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Teaching Case: Initial Public Offering and Implementation of a Corporate Governance System in a Family Business

Abstract

Prime Hospitality Group (PHG) is a family-owned company, which was founded 17 years ago by Mr. Milton Albuquerque, with hotels and resorts scattered in different regions of Brazil. Recently, the company decided to go public in BM&FBOVESPA. Conducting an IPO, however, requires many changes in the company's structure. These changes generate costs and change the view of family members and different stakeholders involved in the process. This case proposes an assessment of the impact caused by the implementation of a corporate governance mechanism after the completion of an IPO of a family-run company.

Key Words: IPO; Family Business; Corporate Governance; Teaching Case.

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1. Introduction

Prime Hospitality Group (PHG) is a company in the hotel sector with 13 hotels and resorts scattered in different regions of Brazil. Its activities were initiated 17 years ago with the *Deluxe Rio*, located in the city of Rio de Janeiro, RJ, Brazil. In order to ensure the company's survival and to make it more competitive among large hotel chains, its partners decided to go public, launching shares on the stock exchange.

The PHG hotel complex seeks to attract different customers, taking advantage of Brazil's cultural diversity and giving priority to elements such as comfort, contact with nature, design and architecture in addition to luxury and exclusivity.

The company maintains a large office in the *Business Center Space*, also located in Rio de Janeiro, where they receive customers and travel operators and is where business and strategic partnerships take place. The company's office has 78 collaborators including the senior management, whose CEO is the company's founder and two of his three children are directors. Many employees are the founder's relatives. Three generations of the family work directly in the business.

The company also has a strong socio-environmental vision and seeks mechanisms of sustainable development. In this sense, one of the company's goals is to collaborate to solve social problems existing in the region in which the hotel network is located. Therefore, the company seeks to absorb local labor force, qualifying it with an intense training program. Additionally, the sale of handicraft produced in the region is promoted in the hotels' stores and products originated from family-owned farmers located in the regions in which the hotels are established are also used.

Most of the projects implemented by PHG were financed through bank loans and strategic partnerships with other groups. The latter form of financing was heavily used to expand the network. Thus, at each new venture, the company sought partnerships with other hotel chains or investors groups. In face of the company's growth, however, and given the need to achieve better economic and financial performance, these strategies were no longer sustainable and the company's IPO (Initial Public Offering) appeared as a cost-effective measure.

The company's IPO was the strategy adopted to improve the company's economic-financial performance and ensure new investments in the hotel network, taking advantage of the growth of tourism in different regions of Brazil due to the favorable dynamics of the country's macro economic development.

PHG faces direct competition of at least five large hotel networks. The sales of this family-run company, led by its founder Mr. Albuquerque, were R$600 million in 2010 (before IPO).

The company aimed to grow and achieve its first one billion Reais to keep up with its competitors. Preparation lasted almost seven years. The company hired consultants to gather information, which consumed a good portion of this time.

In regard to the PHG's process of stock market launching, Mr. Albuquerque, founder and senior partner commented in one of the meetings with the consultant firm:

> I've always resisted the company's real need to open and disperse its capital but times have changed. Even though share control will be decreased, PHG will improve, modernize and professionalize even more with the objective to achieve higher levels of growth and profitability. The challenge, however, is huge and one of the great difficulties is changing the culture of our organization to adapt to this new process.

To attract stockholders, corporate governance mechanisms are necessary to foster long-term value for the company and to enable investors to access timely and transparent financial information.

2. Implementation of the Corporate Governance System at PHG

PHG adopted IPO to raise funds in the capital market to finance expansion projects and become more competitive and be able to face strong competition in the hotel sector. The current environment requires companies to investment in innovation and competitive advantages and IPO tends to enable all these.

The company hired a consulting firm, *Master Partner Consulting*, to advise the IPO process and the adoption of good corporate governance practices. In the first meeting, the consultant pointed out the advantages of stock launching. In addition to easier access to financing resources to promote expansion projects there are: (i) greater access to resources to finance investment projects and increased asset liquidity for stockholders; (ii) possibility to use shares to pay acquisitions; (iii) benchmarking, the business is constantly assessed by a range of investors while exchange of information with the market support more elaborated and planed strategic decision-making; and finally, (iv) improved institutional image as the company gains greater prominence and recognition among its *stakeholders.*

In PHG's public offering process, the company decided to issue only common stocks and ensure that at least 25% of the total capital were free float in addition to meet minimum standards of quarterly disclosure and prepare annual financial statements including cash flow statements according to Law No. 11.638/2007 and international financial reporting standards (IFRS).

The company was also determined to keep an open channel for investor relations (IR), through its corporate governance mechanisms, and also hold, at least once a year, a public meeting with analytics and other stakeholders to disseminate information regarding the company's economic-financial status, projects and prospects, in addition to complying with disclosure rules and use of information demanded by the Securities and Exchange Commission No. 358/2002 (Comissão de Valores Mobiliários - CVM, 2002).

In regard to the ownership structure, after IPO, the family will still hold equity control with approximately 30.30% of ownership, while another 16.88% belongs to a foreign investor group and 16.38% is in the power of institutional investors. Table 1 presents the PHG's shareholding structure after IPO, with 30.47% of shares dispersed among minority investors.

Table 1
PHG's Ownership Structure after IPO

Stockholder	Qty. of Shares COM	COM (%)
Albuquerque Participações	158,797,753	30.30
ChanInvest	88,458,60	16.88
Pension Funds	54,871,551	10.47
Alpha Investimentos	24,699,654	4.71
IG Participações e Empreendimentos	6,292,822	1.20
Administrators	31,271,901	5.97
Outstanding shares/ Minority Investors	159,650,016	30.47
Total	**524,042,302**	**100.00**

Source: developed by the authors

For the implementation of a Corporate Governance (CG) system based on guidelines proposed by IBGC (Brazilian Institute of Corporative Governance), PHG established the following mechanisms: (i) Board of Directors with 9 members including a president elected for a two-year term with the possibility of re-election; (ii) a permanent and independent Supervisory Board composed of 3 members; (iii) Audit Committee with 5 members; (iv) External Audit; and (v) Family Management Council, still under implementation. The organization chart with positions and hierarchy is presented in Annex 2.

The duties and responsibilities of the Board of Directors were approved in a meeting based on new internal regulation. The nine members integrating the Board of Directors hold office for two-years. As shown in Table 2, the Board of Directors include Mr. Albuquerque, the Chief Executive Officer (CEO) who is also the chairman of the Board of Directors, Mr. Antônio Benedito Faria, current Chief Financial Officer (CFO), Mr. Paulo Mendes, who is the company's accountant since its inception, Mr. Aliel Farahat, a representative member of the foreign investor group *ChanInvest*, in addition to other five members, two of which are independent directors.

Table 2
Composition of the Board of Directors

Member and age	Background	Position	Other positions	Elected
Milton Albuquerque, 73	Civil Engineer	Chairman	CEO	Elected by the Controller
Antônio Benedito Faria, 46	Production Engineer and Accountant	Permanent counselor	CFO	Elected by the Controller
Paulo Mendes, 39	Accountant	Permanent counselor	Accountant	Elected by the Controller
Aliel Farahat, 61	Economist	Permanent counselor	No	Elected by the Controller
João Paulo Coelho, 42	Economist	Permanent counselor	No	Elected by the Controller
Letícia Daleprane, 45	Administrator	Independent counselor Independente	No	Elected by Minority Stockholders
Rodolfo Sanchotene, 50	Civil Engineer and Administrator	Independent counselor	No	Elected by Minority Stockholders
Clarice Maita, 41	Tourism Professional	Permanent counselor	No	Elected by the Controller
Pablo Almodovar, 38	Administrator and Accountant	Permanent counselor	No	Elected by the Controller

Source: developed by the authors

The responsibilities of the Board of Directors, a joint decision-making body, are to develop, direct and control the company's policies, guidelines and long-term strategies in addition to other investment decisions, financing and strategic management of people.

The Supervisory Board has the mission to supervise administrative actions, acting as the stockholders' independent control. The Supervisory Board was established with three independent members, all with background and experience in the accounting and fiscal fields and with specialization in auditing.

The Audit Committee in turn, is responsible for examining financial statements and supervising the financial sector as well as the development of the company's code of conduct. Three members were chosen to compose the company's internal Audit Committee: Carlos Daniel, who was the company's financial director and appointed chairman of the committee and another two independent members with experience in the field.

Below the Audit Committee is the Internal Audit, the objective of which is to examine the integrity, adequacy and efficacy of internal controls and the company's physical, accounting, financial and operational information.

A sector called Controllership Management, the employees of which were all hired with this objective in mind, was established to compose the PHG's internal audit body. This body, however, has faced difficulties due to structural differences existing in the management and accounting policies adopted in each hotel. The network had three market segments: a segment that included luxury hotels and resorts;

one intermediary segment with economic hotels; and a third segment that works with the concept of boutique hotels with a more intimate and singular proposal. Hence, each control was independent so that in the current configuration, the segments needed to be standardized without, however, de-characterizing them. As a result, the sector's functions are not yet totally integrated and implemented as initially planned.

The company's Executive Board, as shown in Table 3, is composed of Mr. Albuquerque (CEO), Mr. Antônio Benedito Faria (CFO), Mr. Alexander Belfiore (Director of Investor Relations), Mr. Carlos Vasconcellos (Director of Administration and Personnel Development) and two of the CEO's sons Mr. Daniel Albuquerque (New Businesses Director) and Mr. Paulo Albuquerque (Commercial Director). Another son, Mr. Pedro Albuquerque, was part of the Executive Board until mid-2012, however, he was removed from office due to internal problems that will be discussed later.

Table 3
Composition of the Executive Board

Member and age	Background	Position	Other positions
Milton Albuquerque, 73	Civil Engineer	CEO	Chairman of the council
Antônio Benedito Faria, 46	Production Engineer and Accountant	CFO	Counselor
Alexander Belfiore, 42	Accountant	IR Director	No
Carlos Vasconcellos, 51	Administrator	Director Administration and PDAdministration and PD	No
Daniel Albuquerque, 40	Administrator	Director of New Businesses	No
Paulo Albuquerque, 36	Lawyer	Commercial Director	No

Source: developed by the authors

The IR sector was implemented to disseminate information to external users and an Advisory Management Council, composed of management experts who were already employees of the company and used to provide consultation to the group, is being implemented.

With the implementation of the corporate governance system, PHG intends to establish good image among its investors, with transparency and equity of information. PHG understands that the corporate governance process should be continuous and accompany the company's growth.

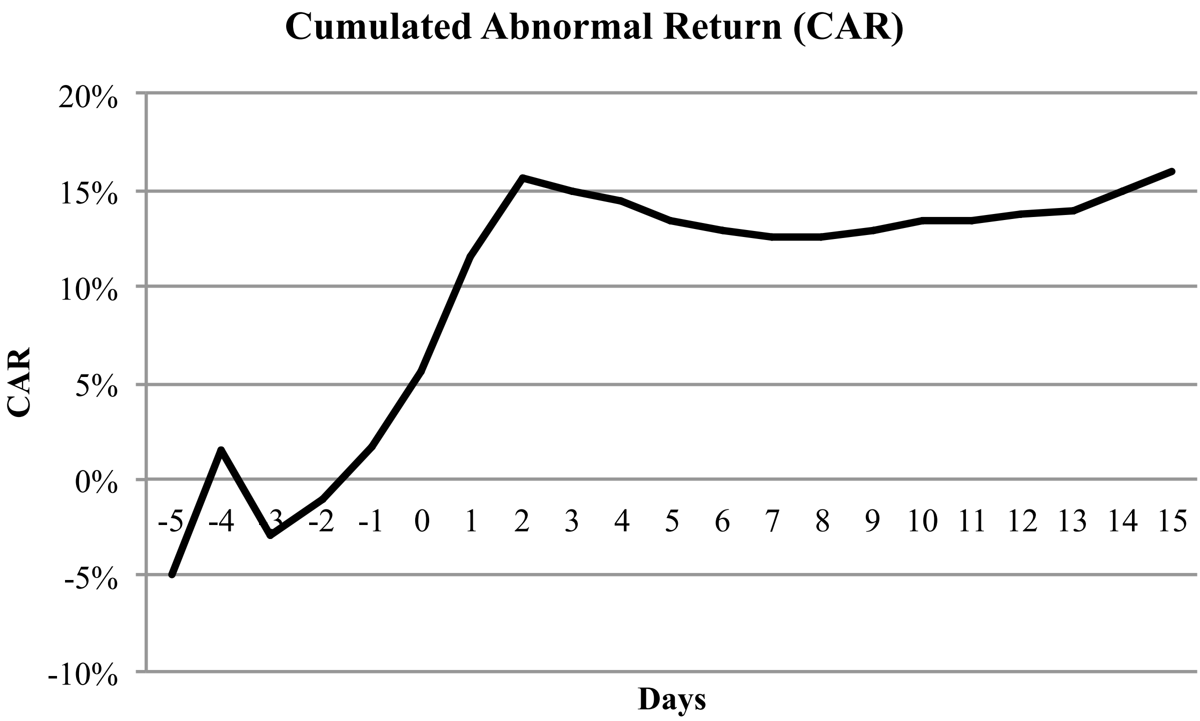
3. Advantages, disadvantages and challenges inherent to the IPO process

The starting point of PHG growth occurred in 2003 when the company opened two resorts in Fortaleza, CE, Brazil, which together with Deluxe Rio led the company to present excellent economic and financial results. With an eye on the company's growing business, the foreign investment fund *ChanInvest,* bought approximately 17% of the company in 2004 and outlined an expansion plan together with the family group, with the help of the youngest son who had recently arrived from the United States where he attended management studies in a renowned business school.

The first discussions regarding listing on the stock exchange began early in 2005. In 2007, however, even with a well-advanced process for the company to go public, investments were suspended due to the country's economic crisis in 2008. IPO was then programed for 2009 but as the company did not present good financial results, it decided to postpone IPO for another year. New plan was initiated in 2010 and IPO took place at the end of 2011.

At the end of 2012, a little more than one year after IPO, the company was assessed by the market at 2,3 billion Reais. In 2012, net income reached 850 million Reais, an increase of 40% comparing the same period in the previous year.

Immediately after IPO, the company captured almost one billion Reais, which were invested in the acquisition of a famous 5-star hotel in the city of Brasília, which belonged to another group of hotels (a hotel directed to business tourism). This acquisition was considered aggressive strategy given the strong competitiveness in the hotel sector in the capital of Brazil. Another considerable investment within the company's expansion plan in October 2012, was the acquisition of a resort situated seafront in the city of Natal, RN, Brazil. The purchase announcement had a good impact on the market and the company's shares price rose leading to an accumulated abnormal return of almost 20% in approximately 5 days prior and 15 after the event, represented in Graph 1.



Graph 1. Cumulative abnormal return (CAR) of PHG's stocks after the purchase of a new resort was announced

Source: Developed by the authors

One of the main difficulties faced since the beginning of the process was the family disagreements in regard to the company IPO. The father and the youngest son were in favor but the other two sons argued it was more feasible to keep seeking resources in the financial system.

It is important to note that PHG is a family business and, as a public company, its ownership structure becomes increasingly complex. Going public brought various advantages such as: (i) diversified funding alternatives; (ii) higher asset liquidity to its shareholders; (iii) strengthening the institutional image; and (iv) professionalization of management. Some of these advantages were immediate while others are still on the way or will be perceived over time.

The benefits, however, were linked to high costs inherent to publicly traded companies. In the first year after IPO, PHG had operational costs of R$925,000, including (i) annual and quarterly external audit; (ii) publication of financial statements; (iii) Securities and Exchange Commission's annual and inspection fee; (iv) costs concerning consultancy and training of the agents involved in the process, (v) costs with the implementation of the IR sector; and (vi) costs related to the remuneration of administrators due to greater level of tasks and input of independent counselors.

In addition to associated costs, the IPO process requires a transformation in the organization. The entry of new partners in a family business structure demands a change in the management paradigm and in the company's culture. Hence, it was necessary to abandon some traits of family-run business and adopt a culture aligned with a public company's culture. This was perhaps the most complex challenge faced by PHG.

Anderson Albuquerque Neto, who belongs to the company's third generation, works as a manager of the company's main hotel and notes that one of the cultural difficulties found by the family members was the visibility the company's controlling family gained in the media and society, which now became aware of the family's asset as it became visible in the company's financial statements. Thus, exposure of such figures caused a psychological impact on the family members and other people from their social life.

The family members in senior management also face difficulties to exempt affective feelings concerning family aspects. For this reason, the company has valued the implementation of a Family Management Council to deal with succession issues, to discuss family divergences, potential difficulties to separate family and business issues, and to encourage positive conflict resolution among the family three generations working in the company. The family management council will be consultative and therefore, will act as a connection between the family issues and the company's business, that is, it will be a link between the family, the Board of Directors, Executive Board and minority partners. Thus, the council does not integrate the company's management system and is intended to manage the family expectations in regard to the partnership.

Another complex aspect refers to transparency. Mr. Albuquerque still resists information disclosure. The founder stresses the negative aspects concerning the company's competitors and suppliers having access to the company's expansion plans, evidenced in disclosed financial and marketing data. The CEO argues: "Information disclosure in a very competitive market such as the hotel business, may be complicated for the company because we used to preserve strategic information to be able to compete in the market." In addition to the disclosure paradigm, Mr. Albuquerque face problems arising from lack of control. When the company was privately owned, he would make the most important decisions, currently however, his decisions are taken considering the market's expectations and moods, depending on the desires of national and international investment funds and the shareholders' expectations.

In regard to the structural difficulties in implementing the new administrative framework, the main problem was the PHG's management system itself, which held different standards for different segments of the company's lodgings. The network expansion implies not only the construction of new hotels, but also acquisitions. This process is often slow due to negotiations and poses considerable challenges such as whether to keep the employees of the former network.

Additionally, we highlight the preparation of the company for IPO and implementing the corporate governance system. Due to the company's size and the complexity of the process, three years (Annex 1) were necessary to implement the governance system in addition to the high cost to create and improve quality control.

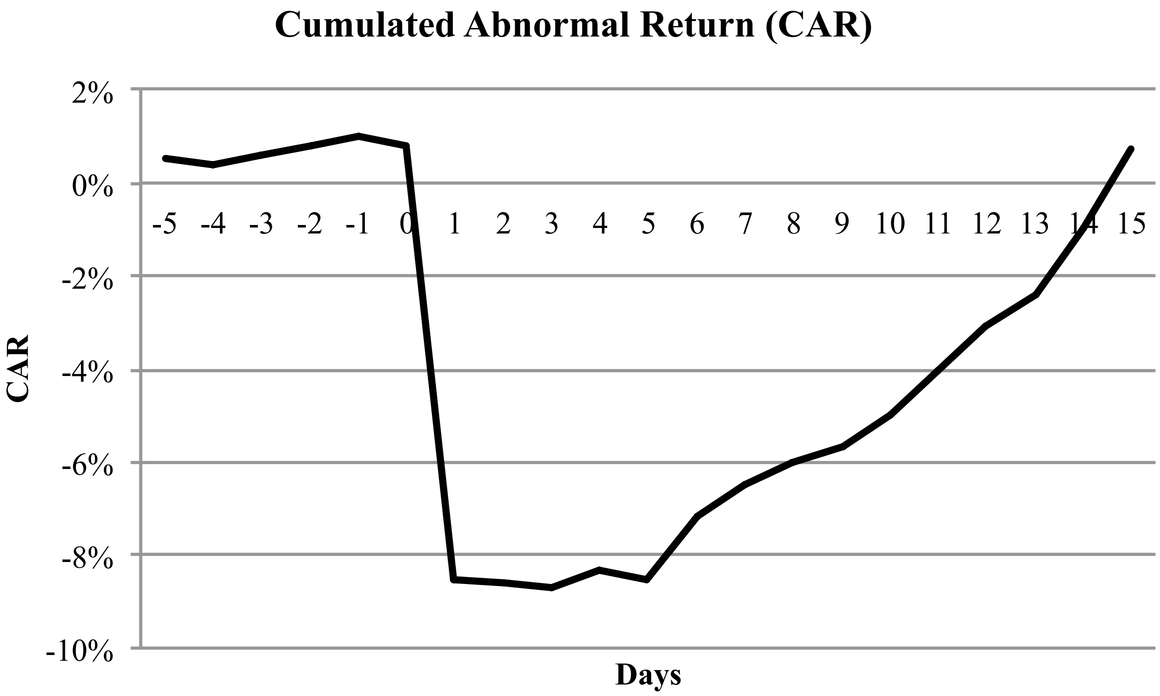
4. Family, governance and control issues

A fact that drew attention over the PHG's entire IPO process was the dissemination of information that the company was facing a governance problem. In mid-March 2012, approximately three months after the company's IPO, Pedro Albuquerque, one of the executive directors and son of Mr. Albuquerque, approved a reduction in the interest of a loan to a PHG's related company called Lazertop Ltda. One of the owners of this company favored by the agreement is Pedro's cousin. The loan, approximately R$26 million, was reduced in approximately R$9 million. In addition to ignore the company's internal regulations establishing joint decision-making through the Board of Directors, the director also breached accounting standards such as the disclosure of transactions between the parties (CPC 05, 2012) that is aimed to protect minority shareholders from deviation of power of administrators and conflict of interests and rules related to the costs of loans (CPC 20, 2012).

Internal audit identified the case and forwarded it to the Board of Directors, which decided to remove the director and nullify his decision concerning reduced interests.

Note the important role played by the internal audit in identifying the case and taking it forward even though it refereed to the son of the founder and president of the company. Nonetheless, despite Mr. Albuquerque's disappointment and embarrassment caused to the company when the case came to light, the director was rehired after 12 months and is currently the deputy administrative director, hierarchically below the position he used to occupy, which was that of executive director.

In spite of negative repercussions, the case shows a clear situation that conflict may occur in companies with strong family ownership structure. Graph 2 shows a drop of approximately 9% in the average abnormal return on the day the event was reported. On this day, the Ibovespa index rose 1.3%.



Graph 2. Cumulate abnormal return (CAR) of PHG's shares after the case involving the company's director of administration was disclosed

Source: developed by the authors.

It is known that personal and political issues will be always present in family businesses and internal conflicts mainly arise from the relationships of business with stakeholders. In this sense, some issues could be discussed such as:

1. Was the ownership structure after IPO appropriate for PHG?
2. Could the corporate governance system in place impede the adoption of the isolated actions of one director, which drastically impacted the company's value?
3. Could the family's significant participation in senior management be harmful?
4. How could disclosure of strategic information to shareholders be beneficial and at the same time not compromise the company amidst strong competitiveness in the hotel sector?
5. To what extent can the family culture influence the company's IPO and the implementation of corporate governance?

These questions and strategic decisions need to be discussed and considered with a view to perpetuate the PHG group.

5. Teaching Notes

The Teaching Notes are exclusively directed to professors in order to direct the objectives, methodological strategies and assessment of the teaching case.

5.1 Study's Objectives

To promote knowledge concerning the ownership structure and the process of implementation of corporate governance system in a family-run company considering initial public offering on stock exchange (IPO). The case enables analyzing the advantages and disadvantages of property concentration, the importance and challenges of IPO for a company intended to become global and competitive in addition to identify the corporate governance mechanisms of BM&FBOVESPA at different levels (levels 1 and 2, *Novo Mercado* [New Market] and *Bovespa mais* [Bovespa More]).

The case is intended to reveal potential problems inherent to the business and shareholding system of a family company that recently went public launching shares in the stock exchange, and the importance of this move to improve performance, harmonize relationship with shareholders, reduce risks in the succession process and also to strengthen the image of the company in the market.

This study is also intended to enable a practical understanding of the implementation of a corporate governance system, highlighting the creation of some governance mechanisms, contextualized for the conception of a family-run company.

5.2 Problem Situation

This study on *Prime Hospitality Group* – PHG is a description of an IPO case of a family-run company and the process of implementation of a corporate governance system along with some challenges inherent to the process. The discussion is focused on the extent to which family culture can influence a company's IPO and the implementation of corporate governance. Another important point refers to the difficulties faced when creating policies and corporate governance practices in family-owned companies.

5.3 Source of data

The name of the company, data and information reported are fictitious, though based on events reported in the market and specialized media.

5.4 Recommended Use

We expect that the reflections and discussion concerning this case contribute to the training of students in the business field at the undergraduate and specialization levels when addressing Corporate Governance, Accounting, Financial Market, Capital Market and Corporate Strategy. We expect this case study to improve the theoretical knowledge of students with a practical reflection on the topic.

5.5 Suggestions of discussing questions

Questions concerning ownership structure

a) The degree of shareholding control of Brazilian companies is influenced by various aspects such as market regulation, the company's size and social structure. Given the PHG's characteristics, what influence the most the degree of ownership concentration?

b) In regard to the company's concentration of power, based on data presented, is the company conservative? What changed after IPO?
c) Can the controlling shareholder balance the interest of agents considering Brazil is a country that offers little protection to foreign investors?

Questions regarding the company's governance system

a) In your opinion, was the choice regarding the composition of the Management Board correct? Are the remaining mechanisms of corporate governance appropriate to the governance codes?
b) According to the description presented, in which governance level PHG can be classified according to BM&FBOVESPA?
c) What are the motivations and benefits that lead a company to go public?
d) What are the disadvantages and risks involved in a company's IPO?
e) What are the strengths of the PHG's governance model and what could be improved?
f) Is the Supervisory Board Board presented in the organization chart (Annex 2) truly independent?

Questions regarding family aspects influencing the business

a) Does the company's family structure pose specific risks in initial public offering and listing on stock exchange?
b) What do you think of PHG's concern in implementing Family Management Council?
c) After analyzing the context presented, in your opinion, did PHG obtain more advantages or disadvantages after IPO? Describe.
d) From a business perspective, was there a better way for the company to deal with the problem involving Mr. Pedro Albuquerque? What should have been done for transactions with family parties and purely family-related decisions, which may harm the company, to be avoided?

Questions concerning disclosure

a) What do you think of Mr. Albuquerque's opinion regarding the disclosure of the company's strategies in a competitive market?
b) In your opinion, does knowledge regarding the family's patrimony impact the personal and professional life of family members working in the company?
c) Comment the rules and regulations infringed by Director Pedro Albuquerque and implications for the company.
d) Compare the repercussions of the two events presented in the text (see Graphs 1 and 2). What can be inferred?

5.6 Case analysis

It is important to highlight the advantages and disadvantages of a company going public and critically analyze the cost-benefit of this initiative. It is possible to identify, through elements provided in the text, the segment of Corporative Governance the company can be classified according to BM&FBovespa; *Novo Mercado* [New Market]; strengths of the company's governance dimensions such as good degree of the council's independence; the presence of a permanent Supervisory Board, among others; and aspects that can be improved such as the implementation of a family council and different people occupying the CEO and chairman of the council positions.

The case also enables a discussion concerning a polemic issue concerning an ethical-legal event involving one of the family members and the implications of this fact for the business and market.

The issues raised here are only suggestions and depending on the subject, the professor can enrich or even suppress some questions to adapt the content to class. In case all questions are addressed, however, there is also the possibility to split the class into four discussion groups: (i) one group can discuss the property structure; ii) another group can discuss the governance system; (iii) a third group can talk about family aspects; and (iv) a fourth group can discuss the disclosure of the company's information and events relevant to the market.

Note that the company obtained significant gains with IPO. In quantitative terms, the market accepted it well and the net income increased. In qualitative terms, the company underwent a process of professionalization of its management, which can help the succession process. Nonetheless, the case reveals extra costs, resistance on the part of the family senior management in regard to the consequences of going public, and family conflicts that existed prior to the IPO and whose impact is now more important since the media, investors, market analysts and other stakeholders are aware of everything that occur within the company.

The case also reveals weaknesses in the company's management and governance systems – an excess of family members occupying senior positions may be one of them. The fact that Mr. Albuquerque was the president of Board of Directors and CEO reveals a conservative profile and concentration of power though this aspect was mitigated by the fact that most counselors were independent.

The situation involving the founder's son shocked everyone in the company but, eventually, a paternalistic tendency prevailed. It may negatively affect the company in the long run since it shows weakness and a tendency to value family issues at the expense of the business.

The study enables emphasizing that the benefits obtained with the IPO are linked to some disadvantages and many challenges. Therefore, we sought, in addition to explore the advantages of going public and having good governance practices, to reflect upon the difficulties a company may face when going public and weaknesses that may exist in a governance system as well as ethical and political aspects of a publicly listed family business.

6. Recommended Literature and Support Material

The texts by Jensen & Meckling (1976); Johnson, La Porta, Lopez-de-Silanes, & Shleifer (2000) and Jensen (2005) provide an overview of the problems inherent to complex relationships existing within firms (conflict of interests, earnings management, expropriation of minority shareholders, and legal system, among others), which take place between the company's management and its stockholders, conceptually called agency problem. In Brazil, this discussion should take into account the structure of the market, for instance: developing capital market, legal environment with poor enforcement, strong presence of institutional investors and shareholder wealth, which contribute to an agency problem to occur, especially between majority and minority shareholders.

The civil law adopted in Brazil results in a legal environment with poor enforcement and poor legal protection to investors. Companies interested in reduce the cost of capital should seek other forms to ensure protection to its investors. In Brazil, despite ownership concentration, which leads to agency conflicts between majority and minority shareholders, the companies achieved good levels of corporate governance and improved performance (Carvalhal da Silva & Leal, 2005).

When analyzing ownership structures of Brazilian firms between 1998 and 2002, Carvalhal da Silva & Leal (2006) note that the property and control of Brazilian firms are concentrated and most firms are directly controlled by a single shareholder. One of the main mechanisms used by major shareholders to maintain control is issuing preferred stocks (these shares do not carry voting rights), thus increasing the distance between control and ownership.

Bortolon (2013) analyzed the structures of Brazilian firms from 2004 to 2006 and observed a change toward less concentrated structures and fewer deviations of rights; however, empirical results show there may be expropriation of minority shareholders.

Studies addressing corporate governance in family companies have some peculiarities and challenges such as: fewer agency conflicts arising from separation between property and control (agency problem type 1) due to the executive's improved monitoring ability. There are, however, severe conflicts between controlling shareholders and minority shareholders (agency problem type 2). Hence, there is greater control on the part of family members of the Board of Directors (Ali, Chen, & Radhakrishnan, 2007).

In family companies in which there is ownership concentration, among the previously mentioned agency problems, there is an additional factor: the family, including sentimental aspects regarding relationship among family members (Silveira, 2010, p. 298).

Another interesting aspect presented in studies addressing family-run business refers to the firm's value when the objective is to answer to the question: do family-run business aggregate positive value to the firm? So far, general results are conflicting. The study conducted by Villalonga & Amit (2006), which analyzed 500 firms from 1994 to 2000, reports that family-run businesses aggregate value to the firm if the founder is still working in the company, either as the CEO or chairman, however, when the founder's descendants assume the company, it loses value, especially in second generation family-run businesses.

The following books are recommended to support the case discussion: Bornholdt (2005), Fortuna (2010), Silveira (2010), Lima, and Lima and Pimentel (2012), among other books from the fields of financial market, capital market, and corporate governance in addition to the BM&FBOVESPA and IBGC websites.

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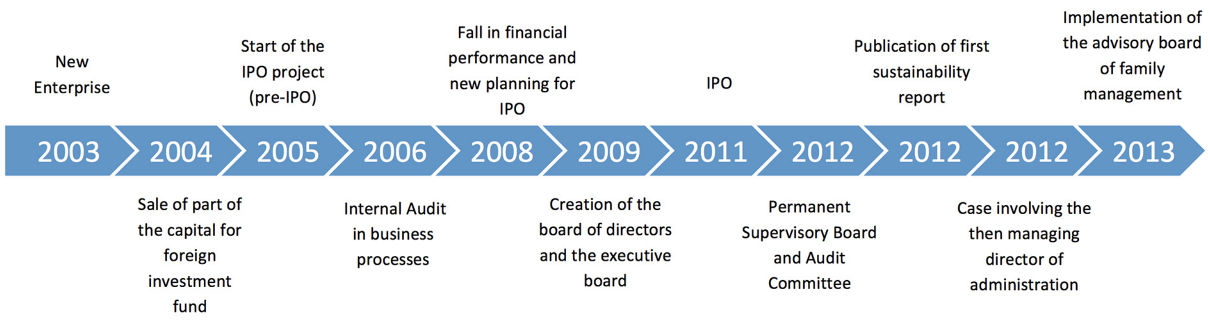
8. Annexes

Annex 1

Landmarks of IPO and implementation of the governance system

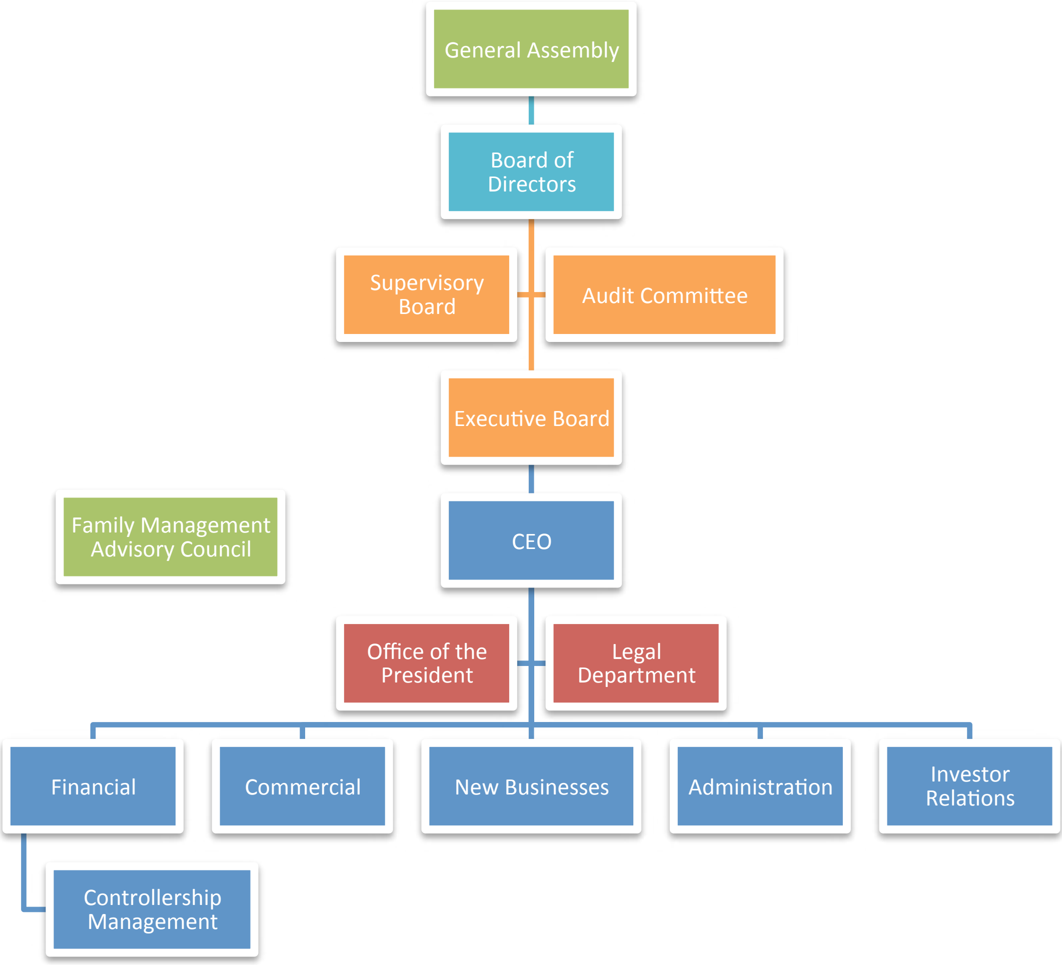
Year	Main Events
2003	The company presented good results after opening two new resorts (one hotel and one residential resort) in partnership with a Brazilian construction company.
2004	17% of the company was sold to the ChanInvest investment fund.
2005	The company starts preparing for IPO influenced by a foreign investment fund and the son recently graduated from Stanford University. These were the main motivating factors.
2006	Auditing was implemented in the company's internal processes.
2008	Drop in the company's financial performance – new strategic planning aiming IPO.
2009	The Board of Directors and Executive Board were created.
2011	Stock Market Launch - IPO
2011	Trading on the stock exchange started.
2012	Supervisory Board and Audit Committee were created.
2012	1st Sustainability Report for 2011.
2012	Case involving the director of administration Pedro Albuquerque.
2013	Implementation of the Family Management Council as an advisory body.

Source: developed by the authors.



Annex 2

Company's organization chart after IPO



Source: Developed by the authors

Annex 3

Governance dimensions and mechanisms adopted

Governance dimensions	Adopted governance mechanism
Property structure:	• Only stocks with voting rights were issued; • 100% of tag along rights for all the company's shareholders; • Free float of 25% of shares; • Adherence to BM&FBOVESPA's Arbitration Chamber for resolving corporate disputes.
Board of Directors:	• Board of Directors with nine members, five of which are independent; • Monthly executive sessions held by the Board of Directors.
Information and management transparency:	• Quarterly conferences with market analysts; • Annual balance sheet in accordance to international standards; • Follow stricter disclosure policies with respect to transactions made by the controlling shareholders, directors and counselors involving securities issued by the company; • Provide to shareholders a corporate events schedule.
Independent auditing:	• The external auditing committee reports directly to the Board of Directors.
Conduct and conflicts of interest:	• Family Management Council in final implementation phase.

Source: developed by the authors, adapted from Silveira (2010).

Annex 4

Comparison of Listing Segments

Characteristics	New Market	Level 2	Level 1	*Bovespa mais*	Traditional
Type of shares issued	Permits only Common Shares (COM)	Permits both COM and preferred stocks (with additional rights)	Permits both COM and preferred stocks (according to law)	Only COM shares can be traded and issued, but the existence of preferred shares is allowed	Permits both COM and preferred stocks (according to law)
Minimum percentage of free float	At least 25% of free float			25% of free float up to the 7th year of listing or minimum conditions of liquidity	There are no rules
Public offerings of shares	Share dilution efforts			There are no rules	
Sealing statutory provisions (starting May 10, 2011)	Vote below 5% of capital, qualified quorum and “immutable clauses”		There are no rules		
Composition of the Board of Directors	Minimum of 5 members, 20% of whom should be independent with unified term of up to two years		Minimum of 3 members (according to law)		
Accumulation of positions is prohibited (starting May 10, 2011)	The same person is the Chairman and CEO (grace period of 3 years from accession)			There are no rules	
Board of Directors is mandatory (starting May 10, 2011)	Response to any public offer for the acquisition of the company shares		There are no rules		
Financial Statements	Translated to English		According to law		
Annual public meeting and calendar of public events	Mandatory			Optional	
Additional disclosure of information (starting May 10, 2011)	Policy concerning securities trading and code of conduct			There are no rules	
Concession of Tag Along	100% for COM	100% for COM and preferred shares / 100% for COM and 80% for preferred (until May 9)	80% for COM (according to law)	100% for COM	80% for COM (according to law)
Public offering of shares for at least the economic value	Mandatory in case of delisting or in of leaving the segment		According to law	Mandatory in case of delisting or in of leaving the segment	According to law
Adherence to the Market Arbitration Panel	Mandatory		Optional	Mandatory	Optional

Source: BM&FBOVESPA website, 2012.