

Research on the Influence of Founder Control on Enterprise Growth

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ABSTRACT

As China's economy booms, more and more start-ups are seeking to go public, but that has led to a battle for control between founding teams and outside investors. How to realize the reasonable allocation of control rights in corporate governance structure has become the focus of theoretical and practical research. Through sorting out the existing literature, this paper, in connection with the actual situation of domestic enterprises, starts from the relevant theories of founders' control rights, and explores the influence mechanism of founders' control rights on the growth of enterprises. In order to further analyze the influence path between the two, this paper firstly reviews the research concept of founders' right of control, and further sorts out the source of founders' right of control, so as to define founders' right of control. Secondly, it explores the influence of different forms of founder's control on enterprise growth. Finally, it discusses the regulating effect of the characteristics of the board of directors and the external institutional environment on the relationship between founders' control rights and the growth of enterprises. The main conclusions of this study are as follows: for the research samples in this paper, founder control has a positive impact on the growth and development of enterprises; the external institutional environment will negatively regulate the relationship between the strength of founders' control rights and the growth of enterprises. The combination of two roles and the shareholding ratio of other members of the board of directors positively moderates the relationship between founders' control rights and enterprise growth, while the moderating effect of the ratio of independent directors is not significant, which rejects the research hypothesis. The research on the relationship between founders' right of control and enterprise growth can not only theoretically broaden the research margin of entrepreneur theory, but also further reveal the internal mechanism of enterprise growth and development from the perspective of key figures. At the same time, it provides reference for the current "battle for control rights" and the design of the equity structure of start-ups.

Keywords: founder, control, enterprise growth, institutional environment, board characteristics

structure and government regulation of entrepreneurial enterprises.

1. INTRODUCTION

Corporate control allocation is an important topic in the field of corporate governance. Control in the reasonable configuration can effectively increase the enterprise's own long-term development of the short-term performance and value, and can be reasonable to protect the rights and interests of all stakeholders [12], the existing research for control of the research has focused on the equity structure of the design study, but also some scholars focus on corporate social embedded control of the problems of social capital, but existing research for the analysis of source control is still not comprehensive, still not enough in-depth about the nature of control. Therefore, this study attempts to reveal the internal logic between founder control and enterprise growth by analyzing the source and essential characteristics of founder control, and explore its important role in enterprise development, which provides certain practical significance for the allocation of equity

2. LITERATURE REVIEW

At present, there are abundant researches on the growth of enterprises, including not only the analysis of the factors related to the growth of enterprises, but also the exploration of the construction process of the comprehensive index system for the growth of different types of enterprises and the path to improve the growth and development of enterprises.

First of all, current researches on the influencing factors of enterprise growth are mainly based on the theory of resource dependence to explore various resources faced by enterprises. Existing studies have explored the influence of macroeconomic environment and industry market factors on enterprise growth from the external environment faced by enterprises. At the same time, also has the most scholars consider equity structure, shareholding, the two power separation, executive compensation gap, corporate reputation, and other indicators, from inside the corporate governance structure to explore the influencing factors of

enterprise growth, there is no doubt that further enrich the research of enterprise growth factors, and provides a theoretical basis for future research. But in the process of measure of enterprise growth index, different researchers approach, for the enterprise growth research presents two kinds of state: single index and comprehensive index system research, this article is in reference on the basis of related research in combination with the research object of this paper, a comprehensive index system to further the analysis of the growth of the gem listing enterprises development.

At the same time, as the core layer of operation and management of listed enterprises -- the founder team, its own influence has a great impact on all aspects of enterprise strategic decision-making, operation and other aspects, and is the key factor for the study of enterprise growth [16]. The issue of power distribution of founders is of great significance to the current situation. How to treat the control right of the founders of enterprises and give play to the unique human capital role of the founders to facilitate the growth of enterprises are the research focus of scholars at home and abroad [24]. The research foundation mainly consists of principal-agent theory and social capital theory. This paper first sorts out the source process of founder's control, and then sorts out its classification to get the research model of founder's control. Previous studies on the influence of founder control on enterprise growth in literature mostly considered the influence of single or multiple founder characteristics on enterprise growth, and did not comprehensively divide founder control into different approaches to explore its influence on enterprise growth. Founder control includes both the power brought by the characteristics of the founder and the power given by institutional factors. Therefore, on the basis of principal-agent theory and enterprise growth theory, this paper explores the influence mechanism and effect result of different types of founder control rights on enterprise growth. At the same time, it is of great practical and theoretical significance to study the characteristics of board of directors and institutional environment influence.

3. MODEL BUILDING

3.1 The Mechanism Analysis of the Influence of Founder's Control Right on Enterprise Growth

3.1.1 Founder Ownership Power And Enterprise Growth

According to the corporate governance structure in China, the shareholding structure and the board structure are still the main controllers of corporate control. Ownership is the core of principal-agent contract power and the foundation of all power. The right of control is built on the basis of

ownership, and the management of the enterprise by professional managers is based on the legal transfer of the owner's power based on the agency contract. Owning equity in a company is also the most direct way to own a business. By holding equity in the company, the founder connects his own interests with the interests of the enterprise, and the growth and development of the enterprise is directly related to its future development direction. In general, the founder will properly grasp the ownership power of the enterprise in the process of establishing the enterprise, which can properly solve the agency problem in the development of the enterprise under certain circumstances, which is conducive to the development and expansion of the start-up enterprise [2]. Based on the above analysis, the following hypotheses are proposed in this study:

H1: Founder ownership has a positive impact on the growth and development of an enterprise.

H2: Founder ownership has a u-shaped effect on enterprise growth.

3.1.2. Founder expert power and enterprise growth

Knights et al. [5] believed that founder power can be divided into two aspects: one is the social status of individuals or the formal power brought by organizational hierarchy; the second is informal power brought about by personal characteristics and abilities. This informal power not only reflects a kind of social capital, but also reacts on the formal power, further affecting the status, rank or promotion of individual value in the organization [7]. Liu jin et al. [13] found in their research on founder CEO informal power that the informal power of the CEO ACTS on the formal power of the CEO in the organization to help the CEO establish leadership authority in the enterprise, thus promoting the enterprise performance in a positive way. Therefore, the following hypotheses are proposed in this study:

H3: Founder expert power has a positive impact on enterprise growth.

3.1.3. Founder reputation power and enterprise growth

Finkelstein [9] pointed out that reputation power comes from an individual's social status and popularity. The theory of entrepreneur human capital and social capital points out that the personal experience of the founder, the reputation effect and the social network relationship can affect the effect of the entrepreneur's original power in the position. As the founder of an enterprise, its reputation not only represents itself but also the whole enterprise. At the same time, this reputation is not only manifested in the external word-of-mouth effect, but also in the internal power, which becomes the "invisible power" of the founder to govern the enterprise. Liu wei and hou shixia [14] divided founder reputation into school reputation, political reputation, social

reputation and business reputation. These reputations will produce a signal mechanism for investors to influence the capital acquisition of start-up enterprises, among which for private high-tech enterprises, the knowledge and technical ability of the founders is undoubtedly an important factor affecting the development of enterprises. Therefore, the following hypotheses are proposed in this study:

H4: The reputation power of founders has positive influence on the growth of enterprises.

3.2. Analysis of Regulatory Effect of Institutional Environment

The existence and development of an organization cannot be separated from the constraints and requirements of a certain institutional environment. Enterprises always seek a balanced development opportunity in the institutional environment: reduce threats in the institutional environment and make full use of opportunities in the institutional environment. The internal institutional environment mainly includes the company's articles of association, organizational structure and standards; external system environment, including a series of political, economic and legal norms, not only from regulators also include competitors, customers and industry supervision specification [6]. Wang chunyan, etc[17] found that the founder to gain control of the enterprises tend to use in the internal control system designed to strengthen and consolidate their control .Li chun-ling , Nie jingSi [15] concluded that in the case study of vanke, vanke case compared to the rest of the case is a feature of the founder of holdings, The emergence of this example provides a strong support for the analysis of the source factors of control except equity. The control chain of the founder to the enterprise is easily broken because of the interference of the hostile acquirer. What factors play a key role in maintaining the control chain of the founder? At the same time, the final resolution of vanke's competition for control also enables researchers to see the role of regulators: how to distinguish the ownership of enterprises' real control; at the same time, it also provides important first-hand reference for the discussion of the unique role of institutional environment in the allocation of control rights.

Existing research shows that the enterprise strategic decision is not only influenced by internal factors (organizational structure, management ability) is from the external system environment. Hambrick and Finkelstein [1], the influencing factors of autonomy within the company top managers behavior not only includes the CEO's personal characteristics and internal governance mechanism, including the system of the external environment constraints. La Porta and F.S hleifer found that the external system environment will affect the contract signed between enterprises and implementation, An important impact on managers' strategic choice behavior, and affect the performance of the enterprise. Zhang sanbao, zhi-xue zhang [23] studied the macroscopic system environment for the effect of microstructure of strategy and mechanism. Study

the institutional environment affects the organization of the key individuals (CEO) the strategic choice and decision, the system differences between different areas will lead to a CEO management autonomy degree of different size, some management power, CEO of external system will promote the normal play, such as a region's trust, good legal environment and the development level of intermediary organization. Li chun-ling , Nie jingSi [15] based on the case in the struggle for control of the vanke, analyzed the institutional environment in the allocation of resources and the relationship between the founders control effect, the study found that the internal system environment can help to maintain control of the external system environment can help to solve the ownership of the process control for the enterprise in the process of control, ensure the founder team to continue to the enterprise operation and management, help enterprises to obtain more stable and long-term development. Based on the above analysis, the following hypotheses are proposed in this study:

H5: The institutional environment negatively regulates the relationship between founder's control rights and enterprise growth, that is, under other conditions being the same: compared with the companies with strong regional institutional environment constraints, the influence of founder's control rights on enterprise growth is more significant in the companies with weak regional institutional environment constraints.

3.3. Analysis on the regulating effect of the characteristics of the board of directors

With the development of the capital market and the further growth and development of entrepreneurial enterprises, the corporate governance structure has also undergone further changes; for investors to choose professionals to be responsible for the management of enterprise can not only solve the problem of enterprise management can also help improve their own interests. According to agency theory, the management equity incentive, appropriate to reduce the relevant agent cost, reduce the on-the-job consumption, improve the work efficiency. Scholars argue that must be given to the members of the board of directors appropriate incentives, otherwise they will bear the negative for the company's major policy attention and supervision. Therefore, must carry on the appropriate compensation for members of the board of directors, to improve them to participate in the enthusiasm of the company operation and supervision. Based on the above analysis, this paper puts forward the following assumptions:

H6: The total compensation of the top three in the board of directors has a positive moderating effect on founders' control rights and enterprise growth.

As part of the members of the board of directors, independent director for corporate governance plays an important role, because of the independent director and the company there is no corresponding relationship of interests, the interests of the members of the board of directors, at the same time also there is no corresponding relation, thus can

be relatively independent strategic decisions for the company to provide constructive opinion. Rosenstein and Wyatt (1990) [8], from the perspective of theory, points out that The introduction of the independent directors can enhance the decision of the board of directors and supervisory functions. Zheng Chunmei etc. [19] through the study found that the introduction of independent directors can not only strengthen the supervision of the board of directors can also enhance the enterprise accounting supervision, help enterprises to prevent corruption in accounting. The independent director system can help strengthen and perfect the supervision of the board of directors and decision-making functions, improve corporate governance efficiency and management level to help improve business performance, further is conducive to the growth development of the enterprise. Therefore, this study proposed the following assumptions:

H7: The proportion of independent directors has a positive regulating effect on founders' control rights and enterprise growth.

Jensen & Ruback [4] through the study found that the higher the company's top managers shareholding, instead of a certain negative impact on corporate performance, because with the improvement of its own stake, directors and managers' decisions have obvious self-interest behavior, tend to be from the value of their own company in all kinds of decision making and strategic behavior. Scholars study of the board of directors shareholding relationship with the enterprise performance, found that the proportion of members of the board of directors is around 5%, There is a positive relationship between the shareholding ratio of board members and corporate performance. When holding more than 25%, the proportion of the board of directors is the higher, the conducive to enterprise's long-term performance. Yu Dongzhi [24] study, director of shareholding and the sum of per capita shareholding ratio and corporate performance present linear correlation relationship, instead of inverted u-shaped relationship shows that equity incentive effects for directors of motivation, and performance for the future of enterprise performance has obvious role in promoting. Research has shown that, for members of the board of directors of incentive mechanism can significantly improve the enterprise value and future growth and development. Based on the above analysis, this study proposed the following hypothesis:

H8: The shareholding ratio of other members of the board of directors has a positive regulating effect on the relationship between founders' control rights and enterprise growth.

Jensen [3] argue that the board of directors need to maintain objectivity and independence, chairman and general manager if the founder of the post will greatly damage the function of the board of directors and thus are not able to fully exert the decisions of the board of directors and supervision mechanism. Jing-jing zuo, Zhong Di [20] argue that both the founder who will impact of the company's strategic decision-making and implementation: the founder of the first two part-time will require higher ability and

responsibility consciousness, which is beneficial to the company's investment decision-making and project choice; secondly, improving the position of the CEO in the board of directors is conducive to enhancing the voice of the founder and weakening the negative impact of collective thinking on the growth of the enterprise. Finally, giving more power to founders is also conducive to enhancing their confidence and risk taking ability, and making them more willing to promote the long-term development of enterprises. Therefore, this study believes that:

H9: The combination of the two roles has a positive regulating effect on the relationship between founders' control rights and enterprise growth.

4. PAPER DESIGN

4.1 Paper Model

This study focuses on exploring the influence of founders' control rights on the growth of enterprises, and extracts the comprehensive index of founders' control rights as the measurement standard [21]. Meanwhile, this study considers the regulatory effect of board characteristics and external institutional environment as the regulatory variables:

$$\begin{aligned}
 G &= \beta_{10} + \beta_{11}shr + \beta_{12}controlvar\ iables_i + \varepsilon_1 \\
 G &= \beta_{20} + \beta_{21}shr + \beta_{22}shr^2 + \beta_{23} + controlvar\ iables_i + \varepsilon_2 \\
 G &= \beta_{30} + \beta_{31}tech + \beta_{32}controlvar\ iables_i + \varepsilon_3 \\
 G &= \beta_{40} + \beta_{41}time + \beta_{42}controlvar\ iables_i + \varepsilon_4 \\
 G &= \beta_{50} + \beta_{51}power + \beta_{52}controlvar\ iables_i + \varepsilon_5 \\
 G &= \beta_{60} + \beta_{61}power + \beta_{62}modvar\ iable1 + \beta_{63}modvar\ iable1 * power + \varepsilon_6 \\
 G &= \beta_{70} + \beta_{71}power + \beta_{72}modvar\ iable2 + \beta_{73}modvar\ iable2 * power + \varepsilon_7
 \end{aligned}$$

4.2 Data Source and Sample Selection

In this paper, relevant index data of private companies listed on gem were selected from CSMAR database of guotai 'an and juchao information network. Part of the missing data came from the annual reports and initial public offering prospectus of listed companies, and were manually sorted out. The data period is 2013-2017 and the initial samples are processed as follows: Excluding companies controlled by sasac; (3) if the founder is a co-founder, then confirm the core founder according to the proportion of shares, at the same time to eliminate some of the founders of the company is not clear; considering the particularity of the financial industry, excluding financial listed companies. The number of companies whose data are discontinuous is excluded. Finally, 346 listed companies were obtained. In this study, spss19.0 and stata12.0 were mainly used for data analysis.

5. EMPIRICAL RESEARCH

5.1 Regression Analysis

Table 5-1 regression analysis results of founder control on enterprise growth

VARIABLE	(6)	(1)	(2)	(3)	(4)	(5)
	g	g	g	g	g	g
shr		0.0349*	0.0274**			0.0312
		(2.80)	(5.97)			(2.75)
shr^2			0.00737			
			(0.57)			
tech				0.172**		0.167**
				(6.99)		(6.54)
time					0.171***	0.170***
					(10.32)	(10.64)
lnasset	-0.255***	-0.245***	-0.247***	-0.255***	-0.231***	-0.223***
	(-9.73)	(-8.88)	(-9.12)	(-9.71)	(-9.77)	(-8.78)
lev	0.274	0.262	0.262	0.276	0.240	0.230
	(1.38)	(1.37)	(1.38)	(1.38)	(1.24)	(1.22)
ind	0	0	0	0	0	0
	(.)	(.)	(.)	(.)	(.)	(.)
year	0.0546**	0.0571***	0.0563**	0.0548**	0.0453**	0.0478**
	(8.17)	(10.02)	(8.48)	(8.23)	(6.95)	(8.65)
_cons	-104.7**	-109.8**	-108.3**	-105.2**	-86.53**	-91.65**
	(-8.08)	(-10.08)	(-8.44)	(-8.14)	(-6.82)	(-8.64)
Observations	1730	1730	1730	1730	1730	1730
Number of sc	346	346	346	346	346	346
R-squared	0.0382	0.0401	0.0404	0.0386	0.0617	0.0635

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1

5.1.1 Further inspection

Based on the methods of relevant researchers, this study adopts the method of summing and averaging the four indicators of founder's control rights to obtain the comprehensive indicator Power of founder's control rights. The higher the value, the greater the strength of founder's control rights, and further tests the relationship between it and enterprise growth [11] [15]. The specific regression results are shown in table 5-8:

Table 5-2 regression results of comprehensive indicator of founder's control rights and enterprise growth

VARIABLES	(1)	(2)
	g	g
power	0.274***	0.232***
	(9.52)	(8.62)
lnasset		-0.220***
		(-8.73)
lev		0.226
		(1.20)
ind		0
		(.)
year		0.0499***
		(8.71)
_cons	0.00000675	-96.00***
	(0.00)	(-8.70)
Observations	1730	1730
R-squared	0.0353	0.0628
Number of sc	346	346

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1

5.1.2 Analysis of Regulatory Effects of Institutional Environment

Table 5-3 regulatory effect of institutional environment on the relationship between founders' control rights and enterprise growth

VARIABLES	(1)	(2)
	g	g
power	0.121***	0.115**
	(9.42)	(8.26)
outenvi	-0.00607	-0.00429
	(-0.30)	(-0.21)
opower		-0.0368*
		(-3.36)
lnasset	-0.229***	-0.228***
	(-9.97)	(-10.12)
lev	0.267	0.263
	(1.37)	(1.37)
ind	0	0
	(.)	(.)
year	0.0482***	0.0480***
	(10.63)	(10.87)
_cons	-92.27***	-91.91***
	(-10.50)	(-10.75)
Observations	1730	1730
R-squared	0.0515	0.0533
Number of sc	346	346

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1

5.1.3 Analysis on the Regulating Effect of the Characteristics of the Board of Directors

Table 5-4 adjustment effect test of characteristic variables of board of directors

VARIABLE	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
S	g	g	g	g	g	g	g	g
power	0.233** (8.52)	0.233** (8.57)	0.232*** (8.82)	0.231*** (8.68)	0.229** (7.58)	0.230** (7.75)	0.234*** (8.68)	0.236*** (8.73)
eratio	0.0050 0 (0.37)	0.0049 5 (0.36)						
othshr			- 0.00223 (-0.12)	- 0.00343 (-0.20)				
salary					0.0793** *	0.0833** *		
same					(9.20)	(12.52)	0.0316* (4.12)	0.0314* (3.88)
epower		0.0042 1 (0.59)						
othshrp				0.0147** (5.42)				
salpower						-0.0296* (-4.52)		
sampower								0.0292* (2.84)
lnasset	- 0.219** (-8.28)	- 0.219** (-8.28)	- 0.220*** (-8.67)	- 0.221*** (-8.69)	- 0.240*** (-9.49)	- 0.239*** (-9.25)	- 0.212*** (-8.85)	- 0.214*** (-9.22)
lev	0.224 (1.20)	0.224 (1.20)	0.226 (1.21)	0.223 (1.20)	0.193 (1.04)	0.189 (1.02)	0.228 (1.22)	0.229 (1.25)
ind	0 (.)	0 (.)	0 (.)	0 (.)	0 (.)	0 (.)	0 (.)	0 (.)
year	0.0498* (8.43)	0.0498* (8.45)	0.0497** (8.97)	0.0499** (8.94)	0.0458** (7.78)	0.0450** (7.76)	0.0490** (9.25)	0.0498** (9.83)
_cons	- 95.83** (-8.43)	- 95.81** (-8.45)	- 95.63*** (-8.96)	- 95.89*** (-8.92)	- -87.22** (-7.69)	- -85.60** (-7.68)	- 94.29*** (-9.25)	- 95.83*** (-9.83)
Observations	1730	1730	1730	1730	1730	1730	1730	1730
R-squared	0.0629	0.0629	0.0628	0.0633	0.0714	0.0733	0.0646	0.0664
Number of	346	346	346	346	346	346	346	346
sc								

5.2. Summary of Empirical Results

Null Hypothesis	Regression Results	Hypothesis Testing
H1: Founder ownership has a positive impact on the growth and development of an enterprise.	Positive correlation	Tenable
H2: Founder ownership has a u-shaped effect on enterprise growth.	Nonexistent relation	False
H3: Founder expert power has a positive impact on enterprise growth.	Positive correlation	Tenable
H4: The reputation power of founders has positive influence on the growth of enterprises.	Positive correlation	Tenable
H5: The institutional environment negatively moderates the relationship between founder control and enterprise growth	Related	Tenable
H6: The total compensation of the top three in the board of directors has a positive moderating effect on founders' control rights and enterprise growth.	Negative significant	Opposite
H7: The proportion of independent directors has a positive regulating effect on founders' control rights and enterprise growth.	No significant	False
H8: The shareholding ratio of other members of the board of directors has a positive regulating effect on the relationship between founders' control rights and enterprise growth.	Related	Tenable
H9: The combination of the two roles has a positive regulating effect on the relationship between founders' control rights and enterprise growth.	Related	Tenable

6. CONCLUSION

6.1. Research Conclusion

For gem listed enterprises, founder holding enterprises are conducive to the growth and development of enterprises, that is, the higher the shareholding ratio of founders, the better the growth and development of enterprises; gem listed enterprise founders grasp the core technology is conducive to the growth and development of enterprises. The founders of gem listed companies choose to stay on and hold important positions after the IPO. The longer the tenure of the founders, the better the growth and development of the enterprises. The institutional environment negatively moderates the relationship between founders' right of control and enterprise growth; the total compensation of the top three members of the board of directors has a negative moderating effect on founders' control rights and enterprise growth. The proportion of independent directors has no moderating effect on the relationship between founders' control rights and enterprise growth. The shareholding ratio of other members of the board of directors and the combination of the two roles have a positive regulating effect on the relationship between founder's control right and enterprise growth.

6.2. Research Deficiencies and Prospects

From the perspective of founder control, this study is also an innovative attempt to study founder control, hoping to obtain innovative research results from the study, but there

are also relevant deficiencies and defects in the study, and hope that future research can be further deepened and corrected.

First, the definition of founder control. This study further analyzes and explores the source of founder control according to relevant theories and literature, and then defines founder control as founder ownership power, expert power and reputation power, which may still have some theoretical defects, and further exploration and verification are needed in the future.

Second, the problem of variable measurement. At present, there is no clear measurement method for founder control, the independent variable of this study. Based on the research results of relevant scholars, and in combination with the reality of gem related enterprises and the availability of data, this study selects relevant measurement indexes, which may be different from the reality or not comprehensive. Related definition: control the founder of the founder ownership power, the power of reputation and find power measure not just reflected in a measure, past research has adopted two or more dimensions to reflect their respective power type, but given the data acquisition and the results of the study, an artificial remove these indicators, this research may produce certain effect, the future hope to through more comprehensive measures to control performance of different types.

Third, the dependent variable of this study, enterprise growth, is a comprehensive indicator. The growth and development of enterprises is not only reflected in the growth of quantity but also in the change of quality. Therefore, the measurement of enterprise growth needs not only quantitative indicators but also qualitative indicators to be improved. This study USES financial indicators for analysis and accounting, which may have a certain impact on the research results.

Fourth, hypothesis 1 of this study: founder ownership power has a positive impact on enterprise growth. It is assumed that the higher the proportion of shares held by the founder, the better the growth and development of the enterprise. However, in real life, the core founders will constantly reduce their shares in the process of listing the enterprise, on the one hand, due to the relevant regulations of the CSRC, on the other hand, due to the founder's related cash out activities. But because of this research will founder in the process of collecting data and its founder consistent person holding all belongs to the core, because this study thinks that both direct stake, founder and indirect stake finally have some control over through equity at the same time, the future for the index measuring need further consideration.

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