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MCW:

TAKING THE FUTURE INTO ONE'S HANDS

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Abstract

This case presents a decision set regarding the future of a real family business, whose CEO is getting closer to retirement and desires to establish a logical and effective succession plan. Written from Eduardo Pinheiro's perspective, a consultant hired by the company CEO, the case depicts Carlos Vieira's need to think about the future of the company, considering nonconsensual alternatives, which can become a great success or an unexpected loss. The case intends to illustrate succession planning, the complexity of decision-making processes in family firms and the role of emotions.

A teaching note is included to guide the use of the case in a classroom environment. It includes complementing readings and discussion questions with possible answers intended to improve the learning process.¹

Keywords: Family Business, Ownership, Succession planning, Decision-making.

¹All names, locations and exact values have been disguised. When relevant for the analysis, their relative proportions were preserved.

MCW:

TAKING THE FUTURE INTO ONE'S HAND

My name is Eduardo Pinheiro and I am the local manager of BHL, a Portuguese Consultant Company, for the division of Guarda. I was hired by Carlos Vieira in order to help him prepare the succession of MCW. I was able to interact with his family on a daily basis and throughout this case I will concisely explain my insights about the situation.

Carlos Vieira found himself charmed by the town Guarda, where he has spent all his life, and nowadays even the cold weather provokes a warm feeling in his heart. Every day, Carlos looks across the machinery and his workers when he arrives at the office and thinks to himself “I have the best job in the world”. Nonetheless, Carlos is reaching his fifties and he knows that he has to plan the future for MCW. “This city needs me and I need this city” he muses. In fact, he managed to build from scratch a company with five full time employees and two manager partners from the same family in the small city of Guarda.

All these thoughts vanished when Carlos picks up the phone to talk to his clients. Suddenly, he is smiling, excited just like a twenty-year-old boy. He is passionate about his contact with the clients. He is delighted to find out that MCW has made so many customers happy, customers that have become good friends.

He looks at the future with apprehension: “The Company has always depended on innovation and on my energy to create it. Am I getting old? Can I still do it? For how long? ” His main concern has always been the financial future of his family. Without MCW they might struggle financially in the future. The company need to develop a succession plan urgently to cope with these challenges.

How can Carlos retire? Who will be the new boss? Who can handle the pressure of managing such a challenging business and take care of the well-being of the Vieira family?

The Family

Carlos Vieira– It was in 1989 that Carlos Vieira graduated from Feup². During his studies Carlos was perceived as a particularly dynamic and proactive student with a clear understanding of civil engineering. Carlos was respected for his skills, knowledge and drive.

“5 minutes after graduating” – as he likes to describe the situation – Carlos joined Cnec³ and started his professional life. He was living the dream: great job right after college and learning how to strive in the industry. Quickly, he became respected in the North of the country due to his achievements. The winter of 1989 came, and Portugal Telecom decided to hire Carlos as a civil consultant engineer. The young boy from Guarda had only been working for a few months but that did not stop PT to make this move, valuing his talent highly. “I could not refuse, they doubled my paycheck” said Carlos.

However, the work was not the same, it was not challenging enough since it was mainly theoretical. Carlos was disappointed, he had the money, he was living in his hometown but he was unhappy. “I remember hearing my friends say that I had everything” confessed Carlos. He explained that his friends were not able to understand his concerns, blindly as they were by his high salary, and a hometown location job in such a prestigious company. He found a solution: he started to work by himself as a freelancer in his own projects in his spare time. That gave him all the practical aspect of the industry that Carlos enjoyed. Pleased, Carlos always told the same story to his employees: “In 2000, I was making more money from 6pm to 8pm in my free hours than during the rest of the day. Guess what? I quit PT and founded MCW”.

Carlos is the CEO of MCW, and he owns 62% of the company.

²Feup: Faculdade de Engenharia Universidade do Porto | University of Porto - School of Engineering

³Cnec: Conselho do Norte de Engenheiros Consultores | Northern Council of Consulting Engineers

António Cruz – António graduated from Feup in civil engineering in 1990. His destiny was completely different from that of Carlos. “The first years were tough” confessed António: it was hard for him to find a job. Despite his desire to work in Portugal, he had to take his chances in Germany. He found a not so exciting job over there: he was responsible for finding and supervising construction workers, ensuring they were following the orders of the project civil engineer. He was far from his city, he was not earning enough money and was not following his passion. He wanted to design the projects, and nurture them, not just to control them.

One year passed and António decided to come back to Portugal, to his hometown, Guarda. Later on, the stars rewarded him: He met the love of his life. António confessed to me that he knew he was going to marry Cristina Vieira the second he saw her. “I was thrilled to find out that her brother was a famous civil engineer in Guarda” said António. At that time, Cristina Vieira’s brother, Carlos, was starting to be successful in his freelancing work and he needed an extra pair of hands. António took his shot, asked for an internship and made sure he could become useful to Carlos. After all, his pride was at risk: he began his career thanks to a favor from Carlos but he aimed to become a valuable asset over time and that was exactly what he did.

In 2000, due to their success and motivated by tax advantages, the two young men decided to create MCW together and, not surprisingly, Carlos offers his brother-in-law 38% of the company. By then, António had become a key partner for Carlos.

Nowadays, it is undeniable that António’s skills – more technical – complement Carlos’s ones – more commercial – so we can say it was a happy marriage that led MCW to its success.

João Vieira – João Vieira is the first born of Carlos Vieira and his personal pride. They are quite similar and it is easy to understand when talking to him that he shares one passion with his father: He is passionate about the city of Guarda. Twenty-two years old, he is

currently taking his business master's degree within the CEMS network.

“Great Deal!” said João after leaving the Chinese Store where he got 33% discount on his (already cheap) items. You can tell that he is someone with a sales-oriented mind. João is obsessed with negotiation courses, sales oriented books and (everything) related to commercial activities. And like his father, he is good at it. One year ago, while his friends were interrailing across Europe, he was working in the commercial department of PM. It was a simple summer internship but João managed to be responsible for important matters such as a relaunch of a previously closed key establishment in Madeira. He exceeded the expectations and received a sensational offer from his boss. Nonetheless, he decided to pursue his master degree.

He is fascinated by the CEMS network and the opportunities that come along. It was on one of these network opportunities that he decided to approach the CEO of a digital marketing agency and asked for a job opportunity in the summer. Again skipping summer due to work, he was able to become a sales account manager and to break historic records for the company.

Despite his proactivity and passion for startups, he never showed any particular interest in the construction industry or in civil engineering, and Carlos never pressured him to do so. “I am proud of MCW but I want to design my own path” João said. He is determined to plan his career and follow his particular interests. “I have to create a startup” is his aiming life. Sadly, of all the industries that he considered, he never thought about construction.

“I do not think I will be able to make him work here in the near future” said Carlos. Carlos may be right... or wrong, who knows what the future holds?

MCW's DNA

At the beginning of September 2016, I advised Carlos to be as clear as possible with his family when discussing the succession plan of MCW. I explained that the family should work together in order to gather fresh perspectives. Carlos opted to engage in long conversations with João, explaining the roots of the business to him and the tough decisions that were ahead. I asked to be present in all conversations, explaining that it would be critical to form the most appropriate recommendation. Quietly, I listened to Carlos explaining the story of MCW to João:

“As you know, António and I founded this company in 2000, and currently about 70% of Private Investment in this city is done with our projects” said Carlos proudly. (See Appendix 1). Carlos continued his story, clarifying the importance of the business for Guarda. He explained to João that his firm had always been connected to the most relevant investments in Guarda. João was able to understand one of his father's greatest prides in life: If you ever visit Guarda city, chances are you cannot find a private building that had no intervention of Carlos.

At this point, the influence of such a small business in an important Portuguese city like Guarda became clear: Carlos is well respected and in Guarda his name means quality. He is respected, not only for his projects but also for everything that his family name represents there. “I would buy anything from him... a civil engineering project or anything completely different” stated one of his clients.

Later in September, I asked João to have the same conversation with António to gather a different perspective regarding the DNA of MCW. That night, António explained to João that in this industry and in such a small market like Portugal word-of-mouth is decisive. “Our top advertisers are our clients” claimed António. João understood that the company was carried out by their local customers first to national markets and then to foreign ones,

which is why their priority is to think local.

On the following days, through several discussions I was able to conclude that MCW opts to be highly specialized in different sectors of the overall business and have several certificates and legal requirements in order to make all his clients desires come true.

The strategy mentioned above allowed the company to have an impressive reputation in Guarda, turning Carlos Vieira into a symbol for its citizens. “I am the symbol of the company, which can sometimes be... Exhausting” expressed Carlos.

In one of the discussions, Carlos referred that the project engineering portfolio of MCW consists of 99% of Private sector projects. “This is due to the reduced administrative structure of MCW that avoids a greater engagement with the public sector” clarified Carlos. I found this statement particularly relevant after concluding that the vast majority of national investments are made by the public sector. Due to its size and lack of structure, the future of MCW is limited to a small percentage of investment in Portugal.

In the course of the conversation, Carlos revealed some disappointment “Some years you have better results than others. We depend heavily on the evolution of real estate investment”. MCW’s business is highly volatile, (*Appendix 3*), mainly after 2008 – due to the Portuguese crisis. In 2011 and 2012 the company had less than 5% of net margin but was operating high volumes of revenues and had a good level of wages that motivated the team. Nevertheless, in 2013 the company faced its darkest period losing about 20000€, despite cutting the wages expenses by 20000€. The following years, 2014 and 2015, were profitable recovering years. However, neither the wages nor the sales volume ever came back to pre-crisis levels.

Worried, João realized that the future of MCW seemed limited, at least in this industry.

“So How’s the Business?”

In October 2016, I was focused on getting more data in order to elaborate the best recommendation and João was getting more and more curious about the economics of MCW. Therefore, I asked Carlos for a precise industry analysis from day 1 of MCW.

“First and foremost, it is important to mention that these numbers will terrify you João. After reaching an historic value in 2001, the construction industry in Portugal has been in trouble ever since. But let us focus on telling the overall story” started Carlos.

“When Portugal joined the EEC⁴, its GDP per capita was about 55% of the average of the community. At that time it was possible to conclude that the country could not be fully developed without deeply upgrading its infrastructures. So, 1986 was the beginning of a fairy tale for the construction industry in Portugal. You had funds from the EEC, optimism from the government to invest in this sector and new big companies arising. Between 1986 and 2003 the civil engineering investments in Portugal rose about 20% a year, revealing a shocking new economic trend for this sector. It was the best period ever to be present in the construction industry for Portuguese companies. To make things even better, the real estate market, due to reduced interest rates, boomed in the late nineties.

Do you see any trend between the history of the industry and our family business, João? I started to work as project engineering freelancer in the nineties when the industry was booming and created the company in 2000 when the real estate market was exploding around Portugal. I like to think I made the right decision at the right time.

Unfortunately, The *El Dorado* started to end in 2002 and the industry took its strongest loss in 2008. You see, this industry is highly correlated to the country’s economic situation and MCW is highly correlated to the evolution of the industry.

The construction industry has been threatened by finished housing solutions, which act as

⁴EEC: European Economic Community

attractive substitute products. Instead of opting for a full housing project, the customers that value low price and efficiency can choose any default model from a real estate company. This problem might increase in the future to the Portuguese citizens' economic situation”

João understood that buyers are extremely powerful in this industry – they have almost no switching costs and have several options to consider - and that, overall, this industry is not attractive anymore. Buyers have a massive negotiation power which contributes to the slim profit margins of this industry. João realized that even if MCW wanted more customers, the customer base in Portugal is small and he understood the difficulty of the current challenge his father was facing.

After this long conversation, I went to bed thinking about how to expand a company that cannot expand its client base. Is it possible to do it in the project civil engineering industry or not? Has MCW reached a dead end or not?

“What’s the Problem?”

In November it all became clear to João: his father was now facing the biggest challenge ever. He had to decide who could replace him in the future as the symbol of MCW: He wanted to plan the succession of MCW.

In fact, Carlos explained to me that he had several goals in mind. His main focus is to guarantee that the company will have money for the top manager salaries plus dividends for the current owners: Carlos wants to retire and at the same time remain connected to the business, helping in strategic matters and receiving dividends as a compensation. “MCW will always be my passion and I intend to be connected with the company forever” said Carlos. After looking at the numbers (*Appendix 3*), I concluded that it will not be easy to ensure such a policy due to the pressure that it might put on the current net results of the company.

Carlos moved on to explain his main concern: He believes that the perfect CEO for this business has to understand civil engineering in depth and should be connected to the Vieira family.

As seen above, despite being a bright student and passionate about startups, João does not seem to be interested in project civil engineering but rather in digital markets. “My son would know how to run any business but construction ones” was Carlos’s statement when I made this suggestion.

The situation became critical in late November, when António Cruz released the latest news “My oldest son decided to become a doctor”. So, no direct solutions seem to exist for Carlo’s million dollar question: “Who can be the image of MCW after me?”

MCW is the symbol of Guarda in terms of project engineering, employs 5 people and 2 partners, and was extremely difficult to build and to resist the crisis... And this company has no solution in mind.

The thought of ceasing business activity scares Carlos: financially speaking, it is critical and all his work will be forgotten. António is terrified, he used to rely on Carlos to find solutions for complicated matters.

Will this be the end? What is the solution for this nightmare? As well as finding the solution, I will have to think how Carlos can handover the company in the proper way, designing a plan to deliver the competitive advantage of Carlos’s reputation to his successor. Who is respected and loved? Carlos Vieira or MCW itself?

The ideal plan of having a direct succession line does not seem to work due to João Vieira’s attitude. How can you fit a digital business student in a project civil engineering company?

“Possible Solutions?”

Throughout my talks with Carlos and António, I was able to gather and assemble the major solutions that were being considered.

Nominate João as the CEO: The first scenario described is the main priority for Carlos: right after creating the company, he has always dreamed of seeing his first born managing it and thus establishing a dynastic firm. It seems a natural choice, João is a bright student and when the time comes he will be in his thirties. If he joins MCW right now, he will have enough time to gather proper experience to later understand his job in depth.

However, when met with the possibility, João said “I am not interested in civil engineering and I do not think I will ever be”. But surely, he would perceive the subject in a different manner and probably reconsider it in some years’ time. However, is it fair to ask someone this kind of responsibility? The owners have no doubts about this: “No it is not, João will be 100% free to make his decisions”.

It is possible to understand that this solution has issues. João does not want to do it due to his lack of interest in the industry and Carlos and António do not want to put pressure on him. João would be surely interested in any other business but construction does not seem to fit with his profile. This solution also has potential: João is still young and he could get proper experience before assuming the CEO place on MCW.

Rent the business to the employees: I have to say I was interested when Carlos explained this solution to me. Everything seemed to be aligned for the future success of MCW. I remember the day Carlos told me about it: Carlos arrived at the office and yelled “I have the solution”. António Cruz listened carefully while Carlos explained his plan: “We could rent our branding, in exchange for royalties, to our trusted employees!” Essentially, this solution would help Carlos’s employees while giving them the right space and enabling them to take advantage of the reputation of MCW, and allowing Carlos to keep a strong presence in the city in exchange for a continuous inflow of capital: dividends.

How would they do it? By keeping the same structure and a personal connection to the business, it could be possible to enable their employees to take advantage of the firm's reputation and manage new projects which would generate revenues to the Vieira family. "Royalties, plus rents, plus advisory fees" why not, thought António. Carlos got his inspiration when he found out FWA & Associados background: a well-known northern lawyer established the firm, enabling several lawyers to take advantage of his own personal brand in exchange for office fees.

Selling: It was harsh talking to Carlos and António about this "We don't even want to listen to it!" claimed both the shareholders. Selling was an option but it might be difficult to encourage the owners to give up their brainchild and put it in some stranger's arms. Furthermore, it would not be easy to sell a company like this one with limited growth potential.

What should I recommend?

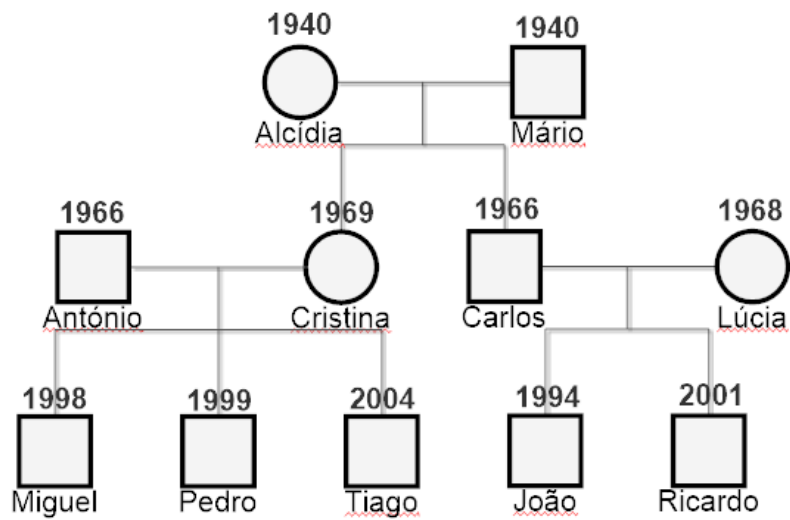
I am currently writing my final recommendation for Carlos about his succession concerns.

I am particularly interested in Carlos' main priority: allow João to be the new symbol of the company in some years' time.

My main doubt is how to fit João in the business or how to adapt the business to João's profile.



Appendix 1: Examples of Work in Guarda



Appendix 2: Genogram

	2011	2012	2013	2014	2015
Revenues	€ 197 929,00	€ 167 761,00	€ 109 382,00	€ 135 694,00	€ 140 686,00
Wages	€ 107 911,00	€ 103 078,00	€ 81 104,00	€ 97 303,00	€ 83 191,00
Net Income	€ 1 443,28	€ 6 829,17	-€ 19 363,00	€ 1 843,29	€ 20 541,00

Appendix 3: Economics

TEACHING NOTE

Overview

This case is based on a real company, focusing on Eduardo Pinheiro narrating Carlos Vieira's daily interactions and choices with his family. Carlos hired Eduardo in order to decide how to shape the future firm ownership composition and leadership. MCW grew from a hobby to become the biggest project engineering company in Guarda and to employ five people and two business partners in total. The case illustrates to what extent emotions may affect business decisions in family businesses; the additional difficulty in the decision-making process in these firms; and ownership issues when successions plans are considered.

During the purposed discussion, students are requested to do a critic analysis of this decision and apply the socioemotional wealth concept to revise the current alternatives proposed, and suggest a succession plan strategy based on their findings.

As the main issue, students are presented with the key recommendation that Eduardo Pinheiro is preparing nowadays: MCW's succession plan. Knowing that Carlos is considering three main alternatives: putting his first born as the next CEO in about ten years time, renting the company to employees in exchange for royalties, or selling the company as a whole⁵.

Target Audience

The case is intended to be used during an Undergraduate or Master Program in a Family Business course. The difficulty of the case is intermediate: immediate answers should be

⁵All names, locations and exact values have been disguised. Nonetheless, when relevant for the analysis, their relative proportions were preserved.

almost straight forward but only the best students will be able to crack the case. In order to take full advantage of the discussion, students, or at least their instructor, should have familiarity with the concepts of stewardship, agency theory, genograms, zero-sum dynamics, and the three circles model of system theory to analyze the succession planning, decision making and ownership structure in a family firm. Students should be able to recognize and recap the main issues associated with each concept presented above.

Learning Objectives

This teaching note presents a suggested analysis, discussion, and resolution of the case, as well as the needed underlying theory, to allow students to

1. Understand the Social Emotional Wealth paradigm approach and impact on family business firms.
2. Identify the most important aspects of succession planning in a family firm.
3. Analyze, diagnose and explain the relevance of a balanced decision-making process between family and business, in order to enhance the firm performance.
4. Conclude that the decision-making process in family firms presents higher levels of complexity due to emotional variables;
5. Identify the three-circle model dimensions in interaction and apply the concept to the case;
6. Understand the impact of zero-sum dynamics on decision-making
7. Explore stewardship theory and confront it with agency theory main issues.

Suggested Questions

1.1) Carlos says that he became a symbol for Guarda. Describe this statement using the Social Emotional Wealth paradigm approach.

At a first moment, students should be able to identify the sensation of personal pride and self-concept when Carlos talks about his firm's overall importance for Guarda: 70% of private projects were done by MCW and Carlos is proud about it. He opted to establish his presence on the city by that way, becoming a symbol of quality and success for his neighbors (Mejia, Cruz, Berrone, & Castro)

Students should refer that emotional attachment was the driver behind the concentration of investment in Guarda. Carlos grew up there and wanted to be deeply involved within the city engineering activity. Seen as part of the family history, Guarda's private investments and the positive memories and sentiments associated are part of the family's Social Emotional Wealth (SEW) (Mejia, Cruz, Berrone, & Castro)

This model suggests that family firms are typically motivated by, and committed to, the preservation of their SEW. Gains and losses in SEW represent the pivotal frame of reference that family firms use to make major strategic choices. The value of MCW goes beyond its economic value and incorporates emotional returns and costs. (Carsrud & Brännback, 2011). Students should depict that MCW is a company with a dominant role of the founder, which will be crucial when designing the succession plan: Carlos wants to find someone like him, belonging to the same family.

The SEW preservation and enhancement is a predictor of managerial decisions regarding management processes which will have a definitive impact on the firm financial performance, sometimes greater than efficiency and economical instrumental consideration by itself.

1.2) Considering succession planning and the leadership transition in the family firm across time, how do you analyze the current problem? What are the perceived issues?

Students should start by explaining that family business succession planning is a mechanism by which control over a significant family asset is maintained, without placing the growth and development of the asset at risk. It is a process that maximizes opportunities and facilitates the creation of a multi-generational institution that embodies the founder's mission and values long after he is gone. (The Erskine Company, 2016) As seen in question 1 this is exactly the goal of Carlos Vieira.

With only 30% of family businesses surviving into the second generation and just 12% into the third, statistics on family businesses surviving multiple generations are terrifying. (Family Business Institute, 2016)

Students should underline that the desire to transfer business control to the next generation is one of the key factors that separate family firms from nonfamily ones. According to dominant authors, choosing and nurturing a successor are among the most critical decisions made by the family patriarch. . (Family Business Institute, 2016)

Students should refer that when selecting the successor the family should be able to assess different candidates and the inputs that each one brings. The candidate pool should not be entirely restrained to family, accommodating non-family individuals that might possess the most appropriate skills. Nonetheless, empirical evidence suggests that family firms favor a successor from within the family – just like Carlos Vieira thinks – even if a better candidate exists internally or externally on the labor market, due to the ambition of forming a dynastic family. (Mejia, Cruz, Berrone, & Castro)

Students should realize that for MCW it is critical to be able to replicate the current competitive advantage – reputation on the local market - in the future, not limiting it to

Carlos's skills and talent. Therefore, proper succession mechanisms have to be developed to assure the sustainability of the competitive advantage.

The best students should add that the literature suggests that when the incumbent is a family member, this individual tends to be more reluctant to plan for his succession. This is clearly visible in this case, Carlos Vieira says he has no problem in stepping back but, at the same time, he wants to assure he is involved on the business and receive dividends for doing it. When the new CEO becomes skillful enough a major source of conflict could emerge between him and Carlos. One of these days Carlos will have to retire and definitely step back from the business. It has to be clear on his mind that when he retires he will have to step back from the management decisions of the business. MCW's has to build its own core values and systems and to stop being an extension of Carlos personality. It is crucial to know if Carlos is able to follow this step. (Mejia, Cruz, Berrone, & Castro)

In a family business, succession assumes a decisive role since it affects directly the wealth of the family, external shareholders and employees. Therefore, succession planning and power transitions are determinant factors on long-term performance and survival of a family firm. The transfer of power within a family firm should be a process, carefully prepared in advance, elaborating a phased schedule where both the actual leader and the successor intervene in the daily operations (Poza, 2010).

1.3) Do you expect Carlos Vieira and António Cruz to have their interests aligned or to choose different solutions regarding the future of MCW? If a conflict emerges, describe a possible process to solve it.

The assumption that families are constantly aligned in their interests is a misconception. Students should be able to analyze this question resorting to the Three Circle Model:

Owners, Family, and Business. The overlap among the three groups often leads to differing points of view among individuals because boundaries among family, ownership and management systems may become blurred. (Pieper, Astrachan, & E.Manners)

In this case, António and Carlos play a key role in each circle which increases the complexity of the issue in question: the succession plan of MCW.

Students should underline that the communication between the two business partners might be severely affected. It is difficult for them to know which role to take in each discussion: family members, owners of the business or managers.

Students should conclude that in order to avoid the possible conflict, the owners of MCW have to find a way to mitigate these communication issues. Carlos and António should always be completely focused on the role on each discussion that they are taking. They can take a day to discuss the issue as a family, another as owners and a last one as managers, but they should not mix their roles around. Moreover, it is crucial to have an impartial third party involved. Taking into account the size of the business and the reality of MCW, a board of directors would not be a solution. Nonetheless, MCW should be able to constitute an Advisory Board composed by engineers in Guarda, taking advantage for example of old friendships, contacts or even professors at the local engineering university. (M.Pieper, H.Astrachan, & E.Manners, 2013)

The best students will figure out that if a conflict emerges, we could be in the presence of a zero sum dynamics situation. Meaning that Carlos's perceived gain would be Antonio's perceived loss. At stake is also MCW's ultimate challenge: how to grow the business and what to decide in order to do it. Clearly, the business partners have to be connected in order to overcome this difficult task.

Students should consider that MCW has one controlling owner (Carlos) with 62% of the Shares, concluding that one of the main challenges will be to choose an ownership

structure for the next generation. Will Carlos direct descendants keep control over António's ones?

2.1) Assuming the role of Eduardo, what would be your recommendation? What factors should be considered?

Founding family members like Carlos interpret the firm as an extension of themselves and therefore view the continuing health of the enterprise as connected with their own well-being. That is why Carlos is facing one of the biggest challenges in his life. (Heinrichs, 2014)

In order to consolidate the learning of decision concepts within family firms and how it affects the present case, students should be required to do a group assignment. All students should read the case, as well as the recommended readings. Students can be split into groups of 6 to reduce workload, encourage debates and facilitate assessment.

In a first moment, students should be able to understand that they have to discuss the alternatives referred by Eduardo Pinheiro: 1) Endorse João Vieira's leadership; 2) Rent the business to the employees; 3) Sell the company. They should also be able to identify the pros and cons of each alternative and later come up with a recommendation.

Students should be able to conclude that if Eduardo Pinheiro recommends the first option, his decision should take into account the no predisposition or interest of João Vieira in this specific industry and his lack of experience and reputation.

If Eduardo chooses the second option, the business will no longer belong to the Vieira family and only the financial dividends would be assured with a low degree of control.

If Eduardo chooses the third option, he is recommending Carlos to give up on the situation, simply guaranteeing a one-time only payment fee to help him support his retirement.

Students should understand that Eduardo's recommendation has to take into account

Carlos's concern of preserving the SEW of MCW's. Family firms are typically motivated by the preservation of their SEW, and gains or losses in SEW represent the pivotal frame of reference that family-controlled firms use to make major strategic choices. When there is a threat to that endowment, the family is willing to make decisions that are not driven by an economic logic. (R. Gomez-Mejia, Cruz, Berrone, De Castro, 2012).

The best students should be able to identify two more feasible alternatives that Eduardo could present to Carlos. The group of students able to figure out these solutions – or other ones – should get extra points.

Restart a different business with João: As mentioned in the case, João is a classical sales-guy and shows no particular interest in engineering. But during the case, several clues indicate that João is an entrepreneur and that he intends to build his business just like Carlos. Students could also understand that he is passionate about Guarda and would like to be connected to the city in some sort of way, just like his father. Carlos, being an open-minded man, would be receptive to studying a business plan from João. João could take advantage of the structure of MCW: technical machinery and loyal employees, reputation and experience to give a kick start to a completely different project in a new area.

If the students are able to point out this solution, they should be able to specify at least one key issue: João wants to have experience before engaging in his own startup – even if within his father company - and Carlos wants to build his succession plan right now.

The main issue about this plan is exactly the lack of planning time and procedures: João wants to accumulate job experience and have more time to decide while Carlos want to have their succession plan well established in the present to be prepared for the future.

Nominate a non-family member to be the CEO: Students should be able to understand that if this case study was about any other type of company this would be one of the first

options to consider by Eduardo. Being so focused on keeping the company in the family, renting or selling it, Carlos is not thinking about a middle ground solution. As previously described, it is limiting for a family business CEO to restrict his successor to a descendant. An external CEO could be an effective way of assuring future returns for MCW.

Good Students should be able to explore the concept of Stewardship when clarifying this solution. The students should refer that the stewardship theory suggests that the new CEO's motives would be aligned with the ones from the organization (MCW). Carlos and António would have to find the perfect external candidate in order to explore the stewardship theory that encompasses pure altruism, by putting the organization first, proving his loyalty (Poutziouris, Smyrnios, & Klein, 2006)

Good Students should also be able to describe the potential issues of this solution by exploring the agency theory. They should infer that a possible conflict of interest could exist if Carlos opts for this solution. The new CEO could have new desires and goals different from the ones wished by Carlos and António, namely regarding the financial future of Vieira's family through the use of dividends. The risk aversion from this external CEO could also be extremely different from the ones of the current board. One of the possible solutions would be to give a small ownership of the company to the new CEO in order to make him think long term as Carlos and António need to do. (Investopedia, 2016)

2.2 – The alternative of renting the business to employees seems promising. Taking into account your family business knowledge what do you believe Eduardo should do?

Students should understand that this question implies a confrontation between the financial and socioemotional value of renting the business. Several studies indicate that the unique particularities of family firms make them less driven by financial criteria than

the remaining companies. (Dawson and Mussolino 2014).

Students should refer again the concept of SEW introduced by Gómez-Mejía et al (2007), mentioning that it is the key differentiator between family companies and other types of businesses. Family businesses priority is to preserve SEW, even at the expense of financial gains (Debicki et al. 2016), which is not to say these gains are fully ignored (Gómez-Mejía et al. 2011).

Students should mention that during the case, it became clear that Carlos is strongly oriented to MCW's SEW even if he is not explicit about it. When he says he wants to become a symbol for Guarda, he is proving that he desires to have influence in his hometown. When he talks about his wish to see his first born assume the CEO role he reveals his will to build a dynastic firm. Last but not least, he is concerned on keeping and perpetuating the family values throughout MCW's activity.

Therefore, analyzing this solution, Carlos has to think in financial terms like any good manager, calculating for example the net present value of the option. However, he also has to consider if he can somehow maintain the SEW of MCW intact. More than dividends, Carlos Vieira wants to focus on the preservation of SEW.

Students should be able to understand that If Carlos opts to rent MCW, their SEW might be compromised: control will be lost, the family values will not be perpetuated and the family would no longer become a dynastic symbol for the project engineering industry in Guarda. Students should conclude that this solution in reality represents something more important than Carlos can imagine. It represents a tradeoff between financial returns and SEW preservation.

To sum up, for any other firm, the decision would be made, relying on appropriate financial modelling statistics. Nevertheless, Carlos is the CEO of a family business, and everything is extremely different: the SEW cannot be ignored and will always be the main

standard for decisions. If Carlos decides to rent the company, he might be giving up on all his dreams to form a dynastic company which is not an easy decision to take.

Teaching Plan

This case was divided into two parts (45 min) to be discussed in separate classes, in order to allow the instructor to use the remaining class time to deepen the theoretical concepts introduced by it. Teaching this case begins by asking the students to read individually and think about the case prior to class. Moreover, the articles indicated under Recommended Readings should all be previously read and students should resort to those Readings in case they are held in any question.

A five-minute introduction to the case by the instructor may be useful before beginning discussion. This introduction should describe the history of the company briefly and mention the main problem clearly: the succession plan. Once the introduction is complete, pose questions 1 to the class and take answers from volunteers.

At the end of the first part, students should be split into 6 groups and be assigned the question 2.1 to answer. Each group should then summarize their corresponding content and present it to their colleagues in no more than 5 minutes at the beginning of class two. Last but not least, the professor should pose question 2.2 to the class and take answers from volunteers, taking advantage of the question to close the case and his overall meaning: family business have unique needs.

The suggested time planning is presented below:

Part	When	What	Duration	Total
0	PreClass	Study Recommended Readings	30 min	30 min
1	Class 1	Case Introduction by Instructor and/or Volunteers	5 min	45 min
		Discussion of Questions 1	10*3=30 min	
		Launch of Group Assignment about question 2.1	10 min	
Homework		Suggested Assignment	1h30 min	1h30 min
2	Class 2	Group Presentations	5*5= 25 min	45 min
		Discussion of Question 2.2	10 min	
		Sum Up and Review of Overall Objectives of the Case by Instructor	10 min	

Recommended Readings

The following list should be used both by the instructor and his students to prepare or deepen the contents taught in this case:

- Poza 2007 – “Family Business” 4th Edition. Comprehensive support book, covering all topics except SEW.
- Gómez-Mejía et al. 2011 – Thorough collection of academic studies about SEW’s effects on family businesses’ decisions
- R. Gomez-Mejia, Luis; Cruz, Cristina; Berrone, Pascual; De Castro, Julio. 2011. “The Bind that Ties: Socioemotional Wealth Preservation in Family Firms”.

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