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The process of professionalization and governance in long lived family-owned companies: Advances and challenges

O processo de profissionalização e governança de empresas familiares longevas: Avanços e desafios

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Content

ABSTRACT:
With the objective of understanding the process of professionalization and governance structuring in family-owned companies, a qualitative research was conducted through the means of two case studies in long lasting, large Brazilian family-owned companies. The longitudinal study, conducted for more than seven years, allowed to pinpoint the usage of two governance models by the researched companies, notably the financial and stakeholders models, even if in a hybrid manner. These arrangements have taken into account the necessity of accommodating political and power issues in the families and companies, as well as aspects related to the expectations of the stock market.
Keywords: Family-owned companies, Professionalization, Family firms governance, Governance structures, Governance processes

RESUMO:
Com o objetivo de compreender o processo de profissionalização e estruturação da governança em empresas familiares, foi realizada uma pesquisa qualitativa por meio de dois estudos de caso, em empresas familiares brasileiras, longevas e de grande porte. O estudo longitudinal, conduzido por mais de sete anos, permitiu constatar a utilização de dois modelos de governança pelas empresas pesquisadas, notadamente o modelo financeiro e dos stakeholders, ainda que de forma híbrida. Esses arranjos levaram em conta a necessidade de acomodar questões políticas e de poder nas famílias e nas empresas, bem como aspectos relativos às expectativas do mercado acionário.
Palavras-Chave: Empresas familiares, Profissionalização, Governança de empresas familiares, Estruturas de governança, Processos de governança

1. Introduction

Family firms are of great importance worldwide. In Brazil, it is estimated that over 95% of small, 90% of medium and 50% of big companies are family owned and are accounted with over 65% of the Gross Domestic Product (GDP), being responsible for over three quarters of job positions (Casilas, Acedo & Moreno, 2007). Despite the expressiveness and relevance of family firms, 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).

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 firms face the dilemma of the passage of time, when the company grows, the family becomes more numerous and the ownership structure changes. Succession and professionalization processes often require the implementation of more structured governance mechanisms (not necessarily in that order), with the objective of providing the necessary support for fundamental changes in the organizational and asset structure in the company's strategic process. In family firms, 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 and the necessity of professionalization becomes urgent. The creation of mechanisms of governance 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 (Angus, 2005; Bartholomeusz and Tanewski, 2006).

Researches on corporate governance in family-owned companies have received significant empahasis in international journals in the past years (Journal Corporate Governance, 2015;Pindado & Requejo, 2014; Gibson, Vozikis & Weaver, 2013; Siebels & Knyphausen-Auseb, 2012; Salvato e Aldrich, 2012). Three large research axis may be identified contemplated in the most recent publications. A first axis discusses the different realities of family-owned companies and the differences between them and corporations, reaffirming the importance that models are developed that are more adequate to their specificities; a second axis seeks to map more robust theoretical basis, notably those based on the Agency Theory and Transaction Costs, in the Stakeholders Theory and in the Resource Based View, with the objective of subsidizing more robust discussions about family-owned companies governance; a third axis, with a more processual emphasis, analyzes the impact of implementation of structures and governance practices in family-owned companies. Themes such as performance and property impact on the control and governance within family-owned companies, already more consolidated, continue deserving the attention of researchers.

Following the second and third axis mentioned above, our study is based especially in the Agency and Stakeholders Theory, from which the models of governance named Finance and Stakeholders, to analyze the process of implementing professionalization and governance strategies in two large Brazilian family firms, 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. A longitudinal study was carried out, since the data was first collected in 2007 and then later in 2014, which enabled to analyze issues relating to the evolution of the process of professionalization and governance of the companies 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 firms have in the effect of combining strategies on what they perceive to be the most rational choices to guide their processes of governance and professionalization.

It is expected with the realization of this research that there is a contribution to researchers, other organizations that face questions related to professionalization and governance also to legislators. For researchers in the field, beyond the in-depth analysis that the cases have allowed to conduct, as well as an extended period of observation that is rarely observable in Brazilian researches, research questions are presented that may address future studies. For the family-owned companies, even considering that the solutions must be particularized to each context, the possibility to reflect and mature its own process based on the experiences previously held by other organizations. For legislators, we expect to contribute in the sense of offering subsidies for the adequation of the so called “good” governance practices towards the specificities of family-owned companies, such as what is IBGC (2014) is trendsetting.

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. Governance and professionalization in family firms

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 firms 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 governance can be seen in the perspective of four models: the Finance model, the Stewardship Model, the Political model and the Stakeholder Model (Pound, 1992 and 1995; Turnbull, 1997; Schleifer e Visny, 1997). The professionalization of family-owned companies can be seen in the perspective of five theories: the agency theory, the company growth, the stewardship theory, the resource-based view and the organization control theory (SONGINI, 2006).

Considering the theoretical and methodological difficulties to treat all these perspectives simultaneously, in this article, we treat the perspectives offered by the Agency Theory and the Stewardship Theory, given both deal with common elements to the problems of governance and succession.

The finance model derives from the perspective of the agency problem, which 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; Fama e Jensen, 1983; Schleifer e Vishny, 1997). The agency problem is reduced in family firms whose capital is highly concentrated in one owning and managing family (Bartholomeusz & Tanewski, 2006; Van den Berghe & Carchon, 2003; Morck & Yeung, 2003). However, in family firms 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 (Le Breton Miller & Miller, 2009). Family conflicts, difficulties in the succession process, centralization of power, lack of governance mechanisms, external distrust concerning 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 (Christman, Chua & Litz, 2004).

The existence of agency costs in family-owned companies constitutes an issue that is frequently explored in literature and there is a relative consensus that they, in fact, exist. Schulze, Lubatkin & Dino (2003); Lubatkin, Schulze, Ling & Dino (2005); Lubatkin, Durand & Ling (2007); Lubatkin, Ling & Schulze (2007); Le Breton-Miller and Miller (2009); Hauswald & Hack (2013) are authors that explore this issue well and indicate the existence of agency conflicts in family-owned companies, especially moral risks, introduced by the parental altruism of economic logic. Gomez-Mejia, Nuñes-Nickel and Gutierrez (2001) also find evidences that the family ties influence in the hiring of executives in family-owned companies, that they are not made fully responsible for an eventual low performance of the company, have greater difficulty accepting risks and making long term investments, and also receive bonuses like any other professional. In this same trend, Oswald, Muse and Rutherford (2009) reinforce arguments that favor the entrenchment theory, specially the hypothesis being that in companies in which the capital is highly concentrated in the hands of the family, executives tend to avoid decisions that foster growth and risk in order to continue providing jobs and privileges to the family – which increases agency costs and may reduce the company’s performance in the long term. In this context, it seems reasonable to assume that the concentrated property structure that prevails in Brazil favors the existence of agency costs.

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 firms, 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 formal controls, strict governance mechanisms and, therefore, the professionalization of the firm (Davis et al, 1997; Miller & Le Breton Miller, 2014).

O pressuposto simplista de que os proprietários e gestores da empresa familiar são capazes de abrir mão de seus interesses pessoais em nome dos objetivos da organização – invalidando, portanto, a possibilidade de existência de custos de agência – não constitui um ponto de partida válido, mesmo para os teóricos do modelo stewardhip.

Corbetta & Salvatto (2004), for instance, aligned around this perspective, recognize the existence of agency costs in family-owned companies and raise four hypothesis in which this can happer: (i) assymetric altruism tends to increase proportionally to teh increase in the number of family members; (ii) agency costs deccuring from the separation between property and management depend on the involvement level of the controllers in the management; (iii) the company's life cycle influence the appearance of agency costs; for instance, the higher the involvement from several generations, the higher the probability of recrudescence of agency costs, and (iv) the higher the capital dilution and the greater the discrepancies between family and non-family stockholders, the greater the possibility that conflicts of interest between major and minor ones are accentuated.

Miller & Breton-Miller (2006) also admit the existence of agency costs in family-owned companies, but consider that these may be reduced in function of the gains decurring from the family leadership, the ties and the trust relationship established between the members of the family and the company, the strong (but monitored) acting of the family CEO and the express intention of the family to keep the company under its control for the long term.

Agency costs may deccur not only from the nature of the company's property structure. More relevant than admitting or not its existence in family owned companies seems to be identifying in which situations they might happen and which alternatives may be used to mitigate the conflicts deriving from them. If the governance finance model addresses the problem of agency costs by creating strict governance structures and rules – which may drag the company the family-owned company to a corporate model -, the simple stakeholders model may perpetuate the traditional and idiosyncratic modus operandi of the family-owned company.

In the stewardship governance model, juxtaposed to the finance model, the relationships are based essentially on trust (instead of contracts); they are based on the ethical behavior of the agents (instead of the opportunistic); the most important role in the Management Board is to mediate the interests of the stakeholders (more than controlling); the issue of positions separation is irrelevant (in the finance perspective this separation is fundamental); power is more associated to the managing capacity (more than in control and information); the indispensable requirement to integrate the Management Board is the commitment to *familiness* (instead of formal and independence requirements).

The implementation of governance mechanisms could, in theory, assist in the professionalization process of family firms, since it offers alternatives for the company to deal with problems, 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 necessary to offer a clear distinction between the terms "family firm governance" and "corporate governance of family firm", which has been used in some publications as similar in meaning, when in fact, they are not.

The family firm 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 term "corporate governance of family firm" 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 the stakeholders. Family firm 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 common in the family arena, although the existence of these mechanisms is not always enough.

Otherwise, 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, the company is big enough and there is an intention of going to the market to raise funds.

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. One can assume that the adoption of principles of corporate governance can help family firms - 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 firms to go public.

Our assumption, in this work, is that it will be difficult to find pure governance models in family-owned companies, given that the choice of a governance model reflect the internal questions relative to the property structure, the company's life cycle and situational factors, which are unique and idiosyncratic. In this work, we investigate exactly how some family firms have been facing this challenge.

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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 firms 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.

Seventeen semi-structured interviews were conducted in the years of 2007, 2012, 2013 and 2014 with the family members, members of boards and directors who work or have worked in the surveyed companies. Some interviewees (particularly the members of the controlling families) were contacted

Some interviewees (particularly the members of the controlling families) were previously contacted for the scheduling of the interviews, and after their conductions, other key-elements were progressively identified. In both companies, the presidents of the Managing Board and the company's CEOs were interviewed. In the case of Randon, two visits to Caxias do Sul took place, one in 2007 and the other in 2013, lasting for several days, during which the interviews were conducted, including the company's founder. The interviews were conducted by the researchers, with the aid of a semi-structured script, with their central elements defined in the beginning of the research, but given the interviewee's diversity of profiles, the time between the beginning and conclusion of the work and other research interests by the group, new questions were incorporated. None of the researched organizations presented obstacles to their names being made available, which seems extremely positive, since it allows the readers to clearly identify the companies involved.

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 from different researchers that were part of the Family Business Study Group guided by one of the researchers who, in different times, surveyed these two companies, 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:

- 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.
- 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 governance: audit committee; existence of codes of ethics and conduct; relationship with the various stakeholders; transparency and disclosure of company information.

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.

The volume and richness of the information obtained during the several research stages have been the source for many publications. Initially, the cases for each one of the companies was produced, and later a joint analysis of the process implemented by both companies was done. The objective was not to emphasize more or less successful alternatives, but to pinpoint how the different contexts undergone by them demand different governance models. In the following section, we present the analysis of the two cases studied.

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

Randon was conceived as a small workshop to restore industrial motors 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, founded in 1873. 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, exclusively family members occupied the executive positions for many years. With the growth of families and greater technical demands in relation to occupants of managerial positions, professional managers are gradually occupying these posts, 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. After a long process, the candidate chosen for the position of chairman was not a family member and transition phase was 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 was an agreement that made 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 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 to ensure that no family conflict interferes in business.

The Family Council 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 overcome the activities of the family. Also, there is 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, to which representatives of all members of the 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 firms 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, they believe that the independents may not be acquainted with the culture and relations of power that permeate the company or, maybe, shake the political and power arrangements that were so hardly reached with the Board's current structure.

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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 firms 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.

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 professionalization and family governance. 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.

Due to the different history and contexts of the companies analyzed, it has been 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 firms 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. It was clear that Randon has advanced in structuring a model of governance more aligned to the corporate model, along the lines of the financial model, while Cedro maintains characteristics more akin to the stewardship model, which focuses on the prevalence of family, even though the company also has to comply with requirements of the finance model, since it is an open capital venture with stocks traded in the stock market.

The discussion on what is the most adequarte governance model for family-owned companies has been conducted by several researchers: (Herrero (2012); Le Breton-Miller e Miller (2009); Lubatkin, Durand,Ling (2007); Eddleston, Kellermanns (2007); Christman, Chua, Litz (2004); Davis, Donaldson (1997); just to mention a few. The challenge seems to be reducing the agency costs in family-owned companies, introduced essentially by parental altruism, at the same time in which elements such as motivation, identification, the way to relate to power, the philosophy and culture, characteristics which constitute the idiosyncrasies, but also the *familiness* that constitutes these companies as such (Davis and Donaldson, 1997).

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 that 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 firms, 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 firms 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 firms and contribute for the studies on family firms 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 assume that the agency conflicts in family organizations tend to become more intense as the organization age, the ownership is shared by several owner groups and the number of family members grow. When the company has the opportunity to finance its growth strategies and expansion through capital markets, the structuring of mechanisms of financial 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 – The adoption of the stewardship governance model will be preferred by family-owned companies that present high level of involvement from the family with the business, who have the intention of maintaining the control of the business in the family's hands, that have a solid organizational culture and a high sense of belonging (familiness); this model, however, elevates the possibilities of exercise of parental altruism and increases the possibility of agency costs with a negative impact on the attractiveness of the company as an investment option.*
>
> Q3 – *As soon as the family organizations develop economic and non-economic capabilities associated with factors such as trust, personal involvement, altruism and particular culture, knowledge and some others, and that the combination of these possibilities could generate a comparative and competitive advantage, the implementation of mechanisms and practices of corporate governance and external professionalization can erode the distinctive capabilities of the family model and make the organization definitively move away from their original family setting.*

The utilization of the finance and stakeholders theory, as well as the Resource Based View (not discussed here, but with interesting perspectives in the utilization by family-owned companies) will contribute to enormously enrich the theoretical and empirical possibilities available to Brazilian researchers. A map on the studies on family firms in Brazil was recently published by Borges, Lescura and Oliveira (2012). Thirteen years of production (1997-2009) has been analyzed and the results indicated that only 25% of the production on family firms 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 firms, a theme to which this paper modestly aims to contribute.

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