RELATIONSHIP BETWEEN GOVERNANCE, STAGE OF SUCCESSION, AND LEGAL PERSONALITY IN FARM FAMILY BUSINESSES

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ABSTRACT

As the farm family business grows, the owner faces the family succession issue. Nevertheless, owners still face the challenge of remaining competitive in the sector. At this point, the professionalization of the business through the adoption of corporate governance practices becomes part of the management repertoire. In this context (succession and governance), we must not neglect the legal personality of the enterprise, which is still a challenge for most farm businesses in Brazil. Under the scope of the fundamentals of "Corporate Governance", "Family Succession", and "Legal Personality", this study proposes and discusses these three dimensions for the management of farm businesses comprehensively. It aims to investigate the relationship between the adoption of corporate governance practices, the stage in the succession process, and the legal personality of farm family businesses. It is a multi-case study with farm businesses from the state of Mato Grosso do Sul. This study was developed using in-depth interviews with a non-probabilistic sample by convenience. The sample comprised six farm businesses. Based on this study’s evidence, we identified a relationship between corporate governance, succession, and the legal personality of farm businesses. Furthermore, we underline the need for an integrative analysis, from which it is possible to propose a set of assumptions with theoretical and managerial implications.

Keywords: Farm family business. Corporate governance. Succession. Legal personality.
RESUMO
À medida que a empresa rural familiar cresce, o proprietário depara-se com o problema da sucessão familiar. Não obstante a isso, os proprietários ainda enfrentam o desafio de permanecer competitivos no setor. Neste ponto, a profissionalização do negócio por meio da adoção de práticas de governança corporativa passa a fazer parte do repertório de gestão. Diante desse contexto — sucessão e governança — não se pode negligenciar a personalidade jurídica do empreendimento, questão esta que ainda constitui um desafio para a maioria das empresas rurais no Brasil. Sob o escopo dos fundamentos de “Governança Corporativa”, “Sucessão Familiar” e “Personalidade Jurídica”, esta pesquisa propõe e discute de forma integrada estas três dimensões para a gestão de empresas rurais, tendo como objetivo investigar a relação entre a adoção de práticas de governança corporativa, o estágio no processo de sucessão e a personalidade jurídica de empresas rurais familiares. Trata-se de um estudo multicasos com empresas rurais localizadas em Mato Grosso do Sul, desenvolvido por meio de entrevistas em profundidade, com amostra não probabilística e por conveniência, constituída por seis empresas rurais. A partir das evidências desta pesquisa, identifica-se uma relação entre governança corporativa, sucessão e personalidade jurídica de empresas rurais, destacando-se a necessidade de uma análise integrativa, da qual é possível propor um conjunto de pressupostos com implicações teóricas e gerenciais.


INTRODUCTION
The need for a change in perspective on conducting business and adopting better governance practices is a challenge for all companies, including family businesses, especially due to globalization and the competitiveness dynamics (ROCHA, 2011).

A family business is one in which management control, either by ownership of the majority of the capital or by shareholders’ agreement, belongs to a family (ALCÂNTARA, 2010). However, the family being at the head of the company should not be a problem because trained, prepared, and competent relatives represent a great “driving force” due to their affective involvement with the business (MACHADO FILHO; CALEMAN; CUNHA, 2017). Moreover, Gersick et al. (1997) point out that family organizations are the predominant form of business in the world, and they wield significant influence on the economy of several nations. In this regard, Avelar (1998) reports that family businesses account for around 90% of all companies worldwide. In Brazil, 265 of the 300 largest private groups are classified as family businesses (ZAPAROLLI; MANAUT, 2000).
Thus, family businesses must professionalize and modernize their management to better adapt to the different phases of the life cycle. This choice is based on more rational and less empirical methods (TEIXEIRA, 2011).

Regarding farm businesses, there is also a need for professionalization. In this sector, there is the challenge of adopting new management models to increase the chances of success of farm family businesses at a time when companies evolve and become more competitive (ALCÂNTARA; MACHADO FILHO, 2014). According to these authors, in addition to alternatives to face increasing competition, these new management models can also be feasible options to improve these companies chance of survival when there is a transition between generations (family succession). However, managing the family business, whose habit is characterized by improvisation, empiricism, lack of planning, and measurable goals, is one of the great challenges imposed in the world economic context (ROCHA, 2011).

At this point, implementing corporate governance practices in farm family businesses is justified. Either to meet the sector’s need for greater professionalization, to face the succession issue, to support the change in the business framework from a natural person to a legal person, or even to enable the opening of capital for listing on the Stock Exchange as they grow (MACHADO FILHO, 2009).

Thus, considering that the dimension of the problem is broad and involves several themes, we decided to propose and discuss an integrative model that includes the relationship between these three dimensions for managing farm businesses in Brazil under the scope of the fundamentals of “Family Succession”, “Legal Personality”, and “Corporate Governance”. Therefore, the central research question is: “What is the relationship between corporate governance practices, the stage in the succession process, and legal personality in farm family businesses?

Other authors have worked on this theme considering some dimensions. Examples include: Corporate governance and structure and/or strategy (Jensen and Meckling, 1976; Fama and Jensen, 1983; Shleifer and Vishny, 1997; La Porta, Shleifer, and Lopez-de-Silanes, 2000); succession in family businesses (Gersick et al., 1997; Stafford et al., 1999; Bayad and Barbot, 2002; Lambrecht, 2005), which comprised authors who discussed the life cycles, growth, development, and evolution of succession in family businesses; the issue of professionalization/legal format (Oliveira et al., 2010; Rocha, 2011; Castro et al., 2001); and the context of farm businesses (Zylbersztajn and Machado Filho, 2003).
However, there is a gap in the literature regarding addressing these dimensions comprehensively.

This study aims to investigate the relationship between the adoption of corporate governance practices, the stage in the succession process, and the legal personality of farm businesses. In this sense, the research contributes to management and regional development as it discusses the adoption of new management models, which helps increase the chances of success of the family business and make them more competitive and better prepared for survival during family succession (ALCÂNTARA; MACHADO FILHO, 2014).

This study is structured into: introduction; theoretical framework, which presents the central theme of the object of study (family business) discussing the themes of succession, corporate governance, and legal personality; methodological procedures; followed by the presentation and analysis of the six cases, in isolation; comparative analysis between the cases; and finally, the final considerations and references cited.

**FAMILY BUSINESS AND SUCCESSION**

As a rule, the family business arises as a dream of its founder. When going through the growth, expansion, and solidification phases, there is a tendency toward the guidance of the successors. As the generations succeed each other, conflicts gain space, such as when succession is anticipated for some unexpected reason (FLORIANI; RODRIGUES, 1999). Gradually, the farm property ceases to be just a physical asset and becomes perceived as a commercial business (ALCÂNTARA, 2010).

Some authors conceptualize a family business as one owned by a family for more than two generations, associating company policies and family interests and objectives (DONNELEY, 1964). Furthermore, succession is related to the hereditary issue, and the institutional values of the firm can be identified in the family’s last name or through the founder’s figure (LODI, 1987).

Approximately 90% of the companies worldwide are family-owned (OLIVEIRA, 1999; AVELAR, 1998). In Brazil, 265 of the 300 largest private groups are classified as family businesses (ZAPAROLLI; MANAUT, 2000). Pricewaterhousecoopers (2014) showed an increase in the number of family businesses in Brazil, which exceeded 77% in 2012. Meanwhile, this percentage was 65% worldwide.
Mintzberg et al. (2006) point out that the evolution of organizations does not occur in a logical or linear sequence. In addition, they argue that the many types of management models appear as organizations’ responses to the changes, priorities, or problems experienced by companies in a given period.

Thus, as farm family businesses expand, owners face an issue that afflicts the families, if not all along the way, but at some point: family succession. Succession comprises the biggest challenge for family businesses because it involves the successors’ ability to acquire the key and core knowledge of their predecessors to maintain and/or increase the company’s performance (CABRERA-SUÁREZ; SAÁ-PÉREZ; GARCIA-ALMEIDA, 2001). Changing appears as an inevitable and essential requirement for companies to survive in the competitive environment, and models that work with the life cycle are important to understand the past and how a company evolves in different times (PIMENTA; BORGES, 2006).

The model proposed by Gersick et al. (1997) considers the dimensions “Ownership”, “Management/Business”, and “Family”. These dimensions are regarded as axes, configuring a three-dimensional model. The axes can be analyzed independently (analysis of each phase) and from an interdependent perspective, which gives it a dynamic character of the moment of transition in which the company finds itself. It is worth noting that there is a difference between being an heir and being a successor (BELDI et al., 2010). Being an heir is directly related to patrimony since acquiring assets and rights through a predecessor is a legal right. On the other hand, being a successor requires certain skills, abilities, merits, and personal achievements. In addition, successors must be connected to the business because they are nominated to replace an executive position and coordinate the company, whether or not they belong to the family.

For Sharma, Chrisman, and Chua (2003), the propensity of a more reliable successor considerably increases the success of all succession planning activities. In other words, this success is more influenced by the active actions of this chosen successor than by the occurrences that may indicate the need for this future succession. For Handler (1994), this succession has to be seen as a process with phases before this change of power, at the time of this change, and after this change has taken place. Thus, it has to be followed and monitored in these three stages to be successful.

In order to accomplish this, Churchill and Hatten (1987) propose a “life cycle” in family businesses. These authors suggest four phases: a) owner management, in which only one family member is engaged daily in the business; b) training and development, in which future successors begin to take contact and
knowledge with the business; c) partnership, stage in which the company is under this joint action between the parent and the son/daughter/successor; and d) transfer of power, in which the responsibilities pass in their entirety to the son/daughter/successor.

In this regard, Handler (1994) states that the quality of the succession experience depends on two factors: a) the individual influences of the successor, such as external career interest or not, personality, life stage, and personal influences; and b) relational influences, such as mutual respect and understanding between the generations and family involvement and commitment to perpetuate the family business.

Depending on when succession occurs, there is a considerable financial impact on the company. Notably, a succession between the first and second generation of the business may normally indicate a negative influence, mainly due to the increase in their debts. When the succession occurs in later generations, it does not happen or is even reversed. However, it is worth noting that there is no evidence that even if this happens, profit cannot be affected in this exchange of powers (MOLLY; LAVEREN; DELOOF, 2010).

The importance of the generation in which succession occurs is an important element but has a moderate influence. Family succession success also depends on the successor’s profile, the family’s characteristics, the level of organization, and the level of resources in this organization (DAVIS; HAVERSTON, 1998). Drucker (2011) emphasizes the importance of succession planning. Otherwise, it would be too late to look for an outsider after the problems have already been pronounced. There is still a need for proper planning and integration with financial and tax issues, which does not happen overnight. Therefore, companies are increasingly looking for an external arbitrator to act before the decision is made or even before the other family members may have initiated the conflicts because they disagree on the succession.

**FAMILY BUSINESSES AND CORPORATE GOVERNANCE**

The expansion of companies and the transfer of management to third parties unrelated to the founder by blood ties generated an environment of distrust between owners and managers. Thus, it is the essence of the problem of separating ownership and control (BERLE; MEANS, 1932). In this regard, agency costs emerge (JENSEN; MECKLING, 1976).

In Jensen and Meckling’s (1976, p. 308) conception, the agency relationship is conceptualized as “a
contract where one or more persons - the principal - engage another person - the agent - to perform some task on their behalf, involving the delegation of decision-making authority by the agent”. Moreover, Saes (2000, p. 180) states that “the principal is the one who delegates tasks or power of authority, in whole or in part, to the agent, who would act according to the interests of the principal”. Here, the problem arises from the asymmetry of information. Incentives and control mechanisms must be applied to align the parties’ interests (SAES, 2000).

In this sense, there is the concept of corporate governance, which is the set of mechanisms that corroborate the increase in the probability of resource providers having a return on investments made, in addition to incentives and internal and external controls to reduce costs arising from the agency problem. This concept is important because the understanding that governance practices influence company performance is widespread (SILVEIRA, 2002).

In family businesses, there is usually an overlap of roles and functions, which corroborates the importance of inserting governance practices that contribute to the formation of rules and agreements to prevent the transfer of responsibilities from the family to the company and vice versa (NÔBREGA, 2012).

Therefore, effective corporate governance in family businesses should establish family policies to prevent decisions that some family members may judge as arbitrary and/or detrimental to the company (WARD; ARONOFF, 2011). In this regard, Silveira (2002, p. 10-11) states that “a governance system is considered efficient when it combines different internal and external mechanisms to ensure decisions in the best long-term interest of shareholders”.

As examples of internal and external mechanisms for aligning interests, Silveira (2002) points out the Board of Directors, remuneration of managers, stock ownership by executives, obligation to disclose periodic information regarding the company (greater transparency), and competitive labor market. Along these lines, we can also mention the company’s ownership and control structure, the commitment to periodically making detailed information available to external audiences, and the capital structure of the business itself (level of indebtedness).

Good governance makes a difference in family businesses because firms with effective governance practices are more likely to implement a smooth family succession process (NEUBAUER; LANK, 2016; MACHADO FILHO; CALEMAN; CUNHA, 2017).
FAMILY BUSINESSES AND LEGAL PERSONALITY

According to Santos and Eisenhardt (2009), organizational edges can be seen from several angles, these being: a) power, in which the influence of the organization is emphasized; b) competence, in which the company’s portfolio and its allocations are observed; c) identity, in which the set of thoughts of the organization is analyzed; and d) efficiency, which mainly considers the explanation of the legal right of ownership of this organization, the latter having the most expanded discussion in this topic.

Only subjects of law, natural persons, or legal persons have legal personality. According to Gagliano and Pamplona (2014, p. 286), the legal personality “is the generic ability to hold rights and contract obligations, or, in other words, is the necessary attribute to be a subject of law”. Therefore, after acquiring personality, “the entity starts acting, as a subject of law (natural or legal person), practicing legal acts and businesses of the most different nuances” (GAGLIANO; PAMPLONA, 2014, p. 286). For the author, “the natural person, for the law, is, therefore, the human being, as subject/recipient of rights and obligations”.

For Rodrigues (2002, p. 169), “legal persons are entities to which the law lends personality, that is, they are beings that act in legal life, with personalities different from that of the individuals comprising them, capable of being subjects of rights and obligations in the civil order”.

According to art. 971 of the Civil Code, farm entrepreneurs carry out an activity of a farm nature. They can choose to submit or not to the business regime, and if they decide to do so, they must be registered with their respective Board of Trade, becoming, from the registration, an entrepreneur. It stems from Article 970, which states that the law shall ensure favorable, differentiated, and simplified treatment for farm and small entrepreneurs regarding registration and its effects.

Thus, the farm producer (natural person) who carries out agricultural, livestock, extractive, and other related activities will become a farm entrepreneur when registered in the Public Registry of Commercial Companies of the respective headquarters, whose function belongs to the Boards of Trade under the supervision of the National Department of Trade Registration (DNRC), subject to the bankruptcy and judicial reorganization regime.

What characterizes entrepreneurs as such is not their registration or not at the Board of Trade because even if they do not have the registration, they will continue to be entrepreneurs when the requirements of organization of the factors of production and purpose mentioned above are met. Therefore,
the registry is declaratory and not constitutive in nature. It aims to give publicity to the acts registered in it. The absence of registration characterizes it as an irregular or actual entrepreneur, in which case it is still subject to bankruptcy. However, it cannot benefit from judicial reorganization or file for bankruptcy of its debtors. In the farm entrepreneur’s case, the nature of the registration becomes constitutive.

Table 1 shows some differences between setting up a farm property as a natural person and as a legal person.

### Table 1 | Main Differences between Natural and Legal Persons

<table>
<thead>
<tr>
<th>Natural Person</th>
<th>Author/Year</th>
<th>Legal Person</th>
<th>Author/Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simplified accounting bookkeeping.</td>
<td>Marion (2005); Crepaldi (1998)</td>
<td>Complex accounting; Increased access to financing and bank loans; Separation of the partners’ and the company’s assets; Criminal liability for environmental violations rests with the legal person; Increased bureaucracy; Increased monitoring; Higher administrative costs - need to hire specialized offices.</td>
<td>Costa (2001)</td>
</tr>
<tr>
<td>Upon the founder’s death, the assets become an estate and are divided equally among the heirs, who can do whatever they want with them.</td>
<td>Zafanelli (2006)</td>
<td>It is possible to maintain unity without the need for division at the time of succession; Registration with the Board of Trade; Governed by a social contract; Greater chance of longevity.</td>
<td>Zafanelli (2006)</td>
</tr>
</tbody>
</table>

Source: Prepared by the authors.

As shown in Table 1, the accounting issue is the main point that differentiates a natural person from a legal person who owns a farm enterprise. While the natural person has higher levels of simplification, the legal person has a series of rules to be met, making its bookkeeping more complex. On the other hand, in the succession issue upon the founder’s death, if a natural person, the business issue is not considered, and the assets, even if businesses, in the name of the owner, are made available on an equal basis with the other assets to all heirs, and may even be discontinued. On the other hand, in the case of a “legal person” company, there is greater protection if there is a succession, maintaining the business unit.
METHODOLOGICAL PROCEDURES

This exploratory research adopted the inductive method and a qualitative cross-sectional approach, which according to Richardson (1999), is one whose data are collected at a point in time based on a sample selected to describe a population at that time.

The methodological procedure used a narrative review to provide a theoretical basis. Since it is a narrative review, we did not use specific and systematic criteria. We adopted seminal authors and references in the research’s theoretical axes as a starting point. In order to meet the proposed objective, we used a multi-case study, an approach in which multiple systems are investigated over a certain period of time. Its research strategy focuses on understanding the dynamics existing in the same context (CRESWELL, 2014) and the comparative research design between the cases studied. Multi-case studies have some advantages over single-case studies: a) they can be inductive (EISENhardt, 1989); b) they can be treated as experiments with logical replication (YIN, 2017); and c) they can generate more robust theories (EISENHARTS; GRAEBNER, 2007).

The sample was non-probabilistic, and for convenience, it comprised six (06) cases. The territorial clipping concerned the state of Mato Grosso do Sul. This clipping was chosen due to the importance of agribusiness for the economy of Mato Grosso do Sul. This study’s population included farm owners with decision-making power within the family farm. Data collection involved interviews with semi-structured scripts.

In order to specify the main variables to be considered, we reviewed the main dependent variables used in the literature and grouped them into seven types (YU et al., 2012). These variables include: a) family business rules; b) family dynamics; c) governance; d) succession; e) social and economic impact; f) strategy; and g) company performance.

Data analysis involved content analysis based on the degree of evolution of each property. It followed the model of development axes proposed by Gersick et al. (1997) and the companies’ governance structures and legal personality.
PRESENTATION AND CASE ANALYSIS

Table 2 presents the characterization of the cases investigated regarding the total area of farm properties, their main productive activity, the generation of the family managing the enterprise, and the legal personality adopted by the company. After that, the investigated cases are described.

**Table 2 | Case characterization**

<table>
<thead>
<tr>
<th>Case</th>
<th>Total Area</th>
<th>Main Activity</th>
<th>Family Generation</th>
<th>Legal Personality</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>4.100 ha (two properties)</td>
<td>Beef Cattle (Brangus) Agriculture (soy, corn, and sugar cane)</td>
<td>Fourth</td>
<td>Legal Person</td>
</tr>
<tr>
<td>2</td>
<td>4.865 ha (two properties)</td>
<td>Beef Cattle</td>
<td>First</td>
<td>Natural Person</td>
</tr>
<tr>
<td>3</td>
<td>2.995 ha (four properties, with three attached to one and the other separate)</td>
<td>Cattle Breeding; Horse; Sheep; Vegetable garden for employees’ consumption; Artificial insemination.</td>
<td>First and Second</td>
<td>Legal Person and Natural Person</td>
</tr>
<tr>
<td>4</td>
<td>14.028 ha (three properties)</td>
<td>Soy</td>
<td>First and Second</td>
<td>Legal Person and Natural Person</td>
</tr>
<tr>
<td>5</td>
<td>304 ha (one property)</td>
<td>Nelore Cattle Breeding; Dairy Breeding (crossbred) and planting fruits and vegetables for own consumption</td>
<td>First</td>
<td>Natural Person</td>
</tr>
<tr>
<td>6</td>
<td>4.500 ha (one property)</td>
<td>Livestock, agriculture, sugar cane</td>
<td>Third and Fourth</td>
<td>Legal Person</td>
</tr>
</tbody>
</table>

Source: Research Data.

Table 2 shows the variety of the sample, both in terms of life cycle stage (generation) and property size, main activities, and legal personality adopted.

**CASE 1**

When considering the “Family Axis”, the company is in the “Working Together” stage. In other words, two or more generations (mother, father, and children) are involved in the business. In this company, the children represent the fourth family generation. Regarding the succession process, there
was no conflict since everything was well outlined because everyone had been prepared for the succession process over the years. In the “Ownership Axis”, the company stage can be classified as a “Partnership between siblings”. Family succession, a constant among the family’s many generations, could not disperse the property’s control among family members beyond what could be called the main lineage (great-grandfathers, grandfathers, fathers, sons). Partners have a clear definition of their roles. When considering the “Business/Management Axis”, the milestone in the property management change occurred in 1994, when the interviewee’s grandfather fell ill and decided to leave the farm. The grandfather idealized the change to a legal person approximately 30 years ago when he saw the possibility of reducing the tax burden and protecting the assets of his only heir (the interviewee’s mother).

The company is classified in the “Maturity” stage in the management axis, characterized by the organizational structure’s higher stability. Among all the cases studied here, company 1 has the most advanced degree of professionalization. It even adopts corporate governance practices. Governance structures involve a board of directors, a family council, an independent audit, an executive board, a general assembly of partners, and the creation of a formal code of conduct. The legal personality change resulted from the succession issue to avoid the property’s slicing. In turn, the change in legal personality facilitated the adoption of Corporate Governance practices.

**CASE 02**

When considering the “Family Axis”, company 2 has two partners, the interviewee and his ex-wife. In this axis, case 2 falls into the “Young Entrepreneurial Family” situation, when the founding member acts alone in the company. Moreover, in the “Entry into Business” stage, where the couple is already older, in their 60s, and the children are already teenagers or young people deciding whether to enter the family business. The family’s 1st generation manages the property.

When considering the “Ownership Axis”, the company can be put into the “Controlling Owner” stage. The partners’ capital is reinvested in the farm, and the property structure is linked to the couple who started the business. As a result, the company’s decision-making process is still concentrated on the owner-partners.
When considering the “Business/Management Axis”, the family manages the company and is classified in this axis at the “Start” stage. Organizational structures are poorly formalized, and processes are centered on the figure of the owner-partners. The company also focuses on only one product and shows little diversification of product lines and services. The company’s survival is among other challenges. They have governance practices at an early stage (no formalized board of directors, fiscal council, family council, executive board, independent audit, supervisory board, general assembly, and code of conduct). However, they adopt practices to professionalize the business, such as separating property and partner accounts.

CASE 3

When considering the “Family Axis”, in addition to the founding partner, his wife and two children also have a stake in the company. The family also includes two more grandchildren. Company 3 is classified as “Working Together”. In other words, two or more generations are involved in the family business. The older generation is over seventy, and the younger is between forty and fifty. The individuals have already decided regarding their participation in the company and the definition of their role toward the family and the business. The first generation runs the company, with the second generation’s concurrent participation. In addition to this stage, the company also falls into the “Passing of the Baton” phase. The older generation is already retiring, and everything is already prepared regarding division for family succession.

When considering the “Ownership Axis”, this company was classified in a hybrid stage: “Controlling Owner” and “Partnership between siblings”. Equity is divided between two generations. However, the management of the business is still centered on the figure of the controlling owner since he is the one who controls and authorizes the expenditure or investment. Nevertheless, family members discuss and decide by majority vote when dealing with new investments.

When considering the “Business/Management Axis”, the company falls into the “Start” stage. Organizational structures are still poorly formalized, and processes are centered on the owner-manager. The company is focused on only one product and shows little diversification of product lines and services. There were also traces of the expansion and formalization phase,
characterized by the increased complexity of the company’s processes and organizational structure, such as the legal personality change. The company’s maintenance within the family group and the tax issue stand among the reasons listed for changing the legal personality and seeking legal ways to reduce the tax burden. The interviewee showed a lack of knowledge regarding the technical terms of Corporate Governance. However, we found a board of directors, a family council, and executive management, even if there is ignorance of the terms. There is no independent audit, fiscal council, or formalized code of conduct. There is a separation between property and partner accounts. The positions are filled by professionals who are competent for the job. Corporate Governance practices have increased with the change in legal personality.

CASE 4

When considering the “Family Axis”, company 4 falls into the “Working Together” stage. In other words, other family members are starting their professional activity in the company. At this stage, two or more generations are involved in the family business. The older generation is between 55 and 65, and the younger ranges between 20 and 40. At this stage, these individuals have already decided regarding their participation in the company and the definition of their role toward the family and the business. The parents and all the children are directly involved in the properties.

When considering the “Ownership Axis”, the family business comprises two farms in the state of Mato Grosso do Sul and one in the state of Mato Grosso. The company (legal person) processes the grain from the farm, packages it, and sells the soybean seed to other farmers. The farm that produces the grain for the legal person is in the name of the father and siblings. The farm is set up as a natural person, meaning they are cooperative members of the company. Thus, within the family business, there is a hybrid model. This model comprises companies constituted as legal and natural persons.

At this stage, the company can be classified in the “Controlling Owner” stage (when the ownership belongs to the founder and, in some cases, his wife) and is on its way to the “Partnership between siblings” stage. The ownership structure is still linked to the couple who started the company. However, the management is now decentralized among the children. The decision-making process
is democratic because it observes the opinion of all family members. Nevertheless, it is concentrated on the founding partner, who has the final word.

When considering the "Business/Management Axis", company management falls into the "Formalization and Expansion" stage, characterized by a constant increase in the complexity of the company’s processes and organizational structure and business diversification. Furthermore, there is the challenge of evolving from the centralization of the founder’s power regarding the most relevant decisions to the professionalization of the company’s management. Initially, this professionalization is characterized by the delimitation of functions within the company. There is a separation of family and company accounts. Corporate governance in ownership was rated as intermediate-low. There is a board of directors, family council, executive board, and a formalized code of conduct. However, key management positions are still filled by family members.

**CASE 5**

When considering the "Family Axis", the ownership stage is “Entry into Business”. The partnership comprises three brothers. There was no conflict between the partners, nor between managers and heirs, as there are always meetings in which suggestions are heard, and goals and objectives are defined, which can be reviewed when necessary. It is difficult to convince the sons to take over the family’s farm business because of their daily commitments, as they would have to change their routines completely. They are still experiencing difficulty managing their partners’ expectations with their sons’ expectations. There is no conflict between the brothers to take over the family business.

When considering the “Ownership Axis”, the property falls into the “Partnership between siblings” stage. The company started with the investment of the partners’ capital. However, as it expanded, new investments were made by applying the business profit. There is still no clear role for each partner. They adopted the natural person. There has not yet been a desire to change the property’s legal personality, nor do they intend to. The change could occur if legislation required farm properties in the country to adopt a specific format and if the change could be accomplished in a simplified manner.

When considering the “Business/Management Axis”, the property is still unprofessionalized. The partners draw up goals every three years. Only family members participate in decision-making and take
care of the farm’s main activities. The “Start” stage, in which the property currently fits, involves the initial years of a firm, with little formalized organizational structures and processes centered on the figure of the owner-partners. The focus is only on one product, and product lines and services are not diversified. The challenge they face is the company’s very survival and their son’s imminent entry into property management. There is a lack of knowledge regarding corporate governance.

**CASE 6**

When considering the “Family Axis”, the company is currently formed by the components of the third and fourth generations, a partnership comprising three brothers and their parents. Its origin dates back to the generation of great-grandparents who arrived in the Mato Grosso region in 1845. The enterprise is in the “Working Together” stage, in which the company includes two or more generations involved in the family business. When considering the “Ownership Axis”, the company is classified as a “Partnership between siblings”. The father was essential in forming the company. At the age of 82, he supported the change of the company’s legal personality from that of a natural person to that of a legal person in 2016. The preservation of the family unit was listed as a reason for changing the legal personality since the property may be diluted to the extent that there is a change of generation. Succession can pose a risk to business competitiveness. The main reason listed for changing the company’s legal personality was the succession issue, followed by the attempt to reduce the tax burden. The interviewee reported that when the “Natural Person” format was adopted, there was confusion between the family and the property accounts, which led to many conflicts.

When considering the “Company/Management Axis”, the company was classified in the “Formalization and Expansion” stage, whose challenge is to evolve from the centralization of power from the founder to the professionalization of the company’s management, which is still run only by family members. The company’s Corporate Governance practices were rated at intermediate-low level. There is an executive board and general assembly of people linked by blood ties. Moreover, there is a separation of accounts and a formalized code of conduct.
COMPARATIVE ANALYSIS OF CASES

When analyzing all cases, we noticed that directly, but not consciously, the choice to change the legal personality leads farm owners to adopt better Corporate Governance practices. The owners demonstrated that, by their own will, the change of legal personality occurred due to two factors: i) succession purposes to maintain the unit and lower dispersion of the business and ii) reduction of the tax burden. The adoption of corporate governance practices would be related to the professionalization of management.

Companies that have had their legal personality changed have been shown to have more governance practices than properties that have remained under the control of Natural Persons. For example, regarding governance structures, the two properties adopting the natural person format did not have a Board of Directors, General Assembly, Family Council, Fiscal Council, Executive Board, or formal code of conduct. High levels of bureaucracy prevailed among the characteristics cited as detrimental to changing the legal personality.

Cases 2 and 5, whose format is that of a Natural Person, presented governance practices at an early stage. These were confused with the practices required to professionalize the business (e.g., separation between natural person and property accounts, hiring of outsourced workers).

Cases 3 and 4, which adopt the hybrid format (Natural Person and Legal Person), presented governance practices at an intermediate-low stage. They had a Board of Directors, Family Council, Executive Board, and General Assembly. Entretanto, na composição dos diferentes órgãos, os membros eram os mesmos para todas as reuniões.

Company 1, which is already in its fourth family generation and has more than 130 years of history, was the only case that demonstrated well-defined and more advanced corporate governance than the others.

Furthermore, we found that in cases where representatives of the family’s first generation are in charge of the business, the format adopted is that of a Natural Person (cases 2 and 5). In the cases in which representatives of the 1st and 2nd generation concurrently act in the business, the format adopted is that of a Natural Person and Legal Person (cases 3 and 4). In the cases where the family generation responsible for running the business has already exceeded the 3rd generation, the formats adopted were that of a
Legal Person only (cases 1 and 6). This observation signals the importance of studies investigating the relationship between succession aspects and the legal personality of farm businesses.

The personality change occurred mainly to keep the business under family control. However, most interviewees knew very little about governance practices. The knowledge demonstrated concerned practices aimed at the need for professionalizing the business. The assessment of the degree of adoption of corporate governance practices was based on the interviewee’s report on the company’s management routines.

Table 3 summarizes the companies’ development stages in the cases analyzed and described in the previous topics, the succession stage, the companies’ legal nature, and the level of corporate governance.

**Table 3 | Stages of development, succession stage, legal nature, and governance of the companies**

<table>
<thead>
<tr>
<th>Case</th>
<th>Stages</th>
<th>Succession</th>
<th>Legal Nature</th>
<th>Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Family Axis</td>
<td>Management Axis</td>
<td>Ownership Axis</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Working Together</td>
<td>Maturity</td>
<td>Partnership between siblings</td>
<td>Fourth generation</td>
</tr>
<tr>
<td>2</td>
<td>Young Entrepreneurial Family and Entry into Business</td>
<td>Start</td>
<td>Controlling Owner</td>
<td>First generation</td>
</tr>
<tr>
<td>3</td>
<td>Working Together and Passing of the Baton</td>
<td>Start</td>
<td>Controlling Owner and Partnership between siblings</td>
<td>First and second generations</td>
</tr>
<tr>
<td>4</td>
<td>Working Together</td>
<td>Expansion and Formalization</td>
<td>Controlling Owner and Partnership between siblings</td>
<td>First and second generations</td>
</tr>
<tr>
<td>5</td>
<td>Entry into Business</td>
<td>Start</td>
<td>Partnership between siblings</td>
<td>First generation</td>
</tr>
<tr>
<td>6</td>
<td>Working Together</td>
<td>Expansion and Formalization</td>
<td>Partnership between siblings</td>
<td>Third and fourth generations</td>
</tr>
</tbody>
</table>

Source: Research Data.
Table 3 shows that farm businesses are at an early stage in management, characterized by the beginning of the family business and the predominance of the “natural person” legal personality. They are also at an early stage in governance. On the other hand, there is evidence that as they go through the succession of generations, companies present a more advanced level of governance and are characterized as “legal persons”.

**FINAL CONSIDERATIONS**

This study aimed to investigate the integrated relationship between corporate governance, succession, and legal personality of farm businesses. We found that adopting more sophisticated corporate governance practices is related to the farm business’s choice of legal personality, which, in the cases analyzed, relates to succession and tax purposes.

In the case of exploratory and qualitative research, it is not possible to establish a causal relationship between the dimensions analyzed (corporate governance, succession, and legal personality). However, there is evidence of a relationship between these dimensions. Based on the integrative analysis of the dimensions, we observed that the adoption of governance practices is associated with the succession process of companies. Furthermore, companies tend to assume a legal personality as they advance in passing the baton between generations at the head of the farm business.

Thus, we understand that some assumptions can be addressed based on this study’s evidence: i) farm businesses that assume the legal person format are more willing to adopt corporate governance practices; ii) farm businesses undergoing succession are more willing to adopt corporate governance practices; and iii) farm businesses undergoing succession are more willing to assume the legal person format.

It is worth noting that the three assumptions listed here cannot be rejected a priori, as they were observed as predicted in the six cases studied here, with a greater or lesser degree of intensity in each of them. That said, a future research agenda involves empirical validation of these assumptions with a quantitative approach and a required increase in sample size.

This study’s contribution is to identify the need for an integrated approach between corporate governance, succession, and the legal personality of farm companies. It sheds light on a theoretical and empirical problem that future research should explore.
REFERENCES


