PRIVATE DIRECTORS ASSOCIATION
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PDA Newsletter January 2016

Why Do Family Businesses Outperform? It's the Women!

Upcoming Events

Independent Directors Facilitate Change

February 17, 2016

5:30 PM to 7:30 PM

Host: Arnstein & Lehr
Location: McAndrews, Held & Malloy, Ltd
500 W. Madison Street
34th Floor
Chicago, IL 60661

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***Cathy Carroll** is President of Legacy Onward*
Cathy@LegacyOnward.com

***Contributing Editor:** Cathy Carroll will be a Panelist at the Private Directors Association's March 16, 2016 event.*

Shout it loud! Studies show that family businesses outperform non-family businesses[1], and family businesses have a greater percentage of women in leadership positions than non-family businesses[2]. Therefore, female leaders make family-owned businesses outperform non-family businesses! Right? Well, as much as I'd like to conclude that "It's the women, stupid!" as a former actuary, I must recall that correlation does not imply causation. Well, rats. So I'm left with the voice of Jim Carrey's character in Dumb and Dumber in my head saying, "So, you're telling me there's a chance!"

In a 2014 study, Ernst &Young and Kennesaw State University surveyed[2] 525 of the largest and oldest family companies in the world, and they discovered some interesting gender statistics. Here are a few of the results:

Percentage of women on the:	Family Businesses	Overall Global Business[3]
Board of Directors	16%	12.7%
Top Management Team	22%	12.9%

Not only are women represented in the board room in family businesses at a rate that is 26% higher than overall global business, women are 70% more likely to be on the top management team in a family business. The study also revealed that 8% of family business boards are comprised of at least 50% women, 55% of family business boards have at least one woman, and 70% of family businesses are considering (30% strongly considering) a woman for the next CEO spot.

Sure, correlation doesn't imply causation, but it sure hunts. Unlike corporate leaders whose fiduciary duty is to maximize shareholder value, family business leaders balance the needs of the family along with the needs of the business, and to do that, they emphasize communication, cohesiveness, participation and well-being; all attributes stereotypically associated with women.

Numerous studies have shown that the very presence of women leaders results in better financial and all-around performance. One study shows that publicly listed companies with female board representation tend to outperform those without women in key performance metrics including share price, ROE, net income and price-to-book value.[4] Further, a gender-balanced board is associated with better corporate social performance in community, customers, environment and supply chain, which contributes to improved business outcomes in risk management, brand reputation, recruitment and retention.[5]

Not all women in leadership roles in family businesses are members of the family. It's not uncommon to find non-family women leaders in CFO, CMO and CHRO roles in family businesses. That said, research indicates that the more the family business values the preparation of the next generation of family members as future business leaders, the more interested female family members are in joining the business. When the future CEO may be a woman, the interest grows even higher.

The researchers also identified a positively reinforcing phenomenon resulting from having more women in leadership positions in a family business. A 2014 EY and KSU study shows how family cohesion leads to better family business performance, and better financial performance helps make a family business more cohesive[6]. This effect becomes more pronounced when family businesses put more emphasis on women in higher-level roles.

This research inspired me to analyze statistics about my own client base. About half of my clients are family businesses, and the other half are an equal mix of entrepreneurs and professional services. With my clients, female CEOs are 26% more likely to be found in a family business than in a non-family business. Similarly, I see more gender balance in the non-executive ranks as well. My Clients:

Percentage of women:	Family Businesses	Non-Family Business
CEO/Owner	29%	23%
Non-Executives	71%	83%

Although my data are not statically significant, they may be directionally correct. So what do we make of this? It's not yet clear and for each reader to decide. Hopefully someday, women will be just as welcome as men in all leadership domains.

As the study says, "The largest, longest-lasting family businesses in the world are moving women further and doing so faster than their non-family counterparts." If this phenomenon continues, perhaps the spread in performance of family businesses vs corporations will widen.

About the author:

***Cathy Carroll** is the founder of Legacy Onward, which provides leadership and executive coaching for family businesses. She is the grandchild and child of two successful entrepreneurs, and after a 20-year corporate career, she led a turn-around of an underperforming company in her family's business before founding her own firm. Cathy can be reached at Cathy@LegacyOnward.com*

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1. Founding-Family Ownership and Firm Performance: Evidence from the S&P 500 by Ronald C. Anderson and David M. Reeb; Published June 2003 in the Journal of Finance
2. Link to Article
3. The overall global business statistics about women include family businesses, so it's reasonable to conclude that the difference would be more dramatic if the family business results were removed from the overall total.
4. Gender Diversity and Corporate Performance, Credit Suisse Research Institute, August 2012; Kellie A. McElhaney and Sanaz Mobasseri, "Women Create a Sustainable Future," UC Berkeley Haas School of Business, October 2012; Corporate Leadership Council, Driving Performance and Retention Through Employee Engagement (Corporate Executive Board, 2004
5. Rachel Soares, Heather Foust-Cummings, Claude Francoeur and Réal Labelle, Companies Behaving Responsibly: Gender Diversity on Boards, Catalyst, 2015.
6. Link to Article