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IMPRINTING OR INSTITUTIONALIZATION? EXAMINING HOW SOCIAL CAPITAL IS TRANSFERRED DURING FOUNDER-CEO SUCCESSIONS

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This study examines whether or not the perpetuation of an outgoing Founder-CEO’s social capital can be best explained by the theoretical notion of imprinting or institutionalization. Imprinting logic argues that the founder’s social capital will persist independent of whether or not the organization takes action to capture it. Institutionalization logic argues that the organization can replicate and revise the existing structure in an effort to capture the valuable social capital. Data was collected through interviews and case studies to understand how these logics manifest themselves in 38 venture-backed companies. The data provide novel insights into the boundary conditions of the imprinting and institutionalization logics in regards to the transfer of a Founder-CEO’s social capital in a venture-backed startup undergoing its first succession.

The social capital of a new venture is brought into the firm by organizational members (Leenders & Gabbay, 1999) and includes relationships both inside and outside the firm (Adler and Kwon, 2002; Bolino, Turnley, and Bloodgood, 2002; Koka and Prescott, 2002). The founder’s and the top management team’s social capital are considered more important for the firm and its outcomes than the social capital of other organizational members (Bamford, Bruton, and Hinson, 2006; Pennings and Lee, 1998). Specifically, Bamford, et al (2006) have argued that that a founder-CEOs’ relationships are the most important consideration in the survival of new ventures, as they are often the biggest contributor to the firm’s initial social capital. In some cases the relationships in question have been developed prior to joining the firm while in other cases they were initiated during the founding and growth of the company. Regardless of when they are brought into the firm, the venture may extract considerable value from these relationships at a very formative time in its history (Neergaard and Madsen, 2004).

Inasmuch as new ventures are dependent on a founder-CEO’s social capital for its growth and survival and that these founder-CEO’s can often be replaced and/or exit the firm (Hofer and Charan, 1982; Haveman and Khaire, 2004), it presents an organization with the problem of protecting itself from the potential negative implications from the loss of the founder-CEO’s important social capital (Boeker & Karichalil, 2002; Fischer & Pollock, 2004). It may be argued that the new CEO will bring potentially useful social capital into the organization, but for the
purposes of this paper I only examine the effects of the loss of the founder’s social capital on the organization, assuming that such a loss takes place.

From the existing entrepreneurship and succession literatures, it is not clear whether a Founder-CEO’s social capital persists in an organization after s/he exits the firm (or CEO role) OR if that social capital departs with him/her. Two separate literatures provide alternate explanations for what might be expected in the first succession event of a new venture. The *imprinting* literature argues that the historically specific resources upon which their founders draw shape their organizations. Social capital is such a specific resource. Therefore, according to the imprinting argument, we expect that the internal and external networks brought into the organization (or built by the Founder-CEO) will persist in the organization independent of whether or not the founder continued to be part of those network structures and whether or not the firm takes any actions to keep these structures intact. The *institutionalization* literature argues that that institutions are socially constructed templates for action, generated and maintained through ongoing interactions. As such and according to the institutionalization logic, what the social capital of the firm looks like after the succession event will be a function of both the constraints imposed by the existing structures/institutions and the actions taken by the company to reproduce and reconfigure those structures. The social capital of the Founder-CEO is not assumed to remain in the firm from this perspective, but it can be institutionalized through actions taken by the organization and its members to replicate or revise these internal and/or external networks structures. This project will explore both perspectives in order to provide understanding on whether or not a Founder-CEO’s social capital persists in a new venture independently (imprinting) or if it must be institutionalized. Such an exploration contributes greatly to both the imprinting and institutionalization literatures.

THEORETICAL BACKGROUND

Social Capital in a New Venture Setting

Social capital has many far-reaching and varied definitions that leave some confusion as to the utility of the concept in general. For example, Adler and Kwon (2002) identified more than twenty different definitions in the extant literature. As a result of this confusion regarding what constitutes social capital, it can be difficult for a scholar to choose an appropriate definition without offending other scholars who might favor a different definition. Adler and Kwon (2002) do however provide a working definition that synthesizes the existing work and incorporates both the internal and external aspects of the concept and is therefore the most comprehensive and thorough to date. As a result, their definition provides the foundation for my use of the concept in this article and its examination in the new venture context as it can be applied to both the individual and the organization simultaneously. They define social capital as:

*The goodwill available to individuals or groups. Its source lies in the structure and content of the actor’s social relations. Its effects flow from the information, influence, and solidarity it makes available to the actor (pg.23)*

If social capital is the goodwill available to an individual or group, how can this goodwill be transferred from one party to another in order to ensure that the recipient will experience the information, influence, and solidarity desired? It carried forward independently because the founder sets the initial structure, strategy, and culture of the organization through early decisions,
including many that occur pre-start-up? If not, how can it be transferred or carried forward? Specifically, in a venture-backed firm, how does the young startup institutionalize its founder-CEO’s goodwill (derived from the structure and content of his/her personal social relations) in order to protect itself from the potential loss of the positive effects that flow from such goodwill?

Scholars have argued that the transition from a Founder-CEO to an outsider is potentially the most critical succession event in the history of the firm (Hofer and Charan, 1982; Haveman and Khaire, 2004). This is, in part, the case because the identities of the founders are more tightly linked to the organization’s identity than are the identities of later-stage managers (Dobrev and Barnett, 2005). Founders also often control a sizeable portion of the venture’s assets, so ownership and control are less separated in firms managed by founders than those run by non-founders (Berle and Means, 1932). It is clear from the literature that the succession of a Founder-CEO saliently affects the new venture’s ability to grow and survive, but what is still unclear is what particular factors aid or harm the organization when these transitions occur. One such factor – that has not been examined adequately in our current literature – is the social capital of the founder who is stepping out of the CEO’s role. The social capital of a new venture is brought into the firm by organizational members (Leenders & Gabbay, 1999) and includes relationships both inside and outside the firm (Adler and Kwon, 2002; Bolino, Turnley, and Bloodgood, 2002; Koka and Prescott, 2002). As stated, this research will examine how this process unfolds by using qualitative methodologies to determine whether or not the perpetuation of an out-going Founder-CEOs social capital within the company can be explained best by the theoretical notion of imprinting or institutionalization or both.

The Imprinting Logic and the Retention of Founder-CEO Social Capital

At its core, the theoretical notion of imprinting holds that organizations are shaped by the historically specific resources upon which their founders draw. Prior research has demonstrated the lasting impact of the founding context on managerial structure (e.g., Baron, Hannan, and Burton, 1999), the structure of interorganizational networks (Marquis 2003), new venture behavior (Boeker, 1989), growth (Eisenhardt and Schoonhoven, 1990), profitability (Bamford et al., 2000) and mortality (Swaminathan, 1996). Social capital is a specific resource on which a founder (or founding team) will draw upon to build their organization. As such and according to the imprinting hypothesis, even after a founder-CEO is dismissed from the company, his/her social capital should determine what the social capital of the company looks like moving forward.

Baron et al. (1999: 532) state: “Once formulated and articulated a founder’s organizational blueprint likely “locks in” the adoption of particular structures, as well as certain premises that guide decision making.” Such a statement argues that a new venture’s structure and decision-making behaviors are in some part the result of the founder-CEO who started the company. Part of this structure consists of both internal and external networks that were defined and articulated by the founder-CEO. Internal networks may consist of the inside organizational structure of formal and informal relationships (i.e. employees, managers) while the external networks may consist of the formal and/or informal relationships with customers, suppliers, investors…etc.

If we accept the basic premise of the imprinting argument, then we would expect that these internal and external networks would persist independent of whether or not the founder was part of those network structures. Clearly, the relationship the new venture has with each of the other network participants would be of a different sort than the relationship that the founder-CEO had
individually with these same participants. Such difference may concern the strength and nature of
the relationship. Nevertheless, regardless of this difference and according to the imprinting logic,
the network structures created by the founder-CEO should persist after the founder has exited the
firm. This leads to the following assertion:

Assertion 1: Independent of whether or not an organization takes action to capture a Founder-
CEO’s social capital, the organization will be able to retain access to the Founder-CEO’s
social capital as a result of the effects of the Founder-CEO’s imprinting on the organization’s
internal and external network structures.

The Institutionalization Logic

Zucker (1977: 727-728) and Meyer and Rowan (1977: 346) initially drew on the work of
Berger and Luckmann (1967) to argue that institutions are socially constructed templates for
action, generated and maintained through ongoing interactions. A host of work has followed
from which the concept of institutionalization has been derived. At its core, institutionalization
refers to a continuous process of change and reproduction of institutions as an ongoing embedded
process. For the current research project at hand, this embedded process takes place within an
organization before, during and after the Founder-CEO succession event. As such and according
to the institutionalization logic, what the social capital of the firm looks like after the succession
event will be a function of both the constraints imposed by the existing structures/institutions and
the actions taken by the company to reproduce and reconfigure those structures.

In applying the label of institutionalization to the current research I draw on Barley and Tolbert’s
(1997) definition of an institution as “shared rules and typifications that identify categories of
social actors and their appropriate activities or relationships.” Barley and Tolbert also note that this
definition applies to various levels of analysis because it makes no assumption about the identity
of relevant social actors. Therefore, they may be individuals, groups, organizations or large
collectives. For the purposes of this project, I am investigating and concerned with how the social
actors (individuals, groups or an organization) are both constrained by the current institutional
setting but and are also able to revise or replicated the structure through actions.

Social actors are constrained by institutions. In this way, a Founder-CEO who participated
in the creation of such institutions will be able to influence and constrain the actions of those
occupying his/her role after s/he has left the company. This logic is similar to the imprinting logic
described above. Where the institutionalization logic differs however is in that the social actors subject to the institution can choose to revise or replicate the institution through action. In this
sense, an organization (and its top management team) can take actions to replicate the existing internal and/or external networks or to revise them. An out-going Founder-CEO may also take actions to alter the current institution and so an organization cannot be ignorant to the affects that dismissing a Founder-CEO will have on the organization’s ability to access the important social capital needed for the firm moving forward. From this institutionalization logic the following assertion can be drawn:

Assertion 2: In order for an organization to capture a Founder-CEO’s social capital, the
organization must take actions to replicate and/or revise the existing internal and external
network structures that were established by the Founder-CEO.
The Institutionalization of Founder-CEO Social Capital

In order to understand how social capital can be institutionalized through actions, it is first important to understand how social capital is developed. A party seeking to institutionalize a Founder-CEO’s social capital must replicate in some manner the goodwill held by the Founder-CEO following the logic presented earlier. Adler and Kwon (2002) argue that sources or conditions for social capital development are opportunity, motivation, and ability. I will briefly review each of these sources as a basis for further developing the idea of how social capital is developed and ultimately institutionalized.

**Opportunity.** Social capital is embedded in the social relations among actors and must therefore take place within a social structure (e.g. Coleman, 1990; Burt, 1992; Lin, 2001…etc.). If two actors do not have access to each other through their respective social networks than it would seem impossible for them to be able to interact and therefore develop social capital. For example, an independent software developer in Russia who has a product that a product manager for a financial software startup needs to complete her product line but the two do not know each other exist means that while the potential for social capital exists, the likelihood that this potential will ever be actualized is highly unlikely. The only way this potential mutually beneficial relationship can be activated is through some context of interaction (such as an online forum, development conference, third-party tie…etc.). These contexts of interactions provide the basis of “opportunity” in terms of social capital development (Watts, 2004; Bourdieu, 1986).

Adler and Kwon (2002) in their discussion of the “opportunity” source of social capital discussed the bifurcated strands of social capital, namely closure (i.e. Coleman, 1990) and brokerage (i.e. Burt, 1992), and go on to explain how independent of whether the focus is on external or internal networks and goals, opportunity is present through an actor’s social network structure (pgs. 24-25). So in order for a recipient seeking to transfer social capital from the source, the actor must have adequate opportunity, or in other words, they need to be able to access the other party through some context of interaction. Often this takes the form of a third-party tie through the source.

**Motivation.** In contrast to the rational actor model and formalistic sociology, Adler and Kwon (2002) argue that motivation is an important condition for examining the development of social capital (pg. 25). They draw on Portes’ (1998) two broad classes of motivations for participation by parties in a social capital setting. The first is consummatory and they are based on deeply internalize norms and a sense of shared destiny. The second is instrumental and are based on obligations and enforced trust through the process of dyadic social exchange (Blau, 1964). These classes of motivation help explain why actors continue to interact with one another of an extended period of time even when they may experience a short-term loss of resources (Uzzi, 1997, Putnam, 1993).

In order for a recipient to replicate the source’s goodwill, both the donor and the recipient must have adequate motivation to engage in the relationship. This motivation can take the form of either of Portes’ (1998) classes, but the important piece is that motivation is present. In the case of social capital institutionalization, one would assume the recipient already has expressed adequate motivation (as they are seeking to retain access to the social capital) but it is the motivation on the part of the donor that may be in question and must therefore be tended to so that transfer can occur.
**Ability.** Ability is defined as the competencies and resources at the nodes of a network (Adler & Kwon, 200). In other words, ability refers to human capital that the actors have who are involved in the development of social capital. Further clarification can be taken from Lin (1999) and Leenders and Gabbay (1999) who argue that social capital stems from the resources that flow to an actor through her network and that the magnitude of that capital depends on the resources available to the actor at the other nodes of this network. Ability then becomes an important condition of social capital institutionalization.

In regards to institutionalization, ability matters not only in the human capital on the part of the donor that the recipient is seeking to retain or the human capital on the part of the recipient that is potentially attractive to the donor, but also the ability of the recipient to appropriately absorb the new relationship trying to be institutionalized. This is similar to the concept of absorptive capacity (Cohen and Levinthal, 1990).

While these three sources or conditions provide an understanding on what elements need to be in place for social capital to be institutionalized, they do not provide an understanding of the process of HOW social capital actually can be institutionalized. Recognizing then that these conditions must be in place, I turn to the process of the development of social capital. Nahapiet and Ghoshal (1999) identified what they termed as “conditions” of development for social capital that I will use as process elements to explain how social capital is institutionalized. These elements are interdependence and interaction.

**Interdependence.** This first process element is interdependence. This element is really a product of the three sources that were previously discussed and serves as the fundamental basis of social capital institutionalization. Coleman (1990) argued that social capital is eroded by factors that make people less dependent on one another. Nahapiet and Ghoshal (1998) extend this argument by stating that high levels of social capital are developed in contexts characterized by high levels of mutual interdependence. In order for two parties to create or discover a mutual interdependence on one another there must be opportunity, motivation, and ability as described. But interdependence alone cannot create or sustain this notion of social capital.

**Interaction.** The second process element is interaction. When two parties are mutually interdependent, in some respect, they can further this interdependence through frequent interaction (Nahapiet and Ghoshal, 1998; Coleman, 1990). Bourdieu (1986) argues that interaction is a precondition for the development and maintenance of ‘dense’ social capital. From that one might argue that social capital can be developed initially through some form of interdependence, but that it may quickly fade if not reinforced through interaction. Interaction then, enables the maturation of budding social capital to a stronger, denser sort.

The process of institutionalization a Founder-CEO’s social capital must therefore consist of actions characterized by both interdependence and interaction. A new venture must seek to revise these existing internal and/or external network structures by shifting the interdependence for the target relationship away from the Founder-CEO to the organization itself (or its new managers). It must also create a means of sustaining that interdependence through continual or contractual engagement or interaction.

To this point, I have argued that according to the imprinting logic, no actions will be necessary in order for a new venture to have access to valuable social capital brought in or built by a Founder-
CEO as a result of a CEO succession event for the founder. According to the institutionalization logic, specific actions are necessary to maintain or transfer access to valuable social capital brought in or built by a Founder-CEO as a result of a CEO succession event for the founder. More specifically, these actions must seek to revise these existing internal and/or external network structures through creating interdependence and a means for continued interaction.

**Methods**

**Research Setting and Sampling**

This project adopts a qualitative methodology to examine how the imprinting and institutionalization logics apply to the persistence or transfer of a Founder-CEO’s social capital when the organization is experiencing a succession event with the Founder-CEO. In order to investigate these succession events I selected venture capitalists according to their theoretical relevance that were associated with the National Venture Capital Association and invested in Internet technologies during the period of 2008 to 2012. Through these venture capitalists I was able to learn about and gain access to companies that had undergone founder transitions. In line with prior research, I did not consider ventures that were older than eight years (Beckman & Burton, 2008; Li, 2008). Of the 55 venture capitalists contacted, 32 were willing to participate in this study.

**Data Collection**

I interviewed 32 venture capitalists and 20 top managers involved with 38 venture-back startups. As part of this process, I also conducted 2 in-depth case studies to examine the specific actions that investors/board members take to capture the valuable social capital from outgoing founder-CEOs. The interviews were semi-structured and lasted between 15 and 45 minutes each. I conducted 22 face-to-face interviews and 30 over the phone. I tape-recorded these interviews (when permitted) and took extensive notes. To increase the accuracy of their responses, I promised each respondent (and signed a non-disclosure agreement when requested) that their answers would be kept confidential (Siegel, Waldman, and Link, 2003). I therefore use pseudonymous initials and numbers to identify respondents and firms in my qualitative report. I used an interview protocol as a broad guide in the interviews, asking the VC professionals to walk me through a typical founder-CEO transition process – from decision making to execution of the transition. I then continued with increasingly more specific descriptive and structural questions (Spradley, 1979) about how they set out to capture key relationship mediated by the outgoing founder-CEO or if they did so at all. I avoided leading participants to explanations that I thought were relevant, but I asked for examples or details when they brought up a related issue. I also asked for examples of transition events where the Founder-CEO willingly stepped aside as well as those events where the Founder-CEO was forced out assuming there might be differences between these two types of succession events.

**Qualitative Analysis: Examining Social Capital Institutionalization**

In analyzing the data in order to better understand which of the two logics were at play during a Founder-CEO succession, I followed an iterative, three-stage content-analysis process (Glaser and Strauss, 1967; Miles and Huberman, 1984). First, I reviewed the interviews to identify recurrent themes. In regards to the institutionalization logic, I took as my guide two factors put forward by Nahapiet
and Ghoshal (1998) concerning the base on which social capital exists when looking at the specific actions taken by organizational leaders as a result of the Founder-CEO succession: 1) establishing interdependencies among the actors and 2) increasing the frequency of interactions among actors. The level and mutuality of actors’ dependencies create the conditions for trust and reciprocity in social exchanges (Portes & Sensenbrenner, 1993). If the dependences become too asymmetric, or if interdependence is low, then social capital is less likely to exist. When actors are mutually interdependent and engage in frequent interactions over time, they create a shared history that solidifies social capital through the development of trust and norms of cooperation (Axelrod, 1984; Granovetter, 1985; Putnam, 1993) and clarifies the actors’ mutual obligations (Misztal, 1996).

Second, I coded statements made by the individuals I interviewed that communicated that they had taken specific actions into labels, such as, “individual compensation,” “personalization,” “role formalization,” “engagement” and so on. I organized these labels into four emergent categories: “internally-focused,” “externally-focused,” “personalization,” and “formalization.” Internally-focused actions were those targeted at preserving valuable relationships with individuals who had strong ties to the founder-CEO within the organization. Externally-focused actions targeted similar relationships with individuals outside the organization. Personalization referred to actions that sought to institutionalize the social capital at the individual level and formalization referred to actions that sought to institutionalize at the organizational level. From these categories and with the two factors in mind from the previous stage, I created a framework that described what appeared to emerge from the statements of the individuals interviewed in regards to how they sought to capture key relationships mediated by the founder at the time of transition. Figure 1 provides a summary of how the actions were organized according to the factors and categories described above.

In the final stage of this analysis I identified 9 generic actions that were derived from the interviews that fit within the categories that emerged from the earlier analysis. I have included these actions along with example statements from the interviews in Table 1.

All of the individuals interviewed stated that they had taken some action as a result of the Founder-CEO succession event. From this data it appears that the organizational leaders do not subscribe to the imprinting logic, but this does not mean that such logic is still not at play. In an effort to understand whether or not the actions that were taken by the organizational leaders were necessary for the firm to maintain its access to the Founder’s social capital after the transition event I had to ask about specific categories of network actors (employees [developers, sales people, managers...etc.], customers, suppliers, investors...etc.) and whether or not actions were taken on their behalf specifically. I would typically ask why or why not an action was either taken or not as well as whether or not this particular category of network actors had a strong relationship with the Founder-CEO personally. Employing a similar process as before, I coded these statements and looked for emergent categories. I discovered quickly however that the decision by the organizational leaders to take an action to institutionalize a Founder’s CEO social with a particular category of actors was moderated by the degree to which they felt those relationship were more personal in nature versus more professional. Independent of whether the relationship existed prior to starting the company (brought-in) or was developed during the company's early stages (built), the degree to which the relationship was more personal (individually oriented) versus professional (organizationally oriented) determined whether or not the organizational leaders would take an action to institutionalize.
In order to further investigate this finding of taking actions only for more personal (individual-oriented) relationships and to further understand the nature of the institutionalization efforts I analyzed the interviews that I had conducted in two in-depth case studies to explore the themes and actions of the founder-CEO transitions these companies had recently undergone. The first case study was a relatively benign transition, whereas the second was not. Both of these transitions were however, able to make it through the event successfully. In both companies certain aspects of the social capital of the founders were considered major building blocks for the organizations and of serious concern for the incoming management and the board members. I will provide a concise summary of these cases and the actions undertaken by these two companies in a deliberate approach to institutionalize the founder-CEO’s social capital.

FinSoft

FinSoft was founded in 1995 to develop and promote trade order management software that would be customized to its clients. In the early years of Finsoft its founder, Don Harrison, used his personal network to bring in customers and recruit software developers. As the company continued to grow it soon became clear that Harrison was beginning to lose interest and become less involved in the day-to-day operations of the business, and that it was time for him to transition out of the CEO role – an event anticipated by the Harrison, the board and other TMT members. However, it was imperative to the young firm that Harrison’s valuable social capital be transferred to the organization before his regular involvement with the company ended.

Harrison and the firm’s COO, Forrest Baker, who was to succeed Harrison as CEO, worked together in order to facilitate both the transition and the social capital transfer over an eighteen month period. First, Finsoft raised additional financing that allowed Harrison to cash out his equity in the firm. In addition to creating goodwill with Harrison, liquidating his equity holdings reduced his formal authority over decision making. Second, Baker promoted Lennie George, a prominent leader from the software development group, to become his second-in-command as Chief Operating Officer. Finally, once the CEO succession had been completed Baker asked Harrison not to speak with the software developers for a year; forcing them to focus on him as the new leader of the company and allowing him to develop his own relationships and cognitive (if not affective) trust (Chua, et al., 2008) with these key employees. It must be noted, however, that even though Harrison was no longer involved in the daily operations of the company, he and Baker continued to discuss corporate activities, and Harrison played an instrumental role in later facilitating the company’s merger with another firm.

Discussion. This case helped to illustrate how an organization, as directed by its leadership, was able to institutionalize an individual’s social capital by adding a key individual and altering the power structure of the firm (Personalization-Interdependence). Baker was also brought in before Harrison stepped down so that he could get to know people and begin to build redundant relationships with key individuals whose initial ties to the firm were due to the founder (Personalization-Interaction). Further, Baker maintained the social capital Harrison shared with the software developers by promoting Lennie George, another individual in which they had similar levels of trust, to a position of authority on the top management team (Formalization-Interdependence). Promoting George captured the important social capital Harrison had developed with the software developers and assured that key employees did not leave and cultural backlashes did not occur. Further, because George was elevated to his position by Baker he was
likely to support Baker’s initiatives; his support, in turn, increased the software developers’ trust in
the organization’s leadership because of their trust in George. The founder’s formal authority was
diminished, and his participation in the transfer process enhanced, by making the assets available
to liquidate his equity stake in the firm. And once the transition had taken place, Harrison was
removed from the firm’s daily operating activities, and he voluntarily limited his communications
with most organization members in the year following his departure in order to let Baker develop
stronger relationships with the developers. Each of these actions reduced the firm’s dependence on
Harrison and institutionalized his ability to mobilize key resources.

WebSoft

Websoft was founded in the late nineties to develop software applications enabling internet
commerce. Like Finsoft, Websoft was run by its founder, Rupert Giles, who had first developed the
software and hired a trusted group of developers from his personal network of friends.

As the company grew it became clear Giles’s unstructured management style was becoming
problematic and that he was unable to meet the ongoing demands of his post; thus, the VCs sitting
on the board decided to replace him with a new CEO. Giles (who was still a significant shareholder)
resisted the idea when the VCs first approached him about bringing in a new CEO. After several
weeks of working to increase Giles’s comfort with the plan, the VCs successfully convinced him
to step down as CEO and take the position of Senior VP of Development. At this point they
expected Giles to remain involved with the firm moving forward. They then immediately hired
a more seasoned outsider, Willow Rosenberg, as CEO. Giles’s continued presence was necessary
because many of the developers were fiercely loyal to him and would likely leave if he were forcibly
removed.

It was not long, though, until Rosenberg began having trouble with the development team.
Many of the senior software engineers began working on projects that were inconsistent with
the current direction of the company and neglected projects requested by Rosenberg and other
senior managers. Giles, who disagreed with some of Rosenberg’s initiatives, was using his personal
relationship ties to re-establish his personal authority in the company, to the detriment of the
organization. At this point it became clear Giles would eventually need to leave the firm. In an
effort to reduce Giles’s influence over the developers, Rosenberg promoted one of the star software
engineers, Thomas Gunn, who had been hired by and was loyal to Giles, to the position of Senior
Vice President of Engineering. Although they were both senior VPs, Giles, as well as the rest of
the development team, now reported to the newly promoted Gunn. Giles quickly turned on his
former friend and began working against him, as well. Gunn retaliated by slowly reducing Giles’s
direct responsibilities, and hence his sphere of influence, culminating in the revocation of Giles’s
access to the company email system. At the same time Gunn worked to maintain the trust and
respect of the other developers, from whose ranks he had risen. Within a year of stepping down as
CEO, Giles was let go from the company.

Discussion. This example again demonstrates the importance of changing the power structure
and building redundant ties when institutionalizing individual social capital. However, in contrast
to the example of Finsoft, the founder had not anticipated his removal as CEO, he still retained
power via his equity ownership, and he was retained in an operational position. Although the
same transfer mechanism – promoting a senior developer to a top management position – was
ultimately used to successfully facilitate institutionalization of the founder’s social capital, because Giles was not a cooperative partner in the endeavor and was allowed to maintain some of his key sources of power (i.e., his equity ownership and ongoing access to his organizational power base in development) the transfer process was not as successful or as painless as the process at Finsoft. Instead, Gunn had to simultaneously take actions maintaining the developers’ trust in him while also taking steps that weakened their trust in Giles and limited his ability to control resources that benefited the development team. Thus, in non-cooperative settings, specific attention has to be devoted to changing all the important elements of the power structure to prevent the individual from using their social capital in ways that can be detrimental to the organization. It will also sometimes be necessary to take actions that diminish the trust others have in the individual whose social capital is being institutionalized (see Bourt & Ronchi’s [1990] discussion of diseased social capital).

**DISCUSSION**

This project set out to understand more about the organizational process and consequences of a Founder-CEO transition. Specifically, I investigated whether the imprinting logic or institutionalization logic was more applicable to the persistence or transfer of a Founder-CEO’s social capital during and after a succession event. From the analysis above, three major insights surfaced that are not currently part of our existing literature and therefore extend our understanding of social capital, imprinting, institutionalization as well as succession event in venture-back startups.

The first major insight is a partial answer to the overall question of the project; Is imprinting or institutional logic more appropriate for understanding what happens to a founder’s social capital when stepping down from the CEO’s role. In the early stages of collecting my data (before analyzing them completely), it seemed to me that this was hands down an institutionalization story. But as I interviewed more and asked more questions regarding certain categories of network actors, it became clearer that it was in fact a story of both. For example, one organizational leader explained why they did not take specific actions regarding a set of customers that were important to the company going forward.

“Sure he (Founder-CEO) was the first person responsible for bringing [these customers] into the company early on. But it was always a company relationship. Sure, they liked him as a person and he liked them, but it was always about business.” (Company 3, CEO)

The combined data that came from the interviews in regards to only taking actions when the organizational leaders worried there was a personal basis to the relationship in question speaks to the role of the imprinting logic for those relationships that are more professional (organizationally oriented) in nature. In other words, Assertion 1 as stated above appears to be valid when speaking to the professional (organizationally oriented) relationship of the Founder-CEO that were either built or brought into the company. What this project has helped to uncover then are boundary conditions regarding the imprinting and institutionalization logics. The imprinting logic applies well to social capital brought in or developed for and in behalf of the organization itself. The institutionalization logic however, applies more readily to the social capital brought in or developed by the Founder-CEO for and in behalf of the founder him/herself as well as the organization. This leads to the following propositions:
Proposition 1: Independent of whether or not an organization takes action to capture a Founder-CEO’s social capital, the organization will be able to retain access to the Founder-CEO’s social capital that is organizationally oriented and professional in nature as a result of the effects of the Founder-CEO’s imprinting on the organization’s internal and external network structures.

Proposition 2: In order for an organization to capture a Founder-CEO’s social capital that is individually oriented and personal in nature, the organization must take actions to replicate and/or revise the existing internal and external network structures that were established by the Founder-CEO.

The second major insight that surfaced as a result of the analysis was that consistent with the theory in the social capital literature (e.g. Adler & Kwon, 2002; Nahapiet & Ghoshal, 1998) organizations tend to use a combination of actions focused on both shifting interdependencies and ensuring ongoing interactions with the actors they are feel are at risk of being lost given the removal of the founder from the CEO post. As the data illustrates, certain generic actions are used more often than others in these two categories, nevertheless some combination between the two categories exists. This leads to the following proposition:

Proposition 3: In order for an organization to capture a Founder-CEO’s social capital that is individually oriented and personal in nature, the organization must take actions that shift interdependencies and ensure ongoing interaction in combination in order to increase its chances of capturing the social capital.

The third major insight that surfaced as a result of the analysis was the ability of an organization to institutionalize social capital across levels of analysis. Two of the four emergent categories for the actions were personalization and formalization. Personalization referred to actions that sought to institutionalize the social capital at the individual level and formalization referred to actions that sought to institutionalize at the organizational level. It was interesting to discover that when seeking to capture a Founder-CEO’s social capital, organization leaders could decide between a personalization and a formalization strategy. It is impossible to say from the current data that every attempt was successful, but the fact that organizational leaders undertook such attempts speaks to the belief that these leaders had that the founder’s individual level social capital could be institutionalized at either an individual or organizational level and the fact that they could choose which actions to take in an attempt to capture it at one of those two levels. This leads to the following proposition:

Proposition 4: An organization seeking to capture a Founder-CEO’s social capital that is individually oriented and personal in nature can take actions that will institutionalize this social capital at either an individual or organizational level.

Conclusions

This research makes a number of contributions. First, it provides insight into the Founder-CEO succession process by providing novel and rich data from the interviews and case studies in respect to how firms seek to appropriate an out-going founder’s social capital. Second, this research answers the stated research objectives as to whether imprinting or institutionalization is the more...
appropriate theoretical frame for understanding companies who dismiss a founder but require their personal social capital in the future. In this process, this research also generated additional theoretical insights concerning imprinting and institutionalization, their relationship with one another and their relationship individually and collectively with this phenomenon. Finally, this research provides practical implications for companies and/or founders who are experiencing a succession event in terms of what actions might be taken and what the results of those actions might be.

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REFERENCES


FIGURE 1. Interdependence and Interaction and the Institutionalizing of Founder-CEO Social Capital (FSC)

TABLE 1. Examples of Interviewee Comments Relating to Institutionalization Actions

<table>
<thead>
<tr>
<th>Institutionalization Actions from the Qualitative Study, Definitions, Examples, and Frequencies</th>
<th>Definition And Criteria For Category</th>
<th>Typical Example</th>
<th>Frequency (N = 52)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INTERDEPENDENCE</strong></td>
<td></td>
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<tr>
<td>1. Retention of the founder in a different organizational capacity</td>
<td>Removing the founder from the CEO role to a lesser role within the organization.</td>
<td>“Often times we will keep the founder in a lesser capacity as it eases the transition for both the founder and the employees.”</td>
<td>27</td>
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<tr>
<td>2. Creation of formal position to manage key relationships</td>
<td>Creation of an institutional role to formally mediate relationships between the founder-CEO and the company</td>
<td>“We setup a new role within the sales group to specifically manage all the accounts the founder had brought into the company.”</td>
<td>8</td>
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<tr>
<td>3. Equity investment in key external organizations</td>
<td>Formalization of a relationship through equity arrangements/alliances</td>
<td>“We took a small position in our supplier to show that we were committed to the relationship.”</td>
<td>3</td>
</tr>
<tr>
<td>4. Promotion of current organization member to act as a liaison to key organizations/employees</td>
<td>Promotion of an individual with strong ties to the founder and a key stakeholder</td>
<td>“We wanted to shift his loyalty away from the founder-CEO to the company and so we promoted him.”</td>
<td>14</td>
</tr>
<tr>
<td>5. Provided/increased compensations for key employees in the organization</td>
<td>Providing monetary compensation to key employees with strong ties to the founder.</td>
<td>“We provided some options to key employees we worried might leave and it seemed to do the trick.”</td>
<td>13</td>
</tr>
<tr>
<td><strong>INTERACTION</strong></td>
<td></td>
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<tr>
<td>6. Face-to-face formal (work-related) meetings by the incoming CEO with key relationships mediated by the founder-CEO</td>
<td>Formal meetings instigated by the incoming CEO to discuss the business relationship with the other party.</td>
<td>“We setup a series of meetings with the incoming CEO and key clients we needed to keep.”</td>
<td>23</td>
</tr>
<tr>
<td>7. Face-to-face informal (work-related) meetings by the incoming CEO with key relationships mediated by the founder-CEO</td>
<td>Informal meetings instigated by the incoming CEO to develop business relationship with the other party and the incoming CEO</td>
<td>“I learned that this particular supplier liked to fish as did I and so I invited him to go fishing.”</td>
<td>7</td>
</tr>
<tr>
<td>8. Face-to-face formal (work-related) meetings by the incoming CEO and the founder-CEO together with key relationships mediated by the founder-CEO</td>
<td>Formal meetings instigated by the incoming CEO and the outgoing founder-CEO to discuss the business relationship with the other party.</td>
<td>“We felt like things would go a lot smoother if the founder was the one selling the new CEO to this particular customer. It wasn’t a surprise to them when it happened either, so it was all very natural.”</td>
<td>28</td>
</tr>
<tr>
<td>9. Face-to-face informal (work-related) meetings by the incoming CEO and the founder-CEO together with key relationships mediated by the founder-CEO</td>
<td>Informal meetings instigated by the incoming CEO and the outgoing founder-CEO to develop relationship outside of business relationship with the other party and the incoming CEO.</td>
<td>“John (the founder-CEO) and I already played golf together and so we started inviting some of the key personnel to play with us occasionally.”</td>
<td>4</td>
</tr>
</tbody>
</table>