STRATEGIC CHOICES AMONG FOUNDER AND NON-FOUNDER CEOS: AN EMPIRICAL INVESTIGATION

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ABSTRACT
The literature on founder-CEO influence on firm performance seems to particularly focus on founders’ role at the early stage of venture formation such as initial public offering (IPO). While they obviously play a crucial role in creating organizational identity at the firm’s inception, their role as leaders of larger and older organizations is yet unclear. The purpose of this paper is to empirically examine whether founder-CEO led firms significantly differ from their non-founder counterparts in their strategic choices. We tested our predictions on 111 publicly-traded U.S. manufacturing firms between 1985-2010. The results of our empirical analysis generally indicate that there is indeed a statistically significant difference in the level of merger & acquisition intensity.

Keywords: Founder-CEO, Strategic choice, Mergers and acquisitions, Alliances, Strategic leadership

INTRODUCTION
The influence of top executives on strategic choice and firm performance is an important research area in strategic management. A rich stream of literature exists on why and how top executives shape the strategic direction of the firm (Child, 1972, Miles and Snow, 1978; Hambrick and Mason, 1984; Finkelstein and Hambrick, 1996; Carpenter, Geletkanycz and Sanders, 2004). Consistent empirical findings in the area indeed suggest that top executives influence the formulation and execution of strategic decisions and ultimately firm performance (Mintzberg, 1978; Bantel & Jackson, 1989; Boeker, 1997; Henderson, Miller and Hambrick, 2006).

While there is an extensive empirical work examining the role of executives in general, research on the influence of founder-CEOs on organizational outcomes has only recently been considered
among organizational and management scholars. Indeed, entrepreneurship (Willard, Krueger and Feeser, 1992; Begley, 1995), strategy (Wasserman, 2003) and finance (Fahlenbrach, 2009) scholars have recently been interested in the active role founder-CEOs play in their organizations. The literature on founder-CEO influence on firm performance seems to particularly focus on founders role at the early stage of venture formation such as initial public offering (IPO) (e.g. Fischer and Pollock, 2004; Jain and Tabak, 2008; Gao and Jain, 2012). While they obviously play a crucial role in creating organizational identity at the firm’s inception, their role as leaders of larger and older organizations is yet unclear.

What would the role of founder-CEOs be as the organization evolves into a large and complex organization? Anecdotal evidence suggests that founder-CEOs such as Jeff Bezos at Amazon.com, Michael Dell at Dell Inc., the late Steve Jobs at Apple Inc. and Frederick Smith at Federal Express (FedEx) are successful in leading their much larger and older organization in a complex environment (Birger, 2006). The purpose of this paper is to empirically examine whether founder-CEO led firms significantly differ from their non-founder counterparts in their strategic choices. Specifically, we seek to investigate whether founder-CEO led firms are aggressive or conservative in pursuing major corporate strategies. This paper seeks to address the following research question: do founder-CEO led firms significantly differ from non-founder led firms in terms of their strategic aggressiveness? If so, why? In order to address this research question, we draw from the strategic choice theory (Child, 1972) to argue that founder-CEOs’ strategic decision-making could be significantly different from non-founder (professional) CEOs.

The paper is organized as follows: in the following section, we present an overview of strategic choice theory and founder-CEO literatures. We then present logically-driven hypotheses on two popular corporate strategies, namely, mergers & acquisitions (M&As) and strategic alliances. We specifically chose these two strategies given their prevalence and magnitude in influencing organizational direction. Lastly, we present our empirical testing of our hypotheses and conclude with the discussion on the implications to future research and practice.

LITERATURE REVIEW

Strategic Choice and Upper Echelons Perspectives

The strategic choice theory, formally introduced by Child (1972), argues that organizations can proactively and effectively shape the nature of decisions and manipulate the external environment. This theory further contends that most organizations have ‘dominant coalitions’ (Cyert & March, 1963) that usually involve a collection of key executives, board members and some stakeholders that have the power to influence significant strategic decisions such as organizational goals, configurational design, and strategy (Finklestein & Hambrick, 1996). Child (1997, p. 45) defines ‘strategic choice’ as “the process whereby power-holders within organizations decide upon courses of strategic action.” Over the years, this theory has received
significant attention among various scholars as a useful theoretical framework (Campling & Michelson, 1998; Ketchen & Hult, 2007; Talke, Salomo & Rost, 2010).

Along with the conceptual and empirical developments of strategic choice theory, the upper echelons perspective (Hambrick & Mason, 1984; Hambrick, 2007) proposes the view that organizations reflect their leaders’ choices and that their performances can be predicted by top executives’ demographic characteristics (Hambrick & Mason, 1984; Hambrick, 2007). According to the upper echelons perspective, certain organizational outcomes such as performance and strategy to some extent reflect the top management’s background characteristics including age, education, socioeconomic level, functional background, financial position and group characteristics. The logical argument of the upper-echelon perspective was mainly derived from the behavioral theory of the firm (March and Simon, 1958; Cyert and March, 1963) which states that complex decisions are often the result of behavioral factors such as bounded rationality, multiple and conflicting goals and not so much the products of rational analysis. Accordingly, the upper-echelon perspective argues that managers strategic decisions are largely constrained by cognitive limitations and personal values that dictate the amount and type of environmental stimuli processed.

Overall, a number of recent studies have provided empirical support for the key predictions of the upper echelons theory (e.g. Hambrick, Geletkanycz & Frederickson, 1993; Boeker, 1997; Wally & Becerra, 2001; Carpenter, 2002; Cho & Hambrick, 2006). For instance, Gupta and Govindarajan (1984) noted in their study that division managers with marketing and sales experience were more likely to pursue growth strategies. By studying a group of hospitals (Kimberly and Evanisko, 1981) and banks (Bantel and Jackson, 1989), researchers found that executives’ educational level is linked to organizational innovation. In addition, past research has shown that certain executive background characteristics such as tenure and functional background significantly predict the extent of strategic change (Boeker, 1997; Cho & Hambrick, 2006). Similarly, executive background characteristics have been shown to predict international diversification and market expansion strategies consistent with the theory’s central arguments (Carpenter & Frederickson, 2001; Wally & Becerra, 2001; Herrmann & Datta, 2005).

In this study, we draw from both strategic choice and upper echelons theories to argue that the nature of strategic decisions in firms led by founder-CEOs is significantly different from those firms led by professional (non-founder) CEOs. We base our argument on the central tenets found in both theories, namely proactive managerial action as well as the view of the organization as a reflection of executive backgrounds and idiosyncrasies. Drawing from the fact that founder-CEOs display high personal commitment to their firms and are in a position to influence both the process and substance of strategic decisions (Nelson, 2003; Fahlenbrach, 2009), we specifically propose that founders significantly differ from their non-founder counterparts on strategic selection and present a preliminary result of our empirical test using two popular corporate strategies, namely, mergers and acquisitions and strategic alliances.
Founder-CEOs and Firm Performance

The question of whether and how founder-CEOs influence firm performance is increasingly attracting the attention of strategic management scholars. Recent research specifically has examined whether founders can still contribute positively in large and complex firms following their initial public offerings (IPOs) (Nelson, 2003; Fischer & Pollock, 2004; Ling, Zhao & Baron, 2007; He, 2008). Table 1 below summarizes major studies pertaining to the relationship between founder-CEO status and firm performance. Several empirical studies have investigated the relationship between founder status and firm financial performance (Jayaraman, Khorana, Nelling & Covin, 2000; He, 2008; Fahlenbrach, 2009; Adams, Almeida & Ferreira, 2009). The empirical evidence on the relationship between founder status and firm performance is somewhat mixed. Fahlenbrach (2009) for instance found, in his analysis of 2,327 U.S. publicly-traded firms between 1992-2002, that founder-led firms experience a robust stock market return of 4.4% annually. He observed that founder-led firms “…invest more in research and development, have higher capital expenditures, and make more focused mergers and acquisitions.” (p. 439). Similarly, Adams et al. (2009) found a strong association between CEO’s founder status and firm performance after controlling for various factors. These significant positive findings are consistent with He’s (2008) findings that founder-led firms outperformed those firms led by professional (non-founder). Despite the significant positive relationship between founder status and firm performance, some studies have either found no significance or actually negative relationship (Willard et al., 1992; Daily & Dalton, 1992). For example, Willard and colleagues (1992), in their analysis of 155 high-tech manufacturing firms in the U.S., found no significant performance difference between firms led by founder and non-founder CEOs.

Recently, some scholars have extended the empirical investigation to include differences in strategy selection (Ahn, Chae, Song & Cho, 2009; Souder, Simsek & Johnson, 2012). Ahn and colleagues (2009), in their analysis of 116 venture start-ups, found that founder-CEOs’ work experiences and extent of media exposure is positively associated with strategic alliance formation. Similarly, Souder et al (2012) observed, in their study of strategic behavior among U.S. Cable operators, that founder-CEOs led firms’ level of market expansion gradually declined over executive tenure. These studies are providing interesting early look at the significant strategic preferences and decision processes that exist between founder-and non-founder led firms. In the following section, we present specific, theory-based predictions on the significant strategy selection differences between founder and non-founder led firms.
## TABLE 1
Summary of Major Founder-CEO Studies

<table>
<thead>
<tr>
<th>Study</th>
<th>Variables Explored</th>
<th>Sample Used</th>
<th>Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jayaraman, Khorana, Nelling, &amp; Covin (2000)</td>
<td>Founder-CEO status, Stock market performance (e.g. a 3-year holding period stock returns), Firm size and age</td>
<td>94 publicly-traded U.S. firms during the 1980-1991 period (Of them, 47 founder-CEO firms)</td>
<td>Founder-CEO status does not contribute to a 3-year holding period stock returns. However, the impact of founder-CEO status on firm's stock performance is somewhat more positive among smaller and younger than larger and older firms.</td>
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<tr>
<td>Nelson (2003)</td>
<td>Founder-CEO status, Management and ownership structure, Firm performance at IPO (e.g. stock market reaction)</td>
<td>157 U.S. firms completed an IPO in the year 1991 (Of them, 64 percent are founder-CEO firms)</td>
<td>In governance and ownership arrangements at IPO, there is the persistence of founder influence. Furthermore, founder-led firms have a higher stock market reaction than the comparison group.</td>
</tr>
<tr>
<td>He (2008)</td>
<td>Founder-CEO status, CEO compensation, Governance structure, Firm performance (e.g. ROA and firm survival status)</td>
<td>1,143 U.S. firms going public between 1998 and 2002 (Of them, 42.7% firm years are led by founder-CEOs)</td>
<td>Founder-CEOs are apt to receive smaller compensation than professional CEOs. However, firms led by founder-CEOs are more likely to survive as well as to represent a better financial performance.</td>
</tr>
<tr>
<td>Fahlenbrach (2009)</td>
<td>Founder-CEO status, Firm valuation, Stock market performance, Investment behavior (e.g. R&amp;D, Capital expenditures and M&amp;A activities)</td>
<td>2,327 publicly-traded U.S. firms during the 1992-2002 period (Of them, 361 founder-CEO firms)</td>
<td>Firms led by founder-CEOs show not only a higher firm valuation but also a higher stock market performance than firms led by non-founder-CEOs. Moreover, founder-CEO firms tend to make more focused M&amp;As and also more R&amp;D and capital expenditures.</td>
</tr>
<tr>
<td>Souder, Simsek, &amp; Johnson (2012)</td>
<td>Founder-CEO status, CEO tenure, Market expansion (e.g. number of cable systems)</td>
<td>2,021 observations from 173 U.S. cable television firms between 1972 and 1996 (Of them, 1,044 observations from founder-led firms)</td>
<td>There is an inverted U-shape relationship between market expansion and CEO tenure for agent-led firms while there is a downward-sloping relationship between market expansion and CEO tenure for founder-led firms.</td>
</tr>
</tbody>
</table>
HYPOTHESES DEVELOPMENT

Founder Status and Strategic Choices

Population ecologists explain that top executives are largely inertial, confined by their organizational or environmental constraints (Finkelstein & Hambrick, 1996). Also, Institutional theorists assert that top managers' behaviors are restricted by legitimacy constraints on organizations (DiMaggio & Powell, 1983). So, these two perspectives have doubtful views regarding the role of top executive on their organizations. On the other hand, upper echelons perspective (Hambrick & Mason, 1984) argues that organizational performances can be predicted by top executive's demographic characteristics. According to upper echelons theory, "top executives influence managerial and organizational performance directly through their personal characteristics and behaviors and indirectly through the strategic choices they make, while being influenced by the external environment, culture, and internal organizational culture and structure" (Sosik, Gentry, & Chun, 2012: 368). The upper echelons perspective also emphasizes on "executive backgrounds as the primary indicator of their mindsets and potential behaviors" (Carpenter, Geletkanycz, & Sanders, 2004: 772). Hambrick & Mason (1984) initially proposed that organizational outcomes such as strategic choice and performance levels are partially predicted by managerial background characteristics. Certo, Lester, Daily, & Dalton's (2006) study supports the Hambrick & Mason (1984)'s proposition by representing a positive and significant relationship between top management team (TMT) heterogeneity and firm financial performance. In addition, pertaining to the relationship between TMT demography and corporate strategic changes, Wiersema & Bantel's (1992: 91) study represents that "the firms most likely to undergo changes in corporate strategy have TMT characterized by lower average age, shorter organizational tenure, higher team tenure, higher educational level, higher educational specialization heterogeneity, and higher academic training in the sciences than other teams." Their findings demonstrate that TMT's demographic characteristics are closely related to the tendency of corporate strategic change, supporting Hambrick & Mason's (1984) proposition as well. In addition, some empirical studies show that founder-CEOs often tend to focus on where they have specialty. For example, both Fahlenbrach (2009) and Oler, Olson, & Skousen's (2009) studies demonstrate that founder-CEOs are more likely to make non-diversifying acquisitions than non-founder-CEOs. Similarly, Anderson & Reeb's (2003) study also indicate that founding family firms practice less diversification than non-family firms. Therefore, considering all arguments above, we propose the following hypothesis to test in this study:

Hypothesis 1 (H1): There is a significant difference in strategic choice between firms led by founder and non-founder CEOs.
Founder Status and Merger & Acquisition Intensity

Concerning the question, "why do firms continue to merge?", Schoenberg (2003) suggests the following potential motives: (1) strategic motive - to strengthen firms' resource capabilities, (2) financial motive - to achieve earnings per share enhancement or to exploit tax credits, and (3) managerial motive - to enhance a manager's own position or interests. Pertaining to value creation through Acquisitions, ‘strategic fit’ researchers argue that similarities between the acquired and acquiring companies are the main force of value creation. However, other researchers posit that the value creation within acquisitions can be realized through generic mechanism such as resource sharing, knowledge transfer, combination benefits, and restructuring (Haneslagh & Jemison, 1991; Jemison & Sitkin, 1986). In addition, Stahl & Voigt (2008)'s study represents that cultural differences can be both an asset and a liability in M&A; but, their findings show that "the ability to manage the integration process - particularly the sociocultural aspects - in an effective manner is a key factor in determining the extent to which synergies are realized" (Stahl & Voigt: 173). In addition, Merger and Acquisition (M&A) can be classified as a related or an unrelated M&A. A related M&A can be illustrated as acquiring a company in a highly related industry (Hitt, Ireland, & Hoskisson, 2011). "Through a related acquisition, firms seek to create value through the synergy that can be generated by integrating some of their resources and capabilities" (Hitt et al., 2011: 191). A horizontal M&A is a typical example of related acquisitions. A horizontal M&A occurs when a firm acquires a competitor in a related industry to achieve the competitive advantages through a larger scale or scope (Hill & Jones, 2004). A case of horizontal M&As would be if a semiconductor firm acquired a competing semiconductor firm. This type of acquisition can produce an M&A synergy creation by "managing rivalry within an industry, reducing the risk of price warfare, lowering costs, and increasing a company’s bargaining power over suppliers and buyers" (Hill & Jones, 2004: 301). In contrast, acquiring a company in an unrelated industry can be called an unrelated M&A. A typical example of unrelated acquisition is a conglomerate M&A, occurring by two extraneous firms. The diversification of capital investment is generally regarded as a primary purpose of a conglomerate M&A (Levy & Sarnat, 1970). An instance of conglomerate M&A would be if a semiconductor firm acquired an air transportation firm.

M&As motivated by the top executive's own interest is unlikely to be value maximizing because "managers driven to make acquisitions for personal reasons may be less concerned to make a careful economic analysis of whether the acquisition has the potential to create shareholder value and also they may be prepared to pay a higher price for the acquisition than would be justified on purely economic grounds" (Schoenberg, 2003: 100). Empirical research illustrates that CEO's hubris (exaggerated self-confidence) raises acquisition premiums, consequently damaging acquisition outcomes (Hayward & Hambrick, 1997). Founder-CEOs are more likely to be hubristic due to their strong power position in organizations. Furthermore, Baugeuss & Stegemoller (2008)'s study regarding the acquisition decisions of S&P 500 firms between 1994 and 2005 shows that acquisitions conducted by founding family firms are associated with lower
shareholder value than acquisitions achieved by non-founding family firms. In addition, M&A executions are generally regarded as a firm's high risk-bearing strategic decision due to the high failure rates. May (1995) indicates that founders tend to retain a higher risk-bearing capacity than non-founders. Zahra's (2005) study also shows that higher family ownership is positively related to risk-taking. These arguments advocate that founder-CEO led firms are more likely to conduct M&A executions than non-founder CEO led firms. In fact, the empirical study of Fahlenbrach (2009) represents that founder-CEOs make more acquisitions per year than non-founder-CEOs. Thus, based on all debates above, the following hypothesis is suggested to test in this study:

**Hypothesis 2 (H2): There is a significant difference in mergers and acquisitions intensity between firms led by founder and non-founder CEOs.**

**Founder Status and Strategic Alliance Intensity**

Strategic alliances can be defined as "collaborative organizational arrangements" (Inkpen, 2005: 409) that share resources or capabilities from two or more firms, remaining their independent statuses for each other. Strategic alliances are formed by various different objectives such as gaining legitimacy, co-opting, accessing to new technologies, achieving economies of scales, or overcoming national trade barriers (Hill, 2004; Inkpen, 2005; Hitt, 2011). Considering these diverse objectives of alliances, it is expected that firm's strategic decision concerning alliances with other firms could be also diversified according to different motivations or attributes embedded in firms. Some empirical studies advocate these arguments by representing the relationship between CEO attributes and the likelihood of strategic choices. For example, the study of Ahn, Chae, Song, and Cho (2009) shows that founder CEO's total tenure at previous jobs has positively influence on the formation of alliances in the venture start-up; in addition, founder CEO's total number of previous workplaces also positively impact on the formation of strategic alliances. Furthermore, some other studies demonstrate that long-tenured CEOs are less likely to conduct strategic changes than short-tenured CEO due to their likelihood of the status quo (Miller, 1991; Michel & Hambrick, 1992). In general, founder-CEOs can be regarded as the longest-tenured person at their workplaces so these studies advocate the assumption that founder CEOs may have more conservative attitudes regarding their firm's strategic changes than non-founder CEO. Also, these defensive attitudes of founder-CEOs could be explained by the concept of structural inertia based on population ecology perspective (Hannan & Freeman, 1984). In addition, firms formatting strategic alliance with other firms might take some high degree of uncertainty about "what one party expects the other party to do (Powell, 1996)" (Inkpen, 2005; 409). That's because strategic alliances are intrinsically established by the mutual agreement that the partners uphold their independent status for each other. Those defensive firms led by founder-CEOs are apt to be more reluctant to participate in the formation of strategic alliances. Hence, considering all discussions above, it is cautiously anticipated that founder-CEOs is less likely to conduct alliance formation than non-founder-CEOs. However, grounded on the logic
above, it is more rationally assumed that at least, there is different likelihood of strategic alliance formation between founder-CEO led and non-founder-CEO led firms. Therefore, the following hypothesis 3 is proposed:

*Hypothesis 3 (H3): There is a significant difference in strategic alliance intensity between firms led by founder and non-founder CEOs.*

**METHODOLOGY**

**Sample and Data Source**

We used three different secondary data sources in collecting our sample data: Mergent Online, firms' 10-K annual reports, and firms' proxy statements. Initially, plentiful firm lists were randomly pre-selected by 4-digit Standard Industrial Classification (SIC) codes. Then, we classified the firms into either founder-led firm or non-founder-led firm by scrutinizing each firm's 10-K annual report and proxy statements (Form DEF 14A). In addition, we also used Mergent Online and external internet sources (such as Bloomberg BusinessWeek, Zoom info, Google Finance) to gather data on CEO’s founder status. After the classification, we investigated each firms' activities related to acquisitions, mergers, and strategic alliances (including joint ventures) executed between 1985 and 2010 using Mergent Online Database. This database is fairly common source of financial and competitor information on firms among strategic management researchers (Matta & Beamish, 2008; Yu, Gilbert & Oviatt, 2011). We reviewed the chronological list of major strategic actions of each sample firm provided in Mergent Online. Through this data collection procedure, we were able to establish a total of 111 sample dataset. From these 111 sample firms, 43 were founder-led firms and the other 68 were non-founder-led firms.

**Measures**

An independent variable of this study is the status of firm's CEO. This CEO status was measured by a dummy variable. If a firm is categorized as a 'non-founder CEO-led firm,' the variable was coded '0.' On the other hand, if classified as a 'founder CEO-led firm,' it was coded '1.' The dependent variables of this study are firm's merger and acquisition intensity, and strategic alliance intensity. Specifically, we measured the number of each firm's acquisition, merger, and strategic alliance (including joint ventures) completed between 1985 and 2010.
RESULTS

We adopted the independent T-test to test our hypotheses because our founder-led and non-founder-led firm samples are considered as exclusive independent samples. The following Table 2 represents a brief description of sample used to test our hypotheses in this study. As shown in Table 2, our sample consists of various industries. However, 'pre-packaged software' firms (SIC 7372) constitute the largest part of our sample with 43.2%. The other majorities in our sample are 'special industrial machinery' (8.1%), 'semiconductors and other devices' (7.2%), 'surgical & medical Equipments' (5.4%), 'Electromedical Equipments' (3.6%). The rest of the sample, consisting of 34.4%, demonstrates miscellaneous industries with SIC codes 2095-7812.

**TABLE 2**

Distribution of Sample Firms Across 4-digit SIC Codes

<table>
<thead>
<tr>
<th>4 Digit SIC Code</th>
<th>Description of Industry</th>
<th>Number of Sample Firms</th>
<th>Percentage of Total Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>7372</td>
<td>Pre-packaged Software</td>
<td>48</td>
<td>43.2%</td>
</tr>
<tr>
<td>3559</td>
<td>Special Industrial Machinery</td>
<td>9</td>
<td>8.1%</td>
</tr>
<tr>
<td>3674</td>
<td>Semiconductors and Other Devices</td>
<td>8</td>
<td>7.2%</td>
</tr>
<tr>
<td>3841</td>
<td>Surgical &amp; Medical Equipments</td>
<td>6</td>
<td>5.4%</td>
</tr>
<tr>
<td>3845</td>
<td>Electromedical Equipments</td>
<td>4</td>
<td>3.6%</td>
</tr>
<tr>
<td>Others (combined)</td>
<td></td>
<td>36</td>
<td>32.4%</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>111</td>
<td>100%</td>
</tr>
</tbody>
</table>

We fist generated the group statistics and then conducted not only the Levene's test for equality of variances but also the independent sample T-test for equality of means. Table 3 summarized the results of data analysis. As shown in Table 3, on average, the non-founder-led firms (M = 1.567, SD = 1.032) represent higher intensity in M&A executions than the founder-led firms (M = 1.131, SD = 0.977) and also this difference of means is significant (t = 2.218, df = 109, p = 0.029). In addition, to identify the effect size of this phenomenon, we converted the t-statistic into the Pearson's correlation, r, as follows; r = [(2.218)^2 / (2.218)^2 + 109] = 0.208. It indicates a slight medium-sized effect and also implies that the proportion of variance shared by the
founder-led firms and non-founder-led firms is around 4.3 % (r² = 0.043). Thus, the results of this independent T-test support our hypothesis 2 that there is a significant difference in mergers and acquisitions intensity between firms led by founder and non-founder CEOs.

**TABLE 3**

Independent Sample T-Test for the Mean Performance Differences between Founder and Non Founder-Led Firms

<table>
<thead>
<tr>
<th></th>
<th>Mean (Standard Deviation)</th>
<th>T-test for Equality of Means</th>
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<tbody>
<tr>
<td></td>
<td>Founder-Led Firms (n = 43)</td>
<td>Non-Founder Led Firms (n = 68)</td>
</tr>
<tr>
<td>Mergers and Acquisitions a</td>
<td>1.131 (0.977)</td>
<td>1.568 (1.032)</td>
</tr>
<tr>
<td>Strategic Alliances</td>
<td>0.186 (0.450)</td>
<td>0.268 (0.505)</td>
</tr>
</tbody>
</table>

a Log-transformed.  *P-value < 0.05 (two-tailed, n = 111).

Next, in order to test our hypothesis 3, we performed another independent T-test using the dataset pertaining strategic alliance execution. As demonstrated in Table 3, the mean difference implies that the non-founder-led firms (M = 0.268, SD = 0.505) have a slightly higher tendency to execute strategic alliance than the founder-led firms (M = 0.186, SD = 0.450). However, in this case, the difference of two means is not significant (t = 0.871, df = 109, p = 0.386) with a very low-sized effect (r = 0.083). Hence, the outcomes of this independent T-test do not support our hypothesis 3 that there is a significant difference in strategic alliance intensity between firms led by founder and non-founder CEOs. Furthermore, given the lack of statistical support for hypothesis 3, we only partly support our hypothesis 1 prediction that there is a significant difference in strategic choice between firms led by founder and non-founder CEOs, based on the evidence on hypothesis 2.
DISCUSSION AND IMPLICATIONS

The purpose of this paper was to empirically investigate if there is a significant difference between founder and non-founder led firms in terms of strategic decisions. Specifically, we sought to explore if there is any significant variation between founder and non-founder led firms on the level of strategic alliance and mergers and acquisitions intensity. The results of our empirical analysis generally indicate that there is indeed a statistically significant difference in the level of merger & acquisition intensity. However, we did not find a significant difference in the level of strategic alliance intensity between founder and non-founder led firms in our sample.

According to this result, founder-led firms completed fewer mergers & acquisitions than firms led by non-founder CEOs. This could possibly suggest that founder-CEOs pursue more conservative strategic choices than their non-founder (professional) counterparts. Such finding is in fact consistent with some recent empirical observations (Fahlenbrach, 2009; Souder et al., 2012). Fahlenbrach (2009), in his study of 2327 publicly traded U.S. firms, observed that founder-led firms make more focused mergers and acquisitions. Specifically, he observed that “…founder-CEOs make considerably more non-diversifying acquisitions than non-founder CEOs (i.e. they invest in firms that are in the same industry).” (p. 460). Similarly, in their study of 173 U.S. Cable Television Operators between 1972-1976, Souder et al (2012) found a significant difference in the level of market expansion such that founder-led firms’ market expansion activity sharply declined over the tenure of the CEO while the non-founder CEOs market expansion activity evolved in an inverted U-shaped relationship over the course of the CEO tenure. The findings of this study contribute to the strategic leadership literature in general and founder-CEO literature in particular in a number of ways. First, we believe that, despite the extensive scholarly research that examines the influence of executives on strategy formulation and firm performance, research that investigates the impact of founder-CEOs in large, established firms is fairly under explored. accordingly, this paper seeks to contribute to our understanding of the potential differences in strategy formulation and level of aggressiveness between founder and non-founder CEOs. While we found a mixed result on strategic alliance and mergers and acquisitions intensity, we believe that the findings of this paper provide additional explanation on the nature of strategic decision-making of founder-CEOs and their preferred level of aggressive competitive behavior. Despite its contributions, the paper has a number of limitations. First, the fact that we only examined two strategic decisions possibly limits the extent of generalizations on founder-CEO strategic preferences. Future research can examine a variety of major strategic decisions such as restructuring, market entry/exits and product diversifications. Second, the study’s sample size is rather small. This could possibly due to our stricter sample selection criteria. Such limited statistical power makes detecting otherwise significant relationship very difficult. It is possible that future research that explored similar prediction as ours with a larger sample size could find stronger empirical findings.
CONCLUSION

Do founder-CEO led firms significantly differ from non-founder led firms in terms of their strategic aggressiveness? If so, why? This paper addressed this research using an empirical analysis of strategic alliance and mergers and acquisitions intensity among founder and non-founder led U.S. firms. Our overall finding provides some support on the presence of significant difference in strategy selection between founder-CEO and non-founder CEO led firms. The findings shed some light not only on the strategic approach but also on the conservative, cautious approach favored by founder-CEOs.

References


