4. OWNERSHIP STRUCTURE AND CORPORATE GOVERNANCE MECHANISMS OF ITALIAN MEDIUM-SIZED LISTED FIRMS

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4.1. Introduction

It is commonly recognized that the theoretical debate on corporate governance and ownership structure has been typically focused on major firms, typically belonging to the Anglo-Saxon contexts, characterized by the separation between ownership and control, from which conflicts of interests may arise (Jensen & Meckling, 1976; Shleifer & Vishny, 1997).

Conversely, corporate governance in smaller companies seems to have received minor attention, despite the importance acknowledged by governments to such companies in the development of local economies, especially in those countries (i.e. Italy and Spain) characterized by widespread entrepreneurship, such as the industrial districts. Extant literature on corporate governance of smaller firms tends to scrutinize the implications of the coincidence between ownership (often belonging to a family) and control, which gives rise to an entrepreneurial model of governance (Bennedsen & Wolfenzon, 2000; Abor & Adjasi, 2007; Uhlaner, Wright, & Huse, 2007).

Among small firms, medium-sized enterprises (MSEs) (the size class characterized by employees between 50 and 499 and annual sales between 13 and 290 million Euros) are a neglected area of research, as the literature focused on such type of enterprises has been very limited. Following Mediobanca (2017), this may be related to two main causes. Firstly, such companies have been seen mostly as belonging to a temporary stage along the path from small to large size, so the attention of scholars has been dedicated to the two extremes of the continuum (Storey, 2002); secondly, there is a lack of focused statistics on medium-sized enterprises, as those compiled for legal or regulatory purposes consider a unique entity: small and medium enterprises (SMEs) (Alzona & Iacobucci, 2005).

This typology of firms represents indeed an interesting research area from a corporate governance point of view, as they present a wide spectrum of ownership and corporate governance structures in which the full coincidence between entrepreneur/owner and manager may not exist, especially if the companies are listed (Preuss & Perschke, 2010).

Such companies are characterized by high ownership concentration, with very strong entrepreneurs, but, at the same time, like larger firms, they show increasing levels of separation between ownership and control, in terms of cash flow rights and control (Alzona & Iacobucci, 2005). Such separation is not achieved by the adoption of widely dispersed ownership, but mainly by means of a set of mechanisms created in order to enhance control, such as pyramidal groups, dual-class shares and shareholder agreements, reinforced by cross-ownership and interlocking directorates (Bebchuk, Kraakman, & Triantis, 2000; Bianchi, Bianco, & Enriques, 2001; Faccio & Lang, 2002).

All these instruments allow firms to growth "without capital", maintaining a stable control, with very few cases of hostile takeovers. On the other side, the use of these mechanisms increases the degree of expropriation of minority shareholders and consequently controlling shareholders may extract a considerable amount of private benefits of control (Bigelli & Mengoli, 2004). Examples of expropriation include asset sales, transfer pricing favourable to the main shareholder, excessive executive compensation, dilutive share issues, insider trading, and so on, that literature knows as practices of "tunnelling" (Johnson, La Porta, Lopez-de-Silanes, & Shleifer, 2000; Sancetta, Cucari, & Esposito De Falco, 2018).

As such firms present a quite high relative weight in the Italian and in other European contexts, belonging to the non-Anglo Saxon system, such as Spain, France, Portugal, Germany, Austria and Belgium, in terms of employment and value added, it is worthy to focus on them, given that only a few studies exist (Morelli & Monarca, 2005; Genco & Penco, 2012; Profumo, 2013). In Italy, for example, the percentage of manufacturing employment in medium-sized firms is 27.3%, while the share of MSEs' value added in manufacturing is 33.9% (Confindustria, R&S, & Unioncamere, 2013). Higher percentages are shown by Spain for value added (36.6%) and by Germany for employment (34.5%).

In light of these considerations, the present chapter intends to add to extant corporate governance literature, answering the following research questions (RQ):

RQ1: What are the specific corporate governance characteristics of medium-sized listed firms, especially in terms of ownership structure and composition?

RQ2: Which are the most important governance mechanisms used by medium-sized listed firms aimed at separating ownership from control?

Focusing on the corporate governance features of a sample of Italian medium-sized listed firms, the chapter may constitute a useful contribution for developing research knowledge on the phenomenon. In particular, it develops corporate governance literature on smaller firms and on their control mechanisms which is not so widespread among scholars, especially in case of not fully coincidence of ownership and control. Moreover, the study advances small and medium enterprises (SMEs)' literature, focusing on a neglected area of research: medium-sized firms.

The study presents also some implications for governments and local authorities or financial market regulators, as the listing process of smaller companies does not seem to create more open ownership structures, which are appealing for institutional investors and conflicts of interests between controlling owners and minority shareholders are still present.

In order to meet the above goals, the remainder of this chapter is organized as follows. The second section, by addressing the extant literature on the definition of corporate governance in small and medium firms, provides the theoretical background useful for the analysis of medium-sized firms. The third section presents the main features of the Italian context, in terms of ownership and control. The fourth section describes the main characteristics of Italian medium-sized firms, while section five defines the sample of listed MSEs. Section six presents the results of the empirical analysis. The last section discusses the results as well as the suggested implications for academics and managers, together with the main limitations of the study and indications for further research.

4.2. Corporate governance in small businesses: a literature review

Despite small and medium enterprises constitute the backbone of the economy of many European countries, the corporate governance literature on this typology of enterprises is still a neglected area of research (Abor & Adjasi, 2007; Uhlaner et al., 2007). The extent corporate governance theories, such as the agency theory (Jensen & Meckling, 1976) and the resource-based view of the firm (Wernerfelt, 1984; Barney, 1991) have, in fact, been developed thinking about big corporations.

In this vein, corporate governance issues related to small businesses may be primarily found in other theoretical frameworks, such as family business and entrepreneurship domains.

In the family business domain (Villalonga & Amit, 2006), it is possible to find few contributions substantially focused on the relationship between "ownership and control" (Corbetta & Montemerlo, 1999), on the role, composition and functioning of the Board of Directors (Ward & Handy, 1988; Corbetta & Tomaselli, 1996), on the delicate phase of the intergenerational transition (Handler, 1994) and on the relationship between the presence of a family in the control of a company and firm's performance (Anderson, Mansi, & Reeb, 2003; Barontini & Caprio, 2006; Sciascia & Mazzola, 2008). However, it is important to recognize that the coincidence between family businesses and small businesses is not always expected since, especially in Latin Countries, families manage and control also big and global listed corporations (see Fiat, Benetton, Luxottica in Italy), with large management teams and pressures towards strict governance rules; consequentially, family business literature can only partially help to understand the governance features of small and medium-sized firms.

Corporate governance in small businesses could also be studied within the entrepreneurship domain. It is well known that SMEs are fundamentally linked to the figure of the entrepreneur. Nevertheless, SMEs may be characterized by different ownership structures:

- the "founder-owner" model, where the entrepreneur is at the same time the majority shareholder and the CEO, without any conflict between ownership and control;
- the "multiple ownership structure" model, in which majority and minority shareholders coexist, with consequent governance problems due to differences in the respective objectives (Uhlaner et al., 2007).

In the multiple ownership structure, typical of the growing phases of small businesses, the main shareholder of the company usually coincides with the entrepreneur; but as the external pressures in terms of transparency and accountability increase, especially in case of listed firms (Brunninge, Nordqvist, & Wiklund, 2007), conflicts with minority shareholders (Dyck & Zingales, 2004), due to the extraction of "private benefits of control", may emerge. Examples of expropriation include asset sales, transfer pricing favourable to the main shareholder, excessive executive compensation, dilutive share issues, insider trading, and so on, known as practices of "tunnelling" (Johnson et al., 2000).

In order to explain the potential conflicts between the majority shareholder/entrepreneur and the minority shareholders, is the agency theory applicable (Jensen & Meckling, 1976)? And what about the resource-based view of the firm (Wernerfelt, 1984; Barney, 1991)?

The ownership settings of small businesses reduce some of the traditional agency problems but generate other governance concerns, related to diverging interests and conflicts between the controlling owners and the minority shareholders (Morck & Yeung, 2003). Also for mitigating such agency problem and ensuring that managers act in the interest of shareholders, internal and external governance mechanisms have been introduced.

As small businesses usually present a strong entrepreneurial imprint combined sometimes with external management that leads to a concentration of the executive power in the board, internal control mechanisms become crucial (Brunninge et al., 2007). The external corporate governance mechanisms, such as the market for corporate control, typical of a market-oriented system, are in fact rarely used in companies with a high level of ownership concentration.

Among the internal control mechanisms, following the agency theory framework, debt capital and board of directors are applicable instruments for SMEs, aimed at controlling and reducing discretionality of entrepreneurs and managers (Profumo, 2013).

Firstly, the relevance of debt capital is usually very high in SMEs, particularly in bank-based countries like Italy; this implies the implementation of indirect control by the financial institutions that normally tend to appear as a "silent" stakeholder, at least until the profitability of the company is preserved.

Secondly, the board of directors is viewed as a primary instrument for monitoring the management (Hermalin & Weisbach, 1998). The board may, in fact, mitigate agency problems thanks to the appointment of independent managers, i.e. professional managers with expertise in monitoring activities and who have interest in exercising control in order to maintain their reputational capital (Cheng & Courtenay, 2006). The proportion of independent outside directors to the total number of directors is therefore usually applied as a proxy variable for board monitoring efficacy (Satta, Parola, Profumo, & Penco, 2015).

An active board may have a significant influence on the value-creating potential of small and medium companies (Gabrielsson, 2007). While smaller companies tend to have a board of directors without any substantial power, as their size increases, non-executive and independent directors tend to be included within the board, improving the control activities, especially in case of listed firms. Gabrielsson and Huse (2005) recognize, however, that the strong relationship with the owner/entrepreneur, who has a pivotal role in their selection, remuneration and in providing them with the necessary information, is able to reduce the effectiveness of the control process.

Focusing on the theoretical framework of the resource-based view of the firm, instead, boards are positively seen, as they may provide valuable expertise and capabilities, influence and aid in strategy formulation, in particular for smaller firms. The presence of private equity or venture capital firms in the board could, in fact, enhance the effectiveness of its monitoring role (Rosenstein, Bruno, Bygrave, & Taylor, 1993; Fried, Bruton, & Hisrich, 1998), providing professional competencies and skills that help to reduce conflicts (Gabrielsson & Huse, 2005). Within the same theoretical vein, it has been noted that managers of smaller companies tend to have more general knowledge and experience than large companies, where there is greater specialization in functions or processes (Preuss & Perschke, 2010), and they hold a rather informal and relationship-based management style.

In this sense, some scholars have pointed out that instead of a contractual type of governance (on which the agency theory is based), in SMEs, in particular, family based, informal relational governance prevails, focused on long term relationship and reciprocal trust with management (Mustakallio, Autio, & Zahra, 2002). In fact, control, rather than being based on contracts, incentives and formal monitoring systems, appears to be more based on "social" variables, such as relationships of trust, a vision of the company shared by all the shareholders and the entrepreneur's commitment towards the company itself (Uhlaner et al., 2007). In these cases, therefore, the agency theory does not help to explain the reasons why an entrepreneurial manager could pursue the interests of the company, even when their pursuing goes against personal interest. In this regard, other theoretical approaches are more useful, to which little space has been given in the corporate governance literature: in particular, stewardship theory (Donaldson & Davis, 1991) and paternalism (Huse, 2007), that consider managers as positive and trustworthy agents, motivated by altruistic feelings and sense of responsibility.

4.3. Ownership and control in Italy

Like many other countries of continental Europe, Italian corporate governance is primarily based on high ownership concentration, for both listed and unlisted companies, and dominance of the main shareholder, or a small group of shareholders with family ties (Consob, 2017; Melis, 2000). Separation between ownership, in terms of cash flow rights, and control is not achieved by a widely dispersed ownership, but mainly by means of a set of mechanisms created in order to enhance control, such as pyramidal groups, dual-class shares and shareholder agreements, reinforced by cross-ownership and interlocking directorates (Bebchuk et al., 2000; Faccio & Lang, 2002; Bianchi et al., 2001; Esposito De Falco, Cucari, & Di Franco, 2018), even if their use is declining over time.

All these instruments have allowed the growth of "capitalism without capital" and have permitted a stable control environment, with very few cases of hostile takeovers (Bianchi et al., 2001).

The use of these mechanisms is well known in other countries belonging to the "insider" corporate governance model (Franks & Mayer, 1997), but in Italy it is higher the degree of expropriation of minority shareholders and, consequently, controlling shareholders may extract a considerable amount of private benefits of control (Bigelli & Mengoli, 2004; Esposito De Falco, 2014, 2017).

Ownership of Italian listed firms is still highly concentrated, with almost 9 out of 10 firms controlled either by a single shareholder or by a shareholders' agreement (Consob, 2017).

As shown in Table 4.1, consistently with the limited contestability of control in the Italian market, the average stake held by the largest shareholder is 47,2% in 2017, substantially stable with respect to its 2010 value (46.2%) and also to the 1990 value (47.9%). Concentration began to drop in 1997, after the huge process of privatisation and the introduction of the Finance Consolidation Act, but the decreasing trend stopped after ten years and from 2010 onwards the stake of the largest shareholder has remained stable over 46%. In the last five years, instead, the average stake held by other shareholders (i.e. minority shareholders holding at least 2% of the capital with voting rights) has experienced a five percentage point decline, highlighting the diminishing role of the coalitions among shareholders.

Table 4.1. Average ownership concentration in Italian listed firms (% of total shares)

Shareholder type	***1990***	***2000***	***2010***	***2011***	***2012***	***2013***	***2014***	***2015***	***2016***	***2017***
Largest shareholder	47.9	44.0	46.2	46.1	46.8	46.8	46.0	46.7	46,9	47,2
Other relevant shareholders	11.4	9.4	17.7	17.6	16.8	16.5	16.5	15.0	12,8	12,1
Market (1)	40.7	46.6	36.1	36.3	36.4	36.7	37.5	38.3	40,3	40,6
Total	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*

Source: Consob (2018)

(1) *Market is defined as the sum of all holdings smaller than 2% of the capital*

The most widely-used mechanism to obtain control over a company with a limited capital investment is pyramidal groups. In Italy, these structures are very common, in particular among listed companies, even if their importance has decreased over time. Italian hierarchical groups are usually characterised by long control chains, although, in the last few years, financial globalisation, pressures from foreign institutional investors and financial difficulties of some groups, have forced controlling shareholders to simplify their group structures, reducing voting leverage and integrated ownership. The average leverage (calculated as the ratio between the units of capital controlled and the units of capital owned) has in fact passed from 3.5 in 1998 to 2.2 in 2011 and has further shortened to 1.7 in 2016 (Consob, 2017). Also, companies belonging to pyramids have dropped to 16.5% of the MTA Stock Exchange (slightly more than 44% of market capitalization) from nearly 39% scored in 1998 (78% in terms of capitalization) (Consob, 2017).

Shareholders' coalitions are also widely spread among Italian listed companies, even though, in the last few years, there has been evidence of a decrease in the use of such instruments (Consob, 2017): in 2010 shareholders' agreements were 51 and accounted for 12.4% of market capitalization, while in 2016 the number of companies declaring a voting block was only 29 (Table 4.2).

Coalitions may play a role similar to holding companies: an individual can gain control of a company having the majority of voting rights of the coalition. Indeed, coalition governance is probably more complex, considering the bonds of trust that exist among shareholders.

The importance of the shareholders' coalitions among listed companies has grown over time, but they have switched from formal shareholders' agreements to weak informal coalitions, where there is a main shareholder who owns stakes between 20% and 30%, and other minor shareholders, without a formal contract among the parties, as shown in Table 4.2. The weight of the firms with a weak form of control has reached 43.6% of total capitalization in 2016 (it was 21.8% in 1998), but this does not mean that these types of firms are characterized by diffuse ownership. Only 32 firms out of 230 in 2016 do not present evidence of control, and they account for 22.6% of the market.

In most of the listed firms (116 out of 230 in 2016), it is still present a shareholder with a majority stak[illegible]specially in smaller companies, as they account only for 27.2% of the total market capitalization.

Table 4.2. Control models of Italian listed firms

Year	*Majority control*		*"De facto" control (weak control)* [b]		*Formal coalition control*		*Not evidence of control*		*Total*	
	Number	*Weight* [a]	*Number*	*Weight*	*Number*	*Weight*	*Number*	*Weight*	*Number*	*Weight*
1998	122	31.2	33	21.8	28	8.3	33	38.7	216	100
2010	128	20.6	53	43.0	51	12.4	38	24.0	270	100
2011	123	22.3	55	45.8	48	12.0	34	19.9	260	100
2012	125	22.8	49	44.0	42	10.1	35	23.1	251	100
2013	122	24.1	48	40.1	38	10.4	36	25.4	244	100
2014	116	25.0	51	36.8	32	9.6	39	28.5	238	100
2015	115	28.1	52	34.8	30	6.0	37	31.1	234	100
2016	116	27.2	53	43.6	29	6.5	32	22.6	230	100

Source: Consob (2017)

(a) % of total market capitalisation

(b) Companies neither controlled by a shareholders' agreement nor majority controlled, included in one of the following categories: i) a single shareholder holds at least 30% of the ordinary shares; ii) a single shareholder holds a stake a) higher than 20% of the ordinary shares and b) higher than half of the sum of the ordinary shares held by all the major shareholders

Another instrument used to separate ownership and control is dual-class shares that means shares with fewer voting (or non-voting) rights than the others (savings or preference shares).

In Italy, their issue has been very common since their introduction in 1974: according to Faccio and Lang (2002), in fact, during the nineties, about 40% of Italian companies issued savings shares. However, their role as a means of separation between ownership and control began to drop afterwards (Bianchi, Bianco, Giacomelli, Pacces, & Trento, 2005): considering only listed companies, in fact, the number of firms issuing non-voting shares in the Stock Exchange has decreased from 104 in 1992, to 18 in 2016, while the weight of this type of shares on total shares, in 2016, was only 7.8% (42.6% in 1992) (Consob, 2017).

Also, loyalty and multiple voting shares are not so widespread among Italian listed firms, being issued only by few family-controlled companies. In this case, there is a publicly traded "inferior" class of stock with one vote per share and a non-publicly traded "superior" class of stock with more votes per share that is usually owned by family members.

4.4. Italian medium-sized firms: principal features

4.4.1. The main characteristics of Italian medium-sized firms

In order to define the typology "medium-sized firm", the European Union fixes some quantitative standards which must be reached: 50-249 employees, together with a turnover under 50 million euro and total assets under 43 million euro.

Mediobanca (an Italian research institute) defines, instead, medium-sized firms, as all the companies with employees between 50-499 and total turnover between 16 and 355 million euro (Mediobanca, 2017). Moreover, a medium-sized firm has to be independent, so it must not be controlled by large companies or international groups (Mediobanca, 2017). It is important to underline that Mediobanca analyses only medium-sized manufacturing firms, excluding service firms.

The prevailing most recent studies on Italian medium-sized firms have followed the criteria provided by Mediobanca and have shown how, in 2015, the number of medium-sized enterprises operating in manufacturing industries in Italy was 3,316 (Mediobanca, 2017).

As regards their localization, medium-sized firms operate mainly in the North West area (in particular Lombardia), North East and in some Regions of the Center of Italy. Medium-sized firms are also focused on particular industries, such as Made in Italy (Fortis, 2005; Esposito De Falco, 2008).

Due to the growing relevance of medium-sized firms in the Italian economic system, recent literature has focused the attention on their qualitative characteristics (Corbetta, 2000; Butera, 1998; ...on, 2001; Tunisini & Dalli, 2007; Varaldo, Dalli, Resciniti, & Tunisini, 2009; Butera & De Michelis, 2011).

These contributions have shown that most of them are dynamic and flexible firms, which operate in international markets and compete on high-quality market segments (Coltorti, 2008; Varaldo et al... 009). Several authors recognize in the cluster of medium-sized firms the paradigm of the Fourth Capitalism that is the new competitive source of success for the Italian system (Coltorti, 2008).

With regard to strategic orientation, medium-sized firms prefer to remain 'blind' leaders (Simon, 2001; Genco & Penco, 2012): international firms that assume a dominant market share tend, in fact, to limit the media exposure about their results in order to avoid the rivalry. Moreover, they are used to focus on narrow market niches and to operate in protected niches (Butera, 1998) ...ere the source of their competitive advantage is rarely externally revealed.

As concerns corporate governance, medium-sized firms show peculiarities in terms of ownership structure and board composition and functioning (Zahra, Neubaum, & Huse, 2000; Brunninge et al., 2007... ofumo, 2013).

These firms are characterised by a strong (and often family-based) entrepreneurial imprint coupled sometimes with external management (Corbetta, 2000; Grundei & Talaulicar, 2002; Gabrielsson & Huse, 2005; Gabrielsson, 2007): this leads to a concentration of the executive power which may drive towards a strong commitment in reaching family's or owner's primary goals (i.e. maintaining the control of the firm, offering employment opportunities to family members, dynastic management) (Corbetta, 2000; Tunisini & Dalli, 2007). Nonetheless, the pivotal role of ...repreneur/family in managing the company is accomplished by the growing relevance of professional managers in firms' strategic governance.

Focusing on the financial profile, academic literature clearly states the peculiar behaviour of medium-sized firms, which is characterised by a shortage of financial resources and by a prudential and traditional approach to funding sources (Corbetta, 2000).

As regards, instead, the organizational structure, medium-sized firms' approach to human resource management has had a considerable influence on the build-up of the success. The organizational flexibility and the relevance of human resources may, in fact, be considered as a source of competitive advantage (Butera & DeMichelis, 2011). Medium-sized firms frequently adopt a network organization, especially in the local system, but often enlarged at an international dimension.

4.4.2. The implications of the listing process

The literature on Italian medium-sized listed firms is still limited, nevertheless, the listing process tends to create new challenges for this typology of firms and relevant impacts on several profiles.

In terms of strategic choices, medium-sized listed firms show, as all listed firms, a strong orientation towards growth and corporate performance, both in the pre-IPO phase, in order to improve their track record, and in the post-IPO stage, in order to satisfy shareholders' expectations (Franzosi & Pellizzoni, 2005). Consequently, medium-sized listed firms tend to expand their market, implementing a "dynamic innovation" and entering global networks.

In order to accomplish their growth, the process of managerialization of the internal competencies is required in all functional areas (Rey & Varaldo, 2011). From the financial structure perspective, the listing process reduces the cost of debt, thanks to the greater reputation, the widening of external relations and the greater bargaining power that a listed firm gains.

Since the ownership structure is expanded to new investors, entrepreneurs and/or managers are subject to the judgment and sanction expressed by the financial performance on the stock market (Satta et al., 2015), together with the disclosure of information about strategic choices and governance. A listed firm usually: (i) provides a larger amount of mandatory information to investors; (ii) widens the type of communication instruments and (iii) increases the strategic orientation of its market disclosure. From an organisational viewpoint, listed enterprises have to establish dedicated investor relations departments (IR) assigned with specific economic/financial and relational competencies.

In terms of governance, listed firms must respond to an external request for control, transparency and ex-ante information in order to protect minority shareholders. In this vein, listed firms usually improve their governance practices, introducing independent outside directors, independent auditing structures and disclosure and remuneration committees.

As regards, instead, firm ownership structure, after the listing process, a decrease in ownership concentration is expected, although it is well known that in the Italian listed firms the decrease of ownership concentration tends to be counterbalanced by a set of mechanisms created in order to enhance control, such as pyramidal groups, dual-class shares and shareholder agreements (Bianchi et al., 2001; Faccio & Lang, 2002).

In view of these considerations, the analysis of the corporate governance features of medium-sized listed firms will be the focus of the empirical part of the chapter. In particular, aiming at responding to the two research questions, the analysis is addressed to better understand the ownership structure and composition of such type of firms and, more importantly, the different governance mechanisms used for separating ownership from control, considering that, to the best of our knowledge, no studies focused the attention on the implications of the listing process in the governance of a medium-sized firm.

4.5. Italian medium-sized listed firms: the sample

The dataset used in the present study has been gathered following a three-phase collection process, ensuring accuracy and consistency of the empirical findings.

Corporate governance and financial data were obtained from the Capital-IQ database. Capital-IQ database is a market intelligence platform designed by Standard & Poor's (S&P), widely used in many areas of corporate finance, including investment banking, equity research, asset management and corporate governance. In particular, we selected all the firms listed on the Milan Stock Exchange (Phase I).

We then applied the criteria proposed by Mediobanca (2017) for awarding the status of a medium-sized enterprise. Consistent with previous Italian authors (Tunisini & Bocconcelli, 2009; Morresi & Pezzi, 2012; Genco & Penco, 2012; Profumo, 2013) and international scholars (Pavitt, Robson, & Townsend, 1987; Perks, 2006), the above-criteria were preferred with respect to the parameters defined by the EU Commission. This choice is fully in line with the purpose of this article, whose theoretical angle is based on corporate governance issues; therefore, legislative and scale profiles related to firm size are deliberately left aside.

In particular, the sample was composed by the Italian listed firms which respected for at least 2 years the above parameters in the timeframe 2015-2017; after the financial and economic crisis, it is still present big volatility in many financial parameters of listed firms, so we preferred to be as inclusive as possible. Financial and banking firms and firms that went bankrupt in the selected timeframe have been excluded from the analysis to ensure data homogeneity and availability. We then arrived with a final sample of 69 firms that correspond to the universe of the Italian medium-sized listed firms (Phase II).

In order to complete missing values, data retrieved by Capital-IQ were cross-checked with information disclosed by firms in corporate annual reports and financial statements and by Consob and Borsa Italiana websites (Phase III), in which information on corporate governance is present.

Table 4.3 visualizes the most important features of the sample. The average annual revenues in the timeframe are nearly 80 million euro, total assets more than 155 million euro, while the average number of employees is 144.

Table 4.3. The sample

Year	***Total Revenues (average – million €)***	***Total Assets (average – million €)***
2015	78.0	155.1
2016	74.7	155.6
2017	80.2	165.4
Δ 2015-2017	3%	7%
Industry	***N. of medium-sized firms***	***%***
Health	4	5.8%
High tech	10	14.5%
Manufacturing	26	37.7%
Manufacturing (Agrifood)	2	2.9%
Real Estate	4	5.8%
Services	17	24.6%
Utilities/Energy	6	8.7%
Total	69	100.0%

Source: authors' elaboration on Capital-IQ – Standard & Poor's (S&P)

Regarding the industry, they belong to various sectors, including Health, High tech, Manufacturing and Agrifood, Real Estate, Services and Utilities/Energy. Most of them are focused on Manufacturing (37.7%), and in particular on specific activities linked to Made in Italy (e.g. Bialetti; Beghelli; Zucchi; Gruppo Ceramiche Ricchetti) and on Services.

4.6. Corporate governance features of Italian medium-sized listed firms

4.6.1. Ownership structure and composition

Following the limited contestability of control in the Italian market, the average stake held by the largest shareholder of medium-sized listed firms is rather high, even if slightly lower than the average of all Italian listed firms (Table 4.4). In particular, at the end of 2017, it was 44.93%, with an overall average of the market of 47.2%. The importance of the ultimate controlling agent is also stressed by the median value which is 50.06% and by the maximum stake that is nearly 90%.

A preliminary independent t-test analysis has been performed in order to identify the evidence of a statistically significant difference between the ownership structure of the mean of the population of medium-sized firms and the mean of the universe of Italian listed firms. The analysis has returned a p-value that is <0.05, demonstrating that such differences are significant.

Table 4.4. Ownership concentration of Italian medium-sized listed firms – 2017*

	Average	***Median***	***Max***	***Min***	***Average of all Italian listed firms***
Largest shareholding	44.93	50.06	89.67	0.104	47.2
Three largest shareholdings	58.01	65.67	92.23	0.113	n.a.

Source: S&P Capital IQ and Consob (2018)
(*) % on the total market capitalization

When we consider the sum of the three major shareholders, the average percentage is 58.01%, with a median of 65.67%: this means that in medium-sized listed firms other relevant shareholders are present, that help the ultimate owner to manage the company, or, at least, they possess a stake with whom they may control their interests. Ownership concentration is therefore very high, with only a few cases in which the largest shareholder owns a stake below 20% (13 companies out of 69).

In order to better understand ownership concentration and how control is exercised, it is useful to analyse the identity of the ultimate firm's owners. In medium-sized listed companies, a great role is played by private companies and individuals, while it is marginal the direct ownership of institutional investors, the State and listed companies.

Table 4.5. Ownership distribution of Italian medium-sized listed firms – 2017*

	Medium-sized listed firms (average %)	***Total Italian listed firms (average %)***
Institutional investors, in particular:	6.42	12.37
Venture Capital and Private Equity firms	*2.24*	*1.57*
Banks and investment banks	*0.12*	*0.45*
Listed companies	1.80	3.72
Private companies	36.37	23.02
Individuals	17.93	7.67
State/local authorities	1.01	1.52
Market	36.47	51.70
Total	100.00	100.00

Source: S&P Capital IQ

(*) % on the total market capitalization

As shown in Table 4.5, private companies and individuals are the main shareholders of medium-sized listed firms, holding directly respectively 36.37% and 17.93% of total capitalisation. These two types of the owner are the signs of the importance of family ties among medium-sized companies. The majority of the private companies are family holding companies with whom major shareholders retain the control on the listed companies, while the stakes of individuals belong to family members, often linked to the same surname. Private companies may also be seen as a mechanism with which families control groups of firms. Many listed companies are, in fact, controlled by unlisted companies: this is also the case of big listed groups controlled by family dynasties such as Fiat, Benetton, etc.

The comparison with the ultimate owners of the total Italian listed firms shows that such types of owners present an important role also in the larger aggregate, but in lower terms. At the end of 2017, private companies resulted to be the major shareholders also in the total listed firms, representing slightly more than 23% of the market, while individuals had on average only 7.67% of total capitalization. With the increase of corporate dimensions, the role of single individuals in the ownership drops, and the contestability of control becomes higher, due to the rise of institutional investors and dispersed ownership (market).

As regards institutional investors, in fact, medium-sized firms seem to not be able to attract a high interest: the stakes of such investors are only 6.42% of total capitalization. Their role is therefore very limited, even though the figures are probably underestimated because some of them belong to the market, owing to shareholdings smaller than 2% of capital. This is probably due to the governance features of such companies, and the high ownership concentration in particular, which allow a certain degree of expropriation of the minority shareholders rights.

The situation is slightly better for the entire market (average of total listed firms), where the stakes held by institutional investors are 12.37%, nearly twice the medium-sized aggregate. In this case, the shareholdings belonging to the market are more than 51%, whereas the market presents an average stake of 36.47% in the case of medium-sized firms. It is therefore evident that such type of companies holds a closer ownership structure which is not very appealing to institutional investors, especially operating at an international level.

Among such type of investors, the role of venture capital and private equity funds is predominant, confirming that most medium-sized listed firms are still in their first stages of development. Moreover, following the theoretical framework of the resource-based view of the firm, the presence of such investors in the board of directors could enhance the effectiveness of its monitoring role and the competencies of the board, with a positive impact on corporate performance (Rosenstein et al., 1993).

Financial institutions, such as banks and investment banks, instead, held approximately 0.12% of medium-sized firms' capitalisation. This low average stake is probably due to the fact that we decided to not include financial firms in the sample, as usually the participation of financial institutions is almost concentrated in other banks and insurance companies.

In Italy, banks are still reluctant to own firm's shares (and when it happens, it is probably related to companies' financial difficulties) and they are not used to offer companies financial support in the market for corporate control. Italian corporate governance system is a bank based one, but Italian banks are very different from the Hausbank model of the German system: the relationship between banks and firms is not as strong and exclusive and they tend to remain out of financial markets. Even when banks provide long-term capital to companies, their participation in firms' governance is almost absent.

Lastly, as regards State ownership, the average stake accounts only for 1.01%: the percentage is however mostly related to the presence in some medium-sized companies of high stakes of local authorities, such as in Acsm-Agam and Centrale del Latte d'Italia. Also in the case of total listed firms, the State seems no longer a relevant shareholder: the huge process of privatization has indeed increased the role of other shareholders. However, the State or local authorities retain the control of 21 companies, mainly active in the service sectors and in companies with a large capitalization (Consob, 2017).

4.6.2. Control enhancing mechanisms

Considering the high level of ownership concentration and the presence of firms' large shareholders, the separation between ownership and control in medium-sized listed firms is achieved mainly by means of a set of mechanisms created in order to enhance control. Firm's ultimate owners may, in fact, use different instruments for separating ownership from control, causing a significant wedge between their voting and cash-flow rights, such as pyramiding groups and shareholders' agreements, usually used by families, as well as dual-class shares.

As already seen, the recourse to control enhancing mechanisms, such as pyramids and dual-class shares, has kept decreasing over time for the Italian listed companies (Consob, 2017), but this decreasing process seems less evident for medium-sized firms.

The large stake held by private companies (36.37%) may be seen as a sign of the importance of groups of firms. Pyramiding groups "enable shareholders to maintain control throughout multiple tiers of ownership while sharing the cash flow rights with other (minority) shareholders at each intermediate ownership tier" (Goergen, Manjon, & Renneboog, 2004), so they are instruments for obtaining control over the greatest amount of assets with the smallest capital investment. In this sense, they have been mainly used by the principal actors of Italian "capitalism without capital" (Bianchi et al., 2001) [illegible]milies. It is therefore not surprising that in the case of medium-sized firms that are largely owned by individuals belonging to a family, such a mechanism is still rather diffuse.

Shareholders' agreements are the other relevant mechanism used by medium-sized listed companies, as reported in Table 4.6. Such instruments enable shareholders to exert a much higher degree of control on a company as a group of shareholders than as single individuals, especially when a formal contract among the different shareholders exists.

Table 4.6. Control models of Italian medium-sized listed firms – 2017

	Number of firms	*% (medium-sized firms)*	*% (total Italian listed firms)*
Majority control	31	44.93	27.2
Weak control	7	10.14	43.6
Formal coalition control	12	17.39	6.5
Not evidence of control	19	27.54	22.6*
Total	69	100.00	100.00

Source: S&P Capital IQ and Consob (2018)
(*) In this control model Consob included also cooperative companies

While it is evident an ongoing decline of the formal coalition form of control for the total Italian listed firms (only 6.5% of the total listed companies are controlled by a formal coalition), in 2017 more than 17% of medium-sized firms presented a formal coalition among the main shareholders (12 firms). In most of the cases, the coalitions are necessary for obtaining the majority of the stakes, but in few companies, the major shareholder presents a shareholding above 50% of total capitalization, being the "pivot" member of the coalition. In these cases, the agreement among the parties is not devoted to obtaining the majority of the voting rights, but a mass of not hostile minority shareholders or the "consensus" of other family members.

This is confirmed from the analysis of the principal characteristics of the formal shareholders' agreements (Table 4.7): 6 out of 12 coalitions are not voting trusts, but agreements that block the sale of shares to hostile or not appreciated investors. The average percentage of syndicated shares on total firm's capitalization is therefore very high (63.15%) in these types of agreements, as the main shareholder does not need to reach the majority of stakes. Such percentage is even higher in case of global agreements which regulate voting rights and shares' sale (83.57%). The pivotal shareholder who owns the main shareholding in the block and global coalitions, on average, retains more than 45% of outstanding shares, assuming an influential role in the coalition. Such role is minor in voting agreements, where the main shareholding is on average 25.42%.

Informal coalitions among shareholders are, instead, less frequent than in total listed firms. The weak control model is present only in 10.14% medium-sized firms, against 43.6% of the total aggregate (Table 4.6). This latter presents a trend towards "more open" forms of control that is also confirmed by the decreasing role of companies controlled with percentages of shares over 50% (majority control), while medium-sized firms present in the 44.93% of cases close ownership, with very low levels of contestability.

Table 4.7. Principal characteristics of shareholders' agreements of Italian medium-sized listed firms – 2017

Type of shareholders' agreement	*Number*	*No. Shareholders (average)*	*Syndicated shares**	*Main shareholding**
Vote	2	2.50	33.41	25.42
Block	6	2.67	63.15	45.60
Global	4	5.50	83.57	46.69
Total	12	3.58	65.00	42.60

Source: Consob website
(*) % on total market capitalization

4.7. Conclusions

The chapter tries to extend current knowledge on the corporate governance features of medium-sized listed firms, focusing the attention on the ownership structure and composition of a sample of Italian firms, together with the control enhancing mechanisms used for separating ownership from control. Such type of companies seems, in fact, to have received minor attention, despite the importance acknowledged by governments to smaller companies in the development of local economies, especially in those countries (for example in the non-Anglo Saxon context, Italy and Spain) characterized by widespread entrepreneurship.

Data from 69 medium-sized listed firms showed, responding to the first research question, that ownership is still highly concentrated, even after the listing process. In the majority of the companies, an ultimate shareholder who controls on average nearly 50% of the shareholding is present. Moreover, his position is reinforced by other relevant shareholders that often are included in a formal shareholders' agreement. In particular, in 31 cases control rests on a single shareholder, holding more than half of the ordinary shares, while in 12 cases a shareholders' agreement is in force; the contestability of control is therefore very limited.

The ultimate controlling agent keeps being a private company in the majority of medium-sized listed firms, which together with "individuals" is the sign of the role of families in the ownership structure of such firms. On the contrary, they seem to not be able to attract institutional investors that are probably afraid of the emerging of private benefits of control, following an agency theory perspective. Among institutional investors, a certain role is however performed by venture capitalists and private equity funds, which may enhance the effectiveness of the monitoring role and the competencies of the board.

As regards the second research question, it has been evident that the principal instruments used for enhancing control are pyramidal groups and shareholders' agreement. Coalitions are sometimes necessary for obtaining the majority of the stakes, but in few companies, as the major shareholder already presents a shareholding above 50% of total capitalization, the agreement among the parties is aimed at building a block of not hostile minority shareholders or the "consensus" of other family members.

The chapter provides insights useful for both scholars and practitioners. Concerning academic implications, the chapter develops corporate governance literature on smaller firms which is not so widespread among scholars and SMEs literature, focusing on a neglected area of research: medium-sized firms.

The study has also some implications for governments and local authorities or financial market regulators, as it emerges that the listing process of such companies does not create more open ownership structures, which are appealing for institutional investors.

Despite these contributions, the chapter still suffers some inherent limitations. In particular, the analysis is focused on a single year and on a single country; future studies should develop longitudinal analyses and enlarge the sample to companies belonging to other countries, in order to build comparative studies.

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