Big boots to fill—the next generation continuing differently

Eric Clinton  
Dublin City University, Ireland

Justin B. Craig  
Northwestern University, USA

Vanessa Diaz-Moriana  
Dublin City University, Ireland

Catherine M. Faherty  
Dublin City University, Ireland

Abstract
This case history describes the challenge facing Carlos García, the third-generation successor of a Spanish family business, as he takes over the reins of Hispalis and prepares to continue the business ‘differently’. In two generations, Hispalis has morphed into a global conglomerate, with a portfolio of business ventures in multiple industries and countries. The case history facilitates discussion of business and family issues and is appropriate for beginning-level undergraduate students in the areas of entrepreneurial leadership, family business, strategic management and corporate governance.

Keywords
entrepreneurial growth, family business, corporate governance, leadership internationalization, next-generation involvement

Learning outcomes
This case history can be used to identify important family and business dynamics by means of the systems theory model of family business (family, management, ownership) and also is structured to identify where differences manifest between family and non-family businesses as well as within the family business genre, using the architecture, governance, entrepreneurship and stewardship (A-GES) framework. The A-GES framework is built around the areas in which the unique features of family owned businesses are evident – that is, architecture, governance, entrepreneurship and stewardship.

As he leaned back in his chair, Carlos García felt proud. Finally, after 15 years of preparing to take the reins of the business his grandfather started and his father grew into a billion-dollar international enterprise, it was his turn to take the lead. While he knew every aspect of the business he was now responsible for, as he sat at his desk and considered his own legacy, the influence of his grandfather and father was ever present. In fact, their larger-than-life portraits hung on the walls of the office he now occupied. The words of a friend, who was leading a fifth-generation family business, now made sense: ‘Each generation needs to conquer the business’. He smiled as he thought of himself as ‘Carlos the Conqueror’, while also looking up at the images of his forebears, trying to establish how they had conquered the business during their time in the chair (Warren, 2005). It seemed that he was really was standing in the shadows of two entrepreneurial legends. ‘What a privilege, what a responsibility’, he found himself saying aloud. But to himself, he thought, ‘If only there was a simple way to succinctly capture the contributing factors to our family’s business success and to understand what really distinguishes
us from other businesses’. Carlos was becoming increasingly aware that being the leader of a successful third-generation family business came with significant challenges and that the task ahead was considerable.

Juan García . . . in the shadow of an entrepreneurial legend

Carlos thought of his grandfather, Juan García, a man who had taught him to sail, fish and later double his pocket money by selling used construction supplies at a local Saturday market (Drennan et al., 2005). As he reflected, he shook his head, struggling to understand what his grandfather was thinking when he decided to pursue a large-scale capital strategy at a time of economic hardship in Spain.

There was no shortage of stories that helped build the legend that surrounded Juan García. For example, he once purchased 125 million Pts worth of Spanish steel to build a bridge for which he had no planning permission. When asked how he was going to pay for the steel, Juan García responded, ‘Don’t worry, we’ll find a way’. This was typical of his attitude, a strong positive can-do approach to business. He was high in self-belief and more than willing to take risks.

In 1948, at the age of 16, Juan García started his first business, along with his brother, Arturo. The duo acquired a used truck and began delivering construction supplies to vendors – a venture that earned returns of approximately 5000 Pts per week. It was from such humble beginnings that the family’s first business venture emerged, Construcciones García, which quarried and delivered stone and gravel to the construction industry in Spain. By 1961, Construcciones García had grown and ventured overseas, and in 1970, it merged with Española de Cementos (the sole producer of cement in Spain) to create Construcciones & Cementos (C&C). C&C ranked number three as the largest building materials companies in the world, operating in more than 25 countries. In 1974, Juan García retired as chief executive of C&C but remained on as a non-executive director.

Indeed, even if Juan García had done no more than create C&C, his position on the Spanish Business Hall of Fame would have undoubtedly been secure – but it was what he achieved after his retirement that ultimately allowed the Garcías to become a major business dynasty in Spain. In 1978, Juan founded Infraestructura de Carreteras. The business’s initial project was the construction of the Ciudad Bridge. The bridge was designed and constructed in collaboration with the Spanish Government, as a public–private partnership. The partnership program was seen by the government as a means of easing the acute infrastructure deficit in Spain, in areas such as highways, airports and rail infrastructure, while also providing a vehicle for entrepreneurial activity in a harsh economic climate.

In return for the construction of the bridge, Hispalis secured contractual rights to collect a toll on the route for 30 years.

The initial tender was for a traditional contract with a price variation clause; however, following the awarding of the contract, a fixed price of €7.4 million was negotiated, with a contract period of 80 weeks. Construction began in April 1983, and the bridge was opened 81 weeks later, on 21 October 1984, at a cost of €7.7 million. By February 1985, 1 million vehicles had used the bridge, and the predicted usage of 11,000 vehicles per day had been surpassed. The iconic bridge was to become a central cog in Spain’s road network. It comprised a single-leaf opening structure in its centre, giving large cargo ships access to the Mediterranean port.

But one success does not a legend make, thought Carlos. Stories of the giant of a man, who once occupied the seat he now sat in, were abundant. Those who knew Juan García often spoke of how he pushed boundaries, often coming up with novel solutions to everyday problems. He was driven by a deep concern for societal development and, despite his lifetime of business success, still retained a common touch. For example, he was well-known for delivering coffee and sandwiches to the staff working the night shift on the tolls of the Ciudad Bridge. Throughout his business life, he took pride in knowing most, if not all, of his staff on a first-name basis.

Juan was a deeply religious man, and his spirituality was a central tenet to the early ethos of the firm. He wanted to improve the lives of the communities in which the business operated. Although many might assume that the bridge was built for financial gain, Carlos believed that his grandfather developed the venture with a deeper purpose in mind – to unite communities and improve conditions for the people of Spain.

The success of this partnership was the impetus for the introduction of a wide-scale rollout of the partnership model and one of the reasons the Spanish Prime Minister labelled Juan García as ‘One of the foremost entrepreneurs of his generation’. ‘Thanks granddad . . . you certainly left big boots for us to fill’, Carlos sighed as he looked up at the large character in the picture frame above his desk.

Pablo García . . . big boots to fill

Equipped with an MBA from the Wharton School of the University of Pennsylvania, Carlos’s father, Pablo García, joined Hispalis in 1976. Pablo immediately complemented his father’s entrepreneurial foresight, with strategic and professional management principles. The many case studies he reviewed at business school taught him that success in any venture required strong cash flow.

The toll collected at the Ciudad Bridge had contributed markedly to the success of Infraestructura de Carreteras, and so when an opportunity arose to develop a second
bridge and negotiate the toll collection in another public–
private arrangement, for the father and the son, it was a
‘no-brainer’. The solid foundation delivered through the
public–private agreements enabled them to think strategi-
cally and entrepreneurially about how business life would
look after the toll collection contracts expired. They knew
that they needed to take action while the situation was
favourable, while also planning new opportunities to secure
the future of the company.

As he reflected on the business decisions taken by his
predecessors, Carlos now understood the reasoning behind
the repositioning of Hispalis into a renewable energy and
waste management company. The macro forces of climate
change, scarcity of energy supplies and general resource
depletion underpinned his grandfather’s and father’s con-
fidence in the growth prospects for Hispalis in the
recycling-led waste management, solar energy, wind
energy and corn-based ethanol sectors. Importantly, this
diversification strategy would not limit the company in
economic or land-boundary terms.

Under Pablo’s stewardship, Hispalis grew significantly.
From an infrastructure company exploiting a niche in pub-
ic–private agreements, Hispalis ultimately morphed into a
portfolio of businesses, covering a range of diverse indus-
tries, including construction, waste management and
energy. On Pablo’s watch, employee numbers grew from
350 to 1637, revenues increased from €140 million to
€450 million and total assets expanded from €255 million
to €1.9 billion. Although financial results were of impor-
tance, for Pablo this was more ‘a way to keep score’. He
taught his children that businesses are like sharks – ‘they need
to keep moving in order to survive’. Keep moving he did.
Pablo knew that for Hispalis to survive, it needed to grow,
and growth, as was drummed into him at business school,
could be achieved organically or through acquisition. Thus,
the nature of Infraestructura de Carreteras’ strategic decision
to explore opportunities in new industries and countries
meant that growth needed to come through acquisition.
‘A growing company is resource hungry!’ he would often say.

Pablo’s first opportunity to diversify came about in
1999, when he was approached by his brother-in-law,
Alfonso Rodriguez (see Figure 1), about an opportunity for
a water treatment plant.

Pablo discussed the idea in detail with his father, knowing
depth down that in light of Juan García’s prior entrepreneurial
track record, he was likely to receive the go-ahead. He did,
and the father and son duo soon invested €6.3 million to
acquire a 50% interest in Gestion Depuradora.

Gestion Depuradora’s principal business was Aguas
Nacionales, but a smaller waste management company, Bio
Reciclaje, was also included in the ‘package’. By improv-
ing reporting practices and quality assurance checks, Pablo
and his father upgraded the efficiency of the water plant
and attracted skilled engineering consultants to benchmark
the assets against leading international water treatment
operators. Aguas Nacionales soon became the largest

Figure 1. García family tree.
private provider of operations and maintenance solutions for water infrastructure in Spain.

In 2001, Hispalis increased its portfolio, by investing €46.1 million for 76.9% in Gestion Depuradora (Aguas Nacionales and Bio Reciclaje). This increased investment was to reposition Hispalis towards waste management, a once highly state-regulated industry. The acquisition of Residuos Iberica, one of the largest waste operators in Spain, was followed by substantial investment by Hispalis and its partner, Gestion Depuradora, in developing its waste business (Eco Residuos). Hispalis gained access to waste collection routes and to state-regulated landfill sites.

The growth in the waste management business, and the ability of Hispalis management to make significant operational improvements to existing plants, led the team to look to Europe for further expansion opportunities. The company’s first overseas venture was in Spain’s closest trading partner, Portugal. Pablo and his team invested in Reciclajes Peninsula, which facilitated access to waste collection routes throughout Portugal. Similar to its Spanish strategy, Hispalis spent significant amounts of money upgrading the Portugal plants, largely around process improvement and resource utilization. Again, Pablo brought in leading engineering specialists to benchmark the firm against leading international competitors.

Pablo went on to acquire numerous waste management plants throughout Portugal. Many of the acquired plants were family owned. A central ingredient in securing these acquisitions was the strong family ethos and values that the García family upheld. Carlos had often heard, and now understood, why companies liked to partner and do business with the García family – they did not have ‘the touch and feel of a big corporate’.

In Spain, Eco Residuos increased its operations considerably by acquiring a Spanish commercial waste and recycling operations company. The company’s next step was to venture into the lucrative US market. The firm used its capability to acquire and improve regional waste management plants and established Eco Residuos in North America. The first of many acquisitions was Union Recycling Inc., an integrated recycle processing and upgrading company based in Syracuse, New York. This acquisition provided the firm access to waste collection routes, landfill sites and a leading brand on the East Coast of the United States. The success of the initial acquisition in the United States led to the purchase of more than 20 waste management firms across the United States, with the vast majority being family owned. In the relatively short time frame of 4 years, Eco Residuos US had become one of the largest private providers of waste management in North America.

Hispalis was now the largest private waste provider in Spain and Portugal and the second largest in the United States. In 2010, Eco Residuos Portugal was made an offer it could not refuse, and the company sold its Portugal-based waste management business for €135 million. This was followed by the divestment of Eco Residuos US in 2013.

In 1999, an accidental meeting at a Spanish state-sponsored infrastructure event between Pablo García and Pedro Gonzalez spurred another opportunity for Infraestructura de Carreteras. Pedro was the former CEO of an international gas company and wanted to start up a wind energy business. Pedro had in-depth knowledge of the workings of the electrical supply network and was seeking an entrepreneurial partner who could bring vision and financial capital to his business. Pablo was not initially sold by Pedro’s plans and set about researching the soon-to-be-deregulated industry. After much deliberation, the García family agreed that Pedro shared their values and acquired 51% of his emerging venture. This investment (€120 million) was primarily used to erect wind turbines and construct renewable energy power stations across the country. More than just capital, Hispalis brought the same managerial know-how it brought to its waste management business. In the subsequent 8 years, Hispalis set about building some of the largest wind farms in Europe, with operations based primarily in Spain and Portugal.

With this significant investment, renewable energy, waste management and infrastructure development became the family’s core competencies. In 2006, Hispalis expanded further, investing €30 million in building a new biodiesel facility in Germany. This was followed by the construction of two additional plants in Germany, an acquisition in Spain and a joint venture to develop bioethanol opportunities in the United States. Consistent with its successful strategy to acquire, accumulate and divest, Hispalis sold its interests in this business in 2008.

Around this time, the burgeoning Spanish economy experienced an unprecedented demand for infrastructure development, notably in telecommunications. Responding to this opportunity, Hispalis placed its bets on ventures that had positioned themselves to exploit the demand. It invested in ADSL España, a relatively new wireless broadband company. In line with its ongoing strategic planning processes, however, when the telecommunications industry failed to align closely with its core competence, Hispalis made the decision to divest this interest in 2008.

This constant strategic review of capabilities, resources and industry trends led to other significant decisions for the company. For example, the traditional business and long-term ‘cash cow’ for Hispalis was the highway development and toll road business. By 2007, Hispalis had tolling rights to four large infrastructure projects in Spain, all intrinsic to the highway network of the state. Pablo was not wedded to the business in the same way his father perhaps had been. So much so that in 2007, Hispalis reached agreement to sell the tolling rights back to the state for circa of €100 million. Later, in 2010, Hispalis announced that its roads subsidiary had reached an agreement to sell other road assets for a total of €50 million, including the iconic Ciudad Bridge, to a Dutch investment fund.

Reflective of the entrepreneurial attitude and belief that the company was ‘always in start-up mode’, in April 2008,
Hispalis invested $100 million (€63 million) for a controlling interest in utility-scale renewable energy power plants based in Arizona. Hispalis worked closely with leading engineering schools to attract high-caliber engineers to work in the firm. With funds in hand, its modus operandi was becoming clear: to identify emerging industries, acquire a controlling stake in a proven operator, accumulate human resources required to fast-track growth, exploit opportunities in new industries and then consider divesting of the asset when (usually) a strategically aligned company was hungry for market share.

In 2008, Hispalis invested an additional $150 million in wind energy, with the acquisition of Gael Force Wind, a company that had developed and constructed the only five operational wind farms in Arizona, totalling 312 MW. Gael Force Wind was committed to harnessing a clean, renewable source of energy – creating jobs, generating economic opportunity and building a strong foundation for domestic energy independence. Its business model centred on providing long-term value for its investors as well as creating responsible partnerships with the communities in which it operated. The company considered local communities the key foundation for successful development and put great emphasis on community relations and cooperation with farmers, ranchers, landowners and local leaders. In July 2008, Gael Force Wind developed the United States’s first 100% wind-powered community in Rock Port, Missouri. Hispalis increased its shareholding in Gael Force Wind to 62% in March 2012.

As Hispalis grew into a multi-faceted portfolio of businesses, the García family evolved into a family in business, in which the strategic direction of the businesses was firmly under the influence of the García family members. Hispalis required its governance structures to be revisited regularly, to ensure that they were appropriate for the needs of the business. As Hispalis expanded, professional corporate governance was required. As such, business governance and compliance were driven by the various regulatory bodies in the constituencies in which the diversified company operated. The ‘García reputation’ contributed to the family’s ability to attract high-calibre directors. To structure the family governance, the family established a family office, which served as the vehicle to manage the family’s interests: interfamily, inter-firm and among industry stakeholders. In the family office, a team of family consultants was assigned to deal with administrative, financial, legal, taxation and regulatory issues. Quarterly family meetings ensured continued insight into the strategic development of the firms.

Carlos García . . . till the shoe fits

Carlos García knew only too well that being entrepreneurial in the business he was now responsible for required a different set of skills than those possessed by his predecessors (Carvalho and Williams, 2014). He had studied the evolution of the business in detail and was aware of the pathway that his father and grandfather had travelled. Carlos reflected:

When most people think of Infraestructura de Carreteras, they associate it with the García family, which has been well respected in the infrastructure industry in Spain over an 80-year period. This García family reputation adds credibility to business transactions and propositions . . . . The network established by my grandfather and my father opens up many doors.

He further considered:

The ability to use the García name and its link with Hispalis instantly gets you a foot in the door . . . . The personal aspect is also essential, where stakeholders have strong interpersonal relationships with our family, as many people like dealing with Hispalis because they like the old man.

As he began thinking about his situation, Carlos remembered the family quadrant his father used in the past to evaluate ‘big decisions’ (see Figure 2). He looked at the blank template on his desk (see Figure 3) and, like his father had done many times, began breaking down his challenges into who, what, why and how questions. He drew lines to divide the sheet into four quadrants and began making notes as he thought through his situation.

He listed the ‘WHO’ questions under stakeholders; there was a long list of these. After writing everything he could think of in the space on the sheet, he began to separate the components under ‘b’, for belonging to a business category, and ‘f’, for family stakeholders. The business group he realized needed to be divided even further to make the picture clearer. When he began considering the family stakeholders, he remembered the ‘hard learned lessons’ and experiences of ‘war and peace’ that had soured family relationships in his extended family and in other business families in Spain and elsewhere. The bitter disputes that ended in heated courtroom battles and the personal relationships of the family being put on display for the world to see were not easy to forget and left scars on all involved. Having thus learned the hard way, he was relieved that the recent hard work that the family had put into structuring family governance (family constitution, family council, family office) was paying dividends, as, unlike many other families he knew, all the family members were now committed to and supportive of the business. He knew, however, that it would take a considerable amount of his time to maintain this harmony, while also leading the business . . . . and the family.

In the next quadrant, he wrote the word ‘WHAT’. This caused him to consider ‘WHAT is it we do?’ ‘WHAT are the drivers to our success?’ and ‘WHAT is our competitive advantage?’ He simply drew a question mark here, because although he knew the details, he did not yet know how to capture these succinctly.
### Figure 2. Replica of template Pablo García used when mapping the decision to diversify Hispalis and invest in a water treatment plant (Spain, 1999).

<table>
<thead>
<tr>
<th>Who</th>
<th>What</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Current and future members of the García family</td>
<td>✓ Obtaining and developing firm assets</td>
</tr>
<tr>
<td>✓ Political connections</td>
<td>✓ Reputational capital</td>
</tr>
<tr>
<td>✓ Employees</td>
<td>✓ Acquisitions</td>
</tr>
<tr>
<td>✓ Shareholders</td>
<td>✓ Access to financial capital for portfolio development</td>
</tr>
<tr>
<td>✓ Financial institutions</td>
<td>✓ Entrepreneurial foresight</td>
</tr>
<tr>
<td>✓ Firm service providers</td>
<td>✓ Networks</td>
</tr>
<tr>
<td>✓ Regional enterprise boards</td>
<td></td>
</tr>
<tr>
<td>✓ Community</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>How</th>
<th>Why</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Access to financial capital</td>
<td>✓ García family legacy</td>
</tr>
<tr>
<td>✓ Inorganic growth</td>
<td>✓ Success of the Hispalis group</td>
</tr>
<tr>
<td>✓ Political connections</td>
<td>✓ Entrepreneurship</td>
</tr>
<tr>
<td>✓ Patient financial investment</td>
<td>✓ Community</td>
</tr>
<tr>
<td>✓ Improve the integration of resources</td>
<td></td>
</tr>
</tbody>
</table>

### Figure 3. Our family business template.
In the next square, he wrote ‘WHY’. Carlos found himself drawing another question mark, but as he looked up at the pictures on the wall and then to the pictures of his own family on his desk, it was clear that this question was easily answered and did not need to be written.

The word ‘HOW’ headed the fourth quadrant. It was then that Carlos could see the structure of the suite of businesses in real context. He was comfortable with the HOW question, as he had been interned in the business and mentored by his father and senior executives. The HOW question related to the systems and structures that were in place to deliver the WHAT – the entrepreneurial strategy. He knew that the values of the family drove business decisions and that all the employees who worked for the business were made to feel like they worked for the family. He also knew that it was his father and his grandfather who had instilled these values and that it was his responsibility to carry these forward. ‘The devil is in the detail, but as the CEO this is not as much my problem now’, he thought.

Carlos then turned the page over and wrote the heading ‘Family IN Business’. He drew three interlocking circles, replicating a model he was introduced to at business school (see Figure 4). He labelled each of the three circles: (1) ‘management’, (2) ‘family’ and (3) ‘ownership’. Carlos’s exposure to family businesses had drummed into him that understanding family business dynamics involved appreciating the role of these three systems. He remembered learning that if an organization was to perform optimally, each subsystem needed to be integrated, so that the entire system could function in a unified way. Although he had been aware of this framework for some time, it was only now that it became ‘real’ as he placed his initials in the space provided at the intersection of the three circles.

Carlos began populating the additional circles, starting with the family, when his mobile phone rang; it was his son asking when he was coming home, and he felt a pang of guilt and a sense of déjà vu. Looking up at the giant paintings on the wall, Carlos rushed home to answer his WHY question.

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\section*{Note}

1. The Spanish Peseta (Pts) was the currency of Spain until 2002. It was superseded by the euro on 1 January 1999 but did not begin circulation until the beginning of 2002.

\section*{Supplementary material}

The online appendix is available at http://ijei.sagepub.com/content/by/supplemental-data.

\section*{References}


