

Gender Preferences in the CEO Successions of Family Firms: Family Characteristics and Human Capital of the Successor

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Female CEOs represent a minority in family business context (i.e., about 24% of family business according to the American Family Business Survey). This may happen as CEO succession contest in the family business context is influenced by incumbent leadership's gender preferences. Such preferences may lead to sub-optimal successor selection outcomes. Hence, this phenomenon requires deeper scholarly attention.

In this study, using the contest theory framework, the authors examine whether family business management's gender preferences affect CEO succession contests and outcomes in family firms. They examined 804 CEO successions that occurred between 2002 and 2008 in privately held German family firms. This summary presents the findings of the study and their implications for family businesses.

Gender Preferences and CEO Selection Contest in Family Business

Family business succession is an inter-generational transfer of leadership position that happens through a contest. The incumbent CEO, often the patriarch, is the contest owner. Citing findings in literature, the authors argue that males head most family firms. Further male leaders are known to have a strong preference for sons as their successors while women leaders a only a slight preference for daughters. Hence, they hypothesize that the CEO

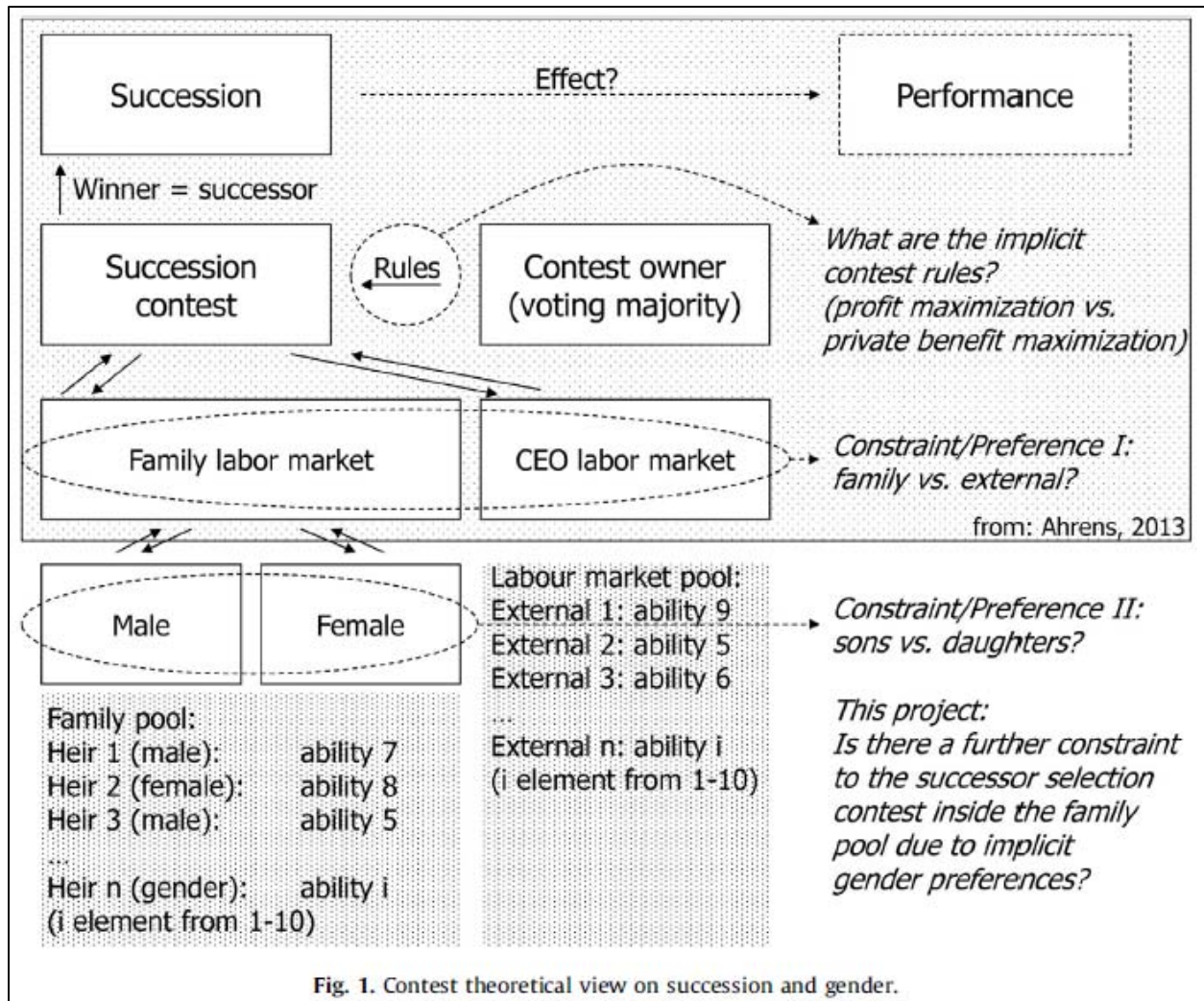
predecessors are likely to prefer male successors. This preference restricts the family labour pool for CEO selection. It may lead to inaccurate evaluation of contestant. The authors further posit that the predecessor is likely to introduce contest rules (constraints) to install his/ her favourite individual (often son). In addition, sons might be favoured despite having poor human capital and daughters with superior capabilities can be left out of the family labour pool due the predecessor's gender preference.

Key Findings

The key findings of the study supported the authors' hypotheses and were as following:

- The CEO successions studied were all found to be influenced by the predecessor CEO's gender preferences.
- Male heirs were favoured over females.
- Contest constraints adversely affected the selection process making it tougher for females to succeed.
- Male family successors with capabilities lower than those of female family successors were found to have been selected.

Figure 1 depicts how incumbent leader's gender preferences influence successor selection contest.



Practical Implications

The most significant implication of this study is that gender preferences of the incumbent leader have a decisive role in successor selection in family firms. The incumbent leader's preference for a male successor may not necessarily be a good choice as a more capable daughter may be overlooked. Appointment of a male successor with lower levels of human capital

also adversely affects the future performance of the firm. In such a scenario, the minority shareholders are forced to bear the cost of the incumbent leader's private benefit. Hence, family firm management needs to sensitize the incumbent leader of his/ her responsibility to select the most capable successor regardless of gender.

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