

KAIZEN

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IMPROVEMENT

ISSUE 34
April 2018

ROCKFORD
UNIVERSITY
1847



FEDERICO
ZORRAQUIN
ENTREPRENEURIAL
RESILIENCE
IN
ARGENTINA
Page 1

ALSO INSIDE
SPRING 2018
GUEST SPEAKER
SERIES
Page 4

Newsletter of the Center for Ethics and Entrepreneurship

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INTERVIEW: FEDERICO ZORRAQUIN

Federico Zorraquin is President of Rheem S.A., a manufacturer of water heaters based in Buenos Aires, Argentina.

Kaizen: *Zorraquin* is an exotic, Spanish-sounding name—an adventurer's name. Where were you raised?

Zorraquin: I was born in Buenos Aires in 1959. Most of my family came to this part of the world between the late 18th century and the beginning of the 19th.

Kaizen: Long time Argentinians.

Zorraquin: Most of them. About 70% of the family are French Basques and Spanish Basques. My great-grandfather and all the line that come from him—my grandfather, my father, and myself—have all been involved in business. I run today a company that was founded in the late 19th

century.

Kaizen: An old company by new world standards.

Zorraquin: Yes, but it doesn't resemble the business that it started as, though there is some spirit and tradition that comes from those times.

Kaizen: As it's multi-generation, family business, was there an expectation that you would go into the family business? Were you the eldest son?

Zorraquin: I was the eldest son. I have an older and younger sister, and the youngest was a boy. I was pretty much taught the business from the very beginning. I used to travel with my dad to visit different companies that we owned at the time. We had large ranching operation, and I used to spend time in the ranches. I liked to see my dad

continued on page 2



FROM THE EXECUTIVE DIRECTOR:

This issue of *Kaizen* features our interview with entrepreneur Federico Zorraquin, whom I met with in Buenos Aires, Argentina. The story of Mr. Zorraquin's experiences in Argentina's volatile business environment makes for dramatic reading.

This academic year the Center brought eleven guest speakers to campus, with expertise in fields ranging from economics to philosophy to business management to sports ethics to entrepreneurship to science leadership. We also report on some of their visits in this issue.

At the Center's website, we continue to build up our collection of resources on entrepreneurship and business ethics. All previous issues of *Kaizen* are available there featuring our news and extended interviews with entrepreneurs in a wide variety of exciting fields—from architecture to technology to marketing to venture capital to sports to documentary film and more.

Please visit us online at www.EthicsandEntrepreneurship.org.

Stephen Hicks, Ph.D.

ACTIVITIES:

Explaining Postmodernism: Skepticism and Socialism from Rousseau to Foucault is forthcoming in Arabic translation. Dr. Hicks's book has been translated into six languages.

Review of Nicholas Capaldi & Gordon Lloyd, *Liberty and Equality in Political Economy: From Locke versus Rousseau to the Present*. Published in *Law and Liberty Review*.

"What Entrepreneurs Can Teach Us All About Life," first published in *The Wall Street Journal*, has been translated into Polish, Spanish, and Portuguese.

In the 2017-2018 academic year, Dr. Hicks gave invited talks at the University of British Columbia, University of Illinois, Salve Regina University, the American Philosophical Association conference in Chicago, and a keynote lecture at the Representational Art Conference. In the summer of 2018 he will be Visiting Professor, University of Kasimir the Great, Poland.

being involved in business. I didn't have a chance to consider becoming a doctor. I always say to my kids, I would have enjoyed being a good doctor.

Kaizen: What kind of businesses was your family involved in the time of your father? This would have been the 1960s and 70s?

Zorraquin: Yes, and the 80s. The company got various work in the steel trades in the Buenos Aires stock exchange. That started in the late 19th century. It became a publicly held company in 1946, with my grandfather and later my dad always being the controlling shareholders. From the 1960s to the 80s the business was one-third industrial companies, one-third banking, and one-third ranching. In the 80s, the chemical and petrochemical side of the companies became very big, as did the banking. The farming became relatively smaller.

In the mid-80s, we were the largest private group in petro-

"The 80s was a very difficult time for Argentina because it was a decade where GDP growth was zero. The last three years with hyperinflation were very damaging for our business."

chemicals and manufacturing of plastics in Argentina. We were probably the number one or two group in banking. We were a small player in farming.

The 80s was a very difficult time for Argentina because GDP growth was zero. The last three years with hyperinflation were very damaging for our business. By 1989, we had gotten rid of the banking business at a big loss. We came into the 90s basically without the banking business and as an industrial group with a small ranching operation.

Kaizen: Going back to your youth. You're traveling with your father a lot, but what was your formal schooling like?

Zorraquin: I went to primary and high school in Buenos Aires. Then I went directly into industrial engineering school. Since we don't have the liberal arts college education in Argentina, when you leave high school you have to choose if you will either be a doctor, a civil engineer, or a lawyer, and so on. You go into specific schools.

Kaizen: Professions.

Zorraquin: Right. I decided to be an industrial engineer, because it gave me not only a technical background but also an in-road into management. I could go into the industrial companies we owned at the time and eventually get an MBA or management or financial degree.

Kaizen: Does anything stand out in your early education as especially formative or useful to you in your career and adult life?

Zorraquin: I was probably very responsible and dedicated to anything I could learn. Every summer I would spend time at one particular large ranch that we still own. It was a very fun place to be, but I worked for most of the time in the summers.

Kaizen: In what part of Argentina is that ranch?

Zorraquin: It's 300 miles south of the city in Buenos Aires province. I worked at the farm a few times a year. I was there during some audits that the company did in these farms, and I would travel with my dad and do the audit to work with him.

Kaizen: Was your university a blend of business and engineering education?

Zorraquin: No, with the industrial engineering school, you leave the school just knowing about how to run or optimize a manufacturing facility—logistics, organizing work, layout of factories, production. You are involved in human resources, people issues, economic issues, but this is all mostly related to the performance of a factory.

Kaizen: Was it when you finished that degree that you went to the United States to Wharton Business School?

Zorraquin: No. When I finished my degree, I worked in Argentina for two and half years.

Kaizen: This was when you were in your early 20s?

Zorraquin: Yes, and I went to the south of Argentina to work at a petrochemical complex for one year.

Kaizen: Somewhere in Patagonia?

Zorraquin: In Bahía Blanca, in the northern part of Patagonia, the tip of the province of Buenos Aires. That's where the largest petrochemical complex of Argentina is today, as it was at that time. I worked in that facility and in Buenos Aires in finance.

Kaizen: You were just out of university at this point. What were your responsibilities?

“What was more important to me was getting the respect of the people, and the people knew I was the son of the owner.”

Zorraquin: Since our business group was a very large group, I was convinced that to work my way through the ranks I would have to start from the very bottom, and I would have to learn and experience what it was to be working at a factory. This factory had shifts, and I worked in different shifts—day, night, et cetera—in different positions.

Kaizen: You had a sense for all of the aspects of the business?



Rheem factory in Argentina in 1947.

Zorraquin: Yes. And what was more important for me was getting the respect of the people. The people knew that I was the son of the owner, but they also knew I was working hard to learn the basics.

Kaizen: You're earning their respect.

Zorraquin: I think that really helped me a lot over the years. I felt confident with my work on the factory floor. And when I went up through the ranks in a fast way, there was some legitimacy on my end.

Kaizen: Now we're into the 1980s, and your family company still has the three major divisions.

Zorraquin: Yes.

Kaizen: But it was a difficult decade—the banking and financial sector were very bad in Argentina.

Zorraquin: Very difficult.

Kaizen: You worked for a couple of years there, and then you went for the MBA? What was your motivation for that?

Zorraquin: I knew that I wanted more skills in finance. I went to Wharton.

Kaizen: Why Wharton?

Zorraquin: I wanted to start in January, and the only two of the top universities had a January admittance—Columbia in New York and Wharton. I was accepted in both schools, and I decided on Wharton because I knew a couple of people in Argentina who had gone there. Not for any other reason.

Kaizen: The Wharton MBA was a two year program?

Zorraquin: Yes. Before going to Wharton, our petrochemical operations in Argentina were run with a technology license that we got from Union Carbide Corporation. I spent time working in the Union Carbide labs in New Jersey. During that time, my wife and I lived in New York City and commuted every day to northern Jersey to work in techni-

Spring 2018 Guest Speaker Series



Speaker Jennifer Dirmeyer

Professor Jennifer Dirmeyer of Ferris State University visited Rockford University in January and spoke on regulation and its impact on the poor.



Speaker Bartley Madden

Bartley Madden, retired managing director of Credit Suisse HOLT, visited in February and gave a presentation on knowledge building and value creation.



Speaker Shawn Klein with students

Professor Shawn Klein of Arizona State University visited in February and spoke with our students about sportsmanship and the relationship between cooperation and competition.



Speaker Peter Jaworski

Professor Peter Jaworski of Georgetown University visited our campus in March and gave talks based on his paper "If You May Do It for Free, You May Do It for Money," which addresses the topic of organ sales.



Speaker Zach Meiborg

Zach Meiborg, CEO of Silver Arrow Express in Rockford, Illinois, visited in February and spoke with our students about automation in transportation and the entrepreneurial approach to one's career.



Speaker Paul Drake

Professor Drake of the University of Michigan visited in October. He spoke to our Business and Economic Ethics class about entrepreneurship and leadership.

cal labs that were doing some research on plastics.

I also got to learn that technology from the very basic aspects, and I got to know the people working in Carbide who were involved in the relationship with our company. From there, I went into business school.

Kaizen: What things did you find most valuable from your MBA experience? You mentioned finance was important.

Zorraquin: For me, finance was critical. I would say that I came out of school with a financial mind. For me, it was a big change. I really started to understand what was the P&L of a company, and not only finance and accounting. After school, I could read a balance sheet and could understand how to assess the state of a company and the value of a company.

Kaizen: Now you're in your mid-to-late 20s. You have the hands-on experience from the ranches and working at the factory in Patagonia, both the agricultural side and now the technical side. You've spent some time with the research people in New Jersey. You have your MBA degree and know the financial side of things. Were there other issues of, say, leadership and human resources, being able to deal with people in a managerial way?

Zorraquin: Yes, and I took some of those courses in school. But it was interesting to know the science behind it. My training with people was more at home, because of the way I was raised, and from working with people on the factory floor.

Kaizen: Learning by dealing with your employees.

Zorraquin: Yes, becoming part of the teams. The other aspect of the school that was very rewarding was the learning from peers. Wharton was a very fun place to be in all aspects. There were a lot of very interesting people that I got to know and become friends with. The exchange of ideas was extremely powerful to me. I would say that prob-

“Argentina became a more competitive environment, and in that competitive environment, our petrochemical company started to look bad. The company started to lose money.”

ably the highlight of the school was the way all the MBAs interchange.

Kaizen: Nice.

Zorraquin: The social life was very rewarding.

Kaizen: After your MBA, you returned to an Argentina going through very difficult times politically and financially. Zero GDP growth and inflation. What were you doing in the company at this point, during this crisis?

Zorraquin: I had the opportunity, though I did not pursue it very strongly, to stay in the U.S. for a couple of years and work for a consulting firm. I regret not having done that, because I think the opportunity of working in a company where I was not seen as the son of the owner would have

been important for my self-esteem. On the other hand, the problems that the company was facing in Argentina were very serious, and I thought that my dad needed some help. I would not say he needed my advice because he was an able and experienced business man, but I was very instrumental in a lot of things and decisions that were taken in those years with my little work experience and my MBA.

Kaizen: How old was your dad at this point?

Zorraquin: My dad was born in '33, so he was maybe 55 or 56 years old. My age now.

Kaizen: Would he have been thinking about succession issues coming down the road?

Zorraquin: Not really in those years. He was active. I had always said my dad was never a manager and never a CEO—he was a deal maker. He was always thinking about buying this and selling that. Every time he faced major management issues—because a lot of company failures have a big management component—he would not do well in those. On the other hand, I have never seen myself as a deal maker, but mostly as a manager.

Kaizen: You complemented each other.

Zorraquin: We complemented each other very well. The fact that I came down from the U.S. after business school was important, because I helped him survive through the banking crisis. I helped him to make important decisions regarding the banking crises.

Kaizen: The decision to divest from banking and financial sector was huge. Then the company focused in petrochemicals and ranching?

Zorraquin: Yes, and other industrial activities like the one we still have today—the manufacturing of appliances: water heaters, and until recently, refrigerators. When I came home from business school, I was working with my dad in some of these strategic issues. My full-time work was the company I still run today.

Kaizen: The name of that firm is Rheem?

Zorraquin: Yes. I was involved in that company until 1993, and then in 1993 Argentina was becoming a more open country for the first time in many decades. Companies like our petrochemical company, for the first time in many years, had to compete with a much more open market.

Kaizen: Who is president of Argentina at this point?

Zorraquin: Carlos Menem. He passed a lot of interesting reforms. Argentina became a more competitive environment, and in that competitive environment, our petrochemical company started to look bad. Part of the reason was the culture of being a successful company in a closed economy with a lot of protection like most companies at the time. The company started, for the first time in 15 years, to lose money in '93.

Kaizen: This is an adjustment to an open economy?

Zorraquin: The world petrochemical prices had come down, so margins were squeezed. We had made investment decisions that were significant, like starting a new poly property in Buenos Aires. All of those things com-



Federico Zorraquin touring a Rheem factory in Argentina.

bined. I was appointed as CEO of the petrochemical company. At the time, I was 34 or 35 years old.

Kaizen: How many people are working in the company at this point?

Zorraquin: 1000 people at the petrochemical company.

Kaizen: What is the name of the company?

Zorraquin: IPAKO. The company was initially started as a U.S. chemical conglomerate.

Kaizen: In going from a closed economy with protections to a more open economy, what were the biggest challenges?

Zorraquin: Adjusting and changing the culture towards the market and the customers, because the customers now had more options to buy product from than just us. We had to get rid of the monopoly type of culture that we had.

“The biggest difficulties were adjusting and changing the culture towards the market. We had to get rid of the monopoly type of culture.”

That was very important. At the same time, we needed to become a much more lean organization in all aspects. I conducted a major restructuring of the company that very rapidly provided a relief in overhead costs. In maybe a year or so, the company started to make money again. We were lucky because world prices stopped declining and started to come up. After having losses in '93, by the end of '94 the company was already very profitable.

Kaizen: Your peer companies in Argentina during this time—what was their overall track record of making the adjustment or going out of business?

Zorraquin: Most of the petrochemical companies at the

time did very badly, and a lot went into bankruptcy. We were able to survive those two years of crisis, and in 1995 we sold the company to Dow Chemical for a very large amount of money.

Kaizen: IPAKO?

Zorraquin: Yes. At the time, it was considered the deal of the year in Argentina. It was a major success for the group.

Kaizen: And for you, as the new CEO.

Zorraquin: For me, as the CEO.

Kaizen: We're now in the middle 90s?

Zorraquin: 95-96. We were left with all this cash, totally

out of the chemicals business. We still have the appliance business, the ranching business, and a few other small operations. Those are our companies—very small and with a very healthy cash position.

Kaizen: The structure of the overall company at this point: is there one holding company for all of them?

Zorraquin: One holding company. Garovaglio. That's still the name today.

Kaizen: You have CEOs for each major division?

Zorraquin: Yes, and I was the CEO of the holding company, overseeing everything.

Kaizen: What is your father's position at this point?

Zorraquin: He was chairman of the board. It has been a successful partnership between him and I. Together with the board of the holding company, we started to look at investment opportunities.

Kaizen: Right, and from the sale you've got lots of cash?

Zorraquin: Yes. We didn't want to liquidate the company and take the cash. We hired a consultancy firm, Bruce, Allen, and Hamilton, and we analyzed businesses in which we could be successful. There were some criteria. For example, we felt that we were not very able in the dealing with internal governments, so we would not get into very regulated industries because we felt that was not part of our culture. Also, we wanted to be in businesses in which an Argentine group could thrive locally. That's when this very large meatpacking company came up. It was owned by a family-owned, privately held company, the largest meatpacking group in the country. In a matter of maybe six months, we negotiated a deal, and we bought 30% of that.

Kaizen: A natural fit with your ranching activities.

Zorraquin: Yes, we could fit the ranching activity with this large meat packer. The packing factories have a lot of industrial engineering and logistics, and that's basically what

we knew.

Kaizen: Right, so you had the human capital?

Zorraquin: Human capital. We took over the company in August '97. Argentina was, for the first time in 60 years, having access to the U.S. market for fresh beef. We set up a company in the U.S., and we started to export beef.

Three years after that, the company filed for bankruptcy because, in November 2000, Argentina had a foot-and-mouth crisis. In one day, we lost all the fresh beef markets in the world. Basically, the running of the company shrunk 70% in one day.

Kaizen: Wow.

Zorraquin: We filed for bankruptcy protection in the end of 2000, and we had started to accumulate losses, and losses, and losses. To make a long story short, at the beginning of 2002, my dad could not handle the situation anymore. He didn't want to continue, so he passed the shares on to me. I remained the controlling shareholder in the middle of the chapter 11, the negotiation with the creditors, and shutting down factories. It was a very complicated time for me personally. In the middle of 2003 we came out of the bankruptcy, and in one year or two we sold the company for \$1. In five years we lost all the investments in this company.

Kaizen: That's terrible.

Zorraquin: We lost, let's say, \$150-200 million in five years.

Kaizen: Amazing.

Zorraquin: Our money was lost, and all the shareholders lost money. But, surviving the process was very complicated, because it coincided with the largest economic crisis of Argentina in 2001. In 2002, the GDP of Argentina dropped 15%.

Kaizen: Just terrible.

Zorraquin: A terrible time.

Kaizen: Were the borders still largely open?

Zorraquin: No. The border was open, but there was a big movement to fight market economics. They said the experiment of the 90s doesn't work, and we had to close the economy again. We had been able to kill inflation in the 90s, and we were back again. We had 60% inflation in 2002.

Kaizen: There had been the hyperinflation of the late 80s, and it's back again.

Zorraquin: We had killed inflation; we had almost zero inflation between '93 and '99. Menem had the constitution changed, and he was reelected. He did all the things that you would have to do to free ride the political system. In 2003, I was able to sell the company for \$1.

Kaizen: This is just the meatpacking?

Zorraquin: Well, meatpacking was, at the beginning of 2000, 80% of the assets. We took the asset out of the balance sheet, and we kept the appliance business. With the farming business that was part of the group, we were

CEE NEWS



The Center recently created a SoundCloud page. We are posting a series of podcasts featuring interviews with the guest speakers we host on campus. Our channel can be found at <http://soundcloud.com/centerforethicsandentrepreneurship>.

able to sell them, and they were kept in the family estate. We sat on one farm because, in late 2000 when this crisis contributed money to the company, my father was buying assets at fair market value. That was one way of bringing money into the company, and keeping some value.

That was never challenged, because it wasn't very well. There were some open bids, and it was very cleverly put together. The farms remained in the family estate. I was left alone running what was left of the company—the bankruptcy process. By 2004, I would say I was drained. The appliance company was doing okay, but all of these processes had done quite a lot of damage to my psyche.

Kaizen: I'm sure.

Zorraquin: I decided that for two years I was going to slow down my work, and that's what I did.

Kaizen: You took a recovery period.

Zorraquin: I went into History, did a History guide degree at the University of La Plata. Then I went into Theology and started at the Catholic University of Buenos Aires. The appliance business was run by a CEO all that time. I was involved in the meatpacking business, and it was very well run. I didn't have to worry much. I remained the chairman of the board of the holding company until 2006.

What was left from the crisis was a legal suit from some shareholders. It was a suit I was able to win, but it took me 10 years to win. They accused me of wrongdoing and of taking money out of the company. I proved that this was not true. They were taking of a blackmail type of approach.

To read the rest of the interview with Federico Zorraquin, visit www.ethicsandentrepreneurship.org/kaizen/. This interview was conducted for Kaizen by Stephen Hicks.

In the next Kaizen



Feature

Interview with
Leslie Marsh on
entrepreneurship
in Canada

Also

Guest Speaker
Jason Hill on authentic
human identity in the
context of race, class,
and gender influences

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