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Founder-CEO status and firm performance: an exploratory study of alternative perspectives

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Abstract

Purpose – The purpose of this paper is to empirically examine the relationship between founder-chief executive officers (CEOs) and firm performance. Specifically, the paper explores two opposing arguments on the performance implications of founder-CEO leadership. The first theoretical perspective argues that founder-CEOs positively contribute to firm performance since they bring passion, vision, and external legitimacy to the organization. The contrary resource-based perspective, argues that while founder-CEOs help in the early years of the firm, they become less effective as the firm evolves into a complex bureaucracy since they lack the necessary managerial skills.

Design/methodology/approach – In order to test these perspectives, the paper develops a matched sample of 82 US manufacturing firms and compared their performance using both accounting and market-based measures. Independent sample *t*-tests and analysis of variance were used to empirically test the opposing predictions. Data were obtained from the Mergent Online database as well as official proxy filings of sample firms.

Findings – The results of the data analysis indicate that there is a statistically significant performance difference between founder-led and non-founder led firms. Such performance difference is especially evident when the paper focusses on accounting-based firm performance measures such as return on assets and return on investment. Surprisingly, founder-led firms performed worse than those led by non-founder CEOs. The follow-up analysis indicates a significant difference in age and size among sample firms led by founders and non-founders such that founder-led firms tend to be younger and smaller in size.

Research limitations/implications – Unlike other studies in the literature that found a strong positive impact of founder-CEOs, the findings of the study provided empirical support for the resource-based explanation of founder-CEO impact on firm performance. Specifically, the findings reported here contribute to understanding the role of founder-CEOs in the context of executive succession, strategy selection as well as organizational evolution.

Originality/value – This study makes original contribution to the on-going research on strategic leadership by exploring the performance effect of founder-CEOs and the corresponding alternative theoretical explanations. In addition, the inclusion of both accounting and market-based (Tobin's *Q*) dependent variables provide a broader measure of firm financial performance.

Keywords CEO tenure, Firm performance, Founder-CEOs, Stewardship theory, Strategic leadership

Paper type Research paper

Introduction

The role top executives play in influencing organizational outcomes has been the topic of extensive scholarly research and conversation in strategic management. Both the strategic choice (Child, 1972; Miles and Snow, 1978; Hrebiniak and Joyce, 1985) and upper echelon (Hambrick and Mason, 1984; Finkelstein and Hambrick, 1996) perspectives suggest that top executives continually monitor important changes in the business environment, formulate and execute strategies that effectively align the organization with its external environment and lead to superior performance (Daft and Weick, 1984; Rajagopalan and Spreitzer, 1997; Garg *et al.*, 2003).

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The chief executive officer (CEO) is considered as the most important executive in modern business organizations and is responsible for articulating the vision and future direction of the firm as well as serving as the symbolic figurehead of the organization (Mintzberg, 1973; Bigley and Wiersema, 2002). While an extensive line of empirical research has been conducted on the role of CEOs in general, surprisingly relatively little is known about the role founder-CEOs play in influencing organizational outcomes. Although the academic literature on founder-CEOs is relatively under-developed, the popular business press often highlights the impressive triumphs and failures of prominent founder-CEOs such as Steve Jobs (Apple Inc), Howard Schultz (Starbucks), Michael Dell (Dell Inc), Frederick Smith (FedEx), and Jeffrey Bezos (Amazon.com) (Birger, 2006; George, 2008). For instance, Jon Birger of *Fortune* magazine, focussing on the 26 Fortune 500 companies that are led by founder-CEOs, wrote that founder-CEO led corporations had a strong cumulative financial performance. More specifically, he observed that "[...] the stocks of these 26 companies [...] returned an average of 18.5 percent annually from year-end 1995 through 2005, which is seven percentage points better than the Fortune 500's average return over the same period."

This study proposes two alternative theoretical explanations of the effect of founder-CEOs on the performance of relatively large, established firms (firms not in their initial growth stage). The first theoretical explanation can be referred to as "entrepreneurial based." Here, the argument is that founder-CEOs are an asset to the organization since they have been with the firm from its inception and bring a significant level of passion, and vision, as well as a strong sense of future direction. The second theoretical explanation can be referred to as "resource based" and argues that founder-CEOs could actually become a "liability" especially as the firm evolves into a complex and diversified bureaucracy since they do not have the managerial skill set required to manage in such business contexts.

Accordingly, we seek to answer two major research questions in this study. First, is there a significant performance difference between firms led by founder-CEOs and non-founder CEOs? And second, we also ask, do founder-CEO led firms perform better than non-founder led counterparts? In doing so, we empirically test the two alternative theoretical explanations of founder-CEO performance effects. We also contribute to the literature by discussing why and how founder-CEOs could influence firm decision making and performance. In the following sections, we first discuss the "entrepreneurial" explanation of founder-CEO effects followed by the "resource-based" explanations. We then present the result of our empirical study of 82 US manufacturing firms. Finally, we discuss other possible theoretical lenses that might explain the differential performance impact of founder-CEOs. We also discuss implications for future research on founder-CEOs focussing on strategic decision making and outcomes as well as related corporate governance issues.

Theory and hypothesis development

Entrepreneurial-based explanation of founder-CEO effects

The entrepreneurial-based explanation generally suggests a positive and significant influence of founder-CEOs on firm performance. There are at least three major reasons cited for such a positive relationship. First, founder-CEOs, because of their involvement from the firm's inception, bring a high level of personal attachment and long-term commitment to the firm's leadership. They tend to own a considerable amount of equity of the firm. Founder-CEOs are deeply involved in setting the initial organizational architecture of the firm including structure, culture and strategy (Baron *et al.*, 1999;

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Nelson, 2003). Nelson (2003, p. 710) refereed to this as "founder imprinting." Often, founder-CEOs demonstrate deep passion, articulated vision, and personal commitment to the firm (Wasserman, 2003; He, 2008). He (2008) argued that founder-CEOs positively impact firm performance. Specifically, she contended that founder-CEOs are more likely to identify themselves with the firm. Because of that, they are more committed and motivated to perform their best and are less opportunistic. In addition, because of their intrinsic motivation, it is less costly to compensate founder-CEOs. Using a sample of 1,455 newly IPO firms, she found empirical support for her hypotheses that founder-CEO led firms perform better and that founder-CEOs had lower incentive and total compensation costs than professional (non-founder) CEOs.

Second, founder-CEOs are more likely to possess a substantial amount of technical and market expertise as well as a deep understanding of the industry within which the firm operates (Jayaraman *et al.*, 2000; Jain and Tabak, 2008; Fahlenbrach, 2009). Using a sample of 361 US large and publicly traded firms, Fahlenbrach (2009) found a positive relationship between founder-CEOs and firm valuation as well as stock market returns. He specifically argued that founder-CEOs tend to have more organizational specific knowledge, higher equity stake, higher intrinsic motivation, and less agency costs than their non-founder counterparts. Moreover, he found that founder-CEOs spent more on R&D and had high capital expenditure but emphasized a more focussed diversification. Adams *et al.* (2009) found a significant positive impact of founder-CEOs on firm performance using a sample of 321 Fortune 500 firms during the period of 1992-1999. Third, founder-CEOs often have institutional legitimacy, extensive social capital and also serve as a symbolic leader to the external environment (Bamford *et al.*, 2006). Bamford *et al.* (2006), for instance, observed a negative impact of founder-CEOs exit on new venture performance. They contended that founder-CEOs bring to the firm critical social capital such as trust and shared values that allow firms to build relationships, cooperate and collaborate.

Such external legitimacy could help the firm since it could potentially bring valuable resources in addition to conferring market confidence on the firm's leadership capability (Nelson, 2003; Fischer and Pollock, 2004). For instance, in their study of 218 US IPOs that took place in 1992, Fischer and Pollock (2004) found that firms that were led by founder-CEOs at the time of the IPO offering had lower likelihood of failure, especially when these founder-CEOs have higher equity ownership. In addition to the reputational and institutional influence founder-CEOs have, some studies have also suggested that founder-CEOs often have more equity ownership in the firm, which results in more influence over the key strategic decisions of the firm (Jayaraman *et al.*, 2000; Nelson, 2003; Fahlenbrach, 2009).

Overall, the above theoretical explanations collectively suggest a significant, positive impact of founder-CEOs on firm performance. Hence, we hypothesize that:

H1. Firm performance of founder led and non-founder led firms is significantly different.

H2. There is a positive relationship between founder-CEOs and firm performance such that founder-led firms perform better than non-founder (professional) led firms.

Resource-based explanation of founder-CEO effects

The resource-based explanation of founder-CEOs suggests a significant negative relationship between founder-CEOs and firm performance. In other words, according to

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this particular explanation, firms that are led by founder-CEOs have lower performance than those led by non-founder (professional) CEOs. As the name suggests, this view rests on the premise that larger and more complex corporations require a specific type of managerial skill set that may not be readily available among founder-CEOs. Accordingly, this view emphasizes the evolutionary nature of managerial competence in a firm's life cycle and argues that a founder-CEO's entrepreneurial, hands-on style of management is not suitable to large, established firms (Willard *et al.*, 1992; Wasserman, 2012). For instance, Wasserman (2012) specifically discussed such mismatch in managerial skill in his intensive study of high-tech start-up firms. According to his research findings, most founder-CEOs bring high technical and scientific expertise, which benefits the firm in its early years in developing the core product and original business model. However, as the firm grows larger and more complex, founder-CEOs often struggle because their original strengths and skill sets are no longer relevant to the growing challenges such as product development and successive fund-raising. As Wasserman (2012, p. 305) put it: "Few founders who were adept at the early technical challenges are equally-or even sufficiently-adept at these very different challenges. Managing a technical team is quite different from managing multiple functions that must interact and with most of which the CEO has little direct experience." Along with the managerial competence mismatch that can be created in founder-CEO led firms (Daily and Dalton, 1992), some scholars also point out the tendency of founder-CEOs to be complacent, myopic, or even narcissistic (e.g. Mintzberg and Quinn, 1991; Ranft and O'Neill, 2001). As Ranft and O'Neill (2001, p. 128) put it, founders "[…] value the organization as an extension of their own identities, and will maintain the organization to fit their sense of personal identity beyond the point that others might define as reasonable. The maintenance of the organization in a founder's personally preferred state is a direct illustration of hubris and narcissist behavior." Consequently, this view proposes a negative relationship between founder-CEOs and firm performance.

There have been a number of empirical studies that support this argument in the literature (Daily and Dalton, 1992; Willard *et al.*, 1992). Using a sample of 155 fastest growing public firms, Willard *et al.* (1992) argued that founder-CEOs did not have the ability to deal with the complexity of growing firms. They also observed that founder-CEOs sometimes did not know when they had to yield to professional managers. Similarly, Daily and Dalton (1992) contended that founder-CEOs do not have the managerial capacity to effectively perform in large, established firms. They hypothesized that founder-CEO led growing firms would experience performance decline and tested their hypothesis using a sample of 186 US small firms. They believed that founder-CEOs impact would be higher in small firms, because such firms are less complex and have more simplified decision-making approaches. Similarly, Jayaraman *et al.* (2000) also proposed that founder-CEOs might not be able to deal with the increasing administrative complexity of established, bureaucratic firms. Using a sample of 94 firms, they found that the impact of founder-CEOs on firm performance is stronger in younger and smaller firms.

Additional explanations on founder-CEO diminished effectiveness among established firms emphasize the level of commitment to status quo and conservative decision-making approach. Founder-CEOs, due to their intense psychological commitment to the firm, are more likely to pursue decisions that are in line with their past decisions despite the fact that these decisions may not be effective or appropriate for the firm's changing business realities (Jayaraman *et al.*, 2000; Kroll *et al.*, 2007). Accordingly, founder-CEOs are often inclined to make conservative strategic decisions such as product market diversification (Souder *et al.*, 2012). Souder and colleagues, for

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instance, examined diversification patterns of 173 Cable Service operators in the USA to study if founder-CEO led firms significantly differ in their decision-making than non-founder (professional) CEOs. Their findings show that founder-led firms make less market expansion decisions over their mid and late stages of their tenure due to lack of access to administrative infrastructure and market complexity. In sum, the above discussions suggest that founder-CEO leadership adversely affect firm performance given the mismatch between their managerial skills and the skills required to successfully manage a large, complex business organization. Hence, we hypothesize that:

H3. There is a negative relationship between founder-CEOs and firm performance such that founder-led firms perform worse than non-founder (professional) led firms.

Methods

Sample and data sources

In order to test the above hypotheses, we used a matched-sample research design that is common in comparison studies (cf. D'Aveni and MacMillan, 1990; Hambrick and D'Aveni, 1992; Jayaraman *et al.*, 2000; He, 2008). In order to create a matched sample of firms, we focussed on US-based, publicly traded manufacturing firms as our study population. From this population, we identified 41 firms that are led by founder-CEOs first and then identified 41 similar firms that are led by non-founder CEOs. In order to identify a match, we followed two criteria. First, in order to be a match with a founder-led firm, a non-founder led firm should be in the same four-digit Standard Industrial Classification (SIC) code. We started with this criterion so that the matched firms operate in the same industry and hence face similar industry-specific opportunities and challenges. Second, we also considered firm size as measured by number of employees and annual sales to create matches between each founder and non-founder-led firm. The data sources for our sample were Mergent Online and Datastream, two well-known financial databases. Mergent Online is a financial database that includes multi-year information on both private and publicly traded corporations. This database provides in-depth data on sample firm's overview, financial statements, competitors as well as ownership structure. We specifically used the Mergent Online database to select publicly traded US-based firms that are led by founder-CEOs. Using the word "founder" as a specific keyword, we searched the database for firms that include this keyword in their executive biographical summary. In order to further validate that the sample firms are indeed led by founder-CEOs, we checked each firm's Proxy Statements (FORM DEF 14A) that are filed annually to the US Securities and Exchange Commission. Accordingly, our final sample includes 82 firms (41 founder-led and 41 non-founder led firms). As Table I shows, our sample represents diverse industries drawn from 21 different four-digit SIC codes in the manufacturing sector. As can be seen in Table I, specialty industrial machinery, surgical and medical equipments, and computer peripheral equipments represent the top three industries representing 20, 15, and 12 percent, respectively.

Measures

The comparison variable for this study is firm performance. Instead of using a single performance variable such as return on assets (ROA), we used multiple measures to more systematically and consistently capture the effect of founder-CEOs on firm performance (Venkatraman and Ramanujam, 1986; Morrow *et al.*, 2004). Specifically, we used both accounting and market-based measures of firm performance.

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To measure accounting-based performance, we used ROA and return on investment (ROI) of sample firms. For market-based performance, we used Tobin's *Q*. Tobin's *Q* reflects the market value of the firm as compared to its book value, and is often used by researchers to capture the market's evaluation of firm performance (Chung and Pruitt, 1994; Morrow *et al.*, 2004; Richard *et al.*, 2007). Consistent with previous studies (e.g. Chung and Pruitt, 1994; Morrow *et al.*, 2004), we operationalized Tobin's *Q* as the sum of market value of equity, book value of debt and deferred taxes divided by the book value of total assets minus intangible assets. Tobin's *Q* data was calculated using data obtained from Datastream financial database.

In order to collect the performance data for our sample firms, we followed a three-step process. First, we determined the length of tenure (i.e. how long did he/she occupy the position of a CEO in the firm) for each founder-CEO in the sample. Second, we collected performance data (i.e. ROA, ROI, and Tobin's *Q*) for a five-year period within the founder-CEOs tenure. We carefully chose this five-year time span in the middle of the founder-CEOs tenure so that the performance data would not be affected by executives' job learning curve (Henderson *et al.*, 2006). Third, we then used the same five-year period to collect data for all three performance measures for sample firms led by non-founder CEOs. This ensures that the performance comparison for the two firms is not affected by temporal elements associated with choosing different comparison time frames.

Results

The final sample for this study is comprised of 82 firms, of which 41 are led by founder-CEOs, and the other 41 are led by non-founder CEOs. In all, 46 firms (56.1 percent) in the sample have CEO duality (i.e. the CEO is also the chairperson of the board of directors). The average firm age for the sample is 30.95 (SD = 18.79). The mean number of employees for the sample is 1,816 (SD = 4,245). The average tenure for founder-CEOs is 17.95 years (SD = 9.97 years). Table II presents the breakdown of sample firms by founder status, duality, and turnaround outcome.

To test the study's three hypotheses, we used an independent sample *t*-test comparing the mean performance level between founder and non-founder led firms in the sample. The result of our analysis is presented in Table III.

The first hypothesis proposed that there is a significant performance difference between firms led by founder-CEOs and firms led by non-founder CEOs. As can be seen in Table II, the results of the independent sample *t*-test shows a statistically significant difference in firm performance. More specifically, the results show a significant performance difference between founder-led and non-founder led firms in

Table I. Distribution of sample firms across four-digit SIC codes

Four-digit SIC code	Description of industry	Number of sample firms	Percentage of total sample
3559	Special industrial machinery	16	19.51
3577	Computer peripheral equipment	10	12.19
3674	Semiconductors and other devices	6	7.31
3731	Ship and boat building	4	4.88
3841	Surgical and medical equipments	12	14.63
3845	Electromedical equipments	4	4.88
Others (combined)		30	36.59
	Total	82	100

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terms of their ROA and ROI ($t(1, 80) = 2.435$, $p < 0.05$ for ROA, and $t(1, 80) = 2.283$, $p < 0.05$ for ROI). However, we did not find a significant performance difference between founder-led and non-founder led firms in terms of their Tobin's Q, which is a measure of market-based firm performance. Accordingly, we found empirical support for *H1* for two of the three firm performance measures.

The second hypothesis proposed a positive relationship between founder-CEOs and firm performance such that founder-led firms perform better than non-founder led firms. As the results in Table III indicate, we did not find support for the second hypothesis. Specifically, Table III shows that the mean ROA for founder-led firms (0.675) was substantially lower than the mean ROA of non-founder led firms (9.652). Similarly, the mean ROI for founder-led firms was considerably lower (−3.843) than the mean ROI of non-founder led firms (9.646). Finally, the third hypothesis proposed a negative relationship between founder-CEOs and firm performance such that founder-led firms perform worse than non-founder (professional) led firms. As the results in Table III indicate, founder-led firms perform significantly worse than non-founder led firms. Specifically, the mean performance difference in Table III was 5.98 and 13.49 for ROA and ROI, respectively. Accordingly, we found strong empirical support for the third hypothesis.

Discussion

This study focussed on investigating two major research questions. First, is there a significant performance difference between firms led by founder-CEOs and non-founder CEOs? And second, we also ask, do founder-CEO led firms perform better than their non-founder led counterparts? The results of our analysis clearly addressed both questions. First, the findings of our study indicate that there is indeed a statistically significant difference between founder-led and non-founder led firms. This performance

Table II. Distribution of sample firms by founder status and CEO duality[a]

	CEO duality	NO CEO duality	Total
Non-founder CEOs	17	24	41
Founder CEOs	29	12	41
Total	46 (56%)	36 (44%)	82

Notes: CEO duality, CEO also chairperson of board of directors. [a]Percentage of total sample size of 82 firms

Table III. Independent sample t-test for the mean performance differences between founder and non-founder-led firms

Performance measure	Mean (SD) Founder-led firms ($n = 41$)	Mean (SD) Non-founder led firms ($n = 41$)	t-test for equality of means t-value	df	Mean difference	SE of difference
ROA	0.6752 (14.615)	6.6521 (5.776)	2.435*	80	5.97685	2.45420
ROI	−3.8427 (35.231)	9.6461 (13.778)	2.283*	80	13.48879	5.90801
Tobin's Q	0.5564 (0.62396)	0.6361 (0.70887)	0.540	80	0.07964	0.14748

Notes: ROA, Return on Assets; ROI, Return on Investment. $n = 82$ firms. $*p < 0.05$

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difference is especially evident when one focusses on accounting-based measures such as ROA and ROI. Second, the findings of the study also indicate that, surprisingly, founder-led firms performed worse than those led by non-founder CEOs. Unlike other studies in the literature that found a strong positive impact of founder-CEOs (cf. He, 2008; Adams *et al.*, 2009; Fahlenbrach, 2009), the findings of our study provided empirical support for the resource-based explanation of founder-CEO impact on firm performance. Accordingly, our findings closely mirror the managerial skill mismatch argument proposed by some scholars in the literature (e.g. Willard *et al.*, 1992; Ranft and O'Neill, 2001; Wasserman, 2008).

This line of argument, of course, emphasizes the lack of fit between founder-CEO's managerial skill sets and those required in a growing and complex organization. As Wasserman (2008, p. 106) puts it, founder-CEOs initial "[…] success makes it harder for founders to realize that when they celebrate the shipping of the first products, they're marking the end of an era. At that point, leaders face a different set of business challenges. The founder has to build a company capable of marketing and selling large volumes of the product and of providing customers with after-sales service. The venture's finances become more complex, and the CEO needs to depend on finance executives and accountants. The organization has to become more structured, and the CEO has to create formal processes, develop specialized roles, and, yes, institute a managerial hierarchy. The dramatic broadening of the skills that the CEO needs at this stage stretches most founders' abilities beyond their limits."

Supplemental analysis

Given the statistically significant difference in firm performance between founder-led and non-founder led firms, we sought to examine two important variables, namely firm age and firm size that may help partially explain our empirical observations. Past studies have shown the important role of firm size and firm age in influencing founder-performance relationship (e.g. Jayaraman *et al.*, 2000; Ling *et al.*, 2007). Table IV presents the results of analysis of variance (ANOVA) of firm age and size by CEO founder status.

This study found significant differences between founder and non-founder led firm age: $F(1, 80) = 14.063$, $p < 0.001$ and size: $F(1, 80) = 9.40$, $p < 0.01$ in the sample used, such that founder-led firms were both younger and smaller than their non-founder matched counterparts. Yet, this is not to be unexpected, as by its nature, a non-founder led firm exists after a period of leadership by a founder, while obviously founder-led firms face no such definitional restriction. And, to match firms more precisely by firm age would capture a sample of founder-CEOs ever later in their tenure, at which

Table IV. Analysis of variance (ANOVA) of sample firms' age and size

	CEO founder status			
	Non-founder	Founder	df	*F*-value
Firm age	Mean = 38.17 SD = 22.34	Mean = 23.73 SD = 10.44	1, 80	14.063***
Firm size[a]	Mean = 6.59 SD = 1.64	Mean = 5.52 SD = 1.53	1, 80	9.40**

Notes: [a]Log-transformed number of employees. $^{**}p < 0.01$; $^{***}p < 0.001$

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point one would expect (based on resource-based literature) that negative effects due to founder-CEO strategic entrenchment would be exacerbated, creating an even larger performance gap in favor of non-founder CEOs, if the initial findings of this paper hold.

That said, the selection of the five-year period used in this paper's sample may already represent a period in which founder-CEOs have begin to see their value decline, even if the younger age and smaller firm size of such firms in the sample mitigates the impact to some extent; as previously mentioned, this was a motivating factor in the selection of that five-year period (Henderson *et al.*, 2006). As Hambrick and Fukutomi (1991) predict, task knowledge accumulation, task interest, and information diversity may decline over time, while founder-CEO power becomes ever-more entrenched. In their terms, the extent to which a CEO's paradigm (schema and repertoire) stagnates will increasingly limit the value of a CEO to the firm. The results of the sample used in this study would seem to support the manifestation of the dysfunctional phase predicted by Hambrick and Fukutomi (1991) as relatively normal.

Similarly, tenure may result in a mismatch between strategy and environment (Miller, 1991; Henderson *et al.*, 2006; Chen and Hambrick, 2012), and as founder-CEO tenure tends to be longer than non-founder CEOs, this too may be an explanation of some of the performance difference found in this paper. Hambrick *et al.* (1993) found that organizational and industry tenure were both factors associated with commitment to the status quo, and Souder *et al.* (2012) found that founders were less able to continue firm expansion mid-tenure. This effect of founders is so strong that it continues to constrain outsider CEOs even when founders vacate the CEO position but remain on the board of directors (Quigley and Hambrick, 2012).

Previous studies that use resource-based or agency-based arguments assume the direct impact of founder-CEOs on organizational outcomes. For example, previous studies have assumed the direct relationship of founder-CEOs' resource or social capital on firm performance. We believe that the impact of founder-CEOs' resources and social capital on firm performance are impacted by their centrality in the top management teams. According to Hambrick and Mason (1984), firm's strategic outcomes and performance are the reflections of their top management teams. More specifically, Kelly *et al.* (2000) discuss how founder centrality could impact goals, culture, strategic behavior, and performance of family-owned firms. They believe that the founder-CEO impacts will depend on the degree of the founder-CEO centrality in the firm top management teams. According to these authors, there are three dimensions of centrality: betweenness centrality, closeness centrality, and connectivity centrality. Betweenness centrality refers to the degree of importance of founder-CEO related to information flow among TMT members. High betweenness centrality suggests that most information from and to the TMT members is channeled through the founder. Closeness centrality refers to the founder's direct or indirect communication links with the TMT members. High closeness suggests the lack of direct communication among TMT members and thus none of the TMT members can exercise control over the TMT other than the founder (Kelly *et al.*, 2000). Connectivity centrality refers to the relationship between the founder and other well connected TMT members. High connectivity centrality suggests that the founder is well connected with other well-connected members of TMT.

Future research directions and limitations

Even though the extant founder-CEO research findings seem to suggest the positive impacts of founder-CEO on firm performance, future studies need to also examine the

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conditions under which founder-CEOs negatively impact organizational outcomes. One such condition is the nature of corporate governance practiced in founder-led organizations. Previous discussion suggests that founder-CEO centrality is a very important mechanism for founders to exercise their influence or even opportunistic behavior. Thus, corporate governance literature might suggest ways to enhance or mitigate these positive or negative impacts. Previous research shed light on the relationship between founder-CEOs and TMT size (Bamford *et al.*, 2006), and corporate governance of board of directors (Ranft and O'Neill, 2001). Bamford *et al.* (2006) found that TMT size reduces the strength of the negative relationship between founder-CEO exit and firm performance. Ranft and O'Neill (2001) empirically found some differences between the boards of directors of founder led and non-founder led firms. They found that founder-CEO led boards have the tendency toward CEO duality, have high ownership concentration of by TMT members including the CEO and have lower proportion of outside directors.

We believe future research needs to study the mechanisms through which the CEO influences firm performance. Previous research has suggested some mechanisms such as lower compensation of founder-CEOs (He, 2008), higher R&D spending, and more focussed acquisitions (Fahlenbrach, 2009). Some other possible mechanisms could also be founder-CEO identification, motivation, power, legitimacy, less investor pressure for short-term performance, social capital, and need for achievement. Similarly, future research needs to explore the mechanisms that facilitate the negative impact of founder-CEOs. For example, long tenured founder-CEOs might exhibit principal agency problems (Villalonga and Amit, 2006), outdated worldviews (Miller, 1991), complacency (Hambrick and Fukutomi, 1991), etc. Following the upper echelon perspective (Hambrick and Mason, 1984), we believe that future researchers need to examine the impact of top management team characteristics and founder-CEOs' performance.

Future research also needs to consider that abnormal founders may be instructive of other, underlying issues. In the introduction to this paper, we discussed the emphasis the business press places on prominent founder-CEOs. But, those CEOs have had very different experiences, and one has to wonder if their unique experiences have helped them overcome some of the problems typically associated with founders. Some CEO darlings of the press do appear to fit the typical founder mold. Frederick Smith of FedEx had extensive experience with military logistics during his time in the US Marine Corps, giving him a clear model that was directly applicable to a civilian air and ground freight service. Jeffrey Bezos of Amazon.com is also a successful continuing founder, who, like Smith, has largely been able to maintain his firm's original vision, although it is notable that both firms have successfully negotiated periods of technological change. Bezos, like Smith, also had significant professional experience prior to founding his firm, including a position as vice president at Bankers Trust, and experience at the computer-based investment firm D.E. Shaw & Company. Larry Page also never left the firm he founded, but took over as CEO after gaining experience watching Eric Schmidt, a professional outside manager, lead his firm for a decade. Howard Schultz of Starbucks had professional leadership experience prior to joining the other Starbucks founders, and had the experience of an eight-year hiatus before his recent, highly praised return. Early in the history of Apple, Steve Jobs was removed from the firm he helped create, and he subsequently managed NeXT and Pixar before returning to the firm. By the time he returned, he was returning to a firm whose approach he had come to reject, and he returned with added managerial

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experience. The initial steps he took to re-orient Apple were more indicative of the managerial style one might expect of non-founders than founder-CEOs: he reduced staff redundancies, simplified product offerings, and streamlined operations (through current CEO Tim Cook), specifically attacking supply chain and inventory problems.

The question is worth asking, then: when Steve Jobs returned to Apple Inc and Howard Schultz returned to Starbucks Inc, to what extent were they founder-CEOs, and to what extent they new, incoming CEOs with a more professional managerial orientation? Certainly each of them retained a strong commitment to the success of the firm, as a validation of themselves, but they clearly had no commitment to the firm's practices as they existed prior to their return. Most founders are not able to return to the firms they founded after leaving. But, do such exhibit markedly different characteristics from typical founders? Additionally, to what extent is the success of Larry Page, Jeffrey Bezos, and Howard Schultz attributable to their founder status, and to what extent is it attributable to the experiences that have instilled professional managerial traits in them as well? For some prominent, successful CEOs, such traits may be instilled by a hiatus, and others, it appears, may acquire them differently. Does this imply that founders can negotiate such that they retain the strengths of founders and non-founders, while detaching themselves of the weaknesses of both? If so, it appears that there may be multiple paths to that goal. The business press has provided a small number of examples, but broader research is needed to understand why some founders in some instances so dramatically outperform others.

Existing literature offers some guidance in this respect. Perhaps the extent to which founders exhibit passion, vision, and legitimacy does, in fact, improve firm outcomes, but it may be that with firm growth, the value of such characteristics diminishes relative to professional managerial skills (Souder *et al.*, 2012). In other words, CEO characteristics that are typically associated with founder and non-founder status may be important at different times, and those founders who are able to adapt to a more professional managerial style as their firms grow may not only be able to outperform founders who do not, they may also be able to outperform non-founders. Likewise, if a non-founder has a founder-like attachment to the firm (either through pre-existing vision alignment, admiration, or incentive packages focussing on the long term), such a non-founder might also outperform typical founders and non-founders. But, researchers should be open to the idea that a firm's life cycle (Hambrick and Fukutomi, 1991) may result in differing predictive outcomes for the relative performance of all of these types. Studying such differences and doing so at various stages of a firm's life cycle, as well as different stages of CEO (founder and non-founder) tenure, would illuminate the underlying issues that influence firm performance. Future studies need to also examine differences in founder strategic choice, including, for example, competence in selecting and implementing diversification initiatives (alliances, joint ventures, acquisitions, and mergers), as well as the precursors of such competencies. This type of work would add considerably to the work already done in this field, and might help resolve some of the conflicting results indicated by existing studies.

At the same time, exploring this line of research in light of possible moderating effects of broader economic conditions would seem to be of interest, especially in consideration of the differing skill sets required to navigate such conditions, and the extent to which such conditions might cause a greater need for the firm to diverge from its founder's initial vision. And, resources allowing, we would also hope to extend our work not only through the quantitative considerations discussed above, but also

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through a collaborative process that includes a discussion with practitioners, such that further development of this line of research reflects practical significance as much as theoretical significance.

Despite its contributions, this study is not without limitations. First, our sample selection criteria focussed on US-based firms, limiting the generalizability of the results. In addition, the sample criteria focussed exclusively on publicly traded firms. Second, the study's current research design does not allow for a process model that incorporates intermediate variables. More specifically, the study did not explore important managerial and organizational mediating variables. Variables such as organizational citizenship behavior, employee commitment and transformational leadership style can be explored as possible mediating variables. The inclusion of such mediating variables helps explain exactly how founder-CEOs influence firm performance. Finally, the study lacks qualitative longitudinal data that explain how founder-CEOs evolve in their decision-making and management styles over the firm's life cycle.

Conclusion

The purpose of this paper is to empirically explore the relationship between founder-CEO leadership and firm performance. Specifically, this paper investigates the two opposing explanations of founder-CEO leadership in large, established business organizations. The findings of our analysis of 41 matched pair (41 founder-led and 41 non-founder led) publicly traded US firms indicate a significant negative relationship between founder-CEO leadership and firm performance. We believe that the findings of this study have important managerial implications. First, the findings of the study provide empirical support for the importance of executive succession in rapidly growing business organizations. While founder leadership is crucial in establishing the identity and architecture of the emerging firm, it seems that their managerial skill set may not be compatible with the changing organizational and market complexity as the firm becomes larger and older. Hence, the findings suggest that thoughtful and well-orchestrated transition from founder to non-founder leadership may be critical to successfully manage the growing firm.

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