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EXPLORING THE CHARACTERISTICS OF THE FOUNDER AND CEO SUCCESSION AS CAUSES OF CORPORATE LONGEVITY: FINDINGS FROM KOREAN LONG-LIVED COMPANIES

ABSTRACT

What are the common characteristics of the founder and CEO succession process at *long-lived companies*? And how do these characteristics help companies survive long periods of time? This inductive study of 26 Korean long-lived companies led to propositions exploring these questions. Long-lived companies had long-tenured founders, less frequent successions, high ratio of insider succession and a formal succession process to secure management stability and competitiveness. It was also observed that the founding vision had an emphasis on corporate social responsibilities and that founding philosophy has succeeded to current management philosophy in most long-lived companies. The study results imply that the heritage of founding stages may play a crucial role for companies to achieve future longevity.

Key Words: long-lived company, corporate longevity, CEO succession, founder characteristics

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INTRODUCTION

Corporate longevity or long-term sustainability, which is surely an important concern of corporations, so far has received little research attention by strategy scholars. Corporate survival is important because the death of a company is not without costs. For shareholders, death of a company creates substantial financial losses and for other stakeholders (i.e., employees, suppliers, distributors), the costs include losses of their dedicated investments in the particular company as well as financial losses (Geus 1997, Bercovitz and Mitchell 2007).

Most widespread opinion among organizational theorists on organizational death is that organizations die young. Stinchcombe's (1965) term of 'liability of newness', which is regarded as an established fact (Hannan 1998), indicates that new organizations face comparatively higher death rates relative to old ones. A related hypothesis by Brüderl and Schüssler (1990) is "liability of adolescence", which assumes an early peak of mortality rates thus proposes an inverted U shaped age-mortality relationship. Then, if the 'liability of newness' or 'liability of adolescence' hypothesis holds, older companies should have higher survival chances and considering the history of commercial corporations there must be high ratio of companies which have existed and operated for centuries. In fact, there are evidences such as Japan's Sumitomo which has its origins in a copper-casting shop founded by Riemon Soga in 1590 and Swedish company Stora, currently a major paper, pulp, and chemical manufacturer, began as a copper mine in central Sweden more than 700 years ago. These examples suggest that the natural life span of a company could be two or three centuries-or more (Geus 1997). However, if we look at general statistics of corporate life span, it seems that relatively few companies survive for very long periods of time. For instance, of the top 100 U.S.-based industrial companies listed in *Fortune* magazine in 1965, only 19 remained in the top 100 in 2005, 15 fell out of the top 100, and 66 were acquired or disbanded (Burgelman and Grove 2007), meaning that only 34% of the top companies survived during the 40 years of time. Based on the analysis of the data collected from North America, Europe and Japan, Geus (1997) calculated that average corporate life expectancy is well below 20 years which he argued is much shorter than its potential life span. Another critical argument on organizational death is that the probability that an organization fails depends on its size and old and small institutions are more likely to fail (Barron, West, and Hannan 1994). However, according to a report published by the Bank of Korea (Chung, 2008), 89.4% of Japanese long-lived companies which are older than 100 years are small sized companies with less than 300 employees.

Even if we admit the tendency of decreasing mortality rates of older corporations compared to newer ones (Stinchcombe 1965, Brüderl and Schüssler 1990) and higher survival changes of bigger corporations (Barron et al. 1994), we feel that these hypotheses do not fully cover long enough time periods (i.e., decades or centuries) to explain corporate longevity. Thus, in this study, we argue a need of a separate theoretical perspective to explain corporate long-term survival and try to identify some common factors at long-lived companies which may be the causes of their long term sustainability.

Our specific focus for this research is to find out a possible association of the founder and CEO succession process as explanatory factors for corporate longevity. A commonly cited statistic suggests that worldwide the percentage of family firms passing to the second generation is 30% and this percentage drops to 15% from the second generation to the third and only 3% of family firms go beyond the third generation (Kets de Vries 1993). Indeed, the family firm research tends to focus on succession as a central cause of the high mortality of family firms (Handler 1990, Le Breton-Miller, Miller, and Steier 2004). CEO succession is perhaps one of the most crucial events in the life of any firm because of the substantive and symbolic importance of the CEO position (Finkelstein and Hambrick 1996, Kesner and Sebora 1994). In this regard, there is a good reason to examine top manager succession processes at long-lived companies to figure out how companies survived beyond generations and achieved their longevity. Unlike other previous survival studies which consider corporate death as a discrete event (Barnett 1990, Carroll and Swaminathan 1992), this study considers failure of corporate long-term survival as a process of decline (Hambrick and D'Aveni 1988, Daily and Dalton 1994), and aims to understand some authentic founder and CEO succession processes at long-lived companies.

This study is organized around the following two research questions: (1) what are the common characteristics of founder and CEO succession processes at long-lived companies? And (2) how did these characteristics help companies survive for long periods of time? To find answers to these questions, we sampled 26 longest-lived companies from 13 industries listed in Korean Stock Exchange and investigated the common characteristics of founder and CEO succession process of those companies. As only a few qualitative studies so far dealt with the issue of corporate longevity (e.g., Geus 1997, O'hara 2000), it is not relevant to apply an integrated theory on corporate longevity for this study. Therefore, we take an explorative approach and conduct an inductive research by analyzing multiple company cases.

The results reported here are a set of propositions. The evidence indicates that long-lived companies had long-tenured founders, less frequent successions, high ratio of insider successions and a formal succession process to secure firm stability and competitiveness. It was also observed that the founding vision had heavy emphasis on corporate social responsibilities and that founding philosophy has succeeded to current management philosophy in most sustainable long-lived companies.

BACKGROUND

Corporate longevity and a long-lived company

The word longevity generally connotes "long life", especially when it concerns someone or something lasting longer than expected.[1] Following this, we can define corporate longevity as the state for a company continues to exist longer than the average life expectancy. However, unlike human longevity, corporate longevity is complicated in that the actual calculation of average life span of companies is not easy. It is difficult firstly because a death of a company is complicated to define. Unlike human beings, companies can survive partially, die temporarily by legal agreements (e.g., mergers, spin-offs, workout, etc.) and even are able to live eternally. Secondly, the life expectancy of companies varies so widely depending on how one defines "company". The existence of a company can mean the continuity of company name, brand or family ownership, etc.

Then, how long is long enough to be "a long-lived company"? The oldest company in the world is known to be a Japanese construction company, Kongo Gumi, which was founded in 578 and thus existed for 1431 years.[2] There are also several other companies which are reported to have existed over 1000 years[3] such as Houshi Ryokan (Japan, Innkeeping, founded in 717), Stiftskeller St. Peter (Austria, restaurant, founded in 803), Chateau de Goulaine (France, vineyard, founded in 1000) and Fonderia Pontificia

[1] Collins English Dictionary 6th Edition, 2003, HarperCollins Publishers

[2] Kongo Gumi went bankrupt in 2006 and was acquired by Takamatsu group, thus depending on the definition of corporate death it may be excluded from a long-lived company.

[3] The list of the oldest companies provided by Wikipedia includes companies whose name has remained, either whole or in part, since inception. If the original name has since changed due to acquisitions or renaming, this must be verifiable on their website.

Marinelli (Italy, bell foundry, founded in 1000). According to a report by the Bank of Korea in 2008, there are 5,568 companies which are older than 200 years worldwide[4]. Among globally well known non family firms, P&G (founded in 1837), Philip Morris (founded in 1847), American Express (founded in 1850), Johnson & Johnson (founded in 1886), General Electric (founded in 1892), Merck (founded in 1891), Nordstrom (founded in 1901), 3M (founded in 1902) are the ones which had kept competitiveness in their industry over 100 years in global markets.

In Korean case, if we base on the year of founding of companies at KISVALUE data, there are four companies which have existed longer than 100 years. Following DooSan (a holding company, founded in 1896), Dongwha Medical Co. (a pharmaceutical company, founded in 1897), ShinHan Financial Holdings (founded in 1897) and WooRi Financial Holdings (founded in 1899) are included in the centennial company list in Korea. If we consider the continuity of the company identity or product, the oldest may be Dongwha Medical Co. which has the 112 year old product "Hwal-Myung-Su", which is considered to be the longest existing product in Korea. A possible cause for relatively small number of old Korean companies might be explained by a considerably short industrialization history of Korean economy. In fact, since its foundation of Greater Korean Empire in 1897, which succeeded Chosun Dynasty and was a start of modernization, Korea went through Japanese colony era between 1910 and 1945 and had suffered from the Korean War in the early 1950s. Thus, the genuine history of modern corporations in Korea could only begin in the late 1950s. As of 2007, the average age of companies listed in Korean Stock Exchange is 34.7 years and the company registrations data at Korea Exchange indicates that the number of Korean companies that have existed over 50 years is approximately 100. Considering all above mentioned data, we may conclude that companies that have existed over 100 years can claim to be long-lived companies worldwide and that Korean companies which have existed over 50 years may be included in the long-lived Korean companies.

Corporate long-term sustainability

In this study, what we aim to investigate is the common characteristics which make companies survive long periods of time. Thus, we define corporate longevity as a property

[4] In fact, 57% of them are Japanese companies and according to *Japanese Economist Journal* (2006), 89.4% of Japanese long-lived companies older than 100 years are small sized companies with less than 300 employees.

for a company to survive for long periods of time. In this regard, corporate longevity is better explained with the term "corporate long-term sustainability".

Samples for the study of corporate long-term sustainability need to be carefully chosen as long lived companies at current state include both the companies which will eventually fail in later time and the companies which will survive for longer periods of time. Thus, we set two conditions for all companies to be included in our sampled long-lived companies. First, the 'long periods' is set to be longer than the average lifespan which was 34.7 years. Second, to consider the future sustainability, we set the profitability condition as another threshold. The relationship between profits and survival is fundamental to traditional economics although profitability does not guarantee a company's long-term survival. While organizational theorists tend to adopt a more tempered view of the selection environment, arguing that non-economic ties and other factors may buffer unprofitable firms, they generally concur that lack of profits is a fundamental driver of organizational mortality (Levinthal 1991, Caroll and Harrison 1994). Beracovitz and Mitchell (2007) find that baseline profitability of a firm helps a firm survive for longer term periods. Thus, in this study, we only included financially healthy companies to our sample and operationally define "a long lived company" as "a company which have existed longer than 35 years and have been profitable during the recent 25 years". To distinguish this new category of companies, we termed a new construct, "a Sustainable Long-lived Company (an SLC hereafter).

CEO succession and corporate longevity

Corporate longevity has been studied most among scholars who study family firms[5] (e.g., O'Hara 2000) as the significant portion of long-lived companies are family firms. A commonly cited statistic suggests that worldwide the percentage of family firms passing to the second generation is 30% and this percentage drops to 15% from the second generation to the third and only 3% of family firms go beyond the third generation (Kets de Vries 1993). Success is directly linked to the continuity of the business and effective succession planning is frequently listed as an important determinant of longevity (Lank 2001, Chua, Chrisman, and Sharma 1999). Succession is recognized as ubiquitous and important for organizational performance and even survival. The family firm research

[5] A family firm includes both public and private company as long as the family has control over its management.

tends to focus on succession as a central cause of the high mortality of family firms (e.g., Handler 1990). In fact, CEO succession is one of the most crucial events in the life of any firm because of the substantive and symbolic importance of the CEO position (Finkelstein and Hambrick 1996, Kesner and Sebora 1994).

An extensive review of most succession research (Kesner and Sebora 1994) divides main issues on succession into 3 categories: research on succession antecedents (e.g., poor performance, environmental shifts, BOD, etc), succession process itself (succession frequency, successor origin and several contingencies) and succession consequences (post succession performance and strategic change). The most studied antecedents and consequences of succession are firm performance and so far there have been inconsistent results about what happen before and after succession (Kesner and Sebora 1994). It may be that because those studies have investigated only very short intervals of executive life-succession periods (Sonnenfeld 1986) although CEO's influence on firm performance is natively longer-term. At cross sectional data, for concurrent relationships between leader traits, organizational characteristics, and performance, often it is hard to distinguish between cause and effect (Hambrick and Mason 1984, Miller and Toulouse 1986). To overcome these drawbacks, we utilize longitudinal data in this study. In order to best understand how corporations develop over time we should study their historical evolution by employing methods of longitudinal analysis (Miller and Freisen 1982). We examine the characteristics of the founder and CEO successions throughout the history of the companies and explore some distinctive characteristics. In this way, we may be able to verify the causes that have helped firms to survive for long periods of time.

Our interests lie in the common characteristics of founder and succession process of long-lived companies as well as how these characteristics lead companies to achieve long-term sustainability. Considering most long-lived companies' distinctive tradition and their strong attachment to their founder, we expect some common characteristics at founding stages which might be the source of longevity ("*longevity DNA*") of those companies. We may infer that this longevity DNA might be one of the key causes for corporate long-term sustainability. We also want to understand how companies keep this *longevity DNA* and maintain their sustainability through succession management once the *longevity DNA* gets established in a company. The large scale of succession literature does not provide much basis for formulating specific hypotheses on the association between succession and corporate longevity. However, it does serve as an important guide for selecting major constructs to examine in this study. Most researched characteristics of succession processes are succession frequency and successor origin (Kesner and Sebora 1994, Haveman and Khaire 2004). Also, as previous scholars have identified the critical importance and different nature of founder succession on organizational effectiveness (e.g., Wasserman 2003), we have separated the founder succession from all other consecutive CEO successions.

Unlike most previous views that posit organizational survival depends on environment selection as firms are inertial and thus firm abilities to adapt to environmental changes are limited (Hannan and Freeman 1984, Hannan 1998), we adopt strategic adaptations view (Child 1974, Pfeffer and Salansick 1978, Levitt and Match 1988), which emphasizes the role of managers in monitoring and changing corporate strategies to fit the environmental changes. To our knowledge, this study is one of the first that examines how variables related to CEO succession interact with corporate longevity.

METHOD

Multiple case analysis

To understand the founder and CEO succession characteristics of long-lived companies, we used Multiple Case Comparative Analysis.

Unlike previous studies on corporate failure which used matched-pair samples of survival firms and failed (bankrupt) firms (Romanelli 1989, Hambrick and D'Aveni 1988), the population of this study includes only long-lived companies. It is a common understanding that an examination of failed companies does not reveal the secrets to be successful companies. As Tolstoy writes in Anna Karenina, "All happy families resemble one another but each unhappy family is unhappy in its own way" (Geus 1997). Likewise, examination of the causes of corporate death may not provide the secrets on how long lived companies managed to survive for long periods of time. Especially, considering the relatively low mortality rates of established companies, examining the causes of death of long-lived companies may end up finding some scattered explanations for exceptional failures. In this study, what we want to understand is the common characteristics of long lived companies that lead companies to survive in the past and that may help companies survive in the future. Thus, we explore the common characteristics of sustainable long lived companies and try to understand how the characteristics may lead corporate longevity. We apply replication logic and cross-case search for patterns (Eisenhardt 1989) meaning that each company case serves to confirm or disconfirm the inferences drawn from the others (Yin 1984, Eisenhardt 1989). As there has been little study on the characteristics of long lived companies up to date, this way of explorative approach seems to be appropriate.

Sample

The population of our study is selected from Korean Stock Exchange (KSE hereafter) listed companies. KSE listing requires certain criteria such as company size and profitability (market value of minimum 100 billion Korean Won[6], annual sales of minimum 30 billion Korean Won, Return on Equity of 5%, etc.), thus the KSE listed companies are mostly large and well established companies in their industries. This well serves our purpose because we are mainly interested in studying the causes of long-term sustainability of established companies that have overcome their initial mortality risk.

The sampling has been done as follows. We first identify SLCs from the KSE listed companies. First, we calculated the average lifespan of KSE listed companies. Based on the founding year at KISVALUE (http://www.kisvalue.com)[7] data, the average age of all 674 companies are 34.7 years. Thus we included companies which lived longer than 35 years to our sample. Then we apply the profitability criterion as "positive net profits during their existence".[8] To get the positive net profits we calculated the NPV of accumulated net profits of each company during the period of 1980-2005 at a discount rate of 4.5% which is the average price index increase during 1980-2005 (Korea National Statistics office Data). The net profit data was collected from KISVALUE. Total 466 of KSE listed companies (75%) had positive NPV of accumulated profits. By applying these two thresholds, we identified 178 long-lived companies that are expected to possess future sustainability (Table 1).

[6] With the current exchange rate of 1250 KRW/USD, it is approximately 80 million USD
[7] KISVALUE data service is provided by Korea Information Service (KIS), the leading credit bank in Korea.
[8] 1. As it was impossible to collect profitability data of all companies from the founding, we used the data from 1980. In Beracovitz & Mitchell (2007)'s study to test the relationship between baseline profitability of a firm and the firm's long-term survival, the duration of the longitudinal data they used was 12 years. And according to Hambrick & D'Aveni (1988), the failure of large firms is portrayed as a 'downward spiral' and large firms have a very substantial period of warning (at least 10 years), and hence of potential turnarounds before they fail. Thus, we may expect the companies which have been profitable during last 25 years will survive at least another 10 to 15 years in the future. In this regard, the SLCs identified in our study may claim to have 45-50 years of life expectancy at the least.
2. We also calculated the percentage of profitable years of the companies with positive net profit. Including 78 companies which have no single year of deficit in operating income, all companies have been profitable over 80% of the period. This showed the SLCs in our study have high performance stability which may help them achieve high corporate sustainability.

Table 1: The sustainable living companies

Industry Sementation	Number of firms	Average firm age	35 years +	35 years + & positive income	Large Corp	SMEs
Food & Beverage	36	41.4	27	19	18	1
Textile & Apparel	35	37.4	17	10	7	3
Paper & Wood	25	37.2	12	5	3	2
Chemistry	88	34.3	49	31	19	12
Medical Goods	35	43.4	25	20	16	4
Mon-metallic Goods	24	40.0	17	11	9	2
Steel & Metal	41	36.3	23	20	13	7
Machinery	43	28.5	12	7	4	3
Electronics	69	31.4	21	11	9	2
Medical Engineering	45	32.9	16	7	4	3
Transportation equipment	49	34.0	26	14	12	2
Distribution	51	40.1	22	13	11	2
Electricity & Gas	23	40.2	12	7	5	2
Construction	11	29.0	2	2	0	0
Transportation & Warehouse	6	29.4	2	1	0	0
Telecommunication	4	19.8	0	0	0	0
Financial services	53	37.7	0	0	0	0
Services	36	21.0	0	0	0	0
Total	**674**	**34.7**	**283**	**178**	**130**	**45**

Considering the differences of all industry life cycles and various other possible propensities due to industry characteristics, we included companies from all 13 industry segments: Food & Beverage, Textile & Apparel, Paper & Pulp, Chemistry, Medical goods, Nonmetallic Minerals, Steel & Metal, Machinery, Electronics, Transportation equipment, Construction, and Transportation & Warehouse. Among all 18 industry segments in KSE we excluded the five segments (Medical equipment, Electricity & Gas, Telecommunications, Financial Services and General Services) that have no single SLC. As we focus our scope to internal processes and characteristics of founder and CEO successions and contexts that lead to corporate sustainability, we exclude most consideration of external forces such as industry competition, institutional linkage as well as positional advantage companies had from their foundation that were stressed in most previous studies on corporate survival.

Table 2 shows our final sampled companies. The longest companies from all industries were large corporations and the average firm year was 67.3 years. The longest SMEs had a bit shorter firm ages which were 51.1 years, and the biggest companies' average firm age was 44.5 years. One thing to note is that the longest companies outperform in the long-term profitability to the biggest companies. The 10 year average return on sales was 3% in the longest large companies, 2.5% in the longest SMEs and 1.8% in the biggest companies.

Table 2: The sampled companies

	Longest companies (Large) (n=13)		Longest Companies (SME) (n=13)		Biggest Companies (n=13)	
	Mean	**S.D**	**Mean**	**S.D**	**Mean**	**S.D**
Firm Age	67.26	16.67	51.11	5.83	44.49	6.69
Annual Sales (log)	8.68	0.61	7.89	0.33	9.75	0.62
Number of Employees	1264.61	1249.51	184.07	99.82	15088.15	24850.84
ROS (1996-2005 average)	0.299	0.02	0.249	0.02	0.178	0.07
ROS (2005)	0.056	0.03	0.046	0.04	0.059	0.05

We included both small-medium sized and large corporations in the sample as we expect to get some ideas on why certain companies remain small while other companies grow big during the similar period of time. Previous research suggests that rates of organizational failure and growth are related, however, the nature of these interactions is not well understood (Barron, West, and Hannan 1994). Thus the findings may provide some meaningful understanding on company's growth rate and survival. In addition, it is necessary as some researchers point out that there are some marked differences between large corporation succession and small company succession characteristics that prevent scholars from extrapolating from research findings about large-company succession to small-company succession (e.g., Wasserman 2003).

Also, we compared the findings from the longest lived companies with the characteristics of "best performers"[9] in each industry where appropriate. By doing this, we expect to understand the difference between factors lead to longevity and to high performance. It has been frequently argued that, at least in the long-run, well-performing organizations survive while poorly performing ones disappear (Alchian 1950, Winter 1964, Williamson 1991). However, mounting empirical evidence suggests that the determinants of performance and survival may substantially differ and that factors other than performance may play a systematic role in the survival of organizations (Gimeno et al. 1997). In this study, by comparing the longest companies with the best performing

[9] To identify the best performers from each industry, we used several performance measurements including profitability (return on assets, return on sales) and size (total assets, total sales). Profitability ranking varies depending on the year, however, in most industries, companies with largest sales have highest long-term (10 years) profitability. Thus we used 3 year averaged total sales as a base measurement to select the "best performers" in each industry.

companies in each industry, we expect to understand how the factors and causes that lead to high performance and longevity are different.

The primary data collection was done from the archival data such as KISVALUE data, company history book, homepage newspapers and articles. Due to general limitation of data on SMEs, we also conducted interviews with C-level executives of SMEs. Nine executives of SMEs were interviewed face to face and several interviews were done through telephone calls with company representatives. Since we needed to collect information at the level of knowledge sets associated with particular areas of operation within firms, collecting data through interviews seemed most appropriate.

KEY FINDINGS

Characteristics at Founding Stage

Founder tenure

The founders craft a vision, attract employees, and develop products based on that vision, and perform the management tasks necessary to grow the business (Wasserman 2003). Upper echelon theory scholars contend that organizations are reflection of top managers as the specific knowledge, experience, values, and preferences of top managers are reflected in their decisions (Hambrick and Mason 1984). Specifically, in a young organization the opportunities for executive-level involvement in activities across the organizational hierarchy are numerous and varied. Certainly founders will characteristically be highly involved in most, if not all, significant aspects of their organizations' functioning. However, as organizations age, routines, systems and standard operating procedures are consciously created or otherwise emerge, thus the effects of founder management fade away (Jayaraman et al. 2000).

A common prescription in the entrepreneurship literature is that rapidly growing firms soon outpace their founders' managerial capabilities, and so founders must step aside or be replaced by professional managers (Haveman and Khaire 2004). The underlying rationales for this replacement are as follows. First, because entrepreneurial work and managerial work are not the same, there comes a time in the lives of all ventures when founders must relinquish control over important decisions and turn their organizations over to professional managers. Support for this argument has been found by Cooper and Bruno (1977), Hambrick and Crozier (1985), and McCarthy et al. (1990). Second, it is a rare individual who possesses all skills needed to grow a business from its inception to a state of maturity where a complex organizational architecture is typically required (Stevenson and Jarillo 1990). It is seldom the case that an entrepreneur begins a new firm and then remains as that company's chief executive until retirement (Boswell 1973). In many cases, entrepreneurs will begin an organization with the original intent of selling out their interest within a few years. In other cases, founders may assume that they will maintain control of their firms for the foreseeable future, but political pressures or other circumstances force them to leave.

On the other hand, according to Rubenson and Gupta (1992), entrepreneurs who found high-growth firms do not depart early. The mean tenure of the 54 founders in their sample was nearly 21 years.

We calculated the founder tenure by the actual duration in reign by the founder. We first searched for company history book, homepage history information and newspaper articles to find out the exact dates of founder succession and then we have checked the dates with each company IR team for the validity. For large corporations, it seems to be common to write an article or conduct an interview about the successor when the second generation succession occurs in companies. For non-family firms, the CEO tenure information is fairly straightforward as they are easily available from the annual reports and company homepage. For SMEs we have collected the info mostly through telephone calls with the company representatives.

Table 3 shows the average founder tenure of the sampled companies. The average founder tenure of the longest companies is 36.4 years and 30.6 years each in large companies and SMEs. Considering the average life span of Koreans which did not exceed 70 years till 1990s[10], over 30 years of founder tenure may mean that the founder reigns over the company almost until his death. The average founder tenure of the biggest companies is 22.15 years which is shorter than the average of longest companies. Since most of the biggest companies also meet our SLC criteria, we separately calculated the average tenure of the non SLCs among our sample. The average founder tenure of non SLCs is 15 years (22, 18, 13 and 7 years each) which is significantly lower than the average of longest companies. From these results, we may conjecture that long-tenured founders have contributed to the stability of company performance although they may be the cause of relatively lower growth. Miller (1991) observed that long-tenured CEOs (operationally

[10] According to Korea National Statistics office Data, the average life span of Koreans is 52.4 years in 1957, 62.3 years in 1971, 66.2 years in 1981 and 71.7 years in 1991.

defined as those serving more than 10 years), for reasons of paradigm inertia, belief immutability, mental stagnation, and the like, are less likely than short-tenured CEOs (those serving less than 10 years) to create and maintain an effective alignment between their firms' strategy characteristics and environmental attributes. It is this poor strategy-environment match that directly results in poor performance.

Table 3: Average founder tenure of sampled companies

	Longest (Large)	**Longest (SME)**	**Biggest**
Average firm age	67.3 years	44.5 years	51.1 years
Founder tenure	36.4 years	22.1 years	30.8 years
Average CEO tenure	18.1 years	17.7 years	9.1 years

Although it may not be possible to argue a direct causal relationship between long founder tenure and corporate longevity from the results, we are still able to say that long founder tenure may represent management stability and well established company mechanisms at founding stages which may provide some basement for higher long-term sustainability in later stages. Patterns of influence established at founding are demonstrated to maintain some consistency over time, contingent on the organization's performance, the organization's age, and the tenure of the entrepreneur (Boeker 1989).

Also, organizations in which the founding entrepreneur remains for a longer period after founding will exhibit less change in patterns of functional importance established at founding than organizations in which the entrepreneur remains for a shorter period (Boeker 1989). Therefore, the well established mechanism in the companies will continue to exist with not much change and contribute to the stability of company management. According to liability of newness perspective, older organizations have an advantage over younger ones because it is easier to continue existing routines than to create new ones (Stinchcrombe 1965, Nelson and Winter 1982). Thus, we suggest the following proposition:

Proposition 1: Longer founder tenure is likely to lead to higher corporate sustainability.

Founder philosophy

In the previous section we argue that the long founder tenure can be one of the reasons for corporate sustainability. Among all demographic variables that upper echelon theory scholars have long examined, organizational tenure is perhaps the strongest characteristic for distinguishing executives as it reflects factors such as unique knowledge, perspective and insights into the organization (Finkelstein and Hambrick 1990). However, to understand the founder influence on organizations, we must understand the detailed processes of how founders built the cornerstone of sustainability and what elements have affected the companies' sustainability in later stages.

Many scholars have noted the significance of founders' values and belief systems for the lives of their ventures. For example, Child (1987) argued that organizational traditions frequently have their origins in "the ideology of an entrepreneurial founder who sets out both a strategic perspective on the task of the organization and a philosophy in the form of labor process to accomplish it". No matter their strength or content, founders' ideologies give rise to the dominant belief systems that define and maintain their organizations' distinctive characters and they are reflected in organizational visions, goals, strategies, structures, and output (Haveman and Khaire 2004).

At most companies in our sample, founders seem to be considered as "de facto" heroes. We found that most companies in our sample have well established and shared corporate values among employees which have the root on their founder philosophy. For example, Dongwha Medical Co., a pharmaceutical company, founded in 1897, has started with the founder Min, Byung-Ho's noble spirit of the service symbolized in "Dongwha supplies fine drugs for the people" and this spirit has been maintained as the bottom of corporate values until today. Although the ownership has been shifted to current CEO's family in 1937, the founder philosophy has been upheld and even strengthened. From the two separate interviews with the CEO and marketing team leader, we found that the company name "Dongwha (emphasizing shared values and prosperity among stakeholders)" and founding philosophy are not symbolic cliché but actual ideological foundation which affect most of company operations today. Several interviews with other long lived company executives also supported similar inheritance of founder philosophy to current management.

The founder philosophy not only sets the basis of the corporate value among employees but also sets management rule and strategic orientations. The chief financial officer (CFO) at a small sized wrapping paper production company, which was founded in 1957, explained that the founder's strong conservatism influenced company's strategic orientations. Since founding, the company has been keeping the 50% of debt equity ratio rule in making any new investments decisions and that tradition has been inherited from the founder. Although this strict financing policy may have limited the growth of the company, the previous management teams have been very strict in keeping the rule and made a new investment decision only when the debt equity ratio stayed under 50%. According to him, incumbent company management team also seems to believe that keeping the rule is one of the "must-dos" as a successor and that the financial conservatism is one of the key reasons for the company to survive nowadays turbulent environmental changes.

To further examine the linkage with companies' current management philosophy and their founding philosophy, we collected the founder philosophy and current management philosophy and/or vision from the company homepages. Then we compared their relatedness to judge whether the company has inherited the founder philosophy or not. For example, the company Yuhan coporation, a pharmaceutical company founded in 1926, writes in their homepage that the company has been committed to their founder Dr. Yu, Ill-han's spirit of "we shall provide the best pharmaceutical products for the nation and the people" till today. On the other hand, one of the non SLC companies in our sample writes that the company has been revising the corporate philosophy with the external environment changes and also changed the corporate identity (CI) twice accordingly. Although it needs verification from internal management team and employees whether companies have been inherited the founder philosophy or not, the information acquired from the company homepages can still be some clues for our judgment. Some relatedness and similarity were found from 18 (70%) of longest lived companies and among them 11 (42%) companies have directly inherited founder philosophy to current management vision. From this result, we drew the following proposition:

Proposition 2-1: Succession of founder philosophy to current management philosophy is likely to lead to higher sustainability.

In addition, we found that the sampled companies founding vision mostly had heavy emphasis on the corporate social responsibilities in their era. The content may vary based on the industry segmentation and the historical situations the companies faced in their inception, however, most founders had strong and firm management belief to serve the country and society and have communicated their vision to organizational members continuously. Large longest lived companies have more general emphasis on creating and sharing values with the society while SMEs have specific emphasis on contribution to society by developing core technology or product.

Table 4: Founding philosophy and current vision of sampled companies

Founding		Current	
Founding philosophy	**Details & number of companies in this category**	**Current vision**	**Details & number of companies in this category**
CSR as a corporate objective	Contribution to country/society: 6 Value creation for mankind: 2 Contribution to regional society: 2	Focus on CSR	Contribution to country/society: 8 Value creation for mankind: 2
CSR as a result of business operation	By making steel: 2 By making business: 6 By technology competence: 2	Focus on competitiveness	World best, global competitiveness, etc. 12
Others	6	Others	4

Table 4 shows the details of each company's vision. We categorized the corporate social responsibilities (CSR hereafter) into three: 1) companies which emphasized CSR as main corporate objective, 2) companies which emphasized CSR as a result of their business operations, 3) companies which had little emphasis on CSR. Among the 26 companies, 10 companies (38%) have strong emphasis on CSR and put it as main corporate objetive, another 10 companies (38%) show their acknowledgement in CSR. However, 6 (23%) have not presented any CSR related corporate goal specifically. Although one may argue that the emphasis on CSR by companies can be one of management fashion in corporate world if we consider the growing attention on CSR in society. However, the fact that not all long-lived companies have emphasis on CSR (23% of our sampled companies have no emphasis on CSR) and that ten companies (38%) had emphasis on CSR from their founding vision provide some support for the possible causal relationship between emphasis of CSR and corporate long-term sustainability. Recent research on corporate social responsibilities argued that companies that actively conduct corporate social responsibilities have higher chance of corporate sustainability (Szekely and Knirsch 2005, Elkington 1998, Bansal 2002). Thus, we drew the following proposition:

Proposition 2-2: Emphasis of CSR on company vision is likely to lead to higher sustainability.

Characteristics of succession process

Succession frequency

The tenure-performance association remains both theoretically and empirically equivocal: negative (e.g., Hambrick, Geletkanycz, and Fredrickson 1993), positive (e.g., Bergh 2001). The mainstream research argues that the rates of administration succession and degree of organizational effectiveness are negatively correlated (Grusky 1963). In the review of succession research in 1980s, Kesner and Sebora (1994) found that succession rates were higher in low performing firms. And many research show that poor performance leads to replacement of a firm's CEO (Allen et al. 1979, Guest 1962, James and Soref 1980). From these findings, one may conjecture that frequent succession may indicate the turbulence of performance in organizations. In this regard, we may expect that sustainable companies show low level of succession frequency.

On the other hand, the commitment of CEOs to their paradigms gradually increases during their tenures because longevity itself signifies correctness, or at least adequacy (Hambrick and Fukutomi 1991). Thus, with the increase of success and tenure in office, CEOs tend to gradually increase their commitment to a selected strategy and lose interest or incentive in exploring other alternatives (Miller 1991). This leads the relationship between CEO tenure and firm performance to be inverted-U and the peak performance may be found between 6-11 years (Hambrick and Fukutomi 1991). Eitzen and Yetman (1972) found that the relationship between team leader tenure and team performance is curvilinear, with the peak at 13 years.

Table 5 shows the average CEO tenures. We calculated the CEO tenure with their actual reign in position. We used the KISVALUE CEO data and the annual reports on http://dart.fss.or.kr as a basis. And to clarify the distinction between nominal and effective management involvement, we collected the CEO tenure data from various sources such as company homepages, the company history books and newspaper articles. Also, we conducted some quick interviews with company IR teams to judge the actual reign of each CEO when we got conflicting data from different sources.

Table 5: Average succession frequency of sampled companies

	Longest (Large)	Longest (SME)	Biggest
Average firm age	67.3 years	44.5 years	51.1 years
Succession frequency	3.8	2.5	6.0
Average CEO tenure	18.1 years	17.7 years	9.1 years

As shown in Table 5, the average CEO tenure of longest companies (18.1 years for large companies and 17.7 years for SMEs) are longer than the tenure of the biggest companies (9.1 years). And these figures are significantly longer than the average CEO tenure of all KSE listed companies (4.2 years).[11] The average CEO tenure of the biggest companies provides some support for the Hambrick and Fukutomi (1991)'s research results that there is a peak of CEO tenure (6-11 years) which yields the maximum performance. The biggest companies had 9.1 years of average CEO tenure and managed to be the highest performing companies in each industry. On the other hand, the longest companies lower succession frequency (longer average CEO tenure) may indicate that the longest companies may have been a little too conservative to change CEOs at the right time and thus have shown lower performance (in terms of growth rate) compared to the industry leaders. However, the long CEO tenure of longest companies may have contributed to the management stability with less strategic changes. Firms led by long-tenured executives tend to have persistent and unchanging strategies (Finkelstein and Hambrick 1990, Wiersema and Bantel 1992). Therefore, we may argue that lower succession frequency is likely to lead to higher sustainability. Thus, we propose the following:

Proposition 3: Lower succession frequency is likely to lead to higher corporate sustainability.

Successor origin

Most scholars contend a positive relationship between management equity ownership and risk taking (Amihud and Lev 1999, Hill and Snell 1989, Zahra 1996); however, more recent studies show no relationship or nonlinear relationships (Lane, Cannella, and Lubatkin 1998, Eisenmann 2002). It is generally accepted that owner mangers often

[11] According to a research report written by Byung-Ju Lee (2005), a senior researcher at LG Economic Research Institute , the average CEO tenure of all KSE listed companies from 2000 to 2004 is 4.2 years.

control all or most organizational assets, so ownership and control are far less separated in firms managed by owner managers than in firms managed by professional managers (Berle and Means 1932).

In most succession research, insiders were associated with fewer organizational changes (Helmich and Brown 1972, Brown 1982, Helmich 1974) and outsiders were associated with more post-succession strategic change than insiders (Wiersema and Bantel 1992). Some argued that organizations' strategic orientations often change after the departure of founders (Grusky 1963, Wiersema and Bantel 1992), in part because successors to founders typically come from outside the focal organization (Kesner and Dalton 1984, Wasserman 2003). From this, we may assume that firms with insider succession have less strategic changes and have less risks of failure.

In line with these arguments, some empirical studies found supportive results pertaining to the successor origin and performance. According to Cannella and Lubatkin (1993), low performing firms consistently experienced greater rates of outside succession. Also, there were some evidences that small and average performing firms were more likely to experience outside succession (Dalton and Kesner 1983, 1985). Worrell, Davidson, and Wallace (1987) found that positive market effects were associated with inside succession. Judging from these results, outsider succession seem to occur when companies have significant performance problems, thus we may expect a higher level of insider successions at sustainable companies.

Table 6: Successor origin of sampled companies

	Longest (Large)	Longest (SME)	Biggest
Insider	100%	98.1%	96.7%
Outsider	0.0	1.9%	3.3%

Table 6 shows the insider and outsider succession ratios of the sampled companies. To judge the insider/outsider distinction, we looked up all career history of all CEOs from company homepages, personal profile data (Naver and Joins) and the management change reports at http://dart.fss.or.kr. We regarded a CEO who had a certain position in the company before they got promoted to CEO as an insider regardless of his/her tenure with the company. Traditionally in most succession research, outsiders were defined as individuals who were not employed by the organization, while insiders were defined as current or previous employees (Kesner and Sebora 1994). Although recent research shows various definitions of insider and outsider such as industry familiarity or certain threshold of their job tenure, we adopted the traditional approach to our sample. Outsider successors were only 4 CEOs out of total 184 surveyed CEOs in our sample.[12] Thus, 97% (178/184) was insider succession. Especially, the longest companies had only 1 outsider successor. This result is consistent with the previous study about long-lasting companies by Jim Collins (1994) or Geus (1997). Thus, we may conclude that due to a high level insider succession, our long lived companies had less strategic changes and that secured higher sustainability:

Proposition 4: Higher insider succession rate is likely to lead to higher sustainability.

Succession stability

Relay Succession: Studies of succession process suggested that succession systems were optimal when they produced a "seamless" continuity in leadership (Kesner and Sebora 1994).

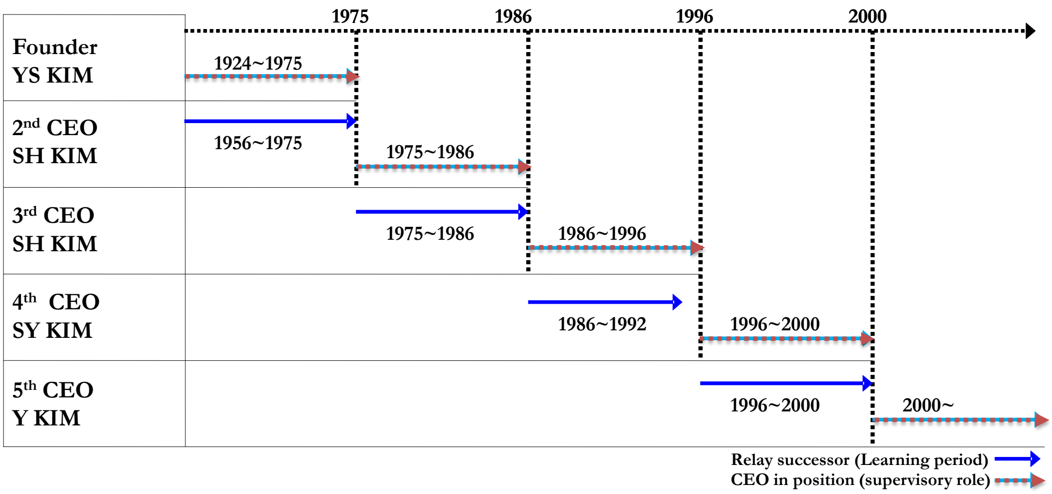
Appointing an heir apparent signals stability to stakeholders because the succession process is under control (Cannella and Lubatkin 1993). The selection and crowning of an heir apparent, so-called Relay succession, is the most formal succession process used in corporate America (Vancil 1987). Benefits of Relay succession might be as follows: facilitate the power transition from a firm's incumbent CEO to its next CEO (Vancil 1987); organizational turbulence associated with leadership change is potentially reduced (Cannella and Lubatkin 1993, Vancil 1987); the heir apparent can obtain on-the-job training (Ocasio 1994) through having access to the tasks of the CEO even before assuming the position and thus, the firm's performance risk resulting from a new CEO's lack of context-specific skills may be reduced (Harris and Helfat 1997).

From a careful examination of our long lived companies' succession processes, we found that most companies have some kind of "Relay Succession" practices, what we prefer to call "Dual Post succession" in our study. Through the dual posting process, long lived companies achieved the balanced benefits between long term experience of the

[12] It may be because we apply a too generous rule (the traditional approach) for distinguishing the insider/outsider, however, due to limited data, we couldn't apply more strict rules such as previous organizational tenure of the CEO with the company, etc.

precedent manager and dynamic change move of the new manager. Figure 1 shows an example of this process

Figure 1: An example of "Dual Post Succession" of a sampled company



As is shown in Figure 1, the leaning and preparation period before the next CEO reaches the top decision making position is fairly long. Thus, during the period, the relay successor has enough time to learn the knowledge, skills, and interaction processes at the top of a company which may help secure succession stability. Also, the younger generation's challenges and efforts to overcome the organization's inertia escalated the company's dynamism and helped the company seek continuous change while the company's stability was secured by the old generation's abundant experiences in the fields. Also, by appointing the heir apparent up front, companies could avoid unnecessary conflicts among top management team in regard to successor appointment. In most family controlled firms in our sample, we find similar practices and we believe that the "dual post" succession processes guarantee the management stability of the long lived companies. Thus, we suggest following proposition:

Proposition 5: Implementation of "Dual Post" succession is likely to lead to higher sustainability.

Ownership Concentration and Within Family Succession: Some scholars argue that succession is a political process (Zald 1965, Cannella and Lubatkin 1993, Welsh and Dehler 1988, Fredrickson, Hambrick, and Baumrin 1988). With each succession, the firm realigned power distributions and adjusted to resource demands (Kesner and Sebora 1994).

One of the most researched variables related to CEO's power is the CEO ownership. According to Allen, Panian, and Lotz, (1979), CEO's significant ownership is associated with longer tenure. Also, Boeker (1992) found that poorly performing organizations in which ownership is dispersed will be less likely to dismiss the CEO than those in which ownership is concentrated. While we understand the ownership power may have been the main cause of the longer CEO tenure and founder tenure at long lived companies and thus associated with higher sustainability, we also want to understand how the ownership power actually affects the succession process stability.

Table 7: Ownership concentration of sampled companies

	Longest (Large)	Longest (SME)	Biggest
Majority holder	12.9%	19.8%	18.4%
Ownership concentration	39.7%	44.9%	23.3%
Professional manager	11.5%	16.9%	49.1%

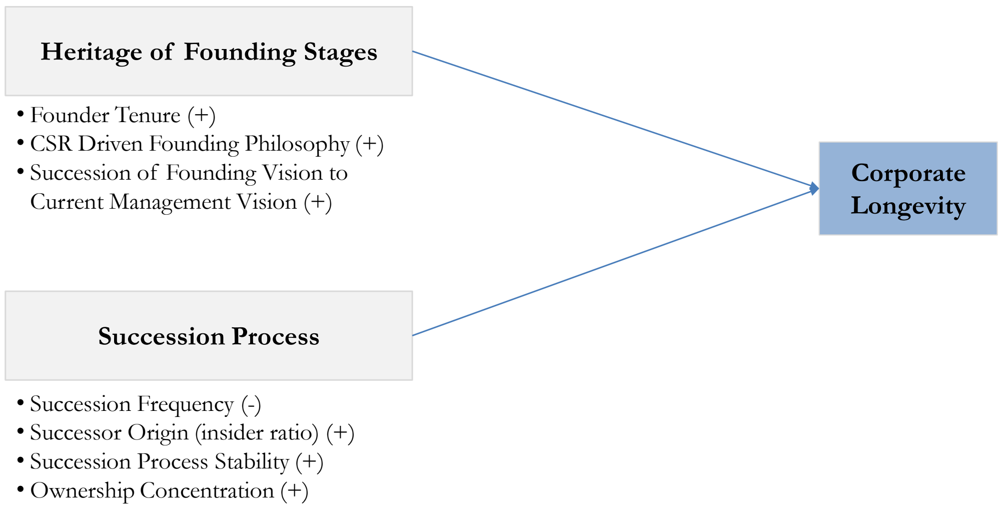
We used the KISVALUE shareholder data and annual reports shareholder information on http://dart.fss.or.kr for calculating ownership concentration in each company. For majority holder equity we used the 1st holder equity data from KISVALUE and for ownership concentration we used the "related ownership" at company reports at http://dart.fss.or.kr, which includes all specially linked parties' ownership. Table 7 shows the ownership concentration in our sampled companies. In longest companies the ownership concentration is almost 40% and for biggest companies the average related ownership is 23.3%.

It is plausible to assume the concentrated ownership in longest companies made it possible for companies to maintain their family members as CEOs. And in turn, this may have positive influence on maintaining corporate strategic initiatives consistently. As shown in Table 6, long lived companies had relatively lower appointment ratio of professional managers (11.5% for large companies and 16.9% for SMEs), compared to the largest companies (49.1%). We also conjecture the high ratio of within family succession may help companies maintain their core values (e.g., founding philosophy) and management practices from founding stages. Probably less conflicts in power pertaining to ownership issues due to their ownership power also exert positive influence on the management stability in long lived companies. Thus, we propose the following:

Proposition 6: Ownership concentration (or ownership stability) is likely to lead to higher sustainability.

Summary of key findings are depicted in Figure 2.

Figure 2: Set of propositions of this study



Additional statistical tests results

As a supplementary analysis, we examined an ANOVA test[13] for differences among the sampled groups: (A) the longest large corporations, (B) the longest SMEs and (C) the biggest companies ("best performers"). Table 8 summarizes the descriptive statistics of some variables proposed in previous section and Table 9 shows the test results of mean

[13] The purpose of this ANOVA analysis is not to test the propositions developed in this study. It is merely to avoid over-interpretation of explorative results in developing the propositions.

difference significance among groups. The results provide general support for the key findings in the previous section.

Table 8: Descriptive statistics of some variables

	Longest Companies (Large) (A) (n=13)		Longest Companies (SME) (B) (n=13)		Biggest Companies (C) (n=13)	
	Mean	**S.D**	**Mean**	**S.D**	**Mean**	**S.D**
Founder Tenure	36.38	16.34	30.61	12.29	22.15	7.97
Average CEO Tenure	18.13	7.38	17.77	6.29	9.12	4.54
Ownership concentration	39.71	13.03	44.89	11.94	23.38	13.03
Professional manager	0.11	0.19	0.16	0.21	0.49	0.38

Table 9: Statistical significance of the mean differences between groups

	(A) - (B)		(B) - (C)		(A) - (C)	
	Mean difference	**Sig.**	**Mean difference**	**Sig.**	**Mean difference**	**Sig.**
Founder Tenure	5.76	0.254	8.46*	0.097	14.23	0.007***
Average CEO Tenure	0.35	0.886	8.65***	0.001	9.00	0.001***
Ownership concentration	-5.16	0.304	21.51***	0.000	16.32	0.002***
Professional manager	-0.005	0.619	-0.32***	0.006	-0.37	0.002***

***; **; *: The mean difference is significant at the 0.01, 0.05 and 0.1 level, respectively.

CONCLUSION AND DISCUSSION

In this study, we try to find some common characteristics of long-lived companies in regard to founder and CEO succession and to explore how those common characteristics have contributed to the companies' long-term sustainability.

This study, while limited in some ways, sheds new light on the dynamics of corporate longevity. A summary of key findings is as follows. First, long-lived companies had long-tenured founders and their founding vision and management philosophy have been inherited to the company's current value and culture. Second, long-lived companies also had long-tenured CEOs and as a result lower succession frequency. Third, the leadership change in most long-lived companies was well prepared to secure the management stability. Most long-lived companies preferred insider successions which may have helped companies maintain their management systems. Also most companies had well planned succession management process to train the successor with the needed knowledge and skills and to transfer the management philosophy before the predecessor gives the baton to the successor.

Our analysis highlights the significance of the founder's role in corporative sustainability. The founding vision affects not only the initial stages of organizational life, but also subsequent organizational behavior and performance in most long-lived companies. The significance of initial conditions on corporate evolution has been argued by large pile of strategy scholars (e.g., Mintzberg and Waters 1982). However, there has been little research done on how corporations develop over time and most studies of organizations are cross-sectional (Miller and Friesen 1982). Thus, findings on the influence of founder will certainly help better understand how companies evolve and develop strategies based on their initial conditions. Also, if the actual process of CEO succession helps companies obtain long-term sustainability, well designed succession management process will get more attention as a mean to achieve corporate long-term sustainability which may extend the reach of management succession research.

Given the potential bias in the estimate from nonrandom samples, the results of this study are limited and should be construed as indicative of a need for more research in the future. We are able to assert that we found only an association between certain founder and CEO succession characteristics and corporate long-term sustainability, not a causal relationship. Future research should, for example, explore whether frequent CEO succession and/or outsider succession has caused the death of an established company. Also, the relationship between long average CEO tenure and corporate longevity can be interpreted in both ways. In our analysis, we see the possibility to explain the long average CEO tenure as a company's policy to have longer-term perspective and as a result, the company was able to achieve more stable long-term performance. However, one can argue that the companies had good performance thus there was little need for the companies to replace the CEOs and as a result the company has longer average CEO tenure. Research on much larger and random samples which include both long-lived and short-lived companies is needed to establish causal direction.

With all limitations, we believe this study provides some building blocks to explain how companies achieve corporate longevity through succession management and how the founder heritages affect the corporate sustainability in the later stage. The limitations of this study serve to provide suggestions for future studies. One need is to compare the characteristics with those shorter-lived companies. A second need is to test the propositions of this research with large scale random samples. A third need is to conduct studies of long-lived companies in other countries. Once the propositions have been tested through various statistical examinations, this study may help guide theory development for investigating corporate longevity mechanism through which companies achieve their long-term sustainability.

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