

Viação Nordeste: What will become of us?

Viação Nordeste: o que será de nós?

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Keywords

Family business management.
Financial policy.
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Risk assessment.

Abstract

This teaching case looks into the situation of Viação Nordeste, a family-run road passenger transport firm founded in 1965 in Natal (a state capital in Northeastern Brazil). The case is centered around dilemmas of succession planning, generation conflicts and investment decisions during a financial crisis caused by poor management and lack of strategic alignment between directors. The case is intended as a support for small and medium firms (especially family firms) in need of urgent professionalization and succession planning. It also shows the importance of clear short- and medium-term financial policies based on accounting data to guide corporate planning and investment and funding decisions, thereby minimizing family conflicts and ensuring survival and sustainability. Using primary and secondary data, the case was designed for undergraduate Business, Economics and Accounting students and for graduate students in the disciplines of Corporate Finance and Management of Family Firms.

Palavras-chave

Gestão de empresa familiar.
Política financeira.
Decisão de financiamento e investimento.
Avaliação de risco.

Resumo

O caso para ensino sobre a Viação Nordeste, aborda a situação real de uma empresa familiar cinquentenária no segmento de transportes de passageiros, fundada em 1965, na cidade de Natal-RN. O dilema deste caso para ensino se dá em torno de uma empresa familiar que tem problemas de conflitos de gerações, sucessão da gestão e de problemas na tomada de decisões de investimentos e custos em médio e longo prazo, ocasionados pela falta de alinhamento estratégico entre seus gestores, e dos problemas envolvendo a gestão familiar da empresa. O estudo servirá para apoiar as pequenas e médias empresas na valorização da profissionalização e na compreensão da necessidade do planejamento da sucessão, especialmente em empresas familiares. Além dessa contribuição, o estudo propiciará, também, uma discussão sobre a importância de as empresas familiares possuírem uma definição clara de política financeira, de curto e médio prazo, para nortear o planejamento empresarial nas ações e decisões de financiamento e investimento, com a utilização de dados e registros contábeis, garantindo a redução dos conflitos internos e a sobrevivência e sustentabilidade do negócio. O caso para ensino foi construído a partir da coleta de dados primários e secundários, recomenda-se a sua aplicação em cursos de graduação em Administração, Economia e Contabilidade, nas disciplinas de Finanças Empresariais e Gestão de Empresas Familiares.

Teaching case information

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Practical implications

The dilemmas faced by an actual family firm in the road passenger transport industry can help small and medium firms in their own process of professionalization and succession planning, thereby reducing the incidence of family feuds and bankruptcy.

1 INTRODUCTION

Marcelo, a business manager, economist, member of the family and assistant director of Viação Nordeste, a family-owned firm in the road passenger transport industry in Natal (Rio Grande do Norte) founded in 1965, was strolling across the patio of the bus depot when he noticed some serious rust on the body of a Busscar, reflecting the situation in which the firm found itself. Based on experience, Marcelo believed the quality of the maintenance of the buses had a significant impact on the users' perceptions of the quality of the services rendered by the firm. He thought to himself: *"This company is in dire need of reform!"*.

The last quarter of the year 2011 brought with it the worst financial crisis Viação Nordeste had ever faced. The owners had been meeting to discuss the situation. Things had gotten worse after the death in 2008 of the firm's stalwart and enthusiastic founder, Severino Tomaz da Silveira. Moreover, informal competition was now encroaching on the business and company resources were poorly managed, threatening the firm's financial sustainability.

Feeling somewhat helpless, Marcelo knew what needed to be done, but lacked the necessary power of decision. But then Severino's heirs, who over the last years had been giving little attention to the business, decided to take on themselves the responsibility of managing the firm. Their first step was to support Marcelo in his difficult mission to restructure the firm's finances.

Having been empowered, Marcelo now felt ready for battle. The challenge was not merely a question of finances. Financial recovery depended on finding solutions to problems of succession and professionalization in a long-established family firm. One question after the other popped into his mind: *"Where to start? How to go about it? Who to consult? Will the firm's heirs grant me enough autonomy for decision making?"*. Regardless of the answers, Marcelo knew it would not be easy to win over the heirs. The responsibility and risk might have discouraged others, but Marcelo felt motivated and hopeful. The time had come!

2 BACKGROUND

The youngest of a family of nine, Severino Tomaz da Silveira was born on 28 July 1923 in the backlands of São José de Campestre, a town in the state of Rio Grande do Norte. The family led an almost nomadic life, migrating from place to place in search of work and farm land, until a malaria outbreak in the 1930s forced them to settle down in the state capital, Natal, which at the time held promises of a better living standard.

Upon arrival in Natal, Severino set out to find a source of income for his family. The nearby town of Parnamirim harbored a large military base which during World War II served as a jump-off point for the US Air Force under the code name 'Trampoline to Victory'. This meant job opportunities which Severino was quick to take advantage of. In 1942, he worked as a driver during the construction of a road connecting Natal to Parnamirim. That is how he started his career in transportation.

Gathering all his savings, Severino bought his first truck and started freighting. He traveled back and forth between major cities in Northeastern Brazil, including Recife (Pernambuco), Fortaleza (Ceará) and Campina Grande (Paraíba), but eventually realized he could also make money carrying passengers. Soon his truck was converted into a 'bruck', combining goods and passenger transport.

In 1957, Severino acquired his first bus (locally referred to as a *marinete* or *jardineira*), with a passenger capacity of 18. His first route was Natal-Recife, a line he shared with a firm called Chaveta, which was eventually taken over by a larger operator. The passenger transport business turned out to be more difficult than expected: competition from better-funded firms was strong and maintenance was costly due to wear and tear on the shabby roads. Severino decided to sell the line.

Once recovered financially, Severino started operating a bus service between Natal and Fortaleza. This was the beginning of the company 'Expresso União'. Business was going well until Severino's manager had the idea of raising the fare above the officially permitted rate. This entailed the forfeiture of the right to exploit the route, leading to the closing down of 'Expresso União'.

Then, on 25 December 1965, with the help of his wife and children, Severino founded 'Viação Nordeste Ltda', the business he would run until his death. The first route (Natal-Fortaleza) was served by three buses, but soon other routes were added (Natal/João Pessoa, Natal/Mossoró, Natal/Campina Grande, Assú/Lajes, Mossoró-Fortaleza, and others), totaling 17 lines and 56 stopovers. After over 50 years of existence, the firm now owns more than 100 buses and is manned by 400 or so employees.



Figure 1. Depot of Viação Nordeste, 1965

Source: Viação Nordeste

3 THE BEGINNING OF THE CRISIS

Viação Nordeste Ltda. had grown steadily since its foundation. This was not achieved without much commitment and persistence on part of its founder. In fact, Severino was still at the helm when he died in 2008.

Severino and his wife, Maria Cândida da Silveira, owned 60% of the firm, while the remaining 40% was equally distributed between their four children (Diogo, Henrique, Maria Augusta, and Cláudio Mário). When Severino died, Maria Cândida retained her 30% of the firm while Severino's part was transferred to their children in equal parts, leaving each one with 17.5%.

At this point, the youngest child, Diogo, took over the management of the firm and for a while was nearly the sole decision maker. His three siblings remained only loosely connected to the firm for personal, professional or health reasons.

Three years after Severino's death, Viação Nordeste experienced a severe financial downturn. Most of the owners believed the situation was the result of a combination of adverse events: declining bond value, competition from clandestine transportation companies, and the rise in the price of fuel and oil derivatives.

The crisis even compromised the firm's revenues for the last quarter of 2011, which is usually the most profitable season of the year. Diogo called a meeting with all the owners and informed them that Dalva, one of the firm's oldest and most important office workers, would have to be terminated. He also explained that the firm had no cash flow, nor credit enough with suppliers to pay the employees' wages and cover the costs of the daily operation of the service.

The assistant manager, Marcelo, was deeply saddened by this news. His power of decision in the firm was very limited and he thought to himself: *"Viação Nordeste is about to fail; if a serious change in direction is not made now, the firm is doomed"*. The imminent disaster was felt by all the employees. This was evident from comments like *"what will become of us?"* and *"the firm is about to kick the bucket"* (or "kick the bus", as some would say).

The change came before the year 2011 was out. Overcome by the financial crisis, Diogo decided to resign from his position as general manager. This brought his elder brothers, Henrique and Cláudio, to the helm of the firm in an attempt to effect a financial recovery. Using the managerial experience acquired outside Viação Nordeste, they were now trying to turn the family ship around and steer it into safer financial waters.

Since the death of the founder, the corporate charter had remained unchanged. The document contained only one article related to management. It specified that contracts for goods, real estate and loans involving large sums had to be signed by at least two of the owners, while smaller transactions could be made routinely by the manager, with no need for approval.

Marcelo was now formally put in charge of the financial control and the cash flow, a responsibility he had assumed once before, in 2007. This made him feel empowered and motivated to restore the firm's credibility and raise the quality of the service.

4 INFORMAL COMPETITION

Over the last 10 years, the formal road passenger transportation industry in Rio Grande do Norte has seen a steady decline in activity and earnings, and some well-known firms have folded, including Brandão, Transul, Unidos, Oeste and São Cristovão. Operation and maintenance have become nearly unfeasible with the emergence of low-fare clandestine operators. Currently, the State of Rio Grande do Norte is served by 2,348 clandestine vehicles, covering 75% of the territory. This caused the extinction of 87 bus lines over a period of 15 years, along with the loss of 500 formal jobs as the result of closures. According to the State Department of Road Transportation, in 2014 the state had 135 active intercity bus lines carrying on average 4 million passengers a month.

Like many other firms, Viação Nordeste was threatened by this informal competition. There seemed to be no hope of restoring the firm's past glory until news broke about a grand event which promised to bring lasting change to the industry: The 2014 World Cup.

5 THE WORLD CUP IS FAR OFF ... WE HAVE PLENTY OF TIME!

Government officials, politicians and celebrities were keeping their fingers crossed that Brazil would for the second time have the honor of hosting the World Cup, with all its associated benefits: a shower of foreign investments, new jobs, tourism and greater international visibility for the country.

The 2014 World Cup provided an opportunity for the country to modernize its infrastructure and showcase not only its ability to organize events of this magnitude, but its economic potential to attract investments and its prospects as a future major travel destination.

As part of the project for 2014, the country needed to procure resources to cover the expenses with the construction or rebuilding of the stadiums required for the event. This was done through a public/private sector partnership carrying out a complex plan within the technical specifications and time frame determined by FIFA (see Appendix 1).

A few years earlier, the country's president, Luiz Inácio Lula da Silva, had pledged funds to the tune of BRL 50 billion through a 'growth acceleration program' (PAC). These resources would now help prepare Brazil for the World Cup. In 2008, the Ministry of Tourism estimated that BRL 38.51 billion would be invested in transportation alone, especially in subways and dedicated bus lanes in major cities, including the ones now preparing to host the event. Natal, the capital of Rio Grande do Norte, would be hosting some of the matches. The same was true for two other Northeast Brazilian state capitals: Recife and Fortaleza—the port of entry closest to Europe.

This was exactly what Viação Nordeste needed: incentives and new customers. The firm already owned bus lines connecting three of the states chosen to host games (Rio Grande do Norte, Paraíba and Ceará). Marcelo started to realize that *"This might be the right moment to invest, expand the fleet, diversify the routes, and create new lines to other host cities? If the company went public, perhaps there would be capital to carry out these plans?"*.

6 THE FINANCIAL SITUATION OF THE FIRM: DECISION MAKING

In the years 2012 and 2013, through much effort, the accounts of Viação Nordeste were brought under control, unnecessary expenses were avoided by improving oversight and audits, cash flow was reestablished, debts were paid or renegotiated, and credibility was gradually restored. In early 2012, the firm's cash balance was around BRL 200 thousand (Appendix 2 and 3).

Marcelo established goals for the recovery of the firm's financial situation: unsettled accounts with banks, old debts to suppliers, blacklisting with credit protection services, and protests filed with registry offices were resolved one by one. His motto was *"step by step, without straying from the target"*, and he meant business! At this pace, he was hoping to reach the end of 2014 with cash reserves in excess of BRL 1 million.

The owners of the firm were now looking to invest in new (or second-hand) equipment, following the national trend of seizing the business opportunities generated by the upcoming World Cup. At an average age of over 15 years and high maintenance and operating costs, the firm's fleet needed to be renewed urgently.

On the other hand, the firm was undergoing financial recovery and needed to build up capital. At the time, Viação Nordeste did not have access to public or private funding large enough to purchase new vehicles (Figure 2). The only funds available were those of the cash reserve.

To make the investment possible, Marcelo explained to the owners that the purchase of vehicles could be timed to coincide with periods of peak revenues. This way the cash reserves and the contracts with suppliers would not be compromised.

Marcelo held countless meetings with the owners insisting on the need to monitor corporate indicators more closely. At times, the discussions were heated. On one occasion, Marcelo had scrutinized the history of the firm's financial management and, with all the facts at hand, stood the owners up against the wall, forcing them to take a professional stance.

To everyone's surprise he said: *"I will be turning in my resignation in two months, but until then I want to leave everything in good working order. I have pulled us out of the crisis and restored the firm's financial health, but soon you will have to take the reins. We need to define a financial policy now, and you should be implementing the tools I have introduced. If you are not up to the task, then top management will have to be professionalized"*.

Somewhat annoyed, Henrique said: *"I don't understand what you want, Marcelo. We have turned the ship around, we are beating the crisis, and the future looks bright. Now, all of sudden, you want to get off the bus! Or perhaps you want to hand the firm over to someone else?"*.

As was his wont, Diego interrupted in order to quench the escalating controversy: *"Calm down. Nobody is getting off the bus. You can let go of that stop cord. We are all together in this, and we have to listen to each other. We all have the firm's best interest at heart, but have many other things in life to take care of. If you put too much pressure on us, we'll simply go off our rocker. Later, when things have cooled down, we can sit together and work this out. And what's more: the World Cup is still far off"*.

But the tension persisted, no plans were made, Marcelo did not get off the bus, and the owners, who were overconfident in their managerial experience, did not heed the warnings or fully understand the concepts of efficient management and cash flow.



Figure 2. One of the buses purchased in 2013

Source: Sérgio José, 2013

In 2013, operating costs surged due to the increase in fuel and electricity prices and wages, along with the investment in new vehicles (Table 1). The firm was negotiating an agreement with the internal revenue service to pay off outstanding income tax, social security and value-added tax in a single fiscal recovery package called 'Refis da Copa'. The monthly payment was very high, and it was feared it would jeopardize the firm's earnings. This, however, did not happen.

Table 1. Buses purchased in 2013

Item	Date of purchase	Model	Make	Amount (BRL)
1	1/31/2013	Busscar	Mercedes Benz	222,000
2	1/31/2013	Busscar	Mercedes Benz	230,000
3	3/15/2013	Marcopolo	Mercedes Benz	290,000
4	4/8/2013	Marcopolo	Mercedes Benz	290,000
5	9/4/2013	Marcopolo Viaggio	Mercedes Benz	320,000
6	12/19/2013	Busscar Panorâmico	Mercedes Benz	497,900
Total				1,849,900

Source: Viação Nordeste

Marcelo was once again in a quandary, wondering if the firm had incurred risks in vain? Doubts were whirling around in his head, but one thing he was certain of: he had to act!

7 TEACHING NOTES

7.1 Source of data

This teaching case was based on primary data collected through interviews with directors, balance sheets, accounting reports and financial reports provided by the firm, and on secondary data retrieved from the academic literature, news reports and the internet. The firm granted permission to publish and use the case for teaching purposes and to use the actual names of the firm, its founder, and its financial director. All other names were changed to protect the privacy of the people involved.

7.2 Teaching objectives

The reading and discussion of this case is intended to develop the following skills and competences: a) discussion on the management and succession of family firms, with their unique traits, complexity and sensitive issues; b) analysis of how the professionalization of family firms is planned and implemented; c) analysis of the market in which a firm operates, along with the opportunities, risks, action plans, and public policies directly or indirectly influencing it; d) analysis of balance sheets, trial balance and income statements, and how this analysis affects decision making in a road transport company.

7.3 Suggested use in and outside the classroom

This teaching case is presented along with a proposal intended to support the teaching-learning process through an active teaching approach. The proposal may be adapted according to the need for motivating the participants—whether they be students, teachers or facilitators—and encouraging them to participate actively in a shared experience.

We recommend using the teaching case in classrooms, workshops and in-person seminars, but it may also be combined with extra-classroom and remote activities or distance learning. In the classroom the teacher/instructor would explain the methodology, talk with the students/participants about the purpose of the scheduled activities, and outline expected remote or distance learning activities, such as reading assignments and discussions.

At this point, the teacher/instructor should identify the contents/subjects to be researched for the case, familiarizing the students/participants with the topic and showing how the activity intersects other disciplines and what professional skills and competencies it is intended to develop. The process of evaluation should also be explained.

Extra-classroom and remote activities or distance learning could be initiated by instructing the participants/students to read selected texts providing a background for the case study. Subsequently, discussions in small groups can be held online to share knowledge about concepts applicable to the case. Groups with 4 to 8 participants produce an ideal dynamic with this methodology.

When the time comes to introduce the case to the participants/students in a meeting (in-person or synchronous virtual/in-person), the teacher/instructor may start with an overview of the topic, then distribute the text for individual reading (approx. 20 min).

The class is then divided into groups of 4-8 participants each. The teacher/instructor assigns topics for intra-group discussion, with emphasis on seeking solutions to the problem presented in the case. It is recommended to allow each group 15 min for this step, taking into account possible individual academic limitations. At this point, the groups should be ready to present their findings to the rest of the class. Notes of the intra-group discussions should be made before sharing with the rest of the class.

In order to make the debate more dynamic and better organized, each group should appoint 1 or 2 members to present the proposals of their respective groups. These representatives will make up a virtual round table mediated by the teacher/instructor. Based on the teaching notes (and any additional tools of choice), the teacher/instructor can guide the debate, informed by the proposals of each group as they are presented.

Note that the suggested dynamics may be complemented or otherwise adjusted according to circumstances: the capacity of the classroom, the different premises used for each step in the process, the students' academic level, the availability of teaching materials, and other factors directly or indirectly influencing the use of the teaching case.

7.4 Recommended use

The teaching case was designed for undergraduate Business, Economics and Accounting students and for use by graduate students in the disciplines of Financial Management, Business Management, Personnel Management, Accounting, Corporate Finance, and Management of Family Firms.

7.5 Topics for discussion

Below are some topics which may be used to subsidize the analysis of the case during the classroom discussion.

a) Use a diagnostic management tool to identify the risks involved, and other appropriate tools to identify measures capable of minimizing these risks.

This teaching case has a conceptual character, that is, it is 'open', allowing students to exercise their ability to innovate. However, regardless of the solution proposed, the subsequent step should be to determine the strengths and weaknesses of the proposal, aided by tools. This furthers the problem-solving and decision-making process and fosters a critical approach.

Students can use a range of diagnostic and problem-solving tools for the task. For example, Ishikawa diagrams and the Pareto principle are useful for diagnosis, whereas brainstorming, brainwriting and MDPO can help find solutions. The choice between alternatives can be aided by SWOT analysis, decision trees, criteria weighting, and equilibrium point analysis (Maximiano, 2007, p. 89-101). A risk matrix is a helpful visual tool when dimensioning priorities (PMI, 2017).

Students are also encouraged to organize actions and their potential consequences in the form of diagrams. This control may be conducted loosely as a way of stimulating analysis of the effectiveness of each action, or more rigidly as a way of presenting prospective models, using methods like GBN and Godet.

b) Eighty percent of Brazilian firms are family owned. Only 12% of these survive into the third generation, indicating poor management (essentially lack of impersonality, lack of a succession plan, and lack of financial control). Considering the available information on Viação Nordeste and the void left by the death of its founder, what measures should have been taken by the directors? Were their actions appropriate? How to tackle the problem of succession without too much controversy?

The students can start the debate by analyzing the classic management model, that of the family firm, in which executives, managers and directors belong to the same family and no clear rule or model of succession exists. Many firms in Brazil and around the world are "Ltd.", usually run by members of the same family, some more efficiently than others. According to Vidigal (1996), with the exception of government organizations, all firms originate with a founder or group of founders (most often a family) who remain controllers and whose children inherit their respective shares or bonds.

Prior to 1850, few firms in Europe and North America had a sufficient administrative structure. In other words, hired managers were an exception. The vast majority were family firms managed entirely by two or three relatives. Usually, the company president doubled as the treasurer or supervisor of purchases and sales through a network of representatives. However, over time some firms grow too large to be run by small family groups, creating a niche for professional management.

There are countless examples of firms that started out as family businesses and experienced serious managerial setbacks after the death of their founders. Not planning for succession, not having an efficient project of resource management and not having a professional management structure are a high risk for a firm to take. Successful firms have been seen to fail and fold on surprisingly short notice. Exceptions aside, the first steps in adequate management of family firms are innovation, professionalization and an adequate succession plan.

When succession is adequately planned for, including strategies and arrangements for the transfer of power and capital, small and medium firms are more likely to remain profitable, as compared to firms in which succession is abrupt and unexpected. In fact, for many consultants' succession is the decisive moment in the survival of a firm, and the way a firm deals with it will determine all future business prospects (Leone, 2004).

As shown by Leone, Silva and Fernandes (1996) and Leone (2004), succession in family firms is a hotly debated issue. Generally speaking, Brazilian entrepreneurs rarely make plans for power transfer, as if they expected to remain in control forever. The lack of succession planning is also a major cause of family conflicts, but succession is no simple matter, requiring extensive planning and arrangements.

The above authors observed different levels of conflicts: the founder's hesitancy to pass on the torch, the founder's uncertainty regarding the choice of successor, and strife between potential successors, as in the case of Viação Nordeste.

The authors explained that in case of discord between potential successors, such as intrigues and struggle for power, each contender tries to prove his or her ability to run the firm, even to the detriment of the siblings' interests. Contenders' desire for status and prestige in society and for greater purchasing power can destroy a firm and its assets. The bitterness and enmity between heirs resulting from succession conflicts are known to have brought down empires, let alone family firms.

This explains why some scholars do not believe in the success of family firms, viewing them as bound to fail amidst conflicts and tensions. On the other hand, Leone (2004) concluded that the survival of family firms depends on planning and the observance of rules of interaction between family and firm. Succession is not a natural process that will take care of itself if the directors do not prepare for and discuss it in a timely manner. Organization and planning of succession are essential if the firm is to preserve its position on the market.

c) Family firms tend to have problems with consensus at times of decision making. Describe what happened in the case and propose measures to attenuate this recurring problem in family businesses. Could the management of the firm have acted more professionally?

Peçanha and Oliveira (2015) describe succession and professionalization in family firms as crucial moments for several reasons. The departure from family ideals and values and the struggle for power between heirs can generate damaging turbulence, from both the economic-financial and the behavioral perspective.

Santos, Sehnem and Santos (2019) recommend that, from the outset, family firms be treated like professionalized firms by adopting long-term strategies, including succession planning. The authors also identify measures capable of mitigating succession problems, such as administrative mechanisms and family boards implemented within a framework of corporate governance.

To do so requires changing the control and ownership structure and specifying the distribution of rights between stakeholders, such as board members, directors, and shareholders. Family issues should be kept separate from business and property issues, protecting the organization against internal strife. The sooner family, property and management are disassociated, the better. The early structuring of management with the formal acceptance of the family members can prevent a range of conflicts during the professionalization process (Santos, Sehnem & Santos, 2019).

The professionalization of family firms is not merely an organizational matter. The change in structure should always be preceded by the controllers and owners' awareness of the need to keep family, property, and management apart. On the other hand, professionalization does not imply the disenfranchisement of family members and directors, but only that manager be selected and evaluated based on criteria of vocation and competence.

In the present case, Marcelo tried to make the family aware of the need of professionalization but was ultimately unsuccessful. He even considered leaving the firm to gain more credibility on the market and have greater sway with the firm's partners.

d) Once you have understood the risks and complexity of running a family firm and analyzed the financial data provided, consider the best course of action if you were in Marcelo's place?

Marcelo had a very difficult task ahead of him: to persuade the directors that the best time for investment was not the time touted as such. Timing is extremely important when making investments, as is investor profile (conservative, moderate or aggressive).

In the corporate setting a particularly careful risk analysis is necessary. Every decision entail risks, especially in the long term, which must be assessed. Factors like return on investment and corporate sustainability have a direct impact on decision making and the choice of investment (Frezatti, Bido, Cruz, Barroso & Machado, 2012).

Despite the opportunities for growth and hefty profits in the public and private sectors announced for the upcoming 2014 World Cup, the dire situation of Viação Nordeste in the road passenger transport industry and the huge challenges lying ahead, both organizational and competition-wise, warranted a conservative approach to investment, avoiding unnecessary short and medium-term risks and prioritizing long-term benefits.

e) Based on the figures provided, perform calculations to support your decision.

A company's income statement is a core financial statement showing income and expenditures over a given period. When the latter is subtracted from the former, the remaining balance is the net income (Hasanaj & Kuqi, 2019). The governing objective of a firm is to maximize shareholder wealth and, consequently, the wealth of managers and employees (Gitman, 1997).

Gitman (1997) adds that the actions of the financial manager about financial analysis and planning and investment and funding decisions should be in harmony with this overarching goal of the owners and shareholders. To this end, decision making must consider return (cash flow) and risk. One of the basic tenets of financial management is the opposition between return (cash flow) and risk. Shareholders are risk averse.

Before making a decision it's important to verify if the firm has sufficient short-term liquidity to cover its obligations. Liquidity is a measure of a firm's ability to cover short-term financial obligations on the due date. According to Forti, Peixoto and Freitas (2011), liquidity brings with it important benefits, such as investment opportunities and funding of the firm's own activities.

Initially, the question regarding liquidity may be answered by calculating the working capital, the current ratio, and the quick ratio.

i) Working capital, used to estimate a firm's overall liquidity:

Working capital = current assets – current liability

Working capital of Viação Nordeste (2012) = BRL 7,678,571.58 – BRL 13,731,495.11 =
(-BRL 6,052,923.53)

Working capital of Viação Nordeste (2013) = BRL 7,722,846.82 – BRL 18,777,661.62 =
(- BRL 11,054,814.80)

The negative working capital in 2012 was further reduced by 83% in 2013, suggesting an update of the accounting figures or resource allocation for investment occurred in this period. As an indicator, working capital is not very useful when comparing the performance of different firms, but it is useful for internal control and may be employed in assessments for long-term loan agreements, indicating the minimum liquidity the borrower is required to sustain.

ii) The current ratio measures a firm's ability to fulfill short-term obligations.

Current ratio = current assets/current liability

Current ratio of Viação Nordeste (2012) = BRL 7,678,571.58/BRL 13,731,495.11 = 0.55

Current ratio of Viação Nordeste (2013) = BRL 7,722,846.82/BRL 18,777,661.62 = 0.41

The 25% decrease observed from 2012 to 2013 is reason for concern. An acceptable current ratio would be approximately 2.0, depending on the type of business. A rate of 1.0 is acceptable for public utility organizations but also for some industries. In this case, liquidity would equal zero. Rates below 1.0 are synonymous with negative liquidity. This is the case of Viação Nordeste, the rates of which indicate negative liquidity in two consecutive years, with no sign of improvement, compromising the firm's ability to cover its obligations.

iii) The quick ratio equals the current ratio minus the firm's prepaid expenses and inventory (i.e. the firm's least liquid assets).

Quick ratio = (current ratio - inventory)/current liability

Since Viação Nordeste, a road passenger transport company, has no inventory (intangibles assets cannot be stocked), the quick ratio and the current ratio are identical.

Quick ratio of Viação Nordeste (2012) = 0.55

Quick ratio of Viação Nordeste (2013) = 0.41

Based on these calculations, the directors should avoid making short-term investments. The financial statements suggest it would not be feasible to increase the owners' wealth by purchasing new vehicles. The negative current ratios for 2012 and 2013 (83% worsening in one year) advise against taking long-term loans. Moreover, the other rates indicate an immediate lack of resources to meet short-term obligations. The current rate and the quick rate are below 1.0, with a 25% decrease from 2012 (0.55) to 2013 (0.41), making short-term and long-term investments very risky. Such investments would compromise operations and could even lead to bankruptcy.

Despite the good will of the directors and their faith in the investment opportunities offered by the 2014 World Cup, things did not turn out as expected. The government funds announced for investments in urban mobility (specifically urban transportation) were reduced by 56% (from BRL 8,727,712,473 to 3,825,526,776). An even larger decrease (71%) was seen in Natal (from BRL 1,546,343,428 to BRL 446,254,759). While the government reduced or reallocated investments, the directors of Viação Nordeste, failing to observe the trend in public investments.

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APPENDICES

Appendix 1 - Government investments in the 2014 World Cup

Overview: Financial execution of projects

Host cities	Projects	Amount in BRL	
		Contracted	Executed
Fortaleza	26	1,769,772,583	918,098,191
Natal	22	973,524,198	446,254,759
Recife	36	1,425,124,656	534,431,106

Area	Projects	Direct allocation of funds in BRL			
		Expected	Executed	Difference	Variation
Airports	30	6,280,560,000	7,551,598,688	1,271,038,688	20.24%
Development of tourism	88	172,206,340	9,716,020	- 162,492,320	-94.36%
Urban mobility	44	8,727,712,473	3,825,526,776	- 4,902,185,697	-56.17%

Host cities	Projects	Direct allocation of funds in BRL			
		Expected	Executed	Difference	Variation
Fortaleza	26	1,642,190,650	918,098,191	- 724,092,459	-44.09%
Natal	22	1,546,343,426	446,254,759	- 1,100,088,669	-71.14%
Recife	36	1,673,137,144	534,431,106	- 1,138,706,038	-68.06%

Source: Transparency portal for the 2014 World Cup

Appendix 2. Income statement

Viação Nordeste Ltda.		
Income Statement - Consolidated		
	2012	2013
Gross operating revenues	12,703,344.55	13,136,102.88
Revenues from interstate passenger transport	7,630,513.81	7,226,592.60
Revenues from intercity passenger transport	4,402,110.56	5,241,915.72
Freight and cargo	670,720.18	667,594.56
Sales deductions	- 2,880,983.35	- 3,119,915.16
Net revenues	9,822,361.20	10,016,187.72
Cost of goods/services provided	- 6,513,165.35	- 11,414,334.30
Gross profits	- 3,309,195.85	- 1,398,146.58
Operating expenses	- 3,781,879.42	- 3,569,281.18
Sales expenses	- 1,815,685.11	- 1,866,645.51
Fixed expenses	- 1,144,346.30	- 507,910.00
Expenses with ticket sales and agency	- 67,632.43	- 39,913.82
Variable expenses	- 603,706.38	- 1,318,821.69
Administrative expenses	- 1,841,397.57	- 1,561,858.50
Net financial expenses	- 121,269.88	- 125,372.80
Financial expenses	- 121,540.55	- 125,372.80
Financial revenues	270.67	-
Tax paid	- 3,086.62	- 15,404.37
Other operating expenses	- 440.24	-
Other operating revenues	3,772.70	-
Other operating income	- 468,910.87	- 4,967,427.76
Operating income with fixed, variable and sales expenses	1,493,510.74	- 3,264,792.09
Results before financial expenses	1,467,798.28	- 2,960,005.08
Operating profits (operating revenues - financial exp.)	- 347,640.99	- 4,842,054.96
Results before taxes	- 465,824.25	- 4,952,023.39
Net result of the fiscal year	- 465,138.17	- 4,967,427.76

Source: Viação Nordeste

Appendix 3- Balance sheet

ASSETS	2012 1000 BRL	2013 1000 BRL	LIABILITIES	2012 1000 BRL	2013 1000 BRL
CURRENT	7,678,571.58	7,722,846.82	CURRENT	13,731,495.11	18,777,661.62
Cash reserve and cash at bank	489,334.06	47,237.44	Loans and funding	548,544.44	560,298.03
Cash equivalents	135,605.19	132,641.46	Tax liabilities	7,324,636.21	9,962,885.66
Accounts receivable	398,555.07	443,194.21	Labor and social security liabilities	5,845,919.23	8,240,416.03
Judicially blocked assets	49,809.05	94,448.19	Other liabilities	12,395.23	14,061.90
Other credits	892,030.60	1,335,878.19	NONCURRENT	10,807,938.38	10,807,938.38
Prepaid expenses	5,763,046.66	5,763,895.52	Long-term payables	10,807,938.38	10,807,938.38
NONCURRENT	6,698,283.05	6,732,746.56	Loans and funding	1,504,652.46	1,504,652.46
Long-term assets	2,642,125.55	2,676,589.06	Labor and social security liabilities	8,600,898.45	8,600,898.45
Refundable payments and restrained balance	88,639.16	123,102.67	Long-term provisions	702,387.47	702,387.47
Credits in joint ventures and leases	1,873,630.75	1,873,630.75	EQUITY	- 10,162,578.86	- 15,130,006.62
Prepaid expenses	679,855.64	679,855.64	Capital stock	2,500,000.00	2,500,000.00
Investments	7,633.66	7,633.66	Capital reserves	17,484.63	17,484.63
FIXED	3,924,328.71	3,924,328.71	Accumulated results	- 12,680,063.49	- 17,647,491.25
Operating assets	6,207,433.80	6,207,433.80	Accumulated profits (losses)	- 12,211,152.62	- 12,680,063.49
Other tools and equipment	472,787.63	472,787.63	Losses in the period	- 468,910.87	- 4,967,427.76
Accumulated depreciation	- 2,283,105.09	- 2,283,105.09			
Intangibles	124,195.13	124,195.13			
Total ASSETS	14,376,855	14,455,593	Total LIABILITIES	14,376,855	14,455,593

Source: Viação Nordeste