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Abstract

As a consequence of the financial crisis, the effectiveness of self-regulation has been increasingly questioned. In particular, self-regulatory initiatives on corporate governance have been often put under scrutiny so as to assess whether, by favouring the actual adoption of best practices, these codes are really effective in prompting better governance. Looking at one of the most important features of the Code, this paper tries to address this issue by building up an indicator (so-called CoRe) that assesses the actual level of compliance for Italian listed companies. We find that actual compliance, as measured by the CoRe indicator, is much lower than formal compliance, as declared by issuers. A second finding is that actual compliance is driven by some key aspects of firms' governance. The CoRe indicator is systematically higher in firms in which: i) minority shareholders have appointed one or more directors; ii) independent directors are organized in a committee; iii) institutional investors, especially if foreign, participate to GMs; iv) normative control enhancing mechanisms are adopted, v) there is no separation between ownership and control by means of pyramids.

Keywords: self regulation, Related Party Transactions, Compliance, Governance indicator.

JEL Classifications: G32, K22.

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1. Introduction

Over the past decade, close attention has been paid to the role that corporate governance plays in capital markets and more generally in the economic system. As a matter of fact, it has been hypothesized and, in some cases, empirically demonstrated, that good corporate governance improves firms' performance. Moreover, a sound system of corporate governance is supposed to guarantee a higher degree of transparency in the market and to increase shareholders' protection. In order to improve corporate governance, spreading around awareness and compliance with best practices, several self-regulatory codes have been issued across countries.

Such codes are sets of recommendations on the different items that characterize a proper system of governance. They set standards on the board of directors' role and composition, on information disclosure, on the structure and functioning of internal committees, on directors' remuneration and in some cases on related party transactions. Such codes are usually based on voluntary compliance and adopt the "comply or explain" principle[1] whereby firms are required to clearly state the reasons behind non-compliance.

Self-regulatory initiatives on corporate governance have received close attention by the academia as well as by markets and regulators.

A key issue that has been debated in the academic literature is whether these codes are really effective in prompting better governance, by favouring the actual adoption of best practices. Different streams of literature have found mixed evidence on this issue. For example, with reference to the United Kingdom, Dahya *et al.* (2002) analyse the effects of the the Cadbury Code's[2] recommendation requiring greater independence of the board of directors[3], relying on the assumption that greater independence improves board oversight. The authors use as a proxy for board oversight the top management turnover, which is strongly correlated with performance, on the assumption that an effective board should promptly dismiss managers in case of poor performance. They find that managers turnover, and its sensitivity to performance, effectively increased after the adoption of the Code, proving an improvement in the functioning of the board of directors. Differently, De Jong *et al*. (2005), looking at the Netherlands, analyze the effect of the

[1] The European Commission after having performed a comparative study on corporate governance codes in Member States (Weil, Gothshal & Manges, 2002), mandated the use of the comply or explain principle through the 2006/46/EC.
[2] The Cadbury Code was then substituted by the so-called Combined Code in 2002.
[3] In particular, the Cadbury Code asked that the board had to include at least three outside directors and that the same individual could not occupy the position of chairman and CEO at the same time.

private sector self-regulation initiatives on corporate governance practices and find that the introduction of the Code issued by the Peters Committee did not affect corporate governance characteristics and their relationships with firm value. They also demonstrate that the market welcomed the introduction of the Peters' Code with scepticism, probably because of the lack of enforcement mechanisms[4].

As for the markets and the regulators, close attention has been paid to the assessment of compliance with codes of self-discipline. As argued by RiskMetrics (2009), "*monitoring encompasses a variety of activities involving the observance and analysis of the practical application of code provisions by companies*". These activities are normally performed with a box-ticking approach by market-wide monitors[5] that generally find high degrees of compliance. For example, the Dutch Monitoring Committee[6] finds a 95% level of adherence to code's prescriptions, the German report[7] shows that companies implement 84% of the code's recommendations and the Belgian report[8] estimates a level of adherence of nearly 80%. Other bodies perform a more in-depth analysis presenting findings both at market-wide and company levels. Among those, the Portuguese CMVM[9] reports a 58% degree of compliance with the code while the Spanish CNMV[10] finds nearly 75%.

With respect to the Italian case, Assonime releases every year a report reviewing the level of compliance of Italian listed issuers[11]. The results have generally been extremely satisfactory, showing a high degree of compliance with the Code's provisions. In particular, the results of the 2008 report show that more than 95% (94% in 2007) of the Italian listed companies declare to be compliant with the Code[12]. However, while the high level of compliance with the Code found by Assonime is in line with the results of formal evaluations of compliance as reported for other European countries,' it is in contrast with most of the literature on Italian corporate governance, which has often been very skeptical on the quality of the Italian system[13]. One could think that these inconsistencies might be due to the intrinsic weakness of the Code's provisions. However this explanation seems hardly true, since the contents of the Code are almost in line with the

[4] For an analysis of codes' enforcement mechanisms see Wymeersch (2005), RiskMetrics (2009).
[5] Market-wide monitors, as defined by Risk Metrics (2009), are either public (i.e. financial markets authorities and securities exchanges) or private (such as trade bodies, professional organizations, analysts and academics).
[6] Corporate Governance Code Monitoring Committee (2007).
[7] Werder and Talaulicar, (2008).
[8] Belgian Governance Institute and FEB – VBO, (2006).
[9] Comissão do Mercado de Valores Mobiliários (2008).
[10] Comisión Nacional del Mercado de Valores (2007).
[11] More in-depth focuses on single items of the regulation are also sometimes provided. For example, in 2008 Assonime has assessed the level of actual compliance with the provisions regarding independent directors, while in 2009 it has concentrated its attention on the internal control systems.
[12] Cf. Assonime and Emittenti Titoli 2007 and 2008 reports on the implementation of the Code for 2006 and 2007 respectively.
[13] Cf. Volpin (2002), Zingales (1994), Nevona (2003), Dick and Zingales (2004), Bigelli et al. (2007).

international standards. Differently, we hypothesize that the inconsistency between the expected level of compliance and its assessed level might be due to the fact that the actual degree of compliance indeed differs from what is formally stated.

In order to test the research question empirically, we try to build up a more analytically grounded assessment of the level of compliance, looking at one of the most important features of the Code, namely how companies manage transactions for which the interests of insiders and outsiders are most likely to be in conflict (i.e. related party transactions, hereinafter RPTs). This is particularly relevant in the Italian market where, due to the high degree of ownership concentration, conflicts of interest especially arise between controlling shareholders and minorities. We thus build a compliance indicator (that we call Compliance on Related party transactions indicator, *breviter CoRe*). It measures the quality of RPTs internal procedures and is based on the analysis of the 2007 Annual Reports on Corporate Governance, in which issuers are asked not only to state whether, but also to explain how they actually put the suggested provisions into practice. We examine all the 262 companies listed on the Italian MTA at the end of 2007.

Our results confirm the stated hypothesis showing that the adoption of the best practices, suggested by the Code for dealing with potential conflicts of interests (namely, those arising from RPTs), is markedly weaker and much more differentiated than what formally declared in the Reports. In spite of a declaration of high compliance, listed companies show poor results in terms of actual compliance with the Code's best practices on this issue. In particular, we find that whereas 85.9% of the market is formally compliant, only 32.6% of our sample has implemented the Code's recommendations in a sufficiently satisfactory way. The gap between formal and actual compliance is higher for non-financial firms and smaller companies.

As a further step, we shed a light on possible drivers of actual compliance, through OLS and ordinal probit regressions. While industry and size appear relevant at a first glance, our investigation suggests that other factors such as board composition and institutional investors' active ownership, may play a major role in explaining the quality of RPTs internal procedures. In particular, actual compliance is higher in companies where board structure is more aligned with best practices and where foreign institutional investors not only have a stake but also participate to GMs. Surprisingly, with reference to the use of control enhancing mechanisms, non-voting shares and voting caps have a positive effect on compliance, while separation between ownership and control obtained by means of pyramids drives poor compliance.

The rest of the paper is organized as follows: section 2 introduces the Italian Corporate Governance Code, section 3 outlines the importance of RPTs for corporate governance, section 4 describes the methodology used for developing the RPTs Compliance Indicator and section 5 presents our results on the relation between formal and actual compliance. Section 6 focuses on the determinants of actual compliance and section 7 finally concludes.

2. The Italian Corporate Governance Code

The Italian Corporate Governance Code was first published in 1999 by the Corporate Governance Committee and promoted by the Italian Stock Exchange (Borsa Italiana) in order to strengthen the competitiveness of the Italian financial market. This initiative was based on the assumption that "*success in competing for access to the financial markets and minimising the cost of capital also depends on the guarantees of efficiency and reliability that the system of Corporate Governance can provide*[14]".

The Italian Corporate Governance Code was then revised in 2006 in order to update its contents according to the evolution of the international best practices and to the amended domestic legislation regarding company law and investor protections[15]. The Code as a whole is based on the application of a "comply or explain" principle: its adoption is voluntary and, in case of non-compliance, companies are required to explain the reasons why they do not comply[16]. Moreover, firms which adopt the Code are required to disclose the provisions they are actually compliant with and how they have put them into practice[17]. The Code's provisions are set in terms of Principles, Criteria and Comment. Compliance is required only for Principles and Criteria; however "*issuers are urged to take into account the indications and suggestions found in the comment included at the bottom of each article*".

Although there is a disclosure and explanation "obligation" in case of non-compliance, the Corporate Governance Code's implementation does not rely on enforcement mechanisms nor

[14] Introduction to the 1999 Italian Code of Conduct for Italian listed companies.
[15] Company law was substantially reformed by Legislative Decree n. 310/2004 and Law n. 262/2005 which introduced several provisions as regards listed companies' governance system in order to improve investors' protection.
[16] The Introduction Principle also states: *"If the issuer has not implemented, in whole or in part, one or more recommendations, it shall supply adequate information with regard to the reasons for the omitted or partial application*".
[17] The Introduction Principle states: *"A listed company ("issuer") adopting this Code, in whole or in part, shall yearly disclose information to the relevant market, under the terms and the procedure stipulated in the applicable law and regulations, specifying which recommendations of the Code have actually been implemented by the issuer and how. In certain instances, the Code defines the contents of the information to be supplied to the market*".

independent monitoring[18]. The main mechanism that should favour its adoption is therefore based on reputational sanctions that the market should impose to issuers that do not (or do not sufficiently) comply with the provisions it suggests.

However, the effectiveness of market discipline in enhancing the adoption of corporate governance best practices depends at least on two key aspects. On the one hand, issuers should ensure a proper disclosure to the market as regards the concrete adoption of Code's recommendations and their observance. On the other hand, market participants should be able to evaluate the actual extent to which issuers have implemented the recommended practices and to turn an evaluation of weak compliance into a reputational sanction.

3. Theoretical framework for RPTs and governance indicators

In order to evaluate issuers' compliance with the Code, we build an indicator which focuses on a key topic of corporate governance in Italy whereby the Corporate Governance Code is the primary (self-)regulatory reference[19]: the substantial and procedural fairness of RPTs.

We choose to evaluate the quality of corporate governance practices by focusing on this particular aspect because we recognize that RPTs represent the main channel for diverting value from the firm, especially in companies which show a high degree of ownership concentration. As Bebchuk and Hamdani (2009) point out: "*assessing the governance of CS companies[20] requires close attention to the arrangements governing freezeouts, related-party transactions with the controller or entities affiliated with it, and taking corporate opportunities. These types of actions are relatively less important in NCS companies[21], as professional managers commonly have fewer opportunities to engage in related-party transactions or to take corporate opportunities on a large scale*" (p. 40).

Indeed, exploitation of outside investors by insiders takes different forms in public companies and in firms with a controlling shareholder. In public companies, the high separation between ownership and control does not provide shareholders with sufficient incentives to monitor managers, who in turn can pursue their own interests at the expenses of shareholders (Jensen and Meckling (1976)).

[18] As told before, an assessment of the Code's adoption on a general basis is annually provided by the listed companies association Assonime (jointly with Emittenti Titoli). Disclosure on each company's compliance with the Code is left to self-reporting in the Annual Report on Corporate Governance or in the Annual Directors' Report.

[19] Actually, article 2391-*bis* of the Italian Civil Law, introduced by 2004 company law reform, entrusts Consob to define general principles as regards the decision-making power, the grounds and the documentation of RPTs in order to ensure their transparency and substantial and procedural fairness. Two draft regulations were issued by Consob in April 2008 and in August 2009; the final regulation is still to be adopted.

[20] CS companies are those with a controlling shareholder.

[21] NCS companies are those without a controller.

Differently, the agency problems in firms with a controlling shareholder arise between the latter and minorities. The controlling shareholders do have the incentives and the necessary means to monitor managers but they could also have interests that might conflict with those of outside investors and the ability to pursue them, diverting corporate wealth to themselves as private benefits of control[22].

In particular, expropriation of minority shareholders may come through "tunneling transactions", namely transfers of assets and profits out of the company in favour of its control agents (managers or, more frequently, controlling shareholders). According to the relevant literature[23], there are two forms of tunneling: first, bilateral transactions with the company, also referred to as self-dealing transactions, whereby the transfer price favours the control agent; second, discriminatory financial transactions that benefit the controlling agent by increasing his shareholding (although they do not involve the transfer of any asset)[24].

The way Italian companies handle this particular aspect in their governance practices is relevant from two main points of view. First, exploitation of minority shareholders through transactions with controlling or significant shareholders or managers is a primary risk, as suggested by several scholars' studies on the private benefits of control in Italy[25]. This is due to the mentioned high degree of ownership concentration and the diffusion of control enhancing mechanisms such as pyramids, non-voting shares and coalitions[26]. Second, the Code itself sets particular disclosure obligation on the handling of RPTs, not only on whether companies comply or not with the recommendations set forth by the Code, but also on the explanation of the procedures adopted by each issuer according to them.

Our indicator is the first one aimed at assessing the quality of corporate governance arrangements at the firm level focusing on RPTs procedures. In this sense, it differs from the most relevant indices developed until now to evaluate the quality of corporate governance mechanisms, such as the Corporate Governance Quotient by RiskMetrics, the Anti-Director Rights index by La Porta *et al.* (1998) and the Anti-Self-Dealing index by Djankov *et al.* (2008).

[22] Cf., for example, Gilson and Gordon (2003), Enriques and Volpin (2007), Bebchuk and Hamdani (2009).
[23] Cf., for example, Johnson et al. (2000). Another taxonomy has been recently proposed by Atanasov et al. (2007). It differentiates RPTs in light of whether it is the equity, assets or cash flows which are tunneled outside the firm.
[24] Only the first form of tunneling can be carried out through a related party transaction. Common examples of "discriminatory financial transactions" are given by minority freeze out or dilutive share issues.
[25] Cf. Dick and Zingales (2004) and Nenova (2003).
[26] Cf. Bianchi et al. (2001), Faccio and Lang (2002) Bianchi and Bianco (2007), Bianchi et al. (2008), Barca and Becht (2001).

In particular:

- the Corporate Governance Quotient system (CGQ) assigns little weight to the regulation of related party transactions involving controlling shareholders, since there is only one provision on this matter and it refers only to transactions involving the CEO. Moreover, as Bebchuk and Hamdani (2009) point out, this system focuses only on the existence of similar transactions and not on their scope. Instead, "*what is important for assessing the quality of governance in such companies* (i.e. companies with a controlling shareholders) *is the scope of self-dealing transactions and the mechanisms for monitoring them*" (Bebchuk and Hamdani (2009), p.41);
- the Anti-Director Rights index aims at measuring how strongly the legal system protects minority shareholders against managers or dominant shareholders in the corporate decision making process. This index consists of six components and the RPT issue is considered only through the variable "oppressed minorities mechanisms", which takes into account the presence of legal mechanisms in favour of minority shareholders against perceived oppression by directors. Hence this index addresses the issue of RPTs only partially and in conjunction with other features of corporate governance;

  differently from the previous ones, the Anti-Self-Dealing index deals with the RPTs topic directly since it evaluates the strength of minority shareholders protection against self-dealing by the controlling shareholder. The index consists of numerical measures of the intensity of regulation of self-dealing across 72 countries, evaluating both public and private enforcement.

As Djankov *et al.* (2008), our objective is to develop an indicator of the quality of corporate governance which mainly focuses on RPTs procedures. But our indicator is firm-specific, since it evaluates the quality of RPTs procedures at individual level for all the companies listed on the Italian Stock Exchange. A description of the methodology used to build the indicator is provided in the following section.

4. The CoRe Indicator: methodology

Our firm-level indicator is based on the analysis of 2007 Annual Reports on Corporate Governance, in which issuers are asked to declare and explain the extent to which they are compliant with the Code's recommendations concerning RPTs and directors' conflict of interest.

The relevant provisions of the Code are those set forth in Principle no. 1, regarding the "*Role of the Board of Directors*", and in Principle no. 9, regarding "*Directors' Interests and Transactions with Related Parties*". In short, they recommend that:

- the board of director, after requiring a pre-emptive opinion from the internal audit committee[27], adopt a procedure for the approval and the execution of those transactions;
- the evaluation and the approval of significant transactions (among which RPTs), as defined by companies, lie with the board of directors;
- the board define criteria to identify transactions for which board approval should be accompanied by an opinion from the internal audit committee and/or by the assistance of independent experts;
- the board set solutions that facilitate the identification and the handling of situations in which a director has an interest (on his/her behalf or on a third party behalf).

Other and more specific best practices are suggested in the Comment to Principle no. 9 in order to ensure both the substantial and procedural fairness of RPTs and a proper handling of directors' interests. For ensuring RPTs substantial and procedural fairness, the following best practices are given as examples: "*the provision of a prior opinion of the internal control committee, entrusting negotiations to one or more independent directors (or directors having no ties with the related party), the recourse to independent experts (possibly selected by independent directors)*". For the handling of directors' interests, also considering the recent amendments to domestic legislation[28], the Code does not recommend a leave or abstain duty for the director that has an interest in the transaction. However such a conduct, even though the law provides no obligation in this regard, is recognised by the Code as not infrequent in the relevant practice of Italian listed companies and an effective solution that "*may contribute to avoiding or reducing the risk of an alteration of the correct formation of the will by the board of directors*".

The *CoRe* indicator is aimed at evaluating substantial compliance, which in our methodology implies compliance not only with the Principles and Criteria, but also with the best practices suggested in the Comment.

In particular, the indicator measures two main aspects of the Code's implementation.

[27] Committee composed of non-executive directors, the majority of which is recommended to be independent.
[28] If a director has an interest in the transaction which conflicts with the company's interest, he/she is not required to abstain from voting on the transaction (article 2391 of the Italian Civil Law, amended by the company law reform).

First, we evaluate the transparency and width of the criteria that issuers set to identify significant transactions (among which RPTs) subject to specific approval procedures, assigning a score that ranges from 0 to 2. The rationale for this assignment is based on the idea that the wider the area of transactions subject to strengthened procedures and the more objective the criteria set to identify those transactions, the higher the quality of the company's procedures with reference to the identification of RPTs.

More precisely, we assign a score of:

- 0 to companies whose internal procedures lack of objective/quantitative significance criteria and exclude transactions belonging to the ordinary course of business from the application of strengthened procedures;
- 0.5 to companies that do not adopt quantitative criteria to identify significant transactions but apply strengthened procedures also to the ordinary business;
- 1 to companies that use quantitative criteria but exclude transactions belonging to the ordinary course of business from the application of the "significance test";
- 2 to companies that set quantitative criteria to identify significant RPTs and do not exclude the ordinary course of business (See Table 1, Section A).

The implicit rationale behind this scores is twofold: on the one hand, the possibility to elude the discipline by means of nor objective significance thresholds is considered more compelling than the risk of excluding the ordinary business; on the other side, we assign a premium (and thus a more than proportional score) to those company which are compliant with both the evaluated aspects.

Second, we look at the quality of compliance with the principles regarding the approval of RPTs by verifying whether companies adopt three best practices suggested by the Code, namely the provision of a prior opinion of the internal control committee, the recourse to independent experts (who could be appointed by independent directors) and the abstention or leave duties for directors having an interest in the transaction. We assign a score, ranging from 0 to 3, which reflects the actual implementation of those practices and differently evaluates cases in which a certain standard is to or simply can be adopted. The criterion for the assignment is that the more effective the standards that companies set and the less discretionary is their application, the higher the level of substantial and procedural fairness they ensure.

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

- pre-emptive opinion of the internal control committee (rank from 0 to 1);

- recourse to independent experts eventually appointed by independent directors (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 take into consideration the provision of article 136 of the Consolidated Law on Banking which requires that obligations assumed by banks with their directors and officers must be unanimously approved by the board. We assign a lower score to all firms (also non banks) adopting the unanimous vote provision compared to those which mandate the abstention or leave of the interested director. This is because the former appears to be a second best as it may press directors to vote in favour of the resolution (See Table 1, Section B).

The RPTs Compliance Indicator is calculated as the simple sum of the two scores.

5. Formal versus actual compliance

Our analysis regards 262 companies, namely the total number of those listed on the Italian MTA at the end of 2007. However, we exclude 26 firms for which nor the Annual Report nor the specific procedure for RPTs are available. This is mainly due to the fact that most of those issuers are no longer listed at the time our data are collected, and are not therefore subject anymore to listed companies' disclosure provisions. Hence, our final data-set is composed by 236 companies.

Table 2 summarizes the main results of the RPTs Compliance Indicator and distinguishes its two components as described above. At a first glance, the results seem to confirm our hypothesis: the degree of compliance with the Code of self-discipline is far lower than Assonime's figures would suggest.

In particular, the average RTPs Compliance Indicator scores only 1.76 in a scale of 5. Scoring 0.72 (out of 2) and 1.04 (out of 3) respectively, both the RPTs Identification and RPTs Approval sub-indexes confirm a level of actual compliance which is only one third of the possible top level. As for the variance, RPTs procedures seem fairly variable across companies, with a standard deviation of 1.21.

On the contrary, formal compliance with the Code appears to be very high and quite widespread across listed companies. In particular, Assonime's figures[29] show that a very high proportion of

[29] See Assonime and Emittenti Titoli (2009).

listed companies (85.9%) has adopted a procedure for related party transactions in line with the Code's provisions and describes it in the Annual Report on Corporate Governance (see Table 3).

In order to compare Assonime's assessment on formal compliance with our results, we consider as "actually compliant" firms whereby our RPTs indicator is higher than 2. In fact, this threshold allows us to identify firms that either are highly compliant in at least one of the two observed aspects or that are sufficiently compliant in both aspects.

Consequently, we are able to compare formal and substantial compliance both on an aggregated and a disaggregated basis. Overall, while 85.9% of the market (250 out of 291 companies) is formally compliant, only 32.6% of our sample (i.e. 77 out of 236 companies) has implemented the Code's recommendations in a proper way according to our evaluation. At a more disaggregated level, Table 3 compares formal and actual compliance for financial and non financial firms. Financial firms appear to be more compliant with the Code's provisions regarding RPTs, but the gap between formal and actual compliance is quite high. Finally, Table 4 shows the levels of formal and actual compliance for firms in the S&P Mib, Midex and All Star indices. Substantial compliance is notably lower than formal compliance for firms in all of the mentioned market indices. However, it appears that the gap between formal and actual compliance is lower for larger-caps - namely firms in the S&P Mib and Midex indices - than for smaller companies.

In conclusion, the comparison between Assonime's figures on the incidence of compliance with RPTs provisions and our indicator of their actual implementation shows that the latter is markedly weaker than what formally stated. Results at a disaggregated level suggest that this gap is higher for non-financial firms and for small-caps.

A possible explanation for these findings is that there might be a misperception on what a code is really meant for. If it is assumed that a Code is a collection of best practices, then it should be clear to market participants that a best practice can no longer be defined as such when it is followed by the whole market. Consequently, not only is it legitimate for a company not to follow a self-discipline thoroughly, but it is actually physiologic that only a part of the market does so. However, if the market is satisfied with a mere formal statement of compliance, companies will inevitably tend to go along with it, and will not feel the need to actually pursue the Code's principles. Differently, if it is assumed that the Code sets only minimum standards, then the high level of

compliance formally stated reveals the lack of appropriate monitoring mechanisms to disclose deviation of actual practices from the standards stated.

6. Determinants of the RPTs Compliance Indicator

As a further step, we test whether the compliance indicator's results may be explained by certain firms' characteristics. To do so, we enucleate some possible drivers of compliance by looking at three key areas of corporate governance (namely internal governance mechanisms, ownership and control structure and institutional investors' presence and activism[30]), while also testing the influence of firms' size and sector. We use both an OLS regression model and an ordinal probit regression model. This section is organized as follows: in sub-section 1 we describe the variables we consider as possible drivers of compliance and outline the expected results; in sub-section 2 we show the results of our multivariate OLS, while in sub-section 3 we show the results of ordinal probit regressions.

6.1 Hypotheses

First, we hypothesize that compliance is positively correlated to firms' dimension, expressed by their capitalization (at the end of 2007). This is consistent with the idea that large-caps are more subject to market scrutiny and thus have higher incentives to strengthen their level of compliance with the Code of self-discipline.

Concerning the size, the sample is composed by a small number of large-caps (only 40 firms have a market value higher than 2,5 billion euros) while small-caps account for more than a half of the sample (137 firms have a market value lower than 500 million euros).

Second, we hypothesize that "industry matters". In particular, we suppose that supervised sectors (namely the financial sector) not only have more accurate rules but, being subject to public enforcement, also find better incentives to set up proper mechanisms for corporate governance. This would imply that the Code *per se* is less effective in prompting actual compliance.

Data show that the financial sector (banks, insurance companies and asset management companies) accounts for 30 firms.

Third, we test whether internal governance mechanisms positively affect actual compliance as regards RPTs handling. In recent years board composition has been strengthened both by the

[30] Data on internal governance mechanisms are drawn from 2007 Annual Reports on Corporate Governance; data on ownership and control structure and institutional investors participation are drawn instead from Consob databases.

regulators, thanks to the appointment of independent and minority directors[31], and by the evolution of market practices. Consequently we investigate whether these innovations have been effective in prompting compliance.

In particular, we take into consideration the presence of independent directors, in the board and in the internal audit committee, and of directors appointed by minority shareholders.

According to a wide part of the literature[32], the presence of independent directors in the board, and in particular in certain key committees, can serve investors' interests, increasing firm's market value or reducing the risk of accounting irregularities and of corporate fraud. With reference to our sample, independent directors appear to be quite widespread across companies, as there are on average 4,1 directors in firms' boards.. Moreover, we look at the composition of the internal audit committee. Data show that it is comprised of a majority of independent directors (as the Code itself recommends) in 184 companies. Therefore, we make two hypotheses: (i) the number of independent directors positively affects compliance; (ii) an "independent" audit committee, i.e. one with a majority of independent directors, is a driver for better compliance.

With respect to minority directors, it is argued that they can play an important role in monitoring self-dealing transactions and in reducing the risk of value diversions to the detriment of minority shareholders. This risk is particularly significant in the Italian contest, due to the high proportion of controlling shareholders. In light of this, we hypothesize that the number of minority directors positively influences the compliance indicator. However, we are aware that the rule which mandates the presence of at least one minority director has been recently issued and thus the implementation process is still in progress[33]. In fact, only 26 firms have appointed at least one minority director and, on average, in each of these firms there are 3,2 minority directors).

Fourth, we argue that also ownership and control structure may explain firm's compliance with the Code.

On the one hand, we look at the nature of the controlling agent. In particular, we test whether companies which are controlled by a family (directly or by means of an *ad hoc* vehicle) are less compliant than those controlled by other entities or public companies. This is because family businesses often leave more room for opportunistic behaviour by the controlling shareholders. In order to test relevance of the ownership structure, we also evaluate whether state ownership affects

[31] See Enriques and Volpin (2007) and Enriques (2009).

[32] See Bebchuk and Hamdani (2009), Dahya et al. (2006), Black et al. (2005), Smaili and Labelle (2009), Klein (2006) and Nguyen and Nielsen (2009).

[33] Moreover, one should keep in mind that privatised firms have longer been subject to similar provisions (which envisage the so-called "voto di lista").

compliance. Looking at our sample, we find that it is characterized by a large majority of family-controlled firms (174 firms in our sample) while state-owned enterprises are just a few (28 firms).
On the other hand, we look at companies that adopt control enhancing mechanisms (CEMs), such as pyramids, dual class shares and voting caps. In line with the literature, we hypothesize that, by increasing the incentives for insiders to divert wealth, the use of such mechanisms may indicate poor governance. Control enhancing mechanisms, as defined above, are present in 65 firms in our sample. We distinguish between pyramidal groups and other mechanisms which are envisaged by the Italian law (voting caps and the issue of non-voting shares that we call normative control enhancing mechanisms). We measure the intensity of the separation between ownership and control in pyramids through the leverage effect, namely the number of voting rights controlled by the dominant shareholder per cash flow unit invested. Data show that leverage effect is relevant (higher than 1) for 28 firms; normative control enhancing mechanisms, which can be either non-voting shares or voting caps, are present in 42 companies.

Finally, institutional investors owning relevant shareholdings are supposed to play a beneficial role in improving governance, as they could actively force managers to make fundamental changes in the firm. Institutional investors can exert a positive influence on firms' behaviour either by "voting with their feet", i.e. selling their shares, or by investing in monitoring and voicing their disappointment through an active role in the decision making process. In order to test the effects of these activities on firms' compliance, we look both at institutional investors' ownership and at their presence at general meetings (henceforth GMs).
On the one hand, we measure institutional investors' ownership by looking at major shareholding notifications to the market, compulsory in Italy for stakes above the 2% threshold, and we find that they have a major stake in 134 firms. In parallel, we keep track of smaller stakes by looking at data on the Italian mutual funds' total portfolios. We hypothesize a significant presence of Italian mutual funds where their stake is higher than 0.5% of the investee company, finding that their presence is significant in 174 firms.
On the other hand, we assess institutional investors activism by looking at their participation to 2008 GMs. Data, which have been collected by GMs' minutes, are not available for 26 firms. We find that institutional investors attended the GMs in 155 firms out of the remaining 210.

In order to test our assumptions we start by using OLS estimations. This model gives us some intuitions regarding the kind of correlation existing among our variables. However, given the

discrete nature of our dependent variable, OLS regression may not be the appropriate way to estimate the determinants of compliance. Since our dependent variable, the *CoRe* indicator, is an ordered categorical variable, we later refine our study using an ordered probit regression model.
Table 5 describes our sample with respect to all regressors.

6.2 Empirical results

In this section we show the results of the ordinary least square regressions performed[34]. Table 6 provides a description of the variables we use as regressors.

In Table 7, columns (1) and (2), we consider various models including variables related to the area of "internal governance" as regressors. In line with our hypotheses, evidence shows that compliance is higher in companies with "good" internal corporate governance mechanisms. In fact, compliance increases with the number of directors appointed by minority shareholders (*mindir*) and it is higher in firms with an internal audit committee composed by a majority of independent directors (*cciind*). The significance of these variables is high, generally at the 5% level. Only the number of independent directors in the board does not improve compliance, suggesting that independent directors are more effective in prompting actual compliance when they play a major role in a committee which can affect corporate behaviours (as it is for the audit committee).
Moreover, results show that the relation with size is positive, as expected, but it is never significant, while the coefficient for *financial* is positive and significant only in the second regression, casting doubts on the "industry matters" hypothesis.

In columns (3) to (5) we consider other models including also variables related to the "ownership and control structure" area. In column (3) we enrich the second regression adding the variables on the use of CEMs. Results show that all variables but size matter, confirming previous results and providing new insights related to the ownership and control structure. The presence of normative control enhancing mechanisms (*normcem)* is likely to increase the *CoRe* indicator while belonging to pyramidal groups (*leverage)* reduces the compliance indicator (both coefficients are statistically significant at the 10% level). While the latter result is in line with our hypotheses, the former is quite counterintuitive. However, this result might be explained by the need to show the implementation of good governance practices aimed at protecting minority shareholders in companies adopting normative control enhancing mechanisms. In principle, this incentive should be present for firms adopting any kind of control enhancing mechanisms (both organizational and

[34] Standard errors have not been corrected to account for heteroschedasticity since the tests we performed have shown that errors are not heteroschedastic.

normative). However, in firms at the bottom of a pyramid this need is probably outweighted by the higher incentive for controlling shareholders to exploit minorities, due to the higher leverage ratio[35].

In columns (4) and (5) we test out the hypothesis that the identity of the controlling shareholder affects the level of compliance with the Code, adding the variables family controlled (*family)* and State controlled (*soe).* Results show that the coefficient for *family* is negative (as expected) but not statistically significant. Moreover, adding this variable, the coefficients for *financial* looses significance and the one for *normcem* reduces its p-value, probably because *family* is highly (negatively) correlated with these two variables[36].
In column (5) we investigate if the presence of the State as controlling shareholder affects compliance. As results indicate, the coefficient for *soe* is positive but not significant. Moreover, the introduction of *soe* affects the significance of both *mindir* and *normcem*. This result is not surprising since in privatised state-owned firms the appointment of directors by minorities and voting caps have longer been envisaged by the law[37].

As a last step, we enrich our analysis including as regressors variables related to the institutional investor area (Table 8).
In column (1) we consider the effect on compliance of institutional investors attendance at 2008 GMs (*part_ii*) and we find that the *CoRe* indicator is positively affected by the variable *part_ii*. The coefficient is positive and significant at the 1% level. With respect to the other regressors, previous results are still confirmed, with the exception of *mindir*, which looses its significance, even if the related p-value is very close to 0.1. In columns (2) and (3) we consider separately the effect on our indicator of foreign and Italian institutional investors participation to GMs. Results show that the role of both foreign and Italian institutional investors is relevant in improving compliance, even if the participation to GMs of foreign institutional investors seems to be more relevant (value of the coefficient 0.6222 *versus* 0.4268) and significant (p-value 0.001 *versus* 0.050).
In columns (4) to (6) we consider the effect of major shareholdings held by institutional investors. Results do not confirm the positive role of institutional investors in fostering compliance, since coefficients are not significant for both major institutional investors as a whole (*mh ii*) and for

[35] The Italian legal framework does not allow firms to achieve a leverage effect higher than 2 through normative control enhancing mechanisms. Higher leverage can be obtained only through pyramids.
[36] The correlation between *family* and *financial* is -0.3792, while the one between *family* and *normcem* is -0.3516, both significant at the 1% level.
[37] In fact, the correlation between *soe* and *mindir* is 0.3786, while the one between *soe* and *normcem* is 0.3432, both significant at the 1% level.

foreign and Italian institutional investors separately (*mh iie and mh iiit*). All the other variables, but size, are significant.

To sum up, these results might be indicative of the fact that the presence of institutional investors does matter, but it is really relevant if they actively contribute to the definition of firms' strategy by participating to the decision-making process through their presence at the GMs.

Finally, in column (7) we verify whether the presence of Italian mutual funds (*funds*) as shareholders influences compliance. As for institutional investors, the coefficient for *funds* is not statistically significant, even if the related p-value is very close to 0.1, and all the other variables (but size) seem to be relevant.

Endogeneity concerns We are aware of the fact that the variables related to the institutional investor area could be endogenously determined with the level of compliance, which is a proxy for a sound governance system. Hence, we have evaluated endogeneity performing an Hausman test and using as instrumental variables the number of analyst which cover the company *(num_analysts)* for regressors *part_ii, part_iie, part_iiit,* and the sum of major shareholdings (*call)* and the presence of at least one analyst which cover the company (*analyst)* for *mh iie, mh iiit, mh iie* and *funds* (for a description of the instruments see Table 6). With respect to the latter choice, the underlying intuition is that stockholdings of institutional investors may be (also) driven by considerations related to the level of ownership concentration and by the availability of financial information concerning the firms. In particular, institutional investors may prefer to invest in companies with less concentrated ownership (lower *call*)[38] and covered by at least one analyst (*analyst* equal to one)[39].

With respect to the former choice, the idea is that institutional investors' activism is affected by the amount of information available for each company. The more the analyst coverage, the more the information available, the more is the expected institutional investors' activism.

The Hausman tests performed indicate that our model is free of endogeneity problems, since we do not reject the hypothesis of consistent ordinary least square estimates. Hence, our previous results are confirmed. However, in order to strengthen the robustness of our prior conclusions with respect to the variables related to the institutional investor's participation to the GMs, we have also performed regressions using as exogenous variables the lagged values of the variables suspicious of endogeneity. In particular, we have used data related to the institutional investors' participation to 2005 GMs[40]. We have chosen to evaluate institutional investors' activism exactly in this year

[38] Cfr Barucci and Falini (2005), Chirinko and Elston (2006).
[39] Cfr. Brav et al. (2008)
[40] Data are available for 182 companies.

because in 2006 the Corporate Governance Code principles, included those related to RPTs, have been completely reviewed.

Table 9 reports the results of the regressions performed. They show that the role of both foreign and institutional investors as a whole is relevant in improving compliance, even if the participation to GMs of foreign institutional investors seems to be more relevant and significant. One difference with the previous findings concerns the role of Italian institutional investors, which loses its significance. With respect to the other regressors, prior results are confirmed, with the exception of the variable *normcem*, which is never relevant in explaining compliance, and *mindir* which instead gains significance.

6.3 An alternative specification

In this section we show the results of the ordinal probit regressions performed. As shown in Table 10, our dependent variable takes seven possible values. The selected seven classes allow us to split our sample in sufficiently homogeneous and granular groups.

As before, in Table 11, columns 1-2, we consider as regressors variables related to the area of "internal governance". Results confirm the previous findings with respect to the variables *cciind*, *financial*, *normcem* and *leverage*, which are always significant in explaining compliance. The main difference with the prior results concerns the variable *mindir*, which now is always significant, sometimes at the 1% level. Hence, the number of directors appointed by minorities seems to be relevant in explaining compliance.

Finally, also the ordinal probit regressions including variables related to the "ownership and control structure" (Table 11, columns 3-5) confirm the irrelevance of the identity of the controlling shareholder in affecting the level of compliance, since neither *family* nor *soe* are statistically significant, and the relevance of the pyramid effect.

As a final step, in table 12 we assess the relevance of variables related to the institutional investor area. As before, results are indicative of the fact that the presence of institutional investors is really relevant if they actively contribute to the definition of firms' strategy by participating to the decision-making process through their presence at the GMs. Only the presence of Italian mutual funds (*funds*) as shareholders affects our compliance indicator, since the coefficient for *funds* is positive and statistically significant.

Again, the main difference with the previous findings concerns the variable *mindir*, which now is always significant, generally at the 5% level.

7. Conclusions

By analyzing the procedures for identifying and approving RPTs, we have tried to get a clue of the extent to which Italian listed companies are actually aligned with self-regulation. To do so, we have built an indicator (the *CoRe* indicator) that assesses the actual quality of RPTs procedures.

A first finding is that actual compliance, as measured by the *CoRe* indicator, is much lower than formal compliance, as declared by issuers. A possible explanation for this finding is that there might be a misperception on what a code is really meant for. If it is assumed, as most of the market participants do, that a Code is a collection of best practices, then it should be clear that a best practice can no longer be defined as such when it is followed by the whole market. Consequently, not only is it legitimate for a company not to follow a self-discipline thoroughly, but it is in actual fact physiologic that only a part of the market does so. However, if the market is satisfied with a mere formal statement of compliance, companies will inevitably tend to go along with it, and will not feel the need to actually pursue the Code's principles. Hence, firms should provide information in such a way that allows the market to effectively discriminate single firms with respect to their actual level of compliance. Differently, if it is assumed that the Code sets only minimum standards, then the high level of compliance formally stated reveals the need for appropriate enforcement mechanisms.

A second finding is that actual compliance is driven by some key aspects of firms' governance. The *CoRe* indicator is systematically higher in firms in which: i) minority shareholders have appointed one or more directors; ii) independent directors are organized in a committee; iii) institutional investors, especially if foreign, participate to GMs; iv) normative control enhancing mechanisms (i.e. voting caps and non-voting shares) are adopted, v) there is no separation between ownership and control by means of pyramids.

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ANNEX

Table 1: The methodology for the assignment of the scores with respect to the two components of the *CoRe* indicator (i.e. the identification of significant RPTs and the procedures adopted for their approval).

The Methodology for the *CoRe* Indicator			
A) Identification of significant RPTs			
		Width of the area of RPTs subject to the *ad hoc* procedures	
		All Transactions	Only Atypical Transactions
Transparency of the significance test	Quantitative Criteria	2	1
	Undisclosed or Not Objective Criteria	0.5	0
B) Procedures for significant RPTs approval			
Adoption of the suggested best practices	Prior opinion by the Internal Audit Committee	Binding	1
		Non binding	0.5
		Not envisaged	0
	Recourse to independent advisors	Selected by independent directors	1
		Selected by the board	0.5
		Not envisaged	0
	Abstention or leave duties for interested directors	Binding	1
		Unanimous vote	0.75
		Non binding	0.5
		Not envisaged	0

Table 2: Descriptive statistics for the *CoRe* Indicator.

	RPTs Identification	RPTs Approval	*CoRe* Indicator
Mean	0.72	1.04	1.76
Median	0.50	1.00	1.50
Min	0.00	0.00	0.00
Max	2.00	3.00	5.00
St. deviation	0.82	0.75	1.21

Table 3: Comparison between actual and formal compliance by sector.

	ACTUAL COMPLIANCE				FORMAL COMPLIANCE		
Sector	Total N. of firms	Average *CoRe* indicator	N. Actually compliant firms	% Actually compliant firms	Total N. of firms	N. Formally compliant firms	% Formally compliant firms
Financial	30	2.27	14	46.7%	35	31	88.6%
Non financial	206	1.69	63	30.6%	256	219	85.5%
Total	236	1.76	77	32.6%	291	250	85.9%

Table 4: Comparison between actual and formal compliance by market index.

	ACTUAL COMPLIANCE				FORMAL COMPLIANCE		
Market Index	Total N. of firms	Average *CoRe* indicator	N. Actually compliant firms	% Actually compliant firms	Total N. of firms	N. Formally compliant firms	% Formally compliant firms
S&P Mib	36	2.33	16	44.4%	37	35	94.6%
Midex	38	2.13	17	44.7%	43	41	95.3%
All Star	69	1.69	22	31.9%	79	75	94.9%
Other	93	1.44	22	23.7%	100	75	75.0%

Table 5: Sample's description.

Area	Variable	N. of firms	Mean
Market Value (MV)		(236)	2.963.975.752
	Large cap (MV >2.5 bln€)	40	-
	Medium cap (500mln€< MV <2.5bln€)	59	-
	Small cap (MV<500mln€)	137	-
Sector			
	Financial	30	-
	Non financial	206	-
Internal Governance			
	Number of independent directors	(224)	4.11
	"Independent" Internal Audit Committee	184	-
	Number of minority directors	(26)	3.23
Ownership and Control Structure			
	Family controlled firms	174	-
	State owned enterprises	28	-
	Control Enhancing Mechanisms (CEMs)	65	-
	Pyramids (Leverage > 1)	28	
	"Normative" CEMs	42	
Institutional Investors			
	Major holdings by institutional investors	134	-
	Italian	36	-
	Foreign	121	-
	Ownership by Italian funds > 0.5%	174	-
	Participation to GMs	155	-
	Italian	46	-
	Foreign	154	-
	n.a.	26	-

Table 6: Description of the variables

Name	Description
c	Constant
relcap	firm capitalization relative to the sample capitalization
financial	dummy variable assuming value equal to one if the company is classified as financial
mindir	number of directors appointed by minority shareholders
inddir	number of independent directors
cciind	dummy variable assuming value equal to one if the audit committee is composed by a majority of independent directors
leverage	number of voting rights controlled by the dominant shareholder per cash flow unit invested
normcem	dummy variable assuming value equal to one if "normative" control enhancing mechanisms (non voting shares and/or voting caps) are present
family	dummy variable assuming value equal to one if the company is controlled by a family
soe	dummy variable assuming value equal to one if the company is controlled by the State
part_ii	dummy variable assuming value equal to one if institutional investors attended 2008 GMs
part_iie	dummy variable assuming value equal to one if foreign institutional investors attended 2008 GMs
part_iiit	dummy variable assuming value equal to one if Italian institutional investors attended 2008 GMs
part_ii05	dummy variable assuming value equal to one if institutional investors attended 2005 GMs
part_iie05	dummy variable assuming value equal to one if foreign institutional investors attended 2005 GMs
part_iiit05	dummy variable assuming value equal to one if Italian institutional investors attended 2005 GMs
mh ii	dummy variable assuming value equal to one if institutional investors have major shareholdings
mh iie	dummy variable assuming value equal to one if foreign institutional investors have major shareholdings
mh iiit	dummy variable assuming value equal to one if Italian institutional investors have major shareholdings
funds	dummy variable assuming value equal to one if Italian mutual funds have a stake (higher than 0.5%) in the company
num_analysts	number of analysts that cover the company
analyst	dummy variable equal to one if the company is covered by at least one analyst
call	sum of major shareholdings

Table 7: Ordinary least squares regressions (The dependent variable is the *CoRe* Indicator. Regressors: sector, size, internal governance mechanisms and ownership and control structure. In parenthesis p-values are reported. * , **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively).

	(1)	(2)	(3)	(4)	(5)
c	1.4785***	1.0740***	1.2737***	1.3927***	1.2535***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
relcap	0.0574	0.0657	0.0328	0.0276	0.0254
	(0.302)	(0.203)	(0.541)	(0.611)	(0.639)
financial	0.2955	0.4133*	0.4127*	0.3522	0.4225*
	(0.251)	(0.073)	(0.071)	(0.151)	(0.064)
mindir	0.1576**	0.1522**	0.1274*	0.1181*	0.1010
	(0.026)	(0.023)	(0.063)	(0.091)	(0.165)
inddir	0.0411				
	(0.174)				
cciind		0.7165***	0.7413***	0.7517***	0.7599***
		(0.000)	(0.000)	(0.000)	(0.000)
leverage			-0.2284*	-0.2330*	-0.2346*
			(0.069)	(0.064)	(0.062)
normcem			0.4077*	0.3728*	0.3641
			(0.069)	(0.098)	(0.102)
family				-0.1376	
				(0.501)	
soe					0.2866
					(0.291)
obs	234	234	234	234	234
adjR^2	0.0653	0.1175	0.1331	0.1311	0.1336

Table 8: Ordinary least squares regressions (The dependent variable is the *CoRe* Indicator, all regressors. In parenthesis p-values are reported. * , **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively).

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
c	1.0258***	1.0290***	1.2429***	1.2010***	1.1776***	1.3235***	1.1683***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
relcap	-0.0011	-0.0015	-0.0205	0.0381	0.0398	0.299	0.0247
	(0.984)	(0.979)	(0.734)	(0.480)	(0.459)	(0.577)	(0.645)
financial	0.2453	0.2373	0.3562	0.4488*	0.4751**	0.3908*	0.4533**
	(0.343)	(0.358)	(0.171)	(0.053)	(0.040)	(0.087)	(0.048)
mindir	0.1144	0.1141	0.1106	0.1270*	0.1242*	0.1220*	0.1315*
	(0.102)	(0.102)	(0.121)	(0.064)	(0.069)	(0.075)	(0.054)
cciind	0.5774***	0.5572***	0.6642***	0.7067***	0.6882***	0.7619***	0.6169***
	(0.004)	(0.006)	(0.001)	(0.000)	(0.000)	(0.000)	(0.002)
leverage	-0.2779**	-0.2809**	-0.2251*	-0.2185*	-0.2182*	-0.2424*	-0.2438*
	(0.041)	(0.039)	(0.100)	(0.083)	(0.082)	(0.055)	(0.052)
normcem	0.4031*	0.3966*	0.3615	0.4047*	0.3995*	0.3864*	0.3657*
	(0.072)	(0.077)	(0.123)	(0.065)	(0.067)	(0.078)	(0.096)
part_ii	0.5926***						
	(0.002)						
part_iie		0.6222***					
		(0.001)					
part_iiit			0.4268**				
			(0.050)				
mh ii				0.1449			
				(0.353)			
mh iie					0.2302		
					(0.135)		
mh iiit						-0.2584	
						(0.219)	
funds							0.3051
							(0.104)
obs	209	209	209	234	234	234	234
adjR²	0.1483	0.1526	0.1229	0.1326	0.1379	0.1351	0.1395

Table 9: Ordinary least squares regressions (The dependent variable is the *CoRe* Indicator, all regressors. In parenthesis p-values are reported. * , **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively).

	(1)	(2)	(3)
c	1.1395***	1.1430***	1.2429***
	(0.000)	(0.000)	(0.000)
relcap	0.0219	0.0181	0.0170
	(0.685)	(0.737)	(0.756)
financial	0.4323*	0.4014	0.4017
	(0.091)	(0.114)	(0.117)
mindir	0.1378*	0.1357*	0.1346*
	(0.051)	(0.053)	(0.058)
cciind	0.6684***	0.6566***	0.6979***
	(0.001)	(0.001)	(0.001)
leverage	-0.2499*	-0.2583**	-0.2440*
	(0.058)	(0.048)	(0.064)
normcem	0.2980	0.2509	0.3121
	(0.205)	(0.286)	(0.187)
part_ii05	0.3406*		
	(0.082)		
part_iie05		0.4373**	
		(0.020)	
part_iiit05			0.2599
			(0.170)
obs	182	182	182
adjR^2	0.1651	0.1766	0.1597

Table 10: Description of the dependent variable in the ordinal probit regression.

Class	*CoRe* indicator interval	Total N. of firms
1	[0;0.50]	51
2	]0.50;1]	33
3	]1;1.50]	39
4	]1.50;2]	34
5	]2;2.75]	28
6	]2.75;3.50]	32
7	]3.50;5]	17

Table 11: Ordinal probit regressions (The dependent variable is the *CoRe* Indicator in seven classes. Regressors: sector, size, internal governance mechanisms and ownership and control structure. In parenthesis p-values are reported. * , **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively).

	(1)	(2)	(3)	(4)	(5)
relcap	0.0524	0.0620	0.0341	0.0279	0. 0277
	(0.290)	(0.192)	(0.494)	(0.579)	(0.581)
financial	0.3573	0.4954 **	0.4989**	0.4257*	0.5086**
	(0.118)	(0.018)	(0.017)	(0.058)	(0.015)
mindir	0.1668***	0.1679***	0.1511**	0.1394**	0.1264*
	(0.010)	(0.008)	(0.022)	(0.038)	(0.071)
inddir	0.0396				
	(0.139)				
cciind		0.6616***	0.6923***	0.7057***	0.7092***
		(0.000)	(0.000)	(0.000)	(0.000)
leverage			-0.1972*	-0.2027*	-0.2039*
			(0.081)	(0.073)	(0.072)
normcem			0.3559*	0.3171	0.3198
			(0.075)	(0.122)	(0.115)
family				-0.1649	
				(0.378)	
soe					0.2667
					(0.292)
obs	234	234	234	234	234
pseudoR^2	0.0291	0.0433	0.0495	0.0503	0.0507

Table 12: Ordinal probit regressions (The dependent variable is the *CoRe* Indicator in seven classes, all regressors. In parenthesis p-values are reported. * , **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively).

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
relcap	0.0032	0.0029	-0.0131	0.0397	0.0410	0.0317	0.0270
	(0.951)	(0.956)	(0.810)	(0.428)	(0.412)	(0.525)	(0.588)
financial	0.3163	0.3095	0.4136*	0.5345**	0.5554***	0.4807**	0.5382***
	(0.186)	(0.196)	(0.081)	(0.012)	(0.009)	(0.022)	(0.010)
mindir	0.1336**	0.1332**	0.1275*	0.1502**	0.1476**	0.1464**	0.1527**
	(0.047)	(0.048)	(0.058)	(0.022)	(0.025)	(0.027)	(0.020)
cciind	0.5558***	0.5404***	0.6305***	0.6622***	0.6498***	0.7100***	0.5819***
	(0.004)	(0.005)	(0.001)	(0.000)	(0.000)	(0.000)	(0.002)
leverage	-0.2414*	-0.2444**	-0.1928	-0.1877*	-0.1882*	-0.2086*	-0.2119*
	(0.052)	(0.049)	(0.117)	(0.098)	(0.096)	(0.066)	(0.062)
normcem	0.3862*	0.3811*	0.3510*	0.3515*	0.3475*	0.3402*	0.3150
	(0.062)	(0.066)	(0.100)	(0.079)	(0.083)	(0.090)	(0.119)
part_ii	0.5667***						
	(0.002)						
part_iie		0.5963***					
		(0.001)					
part_iiit			0.3723*				
			(0.061)				
mh ii				0.1428			
				(0.322)			
mh iie					0.2085		
					(0.144)		
mh iiit						-0.2137	
						(0.275)	
funds							0.2970*
							(0.091)
obs	209	209	209	234	234	234	234
Pseudo R^2	0.0558	0.0571	0.0477	0.0506	0.0519	0.0508	0.0527

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