006). Board size and composition: The main tradeoffs. *Corporate Board: Role, Duties and Composition, 2*(1), 48-54. http://doi.org/10.22495/cbv2i1art5
24. Kostyuk, A. N. (2005). The Kostyuk report: Corporate board practices in Ukraine. *Corporate Board: Role, Duties and Composition, 1*(1), 18-27. http://doi.org/10.22495/cbv1i1art2
25. Lima Crisóstomo, V., de Souza Freire, F., & Cortes de Vasconcellos, F. (2011). Corporate social responsibility, firm value and financial performance in Brazil. *Social Responsibility Journal*, *7*(2), 295-309. https://doi.org/10.1108/17471111111141549
26. Looser, S., & Wehrmeyer, W. (2015). An emerging template of CSR in Switzerland. *Corporate Ownership & Control, 12*(3-5), 541-560. http://doi.org/10.22495/cocv12i3c5p6
27. Meier, H. H., & Meier, N. C. (2013). Corporate governance: An examination of U.S. and European models. *Corporate Board: Role, Duties and Composition, 9*(2), 6-11. http://doi.org/10.22495/cbv9i2art1
28. Mullineux, A. (2006). The corporate governance of banks. *Journal of Financial Regulation and Compliance, 14*(4), 375-382. https://doi.org/10.1108/13581980610711144
29. Nahar, S., Jubb, C., & Azim, M. (2016). Risk governance and performance: A developing country perspective. *Managerial Auditing Journal, 31*(3), 250-268. https://doi.org/10.1108/MAJ-02-2015-1158
30. Rizzato, F., Busso, D., Devalle, A., & Zerbetto, A. (2018). Corporate governance system in Italy: Compliance and quality. *Corporate Ownership & Control, 16*(1-1), 217-233. http://doi.org/10.22495/cocv16i1c1art9
31. Singh, V., & Vinnicombe, S. (2003). The 2002 female FTSE index and women directors. *Women in Management Review, 18*(7), 349-358. https://doi.org/10.1108/09649420310498975
32. Testarmata, S., Fortuna, F., & Ciaburri, M. (2018). The communication of corporate social responsibility practices through social media channels. *Corporate Board: Role, Duties and Composition, 14*(1), 34-49. http://doi.org/10.22495/cbv14i1art3
33. Torchia, M., Calabrò, A., Huse, M., & Brogi, M. (2010). Critical mass theory and women directors' contribution to board strategic tasks. *Corporate Board: Role, Duties and Composition, 6*(3), 42-51. http://doi.org/10.22495/cbv6i3art4
34. Velte, P. (2019). Does board composition influence CSR reporting? A meta-analysis. *Corporate Ownership & Control, 16*(2), 48-59. http://doi.org/10.22495/cocv16i2art5
35. Wang, P., Barrese, J., & Pooser, D. (2019). Performance in financial services: Does institutional ownership matter? *Corporate Ownership & Control, 16*(2), 108-120. http://doi.org/10.22495/cocv16i2art11
36. Zelechowski, D. D., & Bilimoria, D. (2006). Characteristics of CEOs and corporate boards with women inside directors. *Corporate Board: Role, Duties and Composition, 2*(2), 14-21. http://doi.org/10.22495/cbv2i2art2