

Founder CEO Succession

Research that will appear later this year in the Academy of Management Journal examines the role of succession as it concerns CEOs who were also founders of the companies. The paper finds that founders appear to be more reluctant to voluntarily leave the organization, placing more responsibility on boards to guide the succession process. This effect seems to work through the CEO's identification or attachment with the organization.

Key Takeaways:

- Length of time that the firm was private prior to an IPO will decrease the likelihood that the CEO will voluntarily resign.
- Those who were CEOs during the firm's founding are less likely to voluntarily resign than those who became CEO later.
- However, if the CEO had entrepreneurial experience prior to the current firm, the CEO is more likely to voluntarily resign.

Using data on 448 newly listed IPOs in the United States during the years 2000 – 2013, researchers found that greater identification with the firm affected the CEO's willingness to voluntarily leave the firm. CEOs who had spent more time with the firm when the firm was private and those who were CEOs at the time of the founding were less likely to voluntarily leave the firm. Specifically, those who were CEO at the time of

the founding were 62% less likely to resign their positions and there was about a 42% decrease in the likelihood that the CEO would voluntarily resign when the firm had been private longer prior to the IPO.

The research team also examined potential mitigators. CEOs with prior entrepreneurial experience were about twice as likely to voluntarily resign compared to those without prior entrepreneurial experience. Similarly, for each additional co-founder there was a 29.9% increase in the likelihood that the CEO would voluntarily resign.

Their analysis statistically controlled for aspects of the environment (like industry), the firm (like firm size, firm age, institutional ownership, and ROI), and the CEO (like age, tenure, educational background and percentage of the shares owned). The authors suggest that future research is needed to explore how these relationships work in organizations that are more mature and hence farther removed from their own initial start-up.

Source: Lee, J. M., Yoon, D., & Boivie, S., (2018). Founder CEO Succession: The role of CEO organizational identification. Academy of Management Journal, In Press.

