

Founder CEO Effect Under Macro-Uncertainty

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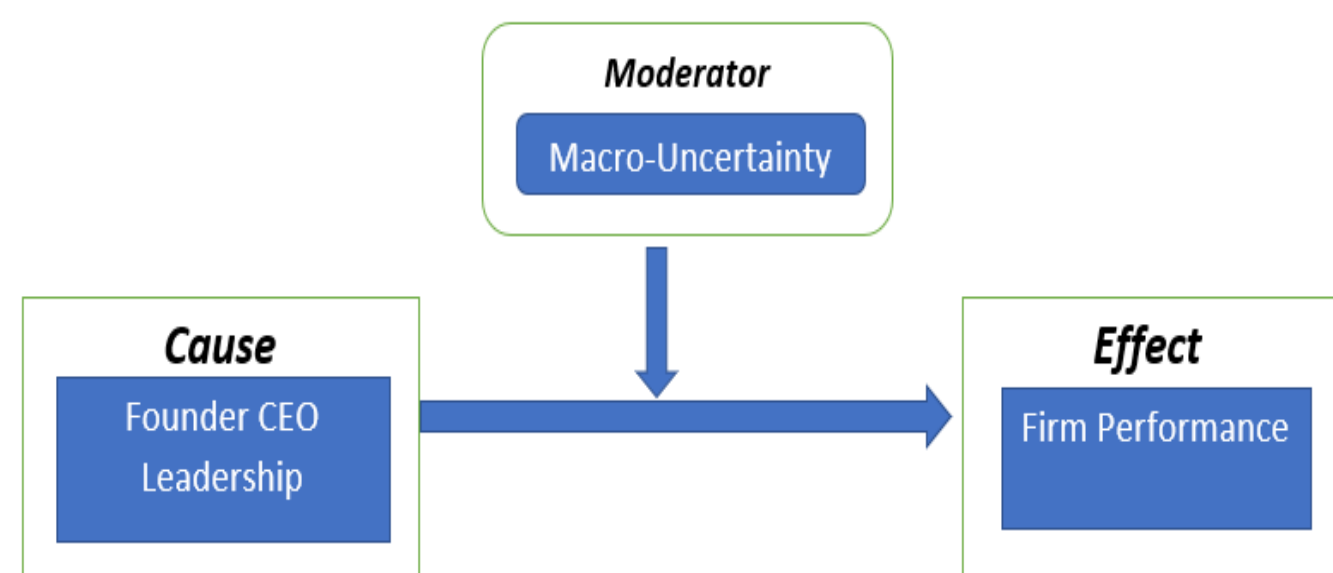
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Motivation

- Every firm starts with founder(s). In 2001, over 20% CEOs of the Russell 3000 firms are founders.
- Business press interest in founder CEO leadership at bad times (e.g. macro-uncertainty).
- CEO mismatch is critical at bad times.

Research Questions

1. Does founder CEO do better than professional CEO under macro-uncertainty?
2. Through which channels does founder CEO add/destroy firm value under macro-uncertainty?



Economic Arguments

Founder CEO Impact (in normal economic conditions) : ambiguous theoretical predictions and inconclusive empirical results.

Under Bad Economic Conditions (e.g. High Uncertainty), founder CEO leadership is value-increasing because of

- Less opportunity of private rent extraction
- Increased value of information advantage under high uncertainty:
- Positive impact of Knightian personality traits.

Data

- Sample : Russell 3000 firms for 2001-2015
- Founder CEO status, founding team, firm history: hand-collected from various sources.
- Capital IQ, ExecuComp, BoardEx, CRSP
- Macro-uncertainty: Jurado, Ludvigson, Ng (2015)
- **Instrument:** Fraction of founders' death (Adams et al. 2009)

Summary Statistics

Variables	Sample Year: 2001-2015				Mean diff. t-statistic
	Professional CEO led Firms		Founder CEO led Firms		
	Mean	Median	Mean	Median	
Market Value[MS]	8617	1773	4048	883	5.07***
Assets- Total[MS]	4767	1061	1949	499	6.94***
Net Sales [MS]	4407	1024	1996	420	5.20***
Firm Age [years]	50.21	39	21.09	20	27.62***
Leverage (book)	0.2281	0.1997	0.2021	0.1090	2.10**
R&D to sales	0.08	0.007	0.12	0.006	3.04***
Cash to assets	0.188	0.1097	0.27	0.202	5.99***
Tobin's Q	1.93	1.56	2.04	1.59	1.46
ROA (operating)	9.94	11.75	7.35	10.06	3.73***
ROA(Net)	0.46	3.99	-1.99	2.70	3.69***
Uncertainty	0.931	0.931	0.930	0.930	0.35
Uncertainty Beta	0.014	-0.083	0.055	-0.058	0.63
Firm-year observations	21711		3632		

Multivariate Analysis

Variables	Dependent Variable: Tobin's Q					
	OLS			Instrumental Variable		
	(1)	(2)	(3)	(4)	(5)	(6)
Founder-CEO	-0.164	-0.161	-0.117	-0.261	-0.228	-0.538
	(-8.20)	(-8.15)	(-2.93)	(-5.20)	(-4.90)	(-2.17)
Uncertainty		-2.165	-2.168		-2.19	-2.51
		(-7.49)	(-7.40)		(-4.16)	(-3.83)
Founder CEO*Uncertainty			0.058			0.374
			(2.07)			(2.05)
Control	Yes	Yes	Yes	Yes	Yes	Yes
Observations	25,343	25,343	25,343	5,208	5,208	5,208
Adj. R-squared (%)	25.45	25.61	25.62	9.45	9.69	9.71
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes

Notes: (i) Control includes natural log of total assets, cash, profitability, book leverage, R&D to sales, firm age, and stock return volatility (ii) Models under instrument variable approach are based on coarsened exact matched (CEM) sample (iii) Founder CEO status is instrumented by fraction of founders' death prior sample period.

Channel (Lower Private Rent)

Variables	Dependent Variable: Annual Excess Return					
	Mkt Value of Cash			Mkt Value of Capex		
	Full Sample	Low Uncer	High Uncer	Full Sample	Low Uncer	High Uncer
$\Delta Cash_t$	1.276	1.394	0.894	-	-	-
	(26.61)	(26.27)	(8.00)			
Founder CEO* $\Delta Cash_t$	-0.122	-0.114	-0.121	-	-	-
	(-2.09)	(-2.16)	(-0.73)			
$Cash_{t-1}$	0.26	0.271	0.207	-	-	-
	(18.4)	(17.48)	(6.08)			
Founder CEO	-0.003	-0.002	-0.015	-0.003	-0.001	0.019
	(-1.61)	(-1.78)	(-0.66)	(-0.30)	(-0.13)	(0.76)
$\Delta Capex_t$	-	-	-	0.334	0.394	0.159
				(5.00)	(5.37)	(0.96)
Founder CEO* $\Delta Capex_t$	-	-	-	0.071	-0.045	0.414
				(0.56)	(-0.32)	(1.71)
$Capex_{t-1}$	-	-	-	0.479	0.469	0.49
				(14.89)	(13.3)	(6.14)
Control	Yes	Yes	Yes	Yes	Yes	Yes
Observations	23927	19567	4360	24117	19722	4395
Adj. R squared (%)	13.5	14.3	13.6	9.8	10.3	10.6
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes

Notes: (i) Under cash models, Control includes $cash_{t-1} * \Delta cash_t$, $leverage * \Delta cash_t$, $constrained * \Delta cash_t$, $leverage$, $\Delta earnings_t$, $\Delta netassets_t$, $\Delta R\&D_t$, $\Delta interest_t$, $\Delta dividends_t$, $netfinancing_t$; (ii) Under capex models, Control includes $leverage$, $\Delta earnings_t$, $\Delta netassets_t$, $\Delta R\&D_t$, $\Delta interest_t$, $\Delta dividends_t$, and $netfinancing_t$; (iii) Years 2008, 2009, and 2010 are defined as high uncertainty periods.

Channel (Information Advantage)

Variables	Dependent Variable: Tobin's Q			
	Positive Beta Stock (Low Info. Advantage)		Negative Beta Stock (High Info. Advantage)	
	Full Sample	Matched Sample	Full Sample	Matched Sample
Founder-CEO	-0.182	-0.203	0.007	0.184
	(-5.1)	(-2.96)	(1.66)	(1.97)
Control	Yes	Yes	Yes	Yes
Observations	8268	1270	11,191	1336
Adj. R-squared (%)	25.59	19.89	24.16	18.67
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Firm FE	No	No	No	No

Notes: (i) Control includes natural log of total assets, cash, profitability, book leverage (ii) Censored Exact Match (CEM) based on industry, firm age, firm size, profitability, cash, and leverage

Summary and Conclusions

- On average, founder CEO leadership has negative impact on firm performance. Negative impact arises during low uncertainty period; however, founder leadership has strong positive impact during high uncertainty.
- Channels: Lower private rent extraction and increased value of insider's information
- Consistent with Li, Lu, and Phillips (2018) and Lagaras, and Margarita (2016)