



Founders

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Founders have a significant effect on the values, performance and culture of their firms (Anderson et al, 2003). Founders of family businesses work hard, but have a hard time delegating responsibility and eventually transitioning ownership. This is more than likely due to the responsibility founders feel towards their businesses and their families.

Difficulties with research on founders

A complication to studying founders in family businesses is the fact that most of the FOBs in operation today started shortly after World War II (the most frequent year of founding is 1946), and a large percent of the founders (27%) are still in a leadership position (Raymond Institute/MassMutual, 2003). Therefore studying issues specific to founders leads easily to a research error known as a "cohort effect". Or thinking that you have found something out a population but in reality you have identified something that that group has in common that has nothing to do with the population itself. In the case of family business founders, it is difficult to say whether our research findings are due to specific characteristics of founders, or whether these findings are associated with all business owners who grew up in the war world II era. Therefore the following findings should be interpreted with this limitation.

The dilemma of the founder

What we know about founders is that they do add a tremendous value to their corporations. Two different studies (Anderson, & Reeb, 2003 and Anderson, Mansi & Reeb, 2003) have found that when compared to non-family CEOs, family founders do better. Specifically, family business founders offer a greater performance in terms of profitability measures, market performance, and cost of debt finance for family firms. The overall conclusion from these studies has been that founders outperform not only non-family CEOs, but also the successive generations of family CEOs.

Although founders offer a great deal of value to their businesses, founders are under a great deal of pressure to perform, which equates to large personal sacrifices, 100% of the responsibility, and not knowing when to give responsibility to others. A seminal study by McConaughy (2000) compared family and non-family CEOs. What McConaughy found was that family founders have longer tenures (17.6 year compared to 6.43 years) and receive approximately \$565,000 less in total compensation than their non-family CEOs counterparts. It is likely that founders are paid less because they choose to take less. Family businesses depend heavily on the founder to provide opportunity, and not to use valuable resources, for example Feltham, Feltham and Barnett (2005) found that most organizations depend heavily on the leadership of their founder. Most family businesses have founders that run two or more key operations with in the organization, rather than delegating these areas to other managers. The problem with this situation is that the longer the tenure of the founder and the more control the founder has (in

terms of the percentage of ownership) the less adaptive and flexible the organization (Anderson et al., 2003; Zahra, 2005). For example, founders have a positive effect on the growth of an organization up until year 13. After 13 years, the positive effect levels off and then significantly decreases.

Management techniques

There is some evidence of effective management styles of founders. One of the most referred to studies is that of Sorenson (2000). In this study Sorenson uses Dyer's (1986) study of family business cultures, this study derives five approaches to leadership: participative, autocratic, laissez-faire/mission, expert, and referent. Sorenson's (2000) study of 59 small family businesses found that participative leadership (or leaders who value the input from and consistently evaluate family and non-family employees) positively related to both family and business outcomes as well as to employee satisfaction and commitment, while referent leadership (leaders who garner a positive regard and a desire to please from their employees) was positively related to family outcomes and employee satisfaction. Therefore the participative leadership style offered a good balance between family and business systems, because of its association with not only family outcomes and employee satisfaction but it also raised the level of employee commitment.

Founders and their families

The relationship of founders with other family members has received some attention. Two recent conceptual efforts are noteworthy. Aldrich and Cliff (2003) have suggested that families aid founders in recognizing, and support opportunities for the business. Other research has provided empirical support for the integral role played by family in providing both the financial and nonfinancial support to founders for creating new ventures (Astrachan et al., 2003; Erikson, Sørheim, & Reitan, 2003).

Founders and succession

It does seem that founders have a substantial impact on the succession process. Garcia-Alvarez et al (2002) identified that while the founder is responsible for the socialization process of all family members to the business, they are also responsible for the a *separate* socialization process of a chosen successor. Additionally founders are the gatekeepers to resources that need to be transferred on to the successor (Morris et al., 1997; Steier, 2001). Unfortunately there is still a significant lack in planning by founders for their succession (Ward, 1987; Sonfield & Lussier, 2004; Sonfield et al, 2005).

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