



GRUPO VELAZQUEZ

John Estévez could not believe what was happening. With his Harvard MBA and after a successful period in Grupo Velázquez's foreign subsidiaries, he had recently been promoted to executive vicepresident of what he considered an interesting group of companies, whose owners he appreciated and by whose family he felt respected.

In a short period of time, a series of events had taken place caused by reasons that until very recently had been unknown to him, and he had found himself caught up in an inexorable maelstrom of tensions and embarrassing situations, culminating in an improvised meeting in which the shareholders had remained speechless and he had been harshly rebuked by Grupo Velázquez's senior management en bloc.

Background

Cosme Velázquez, the founder of the firm, was born in 1900 in the Mexican town of Montemorelos southeast of Monterrey. By the time he was 30 years old, he had already been working for 20 years. He had managed to make a living for himself, his wife and two children; he was the best stonemason in the county and had managed to save a little money.

By 1945, he had licenses to operate four quarries and lived in Monterrey with his wife and three children: Lorenzo, Victor and Manuela. His obsession was that they should all have a college education and he spared no effort to make this possible. To this end, he moved his family to Mexico City that same year, while he himself stayed in Monterrey to look after his businesses. He would occasionally travel to the capital to visit his family.

(1) Case of the Research Department at IESE.

Prepared by Enrique Mozo research associate, under the supervision of Profesor M. Angel Gallo. September 1997.

It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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In 1946, after a short illness, his wife died and he left his children in the care of a trusted family.

Cosme, as he was now known, employed more than 200 men. He had invested in state-of-the-art machinery and, with his austere, hard-working temperament, his businesses were in a sound state of financial health. In 1948, he hired *Plácido Rubiñán*, an exiled Spanish engineer who knew the most advanced construction techniques. With Plácido's help, Cosme founded his first construction company, *Construcciones Velázquez, S.A.* With his contacts, he soon won contracts to take part in the construction of the most modern buildings in the booming town of Monterrey and in hospitals and other public buildings. As a contractor he was expensive, but he could be relied on for good quality and punctual delivery. This earned him a good reputation and large profits, which he systematically ploughed back into his companies. He only permitted himself two luxuries: bringing up his children in an atmosphere of material wellbeing, and paying his key men quite a lot above market rates to ensure their continued loyalty.

In 1952, he made the most important decision of his life. After a long trip alone to the United States, he came back with the North American engineer (of Hispanic origin) *Alfred García*, a specialist in the latest cement production technology and the use of additives. Thanks to a sizable loan, Cosme started up his first cement factory, *Cementos Velázquez, S.A.* Five years later, he reinvested his profits and, with the help of another loan, built the technologically most advanced factory in Mexico in Veracruz, to have an exit to the sea.

With the invaluable help of Plácido and Alfred, his businesses prospered, and to his teams of loyal and untiring workers he added young, reliable and well-paid construction and production engineers. The only time off work during the week was on Sunday afternoons.

With the aggregate from his quarries and the cement, he soon started to create a network of concrete production plants, mostly with loans. He installed corporate laboratories in Veracruz to test the use of the most advanced additives and formulations, which gave him a name for advanced technology nationwide.

In 1963, he merged his concrete production operations with his construction operations, founding *Horconvesa* (Hormigones y Construcciones Velázquez, S.A.). His company had become one of the best known and most widely respected builders of structures for modern buildings and superstructures for viaducts, bridges, etc. After the creation of *Cubas, S.A.*, he also had his own fleet of concrete mixer trucks.

In 1970, Cosme was still as busy as ever. He still had many "live" loans but he was no longer afraid to owe money. For his companies to continue growing and remain competitive, he realized that he needed to have sufficient capacity to respond to all the opportunities offered by the market.

In 1974, Cosme died of a heart attack while traveling by car from Mexico City to Monterrey (see Exhibit 1).

Cosme's Children

Lorenzo

Lorenzo, the eldest son, was born in 1926. Being the eldest, he had always been his father's favorite. He was the son Cosme spent most time with during the rare occasions he was at home with the family. While Lorenzo was still a teenager, his father even took him with him on the occasional trip to his quarries, "so that he could start to get an idea". However, and perhaps influenced by the choice made by his friends at high school, Lorenzo decided to study Law. Cosme accepted but insisted that Lorenzo accompany him on all his trips during his vacations.

Lorenzo graduated in 1952 and married a childhood friend in Monterrey. Shortly after, he joined his father's companies full-time, accompanying him on his continual travels and starting up a rudimentary legal department.

The entry of Lorenzo occurred almost simultaneously with the birth of Cementos Velázquez, S.A. It could be said that his first twenty years working in the company were spent accompanying his father, seeing how he made his decisions with his two righthand men, seeing how the businesses grew, and sharing in hectic traveling and continual sacrifice.

In 1953, his only son was born, Matías Velázquez. Lorenzo earned a very high salary and his family lived in a luxurious, elitist setting in the capital.

Victor

Victor was Cosme's second child. He was born in 1928 and, from a very young age, he had to accept that his father would always spend more time with his elder brother. Thus, Victor had to grow up much more independent than his brother and sister. He was not particularly interested in his father's businesses either and therefore decided to study Medicine. When he returned to Mexico, after having brilliantly obtained a superspecialty in surgery in the US, he married the girl he had been going out with since he was a teenager, the daughter of a family of Mexican oil entrepreneurs, and opened a private clinic – a wedding present from his father-in-law – in the best part of Mexico City.

Manuela

Manuela, Cosme's youngest child, was born in 1934. After high school, she decided to study Economics, thinking that this would enable her to understand her family's businesses better and complement her father's and elder brother's activities. During vacations and whenever she had some spare time, she went to the companies' corporate headquarters, which had moved to the capital in 1957 to enable the company to function more effectively. There, she helped in administration tasks, working with the loyal team of accountants who had followed her father over the years. When she was 26 and she still had a few years to go to complete her degree course, her father decided that she should join the companies full-time, performing accounting tasks during the first years. Thus, her university degree gradually became forgotten.

After she joined the company, she married the son of a landowner in North Mexico, whom she had got to know during a short pleasure trip to the USA. Her father gave her a salary equal to exactly half that of her elder brother and stipulated that this proportion should be maintained in all subsequent raises. Manuela had one son and two daughters and lived fairly modestly.