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A I D A F
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FAMILY BUSINESS NETWORK - ITALIAN CHAPTER

**CORPORATE GOVERNANCE PRINCIPLES
FOR UNLISTED FAMILY-CONTROLLED COMPANIES**

CODE OF CORPORATE GOVERNANCE

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EXECUTIVE SUMMARY

In family-controlled businesses, a well-functioning system of *governance* has to favor the dynamic achievement of two objectives: (i) the ability of the owner family to express a clear vision of the future of the Company/subsidiary group; (ii) the possibility of (family or non-family) *management* to implement said vision using the best available resources on the market. All in keeping with the principle of *accountability*, a key feature of any *governance* system, under which the managerial *team* reports to top management, that is to the head of the company; the head of the company reports to the Board of Directors; the Board reports to the Shareholders' Meeting. In family businesses, respect for this principle requires first and foremost strict adherence to the values of transparent and responsible management towards all *stakeholders*; secondly, self-discipline of family members, who are both managers, executives and shareholders, in interpreting the various functions required of them depending on the decision-making role, jointly with other participants in similar decision-making roles; thirdly, great care in the composition and functioning of the Board, enhancing the contribution of independent non-family members.

Principles and guidelines of all unlisted family companies

To achieve the objectives mentioned, the Code proposes some principles and guidelines that can be summed up in an "*executive summary*" for entrepreneurial families who, by controlling family companies larger than minimal size,¹ may be willing to assess their compliance.

1. The Shareholders' General Meeting plays an essential role of full disclosure to all shareholders, both family and non-family members, who are not involved in management. Consequently, it must be organized in ways that allow it to be fully functional. To this end, particular responsibilities lie with the Chairperson (Articles 1 and 2 of the Code).
2. Many Italian family companies, even those larger than small business, are led by a Sole Director. The Code suggests that, after the initial establishment stage, all companies should be led by a Board to encourage fair and balanced weighing of decisions and to reduce the risks associated with the lack of the sole director's capabilities. In order to facilitate proper operation, the Code proposes that the Board be composed of a minimum of three members up to a maximum of nine, depending on the size² (Article 2 and 3 of the Code).
3. With reference to the issues that the Board of Directors has to deal with, the Code proposes a list containing, *inter alia* the identification of the elements of the medium to long-term strategy; the assessment of the adequacy of the Company's organizational, administrative and accounting structure; the resolution on the operations of the Company when they are significant at strategic, capital or financial level; the preparation and organization of the process of succession of key *management* figures (Article 2 of the Code).
4. The Board of Directors, in order to perform its role, meets at least quarterly (Article 2 of the Code).
5. In order to fulfill its functions, the Code suggests that the Chairperson of the Company, unless justified, have no management powers and that the Board of Directors have a secretary (Article 2 of the Code).

¹ It is not possible to define a precise size threshold below which a governance system, such as that suggested by the Code, is not useful. Even businesses with revenues below 10 million Euros, for example, could benefit from a system of *governance* during growth or if some proprietary and organizational complexity is in place.

² Specifically, a Board of Directors of three to five members may be used for smaller companies, of five to seven members for medium-sized enterprises, and from seven to nine members for larger companies, subject to different needs.

6. The Code proposes that there should be at least one non-family member, preferably independent, in the Board³ (according to the characteristics of the Corporate Governance Code of listed companies) and that an adequate diversity be respected in terms of professional background, age and gender (Article 2 and 4 of the Code).
7. The Code acknowledges that many family businesses are led by two or more CEOs, requesting in such cases to specify its reasons (Article 3 of the Code).
8. The Code suggests assessing the risks of the Company annually, indeed as already required in the drafting of the financial statements (Article 6 of the Code).
9. The Code recommends that the Board develop procedures for dealing with related party transactions, *primarily* those relating to family members (Article 6 of the Code).
10. The Code hopes that the Company's Bylaws will be subject to periodic revision so that the various legal instruments available (pre-emption clauses, adoption of different categories of shares, ...) are functional to the stability of control and proprietary cohesion (Article 7 of the Code).
11. The Code recommends that the Statutory Auditors also choose the independence criteria and, for this purpose, periodically rotate (e.g., every nine years) (Article 8 of the Code).
12. The Code suggests assigning a company for balance auditing activities (Article 8 of the Code).
13. The Code calls for a policy of succession in the top positions (Article 9 of the Code).

Principles and guidelines for larger unlisted family companies

For larger and more complex family companies, in addition to the topics for smaller size ones, the Code suggests:

14. the Board of Directors to: examine and approve strategic plans, periodically verifying their implementation by comparing achieved and planned results; carry out, at least every three years, a self-assessment of the functioning of the Board; adopt a procedure for internal management and the communication of documents and information *erga omnes*, with particular regard to confidential information (Article 2 of the Code).
15. the offices of Chairperson and CEO not to be concentrated in the same person (Article 2 of the Code).
16. the remuneration of the CEO and top managers to be structured in a fixed and a variable portion (Article 5 of the Code).
17. the adoption of some *best practices* induction sessions and strategic outdoors (Article 2 of the Code).
18. the potential establishment of committees within the Board (for Appointments, Remuneration, Control and Risks) with the presence of at least one independent member (Article 2 of the Code).
19. the consideration of both family and non-family candidates for Chief Executive Officer and *top manager* positions (Article 2 of the Code).
20. the adoption of an *internal audit* function and an organizational model pursuant to Italian legislative Decree 231/2001 (Article 6 of the Code).

Finally, the Code, arising from the need to provide Italy with an instrument for governance of unlisted family-owned Companies, also in light of the other European experiences and the well-known clear scientific evidence, proposes to overcome the governance models of a single individual or of a family encompassing all roles (regardless of the capabilities), which have made it difficult to create Italian family businesses able to reach the same size as those of international competitors in their leading sectors.

³ According to the AUB Observatory, in 2015, 62.5% of all Italian family businesses with revenues over 50 million Euros had at least one non-family Board member (although often not independent).

INTRODUCTION

- I. An unlisted family-controlled enterprise is a Company in which one or a few families hold the majority of the share capital, and most often the share capital in its entirety. This category is characterized by a further structuring of ownership configurations due to company size, family generation leading the company, as well as business development goals. As an example: *(i)* small and medium-sized “entrepreneurial” family company, where a small family, or more often a first-generation entrepreneur, holds total control over the company; *(ii)* medium and medium-large sized family companies, often in generations following the first one, characterized by the presence of an increasing number of family members and, sometimes, third parties; *(iii)* large unlisted family companies, characterized by a complex family structure, with the presence of family shareholders in multiple generations, and with the increasing presence of managers not belonging to the family owning the corporation.
- II. Although it is a useful reference for all unlisted family-controlled companies, the Code of Corporate Governance of Unlisted Family-Controlled Companies (hereinafter, also, the “Code”) recognizes the wide variety of possible family business models by expressly addressing family companies larger than minimal size, in the form of a joint-stock Companies, and characterized by ownership and organizational complexity justifying their adoption⁴. In addition, the Code adopts a principle of “proportionality” in identifying the relevant principles and provisions for a specific Company based on its complexity. The Committee and the Technical Secretariat will pay particular attention to compliance with this principle, also through the defining of guidelines for different business categories and active support for the relevant companies.
- III. Compliance with this Code is voluntary, according to the *comply or explain* principle. Every Company is invited to evaluate its own *practices*, to determine any improvements in terms of governance and management, and to report the (even partial) adoption of the recommendations and behaviors set out in the Code in its annual Report or in any other similar document. The Technical Secretariat will be available to support companies with regard to any concern.
- IV. The Code fits into a larger system of best practices aimed to improve the governance of our country’s businesses. It is perfectly in line with the Code of Corporate Governance applicable to Listed Companies and applied by Borsa Italiana [Italian Stock Exchange], whose inspiring principles, concepts and definitions have been used, where useful, with the adjustments needed to reflect the specificities of unlisted companies.
- V. In the specific case of unlisted companies, the implementation of a modern corporate governance system allows significant benefits such as: *(i)* helping entrepreneurial families grow subsidiary companies while reducing the level of risk; *(ii)* guiding entrepreneurial families in more clearly drawing a distinction between the personal property of the family and the assets of the subsidiary; *(iii)* certifying the quality of the governance mechanisms adopted for those companies that must be accredited in reference to banks, customers, suppliers and, more generally, international markets; *(iv)* attracting, directing, and controlling non-family managers necessary to increase the international competitiveness of family businesses; *(v)* acting as a useful compass in the management of generational transition processes; *(vi)* acclimating to the governance processes envisaged in such contexts, for companies potentially interested in becoming listed corporations in the future.

⁴ It is not possible to define a precise size threshold below which a governance system, such as that suggested by the Code, is not useful. Even businesses with revenues below 10 million Euros, for example, could benefit from a system of *governance* during growth or if some proprietary and organizational complexity is in place.

- VI. The adoption of a corporate governance model in which powers are balanced and the interests of the company in respect to all interests, both proprietary and not, are represented, is aimed at ensuring continuity and growth, thus characterizing a modern concept of sound and responsible entrepreneurship.
- VII. With regard to corporate groups, the Code honors the principle that corporate governance law must operate at all levels, including in the scrutiny of holdings and subsidiaries. It is, however, the responsibility of each family owner to identify the level to which the Code applies, whether to the holding company or the operating parent company.
- VIII. Given the peculiarities of family-run businesses, the document focuses in particular on topics related to these types of companies, such as management of the ownership structure, succession plans, involvement of non-family managers, and balance between company and family interests.
- IX. This Code, in its first version, was presented in May 2017 and, in its revised one, it was officially presented in October 2017. The Code Committee and the Technical Secretariat undertake to propose any necessary changes to the Code, taking into account the results of its application by the companies and the evolution of the reference regulatory framework.

STAKEHOLDERS POTENTIALLY AFFECTED

Employees

Human capital, its protection and development are key elements in the sustainable growth of any business. In this perspective, the adoption of a more evolved model of *governance*, that starting with top management creates a fair balance of power and authority, particularly in family controlled businesses with less advanced management systems, ensures that employees can benefit from the correct implementation of human resource management policies that safeguard career expectations, leaving adequate room for merit. In turn, this also encourages attracting managerial talent outside the controlling family. At the same time, a more balanced governance system can also ensure a better and more fruitful dialogue with workers' representatives.

Banks and lenders

Every business needs financial resources to develop its activities, whose attraction capacity depends on the company's sustainable development over time. To this end, the Code believes that the adoption of more structured and evolved governance mechanisms facilitate the achievement of the following two fundamental objectives that responsible owners should pursue: (i) clearly distinguish the company's resources from personal resources of the entrepreneur, even if the company is small; (ii) ensure transparent, fast, timely and complete disclosure with lending institutions, since credit worthiness is positively influenced by accurate and exhaustive data, which is also extremely useful and important for better management.

Suppliers and Customers

Suppliers and customers are the main contacts in the process of creating and distributing value in the production chain, in which each company is involved. In this regard, it is essential to establish trusted relationships, clear contractual relations and appropriate payment methods with both product and service suppliers, and with customers. To this end, the Code is built on the firm conviction that a fair and well-balanced corporate governance system can provide many benefits in essential business relationships for every business, and in particular in terms of: (i) increased supplier confidence about the solidity and thus the solvency of the company over time, and customer confidence on the fairness, ethics and legality of the business; (ii) better contractual terms for both suppliers and customers, due to a more balanced internal decision-making process.

Shareholders not involved in management

In unlisted companies, particular attention should be paid to the relationship between different committed shareholders and various parties involved in executive positions, and shareholders not involved in management. The aim is to prevent the latter from feeling uninvolved in "company life" and, therefore, instigate feelings of mistrust over time towards those who are engaged in management, particularly in the absence of positive results. It is appropriate to identify criteria for adequate participation and, to this end, while respecting the skills and experience gained, it is recommended to plan subsequent *steps* inspired by precise and rigorous requirements. In this regard, the adoption of an evolved system of *governance* can ensure: (i) greater confidence and mutual esteem among the various shareholders, allowing full recognition of the *leadership* thanks to the balance of powers that good *governance* can provide; (ii) Better and timely information on main corporate events; (iii) maintenance of a high family identity compared to individual identity, also thanks to greater affinity between the two; (iv) better articulation of succession plans, which take into account both the demands of family members aspiring to join management ranks, and of those who would prefer not to engage management.

ARTICLE 1 – SHAREHOLDERS’ MEETING

Principles

1.P.1. The shareholders’ right to information is an essential principle that shapes the whole *corporate governance* philosophy, ensuring an effective dialogue among all members. The shareholder’s general meeting plays an essential role in terms of full disclosure to members who are not involved in management.

1.P.2. The shareholders perform their duties in the context of shareholders’ general meetings, during which discussions are held, decisions shall be taken, and members of the Board of Directors are elected.

1.P.3. Appropriate and timely *ex ante* shareholders’ meeting information, made available at the company’s offices in advance, or in any other form, will enable shareholders to evaluate issues and decide in a conscious manner and will tend to maximize shareholders’ attendance at meetings.

Application Criteria

1.C.1. The Chairperson of the Board of Directors ensures that shareholders’ meetings are used as communication channels with shareholders.

1.C.2. The Board of Directors is responsible for providing complete and comprehensible, financial and management information to facilitate an assessment of the current situation and the foreseeable future of the Company.

1.C.3. The Chairperson, the entire Board of Directors and the Chief Executive Officer (CEO), possibly assisted by skilled and experienced personnel, must be available both in advance and during the shareholders’ meeting, allowing shareholders to ask questions and obtain detailed information related to issues that impact on the evaluation of accounting documents, financial situation or other important issues.

1.C.4. It is appropriate that:

- a) each Shareholders’ Meeting approves its Regulations;
- b) each Shareholders’ Meeting is convened with sufficient notice, usually at least fifteen days in advance;
- c) the date, place and agenda shall be specifically determined by the Board;
- d) the text of the proposals for resolution to be approved shall be made available well in advance;
- e) voting on the appointment and removal of directors, statutory amendments, remuneration policies for and other particularly sensitive topics, are considered as independent and separate items on the agenda in order to emphasize their importance.

ARTICLE 2 - BOARD OF DIRECTORS

ROLE OF THE BOARD OF DIRECTORS

Principles

2.P.1. Although smaller-sized companies often tend to prefer simple governance models, the Code considers it appropriate that all companies, even wholly owned by an entrepreneur, be led by a Board of Directors who, even if small in number, is responsible for proper administration and management of the company with a long-term perspective.

2.P.2. The Board of Directors is also responsible for the correct and balanced weighing of decisions and for the pursuit of the company's interests, in keeping with the decisions of the Shareholders' Meeting, establishing the intent of the owners.

2.P.3. The directors are required to act in the exclusive interest of the Company and to understand the duties and responsibilities inherent to the office being held.

2.P.4. The directors act and issue resolutions, fully informed and autonomously, pursuing the company's primary goal, that is, creating economic and social value over a medium/long-term perspective, paying particular attention to areas potentially subject to conflicts of interest.

Application Criteria

2.C.1. The task of the Board of Directors is *primarily* that of promoting the interests of the Company and of those who hold shares or stocks in the same, therefore, the Directors are obliged to act in the interest of all the shareholders, regardless of whether they have been elected upon nomination and by decision of some of said shareholders.

2.C.2. In carrying out its roles, the Board of Directors:

- a) outlines the constituent elements of the medium to long-term strategy;
- b) examines and approves the strategic, industrial and financial plans of the Company and of the Group that it heads, periodically verifying its implementation by comparing forecast and achieved results;
- c) assesses the suitability of the organizational, administrative and accounting structure of the Company and of the Group that it heads, as well as of the subsidiaries of strategic importance, paying particular attention to the internal control and risk management system, and defining both the nature and the level of risk deemed compatible with the Company's strategic goals;
- d) issues resolution on the operations of the Company and its subsidiaries (if any) when they are significant at a strategic, asset or financial level; to this end, establishing the criteria for identifying which operations may be of significant importance;
- e) verifies, jointly with the Board of Statutory Auditors, the compatibility of dividend policies with the objectives and prospects for growth, taking care not to confuse such policies with the remuneration of the shareholder's work;
- f) prepares and organizes the succession of key management figures;
- g) carries out, at least every three years, a self-assessment of the operation of the Board itself, specifically with the aim of identifying areas of improvement in its make-up and functioning;
- h) the Code suggests referencing in the Management Report, or in other disclosure documents, information pertaining to (i) the composition of the Board, indicating for each member, the position, role held, main professional characteristics, and seniority of office from first appointment; (ii) method of implementation of the Board meetings held during the year and the related percentage of participation of each director; (iii) method for conducting the evaluation on functioning of the Board;
- i) for the purpose of ensuring the correct management of corporate information, on the proposal of the Chairperson of the Board of Directors or CEO, adopts a procedure for internal management and the communication of documents and information *erga omnes*, with particular regard to confidential information.

2.C.3. The Board of Directors, in order to carry out its duties properly, needs at least quarterly information that is updated and accurate in terms of corporate structure, *business* and markets, and the current regulatory framework.

2.C.4. The minutes of the Board of Directors must be carefully drafted, with reference to the description of the most relevant issues raised, discussions and resolutions proposed, and possibly indicating voting results.

2.C.5. It is deemed appropriate to select a Secretary in order to effectively carry out its functions, thus securing and covering a key role in supporting the Chairperson in organizing meetings, and preparing related materials and minutes.

2.C.6. In family-controlled companies, the Board of Directors also assumes a role of *monitoring management*, whether by family members or non-family members, and promotes better control over delicate stages of growth and generational replacement.

ESTABLISHMENT OF THE BOARD OF DIRECTORS

Principles

2.P.5. The Board of Directors consists of a number of directors, both executive and non-executive, with adequate integrity and professional competence, scrupulousness and experience.

2.P.6. The number, competence, and authority of the directors must be such as to ensure significant weight to their judgement in the decision-making process.

2.P.7. In larger companies, or where proprietary and *governance* complexity require it, it is suggested to potentially avoid concentrating company roles into one person, by separating parties with the roles of CEO from those with the role of Chairperson, thus reinforcing the characteristics of impartiality and balance of the latter.

Application criteria

2.C.7. The number of members is determined by the needs of the company, the *business*, and equity distribution. For example, if the company intends to adopt a criterion based on the ratio between the number of directors and its size, the following is suggested: Between three and five members in smaller companies; Between five and seven members in medium-sized companies; Between seven and nine members in medium-large and large-sized companies, subject to different needs.

2.C.8. It is hoped that, depending on the size, ownership structure and complexity of the industrial sector in which the company operates, the following should be represented: *(i)* Various shareholders; *(ii)* *Management* key-figures (CEO and, where appropriate, other key executives depending on the type of *business*); *(iii)* One or more non-executive and non-family member directors, preferably "independent".

2.C.9. The Code promotes "diversity" within the Board of Directors, in terms of: *(i)* Board Members' professional characteristics and *background*, in order to provide complementary skills; *(ii)* Age and representation of both genders; *(iii)* Board Members' personality and leadership style, including therein, critical thinking, independence of action, and the ability to cooperate with others.

2.C.10. Directors should only accept the office if they feel they can devote the time they need to diligently carry out their duties. The Board of Directors may express its opinion on the maximum number of positions considered compatible with the effective performance of its tasks. If present, the Board of Directors must inform the candidate for the position of board member.

INDEPENDENT DIRECTORS**Principles**

2.P.8. Independence of judgment is an attitude required of all directors who, aware of their rights, duties and responsibilities, are called upon to act according to said principle.

2.P.9. It is preferable, particularly in larger companies for one or more directors to qualify as "independent". In this sense, independent directors should have no current business, nor have recently directly or indirectly engaged in relationships with the Company, or its affiliates, such as to undermine or affect their independent judgment.

2.P.10. The number and competence of the independent directors is based on the size of the Board and the Company's business activities; moreover, their presence is essential to the proper functioning of any Committees established within the Board itself, or to preside over certain areas of expertise, otherwise not represented within the Board.

Application Criteria

2.C.11. The Board of Directors periodically assesses the independence of its members, specifically referencing, for this purpose, the definition already identified by the Corporate Governance Code for Listed Companies, if present, according to the principle of *substance over form*, bearing in mind that a director does not appear independent in some (although not compulsory) instances:

- a) if said party directly or indirectly, also through subsidiaries, trustees or intermediaries, controls the Company;
- b) if said party is able to exert considerable influence on the Board;
- c) if said party participates in a shareholders' agreement through which it exercises considerable control or influence;
- d) if, during the previous three years, said party was, or was not, a significant representative of the Company, of its subsidiary of strategic importance, of a Company subject to joint control, of a controlling or controlling entity, or of an entity with significant influence;
- e) if said party has been the director of the Company for more than nine years in the last twelve years;
- f) if said party is the position of director in another company jointly with the CEO of the concerned society;
- g) if said party is a shareholder or director of a Company belonging to the same group of companies of the company responsible statutory auditing;
- h) if said party is a close family member of a person who is involved in one of the situations above.

2.C.12. The Board of Statutory Auditors verifies that the Board of Directors correctly applied the criteria and procedures for assessment required in said evaluation.

2.C.13. The outcome of the Board Members' independence assessments is communicated by the Chairperson to the shareholders.

2.C.14. Independent directors are permitted to hold appropriate meetings amongst themselves.

CHAIRPERSON OF THE BOARD OF DIRECTORS**Principles**

2.P.11. Within the Board of Directors, the figure of Chairperson is of paramount importance, which must: (i) Facilitate Board Members' participation in meetings; (ii) Ensure the proper functioning of the Board in the full accomplishment of its various tasks; (iii) Ensure balance and representation in the functioning of the Board; (iv) Promote initiatives of *induction* of Board Members on *business* aspects, duties, and responsibilities.

Application criteria

2.C.15. The Chairperson, with the help of the Secretary, also ensures that the documents, pertaining to the items on the agenda, are brought to the attention of directors and statutory auditors at least three working

days in advance of the date of the Board meeting, preserving the confidentiality and, in the event that such documents are lengthy or complex, that they are accompanied by a summary.

2.C.16. The Chairperson is responsible for conducting Board meeting as follows:

- a) defines the Agenda with the CEO, or possibly with the Secretary or other Board Members, if the Chairperson and CEO coincide;
- b) marks the time of discussion;
- c) takes care to ensure that the topics placed on the agenda are given the necessary reflection to allow for a constructive debate;
- d) encourages contributions from Board Members;
- e) moderates the debate;
- f) summarizes the opinions of participants;
- g) decides when it is appropriate to make a decision;
- h) takes care of the minutes of the meetings, which, although in a concise manner, must mention the topics raised during the discussion, the proposals and the decisions taken, with the date and the essential evidence to support such decisions that led to the subsequent resolutions.

2.C.17. At the request of one or more directors, the Chairman may invite the Company's management and the Group companies to intervene at board meetings to provide insight into the issues under discussion.

2.C.18. The Board of Directors shall provide adequate reasons for the such organizational choice, when it conferred on the Chairman executive powers.

Operation of the Board of Directors

Principles

2.P.12. It is appropriate that the Board of Directors, in order to duly and collectively perform its duties, meets on a regular basis and with different frequency based on the size of the Company.

2.P.13. It is up to the Board of Directors to gradually establish, based on the specific needs and size of the company, one or more Committees (as detailed *below*, and structured in accordance with the Code of Corporate Governance regarding Listed Companies) on issues of particular relevance to corporate governance (control and risk, remuneration of Board Members and Directors, and the identifying of Directors for their appointment), endowed with both consultative and propositional roles.

Application Criteria

2.C.19. The Code suggests that Board meetings consist of at least four or five annual meetings, each with the length of time required for an effective, detailed and exhaustive discussion of items on the agenda, including a constant assessment of the implementation of long-term strategies.

2.C.20. The Code suggests some *best practices*, such as:

- a) *induction sessions*, namely, training programs in the area of *corporate governance*, as well as aimed to provide individuals with adequate knowledge of the business sector in which the Company operates, company dynamics, regulatory framework, as well as the duties and responsibilities inherent to the office(s) held;
- b) *days-away* and *strategic outdoor*, to foster individual knowledge and experience as well as socialization and mutual trust;
- c) in order to ensure a proper and fruitful debate, the use of telematic meetings should be limited to the discussion of issues already addressed in-depth prior to previous meetings that are a prerequisite for subsequent decisions.

2.C.21. If present, the establishment and operation of the Committees provided for by the Code, should meet the following criteria:

- a) the Committees carry out the tasks set out in the resolution through which they are established, although they may be amended or supplemented by subsequent resolution;
- b) the Committees are composed at least by two members, of which at least one independent (if any) coordinated by a Chairperson (possibly independent);
- c) in the performance of their duties, the Committees have the right to access the information and functions necessary to carry out their duties, as well as to avail themselves of external consultants, within the limits of the budget allocated by the Board;
- d) the meetings of each Committee may be attended by persons who are not members, members of the Board or persons invited by the Committee;
- e) the meetings of each Committee are recorded by minutes under the responsibility of the Chairman of the Committee itself. The Committee regularly reports to the Board of Directors;
- f) the Company provides adequate information, in the Management Report or in other information documents, on the establishment, composition and functioning of the Committees.

ARTICLE 3 - CEO AND EXECUTIVE COMMITTEE***Principles***

3.P.1. In order to ensure effective management performance, the Board of Directors has the possibility to grant part of its powers, determining the duration and limits, to one or more executive bodies.

3.P.2. As a rule, the delegation of powers is reserved to a single party (CEO), although in some cases, and where the company operates in separate sectors or needs additional skills, the Board may decide to grant power to two or more parties (co-CEOs).

3.P.3. It is hoped that powers and delegations within the Board will be distributed in such a way that no person can exert a dominant, actual, and emotional influence, according to the so-called principle of "*checks and balances*".

Application Criteria

3.C.1. The Code considers that the CEO should be responsible for:

- a) representing the company limited to the powers expressly stated in the constitution and the Bylaws, with the consequence that, in the absence of express indication, the company representative is presumed to be the Chairperson of the Board of Directors;
- b) formulating proposals on medium to long-term strategies;
- c) formulating annual *budgets*;
- d) presenting proposals of particular importance to the Board, including those relating to extraordinary transactions;
- e) informing the Board about possible conflicts in transactions with related parties involving the CEO or a member of top *management*.

3.C.2. If the Company intends to grant powers to two or more parties (co-CEOs), the Board should pay particular attention to coordination among *leaders*, also through a power of attorney (PoA) system, that accurately recognizes the reasons for attributing unequivocally distinct responsibilities to the different CEOs. The adoption of a collective management structure should never be considered an automatic and apparent solution in the event of an increase in the number of family members potentially interested in becoming involved in management.

3.C.3. In particularly complex circumstances, in order to avoid a concentration of tasks normally attributed to a single CEO, it is possible to establish a so-called Executive Committee, composed of the most influential competent and authoritative members of the Board of Directors, which shall operate collectively.

3.C.4. In the interest of shareholders, where recurring negative economic results are reported, it is recommended evaluating rotating the Company's top management. Such rotation is also recommended when reaching certain age limits.

3.C.5. In family-controlled companies, it is even more important to plan the generational handing down of executive roles in order to deal with any sudden management losses rationally.

3.C.6. The Code recommends that, in particular for larger and more complex companies, both family candidates and managerial market candidates should be considered for executive positions, especially with regard to profiles that have already shown an aptitude to work in family contexts.

ARTICLE 4 - CRITERIA FOR IDENTIFICATION OF BOARD MEMBERS***Principles***

4.P.1. The appointment of directors is, without a doubt, in the corporate governance context. Because of this, thus, it is recommended that the methods of selection ensure a transparent and balanced procedure, while respecting the significant differences between the company and the complexity of ownership, and as indicated above.

Application Criteria

4.C.1. The Board may decide to act collectively to identify Board Members to propose to the Shareholders' General Meeting for future appointment. Where the Board represents a complex ownership structure, however, it may be appropriate to establish an Appointment Committee with an advisory role.

4.C.2. Where such a Committee is established, it is recommended that at least one member of the Board can validly qualify as an independent member and undertake to maintain said status throughout the term of office.

4.C.3. In accordance with the above-stated criteria, the Board may also use external parties to facilitate the search and selection of suitable candidates for the role, as well as the guidelines provided by the *holding company*, in the case of subsidiaries.

4.C.4. Where established, the Appointment Committee has to:

- a) formulate opinions on the composition of the Board of Directors and make recommendations on professional figures whose presence within the Board is deemed appropriate;
- b) propose candidates to the Board in cases of co-optation, where it is necessary to replace independent directors;
- c) carry out a preliminary investigation into the preparation of a possible plan for succession of directors, aimed at facilitating a proper and effective operation of the Board. With regard to the procedures adopted for the succession of directors, they must have clearly defined objectives, well-defined tools, and timely parameters.

ARTICLE 5 - REMUNERATION OF DIRECTORS***Principles***

5.P.1. Directors who perform their work within the Company must be remunerated for this task according to policies in line with the commitment required, as well as based on the results achieved, and the creation of value in the medium/long-term. The remuneration policy should be created and designed to attract, engage and motivate directors with the integrity and the professional qualities required to successfully manage the Company. In this regard, the Company may decide to apply incentive systems (for instance: cash *bonuses*; benefits for pension purposes; company shares or stocks), in addition to a fixed remuneration.

5.P.2. The Code recommends such incentive systems to be applied to directors with certain powers, while any independent directors should be remunerated in accordance with the commitment made in the conduct of the Boards' activities, including participation in the Committees possibly established within the Board.

5.P.3. If the Board of Directors is large in number and considers it useful, an internal Remuneration Committee, consisting of at least one independent director, chaired by a Chairperson, entrusted with the task of proposing the remuneration policies of the directors and executives with strategic responsibilities, shall be established.

5.P.4. The policy for the remuneration of directors with power of attorney, where applicable, defines guidelines consistent with the following criteria:

- a) the fixed and variable components are adequately balanced in accordance with the strategic objectives and risk management policy of the Company, also taking into account the business sector in which it operates and the characteristics of the business activity;
- b) maximum limits for variable components are provided;
- c) the fixed component is sufficient to remunerate the performance of the director in the event that the variable component is not disbursed due to failure to meet *performance* objectives proposed by the Board of Directors;
- d) the goals of *performance*, which will be appropriately *disclosed*, must be predetermined, measurable, and related to value creation in a medium to long-term range;
- e) any indemnity foreseen for termination of the administrative relationship, must be defined *ex ante* in its maximum amount or in the determination parameters.

Application Criteria

5.C.1. The Remuneration Committee, where established:

- a) periodically assesses the adequacy, overall consistency, and application of the remuneration policy of directors and executives with strategic responsibilities;
- b) submits proposals or issues opinions to the Board of Directors on the remuneration of directors with certain functions, as well as on the setting of performance-related objectives to the variable component of remuneration;
- c) monitors the implementation of the decisions taken by the Board, in particular by verifying the actual achievement of performance objectives, which must be made known with extreme clarity.

5.C.2. No director may attend meetings of the Remuneration Committee in which proposals to the Board of Directors regarding his/her own remuneration are made.

5.C.3. If any consultation is given to obtain information on market practices on remuneration policies, the Remuneration Committee is required to verify in advance that the person in charge is not involved in situations that could compromise independent judgment.

ARTICLE 6 - SYSTEM OF INTERNAL CONTROLS AND RISK MANAGEMENT***Principles***

6.P.1. The system of internal controls and risk management is one of the crucial cornerstones of the *governance* of a Company. Such a system requires the definition of principles to maintain, through effective mechanisms, the level of risk that is desired and compatible, so as not to undermine continuity.

6.P.2. The internal control and risk management system involves, for each of its competencies, the Board of Directors, the Control and Risk Committee (if any) and the Board of Statutory Auditors.

Application Criteria

6.C.1. The Board of Directors acts by establishing the principles of internal control and risk management, and monitoring its compliance. It is the responsibility of the said body, at least on an annual basis, to define the guidelines, taking into account the risk profile of the Company, evaluating whether risks are properly identified, measured, managed and monitored, as well as evaluating the overall adequacy of the control system. The Board may also appoint a Director with delegated powers for internal control and risk management.

6.C.2. The internal controls and risk management system involves:

- a) the Board of Directors, which plays a role in addressing and evaluating the adequacy of the system and identifies within it, by virtue of the peculiarities that characterize each company framework, one or more directors in charge of the establishment and maintenance of an effective internal control and risk management system;
- b) the Control and Risk Committee, if established, preferably consists of independent directors that have adequate accounting, financial and risk management experience;
- c) other bodies (*e.g., internal audit*), appropriately coordinated, to maximize efficiency and reduce duplication;
- d) the Board of Statutory Auditors, in order to supervise the effectiveness of the entire system.

6.C.3. Where established, the *internal auditor*, whose appointment is a task of the Board of Directors, carries out the following activities:

- a) directly accesses all the information useful for completing the assignment;
- b) verifies on a continuous base, both in relation to specific needs, and while respecting international *standards*, the suitability of the internal control and risk management system, through an *auditing* plan, approved by the Board of Directors, based on a process of analysis of the main risks;
- c) verifies the reliability of information systems, including accounting systems;
- d) provides periodic reports on the activities and the ways in which risk management is conducted, as well as on compliance with risk control plans. The *internal auditor*, thus, reports to the Board via its Chairperson.

6.C.4. The Company shall have in place information and procedural guidance on relationships with related parties, with particular regard to majority shareholders and their close family members, in order to enable their identification and evaluation. The latter shall be entrusted to the Board of Statutory Auditors, unless otherwise provided by the company, which shall draft a report with the document referred to in the relevant article of this Code.

6.C.5. The Board of Statutory Auditors, the supervisory board, is entrusted with the careful supervision of the entire controlling system, which however, ultimately and always, is the duty of the Board of Directors.

6.C.6. The Company may establish an organizational system and its Supervisory Body in accordance with the provisions of Italian Legislative Decree no. 231/2001 on the liability of the Company for offenses committed, on its behalf, by top management or employees.

ARTICLE 7 - BYLAWS***Principles***

7.P.1. The bylaws discipline with the utmost autonomy the essential issues of the *business* and activities related to the company purpose.

7.P.2. The Code hopes that the bylaws will be subject to periodic revision due to its usefulness and the peculiar flexibility of its nature.

Application Criteria

7.C.1. In order to strengthen the control of the company, the bylaws may contain pre-emption clauses, in which the pre-emptive rights holders are identified and governed, as well as the manner by which said rights actually work. Such clauses restrict access to the company by potential new members, allowing to maintain a balance between internal powers that individual members hold. These can extend their scope to all types of actions or limit it to some special arrangements. An effective definition of the clauses in question is, without doubt, a haven of positive implications.

7.C.2. The bylaws may also contain approval clauses, according to which the approval of the existing holding structure is essential in order to approve new recruits within said company.

7.C.3. In order to achieve a particularly effective *governance*, individual companies may decide, under full autonomy, to divide their share capital into different categories of shares, pursuant to and in compliance with Art. 2348 of the Italian Civil Code, with different rights in respect of, for example, the limits to their transfer or the exercising of the right to vote, the possibility of redemption pursuant to Art. 2437-*sexies* of the Italian Civil Code, and the ways of identifying and designating corporate bodies.

7.C.4. The bylaws may include multiple and greater voting clauses introduced by Italian Legislative Decree 91/2014. If the company did not intend to adopt this clause, it is still possible to evaluate its inclusion in the bylaws.

7.C.5. In order to increase company cohesion, the Code suggests evaluating the adoption of *tag-along* or *drag-along clauses*, as well as shareholders' agreements concerning the management of the company, namely, the voting and control mechanisms of the company structure, which may include the entire shareholders' group as well as some of them, with the aim of limiting potential conflicts and stabilizing control.

7.C.6. In order to handle any conflict situations, the Code suggests the adoption of clauses involving the use of alternative dispute resolution methods.

ARTICLE 8 - STATUTORY AUDITORS AND AUDITING***Principles***

8.P.1. For a proper and efficient conduct of supervisory activity, it is considered appropriate that the statutory auditors draft a written document on the accounting procedures, the financial statements and the practices implemented in the administration of the company.

8.P.2. Within the Board of Statutory Auditors, if any, the Chairman's role is particularly relevant, due to the responsibility of coordination and liaison with other corporate bodies. The latter, according to the best *governance structure*, embodies a third-party character, further guaranteeing the integrity, independence and professionalism of the work. Moreover, said features are strengthened when a periodic rotation occurs.

8.P.3. The Company constantly prepares measures aimed at ensuring the effective performance of the Statutory Auditor's Board duties, which is entrusted with a supervisory role, even by *ex ante* (not just *ex post*), the outcome of which must be brought to the attention of the directors. The Board of Statutory Auditors, in cooperation with the remaining internal control system, will pay particular attention to conflicts of interest that may arise between company assets and family assets. Any safeguards that are in place are well described in the document illustrating the activity of the Statutory Auditor's Board.

8.P.4. Auditors play a prominent role in the company's structure, engaging in auditing on behalf of the shareholders, but acting in full autonomy and independence from them.

Application Criteria

8.C.1. The competence of the auditors, whose evaluation is one of the most important elements reviewed at shareholders' meetings, is ensured by law and facilitated by adequate information on each candidate adequately in advance before the meeting.

8.C.2. The statutory auditors are selected *(i)* among parties *that* qualify as independent according to law, *(ii)* in full respect of the principles of *diversity*, involving both genders, as well as different age groups, and the broadest competence; *(iii)* in general, whilst remaining faithful to the criteria dictated by this document with regard to independent directors. The Board of Statutory Auditors verifies the nominated parties' compliance with these criteria, and ensures constant monitoring of the same, providing timely information for this purpose. Where, *during the* appointment, such requirement is lacking, the person in charge shall be immediately removed from office.

8.C.3. The statutory auditors accept the charge only if they have enough time to devote themselves to the diligent performance of their assignment, avoiding the so-called accumulation of appointments.

8.C.4. The statutory auditors cooperate and actively and effectively report to the Control and Risk Committee, if any, promptly exchanging the relevant information in order to carry out their respective tasks.

8.C.5. It is desirable to involve a primary auditing firm, while calibrating its involvement with the size of the business, thus providing effective control mechanisms for the certification of the financial statements and ensuring that the general accounting is properly maintained.

8.C.6. Statutory auditors holding an interest on a given transaction, either on their own or on behalf of third parties, are required to inform the Chairperson of the Board of Directors in detail and promptly.

8.C.7. The remuneration of the statutory auditors must be related to the commitment required by the nature of the charge and also set in relation to the role of their position, the sector in which the company operates and the size of the Company itself.

ARTICLE 9 - PLANNING AND SUCCESSION PLANS***Principles***

9.P.1. Being aware of the differences that the company size and ownership structure involve, it seems appropriate for the members and the Board of Directors to ensure the continuity of corporate governance and management of the company by defining precise regulations for effectively addressing generational transitions or ownership changes.

9.P.2. For the purposes of administration of the company, succession plans must be appropriately established in advance, taking into account the specific conditions of the company, the Group and possibly the currently controlling family.

Application Criteria

9.C.1. In order to preserve stability and harmony in the company structure, it is recommended that the coordination, planning, and implementation of succession plans be entrusted to a Committee representing the various branches of the family, attended by at least one of the representatives of the independent board members, to ensure better balancing of interests.

9.C.2. Succession plans should be created taking into account the need to establish appropriate ownership and leadership transfer regulations, inspired by criteria of responsibility, meritocracy, spirit of sacrifice, adaptability to change, and a humble, attentive and positive attitude of the successor(s). It is deemed appropriate that special attention should be paid to the succession of the founder-entrepreneur, as a charismatic figure, fully identified with the business itself, as well as the generational handing down of the company in the presence of several possible successors; a situation which poses the relevant (but necessary) issue of selecting the *leader*.

9.C.3. In this regard, it appears useful to lay down clear rules as guidelines, particularly for more complex family structures. If, after a well-thought-out evaluation, a management succession appointing a family (rather than non-family) member is preferred, in the presence of only one heir, it is "sufficient" to plan training courses, periodic evaluations and careful communication of results. In the presence of more heirs, it is also necessary to ensure fairness of treatment, and to encourage mutual acknowledgement and acceptance of *leadership*.

9.C.4. In all cases, it is essential that the start of the *process* takes place in good time, that is when the entrepreneur or the *leader* are at such an age as to ensure an effective oversight of the process, and in any case under the strict supervision of the governing bodies, as suggested in this Code.

9.C.5. For the purposes of planning succession, but not limited to, it may be appropriate to create a corporate structure that provides a control *holding company*, with the purpose of ensuring consistency and continuity in management of shareholdings, and the company or operating companies. A *holding company* creates a remarkable central force within the ownership structure.

ARTICLE 10 – CORPORATE GOVERNANCE MODELS***Principles***

10.P.1. This Code is drafted based on the traditional corporate governance model. This, however, does not prohibit to apply the principles also to other corporate governance models.

10.P.2. In case of the adoption of a two-tier or one-tier board structures, the terms set forth herein apply as they are compatible, adapting each case to the specific system chosen, consistent with the objectives of effective corporate governance.

10.P.3. If a new corporate governance model is proposed, the directors shall inform the shareholders on the reasons for such proposal, and how to apply said Code to it.

Application Criteria

10.C.1. In case of adoption of the dual-tier model, the application of the Code shall be subject to the following criteria:

- a) the Company may, in accordance with the specific statutory options adopted, determine the composition of the bodies and the powers assigned to them, may apply the provisions concerning the Board of Directors both to the Board itself and to the Supervisory Board;
- b) in principle, the Articles of the Code referring to the Board of Directors and the Board of Statutory Auditors are applied, respectively, to the Management Board and the Supervisory Board, or to their members;
- c) the provisions on the appointment of Directors as provided for by the Code shall apply, as applicable, to the appointment of the members of the Supervisory Board and/or the Management Board.

10.C.1. In case of adoption of the one-tier model, the application of the Code shall be subject to the following criteria:

- d) in principle, the Articles of the Code that refer to the Board of Directors and the Board of Statutory Auditors, or their members, apply to the Board of Directors and to Management Control Committee respectively, or their components;
- e) the functions attributed by the Code to the Control and Risk Committee, may be referenced to the Management Control Committee provided by Art. 2409-*octiesdecies* of the Italian Civil Code, if in compliance with the criteria indicated in this document.

10.C.3. Adherence to the Code generally requires compliance with the principle by which recommendations made to directors in the traditional model are immediately transposed to the members of the Management Board (in two-tier) and Board of Directors (in one-tier), and those which refer to the Statutory Auditors shall apply to the members of the Supervisory Board (in two-tier), and to the Management Control Committee (in one-tier).

10.C.4. With particular reference to the two-tier Model, taking into account the main foreign experiences, it is preferable to apply the recommendations of this Code, on the composition of the Board of Directors and Committees, not to the Management Board, and since they are compatible, to the Supervisory Board, due to its make-up and nature.

10.C.5. With specific reference to the one-tier model, however, it is considered that the functions of the Control and Risk Committee may be exercised by the Management Control Committee in order to avoid the presence, within the Board of Directors, of two Committees with similar functions.

AIDAF - ITALIAN ASSOCIATION OF FAMILY BUSINESSES

AIdAF, the Italian Association of Family Businesses, was founded in 1997 by Alberto Falck, jointly with a group of entrepreneurs bound by the same principles.

AIdAF aims to be "**A point of reference in Italy for family businesses**"; today, it has encompassed more than 180 companies representing approximately 14% of Italy's GDP.

In particular, AIdAF's purpose **is to raise awareness that an ethical style of "doing business" will prove to be a key asset for healthy business growth in the near future**. This means increasing awareness among entrepreneurs and companies, in order to effect successful achievements, which will benefit from distinguishing themselves, as a distinctive trait, for the attention given to the human side of work, and for the **ability to equip themselves with an effective governance structure based on integrity, conviction and merit**.

AIdAF essentially performs three types of activity:

- **Training and empowerment** of the members of the associated families, whether, or not, they are involved in the operational management of the company, also approaching the *family business* with the first non-family management structure.
- **Institutional projects** within national and European policy for the maintenance and establishment of a legal and regulatory environment for family businesses, their development and their generational continuity over time.
- **Exchange experience** through the organization of meetings to foster the network of contacts between the affiliated business families.

The programs of the Association, develop of a series of **institutional activities** which allow for participating, through skilled working tables, in a **constant dialogue with Italian and international institutions and government bodies on issues related to the needs of associated companies**, such as: Taxes & Succession Law, Corporate Law, Governance, Labor and Welfare.

AIDAF-EY FAMILY BUSINESSES CHAIR

The **AIdAF-EY Family Business Strategy Chair, in memory of Alberto Falck**, was established in 2014 from the experience of the previous "AIdAF Alberto Falck Family Business Strategy Chair", set up in 2004 by Bocconi University, with the aim of highlighting the important role that the family business model plays both in Italy and internationally, as well as to study its specifics.

The AIdAF-EY Chair, the first of its kind established in Italy, is supported by AIdAF (Italian Association of Family Businesses), EY (Ernst & Young) and a pool of well-known Italian family businesses, and is dedicated to the development of research, education and participation in institutional activities related to family businesses. The AIdAF-EY Chair contributed to the publication of academic articles, books and case *studies*, as well as organizing national and international conferences and workshops. Between 2008 and 2016, its researchers published about 35 articles on international journals.

With the support of AIdAF and Unicredit, in 2009, the Chair established the first Observatory (AUB, acronym AIdAF-Unicredit-Bocconi) on all Italian family businesses with a turnover of over 20 million Euros. The AUB Observatory currently consists of the most complete and extensive research available in Italy on Italian family-run companies, and has the ambitious goal of representing the state of the art in terms of empirical knowledge on the main family businesses in the country.

To date, they collaborate with the Guido Corbetta, Mario Amore, Luana Carcano, Carmelo Cennamo, Xing Kelly Chen, Alessandro Minichilli, Daniela Montemerlo, Paolo Morosetti, Fabio Quarato, Carlo Salvato and Paola Taricco Chairs.