Gender Disparity in Leadership of Family-Run Businesses

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Abstract

This paper examines the complex dynamics of leadership and succession within family-owned businesses (FOBs), which constitute a significant portion of the global economy. Given their importance, it is crucial for these businesses to prioritize capable leadership while navigating the complexities of family ties. The paper explores how leadership succession is often influenced by familial relationships, which may lead to nepotism and inefficiencies in decision-making. It also investigates the challenges FOBs face in diversifying leadership, especially gender diversity, which has been shown to enhance decision-making, innovation, and organizational resilience. Although gender-diverse teams tend to perform better, women remain underrepresented in top executive roles due to persistent societal biases, work-life balance challenges, and limited mentorship opportunities. This is particularly relevant in family businesses, where leadership roles are frequently passed down through family members. The paper argues that FOBs might have a unique advantage in fostering gender diversity, as familial ties reduce traditional barriers faced by women in non-family firms. By emphasizing competence and long-term vision over short-term gains, family businesses may create more opportunities for women to assume leadership roles, aligning with their strategic goals. The study concludes that while FOBs face their own challenges, their potential to drive more inclusive leadership practices offers a competitive advantage in the evolving business landscape.

Introduction

Family-owned businesses (FOBs) are a significant part of the global economy, with a 2020 survey across 48 countries finding that 75% of entrepreneurs and 81% of established business owners involve family members in the operations of their companies (Global Entrepreneurship Monitor). FOBs come in all sizes, with many publicly traded companies also having a substantial percentage of ownership vested with a single family. Prominent examples include Walmart, the Volkswagen Group, the Tata Group, and many others. Reports show that in the current decade, the largest FOBs in the world grew at nearly twice the rate of the global economy as a whole (EY Global). With such an important role in the global economy, it becomes crucial for FOBs to ensure that they have a capable leadership team that is tuned to the specifics of the company and its operating environment.

The selection and appointment of top executives in a non-family owned business is almost entirely driven by shareholder interests in greater profitability and growth of the company (Herrera and de las Heras-Rosas). However, familial ties may also be a factor in the selection and appointment of individuals to leadership roles in a family-owned business. While on the one hand, this may result in younger members of the family being groomed to take the reins at some point in the future, it may also result in the appointment of individuals who may not be the best available candidates for leadership roles. (Fries et al.)

A growing body of research shows that having a diverse leadership team—in terms of gender, ethnicity, and socioeconomic background—may be beneficial to companies. Members of such a diverse leadership team can bring in alternative points of view, thus opening up new avenues for the business to grow, improve productivity, or build resilience against adversities. How family-owned businesses approach the question of diversity is worth analyzing.

This paper looks at existing research on leadership and succession in family-owned businesses, the advantages to companies of having women in leadership roles, and whether family-owned businesses are keeping up in terms of leadership diversity.

Leadership in Family-Owned Businesses

Leadership in a family-owned business is typically characterized by a strong sense of commitment and vision passed down through generations. Family members often occupy key leadership roles, fostering a unique leadership dynamic where personal relationships and business interests intersect (Fries et al.). With family members in leadership roles, family-owned businesses are more likely to prioritize the preservation of the business over immediate financial returns, considering the impact of their decisions on future generations.

However, family leadership can also pose challenges. One of the common issues is the potential for nepotism, where leadership positions are assigned based on family ties rather than merit. If family members who lack the necessary competencies are appointed to leadership roles, this can lead to ineffective decision-making and a lack of professional management skills(Jaskiewicz et al.). Furthermore, the emotional dynamics of family relationships can complicate business decisions, creating conflicts that might not arise in non-family businesses. Leadership in FOBs often requires balancing the interests of family members with the strategic needs of the business.

As a result of the somewhat more complex demands that leaders of FOBs need to meet, succession of leadership is a potentially fraught affair. Has the potential to sink not only the business itself but also strain familial ties. Unfortunately, many family-owned businesses struggle with formal succession planning, which can lead to uncertainty, conflicts, and even the demise of the business. Studies show that a significant number of family businesses fail to survive past the second or third generation, with succession issues being a primary cause(CCFB).

The challenge in succession planning lies in identifying and preparing the next leader. Family members may have varying degrees of interest or competence in taking over the business, making the decision-making process difficult. Additionally, there can be resistance to change, especially if the incumbent leader is reluctant to step down. To address these challenges, it is crucial for family businesses to establish clear criteria for leadership roles, ensuring that the chosen successor is capable and ready to take on the responsibilities of managing the business (Morris et al.).

While some FOBs choose to look outside the family for new leadership, many instead choose to groom a couple of younger members of the family to eventually take over the business. This takes several forms, such as getting them involved in the business early, or by enabling specific educational experiences that can be brought to the FOB when that family member is eventually inducted into the business. Any new perspectives that are learned outside the FOB could be useful in growing the business, once the younger member becomes a leader (Jaskiewicz et al.).

Creating diversity in leadership

The need for alternative perspectives is increasingly being recognized as a vital part of business leadership. A growing number of studies show that gender-diverse teams tend to make better decisions, as they draw on a wider range of perspectives and experiences. Women often approach problems and solutions from a different angle compared to their male counterparts, which can lead to more innovative and comprehensive decision-making. This diversity in leadership teams enhances the ability of businesses to navigate complex challenges and adapt to a rapidly changing marketplace (Martinez-Jimenez et al.).

Furthermore, women in leadership roles often bring strong interpersonal and emotional intelligence skills to the table. Studies suggest that women tend to be more empathetic, communicative, and collaborative in their leadership styles. These traits can foster a more inclusive and supportive work environment, which in turn can improve employee morale, satisfaction, and retention. When leaders demonstrate emotional intelligence, they build stronger relationships with their employees, creating a culture of trust and mutual respect. In businesses where collaboration and teamwork are key to success, women's leadership skills can significantly contribute to a more productive and harmonious workplace (Consten).

A related advantage is the positive influence women in leadership have on corporate culture. Women leaders are often more inclined to champion social issues such as sustainability, community development, and work-life balance. They may place greater emphasis on ethical business practices, workplace diversity, and supporting initiatives that benefit society. This can improve the company's reputation, attract customers who prioritize ethical values, and foster a strong sense of corporate purpose, which is especially important in today's socially conscious business environment (Packard).

However, despite the advantages that come with having greater gender diversity in business leadership teams, the percentage of women who serve in top executive positions is still quite low (Qian). This degree of underrepresentation of women is rooted in deep-seated gender biases and societal expectations. One significant disadvantage women face is the persistence of gender discrimination. Despite the growing number of women in leadership roles, many still face challenges such as being underestimated or overlooked for promotions. Research has indicated that women are often judged more harshly than men in similar positions (Frkal and Criscione-Naylor). Moreover, when women adopt assertive leadership styles they may be perceived as "too aggressive." This can create additional pressure and stress for women in leadership roles, as they are expected to meet higher, and sometimes contradictory, standards than their male counterparts.

An additional challenge that keeps women from rising to leadership roles is the difficulty in achieving a work-life balance. Women may face the dual expectations of excelling in both their professional roles and domestic responsibilities to a greater degree than men. These expectations may lead to feelings of burnout or guilt. As a result, many capable women may opt out of high-stress roles or be discouraged by the lack of support for balancing both career and family obligations, leaving fewer women in the running for leadership (Cho et al.).

Finally, the underrepresentation of women in top leadership positions can lead to a lack of mentorship and networking opportunities. Women in leadership roles may find it more challenging to access the same networks or mentorships that male leaders traditionally benefit from. This lack of support can hinder their professional growth, limit their opportunities for advancement, and contribute to a gender gap in the highest echelons of corporate leadership. Worse, this becomes a self-perpetuating cycle, as the lack of women in leadership roles means fewer women leaders are available to mentor younger women who aspire to become leaders themselves (Schipani and Dworkin).

Gender diversity in the family business

While FOBs are at an inherent disadvantage in finding leaders with diverse opinions, since it is almost certain that members of the family will have similar socioeconomic backgrounds, they do hold some key advantages over non-family firms in ensuring gender diversity.

The first aspect is the reduced prevalence of traditional gender biases within FOBs. Ingrained societal stereotypes such as the ones mentioned in the previous section create significant barriers for women in non-family businesses. Since many FOBs operate on a more personal level, women from the family may face fewer barriers than their counterparts in non-FOBs. Decisions regarding leadership succession may be influenced by demonstrated competence, and a commitment to the long-term vision of the business, rather than strictly following a corporate ladder that may be unforgiving to anybody with alternative opinions or styles of working (Jaskiewicz et al.). This emphasis on commitment and fit, often intertwined with family ties, can create opportunities for women who might otherwise face obstacles in more traditional corporate structures. In addition, these familial ties can foster trust and collaboration, creating a supportive environment for women to develop their leadership skills and assume greater responsibilities (Pyromalis et al.).

Secondly, the inherent focus on long-term goals within family businesses aligns well with the leadership styles often observed in women. While not universally applicable, studies suggest that women CEOs tend to prioritize long-term sustainability and stakeholder value over short-term profits. This aligns quite well with the ethos of many family businesses, which prioritize legacy, continuity, and the preservation of family values across generations. This shared focus on long-term vision creates a natural synergy between female leadership and the strategic direction of family-owned enterprises (Pyromalis et al.).

Conclusion

Effective leadership in FOBs requires a blend of strategic vision and emotional intelligence. Leaders must navigate family relationships while making decisions that foster growth and sustainability. Often, these leaders must also deal with the complexities of managing both family and non-family employees, ensuring that all stakeholders feel valued and motivated.

Studies indicate that women in leadership roles are likely to possess greater emotional intelligence and are more likely to bring these skills to bear in the workplace than their male counterparts. However, systemic barriers prevent more women from reaching leadership roles in many organizations.

However, it would appear that FOBs have a competitive advantage over other businesses because the barrier to entry for a woman from the family to enter a leadership role may be lower due to familial ties. As long as the business can ensure that family members are elevated through reciprocal nepotism and not entitlement nepotism, as described by Jaskiewicz et al., women from the family may be brought into leadership with less friction and also avoid the pitfalls that are traditionally associated with nepotistic succession.

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