HARVARD | BUSINESS | SCHOOL

FACULTY & RESEARCH

Article | Journal of Financial Economics | November 2011

Corporate Governance When Founders Are Directors

by Feng Li and Suraj Srinivasan

Abstract

We examine CEO compensation, CEO retention policies, and M&A decisions in firms where founders serve as a director with a non-founder CEO (founder-director firms). We find that founder-director firms offer a different mix of incentives to their CEOs than other firms. Pay for performance sensitivity for non-founder CEOs in founder-director firms is higher and the level of pay is lower than that of other CEOs. CEO turnover sensitivity to firm performance is also significantly higher in founder-director firms compared to non-founder firms. Overall, the evidence suggests that boards with founder-directors provide more high powered incentives in the form of pay and retention policies than the average U.S. board. Stock returns around M&A announcements and board attendance are also higher in founder-director firms compared to non-founder firms.

Keywords: Corporate Governance; Executive Compensation; Retention; Policy; Motivation and Incentives; Performance; Governing and Advisory Boards; Mergers and Acquisitions; Wages; United States;

Format: Print 16 pages SSRNFind at Harvard

Citation:

Li, Feng, and Suraj Srinivasan. "Corporate Governance When Founders Are Directors." *Journal of Financial Economics* 102, no. 2 (November 2011): 454–469.

About the Author

Suraj Srinivasan
Philip J. Stomberg Professor of Business Administration
Accounting and Management