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FOUNDER INFLUENCES ON THE DEVELOPMENT OF ORGANIZATIONS: A COMPARISON BETWEEN FOUNDER AND NON-FOUNDER MANAGED RUSSIAN FIRMS

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Abstract. The paper deals with the problem of founders' impact on the process of organizational development and performance. The goal of the research is to provide a comparative analysis of activity in founder-run and non-founder-run Russian firms. In order to run this analysis 224 companies created from scratch by Russian entrepreneurs in the period of years from 1992 to 1998 were studied.

Statistical analyses were performed on two independent samples of companies, namely 162 companies managed by the founders and 62 companies that were run by hired professional managers. As a result of the analysis, statistical differences were found in relation to the criteria of number of employees and hierarchical levels; firms managed by founders usually have less staff and fewer hierarchical levels than the non-founder companies. Nevertheless the dynamics in sales of the two samples of founder and non-founder companies during the last 3 years were quite similar.

Keywords: entrepreneurship, organization life cycle, founder, succession, performance, Russia.

1. Introduction

In this paper, we seek to explore the issue of the influence of entrepreneurs on the development of organizations. This issue is directly concerned with the main conditions of the development of the organization after its creation. Research of the entrepreneur's role often accompanies study of the organization's transition from start-up to the growth stage of the organization's life cycle (OLC) (Boeker, Karichalil 2002). Most existing models of organizational development describe conditions in which particular managerial approaches are more appropriate (Adizes 1999; Greiner 1972; Hanks 1990).

In cases where a founder does not have the skills required for further development of organization, the entrepreneur may well retire from the CEO position. At the same time, research does not provide an unequivocal answer as to whether an entrepreneur should give up the managerial role by transferring it to a professional manager and, further, what crises an organization may face if the entrepreneur remains in the company. In spite of stereotypical notions of forced retirement, there are examples of cases when entrepreneurs remained an organization's CEO for 20-40 years and proved to be of great value to the organization (Lester & Parnell 1999).

The purpose of the present paper is to study the influence of the founder's role on the activity of the company. The work consists of four parts. The first part analyzes the question of the necessity to replace the entrepreneur with a hired manager. The second part analyses the factors which influence the entrepreneur's decision to retire. The third part contains the results of primary empirical research designed to compare the performance of founder-run and manager-run companies.

2. Replacing the founder with a professional manager

The problem of the transition from entrepreneurship to professional management and questions of the necessity to replace the founder with a hired manager have been widely discussed in the literature on management. For example, Rubenson, Gupta (1996) identified three fundamental succession perspectives, namely, succession

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as an inconsequential event, succession as a disruptive event, and succession as a rational organizational adaptation. However, a large proportion of research devoted to OLC theory gives consideration to the importance of the entrepreneur at the time of transition from the stage of birth to the stage of formalization or growth. Many researchers raise the question of the entrepreneur's role in relation to the future fate of the organization, seeing the forthcoming and inevitable retirement of the entrepreneur as a major influence on the future success of the organization. (Willard *et al.* 1992). One of the most essential questions connected with company transition from entrepreneurship to professional management is the problem of rising efficiency of company performance as the result of a change in CEO from the founder to a professional manager. The available research on this problem is mainly focused on a comparative analysis of the entrepreneur-founder-run or manager-run company performance indices. It should be pointed out that little evidence has emerged to reveal any significant differences between the performance of entrepreneur-founder-run and manager-run companies (Willard *et al.* 1992; Alas 2004).

In one perspective, Boeker, Karichalil (2002) present a detailed analysis of the entrepreneur's retiring process. As far as strategy choice is concerned, the authors reveal the conditions of strategy choice implementation and factors impeding successful choice (replacing a non-qualified entrepreneur with a qualified manager). The authors suggest that the organization needs the entrepreneur until issues of growth replace issues of profitability; complexity of internal coordination requires vast delegation of powers as the number of employees increases. The authors argue that it may be probably accounted for by the fact that the owner faces the conflict of his own interests with those of the Board of Directors, thus creating contradictions between his own aims and the aims of influential stakeholders.

In another perspective, Rubenson and Gupta (1990) developed a theoretical model based on the proposition that managerial styles should change depending on the stage of OLC (Rubenson, Gupta 1990). Rubenson and Gupta's argument as to the need to change the style of management is that, over time, the organization grows bigger and becomes more complex to control, which leads to the increase in the number of managerial transactions and impossibility of strongly centralized management when taking all decisions is controlled by the company founder (Rubenson, Gupta 1990).

In summary, given the questions surrounding issues such as nature and performance of founder-run and manager-run companies that are evident in the literature, we formulated the following hypotheses:

- *Hypothesis 1. Founder-run companies have as a rule fewer employees than manager-run companies.*
- *Hypothesis 2. Founder-run companies have as a rule fewer hierarchical levels than manager-run companies.*
- *Hypothesis 3. At the formalization stage of OLC, moving to professional management, manager-run companies will demonstrate higher performance (in terms of sales volume) than founder-run companies.*

These hypotheses were tested in the Russian context using a research design which is outlined below.

3. Methodology of the research

To test the hypotheses, it was necessary to form two comparable samples of founder-run and manager-run companies. For the purpose of the present research, we used the data collected within the framework of the project S*tudy of Russian Organizations' Life Cycles* which contained information about 600 Russian greenfield companies created by entrepreneurs-founders. As this paper investigates transition from entrepreneurship to professional management, we formed a sub-sample of companies created in 1992–1998, i.e. aged from 9 to 15 years which corresponds to the third stage of OLC, that is, the stage of formalization. Founder-run and manager-run companies were analyzed according to the following factors for the period 2004–2006: number of employees, number of hierarchical levels, and a dynamic sales indicator of percentage growth in sales during this period. The data were collected by the research company *O+K* from December 2006 to March 2007.

To form the sample, six macro-regions were identified, namely Moscow and St. Petersburg, Center and North-West, Northern Caucasus, Volga region, Urals region, Siberia and Far East. 100 respondents were chosen in each region at random. To test the sample validity on this criterion the questionnaire contained a closed question on company (organization) location. Company top managers or founders participating in taking decisions on company development strategy were interviewed. This was stipulated because of the nature of the questions and the kind of information necessary to determine and describe the organization life cycle.

For the purposes of the present study, a sub-sample of companies was formed, with the final analysis including 224 companies. These companies were distributed fairly evenly across sectors including manufacturing, construction, transport and communication, retail, wholesale, services for individuals and services for organizations. The sample included mainly small and middle companies, making together 72.7 %. The companies were grouped according to the number of employees: 3–20 – small companies, 21–100 – middle companies, 101 – more than 500 – big companies. As to the year of creation, the sub-sample included only companies created in 1992–1998. Companies created in 1998-2007 were excluded from the sub-sample since it was supposed that young companies do not face the problem of founder's retiring yet and they are at the stage of entrepreneurial growth.

Thus, to explore the hypotheses of the differences between founder-run and manager-run companies, company activity was assessed by the respondents using the following variables: average number of employees, the number of hierarchical levels, and a dynamic indicator of sales during the period 2004–2006. Every question was evaluated by the respondents via quantity indices reflecting means for every question. The respondents chose the mean value most close to real characteristics of the company they represented. In the event of interval values, the mean interval value was chosen for quantitative data processing.

4. Analysis of the results

4.1. Number of employees

The first characteristic of the companies under examination was the number of full-time personnel employed by the companies. As can be seen from Table 1, the responses indicate that the mean number of employees in manager-run companies (mean = 215 employees) was significantly higher than the mean number of employees in founder-run companies (mean = 136 employees).

4.2. Hierarchical levels

The second characteristic of the companies under examination was the number of hierarchical levels in the founder-run and manager run-companies. The responses ranged from one to seven levels (see Table 1). In the case of founder-run companies, 90 % of the companies had three levels or less while in the case of the manager-run companies, 70 % had three levels or less. This finding highlights the tendency for manager-run companies to have more levels of organisational hierarchy than founder-run companies.

4.3. Percentage change in volume of sales from 2004 to 2006

For the purposes of the present analysis a set of questions evaluating growth or reduction of sales volume was consolidated into one variable. Figs. 1 and 2 present a self-explanatory picture of the percentage changes in company sales from 2004 to 2006 for founder-run and manager-run companies.

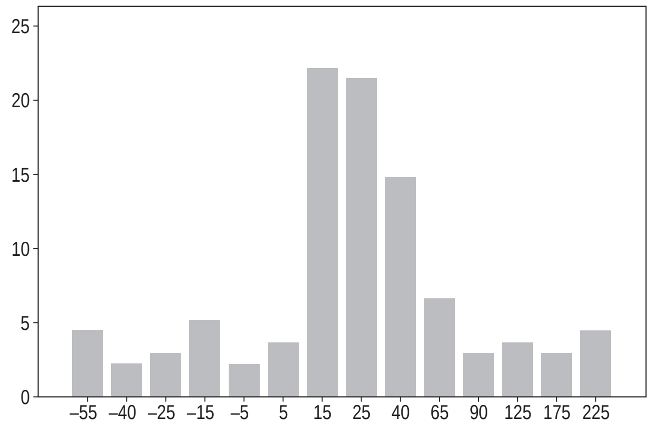

Fig. 1. Changes in sales during 2004–2006 in founder-run firms

Table 1. Comparative analysis of factors

Factor	Total (N = 227)		Founder (N = 162)		Manager (N = 62)	
	Mean	Standard deviation	Mean	Standard deviation	Mean	Standard deviation
Number of employees	157.65	164.688	136.28	151.269	214.82	185.287
Number of hierarchical levels	2.81	1.193	2.65	1.111	3.25	1.325
Changes in sales since 2004,%	30.53	42.154	27.07	43.771	38.18	35.514

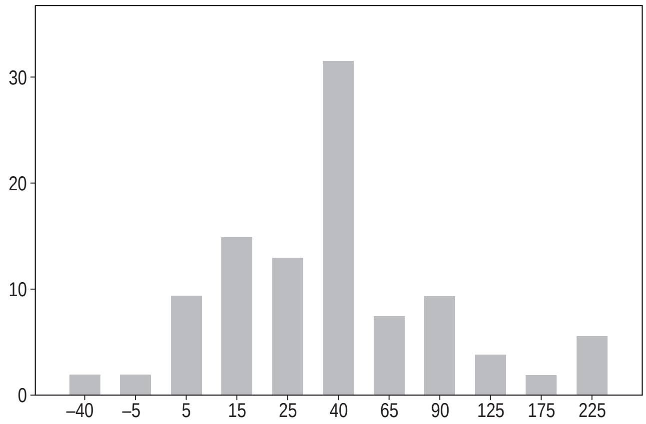

Fig. 2. Changes in sales during 2004–2006 in manager-run firms

4.4. Analysis of findings

The analysis presented in Tables 1 and 2 can be summarized in terms of the hypotheses presented earlier:

Hypothesis 1. Founder-run companies have as a rule fewer employees than manager-run companies. From Tables 1 and 2, it can be seen that the mean number of employees is significantly different. The respective statistics show the means differ considerably (sig = 0.00) <0.005, that is, founder-run companies tend to employ significantly less staff than manager-run companies. Therefore, hypothesis 1 is accepted at the 0.00 level of significance.

Hypothesis 2. Founder-run companies have fewer hierarchical levels than manager-run companies. On the basis of Table 2, it can be seen that founder-run companies do tend to have fewer hierarchical levels than manager-run companies. Therefore, hypothesis 2 is accepted at the 0.00 level of significance.

Hypothesis 3. At the formalization stage of OLC, moving to professional management, manager-run companies will demonstrate higher *performance (in terms of sales performance) than founder-run companies.* The results presented in Table 2 indicate that the difference between the manager-run and founder-run companies in relation to percentage change in sales performance from 2004 to 2006 was not statistically different. Therefore, hypothesis 3 is rejected as we failed to find any significant difference between founder-run and manager-run companies performance using the growth in sales indicator described above.

5. Conclusion

The present paper considers different aspects of the management of a company moving from entrepreneurial to professional management. Under the theory of life cycles, this transition should be started at the stage of growth and completed at the stage of formalization. The overview of the literature on transition from entrepreneurship to professional management shows that although there are some disagreements on the inevitability of replacing the founder with a professional manager, the researchers tend to converge around the opinion that there is a need to change the style of management in organizations that are moving through stages of growth and formalization. This at-

Table 2. Results of data analysis of founder-run vs manager-run companies

Factor		Levene's test of variance equality		T-test of means equality		
		F	**Value**	t	df	**Two side value**
Number of employees	Assumed equality of variances	16.14	**.00**	–3.26	222	**.001**
	Assumed inequality of variances			–2.98	93.78	**.004**
Hierarchical levels	Assumed equality of variances	1.35	**.25**	–3.36	221	**.001**
	Assumed inequality of variances			–3.10	93.52	**.003**
Changes in sales volume since 2004	Assumed equality of variances	.72	**.40**	–1.62	184	**.107 (n.s.)**
	Assumed inequality of variances			–1.78	110.30	**.078 (n.s.)**

titude is grounded in the belief that company leaders play different roles and must exert different kinds of influence at different stages of OLC. The entrepreneur is viewed as a provider of different resources required by the company at different points of its development. Thus, the founder provides the organization with business-ideas and enthusiasm at the time of birth and retires giving way to professional management if he is not able to create conditions for further growth. Such choice and implementation of the required resources meeting certain needs of organization is called strategic choice. The most important value of the entrepreneur for organizational development is his assistance in taking strategic choice.

Our empirical analysis shows that there are significant differences in the number of employees and the number of hierarchical levels between founder-run and manager-run companies. At the same time no significant differences in the factor of changes in sales were discovered. Thus, the results obtained make it possible to conclude that the proposition that a hired manager increases a company's efficiency when compared to founder-run companies, is not supported by these findings. This may indicate that two types of companies, that is, founder-run and manager-run companies, have different approaches to functioning. As noted earlier, there are comparatively fewer employees in manager-run sub-samples than in founder-run companies. Moreover, in the sub-sample run by professional executives, more companies have three hierarchical levels, and more companies have four hierarchical levels. We may assume that this is connected with the fact that, when the company transits to professional management, its organizational structure changes, functions are distributed among special departments, and professionalization of executive tasks accompanied by structure enlarging and increase in personnel number takes place.

The results of the research also allow us to speculate as to the factors that may influence and/or emerge from the decision of a company's founder to hire a professional manager to the position of the CEO. A list of such factors may include, for example, company size, in terms of the number of full-time employees, and an increase in the number of hierarchical levels. At the same time it is impossible to state categorically that there is a one-sided cause-effect relationship between these factors and replacing the founder with a professional manager. Certainly this relationship has two-sides, that is, a new manager coming in, is likely to bring about an increase in the number of employees and add complications to the management hierarchy. Future investigation of this problem is obviously necessary and should encompass an analysis of the reasons why owner-entrepreneurs entrust/do not entrust the management of Russian companies to hired managers.

Further development of the topic in the literature is likely to integrate the questions of researchers in fields such as entrepreneurship, strategic management, and human resource management. The study of factors leading to a founder's retirement, especially at different levels of company performance, may provide future researchers with an important understanding of the founder's role in connection with organizational control and individual preferences in restraining or initiating organizational changes as the organization develops according to the life cycle model.

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