Debate

Monterry Industries- Ethics and Equity in a Second Generation Family Firm

Susana Rodriguez, President and Chief of Officer (CEO) of Monterrey Industries, had returned home exhausted after attending the annual meeting of shareholders of the company. After petting her playful Labrador retriever and letting him out to play in her beautiful yard, she poured herself a glass of wine and situated herself on the swing in the yard to ponder over what had transpired in the shareholder meeting. She cannot help but wonder how far her small family firm had progressed in 40 years she had been its president.

Background

Monterrey Industries was an automotive manufacturing company located in a small town outside of El Paso, Texas near Mexico border. The company manufactured a range of products like ball bearings, roller bearings, spindles, and steel balls for auto companies in Asia, Europe, North America, and South America. The company was known for using the latest and the best manufacturing technique and for providing high quality products. Over the years, the company has maintained a steady growth rate with yearly revenue growing in line with the average growth rate of the auto industry. However, the company was not completely immune to turbulence of the auto industries during the great recession, when a lot of auto companies experienced extreme financial difficulties. But, Susana, being a conservative and astute leader, was able to navigate her family firm quite well through the financial crisis and positioned it to benefit from the post-recession growth. Susanna's three siblings, two sister and a brother, who also worked at the family firm, played a critical role and supported her efforts during the crisis.

Susanna's father, Alejandro Rodriguez, started Monterrey Industries with his brother Santiago Rodriguez in 1955. Rodriguez brothers, who had retired from the U.S. Airforce a few years apart as aircraft mechanic, had initially tried to earn their living through a variety of odd jobs. However, with young kids both brothers longed for some stability and security in their life and do something related to their Airforce training. Soon the opportunity came knocking with growth of automobile companies and higher prevalence of cars in the society. The higher adoption of cars resulted in higher demand for maintenance, service, and unique car parts, especially for a variety of newer models hitting the market. The brothers initially focused on manufacturing custom parts for car repair shops. As they focused on providing quality products, they soon gained a reputation in the community for their craftmanship and quality. They soon started receiving orders from not only Texas, but also from the neighboring states and Mexico. The company was growing exponentially with both brothers earning a good living.

However, the growth brought with it many challenges for the brothers. They not only needed to hire more employees to keep up with the demand, but also needed to create some structure for division of labor and money among them. This changed the dynamic among Rodriguez brother to a point, where their constant personal struggle started spilling into operations of the firm. This resulted in employees sometime instigating brothers against each other to obtain personal benefits from the firm. After trying their best to manage the firm and their personal and professional relationships, the Rodriguez brother decided to end their partnership with Alejandro buying out his older brother Santiago's equity in 1965.

Alejandro, initially struggled to manage the firm without valuable help of his brother. However, he was happy to avoid the emotional toll of regularly fighting or arguing with his only brother. He also had a family to support that included two teenage (13 years and 17 years) daughters, one son (Dominic, 9 years old), and a 2-year-old daughter (Roseanne). His wife, Rosa Rodriguez, was an elementary school teacher. Rosa and two teenage daughters, Charlotte (elder) and Susanna, helped their father whenever they had time off from their school. The younger kids picked up the practice of spending time in their family firm when they grew older.

Alejandro's wife Rosa, being an educator herself, emphasized the importance of good education to all their four children. Alejandro also valued and appreciated his wife's emphasis on education after his own struggle with earning a decent living for his family and lack of high school education. The parents' emphasis on education paid off with all four children excelling in school. Charlotte received admission offers from many prestigious universities; she eventually joined Harvard University to enroll in the literature program. Dominic enrolled at Princeton University become an engineer. Roseanne, the youngest one, joined Columbia University to study anthropology. Susanna decided to stay near her parents and joined the University of Texas, El Paso to study business.

In college breaks and during summer breaks, Susanna would help her father and work at her family firm. Susanna was always an eager learner when it came to the family firm. She always asked her father if he would hire her after the graduation. After graduating with a business degree, she joined the firm full time despite having multiple offers with attractive salaries from larger firms located in big cities. However, her sibling decided to relocate to larger cities to start their professional careers.

As the time went by, the firm continued its growth while experiencing many growth pains over the years. However, Alejandro now had a great partner in her daughter, Susanna, who was using her business knowledge to slowly professionalize and organize the firm. He started relying more and more on Susanna for critical business decisions. Susanna had developed a good relationship with customers and suppliers. She had earned the trust of employees and built a good connection with local government officials.

Around 1980, Alejandro's health suddenly became deteriorating. As only Susanna was working in the firm and was literally managing the firm singlehandedly, he decided to pass the leadership of Monterrey Industries to her. However, he and Rosa wanted to ensure all their four kids received an equitable portion in the company ownership. At the same time, it would have been unfair to not recognize Susanna's role in building the company to where it was. Further, their other three kids lived in different parts of the U.S. and had regularly expressed desire to build their lives in big cities. Susanna's continuity in the firm was important for continuing the family legacy and build wealth for his kids and his future generation. Thus, he offered Susanna a much larger equity in the firm along with the voting control. His other three kids received equal equity ownership in the firm, but their combined ownership of the firm was less than Susanna's ownership of the firm. This allowed Susanna to maintain control and leadership of the firm. Alejandro also obtained assurance from Susanna that she would be fair to her siblings and keep their interest in mind.

Susanna's Leadership

In 1982, Alejandro passed away shortly after completing all formalities of transferring the firm ownership to all his four kids and leaving a minority ownership for his wife. Susanna started managing the firm by herself. She occasionally shared the company financial information during their family get togethers, such as Thanksgiving dinners and holiday events. As she had assured her father, she regularly distributed a portion of company earnings to her siblings and her mother according to their equity portion in the company. As the company was growing, the payment associated with equity ownership of each sibling kept growing over the next few years along with the value of those equity holdings.

In 1987, Rosanne decided to move back to her town to be near her mother and sister after a bitter short-lived marriage. She joined Susanna in the firm to keep herself busy and help her sister. Susanna, being an altruistic and protective elder sister, offered her younger sister the same salary she was drawing from the firm herself even though Roseanne lacked any business experience. Over next decade, as the firm continued its growth, other two siblings also moved back to the town with their families to join Monterrey Industries. They also received same salary and perks that Susanna and Roseanne had in the firms. So, even though all siblings had different level of responsibility in the firm and possessed different kinds of skillset (often unrelated to the operations), each had exact same salary and benefits. Later, each assumed responsibility of a different functional area (i.e., operations, marketing, HR, accounting) of the firm to avoid impression or perception of one sibling serving as the boss of other siblings. This created its own set of problems for the firm, where Susanna was unable to make necessary decisions without consent of her siblings. However, the siblings with their occasional work-place friction maintained a good relationship and bond among themselves. The family firm, Monterrey Industries, served as the main source of everyone's wealth and livelihood.

Susanna had continued managing and growing the firm along with her three siblings. She has continued to operate the firm with family needs in mind and providing for her sibling and their families. Over the years, the firms have shouldered an increasing burden of providing additional perks or benefits to serve the need of a growing number of 3rd generation family members. For example, the firm had instituted a new policy to fund tuition of 3rd generation family members at expensive private schools and universities; the yearly tuition at some of these schools were over $60,000. Further, the company also had a policy that offered guaranteed employment to any 3rd generation family member interested in working in the firm.

Extended Families

In 2016, three siblings were older than 60 years with Charlotte at 68 years, Susanna at 64 years, and Dominic at 60 years; Rosanne was approaching 54 years. Each of them was at a different stage of life with different family needs. Charlotte had four kids, who had studied at good private schools and Ivey league universities that was paid for by the family firm. Her kids lived in different parts of the U.S., and none was interested in joining the family firm. Charlotte herself was looking to retire and spend more traveling to locations where her kids lived. She wanted to sell her equity in the firm and retire before she turned 70.

Susanna, who was married to her high-school sweetheart, did not have any kids. Recently, she and her husband Eric had started discussion about their retirement life as well. She believes that she has played her part in building a solid company that she inherited from her parents. However, she would like to spend her time in retirement developing a new hobby and devoting more time to philanthropic activities. She would like to get out of the company by selling her equity to one of her siblings or to an outside investor if none of them are interested in buying the firm.

Dominic has three kids with two daughters studying at expensive and reputable east coast universities, while his son is completing high school at one of the most prestigious residential private school. The total yearly cost of education for his kids are well over $250,000 that Monterrey Industries funds. Dominic is interested in taking over the leadership of the firm from his sister, Susanna. This will offer a good opportunity for his kids and his future generation, while offering the possibility of keeping the family entity in the family. However, he lacks funding required to buy the firm and is not confident in his ability to manage the firm by himself.

Roseanne and her second husband George had a son, who recently passed away in an accident. They have been devastated by this tragedy and are struggling to find a new purpose for their lives. She has continued working for the family firm, while her husband sustains his private orthopedic surgery practice. They are exploring various possibilities for the next phase of their life, which does not include leadership of the family firm.

The Shareholder Meeting

Susanna, while sitting in the swing and sipping her vine, suddenly remembers the events of the shareholder meetings that she attended with her three siblings. As Monterrey Industries have only four shareholders remaining (their mother has passed away a long time ago) with Susanna controlling a majority of the firm equity, while rest of the firm equity is divided equally among the other three siblings. At the meeting, Susanna shared information about the most recent year financial performance of Monterrey Industries along financial projections for the next year. Given the deterioration in economic conditions, the firm had suffered a significant decline in revenue with the firm barely staying profitable. The financials projections for the next year seem equally challenging. The number had significant implications for all siblings' life plans. This resulted in discussion becoming heated among siblings when Susanna emphasized the need to reduce profit sharing to zero for the next two years.

Charlotte was adamant that the firm should not abruptly stop profit sharing just when she has finalized her retirement plans. She asked everyone to instead take a salary cut and reduce special incentives, such as paying for private school tuition for Dominic's kids. Dominic opposed Charlotte by reminding her that the company paid for private education of her four kids. He insisted that the company continue paying for his kids' private education irrespective of the current financial conditions. Roseanne suggested that her two siblings (Charlotte and Dominic) are becoming selfish and are not appreciating inequity that she and Susanna had suffered because the firm didn't pay anything for kids' education. The back and forth between siblings became so emotional that Susanna decided to end the meeting and continue the conversation in a later meeting.

At home, while pondering over the events of the meeting Susanna couldn't thinking if she is responsible for the infighting and tension among her siblings, she experienced at the shareholder meeting earlier today. In her quest to maintain family harmony and prioritize family needs, she had operated with policies and practices that were inconsistent with best practices of the industries and her own business education. In her quest to help her siblings, she had created an inequitable and unfair system for herself and her younger sister, Roseanne. She is also wondering if she created an unethical work environment not only for her and her siblings, but also for non-family employees in the firm. She is wondering how she should have operated to avoid the current ethical dilemma in the firm.

Suggested Discussion Questions:

1. Do you think Monterrey Industries management practices were ethical? Why or why not?
2. Is the policy of paying same salary to all siblings working in the firm, irrespective of the position and job responsibility, ethical? Why?
3. Was Alejandro's distribution of firm ownership among his kids fair and ethical? What should have Alejandro done differently?
4. Was Susanna ethical in her role as the president and CEO of the company? Why or why not?