NEW AND OLD BRAZILIAN FAMILY BUSINESS ARRANGEMENTS AIMING PROFESSIONALIZATION AND GOVERNANCE

TRACK: Entrepreneurship and Family Business

ABSTRACT

Aiming to understand the complexity of the succession process, professionalization and structuring of governance in family businesses, a qualitative survey was held through case studies, which analyzed two large and longstanding Brazilian family businesses. The results indicate that the companies made progress with regard to professionalization and definition of parameters to guide the succession process. With regard to governance, different choices were made: one aims to regulate policy and power issues in the family and in the business; the other aims to implementing a corporate model.

Keywords: Family businesses; Professionalization; Governance

1 Introduction

Family businesses are of great importance worldwide. In Brazil, it is estimated that over 75% of operating companies are family owned and are accounted with over 50% of the Gross Domestic Product (GDP), being responsible for over three quarters of job positions (Mussi *et al*, 2008). Despite the expressiveness and relevance of family businesses, the research on this topic is recent in Brazil and has great potential for theoretical advances, especially if supported by longitudinal and compared studies (Borges, Lescura and Oliveira, 2012).

The family business has some antagonisms which make it a very peculiar form of organization. On one side there are values, motivations and policies, trampled on substantive rationality; on the other there is market orientation, guided by an instrumental rationality (Silva and Oliveira, 2008). In addition to the complexity inherent to business issues, managers of family businesses need to keep the tradition of the clan, while new members are incorporated to the company; they need to preserve the ethical values of the family owning the company, but also worry about the generation of resources necessary for the survival of the business, the remuneration of managers and the return to the owners.

Several issues are mentioned in specific literature as problems that contribute to making the management of these companies complex, among which Lansberg (1999) notes the founders' reluctance to delegate; rivalries and family problems that transcend borders and affect the business; political crisis that split the family into branches with different views and often, the resistance of the older leaders to step down and redefine their positions in the organization.

One of the most exciting and current topics relates to the understanding of how family businesses face the dilemma of the passage of time; when the company grows, the family becomes more numerous and the ownership structure changes.

Succession processes often require the implementation of more structured governance mechanisms, with the objective of providing the necessary support for fundamental changes in the organizational and asset structure and in the company's strategic process. In family businesses, governance assumes the role of shielding family influence on the management of the company very strongly and its structuring usually occurs when a succession process is near or already underway. The creation of mechanisms of governance and its relationship with the succession process should be able to contribute to the longevity of the company, to its professionalization process and to assist families in understanding their new role in a company different than the one founded and managed by the previous generation (Oliveira, Albuquerque and Pereira, 2012; Grzybovsky *et al*, 2008).

In an attempt to understand the complexity inherent to these projects and to contribute to the field of research in the area, the present study was developed with the aim of analyzing the process of implementing professionalization and governance strategies in two large Brazilian family businesses, one founded more than 140 years ago and the other founded 60 years ago. In the first company, six succession processes have occurred and in the second two have been completed and a third succession process is being prepared. Both companies are publicly traded and integrate different levels of corporate governance in Brazil. In one of them a longitudinal study was carried out, since the data was collected in 2007 and then later in 2013, which enabled to analyze issues relating to succession and evolution of the process of professionalization and governance of the company over the past seven years. The characteristics of the companies analyzed, allied to the conduction of a longitudinal study allowed this research to deepen very relevant aspects concerning the several possibilities that family businesses have in the effect of combining strategies on what they perceive to be the most rational choices to guide their processes of succession, governance and professionalization.

This article is divided into four sections, including this introduction. In the next section the aim is to bring out the state of the art of this field of study in topics related to professionalization and governance of this particular type of organization. Subsequently, the methodological approach of the research and the analysis of the cases studied are presented. In the last section we present some conclusions that the cases studied enabled us to delineate as well as implications and possibilities for future studies.

2. Professionalization and governance in family businesses

The concern with the professionalization of organizations, more broadly, appears already in the formulation of the principles of bureaucracy. In the rational-legal perspective, professionalization is linked to the figure of the professional administrator, referring to the idea that ownership and management should be disconnected to allow the rationality and impersonality of decisions. Most studies on family businesses mention the issue of succession and management as key elements for the survival of these companies and empirical studies thoroughly report situations in which problems in these dimensions brought serious and even fatal consequences to the companies.

The issue of professionalization of family businesses can be seen in the perspective of five theories (SONGINI, 2006), directly or indirectly addressed. The agency theory and the company growth theory consider the professionalization of the business as relevant and positive, while the stewardship theory, a resource-based view and the theory of organizational control attribute survival to other factors which are not necessarily the professionalization of management.

The agency theory considers the implementation of governance mechanisms and control systems as a way to align the interests of owners and managers of the firm (Jensen and Meckling, 1976; Williamson, 1981). The professionalization of the company thus appears as a way to separate the interests of the organization's management through three types of control: external, behavioral and strategic. The agency problem is reduced in family businesses whose capital is highly concentrated in one owning and managing family. However, in family businesses where capital is diluted into more owning families, and even more so, on those who go public, the agency problem appears in a more severe form. Family conflicts, difficulties in the succession process, centralization of power, lack of governance mechanisms, external distrust in regard to the transparency systems and openness of the company's information, among others, are factors that tend to inflame the agency conflict and reduce the company's attractiveness on the market. Concentrated ownership structures such as those that prevail in Latin America generate agency conflicts particularly in relation to majority and minority shareholders, often favoring the established association that family businesses are inefficient. The professionalization of the company, under the aspect of separation between ownership and management, coupled with the implementation of mechanisms of governance and planning and control systems, thus appear to be important alternatives for the company. This commonly occurs when there are growth prospects, size is an important variable and there is an intention of going to the market to raise funds.

In the company growth theory, there is the discussion about the existence of life cycles that constitute a process that goes from the emergence of the company until its maturity. The existence of management, planning and effective control systems is essential to support the growth process of firms until the formation of large companies capable of competing in complex environments. From certain stages onwards, companies would demand more professionalized forms of management, more organic structures, more elaborate control systems and decentralized decision making processes. The adoption of governance and professionalization mechanisms, therefore, would be the stages of the growth and maturity process of family businesses, necessary to enable its entry into a new life cycle (Churchill and Lewis, 1983; Dodge and Robbins, 1992).

The stewardship theory considers that managers have a high degree of commitment and involvement with the company and seek the achievement of organizational goals above their personal interests (Davis et al, 1997). In the case of family businesses, this would apply in a particularly important manner, because of the existence of four elements capable of reducing the agency conflict: (i) the creation of a strong family history, language and identity; (ii) the creation of a collective sense of belonging; (iii) the reduction of information asymmetries between family members and; (iv) the creation of a unique capability of loyalty and commitment to the strategic goals, with performance and with the company's long-term prospect. Thus, alignment of ownership and control is able to produce unique benefits to the family business, reducing the need for more formal controls, strict governance mechanisms and, therefore, the professionalization of the firm (Davis et al, 1997). Although this perspective raises reluctance by the almost naive arguments of overcoming vested interests in the name of organizational objectives, attention should be directed to the fact that much of the theoretical argument that appears in the justification of the relevance of family business in the economic context is sustained in the four arguments cited earlier as being capable of reducing the agency conflict. The presence of these elements itself does not ensure the survival of the family business, but its absence severely compromises its continuity.

The Resource-Based View (RBV) developed by Barney (1991) considers that the resources and capabilities (economic and non-economic) developed by family businesses can provide unique resources represented by the emotional involvement and the way of communication of family members, factors that translate into competitive advantages for those companies. The major issue associated to RBV is the operationalization of these variables. Thus, some issues should be subject to specific empirical research, such as: What are the unique skills and capabilities of a given family business? How to identify and develop such capabilities? How to transfer this knowledge to new generations when new skills must also be developed at the same time? (Songini, 2006). If the comparative advantage of family businesses is exactly the specific capabilities found in this type of organization, then the professionalization via implementation of more formal mechanisms of governance and professionalization by the admission of external members may prove to be inadequate for these companies.

Some researches confirm superior performance of family businesses which ultimately can be related to the existence of comparative advantages (e.g., leaner cost structures, faster decision making, greater involvement of managers, long-term prospects and others). Other studies show that a lower external trust in relation to the structures of these companies (management, financial, accounting and others) increases transaction costs, which repeals the comparative advantages that may exist due to being a family. Furthermore, other studies show that although some characteristics that translate into competitive advantages must be retained, in other aspects the family business should move forward, particularly in the adoption of planning and control systems for identifying and working with the unique capabilities of the firm. Thus, although the RBV offers an interesting theoretical scope for discussion of the distinctive capabilities of the family business, it still requires many advances in the production of research to investigate specific aspects of these organizations.

The organizational control theory identifies three basic types of control: social, administrative and individual. The assumption that rules, plans, programs and incentive mechanisms that make up the organization influence the goals, how to plan and allocate resources and assess performance through bureaucratic or administrative control or through identifying the objectives, goals and values of the organization, enabling the control of the individual is part of the classical management theory (Child, 1972; Galbraith, 1977; Mintzberg, 2003). Individual control, on the other hand, is accomplished by spreading the philosophy, values and beliefs of the organization. The form chosen to exert control would then have a decisive role in choosing the most appropriate organizational structure. Different paradigms offer epistemological and methodological basis for conducting these issues and while the current functionalist advocates the implementation of more formal mechanisms, specific planning and control systems and structured governance models, other theorists believe that social and clan type control is more effective than bureaucratic control, since the formulation of strategy, decision making and power are coordinated by fewer people and more informally. In family businesses, traditionally, the controls are more informal and family values appear naturally in the organizational culture in a strong and explicit form. In this sense, excessive professionalization would bring more problems than advantages to these organizations.

The professionalization approach, taking as reference these theoretical perspectives, contributes significantly to the study of family businesses by enabling the approach of multiple aspects that are involved in the decision to professionalize the company, an issue that still has many obscure points. As observed and emphasized by Songini (2006), "it is a relevant issue to compare the dissemination, formats, objectives and rules of governance, planning and control systems in family and non-family businesses, as well as the degree of involvement of family members and external members in relation to the ownership structure, governance and control mechanisms "(p. 278).

The governance in family businesses can be understood as the creation of mechanisms to mediate family values and the objective needs of the company and balance the need for growth of the organization with different interests that characterize it as a family organization. The formal governance structure shows potential to regulate and assist the processes of succession, professionalization and IPO, at the time that family organizations face these needs (Oliveira, Álvares and Pimentel, 2008).

The implementation of governance mechanisms could, in theory, assist in the succession and professionalization process of family businesses, since it offers alternatives for the company to deal with problems that emerge in a particularly relevant form at that moment, such as changes in the ownership structure, the establishment of rules and agreements to minimize problems arising from disputes of interest, the structuring of boards and the separation of ownership and control of the company, among others (IBGC, 2011). However, it is worth noting a clear distinction between the terms "family business governance" and "corporate governance", which has been used in some publications as similar in meaning, when in fact, they are not.

The family business governance can be understood as formulated by Oliveira, Albuquerque and Pereira (2012), "the set of instances, practices and principles, formal or informal, disseminated within the family organization which consolidates the structure of power and guide the system of relations established between individuals belonging to the areas of family, ownership, and management. " Thus, the use of the term "family business governance" applies more generally, regardless of the company being public or not, to refer to the practices adopted by the company with the goal of reducing conflicts of interest which generally occur between the company and the family, between controlling and non-controlling shareholders, and between family members who participate in the management and those who do not participate or would like to participate in the management. Family business governance therefore aims to define the relationships between the family and the company, which implies, in most cases, in creating bodies, boards, agreements and rules to formalize the boundaries of these relationships. The objective is to "shield" the company from conflicts and crises which are fairly common in the family arena, although the existence of these mechanisms is not always enough.

In general, companies have sought to incorporate the so-called "good" corporate governance practices to meet the new demands of legislation and agencies for monitoring and regulating the stock market as well as the need to present themselves attractively to the internal and/or external market, on which they depend for funding. In the case of family businesses, there seems to be an interesting research issue here, which is to investigate how family businesses with concentrated ownership structures, with family characteristics and culture, simultaneously maintain their family condition while adapting their structures and practices to the requirements contained in the so-called "good" corporate governance practices.

One can assume that the adoption of principles of corporate governance can help family businesses - especially the large ones - to provide mechanisms that allow them to equate the relationship between minority and majority shareholders or between family and non-family shareholders (*fairness),* disclose accurate information in a transparent manner (*disclosure),* be accountable for its actions in a responsible manner (*accountability)* and accomplish compliance in meeting regulatory standards provided for by the statutes, regulations and legal institutions (*compliance).* However, reconciling the interests of the owning families with these requirements and structuring the decision-making bodies in order to meet the provisions of governance is a challenge and a risk that probably inhibits a significant number of family businesses to go public. In this work, we investigate exactly how some family firms have been facing this challenge.

3 The methodological approach

Regarding the methodology undertaken for this research, we chose a qualitative research approach (Flick, 2004; Denzin; Lincoln, 2006), aiming to understand the complexity of family businesses from their organizational phenomena. The study of two cases was used as a research method (Yin, 2005). Each case was developed and analyzed individually. Later, an inter-case analysis was held, with the aim of presenting the contrast of the results of the two cases, from the themes and categories of analysis established for the study. Importantly, this study considers the peculiarities of each case and it does not advocate its replication or generalization of results.

For this study, two Brazilian publicly traded organizations were selected. The main criteria that guided the selection of these two case studies was the phase in which both companies are experiencing in relation to professionalization and governance. The first case study selected was the company Randon S/A Implementos e Participações, founded in 1949, currently in the second generation of descendants of the founding members and operates in the area of equipment for the transportation of cargo overland, auto parts, automotive systems as well as financial services. The second case study selected was Companhia de Fiação e Tecidos Cedro e Cachoeira, founded more than 140 years ago, and currently in the sixth generation of descendants of the founding members.

Sixteen semi-structured interviews were conducted in the years of 2007, 2012, 2013 and 2014 with the family members who work or have worked in the surveyed companies, professional advisers and directors. As an additional source of evidence to the interviews, desk research was used, in reports and other documents such as digital mass media articles, company news, academic publications and information available on the *websites* of the surveyed organizations. In addition to using more than one source of evidence - interviews and documents - the triangulation of sources and researchers was also used. Cross-references were made between the information obtained from various sources and also from different researchers that were part of the Family Business Study Group who, in different times, conducted interviews in the companies surveyed, in periods of time ranging up to seven years since the first study was held, a fact that is quite rare in academic research.

The two themes that guided the research, as already stressed from the beginning of this paper, were professionalization and governance; from these themes the categories were defined, as shown in the following table:

THEMATIC AREA	CATEGORIES OF ANALYSIS
PROFESSIONALIZATION	Brief history of the company
	Changes in the role of the founding family
	Family values
	Family members *vs.* non-family members
	Strategic planning and management model

	Characterization of succession processes
THEMATIC AREA	**CATEGORIES OF ANALYSIS**
GOVERNANCE	Shareholding Structure
	Family governance mechanisms
	Governance structure
	Operating Structure of the Board of Directors
	Existence and function of the Committees
	Operating structure of the Executive Board
	Existence and function of the Supervisory Board and Audit Committee
	Existence of Codes of Ethics and Conduct
	Relationship with the various stakeholders
	Transparency and disclosure of company information

Source: Prepared by the authors

The collected data was analyzed by the technique of content analysis, which in the view of Bardin (2009), is characterized by the use of a set of techniques that aim, through systematic and objective procedures, to analyze the content of the information obtained, a process that was carried out with the following steps: (i) pre-analysis and exploration of the information collected; (ii) categorization of the material in thematic areas of research; (iii) analysis and interpretation of collected information. In the following section, we present the analysis of the two cases studied.

4 Analysis of the professionalization and governance process in the companies surveyed

Randon was conceived as a small workshop to restore industrial motors in the city of Caxias do Sul/RS, in 1949. One of the founders died in 1989 and left no successors, only heirs. Accordingly, Randon became a single family company, managed only by a branch of the Randon family. Since the 90s the company has been working on its succession, professionalization and governance process, creating a family control *holding* in 1995, to which it transferred the actions of the family, which allowed a clear separation between ownership and management. Currently, the holding company holds 40.7% of the control of Randon S/A, which has grown significantly in the last two decades, through reinvestment of profits as well as through funds raised from investors. This movement has impacted the ownership structure of the company, which has become more diluted with respect to the significant concentration of ownership which was previously held by the Randon family. In 2001, the company joined the first group of companies that composed the newly created level 1 of corporate governance of BOVESPA.

Cedro e Cachoeira, a family-controlled company, with 100% Brazilian capital, is currently the oldest Brazilian corporation and one of the main textile companies in the country. It was founded in 1873 by the Mascarenhas brothers, whose courage amazes everyone who knows the saga undertaken by them in the eighteenth century in order to carry the looms imported from England for over 500 kilometers, on donkeys, from Rio de Janeiro to the town in the state of Minas

Gerais where the company's first factory would be built. Today, the company is in the sixth generation of descendants of the founding members, who own 40% of the total share capital of the company.

Randon completed its first planned succession in 2009 when the founder passed on his position of chairman to his oldest son, a process that had begun its planning in 1997. The process is reported by the successors as having been a negotiated and consensual decision and that the transition was held only when the successor met the requirements established by the Family Council for filling the post. One more process of succession is likely to occur in the coming years, with the transfer of the presidency from older brother to younger brother, but it is already established that the next generations of the family will only act as shareholders in the Board of Directors level.

In the case of Cedro e Cachoeira, a very different arrangement was necessary probably due to the maturity of the company, the number of members that comprise the generations of descendants and the relations that have been consolidated among them. By virtue of shareholding dispersion within a large number of heirs, the company was faced with the fact that the family could lose control of the company, since many of these shareholders were already selling their shares to third parties. Thus, a Shareholders' Agreement was executed, which grouped shareholders into family blocks. Six family blocks accepted the agreement and six did not. This Agreement, as a whole, led to the resumption of majority control of the company in a dominant coalition, through the creation of rules for the sale of shares and the organization of internal relations that enable the rotation of power between families. This arrangement, however, brought a number of limitations to the company regarding the possibility of raising funds from the market, since a predominant family governance structure does not offer some of the preconditions demanded by investors. The growth of the company, therefore, follows a more conservative stance, primarily funded with own resources. The current family governance structure, although representing the possibility of internal reconciliation and maintaining family control, tends to become increasingly difficult to be changed to a model of corporate governance, since the advance of generations and the multiplication of descendants greatly impedes the negotiation process.

Both companies have made arrangements in their corporate structures, performing significantly different choices: Randon conducted its arrangements with a view to prepare the company to become an attractive corporation to the market; Cedro e Cachoeira aimed to design governance that would enable the company to protect and maintain family control. Randon has organized its corporate structure through the creation of *holdings* both with corporate as well as family purposes. The structuring of a corporate *holding* represented a highly complex operation and it took almost a decade to complete. Subsequently, a family *holding* was created, to which the shares of the family were transferred, an operation that proved to be the best alternative for the family to separate ownership and management of the companies comprising the Randon group and a benchmark in building a corporate governance structure.

The companies surveyed also presented advances regarding professionalization of their management positions, almost all of them exercised by market professionals. As the process of professionalization is consolidated, changes also appear in the form of participation of the founding family in the business. In Randon, in its early history, the founder concentrated most decisions, but in recent years the company has made progress in professionalizing management, making room for market professionals who work alongside members of the family. For the next generation, the objective is that no family member is to act in the company, only in the Board.

At Cedro e Cachoeira, the executive positions were occupied exclusively by family members for many years. With the growth of families and greater technical demands in relation to occupants of managerial positions, these posts are gradually being occupied by professional managers, although three of the six directors of the company are still family members. One of the major advances of the company towards professionalization was completed in 2013 when, for the first time in company's history, a professional manager who was not a family member took over as CEO. A major contribution of this process was the reinforcement of the idea that technical expertise should win over family ties in certain positions of the company, since after fifteen succession processes, conducted over six generations, a non-family member took over the most important executive position in the company.

To lead the process of choosing a chairman, an external consultant was hired. The six directors of the company, three family members and three non-family members, were potential candidates for the position. The hired company discussed the process with the company's senior management and chose to conduct the selection in three stages, namely: (i) tests and interviews to analyze the technical and professional capabilities of the candidate; (ii) preparation of a business plan for the company; and (iii) analysis, by the Board of Directors, of the business plan, the history of each one of them in the company and the candidate's profile, considering the needs of the position. The candidate chosen for the position of chairman was not a family member. After this process, a phase of transition initiated, with adjustments in the structure and preparation of the chosen candidate to take over as chairman.

Historically, at Cedro e Cachoeira, successions only took place in due to the death of company's chairmen and always raised power conflicts between families. The succession planning process only started to be held recently and was conducted only in the last two successions. The result of a long process, finally there was an agreement that it was not possible to accommodate more family members in executive positions and competence and professional experience should prevail over political and power family issues.

With regard to governance, the analyzed companies have also developed different mechanisms to operationalize the family governance. In Randon, the fact of integrating governance level 1, the high competition that it has faced since the 1990s, the process of internationalization of the company and the conduction of several businesses with foreign capital participation in group companies, are surely factors that required a significant evolution and professionalization of the company and improvement of governance mechanisms. In addition to creating the family *holding*, a Partners' Agreement, a Family Council and a *Family Office* were also implemented. The creation of a family control *holding* aimed to organize corporate matters, concentrating the family's shares within the holding and shielding the companies of the Randon group in the sense that any family conflicts do not interfere in the course of business.

The Family Council, in turn, was created with the objective of defining family relationships, establish succession processes, provide a forum for discussion and decision on issues such as career and mentoring of young family members, discuss decisions on new investments and provide financial support for the family's entrepreneurial activities. The *Family office* was created to support the activities of the family and it operates in separate premises. A Partner's Agreement, in which members of the second and third generations define the objective actions from which they undertake to maintain family values and preserve the heritage and family legacy.

In Cedro e Cachoeira, the family governance was organized around a Shareholders' Agreement, the terms of which aim to align the interests of around 250 shareholding descendants of the founders, divided into six main groups of control. The Agreement is monitored and regulated by the Shareholders' Agreement Committee, which was also created; in which members representing all families participate. These mechanisms allowed the company to shield the family control from the risk of pulverization of shares, which in the past resulted in an accumulation of shares by an external shareholder that was so high that it enabled this shareholder to participate of the company's Board of Directors. This fact, though rarely mentioned in the interviews but of public knowledge, certainly contributed to the finding that, when fragmented, families would lose the company and enabled the establishment of an agreement that sets rules for the trading of company stock and for the alternation of power, so demanded by the families owning this company.

Both companies joined the differentiated levels of Bovespa corporate governance in the early 2000s. Randon was part of the first group who integrated the level 1, in 2001 and Cedro e Cachoeira joined two years later, on the same level. The integration of differentiated levels of corporate governance can be considered as a factor that contributes to the advancement of professionalization and governance of a publicly traded company, as well as helping to improve its image in the market. Cedro acknowledges the need to make many advances that are even mentioned in the independent audit reports, especially in regard to composition of the Board of Directors, which is composed mainly by family members and the reduced presence of independent directors.

The governance structures of the companies surveyed present all the recommended levels, which are: Board of Directors, various committees, Supervisory Board and independent auditors. An interesting fact noticed in the analysis of Randon refers to changes made to the Board of Directors and the Supervisory Board, in recent years, mainly to meet the demands of blocks of minority shareholders, but with significant participation in the ownership structure of the company as for example, investment funds that hold about 35% of the company's total capital. Minority shareholders have demanded greater participation, autonomy and transparency from the Board of Directors and the Supervisory Board, in addition to requiring the appointment of independent representatives in these bodies. Here we see a typical situation that family businesses generally resist to face, which is the fact that by going public, they now have shareholders who claim to participate in the decisions of the company as a primary condition for the continuity of their investments.

The Board of Directors of Randon has five members: two are family members, two are representatives of minority shareholders and one is independent. In 2009 a separation was made between the roles of chairman of the Board and the company's CEO, but still, both positions are occupied by family members. No age limit was established yet for holding these positions and those interviewed mention the importance of this issue being defined by the Family Council. The Board of Directors of Randon appears to be consolidating as an important body of strategic decisions in the company, particularly in terms of the participation of minority shareholders and of the independent director and presents a concern in making the company attractive to the market and enable new fund raising in order to facilitate the process of growth and expansion.

The Board of Directors of Cedro e Cachoeira presents a family profile, since, out of its thirteen members, twelve are family members and one is the representative of minority shareholders. Family members are representatives of the six major groups of control that accepted the Shareholders' Agreement, and of the other block of descendants of the founders, who did not accept the Agreement. Members are nominated by the controlling group and defined by the Shareholders' Agreement Committee, based on the number of shares of the group, whose membership on the Board is limited to the age of 72 years. Recently Cedro e Cachoeira also made the effective separation between the positions of Officers and the Board and the Board of Directors, since most directors do not participate in the Board.

Cedro e Cachoeira presents serious restrictions on the participation of independent directors on the Board, as it believes that these do not hold the necessary knowledge about the business to allow them to decide on the future of the company, in addition to not being acquainted with the culture and relations of power that permeate the company. There seems to be a fear that an independent board member could shake the political and power arrangements that were so hardly reached with the Board's current structure.

In the case of Cedro e Cachoeira there seems to be a significant independence granted to the CEO by the Board, but this seems to occur more due to the fact that the profile of the directors puts them in a position of relative dependence on the proposals and actions of the executive. The Board thus exercises a role of "agreeing" with the decisions of the chairman instead of actually proposing strategic initiatives for the company.

At Randon, the relationship between the Board, the Board of Directors and operational areas is held in the Executive Committee, a body directly linked to the Executive Board, which discusses practices and processes and, together with the operational areas, elaborates the company's strategic planning. The creation of this committee was a strategy used to decentralize the power of the founder, in a phase of transition, to the members of the second generation, since in the beginning it was only composed by the Randon brothers. After a while, it began to rely on the participation of corporate directors and currently it fulfills a strategic role in the company. I addition to this committee, Randon has several other support committees, such as Operations, Human Resources, Marketing, Logistics, Quality, Technology, Social Responsibility and Safety that act as support bodies to the Board of Directors.

Cedro e Cachoeira also has several committees established. The strategic Committee of the Shareholders' Agreement, which somehow can be considered the most important body of the company, consisting of six members, is responsible for reconciling the interests of family members who accepted the Shareholders' Agreement, as well as to organize and define the formation of the Board of Directors, based on the percentage of shares of each controller block. The other committees are: Remuneration, Strategy, Audit, Risks, Assessment, Strategic Planning and Governance, but other committees are also created with specific purposes and deadlines. The main purpose of these committees is to assist the Board in important decisions, analyzing specific issues in depth in each area.

Also with regard to the Supervisory Board, different orientations appear in the companies surveyed. At Randon, the Supervisory Board is a permanent body created by a requirement of the minority shareholder, although its control is still exercised by the majority shareholders. Of the five tax advisers who make up the Board, three are appointed by the controllers, which contradicts the recommendations of governance bodies, highlighting the importance of autonomy and independence of the Supervisory Board.

Although Cedro e Cachoeira does not have a permanent Supervisory Board, it is reestablished (or not) every two years, at the time of the elections for the Board of Directors and the Executive Board, at the discretion of these bodies. In a particular period, when the Supervisory Board had not been established, the justification was that the audit would fulfill this role, which is not the case, since audits are linked to the Board, while the Supervisory Board shall be a body independent of the Board of Directors and the Executive Board. Thus, one might question the realization of effective surveillance of the actions of the directors of the company, with probable damage to the transparency of information that the company, as a company listed on the stock exchange, owes to the market and its shareholders.

5 Concluding remarks: new and old family and organizational arrangements

This article aims to analyze the evolution of mechanisms of professionalization and governance in family businesses through two case studies held in large and long-lived publicly traded companies. The alternatives that are already being implemented in these companies offered an excellent material for understanding the different strategic choices that arise for family organizations.

With regard to succession, it was observed that the succession processes in the analyzed companies are receiving attention and are being conducted as a strategic and decisive process for the future of the business. Regardless of the type of succession - either by family members or by career professionals of the company or the market - the importance of advance planning, definition of rules and transparency among stakeholders is noted for the success of the process. The trend in the two companies studied is for market professionals to take over executive control of the companies and for family members to participate only in the Board or in family governance bodies in the company, notably the Board of Directors.

The comparative analysis of the cases allowed us to identify improvements in the processes of professionalization of the companies surveyed, which opened space for market professionals or even family members, but with another profile of capabilities, which started to act less in operation and in mostly in the decision-making bodies of the companies. The way the owning families define their role in the company will dictate, very relevantly, how the company will design its arrangements of succession, professionalization and family governance.

Due to the different history and contexts of the companies analyzed, it is perceived that they made different choices regarding the most appropriate governance mechanisms to deal with their specific contexts. Songini (2006) points out that the structures and governance mechanisms in family businesses should be able to handle the business and family interests. In both cases, the different arrangements of family governance allowed the companies to organize both family and corporate matters. Great importance is attributed to bodies such as the Board of Directors, Shareholders or Partners, the Family or Heirs' Council, the Family Office and to specific committees, as well as to instruments such as the Shareholders' Agreement - to construct rules and agreements that guide the actions of the family and build internal and external credibility to the business. These bodies arise as mediators of possible conflicts and are powerful tools in phases of transition, in addition to establishing parameters for the relationship between the family, ownership and the company.

Throughout the development of this research it was observed that times of crises, difficulties, conflicts, power struggles or transition phases bring the need for companies to advance the development of its mechanisms of governance and professionalization. The companies surveyed have created family governance mechanisms when some of these situations occurred. When considering a scenario of crisis or conflict, the threat posed can quickly lead companies to seek alternatives for their survival. As we move forward on issues such as the structuring of proper governance and a higher professionalization of management, the idiosyncrasies inherent to the situation of the company as a family start to give way to more rational and strategic actions for the business. These issues are particularly important when it comes to publicly traded companies, which need report to the market.

Despite having already implemented the basic mechanisms of governance, it is also necessary to make significant advances, particularly with respect to compliance with the rules of the differentiated levels to which both companies belong. The dilemma on what is best for the continuity of the family business and what it means to move forward to becoming a corporation appears frequently. In the case of Randon, the company seems to deliberately move away from the traditional model of family business to eventually become a corporation with a more diluted capital, and, even though control remains within the family, the idea is that, in the future, these shareholders take over the role of shareholders, not managers. In the case of Cedro e Cachoeira, representatives of shareholding families resist on implementing a governance model which moves the company away from its family characteristics. The arrangement found, namely, the composition of a Shareholders' Agreement as the company's top operative reference - can meet the demands of power and control of the shareholding families, but it certainly does not enable Cedro e Cachoeira to be seen as a "market company" externally - a fact that repeals the company's ability to raise funds both in Brazil and abroad. This fact may have a major impact on the company's competitiveness in the domestic and foreign markets.

This study made it possible to describe and analyze the evolution of the processes of professionalization and governance of two family businesses, but it also revealed a reality that goes beyond the specific context of these organizations, despite the size, longevity and maturity of the companies analyzed. It seems plausible to say that the situations found in them are illustrations of the problems experienced by family businesses seeking opportunities for growth and expansion and in the process, find themselves struggling with the processes of succession and professionalization and need to structure a governance capable of meeting the challenges of keeping their family characteristics, while also complying with market demands.

Given the findings of this research, some theoretical contributions emphasize the process of professionalization of family businesses and contribute for the studies on family businesses to advance on more robust theoretical and empirical grounds. This being, we suggest some research issues that could be considered for future studies, and these are:

Q1 - The evidence contained in the Agency Theory allows us to suppose that the agency conflicts in family organizations tend to become more intense as the company moves towards financing their growth strategies and expansion through capital markets. In this context, the structuring of mechanisms of governance and professionalization of management are alternatives to mitigate conflicts and intensify the level of market trust, with a positive impact on the attractiveness of the company as an investment option.

Q2 - *According to* the *evidence contained in the company's theory of growth, one can expect that the privately held family businesses also step towards professionalizing their management and implementing governance structures and practices similar to those adopted by corporations, because as they grow and become more mature, these organizations tend to replicate alternatives that they consider successful in other organizations to deal with the need to accommodate the expectations of the new generations and the problems of power and conflict within the family-company relationships.*

Q3 - *With the prospects of the Resource-Based View as reference, where the family organizations develop economic and non-economic capabilities associated with factors such as trust, personal involvement, altruism and particular culture, and that the combination of these possibilities can be a comparative advantage, the implementation of mechanisms and practices of corporate governance and professionalization can erode the distinctive capabilities of the family model and make the organization definitively move away from their original family setting.*

A map on the studies on family businesses in Brazil was recently published by Borges, Lescura and Oliveira (2012). Thirteen years of production (1997-2009) were analyzed and the results indicated that only 25% of the production on family businesses presented in scientific events reached publication in journals; 80% of researches were made through qualitative studies, especially using the technique of case studies. Additionally, the observation of the recent publications of some important journals in the field, such as the Family Business Review, the Journal of Small Business Management and the International Small Business Journal allows us to infer that (i) the use of a single case study is not prioritized by some of the relevant journals in the field; (ii) researches conducted by means of fewer number of cases offer significant contributions concerning propositions, hypotheses, and research models to be tested by future research (iii) quantitative studies account for the majority of the articles published recently. It is not difficult to conclude that great challenges await Brazilian and Latin American researchers who appreciate the theme of family businesses, a theme to which this paper modestly aims to contribute.

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