Does the Founder CEO have better performance than the professional manager CEO— the evidence from Chinese listed companies

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Abstract: In recent years, technology Internet companies have risen rapidly. This industry has also spawned a large number of unicorns. In practice, we can find that the CEOs of these unicorn companies are almost all founders rather than professional managers. The study found that the founder CEO can bring higher market performance and accounting performance to the company, we call it the 'founder effect'. Particularly, the 'founder effect' of companies in nontraditional industries is more obvious.

1. Introduction

Since the 1990s, corporate governance has become a focus of research, and relevant supervision departments have issued a large number of documents aimed at regulating the governance structure of listed companies. In recent years, with the rapid rise of technology Internet companies, this industry has also bred a large number of unicorns. In practice, we can find that the CEOs of these unicorn companies are almost all founders rather than professional managers. Therefore, whether the founder CEO has better performance than the professional manager CEO is a question worth studying, and whether this effect is only effective for companies in the technology Internet industry is also a question worth studying.

2. Theoretical analysis and hypothesis

2.1 The impact of founder CEO on company performance

In the current social background, it can be said that no matter any type of company, the driving force for their progress is innovation. The company's adaptability, adjustment ability, and innovation ability are very important, and innovation means long-term investment, and professional CEOs often only Able to focus on the relatively short-term benefits of companies, because their salaries and income are often related to short-term performance, no matter how the current performance theory develops, the assessment of long-term performance is very difficult, which is the so-called principal-agent problem. As for the founders and CEOs, the company is like their children to them. They pay more attention to the company's reputation and the company's growth, which can reduce the principal-agent problem. For example, Amazon's AWS cloud service and Facebook's acquisition of WhatsApp are not businesses that can immediately bring profits to the company, but they are now star businesses. Especially for Internet companies, because we know that Internet companies have a phenomenon of increasing returns to scale, which means that Internet companies have to spend more money on burning money in the early stage, which is often in a state of loss, but Internet companies have a significant network As a result, once the market leader is occupied, performance will show geometric growth. Therefore, Internet companies need more long-term investment.

In addition, in this technological age, the current product complexity is often high, requiring managers to have in-depth professional knowledge. Professional managers can there are also obstacles to communication between them, which will also significantly affect the company's future development.

However, the founder's role as CEO may also have some negative effects on the company. First of all, the founder as CEO often has a greater right to speak within the company, increasing the risk of company decision-making errors and increasing the volatility of performance. The founder's CEO's greater right to speak can also easily make the company's internal internal control invalid, such as financial fraud. In addition, with the development of the company and the gradual expansion of its scale, founders with a technology background often need to face more management, financial, and regulatory challenges, and the founders themselves often find it difficult to possess these basic qualities. Therefore, according to the previous management theory, with the increase of company personnel, the company's management costs will rise rapidly. At this time, replacing an experienced professional manager can effectively reduce management costs, but with the rapid development of current Internet technology, Making flat management possible, and management costs have also decreased.

2.2 Research hypothesis

Based on the previous analysis, we can think that the founder’s role as CEO can bring higher accounting performance to the company. However, regarding market performance, since more scholars believe that the stock market is a semi-strong efficient market, the founder serves as the CEO. This information will not affect the stock price. The relationship between the founder as CEO and the industry is the same, which will improve accounting performance, but because the stock market is semi-strongly effective, it will not increase the stock return rate. Therefore, two hypotheses are proposed as follows:

Hypothesis 1: The founder's role as CEO will have an impact on the company's accounting performance, but according to the effective market, the stock price has already digested relevant information, so it has no impact on market performance.

Hypothesis 2: The influence of the founder as CEO on the company's accounting performance is related to the company's industry, but market performance has nothing to do with the industry.

3. Research design

3.1 Sample selection

This article selects all private companies listed on A-shares before March 24, 2014 (because state-owned companies often find it difficult to find their founders) as the research objects. For the market from March 24, 2014 to March 24, 2021 Performance (stock yield) and 2020 accounting performance will be reviewed. Since the chairman of a listed company in China tends to have more power, the founders are also found to be more of the chairman in the actual data collection process, so the chairman or general manager of the founder is managed as the founder.

3.2 Variable description

Table 1.Variable definition and interpretation.

Variable symbol	Variable interpretation
r	The logarithmic return rate of stocks from March 24, 2014 to March 24, 2021, where the stock price is pre-restored valuation
ROE	Return on net assets after deducting non-recurring gains and losses in the 2020 annual report
Founder	Dummy variable, the founder serves as the CEO or the chairman takes 1, otherwise it is 0.
Industry	Dummy variable, if the company's industry is a traditional industry, it will be 0, otherwise it will be 1.
β	Reflect the correlation between the company's stock price and the market
SIZE	The natural logarithm of the company's total assets.
LEV	Asset-liability ratio.
INP	Proportion of independent directors
SRMS	The proportion of shares held by the largest shareholder.

3.3 Model building

For market performance, build the following model:

$$r = \alpha_0 + \alpha_1 \text{Founder CEO} + \alpha_2 \text{Industry} + \alpha_3 \text{Founder} \times \text{Industry} + \alpha_4 \beta + \varepsilon \quad (1)$$

$\text{Founder} \times \text{Industry}$ represents the cross term of two dummy variables, used to test whether the founder CEO has different impacts on the company's performance in different industries, represents the random error term, and assumes that it obeys a normal distribution with a mean of 0.

For accounting performance, establish the following model:

$$\text{ROE} = \beta_0 + \beta_1 \text{Founder CEO} + \beta_2 \text{Industry} + \beta_3 \text{Founder} \times \text{Industry} + \beta_4 \text{SIZE} + \beta_5 \text{LEV} + \beta_6 \text{INP} + \beta_7 \text{SRMS} + \varepsilon \quad (2)$$

4. Conclusions

4.1 Results and analysis of descriptive statistics

The total number of samples finally obtained is 1,319, of which 574 have the founder serving as the chairman or general manager, and 745 have the founder not serving as the chairman or general manager. The 84-month total average logarithmic return rate of the above-mentioned sample companies is 41.05%, and the average return on equity after deducting non-recurring gains and losses (hereinafter referred to as deduction) is 2.54%. Among them, the 84-month average logarithmic return on shares of companies whose founders are not chairman and general manager is 31.58%, and the average return on equity after deduction is -0.76%. The 84-month total average logarithmic return on stocks of the company where the founder is the chairman or general manager is 51.85%, and the average return on equity after deduction is 6.81%. According to industry classification, there are 891 samples from traditional industries and 428 samples from non-traditional industries. Among them, the 84-month total average logarithmic return on stocks of sample companies in traditional industries is 40.15%, and the average return on equity after deduction is 2.51%. The 84-month total average logarithmic return on stocks of sample companies in non-traditional industries is 42.94%, and the average return on equity after deduction is 2.58%.

According to the statistical results of descriptive statistics, to a certain extent, the company whose founder is the chairman or general manager has a higher return on stocks and return on net assets (after deduction), and it is very significant, non-traditional industries The sample companies have higher return on stocks and return on net assets (after deduction), but they are not significant.

4.2 Correlation analysis

Table 2. Pearson Correlation Coefficient Matrix of Market Performance.

variable	r	β	Founder	Industry	Founder × Industry
r	1				
β	0.1706^{***}	1			
Founder	0.3677^{***}	0.1069^{***}	1		
Industry	0.0941^{***}	0.0506^{*}	0.1004^{***}	1	
Founder × Industry	0.2665^{***}	0.0879^{***}	0.5055^{***}	0.6403^{***}	1

Note: ***, **, and * are significant at 1%, 5%, and 10% respectively.

Table 3. Pearson Correlation Coefficient Matrix of Accounting Performance.

variable	ROE	Founder	Industry	Founder × Industry	INP	$SIZE$	LEV	$SRMS$
ROE	1							
Founder	0.0624^{**}	1						
Industry	0.0007	0.1004^{***}	1					
Founder × Industry	0.0182	0.5055^{***}	0.6403^{***}	1				
INP	0.0093	0.0512^{*}	0.0327	0.0636^{**}	1			
$SIZE$	0.0219	0.0653^{**}	-0.1178^{***}	-0.0567^{**}	-0.0961^{***}	1		
LEV	-0.1238^{***}	-0.0658^{***}	-0.0821^{***}	-0.0871^{***}	-0.0448	0.4841^{***}	1	
$SRMS$	0.487^{*}	0.0795^{***}	-1056^{***}	-0.0434	0.0022	0.1473^{***}	0.0502^{*}	1

4.3 Results and analysis of empirical analysis

The first is the empirical results and analysis of market performance. Significantly positive also shows that the company with the Founder as the general manager or chairman has higher returns. It is not significant at the level of 10%, which is also a good test of the efficient market theory, indicating that the choice of industry cannot bring excess returns. Founder × Industry Is significant at the 1% level, which also shows that compared with traditional enterprises, non-traditional enterprises with the founder as the general manager or chairman can bring higher excess returns.

Table 4. Market performance regression results.

Explanatory variables	r
Founder	8.3040^{***}
	[0.8714]
Industry	-0.4728
	[1.0337]
β	4.5477^{***}
	[0.8938]
Founder × Industry	4.2974^{***}
	[1.5053]
Constant	11.9325^{***}
	[1.0849]
R-squared	0.1606
Adjusted R-squared	0.1580
F-statistic	62.8437^{***}

Note: The numbers expressed in percentages are all multiplied by 100 during the regression, and the numbers in square brackets are the standard errors of the regression coefficients.

As for accounting performance, it can be seen that the asset-liability ratio of the control variable in this study is significant at the level of 10%, and it is significantly negative, which is more realistic, because the higher the asset-liability ratio, that to some extent indicates the company's The cash flow is poor, and the company's return on equity should be correspondingly lower. The independent variable founder management is significant at the 5% level, and the coefficient is significantly positive, which

also means that the founder serving as the general manager or chairman of the board can bring higher profitability to the company. Secondly, whether it is a traditional industry does not have a significant impact on the return on net assets, and the cross item is not significant, which also shows that the benefits of the founder as the general manager or chairman of the company have nothing to do with whether it is a traditional enterprise. Finally, the two control variables of major shareholder's shareholding ratio and the natural logarithm of the company's total assets are both significant at the level of 1%, while the proportion of independent directors is not significant.

Table 5. Accounting performance regression results.

Explanatory variables	ROE
Founder	6.3731^{**} [3.1517]
Industry	1.5667 [3.7445]
Founder × Industry	-3.9500 [4.4989]
SRMS	0.1820^{***} [0.0662]
INP	10.6107 [22.3702]
SIZE	5.0449^{***} [1.3143]
LEV	-0.5245^{*} [0.2913]
Constant	-7.6937 [5.0282]
R-squared	0.0279
F-statistic	10.51^{***}

4.4 Summary

Based on the results of the above two empirical studies, we can get that the founder’s role as the general manager or chairman of the company will have an impact on the company’s accounting performance, and it can also have a related impact on market performance. Let’s call it the “founder effect” for the time being. ". In addition, industry classification does not have a significant impact on accounting performance and market performance, but in companies where the founder is the general manager or chairman of the board, the industry classification will have an impact on the size of the founder’s effect in terms of market performance. Enterprises are more affected by the founder effect, while accounting performance does not have such an effect.

There are many reasons for the above results. First of all, compared with companies in traditional industries, non-traditional companies’ products are often more complex and require managers to have in-depth professional knowledge. Professional managers cannot go as deep as the founder and general manager to the specific details of the product. , And there are barriers to communication with the entrepreneurial team. Secondly, in today’s era, performance evaluation methods are more comprehensive, including market share, number of users, etc., instead of just focusing on return on net assets, especially for non-traditional companies, such as e-commerce, social networking, etc. In other fields, there are obvious network effects. Winners can often take the entire industry. Therefore, investors’ judgments about companies are often comprehensive. This also leads to the in terms of performance, industry classification will have an impact on the size of the founder effect. Non-traditional companies are more affected by the founder effect, while accounting performance does not have such an effect.

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