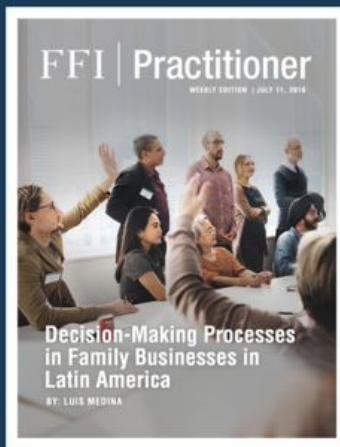


CROSS-CULTURAL

# Decision-Making Processes in Family Businesses in Latin America

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## From FFI Practitioner

The decision-making process within a family business can be one of the most complex issues confronting consultants when working with a client. This week, we're fortunate to share an article from Luis Medina, where he examines these complex processes within the context of Latin American family businesses.

### Issue:

The decision-making process in any given business is one of the most complex issues before, during, and after a family business consultancy project. If analysed in detail, setting the foundation for a proper decision-making process is probably the most important task a family business consultant faces. Moreover, this complexity increases in Latin American contexts due to cultural patterns that condition family members' behaviour. Therefore, the objective has to be to structure a decision-making process so that it respects those cultural patterns and is therefore considered just.



### Context:

1. **Concept of Justice.** The concept of Justice has been the centre of what seems to be an endless debate. However, risking its oversimplification, we are going to analyse it in the context of a decision made from two perspectives: from the perspective of the outcome and that of the process implemented for its making.

a. Outcome Perspective: When evaluating an outcome as “just,” there are three preferred parameters: Equity, Equality, and Necessity<sup>1</sup>. That is, when an individual perceives a decision as just, it may be because it corresponds to the contribution of each party (equity), because everyone received the same portion (equality), or because the outcome considered the needs of those involved (necessity). Moreover, in connection with this analysis of the outcome, the Relative Deprivation Theory states that feelings of injustice appear when an individual compares his or her share with that of others, and such a comparison is not satisfactory<sup>2</sup>.

b. Process Perspective: The study of Justice from this perspective has evolved into what is known as Procedural Justice, in which it is perceived that a decision is just when the process that was followed to make that decision is perceived by the parties as fair. To that end, one conclusion has been drawn: the control of the process procedures must lay in the hands of parties involved<sup>3</sup>. Moreover, when that control is successful and the parties perceive that Procedural Justice was achieved, such perceptions positively influence the behaviour of parties towards their acceptance of and compliance with the outcome<sup>4</sup>. That is, if the parties involved perceive that the process followed to reach the decision was fair, it will be “easier for them to accept a disappointing outcome”<sup>5</sup>.

2. **Cultural Patterns**. Having said that a process will be considered just when its control is maintained by its participants, understanding their idiosyncrasies is essential. On that regard, in the Latin American context, some answers may be found under *Familism*, a term used to describe specific behaviours that are reported in some cultures (such as the Latino culture) where people’s decision-making process may be affected when a family member in a prominent position within the family is involved<sup>6</sup>. Specifically, in Mexico, *Familism* has been reported as behaviours of extreme reverence under the concept of Respect (*Respeto*) at a higher level than usual<sup>7</sup>. For example, if in the context of a family business in Latin America, the decision for purchasing a machine with a loan faces two founding partners, that happen to be brothers and the second generation is present, two scenarios may be faced. In one scenario, due to the standing of one of the brothers within the family (usually the oldest), the other may not express his real opinion in order to avoid a “public confrontation.” In the other scenario, these two brothers face each other and call for a vote, including the opinion of the upcoming generation, then the siblings’ votes may follow their fathers’ lead. **Thus, even if having a round of votes to decide may seem an adequate strategy to allow the parties involved to control the process to achieve common acceptance of the outcome, these cultural pressures may produce a very different result, leaving family members with feelings of unfairness, due to their evident “cultural incapacity” to speak their minds.**

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1. Unilateral decision. It is unwise to subject everything to a complex process where a group has to be involved. There have to be people in charge of deciding important issues (previous list made) without prior approval.

2. Group vote per person. Ownership percentage does not matter. This is frequently used in family decisions. Also, I have found it useful to give some people multiple votes, depending on the issue and on the family. For example: In the case of firing a family member, the vote may be cast per person, but it may be wise to allow the founders to be able to cast two votes instead of one.

3. Group decision per ownership percentage. This is common corporate practice.

4. Veto. I have found this strategy to be crucial for founding members to let go of control of the business. To stay on board by participating in important decisions with the possibility of vetoing helps the transition process.

5. Vote by specialist. As said before, there are some cases where a data-based response is needed, therefore, a specialist has to get involved. For example, in the same case on buying the machinery, a lot of conflict may be eliminated if an accredited specialist determines what the best machine is. Nevertheless, deciding on whether such purchase is a sound business decision in terms of sales and liquidity, constitutes a very different decision that may require the involvement of the group.

Group votes, of any kind, could be cast openly or in secret.

Secret voting has proven very effective, especially in cases where levels of *Familism* are too high<sup>10</sup>. However, two issues have to be considered when implementing this kind of process:

1. Legally, legislations sometimes give minority rights to those partners or directors that voted against a decision. In such cases, it will be important to mark the ballots, keeping control of who receives each of them. Evidently, the list should be kept secret by a trusted officer who is not participating in the process.

2. In case the secret vote wins and a proposal is rejected, the secret voters would have to speak up. Considering that they will be protected by the fact of being in the majority, it will be important to express their views; otherwise, absurd voting may appear. Moreover, this may serve the transcendental purpose of making it evident to the generation in control that the upcoming one is capable.

## Notes

<sup>1</sup>Deutsch, Morton, "Justice and Conflict", in Deutsch Morton, et al (Eds), *The Handbook of Conflict Resolution*, 2nd ed., USA, Jossey-Bass, 2006, p. 45

<sup>2</sup>Ibidem p. 47 and Lind, E. Allan & Tyler, Tom R., *The Social Psychology of Procedural Justice*, USA, Springer Science+Business Media, 1988, p. 12

<sup>3</sup>Lind, E. Allan & Tyler, Tom R., *The Social Psychology of Procedural Justice*, USA, Springer Science+Business Media, 1988, p. 208

<sup>4</sup>Ibidem p. 211 and op. cit. note 1, pp. 47- 48

<sup>5</sup>Op. cit. note 1, p. 48

<sup>6</sup>Halgunseth, Linda C., et al, "*Parental Control in Latino Families: An Integrated Review of the Literature*", Child Development, USA, 2006, pp.1282- 1297

<sup>7</sup>Valdés, Guadalupe, "*Con Respeto, Bridging the Distances Between Culturally Diverse Families and Schools*", USA, Teachers College Press, 1996, p. 186

<sup>8</sup>Op. cit. note 3, p. 36

<sup>9</sup>Based on my experience of 18 years acting as a lawyer.

<sup>10</sup>See Bardis, Panos D., "*A Familism Scale*", Marriage and Family Living, USA, 1959; Heller, Peter L., "*Familism Scale: Revalidation and Revision*", Journal of Marriage and Family, USA, 1976 and Lugo Steidel, Angel G. & Contreras, Josefina M., "*A New Familism Scale for Use with Latino Populations*", Hispanic Journal of Behavioral Sciences, USA, 2033

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## About the contributor



Luis Medina, CFBA, CFWA, was appointed as Corredor Público Nr. 10 in Quintana Roo in 2006. He has a Doctorate in Law from Georgetown University Law Center with the thesis: "Effects of Familism on Corporate Practices in Family Businesses in Southeastern Mexico." His legal practice is oriented to outside council of medium sized businesses on corporate law. In addition, he is professor of alternative dispute resolution in Anahuac University Law School. Luis can be reached at [lmedina@correduria10.com](mailto:lmedina@correduria10.com).

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