

VI SPECIAL STUDY

# FAMILY-OWNED COMPANIES



PREMISES FOR A SUCCESSION PLAN

# MESA CORPORATE GOVERNANCE

---

It is the first Brazilian consultancy dedicated to the human dimension of corporate governance, constituting a sophisticated niche of modern management consulting. Mesa serves predominantly large and medium-sized national companies of family and multi-company origin, whether they are privately held or open to the capital market. In addition, it acts with the Brazilian branch group of large multinational companies.

# INDEX

Editorial .....	5
Planning the complex .....	6
Power Transfer .....	10
Learning from the experience of those who did well.....	12
A new way to manage.....	13
A good leader.....	14
Opinion from gurus.....	15
Without giving a chance to chance.....	16
The importance of maintaining a healthy legacy from generation to generation.....	18
The intangible value of the family legacy.....	20
Gerdau and Natura - Examples of well done succession .....	24
Well-planned equity success minimizes conflicts.....	26
A “tribucratic” country.....	28
Preventive measure .....	30
Leave to grow.....	32
Know More.....	34
Titles consulted .....	34
Books.....	35
Accesses on the internet .....	35

## BOARD OF DIRECTORS AND STAFF



**HERBERT STEINBERG** – President and Founder of Mesa, is a consultant of Corporate Governance and Human Development. 39 years of experience in big companies, 26 of which being a board member. Director. Independent Professional. Member of IBGC - Instituto Brasileiro de Governança Corporativa [Brazilian Institute of Corporate Governance], ICGN - International Corporate Governance Network and FBN - Family Business Network. Administrator, postgraduate by FGV-SP and certified by Directors' Consortium (Chicago University, Stanford Law School, Wharton University). Author of books “A dimensão humana da governança corporativa”, “Conselhos que perpetuam empresas”, “A família empresária”, among others. President of Amcham Corporate Governance Strategic Group - São Paulo.



**LUIZ MARCATTI** – Partner and manager of Mesa's management area, company administrator specialized in Foreign Trade and Marketing. Graduated in arbitration by Instituto Famíliae - SP and graduated as Administration Advisor by IBGC. Having more than 30 years of professional experience, acts as advisor in Governance and Corporate Management projects for 22 years, also acting in the formation and development of executives by means of training and coaching processes, in addition to being, firstly, executive in the financial market. Member of IBGC Human Resources Committee, member of NACD - National Association of Corporate Directors - USA and independent member of the Board of Directors. Coauthor of book “Nos bastidores da Educação Brasileira”.



**FRANCIS MATOS** – Master Degree by PUC - SP, MBA in HR by USP-SP. Psychologist by UFPR. Acts for 10 years in the areas of Corporate and Family Succession, Development of Family Company. Wide experience in big corporations and HR consultancy, especially Assessment and Development. Professor at Fundação Dom Cabral in Shareholder Development and visiting professor at FAAP-SP. Certifications from Fundação Nexia - Barcelona for the Development of Family Business, and Newfield Consulting - Spain. Co-author of book “Família Empresaria de A a Z -Descomplicando as Expressões nas Empresas Familiares”



**HAMILTON IBANES** – Civil engineer, MBA-International by Business School SP / Toronto University, Certified Independent Director of IBGC, Coaching by ICI-SP. Having more than 34 years of executive experience in industrial operations/services in complex and multicultural environments, with emphasis for the title of CEO of a Japanese multinational company for the Latin-American market. Career developed in groups such as Horiba, Accor/Compass, Pial Legrand/Bticino, Hunter Douglas, Incepa and Santher. Led strategic planning processes and recovery of deficit operations through new business models, fine adjustments of processes and human development. Author of book “Lidere-se - Conhecendo a si mesmo para liderar”.



**ÁLVARO ARMOND** – Company Administrator, Master Degree in Organizational Behavior by Universidade Mackenzie. Possesses more than 30 years of professional experience, 13 of them at Lloyds TSB. Former Chief Executive Officer of Cia. Paulista de Trens Metropolitanos -CPTM and Organizational Development Director of Lazam MDS. Acts for more than 10 years as Consultant in Corporate and Executive Education in projects directed to Entrepreneurship and Organizational Behavior areas. Undergraduate course professor, Certificates and MBA by Insper - Instituto de Ensino e Pesquisa, in Entrepreneurship and Innovation, Teams and Leadership areas. Certified Coach by ICI - Instituto de Coaching Integrado.



**FRANCISCO DE CUNTO** – Engineer by Escola Politécnica da USP and postgraduate in Company Administration by FGV-SP. For 13 years, he has been partner of Hedging Griffo Corretora de Valores and, for the same amount of time, partner at Janos, Family Office of partners of Natura Cosméticos, where, since its foundation, has structured several areas of operation of the office (investment, personal finance, wealth, tax, and new businesses management). Considered one of the pioneers and a reference in his area, he was elected the best Latin America F.O. for several years by the magazine Euro Money. Works with family companies, developing services of implementation of F.O., financial advisory to partners, among others.

# EDITORIAL

**W**e are a company committed to constructive debate. Satisfied to always provoke and motivate the reflection of issues pertaining to perpetuity, and we, at Mesa Corporate Governance, present the sixth edition of the study on family-owned companies. An exercise which has begun a few years ago aiming at defining, from a clear and objective discourse, the main concepts that guide the implementation and development of good practices of corporate governance in companies. Regarding the issues that preceded this study, we talked about the dilemmas and solutions that a business family must face in order to move forward; of factors that affect personal relationships and can affect the company's daily life, especially in those of a family origin, compromising its management. We went beyond that. Encouraged by the growing interest of our clients and the market in discussing the role of boards, we delve deeper into this theme in the third edition. Next, we focus on discussing the impacts of the capital structure on organizations and societies.



Julio Blitencourt – Valor/Fotografia Imagern

The maturation of this practice and the themes themselves led us, in the fifth edition, to share our experience in accompanying and structuring partner agreements. Complex and delicate, the theme goes through many instances and requires the involvement of all partners in its construction. This time we want to bring light to a sensitive subject of utmost importance. Succession in family businesses. When discussing succession, we speak about building a path, of adopting processes that involve looking after the future of an organization under the eyes of management, its legacy, its assets and especially its values. It is to set as a priority thinking about tomorrow.

Succession in a family business often goes by choosing the successor to the founder of the business, who needs to give up power. The process is more complex than choosing a new leader. It's about choosing the best character to drive the company to a safe place. The right person to make the transition work. Someone who is qualified to lead the company and is committed to expand it. Being able to protect family assets, with strategic vision and in tune with its culture. Thinking of and executing a succession plan goes through the challenge and responsibility of deciphering the future and choosing the leader who can account for this future. Someone able to infect people positively and inducingly rowing in the same direction, with enthusiasm and thus to pave the desired perpetuity.

**Herbert Steinberg**

## Planning the complex



*“The running of life wraps everything. So it’s life: it warms up and cools down; squeezes and loosens; rest and then restless. What it wants from us is courage.”*

*João Guimarães Rosa*

The succession theme is not simple. The mere idea that someone needs a successor, in and of itself, causes discomfort, forces people to face their finity, that in life there is a beginning, middle, and end. When we talk about succession planning, especially in a family business, we are talking about dealing with a wide range of aspects: strategic, corporate, tax, management, behavioral, and emotional.

In order for this process to happen harmoniously, it is necessary to conduct it so that successor and success can achieve their goals and that business does not lose its rhythm and result.

Companies, whether or not they are family members, are subject to having their life expectancy affected by different agents, often uncontrollable. Changes in market rules, the very life cycle of their products and services, behavioral change and the needs of their consuming public, competition, new technologies, ultimately require a willingness to face challenges and a capacity for continual renewal.

Seeing tomorrow and thinking about long-term actions are basic conditions for maintaining a business. And that requires planning. For John Ward, a professor at the Kellogg School of Management and IMD (International Institute for Management Development), the difficulty of thinking about the future is one of the main causes of a company's failure. Strategic planning increases a company's choices and responsiveness to change; generates information that reduces uncertainties; improves internal organization and inhibits speculation; stimulates the company's competitive forces; helps to preserve resources, improves its relationship with different stakeholders, and other benefits.

Thinking about the future necessarily passes through the succession plan. Any entrepreneur who thinks about preserving their business needs to think about their transition.

### **Making it happen**

In order to a succession process to take place it is necessary that the owner of the business wants it. More than that, he must make it happen. Establish what you want for the business, preparing it, defining how you intend to get there, backed by what values and perpetuating your guidelines in the mission of the company. It should guide the succession process itself. In addition to the tangible aspects, it is always necessary to keep in mind that the search for a new leader goes beyond the appointment of a new president.

Accepting help in conducting this process is a valid recommendation. The company - and the family - will have many questions and variables to deal with. This brings a degree of discomfort that the support of a specialist becomes fundamental. Approaching the process as an amateur can bring unnecessary risks to business and relationships.

One of the reasons why a family company carefully and carefully evaluates the challenges of an inheritance plan is based on the demand for an increasingly dynamic, globalized and complex economy. Brazil is more than inserted in this context, with considerable growth prospects amid the fierce competition in all productive sectors. Companies which have a well-structured management and are based on and based on good corporate governance practices are better able.

A company needs to be ready to face the new times, with the ability to perform above average and thus stay in the game. Being perceived as such is as important as having a program focused on generating new leaderships, anchored in a good succession plan that creates the environment and defines the instrumentalization of the business so that it will last.

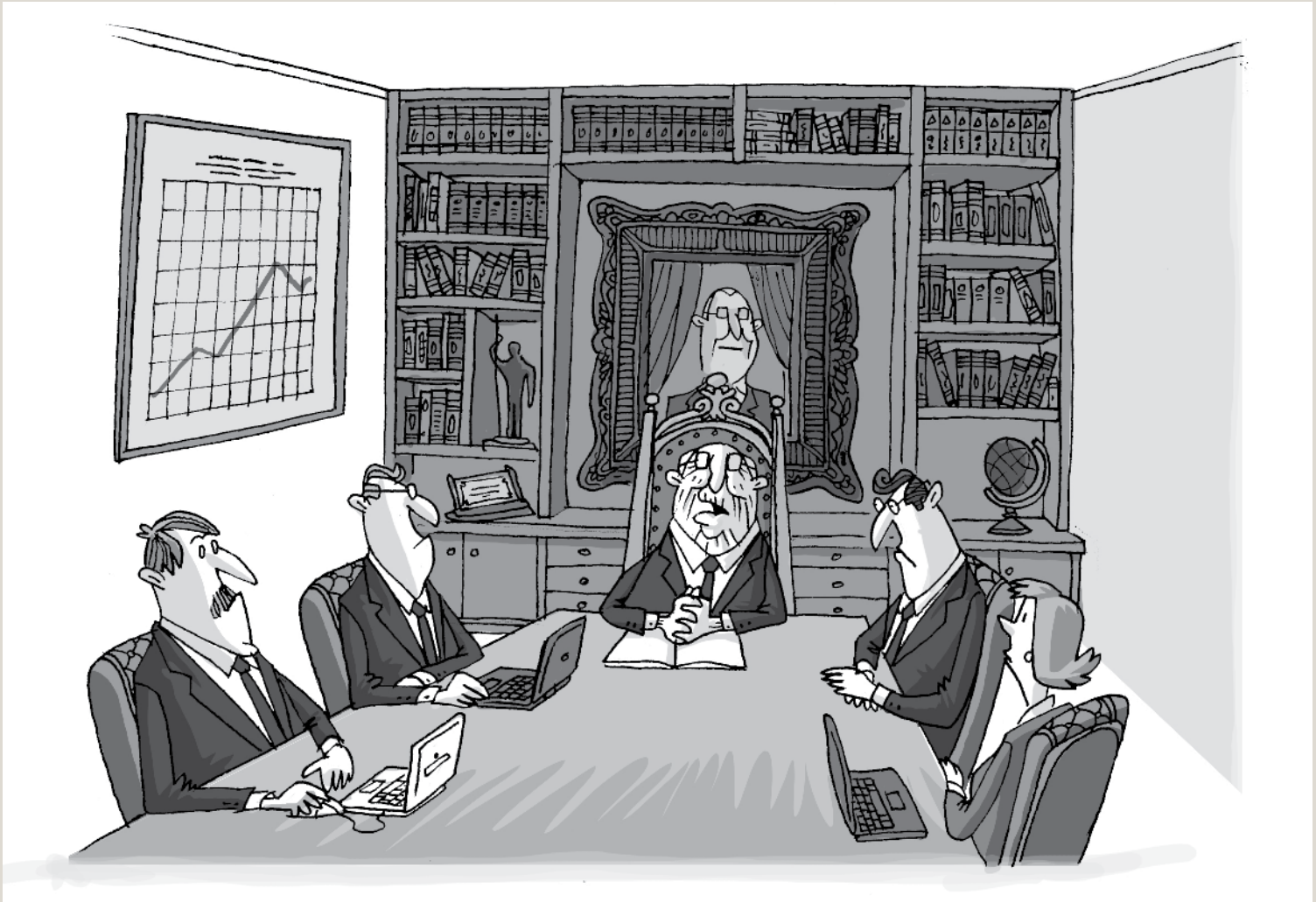
### THINKING ABOUT THE FUTURE

- Which forces drive the company?
- How do these forces influence decision making?
- Which factors have determined the success of the business so far?
- What does sustain success from now on?
- Which weaknesses does the company have to overcome to be competitive?
- Which opportunities can be leveraged and which ones can be created to improve business performance?
- What are the company's values and mission?
- Do we have the right people to take the company to this condition?

### STEP BY STEP FOR A SUCCESSION PLAN

- Establish a policy that will govern the participation of the family in the process and establish a plan that stimulates the heirs' interest in the business;
- Align the objectives of the company, its mission and values - take care of its culture;
- Establish a strategic plan and implement it;
- Form an advisory council or committee to conduct and guide the process;
- Define the successor selection process;
- Think about the future of the predecessor;
- Define powers to those in charge of the transition process;
- Analyze tributary issues of inheritance succession





I WAS THINKING: WHAT AM I GOING TO DO,  
WHEN YOU ALL RETIRE?...

## Power Transfer



*Well-conducted leadership transition does not compromise the company's performance or generate market speculation.*

**E**very company is born of a dream. Its founder, at some point, considered the idea of being master of his destiny or just needed to find a way to survive. Becoming an entrepreneur may have been a thoughtful decision or simple reaction.

For the product of this dream to pass into other hands it is necessary to plan this transfer of power, of knowledge and way of doing things. Working this passage in all its aspects, considering the risks and providing mechanisms and tools, which guarantee a controlled succession.

The transition needs to be planned to ensure that the company does not suffer, lose no space and no results. A good start is to resume the initial exercise, the so-called first response to your yearnings. Answer the following beacon issues:

- What does the family want for that business?
- Where does they want the company to be in 10 or 15 years?
- What are the wants and needs of each family member?
- How do these individual desires conflict with what the company needs to stay prosperous?

A family is only entrepreneurial as long as there is a company. Understand that the “we” is a priority for perpetuity, without letting the I pronoun to dominate the scene altogether. A succession plan may be painful for those who are still

learning to deal with empowerment, creating room to grow. Understanding the past, present and future scenario will be decisive when it comes to define the professional - whether heir or not suited to command and cheer the team.

**Mike Cohn and then late, João Bosco Lodi understand that the succession process of a family business is based on three points:**

COMPONENTS OF THE SUCCESSION PROCESS	
<b>The family</b>	<ul style="list-style-type: none"> <li>■ social unit</li> <li>■ values passed from generation to generation</li> <li>■ family history</li> <li>■ birthplace of the founder and his heirs and successors</li> </ul>
<b>Company</b>	<ul style="list-style-type: none"> <li>■ economical unit</li> <li>■ producer of wealth</li> <li>■ community support</li> <li>■ source of income and employment</li> </ul>
<b>The Succession Plan</b>	<ul style="list-style-type: none"> <li>■ involves the family, property and administration</li> <li>■ enables the organization to be perpetuated when well and successfully crafted.</li> </ul>

Source: Adapted from Lodi (1987) and Cohn (1991)

## Learning from the experience of those who did well

A succession plan has as its basic premise to respect the characteristics and the profile of the DNA of an organization. It needs to take into account the environment and its actors, being thus legitimized by all. Considering that each plan will be unique, the observation of examples and market references will serve as a beacon.

Companies structured to act dynamically, with modern management and the ability to understand and absorb what is new, have achieved superior performance in this fast-moving world. Betania Tanure, a professor at Fundação Dom Cabral, established some common points in building relationships of trust: they are based on fairness, with balanced management and a revitalizing business environment.

In recent years, the biggest challenge for some Brazilian companies has been to migrate from a regulated environment to a highly competitive world. The most accurate analysis of who has succeeded in this journey reveals to have some common characteristics: a consistent management model, strong programs to renew the organizational culture and permanent investment in the improvement of people.

Fernando Tigre, in leading the process of revitalization of Alpargatas, set a good example. He redesigned the corporate scenario based on the importance of people, based on solid values and allowing an environment where each employee had the chance to develop his potential. All this without ceasing to collect results. When the time came to promote the change of command, planned with the time and care that the process required, the chosen successor would gather beyond the technical conditions, a style of leadership that preserved the pillars of the organization and the process of change that it adopted. At the time, the Mesa Corporate Governance Board, together with the HR of the company, built a design that would sustain the process in search of the leadership most appropriate to that reality.

Another unique project was the redesign of the Famastil succession model, a Gaucho company that is in the 2nd. generation. A group named G10, made up of children and heirs of the business, was mapped inside and outside the family, and also extended to the market, ending up choosing an executive who was not of the family and who although young, was already an old acquaintance of the company. The board of directors also has an original model, has a non-family president, and includes family and independent members. The G10 turned G8, with the presence of heirs supporting the young executive. The company found an unusual model for most family businesses, but compatible with its structure.

# A new way of management

Luiz Marcatti

*Thinking on succession requires willingness to face the new.  
We need to think on the future from a new organizational reality.*

**T**here are many challenges to be faced in a succession process. Regardless of this, the company needs to be focused on the need to constantly renew its productive processes so that, at the peak of its life cycle, it can be strengthened to overcome the losses, losses and crises and thus being able to reinvent itself and migrate quickly to a new cycle of production, oxygenated and attuned to the demands of the market.

When thinking about succession, deep down, we are looking at a new organizational reality, equating the requirements of relevant skills and in tune with the culture of the company, without losing its own way of conducting business. The company will be administered under a new look. All dynamics have to have their bases turned to the future. Choosing a successor, considering only the current scenario, implies assuming high risk.

Succession involves critical points regarding the longevity of the company. The statistics confirm this concern. The index of mortality of companies at each generation is not small. This is because, fundamentally, no time is spent in the construction of a process that supports this change of

staff. The transition from 1<sup>st</sup> to 2<sup>nd</sup> generation is even more critical. The centralization of power in the founder's hand, strategies defined by him and that are only in his head and all the imminent risks of this configuration set the stage for a good confusion where the actors are insecure to act.

When the successor of this founder comes into play what happens is a tension during the change phase. The company often stops.

Ambiguous messages of the event, which without clear and defined objectives, send diffuse information to their former subordinates, create an environment conducive to the power struggle. Identifying the central point of an organization, defining a direction to the future - what that company wants to be, what risks it is willing to take to grow, where it will expand, and from which platforms and tools it is critical. A solid foundation of corporate governance practices pave the way so this process sustain the choice of the new leader and the backbone of the strategy. The successor can then print their style without compromising business performance and building sustainable results.

## A good leader

**B**eing a well-trained professional or a successful executive does not guarantee that he will be a good and realistic. Finding the right man technically, with the personal and professional profile most appropriate to that company at that moment, is an exercise that requires patience and a deep capacity to know what one wants for the company and the other.

When the founder of a venture decides to pass the baton, there are many aspects to take into consideration. Choosing a successor is tiresome. In addition to observing important characteristics, such as a good dose of compatibility with the company's DNA and the culture that governs the family, the new leader can not lack a series of qualities in the managerial and business scope so that the good conduct of the business continues.

### **What characterizes a good leader?**

There is no exact formula that teaches someone to be a good leader. There are as many good leaders as discreet and effusive; analytical as impulsive; tough or "nice". Jack Welch, one of the world's leading authorities in corporate leadership, points out some basic characteristics common to good leaders. One is the ability to gain the trust from its employees. For GE's former CEO, the team's trust in the boss should occur on the basis of sincerity, transparency and recognition of others' merits.

In his best-selling book *Passion to Win*, Welch states that some people, by becoming leaders, make it a real power exercise. The most important thing for them ends up being the feeling of control over people and situations. "They keep secrets, reveal little of what they think about people and their performance, and hide what they know about the company and its future. This behavior undoubtedly promotes the leader as the boss, but drains the trust of the team."

Employees should always know how managers perceive their performance, just as they should know how the company's health is, even when the news are not good. The leader must avoid the urge to soften or mitigate the hard messages or suffer the consequences with the loss of energy and trust of his staff.

Another way for a leader to win the trust of his commanders is through recognition of merit. Nothing to claim for itself the laurels of victory when good ideas came from other people. When having difficulties, good managers take responsibility when something goes wrong, just as they praise their team for success.

## Opinion from gurus

---

### One cannot please everyone

The good leader must also be able to make unpopular decisions and act based on his instinct. Certainly no decision will ever be enjoyable to all, but to some - such as dismissing people, reducing a project's resources or closing a factory - can be fatal to the way the staff see its leader. "You are not the leader to win a popularity contest. You are a leader to lead," says Welch.

"Sometimes," he recalls, "it is necessary for the leader to counter situations based on his feeling, even if everything points in the opposite direction." He cites, as an example, the situation of a leader facing a project to build a new office building. "But when you visit the city, you see buildings under construction everywhere. The project numbers are absolutely perfect, he assured her, but you have seen it before. You know that excess capacity is around the corner and that 'perfect' investment risks almost nothing. Although you do not have concrete elements, you have that strange feeling in your stomach. It is necessary to abort the enterprise, even if it disturbs many people", he teaches.

David Ulrich, author of several bestsellers on leadership and strategic people management, adds that as important as being a good leader is knowing how to promote leadership within the company. The idea behind this concept is that the company, by creating strong values around leadership, is less dependent on an isolated leader. As a consequence, the company that cultivates leadership values can more

easily identify the existence of great potential leaders who eventually can reach the top of the company without the mishaps of adaptation that hit the outside leader.

For this to occur, it is necessary to create a milestone, an unequivocal identity of your leadership. For him, the investment in the leadership brand must be made according to the intended resources and must be related to the professional development of the future leaders, in the scope of their positions, tasks, as well as in the participation in the decision-making processes; 30% should be invested in education and training of these professionals; and 20% in practices that encourage the involvement of leaders in blended work, personal life and volunteer activities.

### ***Is leadership a natural attribute or something that is built up over a lifetime?***

Experts from many areas always discuss this issue without ever reaching a consensus. However, there is no disagreement that a leader, regardless of whether he was born or trained for such task, must carry certain attributes with him. For Ulrich, these attributes are many, but they can be based on five fundamental points that a leader has to master: personal proficiency, strategy, execution, talent management, and human capital development.

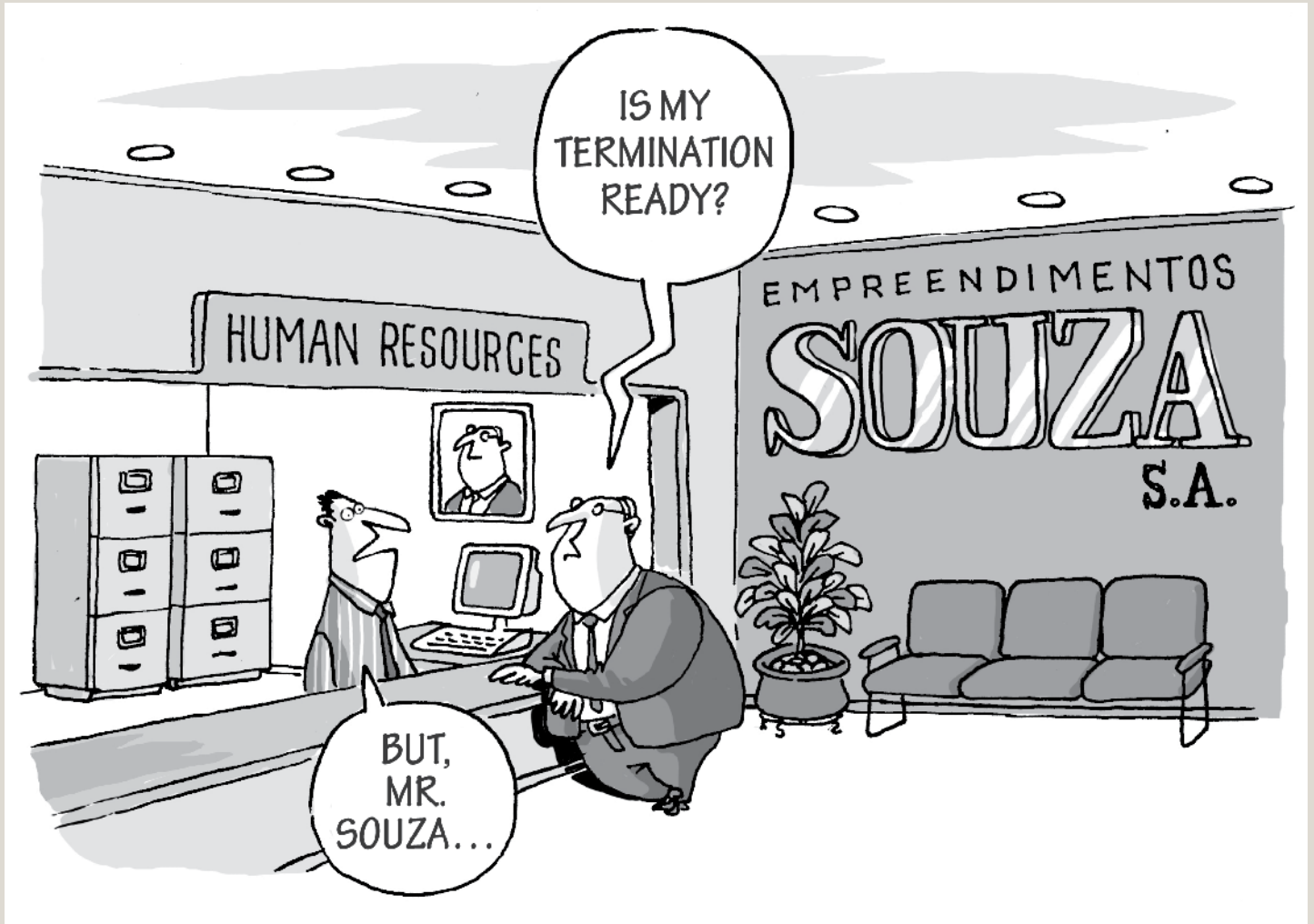
# Without giving a chance to chance

## Selecting a good leader

For Jack Welch, when choosing new employees for the company, traits such as integrity, intelligence, maturity, positive energy and ability to execute cannot be lacking to the aspiring candidates. When the selection is related to high positions - including that of the founder's successor - four additional characteristics must be analyzed. They are:

- **Authenticity:** If the person is not himself, his chances of failure increase considerably. He recalls his passing through GE when he saw cases of successful executives who, after being promoted, produced results, but did not have close ties to their staff. "At last, we found that these executives always seemed half false. They pretended to be something they were not more in control, more optimistic and more experienced than in reality. They did not sweat. They did not cry. They wriggled in their own fantasies, playing a role they had invented for themselves. For him, the leader must know who he is and feel good about it, otherwise he will not be able to make difficult decisions and hold positions without having the legitimacy of his position questioned.
- **Ability to see beyond:** In a long relationship with leaders of all kinds, a characteristic perceived among the most prominent was the gift of anticipating the absolutely unexpected. "In business, the best leaders in brutally competitive contexts have a sixth sense for market changes as well as competitor and new entrant initiatives."
- **Inclination to surround yourself with better and smarter people:** When a crisis arises, whether from the company itself or from outside it, this group allows the exchange of experiences, adds knowledge, and broadens the sphere of information. This creates multiplicity of viewing, which facilitated the finding of solutions. "The good leader has the courage to bring the team together to discuss the business".
- **Malleability in adverse conditions:** When hiring top leaders, points earned those who had accumulated difficult experiences in the professional past. "In particular, I liked people who had already suffered from fierce defeats, but they demonstrated the ability to compete with even more energy in the next race," he recalls.





## The importance of maintaining a healthy legacy from generation to generation

In the context of the business family, one of the most important points to be considered in understanding their dynamics is how previous generations dealt with and solved their crises, as well as which processes they selected from their interactions and chose to maintain in their medium as a tradition. The legacy consists of what goes through the family generations, transmitting to its members the mass of values, rules, principles, family myths, rituals and traditions.

The legacy remains. The nuclear family, although it has the dominant pattern, is an emotional subsystem reacting to past relationships, based on the mythical model that runs through the generations. In this way, the legacy received within the family defines its identity, its “DNA”, and guarantees its internal cohesion and its external protection.

The factors which allow the transmission of the legacy are the family memory and the rituals that happen in overlap and, at the same time, within the family context. This means that families naturally choose what they consider important to be shared by all its members, says the co-author of the book *Família Empresária*.

According to Andolfi and Ângelo (1988), family memory allows the family to define rituals that organize the interpersonal relationships of its members. These rituals are products of tradition, being transmissible and sanctioned by the group, externalizing the habits that are anchored in family rules and whose main function is to transmit and perpetuate the family legacy.

Family memory is essentially a process of selecting what should be forgotten and what needs to be remembered to sustain, maintain, and convey the legacy of a family group. As traditions and rituals are realized, family memory is rescued and validated in the experience of being together. The rules established by the family are confirmed and expressed as family habits. Intergenerational models are used to serve as examples to be imitated and reproduced. Intergenerational models are then formed, to serve as examples to be imitated and reproduced.

Such models that tend to repeat themselves in the interpersonal relationship of family members often need to be cared for and revised to be transformed into current models that allow the renewal of the family business, with a pattern of relationship that ensures the respect of society among its members. What has been bequeathed to us influences our life in a powerful way.

The concepts of delegation and loyalty are fundamental for a deeper understanding of family dynamics. Realizing the relational plots involving loyalty explains attitudes that at first seem absurd. The concept of loyalty is compared to the positioning of the individual in identification with the family group, in which credibility, trustworthiness, responsibility, faith and devotion are present. And the more we were bequeathed to us by the family group in benefits received, the more we must repay them, and if this is not possible, we will be in debt that will be accumulated and can be paid in the form of a loyalty that imprisons and which may be close to a guilt.

The most common conflicts that may appear in the delegation are those who pass two incompatible missions. For example, at the same time that an attitude of autonomy and independence of a child is expected, obedience and subordination are required. Or, the conflict between different missions, for example, the mother orders a mission, the father another, and the grandparents a third.

Difficulties also arise when the one to whom something is delegated does not have the characteristics necessary to that role, or else does not have the maturity to carry out the delegated mission. These are very common difficulties in the histories of entrepreneurial families, when the father is

expected to succeed the father to the company, for example, and he does not have the qualifications of professional qualifications to the position, or he has no vocation for the same. In the case of family businesses, loyalty to the founders, loyalty to the family name, family identity, permeate their histories and are a source of conflict and, at the same time, contribute to the preservation of family and business.

On the other hand, good family relationships include consideration for the well-being of its members and respect for one's interests. Such a position presupposes the loyalty that, with trust, provides the glue that keeps the families together, being very important to their survival.

In the context of Family Governance, it is at this point that the Family Council contributes and acts so that, once the rules and traditions of family rituals are mapped, both the rescue and the maintenance of the values and family principles that are important to the family are structured and systematized. Perpetuation of the family business. Helping the business family to ensure the perpetuation of a healthy legacy for family members of all generations. This is the role of the Mesa Corporate Governance alongside the entrepreneurial family.

## The intangible value of the family legacy

Legacy is one of those words that are more used in the figurative than in the literal sense. By this definition, legacy is the manifestation of the last will of one who makes a will and leaves certain goods to other(s). Most people, however, often refer to this word when it regards intangible aspects of an inheritance, such as the contribution to a particular field of activity, culture, and values left by someone. In the same way, when we bring the term to the universe of family businesses, we can use it to designate more than equity and management of companies. The legacy of the family of entrepreneurs also includes intangible aspects such as their values and culture, and the succession of the legacy deserves as much attention as the succession of patrimony and management.

Mark Haynes Daniell, chairman of the Family Office Cuscaden Group, and Sara S. Hamilton, founder and CEO of the Family Office Exchange, are authors of *Family Legacy and Leadership*, which addresses leadership and legacy issues. They define legacy as the accumulation of accomplishments, traditions, goods, stories, experiences, lives, places, and memories that flow from the past to the present and the future. The economic and financial aspect is only one of the legacy of a family. It involves standards, tradition, values, position in the community and may also include participation in philanthropy, politics, the artistic world, and other aspects.

“The approach to a family’s legacy begins with the realization that it goes far beyond past things, and that the true wealth of the family means much more than money. This wealth

is a form of energy which, when properly applied, can be very good not only to family members, such as those who benefit from the philanthropy, and the corporate activities of that group, as well as their social engagement and personal integrity,” notes Daniell.

Driving the succession of this legacy between generations is not as simple and instantaneous as it may seem at first glance. As time goes by, and the family grows, its members take on very diverse interests and there is a risk that it will distance itself from the values and culture of entrepreneurs who have stood out in the community and in the business world. While maintaining the legacy may sound like a mere attachment to tradition - something considered dispensable in the modern world - these are intangible aspects such as culture and values that give identity to the family and function as a link between different generations. Its preservation is far from superfluous.

Indeed, as the legacy is submerged in a network of memories, values, and experiences, its own identification requires a dose of reflection and investigation. One of the ways of discovering it is by documenting its history. If it is clear about its inheritance (the broad meaning), and also has a leadership model, it will have more sense of identity, sharing of purpose, and the greater the chance that it will be able to preserve its wealth over time. There, the importance of a leader or a group of leaders becomes important. In families with patriarchs or matriarchs, who make all the decisions, usually choose only one leader.

It has somewhat an abstract task: to keep the family legacy over time. To do this, you need to be able to unite the family around joint views on equity and business management. Until you get there, you must have documented the history and culture of the family, and jointly assessed the risks involved in its legacy. In order to seize and become aware of its history and its values, the family also needs to reflect on how its predecessors conducted business and personal life, that is, to make a kind of balance sheet, identifying qualities that should be perpetuated and positions they deserve be abandoned.

In this context, it is important for older members to talk to the younger ones, telling them some remarkable experiences that have helped build the family legacy. Psychologist Key Dytchwald compares the teaching of family legacy to a relay race. “The most important part of this kind of proof is the passing of the baton. When the exchange is not successful, the runner who received the baton cannot keep up with the one that has pass it. Nowadays, few people value conversations with their elders, and this is a great loss,” says Dytchwald.

Finding “the guy” is a very delicate task. First, because the process of choice cannot create resentments. When they flourish among people with strong emotional attachments, they can spread for more than a generation, with potentially damaging effects on personal and business life. The ideal is that the family itself develops selection mechanisms, and that the process is consensual and exempt. The selection of the leader must be done in a formal way, determining the potential successors and preparing them in advance.

Second, the task is difficult because there are few people who combine all the qualities that the good leader of a family should have. To mention a few:

- needs to gather social and relationship skills;
- must always be willing to seek collective solutions;
- be able to build consensus (which is different from reaching agreements) and cannot have shady interests;
- needs to recognize the differences and accept them as a wealth, deal with different levels of emotional maturity and interests;
- being able to communicate, to listen, to empathize with others, and to gain the trust of all;
- business knowledge;
- regulation, taxation, capital structures and financial planning.

The issues the leader encounters vary according to the stage the family is in. Daniell and Hamilton point out that, for those who are still in the first generation of the business, the most important thing is to reflect on what is needed for the legacy to perpetuate. In the others, the challenge is to maintain the motivation, the discipline and the enterprising spirit among the heirs who have been softened by the wealth for a long time.

The characteristics of the good family leader are different from a successful corporate leader, Daniell and Hamilton note. The business leader can - and to some extent must - decide in a rational and agile way. Rapid decision-making, often without listening to the parties involved, can be a sign of efficiency and does not necessarily give rise to disruption in the harmony of the coexistence environment.

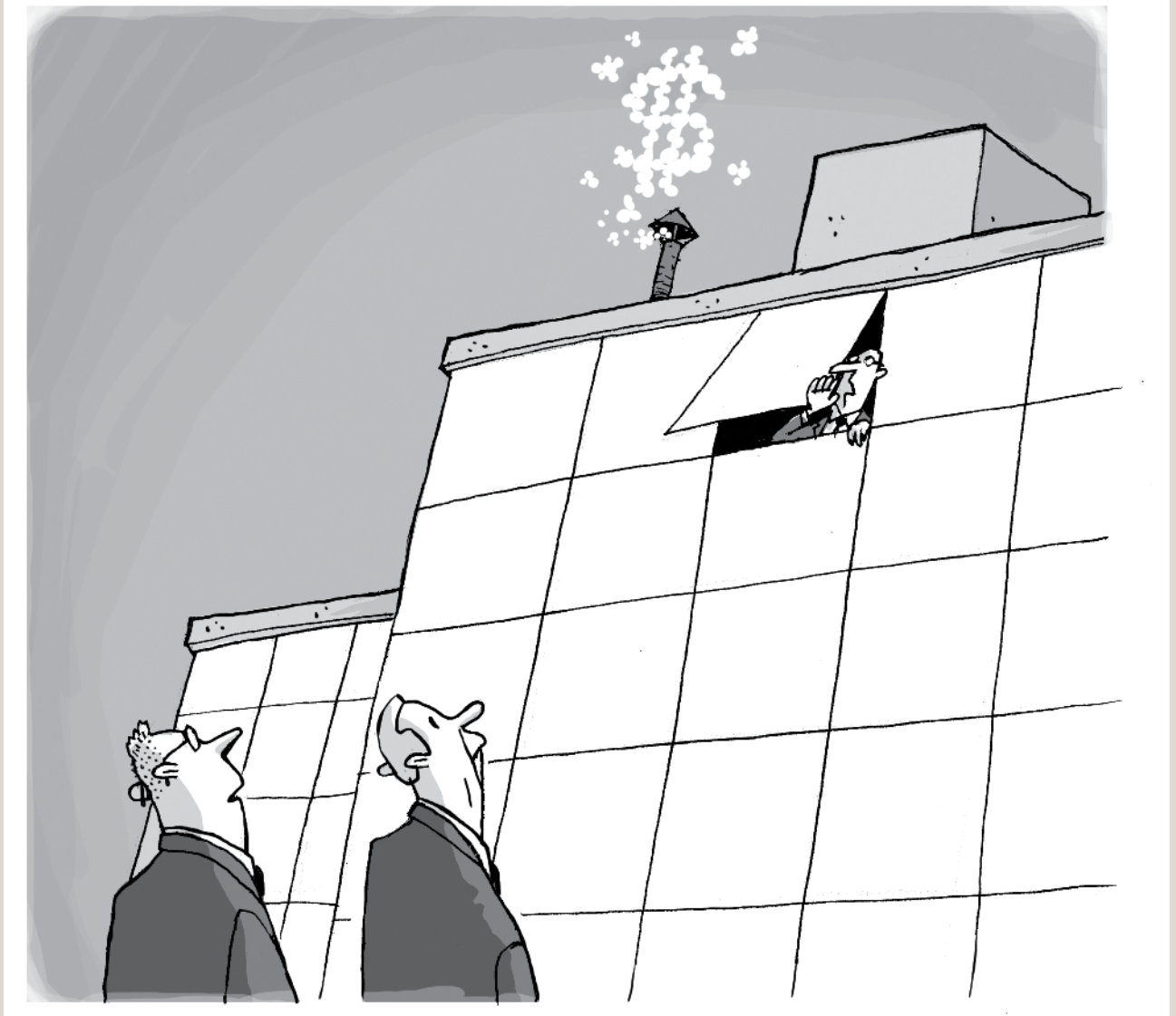
But attributes like celerity and rationality, positive for a company, can be fatal to another family business. In this, the role of the leader is to act as a facilitator to the decisions of all, so that the solutions to the problems are found by the family. Here, to produce good results, the decision-making process must have its own time. It should allow the maturity of the issues.

In this context, it is not meritocracy that produces advances. Since they are all heirs and consider themselves equal, as the same rights, one can only go forward when all are heard.

The leader must rightly ensure that all opinions will be considered and that all branches of the family will be represented. He must lead the decision-making process so that consensus can be reached. More than agreement, consensus allows the coexistence of multiple views on a given subject, and, at the same time, promotes union among the various members. Of course, getting there requires a lot of patience - another essential feature for family leaders.

This work flows smoothly into families who have rebuilt their history, recognized their values, qualities, and defects, and who see the legacy as a shared value. In these families, there is a sense of responsibility for its maintenance and it is easier to arrive at consensus, because, even with mishaps, the search for the common good prevails.

In the equity aspect, it is much easier to evaluate performance, since it can be verified by the amount of wealth. When one considers intangible matters, it becomes more complex to make an assessment, given the immaterial characteristic that the legacy also presents. In that case, one indicator of success may be the maintenance of the family together - which is no small thing. Or, to leave a philanthropic or cultural contribution relevant to society.



**- HABEMUS A SUCCESSOR!**

# Gerdau and Natura

## Examples of well done succession

Understanding the company's culture is essential to the successor, since it will be up to this new leader to continue the family's legacy and the dreams of the founders, thus generating new wealth and building an environment conducive to business continuity.

A good example of succession well executed within the family legacy was the one promoted at Gerdau. In the position of chief executive of the state of Rio Grande do Sul since 1983, Jorge Gerdau Johannpeter spent the mid-1990s worrying about the choice of his successor. More than anyone else, he knew how important it was to find in the company's fifth succession - the company's initial milestone dating back to 1901 - someone who knew how to value the culture and values of the Gerdau family, based on their business policy, accumulated experiences, collective decision intelligence and structured management systems.

Jorge himself had encountered questions about his suitability to the position of CEO as soon as he took office in the early 1980s. Over time, however, he was showing that the criticism was wrong. Jorge had known the Gerdau factory floor for a long time. When he was 14, during the school holidays, he already helped operate the nail-making machines. Later, when he began to study accounting at night, he spent the afternoon in the office, learning to take notes.

With all the experience of someone who "put his hand to work" at Gerdau early on, Jorge would sweat all the feelings, culture and values of his family.

For this reason, Jorge took care that the choice of his successor was the most meticulous and judicious possible. The process started in 2000 and took six years to complete. The analysis was done in a structured way, with the aid of international consultancies, as well as internal analyzes. The conclusion of the analysis resulted in the Gerdau Group's executive management continuing with the controlling family. The decision on the new CEO was on the company's Board of Directors. There were four or five names in a position to lead the group, including corporate executives. The board came to the conclusion that the new commander should have roots in the controlling group.

In this regard, the identification of family members to take office was positive in preserving Gerdau's culture and roots. Finally, the choice of André Gerdau Johannpeter for the position of CEO took into account the more than 25 years of experience of the executive in the group, with passages by leadership in the areas of Marketing and Sales, Metals, Supplies, Logistics, Personnel Management and Organizational development.





Equally meticulous was the succession process at Natura. When Pedro Passos decided to leave the post of CEO to take a seat on the board of directors, a great doubt hung in the head of the investors of the largest Brazilian cosmetics manufacturer: what successor would have the right profile to replace the three people - the founding partners Luiz Seabra, Guilherme Leal and Pedro Passos - who actually commanded Natura, who were responsible for the implementation of the famous “Natura way of life”, and who always acted in total harmony and with a balance of interests?

The choice of the new CEO took more than five years, after long and exhausting meetings around the ideal executive. Candidates to the post were not lacking, since Natura always invested in leadership training programs. It is interesting to note that, at the beginning of the candidate analysis process, the focus was on technical and behavioral aspects. Within this reality, a strong name appeared within the company,

with excellent credentials meeting the evaluation criteria taken into account until then. At one point, the importance of how the new commander would put the values of the company into practice came to light. What good would a brilliant executive, who brought great financial results, but who had no commitment to Natura’s culture? He came to the conclusion that the “Natura way of life” was a very important aspect, more than just the technical capacity of the candidate.

A testimony of Steps to Exame magazine illustrates well the company’s feeling during the election period of the new CEO. “Excellent executives came from here. Some did not work because they did not commit themselves to our values, such as decisions taken as a board and long-term thinking.” Made the reservations on the importance of company culture, Alessandro Carlucci, an executive who was in Natura for 15 years, eventually was appointed CEO of the cosmetics company in early 2005.

## Well-planned equity success minimizes conflicts

Little touched upon in the family business environment, property succession is one of the most important point in the succession planning process. Its purpose is to structure family assets in order to avoid any disputes. Its role is to see the best planning options according to the peculiarities and characteristics of each family. Each type of estate asks for a type of society.

“The great question is: how to perpetuate the family property for the next generations without dilapidating it? Although little discussed, it is as important as business succession because, unlike it, it covers all family members and households,” says Pedro Zanni, a professor at the Getulio Vargas Foundation and author of the book *From Heir to Heir*, which addresses relevant questions about succession planning.

With the opening of the succession, new members joined the company and, for the most part, they did not even participate in the discussion of the current social status or contract. In this process, the changes are not limited to the corporate framework; the new entrants can enter the administrative body of the company or take the position of investors. Generally distant from the day-to-day running of the company, they can bring in both positive ideas and questionings as well as endless and unnecessary debates.

One of the common risks is that of heirs who take antagonistic positions with each other, either by opposing interests or by interference from aggregates. It is not uncommon for such rivals to contest corporate control and involve the rest of the family in the fight. Such issues lead to serious internal conflicts that undermine the company’s operations and also its profitability. In some cases, one can even send a message of imbalance to customers, suppliers and other publics.

### Right tools

Succession planning should use corporate mechanisms to limit potential conflicts. The family business must have a corporate structure that guarantees the perennality of the venture, in the presence of new members. If, on the one hand, corporate planning struggles for business continuity, on the other, it seeks to defend the interests of new and old partners, so that possible conflicts do not interfere in the harmony between different family groups.

“There are monogamous partners, with children raised and trained, there are partners with two or three marriages, partners with disabled children, or complicated sons-in-law and daughters-in-law. It is necessary to establish rules that level these people,” says Luiz Kignel, a partner at Pompeu, Longo, Kignel & Cipullo Advogados. “This means giving them the same degree of knowledge and information about their rights and obligations. Some heirs have the misleading picture that they only have bonuses, but inheritance means having bonuses and duties.”



There are several ways of proceeding regarding the division of assets and succession organization, such as the constitution of holding companies, spin-off, incorporation, capital reduction, barter, etc. Regardless of the operation used and the organization implemented, the members' agreement is the most important point in the adaptation and defense of the interests of the members.

This type of document protects the interests of the members in situations that the social status or the social contract cannot achieve. The shareholders' agreement includes matters such as the guarantee of participation of a certain member in the management of the company, the regulation of the entry of heirs in the company, the equity availability of holdings (also called blocking agreements), criteria for the election of directors, quorum qualified to change the bylaws, vote in bloc, sales clauses, distribution of dividends, reinvestment of profits, decision criteria in the administration scope, among others.

The membership agreement also becomes very important in a family holding situation. In this type of partnership, the members exchange their slices in the operating company for holdings of the holding company. The direct decision-making power in the operating company is now indirectly exercised by the holding company.

Filed at the registered office and registered in the registry of registered shares, the shareholders' agreement is effective before the company and before third parties. It is important to mention in the articles of association that the partners are signatories of the agreement, in order to ensure its validity. The shareholders' agreement shall specify, in addition to the company and third parties, the rights and duties of heirs and successors, to facilitate succession planning. In order to have an idea of the strength of this type of document, the vote given outside the parameters provided for in the agreement is considered void. "The law stipulates that members may require the performance of their obligations under this agreement," Kignel explains.

## A “tribucratic” environment

### *Different taxes may confuse the succession process*

**T**he tax aspect cannot be forgotten in a succession process. The main taxes levied on the succession of assets are the income tax (IR), the inter vivo property tax (ITBI) and the transfer tax regarding death and donation of any assets or rights (ITCMD).

Not infrequently, some succession processes bring questions on the incidence of these three taxes, due to their characteristics. The ITCMD, which has state competence, is involved in the transfer of any asset or right, whether it occurs in life (donation) or after death (succession), without any consideration (non-costly or free transmission), and is calculated according to the market value of the asset.

ITBI levies on onerous transmission and between living persons of immovable asset (purchase, sale, exchange or conference to society in order to pay capital increase). Its collection is made by the municipality where the property is located, based on the value of the operation.

The great question is whether such taxes would affect the same operation. “They do not occur in the same operation because one is an onerous title and the other is not,” explains Luiz Kignel. The Income Tax may occur concurrently with the ITBI or with the ITCMD, as it affects the transfer of assets either onerous or gratuitous. For the Income Tax, it is necessary that the transmission of the asset or right occurs at an amount higher than that stated in the declaration of assets of the deceased, donor or seller.

Generally, in the free transmission, it is avoided to carry out the operation of a value superior to the one existing in the declaration of assets in order to avoid Income Tax occurrence. However, when the transferor has a tax benefit, the transmission may be considered above the acquisition cost. “Even if this increases the value of ITCMD, the beneficiary can avoid or reduce the Income Tax in a future disposal.”

The consequences of a misconception in this aspect of the process, as any administrator or entrepreneur can imagine, are neither small nor easy to solve. So, taking care of professionals with experience in this sector, who are competent in effective advice also makes all the difference so that headaches are avoided in the future.



## Preventive measure

### *Holding as patrimonial protection*

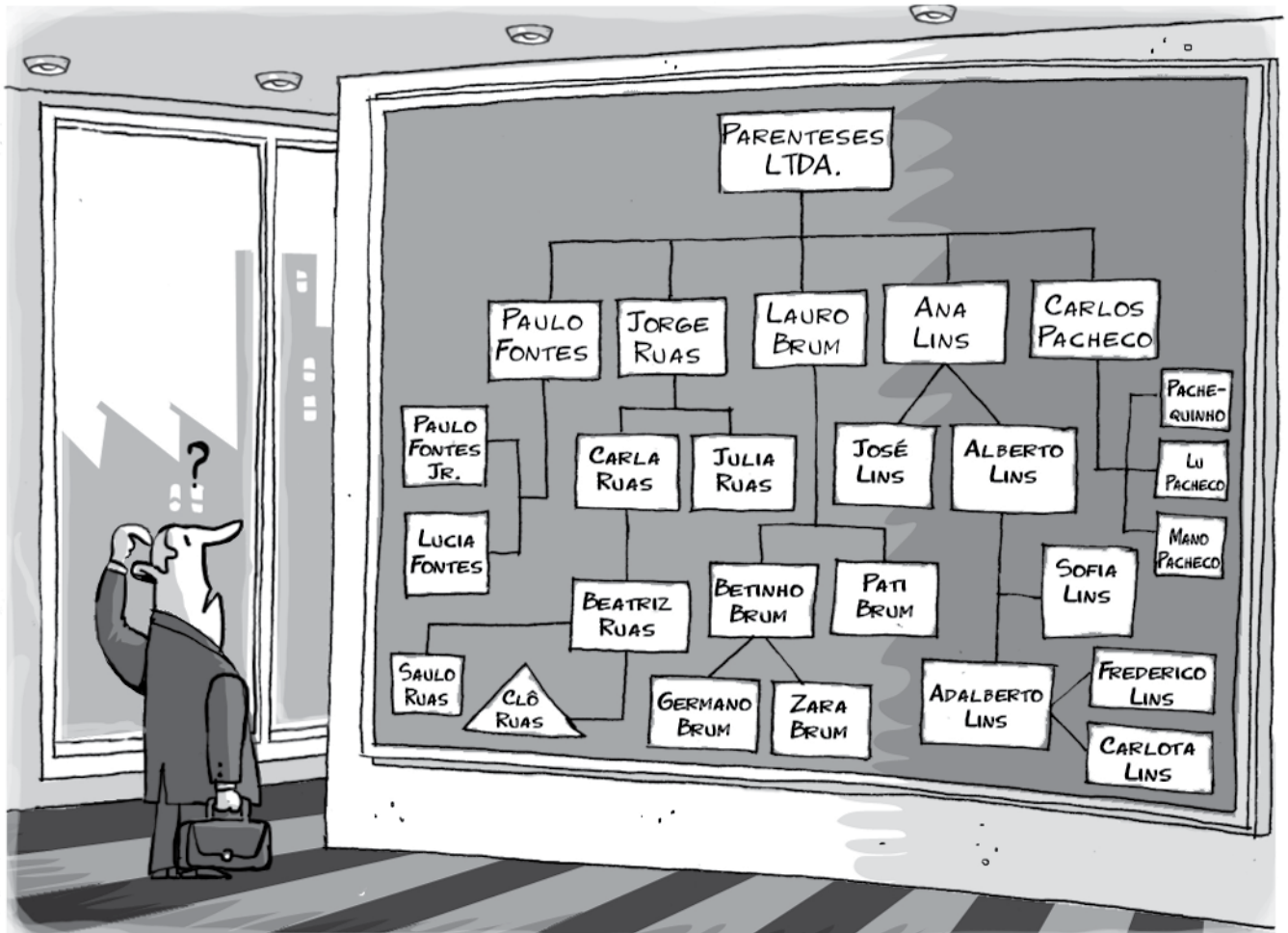
In the quest for greater security and better management of patrimony, companies increasingly rely on the creation of equity holdings. By separating the management of the business from the management of the assets, the holding company guarantees tax reductions, reduces the possibility of succession conflicts and improves the management of the company. Many still relate it to large companies, but the equity holding can also be adopted by smaller companies, as well as by individuals with relevant values.

The holding company consists of the creation of a legal entity controlling equity, in whose name are terms such as “Ventures”, “Partnerships” or “Limited Company.”. This company receives all the assets of its partners, who from then on hold only quotas of the company, generally constituted in the form of a limited. “The asset holding company facilitates the inheritance process because in the transfer or sharing of assets, it will deal with the quotas rather than the assets themselves, reducing succession doubts and inventory delays,” explains Luiz Kignel, a partner at Pompeu, Longo, Kignel & Cipullo Advogados. “Each family has a history and, therefore, a different fiscal impact from one another,” he adds.

In the purchase, sale or rental of real estate operations, the holding company provides substantial savings regarding taxes. If in joint ventures, taxation on capital gain (sale value subtracted from net cost of depreciation) is 34%, in a holding company, the tax incidence, which occurs on presumed profit, is around 6 % on the sale value of the property.

Another advantage of the holding company is the separation of family and business. In discussions of family issues, the holding company prevents such problems from hampering the operating company. “At the holding level, the family reaches a consensus on a certain strategy, without having to discuss family problems on the board of directors of the operating company,” analyzes Pedro Antonio de Almeida, a partner at Gouvêa Vieira Advogados. “Many investors, as private equity firms, are much more relaxed when there is a family holding company, because they know there is less friction between family and company.”

The creation of the holding company can also mean a good strategy to increase the company's competitiveness. When managing separately the company and the equity, the entrepreneur no longer records as expense the value of the equity placed in the service of the company, which leads him to evaluate his business more objectively.





## Leave to grow

Herbert Steinberg

*Enlightened stars can blind and sturdy trees generate shadows.*

Life is dynamic. Changes and challenges are part of everyone's life. The way each one reacts to them is another story. The more daring - or more mature - take advantage of these moments to reinvent themselves. When the moment does not happen, they provoke it. For some years now, in the quest for testimonials for a book on sabbatical, I had the opportunity to have a long talk with Luiz Seabra, then, one of the presidents of Natura. I asked him what motivated him to leave the company to live a sabbatical period. The answer surprised me. He said he needed to leave so he could grow up. More than that, you need to leave to make room so other people could grow.

To delve into the depth of this response and to understand its real meaning can take some time, especially for those who are immersed in everyday life, with no time to think, act by reflection and buried by emergencies. Reflecting on this unique conversation, I have found that enlightened stars can blind and sturdy trees generate shadows. We must make room for the new and plan the future from now on. Build opportunities that allow each one to follow a path that promotes self-growth and opens space for others to evolve as well. An exercise to be practiced in one's life, but also in the reality of the family business, where family and organization can move forward.



### Paving a new cycle

A process of succession involves major changes - life, contribution, impact on the routine of the company and the business families. Like people, a company grows, matures, and can die, if it does not revitalize itself, if it recycles and reorganizes its structure. Ideally, at the peak of your vitality, when the cycle is mature and healthy, plan ahead and think about the future cycle. Planning helps you rethink methods and goals so you can then create a new scenario.

Succession is the crucial point of longevity. And it needs to be seen in a broad dimension, which involves the succession of equity, management and the leader that will ensure the perpetuation of the business. Discussing a succession process and implementing it in a responsible way allows us to deepen and promote the construction of this new cycle, where new talents, new functional and behavioral competences will be accelerated and encouraged. It is to adopt definitively the good practices of corporate and family governance.

There are many factors that can drive this transformation. The entry of new major shareholders, the spraying of capital, the departure of a great leader, among others. All of these conditions actually bring an opportunity for renewal that cannot be missed by the company.

Obviously we are talking here of complex processes, involving in each sphere - heritage, management and legacy - their own densities and challenges. When combined into one system, this complexity is even greater. Conveying it in an amateur way is accepting unnecessary risks. Less complicated changes in nature, such as the development of a new product, the adoption of new technology or the entry into a new market, mobilize the full attention of top executives and managers, even the shareholders of an organization. A future plan for the company as a whole, involving such delicate and challenging processes, cannot deserve less attention.

## KNOW MORE

- Special study I - “Family-owned companies - The leap for Perpetuity”, revised in 2011.
- Special study II “Family-owned companies - Dilemmas and solutions”, Mesa Corporate Governance, 2006.
- Special study III “Family-owned companies - The board of directors in Family-owned companies”, Mesa Corporate Governance, 2007.
- Special study IV “Family-owned companies - What changes in ownership structure”, Mesa Corporate Governance, 2008.
- Special study V “Membership agreement”, Mesa Corporate Governance, 2009.
- “The Human Dimension of Corporate Governance,” Herbert Steinberg and five co-authors, Editora Gente, 4<sup>th</sup> Edition.
- “Corporate Governance - Councils that perpetuate companies” - Herbert Steinberg with Gilberto Mifano, Mauro Cunha and Renato Chaves, Editora Gente, 4<sup>th</sup> Edition.
- “Corporate Governance in Family-owned Companies - Outstanding Cases in Brazil,” IBGC and Saint Paul Institute of Finance.
- “A decade of corporate governance”, IBGC, Saraiva Publishing House.
- “Corporate Governance - Company governance and Board of Directors”, João Bosco Lodi, Editora Campus.
- “Code of Best Corporate Governance Practices”, IBGC - 4<sup>th</sup> Edition.
- “Practical handbook on statutory recommendations”, IBGC.
- Good Corporate Governance Practices Manual for IFC family companies.

## TITLES CONSULTED

- “Succession Planning. Family, corporate and tax aspects “, Pompeu, Longo, Kignel & Cupullo Advogados Printed Brazil, 2006.
- “Winning - the bible of success,” Jack Welch with Suzy Welch. Editora Campus.
- “Family Legacy and Leadership - Preserving True Family Wealth in Challenging Times,” Mark Haynes Daniell and Sara S. Hamilton, Wiley.

# BOOKS

## **“THE HUMAN DIMENSION OF CORPORATE GOVERNANCE”**,

*By Herbert Steinberg*

The work deals with an important phenomenon of current administration. Increasingly, the leadership of organizations is pressured by the external and internal public to act with transparency, equity and respect. Corporate governance is the creation of a control environment, in a balanced model of power distribution. Companies with good governance have more guarantee of perpetuity and of fundraising in favorable conditions.

## **“CORPORATE GOVERNANCE - ADVICES THAT PERPETUATE COMPANIES”**,

*By Herbert Steinberg*

The work analyzes the intense movement around the boards of directors of all types of companies or organizations. It reveals the main trends and shows what is gained in the growing displacement of the power center, especially when the company is able to attract independent, high-contribution advisors.

## **“THE FAMILY BUSINESS”**,

*By Herbert Steinberg*

The book addresses the family business, organizing affection, power and money relationships through Corporate Governance. It proves the possibility of organizing family and work relationships in this type of company, aiming satisfactory results in business, and, at the same time, preserving emotional and affection bonds. In this issue, tools and resources conducting to the key for obtaining healthy and productive relationships are presented, guaranteeing all conditions for success and perpetuation of family businesses.

## **ACCESSES ON THE INTERNET**

[www.bovespa.com.br](http://www.bovespa.com.br)

[www.bndes.gov.br](http://www.bndes.gov.br)

[www.bsp.com.br](http://www.bsp.com.br)

[www.corporategovernance.com.br](http://www.corporategovernance.com.br)

[www.fbn-br.org.br](http://www.fbn-br.org.br)

[www.ibgc.org.br](http://www.ibgc.org.br)

[www.ifc.org](http://www.ifc.org)

[www.imd.ch](http://www.imd.ch)

[www.eagv.com.br](http://www.eagv.com.br)

[www.plkc.adv.br](http://www.plkc.adv.br)

[www.asempresasfamiliares.com.br](http://www.asempresasfamiliares.com.br)

## **STUDY**

**Coordination, research and editing:**

*Di Fatto Comunicação Integrada*

**Art and production:** *Ideia Visual*

**Drawings:** *Moa*



Rua Amauri, 286 - 6º andar - Jd. Europa  
01448-000 - São Paulo - SP  
Phone: 55 (11) 3165-2828  
[mesa@corporategovernance.com.br](mailto:mesa@corporategovernance.com.br)  
[www.corporategovernance.com.br](http://www.corporategovernance.com.br)

Solutions for summit challenge