ARE SOME VCs MORE LIKELY THAN OTHERS TO REPLACE THE FOUNDER-CEO? (SUMMARY)

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Principal Topic

Prior research has examined the objective determinants (Fredrickson et al., 1988) of founder-CEO dismissal including firm size and growth (Boeker & Karichaliil, 2002); triggering events (Wasserman, 2001); and CEO vs. VC power (Fiet et al., 1997; Boeker, 1998). Scholars have also analyzed the sociopolitical aspects of CEO dismissal, such as VCs’ dismissal criteria (Bruton, 1998; 2000). However, there have been no studies to date focusing on the subjective determinants of founder-CEO dismissal. Our paper seeks to fill this gap by investigating whether or not some VCs are more likely than others to pull the trigger and replace the founder-CEO, and if so, what VC characteristics are associated with this conduct.

Method

We have recently interviewed and surveyed 51 VCs (mostly from the Mid-Atlantic region and Silicon Valley) and asked them to assess their willingness to finance a venture if they know in advance that they would be likely to dismiss the founder-CEO in the future. Our key propositions were that VCs with a higher level of involvement in governance of new ventures, and lower uncertainty avoidance would be more likely to take on financing of a venture even if its founder-CEO has some apparent deficiencies (and subsequently, replace the founder-CEO if that is necessary).

Results and Implications

The results provide support for both hypotheses. Our study contributes to the literature on founder-CEO dismissal by furnishing evidence that subjective determinants play a role in making dismissal decisions. It also has important practical implications. Thus, VCs should establish whether their potential syndicate partners are more (or less) willing to dismiss a founder-CEO so that they can choose like-minded allies. Also, before signing the contract, entrepreneurs should ascertain whether VCs are more or less inclined to dismiss a founder-CEO (based on actual practices rather than declarations). Entrepreneurs may need to make some trade-offs in targeting VC firms. Thus, while more involved VCs could provide greater value-added services (and VCs less prone to uncertainty avoidance could be more likely to fund a riskier venture), VCs with these characteristics could also be more inclined to dismiss a founder-CEO with manifest deficiencies.

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