CORPORATE GOVERNANCE SYSTEM IN ITALY: COMPLIANCE AND QUALITY

Fabio Rizzato [*], Donatella Busso [*], Alain Devalle [**], Alessandro Zerbetto [*]

* Department of Business Administration, School of Management and Economics, University of Turin, Italy
** *Corresponding author,* Department of Economics, School of Management and Economics, University of Turin, Italy
Contact details: Department of Economics, School of Management and Economics, University of Turin, Corso Unione Sovietica 218 bis – 10134 Torino (TO) - Italy

Abstract

The Italian corporate governance system has been strengthened in the last decade to increase transparency in the management of companies and to increase the protection for minority shareholders. This paper addresses this concern by providing an empirical analysis of the composition and structure of the corporate governance system of Italian companies and its compliance with the Italian and international corporate governance standards, and identifying the determinants of the compliance. The sample comprises 159 listed companies belonging to the Italian Stock Exchange (FTSE Italia All-Share) in 2013. By means of a Corporate Governance Index (CG index) made up of 15 items, this paper defines the determinants that affect the compliance of the corporate governance structure of Italian companies. Our study uses an ordinary least square regression model to determine the independent variables that can influence the CG index of groups listed on the Italian regulated market, in accordance with international literature in this area.
Results show that there is still a moderate level of compliance with the Italian and international corporate governance standards, with differences depending on the size of the company. Furthermore, our research shows that the presence of institutional investors increases the score of the CG index, whereas family ownership results in a significant and negative correlation. Furthermore, as a typical issue in the Italian context, we found that leverage has a significant and positive influence on the composition of corporate governance and its compliance with international standards.

Keywords: CG Index, Code of Corporate Governance, Italy, Corporate Governance

1. INTRODUCTION

The Italian corporate governance system has been strengthened in the last decade to increase transparency in the management of companies and to increase the protection for minority shareholders. Laws and regulations have reinforced the control functions of companies. This paper addresses this issue by providing an empirical analysis of the quality, composition, and structure of the composition of the corporate governance of Italian companies and identifying the determinants that affect it.

As stated in previous research, the Italian corporate governance system has been considered as weak, characterized by an inactive takeover market, poor accounting standards, limited presence of institutional investors, and minimal legal protection for investors (Bianchi & Enriques, 2005; Buchanan & Yang, 2005; Ciampi, 2015).

Since 1998, with the introduction of the "Draghi law", the Italian corporate governance system reinforced the internal control systems of companies to restore confidence among investors by encouraging information and communication transparency (Cortesi et al., 2008; Melis & Rombi, 2018). Furthermore, the first introduction of the Corporate Governance Code (1999) focused on the role and the importance of bodies of control. In particular, to improve the effectiveness of operations, the reliability of financial reporting, and compliance with applicable laws and regulations, the code and the corporate governance debate has

focused on the independent monitoring power given to certain institutional actors inside and outside business organizations (Ianiello, 2015).

The first objective of this research is to investigate, through empirical analysis, the status of the corporate governance composition and structure of Italian listed companies and its compliance with Italian and international governance standards by means of a Corporate Governance Index (CG index). The objective of the CG index is to analyse the composition, compliance, and quality of the corporate governance of the Italian listed groups. The CG index comprises 15 items grouped into different categories: composition of the board, composition of the internal committees, and the role of minorities. Specifically, the CG index is based on determining whether the qualitative and quantitative requirements of the code are satisfied, together with certain requirements of the most authoritative international corporate governance standards and the items used in the international scholarly literature on the topic. Two governance standards were used as sources. The main source was the Corporate Governance Code for companies listed in Italy and drawn up by the Italian Stock Exchange Committee for Corporate Governance, which was published in March 2006 and amended in March 2010 and December 2011[23]. As we used the financial statements of Italian listed companies for the fiscal year 2013, the index focuses on the December 2011 code version. The second source was constituted of internationally recognized standards: the global governance principles developed by the International Corporate Governance Network and published in 2014.

The sample was made up of the listed companies belonging to the Italian Stock Exchange (FTSE Italia All-Share). The composition of the index refers to the year 2013, for which 159 listed companies were analysed; for each company, we collected 15 items to feed the CG index. Data were collected from the 2013 corporate governance report of each company.

The final objective of this study is to investigate the determinants that influence the composition, quality, and compliance of corporate governance (Meier & Meier, 2014; Cunha & Rodrigues, 2018), as Black et al. (2012) claim that country characteristics strongly predict which aspects of governance matter. To do this, for each entity, we collected 10 independent variables divided into ownership, size, financial debt exposure, and others (Carson, 1996). In total, we had collected 3,975 items.

The methodology used to assess the determinants of the quality and compliance of corporate governance is based on the OLS regression model consistent with the main literature review (Stanga, 1976; McNally et al., 1982; Chow & Wong-Boren, 1987; Cooke, 1989; Botosan, 1997; Depoers, 2000; Glaum & Street, 2003; Cunha & Rodrigues, 2018). Results show that there is a moderate level of compliance with Italian and international corporate governance standards, with differences depending on the size of the company. Our research shows that the presence of institutional investors increases the score of the index, whereas family ownership results in a significant decrease.

Furthermore, the leverage variable is also positive and significant. This result is a distinctive feature of the Italian market, where the role of the banking systems is more important than in other countries (Devalle et al., 2016).

The remainder of the paper is organized as follows. Section 2 describes corporate governance functions and laws prescribed in the Italian context; Section 3 develops the hypotheses; Section 4 discusses the sample and presents the model; Section 5 includes the test, regression, analysis, and results; and Section 6 summarizes the main findings of the study.

2. THE ITALIAN CONTEXT

The Italian corporate governance framework is made up of laws and standards. In Italy, the responsibility for internal controls was introduced in the "Draghi law" (1998), even though the internal control system was not defined. The manager responsible for the internal control function must be independent of other managers. The major listed companies have established an internal auditing function and identified the head of that function as the manager responsible for the internal control system. The internal auditing function is focused on "operating controls" that are oriented to managing and to minimizing operating risks.

For the first time in the Italian framework of corporate governance, the Corporate Governance Code (CG Code, 1999) defined the importance of the internal control system and introduced the definition provided by the Coso Report.

In 2003 the Civil Code was reformed, as the Italian system was characterized by a highly inefficient control system and a totally inadequate institutional structure (Cortesi et al., 2008).

After the Parmalat scandal, the "Draghi law" was modified by the savings law (Law 262/2005). The Savings Law, which aimed at protecting savings and regulating financial markets, came into force on January 12, 2006.

In addition to the application of these laws, Italian companies have to comply with the new versions of the Corporate Governance Code first published in March 2006. One of the objectives of the code was to provide best practices to increase the protection for minorities by improving the structure of corporate governance and its bodies. To do this, the Corporate Governance Code moved from a voluntary approach to a comply-or-explain approach. Thus, companies have to disclose in the corporate governance report if they comply with the CG code or explain the reasons why they do not.

To reinforce the corporate governance of a company, board of directors (BoD) composition is a key topic.

The board of directors shall be made up of executive and non-executive directors, who should be adequately competent and professional. Furthermore, listed companies must specify which directors are compliant with independence requirements and, concerning the procedure for the appointment of the directors, the bylaws have to specify the minimum percentage of votes that each slate must obtain. At least one independent director must be appointed if there are no more than seven members, while two independent directors are required if there are more than seven directors. The role of independent directors is to provide an

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[23]Minor amendments were made in July 2014 and July 2015.

independent, unbiased judgement on proposed resolutions since they are not directly involved in the operational running of the company.

Fama and Jensen (1983) argued that a higher proportion of independent directors on corporate boards would result in more effective monitoring of boards and limit the managerial opportunism. Since independent directors are in a better position to discipline management, they are expected to be more effective in prohibiting opportunistic behaviours, thereby reducing potential agency conflicts (Kren & Kerr, 1997; Altunbas et al., 2001; Bebchuk et al., 2009; Pathan, 2009). Yeh et al. (2011) suggest that independent directors can help a firm by actively providing their expertise, prestige, and monitoring power.

One of the recommendations of the Italian code of corporate governance is in regard to the balance of power within the board; thus a separation between the CEO and the chairman is advisable. In the case of CEO duality (or the case in which the chairman is the person who owns the firm), it is suggested that a lead independent director is appointed, to rebalance the powers within the board. In the UK and the US, the dual appointment of chairman and CEO is seen as giving too much power to the individual (Jensen, 1993).

Within the BoD, the CG code suggests the introduction of different committees, for control and risk, compensation, and remuneration.

The control and risk committee comprises independent directors, or alternatively, the committee can be made up of non-executive directors, the majority of whom are independent ones; in this case, the chairman of the committee is selected from among the independent directors. If the issue is controlled by another listed company or is subject to the direction and coordination activity of another company, the committee shall be made up exclusively of independent directors. The role of the control and risk committee is primarily to define the guidelines of the internal control and risk management system.

The nomination committee, comprising mostly independent directors, has the role of recommending the procedure to be followed for the appointment of the directors, which should ensure transparency and balanced composition of the board.

The remuneration committee is made up of independent directors, or alternatively, of non-executive directors, the majority of whom will be independent. The remuneration committee has to evaluate the adequacy, overall consistency, and actual application of the policy for the remuneration of directors and key management personnel.

Since board committees reflect different dimensions of expertise, independent directors on different committees allow for varied involvements in representing the interests of the shareholders (Brennan & McDermott, 2004; Ravina & Sapienza, 2010). John and Senbet (1998) indicate that there is a strong propensity towards non-insiders serving on board committees.

A board of statutory auditors is mandatory and one of the most important auditing and control bodies in Italian companies[24]. The "Draghi law" (Article 149) states that this board shall check

compliance with the law and company bylaws; observance of the principles of correct administration; adequacy of the company's organizational structure for matters within the scope of the board's authority; adequacy of the internal control, administrative, and accounting systems; reliability of the latter incorrectly representing the company's transactions; arrangements for implementing the corporate governance rules provided for in codes of conduct, drawn up by management companies of regulated markets or by trade associations that the company, by means of public disclosures, declares it complies with; and adequacy of the instructions imparted by the company to its subsidiaries.

In 2001, Legislative Decree 231/2001 was issued, stating that companies are responsible for crimes committed by managers and employees in the company's interest. This responsibility is called "administrative responsibility" because it concerns organizations and not people. Sanctions are both economic and "administrative". Examples of administrative sanctions are disqualification from public contracts or any business connections with government bodies and companies. Private companies could escape these sanctions if they are able to demonstrate that their internal control system effectively prevents crimes committed by managers and employees. The body of the company that verifies the compliance of the internal control system with Legislative Decree 231/2001 is called the supervisory board, which shall be the board of statutory auditors. Legislative Decree (L.D.) 231/2001 provides for the following crimes: crimes against the civil service and other government bodies, civil law crimes, market abuse, etc. To be exempted from the responsibility provided by L.D. 231/2001, the company has to establish organizational models and control systems suitable for preventing the committing of crimes and has to establish a supervisory board that supervises the effectiveness of the organizational models and the control system.

After the international and national financial scandal, a new position was added: the manager in charge of preparing a company's financial reports (Law 262/2005). This manager shall put appropriate administrative and accounting procedures in place for preparing the annual accounts report and, where provided for, the consolidated accounts and every other disclosure of a financial nature (Article 154 bis). Moreover, the manager responsible and the CEO are now required to certify that accounts correspond to the ledgers and the accounting records. The manager in charge of preparing the company's financial report coincides with the chief financial officer of the company and is responsible for the internal control system related to accounting data.
Another mandatory body of control is the auditor, who is appointed or revoked by the shareholders' meeting following a grounded proposal by the board of statutory auditors; the appointment lasts nine financial years and is not renewable.

As previously illustrated, many bodies of control were introduced into the Italian governance laws and regulations, and the objective of this paper is to focus on the quality and the composition of the internal control structure of Italian companies.

In this study, we collected data from the report of corporate governance of listed Italian companies to verify the composition of the governance of a

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[24] For an analysis of the function of the board of statutory auditors, see Melis (2004).

company, assigning a score by means of an index (CG index). Indexes were widely used in the research of corporate governance to verify the quality and the effectiveness of the internal control. With reference to the Italian context, Regoliosi et al. (2014) analysed the quality of the internal auditing department by means of an internal audit department's global quality index (IAD index). The results showed that there are significant associations (positive and negative) between the degree of compliance with some corporate governance regulations for listed firms and the IAD index. Allegrini et al. (2013) regressed a voluntary disclosure index on seven governance variables related either to the board structure or functioning with reference to an Italian sample of listed companies. The findings showed a positive relation between board size and diligence with voluntary disclosure.

Our research defined an overall index with 15 items to assess the structure and quality of the corporate governance of listed Italian companies, analysing 159 listed companies. We regressed the IC index to test the determinants that influence the IC index.

Our research contributes to the literature by providing results on corporate governance and its effectiveness with a wide sample of the Italian market. This research is also useful for legislators, to define the mandatory or voluntary composition of corporate governance to reinforce the protection for shareholders.

3. HYPOTHESES DEVELOPMENT AND LITERATURE REVIEW

This study investigates which group of a firm's characteristics produce a better composition of corporate governance in Italy, where national-level variables play a significant role (Aguilera & Jackson, 2003; Kumar & Zattoni, 2013; Aslan & Kumar, 2014). To achieve this result, we first analysed the international literature, searching for determinants affecting firm-level corporate governance. We grouped the determinants into four categories: size, ownership structure, financial structure, and other variables. By doing so, we considered the particular characteristics of Italian companies (Melis, 1999) as well as political power (Roe, 2003) and the legal and financial environment (La Porta et al., 2008).

3.1. Ownership structure

The ownership variables are divided into four categories: the presence of a strong block holder, such as a family; state ownership; national institutional ownership; and the presence of foreign investors.

The ownership of a company influences the composition of corporate governance (Nguyen & Faff, 2007; Yurtoglu, 2003; Salvioni & Gennari, 2016). The Italian corporate governance system is characterized by the presence of a strong block holder that is usually a family. In recent years there has been an increase in the presence of institutional investors (national and foreign) in company ownership. Some big groups have as a shareholder the Italian state, which could also have some special power (e.g., golden share).

The ownership structure influences the quality of corporate governance (Lee, 2008). Dyck and Zingales (2004) show that ownership is more concentrated in countries in which private benefits of control are greater, or countries with weak legal protection for investors, like Italy (La Porta et al., 1999). In these countries, ownership concentration is an efficient form of governance to control manager activities (Wang, 2006), but it potentially leaves minority investors unprotected (Shleifer & Vishny, 1997; Johnson et al., 2000; La Porta et al., 2000; Claessens et al., 2002). Indeed, large controlling shareholders could use their influence on management to ensure a return on their investment even at the expense of minorities' expropriation, defining the type-two agency conflict (La Porta et al., 1999; 2002; Lemmon et al., 2003). This assumption is confirmed by Boubakri et al. (2005) and Bai et al. (2004), asserting that concentrated ownership gives to dominant shareholders substantial discretionary power to use the firm's resources for personal gain at the expense of other shareholders, and also facilitates their ability to manipulate internal governance mechanisms (Claessens et al., 2002; Dyck & Zingales, 2004; Huyghebaert & Wang, 2012). Recent studies found an inverse relation between ownership concentration and board independence, for many developed countries (Li, 1994; Kang et al., 2007).

In family-controlled companies, the traditional agency relationship between owners and managers is reduced due to the ability of the controlling family to closely monitor managers (Demsetz & Lehn, 1985; Shleifer & Vishny, 1997; Anderson & Reeb, 2003; Villalonga & Amit, 2006). Moreover, top management is often dominated directly by family members or individuals who are very close to the controlling family (Corbetta & Minichilli, 2005). In this context, Hope et al. (2010) argue that it is easier to extract private benefits for major family owners, who can strongly influence the board or have the possibility of electing board members. Several studies show that large shareholders' expropriation of minority shareholders' wealth is even more achievable when companies record a poor quality of corporate governance. For example, Chen and Jaggi (2000) find that family ownership may reduce the independent director's effectiveness in convincing management to disclose more comprehensive information. Cheng and Firth (2006) find weak corporate governance and controls exercised by outside block holders and independent non-executive directors due to the overwhelming power of executive directors in family firms. Anderson and Reeb (2003) find that for S&P 500 firms, outside directors are more prevalent in non-family firms than in family firms.

Moreover, researchers find evidence suggesting that if families seek to entrench themselves and extract private benefits from the firm, the lack of strong external monitors and discipline agents potentially permits them to pursue this path. Conversely, corporate governance and the control system are directed to pursue the interests of all categories of shareholders, and corporate governance deals with the way in which all the suppliers of finance to corporations assure themselves of getting a return on their investment (Shleifer & Vishny, 1997). Thus, to maintain the private benefit of control and pursue this return on their investment, large shareholders need a lower quality of corporate governance.

For Italian family-controlled companies, it has been shown that due to the lower substantial independence of board members, the board proves to be less effective in constraining some specific issues (Prencipe & Bar-Yosef, 2011).

In our research, family ownership is represented by the percentage of shares owned by a single family.

H1: We expect a significant relationship between family ownership and the CG index.

Some researchers have shown that the presence of the state and national institutional ownership as a shareholder contributes to the prevention of frauds and the expropriation of wealth for minorities (Sun & Tong, 2003; Bianchi & Enriques, 2005; Kumar & Zattoni, 2018). Black et al. (2014) find that fractional ownership held by the state is the strongest predicting variable of corporate governance quality, proxied by the pooled CG index (pool observations across Brazil, India, Korea, and Turkey treat the country corporate governance indices as if they capture the same underlying construct).

The role of national institutional investors can also have different effects on the structure of corporate governance (Brunello et al., 2003; Aguilera et al., 2018). However, the effects of the presence of state and national institutional investors on the corporate governance structure depend on the countries analysed.

In our research, we defined two proxies to measure the presence of the institution: state ownership and national institutional ownership. State ownership is represented by the percentage of the shares owned by the state or state agencies. National institutional ownership is represented by the number of national institutional investors owning shares of the company.

H2: We do not expect, in the Italian context, a clear relationship between state ownership and the CG index.

H3: We do not expect, in the Italian context, a clear relationship between national institutional ownership and the CG index.

According to Shleifer and Vishny (1986) and Karamanou and Vafeas (2005), the presence of block holders in a firm's ownership positively affects corporate governance processes, introducing an additional monitoring mechanism. McConnell and Servaes (1990) and Xu and Wang (1999) find that institutional investors appear to be more effective than individual shareholders in monitoring a firm's performance. Among these block holders, Balasubramanian et al. (2010) and Filatotchev et al. (2018) identify foreign investors as having a very important role; higher corporate governance is in their interest, and they are able to force the achievement of this goal due to the fact that they are willing to pay a higher price for equity, exerting greater pressure on managers. Khanna and Palepu (2000) argue that foreign-invested firms are likely to insist on higher governance standards and on the protection of minority rights. Foreign investors are able to prevent fraud in the Chinese financial market (Chen et al., 2006). Moreover, Bianchi et al. (2011) report that for the Italian market, higher levels of effective compliance to the Italian code of corporate governance (summarizing accepted worldwide best practices of corporate governance) tend to be found in companies with relevant holdings by institutional investors (particularly foreign investors) who participate in general shareholder meetings. Bianchi et al. (2011) claim that foreign investors are able to monitor the firms they invest in, helping to discourage financial fraud and improve the effectiveness of the internal control system. Bianchi et al. (2011) find positive relations between effective compliance with the Corporate Governance Code and foreign investors participating in annual meetings, for listed Italian companies. To investigate the factors affecting the IC index, we use the number of foreign funds holding relevant shares of the firm (percentage greater than 2%) as a proxy for foreign fund interest in the firm.

H4: We expect a significant and positive relationship between the CG index and the presence of foreign investors.

3.2. Firm size

The corporate governance rules of a company are influenced by the company's complexity. Many studies have shown a correlation between the size of a company and the quality of the corporate governance (Fuerst & Kang, 2003; Kao & Chen, 2004; Kyereboah & Biekpe, 2007; Darmadi, 2011; Bajra & Cadez, 2018). The biggest companies need a more complex corporate governance system (LeeGompers et al., 2003; Barucci & Falini, 2005; Black et al., 2006; Cheung et al., 2008; Balasubramanian et al., 2010; Henry, 2010; Siregar et al., 2010; Black et al., 2011). Henry (2010) shows that there is a positive correlation between the natural logarithm of the revenues and the composition of corporate governance. Other studies have used the natural logarithm of the total assets (Chen et al., 2006; Ghazali, 2010; Hasanand & Ahmed, 2012; Swastika, 2013).

The natural logarithm of the sales and belonging to the FTSE MIB index are used as proxies of the firm size (Tulung & Ramdani, 2018).

H5: We expect a significant and positive relationship between the CG index and one or more proxies of the firm size.

3.3. Financial debts variables

As previously mentioned, Jensen (1986) claims that financial leverage influences management choices; thus, in companies characterized by high financial debts, managers have less discretion in using generated cash flows. As a result, non-optimal investments are less probable. Furthermore, leverage can be used as a tool for regulating managers' behaviour, inasmuch as missing the debt repayment can lead to bankruptcy (Shleifer & Vishny, 1997; Bajra & Cadez, 2018) and increasing debt level leads to a rise in interest expenses.

Anderson et al. (2004) agree that the cost of debt financing is negatively related to board independence and audit committee independence, size, and meeting frequency. Their study focuses on bondholders' situation and thus on the accounting-based debt covenant interpretation. Specifically, they conclude that bondholders consider the board and audit committee's monitoring effectiveness as a source of greater assurance with respect to the integrity of accounting numbers. These findings are confirmed by Chen et al. (2010), who assert that better governance structures are likely to have lower costs of equity and/or debt. Moreover, Bhojraj and

Sengupta (2003) provide evidence linking corporate governance mechanisms to higher bond ratings and lower bond yields. Governance mechanisms can reduce default risk by mitigating agency costs and monitoring managerial performance and by reducing information asymmetry between the firm and the lenders. Moreover, empirical findings by Piot et al. (2007) reveal that corporate governance quality has a significant reducing effect on the cost of debt, whereas audit quality does not. In summary, as long as financial debts are a tool to regulate management behaviour, increasing the quality of corporate governance is useful to mitigate interest expenses (Boubaker, 2007). However, improving corporate governance is more useful for high-levered firms. In our research, two items were used: leverage and the weight of interest on revenues.

H6: We expect a significant and positive relationship between the CG index and the different configuration of the financial debts variables.

3.4. Other variables

To reduce the stochastic error we also considered two other variables. The first variable is the listing of a company in different international stock exchanges (Baker, 2009; Christenses, 2010). In particular, we consider the number of international stock exchanges in which each group is listed.

H7: We do not expect a clear relationship between the CG index and the listing of a company in the different international stock exchanges.

The second variable is the presence of an external auditor among the "big four", which is a control variable (Qu, 2018).

H8: We expect a significant and positive relationship between the CG index and the presence of "big four" external auditors.

4. SAMPLE, METHOD, AND VARIABLES

We tested the hypotheses using a sample consisting of all Italian companies listed on the FTSE-ALL-SHARE index as of December 31, 2013. As shown in Table 1, of the 218 groups on the index that were analysed, 178 were non-financial entities and 40 were financial entities.

Table 1. Groups and sectors

Sector	Sample	% sample
Non-financial	178	81.7%
Banking	16	7.3%
Insurance	8	3.7%
Financial services	16	7.3%
Total	218	100%

Our investigation focused on the 178 non-financial groups since the financial groups have different corporate governance rules. Financial companies are subject to the supervision of the Bank of Italy and European Bank Authority (if banks) and the Italian Authority for Insurance companies named Institute for the Supervision of Insurance – IVASS (if insurance companies). Financial companies have to comply with several specific laws and rules whose aim is to strengthen the requirements of the members of the bodies of management and control. The objective of the legislation is to have robust governance arrangements, including a clear organizational structure, well-defined lines of

responsibility, effective risk management processes, control mechanisms, and remuneration policies. The European Bank Authority (2017) revised the guidelines on internal governance whose aim is to further harmonize institutions' internal governance arrangements, processes, and mechanisms across the EU in line with the new requirements in this area introduced in the Capital Requirements Directive (CRD IV). The Guidelines put more emphasis on the duties and responsibilities of the management body in its supervisory function in risk oversight, including the role of their committees. They aim at improving the status of the risk management function, enhancing the information flow between the risk management function and the management body and ensuring effective monitoring of risk governance by supervisors (EBA). These requirements are applicable only by financial companies. Thus, we excluded financial companies from our analysis since their corporate governance rules are not comparable.

Accordingly, we analysed 81.7% of all groups in Italy listed as of December 31, 2013. Out of the 178 listed groups, we excluded 3 foreign entities that are subject to the legislative requirements of their country of origin, 4 groups that adopted non-traditional corporate governance models (one-tier or two-tier systems), and 12 groups that did not present sufficient information to enable all the items needed to construct the CG index to be identified. The final sample thus consisted of 159 listed groups in Italy that adopted the traditional corporate governance model, as shown in Table 2.

Table 2. Sample composition

Item	Sample
Non-financial groups	178
Foreign entities	(3)
Non-traditional corporate governance model	(4)
Insufficient information	(12)
Final sample	159

For each group in the sample, we collected 15 items to determine the CG index (dependent variable) and 10 items to identify the independent variables. A total of 3,975 items were collected. The information needed to construct the model was taken from the mandatory documents provided by groups (the corporate governance report). For financial data, the consolidated financial statements for the fiscal year of 2013 were analysed. No information other than that disclosed in the main corporate documents was used, i.e., no confidential documents, management reports, or unpublished documents were consulted (Lang et al., 2003).

5. COMPOSITION INDEX CONFIGURATION

There is extensive literature on the use of a disclosure index (Dscore) to investigate the level of information disclosed in consolidated financial statements (Marston et al., 1991). The Dscore is generally used to check the compliance of the notes to the financial statements (Devalle & Rizzato, 2012; 2013; 2014). A number of studies have used the Dscore to demonstrate the compliance of specific non-financial information (Robba et al., 2001).

In our investigation, the score, defined as the CG index, is used to demonstrate the compliance of corporate governance with the practices identified

through an analysis of the main internationally recognized corporate governance standards.

The index was constructed primarily but not exclusively on the basis of the requirements of the Corporate Governance Code for companies listed in Italy.

Specifically, the CG index is based on determining whether the quantitative requirements of the code are satisfied together with certain requirements of the most authoritative international corporate governance standards and the items used in the international scholarly literature on the topic. Two governance standards were used as sources. The main source was the 2011 Corporate Governance Code for companies listed in Italy, drawn up by the Italian Stock Exchange Committee

for Corporate Governance. The second source constituted internationally recognized standards: the global governance principles developed by the International Corporate Governance Network and published in 2014 (abbreviated as GGP-ICGN in Table 3), and Italian law (in particular the "Draghi law", law 58/1998, and the 231/2001 decree).

The CG index consists of 14 items grouped into categories with specific investigative aims: composition of the board of directors, composition of internal committees and the role of representatives of minority shareholders, and auditors (Hay, 2017).

The items used in constructing the index are shown in Table 3.

Table 3. Items used to construct the CG index

CG index items	Corporate Governance Code	GGP-ICGN	International studies
Board composition			
1) Non-executive directors on board	Required	Required	Used
2) Independent directors on board	Required	Required	Used
3) Independent chairmanship		Required	Used
4) Distinction between the chairman of the board and controlling the entity		Required	Used
5) Non-executive chairman		Required	Used
6) Distinction between the chief executive officer and chairman	Required	Required	Used
7) Lead independent director	Required	Required	Used
Composition of internal committees and role of representatives of minority shareholders			
8) Presence and composition of Audit and Risk Committee	Required	Required	Used
9) Presence and composition of Remuneration Committee	Required	Required	Used
10) Presence and composition of Nomination Committee	Required	Required	Used
11) Nomination and Remuneration Committees coincide			Used
12) Directors nominated by minority shareholders on board			Used
13) Statutory auditors nominated by minority shareholders			Used
Other			
14) Supervisory body pursuant to Legislative Decree 231/2001	Required		
15) Percentage of women directors on the board of the entity			Used

The Dscore configuration used in our model is shown below (Devalle et al. 2016):

$$CG\ Index_j = \frac{\sum_{i=1}^{n} d_i}{\sum_{i=1}^{n} x_i} \qquad (1)$$

where $CGIndex_j$ is the corporate governance compliance index for firm j, n is the number of items investigated; i are the items; d_i indicates

whether or not the investigated item i is present (value is 1 if item i is present, and 0 if item i is not present); x_i indicates whether or not item i is relevant (value is 1 if item i is relevant, and 0 if item i is not relevant). The numerator of the CG index varies according to whether or not the investigated item is present, while the denominator varies according to whether or not the item is relevant. The method used to calculate each item and assign the associated score is shown in Table 4.

Table 4. Investigated items, calculation method, and assigned score (Part 1)

| Items	Calculation method	Score
1) Non-executive directors on board	$i = \dfrac{No.\,of\ non\ executive\ directors}{Total\ no.\,of\ directors}$	if $i<50\%$ if $50\% \leq i \leq 80\%$ if $i > 80\%$
2) Independent directors on board	$i = \dfrac{No.\,of\ independent\ directors}{No.\,of\ non\ executive\ directors}$	$0 \leq i \leq 1$
3) Chairman is an independent director	Dummy item	Yes: 1 point No: 0 points
4) Chairman controls issuer	Dummy item	Yes: 0 point No: 1 point
5) Chairman is a non-executive director	Dummy item	Yes: 1 point No: 0 points
6) Chief executive officer is also chairman of the board	Dummy item	Yes: 0 point No: 1 point
7) There is a lead independent director	Dummy item	Yes: 1 point No: 0 points

Table 4. Investigated items, calculation method, and assigned score (Part 2)

Items	Calculation method	Score
8) Presence and composition of Audit and Risk Committee	$i = x * y * z$ where: $x = Presence\ of\ committee$ $(1\ if\ present, 0\ if\ not\ present)$ $y = \dfrac{No.of\ independent\ directors}{Total\ committee\ members}$ $z = \dfrac{No.of\ non\ executive\ directors}{Total\ committee\ members}$	$0 \le i \le 1$
9) Presence and composition of Remuneration Committee	$i = x * y * z$ where: $x = Presence\ of\ committee$ $(1\ if\ present, 0\ if\ not\ present)$ $y = \dfrac{No.of\ independent\ directors}{Total\ committee\ members}$ $z = \dfrac{No.of\ non\ executive\ directors}{Total\ committee\ members}$	$0 \le i \le 1$
10) Presence and composition of Nomination Committee	$i = x * y$ where: $x = Presence\ of\ committee$ $(1\ if\ present, 0\ if\ not\ present)$ $y = \dfrac{No.of\ independent\ directors}{Total\ committee\ members}$	$0 \le i \le 1$
11) Nomination and Remuneration Committees coincide	Dummy item	Yes: 0 points No: 1 point
12) Directors nominated by minority shareholders on board	Dummy item	Yes: 0.5 points No: 0 point
13) Statutory auditors nominated by minority shareholders	Dummy item	Yes: 0.5 points No: 0 points
14) Supervisory body pursuant to Legislative Decree 231/2001	Dummy item	Yes: 1 point No: 0 points
15) Percentage of women directors on the board of the entity	Comparison between % of women directors on the board of the entity (x) and the mean % of women directors on the board in the sample (17.19%)	0 if $x<17.19\%$ 1 if $x\ge17.19\%$

To prevent redundancy in the dependent variable and penalize some listed groups' CG index, certain items were counted in the index only if they were relevant.

As an example, items 3, 4, 5, and 6 in Table 3 were counted in the CG index as follows (Figure 1).

Figure 1. Role, characteristics, and independence of the chairman of the board: CG index counting method
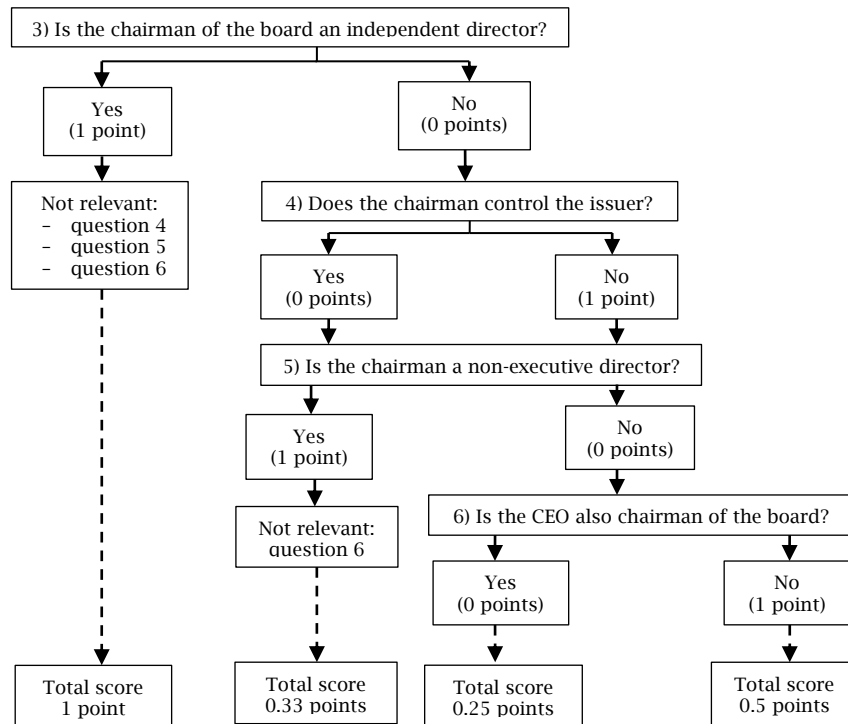
As can be seen from Figure 1, the impact of each item in calculating the CG index differs according to the board's operating structure.

Following the method used in an earlier study (Tsalavoutas, 2011) to ensure the reliability of the research instrument, the authors and two independent researchers each scored 10 randomly selected companies. The findings of the three researchers were then compared. Since the final research instrument had been agreed upon by all the investigators, differences between the investigators' compliance scores were not significant.

6. METHODOLOGY AND MEASUREMENT OF THE VARIABLE

Our study used an ordinary least square regression model to determine the independent variables that can influence the CG index of groups listed on the Italian regulated market, in accordance with international literature in this area (Klapper & Love, 2002; We et al., 2003; Bebchuk & Cohen, 2005; Durnev & Kim, 2005; Brown & Caylor, 2006; Aggarwal et al., 2009).

The general regression model is as follows:

$$CG\ Index_j = \alpha_0 + \alpha_s(Ownership\ structure_s)_j \\ + \alpha_m(Size\ variable_m)_j + \\ \alpha_n(Financial\ debts\ variable_n)_j \\ + \alpha_z(Other\ variable_z)_j + \varepsilon_j \quad (2)$$

where $CG\ Index_j$ is the CG index for each entity j.

As can be seen from the general model, the independent variables were divided into four categories to find the determinants of Italian groups' CG index, and specific independent variables were observed for each category. Specifically, we identified 4 independent variables for the *Ownership Structure* category, 2 independent variables for the *Size Variable* category, 2 independent variables for the *Financial Debts Variable* category, and 1 independent variable for the *Other Variable* category (see Table 5).

The OLS regression model used in our study is thus as follows:

$$I.C.Index_j = \alpha_0 + \alpha_1(Family\ Own)_j + \alpha_2(State\ Own)_j + \alpha_3(No.Foreign\ Funds)_j + \alpha_4(Nat.Instit.Own)_j \\ + \alpha_5 Ln(Sales)_j + \alpha_6(FTSE)_j + \alpha_7(Leverage)_j + \alpha_8(Inc.FE.Rev.)_j + \alpha_9(Other\ Stock\ Ex.)_j \quad (3) \\ + \alpha_{10}(Big\ Four\ External\ Auditor)_j + \varepsilon_j$$

where:

$(Family\ Own)_j$	Percentage of shares owned by a single family for entity j
$(State\ Own)_j$	Percentage of shares owned by state agencies for entity j
$(No.Foreign\ Funds)_j$	Number of foreign funds owning shares in entity j
$(Nat.Instit.Own)_j$	Number of national institutional investors owning shares in entity j
$Ln(Sales)_j$	Natural logarithm of sales for entity j
$(FTSE)_j$	Inclusion in the FTSE-MIB index for entity j
$(Leverage)_j$	Financial debts/total assets for entity j
$(Inc.FE.Rev.)_j$	Interest on revenues for entity j
$(Other\ Stock\ Ex.)_j$	Number of exchanges on which entity j is listed
$(Big\ Four\ External\ Auditor)_j$	External auditor is one of the "big four"

Table 5. Independent variables and descriptive statistics

Item	Family _Own	State _Own	No._Foreign Funds	Nat_Instit_Own	Sales	FTSE	Leverage	Inc_Fe_Rev	Other_Stock_Ex	Big Four External Auditor
Type of variable	Numerical	Numerical	Numerical	Numerical	Numerical	Dummy	Numerical	Numerical	Numerical	Dummy Control variable
Classification of variable	Ownership structure	Ownership structure	Ownership structure	Ownership structure	Size Variable	Size variable	Financial Debts variable	Financial Debts variable	Other variable	Other variable
Source of data	Annual report – Consob databases	Annual report – Consob databases	Annual report – Consob databases	Annual report – Consob databases	Financial statement	Italian Stock Exchange	Financial statement	Financial statement	Website entity	Annual report – Consob Dataset
No. of groups	159	159	159	159	159	159	159	159	159	159
Missing	0	0	0	0	0	0	0	0	0	0
Mean	.4035	.0500	.9308	.4026	3,130.4416		.3476	.0401	.9435	–
Median	.5100	.0000	1.0000	.0000	272.40		.3100	.0200	1.0000	–
Std. Deviation	.25790	.14428	1.14250	.81218	13,032.0528		.2366	.06925	1.08058	–
Skewness	-.568	2.976	1.478	2.796	6.930		1.606	3.526	1.638	–
Kurtosis	-1.173	7.929	2.437	9.573	50.397		5.272	14.004	3.145	–
Min.	.00	.00	.00	.00	3.55	.00	.00	.00	.00	.00
Max.	.84	.69	6.00	5.00	114,722	1.00	1.63	.43	5.00	1.00

Note: Table 5 summarizes the independent variables used in the model together with the descriptive statistics.

As can be seen from Table 5, the independent variables are mostly numerical variables, with the exception of the independent variable *FTSE* and *Big Four External Auditor*, which are dummy variables. The fact that there are only two dummy variables limits the risk of multicollinearity between the independent variables in the model. It should also be noted that there are no missing values.

The first category of variables is *Ownership Structure* and is broken down into four sub-categories.

The first sub-category is *Family Ownership*. It is a numerical variable calculated as the ratio of the number of shares owned by the same family (or by an individual belonging to this family) to the total number of shares traded on the stock exchange. As can be seen from the descriptive statistics, there is a high level of family ownership in the sample, with a mean of 40.35%. The median is close to the mean; the frequency distribution of the percentage of family ownership is close to being a normal distribution. The standard deviation also demonstrates this characteristic. The skewness of –.568 indicates that the frequency distribution of family ownership is right-skewed. The kurtosis index of –1.173 indicates that the frequency distribution is platykurtic.

The variable *State_Own* refers to state ownership and is the ratio of the shares held by state agencies to the total number of shares traded on the regulated market. Table 5 shows that the state's mean percentage equity interest in listed Italian companies is 5%, with a maximum of 69%. The median is .0, showing that despite the maximum and mean values, the government does not have shareholdings in 50% of the analysed groups. The percentage of state ownership shows a highly leptokurtic left-skewed distribution (kurtosis 7.929, skewness 2.976).

Ownership Structure was also investigated using the variables *No._Foreign_Funds*, which indicates the number of foreign funds with holdings in the groups, and *Nat_Instit_Own*, which indicates the number of national institutional investors. Table 5 shows that 50% of the listed groups in the sample have no more than one foreign fund, while 50% do not have institutional investors.

The second category of variables is *Size*, operationalized in the model as the natural logarithm of sales (Ln_Rev) and inclusion in the FTSE-MIB market index (FTSE). The FTSE-MIB index, in fact, is the main benchmark for the Italian stock markets. It represents around 80% of domestic market capitalization and consists of leading high-liquidity firms in Italy's various Industry Classification Benchmark (ICB) sectors. The FTSE MIB index is market capitalization weighted after adjusting constituents for float. It thus includes the listed Italian groups with the highest market value. For this reason, unlike other similar studies (Cheung et al., 2008; Bianchi et al., 2011) but following the procedure adopted by Barucci and Falini (2005) in Italy as well as at the international level (Black et al., 2006; Balasubramanian et al., 2010; Henry, 2010), market value was not considered as an independent variable to avoid multicollinearity between the independent variables market capitalization and inclusion in the FTSE index.

Sales show a sample mean of 3.13 billion euros, with a median of 272 million euros. As the mean and the median are very far apart, the frequency distribution of sales departs from its normal distribution. The standard deviation (13.03 billion euros) confirms this assumption, as it shows that sales revenues are widely dispersed around the mean. The frequency distribution is left-skewed (skewness 6.930) and leptokurtic (kurtosis 50.397).

Given its construction, the sales variable is always positive, with a minimum of 3 million euros and a maximum of 114.72 billion euros. To reduce variability, we chose to use the logarithmic transformation of sales (Ln_Sales), as has been the practice in the literature in this area (Black et al. 2006; Balasubramanian et al., 2010; Henry, 2010).

The second size variable used in our study is *FTSE*. It is a dummy variable whose value is 1 if the group in question is included in the FTSE-MIB market index and 0 if it is not.

The third category of independent variables is *Financial Debts* and is the dimension that characterizes our model and our study. The objective of these variables is to consider the effect of the level of financial indebtedness and its economic sustainability on the composition of corporate governance. As our measure of indebtedness, we used leverage, calculated as the ratio of financial debt to total assets, while our measure of the economic sustainability of indebtedness was the ratio of financial expenses given in the income statement to revenues (*Inc_Fe_Rev*).

Table 5 shows that the analysed groups have a meaningful financial debt amounting to 34.76% of total assets, while the median is 31%. The small difference between the mean and the median indicates that the frequency distribution of leverage is close to the normal distribution. The maximum financial debt of listed Italian groups amounts to 163%, the value reached in groups with negative equity. The variable *Inc_Fe_Rev* also shows a mean (4.01%) close to the median. Here again, the frequency distribution is thus close to its normal distribution. The maximum value reached by financial expenses as a percentage of revenues is 43%. Both leverage and financial expenses as a percentage of revenues have a leptokurtic left-skewed distribution. This is demonstrated by the positive values for both skewness (1.606 in the case of leverage and 3.526 in the case of financial expenses as a percentage of revenues) and kurtosis (5.272 for leverage and 14.004 for financial expenses as a percentage of revenues).

The last independent variables considered in the model represent listing in more than one regulated market (*Other_Stock_Ex*) and the external auditor.

As can be seen from Table 5, the variable *Other_Stock_ex* assumes a maximum value of 5, while the mean and median are close to 1. These values indicate that, on average, the analysed groups are listed on a single regulated market, while a few exceptions are listed on more than one.

External Auditor is a control variable to verify if the external auditor is a member of the "big four".

Table 6 shows the descriptive statistics for the dependent variable.

Table 6. Dependent variable and descriptive statistics

Variable	No. of items	Missing	Mean	Median	Std. deviation	Skewness	Kurtosis	Min.	Max.
CG index	159	0	.5686	.5767	.11397	-.562	.710	.12	.80

Table 6 indicates that the mean CG index is 56.86%. Thus, though the compliance with corporate governance of listed Italian groups is above 50% on average, it is still far from optimal. The median value (57.67%) is very close to the mean, showing that the CG index frequency distribution is close to its normal distribution.

In addition, the CG index frequency distribution is right-skewed (skewness –.562) with kurtosis of .710.

As can also be seen, the minimum value reached by the dependent variable is 12%, while the maximum is 80%. None of the groups reach a CG index of 100%.

The mean and the median values of the dependent variable, together with the fact that there were no groups with a corporate governance compliance score of 100%, justify our study's objective of determining which independent variables are capable of influencing the corporate governance of groups listed on the Italian market.

7. RESULTS

To use the OLS model, there must be no multicollinearity between the independent variables, and the stochastic error terms must not be affected by heteroscedasticity.

To check for multicollinearity between the independent variables, we used the correlations matrix and Pearson's coefficient (Table 7).

Table 7. Pearson's correlation coefficient

Variables	Items	Family Own	State Own	No.Foreign Funds	Nat. Instit. Own	Ln(Sale)	Lev.	FTSE	Other Stock Ex.	Inc. Fe.Rev.	Big_Four_External_Auditor
Family Own	Pearson Corr.	1									
	Sig. (2-tailed)										
	No.	159									
State Own	Pearson Corr.	-.294**	1								
	Sig. (2-tailed)	.000									
	No.	159	159								
No.Foreigg Funds	Pearson Corr.	-.081	.127	1							
	Sig. (2-tailed)	.311	.110								
	N.	159	159	159							
Nat. Instit. Own	Pearson Corr.	-.203*	.333**	.025	1						
	Sig. (2-tailed)	.010	.000	.752							
	No.	159	159	159	159						
Ln(Sales)	Pearson Corr.	-.163*	.080	.290**	-.158	1					
	Sig. (2-tailed)	.040	.313	.000	.048						
	No.	159	159	159	159	159					
Lev.	Pearson Corr.	-.074	-.109	-.181*	.103	-.179	1				
	Sig. (2-tailed)	.355	.170	.022	.196	.024					
	No.	159	159	159	159	159	159				
FTSE	Pearson Corr.	-.217**	.117	.292**	-.096	.564**	-.040	1			
	Sig. (2-tailed)	.006	.142	.000	.232	.000	.618				
	N.	159	159	159	159	159	159	159			
Other Stock Ex.	Pearson Corr.	-.167	.032	.253**	-.123	.471**	-.101	.403**	1		
	Sig. (2-tailed)	.036	.688	.001	.123	.000	.206	.000			
	No.	159	159	159	159	159	159	159	159		
Inc. Fe.Rev.	Pearson Corr.	-.141	.005	-.088	.185*	-.252**	.477**	-.013	-.052	1	
	Sig. (2-tailed)	.077	.950	.269	.020	.001	.000	.871	.516		
	No.	159	159	159	159	159	159	159	159	159	
Big_Four_External_Auditor	Pearson Corr.	-.051	.069	.172*	.052	.341**	-.178*	.160*	.186*	-.067	1
	Sig. (2-tailed)	.519	.386	.030	.517	.000	.025	.043	.019	.404	
	No.	159	159	159	159	159	159	159	159	159	159

*Note: * Correlation is significant at the 0.05 level (2-tailed)*
** Correlation is significant at the 0.01 level (2-tailed)

As can be seen from Table 7, there are no significant correlations between the independent variables. This is demonstrated by the values of the Pearson's coefficient.

There is only one case where the Pearson's coefficient exceeds .500. It is the potential correlation between inclusion in the FTSE-MIB index (*FTSE*) and the natural logarithm of sales (*Ln(Sales)*), with a Pearson's coefficient of .564. In any case, all Pearson's coefficients are below the threshold value of .700.

To apply the OLS model, it is also necessary to check that there is no heteroscedasticity. This involves checking that the variance of the standard error is constant for each observation. For this purpose, we used two different approaches: a graphic method and the White test. The results of the White test show an R^2 equal to .1761 with a p-value for the "Significance level of Chi-square df= P (H0: Homoscedasticity)" of .1401. As this p-value is greater than .05, the hypothesis of homoscedasticity must be accepted. It can thus be concluded that the model is not subject to heteroscedasticity.

After determining that there is no multicollinearity and no heteroscedasticity, we can conclude that the regression parameters are unbiased.

The regression results are shown in Table 8.

Table 8. Regression results

Independent Variable		Coefficient (β_i)
Ownership structure variables		
β_1	Family Own.	-.095***
β_2	State Own.	-.060
β_3	No. Foreign Funds	.022***
β_4	Nat. Instit. Own.	-.026
Size variables		
β_5	Ln(Sales)	.014***
β_6	FTSE	-.007
Financial debts variables		
β_7	Leverage	.074*
β_8	Inc. Fe. Rev.	.002
Other variables		
β_9	Other Stock Ex.	.011
β_{10}	Big Four External Auditor	.046*
F		4.621***
R^2		.238
N		159

*Note: *Significant p-value < 0.10 (two tailed); **Significant p-value < 0.05 (two tailed); ***Significant p-value < 0.01 (two tailed)*

As Table 8 shows, the model's F-test value is 4.621 with a p-value of less than 0.01; we can thus reject the null hypothesis that all regression parameters are zero and conclude that the model is significant. The R^2 of .238 is an acceptable value, especially considering the subjective nature of the dependent variable.

Regarding our findings, it should be noted that the CG index of Italian groups differs according to the analysed category (*Ownership Structure, Performance Variable, Size Variable*, etc.) and, especially, according to the specific independent variable (*Ln(Sales), FTSE*, etc.) used to determine the category.

In detail, with reference to size, previous studies demonstrated that there is a positive significant relationship between the level of corporate governance and market capitalization in emerging markets (Black, 2001) or, in Italy, that there is a positive significant relationship between corporate governance best practices and firm size (Barucci & Falini, 2005). In our study, we used the natural logarithm of sales and inclusion in the FTSE-MIB Italian stock market index as size variable items instead of market capitalization. As our findings show, the natural logarithm influences the CG index with a p-value under .01. Specifically, the influence of the natural logarithm of sales on the CG index is significant (p-value < .01) and positive (β_5 = .014).

By contrast, the inclusion of the analysed group in the FTSE-MIB index is not significant. This means that the groups in our study, which represent around 80% of the domestic market and are leading high-liquidity firms in Italy's various ICB sectors, are not those that, on the whole, have a higher quality of CG index.

The category *Ownership Structure* is significant as regards the structure of the Italian groups' corporate governance. In particular, the results demonstrate that the percentage of shares held by (or traceable to) a single family significantly (p-value < .01) and negatively (β_1 = − .095) influences the CG index. A 1 percent increase in family ownership corresponds to a .184% drop in the CG index.

As the analysis of the situation in Italy shows, corporate governance is characterized by the presence of a single family or a single strong block holder. This highlights the fact that family ownership has a negative influence on the quality of corporate governance in Italy from the standpoint of board composition (presence of independent directors, non-executive directors, etc.) as well as the presence and composition of internal committees (audit and risk committee, remuneration committee, etc.). This conclusion is extremely important for studies of corporate governance. Despite the many legislative changes that have been introduced in recent years, the quality of governance decreases when one family has a majority interest.

The number of foreign funds with equity holdings also has a significant (p-value < .01) influence on the quality of the Italian groups' corporate governance. Here, however, the substantial difference is that the influence is positive (β_3 = .022). This means that the higher the number of foreign funds with holdings in the Italian groups, the higher the compliance with the main internationally recognized corporate governance standards and the Italian Corporate Governance Code.

This finding reinforces our previous observation: the preponderance of family ownership that characterizes the Italian market lowers the quality of corporate governance as well as the protection afforded to minority shareholders. By contrast, having foreign funds among the investors improves the composition of the management and auditing bodies, laying the foundations for better protection of minority shareholders.

The CG index is not significantly affected by state ownership, i.e., the ratio of the shares held by state agencies to the total number of shares traded on the regulated market. In other words, having the government as an investor is not a guarantee of better corporate governance in Italian listed groups. This finding is characteristic of the Italian market, as previous studies have demonstrated a negative relationship between state ownership and the quality of corporate governance, as is the case in the French market (Ben Ali & Lesage, 2013).

The number of national institutional investors holding shares in listed Italian groups, on the other hand, does not have a significant impact on the CG index.

As Table 8 shows, the category of *Financial Debts Variables*, which focuses on the leverage of the analysed groups and economic sustainability, expressed as financial expenses as a percentage of revenues, also influences the composition of corporate governance. This finding is particularly important against the backdrop of international

studies, as it points to a specific characteristic of the Italian market, where average leverage and financial expenses are higher than those of groups listed on other European markets. Leverage has a significant (p-value < .01) and positive (β_9 = .223) influence on the quality of corporate governance and its compliance with international standards. As Italian listed groups' exposure to credit institutions increases, so does their likelihood of having a corporate governance system that complies with the Italian code and guarantees that the board of directors can perform its functions effectively.

This finding indicates that listed Italian groups' dependence on third parties for debt capital tends to increase the quality and compliance of corporate governance.

The economic sustainability of debt, instead, has no impact on the board of listed groups in Italy. This result means that the level of financial debt is the main driver for the corporate governance structure about the category *Financial Debts Variables*, while the economic sustainability of debt could be a direct consequence of the corporate governance structure and the level of financial debts.

Table 8 shows that listing on more than one stock exchange also has no significant influence on the groups' CG index.

Lastly, as evidenced in previous studies, the external auditor has a significant influence on the structure of corporate governance. For this reason, in our study, this variable has been a control variable.

8. CONCLUSIONS

Our research investigated the structure of the corporate governance system of a company and compliance with the Italian Corporate Governance Code and other international standards of corporate governance.

Results showed a moderate level of compliance of the CG index applied to the Italian market. This is consistent with previous research that considered the Italian corporate governance system weak: there is a high degree of direct ownership concentration, both for listed and unlisted companies (Bianco & Casavola, 1999; Enriques & Volpin, 2007), there is a

pyramidal firm structure, and there is low protection for minorities.

A regression model was run to test the determinants that influence the CG index. As stated in previous paragraphs, the Italian corporate governance system is characterized by the presence of a strong block holder that is usually a family.

Findings show that family ownership has a significant and negative correlation with the CG index. This means that where the family is the main shareholder the quality and compliance of the CG index is lower. Additionally, the presence of foreign investors increases the quality of the CG index.

This finding reinforces our previous observation: the preponderance of family ownership that characterizes the Italian market lowers the quality of corporate governance as well as the protection afforded to minority shareholders. By contrast, having foreign funds among the investors improves the composition of the management and auditing bodies, laying the foundations for better protection of minority shareholders.

We investigated a specific characteristic of the Italian market, that is, the leverage. Leverage is higher in Italian listed companies than for groups listed on other European markets. We found that leverage has a significant and positive influence on the compliance of corporate governance with international standards. These results might be of interest to practitioners and regulators to increase the compliance of the corporate governance of Italian companies. Moreover, the results of this research also will be useful for legislators to define the mandatory or voluntary composition of corporate governance to reinforce the protection of shareholders (Park, 2018).

The limitations of this research are the following: first, the analysis is based on a single country (Italy) and second the research refers to only one year. Next steps in this stream of research will be to improve the analysis of the composition, compliance, and quality of corporate governance in comparison to other European countries to verify how the country variable influences the features of corporate governance. Furthermore, the research should be improved by analyzing the evolution of the compliance and quality of the corporate governance rules, considering a longer period of time.

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