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FAMILY FIRM INTERNATIONALIZATION: HERITAGE ASSETS AND THE IMPACT OF BIFURCATION BIAS

Liena Kano * and Alain Verbeke**

*Assistant Professor of Strategy and International Business
Haskayne School of Business,
University of Calgary,
Calgary, Alberta, T2N 1N4, Canada
Email: liena.kano@haskayne.ucalgary.ca
Tel: (403) 220-2993
Fax: (403) 282-0095
And Alan M. Rugman Visiting Fellow, Henley Business School,
University of Reading, United Kingdom

**Professor of International Business Strategy
McCaig Chair in Management
Haskayne School of Business,
University of Calgary,
Calgary, Alberta, T2N 1N4, Canada
Email: averbeke@ucalgary.ca
Tel: (403) 220-8803
Fax: (403) 282-0095
And Adjunct Professor, Solvay Business School, University of Brussels (VUB),
Belgium
And Inaugural Alan M. Rugman Memorial Fellow, Henley Business School,
University of Reading, United Kingdom

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Abstract

Plain language summary:

Family firms are susceptible to *bifurcation bias* – a default preferential treatment of family members and resource bundles that hold positive emotional meaning to the family, i.e., *heritage assets*. Such preferential treatment contrasts with that afforded to professional, non-family managers and other resources, with which the founding family does not entertain a positive emotional connection. If left unremedied, bifurcation bias will lead to poor decisions in family-owned multinationals that undertake international expansion, in terms of the choices of which markets to enter and how to enter these. These types of dysfunctional decisions will lead to a decline in competitiveness as compared to non-family multinationals. Family firms should therefore identify and actively prevent bifurcation bias, by implementing the specific safeguarding strategies suggested in this study.

Technical summary:

We develop a new conceptual framework to uncover governance-related determinants of family firms' internationalization, building upon internalization theory. We assess how family firm governance features determine internationalization patterns on two key dimensions: location choice and operating mode. We focus on family governance characteristics that might drive sub-optimal internationalization patterns, and on removing such sub-optimality. We conclude that *bifurcation bias*, defined as the *de facto* differential treatment of family or *heritage* assets versus non-family assets, represents a critical family-firm specific barrier to achieving efficiency in international operations. In the short run, the key difference in international governance is between bifurcation-biased family MNEs and all other types of MNEs. In the longer run, inefficient, bifurcation biased decision making will make place for comparatively more efficient governance.

INTRODUCTION

Much empirical research on firm internationalization has focused either on publicly listed companies with dispersed ownership and control, or on international new ventures run by entrepreneurs. In contrast, family firm internationalization has attracted comparatively little attention, perhaps with the exception of business groups from emerging economies. For example, between 1991 and 2008, only 17 studies analyzing internationalization of family firms were published in core journals in family business and entrepreneurship (Kontinen and Ojala, 2010), which constitutes less than 1% of the content published in these journals.

The extant research on family firms, conducted mainly from agency and socio-emotional wealth (SEW) perspectives, has focused predominantly on determining whether family firms are more or less internationalized than their non-family counterparts (Banalieva and Eddleston, 2011). This past work can be broadly divided into two research streams (Arregle *et al.*, 2016): studies exploring family firms' reluctance to internationalize (see also Claver, Rienda, and Quer, 2009; Gomez-Mejia, Makri, and Larraza-Kintana, 2010), and studies emphasizing features of family governance that facilitate internationalization (Gallo and Pont, 1996; Nordqvist, 2005; Miller, Le Breton-Miller, and Scholnick, 2008). Given this dichotomy in conceptual starting points, it is not surprising that the overall empirical results of these studies are ambiguous. For example, several scholars (e.g., Fernandes and Nieto, 2006; Graves and Thomas, 2006; Gomez-Mejia *et al.*, 2010) have shown that the family firms in their samples were less internationalized than non-family ones. Others (Zahra, 2003; Hennart and Majocchi, 2013) have reached the opposite conclusion. To further complicate the matter, some studies found no substantive difference between internationalization levels of family versus non-family firms (Pinho, 2007; Cerrato and Piva, 2010), and other ones observed a non-linear relationship between family ownership and internationalization (Sciascia *et al.*, 2012).

We argue that the issue of whether or not family firms, in general, are more or less internationalized than non-family ones, is an empirical and conceptual non-starter. Empirically, Arregle *et al.*'s (2016: 23) large-scale meta-analysis has convincingly demonstrated that 'the association between a firm's ownership (i.e. family vs. nonfamily) and internationalization is null.' Differences in how to operationalize both family firm governance and level of internationalization, possibly account for some of the discrepancies in the outcomes of past family firm internationalization research. However, a more substantive reason for the lack of consensus, as suggested in a number of recent studies (Arregle *et al.*, 2016; Calabrò *et al.*, 2012; Sciascia *et al.*, 2012, 2013; Pukall and Calabrò, 2014) could be an omitted variable bias (Bennedsen and Foss, 2015), or, specifically, a failure to account for the vast heterogeneity in: (1) family firm features, resources and practices (De Massis, Di Minin, and Frattini, 2015), the quality of strategy execution (Majocchi and Strange, 2012), as well as the way these firm-level variables influence internationalization (Arregle *et al.*, 2012, 2016); and (2) the specific contexts, both domestic and international ones, within which family firms operate (Wright *et al.*, 2014; Carney, Gedajlovic, and Strike, 2014; Cruz *et al.*, 2014).

This issue of heterogeneity is unlikely to be fully resolved through additional empirical evidence – rather, we first need to conceptualize appropriately the linkages between features of family firm governance and successful internationalization. To this end, several scholars have made noteworthy strides in exploring nuances of family firm internationalization. For example, Graves and Thomas (2008) take an in-depth look into family firms' internationalization pathways and identify three key determinants of family firm internationalization patterns: level of commitment, financial resources available, and the ability to develop capabilities necessary for expansion. Banalieva and Eddleston (2011) analyze the impact of family leadership in family firm international diversification, and show that family firms with non-family leaders achieve higher performance with higher levels of globalization (defined as relative presence in the three regions of the *triad* of Europe, Asia and the Americas, see Rugman and Verbeke, 2004), while family firms with family leaders outperform their non-family-leader rivals when pursuing a home-region focus. Arregle *et al.* (2012) investigate the relationship between board governance practices in family-controlled firms and the scale and scope of internationalization, and find that open governance practices (i.e. involving external, non-family actors in governance) increase host market penetration, but decrease international diversification. Majocchi and Strange (2012) argue that family firms' internationalization patterns are determined by the firm's resources and capabilities, its ownership structure, and, most importantly, the management's ability to execute an international strategy. Most recently, Arregle *et al.* (2016) have shown how the level of family members' presence in ownership and top management, geographic scope of foreign direct investment (FDI), shareholder protection strategies and country-level institutional context, affect family firm internationalization. Still, to the best of our knowledge, no *integrative* theoretical framework, focused on comparative efficiency outcomes, currently exists to explain *how* governance practices in family firms influence internationalization behaviour, and *how* internationalization patterns of family firms might differ from those of their non-family counterparts[1].

In this study, we take this research agenda a step further, in response to Arregle and colleagues' call to explore how family firms manage unique challenges of internationalization, and how their international strategies compare to those of non-family owned competitors. Specifically, we argue that in order to truly understand internationalization of family firms (defined here as firms where family is involved in critical decision making through ownership, leadership, or both, in accordance with Bennedsen and Foss, 2015), and to arrive at actionable recommendations for managers, we need to explore whether family firms pursue different international growth paths, in terms of location choices, operating mode selection and internalization of cross-border activities. In actionable terms, this means

[1] Case in point – Majocchi and Strange and Arregle *et al.* arrived at opposite conclusions regarding the influence of board openness on international diversification. Majocchi and Strange found that Italian family firms with more open boards were more internationally diversified, whereas Arregle *et al.* showed that external involvement constrained international diversification in their sample of Swedish family firms.

reflecting on whether any unique governance features might motivate/determine their internationalization decisions and patterns. It also means investigating whether any family firm-specific governance barriers can hinder successful internationalization, and how these can be removed.

To address these research questions, we take a micro-foundational, international business-centric perspective, currently lacking in research on family firm internationalization – with the exception, perhaps, of a recent large-scale study by Pukall and Calabrò (2014). These authors integrate the family business paradigm of socio-emotional wealth (Berrone *et al.*, 2012; Gomez-Mejia *et al.*, 2007) with the Uppsala model of internationalization (Johanson and Vahlne, 2009) to categorize family firms' international expansion behaviour. While a commendable effort to bring an international business (IB) perspective into family business research, and to explain variations in family firm internationalization patterns, the study leaves open the question of the fundamental difference between family versus non-family based governance as affecting internationalization.

We adopt the internalization theory perspective (Buckley and Casson, 1976) –as an expression of comparative institutional analysis (Hennart, 1994)– as our conceptual starting point. Internalization theory links micro-level detail of managerial decision-making determining firm-level governance with external context, and is therefore suitable for addressing the above-mentioned heterogeneity issues, both at the firm and macro levels. We focus specifically on the idiosyncratic nature of firm-level governance practices, including family firms' capacity to manage *bifurcation bias* – a dysfunctional bias characteristic of family firms, brought about by differential treatment of family-based or *heritage* assets versus non-family assets (Verbeke and Kano, 2012). In this study, we extend Verbeke and Kano's initial conceptualization of heritage assets to non-human resources, and define these as a class of assets (including here physical assets, foundational product lines and locations, routines, network relations, etc.) that have a special meaning for a family, and therefore trigger preferential treatment. We look at how features of family governance, in terms of the presence of absence of bifurcation bias, affect and shape family firms' internationalization, and identify how variance in family firms' management practices affects specific internationalization decisions[2].

The remainder of the paper is organized as follows. *First*, we outline key internalization theory tenets relevant to our study. *Second*, we review the concept of bifurcation bias as introduced by Verbeke and Kano (2012) and further develop it in the family firm internationalization context. *Third*, we apply internalization theory principles to formulate testable propositions on how bifurcation bias affects specific family firm internationalization decisions, i.e. choices pertaining to location choice and operating mode. *Fourth*, we discuss safeguards available to family firms to economize on bifurcation bias. We conclude with implications and directions for future research.

INTERNALIZATION THEORY AND FAMILY GOVERNANCE

Internalization theory is an expression of comparative institutional analysis, which has a number of branches (including Williamsonian transaction cost economics –TCE – theory, see Williamson, 1981, 1985, 1996). In its most contemporary iteration, internalization theory combines TCE, resource based and entrepreneurial dimensions (Buckley and Casson, 1976; Narula and Verbeke, 2015). As applied in firm-level studies, internalization theory builds on the premise that economic actors will, in the longer run, select and retain comparatively more efficient governance mechanisms to conduct cross-border economic exchanges (but in the short to medium run, structural inefficiencies can prevail). More

[2] In this study, we focus on firms engaged in foreign direct investment (FDI), defined as allocation of resources by a multinational enterprise in a host country with the purpose of directly engaging in business activities in this host country while retaining strategic control over these activities (Verbeke, 2013). This focus largely excludes pure exporters from the analysis. While we realize that many family firms, especially small and medium sized enterprises (SMEs), rely on exports as a mode of operating in a host country, our interest here is mainly in: (1) large multinationals; and (2) internationalization decisions that involve significant capital budget allocations, expose family firms to multiple dimensions of distance, and cause them to face dilemmas and circumstances radically different from those experienced domestically. Our logic here is similar to that adopted by König, Kammerlander and Enders (2013) in their exploration of the family innovator's dilemma. König *et al.* explore how idiosyncratic characteristics of family governance affect adoption of fundamentally new, discontinuous technologies; we explore how idiosyncratic characteristics of family governance fundamentally affect FDI decisions associated with operating in host countries.

specifically, economic actors will select *economic institutions* (markets versus firms versus clans), as well as *coordination and control methods* (e.g., the price system versus hierarchy versus normative integration) that are comparatively more efficient for organizing a given transaction or set of transactions (Hennart, 1993).

Internalization theory therefore offers an explanation for the existence of firms: firms are purposefully created when able to organize economic exchange more efficiently than other governance forms, especially (external) markets. Important in the context of strategic management is the view of the firm as not only a nexus of contractual relationships linking various resource owners, but also as a governance form specialized in value creation through resource recombination, whereby survival, profitability and growth result primarily from choosing the appropriate, economizing mix of internal contracts and contracts with actors outside of the firm's boundaries. This mix of contracts may need adjustments over time as a function of *changed circumstances*, i.e., changes in transaction characteristics, as a result of environmental changes such as demand uncertainty, technological uncertainty, etc. and/or economic actors' decisions, such as an intentional shift towards higher or lower usage of dedicated assets, etc. (compare with Hennart, 1994). In the context of family MNE governance, efficiency arises from choosing an economizing mix of contracts (both internal and external) with individuals and entities *within versus outside of the family*, adjusting this mix appropriately to host country circumstances, and finding the optimal level of dedicated asset deployment. The critical decisions on the selection and retention of the most efficient forms of governance can be summarized as follows:

1. Establishing boundaries of the firm – that is, the *make or buy* decisions (Grøgaard and Verbeke, 2012), or establishing which economic activities should be performed inside the firm, and which should be conducted outside of the firm in the external market;

2. Organizing the interface with the external environment for the *buy* activities, i.e., activities transacted in the external market; this may involve choosing among short- and long-term contracts, strategic alliances of different forms etc.;
3. Organizing *make* activities, i.e., activities performed inside the firm; this involves such decisions as the choice of an organizational structure and administrative relationships, establishment of incentive systems, etc. (Grøgaard and Verbeke, 2012).

Given the three sets of decisions defined above, the comparatively more efficient governance mechanisms are those that, on balance, will allow for:

1. Superior economizing on *bounded rationality* of economic actors involved in activities; bounded rationality refers to economic actors' behaviour that is '*intendedly* rational, but only *limitedly* so' (Simon, 1961: xxiv), meaning that human actors have a limited capacity to process information, address complexity, and make optimal choices;
2. Superior economizing on *bounded reliability* of economic actors involved in activities; bounded reliability refers to economic actors' behaviour that is *intendedly* reliable, but only *limitedly* so (Kano and Verbeke, 2015) and explains instances of commitment non-fulfillment and failure to make good on open-ended promises in an organizational setting;
3. Creating a favourable organizational context for *value creation through purposive resource recombination*, thereby serving the firm's survival, profitability and growth (Verbeke and Kenworthy, 2008).

As such, firms (both family and non-family ones) will internationalize when facing opportunities for value creation abroad if they can achieve the requisite economizing on bounded rationality and bounded reliability, and resource recombination across borders. Here, family governance is not necessarily a comparatively superior governance form (or even one equal to other forms) to accommodate international expansion: family firms are likely to face unique bounded rationality and bounded reliability challenges, associated *inter alia* with supposedly high levels of family-based asset specificity (denoted below as the family firm having *heritage assets*) and the related potential for *bifurcation bias*.

BIFURCATION BIAS

Family-based human asset specificity and *bifurcation bias*

Bifurcation bias is a unique, affect-based barrier to short and medium run efficient decision making in family firms, which manifests itself in two simultaneous, diverging patterns of behaviour toward family versus non-family assets, applied systematically and by default. Verbeke and Kano (2012) discuss bifurcation bias in relation specifically to human assets in the professionalized (Chua, Chrisman, and Sharma, 2003) family firm. They argue that in a bifurcation-biased firm, family members employed by the firm are *de facto* treated as heritage assets, reflecting supposed uniqueness and a high potential for value creation, and as loyal stewards to the firm, regardless of their actual level of commitment and potential contribution to value creation. Non-family employees (e.g. professional managers), on the contrary, are perceived by default as generic or commodity-type assets/self-serving agents, again regardless of their actual level of commitment and potential contribution to value creation. Bifurcation bias is thus a unique expression of bounded rationality and trigger of bounded reliability in a family firm. *First*, when applied systematically and by default, it interferes with the objective, comparative assessment of governance alternatives, since decisions follow an *affect heuristic* rather than rational economic logic (a bounded rationality problem). *Second*, resulting dysfunctional decisions may erode the firm's performance because practices in the realm of hiring, promoting and rewarding are biased against non-family members. The ultimate outcome may be severe bounded reliability, detrimental to the firm's survival, profitability and growth.

Naturally, not all family firm are bifurcation biased. However, they are inherently more susceptible to systemic bifurcation bias than Chandlerian hierarchies, where any biases are more localized within the organizational structure and typically more prone to observation and correction. Therefore, from a managerial perspective, family firms need specific mitigation strategies to economize on possible bifurcation bias (compare with Williamson's, 1993, logic on safeguards against opportunism of economic actors).

***Bifurcation bias* and family firm business literature**

While the concept of bifurcation bias is relatively new in family firm business research, it builds upon – and overlaps with– several established constructs in this field of inquiry, such as non-economic goals and SEW (and the related 4 C's framework, see footnote 3). In this section, we discuss the relationship between bifurcation bias and these extant constructs, and clarify the difference between them.

Bifurcation bias and non-economic goals. Family business scholars widely acknowledge the presence of non-economic, as well as economic, objectives in family firms (Chrisman, Chua, and Sharma, 2005; Gomez-Mejia *et al.*, 2007; Memili *et al.*, 2011). It has been recognized that these economic and non-economic goals are intimately intertwined in family firms (Chrisman *et al.*, 2015b; Chua, Chrisman, and De Massis, 2015): family firm managers' behaviour can be simultaneously influenced by multiple (and often conflicting) objectives, which ultimately shape firm-level strategic actions (De Massis *et al.*, 2016a; Kotlar and De Massis, 2013). This conflict lies at the heart of potential dysfunctional strategies that may lead to negative impacts on the firm. Following Verbeke and Kano (2012) and Miller *et al.* (2015), we distinguish between functional (i.e. compatible with economic value creation) and dysfunctional (i.e., leading to economic value destruction) non-economic goal pursuit. Miller *et al.* (2015: 21) label these distinct pursuits of non-economic objectives as 'creating an evergreen organization' versus 'feeding parochial family desires,' respectively. The former, while also contributing toward the family's SEW and various relevant family-centric values such as reputation, preservation of relationships etc., ultimately serve the business' survival, profitability and growth (complementarity effect); the latter cater to family-centric preferences at the expense of the business' economic health, and manifest themselves in such dysfunctional practices as nepotism, entrenchment, asymmetric altruism, misuse of corporate resources etc., whereby heritage assets are prioritized by default (substitution effect). We agree with Miller *et al.*'s assessment that the two types of non-economic goal pursuits are mutually exclusive, even though a grey area may exist where it is difficult in practice to assess the functionality or dysfunctionality of prioritizing heritage assets. From hereon, we operate under the assumption that a family firm's functional, non-economic goal pursuits are complementary to its economic goal seeking, while dysfunctional non-economic goal pursuits at least partly substitute for trying to achieve economic goals, and constitute an expression of bifurcation bias. In other words, a family firm pursuing non-economic goals may be free of bifurcation bias, as long as the non-economic goals fall into the 'evergreen organization' category, meaning that their pursuit is accompanied with the (boundedly) rational evaluation of strategic alternatives in terms of their contributions to efficiency goals.

Bifurcation bias and SEW. The term *socio-emotional wealth* (SEW) was coined by Gomez-Mejia *et al.* (2007) to explain family firms' risk preferences, and encompasses family firms' desires to cater to such non-economic preferences as keeping the firm in the family, exercising continued personal control, belonging to a clan, maintaining affection and intimacy, and establishing a reputation for the family (Gomez-Mejia *et al.*, 2010). The concept has been widely used in family firm research to explain family firms' diversification decisions (Gomez-Mejia *et al.*, 2010), innovation strategies (Miller *et al.*, 2015; Patel and Chrisman, 2014) and internationalization levels (Gomez-Mejia *et al.*, 2010)[3].

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[3]A related/overlapping concept is the 4 C's framework (Miller and Le Breton-Miller, 2005, 2006). The 4C's framework could be seen as a predecessor of the SEW concept. It outlines four distinct priorities ascribed to successful family businesses: (1) continuity; (2) community; (3) connection; and (4) command. The 4 C priorities include sets of practices geared at enduring relationships in–and outside of–the firm, and favour long-term success over short-term transactions and rewards. Importantly, the bundles of 4 C's are frequently found in successful family businesses, but are largely absent in failing

Bifurcation bias is distinct from SEW in that it highlights a dysfunction that can be brought about by the excessive, affect-driven focus on socio-emotional preferences that go against the (boundedly) rational assessment of available alternatives. Unbiased firms may still pursue socio-emotional preferences, but ones of a functional, 'evergreen' kind discussed above, whereby family desires do not prevent the family from building a robust business. The core distinction between a bifurcation biased family firm and an unbiased one is thus not the presence or absence of SEW pursuit *per se*, but rather the presence or absence of a *de facto,* systemic and dysfunctional prioritization of SEW and associated heritage assets (including practices/routines), as opposed to evaluating strategic alternatives guided by economizing principles. The latter would actually favour alternatives (e.g., investment projects) prioritizing heritage assets, if such alternatives were to serve survival, profitability and growth.

Two core components of SEW deserve special attention. First, a family's desire for control has often been argued to lead this family to maintain the status quo in terms of diversification and expansion strategies (Gomez-Mejia et al., 2007); in the context of family firm internationalization, this means that control-seeking family firms would pursue lower levels of international expansion. We argue that the decision to maintain control is in itself subject to bifurcation bias, particularly in instances where continued family control is detrimental to the firm's survival, profitability and growth. The struggling Canadian aerospace giant Bombardier is a case in point. Analysts maintain that the company's structural underperformance is due largely to incompetent management by the controlling family. It is estimated that Bombardier received at least five contributions from the federal government between 1996 and 2009, ranging between \$35 million to \$190 million, plus another \$350 million more

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ones. We argue that the 4 C's can coexist with unbiased practices in a family firm, to the extent that they do not promote dysfunctional attachment to existing family related resources / create mental model rigidity in key decision makers.

recently through a special program to support Bombardier's CSeries jet (Owram, 2016). In its latest brush with bankruptcy, Bombardier requested a billion-dollar government bailout. Yet, the family was not willing to give up control and accept restructuring of its dual-class shares as a condition for financing, and as a result had to accept a significantly smaller government loan (Marowits, 2017; Van Praet & Five, 2016). The continuous infusion of government capital has not helped – Bombardier continues to experience massive cost overruns, and is presently being challenged by competitors for benefiting from improper government subsidies (Marowits, 2017). Bombardier's biggest problem is that it is locked into dysfunctional governance, whereby its dual-class share structure insulates the company from governance accountability and limits access to outside investment. The Class A special voting shares carry ten votes per share, versus one vote per share for every Class B share. The special Class A shares represent 53.4% of the voting rights and are controlled by eight members of the founding Bombardier-Beaudoin family (Currah, 2016). This makes Bombardier dependent on government financing to attract customers: Customers are not willing to invest in large-scale capital projects without the assurance of financial solvency, while equity investors are deterred by the fact that their votes can be cancelled by unequal voting rights for different classes of shares. Bombardier's continued reliance on government funding creates a vicious cycle of dependency. Government funding comes with conditions that jobs remain in the country, however, to efficiently compete globally, Bombardier needs to move manufacturing to lower cost locations. Over the past five years, Bombardier's stock prince has declined more than 75% (Yakabuski, 2017). As of the last shareholder vote in May, 2017, the founding family still holds five out of fourteen seats on the Board (Remiorz, 2017). Meanwhile, the patience of the Canadian public is wearing thin. The future of Bombardier is presently unclear.

The above represents an example of a dysfunctional priority placed on continuity of control, at the expense of governance efficiency/accessibility to capital. On the other hand, a company may desire continued control, yet subject key strategic decisions to unbiased scrutiny. Control and unbiased managerial practices are not mutually exclusive, as long as continued family control is accompanied by economizing behaviour.

Second, a foundational component of SEW is transgenerational continuity. It has been argued that family firms prioritizing transgenerational continuity exhibit superior performance in the long run (Miller and Le Breton Miller, 2005, 2006), invest more in R&D and reap more long-term benefits from innovation (Chrisman and Patel, 2012). Yet, a desire for transgenerational continuity can be subject to bifurcation bias. Pursuit of transgenerational continuity will serve long-run survival, profitability and growth only when companies economize on bifurcation bias through targeted education and training of successors, as is the case in U.S.-based consumer goods multinational Johnson & Johnson (Verbeke and Kano, 2012). Conversely, indiscriminate prioritization of transgenerational continuity of control can lead to bad management and consequent decline in productivity, profitability, growth and survival rate. Bloom and Van Reenen (2006) measured management practices in 732 manufacturing firms in the U.S., France, Germany and the U.K., and found that poor management practices are particularly prevalent in subsequent generation *primo geniture* family firms, or family firms that pass management control to the eldest son. In their subsequent work, Bloom and Van Reenen (2010) demonstrated that these substandard management practices invariably affect firm performance and, ultimately, survival. As such, transgenerational continuity may have a positive or negative impact on the firm, depending on the quality of governance.

To summarize the link between SEW and bifurcated family firm practices, we see SEW as the source of a governance paradox in the family-owned MNE. On the one hand, desire for continuity of family ownership and control has been demonstrated to lead to positive entrepreneurial outcomes, as discussed above. On the other hand, SEW promotes emotional ties to heritage assets, and can create mental model rigidity in family firms, which may slow down innovation recognition (König *et al.*, 2013). Here, the unique, SEW-related features of family firms are not good or bad *per se*– rather, their ultimate outcome is a function of proper governance. The great paradox of SEW is that *unqualified, biased* promotion of heritage assets will ultimately fail future family generations in terms of both economic and socio-emotional wealth preservation.

Non-human assets subject to *bifurcation bias*

As mentioned above, heritage assets can be both human and non-human, and include, *inter alia*, family members, physical assets, foundational product lines and locations, investment projects, processes, routines and network relationships. Heritage assets are contrasted with non-family assets. Bifurcation bias occurs when (1) family-related assets are systematically treated as *heritage*-type assets, i.e. as unique and valuable, while (2) non-family assets are systematically branded and treated as *commodity*-type assets[4], i.e., as generic and easily accessible in markets.

Consider the following example: Gina Rinehart, the chair and majority owner of the Australia-based mining giant Hancock Prospecting, is embarking on an ambitious, expensive and risky new project. Australia's wealthiest woman, who inherited the company from her father Lang Hancock, has commenced the development of her own iron ore mine, in a quest to fulfill her own and her late father's life-long ambition. Up until this point, Hancock Prospecting has been earning revenues by claiming royalties on iron ore tenements owned and operated by other mining companies. Critics argue that the timing of the investment could not be worse: driven by a cooling global demand for iron ore and a consequent sharp decline in iron ore prices, most mining companies are attempting to slash costs and halt new developments. Some analysts predict that the mine is unlikely to turn in a profit; yet, Rinehart

[4] In this context, the notion of commodity assets, as a generic type of assets that is easily accessible by the firm and does not contribute to superior economic value creation, is not to be confused with the concept of commodity as typically employed in global value chain research, where it refers to easily standardized, codifiable processes that can be outsourced to external partners without loss of value. In this study, 'commodity' assets in bifurcation biased firms are the opposite of heritage assets, and represent all non-family assets treated rightfully or wrongly as generic and easily accessible by the founding family.

is determined to achieve her father's vision, and is forging ahead against advisors' warnings – and in spite of a lawsuit initiated by her children, who fear that the strategy will erode shareholder wealth (Smyth, 2014).

Here, we have a case of a romantic, dynasty-centric vision inherited from an admired founder and father, taking precedence over rational economic logic. The project is at an early stage, and the outcome is unclear; yet, even if the mine should eventually become profitable, analysts see the $11 billion investment as a gamble, and it is fair to conclude that the investment decision is a bifurcation biased one.

Literature on family firm resources describes many compelling examples of heritage assets prone to bifurcation bias. Most recently, Holt and Daspit have discussed the 'inflexible attachment to existing assets and strategies' (2015: 83) characteristic of family firms. Bennedsen and Foss (2015) describe instances of excessive and dysfunctional loyalty to *special* stakeholders such as workers, communities, suppliers, investors and strategic partners, based on affect, family history and even religion.

There is, of course, nothing intrinsically wrong with prioritizing valuable heritage assets, over generic, non-family ones. Dysfunction arises when the assets are wrongly valued, i.e., when the uniqueness and value creating potential of heritage assets is overestimated and that of alleged commodity assets underestimated. From a dynamic perspective, the problem may be that heritage assets that have lost their earlier uniqueness and value creating potential as a result of a changing competitive landscape, new technological developments or increasing organizational complexity, are still perceived as the jewels in the crown they once were. If a family firm is unable to recognize the changing nature of the value of its heritage assets, these assets may quickly turn into liabilities (Bennedsen and Foss, 2015). This is particularly likely in the context of international expansion and particularly FDI, where host environments are uncertain, challenges unexpected, and managerial processes complex (Arregle *et al.*, 2016; Verbeke and Kano, 2012).

Bifurcation bias and internationalization

From the internalization theory perspective, value creation across borders hinges on a multinational enterprise's (MNE's) ability to recombine successfully its extant firm-specific advantages – FSAs (meaning resource bundles that supposedly provide competitive advantage vis-à-vis relevant rivals) with new resources in geographically dispersed host environments (Verbeke, 2013). Specifically, this may mean that the MNE must both upgrade its extant resource bundles to transfer and deploy these successfully across borders, and recombine these upgraded bundles with accessible host country resources, to create new FSAs in international markets. Bifurcation bias inhibits such recombination in a number of ways.

First, FSA transferability and deployability can be overestimated as a result of the bifurcation bias. It must be noted that MNEs (both family and non-family) in general could be prone to a *global illusion*, namely overestimation of the global transferability and deployability of their FSAs. Such global illusion is particularly problematic when heritage assets are involved, if overestimated based on affect rather than rational evaluation.

Second, MNEs will internalize their cross-border transactions when knowledge-market imperfections can be more efficiently overcome through internal production as compared to other governance alternatives, i.e. open market transactions (Buckley and Casson, 1976). Here again, a bifurcation biased MNE will overestimate the need to internalize activities involving heritage assets, by focusing excessively on the need for family control, and underestimate the need to internalize activities associated with perceived commodity-type assets (similarly, by failing to acknowledge their contribution to value when used internally). This faulty assessment of how assets should best be utilized, will lead to suboptimal decisions on both the timing of internalization and operating mode choice in host markets.

Third, the very selection of a host market, ideally achieved through a comparative assessment of host country location advantages in relation to the MNE's internationalization motives, may be compromised in a bifurcation biased firm. Here, the supposed location advantages embedded in destinations desired by specific family members may be overestimated.

Fourth, requisite bundling of heritage assets that represent extant FSAs, with local resources in host countries (Hennart, 2009) will face more barriers in a bifurcation biased firm. Here, amoral familism (defined as dysfunctional distrust of outsiders, see Banfield, 1958) will prevent family firms from seeking and engaging complementary resources of external actors.

The above challenges are exacerbated by compounded distance (Rugman, Verbeke, and Nguyen, 2011) between home and host countries, defined as the simultaneous and interrelated influence of four dimensions of distance: cultural, administrative (institutional), geographic and economic (Ghemawat, 2001). As compounded distance increases, so do knowledge requirements and managerial complexity, putting further strain on a family firm's ability to manage bounded reliability and bounded rationality.

In the following section, we draw on internalization theory to engage in a detailed assessment of bifurcation bias' effect on family firms' internationalization decisions and patterns, in particular with respect to host country location and operating mode. We formulate three sets of testable propositions, and illustrate the relevance thereof with real-life examples of family-based MNEs.

BIFURCATION BIAS AND THE ESSENCE OF INTERNATIONAL GOVERNANCE DECISIONS

The current lack of a parsimonious, generalized explanation of the influence of family governance features on internationalization behaviour can be remediated by focusing on the concept of bifurcation bias. We recognize that family firms do vary greatly on multiple dimensions, including their desire for control, long-term orientation, degree of family involvement, risk propensity etc. In this study, we focus specifically on family firms' inherent propensity toward bifurcation bias, and argue that from a micro-foundational perspective, this bias presents a barrier to efficient international expansion. We would like to reiterate that, while family firms are more prone to bifurcation bias than firms with dispersed ownership, not all family firms are bifurcation-biased. As such, our particular conceptual development broadly compares bifurcation-biased family firms to all other firms, whether family-owned or with dispersed ownership. We realize that this broad-brush dichomitizing may be controversial, but it does serve two purposes: 1) it moves away from across the board claims about family firm internationalization, and 2) it suggests a credible, theory-based determinant of family firms' actual behaviour in the realm of international governance, while recognizing that other variables will also affect this behaviour.

Two caveats must be noted. *First*, managers in non-family MNEs will not always make optimal decisions, and can indeed display nepotism, affect, and other biases. Nor is bifurcation bias the only potential decision-making fallacy to be found in a family MNE. Several barriers to efficient decision-making in the short to medium run, caused by bounded rationality and bounded reliability of managers, are particularly relevant in the context of international strategic governance for all types of multinationals. For example, the efficiency of international expansion decisions can be impaired by headquarters managers' *global illusion* (mentioned above), or vast overestimation of the enterprise's 'FSAs' global transferability, deployment and profitable exploitation potential' (Verbeke and Kano, 2016: 86), as compared to these FSAs' value-creation potential at a (home) regional level. The global illusion can affect the MNE's entire reservoir of assets. Bifurcation bias, on the contrary, leads to the incorrect assessment of FSAs, based on their family (i.e., heritage) versus non-family (i.e., supposedly commodity type) status. While the *global FSA* illusion creates *de facto* barriers to efficient FSA exploitation abroad, it is not family-firm specific and therefore is not explored in detail in our model.

Other potential dysfunctional behavioural characteristics include, *inter alia*, self-interest seeking, time discounting bias, self-assessment bias, and identity-based discordance – descriptors of bounded reliability of managers (both family and non-family) likely to lead to inefficient outcomes (Kano and Verbeke, 2015). All firms must address dysfunctional governance caused by a variety of fallacies, but only family firms must deal with the dysfunctional effect of bifurcation bias on international governance decisions. This effect, summarized in Figure 1, is the focus of the present study.

(Insert Figure 1 about here)

Second, bifurcation bias is not equally damaging in all industry or country contexts, and it is not always observable. For example, in business environments characterized simultaneously by institutional uncertainty and hyper-competition, family firms are known to rely exclusively on family members for important transactions. Ilias (2006) describes the plight of surgical instrument manufacturers in Sialkot, Pakistan. The industry is highly fragmented, hyper-competitive, and characterized by a practice of predatory client poaching. With little institutional protection and low legal enforceability, family firms are forced to rely exclusively on insiders to avoid opportunistic *expropriation* by outsiders. Here, relying on family over outsiders is not an expression of a bifurcation bias, but rather a rational response to the characteristics of the business environment. However, this strategy only works until the firm grows in size beyond the confines of the family, or until complex managerial and technical skills become necessary in order to compete successfully, or until a *de-facto* trusted family member cheats. In environments characterized by technological or managerial complexity, the presence of bifurcation bias as a default decision-making principle, will likely prove damaging. Therefore, our focus here is on larger MNEs that must formally address the challenges of multilevel resource allocation processes and operate in technologically and/or managerially complex environments, where bifurcation biases are simultaneously more damaging and more observable, and where safeguards against it are supposed to have significant economizing effects. These boundary conditions are in line with König *et al.*'s (2013) study of innovation in family firms.

Based on the above reasoning, we argue that non-bifurcation biased family MNEs will pursue internationalization patterns similar to those of MNEs with dispersed ownership:

Proposition 1a

There is no generic difference between international expansion decisions in family versus non-family MNEs, in terms of host location and operating mode choices.

However, bifurcation biased, family MNEs will make suboptimal governance choices, as compared to both unbiased family MNEs and non-family MNEs, due to their propensity to overestimate systematically the value creation potential in international markets of FSAs derived from heritage assets, and to undervalue assets seen as commodity-type:

Proposition 1b

Bifurcation biased family MNEs will make suboptimal international expansion decisions compared to non-bifurcation biased family MNEs and non-family MNEs, in terms of host location and operating mode choices.

Proposition 1c

Bifurcation biased family MNEs' choices of host location and operating mode will vary depending on whether FSAs to be deployed abroad involve heritage assets or commodity-type assets.

Deviation from efficiency in family firms occurs precisely when bifurcation bias strikes, introducing dysfunctional, affect-based decision-making. This affect-based dysfunction represents family-firm specific barriers to successful internationalization.

We proceed to discuss specific instances of dysfunctional choices, e.g., choosing economically suboptimal locations and over- or under-estimating tradability and transferability of the firm's assets. The following propositions distinguish between international governance choices made by bifurcation biased MNEs versus all other types of MNEs (both family and non-family).

Host country location selection

An MNE's host location choice is a function of specific features of a host environment relative to the MNE's internationalization motive. Location advantages must also be assessed relative to strengths of other host environments and be accessible/usable by the MNE (Chen, 2005; Hennart, 2009; Verbeke, 2013). In the context of location choices, conventional internalization theory applications focus mainly on comparative costs of contracting for manufacturing in host locations (Buckley and Casson, 1976). However, contemporary scholarship suggests that a wider range of host market characteristics must be considered, including the strength of labour and financial markets and the nature of demand (Chen, 2005; Khanna, Palepu, and Sinha, 2005). Further, location advantages have owners and may be costly or difficult to access (Hennart, 2009). Depending on the ease and cost of adaptation of an MNE's own FSAs, accessibility of complementary assets held by external actors in the host country may be of critical importance to the internationalizing MNE. Internalization theory suggests that the MNE will evaluate potential host markets based on the comparative cost of FSA adaptation requirements and the comparative cost of access to complementary assets held by third parties, and will enter into host countries characterized by comparatively lower costs on both dimensions (Grøgaard and Verbeke, 2012).

However, internationalization pathways of family firms are influenced by family-firm specific factors (Graves and Thomas, 2008): in a bifurcation-biased MNE, these factors will override efficiency considerations to the detriment of business needs. For example, family firms may seek out host locations that 'feed parochial family desires' (Miller *et al.*, 2015: 21), instead of engaging in a *parallel* planning process to select locations that simultaneously meet the family's non-economic goals and the firm's long term economic goals (Carlock and Ward, 2001; Graves and Thomas, 2008). One manifestation is the rise of a *quality of life seeking* motive for international expansion, in addition to traditional internationalization drivers of market seeking, efficiency seeking, strategic asset seeking and natural resource seeking (Dunning and Lundan, 2008), whereby internationalization decisions are driven primarily by family members' personal preferences and/or the presence of family networks in potential host locations. Quality of life seeking as a sole driver of international expansion could be particularly dysfunctional if tied to powerful and influential actors in a family firm. Graves and Thomas (2008: 161) discuss a conflict between personal versus company vision of internationalization in Bookworks, a U.K.-based publishing and media company:

> '*…one in particular had his own ambition of what he personally would like to do. And this was a personal wish about where he wanted to be, not where the company should be.*'

In 1995, Tavazo Iran Co., a third-generation Tehran-based family company producing and retailing gourmet dried nuts and fruit, undertook its first international expansion and formed its Canadian subsidiary, Tavazo Canada Co. The reason for choosing Canada was simple: Canada promised an attractive quality of life for the family (specifically, a stable political and economic environment and good education for children) and had a business immigration program that allowed the family to relocate; personal connections in Canada made the relocation feasible. Twenty years later, Tavazo exports its products globally, yet has no FDI outside of Canada. Other locations, such as the United States, Germany, Sweden and the United Kingdom, could offer attractive expansion targets due to potential product demand from large Iranian diasporas, appropriate infrastructure for manufacturing, storage and distribution, and relatively low competition in Tavazo's market niche. Yet, the family is not willing to delegate subsidiary management to a family outsider, but prefers to keep the reins in the hands of three Tavazo brothers. With one of the brothers running the Iranian operation and the other managing Tavazo Canada, only one additional location is possible, at least until suitable heirs come of age. The specific choice of the location is contingent on the Tavazos' ability and desire to make that location home (Eghbali-Zarch and Beamish, 2011).

We would like to reiterate that there is nothing wrong, generally speaking, with pursuing the family's SEW through growing the family business – as long as this pursuit does not create significant limitations to the firm's survival, profitability and growth, which naturally hinge on economic efficiency. The Tavazo brothers' location choice –perhaps in part by chance, or perhaps because the politically and economically stable societies the family was seeking are usually characterized by a business-friendly infrastructure– had a number of positive characteristics and enabled successful exploitation and diffusion of the company's FSAs. After the initial *quality of life seeking* screening, Tavazo did consider comparative characteristics of various host market options (Canada versus the U.S.), including the presence of significant local competitors, the size of the Iranian diaspora, access to distribution and government regulations on sales. Yet, further expansion is likely hindered by the family's biased perception of host location options.

It is, of course, possible that powerful managers in non-family MNEs would also pursue personal objectives through international expansion. Literature on emerging market multinational enterprises (EMNEs) provides multiple examples of EMNEs' (publicly held, privately owned or state-owned) expanding abroad to facilitate managers' desire for prestige, personal enrichment or tax evasion (Huchet and Ruet, 2009; Kuznetsov, 2010; Verbeke and Kano, 2015). Yet, family firm owners are largely acknowledged to have greater discretion over strategic decision-making than top managers in MNEs with dispersed ownership (Chrisman *et al*., 2015a), who are likely subjected to more formalized decision processes and/or board and shareholder scrutiny. Therefore, we conclude that family firms are more likely to both intend and actually pursue quality of life through international expansion, as expressed in the following proposition.

Proposition 2a

When evaluating host country locations for international expansion, bifurcation-biased family MNEs are more likely to prioritize quality of life seeking over market seeking, efficiency seeking, strategic asset seeking and natural resource seeking than non-bifurcation biased family MNEs and non-family

MNEs.

Further, location choices will be affected by the type of FSAs deployed. Bifurcation biased firms' inflexible attachment to heritage assets will drive them to prioritize locations allowing full control of such assets, e.g. countries where macro-level regulations on foreign investment allow for 100% ownership of subsidiaries. Deployment of non-family, supposedly commodity-type FSAs, on the other hand, is likely to invite less scrutiny, compared to heritage FSAs. Commodity-type FSAs' second-tier status may lead to faulty valuation, especially if scarce managerial resources are directed at protecting heritage FSAs. The value creation and capture potential of unique, yet non-family based assets may go unrecognized. This is particularly relevant in the context of cross-border internalization versus outsourcing decisions, which are related to location choices. The danger here is that insufficient considerations of tradability of the firm's resources may obscure the costs of bundling these resources with complementary resources of external actors in the host country. These potential fallacies are summarized in propositions 2 (b, c):

Proposition 2b

When entering a host country with the objective of deploying heritage FSAs, bifurcation biased family MNEs are more likely to seek out locations that allow for maximum ownership and control than non-bifurcation biased family MNEs and non-family MNEs, regardless of comparative costs of access to complementary assets held by third parties and comparative costs of requisite FSA adaptation.

Proposition 2c

When entering a host country with the objective of deploying supposedly commodity-type FSAs, bifurcation biased family MNEs are more likely to seek out locations based purely on theoretical value creation potential (i.e., assuming away requisite bundling costs with host country assets) than non-bifurcation biased family MNEs and non-family MNEs.

As one example of a decision fallacy associated with heritage FSA deployment, Danish shoe manufacturer's ECCO A/S large-scale investment in China was determined mainly by the fact that the Chinese government allowed for a 100% ownership of foreign production sites (Nielsen, Pedersen, and Pyndt, 2008). World-class production technology has been at the core of ECCO from inception, and the founding family and management built the company's international strategy around its high-tech production FSAs, while taking great care to maintain full control of the manufacturing process. The owners were deeply preoccupied with maintaining full control of –and protecting– ECCO's unique, direct-inject technology from appropriation by outsiders, holding a firm belief that ECCO's global competitive success hinged on the company's fully integrated, *cow to shoe* value chain. ECCO's executive vice-president stated in his 2004 interview with Berlingske News:

> *'ECCO is not a fashion brand and it never will be. We do not sell shoes where the brand name is the most important and quality is a secondary consideration. Primarily, we sell high-quality shoes and that is where we seek recognition*' (Nielsen *et al.*, 2008: 2).

Unfortunately, downstream activities, seen as non-core/less valuable, and less intertwined with heritage assets, were downplayed. Most of the company's resources were tied up in in-house manufacturing, allowing little slack for marketing, distribution and relationship building with consumers. Today, ECCO's international reputation for quality remains strong, but the company's market share is increasingly challenged by marketing-focused competitors. These include Italy's Geox and England's Clarks, which outsource much of their production, and focus their resources on developing downstream FSAs.

Another Danish MNE – the iconic toy manufacturer LEGO – was determined to keep much of its manufacturing in Billund, Denmark, the community where the company was founded. Excessive loyalty to community stakeholders (with family networking relationships functioning as a heritage asset), prompted LEGO to pursue local production, while competitors gained significant cost savings by offshoring manufacturing to emerging economies (Bennedsen and Foss, 2015). In 2004, on the brink of bankruptcy following seven consecutive years of economic losses, LEGO finally reorganized to offshore-outsource production to Flextronics[5]. Reflecting on the crisis, LEGO CEO Jorgen Vig Kudstorp (notably, a family outsider, the second one in the history of the company) suggested that LEGO had '*…been too sacred with our own virtues…. We shall now… simply drop the sacredness*' (Larsen, Pedersen, and Slepniov, 2010: 3). The above implies that even elements of culture in a bifurcation biased firm could be interpreted as a heritage asset, to be nurtured potentially at the expense of the firm's viability.

International production arrangements for Hong Kong's high-end fashion brand Koya exemplify the case of supposedly, commodity-type asset deployment. William Cheung, Koyo's owner and founder, maintains a strong focus on design and marketing. Cheung's life-long ambition has been to develop Koyo into a first-tier international brand. As a designer, Cheung personally oversees new retail outlets and keeps a close eye on all aspects of customer interface. Production, on the other hand, does not appear close to Cheung's heart: a decision to locate production in mainland China was made quickly, and was based on simple labour cost analysis (to the exclusion of transaction costs), with little inclination on the top management's part to deal with 'trivial and tedious factory work' (Suen, Shen, and Tang, 2011: 7). This partial scrutiny meant that location advantages (or disadvantages) beyond cheap labour were not considered, which may eventually bring about challenges in the realm of securing requisite manufacturing skills and technology, quality control and supply chain management.

Operating mode selection

From an internalization theory perspective, operating mode selection is a function of external market efficiency for transacting both the MNE's FSAs and requisite complementary resources held by external actors in host locations (Hennart, 2009). More specifically, the MNE's choice between

[5] It should be noted that the outsourcing arrangement did not yield the desired results, and production was back-sourced (but not in-shored) from Flextronics in 2008. However, the failed collaboration was likely due to a strategic misalignment between LEGO and Flextronics, as well as suboptimal execution of the outsourcing task, and does not reflect negatively on the actual decision to outsource the production process.

cooperative entry with a local strategic partner and an equity-based, greenfield entry will depend on the tradability and vulnerability of both its own FSAs and the complementary FSAs held by third parties. An MNE holding FSAs vulnerable to appropriation by third parties, and requiring easily accessible complementary assets or entering a host market where complementary assets are easily transacted, is likely to select equity-based, wholly owned operating modes. Conversely, an MNE entering a host market to diffuse old technology (less vulnerable to third party appropriation), entering a country with a strong appropriability regime, entering a country characterized by institutional uncertainty, or entering a high-distance country (especially with no prior experience in managing high compounded distance) is more likely to engage in contractual operating modes in the host country (Grøgaard and Verbeke, 2012).

In a bifurcation biased firm, however, the choice of operating mode will be driven by the heritage versus supposed commodity status of the FSAs deployed, rather than mainly by parameters typically used in efficiency-driven analysis, i.e., the vulnerability of these FSAs to appropriation, the tradability of complementary assets, the life stage of the technology or the host country's cultural, institutional, geographic or economic characteristics. Here, activities involving . FSAs may be overvalued and wrongly kept fully internalized. Amoral familism or inflexible attachment to family members as well as to family-based physical assets, foundational product lines and locations, routines, network relations, etc., may prevent a biased family firm from outsourcing these non-essential, low value-added activities, or from entering into cooperative arrangements with foreign partners to exploit them. At the same time, a biased firm may fail to protect high value-added, yet non-family based FSAs, as suggested in the following set of propositions:

Proposition 3a

When entering a host country with the objective of deploying heritage FSAs, bifurcation biased family MNEs are more likely to select wholly-owned, equity-based operating modes than non-bifurcation *biased family MNEs and non-family MNEs, regardless of these FSAs' actual vulnerability to appropriation, the tradability of complementary resources held by third parties, the life stage of the technology, the host country's distance from the home country, and the host country's institutional regime.*

Proposition 3b

When entering a host country with the objective of deploying supposedly commodity-type FSAs, bifurcation biased family MNEs are more likely to select external contracting operating modes than non-bifurcation biased family MNEs and non-family MNEs, regardless of these FSAs' actual vulnerability to appropriation, the tradability of complementary resources held by third parties, the life stage of the technology, the host country's distance from the home country, and the host country's institutional regime.

Cooley Distillery, formerly a family-owned independent Irish whiskey distillery, had *independence* at the core of its value system. Independence was considered a key to the firm's survival and success, and a cornerstone of the brand. For the Teeling brothers, who founded Cooley in 1987 by buying a state-owned distillery in Dundalk, Ireland, independence represented not only a critical part of the family narrative, but also the history of Irish economic and political development.

Dysfunction arose when the highly valued independence presented a barrier to competing with large brands on a global scale. Lack of affiliation with large buyers inhibited global distribution. While competitors gained shelf space by increasing scale and entering into long-term contractual agreements with distributors, the Teeling brothers shied away from proposed joint ventures for fear of compromising family control and the brand's image of independency. The unwavering preference for going it alone in high-distance markets characterized by hard-to-access distribution channels led to the eventual demise of family governance: in 2012, Cooley was sold to Illinois, U.S.-based Beam, Inc. (Kennelly, 2014).

In the ECCO example above, offshore factories were fully owned to protect the company's core FSA – its direct injection production technology – from unwanted appropriation by third parties. Yet, ECCO downplayed the marketing aspect by either rejecting it altogether or outsourcing to short-term contracting partners, thereby holding on to the family's (outdated) belief that 'our quality speaks for itself.' Meanwhile, direct brand-focused competitors such as Geox, Clarks and Timberland focused on downstream FSA development by carefully monitoring consumer trends and building customer relationships, and eventually squeezed ECCO in important host markets, particularly in North America. ECCO's biased attachment to in-house production led to significant transaction costs relative to competitors, while neglect of and failure to internalize downstream FSAs, wrongly viewed as commodity type resource bundles because the family lacked expertise in them, led to missed opportunities. ECCO subsequently increased its global marketing presence by entering into a long-term co-branding alliance with family-owned W.L. Gore & Associates – the maker of GORE-TEX (Kristensen, Gabrielsen, and Zaichkowsky, 2012). Unfortunately, the timing of the alliance was suboptimal – the chance for global market leadership was gone.

ECONOMIZING ON BIFURCATION BIAS

We have argued that bifurcation bias represents a governance related barrier to efficient, family-firm internationalization by inhibiting the firm's capacity to economize appropriately on bounded rationality and bounded reliability, and to create value in both domestic and host environments. To undertake successful international expansion, family firms must implement specific economizing mechanisms to safeguard against the dysfunctional bifurcation bias. In the short term, these economizing mechanisms will help family firms improve efficiency of specific international governance decisions. In the long run, economizing against bifurcation bias is instrumental to the firm's survival, profitability and growth. According to internalization theory logic, systemic inefficiencies associated with international governance forms will, in the long term, drive out these substandard governance forms. For family

MNEs, this means either ceasing to exist as family firms (e.g., converting to Chandlerian hierarchies), or ceasing to exist altogether (Verbeke and Kano, 2012).

Economizing mechanisms should therefore be introduced to prevent heritage FSAs from becoming liabilities (Bennedsen and Foss, 2015), particularly in the international context, and to align the family's non-economic goals with the firm's international strategy. This may *de facto* imply reducing the importance of non-economic goals in favour of a stronger efficiency orientation. It may involve implementing practices that can balance the family's discretion to make strategic decisions and the need for constraints against unjustly prioritizing heritage assets and thereby putting the family's interests above the firm's (De Massis *et al.*, 2015). Specifically, we have identified the following six examples of economizing practices and routines implemented in successful family-based MNEs: (1) cross-border operational meritocracy; (2) targeted international education of family; (3) structured decision processes related to international expansion; (4) rigorous measurement of international performance; (5) purposeful exposure to unbiased scrutiny; and (6) reverse bifurcation bias.

First, prior research shows that explicit merit-based hiring, promotion and role allocation practices within professionalized family firms serve to safeguard against bifurcation bias (Chrisman, Memili, and Misra, 2013; Holt and Daspit, 2015; Verbeke and Kano, 2012). Quality of cross-border management in a family firm can be significantly improved when competent and unbiased individuals are in charge of complex international governance decisions. The term *operational meritocracy* was coined by the Merck family – the twelfth generation owners of Merck KGaA, an internationally operating Germany-based pharmaceutical and chemical enterprise. It means separating the spheres of family influence and governance, and entrusting operational responsibilities to the most competent professional managers regardless of their family association (Glemser and Leleux, 2011). In the context of internationalization, this means that decisions related to international operations must be in the hands of professionals with the strongest international governance competencies.

Second, offering training to family members has been previously recognized as a safeguard against bifurcation bias (Verbeke and Kano, 2012). Investment in training has traditionally been somewhat atypical in family firms (Carney, 2005); this can be particularly damaging in complex, high-velocity or highly uncertain environments (Miller *et al.*, 2015; Verbeke and Kano, 2012), which cross-border operations epitomize. Successful family-based MNEs engage in *targeted international education* of family members. Merck sends abroad the family descendants who are expected to work for the company in the future, with the explicit purpose to teach them to appreciate foreign cultures, expose them to various dimensions of distance, and test their appetite for international engagements (Neumann and Tapies, 2007). At the Carlson Group, a U.S.-based, third generation family-owned global travel and hospitality conglomerate, all employees, including family, are educated on the importance of local cultural contexts (George and McLean, 2005).

Third, structured, formalized and multilateral processes for comparative evaluation of international strategic governance options can alleviate biased decision-making. Family ownership and influence are generally argued to decrease formalization levels (König *et al.*, 2013). Continuity and long-term orientation in family firms, as well as direct control exercised by the owners, are seen as alleviating the need for formalization, while the community aspect leads to prioritizing relational as opposed to formal aspects of contracts, and is thus argued to be incompatible with formalization (König *et al.*, 2013). Yet, in the context of highly complex, multifaceted international governance decisions, which may need to be made simultaneously in geographically dispersed parts of the MNE, some level of formalization can provide much needed economizing on bounded rationality and bounded reliability of the family members involved. Forbes Marshall, a family-owned Indian engineering conglomerate, engages in extensive *formal due diligence*, prior to establishing international partnerships. Once partnerships are formed, structured interaction continues among related functions in international joint ventures, as well as between joint ventures and common corporate functions such as finance, information and communication technology services and human resources (Damaraju *et al.*, 2012). This format provides key guidelines on decision-making and facilitates MNE-wide knowledge sharing and consultation on issues affecting the MNE network.

Fourth, rigorous and objective measurement of international performance can uncover and prevent dysfunctional decision-making and correct ambiguity of accountability norms often observed in family firms (De Massis *et al.*, 2016b), particularly in the context of international strategy decisions. Merck and the Carlson Group consistently benchmark their performance in international markets against other MNEs.

Fifth, bifurcation bias can be controlled by purposeful exposure of international expansion projects and behaviour to objective scrutiny by family outsiders. When considering a complex and potentially biased decision on IT offshoring, the Carlson Group consciously sought unbiased expertise of external consultants. Ayala Corporation, a fourth generation family-owned multinational conglomerate active, *inter alia*, in retail, real estate, banking, telecommunications, energy, IT and healthcare and based in the Philippines, took its international operating subsidiaries public in order to facilitate value creation assessments in a transparent and objective way, and to allow for unbiased public scrutiny (Villalonga and Amit, 2007).

Sixth, family MNEs can engage in a *reverse bifurcation bias*, whereby heritage assets are held to higher standards than non-family ones in terms of performance targets, and (objective) value creating potential for the company. Verbeke and Kano (2012) argue that reverse bifurcation bias is commonly practiced toward female family descendants (see also Day, 2008). To improve international governance decisions, however, reverse bifurcation bias must be applied systematically to all heritage assets (human and non-human) transferred or exploited abroad. This can serve to introduce additional scrutiny to potentially biased decisions, and reduce bounded reliability of both family and non-family managers. IOI group, a Malaysian family group engaged in agriculture, manufacturing, real estate and hospitality, believes in *leadership by example*, whereby family employees at the head office are expected to model exemplary behaviour when dealing with subsidiaries in areas of strategic focus, e.g. cost-consciousness and efficiency (Dieleman and Mittal, 2010).

CONCLUSIONS AND DIRECTIONS FOR FUTURE RESEARCH

We have argued, perhaps controversially, that there is no generic difference between family and non-family MNE internationalization paths. A well-run, unbiased family firm faces no constraints on the efficiency of its international operations that are significantly different from the factors constraining the international expansion of a firm with dispersed ownership. As regards bifurcation biased firms, inefficiencies in international governance caused by such bias, will in the long run lead to a switch to a comparatively more efficient governance form – in other words, biased firms will become uncompetitive in international markets, and will be forced either to eliminate bifurcation bias from their governance practices, or switch to non-family type governance. This argument is aligned with Carr and Bateman's (2009) finding that international strategic choices of the world's top family firms are similar to those of large MNEs with dispersed ownership.

Further, alleged barriers to family firm internationalization identified in extant research, such as, *inter alia*, financial and managerial resource constraints, lack of requisite capabilities, short-term orientation, risk aversion and the lack of a clear vision (see Alkaabi and Dixon, 2014; Patel, Pieper, and Hair, 2012; Graves and Thomas, 2008; Yrkkö, Rovinen, and Yla-Anttila, 2007; Zahra, 2005), can also affect non-family firms, particularly SMEs and young entrepreneurial ventures. We argue instead that bifurcation bias, as a governance dysfunctionality found in some family firms, represents one of the key parameters distinguishing successful internationalizers from unsuccessful ones. Bifurcation bias influences internationalization motives, patterns and timing. One important differentiator in internationalization paths is therefore not between family and non-family firms, but between bifurcation biased family firms and all other firms.

Family members and values, and more broadly heritage FSAs, must be developed, exploited and protected. However, these particular heritage assets should not be prioritized indiscriminately. Michelin, a French tire manufacturer, spent years developing the radial tire, to achieve the company's core mission of delivering safe and pleasant travel. After decades of complex engineering and massive investments in manufacturing, Michelin took over the world market, and has maintained its leadership position to this day. Michelin's steadfast attachment to its 'impossible dream' (Miller and Le Breton-Miller, 2006: 15) was accompanied by continuous evaluation of global market and product trends, and development and renewal of requisite FSAs. This example contrasts with ECCO's above mentioned, inflexible attachment to direct-inject technology in the face of changing consumer preferences, and the company's consequent fall from grace as a market leader in comfort footwear. Further, prioritizing family ties can prove beneficial in hostile environments with poor institutional quality, as convincingly described in Ilias' (2006) study of the Pakistani surgical instrument industry. This logic is consistent with the concept of *bivalent bifurcation*, most recently proposed by Jennings, Dempsey and James (2016): the notion that organizational efficiency may require some practices actually to favour heritage assets (when this leads to functional outcomes), while other practices should favour non-family assets. We agree that there is nothing wrong with objectively evaluating and prioritizing usage of heritage assets, or with de-prioritizing non-family ones – but problems arise when such (de)prioritization becomes *de facto* rigid and ingrained. Bifurcation, if it means identifying, developing and diffusing valuable heritage assets through a set of distinct processes vis-à-vis other asset classes, can be very useful. But bifurcation *bias*, as developed in Verbeke and Kano (2012), never is – at least not in the long term. Bifurcation *bias* implies organizational dysfunction.

There are, of course, multiple ways in which the dysfunctional bifurcation bias can manifest itself: the extent, direction and specific expressions of bifurcation bias are heterogeneous across family firms (Jennings *et al.*, 2016). Some of these were discussed in our study, while other ones are likely to be uncovered in future research. We think, however, that bifurcation bias provides one (perhaps among other) critical governance attribute(s) to differentiate among family firms (Melin and Nordqvist, 2007). It could also contribute to improved conceptual understanding of family firms' diverging internationalization paths, as expressed in strategic decisions on location choice and operating mode selection, and provide context for extant dichotomous findings on comparative level and scope of family firm internationalization. Here, *facilitating* advantages of family governance, such as quick decision making, long-term orientation, committed leadership and strong stakeholder relationships (Fernandez and Nieto, 2006; Zahra, 2003), will accrue mainly to *unbiased* family firms and make these comparatively more competitive abroad. The potential difference in internationalization behaviour between unbiased family firms and non-family firms is an important, fine-grained aspect of the family firm research agenda, which we hope will be explored in future studies.

Since bifurcation bias represents one family-firm specific barrier to efficient international operations, family firms would benefit from implementing, *ex ante*, a set of economizing mechanisms as identified in the present study, when contemplating international expansion. The *good news* for family firms is that the very features of family governance that make them vulnerable to bifurcation bias can offer tools to fight it. Family firm owners' discretion over resource allocation (De Massis *et al*., 2014), considerable latitude in strategic decision making (Hambrick and Finkelstein, 1987), lower levels of bureaucracy, patient capital (Chrisman *et al.*, 2015a) and power to influence organizational stakeholders (König *et al.*, 2013) put them in a unique position to implement safeguards against bias-based governance. Chrisman *et al.* (2015a) discuss the *ability and willingness paradox* of family firms in the context of discontinuous innovation: they argue that family firms are *able* to innovate more than their non-family counterparts, due to the well documented benefits of family governance discussed above, yet may not be *willing* to do so due to non-economic goals conflicting with economic goals, core rigidities, loss aversion and amoral familism, all of which are expressions of bifurcation bias.

Applied to the context of international strategic governance, *the ability and willingness paradox* means that family firms are able to become successful and profitable multinationals only if they are willing to eliminate bifurcation bias from their decision-making (as shown in the multiple examples mentioned in this study). In other words, bifurcation, in the sense of prioritizing valuable family assets that can support efficient internationalization, may reflect *ability*, but bifurcation *bias* reflects the lack of *willingness* to use this ability appropriately.

In their comprehensive review of the family firm internationalization literature, Pukall and Calabrò (2014) found that IB theories are underutilized in this field of inquiry. Yet, an IB-centric approach could shed significant light on the nature of family MNEs' behaviour, and move us closer to a parsimonious theoretical perspective on family firm internationalization. We have approached this study from an internalization theory perspective, and have integrated internalization theory logic with such family business concepts as non-economic goals and SEW. Emphasis on explicit micro-foundational assumptions of internalization theory (bounded rationality and bounded reliability) has allowed us to focus on the quality of managerial decision-making, while shying away from making strong, general claims about family governance.

Further research on bifurcation bias could help sharpen and refine this new concept. Verbeke and Kano (2012) suggest that the specific impact of bifurcation bias may vary as a function of a firm's cultural and institutional context. Extending this argument to internationalization, we suspect that a firm's proclivity toward bifurcation bias may depend on the host country's cultural and institutional characteristics. For example, bifurcation bias is likely to be stronger when a firm expands into culturally distant countries, or into institutional regimes characterized by a weaker emphasis on formal contracting as compared to the home environment. Here, family firm owners/managers could fall prey to bifurcation bias, in their efforts to bridge cultural and institutional distance, and make suboptimal governance choices. Further examination of the relationship between bifurcation bias and the differences between domestic and host environments would advance our understanding of family enterprise context heterogeneity (Arregle *et al.*, 2012; Wright *et al.*, 2014), as well as link family firm heterogeneity with country heterogeneity.

Bifurcation bias as an independent variable determining family firm heterogeneity could be useful in other fields of inquiry related to family firms. For example, the influence of family governance on innovation practices and outcomes is gaining increasing scholarly attention (De Massis *et al.*, 2015, 2016b). Here, bifurcation bias could be the source of barriers to innovation through fostering rigid attachment to traditional norms, inhibiting the flow and screening of ideas, and obscuring accountability, which is especially critical in the context of spatially dispersed innovation inside the MNE. Adopting bifurcation bias as a central concept in studies on dispersed innovation could provide insight into the difference between successful and unsuccessful family firms on this particular dimension.

Finally, bifurcation bias could be applied to mainstream strategy work, in contexts where resource recombination is of the essence, i.e., product or corporate diversification strategy and domestic internalization versus outsourcing decisions. Accurate operationalization and quantification of bifurcation bias will be a challenge facing family firm researchers. Some options to operationalize bifurcation bias (or rather the managerial efforts to eliminate it), include measuring investment in family members' formal education; measuring the extent of advanced training and promotion possibilities available to all human resources in the firm; estimating the proportions of non-family leadership and non-family external partnerships in the firm's governance structure; etc.

Bifurcation bias can severely inhibit the survival, profitability and growth of the world's most ubiquitous type of enterprise. In our view, the present research priority should be to conduct further exploratory work to understand better the multiple origins and expressions of bifurcation bias in family firm governance, especially through its particular usage of the firm's heritage assets. A related priority would be to refine the linkages with other concepts prevailing in the family firm literature, such as non-economic objectives and SEW. On the empirical front, appropriate proxies must be developed to measure bifurcation bias as a critical driver of governance dysfunction in family firms.

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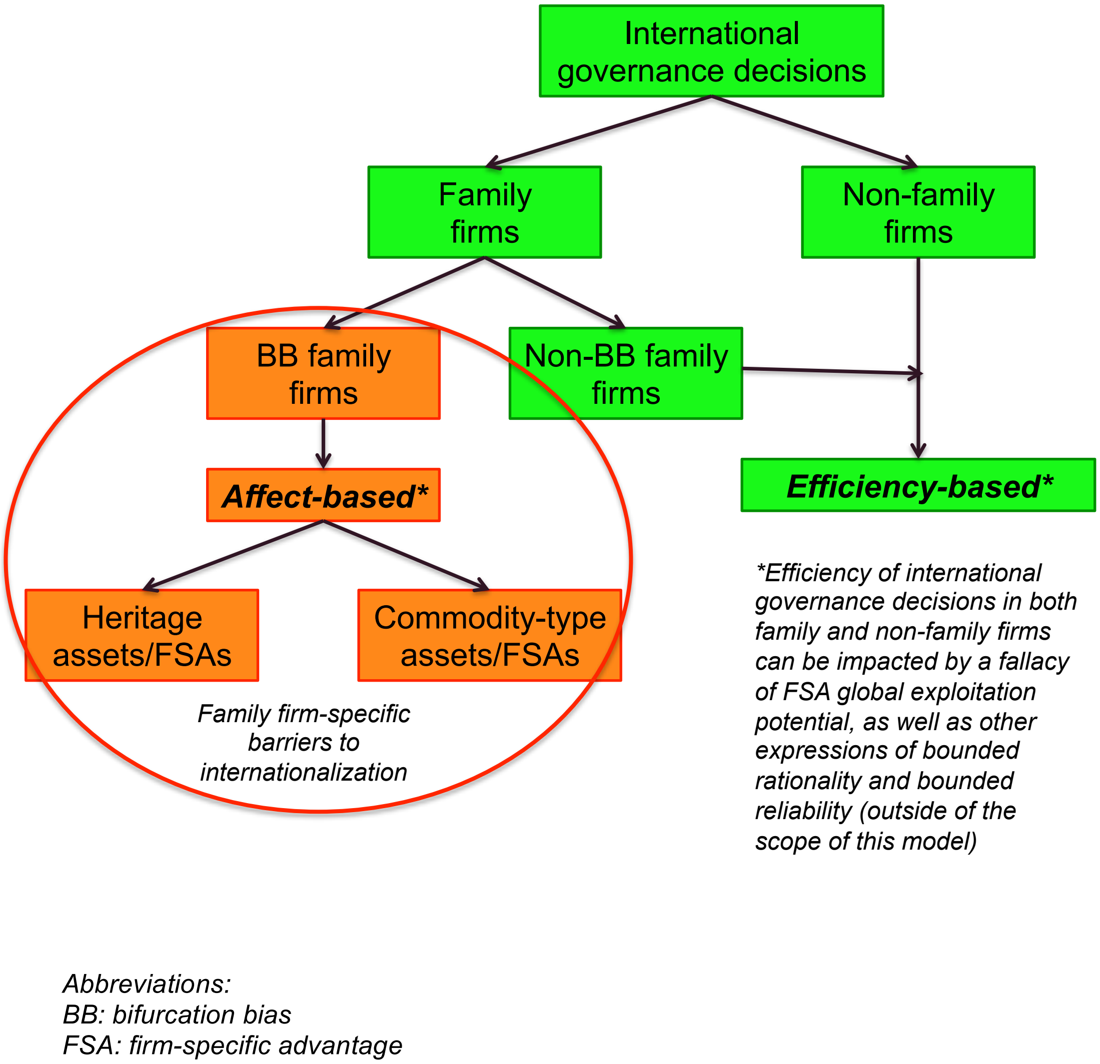

Figure 1. Affect-based versus efficiency-based international governance decisions