FAMILY ITALIAN LISTED FIRMS: COMPARISON IN PERFORMANCES AND IDENTIFICATION OF TWO MAIN CONFIGURATIONS

Track 14: Corporate Governance, Strategy and Performance

1. Introduction

As someone affirms, the economy of the countries around the world keeps to be dominated by family firms, especially in Europe, Asia and Latin America and for this reason the importance of family firms in the economic and social environment and, consequently, in the literature is duly recognized (Astrachan and Shanker, 2003; Claessens, Djankov and Lang, 2000; Faccio and Lang, 2002; La Porta, Lopez-de-Silanes and Shleifer, 1999; Morck & Yeung, 2004).

In the studies about family firms, a relevant issue of the last twenty years concerns the corporate governance, with a particular focus on the relationship between the owners, the board of directors, and the CEOs (Keasey et al., 2005; Monks and Minow, 2004) and on the confluence between family and business (Neubauer & Alden, 1998). Different theories are usually adopted, as the Agency Theory, the Contingent Approach, the Life-cycle Approach, the Stewardship Theory and the Social Capital, in order to investigate the relation between the corporate governance and the performances (Vighneswara, 2011). In particular, the attention is focused on the composition of the board of directors and its influence on performances, even if it is not sufficiently clear how board composition affects firm performances.

Our article compares the performances of the Family Firms (FF) with the ones achieved by the Not Family Firms (NFF), considering the family as a relevant variable in managing the efficiency and the effectiveness of the business. Dyer (2006) refers to the family as "the missing variable in organizational research" and he warns that "failing to use the family as a variable in organizational research can lead to incomplete or misleading findings" (Speckbacher and Wentges, 2007). In particular, after distinguishing Italian listed FF on one side and Italian listed NFF on the other, having considered the board composition and the ownership articulation, we compared the economic and financial results achieved by the two groups, in order to understand if there was a relevant difference and which were the causes.

Consequently, the main goal of this study is underling the importance of the family variable in the effects on performance (Miller, Le Breton-Miller, Lester and Cannella, 2007). This topic is particularly significant in Italy, because the family firms phenomenon is widespread in our Country, as well in Europe, in which "the context is characterized by high ownership concentration and the presence of family groups that remain in control of a significant number of firms, in contrast to the less amenable American and Anglo-Saxon markets" (Garcìa-Ramos, Garcìa-Olalla, 2011).

Furthermore, another goal of the article, strictly correlated to the previous one, is to verify if there is a distinction within the FF, in terms of organizational and institutional features, considering the different economic and financial performances. In particular, we were interested in understanding if the size of the companies, expressed in terms of i) number of employees, ii) assets quantified in the balance sheet and iii) revenues measured in the income statement, was a proxy variable of the complexity of the firm, and for this reason a significant element to be considered in addition to the presence of the family in the board. This is due to the fact that we observed how in the Italian stock market the FF listed in the FTSE MIB index (large capitalized companies) achieved different financial performances then the ones listed in the STAR index (medium capitalized companies).

This article has the following structure. In the second paragraph the theoretical background about the FF is analyzed, with particular attention to the main issues of our paper. In the third paragraph the research method is outlined, as well as a description of the sample. In the fourth paragraph the findings and the discussion of the results are presented. Finally, in the fifth paragraph, conclusions and implications of the study are given with the limitations of the research.

2. Theoretical background

2.1 Defining family firms

Family firms play an important role in economic activities worldwide and contribute to creating wealth and jobs, with reference to both narrow and broad definitions of family business (Astrachan and Shanker, 2003). The quantification of family businesses in the United States and Europe is the subject of several studies (Colli, Perez and Rose, 2003; Corbetta, 1995; Larner, 1970; Neubauer and Lank, 1998; Shanker and Astrachan, 1996; Sluyterman and Winkelman, 1993) and in the last years increasing attention have been given to family

businesses. Several recent studies have reported and stressed that in Continental Europe, Asia, and Latin America the vast majority of publicly traded businesses are family controlled (Claessens, Djankov and Lang, 2000; Faccio and Lang, 2002; Garcìa-Ramos, Garcìa-Olalla, 2011; La Porta, Lopez-de-Silanes and Shleifer, 1999).

A family business is often defined as the initial phase of the process of constitution of a company, that involves about one or two generations before becoming a public company. However, it is not that easy to find a definition for the expression "family business", and ambiguities persist in the literature. The editorial note of the first issue of *Family Business Review* asks: "What is a family business?" (Lansberg, Perrow and Rogolsky, 1988). People seem to understand which is meant by these words, but when they try to give a precise definition, they quickly discover that the phenomenon is indeed very complex (Hoy and Verser, 1994). The question continues to be asked because in the literature several different definitions are given for family business, also because different criteria were used to classify family firms. In particular, following the criterion about ownership and control, these are the possible definitions:

- a family business is a "firm in which significant voting rights or ownership is controlled by a member or members of a single family" (Barnes and Herson, 1976);
- it is possible to define a firm like family when the share of capital is owned by a single family (Alcon, 1982; Lansberg, Perrow and Rogolsky, 1988);
- in a family business, one or more families having kinship or similar ties are the owners of the full risk contributed capital (Ferrero, 1980);
- in a family business, one or more families linked by kinship or similar ties or by strong alliances contribute with full or limited risk capital, personal or collateral guarantees or managerial skills; these families own a full risk capital share that entitles it to controlling the business even without the absolute majority of the capital (Corbetta and Dematté, 1993).

If the criterion used to define the family business is the number of family members involved in its management, criterion emphasised even in recent times (Di Mascio, 2008), these are the possible definition:

- a family business must be owned and managed by members belonging to one or more families (Stern, 1986);
- in a family firm there must be at least two family's generations involved in its management (Ward, 1988), also with the aim of conveying managerial skills to the next generation (Churchill and Hatten, 1987).

In recent years, the definitions for family business have been based on a mix of criteria related to the ownership and control (Smyrnios, Romano and Tanewski, 1998).

According to other authors, an enterprise is classified as a family business if (Chua, Chrisman and Sharma, 1999): i) at least 50 per cent of the shares are owned by the family, and the family is responsible for the management of the company, ii) or at least 50 per cent of the shares are owned by the family, the enterprise is not family-run, but the CEO perceives it as a family business, iii) or family ownership is less than 50 per cent, the company is family-run, the CEO perceives it as a family business and a venture capital or investment company owns at least 50 per cent of the shares.

In our work we used a mix criterion in order to identify the family business sample, that is:

- a control participation in the capital by the family/ies;
- the presence in the Board of at least one family member.

Our criterion well reflects the Italian context.

Independently by the criteria chosen, in all definitions there is an evident interaction between the family, considered as an entity, its members and the activities performed by the business (Miglietta, 2009).

The relations between family and enterprise are determinant for the firm survival and to the value creation: the family has as its main goal the maintenance and support of its members, and this is the reason the family invests its own resources in the business activities, based on entrepreneurial values (Bertini, 1995; Catturi, 1995; Coda, 1988; Sorci, 1986; Vergara, 1986), which are also inspired by tradition, unity and affection (Salvato, 2002; Ward, 1997). Both the family and the business are motivated by a series of shared values, among which there are the continuity of the economic activity (Coda, 1988; Giannessi, 1960; Onida, 1954; Zappa, 1957) and the value creation (Catuogno, 2006; Cuccurullo, 2006; Tiscini, 2006).

2.2 Family firms performance

The literature also focused on the analysis of the performance achieved by the family businesses.

Relevant studies conducted in the US show that publicly traded FF have higher Tobin's q values and higher return on assets than comparable NFF (Anderson and Reeb, 2003;Villalonga and Amit, 2004), demonstrating also that family ownership reduces the classical agency problem between managers and shareholders.

In addition, Anderson and Reeb (2003) find a positive effect associated with family ownership that starts to taper off at around 30% of ownership, and Villalonga and Amit (2004) find higher valuation of FF when the founder serves as CEO or as Chairman of the board.

Analysing the results obtained by Anderson and Reeb (2003), it emerges that FF outperform than NFF in the ROA, in particular the economic performance of large listed family businesses is higher than the economic performance of public non-family companies; in addition, the performance achieved by medium sized family businesses, both listed and non-listed, are higher if compared with non-family companies of the same size (Culasso, Broccardo, Giacosa and Mazzoleni, 2012).

Anderson and Reeb (2003) underline also that the relation between family ownership in large public firms and firm performance is not uniform across all levels of family ownership, in particular when families have the greatest control of the firm, the potential for entrenchment and poor performance is the greatest.

In contrast with the previous theory other studies have shown that the presence of a family in the ownership affects negatively business performance (Faccio, Lang and Young, 2001; Volpin, 2002). In particular Faccio et al. suggest that the problems of the firms analysed, East Asian firms, are related to corporate governance and to the political-regulatory environment.

In addition, some authors have asserted the neutrality of family ownership to economic performance, in absolute terms or in terms related to the share of capital held by the family (Sciascia and Mazzola, 2008).

In the literature it is possible to find also some studies that have focused the attention on the differences among performances between family companies led by their founders and FF not led by their founders (Adams, Almeida and Ferriera, 2003; Barontini and Caprio, 2006; Cucculelli and Micucci, 2008; Garcìa-Ramos, Garcìa-Olalla, 2011; Villalonga and Amit, 2006), while other researches focused on the analysis of the performance achieved by family businesses being in their second or third generation, observing a destruction of value (Pérez-Gonzàlez, 2001; Villalonga and Amit, 2006).

Another aspect analysed in some studies about family firms and performance is the size. A study conducted in Taiwan examining 786 public family firms (Chu Wenyi, 2011), besides to underline that family ownership is positively associated with firm performance and that this positive association is strong particularly when family members serve as CEOs, shows that the association between family ownership and firm performance is stronger in small- and medium-sized enterprises (SMEs) than in large companies.

In this direction another study (Gonzalez, Guzman, Pombo, Trujillo, 2012) examined 523 listed and non – listed Colombian firms. This research shows that FF exhibit better financial performance on average than NFF when the founder is still involved in operations, although this effect decreases with firm size, suggesting that some kinds of family involvement appear to make firm growth expensive.

3. Methodology

3.1. The sample

We considered a sample of companies listed on the Italian stock market, included in the FTSE MIB and STAR indexes. FTSE MIB is the main benchmark index of the Italian stock market and it captures about 80% of the domestic market capitalization. FTSE MIB measures the performance of 40 large capitalized Italian primary and with high liquidity companies and it seeks to replicate the broad sector weights of the Italian stock market. STAR index, instead, is dedicated to 67 medium capitalized companies of the Italian stock market, having market capitalization between 40 million and 1 billion of Euro and respecting the followings features: i) high transparency and communicativeness, ii) high liquidity (no less than 35% of float), iii) Corporate Governance aligned to the international standards.

Our aim, in considering this sample, was to test the following research questions in companies that represent the Italian excellence, both large capitalized companies (FTSE MIB) and medium ones (STAR). We also analyzed separately the first sample (FTSE MIB) and the second one (STAR), in order to verify if there was a relation between the capitalization and the performances.

Considering the sample of listed Italian firms of the FTSE MIB and STAR indexes, we excluded banks, insurance and other financial companies, as we wanted focusing on the industrial sector in order to achieve a satisfactory homogeneity. We also eliminated foreign industrial listed companies, as we focused our attention on Italian firms. The number of companies finally selected is equal to 80.

In our work we used a mix criterion with the purpose of distinguishing FF and NFF. Our criterion well reflects the Italian context. In particular, a FF is a company that has:
- a control participation in the capital by the family/ies;
- the presence in the Board of at least one family member.

In order to distinguish FF and NFF, we used data included in the "Corporate Governance Report" of each company published on the "Borsa Italiana" website.

Using this criterion, it emerges that the 80 companies of the sample are articulated in 55 FF and in 25 NFF, as shown in the following chart (Chart 1).

Chart 1. The sample

	Family Firms	Not Family Firms		FTSE MIB Family Firms	FTSE MIB Not Family Firms		STAR Family Firms	STAR Not Family Firms
Companies (No)	55	25		13	14		42	11
Companies (%)	68,75%	31,25%		48,15%	51,85%		79,25%	20,75%

Source: personal elaboration

It is interesting to observe as in the Italian Stock Exchange about 68,75% of FTSE MIB and STAR companies are FF. In the FTSE MIB index, that comprises large-capitalized companies, is about 48,15%, while in the STAR index, that comprises medium-capitalized companies, the FF are the 79,25%.

3.2. The research method

The main goal of this study is to analyze the relationship between the presence of a family in the board of a firm and its performances, distinguishing the listed Italian FF and the listed Italian NFF. Indeed, our hypothesis (H1) was that the presence of a family is an important factor in the effects on performances of a company.

H1: the family is a relevant variable that influences the firm performances

To reach the declared goal and to verify H1, a first research question was formulated (RQ1).

RQ1: Do the FF outperform in comparison with NFF? Are there some relevant differences between FTSE MIB companies and STAR ones?

To answer the RQ1, the mean of each financial and economic ratio achieved by the companies of the sample, considered for every financial year covered by the research, was determined. The source of the data was AIDA database. The last 6 years (2006-2011) were the period considered by the analysis. Subsequently, we calculated:

- the 2006-2011 mean for each ratio;
- the 2006-2011 median for each ratio;
- the 2006-2011 standard deviation for each ratio.

Then, economic and financial performances were compared between FF and NFF. In particular, we first considered all the companies listed in the FTSE MIB and in the STAR indexes. Subsequently, the analysis compared the FF with the NFF respectively in the FTSE MIB and in the STAR index.

Considered the findings collected by answering to the RQ1, and in particular the information concerning the economic indicators, we observed that in the FTSE MIB index the NFF outperform than the FF, whilst in the STAR index it happens exactly the opposite. This element suggested us to formulate an important assumption and a correlated new hypothesis that was proud to be verified.

The *main assumption* was that there are two kinds of FF, the ones listed on the high capitalization index (FTSE MIB) and the others listed on the medium capitalized index (STAR), to which correspond two different organizational configurations.

The hypothesis (H2) was that, if the capitalization is positively correlated with the size, expressed in terms of i) number of employees, ii) assets quantified in the balance sheet and iii) revenues measured in the income statement, the presence of a family in the business is a relevant variable to achieve higher *economic performances* than NFF, *only* when the *size* of the company is not large. Indeed, the size of a company could be considered as a proxy of the complexity/diversification of the business, and influences the effects of the actions of the family in the company. If this H2 is verified, we'll be able to affirm that, when the FF have a not-large size, they outperform in economic results than the NFF with the same size, whilst, when the FF have a large size, they underperform in comparison with NFF with the same size.

In addition, about *financial performances*, the presence of a family in the business is a relevant variable to achieve higher results than NFF, *independently* by the *size* of the company (always positively correlated with the capitalization). Indeed, FF outperform than NFF in all financial ratios, both in FTSE MIB and in STAR index, with the exception of the debt ratio in the FTSE index. In any case, this exception could confirm our main assumption about the existence of two configurations of FF and, in particular, it seems that FTSE MIB FF have specific financial requirements related to their business, covered by financial debts more than STAR FF and FTSE MIB NFF. At the same time, the size of the company seems to be a relevant variable, which influences FF *financial performance*. Indeed, STAR FF outperform then FTSE MIB FF, while this evidence is not true for NFF

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(all financial ratios of FTSE MIB NFF are better than STAR NFF, with the exception of fixed assets coverage ratio, and the specificity of the debt ratio that is equal in the two indexes).

H2: the size is a relevant variable in distinguishing the FF in two main configurations, with different economic and financial performances (debt ratio) in comparison to NFF with the same size and to FF of other size.

In order to demonstrate this hypothesis, we expressed RQ2.

RQ2: Is there a correlation between the capitalization of a firm and its size expressed in terms of i) number of employees, ii) assets quantified in the balance sheet and iii) revenues measured in the income statement *? If yes, how does the size influence the economic and financial performances of FF?*

The aim of this question was to verify the existence of a positive correlation between capitalization and size, that permits us to understand the findings of the RQ1 as caused by the size and not only by the belonging of the companies to a specific index, with a particular capitalization (FTSE MIB with large capitalized companies and STAR with medium capitalized ones), also supported by the studies conducted in Taiwan (2011) and Colombia (2012), that reveal a stronger relationship between family ownership and firm performance in small and medium size enterprises than in large FF.

In particular, the Pearson correlation ratio was used to identify a positive or a negative correlation between capitalization and size. The source of the capitalization data was "Borsa Italiana" website and the source of the size parameters was AIDA database.

Due to the fact that we have adopted the Pearson correlation ratio (p) to verify our hypotheses, it is important to underline that:
- if $p > 0$ there is a direct correlation;
- if $p = 0$ there is no correlation;
- if $p < 0$ there is a indirect correlation;
- if $0 < p < 0,3$ the correlation is weak;
- if $0,3 < p < 0,7$ the correlation is moderate;
- if $p > 0,7$ the correlation is strong.

4. Findings

4.1. RQ1

About the *RQ1* "*Do the FF outperform in comparison with NFF? Are there some relevant differences between FTSE MIB companies and STAR ones?*", we compared the most significant economic and financial parameters between FF and NFF, in general and within each index (FTSE MIB and STAR), as showed in the following.

4.1.1 Economic results

Considering the economic indicators, the following ratios supported by literature (Baginski and Hassel, 2004; Ferrero, Dezzani, Pisoni and Puddu, 2003; Foster, 1986; Giroux, 2003; Helfert, 1997; Higgins, 2007; Ingram, Albright and Baldwin, 2002; Meigs, Williams, Haka and Bettner, 2001; Value, 2001) were adopted:
- ROA (Return on Assets);
- ROI (Return on Investment);
- ROS (Return on Sales);
- ROE (Return on Equity).

In the following chart, the economic performances between FF and NFF were compared (Chart 2).

Chart 2. Economic performance in FF and NFF

|	Family Firms	Not Family Firms
Companies (No)	**55**	**25**
Companies (%)	**68,75%**	**31,25%**
Roa 2006	9,52	7,09
Roa 2007	9,50	7,24
Roa 2008	7,74	5,88
Roa 2009	3,87	5,74
Roa 2010	5,80	6,11
Roa 2011	5,56	5,20
Roa - mean (2006-2011)	**7,00**	**6,21**
Roa - median (2006-2011)	**6,77**	**5,99**
Roa - standard deviation (2006-2011)	**2,30**	**0,80**
Roi 2006	12,60	7,39
Roi 2007	13,43	9,45
Roi 2008	11,33	10,21
Roi 2009	6,04	6,99
Roi 2010	8,75	8,02
Roi 2011	7,54	9,37
Roi - mean (2006-2011)	**9,95**	**8,57**
Roi - median (2006-2011)	**10,04**	**8,70**
Roi - standard deviation (2006-2011)	**2,95**	**1,29**
Ros 2006	10,53	7,38
Ros 2007	10,44	9,14
Ros 2008	8,67	5,84
Ros 2009	4,63	6,23
Ros 2010	7,57	8,30
Ros 2011	7,01	6,46
Ros - mean (2006-2011)	**8,14**	**7,23**
Ros - median (2006-2011)	**8,12**	**6,92**
Ros - standard deviation (2006-2011)	**2,25**	**1,29**
Roe 2006	11,06	12,91
Roe 2007	12,38	12,63
Roe 2008	9,51	10,14
Roe 2009	2,39	8,62
Roe 2010	7,06	7,64
Roe 2011	8,48	2,99
Roe - mean (2006-2011)	**8,48**	**9,15**
Roe - median (2006-2011)	**8,99**	**9,38**
Roe - standard deviation (2006-2011)	**3,52**	**3,68**

Source: own elaboration based on AIDA database.

Evaluating the *economic performance,* and in particular considering the mean of each ratio (whose trend is confirmed by the median), it's clear that:
- NFF outperform in the ROE (9,15%) compared with FF (8,48%), due to the leverage effect of debt ratio, as it is confirmed in the following financial analysis;
- FF outperform in the core business, how ROI shows (9,95%), compared with NFF (8,57%). In addition, FF excel in ROS (8,14%) compared with NFF (7,23%), and in ROA (7,00%) compared with NFF (6,21%).

The following graph (Graph 1) underlines the behavior of the different parameters.

Graph 1 - Economic ratios trends in FF and NFF
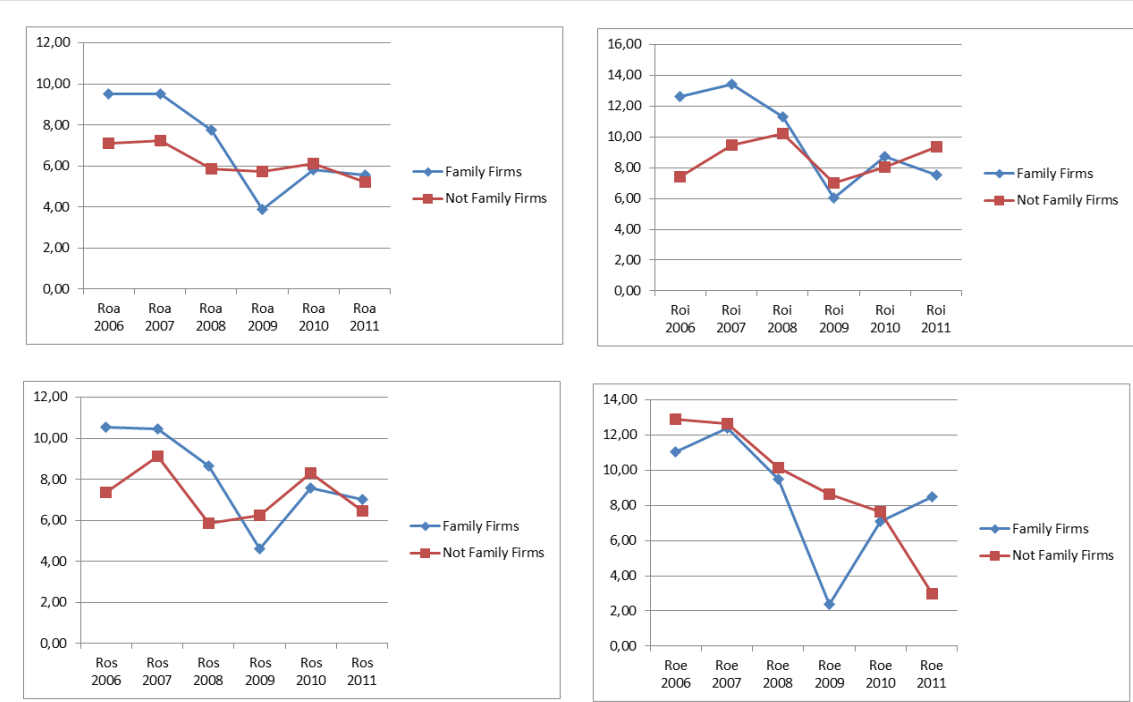
Source: own elaboration based on AIDA database.

In particular, a decreasing trend during the 2007-2009 period for FF can be observed, more evident in 2008. If we analyse the average of the six years, ROE is higher in NFF, even if there has been a reduction in 2011. ROA, ROI and ROS are better in FF, in particular these companies excel in ROI ratio, despite the evident drop in 2009.

The median along the six years is aligned to the mean, even if the difference between FF and NFF is always greater.

We also calculated the standard deviation and verified it is much greater for FF in the case of ROA, ROI and ROS: therefore, it demonstrates a not steady trend in comparison with NFF.

We also compared in terms of economic performance FF and NFF included in the two different indexes taken into consideration, the FTSE MIB and the STAR index, how the following chart shows (Chart 3).

Chart 3. Economic performance in FF and NFF within FTSE MIB and STAR

	FTSE MIB Family Firms	FTSE MIB Not Family Firms	STAR Family Firms	STAR Not Family Firms
Companies (No)	13	14	42	11
Companies (%)	48,15%	51,85%	79,25%	20,75%
Roa 2006	10,46	10,00	9,33	4,63
Roa 2007	10,69	10,58	9,23	4,41
Roa 2008	9,18	10,64	7,39	1,46
Roa 2009	6,36	9,95	3,24	1,84
Roa 2010	6,51	8,96	5,62	3,25
Roa 2011	8,06	6,32	4,78	3,78
Roa - mean (2006-2011)	**8,54**	**9,41**	**6,60**	**3,23**
Roa - median (2006-2011)	**8,62**	**9,98**	**6,51**	**3,52**
Roa - standard deviation (2006-2011)	**1,89**	**1,63**	**2,47**	**1,32**
Roi 2006	15,93	11,69	11,82	4,26
Roi 2007	16,67	16,31	12,59	3,83
Roi 2008	13,26	16,34	10,90	4,59
Roi 2009	8,80	12,82	5,32	2,06
Roi 2010	9,30	12,26	8,60	4,44
Roi 2011	9,93	10,96	6,82	7,36
Roi - mean (2006-2011)	**12,32**	**13,40**	**9,34**	**4,42**
Roi - median (2006-2011)	**11,60**	**12,54**	**9,75**	**4,35**
Roi - standard deviation (2006-2011)	**3,47**	**2,35**	**2,91**	**1,71**
Ros 2006	14,92	15,42	9,60	0,80
Ros 2007	13,94	16,25	9,68	3,81
Ros 2008	12,70	14,64	7,78	-1,60
Ros 2009	9,36	13,27	3,53	0,81
Ros 2010	11,08	13,67	6,61	3,75
Ros 2011	11,87	8,55	5,43	4,17
Ros - mean (2006-2011)	**12,31**	**13,63**	**7,10**	**1,96**
Ros - median (2006-2011)	**12,28**	**14,15**	**7,20**	**2,28**
Ros - standard deviation (2006-2011)	**2,00**	**2,72**	**2,42**	**2,32**
Roe 2006	12,07	17,55	10,85	8,98
Roe 2007	16,58	20,07	11,38	6,33
Roe 2008	14,54	20,93	8,28	0,11
Roe 2009	6,67	17,55	1,30	0,32
Roe 2010	9,89	14,15	6,32	1,12
Roe 2011	15,50	2,04	6,25	4,20
Roe - mean (2006-2011)	**12,54**	**15,38**	**7,40**	**3,51**
Roe - median (2006-2011)	**13,31**	**17,55**	**7,30**	**2,66**
Roe - standard deviation (2006-2011)	**3,76**	**6,95**	**3,70**	**3,63**

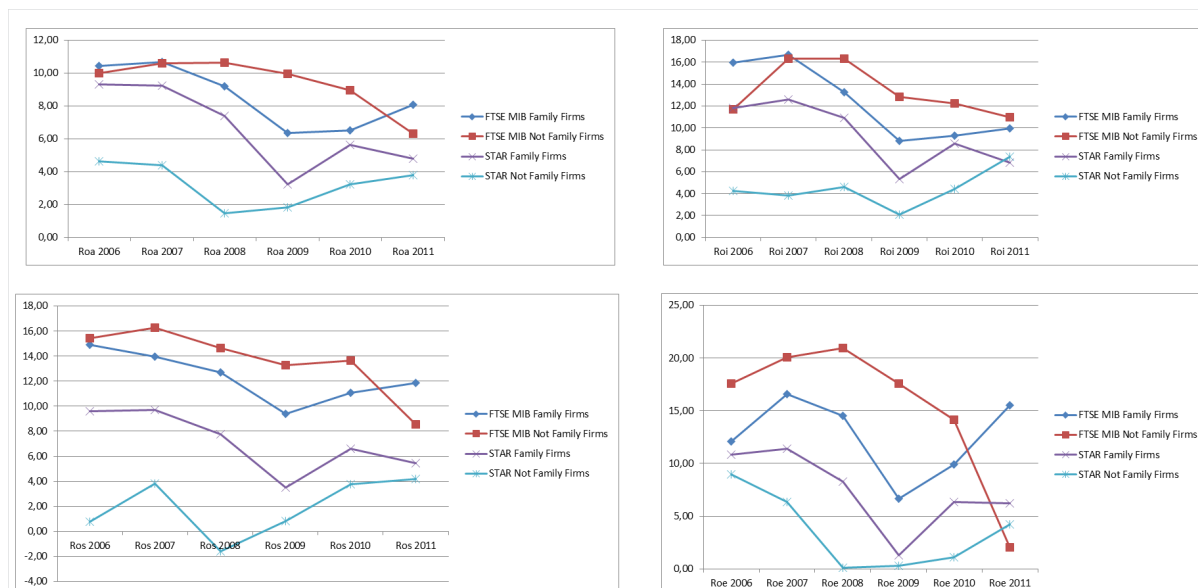Source: own elaboration based on AIDA database.

Focusing the attention on the mean of each indicator of the previous chart (whose trend is confirmed by the median), it is evident that:
- on one side, NFF in FTSE MIB outperform in the ROE (15,38%), ROI (13,40%), ROA (9,41%) and ROS (13,63%) compared with FF, that is, the economic indicators of NFF are better than the FF;
- on the other side, FF in STAR outperform in the ROE (7,40%), ROA (6,60%), ROI (9,34%) and ROS (7,10%) compared with NFF, that is, the economic indicators of FF are better than the NFF.

It can be useful to observe the behaviors of the economic parameters, comparing FTSE MIB and STAR, looking at the following graph (Graph 2).

Graph 2 - Economic ratios trends in FF and NFF: FTSE MIB and STAR companies comparison

Source: own elaboration based on AIDA database.

Synthesizing, it is possible to observe an outperformance of the FTSE MIB firms in comparison with the STAR ones, in all the economic ratios, also if the trend is decreasing, both for FF and for NFF. This is a confirmation of the existence of the relation between the economic fundamentals and the capitalization of the company, that is, the higher the capitalization the higher the profitability.

Furthermore, we observed that in the STAR index the FF outperform in the economic ratios than the NFF, whilst in the FTSE MIB NFF outperform than the FF.

Concluding about economic performance, it is possible to affirm that:
- FF outperform in the core business (ROI and ROS) and in the return on assets (ROA), whilst the NFF outperform in the return of equity (ROE);
- FTSE MIB companies outperform than STAR ones;
- FTSE MIB NFF outperform than FTSE MIB FF;
- STAR FF outperform than STAR NFF.

It's also interesting to underline the performances variation into the considered period: in general, in 2009 the effects of companies' crisis situation are more evident in all economic ratios.

4.1.2. Financial results

Considering the financial ratios, the following parameters supported by literature (Baginski and Hassel, 2004; Ferrero, Dezzani, Pisoni and Puddu, 2003; Giroux, 2003; Foster, 1986; Helfert, 1997; Higgins, 2007; Ingram, Albright and Baldwin, 2002; Meigs, Williams, Haka and Bettner, 2001; Value, 2001) were analyzed:
- liquidity ratio;
- current ratio;
- debt ratio;
- fixed asset coverage ratio.

We compared financial performance between FF and NFF (Chart 4).

Chart 4. Financial performance in FF and NFF

|	Family Firms	Not Family Firms
Companies (No)	**55**	**25**
Companies (%)	**68,75%**	**31,25%**
Liquidity ratio 2006	1,37	1,24
Liquidity ratio 2007	1,33	1,15
Liquidity ratio 2008	1,19	0,99
Liquidity ratio 2009	1,21	1,03
Liquidity ratio 2010	1,17	1,01
Liquidity ratio 2011	1,22	1,10
Liquidity ratio - mean (2006-2011)	**1,25**	**1,09**
Liquidity ratio - median (2006-2011)	**1,21**	**1,07**
Liquidity ratio - standard deviation (2006-2011)	**0,08**	**0,10**
Current ratio 2006	1,81	1,52
Current ratio 2007	1,75	1,40
Current ratio 2008	1,64	1,25
Current ratio 2009	1,65	1,28
Current ratio 2010	1,63	1,27
Current ratio 2011	1,72	1,43
Current ratio - mean (2006-2011)	**1,70**	**1,36**
Current ratio - median (2006-2011)	**1,69**	**1,34**
Current ratio - standard deviation (2006-2011)	**0,07**	**0,11**
Debt ratio 2006	2,73	3,48
Debt ratio 2007	2,83	3,32
Debt ratio 2008	3,07	3,58
Debt ratio 2009	3,07	3,16
Debt ratio 2010	3,12	3,05
Debt ratio 2011	3,11	3,16
Debt ratio - mean (2006-2011)	**2,99**	**3,29**
Debt ratio - median (2006-2011)	**3,07**	**3,24**
Debt ratio - standard deviation (2006-2011)	**0,17**	**0,21**
Fixed Asset Coverage ratio 2006	1,78	1,42
Fixed Asset Coverage ratio 2007	1,91	1,15
Fixed Asset Coverage ratio 2008	1,71	1,13
Fixed Asset Coverage ratio 2009	1,68	1,29
Fixed Asset Coverage ratio 2010	1,79	1,18
Fixed Asset Coverage ratio 2011	1,80	1,22
Fixed Asset Coverage ratio - mean (2006-2011)	**1,78**	**1,23**
Fixed Asset Coverage ratio - median (2006-2011)	**1,78**	**1,20**
Fixed Asset Coverage ratio - standard deviation (2006-2011)	**0,08**	**0,11**

Source: own elaboration based on AIDA database.

Financial performance is analyzed as following, focusing the attention on the mean of each indicator (whose trend is confirmed by the median), and in particular FF outperform in:
- liquidity ratio (1,25) compared with NFF (1,09);
- current ratio (1,70) compared with NFF (1,36);
- debt ratio (2,99) compared with NFF (3,29);
- fixed asset coverage ratio (1,78) compared with NFF (1,23).

The following graph shows the trend of the financial ratios (Graph 3).

Graph 3 - Financial ratios trend in FF and NFF
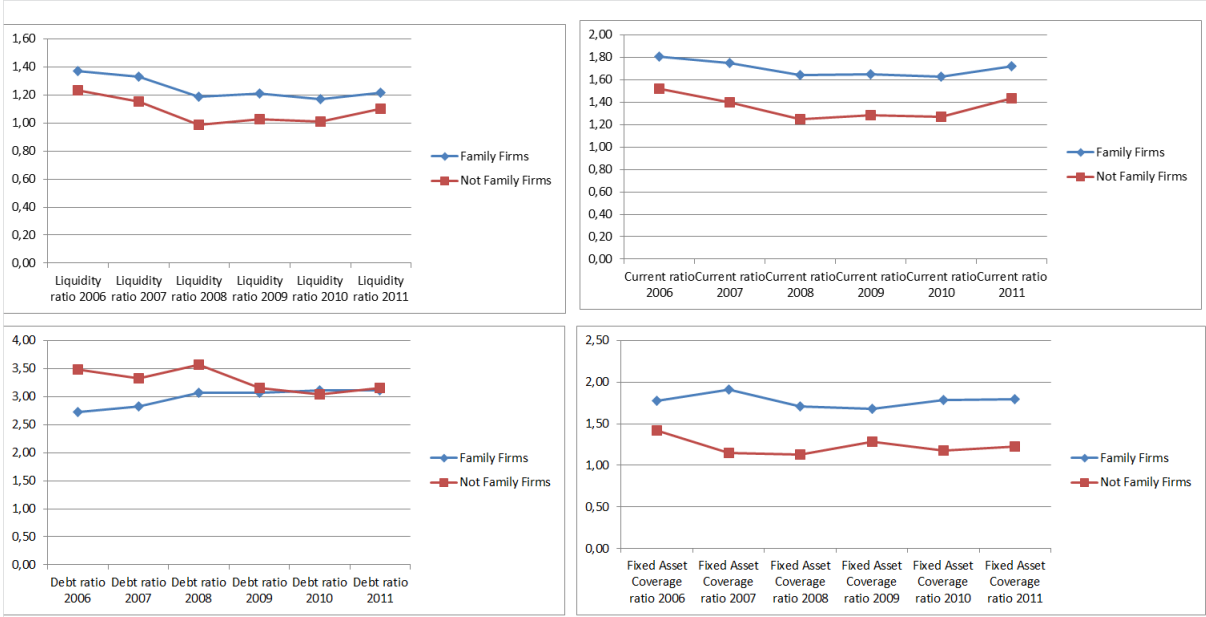
Source: own elaboration based on AIDA database.

The underlined trends by the graphs point out that FF outperform in all ratios than NFF.

Financial performances between FF and NFF are analyzed, in the following chart, also considering the differences between FTSE MIB and STAR indexes (Chart 5).

Chart 5. Financial performance in FF and NFF: FTSE MIB and STAR companies comparison

|	FTSE MIB Family Firms	FTSE MIB Not Family Firms	STAR Family Firms	STAR Not Family Firms
Companies (No)	**13**	**14**	**42**	**11**
Companies (%)	**48,15%**	**51,85%**	**79,25%**	**20,75%**
Liquidity ratio 2006	1,11	0,96	1,43	1,46
Liquidity ratio 2007	1,09	0,98	1,39	1,30
Liquidity ratio 2008	1,21	1,10	1,18	0,88
Liquidity ratio 2009	1,38	1,23	1,17	0,84
Liquidity ratio 2010	1,23	1,17	1,15	0,85
Liquidity ratio 2011	1,19	1,23	1,22	0,94
Liquidity ratio - mean (2006-2011)	**1,20**	**1,11**	**1,26**	**1,04**
Liquidity ratio - median (2006-2011)	**1,20**	**1,14**	**1,20**	**0,91**
Liquidity ratio - standard deviation (2006-2011)	**0,10**	**0,12**	**0,12**	**0,27**
Current ratio 2006	1,49	1,21	1,88	1,78
Current ratio 2007	1,39	1,20	1,84	1,57
Current ratio 2008	1,57	1,34	1,66	1,17
Current ratio 2009	1,77	1,51	1,62	1,07
Current ratio 2010	1,61	1,44	1,63	1,10
Current ratio 2011	1,61	1,51	1,76	1,34
Current ratio - mean (2006-2011)	**1,57**	**1,37**	**1,73**	**1,34**
Current ratio - median (2006-2011)	**1,59**	**1,39**	**1,71**	**1,25**
Current ratio - standard deviation (2006-2011)	**0,13**	**0,14**	**0,11**	**0,28**
Debt ratio 2006	2,99	3,37	2,67	3,37
Debt ratio 2007	3,33	3,08	2,69	3,08
Debt ratio 2008	3,52	3,41	2,95	3,41
Debt ratio 2009	3,44	3,04	2,97	3,04
Debt ratio 2010	3,69	3,06	2,97	3,06
Debt ratio 2011	3,82	3,02	2,89	3,02
Debt ratio - mean (2006-2011)	**3,46**	**3,16**	**2,86**	**3,16**
Debt ratio - median (2006-2011)	**3,48**	**3,07**	**2,92**	**3,07**
Debt ratio - standard deviation (2006-2011)	**0,29**	**0,18**	**0,14**	**0,18**
Fixed Asset Coverage ratio 2006	1,24	0,96	1,90	1,82
Fixed Asset Coverage ratio 2007	1,26	0,98	2,08	1,29
Fixed Asset Coverage ratio 2008	1,05	1,09	1,89	1,17
Fixed Asset Coverage ratio 2009	1,14	1,16	1,82	1,41
Fixed Asset Coverage ratio 2010	1,24	1,16	1,93	1,20
Fixed Asset Coverage ratio 2011	1,31	1,15	1,95	1,32
Fixed Asset Coverage ratio - mean (2006-2011)	**1,21**	**1,08**	**1,93**	**1,37**
Fixed Asset Coverage ratio - median (2006-2011)	**1,24**	**1,12**	**1,91**	**1,30**
Fixed Asset Coverage ratio - standard deviation (2006-2011)	**0,09**	**0,09**	**0,09**	**0,24**

Source: own elaboration based on AIDA database.

Some evidences in financial performance about FF and NFF are underlined comparing FTSE MIB and STAR indexes:
- FF in FTSE MIB outperform in the liquidity ratio (1,20) compared with NFF (1,11), current ratio (1,57) compared with NFF (1,37), and fixed asset coverage ratio (1,21) compared with NFF (1,08);
- NFF in FTSE MIB outperform in the debt ratio (3,16) compared with FF (3,46);
- FF in STAR index outperform in the liquidity ratio (1,26) compared with NFF (1,04), current ratio (1,73) compared with NFF (1,34), debt ratio (2,86) compared with NFF (3,16) and fixed asset coverage ratio (1,93) compared with NFF (1,37).

The trend behaviours of the financial ratios, comparing FTSE MIB and STAR, is shown in the following graph (Graph 4).

Graph 4 - Financial ratios trend in FF and NFF: FTSE MIB and STAR companies comparison
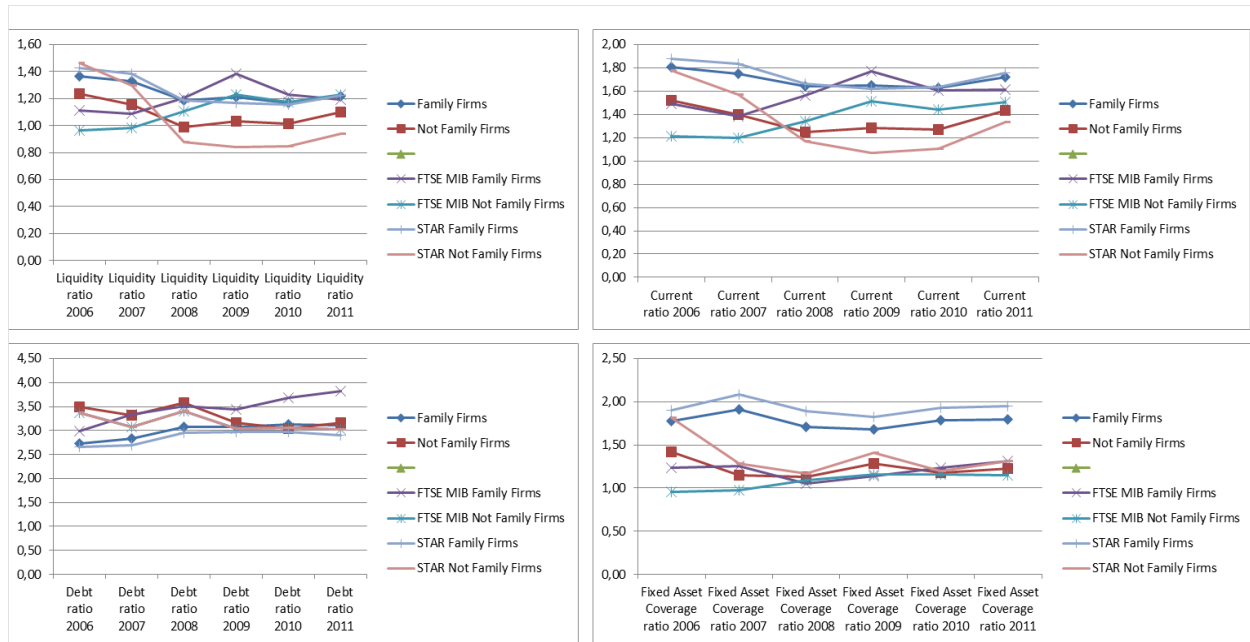
Source: own elaboration based on AIDA database.

By the analysis conducted, it is evident that:
- FF outperform in the financial ratios compared with NFF;
- STAR FF are the best companies of the sample in financial ratios, both comparing STAR FF with FTSE MIB FF and STAR FF with STAR NFF;
- FTSE MIB FF outperform in all ratios than FTSE MIB NFF, with the exception of the debt ratio.

4.1.3 Discussion RQ1

In answering RQ1, it emerged that:
- FF outperform in ROA, ROI, ROS, and in the financial ratios compared with NFF, while NFF outperform in ROE;
- FTSE MIB NFF outperform than FTSE MIB FF in all economic ratios, while FTSE MIB FF outperform in all financial ratios than FTSE MIB NFF, with the exception of the debt ratio;
- STAR FF outperform than STAR NFF in all ratios.

H1 was partially confirmed.

Considering the results achieved, and in particular the *economic performances*, we observed that in the FTSE MIB index the NFF outperform than the FF, whilst in the STAR index it happens exactly the opposite. At the same time, considering the *financial performances*, the STAR FF outperform both in comparison with FTSE MIB FF and with STAR NFF, while FTSE MIB FF outperform in all *financial ratios* than FTSE MIB NFF, with the exception of the debt ratio. This evidence suggested us to affirm that there are two groups of FF to which correspond two different organizational configurations:
- the FF listed on the large capitalized companies index (FTSE MIB);
- the FF listed on the medium capitalized companies index (STAR).

Adopting the theory that performances in FF are higher when family members serve as CEOs or as Chairman of the board and that the association between family ownership and firm performance is stronger in small-medium-companies that in large ones (Chu Wenyi, 2011), the FF listed on the FTSE MIB index are more oriented to act as family holdings and they are interested in the diversification of the activities to gain high profitability. The family in these firms generally is not involved in directly managing the business, and there is normally a duality between CEO (a manager) and chairman (a member of the family). These FTSE MIB FF underperform in economic ratios than FTSE MIB NFF. Vice versa, the FF listed on the STAR index, more focused on the traditional core business, in which the family is directly involved in managing the company, with executive members in the board and interested to push the innovation, outperform than STAR NFF.

Therefore, we expressed a new hypothesis (H2), that, if the capitalization is positively correlated with the size of the companies, the size of a FF will be a relevant variable that influences performances. In particular, we distinguished not-large (medium) FF from large FF and we considered the size as a proxy variable of organizational complexity and diversification, which contributes to justify the different economic and financial

(to be precise, only the debt ratio) performances achieved by the FF in comparison with NFF of the same size or with FF of other size.

H2: the size is a relevant variable in distinguishing the FF in two main configurations, with different economic and financial performances (debt ratio) in comparison to NFF with the same size and to FF of other size.

In order to demonstrate this hypothesis, we expressed RQ2.

4.2. RQ2

4.2.1. Results

About the *RQ2 "Is there a correlation between the capitalization of a firm and its size* expressed in terms of i) number of employees, ii) assets quantified in the balance sheet and iii) revenues measured in the income statement*? If yes, how does the size influence the economic and financial performances of FF?"*, the aim of this question was to verify the existence of a positive correlation, that permits us to interpret the findings of the RQ1 as caused also by the size and not only by the belonging of the companies to a specific index, with a different capitalization (FTSE MIB with large capitalized companies, and STAR with medium capitalized ones).

We correlated the capitalization of each firm, distinguished in FF and NFF, considered the mean of the period 2006-2011, with its size, expressed in terms of i) number of employees, ii) assets quantified in the balance sheet, and iii) revenues measured in the income statement (mean 2006-2011). Subsequently, we analyzed the same correlation within each index (FTSE MIB and STAR), distinguishing FF and NFF.

How the following table shows, it is possible to affirm that there is a positive correlation between capitalization and size, expressed in terms of i) number of employees, ii) assets quantified in the balance sheet and iii) revenues measured in the income statement.

If we look at the global sample (FF on one side and NFF on the other), the positive correlation is strong, independently by the presence of the family in the company.

The correlation is strong also in the FTSE MIB NFF and in the STAR NFF, and it is moderate/strong in the FTSE MIB FF and in the STAR FF companies (Chart 6).

Chart 6. Correlation between capitalization and size

	Capitalization (mean 2006-2011) (family firms)	Capitalization (mean 2006-2011) (not family firms)	Capitalization (mean 2006-2011) FTSE MIB (family firms)	Capitalization (mean 2006-2011) FTSE MIB (not family firms)	Capitalization (mean 2006-2011) STAR (family firms)	Capitalization (mean 2006-2011) STAR (not family firms)
Number of employees (mean 2006-2011)	0,79	0,78	0,60	0,73	0,67	0,72
Total assets (mean 2006-2011)	0,81	0,90	0,71	0,87	0,71	0,78
Revenues (mean 2006-2011)	0,75	0,98	0,64	0,98	0,63	0,79

Source: own elaboration based on AIDA and Bloomberg database.

4.2.1. Discussion RQ2

Concluding, we can affirm that the capitalization and the size of a company are positively and strongly correlated. Consequently:
- the *size* (as a proxy of the complexity/diversification of the business) is a relevant variable, which influences the FF *economic performance* (indeed, STAR FF, which are medium size and capitalized companies, outperform than STAR NFF, while FTSE MIB FF, which are large size and capitalized companies, underperform than FTSE MIB NFF);
- the *size* of the company seems not to be a relevant variable, which influences FF *financial performance* in comparison with NFF. Indeed, FF outperform than NFF, both in FTSE MIB and in the STAR index, in all financial ratios, with the exception of the debt ratio in the FTSE index (this evidence confirms our main hypothesis about the existence of two configurations of FF and, in particular, that the FTSE MIB FF have higher debt ratio than both the FTSE MIB NFF and the STAR FF, due to the specific financial requirements related to their business);
- the *size* of the company seems to be a relevant variable, which influences FF *financial performance*. Indeed, STAR FF outperform then FTSE MIB FF, while this evidence is not true for NFF (all financial ratios of FTSE MIB NFF are better than STAR NFF, with the exception of fixed asset coverage ratio, and the specificity of the debt ratio that is equal in the two indexes).

H2 was partially confirmed.

Indeed, referring to H2 and, indirectly, to our main assumption, we can conclude affirming that there are effectively two configurations of FF, in which the size is a relevant variable in achieving performances, and they are:
- the FTSE MIB FF, which are *large-size* companies;

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-    the STAR FF, which are *not-large size (medium)* companies.

The not-large (medium) FF outperform in *economic results* than not-large (medium) NFF, while large FF underperform than large NFF.

The not-large (medium) FF outperform in *financial results*, both comparing not-large (medium) FF with large FF and not-large (medium) FF with not-large (medium) NFF.

Large FF outperform in all *financial ratios* than large NFF, with the exception of the debt ratio.

Our H2 is partially confirmed and, in particular:

-    the presence of a family is a relevant variable in *economic results* of a company, only if the size of the firm is not-large (medium);
-    the presence of a family is a relevant variable in *financial results* of a company, *independently by the size,* with the exception of the debts ratio, for which the large-size FF underperform than medium FF.

How affirmed before, performances in FF are higher than in NFF when family members act in a not large company (Chu Wenyi, 2011), as analysing the large FF it is noticed that:

- the family generally is not involved in directly managing the business;

- there is normally a duality between CEO (a manager) and chairman (a member of the family);

- the firm acts as family holdings, which aims to a diversification of their traditional business to gain high return on equity (ROE), using the financial leverage.

Due to these factors the return on the core business (ROI) of large FF is lower than in the NFF of the same size. On the contrary, the medium FF are more interested in the return of the traditional core business, through the development and the innovation of products and services. In these companies, the family is usually directly involved in managing the company, with executive members in the board. This consideration is confirmed, on one side, by an higher return of the investments (ROI) of medium FF than medium NFF and, on the other side, by a lower debt ratio of medium FF than medium NFF.

For this reason, the aim of the listing for large FF seems to be a money collection to improve the diversification of the business activities, in addition to the banks financings. On the contrary, the aim of the listing for not-large FF is usually a money collection to improve the traditional business through innovation, maintaining a low debt ratio.

5.   Conclusion, implications and limitations

The first research question (*RQ1*) of this study was to analyze the impact on performances caused by the presence of the family in the listed Italian companies (FTSE MIB and STAR indexes), in particular comparing the economic and financial results achieved by FF and NFF in the period 2006-2011.

Referring to *RQ1*, our analysis revealed that:

-    FF outperform in ROA, ROI, ROS, and in all financial ratios (liquidity, current, fixed asset coverage and debt ratios) compared with NFF, while NFF outperform only in ROE;
-    FTSE MIB NFF outperform than FTSE MIB FF in all economic ratios, while FTSE MIB FF outperform in all financial ratios than FTSE MIB NFF, with the exception of the debt ratio;
-    STAR FF outperform than STAR NFF in all economic and financial ratios.

Subsequently, we formulated a new research question (*RQ2*), strictly correlated to the previous one, that was to verify if the size of the companies could be considered as a relevant variable in distinguishing the FF in two main configurations, with different economic (with particular attention to ROA, ROI, ROS and ROE ratios) and financial performances (with particular attention to debt ratio), in comparison to NFF with the same size and to FF of other size.

Referring to *RQ2*, we affirmed that:

-    the presence of a family is a relevant variable in *economic results* of a company, *only* if the *size* of the firm is *not-large* (medium size FF or STAR FF);
-    the presence of a family is a relevant variable in *financial results* of a company, *independently* by the *size, with the exception of the debts ratio*, for which the large size FF (FTSE MIB FF) underperform than medium FF (STAR FF).

Concluding, we sustained that there are two main configurations of FF, and that the distinction between them is essentially based on their size, expressed in terms of i) number of employees, ii) assets quantified in the balance sheet and iii) revenues measured in the income statement, that is always positively correlated with the capitalization. Each kind of FF (large size FF and not-large size FF) has specific effects on economic and financial performances, which can be generalized:

1.   if a company has a *not-large size* (STAR index), the presence of a *family* is a *relevant variable* in achieving better economic and financial performances than NFF with the same size;

2.   if the company becomes a *large-size* one (FTSE MIB index), the *family* presence becomes an *irrelevant* variable both on the *economic performances*, as the NFF economic results are

better than FF, and on the financial leverage (*debt ratio*), as the FF have an higher debt ratio in comparison with large NFF and with medium FF;

3.   the *family* presence is a *relevant* variable, *independently by the size*, on the *financial performances*, with the exception of the financial leverage (*debt ratio*).

This study, even considering other similar articles on the FF performances issue (Chu Wenyi, 2011; Gonzalez, Guzman, Pombo, Trujillo, 2012; Villalonga and Amit 2004), contributes to the literature on FF as it shows the effects on companies' performances caused by the presence of the family in the board, in strictly correlation with the size of the company as a proxy variable of organizational complexity.

Furthermore, the concerns of this research are pertinent for FF owners and for the regulatory bodies in order to understand and manage the effects caused by the size and the governance of the company on the financial and operative structure of the firms. We believe that considering our assumptions i) family owners can formulate more conscious and rational strategic intentions and initiatives, especially regarding the diversification and the growth of the business, even considering the risks correlated with these decisions and the effects on performances and ii) regulatory bodies can support, in a more concrete manner, the listed companies in their value creation process, especially looking at the need of integration between risks and strategic planning and control.

In addition, our article contributes also to investors' decisions making process, as it elaborates significant generalizations in order to identify which are the outperforming companies on the Italian listed stock exchange market.

This research presents some limits that can be summarized as follows:

-    other external and internal causes with effects on performance trends are not considered (as, for example, the presence of executive members of the family in the board; the dividends policy chosen; the innovation and development strategy adopted; etc.);
-    only listed companies (FF and NFF) are considered (we did not focus our attention on unlisted companies, even if it is very important to underline that the listed companies represent a sample, in which a certain homogeneity in terms of organizational and financial features can be observed);
-    the selected firms belong to different industrial sectors, and consequently economic and financial ratios could be influenced by external and internal variables typical of the sector;
-    the method adopted could be integrated with some econometrical models.

Further research will have the aim of eliminating these limits, in particular analysing the behaviour of the FF (large and not-large) in the dividends policy and in the innovation strategy, taking into consideration the existence of a correlation between the dividends policy and the innovation strategy on one side with the performances on the other.

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