



THE CHALLENGES OF DRUG MART ARAUJO TO INNOVATE: A REAL TEACHING CASE ON CULTURE AND INNOVATION

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ABSTRACT

Objective: The teaching case on Drug Mart Araujo, the largest pharmacy chain in the state of Minas Gerais and the seventh largest in Brazil, aims to explore the challenges faced by a family-owned business, with a century of history operating in a highly dynamic and competitive market. It emphasizes the need to balance innovation with tradition. The case aims to enhance students' understanding of how family businesses can navigate organizational change while maintaining their cultural identity, highlighting the importance of innovation and strategic management. **Method:** This teaching case is based on qualitative single-case research, which included eight in-depth interviews, a focus group, direct observation, and a review of documents and institutional materials provided by the company, as well as website analysis. **Key Findings:** By studying and analyzing the case through the dilemmas faced by the organization, students can apply management theories and innovation strategies to real-world situations, helping them understand the complexities of balancing tradition and innovation and maintaining business longevity amid market changes. **Relevance/Originality:** The case enables professors to explain key concepts and helps students apply management and innovation theories to practical scenarios. **Theoretical/Methodological Contributions:** The theoretical contributions include discussions on balancing innovation and tradition in family businesses. Methodologically, it offers an interdisciplinary teaching case that links people management and innovation, thereby broadening pedagogical possibilities.

Keywords: Innovation, Organizational Culture, Teaching Case.

OS DESAFIOS DA DROGARIA ARAUJO PARA INOVAR: UM CASO DE ENSINO SOBRE CULTURA E INOVAÇÃO

RESUMO

Objetivo: O caso de ensino sobre a Drogaria Araujo, maior rede farmacêutica em Minas Gerais e a sétima maior do Brasil, visa explorar os desafios enfrentados por uma empresa familiar centenária em um ambiente de mercado altamente dinâmico e competitivo, destacando a necessidade de equilibrar inovação e tradição. O caso busca aprimorar a compreensão dos alunos sobre como as empresas familiares podem navegar na mudança organizacional sem perder sua identidade cultural, enfocando a relevância da inovação e da gestão estratégica. **Método:** O caso de ensino é resultado de uma pesquisa qualitativa de estudo de caso único, com oito entrevistas em profundidade, um grupo focal, observação direta e material documental e institucional cedidos pela empresa, além de consultas a *websites*. **Principais Resultados:** Ao estudar e explorar o caso, por meio dos dilemas enfrentados pela organização, os alunos podem aplicar teorias de gestão e estratégias de inovação ao mundo real, permitindo que considerem as complexidades envolvidas no difícil equilíbrio entre tradição e inovação, assim como na manutenção da longevidade empresarial diante das transformações do mercado. **Relevância / Originalidade:** O caso de ensino traz temas importantes e informações relevantes que permitem aos professores explicar os conceitos em sala de aula, ajudando os alunos a aplicar teorias de gestão e inovação a situações reais. **Contribuições Teóricas / Metodológicas:** As contribuições teóricas abrangem a discussão do equilíbrio entre inovação e tradição em empresas familiares. Metodologicamente, oferece um caso de ensino interdisciplinar articulando gestão de pessoas e inovação, ampliando as possibilidades pedagógicas.

Palavras-chave: Inovação, Cultura Organizacional, Caso de Ensino.

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INTRODUCTION

The ability to balance tradition and innovation represents a central challenge for enduring family businesses, particularly in dynamic and highly competitive environments. This case addresses this dilemma in the Drug Mart Araujo pharmacy chain (in Portuguese called *Drogaria Araujo*), highlighting its century-old history and economic relevance in Minas Gerais. The company faces the challenge of preserving its family and cultural traditions while continually innovating to sustain its future growth.

The main topics explored include the influence of organizational culture on innovation processes, the specific dynamics of family management, and the need to develop leadership practices that promote greater managerial autonomy and openness to radical innovation. The teaching case aims to stimulate students' analytical and critical thinking skills, preparing them to propose effective strategies in response to current market challenges.

Drug Mart Araujo, founded in 1906 in Belo Horizonte as *Pharmácia Mineira* by Abelardo Alvim and later acquired by Modesto Araujo, has stood the test of time as a symbol of family management. Nowadays, led by the third generation of the Araujo family, the company exemplifies how continuous innovation and a strong organizational culture have been key to its century-long success.

In Brazil, Drug Mart Araujo stands out among drugstore chains, ranking prominently in the Brazilian Association of Pharmacy and Drugstore Networks (*Abrafarma*). It not only leads in Minas Gerais, but it also ranks sixth in revenue and seventh in the number of stores nationwide, showcasing its ability to maximize profitability per unit.

For years, leadership was carefully managed by the family with detailed succession planning. Modesto Carvalho de Araújo, with visionary insight, kept active collaboration with his descendant Antônio Martins until 1942. Since then, Antônio had taken the lead, directing the company alongside Modesto with renewed energy until his death in 1979.

Over the following decades, Eduardo Araújo and Modesto Carvalho de Araújo Neto, grandson and great-grandson of the founder, respectively, succeeded to the presidency with wisdom. Even after Eduardo's sudden death in 2004, the company remained

strong. Modesto Neto became the president and continued to grow the family legacy, bringing in future generations into the management, training, and preparing them according to the company's strategic vision and core skills.

In recent years, Modesto Neto has involved one of his daughters and two nephews in the company's management, following an educational development process aligned with their individual skills. This successive management model aims to ensure the organization's continuity and longevity, paving the way for a smooth and stable leadership transition.

In 2024, Drug Mart Araujo marked 118 years of operation, projecting revenues of Brazilian Reais R\$4.4 billion (approximately 814 million US dollars), a 17% increase over the previous year. The company allocated Brazilian Reais R\$150 million (approximately 28 million US dollars) to a strategic expansion plan that includes opening new stores, revitalizing existing locations, and enhancing digital channels. Currently, the chain has more than 240 stores in the Belo Horizonte (capital of the state of Minas Gerais) metropolitan area and is nearing 340 branches across more than 60 municipalities in Minas Gerais.

The leadership of Drug Mart Araujo remains with the founding family. Modesto Araújo Neto serves as the president and actively involves members of the fourth generation, such as Silvia Araújo. This family continuity has been key to preserving the values and organizational culture that define the company.

Proudly displayed in the boardroom, Drug Mart Araujo's mission statement emphasizes its dedication to surpassing customer expectations, valuing shareholders, and caring for the well-being of employees and society (Figure 1). This mantra is reiterated in internal lectures, where leaders highlight the importance of social responsibility, profitability, and growth. This philosophy is reflected in initiatives like expanding personalized pharmaceutical services, which include check-ups, vaccinations, and rapid tests, solidifying the company's role as a health center. Figure 1 illustrates the organization's philosophical and cultural foundation, which ensures its longevity and guides its operational practices, underscoring the importance of culture as the basis for customer experience and corporate identity.



Figure 1. Drug Mart Araujo's mission and culture.

Drug Mart Araujo's organizational culture, which balances tradition and innovation, is demonstrated by practices detailed next in this teaching case, such as the "solve it right away" philosophy, Minas Gerais-style management, and attention to detail. These elements have been crucial for the company to maintain its relevance in the market and continue to grow sustainably. This teaching case also clearly illustrates how professionalized family management can reconcile tradition and innovation.

1. THE "SOLVE IT NOW" PHILOSOPHY

In customer service, the company embraces a "solve it now" policy, not just as a motto but as a culture of satisfaction and loyalty. The management philosophy emphasizes proactive problem-solving, from salespeople to management, across all levels of the organization.

When a customer expresses dissatisfaction with the company's service, it presents an opportunity for the organization to build customer loyalty, impress them, and demonstrate its commitment to meeting their needs. This behavior shows that the company genuinely cares and is dedicated to resolving any issues. As the president says, the core of the business is about providing an engaging experience that makes the customer happy and completely satisfied.

Aligned with excellence in customer service, this approach is supported by the marketing manager, who

emphasized the company's core values. He highlighted the main focus on the customer, the importance of providing outstanding service, and the willingness to solve any problems that arise. He also believes that the organizational culture encourages a proactive problem-solving approach, where responsibility starts with the salesperson, then goes to the manager, and finally to the executive, based on the idea that resolving issues is essential in all interactions.

In turn, the managing director emphasized the importance of the product offered to the customer, aiming to ensure not only their satisfaction but also their delight by providing medicines or convenience items that exactly meet their needs. A retrospective look shows a tradition rooted in customer service, as shared by one of the longest-serving employees, who highlighted the value of equality and respect in treating all customers, regardless of their background or social status.

The "solve it now" policy is a core management practice at Drug Mart Araujo, emphasizing the quick and effective resolution of problems with a focus on customer satisfaction. This approach is embedded at all levels of the organization, from salespeople to managers, fostering a culture of delight and loyalty. Agile service is seen as a competitive advantage and a reflection of the organizational culture, which values employee readiness, empathy, and autonomy. Additionally, mechanisms like continuous training and investments in information systems support this

approach, creating a customer experience aimed at surpassing expectations.

2. MANAGEMENT WITH A REGIONAL TOUCH

In the management landscape described by Drug Mart Araujo, the focus on economic and financial efficiency stands as a key element of the organization's strategy. Aiming for the company's stability, the president and superintendent director emphasized that profit is not just a measure but the driving force behind business success. The president proudly highlighted the company's reputation as one of the most profitable in the state and its recognition by Abrafarma for sales excellence both as a chain and per store, strengthening its influence in Minas Gerais's economic landscape.

Drug Mart Araujo's financial discipline is clear in its careful debt management, rarely depending on external capital to fund its operations. However, marking a historic milestone in the company's financial development, a long-term loan was obtained from the National Bank for Economic and Social Development (BNDES). Prompted by favorable credit conditions, this strategic move began a new chapter in Drug Mart Araujo's financial history, enabling expansion and investment with a vision toward the future.

While there is no set frequency, scenarios are discussed during board meetings, and profitability targets are carefully reviewed and adjusted to reflect the ever-changing market. Simultaneously, monthly sales team meetings serve as key forums for analyzing and discussing results, ensuring that sales activities align with financial goals.

Focused on strategic planning discussions, the annual board meeting is the key moment for outlining expansion plans and opening new units. However, the lack of systematic monitoring of these strategic plans emphasizes the need for stronger mechanisms to ensure that the goals are met.

At these meetings, the president introduced what he calls an occupational strategy model, a strategic plan for expansion that aims to efficiently open new commercial outlets. This strategy is carefully designed to create a strong presence against competitors and secure key locations in the Belo Horizonte metropolitan area. The president highlighted that the strength of the internal infrastruc-

ture, especially the distribution center, is crucial for maintaining the availability and quality of the products offered.

The expansion strategy used by Drug Mart Araujo demonstrates adaptability and innovation, especially through the adoption of modern sales channels like e-commerce and sales kiosks. The introduction of the Araujo Foto service, which lets customers buy digital photos directly in stores, aims to develop new services and also helps family members feel more connected to the business.

Commitment to family is a key trait of Drug Mart Araujo's management, seen not only in the inclusion of family members in leadership roles, like the president's advisor and nephew directors, but also in supporting related businesses. This strategy promotes the sharing of values and cultural traditions across generations that form the foundation of the company's governance.

Although some family members on the Board of Directors are not involved in daily management, it is notable that there is no evidence of a formal or widely communicated succession plan. However, there is an informal management consensus that the president's advisor is being properly prepared to assume the role in the future.

Compared to the soundness of current operations, there is a gap in the organization's willingness to develop a comprehensive professionalization plan and adopt a corporate governance model in preparation for a potential initial public offer (IPO). This stance reinforces a more informal approach to management projects and processes, which, according to the IT manager, is reflected in the use of a revenue and expense management matrix developed with the support of a consulting firm, but one that lacks systematic monitoring and evaluation of the effectiveness of the proposed action plans.

Maintaining strong economic and financial performance, it should be noted that Drug Mart Araujo celebrates achievements and promotes internal motivation through programs like the Eduardo Araujo Grand Prize. Although they demonstrate a solid performance culture and commitment to results, these practices highlight the need for strategic growth that includes both the strengthening of internal processes and the innovative vision that defines the company in the market.

3. EMBRACING MISTAKES

The idea of embracing mistakes at Drug Mart Araujo is considered a core business value that goes beyond simply accepting failures. It is a phrase created by the president that reflects a company culture which views mistakes not as a reason for blame, but as a valuable chance for learning and ongoing growth.

By embracing mistakes, the organization promotes both personal and collective examination of errors. This approach goes beyond a surface-level review because it involves a thorough analysis of what caused the mistake, its root causes, and, most importantly, the lessons to be gained. The aim is to demystify the mistake, viewing it as an unavoidable and valuable step in striving for excellence.

The approach is not just reactive since it fosters a proactive environment where everyone is encouraged to share their experiences and *insights*. In meetings, mistakes are openly discussed, with managers and employees working together to develop a strong action plan that prevents similar failures from happening again.

However, there is a fundamental challenge in this philosophy that the IT manager highlights: the effective execution of post-error solutions. Although action plans are proposed, it is acknowledged that there is often a lack of follow-up to ensure the effectiveness and positive impact of corrective measures. The error-learning cycle at Drug Mart Araujo is therefore continually evolving, aiming not only to understand and learn from failures but also to develop a method that guarantees the organization's growth and ongoing improvement.

The IT manager highlighted the use of tools like the management matrix and the plan-do-check-act (PDCA) methodology to organize this process. However, there is a gap in verifying the effectiveness of action plans, since the focus is often on immediate outcomes, such as higher revenue, without a thorough evaluation of the long-term success of the measures implemented.

In this context, embracing mistakes is more than just a phrase or a standalone idea. It is a key part of a management system that aims to balance the relentless pursuit of results with the ability for innovation and ongoing learning. It reflects a culture that values

resilience and the capacity to transform setbacks into opportunities for growth.

4. ATTENTION TO DETAIL

The principle of attention to detail at Drug Mart Araujo is established as both an operational guideline and a cultural value that influences all parts of the company. Widely shared and emphasized by the president, this idea underscores the importance of precision in every process, service, and customer interaction.

This meticulousness is inherently linked to the organization's success. Attention to detail is evident in everything from the careful arrangement of products on shelves to precise inventory management and is especially noticeable in the pristine presentation of the stores and the professional attitude of the employees. The company understands that even small details can impact the customer experience, reinforce brand loyalty, and enhance Drug Mart Araujo's reputation in a competitive market.

Committed to excellence, the president sets an example by frequently making unannounced visits to stores to ensure that high standards are being maintained. This practice not only demonstrates the importance given to operational perfection but also encourages employees to maintain a constant level of vigilance and adopt a proactive attitude toward quality.

Attention to detail is a value widely promoted by Drug Mart Araujo's leadership and is essential for creating a quality customer experience. From product organization to store presentation and employee attitude, meticulousness is viewed as a competitive edge. This principle also influences administrative and strategic areas, emphasizing the importance of well-informed decisions and continuous improvement. However, despite the emphasis on this principle, its real effect depends on the ability to turn it into consistent processes and on training employees to uphold high standards across all parts of the operation.

5. A BIG FAMILY

The process of including members in Drug Mart Araujo reflects the essence of a business that goes

beyond being just a company and is seen as an extension of the founding family. In this context, the surname Araújo, which gives the organization its name, symbolizes more than just a brand. It embodies the family and the philosophy of unity and continuity that support this brand.

Integration into the group is based not only on professional criteria but also on deeply human values such as length of service, loyalty, and dedication to the corporate family. These values are made tangible and celebrated through symbolic recognition, like diamond brooches, which are given to employees as a way of honoring their dedication to the company. Each diamond on the pin represents a decade of work, serving as a living testament to the employee's commitment to the organization. Long-serving employees, with more than 50 years of service, wear these decorations with pride and a sense of belonging that goes beyond a mere working relationship.

The president's speech emphasizes the importance of all members fully embracing these values. It recognizes that some, like the product and sales managers, may not yet be completely aligned with this culture, underscoring the significance of immersing oneself in the principles of Drug Mart Araújo for meaningful contribution to the company's cultural efforts.

Paternalism is a key feature of management, as shown in the president's charismatic and magnetic leadership. He positions himself as a father figure, guiding the process of including and accepting members, as well as setting the boundaries that define belonging to the group. This attitude creates a dynamic where employees sometimes play a more observant role, adjusting to the guidelines set by leadership.

Power at Drug Mart Araújo is concentrated in the figure of the president, and this trend was observed since the beginning of this study. This centralization of authority gives the chief executive significant influence, often causing managers to wait for his decisions and guidance, thereby limiting their autonomy in favor of the presidential vision.

Relationships within the organization develop on a personal level, where respect and admiration for the president are clear. Managers show loyalty to this figure, avoiding conflicts and following the culture of personalism in these relationships.

The president also takes on the role of supporter, helping employees with financial or health challenges and reinforcing a caring practice that has been passed down through management generations. This support extends to the company's most senior managers and workers, emphasizing the importance of valuing and maintaining these relationships over the long term.

In cases where customers are in a vulnerable financial position, it is notable that directors act with empathy and social responsibility by personally intervening to ensure access to essential medications. This gesture highlights the humanity at the core of the company's philosophy.

At the executive level, the Board of Directors is made up solely of family members, reflecting the closed capital structure and the near-total control held by the president. This family-led management is supported only by external consultants, whose influence is limited to economic and financial performance. In terms of organizational culture, the president is authoritarian mainly in how power is concentrated, but he is also open to learning and tolerant of mistakes, a balance that is evident in Drug Mart Araújo's performance and ongoing innovation.

Drug Mart Araújo's commitment to inclusion is reflected in hiring people with hearing impairments and the intention to expand this to include individuals with Down syndrome, demonstrating progressive openness to workplace diversity and community needs. This effort exceeds compliance with quotas or legal regulations, showing a genuine desire to provide equal opportunities and value all contributions.

The company also shows a policy of tolerance and ongoing development of its employees, as reflected by the low staff turnover rate. This stability in the workforce indicates a work environment that allows for growth and professional development, but there are clear boundaries regarding behavior since acts of dishonesty are taken seriously and result in strict disciplinary measures.

The culture of recognition and reward is also evident at Drug Mart Araújo. Employees are encouraged to actively engage in the ongoing improvement process through a suggestion program, which enables them to share innovative ideas and operational enhancements. The employees who make significant contributions are acknowledged with awards and dis-

tinctions, such as merit certificates, promoting participation and innovation.

Although it takes a conservative approach in some management areas, Drug Mart Araujo stays neutral on religious beliefs, avoiding discrimination or favoritism. The subtle display of Christian symbols in its stores reflects its cultural heritage and does not impose beliefs on employees or customers. The culture of Drug Mart Araujo, therefore, reflects a complex blend of family traditions, mutual respect, and the ongoing pursuit of innovation and excellence, balancing the intricacies of a family business with the demands and expectations of a modern organization.

6. INNOVATION HISTORY

Drug Mart Araujo's innovative path is linked to the entrepreneurial vision of its founder, Modesto Carvalho de Araújo, whose commitment to service excellence drove a series of progressive changes in the company. Recognizing that quality service is the foundation of success, Modesto was quick to adopt forward-thinking practices to improve accessibility and convenience for customers, a trait that set the company apart in the pharmaceutical market.

Having lived behind the first store, Modesto's proximity to customers demonstrates his strong commitment to accessibility. By placing a bell next to his bed, he made sure that even outside normal hours, he could respond to customers' urgent needs, laying the foundation for the 24-h on-call service that is now a key feature of the company.

The initial idea of the convenience store, which complemented the traditional pharmaceutical offerings, expanded the range of products and services, strengthening the guarantee of origin and quality. Additionally, the effort to ensure that each store was managed by qualified health professionals, such as pharmacists, aligns with the *ethos* of responsibility and trust that Modesto valued.

The innovations did not end there. Introducing home delivery services and competitive pricing strategies helped strengthen customer relationships and build the company's reputation. The bold decision to make medicines available at affordable prices during the Spanish flu pandemic, along with proactive efforts to verify the authenticity of essential medicines like Neosalvarsan (neoarsphenamine, a drug used in the

treatment of syphilis), demonstrates a commitment to civic leadership and social responsibility.

Antônio Martins de Araújo, Modesto's son and successor, inherited and continued his father's innovative spirit by building and growing the Drogatel Araujo telephone service. Antônio's vision reached even further, expanding innovation into new markets with the sale of agricultural and veterinary products while maintaining the brand's quality standards.

The continuity of the innovative legacy was preserved by Eduardo Araújo, who insightfully professionalized the telemarketing service and introduced the first drive-thru drugstores in Brazil. The pursuit of knowledge and best practices led Eduardo and Modesto Neto to the United States, investing in team training that aligned with the company's philosophy of adaptation and learning.

With a modern approach and influenced by his experience in the financial sector, Modesto Neto guided Drug Mart Araujo to new heights. His leadership was characterized by implementing advanced category management systems, digitizing the company, and introducing corporate social responsibility practices like donation campaigns for charitable organizations.

Modesto Neto's efforts to innovate and diversify Drug Mart Araujo's services, including creating exclusive areas in stores and establishing an online presence through e-commerce, reflect a management style that aims for excellence and dynamism. This integrated approach to category management supports a business model that maximizes profitability and customer engagement. This trajectory is illustrated in Figure 2.

Figure 2 presents a timeline showcasing Drug Mart Araujo's key innovations throughout its history. Notable initiatives include 24-h service, the creation of Drogatel, the pharmaceutical drive-thru, and investments in e-commerce, emphasizing the company's ongoing evolution driven by visionary decisions that combine convenience, technology, and customer focus.

However, even with ongoing innovation, it is important to note that the company keeps an organic and informal approach when developing products and services. The drive to innovate often comes from spontaneous ideas rather than structured processes. This behavior is shown by how the commercial director talks about the incentive to find market advantag-

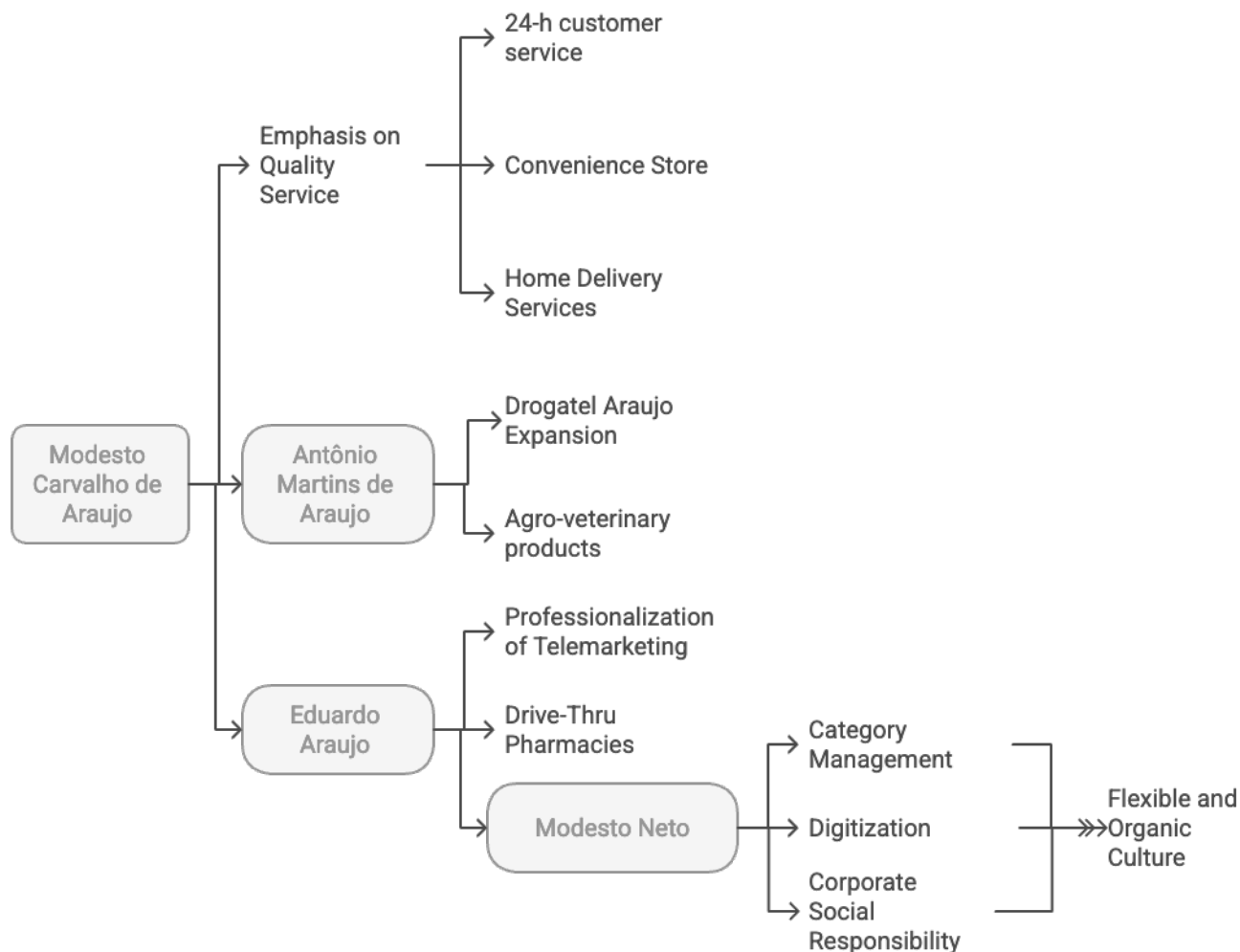


Figure 2. Innovation history.

es, reflecting a corporate culture that values creativity and flexibility.

In a nutshell, Drug Mart Araujo's history of innovation is a mosaic of initiatives and strategies that showcase the commitment of its leaders. From its founder to the present day, each generation has added new chapters of change and improvement, not through a formal system, but through an organic and intuitive flow of entrepreneurship and strategic vision.

7. DILEMMAS: NEW TIMES, NEW CHALLENGES

Modesto Neto stands out as an iconic leader at Drug Mart Araujo, emerging not only as a pillar of innovation but also as the embodiment of the company's significant growth. His return to the family business after an enriching 13-year stint in the financial market was a pivotal milestone, driven by the belief

that his contribution to the family legacy was a natural calling.

Taking over the administrative and commercial management at his brother Eduardo's recommendation, Modesto Neto became the driving force behind transforming the business model into the drugstore concept, inspired by successful practices observed in the United States and aligning the company with the globalized vision of the pharmaceutical sector. His role was essential in developing drive-thru services and implementing category management methodologies, setting new standards for operational excellence.

Taking on significant responsibilities, Modesto Neto's daughter follows her father's footsteps with distinction. She has earned deep respect among managers and employees, exemplifying the charisma and efficiency that are hallmarks of the Araújo family. Her leadership at the ombudsman's office reflects

Drug Mart Araujo's dedication to responsiveness and quality customer service. In turn, the commercial director highlights sales as a key growth driver, while the administrative superintendent, Antônio, is known for his dedicated and prudent management. The company's creative origins appear to primarily depend on the presidents, whose ideas and innovations have played a crucial role in the business's development.

Although Drug Mart Araujo's leadership does not follow a formally structured innovation system, it has consistently implemented a series of incremental improvements that have proven effective. Coupled with a commitment to the objectives set by the president, this agility indicates an organic and flexible approach to innovation.

Innovations at Drug Mart Araujo reflect the vision and dedication of leaders across generations, rather than resulting from formal Research & Development (R&D) processes. Common in family businesses, this pattern prompts questions about whether this model can be sustainable in the long run.

The power dynamics within the company also require reflection, encouraging a shift from dependence to greater interdependence between leaders and followers. Allowing managers more autonomy and fostering a stronger belief in their abilities by the president could create an even more innovative and collaborative environment.

The observations about Drug Mart Araujo highlight the influence of national culture on the management style and its impact on the innovation process. Brazilian culture, with its tendencies toward power centralization and risk aversion, can serve as an unconscious barrier to developing radical innovations.

The organization remains a reflection of Brazilian entrepreneurship, showcasing how national culture influences its management style. Although most innovations have been incremental, driven by the vision of leaders and founders, the future may demand a more radical approach to sustain growth and stay relevant in an ever-changing market.

Drug Mart Araujo's organizational culture has been a key driver of innovation so far, but will it be enough to secure its future? Although Drug Mart Araujo maintains its family roots, the need for innovation—whether incremental or radical—becomes essential for ensuring continuity and success in the evolving business environment, both in Brazil and globally. Figure 3 illustrates the tension between concentrated

power, which can hinder innovation, and the necessity of a collaborative and innovative organizational culture. To address this challenge, the company must empower its managers and bolster confidence in leadership, offering more autonomy and freedom for experimentation and idea generation. This approach will help create a bridge toward a more agile, innovation-oriented organization, balancing oversight and collaboration to promote growth and adaptability.

Figure 3 visually demonstrates the organizational challenges faced by Drug Mart Araujo, especially regarding the balance between centralizing decision-making authority and fostering a collaborative culture. The diagram compares the risks of relying on centralized leadership with the potential advantages of a more distributed governance model, emphasizing how managerial autonomy can support radical innovation.

Finally, a key dilemma emerges: should Drug Mart Araujo keep its organizational style based on informal, familiar, and flexible relationships—which have driven its success—or shift to more formal and structured innovation management models, even at the risk of losing part of its cultural identity? The company needs to decide how to organize its innovative processes without sacrificing the core qualities that led to its achievements. This struggle between formalization and tradition presents a challenge, prompting critical reflection and the development of viable strategies for the company's future.

8. TEACHING NOTES

This section is organized into six parts: teaching objectives; data sources; suggested courses for using the case; discussion topics; pedagogical aspects; and dialogs with the literature.

8.1. Teaching objectives

Considering the trajectory and innovative practices of Drug Mart Araujo, the pedagogical goal of this teaching case is to help students analyze and apply strategic business management concepts, focusing on innovation and organizational culture in the Brazilian context. The goal is that the case will specifically fulfill the objectives, as shown in Figure 4.

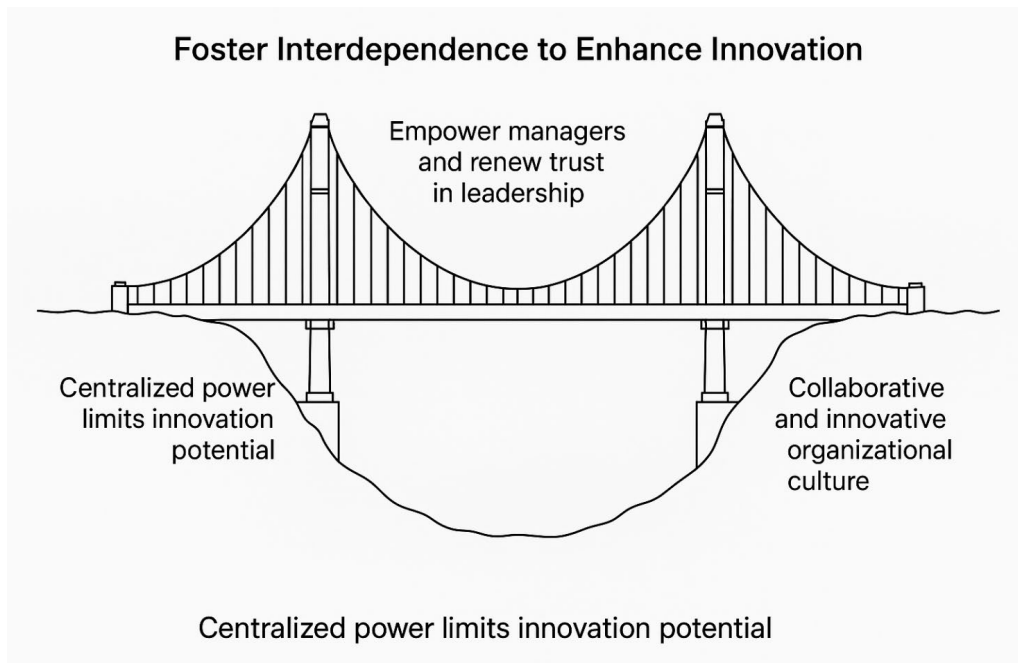


Figure 3. Dilemmas faced by the organization.



Figure 4. Specific objectives.

Figure 4 summarizes the pedagogical objectives of the case, distributed across seven main dimensions: organizational culture, innovation strategies, family management dynamics, leadership practices, digital transformation, critical thinking, and strategic analysis. Each dimension represents a skill that students should develop when analyzing the case, turning Figure 4 into a visual guide for structured learning.

Table 1 summarizes the main pedagogical objectives proposed by the Drug Mart Araujo teaching case. These objectives are organized to facilitate instructional planning and promote student engagement around essential skills for the strategic, cultural, and innovative analysis of family businesses. The table format aims to provide a clear and objective overview of the learning objectives, making it easier to apply them in different educational contexts.

This teaching case aims to provide students with an integrated learning experience, where they can not only absorb theoretical knowledge but also develop practical skills essential for effective management in a dynamic and increasingly digital business environment.

8.2. Data source

The primary source of data for developing the teaching case was qualitative research based on a single case study, which included eight interviews, a focus group, direct observation, and documents and in-

stitutional materials provided by the company, along with consulting websites. This process began in 2009 during one of the authors' master's degree research and was updated in 2024. In-depth interviews were conducted with the company's president, Board of Directors, and a group of senior employees, enabling researchers to obtain a comprehensive view of the organization. The interviewees were selected based on their strategic roles and tenure at the company. All interviews received approval from the company's president. One of the authors' prior familiarity with the organization enriched the study, ensuring an in-depth understanding and contextualized analysis of the data collected to build the case study.

During the research, the strategy used focused on naturally guiding the interview, creating an environment where interviewees felt comfortable sharing their experiences and perspectives, thus supporting the research goals. The group interviews, especially with the most experienced employees, uncovered key aspects of the company's history of innovation and culture, enhancing the understanding of the core elements that define the studied organization.

The data collection process reached the saturation point (Yin, 2011), as evidenced by repetitive responses, indicating that gathering more information would be unnecessary. Along with organizing the data into a textual database, recording and carefully transcribing interviews were crucial for further analysis, ensuring the integrity and quality of the research and support-

Table 1. Teaching objectives of the Drug Mart Araujo case.

Objective	Description
Understand the importance of organizational culture	Assess how the culture of a family business influences its ability to innovate and adapt to market changes.
Analyze innovation strategies	Discern between incremental innovation and radical innovation, understanding their implications for an organization's long-term growth and sustainability.
Examine the dynamics of family management	Investigate the challenges and advantages of family management, including succession, professionalization, and the influence of family values on corporate governance.
Identify leadership practices	Recognize the influence of leadership style on innovation development, decision-making, and the establishment of strategic guidelines.
Reflect on entrepreneurship and digital transformation	Reflect on how digital transformation and entrepreneurial innovation can be integrated into traditional business models.
Develop critical thinking	Encourage critical thinking about how management practices and business models need to evolve in the face of new market demands and consumer expectations.
Promote strategic analysis	Stimulate students' ability to perform strategic analysis and develop action plans that address the challenges identified in the case study.

ing the preparation of this teaching case. The strategy chosen by the researcher, which was based on a flexible and detailed approach, effectively captured the cultural and innovative dynamics of the organization. The qualitative data analysis used was content analysis following the recommendations of Bardin (2016).

8.3. Suggested disciplines for teaching case application

Given the abundance of information and the complexity of the topics covered in this teaching case, some suggestions for its application across various academic settings should be listed. Table 2 organizes the different ways the Drug Mart Araujo teaching case can be utilized. The goal is to offer educators a practical and visual guide to exploring the case study at different educational levels, from undergraduate to executive programs, while promoting interdisciplinary

narity, critical thinking, and the practical application of concepts related to management, innovation, and organizational culture.

These suggestions aim to ensure a thorough exploration of the case and give students a broad, practical understanding of organizational culture, innovation, and business strategy.

To create a more dynamic and engaging approach, the teaching case can be organized as a workshop. This setup lets participants connect theoretical ideas to real-world practices, promoting idea sharing and practical application. The workshop can include interactive elements like brainstorming sessions and role-play activities, where participants assume different roles within the organization to simulate decision-making and complex problem-solving. Additionally, using multimedia resources can enhance the experience by presenting videos and real data from the companies involved. A detailed lesson plan

Table 2. Teaching objectives of the Drug Mart Araujo case.

Teaching level	Teaching strategy	Description
Undergraduate Business Administration	Case study in the classroom	Critical analysis of case elements with a focus on a SWOT matrix for Drug Mart Araujo.
	Group debates	Discussions on the influence of organizational culture on innovation and company performance.
	Decision-making simulations	Activities in which students assume managerial roles and make decisions based on different scenarios from the case.
Graduate and MBA	Directed studies	In-depth study of innovation management with a focus on sustainability and competitiveness.
	Applied research	Research projects that propose strategies for Drug Mart Araujo, considering industry trends and digital transformation.
	Consulting work	Strategic consulting simulation based on the application of <i>marketing</i> and innovation concepts.
Executive programs	Leadership studies	Discussions on leadership styles and skills needed to lead family businesses undergoing transformation.
	Innovation <i>workshops</i>	Practical workshops to develop innovative solutions to the challenges faced by the organization.
	Development of parallel cases	Creation of comparative case studies with companies similar to Drug Mart Araujo.
All levels	Interdisciplinary projects	Integration of the case with disciplines such as Finance, Human Resources, and Operations for holistic analysis.
	Social impact assessment	Analysis of the case from the perspective of social responsibility and impact on the community.
	Panel discussions	Promotion of debates with experts from the pharmaceutical sector on market practices and future trends.

for a 90-min class with 20–30 students can follow the schedule outlined in Table 3. It is important that participants have prior access to the teaching case. The instructor can prepare supporting slides and use a board or flipchart for notes.

8.4. Discussion topics

For each section of the teaching case, we recommend using a series of transition questions to promote classroom discussion, following the recommendations outlined in Table 4.

Table 5 shows a set of applied questions based on the main dilemmas discussed in the Drug Mart Araujo case. These questions are designed to encourage critical thinking and support strategic and conceptual discussions about innovation, organizational culture, leadership, and family governance. Table 5 can be used in group activities, seminars, or practical assessments, helping students develop well-founded solutions to the challenges presented.

These questions aim to foster critical and strategic thinking, encouraging students to explore the

concepts of management and innovation deeply within the specific context of a successful family business in Brazil.

8.5. Pedagogical features

The Drug Mart Araujo teaching case highlights how organizational culture can act both as a driver and an obstacle to innovation. According to Schein (1985), organizational culture is defined as the set of basic assumptions developed by a group to handle internal and external problems, which are taught to new members as the correct way to think and act. The author emphasizes the cultural levels and assumptions that shape organizational behavior, but more recent theoretical approaches expand this view. Cameron and Quinn (2011), for example, propose the competing values framework, which identifies four types of organizational culture: clan, adhocracy, market, and hierarchy. This model highlights tensions between flexibility and stability, as well as internal and external focus. The culture of adhocracy emphasizes adaptability, creativity, and innovation, aligning with the culture of innovation. Conversely, the hierarchy culture favors control, rules, and efficiency, corresponding to the culture of control and stability. Therefore, innovation-oriented cultures tend to be flexible and open to new ideas, while control cultures prioritize order and predictability.

This distinction is vital for understanding the challenges faced by century-old family organizations like Drug Mart Araujo. A culture of control can ensure consistency and quality, but it might also hinder creativity. Conversely, a culture of innovation encourages

Table 3. Proposed agenda.

Time (minutes)	Activity
0–10	Opening and context
10–30	Discussion of <i>transition questions</i>
30–60	Analysis of questions applied in small groups
60–80	Presentation of groups
80–90	Summary and closing

Table 4. *Transition questions* for discussion.

Section	Analysis questions
Introduction	How does family history influence the company's strategic decisions?
	What organizational values are evident in the narrative?
	How does the culture of innovation manifest itself in the company's practices?
Development	What dilemmas arise when a family business grows rapidly?
	How can tradition and modernization be balanced?
	What risks are associated with rapid expansion?
Dilemma	What criteria should guide investment decisions?
	How to assess the <i>trade-off</i> between growth and sustainability?
	What role should corporate governance play?

Table 5. Questions for discussion.

Central theme	Question 1	Question 2
Sustainability of the innovation model	To what extent is Drug Mart Araujo's current approach to innovation, based on individual leadership, sustainable in the long term?	What are the advantages and disadvantages of maintaining a non-systematic innovation model compared to a more structured approach?
Manager autonomy and collaborative culture	How could the transition to greater manager autonomy impact the culture of innovation at Drug Mart Araujo?	How can the influence of leaders be balanced with the empowerment of managers to promote a more collaborative culture of innovation?
National culture and management model	How might Brazil's culture of centralized power and risk aversion limit innovation?	What strategies could overcome cultural barriers and promote radical innovation at Drug Mart Araujo?
Preparing for the future	What changes are needed in the company's management model to maintain its growth and relevance?	How can the company adapt to market changes without losing its family essence and corporate values?
Continuity and prosperity	What are the risks and challenges of attempting more radical innovation?	What measures should be taken to ensure business continuity and prosperity in a competitive global business environment?

experimentation, but it can also introduce risks. Denison and Mishra (1995) show that different cultural traits have varying effects on performance: traits of involvement and adaptability (similar to adhocracy) are positively linked to innovation and growth, while traits of consistency and mission (more associated with hierarchy) are connected to efficiency and profitability. Therefore, companies with high levels of adaptability and participation tend to be more agile and innovative, whereas cultures that are overly consistent and controlling may struggle to adapt to disruptive changes.

Besides cultural balance, there are traditional cultural and structural barriers to innovation that must be carefully considered. Resistance to change is one of them, as members of the organization, used to conventional practices, may fear or oppose new ideas, especially in family businesses where the values inherited from the founders are deeply embedded. This cultural inertia often connects with vertical organizational structures. Rigid hierarchical systems—with a high concentration of power—tend to limit managers' autonomy and slow down communication, which can block experimentation and quick innovative decisions.

At Drug Mart Araujo, the conflict between centralization and collaboration was clear: the figure of the president and family member held decision-making

power, which limited innovation potential. This context highlighted the need for a more flexible structure that encourages innovation and gives teams more empowerment. To overcome barriers like verticalization, it is essential to promote autonomy, trust, and a culture where constructive mistakes are accepted—as Drug Mart Araujo already tries to do with its philosophy of embracing mistakes (learning from failures instead of punishing them). In summary, a careful analysis indicates that shifting from a control-focused culture to an innovative one requires deliberate actions: assessing the current culture, defining the future culture, and aligning reward, communication, and leadership systems to support change (Cameron & Quinn, 2011).

Innovation is seen as a vital part of competitiveness, as Christensen (1997) states, enabling both incremental and radical innovations. At Drug Mart Araujo, incremental innovations—continuous enhancements in services and processes—were observed, consistent with maintaining the family tradition. This incremental approach is typical in mature family businesses, which tend to avoid sudden changes in their business model.

However, contemporary literature provides new insights into innovation management in family businesses. Studies show that family businesses tend to innovate less radically than non-family businesses,

despite often having the resources and knowledge to innovate more. According to Chrisman et al. (2015), this pattern is due to barriers such as risk aversion and a preference for preserving the family legacy rather than fully exploring new opportunities. On the other hand, some unique characteristics of family businesses can serve as advantages for innovation. According to Litz and Kleysen (2001), intergenerational involvement and shared values can create strong internal social capital that supports innovation. These authors argue that creative interaction between generations—founders, successors, and heirs—is crucial for achieving innovative results, as it combines the experience of older members with the vision and drive of younger ones. When the predecessor and successor generations collaborate, share knowledge, and challenge each other's perspectives, the family business tends to innovate more effectively and ensure its long-term sustainability.

One issue identified at Drug Mart Araujo was the lack of systematic innovation processes, meaning there was no formal method for capturing, developing, and implementing ideas. From a theoretical perspective, this gap can be understood through the concept of organizational ambidexterity—the ability to explore new opportunities while efficiently exploiting existing operations (March, 1991; O'Reilly & Tushman, 2013). Ambidexterity involves balancing exploratory innovation (radical, focused on new markets or technologies) with exploitative innovation (incremental, aimed at improving the *core business*). Ambidextrous organizations typically create separate processes (or different contexts) for each type of innovation or foster a highly adaptable culture that enables them to switch between exploration and exploitation.

In the context of family businesses, this duality presents challenges: family management tends to prioritize continuity (exploiting what exists), and there may be limited openness or resources allocated to exploring radically new ideas. Recent literature even debates whether ambidexterity offers consistent benefits to family businesses. Some findings suggest that family management may reduce the advantages of ambidexterity due to more conservative or centralized decision-making. Nonetheless, the lack of systematic processes at Drug Mart Araujo highlights an opportunity for improvement: adopting more structured knowledge management and innovation practices.

Models like socialization, externalization, combination, and internalization (SECI) by Nonaka and Takeuchi (1995) illustrate how to convert tacit knowledge (the experiences of managers, often family members) into shareable explicit knowledge, fostering ongoing innovative ideas. Without such processes, innovation often relies solely on informal efforts or chance.

Therefore, grounded in organizational ambidexterity and knowledge management, it is recommended to implement mechanisms such as dedicated teams or units for radical innovation (separate from routine operations), idea suggestion systems accessible at all hierarchical levels, and routines for capturing, sharing, and experimenting with new practices. This practice professionalizes innovation by reducing reliance on individual instincts of leaders and enhances the company's ability to continuously and intentionally innovate.

Another important point discussed in the case is the issue of family leadership and succession, especially the risks of relying too much on a leader's personal charisma. Family businesses often succeed under charismatic leaders—visionary founders or heirs whose strong presence influences the culture and drives the business—but depending heavily on a charismatic leadership style can create vulnerabilities. According to Weber's (1947) classic theory of charismatic authority, such leadership must eventually be formalized (institutionalized) to ensure the organization's continuity after the charismatic leader departs. Recent research supports this idea by noting that, over time, solely transformational leadership can lead to complacency, making a transition to more transactional and structured styles necessary to sustain performance and innovation. Charisma can motivate and steer the company during its growth phase, but in the succession phase, there must be processes, governance, and structures to replace the personal touch of the previous leader. Saxena (2015) suggests that transactional leaders—focused on creating reward systems, clear goals, and routines—may be better suited to succeed highly charismatic leaders, reducing excessive dependence on one individual and cultivating disciplined innovation within the team.

In the context of Brazilian family businesses, this discussion is especially relevant. Drug Mart Araujo conducted careful succession planning, with a gradual transfer of leadership across generations.

However, risks still exist: the patriarch's legacy might hinder change if the new generation feels compelled to maintain everything as it has always been out of respect for the founder; or, alternatively, there could be challenges in gaining legitimacy with employees if the new leader lacks the same charisma or recognition.

The literature on family businesses indicates that successful successions involve gradual professionalization, with successor family members combining tacit knowledge of the business with modern management practices (Gersick et al., 1997). The literature also highlights the importance of separating ownership and management roles when necessary, so that the new leader's authority is not undermined by other family members. A common risk is founder syndrome, which occurs when the previous leader continues to dominate decisions or when the culture becomes centered around their figure, impeding post-succession innovation. To prevent this issue, measures like institutionalizing values rather than individuals—such as creating advisory councils or boards with external members and defining collective strategic plans—help the company avoid dependence on a single person.

In brief, leadership transition in family businesses involves balancing the preservation of core values (cultural identity) with strategic adaptation. While personal charisma is influential, it must be replaced by distributed leadership and formal systems to keep the company innovative and resilient, no matter who is leading.

National culture significantly influences leadership styles and openness to innovation within local organizations. Classic Brazilian sociology authors, like Roberto DaMatta (1986) and Sérgio Buarque de Holanda (1936), offer insights into cultural traits that impact companies. For example, DaMatta (1986) discusses the well-known "*jeitinho brasileiro*" (Brazilian way), an informal and personal approach to solving problems, linked to Buarque de Holanda's (1936) concept of the cordial man. The Brazilian way involves personalizing relationships and creatively bypassing rules. This cultural trait has two effects. First, it promotes improvisation, adaptability, and even creativity when resources are limited—potentially leading to low-cost, incremental innovations. Second, the Brazilian way can hinder the adoption of systematic processes

and impersonal criteria, which are essential for implementing larger innovations.

Additionally, personalism in work relationships often reinforces paternalistic structures within Brazilian companies, many of which are family-owned, where the boss is viewed as a father figure who holds authority and protects employees in exchange for loyalty (Caldas & Wood Jr., 1999). This behavior aligns with Hofstede's (1991) classification of Brazil as a culture with high power distance—that is, acceptance of strong hierarchies—and a collectivist, family-oriented tendency, valuing personal relationships highly in the professional environment. These traits help explain why Brazilian family businesses usually have decision-making concentrated at the top and a limited network of trust, which can impede innovative initiatives from lower levels of hierarchy.

Another notable aspect is the resistance to risk and uncertainty. Studies such as that by Tanure (2007) emphasize that Brazilian management culture often avoids conflicts and high risks, prioritizing stability and harmony at work. Tanure (2007) contends that the centralization of authority and low tolerance for mistakes—traits common in many national organizations—serve as hidden barriers to disruptive innovation. The case of Drug Mart Araujo demonstrates this well: the company has achieved a century of success through operational efficiency and customer service (incremental innovations), but its own history raises questions about whether this approach will be enough in a more dynamic market and among technological competitors. Resistance to more radical changes may come not only from the internal culture of the family business but also from contextual factors, such as the Brazilian institutional environment.

Bureaucratic barriers, periodic economic instability, and low government support for R&D are identified by contemporary authors as obstacles to innovation in Brazil (De Negri & Squeff, 2016; Suzigan et al., 2020). However, there are also contextual advantages. The usual adaptability of Brazilian entrepreneurs and their creativity in working within scarcity scenarios (the Brazilian way in its positive aspect) can be directed toward innovation when properly channeled. For example, Brazil has instances of frugal innovation and unique business models across various industries, stemming from a mix of necessity and local ingenuity.

In terms of empirical references, Brazilian organizational studies from the 1990s, such as those by Barbosa (1992) and Prates and Barros (1997), identified five Brazilian cultural traits that influence companies: personalism, formalism, the Brazilian way, spontaneous growth, and short-term vision. Many of these traits are directly connected to the theme of innovation. Personalism (prioritizing personal relationships over impersonal norms) can obstruct professionalization and meritocracy within innovative projects. Formalism (feigning respect for rules, yet often not following them in practice) can create a disconnect between the stated innovation strategy and actual implementation. The Brazilian way (cunning in exploiting loopholes) indicates the ability to improvise and can both facilitate process innovations and harm internal trust if mistaken for opportunism. Spontaneous growth—entrepreneurship without much planning—demonstrates agility but also reveals a lack of systematization, while a short-term vision hampers investments in long-term innovation.

Recent authors (Fleury & Fleury, 2011; Mattos & Basso, 2019) emphasize the rise of a new generation of Brazilian entrepreneurs and managers who are more receptive to change, shaped by global management standards. Large national companies are working to adopt compliance, corporate governance, and innovation units (such as internal startup labs) to challenge traditional hierarchical rigidity.

In the balance between the classic and the contemporary, Brazilian culture provides both foundations and constraints for innovation. On the one side, strong social cohesion and pride in family values (loyalty, hard work, and creativity in adversity) create a work environment with a clear identity and purpose—factors that can motivate innovations aligned with company values. On the other side, “jeitinho” (the Brazilian way of getting things done) and centralization can lead to quick fixes rather than systemic changes, and dependence on charismatic leaders rather than impersonal institutions hinders continuous innovation across generations. Overcoming these challenges in the Brazilian context requires cultural awareness: leaders must balance tradition and innovation, maintaining the positive aspects of the local culture (cohesion and adaptability) while implementing management practices that address its weaknesses (e.g., encouraging learning from mistakes instead

of punishment, gradually decentralizing decisions, establishing meritocratic *compliance*). Only then can century-old family businesses such as Drug Mart Araujo navigate the turbulence of the modern market without losing their essence, achieving the difficult balance between legacy and renewal.

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