

Internal control and corporate governance in family businesses: A review of studies and approaches from a Latin American perspective

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Abstract

The study aimed to explore the research and approaches of internal control and corporate governance applied in family businesses in Latin America. For this, a literary review was carried out through the compilation of bibliographic sources of various studies carried out in Peru, Chile, Colombia, Argentina and Ecuador related to the research topic. The results indicate that, if a family business intends to grow and maintain its validity over time, passing on to the following generations, it must develop internal control and corporate governance structures. In conclusion, the study highlights the importance of contributing to the establishment, internal control structures and corporate governance, through different mechanisms, mainly in first and second-generation family businesses, considering the mortality they suffer in different countries. region of.

Keywords: Internal Control, Corporate Governance, Family Businesses, Corporate Governance.

INTRODUCTION

Family businesses are relevant to the global economy due to the various contributions they make to the development of each country and the growth of national and international markets. It should be considered that family businesses are based on a family and property relationship where family values prevail to ensure the durability of the business over time. However, according to Rodríguez et al. (2018), he mentions that these types of organizations are very volatile, presenting high mortality rates.

In Latin America, most the companies are family-type; therefore, it is necessary to know the approaches and models of internal control and corporate governance that consolidate the durability of the business and supervise its administration according to Ramírez et al. (2018).

As pointed out by Botero and Gómez (2016), describe the Latin American panorama for family businesses as a fragile, volatile economic environment and constant change in economic structures, reminding us that family businesses tend to be relatively young (first and second-generation) maintaining a high concentration of ownership in the same family. On the other hand, Fernández and Lluch (2015) highlight that in Latin America, family businesses adopt organizational forms that are flexible to the environment, with a high capacity and intention to recombine resources over time with the desire for the family to endure in business.

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Internal control allows efficient management of the company's resources, in organizations with higher investments it provides a greater possibility of being successful in making operational decisions, derived from a well-structured internal control according to Sun's criteria (2016). For their part, Gao et al. (2018) consider it important to coordinate the credibility of this process, since it contributes to the achievement of external financing, making it possible to capitalize based on excellent accounting management of the organization.

An efficient internal control must be complemented by managerial factors to establish assertive relationships with internal and external clients, fostering the generation of innovation as a key element to consolidate family businesses in the market (Berenguer and Gois, 2018).

Institutionalization or professionalization is a key issue for any company, although many entrepreneurs (especially in Latin America, as will be seen later) do not give it importance. For family businesses, the urgency of implementing corporate governance practices increases because this allows the permanence of the business through generations.

At the family level, corporate governance, according to the studies of Hashim and Amrah (2016) in accordance with Matías and Franco (2020), presents as primary objectives the maintenance of the family unit, the alignment of interests, the mitigation of family conflicts and development of planned succession processes. Likewise, in correspondence to Michiels et al. 2015 and Umans et al. (2020) they mention that corporate governance improves relationships between family members by strengthening common interests and maintaining the same vision with the following generations.

At the business level, according to the studies of Ganam et al. (2013), he points out that the objective of corporate governance in the family business is to achieve the best economic results, based on better strategic planning and adequate organizational structure that allow implementation strategies for the short, medium and long term.

In this sense, the research will seek to know the studies carried out and the approaches applicable to Internal Control and Corporate Governance in Family Businesses in Latin America, based on a review of the literature and bibliographic sources.

A BRIEF STATE OF THE QUESTION

Within the socioeconomic reality of any country and in the world, family businesses are essential for the development of markets, however, they have not always been easy to study, since in many cases they are not subject to specific regulations. According to Cevallos and Zaldumbide (2021) for many years, adequate interest has not been granted to this type of company.

Family businesses are the oldest and most common type of economic organization globally, they emerged as a product of the commercial and industrial economic activity carried

out by families. Many of the largest and most important companies today had their origins in a family business and even a good part of them remains as such.

In European and Asian countries, according to studies carried out by Echaiz (2010), it refers to family businesses with more than a thousand years, one of the oldest was founded in Osaka, Japan, in 578 AD, going through thirty-nine generations, for On the other hand, in Latin America, the family business Hacienda los Lingues is one of the oldest, founded in San Fernando Chile in 1575, reaching the fifteenth generation.

Since ancient times, people have always felt the need to control, starting from something as basic as their belongings. In ancient civilizations, internal control was initially associated with the collection of taxes to avoid fraud. However, the practices of internal control have evolved to the present day. Very marked stages can be distinguished in the evolution of internal control considering the studies by Cano et al. (2015), Vega and Marrero (2021)

Table 1. Stages of Internal Control

Genesis 1280 - 1909	The first record that appeared to control business activity dates from 1280, when pontiff Nicholas II issued copies to corroborate the integrity and accuracy of the work of his administrators.
Changes 1910- 1947	The increase in production and the participation of people, originating the establishment of functions, begins to speak of internal control to prevent fraud and avoid errors among employees.
Development 1948-1991	The competitive and hostile context that companies had to face, caused internal control objectives to be expanded, minimizing negative impacts to meet their goals.
Integration 1992-2020	The publication of the COSO framework in 1992 (Committee of Sponsoring Organizations of the Treadway Commission) marks a before and after in the historical evolution of internal control, subsequently implemented by several countries.

Source: Own elaboration based on Cano et al. (2015), Vega and Marrero (2021).

Corporate Governance, also commonly associated with Corporate Governance, according to Portalanza (2013) allows us to understand its historical evolution, according to the following table.

Table 2. Historical Evolution of Corporate Governance Needs

1920s-30s	Wall Street in 1929 was the first to announce the need for transparency and to find a way for business leaders to answer to shareholders about their business practices. The foundations for the modern concept of corporate governance are beginning to be laid.
1940s-1970s	Large companies have full control over their operations with limited or limited oversight and oversight by the board of directors. The need for shareholders to exercise ownership and ensure the valuation of their investments is discussed.
Years 2000 to 2005	Large companies demonstrate low levels of control and corporate governance, which is why in 2002 the Sarbanes Oxley Act was enacted in the United States, which reforms the internal control of companies, expanding the scope of responsibility of their administrators.
Years 2006 to 2010	The financial crisis of 2008 establishes the need for greater control and governance within companies, as well as transparent decisions, and clear roles responsibilities of the Board of Directors. The interests of the interested parties must be protected, and the effects of fraud prevented or mitigated.

Source: Own elaboration based on Portalanza (2013).

GENERAL ASPECTS OF FAMILY BUSINESSES

The following definition of a family business can be taken from Velez et al. (2008) as "one in which the people of one or more families linked by kinship ties have sufficient share ownership of the company, decision control and apply an interdependent management model with the succession process". Another definition is proposed by Dodero (2005) who tells us the following: "A family business is one whose owners are the same as those who direct it, that is, the culture of the company is a reflection of the culture of the family."

From the studies carried out by Goyzuefa (2013), the life cycle of family businesses and the main crises they face can be recognized, according to Table 3.

Table 3. Life Cycle of the Family Business

Creation	Little it is known about how the family members are involved in the business. The problem of finding capital, competent personnel, viable product development and bringing them to market are difficult tasks.
First Crisis due to lack of delegation	The company has grown to the point where it can no longer do things the way it used to. The founder must make important decisions, incorporating people to whom he can delegate some of the functions that he has previously performed.
Growth and Development	As the company grows and matures, the founders face various problems. Changes in the business environment mean that the family must make strategic decisions to maintain an advantage in the market.
Second Crisis due to children's income	The founder and his children began to work in the family business. The vision and management style of father and son often do not match. Many times, trying to make changes will not be welcomed by the founder.
Succession and second generation	The business has matured. The founder is no longer the dominant force in the family. There are various interests, equalities and ownership conflicts that cause problems for the second generation, so future managers must be trained.
Third Crisis due to the death of the founder	Succession is often an uncomfortable and difficult issue for children to handle, due to the uncertainty generated when appointing a successor to run the company and manage conflicts to maintain unity and harmony in the family.
Public property and professional administration.	The business needed additional capital to continue operating, so the family had to decide whether to list shares. It may be necessary to hire a professional trainer if a competent family member is not available.
Fourth Crisis Conflict between Family Partners	The lack of communication, control and information makes the idea of having reliable people and a minimal flow of information prevail. Emphasis should be placed on respecting the principles of transparency, accountability and fairness.

Source: Own elaboration based on Goyzuefa (2013).

GENERAL ASPECTS OF INTERNAL CONTROL AND CORPORATE GOVERNANCE

The following definition can be covered from Castañeda (2014) points out that "internal control includes the organization plan of all coordination methods and measures

agreed within a company to safeguard its assets, verify the correctness and reliability of its accounting data, promote operational efficiency and adherence to established management policies". According to Dextre and Del Pozo (2012) they indicate that control is "the function of the administration that seeks to ensure that the activities are carried out as they have been established to fulfill the purposes of the entity in the achievement of goals and objectives raised", for his part Gutiérrez et al (2012) mentions that "a company can make magnificent plans, have an adequate organizational structure, have efficient management, but if its controls are deficient, it will not be able to verify the real performance of the company organization against the stated objectives.

According to Tundidor et al. (2018) they mention that internal control "is considered as a tool to evaluate, diagnose, improve and control information systems, processes, threads, subsystems and activities of the entire organization in a proactive way, guaranteeing the fulfillment of the objectives and strategies of the organization. Likewise, Hernández (2017) mentions that "management control systems are aimed at achieving greater efficiency and coordination, which in turn has repercussions on proactive action in the face of possible crises", in the same way, Porporato and García (2011) indicate that an "appropriate use of management control systems implies, in turbulent environments, a use more oriented to coordinate than to control, which in turn has a positive impact on the performance of the organization".

According to Gasco et al. (2005) it indicates that "corporate governance refers to the set of rules and regulations that guide the behavior of the shareholders, directors and administrators of the company, and that defines the obligations and responsibilities of these with the shareholder's minority". According to Canals (2004) he indicates that they are a set of actions by which companies are directed and controlled.

METHODOLOGY

This study will consider in its research methodology, a systematic review of the literature, using for this purpose the PRISMA model, under criteria of identification, detection, eligibility and inclusion, and in terms of information analysis, the IMRYD method under the introduction criteria, methods, results and discussion. The research is a descriptive study with a comparative approach, carried out from a documentary and bibliographical review of the literature corresponding to Internal Control and Corporate Governance, to know the studies carried out and applicable approaches in Family Businesses in Latin America. The sources of information used were mainly of the primary type.

RESULTS

This research has contemplated addressing the study of the three variables for their correct understanding, referring to Family Businesses, Internal Control and finally Corporate Governance.

The family business has its own characteristics, which has led to the development of models that explain understanding. Based on the studies carried out by Amat (2004), Pereira (2006) and Molina et al. (2016), the main models linked to the family business are described:

The model of the three circles

This explains the way in which the three overlap pillars that make up the family business: 1. the family, 2. the property and 3. the company, as well as the place occupied by each of the members that belong to one of the seven subgroups that are formed in the areas of their intersections and the conflicts that arise in this type of company (Tagiuri and Davis, 1982).

Holistic model

This model includes, for the analysis of the family business, its interrelationships with the environment, as well as the influence that macroeconomic and social policies have on the sector. In their work, they present the person with the highest authority in the company as the central figure, and therefore the determining figure, be it the founder, the CEO, or the owner (Donckels and Frölich, 1991).

The model of the five circles

This model proposes to complement the model of the three circles. It breaks down the circle of the company into two: one, management as such, and the other, the company as a business, and adds a fifth area, succession (Amat, 2004).

The Three

The three-dimensional evolutionary model built on the work of Tagiuri and Davis (1982) and incorporated an evolutionary dimension into the three-circle model. This is defined from a three-dimensional space made up of the family axis, the patrimonial axis and the corporate axis (Gersick et al. 1997).

Sharma, Chrisman, and Chua's Strategic Management Model

The concept is based on the premise that the strategic process is the same for both family and non-family businesses. However, there are significant differences in the first case: the objectives that are pursued, the way in which they are pursued and the people who participate in this process have different characteristics. (Sharma et al., 1997).

The model based on the strategic direction of Ussman, Jimenez and García

The proposed model assumes that the family business interacts with the family system and the environment continuously. As a result, in the face of future changes, the members of the organization must develop a learning process that allows them to discover the strengths and weaknesses of the company, while improving a wide range of valuable

Table 4. Management Models Applied in Family Businesses

Elements Considered	Models					
	Three Circles	Holistic	Five Circles	Evolutionary Three-Dimensional	Sharma, Chrisman, Chua	Usmann, Jimenez and Garcia
Family	X	X	X	X	X	X
Ownership	X	X	X	X		
Company	X	X	X	X	X	X
Management		X	X	X	X	X
Environment		X			X	X
Succession		X	X	X	X	
Time				X		
Results					X	

Source: Based on Amat (2004), Pereira (2006) and Molina et al. (2016).

According to the studies carried out by Mendoza (2009), Contreras (2010), Rivas and Márquez (2011), the main modern models of internal control are presented below:

The COSO model

The COSO model (Committee of Sponsoring organizations) at the organization, the need for senior management and the rest of the organization to fully understand the importance of internal control, its impact on the results of their management, the strategic role to be given to auditing and essentially the consideration of control is highlighted. as a process integrated into the company's operations and not as a set of rules (Mendoza, 2009).

The COCO models

The COCO (Criteria of Control) Model of Canada is the product of an in-depth review carried out by the Canadian Control Criteria Committee on the COSO report. The purpose of this review was focused on making the approach of simpler and more understandable, given the difficulties that some organizations initially faced in the application of the COSO (Rivas and Márquez, 2011)

The MICIL model

The Latin American Federation of Internal Audit (FLAI) with the support of the Anticorruption and Accountability Project in the Americas (known as the AAA Project for its

acronym in English) promoted and approved the Integrated Framework for Latin American Internal Control (MICIL) in the assembly held in the city of La Paz, Bolivia, on October 25, 2003 and which is constituted in the document of technical reference for the design, application and operation of internal control of public and private organizations in Latin America (Mendoza, 2009).

The Cadbury models

This model was developed by the Cadbury Committee, which adopts a broad interpretation of control, giving clearer and more precise specifications on the internal control system in any area. The objectives of this model are aimed at providing reasonable assurance regarding effectiveness, reliability and legal compliance. The elements of this model are like those of the COSO, except for a greater emphasis on risks (Contreras, 2010).

The COBIT model

The model was developed by ISACA (Information Systems Audit and Control Association), due to the need to audit controls in computer systems. COBIT (Control Objectives for Information and related Technology) is a guide to best practices presented as a framework, aimed at the control and supervision of information technology objectives (Mendoza, 2009).

Table 5. Internal Control

Models	Models	GIZMO	COCO	MICIL	CADBURY	COBIT
Country Origin	of	United States	Canada	Adapted to Latin America	United Kingdom	United Kingdom / Australia
Year Publication Update	of /	Published in 1992 / 2017	Published in 1995	in Published in 2003	Published in 1992	Published in 1996 / 2012
Meaning		“Committee of Sponsoring Organization of the Treadway Commission” / Committee of Sponsoring Organizations of the Treadway Commission”	“Criteria of Control Committee” / Committee of Control Criteria	Latin American Integrated Internal Framework	Name in honor of Sir Adrian Cadbury (1929 - 2015)	“Control Objectives for Information and Related Technology” / Control Objectives for Information and Related Technologies.
Issuer		Committee of Sponsoring Organizations of the Treadway Commission”	Canadian Institute of Certified Public	Accountants Accountability/Anti-Corruption in the Americas Project / AAA Project	Committee on the Financial Aspects of Corporate Governance	Information Systems Audit and Control Association
Objective		To provide an Integrated Framework for Internal Control so that any type of organization can evaluate and improve it.	Simplify the concepts to promote a full scope of internal control at any level of the organization.	Guide board members, managers, and employees in improving and understanding internal control and its effectiveness.	Study the financial and control aspects in the organization and corporate governance.	Research, develop, publish and promote an IT governance framework and control
Approach		Focused on risk identification and management.	Focused on government policies, on the ethical and financial aspect.	Focused on the evaluation of control through risk assessment.	Focused on the design, development, modification or evaluation of the control.	Focused on what IT requires to provide information to achieve the objectives of the organization.
Structure		Consists of 5 components and 17 principles	Consists of 20 criteria	Consists of 3 Components	Consists of 5 elements	Consists of 4 activities
Elements		<ul style="list-style-type: none"> ● Control ● Environment Risk Assessment ● Activities ● Information and Communication ● Supervision 	<ul style="list-style-type: none"> ● Purpose ● Commitment ● Capacity ● Supervision and Learning 	<ul style="list-style-type: none"> ● Control and Work ● Environment Evaluation Risk ● Control Activities ● Information and Communication ● Supervision 	<ul style="list-style-type: none"> ● Control and Work ● Environment Risk Assessment ● Control Activities ● Information and Communication ● Supervision 	<ul style="list-style-type: none"> ● Plan and Organize ● Acquire and Implement ● Delivery and Support ● Monitoring

Source: Own elaboration based on Mendoza (2009), Contreras (2010), Rivas and Marquez (2011).

When talking about corporate governance, two main philosophies can be distinguished. On the one hand, we have the market model that focuses on capital markets and the creation of wealth for shareholders. On the other hand, the relationship model focuses on the relationships between

different groups of stakeholders in companies and their stakeholders. In correspondence to the studies carried out by Garde (2012), Gómez and Zapata (2013), the following corporate governance models are presented:

Anglo-American Model

For this model, it is key to identify the separation between the control of the company and the ownership of the capital that is which gives rise to dynamic financial markets. Likewise, the existence of a board of directors made up of external directors. Its disadvantage is the lack of control over management (Garde (2012).

German Model Listed

companies are governed by a board of directors made up exclusively of employees and a supervisory board, made up

50% of representatives workers and 50% by outsiders, shareholder representatives, executives of other corporations or financial institutions that have an interest in the company (Gómez and Zapata, 2013)

Japanese Model

The keiretsu work around a main bank, with ownership cross-shareholding and interconnected boards of directors The very close relationships between large banks and companies, the efficient use of savings from economic surpluses, the high quality of customers and low credit risk are key (Gómez and Zapata, 2013).

Table 6. Corporate Governance

Models	Anglo	German	Japanese
Structure	<p>Governing Bodies:</p> <ul style="list-style-type: none"> • Court of owners (shareholders' meeting) • Court of directors (board of directors). 	<p>Governing Boards:</p> <ul style="list-style-type: none"> • Board of Directors (manages the business) • Supervisory Board (interference in financial and investment decisions) 	<p>Governing Bodies:</p> <ul style="list-style-type: none"> • Keiretsus with several block shareholders, but without majority control • A major bank.
Advantages	<ul style="list-style-type: none"> • Separation between control of the company and ownership of capital. • Existence of a board of directors made up of external directors. 	<ul style="list-style-type: none"> • As a central element, there is the participation of Universal Banks. • Supported by large creditors with a long-term vision. 	<ul style="list-style-type: none"> • Long-term relationship between company members and workers. • Creation of vertically and horizontally integrated business networks.
Disadvantages	<ul style="list-style-type: none"> • Lack of control over management. 	<ul style="list-style-type: none"> • Lack of protection that small shareholders have. 	<ul style="list-style-type: none"> • Lack of control over management.

Source: Own elaboration based on Garde (2012), Gómez and Zapata (2013).

DISCUSSION

There is no doubt that family businesses will face multiple challenges and crisis situations during their life cycle, for which it is necessary to ask ourselves: Why What is complex for family businesses to implement internal control practices in their management To answer this question we must consider that family businesses often make centralized decisions, in management, which falls mainly on the owners of family businesses, resulting complex at this stage, begin to delegate functions and begin to delegate power, which until then only fell to one person

According to the studies carried out by Espinoza et al. (2021), Sanabria (2021), Vega and Ortiz (2018) in Peru,

Muller (2019) in Chile, López (2019) in Argentina, Arellana et al. (2020) in Colombia, Avilés and San Miguel (2021) and Puchaicela (2021) in Ecuador, which together To address the implementation of internal control practices in family businesses for the countries mentioned, they tell us that the COSO Model is the most used in the region, so it is the model with the greatest adaptations and evolution, on the other hand, it should be considered that the other two models COCO and MICIL have been based on some fundamental pillars of COSO, this is related to the theoretical review of the authors Mendoza (2009), Contreras (2010) and Rivas and Márquez (2011).

As time passes and the family business grows, in the same way, new people are part of the organization, operations,

documents and activities also increase, for the same reason the control needs are greater and not everything can be done by the owner of the business. the company, in this order of ideas another question arises: Can the components of the COSO Model be applicable to family businesses? From the research reviewed, we can mention that both the concept, as well as the components, principles, points of attention and tools of the COSO internal control integrated framework are applicable to family businesses in Latin America, in correspondence to the experiences of the studies carried out by Espinoza et al. (2021), Sanabria (2021), Vega and Ortiz (2018) in Peru, Muller (2019) in Chile, López (2019) in Argentina, Arellana et al. (2020) in Colombia, Avilés and San Miguel (2021) and Puchacela (2021) in Ecuador.

It should be considered that the COSO, COCO and MICIL models serve as internal control options for family businesses to recognize, apply controls and reduce errors, thus avoiding major risks that can greatly affect the organization. By clearly defining the functions in each chain of command, procedures and policies can be designed to be followed in the organization. Therefore, to build an adequate management environment, it is necessary to have an organizational structure, division of labor, division of responsibilities, commitment and ethics of all members of the organization, being able to apply the COSO model methodology.

Corporate governance practices in family businesses directly impact business decisions, cost decisions, financial decisions and personnel decisions, much of the corporate governance theory of the family business in Latin America has been built on the basis of agency theory and under an Anglo-American model that considers a family approach and economic approach.

Considering the studies carried out by Gómez and Fernandez (2021) from Peru, Vargas (2015) from Chile, Dragone (2019) and Cardoso (2020) from Argentina, Quirós (2018) from Colombia and Salazar (2018) from Ecuador, which together address the implementation of corporate governance practices in family businesses for the aforementioned countries, they tell us that the models of Tres Círculos, Five Circles and Three-Dimensional are the most recognized, which allow aligning the interests of owners and managers to the same end. All the models reviewed pursue the same purposes and the different definitions, although they are not identical, show a marked similarity, this is related to the theoretical review of the authors Amat (2004), Pereira (2006) and Molina et al. (2016).

It is necessary to ask ourselves why it is complex for family businesses to implement corporate governance practices in their management? Although family businesses face problems like those of any other type or organization, their administrative environment requires them to face different challenges, mainly affecting their validity over time, especially in successive processes and family conflicts

derived from the first, so that currently less than 40% of them survive the first and second generational change.

In this order of ideas, another question arises: Can the Anglo-American model of corporate governance be applicable to family businesses? Therefore, it is based mainly on the theory of agency, under the Anglo-American model and with a focus on the market and relations, this means considering market mechanisms and corporate control whose main objective is to protect the rights, assets and interests of the actors and adding in its structure to the family assembly and the family council.

CONCLUSIONS

- Regarding internal control in Latin American family businesses, according to the scientific literature reviewed, they point out that the COSO, MICIL and COCO models are the most applied, with the COSO model being the most used in the region for its better adaptability in the processes of implementation of control in the organization.
- As for corporate governance in Latin American family businesses, the agency theory is mainly supported and under an Anglo-American model that considers a family approach and economic approach, the revised models seek the same ends, they are not identical, but they keep similarity.
- Family businesses are a key driver of Global Growth and Economic Well-being in Latin America, yet less than 40% of them currently survive the change of the first generation, as they develop, they need to institutionalize their operations to ensure long-term value creation.
- In conclusion, the research carried out demonstrates the importance for Latin American family businesses of the study of approaches, as well as the analysis of success or failure in the implementation of internal control and corporate governance structures, to reduce possible conflicts between family, property and company.
- Finally, it is necessary to contribute to the establishment of internal control and corporate governance structures, through different mechanisms, mainly for family businesses of the first and second generations, in contrast to the high mortality rate they suffer in the different countries of the region.

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