International Theories of Corporate Governance: Critical Analysis and Evidence of the Italian Model

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***Abstract*—The corporate governance is an international topic deeply studied in accounting management and economic literature, but a unique and agreed definition of governance is not achieved yet, because every firm has its own features so it is difficult to define in general terms. Literature agrees that two archetypes exist: the Anglo-Saxon and German-Japanese models that focus on agency and stakeholder theories respectively. It is relevant to notice that the Italian model does not belong to the two previous archetypes, because some features completely differ from them. In addition, the relationship between the Italian case and the international corporate governance theories is not clear. Thus, the aim of this paper is to understand the connection between the Italian model and the international theories of corporate governance.**

***Index Terms*—Corporate governance, international theories, Italian model.**

I. Introduction

In the last few years, we are facing a worldwide and fast change in the environmental conditions where the companies operate. The firm, in fact, is not to be analyzed as a unit isolated from the environment because it rises and growths within it [1].

The importance of the manager skills come out vigorously in that dynamic and changing contest in which it is fundamental to establish the government rules and then the "*governance*". The Latin verb "*gubernare*" means "hold the rudder" or "steering" from which comes the noun "*governance*". Thus, it is fundamental the role and the responsibility of the management, the board of directors. The noun "*corporate*" comes from the Latin, too; in particular from "*corpus*" and it means "body".

The company and the economic manage of the productive unit, influenced by the environmental changes, should be considered also as the mixture of the relations and the dynamics that are created between the different *stakeholders* [2]. The firm's aim is the attainment of *economic equilibrium* [3] over time: the earnings must "pay" or cover the input costs and the cost of capital. The aim of the *economic equilibrium* should become the ability of the company to satisfy all the expectations of the people that for different reasons are interested in the company management. This means that a lack of effective governance could damage the stakeholders interests, compromise the *economic equilibrium* goal and as a consequence stop the positive performances.

At first, before explaining the correlation between the corporate governance and the economic performance, it is necessary to focus on the study of the corporate governance and more precisely on the *theoretical models*. Models are the result of the presence of different power and interest equilibrium in the corporate which have to shack up/live with economic and social forces with different legal and economics traditions. It becomes very important to analyze these models or understand how companies operate and to consequently be able to find out those elements, that are internal and external to the productive combination, that influence the performance.

In the following paragraphs, after the analysis of the corporate governance models, the attention will focus on the international theories of governance and it could be possible to clarify the relationship between the international and Italian models and the international theories. This is important to understand the company strategies that the productive units have chosen.

This paper is part of these studies and in particular it wants to give its contribution in order to clarify the relationship between the *Italian corporate governance model* and the *international theories of corporate governance*.

The paper is formed by six paragraphs: in the *second paragraph* the aim, the research question and the research method are defined. In the *third* the different definitions of corporate governance are compared, in a critical way, to understand what is the *humus* from which the theories models are developed. In the *fourth paragraph* the international and Italian models of corporate governance are compared through a comparative conceptual map worked out using the most relevant studies in the field. From this analysis the details of the Italian companies' management are underlined. In the *fifth* the results of the research are exhibited. In the last paragraph (the *sixth*) some reflections drawing briefly the possible future developments of the research are outlined.

II. The Aim, the Research Question and Method

This paper is part of a wider research project developing during the three year PhD. This project aims to analyze the relation between the corporate governance and the economic performances of the Italian companies. This research project use a methodological *deductive-inductive approach* [4] composed by three phases. The *deductive phase* is based on the critical analysis of the national and international literature and the empirical methods applying on a number of stocked Italian companies. The *inductive phase* consists on the empirical step of the research in which the intention is to test the empirical methods. In the *feedback phase*, it is possible to understand the results, after the models application verifying the informative skills related to the correlation "governance-companies performances". It will be possible to

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evaluate the necessity to eventually modify the models in order to have more significant results, with the scope to improve the informative skill.

This paper represents the first step of this *in progress* research.

Particularly, in the *de quo* study the attention is paid on the Anglo-Saxon, German Japanese models and also on the national and international theories of corporate governance in literature. After that, the attention is focused on the relation between the model and the international theories of corporate governance, fully studied and clarified in the literature. The relationship between the Italian model and the international theories of governance is not so clear and evident in literature. This research has as an object the *aim* to understand what corporate governance theories are referring to the economic management of the Italian companies. This is fundamental to understand, in the following research step, what are the empirical (or quantitative) models applicable to the stoked Italian companies. Before that, it is a necessity to identify what are the perspectives and the corporate governance theories that the company use and, only after that, it is possible to choose the empirical models. This is important because the theories that are the base of the economic management many other quantitative models have developed the measured "*corporate governance-performance*" correlation. The *research question* is RQ1) *Does one or more international theories of corporate governance that can be applied to the Italian companies considering their peculiarities exist?*

As far as the *methodological approach* is concerned, the research aim is pursued by a *deductive approach*. It precisely consists of a critical analysis of the principal literature contributions, both international and national, in the corporate governance field. This analysis aims to delve into the theoretical models and the theories applied to the Anglo-Saxon, German Japanese and Italian companies.

III. Comparison of Corporate Governance Definitions

International literature regarding the corporate governance field is many but a unique and agreed definition of economic management is not achieved yet. Ahrens, Filatotchev e Thomsen actually reckon that it is not possible to define it in general terms because every firm has its own features [5]. In the following section, two principal approaches of corporate governance are detailed: the *restricted* and the *extensive* interpreting consequently the economic management both as a *process* and as a *structure*.

The *restricted approach* focuses the attention on the study of two principal aspects: a) *shareholders* considered, in this analysis perspective, are the only company stakeholders; b) the existence *conflict* between the property (shareholders) and the control (manager). This point of view has been defined in 1960 by Eells who used for the first time the word "*corporate governance*" to denote «*the structure and the functioning of corporate policy*» [6]. In the restricted approach of corporate governance, it is possible to identify two different concepts of economic management. This can be understood as a) *process* and b) *structure*. The common element is the fact that the analysis object is the shareholder and the dichotomy relationship with the management. The majority [7] assumes that the corporate governance is a *process* and particularly «*the relationship among various participants in determining the direction and performance of corporations. The primary participants are (α) the shareholders, (β) the management, and (γ) the board of directors*» [8]. Other researchers [9], on the other hand, assume that the company management is a *structure* or the structured interface of a productive unit, essential to achieve the economic balance.

The exact opposite is the *extensive approach* of corporate governance, according to that is "a mixture of rules, organizations, habits and formal organs that aim to achieve the interests of the different stakeholders"[10] of the company. As for the restricted concept of corporate governance, even in this case there are two different economic management perspectives. The last one could be considered as a) *process*; b) *structure*. The majority of the researchers considers the economic management as a set of *process*, rules, rights, procedures and mechanism that merge together in the company system of managing, controlling and communication with the stakeholders [11]. The minority [12], on the other hand, support the theory that the corporate governance is a *structure* and a function of the control and supervisory board of a company, focused particularly on the relations between the corporate organs and the management structure [13]. A diagonal concept that supports both the theories, in the field of corporate governance extensively speaking, is the one regarding the *institutional asset* [14] of the company. The latter describes a number of mechanisms designed to govern relations of influence and control referred to single subjects and to correspond contributions and payoffs [15].

In summa, the *Anglo-Saxon* model uses the concept of corporate governance strictly speaking (*restricted*) while the *German Japanese* and *Italian* model prefer the concept in a wide sense (*extensive*) (Fig. 1).

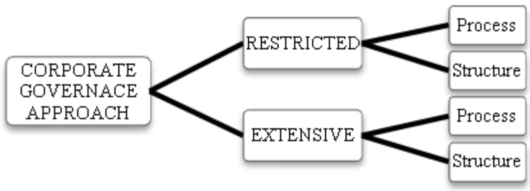

Fig. 1. The corporate governance approaches.

IV. Comparison between International and National Corporate Governance Models

In this paragraph, the international (Anglo-Saxon and the German-Japanese one) and the Italian corporate governance models are compared both through a conceptual map that create a comparison using the principal contributions of the field literature. It is important to underline that "every country-system has corporate governance systems with different peculiarities because of the strong influence that the rules, the institutions and the social regulation, developed and strengthen in the years, have on the characteristics and on the function of the company's management mechanism"[16].

Literature [17] agrees on the fact that the corporate governance models can be connected to two archetypes: the Anglo-Saxon and the European (or German-Japanese). The Italian model is defined as the "mixed" one, the hybrid this means that has some features in common and other distinctive with the international model [18], [19].

The *Anglo-Saxon countries* adopt an *outsider system model*: the financial market rules the conflict between the stakeholder and the management. In particular, the capital market can regulate the management and can develop the creation of value for shareholders, which is the key to success in today's marketplace (i.e. "*market for corporate control"* [20]). The "strong division of the ownership that is peculiar of the stocked companies on the ruled financial market" [21] originates a company spread in that contest an example is the *Public Company* characterized by a capital fraction. It is assumed that the relationship between the different classes of economic agents created on the almost completed absence of ruled duties. Self-discipline could give an impulse for the creation of durable and trustee relationship in the govern bodies. So the financial market supervises and guides the managers. This is the common law system. The law asset used by the Anglo-Saxon countries is *the one-tier system* or *monistic model.* It means that there is only one appointment level by the shareholders' assembly, the latter appoint the board of directors.

On the other hand, the *German-Japanese model* adopts the *insider-system*, known also as "*relationship based*" that is a *network-oriented corporate system*. In this case, the presence of the financial market is insufficient whereas the financial intermediation that issues the risk capital is very influent. This model uses a bank-oriented perspective. Differently from the Anglo-Saxon countries, the company ownership is focus on few stakeholders that own the majority of the capital shares. Thus, the firm's institutional asset is characterized by a high degree of ownership concentration and the main shareholders are banks, others family firms and the internationals investors (the so called *blockholders*). Last but not least, it is compulsory to assume that the company prefers to find a compromise between the interests of the different stakeholders because of the capital division [22]. This model is more developed in a civil law contest: the law asset endorse and protect the interests of the people that "give interests". The law asset adopted by German-Japanese model is the *two-tier model* or *dualistic model*.

The *Italian researchers* agree on the fact that the foreign literature focused its analysis mainly on two archetypes of governance models described before. They assume that the Italian situation is not directly linked to them. In Italy, the big spread ownership companies (as seen in the *outsider system*) and the financial intermediation inner in the management (as seen in the *insider system*) does not exist. The credit institutions, then, do not vest risk capital but credit capital: for this reason they do not interfere in the management of the productive combinations. The Italian companies characterized by a high ownership concentration can be reconducted to two different classes: a) family or public pyramidal group [23]; b) small/ medium family enterprises or joined together [24]. As a general fact, firms are distinguished by a majority shareholder or a shareholder group linked by a union agreement. In order to protect the high concentration of the company ownership, the management control system is committed to the board of directors instead of the market. The Italian model is characterized by a *Latin insider system* which is different from the German-Japanese insider system. The former considers the majority shareholder is the managers' watchdog through the board; the latter considers a employees' and bank's high involvement in the control [25], [26]. The common Italian law asset's governance is "*traditional*" or in other words is defined as "*dualistic horizontal*". This expression points out that the shareholders' assembly appoints both the board of directors and the board of auditors [27]. Thus, there are not the two appointment's levels, like the *two tier system*. The board of directors has the task of directing/managing the company in terms of making the industrial and financial strategic plans. The board of auditors, instead, is called to ensure that laws and by-laws are observed, respecting the principles of best practice. It is relevant to highlight that in Italy [28], basically in the last years, a number of *standards* and dispositions have been issued with the intent to improve corporate governance and to adapt to Anglo-Saxon standards (Table I).

TABLE I: COMPARATIVE CONCEPTUAL MAP OF THE CORPORATE GOVERNANCE MODELS

Countries	**Gov.Systems**	**Financial Source**	**Ownership**	**Firm**	**Board Systems**
UK -USA	Outsider system	Market	Strong division	Public company	One tier
D - J	Insider system	Bank	High concentration	Blockholder	Two tier
IT	*Latin* Insider system	"irregular case"	High concentration	Pyramidal group + SME's	Traditional

V. CORPORATE GOVERNANCE INTERNATIONAL THEORIES IN THE ITALIAN MODEL

After the description of the corporate governance theoretical models, the attention is focused on the relationship between the corporate governance of the English, European and Italian companies and the international theories. Literature agrees on the fact that the Anglo-Saxon and the German-Japanese models are based on the *agency theory* and on the *stakeholders* one respectively [29]-[31]. Saying that on the atypical Italian model there are no important contributions that clarify the relationship between the National corporate governance and the corporate governance theory, we will try to define what could be the theories on the base of the Italian model. Basically, it is relevant to notice that the choice of the corporate governance theory is fundamental to identify an empirical model to measure the relationship between the corporate governance and the economic performance in the Italian firm.

Regarding the *Anglo-Saxon model*, the base theory is the *agency theory* focusing on the conflict between the *principal* (shareholders) and the *agent* (managers). As reported in international economic literature, the agency theory has been outlined by Berle and Means, Coase and then Jensen and Meckling [30]-[32]: these are the international major proponents. Cerboni who is the maximum exponent of the *personalistic theory of accounts* and introduced the accounting method called *Logismografia* had the intuition of the conflict interests between ownership (*shareholders*) and the management [33]. *Logismografia* is the result of juxtaposition of two "*logismological"* personalities: the principal and the agent that are economically and legally related. The accounting method proposed by Cerboni is based on the contrast of the rights and obligations of the two *logismological* personalities, the principal and the agent. Thus, it could be possible to identify in these studies the origins of the agency theory. The agency problems come out when there is a power mandate of the stakeholders to the managers because both aim completely different goals [34]. So, it become necessary a management structure that defend the stakeholders interests: in the monistic model is the board itself that designate their representatives.

As far as the *German-Japanese model* is concerned, the base theory is the *stakeholders'* that was launched by the critics to the *agency theory* [35]. The stakeholder theory- as opposed to agency theory increases the analysis focus: it emphasizes the relevance of the *fulfilment* of stakeholders *interests.* A firm cannot sacrifice all the stakeholders' interests only to maximize the stakeholders' profit [36]. The manager has to negotiate, involve and coordinate all the people who "give" interests to the company. In the *dualistic model* and in particular in the supervisory board the participation, also, of the worker representatives and the institutional investors is expected. This happens because of the importance of the stakeholders in the productive combination management.

For what concern the *Italian model*, as already said at the beginning of this paper, literature is not so fecund in the corporate governance theory field linked to this model and it studies the function and the topical aspect of the "*Italian case*". It is defined as irregular, mixed, spurious and hybrid. The national model cannot lead back to the two over described archetypes. The theory that is the base of the national corporate governance is not possible to link totally with no one of the over mentioned theories. It is assumable that, in sync with the *contingency approach*, it is not possible to identify only one theory with the Italian model but it is possible to find similar aspects with other theories. It is relevant to notice that it does not exist *one best way* to understand and define the best corporate governance; thus, only one corporate governance theory could not exist for the Italian firm and theories could change according to economic, financial, social environment conditions [37]. Actually, it has recently been highlighted in literature that the need to abandon the agency theory framework and that it could be better to focus on an *eclectic approach* of corporate governance, such as integrating different theories [38]. For this reason it will be possible to notice similar peculiarities with *the agency, the stakeholders and the resource dependence theories.* The *resource dependence theory* provides a framework to understand the relationship between a firm and its environment. A firm cannot "*produce all the resources they need to operate; therefore they must engage in exchanges with the external environment in order to acquire the resources they need to survive*" [39].

The Italian companies are mainly marked out as a concentrated ownership and they are familiar style for this reason the management is formed by the referenced stakeholders and the minority ones. In the pyramid group, for example, the strategy formulation process is centralized to the group top and so it could be fulfilled by the Holding majority shareholders' interests. The consolidated financial statement could be a valid accounting instrument in order to give clear and transparent information about Group structure and the minorities protections; yet some empirical researches show that financial statement is not always understandable, clear and fair and it does not give the transparency needed [40]. The conflict that comes out is between the majority and the minority shareholders. The controlling system managed by majorities allows their self to take advantages of private benefits. They are called *Private benefits of control* that is taking advantages from firm using the company resources and create disadvantages to the company and to the minority shareholders. Instead the *shared benefits of control "arise from the superior management or monitoring that can result from the substantial collocation of decision rights and wealth effects that come with large-block ownership"* [41]. In fact, some empirical researches highlight that "*firm valuation increases with cash flow ownership in the hands of the largest shareholders*" and "*increases in control rights by the largest shareholders are accompanied by declines in firm values*" [42]. The agency problems, marking the Public Company, could be the same that of the Italian reality. This means that the *agency theory* is the base of the "Italian case".

It is interesting that different researchers [43] focus their attention on the tight interaction between company and stakeholders. Authors assume that the satisfaction of them is functional in reaching the *economic equilibrium* since this one is reachable even protecting the interests of all stakeholders. The failure of Parmalat, Cirio and Alitalia highlights that a lot of stakeholders (e.g. employees, suppliers, customers, etc.), as well as shareholders, paid the consequences of these bankruptcy. Thus, it could be necessary to consider the corporate governance from a wider point of view: the management should mediate the different stakeholders' expectations in the occasion of defining firm aims [44]. It is possible that only few people concretely rule or manage a company, but actually all the firm members or stakeholders are interested and attend indirectly in the business choices [45]. The requirement of interconnection of the firm economic performance and the fulfillment of stakeholders interests rises and growths from the actual economic financial and social context which is so changeable, dynamic and globalized. The market globalization, the widespread and quick information flowing among the different organizations firmly highlight the high connection between the firm performance and the fulfillment of stakeholders interests [46]. The Italian context is characterized by *Small Medium Enterprises* (SMEs), thus the main or the only shareholder is often the manager. Thus, concentrated ownership structure is one of the main features, and then the owner should have a central role in the market in order to get relationship with other subjects. SMEs need to get some connection with all the stakeholders (e.g. customers, suppliers, institutional subject, competitors, bank and so on) that can contribute to foster the economic performance, because the firm can take advantage of relationship and business network. So the owner/manager should create informal and formal links to increase the firm value, in fact they could belong to the so called *Intangibles*. In SMEs, the owner/manager has the strategic, controlling and interests synthesis flowing into the company functions [47], [48].

Thus, it is necessary to focus on minority shareholders and stakeholders and their interest in order to create "*good governance*" and so a "*good performance*" [49]. The result is that the *stakeholder theory* could be the base of the Italian companies.

A further aspect is that many Italian firms are distinguished by "aggregations as constellations and localizations inside their industrial districts". The *Italian industrial Districts* (IDs) are defined as closed manufacturing systems of SMEs embedded in local contexts able to interact with the outside only at the two ends of the value chain and where well-identified firms were in charge of managing the relationships with final markets [50]. This concentration of firms in a clear area *allows* having a privileged access on the input. In order to reduce the uncertainty of the external environment and in this way to grantee the resources availability for the company life, the management should have also the *networking function*. This means that the manager of the companies (called in this contest *interlocking directors*) should also cooperate more intensively to reach the goal in order to "get the information sources on the market trend and on the competitors to get a privileged access to the resources; to contrast the possible threats and to influence the activity of other companies" [51]. Some Authors argue that the networking function of the management comes out in two main situations: i) during a firm crisis; ii) in a regulated market, such as IDs. When firm gets negative performance, the board tries to collaborate with others companies in order to make sure of and share with resources, necessary inputs to foster the economic growth. In addition, in a regulated market (e.g. IDs) the board should strengthen the networking with others stakeholders and other boards of directors in order to get some external resources. These are the most salient finding of an empirical research lead to Italian large-sized companies in 2003 that are similar in principal with others main previous Anglo-Saxon researches. [52]-[54]. This approach makes a further step in the stakeholders view, because according to the resources dependence theory SME'S management as well as getting relationship with other stakeholders should find and combine resources barely obtained without the network creation, in order to increase the innovative development, fundamental for the firm to be competitive [55]. Hence, the corporate is plunged in the so called "*environment system*" that holds and influences the corporate in its strategy [56]. From that it comes out the Italian governance model that could be based on the *resource dependence theory* (Fig. 2).

COUNTRY	UK - USA	D - J	IT
CORPORATE GOVOVERNANCE	restrited	extensive	extensive
MODEL	market-oriented	bank-oriented	irregular
THEORY	agency	stakeholder	- agency - stakeholder - resource dependence

Fig. 2. Comparative map and summary

VI. Conclusion

The corporate governance debate becomes very important mainly in a moody, dynamic and confusing context as the actual one. The changes, created also by the global competition, contribute to enforce the function of control, of strategies definitions and of manager networking.

Literature interprets the corporate governance field using two antithetic interpretative tables: the Anglo-Saxon and the German-Japanese. The corporate governance Italian model, instead, is an uncommon case because it is similar with no one of the two cases studied in literature. The national and international contributions, underline the relation between the Anglo-Saxon model with the agency theory and the German-Japanese model with the stakeholders theory. The literature does not clarify what is the base theory of the economic national management. Starting from the point that the Italian model is a unique model that has similar characteristics of both archetypes, the corporate governance theory cannot be the same as the international models. This paper contributes to understand the relationship between the national corporate governance model and the theories existent internationally.

Answering the research question, comes out that the *Italian model* is based mainly on three different contrasting theories: the *agency*, the *stakeholders* and the *resource dependence theories*. The coexistence of the different perspective is to ascribe to the influencing "typical social-economic features of the national environment." Those ones are the result of the existence of various interests and power balances marking out the company itself.

Once identified the perspective that is the base productive combination theory, it could be possible to identify the empirical models of "corporate governance – performance" to use to test a set of stocked Italian companies. In this way it could be possible to conclude the deductive phase of the widest research project developing in the 3-year PhD. Then, it will be possible to start the application stage of the research (inductive phase) and at last to interpret the results, achieved as a consequence of the empirical models (feedback phase).

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