THE INTERNATIONAL EXPANSION OF FAMILY FIRMS: EVIDENCE FROM EIGHT CASE HISTORIES

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Running title: The International Expansion of Family Firms

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ABSTRACT

This paper aims to illustrate some of the challenges facing family-owned firms based in industrialized and emerging markets as they undertake a process of internationalization, and to propose a research agenda to fill some of the gaps that exist in the intersection of research on the processes of corporate globalization with work on the particular strategic challenges faced by family-controlled companies. Research in these fields has been widely and independently reported in the literature over the past four decades, but less so the confluence of issues that are found when family companies, particularly those based in emerging markets, expand internationally. We approach this task by first describing the issues faced by eight family-controlled companies, two based in Europe and six in Latin America, as they each expanded into foreign markets. These case histories are derived from personal in-depth and first-hand knowledge developed while the authors worked closely in the design and execution of these companies' global strategies over the past 35 years. We derive a number of insights from each of these cases that are then compared with the extant literature and summarized into a series of propositions that might be useful to guide future research in this important area.

Key Words: Family-owned MNEs; Globalization processes in family-owned companies; Case histories of family companies; International growth vs. control in family companies; Governance in global family companies; Emerging market MNEs.

I. INTRODUCTION

Much has been written on the subject of corporate globalization over the past five decades (Buckley & Casson, 2009), including the more recent rise of MNEs based in emerging countries (Gammeltoft, Barnard & Madhok, 2010; Hennart, 2012; Luo & Tung, 2007; Ramamurti, 2012), as well as on the trials and tribulations of family-owned businesses. However, it would not be unfair to claim that there has been less research on the intersection of these fields of scholarship. There are exceptions, of course, and many important contributions are documented in two comprehensive literature reviews by Kontinen and Ojala (2010) and Pukall and Calabró (2014). Topics varied from the factors that facilitate or restrain international expansion (Fernandez & Nieto, 2005; Gallo & Sveen, 1991; Gallo & Garcia Pont, 1996), to how family ownership and family involvement affect internationalization (Bhaumik et al., 2010; Fernandez & Nieto, 2006; George et al., 2005; Sciascia et al., 2012). Yet, critical questions that distinguish the process of internationalization in family firms from those in publicly traded firms, as well as between those based in industrialized vs. emerging markets remain unresolved.

This paper aims to extract critical insights from a discussion of eight prominent family companies, two based in Europe and six based in Latin America, that have gone through various stages of international expansion over the past four decades. We rely on our personal first-hand knowledge of the decisions made at each of these companies, as we worked closely and independently with them in the design and execution of their respective global strategies. These are very different companies with different degrees of family control, operating in a variety of industries, and over different time periods. Yet, they shared common challenges as they expanded abroad in ways that taxed their human, technological, ethical, and financial resources. Most of them succeeded to a large extent, some remained in a regional role, and two failed, one catastrophically.

Section II includes a brief narrative of the eight case histories. These cases reveal that many of the issues faced by family companies in their international expansion are not much different from those faced by all firms, although those based in emerging markets were subjected to additional constraints. We conclude with a series of propositions in Section III derived from our case histories and previous findings in the literature organized in four categories: the dichotomy of financial resources versus control, the conflict between necessary commitments and preserving the family's heritage, the requirements of management talent including nurturing future generations of family managers, and the ever-present challenges of insuring family unity through the careful adoption of sophisticated governance mechanisms. Many issues in each of these categories merit highly punctual research in the years ahead.

II. EIGHT CASE HISTORIES

<u>Data Selection and Methodology</u>.

The selection of cases for this study was not random. It was based on a sample of family-controlled companies where one of the authors had acted either as consultant to top management on issues related to the company's international strategy, or where they actually participated in such decisions as a member of the company's Board.

We started with an initial set of 18 companies for which we had data, and identified for each its industry, country of origin, size, salient issues in its history, and whether the long-term outcome was positive or not. After careful consideration, we eliminated six on the basis that they did not present a sufficiently important international decision in the period under scrutiny, and two others because of the paucity of primary materials in our possession. For the remaining 10 companies, we confirmed that the issues initially identified as being of interest provided a sufficiently broad canvas on which to analyze the impact of environmental and family factors in the decision making process, and ascertained the availability of primary data sources (board meeting minutes, interviews, consultant reports, internal studies, etc.) to support any conclusions. Next, we eliminated two more companies as being redundant. In no case was a company dropped from consideration because it supported or not a certain point of view.

Given that these companies were not initially targeted as subjects for research, and that the data resulted from the authors' role as advisors to their strategic processes, the sample is neither representative of the universe of family-controlled companies, nor does it fully comply with the conditions established for case-based research (Eisenhardt, 1989; Fletcher et al., 2018; Reay, 2014). On the other hand, they represent a deep-dive and highly detailed level of field research that involved multiple respondents in each company, all with board-level or top management responsibility, and that covered several years, two conditions normally lacking in studies where the use of large-sample empirical methods leads to a loss of information richness and causality. In comparison with other similar case-based studies (Graves & Thomas, 2008; Dominguez & Mayrhofer, 2017), these are much larger companies with substantial investments abroad over a sustained time horizon.[1] The cases are listed in Table 1 and are described below in detail. The earliest intervention dates from the 1980s, and in some cases our involvement continued until the middle of this decade.

[Insert Table 1 here]

Heineken

The original Heineken brewery was founded in 1592 in Amsterdam, but it was not until 1864 that Gerard Heineken assumed control of the company. Exports began in 1876 and for the next 55 years the international expansion of the company was limited to exports, primarily within Europe or to countries situated along the sea routes frequented by the Dutch trading companies in the Middle East, the West Indies, Africa, and the Far East. It was not until 1931 that Heineken invested in its first joint venture abroad, Asia Pacific Breweries (APB) in Singapore, in partnership with Fraser & Neave (F&N), a local conglomerate in beverages, real estate, retail and publishing.[2] Small participations followed in local breweries in Indonesia, Egypt, the Belgian Congo, Nigeria, Venezuela, and the Netherland Antilles.

These ventures were designed to support the sale of Heineken imports in each country through the efforts of a local "carrier" brand. Having a local brewery that was already calling on many retail shops, bars and restaurants reduced the marginal costs for distributing imported Heineken. Thus, a win-win solution emerged whereby Heineken gained distribution support and the local brewery added a premium beer to its portfolio.

In 1968 Dr. H.P. Heineken, son of the founder, led the acquisition of Amstel Brewery, Holland's second largest. Amstel had always faced strong competition at home and had, consequently, developed an extensive international network of operations that included many fully- or majority-owned breweries. Many Amstel executives, with substantial international experience, joined the Heineken organization through this acquisition. Their contribution to a more aggressive international strategy became critical when Alfred ("Freddy") Heineken, the founder's grandson, was appointed President in 1971.

Heineken's historical market entry strategy started with exports oftentimes followed by acquiring a small participation in a local distributor or brewer. Over the years this typically included a licensing agreement for one of the main corporate brands, and often concluded by a larger capital investment that led to a majority or even full acquisition. This pattern of "tapered entry" over time, consistent with Johanson and Vahlne's (1977, 2009) model of gradual internationalization, involved ever-larger commitments as the company learned more about each market in which it operated. Decisions on entry mode strategy at Heineken, therefore, were the result of a dynamic process that combined increasing market knowledge with an evolving assessment of the market's strategic value and risk profile. For example:

- Greece, France, Italy and Spain were all large markets within the broader European "home" market. Heineken gradually increased its ownership share in these subsidiaries until it owned them fully by the mid-1980s, using them as platforms for its main corporate brands throughout the region.
- Argentina, Brazil and Indonesia, on the other hand, while also large domestic beer markets, were not considered strategic in the same sense and exhibited a higher degree of political and economic risk. Therefore, minority participations (10-25%) and licensing agreements were Heineken's preferred approach to these countries.
- Freddy Heineken had opposed acquiring a leading Mexican brewery in the 1980s as too risky, since it might affect Heineken's positioning in the critical US market. Eight years after Freddy's death, Heineken reversed itself in with the acquisition of FEMSA's brewing interests (including Dos Equis, Bohemia, Carta Blanca and Tecate) in exchange for a 20% stake in Heineken, which compared to 26% retained by the Heineken family.

This important market, now part of the North American Free Trade Area (NAFTA), had acquired new strategic importance while also reducing its risk profile, thus justifying a stronger commitment.

- In 1982, Heineken's Irish licensee, JJ Murphy's, went into bankruptcy. Freddy saw international potential for Murphy's Stout (which competed locally with Guinness) as a corporate brand, and was reticent to "back off a market" within Europe. Thus, they proceeded to acquire the company.

The Heineken story seems to validate certain hypotheses regarding the international expansion of family firms. First, administrative history appears to be critical in family firms, where it is embedded in its culture and personalities. The inputs of seasoned executives acquired with Amstel, coinciding with Freddy Heineken's arrival as CEO, provided the managerial bandwidth for international expansion.[3] Second, the company's entry mode strategies validate the wisdom of the Uppsala model. Yet, strategic importance and risk adversity also played a critical role in decisions about which markets to enter and, more importantly, how to do so. A key takeaway here is that countries, and the opportunities/risks they represent, change over time, both in terms of their strategic profile and stability conditions. As a result, the optimal governance mode also shifts over time and we see Heineken evolving its equity stance and commitment to these markets in response to changes in market attractiveness, learning and the risk/return profile.

Grupo Bemberg

The Bemberg group included the flagship Quilmes brewery in Argentina and several smaller companies in Argentina, Uruguay, Paraguay, Chile, and Bolivia, all engaged in the production of beer, beverages, and related inputs. The group was owned by the descendants of a Franco-Argentine family with branches in Argentina and Europe (all represented in the company's board). When Carlos Menem assumed the presidency of Argentina in 1989, he introduced a series of dramatic market-oriented reforms, including widespread privatization, trade liberalization, and a fixed exchange rate. In the boom market that followed, Quilmes sales grew at 25-30% per year and the company invested heavily on new capacity across the region.

At the time, the Bemberg family hired Norberto Morita, an executive with Corning Glass' European operations, to manage the company. Beginning in 1989, Morita instituted an annual strategy retreat for all top management directed by one of the authors. Topics were selected in advance and senior executives were chosen to prepare presentations on each, which were followed by discussions and concluded with a list of action items. One of the topics discussed at the 1992 retreat was "Brazil: Entry strategies." Argentina's then strong currency versus Brazil's continued instability gave Quilmes a higher market valuation than that of Brazil's Brahma, a considerably larger company. The Bemberg team recommended a merger with Brahma and asked Mr. Morita to explore such a move. Jorge Paulo Lemann, then CEO of Brahma, rejected the idea off hand, and predicted that Brahma would eventually buy Quilmes out.

In the following years, Bemberg's valuation (and the family's wealth) increased tenfold, giving Morita considerable clout and credibility. By 1996 two trends were evident: 1) Brazil, now under President Fernando Cardoso's Real Plan, had successfully reformed its economy and the threat of a southern strike by its financially stronger beer companies was imminent; and 2) given the rate of global consolidation in the industry, a purely regional player might not be viable. Heineken's 10% participation in Quilmes was judged insufficient protection against potential regional or global raiders.

Mr. Morita's response was to look north. The Labatt Brewing Co, Canada's second largest brewer with 45% market share, was in trouble. Their acquisition of 22% of FEMSA in Mexico had gone sour after the Mexican devaluation in 1995. Morita proposed to join forces with Heineken to acquire Labatt and then transfer Quilmes' headquarters to Toronto. He estimated that as a Canadian-based corporation, his corporate cost of capital would drop at least 500 basis points, which could provide the resources to defend existing territories and expand into new ones. However, not all family representatives in Bemberg's board were keen on such a large and risky move outside their comfort zone and were reluctant to approve the massive borrowing that the acquisition would entail. Heineken was also not very enthusiastic and agreed only to acquire some of Labatt's assets. More importantly, Quilmes' cost of finance would be very high. After some initial scrimmages, Belgian-based Interbrew offered $3 billion for Labatt (and assume $950 million of its debt). Such figures were substantial for Bemberg, even net of the disposition of Labatt's non-brewing assets and any Heineken participation, and Morita was forced to abandon the deal.

Quilmes' disadvantage derived from its Argentinean domicile, where creditors demanded a considerable risk premium. It is instructive to contrast Quilmes' experience with that of South African Breweries (SAB), another emerging market multinational (EMNC) that encountered similar financial constraints as they expanded throughout Africa and Asia.[4] SAB moved its domicile from Johannesburg to London in 1999, and thereby improved its risk and financial profile (just as Morita had hoped to do with the move to

Canada), and gained access to finanacial resources needed for the acquisition of Miller Brewing in the U.S. in 2002. Whereas Quilmes dominated the Argentine market and held strong positions in several neighboring countries, it was vulnerable to a foreign firm for which a period of predatory pricing was a small price to pay in order to acquire new markets. In 2004, Belgium's Interbrew merged with Mr. Lemann's Brazil-based Ambev, which by then had purchased 38% of Quilmes in 2002. Inbev, as the new company was named, later increased its ownership of Quilmes to 91% in 2006. Two years later, Inbev merged with Anheuser Busch, forming the world's largest beer company, AB Inbev.[5]

Empresas Carozzi

Augusto Carozzi, an Italian immigrant, founded Carozzi in 1898 in Valparaiso, Chile, to produce pasta, tomato sauces and other consumer food products. After his death in 1942 his family sold part of the ownership in the company. By 1969, the Bofill family, long-time distributors of Carozzi's products, gained control of the company.

In the 1990s, Carozzi began a strategy of international expansion under the leadership of Gonzalo Bofill, then Chairman of the Board, a group that also included his eldest son and one of the authors. Carozzi acquired two family-owned firms in Chile in 1990—Costa (chocolate products) and Ambrosoli (confectionery)—and two others in Argentina—Bonafide (coffee and chocolates) in 1990 and DRF (confectionery) in 1992. Later that year, Carozzi opened an office in the U.S. to distribute its products in North America.

By the mid-1990s, Carozzi reached about $400 million in sales with roughly 30% of its assets and revenues abroad. The Bofill family controlled nearly 80% of the ownership with the rest listed in the local stock market. As further international expansion would require significant capital (the company's debt-to-equity ratio was already relatively high), management started to look for potential partners who could contribute additional equity. Several large multinational companies from the U.S. and Europe—e.g., Philip Morris, Nabisco and Danone—showed interest. However, they typically demanded a controlling interest in Carozzi (or at least a 50% share). These companies also had significant operations in Latin America, which they wanted to integrate with Carozzi. As a result, these negotiations failed to come to fruition. In 1997 Carozzi bought another company in Peru, Molitalia, and in 1998 one in Italy, Gazzola, both producers of pasta. By now, the need for additional resources was critical.

Two issues were important to Mr. Bofill in his search for a partner. First, he wanted to maintain the freedom to expand internationally, at least within Latin America. Second, he felt it important that any new partners were compatible in terms of corporate values and leadership style. He concluded that the ideal partner would be another family-owned company, preferably from another continent, one that wanted to have a minority stake in Latin America and could provide the additional capital necessary for expansion. It was then that Carozzi met the owners of Tiger Brands, Ltd., a leading food company headquartered in South Africa with sales of roughly $2.5 billion and operations in several African countries. Tiger Brands' management was willing to make a capital injection into Carozzi in exchange for 20% of the company. Although not a family-owned company, Mr. Bofill concluded following many face-to-face meetings that they shared his values and were content to have a minority footprint in Latin America.[6]

Those values were articulated as "respect and closeness to people, honesty and integrity, commitment to the company, sobriety and efficiency, and passion for the work well done." Family members were not allowed to work in the company, but all managers were asked to adhere to the same value system. After Mr. Bofill´s death in 2007, his son Gonzalo Bofill Velarde, who had served in the Board for 28 years, took his place as Chairman. He maintained the family spirit and culture and continued the international expansion of the company. By 2015, Carozzi´s revenues approached $ 1.5 billion, roughly half in Chile with the rest mainly in Latin America. Regional operations were judged to be successful and relations between Carozzi and Tiger Brands continued at an amicable level.

<u>Gerdau</u>

Johannes Gerdau, a German immigrant to Brazil, bought a nail factory in Porto Alegre in 1901 that later prospered under his son's management. Hugo Gerdau had three daughters, one of whom, Helda, married Curt Johannpeter, a supervisor with the German Transatlantic Bank, who had arrived in Porto Alegre on business. After his father-in-law died in 1939, Curt took over management of the family affairs. With a strong financial background, Curt moved Gerdau into steel making by acquiring Siderurgica Riograndense in 1948. Thereafter, Gerdau focused its strategy on the minimill technology that utilized steel and iron scrap as raw materials and allowed for smaller size plants, acquiring companies throughout Brazil and Latin America—e.g., Uruguay and Chile—and converting them to this new technology.

Curt and Helda had four sons who continued the company's international expansion by acquiring steel firms in Canada and the U.S. The family's fifth generation, led by André Gerdau Johannpeter, expanded operations further to Colombia, Argentina, Mexico, Dominican Republic, Peru, Guatemala, and Venezuela, as well as Spain and India. Gerdau also acquired or built additional facilities in Canada and the U.S., including the acquisition of Chaparral Steel for $4.2 billion in 2007. In spite of many opportunities to diversify into other sectors, the Gerdau-Johannpeter family chose to maintain a strong focus on the production of the long steel bars that were the output of minimills and were primarily used in the construction industry. Only recently, have they made minor forays into other steel products for the automotive, industrial, and agricultural sectors.

The same focus was evident in the importance the family gave to governance processes. On the business side, they worked with McKinsey & Co. to restructure the boards, committees and shareholder agreements that applied to their various companies. Equally concerned about the unity and harmony of the family, they asked one of the authors to develop a "Family Protocol" designed to assure the family's alignment for the long term. There were four branches of the family corresponding to each of Curt and Helda's four sons; 16 cousins composed the fifth generation. Only five of these had ever worked in the company, but all participated in a three-month internship designed to provide them with knowledge of the company and its operations, and to develop skills that would serve them in their responsibility as owners.

A "Family Council" was created, composed of the four brothers plus one of their respective sons or daughters who rotated every two years. This Council worked to develop unity among all members, dealt with education on family business issues, facilitated the transmission of family values, and promoted the observation of family policies and rules. The family believed that good governance facilitated the trust all external stakeholders placed on the company, especially the financial institutions and capital markets that were critical to their success. This trust redounded in lower interest rates and greater capital access with which to finance international expansion.

A third aspect of the company's culture was a strong concern with preparing subsequent generations to lead in the future, particularly in terms of international experience. The career followed by André Gerdau, the current CEO, was exemplar. After several years in domestic operations, he was sent to Gerdau´s Canadian and U.S. operations in order to better understand two of the company's major markets, meet with other industry players and clients, and develop skills to negotiate with global suppliers. When chosen to become the next CEO in 2002, he was well prepared for the position.

By 2015, Gerdau was the clear leader in the long steel segment in the Americas, and one of the largest steel suppliers in the world. With more than 45,000 employees and $14 billion in sales, Gerdau managed operations in the Americas, Europe and Asia with an installed annual capacity of over 25 million metric tons of steel. The company was publicly listed in Sao Paulo, New York, and Madrid, had more than 120,000 shareholders, yet it remained firmly in the family's control.

<u>ARCOR</u>

Arcor was founded in 1951 in Arroyito, a small town in the province of Cordoba, Argentina, by four families—three brothers of the Pagani family, three from the Maranzana family, and two each from the Brizzio and Seves families. The company was initially in the confectionery business (candies and chocolates), but diversified into other consumer food categories over the years.

When Luis Pagani (Chairman of Arcor since 1993) first visited one of the authors in 1997, his family held 45% of the shares in the company. Mr. Pagani acknowledged that "we have a problem: we have too many family members working in the company." Over the years, the owners had gradually incorporated their relatives into the firm to the point that, "we now have over 60 family members involved, ranging from the Chairman of the Board to the guy who serves coffee in the office." Mr. Pagani considered this excessive in a company with 3,000 employees, "especially when many of them are not qualified to occupy their positions... and we have stopped it now." Six years later, in 2003, Pagani took control of the company by buying out some of the other families and began implementing additional changes in the organization and professionalization of the company.

Following the Argentine crisis of 2001-2002, the peso was devalued by more than 70% and all dollar-denominated bank accounts were subject to forced peso conversion at discounted rates. The monetary shock resulted in an economic contraction of over 20% relative to 1999, and GDP fell by another 15% over the next two years. Unemployment rose to 25% and income poverty reached 54% of the population. In this climate, Arcor's domestic sales dropped by 60% (a drop of $350 million vs. 2001) and the company teetered on the edge of bankruptcy. Luis Pagani, with the support of his siblings, imposed a series of drastic actions involving financial restructuring, changes to the product portfolio, acceleration of payment cycles and, most importantly, a strong strategic redirection that transformed Arcor into a truly international company reducing its dependency on the volatile domestic market.

There were two key elements of this new strategy. The first consisted in emphasizing certain products and markets, as well as choosing between direct and indirect distribution. The second element was a decision to seek a number of strategic alliances with key world-class players in order to expand Arcor's product range, international penetration and technical capabilities. Two of these involved agreements with Nestlé for the production and sale of ice-cream products and with Brach's in chocolate confectionery. A third alliance was reached with Danone in 2005 by which the two companies unified their businesses in cookies, alfajores (a South American candy bar), and granola bars in Argentina, Brazil, and Chile, thus giving birth to the largest cookies company in South America. This association, named Bagley Latinoamérica S.A., managed 7 plants across the region and launched more than 40 new products annually. Finally, in 2007, Arcor entered into a fourth strategic association with Group Bimbo (Mexico), one of the world's largest producers of bakery products. This venture, Mundo Dulce, included production of candy and chocolate products for the Mexican and export markets.

Argentina's historically protected market had always been large enough for Arcor to enjoy financial success. The 2001-02 crisis changed this dramatically, and was the trigger that drove its internationalization. Today, Arcor continues to be the leading foodstuff company in Argentina, but it is also the world's largest candy manufacturer with annual revenues of about $3.5 billion. Its product range in confectionery, chocolates, cookies, crackers, ice creams, agro-industrial products, and foodstuff is manufactured in 40 industrial plants located in Argentina, Brazil, Chile, Mexico, and Peru. Arcor's leading brands in several of these fields are distributed in over 120 countries in all five continents.

PROEZA S.A.

Guillermo Zambrano founded Proeza in Monterrey, Mexico, in 1956, as a manufacturer of steel products. In 1962, the company entered into a 60/40 joint venture with A.O. Smith of the U.S. to gain technological expertise to supply structural parts to the automotive industry. Following the 1982 financial crisis, management decided to hedge against domestic market and currency risks by expanding abroad. By 1990, automotive sales reached $100 million, 33% of which were exported. The signing of the NAFTA agreement in 1994 provided a new impetus to the internationalization process, as most auto manufacturers integrated operations across North America. A new family protocol and council established for the Zambrano family in the mid-1990s led to the appointment of one of the authors to the company's Board of Directors in 1995.

In 1997, A.O. Smith sold its automotive division, including the 40% it then held in Proeza's Metalsa, to Tower Automotive.[7] Three years later, Metalsa acquired Tower's heavy truck division and restructured all operations into two plants in Virginia and Monterrey. As a result, Metalsa became the primary supplier of structural elements to major multinational truck manufacturers and the leading competitor in North America. By 2000, auto and truck sales exceeded $400 million, with 66% abroad.

As Metalsa's ambitions grew it increased investments on technology and upgraded its capabilities through judicious acquisitions. In 2007, when Tower filed for bankruptcy, Proeza acquired full control of Metalsa. A year later, North American car and truck sales fell by more than 35%. This created an opportunity to acquire the Structural Products Group of Dana Corporation, a firm that was roughly the same size as Metalsa. The Dana acquisition, completed in March 2010, increased Metalsa's share of the North American structural components business to 40%, making them first in commercial vehicle chassis and second in light vehicles chassis. It also brought to Metalsa a total of 10 plants in 6 countries, including subsidiaries in Brazil, Argentina, Venezuela, Australia, and a joint venture in the UK. Metalsa was now a global player with close to $2 billion in sales, serving major clients in the heavy truck and light vehicle sectors, with 95% of sales outside Mexico.

The company's financial conservatism in such a cyclical and high capital intensity industry led Proeza to avoid debt at the holding company level, and to keep financial leverage low at the subsidiary level. This, plus its excellent relationship with major U.S. banks, provided access to financing at very competitive rates to buy critical strategic assets in times of crisis (therefore at low prices) and on reasonable terms. Thus Proeza avoided one of the typical dilemmas of family firms: financing growth while maintaining control.

For years Proeza explored options to enter China's truck chassis market, but potential partners insisted on majority control and complete transfer of technology, conditions not acceptable to the Zambrano family. Instead, Proeza accepted an offer from the Tata Group to build a truck chassis plant in Jamshedpur in 2008, close to Tata's truck manufacturing facilities in Kolkota, India. It took Metalsa six months to obtain the land for a greenfield plant and they had to bring electricity from 25 kms away. Enrique Zambrano, Proeza's CEO, acknowledged that they were unprepared for the bureaucratic complexity and poor infrastructure they encountered in India, and it took them six years to reach break-even. Yet, this experience of operating in an institutional environment even more severe than that found in Mexico paid off when they opened a similar plant in Thailand in 2014.

In 2013, Metalsa purchased a German manufacturer of structural parts from a private equity firm. A supplier to Mercedes and BMW, with subsidiaries in China, Turkey, and South Africa, it provided access to prestigious customers and new markets. But problems emerged when German managers were reluctant to take direction from a Mexican executive, setting Metalsa's turn-around plan for the company back by a year. When Metalsa had obtained its first Toyota contract in the U.S. in the mid 2000s, the company sent 100 workers and engineers to work in Japan for six months to learn the "Toyota way." Similar efforts had been put in place after the acquisition of the U.S. truck chassis business from Tower. Zambrano concluded that the German problems were the result of Proeza not having made similar efforts or taken the time to invest on the right people to facilitate integration. As a result, Proeza committed to an HR policy where cultural principles and values are validated globally, to frequent exchanges of personnel among subsidiaries and HQ, and to transparency and open communications.

By 2015, Metalsa was operating in a dozen markets in four continents with a leading technical position in truck chassis and strong competitiveness in automotive structural parts. Annual sales exceeded $3 billion with global R&D expenditures >2% of revenues. When competing against giant publicly traded companies, Proeza had remain agile and flexible, making decisions against the grain, but always in a focused way, aiming to being #1 or #2 in their chosen market segments.

<u>Concha y Toro</u>

Melchor Concha y Toro founded Viña Concha y Toro (CyT) in Chile in 1883. Fifty years later, CyT shares were listed on the Santiago Stock Exchange and the company made its first export sales to Holland. By 1957, Eduardo Guilisasti, a young trader in Santiago, together with some friends, took control of the company. When one of the authors began to collaborate with the Guilisasti family on governance issues in 2001-2002, total sales of CyT had reached $200 million. Over the next decade the company grew dramatically reaching over $1 billion in sales and a market cap of $1.5 billion by 2015. The Guilisasti family held 27% of the shares and, together with other family friends, controlled 40% of the company.[8] With 3,600 employees and sales in 145 countries, CyT accounted for 34% of Chilean wine exports in 2014. CyT led the ranking of "The Most Powerful Wine Brands" by British consulting company Intangible Business, was listed among the "Most Admired Wine

Brand in the World" by *Drinks International* for three consecutive years, and received multiple nominations as Winery of the Year by *Wine & Spirits*.

CyT´s strategy was to seek growing market penetration a steady increase in sales in selected global markets. It was exclusively focused on wine with a vertically integrated structure, ranging from vineyard to commercialization. CyT has consistently invested in its own vineyards and in enological and technical capacity to successfully compete in the premium wines category. Ultimately, CyT came to control 9,086 hectares of vineyards in 9 Chilean valleys, 1,154 hectares in Argentina and 464 in the United States, which gave them access to a rich diversity of soils and grape varieties. CyT group was the second largest winery worldwide in terms of its own captive vineyards.

CyT took several steps to position Chile as a producer of world-class wines. This included the launch of *Don Melchor* in 1989, the first ultra-premium wine from Chile; a joint venture with Baron Philippe de Rothschild in 1997 to create *Almaviva*, a new wine category; the re-launch of the super-premium brand *Marqués de Casa Concha* in 1999; and the introduction of the first iconic Chilean Carmenère in 2005, *Carmín de Peumo*. The acquisition of California's Fetzer Vineyards in 2011 also contributed to enhancing its image. Perhaps the best example of its global success was *Casillero del Diablo*, sales of which reached 3.8 million cases by 2013. CyT also partnered with Britain's Manchester United to launch the *Legendary Collection*, a limited edition super premium Cabernet Sauvignon whose bottles were signed by renowned players in the team.

CyT developed a number of subsidiary vineyards to diversify its product offer. They included Santa Emiliana, Cono Sur and Viña Maipo (in Chile), Trivento Bodegas (Argentina), and Fetzer Vineyards (USA). Each operation had its own brand strategy and a portfolio of wines with a unique character that reflected its origin and positioning. All, however, benefited from access to corporate investments in technology and global distribution. As part of this integrated business model, the company expanded direct distribution into nine strategic markets worldwide.

Eduardo Guilisasti, CEO for more than 20 years, was the eldest son of seven siblings in the second generation of the family, and the driving force behind its international strategy. *Decanter*, an industry publication, selected him as one the ten most influential persons in the world´s wine industry. The family established a family protocol, family council and other governance institutions in order to align a large family that included 23 members in the third generation, with one author's collaboration. Financial markets were often reluctant to extend credit to family-led companies with a broadly distributed ownership, but Mr. Guilisasti had proven that a capable and influential leader could be effective in implementing a well-crafted global strategy. The entry into Argentina, the Fetzer acquisition and plans to enter Spain and other European countries showed consistency and a clear strategic path. Whereas financial requirements had diluted ownership for the family, they maintained control by virtue of their success and the use of appropriate governance mechanisms.

Espírito Santo Financial Group

The Espírito Santo Financial Group (ESFG), made up of Banco Espírito Santo and its many subsidiaries, BES Investimento, and several insurance companies, was bailed out in July 2014 by the Bank of Portugal to the tune of $4 billion in the face of massive losses. The regulators took over the bank and removed all members of the Espírito Santo family from management, with some facing criminal charges for money laundering, fraud and misrepresentation of financial statements. The banking assets were split into two entities—Banco Novo (a "good" bank) operating in Portugal, and Banco Espírito Santo (BES), which owned troubled affiliates in Africa and the Americas. Both were under a mandate to be sold or liquidated.

In 2007, one of the authors joined the board of directors of Espírito Santo Bank (ESB), a state chartered bank in Miami, Florida, and a fully owned subsidiary of BES. While severely affected by the 2008-10 financial crisis, ESB had been successfully restructured by 2012. Not so the family's non-banking investments—in agribusiness, tourism, and other sectors, mainly in Africa and South America—that required large injections of capital. In order to maintain control, ESFG issued short-term commercial paper at several of its European holding companies and, in violation of regulatory requirements, provided credit from its banking subsidiaries (in Panama, Angola, and Libya, for example) to these companies. As the situation worsened in early 2014, the losses mounted and two of the holding companies declared bankruptcy. The intervention by Portuguese authorities followed.

BES had been in the family's hands since the late 1800s. After the 1974 "Carnation Revolution" that overthrew Portugal's dictatorship, all banks and insurance companies were nationalized without compensation. The Espírito Santo family fled Portugal and took refuge in Brazil, Switzerland and Luxemburg, where they began to rebuild their business. A decade later, the group's holdings included banks in Sao Paulo, Paris, Geneva and Miami, when in 1985 the government invited the family to return to Portugal. With the help of French bank Crédit Agricole they opened a bank in Lisbon and in 1991, when the government reprivatized all financial institutions, the family bid for its old properties. In doing this, a complex corporate structure was created with Espírito Santo Control (ESC), the family holding, at its apex. ESC owned a significant share of ESFG, a public company listed in both the London and Luxembourg exchanges. ESFG in turn owned a controlling interest in BESPAR, the main shareholder in BES, where Crédit Agricole held a significant minority position, and which was listed in Lisbon's stock exchange. BES had over €100 billion in assets and nearly €9 billion in capital, all controlled by the family through this convoluted pyramidal structure.

In 1991, the family council elected Ricardo E.S. Salgado as Chairman of the group. In parallel, the family created a sister company to ESFG named ES Resources, which acquired all non-regulated activities in agribusiness, tourism, real estate, and health services, in Portugal, Africa and South America. Many of these were long-term plays that required considerable financing for which ES Resources issued commercial paper through several of its subsidiaries,[9] paper later sold to customers of BES and BES Investimento, the investment banking arm of the group.

In 2012, the Bank of Portugal ordered an audit by PwC that revealed a number of irregularities and which drove the Central Bank to order BES to create a reserve for the commercial paper sold by ES Resources. Soon thereafter, the Angola banking subsidiary that reported directly to Mr. Salgado revealed a mayor discrepancy in their accounts. This was soon followed by the bankruptcies of two ES Resources affiliates and the intervention of the Bank of Portugal in July 2014. The family's attempt to maintain control at all costs had led to the creation of an impenetrable pyramidal structure that increased risks at all stages and hid them from the public and other investors. Problems in the unregulated and unaudited businesses, based in multiple jurisdictions and subject to creative accounting, flowed into the healthy financial entities through the vehicle of inter-company lending.

This, combined with the funding of long-term investments with short-term debt, spelled disaster, not only for ES Resources and its subsidiaries, but also for BES.

Furthermore, dysfunctional family governance derived from Salgado's penchant for absolute control. He and three other senior family members, plus their long-term "consiglieri," constituted the family council. No one ever questioned his judgment until 2013 when the notion of "alternate members" was introduced. One of these, José Maria ES Ricciardi, head of ESFG's investment bank and the son of a sitting council member, challenged Salgado at a council meeting and asked for a no-confidence vote. Salgado won the vote, including the support of Ricciardi's father, and the younger man was banished from the council. No decision, however trivial, was made without Salgado's consent. The family permeated the company, with nearly 300 relatives working throughout the group who, indebted to Salgado for their livelihood, did his bidding. Loyalty to the family was paramount, which led to a sentiment in the group that they were above the law, operating in a world where they could write their own rules; until reality caught up with them.

III. ANALYSIS AND PROPOSITIONS

Many of the issues faced by family-controlled companies in their international expansion are not much different from those faced by other companies. Cross-cultural management problems, difficult trade-offs between risk and commitment, adjusting to different institutional settings, overcoming the liabilities of foreignness, promoting inter-subsidiary coordination, developing management talent, dealing with the financial requirements of global expansion, etc., are all challenges experienced by global players, whether family-owned or not. In parallel, questions of proper governance, the development and promotion of future generations of family managers, the role of professional management, issues of openness and transparency, the divergent interests of family and business, maintaining owners' control, and succession planning, for example, are different for family-controlled companies, especially in large firms like those described above, regardless of their international scope. Finally, it seems that family-controlled firms based in emerging markets face similar challenges to EMNCs in general, based on a host of issues such as institutional voids, underdeveloped capital markets, protectionist domestic policies, political and economic instability, and insular business perspectives, among others.

In the sections below, we offer a series of propositions that are derived from our case histories and the extant literature, and that address some instances where these three fields of inquiry intersect. We organize the discussion in four somewhat arbitrary categories: (1) the dichotomy of financial resources and control; (2) the conflicts between undertaking commitments and risking the family's heritage; (3) the need to hire, train and develop future generations of managers; and (4) the challenge of insuring family unity through the careful adoption of sophisticated governance mechanisms.

Financial Resources and Control

The need to maintain control while growing internationally presents a difficult dilemma for family companies (de Visscher, et al., 2011; Villalonga & Amit, 2010). One solution is to create elaborate pyramidal structures (Villalonga & Amit, 2008), but the ESFG case shows the dangers associated with such approach and they are illegal in many regulatory environments. A better solution may be to expand gradually, maintain conservative leverage, and use non-traditional sources of funding, such as global banking relations, JV partners and other patient investors, who share the family's commitment to long-term success (Swinth & Vinton, 1993; Yeung, 2000). A cautious approach to global expansion may limit some opportunities or stretch out the globalization process over time, but it allows for learning to occur, the maintenance of family control, and time to develop the human resources needed for globalization.

Nearly every case in this collection illustrates the choice of a cautious and gradual approach to international expansion by family companies, regardless of their origin. Heineken's early history of gradual and measured penetration of foreign markets, accompanied by a step-by-step increase in financial commitment at each site over time; the Bemberg group's regional expansion into neighboring markets prior to its attempt to enter into North America; Proeza's expansion to the U.S. market, first by exports and then by small investments that grew over time, followed by major acquisitions into the Americas, Europe, and Asia; Carozzi's gradual regional expansion starting in Argentina and later to other neighboring countries; and CyT's careful expansion to acquire vineyards in Chile, then Argentina, followed by the U.S. and Europe are all examples of this strategy. Whether other companies, not family owned, may have moved faster in similar circumstances, is an interesting empirical question (Graves & Thomas, 2008; Villalonga & Amit, 2006). ESFG provides an inverse support to this proposition. Their rapid international growth, both in banking and other sectors, created the conditions that led to their dramatic collapse. From these examples we can formulate that:

Proposition 1: Family-controlled companies will tend to time the growth and development of their global operations to match the availability of financial resources that are either internally generated or sourced from "friendly" parties to a greater extent than publicly traded companies, irrespective of their domestic origin.

As noted earlier, this gradual approach is consistent with the Upsala model of global expansion (Johanson & Vahlne, 1977 & 2009). Entry strategy by family companies seems to follow a pattern of incremental commitments over time as both risks and returns are better evaluated and learning occurs. Heineken's choices in entry mode are consistent with the accepted view that incorporates both transaction costs and institutional factors in the decision (Brouthers, 2002 & 2012; Shenkar, 2012). They also demonstrate a dynamic nature to the process. The Heineken, Carozzi, Arcor and Proeza case histories support both an *options* view (Brouthers, Brouthers & Werner, 2008) as well as a *learning* view (Casillas & Moreno-Menéndez, 2014) to ownership mode choices over time. This, together with a sense that heterogeneous firm attributes (Stevens & Makarius, 2015) and a firm's reputation for trustworthiness (Zhao, Luo & Suh, 2004) can impact the optimal entry choice, lend support to Hennart and Slangen's recent call (2015) for additional entry mode studies that take into account changes in both a firm's learning over time as well as in prevailing environmental and institutional conditions.

Figure 1 summarizes one view of this process. Initially (T1 in the graph) the firm may view the country opportunistically, making a limited commitment of resources by establishing marketing operations with low capital requirements. Over time, the local market may become more attractive and/or competitors' moves alter the perception of the country's importance to the firm, bringing about an increase in resource commitments by licensing or taking a minority position in a local firm (T2). At this point, this subsidiary may be viewed as an option play in anticipation of future developments and better information. Assuming the country's strategic importance holds, as further learning occurs and the global competitive environment continues to evolve, the firm may take a more informed and realistic view of the institutional differences and the levels of risk particular to the country (Clarke & Liesch, 2017). At this point the option may be executed and significant commitments made to grow operations in the country on a fully owned basis (T3). Obviously, not all investments may go through the same cycle and in some cases the initial entry mode may reflect these factors from the start. Our case histories illustrate similar processes at work in their international expansion, irrespective of the national origin of the firm. Therefore:

Proposition 2: Companies' choice of governance mode will evolve over time as a function of both their learning in each specific market (and across all markets), as well as the changing investment conditions and strategic priorities in that specific market. These choices seem independent of the ownership characteristics and the national origin of the firm.

[Insert Figure 1 here]

As a result of these two trends—a cautious path of capital expenditures and a risk-averse entry strategy in early years—many of our sample companies showed a propensity for collaborative approaches in their foreign operations. This was certainly the case from the beginning for Heineken, Proeza and Carozzi, and later for Arcor as they ventured further from home (e.g., Mexico) and from their core products (e.g., ice-cream, bakery products). Such collaborations can provide "friendly" resources to family companies (Boyd et al., 2010; Swinth & Vinton, 1993; Yeung, 2000). As with many issues regarding family companies, there is disagreement on "the impact of family ownership and influence on different aspects of internationalization" (Pukall & Calabrò, 2014, p. 1), including the preference for joint ventures (George, et al., 2005). A matched pair sample across industries might provide the right methodology to analyze this question. The evidence from our cases and the limited empirical studies cited above, lead us to formulate the following proposition:

Proposition 3: Family-controlled companies will show a higher propensity for joint ventures and collaborative approaches in entering foreign markets relative to other firms, as these arrangements reduce the financial commitments and potential loss of control involved in market entry and expansion abroad.

As family firms have the ability to take a longer-term perspective in business (Ward, 1998), this may provide them with a differential advantage in global operations. The development of relational quality is critical to success in collaborative agreements (Ariño et al., 2001). Potential foreign partners value the fact that family members sitting across the table from them at the start of a joint venture will be the same next year and next decade, in contrast to public company executives who may be soon transferred. The ability to convey such level of trust and confidence may be a strategic asset as family corporations expand internationally (Stevens & Makarius, 2015; Swinth & Vinton, 1993). This is particularly true when the foreign partner is another family firm with similar cultural values and understanding (Fuentes-Lombardo & Fernandez-Ortiz, 2010). The Carozzi case clearly demonstrates this preference, as they rejected experienced international companies as potential partners because of the implications for family control and managerial independence. The Arcor experience, on the other hand, might seem to refute this view as they elected to collaborate with large multinational companies. They did so, however, only as they entered new fields outside the company's sphere of competence or more distant markets (Luiz et al., 2017). On balance, we propose that:

Proposition 4a: Family-controlled companies will prefer to partner with similar companies (e.g., other family firms), both for reasons of proximity in values and managerial style, as well as in order to insure greater control over operations in their core products and markets.

Proposition 4b: To the extent that family companies enter markets outside their geographic region or with greater institutional differences, they will be more amenable to partnering with publicly owned multinational companies.

Proposition 4c: To the extent that family companies enter businesses outside their core competencies, they will be more amenable to partnering with publicly owned multinational companies.

The experiences of both the Bemberg group and Arcor in Argentina, as well as those of Proeza in Mexico and the Espírito Santo group in Portugal, demonstrate that the dangers of reliance on unstable or volatile home markets are a major motivation for international diversification among family companies based in emerging markets.[10] In the cases of Gerdau and CyT the presence of such a "home market" disadvantage is not as obvious from the data, but both possessed significant firm advantages (minimill technology and access to superior wine producing regions, respectively) that may have reduced any perceived environmental threat. The motivational aspects of such dependence are clear (Bell et al., 2003; Graves & Thomas, 2008; Kundu & Katz, 2003), although they probably apply to all companies based in emerging markets regardless of ownership. The high cost of capital issue that first drove and then impeded Bemberg's expansion into Canada, while applicable to all emerging market-based companies, presents a greater challenge to family-owned companies that have limited access to external financial sources. Proeza seems to have dealt with this challenge by a strategy of low corporate leverage and nurturing excellent banking relations. Thus:

Proposition 5: Family-controlled companies based in emerging markets will face greater obstacles to secure financing for international growth than those based in more stable markets.

A mapping of these eight cases and five propositions can be found in Table 2a.

[Insert Table 2a here]

Opportunities, Commitment and Risk

A potential advantage of family companies in global markets is their ability to make quick decisions with long-term payouts without the impediments of complex management structures or fickle capital markets (Gersick et al., 1997; Kets de Vries, 1993; Ward, 1988). This capacity may be tempered by the risks implied to the family's patrimony as the firm moves further away from its comfort zone, i.e., its home country or region. Furthermore, it appears that in those cases where there is a strong family leader, particularly of the second or third generation, these advantages will be more pronounced (Fernández & Nieto, 2005; Okoroafo, 1999). Finally, recent work on the speed of internationalization (Li, Qian & Qian, 2015) corroborates the importance of individual and psychological factors on the speed of expansion of born-global firms, with implications for decision-making in family firms.

Our cases provide some evidence on this effect. Heineken, for example, became much bolder in its international expansion after the Amstel acquisition and the rise of Freddy Heineken to the presidency. Proeza, Gerdau, Arcor and CyT also showed evidence of family firms moving quickly to take advantage of global opportunities in spite of considerable risks. This behavior seems to be typical of strong leaders in newer generations (Menéndez-Requejo, 2005; Okoroafo & Koh, 2010; Okoroafo & Perry, 2010). We might argue that ESFG offers a counter warning as its powerful chairman undertook excessive risks and expanded rapidly into many foreign markets, but the issue there was more one of expansion into unrelated industries than internationalization per se. Therefore:

Proposition 6: Family-controlled companies may be faster to take advantage of foreign opportunities (and assume greater risks) involving international expansion decisions than comparable public companies.

The literature is unclear on whether a unified or concentrated family structure has any impact on the speed and risk of international investments relative to loser arrangements or multi-family corporations (Arregle et al., 2019; Fernández & Nieto, 2005 & 2006; Yeung, 2000). In the case of the Bemberg group ownership and control resided in multiple branches of the original founding family, and they proved reluctant to make significant bets on global expansion. The risk/reward balance associated with the sale of the company was judged superior to what might be expected from a strategy of international growth that involved distant markets in different institutional settings. Their cautious and conservative views were incompatible with Mr. Morita's ambitious plans and strategy. He sensed this discrepancy and resigned his CEO role shortly after the failure of the Labatt acquisition.

In contrast, the Arcor, Carozzi, Gerdau and CyT cases exemplify the ability of a coordinated and unified control to execute a well-crafted global strategy, in spite of the underlying risks, even within a fragmented family structure. Even the ESFG case, as disastrous as it was, lends credence to the argument that a unified command can impose significant risks on the company, to its detriment in this case (Graves & Thomas, 2004).

A related observation regards the role played by a family leader in this process. Freddy Heineken, member of the third generation of his family to lead the company, served as the conscience of the company and the last bastion of defense of the integrity of its brands. He objected, for example, to launching a Heineken Light beer in the U.S. market in the early 1990s based on his belief that the company's leading brand, the one that bore his name, should not be diluted. As in the earlier case regarding Mexico, this decision was also reversed a decade later. By then, however, ownership had passed to Freddy's daughter who was not involved in operations and whose British investment banker husband represented the family's interest in the Board of Supervisors. Somehow, that sense of being the custodian of the company's history and culture was diminished, at least, until one of Freddy's grandchildren may reassume the role in the future. Thus, we pose that:

Proposition 7: Family companies where there is a unified strategic control will be more willing to support international expansion than those were the control of the company is in the hands of various families or branches of a family.

The companies in our sample, particularly those that proved most successful over time, were focused on narrowly based areas of expertise (Hennart et al., 2019; Simon, 2009). This was certainly the case for Gerdau, Heineken, Proeza and CyT. In the case of Arcor, where they expanded into new fields, they did so in partnership with giant and highly successful multinational companies. ESFG, on the other hand, diversified widely into fields far from their core competence, and paid for it dearly. Consequently, we can argue that, irrespectively of national origin:

Proposition 8: Family companies that structure their global expansion within narrow fields where they hold specific competences will outperform those where international expansion takes place in unrelated fields.

Table 2b presents a mapping of our case evidence for these three propositions.

[Insert Table 2b here]

Human Resource Development.

The ability of family-controlled companies to attract managerial talent has been a major issue in the literature (Gersick et al., 1997; Ward, 1988). This problem has at least two components. One relates to the process of professionalization required to attract top-level managerial talent from outside the family (Alayo et al., 2019; Eddleston et al., 2019). The second concerns the need to put in place educational and training programs to prepare future generations of family members to participate effectively in running their company. Globalization exacerbates both of these problems for family companies: it compounds the problem of attracting outside talent since it now must do so across cultural and national boundaries, and it makes the educational task for family members more complex, distant and time-consuming.

Proeza's difficulties in managing its investments in India and Germany reflected a scarcity of personnel capable to handle such complex startup and turn-around roles (Chang & Shim, 2015). Carozzi's insistence on preserving its value system, combined with a prohibition of family members in management, made it difficult for them to obtain the necessary talent for its growing international subsidiaries. Other companies in the sample, e.g., Heineken and Bemberg (although not described in the brief case histories), also experienced difficulties in finding the right people for their foreign operations. As a result,

Proposition 9: Family-controlled companies will be at a disadvantage in attracting top-level managerial talent particularly as they grow their international operations, unless they make concerted efforts to professionalize their management structures.

Regarding the managerial development of family members, several of our family firms showed remarkable initiatives in this direction. Gerdau for example, already involved its fifth generation in management; Proeza and CyT were both on their third. In these companies, young family members wishing to access senior management positions, must, in general, first obtain a first-class university education, then acquire work experience outside the family business and, thirdly, be exposed to their company's international operations (Graves & Thomas, 2008). Failure to do this properly could spell doom for a company as illustrated by ESFG's difficulties, which could be attributed, to a degree, to the 300 family members working in the company who were not particularly trained to handle their level of responsibility. In contrast, Pagani's process of "cleaning house" at Arcor insured that any family member within the company had the necessary skills to do so.

Mr. Zambrano of Proeza believed that an aggressive and comprehensive HR development strategy was fundamental to their ability to continue to grow internationally (Banalieva & Eddleston, 2011). This commitment to a professional management approach in all their businesses was enshrined in the family protocol and monitored by a Corporate Board that included 5 independent directors. Furthermore, as the auto business expanded globally, Proeza created a separate board for its Metalsa division. It included four international executives with considerable industry experience (one American and three Europeans), plus Metalsa's general manager and two holding company executives (Zambrano and the group's CFO). Beginning in 2015 an additional member of the family's second generation, plus two from the third generation, also joined Metalsa's board, a process designed with the dual purpose of cross-generation engagement and talent development. From these cases, we conclude:

Proposition 10: To the extent that family-controlled companies rely on family members to lead their international expansion, they must put in place sophisticated and well-planned educational and training programs for those slated to enter the business.

<u>Governance.</u>

Corporate governance is, of course, a well-trodden issue in both the literature and in managerial practice (Carlock & Ward, 2001). Our sample companies demonstrate that family governance—i.e., establishing a well-conceived family council, protocol, etc.—is particularly critical for international success. This derives from the fact that good governance can provide alignment in decision-making that facilitates international expansion and risk taking (Lansberg, 1999; Martinez, 2010; Ward, 2004). Furthermore, good family governance may provide a competitive advantage in dealing with external stakeholders who control resources critical to the family's expansion plans. Whether these are capital markets, important suppliers, potential joint venture partners or distributors in global markets, a well-run company with strong family governance inspires trust, respect and admiration to the advantage of the organization.

Gerdau, CyT and Proeza, in particular, invested heavily in such mechanisms and considered them essential to their success. Similarly, the failure of ESFG can be attributed in part to the lack of strong governance where dissent was squashed and autocratic rule remained unchallenged and unconstrained. Thus:

Proposition 11: Family-controlled companies with sophisticated corporate and family governance mechanisms will outperform similar companies without such mechanisms in terms of their international operations.

Table 2c maps our eight cases against these last three propositions.

[Insert Table 2c here.]

IV. CONCLUSIONS AND CLOSING COMMENTS

We believe that the propositions that emerged from our discussion of these eight cases illuminate many of the critical differences that characterize family companies in their international expansion. Although clearly not representative of the universe of family companies, we feel that this sample derives particular value from the role the authors played as participant observers in all cases. As stated earlier, we were intimately involved as advisors or board members in the discussions that led to the companies' international investment decisions. Consequently, we feel that we had a privileged vantage point from which to examine the conditions and motivations for each company's expansion over the many years when we served in those positions.

A limiting factor is the absence of a paired sample of publicly traded companies against which we could test the strength of these propositions. But the cited literature on the globalization processes of multinational companies is vast and provides the theoretical and empirical basis for such comparisons. We made use of such historical data to highlight the differences that we felt ownership factors made to the decision making process.

Our sample is also unique in terms of the size and notoriety of the firms involved. It included two family-owned companies from Europe and six based in Latin America (one each in Mexico and Brazil, and two in Argentina and Chile), many of them household names with globally recognized brands. This allowed us to suggest some examples where the national origin of the company had an impact on its decisions. Issues such as the cost of financing and the institutional distance to other markets were paramount in this regard. Yet it appeared to us that there were greater similarities in the conditions faced by family-owned and public corporations because of their national origin, than was the case for the impact of ownership regardless of national origin.

In summary, the narrative from these case histories as well as the partial evidence available from existing research lend credence to our basic argument that the international expansion of family-controlled firms, while in many ways a mirror of the broader experience of all firms as they expand globally, do present particular challenges that are exacerbated by the very nature of family relations and constrains. The eleven propositions presented above embody our best judgment on how the evidence from the case histories supports or not the research in the fields of international business and family firms. We believe that these propositions are eminently testable provided appropriate data sources can be found, always a critical issue in both of these research areas. Future work will determine if they are indeed valid or not, and the results should be of great importance to a world in which family companies continue to account for a significant share of economic activity.

[1] The average annual revenue of the eight firms in Graves & Thomas (2008) research was under $10 million and their foreign activities consisted only of exports. The five firms in Dominguez & Mayrhofer's study (2017) had average yearly sales of nearly €20 million and operated a total of 14 foreign subsidiaries. Our sample firms had an average annual turnover in excess of $1 billion and were engaged in substantial direct foreign investments in multiple countries.

[2] The structure of APB allowed Heineken significant control over its Asian operations. Heineken and F&N each owned 50% of A-P Investments, a holding company that owned 59% of APB. Heineken owned an additional 12.5% of APB directly, the operating company that controlled nearly 20 national companies throughout Asia. The remaining APB shares were either in the public domain or held by friendly financial institutions. In 2012, Heineken took full control of APB at a cost of $4.1 billion.

[3] This history is consistent with a Penrosian view of the critical importance of managerial resources to support international growth (Penrose, 1956 & 1959).

[4] For a detailed history of SAB's international growth and development see Luiz et al. (2017).

[5] In 2014, AB Inbev acquired all of SAB-Miller, then the second largest brewer. The transaction was completed in October 2016, following divestment of SAB-Miller's interests in Molson Coors, as well as its sale of Eastern European breweries and several brands to Asahi Breweries.

[6] Tiger Brands also contributed technology and new product ideas to the Carozzi organization.

[7] This case history is limited to the activities of Metalsa, the automotive division of Proeza. The parent company had other divisions in agribusiness, information technology and healthcare.

[8] In 1995, CyT sold 20% of its shares in Wall Street via ADRs, raising $53 million to finance growth in plantations and distribution.

[9] Principally through Espírito Santo Financiére International Ltd, a 100%-owned subsidiary of ESFG. Others include ES International and Rioforte.

[10] One could argue that Portugal was an emerging market at the time of the Carnation Revolution in 1974, which first drove the family to diversify internationally.

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Table 1: Company Data

COMPANY	INDUSTRY	SIZE*	FAMILY	HQ COUNTRY	AUTHOR'S ROLE	SALIENT ISSUES	OUTCOME
Heineken	Beer, beverages, spirits	Very large	Heineken; Four generations	Netherlands	Consultant to CEO & Board; 1981-92	Growth vs. risk Entry strategy over time Family leadership	Positive
Grupo Bemberg	Beer, beverages	Medium	Several branches of the Bemberg family in Europe & Argentina	Argentina	Consultant to CEO; 1989-97	Global competitors Home base financial limitations Family unity	Negative
Empresas Carozzi	Pasta, sauces, confectionery, consumer and pet foods	Large	Bofill; Two generations	Chile	Member of the Board; 1992-99	Capital for international growth Preserve control & family values Partner selection	Positive
Gerdau	Steel products	Very large	Gerdau-Johannpeter; Five generations	Brazil	Consultant to family; 1999-2001	Focused global strategy Business & family governance Succession planning & management	Positive
Arcor	Chocolates, candy, ice cream, cookies, bakery	Large	Multiple families initially. Pagani family; two generations	Argentina	Consultant to family; 1997 and 2003-04	Conflict between families Participation in management JV selection Coping with domestic crisis	Mixed, then positive
Proeza, S.A.	Automotive components	Large	Zambrano; Three generations	Mexico	Member of Board of Directors; 1999-2005	Global competitors Technology leadership Financial strategy Business & family governance	Positive
Concha y Toro	Wine and vineyards	Medium	Guilisanti; Two generations	Chile	Consultant to family; 2001-02	Global brand management CEO selection and succession International expansion modes	Positive
Espírito Santo Financial Group	Banking, financial services, insurance	Very large	Espírito Santo; Four generations Many branches	Portugal	Member of U.S. subsidiary Board; 2007-15	Diversification Pyramidal structures Short vs long-term leverage Central control; governance	Negative

* In terms of Annual Sales defined as: Very Large >$10 billion; Large =$1 to $10 billion; Medium =$0.5 to $1 billion; Small <$500 million.

Table 2a: Cases and Propositions on Financial Resources and Control

Companies	Propositions				
	1	**2**	**3**	**4**	**5**
	Timing and pace of investments	Dynamics of entry mode evolution	Early preference for JVs	Preference for similar partners	Impact of domestic market risk
Heineken	**X**	**X**	**X**	**None**	
Bemberg	**X**				**X**
Carozzi	**X**	**X**	**X**	**X (a)**	
Gerdau					
Arcor		**X**	**X**	**X (b, c)**	**X**
Proeza	**X**	**X**	**X**		**X**
Concha y Toro	**X**			**X (a)**	
Espírito Santo FG	**Inverse**				**X**

(a) = Yes for other family or companies with similar "values".
(b) = Except when it involved operations in distant and less familiar markets.
(c) = Except when it involved operations in non-core fields.
Inverse = There is an inverse relationship to that observed in other cases.

Table 2b: Cases and Propositions on Opportunities, Commitment and Risk

Companies	Propositions		
	6	**7**	**8**
	Speed of decision-making	Impact of unified control	Importance of business focus
Heineken	**X**	**X**	**X**
Bemberg		**Inverse**	
Carozzi		**X**	
Gerdau	**X**	**X**	**X**
Arcor	**X**	**X**	
Proeza	**X**	**X**	**X**
Concha y Toro	**X**	**X**	**X**
Espírito Santo FG		**X**	**Inverse**

Table 2c: Cases and Propositions on Human Resource Development and Governance

Companies	Propositions		
	9	**10**	**11**
	Attracting professional management	Educating family members	Importance of good governance
Heineken	**X**		
Bemberg	**X**		
Carozzi	**X**		
Gerdau		**X**	**X**
Arcor		**X**	
Proeza	**X**	**X**	**X**
Concha y Toro		**X**	**X**
Espírito Santo FG	**X**	**X**	**Inverse**

Figure 1. A Dynamic View of Entry Strategy over Time