# Work for a founder? Watch your back

Remember how Steve Jobs avoided problems over backdated options a few years ago? Less well known, perhaps, is the fact that his CFO did not, even though the backdating benefited Jobs above all.

Well, a new study finds that no one should be surprised at this. Reason: CEOs who are founders, like Jobs, tend to scapegoat their CFOs more often than do chief executives brought in from the outside.

A study published in the current issue of the American Accounting Association's "Accounting Review" finds that in cases of accounting irregularities, 70 percent of those CEOs who were founders kept their jobs upon the announcement, compared with only about half of those hired from the outside. And the other half of those hired guns left either before or within six months of the announcement.

I suppose that's not entirely surprising either, since founders would naturally be expected to treat a company as more of their own play thing than outsiders would be.

To be fair, founders understandably are particularly proud of what they've built, and should be in many cases. But they often can't get over the fact that they have to, well, share with a bunch of unknown shareholders instead of a few cronies, I mean, key providers of capital, once they take a company public. In fact, more of those original capital providers are probably still on the board in such cases.

The authors of the study, which examined 96 cases of restatements from 1997 to 2006, concede as much. "Although intuition would suggest that turnover would be lower for CEOs of founder-managed firms, the magnitude of the impact is quite striking," concluded the report's authors, Andrew J. Leone of the University of Miami School of Business Administration and Michelle Liu of Penn State University's Smeal College of Business.

The thing is, study also suggests that CFOs who go to work for such dudes should be warier of them than of outsiders.

In instances where founder CEOs survived, their CFOs remained in place merely about 18 percent of the time. In cases where non-founder CEOs survived, in contrast, about 46 percent of CFOs remained as well. Almost one fourth, in fact, kept their jobs even when a non-founder CEO was removed.

The authors noted that "it is typically necessary for the firm to fire someone in the wake of an accounting irregularity. Given the relatively high costs of firing founder CEOs, coupled with the high costs of not firing anyone...boards will attempt to shield the found CEO from blame -- and designate the CFO as the 'scapegoat' -- when accounting irregularities occur."

Of course, it's possible that CFOs are the officers most deserving of blame for accounting irregularities, particularly when CEOs lack accounting expertise. But the research found the accounting expertise of CEOs an insignificant factor in turnover. "Boards' decisions to retain the founder CEO are not due to the lack of accounting expertise," the authors observed.

The researchers also found that the amount of stock owned by the CEO was not a significant factor in continued tenure. Instead, a CEO's survival "is consistent with the board of directors recognizing that replacing the founder CEO with the next best manager will reduce firm value."

My sense is CFOs already understand the risk involved here perfectly well. But the findings are a stark reminder in case they forget.