Success and failure in family firm internationalization: the case of Rothschild

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Success and failure in family firm internationalization: The case of Rothschild

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Abstract

In this study, we examine over 100 years of Rothschild's international activity: we analyze this multinational enterprise's (MNE's) cross-border transfer of family-derived firm-specific advantages (FSAs) and the challenges of recombination thereof with novel resources. Family-derived FSAs hinge on the resources and features of the owning and controlling family. During the period of Rothschild's international success in 19th-century Europe, the family itself served as a recombination mechanism for linking family-derived FSAs with complementary resources across borders. However, deploying family-derived FSAs in the American market and recombining these with nonfamily resources was hindered by bifurcation bias (a dysfunctional, affect-based heuristic characterizing family firms). We trace the manifestations of bifurcation bias over time and investigate its multifaceted impact on Rothschild's internationalization. We suggest that effective resource recombination in host markets can be constrained by a *two-stage authentication* process. Here, the bifurcation bias in a first stage can influence which complementary resources in foreign markets will be accessed and how these will be integrated inside the firm. In a second stage, bifurcation bias can affect the functioning of the very actors supposed to be linking the complementary resources to be utilized and the extant, family-derived FSAs.

Keywords MNEs · Business history · Family firms · Bifurcation bias · Internalization theory · Firm-specific advantages · Recombination · Complementary resources

Introduction

Family firms, defined as firms where the owning or controlling family significantly influences the firm's strategy and intends to transfer the business across generations (Chua et al., 1999), form an essential part of the global economy. Rothschild & Co, a 200-year-old firm argued to have been the first modern multinational bank (Ferguson, 2009; McKay, 1990), represents a notable example of an intergenerational family-owned multinational enterprise (MNE).

Family-owned MNEs' success is frequently attributed to unique features, such as long-term orientation, social capital, and focus on reputation (Calabrò et al., 2022; Memili et al., 2011; Miller & Le Breton-Miller, 2005, 2006). However, family firms also have a unique barrier to efficient internationalization in that they are inherently susceptible to *bifurcation bias*: an affect-based heuristic whereby family-related resources are treated by default as long-term valuable ones, whereas nonfamily resources are treated as a commodity, regardless of these resources' actual economic utility and contribution to the firm (Verbeke & Kano, 2012).

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Bifurcation bias makes family MNEs over-dependent on family-derived firm-specific advantages (FSAs) and reluctant to rely on nonfamily resources, such as professional managers (Kano & Verbeke, 2018). However, family-related resources may not be transferable to all markets. Effective internationalization requires recombining family and nonfamily resources to develop new FSAs and to deploy these in host environments. Adequate safeguarding mechanisms against bifurcation bias are then necessary for family firms to achieve successful recombination (Kano et al., 2021).

Bifurcation bias, as well as the reliance on family-derived FSAs, may not have an immediate negative impact – these practices develop and play out across generations, potentially making family firms less competitive than their nonfamily counterparts *over time.* Extant work on the subject, while advancing our understanding of the construct, has not examined how bifurcation bias evolves through time (Fourné et al., 2023; Leppäaho et al., 2022). Most prior research tends to treat bifurcation bias as a binary construct, [1] and does not discuss the nuances of its expressions (e.g., how various resources are subjected to biased treatment and how this in turn leads to differential effects on firm strategy and performance). This research gap is largely due to methodological constraints: short-term oriented methodological approaches common in the management field (i.e., quantitative secondary data analysis; multiple case analyses based on interviews) are not conducive to studying the long-term effects of firm-specific practices. We address this gap by using historical analysis to investigate the mechanisms whereby bifurcation bias hinders recombining family-related and nonfamily resources and thus shapes the international trajectories of family firms.

We develop our discussion by analyzing the history of Rothschild, the largest investment bank in the world for most of the 1815–1914 period (Ferguson, 1998a: 3). Examining primary and secondary sources, we investigate how family-derived FSAs enabled the rise of the Rothschild banking business in Europe, as well as instances where bifurcation bias hindered recombination of family-derived FSAs and non-family resources, notably in the United States (US) market. We uncover a new expression of bifurcation bias, which we term '*two-stage authentication*'. We adopt a "history to theory" research approach (Argyres et al., 2020: 348), whereby we use historical evidence from the first three generations of the Rothschild bank to add nuance and details to internalization theory (Buckley & Casson, 1976; Rugman, 1981; Verbeke & Lee, 2022) as applied to the study of family firms.

Our study makes four key contributions to IB research. *First*, we provide a detailed and dynamic account of the role of the family in cross-border FSA transfer and the recombination thereof with new resources. *Second*, we trace the impact of bifurcation bias on international strategy over time, introducing the novel concept of a two-stage authentication system for resource recombination. *Third*, we contribute to the debate on the effects of bifurcation bias on internationalization, showing that such bias can generate temporary benefits under certain conditions, with inefficiencies becoming inevitable in the long term. *Fourth*, we promote methodological pluralism in IB research by using a historical, single-case study based on archival and secondary data.

The remainder of this manuscript is organized as follows. We start with a brief overview of the theoretical foundations of our study and the core constructs employed in the analysis: FSAs, recombination, complementary resources of external actors, and bifurcation bias.[2] Next, we discuss our case and its historical context. We follow with presenting our research methodology. We then discuss our findings, whereby we adopt a theory-based, rather than chronological, approach to presenting our analysis of Rothschild's internationalization. We conclude with a summary of our contributions and directions for future research.

Theoretical background

Internalization theory

According to internalization theory, firms operate internationally because they command FSAs that can be deployed and profitably exploited across borders (Buckley & Casson, 1976; Hennart & Verbeke, 2022; Rugman, 1981). FSAs "reflect the distinct resource base available to the firm" (Verbeke & Lee, 2022: 5). In addition to transferring extant FSAs across borders, MNEs typically need to develop new FSAs in host countries and must for this purpose access complementary resources in host environments to create and capture value.

The nature of the MNE's extant FSAs and the requisite complementary resources (their uniqueness, their tradability on open markets, their vulnerability to imitation or theft), together with the home and host location advantages, determine the interdependencies among the parties involved, and the MNE's governance choices. The most efficient governance form is the comparatively superior one at organizing the bundling of the interdependent resources in play, by

[1] Notable exceptions include Daspit et al. (2019), and Jennings et al. (2018).

[2] It is important to note that we engaged in a back-and-forth between theory and data (i.e., abductive analysis, as discussed in detail in our 'Data and methodology' section), but whereby the focus on the specific theoretical constructs reviewed below was largely guided by the empirical analysis contemplated, and not the other way around.

enabling the MNE to economize on the bounded rationality and bounded reliability challenges that may arise.

Efficient governance permits continuous resource recombination across product and geographic space, whereby extant FSA bundles are melded with (and sometimes partly substituted by) newly accessed resources in host environments to create and distribute value (Hennart, 2009). Successful recombination of resources implies that the MNE: (1) is able to develop or access requisite complementary resources in host markets; and (2) is willing to let go of some of its extant resource bundles (including higher-order capabilities such as managerial practices), to be replaced by resources with higher value creation potential in host markets (Verbeke & Lee, 2022).

In family firms, such recombination can be hindered by bifurcation bias, which we discuss next.

Family firm internationalization: Unique features and their impact on international governance

Family resources brought into the firm by the family can include committed human capital, patient financial capital, shared tacit knowledge, family ties with stakeholders, and in many cases, a strong reputation, particularly when linked to the family name (Calabrò et al., 2022; Habbershon et al., 2003; Kano et al., 2021). Family resources help family-owned MNEs develop unique FSAs, such as the ability to create innovative products based on family members' technical knowledge. Family resources can also be utilized to support the cross-border deployment of FSAs; for example, family contacts can facilitate the search for reliable buyers and suppliers abroad (Kano et al., 2021).

The unique resources of family firms do not always and necessarily confer to them a competitive strength. Family firms' weaknesses stem from the limited reach of the family's financial and managerial capital and limited access to relevant external stakeholders (Arregle et al., 2019; Hennart et al., 2019). In order to create value in cross-border operations, family firms must close these resource gaps by recombining their unique, family-derived FSAs with complementary (external) resources (Kano et al., 2021).

Bifurcation bias can severely limit family MNEs' resource recombination capabilities. Biased owner–managers place an excessive focus on noneconomic preferences (maintaining family influence or preserving harmony) that may hinder objective evaluation in strategic decision-making. Biased MNEs may thus face obstacles in integrating complementary nonfamily resources that are not always easily accessible directly through the market or absorbable through acquisitions and may be most efficiently obtained through cooperative arrangements with external actors (Grøgaard & Verbeke, 2012; Hennart, 2009). Bifurcation-biased family MNEs are often unwilling to surrender the degree of control necessary to form such partnerships.

As a result, bifurcation-biased MNEs may be unable to perform the recombination of family and nonfamily resources needed to create value across borders. From a Penrosean perspective, this bias can structurally place limits on the firm's expansion. Whereas, in a conventional Penrosean setting, the firm's management capacity in entrepreneurial and administrative terms would typically grow over time, in a bifurcation-biased firm, this growth may be constrained by the availability of suitably skilled family managers (Hutzschenreuter et al., 2011).

In the remainder of this paper, we use historical evidence of the Rothschild bank's international expansion to elaborate on the theory-based constructs reviewed above.

The case: The House of Rothschild

The Rothschild family firm[3] was founded in the late 18th century by Mayer Amschel Rothschild, a Frankfurt Jew. His father having passed away when he was just 12, Mayer Amschel received only a rudimentary business education and established a merchant business selling textiles. Mayer Amschel's business expanded quickly: by 1797, he had become one of the richest Jews in Frankfurt (Ferguson, 1998a). Mayer Amschel and his wife Guttle had ten children, including five sons. Around 1798, Mayer Amschel sent his son, Nathan, to Manchester in order to engage with opportunities for international arbitrage. By around 1810, Nathan's activities in merchant credit (the buying and selling of commercial bills and accompanying speculation on European exchange rates through these bills) had overtaken the other aspects of his business in England (Chapman, 1984; Rothschild Archive Research Forum, n.d.).

The bills that Nathan traded, or 'commercial paper', were formalized IOUs (often guaranteed by a large merchant firm or 'merchant bank') that could be purchased at a discount and then remitted by the discounter to the point of issue for payment once they were due. The transition from 'merchant' to 'merchant bank' was made official in July 1811, when Nathan closed down his textile operations in Manchester and opened a counting house at New Court in the City of London. By 1819, Nathan was focusing exclusively on financial transactions (Chapman, 1984: 18).

Nathan's brothers, Amschel, Salomon, Carl, and James established banking houses in Frankfurt, Vienna, Naples,

[3] While the nature and extent of the Rothschild family's ownership of—and involvement in—the business have changed over the centuries, the firm remains, to this day, a family firm, according to the definition adopted in our study. Of note, key competitors Barings and Morgan were also family businesses, although the specifics of family governance differed greatly among these firms.

and Paris, respectively. In addition to their main line of business as merchant bankers, the Rothschild brothers soon established themselves as the preeminent brokers of government debt across Europe, becoming the "biggest bank in the world" (Ferguson, 1998a: 3). By the end of the 19th century, Rothschild was also one of the leading investors in financing railway and mineral exploration and extraction operations across the globe (Turrell & Van Helten, 1986). Figures 1a and b show the Rothschilds' family tree.[4]

The Rothschilds operated a large network of agents (many of whom were drawn from their extended family). Some were salaried, some were commissioned, and others, like the Rothschilds' agent in the United States, August Belmont, were on both salary and commission. The network of agents grew very quickly between 1820 and 1830 (along with the firm itself and the size of the brothers' capital) and appears to have stabilized between 1830 and 1850.[5] Figure 2 presents a tentative picture of the Rothschild firm's multinational structure during the period analyzed. The figure highlights the firm's American agent, because our line of historical and theoretical inquiry led us to focus primarily on the Rothschilds' operations in America, as discussed below.

The Rothschilds showed an interest in the American market from the 1820s and had an agent representing the firm in the United States. However, the Rothschilds failed in their efforts to expand in the American market. Rothschild scholars are unanimous in their agreement that the "American case" represents a unique failure in the Rothschild system. Ferguson calls America the "challenge to which the Rothschilds never quite rose" (Ferguson, 1998a: 368). Liedtke summarizes the failure as follows:

> In the case of the US, a lack of business judgment prevented the setup of a house because no Rothschild found the American market important enough to settle there, until it was too late and the scene was dominated by other private and later the joint stock banks (Liedtke, 2016: 39).

The economic devastation that WWI brought upon the European economies inflicted severe damage on Rothschild and contributed to its decline vis-à-vis competitors, such as Morgan, that had successfully diversified from Europe to the American market. Between 1913 and 1918, the capital of the London House declined from £7.8 million to £3.6 million, while that of the competing banks Kleinworts, Morgan, Grenfell, and Midland all increased. After nearly a century of global dominance, the Rothschilds were surpassed by Midland, with a capital that was roughly double theirs by 1918 (Ferguson, 1998b).

The Great War resulted in a split between the British and French Rothschild Houses on one side and the Vienna Rothschilds on the other. In 1938, the continental Rothschilds fled Europe to escape Nazi persecution. While the Vienna House did not resume business after the war, the French House resumed activities following WWII until it was nationalized by the French government in 1982. A Frankfurt house was re-established in 1989. The London House, the only house to operate continuously since its founding, rebranded as Rothschild & Co. in 2015 and has continued activities from its offices in New Court.

The above offers a very brief historical overview of the family and the firm. Our theory-related inquiry below contrasts the Rothschilds' successful expansion in Europe with their less successful expansion in America. For this purpose, we focus on the period when successful and unsuccessful recombination of FSAs with complementary resources could be observed: between ~ 1807 (when the family began to capitalize on lucrative opportunities created by the Napoleonic wars) and 1890 (when August Belmont died). Figure 3 presents some of the key events in the history of Rothschild's internationalization during the period analyzed.

Political, economic, and social context: Europe and America in the 19th century

The foundations of the Industrial Revolution can be found in 19th-century Europe. European powers competed to acquire colonies throughout the globe, thereby greatly increasing trans-oceanic trade (Hopkins, 2000). This trade was accompanied by a rapid rise of manufacturing and financial intermediation. However, at the beginning of the 20th century, WWI interrupted progress, cutting off trade and financial links, damaging European businesses and in particular financial institutions (Michie, 2006).

In the United States, the 19th century was a time of great political, social, and economic change. The Louisiana Purchase from France (1803) vastly extended the Union's territory. European investors were enticed to America by the California gold rush of the late 1840s and the expansion of railways. From the 1850s to 1914, US society evolved at high speed, building a diversified manufacturing base, as well as a fast-growing financial industry. After the damage suffered by the great European powers in WWI, the United

[4] The family tree shows only direct male descendants of Mayer Amschel, because, according to Mayer Amschel's will, only those had rights to the firm, as we discuss in subsequent sections.

[5] As described by Liedtke (2016: 35): "It is important to note that the agents' network did not develop according to a master plan, but evolved according to the changing business interests of the Rothschilds". The network appears sizeable: there are over 100 agents listed as correspondents in the London Archives. Mapping out with precision the international structure of the Rothschild bank during the 19th century, beyond the five houses operated by the family, falls outside of the scope of our study.

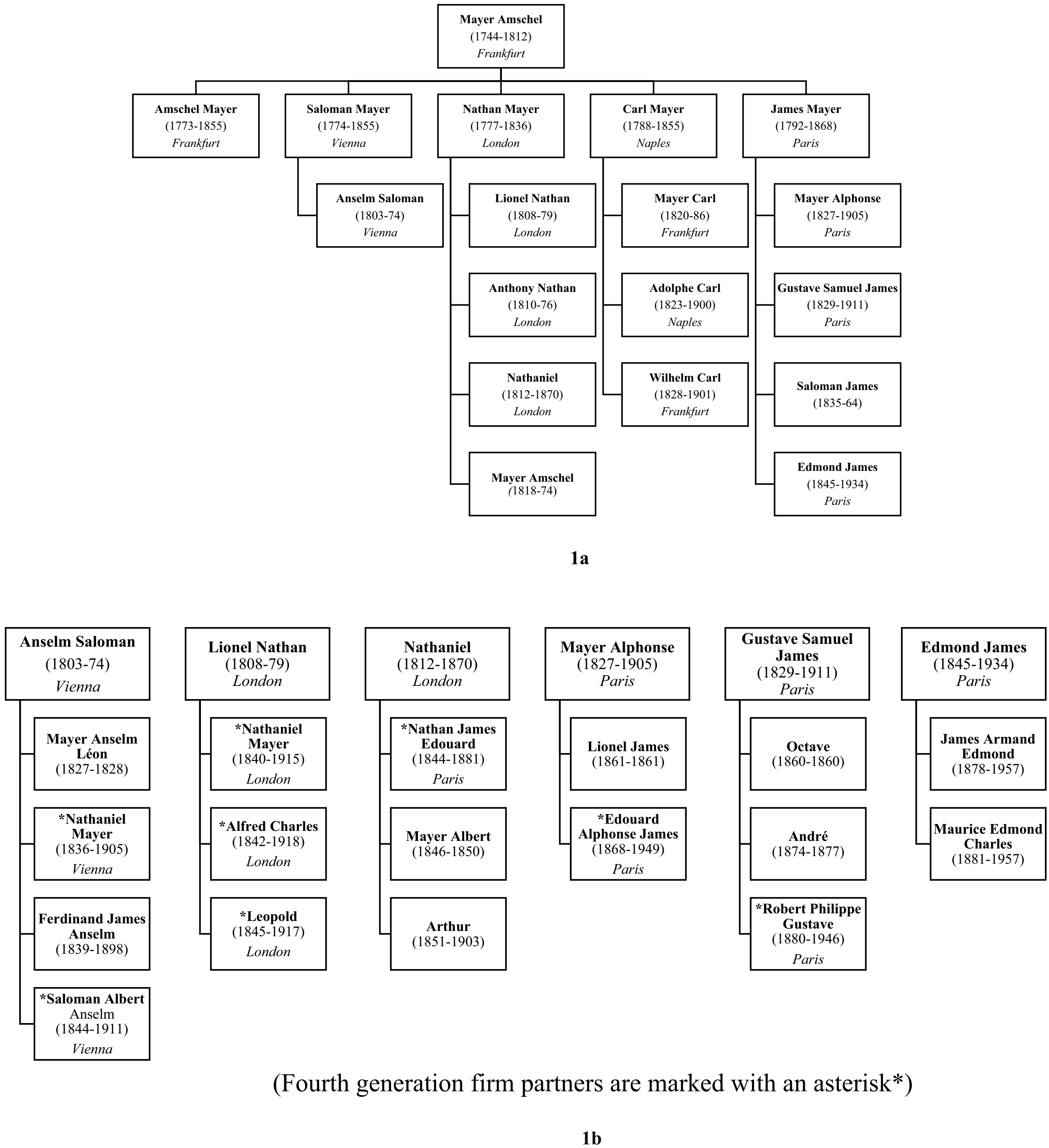


Fig. 1 **a** The Rothschilds' family tree (direct male descendants of Mayer Amschel Rothschild only). NB – all bore the Rothschild surname. **b** The Rothschilds' family tree — third and fourth generations (direct male descendants of Mayer Amschel Rothschild only). NB — all bore the Rothschild surname

States emerged as the largest economy and leading exporter of capital in the world.

One specific point should be noted in the context of our study, namely the position of Jews in the 19th century. Jewish families such as the Rothschilds faced additional hurdles compared to their gentile counterparts when conducting business in 19th-century Europe and America, some of which were formal (e.g., legal restrictions that affected many aspects of

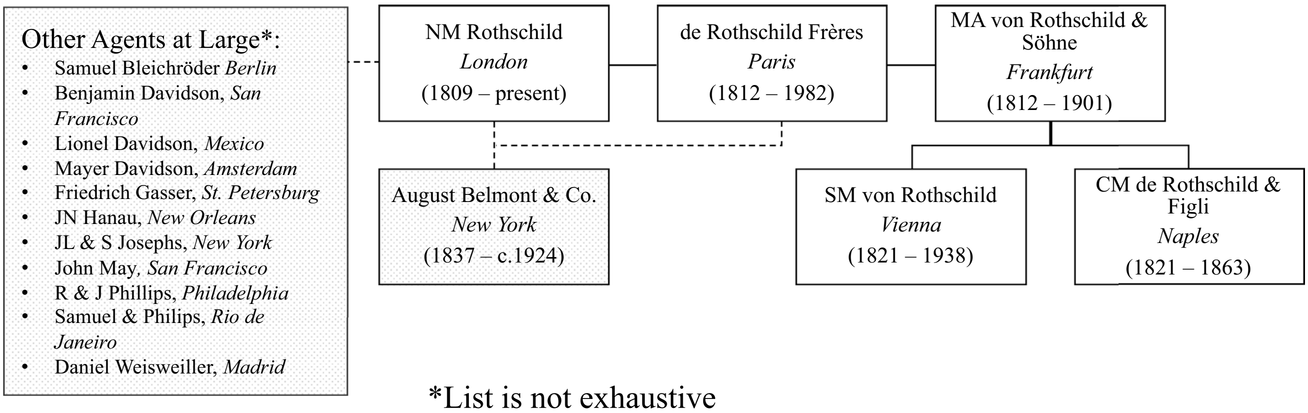


Fig. 2 Rothschild multinational structure during the period analyzed (early 19th century to early 20th century)

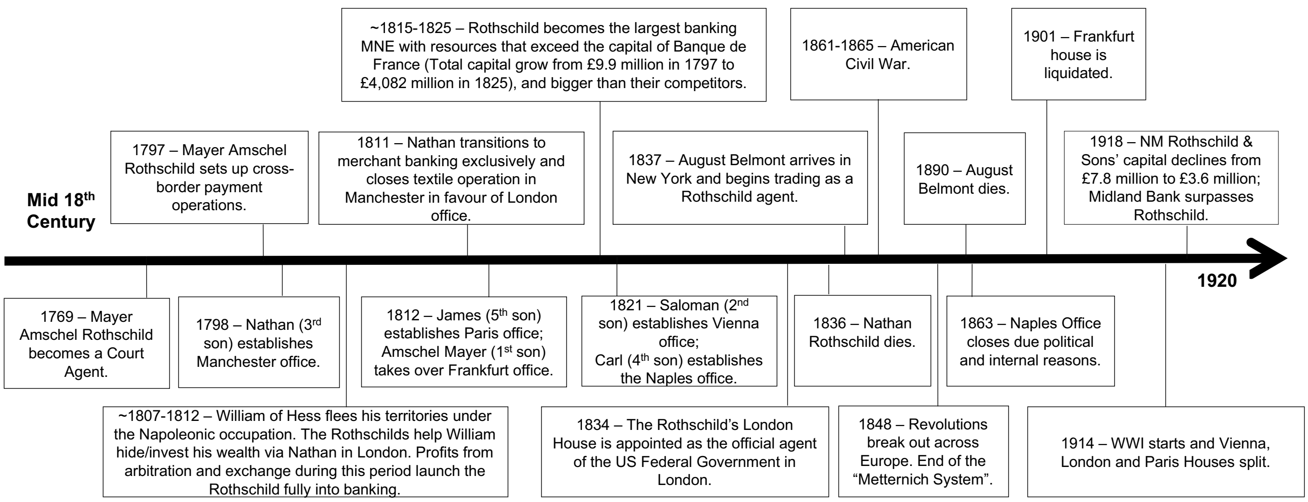


Fig. 3 Chronological summary: Key documented events in Rothschild internationalization, mid-18th century to early 20th century

social and business life), and others informal (e.g., antisemitic social sanctions ranging from ostracism to outright social persecution). Overcoming these formal and informal barriers in the US could be achieved by converting to one of the officially sanctioned Christian denominations – the option chosen by Belmont, the Rothschilds' agent in the United States.

The macro-level conditions discussed above formed a complex backdrop against which international expansion of the Rothschild firm unfolded.

Data and methodology

Case selection

We selected the Rothschild case study for three reasons. First, the firm studied became in a very short time span the largest and most internationalized multinational bank. The family was involved directly in all dimensions of the business, in particular internationalization, which provides an excellent basis for studying the mechanisms through which family firms develop and transfer their FSAs across borders and over time. Second, the history of Rothschild includes periods of successes and failures (including the relative lack of success in the United States), which offers an opportunity to analyze the family's varied impacts on the firm's international strategy and the outcomes thereof. Third, our choice was supported by ample availability of primary and secondary data, as discussed in the following section.

Data sources

We used a combination of sources: the Rothschild Archive held in London, U.K. and Roubaix, France; the work of

Ferguson (1998a, b, 2009); Gray and Aspey's (2009) notes on the Rothschild archives; the Rothschild family's historical accounts; the Rothschild Archive online collection; and other sources listed in Table 1. In collecting archival data, we focused on evidence not readily available through secondary sources, such as the correspondence between Belmont and the family. By visiting the archives in both London and Roubaix, we were able to view both the outgoing letters to Belmont from the Rothschilds (mostly found in Roubaix via copy from the London to the Paris House) and the incoming letters from Belmont, sent to both London and Paris.

We assessed our data to confirm sufficient quantity (time span and diversity of sources and authors) and quality (level of detail) to enable analysis of: (a) how the family interacted with the business and contributed to shaping FSAs, and (b) how the family evaluated family-derived versus nonfamily resources, as well as international business opportunities. Throughout the paper, we rely on historical correspondence for details of crucial events, descriptions/evidence of the nature of the firm and its operations, and for assessing the subjective motivations of key actors.

Data analysis and theory building

We adopted an abductive inquiry method (Gioia et al., 2013): we considered data and theory simultaneously, checking data against theory, matching data to relevant theory-related insights, updating theory, and relating it back to data. After the initial reading of the data, we determined that the internationalization of Rothschild was shaped by several specific variables, namely FSAs, their cross-border transfer and recombination with complementary resources, and expressions of bifurcation bias. Subsequently, our analysis developed into two broad stages. *First*, we identified the Rothschild bank's FSAs and determined to what extent those were family-derived. *Second*, we analyzed these FSAs against the firm's international expansion timeline, to determine whether the MNE was able to transfer and recombine them with complementary resources across borders, to create value from international operations. At this stage, we looked into the dynamics of resource recombination and searched for expressions of bifurcation bias, particularly in instances where recombination failed. Throughout the process, we sought "interpretive rigor" (Mees-Buss et al., 2022: 406), by continually re-evaluating the meaning of data and testing it against theory. As our analysis progressed, we returned to the archives to collect additional data to support emerging conceptualizations.

The results of our analysis are presented in the sections that follow. In accordance with the traditions of analytic narrative in business history research, we combine our discussion of empirical findings with theoretical analysis (Ingram et al., 2012).

The family as a source of FSAs and a vehicle for cross-border resource recombination: The rise of the House of Rothschild in Europe

Rothschild underwent extraordinary growth in the first quarter of the 19th century, from a total capital of £9.9 thousand in 1797 to just over £4 million in 1825, thereby becoming the leading banking MNE in the world in less than 30 years (Ferguson, 1998b).

The London House alone issued 50 loans between 1815 and 1859, with a nominal total value of roughly £250 million. During the same period, Barings issued just 14 loans with a total nominal value of £66 million (Ferguson, 1998a). From 1860 to 1890, the Rothschilds were responsible for more than 1/4th of all recorded debt issues in the London market. Their nearest rivals Hambros and Barings accounted for over 10% each (Chapman, 1984: 88; Jenks, 1927: 421–424).

We identified three classes of family-derived FSAs that allowed the Rothschilds to outperform their rivals during their period of pre-eminence in the 19th century: (1) skilled cross-border coordination of activities; (2) a highly sophisticated corporate diplomacy function; and (3) an unrivaled reputation that developed into a renowned brand.

Cross-border coordination of activities

Business historians argue that the Rothschilds derived a significant competitive advantage from their presence in five European capitals[6] (Chapman, 1984; Ferguson, 1998a, b; McKay, 1990). By the early 19th century, the Rothschilds were operating as an MNE with each of the five sons of Mayer Amschel running a national office: Nathan in London, James in Paris, Amschel in Frankfurt, Saloman in Vienna, and Carl in Naples (Fig. 2). While there were other banks that had international connections – either through affiliated houses or the use of agents – the Rothschilds were larger and more internationalized than their competitors throughout the 1800s (Ferguson, 1998a, b).

The competitive strength of Rothschild lay not only in its geographic reach but also in its ability to *coordinate cross-border operations* – an FSA that was supported by the direct involvement of family resources. The Rothschilds' superior coordination of cross-border activities hinged on competent administration, excellent technical knowledge, and superior entrepreneurial judgment (cf. Verbeke & Lee, 2022) by

[6] This contrasted with their nearest rivals, for instance Barings, which was restricted to correspondent relationships and alliances such as that with Hope & Co. (Amsterdam) and Hottinguer (Paris) (Chapman, 1984). In fact, Barings' only resident agent in the early 19th century was Alexander Baring, who was sent to establish an American office (Baring Archive, n.d.).

Table 1 Data sources

Source details	Use of source	Method of access
Primary sources		
Circular to Bankers (numerous)	19th-century weekly British financial newspaper. Contains numerous records of Rothschild transactions, as well as nuanced contemporary commentary on Rothschild activities globally. Also contains letters to the editor from notable contemporary figures giving their opinions on Rothschild activities	*Gale Primary Sources*
Rothschild Archive Research Forum.	Private online site of the Rothschild Archives. Includes selection of archival material including personal and business correspondence, various business records, etc. Used to collect information about the history of the family and the firm	Online
The Baring Archive (online resource)	Website of the official Baring Archives. Contains digitized archival materials such as business records and correspondence. Used to collect general information about business processes and internationalization history of the Baring Brothers, Rothschild's nearest rivals	Online
The Rothschild Archives, London, UK	Primary historical artefacts related to the family and its business Belmont's letters to the bank's partners dating from his first days in America in 1837	In person
The Rothschild Archives, Roubaix, France	Records pertaining to: the Rothschild Frères Banque (i.e., the French House); the French House's mining and refining ventures (e.g., the Compagnie de chemin de fer du Nord); and personal/private collections and correspondence belonging to Rothschild family members Belmont's letters to the bank partners	In person
Secondary sources		
Chapman, S. D. 1984. *The Rise of Merchant Banking*	Detailed context of Rothschilds, including examples of correspondence Examples from contemporary primary sources Comparisons between Rothschilds and other prominent family banking houses (esp. Barings)	Hard and soft copies
Chernow, R. 2010. *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance*	Detailed context of Morgans, including examples of correspondence Comparisons between Rothschilds and Morgans	Hard copy
Ferguson, N. 1998a. *The House of Rothschild: Volume 1: Money's Prophets: 1798–1848*	Detailed context of Rothschilds, including extensive examples of correspondence Examples from contemporary primary sources	Hard copy
Ferguson, N. 1998b. *The House of Rothschild: Volume 2: The World's Banker: 1849–1999*	Detailed context of Rothschilds, including extensive examples of correspondence Examples from contemporary primary sources	Hard copy
Gray, V., & Aspey, M. 2009. 'The Rothschild Archives'. *The World of Private Banking*: 31–41	Guide to sources available at Rothschild archive (correspondence, records, etc.) as well as detailed historical accounts of aspects of the founding of Rothschild bank	Soft copy
Rothschild Archive Research Forum	Catalog descriptions – used as a guide for physical archive catalog	Online
Wechsberg, J. 1966. *The Merchant Bankers*	Account of hiring of the first nonfamily Rothschild partner in 1960	Hard copy

the Rothschild family managers. Family control facilitated seamless international transactions, whereby all units had uninterrupted access to a common pool of resources and information, without the fear of intellectual property dissipation or resource misuse. Family ties were considered a safeguard against bounded rationality and reliability in cross-border transactions.

In terms of governance, a centralized management system of the firm's international operations through a shared, consolidated balance sheet was critical to success. This element alone, which was highly unusual at the time, and later adopted by all investment banks, set the Rothschilds apart as a true early form of the modern MNE with multiple offices, a centralized management of finances, and an internal capital market that spanned across international borders. Examination of the early balance sheets showed that capital flowed freely between the houses, with each brother having the authority to commit the firm's resources if a suitable opportunity was identified. The Rothschilds competed by engaging in international arbitrage – buying financial instruments in the cheapest market and selling in the dearest.

Rothschild's FSA in cross-border coordination led to a financial innovation that allowed its borrowing clients (usually national governments) to issue their bonds in multiple European markets simultaneously. This innovation revolutionized the market for government finance by making the bonds of foreign governments available to domestic investors in a convenient form that avoided foreign exchange risks. Previously, bond issues had tended to be at the national level and required potential foreign investors to have local agents who could purchase and/or sell the bonds locally and remit capital gains and interest payments to the investor. When Nathan listed his 1818 Prussian loan that paid interest in London, and in pounds sterling, *Gentleman's Magazine* wrote:

> Rothschild may be said to have been the first introducer of foreign loans into this country; for, though such securities did at all times circulate here, the payment of the dividends abroad, which was the universal practice before this time, made them too inconvenient an investment for the great majority [of men] of property to deal with. He not only formed arrangements for the payment of the dividends on his foreign loans in London, but made them still more attractive by fixing the rate in sterling money, and doing away with all the effects of fluctuations in exchange rates (Chapman, 1984: 82–83).

The Rothschilds also developed a proprietary courier system, which was a functional component of their capacity to coordinate cross-border operations more efficiently than the competition. The speed and reach of the Rothschild courier system allowed the brothers to conduct arbitrage exchanges between different world markets for a wide number of financial instruments and other commodities. European leaders, *inter alia,* Queen Victoria, Prince Albert, and Klemens von Metternich would often send personal correspondence 'via Rothschild'. Commenting on the superior speed of the Rothschilds' couriers, the famous French politician Charles Maurice de Talleyrand, Minister for Europe and Foreign Affairs of France, complained that: "The English ministry is always informed of everything by Rothschilds 10–12 h before Lord Stuart's [British diplomat, Ambassador to France] dispatches arrive" (Chernow, 2010: 21). The Rothschilds encoded their messages in case of interception, thus creating a proprietary knowledge advantage. This ability to encrypt sensitive information was crucial for a firm that relied on informational advantages vis-à-vis its competitors. In addition to their use of *Judendeutsch,* a colloquial vernacular based on High German fused with elements of Hebrew, the brothers also employed codenames, e.g.: London was "Jerusalem" and transfers of bullion made across the Channel were codenamed "Rabbi Moses" (Ferguson, 1998a). The Rothschilds' proprietary encryption and courier system, which developed organically from family-specific language, relational ties, and shared experiences, extended the brothers' capacity to coordinate cross-border operations and gave them an advantage that was unassailable until the introduction of the electric telegraph in the latter half of the 19th century.

A final component of the Rothschilds' governance strength in coordinating activities across borders was their investment in assets and know-how necessary to manage cross-border logistics in a highly competitive manner. Historians such as Ferguson (1998a, b), Chapman (1984) and Mckay (1990) all present compelling evidence suggesting that the Rothschilds were able to catapult themselves to the forefront of international finance during the French Wars by 'investing' the private wealth of Prince William of Hesse-Kassel (likely without his knowledge) in wartime smuggling opportunities – often at the behest of the British government. The largest and best-known transaction for which the brothers are believed to have 'borrowed' the prince's capital was Nathan's purchase in 1811 of an entire £800,000 gold shipment from the East India Company, which he smuggled through French-occupied Europe to Spain to provide financial assistance to the Duke of Wellington. The Rothschilds used the bullion to purchase bills on London (IOUs payable by banks and large firms in London), which were selling at a 25% discount in the war-torn peninsula. Using their network of contacts and couriers, the brothers smuggled these bills back to London where they redeemed them at par for a 33% profit. In a similar venture, the London House smuggled gold across Napoleon's blockade into Paris to buy bills in London that were selling at 67% of par value, which were likewise smuggled back to London and redeemed at par. By the time the prince regained access to his wealth after Napoleon's defeat at Waterloo in 1815, the Rothschilds had profitably used his capital, and they could pay back the prince with an appropriate return on his 'investment'.

Corporate diplomacy

Throughout the 19th century, the Rothschilds were noted for their ability to tap into (physically proximate) complementary resources: contacts with government officers, warehouse owners, and other strategic stakeholders that allowed safe passage to their envoys. The close relationships that the Rothschilds formed with the political elite in European countries are particularly noteworthy. Developing these networks as essential complementary resources (located outside of the confines of the family) commenced under the tutelage of their patriarch, Mayer Amschel, who had been able to cultivate sufficient belief in his reliability with Prince William of Hesse-Kassel that he was elevated to the status of official court agent. This privileged access to the state and other influential stakeholders as a complementary resource appears all the more impressive given the legally and socially inferior status the Rothschilds held as Jews in 19th-century Europe and widely spread antisemitism.

Mayer Amschel's sons continued to invest substantial resources into corporate diplomacy, defined as "an attempt to manage systematically and professionally the business environment in such a way as to ensure that business is done smoothly" (Steger, 2003: 18). In England, influential relationships cultivated by Nathan included: John Charles Herries (British Commissary-General responsible for financing the Duke of Wellington's campaign against France); Charles Stewart (brother of Lord Castlereagh, who was the British delegate at the Congress of Vienna); Prime Minister Lord Liverpool and his Chancellor of the Exchequer Nicholas Vansittart; and the Duke of Wellington himself. Nathan's sons continued to cultivate relationships with the likes of Benjamin Disraeli, William Gladstone, and even King Edward VII. In 1847, Nathan's son Lionel became the first practicing Jew to take office as a British Member of Parliament. In Austria, Salomon Rothschild (head of the Vienna House) nurtured such a close relationship with Chancellor Metternich that the Rothschild family came to be identified as the financiers of European reactionary politics amongst many of the socialist and populist movements of the day.

The Rothschilds initially curried favor with politicians through, among other strategies, extending large personal 'loans' (England's Prince Albert and Austria's Metternich were both frequent recipients of Rothschild credit) and providing access to sensitive information via their private courier network. As legal barriers to Jewish social life were lifted across Europe over the course of the 19th century (often as the result of liberal and/or revolutionary political movements), the Rothschilds were able to cultivate new types of access to European elites: now less as 'court Jews' and more frequently as political and cultural elites in their own rights. The Rothschild families 'befriended' writers like Benjamin Disraeli and Heinrich Heine, and their children took piano lessons from such famous composers as Frederic Chopin. The Rothschilds actively benefitted from their corporate diplomacy FSA, deploying it throughout Europe to acquire ever-growing shares of the sovereign credit market.

Of note, the proximate complementary resources integrated through corporate diplomacy remained on the outside of the family firm's internal functioning but were accessed and recombined by family members – a routine not deployed during the firm's subsequent expansion into the United States.

The family name as a brand: Building a reputation in the financial industry

The market price for a security reflects investor confidence in that security; having a security underwritten by a firm with a reliable reputation can boost investors' confidence, and thus the price which they are willing to pay for that security. The 19th-century financial industry was characterized by scarcity of information (and thus severe challenges of bounded rationality) and only incipient regulatory instruments for legal protection against non-compliance (and bounded reliability issues). In this context, a strong reputation for honest business dealings and making good on promises, such as that developed by the Rothschilds, was indispensable to financial service firms operating in the 19th century.

The testimony of *Circular to Bankers*, a 'trade journal' published every Friday between 1829 and 1850, on the reputation of the Rothschilds during the period 1828–1848 (the period accessible via Gale Primary Sources) is consistently positive. An article appearing in the edition of Friday, March 18, 1831, credits "the connexion which the firms of Baring and Co. and Rothschild and Co. have had with French loans, and finances, and the high reputation of these houses, in the manufacturing districts" (Circular to Bankers, 1831: 277) for the relatively wide circulation of French funds in the manufacturing bases of Lancashire and Yorkshire in the north of England.

An article appearing on August 7, 1835, suggests that Nathan's reputation in England at the time was so great that the Bank of England itself relied upon his assurances to steady financial markets during one of the Bank's liquidity crises (viz. the Panic of 1825). Nathan's public commitment to purchase gold specie in the amount necessary to stop a drain of gold away from England reassured other investors and spared the Bank of England the great embarrassment of having to suspend specie payments. Commenting on the role that Nathan's assurances played in averting a crisis, the *Circular* wrote:

> [W]e have no doubt that by his instrumentality, in great measure, the most material point of stopping the export of gold has been accomplished. *He can, at any time, stop or increase a demand for gold at the Bank of England* [emphasis added]…[N]o other man and no other coalesced number of individuals, accustomed to bid for loans, could have given the Bank Directors the same sort of assurance that they might safely assist the public circulation, that Mr. Rothschild could be able

> to give them. No set of men acting in rivalry with Mr. Rothschild could have convinced the Bank Directors that he individually, if hostile, would not have it in his power to embarrass the operations of his competitors, and endanger those regulations upon which the affairs of the Bank of England are conducted (Circular to Bankers, 1835: 18).

The fact that the operation to stop the outflow of gold and steady the London money markets depended upon Nathan's support demonstrates the unique reputation held by the Rothschilds in the world's largest financial market, as well as their leading position as financiers. The reputation of the Rothschilds, and of Nathan in particular, was such that it conferred advantages not only to the firm itself in its competition with other banks for bond issues, but by proxy, also to governments that were experiencing financial crises. Indeed, the "protecting hand of Rothschild" (Circular to Bankers, 1839: 113) would come to the rescue of many national governments over the course of the 19th century, thereby increasing the reliability of the entire financial system.

The family business literature emphasizes that reputation is one of the critical resources a family can confer to a business, especially so when the firm shares the same family name (Calabrò et al., 2022; Kano et al., 2021). The firm's reputation, in turn, also feeds back into the reputation of the family, thus creating a highly interdependent relationship. Thanks to the family's success in growing the business, the surname Rothschild evolved into a brand, a highly valuable intangible resource that supported the firm's competitiveness (Wilkins, 1992; Wilkins et al., 1994). Rothschild became the most well-known brand in the financial industry, signaling efficiency, reliability, and superior ability at moving capital across borders.

The family as a vehicle for cross-country FSA transfer and resource recombination

The above account suggests that the Rothschild family was able to 'elevate' family resources – most notably the family's presence in five major cities, financial industry knowledge, personal connections, entrepreneurial judgment, and reputation – to create valuable FSAs. Importantly, the family appears not only to have been a platform for FSA development but also a vehicle for FSA cross-border transfer and recombination. Specifically, the family's dispersed presence across Europe facilitated the seamless transfer of information and capital across locations, without the risk of dissipation of sensitive knowledge. Looking at the first three generations of the family, Ferguson remarks that:

> If there was a single 'secret' of Rothschild success, it was the system of co-operation between the five 'houses', which made them, when considered as a whole, the largest bank in the world, while at the same time dispersing their financial influence in five major financial centers spread across Europe (Ferguson, 2009: 13).

The Rothschild family controlled and coordinated a Europe-wide system whereby the partners shared the balance sheet and had full autonomy over its use. Country-level financial activities were supported by the firm's international coordination and communication system. The family's tightly coordinated internal network as an FSA also supported the cross-border application of innovative approaches to the business. For instance, when the continental brothers brokered deals with the sovereigns in their respective markets to issue bonds, Nathan marketed these securities in London. The brothers' shared history, identity, and language (which was not accessible to those outside of the family) allowed them to transfer financial instruments across markets reliably, without having to safeguard extensively against bounded rationality and reliability, and even to collaborate across war frontiers. The Rothschilds were able to internalize within the family business the distribution channels for financial instruments, and thereby the associated exchange risks that were normally passed on to the investors. The bank's European transactions were supported by the family's (and, by extension, the firm's) 'aggregated' external network resulting from access to complementary resources in the form of political and economic elites, and the strong brand reputation.

The seamless integration of valuable complementary resources was predicated on the fact that it was a family member who managed the interdependencies with resource holders and executed on requisite resource recombination in each European market. In fact, Mayer Amschel's will stated that only direct male offspring of Mayer Amschel could control the business and its capital:

> I hereby decree and therefore wish that my daughters and sons-in-law and their heirs have no share in the capital of the firm "Mayer Amschel Rothschild & Sons" and even less that they are able or are permitted to make a claim against it for whatever reason. Rather, the said firm shall exclusively belong to and be owned by my sons. None of my daughters and their heirs therefore has any right or claim on the said firm and I would never be able to forgive a child of mine who, against this my paternal will, allowed themselves to disturb my sons in the peaceful possession of their business (Ferguson, 1998a: 74).

This clause was subsequently reinforced through a series of Rothschild partners' agreements, and as such, the linkages connecting family-derived FSAs with complementary resources in European markets remained completely consanguine for the first three generations of family management. While representing a strong form of bifurcation bias, the system worked well enough to protect family-derived FSAs in Europe and to advance the family's noneconomic goals, namely to maintain full control of operations and preserve the capital within the family. Bifurcation bias did not have immediate negative effects on efficiency, because a sufficient number of competent direct male descendants was available to lead European subsidiaries and to execute on the recombination of family-derived FSAs with complementary resources.

The limits of family-derived FSAs: Rothschilds' expansion to America

Considering the reservoir of FSAs enjoyed by Rothschild and its dominant international position in the 19th century, the failure in the United States appears to have resulted from the inability to establish a solid family-based anchor in the country, as we noted earlier. Failing to gain a share of the American market during the 1800s (in contrast to some competitors who managed to do so) eventually contributed to the demise of the Rothschilds' dominant industry position, especially as North America's role in the global economy increased and Europe's wealth was ravaged by two world wars (Ferguson, 1998b).

Historians have advanced possible explanations for what Ferguson (1998b: 66) calls the Rothschilds' "single greatest strategic mistake". Chapman, for example, has suggested that Nathan's sons lacked their father's skill and ambition. Ferguson attributes the Rothschilds' failure to capture the American market to the fact that none of the third-generation Rothschilds could be persuaded to leave Europe for a life in the United States. These explanations, however, provide only a partial answer, given that the family had a capable nonfamily manager in charge of its American operations – August Belmont. Had Belmont been given full authority to act on behalf of the firm in the same way as the family partners in other jurisdictions, he could have become instrumental in accessing resources and developing FSAs necessary to create value in the US market. While the reasons for the Rothschild's failure to capture this market are multiple and complex, the family's biased judgment toward its American agent interfered with needed resource recombination and contributed to the firm's loss of competitiveness in the United States.

The US expansion path and the role of August Belmont

The Rothschilds' efforts to enter the American market date back to the 1820s (Rothschild Archive Research Forum, n.d.). By the fall of 1835, the London House was marketing US government securities to English investors. However, the firm's position began to sour in the United States beginning with the Panic of 1837. Both Rothschild's correspondents in the US markets (Phillips and Joseph & Co.) went bankrupt, entailing heavy losses for the Rothschilds. It was during this period that August Belmont – a 23-year-old Frankfurt Jew (born Aaron Schönberg) who changed his name and converted to Christianity upon landing in America – entered the scene. Belmont had been sent by the London and Paris Houses on an assignment to Cuba to gather information on the Rothschilds' investments there in the wake of the Carlist War. Upon arriving in New York, Belmont received news of the failure of the Rothschilds' two American agents to call in debts and immediately forwarded the news to the London and Paris Houses, along with a request to stay in New York. This request was granted, and Belmont was given powers of attorney to pursue several bad debts arising from the 1837 crisis. The Rothschilds were happy to have Belmont acting on their behalf to chase bad debts in America, but they seemed less pleased with his efforts to secure new business. The Rothschilds appear to have been particularly upset by a deal Belmont committed them to soon after his arrival for the sale of Michigan state bonds in partnership with the Farmers' Loan and Trust Company. A letter from the London House in July 1838 reprimands Belmont severely for engaging in business without express permission:

> We are extremely dissatisfied with your conduct upon this occasion and cannot understand how you could take upon yourself the responsibility of engaging us in operations of such extent and importance without first our sanction. You acted exceedingly wrong on this head and have besides pursued a course which goes considerably beyond and is contrary to the general instructions we have given you… (NM Rothschild & Sons, 1838a).

The Rothschild London and Paris Houses sent a more senior agent, Julius Sichel, out to New York to supervise Belmont's American activities. Belmont's letters to the London House during this time show that he was deeply humiliated by this reaction, so much so that in November 1838 he requested permission to sail back to London for a direct meeting with the Rothschilds to explain his actions. The Rothschilds' reply in November 1838 states nothing in answer to his request to return to London, but it does mention that some Indiana State bonds for which Belmont had asked the Rothschilds to do the marketing (also on his own initiative) were doing quite well in London. The reply also requests him to contract for an additional $1 million consignment with that state. Sichel's letters back to his bosses in London during this time explicitly state that Belmont was fulfilling his duties faithfully and that there was no reason for him to stay:

> I don't know what your intentions are as regard Belmont. I told you in my first letter that whatever he had done for you, he thought of doing well and I can only say now, that I have not seen anything of him which in the moral way I can call wrong. As for myself, I really think that I have done here what I could do and I hope to your satisfaction but now I do not see of what use my stay here can be to you as I have nothing at all to do. I therefore beg you to tell me what you wish me to do as I am quite ready to return to Europe (Sichel, 1838a).

Julius Sichel also appears to have agreed with Belmont as to the quality of the investments that the latter was trying to procure for the Rothschilds in London and Paris. In a separate letter to James during his 1838 assignment to reign in Belmont, Sichel writes:

> Mr. B. Curtis [of Farmer's Loan and Trust] is going out with the Roscoe [a steamer bound for London]. You will find him a very clever man. He stands here in very high repute. Having told in my former letters my opinion about the solidity of the Farmers' loan I find it unnecessary here to repeat it (Sichel, 1838b).

The correspondence between the Rothschilds and Belmont confirms the family's intention to limit the mandate of their US agent, and their suspicion of his initiatives, despite the evidence that he was entrepreneurial and was performing well in his duties. Realizing that Belmont may have not found this limited role satisfactory, the Rothschilds issued a polite but firm ultimatum:

> If it is agreeable to you to act for us in this situation and capacity, we shall be gratified to have your services, but if you should not find the occupation suitable and should your activity of mind require a wider sphere, you are at liberty to leave your situation and come over to this country. In this case we should appoint another agent and send him over to New York. We shall be happy however to retain your services if this explanation of our views is agreeable to you, and if you determine upon giving, with due care and attention, full effect to our wishes (NM Rothschild & Sons, 1838b).

In his response to these instructions, Belmont communicated a willingness to comply with his bosses' wishes but also warned them that the constraints imposed on his activities made fulfilling even some of their explicitly sanctioned orders challenging, if not impossible:

> Your desire [to have] every transaction first laid before you for your sanction could probably be complied with without serious inconvenience (…) But it would be quite impossible to extend such a measure to all transactions because circumstances are too fluctuating to allow people to wait 6 to 8 weeks for an affair of £20M to £30M [M being Latin for thousand], when they can so easily do it offhand elsewhere. At the same time, I confess to you that I should not like to be an agent with my hands tied up in this way (Belmont, 1839).

Despite this rocky start of the relationship, both parties eventually worked out their differences to a sufficient degree to see Belmont remain the Rothschilds' agent in America for the remainder of his career (Katz, 1968). An examination of Belmont's life and work suggests that he possessed significant professional qualities necessary for successfully conducting an international banking business: sound entrepreneurial judgment, political savvy, and solid networking capabilities, critical to accessing requisite complementary resources. In 1844, he began what would become a lifelong career in American politics as a member of the Democratic Party (he would serve as its chairman from 1860 to 1872, occupying that prominent office throughout the Civil War). By 1849, Belmont was engaged to the daughter of prominent US Navy Officer, Commodore Matthew Galbraith Perry. By 1853, Belmont had climbed the ranks of American political society such that he was appointed America's ambassador to the Hague. It is clear that Belmont had successfully embedded himself in the American elite, essentially replicating the corporate diplomacy processes that the Rothschilds had perfected in Europe and securing access to complementary resources for the firm – access which the Rothschilds largely chose not to avail themselves of (see below).

In objective terms, Belmont's contribution to the Rothschilds' business in America was non-negligible. In 1874, the London House partnered with Joseph Seligman in the issue of $45 million in US Federal Government 'five per cent' bonds. When this issue failed to generate adequate enthusiasm, another issue of $25 million was made in partnership with Morgan on a 55/45 split (the Rothschilds taking the larger share). With Belmont's assistance, the Rothschilds participated in £267 million in US bond issues between 1873 and 1877 (Ferguson, 1998b).

Yet, throughout the 1800s, Rothschild remained a smaller player in the American market, and the United States represented only a minor share of the bank's business. Rothschild managed the largest share of the global financial market during the 1800s, but its competitors, Barings and Morgan, were more successful at penetrating the North American market and hence diversifying away from Europe.

The Rothschilds clearly understood the importance of the US market. In an attempt to compete there using the same family-derived FSAs that allowed their successful expansion in Europe, the Rothschilds sent James' son Alphonse to New York in May of 1848, however, Alfonse returned to Paris later that year, presumably because he was not willing to give up the comforts of Europe for a life in the New World (Ferguson, 1998b). Following Alphonse's return to Paris, Belmont was left to continue overseeing the family's business in America for the remainder of the 19th century. However, the replication of the cross-border coordination system that sustained the Rothschilds' competitiveness in Europe required a local manager with full access to the firm's capital, information, and aggregate network. The family did not extend this access to its US agent.

Bifurcation bias as a barrier to FSA transfer and recombination with complementary resources

The most common manifestation of bifurcation bias in a family firm is the preferential treatment of family members and the concomitant devaluing of nonfamily staff (Verbeke & Kano, 2012). This default and systemic asymmetric treatment can result in two equally damaging outcomes: 1) incompetent and/or unreliable family staff are wrongly viewed as being competent and reliable, and thus entrusted with positions in the firm for which they are not suited, leading to negative outcomes; and/or 2) competent and reliable nonfamily staff are wrongly viewed as being incompetent and/or unreliable and thus not entrusted with responsibilities for which they may be the best candidates, also leading to negative outcomes.

In the case of the Rothschilds, family members entrusted with the business seem to have been held to the highest standards of competence – a situation where family-favoring business practices may in fact generate benefits for the firm, at least in the short to medium term (Fang et al., 2022). However, the family's overreliance on the direct male descendants, coupled with the dysfunctional negative affect toward nonfamily managers, effectively halted the growth of the firm at five houses throughout the 19th century. When the firm restructured following Nathan's death in 1836, only five of the third-generation male successors were deemed sufficiently competent to take on the full duties of running a branch of the firm: Anselm, Lionel, Mayer Carl, Adolph, and Alphonse (Fig. 1). The key human resources embodied by the immediate family being limited, the only option available for pursuing expansion was the recruitment and deployment of nonfamily managers to establish operations in new host locations, i.e., the 'professionalization' of the firm (Chua et al., 2003; Gedajlovic et al., 2004; Verbeke & Kano, 2012).

The firm's expansion had required the use of nonfamily staff from very early on, including bookkeepers and various clerks and assistants, many of whom were drawn from the Rothschilds' extended family or other Jewish families who were deemed reliable – a common safeguarding practice in Jewish businesses, cemented by centuries of discrimination by outsiders (Williamson, 1996). By 1830, the London House employed between 30 and 40 staff. However, a shortcoming of the Rothschilds' human resources 'system' was exposed when Nathan suddenly died while away in Frankfurt in 1836. The third-generation Rothschild sons were immediately confronted with the fact that there were no clear candidates to oversee the London and Paris offices while Nat and Anthony attended their father's funeral in Frankfurt. In the end, senior clerks in both offices had to be given powers of attorney, a responsibility which had never before been conferred on anyone outside the family. In London, there was some consternation about who this responsibility should be given to, thereby demonstrating a lack of professional hierarchy outside of the family partners (Ferguson, 1998a: 283). This deficiency in Rothschild staffing practices would not be corrected until over a century later: the Rothschilds did not appoint their first nonfamily partner until 1960 (Wechsberg, 1966); the first non-Rothschild CEO was appointed in 2010 (Reuters, 2010).

During the 19th century, the most senior nonfamily employees of the Rothschilds were salaried agents who were tasked with establishing operations in markets that the family either considered less important than the five houses it controlled directly, or for which there were no suitable and available family managers, as was the case with the United States. These agents were selected after having shown themselves capable as clerks in the firm and being deemed reliable by the partners (to the extent that the Rothschilds were willing to consider any outsider reliable).

The nature of 19th-century travel and communication meant that the agents on the ground were inevitably better informed about the goings-on in host markets and thus had to be given substantial leeway in order to operate as the local situation demanded. The Rothschilds had great difficulty accepting these arrangements (Ferguson, 1998a). In fact, the family partners were always suspicious of these agents and often accused them of disloyalty and even fraudulent activity.

Bifurcation bias appears to have been at the heart of the family's refusal to entrust Belmont with the management of the American operations. For example, when Belmont wrote back to the London and Paris Houses in 1837 to notify them that he had established an office in New York, James wrote:

> He [Belmont] is a stupid young man […] and we are not so desperate for new business and would rather sort the old business matters out so that there is no need for anyone to go to America. That is, and remains, our opinion as far as our dependence on a scoundrel such as Belmont is concerned. […] Such an ass needs to be kept on a short leash (Ferguson, 1998a: 372).

The family's mistrust of Belmont prompted James and his wife Betty to send their son Alphonse to New York, the intention being to replace this 'outsider' with a family partner and to establish a Rothschild House in the US. However, as mentioned above, Alphonse returned to Europe in the same year, not taking up the leadership of the American House (Ferguson, 1998b). That was not James' first attempt to persuade one of the third-generation family members to settle in America. James had initially tried (unsuccessfully) to persuade Nathan's son Anthony to take on the task of establishing an American House. In a letter to his nephews in London, James explained the family's vision for the US operations:

> …to place our trust entirely in the hands of strangers is difficult…I am not at all opposed to the idea of establishing a company for the American business but can such a project be realized, that is, to set up a business house with associates who are not in fact responsible [i.e., without the authority of a partner]? […] won't those people who agree to join us [presumably other syndicate members] perhaps simply skim the cream off for themselves, although we could do the same and get the best morsels? (Ferguson, 1998a: 371–372.

James' comments demonstrate that he *knew* the American project required the presence of a full partner to operate an official subsidiary, if it were to be successful. Yet, the family was unwilling to cede managerial control of the firm by conferring more autonomy to its American agent, thus hindering proper recombination of extant FSAs with the needed complementary resources in the firm's internal organization. The reluctance of the family to establish a full-fledged subsidiary in the US, managed by a nonfamily employee, limited access to complementary resources. It also impeded the transfer of the valuable family-derived FSAs to – and their recombination with novel resources in – the US market, as summarized in Table 2.

Cross-border coordination

Belmont could not seize opportunities for arbitrage across countries as fast and decisively as US competitors because the family did not give him the authority to do so. Belmont was initially restricted to a credit of just £10,000 going into the 1840s, because he was not viewed as reliable. This amount was only increased when Belmont threatened to start doing business for other houses. By 1869 (over 30 years after his arrival in America) Belmont's credit had been increased to £300,000 (Chapman, 1984: 37). This 'short leash' made it difficult for him to compete in the fast-paced American market, a fact noted by Belmont himself in his correspondence with his European employers. In a letter of 1869, Belmont was still struggling to earn sufficient buy-in from his employers in London:

> One business brings another and by constantly having to refuse all the … propositions of the most legitimate nature, people forget the road to our office (Belmont, 1869).

Belmont's main competition in America were the Brown Brothers of Baltimore who, Belmont complained, had "such large credit settlements that they monopolize the bill market" (Chapman, 1984: 42). The Rothschilds' decline in the American bill acceptance market came to be mirrored in the bond market (the pillar of Rothschild dominance), where Belmont lamented that the Rothschilds were "quite in the background" due to lack of initiative (Chapman, 1984: 42). Elsewhere, Belmont bemoaned the Rothschilds' "utter want of appreciation of the importance of the American business" (Chernow, 2010: 40). This lack of initiative by the London and Paris Houses saw Belmont sail to London in 1861 in an unsuccessful attempt to generate enthusiasm for a $100 million portion of a $270 million loan raised by the US federal government to finance the Union side of American Civil War (Wilkins, 1989: 102), exactly the sort of wartime financing in which the Rothschilds were most skilled. In 1869, Belmont even agreed to cut his commission from 1/4 to 1/8 of 1% in order to secure sufficient credit from the London House to engage in arbitrage purchases of US bonds between New York and London – another staple of Rothschild business activities that was not deployed fully in the United States (Wilkins, 1989: 110).

The American office did not benefit from a shared consolidated budget with the other offices, and it could not subscribe large debts or financial operations without the lengthy process of consultation with the other offices. Belmont's letters indicate that his competitive position vis-à-vis his rivals was seriously hampered by his lack of sufficient authority at the bargaining table when pursuing new business opportunities in America. In a letter of 1843, Belmont wrote to the London partners that he had been forced to let opportunities "escape from want of authority from you, partly also because you have never placed me by any credentials of capital left permanently in my hands" (Belmont, 1843a). In another letter of the same year, he noted:

> I assure you that it is the most trying thing for my feelings to have to do business under such restrictions and suspicions and unless it is remedied by you in some way or other, I shall be compelled to let any order or operation pass by unexecuted which requires me to draw upon you. Barings, Fletcher, Alexander, and many other English and Continental Houses have their agents here but all have their full powers to draw and not a single one is situated like me (Belmont, 1843b).

With the total capital of the firm in 1844 being £7,778,000, Belmont's £10,000 credit facility meant that he had permission to commit only 0.1% of the firm's capital at a time when the United States were quickly becoming one of the world's most important capital destinations. This credit amount would not have been enough to do more than discount bills, and it would have certainly precluded Belmont from engaging in any bond issues without getting permission – which, it appears, was frequently denied.

Corporate diplomacy

The Rothschilds' American operations were never officially defined as being part of the firm's banking business, which prevented the company from exploiting Belmont's networking efforts, i.e., his own bankable attempts at accessing proximate complementary resources. As discussed above, Belmont was able to engage successfully with local political and business stakeholders, yet the Rothschilds failed to integrate these complementary resources with their extant family and business networks to replicate in the United States the corporate diplomacy tools that they had perfected in Europe. As a result, the bank did not fully capture the benefit from Belmont's network in American politics. In an 1838 letter sent to the London House, Belmont complained of the Rothschilds' unwillingness to unambiguously endorse him as their agent and to profitably merge the firm's and the agent's networks to facilitate business transactions:

> It is true, that I might have been able to extend these operations [procuring specie], as well as other very safe and profitable affairs, but the circumstance that in fact I never have been introduced still to this very moment by any written instrument as your authorized agent, hinders me very often in my transactions… I am too little known to inspire that confidence which is necessary in transactions between distances from here to England… [underline in original] (Belmont, 1838a).

Firm's reputation and brand name

The family's rather hesitant backing of – and at times actual disassociation from – Belmont undermined the extent to which their American operation could benefit from using the Rothschild brand. The London House appears to have been reluctant to even acknowledge him as their agent when asked directly by a client with whom Belmont had been doing business on behalf of the Rothschilds for some three or four years:

> This gentleman … made an application to you, to inquire from you whether I was your agent here and whether my bills on you would be always accepted,… of which questions you gave an evasive answer, stating that my bills would be respected according to circumstances and like those of any other correspondent! […] If your confidence in me is not established enough to pronounce me to the world 'your agent', as I really am and if you reserve yourselves the privilege of refusing my drafts, it cannot be expected that strangers should show more confidence in me than my own principals (Belmont, 1844).

The Rothschilds' US operations thus lacked precisely those FSAs that allowed the bank to succeed in Europe. Replicating those across the Atlantic would require that the firm recombine its core FSAs with the complementary resources accessible via the agent: Belmont's knowledge of the local market and his connections with proximate political and economic elites. Doing so, however, would have required delegating substantial control over internal operations to a nonfamily member, and signaling to the market the firm's full support, which the family was not prepared to do.

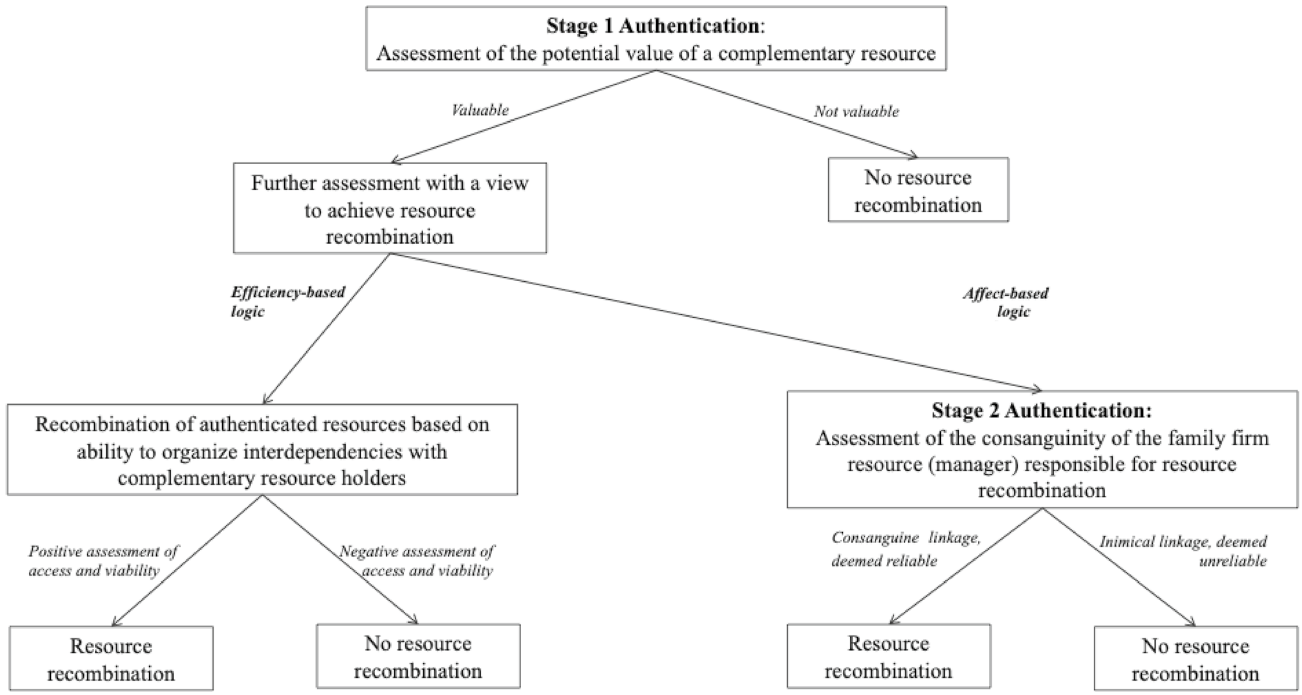
One of our empirical findings is thus that, in the Rothschilds' case, bifurcation bias yielded a *two-stage authentication system* for integrating complementary resources, as depicted in Fig. 4. In the first stage, the potential value of complementary resources is assessed. Here, evidence strongly suggests that the Rothschilds fully appreciated the importance of the American market, the value of the network that Belmont had developed, and even the need for this nonfamily manager to engage in resource recombination as a linking pin with the family. However, in the second authentication stage, the consanguinity[7] of the resource responsible for recombination is assessed. In the firm's European operations, recombination was led by the Rothschild brothers; however, in the United States, a family 'outsider' was put in charge of executing on needed resource recombination. When viewed through an objective lens, Belmont was well positioned to perform the required resource recombination: he commanded proven entrepreneurial qualities and, as a converted Christian, enjoyed access to the type of economic and political elites which may at the time have been out of reach for the Jewish community (Birmingham, 1967). He should (or could) have been given ample local authority and resources to link the family with the US market. However, bifurcation bias in this second authentication stage prevented this linking pin from operating effectively. The potential value to the firm of local complementary resources was not realized.

The Rothschilds were eventually eclipsed by the Barings and Morgan banks in America (Ferguson, 1998a), who followed a different path in this market. They opened a

[7] In this particular case, consanguinity has the narrow meaning of being a direct male descendant of Meyer Amschel, as discussed above.

Table 2 Bifurcation bias as a barrier to FSA transfer and recombination

Family-derived FSA	Value in host market	Required complementary resources	Conditions for FSA transfer and recombination	Assessment of recombination conditions in the US market
Cross-border coordination	Ability to seize opportunities and exercise bargaining power was highly valuable in the fast-paced and competitive US market	Market knowledge Relationships with local institutions to facilitate transactions Logistics infrastructure	Swift communication, logistics, and information gathering Rapid access to credit/common resource pool	Agent Belmont had an excellent understanding of local business opportunities and access to relevant players but did not have the authority to operate fast and decisively; lengthy approval process for investment; initially restricted to a credit of £10,000; US office did not benefit from shared consolidated budget and could not subscribe large financial operations
Corporate diplomacy	Insidership in local political, economic, and cultural networks facilitates business opportunities and safeguards transactions	Local political/ economic/ cultural networks	Tight links between networks in home and host locations to realize interdependencies	Sufficient networks existed in both locations but were not integrated; Belmont engaged with local political and business stakeholders, but the Rothschilds' reluctance to link the family name to the American operations and suspicion toward the agent prevented the company from exploiting the US networks
Firm's reputation & brand name	Reputation for reliability was critical for building investor confidence in new markets, especially in the 19th century (unregulated financial markets/ unsophisticated information technology)	Local networks Local market knowledge	Unambiguous association between the host country unit and the brand	American operations were never officially defined as being part of the firm's banking business and did not fully benefit from the brand name reputation that such status would have conferred; Belmont was not granted full authority to represent the family name and run a proper subsidiary



* Note: Bifurcation bias in the family firm can in a first stage start with misclassifying valuable complementary resources abroad as non-valuable because of a negative affect vis-à-vis resources unrelated to the family. Assuming this first stage does not occur, an efficiency-based logic could further culminate in value-creating resource recombination. However, even in the absence of a first-stage bifurcation bias, value-creating resource recombination may be impeded in the second stage because of the non-consanguine status of the actor (manager) in charge of the resource recombination process.

Fig. 4 A two-stage authentication model for complementary resources in bifurcation-biased family firms*

full-fledged US office using their corporate brand, exploiting their reputational FSAs, and providing the subsidiary with significant funds and full decisional autonomy. They also appointed local nonfamily managers (and, indeed, partners) to recombine the firm's reputation, capital, and financial expertise with much-needed complementary resources in the American market. The Morgans, for instance, cultivated partnerships outside of the family and leveraged these to create and capture value. An 1868 merger with Drexel gave the new firm access to the markets in Paris, as well as access to the Drexel family's connections to high-profile families in Philadelphia. In 1873, the new partnership – thanks largely to Tony Drexel's relationship with President Grant – successfully lobbied the US government to grant the Drexel Morgan syndicate a 50% share in a $300 million refund on Civil War bonds (Chernow, 2010).

The competitors' most important FSAs included cross-border coordination on the governance side and a solid corporate reputation permitting access to critical complementary resources (Chapman, 1984: 27). Evidence points to the existence of bifurcation bias economizing mechanisms, such as operational meritocracy (Kano & Verbeke, 2018), which enabled Rothschild's competitors to defer control to their nonfamily managers as linking pins with the controlling family and allowed them to develop the US business. Commenting on Morgan's selection of partners (the majority of whom were nonfamily members), Chernow (2010: 69) wrote that:

> Pierpont selected partners not by wealth or to fortify the bank's capital but based on brains and talent. If the Morgan style was royal, its hiring practices were meritocratic.

The contrast with the Rothschilds could not be starker: whereas Morgan selected partners based on technical ability, the Rothschilds excluded from the partnership all but the direct male descendants of Mayer Amschel. Even trusted in-laws like the Davidsons and Montefiores were kept at arm's-length via agent relationships and were prevented from acting as effective linking pins. A strict system of endogamy – as an extreme sign of bifurcation bias – was also imposed upon the Rothschild offspring in order to keep the family's capital concentrated among the partners: during the period 1824–1877, 15 of the 21 Rothschild marriages were between direct descendants of Mayer Amschel (Ferguson, 1998b: 184).

Summary, contributions, and directions for future research

We have explained how the Rothschilds came to dominate European finance thanks to the development and cross-border transfer of family-derived FSAs. During the period of the Rothschilds' uncontested market leadership in Europe, the firm's international expansion was supported by a stock of family resources: the business acumen of the first generations of family managers, shared identity (strengthened by sustained discrimination), tacit knowledge, and personal connections to proximate political and economic elites. The Rothschilds were able to build upon these resources to develop a reservoir of FSAs that facilitated their expansion in Europe: a superior governance capability at international coordination, sophisticated corporate diplomacy, and a stellar business reputation that transformed their family surname into the most well-known brand in the financial industry. The family served not only as a platform for FSA development but also as a vehicle for FSA transfer and recombination with new resources. The familial bonds among the brothers, developed over generations and supported by formal policies and informal routines introduced by Mayer Amschel as early as in the 18th century (Ferguson, 1998a), enabled recombination by facilitating quick decision-making and a seamless flow of knowledge and capital across European borders, while safeguarding against bounded reliability inherent in large financial transactions. However, this system of FSA recombination with complementary resources only worked to the extent that there was a direct male descendant deemed competent to lead a national subsidiary and to gain access to – and integrate – requisite complementary resources.

The limits of relying on family-derived FSAs for international expansion became evident in the firm's entry into the US market. It was not the unique characteristics of the market or the significant distance to the European headquarters *per se* that impeded effective FSA deployment in the United States and the subsequent recombination thereof with complementary resources: the Rothschilds' extant FSAs represented substantial value creation potential in the host market, complementary resources were accessible (see Table 2), and the firm possessed adequate financial and managerial capital to develop new requisite FSAs, such as an extended logistics system. It was the absence of a family member willing to relocate and the biased treatment of the capable nonfamily agent that impeded full FSA transfer and the subsequent bundling thereof with requisite complementary resources in the United States. The biased *two-stage authentication system* prevented the Rothschilds from capitalizing on complementary, nonfamily resources present in the American market.

Our study makes several contributions to IB research. *First*, we have offered a detailed and dynamic account of the processes of FSA development, their transfer across borders, and their recombination with novel resources in a family firm. Recombination of extant resources with complementary ones, specifically, represents a core element in internalization theory, but it has rarely been studied in any depth in prior empirical work (Kano et al., 2021). To the best of our knowledge, ours is the first study to investigate the role of the family, not only as a potential foundation of resource advantages but also as a mechanism for the cross-border deployment of FSAs, and the related recombination thereof with complementary resources in host countries. We have used historical evidence to provide a nuanced, longitudinal account of internationalization based on family-derived FSAs. We have discussed how principles and routines developed by preceding generations influenced this internationalization, and we have illustrated the advantages of family-supported internationalization, such as the ability to coordinate cross-border activities quickly and reliably, without the need for extensive safeguards against bounded rationality and reliability. Our empirical analysis suggests a new construct in the realm of resource recombination, specific to bifurcation-biased family firms: *the two-stage authentication system* (Fig. 4), where not only the complementary resources to be accessed and integrated might be subjected to an affect-based assessment but also the individuals themselves who are supposed to function as the linking pin between the firm and these resources.

Second, we have used historical data to trace the effect of bifurcation bias on the firm's international strategy, illustrating how it unfolds over time. We have shown that bifurcation-biased firms can indeed remain successful in terms of growth and profitability for prolonged periods of time, especially when the large size of the family supports the needs of the firm (in this instance, five brothers, each leading one of five subsidiaries), but there are limits to sustaining such success, consistent with internalization theory predictions. We have moved away from treating bifurcation bias as a simple, binary construct and have explored the nuances of its expressions in a firm, especially through the two-stage authentication process discussed above. Even in the presence of a senior manager or decision-maker in a host country able to identify correctly the value of complementary resources and the best ways to access these and integrate them with extant FSAs, the biased treatment of this very actor can preclude the unfolding of an efficiency-based logic and impede requisite resource recombination.

Third, we have contributed to the debate in the family firm literature on the possible functional effects of bifurcation bias on firm performance. Bifurcation bias could have a neutral or even a positive impact on performance (at least in the short to medium term) if the quality of family resources is as high as – or higher than – that of nonfamily ones (Chrisman et al., 2014; Fang et al., 2022). We have extended this argument by showing that biased governance might also result in temporary benefits if it acts as a safeguard against unreliability of outsiders. Bifurcation bias may thus 'work out' in the short- to medium-term if the above conditions are met, or if external and internal circumstances align to neutralize inefficiencies, and if the geographic reach of the family matches that of the business. However, inefficiencies in governance will become apparent in the longer term, especially if a firm diversifies into new geographic or product markets where additional resources need to be accessed or developed.

Fourth, we have made a methodological contribution. Qualitative research in IB is dominated by interview-based, multiple-case, cross-sectional studies (Piekkari et al., 2009), with single-case studies based on a combination of archival and secondary data being rare. By investigating core theoretical constructs through a historical, single-case study based on secondary and archival material, we have challenged "disciplinary conventions" (Piekkari et al., 2009: 567) in IB and contributed to growing methodological pluralism in our field.

Our study also suggests various future research ideas for IB and family business scholars, as well as business historians. Future studies can investigate in depth the roles of family versus nonfamily leaders (e.g., CEOs or subsidiary managers) in MNEs' international strategies, and conditions necessary for nonfamily managers to succeed. Prior work has addressed the comparative effectiveness of family and nonfamily leaders in managing family-owned MNEs (e.g., Banalieva & Eddleston, 2011). However, our study shows that nonfamily managers, even when put in charge of foreign operations, do not always drive their units' strategy. This is true especially if families adopt two-stage authentication, which means *de facto* limiting the autonomy and authority conferred to nonfamily managers and reducing the extent to which these managers' knowledge and capabilities can serve as a mechanism for enriching FSAs with complementary resources. Specifically in the realm of corporate diplomacy, extant research suggests that nonfamily leaders are more likely than family ones to form political connections (Yu et al., 2023), yet our study shows that the linkages created by nonfamily managers may not be integrated in a bifurcation-biased firm, and may therefore fail to generate value. Family firm internationalization research, and IB research more broadly, could benefit from a more nuanced understanding of the role of nonfamily managers in MNEs' international strategy.

Our data collection has revealed the vast amount of archival material that is available to scholars studying the Rothschilds and their competitors. Our study has only addressed a few facets (albeit important ones) of Rothschild's international activity, focusing on a specific period, geographic area, and subset of variables. Future historical case studies on the company and industry rivals can investigate how different banks' FSAs evolved over generations; how the Rothschild family influenced the firm's multiple lines of business, including railroad, mining, and oil finance, and whether and how the activities of the firm shaped the future of the industry; how family capital interacted with public financing, etc. The global scope of Rothschild, beyond Europe and the US, also presents a fascinating area for future exploration, particularly the firm's activities in Latin America, the Middle East, and Africa, where the Rothschild bank was involved in government and industrial financing (Ferguson, 1998b).

Future studies could operationalize and test the construct of bifurcation bias quantitatively, to better understand and generalize its effects, as well as the safeguards that companies can employ to economize against it.

Finally, the Rothschild case offers an example of an MNE that survived major political upheavals. Resilience in the face of volatility, uncertainty, complexity, and ambiguity (VUCA) is presently one of the most relevant research themes in IB, and family firms have been considered particularly successful in withstanding external shocks and crises (Calabrò et al., 2022; Ciravegna et al., 2020). Future studies should investigate the role of family governance in today's VUCA environment and determine whether MNEs with dispersed ownership can emulate strategies historically adopted by family firms to cope with geopolitical, technological, and environmental challenges.

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