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Financing the Internationalization of Spanish Industrial SMEs, 1980-2000: The Case of the Grifols Group

La financiación de la internacionalización de
las PYMES industriales españolas, 1980-2000: el
caso del Grupo Grifols



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I. INTRODUCTION

Mainstream theories of international business usually assume that firms entering foreign markets have some strategic resources in terms of ownership of particular technologies, brands and/or organizational knowhow about the competitive advantages derived from internalizing operations in other countries (Cano-Kollmann et al., 2016). Less often, international business studies pay heed to the financial resources required in the process of internationalization. When financial studies and international business studies cross-fertilize, their focus of attention tends to be the large corporation and the most recent period of globalization, deregulation and global movements of capital (Lazonick, 2010; Oxelheim et al., 2012; Berghoff, 2016).

Small and medium-sized enterprises (SMEs) are not large firms on a small scale, but companies that have their own idiosyncrasies (Hollenstein, 2005). This can explain, for example, the resistance of many SMEs to the expansion if it means a loss of control for the



EXECUTIVE SUMMARY

There is not enough research on the role played by finance in the expansion of industrial firms, especially in the case of small and medium-sized enterprises (SMEs), which, since the 1980s, have had to face the challenges of the internationalization spurred on by the Second Globalization. In this article, we explore the subject through the Spanish case during the period 1980-2000 and offer new information extracted from databases and a relevant case study: the financial background behind the transformation of the Grifols Group from a medium-sized business into a large global corporation. According to our research, the “pecking order” induces the increasing reliance of large firms on public funding, which means more bank credit available for the SMEs. From the study of the Grifols case we learn that to have a strong international partner eases the access to credit for the SMEs.

RESUMEN DEL ARTÍCULO

No hay suficiente investigación sobre el papel desempeñado por la financiación en la expansión de las empresas industriales, especialmente en el caso de las pequeñas y medias empresas (PYMES) que, desde el decenio de 1980, han tenido que hacer frente a los retos de la internacionalización exigida por la Segunda Globalización. Este artículo constituye una aproximación al problema a través del caso español en 1980-2000, ofreciendo nueva información extraída de bases de datos y de un caso de estudio relevante: las claves financieras de la transformación del Grupo Grifols desde un negocio de tamaño mediano a una gran corporación global. De acuerdo con nuestra investigación, el funcionamiento del “*pecking order*” hace que las grandes empresas se alejen de la banca y haya más crédito bancario para las PYMES. El caso Grifols demuestra que ir acompañado de un socio internacional fuerte facilita el acceso al crédito de las PYMES.

founding partners, who, in many cases, are linked by kinship ties (James, 2006; Kobrak and Bunkanwanicha, 2013). However, the Second Globalization, which started in the 1980s, with its integration of markets across the world, has forced many SMEs to consider internationalization as the only way to survive in the new scenario. As internationalization is the most expensive formula for company growth, the issue of funding has become decisive (Beck et al., 2013; Sist, 2014).

The financing of a company is based on equity and debt. Today, it is accepted that there is a “pecking order”: companies start off with a preference for growing on their own resources and when these become insufficient they opt first for debt and then for equity (Myers, 1984; Baskin and Miranti, 1997). SMEs have always had problems with financing because they have been viewed as opaque and weak enterprises compared with larger ones (Berger and Udell, 1998 and 2006). If resources are requested for internationalization, these problems become more serious because the SME will be exploring *terra ignota*, facing unknown competitors and unknown institutional frameworks. At the dawn of the twenty-first century, international organizations began to become aware of the importance of supporting the internationalization of SMEs, helping them to solve many problems, especially “the shortage of working capital to finance exports” that was identified as the first barrier (OECD, 2009, Table 1; see also European Commission, 2014).

In this article, we will provide new information on the process of internationalization of Spanish manufacturing SMEs and the role played by difficulties in accessing finance, a relevant issue that has deserved the attention of the international economic organizations. The period of study is 1980-2000, starting with the outbreak of the Second Globalization and ending with the implementation of the euro that transformed European financial systems. We adopt as methodology a business history approach, providing new unpublished historical archival evidence on the subject and presenting a relevant case study: the transformation of the Grifols Group from a medium-sized firm into a large globalized corporation in the two decades between 1980 and 2000. We will end with some lessons for SMEs that are planning to face internationalization.

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2. THE INTERNATIONALIZATION OF INDUSTRY DURING THE SECOND GLOBALIZATION, 1980-2000: THE SPANISH CASE

The oil crises of the 1970s initiated a process of decline in the entire European manufacturing sector that has not yet ended. However, this decline has been compatible with the growth of some European industrial firms through exports and even their transformation into multinationals. This transformation has been very difficult for SMEs. In 2010, only 2 percent of European SMEs had recorded FDI (European Commission, 2014). However, it is true that some of them followed the pattern of large firms and as a distinguished scholar stated: “The reality of a vibrant, internationally competitive sector of relatively small family firms in Spain stands in stark contrast to the traditional complaint of economic historians, policy-makers, and labor leaders alike that the lack of true entrepreneurs and the small size or *raquitismo* of Spanish firms have retarded the country’s development” (Guillén, 2005, 40-41; on the successful internationalization of some Spanish family firms, see Puig and Fernández Pérez, 2009; Fernández Pérez and Lluch, eds., 2015). The problem with some of these investments in internationalization would be unveiled some years later with the outbreak of the Great Recession: they had been accompanied by a high level of borrowing that would represent a heavy burden in depression times (Maudos and Fernández de Guevara, 2014).

However, the scholar was essentially right. In the Second Globalization era, we can identify a new generation of industrial SMEs whose strategies have been recorded since 1990 by the Sociedad Estatal de Participaciones Industriales (SEPI) Foundation’s *Encuesta sobre Estrategias Empresariales* (ESEE, or Survey on Business Strategies) (see www.fundacionsepi.es). The ESEE is based on a questionnaire with more than 100 questions answered by about 1,800 companies with 10 or more employees. The ESEE differentiates between SMEs and large companies, the latter being those with more than 200 employees. The survey gathers information about the variables that determine the competitiveness of Spanish manufacturing companies, including, of course, access to funding.

With the help of the ESEE database, we can see that the process of internationalization of Spanish manufacturing firms became significant after the entry of Spain into the European Economic

KEY WORDS

Internationalization, finance, small and medium-sized enterprises, Spain.

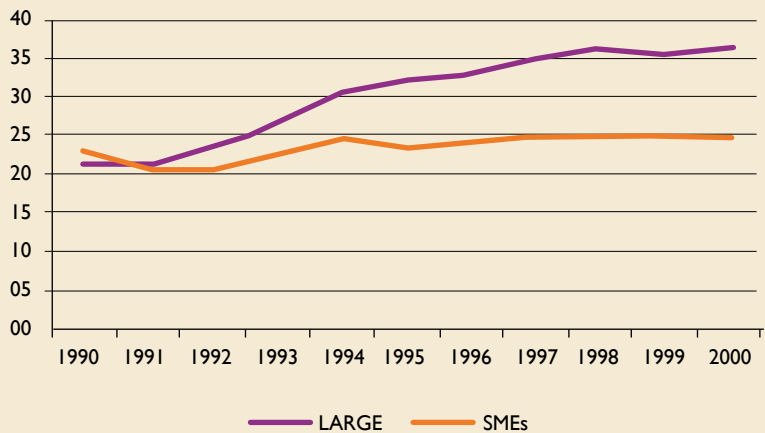
PALABRAS CLAVE

Internacionalización, financiación, pequeñas y medianas empresas, España.

Community (EEC) (1986) and for all types of businesses (**Figure 1**). In the 1990s, large companies outpaced SMEs in the conquest of foreign markets. By 2000, more than 35 percent of the sales of large companies were heading abroad, while SMEs were struggling to overcome the 25-percent barrier. In both cases, what would spur their exports would be the outbreak of the Great Recession in 2008. Spain has been hit very hard by this crisis and the contraction of the domestic market has led all kinds of companies to ensure their survival by selling in foreign markets. However, SMEs are still much less internationalized than large companies, as predicted by basic economic theory (the lower productivity of SMEs is understood as a severe hindrance).

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Figure 1. Exports over total sales for Spanish manufacturing firms, 1990–2000 (percent)



Source: Compiled by authors using data from the ESEE database.

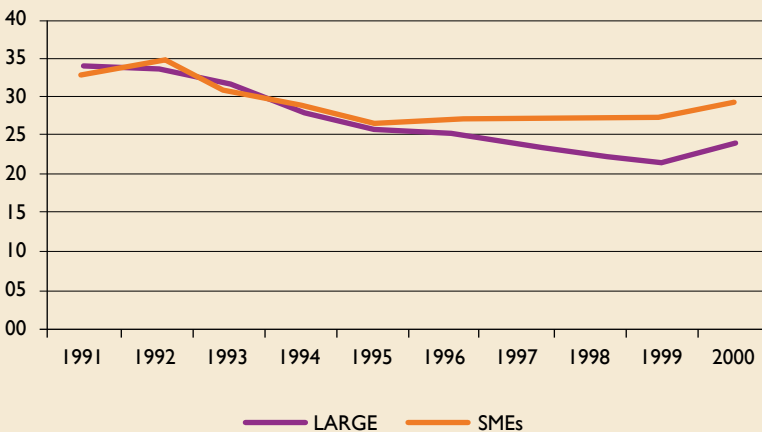
All business expansion needs financing. There are no sources providing detailed information on how internationalization was financed, but it is clear that during the Second Globalization era this was the most important form of expansion. If we study access to financing during this period, we can discover answers as to how companies funded the most decisive challenge of the late twentieth and early twenty-first century: internationalization. In **Figures 2 and 3**, two of the most characteristic features of such funding are shown using information from the ESEE database.

On the one hand, there was a decline in the importance of banks as a source of funding for manufacturing companies, especially with regard to large companies. In the growing recourse to equity, a very active role began to be played by investment funds for large enterprises and venture capital firms for SMEs (Maroto and Melle, 2000; Salas, 2013).

In the early 1990s, SMEs reduced their dependency on banks at the same rate as large companies, but since then the process has been reversed and the gap in bank financing between large enterprises and SMEs has widened.

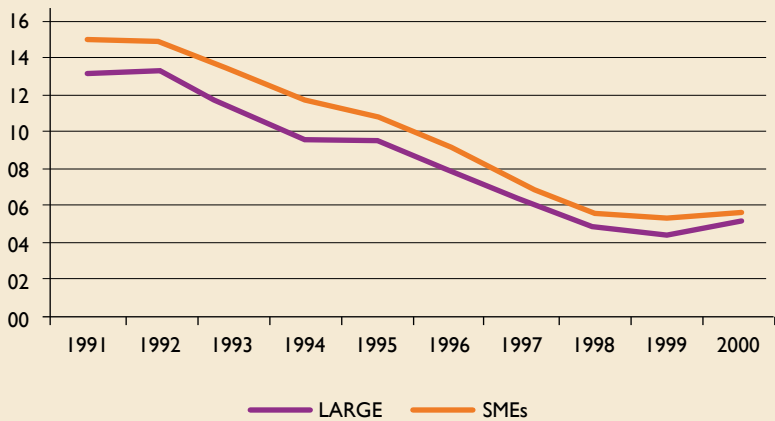
On the other hand, there is an element that remains the same: SMEs have continuously suffered higher bank financing costs (interest rates plus commissions) than large firms, which has contributed to their lower competitiveness and, probably, to their lower level of internationalization. In any case, in the twenty-first century, the characteristic loose monetary policy of the Eurozone has placed these costs at very low levels for all kinds of firms. By combining the increased availability of credit (in part due to large firms turning away from banks) with the maintenance of low costs, we can understand how access to finance has been reduced in its significance among the problems of European SMEs (see Survey on the Access to Finance of Enterprises or SAFE database at www.ecb.europa.eu).

Figure 2. Bank financing over external resources for Spanish manufacturing firms, 1991-2000 (percent)



Source: Compiled by authors using data from the ESEE database.

Figure 3. Cost of long-term bank loans for Spanish manufacturing firms, 1991-2000 (percent)



Source: Compiled by authors using data from the ESEE database.

Another source for analyzing the financing of industrial enterprises in the late twentieth century is the Central Balance Sheet Data Office (CBSO) database created by the Bank of Spain in 1983 to compile and store economic and financial information on the activities of Spanish non-financial companies in order to obtain a better understanding of this subsector (the CBSO can be found at www.bde.es). At the European level, other central banks advanced in the same direction, enabling the recent creation of the BACH (Bank of the Accounts of Companies Harmonized) database, which has gathered historical annual data since 1990 (see www.bach.banque-france.fr).

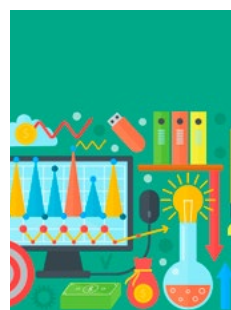
Information from the databases is homogeneous and has been available on the Internet since 2000. The previous period (1983-2000) was the subject of a study where, above all, the authors tried to determine if the liberalization of the financial system that characterized those years had led to changes in the financial structure of Spanish companies (Muñoz Porcar and Rosell Martínez, 2002). It was a period of expansion marked by the incorporation of Spain into the EEC (1986), which accelerated trade flows and the transformation of a group of Spanish companies into multinationals, operating mainly in Latin America. The authors of the study found that in the CBSO database SMEs were abundant (87 percent in 1997), although their contribution to total GVA was very low (15.6

percent in 1997) (Muñoz Porcar and Rosell Martínez, 2002, 185). They understood correctly that it was necessary to separate SMEs from large companies in order to properly address the issue.

The results left no room for doubt. The liberalization of the financial system had very soon led to a loss of weight of institutions versus markets, but this sort of diversification had benefited only the large companies. SMEs continued to have difficulties in accessing any type of outside funding: “this evidence suggests that the SMEs group is affected by financial restrictions, so that its growth should be in line with the generation of internal resources” (Muñoz Porcar and Rosell Martínez, 2002, 204, own translation).

The analysis of sources of funds indicated that “large companies get most of their funding from external sources and in particular through the contributions of shareholders (20-30 percent), while in small businesses it is the financing of credit institutions that represents a more stable percentage of the total investment. Also relevant is the minor importance of financing through bonds, not only for small businesses but also for the large ones” (Ibid.). The work ended by claiming that “large Spanish companies have accessed this market [the stock market] to finance a substantial portion of the investments they have made in their internationalization process” (Muñoz Porcar and Rosell Martínez, 2002, 205, own translation).

Case studies provide an in-depth way to approach the complexities of the trajectory of Spanish industrial SMEs. In the following section, a chronological overview of the history of growth and internationalization of Grifols is presented in order to illustrate how the restrictions of the Spanish economy influenced changes in the financial strategies adopted by a medium-sized company that undertook commercial activities and investments abroad. This is a success story because Grifols evolved from a small family-owned laboratory run by two people in 1940 to one of the top three global corporations in the plasma industry in the 21st century, within a context of flexible adaptation to the financial resources available to SMEs in Spain in the period under analysis.



3. GRIFOLS: THE SECOND STAGE, 1980-2000

Laboratorios Grifols S.A. was a medium-sized company between 1960 and 1982, and a global corporation investing abroad after 1982. The company has published three books about their history of technological innovation (Grifols, 2000; Grifols Lucas, 2012; Grifols, 2015), but very little is known about the financial drawbacks they had to face in their history of growth and internationalization, accelerated after the 1980s.

The company was registered in Barcelona in 1940, focused on clinical analysis. It was established by a graduate in Medicine, José Antonio Grifols Roig, in partnership with his wife, Magdalena Lucas. An analysis of the economic data and the business strategies to grow and invest abroad has been possible with access granted to original archival material and interviews with the financial staff in the Grifols archives in Barcelona and Sant Cugat del Vallés: the Historical Archive of the Museu Grifols (HAMG) and the Historical Archive of the Grifols Headquarters (HAGH).

Very early on in the late 1940s and above all in the 1950s, the Grifols family established and consolidated commercial contacts with North American corporations that were leaders in hospital supply equipment and plasma derivative production. Dade Reagents Inc. (DR) of Miami, Florida, was their first partner. DR produced blood serums and solutions and their exclusive distributor in the United States in the 1950s was American Hospital Supply (AHS). In 1956, DR became a subsidiary of AHS. Soon afterwards, in 1960, the joint venture Dade Grifols was forged. This joint venture facilitated regular imports of much-needed reagents and solutions and the beginning of regular exports of plasma products from the Grifols blood bank and Laboratorios Grifols to the United States and Sweden up until the late 1960s. Between 1961 and 1966, exports represented more than half the total sales of the Grifols firms. The good times ended abruptly due to a regulatory change. In 1965, a Spanish law prohibited the export of human blood products and Grifols exports to the United States and Europe gradually declined and disappeared after 1968 - the prohibition lasted until the last days of Francoism.

The firm could well have disappeared at that moment, due to threats in their domestic market from negative new regulation and the pressure of big local competitors (particularly, Hubber, owned by Felix Gallardo). The choice was disappearance, or growth. The energy and self-confidence in the historically accumulated internal

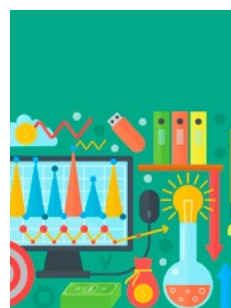


technological and scientific know-how of an outward-looking family made the second decision be the final one. But the family lacked financial and organizational resources to grow, or strategic know-how of global markets where the small lab could find alliances they could not find at home.

Dade Grifols increased much needed financial resources the small lab could not obtain at home due to the above obstacles and their small size. Also, the alliance contributed intangible assets which were expensive and difficult to obtain at home: the professionalization and modernization of production and distribution facilities, following North American models, which reduced losses throughout their value chain. The North American partners accepted the Grifols' policy of restricting and limiting the distribution of annual dividends, maintaining profits for the firm's internal reserve. This allowed the accumulation of internal resources that allowed the construction of a brand new factory in Parets del Vallés in the last years of the 1960s, with reduced exposure to bank loans.

The second generation of the Grifols family, with Víctor Grifols Lucas at the head, was responsible for the first steps in internationalization during Francoism. After Franco's demise in 1975, the third generation of Víctor Grifols Roura followed the family tradition of strategic alliances with leaders in their field and in 1982 sealed a new alliance with Alpha Therapeutic Corporation (ATC), the North American subsidiary of the Japanese global Green Cross Corporation. After 1975, and particularly after 1982, mass production techniques, global channels of distribution, long-term capital invested by foreign banks and investors and professional managers in business administration were introduced very rapidly.

The partnership with ATC represented a radical change in the company's international department. Víctor Grifols Lucas and his son, Víctor Grifols Roura, travelled to China in 1983, the first year of the partnership, to start exports in a country where they had no idea how to do business. The Green Cross Corporation, owner of ATC, asked Grifols to export their plasma products together with Grifols' own products to China - at that time Japanese blood products were forbidden in China. From 1983 to 1985, the Grifols entrepreneurs learnt how difficult it was to find even a secretary through the embassy to start the paperwork to establish a commercial representative and to export to China, and experienced great organizational difficulties of every kind. After 1982, when news



of the AIDS epidemic started to spread, with recommendations from the American Food and Drug Administration to heat blood stocks, China increased controls and stopped imports.

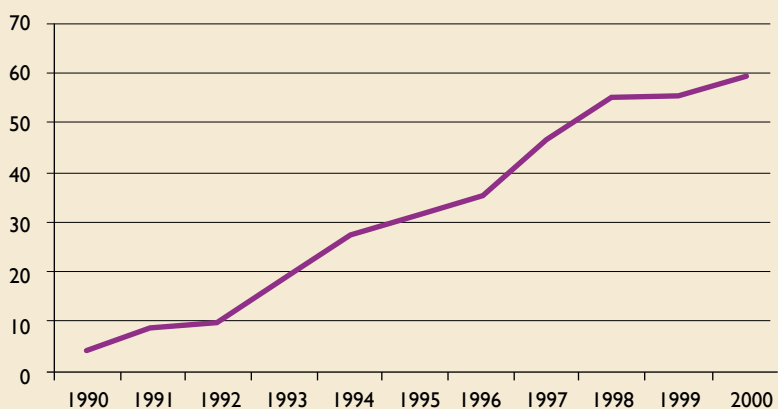
In 1989 the name of the joint venture was established as Alpha Grifols. ATC is also very significant for understanding two key elements of the 1980s and 1990s (their relationship ended in 1999): (i) the fast speed of the joint venture's acquisitions and foreign direct investment; and (ii) its privileged contacts with foreign banks that provided huge amounts of external capital with which to finance international expansion and modernization in production, distribution, and the managerial professionalization of the group. As the statistical information indicates, it was during the joint venture with ATC that three new focuses were added to the Grifols Group's previous trajectory: these were (i) long-term capital endowment from outside sources; (ii) huge investments in Europe, America, and Asia; and (iii) a rapid decline in the percentage of sales represented by the Spanish market in the structure of the group's total sales (**Figure 4**).

New premises, companies, and acquisitions evolved as follows: Portugal (1988), Argentina (1991), Mexico (1993), Germany/Italy/United Kingdom (1997), Brazil (1998), and Slovakia/France (1999). In 1999, ATC and Grifols ended their joint venture due to a combination of problems related to a broader crisis affecting the Green Cross Corporation in Japan and its subsidiaries in Europe, and to disagreements about how to manage the uncertainty of the first years of the AIDS epidemic in the industry (from a technical point of view). After their friendly separation, Grifols felt strong enough and with enough resources and know-how to go it alone and invested in subsidiaries in Malaysia in 2003, in Poland in 2004, and in the United States in 2006, in representative offices in Japan in 2006 and in China in 2007, and in more subsidiaries in Switzerland in 2009 and in Colombia and Nordic countries in 2010. 2011 was the year of their large acquisition of Talecris in the United States for around 3,000 million US dollars, which was followed in 2014 with some assets from Novartis Diagnostics and in 2015 by the purchase of 45 percent of Alkahest, both also in the United States. In recent years, beyond the United States, Grifols has increased its presence in Canada and Ireland.

Information from the corporation reveals that long-term sources of external capital played an increasingly relevant role in financing,



Figure 4. **Grifols' Exports/Total Sales ratio, 1990–2000 (percent)**



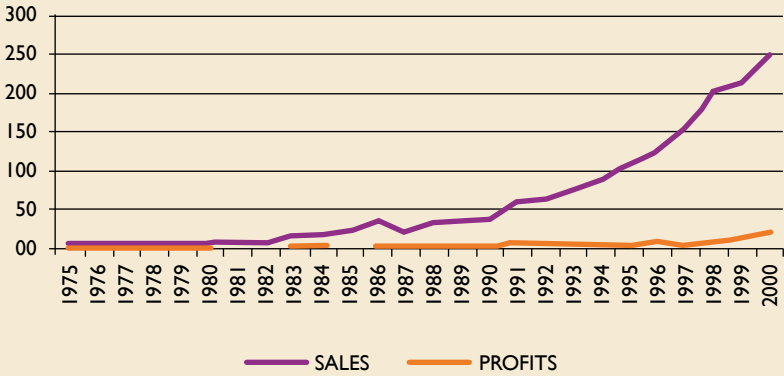
Source: Compiled by authors using data from the HAMG

innovations and patents, and acquisitions abroad. Internal resources became insufficient and syndicated bank loans, with a combination of local and foreign banks, made their appearance (**Figures 5 and 6**). After 2006, when Grifols was listed on the Spanish stock market, more dispersed investors contributed external capital to the group from all over the world.

As a result of the speed and extent of the Grifols Group's internationalization, exports rapidly increased, representing 96 percent of total sales in 2015 in comparison to only 4 percent of total sales in the early 1980s. It was a radical change in the structure of the destination market for the business's sales. Also, the partnership with ATC granted Grifols leadership in the Spanish blood derivatives market in the 1980s, which coincided with a process of concentration of human blood industries in Spain.

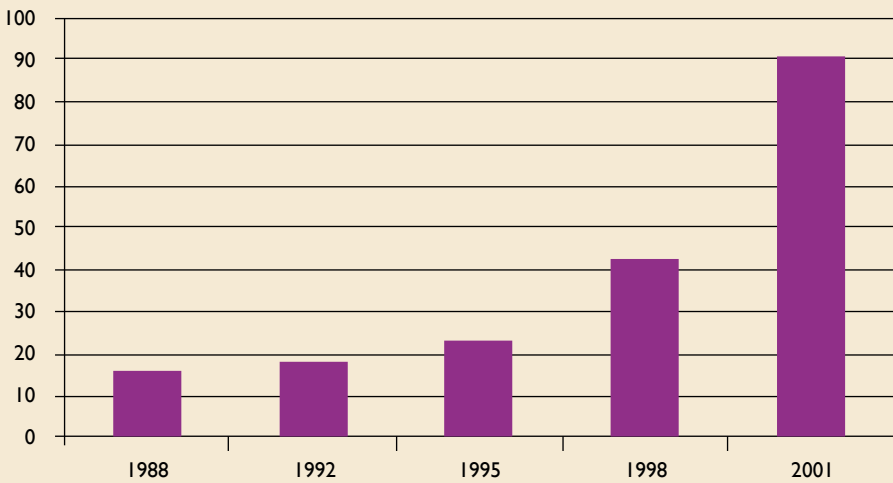
The partnership with ATC ended in 1999 but the Spanish financial and commercial departments of Grifols had by then learnt how to co-operate as a global corporation. During the first 15 years of the twenty-first century, staff graduated in business and economics in local institutions received fast practical training in how to export worldwide, how to operate with European and North American corporations, and how to obtain licenses in the toughest pharmaceutical markets of the world where the highest return on investments could be obtained. The accumulation of lessons and resources among Grifols' human capital also meant a capacity

Figure 5. Grifols' sales and profits, 1975–2000 (millions of euros)



Source: Compiled by authors using data from the HAMG.

Figure 6. Amount of Grifols' syndicated bank loans, 1988–2001 (millions of euros)



Note: 1988: 15.0 million euros for five years with Lloyds Bank leading a group of 18 banks; 1992: 17.4 million euros for three years and three months with Lloyds Bank and the Bank of Tokyo leading a group of 15 banks; 1995: 22.5 million euros for five years with Caixa de Barcelona and Deutsche Bank leading a group of 18 banks; 1998: 42.1 million euros for six months with Deutsche Bank and BBVA leading a group of 20 banks; 2001: 90.0 million euros for five years with BBVA, Deutsche Bank, Banc Sabadell, Banco Urquijo, Banesto, the Bank of Tokyo, and HSBC leading a group of 38 banks.

Source: Compiled by authors using data from the HAMG.

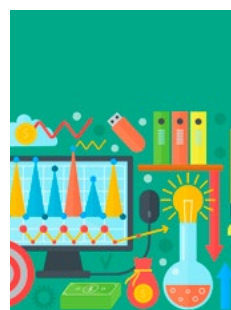
to deal with global sources of financing for internationalization, throughout the years when deregulation and the globalization of finances offered many opportunities for global investment and funding. Grifols had enough strength to take advantage of the new abundance of opportunities to access capital and to invest in tough markets, and it did so in Western Europe and the United States first and later also in Asia.

4. CONCLUSION

Very few studies in business history have paid attention to industrial SMEs' difficulties in accessing finance, a key element for their expansion, especially abroad. This is the major original contribution of this paper, which combines a general approach to new sources on investment policies in industry in the Spanish financial system with a case study approach looking at the history of internationalization and the financial options of Grifols, a small lab that became the third largest global corporation in plasma derivatives in the first decade of the twenty-first century.

After the oil crises, the withdrawal of active industrial policies that concentrated the resources in the large firms, the Spanish incorporation into the EEC (1986), and the processes of the Second Globalization provided new opportunities for SMEs, improving their access to finance and internationalization. According to the "pecking order" model (Myers, 1984), this new financing came essentially from financial institutions (banks), because the financial markets remained beyond the reach of most SMEs. A factor that allowed more bank loans for SMEs was the preference of large firms for equity over debt. Thus, the rise of the big Spanish multinationals in the 1990s was mainly funded through financial markets. In this new context, SMEs became more attractive to banks.

The Grifols case illustrates how in the second half of the twentieth century an innovative medium-sized Spanish firm was able to transform itself and grow, from a small family business, into a medium-sized firm, and finally into a true global corporation investing abroad, despite the above mentioned financial restrictions. New evidence from archival sources suggests that Grifols is a good example of the importance of the life cycle of the firm in internationalization processes (Sist, 2014). The opportunity to supply specialized products, not provided by large public and private



companies, to the increasing number of public and private hospitals in Spain after the 1960s required new resources: technology, organizational know-how and capital. These resources were sought among leading corporations in the United States, with whom the small lab signed joint venture agreements and technological and commercial alliances in the 1960s and the 1970s.

The new partners served as a type of business school for Grifols, helping it go beyond exports and to decisively start ambitious foreign investment activity in Europe, Latin America, North America, and Asia after the 1990s. In this “growth stage” (Sist, 2014) of the group’s life cycle, Grifols demanded larger and more long-term stable sources of outside capital than what had been required before. Grifols’ access to external finance followed the general “pecking order” model (first debt, then equity), with syndicated bank loans playing a crucial role.

The main lesson of this paper is that the setting of an appropriate relationship between an SME and a strong foreign partner can be a way to overcome the difficulties for the SMEs to raise funds from the banks in order to launch a process of internationalization. That relationship works as a “seal of approval” that eases the financing of the SME’s projects.

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NOTES

1. Acknowledgment: Paloma Fernández acknowledges financial support for the research and writing from one of the first *Ayudas a la Investigación en Socioeconomía* of Fundación BBVA (2014-2016). Also, she acknowledges an agreement of confidentiality with the Grifols corporation through which she has received access to the Grifols Historical Archives and interviews with Víctor Grifols Roura, Nuria Pascual, Eduardo Herrero, and Rosa Avella. The usual disclaimer applies.

José Luis García Ruiz was supported by the *Ministerio de Economía y Competitividad* grant number HAR2014-51871-R.

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