Fly High but not Above me: A Corporate Governance Teaching Case At Smiles

Voe Alto, mas não Acima de Mim: Um Caso de Ensino sobre Governança Corporativa na Smiles

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ABSTRACT

This study shows the relationship among the Smiles 'minority and majority shareholders. Facts are presented in which the holding company, Gol Air Lines, took decisions about the subsidiary, such as, changes in the earnings policy, advance purchase of airline tickets and announcement of non-renewal of contracts between the companies. These decisions resulted in a devaluation of the mileage company's shares, did not please minority shareholders and had an impact on the relationship between the two companies. It should also be noted that Gol, as the majority shareholder, seeks the total reintegration of the mileage company into its assets, removing its administrative and legal independence. Therefore, the study presents a main dilemma: Should the incorporation of Smiles by Gol take place even if the minority shareholders are harmed? The pedagogical targets of the study involve: discussing the existence of agency conflicts between the companies, discussing the implications of the negotiation terms for minority shareholders and, finally, analyzing how corporate governance actions can mitigate possible conflicts. The analysis of the study can be carried out with graduate and post-graduate students of Management, Economics and Accounting courses. Furthermore, this study enhances the discussion on the use of corporate governance as an instrument to align interests and mitigate agency conflicts, based on a real situation of two large companies listed on the Stock Exchange.
Keywords: conflict of interest; main-main relationship; corporate governance.

RESUMO

Este caso retrata a relação entre os acionistas minoritários e o majoritário da Smiles. Apresentam-se fatos em que a controladora, a Gol Linhas Aéreas, tomou decisões sobre a controlada, como, por exemplo, alteração na política de proventos, compra antecipada de passagens aéreas e anúncio de não renovação de contratos entre as firmas. Essas decisões resultaram

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RESUMO

em uma desvalorização dos papéis da empresa de milhagens, não agradaram os acionistas minoritários e trouxeram impactos na relação entre as duas empresas. Destaca-se, ainda, que a Gol, como acionista majoritária, busca a reintegração total da empresa de milhagens para os seus ativos, retirando a sua independência administrativa e jurídica. Nesse sentido, o caso apresenta um dilema principal: A incorporação da Smiles pela Gol deverá ser feita mesmo que os acionistas minoritários sejam prejudicados? Os objetivos pedagógicos do caso envolvem: discutir a existência de conflitos de agência entre as companhias, discutir as implicações dos termos de negociação para os acionistas minoritários e, por fim, analisar como as ações da governança corporativa podem mitigar os possíveis conflitos. A análise do caso pode ser realizada junto aos alunos de graduação e pós-graduação dos cursos de Administração, Economia e Contabilidade. Ainda, este caso potencializa a discussão do uso da governança corporativa como instrumento para alinhar interesses e mitigar conflitos de agência, a partir de uma situação real de duas empresas de grande porte listadas em Bolsa.
Palavras-chave: conflito de interesse; relação principal-principal; governança corporativa.

Introduction

Barueri – São Paulo, August 9, 2021, Monday, noon. Júlio Castro, a renowned researcher in the corporate governance field, was sitting in his office when he received a call. On the other end of the line was the representative of Smiles' board of directors, inviting him to act as an independent director of the company.

Although surprised by the invitation, Júlio wondered what reasons led to the need for a new director for the company. He had already been following, for some time, in the news, some events in the relationship among the shareholders of this company, such as the fact that Gol Air Lines, controller of Smiles, was trying to incorporate it, demanding Smiles to purchase in advance, tickets from the airline, in addition to influencing the mileage company's earnings policy and not renewing commercial contracts.

Smiles was a mileage company and was gaining space in the market through constant marketing strategies. Gol was an airline that operated with low-cost ticket sales in both the national and international markets, however, it was experiencing financial difficulties. Smiles was Gol's main commercial partner and vice versa. Together, they conquered a large share of the airline ticket market and became leaders in the domestic market.

That afternoon, Júlio went to the Smiles headquarters, located in the same city. When he arrived, with his height of one meter and seventy-five, he went around the back of his car and was soon greeted by the director of the company and then they went to a meeting room. Upon hearing the board, Júlio realized that there were issues involving Smiles' corporate governance, since the minority shareholders were discussing the merger with the majority shareholder, however, the negotiations were not progressing, depending on the opinion of the independent director.

During the conversation, Júlio understood that the news of the merger did not please the Smiles' minority shareholders, with the justifications that the terms of the negotiations were not being favorable and that they had to become shareholders of a business model totally different from the one they had initially invested. On the other hand, the holding company wanted to enter in Novo Mercado, where companies with good governance practices are located, requiring a corporate structure reformulation. In addition, Gol wanted to have more flexibility to dictate the rules for converting miles into tickets, including in terms of price and cost.

For Gol, due to the increased competitiveness in the market, the merger would be viable due to the company's profitability increase possibility working together. However, the mileage company incorporation announcement by Gol came at a time when Smiles shares were experiencing low volatility, although, with this decision, the shares of both companies became more volatile and, therefore, had negative implications in the mileage company value and airline's share valorization.

As there was no progress in the negotiation rounds and in the meetings to decide to accept the merger terms, and a tie in the number of votes. As an independent advisor, Júlio will be able to change the negotiations and will have the right to vote. If, on the one hand, the minority shareholders do not want the merger, on the other hand, there is the majority, which holds the Smiles shareholding control. Therefore, should the incorporation of Smiles into Gol take place even if the minority shareholders are harmed?

GOL – Smiles Relationship Advent

The next day, in the morning, Júlio sat in front of the computer and started looking for information about the appearance of the relationship between Gol and Smiles. The Smiles investor relations website said that its mother company, Viação Aérea Rio-Grandense (VARIG), founded in 1927, was the largest air company in Brazil from the 1960s and 1980s, being a world reference in the quality of air services. To be within the world's largest companies, VARIG created the VCLUB program, which aimed to build customer loyalty and reduce the likelihood that they would migrate to other companies.

VCLUB underwent a restructuring process in 1994 and was renamed Smiles. In 1997, VARIG joined the Star Alliance shortly after its creation, being the first and largest airline alliance in the world. This alliance was founded by Air Canada, Lufthansa, Scandinavian Airlines, Thai Airways International and United Airlines and aimed to better meet the needs of frequent international travelers. Furthermore, this alliance offered operational support between the companies and promoted greater comfort and convenience to customers.

With the market increasingly competitive and airlines experiencing financial difficulties, on June 17th, 2005, VARIG filed for judicial recovery and a portion of the company's assets was sold to honor its commitments. Consequently, VARIG was divided into two, FLEX, which was the former VARIG, and which continued with the lawsuit and URG Air Lines, which in the structure held the Smiles mileage program. In 2006, URG was purchased at auction by the former subsidiary, VARIG LOG, and finally purchased by Gol in 2007.

After a few minutes, Júlio erected in the chair and started watching a business interview with a stock exchange analyst.

- At the time of purchase, how was the market analyzing the Smiles program in financial terms? Said the interviewer. She had blue eyes and a steady voice.
- The Smiles program, for a long time, was considered a liability of Gol, as it had a high volume of miles to be redeemed as tickets. The analyst spoke in a hoarse voice.

He had very dark brown eyes, and when he smiled, you could see a tiny gap between his front teeth.

- And as for the operational part, was there a greater possibility of revenue? Asked the interviewer.
- On the contrary, there was customer dissatisfaction regarding the operational limitation to which the program was subjected at the time, since the service portfolio decreased, in addition to travel destinations, which went from one thousand to just fifty.

Julius aroused enormous curiosity regarding the study developments and a wide smile spread across his face. Thus, he continued to watch the interview and discovered that the frequent flyer program began to develop a department within Gol, in which the airline had alliances with several companies and, with a strategic vision, was responsible for expanding the program.

The choice of partners, along with several promotions, competitive and innovative products, made the Smiles program a great competitive advantage, opening to a high demand from customers. As a result, the program gained a prominent place at Gol, being an efficient loyalty instrument and an important asset for the airline.

In 2013, the frequent flyer program became a legally independent company from Gol and went public on the stock exchange. However, Gol became the controller and the most important commercial partner of Smiles, holding 52.60% of the shareholding in 2020. On a screen between the interviewer and the analyst, the shareholding composition of Smiles over the years appeared (Table 1).

Table 1 Smiles' shareholding composition

Shareholders	From 2013 to 2020							
	2016	2017	2015	2016	2017	2018	2019	2020
	Smiles' shareholding composition							
Gol Air Lines Inteligentes S.A.	57,30%	54,34%	54,09%	53,84%	52,74%	52,67%	52,61%	52,60%
Ga Smiles Participacões S.A.	15,09%	-	-	-	-	-	-	-

Ga Brasil V FI Participações	-	12,11%	-	-	-	-	-	-
Fidelity Investments	-	-	5,02%	5,00%	5,00%	-	-	-
J.P. Morgan Securities Plc	-	-	-	-	-	-	-	5,22%
Others	27,61%	33,55%	40,89%	41,16%	42,26%	47,33%	47,39%	42,18%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Source: Own elaboration based on Economatica data

The two companies had contracts with each other and granted Smiles unlimited access to Gol's seat capacity at competitive prices. As a result, the mileage company gained greater versatility to respond to changes that could impact its own business model, such as, supply, demand and changes in the prices of trading partners.

At the end of the interview, several doubts arose in Júlio's mind, the main one being: how did a program seen as a liability of Gol become an independent and profitable company? Julius was excited, but looking at the clock on the table, he realized he needed sleep. It was 1h50 in the morning.

Smiles Business Model Evolution

The next day, the morning was sunny and hot. Júlio turned on the computer and began to conduct new research. On a website that analyzes companies from a management and entrepreneurship point of view over time, it was possible to notice that low-cost airlines generally did not have loyalty programs, a new reality for Gol. It is worth mentioning that the airline had to honor all the miles that were credited to Smiles, which was a challenge. Before being part of Gol, the mileage program offered a basic package of services, based on the generation and redemption of miles, in a tabulated manner, based on the origin and destination of flights.

Since 2002, Gol has been licensed to operate on the São Paulo – Rio de Janeiro line, the main Brazilian airway. The frequent flying program targeted business travelers who had more frequent flights. In 2007, the airline had a partnership with

Delta Air Lines, the largest airline at the time, and Smiles customers also had access to the destinations provided by this association.

In 2009, the program had partnerships with Banco do Brasil and Bradesco, creating the co-branded system, which the use of a credit card would generate miles for the purchase of airline tickets. In addition to it, there was a greater emphasis on customers in the Gold and Diamond category, who had a bonus in the generation of miles. In the same year, the frequent flying program launched the possibility for members to share miles to top up the balance to be used and allowed the issuance of tickets with mixed payment (miles and cash), called Smiles & Money.

In 2013, Gol carried out a shareholding restructuring and created the Smiles program as an independent company to operate the loyalty actions. The higher autonomy was accompanied by the wide network of partners and customers from when it was linked to Gol. In the same year, the Brazilian Securities and Exchange Commission approved the Initial Public Offering (IPO) of the mileage company, which was listed on the Brazilian stock exchange. With the IPO, 58,540,428 new shares were subscribed and R$1,132 million was raised in funds.

The pressure from the market and investors for good results led Smiles to launch a new product capable of allowing the transfer of miles among program accounts, in addition to the reactivation of expired miles. Also in 2013, Clube Smiles was launched, the idea of which was to offer a new service: from an amount paid monthly by the customer, this monthly fee could be converted into miles and the consumer could have access to early promotions, in addition to being awarded with other benefits. Therefore, Smiles launched “Air Tickets Reservation” and strengthened relationships with partners in other segments, such as, for example, the hotel chain Accor and Rocket miles, the maritime cruise company Royal Caribbean and Pão de Açúcar, the retail group.

The three main sources of Smiles revenue in 2020 came from Spread, Float and Breakage. The biggest source was the spread, which is the profit from the difference among the acquisition cost of the partners’ services and the sale price. The float was the second largest source of revenue, which is the profit from the circulation of miles in the company. Finally, breakage comprises the value of unused and therefore expired miles. Table 2 shows Smiles’ revenue with the sum of the three types of revenue.

Table 2 Smiles' net revenue

	From 2014 to 2017			
	2014	2015	2016	2017
Billings in reais	R$ 808.058,00	R$ 1.219.521,00	R$ 1.548.109,00	R$ 1.804.129,00

Source: Own elaboration based on Economatica data

Therefore, in 2016, hotel reservation and vehicle rental icons were added to the mileage company's website, reinforcing the partnership and the presence of other services. In addition, the Smiles application was launched for Android and iPhone operating system (IOS). Hence, all the changes in the business model of the mileage company, made the revenue of that organization grow over the years.

At the end of the research, Júlio understood that Smiles adopted a proactive stance, conquered its space in the market and continued to grow, through constant marketing strategies. However, he still did not understand why Gol wanted to incorporate it. Because of that Júlio decided to seek information in the accounting fundamentals and go out into the field to better understand the situation.

Situation Description

Looking at the history of the mileage company, Júlio noticed that Smiles had been growing, making more and more profit and generating cash. On the other hand, Gol's explanatory notes showed the airline had been experiencing difficulties with cash flows since 2008, due to the international crisis, in addition to the Brazilian political and economic crisis of 2015-2016. As a result, the airline spent resources to ensure liquidity, returning planes, and oil volatility was also an issue. Thus, the company Gol presented a history of accumulated losses (Table 3), due to issues related to costs and the decrease in demand for services.

Table 3 Losses of Gol Air Lines

	From 2014 to 2017			
	2014	2015	2016	2017
Losses in reais	-R$ 3.701.194,00	-R$ 8.162.077,00	-R$ 7.312.458,00	-R$ 7.293.274,00

Source: Own elaboration based on Economatica data

In 2016, Gol had debts (Table 4) that caught Júlio's attention. However, Smiles offered economic and financial support, at the time, through the closing of several packages for the advance purchase of airline tickets. This action plan generated cash for the airline and the shares that Gol held in Smiles were used as guarantee to obtain new loans and extend the payment term of the old debt.

Table 4 Percentage of Gol´s debt (indebtedness) in its equity

	From 2014 to 2017			
	2014	2015	2016	2017
Indebtedness %	103,34%	141,69%	139,94%	130,67%

Source: Own elaboration based on Economatica data

In 2018, Gol announced it would not renew its contractual partnership with Smiles. These contracts were intended to manage the loyalty program, through which differentiated conditions and prices were established for the exchange of tickets for miles until 2032. Even so, Gol wanted to create a unified corporate base to enter the Novo Mercado of B3, which companies with the best governance practices are located.

Gol requested an extraordinary general meeting for Smiles to include in its bylaws a deadline to create a special committee to deal with the restructuring, which needed to go through by the National Civil Aviation Agency (ANAC). In this process, the mileage company's shareholders would receive a combination of preferred and redeemable preferred shares or would receive a 25% premium over the share price on a reference date, which date would be after the merger announcement.

Even so, the airline announced that it would not negotiate the terms with Smiles' management. In this regarding, Gol issued a document, called a "Relevant

Fact", and Júlio, when reading this, realized that, if the negotiations did not go ahead, Gol could carry out this unification through a unified public offer of acquisition. (OPA) of all Smiles shares. This Tender Offer would cancel the mileage company's registration on the Brazilian stock exchange. Simultaneously, Smiles announced that it would change its earnings policy. For this purpose, it would no longer distribute 100% of net income, as usual, to just 25%, in line with a common market practice.

To complete, months after the change in earnings policy, in 2019, Smiles made an announcement, through a Material Fact, that it closed an agreement with Gol for the advance purchase of R$ 1.2 billion in airline tickets, once that would facilitate both companies' operations. The discount rate for ticket negotiation was 115% of the Interbank Deposit Certificate (CDI), which is known as a risk-free benchmark.

The fundamentals, explanatory notes and market announcements of the companies provided a rich context of information, but in order to make a more accurate decision, it was necessary to go into the field. Therefore, Júlio decided to listen to some of the minority investors of the mileage company to know their opinion about the incorporation, the change in the earnings policy and the purchase of advance tickets. Then, he held a video call with two investors:

— What is your opinion about the incorporation of Smiles by Gol and the changes in the company's earnings policy? Júlio asked a group of shareholders.

— Smiles used to be a highly paid company and that changed overnight. This is frustrating! An investor replied.

— Many shareholders are not people who are interested in the airline industry and they do not want to be either! Other replied outraged.

— We are partners in a profitable business and, suddenly, we are going to become partners, with forceps, of an airline?! A segment with highly volatile results?! Replied this one.

— What about the advance tickets purchasing? asked Julius.

— This purchase of tickets was more like loans at interest rates much lower than those that Gol would get on the market! Said a shareholder.

— Really, it's a very small percentage, when compared to Gol's capital cost! shouted another.

— Smiles had a balance of BRL 700 million in tickets with Gol, in March 2020, and therefore there was no need to buy more, especially in advance! Said an investor.

— We even asked for a meeting to be called to discuss the possible filing of a civil liability lawsuit of the company's board of directors and board members, as the purchase and sale operation was advantageous only for Gol! Another shareholder spoke.

— The mileage's company board suggested that we would vote against the purchase and sale operation at the meeting, but made it clear that the contracts met all legal and statutory requirements for the conclusion. In the end, we were outvoted by the majority shareholders in voting! Completed another investor.

These decisions did not please minority investors, Julius had thought. However, it was necessary to listen to the majority shareholder. So, Júlio decided to talk to Gol's financial director, Richard Lark, by phone.

— What are the advantages for Gol in incorporating the mileage company? asked Julius.

— Having several losses, over the years, made Gol have several tax credits. On the other hand, Smiles paid around 200 million in taxes a year. With the incorporation, it would not be necessary to pay all this amount and it would increase the probability of achieving constant profits. Additionally, Gol would have more control over the pricing and conversion of miles per ticket, Lark replied.

— What do you think of Smiles having changed the earnings policy?

— Smiles has some independence in decision making, even though Gol has shareholding control. They are administratively independent companies. However, I believe it will need cash resources to lessen the effects of volatility, improve its balance sheet and credit quality.

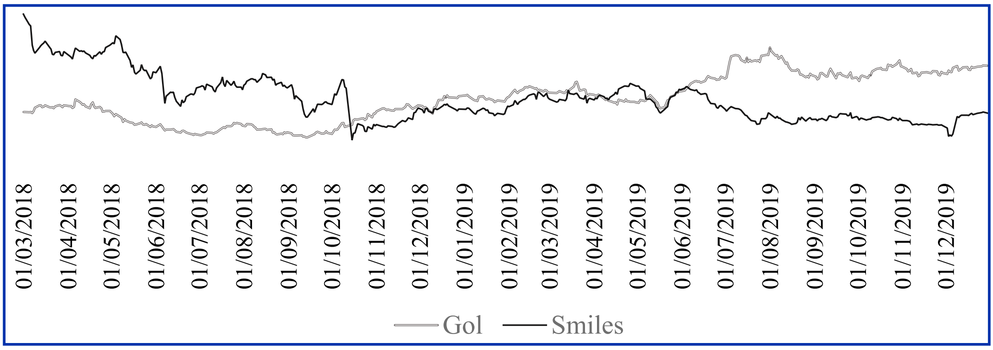
— Finally, what elements justify the advanced tickets sales for Smiles?

— Gol is in need of cash and Smiles is its main commercial partner, so we propose the tickets sale, in advance, to the mileage company. Obviously, we put a discount on their price, making them an attractive option for Smiles.

At the end of the conversation, Júlio decided to look at the share price history of both companies (Figure 1) and noticed that Smiles shares showed a downward trend, with variation of up to 60% in the asset price in 2018, the year in which Gol announced that it would incorporate it and then there was a change in the earnings policy and the acquisition of advance tickets. On the other hand, the airline's share price showed an upward trend. The mileage company had a market value of 11.5

billion reais at the end of 2017, but it dropped to 3.9 billion reais in early December 2019. Interesting price movements thought Júlio.

Figure 1 Normalized quotation of Gol and Smiles from March 2018 and December 2019



Source: Own elaboration based on Economatica data

Regarding the negotiations of the merger process, these are still happening, however, to continue with the due procedures, Júlio needs to issue an opinion on the relationship among Smiles shareholders and will still have the right to vote in the decision to accept the proposals for the merger of Smiles by Gol. Due to the presented information, Júlio hadn't reached a conclusion and would need help. Is it possible to say that Gol's decisions in Smiles were attempts to reduce the share price of mileage companies so that the incorporation would be cheaper? Should the incorporation of Smiles into Gol take place even if small shareholders are harmed? Based on which elements? How can this incorporation be carried out preserving the shareholders' interests?

Teaching Notes

EDUCATIONAL OBJECTIVES

This study was developed for pos-graduate and graduate courses in Management, Accounting and Economics, more precisely in sessions that address corporate governance, conflict of interest and expropriation. Through the study, it is expected that students develop skills for decision making, highlighting theoretical-conceptual and practical aspects of corporate governance. So, the didactic objectives of this study are related to discussing the existence of agency conflicts among the companies, discussing the negotiation implications for minority shareholders and, finally, analyzing how corporate governance actions can mitigate possible conflicts.

INFORMATION SOURCES

Despite the character Júlio and the need for an opinion on the relationship among the shareholders being fictitious, the other information study is real. Following the assumption of Chimenti (2020), that the data should allow a deeper analysis and that would raise discussions, the used data are in the public domain and were collected in the press, such as, articles published in O Globo, Investing, Seu Dinheiro, Estadão, Extra, Folha de São Paulo and Exame. In addition to it, accounting data were extracted from Economatica platform. As the data is in the public domain, there was no need to replace the organizations' names.

ADDITIONAL RECOMMENDED BIBLIOGRAPHY

Beyond the literature used in the current study, following additional reading is suggested, at the professor criterion: studies of Fama and Jensen (1983), Freeman and Evan (1990), Donaldson and Davis (1991) and Adams, Hermalin and Weisbach (2010), as they can contribute to the students' discussions and knowledge about corporate governance. The suggested manuscripts are duly referenced in the corresponding section.

EDUCATIONAL PLAN

The study application requires the professor to be familiarized with the literature on corporate governance. Therefore, it is necessary to the professor to have an expertise in governance presenting concepts and principles, agency conflicts and the conduction instruments. The present study brings a real scenario for topics discussions related to governance, in order to combine theory with practice on the discussed issue. Thus, it is suggested to apply the study in two stages, one in advance and the other in the classroom, totaling 1 hour and 45 minutes of application (Table 5).

Table 5 Steps for application and study discussion

Etapas	Sugestão para condução
1 Previous reading - 30 minutes	The suggestion of previous reading can be lead by the professor. If the lecturer opts for this modality, it is suggested that the study report and questions for discussion be made available in advance.
2 Discussion in groups - 15 minutes	It is suggested the study be discussed in groups of three up to four for deepen the study participants' understanding study without anticipating the study articulation study with the theory.
3 Debate - 45 minutes	Debate with all students.
3.1 Opening - 10 minutes	It will be carried out through a previous discussion, through a transition question in which students will expose their initial considerations.
3.2 Question analysis – 35 minutes	The groups must present the answers to the questions, based concrete positions, and the professor must, simultaneously, redirect these answers to a debate.
4 Ending the discussion – 10 minutes	The professor should connect the students' answers, associating them, as far as possible, with the theory.

Fonte: Elaboração própria.

OPENING THE DISCUSSION IN PLENARY

Considering the context presented in the study report, it is suggested that the discussion opening is carried out through a previous discussion regarding an initial question. This question, despite having a relatively obvious answer, will make students feel more comfortable participating in the conversation. Students can give their opinion on how they would react if they were investors in Gol and Smiles or even if they were company executives. Students can also list the favorable and unfavorable points of incorporation for the companies. In this last analysis, it is recommended that the professor record the information on a blackboard or any text editing software. The purpose of this initial discussion is to understand how the situation is perceived by the students.

Transition question – Does the Smiles relationship among minority and majority shareholders have a conflict of interest and expropriation?

As Gol stands to gain from the merger, as it will be able to have more flexibility to dictate the rules for converting miles and achieve tax savings, Smiles will not have the autonomy it once have, it will no longer be listed on the stock exchange and will only be part of Gol. Furthermore, in the reinstatement situation, the airline did not properly negotiate the terms with Smiles' management. Such practice goes against the principles of good governance practices, in addition to demonstrating the defense of Gol's own interests. Therefore, there is an agency conflict, as the gains resulting from the merger will, until then, be returned to the holding company, and the costs will be spread to all shareholders.

The influence on Smiles' earnings policy, which ceased to distribute 100% of net earning and started to distribute only 25%, displeased minority shareholders who had the receipt of earnings as an alternative to reduce losses arising from the devaluation of assets or who were certain of a source of earnings. So, the change in the earnings policy would result in an increase in free cash, which should have been used for the interests of the mileage company, but this was not the study.

The advance tickets purchase for Gol by Smiles meant that the available resources from the mileage company were directed to Gol's cashier. These Smiles resources could have been distributed as dividends or even reinvested in projects with a positive net present value. However, they had to be used for Gol's interests, which again results in a conflict of interest and expropriation.

It is also possible that the announcement of the merger, the influence on the earnings policy and the purchase of advance tickets were a strategy of the parent company to make Smiles' shares depreciate and the merger process to be cheaper. In this terms, the agency problem, in the context presented by Smiles and Gol, refers to the difficulties that minority shareholders have in ensuring that trusts are not expropriated by the majority shareholder.

Support material: Agency conflict is the misalignment of interests among those who have the right to property and those who have the power to control companies (FAMA, 1980). The multiple expectations of shareholders make it difficult to verify whether the behavior in the face of decisions is adequate and what is the risk of controlling shareholders adopting attitudes that benefit their own interests. In this logic, based on agency theory, concentrated ownership often causes agency conflicts among majority-minority shareholders (PINDADO; REQUEJO; TORRE, 2014; WANG, 2018).

The agency problems are based on the separation between ownership and management (JENSEN; MECKLING, 1976). Concentrated ownership has two effects: the monitoring one, in which controllers have incentives to control managers at low costs, and the expropriation effect, in which the controller's decision-making can only serve its own interests, to minority shareholders detriment. (BENSAADI et al., 2021). This expropriation act can be done through theft, fraud, intercompany loans, acts that impact the price of the subsidiary or parent company, dilution of new shares, among others (JIANG; KIM, 2015).

Jensen (1986) argues that shareholders seek to defend their own interests, and agency conflicts may occur when there is divergence among them. Even so, conflicts of interest may arise due to the discussion of payment policy, and that the distribution of earnings will decrease the quantity of resources available to the company, therefore, it will also decrease agency conflicts (JENSEN, 1986).

Majority shareholders have control and can monitor management, but also enjoy the private benefits that control can provide and that are not shared with minority shareholders (JOHNSON; SCHNATTERLY; HILL, 2013). In other words, if the big investor is a stockholder, he may have an incentive to force the company to take a lot of risk, since he shares the positive side, while the other (minority) investors bear all the failure cost.

Hereinafter, questions will be presented that can be used to stimulate the study analysis during the discussion.

Proposed Questions Analysis

Question 01 – Is it possible to say that Gol's decisions in Smiles were attempts to reduce the share price of mileage companies so that incorporation would be cheaper?

Discussion: The value of Smiles' share dropped considerably after the company's incorporation into Gol, the change in the earnings policy and the advance purchase of airline tickets, confirming that Gol's unilateral decision was not welcomed by the company's other investors of mileage. The reduction in the market value of Smiles by 2.5 billion was associated with the conflict of interest among shareholders, more precisely, the conflict in the main-agent.

With the merger, Smiles shareholders will become Gol shareholders, which has implications for investments. These implications are related to the losses arising from the devaluation of the shares, while they are investors in the mileage company, the incremental risk of another business model that has volatile results and forcibly investing in a company with a accumulated losses long losses.

Nevertheless, conflicts and the solution lack make the company to lose credibility with stakeholders, as well as the uncertainty that Smiles' assets may not be well used by Gol. Misuse may come from making investments with a negative net present value, in order to meet the majority shareholder interests, to the detriment of minority shareholders. Therefore, the incorporation of the mileage company by Gol becomes cheaper.

Support material: Corporate decisions must be taken with a view to maximizing the company's value (SHLEIFER; VISHNY, 1997). Any confusion about the objective of maximizing shareholder value can amplify the agency problem (JENSEN; MECKLING, 1976), as the lack of parameters in the decision-making process reflects the difficulty of meeting the interests of all those involved. Conflicts among investors will not only lead to the loss of wealth for many investors, but can also install fear and insecurity towards capital markets, investment advisers and senior managers (ALUCHNA, 2006).

The concentrated ownership negatively affects company performance, due to agency conflict (BENSADII et al., 2021). The weak corporate governance can lead markets to lose confidence in the organization's ability to manage assets and liquidity (DIBRA; BODINI, 2013). In addition to it, majority investors can abuse rights against minority interests, dismissing minority interests from the general shareholders' meeting, removing them from management positions, preventing them from receiving dividends, as well as dominating corporate boards and using improperly the company's assets (KOHAR; DEWI, 2021).

According to Kohar and Dewi (2021), conflict of interest can result in the dissipation of organizations' assets and reduce the company's value. Even so, the shareholder conflict, the lack of a conflict resolution procedure, the myopic strategies of the majority shareholders can lead to a corporate collapse (ALUCHNA, 2006). Such a situation can become destructive to the company's reputation, making it difficult to get internal and external resources, make investments and company's securities tradability.

Question 02: It's time to vote: Should Smiles be incorporated by Gol even if small shareholders are harmed? In what elements should Julius' vote be based elements?

Discussion: Receiving the Gol's preferred shares combination would cause Smiles' minority shareholders to stop being investors with voting rights in the mileage company and become investors in Gol, with preference for receiving dividends, but without voting rights. Minority shareholders would become investors in a different business model than they had with Smiles, with different investment characteristics, such as business model, results, leverage, liquidity, earnings policy, volatility, among others.

The majority shareholder's utility would be maximized to the minority shareholder's detriment, since the former was responsible for drawing up the rules with little margin for negotiation. This fact reveals that the majority shareholders are not willing to negotiate terms with the other shareholders. Consequently, merger decisions may impact agency costs and Gol's value as well, given that Smiles' minority shareholders would become airline minority shareholders, with agency issues remaining, and Gol's new minority shareholders would not have guarantees that new expropriations may arise. Hence, the merger with losses to minority shareholders should not be carried out as they expose the airline's lack of interest in negotiating with the other shareholders and that this may be repeated in the future.

Support material: Incorporation decisions can impact agency costs and company value (BOUBRAKI et al., 2011). Agency costs arise through conflicts of interest and are identified from the need for monitoring by the main. This monitoring aims to limit the agent's irregular activities, granting contractual guarantees, through the agent and residual costs. Such expenses comprise the costs related to the monetary value of the divergence among the agent's decisions and the decisions that maximize the well-being of the main (JENSEN; MECKLING, 1976). The company value is estimated by the product price and the number of available shares in the market, being an estimate for a transaction between a buying shareholder and a selling shareholder (FRENCH; CROSBY; THORNE, 2021).

In contractual terms, in places without any legal protection, minority investors are not adequately protected against the expropriation of controlling shareholders and, consequently, are discouraged from participating in the stock market. If a country's protection is weak, controlling shareholders are more likely to obtain private benefits and are less likely to reduce control (BOUBRAKI et al., 2011).

Shares with voting rights (common shares) can offer a high premium to holders, constituting evidence of significant private benefits of control that can result in costs to minority shareholders (SHLEIFER; VISHNY, 1997). These actions are valuable for those who try to control the company, even if there is effective protection of minority shareholders, the controllers share the benefits of the position in which they find themselves (GROSSMAN; HART, 1998; HARRIS; RAVIV, 1988).

Question 03: How could the incorporation be carried out while preserving all the shareholders' interests?

As a good corporate governance practice, in the study of Gol and Smiles, an independent committee could be created to deal with the corporate reorganization between the companies. A committee established for this purpose allows the controlling shareholder to expose the agreement terms to the subsidiary and, thus, analyze and revise the proposals. Adding the committee's preparation to the representation of minority shareholders by the Board of Directors, companies could negotiate the terms of the transaction, so that either both are benefited or at least the negative impact for minority investors is minimized.

On the other hand, to avoid a trust crisis among Smiles' minority shareholders and the holding company, Gol could offer more information and alternatives to the mileage company's investors so that minority shareholders would have the option to choose the direction of their investments in the company. Thereby, this higher level of disclosure would reduce conflicts.

Smiles' Board of Directors, being representative of the shareholders' rights, could be help to protect minority shareholders. Thus, the miles company could use more the governance structure to propose agreements that would consequently reduce losses to minority shareholders, for example, offering a premium based on the Smiles quotation before the merger announcement. In addition to it, to provide the investor with the right to choose whether or not to retain the role of the airline, even with pre-established conditions, we can say, for instance, the sale of part about the capital and the other part being converted into Gol shares.

Support Material: Corporate governance involves market regulatory mechanisms and relationships among a company's management, the board, shareholders and other stakeholders (DIBRA; BODINI, 2013). Governance aims to make decisions in the interest of all company participants and consequently maximize organizational performance (COLLARES, 2020). So, decisions must meet the expectations of all those involved in the organization. However, not everyone manages to either have the power to make a decision or even influence the deliberations in some way and the majority take this opportunity to become responsible for the decision-making process and, thus, maximize their utility to the detriment of other interested parties (ALUCHNA) 2006; GUERRERO-VILLEGAS et al., 2018).

The ownership concentration does not always generate benefits for all shareholders, as it often provides an incremental gain, beyond what would be fair to the controller, considering the property value of these majority shareholders (JENSEN; MECKLING, 1976). Considering that the greater the controlling shareholder's participation, the greater the interest in maximizing the company's value should be, corporate governance should provide means to reduce the company's costs and value loss as a result of interest conflicts. Therefore, the monitoring function, by the Board of Directors, would be important to represent minority shareholders, especially in situations in which the controlling shareholder has decision- power and disregards other stakeholders.

According to Aluchna (2006) and Grotta, Machado, Souza, Ribeiro and Bazanini (2020), the governance principles are guided by transparency, making available interest information to stakeholders, in addition to those provided by law; on equity to use a fair and isonomic treatment among all those interested in the company, in order to align interests and expectations; in accountability among minorities, majorities and agents, in an understandable way, with responsibilities; and the financial statements play this role in disclosure. Finally, there is corporate responsibility, enabling the economic-financial aspect of all those involved with the organization, regardless an inequity participation.

Governance structures are accompanied by a clear definition of tasks and responsibilities that provide an improvement through internal mechanisms, such as protection of shareholders' rights by the Board of Directors, accounting integrity practices and disclosure standards (DIBRA; BODINI, 2013). However, internal mechanisms need the support of external mechanisms, such as the legal system to protect shareholders (JENSEN; MECKLING, 1976). In Brazil, the protection level is considered low (CRISÓSTOMO; FREIRE, 2015) and, for this reason, the power of controllers over minority shareholders is greater, thereby favoring the expropriation of those who have a lower stake in the company.

End of the Discussion

At the end, the professor must gather the main points listed in the previous discussion session and the students' answers during the plenary debate. The professor should connect the students' answers, by aligning them when they are in common and confronting them when they diverge. Likewise, the professor should associate connections and divergences, as far as possible, with theory.

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