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AIDAF–EY Chair
of Strategic Family Business
in memory of Alberto Falck



Università Commerciale
Luigi Bocconi

XIV AUB Observatory

Performance and diversity in family business governance

January, 30, 2023

By Guido Corbetta and Fabio Quarato

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*Updated data as of 31/12/2022

The family firms of XIV AUB Edition are equal to the **65,0%** of Italian firms' population with revenues > 20 mln €

OWNERSHIP STRUCTURE	Small *		Medium-large **		Total	
	N	%	N	%	N	%
Family Firms	6.587	68,4%	5.048	61,0%	11.635	65,0%
Branches of foreign companies	1.452	15,1%	1.793	21,7%	3.245	18,1%
Cooperatives and Consortia	553	5,7%	404	4,9%	957	5,3%
Coalitions	469	4,9%	292	3,5%	761	4,3%
State /Local authorities	272	2,8%	346	4,2%	618	3,5%
Controlled by Investment Fund/ Private Equity (P.E.)	227	2,4%	314	3,8%	541	3,0%
Controlled by Banks / Insurance	53	0,6%	57	0,7%	110	0,6%
Controlled by Foundation	9	0,1%	8	0,1%	17	0,1%
Public companies	7	0,1%	10	0,1%	17	0,1%
<i>Total</i>	9.629	100,0%	8.272	100,0%	17.901	100,0%

(*) Small: firms with revenues between 20 and 50 mln at the end of 2020 (source: Aida).

(**) Medium-Large: firms with revenues exceeding 50 mln at the end of 2020 (source: Aida).

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The performance of family firms



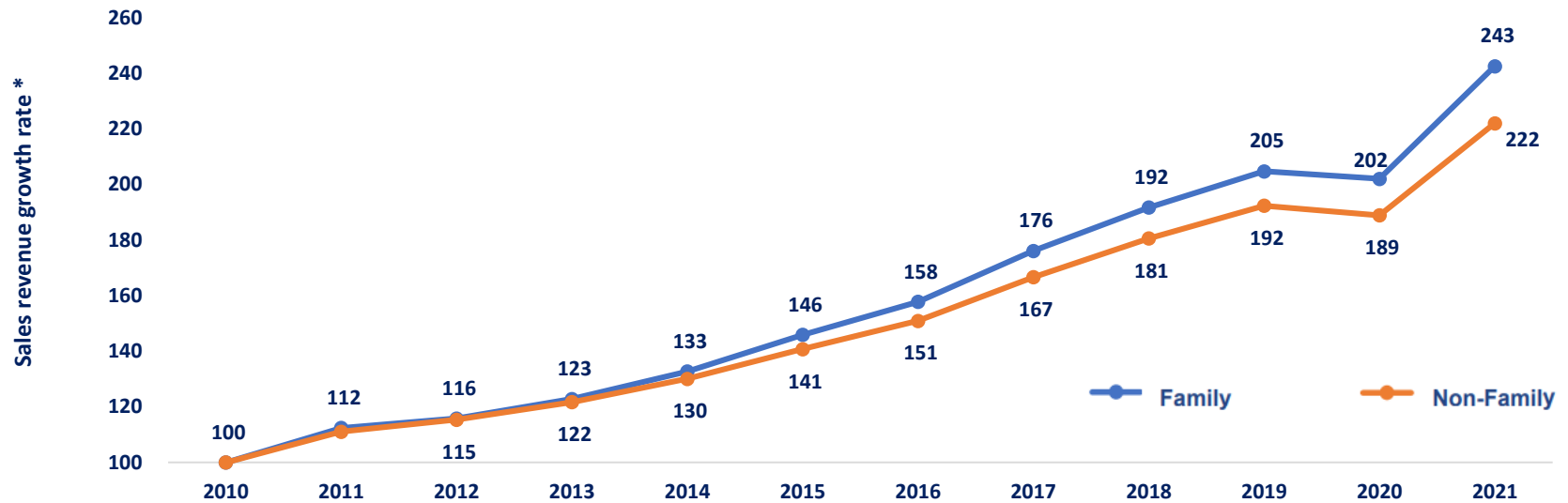
In the two-year period 2021-22 Italy's recovery was much faster than in 2010-11, completely offsetting the greater fall in 2020 than that in 2009

Italy	2008	2009	2010	2011
Annual growth rates *		-5,3%	1,7%	0,7%
Cumulative growth (2008=100)	100,0	94,7	96,3	97,0

Italy	2019	2020	2021	2022
Annual growth rates *		-9,0%	6,7%	3,2%
Cumulative growth (2019=100)	100,0	91,0	97,1	100,1

(*) IMF: World Economic Outlook (october 2022)

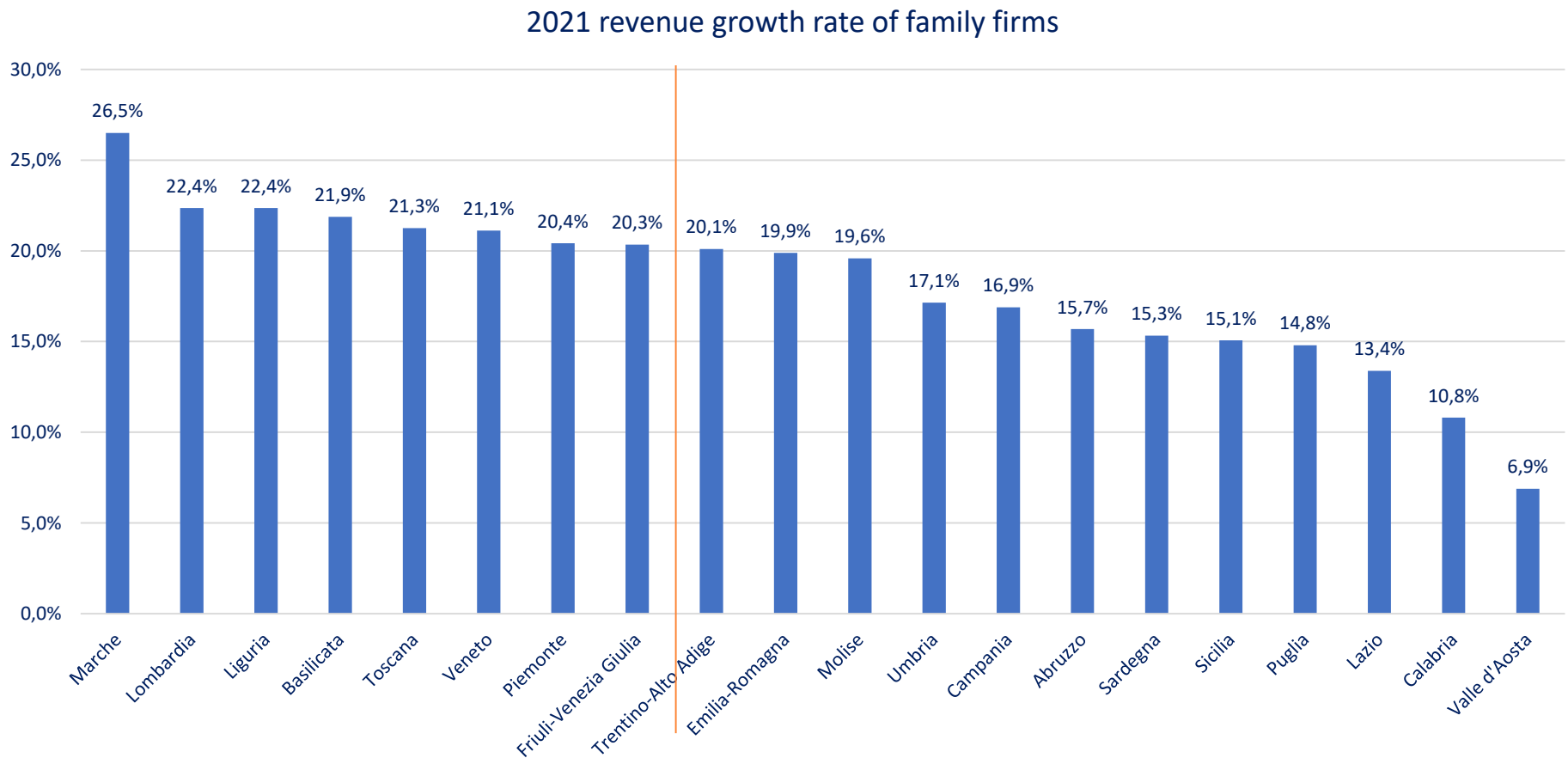
In 2021, the revenue growth rate of family businesses was the highest of the past decade



Ownership structure	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Coalitions	18,4%	14,7%	5,6%	7,9%	9,6%	9,6%	10,7%	14,8%	13,1%	7,9%	-1,5%	21,9%
Family firms AUB	16,5%	12,4%	3,0%	6,1%	8,0%	10,0%	8,1%	11,6%	8,9%	6,8%	-1,3%	20,1%
Branches of foreign companies	14,9%	10,6%	2,4%	4,2%	7,1%	8,4%	7,1%	10,5%	7,9%	5,5%	-3,8%	18,8%
Controlled by PE	16,9%	16,2%	3,7%	6,5%	11,2%	11,4%	11,8%	11,9%	12,0%	11,8%	0,3%	17,7%
State/Local authorities	9,0%	5,0%	4,5%	2,8%	-0,9%	2,3%	2,1%	6,4%	5,8%	6,6%	-1,7%	13,5%
Cooperatives and Consortia	10,1%	11,4%	6,9%	8,0%	5,8%	8,0%	6,1%	8,2%	6,4%	6,7%	4,4%	12,1%

(*) Compound growth on a 100 basis (year 2010), calculated on sales revenue (source: Aida)

From a geographical point of view, in **8 regions** the 2021 revenue growth rate of family firms was **higher than the national average**



With the exception of Pharmaceuticals and Fashion, family firms in almost all sectors recorded a double-digit revenue growth in the two-year period 2020-21

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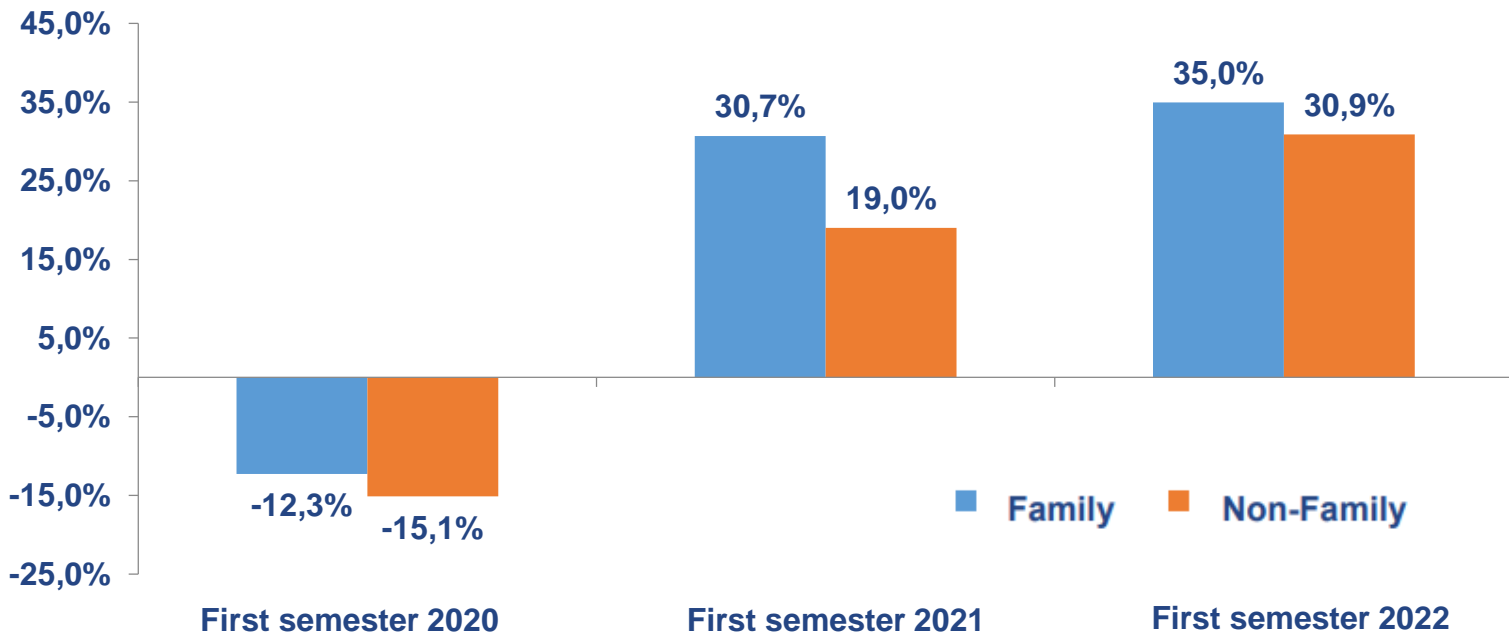
Macro sector	2020-19	2021-20	2021-19
Energy and extraction	-6,7%	39,6%	32,8%
Constructions	11,0%	13,5%	24,4%
Wholesale trade	0,6%	23,2%	23,9%
Transport and logistics	1,3%	21,8%	23,1%
Retail trade	3,5%	16,3%	19,8%
Business services	4,5%	14,8%	19,2%
Manufacturing	-2,8%	20,6%	17,8%
Diversified holding	0,1%	16,5%	16,7%
Other services	-3,2%	17,9%	14,8%
Automotive trade	-9,2%	15,2%	6,0%
Total average	-1,3%	20,1%	18,7%



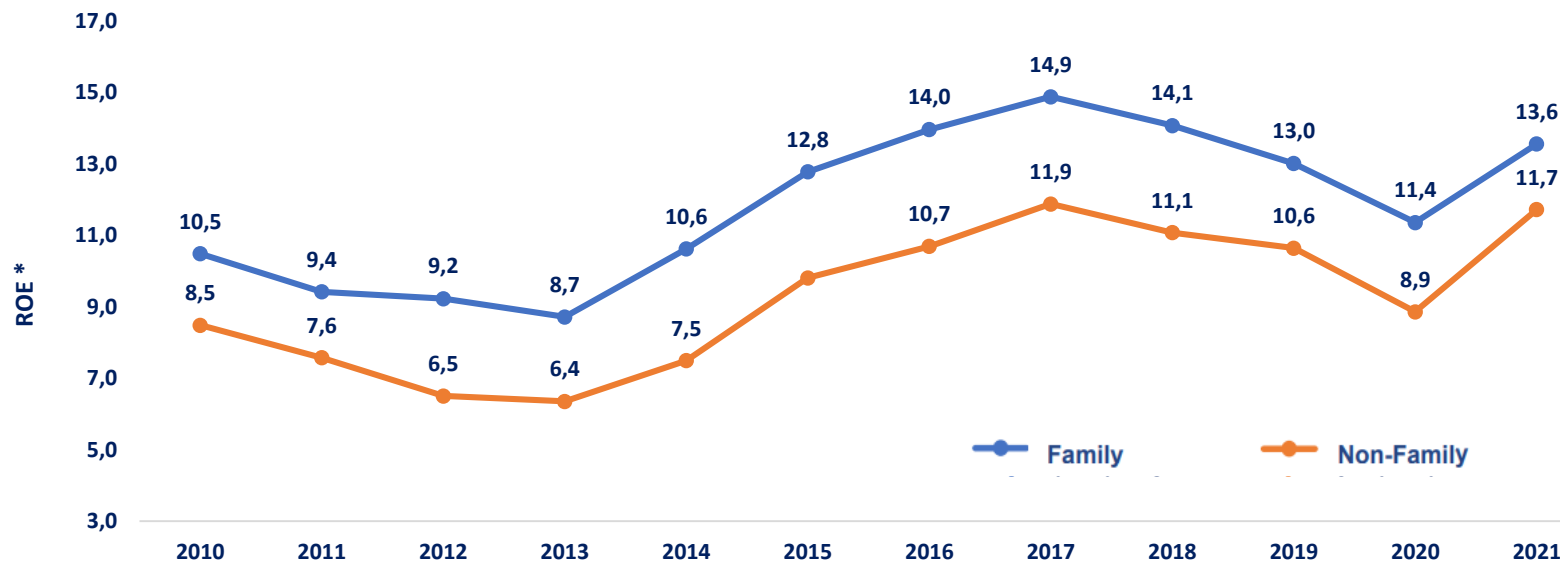
Manufacturing sector	2020-19	2021-20	2021-19
Metal products	-7,8%	36,1%	28,3%
Rubber and plastic	-2,1%	27,4%	25,3%
Chemical	-0,2%	22,6%	22,4%
Furniture	-4,4%	24,7%	20,3%
Means of transportation	-3,8%	23,7%	19,8%
Electronics	-3,2%	22,4%	19,3%
Other manufacturing	-1,4%	20,4%	19,0%
Food and Beverage	5,1%	10,7%	15,8%
Paper and printing	-2,2%	16,3%	14,2%
Mechanics	-4,3%	16,6%	12,3%
Pharmaceuticals	3,9%	5,7%	9,6%
Fashion	-12,8%	16,8%	4,1%

In the first half of 2022, listed family firms experienced a higher revenue growth rate than the (already high) 2021 growth rate

Sales revenue growth rate



ROE of family firms returned to higher levels than in 2019



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Ownership structure	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Coalitions	13,2	10,5	9,9	8,2	10,1	10,9	13,3	14,5	14,8	15,3	11,7	15,4
Branches of foreign companies	9,2	8,1	7,2	7,2	8,0	11,3	12,7	14,2	13,3	12,8	10,3	13,9
Family firms	10,5	9,4	9,2	8,7	10,6	12,8	14,0	14,9	14,1	13,0	11,4	13,6
State /Local authorities	4,2	3,3	3,3	5,8	4,9	7,4	7,8	8,1	9,2	7,7	7,5	7,6
Cooperatives and Consortia	4,9	5,3	3,8	3,5	4,7	5,5	4,6	4,9	4,0	4,6	4,5	5,7
Controlled by PE	4,5	6,9	0,7	1,2	7,5	8,1	7,3	7,4	4,7	2,9	3,1	5,2

(*) ROE: rate of return on equity (source: Aida)

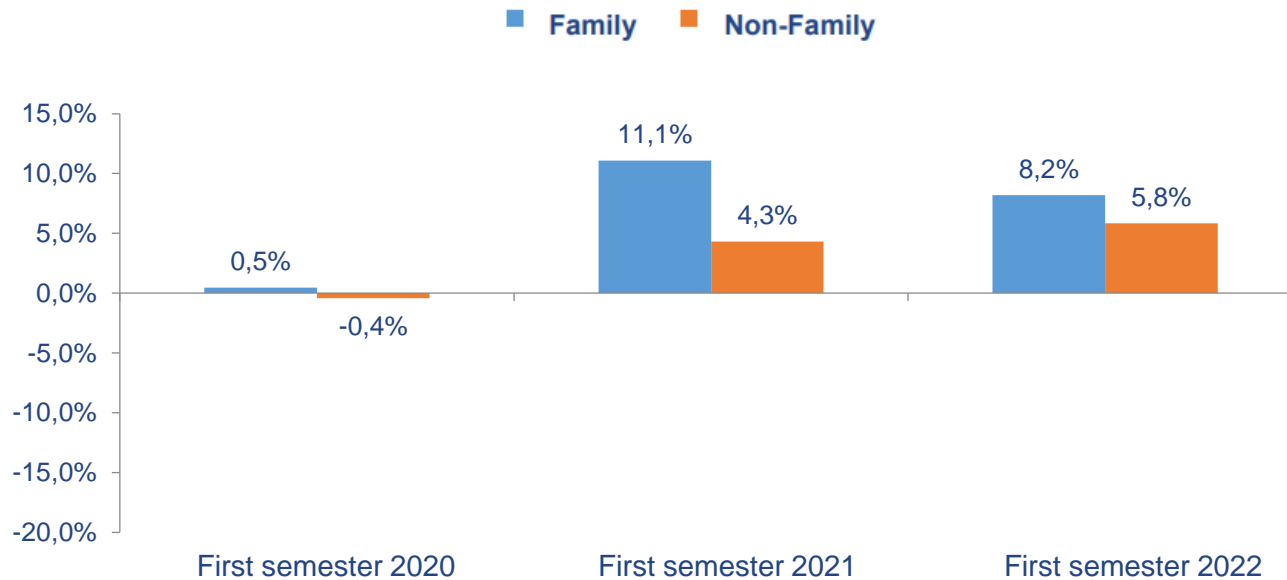
The 2021 profitability improvements are combined with the employment growth that occurred for all firms, a trend in line with what happened during the 2009 crisis, in particular for family firms

Ownership structure	2019	2020	2021	2019-2021 Delta	Delta % 2019-2021
Family firms	2.632.804	2.691.759	2.731.921	99.118	3,8%
Non Family firms	2.715.180	2.783.449	2.778.175	62.995	2,3%
Total	5.347.984	5.475.208	5.510.096	162.113	3,0%

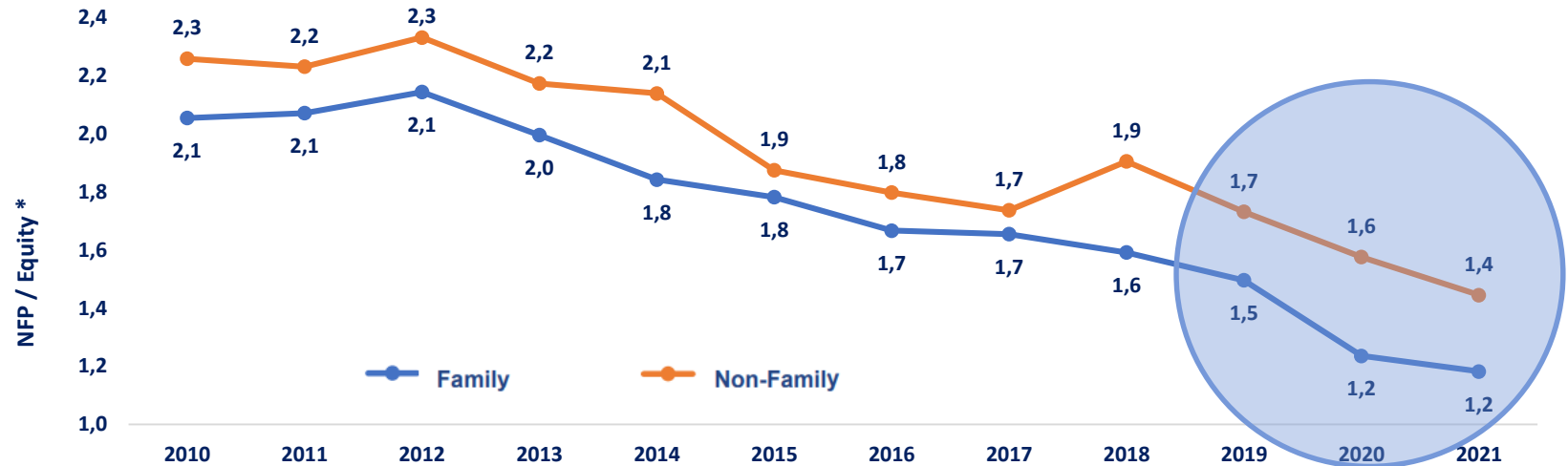
Ownership structure	2008	2009	2010	2008-2010 Delta	Delta % 2008-2010
Family firms	1.634.481	1.575.277	1.725.124	90.643	5,5%
Non Family firms	2.237.454	2.136.650	2.242.277	4.823	0,2%
Total	3.871.935	3.711.927	3.967.401	95.466	2,5%

Even in listed companies, improvements in profitability in the two-year period 2021-22 are combined with a rising **employment trend, in particular for family firms**

Growth rate number of employees



The NFP/Equity ratio of family firms decreased by 20% compared to 2019 (also due to the law on asset revaluations)

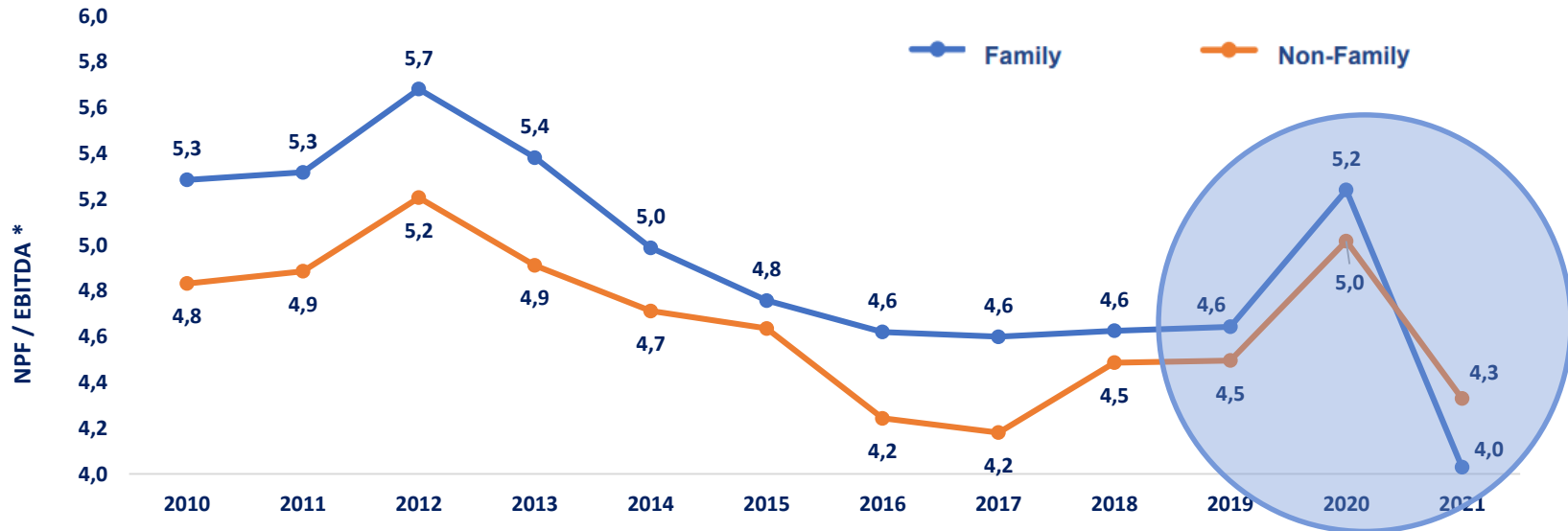


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Ownership structure	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
State /Local authorities	1,7	2,0	1,8	1,3	1,4	1,0	0,8	0,8	0,9	1,0	0,9	0,8
Branches of foreign companies	2,1	1,9	2,2	1,8	1,6	1,5	1,2	1,2	1,4	1,1	1,1	1,1
Family firms	2,1	2,1	2,1	2,0	1,8	1,8	1,7	1,7	1,6	1,5	1,2	1,2
Coalitions	1,9	2,1	1,9	2,0	1,9	1,9	2,1	1,8	1,9	1,8	1,6	1,4
Controlled by PE	2,8	1,7	2,2	2,6	1,9	1,6	2,2	1,5	1,5	1,5	1,2	1,5
Cooperatives and Consortia	3,1	3,1	3,1	3,2	3,5	2,9	2,9	3,0	3,4	3,1	2,8	2,4

(*) NFP / Equity ratio = NFP / Equity (Source: Aida), where NFP was calculated as: Bank debt + Other lenders debt - Cash and cash equivalents. The ratio was calculated considering only companies with positive NFP and Equity. The NFP/Equity Ratio of non-family firms is a weighted average of firms with non-family ownership structures.

NFP/EBITDA ratio of family firms, after the peak reached in 2020, decreased by 13% compared to 2019



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Ownership structure	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Branches of foreign companies	3,7	3,8	4,0	3,7	3,8	3,5	2,9	2,8	2,8	3,1	3,0	2,6
State /Local authorities	4,2	4,5	4,9	3,8	3,4	3,7	2,6	2,4	2,7	2,3	2,8	2,7
Family firms	5,3	5,3	5,7	5,4	5,0	4,8	4,6	4,6	4,6	4,6	5,2	4,0
Coalitions	4,7	5,3	5,4	5,3	4,0	4,4	4,2	4,2	4,4	4,6	5,5	4,1
Controlled by PE	5,2	3,7	5,1	4,6	4,2	3,9	3,7	3,6	4,6	4,1	5,5	4,5
Cooperatives and Consortia	7,5	6,9	7,4	7,3	7,3	7,3	7,3	7,4	8,1	7,8	8,6	8,3

(*) NFP was calculated as: Bank debt + Other lenders debt - Cash and cash equivalents. The ratio was calculated considering only companies with positive NFP and Equity. The NFP/Equity Ratio of Non-family firms is a weighted average of firms with Non-family ownership structure.

Compared with the pre-Covid situation, firms with negative NFP increased by about 6 points, while firms (with positive NFP) with a problematic or attention-worthy solidity situation decreased by about 6 points

	(early) 2022	Pre-Covid **	2022-Pre- covid Delta
Equity with negative values	0,2%	0,3%	-0,1
EBITDA with negative values	3,0%	2,5%	+0,5
Equity and EBITDA with negative values	0,4%	0,3%	+0,1
Total	3,6%	3,1%	+0,5
Firms with critical financial situation *	15,7%	21,0%	-5,3
Firms with “warning” financial situation *	4,7%	6,0%	-1,3
Total	20,4%	27,0%	-6,6
TOTAL	24,0%	30,1%	-6,1
Negative NFP	37,4%	31,8%	+5,6

(*) The percentages shown here are slightly different from those in the previous slide because companies with negative EBITDA and Equity are included in the denominator.

(**) The pre-Covid situation is as of the end of 2019.

From early 2011 to early 2022, firms with negative NFP increased by more than 10 points, while firms (with positive NFP) with a problematic or attention-worthy solidity situation decreased by more than 14 points

	(early) 2022	(early) 2011	2022-2011 Delta
Equity with negative values	0,2%	0,2%	-0,0
EBITDA with negative values	3,0%	3,2%	-0,2
Equity and EBITDA with negative values	0,4%	0,3%	+0,1
Total	3,6%	3,7%	-0,1
Firms with critical financial situation *	15,7%	28,2%	-12,5
Firms with “warning” financial situation *	4,7%	6,4%	-1,7
Total	20,4%	34,6%	-14,2
TOTAL	24,0%	38,3%	-14,3
Negative NFP	37,4%	26,9%	+10,5

(*) The percentages shown here are slightly different from those in the previous slide because companies with negative EBITDA and Equity are included in the denominator.

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Diversity in the governance structures of Italian family firms



Considering the population of Italian family firms with revenues over 20 million euros and given that 28.5% of them are governed by a Sole Director, all other family firms that have a BoD have the following levels of diversity, in order of criticality:

- **In 26.4% of the firms there is at least 1 board member under 40 years of age (they were 46.6% in 2010, a data to be evaluated taking into account the aging of the Italian population)**
- **In 37.6% of firms there are more than 33% of women (it was 34.4% in 2010)**
- **In 60.1% of firms there is at least 1 non-family member (they were 54.3% in 2010)**
- **In 91.9% of companies there are less than 2 board members over 75 years of age**

The 344 family firms with higher levels of diversity in the 4 selected indicators of governance have higher levels of performance than the other family firms

Dependent variable (three-year period 2019-2021)	Annual revenue growth rate	ROE	EBITDA margin	Leverage ratio	NFP / EBITDA
BoD with:					
- At least 1 NF					
- Women >= 33%	+1,3%	+1,1%	+1,7%	-0,36	-0,49
- At least 1 under 40					
- No more than 1 over 75					
P value *	**	**	***	**	***

* Values indicate high significance (***) if p value is <.01, medium significance (**) if p value is <.05, discrete significance (*) if p value is <.1).

A regression analysis was performed with the OLS model and the following controls: i) firm age; 2) firm size; 3) firm liquidity. Dummy variables were also added to control for year, industry (considering the first 2 digits of Ateco 2007 code) and region.

NOTE: for all AUB family businesses: average annual growth rate was 8.5%; average annual ROE was 12.6%; average annual leverage ratio was 4.4; average annual NFP/EBITDA ratio was 4.6.

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Diversity in the governance structures: an international comparison



The size distribution of family firms in the four European countries analyzed confirms the presence of few very large companies in Italy, but a backbone of firms above 1 billion in revenues now comparable to that of France

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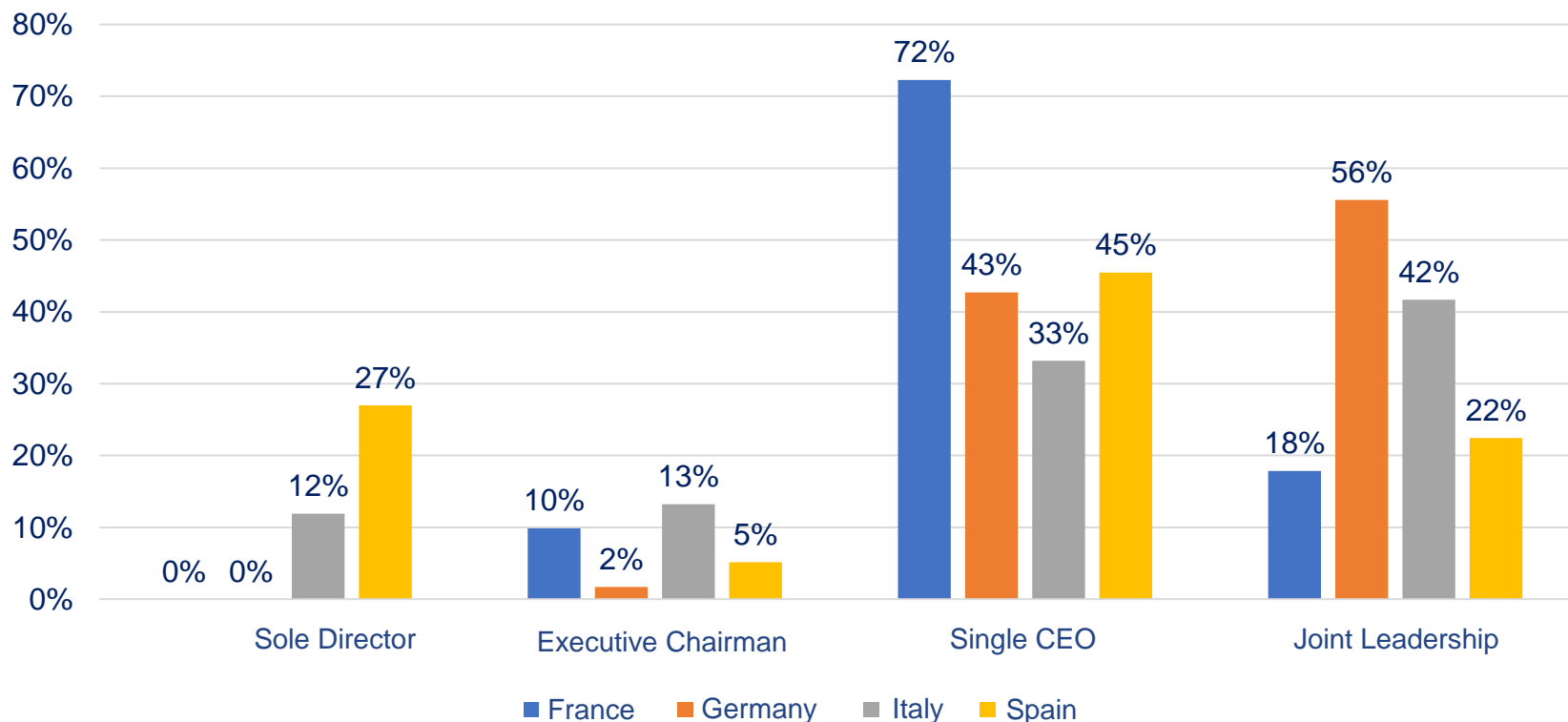
SIZE CLASS	FRANCE		GERMANY		ITALY		SPAIN	
	N	%	N	%	N	%	N	%
> 10 bn Euro	12	1,2%	19	1,9%	4	0,4%	4	0,4%
Between 5 and 10 bn	8	0,8%	18	1,8%	5	0,5%	4	0,4%
Between 2,5 and 5 bn	32	3,2%	42	4,2%	18	1,8%	4	0,4%
Between 1 and 2,5 bn	48	4,8%	134	13,4%	66	6,6%	27	2,7%
Between 0,5 and 1 bn	78	7,8%	281	28,1%	121	12,1%	50	5,0%
Between 250 and 500 mln	176	17,6%	470	47,0%	227	22,7%	145	14,5%
< 250 mln	646	64,6%	36	3,6%	559	55,9%	766	76,6%
Total	1.000*	100,0%	1.000*	100,0%	1.000*	100,0%	1.000*	100,0%

* The top 1,000 companies by sales revenue in Euros in 2020 in each country (source: Orbis).

Before considering diversity in family firms' governance, it is useful to point out the presence of many cases of Sole Director in Spain and, although to a lesser extent, in Italy

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Leadership models of Executive Board / BoD *



* Companies with a Board of Directors were considered for Italy and Spain (excluding cases of Sole Director), and Executive Boards for France and Germany.

Considering all the top 1,000 family groups by sales revenue in the four countries (including those where the governance is in the hands of a Sole Director), the following levels of diversity are recorded:

Diversity indicators	FRANCE	GERMANY	ITALY	SPAIN
At least 1 director under the age of 40	26,6%	15,0%	25,0%	6,8%
More than 33% of women as board members	40,9%	15,7%	30,7%	27,0%
At least 1 non-family member	77,6%	78,9%	69,0%	55,2%
No more than 1 director over 75	90,1%	99,7%	74,6%	69,7%

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Companies listed on European Euronext markets



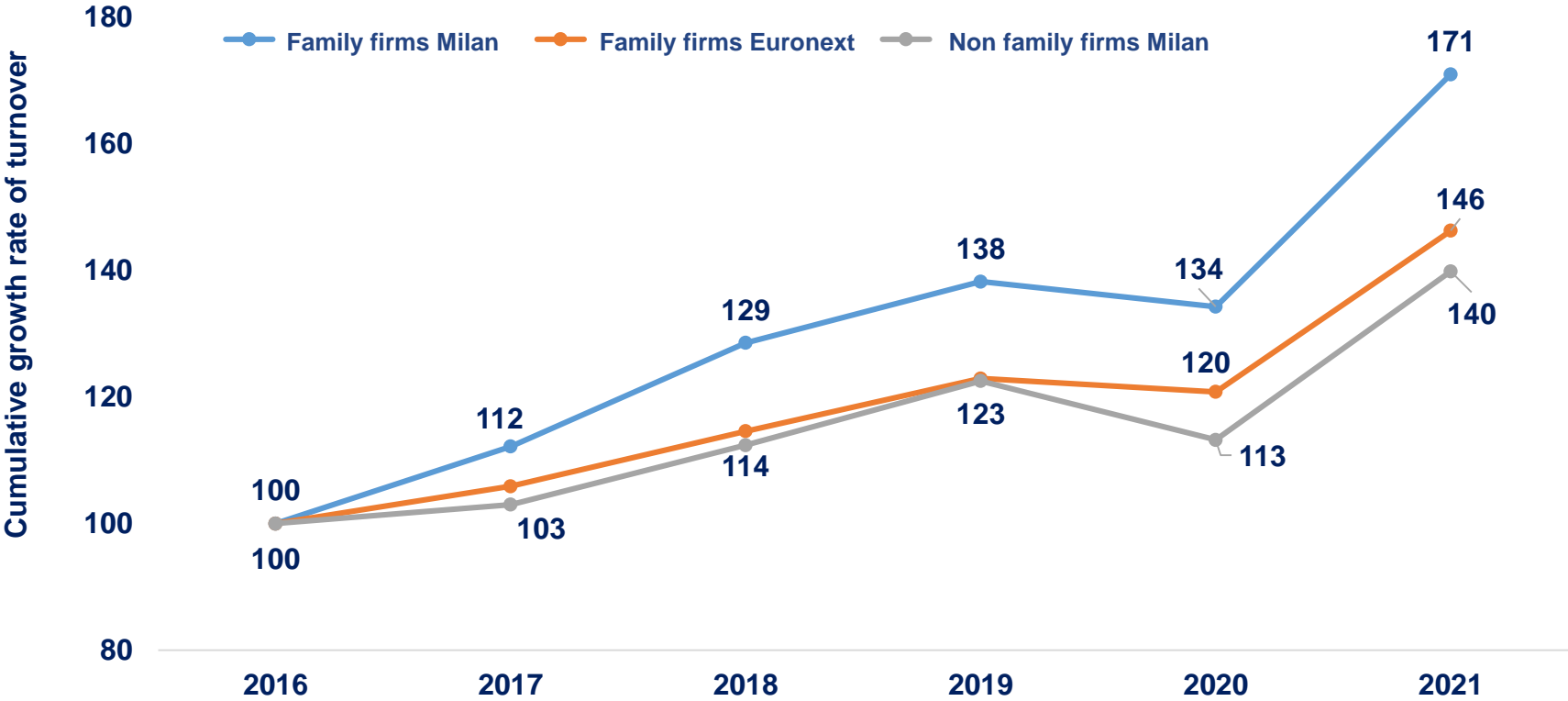
The Milan Stock Exchange is the **second largest Euronext market in terms of number of listed companies, and it has the **highest incidence of family-controlled firms (about 3 out of 4)****

Market place	Family firms*		Non-Family firms		TOTAL	
	N	%	N	%	N	%
Paris	518	60,6%	337	39,4%	855	100,0%
Milan	316	74,9%	106	25,1%	422	100,0%
Oslo	165	47,7%	181	52,3%	346	100,0%
Amsterdam	53	37,9%	87	62,1%	140	100,0%
Brussels	71	53,4%	62	46,6%	133	100,0%
Lisbon	33	61,1%	21	38,9%	54	100,0%
Dublin	9	21,4%	33	78,6%	42	100,0%
Total	1.159	58,2%	833	41,8%	1.992	100,0%

* Family Firms: companies controlled by one (or two) owning families with a share of more than 25%.

Family firms listed on the Milan Stock Exchange have experienced **higher growth rates (especially in 2021)** than both the average of Euronext family firms and non-family firms on the Milan list.

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(*) Compound growth on a 100 basis (year 2016), calculated on sales revenue (source: Orbis)

In family firms listed in Milan, when compared with firms listed in Paris, there is evidence of a comparable board structure in terms of diversity

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Indicators	Amsterdam	Brussels	Dublin	Lisbon	Milan	Oslo	Paris
% Family CEO	15,1%	23,9%	44,4%	18,2%	45,6%	6,1%	55,4%
% Family Chairman	18,9%	50,7%	22,2%	57,6%	78,2%	40,6%	65,3%
% firms with majority of non-family board members	94,3%	95,8%	100,0%	75,8%	93,0%	98,2%	78,4%
% family directors	11,1%	19,8%	12,8%	27,8%	22,7%	10,8%	30,0%
% companies with at least 1 director < 40 years old	13,5%	21,4%	22,2%	12,1%	35,2%	40,5%	33,3%
% companies with at least 33% of women as directors	5,8%	43,7%	11,1%	27,3%	52,1%	41,1%	58,0%

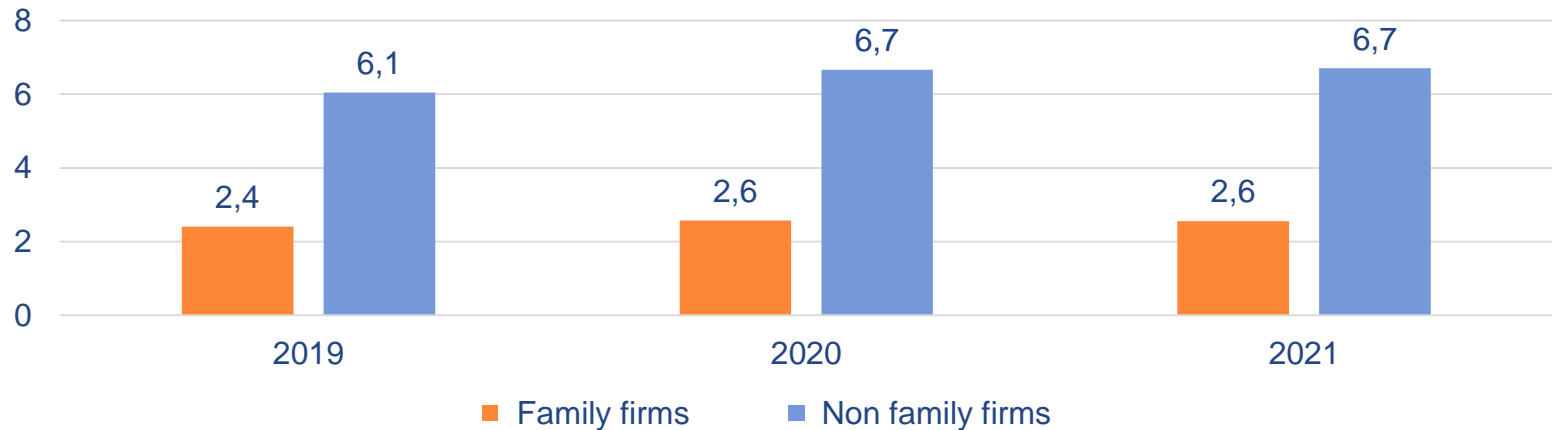
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Governance structures of Italian listed companies

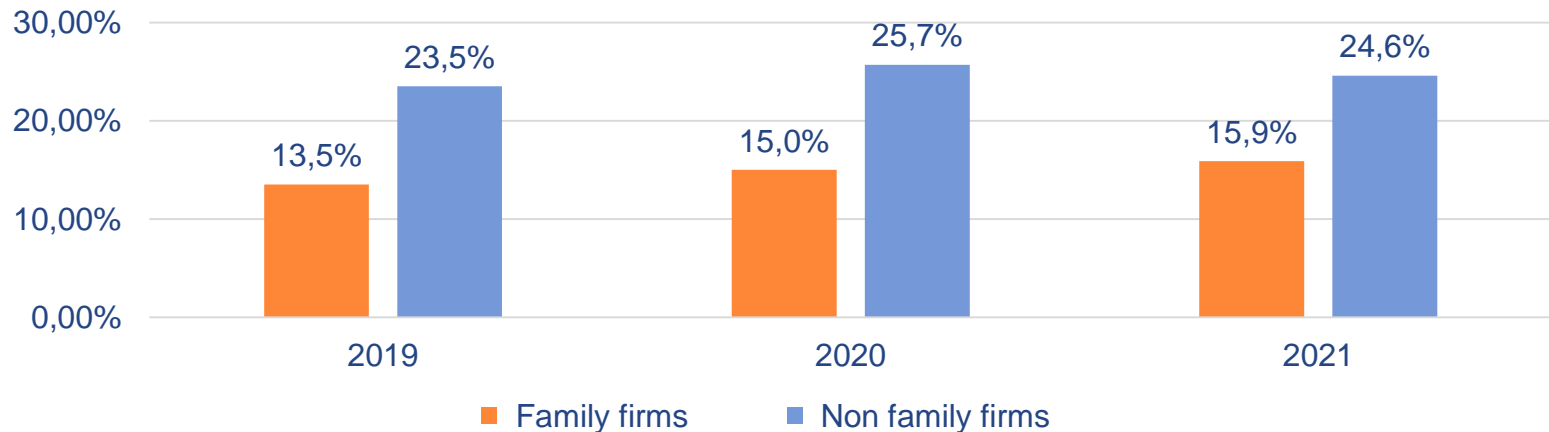


CEOs of non-family firms show, on average, more years of work and/or study experience abroad

N. of years of work abroad of the CEO



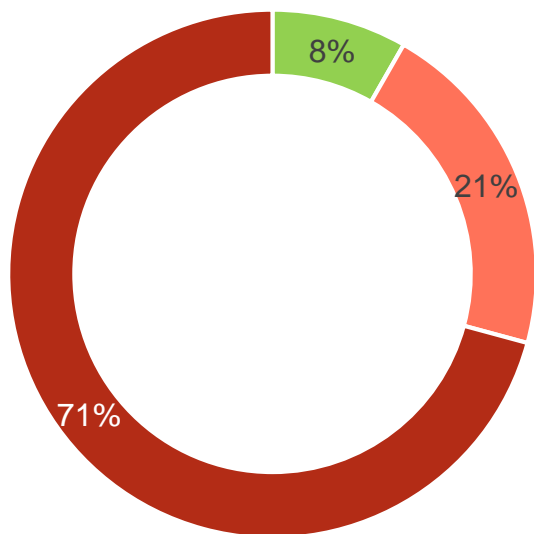
CEOs with study abroad experience



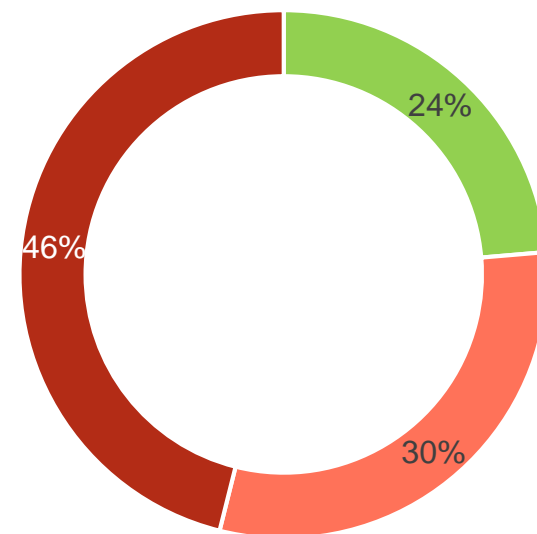
29% of family firms have a **Committee that deals with ESG issues, compared with 54% of non-family firms**

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Family firms



Non family firms



- Autonomous ESG Committee
- Shared ESG Committee
- No ESG committee

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The share buyback in Italian family firms



The share buyback is something that has affected an increasing number of companies over the past decade, especially among family-controlled firms (rising from 8,7% in 2013 to 15,8% in 2021)

<i>% of companies</i>	2013	2014	2015	2016	2017	2018	2019	2020	2021
<i>Family firms</i>	8,7%	9,7%	10,6%	11,6%	12,3%	13,3%	14,2%	15,2%	15,8%
<i>Non family firms</i>	5,2%	6,0%	7,0%	7,5%	8,0%	8,4%	9,2%	10,0%	10,3%
Total	7,4%	8,4%	9,3%	10,1%	10,8%	11,6%	12,4%	13,3%	13,9%

<i>% average of possession</i>	2013	2014	2015	2016	2017	2018	2019	2020	2021
<i>Family firms</i>	8,1%	9,2%	9,4%	9,8%	10,3%	10,6%	10,9%	10,8%	11,0%
<i>Non family firms</i>	5,5%	6,5%	6,5%	6,8%	7,4%	7,2%	7,1%	7,1%	6,9%
Total	7,5%	8,5%	8,7%	9,0%	9,5%	9,8%	9,9%	9,8%	9,9%

The results show a noticeable increase in companies buying their own shares in the last decade, especially unlisted ones. The phenomenon is greater:

- **in family-controlled firms;**
- **in companies with more concentrated ownership (first shareholder > 50%)**
- **in larger companies**
- **in the longest-running companies**

By contrast, no differences emerged between the incidence of firms that purchased their own shares and:

- **the enterprise's net financial position**
- **the business sector and the CAGR of the sector's revenues**
- **the geographical area of the firm**

These results allow us to conclude that the main purpose of share buyback in family firms can be traced back to phenomena of re-arrangement of the ownership structure.

In addition to Mario Amore and Paola Taricco, Professors at Bocconi University, we would like to thank the students who collaborated to the research activities of the XIV edition of the AUB Observatory:

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