

Lopes, João; Branco, Amélia; Parejo, Francisco; Rangel, Jose

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## Determinants of success and failure in the internationalisation of the cork business: A tale of two Iberian family firms

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# **Determinants of success and failure in the internationalisation of the cork business: A tale of two Iberian family firms**

## **João Carlos Lopes**

Research Unit on Complexity and Economics (UECE) of School of Economics & Management (ISEG), University of Lisbon, Rua Miguel Lúpi, 20, 1200-781, Lisboa (Portugal) [jcflopes@iseg.utl.pt](mailto:jcflopes@iseg.utl.pt)

## **Amélia Branco**

Research Centre of Economic and Social History (GHES) of School of Economics & Management (ISEG), University of Lisbon, Rua Miguel Lúpi, 20, 1200-781, Lisboa (Portugal) [ameliab@iseg.utl.pt](mailto:ameliab@iseg.utl.pt)

## **Francisco Parejo**

Area of Economic History and Institutions, University of Extremadura, Av. de Elvas s/n, 06071, Badajoz (Spain) [fmparejo@unex.es](mailto:fmparejo@unex.es)

## **José Rangel**

Area of Economic History and Institutions, University of Extremadura, Av. de Elvas s/n, 06071, Badajoz (Spain) [josefranciscorangelpreciado@hotmail.com](mailto:josefranciscorangelpreciado@hotmail.com)

**Abstract.** The trajectories of internationalisation followed by family firms can be viewed from several theoretical approaches – phases and models of the internationalisation process; international entrepreneurship, sociological perspective, family business theory. An historical perspective of the internationalised family firms, allowing the integration of these several approaches, is useful to a deep understanding of the internationalisation process of different sectors and countries. The main purpose of this paper is to identify the facilitating and the restricting factors during the internationalisation path of family firms, considering their competitive advantages, ownership structure and management attitudes, innovation and intangible assets and other relevant factors, internal and/or external to the firm. It makes a long run analysis (more than one century) of two companies acting in the cork business in Spain and Portugal: *Mundet&C.<sup>a</sup>, Lda* and *Corticeira Amorim*. One of these companies - *Mundet* – has been closed in the 1980s and the other – *Corticeira Amorim* – became, and is by now, the leading company in the cork worldwide business. The careful comparison of these two stories, one of failure and the other of success, allows an accurate identification of the determinants of a successful internationalisation. In fact, it is useful for understanding several characteristics of both firms, some similar and other different, allowing the test of several hypothesis in the context of the theoretical approach to the internationalisation of family

firms. First of all, both are family firms operating in the same business and since their origin orientated to foreign markets. Second, their story went along much of the 20<sup>th</sup> century and both faced similar national and international constraints but in the end both became leading firms in the cork business, although in different time periods. Third, their location choices were different and, although in both cases benefiting from agglomeration forces in certain phases of the business, they were also important determinants of the opposite destinies of these two emblematic Iberian cork family firms.

**Keywords:** Family Firms, Internationalisation, Cork, Portugal, Spain, Business History

**JEL codes:** R12; L73; N60; O14.

*(Draft version. Please do not quote without permission)*

## **1. Introduction**

Family firms are crucial to economic growth, representing in the European context over 60% of the total number of European companies and 40%-50% of the jobs, over 100 million employees (European Commission 2009). The Iberian Peninsula is no exception: the family firms represented over 60% of GDP in the period 1959-2000 (Colli and Rose 2008: 201).

There is no single definition of “family firms” since they present a variety of features in terms of size, ownership, financial framework, etc. According to Colli and Rose (2008: 194) the family firm “is one where a family owns enough of the equity to be able to exert control over strategy and is involved in top management positions”<sup>1</sup>. By emphasizing the proportion of family-owned shares and corresponding voting rights and also aspects of management, the above definition also includes the intergenerational succession, meaning that the founder or a member of the family must be the company director.

Being small, medium or large in size, the family firms also exhibit a resilient pattern through all the three industrial revolutions and long-established international business, most of them without losing the family character since families kept the control and leadership in the business.

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<sup>1</sup> See also Colli et al. (2013); Colli and Larsson (2014); European Commission (2009); Graves and Thomas (2008); Zahara (2003) and La Porta et al., 1999.

The trajectories of internationalisation followed by family firms can be viewed from several theoretical approaches: internationalisation theory of the firm; sociological and psychological perspective; family business theory and theory of location of the firms.

This paper makes an historical approach, allowing the integration of these several theoretical frameworks, particularly the internationalisation theory and the family business theory. Its main purpose is to identify the facilitating/restricting factors behind the success of two family firms that had an international business in the cork sector, considering the creation/absence of competitive advantages in terms of ownership structure and management attitudes, intangible assets and other relevant factors, internal and/or external to the firms.

It makes a long run analysis (almost one century) of two companies acting in the cork business in the Iberian Peninsula: *Mundet&C<sup>a</sup>, Lda.* and *Corticeira Amorim*. One of these companies - *Mundet* – has been closed in the 1980s and the other – *Corticeira Amorim* – became the leading company in the cork worldwide business and still maintains the leadership. Although following different models of internationalisation - *Mundet* resembled a “born again global firm” and *Amorim* a “traditional firm” - the careful comparison of these two stories, one of failure and the other of success, enables an accurate identification of the determinants of a successful internationalisation.

Furthermore, they had a similar business framework. First of all, the Iberian Peninsula presents the perfect natural conditions for the cork oak tree (*Quercus Suber*), being Spain and Portugal the most important producers of cork, and both firms explored this natural competitive advantage. Secondly, the international dimension of the cork business was always present in Spain and Portugal. Major buyers of cork products were developed countries which do not possess the raw material (or at least in abundance) and concentrated until the 1950s on their territory much of the value added. Spain and Portugal, economically less developed, didn't hold enough capital to develop the industry (with the exception of Catalonia), being mainly specialized in the Cork Preparing Industry, exporting cork planks used for producing final cork products. Thirdly, until the late 19<sup>th</sup> century, the industry was essentially based on manufacturing natural cork stoppers. But in the end of the 19<sup>th</sup> century, a radical innovation, agglomerated cork, changed the industrial landscape. The larger and more capital-intensive firms started to use the waste materials coming from the natural cork industry. The location strategies of these firms reinforced the role of more developed countries and the foreign investments in raw material producing countries where concentrated in this new branch. *Mundet* was one of these cases, owned by foreign capital and exporting agglomerated cork products. On the other side, until the 1960s *Amorim* exported natural cork stoppers.

Considering what has been exposed about the context of the cork business and in terms of the theoretical approach, the research questions are: what were the main determinants of the competitive advantages in terms of family business that permitted the success of *Corticeira Amorim*? Were they also the causes of failure in the Mundet's case? In the success of *Corticeira Amorim*, were the family firm characteristics reinforced by other features, for instance, the location of the firm?

In order to answer these questions, we consider two hypotheses. First, the success/failure of a multinational family firm is related to the features of family business that boost/constrain a competitive advantage in the foreign markets. These features are related to the ownership structure and top management. Second, the regional embedding of the firms can reinforce the features of a family business in terms of trust, reputation, cohesion and altruistic behaviour, meaning that the "family effect" can be reinforced by the "regional effect". Following Puig et al. (2009: 467), the size of the firms can be compensated by the collaboration with other family firms in an industrial district, suppressing the limitations in terms of scale economies, maintaining the much-needed flexibility in the context of a growing uncertainty in the international markets.

The paper is structured as follows. Section 2 presents the theoretical framework, and it has three sub-sections, namely the internationalization models, the determinants of success in a family business internationalisation process and clusters, industrial district and the location of family firms.

In Section 3, a detailed empirical analysis is made about the determinants of success/failure of the two firms in a comparative perspective.

Finally, in Section 4 some concluding remarks are made. We concluded that family and district effects can be mutually reinforced in building the success on the internationalisation process. On the one hand the slowness and caution in the internationalization process can be advantageous at an early stage. This slowness may result not only of risk aversion typical of the family business but also the role of the company within the industrial district. Secondly, the district effects can also enhance safety on internationalization in relations of trust with the region and the institutions present there.

In order to better support the comparative analysis of the evolution of the firms studied in this paper and their relative economic performance in the long run, as well as its failures and successes, a useful and detailed chronology is provided (in an appendix at the end of the

paper) with the main events and marks of these emblematic Iberian cork industry firms, the first, and now extinct, leader, *Mundet*, and the nowadays undisputed world leader, *Corticeira Amorim*.

## **2. Theoretical framework**

### **2.1 Internationalisation Models**

The decision to internationalize a business is a risky option that requires time to its concretisation. The process presents different characteristics among firms, making difficult to reproduce a common model for them in terms of scope and scale of internationalisation.

The Uppsala Model<sup>2</sup> explains the incremental internationalization in the 1970s of multinational firms and posits that firms internationalise gradually, in an incremental form, passing through several and sequential stages. Along these stages, the commitment to the international strategy and the involved resources keep growing and the scale and scope of internationalisation are higher. The most relevant research in this area is Johanson and Wiedersheim-Paul (1975), distinguishing between four different modes of entering in an international market, according to the degree of involvement on it. First, the firm starts with no regular export activities. In a second stage, the firm exports via independent representatives (agents). Then, it establishes an overseas sales subsidiary and finally, overseas production/manufacturing units.

To explain the internationalization across country markets, it was hypothesized that firms would enter new markets with successively greater psychic distance, searching for countries with similarities with the nationality of the firm in terms of language, culture, political system, level of education and level of industrial development (Johanson and Vahlne 1977, p. 24). The authors presented a more dynamic model with state aspects (resources and knowledge in a given time) and changing factors (current activities and decisions to commit resources to foreign operations) concerning the several stages of the internationalization process. The model contemplates the “knowledge ownership advantage” of the Dunning Paradigm, concerning the foreign markets. The better knowledge about the markets reinforces the commitment and the resources involved in more markets.

The internationalization of the International New Ventures (INV) theory (Oviatt and Mcdougall, 1994) is related to the opportunity seeking behaviour and is centred in the entrepreneur and his willingness to explore a competitive advantage from the use of resources

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<sup>2</sup> S. Johanson and Wiedersheim-Paul (1975); Johanson and Vahlne (1977) and Johanson and Vahlne (2009). Critics to this model can be found in Andersen (1993).

and sales in several countries. In “international from inception” firms founders seek growth opportunities in several foreign markets, exploring the resources on those countries and the network structure, skipping stages of the Uppsala model in their internationalization process and exploiting the “first mover” advantage. The firms are classified as “born global”.

In the research of Bell et al. (2003) an integrative model was developed in order to explain the internationalization process of small businesses, combining the ideas of the Uppsala model and INV theory.

The variety of strategies of the firms in the internationalization process defines the pathway and can be classified through several dimensions: time – rapidity and pace of internationalization; scale, in terms of foreign sales; scope, referring to the number of countries in which the firm operates.

The Traditional Firms internationalize slowly and in an incremental form, resembling the Uppsala Model. The “Born-again global” firms internationalize to several foreign markets simultaneously and very rapidly, exploring market niches by developing a product well adapted to international demand, exploring the industry knowledge and the existing networks. In a period of two to five years the foreign sales achieve 25 per cent of the turn-over and they operate in at least five countries.

In the Born-again Global pathway, firms have previously tended to focus on domestic market but internationalized suddenly as result of critical events. A domestic period of up to 28-years is accepted or sometimes they started by following a path similar to that of traditional firms but as a result of a critical event, they experience a more rapid process of internationalization.

## **2.2 Determinants of success in a family business internationalisation process**

The success of the internationalisation process can be determined by the characteristics of the internationalised firms. Namely, the case of internationalised family business becomes very relevant since it presents special features. Some of these features can be strong points in the international field or, on the contrary, weak points.

In the study of family business it is essential to consider the “3-circle” model: ownership, family and business (Tagiuri and Davis 1992). Ownership is a key element and is connected to the presence in the governance structure of one or more family members, taking key management position. Related to this is the importance of succession: continuity factor means that more than one generation is actively involved with the family business. The

intergenerational transfer in the family business is the transfer of ownership and involves a strong “personal” factor (European Commission 2009: 15).

Miller and Breton-Miller (2006: 73-75) consider that family firm’s governance structure can contribute to a competitive advantage. A firm managed by the founder or family descendent reduce agency costs, because interests of managerial agents are coincident with owners interests. The attitudes of stewardship emerge more easily in family business, because owners-managers are driven by more than economic self-interest and search the collective good of their firms. On-job-learning is possible since they stay many years in the business, the family name and reputation are in their hands and they are more committed to maintain it for a long time. They resist being goaded into risky short-term expedients and prefer long-term investment commitment, avoiding opportunistic decisions. Furthermore, the concentration of ownership reduces the costs of monitoring.

These aspects give more freedom to top management and permit the transference for the international field of the business model based on trust (for instance by dividing the labour and management among family members or older collaborators), long-time horizon perspective and network with external stakeholders (based on a solid reputation in terms of commitment and quality). But according to these authors (Miller and Breton-Miller 2006: 78-79) also the opposite effects can be verified through the pay-outs of extraordinary dividends, power abuse by taking resources out of the firm and irresponsible leadership with excessive risks taking.

Gallo and Pont (1996: 46-48) highlight internal and external factors which can enable or restrict the internationalization process. The external factors are environmental factors connected with the competitive framework of the firm; opportunities abroad or at home and the fit between technological level of the firm and the foreign competition and financial resources.

In terms of internal factors, the authors pointed the internal organization of the family firm (for instance, lack of experience in foreign markets; resistance to internationalization process or to deeper internationalization process; members of the family residing abroad; preparation of the younger generations) and attitudes of top management (internal power struggles; speed in decision; alliances; etc.).

As boosting factors these authors emphasise the long term perspective and a strong management. The preparation of the following generations for the international process is crucial for the success and maybe the process of internationalisation will lead to the rising of younger members of the family abroad, meaning that the international uncertainty is reduce



by the use of foreign based family members (Gallo and Pont, 1996: 58). Gallo and Pont (1996: 57) highlight the fact that multigenerational family firms are those with higher levels of internationalisation.

According to Graves and Thomas (2008: 151-152), three major factors can be recognized as a huge contribution to the success of internationalization strategy of a family firm: long-term commitment; managerial capacities and financial resources.

Considering the family multinationals as international entrepreneurs that explore a competitive advantage, Colli and al. (2013: 122-123) highlight four specific family business sources of competitive advantage: human capital; social capital; patient financial capital and low agency costs. The human capital results from the accumulation of know-how and managerial expertise emerging from a more stable top management and reinforcing the coherence in the business model through generations. The social capital accumulated by family members results from their relation with stakeholders. The patient financial capital is expressed by long-term orientation of the business.

According to Simon and Hitt (2003: 341-346) the family resources in family firms in terms of human capital, social capital, patient financial capital, survivability capital and governance structure can also reveal some negative results, namely, limited capital for investments, shorter capacity to attract high qualified human resources, lack of trust and family bonds and also lack of networks.

Kontinen and Ojala (2012: 499-501) highlight the commitment and dedication of managers in family firms and the sense of duty, emphasizing the development of stewardship attitudes in order to maintain the business for future generations. But also the limited managerial capabilities and lack of bridging network ties may be present.

Patel et al. (2012: 235-238) focus is the internationalisation process and the inherent enhancing and constraining characteristics of family firms during the process. The boost factors are altruism, stewardship and trust. The constraining factors are risk aversion and family conflicts. Altruism means that they act thinking in all family members. Stewardship implies that they take care not only of family members but also clients, employees, suppliers and community. The stewardship attitude leads family members to considerer the longevity of the firm, taking decisions that make possible the success of the business along generations. These two attitudes can engender trust, increasing cohesion. Cohesion is important for collective action, allowing for better facing the risk and uncertainty, natural in the case of an internationalisation process.

Owner-manager coincidence can be a key asset for family firms since ownership gives managers the power to make decisions about the level and scope of the internationalization process. Family firms can also provide essential resources to the business, tangible (financial resources, low salaries because firms use family members to work) and intangible (social networks, altruism and stewardship, two attitudes that contribute to cohesion, long term approach). In this scope, the characteristics that can hamper the process of internationalisation include resource restrictions (human and financial), risk aversion (delay or slowdown international presence) and family conflicts (controlling the destiny of the family firm; reinvesting the earnings in the international expansion, etc.).

In terms of management, the prevalence of internal succession (Colli and all. 2013: 33-34; 45) and in a context of union between family and firm interests, may provide the foundation for long-term strategies. But if the leader's experience within the firm is not compensated by networks and contacts at several levels – e.g. at commercial and financial levels - the intangible resources of the family firms may be lower.

The family firms can be seen as capable of built a network of trust but also this network can be extended to local community where the business is set (Colli et al. 2013: 32-33). Although the family may supply manpower, financial resources and information, the boundaries of the family firm go far beyond the family ties and embrace also the values and the culture of a larger group. The family firms are embedded within social networks of trust, sharing the values and attitudes of a larger group that influences not only the family behaviour but also the business. In the next section a connection is made between family firm and its location.

### **2.3 Clusters, industrial districts and the location of family firms**

The location choices of family firms are one important determinant of its economic performance and, in a long run perspective, of its ultimate failure or success. Clusters and industrial districts are relevant spatial concepts needed to understand these choices.

Alfred Marshall was the first author to use the term industrial district, in his book *Principles of Economics* (1890; 1920), defining it as a “concentration of specialized industries in particular localities”, allowing the benefits of external economies due to spill-overs as, in his own words “in districts in which manufactures have long been domiciled, a habit of responsibility, of carefulness and promptitude in handling expensive machinery and materials becomes the common property of all. The mysteries of industry become no mysteries, but are as it were in the air, and children learn many of them unconsciously”. This definition is

particularly well suited to family businesses that contribute with internal family ties to the external relations and common trust, playing a central role in socializing values and work practices among small local firms across many generations.

The notion of *marshallian* industrial districts was many decades later improved by Giacomo Becattini (Becattini, 1990) and applied to the reality of the “Third Italy”, a set of northeast and central regions in this country that evolved from local ethnic communal cultures of trust and cooperation among firms and between bosses and workers, where families played once more a central role.

Giving the existence in Italy of important industrial agglomerations not accomplishing all the criteria of an *Industrial district*, Giacchino Garofoli coined the term *Local Productive Systems* (Climent, 1997 p. 99), allowing a more encompassing definition of these realities.

Previously, the notion of *Industrial district* was also used and popularized by Michael Porter (1990), with a similar content but under a different hat, the “*cluster*”, defined by this author as “a geographical concentration of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (e.g., universities, standard agencies, trade associations) in a particular field that compete and also cooperate” (Porter, 1998). Apparently not so well fitted to (small) family firms, it may become very important for this kind of businesses to be immersed in a cluster geographical area to benefit from its external economies.

Although criticized by some authors as being somewhat vague, or fuzzy, notions (Martin and Sunley, 2003), clusters and industrial districts can be operational concepts useful for understanding the relative performance of family firms, inside or outside them (Hoseth and Remoy, 2013).

In the particular case of the two cork family companies studied in this paper, the economic performance was certainly conditioned, among other factors, by the different kind of regional clusters chosen: Setubal, a southern district of Portugal chosen by Mundet, and Santa Maria da Feira, a northern district, by Amorim.

The implications of these different location choices and of the influence of the features of the two families – Mundet and Amorim -, in the business evolution, will be addressed in the next section.

### **3. Determinants of success and failure in the internationalization process: two case studies – Mundet & C<sup>a</sup> and Corticeira Amorim**

#### **3.1. Main features of these companies and their internationalisation model**

The cork business has always had an international character. The two leading countries in this business, Spain and Portugal, export most of the production of cork (manufactured and in raw material) worldwide. A longitudinal study, of almost one century, considering two of the most relevant Iberian family firms connected to the cork business, is interesting for the research field of internationalisation and family firm features.

In fact, *Mundet & C<sup>a</sup>, Lda.* and *Corticeira Amorim* emerge as two paradigmatic cases of entrepreneurship during the 20th century, since they followed from the beginning a strategy that explored a natural competitive advantage of the Iberian Peninsula. The two firms are contemporaneous, facing the same alterations in institutional and technological framework of the cork business.

To test the hypothesis mentioned in the introduction and answer to the research questions we opted for a qualitative research method by analysing the historical trajectory of the two companies, highlighting the way to which the family character of the companies and also their location were critical in the creation of a competitive advantage that reinforced the natural advantage of the Iberian Peninsula.

A systematic analysis and comparison of a collection of chronology data on the life of the firms will be made, from their establishment until the 1980s, considering the most important events allowing the identification of its international pathways and the familiar context where those paths were chosen (generations, successions, conflicts, etc.).

The internationalisation strategies of the two firms suggest that both, the Uppsala and Innovation models, are useful explaining the internationalization process of the *Mundet* and *Corticeira Amorim*.

#### **3.1.2 Mundet&C<sup>a</sup>, Lda. (1865-1988)<sup>3</sup>**

Mundet resembles a “born-again global firm”. In 1865, Lorenzo Mundet, the founder, had two factories, one in San Antonio de Calonge and the other in Palamós (Catalonia).

In 1895, one of his sons, José Mundet, opened a new factory in Brooklyn (New York) and in 1902, the other sun, Arturo Mundet opened a factory in Mexico and also in this year, José Mundet started a new establishment in Canada.

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<sup>3</sup> The facts about Mundet were collected in Filipe and Afonso (2010).

In 1905, a new factory was opened in Seixal (Portugal). Thirty years after the foundation of the factory in Catalonia and with the second generation, Mundet was already a multinational with four productive plants abroad (United States, Canada, Mexico, Portugal).

In 1906 *Mundet* underwent a complete relocation, moving the company headquarter from Catalonia to Portugal, while also changing its specialisation from natural cork stoppers to agglomerated cork.

During the 1930s Mundet & C.<sup>a</sup> had already 12 factories – located in Portugal, Spain, Algeria and England (Mundet Cork&Plastics); Mundet Cork Corporation had 2 units, one in the United States and in Canada (Mundet Cork & Insulation).

The manager of the Portuguese and Algerian units was Luis Gubert i Cappelá , son-in-law of the founder. The units in the United States and Canada were managed by José Mundet (second generation) and then by Joseph Mundet Jr (third generation), who in the end of the 1940s also assumed the total control of Mundet & C.<sup>a</sup>. In 1946 a new plant was opened in Jimena de la Frontera (Cadiz, Andalucia in Spain. In 1958 the firm had almost 4,000 workers.

Table 1 - Characteristics of the internationalisation behaviour of Mundet

<b>Issue</b>	<b>Mundet</b>
Trigger/Motivation	Initially reactive (due to difficulties in the Catalanian’s cork business) and then proactive.
Internationalization patterns	First exporting and then creating production units in several countries
Pace of Internationalization	At the beginning the firm only exports and after 20 years of establishment followed an exponential growth of internationalisation, becoming a multinational
Method of entry into foreign markets	Established overseas manufactured plants maintaining the total control (concentration of ownership and management)
International strategies	Adaptation to the United States market, producing cork disks (development of a new product for international market).
Method of financing internationalization	Internally generated funds and new shareholders (non-family members)

Source: Authors elaboration and based on Graves and Thomas (2008:153) and Falize e Coeurderoy (2012: 4-6)

### 3.1.2 *Corticeira Amorim*<sup>4</sup> 1922-...

All aspects of the internationalisation pathway of *Corticeira Amorim* are similar to that of traditional firms.

The origins of the *Corticeira Amorim*, which acted as an anchor firm, go back to 1908, when the Amorim family established a small workshop producing cork stoppers at Santa Maria de Lamas (in the county of Santa Maria da Feira, north of Portugal). The older sons of António Alves Amorim (the founder), and six workers were de main-power of the workshop, producing cork stoppers for the Porto wine, being the English market the most important client.

In 1917 the Amorim family already had a factory in Cortinhas (also in Santa Maria da Feira) but *Amorim&Irmãos* was only founded in 1922, being a family business that would prompt the Portuguese stoppers to the world. In the 1930s it was already the largest producer in the north region, with 150 workers. During this decade, the firm adopted a strategy of backward vertical integration by acquiring a small store in Abrantes (Portugal), near one of the biggest area of cork oak forest and also near the railway line. In 1939 this store became a factory, producing planks for the main factory. Already in the 1940s, *Amorim&Irmãos* employed 321 workers with a production capacity of 70,000 tonnes of cork by day. Using a definition by Chandler (1990), the company can be classified as a “big business”.

The company followed an incremental and gradual international expansion, starting by using agents/distributors or wholesalers: founded in 1922, only in the 3<sup>rd</sup> generation has it adopted a more aggressive form of internationalisation, creating plants abroad. Until then, the two sons of the founder that went to Brazil were of some importance in the diversification of the international market for natural cork stoppers. The firm had also a commercial agent in France, next to the distribution channels of champagne.

With *Corticeira Amorim*, also located in Santa Maria da Feira, from the 1960s onwards the business went through a process of partial relocation and vertical integration, but maintained the production of natural stoppers as its main area of specialisation. *Corticeira Amorim* had 40 workers and an expert from Mundet. This partial relocation means that the company established several new units, but nonetheless retained its pre-existing unit, i.e. it became a multi-plant company that differentiated its production in spatial terms. The vertical strategy was followed-up by a more intensive process of internationalisation, with some

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<sup>4</sup> The first company of our days *Amorim Group*, the firm *Amorim&Irmãos*, was founded in 1922 and the *Corticeira Amorim* was founded in 1963. In 1969, the partners of this company purchased 40% shares of cousins in *Amorim&Irmãos* and also stayed with the interest in shares of the remaining shareholders (uncle and aunts of the second generation), becoming *Corticeira Amorim, CA*. From now on we will refer to this business family as *Corticeira Amorim*. Regarding the history and importance of *Amorim&Irmãos* see also Santos (1997) and Branco and Parejo (2011).

relocation of the production, inside the domestic market but also abroad. The relocation do not necessarily affect the whole production process, but instead only one branch and it can arise from different types of agreements between the firms involved, ranging from joint ventures to subcontracting, or even the acquisition of a small part of the capital.

Table 2 - Characteristics of the internationalisation behaviour of *Corticeira Amorim*

<b>Issue</b>	<b>Corticeira Amorim</b>
Trigger/Motivation	Reactive and related with the succession to the 3 <sup>rd</sup> generation with managers strongly committed with internationalisation.
Internationalization patterns	They grow incrementally by progressively entering foreign markets with greater psychic distance markets. Target low-tech/less sophisticated markets. Limited evidence of networks in the beginning.
Pace of Internationalization	Gradual internationalization becoming more intense since the 1960s, almost fifty years after the foundation of the firm (focus on small number of key markets since that it was one family-member that contact the clients).
Method of entry into foreign markets	Conventional. Use of agents/distributors or Wholesalers Direct to customers and only later with foreign direct investment.
International strategies	Initially only stoppers and then agglomerated products.
Method of financing internationalization	Until 1980s with generated funds and then with bank finance and stock market

Source: Authors elaboration based on Graves and Thomas (2008:153) and Falize e Coeurderoy (2012: 4-6).

### **3.2 The family firm determinants of success and failure**

When Mundet started its internationalisation the ownership base was sole ownership, by the founder, Lorenzo Mundet. With the creation of three production units, in United States, Mexico and Canada, the ownership was divided – but not in equal parts - among two brothers (each with 1/3 of the shares) and the remaining shares were divided in equal shares between the father and the son-in-law. In 1920s, the ownership was also divided between outside

shareholders, when Mundet went to a spectacular expansion, putting the firm under financial and management stress.

José Mundet, the son of the founder, became the major shareholder and owner-manager in the American branch of the business and when he died, Joseph Mundet Jr assumed the control. In Portugal, the manager was the son-in-law of Lorenzo Mundet, Luis Guibert i Cappelá. Certainly these two managers (Joseph and Luis) had different visions about the family business, since they disputed in court the ownership of the family business, jeopardizing the harmony of the family since the division of shares was not equal, having Joseph Mundet the majority. Together with the presence of shareholders outside the family, the possibility of disagreements was larger. Luis did not agree that Joseph had the majority of the company shares.

The problems with the American market, where the substitutes of natural cork emerged faster, almost for sure constituted one of the disagreement questions, making too difficult to define the future steps in terms of the business family. The lack of trust and strong family bonds caused greater governance costs. The absence of “familiarity” or features of the family firm that allow the survival of the firm in adverse economic environment certainly was one of the causes of failure.

In the case of *Corticeira Amorim*, until 1988 – when it started to be in the stock market – all the shareholders were family members and with equal shareholders in the company. First, in 1908, with one owner, the founder, and in 1922, when his sons (second generation) became partners (all the nine brothers, although in 1939 the firm society was reduce to 5 brothers<sup>5</sup>). The second and third generations were prepared from their early childhood for working in the cork business.

After that, the firm entered in the phase of cousin consortium. With the creation of *Corticeira Amorim*, in 1963, four brothers (3<sup>rd</sup> generation) and one uncle (2<sup>nd</sup> generation) divided the ownership of the firm, each with 20% of shares. Even when the firm went public, the majority of the shares were kept in the hands of the family.

The comparison suggests that the ownership structure is important for success. An unequal ownership seems that can lead to greater disagreement on the way forward regarding the internationalization but an equal distribution of shares between family members as well as the concentration of ownership in family members, maybe a contribute to success.

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<sup>5</sup> Three brothers went to Brazil and one died.



In the case of *Amorim Group*, the clarification regarding the different positions of family members about the internationalization pathway of the firm led to the creation of a new highly internationalized productive unit – *Corticeira Amorim* - which accounted only with family members who were in agreement with the intensity and direction of the internationalization defended by Américo Amorim (grandson of the founder, 3<sup>rd</sup> generation). Any radical decision about international strategy of the firm was impossible if the family members didn't agree with that strategy, since harmony was the dominant feeling. The shares of *Amorim&Irmãos* belonging to the brothers and cousins that were in disagreement with Américo Amorim were sold to *Corticeira Amorim*, permitting the development of a solid cohesion and leadership for many years and up to now, based on the charisma of Américo Amorim.

The business was divided into two production units, still highly connected but producing different products (*Amorim&Irmãos* selling natural stoppers, the original business of the family; *Corticeira Amorim* selling agglomerated cork).

Regarding the stewardship characteristics, some substantial differences occur between the two family firms. In the case of *Mundet*, considerable investments were made in Portugal to meet the needs of the American market, having this option led the company to a very risky strategy in terms of dependence on a single market. However, the expansion of this market has not lived up to expectations on the demand for agglomerated cork. The option reveals weaker stewardship attitudes, resulting from a two-man management company, with a manager in the United States and other in Portugal. When Joseph Mundet started to own most of the business in Portugal, without being present in the production units located in that country, the failure of the firm strategy was inevitable. The owner–manager started to take very risky options for the firm without the perception of the decreasing demand, placing the firm in financial stress.

The lack of strong family bonds and trust conducted to greater governance costs, with the growing disagreement between the grandson of the founder and the son-in-law of the founder. The several executives in the Portuguese branch with unequal voting power made the rest and Joseph Mundet Jr seemed to reveal a sense of selfishness in conducting the destination of the firm. A growing number of shareholders – namely non-family members and in-laws - was a source of conflicts and a potential source of a bias in favor of family candidates to succeed the founder – namely his son and after his grandson – alienating other talented managers.

On the contrary, the stewardship effects were very high in the *Amorim Group*. From the beginning, the second generation was involved in the several tasks of the firm, each member with a mission within the company business. When the company's interests were different from personal interests, family members chose to leave the company. Prudent international expansion was the dominant note, revealing characteristics of a path similar to that shown in Uppsala model: an entry mode with high control and any risky decision was impossible because everyone had the same number of shares. The sense of duty to the company was very high and also cohesion and trust.

Similar in both cases was the social network built by the family. But in the case of *Mundet*, these relationships within family led to the creation of new businesses (in the form of foreign direct investment) in the U.S. (controlled by Jose Mundet) and México (controlled by Arturo Mundet). The higher cost involved made more difficult to answer to adverse demand conditions.

In the case of *Amorim*, the process of internationalization started by using commercial agents and the family maintained very close relationships with them. Many times the company's customers were visited by members of the Amorim family, strengthening the relationship of trust between buyer-seller through face-to-face relationships. The lower fixed cost involved in this kind of international trajectory made possible a rapid response when the demand went down.

### **3.3. The effects of location choices of Mundet and Corticeira Amorim**

The location choices of firms are important determinants of its economic performance and resilience, or lack of, as the case studies of Mundet and Amorim clearly show.

In the case of Mundet, the choice of starting the business in Portugal in the southern district of Setubal, near river *Tejo* and the capital, Lisbon, was a reasonable one, first of all, in order to benefit from a low price of the lands to install the first factory, which belonged to a soap firm, meanwhile closed. It was a good location for two other reasons: its relative proximity to the raw material suppliers (the best cork in Portugal, and by far its larger quantity, comes from Alentejo and Ribatejo, two southern regions of this country) and its close proximity to the Lisbon port, the main facility used to export the cork products, essentially stoppers (Sala and Nadal, 2010).

The firm Amorim & Irmãos choose another, very different, location to develop its cork activity, Santa Maria da Feira, a northern region of Portugal. The main reason was essentially of a family nature: the wife of the company founder, Mr. Amorim, was born there

(in Santa Maria de Lamas, an iconic local for this firm, ever since) and maintained strong family ties. This region is not far away from Oporto, a city with an old and strong tradition in the wine business, and with an important port, Leixões. But other regions are better than Feira from this point of view, e.g. Vila Nova de Gaia, in its close neighbourhood, and so the family element was here crucial (Santos, 1997).

But this choice of Amorim had an apparent, and potentially strong, disadvantage relative to the Mundet one, the much longer distance of Feira from the cork producing regions of Portugal, particularly in a time period and a country with large transport costs.

One of the main curious and interesting aspects of these case studies is that what appeared to be a strong disadvantage in an early phase of the business, let us say until the 1930s, turned out to be a determinant advantage to Amorim over Mundet, for several reasons, until now not very well studied, and deserving a paper of their own, but which we can synthesize in what follows.

The first comparative advantage of Feira versus Setúbal relates to labour costs, namely the wage policy of *Estado Novo* benefitting the northern industrialists with wages fixed by law and lower in this region (see, e.g., Branco and Parejo, 2008, 2011; Lopes and Branco; 2013). Another important advantage of Feira is the low political, social and labour conflicts, determinant in the period after 1974, the year of instauration of democracy in Portugal, because this region was mainly rural and with small firms, while Setubal was a region of large firms, with a strong labour movement, and a tradition of resistance to the dictatorship and a practice of fight for labour rights.

But perhaps the most important and lasting advantage of Feira, and for what here matters of *Corticeira Amorim* over *Mundet*, is related to the different kind of cluster, or Industrial District, it is, relative to Setubal. In Santa Maria da Feira the cork industrial tradition is much stronger (using the original terms of Marshall, it is in the air...), and have a family nature of keeping and transmission, in small and very small firms, sometimes even garage facilities, that give a precious support and flexibility to the anchor firm, *Amorim*, not ever felt by *Mundet* in Setúbal (Mira, 1994; Ruivo, 1995; 1996).

Amorim Group gained tangible and intangible resources just for being located in an industrial district: lower wages, social networks, reinforcement of trust and cohesion and reputation, all essential characteristics that were transposed to the international area of the firm. The concentration of small firms, highly specialised and bonded with each other permitted a high degree of cooperation in a vertical and horizontal sense (Bonacoorsi 1992: 628-629). The fluctuations of demand were better answered without additional investments in

production capacity since the firm could seek help from small workshops, producing stoppers and often owned by company workers who thus earned some additional income.

In what measure these location aspects were determinant to the economic performance of both firms namely the failure of Mundet and the success of Amorim, deserves a more careful, detailed, historical and empirical analysis. But that they played an important role in this context is beyond any reasonable doubt.

#### **4. Concluding remarks**

The economic performance of firms and its ultimate, long run, failure or success depend on many economic, financial, technological, social and even political factors, difficult to encompass in one sole paper, as we try to do in this work about Mundet and *Corticeira Amorim*. This effort must then be understood as a contribution to this endeavour, consisting in a comparative perspective of the evolution of these companies, emphasizing three essential factors: the internationalization strategies, the family business behaviour and the location choices.

The theoretical framework is accordingly based on the internationalization models, the business family theory and the economics of clusters and industrial districts. The internationalization models studied were the Upsalla model, the born global firm and the new born global firm. The family business aspects considered were the ownership, succession, management, stewardship and financing decisions. The clusters and industrial districts analysis is based on the well known regional science work, reminiscent of Alfred Marshall's pioneering approach and elaborated and expanded by Giacomo Becattini and Michael Porter.

Although the stories of these two important Iberian cork industry firms, Mundet and *Corticeira Amorim*, are well studied in many books and articles, this was until now made in independent ways and so, to the best of our knowledge, this is the first attempt to make an encompassing comparative analysis, well documented in historical and empirical sources and supported in a strong theoretical framework.

The main purpose of this paper is to uncover the main determinants of economic performance of these companies, which ultimately led to the failure of Mundet in the 1980s, after being one of the most important firms in the business during almost all the previous century, and to the enormous success of *Corticeira Amorim*, which became and is now the undisputed world leader in the cork business.

After a brief description of the main characteristics of the cork activity, essentially a Iberian business, because it is in Portugal and Spain that the bulk of its raw material is

produced, the main section of this paper starts by identifying the internationalization models of the firms. To *Mundet* is best applied the born global model, with a strong and early expansion of activities to the USA and other countries, kind, traditional model, of exporting through foreign partners and agents, before embarking in a strong expansion of production and trade through affiliates, mainly and firstly in Spain. This prudent strategy of the Portuguese company may prove to be an advantage in the fight for the worldwide dominance in the cork business.

The family facets of these two companies were also very important to its relative economic performance and resilience to economic and other shocks, once more with advantages pending to the Amorim. The Amorim family has always been more united and cohesive, more careful and simultaneously more path breaking in the business. They have cautiously kept the ownership and control of the firm since the first to the fourth generation of the family, better managing the problems of succession and sharing. The role of outsiders (meaning: not family members) in management and financing decisions were much less important than was the case in *Mundet*. The three mechanism of the family ownership that created a competitive advantage were absent in the case of *Mundet* and tensions and conflicts emerge.

Finally, a competitive advantage of *Corticeira Amorim* over *Mundet* was also played by the location choices they made. Although the southern district of Setubal, the initial site for *Mundet* in the start of its operations in Portugal in 1905, appears to be a very good choice, with its close proximity to the raw material providers (located mainly in Alentejo e Ribatejo) and to a large export facility, the Lisbon port, it had ultimately become a source of trouble to the business. The main reasons were the politico-economic decision of Estado Novo, fixing higher wages in the southern regions of the country in order to protect the small firms in the north and the turbulence of the period after 1974, the date of instauration of democracy in Portugal, much larger in the south of the country than in the north.

The location of *Corticeira Amorim* in Santa Maria da Feira, a northern region of Portugal, based mainly on a family motive previously explained, ultimately proved to be a crucial advantage, not only for the labour reasons already mentioned, but also because this anchor firm has been successful in creating in their original region a well-functioning industrial district of Marshallian type, with cork industry tradition flowing in the air, passed from parents to children, in a myriad of small and very small firms, which gave flexibility and background to an ingenious domain of the business by the Amorim family firm.

Concluding, the family character of the firm is not always an advantage. If the family supporting the firm is united, it becomes a repository of trust and cohesion. Otherwise, the family firm will be a source of conflicts and tensions. But maybe the harmony is also pushed by the “district effect” since the family, in that case, as a commitment with the region and its people. That was the case of Amorim family.

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## Appendix

### *Chronology*

#### ***Mundet&C.<sup>a</sup>, Lda. 1865-1988***

**1865** - Lorenzo Mundet i Corominas (1<sup>st</sup> generation, founder) came from a long lineage of industrials of cork. His wife, Teresa Carbó i Saguer, was the daughter of a small industrial of cork from Catalonia, for whom Lorenzo began to work in 1865, in the town of San Antonio de Calonge, in the province of Girona (Catalonia, Spain).

**1895** – José Mundet, son of Lorenzo (2<sup>sd</sup> generation), open a small cork factory in Brooklin (New York), the Mundet&Sons, a subsidiary of L. Mundet &Hijos in Catalonia.

**1898** – A new factory was opened in Palamós (Catalonia), a few kilometres from San Antonio de Calonge.

**1902** - Arturo Mundet, son of Lorenzo and brother of José, opened a new cork factory for the group in Mexico, Casa Mundet Mexico.

José Mundet opened a new unit in Canada, the Mundet Cork&Insulation and was also the president.

**1905** - Mundet open a new factory in Seixal (Setúbal, Portugal), close to the Lisbon harbour, on the south bank of the Tagus River. L. Mundet&Sons had four partners: José Mundet i Carbó, Arturo Mundet i Carbó (each with 1/3 of the shares), Lorenzo Mundet and Luis Gubert i Capellà (married to Carolina Mundet i Carbó, daughter of Lorenzo and sister of José and Arturo), with the remaining shares, divided in equal parts. The first director in the Portuguese unit was Luíz Gubert i Cappelà. This unit produced cork stoppers, cork discs and other cork artefacts; leftovers. The unit in Seixal employed 200 workers in 1905; 430 workers in 1913 and in 1916, a total of 600 workers. Close doors in 1988.

**1906** - L. Mundet&Hijos was extincted and became L. Mundet&Sons, a family firm with four partners and also a multinational company with four commercial and productive units (in United States, Canada, Mexico and Portugal).

**1907** – A new factory of cork planks in Vendas Novas (Portugal)

**1908** – The company changed the name to L. Mundet&Sons Incorporated and also its headquarters from Catalonia to Portugal, opting for a full delocalization strategy from that Spanish region to Seixal (Portugal). First José Mundet and then his son, Joseph Mundet Jr would have the majority of shares.

**1914** - New cork factory for preparation of raw materials in Mora (Évora, Portugal), which was working until 1963.

**1915** – Creation in the Seixal's unit of the paper cork section.

**1917** – A new unit in Amora (Seixal,Portugal) for the production of discs and stoppers. This factory will be closed in 1967.

**1917** - New unit in Vendas Novas (Portugal) in order to produce prepared cork. Closed doors in 1952.

**1920** – A new factory was open in New Jersey that produced agglomerated cork.

**1921 and 1924** – Two new factories in Montijo (Portugal) to produce granulated cork and agglomerated cork (black; pure and composite agglomerated cork). They closed doors in 1988.

**1922** – The units in Portugal were all integrated in a new society, the Mundet&Companhia, Lda, with three partners: José Mundet, Luis Gubert i Cappelá and Joaquim de Sousa (non-family partner), all of them managers of the society. This new society had close relations with

the Mundet&Sons in United States, selling the Portuguese production of cork (stoppers, raw material and agglomerated cork) to the American market through the Mundet&Sons. The American and Canadian branch and the English branch had the same director: José Mundet.

**1924** - New factory for preparation in Algeria. The manager of Mundet Africa SA was Luis Gubert.

**1926** - A commercial warehouse in Croydon (England). The Mundet Cork Products, Ltd (England) was also an affiliated of Mundet&C.<sup>a</sup>.

**1927** - The capital of Mundet&C.<sup>a</sup> was reinforced

**1927** – New factory in Ponte de Sor (Portalegre, Portugal) and another in Argelia.

**1928** - Another factory was open in San Vicente de Alcántara (Extremadura), for extracting the cork of this Spanish region. The Corchos Mundet España, S.A. (San Vicente de Alcantara) was affiliated to Mundet&C.<sup>a</sup> and was managed by Joaquim de Sousa.

**1930** - L. Mundet&Sons, Inc. became Mundet Cork Corporation with two units, one in NY and the other in New Jersey. This firm had exclusivity in the commercialization of cork that came from Mundet&C.<sup>a</sup> and also had exclusivity in other markets. In 1962 was sold to Crown Cork&Seal.

**1936** – The managing of Mundet&C.<sup>a</sup> belonged to José Mundet, Luis Gubert; Joaquim de Sousa; José María Genis Arolas; Antonio Iglesias Cruz and Luis Gubert i Mundet (4<sup>th</sup> generation).

**1938** - A turning point in terms of the governance structure of Mundet&C.<sup>a</sup> since José Mundet gives to his son the majority of shares and also to José Genis and Antonio Iglesias. By doing this, allowed that Joseph Mundet, the 3<sup>rd</sup> generation, became the major partner and also the manager of Mundet&C.<sup>a</sup> until his death in 1962.

**1939** – The mandate of Joseph Mundet was cancelled and the management of the company was made by Luis Gubert, Joaquim de Sousa and Luis Gubert i Mundet.

**1940** - José Mundet dies and Joseph Mundet, his son, assumed the chair of president in Mundet Cork Corporation and since then only conflicts took place, culminating in a judicial proceeding in which the shares and management powers started to belong only to Joseph Mundet, José María Genis, Antonio Iglesias and Henry Cant.

**1946** - A new unit was opened in Jimena de la Frontera (Andalusia/Spain).

**1947** – Luis Gubert and Joaquim de Sousa sued Joseph Mundet Jr. and the remain partners. They lost and the partnership was dissolved.

**1949** - Joaquim de Sousa, Luis Gubert, Luis Gubert i Mundet and Teresa Gubert Gomes sell their shares.

**1951** – António Iglesias sell his shares to Joseph Mundet Jr. and José María Genis.

**1953** – Joseph Mundet Jr, José María Genis and José Azeredo Perdigão were the managers of Mundet&C.<sup>a</sup>.

**1958** – The company had new partners: José Azeredo Perdigão, José Genis Gorgot, Antonio Costa Guerra, Miguel Antonio Horta e Costa.

**1962** – Joseph Mundet Jr dies and his wife became the major shareholder.

(...)

**1986** – Paula Mundet dies.

**1988**- Seixal and Montijo units cease laboration.

**1992** – The bankruptcy was declared for Mundet&C.<sup>a</sup>.

#### *Amorim Group 1908 - ...*

**1908** – The family went to Lamas (Feira /Portugal) and opened a factory. The founder of this factory, António Alves Amorim, his wife, Ana Pinto Alves, and their eleven sons were the main workers of the factory, with six workers. They only produce stoppers.

**1922** – The family buildet a new factory in Lamas (Feira/Portugal) and founded the firm Amorim&Irmãos, with the nine sons of António Alves Amorim as partners (2<sup>nd</sup> generation). Three of the brothers went to Brazil and two of then founded also firms connected to the cork business (Amorim&Pinto and Amorim&Coelho).

**1935** – They opened a new unit in Abrantes (Portugal) in order to produce their own cork planks.

**1939** – The firm is reduce to 5 shareholders (five brothers), the brothers still living in Portugal. At the time the firm had 150 workers.

**1940s** – The firm Amorim&Irmãos had 321 workers, produced in a daily base almost 700,00 stoppers and almost 200 firms were dependent of it in terms of raw material and credit. The 3<sup>rd</sup> generation enters in the business and the various tasks within the company are divided among family members.

**1960** – Sociedade de Isolamento de Cortiça (agglomerated cork) in Brazil.

**1963** – The Corticeira Amorim was founded in Mozelos (Feira/Portugal). The shareholders were five: 4 brothers (3<sup>rd</sup> generation) and one uncle (2<sup>nd</sup> generation). They were also shareholders of Amorim&Irmãos that had 600 workers. The new firm produced agglomerated cork with the cork leftovers of Amorim&Irmãos.

**1968** – The firm Inacor was founded and belonged to the cousins (3<sup>rd</sup> generation). They also produced agglomerated cork.

**1966** – The Corticeira Amorim Algarve was founded, also producing agglomerated cork.

**1967** – The Gerard Schiesser GmbH in Vienna was founded, a commercial agent directed to the eastern market

**1969** –The sons of Américo Alves Amorim (3<sup>rd</sup> generation) buy to its cousins the Amorim&Irmãos and also the Itexcork in Vendas Novas (Portugal) and Inacor. The firm became Corticeira Amorim CA.

**1970s** – The importance of American market was reduced and the European countries became more important. Feira (Portugal) became the capital of cork stoppers but also we can notice some diversification in terms of cork products.

**1972** – They buy Comatral (production of cork planks) in Morocco (Africa).

**1976** – They buy Samec (production of Planks) in Seville (Spain)

**1978** – New unit in Santa Maria da Feira (Aveiro,Portugal) , the Ipcork.

**1982** – The Champcork was founded in Lamas (Aveiro,Portugal), producing stoppers for sparkling wine.

**1983** – Creation of the Labcork

1984 –Hungarokork-Amorim, a partnership between Corticeira Amorim and two Hungarian public firms.

**1984** – José Amorim, one of the shareholders, didn't agree with his brothers in terms of the firm strategy and leaves the firm, selling his part to his brother.

**1988** – They open the capital to other shareholders but the family keeps the majority. The firm is now Corticeira Amorim SGPS.

**1990s** – 4<sup>th</sup> generation enters in the business with an undergraduate degree in management.

(...)