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PERSPECTIVE

Family firms and the governance of global value chains

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Abstract

The current evolution of global value chains (GVCs) calls for moving beyond the "unipolar" view of lead multinational enterprises (MNEs) as sole rulers to examine how their characteristics and those of partner firms affect GVC governance. In response to this call, we focus on family firms, which are the most ubiquitous organizational form worldwide and represent the majority of firms participating in GVCs. Unlike non-family firms, these organizations face distinct mixed gambles, driven by both economic and non-economic goals. However, internalization theory and the associated global factory model, which explain GVC governance, rely solely on economic assessments, limiting our understanding and predictability of MNE behavior. Therefore, in this study, we show how location decisions, degree of internalization, and relationship management in GVCs differ from the conventional global factory model when family firms are involved as lead MNEs and/or partners. By analyzing how comparative efficiency considerations change when family firms are involved, we offer implications for internalization theory and provide a more comprehensive framework for understanding control and trust dynamics in GVCs. Thus, we pave the way for future research to revise and enrich international business theories, taking into account the distinctiveness and heterogeneity of family firms.

Keywords Internalization theory · Global value chains · Global factory · Family firms · Socioemotional wealth · Mixed gamble

Introduction

Although the governance of global value chains (GVCs) has attracted increasing research interest (e.g., Kano et al., 2020), most studies adopt only the perspective of the lead multinational enterprise (MNE) to depict how value chain activities can be structured and managed across the globe. Consistently, the lead MNE is often portrayed as the GVC ruler exercising coercive control over its suppliers (Dallas et al., 2019). This unipolar view of GVC governance is explained by the global factory model (Buckley, 2009; Buckley & Ghauri, 2004) in which the lead MNE fine-slices GVC activities by internalizing the knowledge-intensive ones and outsourcing others. By exploiting power asymmetries, the lead MNE can thus maintain captive control over suppliers and externalized activities despite not formally owning them.

This unipolar view of GVC rests on two main assumptions. First, the lead MNE's shareholder value is only related to the achievement of economic goals with the intention of minimizing transaction costs. Second, the lead MNE exercises some form of coercive control over the partners that

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make up the network, but in order for the lead MNE to be able to exert its power, the partners are assumed to consent to such control. We argue that prior research, mostly blinded by the unipolar view, has not paid sufficient attention to the characteristics of the firms involved in the GVC and their relationships. In particular, we believe that the above assumptions make it difficult to capture the GVC behavior of the most ubiquitous organizational form in the world: family firms. Therefore, the analysis needs to be both broadened with a multipolar view to capture the perspective of all firms in the GVC and deepened by examining the internal governance characteristics of firms, such as those involving families, that guide their behavior in the GVC.

Family firms, defined here as firms in which the family influences the corporate strategy and is willing to transfer the business across generations (Chua et al., 1999), evaluate strategic decisions in terms of both economic and socioemotional wealth (SEW), which is the owning family's stock of affect-related values that satisfy its social and affective needs (Berrone et al., 2012). Strategic decisions in family firms involve difficult trade-offs because they entail gains and losses in two types of wealth. In other words, a "mixed gamble" in which family firms consider current and future wealth as two often non-fungible currencies, with SEW considerations potentially outweighing economic ones (Gomez-Mejia et al., 2014). Thus, when making GVC governance decisions, family firms weigh potential gains/losses in one dimension of wealth against gains/losses in the other dimensions. While family firms are not inherently more or less risk-averse than non-family firms, they approach decision-making differently and place significant emphasis on protecting their SEW, considered as a critical benchmark (Gomez-Mejia et al., 2007). Specifically, in situations involving potential losses, family firm decision-makers tend to be more risk-tolerant in order to recover from unsatisfactory situations. However, in situations involving potential gains, they may become more risk-averse to protect their current SEW endowments (Gomez-Mejia et al., 2018).

Building on these considerations, we argue that if family firms are the most prevalent organizational form worldwide and participate in GVCs, then the conventional global factory model centered on a powerful lead MNE driven only by economic goals is unable to fully predict the behavior of family firms involved in GVCs. Interestingly, scholars have begun to recognize the family's pursuit and protection of SEW as a platform for the development of firm-specific advantages (FSAs) (Kano et al., 2021), stimulating further reflection on how SEW considerations shape the way family firms formulate their structural and strategic governance systems in the GVC. As Ronald Coase noted, "it makes little sense for economists to discuss the process of exchange without specifying the institutional setting within which the trading takes place since this affects the incentives to produce and the costs of transacting" (Coase, 1994, p. 12). Therefore, in this study we examine the governance mechanisms in GVCs when family firms are involved and whether and how these differ from the conventional global factory model. Specifically, we seek to answer the following research question: *How does GVC governance change when family firms are involved?*

To address this question, we adopt a dyadic perspective and consider the relationship between a lead MNE and a partner firm, as dyads represent the fundamental building blocks of relationships within the larger GVC network. For each firm in the dyad, we distinguish whether it is a family firm or not, resulting in alternative configurations synthesized in a 2×2 matrix (see Fig. 1). To examine how GVC governance changes across these four configurations, we consider the case of a dyad with a non-family lead MNE and a non-family partner as a baseline, consistent with the global factory model (Q4). Starting from the lead MNE, we analyze GVC decisions related to the location of value chain activities and the degree of internalization when the lead MNE is either a family firm (Q1 and Q2) or a non-family firm (Q3 and Q4). We then examine how the dyadic relationship is managed by distinguishing between a family partner (Q1 and Q3) and a non-family partner (Q2 and Q4).

We express our conceptual reflections by advancing propositions and supporting our analysis with illustrative evidence. By analyzing the different configurations and related governance mechanisms between the lead MNE and its partner, we follow the path laid out by Hennart (2009) to advance international business theory by moving beyond the MNE-centric perspective to consider not only MNEs but also partners that provide complementary resources (Prashatam & Birkinshaw, 2020; Hennart, 2020). Moreover, by incorporating family firms' SEW and related mixed-gamble considerations in GVC governance, we enrich internalization theory and integrate recent research efforts into the analysis of control and trust dynamics in interorganizational relationships (e.g., Lumineau et al., 2023; Swärd et al., 2023). In so doing, we also contribute to the mixed-gamble literature by emphasizing how different roles in a dyad shape

		Lead MNE	
		Family	*Non-family*
Partner firm	*Family*	Q1	Q3
	Non-family	Q2	Q4

Fig. 1 Dyadic GVC configurations among lead MNEs and partner firms based on internal family/non-family governance

different SEW considerations in family firms. Our study also offers implications for a refined conceptualization of family firm internationalization strategy by moving beyond the organizational level (e.g., Kano et al., 2021) and considering family firms as key actors within the GVC. Finally, we sharpen current understanding by acknowledging that family firm heterogeneity implies important boundary conditions for our theorizing and suggest directions for future research.

GVC governance and the traditional global factory model

In the past, the lead MNE concept was associated with highly integrated firms, both vertically and horizontally, because from an efficiency-seeking perspective, the cost of performing activities internally (internalization) was perceived as lower than the alternative of relying on the market (externalization) (Benito et al., 2019). Advances in technology and the progressive reduction in the cost of reaching and monitoring operations in geographically distant countries have led to a significant evolution in the way the value chain is orchestrated, becoming increasingly spatially dispersed and "global" (Liesch Buckley et al., 2012). GVCs, defined as the full range of activities undertaken by firms and workers – from the conception of a product to its final use and beyond – on a global scale (Ponte et al., 2019), have been the subject of intense research over the past two decades.

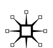
Nested within internalization theory (Buckley & Casson, 1976), the global factory model (Buckley, 2009; Buckley & Ghauri, 2004) describes how MNEs make strategic decisions about GVC governance. Specifically, the model suggests that MNEs fine-slice and manage the value-adding activities of their value chain by assessing the relative costs and benefits of coordinating them through a governance structure that can range from hierarchical vertical integration to reliance on the external market. Accordingly, the global factory model suggests that MNEs internalize knowledge-intensive activities and outsource low value-adding activities to minimize the sum of production and contract costs, often to countries with lower labor costs.

Globalization has therefore led to a progressive disaggregation of GVCs through the outsourcing of non-core production activities, transforming the global market into a market of value chain activities rather than complete goods or services (Mudambi, 2008). Lead MNEs comparatively choose more efficient governance mechanisms over less efficient ones to develop, exploit, and expand their FSAs across borders (Buckley & Casson, 2019). This approach then pushes firms to pursue international outsourcing in order to combine the need to reduce production and control costs while maintaining flexibility (Buckley, 2009). According to this model, lead manufacturing MNEs in advanced markets essentially internalize knowledge-intensive activities, such as pre-production (e.g., design, R&D) and post-production (e.g., brand management, after-sales service), while outsourcing the activities in between. The principle is to leverage and internalize the FSAs that create the most value (Buckley & Strange, 2011).

According to Forsgren & Holm (2021), the lead MNE seeks to make profits by controlling transactions across the entire value chain to maximize efficiency. This must be tempered by explicitly considering the bounded rationality of MNE managers in pursuing their goals. To maximize efficiency, the lead MNE must establish a network of internal and external actors in the GVC and determine the optimal location for fine-slicing the activities (Kano, 2018). Specifically, Buckley & Strange (2015, p. 238) describe the global factory as being able to "control the resultant distributed networks of activities even though they have relinquished equity ownership". Thus, guided by the efficiency principle, the lead MNE designs and orchestrates the global factory by exercising control over its network of suppliers and coordinating knowledge flows without owning them. To do so, the lead MNE may engage in "quasi-internalization", which implies "inter-firm relationships somewhere between a spot market transaction and the firm taking over another firm through equity ownership" (Forsgren & Holm, 2021, p. 3). The lead MNE can thus achieve the benefits of internalization without the usual ownership costs because the behavior of partners is constrained by contracts, reputation, and social ties. The mix of hierarchical and market elements determines the nature of the relationships established with strategic partners. Therefore, understanding how the geographic disaggregation of activities is structurally and strategically governed is crucial.

Even without formally having legal control over the outsourced activities, the significant power asymmetry vis-à-vis the partners makes them economically dependent on the lead MNE to such an extent that it can control them as if these activities were internalized. Accordingly, the lead MNE plays a dominant role and its power asymmetry is taken for granted. However, the recent pandemic and other exogenous shocks have begun to reveal the weaknesses of this conceptualization, as even a large MNE can rarely make unilateral decisions (Forsgren & Holm, 2021). The literature has begun to question the idea of the "captive network" (e.g., Kano, 2018), arguing that the dominant MNE is the exception rather than the rule in a system of interdependent firms.

Indeed, adopting a unipolar view by taking the perspective of a single lead MNE tends to overlook the characteristics and relationships with partners that make up the GVC. Therefore, a shift in perspective is needed to move beyond the single lead MNE to consider the set of relationships in the GVC network, including partners, as the unit of analysis. If the lead MNE has control without ownership, it means



there are partners who own their firms but do not control them. For some partners, the benefits of ceding control to the lead MNE must exceed the costs, which may be offset by financial returns, but for others this may not be sufficient. Each firm faces mixed gambles in its decision-making process, depending on its goals for current and future wealth. Since goals vary from one organization to another (Aguilera et al., 2024), these different goal systems modulate perceptions of the potential gains and losses associated with partnering in the GVC. In our study, we consider a type of organization that is widespread and has distinctive internal governance characteristics: family firms.

Family firms as key actors in the GVC

Family firms are firms governed 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 et al., 1999, p. 25). They are the most ubiquitous form of business ownership worldwide, employing over 60% of the global workforce, accounting for between 65 and 90% of firms worldwide, representing over one-third of US S&P 500 firms and a significant percentage of firms in emerging markets (e.g., Calabrò et al., 2022; Debellis et al., 2021).

If it is true that all firms have non-economic goals (Cyert & March, 1963), such as enhancing the firm's reputation in the local context and maintaining good relationships with internal and external stakeholders, it is also recognized that family firms place particular emphasis on these goals (Chrisman et al., 2013). In addition, family firms have specific family-centered non-economic goals, such as passing the baton to future generations (Zellweger et al., 2012), maintaining family harmony, enhancing the family's social status, and all those goals that arise from the overlap between the family and the business system (Chrisman, et al., 2013). The values, attitudes, and intentions of the dominant coalition in the family firm determine the importance attributed to family-centered non-economic goals (Kotlar & De Massis, 2013) that generate SEW for the family (Gómez-Mejía et al., 2007, 2018).

The SEW construct comprises five main dimensions. First, to preserve their SEW, family firms are more likely to exert control and influence over the business. Second, the overlap between the family and the business leads the family to identify strongly with the firm, especially when the family name is also the name of the firm (Deephouse & Jaskiewicz, 2013). Therefore, the owning-family is concerned about the firm's external image and its reputation, as public condemnation could be devastating to the family itself (Berrone et al., 2012). Third, kinship ties among family members are extended to non-family members both inside and outside the organizational boundaries, resulting in binding social ties and thus interest in the welfare of those surrounding the family. Fourth, the affective content of SEW refers to the emotional aspects that lead to the permeability of the family-business interface due to shared historical roots, knowledge, and experiences (Humphrey et al., 2021). Fifth, owning families are driven by the intention to transfer the business to subsequent generations, hence transgenerational continuity is central, as the sense of dynasty leads family firms to adopt a long-term horizon in making strategic decisions (Zellweger et al., 2012).

Family firms have access to unique resource endowments due to the overlap of the family and business systems, and their concentrated ownership ensures the latitude to allocate these resources (Chrisman et al., 2013). Interestingly, Kano et al. (2021) identify the family as an additional platform for FSA development if able to recombine the distinctive social capital, long-term orientation, and reputation into effective firm-level family-derived FSAs by transferring them across the family boundary and then across borders. To do so, family firms need to implement strategies to reduce the emergence of bifurcation bias – the systematic asymmetric and default treatment of family vs non-family assets (Kano & Verbeke, 2018; Verbeke & Kano, 2012) – for example, by adopting professionalized and meritocratic human resource routines and relying on highly skilled non-family managers (Kano et al., 2021).

If the family is able to avoid bifurcation bias, family social capital can contribute to the development of organizational social capital (Ciravegna et al., 2020). In turn, the availability of organizational and family social capital shapes knowledge exchange and gives rise to distinctive human capital. Moreover, the transgenerational continuity that guides family firms is a driver of their long-term orientation, which shapes financial capital investments with a patient attitude toward returns. Finally, the family's identification and emotional attachment to the firm often leads to a greater emphasis on reputation (Ciravegna et al., 2020) and a stronger perception as a reliable partner. In sum, their idiosyncratic goals, governance, and resource endowments lead family firms to manage and orchestrate their resources distinctively in the GVC. These elements of distinctiveness shape their strategic decisions, such as those related to internationalization and the management of interorganizational relationships. Given the pivotal role of family firms in the global economy and the elements of distinctiveness discussed above, it is essential to dig deeper into the role of family firms in GVCs.

GVC governance in light of family firm distinctiveness

To efficiently manage its international operations and generate value, the lead MNE must be able to reduce bounded rationality and bounded reliability in relation to its partners. Bounded rationality refers to the fact that economic agents are "intendedly rational, but only limitedly so" (Simon, 1961, p. xxiv), highlighting their cognitive limitations in accessing and managing information. Bounded reliability instead refers to the scarcity of efforts to deliver on open-ended promises, highlighting the dark side of partnerships and collaborations with others. Bounded reliability is based on opportunistic attitudes in the sense of "self-interest seeking with guile" (Williamson, 1975, p. 255), which are unpredictable and not fully disciplined by contracts, leading to commitment failure due to the actor's unreliability.

An optimal GVC governance system is based on creating an organizational environment that generates new FSAs for the lead MNE and reduces the risk of incurring bounded rationality and bounded reliability (Kano, 2018). These concepts (bounded rationality, bounded reliability, and value) point in different directions depending on the type of firm governance. When the lead MNE is a family firm, the principles derived from the global factory model, based solely on economic and rational efficiency-seeking factors, are no longer sufficient to describe its behavior. Internalization theory has often been criticized for its focus on profit maximization. Recently, Buckley & Casson (2019) commented on this criticism, arguing that while organizations may seek to maximize alternative objectives, which may be constrained by other factors, the profit motive is not entirely removed. The family firm context provides an interesting platform for reflection, as in these firms the importance of non-economic goals may outweigh that of economic goals, to the point that the pursuit of SEW preservation in mixed gambles may lead family firms to make decisions that appear "irrational" because they are at odds with maximizing economic goals.

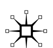
Internalization theory has made it possible to predict "a great number of organizational regularities in international business", representing both a general framework and a large canvas with different streams of focus (Narula, et al., 2019, p. 1231). In this study, we consider the epistemic context of family firms, which represent an anomaly due to their diverse goals, but an anomaly that concerns the most ubiquitous form of organization worldwide. To this end, we first examine what characterizes a lead MNE when it is a family firm as opposed to the non-family archetype considered in the global factory model, mainly in terms of geographic location and degree of internalization. We then adopt a dyadic perspective to examine the management of the relationships in the GVC between a lead MNE and its partners when either or both are family firms. Consistent with our 2 × 2 matrix, we distinguish three alternative scenarios to the traditional global factory model based on partnerships between non-family firms (Q4 in Fig. 1): when the lead MNE is a family firm and partners with another family firm (Q1); when the lead MNE is a family firm and partners with a non-family firm (Q2); and when the lead MNE is a non-family firm and partners with a family firm (Q3). To summarize our arguments, we present some propositions.

Lead family MNE: Geographic location and degree of internalization

A major advantage of fine-slicing for the global factory is flexibility. Fine-slicing allows the lead MNE to choose locations and forms of ownership for each "slice" of activity that fit its overall strategy, minimizing location and transaction costs as external circumstances and changes in demand dictate. This freedom of location and internalization choice is constrained when the lead MNE is a family firm because the cost minimization principle that guides the GVC configuration includes not only traditional operating and transaction costs but also SEW considerations.

The family provides a platform for the development of unique FSAs (Kano et al., 2021), but these may lose value as the compound distance between home and host locations increases. As a result, lead family MNEs are more likely to locate activities close to the family firm's headquarters and rely on connections with the local community (Baù et al., 2019). This choice of greater localization/regionalization of the value chain is explained by their tendency towards strong local embeddedness and involvement in a geographically bound social structure. This strategy clearly implies a reconsideration of the principle of cost minimization in fine-slicing.

Family firms tend to be more embedded in their local community than non-family firms, paying particular attention to maintaining long-term relationships with local stakeholders and showing an active interest in preserving their local roots and traditions (Baù et al., 2019). Their attachment to their territory of origin leads family firms to opt for less offshoring in order to remain loyal to their community, nurture binding social ties, and strengthen the family's reputation in its geographic context. Due to their embeddedness in the home region and the importance of reputation, family firms tend to take more responsibility for their community – both inside and outside the firm – and for the quality of their products, and thus conduct most of their production activities at the local level. Prospectively, delocalizing activities could dilute



the family's connection to its local community, leading future generations to dilute their identification with local roots. This represents a prospective loss in SEW that may be detrimental to the family.

In this respect, the case of Brunello Cucinelli (the "King of Cashmere", entrepreneur of the eponymous family business and global leader in luxury and casual-chic cashmere clothing) is exemplary. The firm has a global market reach, with about 90 percent of its sales coming from abroad, but its production is almost entirely based in Solomeo – a small town in the Umbria region of central Italy where Cucinelli grew up – associated with an ancient and thriving local artisan tradition that he has sought to enhance. This is an example of how aspects of SEW in the mixed gamble, such as the desire to maintain control and the family's identification with the firm and its local community, drive lead family MNEs to monitor production quality, even if more costly than locating the activity abroad. Thus, lead family MNEs are more inclined to conduct activities at the local level, even if this conflicts with the traditional concept of cost minimization. Therefore:

Proposition 1 *Lead family MNEs tend to locate activities closer to their local community than lead non-family MNEs.*

The link between family and firm reputation induces the lead family MNE to perceive the externalization of its activities as more costly because of the potential future SEW losses that the family would incur if something went wrong with the partner, which would jeopardize both the family's and the firm's reputation. As this dimension of SEW can be critical for family firms, the transaction costs of externalizing activities are often perceived as much higher than the costs of keeping them in-house, leading to less outsourcing. Therefore, family firms are also guided by the principle of minimizing transaction costs (Memili, et al., 2011), but the presence of SEW in the mixed gamble alters the estimation of costs and gains associated with externalization. Furthermore, greater internalization ensures better control, another fundamental element in SEW considerations.

To further control their GVCs, lead family MNEs are thus more likely to internalize the value chain activities through higher vertical integration. For example, Faber Castell, a ninth-generation German family firm leader in the stationery industry, or Luxottica, the Italian family-owned conglomerate and the world's largest eyewear company, have built their success on vertical value chain integration, linking their sourcing and production processes, wholesale capabilities, and retail stores to reach end consumers. Hence, we propose:

Proposition 2 *Lead family MNEs favor a higher degree of internalization of activities than lead non-family MNEs.*

Embracing a dyadic perspective: Relationship management in the GVC

While there is a preference for vertical integration, it is not always possible for lead family MNEs to internalize their value chains, for example, due to lack of raw materials, infrastructure, or skills. The ability to maintain control over outsourced activities is strategic to success and maintaining competitive advantage. Therefore, lead family MNEs want to maintain control over the entire GVC, "even though they do not own the whole of it" (Enderwick & Buckley, 2019, p. 548). Buckley & Strange (2011) identify three major complexities associated with exercising control over outsourced activities: information costs (acquiring and transmitting information with strategic partners), coordination costs (communicating the combined actions of partners), and motivation costs (supervising and aligning the interests of partners).

To reduce these costs, the global factory model assumes that large ownership-dispersed MNEs control externalized activities by exploiting power asymmetries, making suppliers transactionally dependent and therefore "captive" (Gereffi et al., 2005). The number of contracts that a very large MNE can allocate leads to power asymmetry that makes suppliers captive to the MNE, to the point where the MNE has control over the partner's operations in the absence of legal control. However, power asymmetry depends not only on the ability of the lead MNE to exercise power over partners, but also on the willingness of partners to relinquish control over their own internal operations. We argue that this willingness depends on the internal governance of the lead MNE and the partners. If the lead MNE can exercise control without ownership, it means there are partners who own their firms but do not control them. For some partners, the benefits of ceding control to the lead MNE outweigh the associated costs, which may be offset by financial returns; for others, this may prove insufficient.

In recent years, many lead MNEs have suffered from the inappropriate behavior of their GVC partners. For example, Apple, Dell, and HP's overseas partners were found to have poor working conditions, Nike suffered from scandals when suppliers were found to engage in socially and environmentally exploitative practices at the expense of local populations (Buckley et al., 2017), and Adidas received negative publicity when its suppliers were found to be discharging toxic substances into rivers in China (Villena & Gioia, 2020). For lead family MNEs, such situations are particularly hazardous because of the potential SEW loss associated with reputational damage combined with the difficulty of monitoring partners (Tier 1), and even more so their sub-partners (Tier 2). Therefore, when activities are not performed internally, the selection criteria for strategic partners go far beyond mere efficiency assessments: while lead

non-family MNEs strive for cost minimization and flexibility, switching partners in case of more favorable economic conditions, lead family MNEs tend to prioritize the quality and long-term stability of partnerships, even at the expense of economic efficiency. Moreover, mixed-gamble considerations may differ depending on the internal governance characteristics of partners. Therefore, in the next section we examine control and trust dynamics in the three possible configurations of GVC partnerships that depart from the traditional global factory model (Q4), including the family firm as lead MNE, partner, or both.

Lead family MNE – family partner (Q1) When a lead family MNE partners with another family firm, the presence of idiosyncratic family characteristics in both organizations allows for the formation of heuristic relational trust based on the sharing of similar family values, thereby reducing bounded reliability and paving the way for a potentially successful strategic partnership based on relational governance. Despite the distance (e.g., geographic, cultural, institutional) between firms operating in different contexts, the presence of families in both firms benefits from a common foundation for collaboration, often including shared principles of fostering a strong organizational community, maintaining a long-term orientation, and a commitment to low turnover. These factors contribute to the development of robust social capital within and between organizations, promoting greater cooperation, goal alignment, and seamless information sharing, thereby reducing reliance on control-based approaches (Sundaramurthy, 2008).

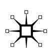
In the relationship with the partner, both family firms can promote the development of mutual trust, allowing greater use of relational governance and less recourse to formal contracts. This also reduces asymmetries in investment incentives between the firms, leading to mutual alignment based on relational aspects and the “shadow of the future”, i.e., expectations of continuity (Poppo et al., 2008), which can reduce information, coordination, and motivation costs (Narula et al., 2019). This inextricable link between the family and the firm thus becomes a source of competitive advantage, as it allows the creation of relational governance based on trust, alignment of interests, and mutual forbearance, which are fundamental to the success of a strategic partnership (Poppo et al., 2008). In relation to the bonding dimension of SEW, family firms often have long-standing partners, extending mutual ties to a wide range of constituencies (Berrone et al., 2012), especially when the partners are also family firms. A good example of this governance design is Ferrero, a third-generation family MNE and one of the world’s largest sweet-packaged food companies. Ferrero has developed long-term relationships for activities requiring foreign partners, such as cocoa sourcing in West Africa. These relationships are not merely contractual, as Ferrero is deeply committed to excellence throughout the entire value chain. As stated in their Ferrero Cocoa Charter, they do not simply buy products but also “manage and nurture” their supply chains by developing long-term relationships with direct suppliers and the farmer groups that supply cocoa. They have developed a Farm Development Plan to provide individual and financial management coaching to cocoa farmers and to train them in agricultural, social, and environmental practices. Through these long-term relationships with foreign partners, based on the presence of families, Ferrero ensures the traceability and quality of its raw materials. At the same time, Ferrero financially supports its family partners in their expansion and entrusts them with long-term management contracts, thus creating trust and mutual commitment.

Binding social ties are fundamental to the development of relational governance mechanisms that determine the sustainable success of GVC orchestration (Enderwick & Buckley, 2019), distinguishing it from the more instrumental and formalized control of non-family firms, thereby limiting information, coordination, and motivation costs. Prashantham & Birkinshaw (2020) argue that cooperation is stable when neither party seeks to change the status quo. When family firms are involved, rather than just maintaining the status quo, partners build trust that leads to long-term cooperation and the sharing of sensitive information. Hence:

Proposition 3 *When a lead family MNE partners with another family firm in the GVC, their relationship is more likely to be based on shared values that foster relational governance and mitigate the risk of bounded reliability.*

Lead family MNE – non-family partner (Q2) In a partnership between a lead family MNE and a non-family firm, forward-looking decisions are rationally based on assessing the relative payoffs to determine whether cooperation is beneficial, as a form of calculative trust (Poppo et al., 2016). This type of relationship can work when both firms see future potential gains. For instance, the possibility of further future exchanges and the risk of reputational loss serve as mechanisms to protect the interests of the contracting parties (Susarla et al., 2020). However, the family business nature of the lead MNE requires that partnership decisions be analyzed from a mixed gamble perspective. These evaluations differ depending on the type of activities for which the partnership is formed. In particular, we examine the mixed gamble faced by a lead family MNE when outsourcing labor-intensive or knowledge-intensive activities and how it differs from the mixed gamble faced by its partner.

When it comes to outsourcing labor-intensive activities – in line with the traditional global factory model – we need to consider the risks for the lead family MNE, both from an economic and socioemotional perspective. In this mixed gamble, the lead family MNE faces the possibility of



gaining significantly from cost reductions, but risks losing too much in terms of image, reputation, and SEW. Today, digitalization and social media expand the audience for scandals with negative spillovers that can potentially damage the global reputation of MNEs. A practical example of this risk is the case of Patagonia, a family-led sportswear company founded in 1970 that has always focused on sustainability and respect for nature and workers. Recently, an investigation revealed that a factory in Sri Lanka that makes garments for several brands, including Patagonia, subjected its workers to harsh working conditions and meager wages (Fashion United, 2023). This can happen because many suppliers work for multiple lead MNEs, and factories that produce Patagonia clothing may also work for brands that care less about sustainability than the lead MNE. Discrepancies between the stated values and actual GVC practices may arise because the lead MNE does not have direct control over overseas production, which risks permanent damage to the firm's image.

However, these considerations differ when it comes to knowledge-intensive activities. When partnering with a technology-oriented firm, the potential long-term economic and socioemotional gains, including global expansion and innovation, facilitate the alignment of partners' goals. The partial socioemotional loss resulting from losing control over some activities in the value chain is offset by the development of competence-based trust, which reflects the degree to which partners feel comfortable relying on each other's skills and capabilities (Shah & Swaminathan, 2008). This highlights the likelihood that lead family MNEs will give rise to GVCs that deviate from those described by the global factory model, which posits that lead MNEs orchestrate activities such that those at the upstream and downstream ends of the GVC are largely internalized and located in advanced market economies, while those in the middle are outsourced and shifted to emerging market economies (as illustrated by the "smiling curve" concept; Mudambi, 2008).

For example, ALPLA, a third-generation Austrian family MNE global leader in packaging production, often partners with non-family tech companies to develop technologies and expand its domain in the global market. Although these partners are non-family firms, they are established market leaders in their respective sectors, which reduces the perceived risk of opportunistic behavior due to their interest in preserving their reputation. For instance, ALPLA recently formed a joint venture with South Korean HANA Innovation to continue its strategic growth in injection molding, as well as a joint venture with the Spanish company Inden Pharma to increase its market share in pharmaceuticals. Because the non-family tech partners are aware of the many resource and network advantages they can gain from partnering with the lead family MNE, a long-term perspective helps align their goals and creates a "shadow of the future" effect that discourages partners from engaging in opportunistic behavior. Therefore:

Proposition 4 *When a lead family MNE partners with a non-family firm, it is more likely to outsource knowledge-intensive rather than labor-intensive activities.*

Lead non-family MNE – family partner (Q3) So far, we have considered the presence of a family lead MNE in the partnership. However, family firms are ubiquitous in global markets, so that many partners of lead non-family MNEs are in fact family firms. Thus, while the unipolar perspective has emphasized the lead MNE as the controlling actor, the network of partners is composed of a variety of actors who must be willing to be controlled by (even multiple) lead MNEs and to cooperate to achieve the (different) goals of their lead MNEs (Asmussen et al., 2022). Family partners face a salient dilemma when deciding whether to participate in a GVC that grants control to a lead non-family MNE, as the prospective financial and socioemotional gains are ultimately uncertain, while the current SEW loss of relinquishing control over the firm's activities is certain (Gomez-Mejia et al., 2014). Therefore, it is necessary to understand the conditions under which cooperation between a lead non-family MNE and a family partner creates value for both parties.

Hennart (2020) highlights how the way each institution is structured affects the magnitude of benefits it generates for the interacting parties and thus the stability of cooperation. To better understand the collaborative interactions between the lead non-family MNE and the family partner, it is necessary to assess the compatibility of goals between the actors in the dyad, as this predicts how the relationship will evolve over time (Prashantham & Birkinshaw, 2020). The lead non-family MNE is assumed to orchestrate the GVC as a constantly evolving network of actors connected by a variety of governance modes, thereby discarding partners according to the principle of efficiency maximization in search of lower costs, superior scale, and spatial flexibility (Ponte et al., 2019). For the lead non-family MNE, partnering with a family firm may allow for the development of competence-based trust, which arises when partners consistently exhibit qualities such as credibility and expertise, and benevolence-based trust, which focuses on the motives and intentions of partners (Shah & Swaminathan, 2008). Family firms are often hidden champions, meaning that they are market leaders in niche markets characterized by high technology and a highly skilled workforce that they constantly educate and train (Lehmann et al., 2019). They can therefore be highly reliable partners in terms of specific skills.

On the other hand, the family partner is only willing to relinquish (some degree of) current control, which is a key component of SEW, if there is (at least potential) compensation for this imbalance. Indeed, a family firm is likely to

refuse to cooperate with an exploitative lead MNE. Thus, the family partner may see participation in the GVC as beneficial if it opens up opportunities. Such opportunities may lie in the increased availability of resources, becoming part of a network/distribution system with an established customer base, other specific task-related motives, such as learning outcomes leading to significant long-term growth, resulting in both economic and socioemotional gains in terms of sustainability and long-term competitiveness. Nonetheless, lead non-family MNEs partnering with family firms need to overcome captive governance by establishing relational mechanisms that allow for shared control over cooperation in the long run. This happens, for example, when family partners control inalienable assets (Kano et al., 2021) that the lead non-family MNE cannot adequately exploit through captive control and therefore turns to quasi-internalization to secure value creation.

Interestingly, the recent pandemic has revealed that while lead MNEs often manage the relationship with their direct suppliers (Tier 1), it is difficult to have full knowledge and control over their sub-suppliers (Tier-2) (Kano et al., 2022). Family partners' interest in reputation enhancement, long-term orientation, and the importance of binding social ties make them ideal partners to significantly reduce the risk of opportunistic behavior and the resulting increased monitoring costs. Although lead non-family MNEs are often unaware of who their suppliers are beyond the Tier 1 level (Kano et al., 2022), family partners tend to monitor Tier 2 suppliers for the risk of incurring SEW and financial losses. Therefore, the lead non-family MNE can safely delegate complex operations to family partners because they are further motivated to manage their relationship with their sub-partners, thereby engaging in relational governance with them (too). Mirroring the relational mechanisms they use to manage the relationship with the lead non-family MNE, family partners need to ensure the quality and reliability of Tier 2 suppliers to preserve their own reputation and business value over the long term.

In this case, there is an opportunity for the lead non-family MNE to benefit from the reliability of family partners, and for family partners to benefit from the resources of the lead non-family MNE to implement their strategy. Even if the lead non-family MNE is driven by principles of efficiency and is therefore inclined to change partners if it finds more advantageous ones, for the family partner, a medium-term contract with an MNE can ensure financial security in the medium term. This generates both economic benefits, such as capacity saturation and timely payments, and non-economic benefits, such as the accumulation of international knowledge, enhanced reputation, and inclusion in networks that can lead to better growth prospects for the firm, and hence for the family. Thus, in assessing the mixed gamble, while it is true that there is a loss of current SEW associated with losing control, not participating in this network could jeopardize the long-term economic viability of the firm, risking its existence and thus incurring a greater potential loss of SEW in the future. Therefore, the current SEW loss associated with the loss of control may be offset by the future economic and socioemotional gains of joining the GVC. In other words, family partners may negotiate to cede (part of) control over their business in order to achieve higher future economic and non-economic gains.

Moreover, partners often operate simultaneously "under the control" of several lead MNEs as they participate in different GVCs. This is the case of Esanastri, a second-generation family firm active in printing for the automotive, fashion, and retail industries. The firm is a family partner in several GVCs led by non-family MNEs, such as Mazda and Alstom. Working with these large MNEs allows Esanastri to benefit in terms of operational and financial planning, reputation, knowledge, and quality standards that allow it to be known in international networks and attract new customers, thus increasing the chances of prosperity in the long term. We therefore propose:

Proposition 5 *A lead non-family MNE is more likely to partner with a family firm when*:

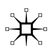
a. The potential future economic (e.g., financial security) and non-economic (e.g., reputation) gains for the family partner outweigh the immediate loss of control.

b. The lead non-family MNE benefits from lower monitoring costs due to lower bounded reliability of a family firm partner than non-family one.

For the sake of simplicity, our arguments thus far have been based on the distinction between family and non-family firms. However, our speculations are based on an archetypal conceptualization of family firms that does not take into account the multiple dimensions of their heterogeneity. In the next section, we explore the boundary conditions that "place limitations on the propositions" (Whetten, 1989) by delving into different sources of heterogeneity that necessarily exist in the context of family firms (Daspit et al., 2021) and affect their behavior within the GVC.

Boundary conditions: The heterogeneity of family firms

While we have considered family vs non-family firms under the assumption that family firms are homogeneous, the heterogeneity of family firms is crucial when studying their behavior in GVCs, as it allows for more accurate and nuanced insights into how these firms make decisions,



adapt, and contribute. Different dimensions of heterogeneity shape how these firms approach mixed gambles and thus may imply boundary conditions for our understanding of family firm GVC governance. In particular, family firm heterogeneity (for a recent review, see Daspit et al., 2021) may emerge at the *family level* from family structures and functions (e.g., Arregle et al., 2019), at the *firm level* from ownership and management characteristics (Chrisman et al., 2018), and at the *'galaxy' level* as a reflection of the broader structure in which family firms are collocated (De Massis & Rondi, 2024).

The structure of the family, in terms of the number of family members, the complexity due to divorce/remarriage, and the presence of multiple generations may lead the family to develop different approaches to SEW and thus to GVC decisions. In later generations of family firms with multiple generations and family members involved in the business, the attachment of the family's identity to the business may be strengthened by its long history, leading to more risk-averse behavior in business decisions, such as those related to GVCs. Their attitudes are likely to be shaped by family functioning, as effective conflict resolution within the family and succession planning are critical to prevent disputes and disruptions that could alter GVC partnership decisions. Stability and continuity in leadership can foster trust with global partners, but resistance to change can hinder adaptability in rapidly evolving markets. Especially in Q1, when both the lead MNE and the partner are family firms, the consistency (difference) in family values and the complexity of family relationships may strengthen (undermine) the ability of the two firms to cooperate in the GVC in the long run. The influence of family aspects on business decisions depends on the permeability of the boundaries at the family-business interface and the presence of family governance bodies, such as family councils. Therefore, family characteristics may alter the importance that the dominant coalition attributes to the SEW dimensions, thereby altering their relevance in the perception of current and future gains and losses in the mixed gamble.

In terms of ownership, family firms may be wholly family-owned or the family may 'just' be the most influential shareholder. The involvement of other shareholders (e.g., private equity, investment funds, or stock exchange listing) shapes the family firm's attitude towards participating as a partner in a GVC, prioritizing potential economic losses and gains over SEW considerations. Therefore, family partners where the family has less discretion to direct strategic decisions are more likely to express willingness to relinquish control to the lead MNE in order to benefit from other (economic) incentives. For similar reasons, less family control in the lead family MNE is likely to encourage outsourcing (Memili et al., 2011). For example, research suggests that when institutional investors are present in family firm ownership, they tend to protect their economic interests by appointing independent directors and increasing the level of governance mechanisms aimed at reducing the discretion of family owners (Gómez-Mejía et al., 2014). Therefore, we expect the presence of institutional investors to weaken the influence of family ownership on the prioritization of SEW considerations when making decisions about the firm's participation in GVCs.

Similarly, the propensity to become family partners in the GVC is likely to depend on the dispersion of family ownership among multiple family members. When family ownership is dispersed, the main family owner tends to lose authority and influence over other family shareholders and struggles to gain their support to pursue preferences, especially when correlated with different goals and values (Kotlar & De Massis, 2013). Therefore, family ownership dispersion is likely to reduce power inequality and bifurcation bias in the firm (Verbeke & Kano, 2012), leading them to prioritize economic wealth over SEW.

In addition, the duration of family ownership, which refers to the length of time that family owners have controlled the firm (Zellweger et al., 2012), is another factor that can weaken or strengthen the behavior of family firms in the GVC both when they are lead MNEs and when they are involved as partners. Over time, family owners become intimately familiar with their business and are likely to increase their psychological attachment to control. This is also reflected in the establishment of long-term relationships with external actors in other firms. Thus, as the duration of family ownership increases, the business is likely to become part of the family owners' legacy, symbolizing continuity, and increasing the later generation's perceived value of the assets beyond their economic value (Zellweger et al., 2012). Similarly, we expect family owners to increase their psychological attachment to existing knowledge assets over time. Taken together, these arguments suggest that the emotional attachment of family owners should increase over time, thereby increasing the perceived relevance of potential SEW losses and gains over economic ones, ultimately strengthening the distinctive behavior of family firms in the GVC.

Another important aspect that may shape the family firm's attitude toward the GVC is the presence of non-family managers. When family-owned firms are also family managed, bifurcation bias may be amplified, hindering the objective evaluation of strategic alternatives, such as those related to becoming a partner in the GVC. Similarly, research has shown that family leaders tend to develop more regionally focused interorganizational and binding social ties (Banalieva & Eddleston, 2011). Therefore, family firms with more non-family managers may be more likely to outsource and develop more globally dispersed value chains than firms with more family managers.

Recently, family business research has begun to distinguish between family businesses and business families, conceived as enterprising families that own and manage multiple organizations. Family MNEs are often part of entrepreneurial family galaxies that include other types of (more or less differentiated) organizations (De Massis & Rondi, 2024). In these galaxies, the mixed-gamble perspective may change, with the dominant coalition orienting the core family-centered non-economic goals to other organizations (e.g., family foundations), thereby prioritizing economic considerations in the firm. Consistent with this perspective, the broader the structure of the entrepreneurial family galaxy, the more likely it is that the family will prioritize economic wealth considerations over SEW considerations in business decisions, such as those related to GVC governance. For example, the more both the partner and the lead MNE are part of large entrepreneurial family galaxies, the more they tend to behave like non-family firms and adhere to the global factory model (Q4). Therefore, we go beyond the dichotomization of family vs. non-family firms and join recent calls (e.g., Arregle et al., 2021; Debellis et al., 2021) for further consideration of how drivers of family firm heterogeneity represent boundary conditions for our theorization and shape the family's influence on governance decisions in GVCs.

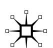
Conclusion

The GVC literature has often assumed that strategic decisions are made almost unilaterally by the lead MNE, without adequately taking into account the comparative efficiency considerations of all actors involved (Hennart, 2009, 2020). In this unipolar view, the lead MNE has traditionally been assumed to strive only for economic goals and to maintain control by designing and managing a global factory. This involves fine-slicing activities and making internalization and location decisions (Buckley, 2009). In this study, we shed light on the dynamics of GVC governance by considering how internal governance, in terms of the presence of a family dominant coalition in the organization, shapes family firms' GVC decisions. Empirical investigations of these considerations could advance our understanding of the different GVC configurations based on the internal characteristics of partners.

Among the four configurations described in our study, Q1 emerges as the solution with fewer criticalities, considering the mutuality of non-economic interests among the parties involved. Analogous to Q4 (i.e., the conventional global factory model), both parties are primarily driven by similar goals and base their mixed gambles on consistent criteria. However, Q1 tends to be more stable due to the long-term orientation and relational nature of the partnership. The other two quadrants (Q2 and Q3) are conceptually more unstable due to the diversity of priorities at play that can alter the equilibrium identified at the outset of the partnership. Nevertheless, it is unlikely for any lead MNE that all its partners will be exclusively family or non-family firms. The complexity of managing each dyadic relationship with partners must therefore be coupled with the criticality of orchestrating the entire network and understanding the best solutions for maximizing value across the entire GVC, given that the relationship with one partner may affect the decisions regarding the relationship with another partner.

Contributions and future research directions

Our study makes three main contributions. First, we move beyond the unipolar view of the lead MNE, which bases its internalization and location decisions solely on economic considerations, to improve our understanding of GVC governance at both the inter- and intra-firm level. Thus, we contribute to the recent call of Verbeke & Ciravegna (2018) to deepen our understanding of cooperative interactions in the search for complementary FSAs between established MNEs and other firms. Our study also complements the work of Prashatam & Birkinshaw (2020) who focus on the importance of relationship stability based on the strategic intentions of the parties involved, and sheds light on the organizational methods and the transactional properties of the inputs involved in cooperation (Hennart, 2020). We advance the GVC conceptualization by examining the relationship between internal governance and network governance and the possible alternative configurations to the traditional global factory model, based on the assumptions of a generic lead MNE driven solely by economic goals and partners willing to relinquish control over their operations. Recently, scholars have begun to examine the role of networks in internationalization pathways (e.g., Leppäaho et al., 2021), but still from a unipolar perspective. By adopting a dyadic perspective, we examine family firms as lead MNEs, partners, or both. In this way, we also shed light on trust formation and its different types (e.g., heuristic when the partnership is between family firms, more calculative when the partnership is between family and non-family firms), opening important avenues for future research on trust in GVCs. Thus, our analysis of relationships within different configurations of dyads enriches research on control and trust dynamics in interorganizational relationships (e.g., Lumineau et al., 2023; Swärd et al., 2023). Schilke & Lumineau (2023) recently emphasized the need to analyze interorganizational trust at different levels, both individual and organizational. Given that the success of interorganizational partnerships often hinges on differences in the internal governance structure of the partners (Balachandran & Eklund, 2024), we examine various interorganizational relationships involving the distinctive characteristics of family firms. This allows for the



integration of the non-economic goals of family firms into international business theory (Arregle et al., 2024) and provides a more comprehensive framework for understanding the potential interplay between control and trust in GVCs.

Based on our considerations, we highlight that when the lead MNE is a family firm, it is more likely to rely on family partners. This leads to the notion of a family-based GVC involving mostly family firms. While this is consistent with the literature on homophily in alliances, namely that firms tend to collaborate with firms that are similar, further research is needed to examine the dynamics of trust formation and trust erosion within the GVC (Couper et al., 2020) and how the presence of the family affects such dynamics. For the sake of conceptual clarity, we have focused on the dyadic relationship between a lead MNE and a partner, but the evolution of the GVC is based on a broad network of firms, even among actors participating in different GVCs and across multiple locations (Schotter et al., 2017). This leads to the consideration that various macro-level factors, such as institutional differences in home and host countries, may moderate the propositions we have advanced in our theorizing and thus represent an important opportunity for future research.

Second, by grafting the SEW perspective onto internalization theory, we go beyond the sole cost efficiency paradigm and reveal the mixed gambles that characterize family firms as driven by both socioemotional and economic considerations in GVC strategic decision-making (e.g., Gomez-Mejia et al., 2014). Previous studies (e.g., Memili et al., 2011; Pongelli et al., 2019) have emphasized the importance of analyzing family firms' perceptions of transaction costs by examining their preferences for internal growth, outsourcing, and partnerships with family partners. In this study, we contribute with a detailed analysis of all the potential advantages and disadvantages for both parties in the four possible dyadic configurations from a mixed gamble perspective, considering the nature of the organizations involved. This extension reframes the global factory model as just one alternative that fits configurations where both the lead MNE and the partner are non-family firms. Overall, our considerations highlight the need to extend the efficiency principle to consider the expected costs/benefits that the family firm faces in pursuing non-economic goals. In doing so, we complement the recent efforts of Grøgaard et al., (2019) to extend and generalize internalization theory by paying attention to the non-economic benefits of internalization and corporate governance challenges.

Third, our study provides insights for research on family firm internationalization. Scholars investigating the internationalization strategies of family firms have mostly adopted a single organization as the unit of analysis, considering how the distinctiveness shaped by the family's influence on the business drives its own decision-making (Debellis et al., 2021). However, family firms do not internationalize in isolation. Thus, we contribute by going beyond the focus on the organizational level to consider the perspective of the entire network. Moreover, by exploring the family, firm, and galaxy dimensions as sources of heterogeneity, we acknowledge boundary conditions of our theorizing and pave the way for future research based on our conceptual considerations.

Our study aims to underscore the importance of not confining family firms to a niche empirical context, as they are the most ubiquitous organizational form in the world. In fact, family firms are "the" empirical context in which most international business transactions take place. Our aim with this study is to encourage further empirical research to understand how the orchestration of the GVC takes place in the epistemic context of family firms, adopting a multipolar perspective, considering that there are likely to be many family firms in GVCs and that studying GVCs without considering the family dimensions provides an incomplete picture.

Scholars have argued that regional strategies are often more efficient and internationally adopted (e.g., Verbeke & Asmussen, 2016) because they allow for an appropriate balance in the tension between global integration and local responsiveness. This debate has come to the fore in the context of the recent pandemic and geopolitical situations. MNEs, which previously operated under lean business model characterized by highly fragmented value chains, low inventories, and just-in-time delivery, are now facing difficulties and are reassessing greater vertical integration and localization/regionalization of their GVCs (Kano et al., 2022). Indeed, the pandemic has demonstrated the drawbacks of relying on a globalized and fragmented value chain as represented by the traditional global factory model. It is therefore likely that lead MNEs will increasingly focus on governance mechanisms based on long-term relationships. Under the current circumstances, the "family-led GVC", or more generally the governance mechanisms highlighted in our study, may also be inspiring for non-family firms. The governance mechanisms embodied in the three alternative configurations studied here have long been considered less efficient than the traditional global factory, as they are not driven by cost minimization alone. In these circumstances, however, they are proving advantageous, as those firms that relied on highly dispersed and captive GVCs are now in trouble and need to invest in (re)creating more governable and sustainable GVCs, very similar to those involving family firms.

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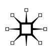

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