PRELIMINARY

The evolution of ownership and control structure in Italy in the last 15 years

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Abstract

In the paper we document the evolution of Italian listed companies governance since 1990 under two respects: a) their governance structure and b) some measures of good governance, in order to verify whether some changes are detectable as a consequence of a vast reform process that has taken place over the last 15 years.
We find that regarding governance structure, significant changes have taken places firstly with respect to control enhancing mechanisms used by companies: whereas at the beginning of the 90s pyramids, dual class shares and cross-ownership were the most used, in 2007 their importance has substantially reduced with an increase in another control mechanism, the coalitions among shareholders; secondly with reference to a substantially higher presence of institutional investors, mainly foreign.
As good governance is concerned, we observe a reduced value of the proxies for control premium, a greater compliance with corporate governance codes, an increased presence of institutional investors at annual shareholders' meetings. However, on the one hand in some cases compliance with codes is still more formal than substantial, on the other foreign institutional investors still participate in Italian shareholders' meetings with a lower frequency than in other countries.
The implementation of the shareholders' rights directive (due within 2009) and the introduction of a stricter discipline of related party transactions (to be issued by Consob) might benefit especially the second aspect.

The evolution of ownership and control structure in Italy in the last 15 years[1]

1. Introduction[2]

A good governance system should ensure an efficient allocation of control (i.e. that companies are controlled by the most "adequate" agents); that firms have access to the external finance they need for growth (which implies some form of separation between ownership and control, and hence some protection for those who finance the firm without controlling it); that controlling agents have sufficient incentives to invest in firm specific capital (which requires some stability of control). If properly addressed, these requirements should ensure an efficient governance structure and hence growth.

In Italy, at the beginning of the 90s, partly due to the availability of a much wider set of information associated to a regulatory framework which had increased transparency beyond what was – and somehow still is – available from institutional sources elsewhere[3], a methodology was developed for the analysis of ownership and control structures which allowed (for the first time) to produce a detailed picture of the Italian "capitalism"[4]. Similar analyses were then performed for a number of European countries[5]. The findings of that line of research were that the Italian corporate control structure was broadly similar to the continental European one, but with significant peculiarities: ownership concentration was extremely high (not differently from other major European countries) inducing a limited contestability of control; control structures were characterized on the one side by a pervasive role of the State (higher that in similar European countries), on the other by a substantial presence of family firms; control enhancing mechanisms were widespread: the most common being pyramidal group structures but complemented by a large use of dual class shares and diffused cross-ownership reinforced by boards' interlocking; differently

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1 The paper offers the preliminary results of a joint analysis by researchers at Banca d'Italia and Consob, aimed at monitoring the evolution of ownership structure and other corporate governance features of Italian listed companies. The analysis is coordinated by Magda Bianco for Banca d'Italia and Marcello Bianchi for Consob and is carried out by a working group composed by S. Giacomelli, P. Maggio, L. Russo, P. Santella (Banca d'Italia) and V. Novembre, R. Signoretti (Consob).

2 L. Ruggieri and C. Petrassi helped with text and tables. We are extremely grateful to Assonime for having kindly provided us with the dataset with some of the information included in their Report on the Corporate Governance Code. The opinions expressed here do not involve in any way our respective Institutions.

3 The 2% threshold for the communication of shareholdings in listed companies is still the lowest in Europe.

4 See Barca et al (1994a), Barca et al. (1994b).

5 See Barca, Becht (2001).

from both the Anglo-Saxon countries and the continental European ones, financial intermediaries (both institutional investors and banks) were almost absent from companies' ownership; the size of the stock market was extremely small compared to all the other major countries.

Most of the inefficiencies and problems were by and large considered to be related mainly to insufficient investors' protection[6]. Prompted partly by a wide debate and by an international literature that suggested that in Italy investor protection was poor and partly by a large privatization program, between 1990 and 2005 an extensive season of reforms developed: the Italian institutional framework relating to financial markets experienced major developments. A new Banking Law was passed (1993), the stock market was privatized; in 1998 the Testo Unico della Finanza (Securities law) was enacted, which substantially upgraded the framework for investors with a revision of the takeover discipline, an increased transparency, greater minority shareholders' rights, a discipline of proxy voting. After that a corporate governance code was introduced (and then twice revised); a new company law has been enacted (2004); the "law on savings" (2005) has further strengthened shareholders' protection[7]. With specific reference to measure that ensure a better protection of investors, the reforms have translated into: an increased independence of boards (limits to board seats for audit board members; minorities represented in board of directors and in audit board; increased role for audit board; increased board disclosure and procedural requirements regarding self-dealing[8]); an increased power for shareholders (shareholder approval of stock-based compensation; easier exercise of voting rights[9]; a lower threshold for minority rights exercise[10]; the possibility of derivative suits with 2.5% of shares; the introduction of the possibility for shareholder to sue parent company for damage; a discipline of takeovers and post bid defenses); greater disclosure (corporate code; disclosure of material related party transactions and on trading activity on company's shares; disclosure of individual directors' compensation)[11].

All these changes – which upgraded the Italian institutional framework in terms of international standards - should have deeply affected the governance structure of Italian companies, at least according to a recent strand of literature that argues (and shows empirically) that "differences in legal investor protection across countries shape the ability of insiders to expropriate outsiders, and thus determine investor confidence in markets and consequently their

6 See Bianchi et al. (2001), La Porta et al. (1997, 1998), Associazione Preite (1997).

7 For a review of the main measures see Barucci (2006); Enriques and Volpin (2006).

8 Directors have to disclose any direct or in direct interest they have in a transaction. Interested directors need not abstain from voting, but have to explain reasons for the transaction and benefits for the company (see Enriques, Volpin, 2006).

9 Since 2004 it is not required any more to deposit shares at least 5 days prior to the shareholder meeting in order to vote.

10 In 2005 also the right to table shareholder proposal with at least 2.5% of the shares was introduced.

11 See Enriques, Volpin (2006).

development"[12]. In particular it was expected that they should favor a higher involvement of financial companies in non financial ones; an increased access to the stock market; a larger separation between ownership and control of companies through dispersed ownership and a more efficient allocation of control. This evolution should have been instrumental to an increased expansion of Italian companies.

However at a first sight what we observe is a limited growth of the stock market and a structure of ownership and control which does not appear substantially changed.

In what follows our aim is (through an in-depth but mainly descriptive approach):

a) to document the characteristics of the current structure as compared to that prevailing before the TUF and verify whether some aspects have actually shown an evolution;
b) to search for signals of an evolution towards less inefficient (espropriative) governance and to verify whether these changes show some patterns, i.e., are somehow associated to some characteristics of the companies;
c) to conclude something on the reasons for the limited changes: should we conclude that the institutional framework does not matter; or that ownership and control structures show strong path dependence but some improvements are present; or finally that some further changes are needed in the discipline in order to allow for a really improved governance to emerge.

In the analysis we consider 3 dates: 1990, which is before the beginning of the privatization program and of the reform process; 1998, which represents the ending point of the large wave of privatization and is just before the introduction of the Securities Law (TUF); 2007, which is the latest date for which information is available.

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[12] Djankov et al. (2005).

2. Looking for changes in the structure

In what follows we consider the various peculiarities of the Italian governance structure from the beginning of the 1990s in order to verify whether there has been a significant evolution.

2.1 Ownership structure of listed companies

Over the period considered, we do observe a reduction in ownership concentration as measured by the share of the largest shareholder (table 1). This is mainly associated with the privatization process (hence it took place essentially over the period 1992-1998) and concerns in particular banks (especially large ones, as signalled by the weighted data) which show today a much lower concentration, as do state controlled companies. Non financial companies did not experience such a large reduction in concentration.

Related to the limited reduction in ownership concentration (but not fully captured by the largest shareholders' share) is the stability in the degree of companies' contestability, which we may measure through the share of widely held companies: if they are proxied by a share of floating capital[13] larger than 70%, we observe a limited increase in their relevance over the period 1990-98 (again basically associated to the privatization period) but a substantial stability afterwards (table 2).

The second element we consider is the "ultimate" control structure (i..e. the structure of control that emerge when we identify ultimate owners, at the top of the groups the company belongs to). In this case, the most relevant change (table 3) refers to an increased weight of companies controlled, directly or indirectly, by the State (in terms of capitalization) from 23.7 in 1990 to 29.0% in 2007 (even if on unweighted data it shows a reduction from 18 to 10%). The effects of the privatization process, which at the end of 1998 determined a strong reduction in state controlled companies both in terms of number and weight (even if partially compensated by the increased role of foundations in the banking sector), have been counterbalanced by the evolution of the last ten years: the "partial" privatization of some extremely large utilities, which implies that some of the largest listed companies are still controlled by the state, and – more recently – by the listing of local public utilities, also controlled by local Governments. Decreasing with respect to 1998 (but still relevant) is the role of foundations in the larger banks.

Secondly, individuals and family coalitions – still the prevailing control structure of Italian groups – have reduced their weight, i.e. are less important among larger companies, mainly due to the bankruptcies (and exit from the market) of some large family groups. Also coalitions of companies (which includes cases where the ultimate shareholders are companies possibly linked by

[13] Floating capital is defined as the voting capital held either by shareholders which own less than 2% and which are not part of a shareholdings agreement or by institutional investors.

a shareholders' agreement - such that it is not possible to identify a "further" ultimate controlling agent), expression of a power network (the so called "salotto buono") show a rather stable presence. As said above (but here we refer to "ultimate" control) widely held companies are still a small number, but are extremely large companies, usually somehow "controlled" by small but powerful coalitions (as was the case for Telecom in 1998, after the privatization).

Also when comparing the ownership structure of listed companies between 1990 and 2007 we notice that the structure has not changed as much as it could be expected (table 4). The most relevant change refers to an increased presence of foreign agents whereas the share of the State, especially if considered together with that of foundations, implies in 2007 a still conspicuous weight, particularly as compared to most other continental European countries (table 5).

Overall this first set of evidence suggests a limited amount of change.

2.2 Control enhancing instruments

The literature lists a number of possible control enhancing mechanisms: pyramids, dual class shares, cross-ownership, voting caps, coalitions. As said above, pyramids, dual class shares (non voting and privileged shares) and cross-ownership were the main ones used by Italian companies. Let us consider their evolution.

Relevance of pyramids. The diffusion and weight of groups over the period has significantly changed: due partly to a dislike of (mainly foreign) investors for these structures, between 1990 and 2007 the diffusion of both horizontal and pyramidal groups has decreased substantially, also among larger firms (table 6). The number of controlled companies (i.e., listed companies controlled by another listed company) in particular, those exposed to the highest risk of expropriation by controlling agents, decreased from 38 to 12 %. Also the complexity of groups, a proxy of their use as instruments to separate ownership and control shows a reduction (table 7).

Dual class shares. The use of dual class shares has substantially reduced, the number of companies issuing them having decreased from 47% to 13% (table 8).

Cross ownership. Data on cross-shareholding[14]. show that even their relevance has decreased over time (table 9), even if they still involve some large companies. This evidence is complemented by that on boards interlocks, used to reinforce or substitute for cross- ownership, which shows a similar reduction in intensity[15].

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[14] In this context we use a broad definition of cross-ownership which includes not only reciprocal shareholdings links between two listed groups but also wider networks of "circular" ownership links among all the listed groups.

[15] See Santella et al. (2007).

As a whole these data might suggest that with fewer control enhancement mechanisms, companies should be contestable. However, these instruments have been partly substituted by another which explains why we do not observe a relevant increase in the number of widely held companies.

Coalitions. Control models of listed companies have shown an evolution (table 10): from a strong prevalence of a single controlling agent (an individual or – often – a company) model, we see now approximately 30% of the companies (50% of market capitalization) directly controlled by a coalition, formal (i.e. a shareholder agreement) in ½ of the companies, or informal[16] in the other ½, but more common among larger companies. This is a control model which is certainly less stable than pyramids or cross-ownership but might ensure nevertheless a significant degree of control stability and – if not properly disciplined – might be characterized by limited transparency.

2.3 *Role of financial intermediaries*

At the beginning of the 1990s neither banks nor institutional investors played a significant role in Italian companies' ownership. Whereas banks still show a limited presence in non financial companies capital, ownership by institutional investors significantly increased over the years between 1990 and 2007. Considering investors that own more than 2% of the share capital, the percentage of companies where they are present has grown from 29% in 1990 to 56% in 2007 (table 11).

Relevant differences emerge distinguishing between banks and non financial companies: whereas institutional investors are present approximately in the same percentage of banks over the whole period, in 2007 they own stakes in twice the number of non financial companies than in 1990. If we distinguish companies by listing period, we observe that institutional investors (both Italian and foreign) are present in a significantly greater number of companies which are recently listed, whereas they seem to "like less" firms listed in the 1990-98 period.

Significant differences emerge also with reference to the actors involved: whereas Italian investors own shares in a smaller number of companies than in 1990 (from 26 to 16%), again with a reduction that has been particularly intense for banks (from 26 to 4%) and a less dramatic decrease for non financial companies (27 to 19%), foreign investors have entered our market at an increasing pace: they were in 5% of the companies in 1990, they are now in more than ½ of them, mostly non financial.

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[16] Identified on the basis of the nature of shareholders - members of one or more families - and/or their behaviour regarding the election of the board.

It is still true that in international comparisons this share is lower than in the other countries, at least with reference to the largest companies (table 12). Using data drawn from firms' annual reports and their websites, for a sample of the largest 25 companies per country (Italy, United Kingdom, France, Germany and Spain) included in the DJ Stoxx 600 index, we notice that the share held by institutional investors (both domestic and foreign) is lower in Italy (roughly 5% as compared to an average 9% or, excluding UK, 8%). While domestic institutional investors only hold 1% of share capital, foreign institutional investors' shares are aligned with the average values (3,6%, or 3,8% not considering UK).

In order to assess whether the decision of institutional investors to hold stocks in Italian companies is associated to specific companies' features we estimate a probit model of the probability that institutional investors own shares of a company on a set of variable proxying companies' characteristics, including a variable that proxies for "good governance"[17]. The model includes also proxies for economic performance, financial structure, ownership structures, sectors and age of listing. Data refers to 2007.

Our results show that, *ceteris paribus*, the choices of institutional investors seem to be driven by a small number of factors with some differences between Italian and foreign investors:

(i) Italian investors tend to be more present in smaller and more recently listed companies;
(ii) foreign investors are more likely to have shares in larger companies and in companies where the controlling agent has a lower share; they are less likely to invest in banks than in non financial companies.

These results confirm the main findings of the descriptive analysis. Moreover, we found no evidence that the presence institutional investors is associated with better governance of companies.

Companies listed in different periods.

We can further qualify the description above by considering whether some difference emerge across companies listed in different periods. We compare those listed before 1990 (old companies), with those listed between 1990 and 1998 and those recently listed (i.e. after the introduction of the TUF, young companies). From table 13 we first notice that more than ½ of Italian listed companies were listed after 1998: on average they are smaller as compared to older ones (the largest being those listed for more than 17 years). The highest percentage of recently listed companies is actually among "state owned" ones; comparing their weight with that of those listed in the previous period, it is clear they are much smaller (mainly due to their origin as local public utilities). Secondly, from tables 14-14a-14b we see that it takes a very long time to disperse ownership in Italy: for the average private non financial company, only after at lest 17 years is the dispersed share larger than than 50%; in recently listed ones the dispersed share is only 33%. Banks have different characteristics due to the ownership dispersion imposed (and then survived in some of them) by the

[17] The quality of a company's corporate governance is proxied by an index which measures the compliance to the Italian Corporate Governance Code basically with reference to the independence and the effectiveness of the board of directors. We are grateful to Assonime for having provided us with their data on compliance to the Code.

privatization mode. On the other hand, the largest shareholder has on average a lower share in recently listed companies (table 15). As a whole three facts seem worth noticing (apart from the - expected – larger role of individuals in young companies): a) a larger presence of foreign investors (mainly institutional investors, table 16); b) a still significant role of the state (especially if inclusive of foundations) also in young ones; c) the absence of banks in young companies' ownership, whereas they own shares in companies listed between 1990 and 1998.
In terms of control models (table 17), what emerges is that recently listed companies are more often controlled through a coalition rather than by a single agent (individual or company). But also among older (in terms of listing period) companies, the largest are today controlled by a (mainly informal) coalition.

2.4 Stock market and listed companies

Finally we conclude with some evidence on the size of the stock exchange. The number of listed companies in 15 years has increased only slightly (even if they have grown considerably in term of market capitalization): they were 266 (their market capitalization was 13.8% of GDP) in 1990; they are 300 (48% of GDP) at the end of 2007 (figures 1-2). Entry and exit rates have shown similar behavior except for the years 1998-2000 and 2005-07 when entry was significantly higher than exit, increasing the stock of companies (figure 3).

A qualification of these data come from the analysis of "listed groups" (groups that include at least one listed firm) proxying for the whole set of firms which have access to the stock market[18]. If we consider "listed groups" in 1992 and 2001, we see that in 2001 listed groups are smaller, both in terms of their Italian employees (we cannot measure the size of non Italian companies in the groups) and in terms of number of companies, and more concentrated on their core-business.

As compared to the beginning of the period, the Italian stock market in 2001 represents a smaller share of the domestic economy. This holds especially for the industrial (particularly manufacturing) sector, whereas more financial companies (in particular banks) entered the stock market over the period. The same consideration holds if we consider just listed companies (table 18).

3. Is governance more or less effective given the (stable) structure?

As a whole, it seems that limited changes occurred in term of "structure", even if control models have shown an evolution. However, on the one hand, it is possible that the Italian structure shows a strong path dependency; on the other it is still not obvious from a theoretical point of view that a more concentrated model is inferior to a more dispersed one.

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18 See Bianchi, Bianco (2007).

Hence here we want to consider also something else, i.e. direct or indirect measures of "good governance": is it possible that the changes in control modes and the presence of some new actors are actually associated to improvements in the "governance" of companies?

In the absence of company based indicators such as those available for the US[19], here we use a combination of information which, taken together, might proxy the evolution of "governance quality". Specifically, we consider 3 "proxies" frequently used in the literature: a) the first is the evolution of measures on private benefit of control[20] which in Italy have been shown to be particularly high; b) the second is the (transparency and) compliance with corporate governance codes, showing different degree of consciousness of the need to provide the market with sufficient information and the compliance with best standards and summarizing somehow a number of features of good governance (included in the indicator cited), among which those referring to the characteristics and functioning of board of directors; c) finally we consider the attendance to annual shareholders' meetings, with specific attention to institutional investors: regardless of the expression of dissatisfaction or loyalty with the board of directors, which institutional investors explicitly prove by voting, the decision of being present or not at AGM is of interest as long as in itself can be considered within a framework of an ongoing (cooperative) relationship with the management or as an initial step for becoming, ultimately, more "active".

3.1 Control premium

Some recent evidence on the evolution of control premium in Italy (measured as the percentage difference between the value of voting and non voting shares) between 1992 and 2007 (Ivaschenko and Koeva Brooks, 2008) shows a significant reduction in Italy, from 46% (one of the highest values in Europe) to approximately 20%. This reduction, which is taken as a proxy of the risk of expropriation in the country, is higher than those occurred in France and Germany, and appears to be associated to the reforms enacted.

This confirms previous evidence found by Linciano (2002) on the period following the introduction of the Securities Law.

3.2 Corporate governance code

The last report on the implementation of the Corporate Governance Code[21] by listed companies in 2007 shows a greater attention by companies for the relevance of self-discipline as

19 See Gompers et al (2003).
20 See Dyck, Zingales (2004), Nenova (2003):
21 Cfr. Assonime (2007).

compared to previous years. Corporate governance statements are today richer and more transparent, both when they comply, and when they do not (especially for large S&P companies). The analysis shows also the presence of minority board members (which were not yet compulsory at the time of the report) in 27 cases (6 banks and insurances; 21 non financial companies); in one half of the cases for which information is available lists have been presented by institutional investors. As a whole the analysis shows a greater attention by companies for the need to inform the market about its “internal” governance structure.

However, it has to be noticed that in a number of cases compliance is still “formal”, rather than substantial, especially for what concerns board members independence: in a relevant number of cases there are ambiguities on the actual independence of board members formally defined “independent”. If the new criteria suggested in (but not imposed by) the revised Code are employed[22] and the cases that do not satisfy them are excluded[23], the share of independent board members would decrease for banks and insurances from 50 to 24%; for non financial companies from 37 to 32%.

In order to further assess large Italian listed companies’ level of compliance with good governance practices as suggested by the self-regulation Code, we built – for 67 large Italian listed companies included in the S&P MIB and MIDEX indices - an indicator describing the quality of related party transactions (hereinafter RPTs) internal procedures. The indicator is based on the analysis of the 2007 Annual Reports on Corporate Governance, where issuers were asked to declare and explain the extent to which they comply with the corporate governance principles provided by the Code, including those concerning RPTs and directors’ conflict of interests handling.

The indicator is aimed at addressing two main features of RPTs procedures. On the one hand, we evaluated the criteria that companies have set to *identify* significant transactions (including RPTs) which are subject to specific approval procedures (e.g. submission to the board of directors, etc.). On the other hand, we analysed whether companies in our sample in fact adopt the best practices suggested by the Code for the actual *implementation* of the approval procedures (namely, the award of decision-making power to the board for the most important transactions, the request for a prior opinion of the internal control committee, the recourse to independent experts and the abstention or leave duties for directors having an interest in the transaction).

[22] Where it is suggested that independent directors should not: directly o indirectly control the company; having been in the 3 previous years a relevant member of the company or a controlled company; having had significant commercial, financial, professional relationships with the company; receive from the company a substantial remuneration beyond the fixed one related to the position of non executive director; having been board member for more than 9 years; being executive director in another company where an executive director of the company itself is a board member.

[23] With respect to banks and insurances these are mainly “independent” board members which belong to executive committees who meet frequently; have been on the board for more than 9 years; obtain an especially “high” remuneration not justified by specific tasks

In order to measure the first feature, we assigned a score (ranging from 0 to 2) assessing the level of transparency and objectivity of the significance criteria that companies have adopted. The wider is the range of transactions subject to strengthened procedures and the more objective are the criteria set to identify those transactions, the higher is the score assigned[24]. In order to measure the second feature, we verified the adoption in companies' internal procedures for RPTs approval of four best practices suggested by the Code. We assigned a score (ranging from 0 to 4) which reflects the degree of implementation of those practices and also takes into consideration whether each standard must or simply might be adopted[25].

The RPTs compliance total indicator is calculated as the simple sum of the two scores, ranging from 0 to 6. Table 19 summarizes the main results for the RPTs compliance indicator and distinguishes its two components as described above. It shows that RPTs procedures are fairly variable across companies, with a total score ranging between 2 and 5.5 on a scale of 6 and a standard deviation of 0.82. In particular, the RPTs identification assessment appears to be more volatile than the one for the approval. As for the shape of the distribution, being the average and the median of the compliance indicator quite similar (3.33 and 3.25 respectively) we can infer that it is approximately normal.

Two main findings emerge: whereas formal compliance with the Code (which only provides for the adoption and disclosure of procedures for related party transactions) is very high and quite homogeneous among the largest listed companies, the adoption of the best practices suggested by the Code for implementing the procedure is sensibly weaker and much more differentiated (see table 20 for some differences across control model). The compliance with best practices is, on average, stronger for the approval procedures than for RPTs identification criteria.

3.3 Attendance to Annual General Meetings

In Italy annual general meetings (AGM) are mainly attended by controlling shareholders that hold significant stakes of the company. This might discourage the participation of other

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[24] More precisely, the criterion we adopted envisages the assignment of:

- the score of 2 to companies that settled quantitative criteria to identify significant RPTs;
- the score of 1 to companies that do not adopt objective criteria to identify those transactions or exclude transactions belonging to the ordinary course of business from the application of the "significance test";
- lower scores (0 or 0.5) to companies whose internal procedures lack of information on significance criteria and exclude transactions belonging to the ordinary course of business from the application of strengthened procedures.

[25] In order to evaluate the extent to which companies' internal codes ensure substantial and procedural fairness of RPTs, we verified whether the following standards are present and, if so, mandatory:

- board competence in the approval of significant transactions (rank from 0 to 1)
- pre-emptive opinion of the internal control committee (rank from 0 to 1)
- recourse to independent experts (rank from 0 to 1)
- abstention or leave policy when a director has an interest in the transaction (rank from 0 to 1). In this evaluation we also took into consideration the provision of article 136 of the Consolidated Law on Banking.

shareholders and possibly explain why attendance rates (as a whole) are in general lower than in other countries (57% as compared to 61, on a sample of the largest 25 companies in European countries).

Participation of institutional investors (activist or not) might be driven by the objective of monitoring management (depending on its cost) or by passive indexing. To a significant extent, it also depends on the regulatory setting, since monitoring costs depend on the characteristics of the institutional framework. During the last decade, as seen in the introduction, a number of reforms were introduced (provisions related to meetings' calling at the request of minority shareholders, to voting quorum in the extraordinary shareholders' meeting, to the right to request additions to the meeting's agenda, to proxy vote and facilitation of proxy consolidation, to list-based voting system for the appointment of directors - at least one to minorities - and reserved the chairman of statutory auditors board to the minorities) which might have favoured an active participation.

Data on participation to general meetings are difficult to collect. One source is represented by the minutes of the general meetings but they are not always available. Moreover, these data are difficult to reconcile with data on ownership as the latter are publicly available only with reference to shareholders that hold more than 2 per cent of the share capital. Thus, it is not possible to calculate a proper participation rate for institutional investors (i.e. the fraction of capital that attended an AGM relative to the fraction of capital owned) in order to assess their propensity to attend AGMs.

Nevertheless, consistently with the trends described in par. 2.3 on ownership by institutional investors, data on attendance to the annual general meeting of 50 listed companies in 2004 and 2008 show that the presence of institutional investors in AGMs is growing (table 21, from 5.1 to 7.0 per cent of the capital). If we distinguish between foreign and Italian investors, we notice that this growth is due to a higher participation by foreign investors which offset a decrease in the participation of Italian investors. These differences persist if we consider a wider sample referred to 2007. Considering data on participation at GMs for companies with investors that hold more than 2% of the capital, we find that Italian investors attend less than 10% of the AGMs whereas foreign investors attend nearly 90% of AGMs. It is not entirely clear how to account for this different behaviour (specifically whether different strategies of investors or the presence of conflicts of interest for Italian ones might explain them).

Results of probit regressions for the 2007 sample show that in general the probability to attend a meeting is positively correlated with the size of the company and negatively with the size of the controlling shareholder. It has to be noticed that – as for participation to share capital - governance variables do not seem to matter.

However these somehow positive signals need some qualifications. Foreign investors still face some obstacles in voting in Italian companies: a comparison of the attendance behaviour of 3 large European institutional investors in the companies of the main European countries in 2007 show that they tend to participate less frequently in the GMs of Italian companies as compared to the GMs of French, German and English companies. While in these countries the attendance rate is close to 100% , in Italy it varies from 10% to 70% (these differences probably also reflect different policies of the investors, table 22). According to the investors, their lower attendance rate in Italian companies is largely due to the insufficient or late provision of information on the items on the agenda of the meetings by the companies and by the need to deposit shares for the duration of the general meeting (hence shares can only be traded at a cost or not be traded at all).

4. Conclusions

The ownership and control structure of Italian companies shows some changes in the period considered, but still limited as compared to expectations. They are mainly associated with an evolution of the control models, mainly of larger companies, with a lower reliance on control mechanisms (pyramiding, dual class shares) that somehow entrench control in the hands of single controlling agent. Even if the substitutes (mainly formal and informal coalitions) might be more contestable, it is however true that the model as a whole shows an extremely limited contestability: dispersed ownership is still not common and even in more widely held companies obstacles to changes in the control assets might be present due to network relationships and, in some cases, to the role of the State as owner and/or rule setter.

These limited changes are probably related to the path dependency shown by ownership and control structures and do not necessarily imply an inferiority of a concentrated model as compared to a dispersed ownership one. However this might reduce the capacity of the system to ensure an efficient dynamic allocation of control and might be an obstacle to reallocation and restructuring when external conditions would require them.

However, given the relative stability of the ownership structure, the question is whether changes have been attained in terms of a good governance, i.e. a reduced risk of expropriation for investors. Under this respect we do have some positive indications (increased compliance with codes, reduced value of control premium, increased presence of institutional investors in share capital and higher attendance to shareholders' meetings, with some cases of activism), however all balanced by some caveats. Related party transactions (the main possible source of expropriation) procedures, being left to self-regulation, are not always such as to guarantee minority shareholders from expropriation; the institutional investors' role as an active player is still limited by some obstacles - in terms of information and registration procedures for voting.

Both the imminent adoption of the shareholders' rights directive and the current Consob proposals referring to the discipline of related party transactions seem to be in the right direction to induce significant improvements.

The first will facilitate the use of voting rights for investors and widen the possibility of using proxy voting. The second would strongly reduce the possibility of expropriation.

Both these instruments are extremely important: the chances for a further market improvements in our corporate governance landscape should not be missed.

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Tab. 1

Ownership concentration

(share of largest shareholder)

		1990	1998	2007
All companies	unweighted	53,9	46,7	44,9
	weighted	47,9	33,7	27,8
Private non financial companies	unweighted	52,0	48,1	46,3
	weighted	49,8	38,5	44,0
Banks	unweighted	59,1	32,4	35,4
	weighted	54,3	24,4	12,2
State owned companies	unweighted	64,7	59,4	42,8
	weighted	63,8	45,5	26,8

Tab. 2

Widely held companies

(% of all listed companies)

	1990		1998		2007	
	n. companies	capitalization	n. companies	capitalization	n. companies	capitalization
Largest shareholding <30%	12,0	20,7	26,9	46,7	28,4	63,6
Floating capital >70%	0,9	11,6	5,1	24,1	3,1	11,3

Tab. 3

Ultimate controlling agent

	1990		1998		2007	
	n. companies	capitalization	n. companies	capitalization	n. companies	capitalization
Foreign	7,3	4,3	7,4	2,4	7,8	1,9
Widely held (1)	1,3	14,1	7,4	34,1	3,1	11,3
Cooperative	1,3	1,0	6,0	3,4	5,1	4,8
Coalitions of companies	4,7	7,9	9,3	11,0	9,3	18,0
Individuals and family coalitions	67,5	46,3	56,0	14,1	64,2	22,8
State	15,4	23,7	8,3	16,8	8,6	29,0
Foundation	2,6	2,8	5,6	18,2	1,9	12,2
Total	100	100	100	100	100	100

(1) defined as those where floating capital is larger than 70%.

Tab. 4

Ownership structure [1]

Type of owner	All companies			Banks			Private non financial companies		
	1990	1998	2007	1990	1998	2007	1990	1998	2007
Insurance	2,5	2,5	1,3	0,6	3,2	2,1	0,2	0,6	0,4
Bank	3,0	4,8	2,6	5,8	11,3	3,5	1,9	1,3	0,9
Foreign	4,3	5,6	6,7	1,8	8,5	6,1	6,7	4,9	12,0
Foundation	2,1	5,1	4,1	11,1	17,4	13,8	0,4	0,3	0,1
Institutional investor	1,1	0,1	0,1	0,5	0,1	0,0	1,2	0,2	0,2
Company	13,3	9,6	7,7	2,1	0,9	4,2	22,0	22,1	16,2
State	18,1	8,8	10,2	36,8	1,0	0,0	1,4	1,5	0,1
Individual (2)	14,9	7,1	9,9	2,6	1,4	2,0	30,5	14,2	27,0
Dispersed ownership (3)	40,7	56,4	57,4	38,7	56,2	68,3	35,7	54,9	43,1

(1) Percentages, weighted by market capitalization
(2) It includes "Società in accomandita per azioni" (where the controlling shareholder does not enjoy limited liability)
(3) Sum of shares lower than 2%.

Tab. 5

Ownership structure of listed companies

(blue chips(1), 2006, weighted averages)

	France	Germany	Italy	Spain	Total
Insurance	2,7	1,4	3,2	2,1	2,3
Bank	6,1	4,7	4,7	9,6	6,0
Foundation	0,1	0,0	5,5	0,0	1,0
Institutional investor	2,7	0,4	1,9	5,9	2,5
Individual	2,0	5,0	5,2	7,4	4,1
Company	11,1	8,4	11,1	13,7	10,8
State	3,4	1,5	11,1	0,2	3,7
Total	29,6	21,5	42,7	39,0	31,3

(1) Largest 80 listed companies, except for Spain where they are the largest 40.

Tab. 6

Listed companies in groups (%)

	1990		1998		2007	
	n. comp.	capitalization	n. comp.	capitalization	n. comp.	capitalization
Horizontal groups	8,1	3,9	5,1	6,1	3,5	3,0
Pyramidal groups	51,7	77,5	38,9	78,2	21,8	46,2
of which: parent co.	*13,7*	*34,8*	*13,9*	*51,1*	*9,7*	*35,3*
controlled	*38,0*	*42,7*	*25,0*	*27,1*	*12,1*	*10,9*
Not in a group	40,2	18,6	56,0	15,6	74,7	50,8
Total	100	100	100	100	100	100

Tab. 7

Pyramidal groups structure

		1990	1998	2007
N. companies per group	mean	4,8	2,8	2,5
	median	3,0	2,0	2,0
	min	2,0	2,0	2,0
	max	24,0	6,0	5,0
Distance from parent	mean	2,2	1,8	1,7
	min	1,0	1,0	1,0
	max	5,0	4,0	3,0
Leverage	mean	4,8	0,0	2,3
	max	21,1	0,0	4,7

Tab 8

Use of non voting shares (%) (1)

	1990	1998	2007
n. companies	45,7	32,4	13,2
capitalization	54,0	47,8	40,2
% non voting shares on total (2)	23,8	18,2	12,3

(1) Shares which do non vote in ordinary meetings (preference shares and saving shares)
(2) For companies with non voting shares only

Tab. 9

Cross-ownership in listed companies (1)

		1990	1998	2007
Companies involved	n. of companies	14,5	11,1	7,0
	capitalization	39,3	30,6	23,5
Ownership links	number of links	56,0	57,0	40,0
	Market value (in % of total market capitalization)	4,3	3,3	2,8
	Market value (in % of involved companies' capitalization)	10,9	10,7	11,8

(1) Ownership links between listed companies belonging to groups which are both partecipating in others listed groups and partecipated by other listed groups

Tab 10

Control models of companies (%)

	1990		1998		2007	
	n. companies	capitalization	n. companies	capitalization	n. companies	capitalization
Cooperative	0	0,0	4,6	3,1	2,3	4,1
Single	88,9	80,9	70,8	52,9	66,9	51,5
Formal coalition (1)	4,7	6,4	13,0	8,3	16,0	15,0
Informal coalition (2)	5,6	1,0	6,5	11,6	11,7	18,1
Widely held (3)	0,9	11,6	5,1	24,1	3,1	11,3
Total	100	100	100	100	100	100

(1) Coalition based on a shareholders' agreement which aggregates more than 30% of voting capital.

(2) Coalition identified on the basis of the nature of shareholders (members of one or more families) and/or their behavior in the board.

(3) Companies whose floating capital is >70%.

Tab. 11

Presence of institutional investors

(% of companies where they own at least 2%)

	Total investors			Foreign investors			Italian investors		
	1990	1998	2007	1990	1998	2007	1990	1998	2007
All companies	29,1	38,0	56,4	4,7	25,0	50,6	26,5	22,7	16,0
Banks	26,3	26,5	25,0	0,0	23,5	20,8	26,3	8,8	4,2
Private non financial companies	29,4	41,6	60,4	5,3	26,6	54,5	27,1	26,6	18,8
State controlled companies	24,1	40,0	65,2	3,4	33,3	60,9	20,7	13,3	4,3

Tab. 12

Shareholders structure: comparison between Italian and other major European companies

Country	Significant shareholders (more than 3% of capital)	Controlling shareholders	Institutional investors	*of which: domestic*	*foreign*	Others
Italy	**52,2%**	**45,2%**	**4,9%**	***1,1%***	***3,8%***	**2,1%**
United Kingdom	18,4%	6,8%	11,6%	*8,7%*	*2,9%*	0,0%
France	19,7%	11,1%	6,7%	*3,8%*	*2,9%*	2,0%
Germany	22,4%	14,0%	6,6%	*0,8%*	*5,7%*	1,8%
Spain	47,8%	28,3%	9,9%	*7,0%*	*2,9%*	9,5%
Average	27,1%	15,0%	8,7%	5,1%	3,6%	3,3%
Average ex UK	30,0%	17,8%	7,7%	3,9%	3,8%	4,4%

Tab. 13

Composition of stock exchange in 2007 by listing period

	before 1990		between 1990 and 1998		after 1998		all companies	
	n. comp.	capitalization	n. comp.	capitalization	n. comp.	capitalization	n. comp.	capitalization
Insurance	62,5	90,6	25,0	6,7	12,5	2,7	100	100
Banks	20,8	74,2	33,3	6,5	45,8	19,3	100	100
Private non financial companies	28,2	47,4	13,9	10,0	57,9	42,6	100	100
State controlled companies	26,1	11,0	8,7	50,9	65,2	38,1	100	100
Total	28,4	48,8	15,6	20,5	56,0	30,7	100	100

Tab. 14

Ownership structure by listing period (%)

	before 1990	between 1990 and 1998	after 1998
Insurance	2,3	0,2	0,5
Bank	3,5	1,9	1,6
Foreign	6,6	4,3	8,7
Foundation	5,7	1,4	3,6
Institutional investor	0,0	0,0	0,2
Company	9,1	2,1	9,3
State	3,1	22,3	13,3
Individual (1)	7,3	8,0	15,1
Dispersed ownership	62,4	59,8	47,7

(1) It includes "Società in accomandita per azioni" (where the controlling shareholder does not enjoy limited liability)

Tab. 14a)

Ownership structure of private non financial companies by listing period (%)

	before 1990	between 1990 and 1998	after 1998
Insurance	0,4	1,0	0,3
Bank	0,6	2,8	0,9
Foreign	10,1	10,7	14,4
Foundation	0,1	-	0,0
Institutional investor	0,0	0,1	0,4
Company	16,2	10,4	17,5
State	0,0	-	0,2
Individual (1)	19,8	35,7	33,0
Dispersed ownership	52,7	39,3	33,2

Tab. 14b)

Ownership structure of banks by listing period (%)

	Bifore 1990	between 1990 and 1998	after 1998
Insurance	2,4	0,7	1,4
Bank	1,9	16,1	5,6
Foreign	6,4	8,0	4,4
Foundation	12,5	15,1	18,6
Institutional investor	-	-	0,0
Company	4,6	4,7	2,6
State	-	-	0,1
Individual (1)	1,7	5,1	1,8
Dispersed ownership	29,5	49,8	34,5

(1) It includes "Società in accomandita per azioni" (where the controlling shareholder does not enjoy limited liability)

Tab. 15

Ownership concentration by listing period (%)

		before 1990	between 1990 and 1998	after 1998
All companies	unweighted	46,1	46,8	43,8
	weighted	21,5	26,7	38,4
Private non financial companies	unweighted	47,7	47,8	45,3
	weighted	37,0	40,5	52,7
Banks	unweighted	23,2	45,4	33,6
	weighted	7,4	39,5	21,6
State owned companies	unweighted	50,0	31,3	41,5
	weighted	39,6	21,5	30,1

Tab. 16

Presence of institutional investors by listing period (%)

	Total investors			Foreign investors			Italian investors		
	before 1990	1990 - 1998	after 1998	before 1990	1990 - 1998	after 1998	before 1990	1990 - 1998	after 1998
All companies	56,2	42,5	60,4	52,1	37,5	63,5	8,2	10,0	21,5

Tab 17

Control model of companies by listing period (%)

	before 1990		between '90-'98		after 1998	
	n. comp.	capitalization	n. comp.	capitalization	n. comp.	capitalization
Cooperative	-	-	5,0	2,9	2,8	11,2
Single	71,2	27,5	72,5	86,9	63,2	66,1
Formal coalition (1)	13,7	18,6	17,5	6,8	16,7	14,8
Informal coalition (2)	12,3	32,3	5,0	3,3	13,2	5,4
Widely held (3)	2,7	21,6	-	-	4,2	2,5
Total	100	100	100	100	100	100

(1) Coalition based on a shareholders' agreement which aggregates more than 30% of voting capital.

(2) Coalition identified on the basis of the nature of shareholders (members of one or more families) and/or their behavior in the board.

(3) Companies whose floating capital is >70%.

Tab 18

Stock exchange structure

	Listed companies		Banks		Private non financial companies	
	1990	2007	1990	2007	1990	2007
% of companies	100	100	9.2	9.2	78.2	81.7
% of capitalization	100	100	16	29.6	67.1	33.3

Tab. 19

Procedures for related party transaction (RPTs): compliance indicator with the code's [1] best practices in large [2] listed companies

Control model	RPTs identification	RPTs approval	RPTs total indicator
Mean	1,04	2,29	3,33
Min	0,50	1,00	2,00
Max	2,00	4,00	5,50
Standard deviation	0,51	0,57	0,82

(1) Corporate Governance Code
(2) Companies included in S&P Mib and Midex indexes

Tab. 20

RPTs compliance indicator by control model in large listed companies

Control model	RPTs identification	RPTs approval	RPTs total indicator
Cooperatives	0,80	1,90	2,70
Single controlling agent	1,06	2,23	3,29
Coalition	1,00	2,48	3,48
Widely held	1,50	2,38	3,88

Tab. 21

Participation at AGMs of 50 Italian listed companies

	2008	**2004**
Total	**62,3%**	**58,6%**
of which:		
controlling shareholders	*51,6%*	*50,8%*
institutional investors	*7,0%*	*5,1%*
Italian	***1,5%***	***2,7%***
foreign	***5,5%***	***2,4%***
others	*3,7%*	*2,7%*

Tab 22

Percentage of items voted at GSM by three large institutional investors

Country	Fidelity		Provident		F&C	
	% items voted at GSM	n. companies participated	% items voted at GSM	n. companies participated	% items at voted at GSM	n. companies participated
Italy	71	76	10	12	20	22
France	98	101	96	19	100	54
Germany	100	88	91	24	95	47
UK	99	826	100	240		
Spain			100	9	100	25

Source: Santella, Baffi, Drago, Lattuca (2008).

Fig. 1

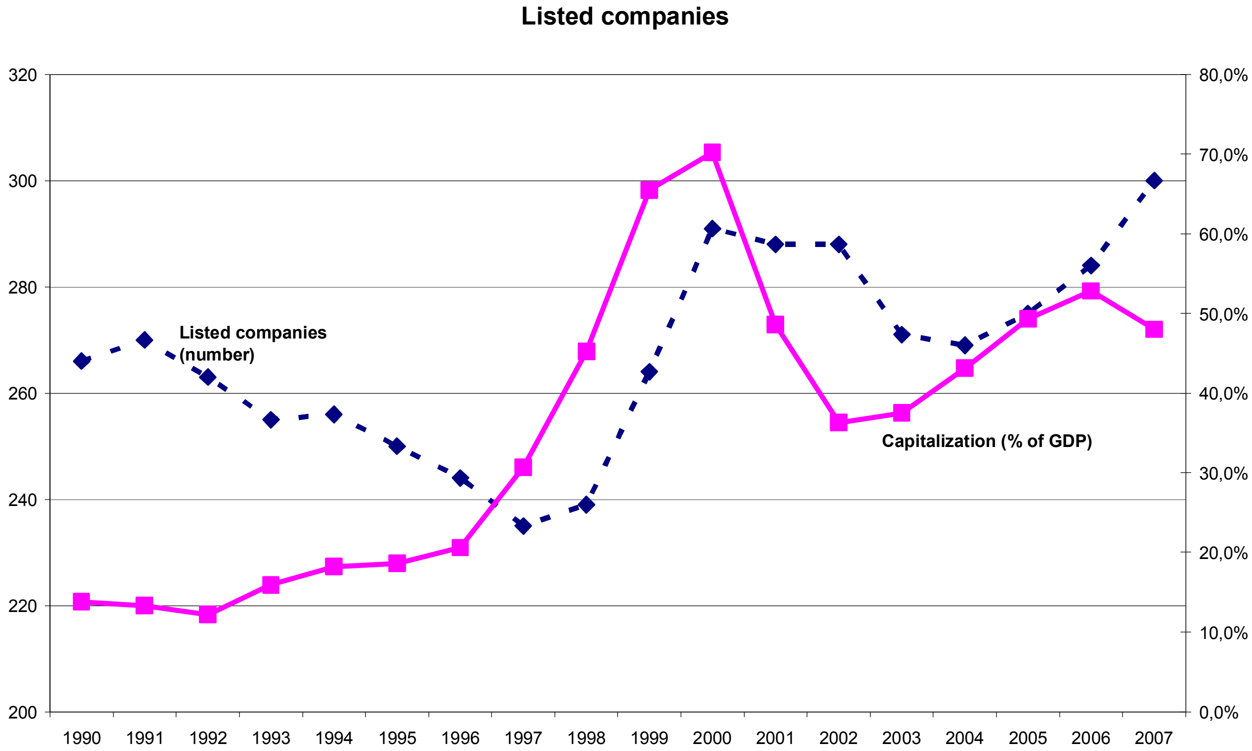

Listed companies
320
300
280
260
240
220
200
80,0%
70,0%
60,0%
50,0%
40,0%
30,0%
20,0%
10,0%
0,0%
Listed companies (number)
Capitalization (% of GDP)
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007

Fig. 2

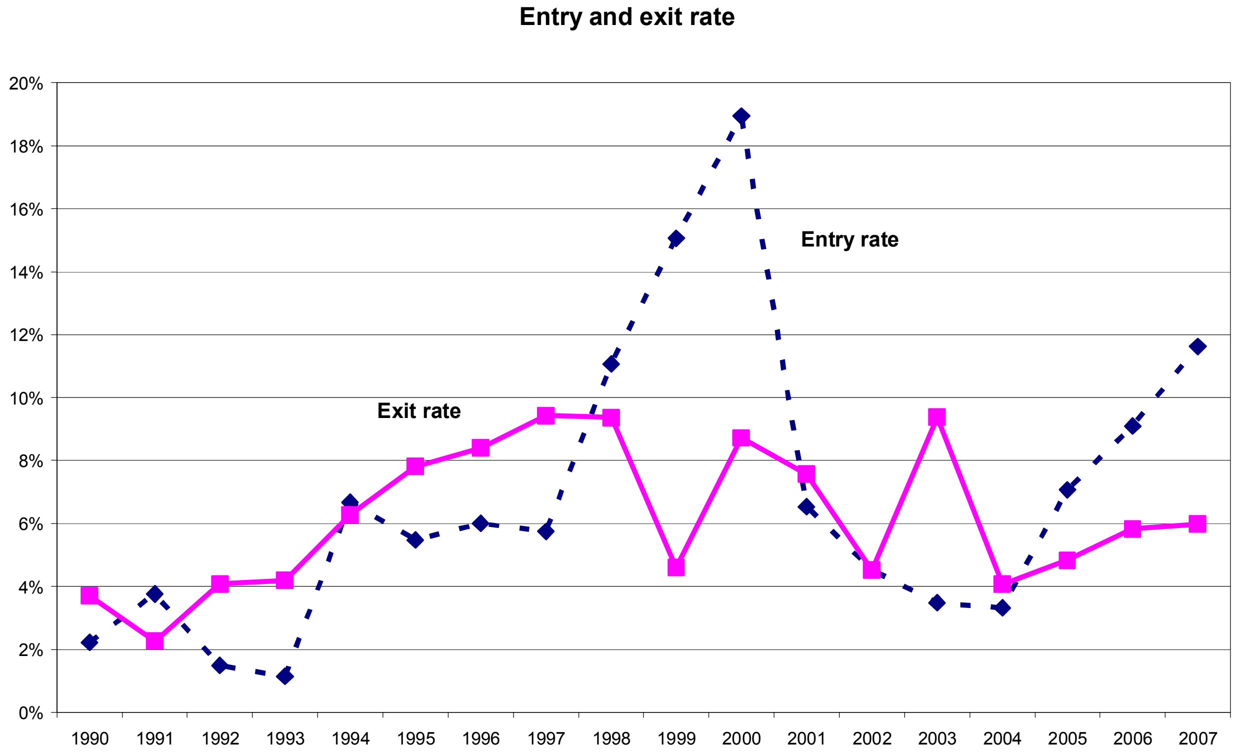
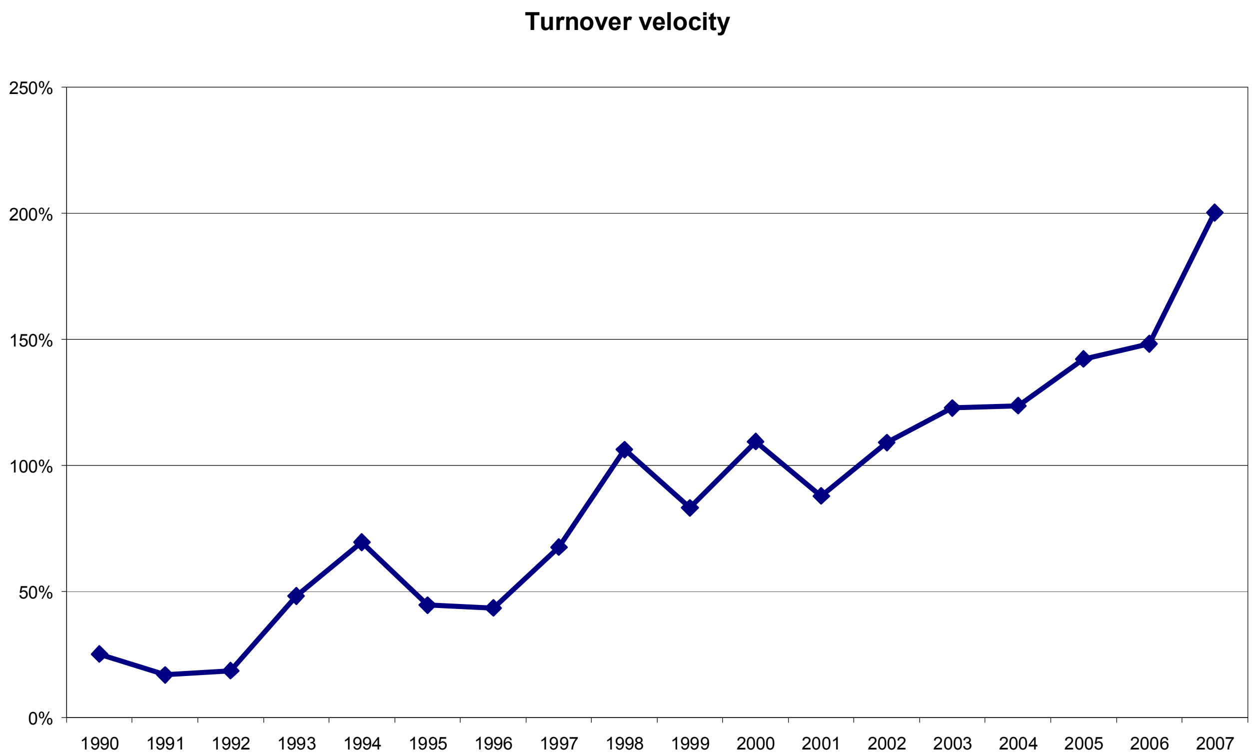

Entry and exit rate
20%
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
Entry rate
Exit rate
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007

Fig. 3



Turnover velocity
250%
200%
150%
100%
50%
0%
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007