

Citation: Gündüz Ş. (2018), Founder's Syndrome at the Backstage of Agency Theory: A Threat to Corporate Governance and Corporate Social Responsibility, BMIJ, (2018), 6(1): 1-16 doi: <http://dx.doi.org/10.15295/bmij.v6i1.124>

FOUNDER'S SYNDROME AT THE BACKSTAGE OF AGENCY THEORY: A THREAT TO CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

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Received Date (Başvuru Tarihi): 10/01/2018

Accepted Date (Kabul Tarihi): 13/02/2018

Published Date (Yayın Tarihi): 20/04/2018

ABSTRACT

Agency theory studies have had almost no attention to antecedents of the causes leading agent-principal problem. As there is yet no consensus over what constitutes a perfectly working corporate governance mechanism, this discursive analysis tries to draw attention to the hidden reason of agent-principal problem in order to help the constitution of healthy corporate governance with corporate social responsibility. The purpose is to put forward that Founder's Syndrome could be one of the reasons behind agency problem and a threat to corporate governance and corporate social responsibility. This paper is the first to extend Agency Theory by associating it with a syndrome analysing the psychological and behavioural instigations of it, which fills the void in literature. A theoretical lens to enhance organizations' ability to be the corporate social responsibility-focused by overcoming Founder's Syndrome is provided bearing implications especially for organisational behaviour researchers.

Keywords: Founder's Syndrome, Corporate Social Responsibility, Corporate governance, Agency theory

JEL Codes: M10, M12, M14

VEKÂLET TEORİSİNİN PERDE ARKASINDAKİ KURUCU SENDROMU: KURUMSAL YÖNETİŞİM VE KURUMSAL SOSYAL SORUMLULUĞA BİR TEHDİT UNSURU

ÖZ

Vekâlet teorisi çalışmalarında asil-vekil sorununun arkasında yatan asıl sebebi araştıran çalışmalara neredeyse yer verilmemiştir. Mükemmel işleyen bir kurumsal yönetim modeli üzerinde henüz bir görüş birliğine varılmadığından bu çalışma ile asil-vekil sorununun ardında yatan gizli sebebe dikkat çekilerek kurumsal sosyal sorumluluk ile birlikte yürütülmesi gereken daha sağlıklı bir kurumsal yönetim önerisi sunulacaktır. Çalışmanın amacı vekâlet sorununun ardındaki sebeplerden bir tanesinin Kurucu Sendromu olabileceğinin ve bunun da kurumsal yönetim ve kurumsal sosyal sorumluluk için bir tehdit unsuru olduğunun ortaya konulmasıdır. Çalışma, Vekâlet Teorisinin psikolojik ve davranışsal tetikleyicilerini bir sendrom ile açıklamaya çalışması bakımından ilk olma ve bu anlamda literatürdeki bir boşluğu doldurma özelliğine sahiptir. Örgütlerin kurumsal sosyal sorumluluk odaklı olma özelliğini arttırmak için Kurucu Sendromundan kurtulmaları gerekliliği üzerinde teorik bir perspektif sunan bu çalışma özellikle örgütsel davranış bilimcilerine de ışık tutar niteliktedir.

Anahtar Kelimeler: Kurucu Sendromu, Kurumsal Sosyal Sorumluluk, Kurumsal yönetim, Vekâlet teorisi

JEL Kodları: M10, M12, M14

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1. INTRODUCTION

Today's organisations facing many changes are doomed to experience many syndromes. A set of symptoms constantly occurring together and characterised by a particular abnormality is called a syndrome (Merriam Webster Dictionary). Many syndromes thrive in various organisational cultures. Organisational Behaviour discipline should work deeply on these syndromes as employees experiencing these syndromes are at a risk of emotional trauma.

Although corporate governance and agency theory are widely dealt with in literature, the research on this area has directed almost no attention to the antecedents of the problems related to them. This study aims at identifying a principal-agent-like problem called Founder's Syndrome and its interrelationship with corporate governance and corporate social responsibility.

Prior literature shows that organisations in which founders are actively in management have a higher valuation compared to nonfounder organisations as the ones with founder-director experience fewer agency problems (Li and Srinivasan, 2011). This study highlights the fact that founders with Founder's Syndrome are the real reason behind the agency problem.

If agency theory is a problem in front of well-structured corporate governance, it is possible to say that finding out more about the reason behind agency theory is also beneficial to contribute to corporate governance and corporate social responsibility theories inevitably. Since there has been a little attempt to develop a model drawing attention to the psychological causes of agency theory, finding out how Founder's syndrome, whose symptoms are characterized with the principal (the founder in that sense), plays a role in agent-principal problem could provide a deeper understanding of agency theory.

Corporate governance literature is linked to corporate social responsibility due to similar theoretical implications between them. Corporate governance perceived as the support for top management, whereas corporate social responsibility activities are more beneficial for shareholders. Founder's Syndrome may trigger agent-principal problem, and this problem is considered as an obstacle for healthy corporate governance and corporate social responsibility. This study will be analysing how agent-principal relationship is affected by Founder's Syndrome and how this syndrome becomes a threat to

corporate governance and corporate social responsibility then.

2. LITERATURE REVIEW AND PROPOSITION DEVELOPMENT

2.1. Founder's Syndrome

Cheng (2009) describes Founder's Syndrome (also known as founderitis) as a situation in which non-profit organisations (NPO's) are still managed by the same founders, which results in outdated practices and management. The founder and the non-profit are seen as synonyms by stakeholders. The most problematic point is that the founder starts to feel burdened due to increasing work demand deterring him from a new start-up as he cannot dare to start from scratch (The Global Consulting Partnership, <http://www.tgcpinc.com>). Staying focused on the original mission that fuelled non-profit organisation may paralyze the growth due to the blindness to the challenging external changes in the environment (Bear and Fitzgibbon, 2005; Boustani and Boustani, 2017). Organisations suffering from Founder's Syndrome are also worse at kicking-off innovation (Boustani and Boustani, 2017).

Although Cheng (2009) attributes this syndrome to non-profits, and it is a myth that entrepreneurs suffer from a lot (Rubenson and Gupta, 1992), this malady has also been seen in all types of organisations.

Founder's Syndrome is mostly observed when an individual or a couple of individuals come together to establish an organisation and to bring it to a level even in tough times using their dedication. However, as not all decisions are taken collectively and only the founder has a word on decisions, here comes Founder's Syndrome on the scene. With the high sense like "I was here struggling with all difficulties", the founder finds it almost impossible to hand over the decision making process to someone else as he has a conviction that only he can bring his company into success (Wasserman, 2008). Gottlieb (2003) uses two metaphors to describe the problem with Founder's Syndrome. A founder might think that he has given birth to this organisation and this is his baby, however, when you have a child, it is a new personality and is no longer something you can own. This new personality should live independently making his/her own decisions. Apart from this baby metaphor, a gift metaphor for organisations could be used to explain what founder's syndrome is. Organisations that do not only have profit concerns are the gifts for society, and when you give someone a gift, it is no longer yours. The organisation given as a gift exists for the benefit of society within a social responsibility concern.

Thus, experiencing a situation such as seeing the organisation as your baby and a gift you cannot give anyone is Founder's Syndrome, which is often observed in non-profit organisations in which founders start with a clear vision and cannot trust others because they are passionate to accomplish their objectives (Hekkers, 2005). Some organisations suffer from not being able to go beyond their determined vision (Schuh and Leviton, 2006). This syndrome is also called Founder Shadow Effect (Henssen et al., 2014) and described as the founder's excessive and inappropriate involvement in all organisational activities, which is disruptive for organisational bodies (Davis and Harveston, 1999). The organisation goes on being managed according to the personality of the founder. The founder insists on participating in all policies and procedures, like even selecting board members, making all decisions alone and just waiting for others' approval and removing the ones who disagree (McNamara, 1998; McNamara, 2000).

Many have worked on how to overcome Founder's Syndrome, a syndrome that can linger for a long time if the necessary precautions are not taken. A founder should accept that it is not possible for him to do everything on his own and should delegate with the scope of individuation in order to achieve institutionalisation, which will enable the organisation to still exist after the founder's tenure. Founders should face the reality that everyone might not agree with them in the growth stage, and there could be some conflicts inevitably (Pty, 2010).

Founder's Syndrome is usually characterised as follows (Ready, 2012; Muriithi and Wachira, 2016):

- has the desire to have a full control on decision making process and anger when not included
- "knows everything" and is ready to give all answers
- shows unwillingness to share information and knowledge with the passion of being the only source
- has a deep psychological need to be the centre of all actions and operations
- expects respect all the time
- believes that they do not need any help, which means loss of control
- is self-driven, achievement oriented, resistant to change
- insist on sole-decision making

- retains the status quos.

Schmidt (2013) states that the blame for this psychological disorder is on the shoulder of the founder, and the syndrome is characterised by one or more of the following:

- grandiosity; the high ego of the founder
- delegation problem
- inability to replace the founder with the leaders
- breakdown in governance

2.2. Agency Theory

The relationship between one person (the principal) engaging one or more persons (agents) to operate service on his/her behalf is an agency relationship (Delves and Patrick, 2010), and agency theory assumes that the misalignment of interests in this relationship such as managers focusing on operations for their own benefits rather than the shareholders' could create some problems (Jensen and Meckling, 1976; Chen, C. et al., 2012). The core tenet of agency theory is an overarching concern that focuses on the potential for mischief by managers in situations in which the interests of both parts (managers and owners) diverge (Dalton et al. 2007; Muller-Kahle and Lewellyn, 2011). The theory developed by Coase (1937), Jensen and Meckling (1976) and Jensen (1983) (Shleifer and Vishny, 1997) focuses on four problematic issues in such a relationship: moral hazard, earnings retention, risk aversion, and time-horizon (McColgan, 2001).

One agency problem found widely in literature is managerial "empire building syndrome", which is characterised by managers' practices to attain great power by self-aggrandizement. This syndrome could trigger Founder's Syndrome then. The principal, the founder in that sense, may feel fear that his managers, the agents could suffer from empire-building syndrome. Empire building is a defect in corporate governance and it affects founders, eventually resulting in Founder's Syndrome, which also another danger for corporate governance practices. What is expected from corporate governance is to alleviate agency problem.

Three principal corporate governance approaches are used to minimise the effects of agency problem: independence approach, equity approach and market for corporate control approach. Independence approach is about having a board of directors independent of the management team so that it can monitor managers' actions to assure that they are not

diverging or deviating. Equity approach proposes that if managers are also given the status of equity holders, they become more likely to keep the interest of the organisation. Market for corporate control approach does not allow the presence of self-serving managers as the organisations with these types of managers may be subject to acquisition. The efficacy of these approaches is still debatable (Dalton et al., 2007).

Conflict with managers is one aspect of the theory. The other face of the coin is the conflict with large controlling shareholders (Villalonga and Amit, 2006).

The quality of corporate governance improves information transparency and is a sort of remedy for information asymmetry faced within agency-principal relationship (Ali et al., 2017; Gulay and Gulay, 2014).

P1. Founder's Syndrome has a positive effect on agent-principal problem.

For the founder, passing control over to someone else is equal to loss of identity. He has a sort of feeling that it is almost impossible to give something they have created to someone else. Strangers might not understand his objective. He should even work extra to run everything on his own. On the other hand, the management team or other partners strongly believe that the founder is in need of their support and has to reshape his role and should stay just as a member of the team, not the ruler. It could be said that Founder's Syndrome occurs when the founder hesitates to realign his role. The personality of the founder plays a great role in whether a creative idea might work or fail. Founder's Syndrome could be said to be a great reason for unnecessary fails (Ready, 2012).

Excessive point of Founder's Syndrome is the dilemma that yields "rich" versus "king" trade-offs founders suffer in between. The "rich" option is when the founder is sidelined by his/her CEO position being taken away for the sake of more profit, whereas the "king" choice is the founder's insistence on keeping the CEO status in order to maintain control even if it leads to a less valuable company (Wasserman, 2008). The latter is seen both as great damage to corporate governance and benefit to the organisation according to stewardship theory, the implications of which is that there is no CEO duality opposing to agency theory (Donaldson and Davis, 1991). There are many implications in the literature that steward governance works better than agency governance in family firms (Madison et al., 2017).

2.3. Corporate Governance

Prior to literature review on corporate governance, it is necessary to define what governance is. Governance is conducting the policy, actions, and affairs (of a state, organization, or people) with authority or ruling and controlling the way that an organization (a business or society) operates without sovereign power and without having the authority (Merriam Webster Dictionary; Macmillan Dictionary).

Corporate governance is a sort of safeguarding shareholders' rights while reinstalling investors' confidence (Elgharbawy and Abdel-Kader, 2016). Corporate governance is explained and supported by different Management Theories: Institutional Theory, Agency Theory and Stakeholder Theory (Dereköy, 2015). Agency theorists state that corporate governance can be achieved via the harmonisation between the shareholders and management team. From Agency Theory perspective, corporate governance means assigning separate powers and distributing rights and responsibilities for management, for board of directors, for shareholders, and for other stakeholders (Coglianese, 2007; Verma and Kumar, 2012). Hierarchical dynamics of the principal-agent relationship (Armour et al., 2009) determine many corporate decisions. Corporate governance is needed to establish mechanisms to align the interests of managers and shareholders (Renders and Gaeremynck, 2012; Fernandez, 2015).

It is obvious that more and more organisations give great importance to corporate governance so as to put some organisational pressure to make the organisation more independent of their founders. Family and nonfamily organisations differ significantly in terms of independence (Stockmans et al., 2010). Although there are many arguments in literature whether family organisations outperform nonfamily organisations in terms of income, risk-taking ability etc. (Judge, 2011), there is empirical evidence that family organisations are really in need of a more formal corporate governance mechanism because family organisations are likely to focus on their family aims and objectives, which might damage shareholder protection, whereas it yet sorts out agency problem between the management and the owners (Maury, 2006). Due to a great pressure on family organisations to apply corporate governance (Melin and Nordqvist, 2007), the owners might revise their vision and mission accordingly.

2.4. Corporate Social Responsibility

Corporate social responsibility (CSR) is a sort of governance on global level. Following corporate social responsibility strategy is a way of responding to social demands from the organisations (Morales et al., 2006) as well as increasing organisational performance (Amini and Bianco, 2017; Peris et al., 2017). CSR is what is expected in a corporate governance mechanism. CSR which could be defined as an organisation's contribution to sustainable development beyond legal requirements (Gamerschlag et al. 2011), is considered as a paradigm shift in corporate governance actions (Quazi and O'Brien, 2000; Gras-Gil et al., 2016).

CSR consists of many theories mainly classified in four theories: 1) instrumental theories, which see the organisation as a tool to create wealth, 2) political theories interested in the power of the organisation in the political arena, 3) integrative theories paying attention to satisfy the needs of society, and 4) ethical theories concentrating on ethical responsibilities of organisations towards society. In short, all these theories have four dimensions related to profits, political performance, social demands and ethical values (Garriga and Melé, 2004). A multifaceted CSR operates the gamut from pure philanthropy to sustainability for the sake of the pursuit of shared values (Rangan et al., 2015).

There is no specific definition of CSR on which there is consensus, however, it is almost agreed upon that CSR is a concept including corporate philanthropy putting emphasis on the improvement of the society in the long term (Verma and Kumar, 2012).

P2. Corporate governance and social responsibility are interrelated.

Corporate governance principles such as transparency, accountability, responsibility and fairness are internationally common. As corporate social responsibility is the responsibility an organisation has to take considering all inside and outside actors (employees, customers, shareholders, environment, state, suppliers, competitors and society), corporate governance seems quite an overlapping concept with corporate social responsibility. Corporate social responsibility is considered as an element of corporate governance, as corporate governance means being liable to all ethical issues considering the society (Dereköy, 2015). Corporate social responsibility and corporate governance are seen as complementary terms and sometimes used interchangeably. Corporate social responsibility practices are within corporate governance. The slight difference could be that; corporate governance is more related to profit maximisation for the internal stakeholders, whereas

corporate social responsibility is more concerned with the benefits of external stakeholders and the whole society. It could be said that corporate social responsibility is increasingly focusing on corporate governance believing the benefits of incorporating social and environmental concerns in business issues (Gill, 2008). CSR should be carried out in an organisation in order to survive and gain corporate legitimacy with the help of support from the stakeholders. Friedman (1970) defines CSR as an agency problem, and it is a tool that managers use to foster their career from agency theory perspective, which sees CSR as a misuse of corporate resources that could be spent for the benefit of shareholders (McWilliams et al.; Rao, 2013; Jamali et al., 2008). Great amount of research focuses on finding an answer to the issue of whether CSR helps enhance shareholder value, or it is just an agency cost wasted by managers; however, the evidence remains conflicting (Hong et al., 2016). CSR stands between where stakeholders theory and agency theory conflict. The highest level of corporate governance, which is necessary for a sustainable development, is to safeguard the rights of stakeholders via CSR (Liu and Zhang, 2017).

Although a lot of literature has dealt with corporate governance and corporate social responsibility independently, some literature has been researching those two concepts jointly and systematically to alert executives to the increasing overlap between them as CSR is gradually penetrating into corporate governance practices. They have many themes in common such as transparency, disclosure, sustainability and ethical behaviour, and their aims and benefits are quite similar in nature. They both work on increasing shareholder value by building public trust and confidence with transparent reports; establishing strong brand reputation of the organisation; establishing strong ties with stakeholders; and contributing to the development of the area in which the organisation operates and to the whole society in order to get a strong market position in the long term (Fathima, 2016). They create a better image of an organisation with the activities to prosper society, which has a direct effect on the organisational performance (Verma and Kumar, 2012).

P3. Founder's Syndrome as a source of Agency Theory deteriorates well-balanced corporate governance.

Some other problems encountered in organisations with Founder's Syndrome are lacking the right strategy to accomplish objectives, being under-managed as the organisation is founder-dominated, not having an open dialogue which gives the feeling that the input by the employees is not valued, and losing motivation because of not participating in the decision-making process. In addition to these, the language used by the founder is quite

discouraging for the staff as well. The staff could be using the possessive pronouns such as his/her organisation, his/her company, or the language used among the staff could be suggesting overwork full of details. There could be excessive focus on founding stories and myths and a sort of deference to whatever the founder says (Shortall, 2007). The founder is almost always the decision maker. The most important detail that should be drawn attention to here is that the board of directors and the staff hired by the founder on their loyalty to the founder act primarily upon his/her demands and needs, which is not in accordance with governance. Inputs and ideas from others are usually ignored (Sullivan, 2015).

Founder's Syndrome is said to inhibit growth as it is hard to delegate a leadership team due to Founder's having difficulty in ceding decision making (Walske and Tyson, 2015). It is also not knowing when to move out of the way and let an expert move in (Cohen and Munshi, 2017).

As the founder is so reluctant to loosen his/her grip on the organisation, a succession plan seems almost impossible, which could create a vulnerable situation for the organisation (Sullivan, 2015). In *Leadership Guide* (2008), the reasons why the founder does not have a succession plan as follows:

- believes his/her stay is the best for the organization as h/she feels indispensable
- has high identification with the organization and using possessives like 'my organization'
- fears that they will change his/her original mission to the contrary upon your leave
- has a mixture of his/her own issues and the organizational issues
- tries to avoid the feeling of loss if they depart

The organisation with this syndrome finds it difficult to expand its perspective and sticks to its original mission too much which makes it "passion-driven" rather than "mission driven" (Weerawardena et al., 2010).

Advocates of agency theory state that good corporate governance practices should even focus on the board independency free from CEO duality, which is a contentious issue in terms of organisational performance (Duru et al. 2016; Teti et al. 2017).

3. DISCUSSION AND CONCLUSION

The method conducted in this study is a careful and systematic literature review of the corporate governance, corporate social responsibility and founder's syndrome to develop an evidence-based conceptual model. The inclusion criteria for the selection of research material for this study is based upon academic articles and books.

There is no empirical evidence consistent with the role of Founder's Syndrome on weakening corporate governance and has been a dearth of research on the psychological issues behind agency theory. Corporate governance is expected to alleviate the agency problem and the Founder's Syndrome, and overcoming the destructive effects of this syndrome will help corporate governance come into effect.

Agency theory is based on the separation of ownership and control, which is hard to achieve due to Founder's Syndrome. This syndrome stimulates the agency problem. Good corporate governance practice based on stewardship theory might reduce agency problems.

There are three streams of literature related to this paper: Agency theory, corporate governance and corporate social responsibility and finally Founder's Syndrome. This syndrome causes agent-principal problem which has a great effect on corporate governance and corporate social responsibility. It can be deduced that the syndrome itself has also an effect on corporate governance. The model of this study is illustrated in Figure 1.

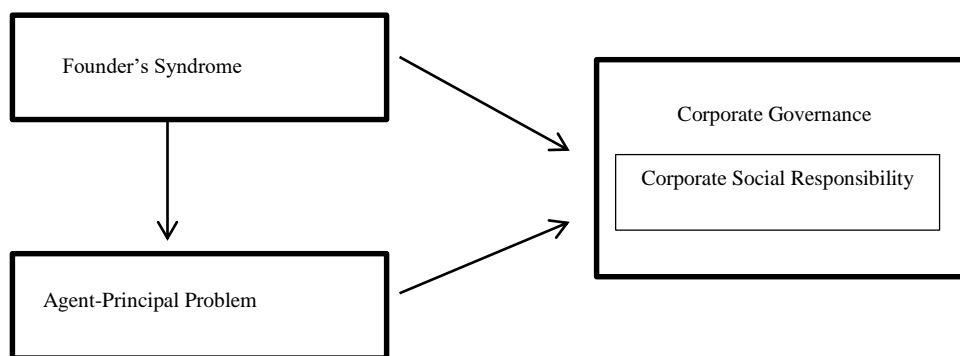


Fig. 1 Proposed conceptual model

To recapitulate, Founder's Syndrome could be considered as an attribute of agency theory. It is possible to say that overcoming Founder's Syndrome is a way of controlling problems of agency theory. This study could help to nuance scholars', practitioners' and policy makers' understanding of Founder's Syndrome. If this malady is not recognised and addressed proactively, it may affect the general health of the organisation and cause its demise after the founder's leave. Revisiting agency theory and presenting a hidden reason behind it

will assist to lessen the obstacles of corporate governance. It could be said that the corporate governance prevents the incurrence of agency problem (Ruangviset et al., 2014) by being in favour of agency theory, and it could be achieved by CSR. Even though CSR is becoming more and more important, research shows organisations show little CSR performance all over the world possibly due to the lack of ability of key players in decision making. Therefore understanding the composition of founders is of the utmost importance (Rao and Tilt, 2015).

As there has been some criticism on agency theory for just being based on Anglo-American context (Judge, 2012) and thus not being a theory with a high generalisability, it could be an ideal prompt to make research on various contexts to determine whether Founder's Syndrome has any emic perspectives or it contributes to a global theory of corporate governance.

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