The Italian family firms in the face of the Covid-19 pandemic
Executive Summary of AUB Observatory - XIII edition
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Introduction

The AUB Observatory, promoted by AIDAF (Italian Association of Family Businesses), AIDAF-EY Chair in Family Business Strategy (Bocconi University), UniCredit and Cordusio Group, with the support of the Italian Stock Exchange, the Angelini Foundation and the Chamber of Commerce of Milan, Monza- Brianza and Lodi, monitors **all Italian companies** that have exceeded **the turnover threshold of 20 million euros.**

The contents of the XIII edition of the AUB Observatory

The XIII edition of the AUB Observatory, that not by chance has a title similar to the one of the previous edition, aims to present first of all **the reaction of the Italian family businesses to the COVID-19 pandemic** throughout 2020 and, for public companies, in the first semester of 2021.
Moreover, the XIII edition offers results regarding:

- The evolution of **governance structures** of family businesses in the 2010-2020 decade;
- The entrepreneurial families that have **handed over control** of their companies between 2011 and 2018;
- The **IPO** procedures of the Italian family firms compared to the others European markets run by Euronext;
- The processes of **internationalization through FDI** of the first 1000 Italian, German, French and Spanish groups.

We present in this executive summary the most significant results. The details of these results and of others will be available from January, 26, 2022 in the presentations of different chapters of the XIII edition of the AUB Observatory on [Presentazione XIII edizione Osservatorio AUB.]

1. The impact of the crisis 2020 on growth and profitability: comparison with the crisis 2009

In 2020, family firms have faced a decrease in revenues similar to that of non-family firms (-8.3% vs –7.5%). In 2009, family firms had suffered much more than non-family firms (-7.3% vs –4.5%).
The impact of the crisis on the 2020 revenues of the family firms operating in the manufacturing sector, transports and logistics, and that of diversified holdings has been **much less negative than that of 2009,** while commerce, construction and services have undergone a bigger impact. During the first half of 2021, listed family businesses have showed an improvement in revenues of **almost twice** as that of non-family enterprises (26,6% vs 14,1%).
With regard to operating profitability, family firms of numerous manufacturing sectors and the diversified holdings have closed 2020 with **ROI higher than the ones of 2009**. In the first half of

2021, listed family firms have shown a profitability **almost three times** higher than non-family firms (5.4% vs 1.8%)
Lastly, the Observatory data shows how the profitability improvements of 2020 went together with a **growth in employment** for all firms (on average, +2.9%) with an opposite trend with respect to what happened during the crisis 2009 (-4.1%)

2. The impact of the crisis 2020 on the companies' solidity: comparison with the crisis 2009

In terms of **financial strenght**, in 2020, family firms have reduced the ratio between NFP and Equity of a further 10% compared to 2019 (also as a consequence of the asset revaluation law), while they have increased the ratio between NFP and EBITDA, due to a decrease of the EBITDA higher than the decrease of the NFP, that has nonetheless diminished.
In early 2021, family firms with critical **ratios NFP/Equity and NFP/EBITDA** correspond to 21.8%. In 2019, they were 22.5% and, above all, in 2009 they were equal to 30.9%. During the first half of 2021, listed family firms **have improved their financial strenght** to a larger extent than non-family ones.

In the two-year period 2020-2021, the incidence of family firms getting into **liquidation or insolvency proceedings** was equal to 1.7%, **less than half** of the incidence in the two-year period 2009-2010 where it was around 4%. The improved financial situation in early 2021 and Italy's greater resilience suggest that the death rate of family firms due to the Covid-19 crisis may continue to be lower in the coming years compared to that of the past decade.

All of the aforementioned elements allow us to conclude that:
- *The crisis of 2020 was less harsh than the crisis of 2009 for firms, especially for those in the manufacturing sector*
- *family firms have reacted better than non-family firms, as a result of their resilience*
- *family firms are better prepared to face the next years in terms of financial strenght.*

These data should encourage a more positive assessment of the contribution of family firms to the country's economy.

3. 2010-2020: Governance structures after a decade

The end of the decade makes a longer-term comparison on the evolution of some aspects of family firms' governance compelling. In summary:

- **leadership models change very slowly:** essentially, the distribution among the models of Sole Director, Executive Chairman, Single Chief Executive Officer (CEO), and Joint Leadership (two or more CEOs) has remained unchanged;
- **Three negative signs:**
  I. Considering both the oldest and the youngest CEOs in the case of Joint Leadership, the number of leaders under 40 has drastically reduced while the importance of leaders over 70 has further increased; from the comparison within the top 1000 groups of France, Germany and Spain, it appears that Italy is the country with the highest percentage of leaders over 70 (about 29%),

II. More than 40% of BoDs are still composed only by men; the presence of women has remained essentially stable over the past decade in smaller companies (between €20 million and €50 million), while it has increased by 3.5 points in larger companies (> €50 million);

III. in almost 75% of BoDs there are no members of the board under the age of 40, and this percentage has grown a lot over the decade (at the beginning of the decade it was around 53%);

- **two signs of family openness:** i.) the incidence of family leaders has decreased, even if it remains above 65%; ii.) the incidence of BoDs composed only by family members has decreased, falling below 30% in the largest family firms (and below 45% in the smallest ones);
- **an interesting succession management model:** succession with "mentoring", whereby a senior CEO and a junior CEO coexist in Joint Leadership for a number of years, concerns 25% of such cases, and the impact on firm performance is positive when the "mentor" is a family member and the effect is amplified when the BoD is open to non-family members.

In the ten-year period - from 2010 to 2020 - some changes have occurred in the governance structures of family firms. It is noteworthy to positively underline the willingness to appoint also non-family members for the roles of leadership or board members. On the negative side, the presence of under 40s on BoDs is still too restricted, especially considering that for some challenges such as digital and even environmental transition, young people have a greater sensitivity than previous generations.

4. Entrepreneurial families that have handed over control

Between 2011 and 2018, about **3% of family firms changed ownership.** About **80% of the latter were acquired by subsidiaries of foreign companies or by private equity funds,** which remain important players in fostering a turnover of entrepreneurial families that have reached the end of their lifecycle for various reasons.

In terms of **sectors**, divestments occur more than proportionally in mechanical engineering, fashion and food sectors, in which the excellence of the Made in Italy is concentrated. In terms of **geographical areas,** divestments affected more than proportionally in Emilia-Romagna and Lombardy. In the case of Veneto, the number of divestments, even if high, was substantially in line with the weight of family firms.

Divestiture of control appears to be **positively correlated** with the openness of top management roles and that of the Boards, with generations after the first, and with firm operating profitability pre-divestment. The level of indebtedness does not appear to be a driver influencing the likelihood of divestiture.

Divestiture processes can ensure continuity for family firms. On the other hand, the fact that divestures involve less than 1% of family firms annually confirms that many entrepreneurial families have the willingness to continue their story. Moving on to the type of firms subject to divestment, the report highlights that they are those with better performance and with more structured governance structures.

5. IPOs in European markets during the Covid-19 pandemic

Since 2017, the number of companies, mainly family firms, undergoing **IPOs in Italy have increased.**

In the two-year period 2020-2021[i]**,** family firms accounted for **87% of the total IPOs** on the Milan Stock Exchange (equal to 61). This percentage is by far the highest among those in European markets controlled by Euronext.

More generally, the incidence of family firms listed on the Milan Stock Exchange, equal to 71%, is also **more than double** than that of almost every European market controlled by Euronext group.

Family firms account for nearly three quarters of the listed companies in Italy. If the number of listings in Italy is increasing, much is due to family firms, especially smaller ones that listed on the AIM market. This data confirms an ongoing dynamism in the opening of the ownership structures of Italian family firms, although the total numbers of such transactions still remain too low, especially considering that resources - financial and non-financial – resulting from listing could support faster processes of business growth.

6. Internationalization through FDI by the top 1000 groups in France, Germany, Italy and Spain

Bearing in mind that Italy has a much lower number of very large firms (> €5 billion) than Germany (7.5% vs. 25.4 %), the percentage of Italian firms - family and non-family - with FDIs is **similar to that of German firms,** and family firms in both countries are more internationalized.
French and German firms-mainly non-family firms-have, on average, more FDIs than Italian and Spanish firms.
Furthermore, **French** and **German firms** can **be found**, on average, **in more countries** than Italian and Spanish firms. Nevertheless, Italy is the only case where family firms are present, on average, in more countries than non-family firms.
French family firms have a more unbalanced FDI presence in North America, **German** firms in Eastern Europe, **Spanish** firms in South and Central America. Italian family firms have a more balanced distribution among the various areas of the world.
For Italian family firms, the incidence of subsidiaries' turnover on consolidated financial statements is **higher** than that of firms in other countries. This seems to be a sign of an internationalization pattern more deeply rooted in foreign countries.

The percentage of Italian family firms internationalized through FDI is in line with that of German firms. On the contrary, the average number of FDI for each firm is around half that of German and French firms. Governance positions that are still covered by senior people and listing processes still not widespread may be two of the reasons for this lower vitality. Overall, Italian non-family firms show a larger gap than the family ones in comparison to their counterparts in other countries.

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[i] IPOS registered from January 1, 2020 to November 30, 2021.