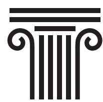
LUISS 

Course of

SUPERVISOR

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Academic Year

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Introduction

The family business model is widespread all over the world; according to a Family Firm Institute's estimate it contributes to 70-80% to the Global GDP. Empirical surveys show that nearly 45% of Fortune 1000 companies are family controlled and in the European Union family firms are almost the 80% of the total number of firms. (European Commission, 2008). In Italy, about the 66% of firms with revenues higher than twenty million euros are family businesses (Corbetta and Quartaro, 2019). However, it is difficult to find a common and shared definition of family firms, although they are among the world's oldest and families have always had a primary role in conducting business within the private sector. According to Litz (1995) "a business firm may be considered a family business to the extent that its ownership and management are concentrated within the family unit, and to the extent its members strive to achieve, maintain, and/or increase intraorganizational family-based relatedness".

The main difference between family and non-family firms, as noticed by Chrisman et al. (2003), is the family's significant influence on the firm's overall strategy and decision-making process. Family companies' objectives are likely to differ from non-family corporations, that is why they are differently managed and need to develop specific governance mechanisms (Astrachan et al. 2002). A good corporate governance should help family businesses to create value and to be responsible toward all stakeholders and shareholders, including family members. As a consequence, long-term survival and success of family firms are dependent on the ability of firm leaders to strategically choose from an array of governance choices to fit with the core values of the family and the environment, in which the firm operates (Coles et al. 2001). According to Miller et al. (2013), Chief Operating Officers (CEOs) hold the most central position in the administration of a company and so they are able to influence the firms' evolution, strategy, and, therefore, the overall performance. The Agency theory suggests that when the principal/owner is a family and the agent/CEO is a family member, the family firm will incur reduced agency costs due to the alignment of interests between the parts involved. However, some literature favouring behavioural agency version argues that family-CEOs are frequently motivated by non-financial, socio-emotional wealth objectives, such as preserving family control, even if that sacrifices firm profitability.

In a business context, leadership involves managing, overseeing, motivating, and inspiring staff towards the attainment of business goals. Traditionally, leadership has been seen and

taught as an individual trait and activity, particularly in western countries, where companies are frequently seen as reflections of the characters of their leaders and there is the common belief that in the final analysis a single person must be held accountable for performance of an organization (O'Toole et al. 2002). In the modern days, the globalization and the always faster technological innovation put a lot of pressure on organizations, which have to face an extraordinary rate of environmental change. It has been noticed that more and more frequently a solo leader could not be able to overlook the more complex work environment, for this reason many scholars suggest a shift in organization's approach towards a more sophisticated way of management. For example, Afridi (2013) argues that solo leadership is no more sustainable for any organization's survival and turns on the lights on a more advanced model, the so-called shared leadership.

This thesis main objective is to explore the adoption of shared leadership structures for the head of Italian listed family-owned companies. In particular, there have been chosen Italian listed family firms which adopted, at least once, a co-CEOs structure in the period between 2005 and 2018. By conducting a descriptive analysis of the collected evidence, this study aims to analyse the trends of this governance choice, the consequences in terms of performance and ownership structure, and it investigates some personal characteristics of the co-CEOs, such as age, gender, education, and functional background. The Italian Stock Market provides an ideal setting in which to examine those peculiarities in family companies, as they account for a large part of it (almost 66% in 2018).

The thesis proceeds as follows. The first chapter is about the family businesses world, it makes a related literary review and explores the main governance characteristics of those kind of firms. Chapter number two introduces the concept of shared leadership and investigates it in detail and in the third there is a brief description of the Italian Stock Market statistics, followed by the descriptive analysis about the sample data. In the final section there is a discussion of the results and the evidence found and, at the end, the conclusion of the study.

Chapter 1

Family Businesses

1.1 – Family Business Literature Review

1.1.1 Towards the Family Business Definition Dilemma

As Hollander and Elman (1988) state, since when the family firm model has been legitimized as a unique business form, it attracted much more attention from academics, researchers, consultants, and family firms' members themselves. In the literature does not exist a common, universal definition or understanding of what constitutes a family business, that is why Astrachan et al. (2005) talk about the so-called Family Business Definition Dilemma. According to Westhead et al. (1997), the percentage of family firms in one sample can differ between 15% and 81% depending on which definition of family business we apply. The main reason of this confusion resides in the multidisciplinary approach model that has characterized the studies about family firms. Economists, jurists, psychologists, etc. studied the argument and tried to give their own opinion with the consequence of not having a shared definition of family business, but many different ones that leverage unique aspects belonging to the specific discipline of investigation. At the beginning, the different fields of study involving family firms were characterized by a negative and residual approach, which evolved only later in a systemic approach.

With the aim of clarifying the intellectual history, Hollander and Elman (1988) attempt to identify and group the different ways of thinking about the family firms, recognizing four different approaches:

- the rational approach that calls for excising the family;
- the approach that focuses on the founder;
- the approach that emphasizes phases and stages of growth;
- the systems approach.

The Rational approach is based on the assumption that the family business should be guided by profit, placing the firm's interests before the family's interests. In this case, the two main "components" of family firms, the business and the family, are thought to be completely opposed, the first rational and the latter non-rational, consequently in conflict with one another. That is, the recommended solution is to excise the family emotional process (Cohn and Lindberg, 1974). The advocates of this approach fail to recognize the integral and enriching role of the family, leaving also a legacy of negativity around family enterprises. Nevertheless, they are the first to recognize the parallelism between the family and the firm (Hollander, 1983).

As one may expect, the Founder approach focuses on the firm's founder rather than other aspects. The researchers see the founder as the main influential factor on the business fate, therefore examining the personality characteristics of the founder becomes a way of understanding the development of the business (Hollander and Elman, 1988). At the formation stage of a family firm the founder plays a vital role, he is the beginning of a gradually process that give rise to the entire system. Therefore, particularly during the first generation, an understanding of the founder is crucial to understand the company and its future development. Anyway, Hollander and Elman (1988) believe that relying solely on the founder personality in order to explain the development of a family-owned business system can be limited and reductionistic.

The Phase and Stage approach belongs to the so-called developmental theories. According to those, the identification and analysis of stages of development highlight patterns that offer some predictability over time. Therefore, this new approach is based on the assumption that there is a close relationship between the development of the company and the family so that the life cycle of the family business can be related or influenced by the family. Hollander and Elman (1988) argue that also this approach has limitations. Even though phases of development are universal, the adaptability of a particular family business system to a phase transition depends on how it is managed and of course it is influenced by the firm's own characteristics.

These negative and residual approaches, that for some time have characterized studies on the family firm phenomenon, developed some beliefs that tend to reduce the value of family businesses. For example, it was assumed that family business was part of the general area of entrepreneurship or that family-owned firms were synonymous of small firms.

The fourth and last model defined by Hollander and Elman (1988) is the systems approach. The hypothesis behind this is that the family business is the result of the synergistic and systemic interaction of two dimensions, the family and the business, so as to make it difficult to distinguish and separate them. The systems approach validates the other approaches rather than negate them, it is a sort of evolution of the other models. It emphasizes the overall and interrelated peculiarities of family business instead of specific and individual characteristics.

Litz (1995) tries to define and clarify the characteristics of a family business by developing, and then integrating, two conceptual approaches:

- the structure based;
- the intention based.

The first approach focuses on the structural dimensions of the organization. It is based on the organizational and control structure of the firm and suggests two conditions: the property must be mainly in the hands of the family business to ensure control; and the founder and/or descendants are involved in management. However, the approach presents a downside: the presence of either conditions may not be enough to ensure that the family infuses its "essence" to the business and it has an effective influence on the business run (Litz, 1995).

The second definitional approach is based on the family behaviour and its influence on business. It analyses the family's approach taken against the business and how it influences dynamics on the firm's objectives, strategies and decisions. An intrinsic limit is that the influence assessment is difficult to estimate as it is subjective and discretionary. Exploring the possible integration of the two approaches, Litz (1995) formulates a richer and integrated definition of family business: "a business firm may be considered a family business to the extent that its ownership and management are concentrated within the family unit, and to the extent its members strive to achieve, maintain, and/or increase intraorganizational family-based relatedness".

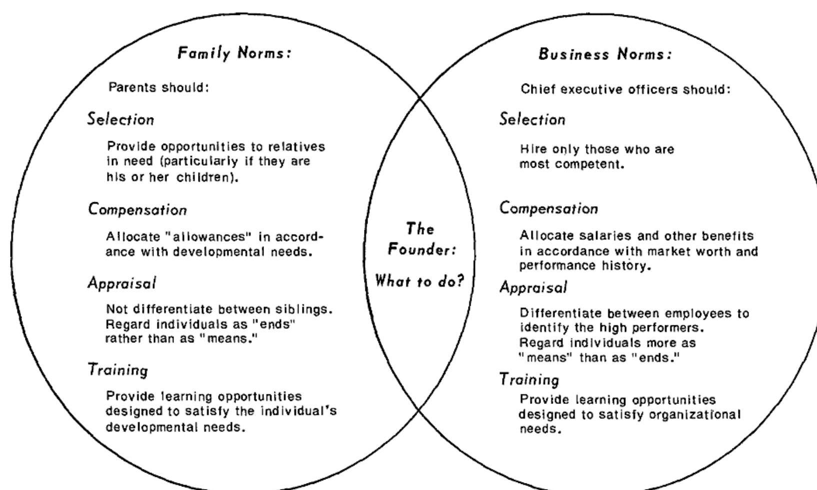
1.1.2 Family Business Definition

Although family firms are among the world's oldest and families have always had a primary role in conducting business within the private sector, it is difficult to find a common

and shared definition of family business. In the national and international literature, there are many definitions, each tenting to emphasize a certain nature of the "familiarity". As Lansberg (1983) argues, the institutional overlap between the family and the business creates a unique and complex organizational structure that, for many reasons, make family-owned firms different from non-family firms (see Fig. 1.2.1). For this reason, Chua et al. (1999) state that "a definition of the family business must identify its uniqueness", in other words the definition should be able to identify the essence of a family enterprise. The authors notice how academics initially adopted operational definitions, that is, definitions based on one or more criterion representative of family involvement in the business. In each of these definitions, scholars tended to focus the attention on a certain decisive component of the "business familiarity". Such components could be summarized as follow:

- the control degree;
- the family involvement in management and governance;
- the plans to transfer the business to the future generations;
- the presence of multiple conditions.

Figure 1.2.1 - Institutional Overlap



Source: Lansberg (1983)

The criterion of control degree determines the familiarity of the business relying on the quantitative presence of the family in the ownership. "A company can be defined familiar when one or few families, linked by ties of kinship, affinity or from solid alliances, hold a share of venture capital sufficient to ensure company control" (Corbetta, 1995). This is a very easy to

use criterion, but it is not a sufficient condition to qualify a company as a family business, because it measures only the potential, not the real influence of family on the business.

The second criterion measures the familiarity of the business based on the quantitative presence of the actively family members involved as managers or employees in management functions and operational business. “The family business is a company, of any size, in which: 1) the most of decision-making is due to the person who set up the company, or the person who acquired the share capital, or cousins, relatives, children, heirs; 2) the most of the decision-making can be directly or indirectly; 3) at least one family representative or relationship is formally involved in the governance” (Family Business Group, 2009).

The intergenerational transfer criterion, instead, is based on the expectation of transferring the company to the next generation unless a generational change already happened. This criterion focuses on the ability of family business to produce, consolidate and transfer to the next generations the family vision, values and culture. “The family business is the activity in which it is expected or verified the transfer of control by an elder family to a younger family” (Churchill and Hatten, 1987). However, this criterion automatically excludes all those companies in which there is no intention or ability to transfer the business. Moreover, intergenerational transfer per se is not a sufficient condition to ensure a real and substantial transfer of business values and culture.

The last criterion is the one that considers the contemporary presence of different conditions related to the family enterprise. Among the others, this criterion better analyzes the potential and substantial influence of the family on the business. However, it is difficult to implement an empirical analysis and to measure the exerted influence.

According to Chua et al. (1999), there should be a theoretical definition that identify the peculiar elements that make family business different from other businesses. So, they distinguish an operational definition from a theoretical one, which should be the standard against which operational definitions must be measured. After reviewing more than 250 papers about family-owned firms, the authors notice that the criterion of family involvement used in operational definitions are not always reliable as mean to distinguish family from non-family businesses. Therefore, they propose the following theoretical definition: “The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small

number of families in a manner that is potentially sustainable across generations of the family or families" (Chua et al., 1999).

In their review of family business definitions, De Massis et al. (2012) notice how the search for a generally accepted definition has improved and it establishes a limited and accepted number of definitional criteria. That is why it could be said that a good definition of family business should highlight three fundamental aspects:

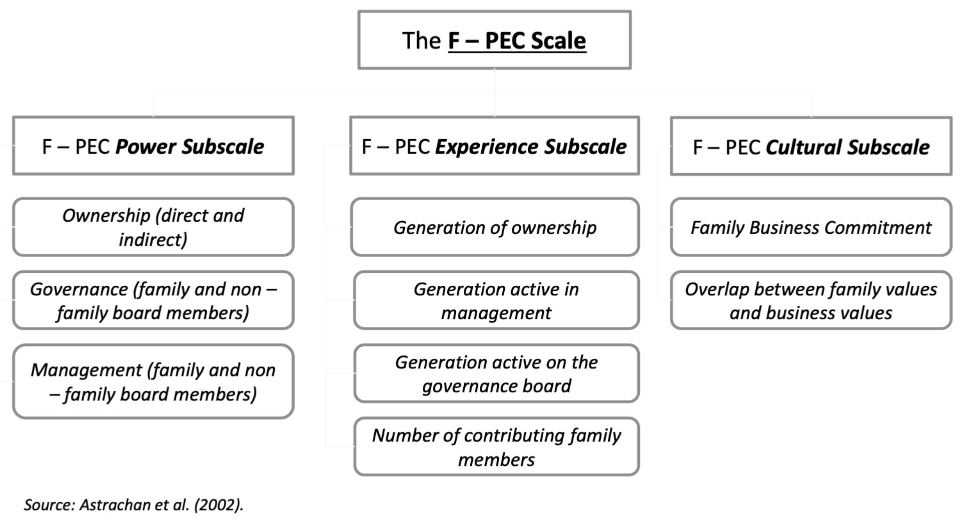
1. the family's entrepreneurial spirit which has to characterize the business for its entire life;
2. the family's ownership of all or part of the equity that empowers the family influence on the business;
3. the involvement of family members, linked by kinship, in the property, governance, and management.

1.1.3 Assessment Scales

Initially, scholars viewed family firms as homogeneous entities opposed to non-family firms, for this reason the firsts family business definitions were based on this dichotomy, evidencing all the differences between family and non-family firms. However, as Hernández-Linares et al. (2017) notice, in recent years, the idea of homogeneity among family businesses has been rejected and replaced by the one that sees these kinds of companies as a heterogenous group. As a consequence, there has been the need to compare and differentiate family-owned firms among themselves in order to identify all the relevant dimensions along which they may vary from each other. (Westhead and Howorth, 2007). In this context, Astrachan et al. (2002) develop and validate a measurement scale, the Family – Power, Experience, Culture Scale (F-PEC Scale). The authors believe that the essential and fundamental element of a family business is the influence of the owning family, and, in their opinion, there are discrete and particular characteristics of a business that could be measured on a continuous scale. They propose the F-PEC Scale as a framework for assessing the extent of the owning family influence on the business, it makes possible to differentiate levels of actual and potential family involvement. The scale measures different family involvement levels through three dimensions: Power, Experience and Culture. Moreover, each dimension consists of more sub-

dimensions aimed at measuring the three elements of the influence on the family business (see Fig. 1.3.2).

Figure 5.3.2 - The F-PEC Scale



The Power dimension expresses the degree of family member involvement in the ownership and management as a measure of the degree of global influence by family members or by those individuals appointed by family. The Experience dimension refers to the accumulation of experience through the involvement in the ownership and management of multiple generations of family members. While the Culture dimension refers to values and commitment, it measures the overlap between family values and business values. So, the three dimensions of the F-PEC Scale help to standardize the investigation of business familiarity and make it more objective. Moreover, as Koiranen (2002) states, the scale "offers an excellent common ground or platform for sharpening family business definition". Although the F-PEC Scale has emerged as a widely used solution to the family business definition problem, it is not without weakness. There are not "familiness" references and as Rutheford et al. (2008) argue, "the F-PEC scale measures only 'potential' family influence".

According to Rantanen and Jusilla (2011), the three F-PEC's subscales fail to measure realized influence, for this reason they propose a new construct able to measure the actual influence made by the family on the business, the Family – Collective American Psychological Ownership (F-CPO). The F-CPO is based on the concept of "psychological properties", meaning the sense of love, and identification arising from the ownership of a particular object. In the family business case, it means a collective sense of possession in which exists a "fusion" between the family and the business. The measurement of psychological properties allows to

evaluate the influence produced by the family. Rantanen and Jusilla (2011) explain how the "psychological properties" are measured by:

- collective control;
- intersubjective familiarization and family firm personalization;
- interdependent investment of resources in the family firm.

They also note how each dimensions of the F-PEC Scale has the potential to contribute to several of the paths to F-CPO. Power is linked to Collective Control, Experience is linked to Intersubjective Familiarization, and Culture is linked to Interdependent Effort. The F-CPO Scale introduces a new qualitative and psychological dimension to the F-PEC one, but there still remains the absence of any "Familiness" reference. Moreover, the model does not establish any criteria or methodology measurement to substantially measure the actual family's influence.

According to De Massis et al. (2012), the communication and integration of information among different business disciplines and research streams will be favoured by the diffusion and assessment of accurate constructs to calculate a family's influence on a business. In general, as the authors notice in their review of theoretical and operational definition of family business, the debate is still open but "researchers are converging toward a multi-faceted and flexible view of family businesses" (De Massis et al., 2012). Overall, the great attention received by the academic world generated a considerable improvement in the understanding of family business and in particular how the family's influence makes the family firms different from the non-family ones.

1.1.4 Family VS Non-Family Firms

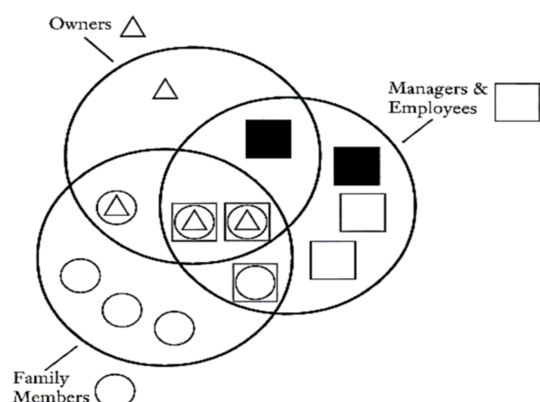
An important contribution to the development of family business' theory is given by Lansberg (1983) and his Institutional Overlap Model, which states that family firms "exist on the boundaries of two qualitatively different social institution: the family and the business" (Lansberg, 1983). The theory's basic assumption is that each institution has its own distinct rules of conduct and its institutional goals. While the family aims to ensure the care and wellbeing of its members, the business tries to create values by carrying out an organized

economic activity. While it could be an advantage during the formative years of the family firm, as the business matures, the overlap between family and business principles starts to generate conflicts in the organization. In particular, “contradictions between the norms and principles that operate in the family and those that operate in the business frequently interfere with the effective management of human resources in family firms” (Lansberg, 1983). So, family businesses have to manage specific challenges which hardly ever pertain to non-family business. The concept of “familiness” indicates the interrelationship between family and enterprise in economic, management, and sociological frameworks (European Commission, 2008). It is a very important element and one of the main differences between family and non-family firms. As Chrisman et al. (2003) state, “at the most basic level, what differentiates a family business from other profit seeking organizations is the family’s important influence on the decision making and operations of the firm”.

Tagiuri and Davis (1996) enrich the Lansberg model arguing that inside a family business is possible to identify three overlapping subsystems: the business, the family, and the ownership (see Fig. 1.4.3). In their opinion, from the simultaneous connection of those three subsystems, which characterizes family-owned firms, arises several unique, inherent attributes. The authors call them Bivalent Attributes due to their characteristic of potentially being a source of benefits or disadvantages for owning families and employees. Practically, these organizational features at the same time could represent an advantage or a disadvantage for the company depending on how they are managed, and it is not possible for the firm’s management to eliminate their presence. According to Tagiuri and Davis (1996), the Bivalent Attributes characterizing a family business are:

- overlapping roles;
- shared identity;
- emotional involvement;
- established tradition;
- diffusion of a private language.

Figure 1.4.3 - Overlap of Family, Ownership, and Management Groups



Source: Tagiuri & Davis (1996)

With overlapping roles, the authors intend the simultaneous role that family members could have in the business, as

relatives, as owners, and as managers. It could be an advantage as its strengths the attachment to the family and to the enterprise, but it could also result in a confusion of behaviours. The strong inter-relationship between the family and the business ensures that the family has a strong influence on the firm, in contrast to non-family firms that are mainly influenced by the CEO and a small management team. As Campbell Clark (2000) notices, different life situations and developments of the owning family, like marriage, divorce, retirement, etc. have an impact on the company's human resources and financial endowment.

When relatives work together share a sense of identity, they have common objectives and values. However, this can add pressure and they can feel observed and judged at work (Tagiuri and Davis, 1996). The shared objectives and values have another important consequence on family business, they increase the sense of ownership among employees and give to the business a long-term orientation. According to the European Commission (2008), family-owned firms, differently from the non-family ones, are not run and managed with the intention to sell the business, but with the intention and desire to leave the business to the family next generation.

Emotions between relatives often surface more easily than between non-related individuals, and this is an incentive to a positive trust atmosphere. Unfortunately, not all emotions between relatives are expressed openly thus complicating work relationships (Tagiuri and Davis, 1996). A direct negative consequence of this behaviour is the resistance of sharing information among relatives. This aspect is also linked to a paternalistic management style common in several family businesses, which implicates an authoritarian management style, a low level of delegation and, as said before, a poor information transfer (European Commission, 2008).

The two last Attributes explained by Tagiuri and Davis (1996) are established tradition, and diffusion of a private language. The first refers to the fact that relatives know a great deal about each other's strengths and weaknesses. Depending on how the history of the relationship is, the relatives could develop mutual support or mistrust between them. Established tradition also means that family firms have powerful internal cultures which allow them to: keep a stable base of employees; have a distinctive set of stories that they can tell their customers; improve social trust (The Economist, 2015). About the latter Attribute, the authors notice that family members develop their own way of speaking between them and this allow a more efficient

communication with greater privacy. However, a private language could cause a poorly efficient communication for non-family people.

In Europe, a large part of family firms' management, particularly of small-medium companies, is composed by family members (European commission, 2008). According to many scholars, this aspect is mainly explained by the lack of willingness to share firm's control, but also because family members are willing to accept lower wages compared to external managers. Usually, the massive presence of family members in management position makes the decision-making process emotional and informal. In some circumstances, informality, a different communication style typical of family members, could result in an easier and faster process compared to non-family companies. However, especially when the firm has already undergone several generational changes, the lack of formal responsibilities and the higher number of informally involved persons may result less efficient systems and could cause potential conflicts among employees.

1.1.5 Family Firms' Performance

According to Dyer (2006), there are many studies about family firms' financial performance, however there is no clear assessment of whether or not family-owned firms perform better, equal or worse than non-family firms, because those studies present conflicting conclusions. For example, Fama and Jensens (1983) notice that combining ownership and control allows concentrated shareholders to exchange profits for private rent. While Morck et al. (2000) argue that continued founding-family ownership in U.S. companies is an organizational form that lead to poor firm performance. That is why in the U.S. there was the common thought that family ownership and control of public companies was not so efficient and profitable as a dispersed ownership. Moreover, Barclay and Holderness (1989) state that large ownership stakes reduce the firm's value because they reduce the probability of bidding by other agents. The fact that the owning family selects managers and directors may constitute an impediment for third parties interested in acquiring the firm's control, and it suggests a greater managerial entrenchment and lower firms value compared to non-family businesses (Anderson and Reeb, 2003). Furthermore, Shleifer and Summers (1988) state that families are incentivized to redistribute rents from employees to themselves. Heinonen et al. (2006) also find no evidence for growth occurring in family firms to be different from growth occurring in

non-family firms. However, the European Commission (2008) notice that family businesses have a stable, less volatile development of continuous growth compared to other business model. What really matters for family-owned firms is not the short-term growth but the stability of the company and its maintenance for future generations.

So, as previously said, there is another part of the literature which suggests that family ownership and influence can provide competitive advantages. According to Demsetz and Lehn (1985), combining ownership and control can be advantageous, as the large shareholders will probably act to mitigate managerial expropriation. The authors notice that concentrated investors have substantial economic incentives to diminish agency conflicts and maximize firm value by monitoring managers and minimizing the free-rider problem inherent with small, atomistic shareholders. This is particularly true for family businesses, where families' wealth is strongly linked to the firm's wealth. Another advantage of family firms is their longer investment horizons, which usually lead to greater investment efficiency (James, 1999). In the author's opinion this happen because families intend to pass the firm onto succeeding generations. Anderson et al. (2002) also believe that family long-term vision has another positive consequence for the firm, a lower cost of debt financing compared to non-family firms. The evidence collected by Anderson and Reeb (2003), after analyzing the family firms in the S&P 500, imply that family firms perform as well as, if not better than, non-family firms. Moreover, their analysis suggests that "the relation between family ownership in large public firms and firm performance is not uniform across all levels of family ownership. Performance is first increasing and then decreasing in ownership" (Anderson and Reeb, 2003). Also the Boston Consulting Group, comparing a group of 149 family-controlled firms with a group of non-family companies from the same countries and industries, discovered that the family businesses performed better than non-family ones. They also noted that family firms' owners are particularly careful with money, as they are better than other companies at keeping costs under control (The Economist, 2015). However, the research in family business reveals that only 30% of these businesses survive into the second generation with most intergenerational transitions failing after the second generation (only 10-15% continues existing in the third generation, and 3-4% into the fourth generation).

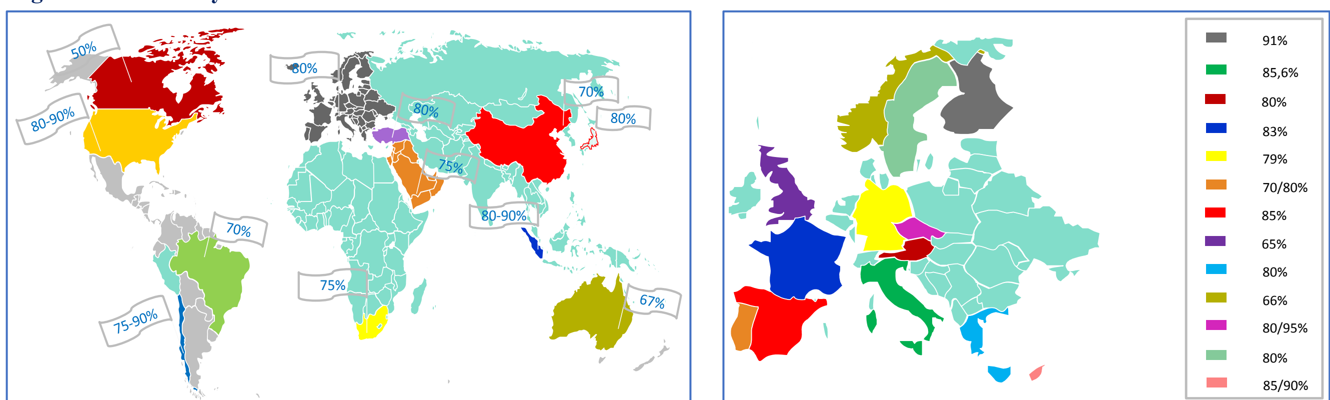
Corbetta and Quartaro (XI Osservatotio AUB, 2019) notice that in the last ten years Italian family firms' revenues have grown approximately 12 points more respect to the non-family counterpart. Italian family firms have also a positive gap in terms of net return on invested

capital compared to non-family ones. Moreover, since 2007 the debt equity ratio of Italian family businesses decreased by around 40%.

1.1.6 Diffusion and Trends

According to Gersick et al. (1997), although statistics are not available, it is generally acknowledged that over two-thirds of firms around the world are family businesses. For The Economist (2015), more than 90% of the world's companies are family firms. In 1986, Shleifer and Vishny noticed that large shareholders were quite common, founding families were holding equity stakes and board seats in nearly 33% of the Fortune 500 firms. With time the economic impact of family firms kept growing, even in the Anglo-Saxon world, where public companies were particularly popular. Nowadays in the United States it approximately accounts for: 80% of all firms; 40-60% of the gross national product; 78% of new job creation (Astrachan and Shanker, 2003). Also Anderson and Reeb (2003) argue that founding families are a widespread and important class of investors. In their analysis of the Standard & Poor's firms between 1992 and 1999 emerges that over 35% of the S&P 500 Industrials is composed by family firms.

Figure 1.6.4 - Family firms diffusion



Source: Family Firm Institute

The family business model is widespread all over the world, not only in the United States. The above-mentioned estimates are similar in most developed countries worldwide. According to a Family Firm Institute's estimate, it contributes to for 70-80% to the Global GDP. Empirical surveys show that nearly 45% of Fortune 1000 companies are family controlled and that in Italy, among the 55% of large and medium-size companies are family-controlled. Among the

top 20 listed groups in Italy 12 are controlled by entrepreneurial families and of these, 8 have at least 40% of the capital equity invested by the family and in some cases this rises to 75%.

In the European Union, family firms are estimated to be 70-80% of the total number of firms. They account for an average of 40-50% of Europe employment and in some cases is even estimated to reach 70% or more. (European Commission, 2008). According to Becht and Mayer (2001), in Europe the majority of the top 500 firms are either owned or managed by the family, and family enterprises control over half of the economies. The available data show that family firms are more prevalent in traditional and labour-intensive sector such as agriculture, manufacturing/crafts, construction, retail, while they are less present in the financial sector or in the high-tech industries.

According to Corbetta and Quartaro (XI Osservatotio AUB, 2019), in Italy approximately the 65.8% of firms with more than 20 million euros of revenues are family businesses. The researchers notice that among the first 500 companies for revenues, excluding banks and insurance companies, in Italy, France, and Germany, the percentage of family firms respectively is: 41%, 23.8%, and 35.2%. The collected data also highlight the improving trend in terms of number of companies and return on invested capital of the Italian family firms against the French and German ones.

Moving around the globe, we discover that the Chinese's and Japanese's economies have been strongly shaped by family firms (Goetzmann and Koll, 2003), with 99% of businesses in Japan considered family firms (Birley, 2001). Family-owned businesses play a significant role in emerging countries too. The Mckinsey Quarterly (2014) states that in 2010 approximately 60% of the private-sector companies with revenues of $1 billion or more were owned by founders or families, representing roughly the 15% of the world's large enterprises. According to the author's estimate, such companies will represent nearly the 40% of the world's large enterprises in 2025.

According to The Economist (2015), "family companies are likely to remain a significant feature of global capitalism for the foreseeable future, thanks to a combination of two factors. Family companies in general are getting better at managing themselves: they are learning how to minimise their weaknesses while capitalising on their strengths. At the same time the centre of the modern economy is shifting to parts of the world—most notably Asia—where family companies remain dominant."

1.2 - Family Business Governance

1.2.1 Corporate Governance

The concept of corporate governance, despite the attention received by scholars, does not have a universally accepted definition. Corporate governance involves a set of relationship between a company's management, its board, its shareholders and other stakeholders. It also brings a framework through which a company sets its objectives, the means of attaining those objectives and how performance are determined (OECD Principles). Corporate governance has been defined in numerous ways highlighting different aspects. First of all, we can classify definitions using two main dimensions:

1. The interests that should be pursued: shareholders versus stakeholders' interest. Schleifer and Vishny (1997) state that "corporate governance deals with the ways suppliers of finance to corporations assure themselves of getting a return on their investment". According to them, the governance's main role is to mediate between finance providers (i.e. shareholders and lenders) and the firm's management so that the former can monitor and control the latter. Precisely, shareholders seek a protection from the conflict of interest suffered by managers, who are hired to act in shareholder's behalf but have an incentive in acting selfishly. This definition has a narrow view of corporate governance and is mainly based on the agency conflicts between shareholders and managers. Considering the stakeholders' totality, Sheridan and Kendall (1992) adopt a much broader definition. According to them "a good corporate governance consists of a system of structuring, operating and controlling a company such as to achieve the following: (I) Fulfil the long-term strategic goal of the owners,… (II) Consider and care for the interests of employees, past, present and future,… (III) Take account of the needs of the environment and the local community,… (IV) Work to maintain excellent relations with both customers and suppliers,… (V) Maintain proper compliance with all the applicable legal and regulatory requirements under which the company is carrying out its activities".

2. The corporate governance mechanisms to consider: the board of directors versus a set of structures and mechanisms involved. Following this approach, the Cadbury Committee (1992) defines corporate governance as "the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies.

> The shareholder's role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place… The board's actions are subject to laws, regulations and the shareholders in general meeting"

The concept of corporate governance is defined accordingly to the adopted theoretical viewpoint (Gillan, 2006). In sum, we can discriminate between two main perspectives: the shareholder view (i.e. the narrow view), and the stakeholder one (i.e. the broader view). The latter involves the design and implementation of different mechanisms (i.e. board, executive compensation, internal and external controls, etc.) aimed at both promoting the company's long-term wealth and assuring a balanced distribution of value to all stakeholders. It is based on the "team production problem", which arises when a group of people agree to work together, and it is difficult to accord in advance on everyone's contributions and rewards. In such context, the corporate form of organization is seen as an institutional mechanism aimed at facilitating trust among team members by managing the trade-offs among them (Blair, 2003). In the team production model, directors' main role is not anymore the run of the corporation, but they represent an institutional mechanism intended to smooth the cooperation among the employees (Blair, 2003). Blair (1995) adopts a broad view of corporate governance, "one that refers to the whole set of legal, cultural, and institutional arrangements that determine what publicly traded corporations can do, who controls them, how that control is exercised, and how risks and return from activities they undertake are allocated". So, broader definitions extend the objective of corporate governance to the satisfaction of all stakeholders (Gillan, 2006).

The narrow view focuses on board design and the shareholders' residual control rights with the purpose of maximizing shareholder return. According to this view, a firm is seen as a "nexus of contracts" (Jensen and Meckling, 1976), a set of contracts that govern the relationships between the company and all the firm's stakeholders, and the shareholders are the residual claimants. As a consequence, maximizing what is left over, the residual, is equivalent to maximizing the value for every firm's participants (Sunder, 2001). Blair (2003) states that the shareholder view incorporates or implies a set of implicit assumptions:

- The maximization of shareholders value leads to the maximization of the corporate value;
- Financial markets are efficient, stock price performance is the best measure for value creation;

- The maximization of shareholders value disciplines top managers;
- Stock incentive plans push managers to maximize the shareholders' value;
- The market for corporate control disciplines top managers;
- U.S. law supports the shareholders' primacy.

Public companies are characterized by a fragmented ownership structure. This situation implies a separation between ownership and control, and limited incentives for shareholders to control top management behaviours. In these circumstances, top managers may pursue their own interests instead of the shareholders' ones, giving rise to the so-called agency theory. Thus, corporate governance mechanisms should be designed to avoid or limit opportunistic behaviours and protect shareholders from the expropriation of their wealth (Shleifer and Vishny, 1997).

1.2.2 Agency Theory

According to Berle and Means (1932), the main assumption of the so-called agency theory is the separation between ownership (i.e. principal) and control (i.e. agent). In the governance literature, the relationship between shareholders and managers is considered to be an agency relationship, that is one in which a principal delegates an agent to do some activities in his/her own interest. Jensen and Meckling (1976) observe that if both parties have the same interests, there is no conflict of interest and no agency problem. The two authors notice that the delegation of authority exposes agents to risks for which they are not compensated, as a consequence they will seek additional compensation through non-compensatory means such as free-riding or shirking. So, agents have opportunistic behaviours; they are self-interested and seek to maximize personal economic wealth. Agents are source of inefficiencies in Agency Theory. In addition, Fama and Jensen (1983) argue that agents, who do not take residual risks, do not necessarily act in the company's interests.

The assumption of self-interest leads to inevitable conflict of interest, best known as agency conflict between the principal and the agent. What happens is that the principal (i.e. shareholder) hires an agent (i.e. manager) in order to manage and maximize his/her company

value. However, they have diverging goals, the agent is also opportunistic and might have self-serving behaviours. This misalignment of goals originates potential agency conflicts which are detrimental for the principal's wealth maximization. Agency theory suggests that, in imperfect labour and capital markets, managers/agents will seek to maximize their own utility at the expense of corporate shareholders/principals. This behaviour is favoured by uncertainty and by the asymmetric information between principal and agent. According to Ross (1973), an agent will typically have more, or better information compared to the principal about the agent, the decision situation, or the consequences of actions. As a result of asymmetric information, agent's opportunism may prevail because of adverse selection and moral hazard. The first is related to the misrepresentation or hidden information about the agent's competencies. The principal cannot ascertain if the agent accurately represents his ability to do the work for which he/she is being paid. The latter refers to a lack of effort on the part of the agent. The principal cannot be sure if the agent has put forth maximal effort and he/she is doing properly the job. Williamson (1975) states that, theoretically, if information is perfect and costless, and people are unbounded in their mental capabilities, then there could exist a contract between principal and agent which anticipates and provides for any kind of eventuality. However, this is not the reality and the outcome is an incomplete contract between principal and agent (Williamson, 1975). To control the adverse selection and moral hazard problems, principals have to incur higher search and verification or use a combination of incentives, punishments or other managerial processes (Chrisman et al. 2004). So, to avoid conflicts, the principal has different options, but they come at a cost, the agency costs (Jensen and Meckling, 1976), that are borne by shareholders to encourage managers to maximize shareholder's wealth rather than their self-interests. There are three major types of agency costs:

1. Monitoring costs: expenditures to monitor managerial activities, such as audit costs.
2. Bonding costs: expenditures to structure the organization in a way that will limit undesirable managerial behaviours.
3. Residual loss: the costs incurred from divergent principal and agent interests despite the use of monitoring and bonding.

Those are all the costs for mechanisms and actions the principal puts in place to make sure that the interests of agents are as much as possible aligned with his/her own. The principal's purpose is to minimize the agency costs.

There are different external governance mechanisms which reduce agency costs in publicly held firms. For example, Fama and Jensen (1983) state that an efficient capital market reduces monitoring costs by tracking firm performance with the share price and it also reduces the negative effects of over-investment by providing the firm's decision makers with liquidity and distributing the firm's risk among a large number of shareholders. Moreover, as Hansmann (1996) notices, a competitive labour market makes it more advantageous for firms to recruit qualified applicants and reduce the threat of adverse selection. However, for private firms it is more difficult to offer the same incentives and terms of employment as public firms and so they face a higher risk of hiring a lower-quality and/or opportunistic agent. Shulze et al. (2001) state that "private ownership reduces external governance mechanisms and exacerbates the self-control problems that arise whenever firms are led by a powerful owner-manager, a threat which is particularly troublesome when privately held firms are owned and managed by family".

1.2.3 Agency Theory in Family Firms

According to Jensen and Meckling's model (1976), family firms, at least those that are privately held and family-managed, do not need to incur significant agency costs. Due to the family involvement in ownership, governance, and management, there should not exist conflict between principals and agents as principals/shareholders and agents/managers are linked by kinship ties and/or are often the same people. Consequently, formal governance mechanisms should not be necessary due to the natural alignment of interest between owners and managers and the sense of altruism that belongs to this kind of firm. The cost of those mechanisms may even have a negative effect on firm performance (Jensen and Meckling, 1976). However, according to Sharma et al. (1997), not all family-owned firms are identical with respect to organizational characteristics and behaviours, nor families are homogeneous group of people with identical interests. So, also family firms may suffer of agency problems.

Families are a very unique type of controlling shareholder, the family involvement in the firm's ownership, governance, and management, result in important differences of exposure to agency problems between family and non-family enterprises. La Porta et al. (1999), indeed, state that family businesses are uniquely predisposed to internal disfunction. According to Songini and Gnan (2015), the classical principal-agent issue is not the only source of agency

conflicts in family firms. There could be, for example, conflicts arising from asymmetric altruism (Schulze et al. 2001). Even though economists model altruism as a trait that positively links the welfare of an individual to the welfare of others (Bergstrom, 1995), it can also mean an agency threat because control over the firm's resources makes it possible for owners-managers to be unusually generous to their children and relatives. Buchanan (1975) notices that altruism can cause parents to threaten their children with moral hazard. High generosity may cause their children to free-ride or it could promote nepotism as well as a tendency towards entrenchment. Shulze et al. (2001) hypothesize that the greater the board entrenchment, the lower the performance of privately held, family managed firms, while Morck and Yeung (2003) state that entrenchment causes greater agency conflicts in family companies than in non-family ones. However, altruism is not seen by everyone as a source of agency conflict in family firms. For example, Chrisman et al. (2004) argue that family firms may have both economic and non-economic objectives and "agency costs are created only when managers pursue their own interests contravening those of the owners". So, in their opinion, if the family business has the non-economic objective of hiring all the family members regardless of their competence this has not to be seen as an agency problem.

According to Anderson and Reeb (2003), another conflict may arise between family members involved in different company's roles. It could be, for example, that some family members are involved in ownership and others in ownership, governance and management. This situation may reduce altruism and efficient collaboration and information exchange (Gallo and Vilaseca, 1998).

Chrisman et al. (2004) notice that if an owned-managed firm is co-owned by other shareholders who are not managers as well, or if there are non-owner managers, there could be conflicts between the owner-manager and the non-involved owners or between the owner-manager and the non-owner managers. Thus, conflict of interest may arise between family members and non-family members (Villalonga and Amit, 2006). Furthermore, if non-family members are better managers than the family founders and their heirs, family management may be costly (Burkart et al. 2003).

Villalonga and Amit (2006) argue that a conflict of interest may arise between dominant (family) and minority (non-family) shareholders. In their opinion, if the large shareholder is a family, it will be more incentivized to monitor non-controlling shareholders and even

expropriate them. Moreover, large shareholders may use their position to extract private benefits at the expense of smaller shareholders (Myers, 1977).

In addition to the agency problems listed above, Songini and Gnan (2015) mention another possible conflict of interest, the one between owners and lenders. Villalonga and Amit (2006) state that debt can be used as a governance mechanism to alleviate the conflict of interest between owners and managers, but it could create a new argument with creditors. For what concerns family businesses, Anderson et al. (2003) argue that family shareholders' incentives are better aligned with those of creditors than those of other shareholders. In their opinion, this aspect reduces agency conflicts between equity and debt claimants and generate significantly lower costs of debt financing than non-family firms.

To sum up, private ownership and owner management expose the firms to agency problems that overlooked by the Jensen and Meckling's model. The private ownership not only fails to minimize agency costs of ownership, but it can actually engender agency costs in these firms. Moreover, private ownership reduces external governance and exacerbates the self-control problems that arises whenever firms are led by a powerful owner-manager, a threat which is particularly troublesome when privately held companies are owned and managed by family.

1.2.4 Different Systems of Corporate Governance

Overall, for comparative purposes, two main models of corporate governance can be roughly identified: the market model and the control model. As suggested by the name, the former is a market-oriented system which requires an active external market for corporate control. So, it is common in countries where there are highly liquid capital markets and large dispersed class of investors, such as in the US, the UK, and Ireland (Lane et al. 2006). The latter is mainly present in Asia, Latin America and much of continental Europe. It is also known as network-oriented system because "oligarchic groups substantially sway managerial decision-making via networks of relatively stable relationships" (Weimer and Pape, 1999). It is prevalent where control rights are not entirely separated from ownership and ownership tend to be concentrated. Accordingly, depending on where we are, we can find different corporate governance practices which shape the overall system of governance prevailing in that specific

place. Authors such as Moerland (1995) and Weimer (1995) identify four main systems likewise related to different groups of relatively rich, industrialised countries. The authors divide them in:

- Anglo-Saxon countries (i.e. the USA, the UK, Canada and Australia);
- Germanic countries (i.e. Germany, the Netherlands, Switzerland, Sweden, Austria, Denmark, Norway and Finland);
- Latin countries (i.e. Italy, France, Spain and Belgium);
- Japan.

Weimer and Pape (1999) develop a “taxonomy of systems of corporate governance”. They try to recognize and classify the different systems of corporate governance available around the globe. According to the authors the taxonomy is only descriptive, based on a common set of characteristics, it should only help users to rough comparisons among different systems. Moreover, the classification is limited as it focuses on publicly listed firms and it is not entirely unequivocal. That is why it is not difficult to find relevant differences in a national governance system itself, or system’s similarities in countries attributed to different groups (Weimer and Pape, 1999).

The principal characteristics considered by scholars to rank and differentiate the various systems are, more or less, the following:

- The prevailing concept of the firm;
- The board system;
- The major stakeholders able to influence managerial decision-making;
- The importance of capital markets in the national economy;
- The presence or absence of an external market for corporate control;
- The ownership structure;
- The relation between executive compensation and corporate performance;
- The time horizon of economic relationships.

In their analysis of corporate governance systems, Weimer and Pape (1999) note that both the market model and the control model are changing, and it seems that they are converging in some respects. However, they believe that it is difficult to forecast how the different national systems will evolve.

Anglo-Saxon countries:

In the Anglo-Saxon countries, enterprises are thought up as a pool of managerial directors working for the shareholders' benefit, or as instruments for the creation of shareholders wealth. So, shareholders are strongly institutionalised, and they can exert a substantial influence on managers. The principle of "one share, one vote" is widely spread in these countries, and the law strongly protects shareholders (Weimer and Pape, 1999). In those countries, the one-tier board of directors prevails, that is, one legal entity has the executive and supervisory responsibilities. The board is composed of executive (i.e. firm's employees) and non-executive (i.e. outside members) directors. Both kind of board members are appointed and dismissed by the general assembly of shareholders. According to Bleicher and Paul (1986), legally speaking, the outside directors are responsible for the firm's management. In practice, they advise executive directors on major policy decisions while keeping the shareholders' interest in mind.

The Anglo-Saxon group is the first for capital markets importance and spread, that is why its corporate governance system can rely on active markets for corporate control, the so-called takeover markets. The most common takeover techniques are mergers, tender offers, proxy fights and leveraged buyouts. Having the major financial markets has also another consequence for this group of countries, it is easier for companies to reach investors and collect capital from the market. Thus, the ownership structure of Anglo-Saxon firms, in particular the largest, is characterized by a low ownership concentration. They are widely held by different kind of investors, ranging from institutional ones to non-professional individuals.

It is quite common to find executive compensation linked to firm's performance. Especially in the USA, to align the interest of managers and shareholders, companies adopt performance-dependent compensation such as share-options plans (Abownd and Bognano, 1995). Lastly, many scholars observe that managers in those countries are particularly focused on short-term performance, boosting the next quarterly result while underinvesting in more long-term oriented assets. Thus, the Anglo-Saxon system of corporate governance is characterised by short-term economic relationships (Weimer and Pape, 1999).

Germanic countries:

Moerland (1995) notices that in Germanic countries corporations are not seen as devices which primarily focus on shareholders wealth but as autonomous economic entity formed by

many different participants, which strive for the continuity of the firm as a whole. Also the board structure is different compared to Anglo-Saxon countries as the prevailing system is the two-tier board. It means that there are two boards, a management board and a supervisory one. The former is appointed and dismissed by the latter. The supervisory board has the duty to monitor the competence of the management board and it gives advice on major policy decisions. Moreover, in a limited number, employees and trade unions are entitled to supervisory board seats. Thus, both shareholders and employees can be considered salient stakeholders, as well as large general banks. This happen because German banks are not only debt suppliers for companies, they can also hold large blocks of share of non-financial firms. This is the opposite of what happen in the USA, for example, where commercial banks cannot participate in the shareholders' capital of non-financial companies (Weimer and Pape, 1999). Compared to Anglo-Saxon countries, stock markets in Germanic countries are far less important and as a consequence they do not provide an active external market for corporate control. This is also explained by the concentrated ownership structure typical of German firms. Furthermore, the principle of "one share, one vote" does not work in Germanic countries, because firms can issue non-voting shares, or they can limit the voting power of an individual shareholders. In recent years, more mixed compensation has been becoming more popular in these countries, however, performance-related compensation for executives are not so spread. Weimer and Pape (1999) notice that the institutional environment of Germanic countries favours the establishment of long-term and solid economic relationships.

Latin countries:

"The concept of the firm in the Latin countries lies somewhere in between the instrumental Anglo-Saxon view and the institutional Germanic view, but is altogether probably closer to the latter" (Weimer and Pape, 1999). The same apply regarding the board system, both in Italy and in France, companies have the possibility to choose between a one-tier and a two-tier system.

The idea of shareholder sovereignty is an important concept, that is why shareholders in Latin countries are more influential than in the Germanic ones. However, they are not seen as influential as the Anglo-Saxon counterparts. In France and in Spain, like in Germany and in Switzerland, banks are allowed to hold non-financial firms' shares. The opposite happens in Italy and Belgium, where banks shareholdings is forbidden or limited. Similarly to the Germanic countries, the stock markets is not as developed and it plays less important role in

the economy. That is why there is no active market for corporate control, however, Moerland (1995) notices that the number of hostile takeovers is higher than in the Germanic countries. Another characteristic of the Latin countries is the relatively high ownership concentration. According to Weimer and Pape (1999), the five largest shareholders control the 48% of shares in France and nearly the 87% in Italy, where family or industrial groups hold controlling interests in almost all the listed companies. In Latin countries too, the performance-related executive compensation is not common, and the institutional environment encourage long-term economic relationships.

Japan:

Japanese governance system is strongly influenced by family values and the importance of achieving consensus. The institutional concept of firm prevails, and it is expressed in the large presence of inter-corporate networks (i.e. keiretsu) which share the same names and logos and organise relationships among major financial institutions and industrial producers (Weimer and Pape, 1999). The Japanese board system could be classified as a one-tier system, but it comprises a board of directors, an office of representative directors and an office of auditors, which all have different responsibilities. As in the Anglo-Saxon countries, the board is elected and dismissed by the general shareholders' assembly. Employees and shareholders are both considered salient stakeholders in Japan. Also large Japanese banks are very influent as they supply debt, they are shareholders and members of the keiretsu, and they influence managerial decision-making due to their presence in the various boards.

Stock markets have an important role in Japan's economy, but there is no active market for corporate control. In this country achieving consensus is a sort of cultural principle, as a consequence, hostile takeovers are considered as a curse (Weimer and Pape, 1999). Moreover, the ownership structure is widely dispersed. Finally, performance-related executive compensation is not common in Japan, and stakeholders have a predilection for long-term and stable economic relationships (Weimer and Pape, 1999).

1.2.5 Governance Mechanisms

Corporate Governance refers to the structures and processes for the direction and control of companies. It involves a set of relationships among the main governing bodies: the management, the board of directors, the shareholders, and other stakeholders. The aim of a good governance structure is to minimizes agency costs, given a certain ownership structure, and the context (i.e. rules, legislation, etc.) in which the company operates. It "contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital" (Cadbury Report, 1992).

Agency cost control mechanisms help the principal to monitor and control the consequences of agents' decisions, actions and expenses incurred, which are not in the principals' interest. Popular corporate governance mechanisms, used to prevent or solve the issues caused by the separation between ownership and control, are:

- The composition, structure, and processes of board of directors;
  According to Villalonga et al. (2014), the board's main role is to monitor and discipline managers in order to protect shareholders from managerial power abuses. Moreover, it can even protect non-controlling shareholders from expropriation by controlling shareholders. In family firms the board can help to reduce the conflict between family shareholders and family outsiders (Villalonga et al. 2014).
- An active market for corporate control;
  Manne (1965) argues that the threat of takeover is a good mechanism to limit managers' self-serving behaviors. However, according to Caprio et al. (2011), ownership concentration reduces the ability of family firms to participate in acquisitions as bidders and targets.
- A large block-holder;
  Ownership concentration, in general, helps to alleviate the conflict of interest between owners and managers and between shareholders and creditors. However, it might worsen the conflict between controlling and non-controlling shareholders.
- Executive compensation;
  Jensen and Murphy (1990) argue that offering stock incentives plans will align managers' interest with the owners' ones. In family firms, compensation of family executives may decrease the risk of entrenchment.

- High leveraged financial structure;

  Grossman and Hart (1980) state that higher the levels of debt may induce greater effort by managers who want to avoid bankruptcy. Moreover, Jensen (1986) notices that debt financing, by reducing or eliminating the free cash flow available to managers to undertake worthless projects, is a useful device to discipline the management. Villalonga et al (2014) notice that the use of debt in family firms is limited by families' desire to ensure the long-term survival of the firm.
- Dividend policy;

  According to Jensen (1986), its role is similar to debt, it reduces the free cash flow under managers' control.
- Proxy fights;

  If the board's members performance is sufficiently bad, shareholders can always replace them through a proxy fight. Practically, "a dissident shareholder puts up a slate of candidates to stand against management's slate and tries to persuade other shareholders to vote for his/her candidates" (Hart,1995).

Corporate governance mechanisms also include the system of internal and external control, i.e. internal and external auditors, institutional bodies, rating agencies, etc.

Family firms' corporate governance is strongly influenced by family values and objectives, in addition to the fact that people who own and run the business are bound together by family ties. Family companies' objectives are likely to differ from non-family corporations, that is why they are differently managed and need to develop specific governance mechanisms (Astrachan et al. 2002). A good corporate governance should help family businesses to create value and to be responsible toward all stakeholders and shareholders, including family members. According to Gersick (2006), governance mechanisms help family-owned firms to establish the overall strategy, including the nature of family involvement in the business, performance standards, and code of conducts. So, long-term survival and success of family firms are dependent on the ability of firm leaders to strategically choose from an array of governance choices to fit with the core values of the family and the environment, in which the firm operates (Coles et al. 2001). Especially generation to generation, when a company grows and becomes more complex to handle, these mechanisms are indispensable to the long-term success of the company.

In addition to the discussed governance tools, accessible to both family and non-family firms, there are different mechanisms that are only adopted by family businesses. Examples of those are:

- The board of advisors;
- Family institutions (meetings, assembly council);
- Family constitution;
- Family office;
- Family foundation;
- Shareholders' council;

The board of advisors (BoA) is a group of experts selected to help and advice a business owner regarding any business issue, such as marketing, sales, financing, expansion, and so on. Many family firms prefer to have an advisory board instead of a board of directors, or they use it as a step toward a board of directors. Differently from the latter, the BoA has no legal status or power, so its members have no legal responsibilities. But this lack of legal responsibility makes it difficult to hold members of the advisory board accountable for their advices.

Family meetings are the least formal structure available to family firms. Initially, it is common to have these meetings around the kitchen table. As the time passes and the family grows, it becomes important to plan for family meetings as they help to maintain a high level of communication. According to Aronoff and Ward (1992), "family meetings can help build a stronger family and a stronger business. They can help build the future of the business in an orderly and constructive way". Moreover, the meetings help family members to better understand each other, bond, and build family harmony.

The family assembly, also known as family forum, is a formal forum open to all the family members for discussion about business and family issues. It is held once or twice a year and it is pivotal as both the family and the firm grow and become more complex. The forum allows the founder to share the family values, stimulate new business ideas and prepare the next generation of the family's leaders.

The family council, also called family supervisory board, is committed to monitor and increase the well-being of the entrepreneurial family. Council's members are elected to represent other relatives, especially those not employed by the firm, in order to inform them

about the company's health and direction. Lansberg (1988) states that the council typically coordinates with the firm's board to align the objectives of the family and the shareholders, advising directors on an appropriate decision-making process able to protect the family's values, needs and wishes. According to Blumentritt et al. (2007), the council also helps to resolve internal family conflicts that may negatively affect a firm's competitiveness.

The family constitution may be drafted before the formation of a council or may be instituted by a council, and it is discussed and approved by the broader family assembly. It is a written statement of the principles that outline the family commitment to core values, vision and mission of the business (Villalonga et al. 2014). It also defines the role, compositions and powers of key governance bodies of the business. One very important area of the family constitution is the definition of the terms and conditions to apply to family employment within the firm. It would clearly state the conditions of entry, staying and exit from the business (Lansberg, 1999).

The family office is an investment and administrative centre, organized and overseen by the Family Council. It is established to provide centralized planning for the investment of family wealth. An office also provides economies of scale in buying and in reducing investment management costs (Hoy and Sharma, 2009). It operates separate from the business and helps shareholders who may not possess investment expertise.

A Family Foundation is a philanthropic entity designed to accumulate excess revenues from the firm and family members, to invest the contributions and receive tax-exempt returns, and to make charitable donations in accordance with the shared values of the family (Hoy and Sharma, 2009). Usually they are run by family members with the name of the family or of the enterprise.

Many family disputes are the result of conflicts between active family shareholders and inactive family shareholders, the key to dealing with the latter is a regular communication concerning the business and various rewards. This establishes a level of trust that is essential to keep the unity of the family members. That is why a shareholder's council exists. It could replace or be together with the family council, and its primary role is to provide a discussion forum for the firm's owners. "It serves as the decision-making body regarding policies and agreements that are of sole concern to family shareholders, such as shareholders' agreement and dividend policies to be proposed to the board" (Villalonga et al. 2014).

Comprehensibly, the effect of those structure and instruments is not equal for every firm. In general, family firms' corporate governance is influenced by their characteristics (i.e. small and private firm, large and private firm, listed firm). In private and small family businesses there are no external shareholders and no external managers. In such context the key issue is to guarantee long term firm survival and find an equilibrium among family members. That is why the main corporate governance mechanisms to be used are: family pacts, family councils, and family succession. In large family firms – also if there are no external shareholders – the issues are bigger because of the complexity and the relevance of the firm. It is important to keep a balance between firms and family, manage all stakeholders' expectation, and it could be vital to delegate decision making power to professional managers in order to cope with the increased managerial complexity. This may imply to hire an external CEO and to nominate non-family directors. When the company is listed, the family should carefully consider also the interests of external shareholders. Listed family firms should follow the same rules and norms of all listed firms. This means they have to create an independent board, avoid CEO duality, create board committees, etc.

Moreover, the selection of a proper governance tool depends on the lifecycle of the firm, as a governance kit that suits a firm at one stage of its life may not be suitable in another stage. So, the timely adoption of appropriate governance mechanisms represents an important challenge for family firm leaders as it could determine the success of the business.

1.2.6 Family Firms' CEOs

The family CEO is considered to be the most central position to the administration of the company and the key board interface. According to Miller et al. (2013), Chief Operating Officers (CEOs) are able to influence the firms' evolution, strategy, and, therefore, the overall performance. They also try to influence and are generally influenced by the board. The Agency theory suggests that when the principal/owner is a family and the agent/CEO is a family member, the family firm will incur reduced agency costs due to the alignment of interests between the parts involved. However, some literature favouring behavioral agency version argues that family-CEOs are frequently motivated by non-financial, socio-emotional wealth objectives, such as preserving family control, even if that sacrifices firm profitability.

Miller et al. (2013) notice that family executives closely relate with their businesses, very often they are the founders or a later generation of managers who have been in the firm for long time. This provides them with useful information as administrators in choosing whom to promote, which clients to pursue, which company strengths to build on, and what strategies to adopt. Being a family member and a long-term employee provide to family executives a great deal of tacit knowledge of the business and its unwritten rules, customs, and informal culture; knowledge which is difficult to acquire for a non-family executive. Therefore, family CEOs are considered ideal to form close relationships with clients, suppliers, and employees.

However, when a firm grows, also administrative complexity does the same. The firm grows in size, there are more employees to manage, the number of levels of administrative hierarchy and departments increase as well as the firm's geographic extension, more rules, procedures, and formal routine are required. That is why as the firm grows, more skills and knowledge are required to better manage the business. According to Lansberg (1999), a great part of family CEOs are founders or are second generation executives who are in their position in part because of family membership rather than capabilities. However, as noted before, when the administrative situation becomes more complex, there is the need of more formalized managerial skills as the tacit knowledge that family members possess may not be sufficient. Hence, outside non-family CEOs, who are chosen from among a much larger pool of candidates on the base of their competences, may be preferred to the inexperience of family members (Miller et al. 2013). There is also another advantage of non-family CEOs linked to the firm's increase in size. When firms grow larger and become more professionalized, it may become less necessary for non-family CEOs to be accepted by all family members or to take part in the family culture. Moreover, non-family CEOs are easier to dismiss compared to the family ones, if their performance deteriorates (Miller et al. 2013).

Miller et al. (2013) state that family CEO is a good choice when the firm's ownership is concentrated. In this circumstance the CEOs' closeness to family owners will induce them to be good stewards of the business. On the other hand, when ownership is more diffuse and there are family ownership factions present in the firm, family CEOs may become a liability (Schulze et al., 2001). When the number of generation and of family members involved in the ownership grows, there is a larger probability that factions will form, that some family owners will not get along, that conflicts will arise, and that the emotional distance of a family CEO from his or her business will grow. As the conflicts are more frequent in extended families, a family CEO

may be more prone to use firm's assets to alleviate these disputes. For example, he/she can pay inordinate dividends or hire or keep in employ incompetents family members (Miller et al. 2013). Therefore, when ownership is more dispersed, non-family CEOs have to be preferred respect to family ones. They will be more objective in the dealings with the family and less emotionally involved, as a consequence they will be less keen to favor one branch of the family over another and more focused on business-related than kinship-related issues.

Examining the educational background of the CEOs from the US largest companies, Jalbert et al. (2002) find that most of them only have an undergraduate degree, while approximately half possesses a graduate degree. The authors find that CEOs who possess a degree were systematically able to generate higher performance with respect to those who did not hold a degree. Baghat et al. (2010) find a similar result, they notice that CEOs with MBA degrees lead to short-term improvements in operating performance, but there is no significant systematic relationship between CEO education and long-term firm performance. Moressi (2017) examines 612 CEOs that have led a sample of listed firms headquartered in the UK, France, Germany, Italy, Spain, and the Netherlands with market capitalization of more than one billion euros from 2006 to 2015. The main evidence that emerges from his study is that graduating from highly ranked universities and having more qualifications does not guarantee that a CEO is able to improve firm performance significantly. Furthermore, the author notices that the appointment of younger CEOs may be a source of better stock market returns. Higher motivation and talent of younger individual may be better than experience. Indeed, Moressi (2017) find that past experience as a CFO or CEO does not help improve firm performance. For what concerns the different background, Barker et al. (2002) notice that firms which appoint CEOs with advanced science-related degrees tend to spend significantly more in research and development, and this characteristic seems to be correlated with above average sales growth.

Speaking about firms' leaders, another important topic to be discussed regards the CEO's gender. Gender inequality has been increasingly in the spotlight, as it is well-known that women are still at a disadvantage. According to the EWOB 2019 report, women represent fewer than 5% of CEOs in STOXX Europe 600 companies. More precisely, there are only 28 female CEOs in the dataset (i.e. 4.7%). Women are slightly more likely to be in a CFO than a CEO position, there were 60 women at CFO level among the companies reviewed. This represents 12% of all the 505 CFOs who were identified. The share of women COOs in the

dataset was comparable to the share of CFOs. Out of the 152 COOs who were named in companies' publicly available documentation, 17 were women (i.e. 11%). Moreover, companies that have a woman as CEO, CFO or COO tend to have more women in executive positions. Withisuphakorn and Jiraporn (2016) show that, among their sample, female CEOs are younger than their male counterparts. Despite the many obstacles and disadvantages that women have to face, they reach the CEO position earlier than men do on average. Furthermore, Khan and Vieito (2013) examine whether or not CEO's gender matters in terms of firm performance and in terms of risk. By analyzing a panel of U.S. firms from 1992 to 2004 they find that female CEOs are associated with better performance compared to the firms managed by male CEOs and firm risk is smaller when the CEO is a woman.

1.2.7 Family Business Succession

Agency cost control mechanisms can also help a family firm to cope with the challenges of family business continuity. Indeed, what constitutes one of the most difficult moments in the family business lives is the process of passing the management and ownership of a firm from one generation to another. Assuring effective succession is considered an issue in all kinds of firms (Miller, 1993), but, as Lansberg (1999) states, the situation is far more complex in family business where ensuring competent family leadership across the generations is one of the most relevant challenges for firm's continuity. Brockhaus (2004) notices how succession represents an issue that requires analysis from the perspectives of family, management, and ownership systems in order to understand adequately the views of the different stakeholders. The generational change is a bivalent attribute, it is a natural cycle of life but it represents a risk factor which could become a critical moment or a development opportunity, depending on how it is managed. The high firms' "mortality" rate highlights the concern around the business transfer, just the 30% of family businesses survive past the first generation, and only 10% to 15% survive to a third generation (Applegate, 1994). The succession is not a mere replacement of one person for another, but it is a more complex process. Lansberg (1988) describes how succession planning imposes a wide variety of significant changes on the family firm: family relationships need to be realigned, traditional patterns of influence are redistributed, and longstanding management and ownership structures must give way to new ones. It is an

opportunity to rethink and change ownership, governance, organizational and strategic structure of the enterprise.

Authors agree that succession occurs over a long period of time. Le Breton-Miller (2004) argues that the process begins before the entrance of the heirs into the firm and then proceeds through the formal nomination of the successor, the transition phase, and the actual takeover. Marchisio (2006), between next-generations entrance and they actual takeover, identify different phases during which the next generations move from a learning and developmental phase, where they acquire the appropriate knowledge and skills, to a transitional phase leading to the takeover. Mazzola et al. (2008) state that "to realize an effective succession by the end of the whole process, the next generation must have developed some critical characteristics such as: business and industry knowledge; several abilities, like decision making and leadership; networks and social capital; passion and innovative spirit; legitimacy and credibility from both family and nonfamily stakeholders". So, the generational transfer is not only concerned about the ownership, but it also concerns the leadership succession. Indeed, it is the true challenge of change generation. It is not an easy task to transfer the spirit and values of the family business to heirs, and even less the "familiness" and the ability to keep the family together. Finally, according to Miller et al. (2003), the next generation have to mature a proper relationship between the family firm past and present, avoiding an excessive attachment to the past, a complete rejection of it, or an inappropriate blending of past and present.

Scholars have mixed opinion regarding how the next generation should develop the required skills. Barach and Ganitsky (1995), for example, state that relevant training experiences may occur outside the family firm and, once "matured", heirs will be ready to join the company. On the other hand, Le Breton-Miller (2004) highlights how the next generation may benefit by an early exposure to the family firm, becoming familiar with the culture, values, and employees within the company.

Mazzola et al. (2008) focus their attention on strategic planning. In their opinion, it can help in the development of the next-generation family managers after they join the firm by offering educational and relational benefits. The first refers to the fact that the strategic planning process may play an important role in structuring and reinforcing next-generation knowledge, functional capabilities and decision-making ability. The second, instead, refers to social and business networks developed inside and outside the company, together with

credibility and legitimacy. Moreover, the authors notice how the succession process can be smoother in the presence of some conditions: "(1) the adoption of a formal and broad strategic planning process; (2) the existence of either a business or an ownership purpose behind the realization of the strategic plan; and (3) the next generation's actual involvement in, not simply as an observer of, the process".

1.2.8 Institutional Investors and Family Firms

Institutional investors are entities such as mutual funds, insurance companies, pension funds, investment banks, and endowment funds, which pool together the financial resources of several individuals and organizations and invest them in a diversified portfolio of securities. They are sophisticated investors as they can rely on the expertise of professional financial analysts and, compared to individual investors, they can dedicate a greater amount of time and resources in the investment process (Fernando et al. 2013). Institutional investors have been traditionally active investors and passive shareholders. That is, they preferred to buy and sell shares, instead of voting at the assembly meetings or challenging top managers and boards in formal and informal ways. However, this habit is changing as always more and more institutional investors are play an active role as shareholders, they exert influence on the firms they invest in and attempt to sway the actions of such firms and their managers. As a consequence, many scholars now consider the institutional investors' monitoring activity as a governance mechanism.

According to Bennet et al. (2003) these types of investors have become a "dominant force in financial markets" with more than 50% of equity ownership and have now become the marginal investor that determines the final stock price for most firms. They are the primary source of external capital for public companies. Therefore, a family firm looking to expand may need to look for external capital from institutional investors. However, some of the issues specific to family firms may make institutional investors wary of investing in family firms. As previously noted, family firms do not only strive for financial profit, instead, at the main objective is the wellbeing of family, the socioemotional wealth (SEW, Miller et al. 2013). Are considered SEW all those elements that meet the controlling family's affective needs such as identity, the ability to exercise power, and continuation of the family dynasty. Therefore, as Miller and Le Breton-Miller notice, anonymous investors looking for financial returns may not

consider the investment in a family firm as a good one. Since SEW cannot be expressed in purely financial terms, standard contracting solutions for agency problems are likely to be less effective for family firms.

Fernando et al. (2013) demonstrate that institutional investors' stake in family firms is, on average, 5% less than in nonfamily firms. The family firms' interest in pursuing socioemotional wealth makes them less attractive to institutional investors, that is why it is considered the main cause of this difference. Moreover, the relation between institutional investors and family firms may also be affected by the regulatory regime within which the interaction takes places (Fernando et al. 2013). The authors notice that the aversion to family firms by institutional investors declined significantly subsequent to the Sarbanes–Oxley Act of 2002. Therefore, regulations can mitigate institutional investors avoidance to family firms due to their pursuit of SEW.

Chapter 2

Shared Leadership

2.1 History and Theoretical Underpinnings

Afridi (2013) defines the concept of leadership as “the process by which an agent encourages a subordinate to behave in a desired manner, the presence of a particular influence relationship in two or more persons, an interpersonal relationship in which others comply because they want to not because they have to”. In a business context, leadership involves managing, overseeing, motivating, and inspiring staff towards the attainment of business goals. That is why Afridi (2013) believes that it plays an extremely important role in the success or failure of an organization. Traditionally, leadership has been seen and taught as an individual trait and activity. Indeed, particularly in western countries, companies are frequently seen as reflections of the characters of their leaders and there is the common belief that in the final analysis, a single person must be held accountable for performance of an organization (O’Toole et al. 2002). Accordingly, a solo leader is a person who has the maximum authority over a business, he/she shares the sets of goals for productive performance, communicates organizational policies and ensures institutional control.

In the modern days, the globalization and the always faster technological innovation put a lot of pressure on organizations, which have to face an extraordinary rate of environmental change. It has been noticed that more and more frequently a solo leader could not be able to overlook the more complex work environment, for this reason many scholars suggest a shift in organization’s approach towards a more sophisticated way of management. For example, Afridi (2013) argues that solo leadership is no more sustainable for any organization’s survival and turns on the lights on a more advanced model, the so-called shared leadership.

Pearce and Conger (2003) consider Mary Follet as the pioneer of the shared leadership idea. In one of her work, she proposed that in management, the person with the most information on the analysed issue should take the lead rather than defer always to the designated formal or vertical leader. However, her model was not adopted as the conventional wisdom did not move from the classic figure of the solo leader. Actually, a Berkowitz’s (1953)

study reinforced the classical leadership view by concluding that distributing leadership did not improve productivity nor general satisfaction. Only over the last half of the 20th century there emerged models in leadership studies which are considered the starting points in the development and conceptualization of shared leadership (Pearce and Conger, 2003).

Cox et al. (2003) state that shared leadership describes a relationship among group members in which leadership is not enclosed to vertical control but is centred on lateral influence. Moreover, Bligh et al. (2006) sustain that a philosophy of shared governance is at the base of the management model promoted by shared leadership. According to them, this imply an interactive influence process among group's members in order to achieve the group's objectives. Many theoretical bases are used by scholars to explain the origination and existence of this phenomenon. Seers et al. (2003) distinguish between theories that explain the structural arrangement such as role theory, connective leadership, or management by objectives, and theories that focus on the patterns of behaviour or social interactions such as the social exchange theory. The authors indicate particularly this latter theory to be the basis for shared leadership as its guiding factors in interpersonal exchanges include reciprocity, altruism, group gain, rationality and competition.

O'Toole et al. (2002) recall the evolution in time of firms' leadership. According to them, publicly traded corporations were initially run by a President and a Vice President, whose main role was to intervene if the President would have been incapacitated. Only after the Second World War it was possible to notice an increase of shared leadership; in many businesses started to emerge different combinations and arrangements of roles such as Chairman, President, CEO, Vice Chairman, COOs and CFOs. The authors sustain that the reasons behind such increase are mainly two: the risk of losing the business continuity if the solo leader of a corporation retires or leaves; the high workload not suitable for just one person in terms of time and skills needed to do it all. Linked to these thoughts is the contingency approach adopted by many different scholars. For example, Scott (1992) states that "contingency theory is guided by the general orienting hypothesis that organizations whose internal features best match the demands of their environments will achieve the best adaptation… the best way to organize depends on the nature of the environment to which the organization relates". So, according to the contingency theory, the environmental unpredictability and its rate of change determine the development on new and appropriate internal features in organizations. Therefore, Afridi (2013) argues that "change from solo to shared leadership is also a bi-product of such

contingencies-based changes in organizations, which is necessary for meeting the modern-day challenges faced by business organizations".

2.2 Shared Leadership Definition

Locke (2003) describes four leadership models which are able to describe the mechanisms through which leadership and influence may be exercised within a group of people. Those four models of leadership are: the top-down, the bottom-up, the lateral, and the integrated, which is a combination of the previous three. According to the author, the large part of previous research focuses on the top-down model. However, leadership is a much more complex process, which involve a "dynamic give-and-take" that shared leadership seeks to describe (Pearce and Conger, 2003).

According to Yukl (2006), leadership emerges from social interactions, it relies upon collective capacity and process, and it is the result of mutual influence. A completely different view from the outdated one-man leadership which has characterized the past. Shared leadership conceptions diverge from traditional leadership theories. Pearce and Conger (2003) identify various reasons for the appeal of shared leadership, such as: the disillusionment with CEOs; the flattened organizational structure; the amount of information available which is too complex to handle for one person; and the interdependence of tasks. Their definition of shared leadership is one of the most widely cited in the literature, it states: "shared leadership is a dynamic interactive influence process among individuals in groups for which the objective is to lead one another to the achievement of group organizational goals or both. This influence process often involves peer, or lateral, influence and at other times involves upward or downward hierarchical influence". So, shared leadership is recognized as a group level phenomenon.

After reviewing different definitions of shared leadership, D'Innocenzo et al. (2014) identify five major themes throughout:

1. Locus of leadership;
2. Formality of leadership;
3. Equal and non-equal distribution;

4. Temporal dynamics;
5. The involvement of multiple roles and functions.

As the authors explain, the first two refer to the sources of leadership. The locus dimension proposes that team leadership can arise from one of two sources: outside the team (i.e. external) or within the team (i.e. internal). While the formality of leadership indicates if the leader’s authority is formalized in the organization (i.e. formal) or if there is no direct leader responsibility (i.e. informal). D’Innocenzo et al. (2014) notice that more often than not shared leadership is an informal and internal process. The third theme refers to how the extent to which team members participate in leadership, that is how the power is distributed among them. The fourth theme refers to the fact that team members can assume leadership roles either at the same time or in different periods. So, it could be said that shared leadership is not static. The last theme recognizes the multidimensionality of leadership, that is, there are various functions and responsibilities of leaders and so responsibilities can be allocated among team members (D’Innocenzo et al. 2014). Considering those themes, D’Innocenzo et al. (2014) state that “shared leadership is an emergent and dynamic team phenomenon whereby leadership roles and influence are distributed among team members”.

2.3 Shared Leadership Origins

The shared leadership is not a new phenomenon and it is quite easy to find some examples. O’Toole et al. (2002) find many past and present cases of shared leadership at the top of major U.S. firms. Although shared leadership is a group level concept it can apply even to groups of two, that is why most of the available examples are of co-leaders (O’Toole et al. 2002). The authors report different famous duos of the business world, such as HP’s Hewlett and Packard, Berkshire Hathaway’s Buffet and Munger, ABB’s Barnevik and Lindhal.

Unfortunately, shared leadership and co-CEO structures did not receive lot of attention from the empirical literature to date, that is why the exact causes and performance implications of this phenomenon are not well known. Shared leadership can originate in many different ways and for different motives (Dennis et al. 2009). For example, co-leaders can arise from corporate mergers of equals, from co-founders, from the practice of two individuals sharing jobs, or from invitations from sitting CEOs to share power. According to O’Toole et al. (2002)

the first of these is seldom successful, apparently for two main reasons: first of all, it is rare that a "pure" merger among equals happens, most of the time the strongest company acquires the weakest and the CEO of the former will not be keen to share the position. The second reason is that the merger-created co-CEOs have never worked together, they will not have the basis of trust needed to build on a durable and profitable working relationship. However, there are positive cases of shared leadership originated from a merger or acquisition. It is the case of two Americans aerospace manufacturers, Boeing and McDonnel Douglas, where the two companies' CEOs have well managed the acquisition process and shared the leadership big problems.

O'Toole et al. (2002) believe that the establishment of co-CEOs from co-founders has more probability to survive and better performs because there is no constriction, the individuals freely chose each other as partners. However, this is not always true. Many times, these relationships arrive to an end due to diverging interests, as when Steve Wozniak left the leadership of Apple to the other co-founder, Steve Jobs, or more frequently due to diverging vision about the company's future.

Dennis et al. (2009) state the 51% of co-CEO arrangements result from co-founders or from the transfer of executive leadership to two siblings, while only the 7% of co-CEO structures derive from mergers. Moreover, they notice that arrangements arising from mergers last for relatively short periods of time compared to those arising from co-founders. The authors find also another evidence, namely the company is more likely to have a co-CEO structure, if the CEO holds the Chair position too.

In order to study the dynamics and efficacy of shared leadership, Arnone and Stumpf (2010) interview different CEOs who shared the role at least one time. From the co-heads' information, the authors find that both internal and external demands can determine the adoption of a shared leadership structure. It could be, for example, that this structure is used to retain highly competent employees who would otherwise leave the company and probably join a competitor. Again, from the interviews emerges that another reason for co-leadership is the organization's need of skills and competencies, or just a new leadership approach. A few former co-CEOs show how the boards appointed them as a transitions mechanism able to minimize the conflicts arising from a CEO's turnover. Moreover, many firms adopt the shared leadership structure to manage geographic expansions (Arnone and Stumpf, 2010).

A recent study by Yoo et al. (2020) investigates how firm performance affects a firm's decision to adopt shared leadership. In particular, the authors examine three different scenarios:

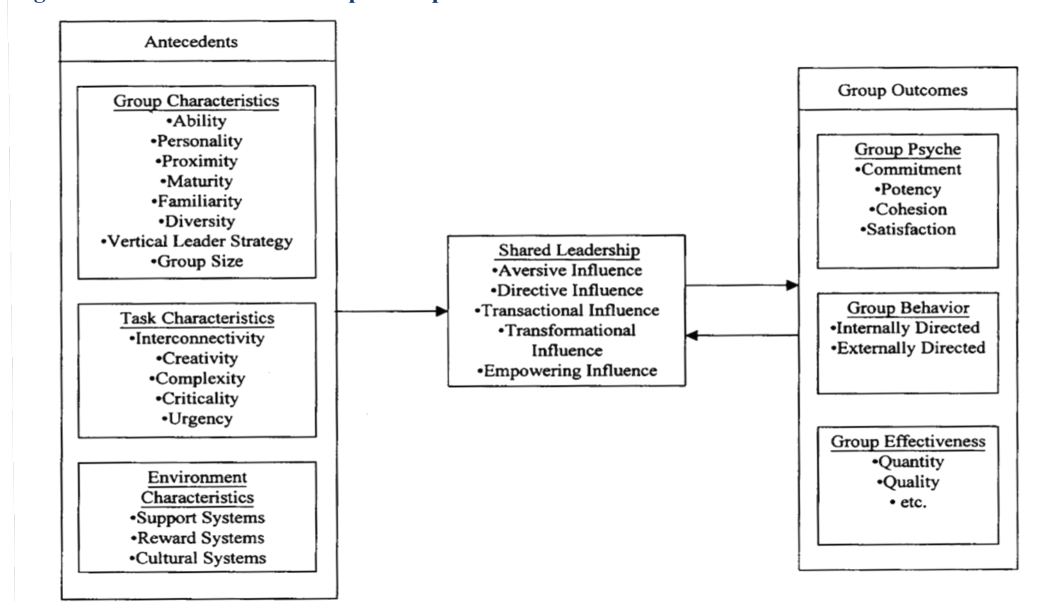
- Whether poor performance increases the likelihood of co-CEO adoption;
- How performance affects a firm's choice of CEO appointment;
- By recognizing two different types of co-CEO's structures, whether poor performance leads to one or the other.

By viewing the addition of a CEO to the existing management structure as a type of CEO turnover, Yoo et al. (2020) find out that poorly performing companies are more likely to adopt a co-CEO structure. So, in poor performing firms there is a higher probability of changes within the top management, and the adoption of a co-CEO structure can be one of the ways of CEO turnover. Regarding the second scenario, the authors make a comparison between firms which replace an existing solo CEO with another versus those which newly adopt shared leadership. They find that in firms with very poor performance there are higher odds to replace the existing CEO with another one, rather than risk the cost of shared leadership. Despite the benefits deriving from a co-CEO structure, Chen and Hambrick (2012) notice that in situation of very bad performance stakeholders demand a major change to the hierarchy, a one-to-one replacement which does not violate the unity-of-command principle. On the other hand, Yoo et al. (2020) notice that firms' experiencing a moderate decline in performance try to find a solution by nominating an additional CEO, while retaining the existing one. Firms' internal needs shape the co-CEO structure which, according to the authors, could be one of two types. The Type-1 expects the firms to adopt shared leadership in order to retain a mix of competencies, professional skills, and leadership styles within the top management and so it gives to each CEO full authority to represent the firm when making decisions without the need to obtain the other CEO's approval. Instead, in the Type-2 structure, every CEO has the same decision-making authority, but they can make decisions only with the consent of all the other CEOs in the firm. Yoo et al. (2020) find that "poor performance by a sole CEO is more likely to result in a Type-2 co-CEO structure (i.e. diluted authority for the existing CEO) than in a Type-1 structure (full authority for each co-CEO)".

2.4 Shared Leadership Conditions and Antecedents

Although Conger and Pearce (2003) consider the shared leadership field to be "still in its infancy", there are many studies and empirical investigations which regard it, the conditions necessary for its implementation and the consequences that derive from it. For example, Pearce and Sims (2000) present a conceptual framework which "shows shared leadership as a mediating causal variable between three broad categories of antecedent variables — group characteristics, task characteristics, and environmental characteristics — and three broad categories of group outcome variables — group psyche, group behavior, and group effectiveness" (see Fig. 2.4.1).

Figure 13.4.1 - Shared Leadership Conceptual Framework



Source: Pearce and Sims (2000)

According to Avolio (1996), shared leadership is more likely to be present in teams which have progressed to the highest stages of development and it is facilitated in a group where there is faith regarding the team members abilities. As a consequence, a group that has reached a maturity stage is more likely to exhibit shared leadership (Burke et al. 2003). Mutual trust and group member familiarity are other important elements that a group needs to have in order to develop shared leadership, as members will have more experience of working together and they will be more eager to encourage and tolerate differing views.

As noted above, group characteristics are important determinants of the likelihood of shared leadership, however the nature and culture of an organization have a strong influence

too. Burke et al. (2003) highlight how important the organizational environment and culture are in determining whether shared leadership will be successful. According to them an ideal environment should encourage openness and free exchange of ideas. Moreover, the Pearce and Sims (2000) model asserts that also support systems like information, coordination and collective reward systems are positive indicators for shared leadership. O'Toole et al. (2002), instead, notice that the co-CEO structure seems to work best when an existing CEO creates it and the probability of success of shared leadership seems to be higher when the persons involved play different and complementary roles.

Berkowitz (1953) notices that the members of a group are more inclined to share leadership when the problems they are facing are complex and urgent. Indeed, the Pearce and Sims (2000) conceptual framework sets apart task characteristics from environmental elements and supports that shared leadership will prosper under conditions where tasks are highly interrelated, complex, urgent, significant, and require a high degree of creativity. Other internal factors which may influence the development of shared leadership within a group are the team size and the gender diversity. While externally, the organizational conditions and the nature of the outside environment influence the acceptance and consequences of shared leadership (Pearce and Conger, 2003).

Even though the Pearce and Sims (2000) model is considered a fundamental element for shared leadership theory, Wood and Fields (2006) state that it does not consider an important element, the cyclical nature of the process. In their opinion, higher levels of shared leadership reduce role conflicts and role ambiguity among team members which in turn strengthen the team's unity. That is, outcomes become inputs and the cycle starts again.

Arnone and Stumpf (2010) state that "while the structure can be a lasting one, adopting co-head roles is best thought of as an interim strategy that requires careful consideration of corporate context and competitive environment and the risk factors involving the personal dynamics of shared leadership". In their study, the authors provide a list of five recommendations about adopting shared leadership. According to them:

A. It is fundamental that co-heads discuss and understand endgame of their collaboration, otherwise they will tend to invest energy in second-guessing their colleagues' motives.

B. The desired outcomes for each individual and the risks of the partnership should be delineated at the beginning, if no time is spent negotiating and politicking rather than leading the enterprise.
C. In order to solve issues as they arise, co-leaders need to understand the business philosophy regarding shared leadership roles.
D. There should be an explicit understanding and agreement on how each leader has to serve clients and customers.
E. Lastly, to ensure that less urgent issues are not forgotten, the firm has to improve the communication through various reporting structures.

The first important challenge on which depends how successful will be the shared leadership regards the crafting and shaping of the roles, rules, and responsibilities that highlight the talents and interest of each leader (Arnone and Stumpf, 2010). Indeed, the authors notice that successful co-heads develop a clear understanding of their distinct roles and responsibilities, which are typically divided by personal style, distinctive competencies, and specifics of the situation that caused the co-head structure. According to O'Toole et al. (2002) roles and tasks can be divided in numerous ways, mainly depending on co-leaders' skills and interests and organizational needs and opportunities. Moreover, the authors note that a great part of the shared leadership success relies on how efficiently and effectively co-leaders communicate, handle crises, allocate joint tasks and decision making, share the same positions on key issues.

O'Toole et al. (2002) underline the importance for co-leaders to learn to work together, but, above all, co-heads need to learn how to handle the division of credit and manage their egos. According to them, the co-leaders need to have rapport and complementary skills, they have to be able to manage and value their complementary skills, temperaments and perspectives. Differences in business competencies reflect functional expertise, such as marketing and sales versus production and engineering (Arnone and Stumpf, 2010). Moreover, they notice that situational factors such as geographic expansions and mergers/acquisition influence the co-heads roles and responsibilities. Related to the former, co-leaders usually have primary responsibilities for regions depending on cultural factors or language skills which they possess. While in mergers, key factors are the business relationships with the other part involved.

Lastly, Arnone and Stumpf (2010) notice that the shared leadership experience lead to a significant personal growth, the risk and reward factors include now not only personal failures and accomplishments but also those of the co-heads. Furthermore, the authors indicate three challenges which may threaten the co-heads success:

- Establishing poor trust with former rivals and their subordinates.
- Ignoring the views of one's counterpart into decision-making.
- Limited self-awareness, particularly about the untested aspects of leadership.

Similarly, O'Toole et al. (2002) notice that the most important matter is not how responsibilities are divided, but that "individuals involved are cleat about their roles and honest with themselves and each other about their respective contributions and needs for acknowledgment and power".

2.5 Pros and Cons of Shared Leadership

Through the years there have been many different companies adopting the shared leadership approach. Some of them reached great results, such as Research in Motion, Twitter, and Motorola; on the other side companies like Omnimedia, Unilever, and Kraft ended up with bad co-leaders experience (Arnone and Stumpf, 2010). According to Arena et al. (2011), shared leadership "has the potential to influence the firm's decision-making in ways that are very different from that of solitary CEO. Co-CEOs often bring complementary skills to the firm's senior leadership position, providing a range of competencies and perspectives that might not be present in a single individual". For example, firms involved in different industries could find advantageous to hire co-CEOs who have the knowledge for the different business sectors or a multinational corporation could find beneficial to appoint more than one CEO, in order to divide the lead of the domestic operations from the international ones (Arena et al. 2011).

The Amana Corporation chief executive, Paul Staman, explained the benefits of joint leadership: "it allows more time for leaders to spend in the field; it creates an internal dynamic in which the leaders constantly challenge each other to higher levels of performance; it encourages a shared leadership mindset at all levels of the company; it prevents the trauma of transition that occurs in organizations when a strong CEO suddenly leaves." Moreover, from

the Arnone and Stumpf (2010) interviews to 19 former co-heads with multiple experiences five benefits of the co-head structure emerged: better decisions, stronger business results, more opportunities for business development, more positive work culture, and decreased stress.

Especially in the Western world, Pearce and Conger (2003) argue that the massive use of formal position power at the top is not the best source of leadership in a large number of organizational circumstances. This because the top-down decision-making is not always able to ensure a shared sense of purpose or a better goal alignment, instead, more often it results in compliance rather than consensus. In the authors opinion, consensus is a better approach because it promotes voluntary and deeper commitment and often greater understanding of a challenge. However, this is not always the case. To make it a good approach some conditions must be in place, the presence of knowledgeable and empowered individuals who have the necessary resources and authority (Pearce and Conger, 2003).

Firm’s resources excess allows a CEO to strive for valuable projects or to waste capital on poor investments. So, Arena et al. (2011) believe that firms with generous financial resources and less debt are more likely to benefit from co-leaders structures due to the potential mutual surveillance that they carry on and that could avoid bad investments and reduce agency conflicts. Moreover, they notice significant differences in compensation between co-CEOs and solitary CEOs, with the formers receiving proportionately less incentive compensation than the latter (co-CEOs individually are paid less than solitary CEOs). The authors analysis find that co-leaders’ compensation is relatively cheaper across all components: fixed salary, bonus, and option grants. That is why they conclude that shared leadership does not produce entrenchment effects, otherwise CEO salaries would have been higher. Moreover, compared to single CEOs, co-CEOs’ compensation presents a smaller amount of incentives (Arena et al. 2011). This result is consistent with the hypothesis that co-CEOs monitor each other, thereby reducing the need for incentive-based compensation to reduce agency costs. So, Arena et al. (2011) state that the mutual monitoring and advising provided by shared executive leadership might substitute for more traditional governance mechanisms.

In their study about the correlation of audit costs and shared leadership, Choi et al. (2018) confirm that co-CEO structures can serve as an alternative governance mechanism able to reduce agency costs. The authors find that auditors charge materially less for firms which adopt shared leadership respect to those firms with one CEO. According to them, this consequence

derives from the co-CEOs mutual monitoring, which lowers the control risk of an external audit and hence requires lower effort.

The adoption of shared leadership is not always beneficial. According to Yoo et al. (2020), firms with multiple CEOs may suffer coordination problems, interpersonal conflicts, sabotage, or there could be loyalty dispersion among employees, and organizational inefficiencies caused by duplicated reporting. Arena et al. (2011) argue that co-leaders structures could result in sub-optimal decision-making by the firm as co-CEO agreements are afflicted by coordination problems and interpersonal conflicts. "The strong egos and personalities of CEOs can lead to friction and competition for power between individuals. Any inability of co-CEOs to compromise can cause loss of corporate focus and conflicted decision-making" (Arena et al. 2011). That is why many scholars see the co-heads as an instable structure not sustainable in the long-term.

Shared leadership may be harmful to a firm because it violates the "unity-of-command" (Fayol, 1949). According to Fayol's (1949) unity-of-command principle, only one individual should lead a firm. The author states that, "an employee should receive orders from one superior only. [...] Should it be violated, authority is undermined, discipline is in jeopardy, order disturbed, and stability threatened" (1949). Similarly, Locke (2003) believes that shared leadership is not adequate for full or integrated leadership model and that it is unsuitable for the top of the organization, due to the fact that someone has to take the final decision. That is, groups do not always agree and in the end somebody has to have the authority to decide, the CEO has to make the final choice, otherwise there is the risk of organizational chaos and anarchy. In order to please everyone, there is also the possibility to end up with a decision that is just a meaningless mix of compromises. Moreover, Locke (2003) recommends delegation as long as the subordinates act in accordance with the organization's vision, core values, and goals. If this does not happen, the solo leader has to make clear what needs to be changes and why. The leader should proactively look for knowledge from other people. "If CEOs choose very capable people to work for them, then inevitably they are going to know things that the CEO does not know. To hire smart people and then fail to listen to their ideas is a contradiction and also self-destructive" (Locke, 2003). Also Arnone and Stumpf (2010) find different downsides coming from the adoption of shared leadership. From their interviews to former co-heads emerged the following pitfalls: suspicion of the other's intentions without verifying or discussing them, failure to establish or maintain open a clear and honest communication,

disagreements over issues based on personal experiences or perspectives without challenging their relevance to the issue at hand, fear of unfair recognition for the other co-heads, lack of respect for the other co-heads.

Overall, quoting O'Toole et al. (2002), "The fact that shared leadership exists does not make it a good practice, or necessarily better than the solo variety. Indeed, some of the most visible examples of shared leadership have ended in failure". According to them, two or more leaders are better than one when "the challenges a corporation faces are so complex that they require a set of skills too broad to be possessed by any individual" (O'Toole et al. 2002).

2.6 Governance and co-CEOs Complementarity

Arena et al. (2011) observe that governance variables, such as the percentage of independent directors, the board advising, and the institutional ownership, are all statistically relevant and they indicate a direct link between firm's governance characteristics and the decision to adopt a co-CEO structure. The authors notice that the presence of independent directors on the board is negatively related to the probability of co-CEOs structure. The same can be said about leverage, it is negatively related to shared leadership suggesting that any decrease in monitoring by creditors is offset with a greater probability of the firm selecting co-CEOs. Lastly, Arena et al. (2011) find that companies with less advising directors are more prone to implement co-leaders. In general, what can be inferred from those findings is that co-CEO structures can be a valid substitute for other corporate governance mechanisms.

According to Hermalin and Weisbach (1998), when the CEOs possess high levels of power and prestige, it is more difficult for the board of directors to monitor them. This reduction in the board's monitoring ability might even be more pronounced when the firm's leadership depends on more than one CEO. Hence, this view may have two consequences: 1) co-leadership might concentrate more authority within the CEOs, and further weaken the board's ability to provide oversight resulting in an increase in the degree of managerial entrenchment; 2) co-CEOs might function as mutual monitors, thus substituting the board of directors or institutional equity ownership. Furthermore, boards of directors serve also as firm's management advisors. According to Arena et al. (2011), if the co-CEOs have complementary

expertise and job responsibilities, the advising role of the board of directors will become less useful.

Arena et al. (2011) notice that co-CEOs generally complement each other in terms of education background or executive responsibilities. They find that more than the 55% of the co-CEOs in their sample possesses a graduate degree against the 40% holding a bachelor's degree. Only the 3% of them does not have a college degree. The prevalent undergraduate subject of study is business, with almost 45% of the co-CEOs majoring in this discipline. The authors explain that educational complementarity takes place when one of the co-CEOs has at least one academic degree different from the other co-CEOs, and the 75% of the co-CEO dyads has it. Moreover, the authors explain that co-CEOship could generate managerial efficiencies if it is structured, so that executive assignments are complementary, that is if it is well designed in order to avoid overlap in responsibilities. They find that a large portion, almost 37%, does not well implement complementarity in terms of job responsibilities, percentage that goes up to 68% if considering only co-CEO structures resulting from merger activity. Furthermore, Arena et al. (2011) observe that almost 43% of the co-CEOship under examination presents complementarity in both academic preparation and supervisory duties. They conclude by noting that only the 11% of the sample does not have any type of complementarity.

Regarding the tenure of a co-CEOs structure, Arena et al. (2011) find out that with an average of 4.5 years it is not much shorter than those of solitary CEOs. The shortest tenure about one year belongs to the interim CEOs, those put in place during the transition between two CEOs. While with an average of 2.4 years, co-CEOship deriving from mergers are the second shortest (Arena et al. 2011).

2.7 Diffusion

Arena et al. (2011) empirical findings reveal that almost one-fifth of the co-CEOs structure analysed are associated with merger and acquisition activity. Frequently, with the realization of a merger, the CEOs of the merging companies are nominated co-CEOs of the new company. The non-merger related circumstances for the adoption of shared leadership include: family succession influences, which represents the 25% of the total; the existence of multiple

corporate founders with the 15%; its use to smooth the transition between an incumbent CEO and a new incoming CEO, almost 9% (Arena et al. 2011).

Shared leadership is more common in countries such as Germany or Korea, where firms developed in a more collective and cooperative way, with individual progress viewed as the result of the collective effort of the group. Instead, in Anglo-Saxon countries, where an individualistic culture dominates, firms developed hierarchical co-manager structures (Yoo et al. 2020). According to Dennis et al. (2011) shared leadership is a rare form of organizational structure in the U.S., in their study only the 0.8% of the firms' sample had co-CEO management structures. Arena et al. (2011) find just 111 distinct firms having co-CEOs in the U.S. for the period 1998-2008. While for the period between 2000 and 2011, Krause et al. (2015) report only 71 firms having a co-CEO structure in the United States. The increase in diversification influenced the development of U.S. firms adopting a co-manager structure, where names such as chief financial officer, chief operating officer, chief information officer are used for top managers (Yoo et al. 2020). According to Arena et al. (2011), also the above-mentioned determinants of shared leadership explain why co-CEOs structures are not a so common organizational form in Western countries. Only a limited number of companies is able to satisfy conditions such as lower leverage, a more limited corporate focus, less independent boards, lower institutional ownership, and a higher level of merger activity.

Choi et al. (2018) state that shared leadership structure is prevalent in Korea. During the period from 2002 and 2013, they report that the 38% of their firm's sample is led by multiple CEOs. Moreover, they notice that the number of CEOs per firm is variable, although most of such companies have dual CEOs, almost 7.5% of firms report three or more CEOs. Korean firms developed structures in which multiple leaders work in harmonious group. Furthermore, the Korean labour market for top managers is not as developed as the American one, making it more difficult for Korean firms to find capable individual managers. As a consequence, firms in Korea prefer to retain competent managers by promoting them, eventually as CEO (Yoo et al. 2020).

With a research on 500 German high performing companies, Simon (1996) finds that a significant number of them adopted a collegial leadership structure with more than one CEO.

2.8 Performance

Many scholars also examined the market reaction and performance effects resulting from the adoption of a shared leadership structure. While the large part of scholars claim that co-leaders structures relates positively with firm performance, a few authors reveal inconsistent results, which may be the effects of theoretical and conceptual differences (D'Innocenzo et al. 2014). For example, Bowers and Seashore (1966) study peer leadership in the form of support, goal emphasis, work facilitation, and interaction facilitation as related to team performance. Their analysis exhibits negative effects across all dimensions. Also Boies et al. (2010) state that shared leadership has negative effects on firm performance. However, Dennis et al. (2009) notice that prior stock price performance in the one year before the announcement of the Co-CEO structure has no effect on the incidence of Co-CEOs. Whilst, when the firm announces a new co-CEO, the stock price has a weakly positive effect. Interestingly, the author finds that the stock returns of other firms in the industry in the same period are significantly negative. Arena et al. (2011) notice a positive market reaction at the announcement of a new co-CEO, too. They also notice that the presence of co-CEOs is associated with a higher market-to-book ratio. Moreover, announcements by firms to dissolve a Co-CEO structure produce a 1.75% stock price decline on the announcement day and a more than 8% decrease in the first thirty trading days. However, there is no significant difference in the future performance of firms who add Co-CEOs versus control firms or firms who dissolve a Co-CEO structure (Dennis et al. 2009).

Overall, D'Innocenzo et al. (2014) believe that shared leadership has a positive effect on firm performance. According to them, when team members offer leadership, they will put more effort in doing the tasks, share more information, and experience higher commitment, thus improving the team performance.

2.9 Shared Leadership in Family Firms

As noted before, most organizations still operate as hierarchies, however, many firms worldwide, especially family firms, employ co-CEO structures in which each CEO has the same title and shares responsibility for developing firm strategy and overseeing different division or functions. Co-CEO structures in family firms are acknowledged to be an important

means of allocating leadership responsibilities across family members. Le Couvie (2016) notices that the frequency of shared leadership structures in family businesses is increasing. When there is a single leader running the business, the decision-making process tends to be faster. Nevertheless, when the business matures and grows, it becomes more complex for owners to manage the increasing number of family members working in the firm. Over the last ten years it kept growing in family businesses a trend toward equality, firms have shaped systems of multiple leaders with transition control of the business to the next generation in the form of a leadership group (StrategicDesign, 2009).

According to an Arthur Andersen (1997) research, 91% of the businesses surveyed have two or more family members involved in the day-to-day management of the company, while over 42% of these same businesses have considered co-presidents or co-CEOs in their succession plans, with the majority of the owners saying that their companies will have co-leadership in the future. Moreover, a 2007 Mass Mutual surveys revealed that 12% of family-owned businesses have family members functioning as part of a management/leadership team and in at least 66% of family businesses that go through transition after the second generation, siblings and cousins expect to run the company as part of a team in the future.

Gersik (1997) categorizes three fundamental forms of family-owned firms considering the ownership distribution:

1. Controlling owner business.
   It represents almost 75% of the U.S. family businesses. The controlling ownership is mainly composed of one or few individuals, the founders. This structure works well in the company's early stages, as the firm grows it can become overloaded.
2. Sibling partnership.
   About 20% of U.S. family firms belong to this group. It is principally adopted in the second generation, when the firm is handed down to the founder's children. This structure is more complex respect to the previous as now there are more people involved in the management structure.
3. Cousin consortium.
   Almost 5% of U.S. family-owned firms are cousin consortium. Usually a firm assumes this structure in the third generation and beyond, as the cousins define their position in

the business. As one can imagine, it is characterized by a fragmentated ownership and by the presence of a mixture of family and non-family managers.

As said, in recent years there has been a trend within private industry, including many family firms, to implement a shared leadership structure. Many family employees notice that there is the need to run professionally the business and adapt it in order to face the challenges of the today's competitive environment (LeCouvie, 2016). According to Strategic Design (2009), there is evidence that when multiple family members manage the business there is wider knowledge, improved monitoring, and higher financial return. Moreover, firms may adopt a management or leadership team in order to assign accountability, to achieve stronger market growth, to improve operational efficiency. Another important advantage of the creation of shared leadership, that can be very useful in family firms, is that it can provide a "school" for younger family members to practice and develop leadership and cooperation.

Strategic Design (2009) considers the sibling partnership and the cousin consortium as relevant examples of shared leadership within family firms, and according to them they can take two forms: first among equals, and shared partnership. The first model requires a group agreement with which a single leader is acknowledged. However, the leader will not always be able to act without consulting the other members, who generally use a consultative style or majority rule to reach consensus. On the other hand, the shared partnership model implies an agreement among partners which allocates equal ownership and decision-making authority. There could be distinctions in terms of individuals' function and responsibilities, but decision-making is equally shared.

Shared leadership does not bring only benefits, as there are few challenges which need to be faced. In general, it dilutes the general perception of power at the top of the organizations and if the group fails to efficiently take decisions, the business' capacity to quickly respond to internal and external contingencies may weaken. Moreover, it is not easy to separate family and emotions from the business, so having many family members in leadership roles may increase role conflicts. Furthermore, Strategic Design (2009) indicates other common problems relative to shared leadership in family firms, for example: developing a method of decision-making about key business concerns; representing unified leadership to all the stakeholders; making a shift from thinking about individual success to developing a sense of stewardship for the business. Cater and Justis (2010) studied multigenerational firms in the midst of succession.

In particular, they examined the factors which affect implementation of informal shared leadership among the successor generation. They determined that throughout the process, long term orientation and close communication impacted shared leadership positively, while resistance to change negatively affected shared leadership.

When owners are planning the leadership transition, particularly in the case of a transition to a shared leadership structure, they should carefully consider the following activities: developing a rigorous skills assessment program to identify and cultivate leadership skills in candidates; implementing a highly specialized development, training, and mentoring program for the candidates; and implementing a rotation program for exposure and training. "Owners must evaluate candidates based on their knowledge, skills, and abilities as well as the current and future needs of the business. It may be that leadership is best structured around a single successor rather than a group of talented siblings or cousins" (Strategic Design, 2009).

2.10 Family VS Non-Family Co-CEOs

As noticed before, the agency theory explains under which ownership conditions a non-family CEO will outperform, that is when the major family owners effectively monitor the management. On the other hand, behavioural agency theory advises when a co-CEO team, in which a non-family CEO has to work with other family leaders, has to be avoided in order to prevent socio-emotional diversions. With a study on 893 medium large-sized Italian family-owned firms, Miller et al. (2014) find that non-family CEO performance is highly sensitive to contextual aspects of ownership and leadership. In particular, they notice the best performance of non-family CEOs when they work alone and are monitored by multiple major owners, whilst they do worst when working alone under more concentrated ownership. In the first case, having multiple major owners may enhance the efficacy of oversight and this disposition integrates the benefit of having an outside talented leader with an effective monitoring capability, able to tackle executive opportunism. In the second case, the external CEO might be tempted to pursue personal opportunism at the expense of the business as the single major owner is not able to effectively monitor CEO's behaviours (Miller et al. 2014).

When there is a shared leadership structure, Miller et al. (2014) notice that the non-family CEO's performance lies between the two just mentioned extremes. According to the authors,

when non-family leaders have to act in concert with other CEOs in their firm, in particular with those who are members of the controlling family, their knowledge and skills may be nullified by having to overcome the influential counterparts. It is also worth notice that, when non-family CEOs take part in shared leadership teams, they reduce the beneficial effects of this model. Actually, if there are also family co-CEOs in the team and there is a dispersed family ownership, the probability of conflicts and socioemotional distractions increases (Miller et al. 2014). Co-CEO structures are less troublesome when non-family CEOs work within a team of other non-family co-CEOs, perhaps because their priorities are more aligned and less influenced by family-centric concerns. So, the success of shared leadership is strongly influenced both by ownership structure of a firm as well as the presence of family co-CEOs.

Chapter 3

Empirical Analysis

In the previous two chapters it has been explored the theoretical framework for this study, i.e. the general theory about family firms and their governance with a focus on the shared leadership phenomenon. This chapter, instead, sets out the research design and the methods employed in the study and it examines the results found. The main purpose of this study is to explore the adoption of shared leadership structures for the head of Italian listed family-owned companies. In particular, it aims to analyse the trends of this governance choice, the consequences in terms of performance and ownership structure, and it investigates some personal characteristics of the co-CEOs.

3.1 Overview of Italian Listed Companies

According to the "Report on corporate governance of Italian listed companies" (CONSOB, 2019), at the end of 2018 there were 231 Italian companies listed on the Italian Stock Exchange (*Mercato telematico azionario*, MTA). Those were distributed over three main sectors, 127 firms were industrial companies, while 55 and 49 were respectively services and financial companies and the overall market capitalization was slightly higher than 460 billion euros. Regarding the control model and the ownership structure, similarly to the historical evidence, concentrated ownership prevailed among Italian listed companies.

Precisely, in 123 companies the major shareholder owned a stake higher than half of the capital (i.e. majority controlled), in 57 a stake lower than 50% (i.e. weakly controlled) and in 23 cases there was a shareholders' coalition. Only 13 companies, the 5.6% of the total number of listed firms, representing 20.5% of market capitalization, could be defined as widely held (see tab. 3.1.1).

Family firms accounted for almost 66% of the market. They were mainly small companies, belonging to the Star index or not included in any index. In almost 16% of the cases it was not

possible to identify an ultimate controlling agent, being the firm widely held or controlled by a non-controlled company (see tab 3.1.2).

Tab. 3.3.1 - Control model of Italian listed companies (end of the year)

	controlled companies						non-controlled companies						total	
	majority controlled[1]		weakly controlled[2]		controlled by a shareholders' agreement[3]		cooperative companies		widely held[4]		non-widely held[5]			
	no.	% market cap[6]	no.	% market cap[6]	no.	% market cap[6]	no.	% market cap[6]	no.	% market cap[6]	no.	% market cap[6]	no.	% market cap[6]
1998	122	31.2	33	21.8	28	8.3	10	3.1	10	24.1	13	11.5	216	100.0
2010	128	20.6	53	43.0	51	12.4	8	3.4	11	20.3	19	0.3	270	100.0
2011	123	22.3	55	45.8	48	12.0	8	3.2	8	16.4	18	0.3	260	100.0
2012	125	22.8	49	44.0	42	10.1	8	3.2	10	19.2	17	0.7	251	100.0
2013	122	24.1	48	40.1	38	10.4	8	3.3	10	21.6	18	0.5	244	100.0
2014	116	25.0	51	36.8	32	9.6	8	4.0	13	24.0	18	0.5	238	100.0
2015	115	28.1	52	34.8	30	6.0	7	3.2	15	27.3	15	0.6	234	100.0
2016	116	27.2	53	43.6	29	6.5	4	1.3	14	20.6	14	0.7	230	100.0
2017	120	29.8	57	39.8	22	5.3	2	0.5	16	23.5	14	1.1	231	100.0
2018	123	29.7	57	42.3	23	5.3	2	0.5	13	20.5	13	1.6	231	100.0

Source: Consob. Data on Italian companies with ordinary shares listed on Borsa Italiana spa - Mta Stock Exchange. [1] Companies not controlled by a shareholders' agreement where a single shareholder owns more than half of the ordinary shares. [2] Companies neither controlled by a shareholders' agreement nor majority controlled, included in one of the following categories: *i)* a single shareholder holds at least 30% of the ordinary shares; *ii)* a single shareholder holds a stake *a)* higher than 20% of the ordinary shares and *b)* higher than half of the sum of the ordinary shares held by all the major shareholders. [3] Companies not controlled by a single shareholder that are controlled by either a shareholders' agreement regarding more than 20% of the ordinary shares or an unlisted company where a shareholders' agreement regarding the majority of the capital is in force. [4] Companies neither controlled by a single shareholder (majority controlled and weakly controlled) nor by a shareholders' agreement, with a free float higher than 70% of the ordinary shares. [5] Non-controlled companies not included in any of the previous models. [6] Market value of ordinary shares of companies in each group in percentage of the market capitalisation of ordinary shares of all listed companies.

Tab. 3.1.3 - Identity of the 'ultimate controlling agent' (UCA) in Italian listed companies (end of the year)

	families			State and local authorities			financial institutions			mixed[1]			no UCA[2]		
	no.	weight[3]	% market cap[4]	no.	weight[2]	% market cap[3]	no.	weight[2]	% market cap[3]	no.	weight[2]	% market cap[3]	no.	weight[2]	% market cap[3]
2012	152	60.6	26.4	22	8.8	41.7	9	3.6	0.6	20	8.0	6.8	48	19.1	24.5
2013	149	61.1	29.7	21	8.6	34.7	9	3.7	0.7	16	6.6	7.2	49	20.0	27.8
2014	145	60.9	27.7	19	8.0	32.2	11	4.6	0.9	16	6.7	7.5	47	19.7	31.7
2015	143	61.1	29.2	19	8.1	30.4	10	4.3	0.9	14	6.0	3.6	48	20.5	35.9
2016	146	63.5	33.3	21	9.1	35.9	10	4.3	0.8	12	5.2	3.6	41	17.8	26.5
2017	145	62.8	33.5	23	10.0	34.0	14	6.1	0.9	7	3.0	2.6	42	18.2	29.0
2018	152	65.8	33.0	23	10.0	37.8	11	4.8	0.4	7	3.0	1.9	38	16.4	27.0

Source: Consob. Data on Italian companies with ordinary shares listed on Borsa Italiana spa - Mta Stock Exchange. [1] Companies not included in any of the previous category (e.g., companies controlled by both financial institutions and families). [2] Non-controlled companies (i.e., cooperative companies, widely held, and non-widely held firms – see Tab. 1.2) and listed companies controlled by a non-controlled company. [3] Number of companies in percentage of the total number of companies. [4] Market value of ordinary shares of companies in percentage of market capitalisation of ordinary shares of all companies.

Major ownership by institutional investors has slightly increased over 2018 as well as the number of stakes held, which increased from 76 (2017) to 79. Institutional investors held major shareholdings, above the ownership disclosure threshold, in 62 Italian listed companies, approximately 27% of the market, with an average share of capital equal to 7.6%. Italian institutional investors more frequently held stakes in small-sized firms, while foreign investors were major shareholders in companies of different size and industry (see tab. 3.1.3).

Tab. 3.1.3 - Major institutional investors' shareholdings in Italian listed companies (end of the year)

	at least one institutional investor			at least one Italian institutional investor			at least one foreign institutional investor		
	no. of companies	*weight*[1]	*mean shareholding*[2]	no. of companies	*weight*[1]	*mean shareholding*[2]	no. of companies	*weight*[1]	*mean shareholding*[2]
2010	78	*28.9*	*8.0*	47	*17.4*	*6.8*	39	*14.4*	*7.7*
2011	75	*28.8*	*7.7*	48	*18.5*	*6.7*	36	*13.8*	*7.1*
2012	67	*26.7*	*8.5*	39	*15.5*	*7.0*	38	*15.1*	*7.9*
2013	66	*27.0*	*7.7*	32	*13.1*	*6.9*	41	*16.8*	*7.0*
2014	74	*31.1*	*7.7*	27	*11.3*	*7.6*	55	*23.1*	*6.6*
2015	68	*29.1*	*7.9*	18	*7.7*	*7.8*	53	*22.6*	*7.5*
2016	61	*26.4*	*7.5*	14	*6.1*	*6.9*	50	*21.6*	*7.2*
2017	60	*26.0*	*7.7*	12	*5.2*	*7.6*	51	*22.1*	*7.3*
2018	62	*26.8*	*7.6*	13	*5.6*	*6.9*	51	*22.1*	*7.5*

Source: Consob. Data on Italian listed companies with ordinary shares listed on Borsa Italiana spa - Mta Stock Exchange. Major institutional investors are defined as investment funds, banks and insurance companies subject to reporting obligations according to Consob rules and whose shareholdings are lower than 10% (for the purpose of this Report, investors holding more than 10% of a company's capital are not classified as institutional). In 2016, Legislative Decree no. 25 of 15th February 2016 raised from 2% to 3% the threshold for initial ownership disclosure. To grant comparability of data over time, 2010-2015 figures have been recalculated based on the newly introduced 3% threshold. Moreover, data take into account the waivers from ownership disclosure applicable to certain type of investors (art. 119 bis, par. 7 and 8 of the Issuers Regulation). Firstly, asset managers have been exempted from reporting obligation concerning the initial threshold pursuant to Consob Resolution no. 16850, adopted on 1st April 2009; ownership disclosure consequently applies to holdings higher than 5% of a company's capital. Later, pursuant to Consob Resolution no. 18214, adopted on 9th May 2012, the exemption has been widened to include also alternative funds such as private equity and venture capital. Consequently, in order to make the series comparable over time, shareholdings by asset managers, private equity and venture capital are included if higher than 5%, while other investors are included if their stake is higher than the initial disclosure threshold of 3%. [1] Number of companies in each group in percentage of the total number of companies. [2] Simple mean of shareholdings by institutional investors in all listed companies where at least one institutional investor of the relevant category is present.

The traditional management and control system was the most widely adopted by Italian listed companies and corporate boards of directors counting on average 10 members. With respect to director's attributes, board members were aged on average 56.6 years, were foreigners in about 7% of the cases, held a first degree (mainly in Economics) in almost 89% of the cases and had a managerial background in roughly 69% of the cases. The proportion of family directors was slightly higher than 16% (almost 26% in family-owned companies). As for board diversity by the identity of the ultimate controlling agent (UCA), companies controlled by financial institutions displayed directors who on average were younger, more educated, mainly male and more often foreigner than other firms. The managerial professional background was more frequent in the industrial sector and in large companies (see tab. 3.1.4).

Tab. 3.1.6 - Educational background of board members in Italian companies
(number of directorships in the end of the year)

		degree						more than one degree	no degree	*total*
			economics	law	engineering	political sciences	other[1]			
2013	number	1,994	1,053	377	304	93	198	40	252	*2,246*
	weight[2]	*88.8*	*46.9*	*16.8*	*13.5*	*4.1*	*8.8*	*1.8*	*11.2*	*100.0*
2014	number	1,892	1,009	356	278	85	189	40	236	*2,128*
	weight[2]	*88.9*	*47.4*	*16.7*	*13.1*	*4.0*	*8.9*	*1.9*	*11.1*	*100.0*
2015	number	1,905	992	364	275	83	211	43	241	*2,146*
	weight[2]	*88.8*	*46.2*	*17.0*	*12.8*	*3.9*	*9.8*	*2.0*	*11.2*	*100.0*
2016	number	1,872	962	375	252	74	220	39	214	*2,086*
	weight[2]	*89.7*	*46.1*	*18.0*	*12.1*	*3.5*	*10.5*	*1.9*	*10.3*	*100.0*
2017	number	1,958	1,014	395	268	86	214	47	205	*2,163*
	weight[2]	*90.5*	*46.9*	*18.3*	*12.4*	*4.0*	*9.9*	*2.2*	*9.5*	*100.0*
2018	number	1,932	1,011	367	284	80	217	50	189	*2,121*
	weight[2]	*91.1*	*47.7*	*17.3*	*13.4*	*3.8*	*10.2*	*2.4*	*8.9*	*100.0*

Source: Consob and corporate governance reports of Italian companies with ordinary shares listed on Borsa Italiana spa – Mta Stock Exchange. See Tab. 2.2, note 1. Figures refer to those directors for whom information was available. Breakdown by subject of degree includes directors holding more than one degree. [1] The figure does not include cases where information on the subject of the title is not available. [2] Number of directors in each category in percentage of the total number of board members for whom information was available.

Tab. 3.1.7 - Directors' attributes in Italian listed companies by gender (end of the year)

		no. of directorships	% foreigners	average age	education		professional background[2]		
					% first degree	%postgraduate degree[1]	% managers	% consultant /professional	% academic
2011	*director*	*2,567*	*5.1*	*57.5*	*84.0*	*15.3*	*75.0*	*16.2*	*7.6*
	female	192	3.1	49.7	75.5	16.6	71.9	17.2	8.3
	male	2,375	5.3	58.1	84.7	15.3	75.2	16.1	7.6
2012	*director*	*2,401*	*5.2*	*57.6*	*84.9*	*15.7*	*76.2*	*15.1*	*8.2*
	female	283	5.3	50.5	83.0	21.7	68.2	17.7	13.4
	male	2,118	5.1	58.5	85.2	14.9	77.3	14.7	7.5
2013	*director*	*2,332*	*5.8*	*57.3*	*85.5*	*17.2*	*74.5*	*16.5*	*8.3*
	female	417	7.0	50.2	87.5	24.1	62.4	23.7	13.2
	male	1,915	5.5	58.9	85.1	15.6	77.2	14.9	7.3
2014	*director*	*2,211*	*6.2*	*57.1*	*85.6*	*18.9*	*73.0*	*18.3*	*8.1*
	female	500	6.6	50.7	88.0	27.3	59.6	29.0	11.0
	male	1,711	6.1	58.9	84.9	16.4	77.0	15.2	7.3
2015	*director*	*2,222*	*7.4*	*56.7*	*85.7*	*20.9*	*70.8*	*20.3*	*8.3*
	female	617	7.9	50.9	88.7	29.8	55.3	31.8	12.5
	male	1,605	7.2	58.9	84.6	17.4	76.8	16.0	6.7
2016	*director*	*2,160*	*7.0*	*56.6*	*86.7*	*21.6*	*70.2*	*20.9*	*8.2*
	female	677	7.1	51.6	90.3	29.0	55.4	31.6	12.4
	male	1,483	7.0	58.9	85.0	18.0	77.0	16.0	6.3
2017	*director*	*2,227*	*6.9*	*56.5*	*87.9*	*23.1*	*70.2*	*20.2*	*8.8*
	female	748	6.0	52.0	91.6	30.2	53.7	32.0	13.6
	male	1,479	7.4	58.7	86.1	19.2	78.5	14.3	6.4
2018	*director*	*2,184*	*6.9*	*56.6*	*88.5*	*24.4*	*68.5*	*21.3*	*9.4*
	female	785	6.0	52.7	91.7	29.3	52.0	33.1	14.0
	male	1,399	7.4	58.7	86.6	21.5	77.8	14.7	6.8

Source: Consob and corporate governance reports of Italian companies with ordinary shares listed on Borsa Italiana spa – Mta Stock Exchange. See Tab. 2.2, note 1. Figures refer to those directors for whom information was available. [1] Number of graduated directors who attended a postgraduate course and/or hold a PhD in percentage of the total number of graduated directors in each category. [2] The percentages not represented refer to other professional backgrounds.

At the end of June 2019, women serving as directors and internal auditors accounted for more than 36% and 39% respectively. Both figures hit the highest records of female representation in Italian listed companies' boards and were largely driven by Law 120/2011, mandating gender quotas for three board nominations after August 2012. The number of directorships held by women was on average 3.6, with higher figures recorded in medium and large-sized firms, while no significant difference across industries was detected. Looking at the role within the board, women served as the company's CEO in 15 firms, accounting for 2.5% of total market capitalization, and as chairwomen (honorary chairwomen included) in 25 issuers, representing one-third of total market value. Over 72% of women served as independent board members, in continuous growth since 2013 (see tab 3.1.5).

3.2 Data and Methodology Description

For the scope of this study, there have been chosen Italian listed family firms which adopted, at least once, a co-CEOs structure in the period between 2005 and 2018. Companies have been classified as family businesses, if one or two families, or a legal entity directly linked to them, held at least 25% of the firm's capital. Through the above-mentioned time period, 62 Italian listed family firms have had at least for one year two or more co-CEOs, therefore, they formed the final sample of this research.

In order to analyse the trend of adoption of shared leadership structure in family-owned businesses, the educational background and experience of the co-CEOs, and the consequences in terms of performance and ownership structure, this study takes in consideration and examines the following variables for each chosen company:

- Board size;
- Number of co-CEOs;
- CEOs personal information, such as age, gender, kinship with the owing family, education, and functional background;
- Annual average stock price and market capitalization;
- Presence of institutional investors in the ownership structure and consequent amount of the owned stake.

Data and information about the governing bodies and firm leaders were collected through the Corporate Governance and Ownership Structure Relations that each listed company has to publish each year in accordance to the law. For this reason, it was necessary to make some methodological choices to guarantee the analysability of the data: the "familiarity" of the CEOs has been detected based on the affinity with the family name of the controlling owner. As a matter of fact, data could be slightly underestimated. The same methodology was used to assess the "familiarity" of the shareholders. Instead, the data regarding the co-CEOs educational background and work experience were mainly collected from the *curriculum vitae* of each directors available on company or personal website. If such information were not available, other sources were used, such as public information websites, LinkedIn, and Wikipedia.

The presence of institutional investors in the companies' ownership structure has been check through the official data provided by the CONSOB website. The *Commissione Nazionale per le Società e la Borsa* (CONSOB) is the public authority responsible for regulating the Italian financial markets, it is competent, among other thigs, for ensuring transparency and correct behaviour by financial market participants, disclosure of complete and accurate information to the investing public by listed companies.

The statistical investigation of the impact of shared leadership on performance requires the definition of some observable aspects, which provide the basis for an objective evaluation of firm's performance. This study used the firms' annual average stock price. The annualized prices are the result of the weighted average of the monthly stock prices collected from Bureau van Dijk Orbis database for time.

This study conducts a descriptive analysis of the evidence found. Descriptive statistics are brief descriptive coefficients that describe and understand the features of a specific data set by giving short summaries about the sample and measures of the data. All descriptive statistics are either measures of central tendency or measures of variability, also known as measures of dispersion. The former measures focus on the average or middle values of data sets; whereas, the latter focus on the dispersion of data. These two measures use graphs, tables, and general discussions to help people understand the meaning of the analysed data. Measures of central tendency include the mean, median, and mode, while measures of variability include the standard deviation, variance, the minimum and maximum variables.

3.3 Descriptive Analysis

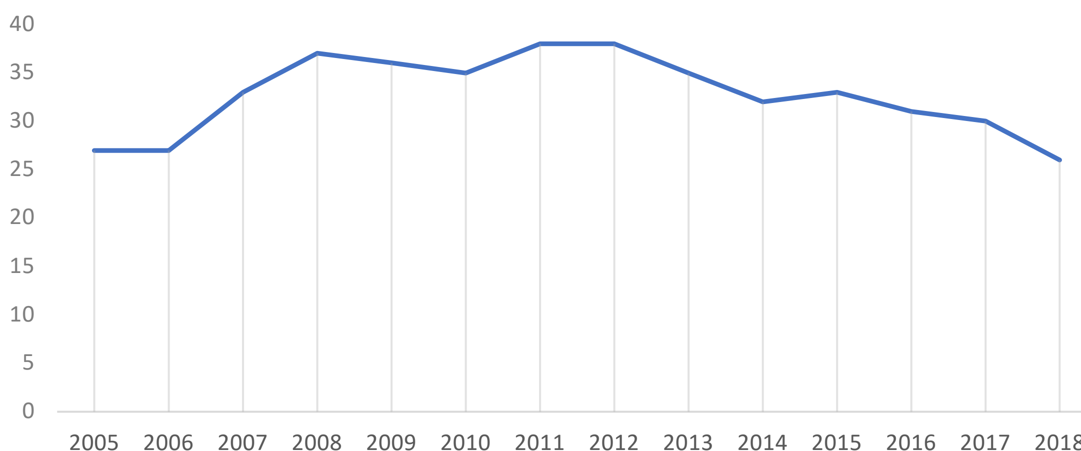
3.1 Shared Leadership among Italian Listed Family Firms

As noticed before, during the considered time period, 2005-2018, 62 different Italian listed family businesses have adopted, at least for one year, a shared leadership structure. However, not all of them maintained such a head structure for all the time horizon. On average, only 33 family-owned firms adopted a co-CEOship for the lead of their businesses (see Tab. 3.3.1, Fig. 3.3.1). From the table and figure below, it is easy to see how in the first half of the period there is an increasing trend in firms adopting shared leadership, specifically it went from 27 companies in 2005 to 38 in 2012. However, in the second half the trajectory starts decreasing till reaching 26 businesses in 2018.

Table 3.3.1 - Italian Listed Family Firms Adopting Shared Leadership Structure

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Mean	SD
Total	27	27	33	37	36	35	38	38	35	32	33	31	30	26	33	4,08
Delta		0%	22%	12%	-3%	-3%	9%	0%	-8%	-9%	3%	-6%	-3%	-13%		

Figure 3.3.1 - Italian Listed Family Firms Adopting Shared Leadership Sructure



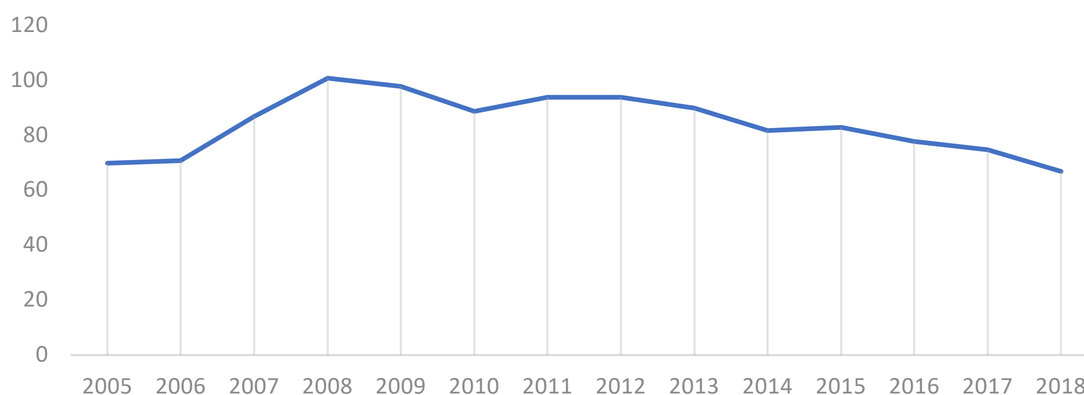
The table 3.3.2 shows the total number of CEOs who were sharing the leadership of all the Italian listed family firms. On average, from 2005 to 2018, there were 84 family firms' co-CEOs. In this case too, the curve is upward sloping during the first years and downward sloping

in the second half, thus, as one may expect, the number of co-CEOs is directly related to the number of firms adopting a shared leadership structure (see Tab. 3.3.2., Fig. 3.3.2).

Table 3.3.2 - Total Number of Co-CEOs

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Mean	SD
Total	70	71	87	101	98	89	94	94	90	82	83	78	75	67	84	10,85
Delta		1%	23%	16%	-3%	-9%	6%	0%	-4%	-9%	1%	-6%	-4%	-11%		

Figure 3.3.2 - Total Number of Co-CEOs

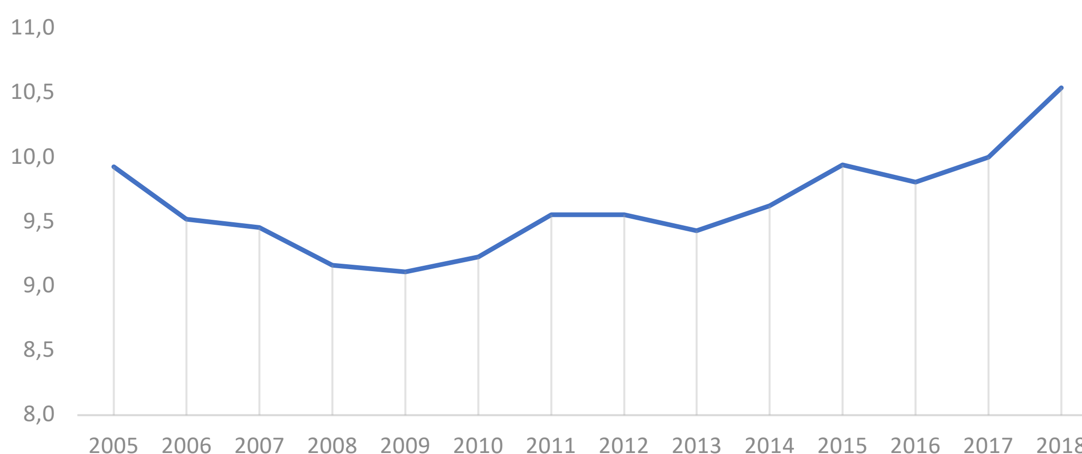


The next analysed variable regards the board size, it refers to the total number of directors on the board of each dataset firm which is inclusive of the CEO and Chairman for each accounting year. This will include outside directors, executive directors and non-executive directors. In general, the board size is related to other variables, i.e. firm size, ownership, industry, etc. The statistics for board size show (see Tab. 3.3.3) that the mean board size is 10 directors with a minimum of 4 and a maximum of 20 directors. So, it is consistent with the average board size of all the Italian listed companies (see paragraph 3.1). The overall trend in the time period considered is quite stable, only in the last few years the average number of directors for each board seems increasing.

Table 3.3.3 - Board Size

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Overall
Mean	9,9	9,5	9,5	9,2	9,1	9,2	9,6	9,6	9,4	9,6	9,9	9,8	10,0	10,5	9,6
Median	9,0	9,0	9,0	8,0	8,0	8,0	9,0	9,0	9,0	9,5	10,0	10,0	10,0	10,5	9,1
Mode	9,0	7,0	7,0	7,0	8,0	7,0	9,0	9,0	9,0	9,0	9,0	8,0	8,0	11,0	8,4
Variance	10,6	7,2	7,3	8,0	7,4	7,8	7,0	6,7	5,7	4,9	7,9	6,1	5,2	8,5	7,2
SD	3,3	2,7	2,7	2,8	2,7	2,8	2,6	2,6	2,4	2,2	2,8	2,5	2,3	2,9	2,7
Min	5,0	4,0	4,0	5,0	5,0	5,0	6,0	5,0	5,0	5,0	5,0	5,0	5,0	5,0	4,0
Max	20,0	15,0	15,0	15,0	15,0	17,0	17,0	17,0	13,0	13,0	18,0	15,0	14,0	18,0	20,0

Figure 3.3.3. - Average Board Size

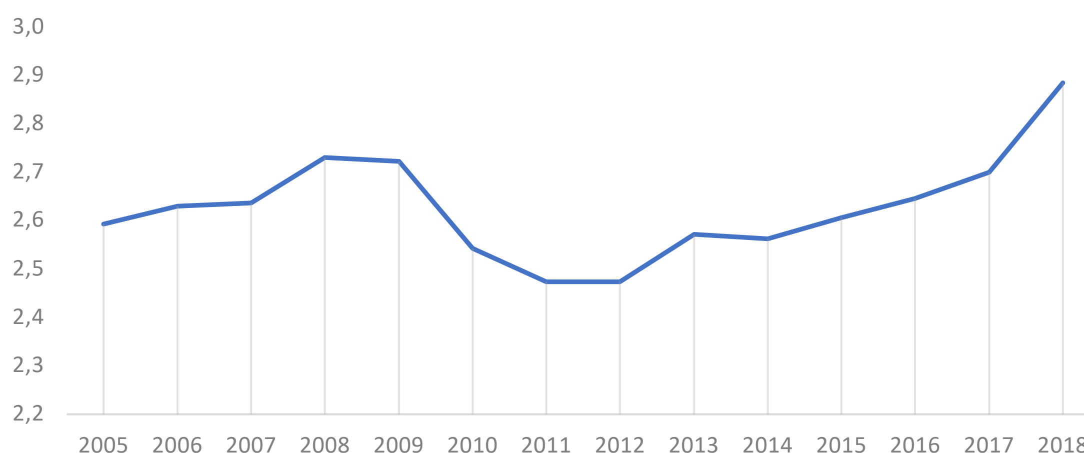


Observing the number of co-CEOs for each firm, it can be noticed that companies which adopt a shared leadership structure mainly choose to split the lead between two or three CEOs (see Fig. 3.3.4). Over the years the trend slightly increases, with an average of three co-CEOs elected for each firm in 2018. Of course, the minimum number observed is two co-CEOs per firm, otherwise there would not be shared leadership. Whilst the maximum number of co-CEOs in the sample firms is seven (see Tab. 3.3.4).

Table 3.3.4 - Number of Co-CEOs for each Firm

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Overall
Mean	2,6	2,6	2,6	2,7	2,7	2,5	2,5	2,5	2,6	2,6	2,6	2,6	2,7	2,9	2,6
Median	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0
Mode	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0
Variance	1,0	1,1	1,2	1,3	1,2	1,1	1,0	1,1	1,1	0,7	0,9	1,0	1,4	2,2	1,2
SD	1,0	1,0	1,1	1,1	1,1	1,0	1,0	1,0	1,0	0,8	0,9	1,0	1,2	1,5	1,1
Min	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0
Max	7,0	7,0	7,0	7,0	7,0	7,0	7,0	7,0	7,0	5,0	5,0	5,0	6,0	7,0	7,0

Figure 3.3.4 - Average number of co-CEOs



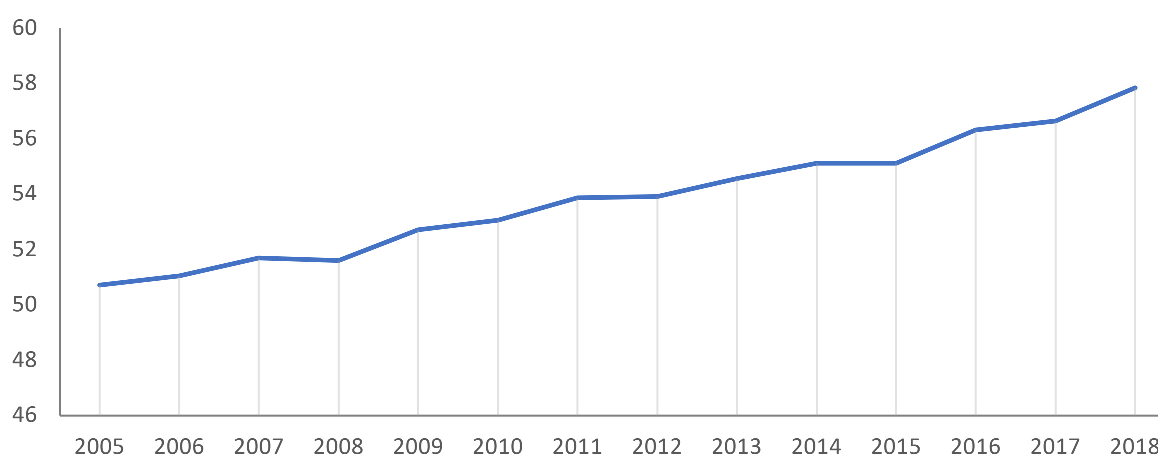
3.2 Co-CEOs Characteristics

In the Table 3.3.5 a bunch of statistics regarding the co-CEOs age are listed. It can be observed that the average age in the considered time period is 54 years, with a minimum of 27 and a maximum of 86 years. Observing the Figure 3.3.5, it can be noticed a constant increasing trend in the average co-CEOs age, it passes from 51 years in 2005 to 58 in 2018. This evidence suggests that a great part of the appointed co-CEOs remain the same over time, thus, as they get old, the trajectory continues to remain upward sloping.

Table 3.3.5 - Co-CEOs Age

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Overall
Mean	51	51	52	52	53	53	54	54	55	55	55	56	57	58	54
Median	49	50	49	50	51	52	53	54	55	56	55	56	56	57	53
Mode	44	45	44	45	46	52	55	54	50	51	52	53	54	55	50
Variance	112	154	118	151	153	103	99	75	78	83	86	86	73	79	103
SD	11	12	11	12	12	10	10	9	9	9	9	9	9	9	10
Min	31	32	33	27	28	29	30	31	32	33	34	35	36	37	27
Max	79	80	81	82	83	80	81	82	83	84	85	86	77	78	86

Figure 3.3.5 - Average co-CEOs Age

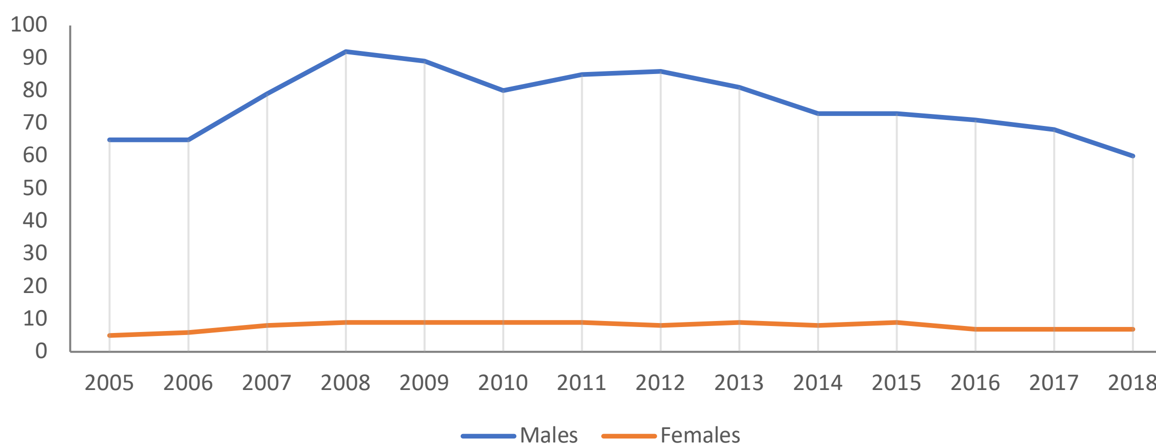


The statistics about the co-CEOs gender confirm the general trend observed by the EWOB 2019 report among the European listed companies, that is, a great negative gap in terms of females holding the position of CEO compared to males. Overall, female co-CEOs represent the 9% of the total (see Tab. 3.3.6), a slightly higher percentage respect the 5% of the STOXX Europe 600 companies. On average, in the analysed firms, there are 76 male co-CEOs and just 8 females. As shown by the Figure 3.3.6, on average the gender gap is constant over years, just in some years it becomes worse due to the increase of male co-CEOs.

Table 3.3.6 - Co-CEOs Gender

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Overall
Male co-CEOs		65	65	79	92	89	80	85	86	81	73	73	71	68	60	76
		93%	92%	91%	91%	91%	90%	90%	91%	90%	89%	88%	91%	91%	90%	91%
Female co-CEOs		5	6	8	9	9	9	9	8	9	8	9	7	7	7	8
		7%	8%	9%	9%	9%	10%	10%	9%	10%	10%	11%	9%	9%	10%	9%

Figure 3.3.6 - Co-CEOs Gender

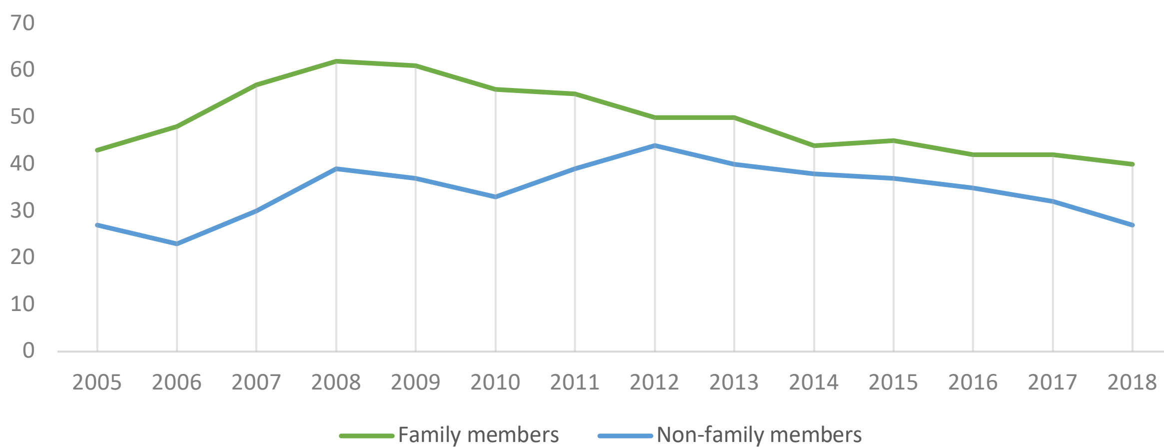


The next table and figure (3.3.7) analyse the co-CEOs kinship with the owning family, differentiating co-CEOs family members and non-family members. In this case the gap between the two groups is much lower compared to the gender gap. Overall, family members occupy more seats with almost the 59% of the total, however, with an average of 41% non-family members are not much less. From the Figure 3.3.7, which displays the trend over years, is easy to see how the gap is decreasing throw years, with always more CEOs hired outside the owning family.

Table 3.3.7 - Co-CEOs Kinship

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Overall
Family members	43	48	57	62	61	56	55	50	50	44	45	42	42	40	50
	61%	68%	66%	61%	62%	63%	59%	53%	56%	54%	54%	54%	56%	60%	59%
Non-family members	27	23	30	39	37	33	39	44	40	38	37	35	32	27	34
	39%	32%	34%	39%	38%	37%	41%	47%	44%	46%	45%	45%	43%	40%	41%

Figure 3.3.7 - Co-CEOs Kinship



The co-CEOs education is the next analysed characteristic. For the purpose of this research, four (plus one) categories have been identified in order to categorize CEOs according to their personal level of education. Those are:

- No titles;
- Highschool;
- Graduate;
- Post-graduate;
- Not available (N/A).

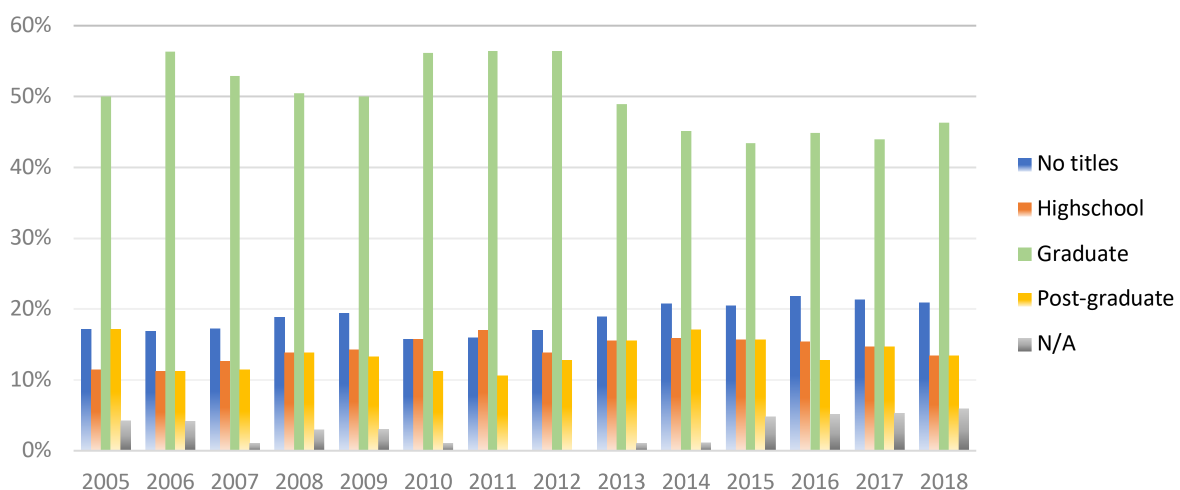
As said before, the data regarding the co-CEOs education were mainly collected from the available *curriculum vitae* or from other sources such as public information websites, LinkedIn, and Wikipedia. However, it was not always possible to find such information, that is why the need for the fifth category (N/A).

The final statistics, as shown in Table and Figure 3.3.8, are quite consistent with what Jalbert et al. (2002) find across US largest firms, that is, approximately half of the co-CEOs sample possesses a graduate degree. Almost the 15% got a post-graduate degree, whilst about the 35% falls in the lower educated groups. It has been noticed that a great part of the co-CEOs owning no title or just the Highschool one are usually the oldest among the sample and, above all, they are quite often the companies' founders.

Table 3.3.8 - Co-CEOs Education (Number of co-CEOs and proportion)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Mean	SD
No titles	12	12	15	19	19	14	15	16	17	17	17	17	16	14	16	2,20
	17%	17%	17%	19%	19%	16%	16%	17%	19%	21%	20%	22%	21%	21%	19%	
Highschool	8	8	11	14	14	14	16	13	14	13	13	12	11	9	12	2,44
	11%	11%	13%	14%	14%	16%	17%	14%	16%	16%	16%	15%	15%	13%	14%	
Graduate	35	40	46	51	49	50	53	53	44	37	36	35	33	31	42	7,94
	50%	56%	53%	50%	50%	56%	56%	56%	49%	45%	43%	45%	44%	46%	50%	
Post-graduate	12	8	10	14	13	10	10	12	14	14	13	10	11	9	11	1,99
	17%	11%	11%	14%	13%	11%	11%	13%	16%	17%	16%	13%	15%	13%	14%	
N/A	3	3	1	3	3	1	0	0	1	1	4	4	4	4	2	1,54
	4%	4%	1%	3%	3%	1%	0%	0%	1%	1%	5%	5%	5%	6%	3%	

Figure 3.3.8 - Co- CEOs Education



It has just been analysed the CEOs educational level, now the focus is on their past work experience, the knowledge and know-how related to a specific industry which they acquired, namely on their functional background. Therefore, it could differ from the type of study which a CEO has done. This study identifies eleven (plus one) different functional background and tries to link one of the them to each co-CEO. In particular, the identified functional areas are as follow:

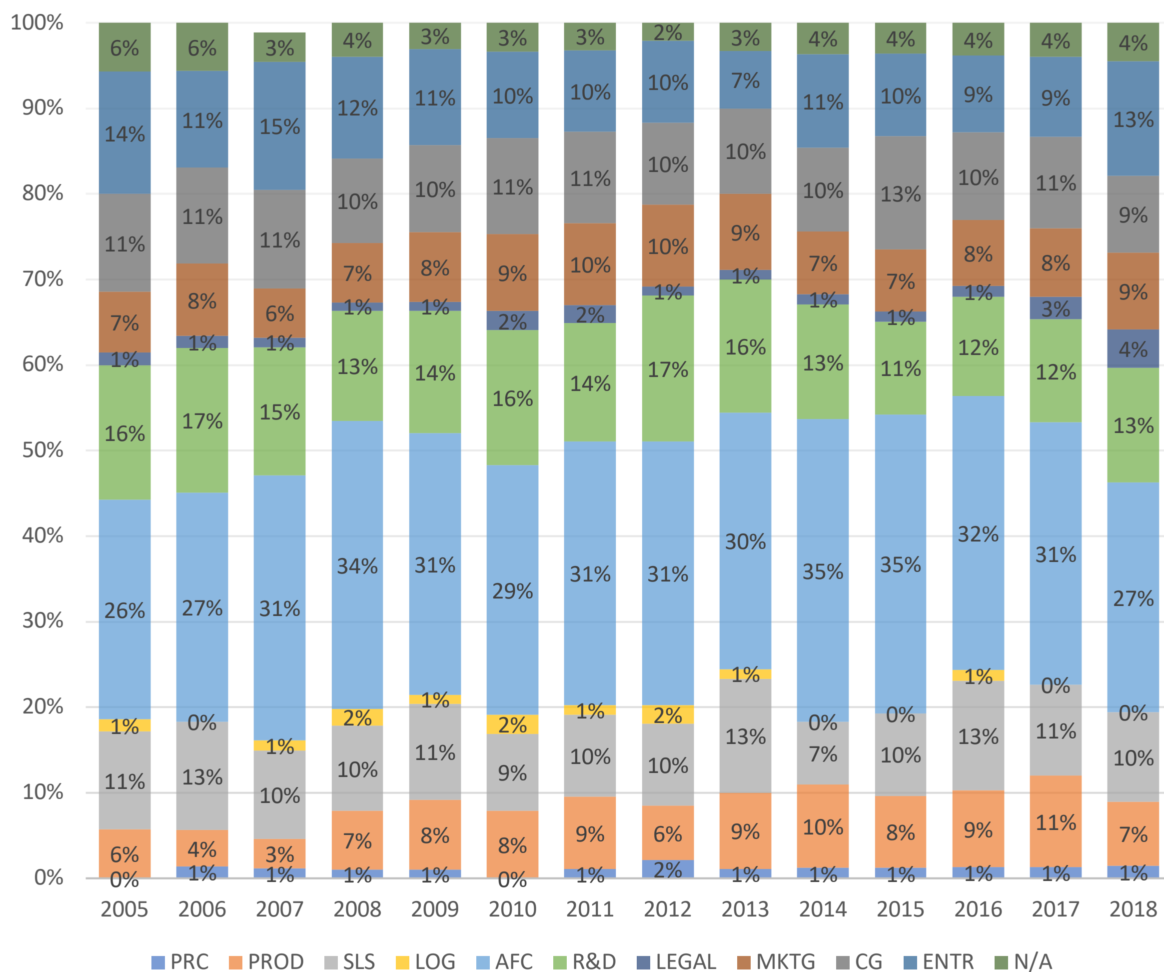
- Purchasing (PRS) — whether the CEO has past experiences in the organization and management of acquisition procedures and standards.
- Production (PROD) — if the CEO possesses competencies and skills related to the production of the products/services offered by the firm.
- Sales (SLS) — for those CEOs involved in firms' sales process.
- Logistic (LOG) — when the CEO has past experience in managing firm's resources in order to handle and move them along the supply chain.
- Administration, finance, and control (AFC) — it includes all the CEOs who have particular expertise in accounting, merger and acquisition transactions, structured finance and all the abilities strictly related to Finance.
- Research and development (R&D) — when the CEO has been involved in innovative activities with the aim to develop new services/products or improving existing ones.
- Legal (LEGAL) — mainly when the CEO studied laws, he/she is an expert in regulations and taxes.
- Marketing (MKTG) — if the CEO is experienced in marketing related function.
- Corporate governance (CG) — whether the CEO has been involved in firms' governance structure.
- Information system (IS) — it includes CEOs who have specialized technical knowledge and were involved in the development and management of information systems.
- Entrepreneur (ENTR) — if the CEO has previous experience as an entrepreneur.
- Not available (N/A) — if it was not possible to find any information regarding the CEO's past experiences.

On average, CEOs experienced in the functional areas of administration, finance, and control were the most numerous covering almost the 31% of the sample, while leaders specialised in purchasing, logistic, legal, or information systems are the least frequent among the group, ranging on average between the 0 and the 2 per cent. All the rest lies between the 8 and 14%, as it is possible to see in Table and Figure 3.3.9.

Table 3.3.9 - Co-CEOs Functional Background

	PRS	PROD	SLS	LOG	AFC	R&D	LEGAL	MKTG	CG	IS	ENTR	N/A
2005	0	4	8	1	18	11	1	5	8	0	10	4
	0%	6%	11%	1%	26%	16%	1%	7%	11%	0%	14%	6%
2006	1	3	9	0	19	12	1	6	8	0	8	4
	1%	4%	13%	0%	27%	17%	1%	8%	11%	0%	11%	6%
2007	1	3	9	1	27	13	1	5	10	0	13	3
	1%	3%	10%	1%	31%	15%	1%	6%	11%	0%	15%	3%
2008	1	7	10	2	34	13	1	7	10	0	12	4
	1%	7%	10%	2%	34%	13%	1%	7%	10%	0%	12%	4%
2009	1	8	11	1	30	14	1	8	10	0	11	3
	1%	8%	11%	1%	31%	14%	1%	8%	10%	0%	11%	3%
2010	0	7	8	2	26	14	2	8	10	0	9	3
	0%	8%	9%	2%	29%	16%	2%	9%	11%	0%	10%	3%
2011	1	8	9	1	29	13	2	9	10	0	9	3
	1%	9%	10%	1%	31%	14%	2%	10%	11%	0%	10%	3%
2012	2	6	9	2	29	16	1	9	9	0	9	2
	2%	6%	10%	2%	31%	17%	1%	10%	10%	0%	10%	2%
2013	1	8	12	1	27	14	1	8	9	0	6	3
	1%	9%	13%	1%	30%	16%	1%	9%	10%	0%	7%	3%
2014	1	8	6	0	29	11	1	6	8	0	9	3
	1%	10%	7%	0%	35%	13%	1%	7%	10%	0%	11%	4%
2015	1	7	8	0	29	9	1	6	11	0	8	3
	1%	8%	10%	0%	35%	11%	1%	7%	13%	0%	10%	4%
2016	1	7	10	1	25	9	1	6	8	0	7	3
	1%	9%	13%	1%	32%	12%	1%	8%	10%	0%	9%	4%
2017	1	8	8	0	23	9	2	6	8	0	7	3
	1%	11%	11%	0%	31%	12%	3%	8%	11%	0%	9%	4%
2018	1	5	7	0	18	9	3	6	6	0	9	3
	1%	7%	10%	0%	27%	13%	4%	9%	9%	0%	13%	4%
Mean	1%	8%	11%	1%	31%	14%	2%	8%	11%	0%	11%	4%
SD	0,47	1,86	1,56	0,77	4,84	2,30	0,63	1,37	1,33	0,00	1,94	0,53

Figure 3.3.9 - Co-CEOs Functional Background



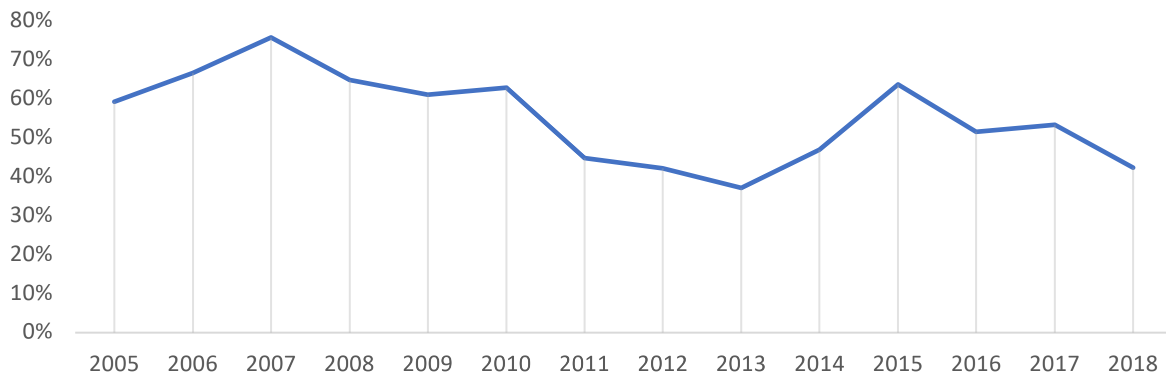
3.3 Institutional Investors

On the ownership structure side, this study examined the presence of institutional investors shareholding among the sample's firms. What emerges during the considered time horizon is that on average institutional investors invested in the 55% of the firms (Tab. 3.3.10). Looking at the Figure 3.3.10, it is possible to notice a decreasing trend between the 2007 and 2013, from 59% of companies with at least an institutional investor in the ownership structure the percentage decreased to the 37%, probably due to the 2007/2008 global financial crises. Between 2013 and 2015 there have been an increase, however the trajectory started decreasing again afterwards.

Table 3.3.10 - Firms with Institutional Investors in the Ownership Structures

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Mean
Number of firms	16	18	25	24	22	22	17	16	13	15	21	16	16	11	18
%	59%	67%	76%	65%	61%	63%	45%	42%	37%	47%	64%	52%	53%	42%	55%

Figure 3.3.10 - Firms with Institutional Investors in the Ownership Structures



The previously noted decreasing trend in the number of firms presenting at least an institutional investor in the ownership structure is mirrored by the decreasing shareholdings which these investors hold. Indeed, the 2013 is the year that marks the lowest mean of shareholdings with 3,2%. The only difference with the previous trajectory is a slightly higher increase in the last part of the time period (see Fig. 3.3.11). Overall, the average shareholding by institutional investors through the entire period is about 5,8% (see Tab. 3.3.11).

Figure 3.3.11 - Average Institutional Investors Shareholdings

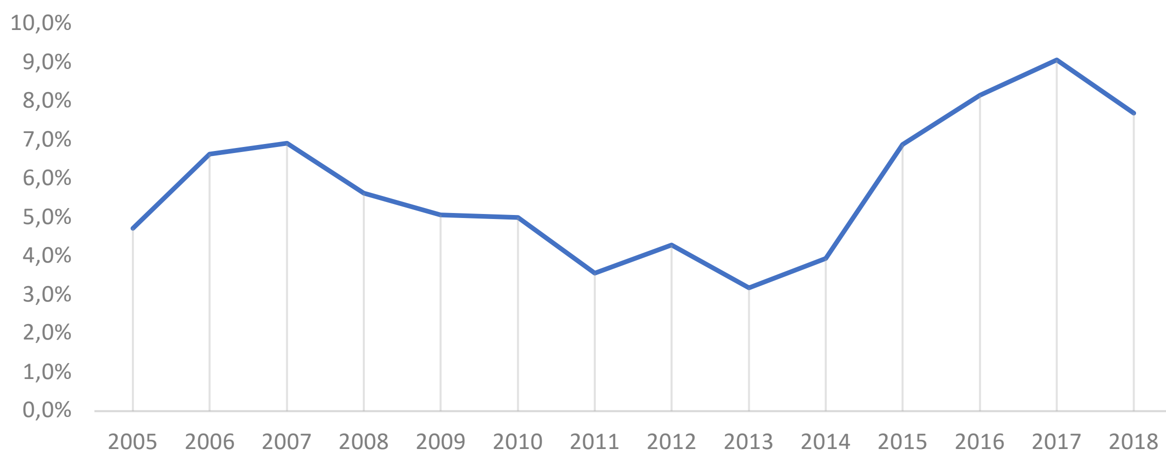


Table 3.3.11 - Institutional Investors Shareholdings

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Overall
Mean	4,7%	6,6%	6,9%	5,6%	5,1%	5,0%	3,6%	4,3%	3,2%	3,9%	6,9%	8,2%	9,1%	7,7%	5,8%
Median	4,6%	3,9%	5,5%	2,7%	3,0%	3,0%	0,0%	0,0%	0,0%	0,0%	2,7%	4,1%	4,5%	0,0%	2,4%
Variance	0,00	0,01	0,01	0,01	0,01	0,00	0,00	0,01	0,00	0,00	0,01	0,02	0,02	0,02	0,01
SD	0,05	0,10	0,07	0,07	0,07	0,06	0,05	0,07	0,05	0,06	0,10	0,15	0,15	0,13	0,09
Min	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Max	21,5%	50,7%	36,0%	35,6%	40,8%	33,6%	17,2%	35,2%	19,2%	19,2%	43,8%	71,0%	71,0%	51,2%	71,0%

3.4 Discussion

As previously explained, this study examined 62 Italian listed family-owned firms which adopted, at least once, a shared leadership structure in the period between 2005 and 2018. Not all of them maintained such a structure for all the time horizon. Indeed, just eleven companies have had co-CEOs for all the considered fourteen years. Those are: Beghelli, Buzzi Unicem, Davide Campari Milano, Digital Bros, El En Group, Emak, Panaria Group, Poligrafica Sanfaustino, Reply, Sol, and Tod’s. The Table and Figure 3.3.12 help to understand the distribution of the sample’s firms in terms of how long they have held a co-CEOship. The firms have been divided in four groups representing four different time ranges in years:

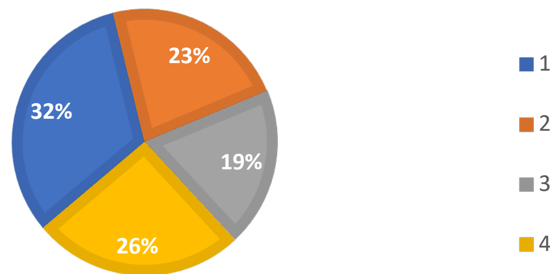
1. Eleven to fourteen;
2. Seven to ten;
3. Four to six;
4. One to three.

The 32% of the sample, 20 companies, resides in the first group. The second and third group represent the 23% and the 19% of the total respectively and they are the least numerous groups. Furthermore, 16 firms, almost the 26%, adopted a shared leadership structure at least for one year and maximum for four.

Table 3.3.12 – Shared leadership holding time

	N. of Firms	%
1) Between 11 and 14 years	20	32%
2) Between 7 and 10 years	14	23%
3) Between 4 and 6 years	12	19%
4) Between 1 and 3 years	16	26%
Total	62	100%

Figure 3.3.12



The analysed firms are all listed on the Italian Stock Exchange, that is why share prices and market capitalization were used in this research to examine the firms' performance. First of all, there have been the collection from the Bureau van Dijk Orbis database of the daily and monthly share prices for each firm together with the number of shares issued. Considering that not all the firms in the sample satisfy the shared leadership condition for the entire time period considered, there is the need to use a unique comparable measure. In order to easily understand and compare the firms' performance over time, this study grouped annually the firms in a single portfolio and considered the portfolio's market capitalization as the firm's total value. So, for each year of the considered time horizon, the sample's companies that adopted a shared leadership structure formed a stocks portfolio which has as overall value the sum of each firms' market capitalization (see Tab. 3.3.12). As it is possible to notice in the table below (Tab. 3.3.12), from 2005 to 2018 the portfolio composed by Italian listed family firms adopting shared leadership had a great increase in market capitalization. Indeed, with a growth of over the 200% in fourteen years, it went from about six million of euros in 2005 to almost nineteen million of euros in 2018.

Table 3.3.12 - Average Share Price, Market Capitalization and Returns of the Portfolio

Year	Total mkt cap (€/mln)	Annual Return	Total number of shares	Average Share Price	Firms number
2005	6.025		832.489.253	7,24 €	26
2006	9.861	63,7%	804.556.557	12,26 €	27
2007	16.119	63,5%	1.787.746.934	9,02 €	33
2008	12.198	-24,3%	2.068.822.583	5,90 €	37
2009	9.601	-21,3%	2.174.978.241	4,41 €	36
2010	12.364	28,8%	2.543.794.916	4,86 €	35
2011	15.080	22,0%	3.262.987.072	4,62 €	38
2012	15.261	1,2%	3.478.552.802	4,39 €	38
2013	17.746	16,3%	3.730.038.050	4,76 €	35
2014	19.350	9,0%	3.973.121.734	4,87 €	32
2015	22.849	18,1%	4.170.623.982	5,48 €	33
2016	24.922	9,1%	3.772.805.831	6,61 €	31
2017	25.314	1,6%	3.610.465.905	7,01 €	30
2018	18.821	-25,7%	2.575.602.967	7,31 €	26

Looking at Figure 3.3.13, it is possible to notice the increasing trend that the portfolio has had during the considered time period. It had the opposite trend just for three years, between 2007 and 2009, and between 2017 and 2018. Most likely, the first downward sloping trend was caused by the 2007/2008 world financial crises. The highest point reached in the entire period is in 2017, when the total market value reached over 25.000 million of euros of market capitalization. Comparing the portfolio's market cap trajectory with the one of the Italian most important stock market index, the FTSE Mib (see Figure 3.3.14), it is possible to notice almost the same trend. This is particularly true for the first period till just after the great depression caused by the crises, afterwards, while the portfolio has a steady growth, the market index is more volatile.

Figure 3.3.13 - Portfolio's Market Capitalization (€/mln)

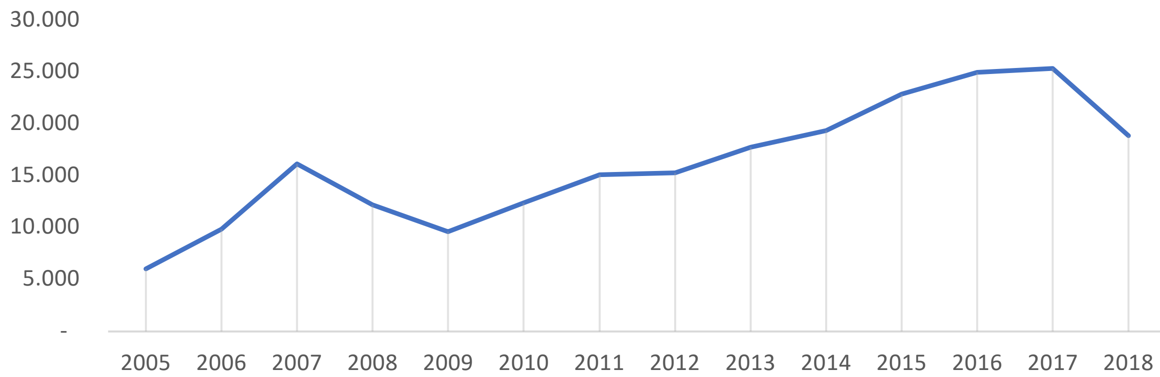


Figure 3.3.14 - FTSE MIB (2005 - 2018)

Source: tradingviews.com

In order to ease the comparison and facilitate a general overview, Table 3.3.13 lists different sets of data resulting from this research. It is worth noting how the institutional investors shareholdings average in sample's firms increases till 2007 and then it starts decreasing and be more volatile until 2015, when it starts growing again (also see Fig. 3.3.11). This is quite similar to the FTSE Mib trend rather than to the portfolio's capitalization one. Thus, it can be argued that the sample companies' growth is not so influenced by the presence of institutional investors in the ownership structure, that is why those firms' success is less dependent on the external capital provided by professional investors compared to all the other listed firms.

Table 3.3.13 – Statistics summary

Year	Total mkt cap (€/mln)	Annual Return	Number of Firms	Total number of co-CEOs	Average Board Size	Average Number of Co-CEOs Per Firm	% of Firms with Inst. Inv. in the Ownership Structure	Average Inst. Inv. Shareholdings
2005	6.025		26	70	9,9	2,6	59%	4,7%
2006	9.861	63,7%	27	71	9,5	2,6	67%	6,6%
2007	16.119	63,5%	33	87	9,5	2,6	76%	6,9%
2008	12.198	-24,3%	37	101	9,2	2,7	65%	5,6%
2009	9.601	-21,3%	36	98	9,1	2,7	61%	5,1%
2010	12.364	28,8%	35	89	9,2	2,5	63%	5,0%
2011	15.080	22,0%	38	94	9,6	2,5	45%	3,6%
2012	15.261	1,2%	38	94	9,6	2,5	42%	4,3%
2013	17.746	16,3%	35	90	9,4	2,6	37%	3,2%
2014	19.350	9,0%	32	82	9,6	2,6	47%	3,9%
2015	22.849	18,1%	33	83	9,9	2,6	64%	6,9%
2016	24.922	9,1%	31	78	9,8	2,6	52%	8,2%
2017	25.314	1,6%	30	75	10,0	2,7	53%	9,1%
2018	18.821	-25,7%	26	67	10,5	2,9	42%	7,7%

Conclusion

This thesis examined the adoption of shared leadership structures for the head of Italian listed family-owned companies, since the topic has not been exhaustively analysed in previous researches. Indeed, Seers et al. (2003) call for the investigation of the antecedents at a more micro level to gain a better understanding of the relational nature of sharing leadership. At the same time, Yukl (2006) identified the need to explore "the extent to which leadership can be shared, the conditions facilitating success of shared leadership".

As noted through the whole work, family firms are recognized as being different from non-family ones, they represent a unique way of doing business, which may result in a better performance. However, the overlap and simultaneous connection of business, family, and ownership generate several attributes, that at the same time could represent an advantage or a disadvantage for the company, depending on how they are managed (Tagiuri and Davis, 1996), that is why they need to develop specific governance mechanisms. For example, family firms are very susceptible to dissolution at the point of generation succession, so, the adoption of appropriate leadership structures is a determining factor in the successful transfer from one generation to another. As family-owned firms make the transition from founder (first generation) to sibling (second generation), the option to implement a co-CEOs structure is always more considered. So, shared leadership structures could be a solution to the generational transfer issue, representing a strategy to family-owned firms in order to face the increased complexity of modern business and the always present threat of family discords.

Family-owned firms are very popular all over the world, also in Italy, where they accounted for almost 66% of the Italian Stock Exchange (CONSOB 2019). Therefore, the Italian Stock Market provides an ideal setting in which to examine family-owned firms and their characteristics.

This thesis made a research among Italian listed companies and it focused on those which are family-owned, and which adopted, at least once, a co-CEOs structure in the period between 2005 and 2018. Once the firms' sample was determined, it has been conducted a descriptive analysis in order to explore the trend in the adoption of shared leadership structures, the characteristics of each structure (i.e. boards' size, and co-CEOs number), the consequences in

terms of performance and ownership structure, and it investigates some personal characteristics of the co-CEOs, such as age, gender, education, and functional background.

Companies have been classified as family businesses, if one or two families, or a legal entity directly linked to them, held at least 25% of the firm's capital. Through the above-mentioned time period, 62 Italian listed family firms have had, at least for one year, two or more co-CEOs, therefore, they formed the final sample of the study. However, not all of them maintained such a structure for all the time horizon. Indeed, just eleven companies have had co-CEOs for all the considered fourteen years, while the number of firms which, on average, every year adopted a co-CEOship structure was 33. Furthermore, both the boards size and the average co-CEOs number per firm have been quite stable throughout the considered period.

Regarding the CEOs personal characteristics, from the study emerged that the average co-CEOs' age constantly increased, suggesting that a great part of the appointed co-CEOs remain the same over time. Moreover, it emerged that female co-CEOs represent on average the 9% of the total, a slightly higher percentage compared to the 5% of the STOXX Europe 600 companies. The analysis of the co-CEOs' kinship with the owning family, instead, showed a less harsh gap among family and non-family members, with the formers holding on average the 59% of the available seats. Consistent with what Jalbert et al. (2002) find across US largest firms, approximately half of the co-CEOs sample possesses a graduate degree. Almost the 15% got a post-graduate degree, whilst about the 35% falls in the lower educated groups. Whereas, a great part of co-CEOs (almost the 31% of the sample) was experienced in the functional areas of administration, finance, and control.

On the ownership structure side, this study examined the presence of institutional investors shareholding among the sample's firms. On average, they invested in the 55% of the firms holding almost the 5,8% in each.

Lastly, this study grouped the firms in a single portfolio and considered the portfolio's market capitalization as the firm's total value. With a growth of over the 200%, from 2005 to 2018 the portfolio composed by Italian listed family firms adopting shared leadership had a great increase in market capitalization.

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Summary

Family Businesses

In the literature does not exist a common and universal definition of what constitutes a family business, that is why Astrachan et al. (2005) talk about the so-called Family Business Definition Dilemma. The main reason of this confusion resides in the multidisciplinary approach model that has characterized the studies about family firms. Economists, jurists, psychologists, etc. studied the argument and tried to give their own opinion with the consequence of not having a shared definition of family business, but many different ones that leverage unique aspects belonging to the specific discipline of investigation.

Litz (1995) tries to define and clarify the characteristics of a family business by developing, and then integrating, two conceptual approaches: the structure based, and the intention based. The first focuses on the structural dimensions of the organization, while the latter is based on the family behaviour and its influence on business. Exploring the possible integration of the two approaches, Litz (1995) formulates a richer and integrated definition of family business: "a business firm may be considered a family business to the extent that its ownership and management are concentrated within the family unit, and to the extent its members strive to achieve, maintain, and/or increase intraorganizational family-based relatedness".

As Lansberg (1983) argues, the institutional overlap between the family and the business creates a unique and complex organizational structure that makes family-owned firms different from non-family firms. Chua et al. (1999) notice how academics initially adopted operational definitions, that is, definitions based on one or more criterion representative of family involvement in the business. In each of these definitions, scholars tended to focus the attention on a certain decisive component of the "business familiarity", such as: the control degree; the family involvement in management and governance; the plans to transfer the business to the future generations; the presence of multiple conditions. The authors distinguish operational definitions from a theoretical one, which should be the standard against which operational definitions must be measured. They propose the following theoretical definition: "The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family

or a small number of families in a manner that is potentially sustainable across generations of the family or families" (Chua et al., 1999).

De Massis et al. (2012) notice that a good definition of family business should highlight three fundamental aspects:

1. the family's entrepreneurial spirit, which has to characterize the business for its entire life;
2. the family's ownership of all or part of the equity that empowers the family influence on the business;
3. the involvement of family members, linked by kinship, in the property, governance, and management.

The Lansberg's Institutional Overlap Model states that family firms "exist on the boundaries of two qualitatively different social institution: the family and the business" (Lansberg, 1983). Its basic assumption is that each institution has its own distinct rules of conduct and its institutional goals. While the family aims to ensure the care and wellbeing of its members, the business tries to create values by carrying out an organized economic activity. So, family businesses have to manage specific challenges which hardly ever pertain to non-family business. As Chrisman et al. (2003) state, "at the most basic level, what differentiates a family business from other profit seeking organizations is the family's important influence on the decision making and operations of the firm".

Tagiuri and Davis (1996) enrich the Lansberg model arguing that inside a family business it is possible to identify three overlapping subsystems: the business, the family, and the ownership. In their opinion, from the simultaneous connection of those three subsystems arises several unique, inherent attributes. The authors call them Bivalent Attributes due to their characteristic of potentially being a source of benefits or disadvantages for owning families and employees. The authors highlight the following attributes: overlapping roles; shared identity; emotional involvement; established tradition; diffusion of a private language.

There is no clear assessment of whether or not family-owned firms perform better, equal or worse than non-family firms. For example, Morck et al. (2000) argue that continued founding-family ownership in U.S. companies is an organizational form that lead to poor firm performance. Moreover, Barclay and Holderness (1989) state that large ownership stakes

reduce the firm's value because they reduce the probability of bidding by other agents. However, the European Commission (2008) notice that family businesses have a stable, less volatile development of continuous growth compared to other business model. What really matters for family-owned firms is not the short-term growth but the stability of the company and its maintenance for future generations. Anderson et al. (2002) believe that the longer investment horizon of family firms usually leads to greater investment efficiency and to a lower cost of debt financing compared to non-family firms. Corbetta and Quartaro (XI Osservatotio AUB, 2019) notice that in the last ten years Italian family firms' revenues have grown approximately 12 points more respect to the non-family counterpart. Italian family firms have also a positive gap in terms of net return on invested capital compared to non-family ones.

According to The Economist (2015), more than 90% of the world's companies are family firms. Nowadays in the United States it approximately accounts for 80% of all firms and 40-60% of the gross national product (Astrachan and Shanker, 2003). In the European Union, family firms are estimated to be 70-80% of the total number of firms. They account for an average of 40-50% of Europe employment and in some cases is even estimated to reach 70% or more. (European Commission, 2008). The Chinese's and Japanese's economies have been strongly shaped by family firms, with 99% of businesses in Japan considered family firms (Birley, 2001). Family-owned businesses play a significant role in emerging countries too. The available data show that family firms are more prevalent in traditional and labour-intensive sector such as agriculture, manufacturing/crafts, construction, retail, while they are less present in the financial sector or in the high-tech industries. According to Corbetta and Quartaro (XI Osservatotio AUB, 2019), in Italy approximately the 65.8% of firms with more than 20 million euros of revenues are family businesses.

Family Business Governance

Corporate governance involves a set of relationship between a company's management, its board, its shareholders and other stakeholders. It also brings a framework through which a company sets its objectives, the means of attaining those objectives and how performance are determined (OECD Principles). In general, corporate governance mechanisms should be designed to avoid or limit opportunistic behaviours and protect shareholders from the expropriation of their wealth (Shleifer and Vishny, 1997).

The relationship between shareholders and managers is considered to be an agency relationship, that is one in which a principal delegates an agent to do some activities in his/her own interest. Jensen and Meckling (1976) observe that the delegation of authority exposes agents to risks for which they are not compensated, as a consequence they will seek additional compensation through non-compensatory means such as free-riding or shirking. So, agents have opportunistic behaviours; they are self-interested and seek to maximize personal economic wealth. The assumption of self-interest leads to inevitable conflict of interest, best known as agency conflict between the principal and the agent. According to Ross (1973), an agent will typically have more, or better information compared to the principal. As a result of asymmetric information, agent's opportunism may prevail because of adverse selection and moral hazard. The first is related to the misrepresentation or hidden information about the agent's competencies; the latter refers to a lack of effort on the part of the agent.

To control the adverse selection and moral hazard problems, the principal has different options, but they come at a cost, the agency costs (Jensen and Meckling, 1976), that are borne by shareholders to encourage managers to maximize shareholder's wealth rather than their self-interests. There are three major types of agency costs: monitoring costs, bonding costs, residual loss. Those are all the costs for mechanisms and actions the principal puts in place to make sure that the interests of agents are as much as possible aligned with his/her own.

According to Jensen and Meckling's model (1976), in family firms, due to the family involvement in ownership, governance, and management, there should not exist conflict between principals and agents as principals/shareholders and agents/managers are linked by kinship ties and/or are often the same people. Consequently, formal governance mechanisms should not be necessary due to the natural alignment of interest between owners and managers and the sense of altruism that belongs to this kind of firm. However, according to Sharma et al. (1997), also family firms may suffer of agency problems.

Families are a very unique type of controlling shareholder, the family involvement in the firm's ownership, governance, and management, result in important differences of exposure to agency problems between family and non-family enterprises. According to Songini and Gnan (2015), the classical principal-agent issue is not the only source of agency conflicts in family firms. For example, altruism can cause parents to threaten their children with moral hazard. High generosity may cause their children to free-ride or it could promote nepotism as well as

a tendency towards entrenchment. According to Anderson and Reeb (2003), conflicts may arise between family members involved in different company's roles, between family members and non-family members, or even between dominant (family) and minority (non-family) shareholders (Villalonga and Amit, 2006).

Agency cost control mechanisms help the principal to monitor and control the consequences of agents' decisions. Popular corporate governance mechanisms, used to prevent or solve the issues caused by the separation between ownership and control, are:

- The composition, structure, and processes of board of directors;
- An active market for corporate control;
- A large block-holder;
- High leveraged financial structure;
- Dividend policy;
- Proxy fights;
- External control.

Family companies' objectives are likely to differ from non-family corporations, that is why they are differently managed and need to develop specific governance mechanisms (Astrachan et al. 2002). Governance mechanisms help family-owned firms to establish the overall strategy, including the nature of family involvement in the business, performance standards, and code of conducts. Especially generation to generation, when a company grows and becomes more complex to handle, these mechanisms are indispensable to the long-term success of the company. In addition to the discussed governance tools, accessible to both family and non-family firms, there are different mechanisms that are only adopted by family businesses. Examples of those are:

- The board of advisors;
- Family institutions (meetings, assembly council);
- Family constitution;
- Family office;
- Family foundation;
- Shareholders' council;

Comprehensibly, the effect of those structures and instruments is not equal for every firm. In general, family firms' corporate governance is influenced by their characteristics (i.e. small and private firm, large and private firm, listed firm). Moreover, the selection of a proper governance tool depends on the lifecycle of the firm, as a governance kit that suits a firm at one stage of its life may not be suitable in another stage. So, the timely adoption of appropriate governance mechanisms represents an important challenge for family firm leaders as it could determine the success of the business. Agency cost control mechanisms can also help a family firm to cope with the challenges of family business continuity. Indeed, what constitutes one of the most difficult moments in the family business lives is the process of passing the management and ownership of a firm from one generation to another. The high firms' "mortality" rate highlights the concern around the business transfer, just the 30% of family businesses survive past the first generation, and only 10% to 15% survive to a third generation (Applegate, 1994). The generational transfer is not only concerned about the ownership, but it also concerns the leadership succession. It is not an easy task to transfer the spirit and values of the family business to heirs, and even less the "familiness" and the ability to keep the family together.

The family CEO is considered to be the most central position to the administration of the company and the key board interface. According to Miller et al. (2013), Chief Operating Officers (CEOs) are able to influence the firms' evolution, strategy, and, therefore, the overall performance. The Agency theory suggests that when the principal/owner is a family and the agent/CEO is a family member, the family firm will incur reduced agency costs due to the alignment of interests between the parts involved. However, some literature favouring behavioural agency version argues that family-CEOs are frequently motivated by non-financial, socio-emotional wealth objectives, such as preserving family control, even if that sacrifices firm profitability.

Miller et al. (2013) notice that family executives closely relate with their businesses, very often they are the founders or a later generation of managers who have been in the firm for long time. Being a family member and a long-term employee provides to family executives a great deal of tacit knowledge of the business and its unwritten rules, customs, and informal culture; knowledge which is difficult to acquire for a non-family executive. However, when a firm grows, also administrative complexity does the same, so more skills and knowledge are required to better manage the business. In general, Miller et al. (2013) state that family CEO is

a good choice when the firm's ownership is concentrated. In this circumstance, the CEOs' closeness to family owners will induce them to be good stewards of the business. On the other hand, when ownership is more diffuse and there are family ownership factions present in the firm, family CEOs may become a liability (Schulze et al., 2001).

Examining the educational background of the CEOs from the US largest companies, Jalbert et al. (2002) find that most of them only have an undergraduate degree, while approximately half possesses a graduate degree. The authors find that CEOs who possess a degree were systematically able to generate higher performance with respect to those who did not hold a degree. Moreover, Moressi (2017) notices that graduating from highly ranked universities and having more qualifications does not guarantee that a CEO is able to improve firm performance significantly. Furthermore, the author finds that the appointment of younger CEOs may be a source of better stock market returns. Indeed, Moressi (2017) finds that past experience as a CFO or CEO does not help improve firm performance. For what concerns the different background, Barker et al. (2002) notice that firms which appoint CEOs with advanced science-related degrees tend to spend significantly more in research and development, and this characteristic seems to be correlated with above average sales growth.

For what concerns the CEO's gender, the EWOB 2019 report states that women represent less than 5% of CEOs in STOXX Europe 600 companies. Women are slightly more likely to be in a CFO than a CEO position. Withisuphakorn and Jiraporn (2016) show that, among their sample, female CEOs are younger than their male counterparts. Despite the many obstacles and disadvantages that women have to face, they reach the CEO position earlier than men do on average. Furthermore, Khan and Vieito (2013) find that female CEOs are associated with better performance compared to the firms managed by male CEOs and firm risk is smaller when the CEO is a woman.

Institutional investors are entities such as mutual funds, insurance companies, pension funds, investment banks, and endowment funds, which pool together the financial resources of several individuals and organizations and invest them in a diversified portfolio of securities. They are sophisticated investors as they can rely on the expertise of professional financial analysts and, compared to individual investors, they can dedicate a greater amount of time and resources in the investment process (Fernando et al. 2013). Nowadays, they are the primary source of external capital for public companies, therefore, a family firm looking to expand may

need to look for external capital from institutional investors. However, some of the issues specific to family firms may make institutional investors wary of investing in family firms. Fernando et al. (2013) demonstrate that institutional investors' stake in family firms is, on average, 5% less than in nonfamily firms. The family firms' interest in pursuing socioemotional wealth makes them less attractive to institutional investors, that is why it is considered the main cause of this difference.

Shared Leadership

In a business context, leadership involves managing, overseeing, motivating, and inspiring staff towards the attainment of business goals. Traditionally, leadership has been seen and taught as an individual trait and activity. Accordingly, a solo leader is a person who has the maximum authority over a business, he/she shares the sets of goals for productive performance, communicates organizational policies and ensures institutional control.

In the modern days, the globalization and the always faster technological innovation put a lot of pressure on organizations, which have to face an extraordinary rate of environmental change. It has been noticed that more and more frequently a solo leader could not be able to overlook the more complex work environment, for this reason many scholars suggest a shift in organization's approach towards a more sophisticated way of management. For example, Afridi (2013) argues that solo leadership is no more sustainable for any organization's survival and turns on the lights on a more advanced model, the so-called shared leadership. Cox et al. (2003) state that shared leadership describes a relationship among group members in which leadership is not enclosed to vertical control but is centred on lateral influence. Pearce and Conger (2003) define shared leadership as "a dynamic interactive influence process among individuals in groups for which the objective is to lead one another to the achievement of group organizational goals or both. This influence process often involves peer, or lateral, influence and at other times involves upward or downward hierarchical influence". So, shared leadership is recognized as a group level phenomenon.

Shared leadership can originate in many different ways and for different motives (Dennis et al. 2009). For example, co-leaders can arise from corporate mergers of equals, from co-founders, from the practice of two individuals sharing jobs, or from invitations from sitting CEOs to share power. O'Toole et al. (2002) believe that the establishment of co-CEOs from

co-founders has more probability to survive and better performs because there is no constriction, the individuals freely chose each other as partners. However, this is not always true. Many times, these relationships arrive to an end due to diverging interests. Dennis et al. (2009) state that the 51% of co-CEO arrangements result from co-founders or from the transfer of executive leadership to two siblings, while only the 7% of co-CEO structures derive from mergers. Moreover, Yoo et al. (2020) find out that poorly performing companies are more likely to adopt a co-CEO structure. So, in poor performing firms there is a higher probability of changes within the top management, and the adoption of a co-CEO structure can be one of the ways of CEO turnover.

According to Avolio (1996), shared leadership is more likely to be present in teams which have progressed to the highest stages of development and it is facilitated in a group where there is faith regarding the team members abilities. As a consequence, a group that has reached a maturity stage is more likely to exhibit shared leadership (Burke et al. 2003). Mutual trust and group member familiarity are other important elements that a group needs to have in order to develop shared leadership, as members will have more experience of working together and they will be more eager to encourage and tolerate differing views. Burke et al. (2003) highlight how important the organizational environment and culture are in determining whether shared leadership will be successful. According to them, an ideal environment should encourage openness and free exchange of ideas. The Pearce and Sims (2000) conceptual framework supports that shared leadership will prosper under conditions where tasks are highly interrelated, complex, urgent, significant, and require a high degree of creativity.

Arnone and Stumpf (2010) provide a list of five recommendations about adopting shared leadership. According to them:

A. It is fundamental that co-heads discuss and understand endgame of their collaboration, otherwise they will tend to invest energy in second-guessing their colleagues' motives.
B. The desired outcomes for each individual and the risks of the partnership should be delineated at the beginning, if no time is spent negotiating and politicking rather than leading the enterprise.
C. In order to solve issues as they arise, co-leaders need to understand the business philosophy regarding shared leadership roles.

D. There should be an explicit understanding and agreement on how each leader has to serve clients and customers.
E. Lastly, to ensure that less urgent issues are not forgotten, the firm has to improve the communication through various reporting structures.

O'Toole et al. (2002) underline the importance for co-leaders to learn to work together, but, above all, co-heads need to learn how to handle the division of credit and manage their egos. According to them, the co-leaders need to have rapport and complementary skills, they have to be able to manage and value their complementary skills, temperaments and perspectives.

Through the years there have been many different companies adopting the shared leadership approach. Some of them reached great results, such as Research in Motion, Twitter, and Motorola; on the other side companies like Omnimedia, Unilever, and Kraft ended up with bad co-leaders experience (Arnone and Stumpf, 2010). Arena et al. (2011) believe that firms with generous financial resources and less debt are more likely to benefit from co-leaders structures due to the potential mutual surveillance that they carry on and that could avoid bad investments and reduce agency conflicts. Moreover, they notice significant differences in compensation between co-CEOs and solitary CEOs, with the formers receiving proportionately less incentive compensation than the latter (co-CEOs individually are paid less than solitary CEOs). So, the authors state that the mutual monitoring and advising provided by shared executive leadership might substitute for more traditional governance mechanisms. In their study about the correlation of audit costs and shared leadership, Choi et al. (2018) confirm that co-CEO structures can serve as an alternative governance mechanism able to reduce agency costs. The authors find that auditors charge materially less for firms which adopt shared leadership respect to those firms with one CEO. According to them, this consequence derives from the co-CEOs mutual monitoring, which lowers the control risk of an external audit and hence requires lower effort.

The adoption of shared leadership is not always beneficial. According to Yoo et al. (2020), firms with multiple CEOs may suffer coordination problems, interpersonal conflicts, sabotage, or there could be loyalty dispersion among employees, and organizational inefficiencies caused by duplicated reporting. Arena et al. (2011) argue that co-leaders structures could result in sub-optimal decision-making by the firm as co-CEO agreements are afflicted by coordination

problems and interpersonal conflicts. That is why many scholars see the co-heads as an instable structure not sustainable in the long-term. Shared leadership may be harmful to a firm because it violates the "unity-of-command" (Fayol, 1949). Similarly, Locke (2003) believes that shared leadership is not adequate for full or integrated leadership model and that it is unsuitable for the top of the organization, due to the fact that someone has to take the final decision. That is, groups do not always agree and in the end somebody has to have the authority to decide, the CEO has to make the final choice, otherwise there is the risk of organizational chaos and anarchy. In order to please everyone, there is also the possibility to end up with a decision that is just a meaningless mix of compromises.

Overall, quoting O'Toole et al. (2002), "The fact that shared leadership exists does not make it a good practice, or necessarily better than the solo variety. Indeed, some of the most visible examples of shared leadership have ended in failure". According to them, two or more leaders are better than one when "the challenges a corporation faces are so complex that they require a set of skills too broad to be possessed by any individual" (O'Toole et al. 2002).

Arena et al. (2011) observe that governance variables, such as the percentage of independent directors, the board advising, and the institutional ownership, are all statistically relevant and they indicate a direct link between firm's governance characteristics and the decision to adopt a co-CEO structure. The authors notice that the presence of independent directors on the board is negatively related to the probability of co-CEOs structure. The same can be said about leverage, it is negatively related to shared leadership suggesting that any decrease in monitoring by creditors is offset with a greater probability of the firm selecting co-CEOs. Lastly, Arena et al. (2011) find that companies with less advising directors are more prone to implement co-leaders. In general, what can be inferred from those findings is that co-CEO structures can be a valid substitute for other corporate governance mechanisms. The authors further notice that co-CEOs generally complement each other in terms of education background or executive responsibilities. They find that more than the 55% of the co-CEOs in their sample possesses a graduate degree against the 40% holding a bachelor's degree. Only the 3% of them does not have a college degree. The prevalent undergraduate subject of study is business, with almost 45% of the co-CEOs majoring in this discipline. Moreover, the authors explain that co-CEOship could generate managerial efficiencies if it is structured, so that executive assignments are complementary, that is if it is well designed in order to avoid overlap in responsibilities. Regarding the tenure of a co-CEOs structure, Arena et al. (2011) find out

that with an average of 4.5 years it is not much shorter than those of solitary CEOs. The shortest tenure about one year belongs to the interim CEOs, those put in place during the transition between two CEOs. While with an average of 2.4 years, co-CEOships deriving from mergers are the second shortest.

Shared leadership is more common in countries such as Germany or Korea, where firms developed in a more collective and cooperative way, with individual progress viewed as the result of the collective effort of the group. Instead, in Anglo-Saxon countries, where an individualistic culture dominates, firms developed hierarchical co-manager structures (Yoo et al. 2020). According to Dennis et al. (2011), shared leadership is a rare form of organizational structure in the U.S., in their study only the 0.8% of the firms' sample had co-CEO management structures.

Many scholars also examined the market reaction and performance effects resulting from the adoption of a shared leadership structure. While the large part of scholars claim that co-leaders structures relates positively with firm performance, a few authors reveal inconsistent results, which may be the effects of theoretical and conceptual differences (D'Innocenzo et al. 2014). For example, Boies et al. (2010) state that shared leadership has negative effects on firm performance. However, Dennis et al. (2009) notice that prior stock price performance in the one year before the announcement of the Co-CEO structure has no effect on the incidence of Co-CEOs. Whilst, when the firm announces a new co-CEO, the stock price has a weakly positive effect. Interestingly, the author finds that the stock returns of other firms in the industry in the same period are significantly negative. Arena et al. (2011) notice a positive market reaction at the announcement of a new co-CEO too. They also notice that the presence of co-CEOs is associated with a higher market-to-book ratio. However, there is no significant difference in the future performance of firms who add Co-CEOs versus control firms or firms who dissolve a Co-CEO structure (Dennis et al. 2009). Overall, D'Innocenzo et al. (2014) believe that shared leadership has a positive effect on firm performance. According to them, when team members offer leadership, they will put more effort in doing the tasks, share more information, and experience higher commitment, thus improving the team performance.

Co-CEO structures in family firms are acknowledged to be an important means of allocating leadership responsibilities across family members. Le Couvie (2016) notices that the frequency of shared leadership structures in family businesses is increasing. When there is a

single leader running the business, the decision-making process tends to be faster. Nevertheless, when the business matures and grows, it becomes more complex for owners to manage the increasing number of family members working in the firm. According to an Arthur Andersen (1997) research, 91% of the businesses surveyed have two or more family members involved in the day-to-day management of the company. Moreover, a 2007 Mass Mutual surveys revealed that 12% of family-owned businesses have family members functioning as part of a management/leadership team and in at least 66% of family businesses that go through transition after the second generation, siblings and cousins expect to run the company as part of a team in the future.

According to Strategic Design (2009), there is evidence that, when multiple family members manage the business, there is wider knowledge, improved monitoring, and higher financial return. Another important advantage of the creation of shared leadership, that can be very useful in family firms, is that it can provide a "school" for younger family members to practice and develop leadership and cooperation. However, there are few challenges which need to be faced. In general, shared leadership dilutes the general perception of power at the top of the organizations and, if the group fails to efficiently take decisions, the business' capacity to quickly respond to internal and external contingencies may weaken. Moreover, it is not easy to separate family and emotions from the business, so having many family members in leadership roles may increase role conflicts.

With a study on 893 medium large-sized Italian family-owned firms, Miller et al. (2014) find that non-family CEO performance is highly sensitive to contextual aspects of ownership and leadership. In particular, they notice the best performance of non-family CEOs when they work alone and are monitored by multiple major owners, whilst they do worst when working alone under more concentrated ownership. When there is a shared leadership structure, Miller et al. (2014) notice that the non-family CEO's performance lies between the two just mentioned extremes. According to the authors, when non-family leaders have to act in concert with other CEOs in their firm, in particular with those who are members of the controlling family, their knowledge and skills may be nullified by having to overcome the influential counterparts. Co-CEO structures are less troublesome when non-family CEOs work within a team of other non-family co-CEOs. So, the success of shared leadership is strongly influenced both by ownership structure of a firm as well as the presence of family co-CEOs.

Empirical Analysis

This thesis made a research among Italian listed companies and it focused on those which are family-owned, and which adopted, at least once, a co-CEOs structure in the period between 2005 and 2018. Family-owned firms are very popular all over the world, also in Italy, where they accounted for almost 66% of the Italian Stock Exchange (CONSOB 2019). Therefore, the Italian Stock Market provides an ideal setting in which to examine family-owned firms and their characteristics. Once the firms' sample was determined, it has been conducted a descriptive analysis in order to explore the trend in the adoption of shared leadership structures, the characteristics of each structure (i.e. boards' size, and co-CEOs number), the consequences in terms of performance and ownership structure, and it investigates some personal characteristics of the co-CEOs, such as age, gender, education, and functional background.

In order to analyse the trend of adoption of shared leadership structure in family-owned businesses, the educational background and experience of the co-CEOs, and the consequences in terms of performance and ownership structure, this study takes in consideration and examines the following variables for each chosen company:

- Board size;
- Number of co-CEOs;
- CEOs personal information, such as age, gender, kinship with the owing family, education, and functional background;
- Annual average stock price and market capitalization;
- Presence of institutional investors in the ownership structure and consequent amount of the owned stake.

Companies have been classified as family businesses, if one or two families, or a legal entity directly linked to them, held at least 25% of the firm's capital. Through the above-mentioned time period, 62 Italian listed family firms have had, at least for one year, two or more co-CEOs, therefore, they formed the final sample of the study. However, not all of them maintained such a structure for all the time horizon. Indeed, just eleven companies have had co-CEOs for all the considered fourteen years, while the number of firms which, on average, every year adopted a co-CEOship structure was 33. Furthermore, both the boards size and the average co-CEOs number per firm have been quite stable throughout the considered period. The statistics for board size show that the mean board size is 10 directors with a minimum of

4 and a maximum of 20 directors. Whereas, observing the number of co-CEOs for each firm, it can be noticed that companies which adopt a shared leadership structure mainly choose to split the lead between two or three CEOs.

Regarding the CEOs personal characteristics, from the study it emerged that the average co-CEOs' age constantly increased, suggesting that a great part of the appointed co-CEOs remain the same over time. Moreover, it emerged that female co-CEOs represent on average the 9% of the total, a slightly higher percentage compared to the 5% of the STOXX Europe 600 companies. The analysis of the co-CEOs' kinship with the owning family, instead, showed a less harsh gap among family and non-family members, with the formers holding on average the 59% of the available seats. Consistent with what Jalbert et al. (2002) find across US largest firms, approximately half of the co-CEOs sample possesses a graduate degree. Almost the 15% got a post-graduate degree, whilst about the 35% falls in the lower educated groups. It has been noticed that a great part of the co-CEOs owning no title or just the high school one is usually the oldest among the sample and, above all, they are quite often the companies' founders. The thesis also analysed the CEOs' past work experience, the knowledge and know-how related to a specific industry which they acquired, namely their functional background. On average, CEOs experienced in the functional areas of administration, finance, and control were the most numerous covering almost the 31% of the sample, while leaders specialised in purchasing, logistic, legal, or information systems are the least frequent among the group, ranging on average between the 0 and the 2 per cent.

On the ownership structure side, this study examined the presence of institutional investors shareholding among the sample's firms. What emerges during the considered time horizon is that on average institutional investors invested in the 55% of the firms while the average shareholding by institutional investors through the entire period is about 5,8%.

Lastly, this study grouped the firms in a single portfolio and considered the portfolio's market capitalization as the firm's total value. So, for each year of the considered time horizon, the sample's companies that adopted a shared leadership structure formed a stocks portfolio which has as overall value the sum of each firms' market capitalization. With a growth of over the 200%, from 2005 to 2018 the portfolio composed by Italian listed family firms adopting shared leadership had a great increase in market capitalization, it went from about six million of euros in 2005 to almost nineteen million of euros in 2018.