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Javier Vidal Olivares
Candelaria Saiz
Lluís Torró
Juan Zabalza
Instituto Universitario de Estudios Sociales de América Latina, Universidad de Alicante (Spain)

The internationalisation of family SMEs in the Valencian region: the growing role played by Latin America, 1980-2018

Abstract

SME's and family businesses are central elements in Spain's modern economic growth. However, their process of internationalization has been little explored in recent research, particularly when it has been primarily aimed at emerging economies. The article aims to understand and explain the internationalisation process of SME's in the Valencian region in Latin America. Through a set of cases of companies from different sectors (Metal, Machinery, Chemical, Ceramics, Textile, Furniture) it is showed that since 1990, the different Latin American countries have been increasing their presence in the preferential markets of most of the 22 companies studied. The growing role of the region in the investments of Valencian SME's shows the diversification and expansion of destination markets, including geographically not only the traditional European or Arab countries but also those of Latin America. Different reasons underlie this internationalisation: but the enterprises analysed based on a case studies approach showed different models of expansion. The common denominator being that of strategies specifically developed and adapted to the destination country's local environment: from an incremental and gradual expansion.

Keywords: Family Firms; Internationalisation; Small and Medium Enterprises; Region of Valencia

Corresponding author: e-mail: jvidal@ua.es

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Introduction

The differences between new forms of internationalisation of family businesses and SMEs are related to the mechanisms underlying companies' choices of market insertion. The so-called *international entrepreneurships* challenge the traditional internationalisation theses that justify how SMEs and family businesses approach foreign markets. (Ripollés and Menguzzato 2004; Ripollés, Menguzzato and Iborra 2002). They underscore how new internationalised companies are of a different nature. While companies used to follow gradualist approaches, internationalised start-ups present different characteristics. The so-called *born global* present remarkably different and new features with respect to classic internationalisation processes. The first, *international entrepreneurships,* internationalise rapidly (+– 3 years), and start off with high export levels (60-80%). Their customer base is highly diversified in each country, and they remain proactive, not only in their search for alternatives to local or saturated markets; the driving businessman or businesswoman has an entrepreneurial nature and is highly experienced. Companies from different sectors predominate, not just one sector. For their part, the *born global* conduct a large number of their value chain activities outside their country of origin. They have thus been described as global SMEs, who achieve 20/30% of their sales outside their native continent. Generally, these companies launch their activities in simultaneously local and international markets, operating in different sectors.

These differentiations emerge once family SMEs have undergone a first wave of internationalisation. This first wave is usually linked to external stimuli, as markets that had previously been far-off or closed open up. The stimuli may also consist of endogenous changes, mostly linked to structural changes in economic policies in the country of origin. The expansion, stability or recession cycle in which the economy may find itself is an

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additional factor. In any event, aspects relating to the environment and cycle are also determined by the historical trajectory of the different sectors' productive structure, the characteristics of the company's territory, and the companies' sectorial composition.

In the case of Spain and more specifically the Valencian region, these variables have been explored overall, but no systematic progress has been made regarding the most widespread and prevailing business component: family-owned and run SMEs. Taking this into consideration, the literature has been highlighting how the major factor underlying the sustained growth of SME-structure family businesses is internationalisation (Casillas and Acedo 2005; Arranz and Arroyabe 2009). Entering foreign markets allows them to achieve improvements in productivity through the adoption of accumulated innovation. The latter eventually has an impact on the entire production fabric they are part of.

The present study focuses on the internationalisation of family SMEs in Valencia, a region with a historically export-oriented economy. First, the major approaches explaining the international expansion mechanisms of family businesses are reviewed. Particular attention is given to ownership structure, as well as external actors and financing needs as the main drivers of internationalisation. Second, we overview how these approaches have been applied to the case of Spain and we then address the case of the Valencian economy. The analysis then focuses on a sample of the most notable companies, spanning a range of productive sectors in which Valencian family SMEs have adopted an internationalisation strategy. Particular emphasis is given to those directed towards Latin American markets because the latter represents a new geographical area of expansion that was not significant until 1980. The study focuses mainly on the conditions of exit more than the existing in arrival countries. In any event, we insist upon the new features of these markets that were of little importance

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before 1990. To conclude, we advance that Valencian family SMEs have followed an adaptive strategy, have exploited specific accumulated resources and have been mostly driven by second and third generations. The sectors are varied, but especially worthy of note are Ceramics, the Metal/Mechanical industry, Industrial Machinery, Chemistry and Plastics. In chronological terms, the entering of foreign markets began in the 1990s, coinciding with the expansion of national and European markets and the internationalisation of big Spanish companies in Latin America as multinationals (Guillén and García Canal 2010).

The internationalisation of SMEs and family businesses

Family businesses and SMEs constitute the prevailing and hegemonic type of production fabric; they are one of the linchpins of modern economic growth (Colli 2012; Colli and Fernández 2013). Aspects related to their export activity and internationalisation have been pivotal to economic expansion and growth, whether in developed or emerging countries. These processes have been studied ever more cumulatively since the early 1990s, when Gallo and Sveen (Gallo and Sveen 1991) highlighted the critical importance of internationalisation for SMEs and family businesses.

Undoubtedly, internationalisation has been the issue that has attracted the most attention in terms of SME and family business expansion. The work of Casillas and Moreno Menéndez (Casillas and Moreno Menéndez 2017 identifies up to six research areas relating to the internationalisation of family companies, combining both international businesses and the family businesses themselves: companies' mission and objective adjusted to their trajectory (performance); international business and corporate governance; attitude toward risk and internationalisation; time processes, rhythms and speed of the internationalisation;

management of internationalisation and interculturality; and the perspective of company social capital and networks.

Within this wide range of themes, worthy of note is that of the speed or pace of internationalisation. In this area, Hilmersson and Johanson (Hilmersson and Johanson 2016) conclude that speed increases as markets get bigger; and that the more diversified these markets are, the more the companies depend on resources located abroad.

An important question is why some family SMEs operate solely in domestic or local markets and tend to maintain local activities only; and, why, on the other hand, others are more dynamic in their search for international markets. Some authors (D'Angelo, Majocchi and Buck 2016) have studied this issue considering the role of family business governance structures and whether the latter enhance the scale and scope of internationalisation. Applying the social capital theory and theories on corporate governance, they note that professional managers recruited outside the family play a central role, but only in companies with a low percentage of family ownership. The latter indicates that the key is a combination of family ownership and external management i.e. it is the combination of external capital and external managers that really allows family companies to internationalise dynamically.

In addition to the governance structure as a determinant of company internationalisation, the present work also focused on the role of ownership structure and composition as a stimulus or obstacle to increasing internationalisation (Sánchez Bueno and Usero 2014). Some authors have shown that ownership composition in family companies has a negative impact on the degree of international diversification. Based on a broad sample of European and Asian family businesses, the presence of a financial partner coming second in terms of degree of ownership participation facilitates international diversification. The existence of this second

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owner partner with links to the financial sector encourages growth in international markets and therefore accelerates internationalisation.

External resources play a similar role, as shown by Sascha Kraus et al. (2016). Based on the study of 426 German family companies, these authors show how the launching and development of internationalisation depends on the configurations of what they call "socioemotional wealth" (Gomez-Mejia et al. 2007) and the extent of its accumulation. This wealth is the combination of external ownership, the presence of a non-family CEO, the presence of non-family members on the Board of Directors and the scope of international networks. The combination of all or part of these components enhances or limits "emotional wealth". Its different types and varying degrees of development suggest that family businesses are willing to accept relying on external resources and to alter their strategic baseline. The issue is open to discussion because within family SMEs, the question of access to external financing or non-family partners is highly divisive: it alters the structure of strategic decision-making.

With regard to the family SME use of human capital to rapidly internationalise, research shows that its presence is key when adopting a fast and premeditated internationalisation strategy, but it is not more effective when companies internationalise more slowly (Onkelinx, Manolova and Edelman 2016).

It is therefore essential to take in to account the mechanisms that make family businesses more prone than others to internationalisation (Merino, Monreal-Pérez and Sánchez-Marín 2015). In this sense, the different studies carried out have been explaining these processes, emphasising various aspects as described above. Kontinen and Ojala have established these companies' ownership structure as the determinant of processes of internationalisation

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(Kontinen and Ojala 2012) . According to them, in the case of all the Finnish companies studied, it was the ownership structure that was primarily responsible for determining how internationalisation was conducted. Thus, a fragmented ownership structure brought about a traditional path to internationalisation. Conversely, a concentrated property structure leads to a *born global* or *born global again* company and, therefore, to different internationalisation pathways. This perspective is based more on *stewardship* theory than on agency theory.

In this regard, having studied Italian companies, D'Angelo, Majocchi and Buck (2016) affirm, based on a sample of companies, that governance/corporate governance studies and their characteristics with respect to family ownership majorities or minorities can significantly affect internationalisation within family SMEs. Applying the theory of social capital and corporate governance, they conclude that the optimal scenario is the combination of external capital and external managers: this scenario has the biggest impact on driving and consolidating SMEs and family business internationalisation.

In any event, it should be noted that the studies available on the internationalisation of family SMEs do not always agree on the factors underlying internationalisation. They depend not only on the questions pointed out above, but also on the sample used and the techniques employed (qualitative or quantitative). Thus, Kalinic and Forza argue that differences do not always exist between the gradualist and the *born global* models (Kalinic and Forza 2012). The conclusion they drew from their five-case study was that successful internationalisation was determined by specific strategies, rather than the extent of market knowledge, as well as by the international networks accessed or previously acquired international experience.

A seminal work regarding this comparison between the incremental model(s) and *the born global* model is that of Knight and Liesch (Knight and Liesch 2016). Following their

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literature compilation study on explanations of multinationals, whether based on the incremental model or the more recent *born global* and internationalisation process models, they point out that there is still no general agreement on the causes and characteristics that explain internationalisation; the debate is open to new ideas and explanatory mechanisms. In this sense, the literature continues to grow in line with the topics put forward by Casillas and Moreno Menéndez cited above. The empirical evidence underlying the analyses seeking internal and/or external explanations to the internationalisation paths of family companies is varied and the main issue remains open. There have been no conclusive explanations.

The Valencian economy as a framework for family businesses: a perspective on their historical evolution

To approach how Valencian companies have established themselves in foreign markets, we must first contextualise the industrial development of the Valencian economy, which for the most part took place in the 1960s. Most authors have acknowledged being somewhat perplexed as they have sought to characterise Valencian industrial development. What some call the "Valencian model" (Ybarra 2006) can be described as a constellation of small enterprises engaged in the production of consumer goods grouped into sectoral and territorially homogeneous clusters[1]. Alongside them, a small number of large industrial enterprises have developed, which, with few exceptions, stem from the initiative of foreign capital. Initially, this capital was coming from the Basque country and was placed in Sagunto steelmaking at the beginning of the XX century. Later it came from the USA, with the arrival

[1] For the characterisation of Valencian industrial districts in recent decades, worthy of note are the works by Julia Salom (Salom and Albertos 2013).

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of Ford and IBM factories in the 1970s. This peculiar configuration, similar in some respects to the so-called *Terza Italia* (Lluch 2001, 211) is the result of a unique historical journey.

At the dawn of industrialisation, the Valencian Region seemed to possess all the necessary attributes to initiate this process[2]: a highly productive agricultural sector with a significant concentration of ownership (although a lesser degree of tenancy), a rapidly growing market, both internal and external, a dense urban network of medium-sized towns organised around a large capital, and finally, a highly capitalised and developed textile industry arranged into a variety of territorial clusters (especially drapery), in particular in Valencia's capital itself (silk products). Despite this, no accelerated industrialisation ensued but rather a slow transition, focused less on the so-called leading sectors and more on other types of more weakly capitalised activities, together with a major agrarian transformation (Vidal 1993).

The combination of continuing traditional, pre-industrial manufacturing activities (such as paper, ceramics, textiles or boilers), factories, experience and synergies of the decaying silk product industry, and the agricultural boom eventually shaped the key factors of Valencian industrialisation in its early stages (Martínez Gallego 1995). Together with the industrial textile enclave of Alcoy, most industrial initiatives tended to concentrate in Valencia and its sphere of influence. The development of metal-mechanical industries (that started with the boiler industry, was first stimulated by agricultural demands for irrigation facilities, and much later by the production of railway equipment), of the wood industry (the manufacturing of packaging to export agricultural products would later give rise to a proliferation of furniture-making workshops) and the chemical sector (suppliers of agricultural fertilisers) are good

[2] The research and confronted visions that have led to a long, extensive and largely unfinished historiographic debate are beyond the scope of this article. Overlooking the most recent contributions, which have not brought any substantial alterations to previous approaches, a brief review can be found in (Torró and Cuevas 2002, 22–24).

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examples of the forward supply chains experienced by Valencian manufacturing (Torró and Cuevas 2002, 37–45). Manufacturing became increasingly capitalist in nature due to its capitalisation and the slow but constant adoption of technical innovations and spread outwardly from towns (textile and leather footwear) (ceramics) during the last third of the nineteenth century (Estall 2007).

Thus, before the First World War, the Valencian Region was the third Spanish territory in terms of industrial weight, behind Catalonia and the Basque Country. Though agriculture remained the main activity in terms of employment and contribution to growth, unlike these two other latter regions, the industrial sector maintained itself and grew. Urban development and the creation of the transport network (particularly railways and ports) were, to varying degrees, both the cause and consequence of this industrial growth (Vidal 1992). This expansion also intensified during the World War I, given Spain's neutral position and its particular impact (Soler 1984). As the 1930s great depression flared up, the Valencian economy was an export economy based on primary products. It was mostly agricultural in terms of employment structure but it possessed notable industrial and service activities. These activities (and the corresponding degree of urbanisation) were concentrated in cities and widespread throughout the territory.

No studies or monographs delimit the Valencian business structure before the 1950s comprehensively and clearly, but this structure visibly seems to have been highly atomised. Except in the case of Sagunto's steelmaking (which took advantage of Aragon iron ore and coal), there was very little industrial concentration. Exceptions are found in the transport sector, in some metal construction companies, in urban services and in somewhat isolated local initiatives in industries such as paper, footwear or ceramics. This latter feature reflects

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how the native financial sector was relatively frail, it undertook few initiatives and maintained a solid local and small banking sector (along with foreign businesses and savings banks) until after the 1936-39 Civil War (Soler 1990b).

Valencia's industrial development was clearly affected by the Spanish Civil War (1936-1939). Spain’s autarkic policy clearly promoted basic industries. But this was not the only adverse consequence for a manufacturing fabric focused on consumer goods. Foreign trade difficulties accentuated technological backwardness due to the difficulties in acquiring new technology or simply the components and spare parts needed to maintain existing machinery or factories. As a result, an energy regression also occurred, especially because of difficulties in producing the electricity that supplied most of the installed industrial machinery. The economic policy developed under Franco significantly harmed a diversified economy that tended towards industrialisation —which was truncated by the dictatorship.

In the medium term, however, low wages allowed maintaining profits. But these profits could not be invested due to a shortage of opportunities, in turn the result of a depressed internal market and an external market from which it was not possible to obtain goods. Consequently, a forced accumulation took place that would fuel investments from the mid-1950s and especially from the 1960s onwards. The gradual elimination of barriers to the creation of new enterprises eventually cleared the institutional investment barriers and led to an industrial boom.

During the 1950s and, especially after the liberalising measures of the 1959 Spanish economy *Stabilisation Plan*, Spanish industry grew very rapidly in the following decade, a process which many authors since Lluch have described as Valencia’s true industrialisation (Lluch 2001). This growth was not led by new sectors: there was in fact a remarkable continuity

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between the existing activities and the main actors of the 'boom'. However, the new growth pattern was not without major changes driven by other activities or affecting other activities[3]. The most decisive transformation was the shrinking of the primary sector, in terms of employment and wealth generation. The rural exodus began as early as the 1950s and accelerated during the 1960s. Rural inland areas were slowly and inexorably depopulated, except in coastal regions, which were highly diversified thanks to the development of industries and services, particularly those linked to tourism. Depopulation continues today. Agriculture diversified without losing its export orientation. Nevertheless, huge productivity gains in the sector (deriving both from technical modernisation with the spread of the 'green revolution' and the transfer of workers with nil or negative marginal productivity to other sectors) led to deteriorating exchange relationships with other sectors and a sharp drop in their GVA contribution.

Although the Valencian region was also affected by migration flows to central European countries, its migration balance was positive and its population grew and urbanised rapidly. The growth of tourism also played a decisive role. In line with the changes mentioned above, the territory’s natural conditions (in particular the existence of coastal areas with beaches and exceptional weather), the income increases in central European countries and favourable exchange rates launched coastal urbanisation, based, first, on the formation of a massive hotel offer and then on the construction of second homes. This latter activity, whose main factor of competitiveness has been price and not quality, underlies the growth of the construction sector. The weight of construction rose continually until the 2008 crisis.

[3] Regarding this and what follows, worthy of note is the synthesis by Soler 1990a and the general analysis, focusing on macroeconomic variables, by Reig and Picazo 1997.

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Urbanisation and the growth of per capita income in Spain, coupled with growing demand for goods from developed capitalist countries, boosted Valencian industry during the late Franco era. Though the main stimulus was domestic demand for consumer goods, the 'export calling' of the Valencian economy would soon be visible in the industrial sector as well. Until the 1990s, favourable exchange rates and low–albeit rising–wage costs shaped the industry's competitive advantages. In fact, added to the institutional incentives of the Franco regime, the investments of multinationals such as Ford or IBM cited above also sought to benefit from these advantages in the European market. Thus, although the original industrial boost came from areas and sectors that we can now describe as 'traditional', emerging large multinational companies also led to the creation of an auxiliary industry, notably the automobile sector.

The 1973 energy crisis caused a sharp economic downturn and resulted, given the specificities of Spain's political regime, in a surge of social protest bringing about the so-called Democratic Transition. Although the crisis initially affected the capital goods sectors, which had a very limited weight in the Valencian industrial structure, unemployment rates had been rising sharply since 1976 eventually deeply affecting the consumer goods industry. Some large companies that had emerged in sectors such as metal-mechanical construction, paper or footwear irrevocably collapsed, leading the industrial business fabric to atomise further (Reig 2006). The structure in districts and resulting externalities, however, preserved a large part of the industrial activities, although often at the cost of generalising the so-called informal economy —which was widespread in still labour-intensive sectors such as footwear and textile-clothing (Ybarra, San Miguel and Hurtado 2002).

The industrial structure, organised into districts and composed mostly of SMEs, has proved to be highly resilient, but it has also revealed big weaknesses, particularly regarding the

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introduction of technical innovation. The development of the democratic system led to competences being highly decentralised; this resulted both in an exponential increase in invested public capital (Reig and Picazo 1997, 112–114), and the design and execution of a peculiar industrial policy by the first regional governments. Spain's integration into the then European Community forced the industrial conversion process into reducing a significant part of its basic industries. The Valencian region was not spared, and the main victim of this strategy was Sagunto's steelmaking. The cancellation of investment projects in steel factories and their ultimate closure aggravated the dispersion of the industrial business fabric (Reig 2006).

The Valencian industry can be described as organised into relatively homogeneous *clusters* from a sectoral and territorial perspective and made up of a multitude of SME companies. Based on this latter correct analysis, and in response to this situation, an institutional network was structured around so-called "Technological Institutes" (Albors-Garrigós, Del Val and Rincón-Díaz 2010). They were conceived as public bodies that would encourage public-private collaboration, and were designed to compensate an obvious lack of drive towards innovation. This innovation deficit can be explained by the difficulties faced by small businesses: due to the scale of their operations, they can consume innovation but hardly lead it.

Despite the above, new industrial policy orientations and evolutions in the international position of the Spanish and Valencian economies since the mid-1990s have led to a sharp decline in the weight of the Valencian industry. This change, clearly encouraged by the creation of the EU single market and currency as well as increasingly liberalised international trade is conditioned by the specificities of the Valencian industrial fabric: poorly

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differentiated produced consumer goods in terms of brands or prices, micro-enterprise structures and difficulties in accessing capital markets. Until the 2008 crisis, the Valencian economy was driven by the construction sector (enhanced in the case of the Valencian region by the weight of tourism-related activities and specifically by the construction of second homes to meet demand from other European countries), leading to highly speculative development (Gil, Llorca and Picazo 2006).

However, this generic situation of the industry as a whole should not belie the efforts and changes put forward by SMEs and family businesses to trace back the structural problems of the Valencian production fabric. While adverse situations emerged in the 1990s, movements towards internationalisation began to be felt. They accompanied the search for foreign markets, a tradition that had begun to be visible in the 1960s in some production sectors.

Valencian SMEs and family businesses: internationalisation processes

In the case of Spain, a vision more focused on regionally-based family companies has prevailed. Nevertheless, evolutionary and historical works start from the 1960s, when the Spanish economy started to grow (Caruana, Larrinaga and Matés 2011). Within the general subject on how business structures develop and are historically shaped, the literature on internationalisation at the regional level has concentrated on regional economies (García Ruiz and Manera 2006). In the Valencian case, research has been concentrated in the last decade, failing to include an evolutionary or historical perspective on the roots of domestic economic growth, let alone of internationalisation.

As pointed out above, the Valencian economic structure established in the 1960s and 1970s underwent significant changes after entering Community markets once Spain joined the European Economic Community. Specifically, new trends reached the heart of SMEs that had

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developed on the basis of family ownership in agri-industrial sectors but also in specifically industrial sectors. Textile, wood, footwear, basic and industrial chemistry and metal were responding to the stimulus of expanding European markets by continuing the export tradition rooted in the Valencian economy of the late nineteenth century and throughout much of the twentieth century, especially from the 1960s and 1970s.

The 1980s and, above all, 1990 marked a fundamental change, since Valencian family companies and SMEs gradually began an internationalisation process that had an impact on all sectors, though it particularly affected construction and associated sectors (ceramics and building materials), metal and its processed materials, wood and furniture, machinery, textiles, chemistry and agri-food. All stemmed from the Valencian economy's previous specialisation and in the case of some sectors, even from the first third of the twentieth century (Vidal 2006).

In the sectoral sample used[4] all these sectors are fully represented:

Table 1. Valencian family businesses, SMEs and cooperatives: internationalisation

	Established	**Main Sector**	**Gradual/Born global**	**Employees**	**Generation**	**Internationalisation**
Actiu	1968	Furniture	Gradual	268	1st	Subsidiaries
Anecoop	1975	Horticulture	Gradual	187	Cooperative	Subsidiaries
Beniplast/Benitex	1961	Technical textile	Gradual	246	2nd	Mexico/Argentina
Domingo Ochoa	1970	Automotive	Gradual	212	1st	Mexico
Ecisa	1968	Construction	Born Global	421	2nd	Qatar, Portugal, Chile
Esmalglass	1978	Ceramic	Gradual	297	1st	Mexico and Brazil

[4] The sample is based on 22 Valencian companies with SME and family-owned characteristics. The sample, taken from the Commercial Register (*Registro Mercantil*) using the database published by *Valencia Plaza* http://epoca1.valenciaplaza.com/ranking_empresas_valencianas, classifies the enterprises by turnover, profits and employees; it includes the major historical specialisation sectors and covers the entire regional territory. This information was complemented with the *einforma* website at https://www.einforma.com
The system of cooperative and labour limited company (*Sociedad Anónima Laboral*) was also taken into account to the extent that the prevailing form of original production ownership is that of family-owned firm. Only distribution and marketing are part of production internationalisation.

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	Established	Main Sector	Gradual/Born global	Employees	Generation	Internationalisation
Frost-Trol	1957	Refrigeration Machinery	Gradual	165	3rd	Mexico
Gestamp	1967	Automobile supply	Gradual	262	2nd	Mexico and Mercosur
Dominguis Group	1932	Industrial painting Energy industry	Gradual	356	3rd	Mexico, Panama, USA, Brazil
Istobal	1957	Machinery	Gradual	260	3rd	Subsidiaries Brazil, USA
Itc	1971	Plastics	Gradual	248	2nd	Subsidiaries, Brazil
Pamesa	1972	Ceramic	Gradual	471	1st	Subsidiaries, Brazil
Porcelanosa	1973	Ceramic	Gradual	766	2nd	Subsidiaries/Own Brand
Proaliment	1920	Food	Gradual	Yes	3rd	Mexico, Venezuela, Argentina, Cuba, Dominican Republic
Químicas Oro	1955	Chemical	Gradual	Yes	Sold French Group Altair, 2nd	Cuba, Dominican Republic
Rover	1962	Diversified	Gradual	272	1st	Subsidiaries, Mexico, Colombia, Perú
Royo Group	1973	Furniture	Gradual	900	2nd	México
Segura Group	1970	Metal/Automobile supply	Gradual	Yes	2nd	Subsidiaries/China Mexico perspectives
Textiles Pascual	1965	Textile	Gradual	65	2nd	Export/ Subsidiaries 10 countries Latin América
Vento Maquinaria	1940	Agri-food machinery	Gradual	14	Cooperative	Argentina, Chile, Colombia, Mexico, Uruguay
Textiles Mora	1962	Textile	Gradual	85	Cooperative (1991)	Ecuador, Colombia
Robotnik	2002	Technological services	Born Global	24	Limited labour company	USA/Argentina

Source: *Valencia Plaza* and *Einforma* based on the Commercial Register (*Registro Mercantil*).

Based on all the companies analysed, different internationalisation behaviours can be distinguished, starting with the variety of industrial specialisations. The latter include metal-mechanical and associated industries; then construction and ceramics; chemistry with its different specialisations (agrochemical, plastics); textiles; agriculture and food and, finally, wood and furniture. Taking the various specialisations into account, internationalisation

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processes also share similar characteristics, regarding the timeline of entering foreign markets and the exogenous reasons underlying internationalisation.

In accordance with the motivations to enter international markets, the first issues to consider relate to which factors prevail when making strategic internationalisation decisions. In these SME and family companies, the first aspects to consider are those linked to the companies themselves; that is, characteristics that could be classified as endogenous, originating within the family business corporation itself. Notable among them, as described above: the existence of external relational social capital; an executive outside the family business itself that manages the company's growth strategy (Claver, Rienda and Quer 2008); the predominance of a proprietary partner external to the company with a majority share; and family succession coinciding with the company's international expansion. With regard to the exogenous changes that drive internationalisation, the following should be considered: the impact of general crises or those of the industrial sector the family business is part of; adapting to new open markets that have created opportunities; expectations of strategic organic growth through mergers, acquisitions and takeovers.

The internationalisation processes in the sample companies followed their own timelines with respect to the production sector. In terms of number of family businesses, the metal, automobile and automotive sectors grew the most. This group is constituted by Domingo Ochoa, Gestamp, Grupo Segura, Grupo Dominguis and Istobal which were mostly established in the 1960s and 1970s as small workshops, subsequently experiencing constant production growth in their respective specialisations (tooling, stamping, manufacturing of light metal and engine components, industrial paint) until Ford, the multinational company, opened its factory on the outskirts of Valencia in 1976. Having supplied automobile factories in Spain with

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modest turnovers until then, such as SEAT, Ford's arrival boosted the entire sector. The progressive specialisation and links with other automotive or locomotive manufacturing companies (MACOSA, Vossloh) with factories in Spain and Europe (Hungary or China as in the case of the Segura Group) transformed the production scale, opening new lines of specialisation and their own technological innovation. Internationalisation unfolded in the 1990s. In the case of Latin America, the preferred destination has been Mexico and the Mercosur countries (Brazil and Argentina). In both cases, the reason is the impact produced by economic integration on the continent (TLC, Mercosur): production increased and automobile factories established themselves leading to a multiplication of opportunities in these production markets. In addition to this external stimulus to market expansion, some companies underwent internal transformations, coinciding with generational handovers, in which the second generation, accessing ownership, adopted internationalisation strategies. This was the case of the Dominguis Group as from 2012 and Domingo Ochoa in 2011. Other family-owned companies internationalised through mergers, acquisitions or takeovers. Gestamp's case is a good illustration of this strategy: in 1990, the company engaged on a path of acquisitions and partnerships with international business groups and has thus given the Spanish parent company (now located in Madrid) a global dimension. The ISTOBAL company is an example of organic growth: a family business structure that has evolved smoothly, transiting to the third generation. The second generation had already targeted internationalisation and in 2000, the company ranked second in Europe in the sector of car wash tunnel manufacturing. International production accounts for 50% of its total production and it has a subsidiary and an assembly plant in Sao Paulo as well as distributors in all Latin American countries.

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In the case of construction and ceramic companies, particularly notable is the internationalisation of companies that simultaneously undergo constant endogenous and exogenous changes. Ecisa is starting to approach foreign markets in the near east, which coincides with an endogenous change: in this family succession process, the first generation is handing over decision-making and there is no reliance on external capital or any managers outside the family. The second generation is pursuing the strategy of internationalisation in Latin America but also in Africa and the European Union, though now via external capital (Vidal 2020). Rover Alcisa, linked to the Fernández Verdugo family is expanding through acquisitions, starting with the buying of construction companies. In 2003, it grouped its business activities of Construction, Development, Real Estate, Engineering, Mining and New Technologies under the Rover group, which is ready to invest more. A special case is that of ceramics, with companies such as Pamesa, Porcelanosa, Esmalglass. These companies constitute a cluster in the province of Castellón, which has grown on the basis of its own factories that maintain their family structures. They have internationalised by establishing factories in Brazil and in some cases using big external capital (Investment Funds) and external managers (Esmalglass). Nevertheless, for the most part (Porcelanosa and Pamesa), the families themselves, transitioning to the second generation, have maintained an organic growth strategy with their own subsidiaries or networks of logistics warehouses in Latin America.

Also worthy of note is the group of chemical companies that includes: ITC, Benitex/Beniplast and Químicas Oro. These companies illustrate the vigour of chemistry as a key Valencian industry line of specialisation since the beginning of the twentieth century as well as its links with agriculture and its industrial implications. Beniplast Benitex manufactures textile

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products for agricultural and industrial uses (materials and plastic fabrics for crop protection) and was acquired in 1998 due to succession problems by a British capital financial group. The family took back control in 2001 with local Valencian financial support, allowing it to relaunch and continue its internationalisation initiated in the 1990s. It has gained a foothold in Argentina, its favourite market. For its part, plastic chemistry and its applications emerged as an ancillary of the toy industry. One example is the packaging company ITC. The crisis in the sector coincided with the second generation's access to ownership and management. This brought about a change of expertise oriented towards industrial packaging. Europe is its major internationalisation destination but the company is also present in Latin America. The case of Químicas Oro reflects the Valencian tradition of chemical/ insecticide products for agricultural production. Due to difficulties in growing because of financial problems, it was acquired by a major European industrial group.

In the case of the textile industry, worthy of note is the classic specialised Valencian production of blankets and new technically innovative products. Among the biggest are Textiles Pascual and Mora, established in the 1960s and located in the interior mountainous counties. The first, Textiles Mora, included within a big group of enterprises called Aquaclean, is managed by the second generation and has subsidiaries in Latin America (Grau 2017). The second, Mora, turned into a cooperative after the 1990s crises though the family continues to influence the management following legal changes in the company. The most technologically advanced offspring is Beniplat/Benitex, a company mentioned above specialising in chemistry, specifically in plastic textiles. It was created in 1961, and the second generation has established its own subsidiaries in Mexico and Argentina.

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Proaliment, Anecoop and Vento illustrate how family businesses have travelled through the Valencian economy's particular history towards cooperative formulas in agri-food, as they had to overcome the restrictions of small business size to internationalise production (Fayos, Calderón and Mir 2011). This theme has been left unaddressed in Valencian historiography and needs to be researched further given the weight of agriculture in the regional economy and the organisation of the property structure based on small and medium-sized holdings. The Proaliment company was created in the 1920s and is now run by its third generation. It began by specialising in saffron production, mechanising its production from 1950 onwards and remaining focused on the internal market. After engaging in commercial contacts to locate its production in Venezuela and Argentina, the second generation followed a strategy of agreements with multinationals to strengthen its leading position in local markets, of which it controlled 30%, and to secure financing to expand its markets. The acquisition of Proaliment by Ebro Puleva and the recovery of control over the company reinforced an internationalisation strategy that focused on two markets: the North African Arab world and Latin America and the United States[5]. Anecoop, for its part, is a separate case due to the significance of the cooperative movement. Emerging in 1975, Anecoop resulted from the merger of small cooperatives and agricultural family companies. It is Spain's leading export and vegetable company, present all over Europe as well as in Latin American and Asian markets (Font de Mora 2001). The case of the Vento company is a much clearer illustration of how family businesses in the Valencian economy have evolved into cooperative forms. José Vento founded the agri-food machinery company in 1940 by transferring it to the employees

[5] The implemented strategies vary greatly according to the areas. While companies bet on technological differentiation and marketing in European and American markets, they turned to relocating production in the Arab market (Moreno and Vidal 2011)

themselves in 1977. The latter, as new owners, firmly established the company in Argentina, Chile, Colombia, Mexico and Uruguay. The company itself created its own engineering subsidiary, named Indetec in 1988, through which it develops its own technology in the R&D&I department, especially applied to alcohols and fruit juices.

Finally, worthy of note is the furniture sector with a long tradition of production specialisation within the Valencian economy. Actiu, created in 1968, and Grupo Royo, founded in 1973, are the family companies that stand out the most regarding internationalisation. The first belongs to the Berbegal family. It started in 1948 as a carpentry workshop in a county traditionally dedicated to toy manufacturing. Internationalisation began in the 1980s, through the exhibiting of products at specialised fairs. The transition from home furniture to office furniture was linked to computing, and more specifically to chair design. The preferred strategy for commercial internationalisation is the *showroom* as an introductory mechanism, as well as that of reaching agreements with local partners. The crucial factor during this phase was the technology and know-how built-up by the regional toy industry regarding the processing of plastics and metals. They were present in Latin America at a very early stage, as far back as the 1980s. In the case of the second firm, the Royo group is managed by the family's second generation which, supported by the HIG Fund for its external financing, has rapidly internationalised, and is physically present in Mexico, where it has a production plant specialised in bathroom furniture. Among the significant cases of family business internationalisation in newer industries features Robotnik, a technology services company. Robotnik was created in 2002. It is a typical *born global* company, mainly specialised in applied computing and artificial intelligence (Leonidov and Samiee 2012).

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The available literature quoted in the previous sections highlights the central elements that drive the internationalisation processes of SMEs. In addition to the review above and our sample of cases, it is relevant to address the most characteristic aspects of the Valencian business structure. Three of them are worth noting: the role of changes and transitions in family ownership between generations; the different implications of relational capital endowment; and the relevance of commercial agreements between firms.

In the Valencian case, the major endogenous elements are those driven by generational change, especially the second generation, which in some cases has led to the creation of *born global* enterprises. The first generation of these companies focused on the domestic market while the succeeding generation drove the internationalisation process (Ecisa, Robotnik). This behaviour is followed by companies from both developed and emerging countries (Fernandes and Meneses 2012). These are companies whose generations have successfully promoted their businesses during the first generations and are oriented towards long-term survival, companies in which the succeeding family members have a higher educational level than the previous one and greater knowledge of international markets (Stieg et al. 2017). From this point of view, the family businesses in the sample having achieved successful second or third generation changes did so through internationalisation, though not always with the characteristics of *born global* companies or in the economic sectors where the latter have predominated.

It is difficult to say whether most of the companies under study having followed the path of internationalisation have done so on the basis of boards of directors with a majority of family members or with a significant share of partners from outside the company. Our sample includes both cases. Further questions remain regarding our sample: whether the majority of

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family members involved in the governance of internationalised companies has been particularly active in defending rapid internationalisation; whether the members of the boards of directors belong to several generations; and whether there has been an active commitment to internationalising towards more geographically distant markets as opposed to those closer to home. This path is still unexplored in the Valencian case (Dou et al. 2019). The issue is related to generational changes and dynasties' governing styles. Our analysis has not yet yielded sufficient results to generate substantial contributions to existing debates.

An important and connected issue is the valuing of relational capital as an asset that facilitates innovation and drives internationalisation. In family businesses, family social capital that is strongly developed inside the company translates less intensely into innovation management than in the case of non-family capital from abroad. The literature indicates that generally, family involvement in management negatively affects the relationship between internal social capital and innovation (Sánchez-Famoso, Maseda and Iturralde 2017). In other words, the greater the family's involvement in management, the lesser the capacity for innovation, unless governance mechanisms are introduced to consciously encourage the incorporating of external partners and managers from outside the family. In the case of the Valencian companies under study, some incorporated external relational capital to support innovation, eventually fostering internationalisation. This was the case of Proaliment and Ecisa.

In the case of Valencian family businesses, external social capital, understood as relational capital (human capital that circulates within the district, a shared vision of the businesses, cooperation based on trust) has played a central role (Molina-Morales and Martínez-Fernández 2006). The contacts between managers and business owners, and the involvement of clients and suppliers has contributed to family businesses acquiring knowledge,

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competitive advantages and facilitated internationalisation. The system of industrial clusters or industrial districts in sectors such as metal (Vento, Domingo Ochoa, Segura Group,Istobal), textiles (Pascual, Mora, Beniplast) and ceramics (Pamesa, Porcelanosa) has historically facilitated internationalisation (Belso 2006). Generational changes and stable relationships with other companies through partners, shareholders or agreements encourage international expansion. These mechanisms provide SMEs with the necessary sources and key factors to support a process of internationalisation (Fernández and Nieto 2005). The historical configuration of industrial districts and local productive systems in the Valencian economy has favoured this process of export first and international expansion later (Mas 1996).

The problem of resource scarcity affecting SME-sized family businesses in their adopting of an internationalisation strategy could be overcome through business networks, i.e. through equity capital. This aspect is decisive when companies implement an internalised mode of internationalisation (launched from within the companies) in which the greater the firm's control over its international activities, the greater its control over its internationalisation mode. This allows for a combined role of internal support (management of the process from within the firms) and external support, i.e. through the business networks, which facilitates the financing and capital contribution to launch the internationalisation. The cases of Proaliment, Royo, Segura Group and Rover are good examples of this. Not only the funding, but also changes to the control of the internationalisation can be based on the use of company-controlled management with different mechanisms according to the firms' interest at each stage. A change in internationalisation mode focuses on a change from higher- to lower-control modes, and vice versa. Increasing control entails switching from intermediary (e.g. agent, distributor) to direct exporting or from direct exporting to subsidiary (or joint-venture).

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Decreasing control entails switching from subsidiary (or joint-venture) to direct exporting or from direct exporting to the use of an intermediary. Therefore, the focus is on the direction of change in control (Chetty and Agndal 2007).

The significance of the business networks developed historically within the Valencian industrial districts for the different sectors of specialisation made it possible to consolidate internal markets and then stimulate exports to Europe. The jump to Latin American markets was facilitated by these same business networks supported by cultural proximity and the use of a common language that facilitates more extensive information and ensures trustworthy business relationships (Musteen, Francis and Datta 2010). This was helped by the FDI of the largest Spanish multinational companies, which had a demonstration effect on SMEs. The consequent trade agreements with various Latin American countries, the activity of the institutional foreign trade agencies (Icex) and the network of Spanish Chambers of Commerce in the region were also a stimulation.

The export path dependence of the main industrial sectors of the Valencian economy supported the transition to different forms of internationalisation according to companies' internal and external conditions. Their export histories had been supported by growing specialisation fostered by various kinds of innovations in accordance with the different productive branches. What appears decisive in our sample of companies is that the role of international partners, joint ventures, and the use of showrooms promoted cumulative innovations in companies such as Actiu, Textiles Pascual, Frost-Trol and Beniplast/Benitex. Trade agreements between partners (Zucchella and Siano 2014) and international treaties between countries facilitated the path towards innovation and specialisation implied in all forms of internationalisation.

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Conclusions

The internationalisation of Valencian family firms has followed a historical process linked to the *path dependence* of the regional economy's general and sectoral productive specialisation. Research shows how the Valencian economy's industrialisation was marked by an important structural legacy going back to the early twentieth century. The literature also illustrates how changes in the export orientation and internationalisation of family businesses began to be visible in industrial sectors specialised in production from the 1960s/1970s onwards. Though for different motives, i.e. the company's own internal reasons or changes in national and international markets, or both, family SMEs went from exporting to considering the need to internationalise. This process accelerated in the 1990s: due to the changes imposed by the need to join the European Economic Community on the one hand, and by the generational replacement that began to take place in companies' ownership structure and, therefore, in their corporate governance on the other.

While internationalisation strategies differ according to the sector, adaptive strategies predominate. This can be explained by the nature of the sectors concerned: they all belong to the light industry and processing industry, linked to the regional economy's *path dependence*, where the possibilities of generating *born global* or *born global again* enterprises are much reduced by the fact that new technologies play a key role and the latter are less significant in the Valencian economic structure and specialisation. On the other hand, there clearly seems to be no single international expansion model based on the companies under study, i.e. gradualism or *born global* strategies are not the only models; rather, specific strategies determine companies' choice of internationalisation. The preferred strategy is to create subsidiaries using prior experience of import-based representation rather than market entry through local partners. Mergers and acquisitions also represented a useful mechanism to gain size, including alliances with financial groups to obtain assets. There was, however, no unique internationalisation pattern in the Valencian family companies analysed. These patterns depend on the production sector, on the product's characteristics and also on the degree of management professionalisation, in turn highly contingent on the companies' generational evolution. Also worthy of note, the speed of internationalisation has depended on external financial contributions and the integration of non-family managers and executives coinciding with the second or third generation's access to executive tasks. Also notable is the existence of external relational capital in destination markets, which helps companies to establish themselves. It should be highlighted that companies that were formerly family-based have adopted cooperative management system forms as a mechanism of durability and these cooperative forms have not stopped companies from adopting internationalisation as a production growth strategy.

Historically, the preferred destinations for family company exports or foreign establishment have been the European continent and North African and Arab countries. However, Latin America is increasingly targeted by leading family companies in their respective production sectors in the Valencian economy, such as the metal-mechanical industry, automobile supplies, ceramics and construction, furniture, chemical and agri-industrial industries (Cámara de Comercio de Valencia 2018). The major markets of preference are Mexico, Brazil, Argentina and Colombia, which has grown substantially in recent years. Latin America was not a priority for the Valencian family firms before 1990 but massive privatisations —which took place at notable speed— in the region attracted more interest ; increasing direct foreign Spanish investments and the economic integration of the continent offered additional possibilities to gain markets. The new opportunities in Latin America not only benefitted the big Spanish multinationals but also SMEs deeply rooted in the export tradition of the peripheral regions as Valencian family firms have historically showed.

The biggest contribution to debates on the internationalisation of SME-structured family businesses focuses in the Valencian case on the special characteristics adopted by industrial districts or sectorial clusters. This *informa*l organisation of the productive system has favoured an evolution towards a system that has permanently provided relational capital to carry out innovation processes. The accumulation of market knowledge from previous export stages has driven internal and external changes within businesses, using all the mechanisms available to implement internationalisation.

All in all, it is necessary to continue to deepen our understanding of the evolutionary structure of the internal governance of family businesses: this way we may acquire further knowledge regarding the behaviour followed by SMEs to achieve successful innovation and international expansion. What emerges from our study based on the sample of 22 companies is the lack of a unique internationalisation model. There is evidence in support of various differentiating factors such as the intervention of new generations and the emergence of the *born global,* as well as greater speed of internationalisation through the adoption of differentiated strategies. Specialisation within the enterprises, the industrial sector and its historical path dependence have marked the differences in modes of internationalisation and market insertion.

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