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Better Let Your Brother Do It: Men Are Still Preferred in CEO Successions

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Many business owners do not like to think about succession – it means confronting their own mortality – but at some point, every family business must deal with succession planning (Ahrens, 2020). The stakes are high: Research has found that poorly-thought-out CEO succession decisions can hurt firm performance (Istipiler et al., 2023; Ahrens et al., 2019). Much attention has been focused on nepotism, which favors ill-prepared family heirs as leaders over more qualified outside candidates, devastatingly affecting firm performance (Bloom and Van Reenen, 2007).

Smart business leaders know the importance of putting the best people in charge (Istipliler et al., 2023a), and try to professionalize and avoid a nepotism bias. However, another equally important and damaging bias is less discussed: Family businesses still prefer male relatives when choosing a new generation of leadership.

We studied what many other researchers have found and did our own research, through telephone interviews focused on more than 800 successions at German family firms. Our research showed that either due to societal preferences or their own, these firms still had a blind spot in preferring men over women in succession decisions. When both sons and daughters were possible successors, they chose sons 81.2% of the time. We saw similar patterns for Korean and US-based family firms. Having first-born sons as likely successors also made family firms more likely to choose the successor from inside the family (Bennedsen et al. 2007).

Other researchers have supported these findings. They found that female successors still represent a minority (Catalyst 2019; Offermann 2020), and fathers still favor sons over daughters (Byrne et al., 2019). The daughters of family firm owners, on the other hand, are reportedly underutilized -- even though they are often referred to as “hidden assets” in family enterprises (Trevinyo-Rodríguez et al. 2022).

It can be devastating when family businesses choose poorly equipped male relatives over female family members with better leadership skills (Ahrens et al., 2015; Zenger et al. 2019). For one thing, it sends a glaring message that women are considered to be “less.” This not only triggers internal family conflicts but also subtly dissuades female members from engaging in the ownership and stewardship of the firm, relegating them to a marginalized faction within the family group. By narrowing the field of candidates, gender bias can also deprive the family business of a chief executive with better leadership experience, industry experience, and education.

And considering that family firms are the most frequent type of firm on the planet, it’s easy to see that millions of family firms could be putting a second-best leader at their helm, to their detriment.

We are hoping that these findings encourage more family business owners to avoid this mistake. Our research shows that equality is not charity, but it affects firm performance because better leaders can handle the family’s fortune and the interests of its stakeholders more effectively. Let’s take a closer look at why this preference for males persists, and its consequences.

Successions are Contests

Succession **can be understood as contests, (https://familybusiness.org/content/playing-the-succession-game-to-ensure-family-business-continuity)** where contestants are CEO candidates from family and from external labor market pools with different levels of CEO-related human capital. In family businesses, the predecessor who also often holds the most votes is usually the "contest ruler," who serves as the principal judge. Obviously, he or she can modify the contest to suit his or her preferences.

Given the special status of the "contest rulers," understanding their gender preferences is crucial. One finding is that male predecessors, many of which are older males, might believe that sons make better successors because they are more “similar” to them (Dumas, 1989).

Thus, we were not surprised to find that in the 800 family firms we interviewed about succession, former family firm CEOs preferred male family successors over female family successors. Interestingly, in unplanned successions due to death or illness, more females took over their firms because the predecessor’s preferences didn’t factor into the decision as heavily.

Furthermore, this socially nurtured preference for male successors leads to the fact that the presence of sons among predecessor's children increases the likelihood of rejecting external family succession solutions. Also, it encourages the family to downplay the outside contestants' labor market signals in favor of sons (Dumas, 1992).

Revisiting the idea of succession as a contest, we can see that overlooking potentially excellent external successors and stacking the deck to favor male family successors hurts the succession process and leads to a suboptimal contest outcome. An optimal “unconstrained contest” would lead to the survival of the fittest, the strongest leader, who will then deliver superior performance as a CEO. A constrained contest rarely delivers this.

"Contest constraints" may cause the second-best alternative candidate with lower labor market signals to chosen as the successor. One explanation for this outcome could be that when the pool of candidates shrinks, a strong contestant is less likely to be among the starting contestants. In this respect, “strong” means he or she possesses substantial CEO-relevant experiences. As our research paper points out, “excluding daughters from the contest could be expected to approximately halve the size of the pool of family contestants.” This eliminates half the talent in the family from being considered, along with shutting out qualified contenders from the outside.

Do Female Successors Have Lower Human Capital?

We found the opposite is true. From comparing female family successors who actually make it to the top to their male counterparts, we found that female family successors have a higher level of CEO-related human capital, as measured by leadership and industry experience, business education, age and the use of a business plan during succession.

On second glance, this result is not astonishing. Indeed, it’s a direct consequence of the preference for male successors. In fact, if males are preferred and if having sons causes the family to stack the deck in their favor – i.e., they are selected despite potential deficits -- then the selected male family successors’ human capital could be expected to be lower than female successors.’ Our more than 800 telephone interviews confirmed this. Additionally, sons may spend less time developing their CEO-related human capital early in their careers if they anticipate being chosen and granted preference despite their lower credentials – the “golden spoon effect.”

For this, the following interpretation seems plausible: Due to gender preferences, the selection criteria for male family members are less strict. As a result, when female family successors nevertheless are chosen, they

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have greater human capital than male family successors.

Our research rejects the idea that men are chosen as family successors because of their better qualifications. If anything, we found, "male family successors were chosen *despite* their weaker labor market signals."

This doesn't always mean these less-qualified successors are doomed to fail. Many improve their human capital skills after being in the top post for some time, but they may do some damage in the early stages while they're still learning. Our research concluded that "for the mid-run and post-succession period, allowances of lower levels of human capital and succession contest constraints are potentially detrimental to firm performance."

Conclusion

Our research confirms that in family firm CEO successions, gender biases benefit male family heirs. Male family successors are observed to have lower CEO-related human capital than female family successors. This is problematic, as having strong CEO-related human capital is an important driver of firm performance in the post-succession period (Ahrens et al., 2019; Istipliler et al., 2023b). Some takeaways for family firms:

- Realize that first-born sons may not automatically possess leadership characteristics, just because of their gender and birth order. Nor are men in general more qualified than women.
- Educate the current generation of leaders about potential bias, and sensitize them to also consider their daughters as successors – for the sake of the performance of the firm.
- When evaluating potential CEO successors, use objective criteria and consider **taking advice from neutral third parties (https://familybusiness.org/content/Family-business-succession-planning-10-golden-rules)** , such as a consultant specializing in family business succession.
- Adding daughters to the picture might make some firms realize that they might be the most capable successors from the current pool of available family successors. Predecessors should pay attention to their daughters' potential contribution to the firms' longevity and sustainability.
- Considering daughters as successors doubles the pool of potential family successors, clearly increasing the chances for a successful transition to the next generation.

Explore the Research

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