

# Family character and international entrepreneurship. A historical comparison of Italian and Spanish “New Multinationals”

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## Abstract

Although family firms are traditionally associated with low levels of internationalisation, we show, in this paper, that family ownership can generate opportunities for international entrepreneurship related to the exploitation abroad of the expertise and social capital developed at home. Specifically, we argue that family character favours international expansion in, at least, three ways: (1) by granting more freedom to the managers of the company to develop their business model; (2) by facilitating the transfer to, and exploitation of, this model in foreign markets; and (3) by making the adoption of governance structures based upon trust easier. Drawing on a comparison between the business history of selected Spanish and Italian “new multinationals”, we have found support for our hypotheses.

Keywords: multinationals, networks, family firms

JEL Codes: N80, M13, M14

## 1. Family firms and global entrepreneurship: evidence from Italy and Spain

Starting from the early 1990s, global trends have affected models of entrepreneurship that were prevalent in Europe from the end of the Second World War. Similar to what happened about one hundred and fifty years ago with the rise of the first global economy (Jones 2004: Ch. 2), the combined forces of the new technologies of communication, transportation and production, and the opening of new markets had a great impact on consolidated patterns of industrialisation which had been built up over time. The resurgence of a global wave of international entrepreneurship has thus been the result not only of the combined effect of new market opportunities, governmental policies,

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improved educational systems and more efficient sources of finance (for an historical approach, see Amatori and Colli 2011, ch. 20 and 21), but also of the endogenous transformation of the existing patterns and models of the past. As a consequence, some industrialised countries have been, and still are, compelled to re-consider the sustainability of their business model, as well as their role in the new global economy. In the same framework, for other (developing) countries, new opportunities have emerged, and recent industrialisers in Latin America and Asia have started to play an increasingly relevant role in international business (Guillén 2001).

In some cases, the impact has been even more striking. For instance, this is the case of Europe in general, and of Spain and Italy in particular. In both cases, the paradigm of industrialisation, and hence the “entrepreneurial demography” of the two countries, was based upon a variegated mixture of direct state intervention, protected private “national champions”, supported by proactive industrial policies, foreign firms which filled the gap at the technological frontier in the high-tech industries, and a dense web of dynamic entrepreneurial small- and medium-sized enterprises (SMEs) which often based their competitive advantage upon the flexible exploitation of low labour costs (for Italy, see Colli and Vasta 2010; for Spain, see Guillén 2005). One consequence of this structural situation was that, apart from the intense export activity of small manufacturing enterprises in light industries, both countries shared a traditionally low level of international entrepreneurship. For instance, according to the UNCTAD statistics,<sup>2</sup> in 1983, the value of the stock of outward Foreign Direct Investments for Italy and Spain accounted for 2 per cent of the gross domestic product of each economy, whereas the average value for the members of the European Union at that time was four times higher (8 per cent). During the second half of the 1980s, however, the crumbling walls of the domestic protected markets together with the competitive pressure of low-labour cost countries seriously threatened the competitive position of Italy and Spain in light industry, while privatisations and liberalisations challenged the monopolistic power of large enterprises, both privately and publicly owned. Consolidated national patterns of entrepreneurship were thus put into severe difficulty.

However, globalisation had several positive effects. The enlargement of the size of markets, from regional/national to global, offered new entrepreneurial opportunities to the most dynamic and willing-to-grow firms. In some cases, these firms have been able, especially in the most recent years, to evolve into groups of relatively large dimensions, as, for instance, in

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<sup>2</sup> <http://unctadstat.unctad.org>.

the case of two similar companies in the textile industry, such as the Spanish *Inditex* (the owner of the *Zara* brand, among others) and the Italian *Benetton*, which has now become a multinational conglomerate whose interests range from the core business of textiles to motorways and finance. Other firms, however, have remained focused on specific niches, becoming “pocket multinationals” and global leaders which are characterised by a high degree of specialisation (Colli 2002b). This phenomenon also had a fairly visible quantitative impact. Even though the statistics do not easily capture the qualitative details of the emergence of internationalised “pocket multinationals”, some recent comparative analysis shows their relevance beyond any doubt. (R&S 2010: 15 ff).

The process of internationalisation of Italian and Spanish companies, accelerated during the last decade under the pressure of certain circumstances, both structural and contingent, which included the increasing possibility for medium-sized enterprises to gain access to the new technologies of communication and control, and the enlargement of the global economy. This pattern is shared with other countries, basically the developing ones, in which the multinational operation of domestic firms is steadily increasing (Guillén and García-Canal 2010). Instead of leveraging on technology and brands in the traditional sense, these “new multinationals” have expanded throughout the world upon the basis of their ability to organise, manage, execute, and network (Guillén and García-Canal 2009, 2010). These kinds of “soft-skills” in internationalisation were, and still are, associated with innovative practices and specialisation, which include the capability to incorporate a high amount of services in the final product. The new multinationals relied upon strategies of vertical integration and product diversification through the exploration of new capabilities, which included the creation of networks of collaboration with other firms (customers included) in order to gain a better access to markets, which included an intensive exploitation of built-in social capital (Kontinent and Ojala 2011).

Notwithstanding the heterogeneity of countries, national contexts and institutional frameworks, cultures and models of business-government relations, the “new multinationals” share some relevant characteristics. A relevant common feature is the widespread diffusion of family control and management, alongside a substantial presence of state ownership. For instance, of the 100 Global Challengers listed by the Boston Consulting Group in 2009 (BCG 2009), 63 are family firms and 31 have the state as a major shareholder. This can hardly come as a surprise, given that family firms are so predominant in developing countries (for

example, Claessens, Djankov and Lang 2000; Iskander and Chamlou 2000; La Porta, Lopez-de-Silanes, Shleifer 1999), and also in Spain and Italy, both of which historically show an over-the-average diffusion of family ownership, from small- to medium-, to large-sized enterprises (Binda and Colli 2011).

The relationship between family ownership and internationalisation has been a controversial topic in the literature. Basically, family firms are considered as being inclined to stick to domestic markets and to adopt conservative forms of behaviour, even though the evidence shows that a high number of family firms do engage in strategies of international expansion, also through direct investments (Casillas, Moreno and Acedo 2007: 74 ff. and 2010). The “new multinationals”, as stated, show - to a large degree - a consistent pattern of family ownership, which remains a permanent feature even during the process of growth and international expansion. This is, for instance, clear in the case of Italy, where the majority of the medium-sized internationalised firms are, despite their activity, both family owned and managed (Colli 2002a; Colli 2002b; Amatori and Colli 2006). Evidence about Spain goes in the same direction, and even though some entrepreneurial developments leading to the formation of Spanish multinationals can be traced back to the beginning of the Twentieth century (see Sudrià and Fernández-Pérez 2010) - most of them truncated by the Spanish civil war - the recent rise of the Spanish multinational firms is a process that started in the 1980s (Guillén 2005). One fairly obvious reason for the continuity of family control among these enterprises even in the phase of internationalisation is the fact that many of them, albeit not all, are relatively young, still run by the founder or by the second generation. In many cases, their transformation into multinational firms is characterised by particular strategies of expansion which were initiated after a change in leadership, when the new generation understood the necessity of expanding across borders in order to grasp the opportunities offered by the new framework of the global economy. Both in the case of Italy and in the case of Spain, the period stemming from the end of the 1980s and the beginning of the following decade is probably a crucial phase. In this period, as stated above, Spanish firms really started to benefit from their integration into a wider market, and were thus able to obtain leverage from this in order to foster their further expansion abroad. However, the acceleration in the internationalisation process did not mean a weakening of family control. Family leadership remained almost unchallenged, even though, in the most successful cases, there is evidence of the increasing involvement of professionals in some crucial functions, such as CEO or CFO, according to the model of the “open family firm” (Colli 2002: 76).

Family ownership is thus a relevant component of the phenomenon of the “new multinationals”, and this appears to be true even from a comparative perspective, both in developing and in developed economies. On the other hand, family firms, especially those of small and medium dimensions, have been recently recognised (Zahra 2005; Claver, Renda and Quer 2008) as a relevant protagonist in the framework of international entrepreneurship, given a number of characteristics related to their family nature which result in an incentive to undertake global initiatives. The fact that the new multinationals have based their international expansion upon resources such as organisational and networking capabilities, which basically rest on the management of the company, leads us to ask whether a family-based ownership structure suits the needs of the new multinationals better than those of the established ones, or not. For the purposes of this paper, we use Villalonga and Amit’s (2006) definition of the family firm, namely, those companies in which the founder or a member of the family is the company director or owns more than 5% of the firm’s equity.

In this article, we aim to link three main research areas, that of international/global entrepreneurship, that of family-business studies, and that related to the strategies and structures of the “new multinationals” as described above. We analyse to what extent the fact of being family-run exerts leverage on a firm’s international competitiveness. Our main source of empirical evidence will be selected cases of the new multinationals of Spain and Italy. The Spanish and Italian cases are especially interesting, as, together with South Korea and Taiwan, Spain has produced the largest number of truly global multinationals among the countries which, back in the 1960s, were still attempting to develop a solid industrial base. Since the early 1980s, Italy has moved from a inward-looking economy (in terms of Foreign Direct Investment outflows) into a very dynamic one. Between the mid-1980s and today, the number of manufacturing firms controlling income-generating assets abroad has multiplied by a factor of ten (from 282 to 2,784), and they are mainly family firms (Mariotti and Mutinelli 2010).

## 2. Family Multinationals as international entrepreneurs

Zahra and George (2002) define international entrepreneurship as “the process of creatively discovering and exploiting opportunities that lie outside a firm's domestic markets in the pursuit of competitive advantage”. Even though the initial literature on this topic focused on new firms - the so-called born global firms - or companies that experienced some critical event - the so-called born-again born global companies (see Acs, Dana and Jones 2003, for a review), international

entrepreneurial opportunities can arise in established firms (Zahra and George, 2002; Zahra, Ireland and Hitt 2000).

The presence of family control and international entrepreneurship contradicts the theories and models which stress the conservative attitude and risk-aversion of family firms (see, for a review, Zahra 2005; Schmid, Ampenberger, Kasere and Achleiner 2008). This is undoubtedly true in several cases in which strategies of growth are subordinated to the will of maintaining direct control over the company on the part of the founder and his or her relatives. However, apart from these structural aspects, family ownership and control can, under some circumstances, constitute a source of competitive advantage, and, for this reason, can lead to the pursuance of international entrepreneurship opportunities. Hereby, we focus on four aspects which are usually emphasised by family-business scholars (Sirmon and Hitt 2003): firm-specific human capital, social capital endowment, patient financial capital, and low agency costs.

As far as firm-specific human capital is concerned, the family character of the firm constitutes a source of competitive advantage. Family-member commitment, the low turnover rates of top management, and the early involvement and the specific training of new generations all serve to increase the ability of family firms to accumulate specific assets under the form of managerial expertise and know-how. The longer tenure on executive positions makes the accumulation of this capital easy, which is stored and transferred by family-members through their interactions (Danes *et al.*, 2009). In this context, and with adequate practices of human-capital management (Astrachan and Kolenko, 1994), the company has more options through which to develop a coherent business model through its life cycle.

Another relevant asset is the social capital accumulated by family members, in particular as far as the relationships with external stakeholders are considered. As argued by Nahapiet and Goshal (1998), differences in the performance of companies can be attributed to differences in creating and exploiting social capital. In fact, firms can use relationships with external agents to gain access to valuable information, new technologies, markets access, and, generally speaking, several other complementary resources (Hitt *et al.*, 2001). In this case, the long-term involvement of family members allows for the accumulation of relational capital and its transfer to other family members.

Also relevant in this respect is patient financial capital, which means long-term orientation by family firms with regard to the expected returns on investments. Even if this does not necessarily mean that family firms turn out to be more “risk-oriented” than the others, it is clear that patient capital allows top management to develop new projects with a long-term horizon, which seems to be particularly appropriate for the internationalisation strategies of the new multinationals.

Finally, as is widely-recognised, family firms face a different set of agency costs than non-family firms. While family ties reduce the mis-alignment of manager and owner interest, the same identification between the family and the firm can bring other elements into the cost function, elements which are related to the personal relationships among the family members. Moreover, it should be noted that family members do not always act as the stewards of the rest of the family (Eddleston and Kellermanns 2007; Schulze *et al.* 2001). In fact, empirical evidence on the performance of family firms is quite inconclusive and very dependent on the specific definition of family firm used (see Miller *et al.* 2007, for a review). According to recent research, a positive impact is only observed in companies managed by the founder (Villalonga and Amit 2006). Another, important aspect of agency costs concerns the relationship between family firms and other partners, especially in the case of strategic alliances with foreign partners (Cappunys 2006). In this case, the personal commitment of entrepreneurs and family members plays a relevant role in strengthening the alliance and increasing their efficiency and chances of survival.

In summary, there are good reasons for elaborating on the positive contribution of the above-mentioned attributes of family firms and their contribution to exploit international entrepreneurial opportunities. Specifically, being a family firm may strongly contribute to the international expansion of the new multinationals in at least three ways: (1) by granting more freedom to the managers of the company to develop their business model; (2) by facilitating the transfer to, and exploitation of, this model in foreign markets; and (3) by making it the adoption of governance structures based upon trust easier. In the following paragraphs, we analyse these three contributions of the family character of the firm, using cases of Spanish and Italian new multinationals as illustrations.

### 3. Case studies of Italian and Spanish international entrepreneurs

To test the above-mentioned propositions, we analysed the business histories of six companies (three Italian and three Spanish) in closely-related industries. The cases have been analysed by trying to highlight in a stylised way the degree to which family character was critical in taking advantage of international entrepreneurship opportunities. Given the elusiveness of the concept of “entrepreneurial opportunity” (Dimov, 2011), we analysed every international entrepreneurial action initiated by these companies with the aim of the process followed by each company.

The six cases have been selected upon the basis of the authors’ direct knowledge and the availability of original materials, such as interviews with the group’s top executives. All of the companies analysed had undertaken a process of internationalisation and are being run nowadays by the second or third generation. They have been selected in three similar industries and/or typologies of activity in order to allow a comparison which highlights both the similarities and the differences in the approach to internationalisation, as well as the role played by entrepreneurial attitudes inside the selected companies. In the following paragraphs, we present our main findings regarding how, in these specific cases, family character (1) granted more freedom to the managers of these companies to develop their business model; (2) facilitated the transfer to, and exploitation of, this model in foreign markets; and (3) made easier the adoption of governance structures based upon trust.



Tab. 1. Main features of the analysed companies

Company/Founding year	Turnover 2009 (Eur mil.)	Family/Generation	Industry	Nationality	International Presence (geographical areas)	Main sources
<i>Grupo Planeta / 1949</i>	2500	Lara Hernandez / 2nd	Publishing & Media	Spain	Europe, North and South America	Press, corporate website, interviews
<i>De Agostini /1919(*)</i>	4160	Boroli and Drago / 3rd	Publishing & Media	Italy	Europe	Press, yearbooks
<i>ALSA/ 1960 (**)</i>	612	Cosmen / 2nd	Transport services	Spain	Europe, North Africa, China	Press, interviews
<i>SOL Group / 1927</i>	207	Annoni and Fumagalli / 3rd	Industrial gases; services	Italy	Eastern Europe	Corporate information, interviews
<i>Gestamp / 1958</i>	4000	Riberas Pampliega / 2nd	Specialized steel products	Spain	India, Russia, South America, Europe	Press, corporate information, interviews, articles and cases
<i>Fontana Group / 1952</i>	500	Fontana / 2nd	Specialised bolts and screws production	Italy	Europe, USA	Interviews, press, book

(\*) *De Agostini* was founded in 1901 but taken over by the Boroli family in 1919

(\*\*) *ALSA* was founded in 1923 but merged in 1960 with Cosmen

### *The Freedom to Develop the Firm's Business Model*

As noted above, the longer top management tenure in family firms coupled with the presence of patient financial capital gives the managers both more freedom and more time to develop the business model. This is important because the main advantages of the new multinationals are based upon the accrued expertise, skills and social capital of the top managers. Thus, under these circumstances, enjoying more freedom allows the top managers of family firms to develop a coherent business model based upon these types of expertise.

A significant example is provided by the parallel stories of two companies in the publishing industry, the Spanish *Planeta* group and the Italian *De Agostini* group, both of which show a number of similarities in terms of evolution, strategies, and ownership patterns. Both companies established themselves as leaders in their respective domestic markets, subsequently starting (more or less in the same period) a process of expansion abroad and diversification from printing to multimedia and services. Both are leaders at home and abroad. The *De Agostini* group, with 3.5 billion Euros in 2009, ranks around the 30th place in the list of the Italian largest companies. *Planeta*, with 1.7 billion Euros in 2009, ranks among the 100th biggest groups in Spain.

The two companies, which rank among the top ten publishing groups in the world, are both family owned and controlled; *Planeta* is lead by the second generation, while *De Agostini* has a longer and more complicated history, and is now run by two families, Boroli (who took over the company in 1919 and managed it until 1997), and the Drago family, originally involved in the top management and now also participating in the ownership of the group. The Boroli family is in its third generation, the Drago family now has some members of the second generation in top positions.

*Planeta* was founded by José Manuel Lara Hernández in 1949. The name of the company was chosen because, in his own words, “it was the biggest thing that I could think of”.<sup>3</sup> In fact, Lara had an ambitious growth plan, first for Spain and, from 1966, for Europe

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<sup>3</sup> “Editorial Planeta, el origen de un gran grupo”, *Cataluña Económica*, 15 November 2004. This case was based on Lara Bosch (2002), Lara Bosch (2006), Peces (2003), Marco and Gracia (2004), published interviews with Mr. Lara Bosch (*El Mundo*, 13/09/1999, *El País*, 21/05/1999, *La Razón*, 19/10/2001, *Cinco Días*, 19/10/2002, *Expansión*, 2/12/2002, *El País*, 4/05/2008) and Mr. Lara Hernández (*ABC*, 13/06/1967, *La Vanguardia*, 19/08/1994), other newspaper articles and corporate information and an interview with Luis Elías, Secretary-General, *Grupo Planeta*.

and Latin America.<sup>4</sup> *De Agostini* was founded in 1901 in Rome, by a geographer, and in its first years of existence, its strategy was aimed at consolidating a country leadership in maps and atlases.<sup>5</sup> In 1919, it was bought by two partners, Marco Adolfo Boroli and Cesare Angelo Rossi, who, in the mid-1920s, started to diversify into publishing. In 1946, *De Agostini* was totally taken over by the Boroli family, and the two brothers, Achille and Adolfo, assumed the leadership, increasing the company's capital in order to finance projects of expansion and diversification. From 1985, the group started a process of internationalisation, based upon marketing, networking and further diversification in the media and publishing industry. From the second half of the 1980s to the end of the 1990s, *De Agostini* expanded through acquisitions (including participation in the privatisation of the Italian Yellow Pages company – *Seat Pagine Gialle* and *Lottomatica*, both listed on the Milan Stock Exchange) and alliances.

*Planeta* followed more or less the same pattern, based upon a steady expansion and diversification. The business model of the company was based on four pillars: the proactive search for best-selling books written in Spanish; new commercial formulas to sell cultural products; acquisitions of other publishers to expand its title collection; and alliances with other firms in order to gain access to contents for the Spanish-speaking markets.

In both cases, long-term orientation proved to be a successful component of the process, especially as far as international expansion is considered. Family capital and profit re-investment allowed the top management to pursue effective strategies of growth. The two companies show more similarities than differences, among which a different emphasis on books publishing (larger in *Planeta* than in *De Agostini*) (Peces 2003).

The two companies also pioneered new formulas to sell cultural products. During the early years, *Planeta* developed a selling force which specialised in sales on credit to the final customer of pricey products such as encyclopaedias. This selling force was the starting-point of a division within *Planeta* devoted to direct sales, which nowadays not only sells encyclopaedias and luxury editions of books, but also a wide variety of items such as multimedia products, dining services, watches, jewellery, and fashion accessories, which are

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<sup>4</sup> See, for instance, the biographical article written by Peces (2003). See also Fernández Moya (2010) and Prieto Martín (2006).

<sup>5</sup> Information about the history of *De Agostini* is still not available on a systematic basis. “Drago, quanto conta la forza della famiglia”, *La Repubblica*, 16 May 2006. “Colpi di Drago. Nuove strategie della De Agostini”, *Panorama*, 4 April 2003. Recent updated information about the group's structure and financials are in the yearbook of R&S-Mediobanca, 2010.

available over the Internet via the company's web site. Another innovative formula introduced in the Spanish market was the sale of specialised dictionaries, encyclopaedias and other items in weekly or monthly instalments, using news-stands as the distribution channel, and sometimes in collaboration with national newspapers. In its turn, *De Agostini* pioneered the use of instalment programmes for selling encyclopaedias and other products, setting up an instalment division in 1962.

As stated above, both *Planeta* and *De Agostini* tended to expand the scale and scope of their activities through the acquisition of other publishers. However, in this regard, it is also possible to find some differences, even though similarities prevail. *Planeta* emphasised its presence in the printing of books, while *De Agostini* appeared more interested in the expansion in the media industry at the end of the 1990s.

The main similarity, however, is the use of alliances and networking in order to foster the expansion into new fields, the acquisition of new capabilities, and last, but not least, the process of internationalisation. The two groups engaged in a number of collaborative ventures from the mid-1980s onwards, in other words, during the process of their international expansion. The most interesting case is the agreement that they signed in 1985 which led to the creation of a joint-venture which focused on instalment publications, interactive products and comics. The collaboration between the two companies has been a long lasting one; in 2003, they invested jointly in the media and audiovisual industries, by promoting a new company, *Grupo Planeta De Agostini*, which now owns about 40% of the Spanish network *Antena 3*, a media group that comprises a leading TV station in Spain and a radio station named *Onda Cero*, among other companies.

Both the companies relied on their previous experience in the field of publishing in order to enter related fields of activity (for instance, in the market of digital products and of distance learning). *Planeta* is also expanding in the newspaper industry and in digital content for mobile telephones. *De Agostini* is heavily investing in the media, movie and entertainment fields with acquisitions in France and Sweden.

Thus, the corporate growth of *Planeta* and *De Agostini* has been a steady combination of diversification and vertical integration. Another interesting aspect of this growth is non-related diversification. *Planeta* appears to be more cautious, with investments in low-cost airlines (*Vueling*) and banking (10% of *Banco de Sabadell*), while *De Agostini* appears to be more aggressive, with activities in insurance, private equity, and lotteries.

The international expansion of the two companies followed a quite similar pattern as well. Both started in the 1960s through wholly-owned subsidiaries aimed at commercialising cultural products developed in their home countries, through the instalment programmes developed at home. In the case of *Planeta*, the access to the South-American market was easier, basically for language reasons. *Planeta* first established operations in Colombia, Mexico, Argentina and Venezuela (1966), followed by Chile (1968), Ecuador (1981), and Peru (2005), followed by acquisitions in Mexico, Argentina and Colombia. However, the group's expansion was not just limited to Spanish-speaking markets. The company entered Portugal in 1992 in collaboration with *De Agostini*, and in Brazil at the end of the 1990s, as well as in France and the US. *De Agostini* expanded mainly in Europe (France and Switzerland, but also Sweden and Portugal) as well as in the US.

Both *Planeta* and *De Agostini* are now firmly in the hands of families (the founder's family in the case of *Planeta*, a partnership between the founder's family and that of the former CEO, Marco Drago, now co-opted as co-owner in *De Agostini*). In both cases, the owning families have been partially able to open the company to professional managers in order to sustain the process of growth and expansion, and to provide the necessary long-term commitment necessary to sustain the strategies of internationalisation and diversification. In both cases, while the founders established the building blocks of the business model, the second generation was pivotal to the consolidation of this model and its expansion to other businesses (and, in the case of *De Agostini*, in opening the ownership to a skilled manager). In both cases, family ownership proved to be a strategic asset in at least two related strategies: that of internationalisation, and that of adapting the company's business models to changes in markets and, above all, technology in media and communication.

#### *The advantages of transferring and exploiting the business model abroad*

Incoming family members can play a key role in the international expansion of family firms. First, their early and progressive involvement within the firm makes it easier to transfer the accrued expertise to them; a transfer which is easier than it would be for an external manager. Second, this sound understanding of the business model makes it easier for them to transfer to a new country if they are in charge of this transfer. This is especially important, because, in most cases, the business model must be adapted to the local environment, and, in these cases, it is critical to know which elements of the business model can be changed and which cannot. In this case, we can confront the cases of two different companies in two different industries,

in order to show the homogeneity of behaviour, despite production specialisation, activity and the scope of internationalisation. This section will thus examine the international expansion of the Spanish transportation services company *ALSA* into China, and the internationalisation of the *SOL Group*, an Italian company in the field of industrial gases.

*Automóviles Luarca SA (ALSA)* was founded in 1923 in Luarca, a small fishing-village in the Northern region of Asturias,<sup>6</sup> and focuses on the provision of regularly scheduled bus passenger transportation services. In 1960, *ALSA* merged with a local family company, *Empresa Cosmen*, whose leader, Mr. José Cosmen assumed the top executive position at *ALSA*. From that moment, the company started its expansion. Today, *ALSA* has four lines of business: urban municipal transport in twenty Spanish towns, regional transport (also in Spain), national and international transport, connecting Spain with continental Europe, the UK and the North of Africa. Outside Europe, it operates regional services in Chile and in China. In Spain, *ALSA* holds a leading position with a 16% share of the market. For *ALSA*, too, acquisitions, which became more intense from the start of the new millennium, played a relevant role, consolidating the company's position in the home market.

A key point of *ALSA*'s growth has been the emphasis on a business model based upon the customisation of services, not only to improve the value of its services for the customer, but also to face the challenge of alternative means of transportation, such as railways or airlines. Over the years, *ALSA* has developed several innovations in order to persuade customers to switch to bus transportation. An example of this is the so-called "*Supra*" service, a non-stop intercity route that incorporates certain attributes of "business class" on airlines, by using luxury coaches with larger seats, more leg room, and complimentary services such as refreshments, newspapers and, more recently, Wi-Fi.

Internationalisation was pursued not only through the creation of international routes - which started in the 1960s - but, more interestingly, through the decision to undertake direct investments initiatives abroad, thereby replicating the business model developed in Spain elsewhere.<sup>7</sup> In this regard, the most interesting initiative was in China, where the company established a series of fourteen joint-ventures beginning in 1984, when *ALSA* launched a

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<sup>6</sup> This case was based upon Cosmen (1994), Cosmen (2002, 2004, 2005), Bueno and Morcillo (1993), Bueno and Merino (2006), Fernández and Nieto (2008), published interviews with Mr. José Cosmen (*El Mundo*, Magazine 23th April 2000), Mr. Jorge Cosmen (*Las Provincias*, 3/02/2008, *Expansión*, 8th November 2001) and Mr. André Cosmen (*Savia*, Junio 2005; *Ideas Empresariales* 95/2006), other newspaper articles and corporate information and an interview with Jacobo Cosmen.

<sup>7</sup> See Fernández and Nieto (2008) for a detailed chronology of *ALSA*'s international expansion.

joint-venture with local partners, called the *Nanyio Transportation Services Co. Ltd.*, which operates in Shenzhen. The initiative gave *ALSA* the opportunity to learn how to operate in China and how to adapt to the local conditions and do business with a local partner, understanding how to apply the business model developed at home in such a particular regulatory and cultural framework. Over the years, and under the leadership of Andrés Cosmen, one of the sons of José Cosmen, *ALSA* was able to adapt its business model to the characteristics of the Chinese market, and to its rapid evolution, and this included the replication of the market segmentation already tried and tested in Spain with the introduction of special services such as the “*Imperial Class*”, the Chinese version of the “*Supra*” service offered in Spain.

The *SOL* group was founded in 1927 by two families, Annoni and Fumagalli, in Monza (near Milan).<sup>8</sup> The business idea was to deliver liquid oxygen to shipyards. The company remained small until the beginning of the 1960s when the rapid economic growth of basic industries made the delivery of liquid oxygen and other gases to steelworks an attractive business. The company, now run by the second generation of the two partner families, started to invest in on-site plants linked to the main customers through pipelines. During the 1970s, the group expanded steadily, and became a leader in the domestic market, and developed, at the same time, a distinctive business model based upon specialisation, niche production and tailored solutions for customers. The expansion and consolidation on the domestic market was basically due to the efforts of the second generation of the two families, which also succeeded in better-defining the company’s business model, based upon flexibility, services and innovation. The international expansion of the group took place under the leadership of the third generation of the Annoni and Fumagalli families, through the creation of a number of greenfield investments in Belgium, Germany, France, Switzerland, the Czech Republic, Hungary and Austria. From the beginning of the 1990s, the opportunities of expanding into the area of the former-Yugoslavia gave the company the opportunity to expand into Slovenia, Macedonia, Croatia, and, more recently, Bosnia, Albania and Serbia, mainly through joint-ventures and partnerships with local firms, and, from the beginning of the new millennium, into Greece. Step by step, *SOL* replicated the business model developed in Italy through a process of adaptation to the local market and local business culture, especially in the case of Eastern Europe. At the same time, the company started a process of diversification into home

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<sup>8</sup> The *SOL* case is developed in Colli (2006) and (2009).

care, with the supply of medical gases and other services to customers with respiratory diseases who needed home assistance. Also in this case, the diversification occurred through the acquisition of two companies, in France and Germany, which were already active in the market and thus were able to provide the necessary knowledge.

In both cases, *ALSA* and *SOL*, the family played an extremely relevant role in the process of the accumulation and transfer of the managerial knowledge among family members. The new generation of the Fumagalli and Annoni, and of the Cosmen families openly recognise the fact that the present internationalisation is basically the outcome of the successful adaptation of business models developed by the previous leaders in new contexts. In both cases, the early involvement of the descendants was of great relevance in that it provided them with the necessary deep knowledge of the business model.

#### *The easiness of the adoption of network- and trust-based governance structures*

Having relatives in top management positions can simplify co-ordination and control tasks both within the firm and in the development of networks. First, as previously mentioned, family firms benefit from the network of ties that the members of the family have with the external stakeholders, ties that can be developed easily. In addition, the internal organisation can be simplified by placing family members in critical positions or even dividing the corporation into different entities headed by different members of the family. Particularly in extended families, the division of both labour and management roles among the members of the family can help firms to gain leverage on both networks and competences in order to increase their efficiency in the process of expansion even in international markets. In this section, we will address the role of trust-based relations and low agency costs, again using two examples, *Corporación Gestamp* in Spain, and the *Fontana Group* in Italy, both of which are involved in supplying intermediate products to final producers (OEMs – Original Equipment Manufacturers). *Corporación Gestamp* is a vertically-integrated supplier of steel products for the automotive, electrical appliances, construction, and wind-power generation industries.<sup>9</sup> It makes products such as metal stampings, road barriers, shelves, and tubular steel towers, with revenues of about 4 billion Euros and more than 15,000 employees. The *Fontana Group* is smaller (around 500 million Euros and 2,500 employees), but more specialised and niche oriented, producing bolts and screws for the

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<sup>9</sup> This case was based upon Lillo (2004), Montoro (2005) and Klet and García (2006), published interviews with Mr. Francisco Riberas Pampliega (*Diario de Burgos*, 30th January 2006.), and Mr. Jon Riberas (*El País*, 6th December 2009), other newspaper articles and corporate information, and other data and information provided by Mr. Juan Carlos Esteban (manager of *Holdings Gonvarri*).



automotive industry, diggers, heavy industry, construction, bicycles and motorcycles, machine tools, metallic structures and heavy and light mechanical engineering. The automotive industry accounts for around 40% of the production. Foreign markets account for 60% of the total turnover, while 50% of the production is of special components which are tailor-made and co-designed with the final customer.<sup>10</sup>

Both companies have their origins in the 1950s. The origins of *Corporación Gestamp* go back to the incorporation of *Gonvarri* in 1958 as a distributor of tin, piano strings, and steel sheets. The company was founded by Francisco Riberas Pampliega, a self-made man, and three friends of his who later left the company. Riberas was keenly aware of the growth potential of the steel sheet market, so the company established commercial links with important clients and secured the supply of steel. However, to exploit this growth potential fully, Riberas realised the importance of setting up a steel cutting line and of becoming a steel service centre. Instead of being a mere steel sheet trader, the company bought steel directly from the mills, stored it, and sold it in small batches, by cutting and delivering according to its customers' requirements.

Loris and Walter Fontana, two brothers, founded the *Luigi Fontana* company (naming the company after their father), in 1952. Luigi had a metalworking shop in Veduggio, a small town 30 km north of Milan, and, thanks to his reputation, the two brothers easily found the capital required to start their own business producing bolts and screws. The company quickly developed thanks to the growing demand in the post-war years. Bolts and screws had a wide use in all the industries involved in the "economic miracle", from housing to cars, and household appliances such as white goods. From the very beginning, the Fontana brothers set up a distribution strategy based upon two channels, one for the mass market with standardised products, the other dedicated to major customers who needed specific products, which the company normally co-designed with the customers themselves. The two brothers also established a clear division of labour among themselves. Loris took care of all the aspects relating to production, while Walter dedicated himself to finance and distribution.

For both the companies, it was clear from the beginning that, given their status of producers of intermediate products for final customers, it was necessary to invest in two directions. The first one was of technological nature, providing high-quality services in terms

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<sup>10</sup> More information about the *Fontana Group's* history from the origins to present are to be found in Colli and Merlo 2006.

of tailor-made solutions at an acceptable cost, plus just-in-time delivery. The second was to establish links along the entire value chain, from the steel producers to the steel users.

*Gonvarri*'s first processing plant was set up in Burgos in 1966, and the company grew, initially building service centres close to the main steel mills in Spain, located in Asturias, in the Basque Country, and Valencia. In 1972, *Gonvarri* acquired a majority stake in the equity of *Hiasa*, a small company located close to the plants of *Ensidesa* (nowadays *Arcelor-Mittal*) in Asturias. *Gonvarri* also set up *Ferrodisa* in 1978 in Sagunto (Valencia) close to the *Altos Hornos del Mediterráneo* mill. The company also held an equity stake of 60 per cent from 1986 to 1996 in *Laminados Velasco*, a service centre located in the Basque Country, close to the *Altos Hornos de Vizcaya* mill.

The most consequential vertical integration of *Gonvarri*, however, took place downstream. The company set up its first service centre in Barcelona in 1982, close to key automotive assemblers and component manufacturers. It also founded *Gonvauto*, a division for steel handling and cutting services for automotive clients. The first *Gonvauto* plant was established in 1991 in Barcelona to serve the needs of the *SEAT* assembly plant. A second facility, located in Navarre and dedicated to serving *Volkswagen*, was opened in 2000. In 2004, the company created *Gonvarri Galicia*, a service centre aimed at supplying the Citroën assembly plant and other clients in the area. As of 2007, 61 per cent of the *Gonvarri*'s revenues have to do - directly or indirectly - with the automotive industry.<sup>11</sup>

*Fontana* did almost the same from the 1970s onwards. The strategy was basically of external growth through acquisitions in order to control producers already located close to the final customer, and also in order to obtain access to market segments, niches and specific technologies which *Fontana* had not been able to access before. In some cases, this meant that the Fontana brothers were only able to buy only a minority stake, or that they had to leave the founder running the company as an independent manager, who seldom reported to the new owners. This strategy enabled the Fontana brothers to expand throughout the country, in Turin, Milan, Reggio Emilia (where a considerable section of the Italian motorcycle and machine tools industry was located) and also Naples.

Sometimes, the relationship with the final customer took the form of a long-term relationship similar to a true partnership. For the *Fontana Group*, this happened in 1968,

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<sup>11</sup> The company also integrated downstream, albeit temporarily, by entering the shelving and storage industry with the 2000 acquisition of *Esmena*, which it sold in 2006 to *Mecalux*.

when it started to collaborate with the US giant *Caterpillar*, producing special steel bolts and fasteners. The relationship with *Caterpillar* (which is still ongoing today) gave the Italian firm not only knowledge, and technological capabilities, but, above all, a reputation among the other final customers. The close relationship between the two brothers with *Caterpillar*'s top management proved to be a key factor in this case. The same happened in 1988, when the *Fontana* started a 50-50 joint venture with *Fiat* for the production of special steel bolts.

The most important project launched by Gonvarri involved metal stamping and the subsequent creation of *Gestamp Automoción*. In 1986, the year Spain entered the European Union, *Gonvarri* acquired *Estampaciones Arín* (today *Estampaciones Vizcaya, SA*), a bankrupt client of *Laminados Velasco*. The founder of the company thought that *Gonvarri* could turn the company around by taking advantage of its reputation among car producers. As Mr. Riberas declared in a book describing his business experience: "I believed that I would gain contracts for *Estampaciones Arín* once acquired, because I had good contacts and I convinced myself that this was our opportunity" (Lillo 2004:320). The new stamping division started to supply *PSA-Citroën* and *Renault*. As business grew, *Gestamp Automoción* established two new stamping facilities, co-located with each of the assembly plants. The growth of the stamping business followed similar patterns to the initial expansion of *Gonvarri* in terms of technology adoption, co-location, and equity links with other firms. For instance, the large steel company *Arcelor* took a 35 per cent equity stake in *Gestamp Automoción*, and *Gestamp Automoción* established equity links with the stamping company *Sociedad Metalúrgica Hermanos Uceda*.

The strategy of external growth through acquisitions in order to get closer to the main customers was replicated for both the two companies during their international expansion, which started for both of them in the 1990s. The *Fontana Group* started to expand with partial and then full acquisitions in France, and now in the US with its manufacturing facilities, and in Germany, UK and Spain with commercial subsidiaries, and, as a whole, it is present in eighteen countries.

*Gestamp*'s automotive division operates 57 manufacturing plants and 13 R&D centres in eighteen countries. The company has grown through acquisitions. In 1999, it bought *Metalbages*, a supplier to *Opel (GM)*, and *Matricería Deusto*, a stamping firm that was in financial difficulties. The acquisition of *Metalbages* was especially consequential, as this company operated plants in Argentina, Brazil and France, and also participated in *Aceralia* at

a time in which it was also partly owned by *Usinor*. Through this acquisition, *Corporación Gestamp* consolidated its position as the main ally of *Aceralia* in stamping. *Gestamp Automoción*'s main milestones in international expansion include full and partial acquisitions in Argentina (1999), Germany and Portugal (2001), Sweden (2004), and India and Turkey (2007). In 2008, *Corporación Gestamp* set up a greenfield stamping facility in China (in Kunshan), acquired a majority stake in a Korean firm, and entered into a joint-venture with *Severstal* in Russia. Despite being the origin of the group, the international expansion of *Gonvarri* (the steel service centre division) now depends on the decisions made by *Gestamp Automoción*.<sup>12</sup> As of 2008, *Gonvarri* has steel service centres in Portugal, Brazil, Mexico and Slovakia. In the short term, *Gonvarri* plans to open new steel service centres in countries in which *Gestamp Automoción* has manufacturing facilities, such as India, Russia and Argentina. The existence of *Gestamp Automoción*'s manufacturing plants is sufficient to guarantee enough critical mass to open a new service centre, although, once established in a new country, the company tries to gain new clients in the construction and domestic appliances industries, among others.

Both the companies are currently run by the second generation. In the case of *Gestamp*, the two sons of Mr. Riberas are in charge of the corporation, Francisco and Jon Riberas Mera (both co-CEOs of *Corporación Gestamp*), each one running one of the two main branches of the company, *Gestamp Automoción* and *Gonvarri*. Both started in the company in junior management positions just after obtaining their university degrees, Francisco in 1988, and Jon in 1992. Loris Fontana had three sons, Enio, Luigi and Giuseppe, while Walter had two daughters, and, before his death in 1992, he decided to sell part of his 50% stake to his brother, thus allowing Loris and his sons to take over the majority of *Fontana*'s capital. From then on, the group has been managed by the three brothers, with Loris as honorary president. As was the case for the previous generation, there is a careful division of labour, with Enio taking care of production, Luigi taking care of the commercial aspects, and Giuseppe looking after finance, investment and the company's "public image", with his presence on the boards of banks and other companies.

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<sup>12</sup> The first international project of *Gonvarri* took place in 1992, when acquiring *Emilsider*, an Italian steel services centre, followed by the purchase of *Cosider* in Portugal one year later. In 1997 *Gonvarri* established a service centre in Morocco, catering to the needs of the household appliances industry, and anticipating the establishment of automobile assembly plants. These early steps, however, were disappointing, and the company sold its facilities in Morocco and Italy in 2006 and 2007, respectively. For this reason, the international expansion of the steel service activities became conditioned by the existence of manufacturing plants of *Gestamp Automoción*.

Both the Riberas and the Fontana brothers were prepared carefully for their future involvement in the companies from their early childhood, even though there are differences in the education level (two of the three Fontanas attended technical schools, while the two Riberas both have a dual degree in Law and Business Administration). As Riberas put it in an interview in which he talked about the second generation (an interview which could easily have been given by Loris Fontana with similar words), “They lived through the development and expansion processes of my companies from their early childhood ... and, thanks to my efforts and their dedication, they now have an excellent education, they are capable and they also know how to handle people. Having them beside me is the fulfilment of all my dreams, my greatest pride, and the guarantee of continuation of my work” (Lillo 2004: 255-258).

Family character, thus, played a key role in the transformation of these companies into vertically-integrated groups, not only for the involvement of the second generation, but also by making use of equity links and other associations with other businessmen and other companies, such as *Arcelor*, *Caterpillar* and *Fiat*, and, above all, by capitalising on the links and reputation developed with car manufacturers in Spain and Italy throughout the rest of the world. Both the families have a management style based upon trust and reciprocity in their relationships with clients and partners. Mr. Manuel Álvarez, partner of Mr. Riberas in *Hiasa*, stated that “we never had problems ... Riberas gives me plenty of autonomy ... we are good friends, as it is impossible to be good partners without being good friends” (Lillo 2004:210-211). Mr. Flavio Fiorani, who was in charge of running *Revifa*, the company bought initially with a minority stake by *Fontana* in Reggio Emilia, declared that “I saw the Fontana brothers once a year...sometimes I paid them a visit to them...I had never any interference at all from them...it is usual for them not to interfere: when they do not have the majority share, they respect the autonomy of the partner” (Colli and Merlo 2006: 88).

The two families also built a reputation for always honouring their commitments. As one of Riberas’ clients said, “only a ‘yes’ on the phone or a handshake was necessary. And, it did not matter if the market changed or whatever else happened, he always kept his word. With Riberas no legal document was required” (Lillo 2004: 284). Loris Fontana had a very high reputation both outside and inside the factory. As one employee stated, “Loris was always in the plant...establishing a good personal relationship with each blue collar worker...he was also there every Saturday...in sum, it was clear that the Fontana family was very attached to the company and put all their resources into it” (Colli and Merlo 2006: 104).

All of these relationships and the trust accrued would be impossible either to establish or to maintain in the context of a company with a different ownership structure, as the family became a repository of the trust with other agents, and as a guarantee of the continuity of the co-operative relationship. As stated by Mr. Pedro Velasco, a partner of Mr. Riberas in *Laminados Velasco*, “we have several joint companies with the Riberas family ... with whom we still have a very good friendship, and the proof of this is the economic relationship that we have. Our sons continue this friendship and are also business partners” (Lillo 2004: 317-318).

#### **4. Conclusions**

This paper links the recent literature on international entrepreneurship with the literature dealing with the competitive advantages of family firms going abroad, the literature concerning international entrepreneurship, and that about the business history of family firms. We have argued that a family-based ownership structure makes the exploitation of the international entrepreneurial opportunities relating to the exploitation of its expertise and its networks easier.

We analysed the business history of six companies that illustrate how the family character of the firm can boost international opportunities, as the family character of the firm helps to exploit competitive advantages based upon the accumulation and development of experience and relationships. The family, thus, becomes a sort of a repository of this accrued experience and of these relationships, which continuously supports the development of the company. Our research complements previous research (for example, Puig and Fernández 2009) which showed how the internationalisation of family firms was the “outcome of a silent revolution” through which these firms adjusted their resource endowments to the opportunities stemming from their environment. Specifically, we emphasise the role played by the family character of firms in backing such a silent revolution. We argue that, in any firm whose competitive advantages are based upon experience and relationships, family character boosts these advantages, for the reasons outlined in this paper. This provides further and very recent evidence which supports the idea that, under certain circumstances, family firms, as already widely-recognised by business and economic historians, performed well in contexts and in situations which were characterised by high degrees of uncertainty and variability.

Last, but not least, we should point out that the family character of the firm is not always an advantage. If the family supporting the firm is united, the family becomes an excellent repository for the expertise and relationships accrued by the company. However, if

there are tensions and conflicts in the family, the firm's family character becomes a liability, as the three mechanisms through which family ownership boosts the competitiveness of the firm are de-activated. This proves to be particularly crucial when family firms exploit the advantages of "family-ness" as described above, to operate in the highly volatile environment of the present globalisation process.

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