Corporate Governance in Publicly Traded Family Firms

III BANCA MARCH-IE REPORT

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Dear Reader,

This year, the III Banca March - IE Business School Report on Family Businesses discusses Corporate Governance. Without a doubt, this is one of the aspects that investors are focusing on the most, particularly because of the implications it has on the long-term feasibility of companies.

Furthermore, the experience in European companies is compared to American companies, with more than 1,100 companies from seven countries being analysed over the 2008-2013 period, thus covering the full impact of the global financial crisis.

In turn, late last year, we celebrated the third anniversary of the launch of our investment fund, The Family Businesses Fund, which aims to invest in listed family businesses around the world with an assessment philosophy in which the analysis of Corporate Governance is an essential factor. From its launch until May 2015, compound returns reached 63%, making it March A.M.'s most profitable investment strategy.

I would also like to take this opportunity to thank professors Cristina Cruz and Lucía Garcés for their excellent research work, as well as the other professors at IE Business School who have participated. Without their efforts and dedication, another small secret as to why family businesses are much more profitable in the long run would not have been revealed.

I trust you will also find this of interest. Best regards,

José Luis Jiménez Guajardo-Fajardo
General Manager, March Asset Management

Corporate Governance in Publicly Traded Family Firms

MARCH A.M.
BancaMarch

MARCH ASSET MANAGEMENT

March Asset Management is the asset manager of Banca March. With over EUR 1,900 million and a team of 25 professionals, its investment philosophy combines value creation and wealth protection. Its main areas of specialisation are global equity and asset allocation. In recent years, MAM has received numerous prizes and awards for its management achievements.

BancaMarch

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Banca March is one of the leading Spanish financial groups, with one of the highest solvency ratios in Europe (26 Core Capital). It ranked 1st in the stress tests conducted in 2010 and 2011 on European banks, according to the Committee of European Banking Supervisors. It was also chosen as the best Private Bank in Spain by World Finance in 2010, 2011 and 2012. Banca March is a family-owned business specialised in private banking, corporate banking and asset management.

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IE BUSINESS SCHOOL

IE Business School trains leaders to foster innovation and change at organisations. Acknowledged as one of the leading business schools in the world, IE Business School has a city campus in Madrid and offices on 5 continents. The business school has a faculty of more than 400 professors who currently teach classes to students from 93 countries in Master's, PhD and Executive Education programmes. IE Business School develops online and face-to-face learning methods that benefit the school's network of communities, composed of 40,000 graduates who hold management positions in more than 100 countries.

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I. Introduction

1. Why conduct a study on Corporate Governance in listed family businesses?

The recent financial crisis has made stakeholders of all kinds increasingly aware of everything related to Corporate Governance in listed companies, leading business management experts, analysts, legislators and the media to focus on the issue and prompting a heated debate around the world regarding the Good Governance guidelines that listed companies should follow.

Proof of this is the proliferation of Corporate Governance initiatives that have been developed in numerous countries, taking the shape of compulsory regulations included within Companies Laws, on the one hand, and voluntary recommendations contained in Good Governance Codes, on the other. All these initiatives arise from the conviction that listed companies must be managed responsibly, effectively and transparently, in order to gain the trust of investors and maximise value creation, and that Corporate Governance is an essential instrument in accomplishing this goal. This is clearly reflected in the new Spanish Good Governance Code passed under a Resolution by the Board of the CNMV (the Spanish National Securities Market Commission) on 18 February 2015, which sets forth the following objectives: a) to ensure that the governing and administrative bodies of companies function properly to maximise competitiveness; b) to build trust and transparency for shareholders and investors; c) to improve internal controls and corporate responsibility systems at companies and d) to ensure the correct internal distribution of functions, duties and responsibilities at companies, under standards of maximum professionalism and rigour.[1]

Listed family businesses cannot, and should not, ignore this trend. Regardless of the country of origin, Corporate Governance Codes establish a scope of action defined as “listed companies as a whole, no matter the size or level of capitalisation”, and therefore, no distinction is made in relation to the ownership structure of the company. In previous Banca March-IE Reports, we discussed how the distinctive features of family businesses explained the existence of a 'family premium' in European Stock Markets, meaning the higher profitability of listed companies with a reference family group[2]. However, we also pointed out certain risks related to family control that could damage the image of family businesses and make them less competitive, which might explain why family businesses were less highly valued in the markets, despite their higher profitability. The third Banca March-IE Report, as explained in the next section, arises precisely from the conviction that many of these risks could be mitigated by enhancing the Corporate Governance structures of listed FFs (family firms).

1 Código de Buen gobierno de las Sociedades Cotizadas. http://www.cnmv.es/DocPortal/Publicaciones/CodigoGov/Codigo_buen_gobierno.pdf

2 Cruz, C. and Letamendia, L. (2013). La Creación de Valor en la Empresa Familiar Cotizada Europea. I Informe Banca March-IE
Cruz, C. and Letamendia, L. (2014). El “family Premium” en la empresa familiar cotizada. II Informe Banca March-IE

2. Distinguishing features of Corporate Governance in listed family businesses

Despite the relevance of family businesses around the world and the importance given to the study of Corporate Governance for over a century now, research on Corporate Governance at organisations under family control are relatively recent[3]. This is no coincidental oversight, however, but rather the consequence of two inter-related factors:

- **An initially limited concept of Corporate Governance, developed within the financial field.** Under this concept, Corporate Governance could be defined as a set of standards designed to avoid conflicts of interest between owners and management (agency problems), which are more common in non-family businesses with diversified shareholder groups. The solution to these conflicts of interest entails certain costs, known as agency costs, which represent a decrease in the company's value[4].

- **A traditional view of family businesses as organisations in which agency problems were virtually non-existent and therefore the implementation of control mechanisms to correct them were unnecessary.** This view assumes that the convergence of shareholders and directors within the same family ensures the alignment of interests amongst the parties involved. Likewise, the family's participation in the board of directors (BD) enables the supervision of the directors' work, thus minimising the agency problem that arises.[5]

The actual circumstances in business have compelled a revision of these concepts, which has prompted interest in the study of Corporate Governance in companies controlled by a family group. On the one hand, the financial model of Corporate Governance has evolved toward a much broader view that includes designing mechanisms to regulate agency problems amongst a greater number of stakeholders, beyond shareholders and directors. On the other, studies on family businesses published over the last decade reveal that, although family ownership minimises certain types of agency costs, others may be created as a result of the idiosyncrasies inherent to the family business.

As explained in previous reports, the main distinguishing feature of family businesses can be summarised in the fact that earning financial profit (maximising financial wealth) co-exists with achieving other non-economic objectives that are important for the owner family, such as the possibility of employing other members of the family or transferring wealth to future generations (maximising socioemotional wealth)[6]. Figure 1 summarises how these distinguishing features affect Corporate Governance in family businesses.

3 Villalonga B, Amit R. 2006; Li, F, Srinivasan S. 2011; Shleifer A, Vishny R. 1986; Klein P, Shapiro D, Young J. 2005
4 Jensen M, Meckling W. 1976
5 Bettinelli C. 2011; Anderson R, Reeb D. 2004
6 Gómez-Mejia, Cruz, Berrone and De Castro, 2011

Figure 1. Advantages and Disadvantages of FFs in Corporate Governance

POSITIVE ASPECTS	NEGATIVE ASPECTS
• Commitment to the business project. • Long-term vision. • Alignment of interests between owners and directors.	• Nepotism. • Absence of meritocracy. • Control prevails over achievement of financial targets.
• Greater importance of extrinsic compensation systems based on motivation. • More efficient supervision mechanisms, as there is less asymmetrical information.	• Less efficient internal control mechanisms (i.e. board of directors and compensation) due to the family ties between the parties. • Less efficient external control mechanisms (i.e. takeovers) due to the strong control over the company by the family.
• Lower risk of conflicts of interest between shareholders and directors. • Lower risk of opportunistic conduct by directors.	• Greater risk of conflicts between family shareholders and minority shareholders. • Greater risk of adverse hiring. Difficulty in attracting external talent and disciplining executives that are family members.

Source: Prepared internally based on studies published on CG in Family Businesses

Despite the positive effects of family control, such as management methods, the financial markets and the diverse stakeholders that operate within them are aware of the risks involved in relation to reduced protection for minority shareholders and a management style that is sometimes too personal and not always in line with the goal of creating value. Therefore, they demand that family businesses display even greater levels of transparency and governance than other organisations not under family control. If family businesses intend to continue creating value in increasingly competitive markets, they must be capable of meeting these demands by implementing effective governance mechanisms and adopting many of the good governance recommendations included in the codes.

In one ground-breaking study on Corporate Governance and Family Businesses, William Schulze asserts that, based on the fact that “family businesses represent a different form of governance”…. “there may be two types of family businesses, those that recognise the need to implement internal governance mechanisms to mitigate the agency problems they face, and those that do not”…. “The adoption of these mechanisms may explain why some companies prosper while others disappear”[7]. The objective of this third Banca March-IE Report is precisely to identify what distinguishes these family businesses that are committed to adopting Good Corporate Governance practices and which Good Governance recommendations have the greatest impact on value creation in family businesses.

7 Schulze 2001. p. 211.

3. Goals and sample of the III Banca March - IE Report

The ultimate goal of the study is to serve as a guide for all listed family businesses on where to focus their efforts in Corporate Governance, as well as provide investors and analysts a tool to aid them in their investment decision-making. Specifically, we will endeavour to answer the following questions:

OBJECTIVE 1	What is the Corporate Governance situation in listed family businesses compared to non-family businesses?
OBJECTIVE 2	What characteristics of family businesses improve their Corporate Governance Ratings?
OBJECTIVE 3	What relationship is there between Corporate Governance and profitability in FFs?
OBJECTIVE 4	Which are the best family businesses in terms of Corporate Governance?

To fulfil these objectives, the III Banca March-IE Report makes a quantitative analysis **of a sample of 1,127 listed companies[8]:**

- Given that there are significant differences between Corporate Governance systems in the USA and Europe, the Report distinguishes between two geographic regions: USA and Europe. In turn, within Europe, 6 countries are analysed: Spain, Switzerland, Germany, United Kingdom, Italy and France.
- Based on previous definitions used in academic studies on FFs, the Report classifies 23.70% of these companies (265) as family businesses[9].
- In order to discern trends and provide greater validity to the results, the Report monitors Corporate Governance of the companies over 6 years. Specifically, the period spanning from 2008-2013 is analysed.

2 GEOGRAPHIC REGIONS / **7** COUNTRIES	**1127** LISTED COMPANIES	TIME HORIZON **6 YEARS**
USA, United Kingdom, France, Italy, Spain, Germany and Switzerland	**23.6% (265)** Family Businesses **76.4% (861)** Non-Family Businesses	Time Period: **2008 - 2013**

8 APPENDIX 1 describes the final sample extraction process for the study in detail
9 See APPENDIX 3: Definitions of Family Business used in the Report

II. Corporate Governance in listed family businesses compared to non-family businesses

1. How do we measure Corporate Governance?

In order to compare Corporate Governance practices in listed FFs vs. Non family firms (NFF) composing the sample for the III Banca March - IE Report, we have used two Corporate Governance Ratings prepared by two different companies specialised in data collection and analysis relating to Corporate Governance and Social Responsibility in listed companies, ASSET 4, prepared by Thompson Reuters, and CSRHUB (Table 1)[10]. These ratings are often used by investors and directors to assist in making strategic and investment decisions. Based on diverse sources, the ratings take information on the degree of compliance by companies in relation to Corporate Governance and convert it to scales that make it possible to establish comparisons between companies. Although the ultimate goal of these ratings is to gauge the quality of the Governance as a whole, each index contains different dimensions of Governance, which do not always coincide. Therefore, we have decided to use two different Corporate Governance indicators, despite the complexity that this entails in terms of data collection and analysis, in order to reduce criticism regarding the subjectivity of these types of ratings and afford greater validity to the results attained.

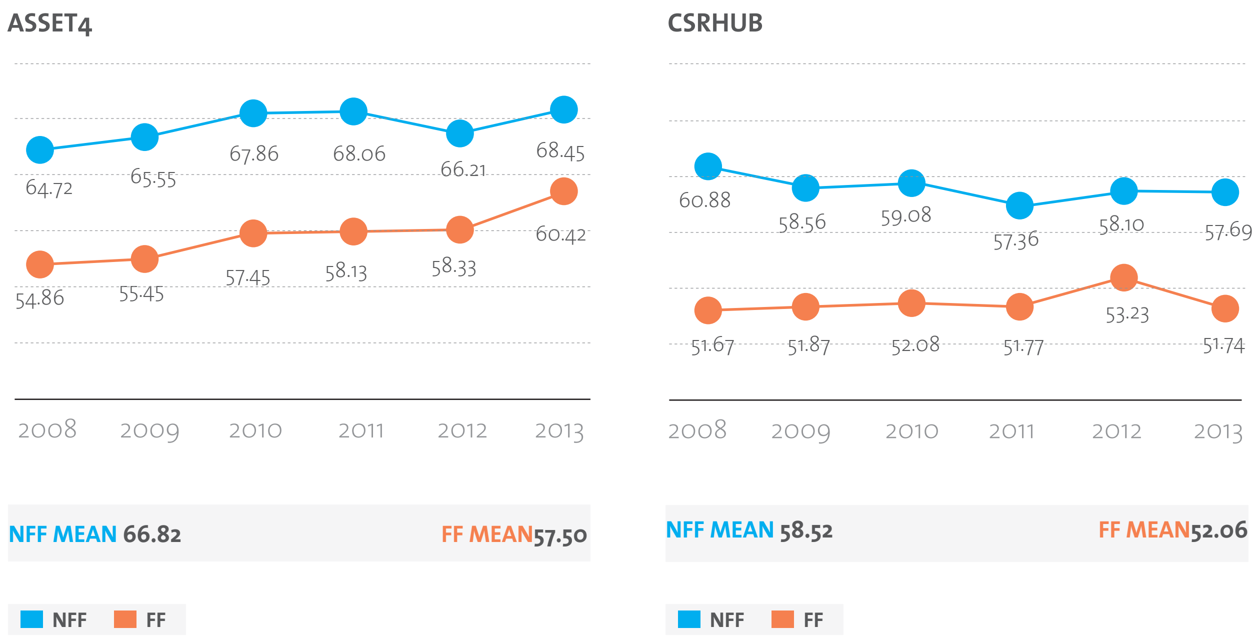
Table 1. Corporate Governance Ratings used in the report

	CSRHUB	ASSET4
DEFINITION	The CSRHUB Corporate Governance Rating gauges the degree to which companies establish Corporate Governance policies and procedures in relation to independence and diversity on the board of directors, director compensation practices, attention to stakeholder concerns and ethical leadership at a company.	The Asset4 Global Corporate Governance Rating measure the degree of compliance by companies in Corporate Governance in terms of the composition, structure and functioning of the Board of Directors, protection of shareholders' rights and compensation policies for board members.
DATA SOURCES	The sources from which data were attained include ASSET4 (Thomson Reuters), Carbon Disclosure Project (CDP), EIRIS, Governance Metrics International, IW Financial, MSCI (ESG Intangible Value Assessment and ESG Impact Monitor), RepRisk, Trucost and Vigeo.	The company collects and analyses information from the companies' annual reports, websites, newspapers and specialised magazines.
SCALE	0-100	0-100

2. Are there differences between the Corporate Governance ratings of family and non-family businesses?

Both CG Ratings display lower values for FFs than for NFFs, which indicates that listed FFs are less well-governed. Analysis of the trends over time for both Ratings also shows that, for all 6 years analysed, **FFs displayed lower levels of Corporate Governance practices than NFFs. (Graphs 1a and 1b)**

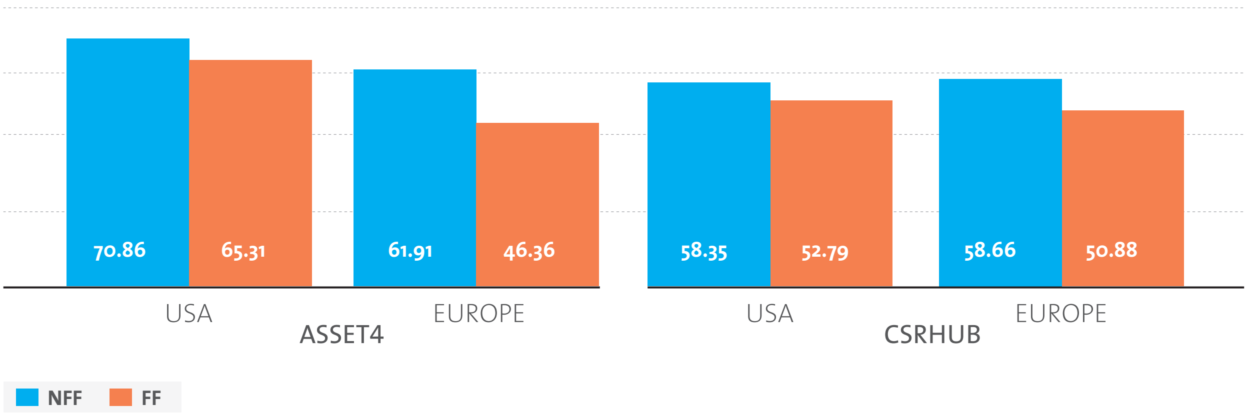
Graphs 1a and 1b. Corporate Governance Rating trends over time (ASSET4 and CSRHUB)



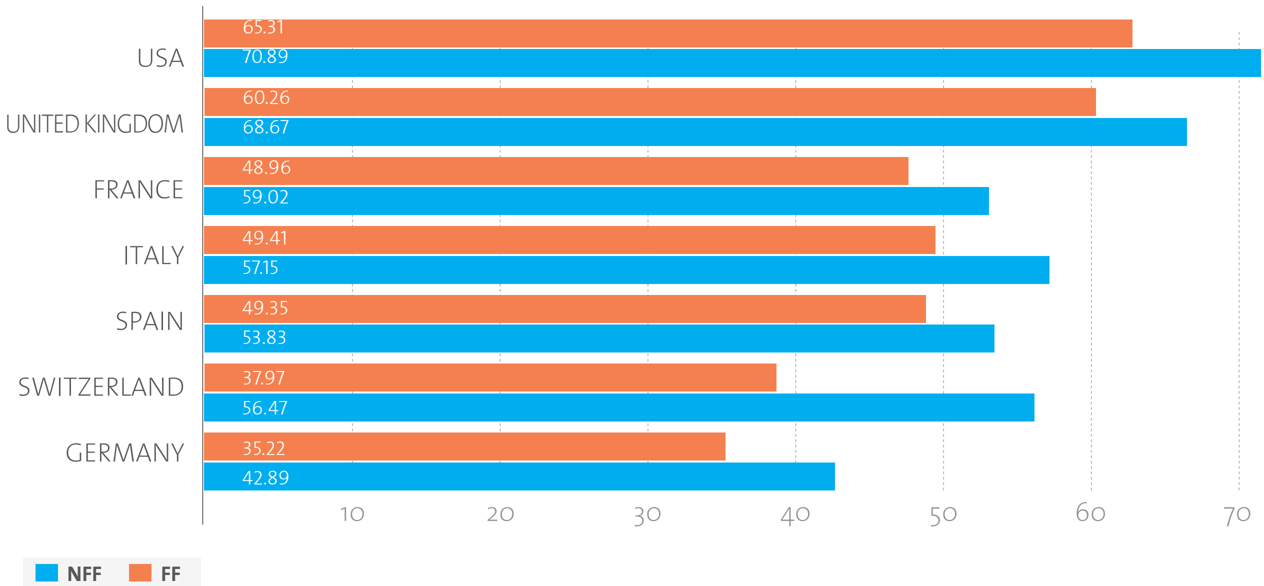
10 For further information on the methodology and coverage of the Ratings, see APPENDIX 4

European family businesses showed levels of governance that are clearly lower than family businesses in the USA. The differences in favour of NFFs exist in the USA and in Europe, although they are more pronounced in the case of Europe. Furthermore, as shown in Graph 2b, regardless of the family dimension, companies in the USA and the United Kingdom have higher levels of CG than the rest.

Graph 2a. CG Ratings: Differences between USA and Europe



Graph 2b. Corporate Governance Rating per country



3. Why are Corporate Governance Ratings lower for listed family businesses?

3.1. ANALYSIS OF CORPORATE GOVERNANCE DIMENSIONS

The quality of the Corporate Governance at a company can be measured using diverse dimensions that range from the composition of its board of directors to the efficiency of its reporting mechanisms and compensation policies. For this reason, the CG Ratings include different categories that make it possible to analyse a company's CG in a more detailed manner. Tables 2 and 3 describe the different categories included in the ratings used in the III Banca March - IE Report.

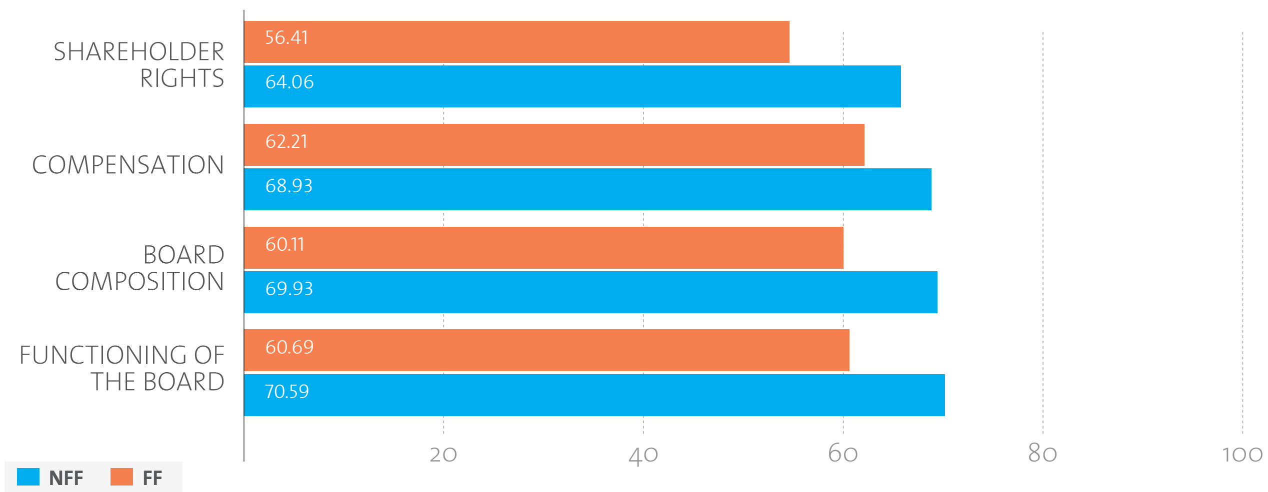
Tables 2 and 3. Dimensions of Corporate Governance Ratings

Overall Rating: CSRHub	Overall Rating: ASSET4
DIMENSIONS	**DIMENSIONS**
Board of Directors: Effectiveness of a company in following best practices in Corporate Governance principles related to the board of directors.	**Functioning of the Board of Directors:** The company's capacity to have an effective BD, assigning suitable committees with clearly defined tasks and responsibilities.
Ethical leadership: This measures how a company manages its relations with its diverse stakeholders, including investors, customers and regulators, as well as the effectiveness of the company in treating its shareholders and employees fairly.	**Composition of the board of directors:** A company's capacity to ensure independent decision-making through an independent, diverse BD with members that have proven professional experience.
Transparency: Corporate policies and practices aligned with objectives of sustainability, including the degree to which company management is transparent for its stakeholders.	**Compensation policies:** The company's capacity to attract and retain key executives and board members through appropriate compensation policies.
	Shareholder rights: The company's capacity to attract and retain minority shareholders, ensuring them equal rights and limiting the presence of mechanisms to prevent takeovers.

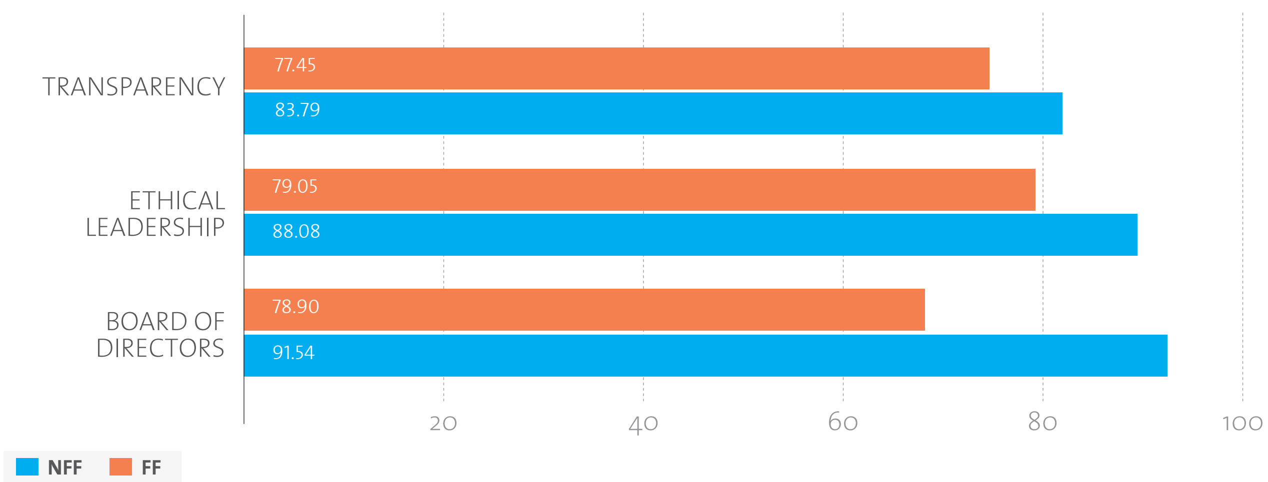
Through a comparative analysis of the scores attained in the different dimensions by family businesses and non-family businesses, the following conclusions can be reached:

- **In all dimensions, FFs display lower values than NFFs**. As shown in graphs 3a and 3b, CG of FFs displays lower values in all the dimensions measured in the two ratings used in the report.
- In both ratings, the greatest differences between FFs and NFFs are seen in the dimensions referring to **functioning and composition of the board of directors, in which FFs receive a clearly lower score.**

Graph 3a. CG Ratings by dimension (ASSET4)

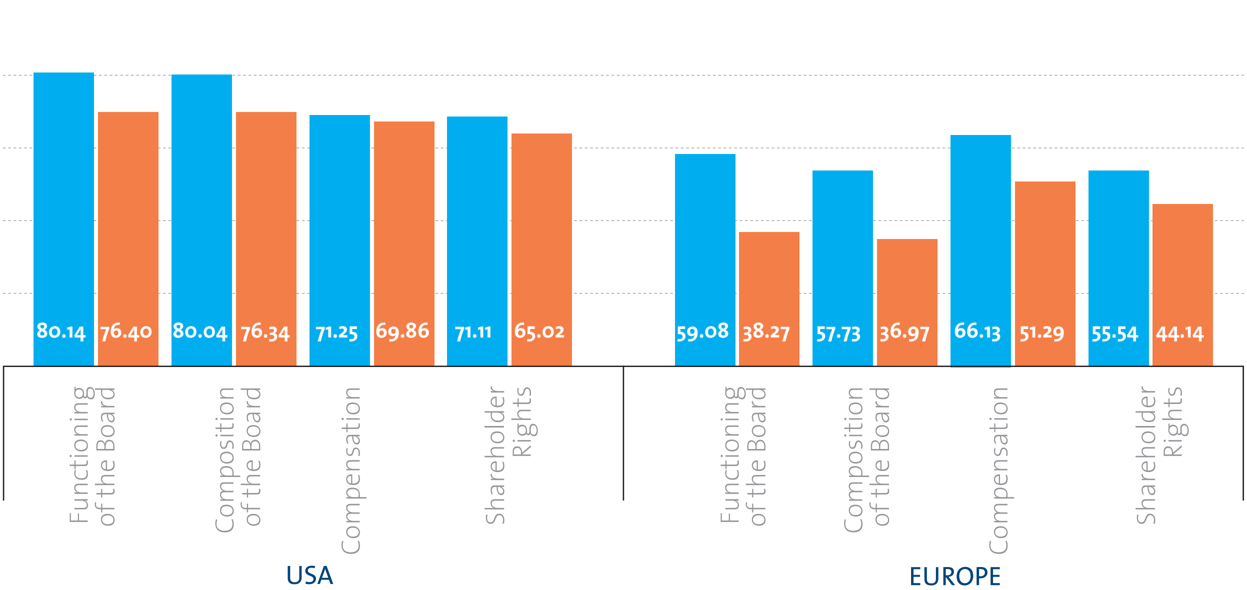


Graph 3b. CG Ratings by dimension (CSRHUB)

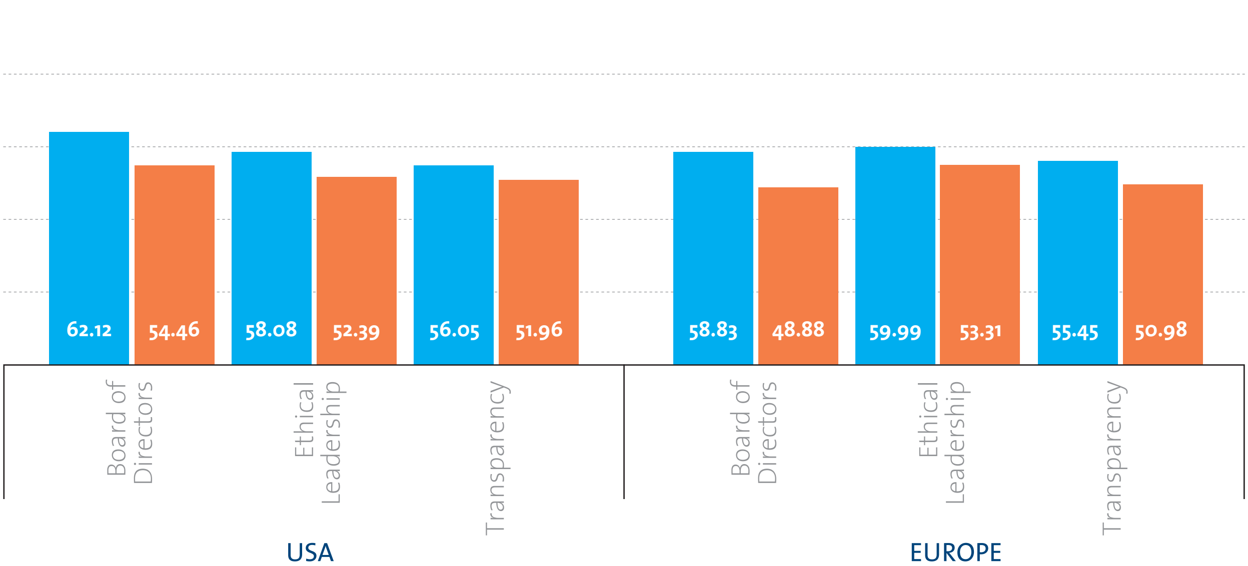


- **The differences are much more pronounced in the case of Europe than in the USA**. As indicated in graphs 4a and 4b, European family businesses display clearly lower levels in all the dimensions of the ratings than non-family businesses, and once again the differences as regards the board are the most striking.

Graph 4a. ASSET4 CG Ratings per dimension in USA and Europe



Graph 4b. CSRHUB CG Ratings per dimension in USA and Europe



3.2. DEGREE OF COMPLIANCE WITH GOOD GOVERNANCE RECOMMENDATIONS BY FFS

The CG Rating dimensions include many of the recommendations contained in the Good Corporate Governance Codes. In this section, we compare the degree of compliance by FFs vs. NFFs with some of these recommendations in order to gain a better understanding of the reasons for their lower CG levels.

DIMENSION 1

Recommendations regarding the functioning of the Board of Directors

Size of the Board

- It is recommended that the board have the right size to enable it to function effectively and in a participatory manner. In the case of the Spanish Code, the ideal dimension is between five and fifteen members.

Board meeting frequency

- The Codes suggest that the board should meet as often as necessary to guarantee that it correctly fulfils its duties, and the Spanish Code sets forth a minimum of 8 meetings per year.

Board meeting attendance

- In this regard, it is recommended that absences of board members should be restricted to the minimum cases and they are quantified in the CG report.

Existence and composition of committees

- The different Codes recommend that the majority of independent board members should be present in the audit committee and that its members should be chosen on the basis of their experience in accounting and risk management.
- They also recommend that two separate committees exist for appointments and compensation, and that their members should also be independent and professional.

A broken down analysis of the most relevant variables relating to the board of directors clearly indicates that **listed FFs are less compliant with the Good Governance recommendations on the functioning and composition of the BD of listed companies.** Specifically:

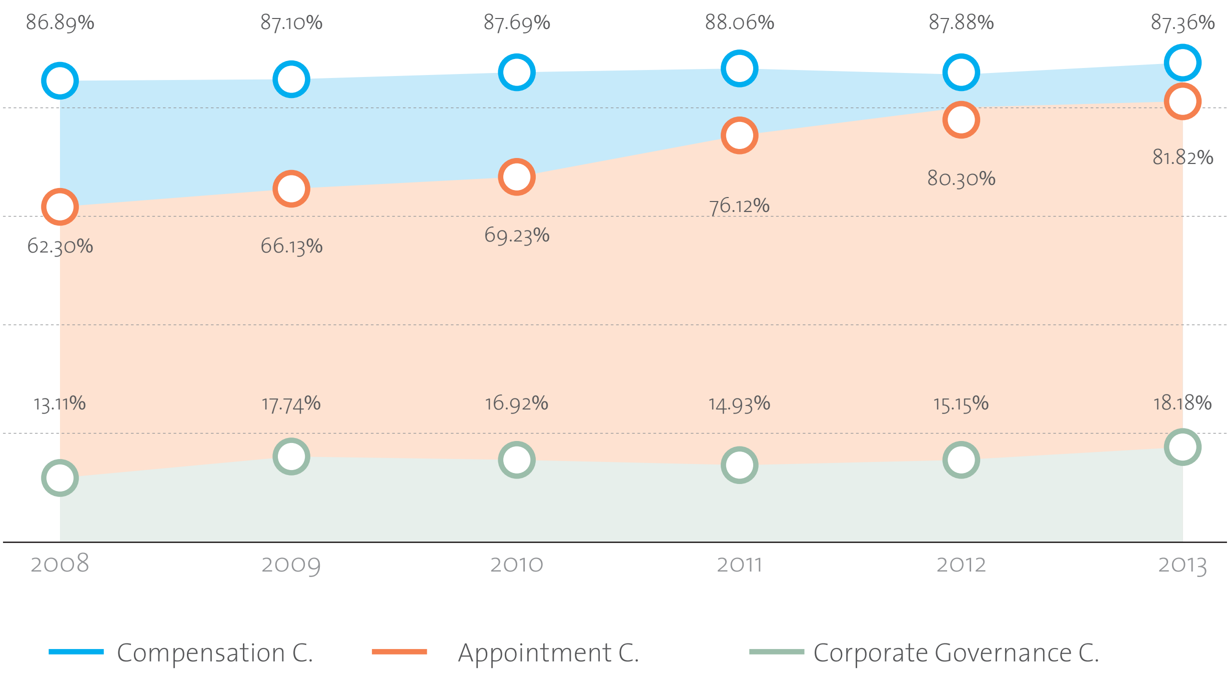
- **Corporate governance and appointment committees are less common amongst FFs. Moreover, these differences are much more striking in the case of Europe (Table 4).**
  - 16% of FFs have a corporate governance committee, compared to 22% of NFFs in Europe. In the USA, the differences are not as significant, with 92% for FFs and 99% for NFFs.
  - A similar situation exists for appointment committees, which are present in 72% of FFs, compared to 95% of NFFs in Europe and 96% compared to 99% in the USA.
  - All the American companies have compensation committees, while this percentage drops to 87% in Europe for FFs and 96% for NFFs.

Table 4. Companies with CG, Appointment and Compensation Committees in FFs and NFFs per country (%)

	EUROPE FF	EUROPE NFF	USA FF	USA NFF
Corporate Governance Committee	16%	22%	92%	99%
Appointment Committee	72%	95%	96%	99%
Compensation Committee	87%	96%	100%	100%

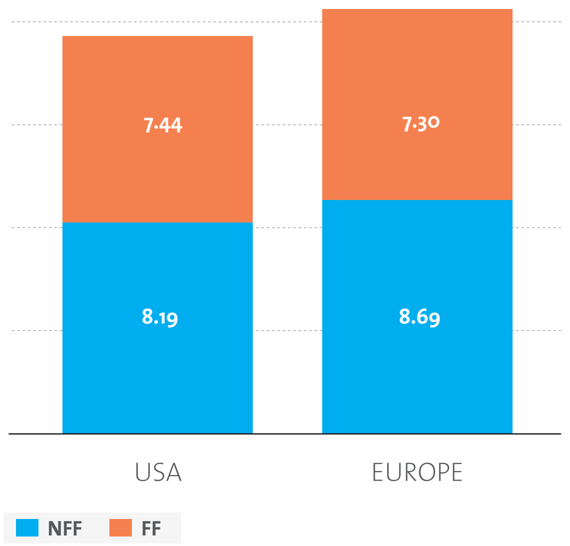
Despite being at a disadvantage, Graph 5 indicates that European FFs are making efforts in this regard, with an increasing percentage of FFs choosing to implement these committees as part of their Corporate Governance systems.

Graph 5. Percentage trends of European FFs with Appointment, Compensation and Corporate Governance Committees

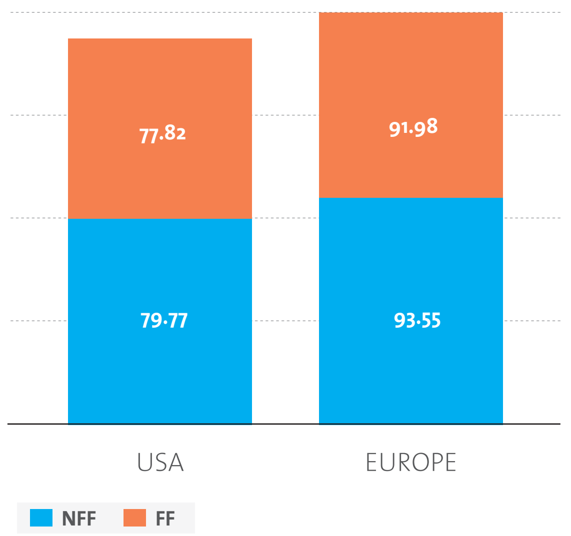


- **The BD meets less frequently in the case of FFs.** The Board meets 8.4 times on average in NFFs compared to 7.3 in family businesses. In this case, the differences between the USA and Europe are not very significant.
- **Average attendance by board members is higher in the case of FFs,** where the average attendance rate for board members is 85% compared to 82% in NFFs. In this case, the board members of European companies, both FFs and NFFs, attend board meetings more regularly.

GRAPH 6. FREQUENCY OF BD MEETINGS

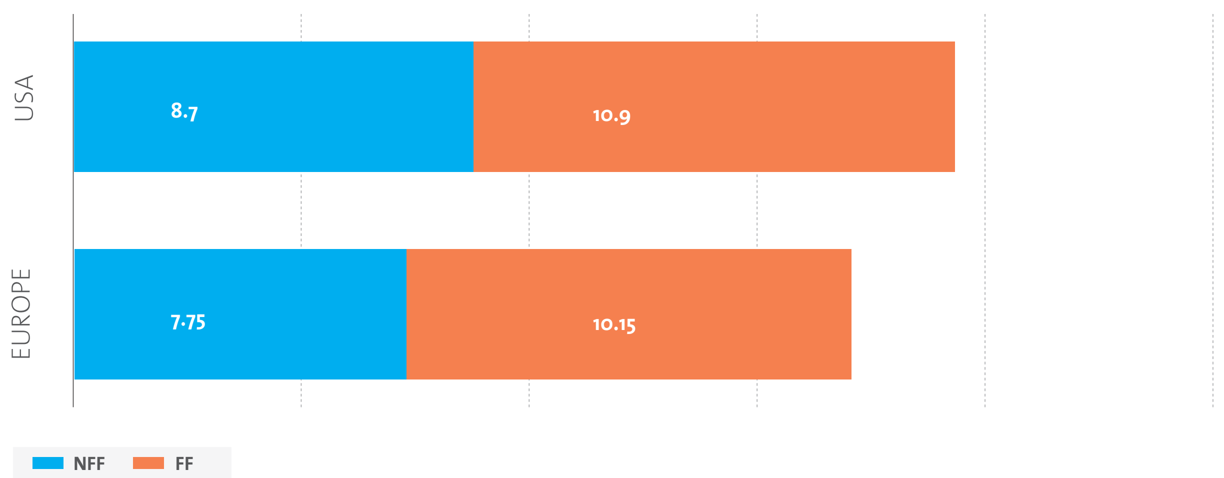


GRAPH 7. AVERAGE ATTENDANCE AT BD MEETINGS (%)



- **In FFs, board members tenure is longer than in NFFs.** On average, a board member remains on the board for 10 years in a FF, while this period is 7 years in NFFs.

GRAPH 8. BD TENURE



- **The average** size of the board of directors in listed companies is 10 members, and there are no differences in this regard between the USA and Europe or between FFs and NFFs.

DIMENSION 2

Recommendations regarding the composition of the Board of Directors

Balanced BD

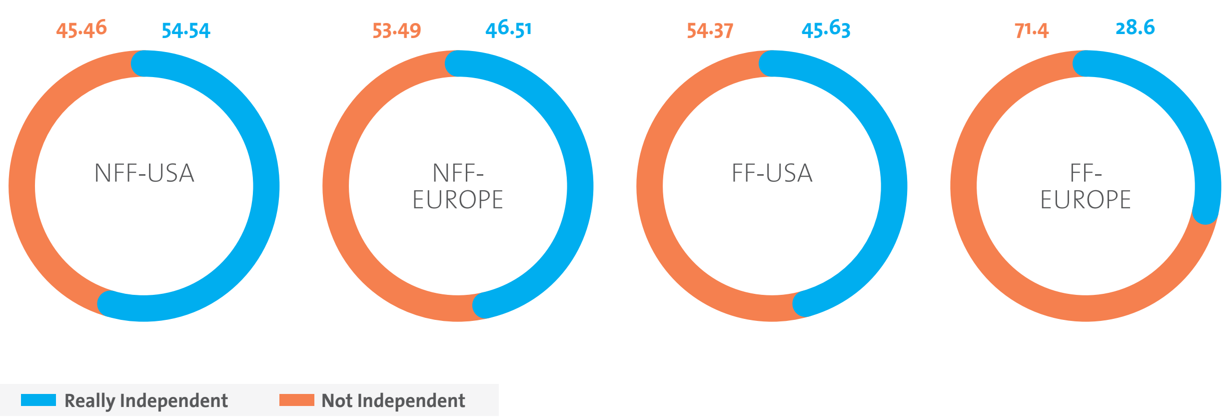
- The Codes recommend a balanced BD composition, with a strong presence of non-executive directors and a suitable number of independent members. The Spanish Code recommends keeping the number of executive directors to a minimum and that at least half of the members should be independent. However, this percentage drops to one third in the case of companies in which one shareholder owns a high percentage of the capital, as in the case of FFs.

Presence of women

- The Codes recommend fostering the objective of reaching a percentage of at least 30% female board members out of the total number of members of the BD by 2020.

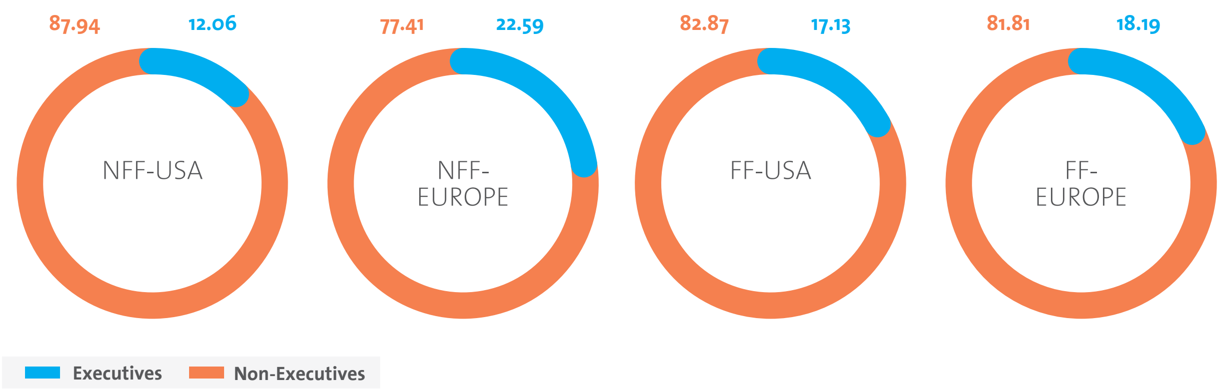
- The data place the percentage of independent members of the BD of listed companies at 82% for NFFs and 56% for FFs. However, the percentage of these members that actually meet all the conditions to be considered independent is much lower: 51.44% for NFFs and 41.20% for FFs.
- **The number of board members that are "really independent" is lower in FFs than in NFFs, and this difference is more pronounced in Europe.** As indicated in Graph 9, once again European FFs display lower scores, with just 28% of the board members being really independent on average for the 2008-2013 period. However, the trend is positive, as the percentage of truly independent members has increased over the period studied, from 26% in 2008 to 33% in 2013.

Graph 9. "Really" Independent Members on the BD (%)



- The percentage of executive directors is greater in European companies, and NFFs in Europe have the highest percentage of executive directors on the board (22%). **The percentage of executive directors in FFs stands at around 17.5%.**

GRAPH 10. EXECUTIVE DIRECTORS ON THE BD (%)

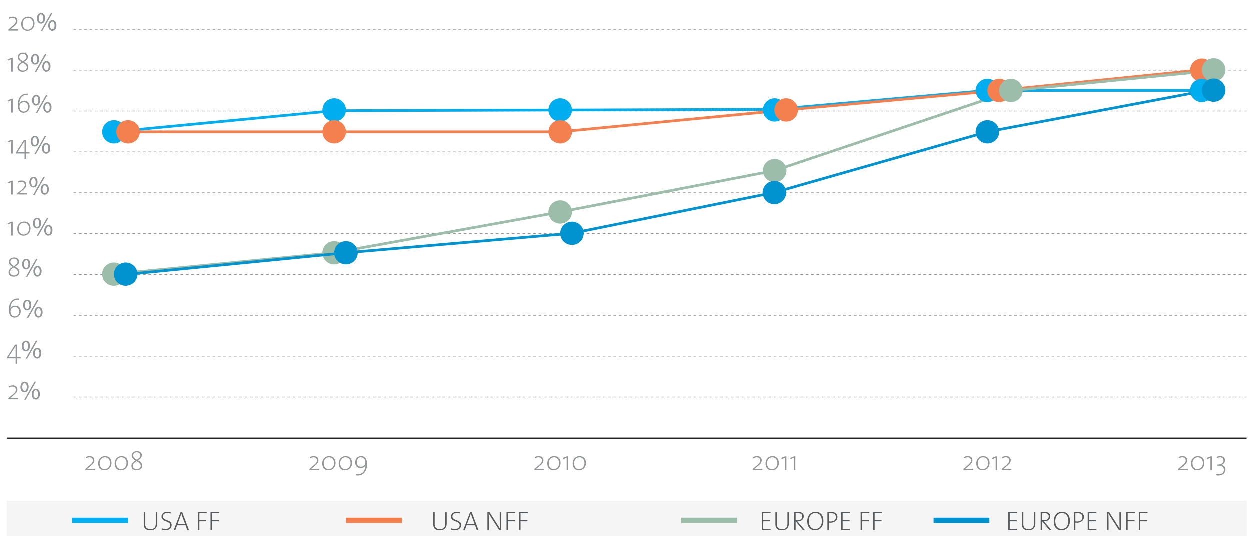


- **There are more women on the boards of directors of companies in the USA than in European ones, and the differences between FFs and NFFs are not very significant.** The average percentage of women is around 15% in the USA and 12% in Europe. However, as shown in Graph 11, the evolution has been positive, particularly in the case of European FFs, although there is still a long way to go to reach the proposed 30% goal by 2020.

TABLE 5. WOMEN ON THE BD (%)

	USA	EUROPE
FF	15.99%	11.83%
NFF	15.96%	12.95%

GRAPH 11. EVOLUTION OF PERCENTAGE OF WOMEN ON THE BD



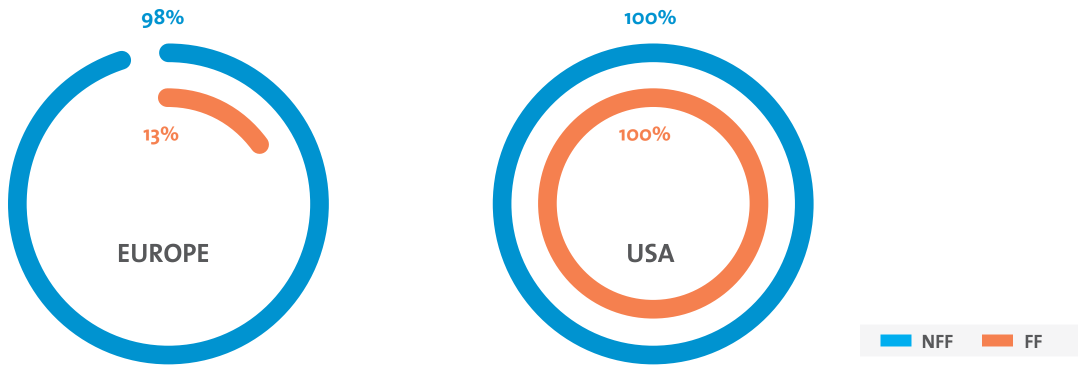
DIMENSION 3

Compensation Policies

- The recommendations on this topic include ensuring transparency on compensation issues at the company and linking the variable components of compensation to measurable performance criteria, considering the risk assumed in accomplishing a result.

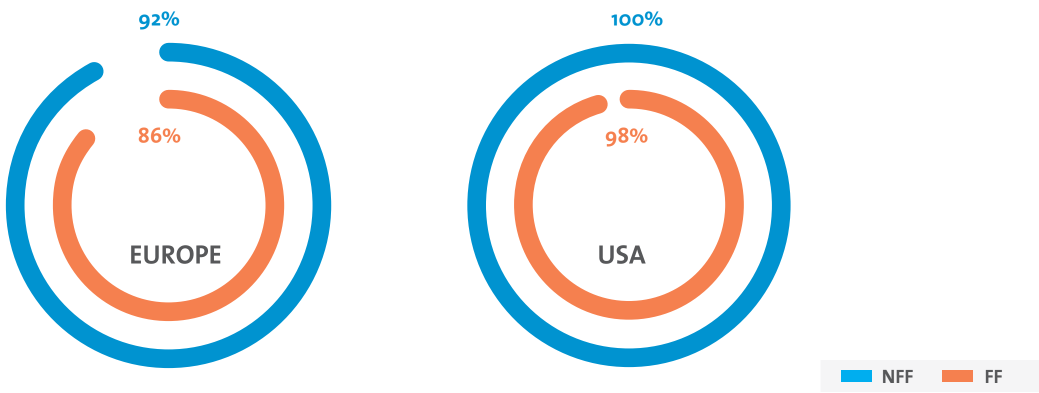
Analysis of the compensation policies clearly shows that European FFs are more reluctant to report on the implementation of their compensation policies, while this is common practice in all the American companies. Just 13% of European FFs has such a policy, compared to 98% of NFFs, although this trend is rising for both types of European companies.

Graph 12. Percentage of companies that report on the implementation of the Compensation Policy for their Directors



Regarding the compensation policy objectives set, the results indicate that the percentage of FFs in which compensation is clearly based on results is lower than for NFFs, and the difference is more pronounced in Europe.

Graph 13. Percentage of companies with results-oriented compensation



DIMENSION 4

Corporate Governance recommendations regarding Shareholders' Rights

Shareholder rights

- In this regard, most of the Codes recommend that listed companies should not limit the maximum number of votes that a single shareholder can issue but that the issue of shares without pre-emptive subscription rights should be limited.
- They also state that, as a general rule, mechanisms that hinder taking control of the company through potential public offerings must be avoided.

The findings in the III Banca March - IE Report as regarding this dimension show the following:

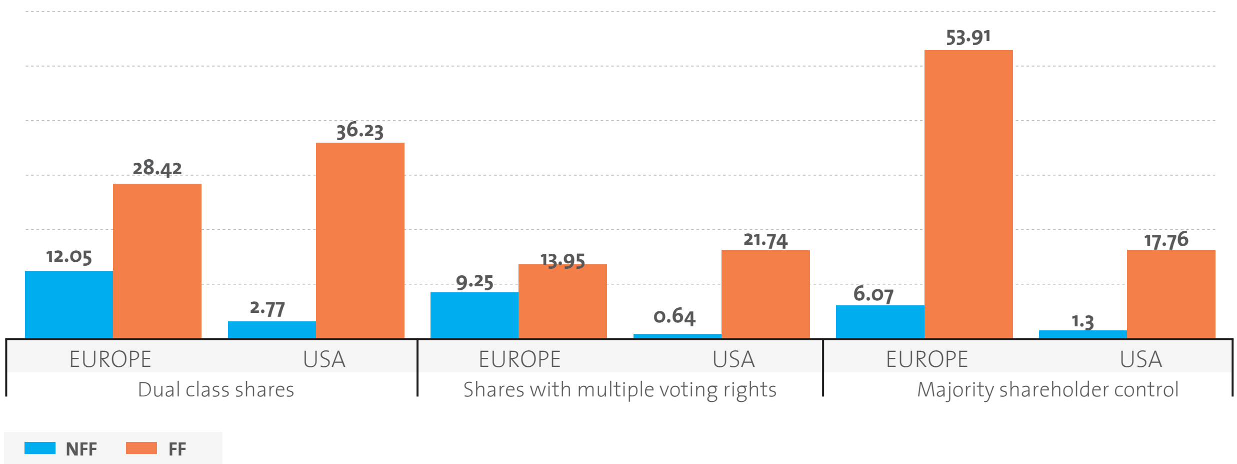
- **Policies that guarantee the application of the "one share - one vote" principle are much more common in NFFs.** This policy is in place at 94% of NFFs but in just 75.29% of FFs, and there are no significant differences between the USA and Europe.

Table 6. Percentage of companies with a "one share - one vote" policy

	TOTAL	USA	EUROPE
FF	75.29	75.19	75.36
NFF	94.6	87.8	99.1

- **This is reflected in the fact that mechanisms to guarantee control by part of a group of shareholders are more common in the case of FFs.** Specifically, as shown in Graph 14, FFs use dual class shares and shares with multiple voting rights more often than NFFs. Likewise, the percentage of companies in which the main shareholder has some type of veto power is much higher in FFs.

Graph 14. Companies with dual class shares, shares with multiple voting rights and veto power of the main shareholder (%)



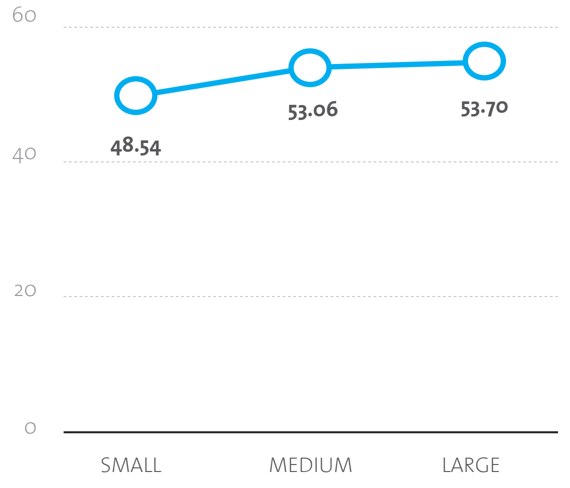
III. What factors help improve the Corporate Governance ratings for family businesses?

The studies conducted indicate that, despite their distinctive features, family businesses are a widely varied group, and that, in order to gain a better understanding of them, it is necessary to take a closer look at the characteristics that distinguish some family businesses from others[11]. Therefore, in this chapter, we have analysed CG within the group of family businesses in order to discern which factors help improve CG levels in FFs.

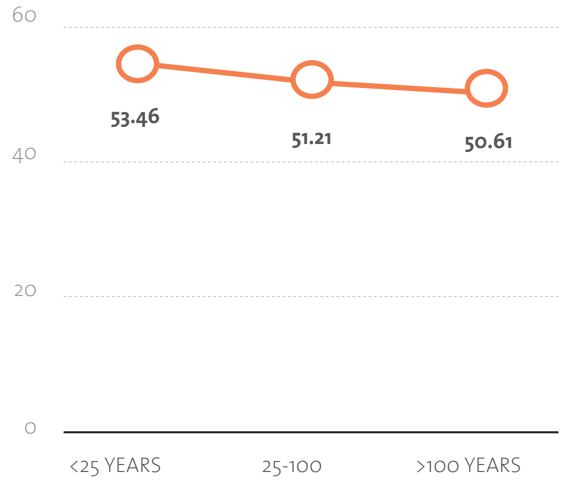
1. What characteristics of a FF affect Corporate Governance?

As we can see in Graphs 15a and 15b, both size and age are factors that affect CG levels in family businesses. We find higher levels of CG in large and young family businesses[12].

Graph 15a. CG Rating of FFs depending on size



Graph 15b. CG Rating of FFs depending on age

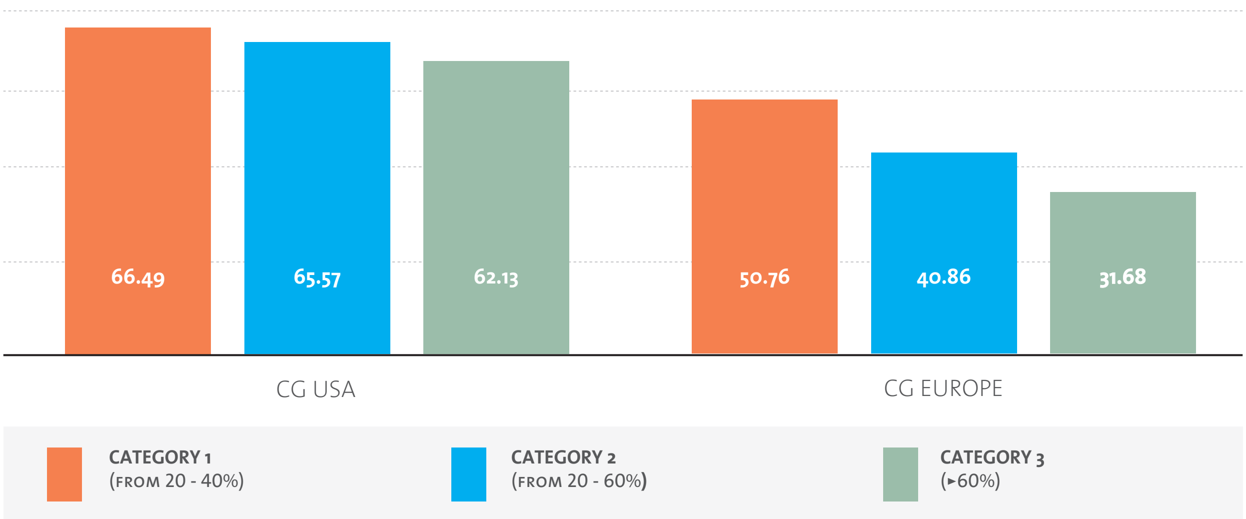


11 Appendix 2 demonstrates the variety that exists amongst the FFs in the sample

12 In this chapter, we are reporting data only from the CSRHUB Index. The conclusions are the same if we use ASSET4 data.

Furthermore, the degree of family control also affects Corporate Governance levels, as shown in Graph 16. Companies in which the family owns more than 60% of the capital (category 3) clearly have the lowest governance levels among family businesses. These differences are more striking in the case of Europe.

Graph 16. CG Rating depending on family control in USA and Europe

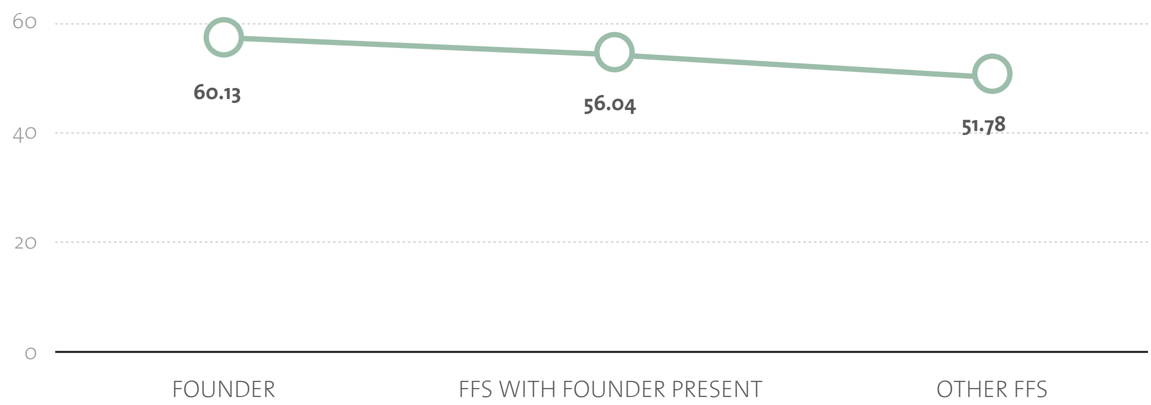


2. Does the presence of the founder have an influence on Corporate Governance at a FF?

As noted in previous Banca March-IE Reports, there is broad consensus within the FF field on the need to distinguish between FFs by generation and specifically, to distinguish between those FFs in which the founder is present and those that have already undergone the generational handover. For this reason, we have analysed below the CG ratings, comparing companies in which the founder is still present to other family businesses.

As shown in Graph 15b, the oldest family businesses score the lowest in CG. Therefore, one can logically expect that, as confirmed in Graph 17, **FFs in which the founder is still present show higher Corporate Governance Ratings, although these differences are not significant.** The differences are greater in companies in which there are no family members on the board besides the founder, which, as mentioned in the description chapter, represent 17% of the sample (Graph 39).

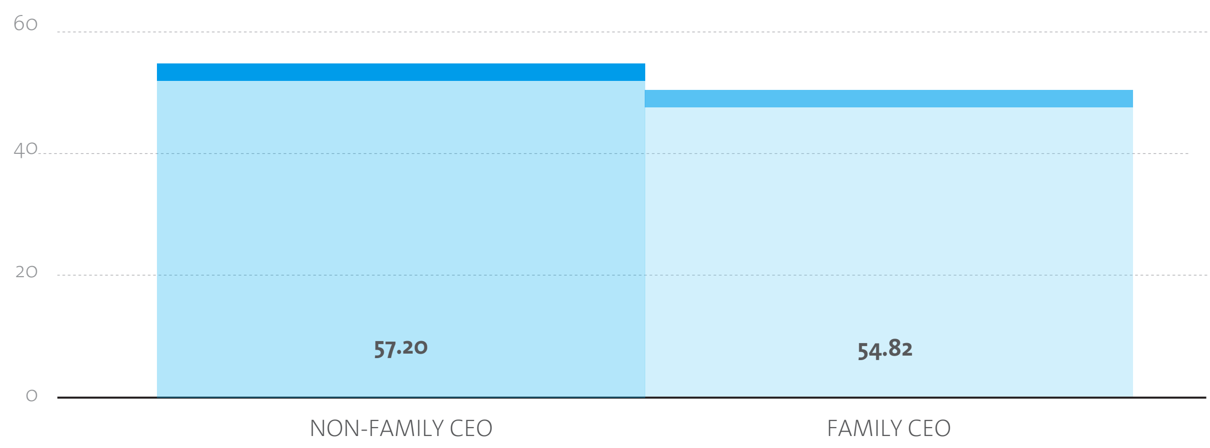
Graph 17. CG Rating in FF based on the founder's presence



3. Does the fact that the CEO and/or chairman of the board are family members affect CG in family businesses?

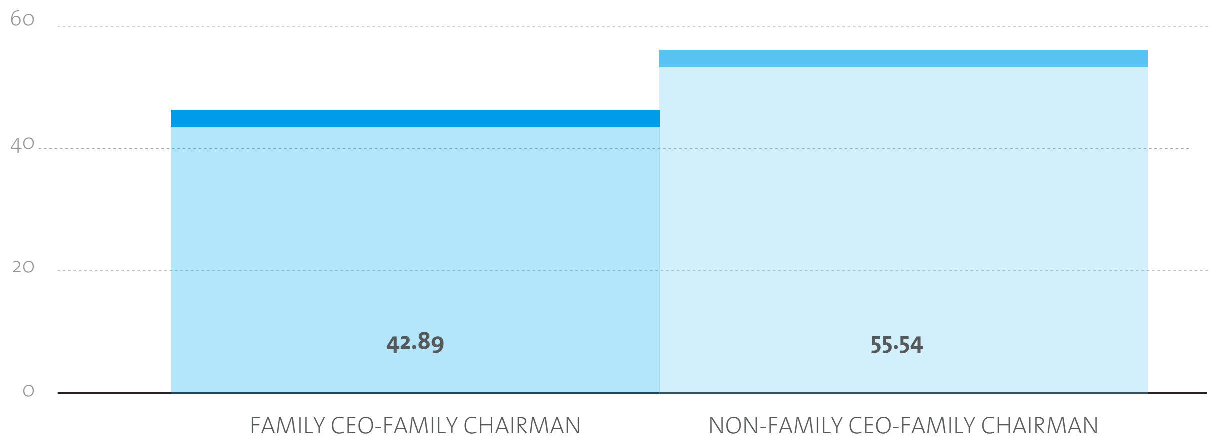
FFs also differ in their leadership models. In our specific research, as detailed in Appendix 2, we saw that while it was common to have a non-family member CEO among the sampled companies (45.64% of the FFs had a non-family CEO), most FFs preferred to have a family member as chairman of the board of directors. This decision affects their Corporate Governance given that, as indicated in Graphs 18a and 18b, the FFs that choose family leadership models have lower Corporate Governance Ratings. For example, in the case of the CEO, we see that companies that have a family CEO have lower levels than companies with a non-family CEO.

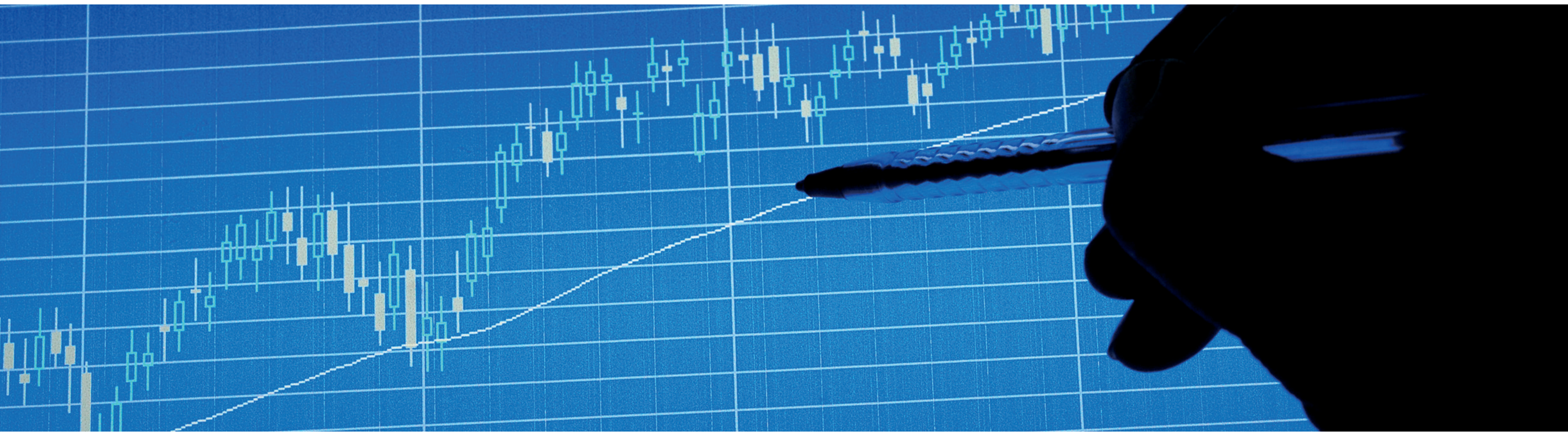
Graph 18a. CG Rating in FF: Family CEO vs. non-family CEO



It is worth noting that companies in which the Chairman of the board of directors is a family member and the CEO is not part of the family have higher CG levels than companies in which the CEO is a family member.

Graph 18b. CG Rating in FF with family member Chairman: Family CEO vs. Non-family CEO

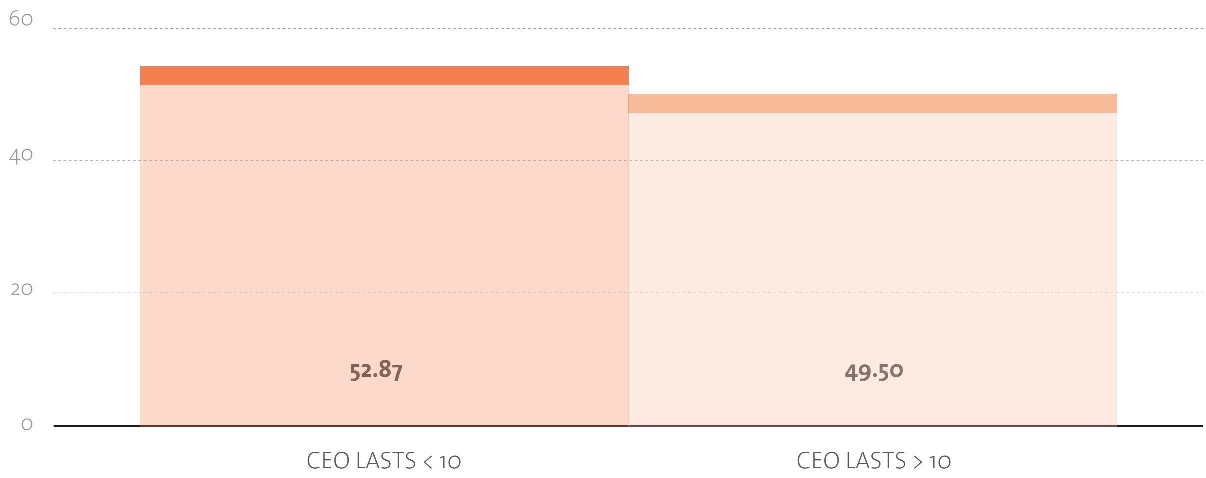




4. Does the number of years that the CEO remains in office affect CG in family businesses?

The sample data show that, within the group of family businesses, the CEO remains in office much longer when he/she belongs to the family (14.24 years) than if he/she is an external executive (5.11 years). This decision affects their Corporate Governance given that, as indicated in Graph 19, the FFs in which the CEO remains in office for longer than average have lower Corporate Governance Ratings.

Graph 19. CG rating depending on the CEO tenure



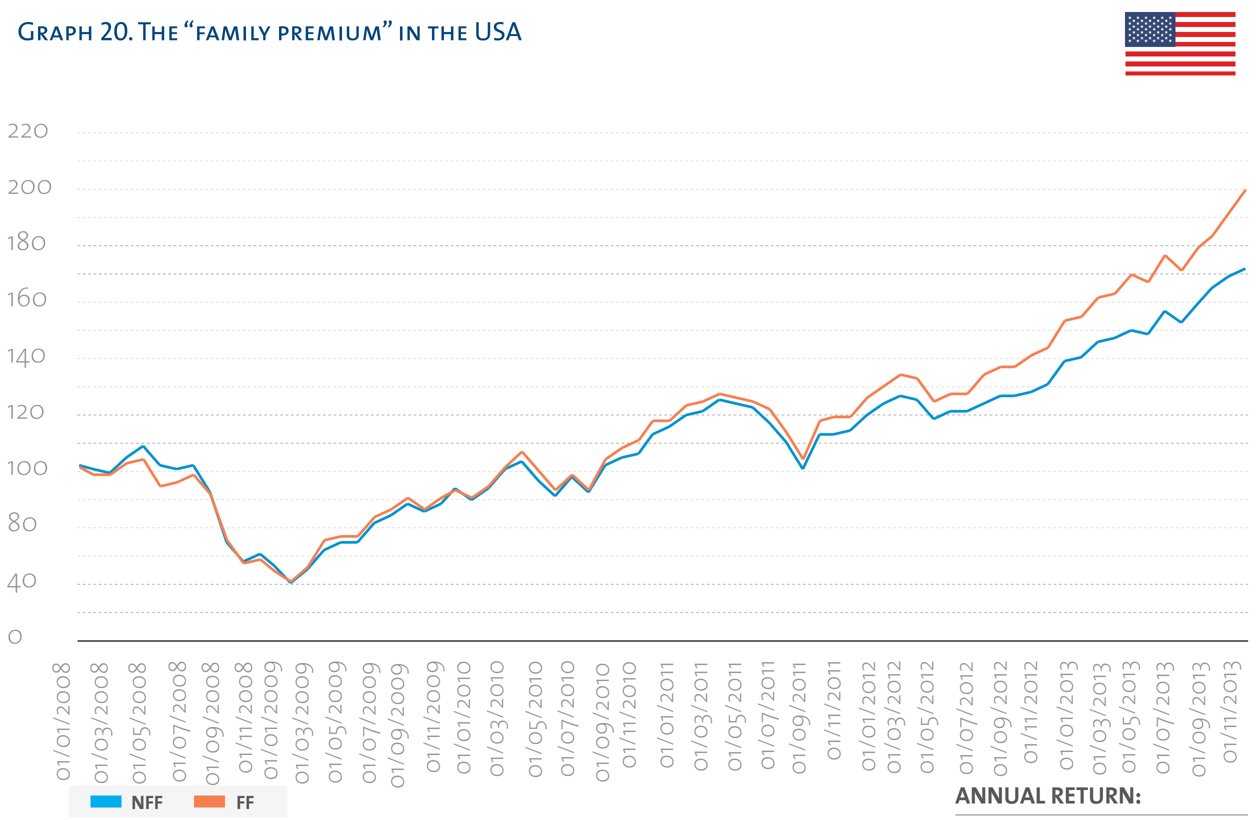
IV. The relationship between Corporate Governance and profitability at listed family businesses

1. Can the existence of the 'family premium' be confirmed?

In previous Banca March-IE Reports we demonstrated the existence of a "family premium" in listed European companies between 2001-2010. The data from this third Report confirm the existence of this family premium, but taking a different period (2008-2013) and a larger sample into account, also including companies in the USA. The compound annual return on FFs was 12.8% compared to 10.4% for NFFs[13].

The results are also consistent in both the USA and in Europe, although the "family premium" is higher among American companies, as seen in Graphs 20 and 21.

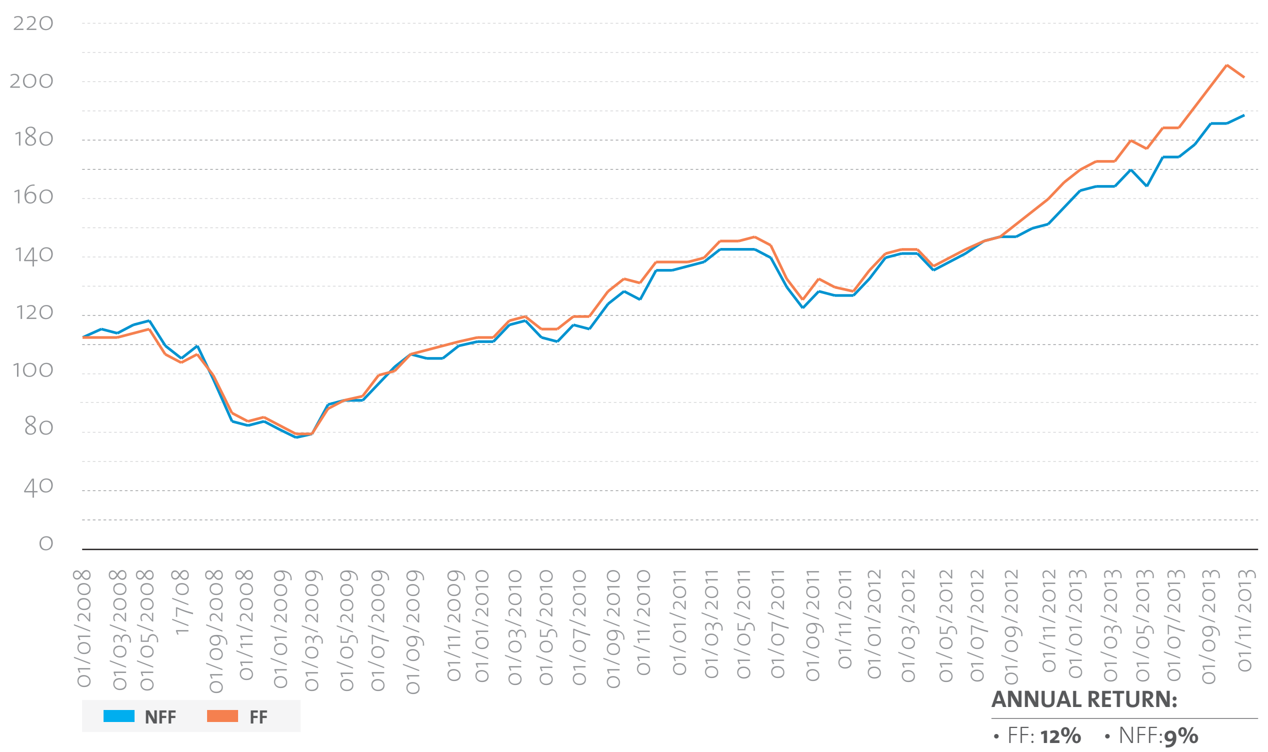
Graph 20. The "family premium" in the USA



ANNUAL RETURN:
• FF: **13%** • NFF: **10%**

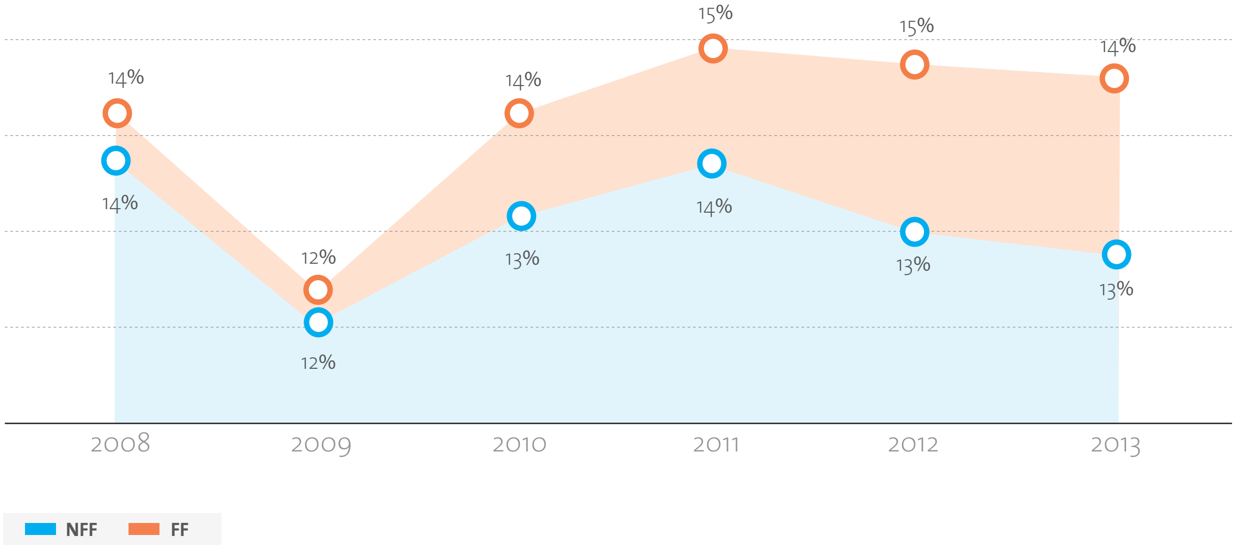
13 See Appendix 3. Definition of the variables used in the study for an explanation of the measurements for returns used.

Graph 21. The "family premium" in Europe



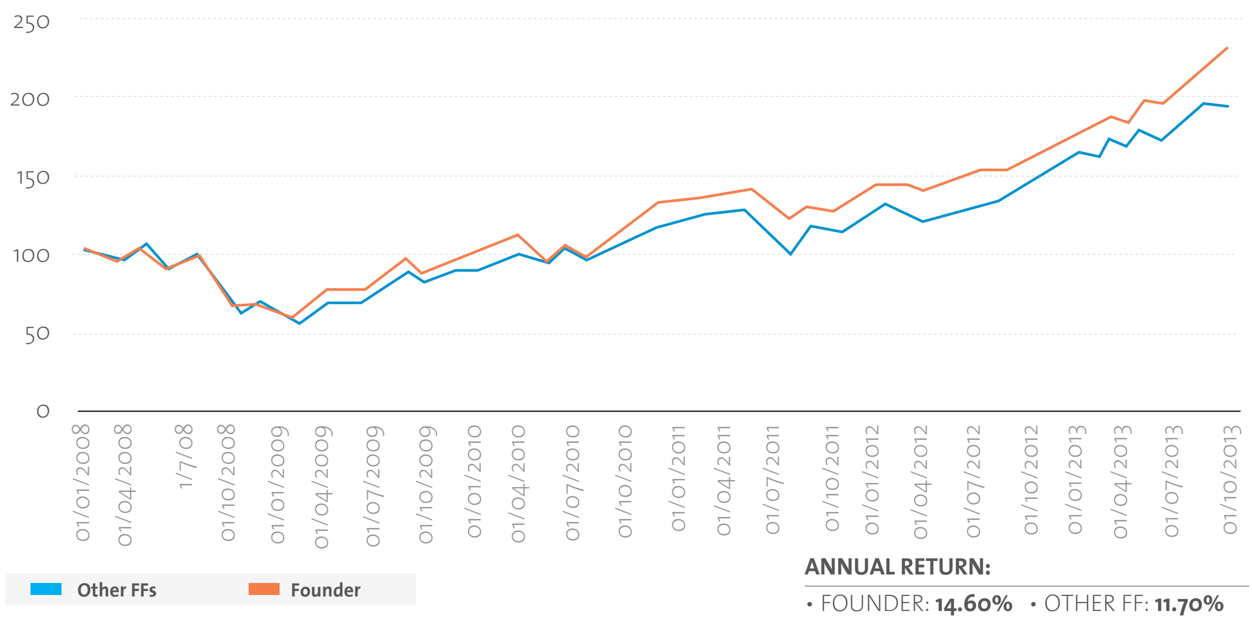
Likewise, the fact that FFs have greater capacity to generate returns on their assets is confirmed, achieving an average ROA of 14.15% compared to 13.09% at NFFs during the period considered (2008-2013).

Graph 22. Return on Assets (FFs vs. NFFs). 2008-2011



The data also indicate that there is a "founder premium" among FFs, meaning that FFs in which the founder is present have higher stock returns than other FFs (14.6% vs. 11.7%).

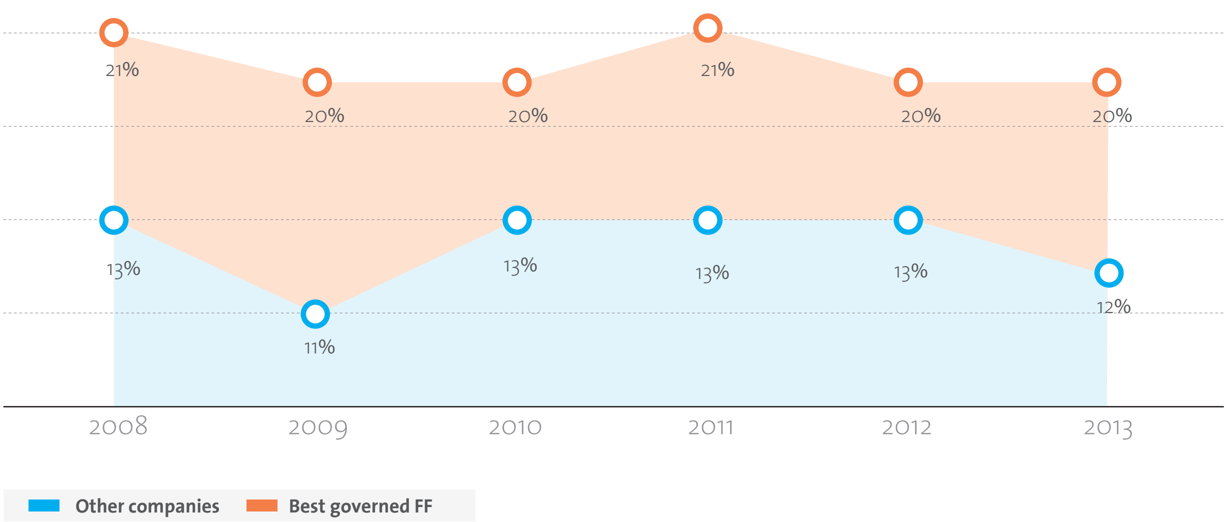
Graph 23. "Founder Premium" in listed family businesses



2. Are FFs with better governance more profitable?

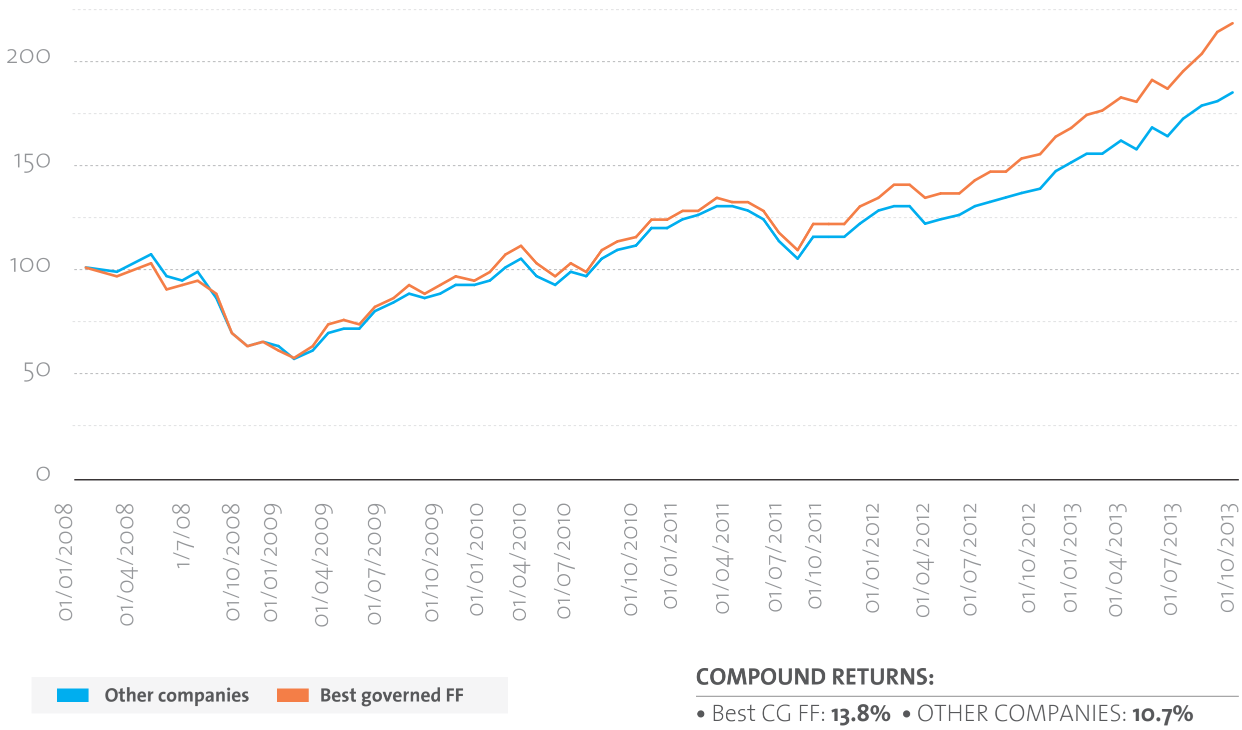
Graph 24 clearly indicates that companies with better CG achieved a higher than average ROA during the period studied. The average ROA by the best governed FFs was 20%, whereas the other companies in the sample achieved an average ROA of 12%. This 20% ROA is also much higher than the average ROA of the family businesses in the sample, which stands at 14.7%, as noted above.

Graph 24. ROA trends in FFs with the best governance compared to the rest



An analysis of the relationship between CG and stock returns also seems to indicate that the FF-Good Corporate Governance combination is profitable, since the best governed FFs achieved higher returns than the rest of the companies in the sample (13.8% compared to 10.7%). However, here the link between the two seems weaker, given that the returns of the best governed FFs are just one point higher than the average for family businesses, which is 12.7%, as noted above.

Graph 25. Stock returns for FFs with best governance



COMPOUND RETURNS:

• Best CG FF: **13.8%** • OTHER COMPANIES: **10.7%**

In order to statistically validate these findings, a correlation analysis of the variables that gauge returns and the two Corporate Governance Ratings is conducted below. As shown in Table 7, the analysis confirms the existence of a positive and statistically significant relationship between the two CG ratings and the ROA of listed companies. This relationship is not, however, consistent in the case of stock returns, where the findings vary depending on the indicator used and the family dimension of the company.

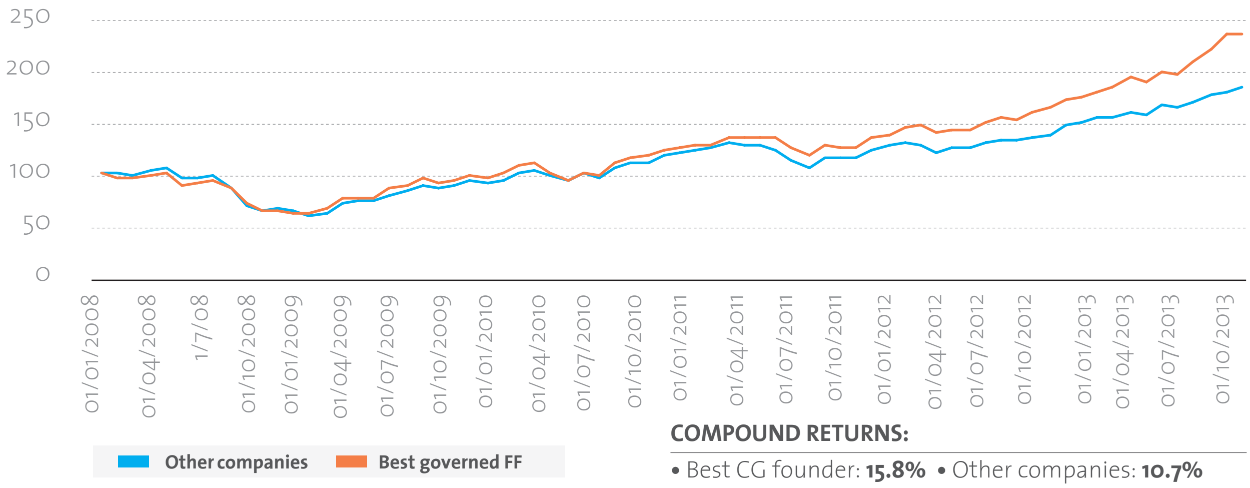
Table 7. Correlation Analysis. CG Rating - Returns.

ASSET 4	ROA	RETURNS
FF	0.11 ***	0.6 **
NFF	0.06 ***	N.S
CSRHUB	**ROA**	**RETURNS**
FF	0.06 **	N.S
NFF	0.08 ***	N.S

N.S Not significant
** Statistically significant by 5%
*** Statistically significant by 1%

Furthermore, Good Corporate Governance has proven to help increase the “founder premium”, as the founder companies with the highest CG scores in the ASSET 4 Rating achieved returns that were 5.6 basis points higher than the rest of the companies in the sample. (15.8% vs. 10.7%).

Graph 26. “Founder Premium” and Corporate Governance



COMPOUND RETURNS:

• Best CG founder: **15.8%** • Other companies: **10.7%**

3. What aspects of CG have the strongest influence on profitability in FFs?

Given the multi-faceted nature of the Corporate Governance Ratings used in the report, an analysis is required of the relationship between each of the dimensions and returns in order to reach valid conclusions on where FFs must focus their efforts in terms of Corporate Governance. For this reason, we have analysed the correlations, breaking down each CG Rating into its different dimensions (Table 8).

Table 8. CG Dimensions - Returns Correlation.

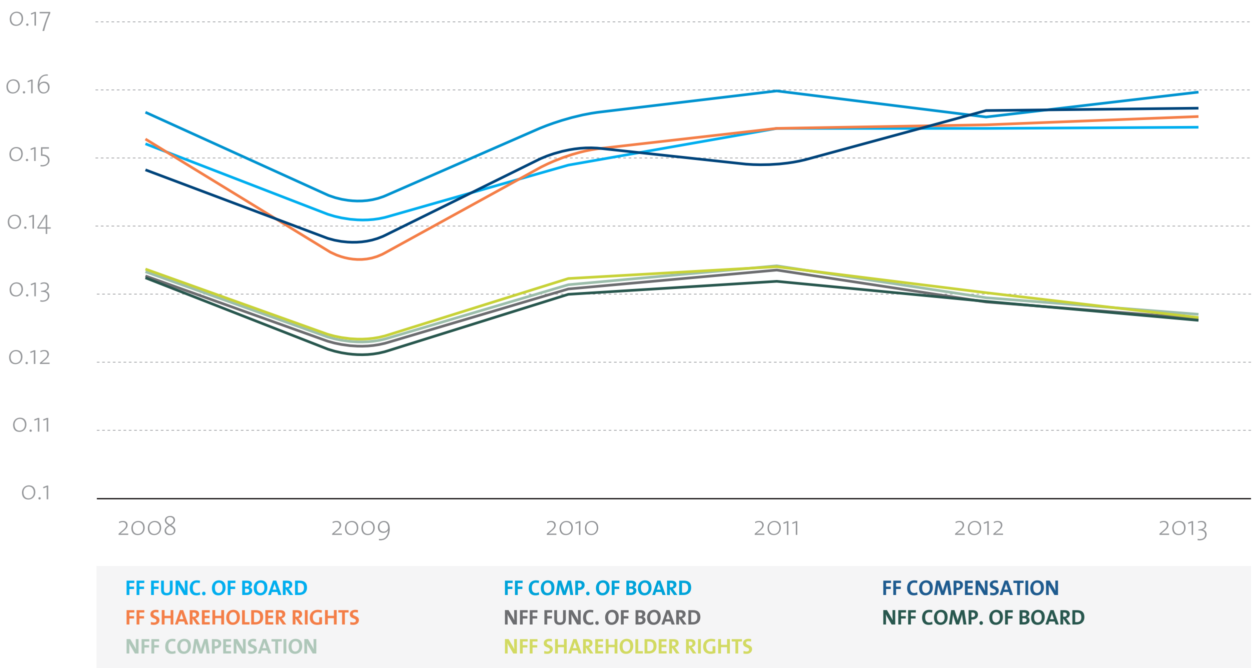
	ROA		**STOCK RETURNS**	
	FF	NFF	FF	NFF
Functioning of the board	0.09 ***	0.11 ***	0.1 ***	N.S
Board composition	0.18 ***	0.14 ***	0.07 **	0.03 *
Compensation	0.13 ***	N.S	N.S	N.S
Shareholder Rights	0.08 **	0.07 ***	N.S	N.S

N.S: Not significant **** Statistically significant by 5%** ***** Statistically significant by 1%**

The following conclusions can be reached based on the findings in this table:

- There is a positive relationship between the ROA and each of the dimensions that contribute to CG in both FFs and NFFs (except in the case of compensation policies for NFFs, which is not significant). The strongest relationship (the highest correlation coefficient) occurs in the dimension that measures board structure and composition. This means that variables such as the presence of independent members and the existence of committees help to increase the returns of listed FFs.
- Graph 27, which compares the ROA of the FFs with the best scores in each of the ratings and the other companies, shows that, in effect, the FFs with the best scores in the different dimensions have achieved higher ROA over the period, and the ROA is highest amongst the FFs that display the highest scores in the dimension relating to the composition of the board.

GRAPH 27. ROA TRENDS FOR FF WITH BEST CG BY DIMENSION



- Once again, the relationship between Good Corporate Governance and profits is much less conclusive in regards to stock returns. The positive relationship between adopting CG practices regarding composition and functioning of the BD and the company's stock returns can be confirmed for FFs. On the other hand, the findings appear to indicate that, although minority shareholders' rights are clearly less protected at FFs, this does not seem to have a negative impact on their stock returns.

4. Does compliance with Good Governance recommendations improve profitability in FFs?

The analysis of correlations in Table 9 indicates that the percentage of independent members is related to a higher capacity by both family and non-family businesses to generate value with their assets, that is, a higher ROA. On the contrary, in the case of FFs, a stronger presence of non-executive directors decreases these returns, as indicated by the negative correlation coefficient between these variables.

Table 9. Correlation between the percentage of independent and non-executive board members and ROA

	ROA	
	FF	NFF
Independent Board Members	0.0839 ***	0.1217 ***
Non-Executive Directors	- 0.1079 ***	0.0278

*** Statistically significant by 1%

Regarding the use of mechanisms to limit takeovers, the findings in Table 10 show that such mechanisms have a much greater impact in NFFs than in FFs.

As seen in Table 10, having a policy in place to guarantee the application of the **"one share-one vote" principle** has a significant positive impact on the ROA of both types of companies when they have implemented this principle. The impact of other policies is only statistically significant for NFFs. Voting equality prompts an increase in ROA at the NFFs that have implemented it, and veto power and dual class shares entail a significant drop in the ROA of NFFs that have such systems.

Table 10. Impact of control mechanisms in FFs and NFFs on ROA.

	FF		NFF	
	YES	NO	YES	NO
1 share-1 vote principle	0.14 **	0.13 **	0.13 **	0.12 **
Voting equality	0.14	0.14	0.13 **	0.12 **
Veto power by majority shareholder	0.14	0.14	0.09 **	0.13 **
Dual class A/B shares	0.14	0.14	0.11 **	0.13 **

** Statistically significant by 5%

V. Which family businesses have the best governance?

In this final chapter, we have identified the companies that display the best scores in the CG rankings, endeavouring to discern which best practices FFs should adopt to enhance their control and transparency systems, compensation policies, protection of minority shareholders and boards of directors' functioning and composition.

Given that the analysis conducted has pinpointed important differences between listed companies in the USA and in Europe, as well as between founder family businesses and typical family enterprises, throughout this chapter, we have presented the FFs ranked at the top of the ratings, breaking them down by geographic region (USA vs. EUROPE) and by the "type" of family business (FOUNDER vs. FAMILY BUSINESS). In addition, as in the rest of the Report, we have presented the ranking of the companies according to the two ratings used.

1. Founder Companies with the Best Corporate Governance

Table 11. CSRHUB Rating. Top 5 Founder Companies USA and Europe

RANKING	COUNTRY	COMPANY	RATING	STOCK RETURN	ROA
1	USA	EBAY INC	66.70	12.62%	13.41%
2	USA	MICROSOFT CORP	66.09	4.86%	28.39%
3	USA	STARBUCKS CORP	63.35	8.12%	26%
4	USA	AMERICAN AXLE & MFG HOLDINGS	61.76	4.86%	10.66%
5	USA	FEDEX CORP	60.21	28.75%	17.04%
		Average Top 5 USA	**64.02**	**11.84%**	**19.10%**
		Average Founder USA	**57.27**	**10.84%**	**11.63%**
		Average Sample USA	**53.38**	**11.21%**	**10.78%**
1	UNITED KINGDOM	COMPUTACENTER PLC	65.33	30.28%	9.81%
2	UNITED KINGDOM	TED BAKER PLC	60.79	30.97%	25.97%
3	SPAIN	IND DE DISENO TEXTIL SA	59.83	26.23%	29.27%
4	GERMANY	SOLARWORLD AG	55.32	0.23%	-0.04%
5	GERMANY	SOFTWARE AG	55.19	10.82%	16.40%
		Average Top 5 Europe	**59.29**	**19.71%**	**16.28%**
		Average Founder Europe	**49.55**	**14.71%**	**11.34%**
		Average Sample Europe	**49.19**	**8.20%**	**8.92%**

Table 12. ASSET4 Rating. Top 5 Founder Companies USA and Europe

RANKING	COUNTRY	COMPANY	RATING	STOCK RETURN	ROA
1	USA	MICROSOFT CORP	87.51	4.86%	28.39%
2	USA	STARBUCKS CORP	87.36	28.75%	26%
3	USA	FEDEX CORP	86.76	8.12%	17.04%
4	USA	BROADCOM CORP	73.23	5.84%	11.80%
5	USA	ORACLE CORP	72.27	10.22%	20.95%
		Average Top 5 USA	**81.43**	**11.56%**	**20.83%**
		Average Founder USA	**66.66**	**10.84%**	**11.63%**
		Average Sample USA	**64.69**	**11.21%**	**10.78%**
1	UNITED KINGDOM	COMPUTACENTER PLC	62.95	30.28%	9.81%
2	UNITED KINGDOM	RENISHAW PLC	61.21	23.09%	20.74%
3	UNITED KINGDOM	WETHERSPOON (JD) PLC	58.19	17.25%	15.53%
4	SPAIN	IND DE DISENO TEXTIL SA	54.66	26.23%	29.27%
5	GERMANY	SOLARWORLD AG	40.86	0.23%	-0.04%
		Average Top 5 Europe	**55.58**	**19.42%**	**15.06%**
		Average Founder Europe	**46.46**	**14.71%**	**11.34%**
		Average Sample Europe	**44.03**	**8.20%**	**8.92%**

2. Ranking of the top 15 family businesses with the best CG Ratings.

Table 13a. CSRHUB Rating. Top 15 Family Businesses in the USA

RANKING	COUNTRY	COMPANY	RATING	STOCK RETURN	ROA
1	USA	SWIFT TRANSPORTATION CO	74.50	10.80%	18.33%
2	USA	GAP INC	69.20	14.86%	30.53%
3	USA	CAMPBELL SOUP CO	68.37	8.65%	23.55%
4	USA	ANIXTER INTL INC	67.76	7.65%	12.41%
5	USA	INGRAM MICRO INC	67.66	4.69%	5.66%
6	USA	ANDERSONS INC	66.01	13.22%	7.32%
7	USA	SKYWEST INC	64.16	-5.88%	9.65%
8	USA	RELIANCE STEEL & ALUMINUM CO	63.64	8.24%	12.31%
9	USA	TIMKEN CO	63.46	12.86%	16.39%
10	USA	HESS CORP	62.44	-0.77%	17.49%
11	USA	HORMEL FOODS CORP	61.72	17.39%	18.56%
12	USA	SUSSER HOLDINGS CORP	61.26	18.10%	12.33%
13	USA	LINCOLN ELECTRIC HLDGS INC	61.03	17.15%	18.01%
14	USA	LENNOX INTERNATIONAL	60.25	16.66%	21.54%
15	USA	NORDSTROM INC	59.87	10.60%	21.93%
		Average Top 15 USA	**64.75**	**10.28%**	**16.40%**
		Overall Average Family Businesses USA	**52.79**	**10.28%**	**13.62%**
		Overall Sample Average USA	**57.25**	**7.94%**	**13.32%**

Table 13b. CSRHUB Rating. Top 15 Family Businesses in Europe

RANKING	COUNTRY	COMPANY	RATING	STOCK RETURN	ROA
1	GERMANY	CARL ZEISS MEDITEC AG	83.19	18.04%	11.09%
2	GERMANY	CTS EVENTIM AG & CO KGAA	79.91	20.18%	14.61%
3	ITALY	PIRELLI & CO	69.91	15.26%	10.80%
4	SPAIN	MELIA HOTELS INTL SA	68.17	0.38%	7.45%
5	UNITED KINGDOM	PHOTO-ME INTERNATIONAL PLC	64.63	37.17%	24.65%
6	SWITZERLAND	HOLCIM LTD	63.86	-4.10%	10.07%
7	GERMANY	DUERR AG	63.60	38.83%	7.58%
8	UNITED KINGDOM	LAURA ASHLEY HOLDINGS PLC	63.58	10.38%	15.66%
9	UNITED KINGDOM	STAGECOACH GROUP PLC	63.36	10.39%	17.54%
10	SPAIN	PROSEGUR (CIA DE SEGURIDAD)	62.42	15.46%	17.13%
11	UNITED KINGDOM	CAPITAL SHOPPING CENTRES GROUP	62.10	-10.32%	%
12	GERMANY	WEBER (GERRY) INTERNATIONAL AG	62	24.21%	26.57%
13	UNITED KINGDOM	ASSOCIATED BRITISH FOODS PLC	61.79	21.49%	12.84%
14	SPAIN	ACCIONA SA	60.64	-18.07%	6.52%
15	FRANCE	L'OREAL SA	60.44	9.13%	15.02%
		Average Top 15 Europe	**65.97**	**12.56%**	**14.11%**
		Overall Average Family Businesses Europe	**50.89**	**7.92%**	**12.54%**
		Overall Sample Average Europe	**56.86**	**7.46%**	**11.54%**

Table 14a. ASSET4 Rating. Top 15 Family Businesses in the USA

RANKING	COUNTRY	COMPANY	RATING	STOCK RETURN	ROA
1	USA	HORMEL FOODS	83.55	17.39%	18.56%
2	USA	GAP INC	82.26	14.86%	30.53%
3	USA	CAMPBELL SOUP CO	81.66	8.65%	23.55%
4	USA	WAL MART STORES INC	80.00	10.06%	16.64%
5	USA	MOHAWK INDUSTRIES INC	79.77	10.93%	10.08%
6	USA	KELLOGG CO	78.94	7.38%	20.55%
7	USA	MARRIOTT CORP	77.47	7.82%	14.32%
8	USA	HUNTSMAN CORPORATION	77.27	4.33%	10.77%
9	USA	SCOTTS MIRACLE-GRO	76.14	9.30%	18.24%
10	USA	GRAINGER (W W) INC	75.51	23.67%	25.97%
11	USA	STEELCASE INC	75.11	4.47%	10.51%
12	USA	BROWN-FORMAN-CL B	74.99	18.38%	23.08%
13	USA	FORD MOTOR CO	74.20	15.94%	8.33%
14	USA	CINTAS CORP	74.04	12.74%	16.39%
15	USA	MCCORMICK & CO INC	72.28	15.45%	16.19%
		Average Top 5 USA	**77.55**	**12.09%**	**17.58%**
		Overall Average Family Businesses USA	**65.31**	**11.20%**	**15.25%**
		Overall Sample Average USA	**69.70**	**8.28%**	**14.49%**

Table 14b. ASSET4 Rating. Top 15 Family Businesses in Europe

RANKING	COUNTRY	COMPANY	RATING	STOCK RETURN	ROA
1	SWITZERLAND	HOLCIM LTD.	78	-4.10%	10.07%
2	UNITED KINGDOM	STAGECOACH GROUP PLC	72.86	10.39%	17.54%
3	UNITED KINGDOM	ASSOCIATED BRITISH FOODS PLC	69.65	21.49%	12.84%
4	FRANCE	BOURBON	68.72	-3.53%	8.86%
5	UNITED KINGDOM	EASYJET PLC	68.58	22.70%	7.77%
6	SPAIN	ACCIONA S.A.	68.51	-18.07%	6.52%
7	ITALY	PIRELLI & C. S.P.A.	67.34	15.26%	10.80%
8	FRANCE	L'OREAL SA	66.70	9.13%	15.02%
9	FRANCE	FONCIERE DES REGIONS (G.F.R.)	64.95	2.24%	3.29%
10	UNITED KINGDOM	CARPETRIGHT PLC	62.64	-5.28%	10.33%
11	ITALY	MEDIASET SPA	61.87	-2.61%	10.20%
12	FRANCE	CASINO GUICHARD-PERRACHON SA	60.39	7.15%	7.47%
13	FRANCE	BIC SOCIETE	59.84	17.74%	18.82%
14	FRANCE	PEUGEOT S.A.	59.44	-21.38%	3.98%
15	UNITED KINGDOM	DAILY MAIL AND GENERAL TRUST P L C	59.16	14.62%	14.24%
		Average Top 15 Europe	**65.91**	**4.38%**	**10.52%**
		Overall Average Family Businesses Europe	**46.36**	**8.21%**	**12.59%**
		Overall Sample Average Europe	**59.99**	**7.13%**	**11.80%**

Table 15. Companies with the Best Corporate Governance by Dimension

COMPANY	FUNCTIONING OF BOARD
LOEWS CORP	89.22
FEDEX CORP	89.51
AVERAGE USA	**66.91**
HOLCIM	83.04
PIRELLI	88.02
AVERAGE EUROPE	**37.30**

COMPANY	COMP. OF BOARD
PAYCHEX INC	89.64
NORDSTROM INC	88.81
AVERAGE USA	**63.30**
FIAT SPA	84.56
LUXOTTICA	82.62
AVERAGE EUROPE	**58.35**

COMPANY	COMPENSATION
STARBUCKS	87.08
BROADCOM	85.99
AVERAGE USA	**62.73**
ASSOCIATED BRITISH FOODS	85.10
THYSSENKRUPP AG	83.23
AVERAGE EUROPE	**61.12**

COMPANY	SHAREHOLDER RIGHTS
BERKSHIRE HATHAWAY	92.85
CAMPBELL SOUP CO	92.70
AVERAGE USA	**57.02**
PIRELLI	93.46
HOLCIM	86.11
AVERAGE EUROPE	**55.55**

COMPANY	TRANSPARENCY
SWIFT TRANSP.	73.09
ANIXTER	70.90
AVERAGE USA	**51.30**
CARL ZEISS	79.52
PIRELLI	73.58
AVERAGE EUROPE	**51.76**

3. The companies with the best Corporate Governance in the sample from the III Banca March - IE Report

Finally, we have also created a ranking of companies that consistently come in at the top of both ratings, as we understand that these are the FFs that perform the best in Governance. For this reason, we have conducted a more qualitative analysis of these companies, endeavouring to identify the differential factors that make them a role model to be followed by other listed FFs.

Table 16a. Founder Companies with the Best CG

USA

MICROSOFT

This American company was founded on 4 April 1975 by Bill Gates. Microsoft develops, manufactures, licenses and produces software and electronic equipment. Bill Gates is the Chairman of the Board of Directors. Satya Nadella has been Chief Executive Officer of the company since February 2014. Microsoft's Board of Directors is composed of 10 members, 8 of which are independent and 2 are women. The Board comprises four committees: audit, compensation, governance and regulatory.

STARBUCKS

This American company was founded in 1971 by Jerry Baldwin, Zev Siegel and Gordon Bowker. Starbucks sells prepared coffee, hot beverages and other beverages, in addition to sandwiches and other products such as cups and coffee beans. Howard Schultz is the Chief Executive Officer of the company and Chairman of the Board of Directors. Starbucks' Board of Directors has 12 members: 11 are independent and there are 2 women. The Board comprises 3 committees: audit, compensation and corporate governance.

UNITED KINGDOM

COMPUTACENTER

A British company that provides computing services. Computacenter was founded in 1981 by Philip Hulme and Peter Ogde. The Chief Executive Officer is currently Mike Norris. The Board of Directors has 8 members: 6 are independent and there is one women. The Board comprises three committees: audit, compensation and appointments.

SPAIN

INDITEX

INDITEX is a Spanish textile manufacturing and distribution multinational. The company was founded by Amancio Ortega in 1963. Inditex's Board of Directors is composed of 9 members, 5 of which are external independent directors and 2 are women. The Board comprises 3 commissions: audit, appointments and executive. Pablo Isla has been Chief Executive Officer since 2011.

Table 16b. The FF with the Best CG

USA

HORMEL FOODS

This American company was founded in 1891 by George A. Hormel. Hormel Foods is a food company that is very well known for producing tinned meat. The Hormel family owns some 50% of the voting rights. There are no family members on the Board of Directors. The Chief Executive Officer performs the duties of the Chairman of the Board and does not belong to the family. Hormel's Board of Directors is composed of 14 members, 12 of which are independent. 33% of the board members are women. This Board comprises three committees: audit, governance and compensation. At Hormel Foods, the one share equals one vote principle is applied. Jeffrey M. Ettinger is the company's Chief Executive Officer (2005) and has been Chairman of the Board since 2006.

GAP INC

A company founded in 1969 by Donald Fisher and Doris Fisher in California. The company sells clothing, accessories and personal care products for men, women and children. The Fisher family owns 40% of the voting rights. 20% of the members of the Board of Directors belong to the family. The Chief Executive Officer, *Art Peck*, was newly hired in February of this year, after the previous CEO, Glenn K. Murphy, stepped down. Gap's Board of Directors is composed of ten members, nine of which are independent and 20% are women. Gap's Board has three committees: audit, compensation and management, and governance and sustainability.

SWITZERLAND

HOLCIM LTD

A Swiss company founded in 1912. It supplies cement, aggregates, ready-mix concrete and alternative fuels. All the members of Holcim's Board of Directors are independent, pursuant to the Swiss Code of Corporate Governance Best Practices. At Holcim, the one share equals one vote principle is applied. The Board comprises the following committees: audit, compensation, governance and strategy, and executive. Bernard Fontana has been Chief Executive Officer of the company since February 2012.

UNITED KINGDOM

STAGECOACH GROUP

A company founded in 1980 by Brian Souter and Ann Gloag. It is a public transport service provider in the United Kingdom, continental Europe and North America. Stagecoach Group's Board of Directors is composed of nine members, five of which are independent and two are women. The Board has four committees: audit, compensation, appointments, and health, safety and sustainability. Martin A. Griffiths has been Chief Executive Officer of the company since August 2012.

CAMPBELL SOUP

An American company founded in 1968 by Joseph Campbell and Abraham Anderson. It manufactures soups, simple food products, sandwiches and healthy beverages. The Campbell family holds 50 % of the voting rights. 27 % of the members of the Board of Directors are family members. Denise M. Morrison has held the position of Chief Executive Officer since 2011. Campbell's Board of Directors is composed of fifteen independent members, 33% of which are women. The Board comprises four committees: audit, compensation and organisation, finance and corporate development, and governance. At Campbell's, the one share equals one vote principle is applied.

UNITED KINGDOM

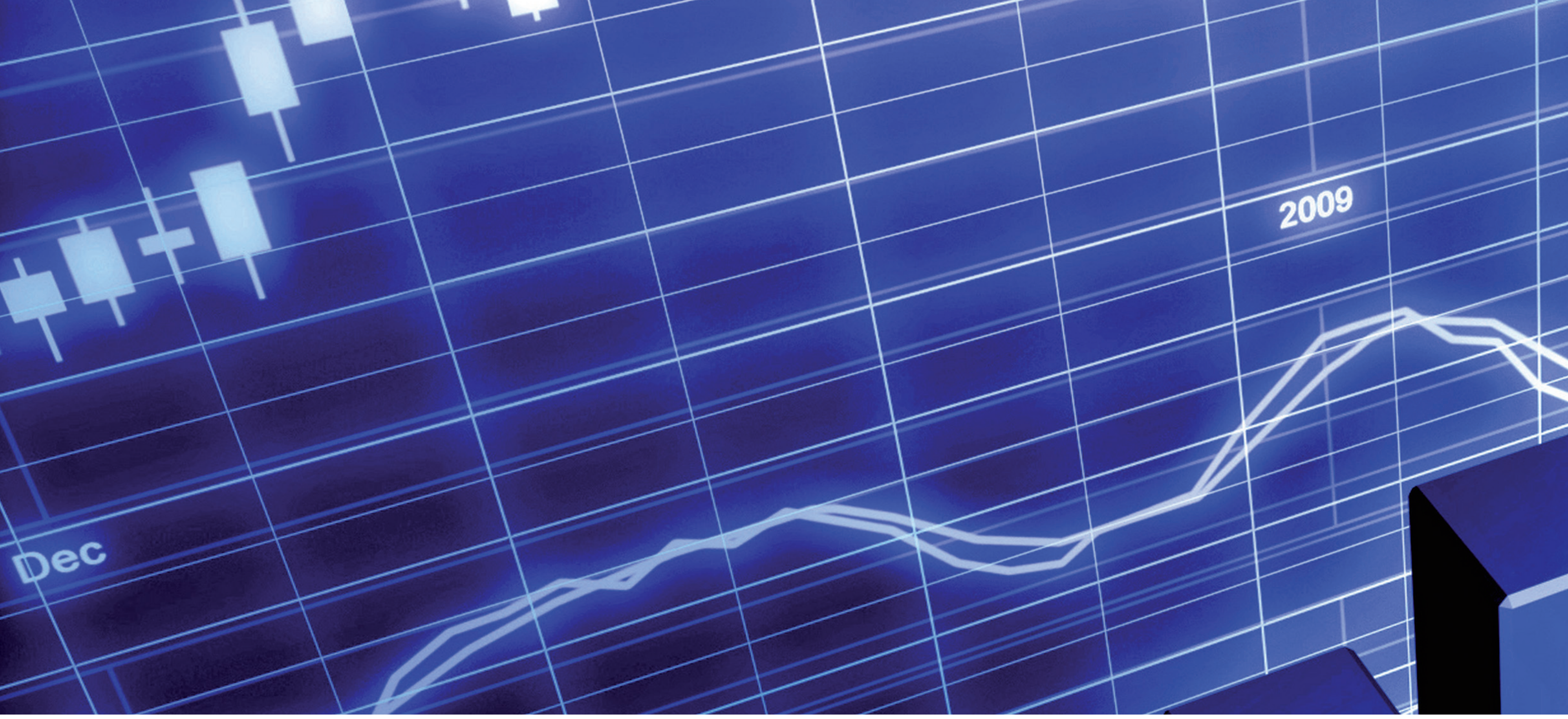
ASSOCIATED BRITISH FOODS

An English company founded in 1935 by George G. Weston. It engages in food processing and retail sale. Associated British Foods' Board of Directors is composed of nine members, five of which are independent and two are women. The Board comprises three committees: audit, compensation and appointments. George G. Weston is Chief Executive of the company.

SPAIN

ACCIONA S.A.

A Spanish company founded in 1997 as a result of the merger between Entrecanales y Távora and Cubiertas y Mzov. The company develops and manages infrastructures, renewable energy, water and services. Acciona's Board of Directors has thirteen members, seven of which are independent. The Board comprises an Audit Committee, Appointments and Compensation Commission and Sustainability Commission. At Acciona, the one share equals one vote principle is applied. José Manuel Entrecanales Domecq has been the Chief Executive Officer of the company since 2004.



VI. Conclusions

- The findings from the III Banca March - IE Report show that family businesses are less compliant with the Good Governance recommendations contained in the Governance Codes for listed companies. The fact that the same results were found using two different widely recognised Corporate Governance Ratings strengthens the validity of this conclusion.

  The analyses conducted spotlight the superiority of the American CG model over the continental one as regards compliance with Good Governance practices. Family businesses in the USA and the United Kingdom remain one step behind non-family businesses as far as Governance goes, but they are in a much better position than their peers in the other European countries in the sample.

  Although the findings suggest that European family businesses are moving in the right direction, they still have a long way to go to close this huge gap in CG. While it is true that this gap is partly explained by the differences in the ownership structure of listed companies under the two models, it is also true that, in an increasingly global market, investors are seeking profitable companies that meet universal Corporate Governance criteria, regardless of their origin or capital structure.

- The report findings also prove that devoting efforts to enhancing Corporate Governance systems is a profitable investment for family businesses, given that businesses with above-average CG achieve better returns than the rest. While, in previous reports, we showed that the “family business + listed business” combination offered the best of both worlds, this third report shows that adding “business with Good Governance” to the equation substantially enhances the “family premium”.

- The analyses here also provide indications to FFs on the aspects of Corporate Governance on which they should focus their efforts. The data indicate that FFs, particularly European ones, are far behind non-family businesses as regards Functioning and Composition of the Board of Directors. At the same time, we have confirmed that having a high score in these dimensions has a positive impact on a FF's profitability. Thus, we can conclude that having an effective Board with the appropriate committees and a balanced composition in relation to independent board members, non-executive members and members with proven professional experience helps family businesses mitigate the negative aspects of family control, maximising their capacity to create value for shareholders.

- We can also conclude that, despite the fact that it is, in general, advisable to follow Good Governance recommendations, without distinction as to the ownership structure, some of the recommendations should be adapted to the actual situation of FFs. The assessment of the relationship between the percentage of truly independent and non-executive board members is particularly revealing in this sense. The data show that having a higher percentage of independent members improves profitability at both types of companies. However, while increasing the percentage of non-executives improves profitability at NFFs in line with Good Governance recommendations, the effect is negative for FFs. Therefore, the aim is not merely to balance the proportions of these types of board members, but rather to ensure that those who hold positions on the Board are capable of providing the best value to the company.

- Likewise, the conclusions of the data analysed in reference to policies and mechanisms for guaranteeing the protection of shareholders' rights must take into account the unique nature of family businesses, which are distinct in that they have a majority shareholder whose objective is to maintain control over the company for generations to come. The data show that, to achieve this, FFs in both Europe and the USA implement diverse mechanisms that stray from the principle of one share, one vote (in contrast to what is suggested in the Good Governance recommendations).

  As highlighted in numerous previous studies, the market "punishes" companies that grant special rights to controlling shareholders with a drop in value. Thus, it is up to family shareholders to decide whether they comply with the Good Governance recommendations in this regard, weighing the potential benefits to their image for investors against possible losses related to decreased control over the decisions made at the company. Indeed, the fact that the data show that the presence of these mechanisms affects NFFs more negatively than FFs could bolster the thesis that these mechanisms in FFs do not necessarily represent a deviation from the objective of creating value for shareholders in all cases.

- Finally, the findings highlight significant differences among FFs regarding Corporate Governance. The profile of a listed FF with the best Corporate Governance would be a large and relatively young company in which the founder is still present, where the family holds moderate control over the shareholdings (less than 40%) and the CEO is not a member of the family. One example of this type of company is the Spanish INDITEX, which, in effect, ranks at the top of both Global Ratings used in the report.

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VIII. Appendixes

APPENDIX 1. Sample selection criteria and data collection sources

1. SAMPLE POOL

In the third BANCA MARCH-IE study, we have taken, on the one hand, American companies from the S&P 1000 and, on the other, companies listed in certain European countries reported in the ORBIS database as the company pool, restricted to those that do not belong to the financial sector and whose market cap exceeds € 50 million at the end of 2013. The total number of pre-selected companies based on these criteria is 1936. Out of this number, the following filters were set to reach the final database:

- Countries with a significant number of listed companies (at least 50) that have a market cap of more than 50M were selected. This limited the sample to analysing companies in the USA, France, United Kingdom, Switzerland, Germany and Italy. Despite the fact that the number of companies meeting these criteria was 48, Spain was also analysed.
- Companies that had been publicly traded for the entire period (2008-2013), for which complete economic and financial information was available for the decade analysed, were selected. Companies for which it was possible to gather data about ownership for each of the 6 years analysed were selected.
- Once ownership data were gathered, companies whose available data did not allow us to discern whether or not they met the family business criteria used were eliminated from the analysis.

2. FINAL SAMPLE FOR THE STUDY

CSRHUB
6762 OBSERVATIONS
1127 COMPANIES IN THE USA AND EUROPE

ASSET 4
4842 OBSERVATIONS
807 COMPANIES FROM THE USA AND EUROPE

3. DATA SOURCES

Table 17. Data Source

DATABASE	INFORMATION
BLOOMBERG	Financial data 2008-2013
ORBIS	Company establishment year.
PROXY STATEMENTS AND CORPORATE GOVERNANCE REPORTS	Information on ownership, composition of the board and importance of the family in the company.
DATASTREAM	Corporate Governance Information.
CSRHUB	Information about Corporate Governance.

APPENDIX 2. Characteristics of listed family businesses

1. FINAL SAMPLE FOR THE III BANCA MARCH - IE REPORT

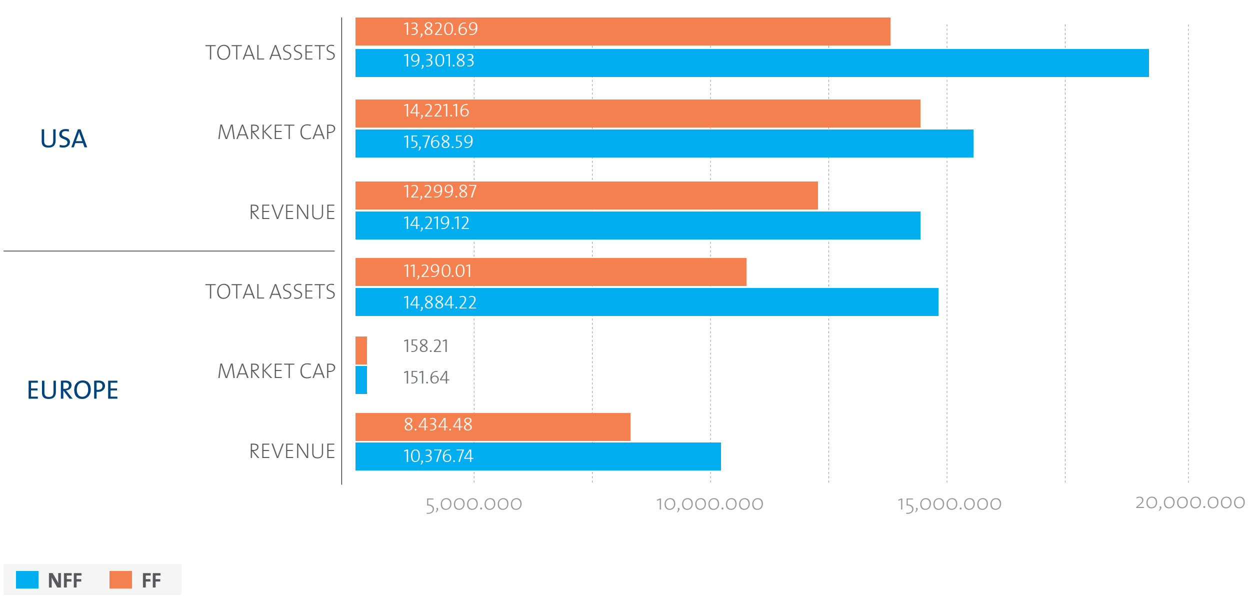
Listed non-financial companies	7 countries: USA, United Kingdom, France, Italy, Spain, Germany and Switzerland.	1127 firms: 23.60% (265) family businesses and 76.40% (861) non-family businesses	6-year time horizon. Period 2008-2013

2. CHARACTERISTICS OF FFS COMPARED TO NFFS

Through the analysis of the sample descriptions it can be confirmed that, indeed, FFs are different from NFFs.

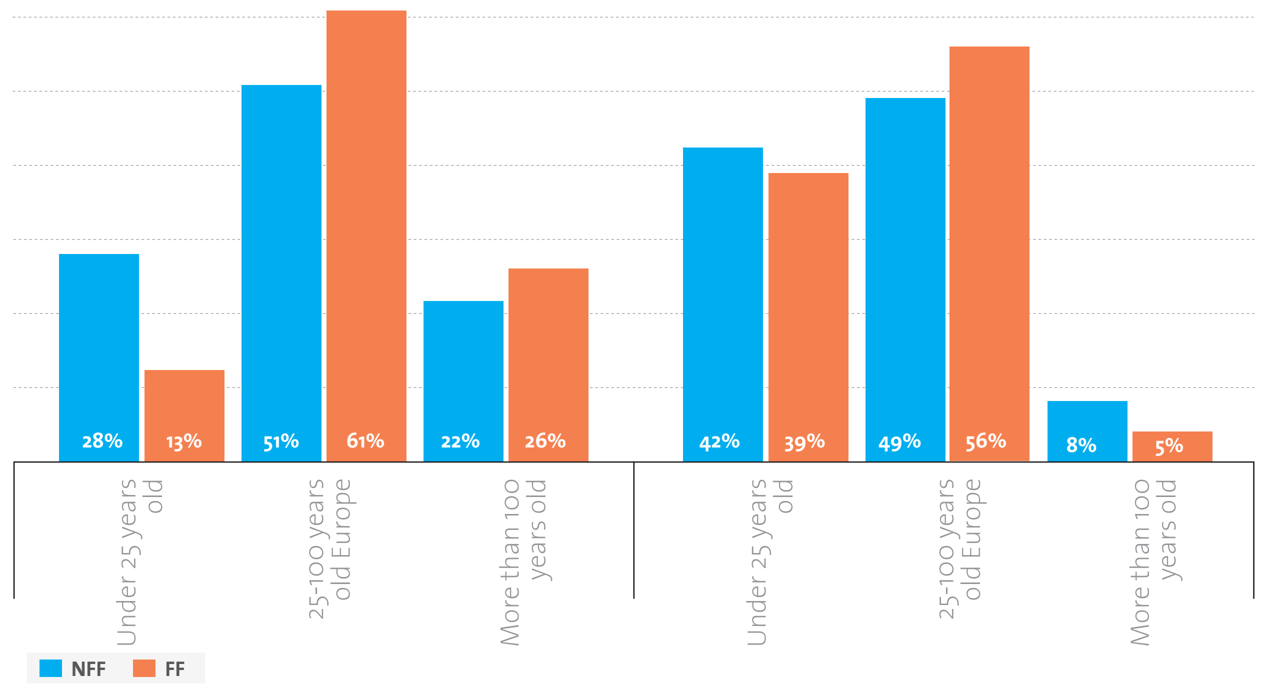
Size: FFs are smaller than NFFs in both revenue and in total assets.

Graph 28. Size (Assets and Revenue in thousands of $ and capitalisation in millions of $) FF compared to NFF in USA and Europe



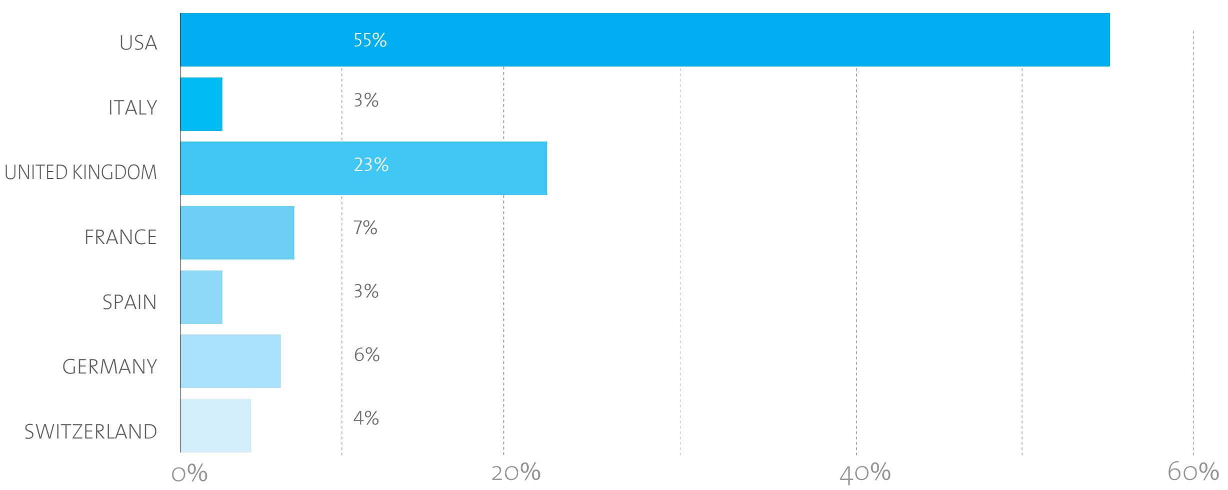
Age: Family businesses are the longest-standing. The average age of FFs is 52.59 years, compared to 50.61 years for NFFs. Furthermore, if we break the age down into 3 categories: under 25, 25 to 100 years old and older than 100, we see that the majority are in the second category, with higher percentages of FFs.

Graph 29. FF ages compared to NFF ages in USA and Europe.



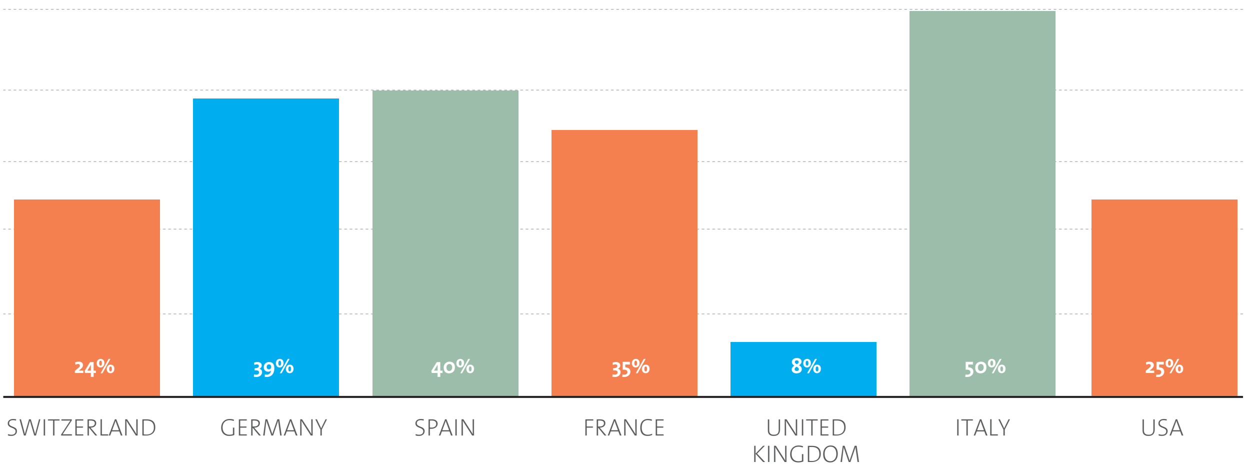
Country: 55 % of the listed companies used for the sample are from the USA, while 45 % are from Europe. Within the European companies, 23% of the companies in the sample are from the United Kingdom.

Graph 30. Geographic distribution of the companies in the sample.



FFs are also broken down differently than NFFs. In the USA, the country with the greatest number of listed companies in the sample, just 25% are family businesses, whereas in Italy the proportion of family businesses amongst listed companies rises to over 50%. Spain follows with 40%.

Graph 31. Geographic breakdown of FF

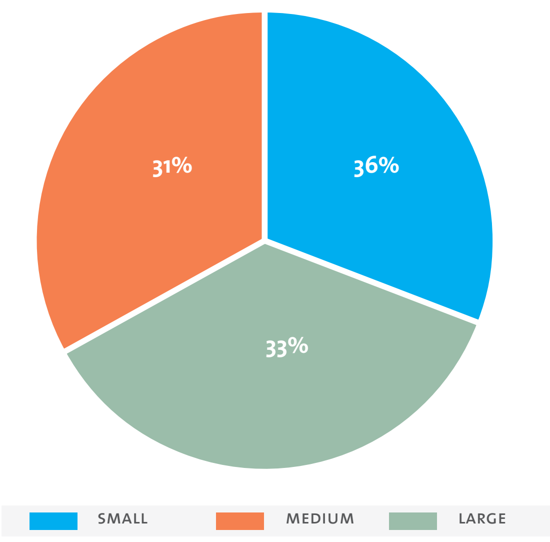


3. DIFFERENCES WITHIN THE FF GROUP

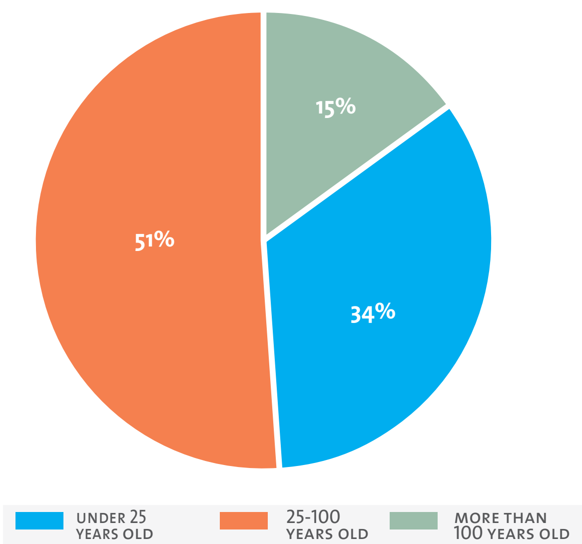
Analysis of the samples confirms that not all FFs are equal. There are differences between FFs, for example, in relation to their size, as indicated in the graph. Most FFs (36%) are small enterprises (market cap of under EUR 350M).

They also differ in age, with 51% of FFs ranging from 25 to 100 years old. Just 14.64% of family businesses are more than 100 years old.

Graph 32. Breakdown of FF by size



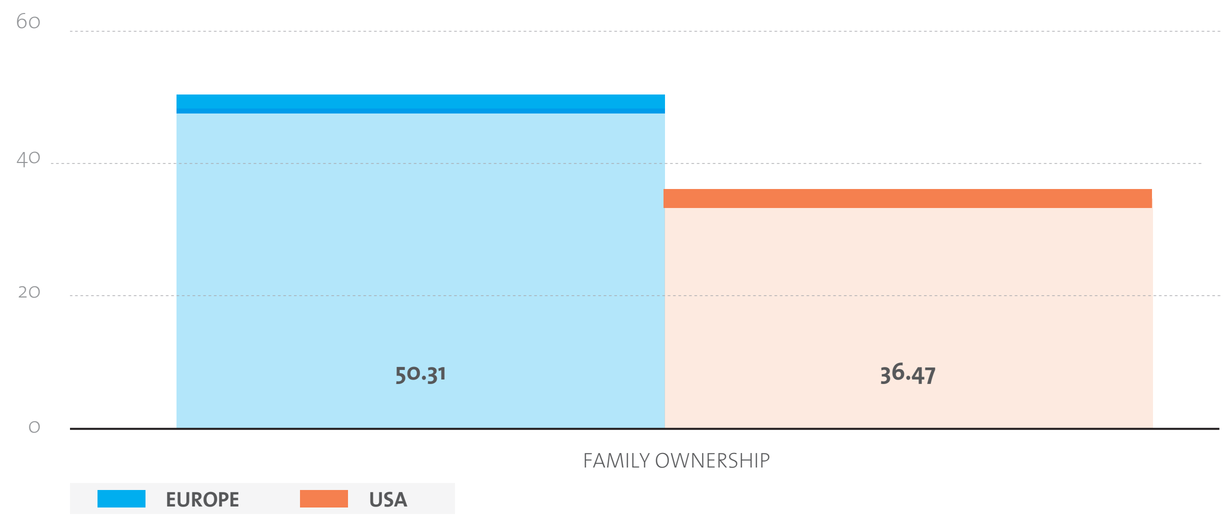
Graph 33. Breakdown of FF by age



The sample descriptions also reveal a certain amount of variety among the family business group depending on the degree of control that the family has and whether or not the founder of the company is present.

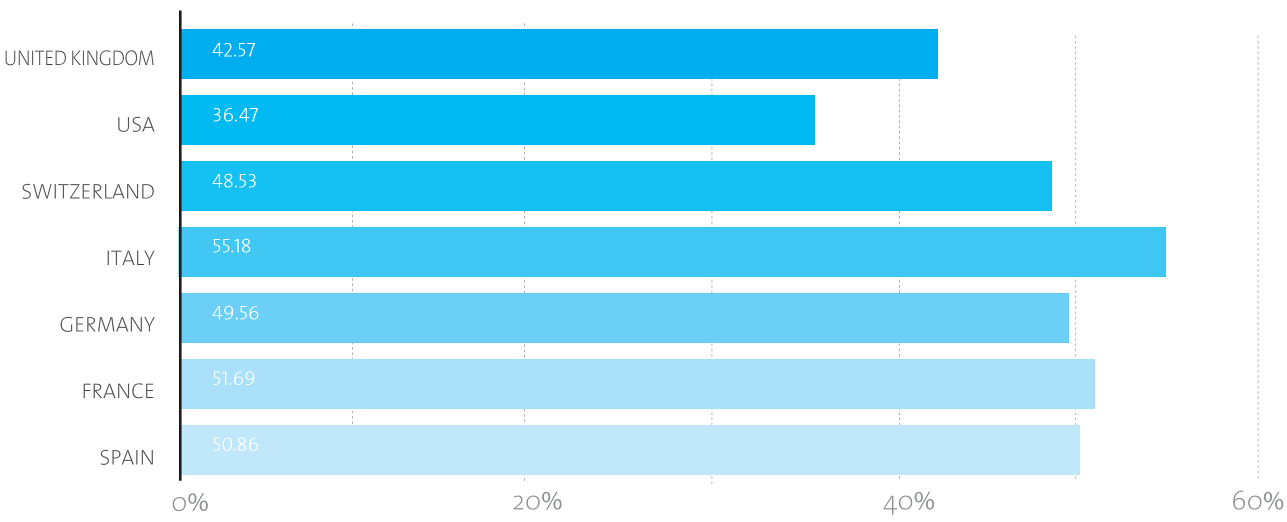
The family ownership concentration is higher in European companies, where ownership of the FF stands at more than 50% on average, whereas this average is 36.47% in the USA.

GRAPH 34. CONCENTRATION OF FAMILY OWNERSHIP IN FF IN THE USA AND EUROPE



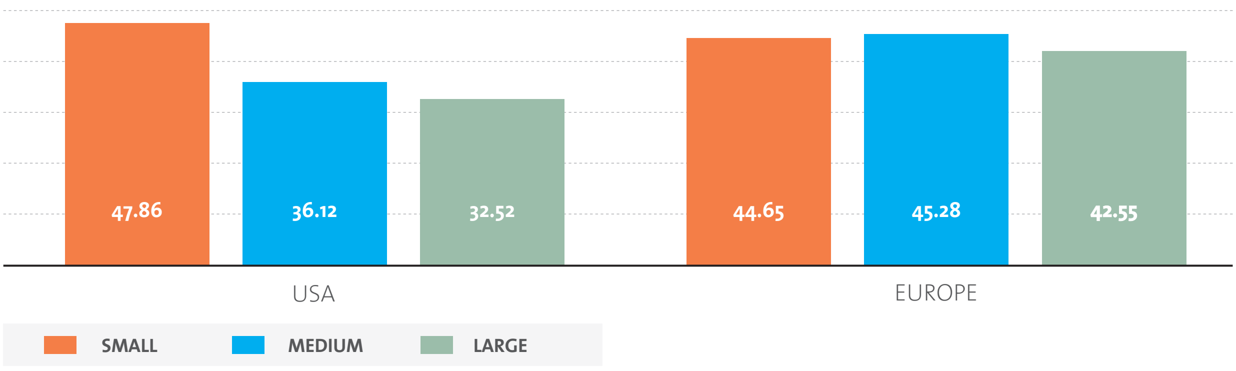
By country, we can see that Italian FFs are those with the highest ownership rates, compared to those in the USA, which have the lowest ownership concentrations.

GRAPH 35. CONCENTRATION OF FAMILY OWNERSHIP IN FF PER COUNTRY



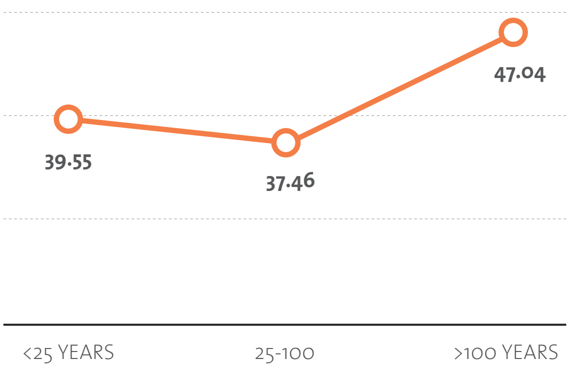
Based on size in terms of market cap, we can see that the family ownership concentration in family businesses in the USA is much higher at lower market cap companies, whereas the differences in Europe are less pronounced.

GRAPH 36. AVERAGE SIZE BY MARKET CAP IN USA AND EUROPE



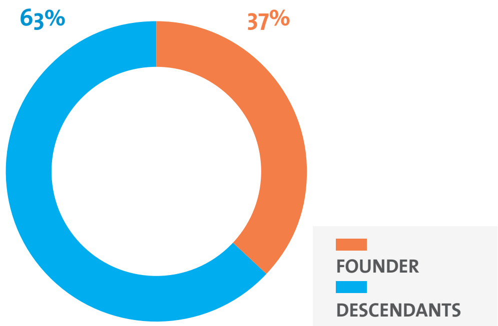
Age: The longest standing businesses (more than 100 years old) are those that have the highest ownership concentration.

GRAPH 37. CONCENTRATION OF OWNERSHIP IN FF ACCORDING TO AGE.



Founder: The founder is present in 37% of family businesses, whereas 63% have already undergone at least one generational handover.

GRAPH 38. BREAKDOWN OF FF BY GENERATIONAL STAGE

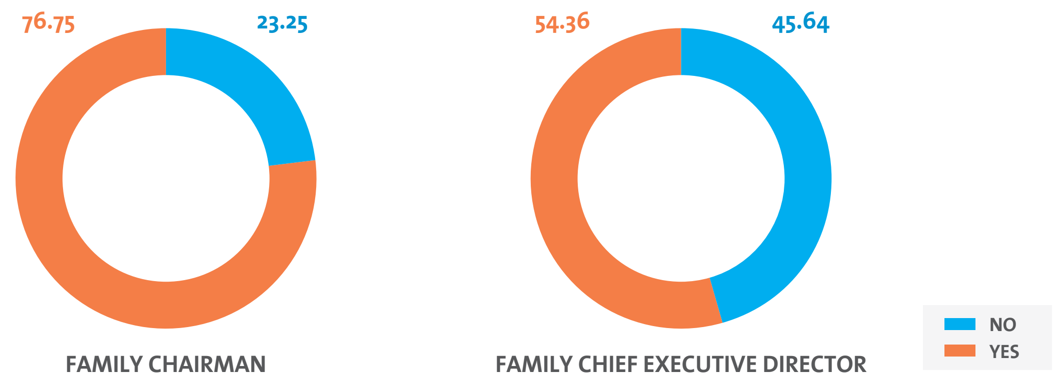


Founder company: Companies in which only the founder is present represent 17.17% of family businesses.

GRAPH 39. BREAKDOWN OF FFS BY PRESENCE OF FOUNDER AS ONLY FAMILY MEMBER.

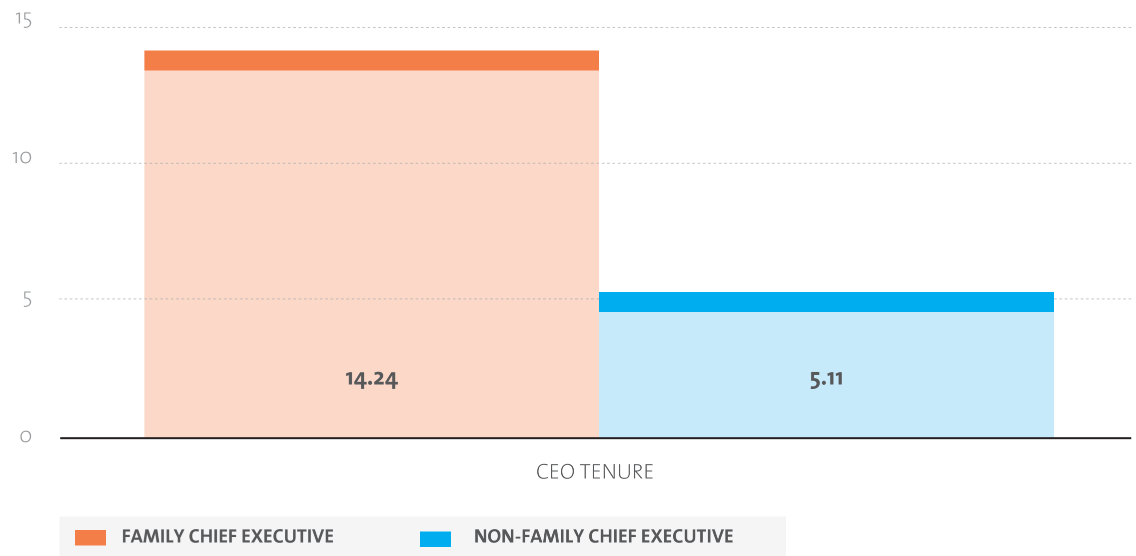
Management (CEO and Chairman): Among the family businesses in our sample, 76.75% have a family member as chairman of the board of directors and 54.36% of family businesses have a family member as chief executive.

GRAPH 40. FF WITH FAMILY MEMBER CHAIRMAN AND/OR CEO.



The average term of office of a company's CEO varies widely between companies in which the CEO is a family member (14.24 years) and companies in which the CEO is not part of the family (5.11 years).

GRAPH 41. FAMILY CEO VS NON FAMILY CEO TENURE



APPENDIX 3. Definitions of variables used in the report

Table 18. De_nitions of variables used in the report

VARIABLES	DEFINITION
Corporate Governance Rating	In the case of CSRHub, Corporate Governance is the mean score for BD composition, ethical leadership and transparency and reporting. In the case of ASSET4, Corporate Governance is the mean score for BD functioning, BD structure and composition, compensation and minority shareholder rights.
Family business	In the III Banca March-IE Study a family business is defined as one in which an individual or family group holds at least 20% of the company's shares and at least one family member is present on the board of directors.
	In the case of the USA, the percentage drops to more than 5%. The difference between the percentages in the USA and Europe are due to the fact that ownership is much more spread out in the USA and within this 5% we find a high enough degree of ownership to discern the distinctive features of FFs.
Founder company	A family business in which the founder of the company is present in a management or administrative position.
ROA	The company's capacity to generate profits with the assets available to it. This is defined as the financial yields out of the total investment made, regardless of the financing means. The general formula is: EBITA/Total assets. EBITA is earnings before interest and tax.
Stock return	Returns achieved in the stock market, adjusted by dividends and other shareholder compensations.

APPENDIX 4. Corporate Governance Ratings

TABLE 19. CSRHUB

CSRHUB	
Definition	The Corporate Governance category defined by CSRHub covers reporting on policies and procedures, independence and diversity in the board of directors, executive compensation, attention to stakeholder concerns and assessment of the ethical leadership culture of the company.
Dimensions	Corporate Governance focuses on measuring companies committed to corporate responsibility and sustainability at all levels. The global index is divided into three sub-dimensions: • Board of Directors composition • Ethical leadership • Transparency and reporting
Coverage	The CSRHub pool includes 14411 listed companies around the world, covering the main indices: S&P 500, MSCI World Index, Nasdaq, FTSE350 and MSCI World Index.
Data Collection Sources	The sources from which data were attained include ASSET4 (Thomson Reuters), Carbon Disclosure Project (CDP), EIRIS, Governance Metrics International (merged with Corporate Library), IW Financial, MSCI (ESG Intangible Value Assessment and ESG Impact Monitor), RepRisk, Trucost and Vigeo.
Methodology	CSRHub takes information from its data sources and transforms it into a scale of 0 to 100. Next, it weighs the original data, aggregating the scores thereof and adjusting the figures so that they match without problems.

TABLE 20. ASSET4

ASSET4	
Definition	The Asset4 Global Corporate Governance Rating gathers information about the composition, structure and functioning of the Board of Directors, protection of shareholders' rights and compensation policies for board members.
Dimensions	The global index is divided into five sub-dimensions: • Board of Directors composition • Functioning of the Board of Directors • Protection of shareholders' rights • Compensation Policies
Coverage	The ASSET4 pool includes 3000 listed companies around the world, covering the main indices: S&P 500, MSCI World Index, Nasdaq, FTSE350 and MSCI World Index.
Data Collection Sources	The company collects and analyses information from the companies' annual reports, websites, newspapers and specialised magazines. All the information should be available, although analysts may contact the investor relations offices to check the source and accuracy thereof.
Methodology	The information is summarised in 250 KPIs (key performance indicators) and more than 750 variables. The global rating and each of the five sub-dimensions are measured on a scale of 0 - 100.

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