

Strategy, Ownership and Governance in Family Business Groups: the Angelini Case

Alessandro Zattoni
Luiss University

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Strategy, Ownership and Governance in Family Business Groups: the Angelini Case¹

The Angelini Group is a large privately-owned Italian group. At the end of 2017 the Angelini Group had about 6,000 employees, located in 20 countries, and a turnover of €1.67 billion with a gross operating margin of €234 million. Table 1 shows the main Angelini Group business units.

The Group is diversified and operates in various sectors: pharma, personal care/consumer, machinery, beauty, wines and real estate. The pharmaceutical business accounts for 52% of turnover, personal care for 29%, machinery for 9%, beauty for 7%, wines for 2% and other activities (including real estate) for 1%.

As he approaches the age of 70, Mr. Francesco Angelini – grandson of the founder and leader of the Group – reflects on the existing strategy, ownership and corporate governance structure. He intends to hand over the reins to the next generation after having designed a group and governance structure coherent with the size and the complexity of the Group.

1. This case study has been prepared by Alessandro Zattoni as a basis for class discussion and not to assess whether the strategies and decisions adopted by the companies mentioned have been effective or ineffective.

A Brief History of the Angelini Group

Francesco Angelini: the Founder

The pharmacist Francesco Angelini set up business in Ancona in 1919. Together with two partners he founded Angelini-Ferranti-Magrini, an enterprise that produced and sold chemical and related products for pharmacies and other sectors. After Magrini left the firm in 1922, Angelini and Ferranti continued together until 1939, when they decided to split up.

Francesco Angelini founded Aziende Chimiche Riunite Angelini Francesco (ACRAF) s.n.c. in 1942. In addition to Francesco, his wife and two children, Igino and Fernanda, were partners in the enterprise. In the years following WWII, the registered office and management headquarters were transferred to Rome. The business marketed some very successful drugs such as *Tachipirina*, based on paracetamol. In 1958 Francesco bought Farmaceutici Ateni (Fater) to produce sanitary products such as bandages and nappies. In 1963 Fater embarked upon the production of single-use and disposable nappies under the brand name *Lines*.

Igino Angelini: the Second Generation

In 1964 the founder died and the reins of the Group passed to his son Igino. At that time the Group included 12 companies divided into three business areas: pharmaceuticals, chemicals and food. Igino, who graduated in pharmacy like his father, pursued an ambitious development plan. He strengthened the sales function and set up a chemical, pharmacological and clinical research office. At the end of the 1960s the research laboratory developed some active ingredients that gave birth to some very successful products such as *Tantum* (anti-inflammatory), *Trittico* (antidepressant) and *Uniplus* (cough suppressant).

In those years the pharmaceutical sector became increasingly global and the Group grew through partnerships and licensing agreements to distribute its products in other countries. With the launch of *Tantum Verde*, the Group entered the over-the-counter (OTC) segment, i.e. products that can be purchased directly from pharmacies without a prescription. In 1985 it launched *Moment*, a highly successful anti-inflammatory drug.

Thanks to investments in advertising and working with Armando Testa, Fater promoted the *Lines* brand and launched the *Lines Lady* brand for women's tampons. Around the mid-1970s, Fater set up Fameccanica through a spin-off. The company, controlled by Fater, sought to capitalise on the knowledge acquired in the production and maintenance of machinery for the manufacture of sanitary products.

At the end of the 1970s, the Group began the process of internationalisation in Spain with the acquisition of two pharmaceutical companies (Farma Lepori and Laboratori Lepori) and a company producing talc (Laboratorios Ausonia). At that time, Igino decided to reduce the Group diversification by selling companies that were no longer part of its core business, including ICIC (Industrie Chimiche Italia Centrale) which had been one of the main companies in the Group. In 1981, Igino set up Finaf through a transfer of assets in exchange for equity, as a result of which that company came to own almost the entire share capital of both ACRAF and Fater.

Following his father's example, Igino centralised the management and control of the Group in his hands. However, unlike Francesco, he created a management committee composed of the heads of the Group's strategic areas: pharmaceuticals, consumer goods, agriculture, international, R&D and finance. In 1983, Igino changed Finaf's governance, moving from a sole director to a board of directors.

In 1981 Procter and Gamble (P&G) entered the Italian market with disposable nappies, backed up by a huge advertising campaign. *Lines* managed to maintain its market leadership thanks to the innovation of its models and the expansion of the market segments covered, such as for the elderly (*Linidor*) and women (*Lines Lady*). In 1992, after about ten years of competition on the market, Angelini and P&G created a 50-50 joint venture in the consumer business, encompassing Fater and Fameccanica.

Francesco Angelini: the Third Generation

In 1993 Igino and his son Paolo died. Igino's other son, Francesco, took over as chairman and CEO of Finaf. In addition to him, Finaf's board of directors consisted of his sister Luisa Angelini (vice-chairman) and Elisabetta Gnudi (widow of Paolo Angelini). In 1997, with the assistance of Mediobanca, Francesco completed a complex family buy-out whereby he acquired the shares held by Luisa Angelini and Elisabetta Gnudi and thereby became the sole owner of the Group.

In the years that followed Finaf continued its internationalisation strategy by buying two Portuguese companies, an Austrian distribution network, CSC Pharma, and two joint ventures with German partners. These acquisitions afforded the Group access to new markets and enhanced its drug marketing expertise. At the same time, Francesco created a joint venture with the German company Phoenix to merge their pharmaceutical distribution activities (A.DI.VAR. and Comifar respectively), giving rise to A&C Adivar-Comifar S.p.A., later merged into Comifar distribution. The internationalisation process facilitated the entry into the generic drugs market: the Group created a joint venture with the German company Hexal and acquired the Portuguese company Helfarma.

After the sale of the *Lines* nappy line to comply with antitrust requirements, Fater managed the production of *Lines* women's tampons and the *Pampers* nappy line. The joint venture was a great success: volumes, turnover and profits increased significantly in the following years. Over time, products and brands also increased, including the *Tampax* (women's tampons) and *Serenity* (adult nappies) lines, *Tempo* handkerchiefs and *ACE* bleach. Beyond its economic importance, the creation of the joint venture with P&G facilitates a very useful exchange of knowledge and best practices. Cooperation with the American multinational company, world leader in the fast-moving consumer goods sector, had positive effects for the entire Group.

In the new millennium, the Group has continued its expansion strategy. It bought *Amuchina* (disinfectant), *Farmamed* (para-pharmaceutical products) and *Infasil* (personal hygiene) – the latter from P&G. In all three cases, Angelini enhanced the value of its brands and products by selling them through specialised channels and large-scale retailers.

In 1998, the Angelini Group ventured into the cosmetics sector through the acquisition of 50% of the Spanish company Idesa, which produces and sells fragrances under the *Mandarina Duck* brand. In 2015 the Group acquired the Italian company ITF, which produces fragrances for brands such as *Blumarine*, *Pomellato* and *Trussardi*. In 2017 the Group purchased the remaining 50% of Idesa and created the Angelini Beauty division.

The Angelini Group also includes some activities in the wine sector. Tenimenti Angelini was the result of the acquisition and subsequent consolidation of three Tuscan wineries, Val di Suga, Tre-rose and San Leonino, to go alongside the historic Collepaglia property in Jesi. Activities in the sector expanded through the acquisition of the Puiatti winery in Friuli and the Bertani winery in Valpolicella. The business was recently reorganised under the name of Bertani Domains.

The Angelini Group at the end of 2017

The Pharmaceutical Division

The pharmaceutical sector is very large, worth over \$1,000 billion. The market is expanding at around 6% per year, mainly due to emerging markets growing at rates above 10%. The largest market is the US, followed by China and Japan.

The ten largest multinationals account for about 40% of the market. These include Pfizer (\$52 billion turnover and \$7 billion in R&D investment), which produces drugs for cardiology, cancer and immunology; Hoffman-Roche (\$44 billion turnover and \$10 billion in R&D investment), which produces drugs for cancer, diabetes, ophthalmology, neuroscience, immunology and infectious diseases; Sanofi (\$36 billion turnover and \$6 billion in R&D investment), which produces drugs for the central nervous system, cardiovascular diseases, cancer, diabetes, internal medicine and vaccines; Johnson & Johnson (\$36 billion turnover and \$10 billion in R&D investment) which produces drugs for hepatitis C, HIV, arthritis and the digestive system; and Merck (\$35 billion turnover and \$10 billion in R&D investment) which produces drugs for cancer, fertility, degenerative diseases and endocrinology.

Pharmaceuticals is a sector marked by a high investment in R&D. However, in recent years, pharmaceutical companies' R&D investments have produced fewer molecules than in the past although the amount invested has risen. In addition, the expiry of numerous patents penalises pharmaceutical companies' revenues since the entry of generic drugs into the market significantly reduces prices.

Angelini Pharma is the largest and most important division of the Angelini Group. It employs over 2,700 people and has a consolidated turnover of approximately €1 billion, more or less equally divided between Italy and abroad. Angelini Pharma's products are sold in over 70 countries, also thanks to some strategic partnerships with the most important international pharmaceutical groups.

The pharmaceutical division operates in the Healthcare and Wellness sector. It focuses on the areas of central nervous system (including pain), rare diseases, and consumer health (thanks to highly successful self-medication drugs). Angelini Pharma can be defined as an integrated pharmaceutical company since it oversees important R&D programmes, has world-class production facilities and sells – nationally and internationally – both active ingredients and leading pharmaceutical products in different market sectors.

Over the years, R&D has developed some very important active ingredients such as trazodone and benzylamine. Currently, the Group is investing in research to develop innovative therapeutic solutions in the areas of nervous system diseases and disorders, pain and inflammation and rare diseases, with a strong focus on identifying new treatments for the paediatric population. Traditionally, the research activity avails of public-private partnerships with universities and centres of excellence at national and international level, which contribute to fuel the innovation process. The Italian production plants are located in Ancona (finished products), Aprilia (raw materials) and Casella (*Amuchina* branded products). They use cutting-edge technology, employ the best

industry standards and ensure environmental protection, thanks to the use of renewable sources. In Spain (Barcelona) the business produces food supplements such as *Pastillas Juanola*. The most important products of the pharmaceutical division are *Tachipirina*, *Moment* and *Tantum Verde*. Angelini Pharma has excellent results in the OTC segment in Italy, thanks to substantial investment in advertising and a great ability to manage the pharmacy distribution channel. The division has invested in international expansion to enter countries with high growth potential, enhancing existing operations or making targeted acquisitions. Angelini Pharma is directly present in Italy, Spain, Portugal, Austria, Poland, Czech Republic, Slovakia, Hungary, Germany, Romania, Bulgaria, Greece, Turkey, Russia and the USA. Future growth options include increasing investment in R&D in the main therapeutic areas (pain and rare diseases), expanding presence and penetration in the main geographic markets (e.g., important European markets such as France and Germany) and exploring some highly innovative areas. The head of the division will first have to decide on the amount of investment needed to develop each new line of action and will then have to understand whether it is possible to cover all these options at the same time or whether to identify priorities together with the Group parent company.

The Personal Care Division

The personal care sector includes several product segments with different sizes and growth trends. The sector is very large, with the baby nappies segment worth around \$55 billion and the women's tampons segment worth around \$2.81 billion worldwide. Globally, the largest companies in personal and home care are P&G (\$65 billion turnover), Unilever (€53.7 billion turnover), Henkel (€20 billion turnover) and Kimberly Clark (\$18 billion) turnover. In Italy, P&G occupies the top spot, followed by Fater, Henkel, Unilever and Bolton.

To compete successfully in this sector, product innovation, brand reputation and distribution channel management are important. Key industry trends include increasing competition from low-cost manufacturers, greater concentration of distribution and sales in discount stores, declining birth rates and rising average life expectancy.

The personal care division (hygiene and personal care products) of the Angelini Group falls under Fater, a company founded in 1958. After the launch of *Stilla* eyewash (1960), Fater began producing baby nappies under the *Lines* brand (1963) and later also women's tampons (1965). In the following years it expanded its range by creating *Linidor* for incontinence (1979) and *Lines intervallo* for pantyliners (1980).

Since 1992, Fater has been a 50/50 joint venture with P&G. After the establishment of the joint venture, Fater expanded its range of products with the addition of *Tampax* and *Dignity*. In the following years, it acquired the distribution of *Infasil* branded products owned by the Angelini Group (2011); the *ACE* brand (2013) for bleach and household products with reference to Western Europe and CEEMEA (Central Eastern Europe Middle East & Africa); the *Comet* range of surface cleaners and bathroom products for 10 countries.

Fater is the leader in the Italian market for nappies and women's tampons, produced and distributed under the *Pampers*, *Lines*, *Lines Specialist* and *Tampax* brands. The company is based in Pescara. The Italian production plants are in Pescara and Campochiaro (CB) while the foreign ones are located in Porto (Portugal), Mohammedia (Morocco) and Gebze (Turkey).

Fater invests about 4% of its annual turnover in innovation. The company has created a business unit dedicated to sustainability (FaterSMART), aimed at expanding, in Italy and abroad, the "0% landfill-100% New Life" project. This is a system for the recycling of used personal care products (nappies, female sanitary pads and incontinence products) which has earned the company the Legambiente award of "Circular Economy Champion" awarded by the European Commission.

The Machine Division

The industrial machinery and equipment manufacturing sector is very large, with a global value of around \$500 billion. The sector is divided into numerous niches that can be identified by segmenting the market by target sector, function and country or geographic area of customers. The size of the segments varies significantly: some are large because they produce general purpose machinery or are used by large sectors whereas others are small and medium-sized because they meet very specific needs. The degree of concentration and competitive dynamics of the segments vary significantly.

The Angelini Group entered the machinery sector in 1975, when Fater created its subsidiary Fameccanica to design and build production lines for nappies and tampons. Over time, Fameccanica has expanded its know-how and the range of equipment that it designs and manufactures for the consumer goods sector. The company has offices and plants in Italy (Sambuceto di San Giovanni Teatino, Chieti), China (Shanghai) and North America (West Chester in Ohio).

With a 25% market share on a global level, Fameccanica is the leading company in the nappy and tampons production plant sector. Although its main customers are P&G and Fater, Fameccanica also produces for companies not belonging to the Group. For example, the company produces systems and lines for filling and packaging of personal hygiene products (shampoos) and household products (liquid soaps).

Fameccanica has designed, produced and installed hundreds of machines and automation systems all over the world. The company is characterised by the quality and reliability of its systems, by its global presence and by its know-how and innovative design. The company offers its customer numerous services, such as installation and start-up support, maintenance and production assistance, technology transfer and personnel training. Approximately one third of the employees are involved in R&D.

The Beauty Division

The beauty sector is worth tens of billions worldwide, enjoys a good level of profitability (over 10%) and is growing. In terms of the gender of consumers, the segment aimed at women is worth about 60% and the segment aimed at men about 30%, while the remaining 10% concerns the uni-sex segment. In geographic terms, the largest market is Europe, accounting for more than 40% of the total.

The sector is very fragmented with a relatively small average enterprise size. The sector is dominated by the top six companies, which have a turnover exceeding \$1 billion and a global reach. They are: Coty which bought P&G's division, L'Oréal (which owns the brands *Lancôme*, *YSL*, *Cacharel* and *Diesel*), LVMH (with the brands *Givenchy*, *Kenzo*, *Guerlain*, *Acqua di Parma* and *Bulgari*), Chanel, Puig and Estee Lauder. The sales channels are, in order of importance, supermarkets, beauty stores, department stores and pharmacies.

Angelini's beauty division was created through the acquisition and merger of the companies *Idea Parfums* and *ITF*. The division markets and sells perfumes and dermocosmetics (suncare and skincare) of numerous brands. Some brands are owned by the Group (*Mandarina Duck* and *Anne Möller*) whereas others are licensed from companies in the fashion industry (*Ferrè*, *Trussardi*, *Laura Biagiotti*, *Blumarine*, *Angel Schlessler* and *Armand Basi*). The division boasts subsidiaries in six strategic European markets: Italy, Germany, Spain, Portugal, Austria and Switzerland. In total, it employs around 200 people – most of whom work in Barcelona and Lodi – and distributes its products in around 80 countries.

Angelini beauty has fluctuating economic results that are not always totally satisfactory. The sector is very dynamic: every year large companies launch thousands of new products or purchase companies and brands on the market. The division has a portfolio of relatively small brands and some duplication of functions between Spain and Italy. In the future, the division may consider acquiring new licenses or new brands, or it may enter new categories. In the face of these opportunities, it must be able to cope with an increase in distribution concentration, the likely focus of demand on large brands and the growth of the mass market.

The Wine Division

The wine sector is growing worldwide, more in value than in volume. The main producers are French, followed by Italians, Americans and Spaniards. The largest Italian companies are *Cantine Riunite* with a turnover of €610 million, *Gruppo Italiano Vini (GIV)* with a turnover of €385 million, *Cavaro* with €304 million, *Antinori* with €220 million and *Zonin* with €196 million.

The wine sector is very fragmented and is characterised by an increase in organic production and online sales. Quality wines require a very long production cycle, even several years. This implies that companies have to finance both investments in vineyards and the costs of wine production before they can market the wine.

The wine division of the Angelini Group coincides with the company Bertani Domains, which produces and markets mainly fine wines. The company has 6 Italian wineries, for a total of 1,700 hectares of land (of which 460 are vineyards), and boasts a total production of about 4 million bottles per year.

On 1 January 2014 Cav. G. B. Bertani, the historic Valpolicella company (acquired a year earlier), brought together under one roof all the agricultural and wine-producing businesses of Tenimenti Angelini, namely, the Val di Suga, Trerose and San Leonino wineries in Tuscany and the Puiatti winery in Friuli (since 15 March 2015 the business also includes the Fazi Battaglia winery in Marche region). The business was named Bertani Domains because of the standing of the Bertani brand, highly recognisable and appreciated on international markets.

Each winery is characterised by its own production based on local vines. In the three historical Tuscan wineries, Bertani Domains produces wines in the three denominations of origin: *Brunello di Montalcino* (Val di Suga in Montalcino), *Vino Nobile di Montepulciano* (Trerose in Montepulciano) and *Chianti Classico* (San Leonino in Castellina in Chianti). In Marche region, the Fazi Battaglia winery, a historical brand of Italian wine, produces the *Verdicchio dei Castelli di Jesi Classico*. The Puiatti winery in Romans d'Isonzo (Gorizia) produces the great white wines of Friuli, while Bertani is the historical Veneto winery known for the production of *Amarone della Valpolicella*.

Other Activities of the Angelini Group

Angelini Holding also owns a real estate company (Angelini Immobiliare), dedicated to enhancing the value of the Group's properties. In addition, the Group parent company also owns Angelini Partecipazioni Finanziarie, an investment holding company that invests the Group's liquidity with a prudent and balanced approach.

The Corporate Governance of the Angelini Group in 2017

The Corporate Structure

The Angelini Group is controlled by the founder's descendants and consists of numerous companies (see figure 1). At the apex of the Group are three holding companies: Angelini Finanziaria (investment holding company) controls Angelini Finanziaria Holding (investment holding company), which in turn controls Finaf (industrial holding company).

Finaf controls numerous operating companies covering the various sectors in which the Group carries on business: pharmaceuticals, personal care, machinery, beauty, wine and other activities. Some of those operating companies in turn control a variety of other companies operating in their specific sector (e.g., ACRAF controls ACRAF Switzerland and ACRAF Germany while Bertani Domains controls the agricultural company Fazi Battaglia).

Angelini Partecipazioni Finanziarie manages the purely financial assets of the Angelini Group. It is a pure holding company, a family office, to which the Group has transferred much of the wealth generated over time by the businesses. Angelini Partecipazioni Finanziarie invests its liquidity on a prudent and balanced basis with the aim of generating additional profit at very low risk.

Finally, there is also a real estate company (Angelini Immobiliare) which mainly controls the Group's property or wine business holdings. This company has also carried out real estate transactions on the market.

The Boards of Directors

To govern a large and diversified group, Francesco Angelini has created a complex corporate structure that includes two investment holding companies, an industrial holding company and numerous operating companies.

The company at the apex of the Group, Angelini Finanziaria, is a holding company. In 2017, its board of directors consists of eight members: Francesco Angelini (chairman and CEO), Francesca Angelini, Gioella Angelini, Thea Angelini, Sergio Marullo di Condojanni, Attilio Zimatore (private law professor), Vito di Battista (chartered accountant and auditor) and Raffaello Lupi (law professor).

The second-tier holding company, Angelini Finanziaria Holding, has as sole director the Angelini Foundation, whose board of directors is made up of family members and Group executives. The Angelini Foundation has appointed Thea Angelini as its representative.

Finaf (later renamed Angelini Holding) is the industrial holding company that controls and coordinates the Group. The business level is divided into divisions: i.e., pharma, personal care, machinery, beauty and wine.

Chairman Francesco Angelini coordinates the corporate level. The individuals reporting directly to him and working closely with him at the holding company are the executives in charge of the three main centralised functions: Alberto Capponi, finance area; Francesco Orrù, legal and in-

stitutional affairs area; Francesco Paolo Gesualdo, personnel and organisation area. An equally important role is played by the two executives in charge of the largest divisions: Gianluigi Frozzi, head of the pharmaceutical business; Jorge Ballestè, Angelini's key contact for the personal care business and head of the beauty area.

The entrepreneur has great confidence in his management team, to whom he delegates operational management within their respective areas of responsibility. It is a collegial governance, underpinned by the climate of trust created during a long personal and professional relationship. The main executives joined the company at least two decades earlier.

In 2017 Finaf's board of directors is made up of three managers from outside the owners' family (see Table 2): Gianluigi Frozzi and Jorge Ballestè, the two executives of the main divisions (pharma and personal care/beauty), and Alberto Capponi, who has also just become CEO of Angelini Finanziaria (the holding company that controls Finaf). The new CEO's management style is that of a good family man (*bonus pater familias*): oriented towards making investments aimed at improving the efficiency and results of the various divisions, without taking on high business or financial risks and.

The Group Parent Company

Finaf controls staff functions including legal, finance, human resources, purchasing, taxation, auditing and compliance. Internally, each organisational unit divides responsibilities mainly between the Italian and international part of the Group (e.g., HR Italy and International, Finance Italy and International).

This structure generates several advantages including significant economies of scale and functional specialisation. On the other hand, it also creates some friction since the needs of the main subsidiaries are different and, consequently, the centralised functions at the Group parent company do not always guarantee a speed and level of service in line with their expectations (due to the high functional interdependencies within the divisions).

The centralisation of numerous functions at the Group parent company vests strong powers of coordination in function heads at the industrial holding company. This centralisation of power guarantees a relatively shared entrepreneurial philosophy throughout the Group, but limits the decision-making autonomy and accountability of the executives that head up the main divisions. For example, the Group parent company manages purchasing for all companies even if the pharmaceutical division accounts for 90% of the Group's purchasing; the consumer business has no real legal function; personnel management and relations with trade unions are partly centralised at the holding company level, and so on.

The different size of the businesses and the different ownership structure of the companies that embody them affect the process of centralisation and decentralisation of activities. With regard to the first aspect, the pharmaceutical sector generates about 50% of the Group's revenues, followed by the consumer business, while the beauty and wine sectors are significantly smaller.

With regard to the ownership structure, Angelini Holding exercises total control over all companies with the exception of the 50-50 joint venture created with P&G in the consumer business. Since the results of the holding company depend mainly on the larger businesses and since its capacity of influence is higher in the wholly-owned subsidiaries, there is a risk that the holding company will focus its attention on the pharmaceutical sector, thus leading to a lack of accountability for the executive that heads up that division.

Subsidiaries

The corporate governance of the subsidiaries is streamlined and their respective boards of directors play a mainly formal role. In 2017 ACRAF (later Angelini Pharma) has a sole director that is Gianluigi Frozzi. The board of directors of Bertani Domains is composed of Jorge Ballestè (chairman), Emilio Pedron (CEO) and Federico Barbini. Fater and Fameccanica have a general manager, nominated alternatively by one of the partners for about 10 years, and that is supported by an executive committee consisting of a pair number of representatives from Angelini and P&G. Beauty division is split among some companies in Spain and Italy and is managed by a general manager.

Management responsibilities are vested in the CEO or general manager of the division who, being a member of the board of directors of the Group parent company, interacts directly with the entrepreneur and the Group CEO. The long company tenure and the existence of solid personal relationships with the entrepreneur guarantee almost daily coordination and direction.

The only exception is Fater, as it is an equal joint venture between the Angelini Group and P&G. The governance structure of the joint venture must guarantee autonomy and independence from shareholders. Alongside the board of directors there is an executive committee composed of two representatives of the Angelini Group and two representatives of P&G. The members of the executive committee are appointed by the shareholders and have accounting, finance and auditing or general management competences in the specific sector. In addition, shareholders appoint their own representatives in the accounting, finance and auditing function: the function director (Angelini) and the F&A analyst (P&G).

Managing the relationships between the partners of a joint venture is complex as they are often its suppliers or customers. In the specific case: P&G carries out R&D on products; Angelini manages payroll and salaries of personnel; the legal function is carried out by P&G in relation to brand protection and by Angelini in relation to competition and the local market, and so on.

Conflicts of interest inherent in these relationships can lead to differences in the objectives or decisions to be taken. To avoid tensions, the general manager must seek to satisfy the interests of both shareholders. The executive committee must support and monitor the general manager without, however, overriding the latter's decision-making independence. This risk may arise if the former general manager subsequently becomes a member of the executive committee. When there is no alignment between the general manager and the executive committee, friction between shareholders is created, the decision-making process stops and disputes may arise.

Conclusions

At the end of 2017, after 23 years at the helm of the Group, Francesco Angelini begins to plan his succession. At the same time, he wishes to leave the best possible strategic, ownership and governance structure to his heirs at the top of the Group. The entrepreneur is aware that, over the years, the Group has expanded its complexity: it has become larger, more international and more diversified. At the same time, the evolution of the competitive environment requires a reflection on how to face and overcome future challenges: some sectors are becoming increasingly global and concentrated while others are more fragmented and local but characterised by increasing competition.

With the occasion, he intends to address some open issues that he had been thinking about for some time. These issues concern the chain of control, the corporate structure under the industrial holding company, the process of centralisation and delegation of power, the entrepreneurial philosophy, the board of directors of the industrial holding company and the level of diversification. A first open issue concerns the Group's chain of control. Finaf was controlled by Angelini Finanziaria Holding, in turn controlled by Angelini Finanziaria. This structure was the result of choices that had stratified over the years and at the time did not create any particular problems. However, the question was whether it might be best to shorten the chain of control to speed up the decision-making process and simplify the governance of the Group. On the other hand, every change involved the undertaking of corporate transactions that entailed costs and changed the Group's outward appearance.

A second issue concerns the corporate structure under Finaf. Achieving a total divisional structure required the creation of subholding companies at the head of the various divisions. This solution could allow the heads of the division to become CEOs of the subholding companies and to directly control the businesses. On the other hand, this meant reducing the coordination and direction exercised by the Group parent company that had characterised the previous phase and allowed the Group to avoid major risks or errors.

A third issue concerns the effective managerialisation of the Group. Francesco inherited a centralised managerial style from his father and grandfather and struggles to give full independence to the executives that head up the divisions. However, this may lead to overlapping or duplication of responsibilities, resulting in inefficiency or undermining of authority. The executives who had supported him had grown up with that leadership model but Francesco wondered whether it would also be appropriate for managers hired from outside the Group. He realised that it was difficult to recruit top managers on the international market without giving them full decision-making authority and full responsibility for results. On the other hand, he placed full trust in the men and women who had supported him and knew how difficult it was to create a reliable and competent management team. From this point of view, strong centralisation had given him greater control over the Group's strategy and results.

A fourth issue concerns the risk profile that the Group should have in the future. Together with his closest staff, he had led the Group with prudence and aversion to large risks. This attitude meant that the Angelini Group had accumulated large cash reserves, which could be invested in

operations with a lower or higher level of risk. In addition, future investments could concern pharmaceutical R&D, or the acquisition of brands or licenses in the beauty sector or wineries in the wine sector, or acquisitions of companies to enter new markets or expand the range of products or brands. Technological change, globalisation and ongoing industry concentration were both a threat and an extraordinary opportunity. The question therefore arose as to whether it would be better in the future to maintain a low risk profile or to take more risks in order to grow faster in the various markets.

A fifth issue concerns the composition and role of the board of directors of the industrial holding company. In particular, the question arose as to how many people had to be on the board; how many directors had to be family members, Group managers or non-executive and independent directors; what skills the non-executive directors should bring. There was also the question of whether it would be better to combine or separate the roles of chairman and CEO; whether it was necessary to create sub-committees and, if so, what tasks they should perform.

A sixth issue concerns the level of diversification and competitiveness of the Angelini Group in each business area. Some of the sectors in which the Group operated were becoming increasingly global and competitive, while the Group had a strong competitive position mainly in Italy (personal care or wine sector) or had a significant presence in only a few European countries (pharmaceutical or beauty sector). If the Angelini Group could count on a production and distribution presence – mainly in Italy – that was difficult to attack or imitate by competitors, the next generation had to decide whether to consolidate the success and competitive position acquired in the various sectors or to undertake a policy of strong investment to extend the competitive scope (e.g., product range and geographic markets). If the growth was particularly intense, the financial resources could quickly become insufficient. In this case, his successors would have to decide whether to exit certain businesses, open up the capital to new shareholders (such as private equity or other industrial groups), or list the holding company or a sub-holding on the stock exchange. Finally, Francesco wondered what direction his successors might take with regard to their involvement in the management of the company. In particular, did they want to remain shareholders and members of the board of directors of the Group parent company or did they also want to play a managerial role? This decision would have significantly influenced the family-business relationship and, probably, all other choices. On the one hand, he was pleased to think that a member of the Angelini family could lead the Group in the following decades; on the other hand, he knew that it was a very heavy commitment that required great passion, spirit of sacrifice and sophisticated skills. His feeling was that a member of the fourth generation – probably his daughter Thea and/or her husband Sergio – could take a leading position in the holding company. In this case, he would have supported them in the transition and in resolving all the other relevant issues related to the strategy, ownership and governance of the Angelini Group.

Table 1: Main business units of Angelini Group in 2017 (internal data in .000 euro)				
<i>Business unit</i>	<i>Revenues</i>	<i>Net income</i>	<i>Total assets</i>	<i>Employees</i>
Angelini Pharma	876.050	68.398	642.842	3.007
FATER (100%)	995.314	71.211	880.422	1.521
Fameccanica (100%)	404.344	34.546	281.617	847
Angelini Beauty	106.341	-366	93.994	190
Bertani Domains	24.396	-1.314	147.879	115

Source: Angelini Group

Table 2: The board of directors of Finaf in 2017				
<i>Name</i>	<i>Role</i>	<i>Year of birth</i>	<i>Degree</i>	<i>Entrance in the Group</i>
Dr. Alberto Capponi	Chairperson and CEO area finance	1954	Economics and business	2000
Ing. Gianluigi Maria Frozzi	CEO area pharmaceuticals	1951	Engineering	1993
Dr. Jorge Ballestè Doldi	CEO consumer	1958	Architecture, MBA	1990

Source: Angelini Group