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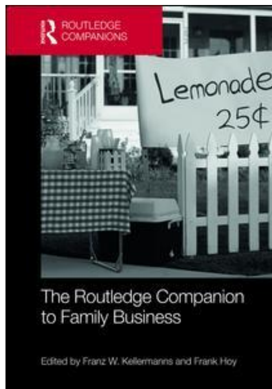

The Routledge Companion to Family Business

Franz W. Kellermanns, Frank Hoy

Contextual Factors THAT AFFECT Selection and Use of Governance Structures in Latin American Family Enterprises

Publication details
https://test.routledgehandbooks.com/doi/10.4324/9781315688053.ch27
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Published online on: 29 Sep 2016

How to cite :- Isabel C. Botero, Gonzalo Gómez Betancourt. 29 Sep 2016, *Contextual Factors THAT AFFECT Selection and Use of Governance Structures in Latin American Family Enterprises from:* The Routledge Companion to Family Business Routledge
Accessed on: 26 Mar 2023
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CONTEXTUAL FACTORS THAT AFFECT SELECTION AND USE OF GOVERNANCE STRUCTURES IN LATIN AMERICAN FAMILY ENTERPRISES

Isabel C. Botero and Gonzalo Gómez Betancourt

Introduction

In its most general form, corporate governance describes "the study of power and influence over decision making within a corporation" (Aguilera and Jackson 2010: 487). For family enterprises[1], the study of corporate governance encompasses the exploration of the different systems and structures that are put in place to help the family business and the business family make decisions regarding the direction of the business and to assure accountability and control in the relationships of the business, family and ownership of the firm (Gallo and Kenyon-Rouvinez 2006). Thus, decisions about governance are important because the success in this context is closely tied to the structures and processes that are in place to help the family and the business adapt to the environment and disruptions that occur (Miller and Le Breton-Miller 2006, Suess 2014).

Although corporate governance is the area of family business research that has received the most attention in the last two decades (De Massis et al. 2012; Debicki et al. 2009), we know very little about the role that cultural contexts[2] have in the practice of governance in family enterprises. This is very interesting given the growth in the study international corporate governance and findings that suggest that national culture influences the policies that governments have regarding in the use of governance structures (Aguilar and Jackson 2010). Similarly, family business researchers indicate that we need to pay closer attention to the cultural context because it can affect our understanding of the relationship between variables (Sharma and Chua 2013), the way that family business is defined (Astrachan, Klein and Smyrnios 2002), and different considerations that are important in corporate governance decisions (Monteferrante and Piñango 2011). With this in mind, this chapter focuses on the Latin American[3] context to explore how characteristics of Latin American families, family enterprises, and cultural context affect corporate governance choices that family enterprises make.

Latin America countries have many differences between them, yet they share common characteristics that come from similar cultural, political, economic, and historical similarities (Hoy and

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Mendoza-Abarca 2014). Historically, archeologists can place the first settlers in Latin America approximately 10,000 years ago (Britannica.com). Starting in the 16th century, Europeans (primarily Spanish and Portuguese) and African immigrants started coming to this part of the world and mixing with the indigenous population to create a new type of society (Nicholson 2011). The combination of these diverse backgrounds resulted in a new culture that shared religious beliefs (i.e., Catholicism as the most influential religion), class structure, and authority dynamics that influenced how society and families work. As a result, they share great similarities in how they think about family, business, and relationships.

Research in corporate governance in the context of family firms suggests that the way individuals think about business and relationships can play an important role in how they select and use corporate governance systems (Steier 2001, Steier et al. 2015). Building on this knowledge, this chapter identifies the unique characteristics of families, family enterprises, and economic, socio-cultural, political, and legal systems, and explains how these factors influence the selection and use of governance structures in family enterprises. This work contributes to our understanding of family enterprises in at least two ways. First, we explicitly highlight factors that can play a role in choices about governance. In this area, we build on the work of Steier (2001), Astrachan and colleagues (2002), Miller and Le-Breton-Miller (2006), Aguilar and Jackson (2010), and Steier and colleagues (2015) to identify how family, family business, and cultural contextual factors that can affect decision about which corporate governance structures and procedures to use and why they affect decision making about this issue. And, second, we contribute to a growing body of literature that explores the characteristics of family businesses in emerging economies such as Latin America. Particularly, we highlight the characteristics of the Latin American culture that create family enterprises that are unique and different from other family businesses around the world.

To achieve our goal the following sections summarize the literature on corporate governance in family firms and the different factors that can affect the choices about how to govern a firm. Following this, the Latin American context is described. This section focuses on the unique characteristics of the cultural context, the family, and the family business. Using this description, we explain how and why these unique factors need to be considered to understand how family businesses practice governance in this part of the world. We then use the Colombian context as an example of how characteristics of the cultural context, the family, and the family business affect decisions about corporate governance in family firms. We conclude by highlighting unique considerations for studying and practicing corporate governance in the family business context of Latin America.

Understanding Corporate Governance in Family Enterprises

Corporate governance describes the systems (i.e., structures, processes, and policies) by which corporations are managed/directed and controlled (Aguilera and Jackson 2010). The purpose of having these structures, processes, and policies is to diminish the problems that can arise from a conflict of interest between different stakeholders of the firm (Cadbury 1999, Suáre and Santana-Martin 2004). Governance systems are important because they help the firm direct their efforts to achieve prosperity and long-term value, have a clear structure for accountability of actions and guide internal stakeholders to help achieve organizational goals (Gersick and Feliu 2014, Suess 2014). These actions, in turn, can help with the success of the firm (Steier et al. 2015).

Mainstream understanding of corporate governance is based on the separation between ownership and control/management within an organization (Pieper 2003). However, in family

enterprises, this clear separation is not always possible. Researchers acknowledge that family involvement in the firm introduces unique considerations in corporate governance (Chua et al. 1999, Gómez-Mejía et al. 2011, Sirmon and Hitt 2003). For example, the introduction of the family into the business can affect the type of goals that become prevalent for the business, the short- or long-term focus of the firm, the relationships between owners of the firm, and the importance that is given to family members within the business system (Gómez-Mejía et al. 2011). Given this, family businesses require governance systems that facilitate the development of structures that will help the family, ownership (i.e., stockholders) and the business (i.e., control/management of the business) in their planning, decision making, and problem solving (Carlock and Ward 2003).

On the *business* side, the function of governance systems is to help outline the practices that managers need to engage in to help the organization achieve its goals (Gersick and Feliu 2014). This is done through the board of directors and the executive leadership of the firm (i.e., CEO and Management). In the *ownership* system, the function of the governance is to serve the equity of the owners. This is done by establishing and monitoring structures and procedures that will help owners comply with the legal and accounting requirements, setting risk and return parameters, and tracking all data on performance to ensure that owners maintain their equity in the firm (Gersick and Feliu 2014). The governance practices include shareholder's meetings, shareholder council/assembly, shareholder agreements, family offices, and family foundations (Gersick and Feliu 2014, Suess 2014). It is important to note that, in family firms, the ownership system can overlap greatly with the family system and the business system, which makes it difficult if the goal is to clearly separate each area of governance. Finally, within the *family system*, governance structures help the family by organizing and managing the relationships between the family and the business (Berent-Braun and Uhlaner 2012), the family and ownership (Montemerlo and Ward 2011), and the family and management (Mustakallio et al. 2002). Researchers suggest that the governance of the family system is one of the critical components of the family enterprise (Suess 2014). The purpose of the family governance structures is to make explicit and clear the rewards and demands of being part of the family enterprise, to clearly identify the opportunities for family members to be involved in the business, and to ease the flow of information that is trustworthy among family members (Gersick and Feliu 2014). Examples of the governance practices in this area include: family meetings[4], family council[5], family committees, and family constitution/protocol[6] (Suess 2014).

The study of governance in family businesses in the last 25 years has evolved greatly. Early on, work in this area was scattered and focused on individual governance bodies and structures, with emphasis on the role of the board of directors in the family firm (Pieper 2003). Later the focused shifted to understanding the link between governance and family firm performance (Pieper 2003). More recently, the focus of governance research has been to understand the different factors that may play a role in choices about governance systems, and the governance challenges that family business and business families face (Steier et al. 2015). This chapter focuses on the factors that influence decisions about which corporate governance systems to use.

Factors that Influence Corporate Governance Choices

Research suggests that family business characteristics, and broader contextual factors both play a role in determining how a family decides to govern their business. At the family business level, Miller and Le Breton-Miller (2006) suggest that concentration of ownership/control, family management, the involvement of multiple family owners and /or managers in the business, and the involvement of multiple generations in the firm can all impact the governance

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choices that a family business makes. They argue that these four factors will affect governance choices that can enhance the presence of agency problems or stewardship behaviors on behalf of the business, which can result in benefits and/or challenges for the firm. Steier (2001) complements this by highlighting that organizational size and the level of development of the family firm influence the governance choices that family businesses decide to exercise. He argues that smaller firms that are early in their developmental stage rely on trust as a mechanism to govern the firm. In these circumstances there is a very close relationship between members and there is no need for explicit structures that help make decisions, which reduces transactions costs and provides a strategic advantage to the family firm. However, as families and businesses grow and evolve, there are forces that will diminish the trust between family members, managers, and owners, which will require the investment in activities to enhance their trust or the implementation of governance structures that can help build accountability and trust between stakeholders in the firm.

Context matters greatly when trying to understand family businesses (Sharma and Chua, 2012, Steier et al. 2015). Thus, although not directly studied in the family business area, there is a growing body of literature that explores the role that cultural context can play in how corporate governance is practiced in different countries. In their review of international corporate governance, Aguilera and Jackson (2010) indicate that there are four contextual environments that need to be considered to understand the use of corporate governance structures and policies across cultural contexts. The *economic environment* describes external factors in a business market and broader economy that influences the functioning of the business. At a macro level, this includes interest rates, taxation system, and inflation just to mention a few. At a micro level, it includes characteristics such as market size, supply, demand and the distribution chain. Economic environments are likely to affect how the business needs to be structured to respond to the environment. Thus, affecting how a business needs to be governed. Table 27.1 provides examples of the factors from the cultural context that influence corporate governance and the type of governance decisions and practices that it can affect.

The *social environment* has characteristics (i.e., beliefs, customs, practices, and behaviors) of the immediate social setting in which the organization exists. Projects that explore the influence of culture on corporate governance taking the *socio-cultural approach* focus on two issues. First, they explore how individual cultural orientation (i.e., perceptions of power distance, individualism, uncertainty avoidance, masculinity, and long-term orientation) affects managerial decision making in a firm (Hofstede 2001, House et al. 2001). Second, it explores how national culture can affect societal norms that play a role in the management of a firm (Aguilera and Jackson 2010). These researchers argue that a national culture may support certain kinds of behaviors that are seen as acceptable. Thus, organizations will be more likely to include them as part of their governance considerations to be able to survive.

The *legal environment* is the third component of the cultural context and describes the rules and regulations that define the boundaries of the business activity in a country. This approach centers on the boundaries of property rights within each national culture and the regulations that affect how organizations are governed. Research that studies corporate governance in this area explores the extent to which the corporate legal system of a nation protects minority shareholders, which can influence the governance structure that a business will use. Researchers argue that the level of protection given to minority shareholders affects the ownership structure and, in turn, all structures that deal with decision-making within the firm (La Porta et al. 1999).

Finally, the *political environment* describes the actions taken by a government that can affect the daily business activities of a company. Research from this approach examines how the

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Table 27.1 Effects of Culture on Corporate Governance Based on Each Environment

Environment	*Factors the Environment Influences*	*Examples of Governance Issues*
Economic	Structure of the firm	• Financial systems used and financial choices available based on these systems. • Accounting practices that are prevalent • Board of Directors (e.g., size, type of board, power of board) • Hierarchy and power distribution within the organization • Executive compensation • Which stakeholders have a voice and how they participate in decision making?
Socio-cultural	Manager Behaviors	• Importance given to different governance practices • Priority given to different managerial activities. • How decisions about the organization are made.
	Societal Norms	• What are the accounting norms used by a company? • What are the different factors that a company needs to disclose?
Legal	Structure of Legal System	• Who has rights over a property? • Who has voice in the decision making about the firm?
Political	Political factors that are salient in society	• Degree and form of competition available in an industry. • Different political interest and how they affect a company behavior. • The degree of loyalty that managers have towards different stakeholders.
	Power and level of activity of political institutions	• The role that political institutions have in the state. • How prevalent is political activity in society.

introduction of particular laws in a country can change how organizations are governed. From this view, political actions within a country require organizations to adapt their structure to avoid having problems that can negatively reflect on the corporation. Thus, politics are likely to influence the governance structure of a company.

Aguilera and Jackson (2010) suggest that to fully understand the role that culture play in corporate governance choices, it is necessary to integrate ideas from these four environments. Each environment offers a unique lens through which governance systems and practices can be explained. They argue that corporate governance decisions are influenced by multiple interrelated factors that need to be considered in conjunction because they affect individual and group normative expectations. Building on this idea, we argue that the four environments contexts provide a general picture of a region's culture. In particular, these characteristics

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describe the economic, social, legal and political systems that compose a cultural context, and determine the norm and expectations that individuals within a cultural context have about behavior. Using the theory of reasoned action, researchers argue that societal values and norms play an important role in the choices and behaviors that individuals decide to enact (Park and Smith 2007). Building on this approach, we believe that the effects that culture has on the selection and use of corporate governance systems can be explained by the influence that these societal characteristics have on individual and organizational normative behaviors and expectations. These, in turn, play a role the selection and use of corporate governance structures and policies within a firm (See Figure 27.1). Applying this idea to the family business area, we believe that societal factors also play a role in the selection and use of corporate governance practices.

This chapter focuses on the Latin American context and how characteristics of this context influence decisions about corporate governance in family enterprises. Emerging economies in developing regions such as Latin America play an important role in the economy of the world. However, there is very little research conducted and published on how family businesses in these contexts survive, stay competitive, and grow (Astrachan, 2010). Building on our discussion above regarding the factors that play a role in the selection and use of corporate governance systems and policies, the following section describes the Latin American context. We focus on characteristics of the cultural context and the family firm that have been linked to the selection and use of corporate governance structures and policies. We also discuss the view of family in this region of the world and explain how it can also influence decisions about governance.

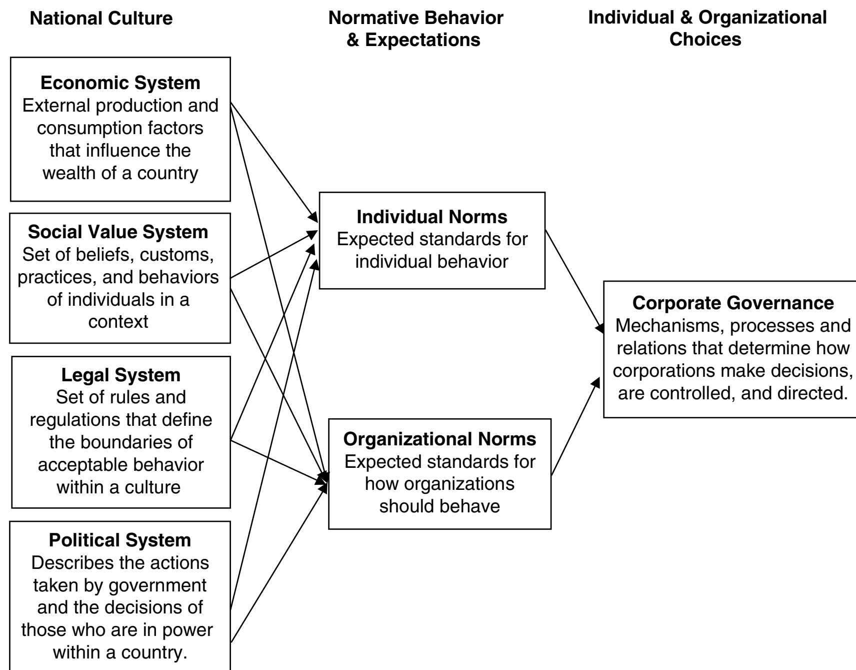

Figure 27.1 Influence of Societal Culture on Selection and Use of Corporate Governance Structures and Policies

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The Latin American Context

Latin America constitutes a rapidly growing and influential economic region with a population of more than 600 million people[7]. It extends from Mexico to Tierra del Fuego in Chile and includes many of the Caribbean Islands. Latin American countries are major providers of strategic commodities (i.e., iron, copper, zinc), they represent an important market for manufacturers, and have unique natural resources that make this region a significant partner to major players around the world (i.e., Asia, Europe and North America; Nicholson 2011). Throughout its history, the Latin American region has experienced times of economic hardships and political instability that have affected the structure, governance and development of their businesses. Because of these challenges, family controlled enterprises have always been the driver of growth for the region (Nicholson 2011).

Although there are many differences between Latin American countries, their shared history has influenced their perceptions that individuals in this part of the world hold. We begin describing the cultural context (i.e., economic, socio-cultural, legal and political systems) and explaining how these characteristics affect our understanding of family enterprises and their behavior.

The Latin American Cultural Context

The economic, social, political, and legal environment in Latin American countries has been influenced by the multiple changes that have occurred in this region since the 1960s. Back then the economic environment was characterized by regional protectionism, which promoted the development of small national markets (Lansberg and Perrow 1991). However, between 1970 and 2000 there was a big shift towards international trade and open markets that created higher instability, and market changes (Britanica.com). The push towards internationalization also promoted the shift in many countries from state-owned enterprises to privatization (Hoy and Mendoza-Abarca 2014). Countries like Mexico, Colombia, and Chile have seen major changes in their business structures (Britanica.com). At the same time, other countries in the region have changed from private to state ownership (Lansberg and Perrow 1991). Two examples of this are Venezuela and Ecuador, who have moved towards a more socialist government since 2000. The combination of these factors has created an economic environment characterized as fragile, volatile, and in constant flux. Because of this, it is common for corporations have difficult times accessing funding due to constant currency devaluation concerns, and structural changes in the market (Lansberg and Perrow 1991, Nicholson 2011).

At a social level, the constant change of economic conditions has created an environment of social unrest where social conflict has been normal in these countries. These conflicts have led to civil wars that have mobilized most of the population into urban settings were 79 percent of the population now resides (UNEP, 2010). This shift in the locations of the population has resulted in high levels of unemployment, underdeveloped infrastructures, and poor education systems that make the acquisition of skilled workers a difficult task (Poza 1991, Nordqvist et al. 2011). These social issues are also manifested in political and legal environments that are constant flux and require organizations to adapt to the changing regulations and policies that are initiated by the government (Lansberg & Perrow, 1991).

In the legal environment, it is important to know that Latin American countries are governed by the civil law system. Countries governed by civil law have an explicit set of rules that provide a normative approach to how corporations should work and the responsibilities of those who are in charge of the firm. This is different from common law, which is the legal

system prevalent in North America[8]. Common law is based on precedence and does not have a codified system. When applied to corporate governance, having a legal system based on civil law requires that organizations follow specific codes and rules that will determine the different governance structures and procedures that organizations need to implement. Thus, Latin American countries have prescribed characteristics that require specific governance structures that need to be used for an organization to be considered legal. This results in rigid regulations for the local companies.

When taken together, all of these issues have created climates of uncertainty, and the need for adaptive structures in the business environment. For family enterprises, this uncertainty means that they require governance structures that differ from other regions of the world (Monteferrante and Piñango 2011). For example, the presence of political corruption requires family enterprises to have structures that enable them to have people with good negotiation skills and with power within the company to negotiate with officials at various levels within the public bureaucracy to facilitate the practice of their business within their industry and country (Lansberg and Perrow, 1991). At the family and ownership levels, these characteristics require that governance choices can protect the family and its property. Thus, as highlighted by previous researchers, cultural contexts need to be considered to better understand and help Latin American family businesses. In the next section, we talk about the unique characteristics of family enterprises in Latin America and how these factors also influence choices about governance systems.

The Family Business in Latin America

Throughout its history, the Latin American region has experienced times of economic hardships and political instability that have created an environment for the development of family businesses with unique characteristics (Hoy and Mendoza-Abarca 2014; Lansberg and Perrow 1991; Nordqvist et al. 2011; Poza, 1995). Historically, family businesses in Latin America are very young (i.e., most likely to be in their first or second generation), have a high concentration of ownership in the family (Poza 1995), and are born from the entrepreneur's need to support themselves or their families (Nordqvist et al 2011). Family enterprises in this region are likely to be organized based on a multi-business portfolio structure often labeled "grupo" (Brenes et al 2006, Lansberg and Perrow 1991, Nicholson, 2011).

"Grupos" are large holding companies that include a group of businesses that are owned by a family or group of families. This form of organizing offers several benefits to the entrepreneurial family. First, it allows for the participation and involvement of more family members. "Grupos" tend to grow through diversification. Thus, by having more companies, there are more ways to involve family members into the business. Second, having multiple companies also allows multiple generations of the family to work in the business at the same time and have power and autonomy over their decisions. A multi-business structure does not require younger generations to wait until older generations leave the organization to have a position of authority and to be independent. Given that, younger generations are given the opportunity to create spinoffs that are related to the family enterprise (Lansberg and Perrow, 1991). This enables new generations to enter the business and have their independent firm but still get the benefits of the family enterprise. Third, this multi-business structure can prevent stock values from being diluted when new members of the family become owners in the family enterprise. As explained above, a family member can own their business and still be under the umbrella of the family enterprise. Thus, having multiple members of the family enter the business is not always harmful to the value of the stocks. And, fourth, the group structure can also make financing new family ventures much

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easier (Lansberg and Perrow, 1991). By having multiple organizations, the family enterprise can have access to more family capital and use this capital to fund the new ventures. However, this business structure creates interesting challenges to the way family enterprises are governed. The majority of the governance models discussed by family business scholars assume a single-family and single-business structure and do not provide clear explanations of how different structures (i.e., the "grupo") could align their governance systems with their goals (Steier et al. 2015). Thus, we need new approaches to governance to be able to deal with these challenges.

Understanding the Latin American Family

A third aspect that we believe influences the selection and use of corporate governance structures and policies is how a culture defines who is included in the family. The definition of family is important because it can change the number of family members that are involved in the business, which is an important consideration when selecting which governance structures to use (Miller and Le Breton-Miller 2006). While some regions around the world define the term family as equivalent to nuclear family (i.e., father, mother, and children), in Latin America the understanding of family is broader. In this part of the world, the idea of "family" includes the nuclear family, the extended family (i.e., grandparents, aunts, uncles, cousins; in-laws), and others related by friendship (e.g., best friends of parents that grew in the parents family) (Georgas 2003). In the context of family enterprises, this broader definition has several implications. First, it affects who is considered a "family member" when determining the involvement of family in the family business. In this case, while other cultures may only include a single individual in the dominant coalition, Latin American family businesses can have multiple individuals of the family with decision-making power in the organization (Lansberg and Perrow, 1991). Having more people with decision-making power will influence what structures and policies need to be in place to manage the family enterprise. Second, this broader definition also affects the number of family members that are involved and may depend on the family business, indirectly affecting the degree of involvement of the family in the business. And, third, this broader definition can also play a role in determining the number of generations that are involved in the business at the same type.

The dominant role that the Roman Catholic religion has historically played in Latin American society has influenced a family-centered culture. Latin American families place greater importance on family relationships, family harmony, family unity, and family cohesion instead of profit maximization (Hoy and Mendoza-Abarca 2014, Poza 1995). This concern for maintaining relationships has important implications for family businesses. First, it affects the influence level of nepotism that is present in the business. Given that family is more important than the business, family membership trumps ability when hiring people for important managerial positions inside the business (Poza 1995). Additional, family rules are more prominent than business rules, which can affect the decision-making dynamics in the business. Second, a greater concern for maintaining harmony in the family prevents enforcing the accountability in the performance of family members (Poza 1995). Because of this, governance structures need to be adapted to allow for different decision-making mechanisms. And, third, the concern for relationships leads to a culture that avoids conflict and is less accepting of constructive criticisms (Hoy and Mendoza-Abarca 2014, Poza 1995). Thus, governance structures are less likely to rely on direct accountability of family members.

The influence of the Roman Catholic religion is also evident in the traditional view of the family structure (i.e., a man and a woman getting married to have children). Latin American cultures are patriarchal in nature[9] (Lansberg and Perrow 1991). This characteristic promotes

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traditional gender roles in which women act as the glue that keeps the family together while men are expected to take roles that involve greater authority and decision making. For family businesses, this traditional structure can be problematic when families have businesses in male dominated industries and have junior generations in which women are prevalent. This traditional view is also problematic when younger generations of females want to enter the business and either their fathers or their mothers, expect them to engage in behaviors that are consistent with their gender. This traditional view can also have implications for who can participate in the governance of the firm.

A final characteristic that is important to highlight about Latin American families is the sense of obligation that they feel towards family members. Given the belief that family always comes first, family members feel a collective obligation for all other members of their group. For example, if there is a family member that is going through a rough time, it is common that other family members will help them any way that they can. This can take the form of either moral or financial support. Because of this, family businesses tend to engage in cross-shareholder arrangements (i.e., when a family member lends their money to the business in a time of need). These types of arrangements can affect the degree to which family believes that they have a say in the business or the level of intrusion that family members will have over business affairs. And, both of these factors also play an important role.

Figure two combines the characteristics that the Latin American context has that we believe affect the use and selection of corporate governance systems. We complement the work of Steier (2001), Miller and Le Breton-Miller (2006), and Aguilera and Jackson (2010), by including family factors as important predictors of corporate governance choices in family enterprises. As Mustakallio and colleagues (2002), Pieper (2003), Berent-Braun and Uhlaner (2012), and Suess (2014) argue, the understanding of governance in family enterprises requires consideration of both the family and the business. And, given that all families have unique factors that affect the way the operate (Pieper), we believe that choices about governing the family enterprise also require considerations about the characteristics of the family.

The Colombian Context as an Example

Colombia is located on the northern tip of South America. It is the third largest country in Latin America with a population surpassing 48 million people. Seventy percent of this population lives in urban areas[10]. There are close to 1 million companies in the country (30 percent are formal organizations listed within chambers of commerce, and 70 percent are informal in nature). Broadly speaking, the *legal system* of Colombia is based on the French Civil Law system. This means that there are legal codes that determine what constitutes the different types of corporations and what type of governance structures these entities should have to be considered formal businesses. The *societal value system* is greatly influenced by Roman Catholic religion. Church has historically been very influential in personal and family lives of Colombians. There is a strong hierarchical structure and social stratification that affects who individuals interact with and the types of roles they expect to do when they join a business. Additionally, the family system is central in Colombian social structure and has a patrilineal structure. Finally, the *political system* is characterized by a two party system (i.e., conservatives and liberals) and a three-branch structure for the government (i.e., executive, legislative and judicial). There are a lot of connections between the personal/ social network and the political system. Guerrillas have become an important component of the political system in Colombia. It is estimated that there have been more than three thousand kidnappings per year since the late 1970's. This has created a tense political environment because many of those that are targeted by the guerrilla are politicians or business owners.

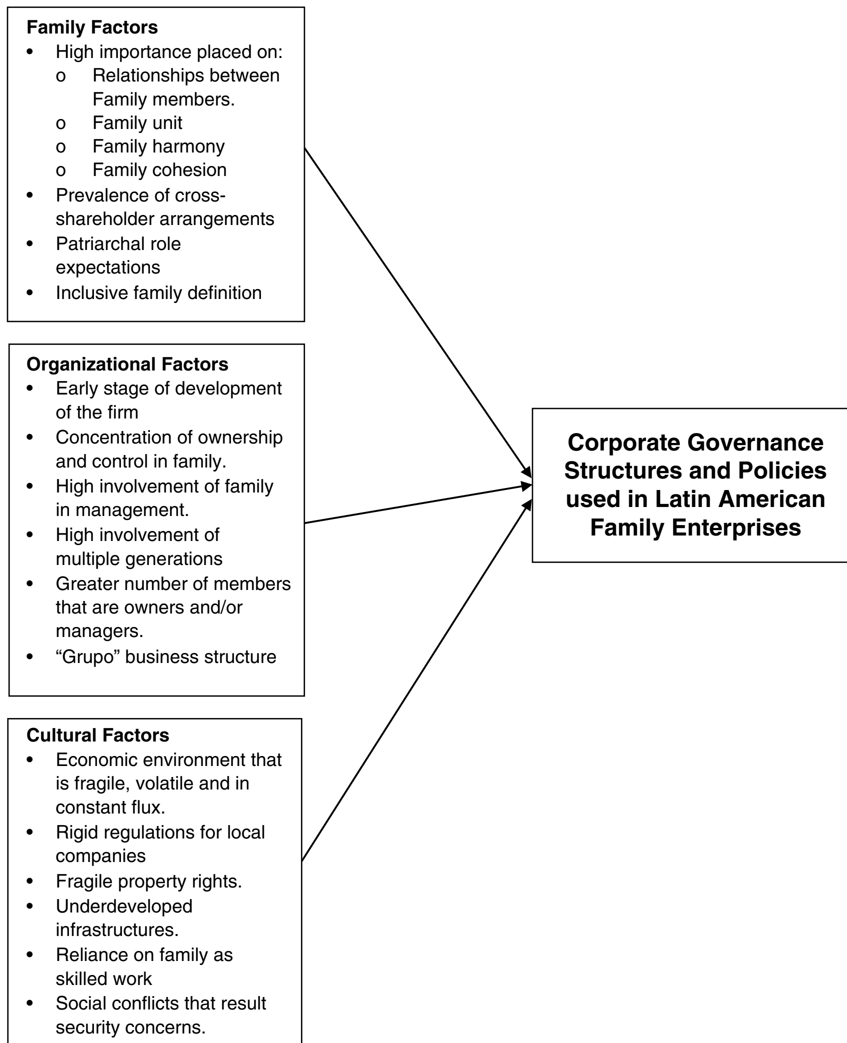

Figure 27.2 Characteristics of Latin American Enterprises That Affect the Selection and Use of Governance Structures

The cultural issues mentioned above affect the norms and behaviors that individuals and organizations follow. At the *individual level*, laws, individual values and political connections affect manager expectations and behaviors. For example, depending on the type of business that a manager works for, they are expected to create specific reports for the organization or pay attention to specific aspects of the firm for which they are held liable. Similarly, due to social class and hierarchical stratification, those in higher roles are expected to make decisions. The respect of an individual is based on their age, title, and social class. Thus, managers are expected to be older, have a higher level of education, and belong to a higher social class. These three characteristics give managers the responsibility of making decisions on behalf of the organization. Although "machismo" [11] can be present in the working environment it is not the norm, especially in urban centers of the country. Regarding gender roles, men are more likely to

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occupy dominant positions, and women are not considered fit for jobs that are seen as very masculine. Finally, at the individual level, the connections that a person has with those in political roles or those in a higher class are likely to determine the types of actions that are seen as required for a role. For example, in cases where there are political favors that are owed, rules can be flexible to make sure that the favor is returned.

Cultural characteristics also play a role in the expectations of what organizations are required to do. As mentioned earlier, the legal system in Colombia clearly identifies the laws that organizations need to obey by to remain a legal entity. Societal values suggest that respect for hierarchy is very important. In this sense, respect and power are given to those higher up in the organization, while lower level employees are seen as followers. Because of this, titles within an organization are seen as important. Finally, political conditions in Colombia have created informal norms for organizations to show less profit to avoid being targeted by guerrilla and avoid paying full tax to the government who will use this capital inefficiently.

When taken together, the cultural characteristics do have an influence in the selection and use of corporate governance structures and strategies through the effects they have on the norms that organizations need to follow and the individual behaviors of managers. In the case of family enterprises, the influence is augmented by the inclusion of family in the business and the strong role that family plays in society. In Colombia, 90 percent of all formal organizations are family owned or operated, and out of all these firms it is estimated that 70 percent are in the first generation, 25 percent are in the second generation, and 5 percent are in the third or greater generation (Gómez Betancourt et al. 2012). There are several cultural characteristics that need to be highlighted when focusing on family enterprises. First, it is important to note that there are no specific laws that pertain exclusively to family enterprises. Similar to other countries, Colombia relied on information from chambers of commerce, government control agencies, business associations, and universities to develop voluntary governance codes for close and open companies (Gómez Betancourt and Zapata Cuervo 2013). These codes are greatly influenced by developed countries that tend to have larger corporations and rely on trust and delegation of responsibilities to different components of the governance structure. However, characteristics of businesses in Colombia do not have similar conditions. For example, the most common form of formal organization in Colombia is the "Sociedad Anonima" (i.e., S.A., "Anonymous Company; equivalent to a public limited company in the USA). These organizations are required to have at least five partners, and need to have three mandated governance structures: shareholder's meeting (this convene at least once a year and elects the board of directors and the auditor); a board of directors with at least three principles and three replacements; and an auditor. On top of this, the partners who own the company are also required to create regulations of how they will manage their relations. When family firms are incorporated as an anonymous company, they need to create their legal document of how they will manage their relationships. Because family enterprise owners have a familial relationship, the regulations they require can be seen as similar to a family protocol. Thus, in Colombia, the use of family protocol as part of family governance of the firm is perceived as common and important.

The board of directors is another area that presents interesting differences for the context in Colombia. Internationally, researchers indicate that board of directors in family firms should have a good percentage of external members that can provide an outside perspective to the business (Bammens et al. 2008, Bettinelli 2011, Corbetta & Salvato, 2004). Our research has found that boards of directors in family enterprises in Colombia have between 20 percent and 25 percent of independent members of the board. There are at least two reasons for this. First, families have great loyalty to family members. Thus, family enterprises are more likely to include members that are considered part of the family. By doing this, they are ensuring that there are people who will protect the interest of the family when making decisions about the firm. In this

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case, outsiders are not seen as having the best interest of the family in mind, thus, they are not seen as viable candidates for the board. Second, as we mentioned earlier, in Colombia families are defined as including nuclear, extended, and strong friendship ties. Thus, it is much more difficult to claim full independence from the family when being part of the board. From our observations, those who get trusted with the responsibilities of a board member tend to have some form of long-term relationship with the family or the business, which makes them part of the family.

Another important aspect when thinking about decision-making as a part of corporate governance of a family enterprise is the hierarchical nature of Colombian families and societies. There are two issues that are important in this hierarchy: (1) who should make the decision? and (2) Who has greater influence in the decision? In Colombian families, senior/older members have the responsibility to make the decision, and those younger are expected to respect their decisions. Thus, senior family members are the ones that are more likely to participate and make decisions about the family firm. Their decisions and opinions are also seen as important and representative. Therefore, younger generations are less likely to have voice and influence during the decision-making process. Implied in this notion is the idea that older family members will play a central role in the governance of family enterprises. This could be done through formalized participation or informal interactions. Similarly, younger generations are expected to defer to the decisions of older family members.

Although these are just a small sample of the different ways that the Colombian cultural orientation can affect the selection and use of corporate governance structures and policies, it shows that some cultures may emphasize different structures and aspect of governance. In this sense, our knowledge about corporate governance in family enterprises may not apply to all cultures.

Conclusion

The purpose of this chapter was two-fold. First, we wanted to identify characteristics of families, family enterprises, and cultural context that play a role in the selection and use of governance systems and policies in family enterprises. Second, we wanted to explain how and why these factors played a role in decisions about governance. We build on previous work from Steier (2001), Astrachan and colleagues (2002), Miller and Le-Breton-Miller (2006), Aguilar and Jackson (2010), and Steier and colleagues (2015) to identify the three sets of factors presented in Figure 27.2 that play a role in how Latin American families make decisions about governing their enterprises. We argued that cultural, family business, and family characteristics affect the way individuals and organizations are expected to act, which, in turn, will affect the corporate governance choices. We suggest that countries in Latin America share similarities in their history that affect their beliefs about what constitutes a family and the role that families play in their lives, which influences the way that they think about the family enterprise, who gets to be part of it, and who gets to make and respect the decisions of the family enterprise. We also describe similarities in the cultural context and family business characteristics that can affect the normative expectations individuals and organizations have when determining how to govern an organization (see Figure 27.2). Finally, we illustrate how some of these ideas work using the Colombian context to illustrate our ideas.

Based on our observations, there are several implications for research and practice of corporate governance in family enterprises. First, we believe that the way that family is conceptualized influences who can be part of the family enterprise and in what type of interactions they can have with the business. For example, a broader definition would imply that there are more members that can participate and play a role in the business. This creates a greater overlap

between family and business systems, which can blur the distinction between family and business governance structure. A smaller separation between family and business is likely to result in complex choices regarding the governance of the business and the family. This blurring of lines can also occur between the ownership and the family system, which can have similar implications when making decisions about the family enterprise. Some of these ideas have been indirectly explored in the work of Poza (1995) and Lansberg and Perrow (1991). These authors argue that the Latin American context is unique because of the family culture that exists in this environment and how it affects the behaviors of family businesses. Thus, we complement these ideas by explaining how these unique views about families could affect selection and use of family and business governances systems. Second, we also argue that the central role that family has in the social structure can also affect corporate governance, especially in decision-making situations. For example, in a context like Colombia older family members have greater influence over decision even if they are not active members of the family enterprise. Because Colombian people have such respect for older members of their families, they are less likely to contradict or not follow opinions and suggestions from older family members. This contradicts how we currently conceptualize governance and who influences the governance of the firm. This complements the work of Steier (2001) who suggests that in some family firms trust can work as a governance mechanism that can help in making decisions about the firm. In particular, we argue that the family culture in Latin America works by trusting family members who will often participate or be part of the governance of the firm, even when they are not active owners or members of the firm.

Third, legal systems also affect the different governance structures that family enterprises use. For example, although there are no specific policies about what family enterprises need to do in Colombia, they are bounded by the legal requirements of the type of Legal Corporation they represent. Different codes of commerce may require for organizations to have specific governance structures or procedures. Thus, affecting the legal requirements of a country can affect which governance structures are used and how they are used. This complements the work of Gómez Betancourt and Zapata Cuervo (2013) who analyze the different business codes around the world to present governance structures that can be useful for Latin American family enterprises. A fourth aspect that is noteworthy is the effect that political systems and contexts have to the way family enterprises are controlled and make decisions. Political contexts like Colombia, where there is turmoil can influence how the governance is structured and how closely policies are followed. For example, having social conflicts can lead to concerns about the personal of family members, how legal information is presented to outside stakeholders, and how financial information is reported. We believe that these considerations have important implications for the transparency of governance structures and decisions.

Up to date, there is not much research that explores how characteristics of the cultural context affect the selection and use of governance structures in Latin American family firms. The two studies that we found (Monteferrante and Piñago 2011; Ross Schneider, 2008) do suggest that Latin American family business groups behave differently than those in other parts of the world. In particular, Ross Schneider (2008) suggests that family business groups in this part of the world are more resilient and can adapt to changes in the environment that are brought by globalization. These characteristics challenge the traditional theorizing about corporate governance. Thus, there needs to be further understanding of all the factors that can play a role in decisions about governance, and how these decisions are made. The work of Monteferrante and Piñago (2011) sheds some light on this idea. They argue that family firms that are in their early stages of development rely less on formal structures of governance because they have fewer

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family members involved in the firm. This enables businesses to be more adaptable early on and rely on trust as an aid to governance. However, as businesses grow and more family members become involved in the business, there will be a need for formal structures that can provide transparency and accountability during decision making.

Based on these observations we believe that there is a great opportunity for future research that can help us better understand decisions and use of corporate governance structures in Latin American family enterprises. Initially, we believe that research could provide descriptive information about the governance practices that are used in the family, the business, and ownership components of the family enterprise. This can give us important background necessary to explore other issues. For example, once we know what are the practices used in Latin America we could compare with other regions in the globe to understand the similarities and differences that are present in the governance of family enterprises. These initial findings can shed light into which corporate governance choices are affected by the culture context in which the family enterprise exists? Understanding this can open different lines of research to understand the unique effects of culture on governance.

Another area that could be developed in future research are the similarities and differences between governance structures between family enterprises in Latin American countries. Although this chapter argues for the prevalence of similarities in decisions regarding choice and use of corporate governance systems, it would be interesting to explore whether this assumption is correct, and cultural characteristics could affect who influences the decision making of a family enterprise. This within culture exploration would be very interesting for practitioners and consultants throughout Latin America.

Finally, it would also be useful to explore the predictors and effects of governance choices in Latin American family enterprises. In this chapter, we present a set of factors that we believe influence the decisions that family enterprises make about governance. However, our ideas are conceptual in nature. Thus, it would be really interesting to explore whether the factors we highlight do influence these choices. At the same time, it would be really interesting to explore the consequences of the use of different governance structures in Latin American family firms. There is some research that suggests that governance structures can affect the profitability of the family enterprise (Steier et al. 2015), thus it would be interesting to understand effect that using different structures has on the performance of a firm.

Latin American family enterprises have unique characteristics and are the drivers of the economy in this part of the world. Unfortunately, there is not much published about them in academic and practice-oriented journals. Given this, we would like to conclude our chapter encouraging researchers and practitioners to explore the uniqueness and contribution of family enterprises in this part of the world and to share this knowledge through the publication of their work.

Notes

1 In this paper we view family firms/family businesses as a single organization that "is governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families" (p.24, Chua et al., 1999). On the other hand we view family enterprises as a group of organizations that are "governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families" (p.24, Chua et al., 1999).

2 In this paper we use the term cultural context to describe the economic, social, political and legal environments of a region.

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3 We define Latin America to include the countries from the Americas where Romance languages (Spanish & Portuguese) are predominant.
4 Family meetings are "a recurring assembly of family members to discuss business and /or family issues" (p. 140; Suess, 2014). It constitutes the simplest form of family governance.
5 Family Council represents a group of family members that is selected to represent multiple generations and branches of the family. They meet regularly to discuss matters that involve the family's involvement in the business (Suess, 2014).
6 Family constitution or protocol represents a normative agreement that results from a process that establishes fundamental principles and guidelines to organize the family's relation with the business (Berent-Braun & Uhlaner, 2012). It addresses fundamental questions about the governance of the family in relation to the business (Suess, 2014).
7 Population based on estimates from the different countries. Accessed from: https://en.wikipedia.org/wiki/List_of_Latin_American_countries_by_population.
8 An exception is Louisiana, which is governed by civil law.
9 Although society is changing and more accepting of the role of women in corporations today, Latin America is still considered a patriarchal culture.
10 The information for this section was complied from the CIA Fact Book.
11 Machismo describes the attitudes and beliefs that agree with traditional ideas about gender roles and men being strong and aggressive.

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