

OVERCOMING SUCCESSION CONFLICTS IN A LIMESTONE FAMILY BUSINESS IN BRAZIL

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ABSTRACT: *Succession process is a major issue regarding a private, family business, all over the world. This single case investigated a limestone family business, located at Goianesia, Goias State, Brazilian Center west region, addressing the pitfalls and challenges of its succession process. After the 2008 recession crisis, due to laid-off workers, the number of family-owned businesses increased drastically all over the world, pushing families to create home-based, mostly internet, low-cost businesses. In North America, for instance, family business represents over 50 percent of the GDP. In emerging markets, such as Brazil, family business represents near 95 percent of the small and medium enterprises. However, an increasing number of home-made companies does not reach the second generation of owners. In consequence, when the transition process fails, sometimes both business and family ties end broken. This article addressed a successful story of a formerly conflicting transition process, regarding a second generation family-owned, Brazilian limestone and dolomite company. Recommendations to managers and practitioners complete the present work.*

KEYWORDS: Family Business, Succession Process, Conflict Management

INTRODUCTION

This research investigates best practices to overcome succession process issues in family business through the present success case. The unit of analysis is a Brazilian limestone family-owned company located at Goianesia, state of Goias, Center west Brazilian region (Yin, 1988). Both first and second generation of family members work on daily basis, side by side, which is a constant source of conflicts amongst them. Different opinions about almost every subject escalated through conflict that almost broke family ties.

Family business succession is defined as the transitioning both business management and ownership to the next generation of members within the family (Bower, 2007). We also followed Vancil (1987) in the description of the family succession process: (a) *race horse*, in which the next generation start a zero-sum clash for power, and the winner usually takes it all; and (b) *baton pass*, in analogy to the relay race, in which athletes pass the baton to the next runner, in a planned and choreographed rhythm (Vancil, 1987).

Therefore, to avoid a predictable *horse race*, the family decided to create a culture of *pass the baton*, hiring a consultancy company who sought to manage conflicts by professionalizing the administration, adopting for instance, the creation of a holding to control three subsidiaries, the implementation of an administrative council, hiring also professional executives to run the company effectively, as described ahead.

Therefore, the best practices to manage this potential conflict, are addressed in the present single case study (Yin, 1988).

Family is an organization with commercial purposes, gathering people with common interests linked to an external environment (Katz e Kahn, 1987; Robbins, 2000). According to Bower (2007), a family business is defined as managed more than one generation, with at least, one family member in the second generation (shareholder, executive, member of the administrative board, in charge or not of the daily basis operations, controlled or not by the family members. It is also an effective strategy to preserve the family wealth and intangible assets, family tradition, ways of doing business, and so forth, within a group of people sharing the same dream Hughes Jr. (2004).

The company under investigation is a limestone and dolomite company. Roughly speaking, limestone is a sedimentary rock, composed mainly of fossils of marine origin, such as mollusks, or corals, and is basically used for: (a) *civil construction*, as part of concrete, and (b) *agricultural uses*, for soil correction. For the purposes of this work, only the agricultural applications of limestone are considered to be studied, as described in the next section.

Since the great recession of 2008, a great deal of home-made companies increased throughout North America (Forbes, 2018), as a consequence of broken companies and mass workers lay-offs. In Brazil and other emerging countries, this situation also increased. Brazil in particular has a long tradition of family businesses (Dias et al. 2014, 2015)

In Brazil, family is a business deeply rooted in colonial and imperial periods (see for further discussion, Dias et at, 2014, 2015). According to the *Serviço Brasileiro de Apoio às Micro e Pequenas Empresas* – Brazilian Aid Service to Micro and Small Businesses – our translation, SEBRAE (2018), almost 95 per cent of companies in Brazil are family business, mainly composed by small companies SEBRAE (2018), which are responsible for 99 per cent of Brazilian market (BNDES, 2018).

SEBRAE (2018), which is a governmental service to Brazilian micro and small enterprises, has also studied the main characteristics of the family business in Brazil, subdivided in : (i) positive characteristics and (ii) negative characteristics for the first generation and (iii) negative characteristics for the second generation, as follows:

(i) *Positive characteristics*: (i.1) Control and command centralized; simplified chain of command, useful to quick strategic decisions; (i.2) low or absent compliance system; self-financing or family financial resources; network amongst local community due to familiar ties and tradition, which impacts positively on the company, and brand reputation; (i.3) decentralized organization, with fast tracking decision making process; professional relationship based on familiar ties, rooted on mutual trust build within the family core values. (i.4) Extension to outsiders the family core values. (i.5) Sometimes employees are considered part of the family, with its pros and cons.

(ii) *Negative characteristics for the first generation (founder alive)*. (ii.1) Little openness to new ideas; tough control, authoritarianism, and possible austerity of the founder directed towards the second generation of family members within the company. (ii.2) Strong, emotional attachment to the company, seen as part of his or her life. (i.3) Competence seen as result of maturity and, therefore, seniority. (ii.4) Rejection of new ideas coming from management studies; expectancy of submissive behavior by employees and familiar members. (ii.5) Centralization of power. Consequently, predictive conflicts with the second generation of family members. (ii.6) Usually the founder dedicates most of his/her life to the business, not investing in formal education, but sending sons and daughters to improve their studies. When they come back

home and feel prepared to assume the leadership of the company, normally bringing new ideas to be implemented, find resistance of the founder, who is adamant regarding the old fashion way of doing business. (ii.7) Therefore, there is a clash of generational expectancies regarding who is going to take the control of the company (sometimes frustrated by the founder, who feels lost when passing the baton to the next generation of managers), educational level, business professionalization level. The second generation sometimes feel frustrated because education took too much time to be wasted. The outcome is conflict between members of the family.

(iii) Negative characteristics for the second generation: (iii.1) lack of planning culture, since the founder used traditional ways of conducting business and the company still operates the same way, as if the founder was alive. (iii.2) Heirs are not prepared and start a clash for power within the family, with strong negative impacts to the company. (iii.3) Personal interest on family members and their relatives in contrast with the company's objectives. (iii.4) Nepotism without objective performance criteria. (iii.5) Conflict escalation among members of the family's second generation, destroying both business and/or family ties, in worst cases scenarios.

The next section provides information about the global limestone market, as well as the Brazilian one.

Limestone Applications

Limestone is a sedimentary rock, consisting predominantly of calcium may, owing to the structure and / or presence of another compound, calcite and aragonite (CaCO_3), receive various denominations and, when submitted to an of metamorphism, is now called marble.

Limestone has a wide range of applications: it is soluble in water and is basically used for two purposes in general: (a) for *civil construction*, as an essential component of Portland cement, and therefore, concrete; also (b) *lime industry*, (c) *gravel production*, (d) *metallurgical industry*, (e) *chemical industry*, (f) *paint industry*, used also as white pigment for toothpastes, paints, etc. and (g) *agricultural uses*, not restricted to: (i) correct soil acidity pH rise; (ii) Supply of Ca and Mg; (iii) Reduction or elimination of the toxic effects of Al, Mn and Fe; (iv) Increased availability and greater use of N, K, Ca, Mg, S and Mo; (v) Increased potential for response to fertilization; (vi) Greater microbial activity, with this, improvement in mineralization of organic matter and N fixation; (vii) Improvement in the physical properties of the soil, implying greater aeration and circulation of water, aiding in the roots and plant; (viii) liming, through Ca mainly, promotes greater reduction of erosion losses, as well as, development of the root system; (ix) the development of the root system increases the absorption water and nutrients, allowing the plant greater resistance lack of water (DNPM, 2018).

Global Limestone Market

The Global Lime Production to Exceed 393.4 Mln Tonnes in 2017, according to Merchant Research & Consulting (2018).

China is by far, the largest producer and consumer of limestone in the world (including agricultural and civil construction applications), as depicted in Figure 1, as follows:

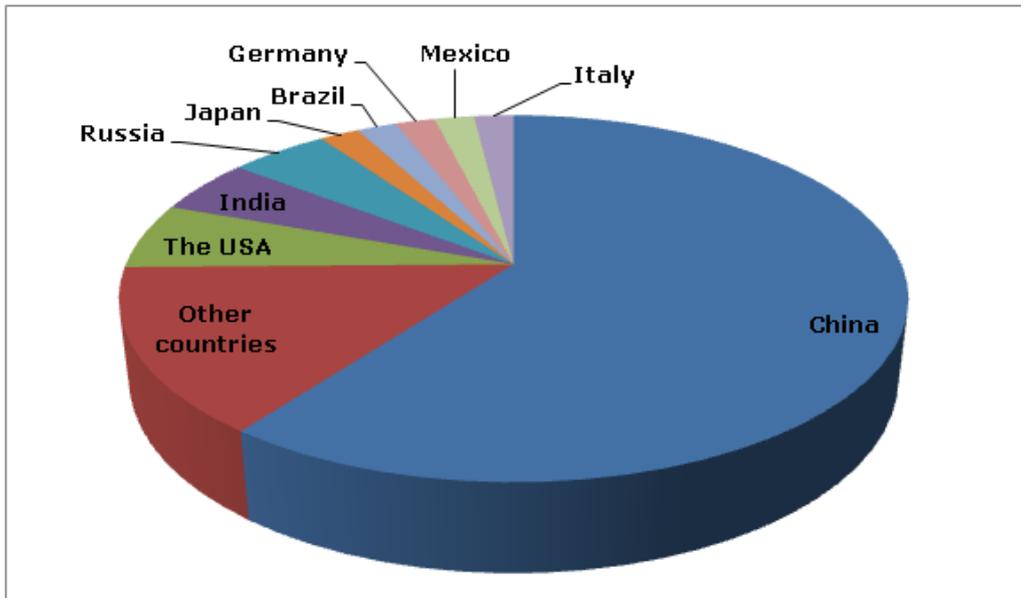


Figure 1 World Largest Limestone Producers. Source: Merchant Research & Consulting (2018)

Agricultural Limestone Market in Brazil

The Limestone in Brazil is used for the following purposes: (a) cement industry (civil construction (66 percent); (b) agricultural limestone (21 percent); (d) lime (9 percent), and (d) other uses (4 percent), as shown in Figure 2, as follows:

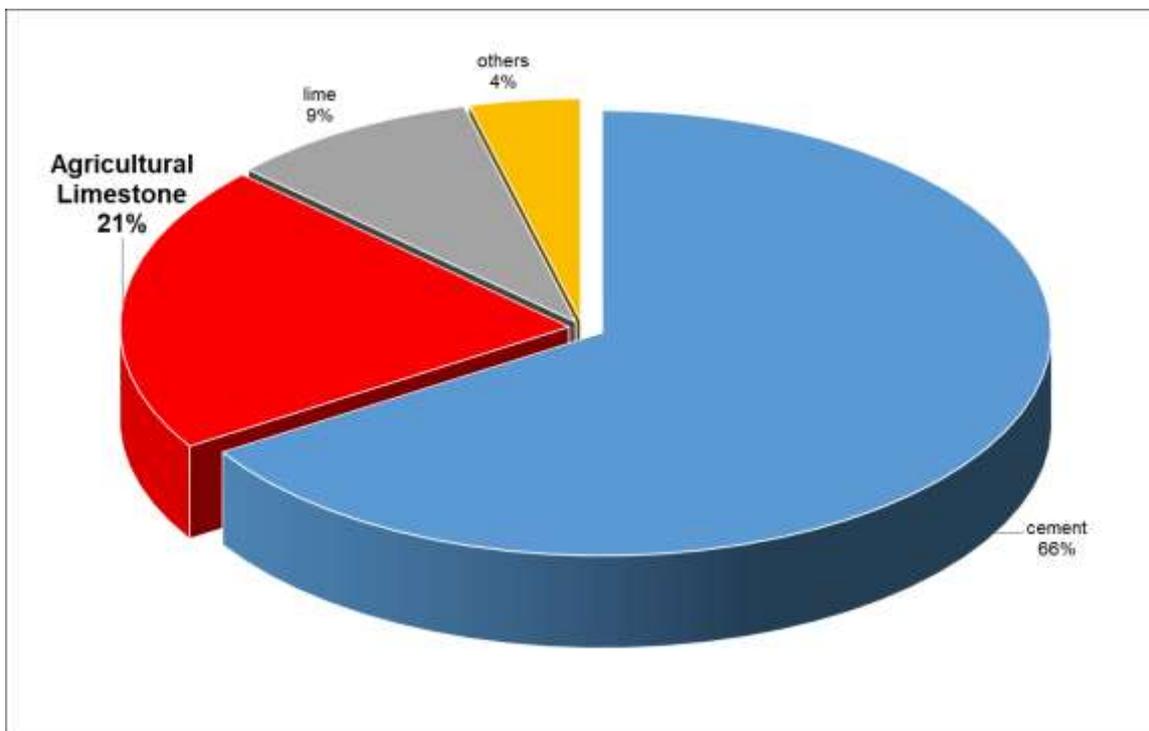


Figure 2 Limestone Sectors in Brazil. Source: DNPM, 2018

Almost two thirds of the Limestone produced in Brazil is used in the cement industry, the second largest usage is in the agriculture.

The Brazilian soil is generally acid, and the agricultural limestone is used to correct the soil acidity. Therefore, it is explained why the second largest usage of limestone in Brazil is in the agriculture (see Figure 2).

The largest limestone reserve in Brazil is located at Rio Grande do Norte state, Brazilian Northeastern region, which have surfaced more than 20 thousand square kilometers of limestone (with a thickness ranging from 50 to 400 meters (DNPM, 2018).

The Agricultural use of limestone in Brazil is regulated by the Brazilian Federal Government (BFG), under the control of the Ministério da Agricultura, Pecuária e Abastecimento (MAPA - Ministry of Agriculture, Livestock and Food Supply, our translation), under Ministerial Decree 4.954/2004,

determines in its article 5 that the establishments which produce, market, export or import fertilizers, correctives, inoculants or bio fertilizers are obliged to register with the Ministry of Agriculture, Livestock and Supply - MAPA. Because of this legal registered in the entire country, 331 production companies of acidity corrector (Agricultural limestone, Calcined limestone agricultural hydrated lime and virgin agricultural lime), distributed in almost all the Units of the Federation, except for Acre only and Amapá (DNPM, 2018, p.539).

The Agricultural Limestone produced in Brazil in 2017, according to the ABRACAL, *Associação Brasileira de Calcário* (Brazilian Association for Limestone) was 37.582.200 t, and it is responsible for the soil correction to foster Brazilian agriculture (ABRACAL, 2018), according to the president of ABRACAL, Oscar Alberto Raabe: "We should be close to the 90 million tons of limestone applied to Brazilian crops. The acidity is natural in tropical countries. However, we will be close to 30 million, which affects the results of agribusiness " (ABISOLO, 2018, p.1).

The agricultural limestone produced in Brazil from 2007 to 2017 is depicted in Figure 3, as follows:

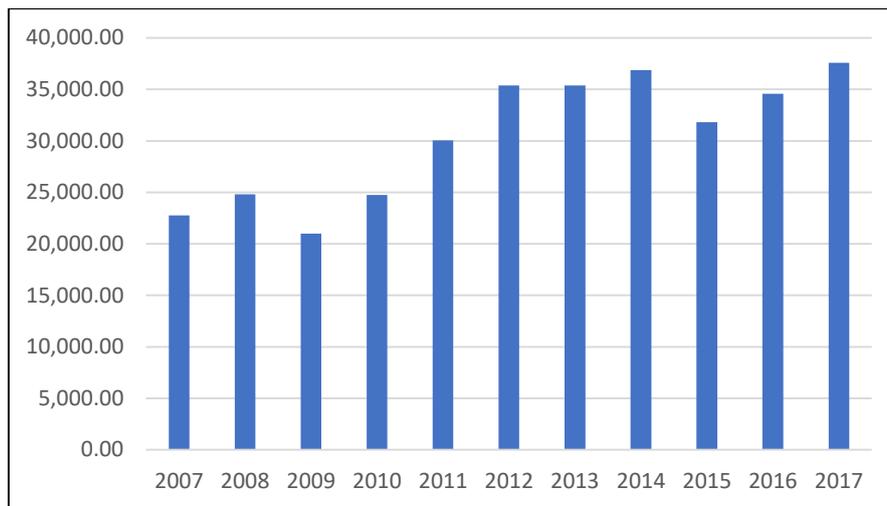


Figure 3 Agricultural Limestone Production in Brazil (2007-2017). Source: ABRACAL, 2018

Company Background

The Brazilian limestone company was founded in 1986, called *Pirecal Ltda.* by the entrepreneur, man of simple origin and low level of formal education, but of great entrepreneurial vision.

Previously the creation of the Limestone company, the entrepreneur, had already successfully sought other activities to contribute to the development of the municipality where it is set, Goianésia - GO, showing with this act that its future expectations were not individual growth, but of the collectivity, always valuing the human being, since this is the driving force of any business and civil society.

The dolomitic limestone, brittle and crushed stone products began to be manufactured, marketed, and sold throughout the region around Brasília, and almost all of the municipalities of the São Patrício Valley and the North of Goiás.

The company has its mines located at Goianésia (head office and mine); Vila propício and Água quente, at the state of Goiás (GO), and Taguatinga, state of Tocantins(TO)¹, as depicted in Figure 4, as follows:

¹ Historically, Tocantins is the youngest of the 27 Brazilian states, created by the BFG in 1988. Used to be the northern part of the Goiás state, which was divided in two: Tocantins and Goiás (the southern part of the old state of Goiás).



Figure 4 - Limestone mine, at Goianesia, Goiás

Today it is a respected and consolidated company, and its sales exceeded the borders of the State and today we commercialize our product by several Brazilian States, like Tocantins, Minas Gerais, Bahia, and the Federal District.

The goal of Pirecal has always been thinking of running the business in the present with a look at future needs through a holistic vision.

With this force of thinking and acting, it aims to minimize possible negative environmental impacts of activities carried out on the environment, and also, aiming at the interaction of the surrounding community that also benefits from the activities developed by the company. The founder was married and had four children, three daughters and one son, four direct heirs in total.

Pirecal is structured as the following organizational chart, depicted in Figure 5, as follows:

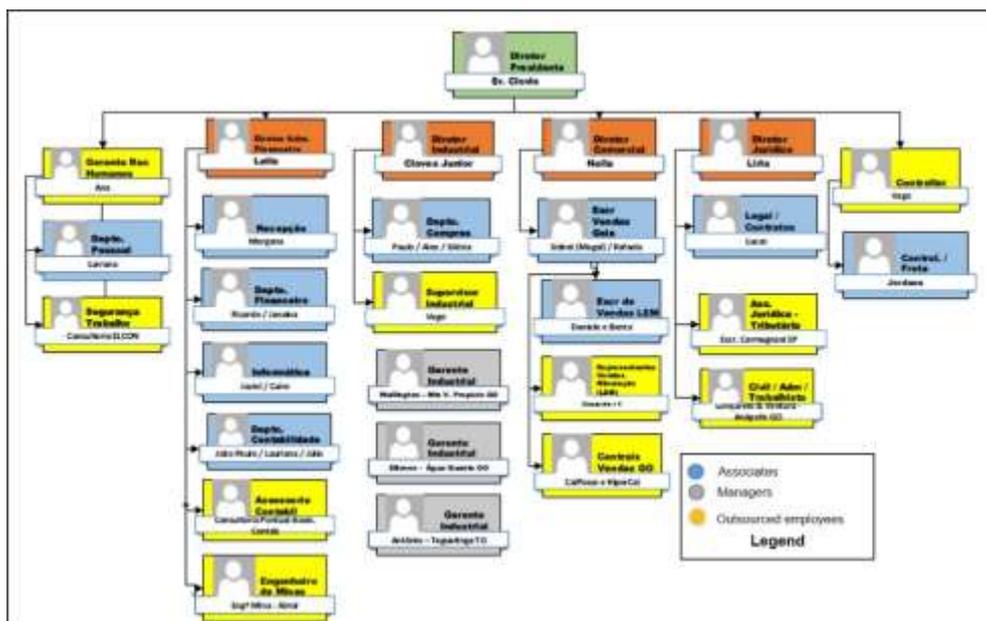


Figure 5 - Pirecal organizational chart

The next section presents the Methodology employed for the present research.

METHODOLOGY

The present interpretive research, combines multiple qualitative methods, such as archival research, first hand direct participation and observation by one of the authors, and descriptive single case study (Yin, 1988). Primary data was gathered through qualitative interview, rooted on Goffman's (1959, 1961) dramaturgical theory. The unit of analysis is the succession process occurring within the Brazilian Limestone Company (Yin, 1988). The case is also supported by the Agency theory (Eisenhardt, 1989), since there are principals (company founder) and agents (the second generation of family members, the current directors).

The agency dilemma occurs when the founder hired his agents (sons and daughters) to make decisions on principal's behalf. 'The principal agent relationship should reflect efficient organization of information and risk-bearing costs' (Eisenhardt, 1989:59). The dilemma exists because instead of compliance with principal's interests every time, the agent may act regarding self-interest rather than those of the principal.

Two in-depth key qualitative interviews were conducted through semi-structured questionnaires sent by e-mail. Two out of two respondents were invited by e-mail. Primary data were collected through audio recording and field notes. All respondents answered one hundred percent out of four questions posed. All interviews were conducted respecting the native language, i.e. Brazilian Portuguese. Quoting was not formally allowed. Data gathered were transcribed and coded through descriptive and In Vivo coding, to 'honor the participant's voice' (Saldaña, 2013, p. 91). Primary data were then analyzed through text analysis. Secondary data were investigated through archival research based on data available in governmental agencies on the economic sector.

Despite Limestone can be used for civil construction, and other purposes, this study is limited to the agricultural use of the limestone and dolomite exploration and commercialization.

This research is also limited to the Brazilian laws regarding companies, such as Brasil (2002). Law nº 10.406/2002, Civil Codes, title V, Succession Rights (*Código Civil Brasileiro. Parte Especial, Livro V, Direito das Sucessões*) (Brasil, 2002), and. Complementary Law nº 123/2006, which rules the micro and small enterprises in Brazil (Brasil, 2006), complementing Law nº 9.317/1996 (Brasil. 1996).

The Succession Challenge

The company founder is still alive, as this article is being written. The succession process started, however, in 2008, when the subject became part of initial discussions, followed by an escalating family conflict.

At that moment, one of the Directors, called to her the responsibility to rebuild that company, and together, the family.

There was no understanding amongst the brothers and the directors, each in one area. The problem was that one director was entering into the sphere of the other, demonstrating total emotional and professional unpreparedness, to be running a successful company like that.

By the time the oldest sister and commercial director took this responsibility to herself, to restore the company and the family harmony, she understood then that the best thing to do at the time was to seek professional help.

The family, even divided about who should carry the baton for the next generation, decided conjointly to hire an outside consulting company² in 2010, to act as a neutral, external mediator, to avoid the worst-case scenario, the business and family ties rupture.

At this point, the commercial director sought the assistance of an institution, which could reverse that conflicting scenario.

This external institution (mediator) sought to analyze first, where the problems were occurring in the family company, and soon identified the problem, the family, exactly, what should be the solution, demonstration of trust and management, was the *children's playground*.

This consulting company then began an extremely arduous and heavy work with the directors of the mining company, while this work was being carried out, some improvements were achieved, still very fragile.

The first measure was to organize psychological sessions with the family members to map and to understand where the problems were located. In circumstances like this, the first step is the most problematic one, because one side tends to accuse the others, and this case proved to be not different from similar ones. There was no quick solution to this case. The consulting company has been playing a mediation role for the last eight years³.

This is an ongoing, step by step, hard process. The heirs started to be prepared to take over functions in a professional manner. They started an education program within the family to train, motivate and qualify the directors (heirs), by means of training, educational, and also motivational programs. The initial measures were working well; the first results came up.

However, couple years ago, the family matriarch has passed away. Once again, the conflicts escalated and again, disrupted the corporate structure of the company. At that same time, the eldest daughter, who had once taken charge of the situation, found herself once again passing over all her momentary pain, and went in search of solutions once more.

Psychological support was added to the program, to pacify the contenders, who started reviving old grievances, never fully solved. In this regard, forgiveness proves to be necessary, to avoid conflict escalation. In the very first moment, the family rejected the intervention of a professional psychologist, as if it was not necessary.

After the turbulent period and eight years of long term preparations, where partners are being prepared to really be qualified to run the company, this transition is in the process of taking place.

This qualification will lead the partners to a position that they can discuss the course of the company, in fact, should discuss the direction of the company, but allocated as Advisors of the company, and the really operational part, will be delivered to qualified professionals, each in his department, of course, always reporting to the Council when requested.

The sessions with the Psychologist's accompaniment have also shown great value, since it is not overnight that the king's throne is removed.

² Hereby denominated consulting company, to protect the identity, under request.

³ Since 2010, to the moment of this article being written.

This monitoring work of the consulting company and the Psychologist still has an estimated time in two more years to unfold, however, the positive effects of this search for help, appear with each passing day, every decision that is taken by the Directors.

Professional Maturity is explicit, along with it, the Staff as well, because disagreements like those of another are not taken as more personal. It is true that where there is more than one person who commands and thinks, there will always be moments of discord, but these will always be faced in a professional, not more personal, way.

Family-owned businesses have fantastic potential in their hands, which should be taken care of, is how these same hands will manage that potential.

The decision made, with the full assistance of the consulting company, was to create a holding company designed control the three subsidiaries. The former directors (heirs) would assume new positions in this holding as members of an Administrative and Fiscal Council, with the operations conducted by professional executives.

This approach was agreed by all family members, who are in charge of strategical decisions from a collegiate perspective, focus on the future of the company, separating operations from strategy, in sum.

The succession process is going on successfully, after the long-term preparation, who proved to be fruitful in this case.

In the next section, the case is analyzed and further discussion complete the present work.

Case Analysis

According to Vancil (1987), any succession process can be compared to a *horse race* or, *passing the baton*, as described before (see also Dias et al, 2014, for Dudalina's case, a major Brazilian fashion business company).

Therefore, evidence suggests that before the intervention of an external mediator, the consulting company, a typical horse race was transformed along eight long years into a passing baton process (Bower, 2007).

Pirecal succession process includes the founder, still alive and presents one additional challenge: the traditional approach versus the modern management standards and best practices. Evidence also suggested a generational conflict, addressed successfully with psychological and motivational approaches that proved consistent to pacify contenders.

Bower (2007), argued that "losers" in the horse race tend to abandon their positions and to fight fiercely against the "winners" acting behind the scenes, to regain control and, thus, to restore power. In Pirecal case, the evidence suggested that the family ties were stronger than the appetite for escalating conflict.

The three circles model and Pirecal's succession process

We followed Gersick *et al.* (1997), in adopting the three circles model, to analyze this case, in which home-made business is usually organized in three dimensions This model proved to be effective in representing parties involved in a family business succession process and therefore was adopted and shown in Figure 6, as follows:

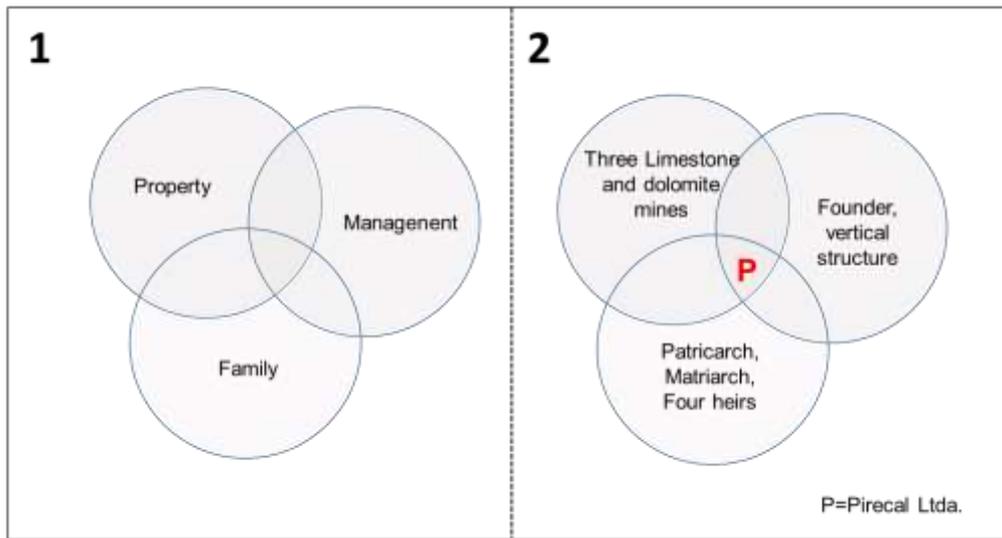


Figure 6 Three circles model - Pirecal Ltda. Source: Gersick et al., 1997

Distributive x Integrative disputes in Dudalina's succession

This is a complex case involving many subjects at hand, therefore, an integrative dispute, following Raiffa (1982). Therefore, the dispute among brothers and sisters in Pirecal case is *integrative* because involves many issues, such as sell and future control of the company, for instance.

Dispute Outcomes to the Pirecal's succession

We followed Fisher, Ury and Patton, 1981, where “position is something you have decided upon. Your interests are what caused you to so decide” (p.42). Interests are the offspring for positions. Evidence suggested that the family ties (family cohesion interest) are stronger than the substantive interests in this case (executive control of the family business).

DISCUSSION

Bower also highlights the concept of 'inside outsider', as the most suitable for the future president profile: someone from the company, but with enough distance to run it like it was recently acquired. In this regard, Sonia Hess de Souza declared to be preparing a new successor for the business command, an 'inside outsider':

My successor, I am preparing, is a director who has been with us a long time. we speak almost every day). I share all the actions that I take. I'm training him to actually be my successor, and is not from family. (Aguiar, 2013, p.1).

Conflict Resolution Plan

Disagreements and problems are common to any relationship. Problems can be discussed and solved conjointly within the family. Or not. In Pirecal case, a consulting company was used as third party mediator to help them out to search and to find a conjoint solution (Moore, 2003).

In Figure 7, we followed the model proposed by Moore (2003, p.7), to represent the conflict continuum in Pirecal's case:

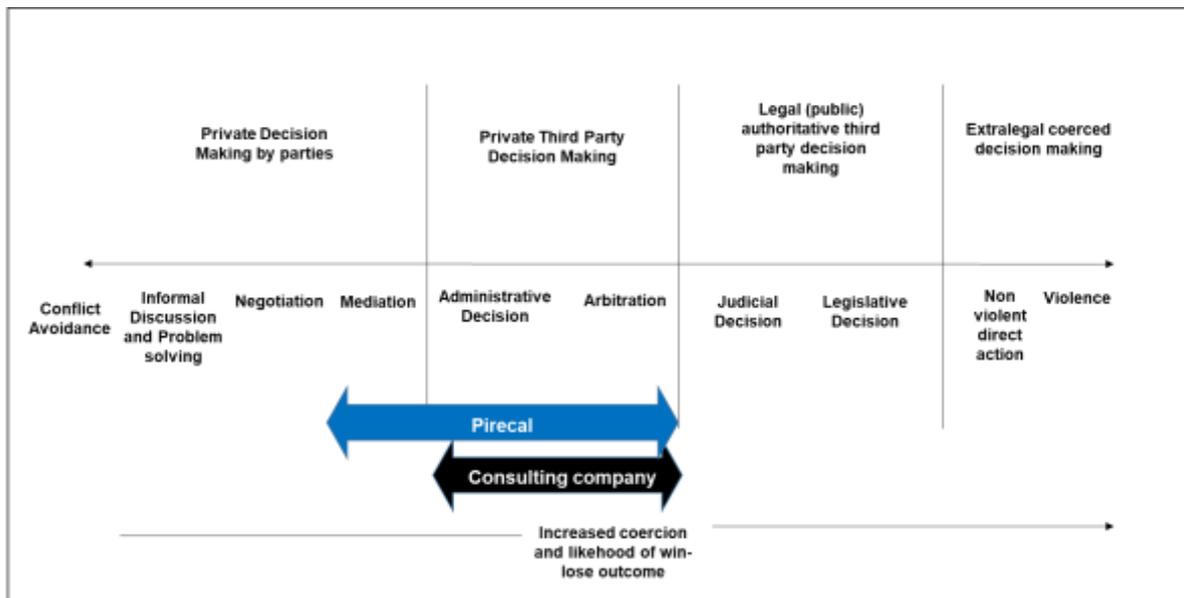


Figure 7 Conflict continuum in Pirecal case. Source: Moore, 2007, p.42.

Ten recommendations from the literature review and derived from the analysis of the Dudalina S/A family business succession case are described as follows:

1. *The founder and family must prevent the conflict.* The adoption of an external mediator, the consulting company proved effective to Pirecal's case. Important to mention that the mediator was called into action before the conflict could escalate into both business and family rupture.
2. *First things first, save the business without losing the family.* Saving the business is important, but family reconciliation is more important and should be the first item to advance in business recovering. If the family ties are broken and competition escalates, the results can be catastrophically and end in Justice (Dias et al, 2014), hostile takeover (Dias et al. 2015), with fatal consequences to both company and family.
3. *Have a succession plan with due anticipation.* A successor must be the one who attends to a set of transparent criteria established by the founder before passing the command to the successor. For instance, Jack Welch, former General Electric (GE) president took four years to narrow a list from 23 to 3 candidates, and two more years to select the future GE president, a total of six years (Bower, 2007).
4. *Have a conflict resolution plan with due anticipation.* Pirecal's conflict resolution plan correctly involved a third party, i.e. a *Mediator*. The consulting company proved succession plan proved effective in (a) restoring and empowering the family ties through psychological support; (b) prepared the executives with professional approaches through training and further management capacitation through continuing education programs.

5. *To separate operations from strategy.* This proved to be effective in Pirecal's case, through the creation of a holding company responsible for controlling the remaining companies and to transfer the holding the command and control to a newly formed Administrative council, a board of family members, to discuss company strategies, separated from the operational department, through the adoption of professional executives to operational positions. It separates family conflicts from the day by day operations.
6. *Focus on interests, not positions* (Fisher, Ury and Patton, 1981). The major interest is to keep the family ties together, to honor each family member voice, and to put an end to family internal clash for power, which could jeopardize the entire succession process.
7. *Be focused in the future, and with the solution not in the past, and the problem.* Once parties keep their energies focused on past grievances, the problem escalates into unbearable situations, sometimes addressed in Court Houses (See Dias et al. 2014). The focus in the past creates a vicious cycle and conflict spiral, in which parties keep entangled, passing through the solution that could put an end to the conflict.
8. *The successor should be the most prepared of the candidates among the family members.* Bower (2007, p161), devised the following set of qualities for the next generation company leader: (a) *leadership skills* (b) *vision skills*, (c) *operation skills*, (d) *dealing with clients skills* (e) *finance skills*, and (f) *relationship building skills*. All these skills well developed should be the criteria for choosing the new successor within any company.
9. *Put the succession plan to work.* Any given plan is good when put into practice. Even in the Pirecal case, it took almost eight years to prepare the future generation of company leaders to be ready for action. Once they were ready, the creation of a holding company was a good measure to separate operations from strategy, in a sequence followed and put in practice step by step.
10. *Always keep building trust among family members.* Constantly building among family members is the recipe for the success in any family business. Mutual respect, cooperation spirit (Axelrod, 1984), forgiveness, and desire for reconciliation fosters trust, and should be the cornerstone for any family business to prosper. However, without proper soil, the crop dies. Therefore, the creation of a cooperative and mutual respect environment should be the first step to restore trust among family members, because people are trained to behave according the environment they are submitted. A cooperative environment in which parties see preserved their right for an opinion, to feel welcomed and respected id the path for success and, therefore, should be established first to give birth to mutual respect, friendship and ultimately, trust among family members.

Future case revisitation is encouraged, to follow the progress of the second generation in charge of the company, as well as the transition process and family ties are well restored.

The last word is about the following analogy: one of many applications of limestone is to correct the soil acidity. Without proper soil, the crops will certainly die. Let the mutual respect and cooperative behavior among family members be the limestone that will correct the acidity of the soil of past grievances, therefore providing a fertile environment in which mutual trust, strong family ties, and ultimately, success in the familiar business can flourish.

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