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Should I always follow my leader?



In the business world, questioning a leadership approach that goes against social expectations is complicated due to the existing hierarchical structure. A study involving the UAB Department of Business analyzes how the tendency to follow a parent company's guidelines often prevents subsidiaries from taking actions to reduce gender inequalities in leadership positions. Even so, this one-way process can turn into a positive development if the parent company is committed to promoting equality on corporate boards.

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Would you follow your leader's behavior even if it contradicted commonly accepted moral and ethical standards? Many affiliated firms within business groups face this dilemma concerning the corporate governance practice of women's representation on their boards of directors. In situations where their headquarters' ethical values are misaligned with the broader societal expectations to provide equal opportunity between women and men in the boardroom, affiliated firms must make a strategic choice to mirror their headquarters' governance practices or submit to the institutional pressure of increasing women's participation in top corporate leadership roles.

Despite the efforts to increase women's board representation by implementing gender quotas that mandate a minimum number of women directors, the current corporate landscape remains far from encouraging. Many firms continue to fail in appointing more women directors and, in the worst-case scenario, even reducing the number of women on

boards.

In business groups, the gender imbalance in their affiliated firms' boards can still be observed. Especially in business groups with a unique hierarchical structure in which the headquarters have strong control over the groups' decision-making, the affiliated firms are expected to align their board gender diversity practices with those of their headquarters to ensure consistency of governance practices across the group. Thus, the diffusion of board gender diversity in hierarchical business groups tends to flow unidirectionally, cascading down from the headquarters to the bottom of the hierarchy.

We analyzed a sample of hierarchical business groups from 18 European OECD countries and found that the affiliated firms' board gender practices mirror those of their headquarters, even if the headquarters have a lower women board representation. In other words, affiliated firms seem to follow their headquarters even if that submission goes against the societal expectations to enhance the balance between women and men in the boardroom, thus raising an ethical dilemma about whether affiliates should always follow their headquarters. The tendency to follow is even greater when affiliates feel more pressure from the headquarters' greater capacity to control and attention over them.

Ultimately, our findings remind us that the push for gender diversity in corporate leadership is not just a matter of policy, but it is also a matter of imbalanced power and (lack of) choice faced by firms. Business group affiliates often find themselves torn between adhering to societal expectations or following the actions of their headquarters. Surprisingly, the headquarters' influence can be strong enough to override broader ethical norms. Of course, meaningful change is possible by leveraging the power dynamics in hierarchical business groups. If powerful headquarters would embrace gender diversity in leadership positions, it could be an effective means of helping promote equal board representation between women and men, as it is likely to cascade throughout the group.

Paula M. Infantes

Department of Innovation Management and Strategy
University of Groningen

Ryan Federo

Department of Business
Universitat Autònoma de Barcelona
ryan.federo@uab.cat

References

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