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Here I come to save the day: Proposing necessary and sufficient conditions for founder-CEO comeback

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ABSTRACT

Founder-CEOs have garnered considerable research attention from entrepreneurship scholars. Researchers have built and tested hypotheses about when founders will leave their firms, when they will stay, and how their presence impacts firm performance. However, no theory exists to explain when founders who have left the CEO role will return to the leadership position. A recent string of high-profile Founder-CEO comebacks suggests this is a phenomenon worth studying. Using qualitative comparative analysis on a sample of Founder-CEO successions, we identify configurations of attributes that are necessary and sufficient to produce a Founder-CEO comeback. With this paper, we contribute new theoretical insights about a rare, but important, entrepreneurial phenomenon about which little knowledge exists.

1. Introduction

Founder-CEOs have fascinated entrepreneurship scholars for decades (Boeker and Karichalil, 2002; Jayaraman et al., 2000; Willard et al., 1992). What keeps founders at their firms, what drives them away, and how both alternatives impact their organizations are issues with profound theoretical and real-world implications. Roughly 20 years of research have yielded a few reliable findings. For one, Founder-CEOs exit their firms as the organizations mature and require different managerial skill sets than were necessary at their inception (Jain and Tabak, 2008; Souder et al., 2012). The other fairly consistent result across studies is that Founder-CEOs are not associated with poor performance at their firms. More specifically, relationships between founder management and performance have ranged from positive (Certo et al., 2001; Fahlenbrach, 2009) to none (Jayaraman et al., 2000; Willard et al., 1992).

Despite the attention paid to Founder-CEOs, and especially to their departure from their firms, no one has addressed the phenomenon of Founder-CEO comeback, wherein the founder returns as CEO after previously relinquishing that role. One could argue that this lack of attention simply stems from the dearth of such occurrences. As a string of recent high-profile founder comebacks has shown, however, this rare phenomenon has a significant impact on an organization when it does occur (Helman, 2007; Lohr and Darlin, 2007). If life-cycle theory—a doctrine which states, among other things, that firms outgrow their founders' abilities (Lindell, 1991)—holds, then what explains Founder-CEO comebacks? Is the firm regressing? Is the maturation process curvilinear? Traditional life-cycle theory does not offer much help in answering this question.

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Without any theoretical insight into why firms might bring their founders back to the chief executive role, it is difficult to formulate hypotheses and test them. Moreover, generating—let alone testing—a theory about the likelihood of such an unlikely event would risk producing a model with minimal empirical validity. With this paper, we draw on Harding et al.'s (2002) work on explaining rare events to inductively construct a set of necessary and sufficient conditions for Founder-CEO comeback to occur. While Founder-CEOs do not often return to lead their firms a second time, when they do, such a return will inevitably constitute a significant moment in the history of the organization. Consider the circumstances surrounding Howard Schultz's return to Starbucks or Michael Dell's return to Dell. These events were monumental for their respective organizations, and the sheer rarity of their occurrence should not deter entrepreneurship scholars from developing theory about them.

Using a sample of fourteen Fortune 1000 firms whose founders had served as CEO and subsequently relinquished that role, we apply qualitative comparative analysis (QCA) (Greckhamer et al., 2008; Rihoux and Ragin, 2009) to identify theoretical attributes that are necessary, and configurations of theoretical attributes that are sufficient, for founders to return as CEO within our sample. From these results, we produce three testable propositions that researchers can use to better understand this rare but important phenomenon.

2. Method

The method we have chosen for this study, QCA, enables us to derive propositions about necessary and sufficient conditions rather than about how individual predictors influence the likelihood of occurrence. While it is not absolutely necessary to have both positive- and negative-outcome cases for QCA to function, including negative-outcome cases provides for much richer inferences. As such, we include both in our sample. To be included in our sample, a firm must have been publicly traded at the time that its founder (initially) left the CEO position.

We collected our sample of comeback Founder-CEOs from a list of comeback CEOs created by Businessweek (Macmillan, 2009). The list of eleven CEOs revealed seven who were also their firms' founders. We cross-referenced the list with articles detailing high-profile comebacks, to find mention of any other founder returns. Google engaged in a Founder-CEO comeback subsequent to the publication of the list, so they were added. The firms included in the sample are listed in the top half of Table 1. Yahoo! was in the original list but we excluded it because founder Jerry Yang had left the top job at Yahoo! prior to the firm's IPO. The absence of publicly available data from the time of Jerry Yang's original departure made it impossible to include Yahoo in our sample. All seven of the remaining firms were in the Fortune 1000 at the time that their founders returned as CEO.

For our 'negative outcome' sample of firms—those that did not bring their founders back as CEO—we compiled a list of firms that were similar to those in our study sample. We chose relatively high-profile Fortune 1000 companies. The seven Founder-CEO comeback firms are predominantly in the technology sector, so we selected the non-comeback firms predominantly from the technology sector. Our criteria for inclusion in this sample were the following: the firm must have undergone at least two CEO succession events, one when the founder left, and one when the founder's initial successor left; the founder must not have returned to the CEO position; and the founder must have been alive at the time of the second succession event. The idea behind these criteria is that the firms must have been able to bring their founders back as CEO, but for whatever reason failed to do so. The seven non-comeback firms are listed in the bottom half of Table 1.

Using Boolean methods, QCA assesses whether configurations of the theoretical attributes included in the analysis are sufficient and/or necessary for the outcome of interest to occur. 'A cause is necessary if it must be present for a certain outcome to occur... A cause is defined as sufficient if by itself it can produce a certain outcome' (Ragin, 1987: 99).

Table 1
Sample of founders.

Comeback firms	Founder-CEO	Return date
Apple	Steven Jobs	9/16/1997
Starbucks	Howard Schultz	1/7/2008
Gateway	Theodore Waitt	1/29/2001
Dell	Michael Dell	1/31/2007
Charles Schwab	Charles Schwab	7/20/2004
Peoplesoft	David Duffield	10/1/2004
Google	Larry Page	4/4/2011
Control firms	**Founder-CEO**	**Second CEO succession date**
AMD	W. Jerry Sanders	7/1/2008
Best Buy	Richard Schulze	6/24/2009
Calpine	Peter Cartwright	8/10/2008
Cardinal Health	Robert Walter	8/31/2009
Southwest Airlines	Herb Kelleher	7/15/2004
EMC Corp.	Richard Egan	1/1/2001
Adobe Systems	John Warnock	12/1/2007