

Rossi Servizi Italia SpA

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Introduction¹

Rossi Servizi Italia SpA, founded in 1960 by Pietro and Paolo Rossi, offers – to businesses and families – numerous services such as designing public works; constructing family, commercial, and industrial buildings; supplying energy efficiency services; and managing and maintaining buildings and factories. Rossi Servizi Italia is the parent company of about 40 companies.

The group operates mostly in Italy, has a turnover of around €1,000 million, and has good profitability (see Table 1). The group revenues as well as employees are growing over time. The group is financing its growth mostly by issuing financial debt and partly by reinvesting a fraction of the net profit.

	2018	2019	2020	2021	2022
Revenues	600	650	700	850	1,000
EBITDA	100	120	150	180	170
Net income	18	30	40	50	40
Market capitalization (end of the year)	500	600	750	700	690
Equity	100	110	120	140	150
Financial debt	200	300	350	400	450
Employees (end of the year)	1,000	1,000	1,050	1,100	1,200

In 2016 Rossi Servizi Italia (RSI) was listed on the Italian Stock Exchange. The company is controlled by Carlo and Camilla Rossi – son and daughter of the founders – who indirectly own 30% of the shares. Control is exercised through the Holding Servizi company, which is jointly controlled by the two family branches. The rest of the shares are held by numerous investors, including some mutual funds and pensions managed by large Italian or foreign banks (see Table 2).

1. Case by Alessandro Zattoni and Enzo De Angelis. The simulation does not refer to any real company and was written for educational purposes only.

Table 2: Rossi Servizi Italia's ownership structure (1st of January 2021)

Holding Servizi (Rossi family)	30%
Mutual and pension funds	35%
Minority investors (each with less than 2% of shares)	30%
Hedge funds	5%
Total	100%

The board of directors

Following Italian corporate law, the board of directors of RSI has been elected with the slate system. As a result, 10 directors have been elected by the first list – i.e., the list proposed by Holding Servizi that collected the highest number of votes – and 3 directors have been elected by the second list (supported by mutual funds and other investors).

The board of directors has 13 members, briefly described below:

- Carlo Rossi: large shareholder, chairperson and chief executive officer (CEO);
- Camilla Rossi: large shareholder, vice president with responsibility for communication;
- Achille De Fazio: chief operating officer (COO) of Rossi Servizi Italia;
- Ettore Pilati: non-executive director and former manager of Rossi Servizi Italia;
- Enea Stabilini: non-executive director and legal advisor to Rossi Servizi Italia;
- Sibilla Frescobaldi: non-executive director and financial advisor;
- Clotilde Brusafferro: non-executive director and manager of a subsidiary of Rossi Servizi Italia;
- Paride Marescotti: independent director and chartered accountant;
- Lucilla Magistretti: independent director and museum manager;
- Mario Zanatta: independent director and local politician;
- Cesare Pavese: independent director elected by minorities and expert in digitalization;
- Cecilia Persichetti: independent director elected by minorities and civil lawyer;
- Annibale Bianchi: independent director elected by minorities and marketing professor.

Directors vary among them across various dimensions: role in the company (i.e., executive, non-executive, or independent directors), membership in the audit committee (which includes the monitoring of Related Party Transactions) or in the remuneration committee (i.e., C = chair, X = member), tenure (i.e., number of years in the board), professional background (see Table 3).

Table 3: The board of directors of RSI

<i>Name</i>	<i>Role</i>	<i>Audit committee</i>	<i>Rem. committee</i>	<i>Tenure</i>	<i>Background</i>
Carlo Rossi	Chair & CEO			9	Manager
Camilla Rossi	VP & communication			9	Manager
Achille De Fazio	COO			12	Manager
Ettore Pilati	Non-executive			12	Retired
Enea Stabilini	Non-executive			6	Consultant
Sibilla Frescobaldi	Non-executive			1	Consultant
Clotilde Brusaferrò	Non-executive			6	Manager
Paride Marescotti	Independent	C		6	Accountant
Lucilla Magistretti	Independent	X		9	Manager
Mario Zanatta	Independent	X		9	Politician
Cesare Pavese	Independent		X	4	Manager
Cecilia Persichetti	Independent		X	1	Lawyer
Annibale Bianchi	Independent		C	1	Professor

The board of directors' meeting of May 15, 2022

On May 15, 2022, a meeting of the board of directors of Rossi Servizi Italia SpA is held with the following agenda:

1. Approval of previous board's minutes.
2. Updates on the strategic plan 2021-25.
3. Sale of the real estate business.
4. Remuneration of the COO.
5. Any other business.

1. Approval of previous board's minutes.

The Chairperson greets all directors and opens the board meeting asking if there is any addition or revision to the previous board's minutes. As no one advanced any request for revision or addition, the Chairperson moved to the second point in the board agenda.

2. Updates on the strategic plan 2021-25.

Then, the Chair started to update the board about the implementation of the strategic plan 2021-25 (see Box 1). First, he presented the rationale and the KPIs of the strategic plan; then, he showed the current results and underlined the gap with the plan.

Box 1: RSI strategic plan 2021-25: a synthesis

The board of Rossi Servizi Italia has approved the strategic plan 2021-25 during a board meeting held in November 2020 (see Table 4). The plan includes both the development of new real estate projects and the management of the real estate already owned by the group.

The current plan is the result of a compromise between the COO's view to promote high growth and the family's will to grow smoothly. The family and the COO have matured different views on the future development of the group: the former is more conservative, while the latter would like to accelerate the group growth recurring also to M&As. If these two views will not be reconciled, there is the risk that Achille De Fazio (COO) leaves RSI to join another company.

Table 4: Rossi Servizi Italia's strategic plan 2021 -25

	2021	2022	2023	2024	2025
Revenues	900	1,100	1,300	1,500	1,600
EBITDA	200	250	300	350	400
Net income	60	80	100	120	140
Market capitalization (end of the year)	800	900	1,000	1,100	1,200
Equity	150	200	250	300	360
Financial debt	400	450	500	550	600
Employees (end of the year)	1,000	1,100	1,200	1,300	1,400

The gap between the strategic plan and the current results creates tension between the entrepreneurial family and the COO. The first ones (Carlo and Camilla Rossi) complains because the net results and the dividends are below the expectations. The second one (De Fazio) thinks the company growth is undermined by the entrepreneurial family who prefers to balance growth with the internal resources available (after dividends' distribution). He is striving to receive higher financial support to the implementation of the strategic plan through either lower dividends or a capital increase.

The Chairperson states that there are discussions between the family members and the COO, Achille De Fazio, on how to improve future financial and strategic results. The next point on the board agenda concerns a generous offer to buy the real estate building where the HQs of RSI are located. Still, the company is developing a new long-term incentive plan for the COO so to both foster his motivation to deliver the plan, and to retain him as a key top manager of the firm.

In sum, the Chairperson states that to retain and motivate the COO – whose professional value is indisputable as evidenced by his career within the group – he is available to review the group's strategy and promote new investments financed through the sale of some real estate assets.

3. Sale of the real estate business.

On 9 May 2022, the Chairperson received an offer from a real estate operator to buy the current headquarters and other real estate properties owned by the group for €120 million. The offer is valid for one month, after which the operator will revoke the offer to buy an alternative property already identified.

The Chairperson asks the COO to provide more details to the Board of Directors. De Fazio reminds the directors that in previous meetings he has anticipated the possibility either to make a capital

increase, or to reduce dividends so to accelerate the investments foreseen in the strategic plan. However, as the market capitalization is not as high as expected in the plan, he suggested to delay any financial operation.

For this reason, he thinks the proposal received is very interesting as it allows the company to sell some real estate assets to finance the investments needed to accelerate the group's strategic plan. During the meeting, the COO presents some elements of evaluation for the benefit of the board:

1. since the real estate properties involved are almost entirely depreciated (the residual book value is €10 million), the operation would generate a high capital gain of about €110 million;
2. the entire amount collected would be reinvested to speed up the implementation of the strategic plan 2021-25;
3. he contacted various real estate advisors that suggested to accept the offer, considering it to be more than adequate.

Furthermore, the Chairperson stresses that the sale of the real estate properties would have improved the economic and financial ratios, with a probable positive impact on the company's stock market capitalization. The new financial resources would allow the COO also to increase the dividends' distribution so to satisfy shareholders' interest.

In addition, the increase in the share price could make any eventual takeover more difficult. There are, in fact, rumors that Costruzioni Avanzate Internazionali group (see Box 2) could launch a takeover taking profit of the low market capitalization of the RSI group. In that case, all directors would probably be fired and a number of employees could lose their job due to the synergies between the two companies. As a result, RSI would become a subsidiary without strategic and operational autonomy.

Box 2: Costruzioni Avanzate Internazionali Group

The Costruzioni Avanzate Internazionali (CAI) Group is the main competitor of Rossi Servizi Italia group. It is a listed company, slightly larger than RSI. Despite being incorporated more recently, the CAI group has a turnover of €1,200 million and a net income of €60 million. CAI is a public company controlled by a coalition of banks and insurance companies (which together hold 20% of the capital). The group is governed by an ambitious CEO who aims to diversify and grow through acquisitions. The two companies have an overlap of almost 30% in their products and markets, and they are complementary for the remaining 70%. The RSI group works mainly with large companies and public institutions, while the CAI group works mainly with large and medium-sized private companies in northern Italy and abroad.

The Chairperson invites the COO to express his opinion on the potential benefits of this operation. De Fazio is very positive as it will generate further financial resources that he will use to accelerate

the implementation of the strategic plan and so produce higher company value. His view is to emphasize new investments at the expense of dividends at least in the short term.

The Chairperson asks Paride Marescotti, chair of the audit committee, to present the opinion of the committee on the operation.

Finally, the Chairperson opens the discussion to collect the views of all board members. Once everybody would have finished to express their opinions, he would propose to vote on the sale of the real estate properties.

4. Remuneration of the COO.

The Chairperson presents the final item in the board agenda that concerns the COO compensation. This item is strictly related with both the COO's role in the company (i.e., his range of responsibilities) and his leadership/power in the implementation of the strategic plan 2021-25.

About the first point, the organizational structure of RSI highlights that De Fazio is the Managing Director of the Group. With the exception of the two family members, who are respectively Chair and CEO (Carlo) and Vice President and communication officer (Camilla), all other RSI employees are under his influence (see Figure 1).

About the second point, everybody knows that the person that designed the strategic plan and was leading its implementation is Achille De Fazio. The family provides financial support and favors political and commercial connections, but the two cousins are not highly involved in the day-to-day implementation of the business.

Nevertheless, the current compensation plan of Carlo and Camilla Rossi and Achille De Fazio does not reflect this situation. While the two shareholders receive an executive compensation plan that includes the traditional four items, i.e., fixed compensation, short term incentive, long term incentive, and benefits; De Fazio's compensation system does not include any long-term incentive. While he has never raised this issue in front of the board, he privately complains with the Rossi family as he thinks that his compensation plan is not aligned with his responsibilities and the results under his influence.

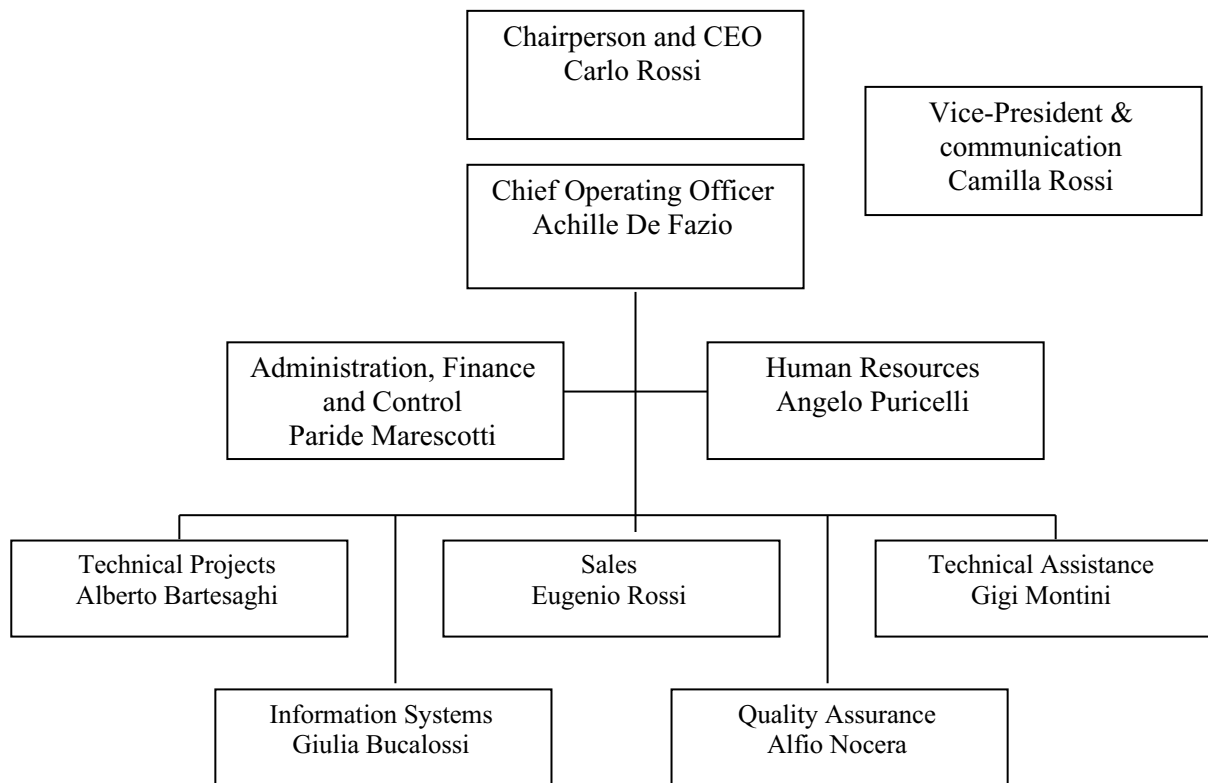


Figure 1: The organizational structure of RSI

The board chairperson asks the chair of the compensation committee to introduce the topic. Annibale Bianchi presents the current compensation for directors of RSI (see Table 5). All non-executive or independent directors receive an annual fee of €50,000. The chairs of the two committees get an extra €10,000 for leading and coordinating the committees.

Executive directors receive a higher compensation due to their full-time professional services offered to the firm. In particular, the salary or fixed compensation is determined in relation to the hierarchical role in the firm. The short-term incentive is linked with annual budget results, mostly with annual EBITDA. The long-term incentive plan is a stock option plan distributing options to buy company shares at the market price at the grant date (€10). Every year a fraction of the stock options vested allowing the beneficiaries to exercise them and to sell the shares. The contract does not include a lock up or a claw-back clause.

The options were offered only to the two family members, while the chair presented the proposal to offer a lower number of options (about half the number offered to the two family members) at the same conditions (e.g., vesting, exercise price, length). At the same time, he suggested to include also a lock up period of two years and a claw-back clause.

The chairperson thanks the chair of the compensation committee for his presentation and invites directors to express their opinion on the proposal that he supports.

Table 5: Rossi Servizi Italia's board of directors' compensation (data in €.000)

<i>Name</i>	<i>Role</i>	<i>Fixed compensation</i>	<i>Short-term incentive</i>	<i>Long-term incentive</i>	<i>Benefits</i>	<i>Total</i>
Carlo Rossi	Chair & CEO	800	200	200	100	1300
Camilla Rossi	VP & communication	400	200	200	100	900
Achille De Fazio	COO	400	100	-	50	550
Ettore Pilati	Non-executive	50				50
Enea Stabilini	Non-executive	50				50
Sibilla Frescobaldi	Non-executive	50				50
Clotilde Brusaferrò	Non-executive	50				50
Paride Marescotti	Independent	60				60
Lucilla Magistretti	Independent	50				50
Mario Zanatta	Independent	60				60
Cesare Pavese	Independent	50				50
Cecilia Persichetti	Independent	50				50
Annibale Bianchi	Independent	50				50