Why and how should SHE make her way into the family business boardroom?

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Abstract The most successful and longest-enduring family firms are progressively encouraging the active presence of women on their corporate boards. Why is the presence of women on boards so important for family firms? And how can policy makers and controlling owners encourage the active presence of women on family business corporate boards? By integrating the literature on women in governance and the goals of family businesses, we take a step toward increasing shareholder awareness of the economic and noneconomic benefits that women can bring to the family business boardroom. Using theory and empirical evidence, we show that the presence of women on corporate boards can be instrumental for the controlling owners of a family business to achieve prosperity and success, to preserve family cohesion, and to improve the reputation of the family and business simultaneously. Furthermore, we discuss the socioemotional and economic ramifications of excluding women from the family business board of directors. We conclude with four practical recommendations for encouraging the active presence of women on family business boards.

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“Having more women in positions of leadership is not merely a social matter . . . increasing their participation in the boardroom is not only the right thing to do, it is a smart thing to do.”

— Caroline Fattal, Board member, FAT-TAL GROUP

1. Women on family business boards: A smart thing to do

One of the most important institutions determining the success or failure in organizations is the board of directors. The board of directors sets the strategic direction of the firm and is responsible for maintaining its long-term performance (Judge & Talaulicar, 2017). Particularly in environments where family ownership is ubiquitous, the importance of the board of directors is exacerbated (Bammens,
Voordekers, & Van Gils, 2011; Samara & Berbegal-Mirabent, 2018; Samara, Jamali, Sierra, & Parada, 2018). If adequately structured, the board of directors can mitigate family-family and family-nonfamily conflicts of interests that typically constrain family business performance (Samara & Berbegal-Mirabent, 2018; Villalonga & Amit 2006).

In this regard, the relationship between the presence of women on the board of directors and family business performance has attracted increased attention in the last decade (Campopiano, De Massis, Rinaldi, & Sciascia, 2017), partly because women are expected to gradually become more involved in leadership positions in the near future (Ernst & Young, 2017). Yet, the relationship between the presence of women directors and family businesses’ economic performance remains inconclusive with empirical results reporting both negative (Amran, 2011; Minguez-Vera & Martin, 2011) and positive effects (Cruz, Justo, & De Castro, 2012). The lack of consensus from empirical studies challenges the legitimacy of appointing women to family business boards, as it is not yet clear how gender diversity can add value in the boardroom (Fitzsimmons, 2012; Singh, Point, Moulin, & Davila, 2015). Moreover, except for some European countries that issued a gender quota for listed firms, a legislation that mandates family firms include women on their corporate boards is still absent. Given that there is no legal obligation for family firms to appoint women on boards and that the effect of their presence in relation to economic performance remains ambiguous, why should family businesses encourage the active involvement of women on their boards?

When debating the rationale for women’s active involvement on the family business board—in addition to normative ethical considerations and economic arguments—the noneconomic strategic goals of family controlling owners need also to be carefully considered (Chrisman, Sharma, Steier, & Chua, 2013). Goals in family firms are complex and diverse and a mere focus on economic goals paints an incomplete picture of family business performance (Samara, 2017; Williams, Pieper, Kellermanns, & Astrachan, 2018). In addition to the potential economic advantages that their presence brings (Amore, Garofalo, & Minichilli, 2014; Cruz et al., 2012), women can contribute to reducing conflict and increasing shared meaning, collaboration, and integration among family members involved in the business (Haberman & Danes, 2007). In addition, women’s presence can increase family businesses’ socially responsible activities (Peake, Cooper, Fitzgerald, & Muske, 2017; Sundarasen, Je-Yen, & Rajangam, 2016). At the same time, the absence of women can threaten or undermine the reputation of the family firm by making it appear to be discriminating against women, non-meritocratic, and consequently, socially irresponsible (Samara & Arenas, 2017). Hence, notwithstanding normative ethical considerations, the presence of women on family business boards can be instrumental to achieve family businesses’ economic and noneconomic goals. This raises an important question: How can family business controlling owners and policy makers encourage the active presence of women on family business corporate boards?

To answer the above-stated questions, we structure our manuscript as follows. First, we highlight the distinctive features that define family firms through a careful consideration of their economic and noneconomic goals. Second, based on theory and research evidence, we highlight the economic and noneconomic benefits women can bring when they are actively serving on boards and how noneconomic advantages women bring can perfectly fit with the family business economic goals. Third, we discuss the threats created by the absence of women on boards. Fourth, we outline the perceived disadvantages of women’s presence on boards and provide counterarguments to the perceived performance disadvantages associated with their presence. We conclude with four practical recommendations for policy makers and family business controlling owners pertaining to how to encourage the active participation of women on family business boards.

2. Family business goals: Beyond economic performance

Chua, Chrisman, and Sharma (1999, p. 25) contributed the most comprehensive and widely accepted definition of a family firm:

“A business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.”

Recent advances in the family business literature indicate that what differentiates family firms from other forms of enterprises is their desire to preserve and increase their socioemotional wealth (Berrone, Cruz, & Gomez-Mejia, 2012; Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010; Gomez-Mejia, Cruz, Berrone, & De Castro, 2011; Gomez-Mejia, Haynes, Nuñez-Nickel, Jacobson, &
Moyano-Fuentes, 2007; Samara et al., 2018). Socioemotional wealth (SEW) is defined as the affective endowments that the family gains from its involvement in the business (Gomez-Mejia et al., 2007). Labeled as family firm noneconomic goals, affective endowments include family businesses’ desires for intergenerational succession, for preserving family harmony and unity, and for portraying a good family image and reputation (Berrone et al., 2012; Samara & Arenas, 2017). Indeed, the blurred lines between family and business may result in the owning family’s desire to carry on family centered goals (Chrisman et al., 2013) that can sometimes, but not always, contribute to economic performance (Gomez-Mejia et al., 2007; Kellermanns, Eddleston, & Zellweger, 2012; Samara & Arenas, 2017; Samara et al., 2018).

While some family centered goals may entail a trade-off with economic performance (Chua, Chrisman, & Bergiel, 2009; Gomez-Mejia et al., 2007), others may not (Samara et al., 2018). Due to their desire to provide secured employment for their offspring (Chua et al., 2009; Verbeke & Kano, 2012), controlling owners may employ and reward unqualified family members in the business, outlining a potential dark side of SEW that can threaten overall firm performance (Kellermanns et al., 2012; Samara & Arenas, 2017). At the same time, the desire of controlling owners for intergenerational succession and for preserving family unity and harmony may increase cohesiveness and knowledge sharing in the top management team. In this case, noneconomic goals do not come into conflict with business performance and may even catalyze family business performance, outlining a potential bright side of SEW (Berrone et al., 2010; Samara & Berbegal-Mirabent, 2018; Samara et al., 2018).

Since performance should be measured in light of a firm’s goals, a mere focus on economic goals paints an incomplete picture of family business performance. Furthermore, it is essential to mitigate the risk of collision between economic and noneconomic goals in family firms (Williams et al., 2018). In this regard, the presence of women on corporate boards can help family businesses simultaneously meet their economic and noneconomic goals and enhance overall performance.

3. Economic benefits of women in the family business boardroom

While some of the economic advantages that women bring to the family business board apply to all businesses, others are directly related to the family nature of the business. Important examples of economic advantages that women can bring to all businesses, regardless of whether they are family owned, are summarized below:

- Increased gender diversity in the boardroom leads to a better understanding of stakeholder needs (mainly customers and employees), enabling firms to enter new markets, to serve diverse customer segments, and to increase employee satisfaction at work (Campbell & Minguez-Vera, 2008; Robinson & Dechant, 1997).

- The presence of women on boards can catalyze creativity and innovation in the boardroom as these characteristics vary with respect to demographic characteristics such as gender (Robinson & Dechant, 1997).

- Considering women to be appointed on boards increases the pool of talent from which directors are selected (Campbell & Minguez-Vera, 2008), which can catalyze the board’s monitoring ability (Carter, Simkins, & Simpson, 2003; Pucheta-Martinez, Bel-Oms, & Olcina-Sempere, 2016).

- Having women in the boardroom improves the company’s image, which in turn generates favorable consumer attitudes toward the firm (Smith, Smith, & Verner, 2006).

Women can also bring distinctive economic benefits that are specifically beneficial to family businesses. As outlined above, the desire of family controlling owners to pursue socioemotional (i.e., family centered) goals is considered as a double-edged sword that can have a potential dark side (Cruz, Larraza-Kintana, Garces-Galdeano, & Berrone, 2014; Kellermanns et al., 2012; Samara et al., 2018). More often than not, socioemotional and economic goals collide in family firms. For example, the desire of controlling owners to preserve family influence and control may lead to agency-related problems such as entrenchment and asymmetric altruism among family employees (Chua et al., 2009; Kellermanns et al., 2012), which translate into having unqualified family members assuming leadership positions and using company resources for private benefits (Carney, 2005). In this regard, theoretical and empirical evidence suggests that having women on family business boards can mitigate this dark side of SEW and can allay tensions between socioemotional and economic goals. Some benefits include:

- The presence of women on the family business board is positively linked to the diffusion of
formal strategic planning and managerial control systems, leading to the professionalization of the family firm (Songini & Gnan, 2009). More professionalism can reduce the threats of entrenchment and asymmetric family altruism via setting up managerial control systems that can prevent unqualified family employees from receiving unmerited privileged treatment or from using company resources for private benefits (Samara & Arenas, 2017).

• Because their lives tend to be organized around their families’ needs, women can instill a sense of identification between family employees and the firm (Cruz et al., 2012; Salganicoff, 1990). This can stimulate stewardship attitudes among family employees (Charbel, Elie, & Georges, 2013), which reduce entrenchment and asymmetric altruism problems that typically constrain family business performance (Cruz et al., 2012).

• Through their traditional roles as caretakers of family concerns and a natural tendency to integrate multiple roles (Cruz et al., 2012; Hollander & Bukowitz, 1990), women are better suited than men to help family firms simultaneously meet business and family goals (Cruz et al., 2012).

As previously suggested, when discussing family business performance, achieving family centered noneconomic goals is at least equally important as achieving economic goals. Theoretical analysis and empirical evidence strongly suggest that women can highly contribute to achieving noneconomic family centered goals.

4. Women directors and family businesses’ noneconomic goals

A main noneconomic goal that controlling owners pursue is maintaining family harmony and avoiding family conflicts, especially when later generations assume ownership and control of the business. When more generations become involved in the business, struggles over influence and control can create clashes between family members who have equal power to pursue their nuclear-family centered goals (Chirico & Bau, 2014; Samara et al., 2018). These conflicts can restrict the board’s ability to make fast and effective decisions (Le Breton-Miller & Miller, 2016; Samara et al., 2018). As a consequence, family clashes will not only harm firm performance but will also lead to dysfunctional family relationships (Le Breton-Miller & Miller, 2016). In this regard, empirical evidence suggests that the presence of women on boards can be essential for maintaining harmonious relationships between multiple family members involved in the family business:

• Through their traditional role as family caretakers, women family members are an important source of cohesion in family firms. Women have the potential to increase shared meaning, collaboration, and integration among different family generations involved in the business (Campopiano et al., 2017; Haberman & Danes, 2007).

Furthermore, an essential noneconomic goal in family firms is the desire of controlling owners to preserve and improve the family business reputation, which often carries the family’s name (Berrone et al., 2012; Deephouse & Jaskiewicz, 2013). It is not uncommon for the family to have their identity intertwined with that of the business (Berrone et al., 2010, 2012; Deephouse & Jaskiewicz, 2013). Consequently, controlling owners become more sensitive about the external business image they project to firm stakeholders (Deephouse & Jaskiewicz, 2013; Samara & Arenas, 2017; Samara et al., 2018). In this regard, empirical results support the positive contributions of women on family business boards in the context of firm corporate social responsibility (CSR):

• Women are more likely to feel interconnected with their community (Cross & Madson, 1997) and desire to maintain a close relationship between the family firm and the environment in which it operates (Peake et al., 2017). When given decision-making power, women will pursue goals that increase the interconnectedness of the business with the community, translating into more investments in CSR (Peake et al., 2017; Sundarásen et al., 2016).

• The presence of women on boards increases CSR reporting on annual reports and corporate websites, therefore increasing the community awareness of the family firm’s CSR investments (Peake et al., 2017; Pucheta-Martinez et al., 2016), which simultaneously improves the reputation of the family and the firm (Deephouse & Jaskiewicz, 2013).

Beyond the socioemotional and economic opportunities that family businesses can lose by not including women on their boards, the absence of women can threaten the family business reputation by
making it appear socially irresponsible, even if it invests in CSR.

5. Why an absence of women on the board can harm the family firm

Social responsibility and social irresponsibility are conceptually different, and family firms can be socially responsible and socially irresponsible at the same time (Samara & Arenas, 2017; Strike, Gao, & Bansal, 2006). While social responsibility refers to the good that the company does for its internal (e.g., employees, customers) and external (e.g., community, environment) stakeholders, social irresponsibility reflects what a company should not do (Cruz et al., 2014; Samara & Arenas, 2017; Strike et al., 2006). At its extreme, social irresponsibility results in illegal or fraudulent behavior. Sexual harassment, for example, is considered as a socially irresponsible activity. Even though the absence of women on corporate boards does not break the law, especially in the absence of a gender quota for corporate boards in most countries, it can still be perceived as a socially irresponsible activity.

At the outset, the absence of women on corporate boards can signal that family business controlling owners are disregarding meritocratic considerations in their board appointment decisions (Samara & Arenas, 2017). In fact, the absence of women can signal that directors selected to serve on corporate boards come from a restricted pool of talent, which indicates that meritocratic considerations have been overshadowed by gender biases. Second, the absence of women on corporate boards can put the company on the public’s radar regarding potential discrimination against women. In an era of increased feminist movements prompting gender equity and equality (Koffman & Gill, 2013), the absence of women on corporate boards will not necessarily remain accepted or unnoticed. Accordingly, the absence of women on boards can threaten the positive possible spillovers of socially responsible investments as consumers begin to view them with skepticism and can eventually harm the reputation of the family and business.

Though many theoretical arguments and empirical results support the positive effects of women directors on family businesses’ economic and non-economic performance, other arguments have suggested the opposite effect; these have received equal empirical support. We outline these arguments and findings and show why most of them do not necessarily apply to the family business setting.

6. Performance disadvantages of women directors

Some theoretical and empirical research suggests that the presence of women on family business boards can lead to negative firm outcomes:

- More diversity in the boardroom of family businesses can bring more conflict between men and women who have diverse opinions on how to perform business operations. This creates a communication problem that otherwise would not exist in the case of a homogenous board of directors (Richard, Barnett, Dwyer, & Chadwick, 2004).
- Having gender quotas in family businesses can lead to the ceremonial appointment of women; unqualified women access board seats for legitimacy-building purposes (Adams & Ferreira, 2009) or for family based considerations (Salganicoff, 1990) rather than for merit and qualifications.
- Women are more risk-averse than men (Minguez-Vera & Martin, 2011; Smith et al., 2006), which obstructs investments in new projects and constrains the competitiveness of the family firm (Minguez-Vera & Martin, 2011).

The arguments made against the presence of women on family business boards tend to omit the family nature of the business from their discussion, which is essential in understanding how these forms of enterprises work. Next, we revisit these performance disadvantages through a more nuanced lens that accounts for the family nature of the business when discussing the effect of women directors on business performance.

7. Revisiting the research on performance disadvantages of women directors

Research suggests that family businesses are formed by two subsystems (i.e., family and business) and, if leveraged, their combination has the potential to yield a competitive advantage for the family organization (Habbershon, Williams, & MacMillan, 2003; Samara, 2017). Family members share common history, culture, values, and identities (Sundaramurthy & Kreiner, 2008). Family members know each other’s strengths and weaknesses and can have strong emotional bonds (Tagiuri & Davis, 1996). In fact, family members are argued
to be a highly homogenous in-group, regardless of gender considerations (Uhlner, Wright, & Huse, 2007). Research shows that the dominance of family members on the board creates more homogeneity, facilitates decision making, and increases the board’s monitoring ability—all things that catalyze family business performance (Samara & Berbegal-Mirabent, 2018). Hence, family ties between men and women in the boardroom can remedy the potential communication problems created by the inclusion of gender diversity, leaving the positive outcomes previously mentioned.

Second, the ceremonial appointment of women that can place the firm at risk of having unqualified women serving on the board is anchored in what the literature calls “women invisibility” (Campopiano et al., 2017, p. 204). In fact, whether a ceremonial appointment of women is made for legitimacy-based purposes or for family based considerations is an omitted variable from all studies investigating the effect of women directors on family business performance. To qualify as the smart thing to do—as Ms. Fattal mentioned in the quote at the outset of the article—the appointment of women on the board of directors must not be random and non-meritocratic. Rather, only qualified women should have the opportunity to serve on the family business board. A corollary of this is that, consistent with our previous argumentation, qualified women must actively, and not ceremonially, serve on the family business board. Studies reporting negative effects of women directors on boards should carefully consider whether their selection was based on meritocratic considerations or on other (e.g., family or legitimacy-seeking) reasons.

The previous two counterarguments are associated with the presence of women that have family ties but do not necessarily remedy the diversity problems when women with no-family ties are present on the board. In this regard, literature shows that other variables may affect the relationship between women directors and family business performance. The associated problems of gender diversity can be remedied by the adoption of good corporate governance principles such as having a board evaluation system. Having a formal board evaluation system has been linked to several positive outcomes such as enhanced leadership, role clarity, teamwork, communication, and faster decision making on boards (Kiel & Nicholson, 2005), eventually leading to overall performance advantages (Rasmussen, 2015). Vandebeek, Voordeckers, Lambrechts, and Huybrechts (2016) showed that the effect of gender diversity on the family business board turns from negative to positive when a formal board evaluation system is in place.

Based on the latter, by simply assuming that the presence of women brings performance disadvantages or, at best, has no effect on family firm performance, the family business can lose a key asset that can be a source of competitive advantage (Minichilli, Corbetta, & MacMillan, 2010). Our analysis strongly suggests that the active presence of qualified women on family business boards can be instrumental in achieving family business economic and noneconomic goals. Hence, how can policy makers and family business controlling owners encourage the active presence of women on family business corporate boards?

8. Measures to encourage the presence of women on family business boards

8.1. Policy makers

Fitzsimmons (2012) argued that, if promoting gender parity is the goal, eliminating gender quotas can actually help women on boards increase the perceived legitimacy of their election. Therefore, rather than simply legislating gender quotas, policy makers must look for alternative measures to prompt the active service of women on corporate boards (Fitzsimmons, 2012).

In the particular case of family businesses, we suggest that policy makers promote campaigns (e.g., educational programs in high schools and universities, advertisements in social media, television, and radio) that raise awareness about the economic and noneconomic benefits women can bring to the boardroom like we propose in this article. Figure 1, which can be used in these promoting campaigns and in education programs, shows that the advantages of having women on the family business board largely outweigh the disadvantages, many of which are already mitigated by the family nature of the business.

When shareholders increase their awareness about the importance of having women directors, gender equity is more likely to prevail on corporate boards and is more likely to lead to positive firm outcomes (Dobson, Hensley, & Rastad, 2017). Hence, we suggest that if gender quotas are to be legislated, they should be accompanied by investments in promotional campaigns and education policies that aim to raise awareness of the benefits that women can bring to the family business boardroom.

8.2. Family business controlling owners

Raising awareness about the importance of having women directors is a necessary, albeit insufficient,
step forward toward encouraging the active presence of women on family business corporate boards. Women are sometimes ceremonially appointed to corporate boards to meet gender quotas (Fitzsimmons, 2012) or for family based considerations (e.g., providing secured employment for children) rather than for their skills and qualifications (Campopiano et al., 2017; Salganicoff, 1990). This can result in unqualified women sitting in the boardroom, which in turn obstructs the ability of women to have an effective voice in the boardroom and challenges the legitimacy of their appointment.

In this regard, family business controlling owners need to have some level of self-control (Lubatkin, Ling, & Schulze, 2007) and instill a meritocratic culture inside the family business. Self-control refers to the ability of family business controlling owners to refrain from ceremonially appointing...
women on boards just to fulfill their desire to provide secured employment to their children (Kellermanns et al., 2012) or to simply meet gender quota requirements. Hence, a fair process should be adopted (Samara & Arenas, 2017) in selecting women to sit on family business boards. In this way, only qualified women—regardless of whether they have family ties or not—who have the necessary educational background and the relevant work experience will come to sit on corporate boards. In addition, promoting a meritocratic culture is usually paralleled with the adoption of good corporate governance principles (Samara & Arenas, 2017) such as a formal board evaluation system, which have been found to turn the effect of the presence of women in family firms from negative to positive (Vandebeek et al., 2016).

A meritocracy can indeed create an inclusive environment that provides opportunities for qualified women to actively serve on corporate boards and to increase the legitimacy of their appointment. However, women can still be at a disadvantage if they are not provided with equal opportunities to be involved early, either formally or informally, in the business. Research shows that when family members are involved in the business early (e.g., through summer jobs or by participating in dinner table business conversations; Samara & Arenas, 2017; Verbeke & Kano, 2012), they are able to acquire deep tacit firm knowledge that grooms them into later occupying leadership positions in the family business (Samara & Arenas, 2017). Hence, when women have equal opportunities as men to be involved in the business early, this will further increase their tacit knowledge about both business-related and family related peculiarities, which further enables them to bring the previously mentioned economic and noneconomic advantages to family businesses. Being involved in the business early can also increase the interest of women in pursuing business-related education as they can become more interested in growing their business-related knowledge and in evolving in the company ranks.

Another way controlling owners can encourage women to prepare themselves to be actively involved in corporate boards is to provide them with female role models. When women perceive that other females are assuming leadership positions in the family firm and can even access the CEO suite, this can signal to them that controlling owners do not necessarily rely on the old-fashioned rule of passing the business to the oldest son and do not only consider males for leadership positions in the family business. Moreover, these female role models can help groom, nurture, and mentor less senior women to have an influential voice and to be actively involved in corporate boards. Table 1 summarizes the suggestions for policy makers and family business controlling owners that can help women to increase their active participation in family business corporate boards.

9. Lessons learned

The Quandt family has been BMW’s largest shareholder group for a long time and the Lauder family still owns the largest stake in Estée Lauder. What is common to these two successful publically traded family firms is that at least 40% of the members of their boards are women. FATTAL GROUP, where Caroline Fattal serves as a board member, is one of the most successful companies in the Arab world.

Despite the many examples of successful and long-enduring family businesses that are progressively encouraging the active presence of women on their boards, corporate boards continue to be heavily dominated by men (Adams & Funk 2012; Azmat & Petrongolo 2014). The legitimacy of women appointed to corporate boards is often challenged by empirical results showing that their presence has no effect on firm performance and may even affect it in a negative way (Singh et al., 2015). In addition, legal quotas legislated by some European parliaments (e.g., France, Iceland, Norway, Spain) are not having the desired effect, as women directors are often perceived to be present on boards due to legal obligations rather than merit and qualifications, undermining their legitimacy and role (Dobson et al., 2017; Fitzsimmons, 2012).

So far, articles have been mainly descriptive of the evolution in the number of women present on corporate boards (Daily & Dalton, 2000) and have discussed structural measures that can increase their participation (Dalton & Dalton, 2010). Other studies have also addressed the obstacles women face with access to corporate boards and the challenges associated with their perceived utility (e.g., Fitzsimmons, 2012; Groysberg & Bell, 2013; Whilter & Henretta, 2018). While all these studies significantly enhanced our understanding of the situation, role, and obstacles that women encounter, scant attention has been given to family businesses which, depending on geographical location, can account up to 90% of all forms of enterprises (La Porta, Lopez-de-Silanes, & Shleifer, 1999). In this article, we integrate research on women on boards and family business goals to provide an integrative framework that discusses the benefits of having
women actively participating in the family business boardroom. We move beyond normative ethical considerations to discuss, from an instrumental perspective, the economic and noneconomic benefits of having women actively serving on family business boards. In addition, we suggest four effective ways that can foster the active involvement of women on family business boards. It is our hope that this article will provide a step toward increasing the active presence of qualified women in the most prevalent organization worldwide, the family business.

References


