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**FAMILY COMPANY:  
CHALLENGES OF  
SUCCESSION IN A  
RURAL COMPANY IN  
SORRISO/MT**

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**Abstract:** This research aimed to investigate the challenges in the succession process in a family business, in the perception of those involved in the process: successful and successor. From a qualitative research approach, the descriptive case study was adopted as a method. As a research instrument, semi-structured interviews with members of the process were used. Where they answered specific questions to each one, others with the same direction, in order to answer the research problem. To analyze the results, the content of the interviews was used. To support the research, a literature review was used involving definitions of family business, management of organizations of this profile, succession process, corporate governance and structure model. The present research was carried out in a rural company located in the city of Sorriso-MT that is under the command of the second and third generation of the founding family, with the second generation as the central decision-maker. The results obtained in this research indicate that the challenges lie in the lack of criteria for hiring family members as well as the inexistence of rules for their behavior. It is possible, from them, to initiate a process of reflection. To provide this improvement in the company, through the literature review, a model of corporate governance structure was presented based on the management of the family business researched. with the second generation as the central decision maker. The results obtained in this research indicate that the challenges lie in the lack of criteria for hiring family members as well as the inexistence of rules for their behavior. It is possible, from them, to initiate a process of reflection. To provide this improvement in the company, through the literature review, a model of corporate governance structure was presented based on the management of the family business researched. with the

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**Keywords:** Family business; Succession process; Corporate governance.

## INTRODUCTION

Family businesses can be identified by the existence of relationships between the family and the organization that are not limited to the scope of management, but mainly cover the sphere of family ownership and intervention in the conduct of business. A family business is one that has its origin and history linked to a family, or one that maintains family members in the management of the business for generations (BERNHOF, 1989).

Family businesses are types of organizations that are prevalent worldwide. It is estimated that 90% of companies in the world are companies with a family profile (LETHBRIDGE, 1997). In Brazil, the context is no different. A survey carried out by the Support Service for Micro and Small Enterprises (Sebrae) in 2016 found that 52% of micro and small Brazilian companies can be considered family members.

The dream of those who start a business with family members as partners is for the organization to prosper for the next generations, as classified by Oliveira (1999), the family business is one that hereditary transfers decision-making power from one or more families. The key point for the success of the continuity of this type of organization depends specifically on

achieving the objective of the succession process (CASILLAS, 2007).

The moment of succession is most often marked by the explosion of conflicts that surface and as a consequence form a more complex relationship, mainly due to the lack of norms and rules that must be established between family members (STAUDT, 2006). Garcia and Tavares (2017) understood that the adoption of Corporate Governance practices strongly aroused the interest of family businesses, in order to preserve their continuity and regular management.

Based on this aspect, the present study seeks to allow a deeper understanding of the challenges of the succession process of a family business in the rural branch of Sorriso-MT and the presentation and acceptance of the implementation of a governance structure as an aid. Through an exploratory-descriptive research method, with the application of questionnaires to the successor and successor.

## **MATERIALS AND METHODS**

It was made descriptive research, with a qualitative approach, classified as a case study, the technique used to carry out the data analysis was the descriptive analysis. Thus, the characteristics of the organization were described. The information acquired from the successor and the successor were analyzed and from these data it was verified what are the main challenges in the succession process in a family business in the rural branch of Sorriso-MT, as well as the interest in implementing a governance structure model corporate.

## **ANALYSIS AND DETERMINATION OF RESULTS**

The study began with the choice of the company that has the characteristics of a rural family organization, taking into account criteria such as: the researched company has characteristics that allow it to be classified

as family: kinship ties between owners and managers; the company is controlled by the family; control is transferred to family members in the succession process (BERNHOEFT, 2003; GERSICK et al, 1997; LEONE, 2005).

The company researched had its beginnings in the interior of Paraná in 1974, the activity began with the founder, at the time a farmer, a pioneer in the family, he owned a small property where he cultivated rice. He inherited a shed from his parents and with a vision of growth and, in order to guarantee a better life for his family, he started a grain processing activity and storage service, at that time the organization was composed of his own family (wife and his three children men), where the children and the father did the manual work, when the demand for service was greater than expected, they hired people for a period, the mother was responsible for the administrative part.

With the growth of the company, the other brothers and the father no longer needed to work in the heavy, they acquired trucks in which they made freight close to the region. A few years later his middle brother went to the state of Mato Grosso, as many families in the South saw the opportunity to acquire a large amount of land to start livestock and agriculture activities. As soon as he returned, he convinced the family to only carry out their activities due to commitments to customers and then sell part of the family's heritage with the aim of expanding on a new journey.

With the success of the implantation and the productivity of the land areas, some employees were brought from Paraná. The founder divided responsibilities into three departments. Commercial Department, headed by the Younger Brother; Finance department, headed by the first employee hired to work inside the office and; Production department, run by the Elder Brother. The

middle brother, along with his father, was responsible for managing the society's farms, and with the aim of facilitating decision-making, he passed the function on to his youngest son.

A decade later, due to age, their father no longer had the motivation to continue as the manager of the farms, the three brothers decided to lease their parents' share in the company, so they definitively took control, decision-making by consent continued to be the responsibility of the brother newest. The patrimony of the three brothers grew, with the expansion intensified the need to count on reliable people in the company's staff. Thus, in proportion as the brothers married and had children, it resulted in the entry of family

members into the organization.

The hierarchy structure of the organization today remains under the same leadership as mentioned above and as shown in figure 2, it has people in positions, who are family members, and in positions that require high trust, it has former employees with more than twenty years of experience.

Given the above, it is clear that the company has several characteristics of the definitions established for the research. According to Gonçalves (2000), the family manages the company itself, which defines objectives, guidelines and policies, the family is responsible for the administration of the company, having one or more members at the highest executive level.

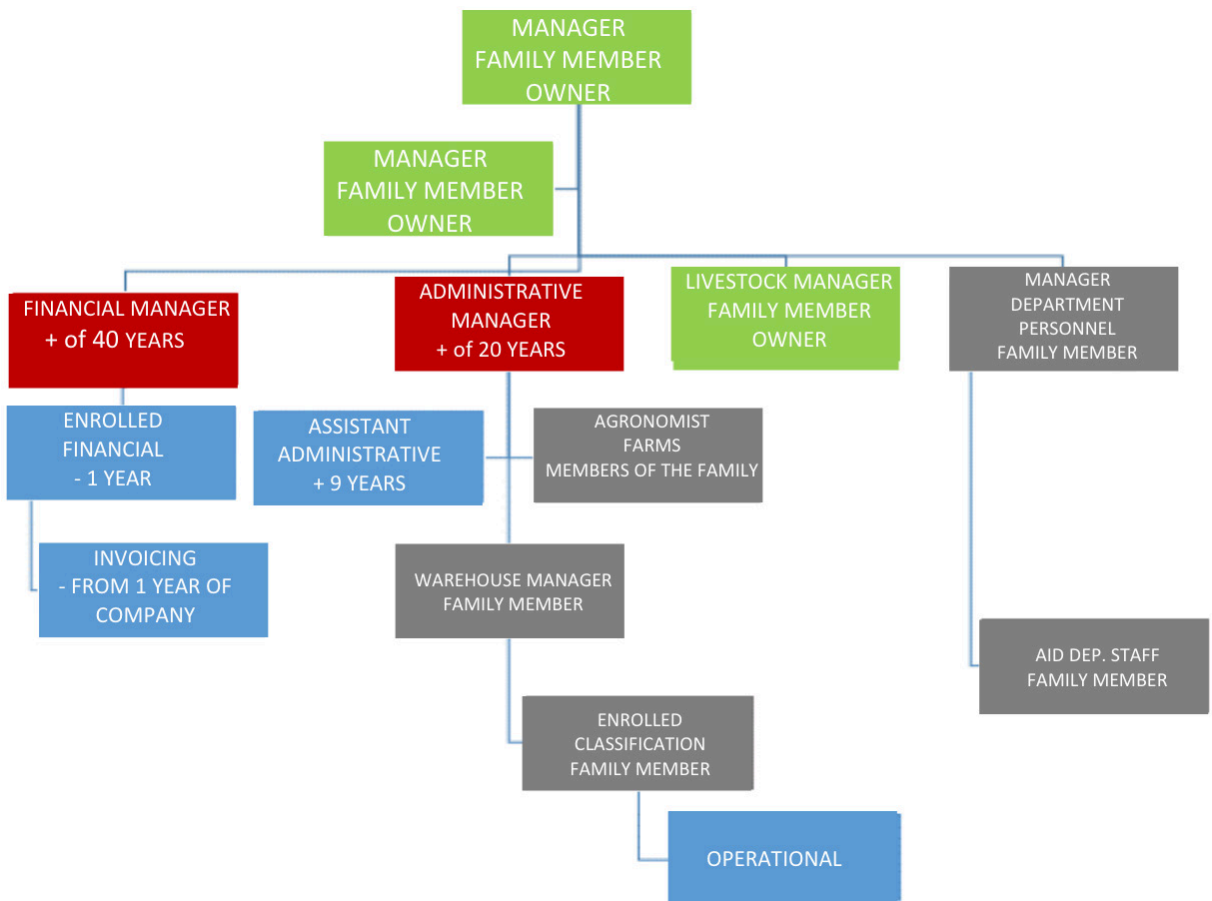


Figure 2 - Hierarchical organization chart of the company.

Source: Author herself (2021).

## SUCCESSORY PROCESS

One of the main issues inherent to family management is succession, a very important step for the company, as it is in this transition that the company must remain cautious, focused on its goals and values.

The current manager has defined that his firstborn will be his successor, the person in which he will continue the family business. Positive point, according to Cassillas (2007) the company becomes fragile when the moment of command transition arrives and it is not sure who will follow the same focus, in the next generation.

The current manager mentions that the reasons that led him to think about succession was to observe the need for someone to continue the family business. The future successor emphasizes that being inside the organization together with her father is wonderful, she worked from an early age to implement innovations, she gained space and he always respected her. Over the years, the father worried his daughter to deal with matters regarding the continuity of the company. According to the successor, this was the key point for the succession process to take place, counting on the presence of the father in life, providing him with the vision that the family legacy will continue to exist and that this will always be one of the biggest goals of the company's management.

This statement is in line with what Oliveira (2006, p. 22) defends, "people are not eternal, but companies can be". Reinforcing the importance of respect, Tondo (2008) says that between generations there needs to be an alignment, where there are spaces available for both the eldest and the youngest, always taking mutual respect as a law, observing individualities and characteristics. personal, while still having as objective the continuity of the business with the management of the family.

The future that happened, when asked about being prepared to actually leave the command, states that he feels safe in passing the decision-making on to his daughter, in which she plays the role of manager, because she is sure that leaving it in the hands of her firstborn. the company will continue on the path he has traced. The thought of being prepared for the moment of succession also belongs to the future successor. And at times she is sought out by members of the company for the development of activities even though her father is in the company, this makes her identify herself in the position of leader.

There are common conditions in family businesses, the thinking of the successful ones think that the successors/heirs are not prepared to assume such responsibility of being in front of the company, the insecurity is evident, because they think that due to some problem or lack of professionalism it can lead to the organization the bankruptcy. On the other hand, Andrade and Grzybovski (2005) report that when the successful father realizes that the same fundamentals and care will be adopted in the administration of the company that had been employed, he recognizes his successor and feels confident that the family company will continue.

Some organizations have already shown that heirs, future successors, do not only need theoretical knowledge, but also an enriched preparation of experience to lead. For Bornholdt (2005, p. 62), "the successor, in order to legitimize his position within the company with family members and shareholders, needs to conquer his leadership".

The author asked about the existence of any tool or succession planning in order to assist the process within the organization, both answers were that the company does not have a succession planning and the successful future reports that they do not have a formal succession planning, but that the process is



happening naturally, and in his perception they are on the right track. According to him, his firstborn already has knowledge in all areas of the company.

Considering the statement that there is no succession process planning, those involved were asked if, if the successor does not have adequate capacity to handle the business, what would be the procedure to be used. Both the successor and the successor said that at the moment there is no other person for the position.

In view of the answers, we can verify that the family business did not plan the succession process, however, over time the successor sought space alongside what happened, obtaining a leadership position in the organization. Lodi (1998) emphasizes that it is important to evaluate the succession process in a realistic way, in order to be sure of the competence of the possible successor to assume the position and offer results for the family business, otherwise, the transition is not recommended.

Also, Mamede and Mamede (2014) recommend some guidelines to be taken into account when thinking about succession: Identify the competencies and clarification of the company's values to plan and manage a succession program, plan with agility and necessary development for the positions that are crucial in the organization, consider all levels, from top management to the sales, administration, technical and production team, develop and retain the best talent, preserve the organization's intellectual capital and assess current and future resource needs to prepare the succession plan.

## **CONFLICTS AND CHALLENGES**

Conflicts in family businesses are common, often caused by the daily interaction, different ideas and opinions of people who perform different activities both in the family group

and in the company itself. Bornholdt (2005) observes that when several family members work in the same company, there will probably be conflicts, since they are people of different age, gender, values and objectives.

According to the authors Ruffatto, Pauli and Ferrão (2017, p. 2), "leadership-conflicts-motivation takes on even more complex contours when the scope is family businesses", especially due to the overlapping of kinship relationships with work. In the case of the company under study, the relationship between other family members who work in the organization is considered good, but when asked about them having a sense of preservation, avoiding conflicts within the company, those involved replied that the members do not have this sense and that in many occasions end up interfering with activities.

The successful future says that he is afraid to draw the attention of family members and this ends up generating conflict in the family relationship, so he often ends up putting aside demands for behavior.

The lack of basic human resource management rules, especially for positions held by family members. It can be seen that the rules for hiring family members and even the functions they must perform are not defined. This is reinforced by the future successor where she recounts that she has observed several times employees who are family members not fulfilling their obligations and overloading others.

These statements collaborate with what the literature on the subject presents, showing that despite the good relationship, family businesses face natural problems in the relationship between family members. On many occasions, managers end up avoiding warnings so as not to generate conflicts within the organization. With the objective of a good relationship between family and company,

power games between family members are accepted by the manager, with the objective of good administration (ANDRADE; GRZYBOVSKI, 2005).

Bornholdt (2005) points out that the path that allows the greatest degree of success is the opening of dialogue to discuss controversial and conflicting issues. Confronting conflicts through dialogue is usually more laborious, but from the moment those involved deal with feelings and affection.

“Birth birth is an arbitrary rule, based on family values regarding age and sex, which can leave siblings with resentments that can influence their relationships for the rest of their lives” (GERSICK et al., 2006). When questioned by those involved if at some point the sister of the future successor had the plan to be in charge of the family business, the response of both was the same that there was never any interest either from the sister or from another member. They also add that in the past, before the daughter took over as the manager, there was a meeting with the partners who, in addition to owners, are family members, where they abstained from appointing someone. It can be seen that there is no conflict regarding the choice of the firstborn as successor.

The organizational culture is formed in a natural way and demonstrates the cultivated values of the company founder and its employees. It is verified in the researched company that, when the successful future reports its concern to keep the organization in the power of the family and also to keep the old employees in the company's staff, reflecting a family environment.

When asked about his biggest challenge, the future says that when his eldest daughter joined the company in the operational part, she had no problems, but from the moment she started in management, she wanted to impose changes throughout the system, taking

away decision-making autonomy. purchasing process for some of the managers who have been in the job for a long time. At the time he interfered drastically, taking away the power of the future successor, but who today practices all process innovation with caution. When questioned on the same subject, the future successor manifests that showing to the members of the company that she is not just the boss who wants change at any cost, that like her father, she wants to maintain a good relationship with everyone, is a challenge and recognizes that many things need to be improved and not changed.

It is observed that in the testimony of what happened when asked about the challenges, there is a great concern of the same, of how the changes in the processes can reflect to the old employees who are like a family. Leone (2005) highlights that the challenges faced by the successor go, in addition to having to confront with jealousy, the resistance of other members in the choice. An extremely important factor for the author is to gain the trust of the company's employees, especially the old ones.

Regarding the difficulties experienced in this period by those involved. In the perception of the future successor about the decisions made by her father, they are often good, but in some situations she ends up disagreeing. She emphasizes that her father does many things without planning, acts on impulse and when he sees issues that were defined together change, she ends up having to retract many issues with customers, suppliers and employees. This impulsiveness bothers her, as she believes she could add something, both for her knowledge and for her critical managerial sense. As for the perception of the future that took place on the heiress's decisions, he declares that he considers her hasty in the changes, and that she does not take into account values such as trust, camaraderie and word.

Regarding the existing conflicts to those involved, they argue that at the beginning they were more frequent, due to the fact that the company was brought up for discussion in a family environment, affecting the relationship between them, therefore, they decided to create a rule in which it was defined that the company problems would be solved in the company. Another pointed out by the successor was that at the moment what generates conflicts in the business occurs when a member of the organization's staff wants to have special treatment for being part of the family.

It appears that within the researched organization, there is a clear perception that the family business can be a way out of personal difficulties of family members.

### IMPLEMENTATION OF A CORPORATE GOVERNANCE MODEL

Given the information from those involved in the process and observation of

the company's organizational structure, it was identified that it does not have corporate governance practices. This is because, as discussed, corporate governance practices seek ways and means to create criteria for harmonious coexistence, separating the parties involved in society: property, family and management (BORNHOLDT, 2005).

A governance structure model was presented to the future successor, which will take into account the need for separation between company, family and property. In order to avoid future conflicts within the family organization, it was proposed to the future successor the implementation of a corporate governance structure, to be applied in the researched company.

Figure 3 presents the structures and dimensions of family governance and its relationships with other circles of power.

The process of separating the themes included in the three circles of power (company, family, property), each of which requires the

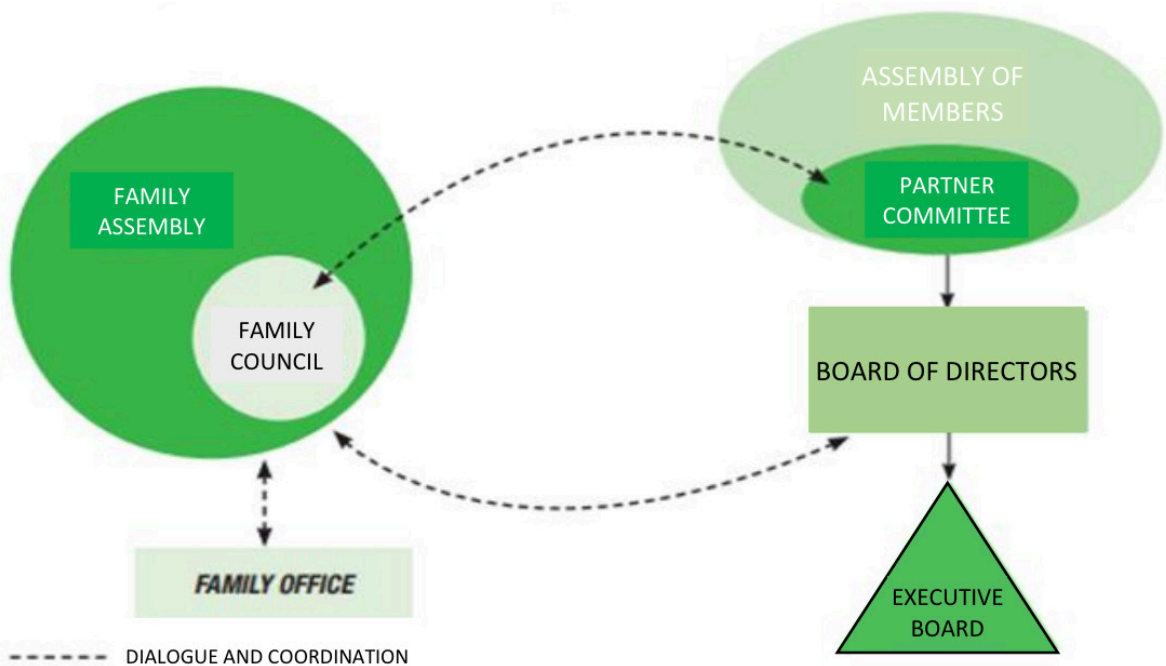


Figure 3 -Family Governance Structure Model.

Source: IBGC – Brazilian Institute of Corporate Governance, 2015.



establishment of their respective structures, processes and councils (administration, family and assembly of partners). In order to program corporate governance practices, the board of directors is responsible for the strategic direction and for the election and supervision of corporate management; the family, through family policies; and the shareholders' meeting, for selecting the members of the board of directors.

The family assembly generally meets once or twice a year to reintegrate on the recommendations of the family council. It has the duty to update on activities during the year; report annually; communicate information about the family's organization, ownership and other activities; assess the family governance structure; discuss family guidelines, plans and policies; command the election of the family council.

The Family Council is formed by a group of family members elected by the family assembly to represent them. It is responsible for separating the particular problem from the company's problems. It must thus carry out activities such as encouraging family unity, defining the agenda of the family assembly, promoting communication, elaborating a family segment, containing values and family mission, protocol of guidelines and rules that are the relationships between family members and these with the family business.

There is an intertwining between family governance and the actions of the partners, which is why a structure that concerns these two spheres was included here: the partners' committee. Within the society, the two basic structures are the assembly of partners and the committee of partners. In situations where there are few partners, the two structures overlap. This way, the body has the role of preparing and guiding the performance at the company's general meeting. For example, it may deal with the entry or exit of large

businesses, the dividend distribution policy and transactions above a certain threshold, defined as a percentage of the group's equity.

Therefore, the coordination between corporate and family governance must take place through the board of directors and the family council and/or partners' committee, once the mission and role of each one has been defined, it has the role of through of a structured communication system to maintain relationship protocols, offer informative reports and possible interaction of members participating in the committees.

## **FINAL CONSIDERATIONS**

The main objective of this work is to identify the challenges of the succession process in a family business in the rural branch of Sorriso-MT, highlighting how important and fundamental it is for the continuity of this company.

In the construction of this work, it can be observed that family businesses are important not only for the owners, but also for society in general. This type of organization is part of a considerable market share around the world. Because it is a delicate moment for the company, where the decision-making power is being transferred to a successor, where most of the time it is a member of the family.

In view of this, those involved in the succession process were answered, the future successor and future successor, questions in which it was evident that the lack of criteria for hiring family members. The implementation of changes are the main challenges encountered in the succession process in the study company.

Also identified through the reports and observation, the description of the company and its history, which show that it has a family legacy where it involves feelings and desire for continuity. As for the company's hierarchy, it is noted that the division is in sectors and these each have their responsibility. The influence of

family culture on company management was identified in the way employees are treated with charisma and the concern of what happened in how changes can affect them, this demonstrates that both involved have the need to accept the succession process.

Regarding succession planning, the organization does not currently have this tool. Thus, it can be affirmed that the points of confrontation of the process are directly linked by this issue. Since those involved in the first moment experience conflicts through their own experience and after that they create mechanisms, rules, in order to avoid them, which can generate wear and tear on the company in general.

Regarding the existence of corporate governance practices, the company does not have these characteristics. Starting from this point, in order to establish the rights and duties of each member, a model of corporate governance structure was presented. Thus

allowing to show that governance guarantees the management of conflicts that may arise mainly with regard to the separation of the company from the family. The successor recognizes that adopting a governance model is a fundamental part of good management and has a future interest in implementing a model in the company.

In connection with what has been presented, it is considered as limitations of the research the fact that the information obtained cannot be extended to all family organizations, given the particularities of these types of companies.

Finally, given the importance of the theme addressed and with a view to contributing to the development of the company in the case study, research involving other approaches is suggested, such as: implementation of governance and difficulties of implementation, as well as the influence of corporate governance in the succession process and management.

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