

CORPORATE GOVERNANCE, OWNERSHIP, AND PERFORMANCE: A CLOSER LOOK AT THE ITALIAN CASE

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Abstract

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Corporate governance of companies is a hot topic for both researchers and practitioners since the last decades. The investigations on this theme revealed the presence of many different approaches and practices in the decision-making process and managing companies among different countries. This paper is focused on Italy, where distinctive features of corporate governance can be identified (i.e., with regard to the ownership structure of companies) due to the peculiar legal and industrial framework in which Italian companies operate. The contribution of the paper is to further shed light on the historical background of the Italian industrial sector that made the Italian industrial system slightly different from the other countries and to give a comprehensive, but synthetic, view of the corporate governance of Italian listed companies. Current and further researches needed are also commented on and suggested.

Keywords: Corporate Governance, Italy, Ownership Structure, CEO Duality

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1. INTRODUCTION

Corporate governance (CG) can be broadly defined as the processes and relations by which firms are managed (Brogi & Lagasio, 2019a). International principle setters, and in particular, the Organisation for Economic Co-operation and Development (OECD) define it as: “a set of relationships between a company’s management, its board, its shareholders and other stakeholders. CG also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined” (OECD, 2004, 2015a, p. 11).

CG deals with the allocation of rights among the different people involved in the companies (e.g., the board of directors, executive managers, shareholders) and delineate rules and procedures

for decision-making which affect stakeholders’ (investors, customers, press, regulators) interests.

CG of Italian companies has a set of peculiarities due to the legal and industrial environment in which the firms operate and their management characteristics have evolved.

As concerns, the legal environment of Italian CG entails a stratified regulatory framework, mainly addressed to listed firms (Brogi, 2016):

- The Italian Civil Code, which is the regulatory framework for unlisted firms: in force from March 16, 1942, has been amended several times, as detailed below. Company law is contained in articles 2060 to 2642.

- The Legislative Decree 58/1998 (Testo Unico della Finanza (TUF)): enacted on February 24, 1998.

- CONSOB Regulation No. 11971 of May 14, 1999: implementing the provisions on issuers.

- The CG Code¹ issued by Borsa Italiana for the first time in October 1999 and last updated in July 2018².

Furthermore, in Italy, it is mandatory to disclose remuneration policy that is subject to an advisory, non-binding vote on say on pay that must be adequately reported via the company's website.

Regarding the industrial environment, it is important to observe that the Italian industrial system mostly consists in small and medium-sized enterprises, as defined in the EU recommendation 2003/361: micro enterprises count less than 10 employees and turnover minor or equal to 2m€ (or total assets minor or equal to 2m€); small enterprises count less than 50 employees and turnover minor or equal to 10m€ (10m€); medium enterprises count less than 250 employees and turnover minor or equal to 50m€ (43m€). This certainly provides consequences to the ownership structure and managing features characterizing Italian companies that are worthy to be adequately discussed.

This paper is aimed at providing an overview of CG in Italy by focusing on its main features. Although some previous researchers analyzed the Italian case by mainly looking at a single aspect of CG (e.g., Barontini & Bozzi, 2011, focusing on ownership and compensation; Bianco, Ciavarella, & Signoretti, 2015, focusing on gender diversity), there is a further need to illustrate the main characteristics of Italian companies by giving a comprehensive, but synthetic, view of the corporate governance and ownership structure and to give an up-to-date overview³ of the Italian corporate governance.

Thus, the paper is structured as follows. The second section sheds light on the ownership structure and the mechanisms for corporate control of the corporations in Italy. Section 3 outlines the corporate board practices in the country (i.e., the functions of the board; role and share of independent, outside directors; size of the board; remuneration of the board members; the role of the chairman; diversity on board; CEO-chairman duality; board committees, etc.). Section 4 focuses on the analysis of the link between board governance and company performance. Section 5 concludes by also outlining issues still asking for further research.

2. OWNERSHIP STRUCTURE AND CORPORATE CONTROL

During the nineties about 99.2% of Italian firms had less than 100 employees, and 95% of them had less than 20 employees (Stanghellini, 1995). Table 1 shows the time series of number of firms, classified by the number of employees. Since 2008 to 2018 the distribution of Italian firms is largely constant: micro enterprises count for the 95% of the total number of active enterprises; small count for approximately 2%; 5% are medium enterprises, and large are less than 1%.

As a result, most of the Italian companies are small and controlled by a large shareholder (Istat, 2013) which in most of the cases is the family founder of the company. This evidence holds for both private and listed firms, where family firms are almost 66% of the market (CONSOB, 2019). The other important player in the ownership structure of Italian companies is the state.

Indeed, following the financial crisis of 1929, the three main Italian universal banks (Banca Commerciale Italiana, Credito Italiano, and Banco di Roma) that controlled the industrial companies, collapsed due to the financial distress of their controlled companies (Mattesini & Quintieri, 1997). In response to the crisis — and in line with the international evolution of the international legislation (e.g., the Glass-Steagall Act of 1933 in the US) — the Italian legislator issued a new banking law in 1936. The latter introduced two important constraints in the legal environment of banks: 1) it prohibited the constitution of “universal” banks; 2) it prohibited banks from holding equity shares of non-financial firms. This caused a severe transformation in the bank-firm relationship. The Italian economy was characterized by a permeant presence of the state, which became the most important shareholder by controlling some large industrial groups (e.g., Istituto per la Ricostruzione Industriale (IRI) — Institution for the Industrial Reconstruction; Ente Nazionale Idrocarburi (ENI) — National Institution controlling the oil industry; Ente Nazionale per l'Energia Elettrica (ENEL) — National Institution controlling the electricity distribution). The other important players of the Italian economy were the entrepreneurial families and cooperatives which increased their role in the Italian industrial development after the Second World War. Since then, family businesses were the most diffused companies and fostered the growth of Italian industrialization (Porter, 1996) preserving their control in the companies over time.

Table 2 shows the most recent ranking of the 20 largest Italian companies ranked by 2018 revenues. It is relevant to note the ownership structure of these companies. Almost half of the companies (9 out of 20) are state-owned. In particular, the top three companies in terms of revenues (ENEL, ENI, and GSE) are state-controlled. Six are family businesses (FCA Italy, Edizione, Saras, Luxottica Group, Supermarkets Italiani, API — Anonima Petroli Italiani). Hence, in the top 20 Italian companies, by revenues, there is only a little incidence of dispersed ownership. It is also important to note that 8 companies out of 20 are not listed (Barontini & Bozzi, 2011; Mancinelli & Ozkan, 2006; Perrini et al., 2006). Indeed, Italy is a bank-oriented economy, and capital markets seem to play a partial role in financing Italian firms. Nonetheless, this is a typical situation in European countries — other than the United Kingdom — and especially in Germany and France (Melis & Zattoni, 2017; Melis, 2000; Pagano, Panetta, & Zingales, 1998). Furthermore, banks are still far to play a relevant role in CG in Italian companies (Melis & Zattoni, 2017) because they do not hold a relevant share of equity even in listed firms. Similar to the other continental European countries — France, Spain, Belgium, Portugal, and Greece — the Italian CG system belongs to the so-called Latin model, where there is a limited role of capital markets, and large shareholders own firms (Pagano et al., 1998).

¹ A not-binding self-regulation for listed firms, issued on a comply-or-explain basis.

² Furthermore, there are also sector-specific regulations. For instance, the Capital Requirements Directive and Regulation (CRD and CRR) — adopted with the Circolare 285 issued by the Bank of Italy on December 17, 2013 — for companies in the banking sector; and the Regulation No. 20 for companies in the insurance sector.

³ Belcredi and Rigamonti (2008) provided a comprehensive view on Italian CG structure.

Table 1. Number of Italian active firms

| Year | Number of active enterprises | | | | | | | | |
|------|------------------------------|--------|---------|-------|--------|-------|--------------|-------|-----------|
| | 0-9 | | 10-49 | | 50-249 | | 250 and over | | Total |
| | N | % | N | % | N | % | N | % | N |
| 2012 | 4.229.730 | 95,21% | 187.514 | 4,22% | 21.606 | 0,49% | 3.602 | 0,08% | 4.442.452 |
| 2013 | 4.185.081 | 95,32% | 180.464 | 4,11% | 21.385 | 0,49% | 3.583 | 0,08% | 4.390.513 |
| 2014 | 4.158.660 | 95,40% | 175.742 | 4,03% | 21.106 | 0,48% | 3.579 | 0,08% | 4.359.087 |
| 2015 | 4.136.831 | 95,36% | 176.332 | 4,06% | 21.256 | 0,49% | 3.666 | 0,08% | 4.338.085 |
| 2016 | 4.180.870 | 95,22% | 184.098 | 4,19% | 22.156 | 0,50% | 3.787 | 0,09% | 4.390.911 |
| 2017 | 4.179.818 | 95,05% | 191.004 | 4,34% | 22.906 | 0,52% | 3.895 | 0,09% | 4.397.623 |
| 2018 | 4.180.761 | 94,92% | 196.076 | 4,45% | 23.647 | 0,54% | 4.017 | 0,09% | 4.404.501 |

Source: ISTAT, Statistical Datawarehouse. Data extracted in June 2020.

Table 2. Leading Italian companies by revenues and employees

| Company | State-owned | Family-owned | Listed (Y/N) | 2018 Revenues (€bn) | 2017 Revenues (€bn) | 2016 Revenues (€bn) | 2015 Revenues (€bn) |
|--------------------------------|-------------|--------------|--------------|---------------------|---------------------|---------------------|---------------------|
| ENI | 30.1% | | Y | 75.8 | 66.9 | 55.8 | 72.3 |
| ENEL | 23.6% | | Y | 73.1 | 72.7 | 69.1 | 74.0 |
| GSE | 100% | | | 32.3 | 31.4 | 29.3 | 30.6 |
| FCA Italy | | Y | | 27.2 | 28.6 | 26.2 | 22.9 |
| Telecom Italia | 9.89% | | Y | 18.7 | 19.5 | 18.7 | 19.4 |
| Edizione | | Y | | 12.6 | 11.6 | 11.7 | 11.4 |
| Leonardo | 30.2% | | Y | 12.2 | 11.5 | 12.0 | 13.0 |
| FS | 100% | | | 11.6 | 8.6 | 7.9 | 7.9 |
| Saras | | Y | Y | 10.3 | 7.6 | 6.8 | 8.1 |
| Prysmian | | | Y | 10.1 | 7.9 | 7.6 | 7.4 |
| Esso Italiana | | | | 9.5 | 8.9 | 7.6 | 9.1 |
| Edison | | | Y | 9.2 | 9.7 | 10.2 | 11.1 |
| Luxottica Group | | Y | Y | 8.9 | 9.2 | 9.1 | 8.8 |
| Poste Italiane | 64.70% | | Y | 8.8 | 8.5 | 8.7 | 8.8 |
| Saipem | 42.97% | | Y | 8.5 | 9.0 | 10.0 | 11.5 |
| Supermarkets Italiani | | Y | | 7.7 | 7.6 | 7.5 | 7.2 |
| API – Anonima Petroli Italiana | | Y | | 6.7 | 2.9 | | |
| Kuwait Petroleum Italia | | | | 6.7 | 5.8 | 6.5 | 6.3 |
| A2A | 50.00% | | Y | 6.3 | 5.6 | | |
| Parmalat | | | Y | 6.2 | 6.7 | 6.5 | 6.4 |

Source: Mediobanca (2019). Leading Italian companies. October.

The literature on ownership of companies lists many potential strategies for strengthening control in companies: pyramids, dual-class shares, cross-ownership, vote limits, coalitions. The widest used mechanisms by Italian firms are pyramids and dual-class shares (i.e., non-voting, privileged shares, saving shares).

As concerns pyramidal mechanisms⁴ (i.e., listed companies owned by another listed company), are characterized by a top-down chain of control and investors may be exposed to the greatest risk of expropriation by controlling agents. As for deviations from the “one-share-one-vote” concept, the use of non-voting shares tends to fall, although loyalty shares and multiple voting shares are slowly increasing. Regarding dual-class shares, one of the most used types is the issuing of non-voting shares. Italian companies that opt for issuing dual-class shares define in their by-laws which are the characteristics and the related privileges for investors of these particular class of shares (i.e., profit-related — a minimum dividend equal to five percent of the fair price should be ensured; bankruptcy-related — dual-class shares can have a prior claim on the company’s assets in case of liquidation). Listed companies in Italy can offer to the market non-voting shares for up to 50% of their equity value. Even though non-voting shareholders

receive a higher dividend, these stocks are traded lower price than the regular voting shares.

3. CORPORATE BOARD PRACTICES IN ITALY

In Italy, private and public corporations can choose among three separate CG models: 1) the so-called “traditional” (or “horizontal two-tier”) model; 2) the “dualistic” (or “vertical-two tier”) model; and 3) the “monistic” (or “one-tier”) model⁵.

The shareholders’ meeting appoints both the board of directors (BD) and the board of statutory auditors (BS) in the horizontal two-tier model, which is the most adopted. The BD performs the management and supervisory functions; the control function is the responsibility of the BS.

Typical of German culture is the vertical two-tier layout. The shareholders’ meeting appoints the supervisory board (which has the supervisory and supervisory functions) of companies following this model, which in turn appoints the management board (management function). The Italian transposition of the German model does not require a representation of the workers in the supervisory board.

In the one-tier model — typical of Anglo-American companies — the shareholders’ meeting appoints only one entity (the BD) which undertakes

⁴ As reported by Melis (2000) (as cited in Sheridan & Kendall, 1992, p. 68–69), “Pyramidal groups have been defined as “a cascade of companies which can exert control through a complicated shareholding structure at a minimum cost” (p. 348).

⁵ Article 2380 of the Italian Civil Code. As reported by Assonime (2019), in 2009 there were 12 listed companies adopting a governance system, which differs from the traditional one, of which 4 one-tier and 8 horizontal-two-tier companies. At the end of 2018, out of the 220 listed companies mapped by Assonime, there were only 4 companies, of which 2 dualistic and 2 monistic.

both management and supervisory functions and selects the internal audit committee from among its members, which is composed entirely of independent non-executive directors and has the role of supervision.

3.1. Shareholders and their meetings

According to the Italian Civil Code, shareholders do not have direct power to control the company, but they have some limited power expressed in the shareholders' meetings through their vote.

When ordinary meetings are regularly held (there is not a required minimum amount of share capital represented), the resolution is approved if the overwhelming majority of participating shares vote in favor of it. Extraordinary meetings approve resolutions with more than half the company's share capital (higher majority requirement may be introduced as mandatory in the company by-law at both ordinary and extraordinary shareholders' meetings). Article 2365 of the Italian Civil Code establishes that the extraordinary shareholders' meeting resolves on amendments to the articles of association and the issue of bonds, on the appointment and powers of liquidators, and on other matters expressly entrusted to it by law.

The extraordinary assembly (Art. 2368) deliberates with the favorable vote of a number of shareholders representing more than half of the share capital, if a higher majority is not required.

Some decisions are subject to approval by the shareholders' meeting in companies which adopt the traditional model or the monistic model:

- approval of the financial statements;
- appointing and dismissing the directors and auditors;
- the decision concerning compensation of directors and auditors, if the latter is not set out in the by-law;
- resolve the responsibility of directors and auditors.

In addition, the decisions subject to approval by the shareholders' meeting in companies which adopt the dualistic model are:

- appointing and withdrawing supervisory board members;
- the decision on their compensation;
- resolve on the members of the supervisory board liability;
- resolve on benefit sharing.

3.2. The board of directors

The BD⁶ plays a key role in the governance arrangements of any firm (Fama & Jensen, 1983a, 1983b; Williamson, 1983). Controlling and advising are its core roles (Zahra & Pearce, 1989; Gabrielsson & Huse, 2004). The former consists of supervising the activities of the managers in order to preserve the interests of the shareholders. The advisory role is to support strategic business decisions for the board by supplying managers with advice and directions.

As mentioned above, the majority of Italian firms follow the traditional method. BD's election is

reserved for shareholders, anyway. Both members are usually elected for a period of three years (in each accepted governance model) and can be dismissed at any time by the shareholders.

The Italian CG Code specifies, amongst other tasks, that the BD should:

- Review and authorize the organization and the entire corporate group's strategic, operational and financial plans, and regularly monitor their implementation.
- Define the risk profile, both in terms of design and risk level, so that it is in line with the company's strategy.
- Assess the appropriateness of the company's corporate, financial, and accounting structure [...].
- Assess the performance of the business, with special attention to the transactions to be carried out by the company (or its regulated subsidiaries), which have a major effect on corporate strategy, productivity, assets, and liabilities or financial position.
- Support the assessment of board evaluation.

3.2.1. Board size and composition

The size of the board is one of the essential characteristics in the effectiveness of BD functioning (de Andres & Vallelado, 2008; Pathan, 2009; Grove, Patelli, Victoravich, & Xu, 2011; Adams & Mehran, 2011). In reviewing the literature on CG companies examining the impact of board size (Shleifer & Vishny, 1997; Denis & McConnell, 2003; Bebchuk & Weisbach, 2010), two prevailing theories emerge 1) the agency theory (Jensen & Meckling, 1976; Fama & Jensen, 1983a, 1983b; Jensen, 1993; Yermack, 1996; Eisenberg, Sundgren, & Wells, 1998) which suggests that larger boards will reduce productivity and supports the relevance of board monitoring; and 2) the resource-based view (Pfeffer, 1972; Hillman & Dalziel, 2003) which argue that larger boards may provide expertise and resources, useful to deal with complex activities.

In Italy, there is no binding rule on the appropriate number of directors, although in some cases, a minimum number of members are required within the board. The minimum number of directors can vary, however, depending on the company's adopted CG model. There is no minimum number required by law in unlisted companies adopting the traditional model, although the company by-law may provide for it. Companies that follow the dualistic model need at least two members in their board of directors and three members in the supervisory board. Finally, companies, following a one-tier model, do not have clear criteria about the minimum number of directors, but at least one-third of BD members must be independent, as specified by the Civil Code. The Civil Code (Art. 2380-bis) further states that if the by-laws determine only the maximum and the minimum number of directors, the number is indicated by the vote of the shareholders. The number of directors is usually determined in relation to the industry in which the company operates (Assonime, 2019) (e.g., small and medium-sized companies are typically composed of 3 or 5 members; the number is higher for listed companies, and particularly for financial firms). According to the last report on CG of

⁶ Which is traditionally identified as the management board for companies adopting the dualistic model.

Italian listed companies provided by CONSOB (2019), boards are composed on average by 10 members (11 for companies adopting the dualistic model). Focusing on the dimension and the business of activity of the companies, the average number of directors in FTSE MIB companies — which is the index of the top 40 capitalized companies in Italy — is 12; financial firms report an average of 15 (Assonime, 2019). Thus, confirming that the size of the board is mainly in line with the complexity of the business in which the firm operates (Lagasio, 2018).

3.2.2. Non-executive and independent directors

With regard to the independence of board members, various meanings exist in different countries worldwide, which usually obey the guidelines of IOSCO (2007), that should ensure the convergence of specific requirements (i.e., 1) not to be a member of the management of the company; 2) not to be an employee of the company; 3) not to receive compensation from the company other than directorship fees; 4) not to have material business relations with the company; 5) not to exceed the maximum tenure as a board member, etc.). Considering that regional approaches to the concept of independence for directors vary considerable, and given the variations in the structure of boards, almost all the jurisdictions have adopted a rule or guideline for a minimum number or ratio of independent directors, and in particular, in jurisdictions with a single-tier board structure. There are various meanings of independence in Italy itself (Brogi, 2016): for non-listed firms, the source is the Civil Code (Art. 2387); for listed companies, the additional source is the TUF (Art. 147-quarter) and the CG Code (compliant or explanatory). Anyway, a minimum number of autonomous BD members is not set by the Italian legislator. The CG Code only indicates that boards should comprise “executive and non-executive directors who should be adequately qualified and knowledgeable”. “Nonetheless, it is hoped that non-executive directors should bring their unique experience to the board discussions and contribute to the adoption of fully informed decisions, paying close attention to possible conflicts of interest areas” (p. 11). Unlisted Italian companies do not have to hold a minimum number of independent directors. Many regulations apply only to the listed companies and differ according to the company’s adopted CG model. For organizations that follow the traditional model, when the BD is composed of seven members, at least one must be independent; if it has eight or more directors at least two of them must be independent. For organizations that follow the dualistic model, at least one of them must be autonomous while there are five or more members of the management board. The BD must have at least one member named from a list of minority shareholders in the monistic model, and must also be autonomous. Nevertheless, as of 2019, listed Italian companies have 46 percent of independent members in the BD on average. The number is higher for FTSE MIB companies (57 percent) and for financial firms (53 percent) (Assonime, 2019). In addition, Assonime also indicates the number of “at-risk” independent directors due to unique circumstances that breach

the independence requirements as indicated by the CG Code, which nonetheless are gradually decreasing over time (e.g., 70 are in the board as independent by more than 9 years; 8 are also BD chair; 33 earn stock options).

3.2.3. Board diversity

A widely debated topic within CG is whether the diversity between members of the board affects firm performance. Diversity on boards (associated with expertise — e.g., educational or functional background — or not — e.g., gender, age, nationality (Ferreira, 2010) should enhance transparency, protect the rights of minorities, and give diverse views during the meetings of boards. Even though this can partially slow down the working and decision-making of boards (Carter, Simkins, & Simpson, 2003; Carter, D’Souza, Simkins, & Simpson, 2010) certain type of diversity seems to be crucial within the board (García-Meca, García-Sánchez, & Martínez-Ferrero, 2015). In particular, most of the studies concentrate on gender diversity and examine whether a higher number of female directors will contribute to improved productivity and performance outcomes. Through the perspective of organization theory, a higher number of women on the board increases flexibility and control role of the board (Carter et al., 2003; Terjesen, Sealy, & Singh, 2009). In the last decade, standard setters started promoting diversity on board. The issue of diversity has been debated on an international level since 2007. The European Parliament, in particular, calls for a resolution to close the gender disparity in European management boards. Legislative structures were developed at the national level, too. Implementation of a legislative structure within the EU Member States requiring female representation on boards has been given in Austria, Belgium, Denmark, Finland, France, Ireland, Italy, Spain, and the Netherlands (Davies, 2011; Pande & Ford, 2012; European Parliament, 2012); and also in countries outside the European Union: Norway, Iceland, Switzerland, and Israel. As stated in the second section of this paper, a new regulation on gender quotas in listed companies was adopted in June 2011 (in force since 2012) in line with those recommendations. The rule is statutory and after three terms in office no longer applies. Women’s participation on board has gradually risen from 7 percent at the end of 2011 to 36 percent reached in 2019, following the adoption of the less-represented gender quota statute in Italy (CONSOB, 2019). Statistics are also rising gradually with respect to the other forms of diversity. Foreign directors represent on average 7% of the board at the end of 2019 (5% in 2011); the average age of board members is 56.6 years (almost unchanged over the last years); 89% of board members are graduates, of which 24% are postgraduates (84% and 15% in 2011 respectively).

3.2.4. CEO duality

CEO duality is the combination of board chair role and CEO role. Among many OECD countries jurisdictions, this situation is used even though 12 jurisdictions out of 46 require, and 12 jurisdictions recommend separating the two posts in “comply or explain” codes for the companies listed. In addition,

almost two-thirds of the jurisdictions for one-tier board structures. The Italian legislator does not provide for mandatory duality rules for CEOs. The CG Code of listed companies nonetheless encourages the separation of the two functions. In addition, when there is a situation of CEO duality, the BD should nominate an independent board member as the “lead independent director” who is responsible for maintaining an adequate level of board independence in all situations where it may be at risk. In this regard, 26 percent of listed companies have the BD chairperson who also acts as a CEO (Assonime, 2020) in 2009. This figure is slightly decreasing in the last years as listed companies with CEO duality ten years before, in 2009, were 31 percent; 33 percent in 2015.

3.3. Board committees

The constitution of board committees — with suggested and consultative positions — is recommended to Italian listed companies following the CG Code of self-regulation. In particular, since the first edition, the Code encourages the formation of three committees within the board: the audit committee, the remuneration committee, and the selection committee (since the 2011 version of the Code). Board committees shall consist of at least three members of the BD, and their operations shall be overseen by a committee chair⁷.

The audit committee, composed of non-executive directors⁸, the majority of whom are independent, is usually responsible for the role of risk management; the remuneration committee deals with the concept of directors’ remuneration, as outlined in the next section, and should consist entirely of independent directors; the appointment committee, made up of non-executive directors.

3.4. Remuneration of directors

Because of the need for consideration and knowledge about this problem after the financial crisis, both standard setters and regulators are paying attention to the salaries of these executives. Indeed, the board’s ability to efficiently regulate executive remuneration continues to be a crucial obstacle in practice and remains one of a variety of jurisdictions’ core elements of the CG debate. The remuneration of the directors is composed of a fixed sum and a variable amount (to be achieved with the achievement of particular goals set by the BD or the remuneration committee).

According to the Civil Code, a company’s directors must be paid remuneration for their operations. In general, the amount of the remuneration is regulated in the by-law and is reported in the company’s compensation report. This is decided at the time the director is named or by the shareholders’ meeting — whether the organization adopts a conventional or monistic

CG model — or by the supervisory board — in companies that follow the dualist model⁹.

For listed companies, the CG Code suggests that remuneration of directors should be sufficient to “attract, retain and motivate people with the professional skills necessary to successfully manage the issuer. [...] [it] shall be defined in such a way as to align their interests with pursuing the priority objective of the creation of value for the shareholders in a medium-long term timeframe”. Moreover, “the remuneration of non-executive directors shall be proportionated to the commitment required from each of them, also taking into account their possible participation in one or more committees” (p. 25).

As mentioned above, it is recommended that a remuneration committee composed entirely of independent members be set up within the BD, and at least one committee member should have adequate expertise in the financial background and/or compensation policies.

3.5. The Board of Statutory Auditors

The BS shall be responsible for the monitoring and control role of the organization for those businesses which follow a conventional CG model. It is appointed by the shareholders’ meeting and is composed of at least three members of whom are selected from a minority shareholders’ list at least one (two if it counts more than three members). There must also be two other auditors nominated as alternates. Each member of the BS must meet the independence requirements as set out in the Civil Code.

4. CORPORATE GOVERNANCE AND COMPANY PERFORMANCE

Both academic and professional studies have explored the relationship between CG and the business output of Italian companies. As far as the former is concerned, several studies examine the overall effect of CG activities (e.g., Rossi, Nerino, & Capasso, 2015, using a CG consistency index), while others concentrate on a particular CG feature (the most studied is ownership structure). Nonetheless, Rossi et al. (2015) examine the relationship between CG of listed Italian companies and their financial results by indexing the standard of CG activities for the entire population of listed Italian companies during 2012 and by finding an association with Tobin’s Q and return on equity (ROE). Their findings are apparently ambiguous: on the one hand, results indicate a negative correlation between Tobin’s Q and the CG index; on the other, they find a positive correlation between return on equity and the index. Nevertheless, an improvement in a company’s CG quality can, in the short term, reduce its market-value (as measured by Tobin’s Q) and boost operating efficiency (as measured by ROE) over the longer term. As far as ownership is concerned, Bianco and Casavola (1999) using a comprehensive dataset provided by the Bank of Italy, which includes 1000 manufacturing firms, active in the period 1992–1997 and seeking a relationship between the ownership structure of firms and return on investment (ROI), return on sales (ROS) and

⁷ “In those issuers whose BD is made up of no more than eight members, committees may be made up of two directors only, provided, however, that they are both independent” (Borsa Italiana, 2015). Moreover, the minimum number may be lower in unlisted companies, as set by the company by-law.

⁸ “If the listed company is controlled by another listed company, the internal control committee shall be made up exclusively of independent directors. At least one member of the committee must have adequate experience in accounting and finance, to be evaluated by the BD at the time of his or her appointment” (Borsa Italiana, 2015, p. 31).

⁹ At the time of appointment of the director.

the managerial ability in investment planning. The authors believe a positive relationship exists between the contestability of control and the success of the firms. Rossi (2016) is investigating a sample of 82 listed Italian companies seeking a relationship between CG, risk-taking, and risk-adjusted performance over the 2002–2013 period. As far as ownership concentration is concerned, the author considers a negative relationship with risk-taking and a positive relationship with both the performance metrics used in the study (one risk-adjusted and one calculated by Tobin's Q). Belcredi and Rigamonti (2008) examine Italian firms' ownership and board structure during the period 1978–2003 and find firm performance as measured by the Tobin's Q is related to ownership structure but not to board structure. In comparison, Q-ratio is used by Fratini and Tettamanzi (2015) as a measure for company results. Our analytical sample comprises 182 listed Italian companies between the years 2003 and 2007. We consider that firm output is positively but weakly linked to board size, using regression analysis. Nonetheless, the authors consider no connection between the structure of ownership and firm results. Minichilli, Brogi, and Calabrò (2016) investigate a stronger output of family-controlled firms during the financial and economic crisis (measured in terms of ROA and ROE), with a special emphasis on family firms. Nevertheless, Miller, Minichilli, and Corbetta (2013) demonstrate that "CEOs in smaller firms with more concentrated ownership would outperform and underperform in larger firms with more scattered ownership" (p. 1). Observing other unique characteristics of the CG, Bianco et al. (2015) studies a sample of all the 262 Italian listed companies in 2009 and verifies the relationship between gender diversity and CG, without finding any substantial findings of gender and performance associations. Conversely, Amore, Garofalo, and Minichilli (2014) consider that women on boards substantially improve the operational productivity of companies with a female chief executive officer (CEO) by analyzing a sample of family-controlled firms in Italy during the period 2000–2010. Ferrari, Ferraro, Profeta, and Pronzato (2016) provide two important findings related to the female representation on BD of listed Italian companies and the market: the authors consider 1) a negative correlation between women on boards and risk, as measured by the volatility of stock market prices, and 2) a positive impact on stock market returns from the implementation of quota legislation. Comi, Grasseni, Origo, and Pagani (2017) examine the effects of gender quotas on the output of companies in four European countries (Belgium, France, Italy, and Spain) and consider a negative or negligible impact on productivity in all countries except Italy, where they have a positive effect. Recently, Bruno, Ciavarella, and Linciano (2018) have been researching the effect of the quota law on the competitiveness of listed Italian firms over the period 2008–2016 with various dynamic models predicting a U-shaped relationship that begins to be positive when women on BD are at least 17%–20% of board members. Brunello, Graziano, and Parigi (2003) test the relationship between CEO turnover and firm output on a sample of 60 private companies listed on the Italian stock exchanges during the 1988–1996

period. The authors reveal that CEO turnover is related negatively to the company¹⁰.

From a professional viewpoint, The European House — Ambrosetti annually provides the Italian listed companies with an Index of Governance Quality, which is focused on 5 CG areas: shareholders, BD composition, BD working, remuneration, internal control system. The authors consider in their latest study (2017) that a strong CG program will improve company output in terms of the relative total shareholders' return (TSR). They conclude, in particular, that companies investing in CG quality are the ones most likely to "out-perform" their European competitors.

5. CONCLUSION

This paper aims to provide an overview of CG in Italy by reviewing the changes in the legal system and the key features and practices adopted by Italian companies. It is noticeable that in the last years CG of Italian companies has experienced significant changes in order to meet the new requirements of the legislative framework and also globalization. In reality, CG will continue to evolve to meet existing and potential threats (e.g., cyber threats) and challenges (e.g., corporate social responsibility and environmental, social, and governance practices; standards for non-financial reporting). Indeed, CSR and ESG are receiving growing attention from policymakers and stakeholders, and a growing number of companies is dealing with the implementation of these policies (Brogi & Lagasio, 2019b). Adequate transparency and disclosure policies should also be designed (Brogi & Lagasio, 2018; Lagasio & Cucari, 2019; Lagasio & Brogi, 2020). The literature on the relationship between board structure and performance in Italy explores both the overall effect of CG activities and also offers some findings on the correlation between the characteristic of particular CG and the performance of companies. In particular, ownership structure and gender diversity are the most researched areas of CG, both being peculiarities of the Italian companies' CG. Most of the cited researchers, particularly regarding gender diversity, find that the introduction of a quota law in Italy improved the performance of companies. Conversely, there are still mixed results in the relationship between other board practices and company performance in Italian companies, which need further investigation.

Shortcomings associated with the paper reflects the need of synthesizing many relevant and peculiar aspects in one concise article. Nonetheless, this is in line with the aim of offering a holistic, but synthetic, view of the corporate governance and ownership structure and giving an up to date overview of the Italian CG structure. Furthermore, this paper can be limited in generalizing the results of this systematic overview of the CG peculiarities for companies operating outside Italy, as both the Italian law and industrial environment are somewhat unique and cannot be identified in many other countries.

¹⁰ Brunello et al. (2003) also specify that "this relationship holds only if the controlling shareholder is not the CEO" (p. 1).

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