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Empirical Investigation of Family Management in Family Businesses in Italy

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Introduction

The thesis project I've developed is focused on Family Firms. In particular I decided to focus of the management and corporate governance mechanisms in order to understand how and in which way these can affect performance. I decided to analyze family businesses in order to better understand what characteristics make them unique and always competitive on the market. Suffice it to say that some family businesses around the world were founded more than a thousand years ago. Moreover, this type of company has historically found particularly fertile ground for development in Italy. My research is divided into four parts and a study case at the end.

The first one is focused is a theory part. In this chapter I decided to concentrate on all the theories, especially Agency and Stewardship, that have been made aroud family business, so to understand if there can be a universal definition of this phenomenon. Then I will briefly introduce with the help of some data the incidence of Family business in Italy and Worldwide.

For the second chapter I decided to give some answers to the essential passage of succession. By talking about some examples of failure about succession I want to sensibilize on the importance of a succession plan, argument that I will analyze also in the study case. The last part of this chapter deals with Nepotism, my idea was to offer a positive view of this phenomen that is always threated like a threat.

Moving on with our analysis, we come to the central part devoted to corporate governance. To deal with this topic I have decided to use Gompers' definition which says that a good corporate Governance is the point of balance between the democratic and dictatorial extremes, this balance will manifest itself with the effective maximization of the wealth desired by shareholders. After using some general theories about it I focused on the entrance of the family into the corporate governance mechanisms. My aim is to understand which are the peculiar aspects detected by the Family Business that make these firms so unique and if in case there are, which are the advantages that bring to them. The thread running through this paragraph is the ownership issue, that distinguishes the firms by a threefold order of reasons: degree of ownership, type of ownership subjects and role of ownership in the company's choices.

One of the peculiarities I decided to talk about are the governing bodies that are proper of the Family Firms. The idea behind these institutions is that is not always possible to keep the family sphere separate from the corporate one, since an incorrect design of governance rules can lead to imbalances and management inefficiencies.

Finally, in order to offering some alternative solutions for leading, I analyze the institution of Family Holdings and CoCeo that can help Family Business to have a support from an external third part in leading the company. To better understand other form of governance I also provide a practical example of SAPA institution in the Agnelli's family whose reason to adopt it is due to the twofold necessity of managing the interests in the family business of a large number of people and ensuring that the control of the family business remained within well-established boundaries. Sapa's advantage lies precisely in being able to establish by statute, on the one hand, which people, among the participants, have among their powers those relating to the management of the company and therefore of the business and, on the other hand, which is the regime of circulation of shares and the related pre-emptive rights due to family members.

The final part is the quantitative one. For the last two chapters I provide a database composed by 196 Italian listed Family Firms. The research, as I said before, has the aim of understanding if there are positive correlations between some peculiar characteristics of Family Business and performance. For this reason for the perfromance I decided to use 15 KPI taken on Thomson Reuters Datastream for the period 2005-2014. Is important to say since now on that not alla the data were available for all the years so obviously it must be taken into consideration the possibility that the results I reach can have sono limitations. Moreover the KPI I analyze also other aspects such as: founder role, to see if this latter is also Ceo and if he is still present in the Board of Directors. I find which generation has the primary role of guiding teh company and finally linked to the last part of the second chapter I see also if the Ceo is internal or external and the percentage of shares that he owns. For collecting all these data I use companies' corporate governance relations, media articles and AIDA database. I divided the sample by making three different questions.

I analyze the importance of the founder, by comparing performance between companies in which the founder serves as Ceo and companies in which this role is served by other generations or by a third person external to the company.

The second issue is the analysis of the performance between the different generations and finally by using data about the percentage of shares I found. I analyze if the Ceo-shareholder can give some benefits to family firms, understanding also if this shares' percentage is different between family and non-family Ceo.

At the end I've made a comparison between two masterpieces of the eyewear industry that are: Safilo Group and Luxottica. By using the example of these two firms I try to analyze two different way of managing the succession process, one that has already been developed and the other that is still under development.

Chapter 1

1.1 Definition of Family Firms

David Landes, a well-known economist, and professor in his book, Dynasties, asserts: “You could write a respectable history of capitalism through the lens of family histories. You could write an equally respectable survey of the state of modern capitalism by telling the story of a dozen family firms.”[1]

According to a study carried out by The Economist, 90% of companies worldwide are family businesses, so it is fair to say that family businesses are the engine of the whole world economy. But what are the peculiar characteristics of these companies that distinguish them from non-family firms? Above all, there is certainly a strong desire to share with the whole family the same goals and aspirations, it is precisely this transmission of values and precepts between one generation and another, as a father extends his hand to his son day after day, which leads family businesses to success over the years.

Although there are many family businesses around the world with a longevity of more than a thousand years, academic interest in this phenomenon emerged only a few years ago. Previously, family businesses were thought to be inefficient and doomed to disappear as they were unable to keep up with the ever-changing economic environment in which they operated. This negligence has often turned into the sole interest of the managerial enterprise, as it was considered worthy of more attention. Today we can say with certainty that the academics of the past were wrong, because, as we will see better later with numerical evaluations, family businesses are an entity at the base of the Italian and international economic fabric.

There are, however, two critical points on which we must focus our attention, which partly justify the lack of trust placed in family businesses over time. The first is a tendency to make the concept of family and the importance of the latter prevail at the expense of a business. This is reflected from a managerial point of view in an idiosyncrasy towards openness to external managers that can undermine the family and financial strength of the entire company.

1 D. Landes, Dynasties: Fortunes and Misfortunes of the World's Great Family Businesses (2006)

Secondly, the impossibility of foreseeing family quarrels that would compromise the solidity of the company, as the human factor in this reality is more crucial than ever.

As mentioned in the previous paragraph, the interest in family businesses has only emerged in the most recent period, and precisely after the Second World War onwards; linked with this delay there is certainly a heterogeneity that distinguishes this type of business in several aspects, first of all, differences about management, structure, size, and governance. Therefore, we can deduce that having a univocal definition of the family business is impossible. In the next paragraphs, we will try to reconstruct the history of the academic interest that has focused on this phenomenon, starting from more general definitions up to the detail through an analysis of the peculiar characteristics of these enterprises.

Over the years, many have tried to give a definition of family business that was unique and universal for everyone. Firstly, in the studies that had been carried out was the idea that the family business was considered a sub-category of the core concept of "company", a sub-category that in any case had distinctive and characterizing elements which allowed it to be distinguished from the others, even though it was a weak one. Academics immediately understood that the main focus had to be placed on the distinction between two institutions behind family businesses: the business and the family, which had distinct structures and characteristics.

We can say that there has been a slow evolution of thought that has been perfected and expanded over the years. The first approach was of a mono-variable type, i.e., oriented to consider the enterprise as a family that is seen in a single entity. One exponent of this thought was Barry who defined it as: "A business that, in practice, is controlled by all the members of a single-family"[2]; this vision was criticized because it was considered completely restrictive and devoid of specifications, also presenting limits in case there was a single owner or in the case of people outside the family involved in the management and ownership of the business.

A further definition for which it is possible to make the same discourse is the one given by Dell'Amore, who believes that the shareholders and workers within the company belong to a single-family or a few of them connected by ties of kinship or affinity[3].

2 B. Barry, The Development of Organization Structure in the Family Firm, 1989

3 G. Dell'Amore, Le fonti del risparmio familiare, Giuffrè, pag. 36 (1962)

If one refers to the family as the only source of capital and work have done, there is a complete overlap between the members of the family and the company, in this sense it will not be possible to ignore the identification of small family businesses as the only family businesses, limiting the number of employees to the number of family members.

A second hypothesis is that of those who broaden the definition of the family business by using the concept of "conditioning", given the influence that the family can exert on the business. Concerning this school of thought, it is worth mentioning the thought of Professor Davis who defined the family business as: "One where politics and business management are subject to significant influence by the members of one or more families"[4]. This extends the scope of the family business concept to include larger companies that can be significantly influenced by the family members, however, there is still a lack of clear criteria for determining the influence and degree of influence of a family on a business.

From this first approach, we move towards a multi-variable one. The theorists of this model were Shaker and Astrachan who in 1995[5], were able to establish what was the real degree of influence of families in companies, and then provide, from this indicator, different interpretations and definitions of a family firm. For doing so they use certain parameters such as the effective control of strategic decisions, the intention to remain in the family, the founder or descendants who manage the company, the legal control of voting shares, the family directly involved in ownership and management. Remaining always within multidimensional approaches, some authors decided to measure the conditioning through the triple level of ownership, governance, and management of the enterprise[6].

These reflections were then flanked by broader studies in Corporate Governance: the latter was examined in a twofold way, both as the composition of the corporate structure and as its stability and the basis of the differences between alternative forms of enterprise. Therefore, we can distinguish different cases such as those in which the shareholding structure is unitary and

4 P. Davis, Realizing the Potential of the Family Business, in Organizational Dynamics, n. 2, p.47 (1983)

5 The Family Universe Bull's Eye", the graph they constructed, shows just how the different definitions of family business influence the universe. In J. H. Astrachan, M. C. Shanker, Myths and realities: Family businesses' contribution to the US Economy. A framework for assessing family business statistics, in Family Business Review, 9(2), pages. 107-119 (1996)

6 P. C. Rosenblatt, L. De Mik, R. M. Anderson, P. A. Johnson, The family in business: understanding and dealing with the challenges entrepreneurial families face, Jossey-bass, San Francisco (1985)

monolithic (belonging to an individual or a family) from those in which it is articulated among a plurality of subjects, as well as cases in which the structure tends to be stable and those in which it is constantly modified. From here, besides the model of the company with widespread ownership (with pulverized ownership, the so-called public company) and the one with restricted ownership (with a small nucleus of stable shareholders, the so-called associated company), the owner's company is identified, characterized by the high concentration of ownership, enclosed in a few hands, by the prevalence of family control and by the presence of one or more capital holders in the management[7].

These different interpretations of corporate governance configurations make it clear that a definition is more necessary than ever from both a theoretical and an empirical point of view, as differences exist not only between the different categories of companies but also within them. For this reason, the greatest difficulty to face in the study of family firms is to understand the boundary between a family business and an individual one, i.e., one that belongs to its founder (what in Anglo-Saxon literature is identified as entrepreneurship), in which family members start working.

The last element that takes over in our analysis is what is called "potential for generational transfer", i.e., the will or rather the intention to transfer the activity to the heirs within the same family. This concept contains the most fitting description of a family business, both in a defining field and in terms of behavioral models, organizational and decision-making structures, passing through all the problems that arise during the life of a family business. The moment of succession is the moment of greatest change within a company where we frequently witness the overwhelming overlapping of family and economic interests.

We can, therefore, say that the considerations we have conducted so far lead us to say that it is legitimate to speak of a family business when the following conditions occur simultaneously:

- When a single person, or a family, or several families (if linked by family ties) hold a total or majority share of the risk capital or, in any case, sufficient to ensure control of the enterprise

7 G. Donna, La creazione di valore nella gestione dell'impresa, Carocci editore, pagg. 43-53 (1999)

- When members of the owner's family (or the founder's family) are present in the management and governing bodies or, in the case of smaller enterprises, work within the enterprise
- When there is a clear intention, on the part of the founder or founding family and/or owner, to pass the business on to the next generation.

The last two contributions to our research that we are going to examine are those of Professor Corbetta, who, feeling the need to make classifications that take into account the combination of factors, such as the stage of development, the size of the company, the generational phase, the ownership structure and many others, decided to consider three variables: a *model of capital ownership*, *presence of family members on the Board of Directors* and *management bodies* of the company and the *size of the body* identifying for each of the three or more different measures:

- Domestic family businesses, with absolute ownership (only one owner) or restricted ownership (several owners, but not many), small size, with total presence of family members in the government and management of the business
- Traditional family businesses, different from the previous ones in terms of size (larger) and the presence also of members outside the family in the management bodies.
- Enlarged family businesses, with capital owned by a larger number of people (always within the family) and the presence of non-family members on the Board of Directors.
- Open family businesses, large and with people who are not descendants of the founder as owners of capital shares.

These types of businesses are not only separate entities in their own right but can also be considered as consecutive stages through which the family business can develop and grow. From a different perspective is the framework that Carlock and Ward proposed relying on four variables: the family, the sector, the organization, and the individual, considering the influence that each of them had on the ownership configuration of the family business. Each variable is dynamically analyzed according to the life cycle presented[8].

As much as we have tried to clarify the concept of a family business, we have been able to see that it is very complex and sometimes reductive to search for the "univocal" definition that

8 R. S. Carlock, J. S. W, Strategic planning for the family business, Palgrave Macmillan, page. 26-27 (2001)

academics longed for so much, it is necessary to understand each time which are the variables to be taken into account and the relevance that these variables have in the life cycle of the companies to be able to sew a proper definition of the family business when we are dealing with it.

1.2 Family Business Worldwide

The myth of large multinational corporations created for a long time the belief that modern industrial systems would lead to the progressive decline of family businesses and the transition of them into managerial firms. While many theses are adverse to the survival of family-owned enterprises, family businesses continue to play a crucial role in the modernization of the advanced economies. In particular, the ability of the family to provide entrepreneurship is recognized as a key aspect in the development of Western capitalism.

Starting from a general analysis, in a research conducted by Dreux (1990) and Gersick (1997), it was estimated that the population of businesses owned or controlled by families around the world is between 65% and 80%. According to the Family Firm Institute, family firms account for two- thirds of all businesses around the world, and 70% - 90% of global GDP annually is created by family businesses. Moreover, family businesses are expected to reinforce their prominence in the next 10-15 years, especially due to the growth of emerging economies, where large companies are often family firms[9].

In more recent research, Gomes-Mejia et al.[10] found that the diffusion of family firms ranges between 20% and 70% around the world, depending on both the country of origin and the operational definition adopted in the study. For instance, in Asia and the Middle East, they account for 95% of all firms[11] while in the U.S. they represent around 70% of all publicly

9 Elstrodt H.P. and Poullet J.M. Perspectives on Founder and Family-Owned Businesses, McKinsey Quarterly, 4-14 (2014)

10 Gomez-Mejia L.R., Haynes K.T, Nunez-Nickel M., Jacobson K.J.L., and J Moyano- Fuentes, Socioemotional Wealth and Business Risks in Family Controlled Firms: Evidence from Spanish Olive Oil Firms, Administrative Science Quarterly, Vol.52(1), 106-137 (2007)

11 Kets de Vries, Carlock, and Florent-Treacy, Family Business on the Couch, A psychological Perspective (2007)

traded firms[12]. Contrary to common belief, family businesses are not only SMEs also in the US: about a third of the Fortune Global 500 companies and S&P 500 firms are founder or family-controlled (Anderson & Reeb, 2003).

According to EY Family Business Yearbook (2014,), the distribution of family business in the various continents is the following: 90% in North America and the Middle East; 85% in Europe, Latin America, and Asia-Pacific. According to the Family Firm Institute, the incidence of family-business as a percentage of all companies is 85.4% in China (in private enterprises) and at least half of all companies in the US are family firms. In the private sector, family businesses account for 69% in Belgium, 76% in Spain, 79% in Sweden, 80-90% in the US, 93% in Italy, and 95% in Germany. Some snapshots about the relevance of family firms in Europe are the following:

- They represent 85% of all European companies
- They create 40-50% of all employment
- European family businesses represent 1 trillion Euros in turnover (60% of all European companies)
- UK family firms generate 25% of the total UK GDP

Comprehensive research about the presence of family-businesses in Europe was carried out by IFERA: Germany emerges as the country with the highest incidence of family-businesses (84%), while France with the lowest (60%). Finally, the data processed by the study center on family business "Di padre in figlio" reveals the weight of family businesses in the world, which is so distributed in the most relevant countries:

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12 Sirmon D.G., Arrègle J-L., Hitt, M.A., and Webb J.W., 2008a, 2008b, The Role of Family Influence in Firms' Strategic Responses to the Threat of Imitation, Entrepreneurship Theory and Practice (2008)

Table 1: Percentage of Fb on the Total and Contribution on GDP per Country

Country	*FB on the Total %*	*Contribution FB on GDP %*
USA	96	40
Australia	80	50
Chile	75	50-70
Italy	90	80
United Kingdom	70	65
France	60	60
Portugal	70	60
Spain	75	75
Belgium	75	55
Germany	60	66
Finland	70	40-45

Source: Data taken by Reasearch "Di padre in figlio" (2002)

Thus, these data allow exploding the (false) myth that large multinational corporations would lead to the progressive decline of family businesses and their transition into public companies. In 2014 the Economist dedicated an article to family firms entitled "There are important lessons to be learned from the surprising resilience of family firms", showing that the proportion of Fortune Global 500 companies that can be considered as family companies increased from 15% in 2005 to 19% in 2014. According to Corbetta (2015), this increase depends on booming economies such as China, India, Brazil, and South Korea, where large companies are often family firm[13].

Finally, data show that family firms recognized good financial performance, even in times of crisis. According to the "Global Family-Owned Businesses Index" calculated by CSFB, the value of family business shares increased after 2009 more than the "Morgan Stanley Capital International" (MSCI) Index companies' shares.

1.3 Family Business in Italy

According to the most recent EY Family Business Yearbook (2014), there are approximately 784.000 family businesses in Italy which represent over 85% of all companies, a figure close to the ones observed in other Western-European countries (80%), Germany (90%), Spain (83%) e UK (80%). This figure is quite close to that of the Family Firm Institute, which detects an incidence of 93%. The firms are so distributed on the Peninsula: 74% of family businesses are located in the North, 16% in the Centre, 10% in the South and the Islands.

Besides, the figure shows that the most familiar sector is manufacturing, followed by trade, financial and real estate activities, construction, transport and logistics, business and other services, energy, and mining. The most up-to-date research has found that family businesses are more present in labor-intensive rather than capital-intensive sectors. In the former, operating especially in traditional sectors, less investment in technology, less risk orientation in competitive strategies, and high labor utilization are required. On the other hand, interactive capital sectors are characterized by greater recourse to capital and operate mainly in technologically more advanced departments.

The AUB Observatory on Family Firms[14] analyzes that the Italian businesses with a turnover exceeding the threshold of 20 million euro are 15,722, out of which more than 10,000 (65.1%)

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13 The surprising resilience of family firms Lectio Inauguralis “AIDAF-EY Chair in Strategic Management of Family Businesses” in memory of Alberto Falck, (2015)

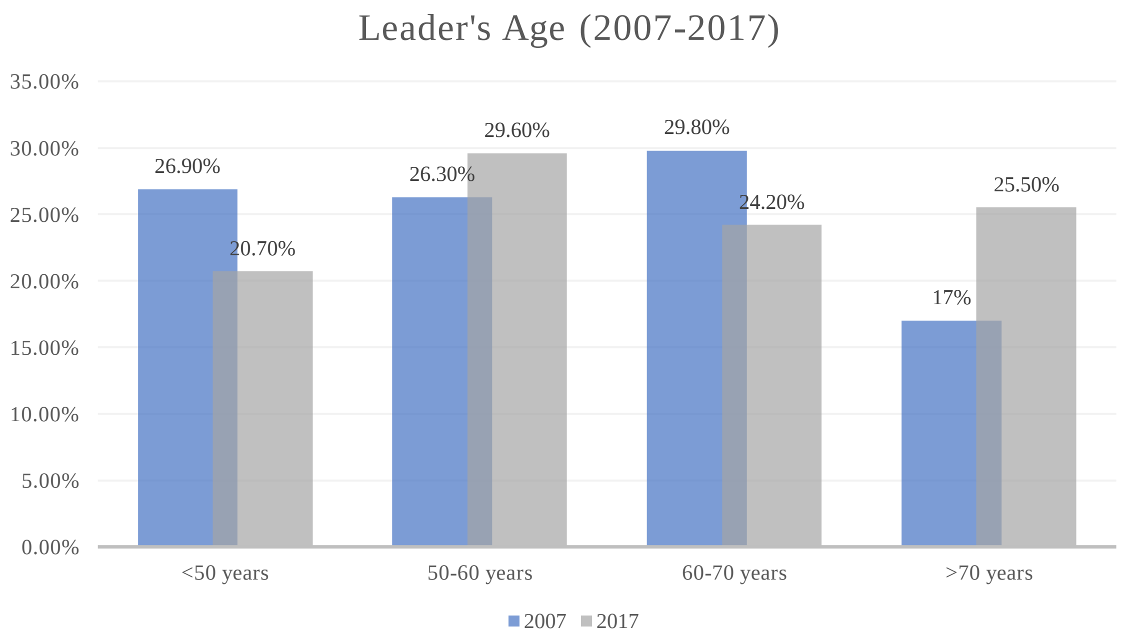
14 The AUB Observatory, launched in 2009 by AIDAF (Italian Association of Family Businesses), by the AIDAF-EY Chair in Strategic Management of Family Business (Bocconi University), by the UniCredit Group, with the support of the Milan Chamber of Commerce (CCIAA) and Borsa Italiana, monitors all Italian family-owned businesses with turnover exceeding the threshold of € 20 million

are family-controlled firms. This percentage is gradually increasing in smaller companies, passing from 59.0% in medium to large-sized companies (with turnover higher than 50 million euro) to 70.1% in the smallest companies (with a turnover of between 20 and 50 million euro).

Finally, we show that family firms recognized good financial performance. Also, in the Italian context, the AUB Observatory found that family firms have had a significantly and consistently better performance than non-family firms during the financial crisis. Family businesses outperformed other types of companies in terms of employment (with a 5.3% CAGR between 2010 and 2014, versus 1.2% for non-family firms). This shows that even in time of financial crisis family-controlled companies give particular attention to employment policies and they are fundamental to guarantee the sustainability of the Italian financial and welfare system. Moreover, about the managerial aspect, it is important to point out two relevant issues.

The first one is that in Italy compared to other EU countries there is less recourse to external managers by families, according to a research carried out by European House Ambrosetti for Federmanager, in fact, in 7 out of 10 companies the entire management is an expression of the family, instead of being recruited on the market as happens among foreign competitors. This behavior generates a twofold problem, on the one hand, of productivity, which has worse performances, and on the other hand, it creates a negative impact on the role of meritocracy, which is put aside. From this, it emerges that in companies where control remains firmly in the hands of the family there is less professional mobility and career expectations remain lower. While the second one is that in the last decade leaders over the age of 70 have increased by almost ten points, a symptom that many companies do not yet feel ready to entrust the management to the second generation completely but try to lead them for as long as possible. When comparing empirical data on performance and employment, it is necessary to underline that for a family business is more remunerative to have a contribution from family and external management.

Table 2: Leader's Age in Family Firms in the period 2007-2017



Source: X Osservatorio AUB

From a return-on-investment perspective, there is a persistent positive profitability gap between family and non-family businesses between 2007 and 2014: family businesses have recorded, on average, 1 point higher than non- family counterparts in medium and large-sized companies, and 1.2 points in small-sized firms.

From a financial point of view, family businesses show to be less dependent on debt in comparison to non-family companies. In a ten-year-period Italian family business showed a lower level of debt than non-family ones. Moreover, to preserve profitability undermined by the crisis, family firms reduced considerably their leverage ratio[15].

These results are consistent with family business literature. For instance, Anderson and Reeb argue that family business outperforms nonfamily businesses in term of financial and market

15 Family firms with a turnover higher than € 50 million passed from a ratio of 6.7 in 2007 to 5.0 in 2014, while the ratio in firms between € 20 and 50 million passed in the same period from 7.9 to 5.7

result[16]. Gómez-Mejia et al.[17] stated also that family businesses are less likely to bear additional risk through debt. A high level of debt could determine a reduction of the decisional autonomy of the family and the entrance of new players within the stakeholder system. Moreover, control risk increases with leverage because of the higher probability of bankruptcy, and family firms are debt-adverse due to the risk of losing control. Thus, the fear of losing the company control explains why family businesses tend to incur low levels of debt and to preserve a sustainable financial position.

Since my research is purely about listed companies, it's only fair to say a few words about them. According to Consob data, 60%, equal to 226 companies, of the companies listed on the Italian Stock Exchange has a family as the first shareholder. Not only do family companies make up the majority of companies on the stock exchange, but they are also the preferred ones by shareholders, as confirmed by Credit Suisse in a study in 2018. The report said that family businesses "have a conservative, longer-term approach" and "generate higher revenue growth in all regions and higher levels of profitability"[18]. This leads them to be less dependent on external debt financing, so the profitability of equities is not affected by quarterly results.

1.4 Stewardship & Agency Theory

Theories about long-term orientation are mostly based on the assumption regarding family members' behavior in managing the firm. What it is assumed is that the employees and the managers within the family enterprises will act following the firm's interests and not the personal ones (Davis et al., 1999). This should take place thanks to the higher sense of belonging and the trusted relationship that develop in this type of firm. The line of thought that supports the presence of this type of conduct is the so-called "stewardship theory". According to this theory, the expected behavior adopted by the members of the firm may lead to a

16 Anderson R.C., Reeb D.M. and Zhao W. Family-controlled Firms and Informed Trading: Evidence from Short Sales, Journal of Finance, Vol. 67 (1), 351-385 (2018)

17 Gómez-Mejia, Cruz Cirstina and Berrone Pascual, Sociemotional Wealth in Family Firms: Theoretical Dimensions, Assessment Approaches and Agenda for Future Research, Family Business Review (2011)

18 The CS Family 1000 in 2018, Credit Suisse (2018)

reduction of agency costs, which are defined as the costs occurred due to information asymmetry and divergent interests between the principal and the agent, as argued by the agency theory.

The latter presents reasonings that are opposed to the stewardship ones the agency theory is based on the belief that each figure within the firm will act selfishly in the attempt to maximize his or her interest (Jensen, Mackling 1979). "When a firm grows beyond the means of the owners, they contract with executives who will manage the firm on their behalf. In this way the owners become principals and the executive becomes an agent. The latter is morally responsible to maximize shareholder's utility; however, executives accept agent status because they perceive the opportunity to maximize their utility" (Davis et al., 1997). The problem that arises under this condition is that the interests of the principals and the agent might diverge and be conflicting, endangering the productivity and the efficiency of the firm. In the event of this situation, owners will attempt to control agent behavior by adopting specific instruments, that entail the introduction of the abovementioned agency costs.

Villalonga and Amit analyze four main agency problems that can arise in a family firm.

The first one (Agency Problem I), is the conflict of interest between owners and managers, which results from the separation of ownership and control first denounced by Berle & Means (1932). The essence is that if an owner delegate to a manager his job this latter is likely to pursue his interests, which are different from the principal's. One way to mitigate this problem is by ownership concentration. As we can see when ownership is concentrated in one or a small group of owners, those owners will have the possibility and the incentives to at least monitor the manager so that he does not deviate too much from the principal's objectives, and family ownership is a particular case with it. Consistent with the notion that family ownership serves to mitigate Agency Problem I, McConaughy, et al. (1998) and Anderson & Reeb (2003) find that family businesses outperform non-family businesses. On the other hand, Holderness & Sheehan (1988) find the opposite result. Villalonga & Amit (2006) reconcile their findings by distinguishing among three elements in the definition of a family business: *ownership*, *control* (above ownership), and *management*.

They find that family ownership per se creates value and that family control over ownership destroys value, although not enough to offset the positive effect of ownership. On the other hand, the performance effects of family management are large enough to overpower those of the other two elements, but their sign is entirely contingent on the CEO or chairman's generation: relative to non-family businesses, founder-led firms outperform, while descendant-led firms underperform. As a result of these effects, they find that, just as with the question of family firms' prevalence, the answer to the question of whether family firms are better or worse performers than non-family firms are contingent on how family businesses are defined. Family management thus has the potential to create value by nipping Agency Problem I at the bud reducing or eliminating the separation between owners and managers. However, the agency benefits of family management have to be traded off against its costs if family managers owe their jobs to sheer nepotism as opposed to meritocracy and are of inferior quality to hired professionals, as modeled theoretically by Caselli & Gennaioli (2013) and Burkart et al (2003).

The empirical evidence about the impact of family management on performance suggests that the aggregate balance of this trade-off is positive (e.g., Anderson & Reeb (2003a) for the United States, Maury (2006) for Europe). Upon careful inspection, however, the sign of this relationship has proven to be contingent on the manager's or family firm's generation relative to the founder. Consistent with the view that family management mitigates the classic agency problem, Morck et al. (1988), Villalonga & Amit (2006), Palia et al. (2008), Fahlenbrach (2009), and Adams et al. (2009) find that U.S. firms whose founder serves as CEO trade at a premium relative to other firms (both family and non-family). Subsequent studies have found similar results around the world. In contrast, Villalonga & Amit (2006) find that U.S. family firms whose CEO is a descendant of the founder underperform all other firms and that this effect is entirely attributable to second-generation family firms.

The second Agency problem that occurs is the conflict of interest between controlling (family) shareholders and non-controlling shareholders. This second type occurs when the large shareholder may use its controlling position in the firm to appropriate what Grossman & Hart (1980) label “private benefits of control,” at the expense of the small shareholders. In family firms not only are the benefits of the concentration of power accentuated but also its costs. The main difference in having a large shareholder such as a bank, state, or institution compared to having a family lies in the fact that in the former case the expropriation of minority rights is lost because it would be diluted. Whereas in the second case the incentives for both expropriation and monitoring are strengthened.

Maury & Pajuste (2005), Andres (2008), and Caprio & Croci (2008) provide evidence of this comparative effect, although they reach opposite conclusions about the net effect of enhanced expropriation and enhanced monitoring. Whichever of these two effects dominates, the conclusion is the same: in family firms, more than in any other corporation with concentrated ownership, Agency Problem II is likely to overshadow Agency Problem I.

This problem, as Morck et al., argue can also have some macroeconomics implications if few families control large swaths of the economy, these problems can affect rates of innovation, economy-wide resource allocation, and economic growth. A phenomenon called *economic entrenchment*. However, in the real world is find out that countries with high family incidence have other types of problems such as low compliance with tax laws, high official corruption, smaller firms, and capital markets, and low levels of per capita GDP.

The third agency problem is the conflict of interest between shareholders and creditors. From an agency theory perspective, debt has both benefits and costs. On the benefits side, debt can be used as a governance mechanism to attenuate Agency Problem I. On the costs side, debt creates a new conflict of interest, between shareholders and creditors. Fama & Miller (1972), Jensen & Meckling (1976), and Myers (1977) discuss the two forms this conflict of interest can take the so-called asset substitution or risk-shifting effect and the underinvestment that can result from debt "overhang." Anticipating these situations, creditors will charge higher premiums and thus increase the firm's debt financing costs. Anderson et al. (2003) argue that family shareholders' objectives such as ensuring the long-term survival of the firm, preserving the family's reputation, and keeping the firm in the family, together with the undiversified nature of their holdings in the firm that results from those objectives, make controlling families more likely to maximize firm value as a whole rather than shareholder value. Thus, the divergence of interests between shareholders and creditors will be less severe in family firms than in non-family firms. Consistent with this view, they find that founding family ownership is associated with significantly lower costs of debt. However, and consistent with the findings in Villalonga & Amit (2006), they also find that this cost advantage is attenuated when the family firm is run by a descendant-CEO but not by a founder-CEO. The amount of debt held by family firms relative to non-family firms, which is a necessary condition for the existence of Agency Problem III and another indication of the potential magnitude of the conflict, is not so clear. On the one hand, families' desire to avoid dilution in their equity stake and their lower cost of debt would suggest they might have higher levels of debt relative to non-family firms. On the other hand, the same unique family objectives that make their incentives more aligned with those of creditors (concern with long-term survival and reluctance to share control with, or accountability to, outside capital providers in general equity or debtholders) would suggest that they should be less leveraged.

Altogether, the empirical evidence about Agency Problem III in family firms suggests that family shareholders' incentives are better aligned with creditors' than those of other types of shareholders, which gives them better and cheaper access to credit.

The last Agency problem is the conflict of interest between family shareholders and family outsiders. The family at large can be thought of as a "super-principal," while family shareholders, in this case, act as an agent for them as agents of the family to which they belong, family shareholders are for instance “entrusted” with preserving and enhancing the family legacy, given that the family firm (over which shareholders are “delegated” control by the family) is central to that legacy. However, family shareholders, being part of the larger family group, are likely to share some or all of their principal’s objectives, but they are also likely to have some objectives of their own that may conflict with those of the family at large, e.g. maximizing financial returns, increasing distributions (which may limit firm growth), or having liquidity and exit options (perhaps at the expense of losing control of the family firm).

On the other hand, the agency costs are of two different types, as D’Angelo et al. define them:

- Type I: called also principal/agent problem, costs related to problems of moral hazard and adverse selection.
- Type II: called also principal/principal problem, where minority investors have weaker incentives to monitor managers and outsiders also run the risk of being exploited by other investors with bigger stakes and who may enjoy private benefits from their control.

This scenario might not be conceivable in family firms where there is a total overlap between ownership and management, but it could represent a huge obstacle in the cases where the owner's family chooses to enroll an external figure to manage the business. In any case, agency theory is useful to better understand the reasonings that have been brought to the development of stewardship theory. Adopting the stewardship perspective, the executives are seen as stewards that will act pursuing the interests of the firm, putting them above their own.

Between self-serving behavior and pro-organizational behavior, the steward's behavior will follow the interests of the business because he or she will gain higher utility by doing so, even in the case where the personal interest departs from one of the firms (Davis et al., 1997). In the specific case of family firms, it is supposed that members will act for the best of the enterprise, because of the personal ties that connect them to the firm and between each other; family's concerns coincide with the ones of the firm and the overlap ensures a higher level of cohesion and lower need to control behaviors. Therefore, it is normal to suppose that Family Firms will mostly follow the stewardship theory, even though there are also cases where family firms do not possess a stewardship culture (Eddleston et al. 2010). Miller, Le Breton- Miller and Scholnick (2010) explain better how stewardship manifests itself in family firms: resuming the study done by Miller and Le Breton-Miller (2005a), they argue that in family firms' stewardship can assume three common forms:

- Continuity: ensuring the longevity of the company also for the long-run benefits for the members of the family.
- Community: for guaranteeing the continuity of the firm the family might stimulate the formation of motivated, well-trained, and loyal staff and the creation of internal connections that are not only professional but also personal.
- Connections: creating strong relationships with external stakeholders becomes extremely important, mostly in times of trouble. The development of a network based on trust and loyalty allows the family firms to get access to new resources and opportunities, fundamental for their growth.

For the asset and the theoretical implication, stewardship culture represents one of the pillars for the construction of families, and consequently of the competitive advantage of the firms. Nevertheless, the establishment of this cultural model might bring some negative consequences. The other side of the coin is that stewardship culture implies, in some cases, the adoption of decisions or strategies that cause stagnation (Miller et al., 2008). The intimate attachment to the firm is reflected in a tendency to preserve the family business and ensure its longevity, but the excessive safeguard of the health of the company means also a higher risk aversion. In this way, stewardship culture might materialize with family ownership and management that curtail the firm's ambitions and opportunity to encourage the maintenance of a conservatory approach, impedes access to capital, and precludes the possibility to grow and be more competitive.

Miller, Breton-Miller, and Scholnick have analyzed both perspectives and have tried to synthesize the literature about them. Basing on the studies of their sample made of small, private businesses, the authors found out that stewardship perspective has a strong response in the family firms' dynamics concerning continuity, community, and connections: almost all the companies presented "long term preservation and nurturing of their business and its markets, the fostering of talent and effective deployment of employees, and an emphasis on growing and sustaining relationships with clients"[19]. At the same time, they did not notice any substantial differences between family and non-family businesses about market myopia, that might be caused by the higher risk aversion, or tendencies to conservatism.

Consequently, it has been proved that there are no effective reasons to support the stagnation perspective. In other words, the adoption of stewardship culture may spur family businesses to create technological and economic wealth within their communities, guaranteeing positive support to their growth. However, despite this, it is crucial to remember that this is not a universal truth: other elements such as family conflicts and the act of transferring ownership to subsequent generations may instead increase the agency costs because of the family member pursue of personal interests and economic wealth increases[20]. Steward perspective can have a positive impact on the firm only if it is accompanied by participative strategies, aimed to avoid power concentration, and strong feelings of trust and loyalty to prevent relationship conflicts that could deteriorate performance[21].

19 Miller D., Breton-Miller I., and Scholnick B., Stewardship vs. Stagnation: An Empirical Comparison of Family and Non-Family Business (2007)

20 Mitter, C., Duller, C., Feldbauer-Durstmuller, B., Kraus, S. Internationalization of family firms: the effect of ownership and governance, Review of Managerial Science, January 2014, Volume 8, Issue 1, pp 1–28 (2014)

21 Eddleston K.A., Kellermanns F.W., 2007. Destructive and productive family relationships: A stewardship theory perspective. Journal of Business Venturing 22 545–565 (2007)

1.5 Sew Perspective

The specificity of family firms' inner dynamics generates uncertainty and several difficulties in the definition of rules that can be adopted universally. As it is possible to notice also by the different theories abovementioned, various theoretical lenses have dominated family business research, but none of them provides consistent theoretical predictions regarding the effect of family management on performances. For this reason, Sciascia, Mazzola, and Kellermanns (2014) have introduced the so-called socioemotional wealth (SEW) perspective that refers to all nonfinancial aspects of the firm that meet the family's affective needs and may influence the firm's performance such as identity, status, ability to exercise influence, and perpetuation of the family dynasty. SEW perspective is based on five factors: family control and influence over the company; identification of family members with the firm; binding social ties; emotional attachment of family members; and renewal of family bonds through dynastic succession[22]. This perspective can be used, for example, for better interpreting the effect of the generational step, which is defined as the generation that controls and manages the family business[23].

According to the authors, the previous theories adopted are not useful for explaining the effects of the family board, also regarding the differences between first, second, and multigenerational family firms. The literature has recognized a negative effect to generational step, because later generational stages are assumed to be less productive, as a consequence of the lower quality of the relationships among family managers, which in turn is due to higher conflict levels and lower trust. The most important contribution of the SEW perspective is that, differently from the agency costs, stewardship, and resource-based theories, it helps to identify those situations in which family managers are more oriented to the increase of financial wealth or the preservation of the socioemotional wealth. In the specific case of the effect of the generational step, Sciascia, Mazzola, and Kellermanns show that even with later generations there is a positive correlation between family board and profitability. Adopting the SEW perspective

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22 Berrone, P., Cruz, C., & Go´ Mez-Mejia, L. R. Socioemotional wealth in family firms: Theoretical dimensions, assessment approaches, and agenda for future research. Family Business Review, 25(3), 258–279 (2012)

23 Cruz, C., & Nordqvist, M. Entrepreneurial orientation in family firms: A generational perspective. Small Business Economics Journal, 38(1), 33–49 (2012)

they conclude that even if the sense of attachment and belonging to the firm might be lower, the later generations will simply substitute the pursue of SEW with a stronger pursuit of financial returns, ensuring the profitability and productivity of the firm.

Chapter 2

"It is not the strongest of the surviving species, nor the most intelligent, but the most reactive to change".

(C.Darwin)

2.1 Introduction and Theories

In this section of my research, I will focus on the passage from a generation to another. For doing that I decided to analyze all the theories about this issue to understand all the passages that characterize this important moment of a family business's life cycle. I intend to explain why there are so many problems, which are the causes, and how each firm can deal with them.

Bigliardi and Dormio state that: "During recent years, there has been a growing interest in the study of Family Businesses. Notwithstanding, little attention has been paid to succession planning, and only a few studies tried to identify which factors influence its success"[24].

The ties that develop between the partners and between them and the company are deep and long-lasting, especially in the case of a family-run business; this is why leaving the ownership structure is difficult for both economic and emotional reasons.

There are only four possible alternatives to allow generational change:

- Cessation, preferably to be achieved in the case of a lack of management turnover planning or the presence of a productive activity impaired by a lack of investments; therefore, ending the activity does not result in a great loss of wealth
- Sale, which is more difficult and painful as the link between family and business grows
- Succession, which involves the transfer of the business to the heirs, with which the family-business relationship is to be maintained unchanged, but which inevitably leads to internal problems between the family members for the transfer of roles
- Transfer, in the absence of heirs belonging to the family, the business is entrusted to trusted persons outside the family

24 Bigliardi B. and Bormio A., Successful Generational Change in Family Business (2009)

Is it interesting to talk about the most challenging alternative: succession. Being a process articulated in time there is no precise moment with which to indicate the beginning, which is why scholars do not have a univocal vision on the subject; nevertheless, most of them agree on the conclusion of this phenomenon, indicating its end with the moment of the handover, i.e. the transfer of ownership and management from the old to the new generation.
It is right, to better lead the succession process, that the entrepreneur is alive, even better if he is also the founder of the company itself since he is the only one who can have an overall view of the company, indicating any strengths but also hypothetical difficulties, such as poorly functioning divisions and/or functions. In this way, the entrepreneur's continued existence during this delicate moment allows the successor to inherit a complete picture of the current situation of the company and to receive the transfer of skills and abilities necessary for the management, from the person who, before him, held the role he is about to assume.
In family businesses, especially in Italy, there is a lack of succession planning. Statistically, it has been analyzed that 95%[25] of successions take place without a will, which shows that planning without being prepared is not one of the most important factors on which Italian entrepreneurs rely. Despite the growth and education of the future leader, only 14% of them have perfected the necessary knowledge and skills.

All this is symptomatic of the low propensity of the entrepreneur to outline his exit in advance, but also for an inadequate formalization of the procedures for carrying out the transfer and for an approximate knowledge of the legal consequences that succession has not only on the company but also on the people involved. For this reason, in addition to underestimating the training, no account is taken of the importance of the time needed for the handover to take place in the best possible way. The entrepreneur's desire to have his children take over the company stems from the desire to give continuity to the company and to preserve the work previously carried out by him. The entrepreneur, with the involvement of his children, aims to pass on the tradition that is the foundation of the company, but he is also aware of the great job opportunity that it offers them.

25 G. Feller, "Impresa di famiglia e passaggio generazionale", Azimut Wealth Management, (2014)

However, as has been said, the process of business succession planning is strongly influenced and often hindered by the entrepreneur's inability to recognize the moment when should withdraw from the active management of his company.
Generation hinders change and innovation since the "mature" entrepreneur is inclined to the security and stability of his company and is risk-averse, therefore, to invest money or incur debts to finance himself. The company is in a state of stasis. To avoid this danger of "paralysis" of entrepreneurial activity, the entrepreneur himself must initiate a succession planning procedure in due course. This procedure should be initiated when the "full maturity" (44-55 years) is reached since the entrepreneur has the right balance between risk and protection of what he owns and is still able to directly follow the education of his children, who are often very young and novice.
In many cases could happen that planning is continually postponed due to a lack of willingness to take over and support succession, or because the entrepreneur does not recognize the need for a change in business life. Succession thus suddenly catches everyone off guard, and if it is not assessed carefully it could lead to inadequate management. In addition to the time factor, clarity is also required to ensure that everything is organized in the best possible way, which is essential for a smooth and straightforward succession process. The entrepreneur does not need to leave the company immediately and completely, the important thing is that he does not interfere directly in the management since this could lead to clashes with the new leader or even conflict with the decision to leave the company and thus confuse the family and employees.
It can be said, therefore, that succession, to be best achieved, must receive the contribution of a multiplicity of actors. However, the presence of an optimal "team working" of all the actors involved does not always make it possible to achieve a fruitful generational change; for this reason, the literature has considered it important to distinguish effective successions from those that have brought dissatisfaction.

Many studies conducted in the early 2000s, such as those of Miller, have found that the main reason for business failure is the inappropriate alignment between the organization of the past generation with the future generation and the constantly changing and evolving market structure.[26]

Further aspects to be taken into account are human and social capital, as these factors influence decisions on the merits of the generational transition. Concerning human capital, it is necessary to identify two dimensions[27]: the generic one, which refers to the education and training received by the successor, which is discriminatory and necessary to choose the new leader and above all to define the roles within the company.

The second component is called specific and is given by the experience of the successor, both entrepreneurial, carried out in the family business, and managerial in another company; even if, usually, for a purely trustworthy fact, the provision of more significant roles takes place within the family business, which involves more responsibilities and consequently a good work experience that automatically increases the human capital of the successor itself, given also the aptitude match with the family business. Higher human capital corresponds to a higher probability of making better choices for the succession process. Social capital, on the other hand, is an expression of the relational skills of leaders. Relationships based on mutual trust foster the performance of family businesses. Therefore, a participatory strategy, i.e. the collaboration of family members, not just colleagues, should avoid the emergence of disputes between them, thus improving business results as the objectives would tend to coincide.

Logically, to be able to say that he or she has an excellent level of social capital, the leader's relationships must be good, not only with family members involved in the management but also with family members outside the company, with employees outside the family and with the various stakeholders.

Succession must be a participatory event for the family, where involvement is necessary to avoid internal conflicts that could call into question the entire succession process. Unlike family members, who in addition to participating have to approve the choices regarding the successor, employees who are not family members are not considered at the decision-making level; on the contrary, they find themselves undergoing the succession process without

26 F. Masciarelli, A. Prencipe, "Dinamiche evolutive delle imprese familiari: il ruolo del capitale umano e del capitale sociale nel ricambio generazionale", Piccola Impresa. (2010)

27 G.S. Becker in the article "Investment in Human Capital: a theoretical analysis", Journal of Political Economy, vol. 70, 9, (1962)

expressing an opinion. This exclusion leads to a *loss of information*, as employees are precisely those who could provide an insight into the company's dynamics. The generation, which is "settled" after succession, finds itself involved in pre-existing relationships, especially those with members outside the family and stakeholders, which were passed on by the previous entrepreneur. Despite the numerous relationships that he receives in "inheritance", the successor must nevertheless expand and update the network, establishing new relationships of collaboration and trust, trying over time to strengthen them. In conclusion, therefore, a higher level of share capital (expanding the network of relationships and information) corresponds to a higher probability that succession will lead to innovation.

Briefly, it can be said that the choice of the heir should fall on a subject who has the best combination of three abilities: the first is learning, i.e., knowing how to understand the specific operating mechanisms of the context in which he finds himself and knowing how to perceive in advance possible signs of change so as not to be caught unprepared for possible problems.
The second is the ability to identify, i.e., the inclination to identify with the company, to accept oneself and be accepted within it; and finally, the last ability to possess is the role ability, i.e. to understand the different conformations of the company positions that the heir will hold according to the situation in which the company finds himself at the time of its achievement. The generational succession must be measured not only by the satisfaction of the predecessor and successor, but it is necessary to take into account the company's performance once the succession has taken place as stated by Sharma[28]. It may happen that passages seemingly successful, in which both satisfaction of the previous leader and complacency of the current one can find problems in the medium-long term and risk failure. Thus, we return to the need for adequate selection of the successor. It is also inadvisable to choose someone as close as possible to the old leader[29] for future management. These errors rule out the possibility for the company to "innovate" since the people in charge of the company's management do not possess great novelty given the similarity in the choices with their predecessors.

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28 Topic covered in the article “Succession Planning as Planned Behavior: some empirical results”, P. Sharma, J. J. Chrisman, J. H. Chua, volume 16 n. 1, (2013)

29 According to M. F.R. Kets de Vries’s research “Prisoners of Leadership”, volume 41, n.3, (1988)

Adizes[30] introduced the idea of the "founder's trap", defining it as the entrepreneur's temperament to hand down the models that have brought success in the past, believing that by implementing them they can still bring others. This undoubtedly compromises the new entrepreneur's vision, leading the company to decline and decay. Ultimately, it is to be hoped that the generational changeover "will be considered and addressed not as a threat, nor as a mere succession to the top, nor, finally, as an opportunity to revolutionize the company, but as a physiological stage in the life cycle of the family business, essential to its evolution and to be integrated into the strategic path that it aims to undertake".[31]

2.2 Succession Management's Description

After a preliminary planning phase comes the most complex part of the succession or the operational phase, which we can briefly list in these points:

- Acquisition of awareness of succession by the entrepreneur
- Research of the entrepreneur's figure within the family
- Degree of transparency of the characteristics that should have the entrepreneur
- How the successor enters and how he should behave
- Entrepreneurial evaluations of the new entrepreneur
- Implementation obstacles to the succession process
- Forms of reaction to change

Planning succession in the family business implies, first of all, that the entrepreneur becomes aware that he or she must one day, in a reasoned way, leave the business without this being a traumatic event.[32] This awareness should mature well in advance of the time when succession is deemed most appropriate, so that succession can be planned in the best possible way. However, self-conviction is difficult to achieve precisely because of the typical characteristics of family entrepreneurship, which wants a centralized entrepreneur who is deeply in symbiosis

30 Management researcher and founder of the Adizes Institute.

31 F. M. Cesaroni, A. Sentuti, "Nuove generazioni ed evoluzione dell'impresa familiare: la sfida della successione imprenditoriale. Analisi di alcuni casi di successo", magazine: Piccola Impresa, cit (2010)

with the reality he governs. For these and other reasons, the entrepreneur will always tend to postpone the problem, not considering the risks his business might run in doing so. Whenever the entrepreneur is fully aware that he or she has to leave the management of the company, he or she will see first-hand the need for his or her succession and will accept, in a spirit aimed above all at governing the succession process, to plan with the management the necessary steps for it to run smoothly. This will be the only modus operandi that the entrepreneur will have to follow. The different degree to which awareness of succession can be felt comes not only from the entrepreneur himself but also from the group of people who work in the family business and who can persuade him to retire, making him understand the problems that could be encountered if he did not. Although these individuals can only advise the entrepreneur in the best possible way, we have once again confirmed that the family is certainly at the heart of everything, but also other individuals who, as part of the company, make up the "extended family".

The question to be asked, at this stage, is whether there is a potential entrepreneur in the family who can express his or her abilities after going through an adequate training process. Especially in small family businesses, the existence of an heir capable of continuing the activity after the withdrawal of the previous leading figure is of fundamental importance, precisely because the company's affairs are often intimately linked to those of its leading man, and it is desirable that this person can be traced within the family that holds control.

In this regard, the literature has identified four paths that can be followed by an heir to demonstrate and develop his skills:

- Start a new business initiative or acquire a new company that fully responds to his entrepreneurial vocations. This is the solution that best of all allows testing the actual management skills of the heir, who is in a position to operate in the best possible way, following his aspirations and proving his worth, regardless of the surname he bears, deserving in the field the respect and trust of his collaborators
- Entrust him, in the same family business, with the development of a new business, of a new territorial area, to face the entrepreneurial reality autonomously, however, supported by a structure and organization already established on the market. Also, here, if the heir demonstrates his managerial skills, he will acquire respect among his collaborators and the generational change will become less traumatic

- Carry out external experiences that allow him to develop his skills, even in different businesses than those managed by the family business, to better understand the difficulties of the role in question and to evaluate calmly, and not on the company's skin, the actual ability to hold such important positions.
- Carry out internal experiences in the enterprise, entering it as a member of the entrepreneur or some other important manager. This is the most uncomfortable solution, as it does not allow to fully appreciate the entrepreneurial skills of the heir, who is in an ambiguous position between owner and employee.

Therefore, inheriting the entrepreneurial role means passing a double test, on the one hand having to demonstrate his knowledge and skills, which will have to be even higher than those of his predecessor, as he will have to operate in a competitive scenario that is certainly wider and therefore more difficult to manage. On the other hand, he will be able to obtain the respect of his collaborators, family and not, through the merits acquired 'in the field', as comparisons between his work and that of his predecessor may be frequent. It should be borne in mind, however, that the choice of a successor is not convenient for a family member (although this is the solution adopted and preferred in the vast majority of cases). If none of the heirs have the ideal characteristics to successfully lead the company's future, the choice must be made by external candidates who, possessing the necessary skills, can profitably give the company, and ensure its healthy continuity. This solution, however, also requires a period of training for the successor to ensure that he has the best understanding of the problems he will face when he takes office and in the future. Later in the discussion, we will see the pros and cons of relying on an internal or external CEO.

2.3 Problems Between Generations

There are several reasons why problems may arise between generations working in the company. Most of these derive from the wrong attitude of the outgoing generation that is reluctant to give way to successors. In this paragraph, we will see in detail several problems and breaking points that may emerge between generations. The first frictions may arise in the designation phase, carried out by the outgoing entrepreneur. The latter will carefully evaluate all possible candidates, to find the most suitable person to pursue the aims of the company and its future development. Naturally, however, all this cannot be completely separated from the evaluator's thoughts, values, experiences, and knowledge, which will consequently influence the choice. Influences may reach their climax if the outgoing employer engages in one of the following behaviors:

- The entrepreneur is very attached to his role and, as a result, does not want to quit it, so he puts into practice measures aimed at demonstrating his indispensability for the company. One of these could be that relating to the choice of a candidate not suitable for succession, who, with his actions, demonstrates the thesis of the company inseparable from the figure who previously led it. This behavior also hides, in certain cases, the hope of seeing a sort of opposite transition takes place, i.e. a failure of the new generation that pushes the now-former entrepreneur to go back on his steps and thus take over the reins of his company. in this case, there will be a return from the second to the first generation.
- The entrepreneur wants the company he has created to continue to operate according to those mechanisms, developed during its management, without any substantial changes taking place. The will of the outgoing executive, therefore, will be to find a successor who reflects it in the behavior, a sort of 'clone'. Having this conviction, he will tend, in the process of choosing a successor, to eliminate, a priori, all those subjects who demonstrate the desire to implement innovative or dissenting management behavior, which, in certain cases, could, instead, represent the most suitable alternative to create a lasting development for the family enterprise. Finding a figure that fully reflects the outgoing entrepreneur's way of operating can be detrimental to the company, which represents a constantly evolving reality, so it is important to look for elements with the necessary degree of flexibility and not people linked to the past.
- A similar case to the previous one is that in which the entrepreneur tends to select a figure who does not have the necessary firmness to be independent in the role he is called to play. In this situation, he will be formally independent but dominated by the figure of the former manager, who will be able to guide the behavior of the current leader in the background, without being in the foreground. The transition process in this case is purely a formal one.

The three cases above represent the most common realities in which the transition process takes place incorrectly and this alteration is due primarily to the subject making the fundamental choice of the successor. Formally, the entrepreneur makes a rational changeover, but in essence, he does everything he can to prevent it from happening, not understanding that in doing so he only causes damage to his company. To avoid these dangers, the choice of the designated heir must be made more objectively.

Therefore, as we have said before, other people will be able to interact with the entrepreneur, in the figure of consultants, who will have the fundamental task of guiding the choice towards the right candidates and making the outgoing leader understand their potential, knowing that the final decision will be up to him.

The second class of frictions may affect family relations. In a family business, family relationships can be both emotional and professional and in particular, the outcome of the succession can be compromised by three main factors:

- The interdependence between family, property, and business makes it difficult to separate the financial plan of the company from the family's financial plan; to define the system of governance, and to assign company offices to family members and outsiders based on actual expertise. Difficulties in keeping family and business matters separate are recognized as the main cause of failure to plan the succession process and consequently as one of the causes of succession failure.
- Conflicts between family members over the distribution of company offices and shareholdings. Conflicts between family members are considered to be one of the factors complicating the planning and closing phases of the succession process.
- The relationship between predecessor and successor is instead complicated by a psychological attachment of the predecessor to the business, a lack of mutual trust, and finally a selfish interest of the successor in pursuing only his own business. A difficult relationship between predecessor and successor is considered one of the major factors hindering the successor's training and leadership transfer.

Considering some solutions concerning the interdependence between family, property, and business, the best practices suggest delegating to the Board of Directors or the CG the definition of the investment policy and the assignment of corporate offices. They should do this by involving nonfamily members on the Board of Directors and the CG, entrusting the responsibility of the Finance and Human Resources functions to non-family members, and consulting independent consultants to articulate the Family Business's system of governance. On the other hand, concerning conflicts between family members, best practices insist on fostering communication between family members. The level of communication achieved before succession affects both the ability to deal with the transformations induced by succession and the development of a shared corporate vision that can survive through generational changes.

Finally, another important point that deals with the problems that can affect the succession in a family firm is the digital transformation issue. As we have said before, many family businesses are reluctant to innovate and progress, still firmly rooted in tradition which is then reflected in inadequacy to the world around them. For many years now we have been talking about digital transformation (Big Data, Internet of Things, Analytics) and its many advantages: it increases productivity, reduces costs, improves efficiency, reduces injuries, allows a more accurate customer profiling, predictive maintenance and, thanks to Big Data, allows to analyze the correlation between distant phenomena.
According to CERIF[33] research, it emerged that in 28% of cases the senior (based on a sample of 100 firms), aware of his limits, leaves room for the junior and entrusts him with the introduction and subsequent implementation of the digital transformation to be developed in the company. Thus, there is a twofold generational shift: one at the level of company leadership, from father to son or mother to daughter; one at the operational level, from a traditional company to digital company (in some cases a real Industry 4.0).

Nowadays the role and impact that new technologies have on how to do business are undeniable. The digital revolution implies not only the possibility of having an interconnected world and reaching customers around the world in real-time, but it has also revolutionized the very idea of doing business. This revolution is an epoch-making change that has particularly affected the last 10/15 years. It is then clearly evident that, even if only from a purely demographic point of view, the approach of the new generations is more inclined and suitable to accept the new challenges and new sensitivities required by the pressing technological evolution in progress. Precisely this different approach constitutes, in many cases, a central element that allows the new generations to make a central contribution to the very survival of companies that have been operating on the market for decades.

33 Centro di Ricerca sulle Imprese di Famiglia dell'Università Cattolica del Sacro Cuore

The generational changeover that favors digital transformation takes place in the form of a "dynamic" generational changeover, as the senior leaves the junior with limited responsibility for a specific business aspect (in this case digital transformation) or extra-corporate aspect and, once the junior proves to be worthy and trustworthy, the senior entrusts him/her with guidance and corporate governance. Another CERIF statistic indicates the reason for the relatively high diffusion of generational changes driven by digital transformation: 90% of the seniors involved in this type of changeover admit that they would not have left the company in the hands of their children and that they had revised their positions thanks to the responsibility and passion they demonstrated on the very subject of the introduction of digital transformation.

We can therefore conclude that digital transformation helps to solve, in addition to the generational transition, another problem typical of family businesses: the attraction of talent and retention capacity. In fact, according to some studies, in companies that have carried out a digital transformation, there are more managers and key people outside the family than in traditional companies or companies that have not yet faced the digital transition. For these reasons, I decided to include the topic of digital transformation in the paragraph dedicated to the problems between the different generations. Without cohesion and cooperation between the different generations, we see that once again family businesses are destined to lag behind the others.

2.4 Nepotism

A general definition that we can use to describe nepotism is the preference of the owner or manager for hiring family members (nepots) rather than unrelated job applicants. Firstly, a meritocratic aspect. Having an attitude that favors nepotism undermines what the French call "esprit de corps", which allows the company to demand sacrifices from its employees in times of need. And the fastest way to kill it is to create the impression that despite all their hard work and sacrifice, promotion within the company is based more on who you're related to rather than the merits of your work. Linked to this is the company's inability to attract and retain talented people in the company who can play key roles. If the idea that the family factor is crucial to a career is passed on, it will be very difficult to back down. Secondly, a whole series of problems and chain reactions develop as a result of the choice to elect a nepot that creates an unsettled atmosphere, which often leads to disputes that benefit no one but the competing companies.

In my discussion I decided to try to talk about nepotism also in a positive sense, trying to list some benefits that it can bring to the family business. To do this I focused on the choice phase. Identifying, according to the type of choice, an "entitlement nepotism", which is seen in a negative sense because it does the pair with what we said above and a "reciprocal nepotism" that will support the thesis that sees nepotism in a good way.

Hiring that is based on family ties without consideration of family conditions is what we refer to as entitlement nepotism. Entitlement nepotism can occur, be stable, and be supported by others based on family or cultural traditions. Because it can be so deeply embedded, this type of nepotism, as we just said can also be dysfunctional, dangerous, and detrimental to firms.

The dangers of entitlement nepotism are most likely to unfold in the longer term. Entitled nepots may feel little obligation to achieve performance expectations. Nepots may have been hired for altruistic familial reasons. After hiring, this rationale may be reflected in positively biased performance evaluations of the nepot and less critical feedback to nepots even when the nepot fails to achieve expected business goals. Schulze et al. wrote, "altruism compels parents to care for their children, encourages family members to be considerate of one another, and makes family membership valuable in ways that both promote and sustain the bond among them."[34]

However, altruistic behavior can be exploited by the nepot. The family business literature has shown that altruism toward family members can have negative impacts on the parent-child relationship when it increases the child's feelings of entitlement. When resources flow only one way (e.g., father to son), this asymmetrical altruism reflects restricted exchange relationships that can negatively affect firm performance. Empirical studies support the potentially detrimental effect of what we refer to as entitlement nepotism. However, a finer-grained analysis suggests that the effect may be associated with particular family selection conditions. One example where entitlement nepotism is likely to occur is the case of primogeniture. Primogeniture by definition favors the oldest son as a successor while discriminating against other families as well as nonfamily members. It is shown that businesses that award positions to the oldest son as a rule significantly underperform other companies. When succession is determined at birth, it is more likely to lead to restricted exchange relationships because

34 Schulze W., Lubatkin M. and Dino R., Altruism, Agency and the Competitiveness of Family Firms (2003)

interdependent exchanges between father and son are not required. On the contrary, if the nepot has little reason to develop a generalized exchange relationship with other family members, his potential long-term benefit to the family firm is severely limited. Entitlement nepotism might therefore indicate a short-term focused type of family essence. Restricted family exchange relationships can jeopardize the goal of maintaining firm control across generations by threatening family cohesion and firm performance. Entitlement nepotism hence reflects the possibility that families will hire family members who are nonbeneficial or even harmful to firm operations.

Entitlement nepotism mirrors the model of man that underlies the literature on asymmetrical altruism, agency theory, and transaction cost economics in family business the underlying assumption is that an agentic relationship between family members can involve egoistic goals, information asymmetries, low levels of trust, and eventual exploitation of exchange partners. Entitled nepots are more likely to exploit family firm resources for personal gain rather than to use them for the collective benefit of current and future family firm owners.

On the other side, there is nepotism associated with the family conditions of interdependence, previous interactions, and cultural norms that support obligations to family members which is what we refer to as reciprocal nepotism. Reciprocal nepotism extends previously established perspectives on nepotism outcomes and helps to explain the potentially superior performance of firms that take advantage of generalized exchanges among family members in their employment policies.

Although family exchange relationships vary significantly, they hold more potential than nonfamily relationships for a long-term, stable, and generalized social exchange relationship and indirect reciprocity. The act of nepotism can select a family member who shares a generalized exchange with the family decision-makers. In such cases, the nepot will feel indebted to the family member for hiring him or her. Such symbolic value of reciprocal behavior (acts of trust) has been identified as a key factor in establishing and enhancing generalized social exchanges. In this case, social exchange and underlying norms of reciprocity are not only more probable from a normative perspective (I have to) but also from an affective, stewardship perspective (I want to)[35]. In this context, nepotism is part of an exchange that encompasses obligations to reciprocate and strengthens the generalized social exchange relationship between family members, which in turn explains how stewardship behavior can occur in family firms. Stewardship theory suggests that goal alignment and mutual trust result in individuals putting aside their interests and acting in the organization's interest. The higher the level of mutual trust and goal alignment between a hiring family member and nepot, the greater the latter's incentives to reciprocate and to act as a steward of the organization.

An actor's perception of trust in a relationship with another actor (the trustee) is based on the actor's perception of the trustee's ability, benevolence, and integrity. When trust has been established between a hiring family member and a nepot candidate, the family manager will have confidence in the nepot's abilities to meet expected job requirements otherwise a trusting relationship could not be sustained. Besides, when a hiring family member and a nepot have established trust in a relationship, confidence in the nepot's benevolence and integrity confers an advantage to the nepot that may take other job applicants a long time to develop since trust must be earned and verified.

The tangible benefits from a pre-established trust (i.e., the easier delegation of greater responsibility, less monitoring, etc.) may even compensate for nepots who hold lesser formal job qualifications than other nonfamily members job applicants. Reciprocal nepotism can thus explain higher benevolence between family compared with nonfamily members because family ties can demand *mutual benevolence* due to underlying expectations of indirect reciprocity as a result of generalized exchanges among family members.

For these reasons, this theory can support ongoing family control across generations by incentivizing and taking advantage of generalized exchange relationships among family members. Reciprocal nepotism thus illustrates how some families can take advantage of family

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35 Peter Jaskiewicz, Klaus Uhlenbruck, David B. Balkin, and Trish Reay "Is Nepotism Good or Bad? Types of Nepotism and Implications for Knowledge Management" (2013)

social capital for their family firms. The development of generalized social exchange relationships among family members is one example of family social capital.

The second part of our apology for nepotism is focused on the generalized social exchanges. Families are a common context of generalized social exchanges. They are typically understood to offer lifelong group membership; they frequently demand indirect reciprocity among members because family members are interdependent in the creation of socioemotional goods such as love, cohesion, and so on. Family coalitions are formed to produce and share interdependent resources that would otherwise be unavailable. Outside of family groups, generalized social exchanges are rare. The human resource management literature suggests that if reciprocity occurs in a working relationship, it is usually direct in the short run and accordance with the needs of the two parties.

On one hand, generalized social exchanges are not always required. On the other hand, they develop rarely and cannot be easily replaced by market transactions because of high transaction costs. However, the idea behind this is that hiring family members provides the potential to take advantage of generalized exchange relationships that may prove valuable in numerous business contexts. Yet family ties do not guarantee generalized social exchanges. The type of social exchange relationship between individuals within a family varies because of shocks to the family system such as conflict, divorce, remarriage, or geographic separation of family members due to economic jolts or death. Nonetheless, it is expected that under certain family conditions, family ties can be a source of unique assets (e.g., family social capital) that are valuable to organizations. Reciprocal nepotism enables firms to take advantage of such assets.

Moreover, we can pass to another positive aspect, in fact by taking advantage of generalized social exchanges, reciprocal nepotism can enhance Tacit Knowledge Management in organizations. In today's knowledge-based economy, effective TKM is a key component of firm competitiveness and performance. Tacit knowledge is noncodified and nonpatentable knowledge. It is accumulated in an organization through business activities that include the production and marketing of goods or services. Compared with codified or formal knowledge, tacit knowledge is ineffable or inexpressible. Therefore, tacit knowledge is difficult to access by outsiders. It is also "personal, context-specific and acquired by experience"[36], and a product of business processes and personnel interactions. From this perspective, the use of tacit

36 D'Eredita M. & Barreto C., How Does Tacit Knowledge Proliferate? An Episode-Based Perspective (2006)

knowledge is limited to people who have been exposed to it and have experience in its application.

But what nepots have to do with TKM? Generalized social exchanges also positively affect the absorptive and retentive capacity of nepots which are important for effective TKM. Absorptive capacity is the ability to understand, absorb, and apply new knowledge. It is a function of prior knowledge. Because tacit knowledge is implicit and experienced over time, the number of prior exchanges, common socialization, inherent trust, and understanding will likely enhance absorptive capacity giving family members an advantage over non-family members. These factors are also relevant to the retentive capacity of nepots. Retentive capacity refers to the extent that the Tacit Knowledge recipient will continue to use experienced knowledge. The common socialization within a family and the family's identity often being closely tied to the firm increase the likelihood that nepots will continue using this knowledge when they share generalized social exchanges with family members and deem being part of the family important and desirable. In contrast, restricted social exchange relationships and direct, transaction-based reciprocity between family or nonfamily members impede mutual, trust-based, long-term investments in TKM. Tacit knowledge has significant potential to increase a firm's competitive advantage as long as it remains and is effectively managed within the organization. In particular, tacit knowledge must remain firm-specific, difficult to imitate, shielded, and embedded to remain a source of competitive firm advantage. Consequently, we emphasize that the important components of TKM are:

- The transfer of knowledge among individuals within an organization
- The ability of employees to interpret this knowledge appropriately so that it can be continuously and consistently used within the firm over time
- Its long-term protection from unwanted transfers to other organizations, such as could happen when key employees move to compete companies and share their tacit knowledge over time

Thus, it is suggested that reciprocal nepotism can offer important advantages for a firm's TKM. Firms may also need to transfer their tacit knowledge to new employees to grow the firm, or because of retirement, sickness, or crucial employees changing jobs. Yet the process of tacit knowledge transfer is considered particularly problematic because of the stickiness of knowledge and the challenge of exchanging it with others. To accomplish tacit knowledge transfer effectively, each person who experiences it should have appropriate incentives and commitment to the firm. In this context, reciprocal nepotism offers interesting insights into knowledge management since it shows that long-term, multilateral agreements about investments into family relationships may supersede market explanations regarding effective Tacit Knowledge transfer. In contrast, new non-family hires will usually develop restricted exchange relationships and are likely to have fewer incentives to acquire specific tacit knowledge in particular if it is not marketable. Managers as well as other employees might be reluctant to share tacit knowledge with unproven newcomers because of a lack of trust that this knowledge will be kept within the firm in the long run.

However, in the case of reciprocal nepotism, the family members and/or other colleagues' incentives to share all nuances of tacit knowledge will be stronger. In firms with family member hiring practices, an antecedent for effective tacit knowledge transfer is thus trust between the hiring family member and the nepot that is an important characteristic of generalized social exchange relationships. In this case, the manager would have confidence that the nepot respects the value of tacit knowledge as a source of potential differentiation and competitive advantage for the firm. Therefore, a generalized social exchange relationship between a manager and a nepot improves the likelihood that tacit knowledge will be effectively shared and transferred within the organization over time. In summary, reciprocal nepotism leads to generalized exchange relationships between family members, which provide incentives for family and nonfamily employees of the firm to share tacit knowledge and for a nepot to experience and acquire this tacit knowledge over time.

As we have just seen it is possible to give an alternative interpretation of nepotism, a good one, which justifies its use. However, every firm that wants to favor family members over non-family ones must be aware of what it does since first of all these theories there is a human being, with emotions, thoughts, interests and above all skills, both hard and soft skills. These must be the first criteria of choice for the entrepreneur, although it is very difficult for the entrepreneur to remain impartial when it comes to making decisions about his family.

2.5 Internal vs External CEO

Whenever the time comes for succession in a family business, the entrepreneur has to ask himself who will be in charge. He has to understand whether he should remain within the company, handing over power to an internal CEO or whether for several reasons he should prefer to turn to an external CEO to run the company. The logic behind internal promotions is simple: employees within an organization know the company well. They understand the industry, context, and environment which are all important knowledge for a CEO to have. Internal succession candidates are also known to fit within the organization. They have established relationships with other members of the senior leadership team and are likely aware of, if not involved in, the strategic direction for the company. Moreover, internal candidates give a sense of continuity and stability, which may be a priority for some companies when selecting a CEO. There are other benefits of choosing external succession candidates as well. It can be motivational for an individual to know they are being considered for the top role and other members of the organization. Watching an employee rise through the ranks can be inspirational for other employees to develop their skills and map out their careers. Outside of the organization, research has shown positive stock market returns when internal candidates are promoted to CEO. These motivational and financial aspects of promoting internally cannot be overlooked when considering the long-term success of a company and its employees.

Ironically, the strengths of promoting internally can also be weaknesses. Internal hires are often entangled with the organization in more ways than one. First, they are often used to thinking in terms of how the organization does things it may be difficult to consider new approaches to old problems. Additionally, pre-existing relationships and office politics can be difficult to balance with the long-term interests of the company.

In terms of office politics, if the company’s succession plan is not transparent, the promotion of one employee over another can be a challenging transition. When selecting a CEO from internal candidates, the entrepreneur has to be sure that the qualifications and requirements for a job are clear, and that the decision to promote an individual was made objectively. Communication about the qualifications for the job and the way the succession candidate meets these requirements is a must.

On the other hand, we can consider several positive reasons to choose an external candidate as well. The traditional argument says that selecting a CEO from another company or industry can bring a new perspective, experience, and innovation to a management team. They can bring improvements to methods and processes due to their experience beyond your company. Sometimes, a fresh set of eyes can see issues or possible solutions that a team of the brightest minds may have overlooked.

Beyond their potential for new ideas, external CEOs are valued because of their status as an outsider. Their lack of existing linkages to employees and traditions makes it easier for them to shake things up and introduce new initiatives. They are also seen as more willing to try a novel strategic direction. Finally, their lack of personal relationships with staff or departments makes it easier for them to make tough calls about budgeting and personnel decisions.

Hiring an external candidate comes at a cost literally. External candidates require an extensive search, which costs your organization time. Additionally, the search process generally costs your organization money and manpower to ensure you are selecting the best fit for your organization. This may be fine if your CEO is planning to leave and prepares for their absence in advance, but in the case of sudden leader loss, this search period can set a company back. Additionally, external hires tend to cost more. They earn, on average, 18 to 20 percent more than internal promotions. Once in the role, there are additional time costs to external hires. It tends to take longer to learn the industry, organization, and specifics of their role. There’s no denying that external hires are the more costly choice between the two options.

As with internal candidates, the strengths of external hires can become weaknesses. A lack of solid relationships with others in the senior management team can make it hard for a new CEO to be effective. Innovation always comes with risk, and the new ideas of an outsider CEO may cause friction among the leadership team. Their new ideas may be naively constructed if the external CEO is unfamiliar with the industry or context in which a company exists.

With so many things to consider, how can a company decide which choice is right for them when selecting a CEO? Context is key.

If the organization is on a good path when the leader leaves, with solid revenue, promising projects, and bright prospects, an internal CEO is more likely to stay the course. Internal hires will be able to use their knowledge of the company, its history, and its current trajectory to ensure the positive path is maintained. If developed internally, leaders will have the necessary traits to be successful. A transparent succession planning process will mean other senior leaders and members of the organization accept this internal hire as the best fit for the role and will be likely to support their decisions.

However, if the company has a future that is uncertain or worse, trending in the negative, an external hire can be a breath of fresh air. They can offer new ideas and perspectives to help turn the company around, and they likely won't be married to a failing strategy. They will be able to make tough cuts to keep a financially faltering company afloat. The company will pay more for their novelty, but if the company is at risk, the entrepreneur may not be able to afford not to go external.

Chapter 3

3.1 Corporate Governance Definition

“Companies are Republics. The ultimate authority rests with the voters (the shareholders). Voters elect the representatives (Directors) who delegate most decisions to bureaucrats (managers). As in any Republic, the actual power-sharing relationship depends on the specific rules of governance. There is one extreme, which tilts towards a democracy, reserves little power for management, and allows shareholders to quickly and easily replace directors. The other extreme, tilting towards a dictatorship, reserves power for extended management and places strong restrictions on shareholders' ability to replace directors. Shareholders are inclined to accept restrictions on their rights in the hope of maximizing their wealth, but little is known about the ideal balance of power”.

This is the introduction to "Corporate Governance and Equity Prices" by P. Gompers. This analogy represents the starting point to deliver a definition of corporate governance to be used in the following research that I am doing.
As Gompers affirms, through the rules of governance is defined and shared the power relationship. A relationship is poised between the democratic extreme, which allows shareholders to exercise their rights, and the dictatorial extreme, which prevents it. A "good corporate governance", therefore, will be the point of balance between these two extremes and will manifest itself with the effective maximization of the wealth desired by shareholders. The concept of balance is also taken up in N. Angiola's definition[37]: "The cornerstone of business management consists in seeking a condition of stable equilibrium concerning all those who are, for various reasons, interested in its development" where "stable equilibrium" means the satisfaction and involvement of all stakeholders (internal and external) that can be achieved not only in the short but also in the long term.

The system of governance is based on the balance between the interests of the various stakeholders (shareholders, creditors, management, employees, suppliers, etc.) in a given context of institutional and market rules. Each company, depending on the system of

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37 N. Angiola. Corporate Governance e impresa familiare, G. Giappichelli Editore, p. 11 (2000)

governance to which it is subject, has more or less favorable conditions for the efficient use of capital and labor.
Two aspects stand out more than others from the two definitions above: the company's governance system, which influences the efficient use of capital and labor; and the search for a stable balance. As far as the first aspect is concerned, is important to remind that the issue of corporate governance became relevant before the 1980s, following the privatization processes involving Western Europe, Latin America, and Asia, and in the following 1990s due to the violation of the rights of important corporate players. As is also stated in the above definition, there is no universally accepted definition of the meaning of the term corporate governance. However, the search for a definition shared by all countries is complex due to different cultures, legal systems, and their historical excursus. As far as the second aspect is concerned, on the other hand, the doctrine gives us two different models regarding business purposes.

The first model, called *shareholders view*, states that the company must set itself the goal of maximizing shareholder value. This definition is supported by the Agency Theory, which highlights the possible problems arising from conflicts of interest and asymmetric information between the two parties involved in a contract. Individuals engage in opportunistic behavior when one party to the contract, the agent, tends to behave in their interest rather than in the interest of the other party to the contract, the principal, creating moral hazard and adverse selection. The costs incurred during the detection process, to solve these problems or prevent them, through tools such as control or incentive systems, governance structures, etc., and the economic damage caused by opportunistic managerial behavior (e.g. free riding are part of the agency costs. One of the fundamental hypotheses of the Agency Theory is that these costs derive from the separation of ownership and control (Fama and Jensen 1983).

A different approach is that of the *stakeholders' view* model, which broadens what was stated in the previous definition and provides that managers and directors should not be limited to the mere interests of shareholders, but of the company's overall portfolio of stakeholders. It is stated, therefore, that the expression corporate governance means the "composition of the interests converging on the company, of the relations between management, control and governance "[38]. Measuring corporate governance will therefore mean analyzing the system of

38 W. Zocchi. Profili Economico-Aziendali del "Family Business", G. Giappichelli Editore p. 172. (2012)

rules, mechanisms, and tools that allow us to guide, monitor, and evaluate its progress towards the creation of value for shareholders and stakeholders.

Corporate governance models can be classified according to how the separation of ownership and control is conceived. In the distinction between insider and outsider system models, it can be seen that the former is characterized by ownership concentrated in the hands of a limited number of shareholders with strong internal decision-making power. In these models, the Italian owner company falls within these models. In the latter, instead, ownership is pulverized and unstable, there is a high degree of contestability of control and the role of the manager assumes importance. This model of governance includes the Anglo-Saxon Public Company.

The Italian capitalist model is one of the insider models, and our nation is defined by Melis (2002) as a country with "weak managers, strong majority shareholders and unprotected minority shareholders". Precisely because of these characteristics, problems and shortcomings of the Italian model have been identified over the years and the last 15 years have been years of reforms and corrections referring to the Anglo-Saxon models. Legislative Decree no. 58 of 1998 (the so-called "Draghi Law"), the Self-Regulatory Code of Borsa Italiana S.p.A., Law no. 366 of 3 October 2001, Legislative Decree no. 6 of 2003 and Law no. 262 of 2005 (the so-called "Savings Law"), are all documents produced for this purpose.

After having defined corporate governance at the macro level, we will now go into the characteristics and peculiarities of the corporate governance of a family business.

3.2 Corporate Governance Management in Family Firms

Governance is widely recognized as a determining factor for the success and failure of the activities of the whole organization. The involvement of the family introduces a unique dimension to corporate governance, which we define as the mechanisms used to ensure that the actions of the organizational coalition are consistent with the objectives of the dominant coalition. Three functions are attributed to governance: *strategic function*, *monitoring function*, and *environmental management function*. The first function is responsible for contributing to the formulation of the strategy. The monitoring function has the task of monitoring "the activity of top management, foreseeing and sanctioning any opportunistic behavior of top management"[39]. The environment management function, third and last function, is the one that takes care of the interface between the company and the outside world. It is "aimed at creating value for the benefit of all stakeholders". In his book, Zocchi represents governance as a tree whose trunk, a visible part of the company, is composed of rules, credibility, leadership, foreign communication, image, stakeholders, and planning.

The tree's roots, i.e., its origins, tradition, management, and shareholders, remain hidden. Through the use of this analogy, it can be understood how governance, whose purpose is to represent a system of roles and relationships visible inside and outside the company, cannot disregard a set of hidden elements. This representation is important for a family business, which presents a system of roles and relationships that are not visible due to the main peculiarity of these business models: the union between the company and the family. This interaction is one of the reasons why problems arise.
Governance has a pre-established character that risks not being aligned with the informal character of the family business. In a family business, therefore, governance rules must take into account the needs of the family as well as the needs of the business. Precisely about this aspect, two logics may emerge that would compromise the family-enterprise system, preventing governance rules from being better implemented; they are family and business first than logic.

According to the first, "any decision of certain importance can never be taken under the responsibility of a single member or one of the family members", but after consultation in plenary of the whole nucleus. Business First, on the contrary, "tends to exclude from decision-making processes family members who are considered incapable or unprepared". Another important aspect is that the governance structure of a family business changes over time. Referring to the life cycle model proposed by Quinn and Cameron (1983) it can be seen that in the first cycle the company has more substantial problems than the formal ones and most of the decisions are taken by the founder. The situation changes in the following phases when new generations join or replace each other, and the management of the company changes in the face of new ideas and the introduction of new values. This process is called

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39 Ibidem

"professionalization". Professionalization can generally be defined as the process by which professional managers become part of the family business in management or ownership. This process involves the appropriate formal training of individuals, but also involves an increasing adoption of formal mechanisms and systems within the family and the business (Songini, 2006).

Among the resources a company needs to survive, continuous leadership plays an important role in motivating and organizing the company's activities. A well-managed company, therefore, will not only have short-term results but also long-term results.

To proceed in our analysis, it is necessary to highlight the points of difference between family and non-family business. As mentioned above, governance is widely recognized as a determining factor in the success or failure of a business. The main element, which distinguishes the governance of a family business from a non-family one, is the presence of two systems: the family system and the business system. This peculiarity is important because the aspirations of the two business models are different. The presence of the family is a relevant element as it carries with it a portfolio of characteristics, tangible and intangible, and of values that influence the governance of the company.

Two subsystems make up the governance of a family business: that of corporate governance and that of family governance. The former is defined as the management and control organization of the business and consists of the top management team, board of directors, and shareholders' meeting. The second is designed to ensure and organize cohesion within the family and consists of a family governance system. The board of directors and the family board are fundamental elements of the governance structure of a family business.

The intersection of these two systems gives rise to several governance issues (Wellalage & Locke, 2011) due to ownership, control, succession, performance, and governance structure.

In the governance system of a family business, attention is also paid to the skills that the members of the organization are supposed to have. The competencies are divided into formal competencies and cultural competencies. The first group includes formal education and professional experience. Both can be acquired outside the family business and represent those threshold competencies to be able to fulfill that role. The second category includes: understanding the objectives and ethical foundations of the family. These "non-transversal skills" require formal and informal communication and are transferred to family or non-family members during the professionalization process. As we said in the first chapter, Gomez-Mejia

et al. research introduced the concept of socio-emotional wealth (SEW). This means that the governance of a family business will also aim to protect its values and intangible assets.
García-Álvarez, Lóopez-Sintas, and Saldaña-Gonzalvo (2002) have shown that the founder's vision can influence the culture and performance of the company, depending on the extent to which the activity is considered as a means to support the family or as an end in itself. From this point of view, the concept of knowledge includes contextual information, experience, beliefs, values, intuition, as well as the know-how and skills to perform tasks. In light of this, therefore, it can be said that the governance model of a family business is one that can foster the consolidation of its values, reducing conflicts, facilitating the generational transition, and designing a business structure aligned to the benefits of the family that controls the firm.

The separation of ownership and management is one of the most discussed topics when it comes to family businesses.
Jan-Folke Siebels in his research points out that family businesses have different demands on the governance structure than non-family businesses. The central theories, to which the above-mentioned authors refer, are three: agency theory, resource-based view, and stewardship theory. Concerning the first theory, already presented earlier, Dollinger (1992) argues that family enterprises require less investment in control mechanisms. However, Schulze (2001) argues that family businesses are exposed to different types of agency costs, resulting mainly from the shortcomings concerning altruistic behavior, nepotism, and radical management when the roles are covered by persons outside the family. The concept of altruism is rooted in the family and has been described by Batson (1990) as a moral value that motivates people to take actions that benefit others without any expectation of reward. The altruism model suggests that an individual's utility function positively links his or her well-being to the well-being of others (Bergstrom 1989). Translated into the context of the family business, it is possible to note that some authors consider altruism as a beneficial element for strengthening the family bond, creating, in fact, collective property and reducing information asymmetry through greater communication and a source of competitive advantage. The stewardship theory was established on the opposite model to that of the previous theory. The characteristics of this model are the collectivist approach, the socio-emotional involvement of the family and the company, useful for the collective good of their enterprise, and the alignment between the objectives of the agent and those of the business. According to this theory, the presence of these characteristics would reduce agency costs.

The third and last theory taken into consideration, to highlight the differences in governance between a family and a non-family business, is that of the resource-based view.
While the first two theories focus mainly on the transaction of costs related to the governance and performance of a company, the resource-based view (RBV) assumes that the returns achieved by companies are largely attributable to their resources. According to RBV, the source of sustainable competitive advantages is based on the availability of strategic resources. The literature suggests that family businesses have a unique mix of resources considering family and business. These resources fall within the definition of "families" of a company. Their effective and efficient use results in competitive advantages and superior performance compared to other businesses. The resources of a family business are divided into:

- Human capital
- Social capital
- Capital maintenance capacity.

Human capital means the knowledge acquired and the ability of a person to perform organized actions. Researchers assume that family businesses can gain a competitive advantage over non-family businesses in terms of capital accumulation and customer orientation. Studies of family business relationships show that the quality and frequency of contacts is higher in family businesses. Capital maintenance refers to the personal resources that family members are willing to share or lend for the benefit of the enterprise. The RBV provides valuable information on the configuration of the resources and how the distribution of these resources in the family-enterprise can lead to competitive advantages. It also offers some explanations of how these resources can be acquired, managed, and stored.

Finally, for non-family businesses, the governance mechanisms typical of a family business also tend to regulate the relationship between business and family, and sometimes the difficult field of relations between family members, often influenced by the choices made in the company. In the face of these requirements, governance mechanisms, including informal ones, have become established, ranging from "family pacts" and family offices, which in the last years have found broad consensus in practice, to "kitchen tables". i.e., family meetings "around the table" during which decisions are also taken which are relevant to the company. The governance structures of family businesses tend to be defined as stable, or "inertial". because once a balance shared by the different actors has been achieved, it is often necessary to wait for important events, such as generational succession or a change in ownership (to be limited to the two main ones), to see a substantial change in governance mechanisms.

Empirical studies on governance in Italian family businesses have come to strongly conflict conclusions: while some economists have pointed out in a very critical way the absolute lack of adequate mechanisms in Italian businesses, others, on the other hand, have highlighted how, at least from a formal point of view, Italian businesses are in line with what has been observed in the USA.

3.3 Strengths of Family Corporate Governance

Recent international literature on family business and corporate governance has given considerable importance to the issue of corporate ownership structures, considered one of the elements that have the greatest impact on forms of corporate governance. The owners of a business, especially those of small size and family character, represent, in fact, the economic entity of the company, those who hold the "supreme volitional will".
From this position of clear predominance over the other stakeholders, they can also exercise undisputed power in the definition of the mechanisms of governance of the company. Understanding the role of ownership therefore helps to better interpret the real function of governing bodies in family businesses.
These companies, as mentioned above, have very varied ownership structures, distinguished by a threefold order of reasons:

1. Degree of concentration of ownership
2. Type of ownership subjects
3. Role of ownership in the company's choices

The degree of concentration of the property is indicated both by the average value of the share held by the main shareholder and by the number of owners; both measures indicate the existence of a centralized property or whether there is a certain dialectic within it.
The expression "type of owners", on the other hand, refers to the characteristics of the various shareholders: whether they are family or external, and within the latter category, institutional investors or private individuals. This distinction is very important because it affects the mechanism of contributions offered and rewards expected from each of the owners. Finally, when one looks at the "role of ownership in business choices" one refers to a qualitative aspect,

i.e., the level of "interference" of family members within the business, i.e. the ability to consider the business as an autonomous economic activity and not exclusively as a family business.

The phenomenon of the concentration of ownership in Italy presents aspects of extreme interest: compared to other countries such as Germany and the USA, in our country among the top 100 companies in terms of size and turnover, as many as 42 are attributable to family groups, unlike what happens in the other two countries where this value drops to 17[40]. The presence of such a frequent family in charge generates a problem of dimensional imbalance compared to large companies in other countries, which have an average turnover of 5 to 16 times higher and 3 to 11 times more employees. A similar situation can also be found in the hypothesis of abandoning the observation of large enterprises and focusing on the whole universe of enterprises. The generality of Italian companies not only has a closed and concentrated ownership structure, as can be found in most countries of Continental Europe, but there is even an exasperated trend towards totalitarian ownership. From the comparative analysis of the 1997 research with that of 2004 carried out by the authors Corbetta, Gnan, and Montemerlo, the same trend is confirmed (even more accentuated in smaller firms): not only are the family-owned firms in 85% of cases, but even 72% of the entire sample has totalitarian control by a single-family nucleus. As regards the number of shareholders, the survey highlights once again the extreme closure of capital in Italian companies. These companies have an average of 3.9 members while the median value is approximately 2.3[41]. The first three classes by the number of members represent more than 2/3 of the entire sample selected, and the figure appears to be linked to the generation: in 70.45 of the cases the companies are between the first and second generation, therefore the founder (generally unique in the Italian reality) either continues to be the sole owner of the shares or begins to "open" the capital to future heirs.
There is very little to add to the type of owners. Italian companies have a very homogeneous ownership structure and only rarely is the capital open to parties outside the family, such as

40 Corbetta & Marchisio, “Elaborazione su dati Mediobanca” in Montemerlo, pag. 20.

41 The median value in this circumstance is even more significant than the average and indicates that 50% of companies have less than 2.3 owners.

institutional investors or other individuals interested in medium-long term investments. On the other hand, the data are very significant: family businesses with an ownership share of less than 100% are only 13% of the sample and there are no indications of particular interest when investigating the type of subjects involved. The shares of Italian companies are held by natural persons in 65% of cases, while financial companies (family holding companies) are the second-largest shareholder with a share of 13%. Very rarely is ownership by foreign companies (5%), banking institutions (1%), or public bodies (0.5%). The figures just illustrated confirm a widespread perception in the economic environment of the ownership structure of Italian family businesses, the share owned by the family is in most cases totalitarian, with a very poor attitude to "open" the capital to subjects outside the family entourage. The structures and governance mechanisms of these family-owned enterprises are strongly conditioned by such a strong ownership concentration, both in form and substance. Without wishing to enter into the discussion on the real effectiveness of forms of governance in family businesses, some considerations seem evident. First of all, the desire to maintain 100% of the capital is the result of the conviction (even unconsciously) that the company is a family business and is not intended as an independent external economic activity. In cases of totalitarian control, the overlap between family dynamics and that of the company is maximum, with a clear predominance of the family hierarchy also within the company. This aspect is to be considered pathological, especially if referred to the criteria of entry into the organization: people are rarely chosen according to the real needs of the company, in terms of required competence, dedication, and ability to perform an entrepreneurial and managerial function. There is a widespread tendency to assign both managerial and governmental positions according to criteria that are far removed from meritocratic criteria, which could guarantee or at least safeguard the autonomy of the company.

The intrinsic resistance of Italian entrepreneurs to the opening of capital to parties outside the family is equally evident when it comes to assigning management or administrator positions.
The two variables analyzed regarding the ownership structure (degree of concentration and type of subjects involved) do not seem to be able to explain the considerable difference that emerges in terms of governance in family businesses. The remarkable homogeneity in terms of ownership structure is not equally evident when looking at the governance mechanisms of family businesses. Other factors intervene in the definition of forms of governance, both for aspects related to the system of representation and in the attribution of different roles and purposes to the governance bodies.

One of the main aspects, however little investigated by corporate governance scholars, is the "type of leadership exercised "[42]: very present ownership, unwilling to delegate even important functions within the company, able to exercise its power through charismatic leadership, leads to a flattening of the entire structure on a single figure, emptying all the other decision-making bodies of effective power. On the contrary, in the presence of shared leadership, the involvement of more people involves the development of more collegial management, less linked to the intuitions of one or a small group of individuals.

Ownership has a direct impact on corporate governance also through the identification of the main objectives to be pursued; these vary greatly according to the context in which the company operates, its life cycle, age, and the education of the owners. Various family business objectives have been listed in the literature, and as family business objectives prevail, or more properly corporate objectives, the function of governance bodies also changes corporate growth, innovation, creating value for society profitability, maintain absolute control over the business; ensure family welfare, transfer the business to heirs, offer employment to family members. It is improbable to think that ownership pursues only the listed objectives but depending on the prevalence attributed to some rather than others, a prevalence of the family component over the company one is generated.

3.4 The Governing Bodies of Family Business

Another element that strongly distinguishes the governance mechanisms in family businesses is the generational succession: having faced and overcome the delicate moment of change at the top of the company involves a change in governance mechanisms. First of all, the ownership (while remaining genetically family) expands, and it becomes more complex to manage relationships between relatives and relatives that may have divergent objectives and not share the same values; access to the positions of director or manager also constitutes a governance problem to be managed. Companies that successfully face two or more processes of

42 Empirical investigations of qualitative variables are less widespread than others that investigate the static aspects of the ownership structure; on this specific topic, Nordqvist, Ownership and Strategizing offers interesting food for thought.

generational[43] transition present more effective forms of governance with a real function, that is to balance the different instances of a more articulated ownership structure. As I've said at the beginning of the chapter corporate governance is a fundamental element for the transparency of company information and the correct separation between ownership and control. More specifically, not only does the corporate governance model adopted by the company influence its ability to set up correct relationships with the various corporate stakeholders present and, in particular, with the financial capital providers, but it also influences the prevailing relationship model that top management adopts with its corporate stakeholders. This is particularly relevant for the field of financial services and consultancy and for the possibility that a professional interlocutor, such as the bank, could be perceived by the client company not only as an undifferentiated supplier of money (product component) but also as a person able to propose solutions to the company's financial problems. The importance that the corporate governance model assumes for the description and interpretation of the company's behavior has been widely recognized in the relevant corporate literature. A governance model understood by the company's stakeholders makes it possible to manage broader levels of business complexity: the level of business complexity faced with given governance makes it possible to catalyze external resources and expertise at critical moments. The assumption of an appropriate governance model is therefore a prerequisite for achieving this goal.

On the contrary, a company with a low level of complexity can afford to adopt an opaque and closed corporate governance model. In defining the descriptive variables, into which the structure can be broken down, the corporate governance model of the segment of family businesses listed on the Italian Stock Exchange was taken as a point of reference, as variables I considered:

- Degree of openness of the ownership structure

43 We speak of two or more generational transition processes because at the time of the first transition, from the founder to the first heirs, there is a very strong tendency for the entrepreneur to remain in the company, even without formal assignments, and to maintain a key role in the decision-making process. On the other hand, the most critical aspects emerge in the transition from the second to the third, because in most cases it is the transition from the first to the third: it is not uncommon for the second generation to be "crushed" between the other two.

- Degree of separation between ownership and control presence of external and independent members on the Board of Directors
- Type of family present in the company
- Presence of size growth objectives
- Degree of attention to the generation of value for shareholders

Recent empirical research conducted in our country, first and foremost that of the Bank of Italy, has shown the difficulty for many large and medium-sized Italian companies to reach such a size that they can achieve leadership positions at the international level. This difficulty depends on many factors including, in particular, the fact that the ownership and control of these companies have been concentrated for decades (and in many cases still are) in two classes of subjects, without sufficient capital for development: typically, large families and the State, before the wave of privatization. These studies have made a fundamental contribution to the knowledge of the ownership and governance structures of Italian companies. Concerning family businesses, which are the subject of our work, we have mainly focused on the problem of how to facilitate the transfer of control outside the family, which is, therefore, one of the main issues in terms of the family business. On the other hand, the stability of the government can be a factor for development if a correct conception of the relationship between business and family is rooted, combined with a responsible exercise of ownership and control.

Therefore, it is not enough to keep the family sphere separate from the corporate one, but it is necessary to be aware that an incorrect design of governance rules can lead to imbalances and management inefficiencies. In other words, the achievement of the corporate purpose, which most often consists of achieving the common good of the business and the family, can be frustrated by inadequate governance rules that refer to insufficient knowledge of the subsystems and mechanisms underlying the family business. It is therefore necessary to identify processes and structures capable of ensuring the inviolability of both the family and the enterprise. The main obstacle to achieve a general interest is the ever-present temptation to favor the family to the detriment of the company or vice versa. The conclusion we come to is represented by the need to provide the family business with effective and efficient management, which takes into account all the interests of the actors, in various ways, involved in the business. This framework must be able to keep the family and the company firmly united; it must create a symbiosis between the two institutions, creating the conditions for a relationship of mutual exchange. To achieve these results, a real "rethinking" of the rules of governance will be necessary. Some guiding principles that we can formulate about the governance of family businesses, concern, in a nutshell: the planning of the relations between the company and the family; the formalization of the plans in written form; the integration between the different types of plans; the bodies responsible for the choices and governance processes. In general, the role of economic governance can be analyzed along three dimensions, represented by contents, structures, and processes. The "content" dimension concerns the content of governance choices in their "invisible" profile, in terms of their underlying values and orientations; and in their "visible" profile of decisions taken based on these values and orientations.

The governance choices of family businesses are of two types: on the one hand, we have the governance decisions of the company in the strict sense, i.e., the set of decisions and basic business choices regarding the establishment and extinction of the company, the direction and guidance of the company in operation. Choices and decisions due to their systemic and long-term structural impact are generally strategic. Decisions that may be the responsibility of the owner, the board of directors, and, where appropriate, the senior management. On the other hand, we have the "ownership" governance decisions, i.e., relating to its internal configuration, the rules of operation, and the setting up of relations with the company. Property governance decisions have a considerable impact on the governance choices of the company, as they determine the context in which these choices mature and are implemented. The second dimension concerns the structure of economic governance, represented by the so-called decision-making tables, i.e., the system of governance bodies. This system includes, in the family business, the presence alongside the so-called "official" bodies (shareholders' meeting, company president, the board of directors, executive committee, etc.) of typically family governing one, such as the family board, which is a support body for the governance of this category of businesses. The body may be variously articulated and formalized, i.e., structured in the form of periodic informal meetings. The third dimension concerns the processes, i.e., how decisions are formulated and implemented through the management of the bodies mentioned above or through the use of mechanisms typical of family businesses such as the conclusion of family pacts or other similar agreements. Another key issue concerning the governance of family businesses is that the key actor directly or indirectly responsible for the governance decisions is considered to be ownership. In conclusion, it should be stressed that choices, structures, and processes must be designed and built based on the complexity of ownership and business; for example, if the social structure is very concentrated and the economic structure is very simple, the governance system will necessarily have to be composed of a limited number of bodies composed of the controlling entities. Therefore, a streamlined structure, functional to the small size of the company and the degree of simplicity of the corporate structure. Starting from the theories on the institutional structure, many of them have been analyzed and formulated in the vast field of corporate governance studies. Contributions that have served to fuel the line of studies are called "corporate governance". The concept of the company as an open system is the main justification for the existence of multiple corporate institutional structures, each of which is distinguished by a specific system of corporate governance. This term has a very broad concept in business economics but mainly refers to issues concerning corporate governance. In particular, we are referring to all those rules (legislative, jurisprudential, statutory, negotiating, and even customary rules), which characterize a particular institutional structure; in our case, we will deal with the rules and regulations of the "family business" institutional structure. Such rules condition the structure and dynamics of the enterprise, putting it more or less in a position to achieve and maintain conditions of overall balance. In other words, we can define corporate governance as all the "rules of the game", through which the most important business decisions are made and developed; those rules that contribute most to determining its prosperity or failure.

3.5 Family Holdings and CoCeo

The use of any type of company to regulate succession allows the entrepreneur a significant margin of choice, given the wide variety of corporate solutions that can be used and the possibility of drawing on past experience. This wide range of possible options makes it difficult to precisely categorize all the institutions in the category of corporate solutions.

It is important from this point of view to evaluate the contribution in advance: it represents an important tool in the generational succession of the family business as it allows the creation of corporate vehicles that allow the transfer of corporate control from one subject to another. In our case, the transfer, which may involve the entire family business as well as a branch of the company and part of the related shareholdings, allows us to achieve some important goals in this transition phase. It is necessary to specify that a company means a universality of tangible and intangible assets, of legal relationships such as, for example, receivables and payables - inherent to the operation of the company.

First of all, by means of a contribution it will be possible to separate the company's assets from the personal assets of the family members, thus distinguishing the various levels of risk based on the participation of each member in the company's capital; it will then make it possible to set up the so-called family holding companies, which constitute an intermediate element between the family and the operational activity and represent the place of comparison between family members. Discussing then, about the decision-making aspects of the family business, directly within the holding company, it is possible to avoid that possible conflicts paralyze the operational activity of the same. Finally, the possibility of making non-proportional contributions, allows to give specific weight to the various successors of the entrepreneur and to give them a participation that, regardless of the contribution from the same work, can reflect the interest of their presence in the company. social structure.
Therefore, the entrepreneur who is thinking about succession should first of all evaluate hypotheses of direct use, so to speak, of the company form: he confers the company or part of it, thus transferring indirectly also the business activity to a joint stock company owned by the family members. In this way what is created is a holding company that by virtue of the participation of the members of the family is controlled and managed by them. The establishment and use of the holding company as presented is a central part of the question of the use of corporate institutions in the generational transition.
The contribution in analysis, compared to the simple transfer of the company, is characterized by the fact that the consideration is constituted by a shareholding: the transferor, against what is given, receives in exchange a shareholding in the transferee company that benefits from the contribution-; therefore, the consideration of the transferor will be shares or quotas that the transferee issues specifically against the contribution, as a normal consequence of the increase in share capital that the same contribution has determined.
The Civil Code governs the transfer of business and corporate contributions; it is useful to point out that the rules governing the contribution differ according to whether it is a contribution to a joint-stock company (S.p.a.) or a limited liability company (S.r.l). In the case of S.p.a., the provision of works and services for contributions in kind cannot be the subject of the contribution and the sworn appraisal report by an expert appointed by the competent court and carried out by the directors in relation to the consideration due for the contribution must be subject to review. As far as the S.r.l. is concerned, on the other hand, there are no limits to the possibility of conferring all the elements of the assets that may be subject to economic evaluation, therefore, work and services will also be included. As already mentioned, the possibility of making non-proportional contributions, both within the scope of the S.p.a. and

the S.r.l., becomes important in the particular of the succession: the company's by-laws may provide for this option, provided that the provision does not in practice lead to a prejudice to the formation of the share capital, which can never by law be lower than the value of the contributions made. The non-proportionality has no direct effect on the company, making its effect explicit only in the relationship between partners; since the weight of the shareholding attributed to a partner is also the unit of measurement of the social rights that he can exercise in the company, the result of a non-proportional contribution will be to give a subject more weight, in the sense of a greater right to administer, receive profits and vote in the company than another.

Therefore, as a result of non-proportional contributions, in general, one receives a shareholding that is not proportional to the value of the contribution made, to which the rights due, which are also non-proportional with respect to the contribution, are parameterized. In the specific case of the S.r.l., the by-laws can, in any case, possibly derogate from what has been said so far; providing for special ad personam rights for some partners, it could be the further situation in which some of these rights are then not proportional to the contribution paid, while others are proportional as established in the by-laws. A similar faculty is not granted to the S.p.a. but alternatively they can issue categories of shares with different rights from the ordinary ones; since they are linked to the shares, the rights incorporated in them will circulate with them, which is not the case in case of transfer of shares to a S.r.l. to a new subject, since in this case the objective of giving non proportional rights to the shares is achieved through explicit provisions of the by-laws.

The operation of conferment, as part of the process of generational succession of the family business, usually takes the form of the transfer by the family entrepreneur of his company to a NewCo in which the descendants participate in order to achieve a co-management guided, for a period of time more or less long, by the parent himself. Therefore, the non-proportional contributions could be used in this area precisely to assign different roles to the various descendants, according to their skills, aspirations and willingness to participate in the business risk. On the occasion of the transfer of the family business to a new company, it could also be envisaged to exclude certain company assets from the transfer: these assets could be leased to the new company and constitute an annuity for the entire family, in the event that only a few descendants participate in the NewCo. It must necessarily be clarified whether the allocation of non-proportional shareholdings to the descendants may or may not take place in order to protect the legitimacy in the succession, they could in fact call into question what the entrepreneur has done up to that moment for the transfer. In this sense, the so-called indirect donations made by the de cuius in favour of some legitimates are relevant: these donations, in fact, must be considered for the purposes of calculating the respective legitimate shares. The operative problem that arises, therefore, and if the non-proportional contributions determine indirect donations or not and therefore if they are to be calculated in the legitimate quota or not. At the time of conducting his evaluations about the succession in the family business, the current entrepreneur could come to the conclusion that not all family members, who with a normal opening of the inheritance passage would be among his heirs, are equally interested and inclined to the continuation of the activity; they often lead to this approach, different from relative to relative, elements of an emotional nature, which may push some people to engage in the activity without having previously made an objective analysis about this opportunity. Certainly, where a plurality of subjects is involved in the process of generational transition, it will also be appropriate to take into account, with reference to the future performance of the business activity, the different degree of commitment and interest of the participants, as well as the different managerial skills. In this sense, it might be appropriate, for different needs, to attribute particular powers to the shareholdings held by the various family members, through the provision of shares or quotas with particular rights, for example, guaranteeing, to those subjects more interested in the mere economic aspect of the business, a right to receive increased profits, this provided that they give up part of their influence on the organizational and more properly entrepreneurial aspects of the activity; the related disciplines to carry out the above are different even within the same corporations. We speak of shares referring to the means that represents the minimum unit of participation in the share capital of joint-stock companies, limited partnerships for shares and cooperative societies constituted in corporate form, and, as such, includes a set of rights and obligations of the member of the aforementioned company. As far as our speech is concerned, it should be noted that the characteristic of autonomy leads to the consequence of making each action autonomous and distinct; therefore, even the possession of a single share entails the arising of rights and obligations for the member. In the same way, the extent of the rights that can be exercised, and therefore the weight in the management of the company, depends on the number of shares owned. Finally, with regard to the equality of shares, it must be understood as relative, in the sense that it will be possible to create categories of shares with different rights but within the same category there is always the principle of equality between shares. The special categories of actions may concern specific administrative or patrimonial rights, even regulating them separately. The administrative rights concern, for the most part, everything related to the right to vote such as: its total exclusion, its limitation to particular subjects or the possibility of providing for scaled voting. The patrimonial rights, on the other hand, cover the area related to the measure and the modalities with which to allocate patrimonial advantages and disadvantages due to the shareholder, in fact, those shares characterized by particular rights will be called "privileged", saying that they represent a fraction of the share capital; the initial number of shares will correspond to the number of shareholders who participate; therefore, each shareholder will be the owner of a single shareholding.

Finally, we treat the use of the conferral tool as an alternative with which you can create a family holding company. The term family holding company means a holding company controlled by members of the same family; it has two main characteristics: I) it can protect the family's assets; II) it is able to allow the generational transfer to settle disputes typically arising in such a place in the family nuclei. The activity of holding can be exercised through different types of companies but the fundamental distinction concerns first of all the different responsibilities of the shareholders in the case of partnerships or corporations; this regardless of the requirement of commerciality, given the non-commerciality of the activity of mere holding of shareholdings. Among the group of institutions proposed in the context of partnerships, the family holding company can take the form of a simple company S.s.s, general partnership S.n.c or limited partnership S.a.s. The S.s. offers many advantages such as allowing the shareholders a wide discretion in regulating both internal and external relations as well as in managing the degree of profit participation, it is not obliged to keep accounting records, it is taxed for transparency and does not require any particular formalities at the time of incorporation. However, it is subject to certain limits such as, first of all, unlimited liability, the possibility for the personal creditor of the shareholders for social obligations.

of the shareholder to ask for the liquidation of the share and the difficulties encountered in the transformation of the simple Company into a commercial company. The S.n.c. and the S.a.s. for their part are both partnerships of a commercial nature with the simultaneous obligation to keep accounting records and more complex reporting obligations than the S.s. In this case, the income received by the subsidiaries is considered business income both for the holding company and for the shareholders, therefore the individual shareholder may possibly compensate the income received with a loss incurred in the exercise of another business activity. Both the S.n.c. and the S.a.s. enjoy a wide marginality of internal and external organization with the impossibility for the personal creditor of a partner to ask for the liquidation of his share while the company lasts. Specifically, the S.a.s., allows to accurately plan and manage the dynamics of generational transition in cases where there are members of the family interested in the administration - such as limited partners with unlimited responsibility - of the company and others who are not interested - such as limited partners with limited liability. Turning instead to the analysis of capital companies, the family holding company can take the form of S.r.l, S.p.a. or limited partnership for shares - S.a.p.a. -. The disadvantage of a choice oriented in this sense are the higher management costs and a more complex decision-making process but, conversely, the partners are limitedly responsible for the obligations assumed by the company, they can entrust its administration to third parties - so as to adapt the corporate governance to their needs and skills - and finally plan directly the corporate and tax structure that best reflects their particular need for each inheritance. In addition, the provisions of TUF108 and of the Italian Civil Code109 relating to shareholders' agreements make it possible to regulate relations between shareholders in a complementary manner with respect to the provisions of the articles of association with regard to the exercise of voting rights and the transfer of their shareholdings; as in the case of the so-called voting and blocking syndicates: the former concern agreements aimed at regulating voting procedures within a cohesive group of shareholders, while the latter concern mutual commitments between shareholders not to sell their shares or to sell them only under certain conditions. This makes it possible to keep the company structure more united and "controlled", avoiding moments of decisional impasse in the event of a dispute between family members.

Ultimately, we can say that the choice of the type of company through which to set up a family holding varies profoundly in consideration of the needs of the family itself. In the case of a family composed of a few subjects, only a part of which are interested in management dynamics, the most suitable form would seem to be the limited partnership. On the contrary, in the case of a family composed of numerous subjects and with a considerable patrimony that sees the participation also in foreign companies, it would seem preferable to set up the family holding company in the form of a joint stock company in order to have a professional management of the company and at the same time limit the risks due to the typical problems that a family management brings.

3.5.1 SAPA in the Agnelli's Family

As far as the generational changeover of the Agnelli family is concerned, the choice to initially use the Sapa institute is probably due to the twofold necessity of: managing the interests in the family business of a large number of people - even when the shares arrived at the founder's grandchildren it was already a matter of various heirs interested in the company, to date there are more than seventy family members as partners within the B.V. under Dutch law that controls the group - and ensuring that the control of the family business remained within well-established boundaries. Sapa's advantage lies precisely in being able to establish by statute, on the one hand, which persons, among the participants, have among their powers those relating to the management of the company and therefore of the business and, on the other hand, which is the regime of circulation of shares and the related pre-emptive rights due to family members. The disadvantage could be represented by the fact that part of the shareholder base is exposed to unlimited patrimonial responsibility towards the company; this kind of problem is perhaps partly mitigated when Sapa does not directly control the company, or the various companies belonging to the group, of the family. It is true that the general partners remain jointly and severally liable for their social obligations, but it also makes sense that this type of exposure can be limited if Sapa does not directly manage and own the company, but rather only collects and distributes the shareholdings of family members in the holding company that in turn manages the company or group. Certainly, in the choice of the use of this institute has influenced a lot the fact that in the case of the Agnelli the use of this means has allowed to overcome some difficulties related to the generational transition responding positively to the particular needs of that succession. In fact, an initial phase of generational transfers, which took place over the years on the basis of what had been established by the statute of Sapa, allowed the family to maintain control of the holding company in which all their properties were grouped; an example can be December Srl which was the company that in turn held the shares of Gianni Agnelli in Sapa and participated by the grandchildren of his daughter. However, the situation has been further changed over time. Over the decades, the structure has evolved, moving closer and closer to a holding company that manages the group, which in turn is controlled by the various members of the family through Sapa. The objective to be achieved was probably to make the control of FIAT easier and culminated in a success when the move to the Netherlands allowed the participants of Exor N.V. to hold shares with multiple voting rights, definitively securing control; at the same time, the participants' exposure to business risk was limited, transforming Giovanni Agnelli Sapa into a B.V. which, as far as the capital regime is concerned, is similar to a limited liability company. The creation of a Sapa makes it possible, when a further generational changeover following the first one that created it is necessary, to already have pre-established rules that can accompany the process; moreover, there is nothing to prevent this further changeover from taking place by transforming Sapa into another type of company that provides for limited liability when the time is more mature and perhaps the person who will have to take over the management of the business is tacitly recognized from the start, either on merit or simply by a majority in the shareholding structure.

Chapter 4

4.1 Introduction and Methodology

Following what has been stated in theoretical terms in the previous chapters, the purpose of this last chapter is to empirically verify the characteristics of Italian listed family businesses. The basic question is whether, and if so what, the characteristics that a listed family business must have in its governance structure to achieve superior performance. As we have previously stated, the literature on the governance models of family businesses is sufficiently rich, and given the impossibility, here of analyzing in detail all the possible variants of governance that could affect the performance of the company in various ways, I have decided instead to focus on some particular aspects. In some cases, these factors have been extensively dealt with by various scholars, sometimes with similar and sometimes discordant results; in other cases, despite the literature largely identifies the problem, no significant research has been carried out in this regard. In particular, in this analysis, I want to analyze whether family ownership and control are good, bad, or irrelevant for the performance of the company and whether this greater or lesser result could be somehow related to the type of family ownership and control adopted. The question is whether a family effect can be identified and if so, what it is.

Taking cue from the literature analyzed above, we have come to identify a governance model that, according to our idea, could help to achieve better results for the company. The empirical analysis, which is the subject of this chapter, has been structured to verify this hypothesis. The governance model that the company should aim to build should, in my opinion, seek a form of balance. In particular, we have seen how the family business, to be such for the definition we have adopted, must not only provide for a family majority within the property but must also provide for the presence of at least one family member within the governing bodies. This ideology allows the company to be classified as a family business, but to improve its performance this presence must not be excessive.

A too marked presence of family members on the Board of Directors or Top Management Team, as well as the presence of a family member holding the highest management positions (such as CEO or Chairman of the Board), may not necessarily bring positive elements. I agree with the view held by some authors such as Lubatkin and Schulze[44] that on average a family

44 William S. Shulze, Michael H. Lubatkin, Agency Relationships in Family Firms: Theory and Evidence, (2001)

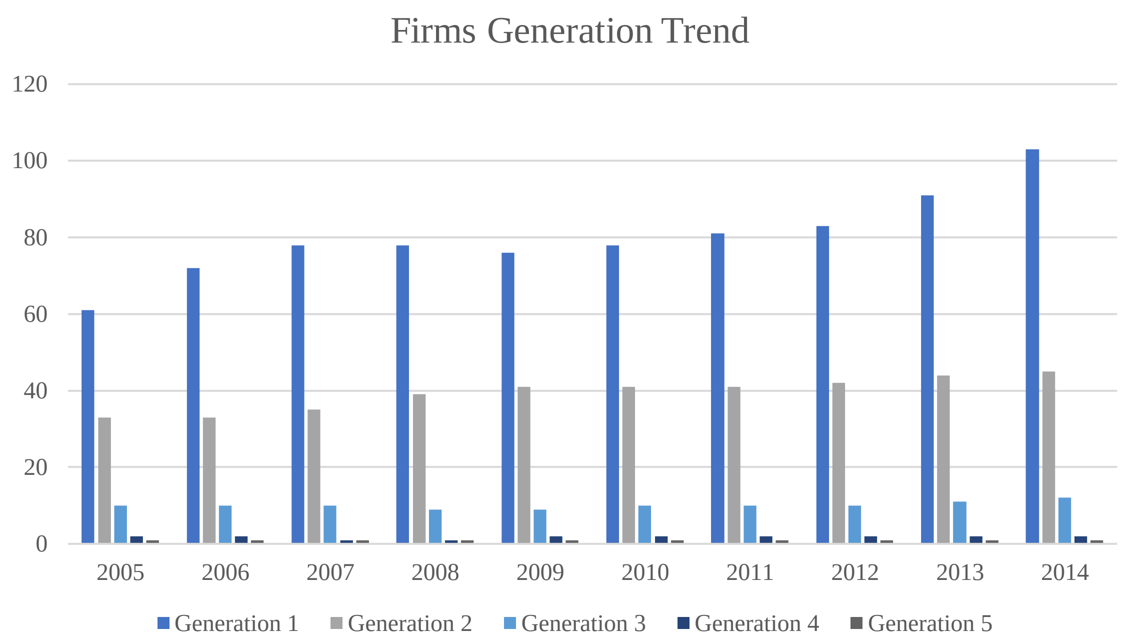
CEO can perform better than a non-family member when the size of the business is very small, and ownership is concentrated.
As the company grows and the shareholding structure disappears, the benefits associated with a family CEO tend to diminish, the benefits associated with passing on tacit knowledge among family members become less and less important when compared with the greater experience that an external manager can bring to the company.

To conclude, before getting to the heart of our analysis, we can assume that the best solution to govern a family business is a hybrid. The search for a balance between family subjects and subjects outside the company could be a discriminating factor capable of favoring the positive elements and reducing the negative ones associated with family businesses. The presence of family members inside the company could favor a long-term orientation and reduce the aspects linked to managerial shortsightedness typical of public companies.

4.2 The Importance of the Founder

Starting from this last topic, I introduce the first key point of this analysis, which focuses on the leadership issue, to better understand how it is linked with performance.
It is right to make this premise valid also for all the other parts that will make up my analysis. The empirical analysis carried out in this fourth chapter refers to a sample of 196 Italian companies listed on Borsa Italiana SpA. Analyzed in the period 2005-2014, where the observations are unbalanced as data for all the companies were not available for the whole period indicated. The data were collected using the database: Thomson Reuters Eikon, AIDA, the websites of Borsa Italiana, Consob, and the individual companies if necessary.

Table 3: Number of Firms Belonging to Each Generation in the period 2005-2014



Source: Thomson Reuters Eikon

All data refer to the consolidated financial statements of the companies that therefore have a pyramid or group structure. To identify a positive or negative effect of the family on the company's performance, the pyramid structure plays an important role. For this reason, I have only used data from consolidated or group financial statements to verify this condition.

The first point of the analysis deals with companies with a founder who also holds the role of CEO. In the entrepreneurial reality, as we have seen extensively during this research, we try to understand what are the factors that can ensure success and continuity to the company. Putting financial factors aside, the company certainly needs strong leadership that can carry out it through many challenges that the market, competitors, and technologies place before it.
In addition to the common difficulties that a company encounters in the course of its life, family realities are also faced with an "almost" obligatory generational changeover. I say almost because we must always keep in mind that the transfer of the holding or the exit of the family are true options to be taken into consideration in order not to see all the work done by the founder or previous generations go up in smoke. Other common problems of family businesses are undoubtedly the change in operating conditions and "owner fatigue"[45]. These situations

45 AIDAF, "Il Top Management nelle aziende familiari", (2006)

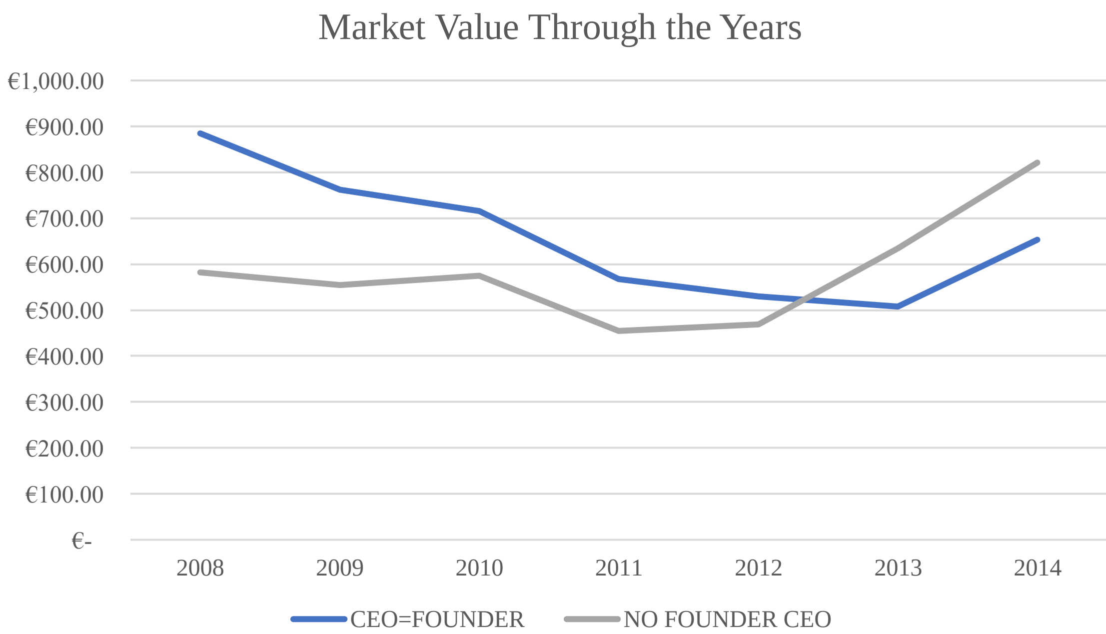
become difficult to identify, especially if the evaluator is directly involved in the management. Over the last 15-20 years, experience has shown that it is useful to continuously monitor management performance to adapt it to changing circumstances through a process of control and comparison (check and balance) between top management and a strategic decision-making body, typically the Board of Directors. In family businesses, the control and comparison of strategies can also be managed within the family itself, through the Family Council or by delegation to people other than the company manager. However, this may present additional risks, as possible conflicts of opinion and interest may be accompanied by emotional problems. It is in the wake of this thought, which I will resume later, that I begin my analysis.

The sample I examined is made up of 196 companies, but for 6 of them there was not much data to take into consideration. Therefore 45 of these 190 companies, corresponding to 23.1% of our sample, have a managing director who is also the founder of the same, while the others (76.9%) have a managing director, who is either a family member but not a founder, or an outsider. It is important to specify that the data taken into account for companies with the Ceo=Founder are sometimes only taken for the individual years in which this criterion was met. Therefore, the results that emerge from the analysis should be framed with particular attention to the fact that the founder effect may persist even when the latter has recently left the role of Ceo. The founder-Ceo variable taken into consideration is presented as a dummy variable. In the database collected if the founder was also Ceo the value 1 has been entered, otherwise the value 0. I took a lot of different KPI to have a general overview and make a more complete analysis; however, the first figure that certainly catches the eye is market value. In companies that have a founder at the head of the company there is a 23% lower middle value than the others, this shows us that for the former there is a lower growth presumably linked to management which, as mentioned above, becomes stagnant and does not give an incentive for business growth.

The competitive advantage that family businesses that do not have a founder as their CEO also seems to be supported by the market value trend in the years 2008-2014. For this small analysis, only those companies in the sample for which data could be found in a sufficiently large period were taken into account.

The graph below shows the opposite trend between the two samples, as the companies headed by the founder tend to have a more marked downward trend than the others do, which have remained constant over the aforementioned period. In recent years, however, there has been progressive growth for both. However, due also to the lack of data, this data has been included in the analysis but is not considered completely exhaustive to provide a detailed analysis.

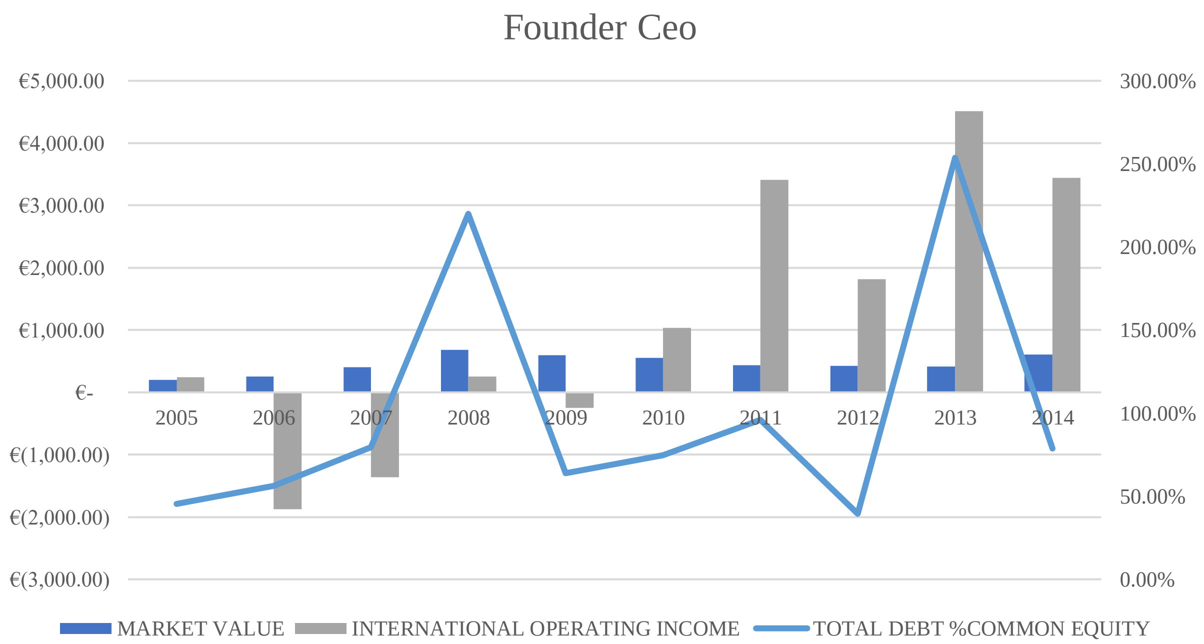
Table 4: Market Value Between Founder and Non-Founder Ceo in the perid 2008-2014



Source: Thomson Reuters Eikon

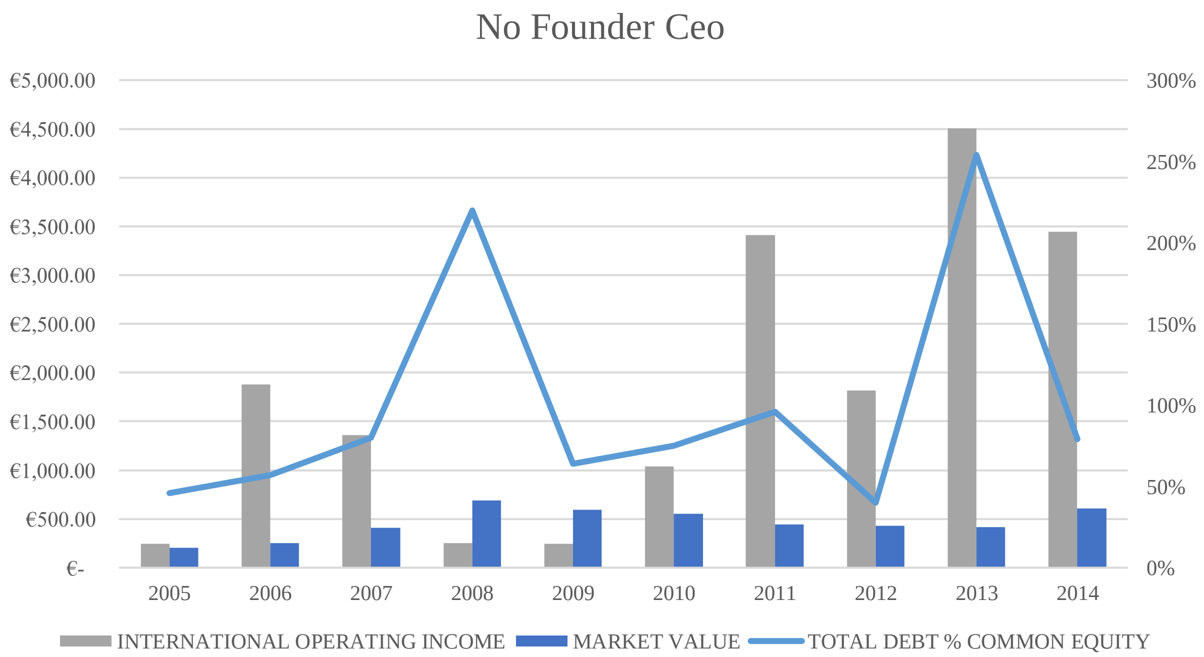
A similar trend can also be noticed by the analysis of international assets and operating income values deriving from trade with foreign countries. For companies that have the CEO who is the founder, the values are significantly lower, international assets are less than half and operating income generated by the foreign business is about one-sixth of those of non-founder companies.

Table 5: Three KPI of Founder Ceo's Firms in the period 2005-2014



Source: Thomson Reuters Eikon

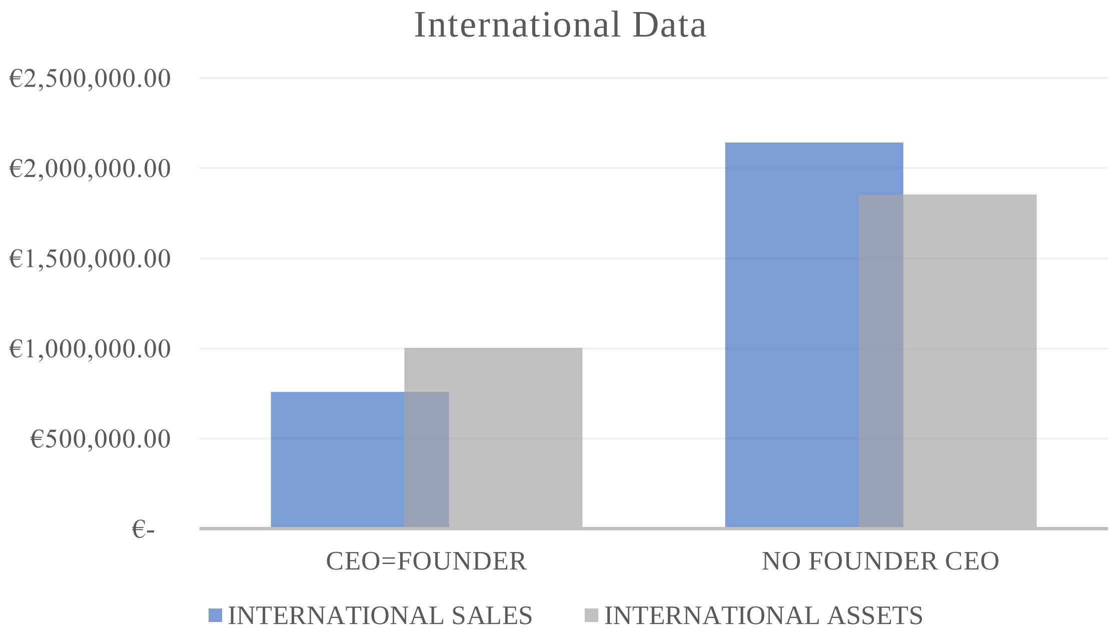
Table 6: Three KPI of No Founder Ceo's Firms in the period 2005-2014



Source: Thomson Reuters Eikon

These aspects can be linked to the idea that family business, especially if managed by the founder and therefore by the first generation, are mainly focused on the consolidation of the local and national market without thinking about a future perspective of internationalization. This latter would allow the company to have a larger consumer base and a more attractive brand on the world market.

Table 6: Comparison Between Founder e No Founder Ceo of International Sales and Assets (average of the period 2005-2014)



Source: *Personal Elaboration of Aida's Data*

Investments from this point of view can also help us to understand how there is a distinction of course between the two types in question: in the former, there is less recourse to external capital, even if the values are not too far from each other, as they are generally financed with family money. The percentage of debt compared to common equity is almost higher in each year of the period considered. Taking into account an average value, we got 100% compared to that of non-founder companies, which are 125%. Especially companies managed by external managers see debt as an opportunity, a means through which they can achieve important revenue targets, even at the expense of the financial strength of the company. Finally, a clear difference deriving from the observation of net loans suggests that the founders as CEO decide to opt for a much more prudent attitude to avoid having to face the difficulties that the future may present them.

If we wanted to draw a hasty conclusion, we could easily note that, except for some data in favor of the companies that benefit from the founder-Ceo, the results show the superiority of family businesses that decide to rely on another person. This conclusion would go strongly in contrast with the numerous studies that have highlighted how the presence of the founder could somehow influence the business results succeeding with his charismatic and entrepreneurial spirit and create a positive effect in terms of resources, skills, and competitiveness of the company, identified with the term founder effect. The data that emerged from the analysis carried out are in contrast with the study of Amit and Villalonga[46].

The two professors during their study came to demonstrate how the Tobin q (Market Value to Assets) in companies with a founder-CEO and president had a Tobin Q average of 3.12. Companies with a founder as president and an external CEO scored almost as high (2.81). However, it is necessary to make a clarification that prevents a proper comparison between different family businesses, namely, the failure to adopt a universal definition of Family Business, which leads most of the studies conducted so far too conflicting results. In the above essay, the two authors use nine different definitions to categorize family businesses, a subdivision that weighs on the possibility of having a certain figure on the value of the companies' performance.

Within this model, however, we want to interpret the founder effect from a different point of view, that is, as the ability of the founder to transmit to his descendants a strong attachment to the company, which must therefore be developed and preserved as part of the family's inheritance. In this vision, the presence of a founder able to transmit a strong culture to his descendants should be able, as generations go by, to have a positive impact on the company's performance. This aspect is linked to a conception that family businesses develop a form of altruism that encourages all family members to collaborate in the interest of a common good: the business. The core values of this theory encourage the founders to pass on ideas of commitment, respect, and mutual trust, and to provide their descendants with a workplace and company resources that they can exploit. A vision based on seeking a balance in governance mechanisms should be able to open up to external parties, thus allowing capable and professionally competent managers to operate within the company.

46 R. Amit, B. Villalonga "How Do Family Ownership, Control and Management Affect Firm Value?" (2006)

Another positive aspect to consider is the reduction of problems associated with the management of relationships between managing and non-managing members. This form of balance allows one to exploit the inimitable family resources and at the same time to diminish the effect of nepotism, a typical problem of this type of business. In synthesis, the family presence in the property, and more limited terms also in the management, turns out to be a positive factor in our vision as long as an excessive concentration of power is not generated.

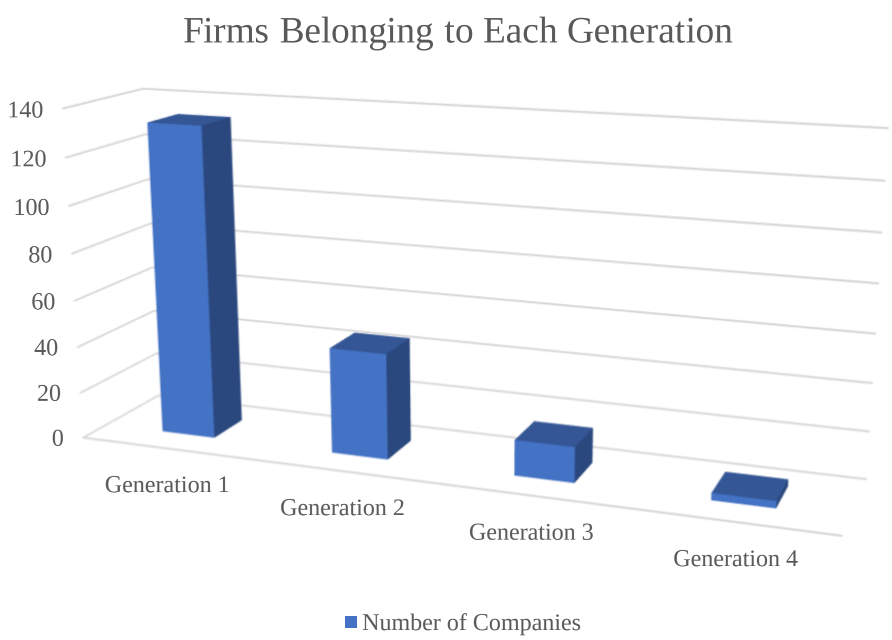
4.3 Performance in the Different Generations

The second point of our analysis focuses on an extremely sensitive topic for the survival of the company. The topic in question is the generational transition that, as we have seen in the second chapter, presents many difficulties. My intention in this part of the analysis is precisely to exemplify these difficulties through data extrapolated from the sample we analyzed previously. Our sample in the analysis is always composed of 196 family companies listed on the Italian Stock Exchange, even if the observations were made only on 179 companies since the data were available and relevant only for these, the variable under examination is generation 1, 2, 3, 4 assumed as a dummy variable, which assumes value 1 if the management is entrusted only to generation 1, 2, 3, 4 and 0 if entrusted otherwise. Before going into the analysis, I wanted to dwell on different data to have a general view of what is the panorama of the generational transition for Italian companies.

According to the Family Firm Institute of Bocconi University, the family businesses that manage to reach the third generation are 13%, those that survive the founder are 30% and only 4% of these reach the fourth generation. Still very high the percentage of companies that rely on a leader over seventy years old. About 23%, this figure is illustrative of the difficulty that surrounds the generational transition because it is preferable to always have the presence of a leader who has experience instead of worrying about the latter transmit his knowledge, preparing the company to make the transition. You should not be surprised if only 18% of companies plan to plan or undergo a generational changeover. After this brief statistical part let us see what emerged from the data I extrapolated. The main trend that seems to emerge and we will see it better with KPIs that we will select, is to have the companies that follow almost all the same path.

We see a growth in performance between the first and second generation, a clear sign that, even if there are not as many as we said before, those that manage to survive those that do have certainly done a good job with medium-long term projects. Following this first step, we have a moment of slight downturn when we reach the third generation, where all the KPIs either decrease or remain more or less similar. As if to emphasize that we enter a phase of adjustment where the only goal is to hold on and not give up ferrying the company to the next generation, which is why those few companies that reach the fourth, in our example only 3. Two of which belong to the same family: the Agnelli, have far greater values, has now become established companies that have fully completed their journey.

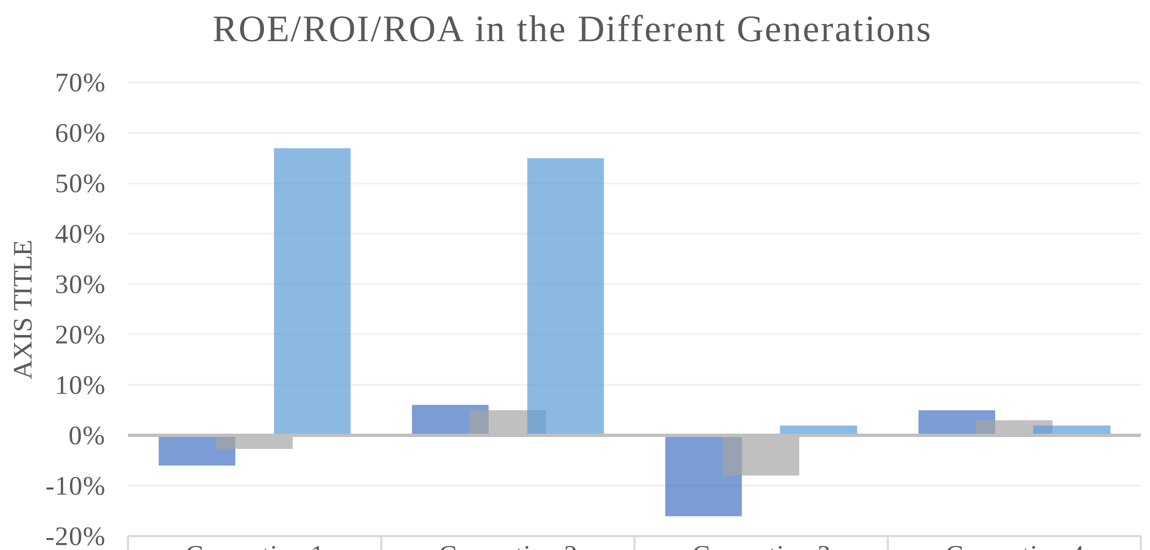
Table 7: Number of Firms of Each Generation



Source: Personal Elaboration from my Database

The first indicators that we are going to consider are ROE, ROI, and ROA respectively. The ROE has a trend very similar to what we said in our premise, the only difference is that already from the first generation starts from a negative value to then rise by almost 160% in the second generation and then undergo a decline in the third-generation companies. Widening the mesh of our reasoning we move on to the ROI that indicates the profitability and economic efficiency of the characteristic management of the company, regardless of whether the source invested is the capital of the company (share capital) or the capital borrowed from banks and financial intermediaries (debt capital). We see that this indicator follows a path similar to ROE. Finally, the last index is the ROA which measures the profitability of the activity carried out by the company, as can be seen from the graph, in the first two generations this value is almost equal (52% in the first and 48% in the second), in the last two generations there is a dizzyingly lower return on activity.

Table 8: Comparison Between the Four Generation by Using ROE/ROI/ROA

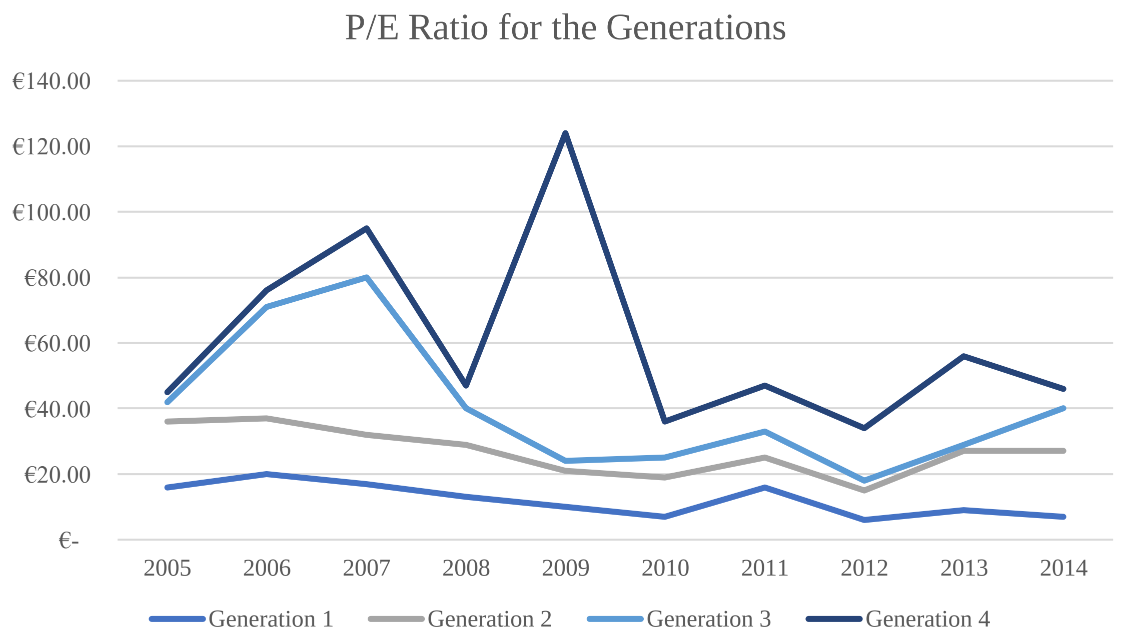


	Generation 1	Generation 2	Generation 3	Generation 4
ROE	-6%	6%	-16%	5%
ROI	-3%	5%	-8%	3%
ROA	57%	55%	2%	2%

Source: Thomson Reuters Eikon

Intending to increase the size of the market share held by companies when they pass from one generation to the other, we see that the market value between the companies of the first and fourth generation differs by about 15 times its value, always presenting a decrease for the companies of the third generation. The other indicator we take into consideration is the P/E ratio, which indicates the ratio between the market value of a share and the profits generated by it. Although it should be compared with the P/E of the sector of the company in question, a division that I have not adopted, we can make a general but significant speech about the idea that investors may have of the companies in our sample.

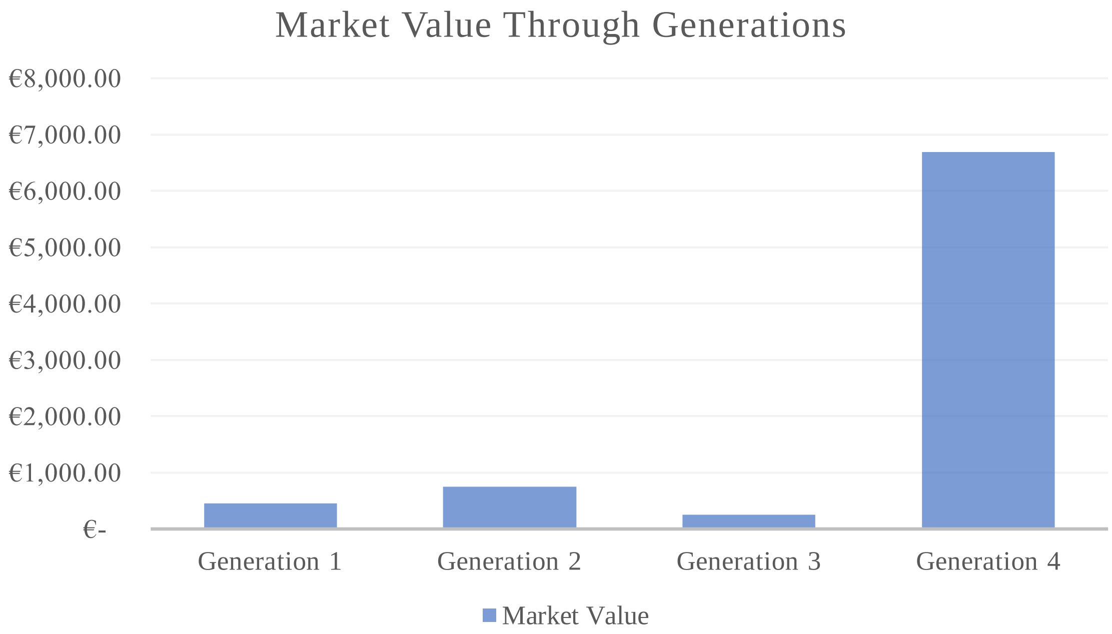
Table 9: P/E Ratio Trend Between Generations



Source: Thomson Reuters Eikon

The main rule that is applied when you go to see this indicator is to believe that a low P/E indicates an undervalued company while for a high value you have an overvaluation; this means that investors have high expectations of companies with a high P/E because they expect profit growth rates of a certain value. Referring to our sample, we note that the value between the first and fourth generation has almost tripled. If we wanted to draw general conclusions, we can imagine that investors are more reluctant to give confidence to new companies, with a still unripe family at the head. While they expect more and more as the company grows in size, thanks also to the possibility of having a comparison with the experience over the years, for a young company this is impossible because it lacks a historical data. It must also be considered that trust is generated at the basis of the "relationship" between company and investors in the case of family businesses. First of all, in the founder and subsequently also in the family in the event that it is included in the company's work. In fact, we will see in the fifth chapter the case of Luxottica, where the founder, despite deciding to make risky decisions, will eventually be supported by investors.

Table 10: Market Value of the Firms Belonging to Each Generation (average of the period 2005-2014)



Source: Thomson Reuters Eikon

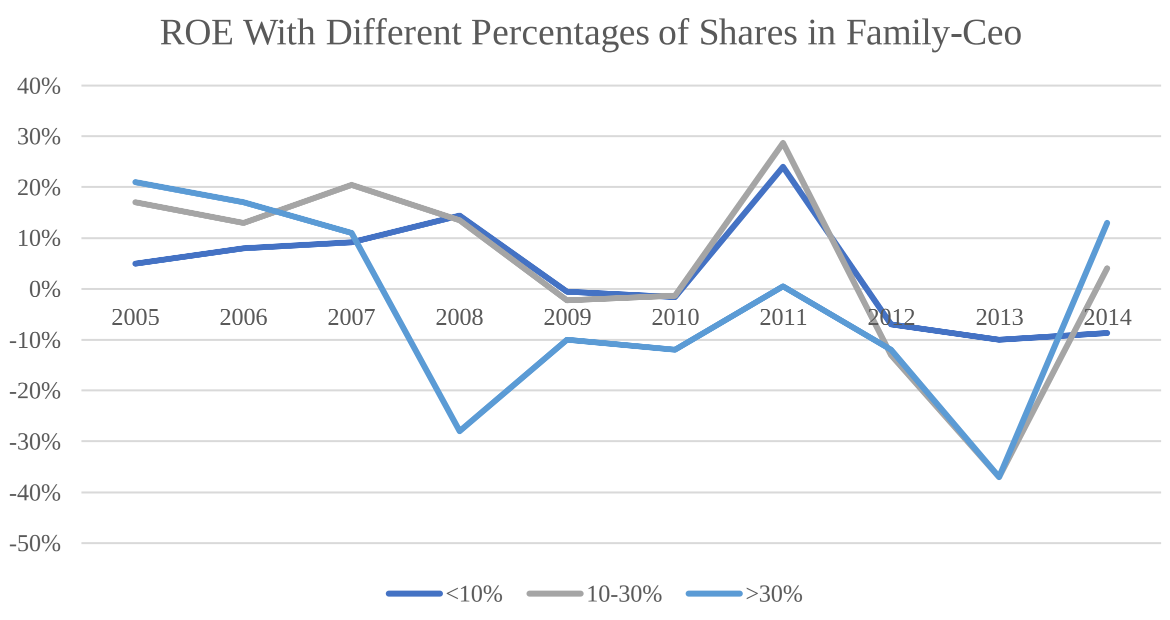
The next point provides an analysis of the debt part of the companies, to see what strategy the companies adopt according to the generation. The indicator that we are going to consider is the Debt-to-Equity Ratio; the latter is one of the main financial indicators used by banks, for example, to judge the level of sustainability of a client company. It is clear that the higher the ratio indicated above, the smaller the margins to lend further money to the requesting company, as the debt is already high, i.e., the financial strategy pursued has been aggressive. This correlation between the value of the debts and the shareholders' capital can be explained in consideration of the fact that the money borrowed from third parties must be remunerated and this implies a cost in the form of interest for the debtor company. At the same time, the shares purchased by the partners and whose share capital is formed at a certain date must be remunerated. When a company registers an increase in the debt-equity ratio, the level of debt rises, so that the resources to be set aside for interest also increase in absolute value, as well as generally as a percentage of the degree of debt, reflecting a higher credit risk. The consequence of this is that operating income tends to fall since the higher interest to be disbursed reduces the result generated by ordinary operations. Fewer profits are translated over time, if not immediately, into lower dividends distributed to shareholders so that in the face of higher remuneration to be paid to creditors, the shareholders will have to make do with fewer resources. In other words, the debt displaces the capital on the front of the distribution of resources. A heavily indebted company pays a lot of interest and pays few dividends.

This is the reason why the value of shares tends to fall over time as the degree of indebtedness of the listed company increases. The values for the different generations are all quite high, all well above 100%, with a surge in the third generation, in my opinion, this should not be seen as a wake-up call but as a necessary consequence of going to raise capital from the third parties once the size of the company is growing. Previously, we have said that at the beginning of the company, when the founder is still present, the average size of the company is reduced and the use of third-party capital is reduced, but this, especially for ambitious companies, does not last more than 10-15 years because then it becomes, an obligatory step, to a larger size and notoriety of the company also corresponds to facilitation in access to credit.

4.4 Relevance of the CEO-Shareholder

In this last part of the analysis, I decided to focus on the shareholding structure of companies, with a particular focus on the CEO shareholder, both family and non-family, and dividing the former into the three different generations. In the past, especially in small and medium sized family businesses, the idea that the family always held the majority of the capital was ingrained, and this was then also reflected in a greater shareholding held by the CEO.

Table 11: Comparison Between Firms with a Family-Ceo Owning Different Percentage of Shares



Source: Personal Elaboration Taken from my Database

In recent years, as we have said many times before, large companies have been leading the way in reversing this trend, starting to open up to third-party investors and CEO-Shareholders outside the family. In the table below it is clear that over time there has been a depersonalization of the CEO's shareholding across generations, to the average value of non-family CEOs, which is as low as 1%.

Table 12: Different KPI between Three Generations's Ceo and Non-family Ceo

	Generation 1	*Generation 2*	*Generation 3*	*Non-family CEO*
% CEO's Shares	27,6%	20%	3,2%	0,9%
Net Debt	€ 466.569,00	€ 289.129,30	€ 2.247.038,06	€ 627.682,34
ROA	50,36%	53,12%	-0,29%	37,17%
ROE	10,56%	1,90%	2,25%	1,30%

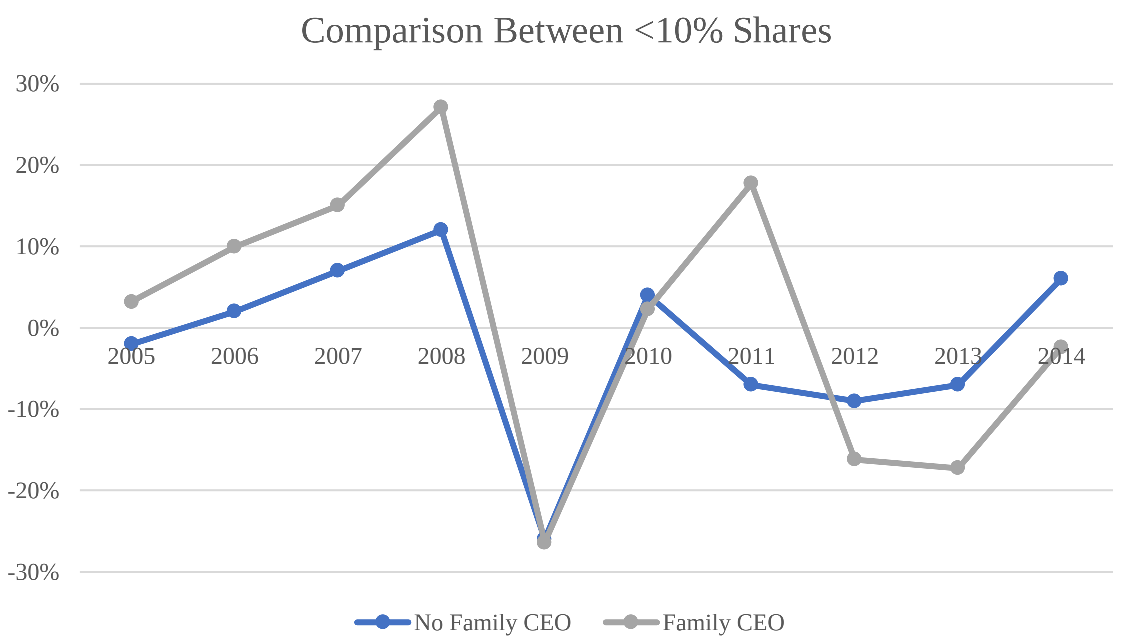
Source: Thomson Reuters Eikon

When the CEO is external, performance is much less brilliant in terms of profitability, cash flow and debt sustainability. This result is compatible with two very different phenomena. On the one hand, my view is that hiring an external director reduces management efficiency, for example because it increases agency problems with the separation of ownership and control, or because family businesses struggle to attract capable external managers. On the other, it could be that families rely on an external CEO when the business is going particularly badly. In this case, the worst performance of external directors would be a legacy of particularly inefficient family management.

I then tried to understand how much the percentage of shares held by CEOs, both family and external, could influence performance. I lost consideration of the time horizon from 2005 to 2014, distinguishing three macro-areas (percentage of shares held: <10%, 10-30% >30%). As a judgement parameter for analyzing performance, I considered the level of ROE, an indicator that we have discussed extensively in the previous paragraphs.

In the first graph we see how the holding of shares that allows for fairly constant levels of performance over time is the one where the family CEO holds a percentage below 10%, this position could lead to a greater comparison between shareholders and put the CEO in a position where he always has to take other opinions into account before making a decision. The second graph uses the same data for Non-Family CEOs. Unfortunately, due to a lack of data, I was only able to examine the situation of shares below 10%. We can see that both situations are almost similar, apart from more or less high peaks, the trend followed is very similar; an upward trend in the first few years, a downturn after the crisis and a recovery. In the last few years, companies with an unfamiliar CEO have better numbers.

Table 13: Comparison Between Family and No Family Ceo that Own <10% of Shares



Source: Personal Elaboration Taken from my Database

Chapter 5

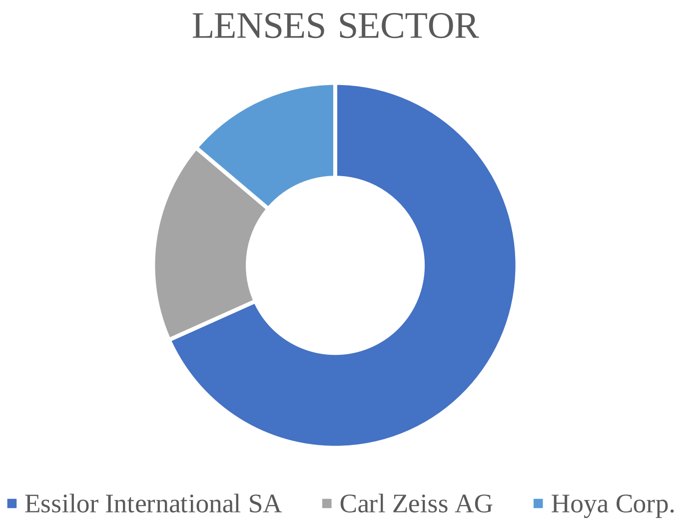
In this last chapter I decided to analyze two Italian excellences who made up the sample of family businesses under examination that I used for all my work. The two companies in question are: Luxottica and Safilo Group, two of the largest Italian and world companies in the eyewear sector. The two companies were founded about 30 years apart from each other, but nevertheless have an important overlap period in which it is, in my opinion, really interesting to analyze the different management methods that have determined the definitive rise of the Luxottica brand and, at the same time, the decline of the family ownership percentage of Safilo. Specifically, my attention will be focused on Safilo's second generation unsuccessful management, and on Luxottica's founder management in which he took advantage of the misstep of the direct competitor, deciding to adopt an ad hoc configuration for the succession within his company.

The Eyewear Industry

The eyewear business is a rapidly growing sector, in which there are three main branches that are the lenses, the frames and the armature[47]. From a global point of view, we are witnessing the presence of two large geographical areas of production, which are South-East Asia and Latin America on one hand and the West with American, European and Japanese producers on the other. The two areas are distinguished mainly by the production segment in which they operate, respectively the first focused on the low-end production while the second mainly focused on the medium-high and high-end production. In order to identify the main players in the eyewear industry, it is necessary to analyze the lens sector separately from the frames one. As far as lenses' business, we find a market consisting mainly of foreign companies, of which the leader is certainly the multinational Essilor International SA, a company that we will also mention later, with a market share in 2015 of 30.6%, followed by the German Carl Zeiss AG, with an 8% market share, and by the Japanese Hoya Corp, with a 6.2% market share.

47 This includes, for example, companies that manufacture machinery for the production of spectacles or spectacle components or manufactures of spectacles accessories such as cases

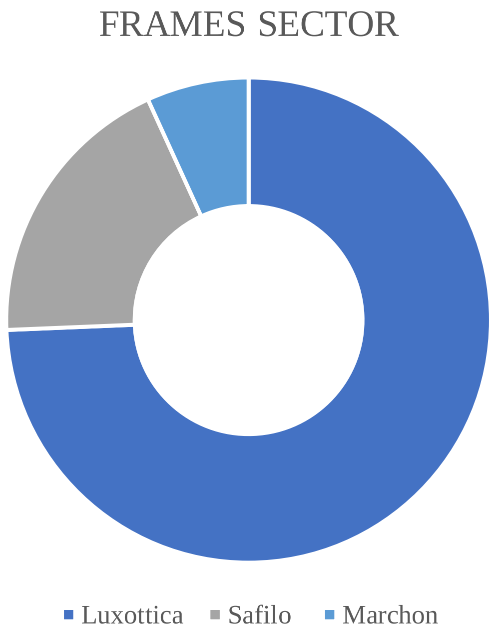
Table 14: Market Shares of the Three Major Players of the Lenses Sector



Source: Banca Dati Il Sole 24 Ore

As for the frames' business Italian firms play a major role; in fact, among the leaders in the sector, in addition to Luxottica, there are also Safilo, De Rigo and Marcolin, and at last Allison and Italia Independent. There are also significant foreign players, among which the most important is the American Marchon, owned by the international insurance company VSP Global. It is also crucial to mention the presence of large groups in the luxury sector that in recent years have been directly entering the eyewear market, thus choosing internal integration and production rather than licensing the brand. In particular, this refers to Kering, which has already started this strategy some years ago, and to LVMH which recently announced the foundation of a joint venture with Marcolin. Looking at market shares in the frames sector, the top three companies in 2015 were Luxottica with 22.9%, followed by Safilo with 5.8% and VSP Global (Marchon) with 2.1%; in the sunglasses segment we always find Luxottica in first place with 43.7% of market share, in second Safilo with 13.4% and in third Essilor with 4.3%. In this context, Luxottica certainly plays the leading role with a market share of around 16% with reference to the entire global eyewear market.

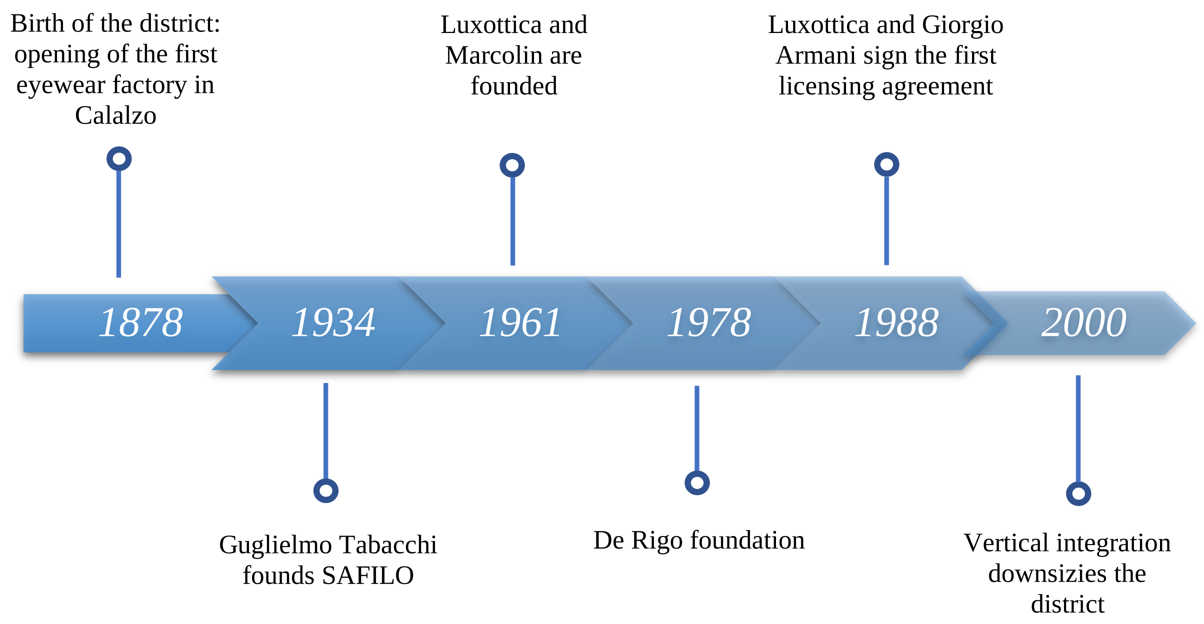
Table 15: Market Shares of the Three Major Players of the Frames Sector



Source: Banca Dati Il Sole 24 Ore

Luxottica strongly believes in the continuous growth, in fact, in the 2015 Annual Review, the Agordo-based company estimates an increase in sales of frames in the next five years of around 20% thanks to the presence of three main drivers that positively influence demand. The first of these phenomena is demographic change; in fact, it is estimated that in 2030 there will be about 2.9 billion people with vision problems worldwide. This number will have on the one hand the growth of the population and its aging and other lifestyle that is spreading where there is more exposure to TV, PC, tablet and smartphone. The second factor will be the increase in product penetration. To date, it is estimated that 60% of the world population needs vision corrections but only 25% of the population has satisfied this need. This gap in penetration constitutes an important opportunity for the entire industry as it means that most of the potential consumers still have to be reached. The latest phenomenon is the gradual transformation of glasses from a medical instrument to a fashion accessory. This means that more and more people consider eyewear an essential part of their style, thus influencing the purchasing habits of many consumers. In fact, today we are witnessing the reduction of the glass lifecycle and the increase of the number of consumers buying more glasses simultaneously. The eyewear sector within the luxury sector is growing very quickly today, thus showing its enormous potential, also confirmed by the increasing presence of eyewear in typical luxury distribution channels such as travel retails and department stores.

Table 16: Timeline of the Eyewear Sector



Source: Personal Elaboration

5.2 The Safilo Case

The Safilo Group (Share Company Fabbrica Italiana Lavorazione Occhiali) is one of the world's largest manufacturers of sunglasses and eyeglasses, and a world leader in the high-end eyewear sector. Located in Padua, the company has been operating in the eyewear market for over seventy-five years and is also one of the three world leaders in the production and distribution of sports eyewear. Safilo directly controls the entire product lifecycle, from design and production to distribution and sale, and it is strongly oriented towards the design and development of collections.

The history of the Safilo Group begins in 1934, when Guglielmo Tabacchi buys the first Italian industrial complex that produces lenses and frames, active since 1878 in Calalzo di Cadore, and founded the Group's operating company, Safilo Spa. In order to provide a proper development, in 1964 a new factory was opened in Santa Maria di Sala, in the province of Venice, where the whole production was transferred. The Padua Service Center was purchased in 1973 and the product distribution was moved in later in 1975 and the offices and the headquarters in 1977. With a view to commercial expansion abroad, the first commercial branches in various European countries such as Belgium, Spain, Germany, France and Sweden have been established or acquired since the 1980s. In 1986 the Group acquired control of Starline Optical Corp., one of the most important commercial companies in the US in the eyewear sector. At the death of its founder in 1974, the three sons Vittorio, Dino and Giuliano take the reins of guiding the group toward going public on the Milan Stock Exchange in 1987. In fact, since the 80’s, the Safilo Group has joined new market segments located in the luxury eyewear area, sensing the potential of the market and promoting a redevelopment of the eyewear product that is now identified as a fashion accessory and no longer just as a corrective means of sight. In 1990 the new Longarone plant came into operation, which represents one of the most technologically advanced companies in the sector. In March 1996 he joined the Group's producer American Society of sports eyewear Smith Sport Optics Inc. and in the same year is the acquisition of the Austrian company Carrera Optyl, allowing Safilo to become the sports eyewear leader.

As we can see by drawing the lines of its history, the second generation at first proved to be up to the founder by perpetrating the success of the company and making its own those principles of innovation and development that we have seen must belong to the generations that follow. The problems that gradually led to the destruction of the Tabacchi’s family property within the company started at the beginning of the new millennium. In fact, in 2000, Vittorio Tabacchi pushed to acquire the American Ray Ban, which was on the verge of bankruptcy, while the two younger brothers rejected the operation; Del Vecchio, founder of Luxottica, joins the negotiations and buys the American company. We will see later that the owner of Luxottica will exploit the differences in the Tabacchi family to grow at the expense of its main competitors, demonstrating how it is essential to realize that the family unit is required to maintain their power both inside the company and on the market.

In fact, due to family conflicts, in 2001 the eldest son Vittorio launched a takeover bid on Safilo worth one thousand billion lire, liquidated his family but was forced to discharge all the debt deriving from the acquisition of the company. And so, while Luxottica was buying chain stores in the US and Australia, Safilo had to write off the liabilities of the takeover bid; this operation, followed by other managerial events, was a double issue for Safilo, as it will first wear out the finances and consequently the property of the Tabacchi family and will give a definitive competitive advantage to the main competitor, Luxottica, to create a gap even today unbridgeable.

Analyzing the events in detail. Is the 2001, when Vittorio Tabacchi launches takeover bid offer, offering to other shareholders the same price paid to the other two brothers; again in 2001, it acquired all Safilo securities through a leveraged buyout transaction and withdraws the company from the stock exchange. Four years later, at the end of 2005, Vittorio Tabacchi, flanked by his sons Massimiliano and Samantha, brought Safilo back to the stock market with a very heavy debt (about 710 million euros) due to the financing of the costs necessary to carry out the leveraged transaction buy out. In 2009 there is a need for a robust recapitalization: the Dutch fund "Hal Investments" thus intervenes and becomes the reference shareholder, first with 37.2%, then with 42.2%. Vittorio Tabacchi's participation drops to just over 9%: the Tabacchi family is definitively ousted from the Safilo ownership. But Safilo's downward trend was also a lesson for Luxottica, as we will see shortly: the Padua group, which was stronger than that of Agordo, began to falter after the passing of the baton between the first and second generation, and a triumvirate at the top prevented Safilo from making crucial decisions, such as buying Ray Ban, which in hindsight would change the fate of the company. Safilo is now worth a 25th of Luxottica and is very dependent on the licensing model, which is starting to falter: it is no coincidence that it trades 14 times the expected profits for 2014 on the stock exchange, half compared to the shares of the giant of Agordo (28 times the p/e). Luxottica, on the other hand, is the only eyewear manufacturer to have a global distribution network and where license revenues represent only 13% of the group's 7.3 billion revenues.

The Luxottica Case

Luxottica was founded in 1961 in Agordo, by Leonardo Del Vecchio. Analyzing the eyewear components market, he saw the opportunities and decided to specialize in this sector with a company of his own. So, in 1961, Del Vecchio decided to leave Milan and moved to Agordo where he founded a small business.

Thus, Luxottica was born mainly as a subcontractor, but a few years later Del Vecchio understood that the quality of his product, of his production processes and of the technologies used were superior to the competition and vertical integration would have been the best strategy to exploit these advantages. The first step was the assembly of individual parts to then lead to the production of a finished frame with the Luxottica brand. In the following years Luxottica was committed to streamlining production processes by looking for the best and least expensive way to produce quality products in an integrated way. In fact, the company already in 1974 held every production process internally for the production of frames. The strategy chosen by Del Vecchio and Francavilla, his historical advisor, was that of vertical integration for the creation of value, setting aside the horizontal extension. The next step was what to look out on wholesale distribution purchasing a distributor of glasses, Scarrone Spa to of Turin. By purchasing this distributor, Luxottica had the opportunity to better control its positioning and sales choices, which are partly limited when there are independent distributors with their own strategies. The decision to integrate was also motivated by the desire to reduce final costs by eliminating the margins of intermediaries. In the following years, the development of the wholesale network took on international importance with the opening first of a branch in Germany and then with the acquisition of Avant-Garde Optics Inc., one of the largest distributors in the United States, to then continue with numerous other acquisitions, joint ventures and branch openings in the most relevant markets.

1988 is the year of a new turning point with Luxottica's entry into the fashion market by signing a licensing agreement with Giorgio Armani, who will also be a significant shareholder of the company, thus anticipating a trend in the years to come. Del Vecchio's intuition is that eyewear is no longer just an eye correction tool but a real accessory. However, 1990 is an important year for Luxottica for another reason as well: in fact, this will be the year in which Luxottica will be listed on the New York Stock Exchange[48]. This choice will allow the company to have a greater international prominence accelerating growth and especially increasing its visibility in the US, one of the markets strategic for Luxottica.

After entering the wholesale market more than ten years earlier, in 1995 Luxottica decided to integrate even more deeply into distribution by entering the optical retail market. The company became the first manufacturer to enter directly in the business retail and does buying The United States Shoe Corporation, owns LensCrafters, the largest chain of optical stores worldwide. This will allow Luxottica to establish a real relationship with the consumer by consolidating its leading position. But the most iconic acquisition, for what it represents the brand in the eyewear industry, takes place in 1999 when Ray-Ban passes under the control of Luxottica following the acquisition of the division eyewear of Bausch & Lomb Inc. The desire to establish itself in the market of sunglasses pushed to the acquisitions of Persol and Vogue

48 In 2000 Luxottica will also be listed on the Milan Stock Exchange

as well as the contracting of new licenses with Bulgari[49] and Chanel[50]. However, the acquisition of Ray-Ban, a brand born in 1937, was also a challenge, as it was the acquisition of a giant in the sector. Luxottica intervened by restructuring and Italianising its production by investing in efficiency and in eliminating waste.

The first decade of the 2000s is characterized by the expansion of the presence in the retail sector and of the proprietary brand portfolio. Therefore Luxottica, already present in the wholesale and retail distribution, decides not to stop, to take advantage of the new trends and also enter e-commerce. It does so first in 2008 by creating dedicated platforms for Sunglass Hut, Oakley and Ray-Ban and then in 2014 by purchasing Glasses.com from WellPoint Inc. Glasses.com is one of the most advanced platforms for the digital optical sector that allows consumers to try on glasses thanks to a try-on technology, managing to capture the customer's face in 3D and then add the frame. This acquisition allows Luxottica to hone its e-commerce skills while keeping innovation alive. Innovation, has always been one of the values of Luxottica, marks a turning point with the creation of intelligent glasses through the agreements signed in 2014 with Google and Intel. Luxottica will collaborate with Google in the creation and production of the Google Glass. The first result of the collaboration with Intel will be the Oakley Radar Space launched in 2016, smart glasses that can be activated with the voice that assist sportsmen during training allowing them to improve their performance.
Finally, in the last few years, there have been two important events for Luxottica. The first, relevant acquisition for the Italian context, was the one of Salmoiraghi and Viganò, the first Italian eyewear and optician chain with four hundred and thirty stores and more than one hundred and fifty years of history behind. The second, on the other hand, had a resonance also outside the optical industry and was the announcement of the merger with Essilor, a French company world leader in the production of ophthalmic lenses and optical equipment. With this announcement, Luxottica enriches its range of action by being able to produce complete eyewear, from frames to prescription lenses, and subsequently also distribute them. The new giant Essilor-Luxottica will have a capitalization of over fifty billion euros with an expected annual turnover of over fifteen billion and one hundred and forty thousand employees. These are the words used by Del Vecchio, who will be the future executive president of the new company, to describe the operation: "With this operation, my dream of giving life to a

49 Occurred in 1997

50 Occurred in 1999

champion in the optics sector that is totally integrated and excellent in every its part"[51]. It is precisely starting from this last operation that we enter into the heart of Leonardo Del Vecchio's succession plan, to which I have decided to devote more attention as it is more complex than Safilo's that we have seen above.

First of all, it is necessary to clarify the ownership situation of Luxottica. At the top of the equity pyramid is the Delfin (acronym for Del Vecchio financial company) based in Luxembourg, of which Del Vecchio owns 25 percent, which will pass to his wife Nicoletta Zampillo on his death. The rest is divided between the six children.

In the nineties the group was controlled by two financial companies: Leonardo, which was headed by the founder and held 56 percent of the shares, and Delfin with 15 percent in the hands of the eldest son. However, the position of the other heirs remained uncertain. To change the ownership structure, Leonardo Del Vecchio merged the two holding companies in Delfin and thus strengthened his control. Its stock holdings before the pandemic were valued at $ 4 billion.

At first the designated heir seems to be unique and is the eldest son, who demonstrates commitment and determination by bringing Luxottica overseas and then dressing in Brooks Brothers; later, however, following some differences, Del Vecchio decides to opt for a different solution so as to be able to equally divide the entire estate with the other heirs. It is important to underline that this period coincides with the founder's apparent desire to take a step back and separate management and control, thus definitively preparing his heirs and the company for the dreaded generational shift. This was the case in 2004 when Del Vecchio entrusted the management of Luxottica to Andrea Guerra. Under his direction, Luxottica puts an extra gear and takes a second leap, after the American one. It enters China, Turkey, Mexico and extends to new branches, without moving away from the main trunk. But the new equilibrium is broken ten years later: Del Vecchio, in fact, decides to return to the helm of his company. Just the second marriage with Nicoletta Zampillo, with whom he met in 2010, push Del Vecchio to review the plans already established, which provided for a rigid division of the shares of the family safe, there in Delfin, among the six children, who were therefore holders of 16.38%

51 D’Ascenzo M, Fusione Luxottica-Essilor da 50 miliardi, nasce colosso degli occhiali. Volano i titoli, Il Sole 24 Ore, 16 January 2017

each. Towards the end of 2014, shortly after the noisy exit from Luxottica of the manager Andrea Guerra, it emerges that Zampillo is asking for space in the Delfin: he wants the 25% that would be due to it on the basis of legitimacy. He gets it and still has it in his hands, while the rest of the holding shares, of which Del Vecchio has the bare ownership, is divided equally among all the entrepreneur's children, who therefore own 12.5% a head.

A design that, even after Zampillo's entry into the financial institution, makes no difference between the children born of different unions and that was designed precisely to try to avoid that in the future tensions may arise between the brothers, whose relationships over the years, also thanks to the rivalry between Del Vecchio's current wife and Sabina Grossi, they have not always been idyllic. Always with the aim of bringing peace to the family, the Delfin statute provides that all decisions are taken almost unanimously, with the favorable vote of 88% of the capital. In practice, only one child can disagree, and no decision can be made against Zampillo's will. Which, in any case, together with his son Leonardo Maria forms an important block in the capital of Delfin, equal to 37.5%, equal to the percentage put together by the three children of Del Vecchio's first marriage, while those born from the union with Sabina Grossi hold the remaining 25 percent. This is the structure with which the Delfin of the Del Vecchio family presents itself at the crucial moment of the merger between Luxottica and the French Essilor, which gives life to a new Italian French group based in Paris of which the Luxembourg safe holds the majority stake 32.2 per cent.

After a first part more focused on the history of the two companies, I now intend to continue through a numerical analysis, so as to retrace the crucial moments of the two giants of eyewear, trying to give my interpretation to the events through the use of balance sheet data. I decided to focus on the 2005-2015 period because I think it is very important for both of the two companies, for several reasons.

For Safilo 2005 is a very significant year because returns on the stock market after the massive Opa launched at the beginning of the new millennium, which greatly reduced the company's finances, and then 2009 is the year in which he entered in at stake HAL investment fund: we will therefore see how much this situation has impacted on the company's numbers and if there has been a recovery.

For Luxottica I decided to make a different speech, I considered the same period that coincides with the direction by Andrea Guerra: the well-known manager succeeded in impeccable management, making the company grow like never before. My intent is to demonstrate that, numbers in hand, perhaps it was not necessary for Del Vecchio to return to lead his company but to focus more on the succession plan, which certainly cannot be considered free of criticism.

Let's start with Safilo, and let's start talking about the takeover bid which was launched in 2001 by Vittorio Tabacchi; as we have previously said, this operation was subsequent to numerous differences of opinion on the part of the three brothers, especially relating to the non-purchase of RayBan two years earlier. The Opa is an operation that provides that the bidder purchases the shares by paying the shareholders of the company subject to the offer in cash: the latter, if they accept the offer, are therefore liquidated and leave the shareholding structure. In Safilo's case, the acquisition of the shares of the outgoing shareholders is worth approximately one trillion old lire and discharges a debt onto the company that will be very difficult to face. To deal with this difficult situation, Roberto Vedovotto was called in the role of CEO, who was responsible for managing the turnaround of the group which ended with the listing on the stock exchange in 2005. Furthermore, the task of renegotiating the debt with the improvement of guarantees is also important. and margins by signing a new contract.

Unfortunately, due to the absence from the Stock Exchange data up to 2005 are not available, however, through these numbers we will try to rebuild this decade. In 2005 the Group was forced to contain costs in order to try to improve the operating results, but in addition to the difficult situation in which it was concerned, the company in the last 5 years also found itself having to bear the operating and financial costs for the listing on the stock exchange. However, 2005 is a significant year as there is a strong reduction in accumulated debt, which records a decrease of 40%. The next two years see a slow improvement deriving from the new corporate reorganization, and the results are positive by virtue of the halving of financial charges that occurs thanks to the capital increase carried out at the end of 2005.

The most significant and relevant year for the Group is 2009, as can also be seen from the results in the table, in which it enters the company HAL Investment, followed by a recapitalization of the group and a restructuring of the financing with all banks; 2009 was a difficult year for the entire market, and Safilo was also affected by the cautious expectations on the recovery of the market worldwide. The aforementioned recapitalization process ends in March of the following year, while in the meantime the management team is strengthened and new partnerships are made with luxury brands, first of all Carrera, which will drive the important results of 2011, recording record sales in the major markets, such as the United

States. From 2010 onwards Safilo will adopt a different strategy with licenses, which in the long term, as we can also see from the growing results, will prove to be successful: it will in fact decide to focus on the main brands, not renewing with the smaller ones, to try to have a portfolio increasingly varied and competitive, which enabled him to cope with the phase out of the Armani licenses. These licenses were in fact granted by Armani to Luxottica, thanks to the excellent mediation work by Andrea Guerra, which we will discuss in the next paragraph. That just mentioned are therefore the main events that can better explain data in the table. The most interesting data in my opinion is the relationship between NFP/EBITDA, in which we see a slow process of reduction, thanks above all to the help of the HAL fund, which will determine the exit from the family property but will allow the company to save itself and recover its activity at its best after the problems of the beginning of the millennium.

Table 17: Five KPI of Safilo Group in the period 2005-2014

Safilo GROUP	*EBITDA*	*NFP/EBITDA*	*EV/EBITDA*	*MKT. CAP.*	*ROE*
2005	114.568,00 €	4,102	0	1.371.525,00 €	0%
2006	148.605,00 €	2,239	9,136	1.274.328,00 €	4,51%
2007	173.112,00 €	2,457	6,056	653.553,00 €	6,09%
2008	112.497,00 €	4,361	5,835	171.950,00 €	-2,86%
2009	-228.206,00 €	5,792	7,638	165.529,00 €	-56,95%
2010	96.273,00 €	2,243	8,203	756.300,00 €	0,12%
2011	111.176,00 €	1,528	4,178	277.519,00 €	3,57%
2012	105.112,00 €	1,924	5,557	411.497,00 €	3,11%
2013	98.407,00 €	1,076	8,747	1.057.399,00 €	1,83%
2014	110.490,00 €	0,718	5,361	674.127,00 €	4,30%
2015	23.603,00 €	0,575	5,509	670.766,00 €	-5,36%

Source: Thomson Reuters Eikon and Safilo Investor Relations

"Today the era of Andrea Guerra in Luxottica is over - says Del Vecchio - but I don't feel like saying that mine will start again: my return is obviously in time, also given my age, and for this reason I wanted replace the figure of the full-potential CEO with an executive committee made up of three CEOs. We will have a modular and flexible structure, which will find synthesis in the new steering committee: each will be responsible for an operational area and everyone will report to me. I no longer want a super-manager at the top: Guerra was very good, but no one is irreplaceable. And I do not deny that I made this decision even thinking of my children, who are many: when the time comes, each of them will find a place in the triumvirate and will therefore be able to enter the company without creating great management tensions"[52].

With these words Leonardo Del Vecchio in 2014 replied to an interview with the Sole 24 Ore in an attempt to explain how Luxottica's management would evolve after Andrea Guerra's farewell. In the interview, Del Vecchio speaks by continuing to emphasize the fact that this choice was adopted for his children, thus putting a firm point in what will be his succession, even if, as we have previously said, a few years later his choices will be changed again. In fact, in 2018 it seems that Del Vecchio wants to divide everything equally, without giving well-defined tasks and this, in my opinion, also based on everything I previously said in the chapter on Succession, creates a lot of uncertainty, totally clashing with the concept of succession plan. In fact, also due to the tender age of many of the children, there is no possibility for the latter to grow and learn being supported by those who have lived the company fully. My intent in this paragraph is to try to consider the hypothesis that Andrea Guerra, as we will see through the economic results, fully embodies the example of an external manager to whom the founder could leave the leadership of the company over time by becoming "Accompany to the door" in favor of his children.

Luxottica in the decade from 2004 to 2014 achieves impressive results, both from the economic point of view of market expansion, especially in emerging markets that until then were not as probed. The real turning point in the competition between Luxottica and Safilo is the acquisition of RayBan, and a very important detail is the fact that this acquisition was made entirely in cash. This aspect is relevant as Luxottica's tendency has always been to have a high cash flow in order to be able to seize new investment opportunities, an attitude also pursued by Guerra's management. In fact, the CEO has used the cash flow for new investments but above

52 Plateroti Alessandro, La nuova Luxottica non ha bisogno di Guerra - Ora è pronta per i miei figli Il Sole 24 Ore, 2 September 2014

all to keep debt levels under control. In fact, we note that NFP/EBITDA levels are always kept very low, and in the last 5 years they have also dropped considerably. Relevant in this period are the acquisition of Oakley, which took place in 2007 and strongly desired by Guerra. This acquisition enabled Luxottica to grow and expand even further: just think that for the next five years the growth of both companies has always been double digit. In 2010 and 2012 the turnover touches the highest values in the history of the whole group, with the turnover of the emerging countries which tripled in 2012.

Table 18: Five KPI of Luxottica in the period 2005-2014

LUXOTTICA	*EBITDA*	*NFP/EBITDA*	*EV/EBITDA*	*MKT. CAP.*	*ROE*
2005	818.106,00 €	1,424	12,421	9.676.522,00 €	19,85%
2006	969.596,00 €	0,906	10,963	10.564.032,00€	20,35%
2007	1.102.992,00 €	0,758	10,208	9.917.545,00 €	20,90%
2008	990.075,00 €	2,252	8,644	5.789.347,00 €	15,18%
2009	871.777,00 €	2,281	10,566	8.267.592,00 €	11,86%
2010	1.010.202,00 €	1,653	10,767	10.626.560,00€	13,42%
2011	1.133.688,00 €	1,3	9,636	10.007.286,00€	13,17%
2012	1.345.094,00 €	1,034	11,243	14.558.071,00€	15,27%
2013	1.410.883,00 €	0,667	11,616	18.439.064,00€	13,41%
2014	1.540.831,00 €	0,482	12,752	21.750.086,00€	14,18%
2015	1.847.854,00 €	0,223	15,004	29.022.651,00€	15,56%

Source: Thomson Reuters Eikon and Luxottica Investor Relations

Despite these astounding results, in 2014, Guerra was replaced by a “triumvirate of managers”, as Del Vecchio himself defines it, made up of two CEOs and a third to whom the operations functions are delegated. Surely the solution adopted by Del Vecchio will succeed in part in resolving the disputes that could arise between the heirs, but I do not think they are necessary to lead a giant like Luxottica. Analyzing the years following Guerra, too, one can see how the company is directed on very specific tracks, also enjoying a privileged position on the market, which guarantee growth and business continuity even without the presence of such a valid manager. This situation, however, I do not think can last forever, and the lack of a designated guide who has had a background within the company creates increasing uncertainty.

Table 19: Comparison Between Safilo and Luxottica

SAFILO	*LUXOTTICA*
Third Generation Guidance	External Ceo
Not Planned Succession	Planned Succession
Average ROE -4%	Average ROE 15,74%
Average NFP/EBITDA 2,45	Average NFP/EBITDA 1,18

Source: Personal Elaboration

At the basis of both cases that I have decided to analyze is a factor that is truly unpredictable and at the basis of all family businesses, especially when it comes to delving into succession. Safilo and Luxottica are two cases that we could define as poles apart, on the one hand there is an unprepared "natural" succession, where all the children find themselves having to make business decisions by being included in the company at the same level. On the other there is a planning for succession, with many changes, that seems almost never-ending, with reinterpretations related to the lack of willingness to permanently leave the company and the desire not to upset anyone heirs. The factor that we talked about at the beginning of the paragraph is the human feeling, that very often does not allow to have a critical and balanced view which would be needed to drive a company.

This uncertainty leads me to refrain from making judgments on both situations. Having closely observed what happened to Safilo, I hope it can also be an example for the Del Vecchio family, which despite all the precautions of the founder will be forced to define independently the part that each of the successors will have in the leadership of Luxottica.

Conclusions

Passing through all the issues that I have analyze is it now time to get to some conclusions. As I said in the introduction the question that I've asked during this work is if there are some peculiar way of management in the Family Business that can bring better performance results compared to the non-family one. Come to the end of my work I've understand why academics found it so complicate to give a universal definition. Family Business share with non-family one some characteristics but when it comes to family even between one another there are enormous differences. For my analysis I try to use some parameters such as: listed family firms, number of generation of the board, ceo founder and few others but was still difficult because between all the firms that composed my database, even between two that belong to the same "set" there are differences derived from the family affairs. One of the biggest problems, as we have seen in the last chapter talking about Luxottica case, is the concept of "conditioning" (Davis, 1983), which is the influence that a family can exert on the business. Is really complicate to understand which are the merits of an external manager and which of a family member, where is the boundary between influence and control.

As I've premised at the beginning of the quantitative analysis the division into three main areas to evaluate the influences of family management on the performance led me to the following results.

The aim of the first evaluation I've made is to demonstrate the efficacy of the founder effect. From the practical results I've found there is a superiority of the non-founder ceo in more or less all the KPI I've considered. However, I think that the presence of the founder is crucial for all the family firms. From the data emerges that usually the founder has the ability to create a company that is focused on the internal market, had has a good market share with excellent growth opportunities and adopt a prudence attitude that leave the firm without a relevant debtory situation. If the founder is able to create a succession plan, not only by designating roles for each of the descendants but also by passing on values and attachment to the company to the latter. If he will be able to do so he will leave a firm that can only grow and improve.

Regarding the topic of succession, I try to understand how the management develop between different generations. The analysis provided by the authors are not so encouraging since, according to Family Firm Institute of Bocconi University, only 13% of firms arrived at the third generation and 30% are the one who survived the founder. A discriminating factor that helps to save oneself from this catastrophic scenario is to have medium- to long-term goals and projects. It's really important that these firms are able to get the message across the investors that they are solid and want to become in the next years a relevant player of the market. This confidence between family and investor is not simple to reach, by analyzing the P/E ratio trend I have discovered that usually investors in the Italian market prefer not to risk investing in more mature companies, for which they can rely on past evidence and the guaranteed stability of the family situation within them. Nonetheless the potential of the young Family Firms is huge since they can establish a relationship with the investors since the really begin, by doing so they will also be able to maintain low level of debt-to-equity ratio which is a key element for firms belonging to the first/second generation to survive.

Finally, I considered the importance of having a Ceo who is also a shareholder. Compared to before I have stated that large companies have started to open up to third-party investors and Ceo-Shareholders outside the family. When the CEO is external, performance is much less brilliant in terms of profitability, cash flow and debt sustainability. This result is compatible with two very different phenomena. On the one hand, my view is that hiring an external director reduces management efficiency, for example because it increases agency problems with the separation of ownership and control, or because family businesses struggle to attract capable external managers. On the other, it could be that families rely on an external CEO when the business is going particularly badly. In this case, the worst performance of external directors would be a legacy of particularly inefficient family management.

To conclude I am of the opinion that families can be engines that can provide development and peculiarities to the company that make it unique. The family can be, if exploited correctly, the main competitive advantage a company has over others. The only remarks I would make are not to exclude the business from the family because it is necessary that these two elements go in symbiosis. Always think in terms of long-term objectives, including an appropriate succession plan. And finally, do not disdain to bring an external manager into the family if it is necessary to save the company.

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Executive Summary

The first chapter of my analysis is focused on the definition of family firms. Over the years, many have tried to give a definition of family business that was unique and universal for everyone. Firstly, in the studies that had been carried out was the idea that the family business was considered a sub-category of the core concept of "company", a sub-category that in any case had distinctive and characterizing elements which allowed it to be distinguished from the others, even though it was a weak one. Academics immediately understood that the main focus had to be placed on the distinction between two institutions behind family businesses: the business and the family, which had distinct structures and characteristics. Passing through a mono variable approach and then move to a multivariable one that takes into consideration other crucial aspects, that are useful to identify the Family Business. This first part is focused on understanding both how complicated is to give a universal definition and how relevant is it in order to analyze this typology of business in a good way.

Then I have done a general comparison talking about Family Business around the world and in Italy, analyzing both small and large firms and listed and unlisted one. In this part I provided some numbers in order to understand how many family firms are in the market, and which are the peculiarities that distinguish them from the non-family one. After these brief part with some data, I will continue by introducing some theories applied to Family Firms. The first one I will go through is the Agency Theory. It is based on the belief that each figure within the firm will act selfishly in the attempt to maximize his or her interest (Jensen, Mackling 1979). "When a firm grows beyond the means of the owners, they contract with executives who will manage the firm on their behalf. In this way the owners become principals and the executive becomes an agent. The latter is morally responsible to maximize shareholder's utility; however, executives accept agent status because they perceive the opportunity to maximize their utility" (Davis et al., 1997). The problem that arises under this condition is that the interests of the principals and the agent might diverge and be conflicting, endangering the productivity and the efficiency of the firm. In the event of this situation, owners will attempt to control agent behavior by adopting specific instruments, that entail the introduction of the abovementioned agency costs. Finally, I will also speak about four agency problems that can arise by applying this theory. The second theory is the Stewardship one, which support the fact that the employees and the managers within the family enterprises will act following the firm’s interests and not the personal one (thesis supported by Davis). Moreover, according to this theory, the expected behavior adopted by the members of the firm may lead to a reduction of agency costs, which are the costs occurred due to information asymmetry and divergent interests between the principal and the agent. As it is possible to notice also by the different theories abovementioned, various theoretical lenses have dominated family business research, but none of them provides consistent theoretical predictions regarding the effect of family management on performances. For this reason, Sciascia, Mazzola, and Kellermanns (2014) have introduced the so-called socioemotional wealth (SEW) perspective that refers to all nonfinancial aspects of the firm that meet the family's affective needs and may influence the firm's performance such as identity, status, ability to exercise influence, and perpetuation of the family dynasty. SEW perspective is based on five factors: family control and influence over the company; identification of family members with the firm; binding social ties; emotional attachment of family members; and renewal of family bonds through dynastic succession.

Chapter 2

The second chapter deals with succession. The most delicate moment of a family business. As said before for the family business also for this theme the interest of the authors has emerged only in the recent years and even nowadays is sporadic. In family businesses, especially in Italy, there is a lack of succession planning. Statistically, it has been analyzed that 95% of successions take place without a will, which shows that planning without being prepared is not one of the most important factors on which Italian entrepreneurs rely. Despite the growth and education of the future leader, only 14% of them have perfected the necessary knowledge and skills. However, as has been said, the process of business succession planning is strongly influenced and often hindered by the entrepreneur's inability to recognize the moment when should withdraw from the active management of his company. Generation hinders change and innovation since the "mature" entrepreneur is inclined to the security and stability of his company and is risk-averse, therefore, to invest money or incur debts to finance himself. The company is in a state of stasis. To avoid this danger of "paralysis" of entrepreneurial activity, the entrepreneur himself must initiate a succession planning procedure in due course. This procedure should be initiated when the "full maturity" (44-55 years) is reached since the entrepreneur has the right balance between risk and protection of what he owns and is still able to directly follow the education of his children, who are often very young and novice.

However, let's enter into the succession planning phase. After a preliminary planning phase comes the most complex part of the succession or the operational phase, which we can briefly list in these points:

- Acquisition of awareness of succession by the entrepreneur
- Research of the entrepreneur's figure within the family
- Degree of transparency of the characteristics that should have the entrepreneur
- How the successor enters and how he should behave
- Entrepreneurial evaluations of the new entrepreneur
- Implementation obstacles to the succession process
- Forms of reaction to change

The question to be asked, at this stage, is whether there is a potential entrepreneur in the family who can express his or her abilities after going through an adequate training process. Especially in small family businesses, the existence of an heir capable of continuing the activity after the withdrawal of the previous leading figure is of fundamental importance, precisely because the company's affairs are often intimately linked to those of its leading man, and it is desirable that this person can be traced within the family that holds control.
In this regard, the literature has identified four paths that can be followed by an heir to demonstrate and develop his skills:

- Start a new business initiative or acquire a new company that fully responds to his entrepreneurial vocations. This is the solution that best of all allows testing the actual management skills of the heir, who is in a position to operate in the best possible way, following his aspirations and proving his worth, regardless of the surname he bears, deserving in the field the respect and trust of his collaborators
- Entrust him, in the same family business, with the development of a new business, of a new territorial area, to face the entrepreneurial reality autonomously, however, supported by a structure and organization already established on the market. Also, here, if the heir demonstrates his managerial skills, he will acquire respect among his collaborators and the generational change will become less traumatic
- Carry out external experiences that allow him to develop his skills, even in different businesses than those managed by the family business, to better understand the

difficulties of the role in question and to evaluate calmly, and not on the company's skin, the actual ability to hold such important positions.

- Carry out internal experiences in the enterprise, entering it as a member of the entrepreneur or some other important manager. This is the most uncomfortable solution, as it does not allow to fully appreciate the entrepreneurial skills of the heir, who is in an ambiguous position between owner and employee.

Therefore, inheriting the entrepreneurial role means passing a double test, on the one hand having to demonstrate his knowledge and skills, which will have to be even higher than those of his predecessor, as he will have to operate in a competitive scenario that is certainly wider and therefore more difficult to manage. On the other hand, he will be able to obtain the respect of his collaborators, family and not, through the merits acquired 'in the field', as comparisons between his work and that of his predecessor may be frequent. It should be borne in mind, however, that the choice of a successor is not convenient for a family member (although this is the solution adopted and preferred in the vast majority of cases). If none of the heirs have the ideal characteristics to successfully lead the company's future, the choice must be made by external candidates who, possessing the necessary skills, can profitably give the company, and ensure its healthy continuity. This solution, however, also requires a period of training for the successor to ensure that he has the best understanding of the problems he will face when he takes office and in the future. Later in the discussion, we will see the pros and cons of relying on an internal or external CEO.

There are also several problems that may arise between generations. The first frictions may arise in the designation phase, carried out by the outgoing entrepreneur. The latter will carefully evaluate all possible candidates, to find the most suitable person to pursue the aims of the company and its future development. Naturally, however, all this cannot be completely separated from the evaluator's thoughts, values, experiences, and knowledge, which will consequently influence the choice. Influences may reach their climax if the outgoing employer engages in one of the following behaviors:

- The entrepreneur is very attached to his role and, as a result, does not want to quit it, so he puts into practice measures aimed at demonstrating his indispensability for the company. One of these could be that relating to the choice of a candidate not suitable for succession, who, with his actions, demonstrates the thesis of the company inseparable from the figure who previously led it. This behavior also hides, in certain cases, the hope of seeing a sort of opposite transition takes place, i.e. a failure of the new generation that pushes the now-former entrepreneur to go back on his steps and thus take over the reins of his company. in this case, there will be a return from the second to the first generation.

- The entrepreneur wants the company he has created to continue to operate according to those mechanisms, developed during its management, without any substantial changes taking place. The will of the outgoing executive, therefore, will be to find a successor who reflects it in the behavior, a sort of 'clone'. Having this conviction, he will tend, in the process of choosing a successor, to eliminate, a priori, all those subjects who demonstrate the desire to implement innovative or dissenting management behavior, which, in certain cases, could, instead, represent the most suitable alternative to create a lasting development for the family enterprise. Finding a figure that fully reflects the outgoing entrepreneur's way of operating can be detrimental to the company, which represents a constantly evolving reality, so it is important to look for elements with the necessary degree of flexibility and not people linked to the past.
- A similar case to the previous one is that in which the entrepreneur tends to select a figure who does not have the necessary firmness to be independent in the role he is called to play. In this situation, he will be formally independent but dominated by the figure of the former manager, who will be able to guide the behavior of the current leader in the background, without being in the foreground. The transition process in this case is purely a formal one.

The three cases above represent the most common realities in which the transition process takes place incorrectly and this alteration is due primarily to the subject making the fundamental choice of the successor.

Finally, I analyze the crucial phenomenon of Nepotism. A general definition that we can use to describe nepotism is the preference of the owner or manager for hiring family members (nepots) rather than unrelated job applicants. Firstly, a meritocratic aspect. Having an attitude that favors nepotism undermines what the French call "esprit de corps", which allows the company to demand sacrifices from its employees in times of need. And the fastest way to kill it is to create the impression that despite all their hard work and sacrifice, promotion within the company is based more on who you're related to rather than the merits of your work. Linked

to this is the company's inability to attract and retain talented people in the company who can play key roles. If the idea that the family factor is crucial to a career is passed on, it will be very difficult to back down. Secondly, a whole series of problems and chain reactions develop as a result of the choice to elect a nepot that creates an unsettled atmosphere, which often leads to disputes that benefit no one but the competing companies.
In my discussion I decided to try to talk about nepotism also in a positive sense, trying to list some benefits that it can bring to the family business.

Chapter 3

The third chapter deals with Corporate Governance. The system of governance is based on the balance between the interests of the various stakeholders (shareholders, creditors, management, employees, suppliers, etc.) in a given context of institutional and market rules. Each company, depending on the system of governance to which it is subject, has more or less favorable conditions for the efficient use of capital and labor.
Two aspects stand out more than others from the two definitions above: the company's governance system, which influences the efficient use of capital and labor; and the search for a stable balance. As far as the first aspect is concerned, is important to remind that the issue of corporate governance became relevant before the 1980s, following the privatization processes involving Western Europe, Latin America, and Asia, and in the following 1990s due to the violation of the rights of important corporate players. As is also stated in the above definition, there is no universally accepted definition of the meaning of the term corporate governance. However, the search for a definition shared by all countries is complex due to different cultures, legal systems, and their historical excursus. As far as the second aspect is concerned, on the other hand, the doctrine gives us two different models regarding business purposes.

The first model, called *shareholders view*, states that the company must set itself the goal of maximizing shareholder value. This definition is supported by the Agency Theory, which highlights the possible problems arising from conflicts of interest and asymmetric information between the two parties involved in a contract. Individuals engage in opportunistic behavior when one party to the contract, the agent, tends to behave in their interest rather than in the interest of the other party to the contract, the principal, creating moral hazard and adverse selection. The costs incurred during the detection process, to solve these problems or prevent them, through tools such as control or incentive systems, governance structures, etc., and the economic damage caused by opportunistic managerial behavior (e.g. free riding are part of the agency costs. One of the fundamental hypotheses of the Agency Theory is that these costs derive from the separation of ownership and control (Fama and Jensen 1983).

A different approach is that of the *stakeholders' view* model, which broadens what was stated in the previous definition and provides that managers and directors should not be limited to the mere interests of shareholders, but of the company's overall portfolio of stakeholders. It is stated, therefore, that the expression corporate governance means the "composition of the interests converging on the company, of the relations between management, control and governance ". Measuring corporate governance will therefore mean analyzing the system of rules, mechanisms, and tools that allow us to guide, monitor, and evaluate its progress towards the creation of value for shareholders and stakeholders.

Corporate governance models can be classified according to how the separation of ownership and control is conceived. In the distinction between insider and outsider system models, it can be seen that the former is characterized by ownership concentrated in the hands of a limited number of shareholders with strong internal decision-making power. In these models, the Italian owner company falls within these models. In the latter, instead, ownership is pulverized and unstable, there is a high degree of contestability of control and the role of the manager assumes importance. This model of governance includes the Anglo-Saxon Public Company.

To proceed in our analysis, it is necessary to highlight the points of difference between family and non-family business. As mentioned above, governance is widely recognized as a determining factor in the success or failure of a business. The main element, which distinguishes the governance of a family business from a non-family one, is the presence of two systems: the family system and the business system. This peculiarity is important because the aspirations of the two business models are different. The presence of the family is a relevant element as it carries with it a portfolio of characteristics, tangible and intangible, and of values that influence the governance of the company.

Two subsystems make up the governance of a family business: that of corporate governance and that of family governance. The former is defined as the management and control organization of the business and consists of the top management team, board of directors, and shareholders' meeting. The second is designed to ensure and organize cohesion within the family and consists of a family governance system. The board of directors and the family board are fundamental elements of the governance structure of a family business.

The intersection of these two systems gives rise to several governance issues (Wellalage & Locke, 2011) due to ownership, control, succession, performance, and governance structure.
In the governance system of a family business, attention is also paid to the skills that the members of the organization are supposed to have. The competencies are divided into formal competencies and cultural competencies. The first group includes formal education and professional experience. Both can be acquired outside the family business and represent those threshold competencies to be able to fulfill that role. The second category includes: understanding the objectives and ethical foundations of the family. These "non-transversal skills" require formal and informal communication and are transferred to family or non-family members during the professionalization process. As we said in the first chapter, Gomez-Mejia et al. research introduced the concept of socio-emotional wealth (SEW). This means that the governance of a family business will also aim to protect its values and intangible assets.

The governance choices of family businesses are of two types: on the one hand, we have the governance decisions of the company in the strict sense, i.e. the set of decisions and basic business choices regarding the establishment and extinction of the company, the direction and guidance of the company in operation. Choices and decisions due to their systemic and long-term structural impact are generally strategic. Decisions that may be the responsibility of the owner, the board of directors, and, where appropriate, the senior management. On the other hand, we have the "ownership" governance decisions, i.e. relating to its internal configuration, the rules of operation, and the setting up of relations with the company. Property governance decisions have a considerable impact on the governance choices of the company, as they determine the context in which these choices mature and are implemented. The second dimension concerns the structure of economic governance, represented by the so-called decision-making tables, i.e. the system of governance bodies. This system includes, in the family business, the presence alongside the so-called "official" bodies (shareholders' meeting, company president, the board of directors, executive committee, etc.) of typically family governing one, such as the family board, which is a support body for the governance of this category of businesses. The body may be variously articulated and formalized, i.e. structured in the form of periodic informal meetings. The third dimension concerns the processes, i.e. how decisions are formulated and implemented through the management of the bodies mentioned above or through the use of mechanisms typical of family businesses such as the conclusion of family pacts or other similar agreements. Another key issue concerning the governance of family businesses is that the key actor directly or indirectly responsible for the governance

decisions is considered to be ownership. In conclusion, it should be stressed that choices, structures, and processes must be designed and built based on the complexity of ownership and business; for example, if the social structure is very concentrated and the economic structure is very simple, the governance system will necessarily have to be composed of a limited number of bodies composed of the controlling entities.
Moving on to some solutions for dealing with succession I analyze Family Holdings and finally the use of the SAPA for the Agnelli's family. The use of any type of company to regulate succession allows the entrepreneur a significant margin of choice, given the wide variety of corporate solutions that can be used and the possibility of drawing on past experience. This wide range of possible options makes it difficult to precisely categorize all the institutions in the category of corporate solutions.
It is important from this point of view to evaluate the contribution in advance: it represents an important tool in the generational succession of the family business as it allows the creation of corporate vehicles that allow the transfer of corporate control from one subject to another. In our case, the transfer, which may involve the entire family business as well as a branch of the company and part of the related shareholdings, allows us to achieve some important goals in this transition phase. It is necessary to specify that a company means a universality of tangible and intangible assets, of legal relationships such as, for example, receivables and payables - inherent to the operation of the company.

First of all, by means of a contribution it will be possible to separate the company's assets from the personal assets of the family members, thus distinguishing the various levels of risk based on the participation of each member in the company's capital; it will then make it possible to set up the so-called family holding companies, which constitute an intermediate element between the family and the operational activity and represent the place of comparison between family members. Discussing then, about the decision-making aspects of the family business, directly within the holding company, it is possible to avoid that possible conflicts paralyze the operational activity of the same. Finally, the possibility of making non-proportional contributions, allows to give specific weight to the various successors of the entrepreneur and to give them a participation that, regardless of the contribution from the same work, can reflect the interest of their presence in the company. social structure.
Therefore, the entrepreneur who is thinking about succession should first of all evaluate hypotheses of direct use, so to speak, of the company form: he confers the company or part of it, thus transferring indirectly also the business activity to a joint stock company owned by the

family members. In this way what is created is a holding company that by virtue of the participation of the members of the family is controlled and managed by them. The establishment and use of the holding company as presented is a central part of the question of the use of corporate institutions in the generational transition.

Chapter 4

Following what has been stated in theoretical terms in the previous chapters, the purpose of this last chapter is to empirically verify the characteristics of Italian listed family businesses. The basic question is whether, and if so what, the characteristics that a listed family business must have in its governance structure to achieve superior performance. As we have previously stated, the literature on the governance models of family businesses is sufficiently rich, and given the impossibility, here of analyzing in detail all the possible variants of governance that could affect the performance of the company in various ways, I have decided instead to focus on some particular aspects. In some cases, these factors have been extensively dealt with by various scholars, sometimes with similar and sometimes discordant results; in other cases, despite the literature largely identifies the problem, no significant research has been carried out in this regard. In particular, in this analysis, I want to analyze whether family ownership and control are good, bad, or irrelevant for the performance of the company and whether this greater or lesser result could be somehow related to the type of family ownership and control adopted. The question is whether a family effect can be identified and if so, what it is.

Taking cue from the literature analyzed above, we have come to identify a governance model that, according to our idea, could help to achieve better results for the company. The empirical analysis, which is the subject of this chapter, has been structured to verify this hypothesis. The governance model that the company should aim to build should, in my opinion, seek a form of balance. In particular, we have seen how the family business, to be such for the definition we have adopted, must not only provide for a family majority within the property but must also provide for the presence of at least one family member within the governing bodies. This ideology allows the company to be classified as a family business, but to improve its performance this presence must not be excessive.

A too marked presence of family members on the Board of Directors or Top Management Team, as well as the presence of a family member holding the highest management positions

(such as CEO or Chairman of the Board), may not necessarily bring positive elements. I agree with the view held by some authors such as Lubatkin and Schulze that on average a family CEO can perform better than a non-family member when the size of the business is very small, and ownership is concentrated.
As the company grows and the shareholding structure disappears, the benefits associated with a family CEO tend to diminish, the benefits associated with passing on tacit knowledge among family members become less and less important when compared with the greater experience that an external manager can bring to the company.

To conclude, before getting to the heart of our analysis, we can assume that the best solution to govern a family business is a hybrid. The search for a balance between family subjects and subjects outside the company could be a discriminating factor capable of favoring the positive elements and reducing the negative ones associated with family businesses. The presence of family members inside the company could favor a long-term orientation and reduce the aspects linked to managerial shortsightedness typical of public companies.

Chapter 5

In this last chapter I decided to analyze two Italian excellences who made up the sample of family businesses under examination that I used for all my work. The two companies in question are: Luxottica and Safilo Group, two of the largest Italian and world companies in the eyewear sector. The two companies were founded about 30 years apart from each other, but nevertheless have an important overlap period in which it is, in my opinion, really interesting to analyze the different management methods that have determined the definitive rise of the Luxottica brand and, at the same time, the decline of the family ownership percentage of Safilo. Specifically, my attention will be focused on Safilo’s second generation unsuccessful management, and on Luxottica’s founder management in which he took advantage of the misstep of the direct competitor, deciding to adopt an ad hoc configuration for the succession within his company.
After having made a comprehensive analysis of the eyewear sector in order to highlight the position that both companies occupy in the market, I decided to divide the analysis as follows. I have talked about both companies separately, going through the main stages that have made them leading multinationals in the sector. For Safilo, I have dealt with the subject of the "natural" succession that took place at the end of the 1980s and I have decided to focus on the

data I found in the database on the years 2001-2015. During this period of time, the takeover bid organized by one of the Tabacchi brothers took place, which then led to the reduction of the share held by the family to around 9%.

As far as Luxottica is concerned, on the other hand, I analyzed the decade 2005-2015 dominated by the management of the manager Andrea Guerra. I wanted to contrast his management with the recent intention of founder Leonardo Del Vecchio to partially re-enter the management of the company and redesign the entire succession plan. After outlining this dual framework, I drew conclusions by comparing the two different approaches to succession that these companies have adopted.