9. Bifurcation bias and family compensation: The case of Dawu Group

Feihu Zheng and Hung-bin Ding

INTRODUCTION

A family firm is a business organization owned, controlled, and/or managed by a family. This type of business organization plays a vital role in the economic activities and the development of human society (Gomez-Mejia, Haynes, Núñez-Nickel, Jacobson, and Moyano-Fuentes, 2007; Shim and Okamuro, 2011). While some families may exercise strong influence on their businesses, others may be more passive and prefer delegating business decision making to non-family professionals. Despite the variations in family influence, many family firms hire non-family employees to satisfy the need of their business. While it has been widely acknowledged that family firms and non-family firms have different approaches in human resources (HR) management, the way a family firm recruits, manages, and retains non-family talent has not attracted much scholarly attention (Combs, Jaskiewicz, Shanine, and Balkin, 2018).

The need of non-family employees is a major management challenge to family firms for several reasons. First, family firms have their unique ideology which tends to value family control and long-term sustainability higher than short-term, quick growth (Johannisson, 2000; Gomez-Mejia et al., 2007). Although non-family employees may bring professional skills and experience to assist the growth and expansion of the family business, the ideological conflicts between family and non-family employees, especially executives, can be a source of internal conflict (Johannisson, 2000). Second, the emphasis on family control and long-term sustainability motivates family firms to develop managerial practices to support these organizational goals. For example, family firms favor hiring family employees (Jaskiewicz, Uhlenbruck, Balkin, and Reay, 2013). There are also differences in terms of the compensations received by family and non-family executives (Gomez-Mejia, Larraza-Kintana, and Makri, 2003). Additionally, family

employees tend to have higher influence than non-family employees when the family firms' owners seek feedback from the employees (Huang, Ding, and Kao, 2009). These managerial practices are often viewed as unfair and form a foundation for the emergence of the bifurcation bias.

Bifurcation bias refers to the asymmetric treatment between family and non-family employees in the family firms (Verbeke and Kano, 2010, 2012; Daspit, Madison, Barnett, and Long, 2018). When the bifurcation bias is present, the family members receive preferred treatments regardless of their performance. On the other hand, the non-family employees receive lesser treatment which may include lower compensation and tougher evaluation in comparison to family employees. The presence of bifurcation bias therefore changes the calculus of non-family employees because the non-family employees are passed over for promotions or are receiving fewer rewards than co-workers with family ties. The non-family workers are thus motivated to compensate their low rewards or loss of promotion with opportunistic behavior at the cost of their employers (Klein and Bell, 2007; Verbeke and Kano, 2010; Daspit et al., 2018). It is imperative for family firms to control bifurcation bias to minimize potential non-family employee opportunism.

One solution to the bifurcation bias problem can be to eliminate non-family employees. While many small family businesses have hired only family members and continue to do so, this "family-only" HR practice simply is not an option for many family firms. The non-family employees provide talent and manpower that are not available from within the family in many medium and large family firms. Hiring only family members would significantly reduce the family firm's ability to grow or even survive. Given the significance of non-family employees, another choice to address the bifurcation bias is to ensure fairness in management, especially HR management, thus eliminating bifurcation bias.

While identical and equal treatment between family and non-family employees can restore fairness in family firms, this practice can decrease the identification of family members in their business. This identification is a key intangible asset of family firms (Ding and Phan 2005; Ding and Lee 2008). When the family business is in crisis or is facing resource paucity, family members are willing to make greater sacrifices to save the family business if they perceive that the business is part of the family (Gomez-Mejia et al., 2007; Lee, Phan, and Ding, 2016). Eliminating the family identity can reduce the family members' devotion and willingness to sacrifice for the business when needed. In summary, the involvement of both family and non-family members improves the performance of family firms (Ding and Pukthuanthong-Le, 2012; Tabor, Chrisman, Madison, and Vardaman, 2018), maintaining fairness and controlling bifurcation bias within the family firms does not necessarily require the removal of either family employees or non-family employees from

family firms altogether. The challenge is to create a system meeting the expectations of both groups.

As there are similarities and differences between the expectations of family and non-family employees, a growing number of family firms are addressing the needs of these two groups differently. Practices that enforce fair and equal treatment between family and non-family employees and within respective groups have been considered positive in reducing the negative effects of bifurcation bias (Samara and Arenas, 2017; Samara and Paul, 2018). Examples of fairness-ensuring practices include equal and fair hiring, promotion, and career development opportunities (Van der Heyden, Blondel, and Carlock, 2005), equal rewards (Fang, Memili, Chrisman, and Welsh, 2012), and equal opportunity to express concerns (Samara and Arenas, 2017). In addition to fairness-ensuring practices, family employees usually receive compensation independent from their employee performance. For instance, family employees can also be shareholders of the family business. The dividends distributed to families can be viewed as a unique, additional compensation only available to family employees. Making family members shareholders of the family business and compensating them with dividends separate from family employee compensation from the HR system of the family business is a practice that balances the needs for fairness and family relevance. However, determining the percentage of ownership can be a difficult process for many families. If family members have different assumptions about how many shares they own, this misconception can deeply divide a family and the family business (Baron and Lachenauer, 2016). The result of this divide can be devastating to a family business.

The Dawu Group, a major agricultural enterprise in China, experienced this shareholder challenge in the 1980s and 1990s, when the business was relatively small. As key family stakeholders held very different perspectives about share ownership, early discussions of share distribution fell apart. However, as the business grew and more non-family employees were hired, the Dawu Group faced mounting pressure to maintain fairness and family relevance. In order to address the expectations of stakeholders, the Dawu Group designed a system to ensure both fairness and family relevance without dividing shares among family members in 2005. The purpose of this case research is to look into the experience of Dawu Group and how it may inform practitioners when managing bifurcation bias and family compensation. We have selected Dawu Group for this research because there is a scarce supply of large family firms committed to disclosing their managerial practices over an extended period of time. Dawu Group has been publishing information about both since the mid-2000s. The documentation and interviews with key stakeholders allow us to develop a comprehensive understanding about the role of independent wealth management in the assurance of fairness in family firms.

While this chapter does not aim to develop new theories or to test existing theories, we intend to help practitioners develop appropriate systems to address bifurcation bias issues in their family business. More specifically, this case provides an example of family compensation without share division, thus avoiding the potential devastating discussions among family members regarding share ownership. In addition, Dawu Group's fairness-enhancing practices add to the discussions of bifurcation bias with new practice ideas. The rest of this chapter is organized as follows. The next section reviews the literature. The third section provides an overview of the Dawu Group and a brief description of its struggle to balance family relevance and professionalism over the years. The practical implications and the limitations of this case are discussed in the fourth section.

BIFURCATION BIAS AND FAIRNESS

Bifurcation bias (Verbeke and Kano, 2010, 2012) describes a state in which family firm employers apply different standards to family and non-family employees due to family firm owners' efforts to reduce transaction costs. When more non-family managers are hired to promote the professional management of enterprises, family employees and non-family employees will exist as two independent groups, who possibly have potential unequal employment status and a different understanding of enterprise leadership. The idea of bifurcation bias was inspired by "affect heuristic" in psychology, which can be explained as when decision makers make decisions based on their emotions and intuitions rather than messages from the objective characteristics of things. In family firms, such bias will lead to misjudgment in HR practices. Family employees are usually a reliable and stable source of labor and talent for the family firm because the family members are able to maximize their gains from the long-term success of the family business (Lee et al., 2016). Family firms are more likely to invest in family employees because family members are less likely to "betray" the family firm by taking the skills acquired from its family employer elsewhere. Additionally, family firm employers are less motivated to invest in the development of non-family employees because they are more likely to depart from the family firm for better opportunities (Verbeke and Kano, 2010). Because of the concern of transaction costs, family firms may save core positions and important decision-making power for family employees. The same consideration may also curtail professional managers' authorities and limit their promotions. The family dynamics of business owners may affect HR practice. Recent studies suggest that HR practice may be used to repair an unhealthy family condition by family firm owners. Although such a practice allows family business owners to leverage the positions in the business to improve family dynamics, the blurring of family dynamics and HR

practice can create a sense of unfairness among non-family employees (Daspit et al., 2018). As a result, family firms with a high level of family involvement are more likely to be "unfair" to their non-family employees (Barnett and Kellermanns, 2006). These management practices facilitate the creation of bifurcation bias within a family firm. This bias arouses the profiteering attitudes of family employees and dampens the enthusiasm of professional managers to serve the company. If the bifurcation bias is extended, professional managers will be less motivated to invest in the specific human capital and the firm's absorbing of new management resources will encounter obstacles (Verbeke and Kano, 2010, 2012).

The negative effect can be managed through professional HR practice to instill justice or fairness[1]in an organization. Justice is defined as employees' perception of employers' consistency, equitability, respect, and truthfulness in decision making (Colquitt and Rodell, 2015). In short, justice is the conceptualization of fairness (Rawls, 2001). Organizational justice consists of four dimensions: procedural, distributive, interpersonal, and informational (Colquitt, 2001). Procedural justice refers to the fairness of procedures an employer uses to make salary, reward, evaluation, promotion, and assignment decisions. Distributive justice refers to the fairness of HR decisions including compensation, reward, evaluation, promotion, and assignment decisions. Interpersonal justice is defined as the interpersonal interactions between employees and employers in the HR decision procedure, and the explanations the employer offers to the employee regarding HR decisions. Managerial practices to enforce all four dimensions of organizational justice may improve employees' sense of fairness and generate positive consequences for the family firm.

On the flip side, emphasis on fairness can weaken the family firm's ability and choices to financially compensate family members. Employers committed to fairness will strive to treat all employees equally. It implies that non-family members may receive higher compensation than family employees if the former outperforms the latter. Similarly, non-family employees may receive merit-based promotion or even obtain core decision-making power in the family firm. These consequences handicap the family owner's ability to create and distribute wealth to favor families through salary overpayment to family members. Family firms will not be able to hire or promote family members over more competent non-family employees. Family firms are also discouraged to overpay family employees over non-family employees.

In order to maintain a strong tie between the family employer and its business, many family firms have used dividend distribution to align the interests of families and the family firm. This common practice gives select family members shares of the business so that these individuals can benefit from the family business even if they do not have the professional skills needed

to perform well as an employee in the family firm. While the dividend distribution can be set up as an entitlement to all family members or qualified family members, turning families into shareholders has its own challenges. This system has three common shortcomings. First, the dividends are tied to the earnings of the family firm. The dividends distributed to family members will be lower in a low-performing year. Second, as the shares are further divided among family members, the dividends received by each individual will become very modest in later generations. Third, unless the shares owned by the family founder have been determined from the beginning, the calculus of share division among family members can be a major challenge to the family. It is also a big challenge to determine which family members are eligible to receive shares of the family business and who deserves to be compensated. Given these concerns, many family firms have developed practices to compensate family members outside the family firm's salary payment.

THE DAWU GROUP

The researchers conducted a single case study at the Dawu Agriculture and Animal Husbandry Group (Dawu Group) in China to explore the impact of bifurcation bias on fairness and wealth management. Dawu Group's comprehensive services have covered three major industries with revenues over US$500 million and more than 5000 employees in 2017.[2] Apart from a financial loss due to an unexpected crisis in 2003, the corporation has had an average growth rate of over 30 percent per annum since its infancy (Du, 2011). This family business was chosen for our research for two reasons. First, Dawu Group is a family firm whose family owners insist on maintaining the family business identity. Second, the Dawu Group has been recognized by its provincial government as a leading brand and ranked nationally as a top 100 private company several times (Du, 2011). As this research focuses on the reduction of the bifurcation bias, a high-performing business is appropriate for this study.

We collected the case data mainly through interviews with key individuals from the Dawu Group. The authors visited Dawu Group three times in 2016 and 2017 to conduct multiple interviews. As displayed in Table 9.1, the research team interviewed the founder, chairman, vice president, division managers, and senior staff. The incumbent chairman, Meng Sun, is a second-generation member of the Sun family. His father, Dawu Sun, co-founded the Dawu Group with two younger brothers in 1985. Although Dawu Sun is no longer actively involved in daily business operations, he is still active in the family firm as the leader of the family. In addition to interviews, corporate records and internal education materials also play vital roles in this research.

Table 9.1 Interviewees

Interviewee	Number	Time	Interviewee	Number	Time
Chairman	1	3 h	Manager of Liquor Co.	1	1.5 h
Vice president	1	1 h	Manager of Food Co.	1	1.5 h
Assistant to chairman	1	2 h	Founder	1	3 h
Manager of Heritage Co.	2	2 h/person	Staff	2	1 h/person

OWNERSHIP AND COMPENSATION IN THE DAWU GROUP

There were two potential sources of bifurcation bias in the Dawu Group. The first was the bias between the founder/owner Dawu Sun's family and members from other branches of the family. The Sun family has many relatives working in the business. But the relatives are far from adequate in terms of supplying the manpower needs of the large family firm. The sole owners of the Dawu Group, Dawu Sun and his wife, have recognized the need to manage the bifurcation bias since the inception of the business and have attempted to manage this challenge by sharing ownership of the firm.

Early Efforts to Align Stakeholder Interests

The present-day Dawu Group has only two shareholders, Dawu Sun and his wife. However, it was not this couple's original intention to keep the shares all to themselves. On the contrary, the Sun family had made two attempts to align the interests of stakeholders with shares, yet neither of them won target stakeholders' support.

Sun's first effort was to start a business with other co-founders/co-owners. It was 1984, shortly after the launch of the Chinese economic reform. The joint stock system was relatively new to Chinese society. Dawu Sun's wife started a farm business with four neighbors. There were five shareholders and each owned 20 percent of the farm at this point. All five co-founders also worked in the new farm business. However, this business lost all of its initial capital in the first year. All of the other four neighbors were determined to dissolve the business after taking the financial loss. Dawu Sun, then an employee at a local bank, helped to secure a small business loan to keep the farm alive. But the approval of the loan failed to persuade the other co-founders to stay with

the business. Sun and his wife on the other hand saw the opportunity in the husbandry industry and decided to stay. The Suns purchased all of the shares from the other initial shareholders and bore all of the losses from year 1 to keep the business going. Since the other four co-founders had withdrawn from the business yet remained as employees, Sun and his wife became the only owner/shareholders in 1985. In 1992, Dawu Sun quit his bank job and invited his brothers to join the business to form the Dawu Group. Despite the addition of family members, Dawu Sun and his wife remained the sole shareholders of the family business.

Dawu Sun and his wife attempted to better align the interests of employees to the family firm through employee stock options in 1997. As the business had grown to become one of the largest agriculture businesses in the province, Sun was convinced that the joint stock system could better align the interests of employees and the business (Ji, 2015). His proposition was to give stock options to employees in lieu of cash bonuses. However, this idea was not well received by the employees because they preferred to be paid for labor rather than receiving dividends as shareholders (Ji, 2015).

The Grain Bank Crisis

The Dawu Group made another attempt to diversify ownership with family and non-family employees in the early 2000s, shortly after the Dawu Group survived the grain bank crisis in 2003. However, this effort also failed.

One of the main products of the Dawu Group is animal feed which is made from grain. The Chinese economic reform had provided incentives to farmers to grow more crops. However, the demand of the Chinese market did not catch up with the growth of supply in the mid- to late 1980s. Despite the oversupply of grain, Dawu Sun and his wife were short on cash to purchase the grain for animal feed production. The Suns therefore developed a deferred payment system to minimize the need for cash payment up front. This deferred payment system is the grain bank of the Dawu Group. Farmers can deposit their grain to the Dawu Group, which will use them to produce animal feed. The farmers can withdraw their grain deposits or equal value cash from the Dawu Group any time after the deposit. Dawu Group also encouraged the farmers to keep their grain deposit in Dawu Group by offering above-market interest rates.[3] If we simply see the deposited grain as a cash deposit, the Dawu Group is essentially running a banking operation to support its own business needs. In fact, this grain bank indeed allowed the family business to secure the supply of raw materials with delayed cash payments. This operation served the immediate needs of both the Dawu Group and local farmers.

However, the success of the grain bank operation caught the attention of the government. Dawu Group was accused of illegal fundraising by the govern-

Table 9.2 Dawu family members in the grain bank crisis, 2003

Name	Position
Dawu Sun (co-founder)	Director (in jail)
Erwu Sun (second brother)	Vice director (in jail)
Zhihua Sun (third brother)	General manager (in jail)
Huiru Liu (wife, co-founder)	Treasurer (fled)
Liuping (niece)	Vice general, then acting general manager
Sun Meng (eldest son)	Acting director

ment (Table 9.2). The business was forced to cease most of the operations and all of the business assets were frozen. Dawu Sun and his two brothers, now also working in the family business, were arrested and detained for six months. Many executives were also arrested. Dawu Sun's son, newly graduated from college, was temporarily appointed as the chairman of the business group to oversee the contract fulfilment. Many employees were laid off and the business made significant losses during this period (Ji, 2015). It appeared to be a major crisis. In the end, the firm and its owner received a three-year sentence with probation and fines (Ji, 2015).

Upon surviving the legal crisis, the family and executives of the family business started discussions of ownership and compensation (Ji, 2015). These discussions were partially motivated by the Sun family's gratitude to the employees' loyalty during their most difficult time. It was also driven by heightened interests from families and non-family veterans for ownership and better compensation. Family employees generally demanded ownership of the business while non-family employees were more interested in salary raises. As the sole owner of the family business, Dawu Sun's initial reaction was to satisfy these demands by distributing shares to family and non-family employees. However, this idea soon proved to be far more difficult than anticipated. The family members and non-family employees were not able to come to an agreement on the distribution of shares. The discussion of share distribution was deeply dividing the family business and had become a major distraction to the business (Ji, 2015).

The Family Business Constitution

As the Dawu Group was unable to move the share distribution and employee ownership initiative forward, a different opinion, mainly from the family, emerged in the discussion. Instead of turning major stakeholders, including family and non-family employees, to shareholders, would it be possible to sufficiently compensate all of the stakeholders without dividing the ownership?

The stronger supporters for a non-dividing alternative were the parents of the Sun brothers and Dawu Sun's wife. The suggestion for the non-dividing alternative quickly won the support of the majority of the stakeholders, especially the family members. It was clear that the family members and relatives were willing to accept reasonable financial compensation without equity ownership as long as no one else owned equity of the family business (Du, 2011; Ji, 2015). As the family decided not to divide the ownership, the employee stock option was also off the table. However, the family business still needed to address the bifurcation bias concerns. All of the stakeholders eventually came to agreement on two things. First, the Dawu Group needed to find a way to fairly compensate both family and non-family employees without offering its equities. Second, the owners, especially Dawu Sun and his direct family members, deserved to be better compensated as they were the ones who took the risk to start the business and were held legally accountable for business practices. These two consensuses form the basis of a new system, which is labeled as the Family Business Constitution of the Dawu Group.

The Constitution ensures fairness and family relevance with three key elements. First, the Constitution regulates the salary raises of executives by capping salaries to 15 times the salary of an entry-level position (Ji, 2015; Du 2011). The salary raises of mid-level managers and factory supervisors are also subject to similar but smaller caps. Additionally, the employees of the same pay scale receive basically the same base salary (Ji, 2015). The founders of Dawu Group receive almost no bonus, leaving a large amount of profit in the Group for rolling development, which provides a strong anti-risk ability for long-term development and incentive design. In addition, the Group has a normal performance bonus for its subordinate companies, thus the employees try to get a positive return – a cost incentive constraint (Ji, 2015). The rigid compensation policy minimizes the compensation differences between employees of the same pay scales and employees of different pay scales. Second, the core members of the Sun family received monthly stipends from the Group for their effort to start the business. This family-only compensation also ensured that the Sun family was motivated to stay committed to the family business. This stipend should not exceed three times the average salary of employees. The family members also received lifelong free housing, medical insurance, and tuition remission from the Group. Nevertheless, the family members will not receive shares of the family business. The patriarch or the designated family successor is the only shareholder of the Dawu Group.

Third, the Constitution introduced an election-based promotion policy. This policy allows nearly all of the existing positions to be elected by employees. Nowadays, most of the managerial promotions are now determined by election (Ji, 2015; Du 2011). All employees who have worked in the business for a certain number of years are eligible to vote for their managers and executive

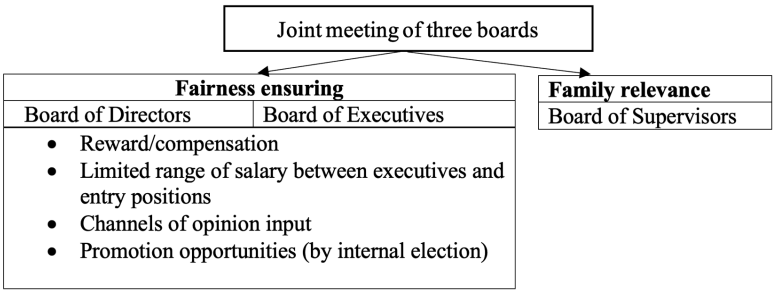

Figure 9.1 The structure of Dawu Group's family business constitution

team. Employees are also eligible to run for election-based promotions after a certain number of years of service. The Dawu Group elects its board of directors through this internal election. Regardless of their family affiliations, the executives and board members all receive extra benefits such as a free international family trip every year.

According to the Constitution, the Dawu Group is governed by three internal boards. These three boards are the board of supervisors (BOS), the board of directors (BOD), and the board of executives (BOE). The BOS represents the founder's family. It supervises the use of major corporate assets and the leaders of the other two boards. The BOD is similar to that of a typical corporate board in other organizations. What makes Dawu Group's BOD unique is that its members are determined by internal elections. As the Dawu Group has only one shareholder, the board is not representing the interests of the shareholders. However, the directors are elected by qualified employees and are responsible for the governing of the business. The BOE can be viewed as the executive team of the Dawu Group whose membership includes all of the executives and branch/division managers. The BOE is the one that carries out the strategic and operational plans. Although these three boards are trusted with different responsibilities, the final decision making occurs in the joint meeting of these three boards. The responsibilities and membership of the three boards are summarized in Table 9.3. We also summarize the timeline of the major events in Table 9.4. The structure of the Dawu Constitution is presented in Figure 9.1.

DISCUSSIONS AND IMPLICATIONS

The Sun family of the Dawu Group made two attempts to address the issues of fairness and family relevance by using shares as a means of reward and family compensation before the 2003 crisis. Both attempts failed. These experiences,

Table 9.3 The members and responsibilities of the three boards

Board of supervisors (BOS)	The BOS mainly consisted of the Sun family members and advisors. The duty of BOS is to draft and revise general rules and regulations, as well as to monitor the BOD and the BOE from legal, institutional, and moral perspectives. The supervisors are also responsible for overseeing finance and equities. The board has ownership of the business, yet has no control over decision making and operations. The general elections of the supervisors are held every three years by members of the Sun family.
Board of directors (BOD)	The BOD is composed of directors elected by employees of the company. All directors are responsible for developing the strategic goals and direction of the Group, as well as making investment decisions of subsidiary companies. They are also responsible for selecting the top leaders for each subsidiary company, deciding on annual profit targets and making bonus allocation plans. Members can enjoy director subsidies as well as use both public and private cars. A chief executive officer holding the position for more than two terms consecutively or accumulatively, and other directors holding the position for more than eight terms, is entitled to retirement benefits. Dawu Group also encourages the children of the directors to study abroad and to start their own business. The BOD can make administrative and strategic decisions, but do not have any ownership or operational power.
Board of Executives (BOE)	The BOE is made up of the top leaders of subsidiary companies and office directors. All executive board members are to coordinate in raising and using funds and ensure the efficient implementation of projects and tasks, all in compliance with the decisions made by the BOD. The executives on the board are entitled to performance-based bonuses and year-end bonuses. At retirement, a general manager who has held the position for more than three terms is able to enjoy the same benefits after retirement. Board members who have made great contributions can also enjoy the pay level of directors. The BOE only has power in operational issues with no ownership or administrative rights.

Source: Compiled by the authors based on information provided by Du (2011) and Ji (2015).

coupled with the 2003 crisis, motivated the Dawu Group to design a system (i.e. the Dawu Constitution) that ensures fairness in terms of reward, promotion, and access to information while maintaining family relevance. Since the inception of the new system in 2005, the Dawu Group has seen significant growth without major disputes between family and non-family employees. This system generally minimizes bifurcation bias in terms of reward, compensation, promotion, and channels of input while keeping the family relevant. Its effectiveness in reducing family conflict has also been considered by other Chinese family businesses as a successful model.

Table 9.4 Major events of Dawu Group

Year	Major events
1984	Ms. Hui-ru Liu invited four neighbors to start a farming business in her town. There were five families altogether. Each family owned 20 percent of the shares of the business by contributing RMB$2000.
1985*	The business lost 16,000 after one year. Ms. Liu's husband, Mr. Dawu Sun, was an employee of a local bank. Mr. Sun engineered a small business loan to his wife's business. This loan paid off the debt. However, the co-founders wanted to exit the farm business so Mr. Sun and his wife assumed full responsibility of the debt and became the sole shareholders of the business.
1992	Mr. Sun's two younger brothers quit their jobs and joined the business.
1995	The Dawu Group was recognized as a top 500 largest business in China by the National Industry and Business Bureau of China.
1997*	The Dawu Group planned to offer stock options to employees but this proposal was declined by employees. The employees preferred to receive a fixed salary and merit-based bonuses rather than shares.
2003	The crisis of the grain bank.
2004	Trial implementation of the Dawu Constitution.
2005	Formal implementation of Dawu Constitution.

Note: * These were the failed efforts to make employees and other families shareholders.

As a family business, it is not surprising that the Sun family of the Dawu Group works hard to maintain family relevance in their business. Their commitment to control bifurcation bias is extraordinary. Based on our interviews and the corporate documents (Ji, 2015), it appears that the experience of the grain bank crisis of 2003 played a big role in shaping the perspectives of the Sun family.

The 2003 grain bank crisis was a shock to the Dawu Group and its employees. Our interviewees recalled that the local government formed a taskforce to take over Dawu Group during the grain bank crisis and almost all of the executives were arrested. This government team demanded all the transactions to be reported to them, otherwise the employees involved would be punished. But the employees of Dawu Group, behind the back of the takeover team, secretly worked together to keep the business alive. They not only kept a day-to-day account but also made an inspection tour by themselves in the factories. All they wanted to do was to protect the firm from falling apart. The Sun brothers were arrested and imprisoned for half a year, but not a single mid-level manager left their post and many employees continued to give support and protection to the corporate property secretly. It is clear that the survival of the Dawu Group was largely dependent on the commitment of the employees. As most of the executives and key family leaders were in jail, the non-family employees manifested a strong commitment to their employers and to keeping

the business alive. It is a fair statement to say that the "lessons learned" from this crisis motivated the Sun family to review and to think through its relationship with employees and families. The result of this reflection is Dawu Group's Family Business Constitution.

Dawu Group's system addressed two seemingly conflicting forces in a family business: fairness assurance and family relevance. This business has a unique ownership model since all of the shares are controlled by one person in the family. Although the concentration of ownership is common among small and young family firms, it is unusual to have one person controlling all of the shares of a large organization. Dawu's high ownership concentration may be unique, but it does highlight an option to resolve the share division issue among families. The discussions of share distribution can be sensitive and difficult because the distribution of shares has a direct impact on how much wealth a family member will receive in the long run. Nevertheless, by offering all of the family members the same benefits, just like an equal shareholder, a resolution was made without a debate or conflict of share distribution discussions.

The second implication of the Dawu case is the role of the BOS in family wealth management. Since no one except the patriarch owns shares of the family business, the Sun family has to create a separate mechanism to distribute wealth among families. This arrangement is similar to the increasingly popular practice adopted by families to diversify sources of family financial income. An affluent family can create an independent administrative mechanism to create, manage, and distribute family wealth without relying on dividend and salary payments. An example of such an administrative design is the single-family office (SFO). An SFO is an independent organizational entity tasked to manage the wealth of the family (Rosplock, 2014). The wealth management side of an SFO can be very active, including investors engaged in wealth creating through active investments (Rosplock, 2014; Wilson, 2012). The focus of an SFO is clearly on serving the entire family, not just the family members who work in the family business, so there are no bifurcation bias concerns on the treatment of non-family employees. An SFO may or may not be incorporated, but an SFO represents a family's effort to separate their business and family wealth management regardless of the organizational form. It is estimated that there are more than 10,000 active SFOs in the world (Wilson, 2012), but this number is a small fraction of the global family business population. While an SFO is a more formalized design of family wealth management and independence, there are other less formal practices designed to separate family wealth management from corporate HR practices. In summary, an independent administrative mechanism of family wealth distribution allows families to provide family entitlements without compromising fairness within the business.

In addition to practice, the Dawu case also has a theoretical implication. Similar to the comparative advantage based on "labor" productivities, there also lies the comparative advantage based on "ownership" productivities, which involve interpersonal differences of abilities, knowledge, or attitudes toward risk (Alchian, 1965). For the former two, if ownership rights are transferable, then specialization of ownership in those areas in which people believe they have a comparative advantage will yield gains (we call it the comparative advantage effects of specialized application of knowledge in control). For the latter, the exchange of ownership will enable a reallocation of risks among people (risk bearing), leading to greater utility in the same sense that exchange of goods does. In this way, Alchian found that a person can separate the productivity of knowledge and effort in what he owns from the risk bearing. According to Alchian (1965), the owner's "knowledge" difference is not only shown in the productivity, but also a powerful tool for the resource allocation decision in different risk situations. Thus, some people choose to hold shares to reflect their "risk preference" knowledge, and some choose to be professional managers or decision makers to highlight their comparative advantage in capacity and knowledge (productivity). In the case of the Dawu Group, we have learned that shares are not always desirable for all stakeholders. It is likely that shares are more desirable for individuals who hold "ownership productivity." This will be a subject for future studies.

This research has several limitations. First, we were not able to empirically test the relationship between the financial performances of the Dawu Group and the Constitution. The business has certainly been doing very well since its survival of the grain bank crisis in 2003, but the availability of the data does not allow us to have a meaningful analysis to assess the contributions of the new system to the performances of the business.

Second, the Dawu Group is relatively young, and the Sun family is still small. If there are many family stakeholders making claims of the family business ownership, it may be more difficult to satisfy these claims with the system developed after the 2003 grain bank crisis. In addition, our interviews do not provide much information about the dynamics of the Sun family. A clearer picture of the family dynamics may better inform us about the effects of the Constitution.

NOTES

1. Although justice and fairness have subtle differences when applied in a legal context, these two terms are used interchangeably in the literature of management and business ethics (Samara and Paul, 2018).
2. Information accessed from the corporate website of the Dawu Group (August 1, 2019).
3. The "interest" of grain deposit is calculated based on the market value of the deposited grains.

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