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2007/28/EFE

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by

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Introduction

Russian capitalism is 20 years old—it is two decades since the first private companies, disguised as "cooperatives," were formed in the Soviet Union in 1987. Since then the Russian economy has gone through a major transformation, which has encompassed distinct periods of activity: the creation of private firms, price liberalization, mass privatization and the restructuring of former state-owned companies, the development and growth of the stock market, financial crisis, currency devaluation and economic rebound, and the introduction of corporate governance standards. The next big challenge for Russian business is founder-CEO succession. In recent years some prominent Russian business leaders, such as Vladimir Yevtushenkov, the founder of the multi-billion dollar Sistema conglomerate, and Dimitry Zimin, the founder of telecoms giant VimpleCom, have passed the CEO's baton to professional executives. Hundreds of other less well-known owners followed suit.

Since most outgoing Russian founders are relatively young and enjoy a significant level of ownership control, their departure is intriguing and raises a number of questions. Why do they relinquish executive power? What triggers founder-CEO succession in Russia? Is it voluntary or forced? Who follows the founder? What becomes of the founder? What impact does the succession have on company performance?

If this trend is sustained, it will be critically important for the Russian business community to understand what kind of succession process, leading to improved company performance and founder satisfaction, will be successful in Russian companies. This paper is a first step toward creating such understanding. After summarizing findings from succession research in the West, I describe the specific—and frequently unusual—conditions under which succession takes place in Russia. I examine six cases of founder-CEO succession in Russia, in an attempt to define good and bad practice, and identify an essential element of the process which I call the Russian succession paradox. From this, I develop a conceptual framework and suggest directions for future qualitative research.

What is the Russian succession paradox? I use this term to explain the process whereby a company goes through all the motions of seeking and appointing a successor to the founder, only to award the chosen person with a merely nominal role as CEO, while the old regime continues de facto to run the company. The Russian succession paradox means that far from passing on the baton, the founder does not go away. He retains, or regains, power without assuming executive responsibility, while the new CEO shoulders all the accountability for the organization's results. As the cases in this paper show, the Russian succession paradox operates to a greater or lesser extent within many Russian companies.

Founder-CEO Succession Research in the West

Founder succession is a critical event both for the firm and the individual (Schein, 1985, Kets de Vries, 1985). It has received some attention in management research over the last 20 years; however, most of this is case-based. Large-scale studies are rare and no comprehensive theory has been developed (Giambatista, Rowe, Riatz, 2005). In one study of 202 Internet start-ups conducted in the U.S.A., Wasserman found that contingencies like completion of product development, or new financing, trigger founder-CEO succession. He called this "the paradox of entrepreneurial success," when the CEO's success in developing a venture—demonstrated in new product lunches and acquisition of funds—actually accelerates his/her exit. He also found that the likelihood of founder-CEO succession increases as the insiders' share of ownership decreases (Wasserman, 2003).

Outgoing founders usually settle into a chairman's or director's role. They occasionally assume an executive position and report to the new CEO, but are unlikely to leave the firm for good (Wasserman, 2003).

With so little specific founder-CEO succession theory to draw on, we have to turn to the family business and general succession literatures to form a theoretical basis for researching founder-CEO succession in Russia. In the family business domain, research has focused on the inter-family transition of executive power (Handler, 1990) and satisfaction (or otherwise) with the process and its outcomes (Sharma, Chrisman, Pablo, Chua, 2001). Succession planning is generally weak in family-owned companies, with only 20 percent of Korean companies and 15 percent of US companies from one study shown to have formal succession plans (Kesner and Sebora, 1995; Kirby and Lee, 1996). Churchill and Hatten (1987) developed a life-cycle model of father-son succession in a family firm, consisting of four stages: 1) owner management; 2) training and development; 3) partnership; 4) power transfer. The family business literature emphasizes the importance of relationships between incumbent and successor. Fiengener, Brow, Prince and File (1994) found that CEOs of family-owned firms preferred to develop close relationships with their successor. The perceptions the incumbent and the successor have of each other, as well as evaluations by other family members, play an important role in the choice of the new CEO and impact the effectiveness of the succession process (Matthews, Moore and Fialko, 1996; Gomez-Mejia, Nunez-Nickel and Gutierrez, 2001). Lee, Lim and Lim (2003) use game theory to explain external succession in family firms—an outsider is only chosen when there are no capable offspring in the picture; and even then a family member may still become CEO, because a professional manager from outside could extract a heavy premium for his services.

A number of studies have found that entrepreneurs who have created and developed their businesses find it difficult to give up power (Kets de Vries, 1985; Sonnenfeld, 1987, 1991). Many of them act out their resistance in non-productive ways, using psychological defenses to justify their actions (Kets de Vries, 1985; Lansberg, 1988). Because of this, some researchers argue that the successor should take control over the succession process to ensure its effectiveness (Goldberg and Wooldridge, 1992; Sheperd and Zacharakis, 2000).

One of the most consistent findings of the general succession literature is that poor firm performance leads to CEO succession (Warner, Watts and Wruck, 1988; Huson et al., 2001). Various studies have tried to determine the impact of succession on post-event firm performance; the results are not coherent, partly because of the difficulty in measuring the firm's performance and the need to use multiple performance metrics. However, insider succession is associated with higher post-event firm performance than outsider succession (Shen and Canella, 2002; Huson et al., 2004). Additionally, a study of 204 U.S. manufacturing firms found that relay succession (when the heir apparent takes over from the outgoing CEO) leads to higher levels of performance than either a horse race between internal candidates for the position or outsider succession (Zhang and Rajagopalan, 2004). The authors argue that an heir apparent is better positioned to cope with strategic and industry instability because of his/her superior company knowledge and understanding of the big picture, while alternative successors would have to go through a long learning process. Formally planned succession is also associated with higher performance (Friedman, 1986).

Some studies have tried to identify criteria for selecting successors. Ocasio and Kim (1999) found that the likelihood of selecting a successor from a particular functional background is related to the number of CEOs with this background in the sector. Bailey and Helfat (2003) argue that a successor's human capital (skills developed through formal education and experience in different companies and sectors) is a principal criterion for selection. No consistent relationship was found between the outgoing and incoming CEO demographics (Datta and Guthrie, 1994).

However, as Russia enters a period of power transfer from business owners to professional managers, there are numerous country-specific factors that make the founder-CEO succession environment in Russia truly unique. These in turn raise the question of whether CEO succession theory developed in the West can be applied to Russia, or whether it requires country-specific research.

Russia: A Very Special Environment for Succession Events

First and foremost, outgoing founders represent the first generation of entrepreneurs to have built their businesses in the country and the first to pass them on to other people to manage. Capitalism and private enterprise are recent phenomena in Russia: none of of its working population could have possibly lived in pre-revolutionary times and remembered "how it was done then" (McCarthy, Puffer and Shekshnia, 1993). Private enterprise and private property did not exist in Soviet Russia and neither those who leave CEO positions in their companies nor those who succeed them have any experience of property transfer from one generation to another (Kets de Vries et al., 2004).

Second, most outgoing Russian founder-CEOs are relatively young and have many years of active life ahead of them. At the same time, they have lived through a decade and a half of wild Russian capitalism with mass privatization, asset stripping, corporate wars, mafia gangs, accounts-settling and kidnappings, which took a heavy toll on their physical and psychological health (Peng, 2001; Puffer and McCarthy, 2001). Because they are relatively young and very engaged in building their businesses, the majority of Russian founders do not have children ready and willing to take the reins of the business from them. Their children are either still too young or have never been groomed for the role (Kets de Vries and Shekshnia, 2004).

Third, many founder-CEOs have built their companies with other people and share ownership and management with their partners, who are equally involved with the business.

Fourth, Russia has virtually no venture capitalists and its stock market is still very small, even if it is developing quickly. Up until very recently, Russian entrepreneurs had no significant opportunities to finance their firms' growth through equity investments (Puffer and McCarthy, 2001).

Fifth, Russia has no history of a market economy, no tradition of management education (Puffer, 1992; Shekshnia, 1994), and is suffering from population decline but it offers impressive entrepreneurial opportunities to talented businessmen. However, Russia faces a looming shortage of professional managers to replace outgoing founder-CEOs

(Shekshnia, 2006). This shortage puts an upward pressure on executive compensation, making Russia one of the most expensive countries in Europe to hire management talent (Roshin and Solntsev, 2006).

Lastly, historically and culturally, succession has never been a particular strength of Russian governance systems. Locked in the present, fearful of competition (which could manifest itself as anything from a bloody coup d'état to quiet poisoning), and determined to stay in power until they drew their last breath, throughout history, most Russian leaders have preferred to turn a blind eye to their succession, leaving it to God, the Communist Party or those who came after them (Kets de Vries et al., 2004). In the 300 years of the Romanov dynasty there were only three incidents when the succession followed a long-standing plan[1]—in two of those, the nominated rulers ended up being murdered by their discontented subjects and eventually, of course, the core of the ruling family was murdered in 1917 (Kluchevsky, 1989). This pattern did not change during the Communist era—infighting and intrigue surrounded each of the major succession events, from Lenin-Rykov-Molotov-Stalin (1924–41) to Tchernenko-Gorbachev in 1985 (Kets de Vries and Shekshnia, 2004).

Understanding Russian Succession Dynamics

To develop concepts to understand Russian succession dynamics and to plan future research, I looked into six cases of founder-CEO succession in Russia. I followed the companies involved for the periods of four to eight years and worked with their founders either as an executive or as a personal advisor and coach. I interviewed each of them, and the new CEOs of their companies, for this research project. Cases 1–4 show the Russian succession paradox, which risks becoming the predominant model of governance in Russia, operating in four different succession events. The last two cases, however, present different succession solutions and show that the paradox does not operate in all Russian organizations.

The Russian Succession Paradox in Action: Four Case Studies

Case 1. Tired entrepreneurs

Three college friends started their first trading company in the late 1980s when the Soviet system of central planning and resource allocation was rapidly disintegrating. By the late 1990s theirs was the largest company in its respective industry in Russia, producing primary materials and some finished products with dozens of mills and 50,000 employees scattered from Kaliningrad to Irkutsk. One of the founders, who owned the largest (but not a controlling) stake, served as CEO; the two others looked after operations and marketing and sales respectively. The firm did not have a board of directors; the founders made all major decisions through informal discussions among themselves. As the organization and its executive team grew, the founders often gave incompatible orders and supported conflicting initiatives. Personal rivalry influenced some of their actions.

In 2000, the concept of sound corporate governance began to surface in Russia, and the founders—who felt a certain amount of fatigue after ten years of extremely intense work—made what they called "a historic decision" to vacate their executive jobs and to become the company's first directors. The ex-CEO became chairman. Selecting his successor was a daunting task. After long deliberation, the founders settled for what they

[1] Peter III (1761–62), Alexander II (1855–81) and Nicholas II (1894–1917).

called "the least evil," appointing a long-term associate, the company's chief accountant, as the new CEO. This man, who had just turned 40, went to the same college as the founders, had never worked outside the country or the industry, and had no formal business education. He turned out to be the only person all three founders trusted, even though they admitted when they appointed him that it was unlikely he would be able to do the job. The founders entertained an idea of hiring a professional executive from outside, but felt that the company was "too messy" to bring a stranger in. Their thoughts at the time were to "clean it up" and then to bring in a strong individual.

Six years later the main protagonists are still there—the ex-accountant is still CEO and the three founders form the core of a five-man board (the CEO and a legal counsel are the two other directors). The change in the governance system has had no visible impact on the company's results and the founders are moderately satisfied with the reform as the whole, even though they are very critical of the CEO's performance.

The most interesting aspect of all this, however, is that the governance system has not changed at all. When the founders appointed the new CEO and became directors, they kept their lavish offices, with paintings by Klimt and Shishkin on the walls, while the new CEO settled into much more modest quarters. After a short break, the newly-baked board members started to come to the office every day and, as before, their former subordinates began turning to them for decisions. According to one of the founders, "We resisted for a couple of months, but then we gave up." Pretty soon the CEO was sidelined and the founders resumed their executive roles without ever reclaiming their former titles. A new system of governance has emerged under which the founders enjoy full-decision making power, while the CEO has formal (and legal) responsibility for the company.

This is a case where founder-CEO succession was voluntary, unrelated to any contingencies. The CEO became chairman of the board but preserved his executive power. The new CEO was not an heir-apparent, but a long-standing insider without prior CEO experience, no formal business education, and no experience with an international firm. The company performance was not affected, and the founders are satisfied with the change, although dissatisfied with the CEO's performance.

Case 2. Saving relationships

Friends through school and college, Alexander and Vladimir (all proper names in this paper are disguised) founded their retail and service company in Moscow in the early 1990s. The business survived some tough years of galloping inflation, political instability, extortion attempts and kidnapping and by 2001 was a market leader with annual revenues of $60M, robust profits, five regional offices and 400 employees. Each of the founders owned 50 percent of the business; Alexander was CEO and looked after marketing, sales, personnel, administration and external relations; Vladimir supervised supply chain, services, finances and security. Both were signatories for the company and had unlimited spending authority. Most decisions were made informally in tête-à-tête conversations between the founders, often during Sunday sauna sessions. They had offices off the same reception area, and shared a secretary.

Their intimate friendship transitioned into a sometimes-contentious business partnership as the business grew and its owners matured. They no longer spent their rare vacations together, and even abandoned their lifelong tradition of going to the sauna. Decision-making became problematic—they had different views on how to grow the business at a time when the number of important decisions that they had to make together was increasing dramatically. Alexander wanted to pursue an aggressive regional expansion strategy while Vladimir's priority was to preserve profitability. Discussions between the partners took more and more of their time, reducing their effectiveness at work and affecting their relations with external counterparts and company managers. By 2002, the year in which they both turned 35, heated arguments were commonplace and the owners would not talk to each other for days, paralyzing the business.

To save their relationship and the business, the entrepreneurs turned to outside help. After intensive work with consultants they decided to change the governance model. They would hire a professional CEO, form a board of directors with independent members and assume directors' positions themselves. With the help of an executive search company they recruited a CEO, a 34-year-old Russian executive with an MBA from an international business school and experience with international companies at the VP level. They formed a four-member board with two senior executives from the investment and service sectors as independent directors. Alexander became chairman.

This structure has survived, but some of the actors have changed. The board (at the founders' request) ousted the first CEO after less than six months on the job. They did not approve of his "laid-back style" and "large company mentality," confirming the hypothesis that one of the major factors in evaluating a new CEO's performance is the degree to which his style meets the founders' expectations about "appropriate style" (Sharma, Chrisman, Pablo and Chua, 2001). The outgoing CEO blamed the founders for "interfering with the business", "not keeping agreements about sharing authority" and "making decisions and delegating to him responsibility, not authority."

His replacement was older (45), had some CEO experience, had worked for an international company and had graduated from a business school. His previous employer was one of Alexander and Vladimir's suppliers and the entrepreneurs had known their future CEO for more than three years. He lasted over two years in the job; the founders gave him credit for improving operational efficiency and overall business profitability, but cited his lack of strategic insight as a major reason for his removal. The CEO himself commented after his departure, "The shareholders did things I had to correct—promised a discount to a customer, a job to a candidate, a bonus to a manager, etc. There was no clear line between management and shareholders and that was tough."

The third and current CEO is 35 and has a finance background. The founders met him when he worked on a fundraising project for them. He had no CEO experience, had worked for an international company, but had never attended a business school. At the time of publication, he has been in the job for one year. The founders are satisfied with both his style and results: the company's profitability and revenue have increased faster than in 2004. In an interview for this article, the CEO admitted that the founders "keep making some decisions I am supposed to make and even forget to inform me about them, but it's improving. We just need more time to figure out who does what."

This is a case of voluntary succession, where the founders decided to change the governance model to improve their personal relations and the management of the company. The founder-CEO became chairman of an actively working board but does not limit himself to a purely non-executive role. It took the founders more than one attempt to find an effective successor. The current CEO comes from outside, but has a history of previous relations with the founders, had worked for an international company but had had no previous CEO experience. This is a lighter version of the Russian succession paradox.

Case 3. Pleasing investors

Two former childhood friends pooled their modest financial resources in 1999 to start a retail store. One of them became CEO of the newly created company and the other head of operations. The CEO ensured day-to-day management of the business and made most operational decisions, consulting his partner about major investments or other serious commitments. The latter concentrated on managing the most important projects, such as large-scale contracts with suppliers and the introduction of an ERP system. The business swiftly moved into selling cell phones and accessories throughout Russia and grew extremely fast, reaching $1 billion in sales in 2004.

The same year, following advice from consultants, the founders decided to float the company to fund future growth. As a first step to IPO they sold a minority stake to a financial investor. Part of the deal was an agreement to form a board of directors with the participation of the investor's representatives, who suggested that it would be beneficial for the future IPO to bring in a professional manager as CEO. After brief deliberation the founders accepted the proposal. This was an easy decision for them, as they were already entertaining the idea of bringing in one of their corporate clients' executives for a senior role. The founder-CEO became the chairman of the board and the board appointed the new CEO—a 45-year-old former sales and marketing executive who had international company experience, but no formal business education or tenure as a CEO. However, the new CEO had over three years of business relations with the founders.

The company continued to grow with double-digit speed and its profitability improved; both founders express satisfaction with the new governance structure, the CEO's style and his effectiveness. However, their actual roles are quite different from what is prescribed in corporate governance manuals. The founders have kept their offices at the firm's headquarters; they come in every day and put in long hours. They are involved in all major operational decisions and the CEO confesses, "I will not make any big decision on my own, it is their company, they should decide." With the incumbent CEO's consent, the former CEO-turned-chairman handles all high-profile external relations, including investment banks, key suppliers, the government, customs officials, etc. In addition, he is often seen at the company's shops, giving orders to the staff and even firing some of them on the spot in the spirit of a long-standing company tradition. He is open about his behavior: "It is unrealistic to expect a hired executive, even the most professional one, to care about the firm as the owners do. Whatever the titles are, this is my company and I have to manage it." His partner takes a slightly softer position: "This company is too complex for one person to run. We have to help our CEO." The latter seems to accept the rules of engagement: "I am fine with the arrangements. They know that I will never do anything I do not believe in, but I do not mind them doing small things without telling me. It helps me to focus on what I am good at."

This is another case of voluntary succession where one of the founders became chairman of a newly-created board. He does not attempt to hide his active involvement in operational management. The new outsider CEO accepts his limited authority and full responsibility and even finds it beneficial for the company, which demonstrates strong growth and profitability. This is an example of the Russian succession paradox in its purest form.

Case 4. Champions of corporate governance

Vadim and Dimitry, then both in their late 20s, created their mining company through a series of acquisitions, divestitures and asset swaps after the Russian financial crisis in the late 1990s. Vadim became its first CEO in 2000 and supervised a major consolidation and clean up campaign. By mid-2004 the company, which was owned equally by the two founders, became a profitable operation with $2 billion in sales, over 40,000 employees and branches in ten regions of Russia. Around that time, the founders began to rethink their approach to the management of their businesses, which included two other enterprises of a similar size. They moved with entrepreneurial determination and speed, inspired by the logic of separate ownership, oversight and management preached by the numerous proponents of sound corporate governance who invaded Russia in the early 2000s,

Vadim stepped down as CEO and the founders appointed a former senior executive from one of their other businesses to the job. The new CEO (who was 33 at the time) had never worked in the industry or for an international company, and had no business education, but he had known the founders for almost ten years.

The founders also undertook an extensive search for a professional board of directors, with independent members making up a majority and one serving as non-executive chairman. Both founders vacated their offices at the company HQ and joined the board, which was to be a key element of the new governance system. Beefed up with recognizable names and a hefty remuneration scheme, the board quickly established its presence and authority, conducting monthly meetings that lasted up to two full days and covered as many as 20 issues on each agenda. The board limited the CEO's authority and assumed responsibility for virtually all decisions, including investment, key personnel, compensation and strategy. The founders also strengthened the control commission and internal audit.

Company performance has remained unchanged, even though market prices have dropped; the founders express satisfaction with the new governance model, and the performance of the board and the CEO, although they are critical of the CEO's style. They even commissioned a search to replace him, but were dissatisfied with the pool of candidates and decided to let things stay as they were.

This is a case where the founder-CEO resigned to assume a director's position and was replaced with a strong independent board and an outsider/insider CEO. At first, it seems to be an example of an effective succession event, meeting the criteria of good corporate governance. However, if we scratch the surface we find some telling signs of the Russian succession paradox—both founders continue to give orders to the CEO and the chairman of the board, and from time to time they dodge strict corporate procedures or corporate governance practices. As one of them says, "In the end it is a private company. If we had thousands of shareholders I wouldn't have done it, I swear, but why suffer now?"

The Russian Succession Paradox: A Conceptual Model

There seems to be a general pattern in CEO-founder succession in Russian companies, which has emerged over the last five years and reflects some specific economic, social and cultural aspects of the country. Significant changes in the firm's contingencies seem to set off a succession event, first and foremost change in control. When the founder loses a controlling stake to outside investors he or she leaves quickly and decisively, as case 5 shows. However, even if the founder retains control there are other triggers for a succession crisis: IPO; the end of a restructuring operation (or a similar major phase in organizational development); a new level of complexity faced by the business; declining performance and the risk of bankruptcy; tensions and conflict between the founding partners.

The founder usually takes the decision to step down as CEO voluntarily, but does not spend much time thinking about its consequences and most importantly takes no specific steps to prepare himself or the organization for the new era. A cavalier entrepreneurial approach ("Let's just do it and then we'll see") generally colors this critical event.

When succession takes place it involves more than the passing of the CEO's baton from the founder to a professional executive. A new system of governance emerges, sometimes carefully designed, sometimes a very ad hoc structure. Two major elements of the new system are the board of directors, which is very involved in the firm's governance and of which the founder is a member, and strengthened control systems, such as an audit committee or control commission.

Since the founder-CEO does not do any succession planning, living according to the motto so dear to entrepreneurs all over the world and culturally so close to the Russian heart—"*après moi le déluge*"—there is no heir apparent in the company. The founder launches a search process, which involves both managers inside the company and outsiders. Having no previous experience of such undertakings, the founder relies on his gut feeling when selecting a successor, giving little thought to what kind of person should become the new CEO—no formal profile for the right person for the job is drawn up. The founders usually look for three key attributes in their successor: a previous CEO position, experience in international companies, and an MBA. However, when the time comes, one underlining selection criterion decides the choice: trust, which the founders describe as predictability, loyalty, personal honesty and integrity. Experience in the industry does not seem to play any significant role in the selection process. The founders initially look inside the firm, but in a one- or two-man organization there are rarely other people capable of becoming a CEO, so they turn to outsiders, primarily those with whom they have some relationship—their suppliers, customers, advisers or people they know socially. It is rare for a complete stranger to take the helm and when this does happen, that person does not usually last long.

The actual changing of guard takes place very quickly. The CEO-founder does not create any induction program for the successor, who is presumed to be a professional executive fully capable of taking charge. The only elements of initiation are introductions to key players within the organization and important contacts outside it. There is a one-to-one briefing between the outgoing founder and incoming CEO, which may last anywhere from ten minutes to many hours of conversation stretched over weeks.

But the ex-founder-CEO usually does not go away and is always available for consultation. He is most likely to become chairman of the newly empowered board of directors. Most founders are ill-prepared for the job, having no previous board experience or special training, and even those with good intentions quickly fall back into well-understood CEO behavior patterns—they start making unilateral decisions, giving orders to executives (including the new CEO), making deals with external partners, etc. The Russian succession paradox emerges—the founder reassumes executive power but no executive accountability; he keeps calling the shots, while the new CEO bears all the responsibility for the company's performance.

The paradox creates an unhealthy situation for the firm, which may suffer from a number of destabilizing factors. First, the company may become confused about its leadership. In Russian organizations, which are built around a high-power concentration model with strong political elements, such confusion could produce new factions and lead to procrastination in decision-making and execution. This will be very costly for performance. It will also be difficult for the new CEO to lead if he is perceived as weak inside and outside the organization. Second, the new CEO is given too little room to use his professional competencies, spends a disproportionately high percentage of his time dealing with the founder and usually becomes demotivated, so the firm does not benefit fully from the potential of the new hire. Third, a very engaged chairman with no relevant skills or experience as an involuntary mentor will not help a new CEO to improve his awareness and performance. And, last but not least, the new model of governance will increase employee skepticism about the possibility of positive change. The founders, however, usually enjoy the new arrangement, which allows them to do what they like, when they like and always have someone to blame if things go wrong. Nevertheless, the system does have one positive element. The organization benefits from the free services of the founder, who puts his professional competence and social network at the company's disposal to a much greater degree than would normally be expected from the chairman of the board.

Challenging the Paradox: Two Case Studies

Founder-CEO succession in Russia has no noticeable impact on organizational performance. This is explained in part by the Russian succession paradox—the ex-CEO remains very involved and the new one has a limited window of opportunity to influence the business. But part of the answer lies in the booming Russian economy, which helps even poorly-run firms produce decent results. However, in the long run this dysfunctional model of governance will have a negative impact on a firm's competitiveness, as it will lead to weak leadership, political infighting, confusion and cynicism, as well as a lack of innovation in conducting business.

While many Russian companies are caught up in the Russian succession paradox, a minority demonstrates a more promising approach to succession. This has three distinct elements: succession planning; the appointment of an heir apparent to the outgoing CEO; and the departure of the founder after succession. The founders of these firms start thinking about their future departure years ahead of the event, rather than confronting it when some external or internal event makes it urgent. They identify a person with the potential to become CEO within or outside the firm and put him in a position that gives him a chance to learn the business and the company, to demonstrate leadership and professionalism, and to gain respect within the organization. This gives the founder enough time to develop a relationship of trust with the future successor. When the founder decides to step down, the firm has a capable insider to lead it into the future and the founder has a trusted person to whom he can pass the helm. The new CEO will not need the founder around to plug a gap in his organizational knowledge, and the ex-leader will not have an excuse to hang about, since he will have had enough time to pass his knowledge and social capital to the heir apparent. The founder leaves the organization, entrusting the leadership of the company to a professional CEO, and oversight of the governance to a board of directors. I have identified two paths that outgoing Russian founders—who, as I stated earlier, are usually still young and active when they resign—typically follow when they leave: either developing a new business project or traveling the world. For example, Sergey and his brother Alexey started their food producing plant in 1993 in the south of Russia, when the former brought a second-hand packaging machine from Germany and the latter rented an old garage. By 2005 the business had reached $200m in sales and their products were sold to 30 foreign countries. The founders stepped down from operational management and formed a board of directors comprising their representatives and two independent directors and then each went his own way. Sergey is developing a real estate project in Sochi and Alexey is building a publishing house. They rarely talk to the CEO of their joint business, at his request. In another case, Pavel put eight years into building his brokerage house, but by 2004 felt that the business had outgrown its owner. He hired a professional banker to run the place, gave him 10 percent of the company and went on a world tour. Since then he has not stopped traveling, while his business continues to churn out cash for him. Pavel sees his CEO twice a year—to distribute dividends.

The two final cases that follow demonstrate that effective succession planning and corporate governance can be achieved, and that the Russian succession paradox is not endemic in Russian organizations.

Case 5. A change in shareholders and generations.
On the surface this case looks like the story of the happy retirement of an older founder-CEO and his replacement by a professional executive, who had worked for three years as his heir apparent. However, a three-month organizational drama preceded the executive handover.

The founder, a former rocket scientist, started his telecoms venture in Moscow at the beginning of the 1990s when he already was in his late 50s. He obtained initial funding and marketing expertise through partnership with a foreign entrepreneur, and by the mid-1990s the company was a leader in the fast developing market. It went public, sold a minority stake to a strategic investor, and successfully converged to a new digital standard; the founder remained CEO for ten years, even though his share in the capital fell well below 50 percent.

By 2000, the company faced new strategic challenges of expanding its operations into different geographical areas, which a major competitor was about to penetrate, and operating in an extremely unfriendly regulatory environment, where the regulator favored a rival operator. The company, which was still recovering from the financial crisis of 1998, badly needed additional capital to fund its expansion and political clout to defend its licenses and frequencies. When a major industrial-financial group approached the founder with an investment proposal, he welcomed it with open arms. Lengthy negotiations resulted in a new shareholder structure, under which two institutional investors each had a blocking minority of the shares and the founder retained a simple minority stake. The new board, on which three of the nine members represented the strategic investors, made the 40-year-old former COO, who had an international MBA and extensive international experience, the new CEO. The founder stepped down from both his executive and director's positions. Keeping the honorary title of CEO, he focused on his personal interests and never tried to interfere with the company business. The company has successfully rolled out its regional operations and defended itself from hostile competition. Helped by the booming telecoms market, it performed extremely well and rewarded shareholders with a 300 percent value increase over the following three years. It went through a second efficient CEO succession, when the first incumbent decided to step down after three years in the post.

What looks like a smooth and logical succession to an outsider was in fact the result of a long and highly emotional process of negotiation between the existing and future shareholders' representatives and the founder. The older man was determined to stay on, and made this a condition for the deal to go through. He gave in reluctantly only when pressure from the regulator intensified and he realized that he could not do anything to protect the company. Looking back at that time five years later, the founder admitted, “It was one of the best decisions I have ever made as an entrepreneur. Everybody benefited from it—the company, the shareholders, myself and even my wife, who had suffered during all those years.”

This case supports the logic of Wasserman’s (2003) paradox of entrepreneurial success—an involuntary succession, which became the condition for a new round of financing. The successor was an heir apparent with an MBA degree and extensive international experience. The succession had a positive impact on company performance and the founder severed all professional ties with the venture to concentrate on his private interests. A particular feature of this succession, however, was the fact that an important part of the founder-CEO’s functions—managing relations with the regulator and government—was assumed not by the new CEO, but by the new strategic investor. Also, the board of directors, which played a minor role under the founder, became a key element of its governing mechanism, instrumental in all important investment, strategic and personnel decisions. The power balance between the CEO and the board has shifted towards the latter.

Case 6. In search of a savior.

Igor started a food production company in the Moscow region in the late 1990s after successfully selling his trading business. He served as the CEO and controlled 80 percent of the stock; the remaining 20 percent belonged to a friend who invested in the company. The business produced and marketed instant noodles and soups. It took off quickly but by 2003 had begun to stagnate as two larger competitors aggressively promoted their products and squeezed Igor out of retail stores. He turned to consultants for help. They recommended hiring an experienced CEO with a strong background in the industry. Igor hesitated for over a year, but as performance deteriorated he came round to the idea.

The new CEO was in the same industry and brought much-needed marketing expertise to the company. At 37 (the same age as Igor) he had some previous CEO experience and worked as a part-time consultant for the company in the six months before he joined. The founder created a position of president for himself and formed a management board with the CEO as chairman and himself as a member. He delegated executive authority to the new hire, but retained ceremonial and control functions. He also began to develop some other business projects, unrelated to the venture, which took up more and more of his time. Nevertheless, as the new CEO puts it, he occasionally “remembers the good old days and starts giving orders to the company managers.”

The new CEO strengthened the executive team with industry experts, introduced an unambiguous organization chart and streamlined business processes. After a year of hard work his efforts started to pay off—revenue and market share went up and the company was back in the black. The founder is very happy and concedes, “I should have done it two years earlier. I am probably good at starting businesses, but I am not good at running them. As the owner my task is to make sure that someone who is capable does it. Everything else is of secondary importance.”

This is a case where the founder-CEO left voluntarily, pushed by the firm’s deteriorating performance, and became president, relinquishing most of his executive power. The new CEO was a trusted outsider with CEO, industry and international experience but no formal business education. Company performance has improved and the founder is satisfied both with the CEO's style and his results.

Conclusion

This paper presents the Russian succession paradox, the process whereby a company goes through the motions of seeking and appointing a successor to the founder, only for the new CEO's role to become merely nominal, while the old regime continues to run the company more or less as before. I examine the Russian succession paradox through six case studies of entrepreneurial organizations, four of which illustrate the paradox operating in different ways, while two manage to avoid it.

Some trends in Russian succession correlate with the findings of research projects conducted in the West. Change triggers succession events in both areas. Loss of control accelerates the succession. Outgoing founders become chairmen of the board or board members.

There are, however, some remarkable differences. First, product completion has no impact on founder-CEO departure, which could be partly attributed to the fact that a much higher proportion of Russian entrepreneurs have acquired (privatized or bought) existing ventures in the process of building their firms. But I believe that a more important factor is the different social dynamics of Russian society, which has no history of serial entrepreneurship or cases of leaders voluntarily releasing power at the peak of their success. Second, in Russia departing founders never take a position where they report to the new CEO. The culture does not allow for a successful and self-respecting individual to downgrade himself in the hierarchy. This constraint has a negative impact of the economic development of the country, as founders either hang on to their position long after they have passed the peak of their performance, or fall into the trap of the Russian succession paradox.

Directions for Future Research

There is a need for Russia-specific studies to develop a comprehensive theory of founder-CEO succession. First of all, the findings of the exploratory research presented in this article have to be tested in a qualitative study, which should confirm the existence of the Russian succession paradox using large-scale samples. The impact of the paradox on a firm's performance is of critical importance and should be analyzed.

Researchers should explore in quantitative studies critical issues such as external and internal triggers of succession; who follows the founders (insiders v. outsiders, and the impact of the successor's human and social capital on the hiring decision); and what makes the event successful (relay v. competitive succession, an induction program for the successor, the successor's human capital, and how the founder's knowledge is transmitted to the successor).

The experience of the handful of Russian companies where CEO-founder succession has produced remarkable results should be thoroughly studied to draw some general conclusions and produce effective recommendations for Russian entrepreneurs. Collecting data about private companies is a challenge all over the world; it is an even greater challenge in Russia, with its history of secrecy and mistrust of outsiders. However, future development of succession theory is not possible without large-scale studies.[2]

2 Researchers have to become entrepreneurial in their approach to data collection and may have to resort to some secondary data. For example, researchers at the Moscow School of Economics have compiled an appointment/resignation database that contains information about more than 1800 career moves by senior executives in Russia during the period 1999–2004.

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