

REINFORCING THE "REGIONAL PROMOTIONAL INSTITUTIONS AND BANKS" CORPORATE GOVERNANCE: A CONCEPTUAL PAPER

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Abstract

The present research seeks to shed light on and solve some issues related to the corporate governance of a category of entities that is fundamental for Italy's economic and social development, the regional promotional institutions and banks. These problems arise from the hybridity of these institutions since they do not assume a unique and specific corporate governance model, presenting contradictions concerning their structure, control, the business carried out, and the corporate purpose. The necessity to address this topic comes from the relevant role these entities will play in future sustainable development.

1. INTRODUCTION

Because of crises that occurred in the last decades, the academic community has brought back its attention to the social and economic development to improve the resilience of the economic structure of the various European nations (Wruuck, 2015). In particular, in Europe, there has been a growing interest in the role of public promotional institutions. These are a fundamental operational hub for relaunching

investments and allowing economic growth to resume following shock events, leveraging the public resources to mobilise significantly private ones (the so-called national and Regional Promotional Institutions and Banks) (Piókarz, 2018).

This has also happened in Italy. In this context, interest has re-emerged in the already existing, but partly overlooked in the literature, phenomenon of the Regional Promotional Institutions and Banks, which are institutions designed to support the Italian regions in implementing economic development programmes (Associazione Nazionale delle Finanziarie Regionali [ANFIR], 2017). These institutions design, create and manage financial products and services to support local businesses, professionals, and public administrations in their regions, supporting them in structuring financial operations to foster the attractiveness and competitiveness of the territory. Thus, their core business consists of a wide range of services (investment, financing, support, guarantee and advisory) to companies whose core business is in the region in which the Regional Promotional Institution operates.

However, the analysis of the Italian context reveals a lack of a unitary definition of these entities, as well as an accentuated de-structuring of their governance, internal control, and risk management systems (ANFIR, 2017). Therefore, these entities do not assume a unique and specific corporate governance model, presenting different contradictions concerning their structure, control, the business carried out, and the corporate purpose. Specifically, looking at sustainability, these institutions have not yet implemented national and international guidelines concerning the internal governance structure, capable of intercepting risks and opportunities linked to the environmental, social and governance (ESG) sphere. However, they are expected to adapt since they are called to support Regions in allocating the public resources of the National Recovery and Resilience Plan¹. This allocation must be consistent with one or more of the sustainable development goals (SDGs). Therefore, it is necessary to provide these institutions with a governance model that can fulfil their roles.

Considering this relevant role, the objective of this work is to propose an adaptation of the corporate governance of the Regional Promotional Institution, aligning the internal control and risk management systems with the best practices generally recognised. This is achieved by hypothesising a non-financial reporting system integrated with the business plan and risk management policies, with a strong focus on the needs of different stakeholders with which these entities interface.

¹ The National Recovery and Resilience Plan (Piano Nazionale di Ripresa e Resilienza, NRRP) is part of the Next Generation EU (NGEU) programme, namely the €750 billion package — of which about half is in the form of grants — that the European Union negotiated in response to the pandemic crisis.

2. METHOD AND CONTEXT

This is a conceptual research since it allows to explore a topic that is already well known in the literature, as the Regional Promotional Institutions, allowing to consider different aspects and create links with other disciplines or concepts (Gilson & Goldberg, 2015; Jaakkola, 2020). This study intends to include elements relating to sustainability, internal auditing, and risk management within an already complex issue, to overcome the current limitations of the phenomenon.

The data is collected through document analysis and participant observation (Bowen, 2009; Spradley, 2016). Relating to the document analysis (Bowen, 2009), the authors examine the documents published by these entities, referring to 2021. Other data were obtained through participant observation (Spradley, 2016) derived from the agreement signed by the Department of Business Studies (University of Roma Tre), ANFIR and a consulting company, Operari Srl.

The choice of analysing the Italian Regional Promotional Institution is due to the high potential, considering the relevant role these entities will play in the national economic growth.

The Regional Promotional Institutions are quite spread in the Italian landscape (18 out of 20 regions). On their own initiative, ANFIR, a non-profit association, was founded in 2017. Its aims to provide a stable framework to these entities, contributing to the strengthening of their role by proposing them as:

- interlocutors of national financial institutions for the implementation of public expenditure policies at the local level for the regional economic and social development;
- intermediaries able to directly manage the implementation of EU spending programmes;
- operators able to create synergies at the national level through cooperation.

3. ANALYSIS AND FINDINGS

Firstly, we investigate the need to structure a managerial-based system of governance in which political and management bodies do not hinder each other but rather integrate and balance each other, defining responsibilities and controls.

Secondly, a broader approach to disclosure has been proposed, which is not merely limited to the publication of financial reports but must also consider non-financial information (in line with the ESG framework, the Sustainable Finance Disclosure Regulation (SFRD), Corporate Sustainability Reporting Directive (CSRD) and the Taxonomy Regulation). For this reason, it is necessary to set up a corporate social responsibility (CSR) policy able to engage internal and external stakeholders through various tools (e.g., double materiality matrices) on

long-term issues (i.e., sustainability). In this light, ESG variables are prerogative to contribute to SDGs. In addition to the proposal of an integrated disclosure on financial and non-financial issues, creating a structured and stable internal audit function has been suggested (by 2021, data show that only less than 10% of public entities have an internal audit function). The function's task would be, firstly, to carry out assurance activities to raise top management's awareness of critical issues relating to compliance (organisational and managerial model related to Legislative Decree No. 231, corporate governance procedures, code of ethics, Sarbanes-Oxley Act (SOX), Japan's Sarbanes-Oxley Act (JSOX), sustainability, ESG, SDG), and then, to stimulate the creation of a solid corporate culture through advisory activities on the aforementioned issues.

Finally, it has been discussed to expand the three lines model (only partially implemented by the Regional Promotional Institutions and Banks) with some best practices, intercepting risks and opportunities, to identify, monitor and manage them. Therefore, the authors proposed a three lines model integrated with the new enterprise risk management (ERM) framework *Integrating with strategy and performance* (Committee of Sponsoring Organizations of the Treadway Commission [COSO], 2017) and the ISO 37000 on the governance of organisations.

4. CONCLUSION

From a theoretical view, this study explores a phenomenon that can easily be brought back to the concept of hybridity, seen in its multiple meanings (Grossi, Reichard, Thomasson, & Vakkuri, 2017). It is possible to observe hybridity just by thinking of the dual soul of these organisations, which have a private legal status but are led by a public economic entity. This implies the need to consider the Regional Promotional Institutions and Banks as financial entities with a public purpose, operating with private techniques (Mauro, 1980). Looking at practical aspects, it was interesting to assess the impact of this hybridity on value creation, governance, and corporate social responsibility strategies. The outputs of this study are valuable proposals for improving the governance of these entities, enabling them to overcome the limitations arising from being a hybrid phenomenon and exploit, at the same time, all their potential.

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