

Karim Fayad (A)

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“Things have gone too far and I don’t know what to do.” Alberto Cobo was dealing with one of the most critical moments in his budding professional career: how to respond to his boss’s attitude.

Ferxam, S.A.

Alberto Cobo had studied chemical engineering and had earned an MBA from a prestigious business school. After several years in technical positions in multinationals, he spotted his chance to take the leap to management when his father told him about an opportunity mentioned at the tennis club by the general manager of a company.

Ferxam was a company in the chemical industry, specifically in fine chemicals. This type of company manufactured fine chemical substances used in special products such as drugs, detergents, pigments, resins, adhesives, sealants, and cladding. The production volume in the fine chemical subsector was considerably lower than for basic industrial chemicals, which meant that its products were considered to have higher added value. This sector was also facing serious environmental challenges and stiff competitive pressure.

It was a family-owned company whose shareholders were second- and third-generation family groups. Its facilities were in an industrial estate in Barcelona, with additional facilities in southern Spain. Ferxam aspired to secure a leading position in Europe with the fine chemical products it manufactured.

Recently, sales had been somewhat lackluster because of the lack of ambition and the risk-aversion of Miguel Sanz, its sales manager, who had just retired. The idea of exporting had always made Sanz uncomfortable, and he had been able to justify his stance because, among other things, domestic market prices were 5% higher than prices abroad and, also, because the domestic market was easier given that they didn’t have to wrestle with the bureaucracy inherent in exports and the volatility of foreign currencies.

This case was prepared by Oscar González-Peralta, lecturer, and Professor José Ramón Pin Arboledas. June 2016.
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In recent years, the company's turnover had been as follows:

Annual sales	Thousands of €
2008	56,800
2009	58,500
s2010	59,400
2011	59,000
2012	58,700

Ferxam had a considerable RDI capacity, which made it highly competitive. It was rare to find a technological innovation carried out by competing companies—primarily located abroad—that Ferxam was unable to match within six months.

It covered 30% of the Spanish market and was far and away the largest producer; 50% of the market was in the hands of two multinationals and the remaining 20% was highly fragmented among many small companies. Yet despite this output, it only accounted for 1.25% of global production. Since 2012, the Spanish market had been experiencing a 4% natural contraction per year, so it was suffering much more than the international market. Internationally, the two large multinationals operating in Spain accounted for 33% of the market, while the remainder was divided among 40 companies located in 20 countries.

The sustained recession and the decrease in domestic demand made it essential for the company to internationalize in order to maintain production.

International Operations

Transactions were carried out in large international trading centers, although they were almost always mediated by aggressive brokers who finished off the transactions in New York, Tokyo, London, Amsterdam, or Shanghai. These brokers worked out of small offices with no more than 10 people and were engaged in constant bargains and transactions.

The brokers were often former executives of multinationals who decided to make their own fortune after becoming familiar with the business. Many of them disappeared in the attempt, because there was an acute need for contacts and knowledge of the market.

To act as a broker, a person had to master two or three languages and have solid financial backing. The brokers performed two kinds of operations. The first was intermediation, in which they put the two parties, buyer and seller, in touch with each other. In exchange for their invaluable work stemming from their knowledge of the sector and their web of contacts, they were paid around a 5% commission. The other activity—the harder and riskier one—was serving as agents of the sector, making firm purchases that they later sold at a mark-up, and carrying losses when the market shifted course. The majority of brokers focused on the first operation, and only a few dared to engage in the second one.

It is obvious that with firm purchases, the brokers could make minor fortunes in a brief period of time, but to do so they needed an in with both the buyer's and seller's staff. Generally speaking, they were ambitious, well-educated men, sometimes with somewhat questionable practices, whose only asset—their image—meant that they were swathed in a profusion of sophisticated communication devices and ostentatious cars and offices. One of these brokers was Karim Fayad.



Changes in Ferxam

In late 2012, Félix Ortega had just been appointed sales manager of Ferxam. After 25 years of constant efforts and dedication in the company, his promotion could be considered a reward for his selfless, altruistic professional career under Sanz's shadow. Finally, one morning in December 2012, Mercader, the general manager, had delivered the news personally. The new job had many perks, both monetary and in terms of status, within the company: total independence in the design and execution of sales policies, a large office on the management floor, and more chances to travel and get to know the world than he had had until then, when the former boss had always made him play second fiddle.

Once he took over the new job, Ortega saw that his company's possibilities were infinite. The reasons his predecessor had cited to the Board for earmarking a small share of sales to the international market (18% and 21% in recent years) made no sense. Ferxam had to carve a niche for itself in the international market; otherwise, it would end up losing its position even in the Spanish market. Its products were good and its desire to succeed was limitless.

Félix Ortega had been born in Barberà del Vallès 45 years before. He came from a working-class family and had a degree in business administration from the University of Barcelona. He was married and had four children. In 2013, his gross income was €50,000. His mental acuity and decisiveness had gradually opened many doors to him and allowed him to climb a few rungs in the social ladder. However, he was aware that he still had a lot to learn before tackling the challenge before him (carving a niche in the international market and meeting the goal of multiplying sales by 2.5 in two years). His elementary mastery of English—common to his generation—meant that he had to improve quickly. His social relations had to change as well, and even his wardrobe required an upgrade.

He had a lot to do and needed help. So he sought a well-placed young person to be his assistant.

A Good Candidate

When Alberto Cobo found out through his father's conversation with Manuel Mercader, the general manager of Ferxam, that they were hiring an assistant to the sales manager, he thought he might be a good candidate for the job. His specialized training in the sector, his MBA, and his strong English skills meant that he had the key competences for the job. After making up his mind, he asked his father for Mercader's cell phone number, called him immediately, and set up an appointment to meet at the Ferxam offices on Monday at 9 a.m.

At the meeting, Mercader saw that hiring a young man like Alberto would be a good move in the new internationalization strategy. Despite this, he was also aware that Ortega had to be the one to make the decision, so after broadly sketching what the job entailed, he sent Cobo directly to the Personnel Department so he could be added to the pool of candidates.

The hiring process was closed quickly, and the Human Resources Department ultimately decided to suggest Alberto Cobo as the candidate for the job. They asked him to attend a definitive meeting with the head of the department he would be joining.



Interview Between Ortega and Cobo

An interview with the candidate was the last step in the hiring process. Ortega read Alberto Cobo's CV out loud, and then Ortega expressed his qualms, since he noticed an imbalance between the job being offered and the candidate's competences. Cobo dealt with the situation easily, stressing the learning possibilities of the job, especially in international business development, and how he could apply all his knowledge, both technical and managerial, to the task. Ortega was pleased with his response and offered him a somewhat austere salary. Once again, Cobo handled the situation smoothly by stating that the salary was not a problem, since he believed that one first had to show what he or she was worth.

Ortega looked back at Cobo's CV and reviewed the candidate's professional experience and his vision of the sector. At another point in the interview, Ortega expressed an interest in Cobo's English level. Cobo told Ortega that they could continue the conversation in English, "if you wish." Ortega responded that he should have said "if you want to," without going any further into it.

To conclude, Ortega told Cobo that even though the job was his, he did not want him to use any influence he might have with Mercader again. Instead, Cobo was now under his authority.

The First Year Working Together

In 2013, Ortega made an effort to visit almost 20 countries. During that time, Cobo worked hard alongside his boss. After going through a period adapting to his new boss's ways (Ortega's pressure for results and his nervous pace meant that he went through some rough times), in the fifth month Cobo was able to operate on his own and completed operations with an efficacy that pleased Ortega.

In terms of their personal relationship, they became closer and Ortega often praised their relationship. Cobo lightheartedly responded that it was no surprise that they got along well since he always bowed to Ortega's wishes.

However, Cobo did admit that he was learning a lot from Ortega. He particularly admired the importance that Ortega attached to dividing sales among many clients and refusing to concentrate on just a few; he also admired his skills as a negotiator, in that Ortega never tried to squeeze the last dime from his opponent: "It's more important to land clients than sales," he would say.

A New Partner

In spring 2014, Ortega called Cobo to his office and introduced him to a broker named Karim Fayad, who lived in Amsterdam and wanted to help out with Ferxam's international business.

Both Ortega and Cobo listened rapt to Fayad for an hour. He oozed likeability and humility. His vast knowledge of the market and its turnover made it easy to see that he was a winner. However, Ortega wanted to check it all in practice so he agreed to place a small order with Fayad. Fayad made a firm purchase. The outcome couldn't be better. Fayad's organization was an example not only of market knowledge but also of incredible administrative flexibility.



Fayad had been born in Cartagena de Indias, Colombia, 36 years before. His family was originally from Lebanon. Lebanese immigrants to Colombia and other South American countries came in the late 19th century with the fall of the Ottoman Empire. He was the son of a senior diplomat in Colombia and was married to an Italian woman. At the age of 25, after earning an MBA from UCLA, he was hired at a Dutch company and moved to Amsterdam. Seven years later, he decided to strike out on his own. Because he was friendly with everyone—his motto was “never say no in business”—and worked an average of 12 hours per day, **Fayad’s business grew until his office had the assistance of 10 employees, all of them** female, because in that way—he said—it was more unlikely for them to steal his clients. His Arab background and Western education made him the perfect broker to excel in business. And business was flourishing: he had an amazing house with an indoor swimming pool, a Ferrari, a Mercedes, and several million euros in investments.

In late March 2014, Ortega decided to accept Fayad’s invitation to visit his offices in Amsterdam. Back in Barcelona, he spent days telling Cobo about Fayad’s world. Not only did he sing the praises of Fayad’s house, lawn, cars... Ortega also added obligatory references to the social circles in which he ran, including the parties and receptions he was able to attend, and the fact that Fayad’s wife was a famous *Vogue* model. Cobo listened to all of this intrigued, and the first chance he had he went to visit Fayad himself.

As a good host, Fayad went all out for Cobo, who was able to see firsthand many things Ortega had mentioned, and others as well, such as the generosity with which Fayad treated the heads of purchasing in the companies with which he worked and his freewheeling spending on his visits. Cobo mentioned to Ortega that, on a visit to a large department store, he witnessed Fayad treating a Bulgarian delegation to new clothes.

Cobo’s Concerns

In 2013, sales had reached €87 million, although their profitability had gone from 15% in 2012 to 13% in 2013. This did not concern Ortega, because some concessions had to be made when increasing sales like this. Nor was Cobo concerned with it because he assumed it was just **temporary. His real concern revolved around the increasingly close relationship between Fayad and Ortega.** Back from summer vacation, Cobo found out that Ortega’s son had spent a few weeks in Amsterdam to take summer classes and had stayed in Fayad’s house.

He also realized that the prices Ortega was offering Fayad were lower than the ones he quoted **the competition. Although Ortega justified this by the higher volume purchased by Fayad, Cobo still disagreed with it because it contradicted Ortega’s own policy of not concentrating on just a few clients.** Around that time, Ferxam had a turnover of €144 million, and Fayad accounted for 28% of sales. Furthermore, **Cobo watched uneasily as Ortega no longer called him in when he and Fayad met** for hours in his office, and how they no longer invited him to the lunches afterwards. What’s more, Cobo noticed changes in the way Ortega was dressing. He now looked much more modern and sophisticated. He spent loads of time talking on the phone with one of Fayad’s secretaries and was becoming more and more obsessed with the choice of wines at restaurants and travelling on certain airlines.

Cobo sensed that Ortega was dazzled by Fayad’s glamorous world and was trying to raise himself to that level, and that in the name of friendship, or perhaps for more lucrative reasons, Ortega was favoring Fayad at the expense of the company.



For the first time in his life, Cobo didn't know what to do. He had not used his access to Mercader again, and yet any hint on his part could be misinterpreted as a desire to get a promotion, or a sign of disloyalty to his boss. He had been witnessing this in silence for six months, and the matter of the Fayad-Ortega relationship was only heating up instead of cooling off. Sometimes his sense of responsibility was dampened when he thought that if Mercader, as the person in charge, did nothing, then that was his problem. Cobo was not built to be a hero, but his sense of responsibility told him that something should be done or the company could embark upon an irreversible path. He was so worried that it even occurred to him to send Mercader an anonymous note. Of course, he had a few alternatives, but it was difficult to summon enough judgment to analyze them.