Received 1 October 2016
Revised 20 October 2016
Accepted 21 October 2016

Internationalization of Mexican family firms: the cases of Xignux and Grupo Alfa

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Abstract

Purpose – This theory testing paper compares and analyzes the internationalization process of two Mexican family-owned firms: Xignux and Grupo Alfa. This paper is intended to offer a theoretical understanding using existing frameworks such as OLI (ownership, location and internationalization), LLL (linkage, leverage and learning) and the Uppsala model. Furthermore, it tests whether the theoretical framework of organizational capabilities and international ventures fits the internationalization of these companies.

Design/methodology/approach – This paper is based on case study methodology using the companies' publically available data. Both within-case and cross-case analysis were carried out to identify specific traits in the internationalization pattern of both firms; cases were also compared with literature to identify conflicts and similarities that enable a better understanding of the phenomenon.

Findings – It was found that not a single theory fully and satisfactorily explains the internationalization of both Xignux and Alfa, instead, issues like internationalization into low psychic distance countries, establishment of strategic alliances and the exploitation of locational-specific advantages contributed in the international expansion of the studied companies.

Originality/value – There is an increasing amount of available literature regarding internationalization strategies and internationalization theories applied to developing and emerging country firms. However, most of the studies analyze companies from Asia, and there are limited studies on multilatinas (i.e. Latin American multinationals). Furthermore, scholars in the field of international business are still debating whether the existing theories, or an adaptation of them, explain the internationalization of multilatinas.

Keywords Emerging markets, Family business, Multilatinas, Business diversification, Family conglomerates (FC), Firm internationalization, Multimexicanas, Emerging markets multinational firms

Paper type Research paper

1. Introduction

An internationalization strategy takes into account issues such as ownership decision, government support, market selection, risk diversification, availability of free trade agreements, leverage partner knowledge and entry-mode selection, among others. According to Ratten *et al.* (2007), some of the most important enablers of internationalization are the ability to build networks and clusters, governmental support, market dynamics and

Review of International Business and Strategy
Vol. 27 No. 2, 2017
pp. 180-198

2059-6014
DOI 10.1108/RIBS-10-2016-0058

the industry in which the firm operates. Cuervo-Cazurra (2016) argues that, especially in the case of Latin American firms (multilatinas), the conditions in their home market (political uncertainty, violence, pro-market reforms and reversals and geographic isolation) can affect the internationalization of multilatinas, the learning driver by the management in their home markets, or an escape driver to avoid those home market conditions. Arregle *et al.* (2016) argue that studies on internationalization of family businesses exhibit mixed outcomes, especially, two opposing perspectives: a restrictive and a facilitative approach. The restrictive approach defends the idea that the special characteristics of the family firms restrict their international expansion, while the facilitative perspective states that family firms and their governance ease risky behaviors as internationalization.

Arregle *et al.* (2016) also argue that existing studies on internationalization of family firms lack theoretical contextualization used for understanding internationalization processes in family firms, so they suggest that further research explores the contextualization of theories from the family firms' view. The aim of this paper is to analyze the internationalization strategy of two Mexican family conglomerates (Xignux and Grupo Alfa) with selected firm internationalization theories and provide a theoretical understanding of their international patterns from a family firm perspective.

Removal of trade restrictions within the regions, government political reform, economic integration between countries and change in consumer lifestyle are some of the factors that drive the firms from Latin America to internationalize both within their own region and outside it (Gomez, 1997). In the last two decades, the emergence of the so-called multilatinas, or multinational companies from Latin America, has been remarkable (Gonzalez-Perez and Velez-Ocampo, 2014). During the late 1980s and early 1990s, market liberalization and economic integration of the region encouraged many Latin American firms to internationalize. Most multilatinas were large family groups that started to develop and consolidate their domestic market position because of the prevailing import substitution industrialization (ISI) policy in the 1970s and 1989s (Casanova, 2009). The capabilities developed during this period helped Mexican multilatinas expand overseas to similar markets (Hoshino, 2009).

According to Colpan *et al.* (2010), the North American Free Trade Agreement signed in 1994 by Canada, the USA and Mexico not only increased the inward foreign direct investment (FDI) flow into Mexico, but also reduced Mexican purchase power and cheapened its exports goods, which encouraged Mexican firms to become multinationals.

Both Xignux (sixty-sixth) and Alfa (twenty-first) are Mexican family-owned enterprises that are classified within the 100 largest multilatinas in the ranking of AmericaEconomia (2016). Xignux is a listed enterprise that operates in the steel and metal industry and has direct operations in six countries, while Alfa is a listed firm with operations in 18 different countries. Both of them share special traits regarding international expansion, market selection and growth that make them worth studying.

This paper proceeds as follows: Section 1 provides a literature review of internationalization theories in the Latin American and Mexican contexts, including the ups and downs of the largest business groups. In Section 2, we provide detailed analysis of the Xignux and Alfa evolution as multinational enterprises (MNE). In Section 3, we contrast internationalization of these companies with selected theories, and finally, we highlight some conclusions.

2. Literature review

Even though there are many theories that explain cross-border expansion and consolidation of firms, there is limited explanation and no specific theories regarding the cross-border expansion and consolidation of Mexican multilatinas, and studies on the internationalization of Mexican family firms are even rarer. Heck *et al.* (2008) state that using multiple frameworks for studying family firms would contribute to the body of knowledge of this area, especially when researchers identify both advantages and disadvantages of the selected theories. To fill this gap and provide a theoretical understanding of Mexican family conglomerates, the following frameworks were taken into consideration:

- Classic internationalization theories.
- Internationalization of Mexican multilatinas.
- Internationalization of family conglomerates (FC).
- Diversification of FC: Product vs international.

2.1 Classic firm internationalization theories

For this paper, three firm internationalization models will be considered. First, the incremental internationalization model, known as the Uppsala model, developed by Johanson and Wiedersheim-Paul (1975, 1977). This model is helpful when explaining the difficulties and patterns in the internationalization of firms, especially considering market selection and commitment associated with psychic distance. Although this theory is widely accepted and taken into consideration when studying firm internationalization, Ratten *et al.* (2007) argue that its major problem is its assumption in which a firm "gain experience, accumulate resources, and develop the managerial capabilities required for international operations" (p. 365).

Second, it is worth considering Dunning's eclectic model (1980; 1988), also known as the OLI (ownership, location, and internalization) paradigm. Although there are several theories for studying determinants of FDI, Dunning's model offers flexibility in terms of applications and selected levels of analysis (Das and Banik, 2015). According to Dunning (1977), firm internationalization is faster in firms that build a strong ownership position in their home market, to then utilize their brand value and production knowledge in the host country. These companies also use their local advantages such as low wages, large market scale and availability of raw material when operating abroad. As a result of ownership and location advantages, firms often choose direct international entry modes instead of others such as licensing, strategic alliances and joint ventures.

Third, the LLL (linkage, leverage and learning) developed by Mathews (2006) provides insights to analyze the internationalization of emerging markets' MNEs. Mathews (2006) states that emerging markets' MNEs overcome their weaknesses as late movers with respect to MNEs from developed markets by enhancing the use of resources through their special ability to leverage and learn which results in a better international performance. Firms from the emerging economies use linkages with already existing business networks, leverage their resources and learn by repeating the same action. These firms adapt early to the changing global environment and internationalize rapidly.

2.2 Internationalization of multilatinas

Even though many multilatinas have a long export tradition, most of them are latecomers in the internationalization process, because of the long time it has taken them to engage in more committed operations abroad (Cuervo-Cazurra, 2008). To invest abroad, multilatinas must have some specific advantages over their competitors such as economics of scale, production differentiator, brand value, low cost and/or superior technology (Vargas-Hernández and Noruzi, 2010).

The growth of Mexican exports began in the 1960s with the establishment of the maquiladora program (free trade zone). This program allowed foreign firms to set up their assembly plants near the Mexican American border and import materials duty free with the condition that 20 per cent of the final product was to be exported (Villarreal, 2012).

Up until 1985, Mexican business groups enjoyed the absence of foreign competition because of the government's protectionist policy. Although some of the increase in USA-Mexico trade since the 1990s could be attributable to the North American Free Trade Agreement (NAFTA), other variables affect the trade flow, such as changes in exchange rates and economic conditions. The Mexican currency crisis of 1995 limited the purchasing power of the Mexican people in the following years and local low wages made Mexican products more competitive in the USA.

According to the World Bank (2016), Mexico has become the world's fifteenth largest economy and one of the leading exporters of manufacturing goods. Mexico's geographical location and proximity to 400 million English-speaking and 400 million Spanish-speaking customers made this market highly attractive to other countries looking to sign a free-trade agreement (FTA) to access to such a significant customer base.

2.3 Internationalization of family conglomerate (FC)

The attitude and behavior of FCs change with the passing of generations. Each generation has its own interests and management styles. The owner's background as his/her international education, business education and language skills also influence the internationalization strategy of firm (Fernandez and Nieto, 2005). Firms with higher ownership participation on the company board show an interest in protecting their assets and tend to prefer a family member to lead the business. A study by Reyna *et al.* (2012) states that high levels of CEO ownership and owner participation on the company board of directors have a negative effect on company performance because of a lack of opposition to the family owner's decisions. Meanwhile, Gagné *et al.* (2014) argue that due to their special characteristics, FCs exhibit trust, which acts like a lubricant that enables exchange and businesses with other FCs, especially when going international.

Internationalization is a growing studied phenomenon within family business research; however, according to Benavides-Velasco *et al.* (2013) and Zahra and Sharma (2004), this area has received little attention, especially when compared to issues like succession, professionalization, innovation and strategic management. Articles dealing with internationalization of FC usually approach organizational growth, the change of attitudes toward internationalization in different generations and some managerial capabilities of family and nonfamily firms associated to their international expansion.

Implementing corporate governance policy in FCs solves some challenges these companies must face and ensure their long-term success, irrespective of any internal generational change (Companies Circle, 2009). Ward (2004) found that FCs that have independent board of directors grow at a faster rate and are more likely to internationalize than those that have family-oriented board. Another problem that affects the FCs' internationalization is access to capital for their market expansion. FCs that exhibit transparent corporate governance policies have a higher chance of receiving outside sources of finance. Otherwise, FCs are limited to depend on their own profits and local government or bank support to get financial capital for their international market expansion (Bedicks and Arruda, 2005).

According to Kim *et al.* (2004), the internationalization of FCs includes three stages: introduction, growth and maturity. In the growth stage, FCs have inbounded internationalization activities such as inwards technology transfer, inwards licensing and/or inwards joint venture. In the later stages of growth and maturity, FCs perform outbound internationalization activities: exporting, outbound technology transfer, outbound licensing, outbound joint venture and wholly owned overseas operation.

2.4 Diversification: Product vs international

International diversification requires more funds compared to product diversification, as international diversification needs more foreign stakeholders, and this would result in a dilution of family ownership in FCs. FCs hold greater control in product diversification because they are better connected with the local industry. In general, FCs opt for product diversification and international diversification to reduce the risk with the least loss of ownership control of the firm (Hautz *et al.*, 2013). Most of the FCs start their diversification strategy with product diversification because the experience gained in the different stages of product diversification will help the FCs to develop efficient international diversification (Chao *et al.*, 2012).

Bany-Ariffin *et al.* (2016) found in an empirical study with 100 Malaysian MNEs that international diversification is positively related to better financial performance. Furthermore, their findings suggest that firms that engage in FDI enjoy benefits such as cost savings, access to key resources, tax deferment or reduction, sales growth, among others.

It is important to consider the agency theory, which explains the interest conflict between principal (owner) and agent (hired one). For a successful diversification strategy, it is necessary to align the interests of both the owner of the business and the hired CEO. In the diversification process, there will be an agency problem between the owner of the business and the hired CEO, which can be mitigated by incorporating a corporate governance policy (Tsai *et al.*, 2009).

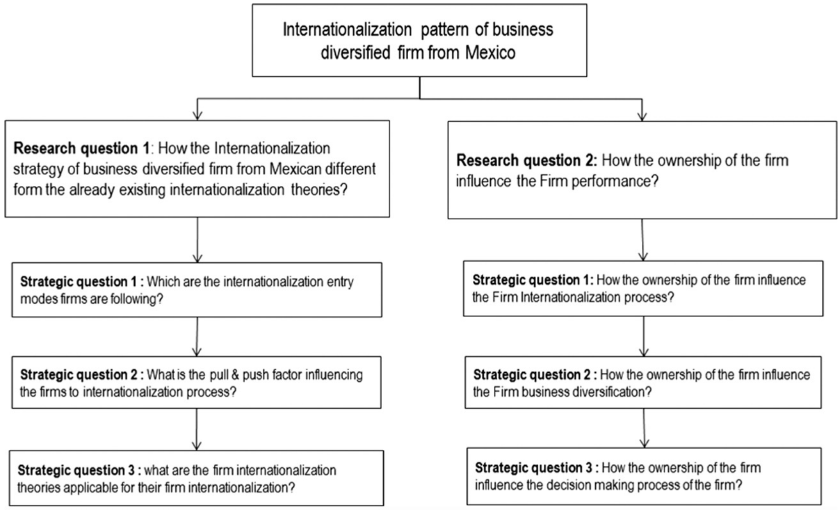
3. Research methodology: Multiple case study method

Case studies are used when a "how" or "why" question is being asked about a contemporary set of events over which the researcher has little or no control (Yin, 2004). The purpose of this paper is to analyze the internationalization of two Mexican firms; we use case study methodology with a single level of analysis and similar settings to describe phenomena and prove internationalization theories. Analysis of multiple case studies will ensure strong evidence and robustness (Heriot and Firestone, 1983).

Appropriate selection of units for the case study analysis is the result of an accurate and specific research question (Yin, 2004). Our research has a high number of units to analyze, such as time series of internationalization, economic environment of the country, openness to trade between regions, government subsidies, firm ownership, organization capability and business diversification. For this paper, we use the embedded case study methodology, and cross-case replication analysis (Yin, 2009), in which conclusions are drawn by applying similar theoretical frameworks for all the cases. Considering the complexity and detailed analysis needed in our research, and the availability of data from Mexican FC multilatinas, we selected two cases Xignux and Alfa. Figure 1 explains the basic structure of multiple case designs with multiunit analysis.

Defining the research question in broad terms is important to building theory from case studies (Eisenhardt, 1989). Figure 1 explains the replication framework for different case studies. We have chosen this framework to examine each case to develop new theoretical insights regarding the internationalization of diversified firms from Mexico.

As suggested by Dana and Dana (2005), when the researcher opts to select a very small sample or cases, the description should be very detailed, as intended in the cases of Xignux and Alfa; however, this specificity represents a limitation in the generalization of the findings. Dana and Dana (2005) also highlight some of the characteristics of qualitative



Source: Self-construction

Figure 1.
Replication framework model

research are its flexibility and interaction. These imply the development of a loose evolving framework, data collection, evaluation of gathered data (ideally through triangulation), rigorous analysis, interpretation of results and triangulation of theories. Academic research in international business such as Dunning's eclectic model (1980; 1988), Mathews (2006) LLL framework, Johanson and Vahlne's (1977) incremental internationalization model and empirical research on *multilatinas* are the main theoretical sources to be triangulated in our research.

To ensure the high quality of the research design, the following criteria has been followed: for construct validity, a chain of evidence has been established with data collected from multiple sources. Data have been collected from literature and secondary sources such as company websites. Fastening the new theories to existing literature improves the internal validity, generalizability and theoretical level of theory building from the case study methodology (Eisenhardt, 1989). According to Dana and Dumez (2015), qualitative studies, as this one, face the so-called risk of circularity, in which the researchers are that involved to a theory that they are unable to analyze phenomena without it. To avoid this risk, theory was not excessively restricting at first; furthermore, theoretical frameworks are not to be considered as rigid as in quantitative studies; instead, flexibility is highly valued.

For internal validity, explanation building between the time series of firm internationalization and different firm internationalization theory established. External validity is assured by adopting cross-case methodology between Xignux and Alfa. For reliability, a case study protocol has been created. Time frame analysis is different for both companies because their processes of internationalization fall into different time periods. By following the replication framework, we are assuring the evaluation of new theories.

4. Findings

In this section, the cases of both Xignux and Alfa are presented. Each case highlights aspects such global presence of the company plant, product and service; company structural division, brands, and sales; business diversification and internationalization of the company.

4.1 Case 1: Xignux

Xignux is a company owned by the Garza Herrera family in Monterrey, Mexico. It is a diversified holding company whose subsidiaries manufacture various products such as cables, transformers, food and infrastructure, mainly for the industrial market. Diversification of its operations and markets contributed to firm's competitiveness in Mexico and abroad (Table I).

Xignux was established in 1956 by Jorge Luis Garza as a cable manufacturer under the name of "Conductors Monterrey" with 10 employees in Monterrey, Mexico.

By 2016, it employs over 20,000 people, 22 per cent of whom are foreigners. They operate over 25 production facilities in five countries (Mexico, USA, India, Brazil and Colombia), with an asset value of approximately US$2,000m, which includes 30 per cent foreign assets. Xignux exports over half of their sales (total sales $32.7bn Mexican pesos) to over 40 countries worldwide. As a result, the company possesses 0.47 on the transnationality index (TNI) (Kunhardt and Gutiérrez-Haces, 2013) (Figure 2).

4.1.1 Internationalization of Xignux. In the period 1956-1992, Xignux consolidated its domestic market position in the cable sector; then, it started a vertical integration strategy by diversifying its business from cable to electrical parts, automobile parts and cold meat. Since 1992, Xignux started its major internationalization by establishing production facilities in five countries, including the recent entry into the Asian market via India (Table II).

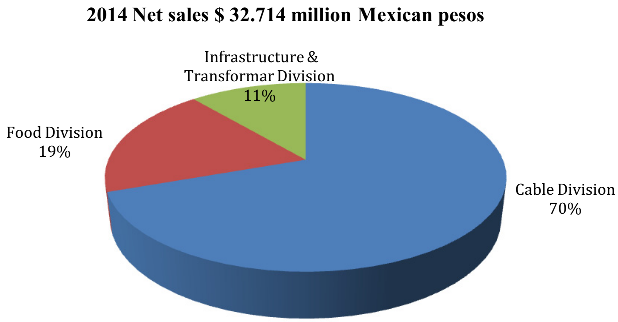
4.2 Case 2: Alfa

Alfa is a privately listed, family-owned company from Mexico. Its headquarters are located in Monterrey, Mexico. Alfa is a diversified holding company whose subsidiaries

Table I. Xignux production facilities and service unit presence of difference countries

Product location	Cable	Transformer	Food	Infrastructure
Mexico	✓	✓	✓	✓
Brazil and Colombia	✓			✓
USA	✓		✓	✓
India		✓		
Rest of Americas	✓			✓

Note: Adopted from: Xignux (2016)



Source: Adopted from Xignux (2014)

Figure 2. Sales contributions by individual business unit of Xignux

Year	Product	Division company	Country	Entry mode	Company name	Internationalization strategy
1956	Cables	Viakable	Mexico	GF	Conductores Monterrey	Company foundation
1961	Cables	Viakable	Mexico	SA	Wire Cable Co.	Leveraging technical knowledge with Wire cable co. from Canada
1969	Transformer	Prolec	Mexico	SA	GE	Leveraging technical knowledge from GE, USA
1994	Meats	Quality	Spain	JV	Sara lee	Partnership with Sara Lee from Spain to leverage partner knowledge
	Cables	Viakable	USA	JV	Elkins pro sales	Geographical diversification to leverage partner knowledge
1995	Transformer	Prolec	USA	JV	GE	Geographical diversification to leverage partner knowledge
1996	Cables	Viakable	Brazil	M&A	Sao Marco	Geographical diversification to access Mercosur market through Brazil
2002	Auto-harness	Arnecom	Nicaragua	GF	Arnecom	Geographical diversification
2006	Auto-harness	Arnecom	El Salvador	GF	Arnecom	Geographical diversification
	Auto-harness	Arnecom	Uruguay	GF	Arnecom	Geographical diversification
	Auto -cable	Arnecom	Nicaragua	GF	Arnecom	Horizontal integration–Value-added product
	Auto-harness	Arnecom	Argentina	GF	Arnecom	Geographical diversification
2007	Auto-harness	Arnecom	Brazil	GF	Arnecom	Geographical diversification
2008	Infrastructure	Infrastructure	Colombia	M&A	Schrader Camargo	Geographical diversification
2009	Transformer	Prolec	India	M&A	Indotec transformer	Geographical diversification to access Asian market
2012	Cables	Viakable	Colombia	M&A	Centelsa	Geographical diversification to access Andean market through Colombia Consolidating market share in Americas

Notes: GF: Greenfield, SA: Strategic Alliance, M&A: Mergers and acquisitions
Source: Adopted from Xignux (2016)

Table II. Selected Xignux's international milestones

manufacture various products such as aluminum engine components, polyester, petrochemicals and cold meats and provide information technology services.

The origins of Alfa can be found in the Monterrey Group Empire, established in 1890 by Isaac Garza Garza, his brother-in-law, Francisco Sada Muguerza and two other partners. Upon founding, steel was the core business of the group. After several decades, in 1973, it was divided into two groups. In 1974, Bernardo Garza Sada became the chairman of *Grupo Industrial Alfa*. The same year, Alfa reached US$194m in sales revenue. It now employs over 60,000 people, 28 per cent of whom are foreigners. They have production facilities in 18 countries with an asset value of US$9.066m, which includes 77 per cent foreign assets. Alfa exports over 60 per cent of their sales (total sales US$15.9bn) to various countries all over the world. As a result, the company possess 0.35 on the TNI (Kunhardt and Gutiérrez-Haces, 2013) (Figure 3).

4.2.1 Internationalization of Alfa. In the period 1974-1998, Alfa consolidated its domestic market position in diversified business units such as petrochemicals, automotive, frozen food and information technology. It also invested and divested the in television, synthetic fibers, capital goods, steel and electricity sectors. From 1998 until today, Alfa continued to internationalize and now operates in 18 countries (Table III).

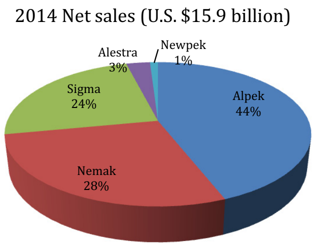
5. Case studies comparison

Both Xigxux and Alfa have specific peculiarities in their internationalization process; however, they also share some traits that are worth highlighting. In the 1970s, 1980s and early 1990s, both companies focused on diversifying the local Mexican market due to the perceived risk reduction that diversification has; furthermore, both companies started an intended internationalization in mid to late 1990s using joint ventures and mergers and acquisitions (M&A) as entry modes. In the case of Xignux, it started its internationalization in the USA with the establishment of sales subsidiary for their cable business. Xignux acquired the commercialization company (Elkins Pro Sales) following the signing of the NAFTA. Meanwhile Alfa decided to penetrate the Andean market through Venezuela.
To increase sales, Xignux leveraged the subsidiary company's commercial knowledge about the local market (USA) and entered the highest number of countries in 2006 via a joint venture (JV) between Xignux and Yazaki (Arnecom), which allowed them to establish in various South American countries. Whereas Alfa entered the highest number of countries, also in 2006 and 2007, involving all of their business divisions. Most market entries in that period (2006-2007) were in Europe with the automotive division and Central America with the food division.

Xignux entered Colombia in 2012 through their cable business to access the Andean region, similarly to their move in India in 2009, which gave them access to the Asian market. Recently, Alfa had notable entries in 2012-2013 that include India, Russia and China, with their automotive divisions (Figure 4).

5.1 Market consolidation

Both Xignunx and Alfa have selected M&A as their preferred entry mode (Figure 5). In Xignux's market consolidation strategy, all of their greenfield (GF) investments outside Mexico are with JV partners. In some cases before they began using M&A as a strategy, Xignux participated as a minority shareholder of the company in which they were interested. This allowed them to study the market and profitability of the business. All of the Xignux's JVs are inwards to Mexico, except their JV with Elkins Pro Sales, USA. All other JVs, including Sara Lee from Spain, Yazaki from Japan and GE from USA, count as inwards JVs,



Source: Adopted from Alfa (2014)

Figure 3.
Sales contributions by individual business unit of Alfa

Table III. Selected Alfa's international milestones

Year	Product	Division company	Country	Entry mode	Company name	Strategy
1974	-	Alfa	Mexico	-	Alfa	The company comprised three subsidiaries: steel, cardboard, and mining
1998	Steel	Hylsamex	Venezuela	Participation	Consorcio Siderurgia Amazonia	Access to the Mercosur market, access to abundant natural resource of Venezuela, geographical diversification
2000	Automotive	Nemak	Canada	M&A	Ford	Entry to new market: access to Canada and USA market Reducing business risk
2001	PET and PTA	Alpek	USA	M&A	Dupont's	Technology acquisition from Dupont's Market consolidation to become second largest polyester producer in the USA
2002	Meat and Cheese	Sigma	USA	Exports	-	Sales unit in the USA to reach customers in Hispanic market in California, Arizona, Texas and Illinois
	Cheese	Sigma	Costa Rica	M&A	Inlatec	
	Meat	Sigma	Costa Rica	M&A	Embutidos Zar	Access to Central American market through Costa Rica Geographical diversification
2003	Meats	Sigma	Dominican Republic	M&A	Checo	Access to Dominican Republic market Geographical diversification
	Meats	Sigma	El Salvador	M&A	Productos Cárnicos	Access to El Salvador market Geographical diversification
	Dairy product	Sigma	USA	Branding	Yocréme	To take advantage of the rapid growth experience in this market Concentric diversification: market penetration through branding
	Automotive	Nemak	Czech Republic	GF	Nemak	Entry to new market: access to the Eastern European market Investment promotion mechanism by Czech Republic Geographical diversification
2004	Meats and cheese	Sigma	Dominican Republic	M&A	Sosúa	Enhancing Central America's market position
2005	Automotive	Nemak	German	Participation	(10 per cent) Rautenbach	Market study before entering the EU market

(*continued*)

Table III.

Year	Product	Division company	Country	Entry mode	Company name	Strategy
2006	Gas and oil	Newpek	USA	JV	Pioneer Natural Resources	Conglomerate diversification: leveraging technology and experience of partners
	Dairy product	Sigma	Central America	M&A	Yoplait franchise	Market penetration through branding and strengthening the position in Central America
	Automotive	Nemak	Norway, Sweden, Austria, Hungary and Germany	M&A	Norsk Hydro	Geographical diversification Consolidating position in auto parts industries in Europe Adding technologies to its already strong portfolio Increasing profits by economics of scale
2007	Automotive	Nemak	China	GF	Nemak	Entry to new market: adding technologies to its already strong portfolio Securing future world power market: to meet growing demand in the China market
	Automotive	Nemak	Argentina, Mexico, Brazil, USA, Poland and China	M&A	TK Aluminum	Acquired key competitors from Europe and the Americas Ten manufacturing plants in Mexico Geographic location: NAFTA trade policy allowed Alfa to export at lower costs Expand its technological assets and confirm its leadership role in the industry Argentina: access to Mercosur market Consolidating position in auto parts industries around the world
	Dairy product	Sigma	USA	M&A	MCA	To increase presence in the Hispanic market.
	PET	Alpek	Argentina	M&A	Eastman's	To access the Mercosur region through the Argentina market
2008	Meats	Sigma	Peru	M&A	Braedt	Entry to new market: access to Andean region through Peru market Geographical diversification: key for Alfa to face the financial crisis and to increase its revenues
	Meats	Sigma	USA	GF	Sigma	Enhancing US market position: to get more product knowledge from local
	Meats	Sigma	Mexico	M&A	Langmont brand	Enhancing leadership position in Mexico: market penetration through branding

(*continued*)

Table III.

Year	Product	Division company	Country	Entry mode	Company name	Strategy
2009	Dairy product	Sigma	USA	Branding	Bel cheese	Expending USA market by leveraging distributor knowledge
2010	Meats and dairy product	Sigma	USA	M&A	Bar- S	US market expansion: continued leveraging on the strengths of their business to report favorable operating and financial results
	Gas and oil	Newpek	USA	JV	Pioneer Natural Resources & Reliance	To develop rapid business growth: leveraging investment and technologies Partnership with experienced partner: seeking new technologies
	Recycling plastic	Alpek	USA	JV	Shaw Industries Group	Horizontal diversification: value-added product to polyester business
2011	Automotive	Nemak	India	GF	Nemak	Entry to new market: to meet the growing demand in the Indian market
	PTA and PET	Alpek	USA	M&A	Eastman chemicals	Acquired the IntegrexTM technology: strong focus on very dynamic consumer markets
	PET	Alpek	USA	M&A	Wellman	To increase sales volume, efficiency, gain additional product flexibility, broaden product range and better serve the needs of customers
2012	Transmission parts	Nemak	USA, Spain and China	M&A	J.L. French	Diversifying product portfolio to utilize the attractive growth in these product market Reducing market risk to secure technology facilitation In China, it is a JV (JL French- Yumei Die Casting)
2013	Dairy product	Sigma	Costa Rica	M&A	Monteverde	Enhancing leadership position in Central America
	Automotive	Nemak	Russia	GF	Nemak	Following the client strategy, following German car makers To meet the growing demand in the Russian market
	PET	Alpek	Russia	JV	JSC United Petrochemical	New entry to Russia: geographical distribution
2014	PET	CablemaPET	Argentina	M&A	CablemaPET	Acquisition of CablemaPET in Argentina

Notes: GF: Greenfield, SA: Strategic Alliance, M&A: Mergers and acquisitions
Source: Adopted from: Alfa (2016)

seeking technical and commercial knowledge from the partners. Xignux also divested some of their business to concentrate on partners that could help make high profits and to focus on their core business.

In Alfa's market consolidation strategy, M&A is also the most common type of entry mode. All of their current businesses, except for their food business, started as JVs with field experts. All of their JVs count as inward internationalization, except their natural gas and oil businesses. If the JV goes well, Alfa then tends to acquire full ownership of the partner. Their entire strategic alliance (SA) is looking to brand their products in international and local markets, particularly in their food business.

In Xignux's internationalization, the GF entry mode counts for 50 per cent of the total. However, all of their GF investments begin with JV (Xignux & Yazaki). Xignux has already divested from their JV with Yazaki. The next most common entry mode is M&A; 75 per cent of their M&A activity has been in South America. This shows that they are very close to the psychic distance. Balance 25 per cent represents the recent entry in India for their transformer business. Their strategic entry to the South America, namely, Colombia and

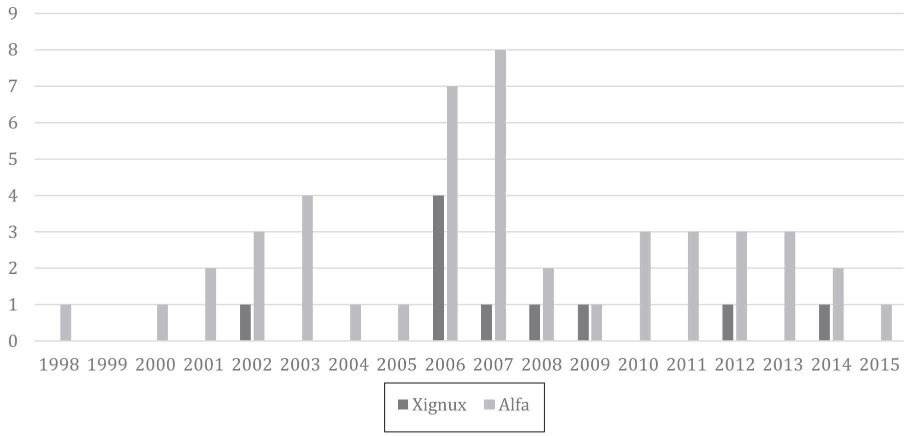


Figure 4. Comparison of number of countries entered per year (1998-2015)

Source: Adopted from Xignux (2016) and Alfa (2016)

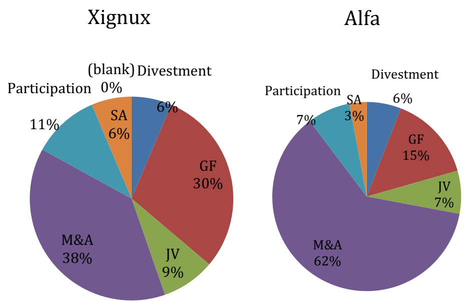


Figure 5. Xignux and Alfa – entry mode to consolidate market (1956-2015)

Source: Adopted from Xignux (2016) and Alfa (2016)

Brazil, helps Xignux overcome the market access barrier of the Andean and Mercosur regions.

In Alfa's internationalization, the M&A entry mode counts for 66 per cent of the total. Around 70 per cent of their M&A have taken place in Americas, involving all of their business divisions. Thirty per cent of their M&A have taken place in Europe and Asia, only involving their automotive industries. Like Xignux, Alfa internationalization is very close to psychic distance. All of their business divisions except food started with a JV with a pioneer in that field. About 80 per cent of their GF investments have involved their automotive industries. This shows Alfa's preferable internationalization entry mode is M&A.

5.2 Family ownership influence

Even though Xignux consolidated their local market share in the period when founder Jorge Luis Garza was the CEO, his son, Eugenio Garza Herrera, graduated from Tulane University, turned the once SME into a business conglomerate in Mexico. His strong educational background supported Xignux's internationalization. In 2012, Eugenio's younger brother Juan Ignacio Garza Herrera became the CEO of Xignux.

Xignux is the only Mexican conglomerate non-listed on the Mexican stock market. Only family members are on the company's board of directors. Xignux prefers to raise capital in the form of debt rather than equity and to have full control of company decisions. Maintaining profit and slow and steady growth, without any major debt issue, even during the world economic crisis and Mexican economic crises, shows the family's commitment to their business.

In 1974, Roberto Garza Sada founded Alfa and his son Bernardo Garza Sada, who was educated at MIT, became the CEO. Mr Garza Sada's focus was on business diversification and market consolidation, and in 1994, he appointed his nephew Dionisio Garza Medina. Mr Garza Sada's strong educational background contributed to Alfa's rapid internationalization. In 2010, Alvaro Fernandez Garza became the CEO of Alfa.

Even though Alfa is listed on the Mexican stock exchange, in its earlier stage of growth, it also preferred to raise capital in the form of debt rather than equity. Alfa faced many financial problems; however, strategies such as recruiting a high number of business school graduates and clear corporate governance policies contributed to their successful internationalization process.

Both conglomerates' first generation of leadership had a keen interest in local market consolidation and product diversification. The second generation showed more interest in continuing market consolidation and internationalization. This supports the facilitative approach by Arregle *et al.* (2016), that FCs have toward internationalization.

It will be interesting to see what the strategy of the third generation turns out to be. Both the conglomerates had a strict policy regarding the appointment of managers, obliging family members to demonstrate their management competencies to gain a leadership position.

5.3 Diversification: Product vs international

Before international diversification, Xignux diversified its product in the home market. All of its product diversification has taken the form of vertical integration, except in their food division. Xignux eliminated all the middle men in their business by forward vertical integration. For example, the acquisition of a commercialization company to sell cables, the acquisition of transformer businesses to sell conductors and the acquisition of infrastructure businesses to eliminate the middle man to sell directly their product to the customer. In the frozen food business, Xignux followed a horizontal integration and diversification strategy to expand their market.

Xignux's business diversification by vertical integration shows that they are linking all of their business. They tend to diversify products based on their existing business knowledge and links and do not fray into businesses where they do not have any previous links.

Alfa also diversified their products in the home market before starting their international diversification. In the initial stage (1974-1994) of their product diversification, their strategy was based on profit. They did not link existing businesses and tended to consolidate the market by horizontal integration. Later (1994-2010), Alfa converted their business model toward value-added products within their commodity business.

Both the conglomerates diversified products in their home markets before beginning international diversification. They utilized their competitive advantages developed in the home market to further their international diversification strategies. Product diversification ended up in succession problems which strike such firms' every generation. Up until early 1990, protectionist policies implemented by the Mexican government also made foreign firms difficult to enter. This too encouraged both firms to diversify their products in their home market, rather than abroad.

5.4 Applicable internationalization theories

Table IV explains several different internationalization theories in relation to Alfa and Xignux's international strategies. Before internationalizing, both companies consolidated

Serial no	Dimensions	Description	OLI framework	Uppsala model	LLL framework
1	Initial internationalization	Start with developed countries/countries with premium currency value	+	N/A	+
2	Internationalization process	Firms gradually intensify their activities in foreign markets (market entry mode)	++	++	-
3	SAs	Using network relationships to enter market (Following the client strategy) and leverage knowledge	+	+	++
4	Psychic distance	Similar characteristic in cultural, social and economic factors ease the internationalization process.	+	++	-
6	Late comer advantage	Using the home source (low wages) to get operation cost benefit	N/A	N/A	+
7	Location advantages	Existence of huge market, special taxes or tariffs government support in particular location	++	N/A	N/A
8	Global innovation	Innovation center presence around the globe	+	N/A	+
9	Internalization	Advantages by own production rather than producing through a partnership arrangement such as licensing or a joint venture	-	+	+

Notes: "++"= Consistent, "+" = Somewhat Consistent, "-" = Not Consistent, N/A = Not Applicable

Table IV.
Xignux and Alfa internationalization strategy vs internationalization theories

their local markets and developed their own firm-specific advantages by partnering with pioneers in particular fields. They then started to internationalize, starting in countries with low psychic distance before moving to countries with higher psychic distance.

It is interesting to note that both firms are preferring business diversification in the local market over internationalizing because of their knowledge of the local networks. Organizational capability developed in the process of business diversification and learning from the cross-functional business helped both conglomerates to successfully internationalize.

6. Conclusion

This section offers a discussion of the results, the implications for research and practice for this research and future research directions.

6.1 Discussion

As discussed in the findings and analysis section, there were several external and internal factors that helped both the conglomerates to become the multilatinas. External factors such as governmental support before 1985, FTAs, closer proximity to the developed countries and less labor costs helped the firms to consolidate their local market presence and also to internationalize. Internal factors such as business diversification, leveraging partner knowledge and full control over decision-making (as a result of being family owned) also helped Xignux and Alfa to internationalize. This study also supports Vila López (2013) findings regarding the influence of size on internationalization, considering the favorable conditions of both Xignux and Alfa as two of the most internationalized Mexican multinational firms (multimexicanas). The findings of this study also support Cuervo-Cazurra (2016), as the characteristics of their home market (Mexico) had influence on their internationalization because of their learning drivers and escape drivers.

As we saw, both firms are in the initial stages of diversifying their businesses in local markets, instead of internationalizing their core business due to their network strengths in their local market. Both companies then consolidated their market positions by joining with strategic partners. This strengthened their competitive position through the transfer of knowledge and technology and also provided them access to large distribution networks in international markets. Another aspect worth noting is the corporate governance policy of both companies. The strict policy followed to appoint managers, which obliges family members to demonstrate their management competency to become the manager, shows the firms' commitment to strong corporate governance.

6.2 Implications for research and practice

This paper provides evidences for a positive international business theory testing of the Uppsala model, OLI paradigm and LLL framework. Both firms followed internationalization strategies similar to those described in the Uppsala model; however, they also followed aspects explained in the LLL and OLI frameworks. Mexico's new trade agreements under negotiation and recent implementation, such as the Pacific Alliance, will give both conglomerates greater access to the international market both in their own region and in more distance parts of the planet.

It was found in this study that sophisticated managerial practices, critical managerial skills and good governance are critical for a successful internationalization. At the end, in the international arena, firms are competing with local and foreign firms from advanced, emerging and developing nations.

Although this paper has as a primary focus international business scholars, it does also contribute to the existing studies on family firms. Furthermore, as it documents and analyzes the successful internationalization, it provides learning lessons for other family firms and companies from emerging and developing markets countries.

6.3 Future research directions

The fact that this paper contributes with confirmation that existing international business theories are sufficient for understanding the strategies and processes of internationalization of this two Mexican family firms does not suggest that using other methodologies (other than case studies), or building new theoretical frameworks is not necessary.

Using either the grounded theory or multiple case methodologies with a larger sample of family firms could help to identify whether the findings presented in this paper have a strong country-effect, and it could help to identify patterns to explain the success of these firms in international markets. Furthermore, an ethnographic research could dramatically enrich the results of this study, as it would provide insightful information of the decision-making process and learning lessons from failures.

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