The strategic role of innovative finance and the "Mercato Alternativo del Capitale" (MAC) for business succession in Italian family firms*

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ABSTRACT

Family firm succession can be enhanced by opening the corporate structure to new investors.

This paper aims to assess the effectiveness of two specific economic instruments used to support business succession for family firms in the specific Italian context: innovative finance such as private equity and the "Mercato Alternativo del Capitale" (MAC) - considering the positive experience of the equivalent Alternative Investment Market (AIM) in England.

Desk analysis (national database figures) and field analysis (interviews and documents collected from a representative sample of banks and companies) have yielded several significant results: data from the Private Equity Monitor (PEM) indicate that in Italy, between

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2000 and 2007, over 600 private equity operations were carried out; of these, 66% were represented by buy-out operations while replacement capital financing did not exceed 5%. These data suggest that the creation of an Italian MAC could stimulate replacement capital operations.

On the basis of the above results, the following conclusions can be deduced: i) generational turnover and the opening up of the corporate structure of Italian SMEs can in general be successfully supported through private equity operations; ii) at present the same positive results are not recorded for operations performed using the MAC; iii) the MAC will only be able to play a significant and strategic role in this context when it is successfully launched and becomes more widely diffused; iv) institutional investors, as the only entities qualified to purchase the issued shares, will be the leading actors in the evolution of the MAC: they have to prove that they are willing to change their investment policy from financing enterprises to financing equity.

Keywords: small and medium enterprises (SMEs), family firm, business succession, opening up of corporate structure, innovative finance, private equity, Mercato Alternativo del Capitale (MAC), Alternative Investment Market (AIM)

INTRODUCTION

Evidence from many studies indicates the importance of family businesses in the global economic environment. Family firms are widely recognised as the leading actors in all industrialised countries, playing a significant role in the development of their economic systems (Astrachan, & Shanker, 2003; Bird, Welsh, Astrachan, & Pistrui, 2002; Chua, Chrisman, & Chang, 2004; Corbetta, 1995; Davis, Pitts, & Cormier, 2000; Gallo, 1995; Heck, & Stafford, 2001; Klein, 2000; Morck, & Yeung, 2003; Zahra, & Sharma, 2004).

In Italy in particular, family capitalism plays a role of crucial importance in the productive network and the governance structure of the firms: 93% of Italian companies are based on a family structure, in addition to which approximately 98% have less than 50 employees (AIdAF, & Banca d'Italia, 2004). The importance of family firms is clearly related to the dimensions of the SMEs[1].

In this particular context, innovative finance transactions and the "Mercato Alternativo del Capitale", specifically dedicated to SMEs, represent an important evolution of the financial and economic framework of the family business. This paper aims to analyse the potential impact of new venture capital investments and their effect on business succession in family firms.

The first part of the paper focuses the two main topics (family business and business succession), while the second part describes the main characteristics and financial requirements of the family firms. The authors analyse the results of two surveys investigating the impact of private equity and the MAC on family firms and the opening of the corporate structure to new investors. Private equity analysis is based on *Private Equity Monitor* data and comparison of the results achieved through such operations. The MAC analysis consists of a descriptive section, a comparative section (AIM-MAC comparison) and a survey conducted through a number of interviews.

FAMILY BUSINESS GOVERNANCE

Framework: family firms and business succession

The question of a precise definition of "family firm" is clearly the first challenge in family business research because different definitional criteria could lead to different results. Despite the fact that the concept of the family firm is anything but new, and that numerous researchers have attempted to define it, a widely accepted definition has still not been reached (Astrachan, Klein, & Smyrnios, 2002). The absence of shared criteria for selecting samples of homogeneous businesses hence creates significant obstacles to the comparison and generalisation of findings across studies.

The complexity of the unit of analysis is mainly due to the overlapping of the three component elements: family, business and ownership (Gersick, Davis, Hampton, & Lansberg, 1997). These interact with varying intensity, generating a vast range of forms and types with different features and objectives. In the end, the concept of the family business is genuinely interdisciplinary and can be analysed from multiple perspectives (Chrisman, Chua, & Sharma, 2005).

The elements generally taken into consideration by the various definitions are: ownership and organisational structure, the concentration of ownership, the nature of the familiar relations, the direct involvement of the founder and family components, the presence of non-family professional managers, problems regarding business succession and the desire to maintain the company under family control.

In this paper we assume a broad definition of the family firm as a company where a family, or several families linked by ties of kinship or alliance, owns sufficient shares or voting rights to ensure control of the firm (Corbetta, 1995) and where the business is governed and managed so as to achieve their objectives and to defend their interests[2].

The Italian family firm is characterised by the direct presence of the family, involved not only in ownership and entrepreneurial aspects but also in the material, informative or energetic operational processes. The most important family role is clearly to contribute venture capital on the one hand and, on the other, human capital in the form of entrepreneurial, managerial and technical skills. In Italy, family capital investments in

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business represent a high percentage of family wealth as a whole (Montemerlo, 2000). As a result, family and business not only overlap but frequently merge. This situation leads to a natural conclusion: relatives are spontaneously involved, directly or indirectly through the head of the family, in managing the family business, which thus becomes part of the family wealth in a broad sense. Encouraging the involvement of relatives in the family firm (especially sons and daughters) is a way for the family to express its desire to continue business and preserve its traditions. From this point of view, business succession is clearly a crucial and delicate passage not only in financial and economic terms but also from a social and emotional aspect.

Scholars are agreed in defining family business succession as the transfer of leadership from one family member to another, designated as the heir (Sharma, Chrisman, & Chua, 2003). More specifically, this passage involves not only capital ownership but often managerial responsibility too.

Certain studies indicate that the Italian family firms are heading towards major structural changes that involve the complex relation between family and business (Doxa - Sole 24 Ore, 1995; Grant Thornton, 1999; 3i, 2001). Approximately 40% of Italian entrepreneurs are over 60 years old and are planning to tackle business succession in the next 5-10 years (Giacomelli, & Trento - Banca d'Italia, 2005).

As a result, business succession represents a vital aspect in business development. If Italian entrepreneurs manage to tackle this astutely and prudently, a successful succession can help family firms achieve or sustain competitive advantage and new opportunities for development, but if they do not, the firms risk failure or bankruptcy. According to national researches, 33% of Italian firms do not outlive the first family owner and only 15% arrive at a second succession (Doxa - Sole 24 Ore, 1996). Business succession has to be preceded by a planning phase which, although it does not eliminate all risk of failure, at least enables rational decisional elements to be counterpoised against an uncertain future (Birtig, 2003; Jovenitti, 1998).

Components of family firm succession

There are numerous reasons to transfer control in family firms: the death or advancing age of the founder, or the latter's free decision to transfer business to relatives, unexpected financial crisis, the desire to separate ownership from control, or conflicts arising in the previous ownership structure (Demattè, & Corbetta, 1993).

In the analysis of business succession, the heterogeneity of the real cases has to be considered, with each situation presenting its own specific context and financial problems (Perrini, 1998). Effectively, there may be only a single heir, or a number of heirs in agreement or conflict with each other, or there may be no heir at all (no eligible person in existence, or heirs that are incapable or simply not interested in taking over the management of the firm or continuing the activity).

The necessary conditions for implementing a complete business succession may not be met, and sometimes the family has to decide between selling shares in the capital to non-relative investors while maintaining a management role or continuing to hold the ownership while transferring the management to external professional figures. The separation of governance creates two distinct areas in which ownership issues and business issues can be discussed, dividing the shareholders' interests from those of the family member entrepreneur or manager, and distinguishing the financial flows of the ownership from those of the business proper (Demattè, & Corbetta, 1993).

The transformations typical of the passage of succession also speed up the managerialisation of the family firms, that is the transition from structures of hierarchical government paternalistically controlled by the entrepreneur to professionally managed

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systems based on the pooling of different interests (Dyer, 1988; McConaughy, & Phillips, 1999; Schillaci, & Faraci, 2001). Proof of this can be found in the fact that approximately 75% of family businesses are owned by natural persons and 70% of equity is owned by the founder or his/her direct heir: these data demonstrate that with each generational passage ownership tends to be fragmented, with the consequent reduction of direct control of the business (Neri, & Frangioni, 2001).

THE OPENING UP OF THE CORPORATE STRUCTURE FOR THE DEVELOPMENT OF FAMILY CAPITALISM

Business succession and corporate finance

Thus, business succession represents an extremely complex phase in the life of the firm, involving – in both the family and the firm – a multiplicity of factors of both a strategic-organisational and a legal-corporate nature.

While planning business succession, numerous aspects have to be considered. The crucial component is the financial aspect, not only as regards the firm but also in relation to the owner family. Effectively, 70% of generational passages also implicate the modification of the financial structure of the family firm. Finance in the broadest sense is a critical factor for success, especially for the SMEs which have more limited access to capital resources than larger companies (Bencini, Mancaruso, & Mangiarotti, 2007).

Family firms in transition resort to financial products to support growth, as a response both to changes in the market (strategic transformation), and to internal structural changes (organisational transformation). This phenomenon is generated not only by an explicit decision to strengthen the financial structure, but even more by the evolution of the business itself and the situation of greater competition and risk in which the firms operate. As a result, entrepreneurs consciously take the risk of upsetting the family financial balance, that is the capacity of the family to align its financial resources with the demands of growth and economic development of the firm (Caselli, 2001).

However, the recourse to the finance market is not a waiver of family ownership and family management. The financial market enables the placement outside the family of the shares that are not necessary to maintain family ownership, and the collection of resources to boost economic growth and development.

Breaking the traditional patterns of business succession, based on preserving an internal family ownership, family firms are coming to realise that development processes are strictly related to the ownership framework and the willingness to open up the corporate structure (Schillaci, & Faraci, 2001). Furthermore, financial instruments play an important role in encouraging business succession (Perrini, 1998). On the one hand, in 40% of the cases the modification of the financial structure is gradual and takes place before business succession, underlining the fact that it is planned and seen as necessary by the outgoing entrepreneur himself. On the other hand, in 30% of cases the restructuring takes place after the business succession, as the reaction of the heirs to a financial structure seen as inadequate or no longer satisfactory.

The modification of the corporate structure is generally implemented through the following operations: re-capitalisation, new investments, diversification of the production range, new financial capital. These operations, directly or indirectly, redefine the leverage in both quantitative (new capital invested by family or by other investors) and qualitative terms (other types of financial capital).

In family firms the governance structure is changing: ownership is divided over a number of family investors, and external managers play an important role: "from a single leader to a board of directors". New family businesses typically have a single founder-leader, but over the years the share capital tends to become fragmented. A start-up company is generally based on equity and debt capital, but there comes a particular moment during a company's life when the owners have to decide whether to finance growth all on their own or turn to other investors. Family firms often demand resources that are excessive for the family so that they are obliged to accept new investors. Business succession creates the opportunity to re-organise the ownership and financial structure through the entry of new investors and managers. 66% of family firms pass from the founder to other family members, 23% open their structure towards new investors, 8% to financial investors and 3% to non-financial investors (Giacomelli, & Trento – Banca d'Italia, 2005).

As a result, the expansion of the corporate structure and the diversification of the sources of financing are increasingly an inevitable necessity, marking the transition from a "family firm" to a "business controlled by a family" (Perrini, 1998).

The financial function in the development of family capitalism

The financial structure of the Italian family firms is essentially based on short term debt mostly from banks (Dessy, & Vender, 1996). Up to now the Italian banking system has continued to be distinctly different from that of England[3]: in England commercial banks are distinguished from merchant banks, which operate on the financial market and represent a link between savings and enterprise.

Over recent years, however, the Italian financial system has gone through a profound evolution following the significant downsizing of the credit system and the enhancement of the financial apparatus in terms of types of intermediaries and the development of new instruments and markets. This has offered the Italian SMEs a great opportunity to satisfy their financial needs, including those linked to business succession and the opening up or reorganisation of the corporate structure.

The market is promoting financial instruments aimed primarily at small enterprises and is encouraging investors to participate in the financial management of the same rather than engaging in short-term speculations.

The debit balance structure and the cash flow needs depend on the firm's phase of development: different phases demand means different financial resources. In this context, business succession represents a characteristic phase with its own peculiar features.

The success of operations of family business succession is strictly related to active collaboration between the financial/banking system and the family business itself. Pursuant to Basel II, enterprises and the financial system are opening channels of constructive dialogue. Effectively, the banks are bound to strict selection criteria for the identification of potential borrowers in order to prevent crisis. In this climate of elevated competition the approach to the credit market has to be more innovative and incisive, which entails inevitable changes in the organisational structure of the family firms and the achievement of enhanced collaboration and transparency in relation to the banks. The latter, in response to the greater and more specific demands from family firms, are expanding and customising the range of products offered, aiming at specialisation in the sphere of corporate finance services.

INNOVATIVE FINANCE IN BUSINESS SUCCESSION

The development of innovative finance in Italy to boost the opening up of the corporate structure

In Italy, various types of institution (such as merchant banks, venture capital companies, closed-end funds, etc.) are primarily engaged in offering venture capital to boost business development.

We have seen above that business succession in family firms demands particular financial assets. While in Germany finance is based on financial institutions and in Great

Britain on the stock exchange market, the Italian financial system has not yet evolved in this direction, which at least partly explains the problems that business succession continues to encounter[4].

Instruments of innovative finance could help business succession: the spread of merchant banking, the arrival of specialised foreign investors, management buy-out techniques, private equity, the possibility of banks participating in the risk capital of industrial ventures and the creation of a new security market dedicated to SMEs.

These tools could assist Italian entrepreneurs in addressing business succession, offering them solid managerial support as well as financial help in the strict sense[5].

Selling part of the capital to a new specialised investor in order to solve business succession problems has numerous advantages:

- new revenue for pay-offs to outgoing shareholders;
- finance of development planning;
- new investment opportunities;
- creation of new synergies (co-operation with other companies);
- greater separation between personal/family interests and corporate interests for a more professional management of the firm and the share ownership;
- option of consultancy and management services;
- enhanced competitiveness.

The entry of a financial partner simultaneously entails new requirements, such as:

- the presence of a representative on the Board of Directors and the Board of Auditors;
- greater restrictions in the corporate governance structure;
- reports and documentation on management performance.

There are also corporate transformations and share restructurings that comprise operations of leverage and family/management buy-out/in[6], mergers and acquisitions, and

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replacement capital operations.

Consequently, business succession too falls among the financial operations of so-called replacement capital. In this phase, the role of the institutional investors is to take the place of shareholders that are no longer interested in the family firm. New investors co-operate in the reorganisation of the firm, frequently altering the corporate structure and adapting it to managerial needs. Institutional investors press for transparency and functionality, and encourage those members of the family who demonstrate greater managerial skills. Frequently, this marks the first step towards a new phase of development, and again the institutional investor can act not only as financier but also as an active partner with a vested interest in maximising the value of the firm. (Perrini, 1998).

The role and performance of private equity operations

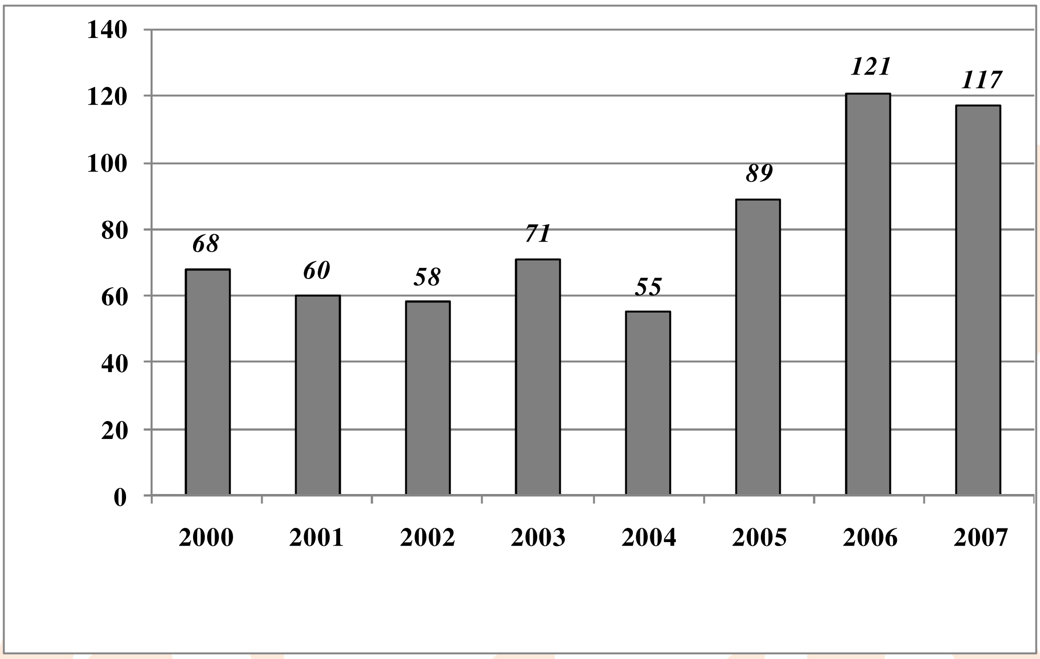
The concept of private equity is related to investments in venture capital by specialised investors. Depending on the needs of the company, such investments may be in the form of closed-end funds, merchant banking, venture capitalists, banks, public operators, etc. (Perrini, 1998).

Institutional investors contribute to accelerate development processes in the firms, albeit only via minority shareholdings.

This is moreover confirmed by the results of an analysis[7] of data relating to the 2000-2007 period on a sample of 600 operations implemented in Italy by private investors in family firms. The results shows that venture-backed firms revealed appreciably high development rates, from 10% to 30-40% per year, double that of the firms without venture capitalist intervention. In addition, the research shows that the venture-backed firms increased employment by an annual rate of 15% against the 2% of the top 500; they also increased investments by an annual rate of 25% as against the 3% of the top 500, with an average incidence on turnover of R&D of 8.6%. The venture-backed firms also considerably boosted the level of internationalisation, arriving at an average growth in exports of 30%.[8]

Beyond the performance, other data are also significant, such as for example the distribution of these operations over the years (figure 1).

Figure 1: Distribution of private equity operations per year



The number of investments (+36% in 2005 and -3% in 2006) confirms the upward trend of the private equity sector in Italy.

In 2006 the number of operators active in Italy as either lead or co-investors was 77 as compared to 57 in 2005 (+35%), dropping slightly to 70 in 2007 (-9%).

In 2007 the financial market was still prevalently oriented towards buy-out operations (approximately 66% of the total, -4% in comparison with 2006). The expansions followed the upward trend recorded in 2006, arriving at 25%. In 2007 turnaround operations represented 5%, while replacement operations grew by 2% in 2006 and 5% in 2007 (figure 2).

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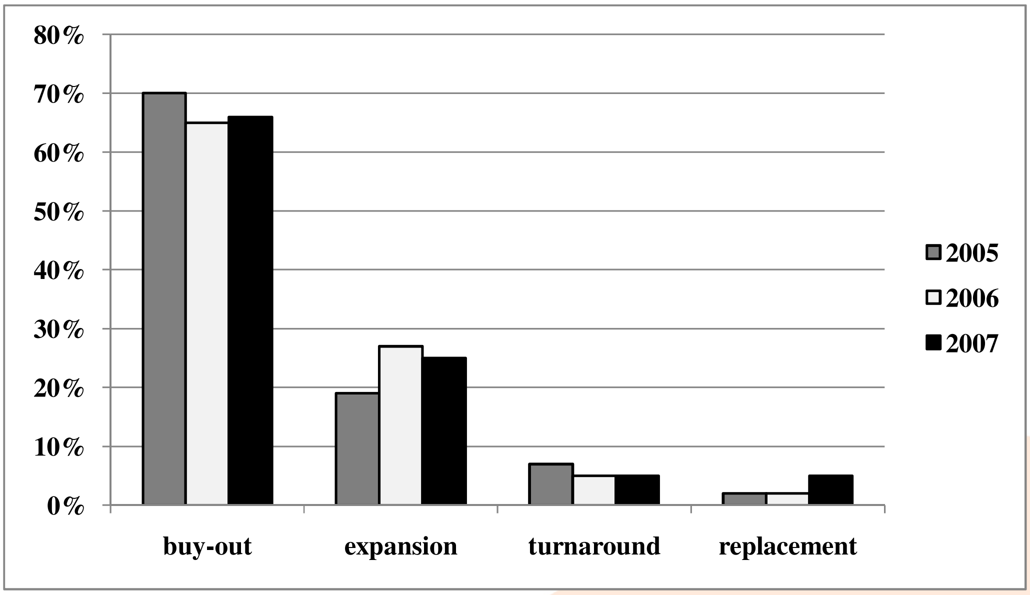
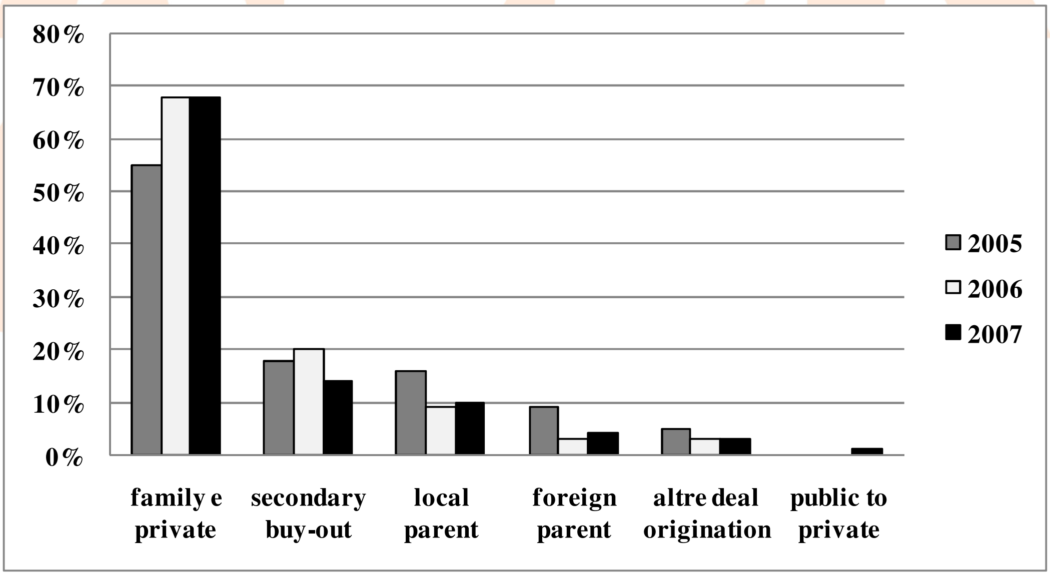
Figure 2: Percentage distribution of operations by investment type



60% of the operations related to majority shares, that is >50%.

The majority of the operations originated in the ambit of family firms (68%), followed by secondary buy-out operations (14%) and by business unit acquisition (figure 3).

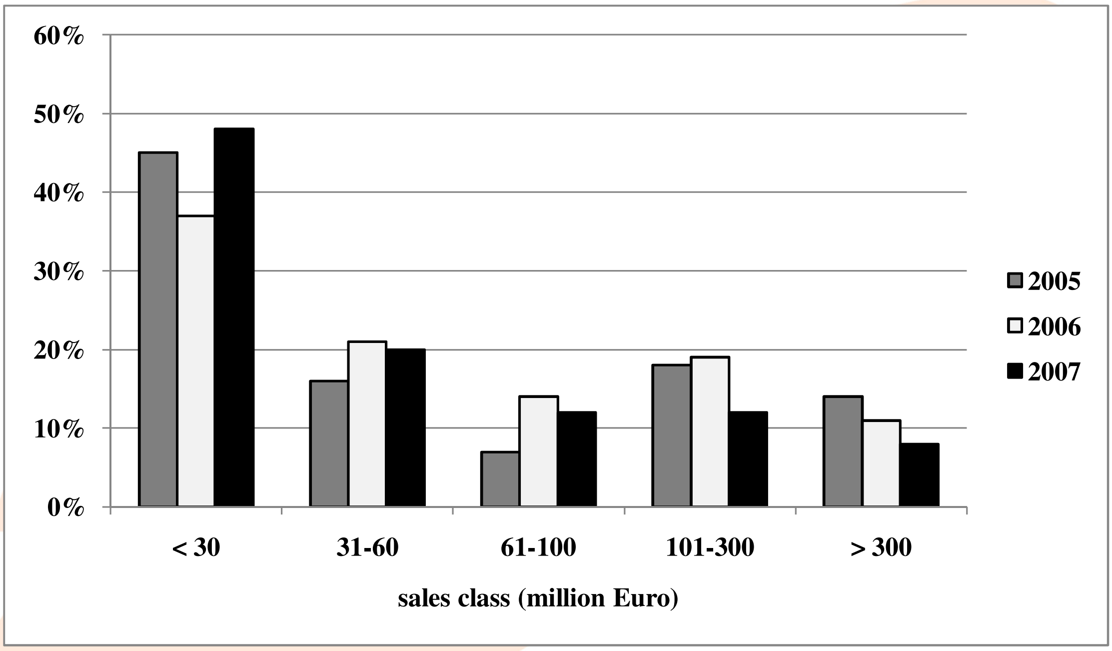
Figure 3: Percentage distribution of operations by deal origination



Regarding the sectors of intervention, focus on the traditional sectors of industrial and commercial goods remained stable (both 26% of market), followed by foodstuffs (9%), large-scale retail and advanced service industries (both 8%). There was also a growing interest in financial services (7% during the first part of the year) and the first operation in the renewable energy sector.

Apropos the dimensions of the target companies in terms of turnover, there was a radical change in the data from 2006 to 2007: 48% of the 2007 operations involved companies with turnovers below 30 million Euros, as compared to 36% in 2006. As a result, all the other intervals are downsized (figure 4).

Figure 4: Percentage distribution of operations by target company turnover (mn Euro)



It is clear that there is a renewed interest in smaller firms, which are the principal target for both old and new investors.

To conclude, the average P/sales multiple was 1.3x (1.1x in 2006 and 0.9x in 2005); while the P/Ebitda was 7.5x (7.1x in 2006 and 5.8x in 2005).

Can private equity act as an incentive for the opening up of the corporate structure in family firms?

It is important to stress that innovative finance can be used in different ways and can lead to different results. This is due to the fact that institutional investors only help companies that are likely to be successful: healthy SMEs manufacturing valid and technologically advanced products and, clearly, that are profitable. Hence the recourse to private equity is an option primarily for medium-sized enterprises with interesting programmes for development, entrepreneurial governance, good current profitability and prospects and a balanced financial-ownership structure, such as to guarantee a good return on investment. Small enterprises and greatly undercapitalised enterprises consequently prove to be excluded.

Co-operation between institutional investors and family firms generally reveals a very positive effect on performance and on the development process. However, illustrating the criticality of the relation is the fact that no small number of firms actually reveal negative development rates (Bollazzi, 2008). This is probably due to an imbalance between the financial contribution and the degree of interference in terms of governance of the firm, which is often a brake on the evolution of the typical family firm.

THE ROLE OF THE ALTERNATIVE CAPITAL MARKET IN BUSINESS SUCCESSION

The principal characteristics of the MAC[9]

The Mercato Alternativo del Capitale (MAC) was set up in September 2007, ten years after the equivalent British "Alternative Investment Market" (AIM).

The MAC was promoted by the Borsa Italiana (the Italian Exchange) the major Italian banks, the entrepreneurs' associations and the financial institutions.

Prior to 2007, Italian firms that wanted to open up the corporate structure had only two options: listing on a regulated and rigidly selective market, also opening their capital up to retail investors, or ceding a share of the capital to a private equity fund, which assumed an active managerial role in the firm in a medium-term timeframe. We have already dealt above with private equity, while as regards listing on the Stock Exchange this is certainly not an option easily accessed by family-type SMEs. Consequently, the structural liability problems of this type of firm continue to be critical: they are undercapitalised (D/E is roughly 2, while the European D/E average is less than 2), their debt exposure is too strong and consequently the financial structure is unbalanced.

The MAC was created to offer financial solutions to the SMEs and profitable opportunities to investors.

The MAC consists of an organised system of exchange that has become a Multilateral Trading Facility (MTF) following the coming into force of the MiFID directive. The aim of the MAC is to achieve a number of objectives in favour of SMEs:

- allowing easy, quick and low cost access to venture capital;
- allowing entrepreneurs to increase capital while preserving managerial control;
- opening the corporate structure to minority shareholders who are acceptable to the owner of the family business;
- reinforcing the financial structure to achieve a good rating and positive financial conditions pursuant to Basel II;
- improving territorial synergies between companies, banks and local institutions;
- showcasing firms to Italian and foreign professional investors that want to invest in development processes in the medium-long term;
- simplifying the negotiability of the shares;
- allowing the diversification of investments' thus guaranteeing reduction of the securities portfolio risk of the SMEs';
- contributing to boost the Italian economy as a whole and eradicate the obstacles to its development.

The MAC is organised and managed by the Borsa Italiana, which lists companies, regulates the stock exchange, supervises operations and approves the Market regulations.

The structure and operation of the MAC are governed by regulations and by investment guidelines. The regulation establishes the system of organisation and operation of the organised exchange market[10]. The guidelines are the fundamental rules of the code of conduct binding on investors and are aimed primarily at excluding retail savers from the operations.

The principal actors of the MAC

***Applicant for listing*:** there are just a few simple admission requirements: it is necessary to be a Limited Company, to guarantee the free circulation of shares, to have the financial statement for the last year certified by an auditing company recorded in the Consob register and, finally, to be supported in the dialogue with investors and with the market by a sponsor (and possibly also an advisor) and by an intermediary known as a specialist (sponsor and specialist can be the same person or organisation).

***Sponsor*:** the sponsor is the financial entity that accompanies the company to listing on the Alternative Capital Market: it helps with the compilation of the application and information sheet, sources the specialist to manage the placement of the capital, and provides assistance for compliance with informative requirements following admission.

Banks and investment companies operating in Italy and regularly registered in the ProMac list[11] can sponsor a firm for three years. The sponsor certifies that the sponsored company can be listed on the MAC and commits its name and reputation as a guarantee for the financial community[12].

Becoming a sponsor is a 4 *step* process: internal organisational set up (the interested intermediary defines the roles and responsibilities of the internal structures and selects the operational areas of interest); registration in the ProMac list (compilation of application form for registration in the list of sponsors, accepting the regulations and guidelines for investment in the MAC, payment of the registration fee of 50,000.00 Euro + VAT per year for each of the 4 operational areas into which Italy is divided that the sponsor wishes to operate in); registration in the reserved area of the website where is possible to monitor and manage the sponsored companies, invite guests to appointments and download support material.

***Advisor*:** the company may choose to have an advisor to support the sponsor. More specifically, the advisor may introduce the interested company to a sponsor, collaborate with the latter, and assist the company during the process of admission to negotiation, placement and the subsequent phases.

Qualified to be advisors are entitles that perform professional activities of consultancy and assistance in the economic, corporate, legal or fiscal spheres registered in the ProMac list (accountants, legal studios[13], auditing companies, business, financial and management consultants, brokerage firms, private equity companies and family offices).

To register in the list, the advisor must complete an application form and accept the regulations and guidelines for investment in the MAC, in addition to the payment of a membership fee of 10,000.00 Euro + VAT for the first year and 5,000.00 Euro + VAT for subsequent years.

***Specialist*:** these are financial brokers (banks, Italian and foreign investment companies, authorised to negotiate on their own behalf or for third parties) that help issuer companies in the placement on the MAC and support them in valorising the investment project with the professional investors.

In the phase of admission to MAC, they evaluate the feasibility of the operation and estimate the placement price. They also contact the potential investors, organise the road show and finalise the placement. In the following phase of negotiation they facilitate the encounter of demand and supply and the price formation, promoting the investment, collecting and concentrating the investors' purchase and sale proposals.

The term of the specialist's assignment is annual and no membership fee is required. The company admitted to the MAC must always be assisted by such a figure; if the assignment fails the company must find a new specialist, otherwise negotiations will be suspended and it will be excluded from the Market.

To be able to support the issuer during the placement it is necessary to obtain access to the reserved area of the MAC website. To support the negotiation, it is essential to be registered in the list of specialists held by the Borsa Italiana.

***Investors*:** only professional investors are authorised to negotiate directly on the MAC, while retail investors are expressly excluded. Professional investors are: credit facilities, investment companies, collective investment bodies, insurance companies, pension funds, large-scale companies (which meet at least two of the following requirements: that they perform frequent and significant operations on financial instruments, that they hold financial portfolios of at least 500,000.00 Euro, and that they work, or have worked, in the financial sector); national or regional governments, central banks, international, supranational and similar institutions. Moreover, pursuant to the MAC regulations the majority shareholder of the issuer (as indicated in the shareholders' register, or testified by the most recent communications and other data in the possession of the issuer) at the date of admission to negotiations on the MAC is also a professional investor, limited to the shares of the issuer itself.

***Negotiators*:** these are dealers operating on the Market with the sole purpose of transmitting their own and customers' sale and purchase orders for shares negotiated on the MAC. Interested negotiators have to fill in a services request available on the Borsa Italiana website and supply the requested documentation.

Admission procedures and tools for investment on the MAC

The procedure for admission to negotiation on the MAC is generally easy, fast and relatively low-cost. While the documentation requested for the admission to the Borsa Italiana is complex and formal, no prospectus is required for admission to the MAC. Listing times are also very quick, generally no more than six weeks. The issuing company will have to pay about 50-1000,000.00 Euro for the entrance fiche, placement costs excluded.

The procedure can be broken down as follows:

- the company contacts the sponsor and (if desired) the advisor;
- the sponsor contacts the specialist who organises the capital placement (appraising the operation and estimating the price of placement of the shares, identifying the professional investors working in the territory and in the economic sector in which the company involved operates and communicating the development strategy to them);
- the company submits the application for admission to negotiation and a short information sheet[14];
- Borsa Italiana checks the documentation submitted and, if it is complete and correct, admits the company to negotiation in ten working days;
- the company places its capital with the help of the specialist, who assigns it to the investors subject to approval of the entrepreneur;
- the issuer launches negotiation on the MAC accepting that its shares can be freely exchanged between the investors.

As regards procedures and tools for investment, the underwriting of the capital and the orders for purchase and sale of the shares must be placed by a MAC broker who has to verify the investor's status and transmits orders to the market for a minimum quantity of 50,000.00 Euro or multiples of the same.

Two separate negotiation sessions are scheduled: the electronic auction session and the off-auction session. In the weekly electronic auction, the qualified brokers place the investors' orders directly on the MAC. The negotiation book is visible to all the qualified brokers. At the end of the validation session, just one auction price is decided for each share. This price must satisfy the majority of orders placed with procedures analogous to those used in the auctions of other exchange markets. In the daily off-auction session, the specialists facilitate the encounter of demand and supply, providing general buying and selling guidelines, and eventually establishing agreements at the prices agreed between the parties. All negotiations concluded by the specialists in the off-auction session are immediately communicated to the MAC.

In addition, intermediate investment procedures are provided for individual high net-worth investors (natural persons with conspicuous assets who perform significant operations on financial instruments and work or have worked in the financial sector): purchase of funds for investing in MAC shares, asset and trust management.

MAC vs. AIM: first considerations on success and diffusion

There are not many differences between the Italian MAC and the British AIM[15]. Furthermore, the MAC guarantor authorities are attempting to align the guidelines with those of the AIM in the hope of repeating the success of the British venture[16].

The main differences between the MAC and the AIM are that only SMEs can quote their shares on the MAC and that – at least in the initial phase – investments are restricted to institutional investors. In fact, retail investors cannot negotiate on the MAC, while they represent the most important investors on the AIM. This is due to the fact that investment types, risk profile and market transparency are not compatible with the legal protection requirements demanded for retail investors in Italy. This decision is also dictated by the desire to guarantee the financing operations a greater degree of reliability and hence success.

As the Chairman of ProMac Salvatore Bragantini confirms, the new MAC is a wide-ranging project and its success can only be measured in the long term. It aims to create conditions that enable SMEs to draw on a pool of resources from qualified investors, who at present are alone capable of reviving the market. This is why the MAC does not apply rigid admission criteria: it is the investors themselves, since they have adequate professional competence and hence do not require particular protection, who will choose from the various proposals that they receive, negotiating the conditions of the operation in a transparent manner with the company and the specialist.

In the current scenario, the key to success is in the hands of professional investors: certainly they could be intimidated by the lesser liquidity of the MAC in comparison to other markets, but it is to be hoped that they can grasp the opportunity of the investments offered by the SMEs, not available on other albeit more liquid markets.

From the point of view of the issuers, the MAC is a very attractive opportunity. In an economic context where the internationalisation of the productive chains is increasingly generating new opportunities, the financial strategy proposed by the MAC offers the genuine possibility of increasing capitalisation so as to access bank credit at more favourable conditions by virtue of a more solid rating.

Little more than six months from the launch, four securities are negotiated on the MAC. In view of the severity of the crisis affecting the system and the large number of companies awaiting listing, ProMac declares itself satisfied. Effectively the potential user pool is very vast: the number of SMEs with the necessary requisites for entering the MAC (turnover with a float of 4 million Euro, growth rate in line with that of the sector and medium rating class) is estimated as almost four thousand, all sharing the need to fund expansion projects or to optimise the asset structure.

Furthermore, the European Parliament is examining a number of fiscal regulations, applicable to all the EU Organised Exchange Systems, aimed at favouring the capitalisation of companies, which would also extend the fiscal benefits of the MAC model.

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Can the MAC act as an incentive for the opening up of the corporate structure in family firms?

MAC seeks to establish a direct contact between the investors and those Italian SMEs with successful projects that have always remained closed to external partners. A process of change and evolution in family capitalism is now taking place in Italy. Family firms are increasingly interested in appraising the expediency of opening up to venture capital and listing on the investment markets, especially those specifically dedicated to SMEs.

MAC seeks to provide businessmen with a new simple and low-cost channel for accessing new capital, without waiving their autonomy in the management of the firm

The Alternative Capital Market will only become satisfactorily widespread if the SMEs are willing to tolerate procedures for the observation and monitoring of their management. Consequently they need more structured assets and a new approach to business governance, with successful projects that are attractive to the institutional investors that demand a high capital return appropriate to the high risk of this segment due to the potential non-liquidity of the investment.

To date, despite the excellent premises and the confidence shown by the promoters, the MAC appears to be blocked on the launching pad and unable to take off. To evaluate the reasons for this apparent flop, we interviewed a number of companies in different sectors operating in the Florence-Prato-Pistoia area and six of the major banks operating in the same sector. From this analysis it emerged that the family firms that feel they are ready to tackle listing prefer to turn to the official Stock Exchange, despite the significant cost differences (700-800,000 Euro for the Borsa Italiana as against 50-100,000 Euro plus a placement commission of approximately 5% of the total amount requested for the access to the MAC). Effectively they consider that the main Exchange offers greater guarantees of visibility and prestige, while the MAC is often considered like secondary market, potentially profitable, but extremely risky.

The reason for such views can probably be explained by the governance structure of the SMEs and the management style of the banks. The governance structure of the family firms is not inclined to managerial and accounts transparency, due to the lack of a management accountability that checks the reliability and attainability of the fixed goals. Consequently, the financial operators complain of difficulties in carrying out due diligence and survey activities on the applicants for listing. Such activities are undoubtedly simpler when an institutional investor (such as a common investment fund) is already present in the corporate structure, since most of the auditing activity will already have been performed[17]. Apropos the bank management style, the tendency is to favour investments of contained and controlled risk. Furthermore the constitutional principle regarding the protection of savings, deeply rooted in Italy and decidedly less binding in Great Britain, increases the rigidity of the MAC which instead ideally aspires to a simplification of the market.

Moreover, the principal limitation of the MAC appears to be its very structure, since the institutional investors (unlike the retail investors) are not inclined to invest in very expensive operations which also risk being difficult to liquidate. This is because the principal shareholder, often the founder of the firm or the latter's heir, is unwilling to sell shares in the capital of his or her own creation except at an exorbitant price (eight or ten times the EBITDA), while generally the safer exchanges for investors are at maximum around 5 times the EBITDA so as to maintain a profitability margin.

The MAC operators have to soften up their requirements: the firms have to be more transparent in their management and open up their corporate structure; other actors have to shift their attitude somewhat, stop demanding safe bets and start trusting to a sensitive appraisal of new evidence of authentic entrepreneurial potential.

CONCLUSIONS

The opening up of the corporate structure to new investors in venture capital is one of the most important key factors for the development of family firms and can favour the resolution of the critical process of business succession. The financial analysis is essential in this perspective and the evolution of instruments and operators contributes to expand the opportunities that are also open to the family firm.

Analysis of the efficacy of private equity and the MAC underlines the limited propensity of Italian entrepreneurs and specialised operators to trust in new investments and paths of development.

Despite acknowledgement of the theoretical viability of both private equity and the MAC, the diffusion and their guarantees of results have not yet come up to expectations.
There is no doubt that in the majority of cases private equity is a profitable and valid instrument in support of business succession and the opening up of the corporate structure of the Italian family SMEs. The main obstacle to the complete development of private equity is that the entrepreneurs are loathe to tolerate interference in what for them, more than a firm in the strict sense, is considered as mode of spreading the image of the family in a broad sense.

The MAC, on the other hand, will be able to play a significant and strategic role only when it is successfully launched and becomes more widely diffused. This will depend on the attitude of all the actors in the Alternative Capital Market; institutional investors, as the only entities qualified to purchase the issued shares, have to prove that they are willing to change their investment policy from financing enterprises to financing equity, underwriting greater risks counterbalanced by the higher returns offered by family firms. The owners of the family firms will have to curtail their demands, guaranteeing greater transparency and monitoring mechanisms, grasping the fact that the MAC enables them to draw on financial resources to capitalise their firms without the obstacle of interference in governance.

[1] The authors would like to stress the fact that the family business phenomenon is not restricted only to SMEs: in effect approximately 40% of the leading 100 companies in Italy are based on a family business structure.

[2] This definition is the most authoritative at national level and takes into consideration the specific features implicit in the Italian context.

[3] For detailed discussion of the comparison, see: Guatri, L., & Vicari, S. (1993). Sistemi d'impresa e capitalismi a confronto. Creazione di valori in diversi contesti. Milano, Italia: Egea.

[4] The recently-created opportunity for Italian banks to participate in the venture capital of industrial enterprises (introduced through Legislative Decree 385/1993) attributes to credit intermediaries a role in the processes of ownership redistribution in small and medium enterprises and hence the chance to foster the succession processes. In Germany, for example, an essential role in this direction is played by the enterprises' *Hausbanken* which ensure that the ownership changeover at the time of succession takes place with the least possible disturbance to the existing balance. The *Mittelstand* and the small business have been the core of German enterprise for over a century now. It is clear that the Italian banks have not had the chance to play this role in an institutional manner. More specifically, legal restrictions have prevented them from covering the position of insider in the businesses (an aspect which is instead acknowledged in the Japanese and German banking systems) leading the companies to indulge in the practice of multiple credit lines. The legal restriction on the participation of banks in the capital of the companies has in fact precluded the Italian banks from the exercise of corporate governance, that is the capacity to influence the ownership structure of the firms using the leverage of financing, consultancy and action on the mechanisms of control. This has, inter alia, generated a peculiar triangular relationship (bank-firm-family): a banking system that is capable of accompanying the growth of the enterprises in periods of normality, but less adequate when it comes to resolving phases of discontinuity or moments of crisis, change or transition. On the contrary, it is precisely at times of change and transition that investors ought to intervene, selecting the businesses that deserve to be maintained in the full flush of their activities from those that call for a change. Nevertheless, despite the greater possibilities for manoeuvre that the banks now enjoy (that is the possibility – to a limited but not insignificant degree – of associating the loan contract with a shareholding contract), they have as yet failed to come up with lines of operation appropriate to the increased demands of business succession in the enterprises.

[5] We should like to mention some of the operations of extraordinary innovative finance (Cardascia, 2006; Perrini, 1998): the launch of new business initiatives (start-up financing); corporate growth and the development of business projects (expansion financing); quotation to consolidate position and business markets (bridging financing); corporate renewal, relaunching or restructuring to turn situations of decline or crisis or previous phase structures into new opportunities (later stage financing or turnaround financing); corporate transformations and shareholding reorganisation (replacement capital).

[6] The LBO/I is important for our purposes because, as well as resolving the financial problems of various family shareholders it can also safeguard business succession. These are operations of support implemented by the institutional investors to sustain the family members/managers (FBO/MBO), or family members who were not previously shareholders, both through the contribution of venture capital and by organising operations for finding debt capital. The LBO is a financial technique for corporate purchase based on the exploitation of the debt capacity of the purchased company and hence the positive effects of the financial leverage. Consequently the financial repercussions of LBO lead to a radical transformation of the liability structure of the firms involved: the ratio between own and third-party assets, the composition of the third-party resources (senior debt and subordinate or mezzanine debt), and the ownership of own capital..

[7] Source of data and tables: Osservatorio PEM (2007). Rapporto Private Equity Monitor 2007 [available at http://www.privateequitymonitor.it]. The Private Equity Monitor is a monitoring centre set up at the University Carlo Cattaneo – LIUC – which, drawing exclusively on public data sources, aims to monitor venture capital investments in Italy.

[8] For a more detailed analysis see: Bollazzi, F. (2008). Il processo di sviluppo delle aziende familiari: il contributo del private equity. Amministrazione & Finanza, 6/2008, 43-52.

[9] In view of the specific nature of the instrument in question, we consider it important to provide a description of how it operates.

[10] The regulations govern the conditions and procedures for admission of the financial instruments to, and their exclusion and suspension from the negotiations; the conditions and procedures for the admission, exclusion and suspension of the negotiators; the conditions and performance of the negotiations and the functioning of the services instrumental to the same; the obligations of the issuers and the participants; the methods for ascertainment, publication and circulation of the prices and the information.

[11] Company for the promotion of the MAC.

[12] In the case in which an issuer is subject to insolvency proceedings or in the event of termination of the relationship in the 18 months following the date of admission to the negotiations, the sponsor who presented the candidate cannot undertake new operations on the MAC for one year following such events.

[13] Even though it is not expressly laid down in the MAC regulations, the advisor can play a decisive role in the decision-making process that leads to the company being admitted to the MAC, especially as regards firms of smaller dimensions where there is a strong bond between the business owner and the accountant or legal studio that looks after the interests of the firm.

[14] The application comprises the following enclosures: last certified financial statement, certification report issued by an auditing company listed in the Consob register, documentation on management. The information sheet instead must contain synthetic information about the company: activities, results and management must be regularly updated by the company for

publication on the website. The sponsor assists the company in the drafting of the documents to be transmitted to the Borsa Italiana and accompanies it in the phase relating to the centralised book entry management system.

[15] For a thorough description of the functioning of the AIM see: London Stock Exchange (1995). AIM: a guide for companies; Valente, C. (1998). L'Alternative Investment Market londinese: un esempio di borsa efficiente per le piccole imprese. Credito popolare, 1/1998, 143-155.

[16] Effectively over 1,600 companies are listed on the AIM.

[17] See also: Peveraro, S. (2007). Private equity e aziende familiari. Dieci storie raccontate dai protagonisti. Milano, Italia: Egea.

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