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SUMMARY

THE EFFECTS OF FOUNDER’S DECISION-MAKING STYLE AND FORMALIZATION ON FIRM PERFORMANCE: A COGNITIVE FRAMEWORK AND TEST

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Principal Topic

Research on life-cycles and growth stages suggests that founders will likely face a variety of difficult challenges as their firms mature and grow (Covin and Slevin, 1997; Dobrev and Barnett, 2005). The value of founders to their firm may diminish over time (Jayaraman et al., 1997) and they are often replaced by professional managers (Hanks et al., 1994). An underlying assumption behind these arguments is the difficulty of maintaining a fit between individual aspects of founders and the changing demands of their firms.

In this paper, we develop a framework for studying the effects of cognitive misfit on founders and their firms. We then test parts of this framework by operationalizing misfit as the interaction between the dominant decision-making style of the founder and the degree of formalization and structure in his or her respective firm. Varying degrees of fit will lead to different individual attitudes, intentions and behaviors and firm level performance outcomes.

Method

Data was collected from both a directory of high technology firms and a survey of the principal owner of those firms in 2001. The response rate to the 2001 survey was 22.1% and included 253 firms. Subsequent data collection on the firms was conducted in 2005. A smaller subset (restricted to founders and surviving firms) was used to test the hypotheses developed in this paper and contained 119 firms. Specific hypotheses examining the association of cognitive misfit and measures of firm performance were tested through hierarchical regression analyses using SPSS.

Results and Implications

The results indicate that an intuitive style, formalization and cognitive misfit are significantly associated with both sales and employee growth. Further, the plots of the interactions suggest that firms with intuitive founders experienced greater growth even when faced with higher levels of formalization. Employing a cognitive approach (Mitchell et al., 2002; Shaver and Scott, 1991) we add to a growing body of work that allows a focus on the individual entrepreneur without many of the limitations inherent in past “trait” studies. We discuss the implications of our approach and findings for theoretical development, and practicing entrepreneurs.

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