|  |  |
| --- | --- |
|  | C:\Users\kpepers\AppData\Local\Microsoft\Windows\Temporary Internet Files\Content.Outlook\VVI2LBYJ\Logo_inches.jpg |

9B17M022

CompuSoluciones: CORPORATE GOVERNANCE

Ken Mark wrote this case under the supervision of Professors Luis Manuel Bonner de la Mora and W. Glenn Rowe solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

This publication may not be transmitted, photocopied, digitized or otherwise reproduced in any form or by any means without the permission of Ivey Publishing, the exclusive representative of the copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Business School, Western University, London, Ontario, Canada, N6G 0N1; (t) 519.661.3208; (e) cases@ivey.ca; www.iveycases.com.

Copyright © 2017, Richard Ivey School of Business Foundation Version: 2017-01-25

“In CompuSoluciones, no one makes a strategic decision without taking into account the point of view of others. In fact, our policy is to achieve consensus on every major strategic move we make,” said José Medina Mora, chairman of CompuSoluciones.

Based in Guadalajara, with offices in Mexico City and Monterrey, CompuSoluciones was a value-added distributor of information technology (IT) hardware, software, and services. The company had grown from its origins as a reseller for Hewlett-Packard (HP) to become the second-largest IT distributor in Mexico.

“Over the years, we’ve grown to the point we could be seen as a small conglomerate of businesses, each of which sets up a network of resellers for specific technologies,” Medina Mora stated in January 2017.

At this point, Medina Mora wondered what would be the best structure for CompuSoluciones. “We have a shareholders’ assembly, a board of directors, an executive committee, a consultancy council, and a resellers’ council. What other components of corporate governance should we build, in order to help ourselves make better decisions?” he wondered. “How can we govern, not control, the firm?”

**CompuSoluciones**

In 1982, HP built a computer manufacturing plant in Guadalajara. HP brought a few managers from its U.S. operations, including Medina Mora, to run the plant. Medina Mora had finished his postgraduate studies at Stanford University after earning a degree in civil engineering from Universidad Iberoamericana in Mexico City. He worked for HP for three years before founding CompuSoluciones as an equal partnership with Fernando Contreras and José Ignacio Montemayor on May 26, 1985. The firm, initially named Consultores en Informática y Computación, SA de CV, had a mission to “integrate information technology and communications solutions for the competitiveness of organizations, based on the experience of values and in alliance with complementary companies” (see Exhibit 1).

In 2015, CompuSoluciones brought in US$246 million in revenues and achieved US$6.2 million in net profit (see Exhibits 2 and 3).[[1]](#footnote-1) Most of its revenues came from reselling products and services produced by global vendors such as HP Inc., Hewlett Packard Enterprise, Oracle, International Business Machines Corporation (IBM), Lenovo Group Ltd. (Lenovo), VMware Inc., Apple Inc., Autodesk Inc., and Microsoft. These vendors relied on distributors such as CompuSoluciones to build a network of resellers to deliver products and services to small- and medium-sized companies.

Resellers were often small, owner-operated companies of 10 to 15 people. There were about 20,000 resellers in total in the Mexican market; they operated locally and maintained close contacts with businesses and individual consumers in their cities and regions. CompuSoluciones provided administrative consultancy to its resellers as well as credit, which it provided either directly or through financial institutions. Supporting and nurturing these resellers was key to CompuSoluciones’s success.

About 80 per cent of CompuSoluciones’s business involved integrating value-added solutions to help resellers put together technology packages for customers. This process was managed on a case-by-case basis. The other 20 per cent of the company’s business came from transactional sales of hardware and software.

CompuSoluciones worked with a broad range of vendors, some of whom competed against each other. Within CompuSoluciones, self-contained “cells,” or business units—dedicated teams of five to 20 people—worked on projects related to each specific vendor. There were 18 different cells, each with its own profit-and-loss financial statement, and there was no sharing of information between these cells. “We’re like a subway network of business units that work towards a single goal,” remarked Medina Mora.

**CompuSoluciones’s Stakeholders**

CompuSoluciones’s stakeholders included vendors, customers, government, employees, shareholders, and creditors. Each of these groups benefited financially from the success of the firm (see Exhibit 4).

CompuSoluciones’s management team worked to institutionalize the firm so that it could one day do an initial public offering (IPO). Current employees owned 52 per cent of the firm’s shares, and independent investors owned 46.3 per cent. The remaining 1.7 per cent of shares were owned by former employees. Medina Mora explained how the company managed sales of shares to employees:

We have had a program since we started where we sell shares at a preferred price to employees. We sell shares at book value, which roughly equates to about 7.0 times EBITDA. Over time, we have revalued our properties to add to the book value, so that the price is fair for everyone. The only condition we place on employees is that they have to pay for the shares. The current price for one share is about MX$2,300.

**Corporate Governance**

The company’s top governing body was the shareholders’ assembly, which normally met once a year to designate the members of the board of directors and approve the organizational results. Other governing bodies included the board of directors, the executive committee, a consultative council, and a resellers’ council (see Exhibit 5).

The board of directors was made up of six members: the chairman, the chief executive officer (CEO), the chief financial officer (CFO), and three independent members. The board met every quarter. Its mission was to review CompuSoluciones’s long-term strategy to ensure the firm’s continuity well into the future and to reconcile the interests of stakeholders with those of the firm.

CompuSoluciones’s executive committee was made up of six members of the senior management: the chairman, the CEO, the CFO, and three commercial managers. The three commercial managers and the CFO reported to the CEO, and the CEO reported to the board of directors. The executive committee was responsible for building CompuSoluciones’s vision and overseeing the execution of its strategy and adherence to its values. The executive committee met weekly: the first meeting of each month was an internal managers’ meeting; the second and third were business unit review meetings, where each business unit was reviewed on a quarterly basis, or about four business units in each session; and the fourth meeting had a flexible agenda to discuss issues that might arise.

The consultative council, which consisted of six senior managers from CompuSoluciones and 12 managers from other companies, had quarterly meetings. Its mission was to help management generate a vision for CompuSoluciones’s future and strategy. Membership on the consultative council was by exclusive and non-transferable invitation. Members were nominated on an annual basis, and three of the 12 members rotated off the board each year. The firm determined how many years in a row each specific councillor could stay on the council, taking into consideration each individual’s level of assistance and participation in order to decide whether they would be invited back.

The resellers’ council included the six senior managers from CompuSoluciones and 15 managers from the company’s main customers. The mission of this council, which met quarterly, was to help management generate a vision for CompuSoluciones’s future and strategy from a market perspective. Membership on the resellers’ council was also by exclusive and non-transferable invitation. Members were nominated on an annual basis. Each year, the firm maintained 66 per cent of the members and renewed the other 33 per cent in order to ensure there were new points of view on the council, while also maintaining continuity. The firm tried to balance participation of the most important business units and geographic zones in the country on the resellers’ council. It determined how many years in a row each specific councillor could stay on the council and considered their level of assistance and participation in order to decide whether to invite individual councillors again.

**Corporate Governance issues**

As CEO Juan Pablo Medina Mora said, “It’s easier to manage a company in a teamwork than doing it alone.” Chairman José Medina Mora agreed:

We want to have an institutionalized company. We want to act just as if we were already a publicly traded company. Our culture is very open and very tolerant on disagreement. We tell people they are allowed to disagree, to say what they think, and to be open to discuss their ideas and to support their arguments.

CompuSoluciones’s team was made up of individuals who worked their way up from entry-level positions. José Medina Mora said:

We don’t bring in outside talent at the senior positions. The policy to integrate sons and daughters of shareholders or managers is [for them] to compete for an open position alongside everyone else. This is part of our strong culture and the reason some people say that CompuSoluciones is a lifestyle.

As chairman, José Medina Mora was aware of two main issues that required a closer look. First, CompuSoluciones had 18 business units operating somewhat independently and over 415 employees spread out over three offices. He wondered whether a consensus-based model of management was still the best way to lead the firm forward.

Second, while independent business units (BUs) had been working thus far, he wondered if it would continue to work effectively. There were 40 managers, working in different industry segments and managing relationships with over 2,000 resellers, reporting to six senior managers:

We have self-contained “cell” business units, where each BU has sales, presales, and support functions. The main issue we face is that, for a reseller we serve in one BU, if that reseller needs something else from another BU, there are not enough links between the BUs to facilitate that knowledge transfer.

Given the type of firm we are and the business we are in, do we have the optimal corporate governance structure for managing our business?

**Exhibit 1: CompuSoluciones—Mission, Vision, and Values**

**Our Mission:**

Integrate information technology and communications solutions for the competitiveness of organizations, based on the experience of values and in alliance with complementary companies.

**Our Vision:**

* We give excellent customer service.
* We promote personal and professional development of the employees and of people with whom we interact.
* We work based on principles and ethical values.
* We use cutting-edge technology with flawless procedures.
* We have solid finances.
* We fulfill our legal obligations.
* As a consequence of all this, we make business.

**Our PICSELIN Values:**

* Productivity: Achieve more and better with less.
* Integrity: Be honest and transparent.
* Trust: Generate certainty in every interaction.
* Service: Transform customers into promoters.
* Teamwork: Collaborate with dedication and companionship.
* Loyalty: Build long-term win-win relationships.
* Innovation: Create value-added solutions.

Source: Adapted by author from “Misión, Visión y Valores,” CompuSoluciones, accessed January 14, 2017, www.compusoluciones.com/quienes-somos/mision-vision-y-valores/.

**Exhibit 2: CompuSoluciones—Income Statements (US$ Thousands)**

**2015**

**2014**

**2013**

**2012**

**2011**

Net revenue

246,422

200,655

154,917

157,484

127,607

Cost of goods sold

223,081

181,457

139,479

142,982

114,282

Gross profit

23,341

19,198

15,438

14,502

13,326

Operating expenses

15,804

12,970

10,402

9,028

8,107

Operating profit

7,536

6,227

5,036

5,475

5,218

Comprehensive cost of financing:

Interest earned, net

193

200

199

407

661

Exchange gain

1,020

77

573

1,268

644

1,213

277

772

1,675

1,305

Other (expenses) income, net

12

−105

−49

81

−45

Income before provisions

8,761

6,399

5,759

7,230

6,479

Provisions for:

Income tax

−2,554

−1,256

−1,329

−1,796

−2,165

**Net Income**

6,207

5,143

4,430

5,434

4,314

Note: These statements were prepared in pesos using Mexican GAAP, which included the recognition of inflation; for presentation purposes, figures were expressed in thousands of U.S. dollars by dividing the pesos by a fixed exchange rate for December 31 of each year; US$1.00 = MX$17.21 on December 31, 2015.

Source: Company files.

**Exhibit 3: CompuSoluciones—Balance Sheets (US$ THOUSANDS)**

**ASSETS**

17.2065

**2015**

**2014**

**2013**

**2012**

**2011**

**CURRENT ASSETS**

Cash and cash equivalents

7,534

15,875

6,070

6,025

2,929

Accounts receivable

42,741

37,585

38,142

26,932

37,042

Other current assets

275

467

182

192

145

50,550

53,927

44,394

33,149

40,116

Accrual for bad debts

−628

−898

−986

−1,546

−1,759

49,922

53,029

43,408

31,603

38,357

Inventories

13,645

6,950

6,198

5,304

3,496

**Total current assets**

63,567

59,979

49,605

36,907

41,853

Deferred employee profit sharing

284

277

266

Accounts receivable long term

170

216

237

324

88

Property, plant and equipment:

Machinery and equipment, buildings

12,631

14,609

13,248

13,716

13,946

Other assets

70

100

145

53

80

12,701

14,709

13,392

13,768

14,026

**Total assets**

**76,721**

**75,182**

**63,500**

**51,000**

**55,967**

Note: This statement was prepared in pesos using Mexican GAAP, which included the recognition of inflation; for presentation, figures were expressed in thousands of U.S. dollars by dividing the pesos by a fixed exchange rate for December 31 of each year; US$1.00 = MX$17.21 on December 31, 2015.

Source: Company files.

**Exhibit 3 (Continued)**

**LIABILITIES AND SHAREHOLDERS’ EQUITY**

**2015**

**2014**

**2013**

**2012**

**2011**

**CURRENT LIABILITIES**

Bank loan

9,408

11,719

11,821

8,319

11,482

Other accounts payable

20,862

20,006

14,127

7,370

14,019

Customer advances

10

24

276

837

Taxes payable and accrued expenses

7,184

6,159

5,184

5,614

5,146

Income tax payable

593

834

503

Employee profit sharing

790

486

204

24

21

**Total current liabilities**

38,837

39,214

31,863

21,602

31,505

Deferred employee profit sharing

13

7

Retirement accrual for employees

393

394

332

641

582

Deferred income tax

995

1,145

1,630

1,409

1,076

Income tax for reinvested profits

21

77

1,387

1,539

1,962

2,084

1,742

Shareholders’ investment:

Capital stock

247

247

247

251

251

Accumulated profits

36,249

34,182

29,428

27,062

22,469

36,497

34,429

29,675

27,313

22,720

**Total shareholders’ investment**

36,497

34,429

29,675

27,313

22,720

**Total liabilities and shareholders’ equity**

**76,721**

**75,182**

**63,500**

**51,000**

**55,967**

Note: This statement was prepared in pesos using Mexican GAAP, which included the recognition of inflation; for presentation, figures were expressed in thousands of U.S. dollars by dividing the pesos by a fixed exchange rate for December 31 of each year; US$1.00 = MX$17.21 on December 31, 2015.

Source: Company files.

**exhibit 4: payments to CompuSoluciones’s Stakeholders (MX$ Millions)**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Vendors** | **Customers** | **Government** | **Employees** | | **Company** | **Share-holders** | | **Creditors** |
|  | **(Cost)** | **(Value- added)** | **(Taxes: IVA + ISR)** | **(Net income + Training)** | | **(Assets)** | **(Dividends)** | | **(Rest)** |
| 2010 | 1,598 | 193 | 53 | 80 | 41% | 42 | 7 | 15% | 41 |
| 2011 | 1,966 | 229 | 74 | 104 | 45% | 60 | 14 | 19% | 14 |
| 2012 | 2,460 | 250 | 71 | 116 | 47% | 76 | 18 | 19% | 9 |
| 2013 | 2,400 | 266 | 65 | 116 | 44% | 58 | 18 | 23% | 50 |
| 2014 | 3,122 | 330 | 74 | 138 | 42% | 17 | 71 | 80% | 82 |
| 2015 | 3,838 | 402 | 108 | 170 | 42% | 85 | 21 | 20% | 80 |

Notes: Figures expressed in millions of Mexican pesos; for vendors (providers), amounts shown reflected what was paid to vendors by CompuSoluciones; for customers, (value-added) amounts shown reflected the gross margin CompuSoluciones earned, defined as sales revenues − cost of sales; for government, (taxes: IVA + ISR) was the amount paid to government for taxes; for employees, (net income + training) was the amount of money paid by CompuSoluciones in the form of salaries and the cost of employee training; for the company, (assets) was the value of CompuSoluciones’s additions to its asset base; for shareholders, (dividends) was the amount paid to shareholders in the form of dividends, and the percentage values were the amount of net income paid out as dividends; for creditors, (rest) referred to the amount of money paid to companies other than vendors that provided business services to CompuSoluciones, including telephone, cellular, power, and logistics costs.

Source: Company files.

**Exhibit 4: CompuSoluciones—Executives**

**Board of Directors**

* José Medina Mora: Chairman
* Juan Pablo Medina Mora: Chief Executive Officer
* Carlos Juárez-Badillo: Chief Financial Officer
* Jesús Aurelio De Alva: Independent
* Emilio Gutierrez Borbolla: Independent (Deloitte)
* Xavier Medina Mora Escalante: Independent

**Executive Committee**

* José Medina Mora: Chairman
* Juan Pablo Medina Mora: Chief Executive Officer
* Carlos Juárez-Badillo: Chief Financial Officer
* Maria Eugenia Moreno: Commercial Senior Manager
* HPE & HP Inc. Projects, Cloud, Virtualization & Channel Development
* Ana María Arreola: Commercial Senior Manager
* Transactional sales, Apple, Microsoft, Networking-Collaboration, Mobile, Spaces & Corporate Marketing
* José Luis Cortés: Commercial Senior Manager
* Autodesk, IBM, Lenovo, Oracle, Red Hat, Security & Financial Services

**Exhibit 4 (continued)**

Consultative Council Members

Councillor

Company

José Medina Mora

CompuSoluciones Chairman

Juan Pablo Medina Mora

CompuSoluciones Chief Executive Officer

Carlos Juárez-Badillo

CompuSoluciones Chief Financial Officer

Maria Eugenia Moreno

CompuSoluciones Commercial Senior Manager

Ana María Arreola

CompuSoluciones Commercial Senior Manager

José Luis Cortés

CompuSoluciones Commercial Senior Manager

Jesús Aurelio De Alva

Independent

Emilio Mendoza

Independent

Jorge Valdés

Valsi

José Gómez Obregón

Independent

Jaime Nieto

Legosol Consultores

Andrés Medina Mora de León

Grupo Bursátil Mexicano

José Medina Mora de León

CONAFOR

Fernando Topete

Grupo ACR

Carlos Castellanos

Medical Stock

Salvador Sánchez

Deloitte

Ignacio Montemayor

MC2-UPER

Luis Gerardo Pérez

Vale Plus

Juan José Errejón

Tierra y Armonía

Carlos Funes

Softtec

Carlos Guzmán Bofill

Independent, former HP México President

**Exhibit 4 (continued)**

**Resellers’ Council Members**

Councilor

Company

City

State

Cell

José Medina Mora

CompuSoluciones Chairman

Guadalajara

Jal

Juan Pablo Medina

Mora

CompuSoluciones CEO

México

CdMx

Carlos Juárez-Badillo

CompuSoluciones CFO

Guadalajara

Jal

Maria Eugenia Moreno

CompuSoluciones Commercial Senior

Manager

México

CdMx

Ana María Arreola

CompuSoluciones Commercial Senior

Manager

Guadalajara

Jal

José Luis Cortés

CompuSoluciones Commercial Senior

Manager

México

CdMx

Juan Carlos González

Compucad

Guadalajara

Jal

HP, Autodesk

Juan García

Microplus

Monterrey

NL

HP

Ignacio Naime

DISA

Toluca

Mex

HP

Julio Léon

Computación Interactiva

Guadalajara

Jal

HP

Aarón Prorraz

Grupo Tecno

México

CdMx

Oracle

Sara Flores

Migesa

Monterrey

NL

Microsoft

José Villareal

CIISA

Monterrey

NL

HP, IBM

Javier Olvera

Be One Systems

Monterrey

NL

HP Autodesk

Enrique Rocha

Grupo Lodes

México

CdMx

IBM

Pablo Ramírez

Alvarado

Dynet

Guadalajara

Jal

Security

Carlos González

PC Home

Culiacán

Sin

HP

Ismael Prieto

IS Avanzados

Aguas Calientes

Ags

Microsoft

Héctor Varela

Sistemas Stone

Campeche

Camp

HP

Javier Calvillo

Grupo Sellcom

México

CdMx

HP

Elias Dau

Solutia

Guadalajara

Jal

IBM

Luis Sanchez

Capa 4

México

CdMx

VmWare

Jaime Ruiz

Matersys

México

CdMx

IBM

Oscar Treviño

Informática Empresarial

Monterrey

NL

HP, Security

Hugo Rocha

Netcore

Querétaro

Qro

RedHat

Santiago Gutiérrez

Génesys

Monterrey

NL

IBM, Lenovo

Source: Company files.

1. All currency amounts are in US$ unless otherwise specified; MX$ = Mexican pesos; US$1.00 = MX$17.21 on December 31, 2015. [↑](#footnote-ref-1)