

# Role of the founder in succession and firm performance.



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## **The Role of the Founder in Succession and Firm Performance.**

The topic I have chosen for my individual report is the Role of the Founder in Succession and firm Performance. The founder has a massive role in both these areas. There is a large amount of management literature to support this. The role of the founder in a family business is extremely unique.

- Research Action Plan: I intend to research further into these topics. I may use 10 more academic sources for the final report. I intend on interviewing my father who is a first-generation founder of a family firm to supplement the points raised from the literature. If possible, I will try to interview another family firm founder.
- Progress report: The project is progressing well. I have found 10 strong academic journals that will form the basis for the final report. I intend on conducting the interview in two weeks' time. I will continue to research academic journals on the topics I have chosen.

### **LIT Review: The Role of the Founder in succession and firm performance in a family firm context.**

There is a wide body of family business literature dealing with the founder and his or her influence. A large proportion of the literature deals with the founder's role in succession. García-Álvarez, López-Sintas and Saldaña Gonzalvo (2002) study the socialisation process of successors in first to second generation businesses. They assert that founders commonly frequently try to shape future successors in their image, this is termed 'homosocial reproduction'. Leader and successor interactions are more direct in family businesses. García-Álvarez and López-Sintas (2001) state that <https://assignbuster.com/role-of-the-founder-in-succession-and-firm-performance/>

founders often emphasise values to potential successors as a means of expediting the succession process. This coherent value transfer can lead to a successful succession process. This value coherence can be more important than formal planning in the succession process. Firm performance is affected by the consistency of values and the content of these values. This is all part of primary socialisation. (García-Álvarez, López-Sintas and Saldaña Gonzalvo, 2002)

Secondary socialisation involves attaining role specific knowledge. Founders should begin planning their descendant's role in the business early to have a better succession process and to avoid conflict. They should start planning in their 40s. The quality of the relationship between the founder and the successor has a pivotal role in succession and succession planning. Most family business Founders look for continuity of their enterprise through the next generation children first and if not, other family members or non-family insiders or complete outsiders. Different criteria of successor selection exist such as first-born son being the most common. A team of brothers and sisters may be used to manage and own the company to prevent conflict in the succession process and include all relevant siblings. In their sample, the eldest son would be chosen to lead the team. (García-Álvarez, López-Sintas and Saldaña Gonzalvo, 2002)

Four groups of employees based on their value systems are outlined in Garcia and Lopez (2001) These include founder of family tradition, founder achiever, founder strategist and founder inventor. Founders encourage potential successors to start their own businesses. Founders value hard work. A paradox exists in that many founders wanted successors to be <https://assignbuster.com/role-of-the-founder-in-succession-and-firm-performance/>

autonomous but also to recognise the superiority of the founder. There are two stages for the successors which are family socialisation and business socialisation. The family members are exposed to the founder's values in family life for example hard work is a common value that descendants are encouraged to adopt. Descendants of founders of family tradition and founder strategists were mainly found to hold master's degrees. While, the majority of descendants of founder achievers only held secondary school diplomas. Gender differences are prevalent. Generally, Women held higher levels of formal education. In teams of successors, the males tend to be responsible for areas that helped the firm's start up for example production. Women would then pursue an area that was untouched by family members but that are starting to become relevant for example IT. Business socialisation occurs when the successors begin to work full time in the business. Delayed entry is most common in the offspring of strategists. Entry at low level role was common in potential successors of achievers and founders of family tradition. Founder's view of the role of the business in family life influences the mode and process of socialisation used for the potential successors. This displays the lasting influence of the founder.

(García-Álvarez, López-Sintas and Saldaña Gonzalvo, 2002) Family orientation is very important to most founders. Two dimensions of founder's values exist which are business and psychosocial. The psychosocial dimension relates to differences of behaviour of founders. The business dimension deals with the trade off family orientation and firm orientation.

(García-Álvarez and López-Sintas, 2001) These two journals are similar and present conclusive research regarding values being very important in the succession process.

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According to (Davis and Harveston, 1999) generational shadow can exist in family businesses. This is evident when the predecessor influences the next generation after the next generation has taken control of the organisation. If the it is a second-generation business, if the founder still plays a role in the company, a greater generational shadow will exist. The previous generation's presence can be seen as excessive and inappropriate and it could lead to social disruptions in the organisation. It may create conflict in family firms. The transition from founder to the next generation is seen as the most critical. The founder has a huge influence on the employees, culture and processes of the family firm. Akin to Garcia (2002) the founder can create a common bond among family and employees and the founder can set out attitudes, norms and values of the company.

Davis and Harveston (1999) assert that there is less conflict when the founder leads the family firm. But there is more conflict when the next generation assume control. Granted, the level of control the founder had in creating the family firm, the end of their tenure will likely interfere with bonds such as employee loyalty created from long standing relationships and also important relationships with customers and suppliers. Succession effects will be most visible in the first succession as the founder has a dramatic influence on the family firm. The CEO might not possess the same unique traits of the founder and the organisation might have better procedures to prepare for subsequent successions. In a survey by Key Corp, 60% of founders reaching retirement intended to stay involved with the company at a reduced level. There may be a blurring of authority and responsibility due to the founder's presence. Frustration can occur when children are forced to

compare themselves to the founder. They may feel a lack of autonomy. Overall, conflict increases when the founder still plays a role in the family firm post succession. The generational shadow left by the founder will be much larger than subsequent generational shadows. An increase in organisational processes that are institutionalised by the founder may leave the next generation struggling to affect organisational processes. Founders may not see the impact post succession so the next generation should be able to handle future successions better. Conflicts in third or fourth generations tended to be about money, managerial roles, ownership and control and not generational shadows.

Handler, (1994) states that succession is a mutual role adjustment between the founder and next generation members. There may be a lag on the founder's behalf in moving into his or her role. The founder may assume the role of a consultant to the family firm upon retirement. Many managers never divest control and stay at the 'monarch' stage of having unchallenged power over the organisation. Most next generation members felt the founder had more control of the succession process than themselves. A desire to be immortal is common in some founders who value achievement, control and power. The business may be seen as an extension of themselves. A founder may hold the business as a symbol of what he or she created and managed. Many founders may select successors which are likely to fail. Handler (1994) agrees with homosocial reproduction and also Alvarez's (2002) point that the quality of the relationship between the successor and founder is hugely important. The founder's refusal to let go can lead to problematic successions.

Founders involved in mentoring successors may continue to feel excitement with their work. High founder centrality leads to an alignment of perceptions between the founder and family and non-family employees, better firm performance on the performance indicators that are important to the founder and lastly, a lasting influence of the founder after he or she retires. There are 5 leadership styles which are participative, autocratic, laissez faire, expert and referent. (Sharma, 2004)

Kelly, Athanassiou and Crittenden (2000) place a huge emphasis on the founder and argue that the founder can be expected to configure all the family firm's interactions with the external environment. A founder may shape the family firm's strategic activities. Founder run organisations are associated with centralised decision making. Mentions of the past founder's legacy can further inhibit the goals and strategies of future generations. The founder centrality is important, it is evident in the founder's place in the communication and decision-making processes of the firm. The founder has a huge effect on culture which is an embodiment of the founder's own values and personality. The culture then influences the operational processes. Overall the founder and the founder's legacy will play a huge part in strategic planning and decision making.

The role of the founder was determined positive in Anderson, Mansi and Reeb (2003) as the family firm founder could have a positive influence accounting profitability method, market performance and the cost of debt financing. Founders can contribute unique value to firms in this regard. Most family firm's place a lot of importance on firm survival and reputation

maintenance. They are more likely to increase firm value as opposed to shareholder value.

García-Ramos and García-Olalla (2011) affirm that the existence of independent directors on the board of directors when the family firm is founder run has a positive effect. Conversely, when the organisation is led by the founder's descendants' independent directors on the board will be exhibit a negative effect. Founder involvement in a family business can reduce agency costs through parental altruism, this creates trust and commitment to the firm. A common family bond may be created which aligns incentives. Thus, Founder led family businesses are less in need of close monitoring by a board. Founder led family businesses may have boards that constitute family members with common views and values. This is similar to 'homosocial reproduction' that Alvarez outlined.

Gibb Dyer, (2006) states founder led family firms normally outperform firms that don't have founders. Also, that 1<sup>st</sup> generation family firms performed better than 2<sup>nd</sup> generation family firms illustrate the effect a founder can have on performance.

Villalonga and Amit (2004) affirm the effect of the founder on firm performance and argue that family ownership of the business is only a positive when the founder serves as CEO or chairman. They also argue that the second generation have a negative effect on firm value.



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