

MUEBLES COSTA: A FAILED SUCCESSION? ¹

That morning in February 2016, five people sat at the table in the Board Meeting Room, at the facilities of the company Muebles Costa. Those people were Mr. Vicente Costa (80 years old) and his three children, Vicente (56), Javier (50), and Amparo (47). The only one at the meeting who was neither a shareholder nor a member of the Costa family was Mr. Saturnino Ferrer, a trusted family lawyer who was attending the meeting in his capacity as secretary of the Board. The atmosphere was tense because in recent months there had been friction between some of the members of the family, in particular between Vicente Sr. and his eldest son, Vicente, who now was the company's CEO. The meeting had been urgently convened at the request of Vicente Sr. who was Chairman of Muebles Costa, S.A., and the only item on the agenda was the replacement of the company's CEO.

Following his personal style, Don Vicente did not beat around the bush and went straight to the point. In his opinion, Vicente's performance as CEO had clearly been lacking in the previous years, and only the love he felt for his son had prevented him from proposing his replacement earlier. Another reason why he had not acted was the extremely dangerous situation that the company had gone through in recent years, including the threat of bankruptcy. The financing agreement reached recently gave them a break and allowed the company to take a new course. He believed that someone else had to lead the company in this new stage.

After Vicente spoke Javier jumped to the defense of his older brother. He argued that Vicente's work had been crucial for the progress of the company in the past and that his efforts had helped them ward the crisis off. In his opinion, most of the problems the company had experienced had been caused by the structural crisis of the furniture industry, and in particular by the bursting of the construction bubble in Spain. *"I don't think any other CEO would have achieved better results during these years, and I don't think Vicente deserves this,"* he said.

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Vicente Costa listened with a sad and tired countenance from the other side of the table while Javier spoke. For many years, he had put all his energy into this company and had learned a lot from his father. Unfortunately, in recent years, his efforts to solve the problem of Muebles Costa's bad results and the frequent disagreements with his father had ultimately exhausted him and strained their relationship.

His sister Amparo, who worked at the company as Marketing Director, also seemed sad and looked alternately at her father and her older brother. She had never thought it was necessary to replace the CEO either and did not understand the purpose of the meeting. When it was her turn to speak, the first thing she did was to ask her father: *"And who do you think should be the next CEO?"*

Her father looked at her very calmly and answered: *"My son-in-law, your husband, Antonio."*

The three Costa siblings gaped at each other in surprise. Amparo made obvious gestures to her brothers to emphasize that she knew nothing about this proposal.

Vicente Sr. spent the following few minutes explaining the reasons why he thought that Antonio Fernández, his son-in-law, should be the next CEO. At the end of his presentation, he suggested they cast a vote on the proposal. Saturnino submitted the proposal to a vote and reminded them of the percentage of votes they each represented. In favor of Vicente's replacement as CEO was Vicente Sr. with 40% of the shares. Vicente and Javier voted against the proposal, each representing 20% of the shares. Amparo owned the remaining shares; she looked at all those present with a concerned look on her face, not knowing what to do.

BACKGROUND

Muebles Costa was a furniture manufacture and commercialization company located in an industrial estate on the outskirts of Alicante (Spain). It was founded in 1975 by two brothers: Vicente (born in 1935) and Luis (1938). Their parents were farmers from a village in the area. Vicente Sr. studied chemical sciences in Valencia and worked for years in a fertilizer company. In 1975 he decided to work for himself, and with his savings and the money he got from selling some land, plus a loan from the bank, he created the company together with his brother Luis.

The beginnings were not easy, but the brother's wise management and the economic and demographic development Spain experienced in those years, made it possible for them to keep a growing sales trend (Exhibit 1). The brothers were intelligent and hard working, and they complemented each other well. From the beginning they divided tasks: Vicente was oriented to the administration and the factories while his brother took charge of sales and relations with clients. The furniture manufacture industry requires substantial investments in machinery, so for years, they had to reinvest most of their profits.

Ten years after it was incorporated, Muebles Costa had a turnover of 44 million EUR and a glowing reputation in the industry for being reliable and offering a quality product.

It was around that time when the second generation began to join the company. The first one to do so was Vicente, Vicente Sr.'s older son, born in 1960. Vicente had studied Chemistry in Valencia, like his father, and started to work at the company shortly after he graduated and finished his military service. From the beginning, he focused on production at Muebles Costa, since he enjoyed working at the factories and experimenting with the machinery. Vicente's entry in the company freed his father from many technical tasks and enabled him to devote his time entirely to his role as CEO and clear leader of the company. Vicente's collaborators considered him an analytical, conciliatory person. Unfortunately, his relationship with his uncle Luis was always problematic, and there was often friction in their relationship. Vicente felt that the commercial department promised delivery times that the factories could not meet. Conversely, Luis Costa frequently complained that his nephew was not very flexible.

In 1990, Vicente took the initiative to introduce a garden furniture manufacturing line that was an instant success, rapidly increasing sales. The product was so successful that, in 2015, it represented almost 40% of the total turnover. Also, the management of the company's factories improved notably since Vicente had taken over the Production Department after the former factory manager had retired, a non-family manager who had been with the Costas since the foundation of the company.

Vicente Sr. was a man with very strong ideas regarding the need for his children to study and be trained for their professional lives and always encouraged them to study. His brother Luis, didn't have the same ambitious, and neither of his children went to college. In the early 90s, Javier, Vicente Sr.'s second son, was about to graduate in Economics. In the prospect of the thought of his nephew Javier joining the company, and given tension in their relationship with his nephew Vicente, Luis Costa spoke with his brother, and they decided to split amicably. Luis sold his share of the business to Vicente Sr., with a four-year non-competition clause. The company had to borrow heavily to repurchase Luis' shares.

In the early 90s, Muebles Costa steadily increased its sales and results. This good progress enabled them to repay their debt to the bank and the other part of the family. Unfortunately, Luis Costa died a couple of years after the separation. Luis' children did not respect the agreement, and with the money they obtained, they opened a new factory not too far from Muebles Costa. The cousins managed the new factory poorly, and it their new venture never took off. They ended up selling several years later.

Javier Costa joined the company in 1995. Upon graduating in Economics, he worked for a construction products multinational for a couple of years, and then took a master's degree in Business Administration. His first job at Muebles Costa was in the Commercial Department, where he gradually acquired knowledge of the business and the clients. His good work and leadership skills launched him up to the position of Commercial Director. In 1999, Javier left national sales passing on this responsibility to Antonio, his brother-in-law, who had joined the company after marrying Amparo, the youngest of the Costa