

**Examining Bifurcation Bias  
and Its Possible Consequences for Family Firm Competitiveness**

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# Abstract

Due to their fundamentally different statuses as “family employees” and “non-family employees” many employees experience biased human resource (HR) practices in family firms. Verbeke and Kano (2012) define this phenomenon as bifurcation bias and suggest that such biased treatment is harmful to family firms and widespread. Since then, many studies have focused on bifurcation bias in family firms and especially on unequal HR practices towards non-family vs. family employees. However, bifurcation bias among family employees or relative to non-family employees has been ignored so far. Based on this research gap, my thesis focuses on the act of implementing biased HR practices against selected family members and defines it as “family-related bifurcation bias”. Furthermore, I define bifurcation bias toward non-family employees compared to family employees as “non-family-related bifurcation bias”. I develop a model of four contrasting types of family firms based on the different combinations of family and non-family-related bifurcation bias. Subsequently, building upon prior literature and my model, I discuss the implications of each family firm type and their relation to competitive advantage. While bifurcation bias has been regarded as harmful to family firm competitiveness, it is also indisputable that bifurcation bias is widely spread across many countries and cultures. One reason for its continued usage in many countries might be its potential to contribute to managing family firm human capital resources. By analyzing family and non-family-related bifurcation bias and its implications to the human resource pool of family firms, my study contributes to expanding the current understanding of bifurcation bias while giving valuable insights as to how discriminating practices can have positive or negative connotations to family firm competitiveness around the globe.

# 1. Introduction

A family firm is defined as "a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families" (Chua, Chrisman, & Sharma, 1999, p. 25). In short, a family firm is an enterprise that is either family-owned or family-managed and has a transgenerational motive. When a family firm grows into a small or medium-sized enterprise, employees are hired, which usually means that both family and non-family employees are integrated into the family firm (Klein & Bell, 2007; Stewart & Hitt, 2012). Beyond their actual performance in the firm, due to their fundamentally different statuses as "family employees" and "non-family employees", many family firm employees experience biased human resource (HR) practices. Verbeke & Kano (2012) term this phenomenon as "bifurcation bias" and Madison, Daspit, Turner, & Kellermanns (2018) define bifurcation bias as "the asymmetric treatment of family and non-family employees within a family firm that often manifests through the firm's formalized HR practices" (p. 2). Here, HR practices are a firm's established policies that guide employees in terms of recruitment and selection, compensation, performance evaluation, and training and development, which are designed to motivate employees and encourage their behaviours to be aligned with the firm's goals (Armstrong, 2001; Collings, 2009).

A number of studies have focused on bifurcation bias in family firms, especially on unequal HR practices towards non-family vs. family employees (Daspit, Madison, Barnett, & Long, 2018; Kano & Verbeke, 2018; Madison et al., 2018; Majocchi, D'Angelo, Forlani, & Buck, 2018). However, bifurcation bias among family employees or bifurcation bias against

family employees when compared to non-family employees have so far not been addressed. This lack of attention is surprising considering that the discrimination of family members is widespread in business families. Primogeniture, succession to the eldest son, serves as an example of this discrimination and is commonly practiced in many societies (Bloom & Van Reenen, 2007; Chau, 1991; Deng, 2010; Kuratko, 1993; Martin, 2001; Wong, 1985). Moreover, despite the possible positive impacts of bifurcation bias on a family firm's competitive advantage, existing literature largely examines how bifurcation bias may harm these firms over time (Daspit et al., 2018; Kano & Verbeke, 2018; Madison et al., 2018; Majocchi et al., 2018; Verbeke & Kano, 2012). One example of a positive effect is the increase in family human capital, which is defined as a set of aggregated skills, abilities, attitudes, and work ethics of family employees (Dyer, 2006). Additionally, there is substantial anecdotal evidence demonstrating various instances of bifurcation bias in family firms. This evidence indicates that it can have both positive and negative effects on family firm competitiveness.

Based on the identified gap, my thesis pursues two objectives: (1) to expand the current understanding of bifurcation bias, and (2) to provide insight as to how a family firm can achieve or lose a competitive advantage based on managing human capital resources with their bifurcated HR practices by posing the following research question: how can the combination of family and non-family-related bifurcation bias help family firms achieve (or lose) a competitive advantage? I define bifurcation bias toward non-family employees compared to family employees as *non-family-related bifurcation bias*. Moreover, I define biased HR practices against particular family members as *family-related bifurcation bias*. After conducting an in-depth literature review on the resource-based view and existing studies on bias in family firms, I have developed a model that encompasses four contrasting types of family firms: (1) the monarchy, (2) family meritocracy,

(3) the meritocracy, and (4) reverse nepotism. These four types of family firms contain various combinations of family and non-family-related bifurcation bias. This model serves as the basis for which I will address my research question.

Furthermore, a conceptual framework is developed to help to support the model by explaining how these four contrasting types of family firms achieve and lose competition managing their human capital resources through biased HR practices. In the next section, I examine the theoretical contributions of the thesis. First, I focus on the strategic management research of family firms, second, on the bifurcation bias studies, and lastly on other various research areas. Next, based on the limitation of my current thesis, I propose how future studies can be developed by suggesting various directions. Lastly, by indicating the practical implications of my research, I expect that my theoretical contributions can be put to practice by family firms to create pragmatic value.

## **2. Literature review**

This part of this thesis sequentially reviews the existing literature on: (1) the resource-based view (Barney, 1991; 1995; Dierickx & Cool, 1989; Grant, 1991; Priem & Butler, 2001; Rumelt, 1984; Wernerfelt, 1984), (2) non-family-related bifurcation bias (Daspit et al., 2018; Kano & Verbeke, 2018; Madison et al., 2018; Majocchi et al., 2018; Verbeke & Kano, 2012), and (3) family-related bifurcation bias (Bennedsen, Nielsen, Perez-Gonzalez, & Wolfenzon, 2007; Bloom & Van Reenen, 2007; Calabrò, Minichilli, Amore, & Brogi, 2018; Chau, 1991; Wong, 1985). First, I review the existing research on the resource-based view to understand how organizations can strive towards a competitive advantage, and furthermore, what makes the essential distinction of each firm's potential to achieve a competitive advantage. Following the

introduction of three types of resources for a competitive advantage that a firm can possess, I provide a detailed review of human capital resources. During this discussion, I also provide an explanation for why human capital resources can be a source of competitive advantage for a firm and explore reasons why HR management, influencing human capital resources, plays an essential role in achieving competitiveness. Building on this discussion of competitive advantage, I move on to discuss strategic management research about family firms and explain how family business scholars have attempted to link family factors and a competitive advantage in the literature. Currently, there few studies focus on the relationship between family firm human capital resources and a competitive advantage. Additionally, none of the studies examine how discriminating HR practices that result from family and non-family-related bifurcation bias may impact human capital resources in family firms through a resource-based view lens. Consequently, the influences of such practices on competitive firm advantage is largely unknown.

In the following section, I examine studies focusing on discriminating HR practices toward non-family employees in family firms. Various studies discuss non-family-related bifurcation bias and how it impacts family firms. However, these studies do not address bifurcation bias among family members or against family members when compared to non-family employees. Moreover, most literature implicitly assumes that bifurcation bias brings long-term harmful effects to family firms (Daspit et al., 2018; Kano & Verbeke, 2018; Madison et al., 2018; Majocchi et al., 2018; Verbeke & Kano, 2012) and ignore the possibility that it might help manage human capital resources of family firms. Considering the identified two gaps – a lack of research on family-related bifurcation bias and a lack of research theorizing the positive effects of the combinations of family and non-family-related bifurcation bias, three types of family

member discrimination are reviewed to understand family-related bifurcation bias. These three types of family member discrimination are birth-order favouritism, gender favouritism, and (non-) kinship favouritism.

Following the literature review, I propose a model of four contrasting types of family firms based the combinations of family and non-family-related bifurcation bias and explain how the combinations of such biases could shape each family firm type. Finally, I develop a conceptual framework to illustrate how the four contrasting types of family firms may achieve or lose competitive advantage by managing their human capital resources through discriminating HR practices. By doing so, my study addresses the main research question fulfilling the identified research gaps.

## **2.1. Resource-Based View**

### **2.1.1. The Resource-Based View of Competitive Advantage**

Competitive advantage is the state that puts a firm in a favourable condition where it can achieve a superior performance outcome that exceeds the market average (Porter, 1985).

Organizations aim to fulfill their fundamental purposes through the creation of value for their stakeholders. Most organizations strive to attain relevant outcomes by increasing financial performance (Ployhart, Nyberg, Reilly, & Maltarich, 2014). However, scholars investigating a competitive advantage often take a more refined view of performance where they examine performance outcomes in regards to the outcomes of competitors (Ployhart et al., 2014).

Therefore, a firm that achieves a superior performance exceeding its competitors is regarded as having a competitive advantage in strategic management research (Porter, 1985).

After Penrose (1959) introduced the theoretical foundation of the resource-based view and the concept of competitive advantage, further literature investigates this theory in greater detail by examining firms from the perspective of resources instead of products (Barney, 1991; 1995; Dierickx & Cool, 1989; Grant, 1991; Priem & Butler, 2001; Rumelt, 1984; Wernerfelt, 1984). The resource-based view examines firms based on the exogenous and endogenous resources that they retain (Barney, 1991; 1995; Colbert, 2004; Kraaijenbrink, 2011; Loasby, 2011; Wernerfelt, 1984). Based on the assumption that firms can possess resources that are heterogeneous and distinctive for extended periods of time (Grant, 1991; Sirmon & Hitt, 2003; Wernerfelt, 1984), Barney (1991; 1995) suggests that firms with the ability to exploit resources at the proper time can achieve a competitive advantage if they acquired valuable, rare, and inimitable resources. In other words, a firm with a competitive advantage performs better than others by implementing a value-creation strategy that is difficult to duplicate by any current or potential competitors (Barnett, Greve, & Park, 1994; Barney, 1991; 1995).

### **2.1.2. The Resource-Based View of Human Capital Resources**

Among various types of resources that a firm can possess, Barney (1991) classifies a firm's resources into three categories: physical capital, organizational capital, and human capital resources. First, physical capital resources consist of a firm's technology, equipment or plant, its location, and raw materials (Barney, 1991, p. 101). Secondly, organizational capital resources include all the firm's structural and organizational assets such as the firm's reporting system, management system or culture, which can influence individuals associated with a firm (Barney, 1991; 1995). Lastly, human capital resources include all intangible assets of individuals associated with a firm, such as one's experience, knowledge, judgement, risk-taking propensity,

and wisdom (Barney, 1991; 1995). Overall, the heterogeneity in physical, organizational, and human capital between firms explains the essential distinction in each firm's competitiveness potential (Priem & Butler, 2001).

Among the three types of resources mentioned above, this thesis focuses explicitly on human capital resources. While there are various definitions of human capital resources, there is a lack of consensus as to what human capital resources are (Ployhart et al., 2014). Ployhart et al. (2014) discuss existing definitions of human capital resources in existing literature and build a unifying framework which can overarch those definitions. Their study redefines human capital resources as "individual or unit-level capacities based on individual knowledge, skills, abilities, and other characteristics that are accessible for a unit-relevant purpose" (p. 374). In short, they suggest human capital resources are the accumulated human capital of employees, which is comprised of their knowledge, skills, abilities, and other characteristics that are usable towards a firm's competitive advantage. This new definition shares the previous literature's view in that a firm having exploitable superior human capital resources allows for a competitive advantage (Barney & Wright, 1998; Huselid, 1995; Ordóñez & Pablos, 2004; Wright, Gardenr, Moynihan, & Allen, 2005; Wright, McMahan, & William, 1994).

However, in order for human capital resources to be a competitive advantage source, four criteria need to be met: 1) they should add value to the firm, 2) they should be rare, 3) they should be inimitable to their competitors, and 4) they should be well-exploited by the owning organisation (Barney, 1991; 1995; Wright et al., 1994). These questions of Value, Rareness, Imitability, and Organization are referred to as the VRIO framework (Barney, 1995). To satisfy the VRIO framework, human capital resources need to first create value for a firm. All firms

offer different types of jobs which require a various set of skills and skill levels, and all individuals applying to those jobs possess a different capacity (Barney & Wright, 1998; Wright et al., 1994). Therefore, variance in an individual's possibility of creating value for a position inevitably occurs (Barney, 1995; Barney & Wright, 1998; Wright et al., 1994). In other words, employees with a suitable capacity for a position can create value for a firm; therefore, a firm is likely to achieve a competitive advantage based on these human capital resources (Wright et al., 1994).

Secondly, human capital resources should be rare to become a competitive advantage source. For example, if all jobs require the same qualifications and if all employees have the same capacity, human capital resources cannot be considered rare (Wright et al., 1994) However, in practice every job requires its own specific skills and qualifications, and furthermore, the human capital pool is heterogeneous in that every individual can provide different work quality performance based on his or her capacity (Ordóñez & Pablos, 2004). Resultantly, under the assumption that the other conditions are the same, some firms can recruit employees who have the proper capacity, while other firms cannot (Wright, Dunford, & Snell, 2001; Wright et al., 1994). Since high-quality human capital resources are rare, having such resources can create a competitive advantage for a firm (Barney, 1995; Barney & Wright, 1998; Castanias & Helfat, 1991; Wright et al., 1994).

Thirdly, to satisfy the VRIO framework and to become a competitive advantage source, human capital resources should be inimitable for other competitors. In reality, it is difficult for competitors to find the exact components of the human capital pool which bring competitiveness to a firm (Wright et al., 1994). Moreover, when a firm has an internal system to develop human

capital resources, competitors face difficulties in identifying conditions under which these resources function (Barney & Wright, 1998; Wright et al., 1994). Therefore, competitors cannot easily imitate the systems of those they are competing with (Barney & Wright, 1998; Wright et al., 1991; 1994). As a result, human capital resources, and especially those that are high quality, are regarded as inimitable.

In reference to the theoretical basis of the resource-based view that valuable, rare, and inimitable human capital resources are essential for a competitive advantage, Carmeli (2004) supports the relationship between human capital resources and a competitive advantage in a quantitative study. Carmeli (2004)'s study constructs a four-dimensional measure of the strategic human capital resources based on the following items: (1) educational level, (2) job experience, (3) competence of the employees, and (4) the value, rareness and inimitability of human capital resources. By testing the hypotheses regarding the relationship between strategic human capital resources and financial performance with data collected from 263 local government authorities in Israel, Carmeli (2004) demonstrates that strategic human capital resources have a positive effect on the financial performance of organizations.

Other studies similarly support the value of strategic human capital resources towards the competitive advantage of firms. By collecting data from 305 small tourism ventures in Israel through phone and face-to-face interviews with owners and employees from July to December 1999, Haber & Reichel (2007) attempt to demonstrate the relationship between human capital resources and a firm's competitive advantage. The study focuses on the human capital of entrepreneurs and measures it with their education level, previous entrepreneurial experience, and a business skill index. Furthermore, the study examines the firms' performance through both

objective and subjective measures to capture the competence of ventures and their abilities to secure favourable future development. Hierarchical regression analyses were used to evaluate potential effects and the results indicate that entrepreneurial human capital, especially managerial skills, strongly contribute to small venture performance. By further solidifying the previous research on other industries (Hood & Young, 1993; Yammarino & Waldman, 1993), the study reemphasizes the contributions of human capital resources to a firm's competitive advantage.

Similarly, Crook et al. (2011) supports the assertion that human capital resources are strongly related to firm performance in a meta-analysis, derived from 66 studies linking human capital and firm performance. By developing the theoretical arguments for the hypotheses, they identify that investments in superior human capital produce better firm-level performance with a quantitative approach. A key implication from their study is that a firm should not only recruit, invest in, and develop human capital, but should also retain experienced and committed employees to improve firm performance. Barney & Wright (1998) also look into the relationship between a firm's human capital resources and a competitive advantage. Based on the rationale of the resource-based view, they argue that human capital resources are the most critical assets in a firm. Consequently, they empathize the fact that superior and sustained human capital resources over time play an essential role in firm performance.

Lastly, for human capital resources that are valuable, rare, and inimitable to function as a competitive advantage source, the firm should be organized effectively to exploit these resources (Barney, 1995; Barney & Wright, 1998). Proper HR management as a strategy to manage employees through aligned policies and systems is essential in making human capital resources useful towards a firm's competitive advantage (Armstrong, 2001; Barney, 1995; Collings, 2009;

De Winne & Sels, 2010; Jiménez-Jiménez & Sanz-Valle, 2008; Wright, Dunford, & Snell, 2001). Especially, when a firm has effective HR practices that support the advancement of employee human capital, it is likely to realize the potential of human capital resources; therefore, this can help the firm achieve a competitive advantage based on these human capital resources (Barney, 1995; Barney & Wright, 1998; Ordóñez & Pablos, 2004).

Lado & Wilson (1994) theorize on the relationship between a firm's HR management, which controls and influences human capital resources, and its competitive advantage. They define organizational competencies as a set of every firm-specific asset, knowledge, skills, and capability that is embedded in the firm's structure, technology, processes, and relationships (p. 702), and argue that these competencies are considered to yield a competitive advantage. By focusing on the HR activities, functions, and processes within a firm, they claim the HR management can either enhance or impede competency accumulation and exploitation. Based on this argument, they indicate that HR management is a critical factor for securing a firm's competitive advantage.

Likewise, Aguilera & Dencker (2004) examine the relationship between a firm's HR management and a competitive advantage in the context of cross-border mergers and acquisitions (M&As). Their framework demonstrates that effective HR management ensures legal compliance such as equal opportunity and collective bargaining agreements. Moreover, they also indicate that such HR management takes charge of the planning process of the deal announcement by handling retention agreements and evaluating compensation differences between the potentially merging firms. Therefore, they suggest that effective HR management

can improve firm performance after M&As so that having an effective HR management can be critical in achieving a competitive advantage once the M&As are completed.

Other studies go one step further by examining the relationship between a firm's HR management and a competitive advantage empirically. Jiménez-Jiménez & Sanz-Valle (2008) collect data on 173 Spanish firms to examine the relationship between a firm's HR management and its competitive advantage. Their results demonstrate that HR management increases innovation which, in turn, contributes positively to firm performance. They conclude that HR management is a critical factor for achieving a competitive advantage. De Winne & Sels (2010) use survey data from 637 Belgian start-ups from their owners, managers and employees to test hypotheses regarding the relationship between HR management and firm performance with a path analysis. Their results indicate that HR management influences the human capital of employees in a firm and significantly contributes to innovation performance. Based on the results, they suggest that an effective HR management strategy of valuing human capital resources can enhance the innovation performance in firms, and thereby increase their likelihood of safeguarding a competitive advantage in the market.

A few studies specify details of the relationship between a firm's HR practices and its competitive advantage. Collins & Clark (2003) attempt to understand the role of HR practices in creating a competitive advantage. By testing the hypotheses based on data on (1) HR practices regarding chief executive officers (CEOs), (2) social networks of the top management team, and (3) a firm's financial performance from 12 high-tech companies in the mid-Atlantic region of the United States, they examine the relationship between a firm's HR practices and its competitive advantage. Their study identifies that when a firm has a set of HR practices evaluating or

compensating top managers for their competencies to build and maintain relationships with key actors, it can enhance external and internal social networks of top management teams.

Additionally, growth in the networks of top management teams contributes to higher firm performance in terms of higher sales growth and better stock performance. Overall, Collins & Clark (2003)'s study shows that a particular set of HR practices lead to a high firm performance by sustaining and developing specific manager-based HR practices (e.g. social capital).

Therefore, their study is meaningful in demonstrating that firms require a proper HR practice set to build human capital resources to create a competitive advantage.

In another study analyzing 45 business units, Wright et al. (2005) provide a rigorous examination of the causal relationships between HR practices and firm performance. They design a basic causal model positing that HR practices influence a firm's collective commitment, operational performance, expenses, and profits, and test the model empirically. Their study suggests that HR practices are positively correlated with operational and financial performance measures. Even though the study cannot conclude that HR practices directly cause better firm performance, the results support that HR practices correlate with higher operating and financial performance in firms. The study thus implies that HR practices are critical to managing human capital resources effectively and achieving a competitive firm advantage.

In summary, the above studies indicate that human capital resources are an essential source for a firm to achieve a competitive advantage. Moreover, proper HR management are required to develop and leverage human capital resources for competitiveness.

### **2.1.3. The Resource-Based View of a Family Firm's Competitive Advantage**

Most of the strategic literature adopting the resource-based view discount, ignore, or isolate family factors from the businesses and rely on the traditional strategic models regarding resources and competitive advantage that are developed for non-family businesses (Habbershon, Williams, & MacMillan, 2003). For this reason, family business scholars call for a focus on family factors in strategic management literature. They suggest that family firms have several unique resources, which form the “familiness” of the firm (Cabrera-Suárez, De Saá-Pérez, & García-Almeida, 2001; Claver-Cortés, Zaragoza-Sáez, Molina-Manchón, & Úbeda-García, 2015; Habbershon & Williams, 1999; Habbershon et al., 2003; Sirmon & Hitt, 2003), and this familiness refers to family firms' unique and difficult-to-imitate resources that support their survival and advancement (Claver-Cortés et al., 2015).

Based on the idea of “familiness”, a number of studies attempt to identify if the unique capital of family firms elusive in non-family firms contributes to family business performance (Carney, 2005; De Kok, Uhlaner, & Thurik, 2006; Dyer, 2006; Grave & Thomas, 2006; Hoffman, Hoelscher, & Sorenson, 2006; Hoopes & Miller, 2006). By further developing the idea of Habbershon & Williams (1999), Habbershon et al. (2003) examine familiness as the idiosyncratic firm-level bundle of resources that are created by reciprocal interaction among controlling families, businesses, and family members, which leads family firms to transgenerational wealth-creation.

By regarding familiness as the unique resource generated by the interaction between families and businesses, based on the definition of Habbershon & Williams (1999), Chirico,

Ireland, & Sirmon (2011) focus on the different franchising behaviours of family and non-family firms. They view familiness as an intangible resource that makes a franchisor family firm build a long-term relationship with franchisees and provide sufficient training and support for franchisees. By doing so, Chirico et al. (2011) indicate how familiness contributes to value creation in the franchising context for family firms and how it gives a competitive advantage to family firms when compared to non-family firms in the market. In summary, even though the above studies leveraging the resource-based view are valuable in accounting for unique resources that only family firms have when examining family firm competitiveness, they have not focused exclusively on human capital resources in detail.

Other studies focus on the link between the relationships among human capital resources in family firms and firm performance. Hoffman et al. (2006) suggest that the fundamental characteristics that distinguish family firms from non-family firms are the impact of family relationships on the business. They argue that family firms can achieve a competitive advantage over non-family firms based on family relationships, which generates motivation, loyalty, and trust. After collecting a nationally representative sample of 513 firms in United States in four ethnic groups of entrepreneurs: Caucasian, African-American, Korean-American, and Mexican-American, Shinnar, Cho, & Rogoff (2013) examine the prevalence of family employment, the degree of family reciprocal altruism, and financial involvement of family employees in the business (p. 22). By drawing on the analysis that every group has a different level of family involvement and relationship aspects, the study indicates that high family involvement with high altruism among family members possibly generates higher firm performance.

The above studies are meaningful in that they recognize the relationship between human capital resources and family firms as a key factor that differentiates family firms from non-family firms. However, the studies outlined above lack a detailed review of the multifaceted aspects of relationships that can carry both positive and negative implications for family firms. For example, while the relationships in family firms can generate positive attributes such as motivation, loyalty, altruism, and trust, they also can act as a severe factor in decreasing firm performance if there is conflict between family members (Kim & Ryu, 2005). Furthermore, none of the above studies have examined the link between human capital resources of family firms and a firm's competitiveness when considering discriminatory HR practices.

By building a model describing the theoretical ties between family effects on firms and firm performance, Dyer (2006) argues that the unique human capital of family employees can have a positive impact on firm performance. According to his definition, family human capital is comprised of accumulated skills, abilities, attitudes, and work ethics of family firm employees (p. 262). Due to the family employees' motivation, commitment, loyalty, job-experience, knowledge, and skills to the business, Dyer (2006) indicates that firms with family employees may have higher human capital than firms with non-family employees. Therefore, the study proposes that family human capital resources can be a significant source of a firm's competitive advantage. However, Dyer's study focuses on social capital, and physical and financial capital when describing the family effect on firms; therefore, it does not exclusively investigate family firm human capital resources. Additionally, the study does not bring attention to discriminatory HR practices and how they can impact human capital resources in family firms.

Similarly, family business scholars have attempted to identify what factors support family firms in achieving a competitive advantage (Craig, Dibrell, & Garrett, 2014; Jones, Ghobadian, O'Regan, & Antcliff, 2013; Levie & Lerner, 2009; Zahra, Hayton, & Salvato, 2004). However, only a few studies focus on the relationship between human capital resources of family firms and competitive advantage in detail. Furthermore, I am unaware of any study that has investigated how discriminatory HR practices impact the human capital pool of family firms, and consequently, how such practices impact family firm competitiveness. Expanding the knowledge of such an area, however, would be important because discriminatory HR practices to human capital resources can bring both positive and negative implications to family firms. This manifests as a critical factor in achieving or losing a competitive advantage (Dyer, 2006; Kano & Verbeke, 2018; Verbeke & Kano, 2012; Errington & Gasson, 1994; Hansson, Ferguson, Olofsson, & Rantamaki-Lahtinen, 2013). In the following section, I examine existing research on the discrimination of non-family employees in family firms, before explaining and elaborating on the research gap of family member discrimination in family firms.

## **2.2. Non-family-Related Bifurcation Bias**

Owners of family firms tend to make biased decisions due to their positive feelings and emotional attachments to their children, which is called asymmetric altruism (Lubatkin, Ling, & Schulze, 2007; Schulze, Lubatkin, & Dino, 2003; Schulze & Kellermanns, 2015). Asymmetric altruism from the owners has been closely intertwined with a desire to pursue non-economic goals in family firms (Chrisman, Chua, & Sharma, 2005; Chrisman, Kellermanns, Chan, & Liano, 2010; Gomez-Mejia, Cruz, Berrone, & De Castro, 2011; Gomez-Mejia, Haynes, Núñez-

Nickel, Jacobson, & Moyano-Fuentes, 2007; Kalm & Gomez-Mejia, 2016; Lumpkin, Martin, & Vaughn, 2008). Kano & Verbeke (2018) clarify that family firms may have two kinds of non-economic goals: a functional one that can be compatible with economic value creation, and a dysfunctional one that is conflicting with economic value creation (p. 164). When family firms pursue functional non-economic goals, such goals may contribute to family firm prosperity (Gomez-Mejia et al., 2011; Gomez-Mejia et al., 2007; Berrone, Cruz, Gomez-Mejia, & Larrazakintana, 2010). However, if family firms end up pursuing non-economic goals through dysfunctional strategies such as asymmetric altruism, nepotism, and discriminant policies towards their employees, they likely contribute to self-harming behaviour (Chrisman, Chua, Kellermanns, & Chang, 2007; Lubatkin, Schulze, Ling, & Dino, 2005; Schulze, Lubatkin, Dino, & Buchholtz, 2001; Schulze et al., 2003).

Verbeke & Kano (2012) focus on the negative aspects of family firms pursuing non-economic goals, especially in relationship to unfair HR policies towards non-family employees when compared to family employees. They term this discriminant professionalisation as “bifurcation bias” and argue that bifurcation bias is a unique expression of owners’ bounded rationality and bounded reliability in family firms (p. 1188). When family firms fail to control dysfunctional bifurcation bias, it may influence their capabilities to foster reliability in family business functioning, and can, therefore, negatively impact firm competitiveness. Despite research on bifurcation bias towards non-family employees, existing research on bifurcation bias towards family employees remains absent.

After Verbeke & Kano (2012) introduce the concept of bifurcation bias, a few researchers have sought to contribute to the subject. Some scholars identify the influence of bifurcation bias

on family firms. For instance, Madison et al. (2018) use survey data to identify that a discriminatory monitoring system of non-family employees limits the effectiveness of workplace professionalisation in family firms. In other words, when family firms avoid non-family-related bifurcation bias, the positive effects of professionalisation increase, which contributes to firm competitiveness. Even though Madison et al. (2018) cover the possible impacts of discriminatory monitoring systems on family and non-family employees, their discussion is limited to non-family-related bifurcation bias. Majocchi et al. (2018) follow Madison et al. (2018) by testing whether bifurcation bias can be reduced by specific organizational practices encouraging access to external resources, increased exporting, and hiring family managers with international work experiences. By drawing the analysis that external resources, increased interaction with outside workers, and international experience of family human capital resources may help a firm decrease the negative effects of bifurcation bias. Furthermore, Majocchi et al. (2018) assert that certain HR practices may help a firm improve its performance. However, similar to other studies mentioned above, their work has the limitation of restricting the type of bifurcation bias to the non-family-related bifurcation type.

Whereas the aforementioned scholars focus on non-family employee bifurcation bias and argue that such bias is harmful to family firm performance, as in Jennings, Dempsey, & James (2018) who suggest a more nuanced approach to studying bifurcation bias. Expanding on the existing view of preferential treatment towards family employees only, they argue that not only strong and weak family-favoured bifurcation bias exists, but also strong and weak non-family favoured bifurcation bias can occur in family firms. By suggesting bivalent bifurcation bias (i.e. favouring non-family employees on some HR practices and family on others), the authors also suggest in some instances that bifurcation bias can also be helpful towards the competitiveness of

family firms. This study is valuable in suggesting a new type of bifurcation bias known as bivalent bifurcation bias, and the potential benefits of such bifurcation bias towards family firm prosperity. However, it is important to note that it is still unclear as to how this bifurcation bias could positively impact the competitiveness of family firms.

Furthermore, a recent study by Kano & Verbeke (2018) agrees with Jennings et al. (2018) in that bifurcation bias can, in some cases, be beneficial to family firms. For example, when the industry is highly fragmented and society offers weak legal enforcement, family firms are compelled to rely solely on family members to avoid opportunistic behaviours by outside managers. In this case, bifurcation bias as a strategy to rely on family over outsiders can be a rational response to the unique business environment (Kano & Verbeke, 2018). However, this strategy applies only when firm size is within the limitations of the family and when professional managerial skills become essential to compete with other firms successfully (Kano & Verbeke, 2018). Consequently, the authors suggest that deeply embedded discriminatory HR practices that result from bifurcation bias, in principle, harm the performance of larger family firms.

Based on the idea that business families and family firms are inextricably intertwined (Aldrich & Cliff, 2003; Gras & Nason, 2015; Jaskiewicz, Combs, Shanine, & Kacmar, 2016), Daspit et al. (2018) suggest that the structure of a business family impacts the structure and effectiveness of a family firm system. By using the Circumplex Model of Marital and Family Systems (Olson, Sprenkle, & Russell, 1979) for diagnosing and handling dysfunctional family relationships, they argue that “the family firm’s HR system could be a direct reflection of the family’s internal system” (p. 19). In other words, for example, if the family experiences a lack of balance, it can potentially lead to a lack of balance in the firm (Daspit et al., 2018). This study is

meaningful because it focuses on business families through the examination of bifurcation bias in the family business; however, it only addresses non-family-related bifurcation bias despite a focus on business families.

In summary, bifurcation bias research is limited to non-family employees (Daspit et al., 2018; Kano & Verbeke, 2018; Madison et al., 2018; Majocchi et al., 2018; Verbeke & Kano, 2012). Even though Jennings et al. (2018) suggest the possibility of more types of bifurcation bias in family firms, there has not yet been research on this topic. Furthermore, most existing literature implicitly assumes that bifurcation bias brings long-term harmful effects to family firms (Daspit et al., 2018; Kano & Verbeke, 2018; Madison et al., 2018; Majocchi et al., 2018; Verbeke & Kano, 2012); despite the possibility that bifurcation bias could contribute to a competitive advantage.

In order to address the research gaps identified above, this part of the study will examine family-related bifurcation bias in detail. In the following section, this thesis will review three types family-related bifurcation bias experienced by business families: (a) birth-order favouritism, (b) gender favouritism, and (c) (non-) kinship favouritism (Bennedsen et al., 2007; Bloom & Van Reenen, 2007; Calabrò et al., 2018; Chau, 1991; Wong, 1985). Building on the discussion of these three types of family-related bifurcation biases, I will present and explain the model I developed for four contrasting types of family firms. These types of family firms differ in their combinations of family and non-family related bifurcation bias. After examining how the combinations of such bifurcation biases shape each family firm type, this thesis discusses how each family firm type manages their human capital resources and how it might influence a firm's competitive advantage.

## **2.3. Family-Related Bifurcation Bias**

Existing research indicates that three forms of family-related bifurcation bias exist: (a) birth-order favouritism (e.g. preferential treatment of first-borns), (b) gender favouritism (e.g. preferential treatment of male family members), and (c) (non-) kinship favouritism (e.g. preferential treatment of family members with whom one shares blood ties with or lacks blood ties, such as in-laws or adopted family members). Due to the cultures and traditions of owning families and businesses (Bloom & Van Reenen, 2007; Chau, 1991; Wong, 1985), some family members are favoured by the family owners and therefore benefit from biased HR practices, such as increased amounts of income, faster promotions, and better performance evaluations.

### **2.3.1. Birth-Order Favouritism**

Birth-order favouritism prevails in the form of primogeniture in East Asia, Africa, Latin America and many European countries, including France and the United Kingdom, due to the historically ingrained cultural backgrounds and traditions of family firms (Bloom & Van Reenen, 2007). Despite the rise of meritocracy, primogeniture still holds a significant role in family firms (Kuratko, 1993; Vera & Dean, 2005). Some studies examine how primogeniture may influence the survival and success of family firms. Bloom & Van Reenen (2007) investigate market competition and primogeniture as the factors that can explain variation in management practices across their sample of countries, which include U.S. and European firms. Their study finds that family firms where the CEO is selected by primogeniture tend to be poorly managed and consequently experience inferior performance.

In the same vein, Calabrò et al. (2018) examine leadership succession through the lens of the socioemotional wealth logic to test antecedents and consequences of primogeniture versus

second or subsequent-born selections in family firm succession in Italy from 2000 to 2012. Their findings suggest that primogeniture negatively impacts post-succession firm profitability, and implies that family firms need the courage to disregard primogeniture as a means to continue traditions. Schenkel, Yoo, & Kim (2016) focus on birth-order differences among descendant CEOs, and investigate if there is an association between CEO birth-order and family firm performance. Based on 1776 firm-year observations from 1999 to 2002, their study shows that relative to first-son descendants, non-first-son descendants are correlated with higher family firm performance because they are more inclined to what might be regarded as a non-familial meritocracy. In summary, these studies suggest that birth-order favouritism exists in family firms and can harm family firm performance.

### **2.3.2. Gender Favouritism**

According to a 2017 U.S. Family Business Survey (PWC, 2017), 64 percent of family firms out of over 2,800 companies across 50 countries responded that female and male descendants in the next generation will be considered equally for leadership positions. Additionally, in the case of Sweden, which is known as one of the most gender-equal countries in the world, female employees tend to have greater appointment probabilities as board members in a family than non-family firms (Rimmel, Inwinkl, Lindstrand, & Ohlsson, 2018). However, gender favouritism against female family employees prevails in most family firms across the world (Bennedsen et al., 2007; Bertrand, Johnson, Samphantharak, & Schoar, 2008; Bloom & Van Reenen, 2007; Martin, 2001; Schröder, Schmitt-Rodermund, & Arnaud, 2011).

One kind of gender favouritism is so-called coparcenary in Chinese family firms. Simply explained, coparcenary is joint heirship or joint ownership among male descendants that often

appears in Chinese family firms (Chau, 1991). After the founders of family firms relinquish control, entitled sons appointed by predecessors inherit property and other economic resources from the family firm (Wong, 1985). Chinese family firms exclude female family members from sharing heirships, due to a combination of nepotism, paternalism, and Confucianism (Chau, 1991; Wong, 1985). Even though coparcenary applies to ownership succession, when founders transfer leadership to all children, the exclusion of female children in ownership can fuel other types of discrimination, such as an unfair treatment of next generation female employees. Because ownership offers the ultimate right to effect business control, female family employee HR benefits are ultimately decided upon by their male siblings in the Chinese context.

With a sample of 73 family firms, Kuratko (1993) shows that both American and Korean family firms prefer male descendants to succeed the family business once the founders retire. In the same manner, by analyzing a sample of 106 German family firms, Schröder et al. (2011) suggest that female descendants tend to start new businesses rather than succeed the parents' family business due to the parents' definite preference for male descendant successors. Based on four in-depth interviews with four different family firms in China, Deng (2010) indicates a limited number of female family employees succeed the businesses of their parents. He explains that the parents who are heavily influenced by Confucianism would not grant their female children the opportunity to inherit any family property or business, while simultaneously granting their male children this opportunity. Thereby, female children are naturally excluded from succession or inheritance of family property after the parents resign their ownership roles.

Similarly, Bertrand et al. (2008) find that sons play a significant role in both firm ownership and management after the founders leave in 93 of the largest business families in

Thailand. Focusing on successor gender, Ahrens, Landmann, & Woywode (2015) inspect CEO succession contests based on a unique data set covering 804 CEO successions in German family firms between 2002 and 2008. They find that despite the higher levels of the human capital of female family successors, male family successors are regularly selected due to the gender preferences of parents. However, the study indicates that it can adversely influence the outcome of CEO succession contests since the successor would not be selected based on his human capital but rather selected by the owners' preference. Thereby, the firm is likely to suffer from successors' lack of human capital such as incompetence in management (Ahrens et al., 2015).

Finally, Martin (2001) asserts that female family employees tend to be neglected in both career development and promotion when compared to male family members due to prevalent son favouritism by collecting the data from 128 UK based family firms located in West Midlands. Even though female family members might be given monetary benefits as compensation for the discrimination they face, they are excluded from the opportunities allowing advancements of their human capital or to any promotions for key positions. Moving beyond succession issues, Martin (2001) illustrates the prevalence of discriminatory HR practices towards female family members in their career from family firms. The study also implies that discriminatory HR practices to female family employees would bring long term negative impacts to the competitiveness of a firm. In summary, the above studies indicate that gender favouritism is present in family firms and suggest that it may negatively impact family firm performance.

### **2.3.3. (Non-) Kinship Favouritism**

Kinship favouritism encompasses two types of bias. In the first type, family members who share blood-ties with owners are favoured, and in the second type, family members who

lack blood ties, such as in-laws or adopted children, are favoured. First, favouritism towards family members with blood-ties is closely related to parental altruism. Simply explained, parental altruism is a solid tie between parents and descendants, which is formed as a result of the fundamental personality of an individual based on emotions, instincts, and minds (Piliavin & Charng, 1990). It is strengthened and driven by the self-interest of an individual, satisfying one's self and also thinking of others' preferences (Lunati, 1997). The owners of family firms aim to increase common welfare towards descendants of whom one shares blood ties with, based on parental altruism. To do so, they use favouritism (Lubatkin et al., 2005).

Based on the in-depth case study of a family firm, Karra, Tracey, & Phillips (2006) suggest that parental altruism is not confined to immediate family and close kin and extended to distant kin through networks. Even though parents tend to favour their own descendants due to the biological relativity (Lunati, 1997), depending on their definition of "family", if kinship members are included within the boundary of the family, they can experience the same favoritism as the direct descendants of the family firm owners. Favoritism towards blood ties or non-blood ties is frequently described in case studies and mentioned by the media in many East Asian countries (Chang, 2012; Chau, 1991; Solomon, J., Solomon, A., & Park, 2002; Song 1997; Wong, 1985).

According to Wong (1985), due to the cultures and traditions in China, only male heirs could succeed family businesses before the appearance of the Republic of China; therefore, in-laws who do not actually share blood ties with founders or daughters were naturally excluded from ownership transfer and resource sharing. However, in Japan, in case there is no meritorious kin candidate for succession, business families regularly adopt a male child to succeed the

business. Therefore the owners of family firms show favouritism towards adopted children with whom they do not share blood ties (Chau, 1991) in the event their own children are not meritorious.

Based on 1367 publicly-listed non-financial firms on Japanese stock exchanges, Mehrotra, Morck, Shim, & Wiwattanakantang (2013) discover that family firms with adopted heirs outperform family firms with biological heirs and non-family firms. They argue that adopted heirs in Japanese family firms increase firm performance based on their strong motivation. However, they also mention that the possibility of adoption induces biological heirs to put greater efforts in developing their own human capital, considering the constant threat of replacement, which reduces the so-called “The Carnegie effect” (Holtz-Eakin, Joulfaian, & Rosen, 1993) according to which inherited wealth disincentives efforts (Mehrotra et al., 2013). Despite the anecdotal evidence of non-kinship favouritism and its significance in some contexts referring to Japanese family firms, the topic has been largely ignored in family business research.

In summary, I identified three types of family-related bifurcation bias (i.e. birth-order, gender, and (non-) kinship favouritism) present in business families and their possible impacts on family firms. Family-related bifurcation bias can limit the human capital development of discriminated family members. Furthermore, it can rule out competent female successors or younger siblings from firm leadership, and thus potentially reducing family human capital resources, which in turn might hurt the prosperities of family firms. However, once it is combined with a low level of non-family-related bifurcation bias and applies to a family firm, a firm still might achieve a competitive advantage despite the existence of a high level of family-related bifurcation bias (Dess & Lumpkin, 2005; Dyer, 1992, 2006; Gallo & Vilaseca, 1998;

Miller, Le Breton-Miller, & Scholnick, 2008). Since there has been no research examining the implications of bifurcation biases towards human capital resources, I have developed a theory on how combinations of both types of bifurcation bias influence human capital resources of a family firm, and thereby influence the competitive firm advantage. The follow sections will discuss this topic in more detail, using the model I constructed of four contrasting types of family firms that showcase different combinations of family and non-family-related bifurcation bias.

### **3. Four Contrasting Types of Family Firms**

Existing studies have covered non-family-related bifurcation bias (Daspit et al., 2018; Jennings et al., 2018; Kano & Verbeke, 2018; Madison et al., 2018; Majocchi et al., 2018; Verbeke & Kano, 2012), while family-related bifurcation bias has only been implied in studies on birth-order favouritism, gender favouritism, and (non-) kinship favouritism (Bloom & Van Reenen, 2007; Chau, 1991; Wong, 1985). As a result, there is still a lack of theory on how family firms combine the two types of bifurcation bias and the implications thereof. In this section, I therefore introduce four contrasting types of family firms that combine both family and non-family-related bifurcation bias. I examine the characteristics of the four contrasting types of family firms by investigating if there is any hierarchical distinction among family and non-family employees in terms of providing them with biased HR practices. Finally, I move on to explore if the family and non-family human capital pool is either expanded or constrained due to the prevalent HR biases. The four contrasting types are: (1) the monarchy, (2) family meritocracy, (3) the meritocracy, and (4) reverse nepotism.

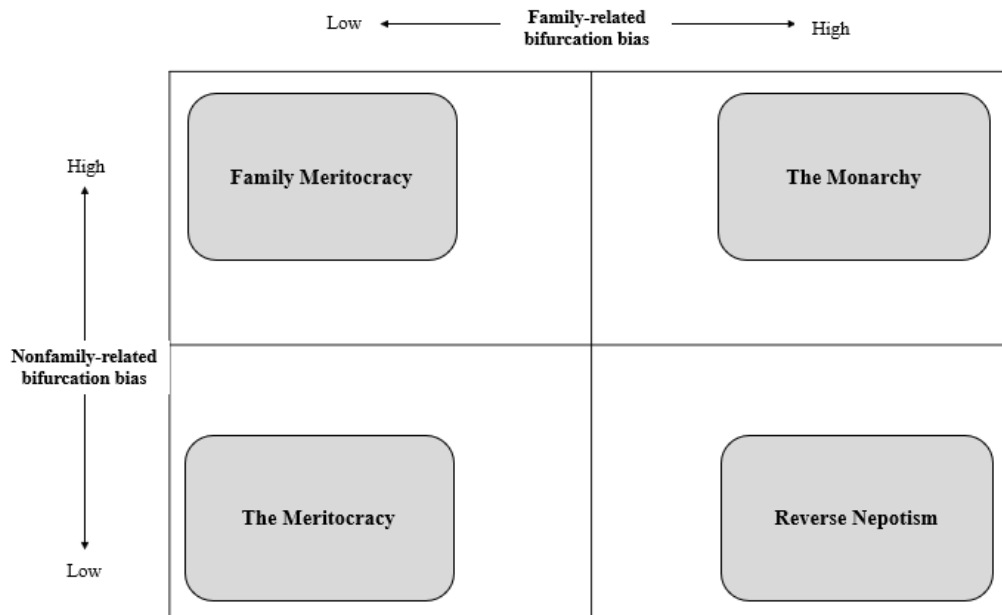


Fig 1. A model of four contrasting types of family firms with family and non-family-related bifurcation bias

### 3.1. The Monarchy

The first type of family firm is “the monarchy”, which has both a high level of family and non-family-related bifurcation bias. Since the monarchy has a high level of family-related bifurcation bias, a hierarchical distinction appears within a family group. Depending on the preference of family firm owners, such as birth-order, gender, or (non-) kinship favouritism (Bloom & Van Reenen, 2007; Chau, 1991; Mehrotra et al., 2013; Wong, 1985), discriminated family members receive biased HR practices in selection, performance evaluation, employee training & development, or compensation when compared to the “chosen” family member(s). Despite the discrimination within a family group, discriminated family employees are still favoured and prioritized over non-family employees. A second hierarchical distinction is present between the family and non-family group due to a high level of non-family-related bifurcation

bias. In conclusion, there are two clear distinctions present among employees in the monarchy type of firm.

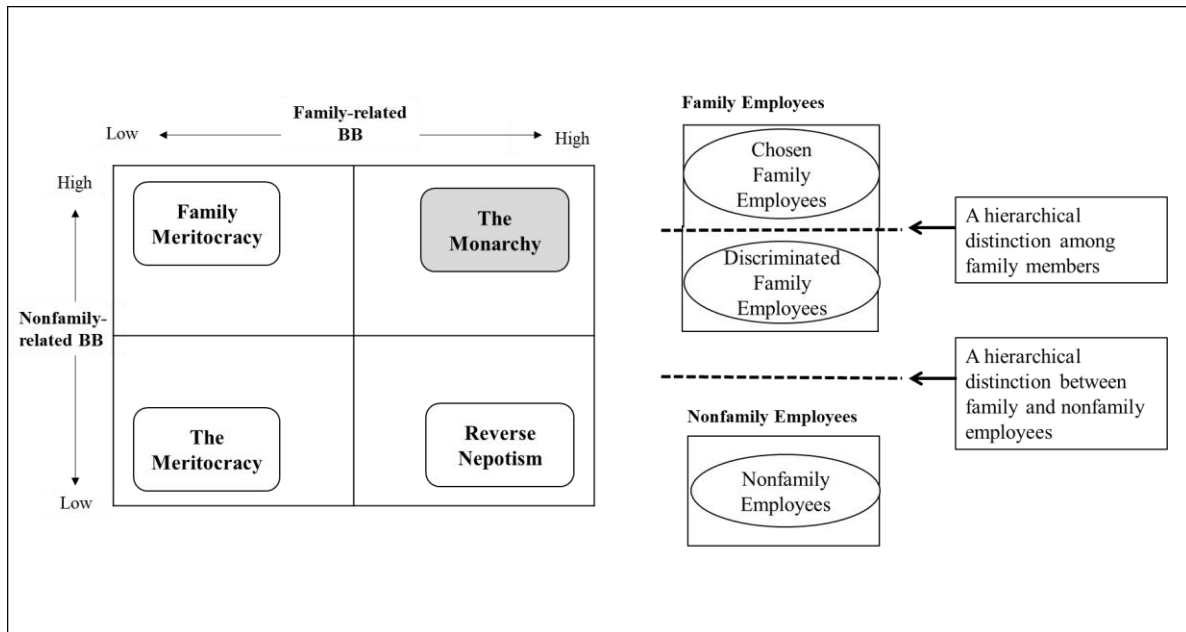


Fig 2. A description of the characteristics of the monarchy type

The high level of family and non-family-related bifurcation bias applied to employees in the monarchy type results both of the family and non-family human capital pool becoming constrained. Non-family employees are discriminated against with biased HR practices; therefore, excluding them from being able to further develop their human capital (Ahrens et al., 2015; Lansberg, 1983). The non-family human capital pool is similarly constrained, as meritorious non-family members have limited opportunities to advance in this type of business, and are therefore likely to leave the organization (or are unlikely to join in the first place). Consequently, the family and non-family human capital pool is constrained, disabling the potential of family firms to develop a competitive advantage based on their human capital resources.

### 3.2. Family Meritocracy

Family meritocracy is a type of a family firm with a low level of family-related bifurcation bias and a high level of non-family-related bifurcation bias. Due to a low level of family-related bifurcation bias, the family meritocracy type, unlike the monarchy, lacks a hierarchical distinction among family members. All family members receive fair HR practices that are not influenced by favouritism (e.g., birth-order, gender, or (non-) kinship favouritism; Bloom & Van Reenen, 2007; Chau, 1991; Mehrotra et al., 2013; Wong, 1985). In other words, HR practices will match the performance of family members at work. Conversely, there is a clear hierarchical distinction between family and non-family employees as a result of the high level of non-family related bifurcation bias. While family employees are treated fairly with proper HR practices and without discrimination, non-family employees receive discriminating HR practices in selection, performance evaluation, employee training and development, or compensation in the case that they are competing with family members.

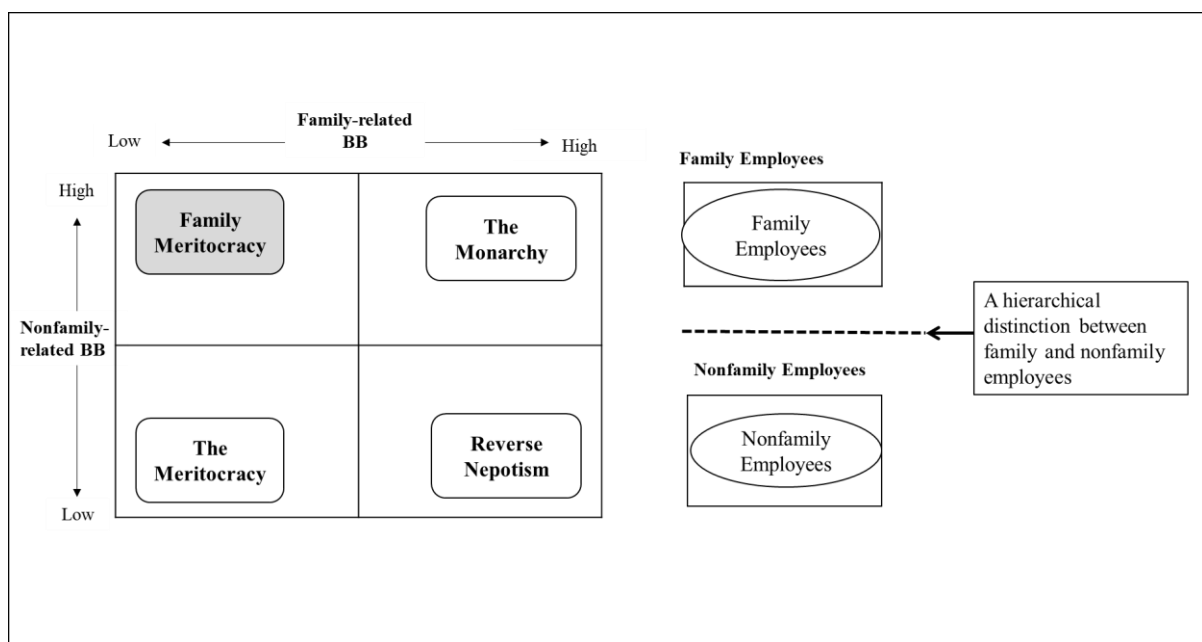


Fig 3. A description of the characteristics of the family meritocracy type

In the family meritocracy type, the family human capital pool is thus expanded due to a low level of family-related bifurcation bias. Accordingly, any family members can develop their human capital further and try to contribute to the firm's competitive advantage (Barney & Wright, 1998; Ordóñez & Pablos, 2004; Wright et al., 2001). Though, due to a high level of non-family-related bifurcation bias, non-family employees can be deprived of the opportunity to develop and leverage their human capital (Ahrens et al., 2015; Lansberg, 1983). As a result, the non-family human capital pool is possibly constrained so that it is limited in contributing to a firm's competitive advantage. However, such a constraint should be lower than in the monarchy type because family members compete for firm leadership based on qualification and abilities.

### **3.3. The Meritocracy**

A family firm that belongs to the meritocracy type has both a low level of family and non-family-related bifurcation bias. Both family and non-family employees are not discriminated against by the owners due to their biases, therefore they enjoy evenly applied HR practices based on their capacity and work performance. As a result, a hierarchical distinction among employees does not exist in this type. All employees expect fair treatment of HR practices, and their expectation of, for example, rewards distribution is met based on their past performance (Blondel, Carlock, & Heyden, 2000). Both family and non-family employees are likely to keep their performance level high with few deviant behaviours and strong effort deserving little if any sanctioning (Blondel et al., 2000; Lubatkin, Durand, & Ling, 2007). Consequently, a family firm in this type is likely to attract and retain high performing individuals and achieve superior economic outcomes (Daspit et al., 2018).

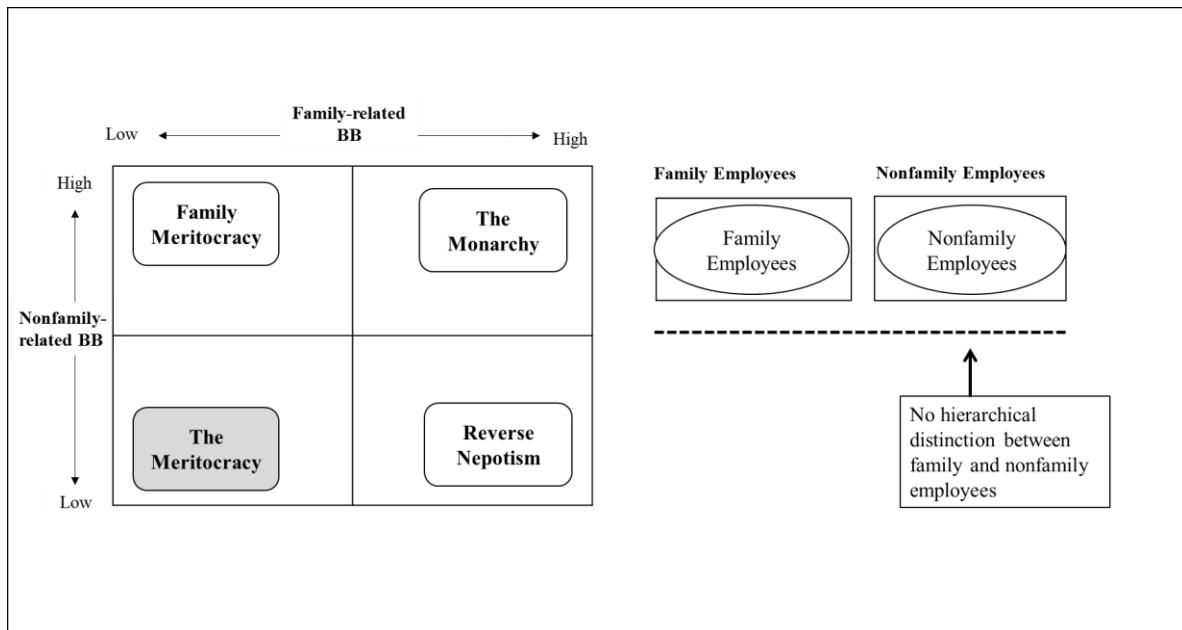


Fig 4. A description of the characteristics of the meritocracy type

In the meritocracy type, the family employee and the non-family employee pool are both expanded due to a low level of biases. All employees receive evenly applied HR practices without discrimination. As a result, all employees enjoy a fair opportunity for developing their human capital, thereby a firm's competitive advantage can be attained by the expanded human capital of family and non-family employees (Barney & Wright, 1998; Wright et al., 2005; Wright et al., 1994). However, because the possible pool of non-family employees is unlimited while the possible pool of family members is limited, little family involvement in the meritocracy is expected. In its extreme form, the meritocracy might be family-owned but entirely led by a team of non-family managers.

### 3.4. Reverse Nepotism

The reverse nepotism type has a high level of family-related bifurcation bias and a low level of non-family-related bifurcation bias. Particular family members are discriminated against

based on birth-order, gender, or (non-) kinship favouritism (Ahrens et al., 2015; Chau, 1991; Kuratko, 1993; Mehrotra et al., 2013; Vera & Dean, 2005). A hierarchical distinction therefore exists among family members (i.e. see Figure 5). However, along with a low level of non-family-related bifurcation bias, some non-family employees benefit from more favourable HR practices than other discriminated family members. The latter are thus treated worse than their fellow favoured family members and non-family employees (i.e. see Figure 5). For instance, even though female family employees might contribute to family firms, their contribution might not be recognized when compared to the contribution of male family employees or any non-family employees. In this instance, female family employees receive biased HR practices (Francis, 1999; Hollander & Bukowitz, 1990) that demotivate them from improving their human capital and disable them to leverage it for a competitive firm advantage. Consequently, a general birth disadvantage is likely to hurt this type of family firm.

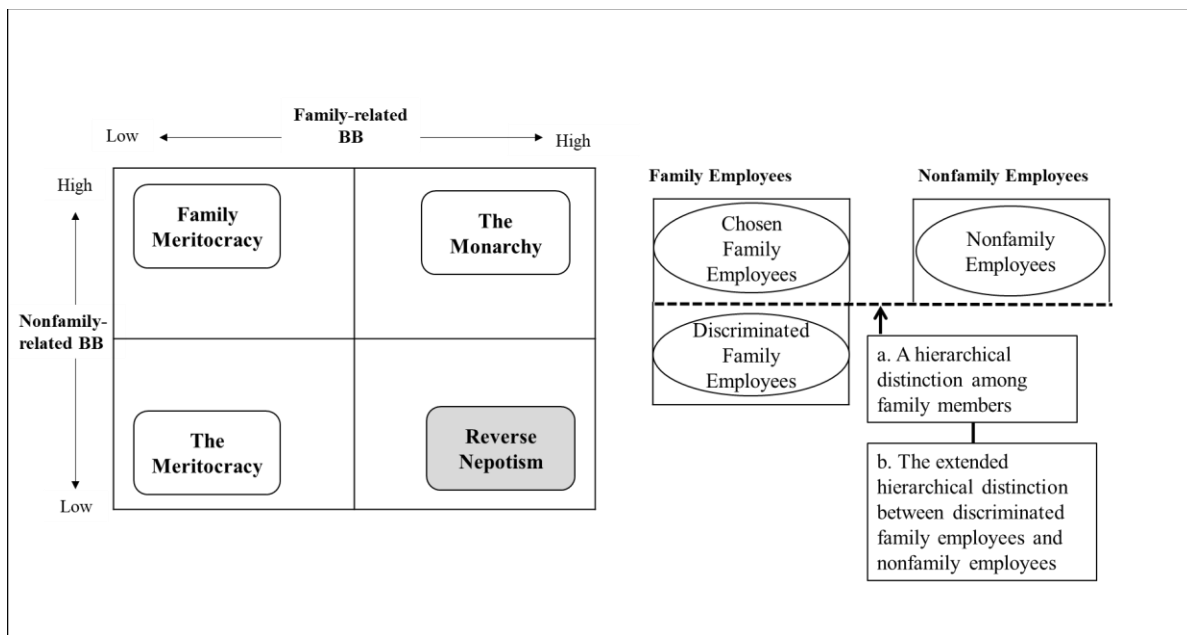


Fig 5. A description of the characteristics of reverse nepotism type

In the reverse nepotism type, while the non-family employee pool is expanded, the family employee pool is constrained to the human capital of a few chosen family members. Since this type showcases a low level of non-family-related bifurcation bias, all non-family employees receive HR practices that commensurate with their capacity and work performances. Furthermore, any non-family employees have the opportunity to advance their human capital based on fairly applied HR practices. However, discriminated family employees are excluded from receiving proper HR practices due to a high level of family-related bifurcation bias. Hence, they lack the opportunity to develop their human capital, and as a result, their constrained human capital is limited in contributing to a firm's competitive advantage.

## **4. Conceptual Framework**

By reviewing literature with the resource-based view, non-family-related bifurcation bias studies, and family-related bifurcation bias such as: (a) birth-order favouritism, (b) gender favouritism, and (c) (non-) kinship favouritism, I address the research gaps that: (1) bifurcation bias research has been limited to non-family employees, and (2) most literature presumes that bifurcation bias brings negative effects to family firms in the long term. To fill these gaps, I have introduced the four contrasting types of family firms that combine different levels of family and non-family-related bifurcation biases. Additionally, I have identified hierarchical distinctions among employees and explained the characteristics of family and non-family human capital pools in each type of family firm.

In this part of the study, by developing the previous discussion further, I suggest a conceptual framework for each of the four contrasting types of family firms. Before introducing the conceptual framework, I first examine the justice perception (Barnett & Kellermanns, 2006)

and the Carnegie effect (Holtz-Eakin et al., 1991), which act as moderators in the following conceptual framework. Secondly, I present a conceptual framework for each type and propose how each contrasting type of family firm is likely to achieve or lose a competitive advantage based on their ability to build family or non-family human capital resources. Furthermore, the implications on how employees respond to such biased HR practices with justice perception (Barnett & Kellermanns, 2006) and the Carnegie effect (Holtz-Eakin et al., 1991) are reviewed and used to ascertain if an employee's reaction may improve or aggravate each firm's competitiveness.

#### **4.1. Justice Perception & The Carnegie Effect**

Employee reactions to family and non-family-related bifurcation bias by having justice perception (Barnett & Kellermanns, 2006) and the Carnegie effects (Holtz-Eakin et al., 1991) can constrain a firm's human capital pool further by causing employees to reduce human capital investments in some types of family firms. First, the theory of justice perception is suggested by Barnett & Kellermanns (2006), and focuses on how non-family employees perceive justice in HR practices and change employee attitudes and behaviours in the context of family firms (p. 838). The theory is rooted in the theory of procedural justice (Bies & Moag, 1986; Lind & Tyler, 1988; Thibaut & Walker, 1975), which argues that employees assess the fairness considering the process and compare their input and output with those of others, and this access to fairness may also result in them changing their attitudes and behaviours to create value for a family firm. Taking the base of the theory and focusing on the family firm context, Barnett & Kellermanns (2006) argue that non-family employees perceive justice in their HR practices, which are influenced by a family business, and their perceptions are likely to impact on their employees'

commitment, motivation, and satisfaction. Resultantly, it may cause a change in the employee attitudes and behaviours at work (Albrecht, Bakker, Gruman, Macey, & Saks, 2015; Barnett & Kellermanns, 2006; Colquitt, 2001).

By expanding the theory of justice perception (Barnett & Kellermanns, 2006) that focus on only non-family employees in family firms, my study argues that all discriminated employees including non-family employees and discriminated family employees are likely to perceive justice in HR practices. Additionally, if they recognize any injustice in HR practices, discriminated employees may change their earlier human capital investments and more often afterwards to obtain their equivalent rewards (Colquitt, Conlon, Wesson, Porter, & Ng, 2001; McClean & Collins, 2011; Poza, Alfred, & Maheshwari, 1997). Furthermore, by accepting their limitation as non-family employees or discriminated family employees, discriminated employees may lose their willingness to develop their human capital over time (Ahrens et al., 2015; Lubatkin, Durand, & Ling, 2007). As a result, this loss of willingness may make it difficult for a firm to secure human capital resources, and thereby can undermine a firm's ability to achieve or maintain a competitive advantage.

Secondly, when chosen family employees are prioritized over other discriminated employees, the Carnegie effect (Holtz-Eakin et al., 1991) according to which inherited wealth dis-incentivizes effort, possibly impacts the chosen family employees. Based on the famous statement of Andrew Carnegie published in his essay in 1891 that inherited wealth to children may diminish their capacity and make their lives less valuable, Holtz-Eakin et al. (1991) examine the Carnegie effect based on the empirical data. Collecting over four thousand tax return data of individuals between 1982 to 1985 in the United States and using multivariate analysis on the

three groups of samples, which were divided based on the amount of inheritance, the study concludes that inheritance is likely to reduce one's economic activity in society (Holtz-Eakin et al., 1991). By bringing the theoretical basement of the Carnegie effect (Holtz-Eakin et al., 1991) to family firm contexts, my study argues that biased HR practices, which result from family and non-family-related bifurcation bias may cause family employees to put less effort in increasing their human capital due to the absence of competitive job pressure (Ahrens et al., 2015; Albrecht et al., 2015; Lubatkin, Ling, & Schulze, 2007; McClean & Collins, 2011).

Due to the favourable HR practices given to chosen family employees or even discriminated family employees when compared to non-family employees, family employees may become less motivated in competing with other discriminated employees (Cai, Li, Park, & Zhou, 2013; Holtz-Eakin et al., 1991; McConaughty, 2000). Therefore, all family employees are likely to put fewer effort in increasing their human capital as a result of the unequally favourable HR practices received across all employee types, regardless of their performance (Ahrens et al., 2015; Holtz-Eakin et al., 1991). Resultingly, this may prevent a family firm in securing family human capital resources and can cause a firm to lack or lose a competitive advantage.

## **4.2. Four Contrasting Types of Firms and Competitive Advantage**

In the previous part of the conceptual framework, two possible moderators, justice perception (Barnett & Kellermanns, 2006) and the Carnegie effect (Holtz-Eakin et al., 1991), are introduced. In this part of the study, by furthering the previous discussion of the four contrasting types of family firm model, I suggest propositions on how each type can achieve or lose a competitive advantage based on managing their human capital resources. Moreover, with justice perception (Barnett & Kellermanns, 2006) and the Carnegie effect (Holtz-Eakin et al., 1991), I

suggest how two moderators might impact the competitive advantage of each type of family firm.

#### 4.2.1. The Monarchy Type and Competitive Advantage

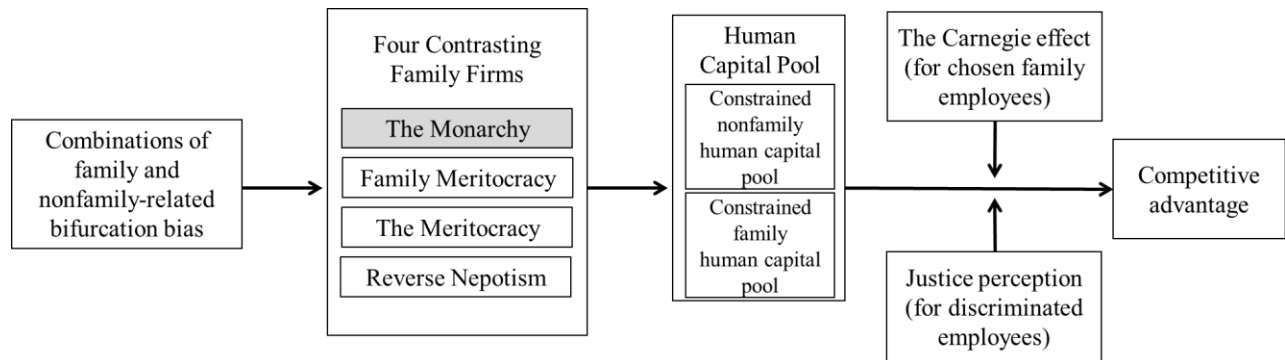


Fig 6. A model of competitive advantage of the monarchy type

The monarchy type of family firm combines a high level of family and non-family-related bifurcation bias. Even though developing the human capital of employees with effective HR practices would help firms to gain a competitive advantage (Kidwell & Fish, 2007; Kidwell, Hoy, & Ibarreche, 2012; Wright et al., 1994), this would not apply to the monarchy type. Due to a high level of non-family-related bifurcation bias, non-family employees have limited opportunities for developing their human capital. Similar to non-family employee, discriminated family members are deprived of the opportunity to develop their human capital due to a high level of family-related bifurcation bias. As a result, one or only a few chosen family employees are liberated from biased HR practices. The monarchy type thus hinders the development of the human capital of both family and non-family employees, and therefore it may not secure more valuable, rare, and inimitable human capital resources (Ahrens et al., 2015; Colbert, 2004; Crook et al., 2011; Wright et al., 1994), constraining both family and non-family human capital pools.

In sum, the monarchy type restricts the development of family and non-family human capital resources within a firm, which limits its ability to achieve or maintain a competitive advantage.

**Proposition 1.** *The monarchy type, having a high level of family and non-family-related bifurcation bias, lacks the ability to develop family and non-family human capital resources, thereby making it likely to lack or lose a competitive advantage.*

Not only do biased HR practices that result from family and non-family-related bifurcation bias constrain the human capital pool of discriminated employees, but employee reactions to biased HR practices may further aggravate this problem (Blondel et al., 2000; Ahrens et al., 2015). Based on their justice perceptions (Barnett & Kellermanns, 2006), discriminated employees assess fairness by comparing their inputs of labour, time, effort, and rewards with those of chosen family employees (Kuvaas, 2008; Lubatkin, Durand, & Ling, 2007; Lubatkin et al., 2005), and accordingly reduce human capital investment by adjusting their commitment for the firm. Additionally, due to the perception of injustice regarding biased HR practices, discriminated employees may lose their willingness to develop their human capital further and thus conform to their status as discriminated non-family employees (Ahrens et al., 2015; Lind & Tyler, 1988).

Discriminated family employees also perceive injustice (Barnett & Kellermanns, 2006), when comparing themselves with chosen family employees. Discriminated family employees are likely to reduce their investments in developing human capital for the absence of equivalent rewards (when compared to preferred family members above them) and competitive job pressures (when compared to discriminated non-family members who are below them) (Ahrens et al., 2015; Barnett & Kellermanns, 2006; Lubatkin, Durand, & Ling, 2007; Lubatkin et al.,

2005). In summary, justice perception of discriminated non-family and family employees undermine the monarchy type's ability to achieve a competitive advantage based on human capital resources.

**Proposition 2.** *In the monarchy type, injustice perceptions cause discriminated family and non-family employees to reduce their human capital investments, thereby undermining a firm's ability to achieve or maintain a competitive advantage.*

Another problem of the monarchy type is that the Carnegie effect (Holtz-Eakin et al., 1993) intensifies the difficulties of developing human capital of chosen family employees. In response to a high level of family-related bifurcation bias, chosen family employees are less motivated to develop their human capital because they do not have to compete with discriminated family and non-family employees (Albrecht et al., 2015; Lubatkin, Ling, & Schulze, 2007; McClean & Collins, 2011). Moreover, in response to favourable HR practices towards family when compared to non-family employees, even discriminated family employees are demotivated to build their human capital to compete with non-family employees (Albrecht et al., 2015; Cai et al., 2013; McConaughty, 2000). As a result, the monarchy type impedes a firm from securing valuable, rare, and inimitable human capital resources of family employees.

**Proposition 3.** *In the monarchy type, the Carnegie effect demotivates chosen family employees to invest in their human capital, thereby undermining a firm's ability to achieve or maintain a competitive advantage.*

One example of the monarchy type are family firms in South Korea. Many Korean family firms are managed under concentrated ownership and hereditary control across generations (Chang, 2012). Even though some of the Korean family firms such as Samsung, Hyundai, or LG

have become successful based on financial government support and favourable government policies, they are not free from monarchy-type HR practices and the associated effects (Chang, 2012). The strong cultural influence of Confucianism in the country has shaped the HR management system within Korean companies, which encompasses small, medium-sized firms, and massive conglomerates called “Chaebol” (Song 1997; Solomon et al., 2002). Under the HR management system, power shifts from the father, who is the head of the company, to selected family members (Song, 1997). Priority is given to the eldest son, while daughters have the lowest status (Chang, 2012). Due to strongly biased HR practices towards all non-chosen family and all non-family employees, many Korean family firms undergo difficulties in attaining a sustained competitive advantage based on their human capital resources (Park, Shin, & Suh, 2016). Also, “owner risk”, the risk that firm owners or their successors will harm the corporation with their misjudgement, inability, and incompetence may impede such family firms from achieving a competitive advantage (“Chaebol and owner risk”, 2014; Haggard, Lim & Kim, 2003; Park et al., 2016).

#### 4.2.2. Family Meritocracy Type and Competitive Advantage

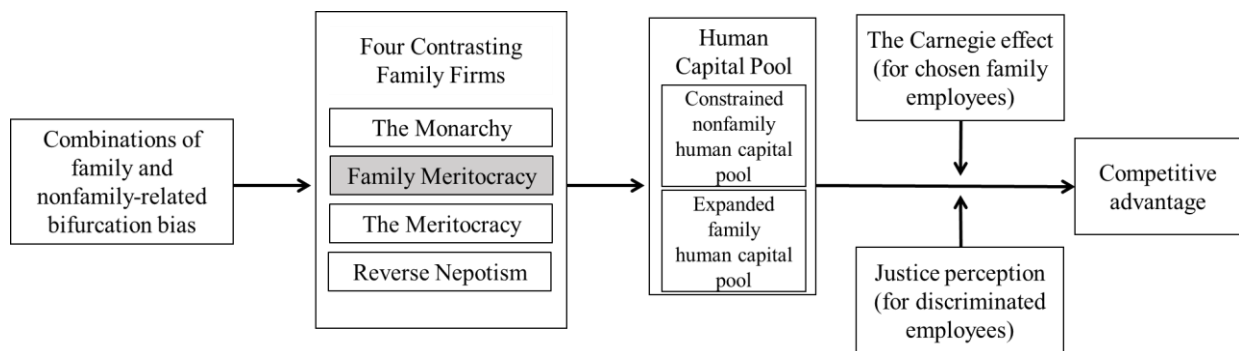


Fig 7. A model of competitive advantage of family meritocracy type

The family meritocracy firm type has a low level of family-related bifurcation bias and a high level of non-family-related bifurcation bias. The meritocracy is therefore wavering in its ability to achieve or lose a competitive advantage. Due to a low level of family-related bifurcation bias, unlike the monarchy type, all family employees receive evenly applied HR practices. In other words, particular family members are not discriminated against with biased HR practices; therefore, all family employees receive fair opportunities to develop their human capital. Accordingly, this type may secure valuable, rare, and inimitable human capital of family employees (Ahrens et al., 2015; Colbert, 2004; Crook et al., 2011; Wright et al., 1994), expanding the family human capital pool. In sum, the family meritocracy type has advantages in developing the human capital of family employees, increasing its likelihood to achieve or maintain a competitive advantage based on family human capital resources.

**Proposition 4a.** *The family meritocracy type, having a low level of family-related bifurcation bias and a high level of non-family-related bifurcation bias, has the ability to develop family human capital resources, thereby making it more likely to achieve a competitive advantage.*

However, due to a high level of non-family-related bifurcation bias, non-family employees are deprived of the opportunity to develop their human capital. Even though developing human capital resources is an important factor in securing valuable, rare, and inimitable resources within a firm (Jiang, Lepak, Hu, & Baer, 2012; Wright et al., 1994), such a firm type fails to provide adequate opportunities to develop the human capital of non-family employees. As a result, the family meritocracy restricts the development of human capital of

non-family employees, limiting its ability to achieve or maintain a competitive advantage based on non-family human capital resources.

**Proposition 4b.** *The family meritocracy type, having a low level of family-related bifurcation bias and a high level of non-family-related bifurcation bias, lacks the ability to develop non-family human capital resources, thereby making it likely to lack or lose a competitive advantage.*

In the family meritocracy type, the human capital of non-family employees is not only constrained due to biased organizational-level HR practices that result from a high level of non-family-related bifurcation bias but also due to employee reactions to such bias. Non-family employees perceive injustice in biased HR practices (Barnett & Kellermanns, 2006) by assessing their own inputs of labour, time, effort, and rewards with the ones from family employees (Shore, Tetrick, Coyle-Shapiro, & Taylor, 2004). Accordingly, they reduce their human capital investments when compared to family employees (Cropanzano & Greenberg, 1997; Lubatkin, Durand, & Ling, 2007; Lubatkin et al., 2005). Furthermore, due to their injustice perceptions (Barnett & Kellermanns, 2006), non-family employees are discouraged from developing their human capital, reinforcing the realization that their disadvantaged status as non-family employees is cemented, and thereby having to act under this limitation (Cohen-Charash and Spector, 2001; Colquitt et al., 2001). Consequently, injustice perceptions of non-family employees weaken the family meritocracy's ability to achieve or maintain a competitive advantage by constraining the human capital of non-family employees.

**Proposition 5.** *In the family meritocracy type, injustice perceptions cause discriminated non-family employees to reduce their human capital investments, thereby hurting a firm's ability to achieve or maintain a competitive advantage.*

The Carnegie effect (Holtz-Eakin et al., 1993) impedes firms belonging to the family meritocracy type from securing valuable, rare, and inimitable family human capital resources despite the expanded family human capital pool. Since non-family employees are discriminated against with a high level of non-family-related bifurcation bias, in the absence of competitive job pressures, family employees do not feel the need to develop their human capital further to compete diligently with non-family employees (Ahrens et al., 2015). Because of this Carnegie effect (Holtz-Eakin et al., 1993), family employees are likely to be less motivated to develop their human capital (Cai et al., 2013; McClean & Collins, 2011; McConaughty, 2000). Resultantly, this may hinder a firm from achieving a competitive advantage despite an expanded family human capital pool.

**Proposition 6.** *In the family meritocracy type, the Carnegie effect demotivates family employees to invest in their human capital, thereby undermining a firm's ability to achieve or maintain a competitive advantage.*

One example of family meritocracy type are Chinese family firms that practice a coparcenary culture. Coparcenary is defined as joint heirship and joint ownership, known as *feng chia* in Chinese, dividing family assets equally among male descendants (Chau, 1991). However, after China enacted a new inheritance law in October 1985, women received equal inheritance rights (Gaetano, 2015). In addition, government-led social and economic changes dramatically enhanced women's rights in society (Qi, 2018). Therefore, in modern Chinese family firms,

daughters can receive the same rights as male descendants. Since coparcenary allows all the family members to join the firm and develop their capabilities without bias, it fuels a family meritocracy and the related possibility to achieve a competitive advantage based on family human capital. On the other hand, since coparcenary limits non-family employees in developing their human capital, firms who share this culture are subject to lose a competitive advantage due to the limited human capital of non-family employees.

### 4.2.3. The Meritocracy and Competitive Advantage

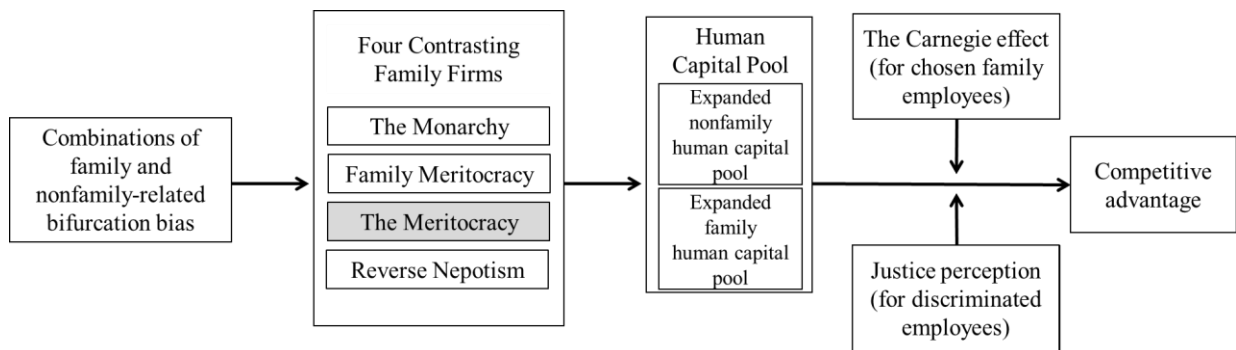


Fig 8. A model of competitive advantage of the meritocracy type

The meritocracy type of firm has a low level of family and non-family-related bifurcation bias. Therefore, both family and non-family employees receive similar HR practices. Since there is no discrimination with HR practices, all family and non-family employees have the same opportunity to advance their human capital. As a result, these firms can secure valuable, rare, and inimitable human capital resources (Barney, 1995; Crook et al., 2011; Wright et al., 1994), expanding both family and non-family human capital pools and increasing its possibility to achieve and maintain a competitive advantage.

**Proposition 7.** *The meritocracy type, having a low level of family and non-family-related bifurcation biases, has the ability to develop family and non-family human capital resources, thereby making it likely to achieve and maintain a competitive advantage.*

Even though employee reactions to biased HR practices aggravate the problem of human capital resources in some family firm types, the meritocracy type is free from experiencing these problems. Since all employees receive fairly applied HR practices based on their labour, time, effort and performance level, injustice perceptions are absent in this case (Blondel et al., 2000; Lubatkin, Durand, & Ling, 2007; Lubatkin et al., 2005). Hence, employees would not reduce their human capital investments by changing their inputs of work engagement, effort, and time (Albrecht et al., 2015; Lubatkin et al., 2005; McConaughy, 2000); their willingness to develop human capital is thus not affected because they do not experience perceptions of injustice (Coyle-Shapiro, Taylor, Shore, & Tetrick, 2004). Consequently, meritocracy type firms can achieve a competitive advantage based on family and non-family human capital resources.

**Proposition 8.** *In the meritocracy type, justice perceptions cause employees to invest in their human capital, thereby improving a firm's ability to achieve a competitive advantage relative to firms in which employees reduce their human capital investments.*

Family employees in this type are not prioritized over non-family employees, and furthermore, all family members are given fairly applied HR practices in a family group. Accordingly, the Carnegie effect (Holtz-Eakin et al., 1993) hardly impacts the motivation of family employees; thus, all active family members are willing to develop their human capital to compete with other competent non-family or family employees. Because the Carnegie effect (Holtz-Eakin et al., 1993) is ineffective in hurting a firm's ability to secure family human capital

resources, it does not impact a firm's potential competitive advantage based on family human capital resources.

**Proposition 9.** *In the meritocracy type, the Carnegie effect is ineffective in demotivating family employees to invest in their human capital, thereby not undermining a firm's ability to achieve or maintain a competitive advantage.*

One example of the meritocracy type of a family firm can be a medium or large-sized U.S. family firm with a meritocratic culture and formalized HR practices. Thach & Kidwell (2009) conduct a comparative study with 57 U.S. and 37 Australian family firms regarding HR practices and the impacts of such practices on company sales and profitability. They demonstrate that U.S. family firms with formalized HR practices reported higher profitability when compared to Australian family firms with biased HR practices. Similarly, Caselli & Gennaioli (2013) argue that the lack of meritocracy can cause a family firm to have poorer firm performance. They suggest that a dynastic management system, where ownership and control are transferred over generations, brings inefficiency into managing human capital resources within a firm, reducing a firm's total productivity. To summarize, scholars indicate that family firms with a meritocratic HR system can outpace competitors by retaining valuable, rare, and inimitable family and non-family human capital resources within the firm.

#### 4.2.4. Reverse Nepotism and Competitive Advantage

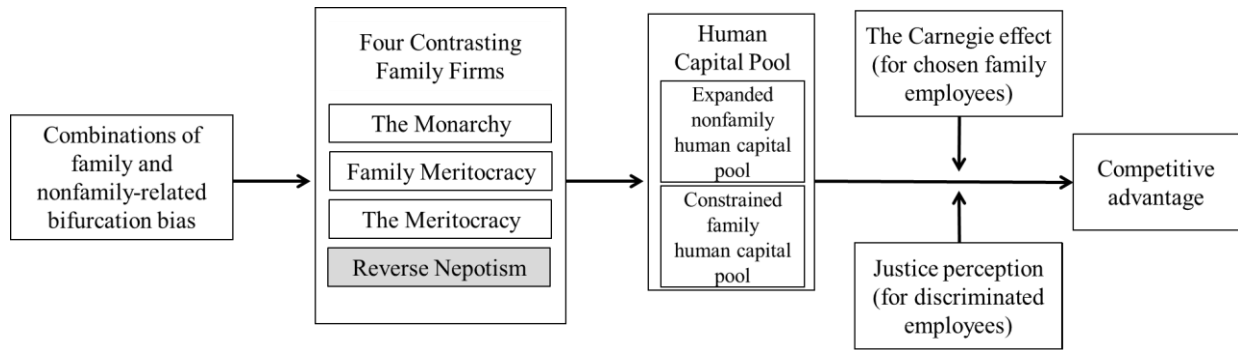


Fig 9. A model of competitive advantage of the reverse nepotism type

The reverse nepotism type of firm has a high level of family-related bifurcation bias and a low level of non-family-related bifurcation bias. It also has an ambivalent potential to achieve or lose a competitive advantage. Moreover, due to a low level of non-family-related bifurcation bias, non-family employees are not discriminated against with biased HR practices. Therefore, they are not restricted by the business to build their human capital, enabling this firm type to secure valuable, rare, and inimitable human capital of non-family employees (Barney & Wright, 1998; Colbert, 2004; Wright et al., 1994). Therefore, the reverse nepotism type increases the likelihood of achieving a competitive advantage based on non-family human capital resources.

**Proposition 10a.** *The reverse nepotism type, having a high level of family-related bifurcation bias and a low level of non-family-related bifurcation bias, has the ability to develop non-family human capital resources, thereby making it more likely to achieve a competitive advantage.*

Secondly, due to a high level of family-related bifurcation bias, birthright is not prioritized in this type. Therefore, particular family members are possibly discriminated against

with biased HR practices not only in relation to other family members, but also even when compared to non-family employees. Discriminated family employees face limitations in developing their human capital; thus, such family firms are unable to secure valuable, rare, and inimitable human capital of family employees (Barney, 1991; Barney, 1995; Barney & Wright, 1995), constraining the family human capital pool and impeding a firm from achieving a competitive advantage.

**Proposition 10b.** *The reverse nepotism type, having a high level of family-related bifurcation and a low level of non-family-related bifurcation bias, lacks the ability to develop family human capital resources, thereby making it likely to lack or lose a competitive advantage.*

In the reverse nepotism type, the human capital of family employees is not only constrained due to a high level of family-related bifurcation bias, but it can also be limited due to employees' reactions to such bias. Discriminated family employees may respond to a high level of family-related bifurcation by having perception of injustice (Barnett & Kellermanns, 2006). After assessing their previous inputs of labour, time, effort, and rewards with those of chosen family or non-family employees, they reduce their investments in human capital (Blondel et al., 2000; Cropanzano & Greenberg, 1997; Lubatkin et al., 2005). Furthermore, they are likely to reduce their commitment and their wiliness to advance their human capital by conforming to the limitations of their status as discriminated family employees (Miller & Le Breton-Miller, 2006; Miller et al., 2008). As a result, injustice perceptions of discriminated family employees reduce the ability of such type of a firm to achieve a competitive advantage by further constraining the human capital of family employees.

**Proposition 11.** *In the reverse nepotism type, injustice perceptions cause discriminated family employees to reduce their human capital investments, thereby undermining a firm's ability to achieve a competitive advantage.*

At the same time, the Carnegie effect (Holtz-Eakin et al., 1993) worsens the difficulties of securing the human capital of chosen family employees. While discriminated family employees receive biased HR practices no matter of their capacity or work performance, chosen family employees enjoy favourable HR practices when compared to discriminated family employees. In response to said bias, chosen family employees are less motivated to advance their human capital to compete with other discriminated family employees for higher compensation, faster promotion, or any other relevant HR practices (Ahrens et al., 2015; Albrecht et al., 2015; McClean & Collins, 2011; McConaughty, 2000). As a result, the Carnegie effect impedes a family firm from retaining more valuable, rare, and inimitable family human capital resources, and thereby undermining a firm's ability to achieve a competitive advantage.

**Proposition 12.** *In the reverse nepotism type, the Carnegie effect demotivates chosen family employees to invest in their human capital, thereby undermining a firm's ability to achieve or maintain a competitive advantage.*

One example of a reverse nepotism type can be found in a family firm in a country such as Afghanistan where gender discrimination is severe due to the cultural and religious influence (Aziz & Moussa, 2015). Daughters seldom complete their formal education, which would have been essential for their careers; therefore, their opportunity to join a family firm is naturally limited (Wang, 2010). Even after they can join a firm, their level and extent to advance the career is bounded, which it puts them into positions of invisibility (Curimbaba, 2002). They are

considered as temporary employees or as merely filling in time, not being included in a firm thoroughly (Dumas, 1992; Martin, 2001). In sum, their skills and competencies are not likely to be developed, and therefore such a firm cannot properly utilize their human capital (Dumas, 1992; Martin, 2001). Despite their status as family members, their birthright does not ensure favourable or even fair HR practices when compared to non-family employees (Martin, 2001; Royer, Simons, Boyd, & Rafferty, 2008; Stavrou, 1999; Wang, 2010). Rather, those discriminated family members are ignored in HR practices in favour of chosen family members and non-family employees (Royer et al., 2008; Wang, 2010). The discrimination of some family members can also extend to succession, when owners of a family firm pass on its control to trusted non-family employees rather than their own daughters, for instance (Martin, 2001; Stavrou, 1999).

## **5. Discussion**

This thesis examines the discriminant treatment of family and non-family employees in family firms that often manifest through a firm's formalized HR practices. Following Verbeke & Kano (2012) introduction of the concept of bifurcation bias, numerous scholars have contributed to the discussion on this topic. Motivated by the theoretical and practical significance of the topic, my thesis sought pursue two objectives: (1) to expand the current understanding of bifurcation bias, and (2) to provide insight as to how a family firm can achieve or lose a competitive advantage based on managing human capital resources with their bifurcated HR practices. In this section, I organize the main ideas and summarize the theoretical contributions of my research. I further identify the limitations of my study and suggest paths for future studies. Lastly, I discuss practical implications of my research to decision-makers in family firms so that

they can mitigate the negative influence of family and non-family-related bifurcation bias while maximizing their positive impact for family firms. Overall, my work will help decision-makers in family firms design effective HR practices that can generate and/or maintain a competitive advantage based on human capital resources.

## **5.1. Research Contributions**

### **5.1.1. For Strategic Management Research of Family Firms**

The resource-based view examines firms by the resources that they possess (Barney, 1991; 1995; Colbert, 2004; Kraaijenbrink, 2011; Loasby, 2011; Wernerfelt, 1984). It assumes that all firms have heterogeneously distributed resources and each firm's competitive advantage emerges from their resources (Barney, 1991). In particular, when a firm retains valuable, rare and inimitable resources and implements strategies to optimize them for value creation, the firm can achieve a competitive advantage (Barney, 1991, 1995). Consequently, these firms can prevail in the market relative to their competitors (Barney, 1991; Grant, 1991). Among various types of resources that a firm can possess, human capital is a resource that is considered to be valuable, rare, and inimitable, which can confer a competitive advantage to a firm (Barney, 1995; Barney & Wright, 1998; Colbert, 2004; Crook et al., 2011; Haber & Reichel, 2007; Wright et al., 1994).

For family firms, human capital is also a crucial resource that can cause a firm to fail or succeed (Kidwell, Eddleston, & Kellermanns, 2018; Kidwell & Fish, 2007). However, family firms often face difficulties in recruiting a large number of high-quality employees and thereby have a limited human capital pool (Sirmon & Hitt, 2003). One reason is that most family firms tend to be smaller in size (Daily & Dollinger, 1993; Galve-Gorriz & Salas-Fumas, 1996), and another reason is due to the unique characteristics of family firms. Qualified employees may

avoid family firms because of the confined succession to only family members, restricted potential and career growth for non-family employees, and lack of professionalism from the HR management system (Covin, 1994a, 1994b). Therefore, a family firm is likely to depend on a limited number of employees who are less qualified as considered by most standards (Sirmon & Hitt, 2003).

Building employee human capital is an effective HR strategy for family firms to achieve competitiveness despite their limitations in acquiring human capital resources (Ahrens et al., 2015; Dyer, 2018; Ordóñez & Pablos, 2004; Sirmon & Hitt, 2003). Therefore, if a family firm establishes a low level of biases as the meritocracy type, it allows all employees to develop the human capital, so that it can maximize the potential of their limited human capital resources (Barney 1991; 1995). Employee reactions, such as justice perception (Barnett & Kellermanns, 2006) and the Carnegie effect (Holtz-Eakin et al., 1993) may not cause employees to reduce their human capital investments either. Thus, such firms can fully facilitate their limited human capital pool and may achieve a competitive advantage based on their human capital resources (Barney & Wright, 1998; Wright et al., 1994). However, since the possible pool of family members is limited when compared to non-family employees for the meritocracy type, in extreme case, a firm can be managed entirely by competent non-family managers even though the firm is family-owned.

In the case of family meritocracy, where a low level of family-related bifurcation bias is applied with a high level of non-family-related bifurcation bias, a firm has an ambivalent potential to achieve or lose a competitive advantage based on building employee human capital (Ahrens et al., 2015; Barney & Wright, 1998; Sirmon & Hitt, 2003; Wright et al., 1994). For

example, all family employees are encouraged to build their human capital due to a low level of family-related bifurcation bias, while non-family employees are limited in advancing their human capital because of a high level of non-family-related bifurcation bias. Therefore, a firm is not only able to maximize the potential of family human capital resources, but also can further restrict the potential of non-family human capital resources (Barney, 1995; Barney & Wright, 1998; Wright et al., 1994). Moreover, justice perception (Barnett & Kellermanns, 2006) and the Carnegie effect (Holtz-Eakin et al., 1993) can cause employees to reduce human capital investments in response to biased HR practices. Therefore, a firm may facilitate their limited human capital pool, but also may aggravate the problem of a limited human capital pool (Barney, 1995; Barney & Wright, 1998; Wright et al., 1994). Thereby, a firm has an ambivalent possibility to achieve or lose a competitive advantage based on their human capital resources.

Similarly, reverse nepotism has an ambivalent potential to achieve or lose competitiveness by facilitating or further restricting its already-limited human capital resources regarding building employee human capital (Sirmon & Hitt, 2003). Due to a high level of family-related bifurcation bias, discriminated family employees may not be given the opportunities to build their human capital; thereby, the family human capital pool can be further constrained (Barney & Wright, 1998). It may result in aggravating the problem of limited human capital resources of family firms. Conversely, by giving opportunities to all non-family employees and maximizing the potential of non-family human capital resources, such firms may facilitate their limited human capital resources and expect to achieve a competitive advantage (Barney, 1991; 1995; Wright et al., 1994).

However, some firms, like the monarchy type, often aggravate the problem of a limited human capital pool by further constraining it through the adoption of a high level of family and non-family-related bifurcation bias and limiting employee human capital development. Due to such biases, only chosen employees receive favourable HR practices to develop their human capital, while discriminated employees are excluded from those opportunities (Birdthistle, 2006; Cai et al., 2013; Gomez-Mejia, Nunez-Nickel, & Gutierrez, 2001; Poza et al., 1997). Even though building human capital of employees is critical for a firm to achieve a competitive advantage (Barney & Wright, 1998; Kidwell & Fish, 2007; Kidwell et al., 2012; Wright et al., 1994), the monarchy type lacks such HR management. Furthermore, employee reactions to biases like justice perception (Barnett & Kellermanns, 2006) and the Carnegie effect (Holtz-Eakin et al., 1993) may further restrict a firm's human capital pool. Therefore, the monarchy type is likely to lack or lose a competitive advantage against competitors in the market.

Likewise, by extending the application of the resource-based view to examine how family firms manage their human capital resources with their HR practices and how their HR management impacts a firm's competitive firm advantage, my study contributes to strategic management research of family firms. Even though several studies have focused on human capital resources of family firms (Dyer, 2006; Hoffman et al., 2006; Kidwell et al., 2018; Kidwell & Fish, 2007; Shinnar et al., 2013), none of the studies has examined the heterogeneity of family firm's HR management regarding discriminatory HR practices and how it may impact a firm's competitiveness. To expand the theoretical discussion, I model the four contrasting types of family firms that have different combinations of a high to a low level of family and non-family-related bifurcation bias. Furthermore, by suggesting a conceptual framework for each type, my study examines how the four types manage employees with their HR practices

primarily focusing on building employee human capital, and their implications of HR management on a firm's competitive advantage.

In this part of the study, despite the limitation of family firms in acquiring human capital resources (Galve-Gorriz & Salas-Fumas, 1996; Morck & Yeung, 2004; Sirmon & Hitt, 2003), my study attempts to explain how some family firms are able to lead in their market based on their human capital resources. My study implies that family meritocracy, the meritocracy, or reverse nepotism has more possibilities to achieve competitiveness based on building human capital resources than the monarchy type. Moreover, my study suggests that these combinations of family and non-family-related bifurcation bias might be a significant reason for the differences between family firm types. In sum, family meritocracy, the meritocracy, and reverse nepotism type may overcome the limitation of acquiring a large number of high-quality human capital resources and can be competitive against other types of family or non-family firms based on their human capital resources (Ahrens et al., 2015; Kidwell et al., 2018; Kidwell & Fish, 2007; Sirmon & Hitt, 2003; Wright et al., 1994).

### **5.1.2. For Bifurcation Bias Studies**

The primary contributions of my thesis to bifurcation bias studies can be summarized as follows. First, my study expands the current understanding of bifurcation bias in family business literature. After Verbeke & Kano (2012) focus on the discriminant professionalization of non-family versus family employees and term it as bifurcation bias, a number of family business scholars have examined bifurcation bias and its influence on family firms. However, despite the existence of various types of bifurcation bias, existing studies mainly examined bifurcation bias towards non-family employees, and how such discriminating HR practices were pursued when

compared to family employees (Daspit et al., 2018; Kano & Verbeke, 2018; Madison et al., 2018; Majocchi et al., 2018; Verbeke & Kano, 2012). Consequently, there is a limited amount of research explores other types of bifurcation biases, for example, where particular family members are discriminated against with biased HR practices when compared to favoured family members and non-family employees.

By exploring various types of favouritism present in business families, such as (1) birth-order favouritism, (2) gender favouritism, and (3) (non-) kinship favouritism that often result from enduring cultural and familial traditions (Bennedson et al., 2007; Bloom & Van Reenen, 2007; Calabrò et al., 2018; Chau, 1991; Wong, 1985), I am able to define biased HR practices against family members based on these three types of favouritism as family-related bifurcation bias. By introducing family-related bifurcation bias, I expand the scope of bifurcation bias studies that have previously focused on non-family bifurcation bias (i.e. the discrimination of non-family employees).

Furthermore, most existing research implicitly assumes that bifurcation bias brings long-term harmful impacts to family firms (Daspit et al., 2018; Kano & Verbeke, 2018; Madison et al., 2018; Majocchi et al., 2018; Verbeke & Kano, 2012). By introducing four contrasting types of family firms, which vary in combinations of family and non-family-related bifurcation bias, I propose that combinations of biases can generate a competitive advantage based on the expanded family and/or non-family human capital pool. In this part of the study, by explaining the examples of family meritocracy and reverse nepotism, I examine how a family firm can achieve a competitive advantage despite the existence of a high level of family or non-family-related bifurcation bias within a firm.

First, the family meritocracy type has the combination of a high level of non-family bifurcation bias and a low level of family-related bifurcation bias. Although this firm type has a high level of non-family-related bifurcation bias, it may have an advantage in the market due to the expanded family human capital pool that it possesses. By having a low level of family-related bifurcation bias, a firm offers a fair opportunity to family employees for the further development of their human capital and it results in a firm retaining more valuable, rare, and inimitable family human capital resources (Barney & Wright, 1998; Huselid, 1995; Ordóñez & Pablos, 2004; Wright et al., 2005). Increasing family human capital resources may offset the negative aspects of lacking non-family human capital resources. Here, I suggest the three reasons how increased family human capital resources can confer a competitive advantage for a firm.

Firstly, family employees often show strong commitment, loyalty, and devotion to their family firm when compared to non-family employees (Miller & Le Breton-Miller, 2006; Miller et al., 2008, Rosenblatt, Mik, Anderson, & Johnson, 1985). Based on a strong attachment to their firm, family employees are often willing to work long hours even without compensation and are flexible for the assignment of various roles and responsibilities to help their firm succeed (Dyer, 2006; Rosenblatt et al., 1985). Additionally, due to the strong affection and intimacy that they have towards a firm that carries on the family name, its value, and legacy, family employees may show strong commitment, loyalty, and devotion to a firm's competitiveness more actively than non-family employees (Lansberg, 1999; Miller et al., 2008; Minola, Criaco, & Obschonka, 2016; Rosenblatt et al., 1985).

Secondly, family employees may retain organizational-specific knowledge that is often difficult to access for non-family employees (Dyer, 1986; 1992). Compared to non-family

employees, some family employees engage in the business from an early age and are provided with comprehensive industry knowledge and the business for an extended period of time (Dyer, 1986; 2006). Especially, when a firm is in primary industries, such as agriculture or secondary industries where tacit knowledge is critical for the business, early family involvement may help a firm utilize family human capital resources more effectively when compared to high-technology industries, where higher education and professional expertise are required for human capital resources (Dyer, 1992; Errington & Gasson, 1994; Hansson et al., 2013). Furthermore, when a firm is in primary or secondary industries, family employees can continuously receive formal and informal training from senior family members who have relevant know-how, experience, and skills about the business for an extended period of time (Dyer, 1992, 2006). Thereby, family employees can keep increasing their organizational-specific knowledge, which is not available for non-family employees and ultimately can confer a competitive advantage for a family firm.

Thirdly, family firms possibly foster enduring entrepreneurship by having more family human capital resources within a firm. Senior family employees transfer family values and legacy to junior family employees, and junior family employees continue to engage in entrepreneurial activities based on the family values and legacy that they are transferred (Jaskiewicz, Combs, & Rau, 2015; Sirmon & Hitt, 2003). When they undertake continuous entrepreneurial activities, this helps a family firm adapt to the change and compete with other firms effectively (Covin & Miles, 1999; Dess & Lumpkin, 2005; Sirmon & Hitt, 2003; Zahra & Covin, 1995). Likewise, based on the positive aspects of family human capital resources, the family meritocracy firm type may achieve a competitive advantage by increasing family human capital resources despite the existence of a high level of non-family-related bifurcation bias (Dess & Lumpkin, 2005; Dyer, 1992, 2006; Jaskiewicz, Uhlenbruck, Balkin, & Reay, 2013;

Miller et al., 2008). , based on the above positive aspects of family human capital resources, family meritocracy may achieve a competitive advantage by increasing family human capital resources within a firm despite the existence of a high level of non-family-related bifurcation bias.

Lastly, the reverse nepotism firm type, where a high level of family-related bifurcation bias is applied with a low level of non-family-related bifurcation bias, is likely to achieve a competitive advantage despite a high level of family-related bifurcation bias. This type adopts a low level of non-family-related bifurcation bias; therefore, non-family employees may receive opportunities to develop their human capital without sanctioning and it can lead a firm to have an expanded non-family human capital pool. Notably, when a firm is in high-technology industries, such type of firm requires human capital resources who have relevant educational backgrounds and professional industry expertise (Liu, Lin, & Cheng, 2011). Thereby, recruiting non-family employees who have relevant qualifications and building their human capital without discrimination can help a firm achieve competitiveness (Arregle, Hitt, Sirmon, & Very, 2007; Gallo & Vilaseca, 1998). In sum, the reverse nepotism firm type can achieve a competitive advantage based on increasing non-family human capital resources despite the constrained family human capital resources due to a high level of family-related bifurcation bias.

By suggesting that high-low combinations of biases, such as the family meritocracy type and the reverse nepotism firm types, can help a firm achieve a competitive advantage, my study goes beyond the discussion that bifurcation bias only brings long-term harmful effects to family firms.

### **5.1.3. For Other Research Areas**

My study aims to contribute to other research areas by exploring various topics while examining family and non-family-related bifurcation bias and how such biases affect human capital resources in family firms. To introduce family-related bifurcation bias, my study examines three types of favouritism towards particular family members present in business families: (1) birth-order favouritism, (2) gender favouritism, and (3) (non-) kinship favouritism that emerged from cultural and familial traditions (Bennedsen et al., 2007; Bloom & Van Reenen, 2007; Calabrò et al., 2018; Chau, 1991; Wong, 1985). By looking into different types of favouritism, also seen as discrimination against particular family members, I summarize that three types of favouritism exist in family firms and may bring negative impacts to family firm performance. By exploring different types of favouritism and discrimination in business families and summarising their possible impacts on family firm performance, my study expects to give theoretical implications to studies examining equity, diversity, and inclusion in family firms.

Furthermore, by examining justice perception (Barnett & Kellermanns, 2006) and the Carnegie effect (Holtz-Eakin et al., 1991) in family business contexts, my study expands the knowledge of two theories. First, the existing theory of justice perception (Barnett & Kellermanns, 2006) mainly focuses on how non-family employees perceive justice in HR practices and adjust their commitment, motivation, and satisfaction. Additionally, it argues that perception of injustice in HR practices may cause non-family employees to change their attitudes and behaviours at work (Albrecht et al., 2015; Barnett & Kellermanns, 2006; Colquitt, 2001). By expanding the existing theoretical argument to all discriminated employees, including non-family employees and discriminated family employees, my study suggests that all discriminated

employees are likely to perceive justice or injustice in HR practices. Thereby, if any of discriminated employees recognize injustice in HR practices, they may change their earlier human capital investments and more often afterwards to pursue the equivalent rewards (Colquitt et al., 2001; McClean & Collins, 2011; Poza et al., 1997).

Secondly, my study brings the discussion of the Carnegie effect (Holtz-Eakin et al., 1991) to family firm contexts and expands its theoretical arguments. Based on a well-known saying of Andrew Carnegie that inherited wealth to children is likely to decrease their capacity and results in their lives becoming less valuable, Holtz-Eakin et al. (1991) examine the existence of such effect with empirical data. However, none of the studies examine how family employees respond to biased HR practices and how this effect may influence a firm's competitive advantage. My study argues that two types of biases may cause family employees to become less motivated in competing with other discriminated employees; thereby, they are likely to put fewer efforts in increasing their human capital (Ahrens et al., 2015; Cai et al., 2013; Holtz-Eakin et al., 1991; McConaughty, 2000). My study therefore suggests that the Carnegie effect (Holtz-Eakin et al., 1991), may prevent a firm in retaining family human capital resources so that it can cause a firm to lack or lose a competitive advantage.

Moreover, my study contributes to other research areas by furthering the discussion of different types of discrimination present in business families (Bennedsen et al., 2007; Bloom & Van Reenen, 2007; Calabrò et al., 2018; Chau, 1991; Wong, 1985), justice perception (Barnett & Kellermanns, 2006), and the Carnegie effect (Holtz-Eakin et al., 1991). Future studies are expected to gain implications to develop the theoretical ideas of various topics suggested in this thesis.

## 5.2. Future Research

Although several contributions derive from my thesis, it also has limitations. Since the study remains a theoretical paper, the propositions need to be tested empirically. First, as Jennings et al. (2018) suggested, researchers need to develop a construct to measure bifurcation bias. In this case, however, constructs to measure both family and non-family related bifurcation bias need to be developed. Referring to Hinkin, Tracey, & Enz (1997) and Agarwal, Chawla, & Singh (2017) for developing valid testing measures and by consulting existing studies about HR practices such as Collins, & Clark (2003) and Wright et al. (2005), researchers can develop constructs of two types of bifurcation bias.

By using these constructs, future studies can test the existence of the four contrasting types of family firms. To find out which of the four contrasting types (i.e. the monarchy, family meritocracy, the meritocracy, and reverse nepotism types) that a family firm belongs to, levels of two types of bifurcation bias need to be assessed. Future studies may collect the data on the degree of biases evident by conducting an employee survey using the constructs developed before. Furthermore, as suggested by Patton (2002), an in-depth interview method, such as semi-structured interviews can be used to gain a better understanding of bifurcation biases present. By probing questionnaires to employee groups, future studies may gather insightful data on how employees perceive the degree of family-related and non-family-related bifurcation bias.

Thirdly, future studies need to examine how human capital resources differ across the four contrasting types of family firms. By referring to the existing measurement of human capital of employees from Bozbura, Beskese, & Kahaman (2007) and testing accumulated human capital of employees from the four contrasting types (Ployhart et al., 2014), different aspects of

human capital resources in each type can be examined. Furthermore, referring to Massing Ham & Tam (2015)'s research approach to measure employee human capital based on 248 questionnaires, the future study can gain an insight to develop the surveys to measure employee human capital. Additionally, referring to survey measures for employee attributions of HR practices and their impacts on employee attitudes and behaviours (Lisa, Lepak, & Schneider, 2008; McClean & Collins, 2011), future studies can evaluate how employees change their investments in developing human capital based on a level of bifurcation biases.

Fourthly, following Bø, Halvorsen, & Thoresen (2016) and Kuvaas (2008) measures to assess the Carnegie effect (Holtz-Eakin et al., 1993) and justice perceptions (Barnett & Kellermanns, 2006) can be used to gather data on how employees change their human capital investments due to two types of bifurcation bias. By constructing questions to measure the degree of unfairness that employees perceive regarding HR practices (Bø et al., 2006; Kuvaas, 2008), and also how employees decrease their human capital investments such as labour, time, and effort (Lubatkin, Durand, & Ling, 2007) as well as how their motivation level changed (McClean & Collins, 2011), future studies may assess how employees respond to two types of bifurcation biases. Additionally, future studies may be developed further to see how much impacts that the moderators can bring to a firm's competitive advantage, thereby suggest if family meritocracy and reverse nepotism type, which has ambivalent possibilities to achieve or lose a competitive advantage, will be competitive or not in the market or not.

Future studies can also provide insights on how bifurcation biases impact human capital pools of each family firm type, and furthermore, how they influence a firm's competitive advantage. Here, a firm's competitive advantage can be captured by financial performance such

as the results of return on equity, return on total assets, and profit margin (Madison et al., 2018). Future studies can be developed further to compare which of the four contrasting types of family firms have a competitive advantage over the other in the market. Moreover, additional research can be pursued to compare the four contrasting types of family firms with non-family firms to identify if the four contrasting types have a competitive advantage or disadvantage over non-family firms when managing human capital resources with their HR practices.

### **5.3. Practical Implications**

My research also offers implications for practitioners. Adopting proper HR practices has long been regarded as a critical strategic element in achieving competitiveness for family firms (Astrachan & Kolenko, 1994). However, implementing HR practices and related problems are significant concerns to both small and growing family firms. Referring to Tocher & Rutherford (2009)'s study examining HR problems in small and medium firms, the study indicates that more than 85% firms out of 1,700 samples are family-owned and have HR problems. Notably, family firms often have non-family-related bifurcation bias, which is showing favouritism towards family employees over non-family employees and providing asymmetric HR practices to employees (Kano & Verbeke, 2018). Furthermore, due to cultural and familial traditions, family firms have family-related bifurcation bias that give preferential HR practices to favoured family members over other discriminated family members (Bloom & Van Reenen, 2007; Chau, 1991; Deng, 2010; Kuratko, 1993; Martin, 2001; Wong, 1985). When a family firm has family and non-family-related bifurcation bias, and when owners and managers do not understand how such biases effect family firms managing their limited human capital resources, such firms can be susceptible to the adverse effects of bifurcation biases.

Due to the size limitation and their unique characteristics, family firms may have difficulties in recruiting many employees and high-quality employees (Daily & Dollinger, 1993; Górriz, C., & Fumás, 1996; Sirmon & Hitt, 2003). In addition, family and non-family-related bifurcation can make it difficult for family firms to facilitate their already-limited human capital pool. By restricting employee opportunities to develop further their human capital, such biases can constrain human capital resources of family firms that confer a competitive advantage. Furthermore, the prevalence of both types of bifurcation bias can cause employees to reduce or adjust their human capital investments. Since a firm's HR practices are closely related to employee motivation and satisfaction (Huselid, 1995; Jackson & Schuler, 1995; McClean & Collins, 2011; Tandung, 2016), family and non-family-related bifurcation bias can impact motivation and satisfaction of employees, and may lead them to reduce human capital investments. As a result, the human capital pool of family firms can be further constrained.

Since family and non-family-related bifurcation bias are widespread in many family firms (Bloom & Van Reenen, 2007; Chau, 1991; Deng, 2010; Jennings et al., 2018; Kano & Verbeke, 2018; Wong, 1985; Verbeke & Kano, 2012) and such biases can be closely linked to a firm's competitive advantage, decision-makers need to understand the essence of such biases and their possible impacts. As I propose in this thesis, when two types of bifurcation bias apply to a firm's human capital pool, a firm may achieve or lose a competitive advantage based on their expanded or constrained human capital resources. Therefore, when a decision-maker lacks the understanding of two types of bifurcation bias and how they apply to human capital resources, it can hinder a firm to adopt a proper HR strategy and result in a lack or loss of market competitiveness.

Additionally, when a firm is influenced by a culture like Confucianism which imposes a high level of family and non-family-related bifurcation bias, such as small and medium-sized firms in South Korea, by restricting the employee opportunities to build their human capital, such firms may not manage the human capital pool effectively (Chang, 2012; Song 1997; Solomon et al., 2002). Thereby, a firm may lack or lose a competitive advantage in the national and global market against competitors who conversely adopt HR strategies to build family and/or non-family human capital resources. Similarly, understanding biases and how the biases impact human capital resources and a firm's competitiveness is critical to lead a firm in the market against competitors. Therefore, my study expects to provide suggestions to decision-makers from such family firms as to how they can manage their human capital resources and achieve competitiveness in the national and global market.

## **6. Conclusion**

Although research on bifurcation bias has rapidly increased in recent years, the focus on bifurcation bias is limited to cases of discrimination against non-family compared to family employees (Daspit, Madison, Barnett, & Long, 2018; Kano & Verbeke, 2018; Madison et al., 2018; Majocchi, D'Angelo, Forlani, & Buck, 2018). Therefore, bifurcation bias towards particular family employees within a family group or compared to non-family employees has not been deeply examined. Furthermore, even though bifurcation bias has diverse effects on a firm's competitive advantage, existing research largely assumes that bifurcation bias may only bring negative consequences to family firms over time (Daspit et al., 2018; Kano & Verbeke, 2018; Madison et al., 2018; Majocchi et al., 2018; Verbeke & Kano, 2012).

To fill the identified gap, I define bifurcation bias toward non-family employees compared to family employees as non-family-related bifurcation bias and define biased HR practices against particular family members as family-related bifurcation bias. By conducting a detailed literature review on existing studies of discrimination against particular family members in business families, I explain that many family firms may have family-related bifurcation bias due to cultural and familial traditions (Bloom & Van Reenen, 2007; Chau, 1991; Deng, 2010; Kuratko, 1993; Martin, 2001; Wong, 1985). Subsequently, I introduce a model of four contrasting types of family firms based on the different combinations of family and non-family-related bifurcation bias to propose diverse effects of such biases to a firm's competitive advantage.

Family and non-family-related bifurcation biases are prevalent in many family firms (Bloom & Van Reenen, 2007; Chau, 1991; Deng, 2010; Jennings et al., 2018; Kano & Verbeke, 2018; Wong, 1985; Verbeke & Kano, 2012). Since combinations of such biases can have different affects to a firm's competitive advantage, it is crucial to understand how they affect the limited human capital resources of family firms. By examining the combinations of family and non-family-related bifurcation, implications for the human capital pool, and its impact on a firm's competitive advantage, my study expands the current knowledge of bifurcation bias. Furthermore, by explaining how and why combinations of discriminating practices may enable some family firms to achieve a competitive advantage, my thesis shows that discriminating practices can exist and positively influence family firms.

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