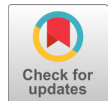


## Teaching Notes

# The Tink's saga: Is it the time for the corporate governance?

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### Study Objectives

The purpose of this teaching case is to lead students to discussion and reflection on the following topics:

- Corporate governance;
- Multifamiliar company;
- Information asymmetry.

### Data source:

This teaching case was based on real problems of a privately held multifamily organization and fictitious narratives were developed for its construction. Jean's appointment and the positioning of the characters are fictitious, created to reflect on the dilemma.

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### Learning objectives and recommended use

The present case was developed for application in undergraduate and graduate courses in Administration, in the disciplines of Corporate Governance and Business Strategy, and can also be used in disciplines as Entrepreneurship and Small Business Management depending on the teaching plan of the teacher. It is recommended to use the case in sessions that address the concepts of agency theory, conflict of interest and information asymmetry between principal-agent and principal-principal, ownership and control structure, corporate governance and its mechanisms and practices in family businesses and multifamily.

It is expected that the student, through the case, develops the understanding of the need to consider the related gains and losses and the particularities of the organization in decision making, as well as to build an understanding of the benefits and challenges of the process of deployment the corporate governance system in a multifamily company and of the application of mechanisms to reduce conflicts of interest and information asymmetry between active and passive shareholders in management.

Also, it is hoped that the student will be able to identify the corporate governance mechanisms and practices that are most appropriate to Tink's conflicts and particularities, considering its shareholder composition consisting of seven families, the maturity of the organization and the protection of capital and property. In addition, it is desired that the student designs the possible scenarios for the company and is able to propose viable alternatives to solve the problems faced by Tink.

Therefore, the didactic objectives of the case are:

- to understand the concepts of agency theory, conflict of interest, information asymmetry and corporate governance;
- identify agency problems and propose the most appropriate mechanisms and practices for a multifamily company;
- critically analyze Tink's possible future scenarios; and,
- discuss the opportunities and risks of the alternatives identified for the company.

### Teaching Plan

For the discussion of the teaching case, it is proposed that the case be made available to students in advance. Previous readings on theoretical concepts are not necessary, however, with the preference of the teacher, some articles and texts are suggested in the references. In

Activities	Duration (minutes)
Small group discussion	40 – 50
General discussion	60 – 70
Closing of discussions	15 – 20

**Tab. 01**

Suggestion for the distribution of the timetable for application of the teaching case

**Source:** Elaborated by the authors (2020).

the application of the case, a discussion of the issues in small groups and after a general discussion in plenary is suggested.

The teacher can close the discussions with a mapping of the ideas presented by the students in connection with the theoretical concepts evidenced. **Table 1** presents the suggestion for the distribution of the time for the analysis and discussion of the case.



### Opening of Case Discussion In Plenary

To open the discussion of the case in plenary, it is suggested that the teacher ask the small groups to discuss the four questions and build a collective response with the main ideas presented by the student members. In the plenary discussion, a debate is proposed between the groups, the teacher needs to mediate the debate, asking about the points raised by the students.

#### Plenary Case Analysis

To stimulate the analysis of the case, four discussion questions are proposed, which can be modified by the teacher to adhere to his teaching plan.

1. Based on the agency's theory, position the actors and identify Tink's current situation.
2. Identify passages or situations in the case that present information and interest asymmetry between the parties.
3. Assess the benefits and challenges inherent in the process of deploying corporate governance at Tink. What corporate governance mechanisms would you as a shareholder of Tink recommend to be implemented and what practices can be adopted to contribute to the effectiveness of these mechanisms?
4. In your opinion, considering Tink's particularities, is corporate governance the best option for the company to deal with its problems? List what other options could be viable for the company.

### ANALYSIS OF ISSUES SUPPORTED BY LITERATURE

#### 1. Based on the agency's theory, position the actors and identify Tink's current situation

Agency theory can be considered a contract in which one or more people (principal) employ another party (agent) to perform some service on their behalf, which implies the delegation of a decision-making authority (Jensen and Meckling, 1976). In this relationship, the agent must perform its functions in favor of the principal's interests, however, this does not always happen, causing agency problems and the need for an efficient contract that considers self-interest, risk aversion, limited rationality, uncertainty of results and information asymmetry (Eisenhardt, 1989).

Traditional principal-agent conflicts in developed economies were prevalent in the agency theory literature (Young et al., 2008; Azoury and Bouri, 2015). However, recently, in emerging economies there has been a new perspective, the so-called main-main conflicts, which deal with the relationship between two groups: controlling shareholders and minority shareholders (Jiang and Peng, 2011). This relationship can occur through affiliated managers who represent the controlling shareholders, generating unfair treatment of minority shareholders and promoting strategies that undermine organizational performance (Young et al., 2008). The main-main conflict is more frequent in family companies than in non-family ones,

due to the high shareholding concentration and the family involvement of the majority shareholders in the management (Azoury and Bouri, 2015).

Another agency conflict identified in the literature concerns the principal-principal intra-family, which refers to the relationship between active shareholders of the family who work in the company and passive shareholders who are not employed by the company (Michiels et al., 2015). In this sense, considering Tink's balanced shareholder composition and the organizational problems exposed in the teaching case, the company presents this specific type of main-main conflict between the managing partners represented by Jean, Jorge and Fausto and the non-managing partners, characterized by Antônio's father and the other partners who expressed themselves in the statements.

It should also be noted that because Tink is a multifamily company, consisting of seven families that have the power to control, it also has problems with the business family, which comprises all members of the families who are or may become shareholders (IBGC, 2016), different mechanisms and practices are needed to mitigate adverse situations. For multifamily, understand the company made up of several families (Moraes et al., 2011), and that maintains the family composition, consisting of more than one family nucleus, even if without blood ties (Bornhold, 2005).

#### 2. Identify passages or situations in the case that present information and interest asymmetry between the parties

In the theory of the agency, information asymmetry is assumed for the benefit of the agent, as the principal is unable to effectively monitor his performance due to the high costs related (Eisenhardt, 1989). At Tink, asymmetric information is verified in favor of active shareholders, who act in the management and has access to inside information of the company (insider), in contrast, passive shareholders with no direct role in management have restricted access to information (outsiders) (Jensen and Meckling, 2008). Also, it was observed that some passive shareholders, family members or those with a close relationship with managers, had access to privileged information. In addition, the information shared between the internal directorship and the presidency was precarious.

Regarding the passages or situations in the case that present information asymmetry, the following stand out: acquisition of a high standard car that was purchased for the commercial area without the knowledge of all shareholders; non-disclosure of goals and results arising from the granting of the annual bonus to managers and employees; non-presentation of accounting balance sheets and indicators to passive shareholders; the lack of habit of recording minutes of meetings held with members; the salary increase granted by Jorge to a collaborator without knowledge of the CEO and other shareholders; the impasse over the amounts that would be distributed in next year's dividends and the investment plan that some partners were aware of and others were not. Apparently less important facts, such as the distribution of fruit to some members, can cause discomfort in societies when activities are not well defined.

Referring to conflicts of interest, these arise when the agent does not perform his duties in the interests of the principal, but in favor of his own interests (Eisenhardt, 1989). The reduction of information asymmetry between principal-agent and principal-principal is one of the mechanisms to protect the interests of shareholders (Azoury and Bouri, 2015). At Tink, there is mainly a conflict between the interests of active shareholders and passive shareholders (principal-principal). Among the

passages or situations in the case that present this condition, stands out: the request to increase the percentage of receipt of dividends; the request to review the salaries of managers (active shareholders); the car with fuel paid for the managers to use in activities not related to the company; and the sale by Fausto of a large order without margin. It is worth noting that the lack of defining clear limits for managing and non-managing partners at Tink, promotes a distortion of management and control conflicts, in which the levels are overlapping.

**3. Assess the benefits and challenges inherent in the process of deploying corporate governance at Tink. What corporate governance mechanisms would you as a shareholder of Tink recommend to be deployment and what practices can be adopted to contribute to the effectiveness of these mechanisms?**

Corporate governance consists of a set of mechanisms by which the rights of the company, shareholders (shareholders) and stakeholders (other stakeholders) are ensured, ensuring the performance of the parties, in a responsible manner, in the generation, protection and distribution of the wealth invested in the company (Aguilera and Cuervo-Cazurra, 2004; Aguilera et al., 2015). Among the benefits, good corporate governance practices convert principles into objective recommendations, aligning interests with the purpose of preserving and optimizing the value of the organization, facilitating its access to resources and contributing to its longevity, the basic principles are: transparency; equity; accountability; and corporate responsibility (IBGC, 2014).

However, although corporate governance minimizes conflicts and information asymmetries and defends the interests of partners, as highlighted in the case, there are some challenges that may arise in the deployment linked to high cost, maturity of partners and management team, acceptance of professionalization of the company and dedication of the necessary time. The deployment implies a process of strategic changes that requires, in order to obtain favorable results, a consensus of all involved and a planning on how to minimize the related complications. In particular, communication needs to ensure transparency in the quality of information during the deployment process and consideration must be given to actions that help to maintain a good family environment and trust among all partners. Table 2 summarizes the benefits and challenges of the corporate governance deployment process.

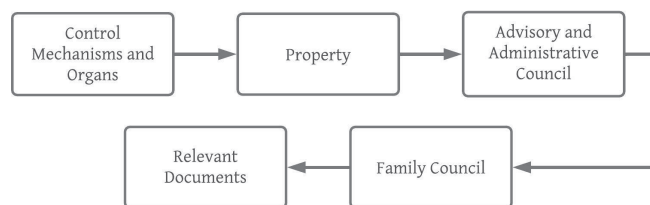
Benefits	Challenges
Company rights are ensured by ensuring the performance of the parties in a responsible manner	High cost of the deployment process
Alignment of interests in order to preserve and optimize the organization's value	Linked to the maturity of the partners and the management team for the inherent changes
Facilitates access to financial and non-financial resources	Associated with the acceptance of the gradual professionalization of the multifamily company
Minimizes information asymmetry and possible conflicts	Necessary time that should be dedicated

**Tab. 02**

Benefits and challenges of corporate governance

Source: Elaborated by the authors (2020).

The implantation of corporate governance mechanisms and practices in small and medium-sized private companies, especially multifamily, such as Tink, requires a gradual maturation process, with respect to the reality of each company. Figure 1 presents a suggestion of mechanisms and practices of Corporate Governance to be followed by Tink for the implantation of this system, considering its particularities and the problems pointed out in the case.



**Fig. 01**

Journey of corporate governance for Tink

Source: Prepared by the authors based on IBGC (2014).

It is noteworthy that it is essential, for the beginning of this process, that decision makers (partners and administrators), have knowledge and are committed to the principles, as it is a process of change, a journey, which affects the way to operate the company (IBGC, 2014). The mechanisms and practices suggested in Figure 1 are presented in detail below, so that the journey to deployment corporate governance at Tink occurs successfully.

**- Step 1 -**

**Control mechanisms and organs:**

This stage consists of information systems and management controls, and aims to structure the operational and administrative processes, improving communication between partners. For example, accounting has to reflect the reality of the business from the point of view of assets, financial, tax and economic results (Eisenhardt, 1989). Some basic activities, such as drawing up minutes of meetings and clearly presenting the company's monthly results, which are practices that are not efficiently adopted by Tink, are considered essential within the corporate governance model, and are included in this stage.

**- Step 2 -**

**Property**

This step aims to establish an adequate system of rules for Tink's partners, family, managers and employees, which must be included in the bylaws, quotaholders agreement, family protocol, internal regulations and code of conduct. The company's bylaws, for example, may have improvements in order to guarantee rules to be followed by those involved, in addition to being able to deployment new tools such as the quotaholder agreement, which aims to ensure the partners' property rights. In addition, considering the control and ownership mechanism, the company needs to identify the members of the shareholding structure, the number of shares held by each member and their position in relation to the company (Fama and Jensen, 1983). The case demonstrates that Tink has not clearly defined the duties of the managing partners and the non-managing partners, therefore, delimiting which decisions can be made by the management team and which need validation of the partners is a basic premise for the smooth functioning of corporate governance.

**- Step 3 -****Advisory and administrative Council**

At this stage, it is suggested that Tink create a collegiate body with advisory functions to members (advisory council). This practice can be adopted by companies at an early stage of deployment of corporate governance such as Tink, so that, in the near future, at a more advanced stage of governance, they can reach the board of directors, with strategic and deliberative functions. The board of directors is the most diffuse mechanism in the corporate governance literature and aims to fire, hire, monitor and compensate managers, to maximize the company's value (Denis and McConnell, 2003). Considering the stage of Tink, this mechanism can be deployed in the future, after the maturity of the management team and partners regarding the concepts and results of corporate governance.

**- Step 4 -****Family Council**

Family-controlled companies, such as Tink, must establish family governance mechanisms that promote family understanding and coordination about the company's business, and that organize the relationship between family governance and corporate governance (IBGC, 2014). Tink has a complex shareholding composition, with a high number of partners, therefore, the implantation of a family council would help family members to learn about the business, identify possible successors to develop succession planning, as well as delimit the rights and duties of family.

**- Step 5 -****Relevant documents**

Despite being the last step, it is essential that throughout the process, the partners and administrators prepare and review all the relevant documents of the company: bylaws and quotaholders agreement, family protocol, internal rules of the board, strategic direction, information system and processes and internal controls, and code of conduct.

Also, it is suggested that Tink seek professional assistance through consultancy, as in multifamily control companies, there are issues that go beyond corporate governance and concern the entrepreneurial family, its evolution and interaction with the business. Thus, to address such issues in a productive and conscious manner, family businesses must deployment, in addition to corporate governance, family governance. These two types of governance are independent elements, but complement each other, each endowed with immense intangible value and without the possibility of surviving one without the other (IBGC, 2016).

**4. In your opinion, considering Tink's particularities, is corporate governance the best option for the company to deal with its problems? List what other options could be viable for the company.**

It should be noted that the case does not have a right answer, the teacher must allow students to discuss different alternatives and emphasize their positions. In the case itself, based on Pedro's voice, some options are listed, such as the promotion of a person to the production management function that Jean accumulated with the function of chief executive officer, so that he can dedicate himself to developing other management tools to solve the company's problems before going to corporate governance.

Students can understand that Jean just needs a little more time to deployment changes that solve the problems, since he was promoted to Tink's leadership a few months ago. Also, they may believe that a viable alternative would be to hire a consultant to guide Jean in solving the problems, or even have the idea that an alternative is to hire a CEO for the company. In this way, many alternatives can be thought of during the discussion of the case, the teacher only needs to ask students for arguments to support their positions.

Regarding the choice for deployment of corporate governance for Tink, the motivations that lead privately held companies to adopt governance practices and mechanisms are: the reduction of conflicts of interest and information (Saito and Di Miceli, 2008), obtaining management improvements, facilitating access to financial and non-financial resources, contributing to longevity and permanently evaluating their purpose (IBGC, 2014). Corporate governance is not the solution to all the problems of an organization and it is not always a viable alternative, but it represents a way to deal with the aforementioned problems (Denis and McConnell, 2003) effectively. These listed problems align with the needs of Tink pointed out in the case.

Corporate governance helps to preserve and optimize the value of the organization, guarantee the legitimate interests of the partners and other stakeholders, and respect and clarification of boundaries (IBGC, 2014). It can foresee and structure processes of interaction between different bodies, indicating how partners should elect managers, how family members can join the management of the company and how family members become partners (IBGC, 2014). Therefore, when considering the structure of Tink, its division between owners, managers and family (Bertucci, 2009) and the overlap between these positions, which trigger conflicts of interest and information (IBGC, 2014), it is understood that the mechanisms and corporate governance practices can be an effective alternative for the organization to deal with its problems.

**CLOSING OF DISCUSSIONS**

To close the discussion, it is suggested that students design a management plan for Tink for the deployment of corporate governance, or deployment of the alternatives they identified as the most viable, emphasizing the possible scenarios, the risks and opportunities of the journey.

**Case Study**

*This teaching note is an integral part of the teaching case: Meneghini, E. M. P.; Passos, A. P. P. e Lana, J. (2021). The Tink's saga: Is it the time for the corporate governance? Iberoamerican Journal of Entrepreneurship and Small Business, 10(1), Case Study e1850. <https://doi.org/10.14211/regepe.v10i1.1850>*

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**Conflict of Interests Statement**

*We declare that there are no conflicts of interest.*

### Authors' statement of individual contributions

Roles	Authors Contributions		
	Meneghini, EMP	Passos, APP	Lana, J
Conceptualization	X	X	-
Methodology	-	-	-
Software	-	-	-
Validation	-	-	-
Formal analysis	-	-	-
Investigation	-	-	-
Resources	-	-	-
Data Curation	-	-	-
Writing - Original Draft	X	X	-
Writing - Review & Editing	X	X	X
Visualization	X	X	X
Supervision	-	-	X
Project administration	X	-	-
Funding acquisition	-	-	-

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## APPENDIX

Year	2016			2017			2018		
	Month	August	September	October	August	September	October	August	September
Gross Revenue (R\$)	2.078.406	1.978.406	1.842.689	2.278.406	1.878.406	1.642.619	1.578.406	1.278.406	1.242.689
(-) Deductions and rebates (R\$)	228.624	217.624	202.695	250.624	206.624	180.688	173.624	140.624	136.695
(=) Net Revenue (R\$)	1.849.782	1.760.782	1.639.993	2.027.781	1.671.782	1.461.931	1.404.782	1.137.782	1.105.993
(-) CMV (R\$)	1.101.555	693.762	701.861	1.207.555	693.762	701.861	836.555	693.762	701.861
(=) Gross profit (R\$)	748.226	1.067.019	938.131	820.226	978.019	760.069	568.226	444.019	404.131
(-) Selling Expenses (R\$)	246.511	249.820	253.672	256.510	261.101	266.501	265.045	262.055	270.010
(-) Administrative costs (R\$)	29.586	29.015	29.248	29.577	30.015	29.348	29.586	29.015	30.248
(-) Financial expenses (R\$)	43.176	40.676	42.640	43.176	40.676	42.640	43.176	40.676	42.640
(=) Result Before IRPJ CSLL (R\$)	428.953	747.507	612.569	490.962	646.226	421.579	230.419	112.272	61.232
(-) IRPJ and CSLL provisions (R\$)	8.579	14.950	12.251	9.819	12.924	8.431	4.608	2.245	1.224
(=) Net income (R\$)	420.374	732.557	600.318	481.143	633.301	413.148	225.810	110.027	60.007

## Appendix A

Source: Elaborated by the authors

Composition	Partners	Shareholding	Note
Family 1	Partners 1, 2 e 3	18,24%	Pedro and his two daughters.
Family 2	Partners 4, 5 e 6	16,29%	Antonia, brother and father.
Family 3	Partners 7 e 8	16,67%	
Family 4	Partners 9 e 10	11,41%	Jean and his father.
Family 5	Partners 11, 12 e 13	14,17%	
Family 6	Partners 14 e 15	11,85%	Jorge and wife.
Family 7	Partners 16 e 17	11,37%	Fausto and wife.
<b>Total</b>		<b>100,00%</b>	

## Appendix B

Source: Elaborated by the authors