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Dear Readers!

The recent issue of the journal is devoted exclusively to corporate governance in Italy. We try to keep our hand on the pulse of the situation around the corporate governance development in many countries. Italy is one of these countries. We decided to start with Italy. There are some reasons of our choice.

First of all, Italy is a very unique country from the point of view of corporate governance regulation. Corporate governance legislation allows Italian firms applying one of three models of the board of directors, i. e. a one-tier board, a two-tier board and the unique national board model with the board of directors and board of auditors. How does this “corporate regulation democracy” influence corporate governance performance?

For the second, Italy is a country with a quite concentrated and not transparent ownership structures. Pyramidal ownership structures are still popular in Italy. Do these structures influence corporate governance development or act as a barrier on the way to the best corporate governance practices?

For the third, a Parmalat scandal lightened many problems in corporate governance in Italy, i. e. a weak ownership transparency, manipulation with financial reporting, etc. Is this scandal a typical for Italy?

For the fourth, during a four year editorial and publishing activity we observed the market for the corporate governance research in Italy. We concluded that the degree of academic activity in researching of corporate governance issues in Italy increased remarkably. The variety of topics covered by Italian experts is respectful and includes corporate board practices, financial reporting, corporate social responsibility, family and managerial ownership, market for corporate control, internal control mechanisms, voting rights, initial public offerings and stock market, etc.

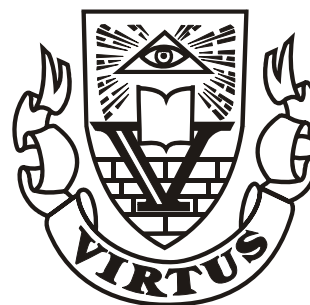
Therefore, we would like to support activity of our Italian colleagues and meet numerous requests of the world academic community for corporate governance research in Italy. We hope that our efforts will be supported by you and many other countries will be exclusively researched by us in the future.

CORPORATE OWNERSHIP & CONTROL

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Corporate Governance in Italy

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Stefano Caselli, Stefano Gatti

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

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Damiano Bonardo, Stefano Paleari, Silvio Vismara

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Gianfranco Gianfrate, Laura Zanetti

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

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

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Giovanni D’Orio, Rosetta Lombardo

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

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Angelo Miglietta, Mario Anaclerio, Cristina Bettinelli

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

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

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

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

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

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Antonio Nicita, Riccardo Vannini

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

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