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WHO HOLDS THE DECISION-MAKING POWER IN FAMILY BUSINESSES: COMPARISON BETWEEN CEO AND CHAIRMAN IN ITALIAN COMPANIES.

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Academic Year 2019-2020

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INTRODUCTION

The text focuses on the analysis of the subjects present within the Board of Directors of Italian family businesses, trying to understand who actually holds the decision-making power. Usually when one thinks of a company, one could assume that all powers are held by the CEO and with this every single decision regarding action plans and strategic choices is taken and decided by the CEO, but this is not always true. All the speeches related to the study of companies cannot be overly generalized because each company tells a different story in a different way. With this text we try to understand who actually, among the main directors present within the Board of Directors, has the decision-making power and to do so a sample of listed Italian family companies has been considered. To understand this aspect, the thesis starts with one of the main concepts of corporate governance, namely the agency problem, and tries to present it first with purely theoretical explanations and then later, with the analysis of the companies in the sample, in a more concrete way trying to highlight the number of directors in the Board and their respective powers. The purpose of the study is certainly to be able to say who between Chairman and CEO has the decision-making power within the BoD but, as was said before, a simple and single answer would allow to generalize excessively this long analysis and would not allow to represent correctly the companies in the sample and the report of how they actually operate in the market ,in fact, as it will be seen in the final part of the text, not always the CEO has all the powers of ordinary and/or extraordinary administration and not always the Chairman is an executive director, in some cases he assumes only a representative role and sometimes this mandate is only an honorary position without powers. To highlight all the aspects mentioned above and to give an answer to the this question, the work has been divided into three parts: the first part presents the theoretical concepts of the agency problem and family businesses, the second one presents the sample and all its particularities (the composition of the Boards of Directors of the companies in the sample, the number of non-executive and executive directors present in the BoDs, the sector in which the sample considered mainly operates) while the third part defines the powers held by the CEO and the Chairman, for a certain time horizon, trying to understand who actually holds the decision-making power within the Board. So:

"Who holds the decision-making power between the CEO and the Chairman in Italian family businesses?

After answering this question, the study goes on and it try to understand which of the main governance structures of Italian family business, defined with the analysis explained above, is the best and, therefore, we try to answer, with the case study present in chapter 4, the question:

"What is the governance structure that can achieve a better business performance?"

CHAPTER 1: SOME THEORETICAL CONCEPTS ON THE FAMILY FIRM

1.1-INTRODUCTION TO CORPORATE GOVERNANCE MECHANISMS

Nowadays companies have an internal structure composed by the board of directors (BoD) and the management team. It's important to highlight that the BoD has not the same tasks of the management team but the first one is very important for the activity of a company being the main corporate governance mechanism used by a firm. Before a discussion on the diversity and the composition of the Board of Directors, it's important to understand why the corporate governance is so important for a company and what is the meaning of CG. Using the words of the Cadbury Code:

"*Corporate governance is 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 responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meeting"* (Cadbury 1992)

So, the corporate governance is not related to the management of a company but it's something linked to the control and it establishes a link between incentives, values and proper behavior.

It is important to understand two theoretical concepts in order to answer the first question:

- The agency problem;
- Transactional costs.

The agency problem implies the relationship of two subject called principal (the main shareholders or the owner of the company) and agent (the manager of the company). The agency relationship is generally present in any listed company and it's a relationship in which the principal delegate the agent to make an action in his interest. But how the owner of the company could persuade the manager to do what he wants? (Hart 1995) Usually the principal sets a specific goal that the manager has to achieve to obtain an incentive on the compensation. Supposing that the objective is that the gross profit ($\prod$) has to be equal to a variable X in one year, and assuming also that $\prod$ is a function of two other variables (e, p), in which "e" is the manager effort to obtain that goal, the incentive (I) on the compensation is directly correlated to the gross profit ($I = f(\prod)$). This system creates a trade-off between incentives and risk sharing; indeed it is indispensable to give to the manager high incentives to motivate him but it's also indispensable to give to that one low incentive to defend the company from some long-term destructive decisions. The main problem of the relationship is finding the right trade-off and it could be partially resolved with a good structure of corporate governance. All agency relationships imply an agreement and each agreement imply "transactional costs". These ones are the costs for writing and concluding the contract and they are related 1) to think all the possible scenarios that could happen during the relation. 2) to the negotiation, 3) to write down the contract's clauses. The parties will not make a comprehensive agreement and this is another important problem that could be resolved with a good structure of corporate governance. So, the corporate governance is the system used to resolve these problems making an effective control on the operating activity of the managers and minimizing the transaction costs associated to the agency agreement. There are different corporate governance mechanisms that can be used to resolve these problems:

- *Proxy fight*: A shareholder could make a list of new executives to change the management team. The maker of the list has to persuade the other shareholders to vote for his candidates to permit this variation inside the board. The proxy fight is mechanisms that has different problems, indeed it's characterized by the free-rider problem and by high costs related to define the new management team and to understand if the current executive directors are making a good job or not.
- *Large shareholders*: With a large shareholder there is a high control on the management. Logically the agency problem is deleted if there is a shareholder that own 100% of the equity but in cases in which the large shareholders is an institution, the shareholders of the institution have to hire a manger to act in their behalf.
- *Hostile takeovers*: A hostile takeover is the acquisition of a company, called target company, by another one, the acquirer that is accomplished by going directly to the company's shareholders or fighting to replace management to get the acquisition approved. A hostile takeover can be accomplished through either a tender offer or a proxy fight. The key characteristic of a hostile takeover is that the target company's management does not want the deal to go through. Sometimes a company's management will defend against unwanted hostile takeovers by using several controversial strategies such as poison

pills or white knight. As other kind of M&A transaction, the aim of a hostile takeovers is to change the management with a new and better one. An Italian case of hostile takeover is Olivetti-Telecom.

- *Financial structure*: The debt, principally when the company is in a distress situation, is an instrument that permit to make an effective control on the operating activity of the managers. Indeed, in a distress situation, managers must be able to repay all the claimholders.
- The main governance mechanisms used to control the decisions and the operation made by the managers is the *board of directors* (BoD) and it is also important to understand its tasks, composition, structure, diversity and process for defining if there is or not a valid corporate governance in a company (Zattoni, Corporate governance course 2018).

– *Board tasks*: There are three main tasks made by the board. The first task is the *strategic rule of the board* and so the directors have to define the mission, vision and accept any strategic plan wanted by manager's team. How previously written the BoD is the principal mechanisms of corporate governance used by company to control managers, so the second task is the *control rule* of the board. The third task is based on the *networking* and so the members of the board have to increase the company reputation and also to manage the relationship between shareholders and stakeholders.

– *Board composition* : There are not some generic rules that permit to define a right way for creating a board and this imply that there are various elements to consider for making an efficient BoD, for example it is important to know some company information to create a well working board as the firm size, the ownership and the industry in which the company operates. There are two different kind of directors inside the BoD: executives and non-executives. The executive directors are members of the management team while the non-executives are the "outsiders" and they are divided into two categories: independent non-executives and dependent non-executives. A non-executive independent director as the dependent non-executive one, is a director present in committees different from the management team but he has not a family or emotional link with the company in which he works. The Corporate governance scholars and practitioners agree that non-executive directors are a key driver for board effectiveness and in order to maintain this status there are three different characteristics to observe : Independency (intended as independence of mind) (Zattoni and Cuomo, How independent, competent and incentivized should Non-

Executives Directors be ? An empirical investigation of good Governance code 2010) , knowledge and incentives that are used to maintain the status of independency of the director. Usually an Italian listed company is characterized by a board composed by 3 executives (COO, CEO and CFO) and 8 non-executives directors of which 5 are independent while 3 are dependent.

- *Board process*: The board process is very important and there are rules and recommendation for creating an efficient board that have to be followed in the board process. Some of these rules are to avoid destructive conflicts, to work as a team, to know the right level of strategic involvement and to engage in constructive conflict (Sonnenfeld 2002).
- *Board diversity*: This is very important for the effective utility of the BoD of a company, indeed if the mix of knowledge present inside it is high, also the industrial background present in the firm is high.
- *Board structure*: The structure of the board could be different from company to company and from country to country. How said previously there are not some specific rules that permit to create an efficient board because there are a lot of variables to consider for its composition and structure. Usually inside a board there are 3 committees excluding the management team, that are:

    - The Audit committee: It is composed by internal and external auditors. They meet every week and make control of compliance.
    - The nomination committee: It defines and chooses the future board composition making some proposal of future directors.
    - The compensation committee: It, as the name says, makes proposal on the compensation of executive directors.

All these concepts (the board process, structure, diversity, task and composition) are very important for building an efficient BoD, considering that a good board lead to a good performance.

Corporate governance is important for the business continuity and each company has a different structure of the BoD or a different tool used to defend the interest of the shareholders and stakeholders. These differences do not only depend on the individual characteristics of the firm since each companies is different from another but also on the type of firm, indeed, as will be showed later on, family firms have different characteristics and tools of corporate governance compared to nonfamily firms but before talking about these differences and showing the governance tools used by family firms , it is important to understand the origins and developments of family firms.

1.2-A SMALL BRIEF ON HISTORY AND DEVELOPMENT OF FAMILY BUSINESS

One of the leading scholars who began studying family firms was Donnelley. Donnelley published his article "the family business" in the 1964 and in this one the author defined family firms in this way:

"A company is considered a family business when it has been closely identified with at least two generations of a family and when this link has had a mutual influence on company policy and on the interests and objectives of the family." (Donnelley 1964)

Nowadays the literature has attributed different definitions to family firms, as Allouche wrote in one of his articles:

"[...] a consensus definition may not represent a pertinent research goal because, by nature, FBs are contingent on the institutional legal context, which differs from country to country." (Allouche, et al. 2008)

Therefore, each individual researcher has attributed to family firm a different definition, not allowing to better define this managerial phenomenon that has been increasingly successful over the years. Indeed, over the years, family firms have grown more and more, expanding themselves in different sectors. The first family firm was founded in Japan in 1610 and was Takenka Corporation (today considered the one hundred and forty-seventh largest family firm in the world in terms of revenues).The number of family business increased during the period after the American Civil War (the period from 1865 to 1917) in which companies such as Ford in America and Heineken in the Netherlands were born, and the period after the Second World War (the period from 1945 to 1988) in which companies such as Wall-Mart, the largest American family firm in the world by volume of revenues, Berkshire, LVMH, Esselunga, Mediaset, Bloomberg and Luxottica were born. Italy began to be populated by family firms in the early 1900s. One of the first companies of this type that still exists today is De Agostini (1901) while companies such as Exor and Astaldi were born during the end of the First World War and the beginning of the

Second World War. Nowadays family firms are present in many countries such as the USA, Europe, Oceania and even Africa. Thanks to a study conducted by the University of St. Gallen in collaboration with EY, the majority of family firms are located in Europe during 2019 while the number of family businesses in the United States is tending to decrease (University of St. Gallen 2019). In contrast to Europe, the study shows that American family firms are mainly present in the consumer sector and this can be seen from the *chart 1.2.1* below (University of St. Gallen 2019) in which family firms, divided by sector, are grouped according to the continent of origin.

CHART 1.2.1-A WORLWIDE OVERVIEW OF THE FAMILY FIRMS

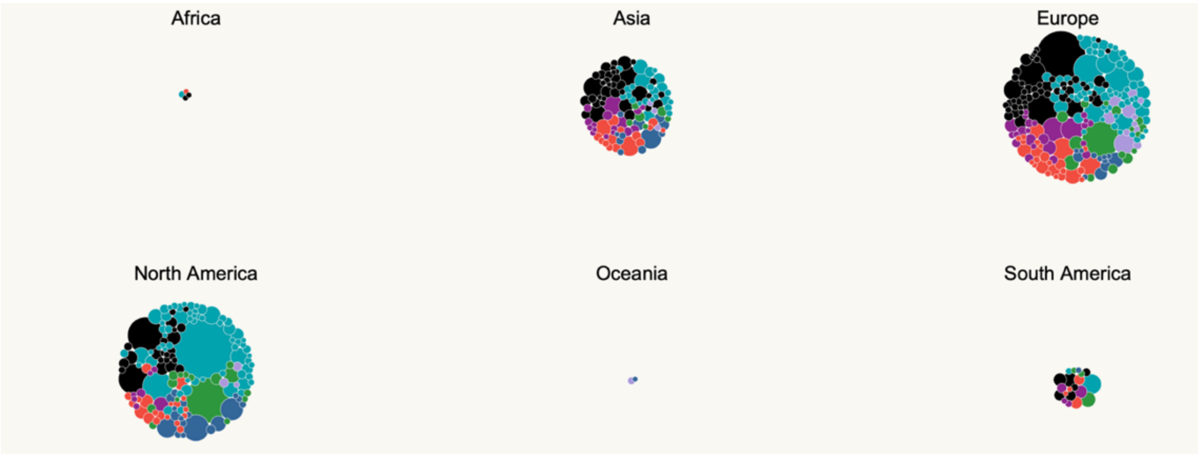
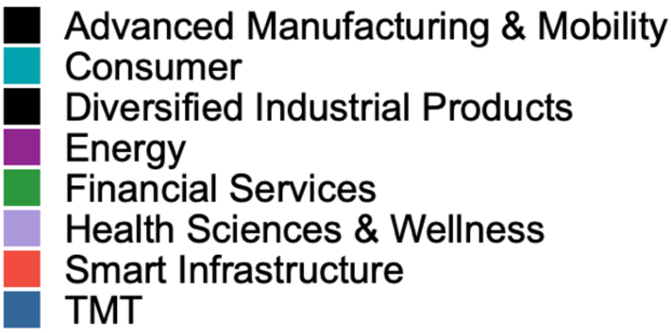


chart 1.2.1 made by (University of St. Gallen 2019)

To better understand the distribution of family firms around the world, it is important to read the *table 1.2.1-Legend* (University of St. Gallen 2019) in which each color defines a sector. Considering the Italian market, the main family firm is Exor S.p.a of the Agnelli family. Exor is present in the financial services market and it is considered the fourth largest family-owned public company in the world in terms of revenues and number of employees. Another important Italian family firm is Luxottica founded in 1961 by the Del Vecchio family and it is present in the consumer market. Luxottica, considering the study conducted by St. Gallen University and EY, is the 155th largest family firms in the world considering the volumes of revenues (11.04) and the number of employees (85,150). The characteristic that these two companies have in common is that the CEO is not a family member, indeed as will be highlighted later, in Italy family firms give roles such as the Chairmen or the

TABLE 1.2.1- SECTORS



Vice president of the BoD to a family member, while the role of CEO is usually given to a person outside the family (excluding cases in which there is the CEO duality) **.** The study carried out by the Swiss university shows 17 Italian family businesses that are present in different sectors and ordered according to the size of both the volume of revenues and the number of employees present. Considering the sample within the image, 41.18% of the companies are present in the costumer sector while 35.29% are present in the Advanced manufacturing and mobility and energy sectors and only 5.88% of the sample presents companies within the Healthcare, TMT, Small infrastructure and financial services sectors. Another very interesting feature is that 41.18% of the sample (i.e. 7 out of 17 companies) are characterized by a non-family member CEO, an aspect that, as already mentioned above, is very usual for Italian companies. Not all the 17 companies are listed, in fact only 46.05% of the sample is made up of public companies, this certainly depends on the absence of a culture, in Italy, based on the financial market and this is a situation very similar to the German one which, unlike the other countries, has, according to the data provided by the research of the University of St. Gallen, 78 family businesses of which only 20.51% of the sample is made up of companies listed on the markets, in France instead the study reports that there are 28 family businesses and of these 60.71% are public.

CHART 1.2.2-FAMILY BUSINESS IN ITALY

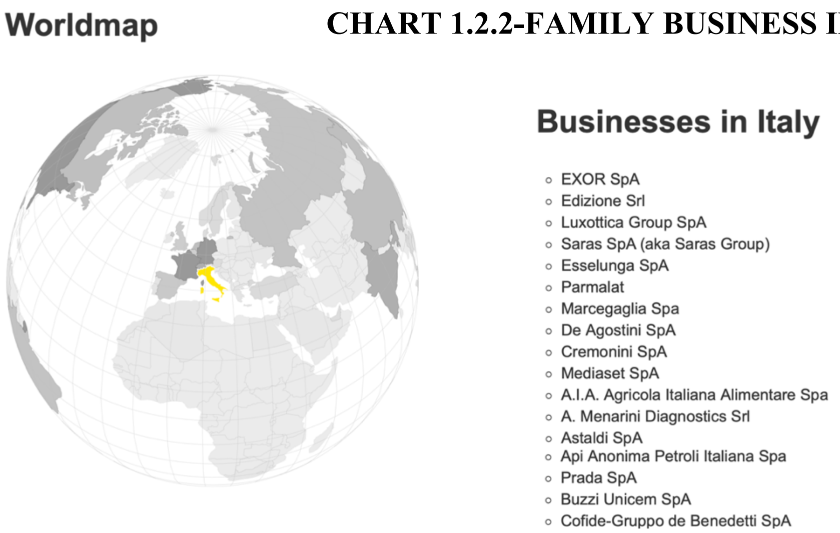


chart 1.2.2 made by (University of St. Gallen 2019)

Still considering the three countries previously mentioned (France, Germany and Italy), the AUB Observatory (Corbetta and Quarto, Le imprese familiari e il mondo 2019) has defined the percentage of family businesses present in European countries considering a much larger sample, i.e. the first 500 businesses present in the territories with the highest turnover. The number of family businesses present in France is lower than the number present in the other two countries, in fact the percentage indicating the presence of this kind of firms in this country is equal to 23.8% of the sample, while in Germany and Italy it is equal to 35.2% and 41.0%.

TABLE 1.2.2- A COMPARISON BETWEEN GERMANY, ITALY AND FRANCE

NUMBER OF FAMILY FIRMS	FRANCE		GERMANY		ITALY	
	N	%	N	%	N	%
	119	23.8	176	35.2	205	41.0

SIZE CLASS	FRANCE		GERMANY		ITALY	
	N	%	N	%	N	%
> 10	11	9,2%	18	10,2%	4	2,0%
5 - 10	10	8,4%	16	9,1%	5	2,4%
2,5 - 5	28	23,5%	36	20,5%	19	9,3%
1 - 2,5	46	38,7%	103	58,5%	62	30,2%
< 1	24	20,2%	3	1,7%	115	56,1%
Total	119	100,0%	176	100,0%	205	100,0%

The table 1.2.2 is made by (Corbetta and Quarto, Le imprese familiari e il mondo 2019)

Considering another sample made by data that refers only to family firms, the study shows that the main size of the family firms present in France and Germany is between one billion and 2.5 billion Euros of turnover, while in Italy family firms are mainly characterized by a size of less than one billion Euros and with this the research shows that in Italy family businesses are smaller than in other European countries (Corbetta and Quarto, Le imprese familiari e il mondo 2019). According to the research conducted by St. Gallen and EY (University of St. Gallen 2019), Italy is the seventh country in the world in terms of number of family businesses even though, as will be noted later, the number of family businesses in Italy is higher than the sample of 17 businesses used by the Swiss university and it is also higher than the sample used by the AUB observatory, in fact more than 60% (Mereghetti 2017) of listed companies are family businesses, for this reason it's important to make a focus on the Italian family firms evolution, indeed in this country the number of family businesses has increased more and more over the years. Another study carried out by the AUB observatory called "Dieci anni di capitalismo familiare" (Corbetta, Quarto and Minichilli, Dieci anni di capitalismo familiare 2018) shows this evolution and it says that during the year 2007 (year of the first edition of the observatory), the number of family firms with a turnover of less than 50 million Euros but more than 20 million Euros was 0 while in 2017 (year of the tenth edition) there were 6,579 family firms with a turnover between 20-50 million euros. Considering, on the other hand, another sample of family firms, i.e. those with a turnover greater than 50 million euro, in 2007 the number of firms was 4,251 while ten years later the number of family firms in Italy was 4,597, so in the course of a few years the total amount of family business present went from 4,251 family firms to 11,176 (4,597+6,579). Further interesting aspects were found by observing the main ratios of the DuPont analysis. Over the course of the 10 years, in fact, family businesses have decreased their debt ratio to 5.0 (by debt ratio we mean the ratio between total assets/equity), increased their ROE and slightly increased their ROI. The increase in ROE is generally due to a decrease in the debt level of family business. The decrease in debt has reduced all interest costs and increased net income. All these concepts are represented by the *table 1.2.3* below (Corbetta, Quarto e Minichilli, Dieci anni di capitalismo familiare 2018):

TABLE 1.2.3- CHANGES OVER TIME

	I EDITION (2007)		X EDITION (2017)	
	FF	NFF	FF	NFF
REVENUES GROWTH RATE	9,3%	7,9%	6,5%	5,5%
ROI	9,5%	7,7%	9,6%	8,5%
ROE	9,6%	8,3%	13,6%	12,0%
NFP/EBITDA	5,5	5,0	5,0	4,4
LEVERAGE RATIO*	6,5	7,8	5,0	6,2

* Leverage ratio : total asset/equity (source : Aida)

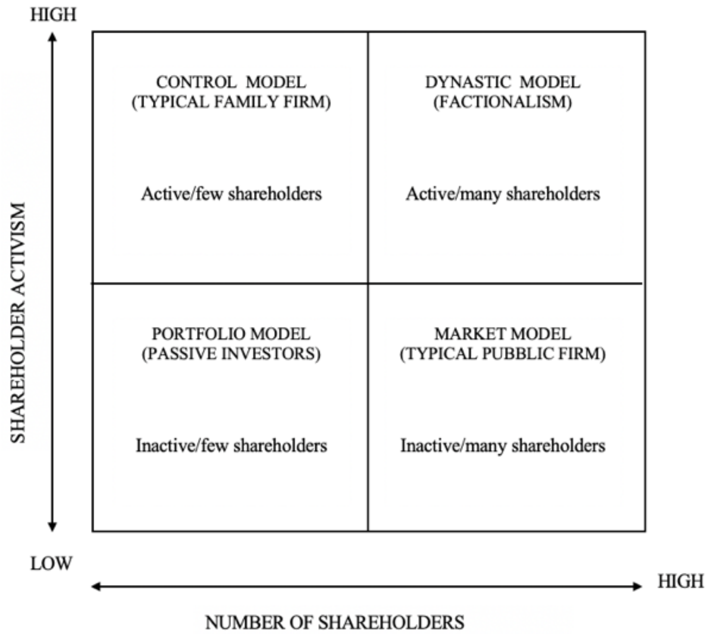
(Corbetta, Quarto e Minichilli, Dieci anni di capitalismo familiare 2018).

The *table 1.2.3-changes over time* (Corbetta, Quarto and Minichilli, Dieci anni di capitalismo familiare 2018) shows how family businesses have, over the years, increased their financial stability and increased profitability. The research and studies mentioned have analyzed various aspects of family businesses within the European Union. The study of the University of St. Gallen and EY, based on a sample composed of the best family businesses in terms of volume of revenues and number of employees, has allowed to understand in which sector Italian family businesses mainly operate and how many of them are public, comparing the Italian situation with that present in Germany and France. The studies carried out by the AUB observatory, on the other hand, made possible to understand the percentage of family firms (considering a sample composed of the best 500 enterprises in terms of turnover including family and non-family enterprises) present in Italy, France and Germany and also the evolution of Italian family business during the period between 2007 and 2017.

1.3-SOME DIFFERENCES BETWEEN FAMILY AND NON-FAMILY FIRMS: FROM THE MARKET AND THE CONTROL MODEL TO THE DIFFERENCE BETWEEN FIRM AND FAMILY LOGIC

Now it's important understand how family firms can be distinguished by nonfamily firms and to do this it's important to make a distinction between the market model and the control model (Lane, et al. 2006). The *market model* is based on a less concentrated ownership and therefore on the presence of a large number of shareholders. The rule of the board is fundamental indeed this one must be totally independent from the choices of the management. In the *control model* there is no a fragmented ownership and therefore this one implies the presence of a major shareholder who tries to maintain a long term prospective on his investment and maintains his control over the company. Usually the major shareholder in the control model is also the CEO of the firm and this allows to eliminate the problems given by the agency theory but permit to create some issues between the major shareholder and the minority shareholders. The control model is the corporate governance model used by the family firms as will be showed below. The *chart 1.3.1-market and control model* (Lane, et al. 2006) permit to better understand the differences between these two models.

CHART 1.3.1- MARKET AND CONTROL MODEL



The main difference between family firm and non-family firm is the relationship between the major shareholders and the manager of the company, indeed in a family business usually the controlling shareholders is also the manager and this allows to delete the agency-problems making an alignment of interests between these subject (indeed if the principal and the agent are the same person, will have same interests and this permit to maximize the firm value as will be show later). Another way to understand if the company is a family firm is looking if some family members are present in the board or not, indeed if there is a company in which half of the people have the same family name and the same family name of the major shareholder, it's possible to say that the company is a family firm.

It's important to highlight that the differences between a family firm and a non-family firm are not just linked to the presence of a founder/CEO and the presence of family members inside the board, but these are also based on the logic applied by the company (Zattoni, Corporate governance course 2018). A family firm, indeed, is based on a family logic in which some decisions are not taken for business reasons but for family reasons, so a family firm is based on the emotions while the stability of the company is given by the absence of changes and by the relationships with employees. The firm logic is exactly the opposite to that one, indeed it's based on:

- Business decisions;
- It's rational and so it's not based on emotions;
- The company have to look outside to improve its market positions;
- It's oriented to make money.

To better understand this distinction, it's possible to say that while the family logic is based on the "stewardship concept", the firm logic is mainly focused on the "agency perspective". The stewardship concept is manifested in a family firm with this three aspects, as said by Ward (2004), James (2006) and Mille and Le Breton-Miller (2005) : profound investment in the future of the business, ample funding of that investment, and a willingness to sacrifice short-term gains for long-run growth (Breton-Miller, Miller and Lester 2011). The agency prospective, on the other hand, manifests itself with aspects opposite to those mentioned before and it will be presented better later considering all the issues that it could create in a family firm. In Italy family firms are very common and these ones have a high percentages of family members in the board of directors (not in the management team) because there is the idea that the head of the company should be a member of the family while the CEO could be an external member. This structure implies two different consequences:

1. External manager will implement a firm logic;
2. Family members has a long-term orientation.

So, more the company delegate, more the firm will have a firm logic. This concept can also be seen with generational change, in fact the more the years go on, and therefore the generations change, the more the family firm tends to be a nonfamily firm. A famous motto reads "the first generation creates value, the second preserves it while the third destroys it" this to say that usually the first generation creates mission and vision of the company and exploits a logic of "family logic" by setting long-term goals and therefore intergenerational value creation objectives. The second generation, the founder's children, tries to maintain what was done previously by also carrying out operations that can bring greater success to the company. The third generation, usually, tends to detach itself from what was previously created thinking exclusively about profit and this can totally destroy the value of the company. Logically, the motto is not to be considered as a rule, but it allows to understand how, over the years and generations, a company can go from being a family firm to not a family firm. What said will be observed later considering the study made by Villalonga and Amit. Another way used to understand if a company is a family business or not is looking the ownership structure, indeed usually in the family firms contest, the founder is also the major shareholders but this method could lead to errors in evaluation, in fact in the market it is possible that a company is a family firm even if the family members do not hold more than 50% of the equity or even if the founder is not the major shareholder. As is well known, the shareholder structure varies from company to company and therefore the major shareholder could be an investor who could hold 30% or 35% of the company's equity. Usually, as will be better highlighted later when talking about the main problems in family firms, family members in a family business do not hold more than 50% of the equity but hold more than 50% of the votes in the shareholders' meeting, in fact, listed family firm offer for sale in the market two types of shares, some with full voting rights and dividend rights and others characterized just by dividend power. These two classes of shares are:

- Ordinary shares (based on pawer to vote in the shareholders meeting and to receive dividends)
- Saving shares (based on the pawer to receive some privileges in the dividends)

Therefore, family members mainly hold the first type of shares and this allows them to have a high power over the company even if they do not have a large number of shares.

Another difference between family businesses and non-family firms is related to the concept of socioemotional wealth. This concept has been analyzed by several scholars over the years such as Kepner in 1983 or Schulze in 2003 and is linked to the concept of corporate reputation. Family businesses, in fact, attach great importance to the reputation of their name and their brand and try to increase the value of the latter by performing many charitable actions or try to satisfy the needs of their clients by considering an ethical and moral plan of action, an example of this is the work done by Barilla in eliminating palm oil from their products. Therefore, socioemotional wealth is the concept whereby family businesses, unlike non-family businesses, give greater importance to stakeholders, putting the ability to generate profits and long-term performance targets in second place and considering the value that society gives to the image of the family as a priority. On the basis of what has been said, the decisions of family firms are divided into family-oriented goals and business-oriented goals and this allows to understand how family firms are more inclined to take risks so that they can maintain control within the company, exert influence within the decisions that are taken by the board and maintain a continuity of dynasty. Following the analysis of the scholars Max P. Leitterstorf and Sabine B. Rau, the main aspects of SEW (Socioemotional wealth) are (Leitterstorf and Rau 2014):

- the reputation of the family name;
- the influence of family members in the decisions taken by the board.

There are three different kind of family firms in the market: Small and private family firm, Large and private family firm and large and listed family firm (Zattoni, Corporate governance course 2018).

- *Small and private family firm*: In a small and private family firm there is not the presence of external shareholders and it's very important to maintain a balance between family members. The Family council is very common, and the meetings of this body are made with all the family members, also with the members of the family that are not shareholders. In a small and private family firm there are three different aspects to consider and two of these are other corporate governance mechanisms that are present only in the board of directors of this kind of family firms:

    I. Family pact: It's a document with or without legal validity in which all the family values and all the rules that must be respected to achieve the business goals in the long run are written

II. Family council: It's a governance body that allows to create a connection between the BoD and the family members and it is very important because it represents the interest of shareholders that are members of the family.

III. Family succession : The kinship is fundamental in the contest of family firm indeed the simpler this one is during the first generation, grater will be the possibility of success for future generation, instead if the complexity of the kinship is high at the beginning, the likelihood of failure in the future is high. The *chart 1.3.2-family relationship* (Zattoni, Corporate governance course 2018) below explains better this concept:

CHART 1.3.2-FAMILY RELATIONSHIP

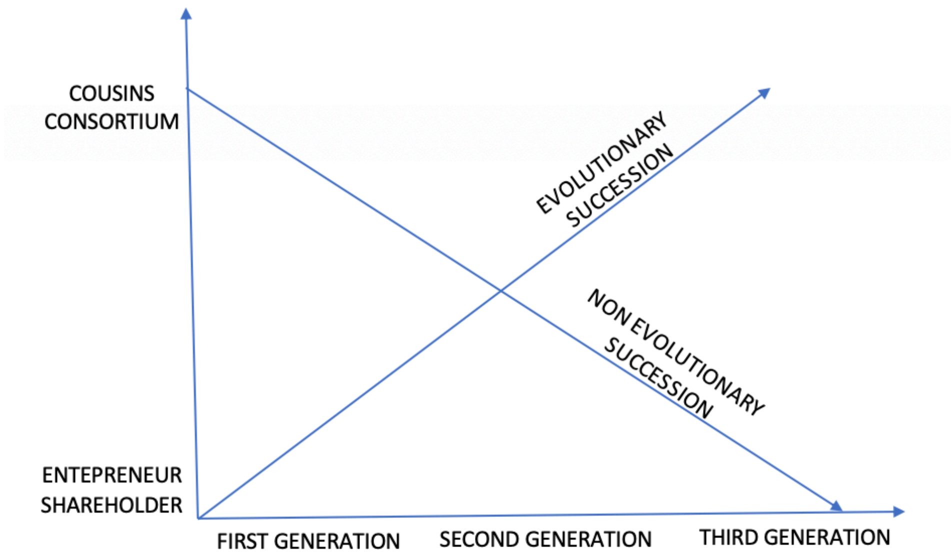


Chart 1.3.2 from: (Zattoni, Corporate governance course 2018)

- *Large and private family firm*: In a large and private family firm it's complicated to not consider outsiders and so it's possible to note the presence of external directors in the board and in the team management. This aspect could imply some conflicts between the external and the family member directors, indeed an external director prefers to follow a firm logic while the family members chooses to follow a family logic in the operating activity. An Italian case of a large and private family firm is Ferrero.
- *Large and listed family firm* : Large and listed family firms are characterized by the presence of external shareholders and so in this firm category it is very difficult maintain a family logic as prospective of the operating activity because the family members have to consider also the interest of the outsiders shareholders during the decision making process. The rules and recommendations on the board structure, composition and on the

board process of a large and listed family firm are the same of a "non-family listed company".

1.4-ISSUES INSIDE THE FAMILY FIRM GOVERNANCE AND HOW TO RESOLVE THEM

As all firms the main issue present in the corporate governance of family firms is related to the agency problem. A paper written by Villalonga, Amit, Trujillo and Guzmán (B. Villalonga, et al. 2015) show how it could be analyzed considering different subject present inside the firm. The authors, indeed define four different type of agency problems : Agency problem I : Conflict of interest between the owners and the managers (analyzed before), Agency problem II : Conflict of interest between controlling (family) shareholders and non- controlling shareholders, Agency problem III : Conflict of interest between shareholders and creditors and Agency problem IV : Conflict of interest between family shareholders and family outsiders.

- Agency problem I : The main tool used to delete this kind of issue is the "ownership concentration", indeed when a firm is owned by a single person, or by a small group of persons is possible to make an high control on the management decisions and operations, so an high ownership concentration imply a low conflict of interest between the manager and the founders/shareholders of the company and this is what usually is present inside a family firm. Another important issue related to the CG of this companies is if the CEOs or Chairmen are family members, indeed, as said before, managers that are not family members follow a firm logic that could be not in line with the decisions of family members present inside the BoD, for this reason it's usually possible to observe that inside the board of a family firm the CEO is member of the family or also it's possible to find, in the market, companies led by the founder. Following the research done by Villalonga & Amit, these two concepts permit to increase the value of family firms and the study concludes saying that the family firm, that following what before explained, overperform the non-family firm.
- Agency problem II : Considering what said before about the tools that could be used to resolve the first problem, it's important now analyze the effects given by them, indeed the presence of a family ownership or of CEO as family member could imply a conflicts of interest between the controlling and non-controlling shareholders. A high ownership concentration, for example give a lot of power to the major shareholder that could use his

control benefit to obtain what he wants at expense of the small shareholders. In the market there are a lot of evidences of this issue and an example of this is the presence of two different kind of stocks. Indeed, in the market there are some stocks that give to the owner high controlling power and there are other stocks based just on the power to receive part of the cash flows generated by the company (as Italian azioni di risparmio). This evidence was shown by the DeAngelo& DeAngelo research made during the 1985 in which was highlighted that family members hold more or less the 24% of equity and the 56.9% of votes. Another relevant evidence of this problem was made by Anderson and Reeb's research in which they show that family members have a high fraction of market capitalization of their firms and, considering also Faccio's study, usually these companies are considered "politically connected". So, the real issue inside the BoD of a family firm is not the agency problem between the manager and the founder of the company but is the conflict of interest between the controlling family shareholders and the non-controlling ones.

To summarize: The family ownership permit to delete the agency problem I and it creates value for the company, but an excess of this control destroy value for the problems highlighted in the agency problem II. After different studies was reported that, in the family firms the Agency problem II overshadow the Agency problem I.

- Agency problem III: This issue is not clear in the family firm. The idea behind this problem is that the family members prefer to increase the leverage then increase the dilution effect on the equity but in the market is possible to see family firms with a low leverage ratio because incentives of shareholders (as the long-term survival) are aligned with creditors. The effect of these two considerations is a mix, indeed it's possible to observe some companies (always family firm) that have an high level of debt and other ones that have low level of that one, so the conflict of interest between shareholders and creditors is not so relevant as the agency problem I and II.
- Agency problem IV: This is an issue that could be shown principally with a generational change, for example when the family members have to choose the next chairman or CEO of the company. This kind of problem could be understood considering the *chart 1.3.2-family relationship* (Zattoni, Corporate governance course 2018) above in which is shown that more complex is the kinship during the first generation and higher will be the

likelihood of non-evolutionary succession in the future for the presence of conflicts between family shareholders and family outsiders.

In a family firm there are different governance mechanisms used to delete the problems shown above. The main tool is the “Board of directors” used, as non-family firms, to mitigate issues related to the agency problem I and II. For the family firm, beyond these effects, the BoD can improve the Agency problem IV considering that family members inside the board can increase the communication with family shareholders and the family outsiders to align their interest. The executive compensation is also a governance mechanism and it reduces the issue created by the agency problem I. In a family firm is possible to note a lower CEO’s compensation (when this one is a family member) then when he’s hired, indeed family CEOs accept to have a lower compensation for giving a greater job security (B. Villalonga, et al. 2015). Also, the debt is a governance mechanism, and this is used for mitigating issues related to the Agency Problem Type I indeed a high leverage ratio could imply a higher effort made by the manager to avoid the bankruptcy. Debt can also delete Agency Problem Type IV considering that it can incentives family members to maintain the control on their firm. Dividend policies have the same effect of the debt and usually family firms prefer to distribute low number of dividends to delete the Agency Problem type I. The literature has defined also some mechanisms of governance that are present just in family firms and these ones are:

- *The family assembly* is a meeting made by all the members of the family and it’s made one or two times per year. During this, members make dialogue on mission, vision and values of the firm, elect the members of the family council and approve all the work done by this one.
- *The family council* is a governance body that create a connection between the BoD and the family members aligning the objective of the family and shareholders and it is used in order to delete some problems present inside the family that can affect the firm performance and competitiveness.
- *The family constitution* is effectively a binding agreement in which are written all the values, mission, vision, rules and policies of the company and regulate also the relation of family members with the firm.

1.5-THE VALUE GIVEN BY FAMILY MEMBERS TO THE FAMILY FIRM.

How explained before, there are different issues related to the family firm governance and the conflict of interests. The main issues are given by the first and the second type of agency problem and now it's important understand how these ones can affect the value of the company. In a research done by Villalonga and Amit (Villalonga and Amit 2006)this aspect was shown answering to three questions:

I. Does family ownership destroy or create value?
II. Does family control create or destroy value?
III. Does family management create or destroy value?

The study was conducted on 2808 firms, but just the 37.07% of them were family firm, and was highlighted that:

- the family management affect the value of the firm
- the excess control made by family members for external shareholders is better off than they would have been in a nonfamily firm

This research was done with the OLS regression model and considering as dependent variable the Tobin's q calculated as the market value of the company divided by total asset value.

Form these results the study continues considering what of the two-agency problem considered is more costly for firms and to do this the sample[1] was divided in order to create four groups:

- Type I: Family firm characterized by CEO as family member and an excess control on the company (high family ownership). Companies affected by the Agency problem II
- Type II: Family firm characterized by CEO as external member (no family member) and an excess control on the company (high family ownership). Companies affected by Agency problem I and Agency problem II.
- Type III: Family firm characterized by CEO as family member and the absence of excess control on the company (low family ownership). Companies are not affected by any agency problems

[1] The research defines family firm all the firm characterized by one or more family members are present in the board and/or have 5% or more of the equity.

– Type IV: Nonfamily firm affected by the first agency problem but not the second one.

Considering the average Tobin's q for each group, the research shows that "Type III" has an higher q then the other ones and so all the family firm that have a family member as CEO and have not an excess control on the company have higher performance then other subjects present in the sample, this because companies inside this group have not costs related to the agency problem type I and agency problem type II. The mean Tobin's for each group is:

– Type I: 1.93
– Type II: 1.94
– Type III: 2.66
– Type IV: 1.97

So, at the end, the agency problem type II is considered more costly then the agency problem type I for the family firms. It's important also understand the variation of these value considering the evolution in family successions, indeed the study continues showing the effect of CEO or Chairman's generation on the Tobin's q. Assuming that the first generation is the funder generation, from the second to the least family succession the qs are each year more close to the qs of non-family firms. The research shows that just the second generation descendent-CEO implies a q lower than what could be observed in a non-family firm while the other ones make this value similar to the qs[2] of a nonfamily firm. It's possible to observe the same result in the case of the second generation descendent-Chairman, all these concepts are summarized in the *table 1.5.1-generation change* below (Villalonga and Amit 2006):

TABLE 1.5.1-GENERATION CHANGES

	First	Second	Third	Later
Generation of family CEO	1.16	-0.38	0.02	0.12
Generation of family Chairman	1.07	-0.3	-0.04	0.00

Table 1.5.1 from (Villalonga and Amit 2006)

[2] The qs in the table 1.5.1 are given by the difference between the qs obtained from family firm and qs of non-family firms.

1.6-EVIDENCE FROM THE LITERATURE

To sum up, family firms are characterized by many problems which can lead to family firm's value changes (by creating or destroying it). Unlike non-family firm, however, they also have other governance mechanisms such as the family assembly, family council and family constitution that are used to mitigate the damage generated by any type of agency problems. Through the Tobin's q, it has been possible to define which are the firms that have a better performance considering the main issues given by the agency problem of type I and the agency problem of type II and these are the firms with CEO as family members and that have a very concentrated ownership but not such as to create disadvantages to minority shareholders. Considering always the same sample of firms, their Tobin's q has been observed over the generations noting that in the future all the present family firm will become more and more similar to non-family firm and also noting how the successions of generations may impact, in a different way, the value of the company. The *table 1.5.1-generation change* (Villalonga and Amit 2006), indeed, shows that the second generation impacts in a more negative way compared to subsequent generations and so over the years each family firms became closer to a nonfamily business. This first part of the text follows a circular structure, in fact it begins by presenting in a generic way the main problem that gives a purpose to corporate governance, that is the agency problem, to enter more and more specifically showing the same problem within family businesses. Another purpose of the text is to show the main governance tool that is used by companies to solve the above mentioned problem, i.e. the BoD, and how this differs considering the case of family businesses that, repeating what was said before, may also present other governance tools such as family pacts and family councils. With this the intent of this first part is to provide the main theoretical concepts on family businesses and governance to allow an adequate understanding of the analysis present in the second part that is focused on the agency problem, in fact this second part is an analysis carried out to understand who holds the decision-making power between the chairman of the board and the CEO in the context of Italian family firms. This first part has also served to highlight how Italian family firms have developed over the years and in which sector they mainly operate, all these aspects have been shown by making a brief analysis on family businesses defined by the University of St. Gallen (University of St. Gallen 2019) and also considering the studies made by the AUB Observatory (Corbetta, Quarto e Minichilli, Dieci anni di capitalismo familiare 2018).

CHAPTER 2: ANALISYS OF THE SAMPLE

2.1-DATA COLLECTION AND METHODOLOGY

According to what has been said in the first part of the text, the research that will be carried out will serve to answer a simple question:

"Who holds the decision-making power between the CEO and the Chairman in Italian family businesses?

The whole research is focused on Italian family businesses. The model of governance that they use is the "modello tradizionale" that is a different version of the classic two-tier system (Hopt and Leyens 2004). The "modello tradizionale" is based on three bodies: Shareholders meeting, Board of directors (composed by committees as nomination committees and compensation committees) and Collegio Sindacale. The Collegio Sindacale has the same rule of the internal audit committee but while the audit committee is inside the board of directors and so has the power to vote against management decisions, the Collegio Sindacale cannot vote the decision taken inside the board because is not inside it. Usually the BoD of Italian companies (i.e. considering both listed and unlisted companies, both family and non-family) is composed of 7-11 directors, but the sample of the study, composed just of listed family firms, could show data that differ from the general observation above mentioned. The sample that was used to make the study is composed by 118 listed Italian family businesses operating in different sectors. Of these 118 companies, their proxies were analyzed for a period of 10 years (from 2005 to 2014) in order to understand the composition of the Board of Directors, the powers present inside the BoD and how these powers were distributed between one member and another. The period of time has been defined according to the time span present in the proxies made available by the Chamber of commerce of Rome. The first step of the analysis is based on the understanding the subjects present in the BoD during the period considered, and subsequently, using both the available proxies and the Borsa Italiana website, the powers that are attributed to each executive director were defined. In the proxies kindly provided by the Chamber of commerce of Rome, in fact, there is a great deal of information relating to the powers that are entrusted to the directors and also shows their variation during the various meetings that have been held by the company. Proxies are documents that provide not only information about all the members of the Board of Directors with their powers, but also their personal data, the date of incorporation of the company, the corporate purpose and changes in the company structure. It has also been possible using proxies to define the date of birth of the board members. The "Borsa Italiana" website, on the other hand, was used to understand the composition of the BoD of the companies considered in the sample. Since these listed companies are obliged to publish numerous reports and also reports on their corporate governance, the website in question was used to understand mainly the role assumed by each director in the BoD (Borsa Italiana 2015). The second step is based on the sorting all the data found. The data are ordered considering both the time span and the role of the directors in the Board to ensure that there is a complete understanding of the trend of variation in the powers that are entrusted to the directors and to make a comparison of the powers held by the persons considered. This step is focused only on the relevant figures within the BoD and they are:

- CEO;
- Vice-President
- Chairman.

The kind of powers owned by directors considered for the whole analysis have been divided into different categories and these are:

– Powers of ordinary and extraordinary administration without limit of amount;
– Powers of ordinary and extraordinary management with limit of amount;
– Powers of ordinary and management without limit of amount;
– Powers of ordinary and management with limit of amount;
– Only powers on specific functional areas:

1. Purchasing;
2. Production;
3. Sales;
4. Logistics;
5. AFC + Tax;
6. Research and Development;
7. Human Resources;
8. Marketing;
9. Legal and Corporate Governance;
10. Information system.

– Only powers on specific functional areas in common with other Directors.

TABLE 2.1.1-THE METHODOLOGY OF ANALYSIS

ID	Name	Date of birth	Year	Age	Company	Established	Firm_age	VICE	Poteri di ordinaria e straordinaria gestione	Poteri di ordinaria e straordinaria gestione	Poteri di ordinaria e gestione senza limitazio	Poteri di ordinaria e gestione con limitazio	Solo poteri su specifiche aree funzionali	Solo poteri su specifiche aree funzionali in	Acquisti	Produzione	Vendite	Logistica	AFC + fiscale	Ricerca e sviluppo	Human Resources	Marketing	Legale e Corporate Governance	Sistemi Informativi
1	/	0	2005	2004	ACOTEL GROUP	2000	5	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
2	/	0	2006	2004	ACOTEL GROUP	2000	6	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
3	/	0	2007	2004	ACOTEL GROUP	2000	7	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
4	/	0	2008	2004	ACOTEL GROUP	2000	8	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
5	/	0	2009	2004	ACOTEL GROUP	2000	9	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
6	/	0	2010	2004	ACOTEL GROUP	2000	10	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
7	/	0	2011	2004	ACOTEL GROUP	2000	11	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
8	/	0	2012	2004	ACOTEL GROUP	2000	12	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
9	/	0	2013	2004	ACOTEL GROUP	2000	13	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
10	/	0	2014	2004	ACOTEL GROUP	2000	14	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
1	Alberta Ferretti	1950	2007	57	AEFFE	1988	19	1	1	0	0	0	0	0	1	1	1	1	1	1	1	1	1	1
2	Alberta Ferretti	1950	2008	58	AEFFE	1988	20	1	1	0	0	0	0	0	1	1	1	1	1	1	1	1	1	1
3	Alberta Ferretti	1950	2009	59	AEFFE	1988	21	1	1	0	0	0	0	0	1	1	1	1	1	1	1	1	1	1
4	Alberta Ferretti	1950	2010	60	AEFFE	1988	22	1	1	0	0	0	0	0	1	1	1	1	1	1	1	1	1	1
5	Alberta Ferretti	1950	2011	61	AEFFE	1988	23	1	1	0	0	0	0	0	1	1	1	1	1	1	1	1	1	1
6	Alberta Ferretti	1950	2012	62	AEFFE	1988	24	1	1	0	0	0	0	0	1	1	1	1	1	1	1	1	1	1
7	Alberta Ferretti	1950	2013	63	AEFFE	1988	25	1	1	0	0	0	0	0	1	1	1	1	1	1	1	1	1	1
8	Alberta Ferretti	1950	2014	64	AEFFE	1988	26	1	1	0	0	0	0	0	1	1	1	1	1	1	1	1	1	1
1	Maurizio Costa	1948	2005	57	ARNOLDO MONDADORI ED	1985	20	1	0	0	0	0	1	0	1	1	1	1	1	0	1	0	1	0
2	Maurizio Costa	1948	2006	58	ARNOLDO MONDADORI ED	1985	21	1	0	0	0	0	1	0	1	1	1	1	1	0	1	0	1	0
3	Maurizio Costa	1948	2007	59	ARNOLDO MONDADORI ED	1985	22	1	0	0	0	0	1	0	1	1	1	1	1	0	1	0	1	0
4	Maurizio Costa	1948	2008	60	ARNOLDO MONDADORI ED	1985	23	1	0	0	0	0	1	0	1	1	1	1	1	0	1	0	1	0
5	Maurizio Costa	1948	2009	61	ARNOLDO MONDADORI ED	1985	24	1	0	0	0	0	1	0	1	1	1	1	1	0	1	0	1	0
6	Maurizio Costa	1948	2010	62	ARNOLDO MONDADORI ED	1985	25	1	0	0	0	0	1	0	1	1	1	1	1	0	1	0	1	0
7	Maurizio Costa	1948	2011	63	ARNOLDO MONDADORI ED	1985	26	1	0	0	0	0	1	0	1	1	1	1	1	0	1	0	1	0
8	Maurizio Costa	1948	2012	64	ARNOLDO MONDADORI ED	1985	27	1	0	0	0	0	1	0	1	1	1	1	1	0	1	0	1	0
9	Ernesto Mauri	1946	2013	67	ARNOLDO MONDADORI ED	1985	28	1	0	0	0	0	1	0	1	1	1	1	1	0	1	1	1	0
10	Ernesto Mauri	1946	2014	68	ARNOLDO MONDADORI ED	1985	29	1	0	0	0	0	1	0	1	1	1	1	1	0	1	1	1	0
1	Giovanni Ferreri	1934	2005	71	AS ROMA	1967	38	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2	Giovanni Ferreri	1934	2006	72	AS ROMA	1967	39	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3	Giovanni Ferreri	1934	2007	73	AS ROMA	1967	40	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4	Giovanni Ferreri	1934	2008	74	AS ROMA	1967	41	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5	Giovanni Ferreri	1934	2009	75	AS ROMA	1967	42	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6	Giovanni Ferreri	1934	2010	76	AS ROMA	1967	43	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7	Giovanni Ferreri	1935	2011	76	AS ROMA	1967	44	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8	Roberto Cappelli	1959	2012	53	AS ROMA	1967	45	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
9	Roberto Cappelli	1959	2013	54	AS ROMA	1967	46	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10	Roberto Cappelli	1959	2014	55	AS ROMA	1967	47	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1	Paolo Astaldi	1960	2005	45	ASTALDI	1926	79	1	0	0	0	0	1	0	1	0	1	0	1	1	0	0	1	0
2	Paolo Astaldi	1960	2006	46	ASTALDI	1926	80	1	0	0	0	0	1	0	1	0	1	0	1	1	0	0	1	0
3	Paolo Astaldi	1960	2007	47	ASTALDI	1926	81	1	0	0	0	0	1	0	1	0	1	0	1	1	0	0	1	0
4	Paolo Astaldi	1960	2008	48	ASTALDI	1926	82	1	0	0	0	0	1	0	1	0	1	0	1	1	0	0	1	0
5	Paolo Astaldi	1960	2009	49	ASTALDI	1926	83	1	0	0	0	0	1	0	1	0	1	0	1	1	0	0	1	0
6	Ernesto Monti	1946	2010	64	ASTALDI	1926	84	1	0	0	0	0	1	0	1	0	1	0	1	0	0	0	1	0
7	Ernesto Monti	1946	2011	65	ASTALDI	1926	85	1	0	0	0	0	1	0	1	0	1	0	1	0	0	0	1	0
8	Ernesto Monti	1946	2012	66	ASTALDI	1926	86	1	0	0	0	0	1	0	1	0	1	0	1	0	0	0	1	0

ANALISI BOARD | CHAIRMAN (RULE) | CEO (RULE) | VICE PRESIDENT (RULE) | CO-CEO (RULE) | CHAIRMAN (TIME) | CEO (TIME) | VICE PRESIDENT (TIME) | +

(personal elaboration)

The *table 2.1.1-the methodology of analysis* above is just an example of how the study was conducted. In the case of the figure, the analysis was of the vice-president with data order by role and the code used to highlight the powers held by the different subjects is the binary code where 1 is yes, 0 is no. The third part of the research is based on the two main directors (CEO and Chairman) considering the data ordered both by role and by time, but before this it is important to understand some aspects of the sample that was considered to make the research indeed as the image shows, the first page of the excel file is called "board analysis"; in this one all the subjects present in the board of directors (both executives and non-executives) of the companies in the sample were analyzed and this has allowed to understand how a BoD is composed and also other interesting aspects that will be shown in the following paragraph (e.g. the number of non-executive directors compared to the number of executive directors in the BoD, the average age of the entire Board of Directors). So, it could be said that all the research comes from this first page of excel (i.e. from a total analysis of the Board of Directors of companies) followed by a focus on the leading roles of companies.

2.2-ANALYSIS OF THE SAMPLE

The companies in the sample were divided according to the sector in which they operate and 11 different industries were identified, as shown in the *table 2.2.1* below. The definition of the sectors of belonging has been made considering the corporate purpose present in the respective proxies and the “Borsa Italiana” website.

TABLE 2.2.1- INDUSTRIES		
INDUSTRY	**%**	**N.**
REAL ESTATE/ CONSTRUCTION / INFRASTRUCTURE SECTOR	13	11,02%
MEDIA /ENTERTAINMENT/TELECOMMUNICATIONS INDUSTRY	22	18,64%
UTILITIES SECTOR	9	7,63%
RETAIL/ WHOLESALES SECTOR	2	1,69%
MANUFACTURING SECTOR	28	23,73%
SERVICES SECTOR	9	7,63%
HEALTHCARE AND PHARMACEUTICS SECTOR	10	8,47%
TECHNOLOGY	13	11,02%
ELECTRONICS SECTOR	8	6,78%
HOLDING SECTOR	3	2,54%
FINANCIAL SECTOR	1	0,85%

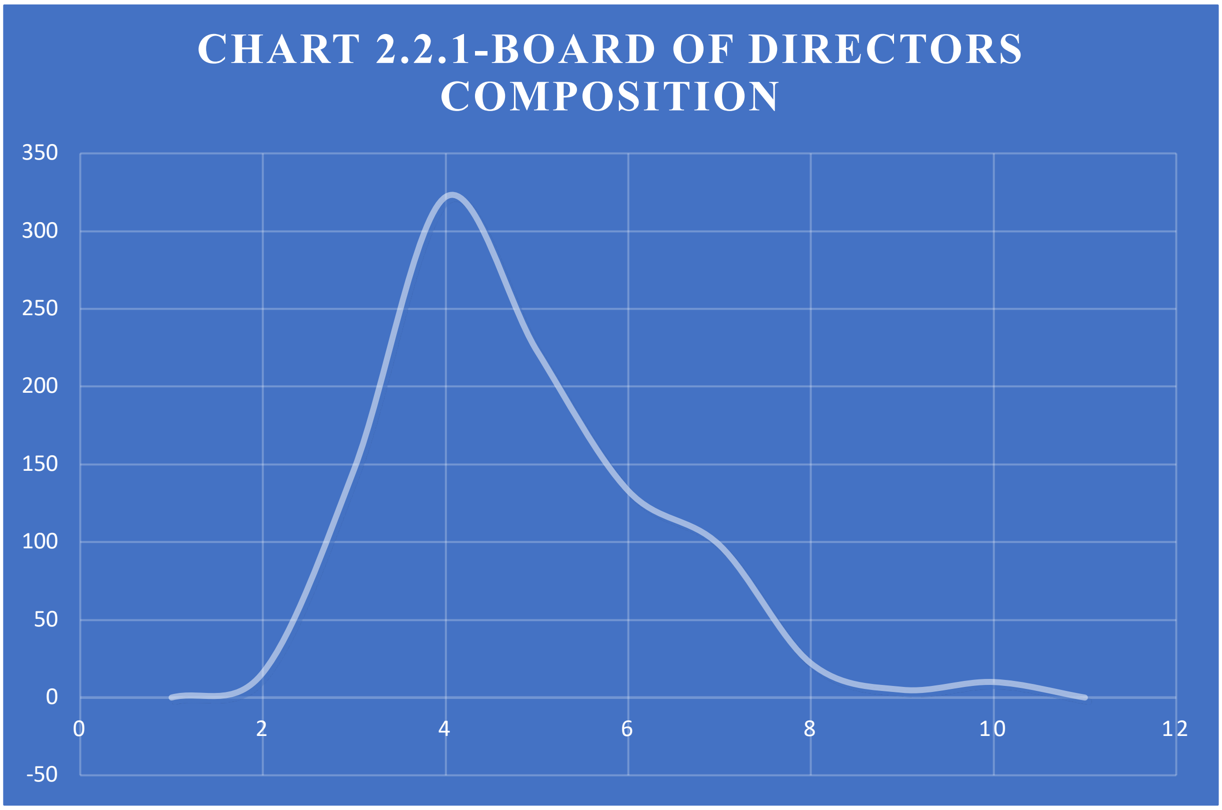
(personal elaboration)

As the *table 2.2.1-industries* shows, the main sector in which the companies considered are present is the manufacturing sector which represents 23.73% of the sample, while companies operating in the financial industry represent only 0.85% of the sample. Considering the composition of the BoDs, it can be noted that the general rule before mentioned (i.e. that a BoD is usually composed of 7-11 directors) is true, in fact the average number of members of the BoDs of the companies considered is 9. This is highlighted by the *chart 2.2.1*.

TABLE 2.2.2 BOARD OF DIRECTORS COMPOSITION

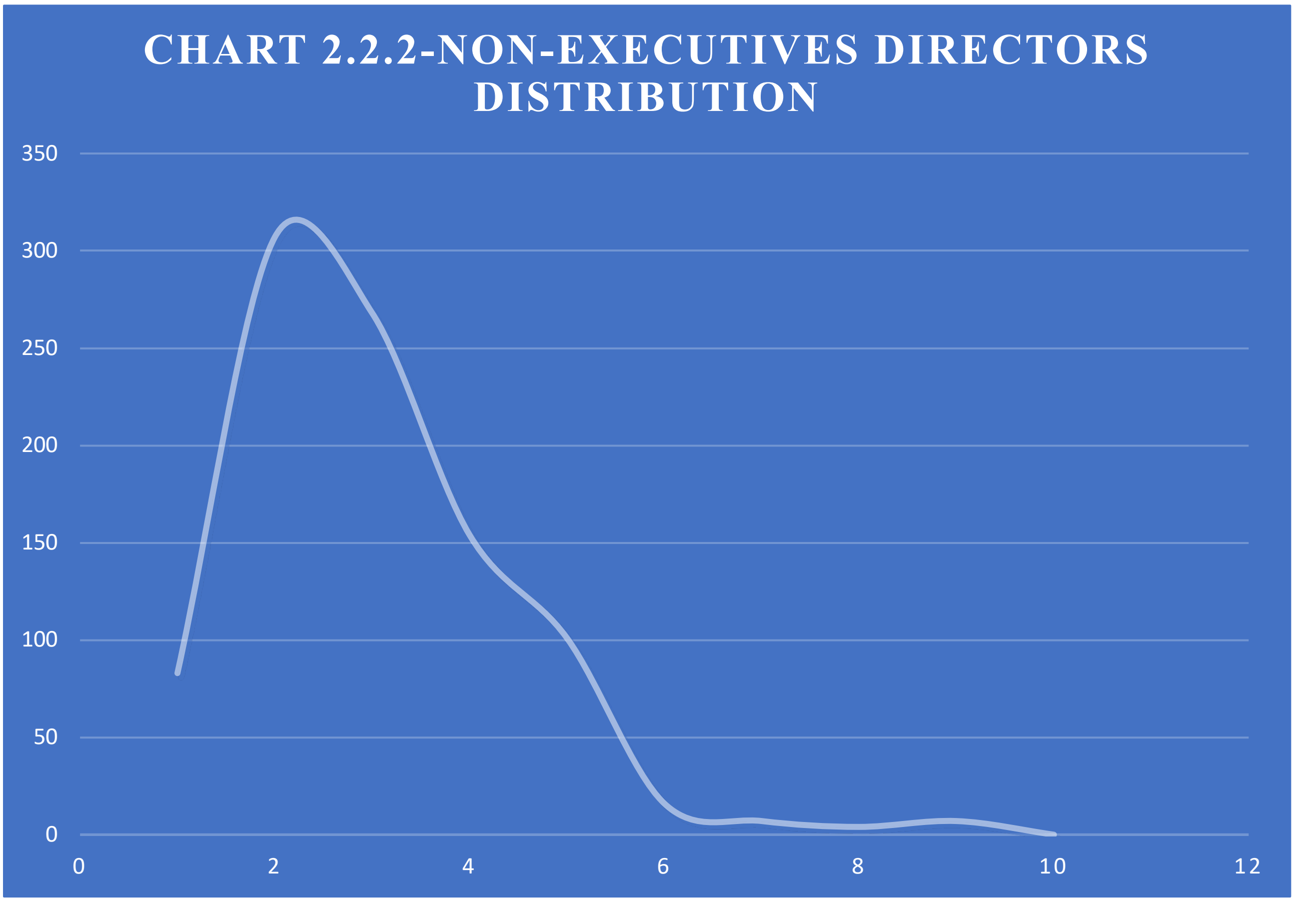
FROM	TO	CLASSES	FREQUENCY
0	2	0-|2	0
2	4	2-|4	16
4	6	4-|6	147
6	8	6-|8	322
8	10	8-|10	223
10	12	10-|12	133
12	14	12-|14	98
14	16	14-|16	22
16	18	16-|18	5
18	20	18-|20	10
20	22	20-|22	0

(personal elaboration)



(personal elaboration)

The *chart 2.2.1-Board of directors composition* shows how many times BoDs made up of 1 or more directors were observed and, according to the said average, the highest frequencies are found for BoDs made up of 6 to 10 subjects. The largest Board of Directors present in the sample is that of Pirelli, which is made up of 20 directors for the entire reference period (2005-2014) of whom, considering the years from 2005 to 2012, only 3 were executive while, considering the years from 2013 to 2014, the number of non-executives had risen to 18. Another interesting aspect of the analysis is the average age of the members of the Board of Directors. The Italian family businesses considered in the sample have a BoD composed mainly of non-young directors, in fact the average age of directors (executive and non-executive) is 56 years old. This data shows that one of the fundamental elements in the composition of BoDs in Italy is experience. Following a very generic concept in fact it is said that the directors to be chosen as board member must have two prerequisites: a relevant work experience and a great ability to communicate (Finkelstein and Mooney 2003). The work experience is very important not only because it allows to create constructive conflicts but also because directors with relevant experience are able to improve decisions comprehensiveness. Considering again the proxies and the "Borsa Italiana" website, it was possible to distinguish between the number of executive and non-executive directors in the BoDs of the companies in the sample. The average number of non-executive directors presents in the BoDs is 6 and considering the total number of BoD members and the number of non-executive directors, it should be noted that 61% of the BoDs of companies are made up of non-executive directors. All of this can be observed in the *chart 2.2.2-Non-executives directors distribution* which, as was done for the composition of the Board of Directors, shows the absolute frequency of the number of non-executive directors present in the BoDs.



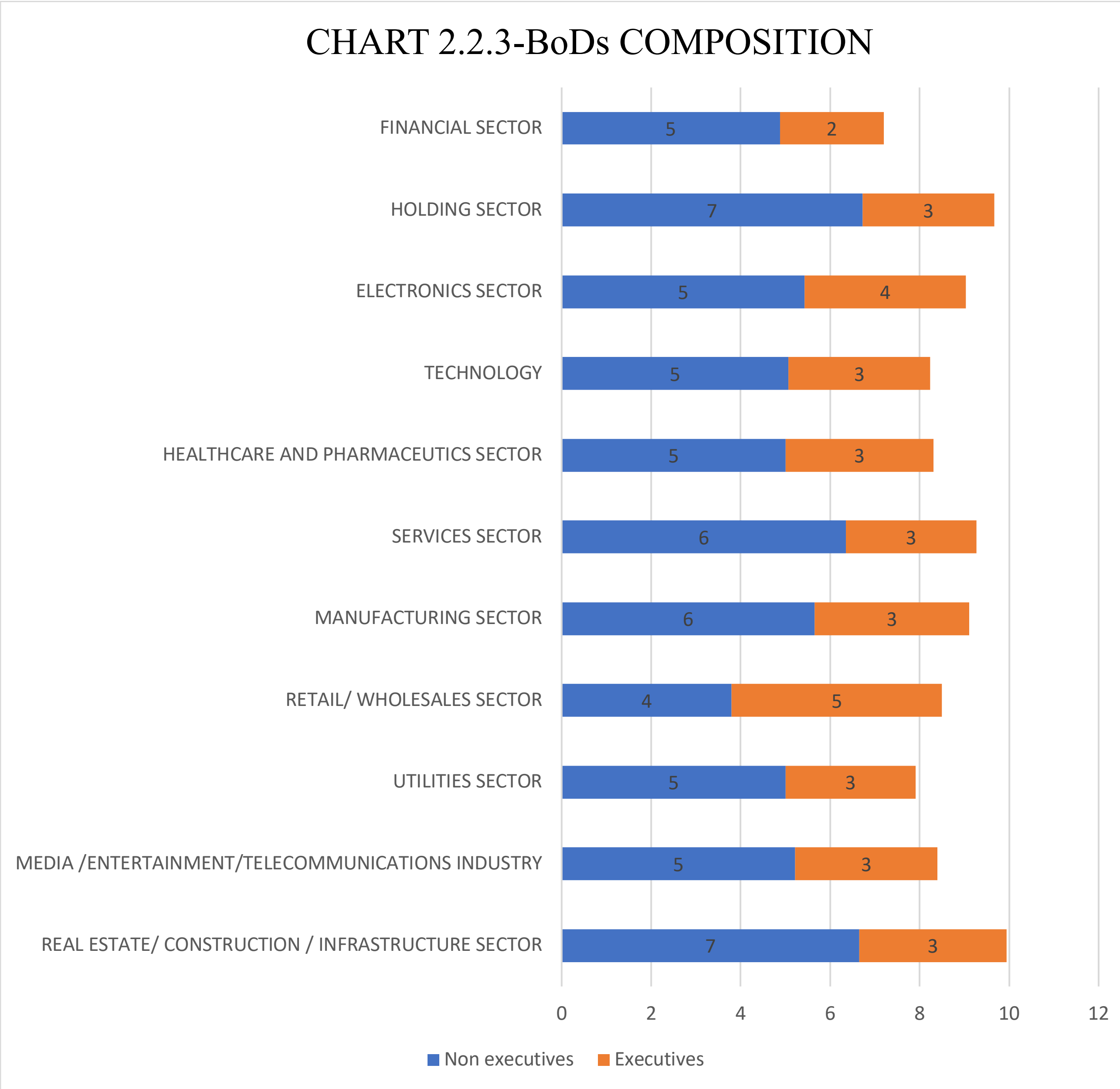
(personal elaboration)

TABLE 2.2.3-NON-EXECUTIVES DIRECTORS DISTRIBUTION

FROM	TO	CLASSES	FREQUENCY
0	2	0-|2	83
2	4	2-|4	307
4	6	4-|6	268
6	8	6-|8	154
8	10	8-|10	101
10	12	10-|12	16
12	14	12-|14	7
14	16	14-|16	4
16	18	16-|18	7
18	20	18-|20	0

(personal elaboration)

Reconsidering the composition of the Board of Directors, the analysis carried out earlier (both on the number of non-executive directors present and on the size of the BoD) was again made by making a distinction by sector. The *chart 2.2.3* shows the number of non-executive directors in the Boards of Directors considering the distinction between the sectors indicated in the *table 2.2.1* in which the companies in the sample operate.



(personal elaboration)

The *chart 2.2.3-BoDs composition* shows that the sectors in which the BoDs is on average composed of a large number of non-executive directors are the real estate/ construction / infrastructure sector and the holding sector (7 non-executive directors out of 10 BoD members), while the sector in which the Board of Directors is on average composed of a large number of executive directors is the retail/ wholesale sector (5 executive directors out of 9 BoD members).

Logically, the whole analysis was carried out considering only and exclusively the data of the companies in the sample and this explains how data for companies operating in the financial sector cannot be representative of the whole industry[3].

[3] The number of companies operating in the financial sector and in the biotechnology sector is 1, for this reason the data that have been processed by their proxies cannot be considered as approximations of the whole sector.

CHAPTER 3: DISTRIBUTION OF POWERS

3.1-DESCRIPTIVE ANALYSIS OF THE POWERS OF THE SAMPLE

As mentioned before, the powers of all the subjects in the sample were analyzed. In this part of the analysis, the third step of the research, we will no longer consider all the members present on the Boards of Directors of companies but only the two main directors (Chairman and CEO). Before presenting the analysis of the powers held by the subjects previously mentioned, it is important to understand the powers that have been considered to elaborate the analysis. As noted in the second part, the powers were distinguished first into ordinary and extraordinary administration (with or without limit of amount) and then, if the subject had powers in specific areas, all powers according to the functional areas of the company. Following also what has been said in the Italian Civil Code, an exact definition of "power of ordinary administration" does not exist. In order to define the power of ordinary administration, it could be said that this means all actions that have been, by delegation, entrusted to a director of the Board of Directors to pursue the corporate purpose and therefore actions that fall within the normal and "ordinary" management of the company. The Italian Civil Code presents in several articles the concept of power of ordinary administration, but only in Article 320[4] (Treccani n.d.) there is a list in which are presented all the acts that do not fall within the definition of power of ordinary administration, highlighting the limit of this type of power. On the other hand, the term "extraordinary administration" refers to the whole series of powers that allow to carry out acts that go beyond the ordinary management of the company, and by this it refers to those acts that modify the economic-organizational structure of the company (Stanzione 2018). These two powers may not necessarily be held by more than one person, but it's possible that they are held by a single member of the Board of Directors and may also be limited in amount. In the phase of extrapolation of data from the companies' proxies it was noted that not all BoDs members had powers of ordinary and extraordinary administration, in fact some directors have powers of ordinary administration only in some functional areas of the company that have been presented in the second part of the text but it is appropriate to give them a definition. Leaving aside the definition for the powers within the Sales, Purchasing and Production areas that are defined by their name, the powers within the "Administration, Finance and Control" area are all the powers

[4] Other articles of the Italian Civil Code also mention the power of ordinary administration but without giving a definition (some of these articles are 374,1105,1106 and 1361). Article 320 is the only one that makes it possible to understand the limits of this type of power.

that concern both financing strategies, i.e. the powers that are usual for the CFO (e.g. increase in debt, issue of bonds or risk management activities) and operations in the tax area, while the powers within the logistics area are all the powers that concern relations between subjects along the production chain (e.g. the purchase of raw materials or relations with distribution channels). The powers in the area of research and development, instead, are related to new ideas for industrial projects that can be carried out by the company such as a new technology that could speed up the production of a product or the search for a new business that meets a target consumer need, while the powers presents in the area of human resources concern all those actions that are related to the organization of employees such as layoffs or hiring. The powers present in the remaining functional areas (Marketing, Legal and Corporate Governance and Information Systems) focus respectively on actions related to the promotion of products and corporate marketing, the representative actions that a director may have in case of legal proceedings and actions aimed at communicating corporate directives to the public.

3.2-ANALYSIS OF THE POWERS

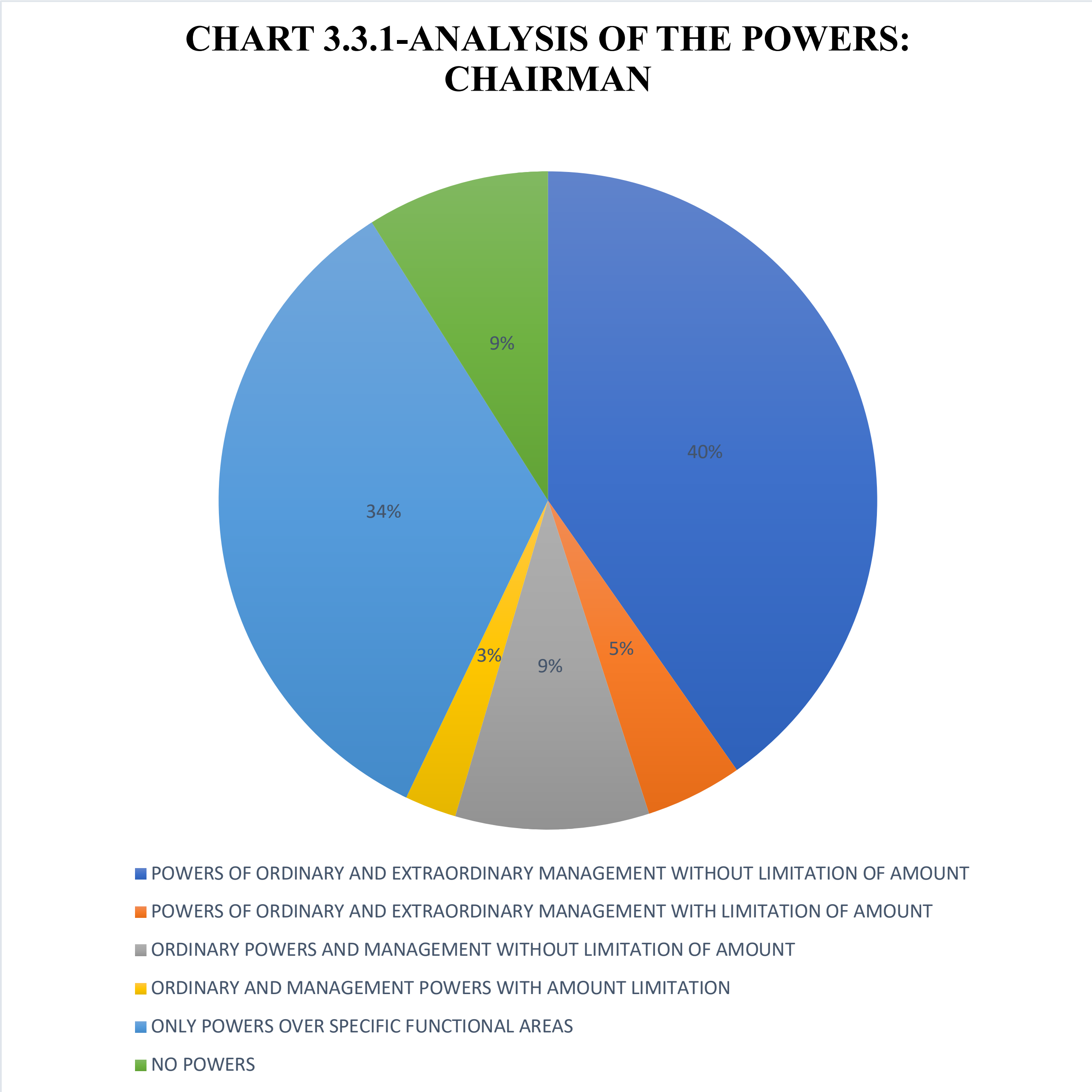
From this brief definition of the powers considered for the completion of the research, the study focuses, as mentioned above, only on the two main members of the Boards of Directors. The analysis was carried out by ordering the data according to time period and role (and with this making an analysis year by year for the Chairman and the CEO) and also based only on the role assumed by the director present in the Board of Directors. The first member of the Board of Directors analyzed is the Chairman.

3.3-NALYSIS OF THE POWERS: CHAIRMAN

The Chairman is one of the most important positions on the Board. Considering the powers that had previously been defined, the analysis shows, by processing data according to role and not time, which are the main powers held by the Chairman of the Boards of the companies in the sample[5]. The *chart 3.3.1* shows a very interesting aspect, in fact it shows how not all members considered have powers and with this how some Chairmen are non-executive directors, in fact 5.92% of the members in the sample are Chairmen who do not have any power in the proxies. Mainly the *chart 3.3.1* shows how the president of the BoDs considered has all the powers of

[5] As mentioned before, the sample now referred to is composed only of data related to the Chairman of the Board of Directors.

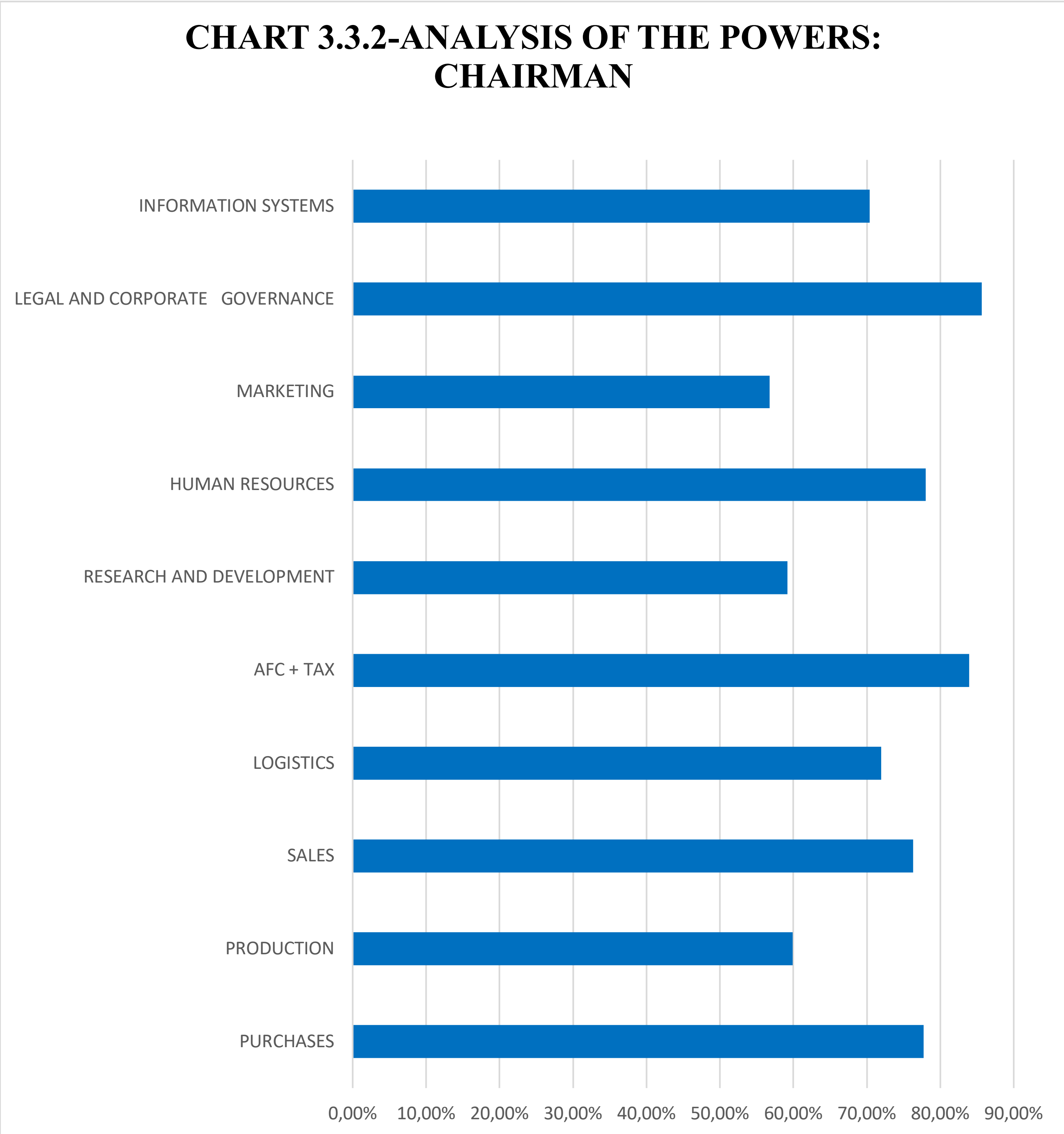
ordinary and extraordinary administration without limits of amount, in fact just the 40% of the subjects in the sample has this type of power, while 34% of the members considered in the sample has powers of ordinary administration within specific functional areas. This can be observed in the *chart 3.3.1* below.



(personal elaboration)

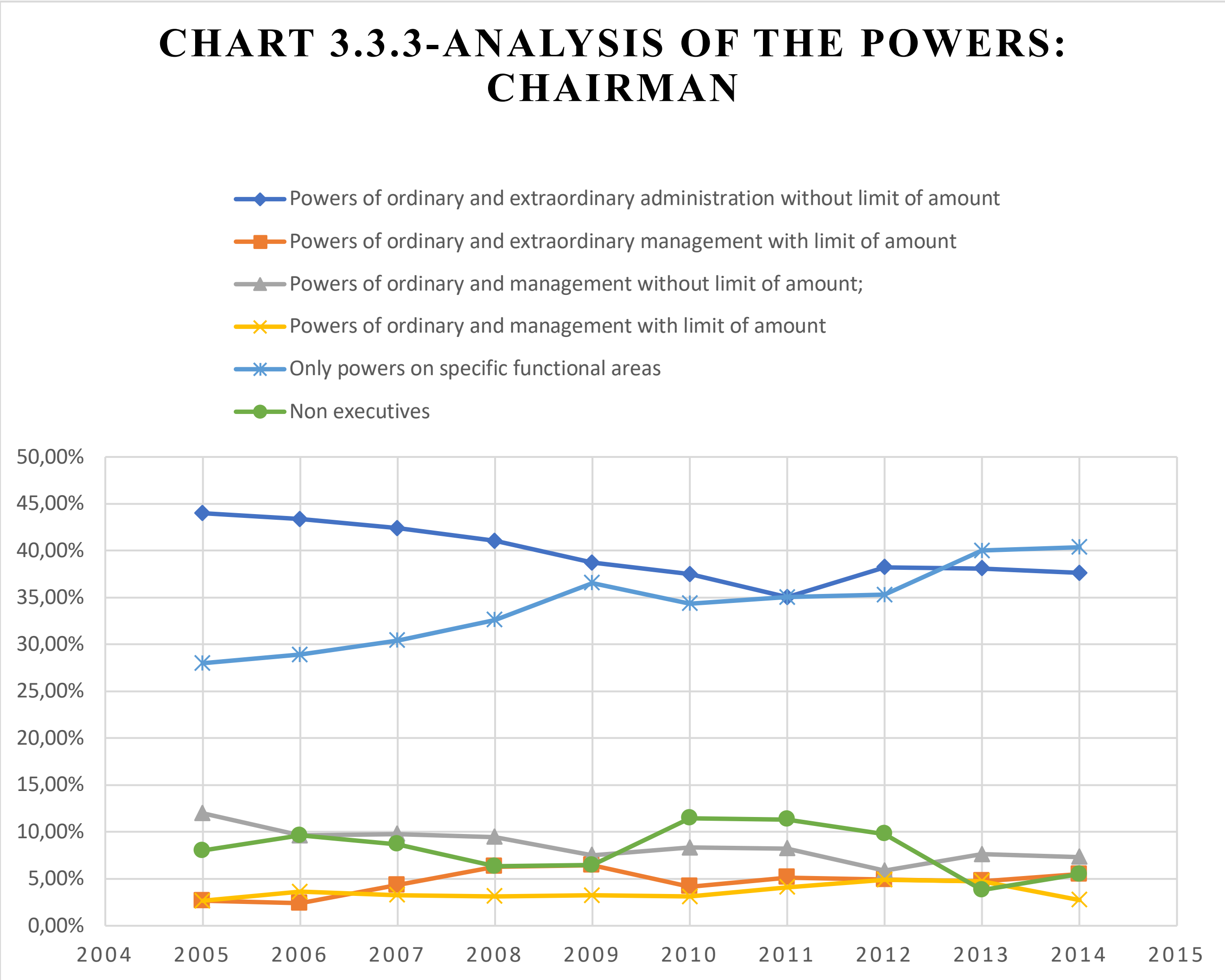
The powers divided according to the functional areas held by the subjects considered in the sample were represented in the *chart 3.3.2*. It is important to underline that the *chart 3.3.2* does not refer only to the case in which the chairman is in possession of "only powers over specific functional areas", in fact in cases where the chairman was in possession of powers of ordinary and extraordinary administration it was considered that he had powers in all the functional areas considered in the analysis. Considering the *chart 3.3.2*, the main power held by the chairmen of

the BoD is the power relating to the Legal and Corporate Governance functional area, in fact 85.62% of the individuals in the sample have this power while the other areas in which the chairmen of the Boards of Directors have high powers are the areas of human resources (78,01% of the persons in the sample have this power), AFC+ tax (83,93% of the persons in the sample have this power) and purchasing and sales (77,70% and 76,32% respectively). The areas in which the subjects considered have less power, instead, are the functional areas of marketing
(only 56.77% of the presidents considered in the sample have powers in this area) and R&D (only 59.20% of the presidents in the sample have powers in this area).



(personal elaboration)

All this information has been obtained by processing the data by role only. However, it is important to understand how the powers of the chairmen of the BoDs shown above have changed over the ten-year period (2005-2014). Considering the type of power held by the Chairmen of the Boards present in the sample, it can be seen that over the years the holding of all powers of ordinary and extraordinary administration has tended to decrease, in fact, considering the last years of the research period, it was easier to see many pages of the proxies that define in detail every power held by this member of the Board rather than the generic definition of "powers of ordinary and extraordinary administration". All this can be seen more clearly with the *chart 3.3.3* below.



(personal elaboration)

In the *chart 3.3.3*, in fact, it can be seen that over the years the number of chairmen who hold powers only in specific functional areas has tended to increase more and more than the number of chairmen who have powers of ordinary and extraordinary administration. Another interesting data is the one defined in the *chart 3.3.3* with "non-executive" line that shows the number of non-executive chairmen within the BoDs, indeed it can be seen that during the period from 2009 to

2010 the number of non-executive chairmen increased and then decreased thereafter. The fact that there may be non-executive chairmen is normal, logically in these cases the powers (including decision-making powers) will be held by other Board members.

TABLE 3.3.1-ANALYSIS OF THE POWERS: CHAIRMAN					
TIME	Purchasing	Production	Sales	Logistics	AFC + Tax
2005	77,33%	64,00%	76,00%	73,33%	82,67%
2006	74,70%	62,65%	74,70%	72,29%	83,13%
2007	76,09%	63,04%	76,09%	73,91%	84,78%
2008	77,89%	63,16%	77,89%	72,63%	84,21%
2009	77,42%	59,14%	76,34%	69,89%	82,80%
2010	76,04%	57,29%	75,00%	68,75%	81,25%
2011	75,26%	55,67%	74,23%	68,04%	81,44%
2012	75,49%	56,86%	75,49%	68,63%	83,33%
2013	80,00%	58,10%	80,00%	74,29%	88,57%
2014	77,98%	55,05%	77,98%	72,48%	87,16%

(personal elaboration)

TABLE 3.3.2- ANALYSIS OF THE POWERS: CHAIRMAN					
TIME	R&D	HR	Marketing	Legal and C.G.	I.S
2005	58,67%	81,33%	57,33%	85,33%	70,67%
2006	57,83%	80,72%	56,63%	85,54%	69,88%
2007	60,87%	81,52%	57,61%	85,87%	70,65%
2008	60,00%	80,00%	57,89%	86,32%	71,58%
2009	58,06%	77,42%	56,99%	86,02%	72,04%
2010	56,25%	75,00%	55,21%	83,33%	69,79%
2011	55,67%	73,20%	54,64%	83,51%	69,07%
2012	56,86%	74,51%	55,88%	83,33%	68,63%
2013	60,95%	79,05%	58,10%	89,52%	72,38%
2014	59,63%	78,90%	57,80%	88,07%	69,72%

(personal elaboration)

The *table 3.3.1* and the *table 3.3.2*, instead, show the powers held by the chairmen of BoDs in the different functional areas. As the tables show, the main power held in the various years by the persons considered is certainly the power in the functional area of "Legal and corporate governance" followed by that present in the "AFC + tax" area, in fact both are characterized by a percentage equal to or greater than 80% for the entire time period considered in the analysis. This percentage of 80% says that the 80% of the chairmen considered in the sample have this power, logically what has been said can be extended for all the percentages present in the tables above. In order to better understand the *table 3.3.1* and the *table 3.3.2*, further data have been processed to show how, over the years, the powers of presidents have changed. These data can be seen in the *table 3.3.3* and in the *table 3.3.4* which present these variations for the different functional areas:

TABLE 3.3.3- CHAGES OF THE POWERS: CHAIRMAN					
TIME	**Purchasing**	**Production**	**Sales**	**Logistics**	**AFC + Tax**
2005	/	/	/	/	/
2006	-2,63%	-1,35%	-1,30%	-1,04%	0,47%
2007	1,39%	0,39%	1,39%	1,62%	1,65%
2008	1,81%	0,11%	1,81%	-1,28%	-0,57%
2009	-0,48%	-4,02%	1,55%	-2,74%	-1,41%
2010	-1,38%	-1,85%	1,34%	-1,14%	-1,55%
2011	-0,78%	-1,62%	0,77%	-0,71%	0,19%
2012	0,23%	1,19%	1,26%	0,59%	1,89%
2013	4,51%	1,23%	4,51%	5,66%	5,24%
2014	-2,02%	-3,05%	2,02%	-1,81%	-1,42%

(personal elaboration)

Table 3.3.3-changes of the powers: chairman shows that:

1. The number of chairmen who have powers in the functional area of production has decreased more and more over the years, in fact from 2005 to 2006 the number decreased by 1.35% and from 2008 to 2009 by 4.02%. The second largest negative variation is between 2013 and 2014, when there is a decrease of 3.05%;
2. The number of chairmen who have powers in the functional area of purchasing has been characterized by high variations. During the period from 2005 to 2006 it decreased by 2.63%, while it increased significantly between 2012 and 2013, when there was an increase of 4.51%;
3. The number of chairmen with powers in the functional area of logistics has been characterized by numerous variations over the years, in fact from 2005 to 2006 the number

decreased by 1.04% while from 2008 to 2009 by 2.74%. The second largest negative variation is between 2013 and 2014 where there is a decrease of 1.81% after it had increased, during 2013, by 5.66%;

4. The number of chairmen who have powers in the functional area of sales has been characterized by numerous variations. During the period from 2005 to 2006, it decreased by 1.30%, while it increased significantly between 2012 and 2013, when there was an increase of 4.51%;
5. The number of chairmen with powers in the AFC + fiscal area has been characterized by numerous variations. During the period from 2009 to 2010 it decreased by 1.55%, while it increased significantly between 2012 and 2013, when there was an increase of 5.24%.

TABLE 3.3.4-CHAGES OF THE POWERS: CHAIRMAN

TIME	R&D	HR	Marketing	Legal and C.G.	Information system
2005	/	/	/	/	/
2006	-0,84%	-0,61%	-0,71%	0,21%	-0,79%
2007	3,04%	0,80%	0,98%	0,33%	0,77%
2008	-0,87%	-1,52%	0,29%	0,45%	0,93%
2009	-1,94%	-2,58%	-0,91%	-0,29%	0,46%
2010	-1,81%	-2,42%	-1,78%	-2,69%	-2,25%
2011	-0,58%	-1,80%	-0,57%	0,17%	-0,72%
2012	1,19%	1,31%	1,24%	-0,17%	-0,44%
2013	4,09%	4,54%	2,21%	6,19%	3,75%
2014	-1,32%	-0,15%	-0,30%	-1,45%	-2,66%

(personal elaboration)

Table 3.3.4-changes of the powers: chairman shows that:

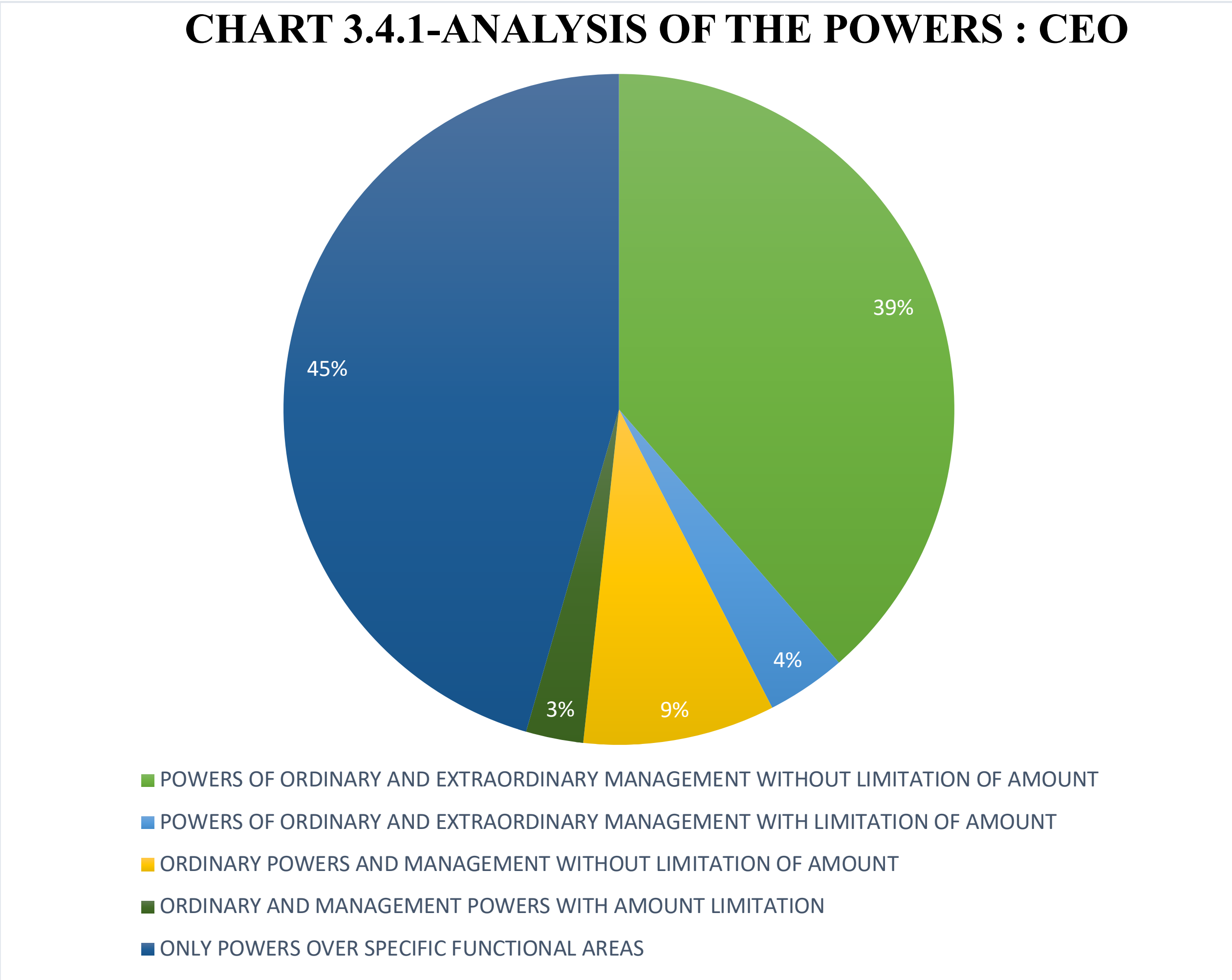
1. The number of chairmen with powers in the functional area of R&D has been characterized by numerous negative changes over the years, indeed from 2005 to 2006 the number decreased by 0.84% while from 2008 to 2009 by 1.94%. The second largest negative variation is found between 2013 and 2014 where there is a decrease of 1.32% after it had increased, during 2013, by 4.09%.

2. The number of chairmen who have powers in the Marketing area has been characterized by numerous negative changes over the years, in fact from 2005 to 2006 the number decreased by 0.71% while from 2008 to 2009 by 0.91%. The second largest negative variation was between 2009 and 2010, when there was a decrease of 1.78%.
3. The number of chairmen who have powers in the functional area of HR has been characterized by numerous variations. During the period from 2009 to 2010 it decreased by 2.42% while it increased significantly between 2012 and 2013 with an increase of 4.54%.
4. The number of chairmen who have powers in the functional area of Information system has been characterized by numerous variations. The most significant changes were seen in 2010, 2013 and 2014, when the number of the presidents who have powers in the area of the Information system first decreased by 2.25%, then increased by 3.75% in 2013 and then decreased again in 2014 by 2.66%.
5. Unlike the cases analyzed before, the table 3.3.3 shows that there have not been excessive changes in the powers in the areas of the Legal and Corporate Governance held by the Chairmen of the Boards of Directors. This table shows that the number of presidents who have powers in the Legal and Corporate Governance area first decreased by 2.69%, then increased by 6.19% and then decreased again by 1.45%.

Looking at the *table 3.3.3* and the *table 3.3.4* that are related to the variation of powers during the years, it is possible to ask to itself why the main negative variations occurred from 2008 to 2010 and to answer this question it is appropriate to observe the "*Chart 3.3.3-analysis of the power: chairman*". In fact, with the help of *the chart 3.3.3* it can be seen that one of the reasons why there were many negative variations from 2008 to 2010 could be mainly due to the decrease in the number of cases of chairmen with all the powers of ordinary and extraordinary administration and the increase in the number of proxies that had, during the said period, a lot of detailed information on the powers of the chairmen. These two analyses made it possible to understand which the main powers are held by the Chairmen of the Board considering two different variables (indeed the first analysis was based only on the role while the second on the role and time). In this second analysis it was noted that the main powers held by the chairmen are the same main powers defined with the first analysis, indeed they are all the powers characterized by a very low annual variation such as the powers in the Legal and CG area and in the HR area while the powers in the Marketing, R&D or Production area can be considered powers that are usually not held by the chairmen but by other members of the Boards.

3.4-ANALYSIS OF THE POWERS: CEO

The CEO is another important position on the Board. Considering the powers that had previously been defined, the analysis shows, by processing data according to role and not time, which are the main powers held by the CEO of the Boards of the companies in the sample[6]. Mainly the *chart 3.4.1* shows how the CEOs of the BoDs considered has powers of ordinary administration within specific functional area, in fact just the 45.48% of the subjects in the sample has this type of power, while the 38.58% of the members considered in the sample has all the powers of ordinary and extraordinary administration. This can be observed in the *chart 3.4.1*:

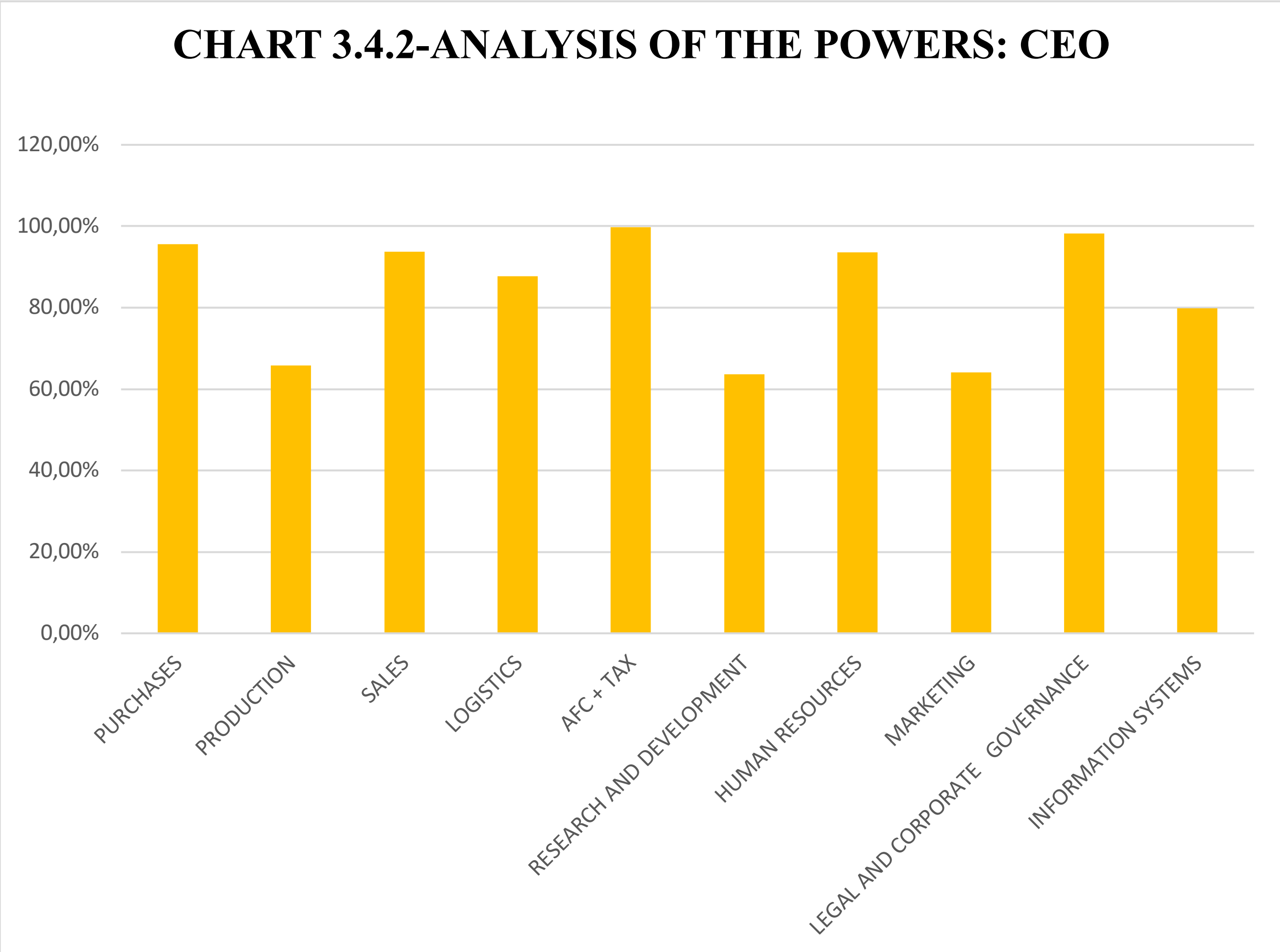


(personal elaboration)

The powers divided according to the functional areas held by the subjects considered in the sample were represented in the *chart 3.4.2*. It is important to underline that the *chart 3.4.2* does not refer only to the case in which the CEO is in possession of "only powers over specific functional areas", in fact in cases where the CEO was in possession of powers of ordinary and

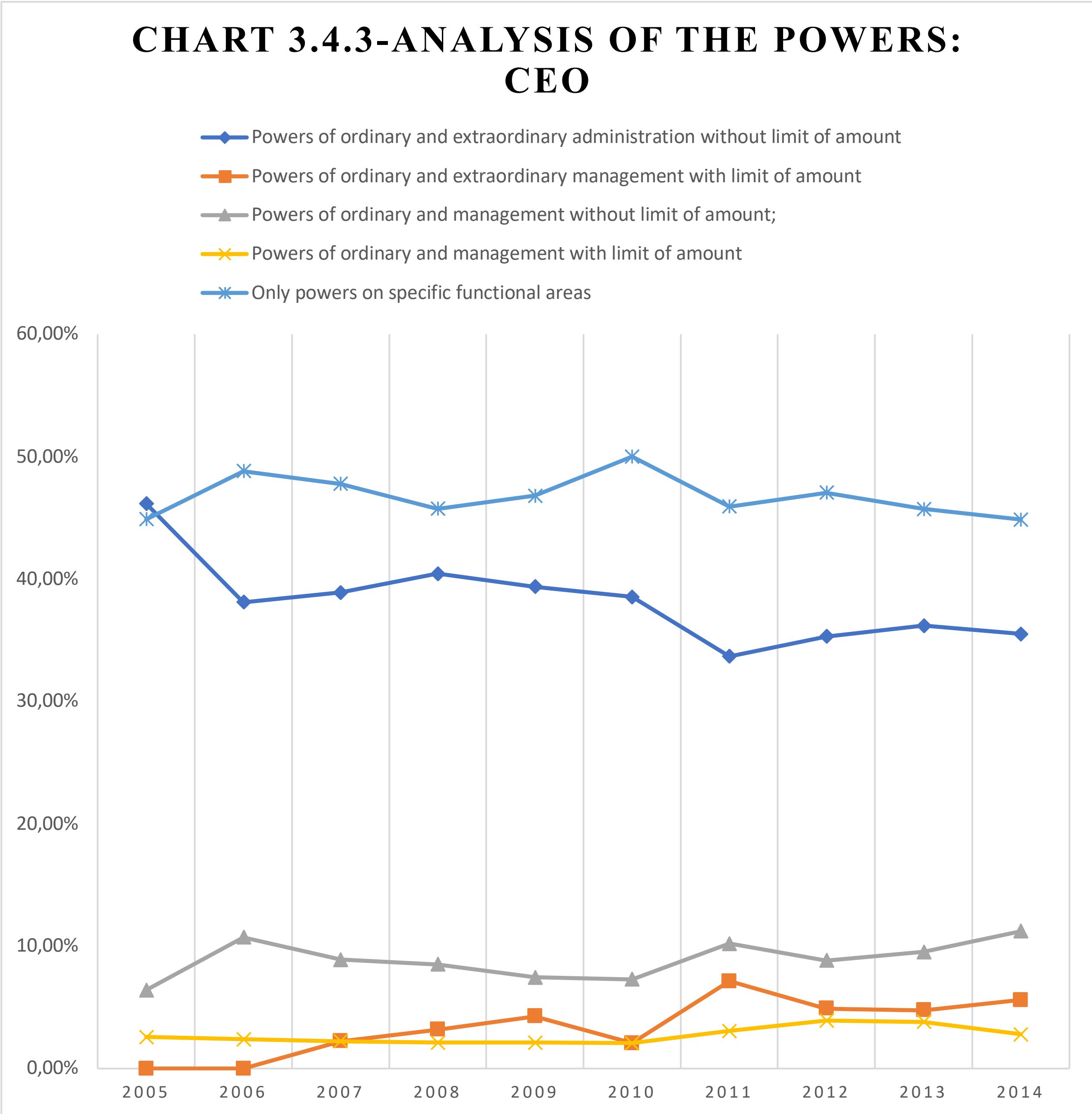
[6] As mentioned before, the sample now referred to is composed only of data related to the CEO of the Board of Directors.

extraordinary administration it was considered that he had powers in all the functional areas present in the analysis. Considering the *chart 3.4.2* below, the main power held by the CEOs of the BoDs is the power relating to the AFC+ tax functional area, in fact 99.68% of the individuals in the sample have this power, while the other areas in which CEOs of the Boards of Directors have high powers are the areas of Legal and Corporate governance (98.09% of the persons in the sample have this power), Human resources (93.52% of the persons in the sample have this power) and purchasing and sales (95.54% and 93.62% respectively). The areas in which the subjects considered have less power, instead, are the functional areas of marketing (only 64.08% of the CEOs considered in the sample have powers in this area), R&D (only 63.55% of the CEOs in the sample have powers in this area) and Production (just the 65.78% of the subject considered in the sample have this power)



(personal elaboration)

All this information has been obtained by processing the data by role only. However, it is important to understand how the powers of the CEOs of the BoDs shown above have changed over the ten-year period (2005-2014). Considering the type of power held by the CEO of the Boards present in the sample, it can be seen that over the years the holding of all powers of ordinary and extraordinary administration without limit of amount has tended to decrease, while the number of directors with powers of ordinary administration in specific functional areas increased more and more during the period between 2005 and 2010, and then decreased in the in the remaining years.



(personal elaboration)

In the *chart 3.4.3*, in fact, it can be seen that over the years the number of CEOs who hold powers only in specific functional areas has tended to increase more and more than the number of CEOs who have powers of ordinary and extraordinary administration. The *tables 3.4.1* and *3.4.2*, instead, show the powers held by the CEOs of the BoDs in the different functional areas. As these ones show, the main power held in the various years by the persons considered is certainly the power in the functional area of " AFC + tax " followed by that present in the "Legal and Corporate governance" area, in fact both are characterized by a percentage equal to or greater than 95% for the entire time period considered in the analysis.

TABLE 3.4.1-ANALYSIS OF THE POWERS: CEO					
TIME	Purchasing	Production	Sales	Logistics	AFC + Tax
2005	94,87%	64,10%	93,59%	84,62%	98,72%
2006	95,24%	64,29%	91,67%	86,90%	100,00%
2007	94,44%	66,67%	92,22%	85,56%	100,00%
2008	94,68%	65,96%	92,55%	86,17%	98,94%
2009	96,81%	67,02%	94,68%	88,30%	100,00%
2010	94,79%	65,63%	94,79%	88,54%	100,00%
2011	95,92%	66,33%	93,88%	88,78%	100,00%
2012	96,08%	65,69%	94,12%	88,24%	100,00%
2013	96,19%	63,81%	93,33%	87,62%	100,00%
2014	96,26%	65,42%	93,46%	88,79%	100,00%

(personal elaboration)

TABLE 3.4.2-ANALYSIS OF THE POWERS: CEO					
TIME	R&D	HR	Marketing	Legal and CG	I.S
2005	56,41%	93,59%	61,54%	97,44%	76,92%
2006	57,14%	96,43%	61,90%	97,62%	76,19%
2007	60,00%	96,67%	61,11%	97,78%	74,44%
2008	61,70%	96,81%	61,70%	97,87%	74,47%
2009	64,89%	94,68%	62,77%	100,00%	78,72%
2010	63,54%	91,67%	61,46%	98,96%	78,13%
2011	64,29%	92,86%	62,24%	98,98%	79,59%
2012	64,71%	92,16%	62,75%	99,02%	78,43%
2013	64,76%	90,48%	63,81%	98,10%	80,95%
2014	66,36%	90,65%	66,36%	98,13%	81,31%

(personal elaboration)

In order to better understand the *table 3.4.1* and the *table 3.4.2*, further data have been processed to show how, over the years, the powers of CEOs have changed. These data can be seen in in the table 3.4.3 and in the table 3.4.4 which present these variations for the different functional areas:

TABLE 3.4.3- CHAGES OF THE POWERS: CEO					
TIME	**Purchasing**	**Production**	**Sales**	**Logistics**	**AFC + Tax**
2005	/	/	/	/	/
2006	0,37%	0,18%	-1,92%	2,29%	1,28%
2007	-0,79%	2,38%	0,56%	-1,35%	0,00%
2008	0,24%	-0,71%	0,33%	0,61%	-1,06%
2009	2,13%	1,06%	2,13%	2,13%	1,06%
2010	-2,02%	-1,40%	0,11%	0,24%	0,00%
2011	1,13%	0,70%	-0,91%	0,23%	0,00%
2012	0,16%	-0,64%	0,24%	-0,54%	0,00%
2013	0,11%	-1,88%	-0,78%	-0,62%	0,00%
2014	0,07%	1,61%	0,12%	1,17%	0,00%

(personal elaboration)

Table 3.4.3- changes of the powers: CEO shows that:

1. The number of CEOs who have powers in the functional area of purchasing has been characterized by high variations. During the period from 2006 to 2007 it decreased by 0.79%, while it increased significantly between 2008 and 2009, when there was an increase of 2.13%. During the period after the 2010 the number of CEOs that have this power increased, indeed in the 2011 the number increased by 1.13%, in the 2013 the number increased by 0.11% and in the 2014 increased by 0.07%.
2. The number of CEOs who have powers in the functional area of production has been characterized by high variations, in fact from 2006 to 2007 the number increased by 2.38% and from 2007 to 2008 decreased by 0.71%. The second largest negative variation is between 2009 and 2010, when there is a decrease of 1.40%.
3. The number of CEOs who have powers in the functional area of sales has been characterized by numerous variations. During the period from 2005 to 2006, it decreased by 1.92%, while it increased significantly between 2008 and 2009, when there was an increase of 2.13%.
4. The number of CEOs with powers in the functional area of logistics has been characterized by numerous variations over the years, in fact from 2005 to 2006 the number increased by

2.29% while from 2006 to 2007 decreased by 1.35%. The second largest negative variation is between 2012 and 2013 where there is a decrease of 0.62%.

5. There have not been many changes in the number of CEOs who have powers in the AFC+ tax area, in fact, since 2010, the number of CEOs who have this power has not changed at all.

TABLE 3.4.4- CHAGES OF THE POWERS: CEO					
TIME	**R&D**	**HR**	**Marketing**	**Legal and C.G.**	**Information system**
2005	/	/	/	/	/
2006	0,73%	2,84%	0,37%	0,18%	-0,73%
2007	2,86%	0,24%	-0,79%	0,16%	-1,75%
2008	1,70%	0,14%	0,59%	0,09%	0,02%
2009	3,19%	-2,13%	1,06%	2,13%	4,26%
2010	-1,35%	-3,01%	-1,31%	-1,04%	-0,60%
2011	0,74%	1,19%	0,79%	0,02%	1,47%
2012	0,42%	0,70%	0,50%	0,04%	-1,16%
2013	0,06%	1,68%	1,06%	-0,92%	2,52%
2014	1,59%	0,18%	2,55%	0,04%	0,36%

(personal elaboration)

Table 3.4.4-changes of the powers: CEO shows that:

1. The number of directors who have powers in the R&D area has undergone different variations in fact during the period between 2005 and 2006 increased by 0.73% while the main positive trend was observed between 2008 and 2009 and was equal to 3.19%. The highest negative change was during 2010 when the number of CEOs in this area decreased by 1.35%.
2. The number of CEOs who have powers in the functional area of marketing has been characterized by numerous changes over the years, in fact from 2006 to 2007 the number decreased by 0.79% while from 2009 to 2010 by 1.31%. The largest positive variation was between 2013 and 2014, when there was an increase of 2.55%.
3. The number of CEOs who have powers in the functional area of the HR has also been characterized by numerous variations. During the period from 2009 to 2010 it decreased by 3.01% while it increased significantly between 2005 and 2006 with an increase of 2.84%.

4. The number of CEOs with powers in the functional area of Information Systems has been characterized by numerous changes over the years, in fact during the period between 2006 and 2007 it decreased by 1.75% while during the period between 2008 and 2009 it increased by 4.26% as well as during the period between 2012 and 2013 there was an increase in the number of CEOs with this power of 2.52%.
5. The number of directors who have powers in the area of "Legal and Corporate Governance" was constant throughout the entire period under consideration, there were, in fact, no excessive variations.

These two analyses made it possible to understand which the main powers are held by the CEOs of the Board considering two different variables (indeed the first analysis was based only on the role while the second on the role and time). In this second analysis it was noted that the main powers held by the CEOs are the same main powers defined with the first analysis, in fact they are all the powers characterized by a very low annual variation such as the powers in the Legal and Corporate Governance area and in the AFC+ tax area while the powers in the Marketing, R&D or Production area can be considered powers that are usually not held by the CEO but by other members of the Boards. As it can be seen, the analysis conducted on the CEOs of the Boards of Directors of the companies in the sample is the same analysis conducted on the respective Presidents but, logically, with different results. In fact, it can be seen that it is more usual for CEOs to have powers in different functional areas rather than having all the powers of ordinary and extraordinary administration as it is for the chairmen of the Boards of Directors.
So, who has the decision-making power within the Boards of Directors of Italian listed family businesses? In order to answer this question, it is appropriate to exploit and process all the results of the analyses made previously

3.5-WHO HOLDS THE DECISION-MAKING POWER BETWEEN THE CEO AND THE CHAIRMAN IN ITALIAN LISTED FAMILY BUSINESSES?

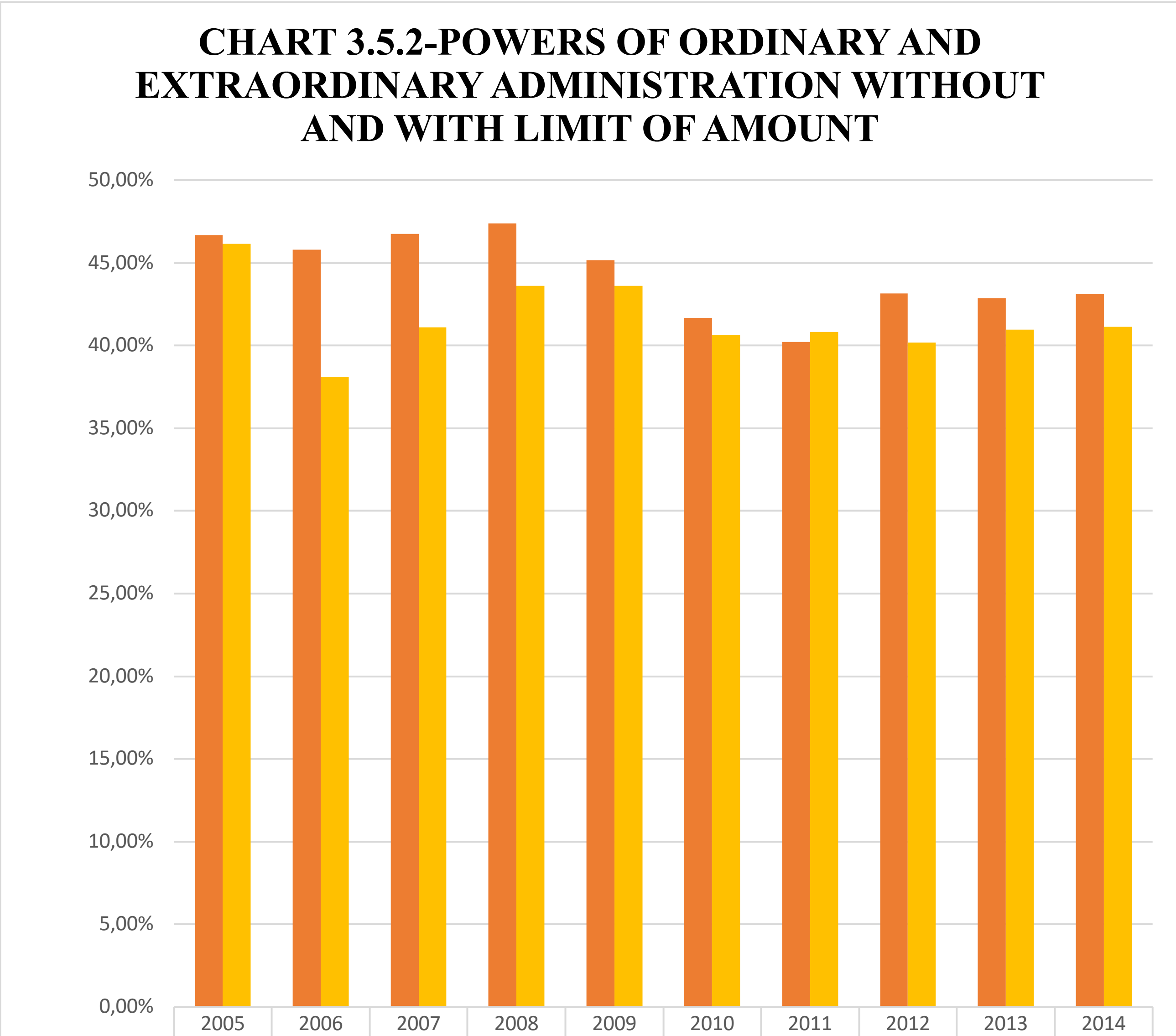
The answer to this question could already be given by observing "*chart 3.3.1-analysis of the powers: Chairman*" and "*chart 3.4.1-analysis of the powers: CEO*" in which the powers have been divided not by functional area. Considering, in fact, that the decision-making power is held by persons who have powers of extraordinary and ordinary administration, it is immediately noticeable that (considering the data already processed) the chairman of the Boards of Directors has this power to a greater extent than the CEO (40% of the sample's chairmen have this power). Seeing *the chart 3.3.1* and the *chart 3.4.1*, however, a question immediately arises: How can we say that the chairman has the decision-making power within the board, considering that 40% of these have powers of ordinary and extraordinary administration, if even 39% of the CEOs have this type of power? The explanation for this high percentage in the CEO analysis is the phenomenon of CEO duality. Many of the companies considered in the sample (75 on 118 companies), in fact, are characterized by a CEO who is also chairman for at least one year of the entire time period considered in the analysis and therefore, processing the data, this have led to a very high number of CEOs with powers of ordinary and extraordinary administration.

(personal elaboration)

The *chart 3.5.1* above shows the cases per year of CEO duality considering the 118 companies in the sample. It can be seen that the presence of this phenomenon is very high and allows to justify the high number of CEOs with ordinary and extraordinary management powers. Emphasizing this last aspect, it was noted that in the sample there were some cases in which the

CEO duality did not imply directors with all powers of ordinary and extraordinary administration, but the possibility of having a CEO (and therefore also a Chairman) with only all powers of ordinary administration or with powers in functional areas, however these cases are very few and can be considered an "exception" to the generic rule said.

Considering again the reading of *“chart 3.3.1-analysis of the powers: Chairman” and “chart 3.4.1-analysis of the powers: CEO*”, it’s possible to highlight another interesting aspect related to the CEO, indeed it is noted that CEOs have powers within the different functional areas to a greater extent than the Chairmen and this confirms that the CEO has mainly powers in functional areas and not powers of ordinary and extraordinary administration. What said above can be observed also with a historical analysis:

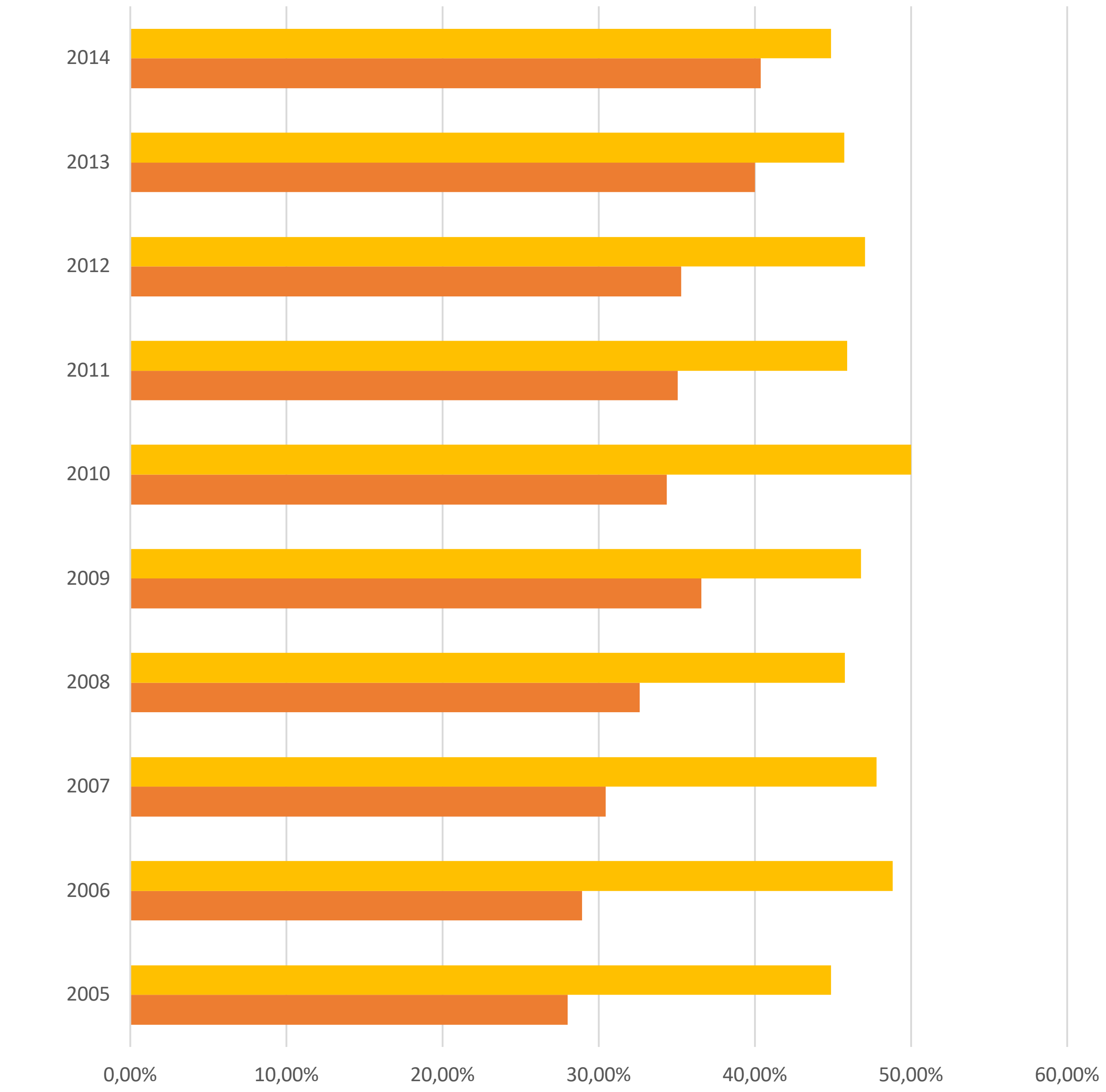


	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHAIRMAN	46,67%	45,78%	46,74%	47,37%	45,16%	41,67%	40,21%	43,14%	42,86%	43,12%
CEO	46,15%	38,10%	41,11%	43,62%	43,62%	40,63%	40,82%	40,20%	40,95%	41,12%

(personal elaboration)

The above *chart 3.5.2* shows what was said before, in fact, considering also an analysis based on time and role, it can be seen that the Chairman has powers of ordinary and extraordinary administration (with or without amount limitation) to a greater extent than the CEO. Logically also here there is a fairly high percentage of CEO who holds this type of power, but the motivation has already been presented before. The *chart 3.5.3* shows that it is more common for CEOs to have powers in the various functional areas than the chairmen of the Boards of Directors.

CHART 3.5.3-ONLY POWERS ON SPECIFIC FUNCTIONAL AREAS



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CEO	44,87%	48,81%	47,78%	45,74%	46,81%	50,00%	45,92%	47,06%	45,71%	44,86%
CHAIRMAN	28,00%	28,92%	30,43%	32,63%	36,56%	34,38%	35,05%	35,29%	40,00%	40,37%

(personal elaboration)

These results make it possible to state how, in a generic way, the Chairman has full decision-making powers compared to the CEOs, but it is fairer to say that each company is different from the others, with different ownership structures and different governance policies, so to give a single answer is not perfectly representative of the companies analyzed within the sample. In some cases, as mentioned in “*Chart 3.3.1-analysis of the powers: Chairman*”, the Chairman of the Boards is a non-executive director or other times has powers in a few functional areas while the CEO in certain cases has full powers of ordinary and extraordinary administration.

So, a more correct and less generic answer to the question "who holds the power between CEO and Chairman" is:

"There are three main cases of governance within the Boards of Directors of Italian family businesses considered in the sample:

1. CEO duality and therefore the Chairman and the CEO are the same person.
2. The Chairman has powers of ordinary and extraordinary administration and the CEO has powers of ordinary administration or only powers in various functional areas, mainly in the areas of AFC+ tax and in the area of "Legal and corporate governance".
3. The Chairman has no powers, is a non-executive director, or has limited powers in specific functional areas (such as in the area of "Legal and corporate governance") while the CEO has wider powers.”

So, considering the companies in the sample and the results of their analysis, the first two cases of governance are more frequent than the third one.

CHAPTER 4: CASE STUDY

4.1-A BRIEF PRESENTATION

The practical case that will be analyzed is based on three companies (Arnoldo Mondadori, Monrif and Class Editori) operating in the same sector but with a different governance structure, indeed:

- Arnoldo Mondadori is characterized by a chairman who has all the powers of ordinary and extraordinary administration and a CEO who only has powers of ordinary administration in specific functional areas.
- Monrif has a BoD characterized by the phenomenon of the CEO duality.
- Class Editori has a board structure that is exactly the opposite of Mondadori's one, in fact, the chairman has no power while the CEO has all the powers of ordinary and extraordinary administration.

The reason why these three companies were chosen is linked to the data in the sample, in fact they are three of the 118 companies in the sample previously analyzed and have the above characteristics for the entire period of analysis (2005-2014) even if in certain years they show small variations linked to the size of the Board of Directors. Before carrying out the financial statement analysis of these companies, it's important to make a brief description to better understand the subject of this new analysis. The aim of this study is to respond to this question:

"What is the governance structure, among the three defined in the previous analysis, that can achieve a better business performance?"

ARNOLDO MONDADORI S.p.A.

Arnoldo Mondadori Editore S.p.A was founded in 1907 and over the years has increasingly increased its presence in Italy and in other countries, thanks to various corporate strategies, mainly in the last period, in fact, numerous extraordinary operations (such as acquisitions and mergers with other companies within the publishing sector) have been carried out that have allowed it to enter foreign markets. Unlike the other companies that have been taken into account for this practical case, Mondadori is larger than Monrif and Class Editori and therefore, somebody would also expect a higher amount of costs and a higher level of NFP then the others. Mondadori Editore publishes numerous magazines such as Ciak, Donna Moderna, Chi, Focus, TV Sorrisi e Canzoni and Panorama that have allowed this firm to be one of the most important companies in the Italian publishing sector (Mondadori 2020). The company is controlled by the Berlusconi family's Fininvest group. The structure of Arnoldo Mondadori's Board for the entire period of analysis can be found in the *table 4.1.1* below:

TABLE 4.1.1 ARNOLDO MONDADORI EDITORE					
	Chairman	CEO	Board Size	Number of non executives	Indipendent directors
2005	Marina Berlusconi	Maurizio Costa	12	8	3
2006	Marina Berlusconi	Maurizio Costa	11	8	4
2007	Marina Berlusconi	Maurizio Costa	11	8	4
2008	Marina Berlusconi	Maurizio Costa	11	8	4
2009	Marina Berlusconi	Maurizio Costa	11	11	4
2010	Marina Berlusconi	Maurizio Costa	14	11	6
2011	Marina Berlusconi	Maurizio Costa	14	11	6
2012	Marina Berlusconi	Maurizio Costa	14	11	6
2013	Marina Berlusconi	Ernesto Mauri	14	11	6
2014	Marina Berlusconi	Ernesto Mauri	14	11	6

(personal elaboration)

CLASS EDITORI S.p.A.

Class Editori S.p.A is mainly known for the daily newspaper Milano Finanza but also owns other magazines such as Lombard, Class and Patrimoni. From what has been said, it is easy to understand how the company has decided to make papers only on a certain type of information that is much more technical and linked to a specific target such as professionals in the economic sphere. Unlike Arnoldo Mondadori, Class Editori applied a business plan that would allow it to enter in the houses of its clients through TV, in fact there are many TV channels that it owns such as Gambero Rosso, Class TV and Class CNBC (Class Editori 2020). The structure of Class Editori' s Board for the entire period of analysis can be found in the *table 4.1.2* below:

TABLE 4.1.2 CLASS EDITORI					
	Chairman	CEO	Board Size	Number of non executives	Indipendent directors
2005	Victor Uckmar	Paolo Panerai	12	7	6
2006	Victor Uckmar	Paolo Panerai	12	7	6
2007	Victor Uckmar	Paolo Panerai	13	8	7
2008	Victor Uckmar	Paolo Panerai	13	8	7
2009	Victor Uckmar	Paolo Panerai	13	8	7
2010	Victor Uckmar	Paolo Panerai	13	8	7
2011	Victor Uckmar	Paolo Panerai	13	8	7
2012	Victor Uckmar	Vittorio Terrenghi	13	8	7
2013	Victor Uckmar	Panerai Paolo Andrea	15	10	9
2014	Victor Uckmar	Panerai Paolo Andrea	14	9	8

(personal elaboration)

MONRIF S.p.A.

Monrif S.p.A is the company with different business lines compared to the first two mentioned above. Monrif is one of the most important business groups in Italy operating in the editorial sector, the newspapers and weeklies it publishes as Il resto del Carlino, La nazione, il Giorno and L'enigmistica are among the most read magazines in the north of the Italian peninsula. As mentioned before, unlike Class Editori and Arnoldo Mondadori Editore, Monrif, with various investments, has also entered into sectors, different from the publishing one, such as the touristic sector by purchasing 2 hotels in Bologna and 1 in Milan (Monrif 2020). The structure of Monrif's Board for the entire period of analysis can be found in the *table 4.1.3* below:

TABLE 4.1.3 MONRIF					
	Chairman	CEO	Board Size	Number of non executives	Indipendent directors
2005	Andrea Riffeser Monti	Andrea Riffeser Monti	6	4	1
2006	Andrea Riffeser Monti	Andrea Riffeser Monti	6	4	1
2007	Andrea Riffeser Monti	Andrea Riffeser Monti	5	3	2
2008	Andrea Riffeser Monti	Andrea Riffeser Monti	7	5	4
2009	Andrea Riffeser Monti	Andrea Riffeser Monti	7	5	4
2010	Andrea Riffeser Monti	Andrea Riffeser Monti	7	5	4
2011	Andrea Riffeser Monti	Andrea Riffeser Monti	7	5	4
2012	Andrea Riffeser Monti	Andrea Riffeser Monti	7	5	4
2013	Andrea Riffeser Monti	Andrea Riffeser Monti	7	5	4
2014	Andrea Riffeser Monti	Andrea Riffeser Monti	7	5	2

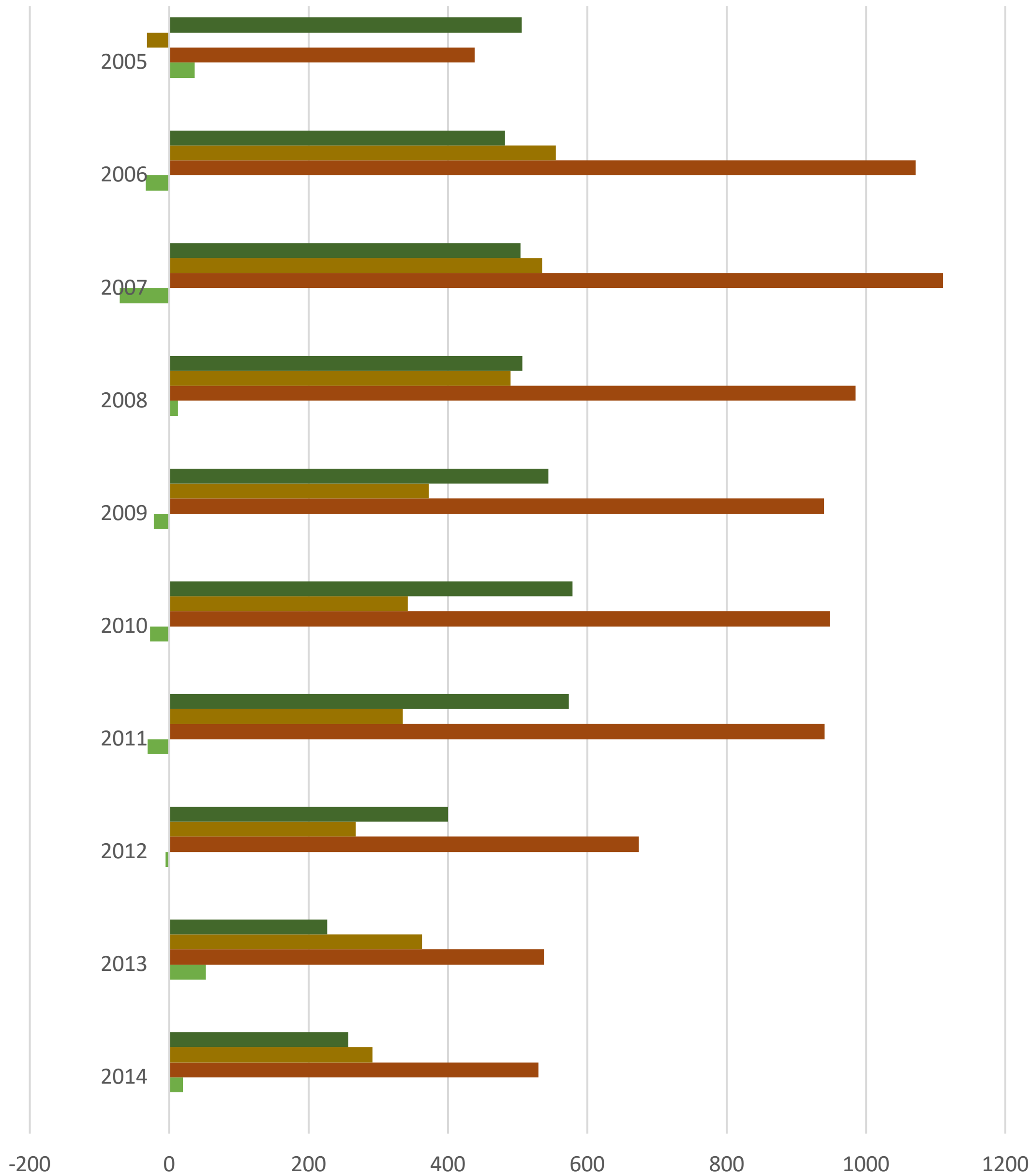
(personal elaboration)

With this, the objective of the text is to understand how the composition of the Board of Directors impacts on the company's performance even considering companies operating in the same sector but with different strategies and business dimensions, as mentioned above. Therefore, after this brief presentation of the companies that have been considered, the work of analyzing the financial statements of each of them begins, which values are expressed in millions of Euros (M€), for the same period considered in the previous analysis (2005-2014). The Ratio analysis will be carried out after the analysis of the balance sheet, income statement and cash flow statement of the three companies, trying to understand how the corporate governance impacts on the company's performance, comparing the values of the ROE,ROIC, Profit Margin and Leverage of Arnoldo Mondadori, Class Editori and Monrif. The first company to be analyzed is Arnoldo Mondadori.

4.2-THE FINANCIAL STATEMENT ANALYSIS - ARNOLDO MONDADORI

One of the key elements of the restated balance sheet is the value of Net working capital. Considering the time span from 2005 to 2014, it can be seen that the NWC, given by the difference between total current operating assets and total current operating liabilities, was negative during the years 2006,2007,2009,2010,2011 and 2012 while in the years 2014,2013, 2008 and 2005 it was positive, mainly due to a greater decrease in current liabilities rather than assets. Considering the whole period, current assets decreased from €634 M€ in 2005 to 514.8 M€ in 2014 and therefore there was a reduction of 18% during this decade. Current liabilities, on the other hand, went from a value of 597.7 M€ in 2005 to a value of 495.3 M€ in 2014 with a reduction during this period of 17.13%, therefore very similar to that of the assets mentioned above. Considering, however, only the years in which there is a positive NWC, it can be seen that in 2008 current liabilities decreased more than current assets, in fact it decreased by 21.65% (due to a decrease in the item "Payables due to suppliers", which went from 439.1 M€ in 2007 to 264.3 M€ in 2008 and the decrease in the aggregate item "Other current liabilities", which went from 293.1 M€ in 2007 to 258, 8 M€ in 2008) while total current operating assets by 12.5% (mainly due to a decrease in the item "Trade receivables", which went from 591.1 M€ in 2007 to 450.8 M€ in 2008). In 2013, as in 2008, current operating liabilities decreased at a rate of 12.29% (due to a decrease in the item "Payables due to suppliers", which went from 342.4 M€ in 2012 to 301.2 M€ in 2013) while current operating assets decreased by 2.96%. In 2014, on the other hand, current liabilities decreased less than current assets, in fact the first decreased by 8.58% while the second by 13.35%, this was mainly due to a decrease in "Inventory" and "Receivables due from customers". The NWC serves to understand how the company manages its internal liquidity, because if it has a negative value this means that the company is financing itself through its current payables to suppliers. Logically, all the effects made by the NWC are reflected in the Net financial position Short term which, according to what was said earlier, should assume mainly negative values. Considering therefore the financial side of the balance sheet, it can be seen that more than talking about NFP it's more appropriate to talk about net financial assets since the current financial assets are higher than the short-term debts. Returning to the operating items, it can be noted that the NFA (Net fixed assets), given by the difference between non-current operating assets and non-current operating liabilities, is positive due to the high values of tangible and intangible assets, in particular for the value of "Trademarks" and "Goodwill". The sum of the NFA and the NWC gives the value of the net operating assets (NOA), which must be equal to the capital invested in the company given by the NFP (total) added to the Equity. The *chart 4.2.1 below* shows what said previously:

CHART 4.2.1- BALANCE SHEET REFORMULATED OF ARNOLDO MONDADORI EDITORE



	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
EQUITY	257,3	226,7	400,5	573,8	579,2	544,5	507,2	504,6	482,4	506,4
NFP	291,8	363,2	267,7	335,4	342,5	372,9	490,2	535,2	554,7	-31,8
NFA	529,6	537,6	673,7	940,4	949,1	939,4	984,9	1110,8	1071,1	438,3
NWC	19,5	52,3	-5,5	-31,2	-27,4	-22	12,5	-71	-34	36,3
NOA	549,1	589,9	668,2	909,2	921,7	917,4	997,4	1039,8	1037,1	474,6
Capital invested	549,1	589,9	668,2	909,2	921,7	917,4	997,4	1039,8	1037,1	474,6

(personal elaboration)

This brief analysis of the balance sheet also makes possible to understand what are some items in the income statement, indeed usually a high NFA (Net fixed assets) and a high value of total noncurrent financial assets implies a high depreciation and amortization value in the profit and loss statement, as well as a high degree, as has been observed here, of NFP (Net financial position) could involve high interest expenses. Before talking about D&A and NIE (net interest expenses), it's important to observe the value of revenue and EBITDA. The income statement shows that revenues from 2005 to 2007 tended to grow and then decreased, in fact they grew by 10.64% in 2007, after having grown by 5.31% in 2006, but decreased by 7.66% in 2008, as well as in 2009 where there was a decrease in "Revenues from sales and services" of 18.12%. The decrease in revenues also led to a decrease in variable costs but, given the high operating costs, and mainly personnel and management expenses, the value of EBITDA from 2012 to 2014 was significantly lower than in 2005. The main negative changes in EBITDA are to be found in the years in which there were high revenue shocks (i.e. in 2008 and 2009) but, as mentioned before, even afterwards, in 2012, when there was a 6.43% decrease in revenues, EBITDA rose from 160.4 M€ in 2011 to €83.1 M€ in 2012 due to an increase in operating costs from €336.7 M€ to €374.6 M€ (due to an increase of the item "Other Wages/Salaries" of €270.7 M€ in 2012 and of the item "Advertising and promotional services" of €61.6 M€ in 2012). The *table 4.2.1* below shows more clearly what has been said previously:

TABLE 4.2.1 ARNOLDO MONDADORI EDITORE					
	Revenues	COGS	Operating profit	EBITDA	EBITDA/Revenues
2005	1730,2	1194,5	312,2	223,5	0,13
2006	1750,2	1230,9	279,1	240,2	0,14
2007	1958,6	1312,4	377,4	268,8	0,14
2008	1819,2	1213,9	356,1	249,2	0,14
2009	1540,1	1078,4	355,6	106,1	0,07
2010	1558,3	1027	391,2	140,1	0,09
2011	1507,2	1010,1	336,7	160,4	0,11
2012	1416,1	958,4	374,6	83,1	0,06
2013	1275,8	933,6	336,6	5,6	0,00
2014	1169,5	807,2	291	71,3	0,06

(personal elaboration)

What was said earlier about the costs linked to D&A for the high level of NFA (given the high value of total non-current operating assets) and a high level of total noncurrent financial assets and the costs linked to interest expenses for the high value of NFP, due mainly by the NFP of long term, can easily be observed in the income statement. All this has been summarized in the *table 4.2.2* below:

TABLE 4.2.2 ARNOLDO MONDADORI EDITORE					
	EBITDA	D&A and special item	EBIT	NIE	EBT
2005	223,5	36,1	187,4	-6	181,40
2006	240,2	38,9	201,3	-12,3	189,00
2007	268,8	43,6	225,2	-35,7	189,50
2008	249,2	45,7	203,5	-52,1	151,40
2009	106,1	34,3	71,8	-7,9	63,90
2010	140,1	25,9	114,2	-23,9	90,30
2011	160,4	57,2	103,2	-20,5	82,70
2012	83,1	233	-149,9	-22,3	-172,20
2013	5,6	188,7	-183,1	-24,2	-207,30
2014	71,3	23,3	48	-22,8	25,20

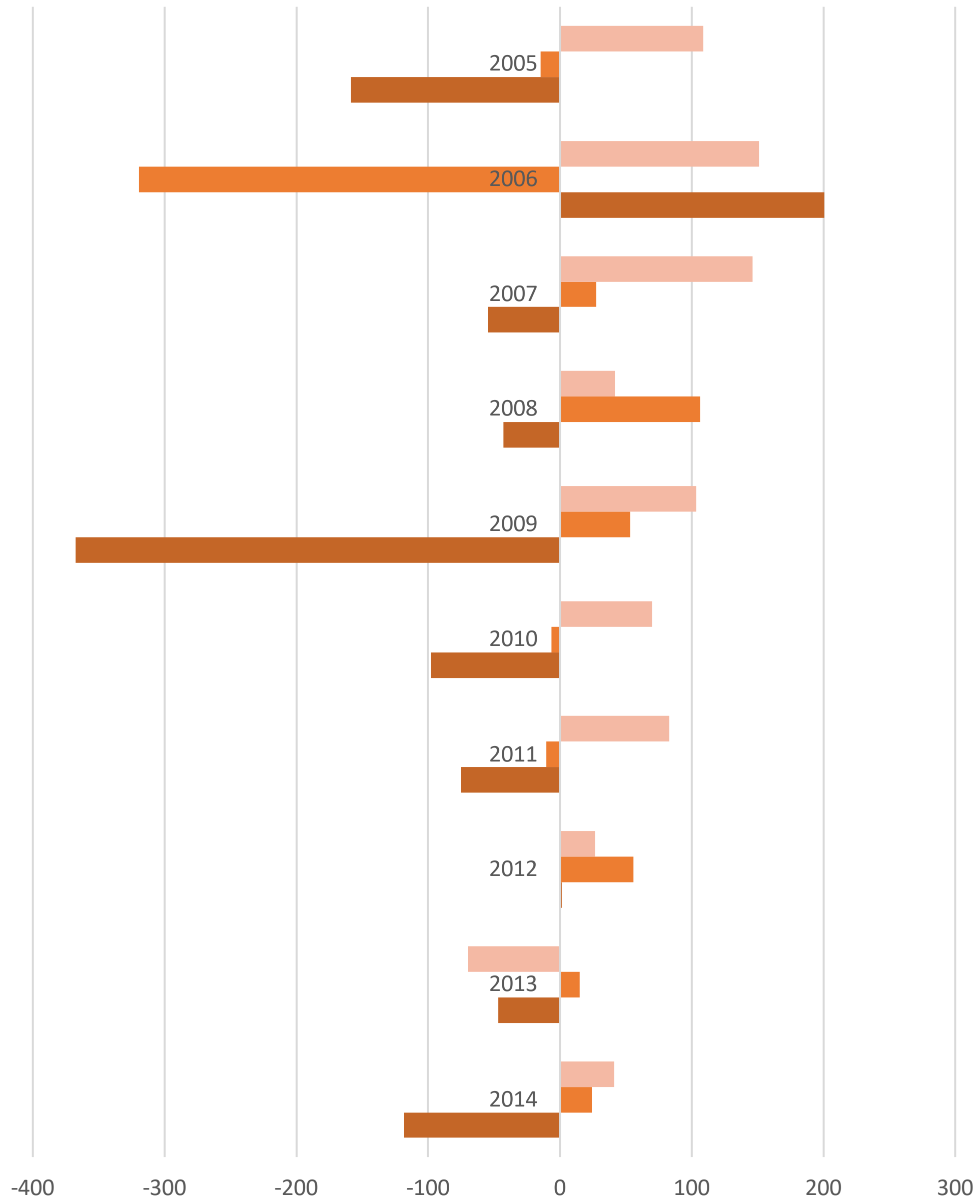
(personal elaboration)

All the main items in the income statement are summarized in the *table 4.2.3* below:

TABLE 4.2.3 ARNOLDO MONDADORI EDITORE					
	Revenues	EBITDA	EBIT	EBT	NET INCOME
2005	1730,2	223,5	187,4	181,4	114,70
2006	1750,2	240,2	201,3	189	109,00
2007	1958,6	268,8	225,2	189,5	112,60
2008	1819,2	249,2	203,5	151,4	97,10
2009	1540,1	106,1	71,8	63,9	34,30
2010	1558,3	140,1	114,2	90,3	42,10
2011	1507,2	160,4	103,2	82,7	49,60
2012	1416,1	83,1	-149,9	-172,2	-166,10
2013	1275,8	5,6	-183,1	-207,3	-185,40
2014	1169,5	71,3	48	25,2	0,60

(personal elaboration)

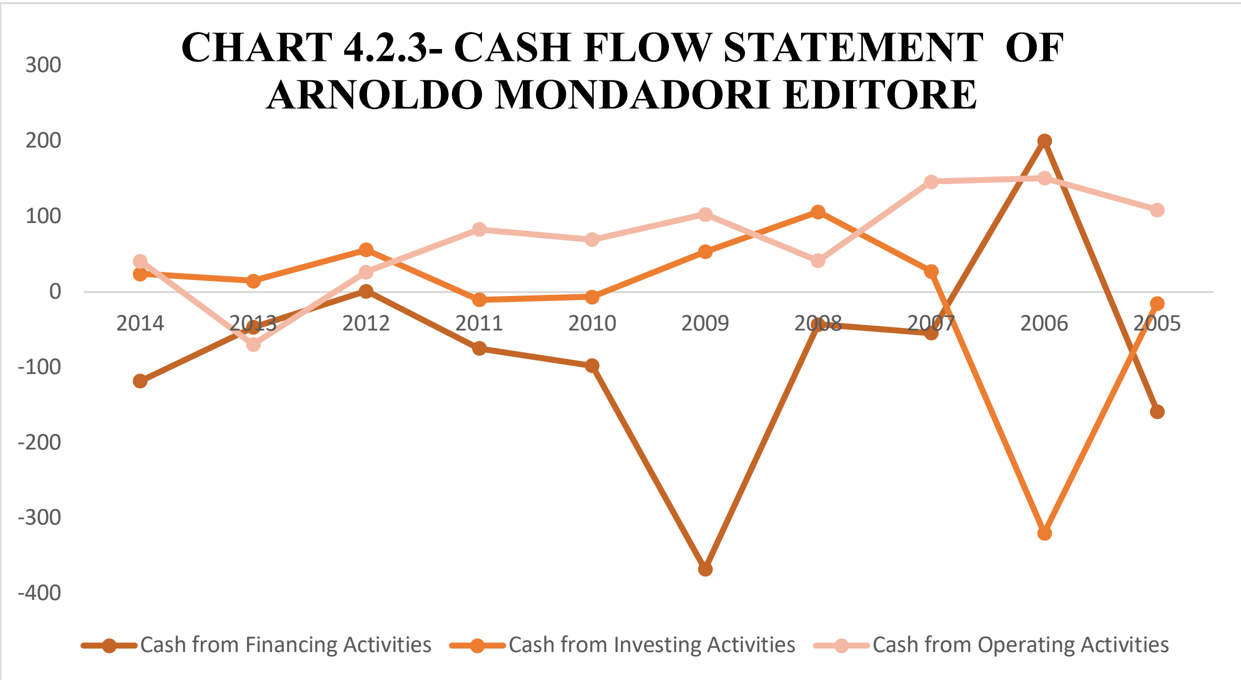
CHART 4.2.2- CASH FLOW STATEMENT OF ARNOLDO MONDADORI EDITORE



	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Cash from Operating Activities	41,3	-69,4	26,8	83,1	69,7	103,3	41,8	146,4	151,1	109
Cash from Investing Activities	24	14,9	56	-10,2	-6,5	53,5	106,5	27,6	-319,5	-14,8
Cash from Financing Activities	-118	-46,7	1,3	-74,8	-97,7	-367,6	-42,9	-54,4	200,9	-158,4

(personal elaboration)

The cash flow statement is represented by *the chart 4.2.2*, which shows the three main cash flows that allow an understanding of the company's ability to generate liquidity. Everything that has been said previously, so the high level of Net fixed assets, NWC, NFP, the amount of revenues and the level of the EBITDA are observed again in the *chart 4.2.2* but with a different light. As is well known, an optimal situation for the company is to have high operating cash inflows, cash outflows linked to investment activity and cash outflows linked to financial activity (as they involve the payment of dividends by investors and the payment of debt to banks). As the *chart 4.2.2* shows, the company's ideal situation is not always present in Arnoldo Mondadori Editore for the years considered , in fact, very particular years are 2008, 2009, 2013 and 2014 when, observing also the decrease in the "total noncurrent assets" (financial and operating) in the balance sheet, the company began to carry out disinvestment activities, creating cash inflows linked to investment activities, and cash outflows linked to financial activities to pay part of its debt and dividends. Therefore, in these situations, there is a real financial difficulty for Arnoldo Mondadori Editore, which, in order to reduce its leverage, decides to create liquidity by selling operating and financial long-term assets. The reason for this decision may be precisely because in those years there was a drastic drop in revenue but a rather high level of operating costs that has implied a low level of CFOA (cash flow of operating activity) and so the company had to apply a disinvestment strategy to generate liquidity. A more worrying situation is found in 2013 in which there was a negative operating cash flow (mainly due to a very low EBITDA (€5.1 M€), a positive NWC and high interest costs), a negative cash flow from financial activities (mainly due to a decrease in shareholders' equity due to a very negative net income, -185.4 M€) and a cash inflow from investment activities and so, as before, to repay its high debt Arnoldo Mondadori Editore decided to generate cash selling assets. In 2014 the company returns to generate liquidity through the operating activity but continues to apply a strategy of disinvestment. The *chart 4.2.3* below is the same as the *chart 4.2.2* but in line and not in bars.



(personal elaboration)

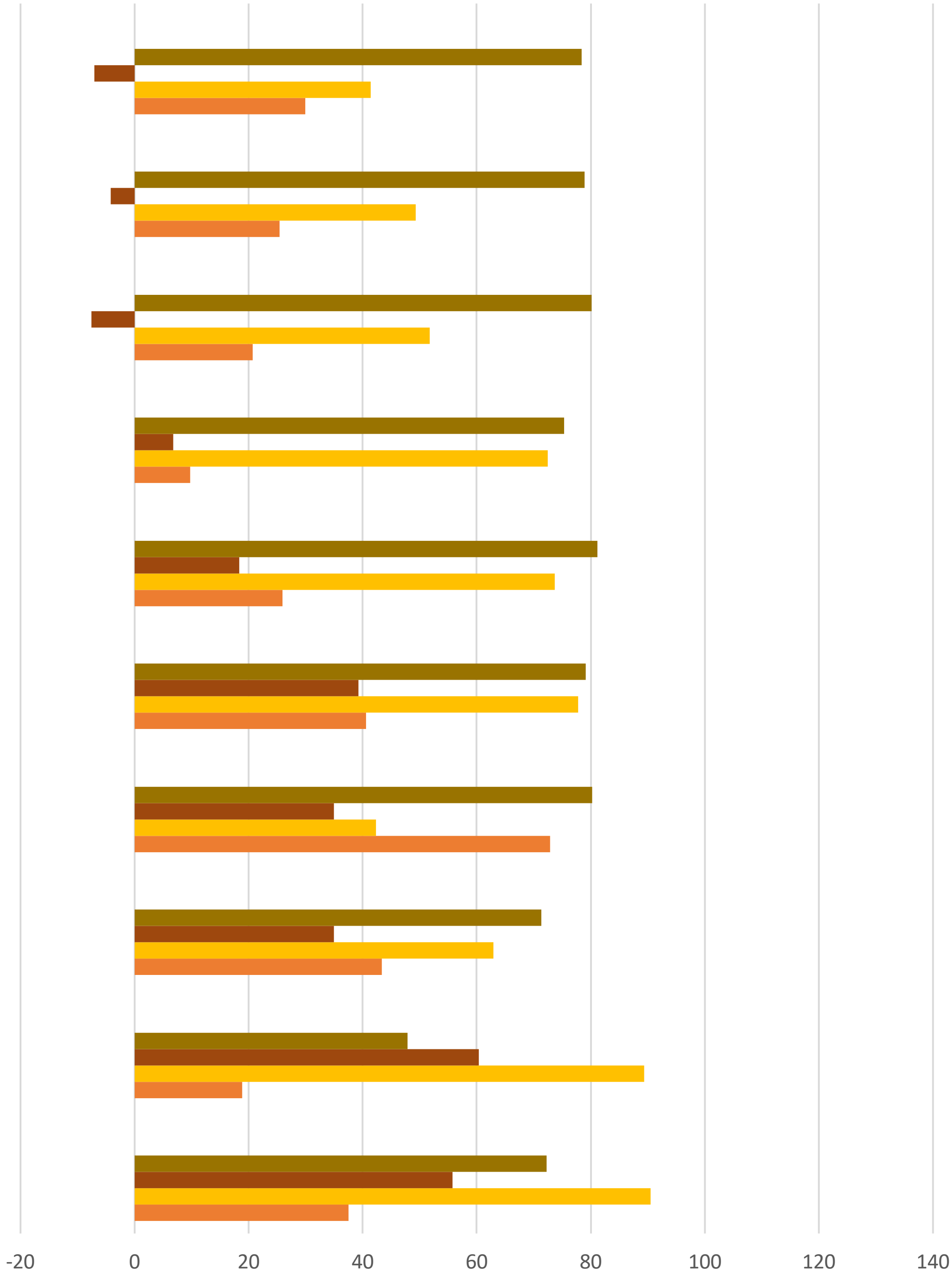
4.3-THE FINANCIAL STATEMENT ANALYSIS – CLASS EDITORI

As was done for Arnoldo Mondadori Editore, here too it is important to begin the balance sheet analysis considering the value assumed by the NWC during the entire period (2005-2014). Differently from what was seen in the previous case, it can be seen that the NWC is positive for every single year considered and this allows us to intuit its effect on the NFP (ST) as we can imagine it to be positive due to a high value of short-term debt, and therefore of "total current financial liabilities". But before we talk about this, it is appropriate to understand the changes in the NWC. From the balance sheet it can be seen that the NWC from 2005 to 2014 increased by 25% (from 29.9 M€ to 37.5 M€) this was mainly due to a much higher growth in total current operating assets than total current operating liabilities, in fact the first grew by 23.12% while the second by 21.91%.On the basis of the above, a positive NWC allows us to understand how the company is not able to manage internal liquidity and to be financed by suppliers, for this it will need a short-term bank debt.

Looking at the financial part of the restated balance sheet, only during the first three years (2005-2007) is this not entirely true in fact NFP(ST) is negative, this is due to a high value of "Cash and Cash Equivalents" and "Financial Receivables", but the value of short-term bank debt increases year after year. Comparing this with the previous case, it can be seen that Class Editori is not exactly capable of managing internal liquidity and is forced throughout the analysis period (2005-2014) to have a high level of short-term debt. This can also be seen in the cash flow statement, in fact, considering the high debt and the high value of the NWC, a very low CFOA is expected (logically everything also depends on the value of EBITDA). The NFA (Net fixed assets) is very high, which is due to the high value for the whole period of the item "Total noncurrent assets". This aspect allows us to say, in a very general way, that the company has increased its investments over the years, acquiring a high value of tangible and non-tangible assets. Investments of a financial nature also increased from 2005 to 2014, from a value of 6.1 M€ in 2005 to 7.5 M€, as it could be observed considering the item in the balance sheet "Total noncurrent financial assets". These aspects allow us to understand how it may be possible to note in the income statement a high cost deriving from D&A and possible impairments.

As mentioned above, the capital invested is again the sum between the NFP (both long-term, positive for the high long-term bank debt, and short-term) and Equity and, this addition, must be equal to the sum between the NFA and the NWC. The *chart 4.3.1* below shows this aspect:

CHART 4.3.1- BALANCE SHEET REFORMULATED OF CLASS EDITORI



	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Capital invested	128	108,3	106,3	115,2	118,4	99,6	82,1	72,5	74,7	71,3
NOA	128	108,3	106,3	115,2	118,4	99,6	82,1	72,5	74,7	71,3
EQUITY	72,2	47,9	71,3	80,2	79,1	81,2	75,3	80,1	78,9	78,4
NFP	55,8	60,4	35	35	39,3	18,4	6,8	-7,6	-4,2	-7,1
NFA	90,5	89,4	62,9	42,3	77,8	73,7	72,4	51,8	49,3	41,4
NWC	37,5	18,9	43,4	72,9	40,6	25,9	9,7	20,7	25,4	29,9

(personal elaboration)

As said before, this brief analysis of the balance sheet also makes possible to understand what are some items in the income statement, indeed usually a high NFA (Net fixed assets) and a high value of total noncurrent financial assets implies a high depreciation and amortization value in the profit and loss statement, as well as a high degree, as has been observed here, of NFP (Net financial position) could involve high interest expenses. But before these aspects, it's important to observe the value of revenue and EBITDA. The income statement shows that there has been a variable trend in the value of revenues, in fact during 2006, 2008, 2010, 2011 and 2014 they increased by 9.43%, 8.37%, 4.85%, 10.74% and 7.38% respectively, while in the remaining years they decreased by 7.80% in 2009, then drastically by 37.44% in 2012 and 4.98% in 2013. COGS also had a very variable trend and decreased mainly during the years of revenue shock, in fact during 2007,2009,2012,2013 and 2014 they decreased by 3.53%,13.97%,44.91%,4.57% and 1.00% respectively, while in the remaining years they increased by 8.12% in 2006, 10.61% in 2008, 8.55% in 2010 and 8.79% in 2011. The other operating costs, on the other hand, did not follow the changes in revenues perfectly, in fact from 2006 to 2012 (excluding 2009) they increased more and more. In 2012, operating costs increased by 55.19% from €33.7 M€ in 2011 to €52.3 M€ in 2012, while from 2013 they started to decrease. The main reason why there was an increase in operating costs was due to the high amount of the item "Wages/Salaries", which since 2012 has been supported by high advertising expenditure. All the different trends mentioned above led to a high change in EBITDA, which is positive, but very low, from 2005 until 2011, and becomes negative from 2012 onwards. The value of EBITDA, in fact, decreased by 104.65% considering the entire time horizon, going from 8.6 M€ in 2005 to -€0.4 M€ in 2014. All of these aspects can be seen in the *table 4.3.1* below:

TABLE 4.3.1 CLASS EDITORI

	Revenues	COGS	Operating Expenses	EBITDA	EBITDA/Revenues
2005	111,3	81,3	21,4	8,6	7,73%
2006	121,8	87,9	22,4	11,5	9,44%
2007	121,8	84,8	25,6	11,4	9,36%
2008	132	93,8	31,6	6,6	5,00%
2009	121,7	80,7	27,9	13,1	10,76%
2010	127,6	87,6	32,5	7,5	5,88%
2011	141,3	95,3	33,7	12,3	8,70%
2012	88,4	52,5	52,3	-16,4	-18,55%
2013	84	50,1	47,4	-13,5	-16,07%
2014	90,2	49,6	41	-0,4	-0,44%

(personal elaboration)

The high value of the NFA (due to a high amount of total noncurrent assets) and total concurrent financial assets has resulted in exactly what was previously expected, in fact the income statement shows a high value of costs arising from D&A and impairment. What was expected about the effects of NFP on NIE is not entirely true, since the value of the interest cost is very low, mainly because of the large amount of financial assets held by the company and also because the value of the long-term debt is not too high.

TABLE 4.3.2 CLASS EDITORI

	EBITDA	D&A and special item	EBIT	NIE	EBT
2005	8,6	7,6	1	0,8	1,80
2006	11,5	6,7	4,8	-0,6	4,20
2007	11,4	7,6	3,8	0	3,80
2008	6,6	9	-2,4	-0,5	-2,90
2009	13,1	9,5	3,6	-0,3	3,30
2010	7,5	9,8	-2,3	-0,6	-2,90
2011	12,3	4,7	7,6	-4,6	3,00
2012	-16,4	0,1	-16,5	-1,6	-18,10
2013	-13,5	11,5	-25	-3,1	-28,10
2014	-0,4	8,9	-9,3	-2,9	-12,20

(personal elaboration)

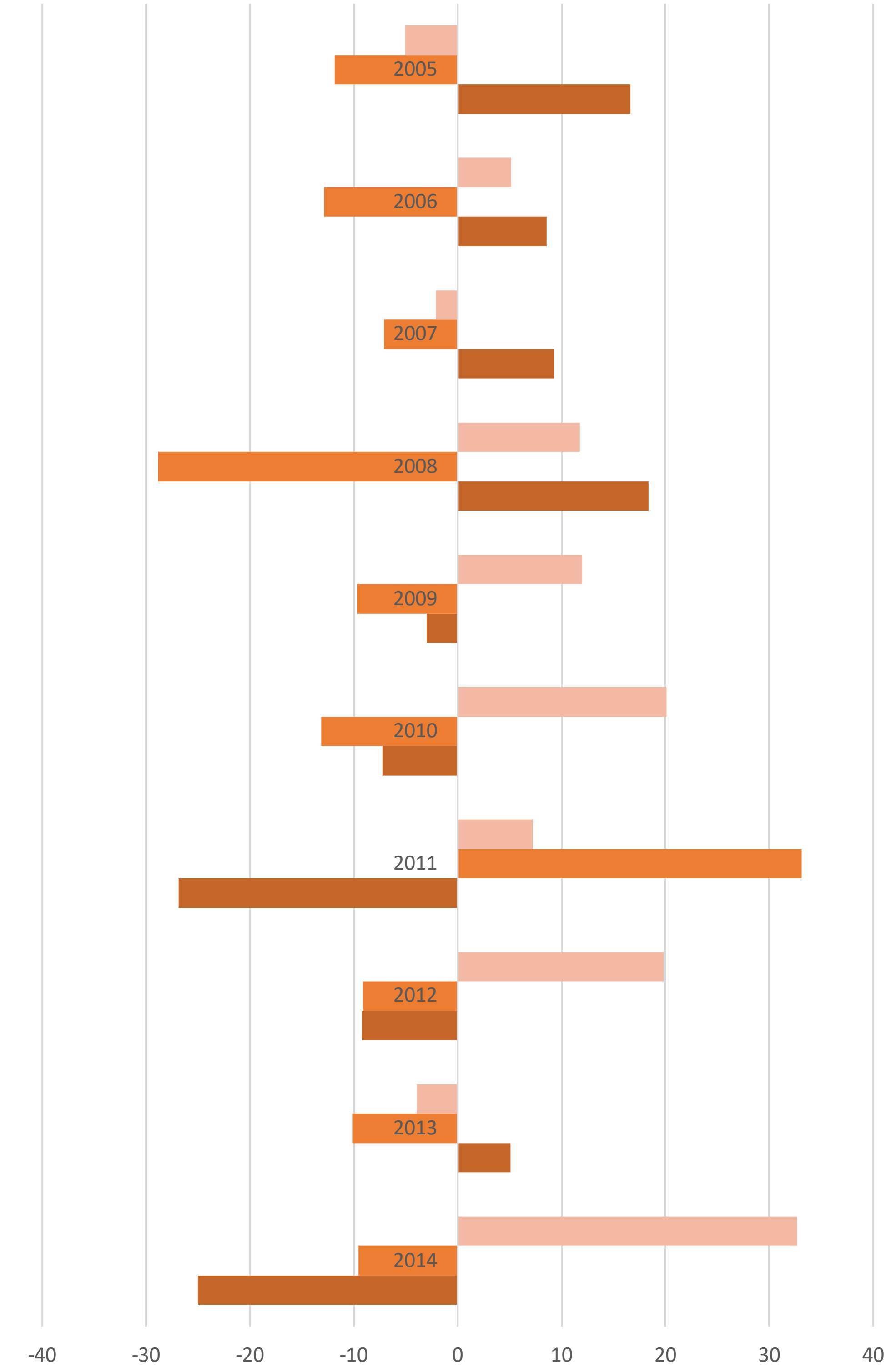
All the main items in the income statement are summarized in the *table 4.3.3* below:

TABLE 4.3.3 CLASS EDITORI

	Revenues	EBITDA	EBIT	EBT	Net income
2005	111,3	8,6	1	1,80	0,60
2006	11,5	11,5	4,8	4,20	1,00
2007	11,4	11,4	3,8	3,80	0,90
2008	6,6	6,6	-2,4	-2,90	-3,00
2009	13,1	13,1	3,6	3,30	0,60
2010	7,5	7,5	-2,3	-2,90	-1,90
2011	12,3	12,3	7,6	3,00	5,60
2012	-16,4	-16,4	-16,5	-18,10	-12,90
2013	-13,5	-13,5	-25	-28,10	-22,80
2014	-0,4	-0,4	-9,3	-12,20	-14,40

(personal elaboration)

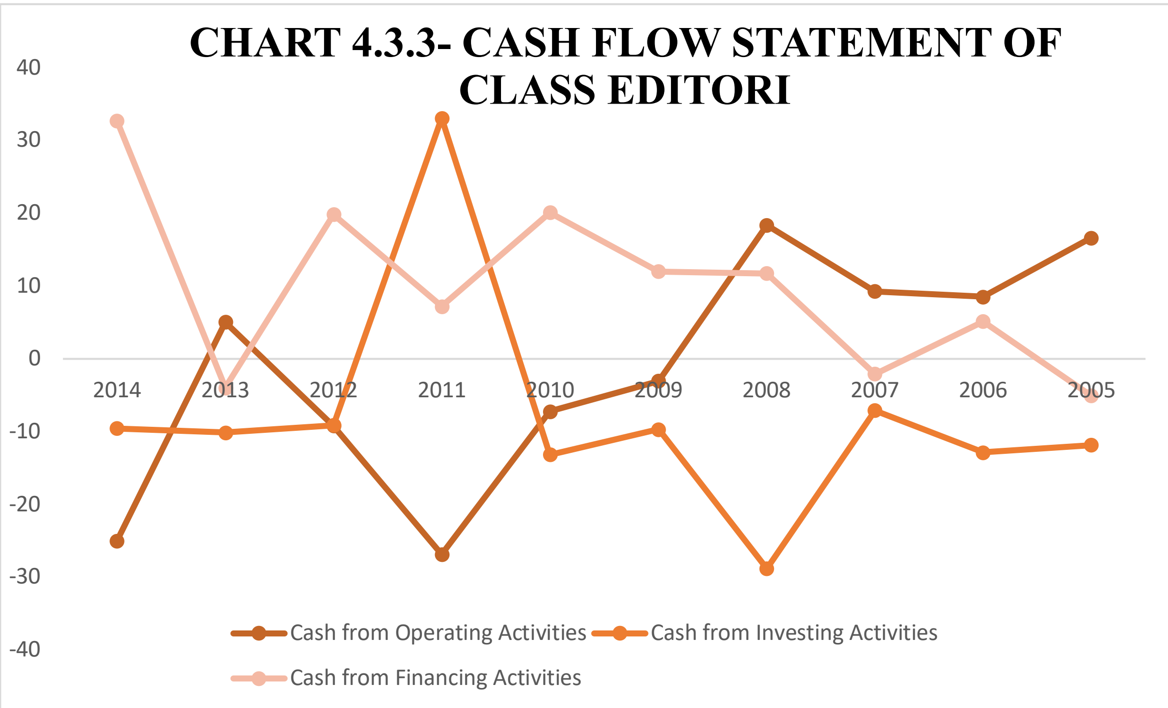
CHART 4.3.2- CASH FLOW STATEMENT OF CLASS EDITORI



	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Cash from Financing Activities	32,69	-3,95	19,85	7,2	20,1	12	11,74	-2,09	5,14	-5,08
Cash from Investing Activities	-9,56	-10,13	-9,11	33,1	-13,17	-9,67	-28,82	-7,11	-12,87	-11,83
Cash from Operating Activities	-25,01	5,07	-9,22	-26,86	-7,24	-3,02	18,37	9,29	8,55	16,65

(personal elaboration)

The cash flow statement is represented by the *chart 4.3.2* which shows the three main cash flows that allow an understanding of the company's ability to generate liquidity. All the aspects seen above can be reanalyzed in the cash flow statement considering how, for example, EBITDA, D&A and NWC values are relevant to understand whether or not the company is able to generate liquidity by considering only operating activity. Compared with the case of Arnoldo Mondadori Editore, it can be seen that for many years (from 2005 to 2008) Class Editori was able to generate cash from operating activity, make high investments (as can also be seen in the balance sheet when looking at the value of total non-current assets, which tend to increase) and pay part of its long-term debt and dividends, and is therefore characterized by an efficient cash flow management situation, but unfortunately, as the *chart 4.3.2* shows, this situation varies in 2009. In 2009, in fact, it can be seen that the company is no longer able to generate cash from operating activities and for this reason it increases its short-term debt, which is mainly due to a high NWC. In 2010 the situation is very similar to the previous year and the main reason for an operating cash outflow is a very low EBITDA and a very high NWC. The situation worsens in 2011 when the company is unable to generate cash outflow from operating activity and decides to divest (this explains the positive cash flow from investment activity). In 2013, on the other hand, the situation returns to the same level as in the first few years (positive operating cash flow, increased investments and reduced equity due to an excessively negative net income, -€22.8 M€) but in 2014 the situation returns to a complex situation for which Class Editori had to make a capital increase. The *chart 4.3.3* is the same as the *chart 4.3.2* but in line and not in bars.



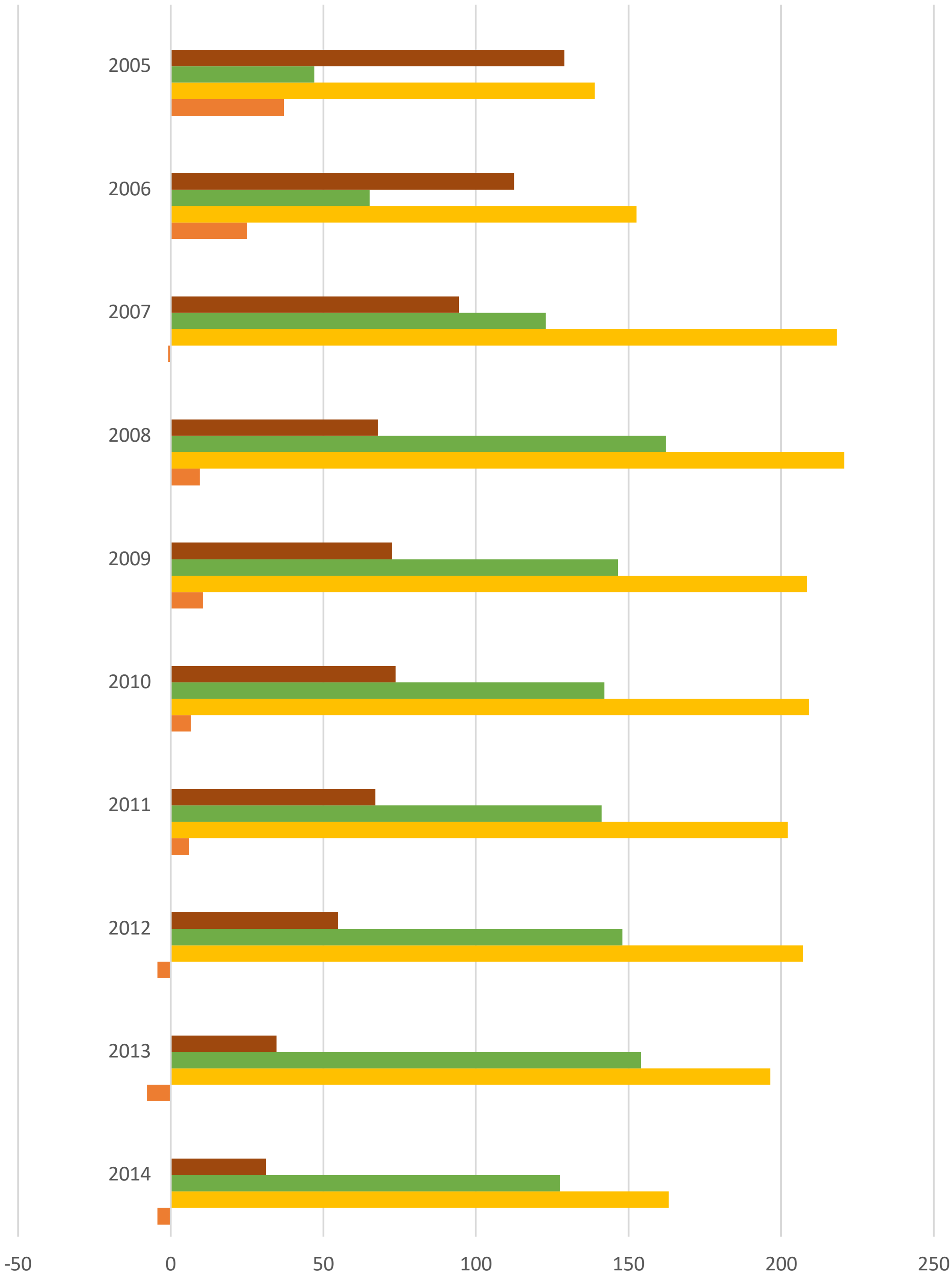
(personal elaboration)

4.4-THE FINANCIAL STATEMENT ANALYSIS – MONRIF

As was done for the other two companies before, the first step to make an analysis of the balance sheet is to observe how the company manages liquidity in the short term and so observe the level of NWC. Differently from the previous cases, the NWC of Monrif is characterized by numerous annual variations due to the fact that during the first years (especially during 2005 and 2006) the value of the total current operating assets is very high (this is due to a very high value of the "Trade receivables" that in these two years goes from a value of 114.7 M€ in 2005 to 107.7 M€ in 2006, and of the "Raw Materials" present in the warehouse that are 9.1 M€ in 2005 to 8.6 M€ in 2006) but during the last period (2012,2013 and 2014), they decreased and this allowing to a changing in the NWC that passes from a positive value to a negative one. Considering the entire time horizon, the NWC is decreased by 111.89% from a value of 37 M€ in 2005 to a value of -4.4 M€ in 2014. The NWC is negative only during the 2014, 2013, 2012 and 2007 with values of -€4.4M€, -€7.8M€, -€4.4M€ and -€0.9M€ respectively. The reason why the NWC is negative in that period depends mainly on the fact that the value of the Trade receivables and the Inventory are drastically decreased. As has also been mentioned above, a predominantly positive NWC means that the company is unable to obtain financing from its distributors in the short term and is therefore forced to increase its debt in the short term.

This effect can be seen within the NFP (ST), where it can be seen that, since it is positive, the value of total current financial liabilities (consisting mainly of items such as "Short-term debt due to banks" and "Current portion of long term debt") is higher than the value of total current financial assets. NFP (ST), together with high long-term debt, could lead to high interest costs, as will be the case with the analysis of the profit and loss account. The level of NFA (Net fixed Assets) is very high, due to a high amount of total noncurrent operating assets. This data allows us to understand how the company has undertaken a high amount of investments, and with this we could expect, within the income statement, a high value of D&A. As regards, instead, the value of total noncurrent financial assets, the situation is different in fact, over the years, they are decreased more and more and allows us to understand how, perhaps, within the income statement there are not high values resulting from impairment of these items. As mentioned in the previous cases, in order to understand the value of the capital invested, NFP (given by the sum of the net financial position short-term and the net financial position long-term) must be added to Equity and this value must be equal to NOA (Net operating assets) that is given by the sum of the net working capital and the net fixed assets. The *chart 4.4.1* shows more clearly what has been said:

CHART 4.4.1-BALANCE SHEET REFORMULATED OF MONRIF



	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Capital invested	159	189	203	208	216	219	230	217	178	176
NOA	159	189	203	208	216	219	230	217	178	176
EQUITY	31,2	34,7	54,8	67	73,7	72,5	68	94,4	112,5	129
NFP	127,5	154	148	141,1	142	146,5	162,2	122,9	65,2	47
NFA	163,1	196,5	207,2	202,1	209,1	208,4	220,6	218,2	152,6	139
NWC	-4,4	-7,8	-4,4	6	6,6	10,6	9,6	-0,9	25,1	37

(personal elaboration)

As said before, this brief analysis of the balance sheet also makes possible to understand what are some items in the income statement, indeed usually a high NFA (Net fixed assets) and a high value of total noncurrent financial assets implies a high depreciation and amortization value in the profit and loss statement, as well as a high degree, as has been observed here, of NFP (Net financial position) could involve high interest expenses. But before these aspects, it's important to observe the value of revenue and EBITDA. The level of revenues, considering the entire time horizon, is characterized by an annual decrease, in fact the decrease from 2005 to 2014 is 35.60%, while the annual variations are: in 2006 by 13.26%, in 2007 by 4.60%, in 2008 by 1.69%. in 2009 by 2.14%, in 2010 by 8.24%, in 2011 by 3.05%, in 2012 by 9.87% and in 2013 by 7.37%. Only in 2014 there is an increase in revenues, which rose from a value of €207.3 M€ in 2013 to €225.8 M€ in 2014, so an increase of 8.92%. The COGS are also characterized by a trend very similar to that of revenues, the only difference from the previous case is that they also decreased in 2014. The total decrease in variable costs, considering the entire time horizon, was 36.48%. Operating costs, on the other hand, have a negative trend very similar, but at a lower rate, to that of revenues, in fact as these increased during 2014. The main reason for a decrease in operating costs is the decrease in personnel costs. All these effects allow us to understand how EBITDA from 2005 to 2013 decreased dramatically from 57.8 M€ in 2005 to 5 M€ in 2013 and also how EBITDA in 2014 increased from 5 M€ in 2013 to 24 M€. All these aspects can be seen in the *chart 4.4.1* below:

TABLE 4.4.1 MONRIF

	Revenues	COGS	Operating Expenses	EBITDA	EBITDA/Revenues
2005	350,6	55,1	237,7	57,8	16,49%
2006	304,1	52,1	236,2	15,8	5,20%
2007	290,1	54,3	226,1	9,7	3,34%
2008	285,2	54,4	223,1	7,7	2,70%
2009	279,1	48,4	199,7	31	11,11%
2010	256,1	42,3	193,4	20,4	7,97%
2011	248,3	41,6	184,8	21,9	8,82%
2012	223,8	37,1	178,4	8,3	3,71%
2013	207,3	35	167,3	5	2,41%
2014	225,8	32,1	169,7	24	10,63%

(personal elaboration)

As mentioned earlier on the value of total non-current operating assets, the income statement shows a high D&A value and this means that, in some years, EBIT is negative. Also, the value of NIE, mainly due to the high debt, is very high in all years except 2006. Monrif is a company operating in the publishing sector which owns several companies (Poligrafici Editoriali and Poligrafici Printing) and therefore the reason why NIE is positive in that year depends mainly on having received the payment of dividends from the other companies. All these aspects can be seen in the *chart 4.4.2* below:

TABLE 4.4.2 MONRIF

	EBITDA	D&A and Specia items	EBIT	NIE	EBT
2005	57,8	22	35,8	-17,1	18,70
2006	15,8	15,3	0,5	6,1	6,60
2007	9,7	15,3	-5,6	-3,8	-9,40
2008	7,7	17,7	-10	-9,4	-19,40
2009	31	17,4	13,6	-6,3	7,30
2010	20,4	15,8	4,6	-12,3	-7,70
2011	21,9	17,6	4,3	-5,6	-1,30
2012	8,3	15,9	-7,6	-7	-14,60
2013	5	17,8	-12,8	-5,6	-18,40
2014	24	13,1	10,9	-7,5	3,40

(personal elaboration)

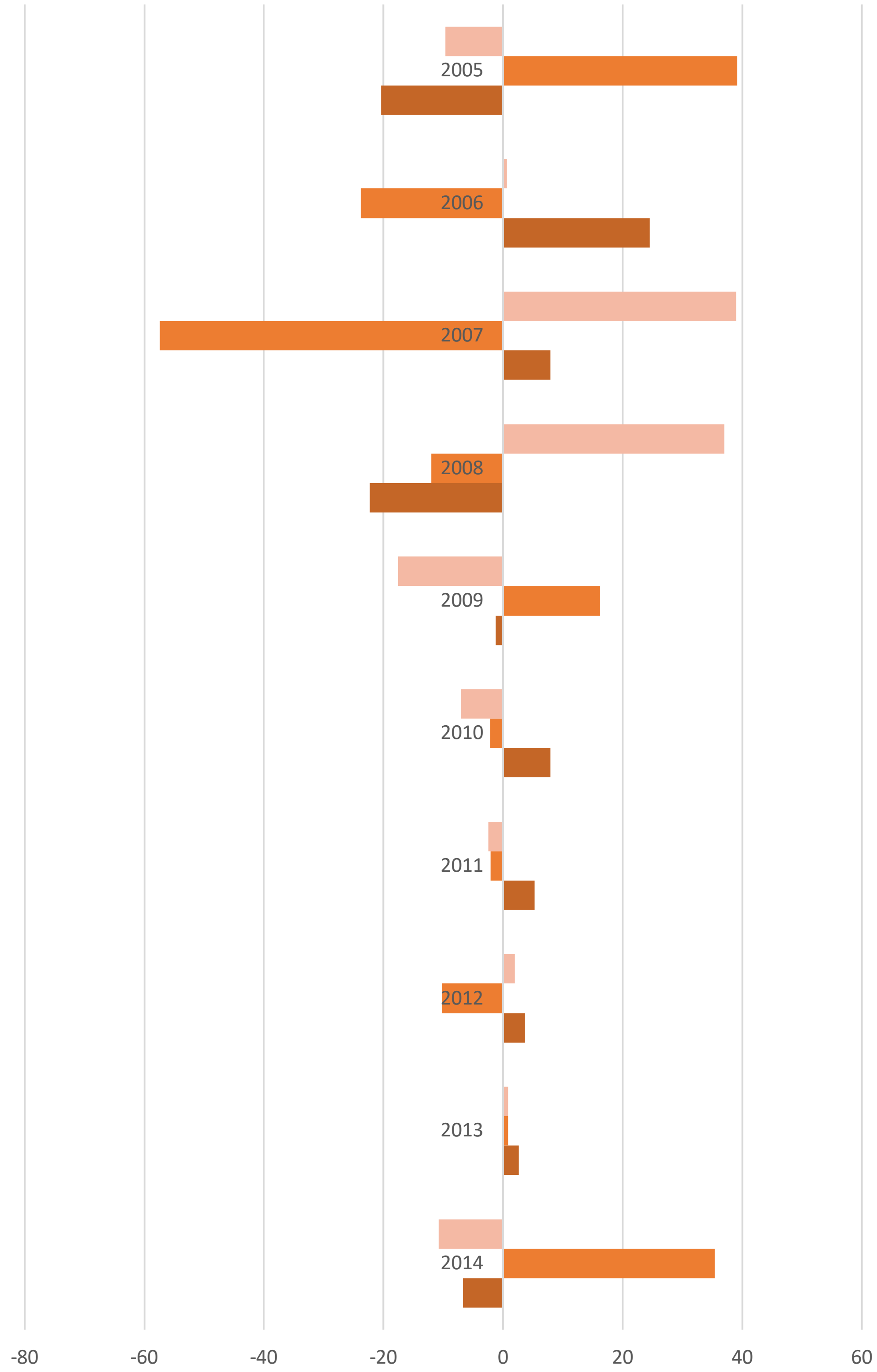
All the main items in the income statement are summarized in the *table 4.4.3* below:

TABLE 4.4.3 MONRIF

	Revenues	EBITDA	EBIT	EBT	Net income
2005	350,6	57,8	35,8	18,70	6,50
2006	304,1	15,8	0,5	6,60	-2,00
2007	290,1	9,7	-5,6	-9,40	-11,40
2008	285,2	7,7	-10	-19,40	-15,40
2009	279,1	31	13,6	7,30	1,70
2010	256,1	20,4	4,6	-7,70	-5,50
2011	248,3	21,9	4,3	-1,30	-5,00
2012	223,8	8,3	-7,6	-14,60	-8,90
2013	207,3	5	-12,8	-18,40	-15,50
2014	225,8	24	10,9	3,40	-2,40

(personal elaboration)

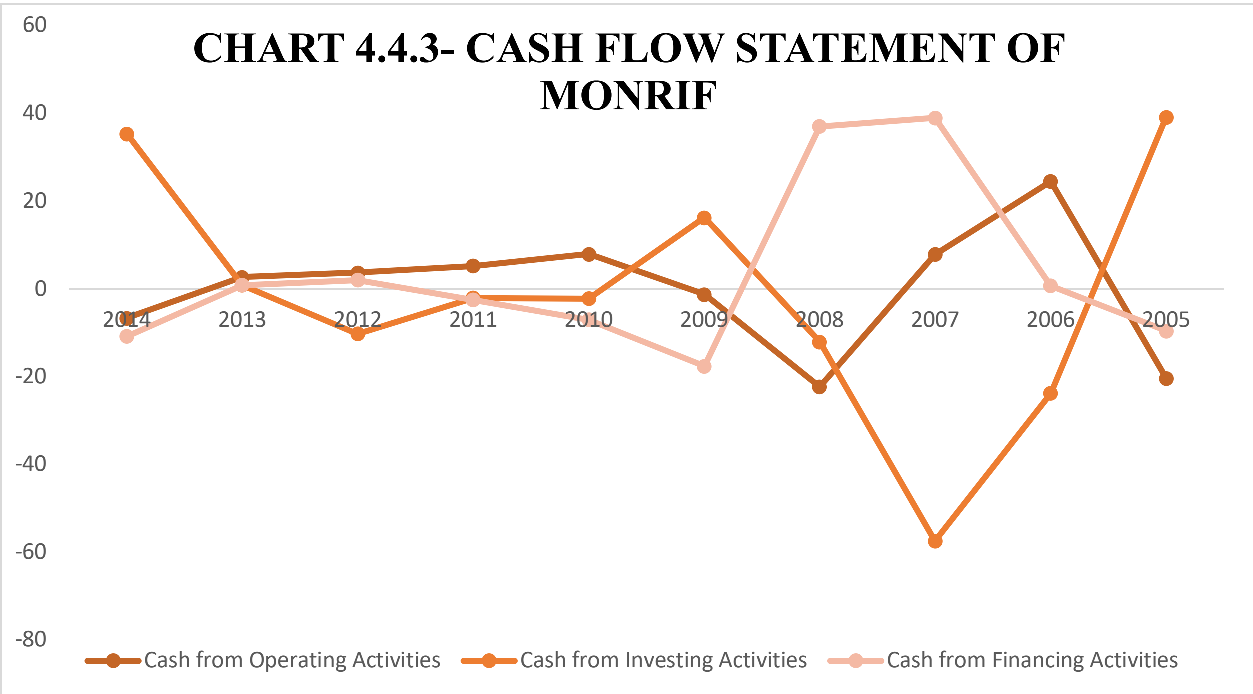
CHART 4.4.2- CASH FLOW STATEMENT OF MONRIF



	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Cash from Financing Activities	-10,77	0,87	2	-2,46	-6,98	-17,59	37,01	38,98	0,69	-9,6
Cash from Investing Activities	35,36	0,86	-10,25	-2,05	-2,21	16,25	-12,02	-57,44	-23,79	39,17
Cash from Operating Activities	-6,68	2,66	3,71	5,25	7,93	-1,22	-22,3	7,88	24,49	-20,36

(personal elaboration)

The cash flow statement is represented by the *chart 4.4.2* above, which shows the three main cash flows that allow an understanding of the company's ability to generate liquidity. All the aspects seen above can be reanalyzed in the cash flow statement considering how, for example, EBITDA, D&A and NWC values are relevant to understand whether or not the company is able to generate liquidity by considering only operating activity. Unlike Class Editori, Monrif does not always have adequate cash flow management. In 2005, due to the high level of NWC and high interest rates, the company is unable to generate cash from operating activity and, in order to repay part of its debt, is forced to apply a strategy of disinvestment of assets. The situation changes in 2006 when the company is able to generate cash from operating activities and make high investments, which is why the *chart 4.4.2* shows a cash outflow of € -23.79 million as cash from investing activities. In 2008 the situation changes completely; in fact the company is characterized by a high positive financial cash flow due to the high level of debt necessary to maintain the business as it is not able to generate cash from operating activities. In 2009, on the other hand, the situation is very similar to that of 2005, in which the company is forced to carry out disinvestment strategies to generate internal liquidity. Cash flow management improves until 2013 when the company begins to divest assets again, even though it is able to generate cash from operating activity. In 2014, cash flows follow a trend similar to that seen for 2005, in fact Monrif generates a negative operating cash flow (-6.68 M€) , a negative cash flow linked to financial activity (-10.77 M€) and a positive cash flow linked to investment activity (35.36 M€).The *chart 4.4.3* below is the same as the *chart 4.4.2* but in line and not in bars.



(personal elaboration)

4.5-TO SUM UP…

By analyzing the ratios that have been calculated from the financial statements of the three companies, we try to re-analyze what has been said above but with a different light:

TABLE 4.5.1-ROE

TIME	A. Mondadori	Class Editori	Monrif
2005	22,65%	0,77%	5,04%
2006	22,60%	1,27%	-1,78%
2007	22,31%	1,12%	-12,08%
2008	19,14%	-3,98%	-22,65%
2009	6,30%	0,74%	2,34%
2010	7,27%	-2,40%	-7,46%
2011	8,64%	6,98%	-7,46%
2012	-41,47%	-18,09%	-16,24%
2013	-81,78%	-47,60%	-44,67%
2014	0,23%	-19,94%	-7,69%

(personal elaboration)

The *table 4.5.1* shows the level of ROE of the three companies for each year considered in the analysis. It should be noted that, unlike the other two, Arnoldo Mondadori's Return on Equity is positive for all years with the exception of 2012 and 2013. Monrif's ROE is mainly negative while Class Editori's ROE is positive, but very low, in the first few years but becomes negative from 2012.

TABLE 4.5.2- ROIC

TIME	A. Mondadori	Class Editori	Monrif
2005	39,49%	1,40%	20,34%
2006	19,41%	6,43%	0,28%
2007	21,66%	5,24%	-2,58%
2008	20,40%	-2,92%	-4,34%
2009	7,83%	3,61%	6,21%
2010	12,39%	-1,94%	2,13%
2011	11,35%	6,60%	2,07%
2012	-22,43%	-15,52%	-3,75%
2013	-31,04%	-23,08%	-6,78%
2014	8,74%	-7,27%	6,87%

(personal elaboration)

Even if ROIC is characterized by a higher denominator than ROE (ROIC is given by EBIT divided by the NOA), it has been possible to understand how interest expenses impact on the operating result, in fact in those years when there is a high ROIC, compared to a low or negative ROE, it is logical to say that a low Net income is given by a high NIE since observing the ROIC, it was noted that even if there is an increase in the denominator, the absence of interest expense has allowed a high value of this ratio and therefore the effect of the increase in the numerator, compared to the increase in the denominator (in cases where there is a high variation between ROE and ROIC), is higher. This can be seen mainly in two of the three cases, mainly in the cases of Arnoldo Mondadori and Monrif. So, the ROIC (return on invested capital) follows a different trend mainly for Monrif, being more positive than ROE, and this allows us to understand how this company is characterized by high amount of interest costs. Class Editori also improves but not as the company before, in fact we can see that during the years when ROE is negative, ROIC is negative too and this allows us to say that the real problem for this company is the management of operating costs and variable costs and not the costs related to debt. As mentioned earlier, Class Editori, being characterized by a predominantly positive NWC, is characterized by high short-term debt and, as the balance sheet highlights, this type of debt is much higher than long-term one, but the reason why the cost of debt is not so high also depends on the amount of financial assets on the balance sheet.

TABLE 4.5.3- LEVERAGE

TIME	A. Mondadori	Class Editori	Monrif
2005	0,937203791	0,909438776	1,364341085
2006	2,149875622	0,946768061	1,579555556
2007	2,060642093	0,905118602	2,30190678
2008	1,96648265	1,090305445	3,385294118
2009	1,684848485	1,226600985	3,020689655
2010	1,591332873	1,496839444	2,926729986
2011	1,584524224	1,436408978	3,105970149
2012	1,668414482	1,49088359	3,700729927
2013	2,602117336	2,260960334	5,438040346
2014	2,134084726	1,772853186	5,086538462

(personal elaboration)

What was said earlier is highlighted more clearly with the *table 4.5.3* , in fact, it can be seen that the level of leverage (given by the relationship between NOA and Equity) of Class Editori, increases every year more and more but is lower than the leverage of Monrif and Arnoldo

Mondadori. These three tables show how debt has an impact on the company's performance and it is noted that the company with the highest NOA/Equity ratio and highest debt costs is Monrif, followed by Arnoldo Mondadori Editore and Class Editori which, although it has a positive NWC, has a high amount of both short and long-term financial assets that have allowed the reduction of the NIE (Net interest expenses).

TABLE 4.5.4- PROFIT MARGIN

TIME	A. Mondadori	Class Editori	Monrif
2005	10,83%	0,90%	10,21%
2006	11,50%	3,94%	0,16%
2007	11,50%	3,12%	-1,93%
2008	11,19%	-1,82%	-3,51%
2009	4,66%	2,96%	4,87%
2010	7,33%	-1,80%	1,80%
2011	6,85%	5,38%	1,73%
2012	-10,59%	-18,67%	-3,40%
2013	-14,35%	-29,76%	-6,17%
2014	4,10%	-10,31%	4,83%

(personal elaboration)

The *table 4.5.4* allows to understand the amount of operating costs, COGS and D&A of each individual company since the profit margin is nothing more than the ratio between EBIT and revenues and therefore the higher this ratio is, the lower the costs are. The *table 4.5.4* shows that Arnoldo Mondadori's profit margin is very high during the years 2005 to 2008, while from 2009 to 2011 it decreases and then became negative (this is due to a negative EBIT value) from 2012 to 2013. The other two companies are characterized by data that is much more variable and lower than Mondadori's ones, but which allow us to understand that there is less efficient cost management.

TABLE 4.5.5- EBITDA MARGIN

TIME	A. Mondadori	Class Editori	Monrif
2005	13,49%	7,73%	16,49%
2006	13,72%	9,44%	5,20%
2007	13,72%	9,36%	3,34%
2008	13,70%	5,00%	2,70%
2009	6,89%	10,76%	11,11%
2010	8,99%	5,88%	7,97%
2011	10,64%	8,70%	8,82%
2012	5,87%	-18,55%	3,71%
2013	0,44%	-16,07%	2,41%
2014	6,10%	-0,44%	10,63%

(personal elaboration)

The EBTIDA margin, unlike the previous ratio, makes possible to understand how much only operating costs and variable costs impact on EBITDA. Logically, this ratio is higher than the previous one since D&A and special items are not considered. Considering the case of Class Editori, it can be seen that, given the high investments that have been made over the years, the value of EBITDA Margin is very high and, therefore, the main reason why there is a very low Net income in this company depends mainly on the high annual depreciation and amortization. Very similar aspects are also found in the case of Monrif, while in the case of Arnoldo Mondadori it is noted that, even if there are high costs related to D&A, the situation represented by the two ratios until 2012 has not changed much. The tables presented above have made it possible to understand which are the main items in the income statement that have allowed a change in the company's performance. In fact, it has been noted that the costs linked to debt (NIE) are high in the case of Monrif, which is also characterized by a high value of debt, while in the case of Class Editori it has been noted that the main cost component does not derive from debt, having an average cost of debt equal to 3. 55% which is lower than the other two companies, but derives from the high investments in tangible assets and not (i.e. depreciation) as can also be seen with the CFIA it generates. The *table 4.5.4* and *table 4.5.5* have also made it possible to better understand some aspects of Arnoldo Mondadori. Arnoldo Mondadori, compared to the other companies, has a higher level of ROE and ROIC from 2005 to 2011, but during 2012 and 2013 these two indicators are much more negative than Monrif and Class Editori, it has a level of leverage not excessively high and adequate cost management as can be seen with the profit margin and EBITDA margin. All these differences can be seen in a simpler way in the *table 4.5.6*, where the average values of the ratios analyzed before are present:

TABLE 4.5.6-AVERAGE VALUES

AVERAGE VALUE	ROE	ROIC	Leverage	Profit Margin	EBITDA Margin	Cost of debt
Arnoldo Mondadori	-1,41%	8,78%	1,84	4,30%	9,36%	3,87%
Class Editori	-8,11%	2,75%	1,35	-4,61%	2,18%	3,55%
Monrif	-11,26%	2,04%	3,19	0,86%	7,24%	6,71%

(personal elaboration)

Considering these data, the best company among the three considered, based on an average profit margin, an average leverage, an average ROIC and ROE, is Arnoldo Mondadori. This one is the company that has this governance structure for the entire time horizon analysed: a chairman who has all the powers of ordinary and extraordinary administration and a CEO who only has powers of ordinary administration in specific functional areas.

4.6-TWO DRIVERS: KNOWLEDGE AND EXPERIENCE

The objective of this practical case was to answer the question:

"What is the governance structure, among the three defined in the previous analysis, that can achieve a better business performance?"

Unfortunately, there is no valid information that can allow to say which structure is the best. Based on what was said before, given that the company with the best average performance is Arnoldo Mondadori, it should be stated that this has the best structure of the BoD, but there is no justification or evidence to this statement. The composition of the BoD could impact the company's performance but it is not possible to observe this correlation in the company's financial statements. The BoD could improve the company's performance by considering the experience and knowledge of the Board members, but it is not possible to see how, by looking only at the financial statements, it could have an impact on performance. The literature has also carried out numerous studies to try to understand if the CG impacts on company performance and has come to the same conclusions said before. The size of the Board, the number of non-executives, the remuneration of executives has no correlation with the company's performance but, certainly a board composed by directors with different background, high knowledge of the industry, characterized by a variety of gender (Gender diversity) could be able to better choose the strategic actions to be taken. With this, the only elements that could imply a correlation between CG and company performance are: The knowledge and experience of the members of the BoD, nothing else.

This allows you to understand how the concepts previously mentioned about the board process (Zattoni, Corporate governance course 2018), board diversity, the relevant work experience of directors and their ability to communicate (Finkelstein and Mooney 2003), are very relevant because a Board of Directors composed giving a lot of relevance to these aspects could lead to a good choice of strategies to be adopted and with this, possibly, to a good business performance.

CONCLUSION

Following what has been said in the introduction, the text does not present a single answer to the first question but a real reflection on the main governance structures present within the companies in the sample. As already mentioned, there are three different possibilities of governance structure but the most usual ones in the sample are the CEO duality and the governance in which the chairman of the BoD has powers of ordinary and extraordinary administration while the CEO has powers or all of ordinary administration or powers in specific functional areas.

The structure of the entire work is circular, as already mentioned, in fact we start from theoretical concepts on corporate governance and agency problem to then see, in concrete terms, how a company decides to compose its Board of Directors, considering that the BoD is the main governance tool that is used to eliminate all the problems that are generated by the "agency problem". Following a theoretical presentation of the agency problem and the development of family businesses in the world, the analysis, that is the core of the study, is divided into three steps of which:

- The first step defines the directors present on the Board and the main powers that are usually attributed to the directors on the Board.
- The second step is focused on sorting the data of the main directors in the Board considering the two variables: time and role
- The third step, unlike the first two ones where the number of directors considered was very high, refers only to the CEO and the Chairman trying to clarify who has the decision-making power.

All the information to define the powers held by the directors in the BoD were taken directly from the proxies given by the Chamber of Commerce of Rome but to get more information were also used other tools. In some cases, for example, it was not always clear what role was assumed by a director in the Board, so it was essential to use the "Borsa Italiana" website where the Corporate Governance reports of Italian companies listed are published. These reports, in fact, present the entire governance structure and this made it possible to understand when a director, for example, was non-executive since the proxy sometimes uses the generic term "director" to define its rule in the Board, not allowing to understand whether or not this person is executive. But the "Borsa Italiana" site was not used only for this, indeed the entire subdivision of companies in the sample by sector was made considering the information that the site in question provided. The practical case, instead, after having analyzed the financial statements of the three companies operating in the same sector (Arnoldo Mondadori Editore, Class Editori and Monrif), is not able to say which is the best governance structure. As observed with the case study, it’s true to say that a good Board of Directors can lead to a better business performance, but it all depends on the presence, within the Board, of directors with great experience and knowledge.

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SUMMARY

Family firms are characterized by many problems which can lead to family firm's value changes (by creating or destroying it). Unlike non-family firm, however, they also have other governance mechanisms such as the family assembly, family council and family constitution that are used to mitigate the damage generated by any type of agency problems. Through the Tobin's q, it has been possible to define which are the firms that have a better performance considering the main issues given by the agency problem of type I and the agency problem of type II and these are the firms with CEO as family members and that have a very concentrated ownership but not such as to create disadvantages to minority shareholders. Considering always the same sample of firms defined by Villalonga and Amit (Villalonga and Amit 2006), their Tobin's q has been observed over the generations noting that, in the future, all the present family firm will become more and more similar to non-family firm and also noting how the successions of generations may impact, in a different way, the value of the company. The first part of the text follows a circular structure, in fact it begins by presenting in a generic way the main problem that gives a purpose to corporate governance, that is the agency problem, to enter more and more specifically showing the same problem within family businesses. Another purpose of the text is to show the main governance tool that is used by companies to solve the above mentioned problems, i.e. the BoD, and how this differs considering the case of family businesses that, repeating what was said before, may also present other governance tools such as family pacts and family councils. With this, the intent of the first part of the text is to provide the main theoretical concepts on family businesses to allow an adequate understanding of the analysis present in the second part that is focused on the agency problem, in fact this second part is an analysis carried out to understand who holds the decision-making power between the chairman of the board and the CEO in the context of Italian family firms. This first part has also served to highlight how Italian family firms have developed over the years and in which sector they mainly operate, all these aspects have been shown by making a brief analysis on family businesses defined by the University of St. Gallen (University of St. Gallen 2019) and also considering the studies made by the AUB Observatory. (Corbetta, Quarto e Minichilli, Dieci anni di capitalismo familiare 2018) So, after all the concepts present in the first part, the research present in the second part serves to answer a simple question:

"Who holds the decision-making power between the CEO and the Chairman in Italian family businesses?

The whole research is focused on Italian family businesses and it is based on three steps:

- The first step of the analysis is based on the understanding the subjects present in the BoD during the period considered (2005-2014), and subsequently, using both the available proxies and the Borsa Italiana website, the powers that are attributed to each executive director were defined;
- The second step is based on the sorting all the data found. The data are ordered considering both the time span and the role of the directors in the Board to ensure that there is a complete understanding of the trend of variation in the powers that are entrusted to the directors and to make a comparison of the powers held by the persons considered. This step is focused only on the relevant figures within the BoD and they are:

    1. CEO;
    2. Vice-President
    3. Chairman.

    The kind of powers owned by directors considered for the whole analysis have been divided into different categories and these are:

    - Powers of ordinary and extraordinary administration without limit of amount;
    - Powers of ordinary and extraordinary management with limit of amount;
    - Powers of ordinary and management without limit of amount;
    - Powers of ordinary and management with limit of amount;
    - Only powers on specific functional areas:

        1.1 Purchasing;
        1.2 Production;
        1.3 Sales;
        1.4 Logistics;
        1.5 AFC + Tax;
        1.6 Research and Development;
        1.7 Human Resources;
        1.8 Marketing;
        1.9 Legal and Corporate Governance;
        1.10 Information system.

– Only powers on specific functional areas in common with other Directors.

- The third step of the research is based on the two main directors (CEO and Chairman) considering the data ordered both by role and by time.

At the beginning of this second part, some aspects of the sample that is considered to make the research are shown, and these are:

▪ The companies present in the sample are divided according to the sector in which they operate and 11 different industries are identified (real estate/ construction / infrastructure sector, media /entertainment/telecommunications industry, utilities sector, retail/ wholesale sector, manufacturing sector, services sector, healthcare and pharmaceutics sector, technology, electronics sector, holding sector, financial sector) and it was highlighted that the main sector is the manufacturing sector which represents 23.73% of the sample, while companies operating in the financial industry represent only 0.85% of the sample.

▪ The average number of members of the BoDs of the companies considered is 9 (6 of them nonexecutives) and that the Italian family businesses usually have a BoD composed mainly of non-young directors, in fact the average age of directors (executive and non-executive) is 56 years old.

In the third step of the research, just the two main directors (Chairman and CEO) are considered. Before presenting the analysis of the powers held by the subjects previously mentioned, it is important to understand and to give a definition to the powers that have been considered to elaborate the analysis. As noted before, the powers are distinguished first into ordinary and extraordinary administration (with or without limit of amount) and then, if the subject has powers in specific areas, all powers according to the functional areas of the company. Following also what has been said in the Italian Civil Code, an exact definition of "power of ordinary administration" does not exist. In order to define the power of ordinary administration, it could be said that this means all actions that have been, by delegation, entrusted to a director of the Board of Directors to pursue the corporate purpose and therefore actions that fall within the normal and "ordinary" management of the company. The Italian Civil Code presents in several articles the concept of power of ordinary administration, but only in Article 320 (Treccani n.d.) there is a list in which are presented all the acts that do not fall within the definition of power of ordinary administration, highlighting the limit of this type of power. On the other hand, the term "extraordinary administration" refers to the whole series of powers that allow to carry out acts that go beyond the ordinary management of the company, and by this it refers to those acts that modify the economic-organizational structure of the company (Stanzione 2018). These two powers may not necessarily be held by more than one person, but it's possible that they are held by a single member of the Board of Directors and may also be limited in amount. In the phase of extrapolation of data from the companies' proxies it was noted that not all BoDs members had powers of ordinary and extraordinary administration, in fact some directors have powers of ordinary administration only in some functional areas of the company. Leaving aside the definition for the powers within the Sales, Purchasing and Production areas that are defined by their name, the powers within the "Administration, Finance and Control" area are all the powers that concern both financing strategies, i.e. the powers that are usual for the CFO (e.g. increase in debt, issue of bonds or risk management activities) and operations in the tax area, while the powers within the logistics area are all the powers that concern relations between subjects along the production chain (e.g. the purchase of raw materials or relations with distribution channels). The powers in the area of research and development, instead, are related to new ideas for industrial projects that can be carried out by the company such as a new technology that could speed up the production of a product or the search for a new business that meets a target consumer need, while the powers presents in the area of human resources concern all those actions that are related to the organization of employees such as layoffs or hiring. The powers present in the remaining functional areas (Marketing, Legal and Corporate Governance and Information Systems) focus respectively on actions related to the promotion of products and corporate marketing, the representative actions that a director may have in case of legal proceedings and actions aimed at communicating corporate directives to the public. From this brief definition of the powers considered for the completion of the research, the study focuses, as mentioned above, only on the two main members of the Boards of Directors. The analysis is carried out by ordering the data according to time period and role (and with this making an analysis year by year for the Chairman and the CEO) and also based only on the role assumed by the director present in the Board of Directors. The first member of the Board of Directors analyzed is the Chairman and the analyses make possible to understand which the main powers are held by the Chairmen of the Board considering two different variables, rules and time. In the first analysis, characterized by an ordering of the data just by rule, is highlighted that the president of the BoDs considered in the sample has mainly all the powers of ordinary and extraordinary administration without limits of amount, in fact just the 40% of the subjects in the sample has this type of power, while 34% of the members considered in the sample has powers of ordinary administration within specific functional areas. In the second analysis, instead characterized by an ordering of data by time, it is noted that the main powers held by the chairmen are the same main powers defined with the first analysis, indeed they are all the powers characterized by a very low annual variation such as the powers in the Legal and CG area and in the HR area while the powers in the Marketing, R&D or Production area can be considered powers that are usually not held by the chairmen but by other members of the Boards. The analyses conducted on the CEO led to different data compared to those conducted on the chairman, indeed the first analysis, done by processing data according to role, shows mainly that the CEOs of the BoDs considered has powers of ordinary administration within specific functional area, in fact just the 45.48% of the subjects in the sample has this type of power, while the 38.58% of the members considered in the sample has all the powers of ordinary and extraordinary administration. In this second analysis it is noted that the main powers hold by the CEOs are the same main powers defined with the first analysis, in fact they are all the powers characterized by a very low annual variation such as the powers in the Legal and Corporate Governance area and in the AFC+ tax area while the powers in the Marketing, R&D or Production area can be considered powers that are usually not held by the CEO but by other members of the Boards. As it can be seen, the analysis conducted on the CEOs of the Boards of Directors of the companies in the sample is the same analysis conducted on the respective Presidents but, logically, with different results. In fact, it can be seen that it is more usual for CEOs to have powers in different functional areas rather than having all the powers of ordinary and extraordinary administration as it is for the Chairmen of the Boards of Directors.

So, *who has the decision-making power within the Boards of Directors of Italian listed family businesses?*

The answer to this question is given by considering all the aspects said before. Considering, in fact, that the decision-making power is held by persons who have powers of extraordinary and ordinary administration, it is immediately noticeable that (considering the data already processed) the chairman of the Boards of Directors has this power to a greater extent than the CEO (40% of the sample's chairmen have this power). But considering the results of the previous analyses, a question arises: How can we say that the chairman has the decision-making power within the board, considering that 40% of these have powers of ordinary and extraordinary administration, if even 39% of the CEOs have this type of power? The answer to this question is the phenomenon of CEO duality. Many of the companies considered in the sample (75 on 118 companies), in fact,

are characterized by a CEO who is also chairman for at least one year of the entire time period considered in the analysis and therefore, processing the data, this have led to a very high number of CEOs with powers of ordinary and extraordinary administration, but also it's possible to highlight another interesting aspect related to the CEO, indeed it is noted that CEOs have powers within the different functional areas to a greater extent than the Chairmen and this confirms that the CEO has mainly powers in functional areas and not powers of ordinary and extraordinary administration while considering the analyses based on time and role for the president of the BoD, it can be seen that the Chairman has powers of ordinary and extraordinary administration (with or without amount limitation) to a greater extent than the CEO. These results make it possible to state how, in a generic way, the Chairman has full decision-making powers compared to the CEOs, but it is fairer to say that each company is different from the others, with different ownership structures and different governance policies, so to give a single answer is not perfectly representative of the companies analyzed within the sample. So, a more correct and less generic answer to the question "who holds the power between CEO and Chairman" is:
"There are three main cases of governance within the Boards of Directors of Italian family businesses considered in the sample:

4. CEO duality and therefore the Chairman and the CEO are the same person.
5. The Chairman has powers of ordinary and extraordinary administration and the CEO has powers of ordinary administration or only powers in various functional areas, mainly in the areas of AFC+ tax and in the area of "Legal and corporate governance".
6. The Chairman has no powers, is a non-executive director, or has limited powers in specific functional areas (such as in the area of "Legal and corporate governance") while the CEO has wider powers."

So, considering the companies in the sample and the results of their analysis, the first two cases of governance are more frequent than the third one.

The practical case, that is analyzed, is based on three companies (Arnoldo Mondadori, Monrif and Class Editori) operating in the same sector but with the three different governance structure defined in the previous research, indeed:

- Arnoldo Mondadori is characterized by a chairman who has all the powers of ordinary and extraordinary administration and a CEO who only has powers of ordinary administration in specific functional areas.
- Monrif has a BoD characterized by the phenomenon of the CEO duality.

- Class Editori has a board structure that is exactly the opposite of Mondadori's one, in fact, the chairman has no power while the CEO has all the powers of ordinary and extraordinary administration.

The reason why these three companies are chosen is linked to the data in the sample, in fact they are three of the 118 companies in the sample previously analyzed and have the above characteristics for the entire period of analysis (2005-2014) even if in certain years they show small variations linked to the size of the Board of Directors. The reason why this case study is conducted is to respond to the question below and to do this all the financial statements for the entire period (2005-2014) are analyzed. So,

What is the governance structure, among the three defined in the previous analysis, that can achieve a better business performance?

Considering all data extrapolated from the financial statements of the firms concerned in the case study, the best company among the three, based on an average profit margin, an average leverage, an average ROIC and ROE, is Arnoldo Mondadori but there is no valid information that can allow to say which structure is the best observing just the financial statements. If it’s true that the company that has the best performance has also the best corporate governance structure, it should be stated that Arnoldo Mondadori has the best structure of the BoD, but there is no justification or evidence to this statement. The composition of the BoD could impact the company's performance, but it is not possible to observe this correlation in the company's financial statements. The BoD could improve the company's performance by considering the experience and knowledge of the Board members, but it is not possible to see how, by looking only at the financial statements, it could have an impact on performance. The literature has also carried out numerous studies to try to understand if the CG impacts on company performance and has come to the same conclusions said before. The size of the Board, the number of non-executives, the remuneration of executives has no correlation with the company's performance but, certainly a board composed by directors with different background, high knowledge of the industry, characterized by a variety of gender (Gender diversity) (Zattoni, Corporate governance course 2018) could be able to better choose the strategic actions to be taken. With this, the only elements that could imply a correlation between CG and company performance are: The knowledge and experience of the members of the BoD, nothing else.

This allows to understand how the concepts about the board process (Sonnenfeld 2002), board diversity, the relevant work experience of directors and their ability to communicate (Finkelstein and Mooney 2003) are very relevant because a Board of Directors composed giving a lot of relevance to these aspects could lead to a good choice of strategies to be adopted and with this, possibly, to a good business performance.

The whole work, therefore, focuses on two different research:

1. The first is to comprehend the main governance structures present in listed Italian family businesses, trying to understand who holds the decision-making power among the various directors on the Board of Directors.
2. The second is to understand which of the main governance structures of listed Italian family businesses (defined in the first analysis) leads to greater business performance.