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VENTURE CAPITALISTS IN FIRM GOVERNANCE: IMPACT ON FOUNDER TURNOVER

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ABSTRACT

Prior literature tells us VCs are responsible for ousting founders from their leadership positions and replacing them with professional management around IPO time. This argument assumes all founders are equally incapable of running a company beyond the initial startup phase. We question that assumption and propose that the relationship between VC involvement and founder-CEO turnover around IPO time is moderated by other variables such as the pre-IPO performance of the firm, the nature of the involvement of the VCs, and the prior experience of the founder-CEOs. Our hypotheses are tested on 108 founder-CEOs of IPO firms and supported to a large extent. Implications are discussed.

INTRODUCTION

Venture capitalists (VCs) play a critical role in most aspects related to corporate governance in young ventures they fund. A majority of new ventures that have eventually gone public were backed by VCs. During the 1999-2000 period, more than 65% of initial public offerings (IPOs) were backed by venture capital (Ljungqvist and Wilhelm, 2003). Even though overall venture capital investment has declined considerably from its high of \$105 billion in 2000 during the peak of the dotcom period to a mere \$20-30 billion range annually today, it still represents a fairly significant amount of economic activity (Zhang, Polat, and Wang, 2009).

VCs not only provide the all-important financial resources that young firms need, they are also extensively involved with the firms they finance. This involvement includes a monitoring role as well as a mentoring role in the form of strategic and managerial guidance (Sapienza, Manigart, and Vermeir, 1996). These dual roles of monitoring and mentoring of VCs have interesting implications not only for the nature of governance mechanisms employed in the young venture, but also for the outcomes for firm value at, and beyond, transition times for the venture (e.g. an initial public offering or corporate ownership) (Wijbenga et al., 2003, Sanders and Boivie, 2004). As such, VCs add a layer of complexity to the management of startups by bringing in different dynamics in cash flow rights, voting rights, and other control rights (Zhang, Polat, Wang, 2009). There is some evidence that VCs negotiate complex control rights when they invest, play a critical role in founder and non-founder CEO turnover, and set up strong governance structures in the firms that they fund (Shekhar and Stapledon, 2007, Sheu and Lin, 2007, Wijbenga, Postma, and Stratling, 2007).

The question of whether to issue an IPO with a founder or non-founder CEO is of central interest to VCs. Lifecycle theory of the firm suggests that founder-CEOs do not have the necessary skills to manage a growing company and argues that founder-CEOs must be replaced as the venture matures to improve its performance. Many founders hold controlling shares of the firms they start, and run them as well (Demsetz and Lehn, 1985; La Porta, Lopez-de-Silanes, Shleifer and Vishny, 2002). However, evidence in the literature demonstrates that a third to a half of new ventures issue IPOs with non-founder CEOs (Jain and Tabak, 2008). History has witnessed many successful firms that issued IPOs with founder-CEOs leading them, as well as others that

went public with non-founder CEOs. Prior literature tells us that venture capitalists are responsible for ousting founders from their leadership positions in young ventures and for replacing founder-executives with professional management for the startup around the time of the IPO. Corporate governance research provides evidence that VCs are instrumental in the process of founder succession because of their preference for professional management. Since different stakeholders of the firm may have different objectives, conflicts may arise between the interests of VCs and those of the founder-executives where the contracts defining ownership and control are incomplete and cannot specify all possible contingencies. (Jensen and Meckling, 1976).

The dynamics of founder-CEO succession, however, and VCs' role in this transition, is still an area that is relatively underexplored. Jain and Tabak (2008) have examined VC influence, among other variables, on the probability of having a founder-CEO at IPO, and our study attempts to build and expand on their findings. We argue that VCs differ in their ability and willingness to replace founder-CEOs. In addition, not all founder-CEOs are equally incompetent in leading the young venture beyond the initial startup phase; therefore, VCs will factor in the qualifications of the founder-CEO when deciding whether to facilitate succession.

We examine these ideas on a dataset of 108 founder-CEOs who led telecommunications startups that issued IPOs during 1996-2000. We find that while VC involvement in a young venture has a positive impact on the likelihood of founder-CEO succession around the IPO event, this relationship is moderated positively by the VC influence on the board of the IPO firm and the prior startup experience of the founder-CEO, and moderated negatively by presence of corporate VCs and prior industry and corporate experience of the founder-CEO. Our results contribute broadly to the corporate governance, and specifically to the founder succession, literature as well as extend and deepen our understanding of the dynamics of VC involvement in young ventures.

THEORETICAL BACKGROUND

Lifecycle theory of the firm suggests that (Boeker and Karichalil, 2002, Rubenson and Gupta, 1996, 1992, Tushman and Romanelli, 1985) the capabilities, skills, and management styles required for effective management of a firm change as the firm grows from an entrepreneurial venture to an established entity. The IPO event is a fundamental transition that clearly marks for an entrepreneurial venture the changes required to its strategy, structure, control processes, and standard operating procedures (Jain and Kini, 2000). According to lifecycle theorists, managing the newly public firm requires a broader skill set that founder managers of the firm are not likely to possess. As the firm transitions from an early growth stage to a later stage, it requires leaders with professional rather than entrepreneurial management styles. The new needs of the firm reduce the value of the founders to the firm, and control of the firm passes on to new, professional managers (Polat and Wadhwa, 2008). The complex needs of the newly established public venture increase the likelihood that the founder-CEO would step down in favor of more professional management around the time of the IPO. Addressing these needs just around the time of the IPO enhances the market value of the new venture at IPO. Boeker and Karichalil (2002) hypothesize that founder departure in a new venture is more likely with increasing firm growth but find a curvilinear relationship between founder turnover and new venture growth. The results of their study indicate that at low levels of new venture growth, founder departure is negatively related to growth, but at high levels of growth this relationship becomes positive. At high levels of growth, Boeker and Karichalil (2002) point to the lifecycle theory of the firm, arguing that high growth in a firm is accompanied by the need for a change in the ability and styles of its founders. They conclude that founders may not have the ability or the willingness to manage an established company.

Founders of a start-up might not possess the necessary skills to manage an established enterprise, regardless of how successful they were in creating it. Consequently, the replacement of founders by professional managers might be crucial to the future success of the firm. In this context, it becomes important to study the conditions under which the leadership of entrepreneurial organizations changes (Polat and Wadhwa, 2008). According to Wasserman (2003) the founding team in early-stage new ventures can leverage superior performance of the firm as evidence that they possess the skills required to manage the firm in its maturity as well, thus lowering the likelihood of management changes after the firm moves on to later stages in its lifecycle. Wasserman (2003) further argues that if the founding team demonstrates low performance outcomes during the early stages of the venture, then the likelihood of subsequent top management team turnover is higher. However, the study finds that firm success and founder-CEO turnover are positively related, contrary to the hypothesized negative relationship. Wasserman (2003) explains the findings by arguing that completion of product development, which has been used as the measure of firm performance in the study, is a key milestone in the development of a new venture after which the firm needs top management with a different skill and capability set to grow the venture into an established entity, thereby triggering founder management turnover.

In order to understand leadership succession in new ventures where VCs are involved, it is critical to examine the control structure in such organizations. The VCs represent the one governance mechanism within an entrepreneurial venture that has not only the *willingness* but also the *ability* to carry out the necessary professionalization of the firm (Polat and Wadhwa, 2008). VCs are outside owners and investors of the firm, and as such, they are interested in maintaining control of the venture and supporting it in different ways. They are likely to be *actively* involved in monitoring how their investments are managed since their ability to raise more funds in the future directly depends on their investment returns, which, in turn, are dependent on the performance of their portfolio firms.

Hellmann (1998) explains that VCs have control over succession decisions in the entrepreneurial venture since they hold board seats which have voting rights, or they make explicit contractual agreements to have such control. VCs' control rights are established at the time of funding (Kaplan and Stromberg, 2001) and exercised when governance systems need to be put into place. "When management risk is present, the VCs ensure that the contractual structure provides a higher degree of control to the VCs, both in terms of votes and board seats and by withholding a higher fraction of the committed financing if performance milestones are not met" (Kaplan and Stromberg, 2001: 428). Lerner (1995) mentions that, on average, two out of six board seats in an entrepreneurial venture belong to VCs. Within the board, since VCs are less likely to have fewer personal or relational ties to founders than other owners, they are more likely to optimize the interests of the firm, even if that precipitates replacing the founders. Hence, VCs can be expected to protect their return on investment during the IPO process for the entrepreneurial firm, to monitor the founder management team, to initiate succession in the top management team and the board if necessary, and to set up other governance structures to ensure the success of the venture after the IPO.

HYPOTHESES

According to the extant literature, VCs hold that professional management would add more value to the firm than founder management after the IPO process. The IPO is a significant transition in the lifecycle of a startup venture as compared to product development and early financing rounds. It is the time when the ownership shares of the founders are diluted as a result of

the increasing number of shareholders. VCs typically argue that an agency problem emerges when the founder-CEO's equity holdings are diluted, and that founding management is more likely to act in its own interest rather than the company's. Also, as mentioned above, VCs favor professionalization of the management of the firm around the time of the IPO since they want to make the firm more attractive to likely investors and less dependent on individuals (i.e. the founders) (Zingales, 2000).

Some researchers have suggested that VCs might have a role to play in the replacement of founder-CEOs in the early stages of a firm's development. More specifically, according to one study, the founder-CEO succession may come about at certain inflection points in the venture's evolution, such as new financing rounds and completion of the product development stage (Wasserman, Nohria, and Anand, 2001). Hellmann and Puri (2002) also provide support for founder-CEO turnover – they find that venture capitalists may be instrumental in replacing insider CEOs with outsider CEOs. Therefore, we expect to find a positive relationship between VC involvement in an IPO firm and subsequent founder-CEO succession around the time of the IPO.

H1: VC involvement in a firm will be positively associated with the likelihood of founder-CEO succession.

The above arguments, though, carry with them two underlying assumptions: (a) that all VCs are equally inclined and able to replace the founder-CEOs and (b) that all founders are equally incapable of running a fast-growing company beyond the initial startup phase. We question these assumptions and argue that VCs, in fact, make rational decisions for the startups in which they are involved. VCs do not just encourage *all* founders to step down from their executive positions; they actually investigate and take into account "who" the founders are, how the firm is performing and whether the founder-executives are capable of providing the managerial oversight necessary for the venture once it reaches a more mature stage and moves beyond the IPO to become a more established company. Moreover, not all VCs have return on investment as their primary objective and these VCs are more likely to make decisions that do not necessarily involve founder-CEO replacement. Therefore, we propose that the relationship established in the prior literature between VC involvement in a venture and the turnover of the founder-CEO around the time of the IPO is moderated by many other variables that influence the tenure of the founder-CEO in the venture. We formulate the next three sets of hypotheses based on this conjecture.

First, the pre-IPO performance of the firm should have an effect on whether the founder-CEO goes or stays. It is reasonable to expect a higher likelihood of turnover for the founder-CEO if the firm is underperforming. Empirical studies in management have found evidence in large established companies that prior firm performance is a significant factor that affects top management turnover (Wasserman, 2003; Grusky, 1963; Jensen and Murphy, 1990; Boeker, 1992; Puffer and Weintrop, 1991; Cannella and Lubatkin, 1993). These studies support agency theory and establish a negative relationship between performance of the firm and that of the top management team and subsequent top management turnover. If the firm performs well, the top managers retain their jobs and if the firm performs poorly, the top management team is held responsible and is replaced.

There have been many theoretical and anecdotal discussions of the negative relationship between firm performance and founder turnover in the entrepreneurship literature, yet few empirical studies so far which report mixed findings (Boeker and Karichalil, 2002; Rubenson and Gupta, 1992; Wasserman, 2003). In an early study, Rubenson and Gupta (1992) found no significant differences in the timing of founder departure between low- and high-growth startups.

Evidence from more recent research demonstrates the significance of the performance-turnover relationship, but does not shed light into the nature of the relationship (Boeker and Karichalil, 2002; Wasserman, 2003).

We propose that founder-CEO succession is less likely to occur in firms that have been performing well in the pre-IPO phase.

H2: Firm performance moderates the relationship between VC involvement and the likelihood of founder-CEO succession, such that this relationship will be weakened in higher performing firms.

We also propose that the *nature* of the involvement of the VC with the portfolio firm is a significant moderator of the relationship between VC involvement and founder-CEO turnover. First, the distinction of whether the VC is an independent entity or a corporate VC (CVC) is critical in this analysis. CVCs have weaker financial incentives than VCs. Corporations make strategic venture investments primarily to achieve synergies with their core business (Hellmann, 2002). Unlike independent VCs, corporate VCs have many objectives related to the strategic goals of their parent companies other than maximizing returns from their investments. For example, CVCs may make investments with a strategic purpose to stay at the frontier of technological innovation through organizational learning from their portfolio companies. Such strategic motives may be stronger than a purely financial motive (Zhang, Polat, Wang, 2009). Hence, we expect CVCs to be less likely to oust founder CEOs if they believe the founders are working towards their strategic objectives. Second, even if a VC is willing to oust a founder-CEO, their ability to do so is an entirely different consideration. According to Jain and Tabak (2008), VCs with more representation on the board have a larger influence in important strategic decisions such as replacing the founder and they can use their power on the board to enable CEO succession more easily (Boeker and Wiltbank, 2005). Hence, we expect VC influence to be a significant moderator of the relationship between their involvement in the firm and founder-CEO turnover.

H3a: Presence of corporate VCs moderates the relationship between VC involvement and the likelihood of founder-CEO succession, such that this relationship will be weakened in the presence of corporate VCs.

H3b: VC influence moderates the relationship between VC involvement and the likelihood of founder-CEO succession, such that this relationship will be strengthened when VCs have more influence.

The extent of founder-CEO experience can also have a weakening effect on the relationship discussed above. Founder-CEOs with greater prior experience should be less likely to be ousted from their leadership positions, as such experience qualifies them better to lead the company not only during the initial startup phase but also during later stages. The impact of their experience can manifest itself as enhanced venture performance and/or the VCs' perception of the competence of the CEO. Founders who have been active in that particular industry before they got involved with the current startup have a lot to contribute in terms of knowing how the industry functions. A number of studies have examined factors associated with firm survival and found that success was more likely to be achieved by those who started new ventures in a business they knew well (Vesper, 1980). Moreover, those founders who have prior experience in starting companies will not only derive direct learning benefits from their past, but will also be perceived by VCs as more reliable and competent (Polat and Wadhwa, 2008). "Prior experience provides knowledge about resources that help to start new firms, entrepreneurial skills, and reputations that help to influence

the reallocation of resources to the new venture" (Shane, 2001: 211). Therefore, it is important to account for the effects of past industry and startup experience of the founder-CEO. Those founder-CEOs with extensive corporate experience, on the other hand, may actually be more equipped and prepared to lead the firm through its mature stages than others with insufficient corporate experience. Hence, we also account for the moderating effect of the background and three different types of past experience of the founder-CEOs on their succession with the following set of hypotheses:

H4a: The founder-CEO's prior startup experience moderates the relationship between VC involvement and the likelihood of founder-CEO succession, such that this relationship will be weakened when the founder-CEO has more startup experience.

H4b: The founder-CEO's prior industry experience moderates the relationship between VC involvement and the likelihood of founder-CEO succession, such that this relationship will be weakened when the founder-CEO has more industry experience.

H4c: The founder-CEO's prior corporate experience moderates the relationship between VC involvement and the likelihood of founder-CEO succession, such that this relationship will be weakened when the founder-CEO has more corporate experience.

DATA AND METHODS

We examined 145 telecommunications startups that went IPO during 1996-2000 and collected data on founder CEOs and VC involvement from their IPO prospectuses, Thomson Global New Issues Database, Compustat, as well as publicly released company information and annual reports. We started with all of the IPOs issued in the telecommunications equipment and service sectors during this period and eliminated spinoffs to narrow down the sample to only independent firms to alleviate the need to control for unobserved effects in the analytical model. Of the 145 IPOs, we found evidence that in 108 cases one of the founders had been appointed the CEO prior to the company going IPO. Thus, our sample consisted of 108 founder CEOs. Of the 108 founder-CEOs, we identified 30 cases in which the founder-CEO had been replaced around the time the company went IPO. 23 of these succession cases occurred before the IPO and 7 of them within the year after the IPO.

We chose 1996 as the starting year of the sample because the Telecommunication Deregulation Act passed in 1996 completely changed the dynamics of the telecommunications industry by unleashing a wave of innovative activity which, in turn, created significant opportunities for firms in this sector. We selected the year 2000 as the last year of our sample because this year ended with the dotcom bust. The bust had important implications for VC decision making relative to the startups that they invested in. The telecommunications industry appears to be an appropriate setting for testing our arguments since the study period has witnessed high rates of IPOs in the matter of a few years. Patenting and venture capital, two of our variables, are two phenomena that regularly characterize this industry. Moreover, the results of this study are widely applicable as developments in the telecommunications industry that have occurred in the last decade were worldwide in nature.

Dependent Variable

The dependent variable of the study is the *Likelihood of Founder-CEO Succession*. This is an indicator variable which is coded “1” if a founder-CEO was replaced either before the IPO or within one year after the IPO.

Independent Variables

Our main effect variable, VC involvement in a pre-IPO firm, was measured by the number of VCs (*No. of VC Investors*) that invested in the startup prior to IPO.

We also include moderator variables related to firm performance, VC investors, and founder-CEO experience. Firm performance (*IPO Firm Performance*) was measured as the number of patents applied for (and granted to) the firm at the time of IPO. We included a variable to indicate whether any corporate investors had also invested in the firm (*Presence of Corporate VC*). This variable takes a value “1” if a corporate VC is an investor in the firm, and “0” otherwise. The power wielded by VCs in the firm (*No. of VCs on IPO Board*) is measured by counting the number of VC seats on the board of directors of the firm. We measured different types of founder-CEO experience – startup, industry, and corporate. Startup experience (*Founder-CEO Startup Experience*) was measured by the number of startup firms that the founder had helped start prior to the focal startup. Industry level experience (*Founder-CEO Industry Experience*) was measured by the number of jobs held by the founder CEO in the telecommunications industry prior to founding the focal startup. Corporate experience (*Founder-CEO Corporate Experience*) was measured by the number of companies in which the founder-CEO held top management positions prior to starting the focal firm.

Control Variables

We controlled for firm age, founder-CEO age, and founder-CEO education. *IPO Firm age* was computed as the number of years from the date of firm founding to the IPO date. We measure *Founder-CEO age* as the age of the founder in years at the time of IPO. *Founder CEO education* is an ordinal variable indicating the highest level of education attained by the founder-CEO. This variable is coded as “1” if the founder-CEO holds a college degree at the undergraduate level, as “2” if the founder-CEO holds a graduate degree, and zero otherwise.

Analysis

Since the dependent variable of our study, the likelihood of founder-CEO succession, is a dichotomous variable, we employed logistic regression analysis to empirically test our hypotheses. We used robust standard errors. Since our regressions include interactions, we first mean centered all the independent variables in order to reduce any concerns about multicollinearity (Aiken and West, 1990).

RESULTS AND DISCUSSION

Table 1 gives the descriptive statistics and correlations between the variables in our study. The results of our regression analysis are presented in Table 2. Model 1 is the baseline model with only the control variables. Model 2 adds the main effect of Number of VC Investors to test the base hypothesis. The moderator variables related to firm performance, VC Investors, and founder-CEO experience by themselves in models 3, 4, and 5 respectively. Variables related to VC investors and founder-CEO experience have been entered sequentially in models 6 and 7. Model 7 presents the full model.

We find support for many of our hypotheses. Hypothesis 1 predicted that VC involvement in a firm will be positively associated with the likelihood of founder-CEO succession at IPO. The coefficient of VC involvement (*No. of VC Investors*) is positive and significant in Model 2 ($p < 0.05$). It retains its direction and significance even when moderator variables are added in subsequent models. Based on Models 2-7, we claim support for hypothesis 1.

Hypotheses 2-4 predicted the effect of three moderator variables on the positive relationship between VC involvement and likelihood of founder-CEO succession. In Hypothesis 2, we hypothesized that IPO firm performance would weaken the main-effect relationship. Models 3, 6, and 7 in table 2 introduce the interaction of firm performance with VC involvement. The coefficient of the interaction term is positive and insignificant in all 3 models. Thus, we cannot claim support for Hypothesis 2.

Hypotheses 3a predicted that VC type would weaken the main-effect relationship and hypothesis 3b predicted that VC influence would strengthen the main-effect relationship. We find that the coefficient of the interaction term containing VC Type (*Presence of Corporate VCs*) is negative and significant in the full model ($\beta = -0.945$, $p < 0.01$), providing evidence that when corporate VCs are present, the VC involvement has a weaker effect on likelihood of founder-CEO than when corporate VCs are not present. We also found that the coefficient of the interaction term containing VC influence (*No. of VCs on IPO Board*) is positive and significant in the full model ($\beta = +0.242$, $p < 0.05$). This indicates that the greater the number of VCs on the board of an IPO, the effect of VC involvement on likelihood of founder-CEO succession is magnified. The results in model 7 are consistent with results in earlier models that also contain these interaction terms. Thus, we claim support for hypotheses 3a and 3b.

Hypothesis 4 predicted that different types of founder-CEO experience would weaken the positive main-effect relationship between VC involvement and likelihood of founder-CEO succession. The coefficients of the interaction terms containing founder-CEO industry experience and corporate experience were found to be negative and significant in model 7 ($\beta = -0.128$, $p < 0.05$, and $\beta = -0.163$, $p < 0.05$ respectively). These results suggest that the greater the founder-CEOs' industry and corporate experience, the weaker the effect of VC involvement on founder-CEO succession. However, the coefficient of founder-CEO startup experience is positive and significant ($\beta = +0.193$, $p < 0.05$) suggesting that founder-CEO's startup experience makes the effect of VC involvement on founder-CEO succession even stronger. Thus, while we do not find support for hypothesis 4a, we claim support for hypotheses 4b and 4c. Alternate measures of founder-CEO experience provide qualitatively similar results as discussed above.

While we did not hypothesize for the direct effect of firm performance on founder-CEO succession, we found a strongly significant negative effect. This result echoes the findings in extant research relating founder turnover to IPO performance. A surprise finding was that VCs are sensitive to the *type* of founder-CEO experience – contrary to our expectation, we found that the greater the founder-CEO startup experience, the greater the likelihood that VC involvement will replace a founder CEO. As a founder-CEO's startup experience increases, the likelihood that they have seen only the formation phases of a venture (and not the post-IPO growth stages) increases. It is possible that VCs are looking for individuals who have been on different sides of the IPO fence and who can sense the necessity of changing their management approaches.

CONCLUSIONS

This study examines the effect of VC involvement on founder-CEO succession at IPO, and the moderating role played by firm performance, VC-related characteristics, and different types of founder-CEO experience. We find that while VC involvement in a young venture has a positive impact on the likelihood of founder-CEO succession around IPO, this relationship is moderated positively by the VC influence of the board of the IPO firm and founder-CEO startup experience, and moderated negatively by the presence of corporate VCs and founder-CEO industry and corporate experience.

These results contribute broadly to the founder succession literature, as well as extend and deepen our understanding of the role of VC involvement in young ventures. Contrary to the conventional view that VCs are primarily perceived as driving forces behind replacement of founder-CEOs with professional managers, this study demonstrates that there is, in fact, a much more complicated and dynamic relationship between VCs and founders of IPO firms. We provide evidence that there are certain factors that *induce* VCs to replace founder-CEOs and other factors that constrain or facilitate their *ability* to do so. First, we highlight the importance of examining the type of VC to determine whether VC investments are driven by financial or strategic objectives. We distinguish between corporate VCs and traditional VCs and provide evidence that the presence of corporate VCs is beneficial for founder-CEO tenure because corporate VCs are more interested in maintaining their ties with the new venture post-IPO than in shorter term financial performance. Hence, corporate VCs prefer to deepen their ties with founder-CEOs rather than replace them. Second, even if VCs are motivated to replace founder-CEOs, we emphasize that VCs vary in their ability to carry out such a succession. The extent of the VCs' influence on the board of the IPO firm has important consequences for the changes that they can actually bring about. Third, we examine heterogeneity in the human capital represented by the founder-CEO and demonstrate that even when VCs are induced to replace founder-CEOs at IPO and when they possess the ability to do so, not all founders are at equal risk of being replaced around IPO. While VCs appear to value founder-CEO startup experience when funding new ventures, their decision making around the time of the IPO reflects a different perspective. Founder-CEO startup experience is discounted by VCs who prefer to have founder-CEOs with industry and corporate experience at the helm of a company going public.

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Table 1: Descriptive Statistics and Bivariate Correlations

	Mean	S.D.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) Likelihood of Founder-CEO Succession	0.278	0.45	0	1	1										
(2) IPO Firm Age	5.698	3.771	0.586	18.266	0.206	1									
(3) Founder-CEO Education	1.009	1.009	0	3	-0.109	0.002	1								
(4) Founder-CEO Age	43.315	11.402	0	72	-0.141	0.044	0.087	1							
(5) No. of VC Investors	2.685	2.058	0	8	0.196	-0.143	0.055	-0.05	1						
(6) IPO Firm Performance	1.907	4.318	0	25	0.413	0.177	0.092	-0.263	0.247	1					
(7) Presence of Corporate VCs	0.315	0.467	0	1	0.158	-0.112	0.073	0.067	0.503	0.112	1				
(8) No. of VCs on IPO Board	1.833	1.902	0	7	0.066	-0.176	0.064	0.032	0.66	0.087	0.365	1			
(9) Founder-CEO Startup Experience	8.361	7.099	0	28	0.03	0.17	-0.081	0.422	-0.194	-0.095	-0.068	-0.097	1		
(10) Founder-CEO Industry Experience	11.12	8.976	0	49	0.022	0.104	-0.032	0.553	0.033	-0.02	0.071	0.188	0.435	1	
(11) Founder-CEO Corporate Experience	3.036	2.487	0	17.929	-0.084	-0.137	-0.055	0.266	0.013	-0.052	-0.018	0.157	0.241	0.072	1

N=108

Table 2: Logit Regression

Dependent Variable: Likelihood of Founder-CEO Succession at IPO

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Constant	-0.354 [0.864]	-0.595 [0.993]	-0.247 [1.288]	-1.288 [1.124]	-0.711 [1.295]	-0.853 [1.391]	-0.822 [1.781]
IPO Firm Age	0.124* [0.057]	0.152* [0.063]	0.102 [0.071]	0.175* [0.075]	0.148* [0.060]	0.124 [0.080]	0.147+ [0.082]
Founder-CEO Education	-0.225 [0.249]	-0.271 [0.242]	-0.562+ [0.288]	-0.411 [0.274]	-0.252 [0.282]	-0.592+ [0.305]	-0.621+ [0.341]
Founder-CEO Age	-0.027 [0.019]	-0.025 [0.022]	-0.019 [0.028]	-0.023 [0.023]	-0.021 [0.030]	-0.022 [0.030]	-0.023 [0.041]
No. of VC Investors		0.270** [0.114]	0.223+ [0.138]	0.544** [0.202]	0.226+ [0.152]	0.421+ [0.270]	0.471* [0.280]
IPO Firm Performance			0.277** [0.105]			0.292** [0.101]	0.348** [0.134]
VC Investors X IPO Firm Perf.			0.053 [0.051]			0.024 [0.064]	0.064 [0.086]
Presence of Corporate VCs				1.524** [0.646]		1.381** [0.595]	1.091* [0.669]
VC Investors X Presence of Corp. VCs				-0.741** [0.269]		-0.627* [0.341]	-0.945** [0.413]
No. of VCs on IPO Board				-0.309+ [0.222]		-0.241 [0.251]	-0.097 [0.274]
VC Investors X VCs on Board				0.153* [0.073]		0.175* [0.100]	0.242* [0.140]
Founder-CEO Startup Experience					0.290* [0.165]		0.358* [0.207]
VC Investors X Founder-CEO Startup Exp.					0.146* [0.090]		0.193* [0.087]
Founder-CEO Industry Experience					-0.194* [0.114]		-0.307* [0.148]
VC Investors X Founder-CEO Ind. Exp.					-0.102+ [0.074]		-0.128* [0.071]
Founder-CEO Corporate Experience					-0.094 [0.114]		-0.078 [0.103]
VC Investors X Founder-CEO Corp. Exp.					-0.141+ [0.103]		-0.163* [0.089]
Observations	108	108	108	108	108	108	108
Number of Observations	108	108	108	108	108	108	108
Degrees of Freedom	3	4	6	8	10	10	16
Wald Statistic	8.285	14.827	16.457	23.191	25.221	25.452	36.721
Pseudo R Squared	0.0614	0.107	0.226	0.179	0.2	0.275	0.374
Log Likelihood	-59.89	-56.97	-49.42	-52.36	-51.05	-46.26	-39.96
-2 Log Likelihood Test		5.84**	20.94**	15.06**	17.68**	27.26**	39.86**