Business Model of Dependent Firms. The Italian Case

Abstract: The business model seems to be a potential source of competitive advantage because it explains how a firm builds and uses its resources to create and capture value. However so far literature on business model and financial performance focus the attention on the “firm” as a unit of analysis without clearly define the boundaries of the economic entity to which they refer. The purpose of this paper is to answer the following research questions: what are the boundaries of the business model of dependent firms (i.e. firms that belong to the same business group)? How can be interpreted the relationship between business models and financial performances of those firms?. We use an exploratory multiple case study analysis of two Italian business groups. The analysis shows that business model of an affiliated–group company could be autonomous, partially autonomous or totally dependent on the business model of the wider business group. In this latter case, we can also say that the affiliated–firm is delegated to realise a part of the business model of whole group, considered as a single economic entity. As a consequence, the business model of the whole group might affect the financial performance of the dependent economic entities. Thus, the effort to study the relationship between business model and financial performance could be strongly biased if the boundaries of the underpinned economic entity are not clearly defined.

Keywords: Business group; business model; financial reporting; Italy

1. Introduction

The business model can be defined as a new unit of analysis in addition to the product, firm, industry, or network levels, offering a systematic perspective on how to do business, encompassing organizational activities and as a source of value creation and value capture (Zott et al., 2011).

Strategic management scholars increasingly are acknowledging that firms can compete through their business models (Casadesus–Masanell and Ricart, 2010). The business model (BM), then, represents a potential source of competitive advantage (Markides and Charitou, 2004). In other words, the BM can be defined as the method by which a firm builds and uses its resources to offer its customer better value (generating value) and to make profits in doing so (capturing value) (Afuah and Tucci, 2001).

Scholars have sought various ways to find out how financial performance can be affected by BMs. Afuah and Tucci (2001) propose the BM as a unifying construct for explaining competitive advantage and firm performance. Afuah (2004) focuses on firms’ profitability and introduces a strategic framework in which the BM is conceptualized by means of a set of components that corresponds to the determinants of firm profitability. Other authors (e.g. Giesen et al., 2007; Linder and Cantrell, 2000; Malone et al., 2006; Morris et al., 2013; Patzelt et al., 2008; Zott and Amit, 2007 and 2008) have conducted empirical analyses to investigate the relationship between BMs and firm performance.
However studies on BMs and financial performance focus their attention on the “firm” as a unit of analysis without clearly define the boundaries of the entity to which the BM and, consequently, the financial performances refer. Indeed, strategic management literature seems not consider the possibility that the firm underpinning the BM may be a part of a wider economic entity, i.e. a business group.

Nevertheless some scholars have reported that in some countries even some listed companies are not independent, being controlled (Bianchi and Bianco, 2006) and sometimes also directed by others entities (Di Carlo, 2013b). For example, in Germany the largest shareholder of the listed Volkswagen AG is another listed company, Porsche AG, in France the listed Louis Vuitton Moët Hennessy (LVMH) is controlled by the listed company Christian Dior SA, in Italy the listed company Saipem SpA is controlled by its parent listed Eni SpA.

The literature on business group and corporate governance, in light of resource dependence theory (Pfeffer, 1972; Pfeffer and Salancik, 1978), underlines how the affiliation to the group can bring relevant benefits to the affiliated–group companies (Claessens et al., 2006; Khanna and Palepu, 1999), while using the agency theory (Jensen and Mackling, 1976) it considers the group as a structure that allow to the controlling party to extract private benefits of control (Almeida and Wolfenzon, 2006; Faccio and Lang, 2002).

In the business group context it is important to understand: (1) the boundaries of the BM of an economic entity; (2) how the BM of the parent is linked to those of its subsidiaries; (3) how many BMs can be identified in a business group; (4) if the single reporting entity has its own BM or it participates to that of the wider group.

The understanding of these elements is also important to better interpret the link between the BM and the financial performance of the firm. In fact, as mentioned in the framework for the presentation of the Management Commentary issued by the IASB in 2010 (Management Commentary, 2010, § 6), the BM is a starting point for assessing and understanding an entity’s performance (see also Bambagiotti Alberti et al., 2009; Cinquini and Tenucci, 2011).

Stemming from these considerations and focusing on dependent economic entities, the objective of this paper is to answer the following research questions: What are the boundaries of the BM of the affiliated–group companies? How can be interpreted the relationship between BMs and financial performances of those firms?

In order to answer to those research questions, supported by the literature on BMs and on business groups, a multiple case study analysis (Yin, 2003) on two Italian groups will be presented. The exploratory analysis shows that the BM of an affiliated–group company could be autonomous, partially autonomous or
totally dependent on the BM of the wider business group. In this latter case, we can also say that the entity is delegated to realise a part of the BM of whole group, considered as a single economic entity.

The BM of an affiliated–group company is: autonomous when that entity has full decision–making power and economic autonomy so that the BM is not related with that of the other entities of the group; partially autonomous when it is autonomous in the definition of the competitive and/or functional strategies and has partial economic autonomy; totally dependent on the BM of the wider business group. In this latter case, we can say that the affiliated–group company does not have its own BM belonging to the BM of the group in which that company operates.

Our findings contribute to the literature on BMs and financial reporting in several ways. Above all, we underline the limitations of empirical researches dealing with BMs of affiliated–group companies directed and coordinated by their parents. Then, we outline the relation among BMs and the way they affects the financial statements of affiliated companies. Finally, we suggest how to interpret BMs and financial variables of affiliated–group companies giving some insights into the boundaries of the BM.

The reminder of this paper is organized as follows. The next Section is dedicated to a literature review on the concept of BM. Section three discusses the relation between BMs and business groups. Section four outlines the boundaries of the BMs within business groups. Section five describes the research design. Section six is dedicated to the case study analysis. Section seven discusses the case studies and outlines the main findings. Section eight concludes with a summary of the research findings and a discussion of the potential implications for researchers, practitioners and regulators.

2. The concept of business model

The recent strategy management studies mainly focus on the analysis of competitive dynamics and of better business performances from an evolutionary perspective. This new direction requires the development of new analytical models that can explain the functioning of organizations by dynamic and interactive processes (Herrmann, 2005; Mellahi and Sminia, 2009). In this context, Zott and Amit (2007 and 2008) introduced the firm’s BM as a new contingency factor that captures the firm’s structure. In addition, they argue that the BM could be considered as an analytical tool that can explain the relationship between business strategy and organizational structure according to an activity and process perspective of the competitive dynamics (Amit and Zott, 2001).

Truly, over the past few years, the concept of BM has been objective of the strategic management scholars even more often. While it has become quite fashionable to discuss BMs, there is still much confusion about what BMs are and how they can be used (Teece, 2010). Therefore, many literature reviews
have been proposed in order to better understand the BM meaning recently (e.g. Zott et al., 2011; Ghaziani and Ventresca, 2005).

The term “business model” describes a broad range of informal and formal models that are used by firms to represent various aspects of business, such as operational processes, organizational structures, and financial forecasts. Although the term can be traced to the 1950s, it achieved mainstream usage only in the 1990s. Basically, the emerging consensus is that a BM is a hypothesis (i.e., a model) of how to generate value in a customer–driven marketplace (Magretta, 2002). Many other different conceptualizations of BMs exist, they all have various degrees of resemblance or difference (see, for example, Amit and Zott, 2001; Chesbrough and Rosenbloom, 2000; Demil and Lecocq, 2010; Johnson et al., 2008; Linder and Cantrell, 2001; Morris et al., 2005; Nielsen and Bunk, 2008; Osterwalder et al., 2005; Osterwalder and Pigneur, 2010; Richardson, 2008; Shafer et al., 2005). They generally arose from the need of strategic management scholars to interpret the mechanism of value creation with reference to firms operating in industries truly innovative and more subject to competitive pressures, such as, for example, the high–tech, internet–based, biotech sectors and so on (Testarmata, 2009). Nowadays there is a trend to utilize the BM construct even in the non–profit and social enterprises sector (e.g., Battilana and Dorado, 2010; Sanchez and Ricart, 2010; Seelos and Mair, 2007; Tracey et al., 2010).

There are several common themes running through these conceptions. The most distinctive is the focus on value: the BM is considered as an “archetype” to explain the holistic gestalt of firms engaging in new ways of doing business to generate and capture value consistent with either economic or social strategic objectives (Baden–Fuller and Morgan, 2010; Zott et al., 2011). The second is that the BM is an “activity system” made up of components, linkage and dynamics, that captures the common threads (e.g. efficiency and novelty) orchestrating and connecting the focal firm’s transactions with external parties, such as customers, partners, and vendors (e.g., Afuah and Tucci, 2000; McGrath, 2010; Teece, 2010; Zott and Amit, 2010). Last but not least, the BM is seen as “cost/revenue architecture”, a mechanism that connects a firm’s (innovative) technology to customer needs, and/or to other firm resources (Osterwalder and Pigneur, 2010; Teece, 2010).

Thus, the BM is conceptually placed between firm’s input resources and market outcomes, and “embodies nothing less than the organizational and financial ‘architecture’ of the business” (Teece, 2010: 173). Accordingly to Morris et al. (2013) the BM is composed by three main elements (or sub–models): the “operating model”, which depicts the structures and processes for value creation; the “strategy model”, which outline the structures and processes for achieving growth by competitive strategies; and the “economic model”, which define the structures and processes for capturing profit in terms of cost and revenue models.
The theoretical foundations of the BM construct are anchored in the value chain framework, Schumpeter’s theory of innovation, resource–based view of the firm, strategic network theory and the transaction perspective (Amit and Zott, 2001). Most directly, according to Morris et al. (2005), the BM construct builds upon the value chain concept and the extended notions of value systems and strategic positioning (Porter, 1985). As part of its positioning, the firm must establish appropriate relationships with suppliers, partners, and customers (Amit and Zott, 2001). Because the BM encompasses competitive advantage, it also draws on resource–based theory (Barney, 1991 and 1997). Competitive advantage can emerge from superior execution of particular activities within the firm’s internal value chain, superior coordination among those activities, or superior management of the interface between the firm and others in the value network. In terms of the firm’s fit within the larger value creation network, the model relates to strategic network theory (Burt, 1992). Further, the model involves choices (e.g., vertical integration, competitive strategy) about firm boundaries and relates to transaction cost economics (Williamson, 1975). Finally, based on evolutionary theory, value is created from unique combinations of resources that produce innovations (Schumpeter, 1942).

Therefore, strategic management scholars seem to agree that a BM is a holistic gestalt of operating, strategic and economic variables the describes how a business creates and capture value that constitutes an important new level of analysis, highly relevant to both management theory and practice because “a BM depicts the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities” (Zott and Amit, 2001: p. 511). Thus, the concept of BM seems very close to the construct of “economic entity” (Azienda) proposed by the Italian school of business administration (e.g., Amaduzzi, 1972).

Recently the BM concept is spreading in other fields of studies, mainly in the accounting and financial reporting studies (Page, 2012), and it is taking a strong practical value to private organizations and public institutions active in the field of corporate governance and financial reporting regulation, such as IASB, SEC, the UK Accounting Standard Board and the UK Financial Reporting Council. At the basis of this attention to BM there is the increasingly awareness that BM can play a central role in explaining the firm performance (Zott et al., 2011).

From this point of view, Afuah and Tucci (2001) propose the BM as a unifying construct for explaining competitive advantage and firm performance and define it as “the method by which a firm builds and uses its resources to offer its customer better value and to make money in doing so” (p. 3). Afuah (2004) focuses on firms’ profitability and introduces a strategic framework in which the BM is conceptualized by
means of a set of components that corresponds to the determinants of firm profitability, such as resources (including competences and capabilities), industry factors, activities and position.

While the works of Afuah (2004) and Afuah and Tucci (2001) are conceptual, some authors have conducted empirical analyses (Giesen et al., 2007; Linder and Cantrell, 2000; Malone et al., 2006; Morris et al., 2006; Morris et al., 2013; Patzelt et al., 2008; Zott and Amit, 2007 and 2008) to investigate the relationship between BMs and firm performance. Nevertheless, scholars have focused their attention on the focal firm as unit of investigation, the empirical evidence offers some interesting insights on the BM edges. For instance, Zott and Amit (2007) refer to the BM design as the design of an organization’s set of boundary-spanning transactions. In their view, the essence of the association between BM design and firm performance can be analysed by looking at two distinct effects: the total value creation potential of the BM design and the firm’s ability to appropriate that value. They identify two design themes around which the BM can be orchestrated: efficiency and novelty.

Thus, the BM extent seems go beyond the firm boundaries encompassing organizational activities performed by a focal firm and external parties, such us customers, partners, and vendors, that participate in the firm’s transactions: hence the BM is a new unit of analysis nested between firm and network levels (Zott et al., 2011).

Although Santos and Eisenhardt (2005) brought to lights a new conception of organizational boundaries, the BMs of new organizational forms, especially those of the inter-organizational forms such as business groups, seem to be an underestimated field of analysis. Therefore, in this paper, we aim to investigate the BMs existing within the business groups, focusing on the inter-organizational relationships among affiliated-group companies.

3. Business model and boundaries of the business group

Many scholars have documented the presence of business groups around the world (Claessens et al., 2000; La Porta et al.; 1999; Morck, 2006). Nonetheless, business groups are a relatively underserved research topic (Boyd and Hoskisson, 2010).

Literature proposes different definitions of what a business group is (Cuervo-Cazurra, 2006). Chang and Hong (2002) define the business group as a “collection of formally independent firms under single common administrative and financial control” (p. 266). In the same stream of literature, Hsieh et al. (2010) see the group as a “collection of legally independent corporate entities that are established under the same control and ownership, each not only sustaining independent firm objectives, but also acting to meet the shared goals of the business group” (p. 560). Chung (2003) states that “although business groups exhibit
slight differences in various contexts, they all share one organizational characteristic – group firms with distinct corporate identities and legal status do not operate as isolated units in the market but forge institutionalized relationships with each other and work coherently as an entity” (p. 37).

These definitions are particularly useful for our purpose, because despite the presence of formally independent legal entities, the business group is considered as a single economic entity. The main assumption is that the business group, as a single economic entity, allows the reduction or even the removal of important transaction costs (Coase, 1960; Williamson, 1985). The reduction of these costs is one of the reasons for the establishment of business groups, especially in developing economies, where markets have a high degree of inefficiency (Claessens et al., 2006; Goto, 1982; Khanna and Palepu, 1999; Khanna and Yafeh, 2007; Leff, 1978).

The concept of “single economic entity” leads us to consider that the business group has a single BM. However, as argued by Hsieh et al. (2010) “Affiliated firms usually take on a specific functional role in achieving group objectives. Individually, each affiliate may adopt a simple strategy that concentrates on its specialization, while at the general group–wide level, the convergence of each specializing affiliate leads to a diversified business group” (p. 528).

Moreover, the conception of business group as a single economic entity is referred to the consolidated financial statements, i.e. “the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity” (IFRS 10), without considering the borders of the legal entities. To be consolidated, a legal entity must be controlled by its parent company. According to IFRS 10 (§ 6) “an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee”. Furthermore, “an investor controls an investee if and only if the investor has all the following: (a) power over the investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect the amount of the investor’s returns” (IFRS 10, § 7).

Therefore, the accounting standard requires the parent (the investor) to consolidate a subsidiary legal entity (the investee) when it is substantially controlled, even if the parent does not exert its power. Indeed, control is the ability to use the power (i.e. the existing rights that give the current ability to direct the relevant activities) while management is the exercise of the control power (i.e. the exercise of the decision–making power, see Di Carlo, 2013b).

The issue of subsidiaries autonomy (or dependence) from the parent has been mainly studied with regard to multinational enterprises (MNEs) that are called to deal with a global business strategy
(Birkinshaw, 1997; Birkinshaw et al., 2005; Gammelgaard et al., 2012; Leksell and Lindgren, 1982; Kiel et al., 2006; Young and Tavares, 2004). The alternatives mainly arise “considering cost reduction pressures on the one hand and the extent of local market responsiveness on the other hand” (Kiel et al., 2006, p. 570).

Thus, while in a global strategy the subsidiaries are completely dependent by the parent a multidomestic strategy is often associated with substantial strategic decision making at the subsidiary level, and then the subsidiaries are much more independent.

From the literature review on MNEs conducted by Young and Tavares (2004) emerges that the attitude to centralization/decentralization of the parent company’s decision–making power depends, among other things, on parent company factors (e.g. culture and management style, mission and objectives, planning and control mechanism), certain subsidiary characteristics (acquisition mode of establishment), subsidiary evolution (longer established affiliates) and MNEs strategies of global or regional integration. These factors are particularly relevant in MNEs because of the different geographical contexts in which subsidiaries operate.

Subsidiary autonomy can be defined as the decision–making rights that are granted by the parent (Gammelgaard et al., 2012). A subsidiary possesses high autonomy when it exercises the power to direct the operational and/or strategic decisions (see Figure 1, Hypothesis A).

**Figure 1 – Control with and without direction in case of holding–subsidiary relationship**

![Control with and without direction in case of holding–subsidiary relationship](image)

*Source: Our elaboration*
Low autonomy arises when the parent largely makes such decisions (see Figure 1, Hypothesis B), considering the group as a single economic entity. Following the IFRS 10, it means that even if the parent has the ability to “direct the relevant activities” of its subsidiaries – and for that reason the consolidated financial statements are requested – the former delegates the management to the latter.

In case of direction activity by the parent, if more that a BM exists in the business group, we can reasonably say that the parent company strongly influences the BMs of its directed subsidiaries.

Figure 2 shows other hypotheses where non–directed and directed subsidiaries are sub–holdings. In these cases the financial performance of the sub–groups are represented in their sub–consolidated financial statements. The sub–holdings may direct the respective subsidiaries or they can give them a high autonomy. For instance, in HP “A” there is a single BM for the whole group and consequently the sub–consolidated financial statements of the sub–group Beta show the effect of a part of the BM of the entire group. In HP “B” there are two BMs: the one is referred to the controlling company Alfa, while the other to the sub–group Beta. Therefore, the consolidated financial statements of the whole group represent the effects of two BMs. In HP D each legal entity has its own BM.

**Figure 2 – Business models in multi–level groups**

*Source: Our elaboration*
Therefore, it seems interesting to study the relationships among the BMs existing within a business group and the reflection of these relations in the financial disclosure, especially with reference to those of dependent firms.

4. The boundaries of the business models within business groups

From the literature review on BMs and that on business groups it is emerged that in respect to an affiliated–group company (e.g. subsidiary A, Figure 2) or to a sub–business group (e.g. Sub–holding Beta, Figure 2) the BM could be dependent (or autonomous) in terms of economic links with the BMs of other affiliated–group companies or in terms of decision–making power that those entities may have to elaborate and implement such BMs. For instance, in Figure 2 the sub–group Beta may have its own autonomous BM but in terms of decision–making power the sub–group is completely directed by the parent. Instead, sub–group Beta may have a BM strongly integrated with that of other affiliated companies and at the same time being independent from the parent on how to conduct its own BM and on how to integrate with the other businesses.

To distinguish the boundaries of a BM we use the framework proposed by Morris et al. (2005 and 2013) that identify the operating, strategic and economics components of a BM, making some adaptions to properly consider the peculiarities of business groups.

Thus the “operating” components of a BM regard offering and market factors (i.e., how and where the value is created) and core internal capabilities and competencies (i.e., what are the source of competitive advantage). The “strategic” components of a BM regard the competitive strategy factors (i.e., the source of market differentiation and cost leadership) and the growth model (i.e., what are the time, scope and size ambitions of the parent company). As part of the strategic components, we add the decision of delegation/centralization of the power of a holding company (Young and Tavares, 2004). In fact, to determine the architecture of the business group this is a relevant factor neglected by strategic management scholars because, so far, they have not analysed the BMs of the holding companies. Finally, the “economic” components of a BM concern pricing and revenue drivers, volumes and margins (i.e., how the money is made). Moreover, in the case of business group it may occur that the legal entities in distress operate for the economic efficiency of the group (Ferrero, 1968; Onida, 1987). These legal entities lack of autonomous durability, because if not supported by other entities (i.e. other affiliates) are destined to dissolve. They are kept alive because they create value offering opportunities or benefits to other entities within the group. As a result, the benefits obtained by the group from these firms explains the costs supported to maintain them, and so their prop up.
Therefore we can study the BM of an economic entity in terms of economic autonomy/dependence and in terms of decision–making power autonomy/dependence. Furthermore, we argue that to properly analyse the BMs in terms of decision–making power we consider the corporate, competitive and functional strategies of a company (e.g., Grant, 2008), including the operating components of a BM within the functional strategies because, ultimately, the operating activities are carried out by business functions.

Therefore, accordingly to Di Carlo (2009), we propose the Matrix of the autonomy/dependence of the BMs exiting within a business group in terms of economic links with the BMs of other affiliated–group companies (x–axis) and in terms of (strategic and operating) decision–making autonomy (y–axis). Both axes distinguish the BMs in: (1) totally dependent; (2) partially dependent; (3) autonomous or independent.

**Figure 3 – Matrix of the business model’s autonomy/dependence**

![Matrix of the business model’s autonomy/dependence](source: Our elaboration)

In terms of economic links with the other BMs of affiliated–group companies (x–axis), we can have the following situations:

– Quadrants I, II, and V are for subsidiaries (or sub–groups) that have a BM completely independent from those of other affiliated companies. This is the case of the unrelated business groups where the possibility to achieve scope economies are low;

– Quadrants III, IV, and VI are for subsidiaries (or sub–groups) that have a BM just partially independent from those of other affiliated companies. The connections with the other BMs may be more or
less strong. They are elevated for companies that operate in related industry and/or sector. Connections are not strong when BMs are linked in order to just achieve scope economies;

- Quadrants VII, VIII, and IX are for subsidiaries (or sub–groups) that have a BM totally dependent from those of other affiliated companies. In this case we can say that subsidiaries (or sub–groups) do not have their own BM taking part to the BM of the entire group.

For what concern the dependence of the BM in terms of decision–making power (y–axis):

- Quadrants I, IV, and VIII are for subsidiaries (or sub–groups) totally autonomous from their parent companies, since they completely govern their strategic decisions (mainly holdings) or they control the corporate and competitive or functional strategies;

- Quadrants II, III, and VII are for subsidiaries (or sub–groups) partially managed by their parent companies, since competitive and/or functional strategies are directed by the parents while some others are directed by them;

- Quadrants V, VI, and IX are for subsidiaries (or sub–groups) totally managed by their parent companies, thus they do not have the power to direct own corporate, competitive and functional strategies.

The real autonomous BM is that of the company (or business group) of quadrant I. The independent BM is that of the firm that is not directed by the parent and does not have any type of connection in terms of industry and sectors, transactions, and possibility to transfer innovation among affiliated–group companies (Hsieh et al., 2010).

The centralization of the power by the parent depends on the possibility to create synergy between the BMs of affiliated companies. In case of a single BM within the business group we may expect that the holding centralises the decision making power, that is the typical case of monobusiness groups such as Amazon, Google, e–Bay, Skype, Zara, etc. On the contrary, in case of more than one BM within the business group the tendency to delegate the decision making power is higher.

In terms of financial reporting we can also say that the financial performance connected to the BMs within the business groups are represented by the financial statements of the company or by the consolidated of the business group, especially in the reporting of related–party transactions (IAS 24) and segment reporting (IFRS 8).

5. Research design

This article builds on an exploratory multiple case studies. According to Eisenhardt (1989), case study research can be defined as “a research strategy, which focuses on understanding the dynamics present within
single settings” (p. 534). Following this definition, case study research is often said to be mainly suitable for research seeking to answer “how” and “why” questions (Yin, 2003).

The analysis is on two non-financial Italian business groups within which operate 8 listed companies. These groups are controlled by Agnelli and De Benedetti families. We selected these groups because they have at least two listed companies, thus using the public disclosure we have all the information to answer to our questions. Moreover the groups selected operate in different industries and according to the Italian Regulation (see, Section 6) present different publicity of directing activity by the subsidiaries. Thus, we can answer to our “how” question observing groups that have different characteristics for what concern the aspects under our observation. According to Eisenhardt and Graebner (2006), “multiple cases also create more robust theory because the propositions are more deeply grounded in varied empirical evidence” (p. 27).

The analysis follows three main directions: 1) the legal entities mapping; 2) the separation between control and direction; 3) the links among the BMs of affiliated–group companies.

The analysis is based on secondary data collected using the consolidated financial statements of the groups and those of their sub–groups, as well as the separate financial statements of the respective holdings and sub–holdings, Borsa Italiana (the Italian Stock Exchange) website, all for the year ending on 31 December 2011.

6. Case study analysis

5.1 Legal entities map and separation between control and direction

Figure 4 and 5 contain the ownership links among the parent companies and their main subsidiaries (i.e. the legal entities map of the selected groups).

The aim is to represent graphically the position of the subsidiaries within the respective groups, and those subsidiaries directed by the controlling party. It also allows understanding whether or not the controlling party of the company under our observation is a holding of a group or a sub–holding of a sub–group. The Figures also show the consolidation areas within the groups.

Consolidated of Exor group combines the financial statements of the parent listed–company Exor and its listed sub–groups Fiat, Fiat Industrial and the listed Juventus Football Club. Consolidated of Fiat group combines the financial statements of the parent listed Fiat SpA and those of its subsidiaries (e.g. Ferrari, Maserati), while the consolidated of Fiat Industrial group combines the financial statements of the parent listed Fiat Industrial and those of its subsidiaries (e.g. CNH, Iveco).
Consolidated of Cofide group combines financial statements of listed sub–groups C.I.R., Sogefi, L’Espresso, while that of CIR combines Sogefi and L’Espresso sub–groups.

Source: Our elaboration.
Both Agnelli and De Benedetti groups present a pyramidal structure with high separation between ownership and control at the bottom of the group structure.

Figure 4 and 5 allow understanding whether the parent companies, at the top of the analysed groups and/or their sub–holdings, exercise their control over the subsidiaries (i.e. the management and coordination links) or whether, instead, the former delegate their decision–making power to the latter.

For this purpose we use the publicity gave by the subsidiaries, in accordance with the Italian group Regulation. The Italian Legislative Decree No. 6/2003 has introduced a set of corporate rules (the “Corporate Law Reform”) for the regulation of corporate groups. The goal of the Reform was to create transparent group management, balancing the interests of parent and subsidiaries. Under Article 2497 of the Italian Civil Code, a specific liability of parent companies with directing power over their subsidiaries (directed legal entities) for damages incurred by the latter, is expressly maintained (Cariello, 2006; Denozza, 2000; Fasciani, 2007; Rossi et. al., 2002).

In business groups, especially those in which subsidiaries are much integrated with each other, the headquarters–subsidiaries relationship is often based on the centralization of the decision–making power. Such centralization is used in order to manage the group as if it were a single economic entity and then to reach the system effect, allowing subsidiaries to bring different benefits (i.e. scope and scale economies, financial synergies).

The aim of the group regulation is not to prevent the possibility of the parent to manage its subsidiaries, but rather to discourage transactions imposed in the interest of the group without considering the interests of the subsidiaries and their stakeholders (Pernazza, 2010).

For the purpose of this study the Italian law is significant because subsidiaries have the obligation to disclose if they are managed and coordinated by the parent company and the reasons that led to transactions with some particular types of related parties (e.g. transactions between two subsidiaries directed and coordinated by the parent company).

In particular, the Article 2497–bis of the Italian Civil Code requires that the submission to directing activity is expressly indicated in the subsidiary’s correspondence and official documents, including the notes to the financial statements and the management report of the directors.

The business group disclosure is crucial in our reasoning, since directed and coordinated subsidiaries may be a part of the same BM (see Figure 1). Instead non–directed and coordinated subsidiaries could have their own BM.

While in Agnelli group the listed companies all declare to be not directed by the holding Fiat, in De Benedetti group all declare to be directed by the respective parent company.
Table 1 summarizes some Financials of the 8 listed sub–groups. Since the analysed firms are sub–
holdings of business groups (except for Juventus), Financials are referred to the consolidated financial
statements. The dependent sub–holding that provides the sub–consolidated for its subgroup is, in turn,
consolidated by another controlling entity. In other words, the economic entity of the first level (the ultimate
parent company) combines the second level economic entity (the sub–holding) and as well as its subsidiaries.

For instance, the total assets of Exor group include that of the holding Exor plus all those of its
consolidated listed and non–listed subsidiaries. In Agnelli group the high level of ROE is achieved by Fiat,
while in De Benedetti group by Sogefi positioned at the bottom of the group.

### TABLE 1 – Financial performance

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</tr>
<tr>
<td>Exor</td>
<td>123.030</td>
<td>103.639</td>
<td>19.971</td>
<td>4.882</td>
<td>2.229</td>
</tr>
<tr>
<td>Fiat (1)</td>
<td>80.031</td>
<td>67.771</td>
<td>12.260</td>
<td>3.336</td>
<td>1.651</td>
</tr>
<tr>
<td>Juventus (2)</td>
<td>428</td>
<td>363</td>
<td>65</td>
<td>41</td>
<td>49</td>
</tr>
<tr>
<td>Fiat Industrial (3)</td>
<td>38.643</td>
<td>33.232</td>
<td>5.411</td>
<td>1.629</td>
<td>701</td>
</tr>
<tr>
<td>Cefide</td>
<td>7.897</td>
<td>3.394</td>
<td>2.503</td>
<td>250</td>
<td>29</td>
</tr>
<tr>
<td>C.I.R. (1)</td>
<td>7.832</td>
<td>5.353</td>
<td>2.480</td>
<td>256</td>
<td>69</td>
</tr>
<tr>
<td>Sogefi (2)</td>
<td>906</td>
<td>781</td>
<td>218</td>
<td>60</td>
<td>25</td>
</tr>
<tr>
<td>L’Espresso (3)</td>
<td>1.371</td>
<td>806</td>
<td>564</td>
<td>120</td>
<td>58</td>
</tr>
</tbody>
</table>

Source: Our elaboration.

5.3 Links between the business models of affiliated–group companies

In order to study the strategic, operating and economic links between the BMs of affiliated–group
companies we observe the industry and sector of those companies and the presence of transactions among
them (see Table 2).

### TABLE 2 – Related business and presence of intra–group transactions

| Company       | Primary industry | Sector          | The business of the listed company is related with that of the | Transactions with the | Type of Transactions (Commercial, Financial, 
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Listed parent company</td>
<td>Subsidiary (1)</td>
<td>Subsidiary (2)</td>
</tr>
<tr>
<td>Exor</td>
<td>Financial Services</td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fiat (1)</td>
<td>Consumer Goods</td>
<td>Automobiles &amp;</td>
<td>No</td>
<td>-</td>
<td>No</td>
</tr>
<tr>
<td>Juventus (2)</td>
<td>Consumer Services</td>
<td>Travel &amp; Leisure</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Fiat Industrial (3)</td>
<td>Industrials</td>
<td></td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Cefide</td>
<td>Financial Services</td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>C.I.R. (1)</td>
<td>Financial Services</td>
<td></td>
<td>Yes</td>
<td>-</td>
<td>No</td>
</tr>
<tr>
<td>Sogefi (2)</td>
<td>Consumer Goods</td>
<td>Automobiles &amp; Paris</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>L’Espresso (3)</td>
<td>Consumer services</td>
<td>Media</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

Source: Our elaboration
When industry and sector of affiliated–group companies are strongly related it is evident that their BMs correspond to that of the entire business group. In this case subsidiaries are a part of a single strategic design, so the group has a single BM and the parent directs and coordinates the single legal entities to better realise that model. We can also say that the decision to use a plurality of legal entities to make business it is a part of the BM itself. In addition, in this case we reasonably expect that the transactions among affiliated–group companies are numerous and considerable. That may occur in MNEs that adopt a global strategy, preferably in a single business (e.g., Amazon, Google, Ryanair, etc.).

Table 3 shows the effects of intra–group transactions on assets and liabilities whereas and Table 4 exhibits the revenues and purchase referred to intra–group transactions because they might be indicative of certain aspects of an entity’s BM, its attitude to related party transactions (RPT) and how they are managed (Zott and Amit, 2008).

**TABLE 3 – Assets and liabilities referred to intra–group transactions**

<table>
<thead>
<tr>
<th>Company</th>
<th>Parent company</th>
<th>Subsidiary (1)</th>
<th>Subsidiary (2)</th>
<th>Subsidiary (3)</th>
<th>Listed parent company</th>
<th>% on total assets</th>
<th>Liabilities (in € 000) referred to transactions with the</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% on total liabilities</td>
<td>% on total liabilities</td>
<td>% on total liabilities</td>
<td>% on total liabilities</td>
<td>% on total liabilities</td>
<td>% on total liabilities</td>
<td>Liabilities (in € 000) referred to transactions with the</td>
</tr>
<tr>
<td>Exor</td>
<td>-</td>
<td>510,00</td>
<td>0,41%</td>
<td>-</td>
<td>125,00</td>
<td>0,10%</td>
<td>-</td>
</tr>
<tr>
<td>Fis (1)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>168,00</td>
<td>0,21%</td>
<td>-</td>
</tr>
<tr>
<td>Juventus (2)</td>
<td>0,10</td>
<td>0,27</td>
<td>0,06%</td>
<td>-</td>
<td>0,04</td>
<td>0,01%</td>
<td>0,01</td>
</tr>
<tr>
<td>Fiat Industrial (3)</td>
<td>-</td>
<td>87,00</td>
<td>0,23%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cofide</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>C.L.R (1)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sogefi (2)</td>
<td>4,26</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>L’Espresso (3)</td>
<td>-</td>
<td>0,00</td>
<td>0,00%</td>
<td>0,00</td>
<td>0,00%</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

*Source: Our elaboration*

**TABLE 4 – Revenues and purchases referred to intra–group transactions**

<table>
<thead>
<tr>
<th>Company</th>
<th>Revenues (in € 000) from sales of goods or services to the</th>
<th>Purchase (in € 000) from sales of goods or services to the</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Listed parent company</td>
<td>% on total net income</td>
</tr>
<tr>
<td>Exor</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fis (1)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Juventus (2)</td>
<td>0,09</td>
<td>0%</td>
</tr>
<tr>
<td>Fiat Industrial (3)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cofide</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>C.L.R (1)</td>
<td>0,18</td>
<td>1%</td>
</tr>
<tr>
<td>Sogefi (2)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>L’Espresso (3)</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

*Source: Our elaboration*
In Table 2 and 3 the transactions between sub–groups (e.g. between Fiat and Fiat Industrial) are collected using the sub–consolidated financial statements of these groups.

One of the advantages expressed by the consolidated is in that intragroup balances, transactions, income, and expenses must be eliminated in full. Thus, it contains only the effects of transactions between the group and the external parties and consequently the profit of the group is net of profit realized through intercompany transactions. The consolidated financial statements are considered as the financial statements of a group of legal entities presented as those of a single economic entity (IFRS 10). From this definition it seems that the consolidated financial statements as well as the reporting economic entity are independent from external influence. However, when the consolidated financial statements is provided by a dependent subgroup, as the subgroups of our case studies, the effect of transactions between the parent and their sub–holding as well as those between the latter and the other affiliated companies are not eliminated by the consolidation procedures of the sub–consolidated financial statements.

7. Discussion and findings

In this section the results of our two case study analysis are shown. By the use of some tables and figures we put emphasis on the main important evidences.

The analysis of the theoretical debate on BMs and business groups respectively conducted in Section 2 and 3 led us to the construction of the Matrix of the BM’s autonomy/dependence represented in Figure 3 that we discuss through our two case studies.

6.1 The Agnelli group

Exor is the pure listed holding of Agnelli group (Figure 4). It is one of Europe’s leading investment companies that makes long–term investments in diversified sectors, mainly in Europe, US and in the major emerging markets (www.exor.it). In particular, Exor directly controls three listed companies: Fiat, Fiat Industrial and Juventus.

Fiat is an international automotive group that designs, produces and sells vehicles for the mass market under the Fiat, Alfa Romeo, Lancia, Abarth and Fiat Professional brands, as well as luxury and performance cars under the Ferrari and Maserati brands. Fiat Group also operates in the components sector, through Magneti Marelli and Teksid, and in the production systems sector, through Comau (www.fiatgroup.it).

Fiat Industrial is a global leader in the capital goods sector that, through its various businesses, designs, produces and sells trucks, commercial vehicles, buses, special vehicles, tractors, and agricultural
and construction equipment, in addition to engines and transmissions for those vehicles and engines for marine applications (www.fiatindustrial.com).

Juventus operates in the field of professional football activity.

In Agnelli group all the listed companies declare to be not subjected to the directing activity of the listed parent Exor (Figure 5). The absence of direction activity by that parent company and the differences in terms of industry (Table 2) in which their subsidiaries operate lead us to say that in Agnelli group there are at least four BMs, one for each listed company (or subgroup). Indeed, in Agnelli group there are at least four different ways that “spell out how the company makes money” (Rappa, 2002) as well as three different “core logics for creating value” (Linder and Cantrell, 2001).

The first BM is referred to the holding company Exor while the others to Fiat, Fiat Industrial and Juventus.

The BM of Exor is based on financial investment activities. It is a typical “pure” investment holding company that owns shares of other companies with the aim to reduce the risk for the investors by diversified acquisitions. Therefore, the business of an investment holding company differs substantially from that of an operating company. In the latter case products and/or services are being sold at a certain gross profit margin, thereby creating revenue and cash inflows for the entity concerned. Strong cash flows and shareholder value is accordingly created by increasing revenue, as well as by limiting expenditure and optimising operational efficiencies, thus increasing the net profit from which dividends can be paid to shareholders.

In the case of an investment (or pure) holding company no products and/or services are being sold. This, together with the specific accounting treatment that is required for different classes of investments in terms of International Financial Reporting Standards, has the effect that the net profit of an investment holding company is not always a fair reflection of its underlying cash flows and financial soundness. Similarly, the variance in net profit between reporting periods will not always be a good indication of the trend in dividends to be paid to shareholders. The value and performance of the underlying investments, rather than the activities at holding company level, will thus to a large extent determine the value created by investment holding companies for its shareholders.

Although the BM of investment holding companies is commonly used in practice (e.g., Oman National Investment Corporation Holding SAOG; Remgro Limited) it has not been properly analysed by the scholars yet.

Since Exor does not exercise the direction and coordination activity over its subsidiaries, it seems to treat the different segments as distinct autonomous financial divisions. Moreover, as stated in the annual report “Exor S.p.A. is not subject to the direction and coordination of any other company or entity and is
fully independent in the decisions regarding its general strategic and operating guidelines” (Annual Report, 2011). Thus Exor is independent from its parent Giovanni Agnelli & C. Sapa.

The autonomy of the listed sub–holding is confirmed within their annual reports:

“Fiat Industrial S.p.A. is not subject to the direction and coordination of any other company or entity and has full independence in setting strategic and operating guidelines”. Fiat Industrial Annual Report (2011).

“Fiat S.p.A. is not subject to the direction and coordination of any other company or entity and has full independence to define its strategic and operational guidelines”. Fiat Industrial Annual Report (2011).

“Company has a sufficient number of independent directors to ensure the management autonomy of the Board of Directors which defines the general and operational strategic guidelines of Juventus in full autonomy”. Juventus Annual Report (2011).

However it is important to distinguish Fiat and Fiat Industrial from Juventus, since Fiat and Fiat Industrial operates in related business using hundred of legal entities, while Juventus is the only legal entity that operates in the Travel & Leisure sector that is not related to those of other affiliated companies. Conducting the business, and so realise the BM, with more than one legal entity may have positive effect on the ability of the firm in create and capture value (Di Carlo, 2009; Paolone, 2009). Moreover, differently from the pure parent company Exor, Fiat and Fiat Industrial are operating holding companies since they work of both holding company and operating company having strong economic ties with their subsidiaries.

Accordingly to Amit and Zott (2001), the BM regards the transaction governance designed so as to create value through the exploitation of business opportunities. The “transaction governance that refers to the ways in which flows of information, resources, and goods are controlled by relevant parties. It also refers to the legal form of organization and to the incentives for the participants in transactions” (p. 511).

Thus, while the boundaries of the BM of Fiat and Fiat Industrial are those of the consolidation area of those groups, the boundaries of the BM of Juventus coincide with the boundaries of that legal entity (Figure 6). It allows studying the reflection of the BM on financial performance using the separate financial statements of Juventus. The single subsidiary legal entities of Fiat group (the parent Fiat and its subsidiaries) operate as a part of the BM of Fiat group. Indeed, all the companies of Fiat group operate in the same industry and sector, thus the group is a single economic entity. This is confirmed also by the direction activity of Fiat over its subsidiaries. Indeed, the Fiat annual report (2011) states that:

“Fiat’s direct and indirect subsidiaries in Italy have, with a few specific exceptions, named Fiat as the entity which, pursuant to Article 2497–bis of the Civil Code, exercises direction and coordination over them. That activity consists in setting general strategic and operating guidelines for the Group through definition and updating of the internal control and risk management system, corporate governance model and corporate structure, and establishment of a group-wide Code of Conduct, in addition to definition of policies for the management of personnel and financial resources, and for the procurement of production materials, and marketing and communications services. Coordination of the Group also encompasses centralized cash management, corporate and accounting, and internal audit services, including through specialized companies”. Fiat annual report (2011).
We found the same content in Fiat Industrial annual report:

“Fiat Industrial’s direct and indirect subsidiaries in Italy have, with a few specific exceptions, named Fiat Industrial as the entity which, pursuant to article 2497–bis of the civil code, exercises direction and coordination over them. That activity consists in: setting general strategic and operating guidelines for the group through definition and updating of the internal control and risk management system, corporate governance model and corporate structure; establishment of a group–wide code of conduct; and definition of policies for the management of personnel, financial resources and external communications. Group coordination also encompasses group finance, internal audit and legal services, as well as centralized cash management through specialized treasury companies.” Fiat annual report (2011).

Both sub–groups evidence the same benefits of the direction activity.

“Direction and coordination at group level enables subsidiaries, which retain full management and operating autonomy, to realize economies of scale by availing themselves of professional and specialized services with improving levels of quality and to concentrate their resources on management of their core business.” Fiat and Fiat Industrial annual report (2011).

Thus, in order to understand the reflection of the BM on financial performance of Fiat sub–group (i.e. the holding Fiat Spa and its subsidiaries), it is important to observe the BM looking at this entire sub–group and the financial performance expressed in its sub–consolidated financial statements. Indeed, each single legal entity contributes to the value creation of the sub–group.

We can achieve the same conclusion for Fiat Industrial sub–group. However, even Fiat and Fiat Industrial are not directed and coordinated by the parent Exor, their BMs are strictly related as confirmed by the transactions among the companies of those groups (Table 3 and 4). That is why in Figure 6 BM are considered partially independent.

FIGURE 6 – The boundaries of the consolidation area and of the business model of Agnelli group

Source: Our elaboration
Moving to the parent Exor, the financial performance represented in its consolidated financial statements is affected by the BM of Exor (the parent investment company), as well as by those of Fiat, Fiat Industrial and Juventus, that have BM autonomous (Juventus) or partially autonomous (Fiat and Fiat Industrial).

Now using the Matrix of Figure 3, in Figure 7 we represent the autonomy/dependence of the BMs in Fiat group.

**FIGURE 7 – Autonomy/Dependence of the business models in Agnelli business group**

The only companies that have an autonomous BM, in terms of decision–making power and economic links with other affiliated listed companies, is the pure holding Exor and Juventus (Quadrant I). The sub–holdings Fiat and Fiat group have a BM autonomous in terms of decision making power, however both companies are strongly linked with their subsidiaries that are positioned in Quadrant IX, since they expressly declare to be directed and coordinated by their parents. Looking at the Fiat and Fiat Industrial sub–groups, they have BM partially dependent in terms of economic links, since their business are related, as well as in terms of decision–making power considering the coordination activity that allow economic and scope economies (Quadrant III). Coordination is generally referred to collaborative actions taken to achieve a unity of effort within the organization (Lawrence and Lorsch, 1967).
The analysis of the autonomy of the BMs adopted by the companies of our sample is central in the interpretation of the Segmental Reporting (Fortuna, 2008) of the consolidated financial statements of Agnelli group. Table 5 shows the Exor consolidated income statement by segment and thus the economic results of the BM of Exor holding. In fact, being an investment company that creates and capture value by risk diversification, the choice of investment’s sectors affect the way to create value of the parent company.

### TABLE 5 – Exor Consolidated Income Statement by Segment for 2011

<table>
<thead>
<tr>
<th>€ million</th>
<th>Fiat</th>
<th>Fiat Industrial</th>
<th>C&amp;W Group</th>
<th>Afpitour (s)</th>
<th>Juventus F.C.</th>
<th>Holdings System (s)</th>
<th>Eliminations and Adjustments</th>
<th>Consolidated Exor</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Segment revenues</td>
<td>59,559</td>
<td>24,289</td>
<td>1,433</td>
<td>169</td>
<td>1</td>
<td>(1,092)</td>
<td>84,359</td>
<td></td>
</tr>
<tr>
<td>Revenues from transactions with other operating segments</td>
<td>(563)</td>
<td>(425)</td>
<td>(1)</td>
<td>(1)</td>
<td>(1)</td>
<td></td>
<td>(1,092)</td>
<td>0</td>
</tr>
<tr>
<td>Revenues from external customers</td>
<td>58,996</td>
<td>23,664</td>
<td>1,432</td>
<td>167</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>84,359</td>
</tr>
<tr>
<td>Trading profit/(loss)</td>
<td>2,392</td>
<td>1,086</td>
<td>44</td>
<td>(66)</td>
<td>(30)</td>
<td>1</td>
<td>4,007</td>
<td></td>
</tr>
<tr>
<td>Unusual income/(expense)</td>
<td>944</td>
<td>(57)</td>
<td>0</td>
<td>0</td>
<td>(12)</td>
<td></td>
<td></td>
<td>875</td>
</tr>
<tr>
<td>Operating profit/(loss)</td>
<td>3,336</td>
<td>1,629</td>
<td>44</td>
<td>(86)</td>
<td>(30)</td>
<td>(11)</td>
<td></td>
<td>4,882</td>
</tr>
<tr>
<td>Financial income/(expense)</td>
<td>(1,282)</td>
<td>(546)</td>
<td>(8)</td>
<td>(3)</td>
<td>(45)</td>
<td></td>
<td>7</td>
<td>(1,877)</td>
</tr>
<tr>
<td>Share of profit/(loss) of companies accounted for using the equity method</td>
<td>146</td>
<td>97</td>
<td>0</td>
<td>0</td>
<td>(24)</td>
<td></td>
<td>0</td>
<td>219</td>
</tr>
<tr>
<td>Other profit/(loss) from investments</td>
<td>(15)</td>
<td>(11)</td>
<td>0</td>
<td>0</td>
<td>82</td>
<td></td>
<td></td>
<td>56</td>
</tr>
<tr>
<td>Result from investments</td>
<td>131</td>
<td>86</td>
<td>0</td>
<td>0</td>
<td>58</td>
<td>0</td>
<td>275</td>
<td></td>
</tr>
<tr>
<td>Profit/(loss) before taxes</td>
<td>2,185</td>
<td>1,169</td>
<td>30</td>
<td>(69)</td>
<td>(17)</td>
<td>(4)</td>
<td></td>
<td>3,280</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(534)</td>
<td>(468)</td>
<td>(23)</td>
<td>(1)</td>
<td>(10)</td>
<td>0</td>
<td>(1,038)</td>
<td></td>
</tr>
<tr>
<td>Profit/(loss) from Continuing Operations</td>
<td>1,651</td>
<td>701</td>
<td>11</td>
<td>(60)</td>
<td>(27)</td>
<td>(4)</td>
<td></td>
<td>2,242</td>
</tr>
<tr>
<td>Profit/(loss) from Discontinued Operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit/(loss) for the year</td>
<td>1,651</td>
<td>701</td>
<td>11</td>
<td>(60)</td>
<td>(27)</td>
<td>(11)</td>
<td></td>
<td>2,229</td>
</tr>
</tbody>
</table>

*Source: Exor Annual report 2011*

To our knowledge, up to now empirical studies on BMs focus on monobusiness firms, however we argue that the BM construct could be applied to business group as well. However, in this case the business group could operate in diversified business and centralize or delegate some functions to specific legal entities. Therefore, to better understand the boundaries of the BM in a business group we need to identify the boundaries of its strategic business units. To do so, the segment reporting could offer valuable information.

Table 6 shows the consolidated income statement by segment of Fiat Industrial. The BM of that subgroup can be split in sub-BMs as many as the segments of the business. We can do the same consideration looking at the segmental reporting of Fiat (Table 7). Unlike the segmental reporting of Exor, in these cases the BMs are strongly related (e.g. Ferrari and Maserati, for Fiat group, see Table 7) not just because of the links among the businesses/segments but also because the subsidiaries controlled by Fiat and Fiat Industrial, following the Italian group Regulation, declare to be subjected to the direction and coordination activity of those companies. For instance, Ferrari declares to be directed by Fiat. That is why we put all the non–listed company controlled and directed by Fiat and Fiat Industrial in the Quadrant IX, Figure 7.
### TABLE 6 – Fiat Industrial Consolidated Income statement by segment for 2011

<table>
<thead>
<tr>
<th>Segment</th>
<th>CNH</th>
<th>Iveco</th>
<th>FPT Industrial</th>
<th>Other Activities</th>
<th>Unallocated items &amp; adjustments</th>
<th>Fiat Industrial Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues from transactions with other operating segments</td>
<td>(17)</td>
<td>(165)</td>
<td>(1,946)</td>
<td>(18)</td>
<td>2,146</td>
<td>-</td>
</tr>
<tr>
<td>Segment revenues</td>
<td>16,056</td>
<td>8,924</td>
<td>2,933</td>
<td>18</td>
<td>(2,146)</td>
<td>25,785</td>
</tr>
<tr>
<td>Revenues from external customers</td>
<td>16,039</td>
<td>8,759</td>
<td>987</td>
<td>-</td>
<td>-</td>
<td>25,785</td>
</tr>
<tr>
<td>Gross profit/loss</td>
<td>1,566</td>
<td>469</td>
<td>142</td>
<td>(93)</td>
<td>(5)</td>
<td>2,079</td>
</tr>
<tr>
<td>Unusual income/(expense)</td>
<td>(37)</td>
<td>(181)</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>(217)</td>
</tr>
<tr>
<td>Operating profit/loss</td>
<td>1,529</td>
<td>288</td>
<td>142</td>
<td>(92)</td>
<td>(5)</td>
<td>1,862</td>
</tr>
<tr>
<td>Financial income/(expense)</td>
<td>(459)</td>
<td>(458)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest in profit/(loss) of joint ventures and associates accounted for using the equity method</td>
<td>82</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>86</td>
</tr>
<tr>
<td>Other profit/(loss) from investments</td>
<td>-</td>
<td>(5)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(5)</td>
</tr>
<tr>
<td>Result from investments</td>
<td>82</td>
<td>(2)</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>81</td>
</tr>
<tr>
<td>Profit/(loss) before taxes</td>
<td>1,485</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income taxes</td>
<td>564</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit/(loss) from continuing operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>921</td>
</tr>
</tbody>
</table>

Source: Fiat Industrial Annual report 2011

### TABLE 7 – Fiat Consolidated Income statement by segment for 2011

<table>
<thead>
<tr>
<th></th>
<th>FGA</th>
<th>Maserati</th>
<th>Ferrari</th>
<th>Magneti Marelli</th>
<th>Powertrain</th>
<th>Teksid</th>
<th>Comau</th>
<th>Other Businesses</th>
<th>Fiat Group excluding Chrysler</th>
<th>Chrysler (*)</th>
<th>Elim. and adjust</th>
<th>Fiat Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Segment revenues</td>
<td>27,980</td>
<td>588</td>
<td>2,251</td>
<td>5,890</td>
<td>4,450</td>
<td>922</td>
<td>1,402</td>
<td>1,082</td>
<td>(7,153)</td>
<td>37,382</td>
<td>23,669</td>
<td>(1,432)</td>
</tr>
<tr>
<td>Revenues from transactions with other operating segments (“)**</td>
<td>(320)</td>
<td>(78)</td>
<td>(77)</td>
<td>(2,090)</td>
<td>(3,616)</td>
<td>(225)</td>
<td>(380)</td>
<td>(457)</td>
<td>7,153</td>
<td>(286)</td>
<td>(1,144)</td>
<td>1,432</td>
</tr>
<tr>
<td>Revenues from external customers</td>
<td>27,660</td>
<td>512</td>
<td>2,174</td>
<td>3,770</td>
<td>634</td>
<td>697</td>
<td>1,022</td>
<td>625</td>
<td>-</td>
<td>37,094</td>
<td>22,465</td>
<td>-</td>
</tr>
<tr>
<td>Trading profit/(loss)</td>
<td>430</td>
<td>40</td>
<td>312</td>
<td>181</td>
<td>131</td>
<td>26</td>
<td>10</td>
<td>79</td>
<td>(4)</td>
<td>1,047</td>
<td>1,345</td>
<td>-</td>
</tr>
<tr>
<td>Unusual income/(expense)</td>
<td>1,446</td>
<td>-</td>
<td>6</td>
<td>(154)</td>
<td>3</td>
<td>(28)</td>
<td>(130)</td>
<td>(38)</td>
<td>(16)</td>
<td>1,089</td>
<td>(145)</td>
<td>-</td>
</tr>
<tr>
<td>Operating profit/(loss)</td>
<td>1,878</td>
<td>40</td>
<td>318</td>
<td>27</td>
<td>134</td>
<td>(2)</td>
<td>(120)</td>
<td>(117)</td>
<td>(20)</td>
<td>2,158</td>
<td>1,200</td>
<td>-</td>
</tr>
<tr>
<td>Financial income/(expense)</td>
<td>(795)</td>
<td>(796)</td>
<td>(448)</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(1,282)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest in profit/(loss) of joint ventures and associates accounted for using the equity method</td>
<td>145</td>
<td>-</td>
<td>(3)</td>
<td>(7)</td>
<td>3</td>
<td>-</td>
<td>6</td>
<td>1</td>
<td>145</td>
<td>1</td>
<td>-</td>
<td>146</td>
</tr>
<tr>
<td>Other profit/(loss) from investments</td>
<td>1</td>
<td>-</td>
<td>(15)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1)</td>
<td>(15)</td>
<td>-</td>
<td>-</td>
<td>(15)</td>
</tr>
<tr>
<td>Result from investments</td>
<td>146</td>
<td>-</td>
<td>(18)</td>
<td>(7)</td>
<td>3</td>
<td>-</td>
<td>6</td>
<td>-</td>
<td>(130)</td>
<td>1</td>
<td>-</td>
<td>131</td>
</tr>
<tr>
<td>Profit/(loss) before taxes</td>
<td>1,470</td>
<td>715</td>
<td>-</td>
<td>2,185</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income taxes</td>
<td>464</td>
<td></td>
<td></td>
<td>464</td>
<td>70</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>534</td>
</tr>
<tr>
<td>Profit/(loss) from Continuing Operations</td>
<td>1,006</td>
<td>645</td>
<td>-</td>
<td>1,651</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Fiat Annual report 2011

### 6.3 The De Benedetti group

Cofide is the pure listed holding of De Benedetti group (Figure 5). CIR is a Cofide investment listed subsidiary, active in the energy sector, media, automotive components, healthcare and financial investments (private equity, venture capital, non performing loans, start-ups). Sogefi is a CIR listed subsidiary and it is one of the major international groups operating worldwide in the sector of automotive components. Gruppo
Editoriale L’Espresso (hereinafter, L’Espresso) is also a CIR listed subsidiary and it is one of the leading media groups in Italy with interests in publishing, radio, advertising, internet businesses and television.

Since the holding Cofide and all its listed subsidiaries operate in unrelated business (Table 2), De Benedetti’s business group is characterised by the presence of at least four BMs: that of Cofide and those of C.I.R., L’Espresso and Sogefi.

Differently from the Agnelli group case, the first level listed company Cofide declares to be subjected “to management and coordination by its parent company Carlo De Benedetti & Figli S.a.p.A. (Art. 2497–bis of the Italian Civil Code)” (Cofide annual report, 2011).

The same declaration is present in C.I.R., directly controlled by Cofide, and in Sogefi and L’Espresso, directly controlled by C.I.R.:

“CIR is subject to management and coordination by its controlling company COFIDE – Gruppo De Benedetti S.p.A., [...] CIR has the power to negotiate independent relations with customers and suppliers, has no centralised treasury function in common with COFIDE and the Board of Directors of the company, out of a total of 12 members, has 7 who possess the requisites of independence and are thus sufficient to guarantee that their judgement has a significant weight in the decision-making process of the Board”. C.I.R annual report (2011).

“Sogefi is subject to policy guidance and coordination by its parent company CIR – Compagnie Industriali Riunite S.p.A [...] the Company has independent decision-making powers in relations with customers and suppliers; does not hold a cash pooling system with CIR”. Sogefi annual report (2011).

“L’Espresso is subject to the management and coordination activities of the Parent Company CIR SpA. L’Espresso [...] has full autonomy in dealing with its customers and suppliers, and does not share with CIR a centralized treasury management service. As indicated in the Report on Corporate Governance, it is acknowledged that the number of Independent Directors and their status are sufficient to guarantee that their opinion in the Board’s decision-making process wields a significant influence”. L’Espresso annual report (2011).

However, while CIR claims not to have relations with the parent Cofide, Sogefi and Espresso claim to have relationships with their parent CIR. Indeed, Sogefi states:

“As part of its activity, Sogefi S.p.A. makes use of the services provided by CIR S.p.A., its Parent Company, in areas such as strategic development, disposals and acquisitions, and services of an administrative, financial, fiscal and corporate nature. This relationship is regulated by contracts at arm’s length conditions and the cost is commensurate to the effective value of such services to the Sogefi Group in terms of the time devoted to them and the specific economic advantages obtained as a result.”. Sogefi annual report 2011.

while L’Espresso:

“Gruppo Editoriale L’Espresso SpA receives from its Parent Company CIR SpA, services and advice on strategic, administrative, financial and tax matters. It is to be noted that the provision of such services on the part of the parent company is deemed as preferable to the provision of the same on the part of third parties thanks, among other things, to the wide knowledge and experience CIR SpA has acquired over time on the company and the segment in which Gruppo Editoriale L’Espresso SpA operates.”. L’Espresso annual report (2011).
Thus the two sub–groups, Sogefi and L’Espresso, have relations with the parent CIR for what concern the supporting activities, i.e. the activities that the organization performs to assist the primary activities to gain the competitive advantage (Porter, 1985).

**FIGURE 8 – The boundaries of the consolidation area and of the business model of De Benedetti group**

![Diagram](image)

*Source: Our elaboration*

The presence of those relations is confirmed by the related party transactions disclosure (Table 2).

In De Benedetti group the need to demonstrate that companies have autonomous boards probably depends on the high separation between ownership and control in that group, since its pyramidal structure of the group. In case of both ownership concentration and high separation between ownership and control, as in the case of pyramidal groups (Almeida and Wolfenzon, 2006; Faccio and Lang, 2002), type II agency problem emerges, so the risk is in that transactions with related parties are used by the controlling party to extract private benefits of control at the expenses of minorities (Dyck and Zingales, 2004). Tunneling is undoubtedly one of most studied way to extract private benefits in pyramidal group, where the controlling party, at the top of the control chain, has an incentive to divert resources within the group through intragroup transactions (Almeida and Wolfenzon, 2006; Friedman et al., 2003).

Since in De Benedetti group we have found direction activity by the parent even in subsidiaries that operate in different sectors and industries, having partially independent BMs, we can assume that the
declaration of direction activity by the parents is a commitment that the controlling shareholder will not expropriate the outsiders of the subsidiaries, because of the cost associated with the holding responsibility, according to Italian Regulation (see, Section 6). In that situation, the controlling shareholder will signal to the market that there is a separation between control and direction activity, in order to convince them that he/she will assume the responsibility private benefits extraction (Di Carlo, 2013a).

It is clear the intention to show the reasons under intragroup transactions, and how they allow not just to reach the interest of the group but also the interest of the single subsidiaries and that of their outsiders (minority shareholders and creditors).

Now using the Matrix of Figure 3, in Figure 9 we represent the autonomy/dependence of the BMs in De Benedetti group. All the sub–holdings are in the area of partially dependent firms (Quadrant II and III) for what concern the decision making power. Indeed, as discussed even if they declare to be directed by the respective parent, the direction activity does not refer to the primary activity but instead to the support activities. That is why we put the sub–holding C.I.R., Sogefi and L’Espresso in the area of partially dependent firms in y–axis.

FIGURE 9 – Autonomy/Dependence of the business models in De Benedetti business group

<table>
<thead>
<tr>
<th>Quadrant</th>
<th>Business Models</th>
</tr>
</thead>
<tbody>
<tr>
<td>V</td>
<td>Non-listed companies controlled and directed by Cofide, C.I.R., Sogefi, and L’Espresso</td>
</tr>
<tr>
<td>VI</td>
<td>C.I.R. holding Sogefi holding L’Espresso holding</td>
</tr>
<tr>
<td>II</td>
<td>Cofide group</td>
</tr>
<tr>
<td>III</td>
<td>C.I.R. sub-group Sogefi sub-group L’Espresso sub-group</td>
</tr>
<tr>
<td>IV</td>
<td>Partially dependent</td>
</tr>
<tr>
<td>V</td>
<td>Autonomous</td>
</tr>
<tr>
<td>VI</td>
<td>Partially dependent</td>
</tr>
<tr>
<td>VII</td>
<td>Totally dependent</td>
</tr>
</tbody>
</table>

Source: Our elaboration
In De Benedetti group there are not entities with a completely autonomous BM, in terms of economic links and decision-making power.

As discussed before, the BMs of C.I.R., Sogefi and L’Espresso are related to that of Cofide at least in terms of supporting activities. Consequently their financial performances are affected by the BM of the wider business group. Thus the consolidated financial statements of Cofide represent the effects of four different partially dependent BMs. Indeed, even if the businesses are independent, transactions between the consolidated companies are present (Table 3). These transactions allow reaching the system effect of De Benedetti group. All the non–listed companies controlled by the parents positioned in quadrants II and VII are completely dependent. Thus, each of these legal entities realise a part of the BM of the respective sub–group.

8. Conclusion

Studies on the link between BM and financial performance focus their attention on the “firm” without clarifying if the boundaries of the reporting entity coincide with those of its BM. This aspect is particularly relevant in business groups. Although there are several studies on BM of large business groups (e.g. Amazon, Google), there is a lack of analyses on the effect that this particular organizational structure may have on the BM of these economic entities and their parties. In particular, this paper focuses on large business groups within which operate subsidiaries (or sub–groups) that could be connected each other through different economic links and could have different autonomy for what concern the decision–making power delegated by the parent company.

The exploratory multiple case studies on two Italian listed groups show that the BM of the analysed entities could be autonomous, partially autonomous or totally dependent on the BM of the wider business group to which they belong. It is autonomous when the entity has full decision–making power and economic autonomy from the other affiliated–group companies. The BM is partially autonomous when the entity is autonomous in the definition of the competitive and/or functional strategies and has partial economic autonomy since the presence of economic link with the other affiliates. Otherwise the BM of the entity is totally dependent on the BM of the wider business group.

The two case studies have shown that although some legal entities are economically autonomous they have BMs that are de facto directed by the parent company that exercises the management and coordination activity over those legal entities. Undoubtedly this allows the parent company having an overview about the possibility of activating the synergies of the business group.

These aspects lead at least the following considerations for what concern the financial reporting:
Within the group the financial statements of a reporting entity (i.e. a subsidiary, a sub–group or a group) can express: 1) the full effect generated by the reporting entity’s BM, as such entity is independent of the others; 2) only a part of the effect of the BM of the group as its activity present interrelations with that of other entities, and 3) the effect of the BMs of multiple entities, as is the case when the consolidated financial statements contains the results of multiple independent entities.

As a consequence, the effort to study the relationship between BM and financial performance could be strongly biased if the boundaries of the underpinned economic entity are not clearly defined;

Contrary to what is expressed by IFRS 10 the group is not always a “single economic entity” from the economic point of view. Indeed, the consolidated financial statements (or a sub–consolidated financial statements) may express the results of: a sub-economic entity; an economic entity in its own right; or more economic entities. Therefore, the economic entity mentioned in the IFRS 10, for what concern the consolidation, is an entity that sees its boundaries drawn by the concept of power to control.

From the list above it emerges the importance of the segmental reporting to describe if and why the BMs within the group are autonomous or dependent each other, and consequently the way the system effect of the group create and capture value. Thus, it arises the need to study the BM of pure holding companies and the different effect that the management and coordination activity over their subsidiaries can generate on the group’s ability to create value. Indeed, the belonging to the group can increase the capacity by the group, and by the single subsidiaries, to create and capture value. The disclosure of the links between affiliated-companies’ BMs allows both investors and managers to better understand the synergistic effects that the group can achieve. From our analysis it is emerged the inability of the financial reporting to clearly understand the boundaries of the affiliated company’s BM.

In some cases, business groups seem refusing the possibility to achieve the system effect through the direction and coordination activity of the parent over its subsidiaries. Indeed some subsidiaries declare to be not directed and coordinate by their parents. It may depend on the pyramidal group structure of those groups. As argued by Di Carlo (2013a), it can be perceived a “higher risk of expropriation in the case of both a high separation between ownership and control, and a centralized direction activity by the parent company at the top of the pyramid”.

Thus the tendency might be to bring out a certain degree of autonomy of the BM of listed subgroups, perhaps because the benefits that may arise from the fact of highlighting a strong integration between BMs could be overcome by the scepticism of investors in relation to the risk of expropriation. In fact, the value that a subsidiary (or a sub-group) may create through its BM could be tunnelled, using related party transactions, where it is more convenient for the dominant shareholder, damaging minority shareholders.
(Almeida and Wolfenzon, 2006; Facchio and Lang, 2002; Claessen et al. 2006). It is confirmed by the fact that the effect that group affiliation may have on affiliated financial performance is controversial (Chang and Hong, 2000; Khanna and Palepu, 2000a, 2000b; Khanna and Rivkin, 2001).

We can assume that the negative consequences of not using the directing activity of subsidiaries to achieve the system effect of the group may be counterbalanced by the beneficial effect in terms of reduction of the degree of expropriation perceived by the minority shareholders and of the cost (share price discount) associated with their sceptical reaction.

In addition, the related parties of the group (i.e. the affiliated–group companies) “may enter into transactions that unrelated parties would not. For example, an entity that sells goods to its parent at cost might not sell on those terms to another customer. Also, transactions between related parties may not be made at the same amount as between unrelated parties” (IAS 24, § 6). Moreover, “The profit or loss and financial position of an entity may be affected by a related party relationship even if related party transactions do not occur. The mere existence of the relationship may be sufficient to affect the transactions of the entity with other parties. For example, a subsidiary may terminate relations with a trading partner on acquisition by the parent of a fellow subsidiary engaged in the same activity as the former trading partner. Alternatively, one party may refrain from acting because of the significant influence of another – for example, a subsidiary may be instructed by its parent not to engage in research and development” (IAS 24, § 7).

Our analysis highlights that the transactions among affiliated–group companies might be perceived negatively in the case of those companies have autonomous BMs. Where the dominant shareholder has higher incentive to extract private benefits, because of high separation between ownership and control, and it is more difficult to justify RPTs with the interest of the group (because of the low interrelations of the affiliated companies’ BMs), dominant shareholder tends to show that the group is not managed as a single economic entity and to do not carry out RPTs among firms that do not present clear economic links (Di Carlo, 2013b). Thus, even if corporate group hierarchy could perform more efficiently than is possible through the market governance of transactions (Coase, 1960; Williamson, 1985), controlling party may find it convenient to deny that the group is managed as a single economic entity because of the cost associated with the sceptical reaction of the outsiders.

Thus the financial statement should better disclose what are the advantages, if any, that transactions between affiliated–companies have on the BM of the group. That disclosure may be seen as a control mechanism, as a disincentive against the opportunistic behaviour of the controlling party.
Finally, future research should investigate the relationship between the corporate governance variables (e.g. separation between ownership and control, subsidiary board autonomy) and the boundaries of the BMs. Moreover, scholars should analyse how conducting the business with more than one legal entity can affect the BM and so the ability to create and capture value.

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