

THE PERSISTENCE OF FOUNDER INFLUENCE: MANAGEMENT, OWNERSHIP, AND PERFORMANCE EFFECTS AT INITIAL PUBLIC OFFERING

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The purpose of this research is to apply a conceptual framework to questions of how, why, and when founders participate in the firms that they establish and to empirically test for the persistent influence of the founder on the firm after start-up. A definition of the term 'founder' is proposed. Empirical tests compare firms with founder CEOs to those with nonfounder CEOs to determine whether governance and ownership relationships are distinguishable at initial public offering (IPO). In addition, investor reaction to founder-led firms at IPO is tested. Results suggest that founder influence does persist in governance and ownership arrangements and that the stock market reaction to founder-led firms is higher than for the comparison group, relative to accounting value. Copyright © 2003 John Wiley & Sons, Ltd.

INTRODUCTION

Every firm exists because some founding person or group of persons made the decision to establish a firm and then acted on that decision. Founders, as firm creators, are the initial architects of the organization's structure and strategy. In this role they hold a vision of what they want the organization to be and do, and they are generally unconstrained by previous ways of doing things (Robbins, 2000). Given the significance of this key organizational role, it is remarkable that the construct of firm founder has received only limited conceptual development in the management literature. The first goal of this research is to move toward a fuller conceptualization by considering how, when, and why founders are involved in the

firms they establish. From this conceptual grounding an empirical test of the persistence of founder influence on the firm post start-up is developed. Relationships of founder CEO and significant management and ownership arrangements of the firm are considered at the time of initial public offering, a significant corporate event. Additionally, initial investor reaction to firms led by founders is considered. The research tests the premise that founders are likely to exercise strong strategic leadership in firm governance in comparison to firms without founder CEOs and that this type of leadership may be valuable at the time of transition to public ownership.

The founder role is irrefutably essential to a working capitalist economy. Evidence abounds in the practitioner literature about the role and influence of founders on their firms (e.g., Bill Gates at Microsoft, Michael Dell at Dell Computers, Lillian Vernon, Ralph Lauren, Herb Kelleher at Southwest Airlines, etc.). Considering and therefore making sense of the founder role as the firm ages delivers theoretical and practical value.

Key words: founder; initial public offering; top management team; CEO; corporate governance

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CONCEPTUAL DEVELOPMENT

The first purpose of this research is to contribute to a more fully conceptualized view of firm founder. This section addresses that objective in four parts. First, current management literature is examined in relationship to the use of the firm founder construct. Second, the semantics of the founder construct are discussed. Third, consideration of the continued involvement and influence of the founder in the working firm leads to the identification of potential founder influence mechanisms. Fourth, one conception of the founder role in the working organization is presented based on the logic of resource dependency theory.

Current literature related to founders

Many domain areas in the management literature acknowledge the founder role, yet none examine it directly and comprehensively. For example, a large body of work on organizational founding exists in both organizational theory (for a review see Hannan and Freeman, 1989) and entrepreneurship (e.g., Cooper, Dunkelberg, and Woo, 1990; Bhave 1994; Carter, Gartner, and Reynolds, 1996; Low and Abrahamson, 1997). However, this research focuses on the firm and population level; the founder's role is taken for granted or ignored. Early research in entrepreneurship did examine the individual unit of analysis as it sought to identify the traits that distinguish entrepreneurs from other managers or workers. But an entrepreneur is not necessarily a founder (many studies of entrepreneurs are not concerned with new venture creation). And, in any case, the traits approach has had difficulty consolidating its findings into reliable, predictive form (Gartner 1989: 31).

The literature on top management teams examines the influence of upper echelon members on the firm and the wider environment, but the focus is on *Fortune* 500 type companies. Finkelstein and Hambrick, 1996: 107–108) suggest that the effect for small and high-growth firms might be quite different. Governance research, too, is interested in the system of management and ownership at the top of the organization, but again large and influential organizations are of primary concern. Perhaps because these firms are generally older, founders (and their role) appear less relevant.

There is growing interest in the management teams of younger, high-growth firms, particularly

those with tie-ins to technology (e.g., Eisenhardt and Bourgeois, 1988; Eisenhardt, 1989; Roure and Maidique, 1986; Eisenhardt and Schoonhoven, 1990; Kazanjian, 1988). Founders have also been credited as valuable information sources on organizational start-up (Hannan, Burton, and Baron, 1996; Eisenhardt and Schoonhoven, 1990) and as directors of human resource and strategy patterns of the firm (Baron, Hannan, and Burton, 1999, 2001). Some of these studies use the founder construct, but the term is not defined.

Founders are the research focus in a limited number of qualitative studies, most notably Chandler (1962), Mintzberg and Waters (1982), and Kimberly (1980). Rubenson and Gupta (1996) consider the founder succession issue conceptually. In addition, some empirical studies consider the presence of founders and the founder characteristics of age, education, and experience (Reuber and Fischer, 1999; Jo and Lee, 1996; Box, White, and Barr, 1993). Other studies examine the link between founders and firm performance and activity (Cooper, Gimeno-Gascon, and Woo, 1994; Chandler and Hanks, 1994, 1998; McGee, Dowling, and Megginson, 1995; Feeser and Willard, 1990). Daily and Dalton (1992) and Kaish and Gilad (1991) compare founder- and nonfounder-managed firms for differences in performance and management activity, respectively. In these empirical studies the definition of founder is either absent or varies by author.

As with the terms 'organization' and 'leader,' 'founder' is a common word in the English language, yet its semantics are complex. A working definition of the word is drawn from *Webster's Dictionary*: 'founders setup or establish.' Since founders play an important role in the firm, clarifying the term will:

- allow a clearer and more dependable investigation of founder involvement and influence on business and management;
- provide information to interpret the generalizability of extant research on large-firm executives;
- provide semantic structure and meaning to interpret and study other organizational roles like leader, entrepreneur, and top team member;
- help define the people and process of new venture creation;
- help to direct the investigation of founder effects post start-up.

The semantics of 'founder'

Three fundamental issues concerning the meaning and definition of founder are: (a) the relationship between organizational founding and founders, (b) the key characteristics of founders, and (c) the founder role as socially constructed.

The relationship between organizational founding and founders

Operationalization of the concept of founder requires a definition of firm founding. In their review of 25 years of work in population ecology, Hannan and Freeman state: 'The first step is deciding when an organization begins' (Hannan and Freeman, 1989: 147). Hannan and Freeman (1989) define founding as a process that involves a series of steps: initiation, resource mobilization, legal establishment, social organization, and operational start-up undertaken by an individual or group of individuals. This process may take months or years.

The key characteristics of founders

Using Hannan and Freeman's definition (1989), a logical conceptualization of 'founder' is 'those individuals involved in actualizing the steps of organizational founding.' Founders play a role in organizations, i.e., they 'engage in a set of expected behavior patterns that are attributed to occupying a given position in a social unit' (Robbins, 2000: 90). Clearly, some threshold level of activity, in terms of the amount and/or the kind of activity, distinguishes the founder(s) from others who participate in the new venture process. Single or multiple founders per organization are possible. The steps of organizational founding will involve tasks that are tangible and intangible, practical and symbolic. Completing the founding steps will take time as some are sequential, and some require the founders to interact with outside individuals and organizations. Finally, there is a beginning and an end to the founding process. Once the organization is operational, founding is complete.

From this discussion, it is possible to formulate a set of connotations for the founder construct: (a) founders organize and take initiative in the organizational founding process; (b) founders are likely to work on important organizing tasks; (c) the initiation step is particularly important because it is likely to establish ownership of the

process, define its scale and scope, and imprint an organizational pattern; (d) founders' efforts are likely to persist over time and contribute to completion of the founding event; (e) an organization may have one or more founders; and (f) for a founder to be declared, a company must become operational.

The founder role as socially constructed

While this list directed to definition may be useful, of course it is not binding. A founder's identity is not established unequivocally by the taking of any particular action, or any particular set of actions, as regards organizational founding. Founder identity is not defined by law or regulation as other roles are (e.g., president is legally required for incorporation, major owner is legally defined under securities regulation). Rather, the role of founder is self-designated or other-designated. The meaning of the role is socially constructed through thought, conversation, and linguistic interchange and negotiation among involved parties (Berger and Luckman, 1967: 41). For example, a person who arranges the capital necessary for an organizational start-up may be a founder. However, if that person is hired by another person to do that work, and it is not her initiative that led to the task, then she may or may not be a founder. The decision will likely depend on the meaning and requirements of founding established within the founding group. Likewise, the bank executive who approves the loan as part of the capital package would generally not be considered a founder, unless perhaps he serves on the new company's board of directors and played a role in designing the fundraising strategy, to include a loan from his bank.

Founders and their continuing role and influence post start-up

Though the founder role ends at firm operationalization (within the logical argument presented above), the *influence* of the founder may persist. A means to boost this persistence involves assumption by the founder of additional organizational roles pre and post start-up. Note that the founder role itself does not confer structural authority or financial return. Further, being a founder does not necessarily or logically associate with any other particular role post founding. However, given the

founder's responsibility (sole or joint) as initial organizational architect, the roles he/she assumes are likely to be in the upper echelon of the organization, for example, as owner, management executive, board member, or head of an operational unit that exploits the founder's expertise (e.g., scientist in a biotechnology company or chief architect in an architectural firm).

Founders may remain associated with their firms for a lifetime, though research to date has discussed founders primarily in the context of business start-ups. There has been some discussion on whether founders are associated with an entrepreneurial management style that may be incompatible with the growing or more established firm (Hofer and Charan, 1984; Daily and Dalton, 1992; Mintzberg and Quinn, 1991). Although anecdotal support exists for the long-term involvement and contribution of founders in well-established organizations, whether these leaders change their style to accommodate the growing organization or use their start-up experience to advantage or disadvantage later in the firm's life is an empirical question beyond the scope of this research.

All founders will exit, whether early or late in the life of the firm, unless the organization fails first. Multiple founders may leave together, or some may leave earlier than others. We know from anecdotal stories (e.g., Arkebauer, 1991) and case study research (e.g., Mintzberg and Waters, 1982), that founders depart from management leadership positions willingly and unwillingly. They may die, or be fired or displaced into subordinate positions by owners displeased with their performance. In other cases they may relinquish management and/or equity stakes voluntarily. When the population of post start-up firms is considered, some will have active founders and others will not. For the latter group, a great variety of configurations of founders in the firm may exist: there will be differing numbers of original and remaining founders, founders will fill different roles, and they will make varying contributions to the firm's continuation and success.

Specific mechanisms for founder influence post start-up may be additive or interactive. Although it is not the goal of this research to exhaustively review the mechanisms of founder influence in the working organization, I would postulate that the following are likely included.

Founder as focal point

When founders are visible in the organization they may serve as a focal point for other decision-makers because of their knowledge, experience, and organizational stature (Pfeffer and Salancik, 1978). This influence may lead founders to play an extraordinary role in defining the mission, structure, and behavior of the firm for other members of the top management team (Gimeno *et al.*, 1997; Kunze, 1990; Vesper, 1996).

Founder imprinting

The founder sets the initial structure, strategy, and culture of the organization through early decisions, including many that occur pre-start-up. As 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.'

Founder psychological commitment

The idea of psychological commitment rests in the assumption that some firms deliver not only profits, but also personal psychological benefits to their managers, as supported by Smith and Miner (1983), Lafuente and Salas (1989), Donaldson (1994), and England (1967, 1975). Gimeno *et al.* (1997) demonstrated that the probability of firm shut-down negatively correlates to 'psychic income from entrepreneurship' derived by managers of new ventures. Fama and Jensen (1983) discuss how the extraordinary commitment of some individuals in the governance system of the firm may reduce their drain on organizational resources—an 'anti'-agency cost, if you will. The work of Dutton, Dukerich, and Harquail (1994) on members' identification with organizational image supports this logic.

Founder ownership control

Founders often are start-up owners. Extraordinary power accrues to owners who hold large absolute or relative stakes. While 50 percent ownership represents legal control, lesser percentages may deliver significant influence over firm affairs (Monks and Minow, 1995).

Founder structural authority

The CEO and other top managers within the organizational structure hold authority and responsibility for high-level decision-making. The structure bridging owners and managers, i.e., the board of directors, holds additional positions of individual and joint command, especially the officers of the board (Mace, 1971; Pound, 1995).

Founder tenure

Active founders, *ipso facto*, will be the longest tenured members of the organization. Tenure results in firm- and industry-level experience that builds valuable knowledge and practice for the firm (Penrose, 1959). Tenure allows for the development of information sources, relationships, and problem-solving routines (Katz, 1982). The joint tenure of managers may lead to an increased strength in the group's dominant logic, or collective mindset. Dominant logic guides managerial choices and is considered 'sticky'; it is embodied to a disproportionately large degree in the minds of the longest-tenured managers (Prahalad and Bettis, 1986).

These mechanisms of founder influence are exercised in relation to organizational stakeholders brought into the sphere of firm activity by the founders and others pre- or post- start-up. In the next section, the founder is placed in relation to these stakeholders using a resource dependency perspective.

Founder in the context of the working organization

One way to conceptualize the founder's relationship with the organization and other stakeholders over time is to consider the founder as 100 percent owner/manager of the firm at some point in the founding process. Jensen and Meckling (1976) use the example of the 100 percent owner/manager to establish the governance starting point, where the goals of managers and owners are 100 percent aligned. This position must change if the firm is to grow. Founders need additional resources (e.g., capital, human, technological) to accomplish organizational goals and economic organization delivers an efficient structure in which to do so (Alchian and Demsetz, 1972). As Pfeffer and

Salancik write: 'organizations are not so much concrete social entities as a process of organizing support sufficient to continue existence' (1978: 24).

Sometime in an organization's early life, founders engage social agents, be they investors, employees, or suppliers. Within the framework of the organization, these parties exchange inducements and contributions to enhance firm survival, and perhaps prosperity (March and Simon, 1958; Pfeffer and Salancik, 1978). Starting with the 100 percent owner/manager, one can think about the supra-categories of ownership and management as domains where important exchanges take place. For example, a founder exchanges x percent of ownership for capital to fund operations. Founders hire additional workers and relinquish to them certain authority and decision-making power. To incorporate with the state, officers meeting certain requirements must be appointed. To go public, a board of certain numbers, with certain experience, fulfilling certain responsibilities, must be in place.

Within this logic, founders balance the value of their immediate, personal control of the organization with its survival and growth needs, taking into account the immediate benefits they derive from the exchange. Within some parameters, founders likely express their preferences on this balance, and the organization is affected as a result. For example, founders may decide against venture capital funding or public stock ownership so as to retain more ownership and management authority. This may result in the firm growing at a slower pace, and perhaps survival chances will be influenced.

The goal of this section has been to conceptualize the founder role pre- and post- start-up and place the founder in the context of the working organization, supporting the premise that founder influence may persist as the firm ages. In the next section brief comments on the research setting are presented, followed by development of an empirical test on the persistence of founder influence in the working firm.

RESEARCH SETTING: FIRMS AT INITIAL PUBLIC OFFERING

In return for enhanced regulation and public disclosure, U.S. firms are allowed to 'go public,' thereby sharing ownership with investors through

secondary equity markets including NASDAQ and the New York Stock Exchange. An initial public offering (IPO) is a private firm's first public offering of stock. Old and young firms undergo IPO.

Many firms cannot go public (they do not have the characteristics to induce public market investors to participate) and other firms choose not to go public (owners decide to maintain private firm status). The advantages of going public include access to capital from a large, existing pool of ready investors for debt repayment and/or growth, valuation of stock for employee owners including founders, and increased public recognition and visibility for individuals and the firm alike.

The IPO is an organizational milestone. It is a voluntary and strategic act that changes the governance and ownership structure of the firm, usually permanently (while reverse IPOs, or buyouts, are possible, they are uncommon). At IPO, the firm receives a substantial cash infusion and loses the ability to choose its new owners. The focus is on the firm's future potential to deliver earnings, and it is management's job to convince potential stockholders that the company is worth their investment.

This setting is useful for a study of the persistence of founder influence because: (a) IPO requires firms to reconcile their governance and ownership structures to government and stock exchange rules and norms, thereby providing a reasonable basis for inter-firm comparison; (b) IPO provides the first comprehensive public data on public corporations; (c) founder- and nonfounder-led firms are included in the population; (d) external evaluation of firm value is available from investor purchases; and (e) IPO firms are growth engines of the U.S. economy (*Business Week*, 1995) and therefore knowledge of their management systems is valuable and currently relatively limited.

HYPOTHESES

The empirical portion of this research is designed to test whether persistent founder effects on important organizational dimensions can be measured post-start-up. The goal here is not to establish or differentiate various sources of founder influence, but to test for a founder effect by comparing IPO firms with active, visible founders to

those without active founders. Therefore, except for the test of founder influence on performance, the hypotheses developed here investigate correlation, not causality.

Hypothesis development centers on the role of chief executive officer and the supra-category of management–ownership structure. Fundamentally, firms with founder CEOs are expected to retain 'founder-centric' structures; the management of the board of directors and the ownership control of the firm are more likely to be tightly held or arranged so as to favor the chief executive's control. If founders negotiate the dissipation of their governance and ownership control as part of the process of ensuring the organization's survival (and the actualization of their own preferences), then when they remain with the firm over time, structures that preserve their influence can be expected.

In addition, the evaluation of founder presence in the firm by investors at IPO is considered. The postulated founder influence mechanisms discussed earlier could deliver a boost to firm value at that time. At IPO, firms are often growing, some at very rapid rates, and the symbolic value, psychological commitment, ownership, structural authority, and tenure of founders may directly indicate and indirectly proxy the value of a firm's management to potential investors. In summary, then, the empirical questions of interest can be posed: Are firms led by founder CEOs structurally distinct in board and ownership arrangements? Is there evidence that firms led by founder CEOs are more valuable?

Management control and the board of directors

Research on the strategic management of organizations has employed the concept of concentrated management authority to assess the relative influence of certain roles of the upper echelon over organizational affairs. Who top decision-makers are, and how their control is derived and exercised, is a foundational topic for the field (Andrews, 1987; Mace, 1971; Finkelstein and Hambrick, 1996). Among the variables frequently used in empirical studies to test concentration of authority are CEO/Chair role duality and insider board control (e.g., Beatty and Zajac,

1994; Dalton *et al.*, 1998; Finkelstein and Hambrick, 1996; Rechner and Dalton, 1991; Baysinger and Hoskisson, 1990).

Baysinger and Hoskisson (1990) theorize that a board that leans toward inside employee control is more dependent on the CEO because of the hierarchical authority relationships that exist inside the firm. Outside directors are less dependent on the chief executive and could provide contrasting views and owner discipline on management as needed (Fama and Jensen, 1983). In practical application, the shareholder activist movement views inside board control as a central, structural arrangement to be changed because of the control that accrues to the CEO as a result (Daily and Dalton, 1997; Monks and Minow, 1995). In the context of founder CEOs at IPO, this understanding of the interdependence of the role of CEO and employee directors suggests that more insider participation on the board would heighten the influence of the CEO.

Hypothesis 1: At IPO, firms with founder chief executive officers are more likely to have a higher percentage of inside members of the board of directors than firms with nonfounder chief executive officers.

With CEO duality one individual holds both the organizational reins—management and ownership. While the roles of chief executive officer and board chair may appear conceptually as logical checks on one other, empirical findings show that CEO duality is the common arrangement for large U.S. firms (at 80% levels per Daily and Dalton, 1997). Strong, unambiguous leadership is provided with the duality structure (Finkelstein and D'Aveni, 1994). Founders holding these dual roles would be expected to exercise more influence on the organization than if the roles were held separately.

Hypothesis 2: At IPO, firm founders are more likely to hold the dual roles of chief executive officer and chair of the board of directors than nonfounder chief executive officers.

Firms need cash to grow. One avenue of equity acquisition for growing, private firms is other companies. Corporate-to-corporate investment takes a variety of forms, including the venture capital/start-up firm relationship; the inter-firm alliance based on technology development and transfer, such as a

biotechnology firm and a pharmaceutical giant; and straightforward investment, e.g., by a mutual fund. In becoming owners through investment, corporations can exercise their prerogative to comment on and influence management either informally or formally (e.g., Lynch, 1985).

Two aspects of corporate investment are noteworthy in the context of founder CEO influence. First, investor corporations are likely to hold large blocks of stock. Second, investor corporations are likely to be ready and able to participate in their investment companies and, in fact, they often demand dedicated board seats in exchange for equity. To maintain and exercise influence, a founder CEO would be likely to prefer, in general, to avoid large block outside shareholders as well as organized, experienced outside directors whose priority is the welfare of their parent firm. This logic leads to the next hypothesis.

Hypothesis 3: At IPO, firms with founder chief executive officers are more likely to have no outside corporate investor representatives on the board of directors than firms without founder chief executive officers.

Ownership

These ideas of concentration and control lead easily to consideration of relative share ownership issues. Extending the logic above in regard to corporate investors, a founder CEO may be expected not only to be associated with lower levels of corporate board member representatives, but also with a lower total percentage of corporate ownership at IPO.

Hypothesis 4: At IPO, firms with founder chief executive officers are more likely to have corporate investors hold a lower ownership percentage than firms with nonfounder chief executive officers.

Another mechanism to influence overall corporate control is to serve as CEO and a top shareholder simultaneously. Conceptually, such arrangements have been viewed as positive structural features that align management and owner interests (Morck, Shleifer, and Vishny, 1988). The role relationship of manager-owner is common for private, growing firms. For example, a survey of the *Inc.* Magazine '500' most successful growing, private firms found

57 percent of CEOs holding more than 75 percent of equity personally (Case, 1989). Large percentage ownership stakes could support the assignment or continuance of a founder in the CEO role post start-up. Alternatively, or complementarily, founder CEOs may express their commitment to the firm, and/or an interest in control with a high level of investment.

Hypothesis 5: At IPO, firm founder chief executive officers are more likely to hold a higher ownership percentage of the firm than nonfounder chief executive officers.

Ownership control can also be expected to influence the assignment of individuals to important management roles in the firm. Founders as a group may act through ownership to maintain historical firm direction and role assignments. Even though the majority of founders may not be active as employees of the company, they may continue their influence through owners' role in the selection and retention of one of their co-founders as CEO.

Hypothesis 6: At IPO, the higher the percentage of equity held by firm founders, the more likely that the chief executive officer will be a firm founder.

The significant act of IPO opens the firm's ownership to the public. This means that extant firm owners and managers can no longer select, or play a role in selecting, those new owners. For the percentage of the firm offered for public sale, the decision on who buys or sells stock moves to the largely anonymous and less political public stock exchange process. Public stock ownership demands that firms engage in heightened levels of public disclosure and stockholder relations, some required by law. Firms become more vulnerable to hostile takeovers and the influence of powerful individual and corporate investors as compared to their situation as private firms.

Firms undergoing IPO have committed to going public. However, one of the key decisions private firm owners and managers control at IPO is the percentage of the firm to sell. If founder-led firms are founder-centric, the firm is more likely to retain a higher percentage of extant ownership control. This would translate into a smaller percentage of the firm being offered for sale at IPO.

Hypothesis 7: At IPO, firms with founder chief executive officers are more likely to sell a smaller percentage of the firm to public investors than firms with nonfounder chief executive officers.

Evaluation of firm value by investors

Hypothesis development has so far addressed whether or not firms led by founder CEOs are structurally distinct in some ownership and management characteristics. In addition, this research is designed to consider the response of investors to the presence of a founder CEO at IPO. There are reasons—for example, entrenchment and/or the skill set of founders *vis-à-vis* administration of the growing firm (Hofer and Charan, 1984; Daily and Dalton, 1992; Mintzberg and Quinn, 1991)—that suggest the possibility of a negative correlation between founder presence and firm value. However, IPO firms face particular conditions. Uncertainty about the firm is relatively high at IPO. No publicly available stock price record exists for evaluation and in certain industries (e.g., biotechnology, computer software) a firm's potential to develop and market products is unclear. Young firms have no substantial track record of sales and management to assess. Some firms have had no sales at all. As a result, I would suggest that signals to investors about current and potential future value necessarily engage the structural and behavioral characteristics of the firm to a great degree; more so than in the trading of public shares. Further, that a founder-centric orientation in management and ownership features at a time of high uncertainty may provide a valuable stability (Vesper, 1996; Finkelstein and Hambrick, 1996; Kunze, 1990), therefore providing a positive signal to investors. Potential mechanisms of a founder's organizational influence including focal point and imprinting roles, psychological commitment, ownership and management position, and tenure may be interpreted as aids to move the firm to survive and thrive. Underlying all these mechanisms is the potential value of unambiguous and directed leadership brought by founders to the firms they establish. This style of leadership may be particularly valuable for firms that confront change conditions at the firm and industry level.

However, testing relative firm performance at IPO is a difficult task. Traditional measurement

variables such as ROE, ROA, and PE are not useful given the lack of a public equity sales record and the fact that a substantial portion of firms at IPO have no earnings. One measure that has been applied to the assessment of investor optimism about the future value of firms at IPO is the percent price premium [(share price—book value per share)/share price]. This measure uses both accounting-based and stock price information in an effort to measure 'difficult to account for' assets of the firm. While the percent price premium variable has been suggested to reflect the value of a firm's intangible assets (Rasheed, Datta, and Chinta 1997; Welbourne and Andrews, 1996) this has not been empirically demonstrated. What the measure does demonstrate is the difference in the value of the firm, as it is derived from the two methods: historical accounting figures and stock price. This difference in firm value assessment could be measuring intangible assets, monopoly control, investor over-enthusiasm, or some other factor that would dislocate stock price from accounting-based figures (certain control variables attempt to absorb the effect of some of these alternative explanations).

Admitting its limitation in interpretation, percent price premium is used in this study as an indicator of the relative value of the firm as assessed by investors, controlling for the book value of the firm.

Hypothesis 8: At IPO, firms with founder chief executive officers are likely to receive a higher percentage price premium than firms with non-founder chief executive officers.

METHODS

Sample

Sample firms are U.S. firms that completed an initial public offering in the calendar year 1991 for listing on a major U.S. equity exchange: NASDAQ (National Market System and Small Caps), the New York Stock Exchange, and the American Stock Exchange. These firms meet U.S. Securities and Exchange Commission guidelines for S-1 document filing, which specify that the firm: (a) be listed on a national securities exchange or trade securities over-the-counter, (b) have at least 500 shareholders of one class of stock, and (c) have at least \$5 million in assets. Firms excluded from

the sample are foreign firms selling stock in the United States for the first time (and likely listed on home exchanges) and firms that do not provide direct goods or services (closed-end mutual funds, real estate investment trusts, and oil and gas drilling funds). Also excluded are stock listings resulting from the merger, acquisition, or spin-off of publicly listed firms. These are transformations in corporate form, not transformations from private to public status.

A single-year, full census research design was selected to minimize the effect of varying macroeconomic forces that are pronounced in the IPO market and to maximize knowledge about founders across firms and industries. The year 1991 was selected because there were a reasonable number of offerings for a full census study and future research could extend a decade out. Notably different from other studies employing IPO firm samples (e.g., Robinson, 1999; Dowling and McGee, 1994), this research does not exclude cases based on age. The possible impact of firm newness on structure and performance is not a focus of this research. The final sample used as a basis for survey is $N = 157$.

Data source and collection

The hypotheses are tested by regression analysis using a data set constructed from three sources: a telephone/fax survey of sample firms, IPO documents filed by firms with the U.S. Securities and Exchange Commission, and a database of Disclosure, Inc. developed from those IPO documents.

The survey was used to identify firm founders and their role in the firm at IPO. After extensive search of educational and commercial databases, no other source of founder information could be found. While SEC documents may identify founders that are active managers or investors in the firm, they do not identify founders that had left and been replaced. A survey accomplished the identification of all founders and their active role in the firm at IPO, if any.

The operationalization decision on the key founder variable was to allow the firm to designate their firm founders (rather than following some other decision rule such as CEO at IPO). Fundamentally, the influence of the founder as conceptually presented in this research is tied, at least in part, to the identification of individuals as founders within the idiosyncratic firm management

and ownership structure. Therefore, within a preliminary working definition (*Webster's Dictionary*: 'founders setup or establish'), firm founders were identified by their own firms in interviews and in legal documents.

Procedurally, a combination telephone/fax contact with the office of the chief executive of the company was attempted a maximum of four times. The survey asked: (1) 'In what year was the company founded?'; (2) 'Who founded the company, and by that I mean, who was responsible for setting up or establishing the firm?'; (3) 'Is/are the founder(s) still with the company?'; and if yes, 'In what capacity or role is/are the founder(s) now active?' One hundred and thirty-two firms responded for a final participation rate of 84 percent. Following completion of the survey, the founder identification and current role information was validated using the Management Section of the SEC S-1 IPO document. There was agreement between the two sources in 89 percent of cases. In cases of disagreement between the two sources, the archival record was used given its formal legal standing and nature.

Supplemental information on founders, firm age, CEO equity ownership, founder equity ownership, corporate equity ownership, insider board percentage, CEO/Chair duality, and corporate investor involvement variables were collected from the S-1 mandated firm filing to the SEC. Copies of these documents for sample firms were purchased from the SEC through the Disclosure Corporation. The S-1 document is generally written by top management in association with investment bankers, lawyers, and other professional advisors. Firms have been held legally liable for S-1 intentional misinformation (O'Flaherty, 1984) and therefore these documents are considered highly reliable. Values for the variables firm assets, liabilities, sales, IPO offering value, share price at offering, primary 4-digit SIC code, exchange at IPO, percent of firm offered at IPO, and firm industry by SIC code were collected from the New Issues Database of Disclosure Corporation.

Measures: dependent variables

Eight dependent variables are used in this study; five are continuous (OLS regression analysis) and three are dichotomous values (logit regression analysis).

Percent board insiders (continuous)

A ratio of the number of inside board members to total board members at IPO. An inside board member, after Wade, Porac, and Pollock (1997), is defined as any member of the board of directors who was, or ever had been, a member of management, or was a member or descendent of the company founder's family or a representative or beneficiary of any legal entity set up in the founder's family's name.

Duality (dichotomous)

Coded as 1 if one individual holds the positions of chief executive officer and chair of the board of directors simultaneously at IPO.

Corporate investor board member (dichotomous)

A corporate investor firm is defined as any corporation owning a portion of the firm before public shares are sold. A corporate investor board member is a member of the firm board of directors who is identified as holding a seat on behalf of the corporate investor before public shares are sold. Venture investment firms, be they venture capital firms, insurance companies, large corporations, or mutual funds, often require board participation in return for a substantial financial investment. Their relationship to company management/board members is generally regarded as advisory on matters of management and finance. This variable is designed as dichotomous to indicate the imposition of a corporate investor model on the firm. It is used as both a dependent and control variable in this study.

Percent corporate equity (continuous)

The percentage of firm ownership held by corporate investors before public shares are sold.

Percent CEO equity (continuous)

The percentage of firm ownership held by the CEO after public shares are sold. This variable is used as both a dependent and control variable in this study. To improve the shape of its distribution for regression analysis, the variable is transformed by taking the square root.

Percent founder equity

The sum total of all founder equity as a percentage of firm ownership after completion of the IPO. This variable includes the influence of non-CEO founders in directing management structure. It is used as a dependent and independent variable in this study.

Percent public equity released (continuous)

The percentage of firm ownership released for purchase at IPO. This number is operationalized as 100 percent less the percent share ownership of the top management team, including all members of the board of directors, after public shares are sold. Top management team members are specifically and necessarily identified as a group in the Management section of the S-1 IPO document.

Percent premium (continuous)

At IPO, [(price per share)–book value per share]/(price per share).

Independent variables

Founder CEO

Founder identity was collected by survey from firm agents. The chief executive officer is defined as the highest-level manager of the firm and included the role names CEO, chief executive officer, and President for this sample.

Control variables

To control variance not of central interest in this research, several additional predictor variables are employed. The variables ‘corporate investor board member’ and ‘percent CEO equity’ are used as control and dependent variables and they are defined above. ‘Percent CEO equity’ is used as a control variable because of the legal and traditional rights of owners. Since the CEO (whether founder or not) is an influential governance member in any case, including this variable as a control allows non-ownership influences of the CEO to be recognized. The ‘corporate investor board member’ variable recognizes that a company that receives substantial backing from a corporation may be influenced reliably in their IPO schedule and governance structure (Vesper, 1996; Timmons, 1999).

Total assets

Total assets is a common control for firm size and development stage. It is particularly useful in this study given the breadth of industries and firm types included in the sample. The variable is transformed for analysis by taking the natural log.

Firm years old (continuous)

1991 minus firm year founded. The variable is transformed for analysis by taking the natural log.

Industry (categorical)

Nine dichotomous variables are used to distinguish industry categories: pharmaceuticals (SIC 2834–2836), computer hardware (SIC 3571–3577), electronics (SIC 3661–3675), instruments (SIC 3826–3845), all other manufacturing (SIC 0111–3999 less preceding manufacturing categories), trade and transportation (SIC 4011–5999), software (7372–7375), physical research (SIC 8731), and all other services (SIC 6011–9999 less preceding service categories). The miscellaneous services group is the comparison.

RESULTS

Descriptive statistics and correlation among variables

Table 1 shows descriptive statistics of interest for the sample. There is significant variance given sample size. Firms range in age from 0 to 93 years (one firm was established in April and went public in November). Twenty-eight percent of the sample firms had total assets below \$10 million, 10 percent above \$95 million. For sales, 5 percent had none, 12 percent were below \$1 million, and 25 percent exceeded \$65 million. Fifteen percent of the sample firms are under 3 years old, 63 percent are greater than 8 years old. Fifty-two percent of the sample can be classified as high technology and 33 percent as manufacturing. Table 2 reports the means, standard deviations, and bivariate correlations of study variables. Sixty-four percent of the firms have founder CEOs at IPO. A founder in the CEO position is significantly and positively correlated with percent founder equity, CEO equity, percent inside board, and firm percent price premium. The variable is negatively and significantly

Table 1. 1991 IPO independent venture firm general descriptives

	Mean	S.D.	Range
Age	12	16	0–93 years
Net income	\$1.4	\$5.8	\$(-18.8) to 30.9
Net sales	\$56.9	\$78.9	\$0 to 537.8
Total assets	\$49.4	\$118.1	\$0 to 1127
Total liabilities	\$38.8	\$111.7	\$0 to 1082
IPO offering value	\$31.9	\$21.4	\$0.6 to 132
Number of 4-digit/2-digit SIC codes	67/31		
Exchange at IPO	92% NASDAQ 8% NYSE		
N	132		

correlated with CEO/Chair duality, percent public equity, percent corporate equity, total assets, and firm years old. Figures 1, 2, and 3 display the relationship of founder CEO and key firm characteristics of age, industry and assets. Founder CEOs are present across the firm age spectrum including 19 percent of firms more than 20 years old. Founder CEOs are also identified in every defined industry group, although the mean presence of founder CEOs is highest in manufacturing and in the specific segments of electronics and computer manufacturing. Founders are least likely to be CEOs in miscellaneous services and pharmaceuticals. Founders are nearly equally represented as CEOs in each of the firm total asset quartile classes.

Results of OLS regression on five dependent variables are reported in Table 3. A positive coefficient means that a founder CEO is more likely with increases in the value of the dependent variable.

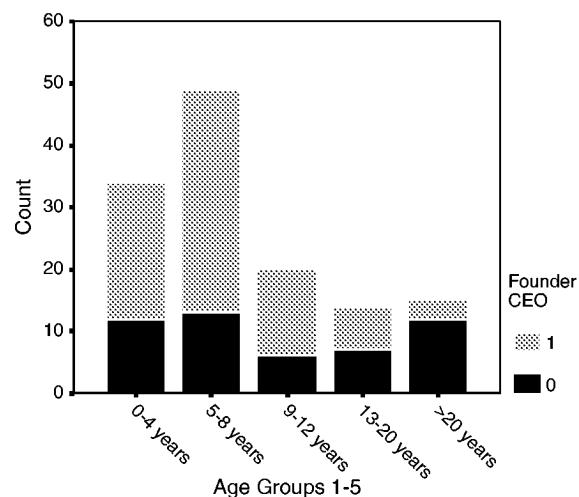


Figure 1. Founder CEO by firm age groups

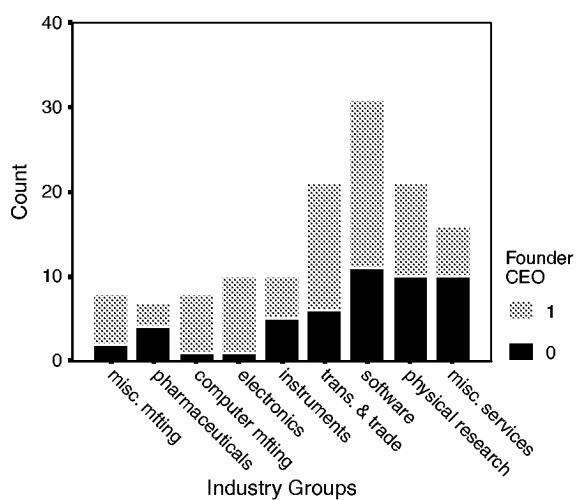


Figure 2. Founder CEO by industry groups

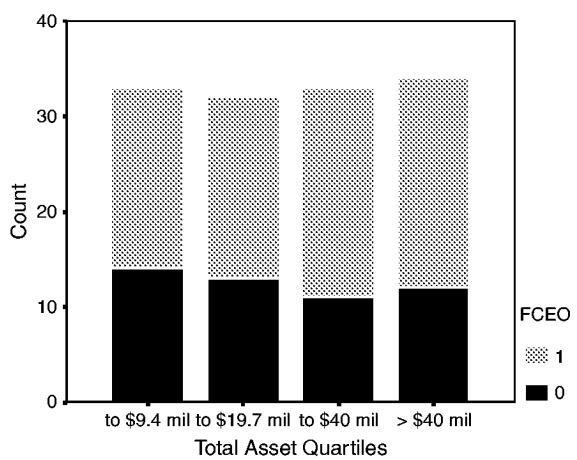


Figure 3. Founder CEO by total asset quartiles

The results support Hypotheses 1, 5, and 8; founder CEOs are associated with higher levels of percent

Table 2. Means, standard deviations, and bivariate correlations

	Mean	S.D.	Founder CEO	% Founder equity	SQRT CEO equity	% Insider board	Duality CEO/chair	Investor board member	% Public equity	% Corporate equity	% Price premium	% LN total assets	% LN firm years old
Founder CEO	0.64	1.00											
% Founder equity	20.3	20.1	0.56**	1.00									
SQRT CEO equity	3.5	2.1	0.42**	0.68**	1.00								
% Insider board	0.43	0.23	0.31**	0.39**	0.40**	1.00							
Duality CEO/chair	0.44		-0.25**	-0.19*	-0.39**	-0.21**	1.00						
Investor board member	0.60		0.07	-0.37**	-0.41**	-0.39**	0.05	1.00					
% Public equity	57.4	21.1	-0.35**	-0.42**	-0.15	0.23**	0.20**	1.00					
% Corporate equity	24.9	21.7	-0.26**	-0.51**	-0.54**	-0.41**	0.19*	0.71**	0.25**	1.00			
% Price premium	0.60	0.19	0.24**	0.24**	0.02	0.09	0.00	0.05	-0.07	-0.01	1.00		
LN Total assets	16.8	1.4	-0.02*	-0.02	0.13	0.07	-0.01	-0.13*	-0.09	-0.11	-0.38**	1.00	
LN Firm years old	12.1	16.1	-0.31**	-0.10	0.23**	0.16	-0.20*	-0.31**	-0.08	-0.28*	-0.28**	0.51**	1.00
SIC Misc. Mfg.	0.06	0.07	0.10	0.10	0.18*	-0.03	0.02	-0.04	-0.04	-0.06	0.14	-0.01	0.01
SIC Pharmaceuticals	0.05	-0.09	-0.12	-0.14	0.01	-0.07	0.13	0.06	0.19*	0.04	-0.22*	-0.09	
SIC Computer Hardware	0.06	0.13	0.07	0.03	-0.10	-0.10	-0.11	-0.07	-0.04	0.04	-0.12	-0.08	
SIC Electronics	0.08	0.17	-0.09	-0.08	-0.04	-0.04	0.18*	0.06	0.09	0.23**	-0.03	-0.07	
SIC Instruments	0.08	-0.07	0.02	-0.07	0.14	0.04	-0.11	0.04	-0.08	0.06	-0.01	0.11	
SIC Trade & Transport	0.16	0.08	0.23**	0.29**	0.17	-0.09	-0.31**	-0.24**	-0.30**	-0.01	0.26**	0.23**	
SIC Software	0.16	-0.09	-0.03	-0.09	-0.12	0.12	0.19*	0.10	0.18*	0.00	-0.04	0.01	
SIC Physical Research	0.12	-0.19*	-0.21*	-0.26**	-0.31**	0.19*	0.22*	0.09	0.30**	0.05	-0.23**	-0.32**	
SIC Misc. Services	0.23	0.03	0.00	0.06	0.09	-0.06	-0.12	0.03	-0.17*	-0.32**	0.21*	0.11	
	Mean	S.D.	Misc. Mfg.	Pharmaceuticals	Computers	Electronics	Instruments	Trade & Transport	Software	Physical Research		Misc. Services	
SIC Misc. Mfg.	0.06	1.00											
SIC Pharmaceuticals	0.05	-0.06	1.00										
SIC Computer Hardware	0.06	-0.07	-0.06	1.00									
SIC Electronics	0.08	-0.07	-0.07	-0.07	1.00								
SIC Instruments	0.08	-0.07	-0.07	-0.07	-0.08	1.00							
SIC Trade & Transport	0.16	-0.11	-0.11	-0.11	-0.13	-0.13	1.00						
SIC Software	0.16	-0.11	-0.11	-0.11	-0.13	-0.13	-0.13	1.00					
SIC Physical Research	0.12	-0.09	-0.09	-0.09	-0.11	-0.11	-0.11	-0.16	1.00				
SIC Misc. Services	0.23	-0.14	-0.13	-0.14	-0.14	-0.14	-0.16	-0.16	-0.24*	-0.21*	1.00		

* $p < 0.05$, ** $p < 0.01$

Table 3. Results of OLS regression

Dependent variable	% Insiders	% Corporate equity	% CEO equity	% Public equity sale	% Price premium
Founder CEO	0.122 (0.05)**	-0.44 (0.40)	12.8 (3.1)***	-11.8 (4.6)***	0.08 (0.04)**
LN Total assets	-0.01 (0.02)	0.08 (0.14)	-1.7 (1.2)	-0.31 (1.6)	-0.05 (0.01)***
SQRT % CEO equity	0.02 (0.01)	-0.16 (0.09)*		-0.28 (1.1)***	-0.003 (0.01)
LN Firm years old	0.03 (0.03)	-0.19 (0.28)	5.9 (2.3)***	-0.25 (3.2)	-0.01 (0.03)
Investor board member	-0.12 (0.04)***	3.1 (0.37)***	-11.1 (3.1)***	-0.27 (4.2)	-0.02 (0.04)
SIC Misc. Manufacturing	0.12 (0.08)	-0.07 (0.67)	4.9 (5.9)	-0.19 (7.7)	0.18 (0.07)***
SIC Pharmaceuticals	0.06 (0.09)	1.3 (0.75)*	-5.4 (6.6)	-3.9 (8.6)	0.08 (0.08)
SIC Computer Hardware	-0.18 (0.08)**	1.0 (0.68)	-1.3 (6.0)	-0.53 (7.9)	0.06 (0.07)
SIC Electronics	-0.04 (0.08)	1.2 (0.64)*	-5.0 (5.6)	3.0 (7.4)	0.21 (0.07)***
SIC Instruments	0.08 (0.07)	1.2 (0.62)*	-5.3 (5.4)	-1.8 (7.1)	0.14 (0.06)**
SIC Trade & Transportation	-0.01 (0.06)	0.19 (0.49)	6.4 (4.2)	-8.3 (5.6)	0.12 (0.05)**
SIC Software	-0.05 (0.06)	2.1 (0.50)***	2.1 (4.3)	0.76 (5.7)	0.10 (0.05)*
SIC Physical Research	-0.12 (0.07)*	2.0 (0.58)***	-2.2 (5.1)	-5.9 (6.7)	0.09 (0.06)
<i>R</i> ²	0.36	0.67	0.37	0.25	0.46
<i>F</i>	5.04***	18.5***	5.9***	3.0***	9.4***

Note: The comparison category for industry is miscellaneous services. **p* < 0.10; ***p* < 0.05; ****p* < 0.01

board insiders, percent CEO equity, and percent price premium. Results for founder CEOs and lower levels of percent equity sale at IPO support Hypothesis 7 as well. The *R*² values for these tests range from 0.25 to 0.46. Hypothesis 4 is not supported. There are no significant results for founder CEO and percent corporate equity, though the sign of the coefficient is negative as predicted.

Table 4 reports hierarchical logit regression models on the independent variables founder CEO and percent founder equity. A positive coefficient in Table 4 means that the independent variable tends to increase the probability of the occurrence of the dichotomous dependent variable condition (i.e., the presence of corporate investor board members, CEO/Chair duality, and a founder CEO). Hypothesis 3 is not supported: The presence of a founder CEO does not increase the probability that there will be no corporate investor board members. Weak support is found for the relationship of a

founder CEO and duality, though in the direction opposite from predicted. Founder CEOs are less likely to be board chairs as well, compared to their nonfounder CEO counterparts. Therefore, Hypothesis 2 is not supported. Finally, percent founder equity does predict the presence of a founder CEO and Hypothesis 6 is supported. The percentage of cases correctly predicted in this last relationship approaches 90 percent (Nagelkerke *R*² = 0.69).

Controlling for industry, age, assets, CEO ownership, and corporate board representative control, these findings provide general support for the idea that firms led by founder CEOs are distinct from firms led by nonfounder CEOs. They also suggest that investors in the public market identify more value for founder CEO-led firms, in relation to book value.

A test of the influence of founder CEO presence and firm survival was also attempted preliminarily. A regression on firm outcomes of bankruptcy

Table 4. Logit regression results for three models

Dependent variable	Dual chair/CEO	Investor board member	Founder CEO
Founder CEO	-1.1 (-0.09)*	0.34 0.00	
% Founder equity			0.17 (0.31)***
Ln Total assets	0.38 (0.08)*	0.26 (0.00)	0.67 (0.12)**
SQRT % CEO equity	-0.47 (-0.20)***	-0.43 (-0.20)***	
LN Firm years old	-1.3 (-0.19)***	-0.71* (-0.07)	-2.6 (-0.20)***
Investor board member	-1.3 (0.13)**		0.95 (0.00)
SIC Misc. Mfg	0.53 (0.00)	1.1 (0.00)	-1.1 (0.00)
SIC Pharmaceuticals	-0.83 (0.00)	1.7 (0.00)	-0.85 (0.00)
SIC Computer Hardware	-0.84 (0.00)	-0.55 (0.00)	2.1 (0.00)
SIC Electronics	0.24 (0.00)	2.2 (0.08)*	1.3 (0.00)
SIC Instruments	0.36 (0.00)	-0.40 (0.00)	-2.0 (-0.05)
SIC Trade & Transportation	0.31 (0.00)	-0.76 (0.00)	-0.93 (0.00)
SIC Software	1.2 (0.06)*	1.8 (0.14)**	-1.5 (-0.03)
SIC Physical Research	0.41 (0.00)	1.3 (0.00)	-2.3 (-0.12)**
% Correct predictions	72.7%	76.5%	87.9%
Model χ^2 value (sig.)	42.8***	52.3***	93.2***
Nagelkerke— R^2	0.37	0.44	0.69

* $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$

Note 1: For each cell the top value is the variable beta; the bottom value is variable R (partial correlation).

Note 2: The comparison category for industry is miscellaneous services.

and acquisition 3 years post IPO was insignificant, most likely because of a lack of meaningful variance in the dependent variable. Only six of the 132 sample firms failed to exist at the close of calendar year 1994. This finding is significantly different than that reported by Welbourne and Andrews (1996). In that study, firms going public in 1988 experienced only a 60 percent survival rate, though the measure extended 5 years post IPO.

DISCUSSION

The purpose of this research is to present a more fully conceptualized view of firm founder and to empirically test for the persistent influence of the

founder on the firm by examining founder CEOs and firms around initial public offering. The role of founder is placed within a theoretical framework of firm founding and the exercise of influential roles of firm governance post start-up. The goal is to better understand whether, how, and why founders have a persistent effect on the firm. While attention to founders in the academic literature is thin, this is not the case in the popular business press. For example, while the Wilson Business Periodicals Index (WBPI), a well-respected citation tool for management research, lists more than 4400 cites on the search term 'founder' from 1980 to 1998, only five of them in total came from the following journals: *Strategic Management Journal*, *Academy of Management Review*, *Academy of Management*

Journal, Administrative Science Quarterly, and Entrepreneurship Theory and Practice. This is a significant disconnect. The fact that numbers of leading U.S. firms have been successfully grown and managed by founders (e.g., Bill Gates, Sam Walton, Herb Kelleher, Craig McCaw) presses the point that the topic is appropriate for more academic attention.

Empirically, this research contributes by presenting data nowhere else available on the identity and participation of founders in firms at IPO. An aggressive data collection process using multiple data sources was successful in procuring data on 84 percent of the independent firms conducting an IPO in 1991. Founders are active in their firms at this important stage; 65 percent of firms had founder CEOs. Challenging and enriching the common perception that IPO firms are all young and high-tech, this analysis found 48 percent of firms in nonhigh-tech industry sectors and 37 percent more than 10 years of age. While founder CEO presence and firm age were negatively correlated for the sample, founder CEOs were identified in firms more than 20 years old.

Study results show that founder-led firms are dependably associated with particular governance features and investor reaction across industries, firm size, and firm age. In general, these findings support the logic that founder influence may be persistent well into the life of the firm. Complementing recent findings on organizational imprinting (Baron *et al.*, 1999, 2001), this study demonstrates that particular firm-level arrangements of management and ownership correlate with the continued presence of the founder in a leading organizational role post start-up. Further, evidence is presented that firms with founders in the key CEO role display some pattern of tight control on ownership and management features to and through IPO.

Specifically, the findings show that firms with founder CEOs have a higher proportion of insider directors. These firms also release a lower percentage of firm ownership to the public at IPO. CEOs who are founders are more likely to personally own a greater percentage of the company at IPO and higher ownership levels by founder(s) correlate with a founder holding the CEO role. Regarding duality of CEO and board chair roles, founder-led firms are distinct in not acting like average U.S. firms: founders CEO are less likely to serve simultaneously as board chairs. Founder CEOs may find

that as their firms grow they must barter some control for outside resources and releasing the board chair role may be a consistent outcome of the negotiation. Founder-led firms also collect a higher premium of stock price over book value at IPO; investors value founder CEO firms at a higher level than nonfounder CEO firms, as compared to accounting value.

If these results are generalizable in suggesting dependable governance arrangements for founder-led firms, why might this be the case? I see two future research approaches (perhaps alternative, perhaps complementary) that with longitudinal data could address this question. First, founder control of the firm may be bartered in some patterned fashion across roles over time. External resource holders may demand shares of control in exchange for resource commitments. Types of founders may approach these resource barterings in different fashion. The current study may expose the pattern of the 'stay-into-growth' type of founder who maintains managerial and ownership strength post start-up. Other types of founders may voluntarily barter their exit from managerial roles earlier or be forced out as ownership accrues to outsiders.

A second approach is that some sort of governance life cycle exists, with founder-led firms remaining 'primitive' in terms of founder control later into firm life in comparison with firms where founders have exited. While the finding on percent price premium suggests that investors at IPO might value this governance style, at other organizational life stages such control may have a negative effect. Only longitudinal study will expose and distinguish the potential of these explanations. As a result, the current findings are limited in that they largely explore associative, not causal relationships.

Beyond the development of knowledge about founders, this research also serves to highlight firms at a particularly important point in organizational life: the IPO. Substantial excitement over new issues has been generated due to the phenomenal initial secondary market success of particular offerings. Understanding more about the transition of private to public status helps us to understand the IPO process—who is participating and what these firms look like structurally. Practitioners want to know what creates stock price, if not value, at IPO. There is a real role for management academics here. Finance has explored market conditions and macroeconomic effect. It is strategy's

job to link performance to corporate, structural, operational, and behavioral conditions and choices. If we can do that, firms and investors in the public market will benefit.

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