

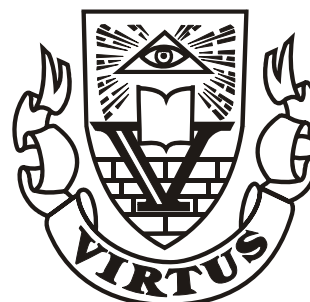
# CORPORATE OWNERSHIP & CONTROL

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Corporate Governance in Italy

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*Stefano Caselli, Stefano Gatti*

Using data on all family owned firms listed on the Italian Stock Exchange for the entire period between 2001 and 2005, it is shown that agency theory prescriptions and monitoring activities differentially impact the market value and profitability of family owned firms. Specifically, non-founder family firms benefit from a low level of board and insider stock ownership and a high level of stockholder and foreign investor ownership, because these firms necessarily face high agency costs. Conversely, founder family firms benefit from a high level of board and insider ownership, and a low level of stockholder and foreign investor ownership, owing to their lower agency costs.

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*Damiano Bonardo, Stefano Paleari, Silvio Vismara*

We investigate the relationship between operating performance and ownership structure using a sample of Italian IPO-firms in the period 1995-1999. Overall, we find that their performance declines after the IPO. We find evidence of a non-linear relationship between ownership and performance using different measures of operating performance and managerial ownership. This result supports the hypothesis of a combined effect of ownership on firm performance, with a positive effect at low and high levels of managerial ownership (alignment of interest hypothesis) and a negative effect at intermediate levels (entrenchment hypothesis).

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*Gianfranco Gianfrate, Laura Zanetti*

Since ownership structures characterized by the presence of multiple large shareholders are extremely common around the world, the effects of having such a controlling structure are receiving increasing attention in literature. More than one third of Italian listed companies are controlled by

coalitions of shareholders bound together by agreements called “voting trusts” which represent an interesting opportunity to study the consequences of having multiple large shareholders who share the control of firms. We perform an event-study on voting trust announcements (2004-2006), showing significant abnormal returns in both the event day and the following day. The sign of this cumulative reaction is negative for announcements of new/renewed trusts and positive in the cases of trust terminations. These findings are consistent with the “entrenchment effect” hypothesis linking the ownership structure and the firm value. As a general result, the presence of multiple large shareholders tied within a voting trust, by curbing the company’s contestability is reflected in a lower valuation of the firm.

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*Giovanni D’Orio, Rosetta Lombardo*

The greatest distinctions between corporate governance practices around the world appear to result from differences in law and not from differences in recommendations that emanate from the types of codes adopted. With the evolution of the concept of Corporate Governance the area of connections with the concept of Corporate Social Responsibility has become more and more wide. The possible way to separate ownership and control, so the corporate governance in the private sector of Italian economic system, has not been based on a unique model but on a set of different models for the different kind of enterprises involved. This paper analyses the connection between corporate governance and corporate social responsibility focusing on the Italian case where, since the system of corporate governance has never been clearly defined, the current outcome shows a unique system that well incorporates both concepts.

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*Angelo Miglietta, Mario Anaclerio, Cristina Bettinelli*

The objective of this article is to analyze how Italian Firms comply with the Internal Audit rules regarding the administrative liability of entities and to explain what the effect on the organizational structure was. In particular we collected data from 21 companies listed on the S&P/MIB index by sending a questionnaire to each Internal Audit Director. We show the features of internal audit system required by the 231 Italian Decree and how risk assessment and internal audit could serve as Corporate Governance Instruments. The 231 Italian Decree, like the *Sarbanes-Oxley Act* enhances and extends companies’ accountability, transparency and integrity especially in business conduct. The innovativeness of this work is due to the idea of considering these elements as influential for the risk management optimization. As a consequence, a risk reduction can be achieved by improving the organizational and management models. Thought is commonly accepted that the risk optimization leads to a reduction of the cost of capital for the enterprise, there is a difficulty in estimating how much the value provided could be.

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**EQUITY RESEARCH CREDIBILITY IN THE ITALIAN STOCK MARKET**

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*Enrico Maria Cervellati, Antonio C. F. Della Bina, Pierpaolo Pattitoni*

In this paper we verify the degree of reliability of brokerage analysts’ recommendations, with reference to Italian IPOs and measure their long-term performance, distinguishing among affiliated and non-affiliated analysts, to test the conflict of interests hypothesis against an alternative ‘superior information hypothesis’. The empirical evidence shows that IPOs recommended by affiliated analysts have a long-run performance that is worse than firms recommended by unaffiliated ones by a relevant amount. This result supports the conflict of interest hypothesis, while it seems to be inconsistent with the hypothesis that underwriter analysts have superior information.

**INVESTMENT VALUE OF RECOMMENDATIONS IN THE ITALIAN STOCK EXCHANGE**

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*Enrico Maria Cervellati, Antonio Carlo Francesco Della Bina, Pierpaolo Pattitoni*

Financial analysts' research activity seems to be important for investors in their investment decisions. Understanding if financial analysts' reports can influence the market and the degree of reliability of their forecasts has been a theme lively debated in the academic literature but also in the press, mainly because of recent financial scandals. The main objective of the paper is to calculate the investment value of financial analysts' recommendations on companies listed in the Italian Stock Exchange and to verify the possibility of profiting from relying on the average consensus of recommendations. We have enclosed in the analysis all the 16,634 reports issued between the 1<sup>st</sup> January 1999 and the 23<sup>rd</sup> July 2004 and available on the website of the Italian Stock Exchange, constructing a unique database for Italy. After classifying companies by quarter, five portfolios are formed based on analysts' average consensus to calculate the excess returns of each portfolio in each quarter. Our results suggest that analysts' recommendations have indeed investment value, even if investors should carefully consider neutral recommendations that can be considered as negative ones. These results, furthermore, give some interesting regulatory suggestions for a policy maker that wants to ensure transparency in the markets.

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**PATH-DEPENDENCY AND CORPORATE GOVERNANCE IN ITALY: THE POLITICAL ORIGINS OF DEBT FINANCING**

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*Antonio Nicita, Riccardo Vannini*

In this paper we investigate the emergence and the co-evolution of institutional complementarities between debt and equity as alternative financial instruments in the case of Italy. We focus on the evolution of Italian firms (related to the benchmark years from 1952 to 1991). Through the data collected we observed the collaterals that firms were able to transfer to loan institutes. We also examined the factors which made difficult to switch to equity financing, comparing the rate of profitability of Italian firms with alternative investments. The results show a financial structure for Italian firms that rely exclusively on debt, independently of the public or private nature of firms' property and of the economic sector. This anomaly seems to be the consequence of path-dependencies between "political origins" and firm's governance structure in Italy

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**Subscription details**

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