Department of Business and Management

Master's Degree in Management

Chair of Financial Reporting and Performance Measurement

Distribution of powers among Italian family firms' board

Prof. Saverio Bozzolan

SUPERVISOR

Prof.ssa Barbara Sveva Magnanelli

CO-SUPERVISOR

Rosario Scaffidi Domianello

717931

CANDIDATE

Academic Year 2020/2021

Table of Contents

Introduction *5*

Chapter 1: The Phenomenon of Family Firms *7*

1.1 Family Businesses in Italy, Europe and the rest of the world **10**

1.2 Agency Problems **14**

1.3 Governance Mechanisms **17**

1.4 The Stewardship Theory **18**

1.5 Socioemotional Wealth and Generational Succession **20**

1.6 Family Businesses, Private Equity and Stock Exchange Listing **22**

Chapter 2: Board Composition of family firms *26*

2.1 The F-Pec Scale **26**

2.2 Board Diversity **27**

2.3 The competencies inside the Board of Directors **29**

2.4 Characteristics and powers of the CEO **31**

Chapter 3: Distribution of powers among Italian family firms' board *33*

3.1 Methodology of Data Collection **33**

3.2 Heterogeneity in the Board of Directors **38**

3.3 Analysis of the Powers **43**

3.3.1 Board Members *43*

3.3.2 Vice Presidents *46*

3.3.3 Chairman *49*

3.3.4 CEO *52*

Conclusion *56*

Bibliography *57*

Sitography *61*

Summary *62*

Index of Tables and Figures

- *Figure 1.1: Classification of Family Business*
- *Table 1.1: The four Cs*
- *Figure 1.2: Debt/Equity Ratio of Italian Family Businesses*
- *Figure 1.3: Family Leaders, Family Members and Female Leaders in the Board of Directors*
- *Figure 1.4: geographic distribution of new entrants in FB500 2019 Index*
- *Figure 1.5: Involvement of family members with the passing of time*
- *Figure 1.6: Three Circle Model of the Family Business System*
- *Figure 1.7: Performance of Family Firms*
- *Figure 1.8: Principal-Manager Choice Model*
- *Figure 1.9: Combinations of firms' equity-worthiness and equity-willingness*
- *Figure 2.1: The F-Pec Scale*
- *Figure 3.1: Family and non-family firms of the sample*
- *Figure 3.2: Industry sectors*
- *Table 3.1: Board Database*
- *Table 3.2: Analysis of powers*
- *Table 3.3: Functional areas legend*
- *Figure 3.3: Board size in family firms*
- *Figure 3.4: Board size in non-family firms*
- *Figure 3.5: Gender Diversity*
- *Figure 3.6: Age distribution on Boards of Directors*
- *Figure 3.7: Family Members on Board of Directors*
- *Figure 3.8: Family Board Members*
- *Figure 3.9: Executive Board Members*
- *Figure 3.10: residence time distribution of members*
- *Figure 3.11: Analysis of the functional areas in family firms: members*
- *Figure 3.12: Analysis of the functional areas in non-family firms: members*
- *Figure 3.13: Family Vice Presidents*
- *Figure 3.14: residence time distribution of vice presidents in family firms*
- *Figure 3.15: residence time distribution of vice presidents in non-family firms*
- *Figure 3.16: Analysis of the functional areas in family firms: vice presidents*
- *Figure 3.17: Analysis of the functional areas in non-family firms: vice presidents*
- *Table 3.4: Trend of the functional areas trend in family firms: Vice Presidents*

- *Figure 3.18: family chairmen*
- *Figure 3.19: residence time distribution of chairmen in family firms*
- *Figure 3.30: residence time distribution of chairmen in non-family firms*
- *Figure 3.21: Analysis of the functional areas: chairmen*
- *Table 3.5: Trend of the functional areas in family and non-family firms: Chairmen*
- *Figure 3.22: Family CEOs*
- *Figure 3.23: residence time distribution of CEOs in family firms*
- *Figure 3.24: residence time distribution of CEOs in non-family firms*
- *Figure 3.25: Analysis of the functional areas: CEOs*
- *Table 3.6: Trend of the functional areas in family and non-family firms: CEOs*
- *Figure 3.26: trend of the functional areas in family firms: CEOs*

Acknowledgements

I would like to express my gratitude to Professor Saverio Bozzolan for accepting to be the supervisor of this thesis.

I wish to express my gratitude to Professor Francesca Romana Arduino for her kindness and support in every phase of this work.

I want to thank my parents for the sacrifices that they did for me as well as my cousin Antonino for his help and advice.

I would like to thank Davide and Marta for being always by my side.

Last but not least, I want to thank all my friends for their encouragement.

Introduction

The purpose of this work is to analyze the distribution of powers among Italian family firms' boards, answering the following question:

"Is CEO the most powerful member in the Board of Directors of Italian family firms?"

With this in mind, the research is concentrated on the factors that influence the decisions that concern the composition of the Board of Directors and the distribution of powers within it. For this reason, it was analyzed a sample of 107 Italian listed firms over a period of 14 years that ranges from 2005 to 2019. Approximately a third of the businesses for which this study was carried out are non-family in order to make comparisons with family ones. Besides, it was examined the level of diversity within boards and the possible positive or negative consequences of that with the aim to better understand the dynamics behind the choices related to the structure of BoDs. In this regard, another question was posed:

"How much are profiles of directors heterogeneous?"

The work is divided into three chapters and the first one offers a theoretical framework on family firms. Firstly it is presented an overview of the phenomenon of family companies in Italy, Europe and the rest of the world with some statistics of the FB500 index and the Observatory AUB Aidaf-Ernest & Young-Bocconi that allows comparing countries like France, Spain, Italy and Germany or the five continents. In addition, some differences between family businesses in emerging and developed markets are explained and there is a focus on South America. Then, some concepts of corporate governance are described such as the problems created by information asymmetries in *agency theory* as well as some of the mechanisms that are used to cope with that. In contrast with this, there is the *stewardship theory* according to which individuals prefer to engage in cooperative behavior. Finally, it was put emphasis on the non-financial aspects related to Socioemotional Wealth and how they could impact the key decisions of the family like the ones that regard generational successions or stock exchange listing. The second chapter begins with the F-Pec scale (Astrachan, Klein and Smyrnios, 2002) through which it is possible to measure the level of influence of the family on the firm along the dimensions of power, experience and culture. After that, it was given a theoretical framework on board diversity, particularly in relation to gender, age and nationalities of everyone that is part of the BoD. Then there is a section related to the importance of educational background and expertise of the members of boards, in which *resource dependence theory* and *interlocking directorates* are explained. In the end, the last paragraph is dedicated to aspects like the characteristics of CEO, CEO duality and the pros and cons of having a family CEO. The last chapter illustrates the results of the analysis of the sample. After an initial part in which is described the methodology of data collection, it was examined the level of heterogeneity of the BoDs focusing on gender diversity, age of all directors, presence of family members and board size. In the final section, it was analyzed the distribution of powers and functional areas of board members, vice presidents, chairmen and CEOs.

Chapter 1: The Phenomenon of Family Firms

The European Commission gave a common European definition of a Family Business, as part of a series of actions aimed at fostering the development of this kind of enterprises. In particular a firm, of any dimension, is considered a Family Business if:

1. *"The majority of decision-making rights are in the possession of the natural person (s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.*
2. *The Majority of decision-making rights are indirect or direct.*
3. *At least one representative of the family or kin is formally involved in the governance of the firm.*
4. *Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendant possess 25 per cent of the decision-making rights mandated by their share capital."*[1]

Anyway, the phenomenon is extremely heterogeneous and so there are multiple definitions and interpretations based on the different points of view. In this regard, Esposito De Falco (2016) proposed an alternative definition of family business:

"An enterprise may qualify as a family business when one or more families, related by blood ties, affinity, or solid alliances, control the enterprise".[2]

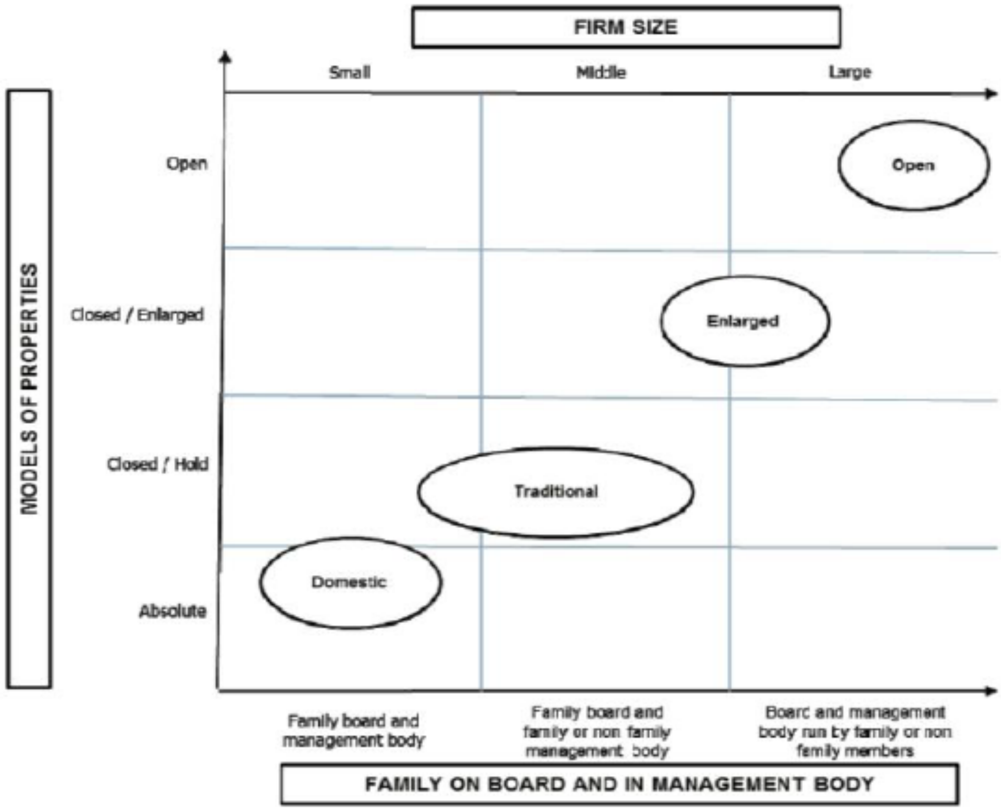
Thanks to this description, it is possible to consider also the following particular cases:

- Family members that, despite they are not involved in the management of the company, nominate the directors.
- Family Members that, without being the majority of the board, have an indirect influence on the decision-making process as they nominate the company's trustee administrators.
- Two or more families, not related by blood ties, that control the company thanks to alliances.[3]

Furthermore, in order to make a classification of the different types of the family business, Esposito De Falco (2016) created a matrix (as it is shown in Figure 1.1) in which are considered three variables: the firm size, the models of properties and the number of family members that are part of the Board of Directors. Thanks to this analysis, four types of business are defined: Domestic Family Business, Traditional Family Business, Enlarged Family Business, Open Family Business. The *Domestic Family Businesses* are small and managed by the owner, which aims to serve the local market. They are characterized by a fast and flexible decision-making process and this represents a competitive advantage because they can quickly adapt to the constantly changing needs of their customers.

[1] European Commission, Family Business. https://ec.europa.eu/growth/smes/supporting-entrepreneurship/family-business_en
[2] Esposito De Falco Salvatore (2016). *"Defining and classifying family business".* Giappichelli, Torino.
[3] Esposito De Falco Salvatore (2016). *"Defining and classifying family business".* Giappichelli, Torino.

Figure 1.1: Classification of Family Business



Source: Esposito De Falco Salvatore (2016). *"Defining and classifying family business"*. Giappichelli, Torino.

The *Traditional Family Businesses*, whose size varies from small to medium, are controlled by the entrepreneur-owner which is disposed to delegate other family shareholders. The Board of Directors is principally composed of family members, but there are also some non-family members that possess financial resources for growth and important managerial and professional skills. Instead of a diversification strategy Traditional Family Firms prefer to focus on specialized manufacturing, through which they try to gain market shares at the local, national and international markets. The *Enlarged Family Businesses,* whose size ranges from medium to medium-large, are usually owned by more than 5-6 family members that are part of the second and/or subsequent generations and, in some cases, by non-family members. The Board of Directors is not composed only of family members, but there are always some external collaborators and there is often a structure in which the former mainly focus on the core business, while the latter handle other technical, managerial and marketing activities. Notwithstanding a lot of similarities with the open family firms, there are some differences due to shorter hierarchies and to the preservation of some aspects that are typical of the traditional family firms. Last but not least, the *Open Family Businesses* consist of medium and large sized companies in which the Board of Directors is composed of family and non-family members. As regards the model of property, part of the ownership is given to external members and this aspect, even though implies a partial loss of decision-making power for family members and conflicts between family and non-family members, allows the company to have a higher amount of financial resources and, at the same time, to avoid completely losing control over governance.[4]

A lot of academics have tried to identify the factors that make family businesses so successful. Among these, Danny Miller and Isabelle Le Breton-Miller (2005) created the model of Four Cs, through which, as it is shown in figure 1.2, they analyze the success of family firms along the dimensions of Continuity, Community, Connection and Command.

Table 1.1: The Four Cs

	Priority	Practices
Continuity: Pursuing the dream	Pursue an enduring, substantive mission and ensure a healthy, long-lived company to realize it.	Embrace a meaningful mission and build the core capabilities it depends on by sacrificing and investing patiently; exercise careful stewardship; foster lengthy executive apprenticeships and tenures.
Community: Uniting the tribe	Nurture a cohesive, caring culture with committed and motivated people.	Stress clarion values; socialize persistently; create an enlightened "welfare state"; foster informality that frees initiative and teamwork; enforce intolerance of mediocrity.
Connection: Being good neighbors and partners	Develop enduring, win-win relationships with outside parties to sustain the firm in the long haul.	Partner intimately with major clients and suppliers; network broadly; stay in touch with customers; be generous to society.
Command: Acting and adapting freely	Preserve the freedom to make courageous, adaptive decisions and keep the firm spry.	Act with speed, boldness and originality; exploit a diverse and empowered top management team to do so.

Source: Miller Danny & Le Breton-Miller Isabelle (2005). "*Managing for the Long Run. Lessons in competitive advantage from great family businesses"*. Harvard Business School Press.

Family members work on their mission with passion and motivation and they ensure the *Continuity* of the firms, paying particular attention to the results to obtain in the long run. For this reason, they are willing to invest with patience and sacrifice themselves. Furthermore, thanks to practices such as strong values, teamwork and intolerance to mediocrity, family firms manage to create *Communities* of loyal employees and, as a consequence, to maintain skills and knowledge inside the company avoiding a high level of turnover. With regard to *Connections,* family businesses prefer to look beyond the single transaction with clients and suppliers and to establish enduring, win-win relationships. Finally, another important factor of success is linked to *Command,* in fact family members can rely on a fast decision-making process and a great level of independence to foster innovation and create new competitive advantages. However, it's important to underline that excess in each of these dimensions can have some negative aspects: for example, Continuity could cause Conservatism and a low level of innovation, while a cohesive Community could bring isolation and intolerance. In the light of this, the success of Family Firms derive from the ability to find the balance in the positioning along these

[4] Esposito De Falco Salvatore (2016). *"Defining and classifying family business".* Giappichelli, Torino.

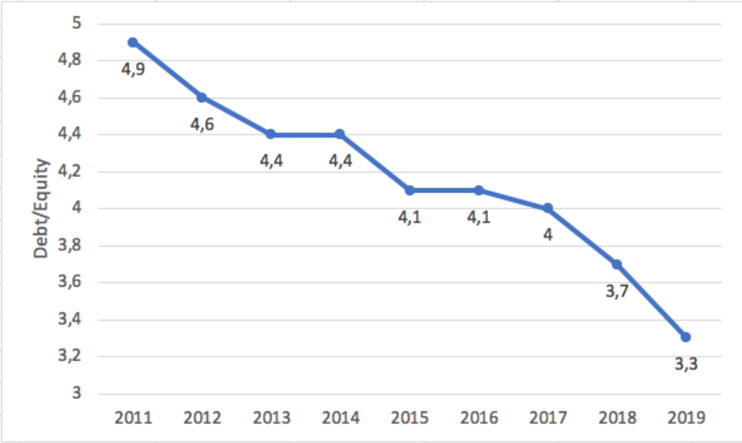
four dimensions and to make them coexist proficiently.[5] In this regard, Robert G. Donnelley stated that one of the strengths of Family Businesses is the *Reputation,* which helps to build relationships with the community and to obtain external financial resources. Furthermore, thanks to what he called *Management-Stockholder Unity*[6]*,* there is an alignment of incentives because the family identifies its interest with the ones of the firm, so family managers are less influenced to short-term criticism and more focused on long-term goals. In addition, the identification of the family with the company implies a greater attention to its *Social Responsibility.*[7]

1.1 Family Businesses in Italy, Europe and the rest of the world

In Italy there is a long tradition of family businesses, that have contributed for ages to the economic and social development of the areas in which they were located. For instance, Marchesi Antinori is one of the ten most ancient family firms in the world that are still operating, due to the fact that it is a Tuscany's winemaker since 1385.[8] Nowadays, in Italy, family businesses account for approximately two-thirds of the enterprises with annual revenues higher than 20 million euros and for 85% of the total of all enterprises.[9] Family firms in Italy are very heterogeneous and can have any dimension. In this regard, it's important to highlight that 17 Italian family businesses are in the FB500 (an index, created by Ernest & Young and the University of St Gallen, that classifies the world's biggest family-owned businesses) and, among these, there is Exor Spa that is the fourth largest in the world in terms of revenues.[10] Besides the 47% of this group has a non-family CEO and the 53% is public: concerning these two aspects, a more in-depth analysis will be made in the later paragraphs and chapters. According to the twelfth Observatory AUB promoted by Bocconi, Ernest &Young and AIDAF, the Return on Equity (ROE) and the Return on Investment (ROI) of Italian family firms at the beginning of 2020 remained very high (11.6% and 8.8% respectively), even if there has been a decrease compared to 2017 in which the ROE was 20% and the ROI 9%. Furthermore, as it is possible to see from Figure 1.2, the Debt/Equity ratio fell by a third in the period 2011-2019 so the firms have made less use of debt to finance their operations, becoming more financially solid and reducing the risk of increases in interest expenses and of situations of insolvency.[11] Moreover the Observatory AUB made a comparison between France, Germany, Italy and Spain considering the family businesses present in the Top 1000 companies of each Country. In particular, family firms make up 43,7% of the Top 1000 companies in Italy, 39,5% in Germany, 35,4% in Spain and 34,3% in France and, as a consequence, they are fundamental for the economic development of their respective countries.

[5] Miller Danny & Le Breton-Miller Isabelle (2005). "*Managing for the Long Run. Lessons in competitive advantage from great family businesses".* Harvard Business School Press.
[6] Donnelley Robert G. (1988). *"The Family Business"*. Family Business Review Vol. 1, pp. 427-445.
[7] Donnelley Robert G. (1988). *"The Family Business"*. Family Business Review Vol. 1, pp. 427-445.
[8] The Economist (2015). "*To have and to hold".* Special report family companies
[9] Associazione Italiana delle Aziende Familiari (AIDAF). "*Le imprese familiari in Italia".* https://www.aidaf.it/aidaf/le-imprese-familiari/
[10] Ernest & Young, University of St. Gallen. "*How the world's largest family businesses are responding to the Transformative Age"* http://familybusinessindex.com/
[11] Corbetta Guido & Quarato Fabio (2021). "*Le imprese familiari italiane di fronte alla pandemia Covid-19".* Observatory AUB Aidaf-Ernest &Young-Bocconi, XII Edition.

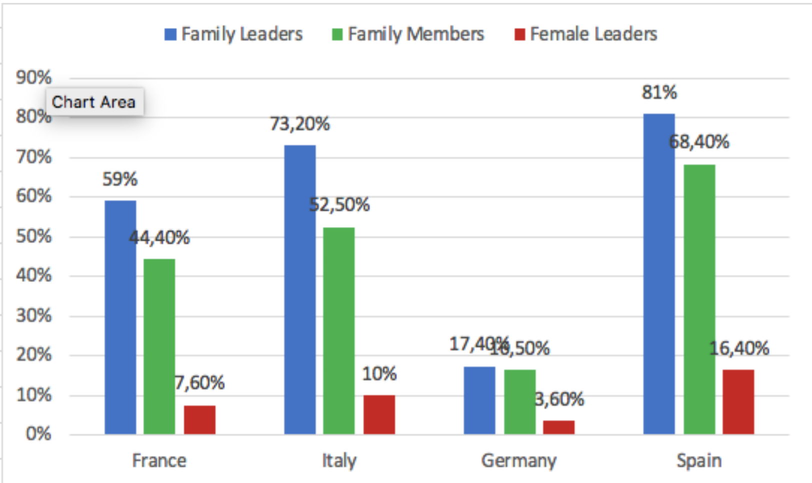
Figure 1.2: Debt/Equity Ratio of Italian Family Businesses



Source: Personal Elaboration on data from Corbetta Guido & Quarato Fabio (2021). "*Le imprese familiari italiane di fronte alla pandemia Covid-19*". Observatory AUB Aidaf-Ernest &Young-Bocconi, XII Edition.

The main sector of activity, for the firms of this sample, is manufacturing for all countries as it concerns about half of the total companies in Italy and a percentage that varies from 27 to 43% in other countries. In addition, at least a fifth of these firms belong to the commerce sector and sixth to Business services and other services. As regards the composition of the Board of Directors, it is possible to note from Figure 1.3 that there is a high presence of Family Board Members and Family Leaders in Italian, French and Spanish family companies of the sample considered. Anyway, the data concerning the female leaders in the Board confirms a big Gender-Gap, especially for Germany and France.[12]

Figure 1.3: Family Leaders, Family Members and Female Leaders in the Board of Directors



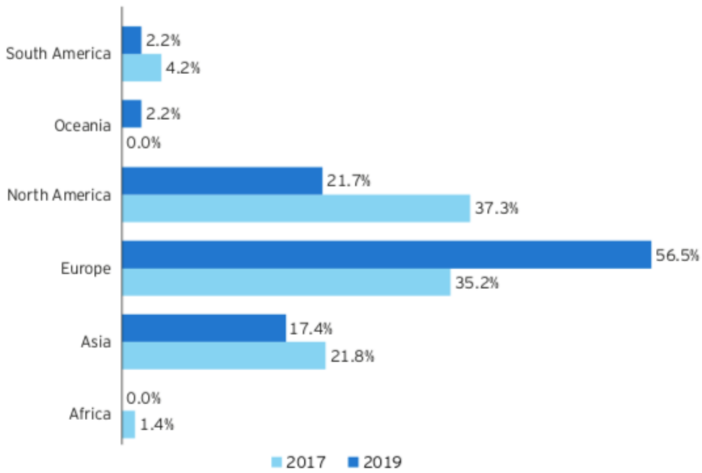
Source: Personal Elaboration on data from Corbetta Guido & Quarato Fabio (2021). "*Le imprese familiari italiane di fronte alla pandemia Covid-19*". Observatory AUB Aidaf-Ernest &Young-Bocconi, XII Edition.

Europe, with a percentage of 45%, is the continent with the highest presence of family firms in the Index FB500, followed by North America (31%) and Asia (19%); South America and Africa have smaller shares, respectively 4% and 1%. There were, compared to the 2017 Index, some changes in the sectoral distribution

[12] Corbetta Guido & Quarato Fabio (2021). "*Le imprese familiari italiane di fronte alla pandemia Covid-19*". Observatory AUB Aidaf-Ernest &Young-Bocconi, XII Edition.

of the firms of this sample, with Smart Infrastructure that doubled its presence passing from 7% to 14%, Consumer Products that declined remarkably from 40% to 31% and Financial Services that loosed a third of its share arriving at 8%. In addition, the sectors of Energy and of Technology, Media and Telecommunication (TMT) maintained a quota of around 10% and there was a slight increase in Advanced Manufacturing and mobility that rises from 21% to 24%.[13] For what concerns the geographic distribution of new entrants in the index, Figure 1.4 illustrates that the percentage of new entrants from Europe soared from 35.2% to 56.5 compared to 2017, whereas in North America there was a dip from 37.3% to 21.7%. This is due to the fact that there was a drop of new entrants from United States and a rise of newcomers from Europe, in which there were, among others, 11 firms from Germany, 4 from the Netherlands and 3 from Italy. Anyway, it's important to underline that in the United States there are some of the most important Family Businesses, such as Walmart (that is the largest family firm in the world) and Ford, Cargill, Koch Industries and Berkshire Hathaway that are in the Top 10 of the FB500 Index.[14]

Figure 1.4: geographic distribution of new entrants in FB500 2019 Index



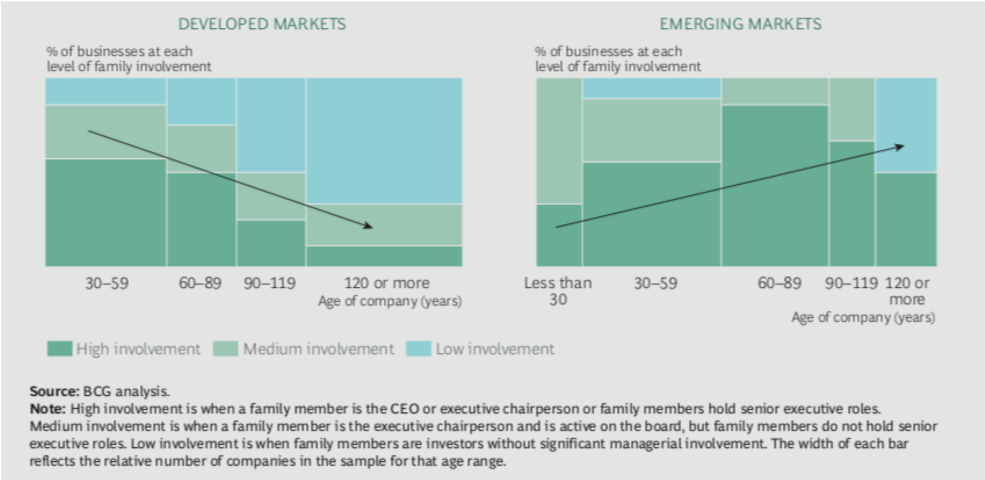
Source: Ernest & Young, University of St. Gallen (2019). "*How the world's largest family businesses are responding to the Transformative Age*".

New entrants from South America almost doubled, passing from 2.2% to 4.2% and confirming an upward trend. Currently there are 34 South American firms in the FB500 (representing 6.80% of the sample) and 44% of these have a Family CEO. Furthermore, Family Board Members are, on average, 29% of the total.[15] Family Businesses in South America have some characteristics that make them different from those of other countries in the world. First of all, the climate of instability and uncertainty at an economic, social, legal and political level requires a governance structure that makes the firms adaptive and flexible. For example, family firms hired or trained people with excellent negotiation skills in order to handle the widespread political corruption

[13] Ernest & Young, University of St. Gallen (2019). "*How the world's largest family businesses are responding to the Transformative Age*".
[14] Ernest & Young, University of St. Gallen (2019). "*How the world's largest family businesses are responding to the Transformative Age*".
[15] Ernest & Young, University of St. Gallen (2019). "*How the world's largest family businesses are responding to the Transformative Age*".

at a local and national level. Moreover, there is a bond between family identity and business identity that helps to develop a strong sense of commitment among team members, that work with passion and motivation. However, there could be some downsides, such as the fact that some family members are tied to the firms more for emotional reasons rather than economic ones and that there is a scarce presence of debate with different points of view in favor of groupthink. In light of this, a structure that is often used is the holding (called "Grupo") that allows the involvement of a wide array of family members, providing the opportunity for the diversification of activities when the core business has too much cash flow. In this regard, the younger generations are encouraged to have an entrepreneurial mindset and, also for this reason, the family provides them good education and the possibility to study abroad. As a result, the governance becomes more and more formal with the passing of time in order to cope with the growing complexities and with the need to manage the relationships between family members.[16] As it is possible to notice from the case of South America, family firms could have different characteristics based on the areas in which they belong. In this respect Vikram Bhalla, Christian Orglmeister and Dean Tong (2016) have made some studies aimed at discovering what are the differences between the family businesses in emerging markets and the ones in developed markets. In particular, what is emerged is that family firms in emerging markets grow faster but have lower profitability. Besides they tend to engage in bigger and riskier M&A operations and, differently from the family businesses in developed markets that have financial leverage that is 27% lower than average, they have an amount of debt that is similar to the one of non-family firms. For what concerns the influence of the family on the enterprise, the culture is often more hierarchical and more importance is given to the extended family. Furthermore with the passing of decades, as figure 1.5 describes, family members, in emerging markets, are more actively involved in their business, in contrast to what happens in developed markets in which they tend to gradually become passive investors.[17]

Figure 1.5: Involvement of family members with the passing of time



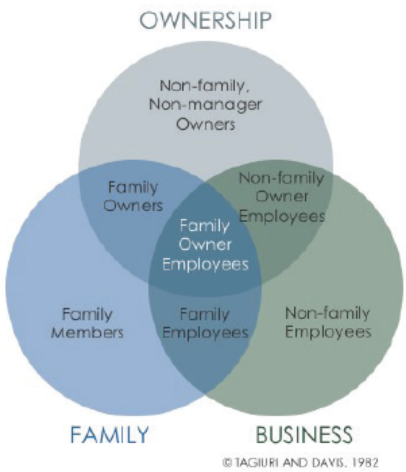
Source: Bhalla Vikram, Orglmeister Christian & Tong Dean (2016). "*What makes family businesses in emerging markets so different?*". Boston Consulting Group.

[16] Müller Claudio G., Botero Isabel C., Cruz Allan Discua & Subramanian Ram (2018). "*Family Firms in Latin America*". Routledge USA.
[17] Bhalla Vikram, Orglmeister Christian & Tong Dean (2016). "*What makes family businesses in emerging markets so different?*". Boston Consulting Group.

1.2 Agency Problems

Especially in family firms, there are some problems related to agency relationships, that are defined by Jensen and Meckling (1976) as contracts in which one person (the principal) hires another person (the agent), assigning tasks to him and delegating a part of the decision-making authority. Since there are information asymmetries in this kind of work relations, the agent, in order to maximize his utility, could diverge from what he should do and act at the expense of the principal. To prevent this, the principal will incur *Monitoring Costs* related to activities such as auditing and the establishment of an incentive compensation scheme for the alignment of interests. On the other hand, the agent will spend resources to show that he will work in the interest of the principal (*bonding costs*). Despite this, there could be what is called by Jensen and Meckling (1976) *residual loss*, which is a decrease of the utility of the principal because of divergent behaviors of the agent.[18] Before going into details of the various types of agency problems, it's important to understand what are the different interest groups in family firms. In this regard, Tagiuri and Davis created a framework that helps to distinguish the roles of the members involved in the firm along the dimensions of ownership, family and business, as is shown in Figure 1.6. In particular, the model consists of three overlapping circles that represent these three dimensions and allows determining seven different groups, that could have conflicting interests and could be located in one circle or at the intersection of two circles or of all the three. As it is possible to see, Family-owner employees are placed at the intersection of the three circles, family employees between the circle that concerns the family and the one of business, and so on.[19] According to Tagiuri and Davis (2018), the presence of *simultaneous roles* could guarantee quick and effective decision-making, but, at the same time, it could generate confusion and a lack of business objectivity, which leads to poor profit discipline.[20]

Figure 1.6: Three Circle Model of the Family Business System



Source: Davis John A. (2018). *"How the Three Circles changed the way we understand family businesses"*. Cambridge Institute for Family Enterprise.

---

[18] Jensen Michael C. & Meckling William H. (1976). "*Theory of the firm: managerial behavior, agency costs and ownership structure"*. Journal of Financial Economics 3: 305-360.
[19] Davis John A. (2018). *"How the Three Circles changed the way we understand family businesses"*. Cambridge Institute for Family Enterprise.
[20] Tagiuri Renato & Davis John A. (1996). *"Bivalent Attributes of the Family Firm". Family Business Review.*

There are four types of agency problems and the first one occurs when the owners of the firm employ an external manager and give him a lot of decision-making power. In this situation, there could be cases of moral hazard because of the combination of information asymmetries with the impossibility of stipulating ex ante a contract in which all the details about the work relation are determined. For instance, the agent could do managerial entrenchment actions in order to strengthen his position, choosing to, among other things, manipulate or hide information, hire consultants to legitimize his decisions and try to make himself irreplaceable.[21] One of the factors that soften the negative effects of this problem is ownership concentration because the more possession is concentrated, the higher is the incentives to control the external manager in order to avoid opportunistic behaviors. In addition, there is an elevated probability that there will be a more effective control when the ownership is in the hands of a family, because of strong motivation and emotional ties to the firm. When the manager of the firm is a member of the family, the problems caused by the first agency problem could be reduced or eliminated. Anyway, ownership concentration causes the second agency problem, which concerns majority and minority shareholders. In fact, especially when the large shareholder is a family, there could be interests in the expropriation of smaller shareholders. Some pieces of evidence of this are the disproportion between equity stake and voting rights in family firms and the presence of voting premiums.[22] Moreover, sometimes the major shareholders take financial resources out of the company for reaching personal benefits, a phenomenon called *tunneling.*[23] According to Anderson and Reeb (2004), it's important to have a Board of Directors in which there is a balance between Family Members and Independent Members so that one part does not prevail over the other. In this respect they discovered, analyzing the businesses in the S&P500 index, that when the ratio of family board members to independent board members is greater than 0,50 there is a worsening of firm performance.[24] Villalonga and Amit (2006) identified four types of firms, among which there is a group that could have the first Agency Problem and not the second, and another group that could have the second Agency Problem but not the first one. They found that these two types of firms have a similar unadjusted q but that the industry-adjusted q of the group that could have the Agency Problem 2 is greater of 0,26 than the group that could have the Agency Problem 1. In light of this, they stated that Agency Problem 1 is more damaging to shareholder value than Agency Problem 2.[25] Another mechanism that serves to mitigate agency problem 1 is the use of debt because, in this way, the manager has a smaller amount of cash flow available and will be more disciplined and less inclined to invest in non-value creating projects. Furthermore, the emission of debt allows avoiding the dilution of the equity stake of the family.[26]

[21] Gomez-Mejia Luis R., Nunez-Nickel Manuel & Gutierrez Isabel (2001). *"The role of family ties in agency contracts"*. Academy of Management Journal Vol.44 (1), pp. 81-95.
[22] Villalonga Belen, Amit Raphael H., Trujillo Maria-Andrea, Guzman Alexander (2015). *"Governance of family firms"*. Annual Review of Financial Economics Vol.7, pp. 635-654.
[23] Johnson S., La Porta R., Lopez De Silanes S., Shleifer A. (2000). *"Tunneling"*. Annual Economic Review 90.
[24] Anderson Ronald C. & Reeb David M. (2004). *"Board Composition: balancing family influence in S&P500 firms"*. Administrative Science Quarterly, Vol 49 (2), pp. 209-237.
[25] Villalonga Belen & Amit Raphael (2006). *"How do family ownership, control and management affect firm value?"*. Journal of Financial Economics 80, pp. 385-417.
[26] Villalonga Belen, Amit Raphael H., Trujillo Maria-Andrea, Guzman Alexander (2015). *"Governance of family firms"*. Annual Review of Financial Economics Vol.7, pp. 635-654.

Nevertheless, debt creates a conflict of interests between shareholders and creditors, engendering the third type of Agency Problem. For this reason, shareholders could incur agency costs related to a greater amount of leverage such as a higher risk of bankruptcy and the introduction, in the contracts, of covenants that limit the management's activities.[27] In the case of family firms, characteristics such as the attention to long-term sustainability guarantee a better alignment of interests between shareholders and creditors and, as a consequence, easier and cheaper access to credit. Besides, in family businesses, there is a fourth type of agency problem that is caused by a clash of interests between family shareholders and family in a broad sense. [28] This is due to the great importance that is given to *Socioemotional Wealth (SEW)*, which is defined by Gomez-Mejia et al. (2007) as "*non-financial aspects of the firms that meet the family's affective needs, such as identity, the ability of exercise family influence, and the perpetuation of family dynasty."[29]* Differently from non-family firms that are driven essentially by financial criteria for taking a business decision, family firms take into great consideration also the impact of their choices on socioemotional wealth.[30] In this respect Berrone et al. (2010), after analyzing a sample of 194 U.S. firms from 1998 to 2002, demonstrated that family businesses, thanks to their concerns to socioemotional wealth, have better environmental performance than non-family firms, especially at the local level in which there is a strong link with the nearby community.[31] in light of these aspects, it's important to acknowledge that the conflicts within the family arise from the need to find the right balance between the family dimension and the business dimension. Regarding this aspect, Pramodita Sharma (2004) created a matrix that considers these two dimensions, as figure 1.7 illustrates. The firms that are in the first quadrant are the ones that manage to maintain harmony inside the family and, at the same time, to have optimal financial results. On the contrary, there is a disequilibrium between family and business dimensions in the businesses that are in the second and third quadrants, in fact the ones that have a high level of financial capital suffer from low emotional capital, and conversely.[32]

---

[27] Jensen Michael C. & Meckling William H. (1976). "*Theory of the firm: managerial behavior, agency costs and ownership structure".* Journal of Financial Economics 3: 305-360.

[28] Villalonga Belen, Amit Raphael H., Trujillo Maria-Andrea, Guzman Alexander (2015). *"Governance of family firms".* Annual Review of Financial Economics Vol.7, pp. 635-654.

[29] Gomez-Mejia Luis R., Haynes Katalin Takacs, Nùnez-Nickel Manuel, Jacobson Kathyrn J.L. & Moyano-Fuentes José (2007). *"Socioemotional Wealth and Business Risks in Family-controlled Firms: evidence from Spanish Olive Oil Mills".* Administrative Science Quarterly 52 (1), pp. 106-137.

[30] Gomez-Mejia Luis R., Haynes Katalin Takacs, Nùnez-Nickel Manuel, Jacobson Kathyrn J.L. & Moyano-Fuentes José (2007). *"Socioemotional Wealth and Business Risks in Family-controlled Firms: evidence from Spanish Olive Oil Mills".* Administrative Science Quarterly 52 (1), pp. 106-137.

[31] Berrone Pascual, Cruz Cristina, Gomez Mejia Luis R., Larraza-Kintana Martin (2010). *"Socioemotional Wealth and Corporate Responses to Institutional Pressures: Do family-controlled firms pollute less?".* Administrative Science Quarterly, 55 (2010), pp.82-113.

[32]Sharma Pramodita (2004). *"An overview of the field of Family Business studies: current status and directions for the future".* Family Business Review vol. 17 (1), pp.1-36.

Figure 1.7: Performance of Family Firms

BUSINESS DIMENSION	FAMILY DIMENSION: Positive	FAMILY DIMENSION: Negative
Positive	I *Warm Hearts* *Deep Pockets* High Emotional and Financial Capital	II *Pained Hearts* *Deep Pockets* High Financial but Low Emotional Capital
Negative	III *Warm Hearts* *Empty Pockets* High Emotional but Low Financial Capital	IV *Pained Hearts* *Empty Pockets* Low Financial and Emotional Capital

Source: Sharma Pramodita (2004). *"An overview of the field of Family Business studies: current status and directions for the future".* Family Business Review vol. 17 (1), pp.1-36.

1.3 Governance Mechanisms

In addition to ownership concentration and debt, there are also other mechanisms used to cope with the conflicts of interests related to the various agency problems. One of these is to use the executive compensation as a tool to align the manager's objectives with those of the owner, as suggested by the *optimal contracting approach*.[33] Especially when the prosperity of the firm depends more on the behavior and dedication of the agent rather than external factors, it could be beneficial to establish a compensation which is the result of a combination of fixed-wage and bonuses.[34] Anyway, according to the *managerial power approach*, the amount of money that the agent receives is directly proportional to his power and sometimes there could be excessively high remunerations that cause a sentiment of outrage among shareholders. In these cases, the agent could try to make the information about his wage less transparent and this could negatively affect the performance of the company.[35] When the CEO is a member of the family that controls the company, he is less disposed to work in another firm (compared to non-family CEO) due to his emotional ties and he usually has more protection in case of negative results caused by his incompetence or his errors. In light of this, he probably will accept lower compensation in respect to non-family CEO but he will have greater job security.[36] Furthermore, another mechanism used to deal with agency problems regards dividend policy, through which firms guarantee themselves more financial resources and could prevent possible conflicts with creditors. Belda-Ruiz et al. (2021) have made lots of studies on this topic and demonstrated that the retaining of earnings permits to

[33] Bebchuck Lucian Arye & Fried M. Jesse (2003). "*Executive Compensation as an Agency Problem". The Journal of Economic Perspectives Vol. 17, pp. 71-92.*
[34] Watson Joel (2013). *"An introduction to Game Theory". W.W. Norton & Company, pp. 340-345.*
[35] Bebchuck Lucian Arye & Fried M. Jesse (2003). "*Executive Compensation as an Agency Problem". The Journal of Economic Perspectives Vol. 17, pp. 71-92.*
[36] Gomez-Mejia Luis R., Larraza-Kintana Martin, Makri Marianna (2003). "*The determinants of executive compensation in family controlled Public Corporations".* Academy of Management Journal Vol. 46, pp. 226-237.

maintain control within the family and, as a consequence, facilitate the realization of the needs related to Socioemotional Wealth because the decision not to distribute dividend lowers the necessity to rely on external monetary resources. In fact, what is emerged is that the higher the involvement of family in management (thanks to a family CEO and/or a strong presence of family board members) the more Socioemotional Wealth and dividend payout are inversely proportional. These two variables are even more negatively correlated when the company faces difficult moments since the family tries to limit the external funding as far as possible even if it will accept SEW losses, if needed, in particularly risky situations.[37] In the case of family businesses, there is a wide array of mechanisms that help to manage the relationship between the different types of family members, building trust and creating a context in which it is less probable that the issues of the fourth Agency Problem could arise. For example, the *Family Assembly* is an annual or biannual meeting that gives the opportunity to gather all the family members over a specific age, no matter what is their role in the firm. This event provides information about the firm and serves to help members develop a sense of belonging to the family. In addition, some companies have a *Family Council* which is a group that collaborates with the Board of Directors to have a convergence of goals among the family and all the shareholders, subordinating the family's actions that regard the firm to the approval of the BoD. In conclusion, another tool that could be useful is the *Family Constitution* that is a written agreement through which family members establish common values, policies and rules.[38]

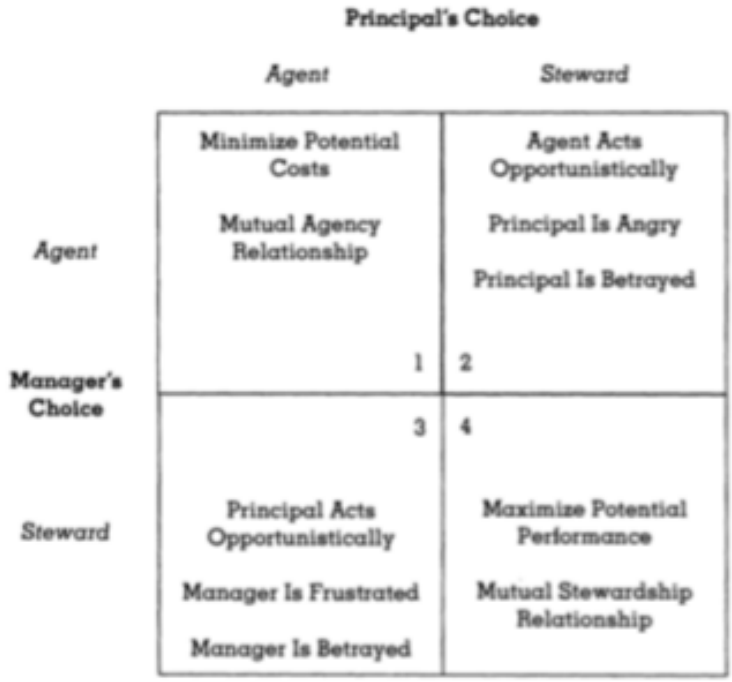
1.4 The Stewardship Theory

According to the Stewardship Theory the agent, differently from what is supposed in the Agency Theory, prefers to engage in cooperative behaviors instead of trying to maximize his utility at the expense of the firm. From this point of view, which is influenced also by psychology and sociology, the manager has a greater satisfaction in making his own contribution towards the goals of the business rather than acting selfishly. The difference between these two currents of thoughts is due to diverse orientations on some factors, which could be psychological or situational. In the first case, one of the major sources of divergence is motivation since agency theory gives more importance to extrinsic rewards that have a market value, whereas intrinsic rewards constitute the priority in stewardship theory. Besides, the more someone identifies himself with the values of the enterprise, the more is prone to be altruistic and collaborate with others. For what concerns the situational factors, there are two distinct management philosophies. In opposition to the Agency Theory that privileges an approach that is mainly oriented to control, the Stewardship Theory strongly believes in the involvement of employees through self-management and a sense of responsibility. This last method is particular useful in an unstable environment because it facilitates a context of open communication and trust between each other. Furthermore, where there is a prevalence of a culture of collectivism there are the right conditions for the

[37] Belda-Ruiz María, Sánchez-Marín Gregorio, Baixauli-Soler J. Samuel (2021). *"Influence of family-centered goals on dividend policy in family firms: a socioemotional wealth approach"*. International Enterpreneurship and Management Journal.
[38] Villalonga Belen, Amit Raphael H., Trujillo Maria-Andrea, Guzman Alexander (2015). *"Governance of family firms"*. Annual Review of Financial Economics Vol.7, pp. 635-654.

spread of several principal-stewards relationships because of the focus on the harmony inside the group to reach a common objective.[39] As it is possible to observe from Figure 1.8, the decision among agency and stewardship behaviors seems a reproduction of the Prisoner's Dilemma. In fact, if one of the two parties acts opportunistically while the other works to create a steward relationship, the latter will be frustrated. As a result, both of the players could choose to establish a principal-agent relationship to minimize the potential agency costs. Nevertheless, the situation that ensures the highest joint utility is the one in which both the principal and the manager choose not to act selfishly and so when the two persons have a strong collectivist orientation they will cooperate for the good of the company.[40]

Figure 1.8:Principal-Manager Choice Model



Source: Davis James H., Schoorman F. David & Donaldson Lex (1997). *"Toward a Stewardship Theory of Management"*. Academy of Management Review Vol. 22, pp. 20-47.

It often happens that family CEOs behave as responsible stewards in order to guarantee the viability of their businesses over time. An effect of this is that family firms invest time and resources to build enduring alliances with strategic customers and suppliers. In addition, among other things, they rely on philanthropy to reinforce the connection between them and the communities of the local context in which they are settled.[41]

In particular, families could prefer to finance projects that have positive impacts on their local communities to gain visibility and strengthen their reputation.[42]

---

39 Davis James H., Schoorman F. David & Donaldson Lex (1997). *"Toward a Stewardship Theory of Management"*. Academy of Management Review Vol. 22, pp. 20-47.

40 Davis James H., Schoorman F. David & Donaldson Lex (1997). *"Toward a Stewardship Theory of Management"*. Academy of Management Review Vol. 22, pp. 20-47.

41 Miller Danny, Le Breton-Miller Isabelle (2006). *"Family Governance and Firm Performance: Agency, Stewardship and Capabilities"*. Family Business Review Vol.19, pp. 73-87.

42 Ernest & Young, University of St. Gallen (2016). *"Family Business Philanthropy. Creating lasting impact through values and legacy"*

In the case of Italian Family Firms the financial return, differently from other countries such as Japan, France and Belgium, is not a particularly relevant factor in the decision of spending resources in philanthropy whereas geographical proximity is significant for almost all the firms, because of the desire to create a strong connection to the local context in which the companies are settled.

1.5 Socioemotional Wealth and Generational Succession

The generational succession is a crucial phase for the survival of family businesses since it has to be found an equilibrium between the different interests in order to have a smooth transition. In this regard, it is fundamental to choose the persons who could guarantee that the firm will remain competitive and will grow over time. Cucculelli and Micucci (2007) analyzed a sample of Italian Family Firms to evaluate what is their performance after the process of succession, comparing a group in which the management of the company was inherited by people that are part of the family with another one in which a non-family CEO was hired. In particular, they discovered that both groups experienced a decrease in the profitability levels and this could be caused, among other things, by the talent and the extraordinary capabilities of the founder. Nonetheless, in the firms with a non-family Ceo there was a smaller decline in Return on Sales (ROS) compared to the other group and, in addition, there was a considerable rise in the Group-adjusted Return on Assets (ROA) that passed from minus 1.48% to 0.35%. The reason for this difference could be that the companies that are in a situation of crisis, differently from the other ones, tend to employ external managers and give them power and responsibility to reorganize the business.[43]

From the second generation onwards, family members could be less emotionally involved in the firm and, as a consequence, they could be less interested in the aspects related to Socioemotional Wealth in respect to the previous generations. Therefore, there will be more concerns about the financial results that become more and more important over time, at the expense of SEW.[44] In light of this, it is possible to predict that companies at later generational stages will be more inclined to diversify both domestically and abroad. In this context, Gomez-Mejia et al. (2010) demonstrated that family firms diversify less than non-family firms since there is a trade-off between the desire to maintain SEW and the propensity to diversification and that, when they choose to expand the business abroad, they prefer countries in which there isn't too much cultural diversity. This happens because, in this kind of operations, they often need to delegate power to non-family members that have the specific skills to manage the division's firm in other geographical regions.[45] Nevertheless, the families that own a company could engage themselves in a series of actions in order to maintain their emotional attachment to the firm and, as a consequence, the desire of SEW. An example of these, in addition to the family

---

[43] Cucculelli Marco & Micucci Giacinto (2007). *"Family succession and firm performance: Evidence from Italian family firms"*. Journal of Corporate Finance 14, pp. 17-31.

[44] Sciascia Salvatore, Mazzola Pietro & Kellermanns Franz W. (2014). *"Family Management and profitability in private family-owned firms: introducing generational stage and the socioemotional wealth perspective". Journal of Family Business Strategy 5 (2014), pp. 131-137.*

[45] Gomez-Mejia Luis R., Makri Marianna, Larraza Kintana Martin (2010). *"Diversification Decisions in Family-Controlled Firms"*. Journal of Management Studies vol.47.

governance mechanisms highlighted previously, is philanthropy because it allows to involve successive generations and increase their motivation to be responsible shareholders and/or work for the business.

Especially when family members can collaborate on philanthropic projects through the firm or a foundation, there is widespread participation that promotes cohesion and reinforces the values of the family.[46] Moreover, another aspect on which family businesses rely to satisfy their needs of SEW is nepotism, a phenomenon through which there is a preference for hiring relatives. In fact, additional family members to the firm, especially in the most important positions, could provoke a growth in the probabilities of making choices that have positive effects on SEW due to the fact that the family has more decision-making power thanks to an empowering influence and to a higher presence of people that share the same values. However, there are some risks related to this strategy as the emphasis on family status could lead to a recruitment process that does not give enough importance to managerial capabilities. Therefore, relatives that do not possess an appropriate set of skills could be chosen instead of brilliant external managers and this could bring negative financial performances. Besides, in these cases, there could also be potential SEW losses due to conflicts among family factions or among family and other shareholders, that compromise the image and reputation of the family. In light of this, it could be convenient to count on nepotism if the expected SEW gains connected to this kind of choice are greater than the potential SEW losses and negative financial results.[47] Another significant concept associated with this topic is reciprocal nepotism, according to which previous interactions could influence the behavior of the new family members recruited in the firms and their relationships with family in a broad sense. In fact, especially when there are strong family norms that bring about moral punishments or rewards, there are some expectations towards them for the fact that they could be grateful to the family for the job opportunity received. Moreover, among the family's newcomers in the firm and the other relatives, there is an enduring relationship of trust that creates an advantage since it reduces the needs of control and allows to assign more complex tasks, unlike other types of relationships which take more time to establish a climate of collaboration and there is a greater risk of agency behaviors.[48]

The process of succession usually happens in four ways. One of these is the Eluded *Succession* which takes place when the manager does not dedicate enough time and energies to this passage because is too busy with ordinary activities. This attitude could create problems in the long term as it is too focused on maintaining the status quo. Besides, *deferred succession* occurs when the manager, even if he is not an individualist as in the previous case and he is more inclined to engage younger members in the management of the firm, is influenced by external factors that lead him to decide to postpone the succession.[49] Another reason for this could be the

---

[46] Ernest & Young, University of St. Gallen (2016). *"Family Business Philanthropy. Creating lasting impact through values and legacy"*

[47] Firfiray Shainaz, Cruz Cristian, Neacsu Ionela, Gomez-Mejia Luis R (2018). *"Is Nepotism so bad for family firms? A socioemotional wealth approach".* Human Resources Management Review vol. 28, pp 83-97.

[48] Jaskiewicz Peter, Uhlenbruck Klaus, Balkin David B. & Reay Trish (2013). "*Is Nepotism good or bad? Types of nepotism and implications for knowledge management".* Family Business Review Vol. 26, pp. 121-139.

[49] Dell'Atti Alberto (2007). *"Il passaggio generazionale nelle imprese familiari".* Collana di Economia Aziendale vol.17 pp. 75-93, Cacucci Editore Bari.

desire to leave the company in a period with good financial results that, unfortunately, could even worsen the situation when there is the necessity of changes in the management.[50]

As it is possible to deduce, there could be problems of timing with deferred successions and the company could lose a lot of business opportunities. In the other two situations, the generational change is planned in advance to ensure that the firm will remain competitive over time and preserve its focus on the long-term period. In the case of *immediate succession,* the manager exercises its functions until the day of the transition, in which he abandons the managerial sphere. The process is different in the *scheduled succession* as the transfer of responsibilities is more gradual and includes periods in which both the manager and his successors work together at the top positions of the firm in order to make it possible for the latter to acquire the experience, skills and tacit knowledge that are necessary for the job position. Another path consists of a series of activities, such as training or special projects, that are preparatory to what the successor will do in the future.[51] As far as concerns the style of management after the generational transition, there could be conservative and rebellious successions. In the first case, the managers will continue to follow the strategy of their predecessors without particularly relevant changes and they will try to improve efficiency rather than innovate on the basis of the evolution of the market needs. In the second case, there is a discontinuity with the past and the strategy could be characterized by operations such as merger & acquisition, diversification and internationalization tactics, etc. The conservative successions are more adapt to a stable context in which the firm has a great market share, whereas rebellious successions are useful in constantly evolving situations. In the middle of these two approaches, there are the wavering successions in which there is the risk of wasting resources due to the indecision on how to manage the company.[52]

1.6 Family Businesses, Private Equity and Stock Exchange Listing

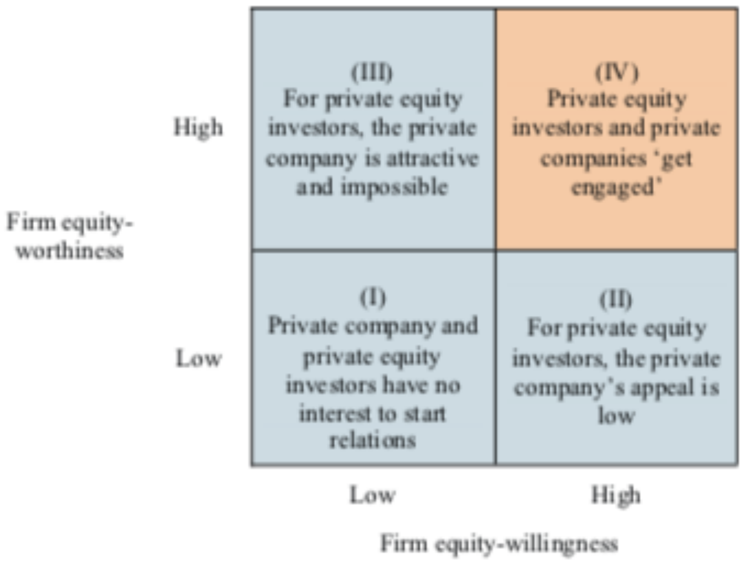
The tendency to grow for a family firm could derive from both the internal and external context. First of all, it is necessary that the family has the desire to grow and expand its business. Then, there are other noteworthy factors such as positive financial performances, low financial leverage and presence on international markets. Anyway, the internal context could also be a brake on economic development. This happens when, among other cases, the family dedicates so much energy to the ongoing tasks that it cannot spend enough time working on a process of growth. Furthermore, especially when there are a lot of family members involved in the firm, internal conflicts could cause the slowdown of decision-making processes. For what concerns the external context, there are several situations in which the choice to grow is also driven by the competitive market scenario. In this regard, the expansion of some family companies is partly due to the fact that there are bigger competitors and there is a sort of imitation effect that leads to operate beyond the relative market niches.

[50] Cucculelli Marco & Micucci Giacinto (2007). *"Family succession and firm performance: Evidence from Italian family firms"*. Journal of Corporate Finance 14, pp. 17-31.
[51] Dell'Atti Alberto (2007). *"Il passaggio generazionale nelle imprese familiari".* Collana di Economia Aziendale vol.17 pp. 75-93, Cacucci Editore Bari.
[52] Miller Danny, Steier Llyod & Le Breton-Miller Isabelle (2003). *"Lost in Time: Intergenerational Succession, Change and Failure in Family Business".* Journal of Business Venturing vol.18, pp. 513-531.

Another possible reason is that in a certain period some enterprises active in the same sector are on sale and the family have to decide to acquire them or not. Besides, it could happen that the family business is a supplier of other firms that are in a growing phase and, at a certain point, it becomes essential to increase the dimension in order to continue to work with them.[53]

There are different ways through which family companies could finance their growth. On the one hand, the *firm-based* approach consists of relying primarily on self-financing for the major part of the activities so financial intermediaries have a marginal role, intervening only in some specific contingencies. In this case, the key to be successful is to have a great capability of adaptation to the market needs. On the other hand, managers could choose to be *finance-based* and, so, to make massive use of the resources provided by financial intermediaries. In addition, the family businesses could choose to benefit from the support of these types of institutions not only to satisfy their funding needs but also to have the assistance of a competent partner in the various managerial choices.[54] When companies are not listed on the stock exchange, they can make private equity deals obtaining financial resources in exchange for equity capital. In this way, these investment funds have the opportunity to make a profit selling their equity shares at a later time whereas firms that are in a period of expansion obtain the money that is important for their economic development. Nevertheless, as Figure 1.9 shows, the two parties could fail to reach an agreement because of a lack of the right combination of *Equity-worthiness* and E*quity-willingness.* In fact, as it is represented in the quadrant II of the matrix, the Private Equity Institutions will not invest in firms that have a low level of equity-worthiness even if the latter are well disposed to give up part of control in order to have monetary resources. The reverse is also true as there are businesses that deserve equity capital but that do not want to lose decision-making power since, among other reasons, they are overconfident of their skills and they undervalue risks.

Figure 1.9: Combinations of firms' equity-worthiness and equity-willingness

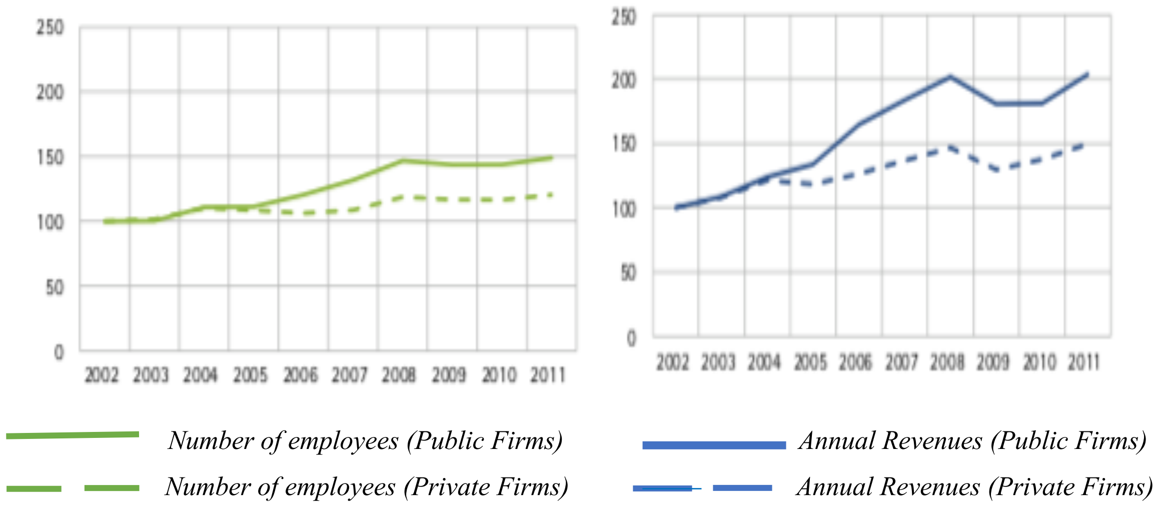


Source: Capasso Arturo, Faraci Rosario & Picone Pasquale Massimo (2014). *"Equity-worthiness and equity-willingness: Key factors in private equity deals"*. Business Horizons Vol. 57, pp. 637-645.

[53] Corbetta Guido (2005). *"Capaci di crescere. L'impresa italiana e la sfida della dimensione"*. Egea, pp. 1-30.
[54] Corbetta Guido (2005). *"Capaci di crescere. L'impresa italiana e la sfida della dimensione"*. Egea, pp. 90-100.

The deal will be reached only when there is both high equity-willingness and equity-worthiness, as it is depicted in quadrant IV.[55] As regards the choice of going public or not, it is fundamental for family companies to make an accurate evaluation of the possible positive and negative consequences of this action. In this context, De Luca and Modena (2017) analyzed a sample of 102 Italian firms (half of which are publicly traded and the other half not) over a decade that spans from 2002 to 2010 to understand the reason why part of the sample prefer not to be listed on the stock exchange. Lots of differences between the two groups emerged with the public firms that had better results than the others. Firstly, in the group of the companies that are listed on the stock exchange, there was a greater increase in the annual revenues and of the number of employees, as Figure 1.10 illustrates.

Figure 1.10: Annual revenues and number of employees of public and private firms



Source: Giordano Luca & Modena Matteo (2017). "Implicazioni e possibili motivazioni della scelta di non quotarsi da parte delle imprese italiane". Consob, Discussion Papers

Moreover, compared to the private firms, there was a greater rise of the intangible fixed assets of the publicly traded companies and this implies that there are more possibilities to improve profitability as this category includes investments that are related to patents, research & development, goodwill, etc. This is also due to the fact that public firms can have a bigger amount of financial resources thanks to equity capital and easier access to loans from banks. Also for these reasons, over the period considered, the level of debt is almost doubled for the companies that are on the stock exchange while it grew by 50% for the other ones. At the same time, in the first case there was a reduction of the financial leverage of slightly less than 10% while in the second case, despite some fluctuations, it remained the same. Despite these benefits connected to listing, part of the family firms prefers to remain private for several reasons. One of these is that all the stakeholders require more transparency from publicly traded businesses that have to improve the quality of the documents that they present and have less margin of discretion.[56] Another factor that influences this decision is that some family enterprises want to decide autonomously their speed of growth, believing that it must be directly related to profitability,

[55] Capasso Arturo, Faraci Rosario & Picone Pasquale Massimo (2014). *"Equity-worthiness and equity-willingness: Key factors in private equity deals"*. Business Horizons Vol. 57, pp. 637-645.
[56] Giordano Luca & Modena Matteo (2017). "Implicazioni e possibili motivazioni della scelta di non quotarsi da parte delle imprese italiane". Consob, Discussion Papers.

otherwise it's not worth it. In this regard, they don't like the fact that, after being listed, they would receive more pressure from the external environment that wants to see positive financial results every three or four months and this could have a negative impact on the strategies that are beneficial only later than much longer spans of time.[57] Furthermore, the families have many concerns about the possible loss of decision-making power as, among other things, there could be negative implications to SEW. This aspect could prevent from becoming publicly traded or could lead to the delisting.[58]

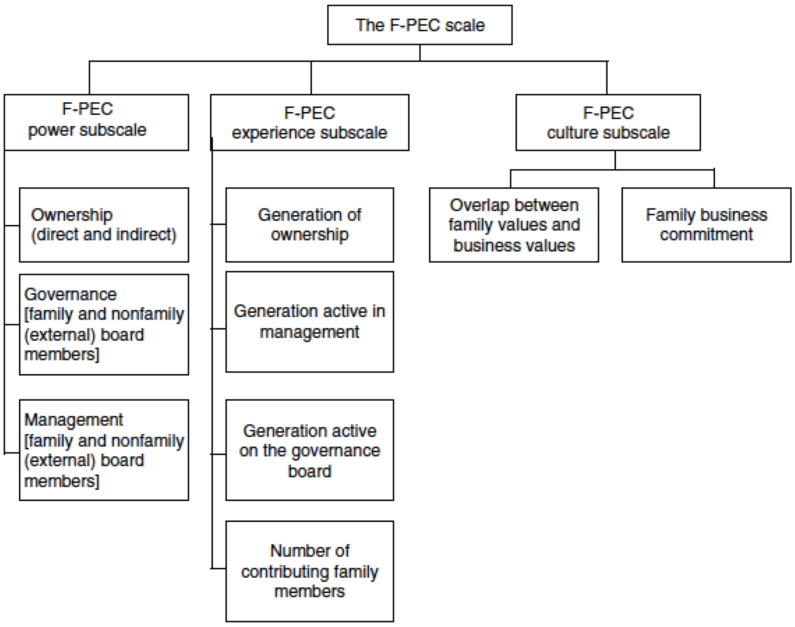
[57] Corbetta Guido (2005). *"Capaci di crescere. L'impresa italiana e la sfida della dimensione"*. Egea, pp. 117-139.
[58] Boers Börje, Ljungkvist Torbjörn, Brunninge Olof & Nordqvist Mattias (2017). *"Going private: A socioemotional wealth perspective on why family-controlled companies decided to leave the stock-exchange"*. Journal of Family Business Strategy vol.8, pp. 74-86.

Chapter 2: Board Composition of family firms

2.1 The F-Pec Scale

Astrachan, Klein and Smyrnios (2002) made some researches in order to analyze the level of involvement of the family in the business. The result was the *F-Pec scale* that, as it is possible to see from Figure 2.1, measures the influence of the family on the firm along the dimensions of power, experience and culture which, in turn, have their respective subscales.

Figure 2.1: The F-Pec Scale



Source: Astrachan Joseph H., Klein Sabine B. & Smyrnios Kosmas X. (2002). *"The F-Pec Scale of family influence: a proposal for solving the family business definition problem".* Family Business Review vol. 15, pp. 45-58.

For what concerns power, a family could influence the company through ownership, governance and management. In the first case, sometimes it could be difficult to understand what is the exact amount of shares that are owned by the family because of complex structures such as holdings, whereas other times it's easier to recognize the extent of family ownership. As regards the other two aspects, a family could have an influence that is direct thanks to the relatives that are part of the governance and management boards or indirect due to external members that are nominated. The second dimension is related to the family business experience added to the business over time. Especially when there are members of different generations involved in the ownership, management and governance of the firm, the benefits in terms of business experience are remarkable. This contribution is particularly high in the passage from the first to the second generation and decrease gradually for subsequent generations. Furthermore, with the passing of time, there is usually an increase in the number of family members associated with the business that could be useful for the experience dimension because of the higher presence of different points of view and of younger members that fosters creativity and innovation. In conclusion, the dimension of culture refers to the overlap between family and business values as well as to the commitment of the family. In particular, the higher the commitment, the greater the probability that the family has an impact on the business.[59] Of course, the ways through which families exert their authority could vary from case by case. For instance, there could happen situations in which there is a high level of power influence but a relatively low degree of cultural influence, and conversely.[60]

Rutherford, Kuratko and Holt (2008) analyzed a sample of family firms in order to examine the link between the variables of the F-Pec scale and performance. They discovered that power is inversely proportional to sales and employee growth but it has almost no effect on revenues and perceived financial performance satisfaction. Experience, instead, is positively connected to revenues and perceived financial performance satisfaction, while it is inversely related to sales growth. Both of these factors do not affect debt as a percent of equity, unlike culture in which there is an inverse relationship. In addition, there is a negative correlation between culture and perceived financial performance satisfaction.[61]

2.2 Board Diversity

There could be positive and negative consequences related to Board Diversity. On the one hand, the collaboration of people who are different from each other helps to prevent the situation in which nobody wants to change the status quo, continuing to do the things that have been done in a certain way in the past and believing that this strategy will lead to future successes. Furthermore, diversity in the Boards could help to avoid the phenomenon of groupthink, which happens when sub-optimal decisions are taken since some members, irrationally, tends not to contradict others just to maintain harmony.[62] In this context, it's important that everyone feel free to speak up, proposing their ideas and favoring knowledge sharing. This is defined by Amy Edmonson (2002) as "Psychological Safety" and it also encourages learning behaviors as seeking help or debating about mistakes made in the past.[63] On the other hand, there could be some downsides related to heterogeneous boards on the basis of the type of diversity of the members. In particular, when people differ in terms of social categories there is a risk of relationship conflicts due to possible hostile attitudes towards members who do not belong to the same subgroup. Nonetheless, the general level of motivation grows when the group manages to work efficiently despite all the difficulties caused by these differences.

---

[59] Astrachan Joseph H., Klein Sabine B. & Smyrnios Kosmas X. (2002). *"The F-Pec Scale of family influence: a proposal for solving the family business definition problem".* Family Business Review vol. 15 (1), pp. 458.
[60] Klein Sabine B., Astrachan Joseph H., Smyrnios Kosmas X. (2005). *"The F-PEC scale of family influence: construction, validation, and further implication for Theory".* Entrepreneurship Theory and Practice vol. 29, pp. 321-339.
[61] Rutherford Matthew W., Kuratko Donald F., Holt Daniel T. (2008). *"Examining the link between "Familiness" and Performance: can the F-PEC untangle the family business theory jungle?".* Entrepreneurship Theory and Practice vol. 32, pp. 1089-1109.
[62] Milliken Frances J. & Martins Luis L. (1996). "*Searching for common threads: understanding the multiple effects of diversity in organizational groups".* The Academy of Management Review Vol. 21 n.2, pp. 402-433.
[63]Edmonson Amy C. (2002). *Managing the risk of learning: Psychological safety in work teams.* London, United Kingdom: International Handbook of Organizational Teamwork.

Instead, when the individuals that are part of the Board of Directors have different ideas on what the group's mission and duties should be, there is an expansion of relationship, task and process conflicts that could negatively impact morale.[64]

According to Wiersema and Bantel (1992), when teams are demographically heterogeneous there are multiple information sources and perspectives that facilitate the spread of creativity and innovation inside the firm. Researchers have discovered that multiple viewpoints allow taking better quality decisions through constructive discussions. One of the variables that are relevant to evaluate the diversity of Boards is age, as it emerged that the more the age of the members of the board is high, the more everyone is more inclined to be less risk-oriented. As a consequence of this, there is a decline in flexibility and the firm becomes less receptive to change, preferring financial and career security.[65] For what concerns the Board Size, usually the optimal number of members should be between 7 and 15 for large companies. In fact, in boards with less than 7 members, there is the risk of a lack of the different profiles that are needed whereas in the ones composed by more than 15 persons the probability of cases of groupthink could increase. In addition, it is important to maintain an equilibrium among executives members, who have managerial powers, and non-executives members, who are not involved in the management of the firm and contribute to the development of the activities of the board, counterbalancing the power of the executives members. Non-executives are, in turn, independent or not, depending on whether they have personal, family or professional ties that could compromise their impartiality. An excessive presence of independent members could have negative implications on long-term strategies, while the opposite situation could prevent an objective judgment on the management of the firm, so it's crucial to find a balance between these two variables.[66] Another relevant aspect is board turnover, which is lower when the CEO is a member of a family that is the largest shareholder of a business. This can be explained by the desire of families to build enduring relationships in order to reach their long-term goals and, for this reason, boards are more stable. Financial performance is a factor that influences board turnover, even if there is a situation of double causality. In fact, poor financial performance may cause a higher director turnover while, at the same time, directors might decide to leave underperforming businesses to not compromise their reputation. Besides, there is a negative correlation between board age and board turnover, as people tend to associate age with expertise.[67]

As already mentioned in the first chapter, there is a problem of gender diversity in the Boards of lots of Italian and European companies because of a low number of female members. In this regard, Bianco et al. (2011) analyzed a sample of all the Italian companies that are listed on the Italian stock exchange from 2008 to 2010, discovering that, at the end of 2010, women occupy only 6.8% of all the board seats and that the greater part of listed companies has BoD composed only of male. Furthermore, in 47.3% of diverse-board companies,

---

[64] Jehn Karen A., Northcraft Gregory B., Neale Margaret A. (1999). *"Why differences make a difference: a field study of diversity, conflict, and performance in workgroups"*. Administrative Science Quarterly vol.44, pp. 741-763.

[65] Wiersema Margarethe F. & Bantel Karen A. (1992). "*Top management demography and corporate strategic change"*. Academy of Management Journal Vol 35 N.1, pp. 91-121.

[66] Zattoni Alessandro (2015). *"Corporate Governance"*. Egea, pp. 311-349.

[67] González Maximiliano, Guzmán Alexander, Pablo Eduardo, Trujillo María Andrea (2019). *"Is Board Turnover driven by performance in family firms?"*. Research in International Business and Finance Vol.46, pp. 169-186.

female directors are exclusively family members. Family-affiliated women are more common in smaller companies of the consumer sector, differently from not-affiliated women that operate mainly in widely held companies with younger boards, especially in the IT/telecommunication sector. Moreover, firms with a higher preference for heterogeneity tend to have larger boards and, as a consequence, board size is positively related to female directorship.[68] Intending to increase the presence of women on Boards of Directors, some countries such as France and Norway established mandatory quotas whereas others preferred a system based on recommendations and policies. Supporters of quotas believe that they promote fairness and equality, while opponents suppose they could prevent companies from choosing the most capable persons. For this reason, it is fundamental to onboard female directors with the goal of enhancing the firm effectiveness and, as a consequence, avoiding *tokenism.*[69]

Some firms decide to hire members of different nationalities to improve performances and the quality of decision-making, facilitating the spread of creativity. In the actual competitive scenario characterized by the rise of globalization, this choice is strategic because it could facilitate the entrance into foreign markets and the growth of exports. Anyway, this situation could lead to conflicts among sub-groups formed by people who share the same values and beliefs. In light of this, firms tend to rely on directors that are from Countries in which there is a low geographical, institutional and cultural distance. An alternative to this strategy consists of recruiting locals with a lot of international working experience.[70]

2.3 The competencies inside the Board of Directors

Heterogeneity in the educational backgrounds and work experience of the various profiles of the Board of Directors could be a mean to deal with the complexity of the competitive market scenario. In this regard, according to the *Resource Dependence Theory,* firms can rely on the environment to obtain the resources that they need. Choosing the right board members, organizations facilitate the creation of strong bonds with the different actors of external communities, strengthening their positions. According to this point of view, businesses operate on the basis of the needs of the outside environment and, in this sense, the possession of critical resources allows them to improve their capability of adaptation to evolving contexts.[71]

Anyway, differences among board members in education and experience, defined by Jehn et al. (1999) as *Informational Diversity*, could be so great that they could negatively affect the capacity of solving problems. In addition, they may cause heated discussions about the topics of the tasks, the manner of doing them and the delegation of part of the work. In this respect, companies have to find a way to minimize the possible conflicts and, at the same time, to maximize the potential benefits related to this kind of diversity, avoiding situations

---

68 Bianco Magda, Ciavarella Angela & Signoretti Rossella (2011). *"Women on boards in Italy"*. Commissione Nazionale per le Società e la Borsa (Consob), Quaderni di Finanza n.70.

69 Adams Renée, Gray Stephen & Nowland John (2010). *"Is there a business case for female directors? Evidence from the market reaction to all new director appointments"*. 23rd Australasian and Banking Conference Paper.

70 Van Veen Kees, Sahib Padma Rao & Aangeenbrug Evelien (2013). *"Where do international boards come from? Country-level antecedents of international board member selection in European boards"*. International Business Review vol.23, pp. 407-417.

71 Nienhüser Werner (2008). *"Resource Dependence Theory: How well does it explain behavior of Organizations?". Management Revenue vol.9, pp. 9-32.*

that can have negative consequences since too many members have the same backgrounds.[72] When some actors have skills that are not common, they can acquire power because the business is partially dependent on them. The more is difficult to replace a person with someone that has similar competencies, the more he becomes important for the board. However, the perceptions about dependency could differ from reality due to subjective under-estimations or over-estimations of another's capabilities.[73] The structure of power can change over time for different reasons such as, among the others, technology innovations that take time to be fully implemented and used by everyone. When less powerful members are the early adopters of a new technology they gain importance, otherwise the previous balance of power is maintained. Obviously, modifications in the power structure are long-lasting only if the adoption of the innovation is permanent. Different from situations in which the innovation consists of incremental adjustments, changes that require a strong discontinuity with the past often imply a redistribution of power.[74]

According to the *Upper Echelons Theory*, managerial backgrounds help to make a prediction of the organizational results. To be more specific, output functions like sales and marketing have a major focus on growth and new market opportunities, whereas for throughput functions such as engineering the priority is improving the efficiency of processes. Moreover, a growing number of firms are managed by individuals with backgrounds in law and finance that are not strictly related to the core business of the organization. In these cases, there is a positive association between administrative complexity and unrelated diversification.[75] Also for these reasons, the educational background is particularly taken into consideration when the Board Members and/or the CEO have to be chosen. Furthermore, considering that is difficult to properly evaluate ex-ante variables like personality, leadership and motivation, education appears as one element that is easy to verify. Boards often tend to replace the departing CEO with a new one of a similar educational background, and this could happen for several reasons. Firstly, organizations tend to select a candidate with the same characteristics of the predecessor when there isn't so much time available and/or when there is an unplanned succession. In addition, choosing a new CEO with a different academic profile than the previous one could raise the probability of being criticized for the choices made in the past. Secondly, the industry to which the company belongs requires people with some specific types of background.[76]

Boards search for members who will add prestige to the firm because of their good reputation and who are capable of contributing to the success of the company thanks to their excellent capabilities, but unfortunately it could be challenging to find them. This is one of the causes of the phenomenon of *Interlocking Directorates,* that according to the definition of Mizruchi (1996) happens *"when a person affiliated with one organization*

---

[72] Jehn Karen A., Northcraft Gregory B., Neale Margaret A. (1999). *"Why differences make a difference: a field study of diversity, conflict, and performance in workgroups"*. Administrative Science Quarterly vol.44, pp. 741-763.
[73] Nienhüser Werner (2008). *"Resource Dependence Theory: How well does it explain behavior of Organizations?". Management Revenue vol.9, pp. 9-32.*
[74] Burkhardt Marlene E. & Brass Daniel J. (1990). *"Changing patterns or patterns of a change: the effects of a change in technology on social network structure and power"*. Administrative Science Quarterly Vol.35 n.1, pp.104-127.
[75] Hambrick Donald C. & Mason Phyllis A. (1984). *"Upper Echelons: the organization as a reflection of its top managers"*. Academy of Management Review Vol.9 n.2, pp.193-206.
[76] Tonello Matteo (2011). *"Does CEO Education matter?"*. The Conference Board, Harvard Law School of Corporate Governance.

sits on the board of directors of another organization".[77] Besides, an individual may decide to be part of the board of several organizations to have career advancements, while businesses acquire legitimacy and send a signal to potential investors that they are worthy of support. Other explanations for this phenomenon refers to the fact that it could serve as a monitoring mechanism and as a way to share knowledge and information among companies. Finally, it could be seen as a reflection of the social ties between members of the upper class.[78] It's important to highlight that the higher the number of boards to which a person belongs, the lesser the time available to dedicate for each firm. Consequently, these members may have non-executive roles, at least in some of the boards.

2.4 Characteristics and powers of the CEO

CEO is one of the most influential members of the board and there are four aspects through which it is possible to evaluate his power. One of these is structural power that is the result of titles and relative compensation as it is based on roles and hierarchy. Another one is ownership, which could be measured by both looking at the number of shares owned by the member or his family and checking if the manager is the founder of the company or is closely related to him. Furthermore, expertise gives the Chief Executive Officer lots of authority. In this case, it's important that the CEO has experience in different functional areas and positions in order to manage more easily the relationship with stakeholders. Finally, a top manager could become more powerful thanks to prestige that could be acquired in different ways like being part of several profit and nonprofit boards and having an elite educational background.[79]

There are some characteristics that have an impact on how the CEO uses the power that he has. For example, some elements of his personality, such as extroversion, influence his propensity to strategic changes. In addition, narcissism is often connected to the adoption of risky strategies as they imply numerous social appreciations in case of success.[80]

In some situations it occurs the phenomenon of CEO duality, that is when the Chief Executive Officer is also the Chairman of the board. On the one hand, the fact that a person holds these two roles guarantees strong leadership and the elimination of possible problems between the two top managers. On the other hand, the absence of CEO duality improves the quality of monitoring and reduces the probability of opportunistic behaviors of the CEO.[81] Regarding this topic, Boyd (1995) analyzed data of a sample of 192 firms in 12 industries and demonstrated that CEO duality is particularly convenient in circumstances in which there is a scarcity of resources and/or a complex environment. The reason for this is that the duality allows for faster decisions that

---

[77] Mizruchi Mark S. (1996). *"What do interlocks do? An Analysis, Critique and Assessment of Research on Interlocking Directorates".* Annual Review of Sociology Vol.22, pp. 271-298.
[78] Mizruchi Mark S. (1996). *"What do interlocks do? An Analysis, Critique and Assessment of Research on Interlocking Directorates".* Annual Review of Sociology Vol.22, pp. 271-298.
[79] Finkelstein Sidney (1992). *"Power in Top Management Teams: dimensions, measurement and validation".* Academy of Management Journal Vol.35 n.3, pp.505-538.
[80] Busenbark John R., Krause Ryan, Boivie Steven & Graffin Scott D. (2016). *"Toward a configurational perspective on the CEO: A review and synthesis of the management literature".* Journal of Management Vol. 42 n.1, pp. 234-268.
[81] Daily Catherine M. & Dalton Dan R. (1997). *CEO and board chair roles held jointly or separately: much ado about nothing?"* Academy of Management Executive vol.11 n.3, pp.11-20.

have to be taken in dynamic and competitive contexts.[82] Moreover, Ballinger & Marcel (2010) proved that when the chairman is also appointed interim CEO there is a mitigation of the negative results that are usually related to this period of changes.[83]

In the case of family businesses, relatives could choose a CEO that is not part of the family since he pays more attention to financial results in respect to Socioemotional Wealth. In this regard, Miller et al. (2013) analyzed a sample of 4221 Italian family firms from 2000 to 2008, discovering that non-family CEOs positively affect the financial outcomes of the companies. To be more specific, this effect is greater when the ownership is dispersed and it is more difficult to monitor properly the CEO, whereas it is smaller in the presence of CO-CEOs who belong to the family.[84] Anyway, this does not mean that relying on a non-family CEO is always the best choice. In fact, it would be better to nominate a family CEO or, in absence of this, a long-term employee when the tacit knowledge of the business is highly relevant and could lead to the creation of competitive advantages. Conversely, Chief Executive Officer has to be chosen exclusively on the basis of backgrounds by making a comparison between both family and non-family members.[85]

[82] Boyd Brian (1995). *"CEO duality and firm performance: a contingency model".* Strategic Management Journal Vol.16, pp.301-312.
[83] Ballinger Gary A. & Marcel Jeremy J. (2010). "*The use of an interim CEO during succession episodes and firm performance."* Strategic Management Journal Vol.31 (3), pp.262-283.
[84] Miller Danny, Le Breton-Miller Isabelle, Minichilli Alessandro, Corbetta Guido & Pittino Daniel (2013). *"When do non-family CEOs outperform in family firms? Agency and behavioural agency perspectives".* Journal of Management Studies Vol.51 issue 4, pp.547-572.
[85] Royer Susanne, Simons Roland, Boyd Britta & Rafferty Alannah (2008). "*Promoting family: a contingency model of family business succession".* Family Business Review Vol.21 n.1, pp.15-30.

Chapter 3: Distribution of powers among Italian family firms' board

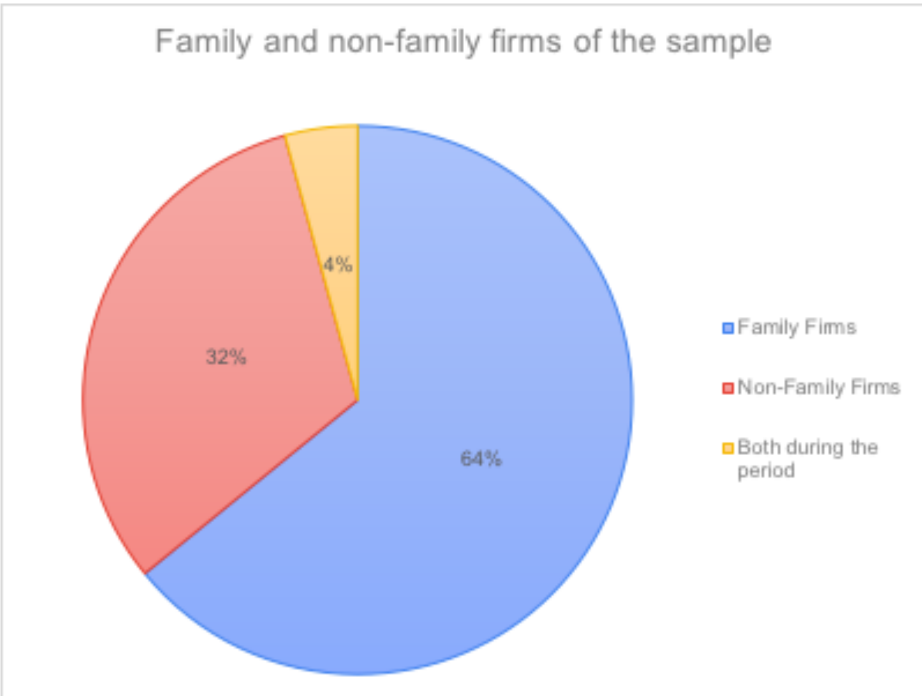
3.1 Methodology of Data Collection

In light of the theoretical framework presented in the previous chapters, research was carried out to answer the following question:

"Is CEO the most powerful member in the Board of Directors of Italian family firms?"

With this in mind, it was analyzed of a sample of 107 Italian listed firms over a period of 14 years that ranges from 2005 to 2019. As it can be deduced from the question, the main focus of the work is the family firm so the majority of businesses in the sample, as figure 3.1 illustrates, are largely owned by a family whereas slightly a third is non-family and this allows to make comparisons between the two groups. In addition, 4% of the group considered passed from being non-family to family (or vice versa) during the years examined.

Figure 3.1: Family and non-family firms of the sample

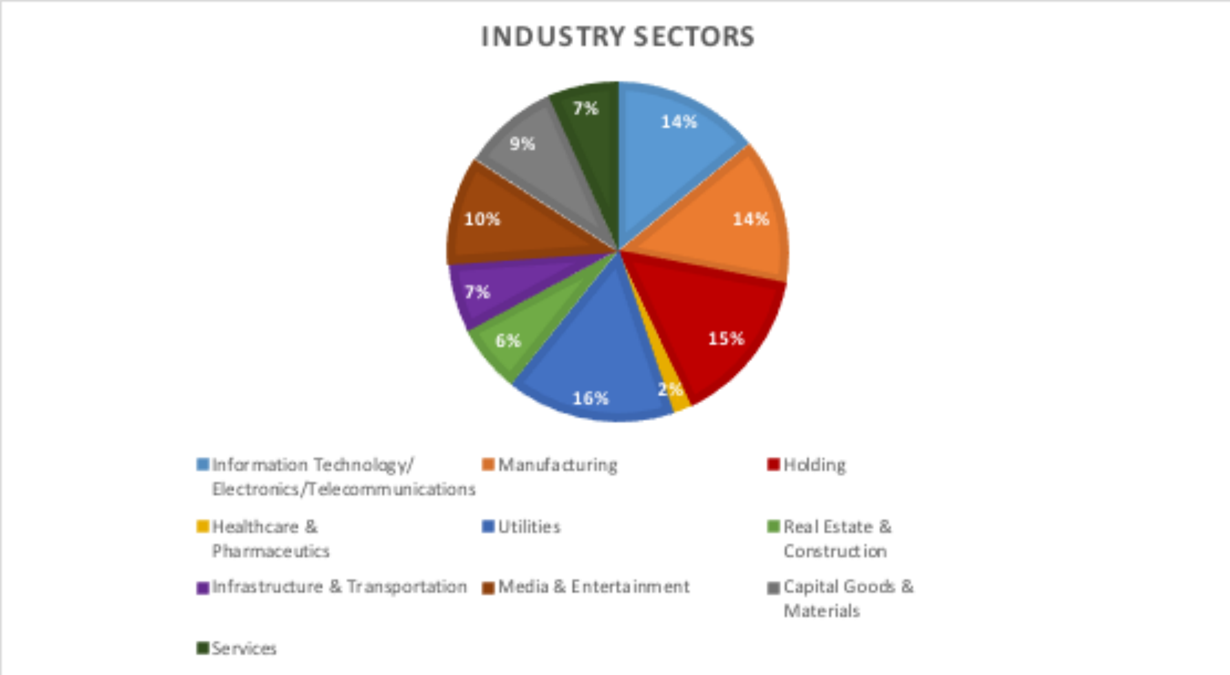


Source: personal elaboration

Figure 3.2 on the next page shows that the businesses analyzed operate in different sectors. In particular, manufacturing, holding, utilities and information technology/electronics/telecommunications are the most represented sectors with around 15% each of the sample, followed by capital goods and materials and media & entertainment with a quota of approximately a tenth each. Finally, Healthcare & Pharmaceutics is the least represented sector with only 2% of the firm, while infrastructure & transportation, real estate & construction and services represent the 7% each.

To undertake the research, the Company Registration Reports, provided by the Italian Chamber of Commerce,

Figure 3.2: Industry Sectors



Source: personal elaboration

were examined to gather relevant information about the board as well as personal data and the responsibilities of individuals that are part of it. First of all, there was a collection of data related to board size in combination with age, gender and role held by members. In this context, Corporate Governance Reports of the Italian Stock Exchange and other sources, like official companies' websites, were useful to deepen the knowledge on ownership structure, executives, family members and powers. The table below helps to have a clear idea of this part of the data collection methodology.

Table 3.1: Board Database

	A	E	F	G	H	I	J	K	L	M
1	Firm	Board_size	Executiv	Name_m1	Birth_	Age_	Gender_	Role_m1	Executive_	Family_
553	LUCISANO MEDIA GROUP	4	0,50	Fulvio Lucisano	1928	89	1	Chairman	1	1
554	LUCISANO MEDIA GROUP	5	0,40	Fulvio Lucisano	1928	90	1	Chairman	1	1
555	LUXOTTICA	12	0,33	Leonardo Del Vecchio	1935	70	1	Chairman	1	1
556	LUXOTTICA	14	0,29	Leonardo Del Vecchio	1935	71	1	Chairman	1	1
557	LUXOTTICA	14	0,29	Leonardo Del Vecchio	1935	72	1	Chairman	1	1
558	LUXOTTICA	14	0,29	Leonardo Del Vecchio	1935	73	1	Chairman	1	1
559	LUXOTTICA	15	0,33	Leonardo Del Vecchio	1935	74	1	Chairman	1	1
560	LUXOTTICA	15	0,33	Leonardo Del Vecchio	1935	75	1	Chairman	1	1
561	LUXOTTICA	15	0,33	Leonardo Del Vecchio	1935	76	1	Chairman	1	1
562	LUXOTTICA	15	0,27	Leonardo Del Vecchio	1935	77	1	Chairman	1	1
563	LUXOTTICA	15	0,27	Leonardo Del Vecchio	1935	78	1	Chairman	1	1
564	LUXOTTICA	14	0,36	Leonardo Del Vecchio	1935	79	1	Chairman	1	1
565	LUXOTTICA	15	0,27	Leonardo Del Vecchio	1935	80	1	Chairman	1	1
566	LUXOTTICA	14	0,21	Leonardo Del Vecchio	1935	81	1	Chairman	1	1
567	LUXOTTICA	14	0,21	Leonardo Del Vecchio	1935	82	1	Chairman	1	1
568	LUXOTTICA	14	0,21	Leonardo Del Vecchio	1935	83	1	Chairman	1	1
569	LUXOTTICA	12	0,25	Leonardo Del Vecchio	1935	84	1	Chairman	1	1
570	MAILUP	5	0,20	Matteo Monfredini	1975	30	1	Chairman/CEO	1	1
571	MAILUP	5	0,20	Matteo Monfredini	1975	31	1	Chairman/CEO	1	1
572	MAILUP	5	0,20	Matteo Monfredini	1975	32	1	Chairman/CEO	1	1
573	MAILUP	5	0,20	Matteo Monfredini	1975	33	1	Chairman/CEO	1	1
574	MAILUP	5	0,20	Matteo Monfredini	1975	34	1	Chairman/CEO	1	1
575	MAILUP	5	1,00	Matteo Monfredini	1975	35	1	Chairman/CEO	1	1
576	MAILUP	5	1,00	Matteo Monfredini	1975	36	1	Chairman/CEO	1	1

Source: personal elaboration

In some cases, it was used a binary variable with 1 means yes and 0 no, whereas for gender 1 indicates that the individual is male and 0 that is female. Secondly, the analysis concentrated on the roles held and powers that every member has year by year, intending to discover how powers are distributed and their variation over time. To be more precise, powers were classified in the following manner:

A. Power of ordinary and extraordinary administration without limit of amount;
B. Power of ordinary and extraordinary administration with limit of amount;
C. Power of ordinary administration without limit of amount;
D. Power of ordinary administration with limit of amount;
E. Only powers over specific functional areas;
F. Only powers over specific functional areas together with other directors.

The functional areas are:

1) Purchasing;
2) Production;
3) Sales;
4) Logistics;
5) AFC + Taxes;
6) Research & Development;
7) Human Resources;
8) Marketing;
9) Legal & Corporate Governance;
10) Information Systems.

Table 3.2 on the next page displays how this study was executed. Also in this case, it was used a binary variable with 1 if the profile of the person falls into one of the five categories of power and 0 otherwise. In addition, 1 indicates that he has power in a specific functional area and 0 if he does not have it. To be more specific, it was assigned power to a functional area following this method:

1) *Purchasing*, if a member has the right to:
- Stipulate, modify and terminate contracts for the purchase of goods and services regarding the corporate purpose;
- Stipulate, modify and terminate tender contracts.

2) *Production*, if a member has the right to:
- Approve expenses related to property, plant and equipment;
- Perform maintenance on existing plants and equipment;
- Expand production capacity;
- Stipulate, modify and terminate sales and exchange contracts concerning useless and unused equipment;
- Stipulate, modify and terminate contracts for the purchase, rent or sale of capital goods;

- Undertake industrial and strategic plans.

3) *Sales*, if a member has the right to:

- Stipulate, modify and terminate contracts for the sale of goods and services regarding the corporate purpose.

Table 3.2: Analysis of Powers

ID	Name	Powers of ordinary and extraordinary administration without limit of amount	Powers of ordinary and extraordinary administration with limit of amount	Powers of ordinary administration without limit of amount	Powers of ordinary administration with limit of amount	Only powers over specific funtional areas	Only powers over specific funtional areas toghether with other directors	Purchasing	Production	Sales	Logistics	AFC + Taxes	Research & Development	Human Resources	Marketing	Legal & Corporate Governance	Information Systems
6937	Roberto Colaninno	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6938	Roberto Colaninno	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6939	Roberto Colaninno	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6940	Roberto Colaninno	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6941	Roberto Colaninno	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6942	Roberto Colaninno	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6943	Roberto Colaninno	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6944	Roberto Colaninno	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6945	Roberto Colaninno	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6946	Roberto Colaninno	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6947	Roberto Colaninno	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6948	Roberto Colaninno	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6949	Roberto Colaninno	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6950	Roberto Colaninno	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6951	Rocco Sabelli	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6952	Rocco Sabelli	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6953	Luciano La Noce	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6954	Luciano La Noce	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6955	Luciano La Noce	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6956	Luciano La Noce	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6957	Luciano La Noce	0	0	0	0	1	0	0	1	0	1	1	0	0	0	1	0
6958	Michele Colaninno	0	0	0	0	1	0	1	0	1	0	1	0	1	0	1	0
6959	Michele Colaninno	0	0	0	0	1	0	1	0	1	0	1	0	1	0	1	0
6960	Michele Colaninno	0	0	0	0	1	0	1	0	1	0	1	0	1	0	1	0
6961	Michele Colaninno	0	0	0	0	1	0	1	0	1	0	1	0	1	0	1	0
6962	Michele Colaninno	0	0	0	0	1	0	1	0	1	0	1	0	1	0	1	0
6963	Michele Colaninno	0	0	0	0	1	0	1	0	1	0	1	0	1	0	1	0
6964	Michele Colaninno	0	0	0	0	1	0	1	0	1	1	1	0	1	0	1	0
6965	Michele Colaninno	0	0	0	0	1	0	1	0	1	1	1	0	1	0	1	0
6966	Michele Colaninno	0	0	0	0	1	0	1	0	1	1	1	0	1	0	1	0
6967	Michele Colaninno	0	0	0	0	1	0	1	0	1	1	1	0	1	0	1	0
6968	Michele Colaninno	0	0	0	0	1	0	1	0	1	1	1	0	1	0	1	0
6969	Michele Colaninno	0	0	0	0	1	0	1	0	1	1	1	0	1	0	1	0
6970	Michele Colaninno	0	0	0	0	1	0	1	0	1	1	1	0	1	0	1	0
6971	Carlo D'Urso	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1	0
6972	Carlo D'Urso	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1	0
6973	Carlo D'Urso	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1	0
6974	Carlo D'Urso	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1	0
6975	Carlo D'Urso	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1	0
6976	Carlo D'Urso	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1	0
6977	Carlo D'Urso	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1	0
6978	Carlo D'Urso	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1	0
6979	Carlo D'Urso	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1	0
6980	Carlo D'Urso	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1	0

Source: personal elaboration

4) *Logistics*, if a member has the right to:

- Stipulate, modify and resolve supply contracts;
- Stipulate, modify and terminate ships and transports contracts;
- Stipulate, modify and terminate contracts relative to waste disposal and recycling;
- Manage import, exports and movement of goods;
- Stipulate, modify and terminate contracts for the purpose, exchange, rent or sale of means of transport.

5) AFC + Taxes, if a member has the right to:

- Sign documents relating to taxes, tributes, levies and legal burdens;
- Authorize the payments of fines and sanctions;
- Management of annual and multi-year budgets;
- Sign documents related to credit and financial matters;
- Stipulate, modify and terminate contracts for the purchase and sale of properties;
- Stipulate, modify and terminate contracts for the purchase or sale of company branches and shares of other firms;
- Stipulate, modify and terminate insurance contracts.

6) Research and Development, if the member has the right to:

- Carry out the procedures that are necessary to obtain a patent;
- Stipulate, modify and terminate contracts relative to patent laws and know-how;
- Stipulate, modify and terminate contracts concerning planning, development, experimentation and prototyping of projects;
- Set up joint ventures and collaboration agreements with Universities and Research Centres.

7) *Human resources*, if the member has the right to:

- Stipulate, modify and terminate job contracts;
- Adopt, towards employees, all the measures necessary and appropriate;
- Powers of coordination of management policies;
- Stipulate, modify and terminate, in the name and on behalf of the firm, union contracts;
- Issue certificates to personnel.

8) *Marketing,* if the member has the power to:

- Stipulate, modify and terminate contracts for promotion, sponsorship and advertising;
- Manage the relationship with the commercial network and coordinate commercial initiatives;
- Manage communication towards press organs;
- Stipulate and manage commercial partnerships;
- Manage the relationship with clients and users of goods and services provided.

9) *Legal and Corporate Governance*, if the member has:

- The power to legally represent the firm;
- Powers related to workplace hygiene as well as safety and protection of employees;
- Functions, competencies and responsibilities in order to ensure compliance with the current regulations on environmental protection;
- Powers concerning privacy and processing of personal data;
- The power to deposit, renew and cancel trademarks;
- The power Stipulate, modify and terminate consultancy contracts.

10) *Information Systems,* if the member has the right to:

- Stipulate, modify and terminate contracts regarding software, hardware, electrical equipment, user license and subsidiary material;
- Manage initiatives aimed at the adoption of new technologies;
- Manage the function of information technology policy maker with the power to invest.

Table 3.3 on the next page is a legend that shows what has just been described.

Table 3.3: Functional areas legend

	Functional Areas									
ID	Purchasing	Production	Sales	Logistics	AFC + Taxes	Research & Development	Human Resources	Marketing	Legal & Corporate Governance	Information Systems
1	Stipulate, modify and terminate contracts for the purchase of goods and services regarding the corporate purpose	Approve expenses related to property,plant and equipment	Stipulate, modify and terminate contracts for the sale of goods and services regarding the corporate purpose	Stipulate, modify and resolve supply contracts	Sign documents relating to taxes, tributes, levies and legal burdens	Carry out the procedures that are necessary to obtain a patent	Stipulate, modify and terminate job contracts	Stipulate, modify and terminate contracts for promotion, sponsorship and advertising	Power of Legal Representation	Stipulate, modify and terminate contracts regarding software, hardware, electrical equipment, user license and subsidiary material
2	Stipulate, modify and terminate tender contracts	Perform maintenance on existing plants and equipments		Stipulate, modify and terminate ships and transports contracts	Authorize the payments of fines and sanctions	Stipulate, modify and terminate contracts relative to patent laws and know-how	Adopt, towards employees, all the measures necessary and appropriate	Management of the relationship with the commercial network and coordination of commercial initiatives	Powers related to workplace hygiene as well as safety and protection of employees	Management of initiatives aimed at the adoption of new technologies
3		Expand production capacity		Stipulate, modify and terminate contracts relative to waste disposal and recycling	Management of annual and multi-year budgets	Stipulate, modify and terminate contracts concerning planning, development, experimentation and prototyping of projects	Powers of coordination of management policies	Management of communication towards press organs	Functions, competencies and responsibilities in order to ensure compliance with the current regulations on environmental protection	Manage the function of information technology policy maker with power to make investments
4		Stipulate, modify and terminate sales and exchange contracts concerning useless and unused equipments		Management of import, exports and movement of goods	Sign documents related to credit and financial matters	Set up joint ventures and collaboration agreements with Universities and Research Centres	Stipulate, modify and terminate, in the name and on behalf of the firm, union contracts	Stipulate and manage commercial partnerships	Powers concerning privacy and processing of personal data	
5		Stipulate, modify and terminate contracts for the purchase, rent or sale of capital goods		Stipulate, modify and terminate contracts for the purpose, exchange, rent or sale of	Stipulate, modify and terminate contracts for the purchase and sale of properties		Issue certificates to personnel	Mangement of the relationship with clients and users of goods and services provided	Deposit,renew and cancel trademarks	
6		Management of industrial and strategic plans			Stipulate, modify and terminate contracts for the purchase or sale of company branches and shares of other firms				Stipulate, modify and terminate consultancy contracts	
7					Stipulate, modify and terminate insurance contracts					

Source: personal elaboration

3.2 Heterogeneity in the Board of Directors

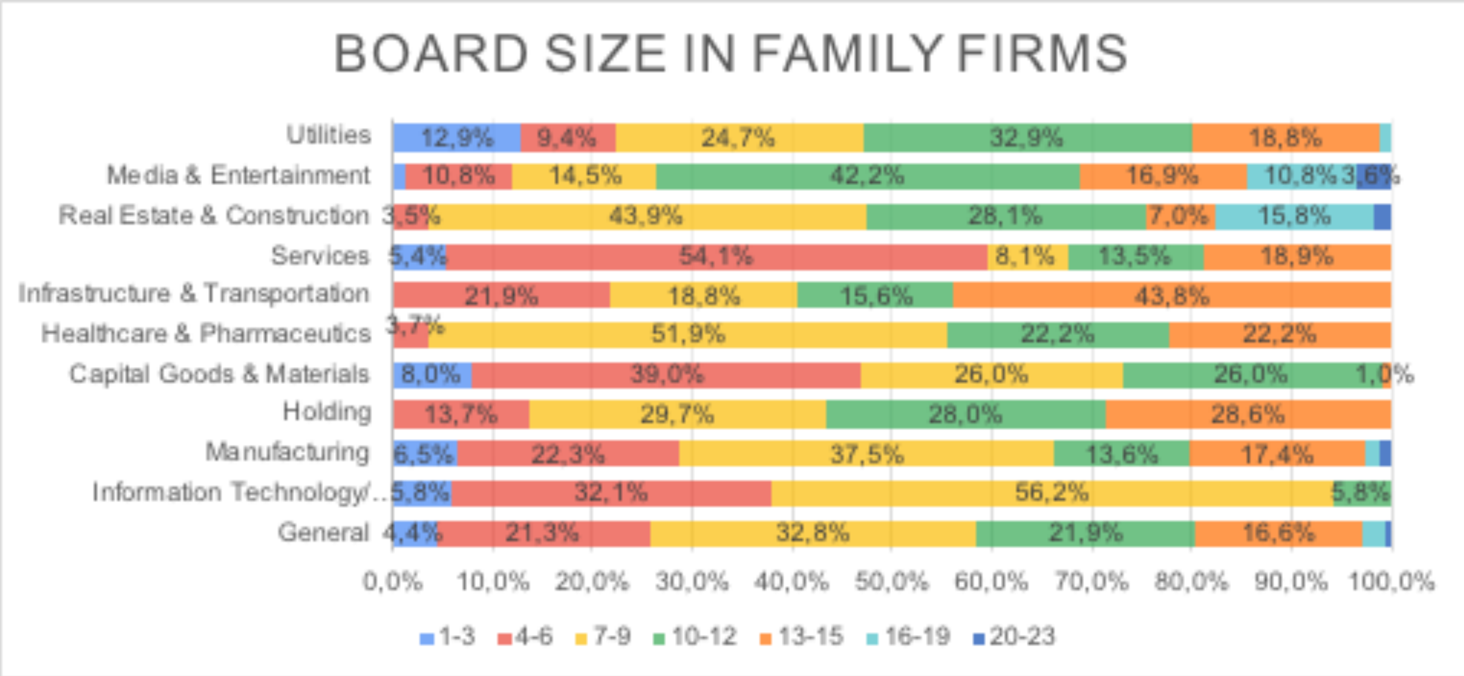
Before going into detail with the analysis of the powers, it could be useful to pay attention to some aspects that could help to better understand some dynamics inside the board of directors. For this reason, there is another question to answer:

"How much are profiles of directors heterogeneous?"

In order to give some responses to this topic, it has been examined the level of heterogeneity considering the dimensions of board size, presence of family members, age and gender of the individuals.

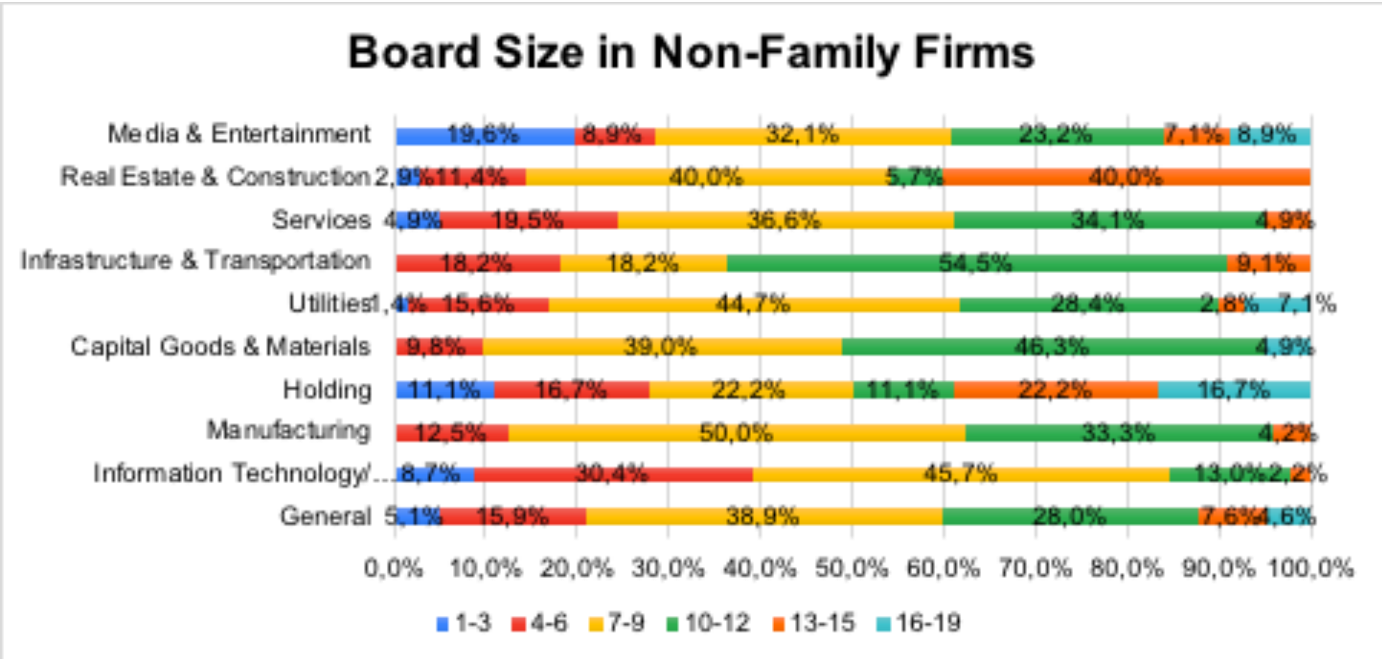
Figures 3.3 and 3.4 on the next page describe the board size in family and non-family firms. As it can be seen, the 71,3% of family firms' boards over the period analyzed and the 74,5% of the ones of non-family firms are composed of a number of members that range from 7 to 15 that, as it was discussed in previous parts of this study, is considered by other authors the interval that usually guarantees the optimal board size. Despite this, there are some differences between the two groups. In particular, the classes 7-9 and 10-12 make up 66.9% of the cases in non-family businesses but only the 54,7% in the family ones, that have a higher presence of boards with groups from 4 to 6 members (21.3% vs 15.9%) or from 13 to 15 (16.6% vs 7.6%). The tendency of family companies to be more inclined to smaller boards could be explained by the fact that it could be easier for familiars to debate as the decision-making process tends to be less formal and time-consuming. An application of this is Caleffi that has a board of 4,5 or 6 individuals from 2005 until 2016 and a presence of two or three family members each year. Besides, this trend is particularly intense in the sectors of Capital Goods and Materials, Services and Information Technology.

Figure 3.3: Board size in family firms



Source: personal elaboration

Figure 3.4: Board Size in non-family firms

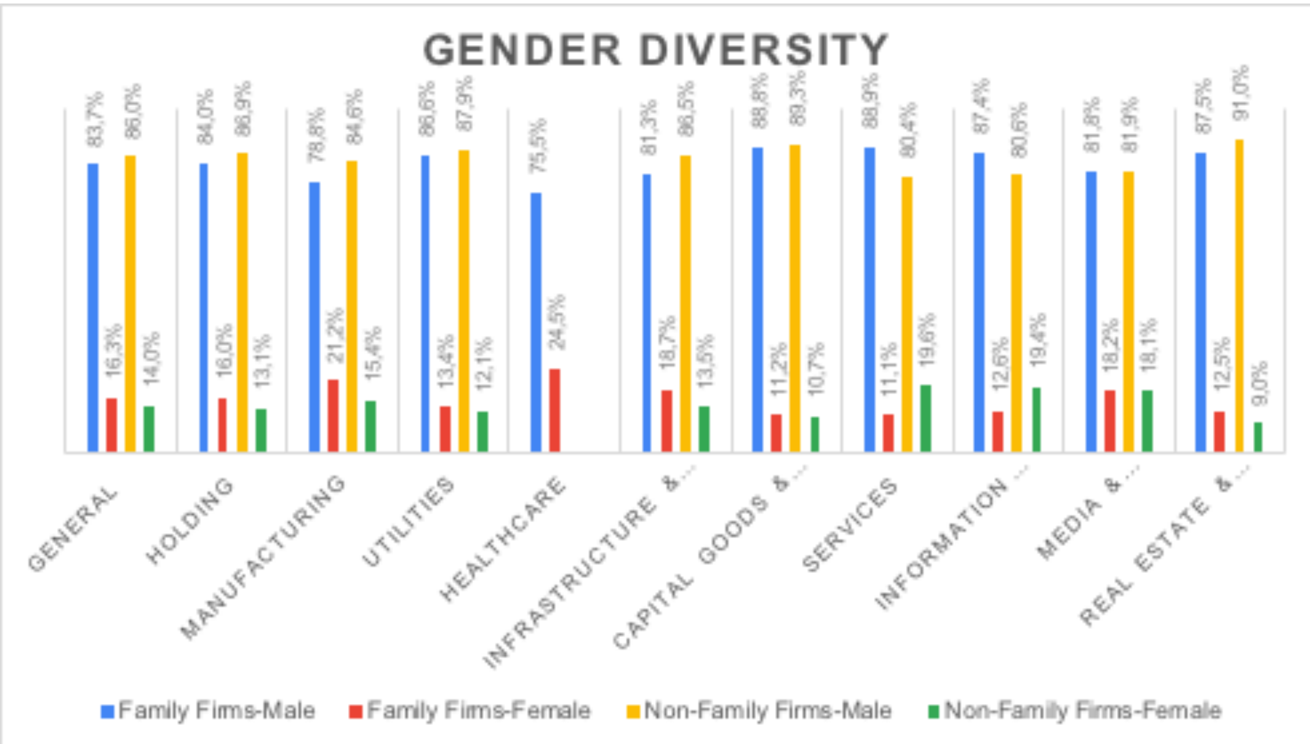


Source: personal elaboration

As regards boards with more than 15 persons, 14.4% of family firms in Media and Entertainment in addition to around 18% of the ones in Real Estate and Construction are part of this set, mainly due to Rizzoli Corriere Della Sera Mediagroup and Italcementi Fabbriche Riunite. Non-family firms do not have boards included in the class of 20-23 members but a wider range of sectors has relevant percentages in the interval of 16-19 members such as holding with 16.7%. The reason why these sizes are chosen is that when organizations are big it is not always easy to have smaller boards of directors as several types of competence and expertise are needed.

For what concerns gender diversity, there is a huge gap in female and male representation that confirms what has emerged in previous studies discussed in the first two chapters. As figure 3.5 illustrates, only in about 15% of cases during the period 2005-2019 the director is female. In the sector of Information Technology, members are female in 19.4% of the total in non-family businesses compared to the 12.6% of the familiar ones and this is in line with Bianco et. al. (2011) according to which women not related to familiar ties are more common in the board of directors of this area.[86] On the other hand, there is a greater number of female in family companies that belongs to the sectors of services as well as infrastructure and transportation, with percentages that are close to 20%. In family enterprises, for every woman on the board of directors there is a 29.2% probability that she is also a family member, whereas this possibility for males is only 24%. An example that could make reflect on this concept comes from Amplifon over the years from 2008 to 2013 in which 100% of the women on board from 2008 to 2013 were part of the family and they had important roles such as Chairman, Vice President or Honorary Chairman. This result declined in the successive years but it remained between 50% and 66% for this firm, that also contributed to make it possible to have 24,5% of female representation in the sector of Healthcare and Pharmaceutics.

Figure 3.5: Gender Diversity



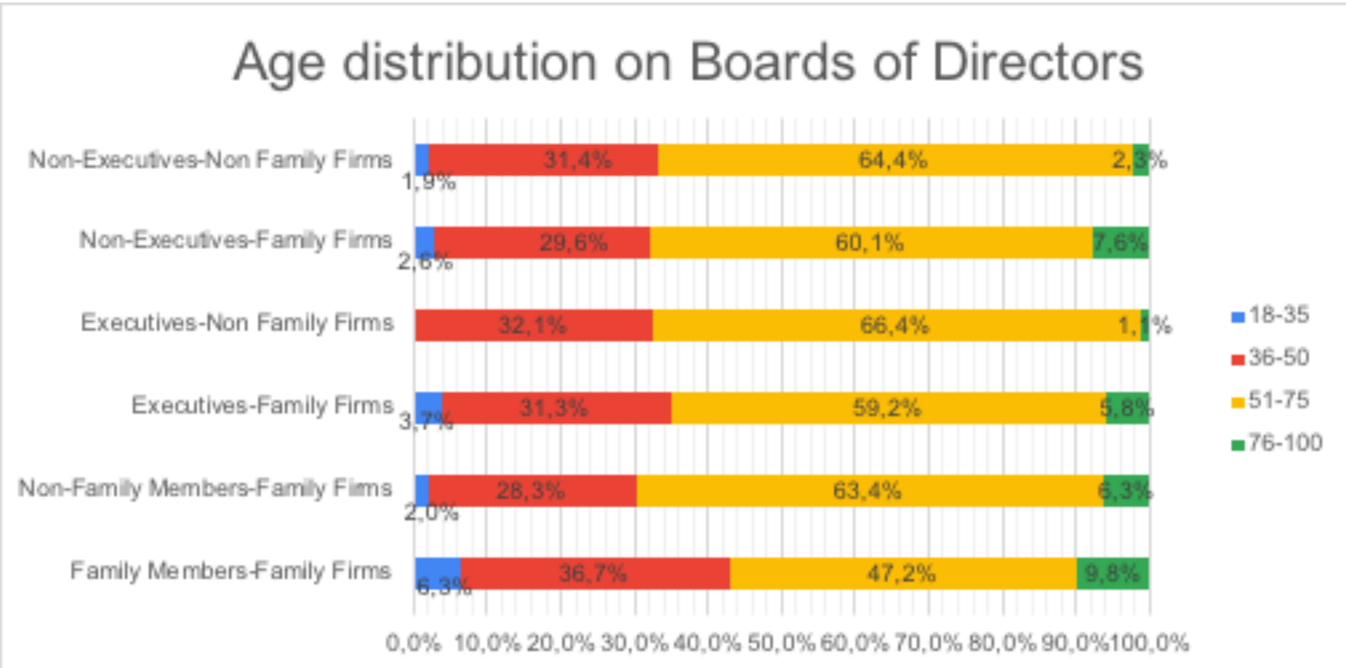
Source: personal elaboration

[86] Bianco Magda, Ciavarella Angela & Signoretti Rossella (2011). *"Women on boards in Italy"*. Commissione Nazionale per le Società e la Borsa (Consob), Quaderni di Finanza n.70.

In the last years of the period analyzed, there was a relevant growth in the number of females on Boards. Throughout the period that ranges from 2015 to 2019, females directors in family organizations make up a quarter of the total and this is a great improvement compared to previous years from 2005 to 2014 in which they are slightly more than a tenth of all members. Also in non-family firms there was a growing trend, with the number of women that more than tripled compared to the years from 2005 to 2014, representing the 28.4% of all individuals that are part of boards of directors from 2015 to 2019. One of the causes of this change could be, among other things, Law 120/2011 that establishes that, from 2015, at least a third of all the members of the board of directors must be female.[87]

As regards age distribution, figure 3.6 shows that a common characteristic among different groups is that the majority of members are aged between 50 and 75 years. A possible explanation for this could be that companies search for persons with a high level of work experience. Anyway, there are some differences and one of the most important ones is that in the 5.8% of cases executives in family enterprises are included in the interval of 76-100 years respect to the executives in non-familiar ones in which only 1.1% belongs to this category. There is a similar situation also for non-executives as in family businesses the 7.6% of them have an age between 76 and 100 years compared to the 2.3% of their colleagues that operate in non-familiar contexts. A cause of this is that some members of the family, such as the founder or others of the first generation, tend to remain within the board even when they are very old. Usually, in these cases, they maintain part of their powers or they change their role, assuming some honorary functions or becoming non-executives members.

Figure 3.6: Age distribution on Boards of Directors



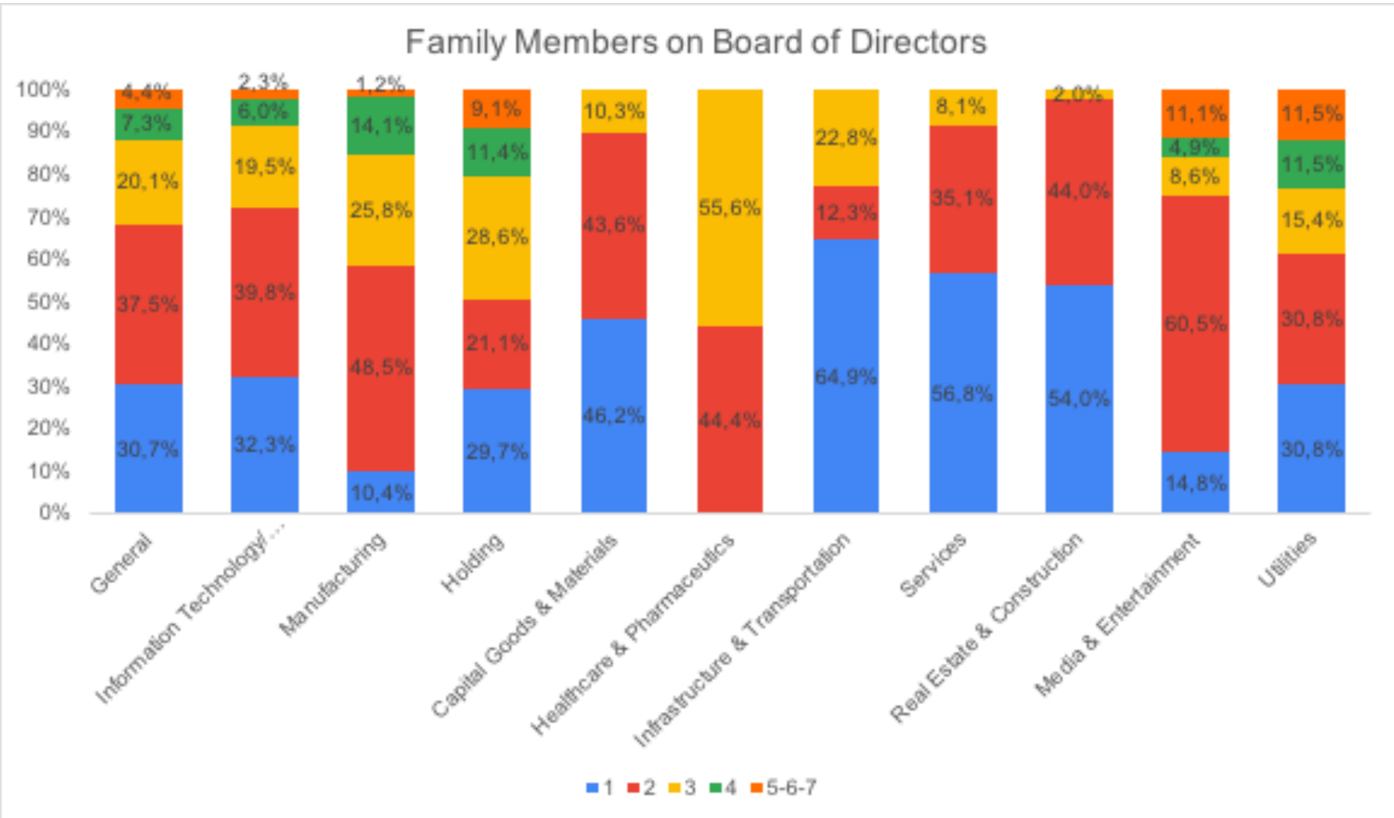
Source: personal elaboration

[87] Normattiva. "Legge 12 luglio 2011, n.120" https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:legge:2011;120

Members that are part of the family are often younger than those who are not because of Socioemotional Wealth considerations in addition to the ones on financial performance. This is the reason why familiars in boards of directors are aged between 18 and 50 years in 43% of the cases compared to 30.3 % of other directors of non-family firms.

Another aspect that is fundamental to take into consideration is linked to the number of family members on boards. As the bar graph below describes, the bulk of boards of directors in almost every sector is composed of 1 or 2 family members since, especially when these are CEO, Chairman or Vice President, organizations have to pay attention to maintain the right balance between them and non-family directors in order to avoid negative impacts on financial performance. Anyway, there could be numerous familiars with the passing of time as multiple generations are involved. In these cases, some people that belong to the family simply become board members whereas others tend to acquire powers (gradually or rapidly) until they hold top positions. Sometimes firms decide to have lots of familiars on the Board of Directors after carefully evaluating the pros and cons of this action. This is what happened with families like Caltagirone (Caltagirone, Caltagirone Editore) as well as Moratti (Saras) whose boards are often composed by 5 or 6 of familiars, leading to a share of approximately 10% in the 5,6 and 7 class of the sectors of Media and Entertainment, Utilities and Holding. Nevertheless, boards in these episodes are always composed of a number of directors that vary from 10 to 15.

Figure 3.7: Family members on Board of Directors



Source: personal elaboration

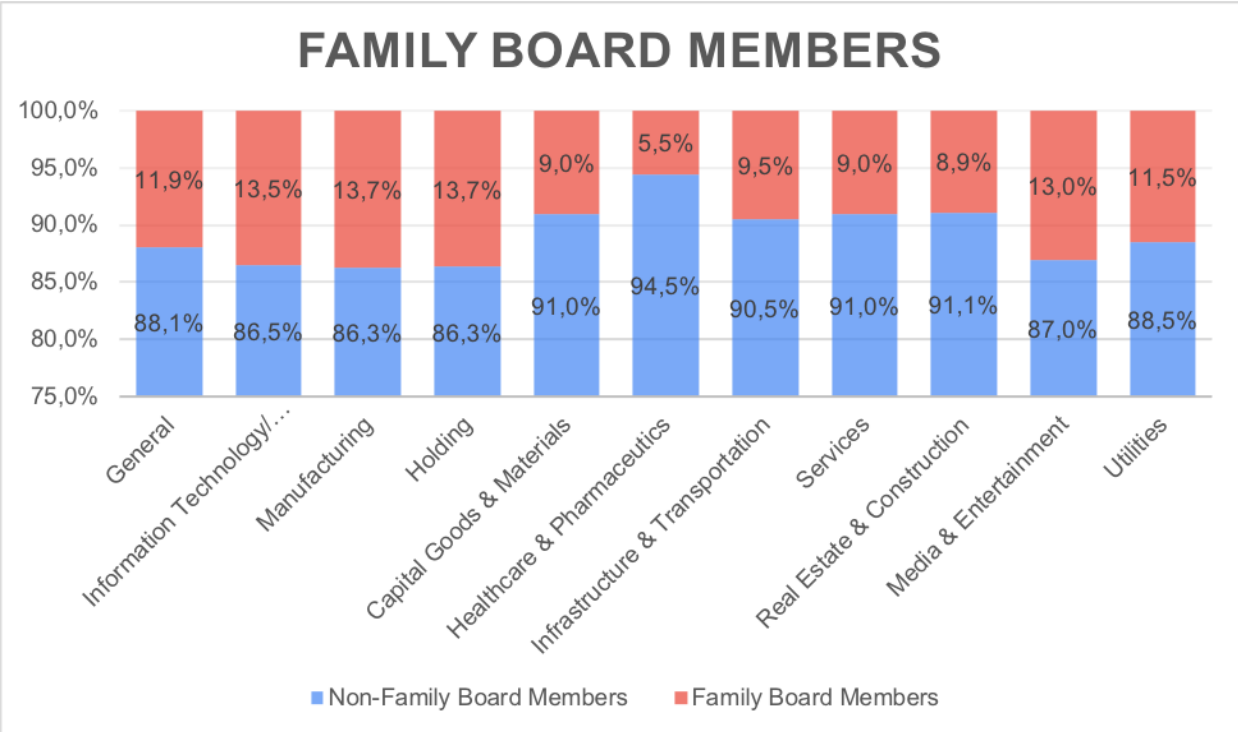
3.3 Analysis of the Powers

As previously described, it was conducted an analysis of the distribution of powers within boards of directors in order to answer the question posed in paragraph 3.1. The following section, which will present the results of this type of research, is divided into four parts that are focused respectively on Board Members, Vice Presidents, Chairmen and CEOs.

3.3.1 Board Members

As it is illustrated in figure 3.8, board members are also family members in little more than a tenth of the cases in family firms. There are some differences among industry sectors whose percentages, except for healthcare and pharmaceutics with 5.5%, vary from around 9% to 13.7%.

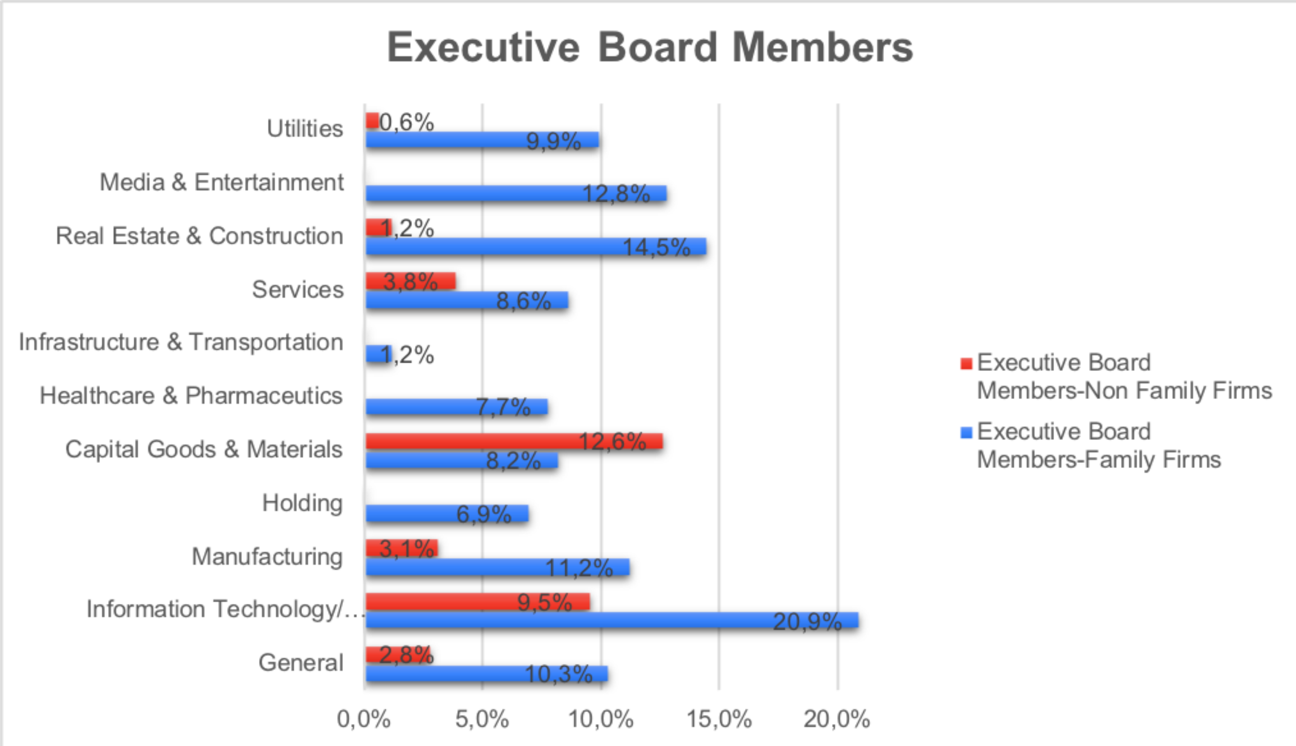
Figure 3.8: Family Board Members



Source: Personal Elaboration

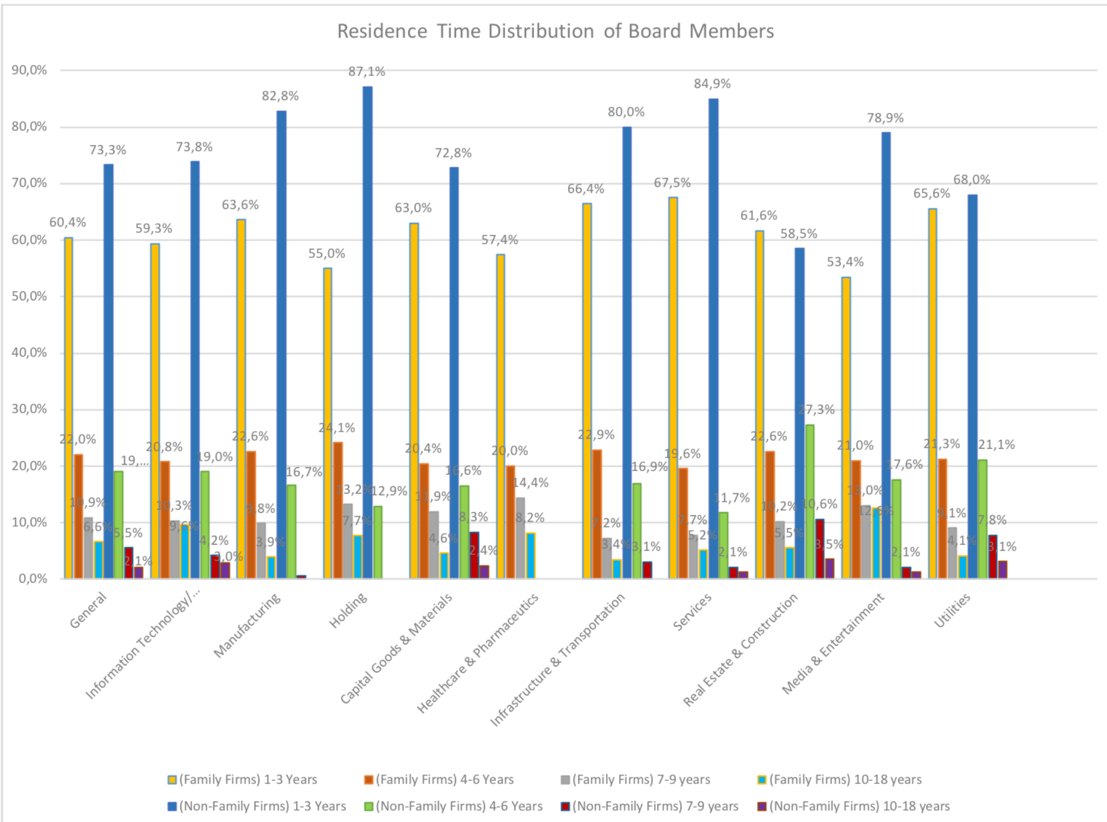
As it is possible to observe from the bar chart on the next page, at least four-fifths of board members of all the firms of the sample are not executive and have no powers. In family businesses, there is a percentage of executives board members that is close to 10% in almost every sector. This ratio is even higher for Real Estate & Construction and Information Technology that has respectively 14.5% and 20.9% whereas is 1.2% in Infrastructure & Transportation. This is in contrast with non-family organizations in which, in each industry but information technology and capital goods & materials, only 4% or less of board members are executive. One of the causes of the low number of executive board members is that powers are more concentrated in the hands of Chairmen, CEOs and Vice President.

Figure 3.9: Executive Board Members



Source: Personal Elaboration

Figure 3.10:residence time distribution of members

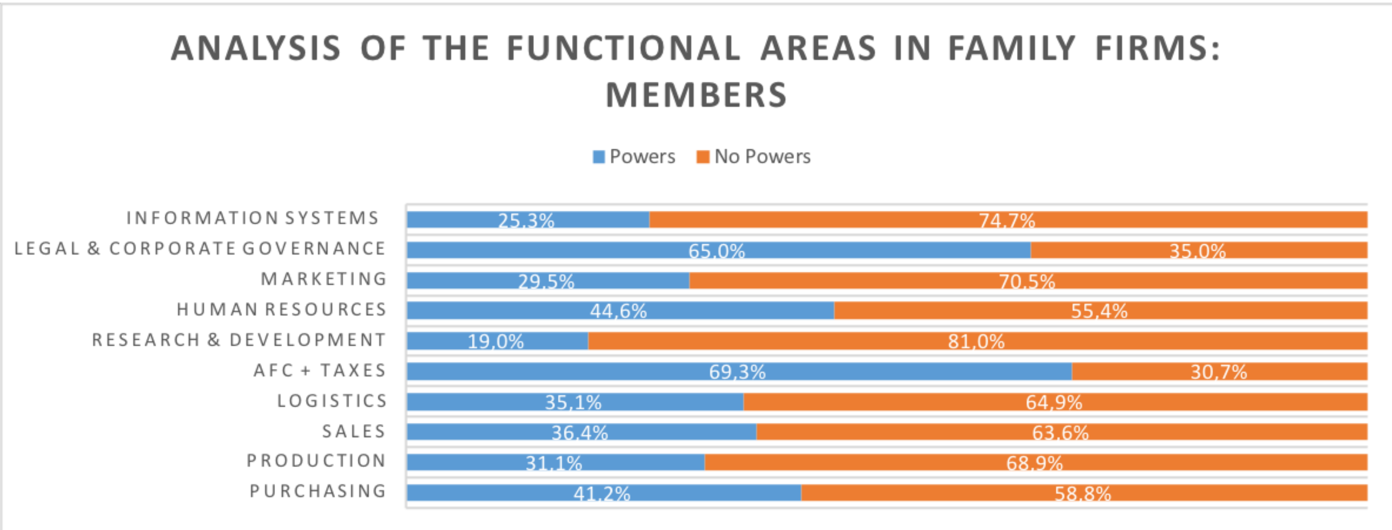


Source: personal elaboration

The differences between family and non-family enterprises that have just been described are also connected with the diverse residence time distributions of members that are depicted in figure 3.10 since it often happens that executives are part of the board of directors for longer periods than non-executives. In particular, in the majority of industry sectors, there is a gap of 10% or more between the classes of family and non-family firms that include individuals that are on boards of directors from 1 to 3 years. On the contrary, family companies have a greater share of members in the intervals that ranges from 4 to 6, from 7 to 9 and from 10 to 18 years. This is in line with González et al. (2019) according to which stability of boards of directors could help familiars to create relationships that facilitate the pursuit of their long-term objectives.[88] Another factor that influences the lower level of board turnover in family organizations is the presence of family members that remain on the BoD for longer spans of time respect to non-family ones.

The majority of powers of board members are related only to specific functional areas. To be more precise, only 7% of executives board members in family firms and 22% in non-family firms have powers of ordinary and/or extraordinary administration, with or without limit of amount. In this regard, figures 3.11 and 3.12 offer an overview of the distribution of the functional areas. Both in family and non-family businesses board members have more powers in Administration, Finance, Control & Taxes, Human Resources and Legal & Corporate Governance. Nonetheless, 40% or more of the executive board members in non-family companies have powers in Information Technology, Marketing, Sales and Logistics while this percentage varies from 25% to 35% for the same types of individuals in family enterprises.

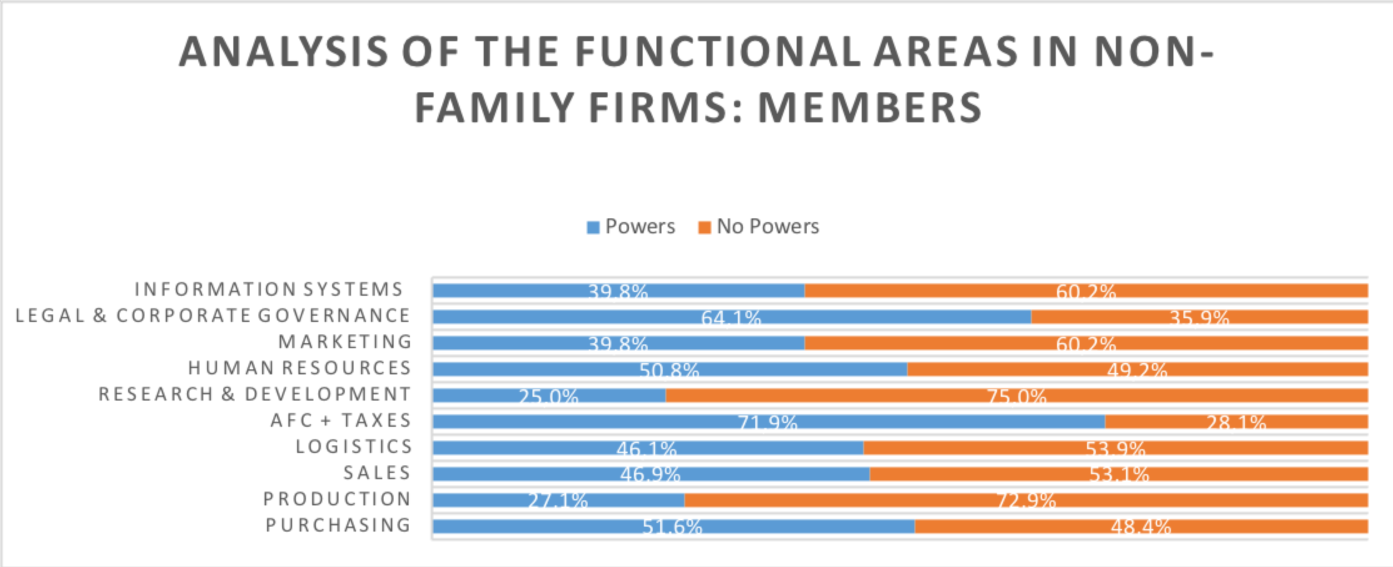
Figure 3.11: Analysis of the functional areas in family firms: members



Source: personal elaboration

[88] González Maximiliano, Guzmán Alexander, Pablo Eduardo, Trujillo María Andrea (2019). *"Is Board Turnover driven by performance in family firms?"*. Research in International Business and Finance Vol.46, pp. 169-186.

Figure 3.12: Analysis of the functional areas in non-family firms: members

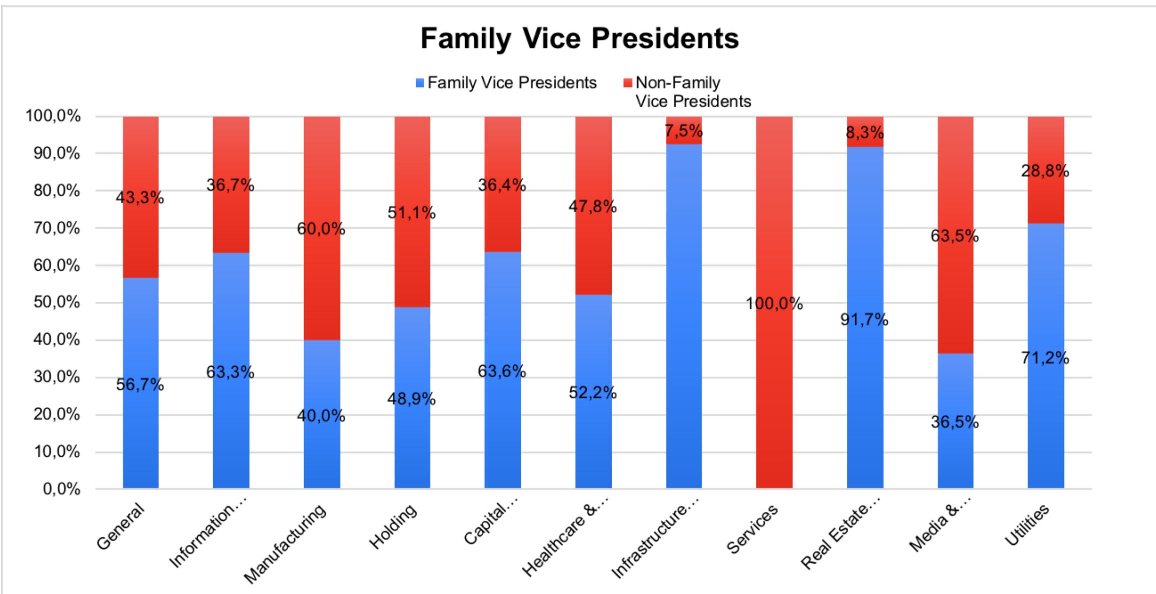


Source: personal elaboration

3.3.2 Vice Presidents

The ratio between family and non-family members is higher in the case of Vice Presidents rather than board members. As it will be discussed in the following subparagraphs, there are similar statistics even for CEOs and Chairmen as familiars could be preferred in particularly important roles because of Socioemotional Wealth considerations. The bar graph below shows that family members make up a percentage that fluctuates between 40% and 60% of all vice presidents in family firms for almost every sector. There are some exceptions in Real Estate & Construction and Infrastructure & Transportation in which 9 vice presidents out of 10 are family members. On the contrary, there aren't family vice presidents in Services.

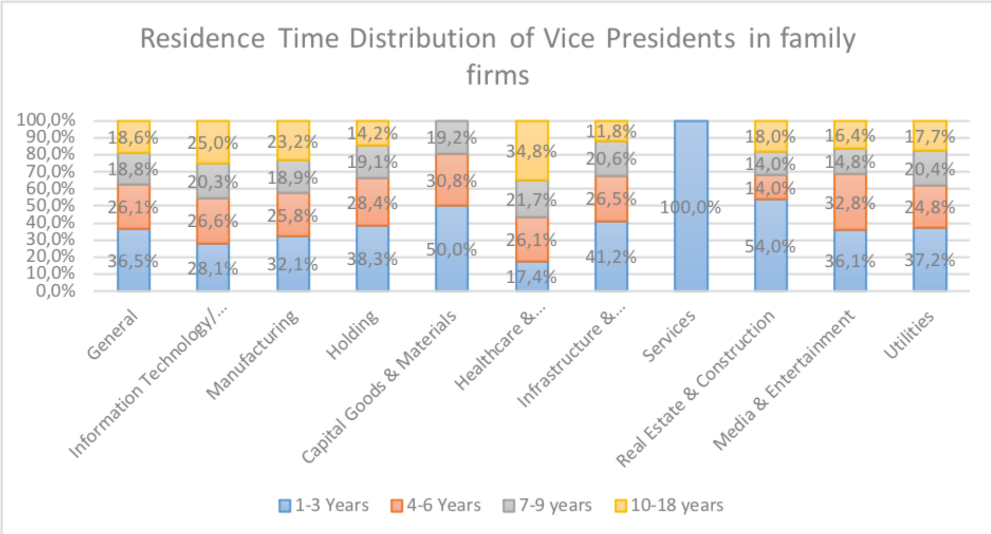
Figure 3.13: Family Vice Presidents



Source: personal elaboration

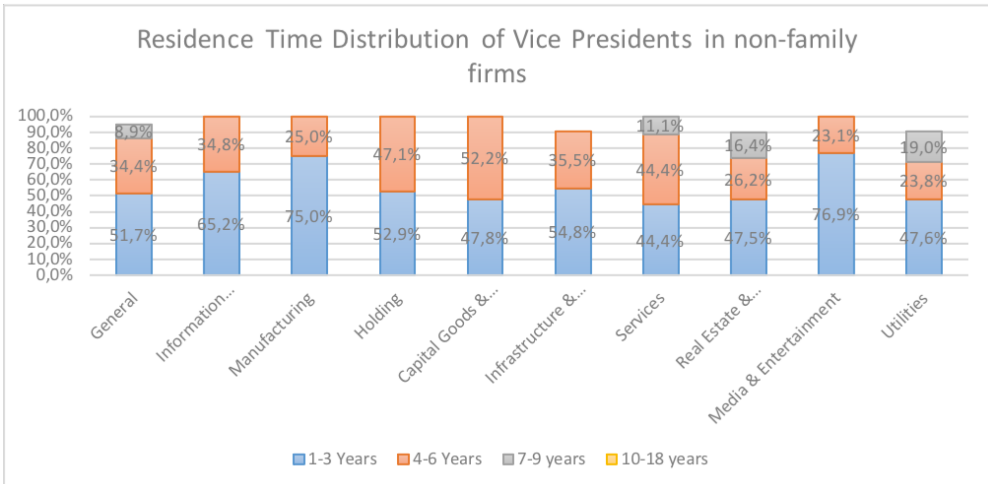
Looking at the two charts below it is possible to notice that, as explained earlier, there is a greater level of board turnover in non-family enterprises compared to non-family ones. To be more specific, at least half of the vice presidents in non-family firms have a residence time on the BoD from 1 to 3 years and the remaining part is often included in the group of 4 to 6 years. Only in real estate & construction, services and utilities some directors are on the boards from 7 to 9 years. On the other hand, around 40% of all vice presidents in family firms are comprised in the classes of 7-9 and 10-18 years so there are smaller percentages for shorter residence times.

Figure 3.14: residence time distribution of vice presidents in family firms



Source: personal elaboration

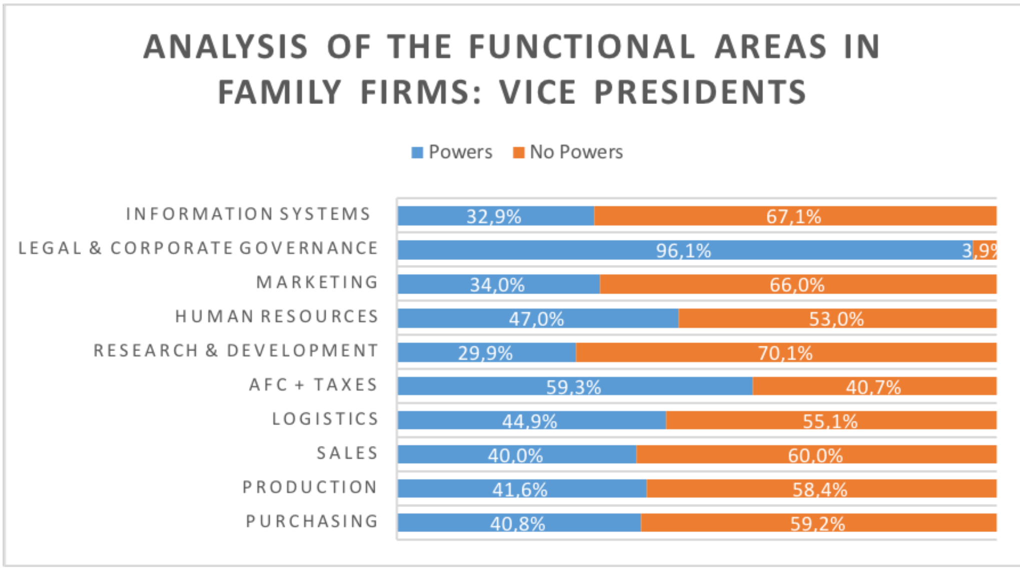
Figure 3.15: residence time distribution of vice presidents in non-family firms



Source: personal elaboration

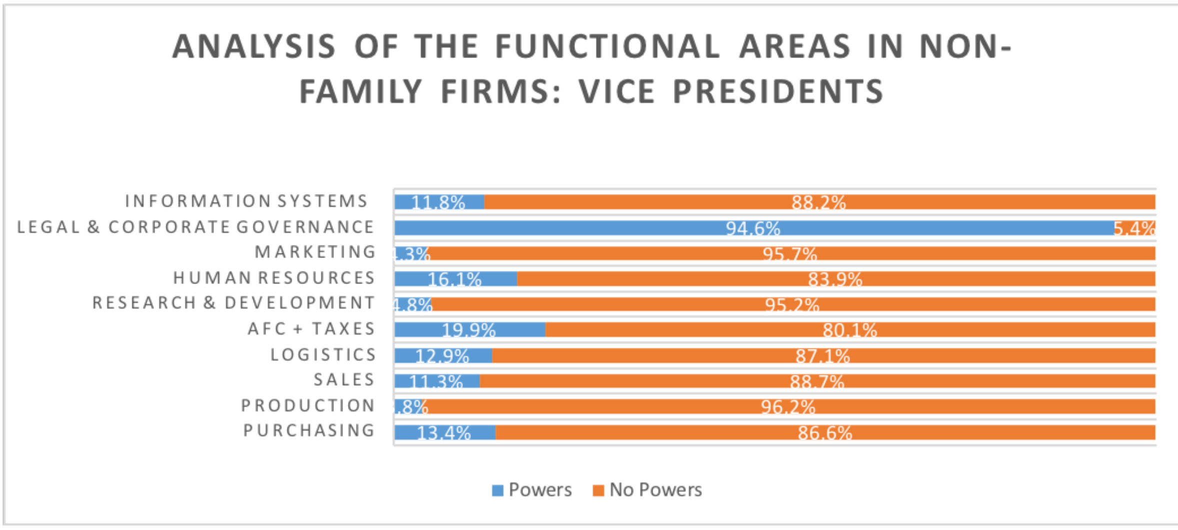
Also in this case, the greatest share of directors (74.3% in family firms and 97.3% in non-family ones) have only powers over specific functional areas. Almost all members in both family and non-family organizations have powers in legal & corporate governance but, in addition to this, there are some differences between the two groups. First of all, vice presidents that have responsibilities in AFC & taxes represent 59.3% of the total in family companies and only a fifth in non-family ones. Furthermore, the percentage of directors that have powers in the other areas considered varies from 30% to 40% in family enterprises and from 0 to approximately 15% in non-family ones. One of the possible reasons for this divergence is connected to the presence of several family vice presidents because they are usually more powerful than their non-familiar colleagues.

Figure 3.16: Analysis of the functional areas in family firms: vice presidents



Source: personal elaboration

Figure 3.17: Analysis of the functional areas in non-family firms: vice presidents



Source: personal elaboration

Table 3.4 on the next page provides information about the trend of the functional areas in family firms from 2005 to 2019. The number of vice presidents with powers in legal & corporate governance as well as human resources areas grew by 7.6% and 5.5% respectively. Besides, comparing the first and the last three-year periods it could be noticed a decrease of around 7% in marketing, 6% in R&D and 4.5% in AFC and taxes. For the remaining areas, there were lots of fluctuations with successions of periods of growth and decline.

Table 3.4:Trend of the functional areas in family firms: vice presidents

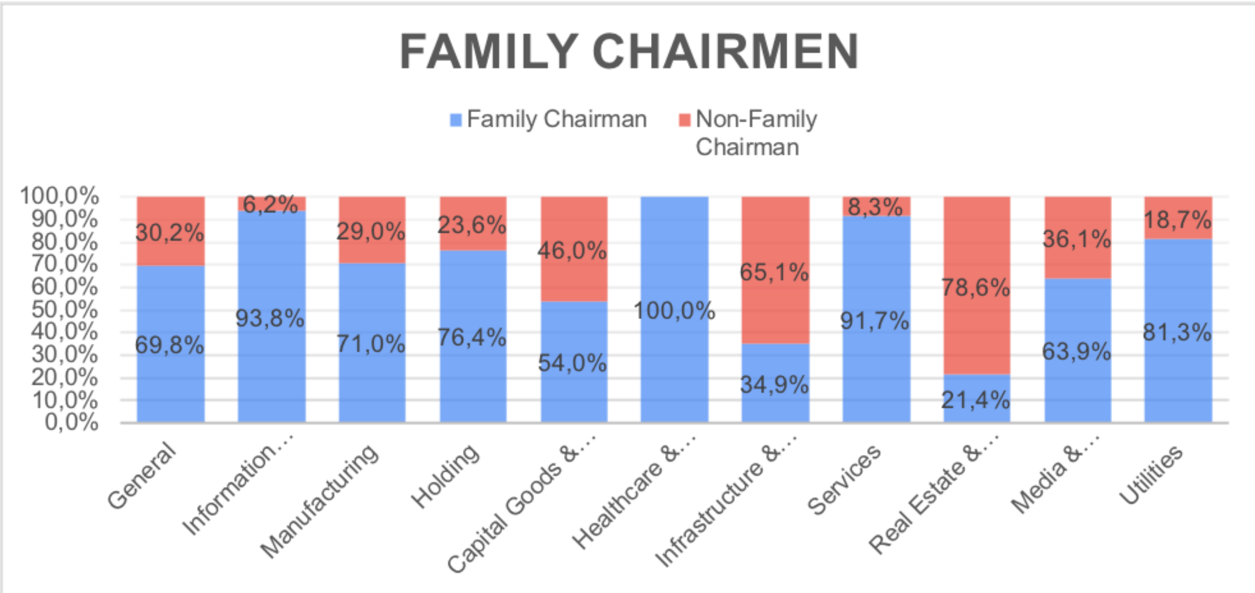
Family Firms	2005-2007	2008-2010	2011-2013	2014-2016	2017-2019
Purchasing	37,3%	41,5%	44,9%	43,1%	35,7%
Production	40,7%	43,2%	44,2%	40,5%	39,1%
Sales	34,7%	39,8%	47,1%	43,8%	32,2%
Logistics	39,0%	44,9%	49,3%	47,7%	41,7%
AFC + Taxes	55,9%	67,8%	63,8%	57,5%	51,3%
Research & Development	30,5%	33,9%	31,2%	29,4%	24,3%
Human Resources	41,5%	46,6%	50,0%	49,0%	47,0%
Marketing	33,9%	38,1%	37,7%	32,7%	27,0%
Legal & Corporate Governance	91,5%	94,1%	96,4%	98,7%	99,1%
Information Systems	31,4%	33,9%	37,0%	32,7%	28,7%

Source: personal elaboration

3.3.3 Chairman

Family chairmen constitute about 70% of the total in family firms for a considerable number of industry sectors. This percentage is close to 90% or more in healthcare & pharmaceutics, information technology and services whereas it ranges from 20% to 54% for capital goods & materials, real estate & construction and infrastructure & transportation.

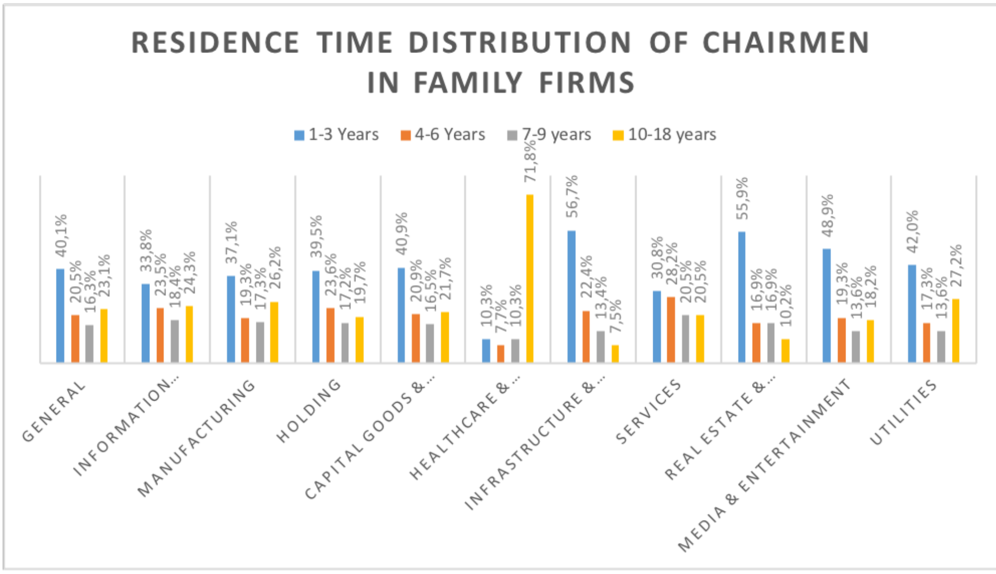
Figure 3.18: Family Chairmen



Source: personal elaboration

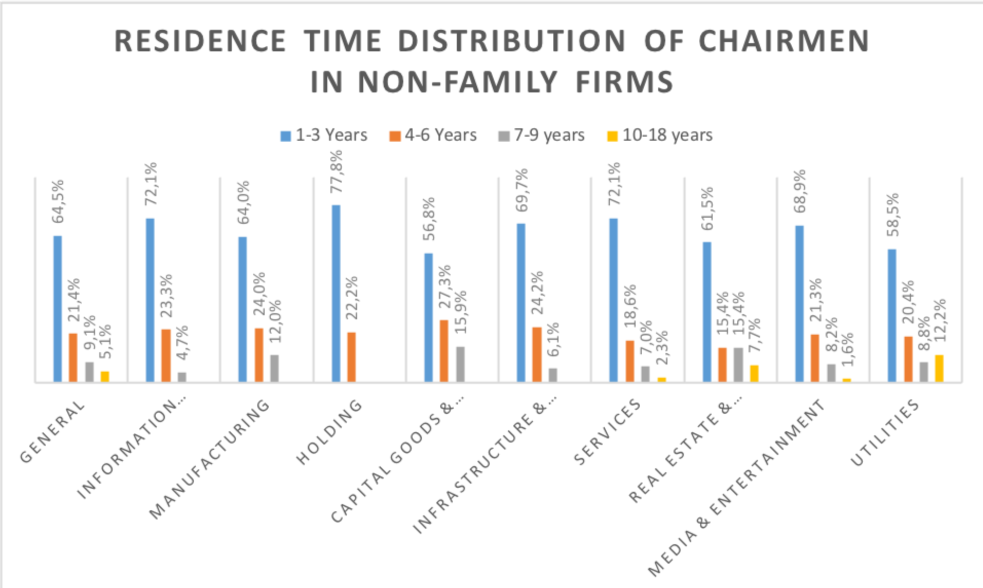
The numerous presence of familiars that hold this role has an important impact on residence time distribution. As the bar charts on the next page describe, in 20% or more of the cases analyzed in family firms chairmen are on BoD from a span between 10 and 18 years, in contrast with non-family organizations in which this class is totally or almost not represented in the bulk of sectors. Moreover, 16.3% of directors in family organizations and only 9.1% in non-family ones are part of the board of directors from 7 to 9 years. As a consequence, there is, between these two groups, a gap in class 1-3 years of at least a fifth in almost every sector.

Figure 3.19: Residence time distribution of chairmen in family firms



Source: personal elaboration

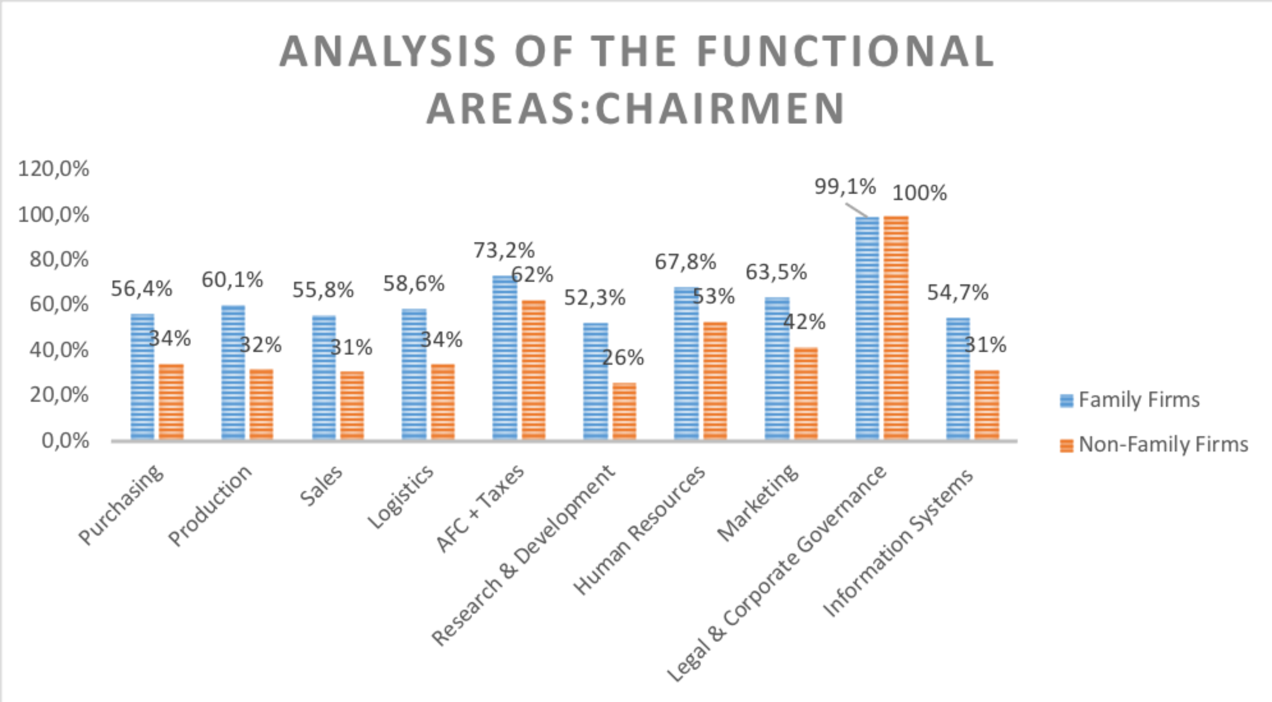
Figure 3.20: Residence time distribution of chairmen in non-family firms



Source: personal elaboration

For what concerns functions that chairmen have within the BoD in family companies, it is important to highlight that 41% of them have powers of ordinary and extraordinary administration (with or without limit of amount), 6% ordinary administration (with or without limit of amount) and slightly more than a half of them have powers only over specific functional areas. This distribution is different in non-family enterprises as approximately three-quarters of people that hold this role have powers over specific functional areas, 14% of them of ordinary and extraordinary administration (with or without limit of amount) and 12% ordinary administration (with or without limit of amount). There are multiple causes behind these statistics. First of all, when the chairman is a family member he usually has wider powers as he is the founder or one of his successors of subsequent generations. Additionally, it emerged from the research that 12 directors out of 100 are also CEO in family firms and only 1 out of 100 in non-family firms. This concept will be discussed more in detail in subparagraph 3.3.4. Secondly, it could happen that chairmen in non-family enterprises have only powers in legal & corporate governance, AFC & taxes and few other areas and CEOs have powers of ordinary and extraordinary administration. Instead, it is possible to see from figure 3.21 that directors with this role in family organizations usually have powers in a wider array of functional areas.

Figure 3.21: Analysis of the functional areas: chairmen



Source: personal elaboration

Table 3.5 gives an overview of the trend of the functional areas from 2005 to 2019 with three-year intervals. Despite lots of variations, one thing in common among family and non-family firms is that there was a fall in the share of directors that have powers in several functional areas.

Table 3.5: Trend of the functional areas in family and non-family firms: Chairmen

Family Firms	2005-2007	2008-2010	2011-2013	2014-2016	2017-2019
Purchasing	59,8%	57,9%	53,6%	56,8%	54,0%
Production	64,9%	62,3%	55,1%	59,5%	59,7%
Sales	61,5%	59,6%	51,5%	55,4%	51,7%
Logistics	68,4%	65,0%	54,1%	55,0%	51,7%
AFC + Taxes	75,3%	75,4%	68,4%	73,9%	73,3%
Research & Development	59,8%	56,8%	49,5%	52,3%	43,2%
Human Resources	74,7%	72,7%	64,8%	66,7%	60,8%
Marketing	66,1%	65,6%	60,7%	65,8%	59,1%
Legal & Corporate Governance	98,3%	98,4%	99,5%	100,0%	98,9%
Information Systems	61,5%	60,1%	51,5%	54,1%	46,6%
Non-Family Firms	2005-2007	2008-2010	2011-2013	2014-2016	2017-2019
Purchasing	39,5%	38,5%	33,3%	34,7%	23,8%
Production	38,3%	38,5%	28,4%	31,6%	21,3%
Sales	34,6%	36,3%	30,4%	30,6%	20,0%
Logistics	43,2%	39,6%	35,3%	30,6%	20,0%
AFC + Taxes	66,7%	62,6%	61,8%	63,3%	57,5%
Research & Development	27,2%	25,3%	26,5%	27,6%	21,3%
Human Resources	59,3%	57,1%	49,0%	50,0%	48,8%
Marketing	34,6%	42,9%	51,0%	41,8%	35,0%
Legal & Corporate Governance	98,8%	100,0%	100,0%	100,0%	100,0%
Information Systems	34,6%	34,1%	30,4%	32,7%	23,8%

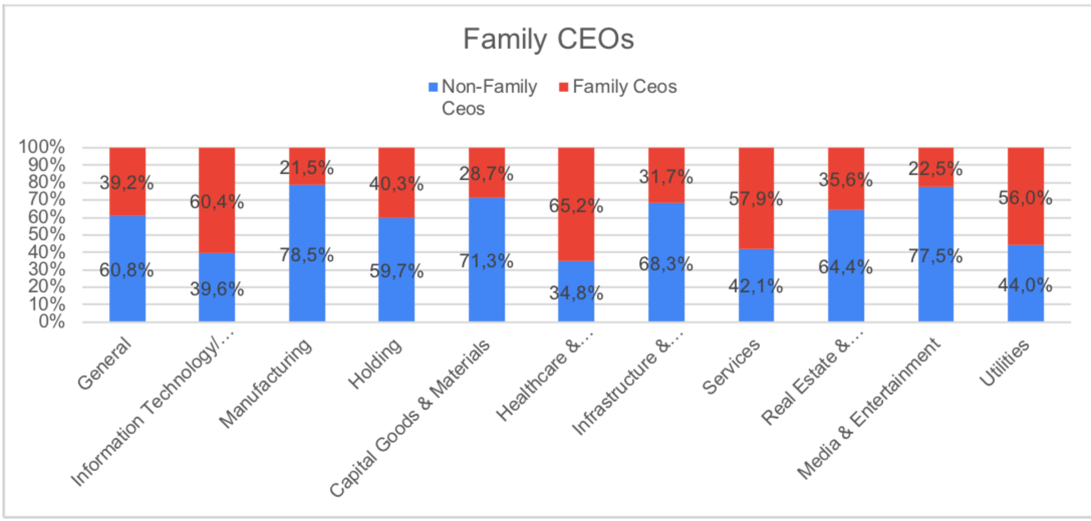
Source: personal elaboration

One of the reasons for this decline could be that CEOs gradually acquired powers in multiple functional areas over time. Besides, there could be some boards in which vice presidents and/or board members gained more powers in some functional areas, also thanks to specific competencies and expertise.

3.3.4 CEO

As it occurred for vice presidents and chairmen, family members make up a great part of the total of all the CEOs in family organizations. In particular, the graph below illustrates that they are on average 60% of all the CEOs and there are some industries such as manufacturing or media & entertainment in which they are close to four-fifths.

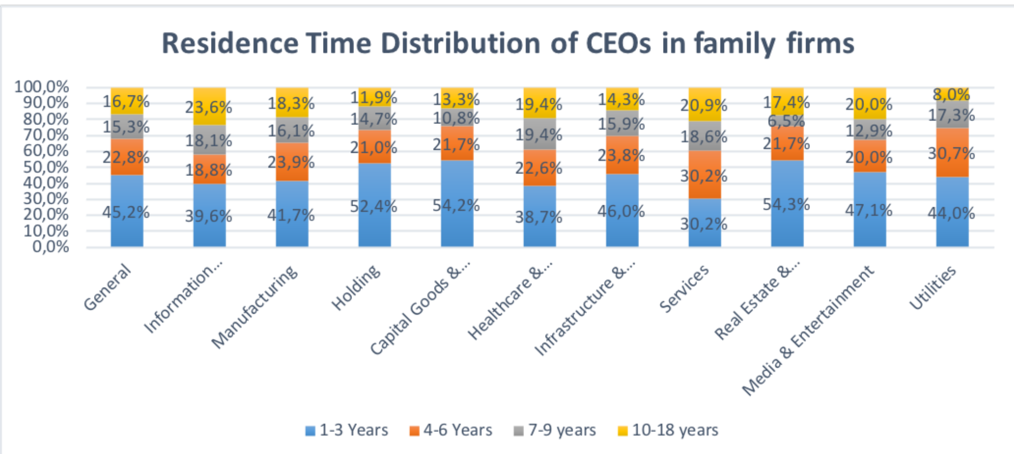
Figure 3.22: Family CEOs



Source: personal elaboration

Also in this case, for the reasons that were explained in previous parts of this work, there is a higher level of turnover in non-family companies rather than family ones.

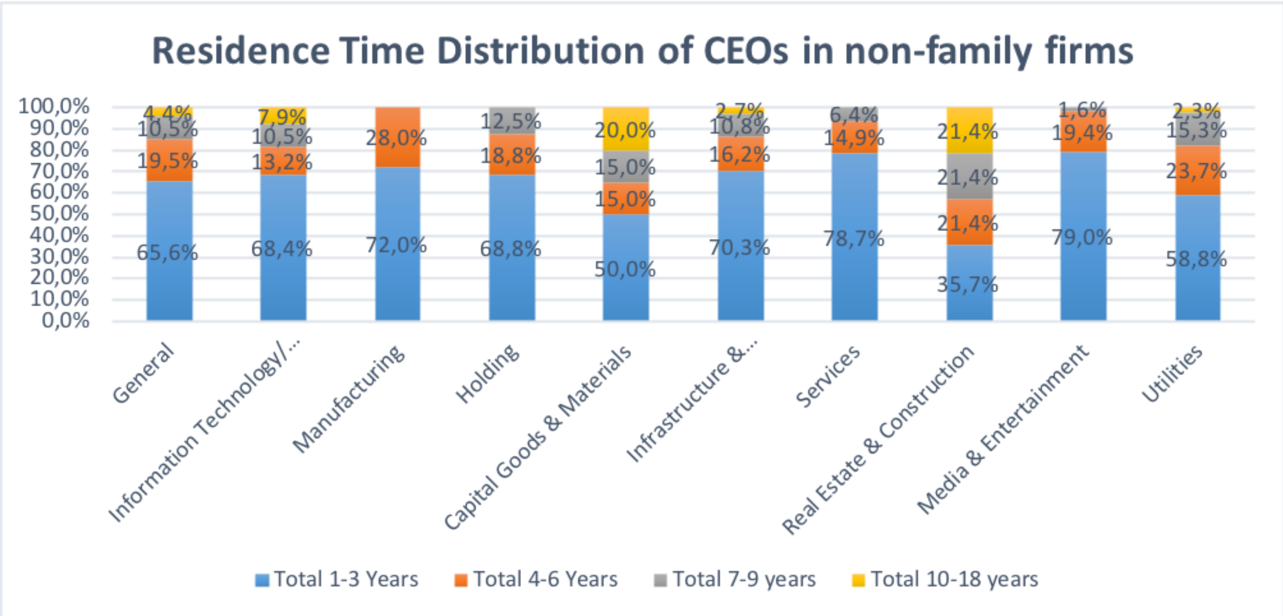
Figures 3.23: residence time distribution of CEOs in family firms



Source: personal elaboration

To be more precise, CEOs are included in class 1-3 years in around 70% of the cases in non-family firms and half of the cases in family ones. Instead, it is more common in family businesses to have individuals that are on BoD from 7 to 9 years and from 10 to 18 years. As it could be observed from figure 3.22 on the previous page and 3.23 on this page, these two classes constitute approximately a third in family enterprises compared to 15% in non-family ones, with the exception of some sectors such as real estate & construction.

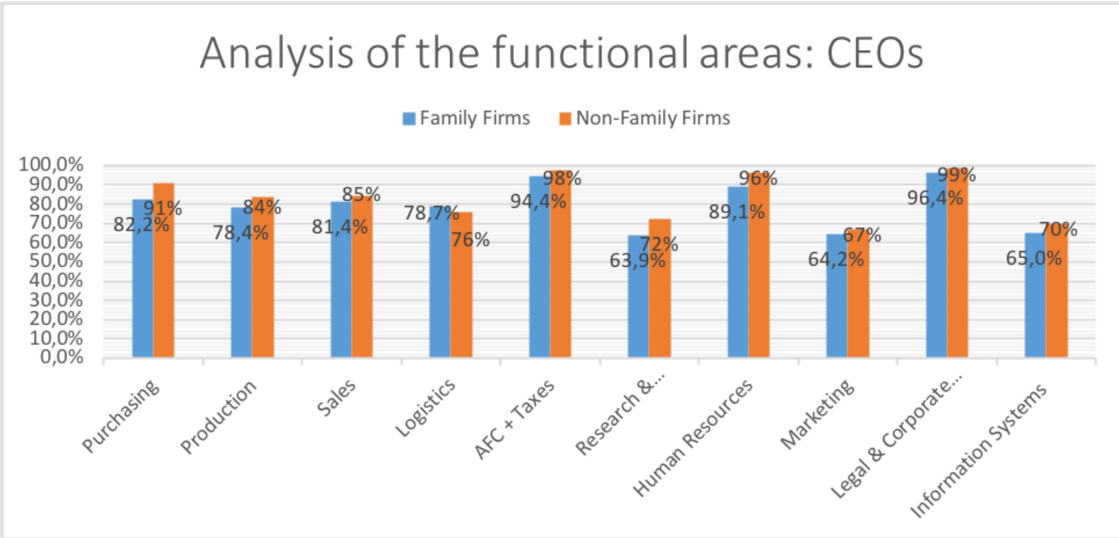
Figures 3.24: residence time distribution of CEOs in family firms



Source: personal elaboration

A thing in common between family and non-family businesses is that about two-fifths of CEOs have powers of ordinary and extraordinary administration, with or without limit of amount. Then, 13% of them in family firms and 18% in non-family ones have powers of ordinary administration (with or without limit of amount) and the remaining part of them (48% and 41% respectively) have only powers over specific functional areas. The high number of directors with powers of ordinary and extraordinary administration in family enterprises is partly influenced by CEO duality since a person is usually more powerful when holds these two roles. It emerged from the analysis that around 1 CEO out of 5 is also chairman and in 80% of the cases duality is linked to a family member. Furthermore, more than half of the people that have this double role have powers of ordinary and extraordinary administration and approximately three-quarters of them have powers in all of the functional areas. Secondly, when a CEO has only powers of ordinary administration (with or without limit of amount) usually the chairman has powers of ordinary and extraordinary administration. Finally, the high percentage of the ones who have powers over specific functional areas is partly due to the relevant number of boards in which the chairman has powers in few areas (principally in legal & corporate governance, AFC & taxes and human resources) whereas CEO have powers in almost all the functional areas. In this respect, the chart on the next page provides information on the analysis of the functional areas, showing that about 80% of directors with this role have powers in sales, production, purchasing and logistics as well as 90% or more of them in human resources, legal & corporate governance and administration, finance, control & taxes. Moreover, at least 6 out of 10 of them have functions in marketing, information systems and research & development.

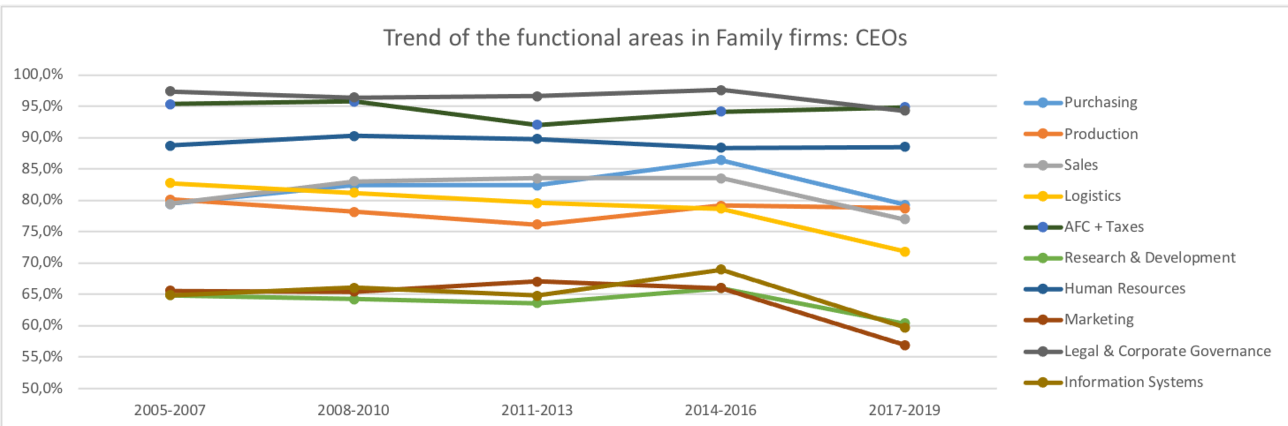
Figure 3.25: Analysis of the functional areas: CEOs



Source: personal elaboration

The line graph below depicts how the distribution of the functional areas among CEOs evolved from 2005 to 2019 with three-years intervals. The table on the next page presents the related data, including also the ones of non-family companies. In family organizations, despite some small variations, there were no significant changes and all the values remained high over the period considered while in non-family ones there was a growing trend.

Figure 3.26: trend of the functional areas in family firms: CEOs



Source: personal elaboration

Other important figures to take into consideration are CO-CEOs. The whole of them have only power over specific functional areas and they are mainly focused on the areas of legal & corporate governance, logistics, human resources and AFC & taxes.

Table 3.6: trend of the functional areas in family and non-family firms: CEOs

Family Firms	2005-2007	2008-2010	2011-2013	2014-2016	2017-2019
Purchasing	79,5%	82,4%	82,4%	86,4%	79,3%
Production	80,1%	78,2%	76,1%	79,1%	78,7%
Sales	79,5%	83,0%	83,5%	83,5%	77,0%
Logistics	82,8%	81,2%	79,5%	78,6%	71,8%
AFC + Taxes	95,4%	95,8%	92,0%	94,2%	94,8%
Research & Development	64,9%	64,2%	63,6%	66,0%	60,3%
Human Resources	88,7%	90,3%	89,8%	88,3%	88,5%
Marketing	65,6%	65,5%	67,0%	66,0%	56,9%
Legal & Corporate Governance	97,4%	96,4%	96,6%	97,6%	94,3%
Information Systems	64,9%	66,1%	64,8%	68,9%	59,8%
Non-Family Firms	**2005-2007**	**2008-2010**	**2011-2013**	**2014-2016**	**2017-2019**
Purchasing	86,8%	88,4%	96,7%	91,5%	91,0%
Production	71,1%	75,6%	87,8%	89,4%	95,5%
Sales	85,5%	83,7%	91,1%	86,2%	73,1%
Logistics	68,4%	72,1%	81,1%	80,9%	74,6%
AFC + Taxes	96,1%	97,7%	100,0%	100,0%	92,5%
Research & Development	65,8%	66,3%	76,7%	76,6%	76,1%
Human Resources	94,7%	97,7%	100,0%	94,7%	94,0%
Marketing	63,2%	60,5%	68,9%	71,3%	70,1%
Legal & Corporate Governance	96,1%	97,7%	100,0%	98,9%	100,0%
Information Systems	64,5%	67,4%	72,2%	68,1%	79,1%

Source: personal elaboration

In light of the research that was conducted, it is possible to give an answer to the question that was posed in the previous part of this work:

"Is CEO the most powerful member in the Board of Directors of Italian family firms?"

There are different board structures that are more common in the businesses of the sample analyzed:

- The CEO has powers of ordinary and extraordinary administration and the chairman has powers of ordinary administration;
- The CEO is also Chairman (CEO Duality);
- The Chairman has only power over few functional areas, especially in legal & corporate governance and Administration, finance, control and taxes. On the contrary, the CEO has power over all the functional areas or the bulk of them;
- The Chairman has powers of ordinary and extraordinary administration and the CEO has powers of ordinary administration or only powers over few specific functional areas.

In the first three cases, the CEO is the most powerful member whereas in the fourth he is not. Given that the first three board structures occur with a higher frequency than the fourth one in Italian family firms, the CEO is usually the most powerful member of the board of directors. Despite this, there could be times in which this does not happen because of several factors. In this regard, the differences that emerged in heterogeneity and distribution of powers in the boards of family and non-family companies are in line with Gomez-Mejia et al (2007) according to which family firms evaluate not only the financial performance but also the impact on Socioemotional Wealth when they have to make a business decision.[89]

[89] Gomez-Mejia Luis R., Haynes Katalin Takacs, Nùnez-Nickel Manuel, Jacobson Kathyrn J.L. & Moyano-Fuentes José (2007). *"Socioemotional Wealth and Business Risks in Family-controlled Firms: evidence from Spanish Olive Oil Mills".* Administrative Science Quarterly 52 (1), pp. 106-137

Conclusion

The outcomes of the analysis revealed a high involvement of families in the firms. In particular, it emerged that the majority of times the roles of CEO, chairman and vice president are held by family members. Furthermore, slightly more than a fifth of the boards of directors are composed of a number of members that range from 4 to 6, whose 1 or 2 belong to the family and are the most powerful. In addition, family members make up 80% of everyone that is both CEO and Chairman. There are several reasons for these aspects. First of all, it could be easier for families to take actions that satisfy their *Socioemotional Wealth* needs.

Moreover, this situation could be partly due to the fact that tacit knowledge is fundamental for companies as it ensures enduring competitive advantages, so the best choice is to rely on family members or long-term employees.[90]

The differences that came out comparing family and non-family organizations allow reflecting on how these different types of ownership impact the composition of the BoD. For instance, it resulted that in family firms there is a higher share of directors with an age between 18 and 35 or 76 and 100 years because family members of the previous generation tend to remain within the board even when they are old while, at the same time, the ones of the subsequent generations usually enter in it younger than their non-family colleagues. Also, it's important to take into consideration that in family enterprises there is a lower level of board turnover since, among other things, this could help to create relationships with the external directors that facilitate the reaching of long-term goals of the family.

As it was explained in the final section of this work, it was discovered that CEO is the most powerful member in the bulk of the BoDs analyzed. Anyway, the results show that board structures vary case by case on the basis on multiple factors that come from both internal and external environments. For example, CO-CEOs or board members could have considerable powers over some functional areas because of their specific competencies or expertise. Besides, a non-family CEO could not be the most powerful member because of the presence of a family chairman that has more power or, on the contrary, he could be the most powerful one as the family decided to accept SEW losses in exchange for an increase of the financial performance.

The total number of firms that are listed on the MTA (Mercato Telematico Azionario) of the Italian stock exchange is 242[91] and the sample analyzed in this research is composed of less than half of them, precisely 107. Therefore, it would be interesting to examine in the future the total of companies listed on the Italian stock exchange over the period from 2005 to 2019 to discover if there are differences with the results of this work.

[90] Royer Susanne, Simons Roland, Boyd Britta & Rafferty Alannah (2008). "*Promoting family: a contingency model of family business succession*". Family Business Review Vol.21 n.1, pp.15-30.

[91] Borsa Italiana. *"Review dei Mercati 2019"*. https://www.borsaitaliana.it/borsaitaliana/ufficio-stampa/comunicati-stampa/2019/reviewmercati.htm

Bibliography

- Adams Renée, Gray Stephen & Nowland John (2010). *"Is there a business case for female directors? Evidence from the market reaction to all new director appointments".* 23rd Australasian and Banking Conference Paper.
- Anderson Ronald C. & Reeb David M. (2004). *"Board Composition: balancing family influence in S&P500 firms".* Administrative Science Quarterly, Vol 49 (2), pp. 209-237.
- Astrachan Joseph H., Klein Sabine B. & Smyrnios Kosmas X. (2002). *"The F-Pec Scale of family influence: a proposal for solving the family business definition problem".* Family Business Review vol. 15 (1), pp. 45-58.
- Ballinger Gary A. & Marcel Jeremy J. (2010). "*The use of an interim CEO during succession episodes and firm performance."* Strategic Management Journal Vol.31 (3), pp.262-283.
- Bebchuck Lucian Arye & Fried M. Jesse (2003). "*Executive Compensation as an Agency Problem". The Journal of Economic Perspectives Vol. 17, pp. 71-92.*
- Belda-Ruiz María, Sánchez-Marín Gregorio, Baixauli-Soler J. Samuel (2021). *"Influence of family-centered goals on dividend policy in family firms: a socioemotional wealth approach".* International Enterpreneurship and Management Journal.
- Berrone Pascual, Cruz Cristina, Gomez Mejia Luis R., Larraza-Kintana Martin (2010). *"Socioemotional Wealth and Corporate Responses to Institutional Pressures: Do family-controlled firms pollute less?".* Administrative Science Quarterly, 55 (2010), pp.82-113.
- Bhalla Vikram, Orglmeister Christian & Tong Dean (2016). "*What makes family businesses in emerging markets so different?".* Boston Consulting Group.
- Bianco Magda, Ciavarella Angela & Signoretti Rossella (2011). *"Women on boards in Italy".* Commissione Nazionale per le Società e la Borsa (Consob), Quaderni di Finanza n.70.
- Boers Börje, Ljungkvist Torbjörn, Brunninge Olof & Nordqvist Mattias (2017). *"Going private: A socioemotional wealth perspective on why family-controlled companies decided to leave the stock-exchange".* Journal of Family Business Strategy vol.8, pp. 74-86.
- Burkhardt Marlene E. & Brass Daniel J. (1990). *"Changing patterns or patterns of a change: the effects of a change in technology on social network structure and power".* Administrative Science Quarterly Vol.35 n.1, pp.104-127.
- Busenbark John R., Krause Ryan, Boivie Steven & Graffin Scott D. (2016). *"Toward a configurational perspective on the CEO: A review and synthesis of the management literature".* Journal of Management Vol. 42 n.1, pp. 234-268.
- Boyd Brian (1995). *"CEO duality and firm performance: a contingency model".* Strategic Management Journal Vol.16 (4), pp.301-312.
- Capasso Arturo, Faraci Rosario & Picone Pasquale Massimo (2014). *"Equity-worthiness and equity-willingness: Key factors in private equity deals"*. Business Horizons Vol. 57, pp. 637-645.

- Corbetta Guido (2005). *"Capaci di crescere. L'impresa italiana e la sfida della dimensione"*. Egea.
- Corbetta Guido & Quarato Fabio (2021). "*Le imprese familiari italiane di fronte alla pandemia Covid-19"*. Observatory AUB Aidaf-Ernest &Young-Bocconi, XII Edition.
- Cucculelli Marco & Micucci Giacinto (2007). *"Family succession and firm performance: Evidence from Italian family firms"*. Journal of Corporate Finance 14 (1), pp. 17-31.
- Daily Catherine M. & Dalton Dan R. (1997). *CEO and board chair roles held jointly or separately: much ado about nothing?"* Academy of Management Executive vol.11 n.3, pp.11-20.
- Davis James H., Schoorman F. David & Donaldson Lex (1997). *"Toward a Stewardship Theory of Management"*. Academy of Management Review Vol. 22 (1), pp. 20-47.
- Davis John A. (2018). *"How the Three Circles changed the way we understand family businesses"*. Cambridge Institute for Family Enterprise.
- Dell'Atti Alberto (2007). *"Il passaggio generazionale nelle imprese familiari"*. Collana di Economia Aziendale vol.17 pp. 75-93, Cacucci Editore Bari.
- Donnelley Robert G. (1988). *"The Family Business"*. Family Business Review Vol. 1, pp. 427-445.
- Edmonson Amy C. (2002). *Managing the risk of learning: Psychological safety in work teams.* London, United Kingdom: International Handbook of Organizational Teamwork.
- Ernest & Young, University of St. Gallen (2016). *"Family Business Philanthropy. Creating lasting impact through values and legacy"*
- Ernest & Young, University of St. Gallen (2019). "*How the world's largest family businesses are responding to the Transformative Age"*.
- Esposito De Falco Salvatore (2016). *"Defining and classifying family business"*. Giappichelli, Torino.
- Finkelstein Sidney (1992). *"Power in Top Management Teams: dimensions, measurement and validation"*. Academy of Management Journal Vol.35 n.3, pp.505-538.
- Firfiray Shainaz, Cruz Cristian, Neacsu Ionela, Gomez-Mejia Luis R (2018). *"Is Nepotism so bad for family firms? A socioemotional wealth approach"*. Human Resources Management Review vol. 28 (1), pp 83-97.
- Giordano Luca & Modena Matteo (2017). "Implicazioni e possibili motivazioni della scelta di non quotarsi da parte delle imprese italiane". Consob, Discussion Papers.
- Gomez-Mejia Luis R., Nunez-Nickel Manuel & Gutierrez Isabel (2001). *"The role of family ties in agency contracts"*. Academy of Management Journal Vol.44 (1), 81-95.
- Gomez-Mejia Luis R., Larraza-Kintana Martin, Makri Marianna (2003). "*The determinants of executive compensation in family controlled Public Corporations"*. Academy of Management Journal Vol. 46 (2), pp. 226-237.
- Gomez-Mejia Luis R., Haynes Katalin Takacs, Nùnez-Nickel Manuel, Jacobson Kathyrn J.L. & Moyano-Fuentes José (2007). *"Socioemotional Wealth and Business Risks in Family-controlled Firms: evidence from Spanish Olive Oil Mills"*. Administrative Science Quarterly 52 (1), pp. 106-137.

- Gomez-Mejia Luis R., Makri Marianna, Larraza Kintana Martin (2010). *"Diversification Decisions in Family-Controlled Firms"*. Journal of Management Studies vol.47.
- González Maximiliano, Guzmán Alexander, Pablo Eduardo, Trujillo María Andrea (2019). *"Is Board Turnover driven by performance in family firms?"*. Research in International Business and Finance Vol.46, pp. 169-186.
- Hambrick Donald C. & Mason Phyllis A. (1984). *"Upper Echelons: the organization as a reflection of its top managers"*. Academy of Management Review Vol.9 n.2, pp.193-206.
- Jaskiewicz Peter, Uhlenbruck Klaus, Balkin David B. & Reay Trish (2013). "*Is Nepotism good or bad? Types of nepotism and implications for knowledge management"*. Family Business Review Vol. 26 (2), pp. 121-139.
- Jehn Karen A., Northcraft Gregory B., Neale Margaret A. (1999). *"Why differences make a difference: a field study of diversity, conflict, and performance in workgroups"*. Administrative Science Quarterly vol.44 (4), pp. 741-763.
- Jensen Michael C. & Meckling William H. (1976). "*Theory of the firm: managerial behavior, agency costs and ownership structure"*. Journal of Financial Economics 3: 305-360.
- Johnson S., La Porta R., Lopez De Silanes S., Shleifer A. (2000). *"Tunneling"*. Annual Economic Review 90.
- Klein Sabine B., Astrachan Joseph H., Smyrnios Kosmas X. (2005). *"The F-PEC scale of family influence: construction, validation, and further implication for Theory"*. Entrepreneurship Theory and Practice vol. 29 (3), pp. 321-339.
- Miller Danny, Steier Llyod & Le Breton-Miller Isabelle (2003). *"Lost in Time: Intergenerational Succession, Change and Failure in Family Business"*. Journal of Business Venturing vol.18 (4), pp. 513-531.
- Miller Danny & Le Breton-Miller Isabelle (2005). "*Managing for the Long Run. Lessons in competitive advantage from great family businesses"*. Harvard Business School Press.
- Miller Danny & Le Breton-Miller Isabelle (2006). *"Family Governance and Firm Performance: Agency, Stewardship and Capabilities"*. Family Business Review Vol.19 (1), pp. 73-87.
- Miller Danny, Le Breton-Miller Isabelle, Minichilli Alessandro, Corbetta Guido & Pittino Daniel (2013). *"When do non-family CEOs outperform in family firms? Agency and behavioural agency perspectives"*. Journal of Management Studies Vol.51 issue 4, pp.547-572.
- Milliken Frances J. & Martins Luis L. (1996). "*Searching for common threads: understanding the multiple effects of diversity in organizational groups"*. The Academy of Management Review Vol. 21 n.2, pp. 402-433.
- Mizruchi Mark S. (1996). *"What do interlocks do? An Analysis, Critique and Assessment of Research on Interlocking Directorates"*. Annual Review of Sociology Vol.22 (1), pp. 271-298.

- Müller Claudio G., Botero Isabel C., Cruz Allan Discua & Subramanian Ram (2018). "*Family Firms in Latin America".* Routledge USA.
- Nienhüser Werner (2008). *"Resource Dependence Theory: How well does it explain behavior of Organizations?". Management Revenue vol.9, pp. 9-32.*
- Royer Susanne, Simons Roland, Boyd Britta & Rafferty Alannah (2008). "*Promoting family: a contingency model of family business succession".* Family Business Review Vol.21 n.1, pp.15-30.
- Rutherford Matthew W., Kuratko Donald F., Holt Daniel T. (2008). *"Examining the link between "Familiness" and Performance: can the F-PEC untangle the family business theory jungle?".* Entrepreneurship Theory and Practice vol. 32, pp. 1089-1109.
- Sharma Pramodita (2004). *"An overview of the field of Family Business studies: current status and directions for the future".* Family Business Review vol. 17 (1), pp.1-36.
- The Economist (2015). "*To have and to hold".* Special report family companies.
- Tonello Matteo (2011). *"Does CEO Education matter?".* The Conference Board, Harvard Law School of Corporate Governance.
- Van Veen Kees, Sahib Padma Rao & Aangeenbrug Evelien (2013). *"Where do international boards come from? Country-level antecedents of international board member selection in European boards".* International Business Review vol.23 (2), pp. 407-417.
- Villalonga Belen & Amit Raphael (2006). *"How do family ownership, control and management affect firm value?".* Journal of Financial Economics 80 (2), pp. 385-417.
- Villalonga Belen, Amit Raphael H., Trujillo Maria-Andrea, Guzman Alexander (2015). *"Governance of family firms".* Annual Review of Financial Economics Vol.7, pp. 635-654.
- Watson Joel (2013). *"An introduction to Game Theory".* W.W. Norton & Company, pp. 340-345.
- Wiersema Margarethe F. & Bantel Karen A. (1992). "*Top management demography and corporate strategic change"*. Academy of Management Journal Vol 35 N.1, pp. 91-121.
- Zattoni Alessandro (2015). *"Corporate Governance".* Egea, pp. 311-349.

Sitography

- Associazione Italiana delle Aziende Familiari (AIDAF). "*Le imprese familiari in Italia"*. *https://www.aidaf.it/aidaf/le-imprese-familiari/*
- Borsa Italiana. "Relazioni di Corporate Governance". https://www.borsaitaliana.it/comitato-corporate-governance/documenti/relazionidicg.htm
- Borsa Italiana. *"Review dei Mercati 2019"*. https://www.borsaitaliana.it/borsaitaliana/ufficio-stampa/comunicati-stampa/2019/reviewmercati.htm
- Ernest & Young, University of St. Gallen. "*How the world's largest family businesses are responding to the Transformative Age"*. http://familybusinessindex.com/
- European Commission: www.ec.europa.eu
- Normattiva. "Legge 12 luglio 211,n. 120" https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:legge:2011;120

Summary

The purpose of this work is to analyze the distribution of powers among Italian family firms' boards, answering the following question:

"Is CEO the most powerful member in the Board of Directors of Italian family firms?"

This study is divided into three sections. The first one provides a theoretical framework about the phenomenon of family firms, focusing on important theories of corporate governance that are related to them and some key decisions that have to be taken. The second one gives an overview of the dynamics that are behind choices of board composition, examining how the family could influence them. To be more precise, there are some parts that are related to diversity within the BoD, the figure of the CEO and the importance of competencies and backgrounds of directors. Finally, the third one presents the results of an analysis of a sample of 107 Italian listed firms over the years from 2005 to 2019 that was carried out in order to provide an answer to the question posed previously. Firstly, it is presented how the data are collected and sorted. Then, it is evaluated the level of boards diversity of the organizations in the sample, considering the size of the board and the number of family members that are part of it as well as the age and gender of each director. After that, there is a detailed study on the distribution of powers, assessing respectively board members, vice presidents, Chairman and CEOs. Initially, there are some statistics that regard the board turnover and the presence of familiars for every member that holds that specific role. Secondly, there are some data about the types of power that everyone has and the areas in which he has some functions. In light of this, there is a final part in which it is given an answer to the question about the CEO.

Family businesses in Italy make up around two-thirds of the firms with annual revenues higher than 20 million euros.[92] Moreover, European companies constitute 45% of the FB500 which is an index, created by Ernest & Young and the University of St Gallen, that classifies the world's biggest family-owned businesses.[93] Especially in these kinds of enterprises, it's common to have some *agency problems* in which there is an agent that tries to maximize his utility diverging from what he should do, at the expense of the principal. In this regard, the *three-circles model* could help to have a clearer idea of the different possible conflicts of interest. It consists of three overlapping circles that represent family, ownership as well as business and create seven different groups, some of them located at the intersection of two or three circles. There are three types of agency problems and the first one happens when the owners of the firm (in this case the family) hire an external manager for holding a role with a lot of decision-making power. Possible remedies for this are ownership concentration and the increase of the level of debt as the first one rises the incentives of control to the external manager whereas the second one limits the amount of cash flow available for him. Anyway, these actions lead to the creation of the second and the third kinds of agency problems between majority shareholders and, respectively, minority shareholders and creditors. Consequently, businesses have to find the optimal configurations for them

[92] Associazione Italiana delle Aziende Familiari (AIDAF). "*Le imprese familiari in Italia*". https://www.aidaf.it/aidaf/le-imprese-familiari/

[93] Ernest & Young, University of St. Gallen. "*How the world's largest family businesses are responding to the Transformative Age*" http://familybusinessindex.com/

in order to minimize agency costs. There are lots of governance mechanisms that could be used such as, for instance, retaining earnings and avoiding higher levels of debt. Besides, executive compensation could be used as a tool to align the manager's objectives with those of the owner.[94] In family organizations, there is a fourth type of agency problem that happens among the members of the family. This is due to *Socioemotional Wealth (SEW)* that is defined by Gomez-Mejia et al. (2007) as *"non-financial aspects of the firms that meet the family's affective needs, such as identity, the ability of exercise family influence, and the perpetuation of family dynasty."*[95] In order to ensure the survival of the firms over time, it's fundamental to find a balance between SEW and financial performance. In contrast with agency theory there is the *Stewardship theory,* according to which individuals prefer to cooperate with others and are highly satisfied when they make their contributions towards the goal of the businesses. This could be one of the reason why in family companies there is often a lower level of board turnover compared to non-family ones and, as a consequence, a lot of enduring relationships among family and non-family members are created. Nevertheless, there seems to be a sort of reproduction of the Prisoner's Dilemma in which everyone could prefer to engage in agency behaviors instead of stewardship ones since this decision appears as the best way to minimize possible agency costs.[96] Socioemotional Wealth plays a crucial role in lots of key decisions for family enterprises. For example, during the phase of generational succession, the family could choose to nominate a relative to hold a significant role such as CEO or chairman in place of another family member of the previous generation. This could lead to a worsening in financial performance as the incoming family member may not have the same talent as their predecessors but, at the same time, there could be some positive effects on SEW. This often occurs when the founder of the company is involved in this transition. Anyway, it could also happen that family members become more and more interested in the financial performance at the expense of SEW from the second generation onwards.[97] Furthermore, in some cases, the decision not to be listed on the stock exchange could be caused by concerns about potential negative consequences on Socioemotional wealth due to a loss of part of ownership and control.

At this point, it begins the second section of this study with a description of the *F-PEC scale,* i.e. a model that allows measuring the influence of the family on the firm along three dimensions. The first one is power and refers to ownership, management and governance. The second one is experience and is connected to the fact that, with the passing of time, there is an increase in the number of family members that are associated with the business. The last one is culture and measures the overlap between the family and business dimension as

---

[94] Bebchuck Lucian Arye & Fried M. Jesse (2003). "*Executive Compensation as an Agency Problem". The Journal of Economic Perspectives Vol. 17, pp. 71-92.*

[95] Gomez-Mejia Luis R., Haynes Katalin Takacs, Nùnez-Nickel Manuel, Jacobson Kathyrn J.L. & Moyano-Fuentes José (2007). *"Socioemotional Wealth and Business Risks in Family-controlled Firms: evidence from Spanish Olive Oil Mills".* Administrative Science Quarterly 52 (1), pp. 106-137.

[96] Davis James H., Schoorman F. David & Donaldson Lex (1997). *"Toward a Stewardship Theory of Management".* Academy of Management Review Vol. 22, pp. 20-47.

[97] Sciascia Salvatore, Mazzola Pietro & Kellermanns Franz W. (2014). *"Family Management and profitability in private family-owned firms: introducing generational stage and the socioemotional wealth perspective". Journal of Family Business Strategy 5 (2014), pp. 131-137.*

well as the level of commitment of the family in the firm. [98] Then there is a focus on board diversity that, on the one hand, it could have positive consequences such as the spread of creativity and the avoiding of group-think but, on the other hand, it could cause conflicts among different groups and make the decision-making process more time-consuming. There are lots of variables through which it is possible to assess the diversity of BoDs and some of these are age, nationality and gender. For what concerns the first one, younger members tend to be more creative and risk-oriented, while older ones could have a preference for career and financial security.[99] As regards nationality, the presence of members that comes from different countries within the board of directors could facilitate the entrance into foreign markets and the growth of exports.[100] About gender, the research that was conducted in this work confirms that there is a huge gap in female representation in respect to men. Of course, diversity is also related to the educational background and expertise of members that, according to the *Upper Echelons theory*, can help to predict the organizational outcomes. For example, the functional area of marketing is more linked to growth and new market opportunities whereas for engineering the priority is to improve processes.[101] In this context, it is fundamental to avoid situations in which there are too many members with similar backgrounds in the board or conversely. When a director has capabilities that are not common, he likely sits on more than one BoD. This phenomenon is called *interlocking directorates* and there could be other causes for it such as social ties between members of the upper class and the creation of monitoring mechanisms between different firms.[102] It's relevant to highlight that the higher the number of boards to which a person belongs, the lesser the time available to dedicate for each firm. Consequently, these members may have non-executive roles, at least in some of the boards. The last paragraph of this section is dedicated to the figure of the CEO. In this respect, Miller et al. (2013) analyzed a sample of 4221 Italian family firms from 2000 to 2008, discovering that non-family CEOs positively affect the financial outcomes of the companies.[103] Nonetheless, it has to be considered that there are positive effects on SEW when there is a family CEO and that his tacit knowledge could lead to the creation of strong competitive advantages.

In the sample examined in this research, it happened a considerable number of times that CEOs were at the same time Chairmen, a phenomenon that is called *CEO Duality*. The fact that a person holds these two roles guarantees strong leadership and the elimination of possible problems between the two top managers. On the contrary, the absence of CEO Duality improves the quality of monitoring and reduces the probability of

---

[98] *Astrachan Joseph H., Klein Sabine B. & Smyrnios Kosmas X. (2002). "The F-Pec Scale of family influence: a proposal for solving the family business definition problem". Family Business Review vol. 15 (1), pp. 45-58.*

[99] Wiersema Margarethe F. & Bantel Karen A. (1992). "*Top management demography and corporate strategic change"*. Academy of Management Journal Vol 35 N.1, pp. 91-121.

[100] Van Veen Kees, Sahib Padma Rao & Aangeenbrug Evelien (2013). *"Where do international boards come from? Country-level antecedents of international board member selection in European boards".* International Business Review vol.23, pp. 407-417.

[101] Hambrick Donald C. & Mason Phyllis A. (1984). *"Upper Echelons: the organization as a reflection of its top managers".* Academy of Management Review Vol.9 n.2, pp.193-206.

[102] Mizruchi Mark S. (1996). *"What do interlocks do? An Analysis, Critique and Assessment of Research on Interlocking Directorates".* Annual Review of Sociology Vol.22, pp. 271-298.

[103] Miller Danny, Le Breton-Miller Isabelle, Minichilli Alessandro, Corbetta Guido & Pittino Daniel (2013). *"When do non-family CEOs outperform in family firms? Agency and behavioural agency perspectives".* Journal of Management Studies Vol.51 issue 4, pp.547-572.

opportunistic behaviors of the CEO. [104]

The third section of this work depicts the outcomes of the analysis of the sample. Approximately a third of the 107 firms examined are non-family firms to make comparisons among the two groups. Furthermore, the businesses belong to ten different sectors. In particular, manufacturing, holding, utilities and information technology/electronics/telecommunications are the most represented sectors with around 15% each of the sample, followed by capital goods & materials and media & entertainment with a quota of approximately a tenth each. Finally, Healthcare & Pharmaceutics is the least represented sector with only 2% of the firm, while infrastructure & transportation, real estate & construction and services represent the 7% each.

Firstly, it was described the methodology of data collection. To undertake the research, the Company Registration Reports, provided by the Italian Chamber of Commerce, were examined to gather relevant information about the board as well as personal data and the responsibilities of individuals that are part of it. In this context, Corporate Governance Reports of the Italian Stock Exchange and other sources, like official companies' websites, were useful to deepen the knowledge on ownership structure, executives, family members and powers. In the first phase of the research, it was indicated the board size as well as the name, surname, age, gender and role hold of each member. Moreover, it was specified if a member is an executive and/or a family member using a binary variable with 1 that means yes and 0 not. This method was also used in the second phase that is focused on the examination of the types of powers as well as functional areas and their variation year by year. To be more precise, powers were classified in the following manner:

A) Power of ordinary and extraordinary administration without limit of amount;
B) Power of ordinary and extraordinary administration with limit of amount;
C) Power of ordinary administration without limit of amount;
D) Power of ordinary administration with limit of amount;
E) Only powers over specific functional areas;
F) Only powers over specific functional areas together with other directors.

The functional areas are:

1) Purchasing;
2) Production;
3) Sales;
4) Logistics;
5) AFC + Taxes;
6) Research & Development;
7) Human Resources;
8) Marketing;
9) Legal & Corporate Governance;

[104] Daily Catherine M. & Dalton Dan R. (1997). *CEO and board chair roles held jointly or separately: much ado about nothing?"* Academy of Management Executive vol.11 n.3, pp.11-20.

10) Information Systems.

Then, it is assessed the level of board diversity through various aspects and the first one is board size. It is relevant that 71,3% of family firms' boards over the period analyzed and 74,5% of the ones of non-family firms are composed of a number of members that range from 7 to 15. Despite this, family businesses have a higher presence of boards with groups from 4 to 6 members (21.3% vs 15.9%) or 13 to 15 (16.6% vs 7.6%). The tendency of family companies to be more inclined to smaller boards could be explained by the fact that it could be easier for familiars to debate as the decision-making process tends to be less formal and time-consuming. For what concerns gender diversity, only in about 15% of cases during the period 2005-2019 the director is female. In family enterprises, for every woman on the board of directors there is a 29.2% probability that she is also a family member, whereas this possibility for males is only 24%. Despite these statistics, there was, over time, a relevant growth in the number of females on Boards. Throughout the period that ranges from 2015 to 2019 females directors in family organizations make up a quarter of the total and this is a great improvement compared to previous years from 2005 to 2014 in which they are slightly more than a tenth of all members. Also in non-family firms there was a growing trend, with the number of women that more than tripled compared to the years from 2005 to 2014, representing the 28.4% of all individuals that are part of boards of directors from 2015 to 2019. One of the causes of this change could be, among other things, Law 120/2011 that establishes that, from 2015, at least a third of all the members of the board of directors must be female.[105] As regards age distribution, it emerged that in family organizations there are higher percentages of directors included in the classes of 18-35 and 76-100 years compared to non-family ones. This is because some members of the family, such as the founder or others of the first generation, tend to remain within the board even when they are very old while, simultaneously, the ones of the subsequent generations usually enter in it younger than their non-family colleagues. Another aspect that was assessed is the number of familiars per board. The bulk of boards of directors in almost every sector is composed of 1 or 2 family members since, especially when these are CEO, Chairman or Vice President, organizations have to pay attention to maintain the right balance between them and non-family directors to avoid negative impacts on financial performance. Anyway, there could be numerous familiars with time as multiple generations are involved. The last part of this section is related to the analysis of the powers of board members, vice presidents, chairmen and CEOs. On average, 10% of all board members, 55% of all vice presidents, 70% of all chairmen and 61% of all CEOs in family organizations are family members. For all the four roles considered, there is a higher level of board turnover in non-family firms in respect to family firms for the reasons that were described in the previous part of this summary. Regarding the board members, there is a greater presence of executives in family companies rather than non-family ones, approximately 10% and 3% each. More than three-thirds of them have only power over specific functional areas with around 65% of them that have functions connected to legal & corporate governance and AFC & taxes. Instead, only about a third of them have powers in other areas. Also for vice presidents, the greatest share of directors (74.3% in family firms and 97.3% in non-family ones) have only

[105] Normattiva. "Legge 12 luglio 2011, n.120" https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:legge:2011;120

powers over specific functional areas. Almost all members in both family and non-family organizations have powers in legal & corporate governance but, in addition to this, there are some differences between the two groups. First of all, vice presidents that have responsibilities in AFC & taxes represent 59.3% of the total in family companies and only a fifth in non-family ones. Furthermore, the percentage of directors that have powers in the other areas considered varies from 30% to 40% in family enterprises and from 0 to approximately 15% in non-family ones. One of the possible reasons for this divergence is connected to the presence of several family vice presidents because they are usually more powerful than their non-familiar colleagues. For what concerns chairmen, it is important to highlight that 41% of them have powers of ordinary and extraordinary administration, 6% ordinary administration and slightly more than a half of them have powers only over specific functional areas. This distribution is different in non-family enterprises as approximately three-quarters of people that hold this role have powers over specific functional areas and 26% of them have powers of ordinary and/or extraordinary administration. There are multiple causes behind these statistics. First of all, when the chairman is a family member he usually has wider powers as he is the founder or one of his successors of subsequent generations. Secondly, it often occurs that chairmen in non-family enterprises have only powers in legal & corporate governance, AFC & taxes and a few other areas and CEOs have powers of ordinary and extraordinary administration. Concerning CEOs, 13% of them in family businesses and 18% in non-family ones have powers of ordinary administration. About two-fifths of them in both of the groups have powers of ordinary and extraordinary administration and the remaining part of them (48% and 41% respectively) have only powers over specific functional areas. The high number of directors with powers of ordinary and extraordinary administration in family enterprises is partly influenced by CEO duality since it emerged from the analysis that around 1 CEO out of 5 is also chairman. Secondly, when a CEO has only powers of ordinary administration usually the chairman has powers of ordinary and extraordinary administration. Finally, the high percentage of the ones who have powers over specific functional areas is partly due to the relevant number of boards in which the chairman has powers in few areas (principally in legal & corporate governance, AFC & taxes and human resources) whereas CEO have powers in almost all the functional areas. In particular, around 80% of these directors with this role have powers in sales, production, purchasing and logistics as well as 90% or more of them in human resources, legal & corporate governance and administration, finance, control & taxes. Other important figures to take into consideration are CO-CEOs. The whole of them have only power over specific functional areas and they are mainly focused on the areas of legal & corporate governance, logistics, human resources and AFC & taxes.
To sum up, there are different board structures that are more common in the businesses of the sample analyzed:

- The CEO has powers of ordinary and extraordinary administration and the chairman has powers of ordinary administration;
- The CEO is also Chairman (CEO Duality);

- The Chairman has only power over few functional areas, especially in legal & corporate governance and Administration, finance, control and taxes. On the contrary, the CEO has power over all the functional areas or the bulk of them;
- The Chairman has powers of ordinary and extraordinary administration and the CEO has powers of ordinary administration or only powers over few specific functional areas.

In the first three cases, the CEO is the most powerful member whereas in the fourth he is not. Given that the first three board structures occur with a higher frequency than the fourth one in Italian family firms, the CEO is usually the most powerful member of the board of directors. Despite this, there could be times in which this does not happen because of several factors. In this regard, the differences that emerged in heterogeneity and distribution of powers in the boards of family and non-family companies are in line with Gomez-Mejia et al (2007) according to which family firms evaluate not only the financial performance but also the impact on Socioemotional Wealth when they have to make a business decision.[106]

---

[106] Gomez-Mejia Luis R., Haynes Katalin Takacs, Nùnez-Nickel Manuel, Jacobson Kathyrn J.L. & Moyano-Fuentes José (2007). *"Socioemotional Wealth and Business Risks in Family-controlled Firms: evidence from Spanish Olive Oil Mills".* Administrative Science Quarterly 52 (1), pp. 106-137