Family Governance Perception In A Small Tour Bus Company

Percepção da Governança Familiar em uma Pequena Empresa de Turismo Rodoviário

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Joclenes Emilio Diehl
joclenes@hotmail.com
https://orcid.org/0000-0001-7355-6841

ABSTRACT

This work was created to better understand how family governance, a relatively new subject, applies to small family firms. Family firms have significant importance to the economy and employment. The research question adopted by this study is: how family governance influences small family companies in the transportation industry? An in-depth interview was done with the owner and manager of a small tour bus company in Americana, São Paulo, Brazil. It was found that the firm doesn’t adopt the common governance mechanisms, and much of the relations are dependent on the trust and the behavior of the family members, the study points out that some of the family governance mechanisms could have positive impacts on the studied company and others.

Keywords: corporate governance, family governance, family business, tour bus company.

RESUMO

Este trabalho foi desenvolvido para melhor entender como a governança familiar, um tema relativamente novo, se aplica a pequenas empresas familiares. Empresas familiares têm significativa importância na economia e no índice de empregabilidade. O problema que esse estudo buscou responder foi: como práticas de governança familiar influenciam pequenas empresas no setor de transportes? Para isso, uma entrevista em profundidade foi feita com o dono e gerente de uma pequena empresa de turismo rodoviário de Americana, São Paulo,
Brasil. O estudo encontrou que a empresa em questão não adota mecanismos de governança, e muito dos relacionamentos depende da confiança dos membros da família controladora. A adoção de mecanismos de governança corporativa e familiar poderiam gerar resultados positivos para a empresa em questão e outras do setor.

**Palavras-chaves:** governança corporativa, governança familiar, empresa familiar, empresa de turismo rodoviário.

**INTRODUCTION**

Many of publicly traded companies are family-controlled, like the United States companies Du Pont, Ford Motors, Walmart, and The New York Times (Bennedsen et al., 2015). In Brazil, large companies like Magazine Luiza and the TV channel SBT are family owned, and for a long time, the retail supermarket Pão de Açúcar and Casas Bahia were family owned and controlled. This article will focus on the passenger transportation industry, where the same scenario applies, like the public airlines GOL and Azul, which still have strong family participation in the decision-making, or the conglomerates of bus companies, like the Belarmino’s group and the Cometa organization.

Based on that, it is an opportunity to understand how best practices in corporate governance for family businesses can help them succeed and harmonize the objectives, so all, owners, managers, stakeholders, and the company itself can achieve their goals. Governance practices may be adopted by large and small organizations (Gnan et al., 2015), with adaptations, and in both cases can be used to reduce conflict of interests.

The main objective is to determine the benefits that the family-owned company in the passenger transportation area has using the best practices on corporate governance; and the minor objectives are: in what context a family firm adopts corporate governance practices and why and what are the challenges, benefits, and disadvantages on the adoption.

This work justifies since family-owned businesses are the majority of business organizations in Brazil and other countries, and form a significant portion of the countries’ gross domestic product (GDP) (Gnan et al., 2015; Gómez-Mejía et al., 2007; Minichilli et al., 2016), besides employing millions of people, and forming a valuable source of products and services for the wellbeing of their customers. Unfortunately, some of these companies shut down due to bad management, bad governance, family and owners’ dissidences, and
incompatibility of the owners’ personalities with the company goals.

The methodology adopted was a case study, developed thru an in-depth qualitative interview, with the owner of a small business company that does not use corporate governance practices. The interview focused on governance issues that the firm may face, why they have not adopted the practices yet, and the company’s characteristics. The case study was performed at a company that is part of an industry, little explored in the academic literature, which is called Brazilian Passenger Transportation.

The research question of this study is based on is: what are the influence and perceptions of corporative governance over a family business on the passenger transportation industry? The case study was useful to provide insights into how corporate governance can help business management and reduce conflicts.

It was found that the company studied does not adopt formal practices of governance but faces situations that could be voided through governance mechanisms. Although the size and financial capability of the firm are the main reason for not adopting it, if they did, it probably could help reduce some issues currently faced.

1. THEORETICAL REFLECTIONS

1.1. Corporate Governance

In the early 1990s, in England and the United States, the term “Corporate Governance” was adopted in order to dictate the rules of the relationship between controlling shareholders, minor shareholders, and administrators. Corporate governance is the system that allows the shareholders to monitor the executive actions, using mechanisms like an administrative council board, independent auditing, and fiscal committee (Zani et al., 2010).

Governance is useful to provide a purpose or mission for the people in an organization (Davis, 2015). For Brenes et al. (2011), corporate governance is useful to organize and guide the management structure and the business and ownership management, it comprises the top management team, the board of directors, and the stockholders. Corporate governance can work on large firms and Small and Medium Enterprises (SMEs) too (Gnan et al., 2015).

The basic principles of Corporate Governance are Disclosure or transparency, the wish to inform the stakeholders; Fairness or equity, fair treatment of all shareholders and
stakeholders; Accountability, to make available the results of their actions in a clear, concise, and understandable way; and Compliance or Corporate Responsibility, the executives should care for the financial viability and to increase the positive effects and reduce the negative effects of the operation (Instituto Brasileiro de Governança Corporativa [IBGC], 2015; Goh, 2008).

The board characteristics and selection of members vary depending on the country or the company (Brenes et al., 2011). For Davis (2015) governing will mostly require: 1) a shareholders’ council and annual meetings; 2) a board of directors and 3) a family council.

Corporate governance is useful to create mechanisms to avoid or reduce management for the self-interests of a few, and it also may handle or reduce family disagreement problems and principal-agency issues.

1.2. Family Governance

A family business is created when a group of people connected thru a kinship owns the greatest portion, controls, or manages a company (Brenes et al., 2011; Suáre & Santana-Martín, 2004). The Institut fur Mittelstandsforschung (as cited in Siebels & zu Knyphausen-Aufseß, 2012) defines family businesses as an organization with a maximum of two families holding at least 50% of all shares and at least one shareholder serves as an executive, or if until three families hold at least 50% of all shares, and no family member serves as an executive. According to Machado Filho et al. (2016), the family business is an organization that the control is under family members. Siebels & zu Knyphausen-Aufseß (2012) say that 95% of all German companies can be considered family businesses. They generate 41.5% of all sales and are responsible for employing 57.3% of all people.

According to Matzler et al. (2015), family companies have a distinct nature that includes specific advantages and disadvantages, and its heterogeneity of ownership, management, and governance impacts activities like innovation.

Family firms are distinct since the relationships are based on family ties, that are intended to last. The family group influences the ownership, governance, management, succession, strategies, objectives, and structure, so the goals and values of the family are transferred to the organization, and vice versa (Suáre & Santana-Martín, 2004).
Minichilli, Brogi and Calabrò (2016) point out that the Family controlled Italian publicly companies performed significantly better during the Economic crises, over the period 2002-2012; while San Martín-Reyna and Duran-Encalada (2012) argue that whether family firms have superior performance is controversial.

According to Machado Filho et al. (2016), governance is related to how power is shared and delegated as well as the interests are aligned, and when family members act as owners and managers, the governance problem is amplified. For Steier et al. (2015), Governance is recognized as a determinant in an organization’s success or failure, and family governance has a unique dimension to governance, to ensure that the actions of the stakeholders are consistent with the goals of the dominant coalition.

Family firms exist all over the world, but are highly different one from another, due to (Steier et al., 2015): Heterogeneity: family firms can vary in terms of family involvement in ownership and management and other features; Dispersion in goals: The family influence or control over governance increases the challenge; Multiple stakeholders: Family firms may have multiple stakeholders, with different organizational identities and desire to control and influence, and even more complex when owners and managers come from more than one family; Dispersion of capital: to Machado Filho et al. (2016), unless the organization perishes, it will face dispersion of capital over succession, what would make the governance problem more complex if investors try to equate right for decision and profits.

Potential advantages for family businesses are greater organizational commitment and a long-term orientation, but they may carry potential risks, like risk aversion, and impeding economic growth (Gómez-Mejía et al., 2007). Family governance depends on authority in terms of ownership and management. Authority tends to be centralized and the ownership concentrated so the pressure for transparency and disclosure is small (De Massis et al., 2016).

For Brenes et al. (2011), professionalization of the board of directors (BoDs) is very important to ensure business continuity, which may face a conflict between the family’s other shareholders’ goals, the controlling family may prioritize the family goals, that can be different from the non-controlling owners (Memili & Misra, 2015). Family ownership and management can increase company value, due to the vision on lengthy tenure, long-term projects, and reputation concerns. On the other hand, mechanisms to maintain family control or to preserve socioemotional wealth can negatively influence firm performance and adopt a risk aversion
Family socioemotional wealth has different forms, like exercise of authority, feeling of belonging, the perpetuation of family values, and the dynasty or family’s social capital, so, losing this socioemotional wealth, would imply to fail the family’s expectations (Gómez-Mejía et al., 2007). To deal with these conflicts is important to understand the principal agency theory.

1.3. Principal Agency Theory

Governance mechanisms are also important to reduce the impact of conflicts within the firm, which also occurs in family firms. One example of a conflict of opinion is between the founders and well-studied descendants (Li et al., 2016). Dow and McGuire (2016) argue that close ties among family members may alleviate conflicts between shareholders and managers and reduce agency costs.

Decision makers often face situations in which their goals may be different, or the opposite to the goals of the owners and different stakeholders, and this situation may also happen in family-owned organizations. Principal-agency problems in publicly traded companies are different from privately held firms, in which families use to have relatively more ownership participation and representation on management and board. Families also tend to hold family-centered objectives, which may not be the same objectives of the other shareholders, so controlling owners may treat family members exclusively, limit innovation, avoid diversification, and restrict dividends or expansion (Memili & Misra, 2015).

Family owners may be driven to noneconomic goals of control, which can include preserving family harmony, identity, dynasty, social capital, reputation, and altruism. The achievement of those goals generates societal wealth for the families and sustains their intention to control. Similarly, they may be risk avert, sacrificing potential growth for security, which clearly causes a conflict of interest with other stakeholders (Memili & Misra, 2015).

Family-controlled firms tend to have better results than non-family businesses. Also, reducing family ownership has an important role to reduce agency problems (Suyono, 2016). In a family-controlled company, managers may be more dedicated to long-term success (Minichilli et al., 2016), because they use to care about the company’s success as much as their professional and personal growth, what may not happen when executives are not part of the family: some may seek fast but not lasting results, instead of slow and solid growth, because
their bonuses would be greater and would be received faster on the former than on the latter.

That is a serious agency problem like what happened at the Brazilian Food Company Sadia S.A, which lost R$2.4 billion investing in derivatives (Zani et al., 2010). This situation, that only happened because the executives were more worried about fast than long-lasting results, which tend to be reduced in family-controlled businesses, but they are not free from it as well. Members of the family may disagree about several points that would impact performance.

As pointed out by the Principal Agency Theory, family firms may generate critical conflicts that, if not well managed, may jeopardize the firm survival. Governance mechanism can be used to handle and reduces its impact.

1.4. Governance Mechanisms

Governance mechanisms are classified into two sets (Pindado & Requejo, 2015; Suáre & Santana-Martín, 2004):

- **External**: Stock markets, the legal/political/regulatory system, and the markets; and

- **Internal**: Board of directors (BOD), the ownership regime, debt structure, and bonification politic.

This work focuses on internal mechanisms. Governance mechanisms are useful at the family level as well as for the firm, as it focuses on family and business relationships, it may be used to protect family intangible assets, like unity, trust, and values, and tangible assets, including company ownership. The most important family business governance mechanism is the family council, which has two principal tasks: design and manage the relationship between family and business on the controlling generation and planning the family-firm relationship for succession. Family council may partially replace the shareholder’s meeting and the BoDs monitor and control role (Gnan et al., 2015).

The BoDs is useful to control and mitigate moral problems (Goel et al., 2012). The directors, that should be elected by the shareholders, should control the Executives’ work, and defend the investors’ objectives. The best scenario is when the board is only composed of independent advisors (IBGC, 2015), which is positively associated with transparency and
agency problems, but its financial performance is still uncertain (Goel et al., 2012).

Outside directors or concealers may limit a family leader’s behavior to favor the family goals to the detriment of the business goals, may help increase group effort and motivation, and plays a vital role by protecting the firm of asymmetric altruism and managerial opportunism (Goel et al., 2012).

Another important aspect is trust, for Goel et al. (2012), families’ bare trust relationships, which reduce the need for monitoring, but family relations have a dark side that may imply the creation of governance mechanisms to limit detrimental behaviors.

Besides family councils, there’s a wide range of governance mechanisms that can be used to reduce conflicts in family firms: family assemblies, family councils, shareholders’ or owners’ councils, family constitutions, and shareholders’ agreements (Villalonga et al., 2015).

Family business governance may also present disadvantages: family business firms have a greater culture of hiring per nepotism than other firms, which does not guarantee the best-qualified candidates. Also, when a family member uses his/her status to participate in firm management, the non-family employees will perceive unfairness (Li et al., 2016).

2. CASE STUDY

2.1. Methodology

This research was conducted using a case study, developed thru an in-depth qualitative interview, with the owner and manager of a small business company from the bus tour company industry that does not use corporate governance practices, to validate if the practices listed by the theory could solve, or help to deal with, problems faced by the company.

A case study is a useful method for understanding the organizational or social phenomenon, so it is frequently used in the Administration research area (Yin, 2001). It is an appropriate method in this situation since family businesses and governance are complex scenarios.

2.2. DecDil Turismo Ltda.

To analyze if the theory applies to the management of family business companies in the
passenger transportation industry, the owner and manager of the small-sized bus tour company, DecDil Turismo Ltda., from Americana, Sao Paulo, Brazil, was interviewed. The company acts in two segments: regular transportation of employees to other companies; and tourism, when someone gathers a group of people to travel; and hires the bus company for the one-time and customized transportation.

The company is owned, managed, and controlled by the owner and his wife and was founded in 2002, after a split of another bus company when a few disaffections with his brother-in-law ended the society.

When the company started its operations, it had 5 buses, that were received from the previous company split. It achieved some growth, first in size, partially forced by the regulation, reaching more than 10 vehicles, but after losing one important customer, the company decreased in size but still improved the quality of its fleet. In 2020, it has 4 buses and 1 microbus in operation, plus two vehicles sub-used and with old age for regulation, so they are just announced for sale. Currently, the company is facing difficulties in the economic and Coronavirus crises, with the reduction in Tourism, and mainly the cancellation of that industry’s clientele. The company employs 3 drivers (1 family member), 1 mechanic, and secretary, and two owner-managers (the three family members).

The owner-manager classifies his business in a mature stage, and he supposes his company is a little behind to its competitors when it comes to financial performance, due to its size, although he says that the company is not pursuing radical growth now, since increasing the business he thinks it would generate further complications.

The owner mentioned that the company profited enough to buy three new buses, which is important since the residual value of a vehicle with more than 20 years of its manufactory often does not cover 5% of the price of a new vehicle, even when the vehicle is in a good situation. None of the owners has any salary or profit from the company, and its earnings are used, mostly, for salaries and its own maintenance. Despite of the mentioned situation, the owner says the correct would be for a family receives profits from its business, and some effort should be done to fulfill the concerns of both, family, and the business.

The company does not have a formal strategy or a common vision shared by all members of the family, nor formal plans for succession or retirement of the owners.

The decisions are made by the couple, and there’s no process or formal flow for that,
usually, the owner checks what is needed, or searches for clients and informs the others. He says it is more frequently that he makes decisions, but he asks for an opinion.

According to the owner, when a conflict raises, they ask for help, such as for his brother who works as a driver for the company, and tries to find a solution. He jokes that, although he decides more frequently, the final decision on important questions is made by his wife, since she is responsible for the financial management. Communication is also not always respectful.

The firm owner never had heard about corporate governance and family council. He knew about the board of directors, but the company does not practice any of them. On the other hand, by listening to the definitions, he thinks that the practices could be beneficial to the company, bringing improvements and better results, especially the family council, that would help to separate the business issues from the family, and avoid discussing work at home, so it would bring more quality of life to them, and better results for the company, since the decisions would be made on a proper environment for the discussions. The owner also says that family relations problems never influenced the company’s performance.

When asked if the mechanisms could have helped during the split, the owner confirms that, because the split of regular services was unfair.

When asked if he would prefer to hire someone from kinship, he disagrees, but he did it before. The reason for this is that it is easier to talk, to ask, and, eventually, to fire, so he would rather hire someone who is not part of the family today. On the other hand, he does not see much difference in the work performed by people within the family, compared to outsiders. Also, he says that when it comes to a son or a daughter, he would give preference to hiring them, despite the availability of more competent professionals.

He admits that may exist differences in the treatment of family employees, with other employees. The personal and professional issues may be mixed, but he does not approve. When an employee is within the family, it is always more complicated to deal with, when it is needed to communicate, he always thinks about what implications would cause to the family’s harmony, while the same issue doesn’t occur with non-family members.

But he does not think that may exist unfairness or demotivation based on the different treatments. He supposes that the company could have better results if it was managed by outsiders because in such case the dedication to promote the company would be charged from the managers, while in the company now, no one leads this task, and everyone hopes somebody
else will take that responsibility. The owner also does not think that a family company would have a greater inclination to the long-term for being familiar, he does not think the people have that passion for the longevity of the company.

The owner also does not think that managers from the family may contribute more than outsiders, because of his experience at the previous company: when his nephews took on leading positions at the company there was an inflation of salaries and the decisions became more complicated, since there were inputs from different sources.

On the other hand, he believes that a manager from outside may be positive because he/she will be charged for the results, not being harmful to the family harmony, and eventually can be fired for negative results. The same situation would not happen on the previous company, since he couldn’t fire the son of his associate.

At DecDil, all the leading roles are performed by the owners, and they ask advice for the secretary daughter, and in some cases, for the driver brother, who is also the employee who worked for the company the longest period. He says he would not hire a manager from outside of the family, because the company does not have the financial capacity to pay for it, except if this person would bring a portfolio of clients.

In the previous company, they had an accounting, not part of the kinship, but he did not approve his work, because, since he was hired by the other associate, the owner felt he worked only for the other associate’s interests.

A positive side of working with family, according to the manager, is trust. He says he does not need to worry, mainly when delegating financial responsibilities, to family members, but he worries when the responsible individual is an outsider.

When questioned if a personal goal already was put in front of the growth of the business, he says it is not common, since everyone wishes for the company’s growth, but it already manifested: once his wife decided to fire a driver because he was annoying, even though he was not a bad employee. Also, there is a client that is not easy to work with, and the secretary provides him bad treatment, although he is an important customer to the company. This kind of situation, although rare, manifests some decisions or behaviors based on personal feelings, like pride, instead of rationality of the best contributions to the company’s success.
3. RESULTS AND DISCUSSION

By analyzing the case study, the firm in this study is a family business (Brenes et al., 2011; Machado Filho et al., 2016; Suáre & Santana-Martín, 2004). 57.1% (4 of 7) of the members of the company are connected through the same kinship. The company had some growth since its beginning, but it faced a lot of challenges, mainly due to economic instability, also present in the tourism and transportation industry. Since the company is small, and 100% owned by the owner couple, many mechanisms do not apply, the company only provides information for third parties that are required by law, but some mechanisms could be useful.

The interview shows that the first company, before the split, was also a family business, and had governance problems that resulted in bad communication, unclear responsibilities, and conflicting objectives. When his brother-in-law hired his sons, all of them with lead roles, the right to decide, and an equivalent salary, it demonstrated a flaw in the governance and a conflict of interest (Li et al., 2016; Memili & Misra, 2015).

A possible solution for such case is when the son first works for another company, and once he had demonstrated experience and performance, he is hired for the family company. It also should have had a clear bonification politic, to encourage all the managers to work for results.

Also, during the split, governance could be useful to bring fairness to the process (Brenes et al., 2011; Gnan et al., 2015). Some internal mechanisms like the ownership regime and a board of directors, could had helped everybody work first for the company’s objectives, instead for their own, and the split should had been done to achieve the goals of both associates, preferably conducted by an independent consultant.

The company could also benefit today from governance practices, such as by adopting the family council (IBGC, 2015), the owner himself admitted that it would bring more quality of life by avoiding talking about work at home. It also could bring better results, since all problems would be dealt within the proper environment and time.

Another important contribution that the governance could bring to the company is decision making, since they do not follow any flow. If it had a process, it could bring more security about the decisions made. Also, even though he says the outsiders do not feel injustice on the treatment gave to them compared to the family members, a clear statement about how decisions are made, salaries and incentives are paid, and employees are hired, could reduce the
possibility of such issues being raised.

The owner also said that family members have some advantages, like trust; but also presented some disadvantages, like a difficult to demand or correct efforts, which is in accordance with Goel (2017). Not having succession and retirement plans are also potential issues.

If the company was seeking expansion, it would demand stronger family governance practices, but even if it is not pursuing radical growth now, it could benefit with it, by reducing conflicts by bringing more fairness and impartiality on the conflicts and issues.

4. CONCLUSION

This work was useful to have a closer look at how corporate governance applies to family businesses, how they are related, and how they can be useful. It was noticed that, although family governance is a subject more common in large companies, it also applies to small companies, and can be promising, avoiding conflict issues, helping the management, and preparing to succession or, eventually, merge, acquisition or split.

The case study helped to see how a small family company has problems related to conflicts and personal behavior, that could be reduced with governance practices, like the family committee. Plans for retirements and succession also could avoid conflicts that could harm the family and the business sustainability.

Future research could be performed considering companies that do adopt formalized governance practices, to check if, and in what intensity the same issues occur.

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